Annual Report 2009

KSB

Company Profile

As a leading supplier of innovative pumps, valves and systems, we help move fluids all round the world. Operators use our products in industry and building services, in the water and waste water sector, in energy generation and mining. KSB transports almost every sort of fluid, from clean water to aggressive and explosive media or mixtures of liquids and solids. Our first-class products and excellent service help make our customers' facilities safer and more economical.

Products and Services

Single-stage Pumps

Standardised pumps, process pumps, circulator pumps, service water pumps, slurry pumps

Multistage Pumps

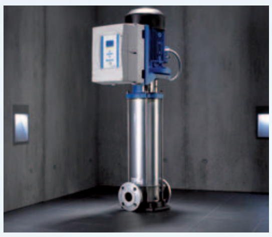
Boiler feed pumps, boiler circulating pumps, booster pumps, pressure booster pumps, high-pressure pumps for reverse osmosis applications, water transport pumps

Submersible Pumps

Well pumps, waste water, sewage and drainage pumps, mixers, tubular casing pumps, condensate pumps

Valves

Butterfly valves, globe valves, gate valves, control valves, diaphragm valves, ball valves, actuators and control systems



Automation and Drives

Control systems, energy-efficient pump drives, pressure booster systems, fire-fighting systems, lifting units

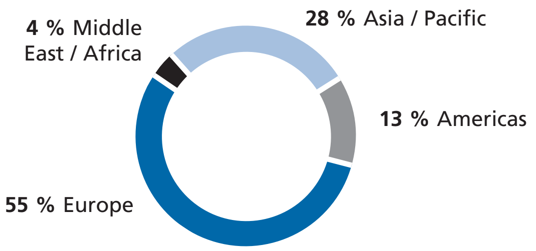
Service

Installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves; modular service concepts and system analyses for complete systems

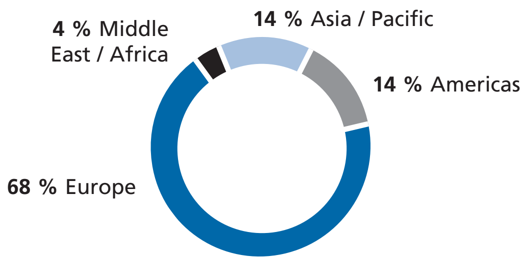
Group Financial Highlights

		2009	2008	2007	2006	2005
EARNINGS						
Sales revenue	€m	1,892.8	1,991.7	1,770.9	1,607.4	1,401.4
Earnings before interest and taxes (EBIT)	€m	185.7	208.2	137.1	100.2	41.4
Earnings before taxes (EBT)	€m	172.8	200.1	128.7	90.2	29.6
Earnings after taxes (EAT)	€m	122.4	139.5	89.9	62.4	19.8
Cash flow	€m	172.4	183.9	138.5	101.2	71.0
BALANCE SHEET						
Balance sheet total	€m	1,645.4	1,421.4	1,258.0	1,130.4	1,054.6
Fixed assets	€m	469.4	417.6	340.8	301.2	287.3
Capital expenditure	€m	86.6	103.6	62.7	46.5	45.2
Depreciation and amortisation expense	€m	43.4	35.0	34.6	33.2	34.2
Current assets	€m	1,158.6	990.1	904.9	815.5	737.0
Equity (including non-controlling interest)	€m	720.6	605.8	505.9	426.6	390.0
Equity ratio (including non-controlling interest)	%	43.8	42.6	40.2	37.7	37.0
PROFITABILITY						
Return on sales	%	9.1	10.0	7.3	5.6	2.1
Return on equity	%	26.1	36.0	27.6	22.5	8.0
Return on capital employed	%	12.4	16.1	12.1	9.7	4.4
EMPLOYEES						
Number of employees at 31 Dec.		14,249	14,345	13,927	13,063	12,963
Staff costs	€m	618.3	614.6	581.6	521.7	508.5
SHARES						
Market capitalisation at 31 Dec.	€m	707.6	574.3	774.7	657.1	252.9
Earnings per ordinary share (EPS)	€	61.32	70.17	43.73	27.99	5.85
Earnings per preference share (EPS)	€	61.58	70.43	43.99	28.51	6.88
Dividend per ordinary share	€	12.00	12.50	9.00	2.00	–
Dividend per preference share	€	12.26	12.76	9.26	2.52	1.03

Employee population by region

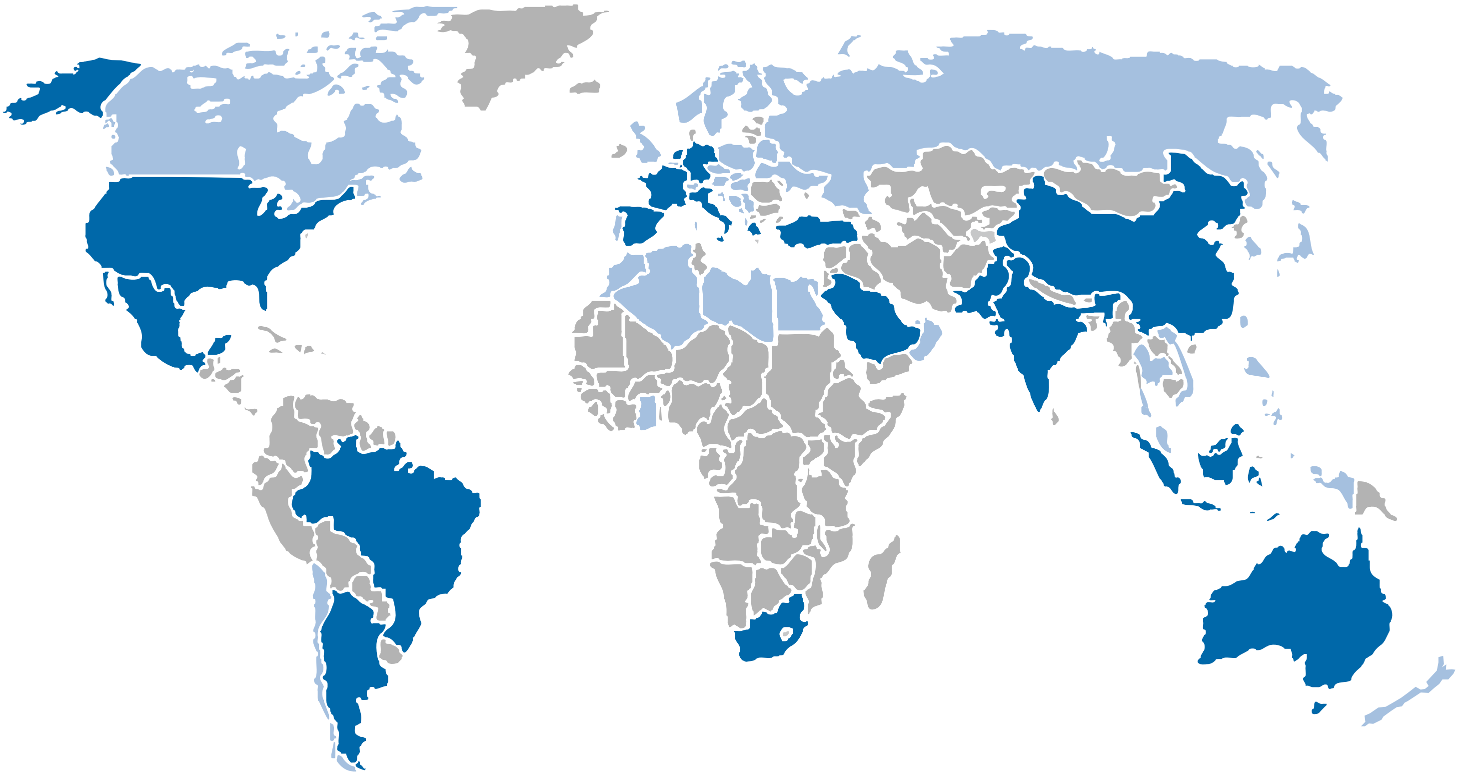


Sales revenue by region



KSB Locations

KSB manufactures its products on all five continents. With production sites in 19 countries and a tightly knit sales and service network, KSB employees are always close at hand when customers have fluids to transport or flow to shut off.



Europe

- Austria
  Vienna
- Belgium
  Wavre
- Czech Republic
  Prague
- Finland
  Mänttä
- France
  Châteauroux
  Gennevilliers (Paris)
  La Roche Chalais
  Lille
- Germany
  Frankenthal
  Halle
  Pattensen
  Pegnitz
- Greece
  Amaroussion (Athens)
- Hungary
  Budapest
- Italy
  Concorezzo (Milan)
- Luxembourg
  Echternach
- Netherlands
  Alphen
  Zwanenburg
- Norway
  Lysaker
- Poland
  Warsaw
- Portugal
  Rio de Mouro (Lisbon)
- Russia
  Moscow
- Serbia
  Belgrade
- Slovenia
  Maribor
- Slovak Republic
  Bratislava
- Spain
  Burgos
  Madrid
  Zarautz
- Sweden
  Gothenburg
- Switzerland
  Zurich
- Turkey
  Ankara
- Ukraine
  Kiev
- United Kingdom
  Loughborough

Middle East / Africa

- Algeria
  Algiers
- Egypt
  Cairo
- Ghana
  Accra
- Libya
  Tripoli
- Morocco
  Casablanca
- Qatar
  Doha
- Saudi Arabia
  Riyadh
- South Africa
  Germiston (Johannesburg)
- United Arab Emirates
  Abu Dhabi
  Dubai

Asia / Pacific

- Australia
  Tottenham (Melbourne)
- China
  Dalian
  Shanghai
- India
  Chinchwad
  Coimbatore
  Nashik
  Pimpri
  Vambori
- Indonesia
  Jakarta
- Japan
  Tokyo
- Malaysia
  Kuala Lumpur
- New Zealand
  Auckland
- Pakistan
  Hassanabdal
  Lahore
- Philippines
  Manila
- Singapore
  Singapore
- South Korea
  Seoul
- Taiwan
  Taipei
- Thailand
  Bangkok
- Vietnam
  Ho Chi Minh City

Americas

- Argentina
  Carapachay (Buenos Aires)
- Brazil
  Várzea Paulista (São Paulo)
- Canada
  Mississauga / Ontario
- Chile
  Santiago
- Mexico
  Querétaro
- USA
  Bakersfield / California
  Grovetown / Georgia
  Houston / Texas
  Richmond / Virginia

Contents

A Look Back at 2009

January

>> KSB builds on its position in the market for fire protection equipment with the acquisition of KAGEMA Industrieausrüstungen GmbH.

Fire protection activities expanded

February

>> KSB Finland Oy acquires 100 % of the shares in the Finnish Mäntän Pumppauspalvelu Oy (MPP), based in Mänttä, and thus extends its sales and service capacity especially for the support of the domestic paper and pulp industry.

March

>> "Engineered Valves" at Pegnitz win the Bavarian Quality Prize and the Bronze Award for Operational Excellence. Both honours are an acknowledgement of the high quality awareness and efficient work processes at the valves facility.

Striving for quality rewarded

April

Signing of contract with SNPEC

>> KSB signs a contract for the supply of special pumps with State Nuclear Power Engineering Corp. Ltd., a Chinese state planning and construction company for power plants, in Shanghai.

May

KSB at ACHEMA 2009

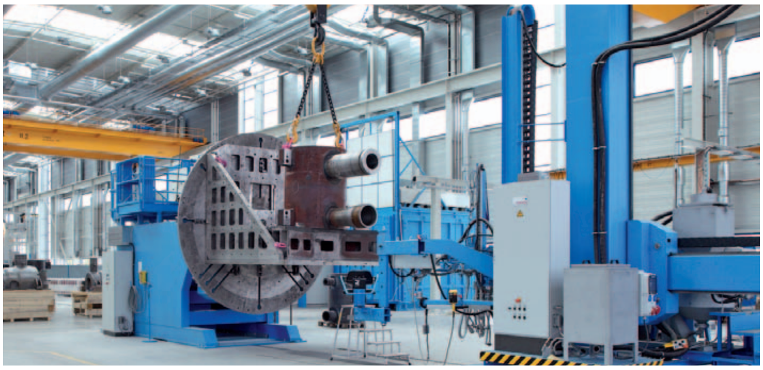
June

Future focus of KSB defined

>> At the International Management Meeting in Frankfurt, KSB managers discuss the path to growth.

>> At the ACHEMA trade fair, KSB sets standards with products for the chemical industry, environmental protection and biotechnology. The Process, PharmaTec and Labor-Praxis trade journals distinguished KSB for its Microchem. KSB wins second prize for the most innovative product in the Pumps/Compressors category.

>> KSB wins a major order worth around 50 million euros for equipping two new power plant blocks on the southern Chinese island of Hainan.



Production of boiler feed pumps

>> The TÜV Rheinland Group certifies the KSB sites in Shanghai and Richmond. Both therefore now join the 60 KSB sites that are integrated in the so-called matrix certification.

October

September

November

August

December

July

>> KSB inaugurates a new training and service workshop in Pegnitz. The renovation of the former production shop is a further investment in the future of the site.

>> KSB Lindflaten and the Norwegian company Brannsikkerhet Total AS sign a cooperation agreement for the KSB range of fire-fighting pumps. The supplier of turnkey stationary fire-fighting systems includes KSB pumps in its product range.

The future factory of the joint venture

>> The German-Chinese joint venture SEC-KSB Nuclear Pumps & Valves holds a ground-breaking ceremony to celebrate the start of construction of its 28,000 square metre facility in Shanghai. As from the end of 2010, 125 employees will initially produce pumps and, later, valves for the Chinese nuclear engineering sector.

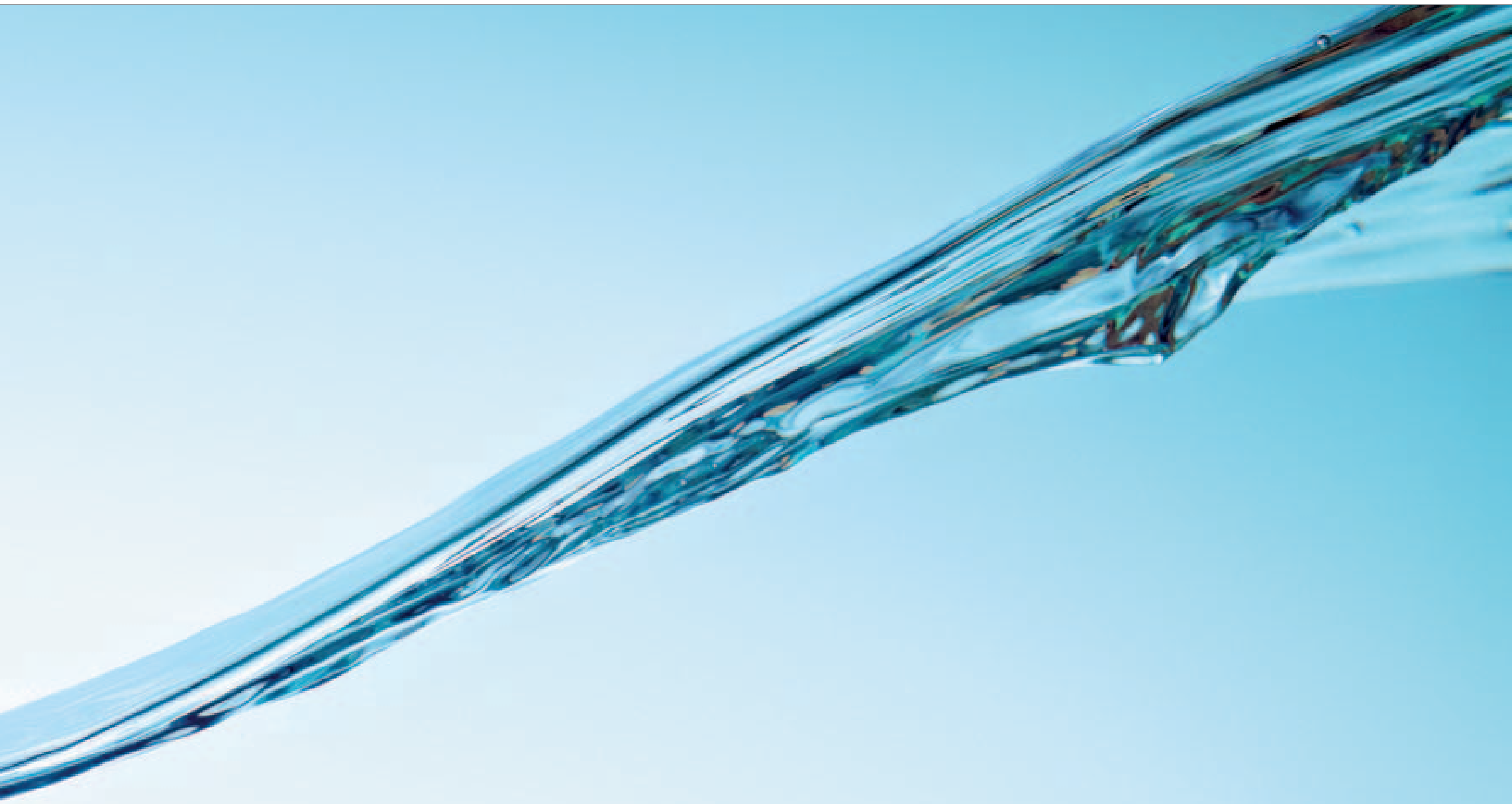
Completion of test facility for large pumps

>> Inauguration of the new assembly and test facility in Halle, where high-performance water pumps are produced. KSB invested around 18 million euros in the building and machinery.

Second-best consolidated earnings

In financial year 2009, KSB achieves consolidated earnings before taxes of

€ 172.8 million.



Management

Dr. Wolfgang Schmitt,
Chairman of the Board
of Management

Dear shareholders and business partners,

The year 2009 saw the largest slump in the world economy since the Great Depression in the 1930s. In Germany, too, the value of all goods produced and services fell by 5 %. Some sectors of the capital goods industry suffered even greater declines. The *VDMA* [German Engineering Federation], of which our company is a member, reported a 25 % fall in production in the German mechanical engineering sector.

The problems of the interdependent international capital markets remained unsolved in the past year; many companies therefore had and still have difficulties in financing their projects.

At KSB, we never relied too much on money's driving force alone. On the contrary, we also – and especially in times of crisis – build on our employees' entrepreneurial skills and behaviour, on their innovative drive and wealth of ideas. We therefore saw 2009 as a challenging call to show what we are capable of.

With the flexible deployment of our employees and lots of ideas for a programme entitled "Opportunities in the Crisis", we made the most of the opportunities that presented themselves. We were able to tap into unused potential for sales revenue using the sales capacity that had been freed up. At the same time, we stepped up our customer service on a broad front, improved internal processes and reduced our costs in areas such as production and data processing.

The reward for these efforts is the second-best Group performance in the history of KSB, surpassed only by the record year of 2008. I offer my warmest thanks to our employees in particular for this outstanding achievement.

New corporate strategy determines the course for growth

Crisis situations are psychologically good opportunities to refocus and make fundamental improvements. At KSB, we had planned these changes for 2009 – quite independently of economic developments – and developed our new corporate strategy by the summer of last year. It sets the course for the years until 2018 and describes how we aim to achieve sustained profitable growth and a leading position in attractive markets.

As you will learn in more detail later on in this report, our first step within the scope of this strategy is to make strategic investments in nine business lines. To develop these areas of focus, we will be implementing about 125 key projects.

The prioritisation of certain business lines does not mean that we are turning our back on other activities. But we want to set the pace by getting to the top in the relevant markets. Where we already enjoy a leading position in the market and technology, we shall actively defend this position.

The experience of the last eighteen months has confirmed that it makes a lot of sense not to focus our offerings for customers one-sidedly on certain sectors or product groups. Companies that have several pillars in the market may not always achieve the best return on sales in the industry, but they are also less likely to falter and find themselves in the red.

New organisation supports implementation of the strategy

Any company that wants to remain successful worldwide in the long term not only has to be broadly positioned. It should also be able to adapt to the regional differences in customer requirements. In parallel with the development of the strategy, we structured the responsibilities and processes in the Group accordingly. The organisational changes that were implemented on January 2010 will make sure that we make the right decisions for our customers on the spot and even more quickly than before.

Within the scope of the restructuring we have also created consistent responsibilities for important products, as well as production and order handling processes. This will help us to implement our strategic projects faster.

Strengthening values and delivering reliability

Companies measure their success primarily by the profits they achieve through their activities. But more and more the idea is gaining ground that the pursuit of profit always has to be accompanied by a sense of responsibility towards customers, employees and the society. At KSB, this has long been a guiding principle of our business.

By making our shared values and behaviours binding for everyone, we are strengthening our employees' identification with the company, defining their scope for action and making KSB a partner that is as fair as it is reliable.

You, our shareholders, can rely on us to continue to strive for long-term growth in value, which is normally reflected also in the share price. It is not without reason that, analysed over a ten-year term, KSB preference shares are among the top ten German shares, as shown in a recent study.

However, in view of the general economic climate, the development of our business in the coming years will not be easy. Nevertheless, I am certain that our company meets all the financial, personnel and strategic requirements to remain on course for growth in the medium and long term. And we would be pleased to have you by our side as we continue on this journey.

Yours sincerely

W. Schmitt

Dr. Wolfgang Schmitt,
Chairman of the Board of Management of KSB Aktiengesellschaft

The Board of Management of KSB Aktiengesellschaft

Prof. Dr.-Ing. Dieter-Heinz Hellmann

joined the Board of Management on 1 January 2007 and is responsible for Technology. He is in charge of Development and Business Processes (Technology) as well as Research and Patents & Trademarks. In addition, he is responsible for the Business Units Single-stage Pumps, Multistage Pumps, and Automation and Drives.

Jan Stoop

became a member of the Board of Management on 1 October 2007 and is responsible for Sales and Marketing as well as the Business Unit Valves.

Dr. Wolfgang Schmitt

joined the Board of Management on 7 April 2006. Since 15 December 2006 he has been serving as Chairman of the Board of Management and Human Resources Director. He is responsible for Finance and Accounting, Controlling, Human Resources, Legal & Compliance, Communications, Information Technology, Strategic Planning and the Business Unit Service.

Dr.-Ing. Peter Buthmann

has been a member of the Board of Management since 1 January 2007. He is in charge of Operations, Central Purchasing, Internal Audits, Programme Coordination and the Business Unit Submersibles Pumps.

The responsibilities described apply to the new organisational structure implemented on 1 January 2010.

Report of the Supervisory Board

Dr. Hans-Joachim Jacob,
Chairman of the
Supervisory Board

The following is a report from the Supervisory Board on its activities during financial year 2009. In summary, our consultations with the Board of Management largely focused on the effects of the global financial and economic crisis on the KSB Group, the resultant countermeasures, the results of our ongoing strategy development and the new organisational structure.

In financial year 2009, the Supervisory Board performed its tasks with great care in accordance with the law, the Articles of Association and the rules of procedure. We regularly advised the Board of Management on corporate management issues and monitored its work. The Supervisory Board was consulted directly and at an early stage with regard to decisions of fundamental importance. The Board of Management informed us about the position of the company, in particular its business, financial and staffing situation, planned investments, as well as relevant corporate planning and strategic and organisational development issues via written and oral reports prepared regularly and on an ad hoc basis in a comprehensive and timely manner.

We discussed key KSB business transactions in detail on the basis of reports drawn up by the Board of Management. Any departures in business developments from the plans and targets were reviewed by the Supervisory Board and commented on in detail by the Board of Management. After thorough examination and discussion, we adopted our resolutions on reports and proposals by the Board of Management. Beyond the intensive work in the plenary sessions and in the committees, both the Chairman of the Supervisory Board and other Supervisory Board members were in frequent contact with the Board of Management outside the meetings to discuss the current business development and significant transactions. No conflicts of interest arose involving members of the Board of Management or the Supervisory Board that would have been required to be reported to the Supervisory Board or the Annual General Meeting in the period under review.

Main focus of work in the Supervisory Board plenary sessions and in the committees

Five regular Supervisory Board meetings were held in financial year 2009, and one constituent meeting. The performance of KSB Aktiengesellschaft, the Group and the individual segments were the subject of regular discussions in plenary sessions, primarily with regard to the performance of order intake, sales revenue, earnings, assets and employment levels as well as the current economic situation, the strategy and investment and acquisition projects. The latter were the subject of multiple discussions during the past financial year, particularly in connection with the further strengthening of our service activities. In light of the numerous acquisitions made during the past few years, special attention was paid to their structured integration and future management within the Group.

In view of the fall-off in orders triggered by the weak economy, the Supervisory Board attached great importance to being kept up-to-date at all times on the utilisation of production capacities. With regard to the completion of key expansion investments in buildings and machinery at the German sites in Frankenthal, Pegnitz and Halle, the Board of Management provided regular reports detailing the status of each project. Commissioning of the sites took place on schedule and eased the production situation in the past financial year. In addition, major investments, for example in China and India' were discussed in detail on several occasions.

One focus of the business year's plenary sessions was to look at the impact of the global financial and economic crisis on KSB. The Board of Management presented potential scenarios together with targeted and coordinated countermeasures. Both were subject to critical review by the Supervisory Board and discussed thoroughly with the Board of Management. In this context, research and development activities within the company, in particular, were examined more closely in order to be able to assess business opportunities resulting from innovations, especially during phases of economic slowdown.

The Supervisory Board continued to pay close attention to the development of the joint venture for nuclear products founded in China in 2008 and to the regular progress reports submitted by the Board of Management. In the light of encouraging developments, other major investments are scheduled for 2010 to expand the local production and test facilities. On several occasions we also discussed purchases of real estate and office space, which the Board of Management had planned in order to expand business activities in those locations in the long term.

The term of office for the majority of shareholder representatives in the Supervisory Board ended after the Annual General Meeting on 17 June 2009. The Supervisory Board met for a constituent meeting following the elections that were held at the Annual General Meeting; during this meeting, the re-appointment of both the current chairman as well as the deputy chairman was confirmed and committee seats were filled as required.

The Supervisory Board convened in September for a two-day meeting at the Halle site. This gave the Supervisory Board an opportunity to examine the site's excellent business development more closely and get a first-hand look at its high-performance production facilities, including the outcome of recent expansion measures. This meeting focused largely on presenting the results of the strategy development process and discussing related ideas regarding the company's organisational structure and corporate culture. At a meeting in December, the last meeting of the year under review, we chiefly looked at business performance during the past year and plans for 2010. At this and several previous meetings we also examined changes made to company law over the course of the year as well as the 2009 revision of the German Corporate Governance Code and its impact on procedures within the company. The Supervisory Board's rules of procedure were adapted accordingly, particularly with regard to the decisions relating to the Board of Management's remuneration which must now be made by the Supervisory Board plenary session.

To ensure its tasks are performed efficiently, the Supervisory Board established six committees and six sub-committees in the past financial year. They prepare the Supervisory Board's resolutions and special issues to be discussed. In addition, they also made their own decisions – to the extent that this is legally permissible – within the scope of their areas of responsibility. This allocation has proved to be extremely worthwhile in practice. At the plenary meetings, the Chairs of the committees regularly and comprehensively reported on the content and results of the work in the committees; the relevant committees were informed of the results of the sub-committees. The Chairman of the Supervisory Board serves as the Chair of all committees except the Audit and Nomination Committees.

The **Nomination Committee** looked at the shareholder representative nominations prior to the Supervisory Board elections at the Annual General Meeting. To do so, this committee met once during the year under review.

The **Planning and Finance Committee** met six times in the year under review. It addressed corporate and investment planning and prepared the Supervisory Board's resolutions on these matters. One focus was the regular examination of the Board of Management's rolling forecast report which continuously covers medium-term time frames. The committee members also discussed in detail the measures proposed by the Board of Management for the purpose of hedging the company's long-term liquidity, not least by taking out a sizeable loan against a borrower's note. The Major Investments sub-committee, which was specially formed to oversee significant investments for the production of customised pumps, met three times. It monitored the work being performed and updated the economic appraisals. Since the investment projects being dealt with were brought to a successful completion in 2009, this sub-committee was dissolved at year's end. The Nuclear sub-committee met once and primarily discussed fundamental questions regarding the expansion of business activities for products with nuclear applications; the development of the joint venture founded in conjunction with a Chinese partner in 2008 for the purpose of manufacturing such products, Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. headquartered in Lingang near Shanghai, was the subject of closer examination. Three other sub-committees were established; these will examine aspects of Sales and Production Management as well as Business Development (including Strategy Controlling) and commence their activities during the current financial year.

The **Personnel Committee** held five meetings in the past financial year. It primarily addressed issues relating to the Board of Management's remuneration, including the terms of the service contracts for the individual Board of Management members as well as other Board of Management issues. Since the new company law policies governing the remuneration of the Board of Management entered into effect, all relevant decisions are once again made by the plenary session with the committee acting in a preparatory capacity. On the committee's recommendation, the plenary session extended the appointment of Prof. Dr. Hellmann to the Board of Management for another two years with the new term ending on 31 December 2011. The committee closely examined the Board of Management's responsibilities in the light of strategy considerations and the Company's new organisational structure which was implemented on 1 January 2010. Human resources development issues were once again discussed in detail with the declared aim to prioritise the recruiting of candidates for the Board of Management and other management positions from within the Company's own ranks. Against this background, the committee members also participated in events with potential candidates in an effort to foster a direct exchange of ideas. These topics will be addressed in more detail during the current financial year.

The **Audit Committee** met five times. These meetings were always attended by the Member of the Board responsible for Finance and, on several occasions, by the auditors. The committee primarily examined the annual and consolidated financial statements, the audit reports submitted by the auditors and the internal auditors as well as the further development of the risk management system and compliance organisation. The half-year financial report was also discussed with the Board of Management. The Audit Committee also discussed the specification of key audit areas and submitted a proposal to the plenary session with respect to the appointment of the auditors by the Annual General Meeting. Subsequently, the committee commissioned the auditors with the task of auditing the annual and consolidated financial statements. The declaration of independence by the auditors was obtained in accordance with item 7.2.1 of the German Corporate Governance Code and the auditors' continued independence was monitored. An ongoing discussion topic was the development and impact of the global financial and economic crisis. In addition, the committee monitored a random audit of the 2008 consolidated financial statements by the *Deutsche Prüfstelle für Rechnungslegung* [*DPR* – German Financial Reporting Enforcement Panel] which confirmed its accuracy.

The **Strategy Committee** coordinated the consultation process between the Board of Management and the Supervisory Board as part of the development of a end-to-end corporate strategy. At three meetings, the Committee closely supported the strategic development process led by the Board of Management and developed the necessary contributions for this on behalf of the Supervisory Board. Since these deliberations were wrapped up during the year under review, the committee was dissolved at year's end. Coordination with the Board of Management on strategic issues will remain the responsibility of the Supervisory Board's plenary session and the committees in their respective areas of responsibility. The Innovation sub-committee met four times and discussed fundamental aspects of the research, development and innovation organisation within the company. It will report in the future to the Planning and Finance Committee. The Leadership and Corporate Culture sub-committee met three times to discuss how to integrate these areas of focus into the new organisation. It will report in the future to the Personnel Committee.

There was no requirement during the year under review to convene the **Mediation Committee** required by section 27(3) *MitbestG* [*Mitbestimmungsgesetz* – German Co-Determination Act].

Corporate governance and statement of compliance

The Supervisory Board continuously monitored the ongoing development of corporate governance standards. We held several meetings to discuss the implementation of changes made to the German Corporate Governance Code and the associated statutory changes. The Board of Management and the Supervisory Board report on corporate governance at KSB in accordance with section 3.10 of the German Corporate Governance Code on pages 14 to 17 of this Annual Report. On both 17 June 2009 and 30 March 2010 they jointly issued an updated statement of compliance in accordance with section 312 of the *AktG* and made this available to shareholders on the Company's web site. With one exception, KSB Aktiengesellschaft complies with the recommendations set out in the 18 June 2009 version of the Code which was published by the Federal Ministry of Justice on 5 August 2009 in the official section of the electronic *Bundesanzeiger* [German Federal Gazette].

Audit of the annual and consolidated financial statements

The accounting documentation, in addition to the proposal by the Board of Management on the appropriation of net retained earnings and the audit reports submitted by the auditors, was provided in good time to all members of the Supervisory Board. It was addressed in detail by the Audit Committee on 23 March 2010 as well as by the Supervisory Board plenary session on 30 March 2010 and explained in depth in both cases by the Board of Management. The auditors attended the meetings of both bodies, reported on the material findings of the audit and were available to provide additional information.

The Supervisory Board examined the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2009, which were prepared in accordance with the provisions of the *Handelsgesetzbuch* [*HGB* – German Commercial Code], as well as the consolidated financial statements and the Group management report for the year ended 31 December 2009, and the proposal by the Board of Management on the appropriation of net retained earnings.

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2009, as well as the consolidated financial statements and the Group management report for the year ended 31 December 2009, and issued an unqualified auditors' opinion. The Audit Committee defined key areas to be audited by the auditors in the year under review, such as, for example, an impairment test for tangible and intangible assets in view of the economic and financial crisis, as well as reporting on risks and expected developments in the management reports of KSB Aktiengesellschaft and the Group. The auditors reported their findings on these key audit areas both orally and in writing.

The Supervisory Board concurs with the auditors' findings. Based on its own final examination results, the Supervisory Board plenary session did not raise any objections to the annual financial statements, consolidated financial statements, management report and Group management report. In accordance with the recommendation of the Audit Committee the Supervisory Board approved the financial statements prepared by the Board of Management; the annual financial statements are thus adopted. After its own examination, the Supervisory Board deems the proposal by the Board of Management on the appropriation of net retained earnings of KSB Aktiengesellschaft to be appropriate and concurs with it.

Dependent company report

The auditors also audited the dependent company report prepared by the Board of Management in accordance with section 312 of the *AktG* and issued the following unqualified opinion on this report:

"On completion of our audit and assessment in accordance with professional standards, we confirm that:

1. the actual amounts and disclosures in the report are correct;
2. the consideration paid by the company for the transactions listed in the report was not inappropriately high;
3. there are no circumstances relating to the measures listed in the report that would indicate an assessment that is materially different from that of the Board of Management."

The reports by the Board of Management and the auditors were provided in good time to all members of the Supervisory Board and were also discussed by the Audit Committee and at plenary sessions. The auditors attended the meetings of both bodies, reported on the material findings of the audit and were available to provide additional information. The Supervisory Board concurs with the auditors' findings. Both the recommendation by the Audit Committee and the final results of the Supervisory Board plenary session's examination did not give rise to any objections to the dependent company report prepared by the Board of Management and to the statement by the Board of Management at the end of the dependent company report.

Changes in the Supervisory Board and Board of Management

Due to his upcoming retirement, Carl-Wilhelm Schell-Lind resigned from the Supervisory Board effective 31 December 2009. As an elected reserve member, Dr. Stefan Bross took over his post on the Supervisory Board with effect from 1 January 2010. The Supervisory Board would like to take this opportunity to thank Mr. Schell-Lind for his constructive, well-informed contributions as well as the many years of cooperation in an atmosphere of mutual trust.

The Supervisory Board would also like to acknowledge and thank the Board of Management, the employees and employee representatives of all Group companies for their work in the year under review. They significantly contributed to another very successful year for KSB.

Frankenthal, March 2010

For the Supervisory Board
Dr. Hans-Joachim Jacob

Corporate Governance Report / Remuneration Report

The Board of Management and the Supervisory Board report as follows on corporate governance at KSB as well as on the remuneration principles for the Board of Management in accordance with items 3.10 and 4.2.5 of the German Corporate Governance Code:

The principles of corporate governance at KSB are based on the German Corporate Governance Code. This Code provides the basic framework for the management and supervision of listed companies and formulates nationally and internationally recognised standards of good and responsible corporate governance. We welcome the work of the Government Commission on the German Corporate Governance Code, as well as the ideas and recommendations contained in the Code which was last revised in some sections on 18 June 2009 and published on 5 August 2009 in the electronic *Bundesanzeiger* [German Federal Gazette].

We are convinced that good, responsible corporate governance will contribute greatly to the company's long-term success. This is why it has always ranked highly at KSB. Even before the Code was introduced by the Federal Government, we implemented the majority of core corporate governance and control processes in such a way that they were in compliance with the relevant principles of the Code's current requirements. We were traditionally guided in this by nationally and internationally recognised standards of transparent, comprehensible corporate governance. During the past financial year, the Board of Management and Supervisory Board of KSB Aktiengesellschaft discussed compliance with the Code's guidelines as well as the relevant legal requirements in detail on several occasions. Our objective is to continue developing the principles of corporate governance in all parts of our company.

Statement of compliance updated

All new recommendations added to the Code in 2009 were implemented immediately, i.e. they were integrated into internal company work flows and pending decisions. This applies in particular to the deductible for D&O insurance taken out for the Supervisory Board – the relevant policy for the Board of Management complies with the provisions of company law – as well as the increased focus on diversity when filling positions in committees. The sole decision-making authority of the Supervisory Board's plenary session in matters concerning the remuneration of the Board of Management was expressly adopted into the Supervisory Board's rules of procedure; great importance is attached to the Personnel Committee's preparatory role.

As previously announced in the Statement of Compliance issued on 17 June 2009, KSB has now succeeded in further optimising its internal processes and thus complies with the 90-day time frame recommended in item 7.1.2 of the Code for the publication of its Consolidated Financial Statements. As a result, the exception and reason provided for the departure from compliance with the recommendations are no longer required.

On this basis, the Board of Management and Supervisory Board issued an updated annual Statement of Compliance on 30 March 2010 in accordance with section 161 of the *AktG* [German Public Companies Act] and made it available to the shareholders on the company's web site together with statements from previous years (see page 17). We comply with the recommendations of the 18 June 2009 version of the German Corporate Governance Code with one exception. The Statement will be updated at short notice as required.

Going forward, we will continue to respond quickly to further developments in the German Corporate Governance Code to ensure that suggestions and recommendations that are applicable to KSB are implemented in the interests of sustained transparency and growth in our enterprise value. At the same time we want to foster the trust which investors, financial markets, employees, the public and our customers in particular have placed in us.

Shareholders and Annual General Meeting

KSB AG issued both no-par value ordinary shares as well as no-par value preference shares. The holders of these shares, our shareholders, exercise their co-determination and control rights at the Annual General Meeting which is held at least once a year.

Each shareholder is entitled to attend the Annual General Meeting in accordance with the requirements as stipulated in the Articles of Association and the law. If shareholders cannot or choose not to attend in person, they can opt to appoint a proxy who will exercise their voting rights on their behalf.

In accordance with the Articles of Association, the Chair of the Supervisory Board presides over the Annual General Meeting. The Chair determines the order in which proceedings are conducted as well as the type and form of voting. The Chair may reasonably restrict the time allocated to questions and speeches by shareholders and, at the start of or during the course of the Annual General Meeting, set time limits for the entire proceedings of the Meeting, the discussion of the various items on the agenda as well as on individual questions and speeches.

The Annual General Meeting reaches decisions pertaining to all of the duties and responsibilities assigned to it by law (e.g. appropriation of net retained earnings, amendments to the Articles of Association, election of Supervisory Board members). Each ordinary share authorises the holder to one vote. The preference shares only entitle holders to voting rights as prescribed by law but carry progressive additional dividend rights. Klein Pumpen GmbH, Frankenthal, holds approximately 80 % of the ordinary shares; the *KSB Stiftung* [KSB Foundation], Stuttgart, holds a majority stake in Klein Pumpen GmbH.

Responsible cooperation between the Board of Management and the Supervisory Board

Good corporate governance requires an ongoing development of the dual management system prescribed for German public limited companies in all sections of the business. This begins with independent management by the Board of Management which is monitored and advised by the Supervisory Board. To promote effective management, the rules of procedure for both bodies specifically state that business shall be conducted in accordance with the German Corporate Governance Code, with any departure from compliance with the recommendations in justifiable, individual instances being disclosed by the Board of Management and the Supervisory Board.

Continuous dialogue between the Board of Management and the Supervisory Board, based on mutual trust, provides an important foundation for the success of the company. Their shared objective is to generate appropriate returns and achieve sustainable increases in the company's value through the systematic pursuit and implementation of these principles. Both bodies thus collaborate closely for the benefit of the company.

The Supervisory Board receives regular, timely, comprehensive updates from the Board of Management regarding all planning, business development, risk position and compliance issues which are relevant to the company. Decisions of fundamental importance must be approved by the Supervisory Board. Any departure in business performance from the formulated plans and objectives is discussed in depth and openly; particular importance is attached to maintaining strict confidentiality towards other persons. In the past financial year, the Board of Management redefined the company's strategic and organisational alignment in close consultation with the Supervisory Board and in accordance with the principles described here. At times the Supervisory Board also convened without the Board of Management in order to intensify the exchange of ideas within the Board.

Transparency

KSB considers it extremely important to provide capital market participants with regular, comprehensive, consistent and prompt information on the Group's economic situation. Reporting takes place via annual reports, half-year financial reports and interim reports. All publications are published within the time frames specified.

In addition, we provide information by means of press releases and ad hoc statements whenever necessary. All information can be accessed online (www.ksb.com). At the web site, you will also find our financial calendar which contains the scheduled dates for major recurring events and publications.

In the event that any directors' dealings need to be reported, you will find the relevant information at "Investor Relations > Corporate Governance > Directors' Dealings."

KSB AG created an insider directory as required by section 15b of the *WpHG* [*Wertpapierhandelsgesetz* – German Securities Trading Act] and informed the relevant persons of their legal obligations and sanctions in the event of non-compliance.

At the end of the financial year, the aggregate of all shares in KSB AG held by members of the Board of Management and Supervisory Board, either directly or indirectly, did not exceed a total of 1 % of the shares issued.

Members of the Board of Management and Supervisory Board are obliged to act in the company's interests. When making their decisions, they must neither pursue personal interests nor use for their own purposes any business opportunities that present themselves for the company. Any conflicts of interest must be disclosed to the Supervisory Board immediately. Should the need arise, the Annual General Meeting must be informed of any conflicts of interest and how they were dealt with.

Accounting and audit of the financial statements

The consolidated financial statements and interim financial statements of KSB are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. After the consolidated financial statements have been prepared by the Board of Management, they are audited by the auditors elected by the Annual General Meeting (BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) and adopted by the Supervisory Board. Prior to the publication of interim reports and the half-year financial report, these are discussed with the Audit Committee.

An agreement has been reached with the auditors that the Chair of the Supervisory Board or the Chair of the Audit Committee shall be notified immediately of any substantial findings or issues which emerge during the audit or of any grounds for exclusion or exemption.

Management parameters and control system

In addition to order intake and sales revenue, our key performance indicators for the management of the KSB Group are the return on sales and our net financial position (i.e. the difference between cash and cash equivalents and interest-bearing investments on the one hand, and financial liabilities on the other). We also attach great importance to managing our activities in accordance with economic value added (EVA) principles.

Our internal control system is based both on guidelines and regulations that specify standard procedures as well as our Group-wide risk management system. Organisation and implementation of this risk management system are documented in a separate manual. All Group companies are responsible for identifying and assessing risks and reporting these to Group headquarters. They also have to initiate countermeasures to avert or limit any damage.

Reporting on identified risks and the countermeasures initiated is an integral part of the planning and controlling process. The Supervisory Board's Audit Committee also looks at the reported risks on a regular basis.

KSB identifies and communicates the risks based on the following categories:

- Market / Competition
- Products / Projects
- Finances / Liquidity
- Procurement
- Technology / Research and Development
- Environment
- Other risks

The Internal Audits department performs regular reviews to establish to what extent the specified guidelines and regulations are observed and whether the operating units are appropriately involved in risk management.

Compliance is a key task of corporate management

Compliance in the sense of implementing measures to ensure the Group companies' observance of applicable law and internal guidelines is one of the Board of Management's central management tasks. The Board of Management expressed its requirement of professional, honest conduct within our Group-wide Code of Conduct. As well as talking to designated people within the company, employees can call a whistleblower hotline or contact an ombudsman if they are or become aware of any violations of cartel or penal laws or guidelines. An external law firm is on hand which will promptly forward any information to the Group Compliance Officer.

Some fundamental statements contained in the Code of Conduct are addressed in more detail in other, separate guidelines. This particularly applies to the areas of cartel law and anti-corruption measures. The applicable laws and regulations are explained in greater detail and useful information on proper conduct in concrete situations is provided. The latter is similarly applicable to the guidelines prohibiting insider trading. This document provides an overview of current legal requirements and specifies a clearing house which can be contacted in the event of any doubts. It also contains the principles governing maintenance of the insider directory in accordance with section 15b of the *WpHG*.

In 2009 our compliance activities focused on developing and implementing a concept to establish a global compliance organisation. The requisite structures were created, the persons responsible appointed and appropriate reporting channels defined. The Compliance Office established for this purpose steers the Group-wide measures and serves as a contact for the Local Compliance Officers in charge in the individual countries.

Parallel to this, training sessions were held throughout the Group to convey the core contents of these guidelines in a practical manner and create a forum for discussion. The series of training sessions will be continued and completed over the course of the year. Regular updates are planned to be implemented.

Remuneration of the Supervisory Board

The Supervisory Board's remuneration system is set out in our Articles of Association. According to this, Supervisory Board members receive a fixed remuneration of € 6,000 for the financial year. The chairman is entitled to twice this amount and the deputy is entitled to one and a half times the amount. In addition, the members of the Supervisory Board receive an attendance fee of € 2,000 for each meeting of the Supervisory Board and its committees they attend; the attendance fee for persons chairing committee meetings is € 3,000 for each committee meeting attended. No attendance fees are paid for meetings of the Committee pursuant to section 27(3) of the German Co-determination Act [*MitbestG*]. The members of the Supervisory Board are also covered by directors' and officers' liability insurance taken out by the company on behalf of the members of the Board of Management and the Supervisory Board at standard market conditions.

Finally, Supervisory Board members receive dividend-dependent remuneration for the financial year. For every 25 cents by which the dividend distributed to ordinary shareholders exceeds the amount of € 1.0, the remuneration paid out to Supervisory Board members amounts to € 1,200 for the Chair, € 900 for the deputy Chair and € 600 for the remaining members.

Any additional remuneration is reserved for determination by the Annual General Meeting. The total remuneration paid to members of the Supervisory Board in 2009 amounted to € 1,257 thousand (previous year: € 1,171 thousand).

Remuneration of the Board of Management (Remuneration Report)

The Remuneration Report summarises the principles applied when determining the remuneration arrangements for the Board of Management of KSB Aktiengesellschaft. It is prepared in accordance with the recommendations of the German Corporate Governance Code (item 4.2.5) and explains the remuneration system in place for Board of Management members. This system is geared towards sustainable corporate development. It is adopted by the Supervisory Board plenary session based on the recommendation of the Personnel Committee and reviewed at regular intervals. The same applies to individual Board of Management compensation amounts.

The remuneration arrangements for the Board of Management are structured as clearly and transparently as possible. The total amount of remuneration for the individual Board of Management members is determined based on various parameters. Criteria for assessing the appropriateness of the remuneration include the responsibilities of the individual Board of Management members, their personal performance, the economic situation, the company's results and prospects as well as customary remuneration amounts when taking peer companies and the remuneration structure used elsewhere within the company into consideration.

The remuneration of the Board of Management consists of fixed and variable components. Fixed components are granted regardless of performance and consist of a fixed sum plus benefits, as well as pension commitments (retirement, disability, widow's or orphan's pension). The fixed sum makes up 60 % of the maximum annual salary and is paid out as a monthly basic remuneration. All Board of Management members are equally entitled to the accompanying fringe benefits which include the private use of a company car, payment of insurance premiums and any payments associated with a post-contractual non-competition clause. No loans or advance payments were granted to members of the Board of Management in the year under review.

The variable component of remuneration is linked to the return on sales achieved during the financial year in question, with a weighting factor of 15 % of the maximum annual salary. Board of Management members also receive variable remuneration components which serve as a long-term incentive. These are determined based on an economic value added approach over a three-year period; a weighting factor of 25 % of the member's maximum annual salary is applied. Any negative developments during this period are also taken into consideration when calculating payments for the third year. The total amount of the variable remuneration components is limited in order to take extraordinary, unforeseen developments into account.

In addition to target agreements which affect the salary, other personal goals with flexible time horizons are agreed with Board of Management members. The degree to which these have been achieved influences the decision-making process for contract extensions.

Furthermore, when Board of Management contracts are concluded it is agreed that payments made to a Board of Management member in the event of his or her Board of Management tenure being terminated prematurely without good reason shall not exceed the value of two years' remuneration including fringe benefits (settlement cap in accordance with item 4.2.3 of the German Corporate Governance Code). No other payments have been promised to any Board of Management members in the event of termination of service; similarly no compensation will be paid in the event of a takeover offer.

On 22 June 2006 – using a legally permissible option – the Annual General Meeting resolved not to disclose the details of the compensation for individual members of the Board of Management for a period of five years. The total remuneration paid to the members of the Board of Management for services provided during the past financial year amounted to € 3,705 thousand. For this period, additions of € 1,906 thousand were made to the pension provisions for active and retired members of the Board of Management. No stock options or other share-based payment arrangements are granted to members of the Board of Management. Additional information regarding remuneration for the Board of Management can be found on pages 42 and 106 of the annual report.

The Supervisory Board The Board of Management

Corporate Governance: Statement of Compliance

Statement by the Board of Management and the Supervisory Board of KSB Aktiengesellschaft on Compliance with the Recommendations of the Government Commission on the German Corporate Governance Code pursuant to section 161 (German Public Companies Act)

Since the publication of last year's statement of compliance KSB Aktiengesellschaft, Frankenthal (Pfalz), has complied and continues to comply with the recommendations of the Government Commission on the German Corporate Governance Code as set out in the latest applicable version – currently that dated 18 June 2009 –, with the exception of the following:

The total amount of the remuneration paid to the members of the Supervisory Board for their service on the Board, as well as of remuneration or advantages extended for services provided individually, in particular advisory or agency services, is disclosed in the Notes to the Consolidated Financial Statements, but in the Corporate Governance Report the remuneration is disclosed neither separately for each member nor classified by components (item 5.4.6).

Reason: The remuneration of the Supervisory Board members is described in detail in the Articles of Association; they can be referred to for information on the individual remuneration components in relation to the functions assumed on the Supervisory Board. Beyond that, we prefer to provide summarised information about the remuneration of the members of the Supervisory Board rather than breaking it down into the compensation paid to the individual members and the components it contains, as we do not believe that the latter would provide any additional benefits for shareholders or the development of the company.

Frankenthal, 30 March 2010

For the Supervisory Board

Dr. Hans-Joachim Jacob

For the Board of Management

Dr. Wolfgang Schmitt

Number of employees at previous year's level

To make sure it is equipped for the next upturn,
KSB has retained its core workforce and, at the end of 2009, employs

14,249 people.

The KSB Group

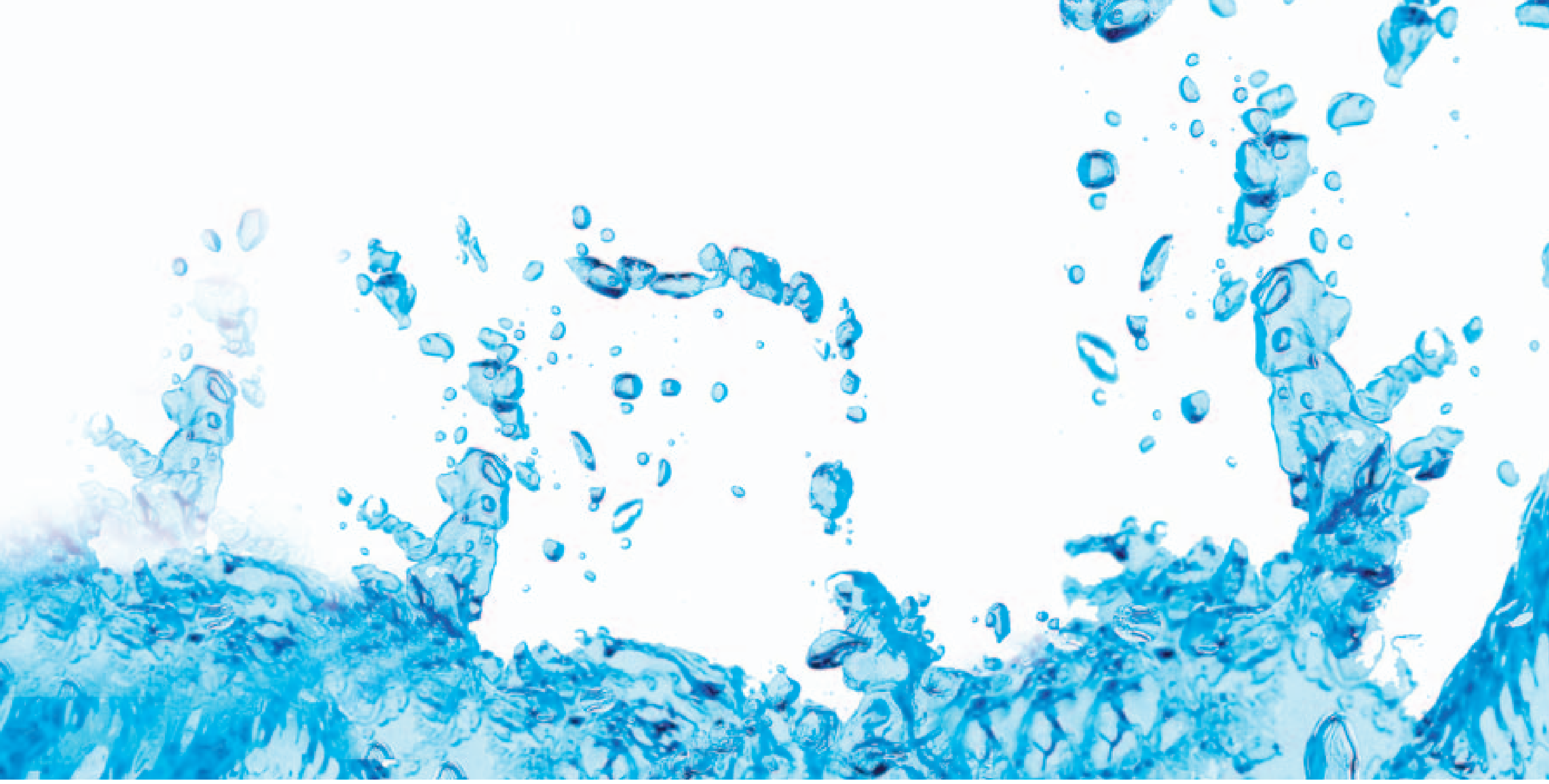
SUCCESS NEEDS A CLEAR PLAN

KSB is one of the leading companies in the pumps and valves market. We aim to maintain our global success and achieve sustained profitable growth. To this end, we have reviewed our business activities and realigned our strategy. Our model for the future is based on three pillars:

- **The corporate strategy sets out the direction and objectives.**
- **The organisation supports its implementation.**
- **The corporate culture shapes the way we work together.**

WE ARE BUILDING ON A SECURE FOUNDATION

KSB today is one of the most broadly positioned manufacturers of pumps and valves. This gives a certain security, especially in critical economic times. In attractive areas of the market and in regions that offer particularly good growth opportunities, we aim to add to our strength in the coming years and to achieve a leading competitive position. We want to be better than our competitors: in our performance, in market share and in terms of profitability. With this in mind, we have defined 125 strategic projects that we shall implement in the next few years. They are all aimed at defending, strengthening and further developing KSB as a financially independent company.



With its height of 421 metres, the Jin-Mao Tower in Shanghai needs more than 30 high-pressure pumps to carry water to the top floor.

Sewatec volute casing pumps at work in a waste water treatment plant in Poznań, Poland.

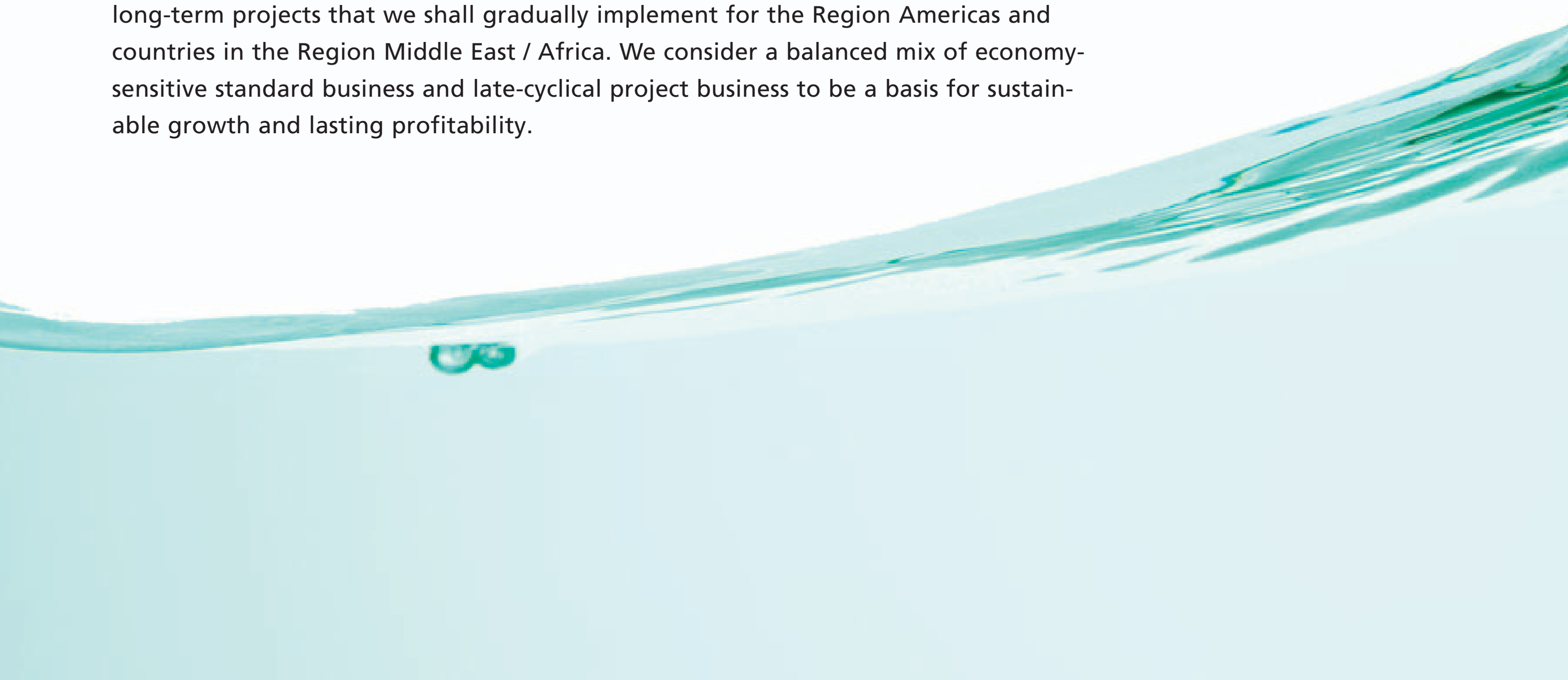
OUR CORPORATE STRATEGY

GROWING MORE STRONGLY THAN THE MARKET

Our success in the market and our technology show how much potential there is in KSB. We aim to use this potential to help actively shape our future, open up new applications for our products and win customers. Our strategy is aimed at steering KSB into a leading competitive position in attractive markets or building on the successes already achieved. Within this framework, we have selected nine business lines to which we shall give priority over the coming years in terms of strategic investment and the use of our resources. In these key focus areas we aim to be particularly profitable and to grow more strongly than the market.

WE ARE STRENGTHENING KSB IN GROWTH REGIONS

Our strategic focus is on those areas where our products are used in power plants, industrial facilities and large buildings, as well as in the water and waste water management sector. We are also systematically expanding our service operations and creating new structures for this. Apart from our "home market" of Europe, the Region Asia / Pacific with the growth economies of China and India will become an even stronger market for our products and services. But we also have medium and long-term projects that we shall gradually implement for the Region Americas and countries in the Region Middle East / Africa. We consider a balanced mix of economy-sensitive standard business and late-cyclical project business to be a basis for sustainable growth and lasting profitability.



Hot water pumps in the heating system of a car manufacturer

Service employee in the chemicals plant of a customer in Shanghai

OUR ORGANISATION

WE ARE GETTING FIT FOR THE GLOBAL MARKET

To implement our corporate strategy in the global context, we need an organisation that is fit for the purpose. This includes not only customer-focused regional units for Sales and Operations throughout the world, but also clear responsibilities in the value creation chain to reduce complexity and costs. With our new organisation, we are getting closer to the customer, fostering innovations and shaping our processes to ensure they are simple and flexible.

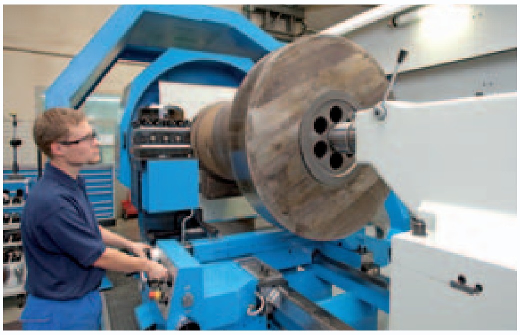
THE RIGHT PERSPECTIVE IS CRUCIAL

Our sales people are our eyes and ears in the marketplace and convey the wishes of customers to our organisation. Six new Business Units have been created that focus on product groups and are responsible for the portfolio. They identify opportunities for our pumps, valves, automation and drive systems, as well as our service operations, across all markets and sectors. They initiate new developments early on. In this way, we review and assess our business opportunities not only according to the requirements of individual markets, but also according to the performance and potential applications of our products.

The CHTA boiler feed pump in the Niederaussem lignite-fired power station is designed for a 30-year service life.

Ama-Drainer submersible pumps are used for building drainage.

OUR CORPORATE CULTURE



Machining a boiler circulating pump casing

Inspection of a chemical pump casing in Pegnitz

WE FOCUS ON DOING THE THINGS THAT GET US CLOSER TO OUR OBJECTIVES

The culture of a company is the sum of its underlying beliefs, values and attitudes. In successful companies, it supports the achievement of corporate objectives. We therefore continue to strengthen our corporate culture and develop it further. A set of shared values and behaviours fosters cooperation, informs our work at KSB and shapes the way we interact with our customers and other partners. Constructive collaboration, clear communication and the will to make continuous improvements are prerequisites for achieving our objectives in all regions across functional and national boundaries.

VALUES SHAPE OUR BEHAVIOUR

Our corporate culture is informed by trust, honesty, responsibility, professionalism and mutual appreciation. By making these values the defining criteria for our behaviour, we build on our existing strengths and address any weaknesses that are identified. Together we focus on using our knowledge and skills as effectively as possible for the benefit of our customers and for the sustained profitable growth of KSB.

Return on sales at a high level

KSB achieves its second-best consolidated return on sales in 2009 at

9.1 percent.

Group Management Report

Group Structure and Focus of Business

- Europe and Asia / Pacific are the main sales markets
- Strategy for sustainable profitable growth
- New Group organisation from 2010

Purpose and organisation of the Group

The KSB Group's mission is to supply customers around the world with top-quality pumps and valves as well as associated systems. We also provide wide-ranging services to users of these products.

46 operating companies in 30 countries were dedicated to achieving this mission in the year under review. Seven Group companies exercised a holding company function.

KSB AG, Frankenthal, Germany, as the parent company, holds the shares, either directly or indirectly, in the companies belonging to the Group. Besides KSB AG itself, the companies in the KSB Group with the highest sales revenue are

- KSB S.A.S., Gennevilliers, France
- KSB Service GmbH, Frankenthal, Germany
- KSB Bombas Hidráulicas S.A., Várzea Paulista, Brazil
- KSB Shanghai Pump Co. Ltd., Shanghai, China
- KSB Pumps Limited, Pune, India
- GIW Industries, Inc., Grovetown / Georgia, USA

Disclosures pursuant to section 315(4) of the *HGB* and explanatory report

A summary of the disclosures required by section 315(4) of the *HGB* [*Handelsgesetzbuch* – German Commercial Code] is given below and explanatory information is provided pursuant to sections 175(2) and 176(1) of the *AktG* [*Aktiengesetz* – German Public Companies Act]. We disclose information only to the extent that it applies to KSB AG.

KSB AG's share capital amounts to € 44.8 million, of which € 22.7 million is represented by 886,615 no-par value ordinary shares and € 22.1 million by 864,712 no-par value preference shares. Each no-par value share represents an equal notional amount of the share capital. All shares are bearer shares. They are listed for trading on the regulated market and are traded in the General Standard segment of the Frankfurt Stock Exchange.

Each ordinary share authorises the holder to one vote at KSB AG's Annual General Meeting. Klein Pumpen GmbH, Frankenthal, Germany, holds approximately 80 % of the ordinary shares; the *KSB Stiftung* [KSB Foundation], Stuttgart, Germany, holds the majority of the shares of Klein Pumpen GmbH. The preference shares only entitle holders to voting rights as prescribed by law. The issue of additional ordinary or preference shares does not require the consent of the preference shareholders. The preference shares carry separate cumulative preferred dividend rights and progressive additional dividend rights. Detailed information on the share capital and shareholders holding an interest for more than 10 % is provided in the Notes.

The company is authorised by a resolution passed at the Annual General Meeting on 17 June 2009 to purchase company shares totalling up to € 4,477,196 of the registered share capital by 16 December 2010. There are no resolutions authorising the Company's Board of Management to increase the share capital (authorised capital).

KSB AG is managed by a Board of Management that, in accordance with its Articles of Association, must consist of at least two persons and currently comprises four persons. The Supervisory

Frankenthal is the Group head-quarters and the largest KSB plant in Europe.

Board resolves the appointment and termination of the mandate of members of the Board of Management in accordance with the statutory provisions.

Amendments to the company's Articles of Association are resolved by the Annual General Meeting. If the amendments only affect the wording of the Articles, they can be approved by the Supervisory Board.

Organisation, management and control

Management is monitored by a Supervisory Board consisting of twelve members. The Annual General Meeting of shareholders appoints six members of the Supervisory Board, with the remaining six being delegated by the employees under the terms of the *Mitbestimmungsgesetz* [German Co-determination Act].

KSB AG's Board of Management manages and controls the KSB Group. The strategy and instructions stipulated by the Board of Management are implemented in a matrix organisation. Until the end of 2009, this organisation included four people responsible for the following Regions:

- Europe
- Middle East / Africa
- Asia / Pacific
- Americas

who worked with those responsible for market-oriented areas of business.

Operating business was broken down into the following market segments:

- Industry and Building Services
- Water and Waste Water
- Energy and Mining

Markets and locations

The main products of the KSB Group are centrifugal pumps, which account for approximately 70 % of sales revenue. These pumps, as well as shut-off valves, are sold to engineering contractors, OEMs and end users or, in some cases, distributed via dealers. The same applies to control and monitoring systems, and to package units with pumps and valves.

The most significant market for these products from the Group's perspective is Europe where KSB runs its main manufacturing facilities in Germany and France. KSB AG's main plant in Frankenthal is its largest in Europe, ahead of those in Pegnitz (Bavaria) and Halle (Saxony-Anhalt) in Germany, and La Roche Chalais in France.

The second-largest market for KSB products is currently Asia / Pacific, followed by the Americas and the Middle East / Africa Region. Outside Europe, KSB's biggest manufacturing facilities are in Brazil, China, India and the USA.

KSB manufactures products and components in a total of 19 countries; they are sold through its own companies or agents in more than 100 countries. The Group's companies supply its products to customers from industry and building services, the

energy industry, mining and the public sector. KSB is global market leader in power station pumps and process engineering pumps, in other industries, KSB ranks among the leading manufacturers of pumps.

The market generating the highest sales revenue for KSB products in 2009 was once again industry, where KSB is positioned as the second-largest pump manufacturer in the world.

Management parameters within the KSB Group

The current target variables for managing the Group are based on order intake and sales revenue development as well as on profit performance, which we measure in terms of pre-tax return on sales. When setting out targets, we are guided on the one hand by the development of the market, and on the other by the performance of our key competitors.

In future, value-based management will play a larger role at KSB. Consequently, the key performance indicator EVA (Economic Value Added), which we currently only determine for the Group, will not later than from 2011 onwards be used as an additional management parameter for the individual units within the scope of our new organisation.

New Group strategy determines focus of business

Since mid-2009, our business activities have been guided by the new Group strategy announced in the last Annual Report. It aims to ensure sustainable profitable growth that will secure both our financial independence and our medium- and long-term future. In attractive markets we aspire to a leading competitive position. Where we have already achieved this, we plan to strengthen our position further and to be a better partner to our customers than our competitors.

In view of limited human and financial resources, we have, as a first step, selected nine business lines in which we wish to grow above average over the coming years. In these business lines in the power station market, industry and building services, and the water and waste water sector, we will engage in additional strategic investments during the next few years. The aim will be to improve sales and manufacturing structures, to supply innovative products and to open up new markets. Another focus area will be the expansion of our service, whose outstanding position in the European market we plan to use as a benchmark for other regions.

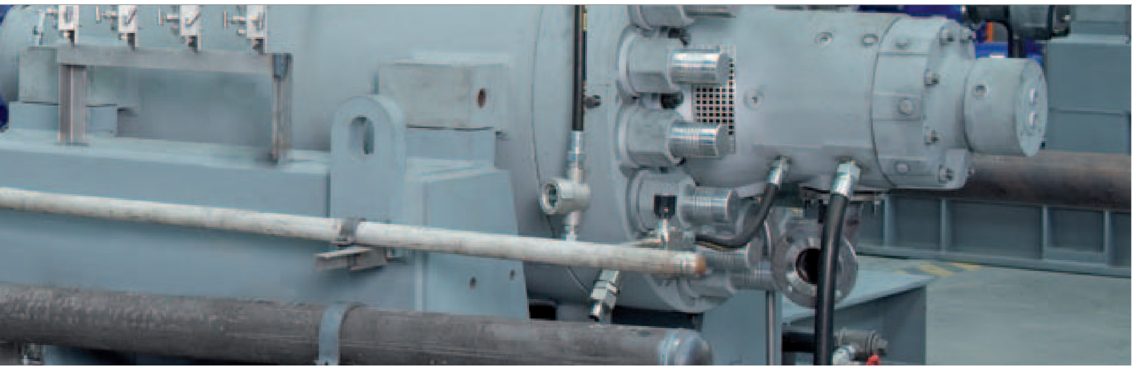
As part of Group strategy realisation, 125 key projects have been defined, which we plan to implement step by step. We have chosen 2018 as the target horizon for this.

Reorganisation of the KSB Group

The implementation of our strategy is accompanied by a reorganisation of the Group as from 2010. The reorganisation is built around two determinants, “products / service” and “markets”, and aims at establishing clear responsibilities alongside lean processes and stronger regional responsibility. Another factor is Group-wide management and control, which will enable better use of the advantages of our global presence. Six Business Units focused on product lines or service will be responsible for earnings and act as interfaces between Sales and Operations.

Corporate governance declaration

We will make our Corporate Governance Declaration pursuant to section 289a of the *HGB* accessible to the public at www.ksb.com > “Investor Relations” > “Corporate Governance Declaration” as from 31 March 2010. In addition to the Corporate Governance Report, which includes the Statement of Compliance pursuant to section 161 of the *AktG*, we also provide information on the web site on the extent to which KSB applies corporate governance practices that go beyond statutory requirements. Also described are the working methods of the Board of Management and Supervisory Board, and the composition and working methods of the committees of the Supervisory Board.



KSB employees install the piping of a boiler feed pump.

Economic Environment

- Global decline in economic performance
- Order intake above average for mechanical engineering sector
- Increased competition in sales markets with weaker demand

During 2009, the hardest recession since the Second World War hit all the industrialised and emerging countries. Global gross domestic product fell by around 2 %. This deterioration confirmed our assessment of future economic trends given in our previous Annual Report.

Economic recovery at different speeds

The consequences of the financial and economic crisis adversely affected the industrialised nations before the emerging countries in Asia and South America. The USA in particular, as the starting point for the financial crisis, entered into recession as early as in 2008, followed by almost all other economies.

Exporting emerging countries, too, saw their industrial production and external trading volumes decline. In some Asian economies, however, recovery set in as early as in spring 2009. The superior overall financial position of these countries facilitated a faster recovery to economy stability. China in particular saw its economy resuming its upwards trend very quickly, even if the sustainability of this growth remains in question.

In the second half of 2009, the first indications of recovery also became visible in the industrialised nations. Various economic experts consequently declared that, despite the continuing risks, the lowest point of the downturn had been reached. Economic conditions remained difficult until the end of the year, however. KSB too saw only a hesitant recovery in the European market which is particularly important for its business. Production levels in the German economy stabilised during the second half of the year at a significantly lower level than in 2008.

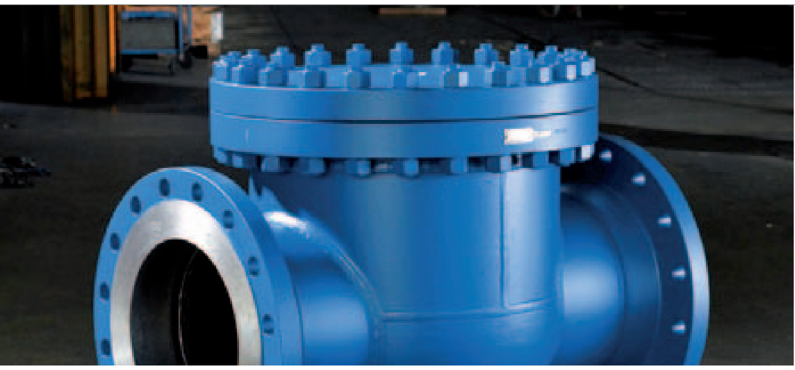
Globally, sales revenue in the mechanical engineering sector declined by 20 % in the unfavourable economic conditions, while sales revenue in the German mechanical engineering sector declined by around 25 %.

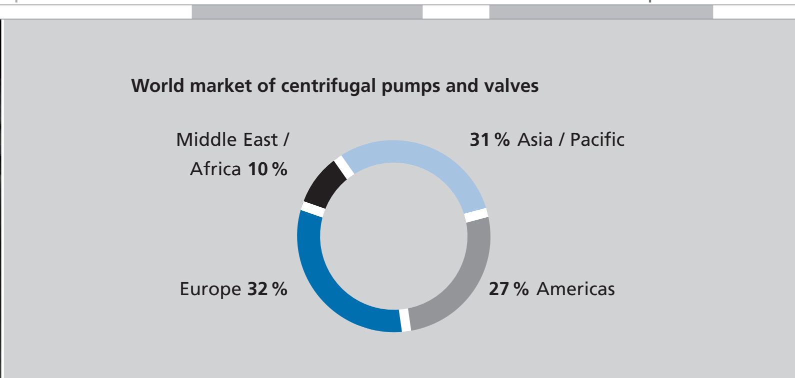
Weak demand from industry and construction sector

Manufacturing companies whose production facilities were not fully utilised naturally did not expand capacity in the year under review; consequently the order volumes of original equipment manufacturers declined by between 40 and 70 %. Refinery and petrochemical industry business in comparison performed relatively well. The companies active in these sectors implemented most of their projects despite the crisis, and consequently needed pumps and valves. The demand for industrial pumps and valves, however, declined by around 15 % overall.

The building services market recorded a similarly steep drop in demand. The shortage of capital was particularly pronounced in countries in which the construction sector had grown strongly until 2008 – such as China, Russia and the Persian Gulf states. In some cases, property developers mothballed partly completed construction projects.

In Germany, the Federal Government's economic rescue package increased the demand for highly efficient heating circulator pumps. Also positive was the trend towards equipping buildings with technology designed for greater resource efficiency, i.e. to produce so-called "green buildings".





Water and waste water market almost stable

The water extraction and distribution market was less affected by the global recession overall. The growth in populations and the resulting need for drinking and service water generated a need for numerous water supply projects for households, agriculture and manufacturing firms. Some less urgent technical plans were put on hold, however.

Environmental protection requirements meant that new sewage treatment plants and pumping stations for waste water transport were needed. Demand for appropriate plant and equipment was strongest in Asia and the Middle East. Investment by the European public sector in new or modernised plants in contrast was halting, with the national economic recovery packages in several European countries excluding waste water related measures.

Power plant market remains stable, mining adversely affected by the economic downturn

The market for power plant equipment remained relatively solid. Power companies largely implemented their 2009 investment plans in new and modernised plants, but in some cases postponed decisions concerning future projects until 2010 and 2011. Due to the downturn in the number of new orders placed, competition increased and there was a drop in the prices of pumps and valves.

The growing trend, already seen last year, towards making increased use of nuclear technology, continued this year. At the same time, the expansion of fossil fuel-based electricity supply also continued. Modern, coal-fired power plants with increased efficiency played a core role in the efforts to secure and improve power supplies. Growth was also recorded in the area of renewable energies.

The demand for raw materials and energy sources is closely related to industrial demand. The dramatic fall in the latter has consequently also impaired growth in the mining sector. Several mine operators have put their plans to modernise or expand equipment on hold. Only in the second half of the year was there a recovery in the raw materials market.

Pump and valve manufacturers focus on crisis management

The demand for pumps, valves and related systems declined less strongly in 2009 than the demand for mechanical engineering products on the whole. However, the crisis still caused considerable problems for producers of standard pumps and valves, who were unable to make up for the decline with project business.

The altered market situation intensified competition. Prices fell in areas in which customers were placing significantly fewer orders, the reason being that many manufacturers were suffering from overcapacity. Service orders compensated for the lack of new pump and valve business to some extent. These focused on, among other things, upgrading installed fluid transport systems to have longer service lives.

The consolidation in the industry seen in previous years has come to a stop, with no large acquisitions taking place. Instead, pump and valve manufacturers concentrated on dealing with the consequences of the financial and economic crisis for their sector, with individual manufacturers taking advantage of cooperation opportunities to improve their market position.

Order intake (€ millions)

– 11.2 %

Sales revenue (€ millions)

– 5.0 %

Business Development and Events

- Demand for standard pumps down
- Lower order intake due to economic situation
- Decline in sales revenue primarily in Europe

After five years of strong growth in order intake and sales revenue, we had forecast a reversal of the trend for the first time in our 2008 Annual Report. The background to this forecast was the anticipated decline in demand due to the real economic effects of the global financial crisis. The downturn has primarily affected our standard pumps and valves business. Revenue from engineered products manufactured to order remained at a comparatively good level. KSB's wide market presence in this respect had a stabilising effect. The decline in order intake and sales revenue was on the whole lower than that experienced by many of our competitors.

Order intake lower by 11.2 percent

The consolidated order intake in the Group fell by 11.2 % (previous year: +12.7 %) compared with 2008. At € 1,934.0 million, order volume was the same as in 2007.

At the KSB companies in Europe, order intake development overall remained slightly below average compared with other regions; KSB AG recorded a decline of 12.2 % (previous year: +19.7 %). In Europe all market segments experienced declines, with weak demand particularly pronounced in some sections of industry. The European service companies recorded a positive development in order intake, and were able to more than offset the – in some cases – massive decline in revenue from industrial maintenance contracts with growth in other areas, primarily in the power plant sector.

Our three operating companies in the Region Middle East / Africa overall recorded a significant decline in orders. This was particularly felt by KSB Middle East FZE in Dubai.

In the Region Asia / Pacific, the order intake of our local companies fell only marginally below the previous year's high level. The growth generated by several smaller companies in Australia, India, Singapore and Pakistan made up for some of the declines recorded by the large production companies in the Region. Order intake for waste water products in the Region Asia / Pacific in particular showed a very positive development. Orders from customers in industry in contrast showed a marked decline, with the economic downturn adversely affecting not only standard business but also the oil business in India.

In the Region Americas there was also a moderate fall in orders received. Brazil-based KSB Bombas Hidráulicas S.A. and US American KSB Inc. recorded significantly lower order volumes than in 2008, while our two valve companies in Brazil and the USA both saw order volumes increase. KSB de Mexico S.A. de C.V. also succeeded in increasing its order intake, while the number of orders received by our slurry pump manufacturer GIW Industries, Inc. remained at the level of the previous year despite a lower number of large projects.

Decline in sales revenue mainly in the European companies

The Group's consolidated sales revenue fell to € 1,892.8 million, down 5.0 %. Sales revenue reductions as a result of economic conditions were registered above all for standard products used in many branches of industry and in building services.

The € 98.9 million decline in overall revenue is largely attributable to the sales development of the European companies. Their revenue in the year under review totalled € 80.0 million, down 5.8 %. KSB AG recorded sales revenue (in accordance with *HGB*) in the past financial year of € 768.5 million. This was 6.2 % lower than in the previous year.

The companies in the Region Middle East / Africa achieved growth of 16.0 % overall, mainly driven by our subsidiary in South Africa.

In the Region Asia / Pacific, the decline in sales revenue was comparatively moderate at – 3.1 %. Several small companies even recorded growth; but the manufacturing companies in China and India did not achieve the revenue levels of the previous year.

The sales revenue of companies in the Region Americas declined by – 7.0 %, and was thus significantly lower than in the previous year. This is primarily attributable to the development of the Group companies in the USA.

Sales initiative uses "Opportunities in the Crisis"

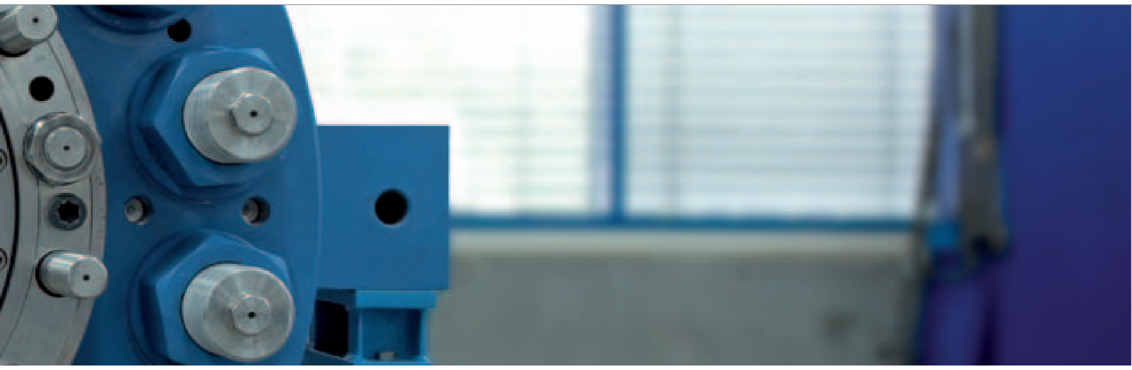
In view of the change in market conditions, we took a number of extraordinary measures in the year under review to ensure the success of our business. These included a sales initiative called "Opportunities in the Crisis " for which we compiled and evaluated more than 100 ideas and, where promising, implemented appropriate measures. They were aimed at, for example, focusing more intensively on individual regional markets, creating new service offerings and improving sales opportunities in previously untapped application fields. The measures were primarily implemented by sales staff who, due to weaker demand, had free capacity on their hands. At the same time, we organised the work of our field staff in Europe in such a way that customer contact is now 20 % higher, and more attention can be paid even to customers who generate less sales revenue.

New production and test facilities

In 2008 and 2009 we expanded our production and test facilities at our German sites. In doing so, we laid the foundations for growth in strategically relevant business lines such as the energy and water industries. Even in the difficult market conditions of 2009, customers continued to order the large water pumps and boiler feed pumps produced in the new facilities. In order to be able to test these units using state-of-the-art methods, we set up new test fields in Frankenthal and Halle.

While this marks the completion of our large-scale investment in Germany, modernisation and expansion measures will continue in India until 2011. During the past year, we modernised and enlarged our well pump and valve manufacturing operations in Nashik and Coimbatore in line with the expected increase in demand. At the Vambori site, we completed construction of our new steel foundry.

In Brazil, we started up a new production site in Vinhedo / São Paulo to support our main plant in Várzea Paulista. The new factory has been manufacturing standard close-coupled pumps primarily for industry and building services since July 2009.



High-pressure pumps from Frankenthal are used in power plants in particular.

Increased involvement in fire protection applications

We also used the year under review to improve our market position in the fire protection sector, by taking over KAGEMA Industrieausrüstungen GmbH, based in Pattensen (near Hanover). This company is a leading manufacturer of diesel pump sets for fire protection systems and diesel-driven emergency power generators in Germany and Eastern Europe. Along with the activities of KSB AG, KSB Italia S.p.A. and KSB ITUR Spain S.A., we are now Europe's largest supplier of pump sets for fire protection systems. We aim to intensify this business in selected countries, and with this in mind, in 2009 we also concluded a sales cooperation agreement with a Norwegian supplier of turnkey fire protection systems.

Energy efficiency as a sales factor

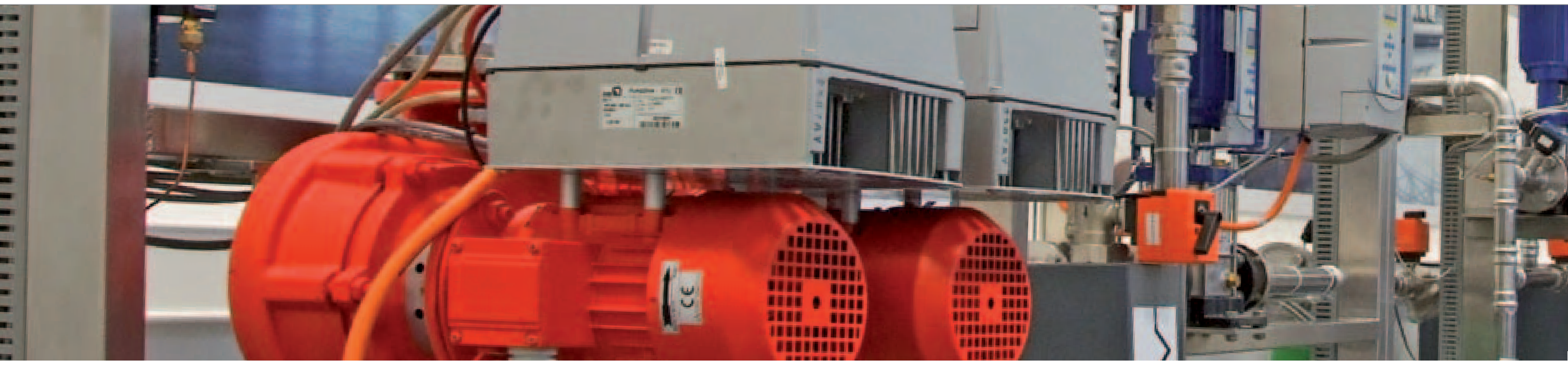
We presented our product range and offerings for efficient energy use to professional visitors at Germany's ISH and ACHEMA trade fairs and another 80 trade fairs around the world. Products with lower energy input were particularly interesting to many trade fair visitors due to the recession-induced need to cut costs. In industry especially, where pumps are the largest energy consumers, the use of variable speed systems and high-efficiency motors may offer considerable savings potential. In line with this trend, we succeeded in increasing the sales of automation products with energy-efficient motors to industrial and building services customers by 15 %.

We also offered our customers special System Efficiency Services designed to increase the profitability of pump systems. This involves measurements on site to highlight the potential savings within each system. Customers that made use of this offering by KSB Service succeeded in reducing the electricity costs for operating their pumps by up to 60 %.

Simplification of IT-supported business processes

Aiming to standardise and simplify our global business processes, we implemented further IT projects in 2009 to launch the SAP ERP software. 4,300 KSB employees in 14 countries now use this software in almost all company areas, from sales and materials management, through production control and logistics, to human resources, quality management, accounting and controlling.

During the financial year, we completed the implementation of the SAP software at our main Indian plants and sales offices. At the same time we started to migrate the IT systems of our largest Chinese company to SAP ERP.



Net Assets, Financial Position and Results of Operations

- Moderate decline in consolidated earnings
- Further increase in equity ratio
- Significant improvement in net financial position

The expectations we expressed in last year's Annual Report regarding the development of our order intake, sales revenue and earnings have basically been confirmed.

RESULTS OF OPERATIONS

Earnings before taxes

The KSB Group generated earnings before taxes of € 172.8 million, after € 200.1 million in 2008, achieving a return on sales of 9.1 % (previous year: 10.0 %).

Decline in output of operations

Total sales revenue fell by 5.0 % as a result of the decline in business development. Work in progress and inventories of finished goods decreased by € 13.4 million year on year. As an increase in inventories was reported in 2008, total output of operations fell more sharply than sales revenue. It amounted to € 1,881.8 million and was thus 6.6 % lower than in the previous year (€ 2,013.9 million).

Change in cost structure

Our income statement in financial year 2009 shows a change in structure.

Cost of materials fell by 12.7 %, with the decline being greater than the change in total output of operations (– 6.6 %) mainly as a result of falling prices in the procurement markets. The figure of € 736.0 million is equivalent to 39.1 % of total output of operations (previous year: 41.9 %).

Staff costs rose slightly by 0.6 % to € 618.3 million in absolute terms. In relation to total output of operations this meant an increase by 2.4 percentage points to 32.9 %. Reasons included collectively agreed salary increases and an average annual increase of 121 in the number of employees despite the decline in total output of operations. At KSB AG, an increase of 133 people was necessary in order to counteract the anticipated lack of skilled personnel today. However, in view of the economic situation, we did not recruit the number of people originally planned. Compared with the previous financial year, average output per employee fell from € 142 thousand to € 131 thousand.

Measured against total output of operations, other operating expenses rose slightly (17.2 % compared with 16.7 %), but fell by € 13.1 million to € 323.7 million in absolute terms. Lower warranty costs also contributed to this trend.

Earnings after taxes

The income tax rate fell by 1.1 percentage points, down to 29.2 % from 30.3 % in 2008. Earnings after taxes of € 122.4 million (previous year: € 139.5 million) thus show a slightly lower rate of change (– 12.3 %) than earnings before taxes (– 13.7 %).

Earnings attributable to non-controlling interest fell from € 16.4 million to € 14.7 million, but remained virtually unchanged when measured as a percentage of earnings after taxes (12.0 % after 11.7 % in the previous year).

At € 107.6 million, earnings attributable to shareholders of KSB AG were 12.6 % lower than the previous year (€ 123.1 million).

Earnings per share

Earnings per ordinary share were € 61.32, compared with € 70.17 in the previous year, and € 61.58 per preference share, compared with € 70.43 in 2008.

In the Automation DemoCenter customers can explore the functions of automation products.

Lower income also at parent company KSB AG

KSB AG generated pre-tax earnings (in accordance with HGB) of € 46.3 million, down 12.2 % from the previous year (€ 52.8 million). Both sales revenue (– 6.2 %) and total output of operations (– 5.8 %) were below the prior-year figures due to the difficult economic situation.

High dividend

As KSB AG's earnings were still good, the dividend to be paid will be at virtually the same level as in the previous year. We will be proposing to the Annual General Meeting to distribute a dividend of € 12.00 per ordinary share and € 12.26 per preference share (including a preference dividend right of € 0.26).

Segment results

In line with our management and reporting structures, our segment reporting format is by region.

At the companies in the Region Europe, the decline in sales also led to a drop in earnings. EBT fell to € 98.4 million (previous year: € 124.7 million). Due to the negative sales revenue development of – 5.8 %, the number of employees was reduced by 81.

In contrast, the Region Middle East / Africa was able to improve its earnings from € 6.5 million to € 8.9 million thanks to an increase in sales revenue (+ 16.0 %) as a result of the high level of orders in hand.

Despite declining sales revenue (– 3.1 %), the number of employees in the Region Asia / Pacific increased slightly by 1.6 %. This is primarily attributable to a temporary effect in India towards the end of the year. The Region was able to generate EBT of € 33.7 million, down € 2.2 million year on year.

In the Region Americas, sales revenue was down 7.0 % on 2008. However, EBT, at € 31.9 million, was just 3.6 % below the prior-year figure. The order volume was managed despite a 4.1 % reduction in headcount.

FINANCIAL POSITION

Principles and objectives of financial management

Central financial management in the KSB Group performs its duties within the framework of the guidelines laid down by the Board of Management. We base the nature and scope of all financial transactions exclusively on the requirements of our business. The aim of our financial management is to ensure liquidity at all times and to finance our activities at optimum conditions. In financing our export business, we hedge foreign exchange and credit risks to the greatest extent possible. We continuously improve our receivables management methods with the goal of settling our outstanding amounts by their due dates.

Hedging financial risks

Our primary tool for minimising the foreign exchange risks inherent in our export business are currency forwards. This applies both to transactions already recognised and to future cash flows from orders on hand that are still being processed. We transact most of our foreign currency business in US dollars. There is only a relatively low level of foreign currency liabilities.

We reduce the risks resulting from changes in prices on the procurement side for orders with extended delivery dates by agreeing cost escalation clauses or, in the case of fixed-price contracts, by including the expected rate of cost increases in our sales price.

We limit the risk of default by taking out credit insurance, arranging advance and partial payments, and agreeing bank guarantees. To ensure long-term liquidity, we agree payment terms and conditions with our customers in the project business that reflect the cost trend curves of order completion as far as possible.

We take account of the risks from short-term fluctuations in cash flows by agreeing sufficient lines of credit with our banks. We therefore have cash credit lines amounting to around € 230 million. An adequate proportion of this is confirmed for a period of more than one year. To provide the usual collateral for the project business, we have guarantees amounting to approximately € 498 million.

Equity

The KSB Group's equity amounts to € 720.6 million. This includes KSB AG's subscribed capital of € 44.8 million. The capital reserve amounts to € 66.7 million. Revenue reserves total € 515.7 million, including earnings after taxes attributable to shareholders of KSB AG of € 107.6 million. € 93.4 million are attributable to non-controlling interest. Despite the € 224.0 million (15.8 %) rise in total equity and liabilities, the equity ratio once again improved (43.8 %; previous year: 42.6 %).

Non-controlling interest relates mainly to KSB Pumps Ltd. / India (€ 33.0 million), PAB GmbH / Germany (€ 15.0 million), KSB America Corporation / USA (€ 10.4 million), KSB Shanghai Pump Co. Ltd. / China (€ 9.4 million), GIW Industries, Inc. / USA (€ 7.0 million) and SISTO Armaturen S.A. / Luxembourg (€ 5.0 million).

Liabilities

The largest item under liabilities are provisions for employee benefits, including, also as the largest item, pension provisions. These were increased by 5.4 % to € 235.8 million as at the reporting date. A large number of the pension plans currently in use in the KSB Group are defined benefit models. We will be reducing the associated risks, such as demographic changes, inflation and salary increases, for example by introducing defined contribution plans for new employees as of this year.

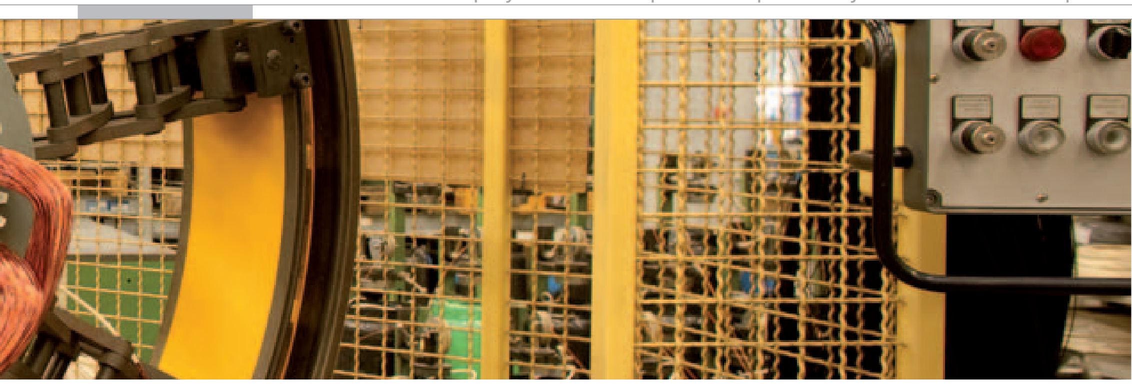
Our obligations for current pensioners and vested benefits of employees who have left the company account for just over half of the amount recognised in the balance sheet. The rest relates to defined benefit obligations for our current employees, who have an average remaining working life of about 13 years.

The remaining provisions for employee benefits, which, in contrast to pension provisions, are predominantly current, fell from € 151.4 million to € 143.8 million mainly as a result of a decline in partial retirement obligations.

Other provisions include non-current components of € 14.9 million for warranty obligations. The excess relates to provisions for mainly current uncertain liabilities.

Non-current liabilities grew significantly from € 23.5 million to € 160.1 million. The reasons for this were new loans and open-market credits (loan against borrower's note) to guarantee the Group's liquidity in the event of a protracted crisis.

Current liabilities were reduced by 13.3 %. Trade payables in particular were markedly reduced by € 53.7 million. Due to the increase in total equity and liabilities, their percentage of total capital fell from 14.1 % to 8.9 %.



We build our own motors for our Amarex KRT and Amacan P submersible pumps and also for our Amamix submersible mixer in Halle.

Contingencies and commitments

The KSB Group's off-balance sheet contingent liabilities totalled € 17.4 million as at the reporting date (previous year: € 18.2 million). These arise mainly from collateral and performance guarantees.

There are no other extraordinary obligations and commitments beyond the reporting date. Other obligations and commitments fall within the scope of what is needed to carry on the business, such as obligations from long-term rental, lease and services agreements (in particular information technology and telecommunications) and from purchase commitments.

Liquidity

The KSB Group's net financial position, i.e. the difference between interest-bearing financial assets on the one hand and financial liabilities on the other, improved significantly from € 129.1 million in 2008 to € 223.0 million as a result of our systematic liquidity management.

Sources and application of funds

Cash flows from operating activities amounted to € 212.2 million, a year-on-year increase of € 69.3 million. This is mainly the result of freeing up resources from receivables and inventories. Cash flows were impacted by the reduction in earnings and the decline in provisions and liabilities.

The volume of our investing activities related to non-current financial assets was considerably reduced compared with the previous year, resulting in total cash flows of € – 99.4 million (previous year: € – 114.6 million).

Cash flows from financing activities increased significantly to € + 127.4 million (previous year: € – 29.2 million) mainly due to the above-mentioned measures to safeguard liquidity. This was offset by higher dividend payments.

The KSB Group's cash and cash equivalents from all cash flows together rose from € 167.4 million to € 409.8 million (including € 16.1 million of restricted cash used to secure credit balances for partial retirement obligations, after € 18.0 million in the previous year). This includes changes in exchange rates.

We assume that we shall continue to be able to meet our outgoing payments largely from operating cash flow. From today's perspective, we are therefore not planning any additional external financing measures.

NET ASSETS

Our total assets rose by 15.8 % to € 1,645.4 million. This is mainly attributable to the increase in cash and cash equivalents as a result of taking out bank loans and raising a loan against borrower's note to guarantee our liquidity in the event of a protracted crisis situation. The on-schedule completion of major investments in new production facilities that were started in previous years also had an impact on property, plant and equipment.

Around 29 % is attributable to fixed assets, as in the previous year. Intangible assets and property, plant and equipment with a historical cost of € 882.4 million have carrying amounts of € 407.7 million. Investments in property, plant and equipment in the year under review amounted to € 85.3 million, considerably in excess of depreciation (€ 36.2 million). The highest addition (€ 32.4 million) relates to plants and machinery. As in 2008, the main focus of our investing activities was the Region Europe, predominantly the German production sites. Outside Europe, the highest additions were made at our plants in India, China, Brazil

and the USA. We maintained our policies for measuring depreciation and amortisation in the year under review. Investments in non-current financial assets were considerably lower than in previous years, resulting in an increase of € 4.7 million, substantially less than in previous years. This is primarily attributable to the formation of a new company in the Region Middle East / Africa and the acquisition of smaller companies in Europe.

Inventories continue to be financed to a significant extent by advance payments from customers. Both items were lower as a result of the decline in business volume. After offsetting advance payments, inventories tie up around 16 % of our funds. This is a decline on the previous year (20 %) because of the considerable increase in total assets.

As a result of our strong project business despite the crisis, the value of customer orders in progress increased by € 45.9 million, measured according to the percentage of completion method. However, this was partially offset by the substantial increase in advance payments from customers (+23.8 %). Trade receivables fell sharply by € 62.2 million, mainly due to the weak standard business. As a result, receivables and other current assets made up just about 30 % of total assets (previous year: 38 %), taking into account the change in the total assets.

Cash and cash equivalents account for around 25 % of assets (previous year: 12 %). As previously mentioned, this change is a result of our measures to safeguard liquidity.

Inflation and exchange rate effects

There are no companies within the Group whose financial statements were required to be adjusted for the effects of inflation.

The translation of financial statements of consolidated companies that are not prepared in euros gave rise to a difference of € + 14.6 million. This was taken directly to equity.

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

At the end of financial year 2009, the economic situation of the KSB Group was stable at a high level. We have succeeded in countering the effects of the financial and economic crisis so far, and the negative impact on our assets, financial position and results has been moderate.

We are therefore in a strong position to be able to face a protracted crisis situation.

PRINCIPLES OF REMUNERATION SYSTEM FOR THE BOARD OF MANAGEMENT

The remuneration of the Board of Management consists of fixed and variable components. The amount of the fixed remuneration is governed primarily by the function and responsibility assigned to the member of the Board of Management. The fixed remuneration consists of a fixed sum plus benefits as well as pension commitments (retirement, occupational disability, widows' and orphans' pensions). The fixed basic salary is paid monthly; the benefits include the use of a company car, coverage of insurance premiums and any payments for a post-contractual restraint on competition. The variable remuneration component is linked to

A member of the Service staff machining a line blind valve body in the valves workshop at Pegnitz

the return on sales for the financial year in question. The Board members also receive variable remuneration components with a long-term incentive. These are based on the growth in earnings over a period of three years within the framework of an examination based on the economic value added method.

The total amount of the variable components is limited, to take account of extraordinary, unforeseeable developments. No stock options or other share-based payment arrangements are granted to members of the Board of Management.

DEPENDENT COMPANY REPORT

The Board of Management has submitted the dependent company report to the Supervisory Board. This concludes with the following declaration: "In accordance with section 312(3) of the *AktG* [*Aktiengesetz* – German Public Companies Act], we declare that our company – on the basis of the circumstances known to us at the time when the transactions were made or the measures were either taken or not taken – received adequate compensation and was not disadvantaged by the fact that the measures were either taken or not taken."

INTERNAL CONTROL SYSTEM (Disclosures pursuant to section 315(2), No. 5 *HGB*)

Our internal control system (ICS) serves to ensure that regular financial reports and financial statements are properly prepared. Key elements of the ICS are – in addition to the risk management system that is described in detail elsewhere in this management report – guidelines and regulations which include, among other things, standard accounting policies. They must be applied to the full extent by all Group companies, and reviews of our Internal Audits departments ensure that they are, in fact, implemented. Regular analytical plausibility checks are performed in the Accounting department using time series analyses and actual / budget variance analyses. These reviews enable us to identify significant changes early on; we examine these for accounting and valuation discrepancies. The results are then discussed at management level.

Our ICS is subject to a continuous development and improvement process, and we are in regular contact with our auditors. We jointly analyse current financial reporting issues, such as, for example, announced changes to the accounting rules. If it becomes necessary to adapt existing codes, guidelines or regulations or issue new ones, this is done immediately and communicated to the entire Group.

REPORT ON POST-BALANCE SHEET DATE EVENTS

No significant events occurred after the balance sheet date that would have a material effect on the Group's net assets, financial position and results of operations.

This statement does not include the continuing uncertainty regarding the financial and economic crisis. The potential impact of this on the KSB Group's development is addressed in the report on expected developments.

Research and Development

- New pump drives save on energy
- River turbines for use in hydroelectric plants
- Sensors boost pump availability

Ever since the company was founded, KSB has seen itself as a driver of innovation in pumps and valves technology. Our research picks up trends, customers' wishes and requirements regarding fluid transport in the future and uses this information as a basis for developing products that meet market needs. Research and development therefore are the foundations of all our business activities. Essential factors for the business success of KSB products are the know-how, creativity and motivation of our engineers and technicians.

New electric motors consume less power

As a result of the enormous economic pressure we are exposed to in the global market, we always have to be technologically one step ahead of the competition with innovations. In the process, cost-intensive developments are increasingly shouldered by more than one company, as is already common practice, for example, in the aviation and aerospace industry. To optimise work in partnerships, we have launched the "Networked Engineering" project together with the University of Karlsruhe and various other companies. This will enable us to avoid mistakes in development and to reduce the time to market.

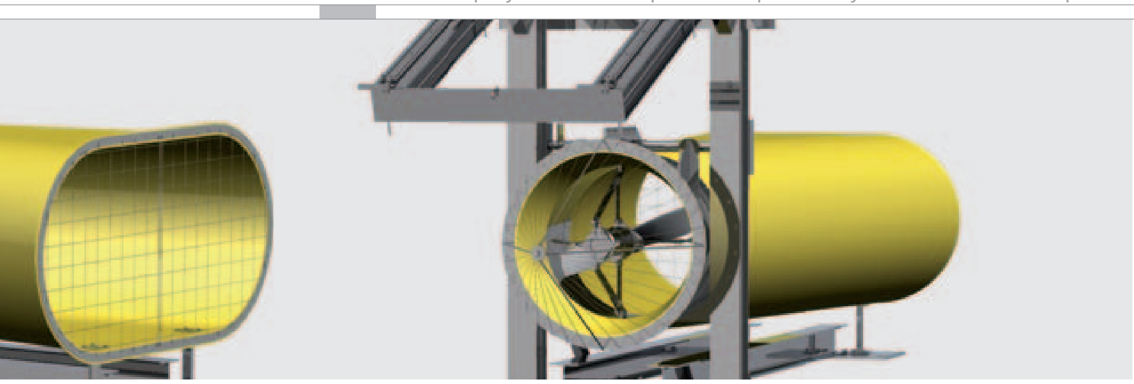
Pumps are among the most important components of a process engineering system. As a rule, they are exposed to high stresses and a level of wear that is not always easy to predict. If a pump fails, this frequently results in the whole production system coming to a standstill – entailing a loss that far exceeds the value of the pump. It therefore makes sense to integrate pumps into the monitoring and reporting functionalities of the process control system in place. For this reason, modern pump systems have their own open or closed-loop control features. But the link with the higher-level process control system often calls for complex individual programming work. Aiming to substantially simplify the integration of our PumpDrive variable speed system into process control systems, experts from Siemens and KSB have developed a "Plug&Pump Solution". This makes programming work for integration into the system a thing of the past.

The use of efficient electric motors is an important route for pump users in industrial facilities to lower costs because pumps are a major consumer of energy. Together with a partner, therefore, we prepared the use of a very economical electric reluctance motor that we presented to the public for the first time at the ISH and ACHEMA trade fairs. Combining of this motor with our PumpDrive will make the operation of pumps much more cost-efficient.

Ease the burden on the environment with biogas and hydropower

Renewable energy has become an integral part of the energy mix of the future. To expand our activities in the production of biogas, we have stepped up our technical efforts in this field. Apart from a programme showing customers how our agitators and mixers can be positioned in their digesters to save energy and resources, we also provide a special submersible mixer. Its propeller blade is designed exclusively for use in biogas production.

Making cost-effective use of the hydroelectric power of rivers normally calls for major construction work. To avoid this, we have developed a turbine, based on our experience in the design of submersible pumps, which is placed on the bed of the river. It



River turbines generate electricity and have a low impact on nature.

remains invisible, can easily be removed at any time and makes a valuable contribution to eco-friendly energy generation.

Making fossil fuels sustainable

The way in which coal is used as a fuel in the decades to come will depend very much on how we manage to separate CO_2 from the power plant process and to dispose of it in an environmentally neutral way using special processes. Enormous efforts are being made worldwide to design the CO_2 separation and disposal process as efficiently as possible. KSB is therefore analysing the requirements that the different separation processes make on the pumps and valves used. To this end, initial discussions have taken place with engineering contractors and plant operators. In basic tests we are also exploring the possibility of pumping CO_2 by means of specially designed centrifugal pumps and offering an economical alternative to the use of compressors.

All over the world, consultants, engineering contractors and process engineers are trying to make their processes ever more economical and efficient. And they are coming up against the limits of conventional valve design. For our customers in the building services, industry and power plant segments, we have therefore developed a series of new butterfly and globe valves. These meet the increasing requirements of the future with regard to the flow characteristics of valves, their stability under pressure, their thermal stability and their corrosion resistance.

News from inside a pump

Insufficient lubrication and dry running will damage any canned motor or magnetic drive pump. The design of these units necessitates the use of plain bearings lubricated by the fluid pumped. If cooling fails, the increase in friction leads to a rise in temperature. The liquid film in the running clearance of the bearing evaporates, and in the long term the pump is damaged. We are in the process of integrating a sensor into the bearing's contact surface. This is designed to provide an exact diagnosis of the load situation and warn the operator if the system runs dry.

In 2009, we also continued our work to improve the anti-seizure properties of ceramic bearing materials. The solution is to apply a diamond coating.

Cost-effective investment in research and development

In 2009, we invested around € 34 million (previous year: € 32 million) in research and development. 414 employees (previous year: 340 employees) in Europe, Asia and the Americas were employed in this area. These figures also include the research and development activities in Shanghai and Alphen (Netherlands) for the first time.

Employees

- No decrease in the core workforce during the crisis
- Preparations made for demographic changes
- International university contacts help in the search for young talent

The decline in order intake for standard pumps and valves had a short-term impact on our human resources situation in 2009. Our staff in various production areas had less to do for the first time after many years of capacity shortage during which our employees often had to work extra hours. We made use of the opportunities created in previous years for flexible working hours in order to adjust our capacity to the change in order intake. This was done by employees reducing the balance on their flexitime accounts, taking any remaining holidays that had accumulated and taking their annual leave mainly in the months when order intake was weaker.

Where possible, we moved employees from areas with a low workload to departments with a higher volume of work to deal with. More employment was also provided through the retrieval of work that we had outsourced to third parties during the period of high order intake. For some hundred or so employees in Germany, France and Luxembourg we resorted to the option of short-time work for several months.

These measures enabled us to retain the core workforce of KSB, so that we have the human resources necessary for the period after the crisis. At no time did we discuss business-related layoffs, although expiring contracts were not extended in many cases.

Group headcount more or less at prior-year levels

With 14,249 employees (– 0.7 %) we kept the total number of people in our Group at about the level of the previous year. Slight reductions in personnel were posted in Europe and the Americas, while the number of employees in Asia / Pacific increased slightly, mainly as a result of fixed-term recruitments in India. In the Region Middle East / Africa there were no notable changes.

Demographic changes call for forward-looking measures

Apart from the current crisis management situation, we consider the demographic changes taking place to be the greatest human resources challenge at present. This is especially the case in Europe where we are faced with a foreseeable shortage of young qualified people. There is a need to position KSB even better in the competition for the increasingly scarce young talent. We also have to retain employees in the long term and support them throughout their working life in their efforts to update their knowledge and skills, to gain further qualifications and to preserve their health.

To keep our company continuously at full strength with specialists, we have gradually increased the number of apprentices in Germany over the last three years. At the end of the year under review, 280 young people were in the process of preparing themselves for work at KSB in one of ten apprenticed occupations. They enjoy modern training methods that include learning social skills, project work and elements of experiential and adventure learning and have already won many awards. In the current year, too, we are offering more than 100 new apprenticeships. We also employ about 20 people who are taking part in dual study programmes and combined study and work.

In the Frankenthal vestibule training workshop, young people are trained as industrial fitters, mechatronic engineers, cutting machine operators and energy electronics technicians.

Outside Germany, we especially made use of the opportunities offered by work experience schemes and other integrating measures to attract the young and talented to KSB.

Continuous engagement in universities

We are in close contact with universities in Europe and Asia to recruit the best minds for KSB. Through lectures, with a regular presence at university fairs and offers of site visits, work experience for students and work on dissertations for degree courses, we establish initial contacts with students as academic young talents for potential employment with KSB. Close partnerships exist in particular with the universities of Kaiserslautern, Aachen and Karlsruhe in Germany, Tsinghua University in Beijing and the two Shanghai-based institutions Jiangsu University and Zhejiang Agriculture University.

In the past year, we again offered promising candidates in the disciplines of mechanical engineering, integrated engineering / business administration, electrical engineering and business administration the opportunity of studying with financial support, attending practical seminars for continuing education and gathering intercultural experience with a stay abroad at a KSB site. Participants in such integrated trainee programmes are already offered a job before they complete their studies.

To address potential applicants online in a way that is appropriate to our target groups, we have revised our careers pages on the Internet. Here we inform school pupils, students, university graduates and employees about career opportunities in our company. In 2009, we initially created the new web pages for Germany; other country pages will follow.

Learning as a driver of success

Only those who keep their knowledge up to date can be successful in their careers. We therefore encourage all our employees to keep learning in their specialist fields and supporting disciplines throughout their working life. A positive learning atmosphere helps to foster innovation and facilitates change processes in the company.

For our seminars and training events, which we mostly organise ourselves, we deliberately seek a mix of internal and external instructors. In this way we not only provide for in-house knowledge transfer, but also introduce fresh know-how into the company. In Germany and France alone our employees participated in about 5,000 training activities during the year under review. Another key focus of continuing education was in India and Pakistan.

The seminars and training courses offered ranged from business administration and technical subjects through foreign languages and IT know-how to events geared to personality development, management skills and intercultural skills.

Regular feedback improves collaboration

The working atmosphere has a crucial impact on how long employees remain in a company and how well they work. We therefore attach a lot of importance to managers and the employees who report to them regularly sharing their perceptions of each other's behaviour. Information is exchanged on what they are satisfied with and where they see potential for improvement in their collaboration.

This regular feedback helps us to develop the personality of each individual and gradually to improve our work. In doing so, we are guided by shared values and defined behaviours in communication, in collaboration and in change processes. These values and behaviours shape not only the way we work at KSB, but also the way we interact with customers and other partners. They are an important basis for effective work and shared success.

An attractive employer

To be and remain attractive as an employer for our employees, we not only set great store by a conducive spirit of cooperation, but also offer employees benefits according to what is desirable and feasible in the country concerned.

As well as a good remuneration, along with special payments and performance-related bonuses, these include fringe benefits for social support, sports and leisure activities, preventive health care measures and an attractive company pension scheme. For older employees we have a range of additional benefits that extend to seminars to prepare for retirement.

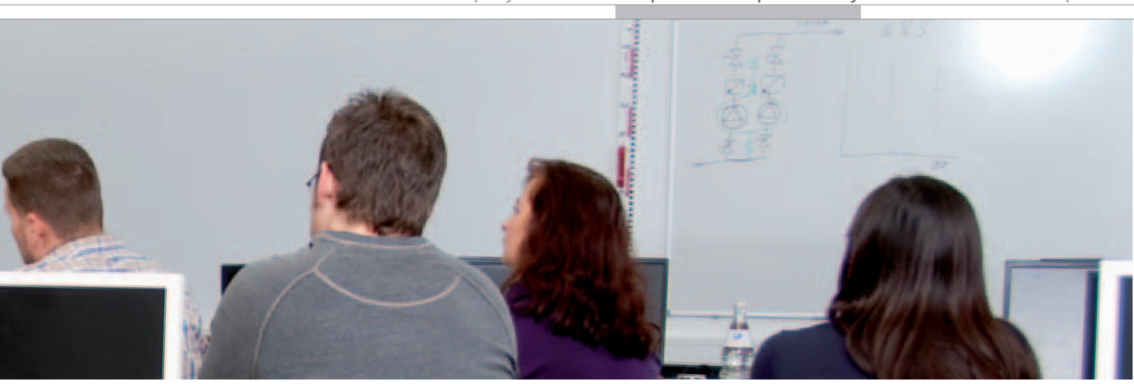
In some countries, KSB has received awards as a good employer. Particularly gratifying was the study of the international Great Place to Work Institute, which classed KSB in Italy as one of the 100 best employers in the country.

In India, too, we are seen as an attractive company for employees. In this country, we evaluated the results of a survey carried out among employees in 2008 and identified fields of activity in which we aim to improve the KSB profile further still.

New structure for Human Resources

Our new strategy and organisation call for a stronger focus on international thinking and action in managing personnel changes. Accordingly, we have reorganised our Human Resources so that it conveys a higher level of expertise in human resources issues worldwide as from 2010. KSB experts now handle talent management, human resources controlling and the definition of remuneration structures and special benefits in a global context.

In addition, employees in international positions offer strategic and consulting work in human resources. The classic human resources services and support for employees continues to be organised at national level. The aim is to attract employees suitable for KSB, to develop them and to deploy them effectively in the Group.



Training events help employees to gain insight in the technology of our products.

Corporate Responsibility

- Involved in educational initiatives and relief aid
- Preventive health care is of great importance
- Energy efficiency saves resources

As a company, we have a social responsibility towards our employees and the social environment in which our facilities are located. Wherever we operate, we make an active contribution towards environmental protection, promote the health of our employees and support social and cultural life. We place particular emphasis on the education of children and young people. For this reason, we invest in educational partnerships and support the training of young people worldwide.

We take our social responsibility seriously. Together with the values trust, honesty, professionalism and appreciation, it is anchored in the way we act and interact with others.

Future through education

Adequate learning opportunities are a prerequisite for a good future for our children and our society. From a corporate point of view, education is the driving force for innovation and growth. We therefore engage in school projects in the neighbourhood around our sites and provide support worldwide to activities that foster the acquisition of knowledge. In this context, we believe that it is important to inspire enthusiasm for knowledge and learning in children at an early age.

Under the umbrella of the *Wissensfabrik – Unternehmen für Deutschland e.V.* [Knowledge Factory], we have continued our pilot project of "story-telling workshops" aimed at fostering the language skills of children very early on. Within the scope of the project, we enable pre-school teachers at day nurseries to be trained as storytellers. Their presentation skills are to encourage children to listen and recount stories.

At our Pegnitz site, we have started to encourage an interest in technical issues among third and fourth-form pupils as part of the Children Discover Technology project.

In addition, we consider it important for children and young people to come to grips with business matters and learn to work in a team. For this reason, we again awarded prizes in 2009 for business ideas from pupils who implemented these ideas in their own projects.

Sponsorship of pupils and relief aid

We also promote educational activities in an international context where this is possible. For example, we use our relief fund KSB CARE, which we set up in 2008, to finance the education of needy children and young people in the Region Asia / Pacific. In Vietnam we supported about 100 primary and intermediate school pupils in the Quang-Nam province during the year under review. We also covered the cost of school education for more than 100 Chinese children in places near Shanghai and Kunming. In Indonesia, KSB CARE money helped provide orphans with the learning materials they needed. The KSB relief fund was used for the construction of a water pipe in Pakistan to supply girls at a secondary school with clean drinking water. In this country, we also participated in equipping a girls' college and a primary school.

As well as providing financial support for educational institutions and for children and young people, we assist people facing hardship as a result of natural disasters. In 2009, for example, donations of cash and material assistance went to the flood victims in South India, to the Philippines and to Sumatra.

As part of our annual campaign for "donations instead of Christmas gifts" we made contributions to social institutions and children's and youth organisations at our German sites of Frankenthal, Halle and Pegnitz.

Reconciling job and family

For 70 years, our company's social counselling in Germany has contributed towards improving the working atmosphere and the motivation of employees. In the past few years, the reconcilability of job and family has also become an issue. For many employees, it is important to know that their children or family members in need of care are well looked after while they are at work and that they can adapt their work time to the family situation. We have therefore strengthened our contacts with service providers who organise children's and youth camps. We also work with a service agency that operates throughout Germany in the supervision of children and people in need of care.

In 2009, to ensure that we can offer our employees even better opportunities for reconciling job and family, we obtained re-certification as a family-aware company by the Hertie Foundation after four years. Within the scope of re-certification of our three main German sites we developed further ideas for improvement, which we shall put into practice over the coming three years.

Occupational medical care and health protection

We protect and promote the health and performance of our employees. In Germany we do this with about 1,900 annual job-related check-ups, as well as general and age group-specific health care offerings. Employees receive basic vaccinations for tetanus and diphtheria and special vaccinations for foreign travel and for work assignments where there is a risk of infection. We also offer free-of-charge vaccination against seasonal flu. Employees aged 55 or more can also take part in annual health check-ups.

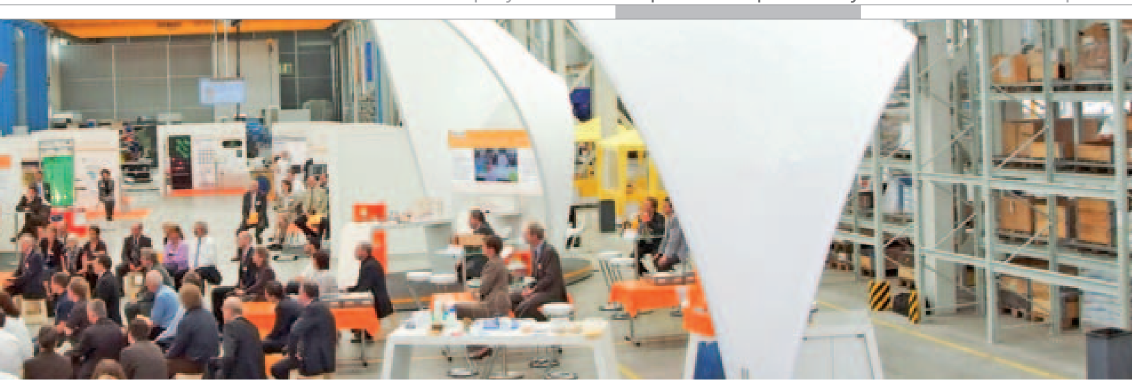
We encourage a health-aware lifestyle and approach to work as early as in our occupational training courses. Young people, for example, learn how important it can be to lift and carry things properly and the aids that are used for this. Trainees in office jobs learn to sit and work in a way that does not put a strain on the back. For this reason, KSB has engaged in "Azubi fit" programmes together with various health institutes since 1994.

To increase their sustainability, we cooperated with a Frankenthal sports centre for the first time in 2009, where trainees have the opportunity to improve their physical fitness.

A healthy diet is a prerequisite for physical wellbeing and performance. For this reason, an additional low-calorie dish has been on offer in the staff restaurants since 2009. This is in line with a wish expressed by employees who requested the option of a light meal in a survey.

Sparing use of resources, reducing energy consumption

Anyone who wants to be successful in the long term has to do business in a sustainable way. This is why we link entrepreneurial success with a global responsibility for protecting the environment and the climate. We are continuously reviewing and improving our processes to reduce emissions and the consumption of electricity and water.



In 2009, KSB hosted the members' day of the *Wissensfabrik – Unternehmen für Deutschland e.V.* [Knowledge Factory – Companies for Germany].

We now have about 60 sites worldwide that are certified to the ISO 14001 environmental protection and the OHSAS 18001 occupational health and safety standards. In the year under review, our sites in Vinhedo / Brazil, in Querétaro / Mexico and in Shanghai / China also received the relevant certification.

In addition, we carry out regular audits, in which we assess site facilities and workplaces. These serve not least as a basis for devising measures to reduce our energy costs. To this end, we have renewed or modernised heating systems at various European sites, taken measures for thermal insulation and replaced old technical equipment with energy-saving systems.

In Frankenthal, Halle and Shanghai, we introduced a new lighting system that had already been tested in Pegnitz. With this system, we achieved energy savings of 2.6 million kilowatt hours at the two German sites alone. At our service site in Bremen, we used waste heat for heating purposes and for hot water supplies for the first time in 2009. This enabled us to save two-thirds of our previous energy consumption.

Our measures to help protect the environment are often linked with precautions aimed at increasing occupational safety for our employees. In Halle, for example, we introduced a new process for impregnating stators in motor production. Our employees now use only solvent-free resins, which serves to protect both the environment and the health of our employees. In the USA, we invested in a new paint shop at our site in Grovetown, which is equipped with a high-efficiency filter. This filter extracts 99.3 percent of the paint vapour from the cabin and purifies the air before it enters the ambient environment. In the year under review, we also installed similar paint spray cabins at our sites in Bochum, Homburg and Ankara.

Occupational safety is an important prerequisite for the protection of employees and smooth operations. Through regular talks, seminars and training courses, we hone the safety awareness of our staff and constantly draw attention to potential hazards at the workplace.

The safety of employees and protection of the environment have benefited for years from an integrated management system. The people responsible throughout the Group see to it that all employees meet the legal and KSB-specific requirements with regard to quality, environmental protection and occupational health and safety.

Risk Management

- Financial and economic crisis increases risk potential
- Intensive competition in standard products market
- No major payment defaults

As a group with global operations, the KSB Group is exposed to a wide variety of risks. To achieve our business objectives, it is necessary to be aware of these risks and to limit them. We do this with the help of a Group-wide risk management system that is part of our control system.

Under the terms of the Risk Management Manual, all Group companies are responsible for identifying and assessing risks and reporting these to Group headquarters. They also have to initiate countermeasures to avert or limit any damage. Only through the systematic management of risks can responsible use be made of the opportunities that present themselves for profit-oriented growth.

The management of opportunities and risks primarily involves Controlling, Finance and Accounting, as well as Internal Audits. Relevant guidelines on organisation and implementation have been issued.

As part of the planning and reporting process, the Controlling, Finance and Accounting departments systematically identify and document the opportunities and risks associated with each operating area. In addition, they carry out results analyses on an ongoing basis and report each month to the Board of Management. The latter also discusses in quarterly review meetings with executives any changes in economic conditions and business development. If necessary, it initiates measures to take advantage of new opportunities and manage identified risks.

The Internal Audits department is integrated in the controlling processes. It is kept informed and plans its audits in such a way that units with a risk potential are examined preferentially. The auditors also ensure that all operative units observe guidelines and actively and regularly take part in risk management.

Information on identified risks and the countermeasures introduced is an integral part of reporting to the Board of Management and the Audit Committee of the Supervisory Board. In this process, the risks are identified and communicated based on the following categories:

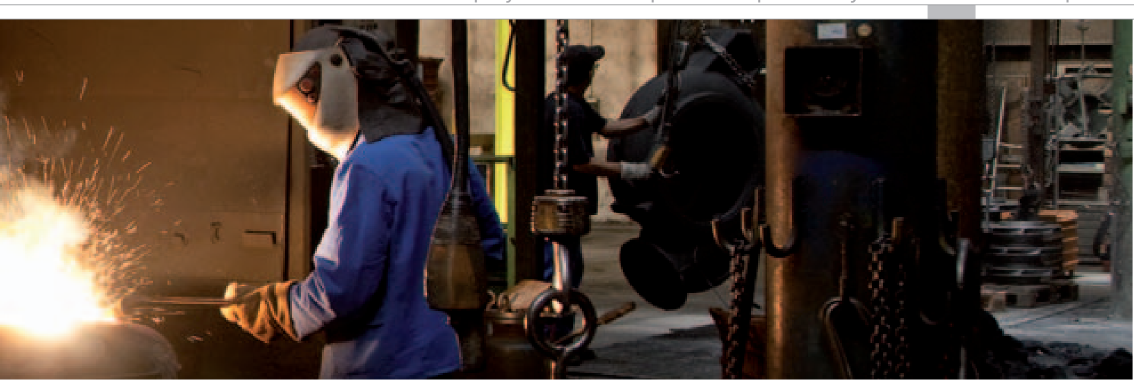
Market / Competition

In 2009, our business too felt the effects of the global financial and economic crisis. The risks, primarily declining order volumes and revenues as well as lower production capacity utilisation, partly remain in 2010.

The demand from industry and building services in particular, as described earlier, has fallen sharply. No quick and lasting improvement was in sight at the end of the financial year. In other markets, economic and business conditions also deteriorated during 2009, but without this having similarly serious effects on our order and sales revenue situation.

Capacity utilisation for business with customer-specific products for power plants and water engineering remained at a high level. This was especially true for the new production and testing facilities built in recent years in Frankenthal and Halle. In some cases we were even able to increase our production of power plant and water pumps.

Overall the decline in our sales revenue was less than that suffered by many of our competitors. This was mainly the result of the high level of project business orders in hand, which we will



Our Pegnitz foundry supplies castings for pumps and valves to several European sites.

also be able to draw upon in 2010. In 2009, in response to the weakness in market demand, we also intensified our activities in the areas of customer service and new customer acquisition, using free sales capacities to generate additional order intake and sales revenue in less affected markets. These crisis management measures will be continued in the current financial year.

The lower demand from industry and building services temporarily led to lower capacity utilisation. We largely succeeded in countering the negative effects on the workforce by implementing the measures described in the Employees section of the report. In a few areas we resorted to short-time working.

We assume that the world economy will start to recover in 2010, but it is highly unlikely that the level of economic activity seen in 2008 will be reached. One negative development is the trend towards market foreclosure in some countries. We react to these protectionist tendencies by expanding our local value creation.

Products / Projects

Technology and prices that reflect market requirements are vital prerequisites for a successful future. For this reason, we constantly review our product portfolio. Pumps, valves and systems that are technically no longer adequate are quickly replaced with new or improved versions with higher customer benefits and at least the minimum number of features required by the market. In order to be able to offer these products at competitive prices, we have strengthened our "design-to-cost" measures, i.e. design work that takes into account cost considerations.

There are no significant risks that could result from any technical problems in our products.

Finances / Liquidity

The banking and economic crisis has resulted in financial risks increasing significantly. To minimise these risks, we continuously analyse the latest developments, in particular with respect to the likely effect on customer receivables, and respond accordingly. There were no large payment defaults in 2009. This confirms the effectiveness of our strict payment management system, in particular in the large systems business, which will remain in place. The system requires advance payments and payment by instalments for large orders.

Financial risk also includes risk resulting from exchange rate movements. We use exchange rate hedges to reduce the increased currency risks resulting from changes in the exchange rate of the dollar. Aiming to ensure our liquidity, we have increased credit lines at banks and placed a loan against a borrower's note. This will enable us, even in the event of the crisis intensifying again, to finance our strategic projects. From today's perspective, however, it does not seem likely that we will make extensive use of our newly created financial leeway.

No large investments aimed at expanding capacity are planned for the current year, and new employees will only be taken on in limited numbers in strategically important business areas.

Procurement

The changes in the framework conditions in the supply markets led to higher availability of the raw and finished materials we require, and also to lower supply prices. If the world economy does recover during this year, it is likely that the prices for these goods will rise again. Procurement bottlenecks could also occur. To counter this development, we have secured additional sources of supply, primarily in Asia. Due to the growing pressure on the selling prices of our products, we will continue to expand the purchasing basis in the coming years.

Technology / Research and Development

Despite the poor economic situation, we did not reduce our research and development activities in 2009. We see investments in new technologies and innovative products as important meas-

ures if we are to emerge from the crisis stronger. New and technologically improved products that offer additional customer benefits can prove a significant competitive advantage when the economy picks up.

When developing these products, we aim to identify technical and market-related risks in good time. Sales employees are involved in all key phases of product development to ensure that the latest market findings flow into the process. Where necessary, we respond to these findings with design changes in the development phase.

We continue to develop products to meet customer specifications that are only used in strictly limited applications. The contracts concluded with customers ensure that compensation is paid for customised designs regardless of their use. This enables any financial risk for KSB to be avoided.

Environment

Like other companies, KSB is subject to numerous environmental protection laws and regulations in the EU and individual countries. With the aim of reducing the risks from environmental pollution, KSB appoints officers at all sites, who are responsible for monitoring operations to ensure that employees strictly observe these regulations and comply with – in some cases even stricter – internal environmental standards. Appropriate provisions are recognised to provide financial cover for any remediation needed in the event of legacy contamination at individual sites.

Other risks

Serious business disadvantages can arise from the manipulation or loss of data. We minimise these risks by using powerful state-of-the-art hardware with the latest software versions. We have standardised IT infrastructures, data backup systems, mirrored databases, the latest virus protection applications and secure access procedures. We also have replacement capacity to prevent any bottlenecks caused by system failures.

In countries in which KSB companies still work with IT systems whose maintenance contracts are coming to an end or which are at higher risk of failure, we have driven forward the use of SAP ERP. This is part of our policy to harmonise our business processes globally and to make them more secure.

Competition for qualified specialist staff and executives has intensified. In addition, the demographic shift will reduce the supply of suitable candidates in certain countries. To counter these trends, we have launched a project in which we analyse age structures and identify professional groups which may experience shortages in the future. Structured succession planning will make it easier for us to fill vacancies quickly at all management levels.

Overall assessment

The global financial and economic crisis has generally increased the risks for mechanical engineering companies with global operations and increased vigilance is called for. In financial year 2009, however, we did not identify any risks that could cause substantial or sustained damage to the Group's net assets, financial position or results of operations.

Assembly of standardised pumps of the Eta family

Report on Expected Developments

- World economy displays a positive trend again
- Group order intake and sales revenue are stabilising
- Increased pressure on prices and higher fixed costs are weighing down earnings

Market developments and sales opportunities

In the last quarter of 2009, the world economy was heading towards recovery. The situation on the world's financial markets was less critical, many sentiment indicators were pointing upwards, and the various national economic recovery packages seemed to be taking effect. In some emerging countries, especially in China and India, there were clear signs of an economic upturn.

Various economic institutes therefore depicted a slightly improved picture for 2010. This optimistic outlook will increase the willingness of market participants to invest. Despite this, the economic outlook remains in our view fraught with risk. The rapid growth in money supply, increasing national debt, trade imbalances and reductions in employee numbers could all endanger the economic recovery, which would also have an effect on manufacturers of machinery and equipment.

In the mechanical engineering sector, after the dramatic decline in demand in 2009, the expectation this year is that order numbers will stabilise or at most increase slightly. If order numbers do increase, then this will probably result from the improving order situation in the Asia / Pacific region. However, the high level of demand seen in the global machinery and equipment market in 2008 is unlikely to be reached again for a number of years.

The pump and valve industry is also having to get used to lower demand levels, and with it increased competition and pressure on prices. According to our current estimate, supply and demand in the pump and valve sector will only regain their balance in 2012 at the very earliest. The adjustment will be accompanied by insolvencies and the takeover of companies and individual operations.

At the same time, competition from low-wage countries is set to increase in the sales markets that until now have been dominated by established suppliers. This applies for example to Asian pump manufacturers, who are increasingly selling their products on the European market.

- Industry and Building Services

The sharp reduction in industrial production will continue to dampen the demand for pumps and valves. In this vital sector for KSB, there are first indications that the business with standard products, which had previously declined dramatically, will stabilise.

Project business in the refinery and petrochemical industries, which was strong in 2009, could weaken slightly in 2010. However, as a contractual partner for the servicing of pumps and valves, we expect continued good business with services for the refinery and chemicals sectors.

A positive impetus for our order intake could result from the market launch of new products for industrial applications. Suppliers of building services products will probably continue to suffer from weak demand in the construction sector in 2010. However, should the construction sector recover, our business with pumps, valves and compact systems for building services equipment may benefit from this very quickly. The risk that the

property crisis might spread to commercial property business remains.

When it comes to equipping “green buildings” and carrying out modernisation work aimed at securing higher energy efficiency, our products are very much in line with current technical trends. Systems for continuously variable pump control, energy-saving motors and our System Efficiency Services all match the intention of many customers to reduce their electricity costs. This applies equally to building services and industry.

- Water and Waste Water

The need to supply growing numbers of people with clean water means that additional investment is necessary. Moreover, water consumption is increasing above average compared with population growth. This makes the provision of technical equipment for extracting, treating and transporting water to consumers even more important.

In 2010, we will continue to be involved in the expansion of these infrastructures by supplying well and pipeline pumps, as well as large shut-off valves. We also sell components for water treatment, and systems for the desalination of seawater. In view of the continuing high demand, the market for water engineering products is likely to grow this year, as well as in 2011 and 2012. In order to make full use of this potential, we plan to implement strategic schemes to further increase our competitiveness in relation to pumps for water companies and large water projects. When it comes to innovations, we are keeping a close eye on the trend towards decentralised solutions with small systems.

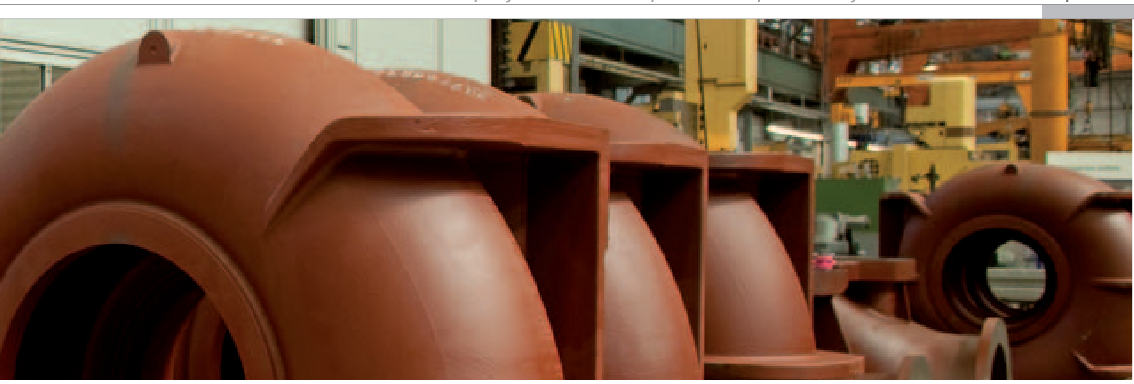
Declining water quality and heightened environmental awareness are making it necessary in many countries to intensify waste water treatment activities. Most of the measures will be taken in the emerging countries with growing populations and industrialisation, especially China. In Europe, demand – as well as replacement investment – will be mainly determined by the needs of international plant engineering contractors who require our products for export purposes. Added to this will be orders for environmental projects in Eastern Europe and Russia.

We also see an increasing willingness, both among waste water management companies and water supply utilities, to assign service tasks to external providers rather than completing the work themselves. Our service business in Europe can benefit from this trend.

- Energy and Mining

In power generation, we see the positive order intake for power plant pumps and valves continuing in 2010, and we expect demand to increase slightly in all the regions outside Europe. Potential orders outside Europe could therefore offset the decline in European order volumes. We also anticipate a healthy order development for our power plant service offering, which extends from on-site installations to all-in system rehabilitation.

Important markets for our power plant pumps and valves in 2010 will be China, India, Russia and the countries of South America. In the Chinese market we aim to use our new joint venture to supply pumps for nuclear power plants.



Production of Amarex KRT submersible pumps for use with waste water

We will also be strengthening our involvement in the area of renewable energies over the coming years by supplying services to wind energy systems and pumps for their cooling circuits, etc.

The prices for metals and other raw materials recovered during the second half of 2009. The demand for energy sources also increased in the market. Experts accordingly predict an upturn in the raw materials market this year. Suppliers to mining companies should eventually be able to benefit from this. At KSB, this will primarily affect the business of the US subsidiary GIW Industries Inc., which manufactures slurry pumps for the transport of ore and tailings.

For the coming years, we see continued growth potential in the mining business, driven by the raw materials and energy needs of emerging nations. We will therefore continue to step up our presence in promising markets.

Outlook for the Group and the Regions

Of crucial importance for the KSB Group's order intake will be if and when the economic recovery starts to boost the standard pump and valve business, which last year was severely affected by the economic downturn. If business with products for the energy industry remains stable and demand in the water and waste water business holds up, we expect to be able to maintain order intake at the 2009 level. This presupposes that the economy does not take another downward turn during the course of the year due to the risk factors described at the beginning. For 2010 and 2011 it must be kept in mind that lower levels of new investment may lead to lower order levels for pumps and valves in the project business, too.

Considering the continuing high level of orders in hand at the beginning of the year – with a total value of around € 1 billion –, we believe that our sales revenue, too, will stabilise in 2010. The short-term measures we have taken as part of our "Opportunities in the Crisis" project will contribute to this. By the end of the year, they should create additional sales revenue potential, primarily in industry and waste water management.

For our key strategic projects, already started or due to be started this year, we expect initial measures to impact on sales revenue from 2011 onwards. Our strategic projects primarily aim at accessing important growth markets, creating new pumps, drives and automation products, and modernising and expanding the valve range. There will also be initiatives to further develop our service business in selected markets.

- Europe

The economic recovery which began in Europe in 2009 will probably continue at a moderate pace this year. The demand for capital goods is only slowly picking up due to the fact that capacity utilisation of manufacturing companies fell dramatically during the crisis. As a consequence, the demand for extending or building new manufacturing facilities is low, and financing problems represent an added difficulty.

However, considering the pent-up investment, we expect standard business to increase slightly. We anticipate that order intake in waste water will grow significantly, with European plant engineering contractors ordering our products for projects in other regions.

- Middle East / Africa

The economic recovery of countries in the Middle East and Africa will mainly depend on the development of prices in the oil and raw materials market. If prices increase as expected, we believe that the order situation will improve noticeably, in particular in the petrochemical industry of the oil-producing states. The high demand in energy and water engineering in Africa, too, could once again lead to new projects, and consequently to higher demand for our pumps and valves. Due to the financial problems that arose in Dubai towards the end of 2009, we have shifted the focus of the activities of our local company towards the neighbouring markets.

- Asia / Pacific

The markets in the Asian countries will develop differently in 2010, but will perform better overall than the markets in other regions. In line with the focus which our corporate strategy places on Asia, we will further increase our involvement in a number of sectors.

We see good order prospects in China in various branches of the manufacturing industry, in power plant construction and in the construction of waste water plants. In India, the expansion in energy supply capacity will also open up new opportunities for orders. Engineering work needs to be performed in almost all of the countries in the region to improve water supply. Water engineering projects in Pakistan, for example, offer an opportunity for growth, as do the plans to build new desalination plants in Australia, Singapore and China.

In our valves business, the focus in Asia will be on fitting tankers with marine butterfly valves and on the standard valves business.

- Americas

In 2010, the Region Americas expects to experience general economic growth again, but setbacks in the wake of the expiry of state subsidy programmes in the USA are not unlikely. In South America, where in Brazil especially we are very well positioned in the pump market, it is possible that the crisis will be overcome more quickly. Here, too, recovery is expected to be slow for the standard pumps and valves business. However, new oil and mining projects will open up good market opportunities. In Brazil, Argentina and the USA, the energy industry could also be a source of additional orders.

In view of the good prospects in mining, we will further increase our activities in this market in some South American countries. We will also focus on the valves business which is underdeveloped compared with the pumps business.

Financial outlook

The current trends in economic development are, as described above, characterised by uncertainty. While some economic research institutes believe that the end of the economic downturn has already been reached, others warn of the danger that the stabilisation process, which began in the last quarter of 2009, lacks sustainability. The over-indebtedness of some Euro-

Inspection of welded components for high-pressure valves

pean countries, which has recently been a focus of discussion, may give rise to significant risks for future economic development.

In our financial prognosis we are assuming that the economic downturn will not continue and that we will be able to maintain our standard business at the level achieved in the past year. We expect a stable development in our project business as well, but the growing pressure on prices and the late-cyclical nature of this business could also lead to a slight decline.

Overall, we expect order intake and sales revenue in 2010 and 2011 to reach 2009 levels. However, in view of the background described above we cannot rule out a slight decline in these figures.

We anticipate earnings in 2010 to be significantly lower. Reasons for this include the increasing price pressure associated with growing overcapacity, and the higher depreciation and amortisation expense resulting from major investments in previous years. Moreover, the financial year 2009 was positively influenced by one-off effects such as the reduction of overtime and annual leave accounts, which will not be repeated in 2010.

As things stand today, we do not see earnings growing in 2011 either, and expect the return on sales to be at the same level as in 2010.

During this year, we will continue to pursue intensive cost and liquidity management, without however jeopardising the objectives of our new corporate strategy. We will provide the necessary financial resources and capacity for the implementation of our defined strategic measures. Beyond that, we will concentrate on rationalisation investment and, as explained, will only take on new employees in justified exceptional cases. Our planned investment in property, plant and equipment will be significantly below the level of the past two financial years. We will also, as in 2009, use short-term working if there is underutilisation of sections of our production facilities.

We will consider acquisitions only if they fit with our key strategic projects and are likely to prove highly advantageous from a financial and strategic point of view.

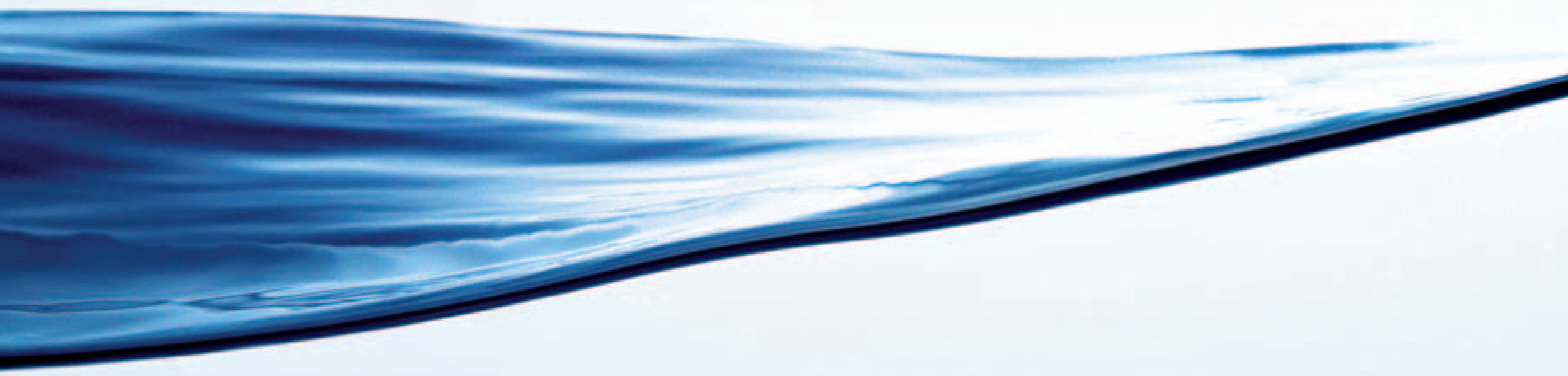
Forward-looking statements

This report contains forward-looking statements. We wish to draw attention to the fact that actual events may differ materially from our expectations of developments if one of the uncertainties described, or other risks and uncertainties, should materialise, or if the assumptions underlying the statements prove to be inaccurate.

Equity ratio improved again

KSB increases equity as a proportion of total capital to

43.8 %.



Consolidated Financial Statements

BALANCE SHEET

ASSETS (€ thousands)	Notes	31 Dec. 2009	31 Dec. 2008
NON-CURRENT ASSETS			
Intangible assets	1	42,174	47,483
Property, plant and equipment	1	365,518	313,180
Non-current financial assets	1	61,621	56,962
Deferred tax assets	2	17,447	13,703
		486,760	431,328
CURRENT ASSETS			
Inventories	3	259,069	282,097
Receivables and other current assets	4	489,699	540,407
Current financial instruments	5	–	199
Cash and cash equivalents	5	409,840	167,360
		1.158,608	990,063
		1,645,368	**1,421,391**

EQUITY AND LIABILITIES (€ thousands)	Notes	31 Dec. 2009	31 Dec. 2008
EQUITY	6		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		515,672	412,770
Equity attributable to shareholders of KSB AG		627,107	524,205
Non-controlling interest		93,455	81,615
		720,562	605,820
NON-CURRENT LIABILITIES			
Deferred tax liabilities	7	31,982	28,114
Provisions for employee benefits	8	263,892	254,170
Other provisions	8	15,404	15,433
Liabilities	9	160,058	23,516
		471,336	321,233
CURRENT LIABILITIES			
Provisions for employee benefits	8	115,689	120,962
Other provisions	8	82,714	79,143
Liabilities	9	255,067	294,233
		453,470	494,338
		1,645,368	**1,421,391**

INCOME STATEMENT

(€ thousands)	Notes	2009	2008
Sales revenue	10	**1,892,840**	**1,991,739**
Changes in inventories		– 13,442	19,765
Work performed and capitalised		2,448	2,417
Total output of operations		**1,881,846**	**2,013,921**
Other operating income	11	32,274	31,247
Cost of materials	12	– 736,026	– 843,439
Staff costs	13	– 618,268	– 614,628
Depreciation and amortisation expense	1	– 43,372	– 35,017
Other operating expenses	14	– 323,705	– 336,765
Other taxes		– 8,551	– 7,973
		184,198	**207,346**
Financial income	15	9,407	12,649
Financial expense	15	– 20,821	– 19,878
		– 11,414	**– 7,229**
Earnings before income taxes		**172,784**	**200,117**
Taxes on income	16	– 50,426	– 60,632
Earnings after income taxes		**122,358**	**139,485**
Attributable to:			
Non-controlling interest	17	14,744	16,364
Shareholders of KSB AG		**107,614**	**123,121**
Diluted and basic earnings per ordinary share (€)	19	61.32	70.17
Diluted and basic earnings per preference share (€)	19	61.58	70.43

STATEMENT OF RECOGNISED INCOME AND EXPENSE

(€ thousands)	2009	2008
Earnings after income taxes	**122,358**	**139,485**
Measurement of financial instruments	1,107	– 5,427
Currency translation differences	14,648	– 17,351
Other income and expense recognised directly in equity	865	199
Taxes on items recognised directly in equity	– 305	1,274
Total earnings recognised directly in equity	**16,315**	**– 21,305**
Total recognised income and expense	**138,673**	**118,180**
Attributable to:		
Non-controlling interest	13,655	13,868
Shareholders of KSB AG	**125,018**	**104,312**

STATEMENT OF CHANGES IN EQUITY

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG	Revenue reserves	Equity attributable to shareholders of KSB AG	Non-controlling interest	**Total equity**
1 Jan. 2008	44,772	66,663	324,445	435,880	70,021	**505,901**
Measurement of financial instruments	–	–	– 3,824	– 3,824	– 65	**– 3,889**
Currency translation differences	–	–	– 15,034	– 15,034	– 2,317	**– 17,351**
Other income and expense recognised directly in equity	–	–	49	49	– 114	**– 65**
Total earnings recognised directly in equity	–	–	*– 18,809*	*– 18,809*	*– 2,496*	***– 21,305***
Earnings after income taxes	–	–	123,121	123,121	16,364	**139,485**
Total recognised income and expense	–	–	*104,312*	*104,312*	*13,868*	***118,180***
Dividends paid	–	–	– 15,987	– 15,987	– 2,274	**– 18,261**
Capital increases / decreases	–	–	–	–	–	**–**
Change in consolidated Group / Successive acquisitions	–	–	–	–	–	**–**
31 Dec. 2008	**44,772**	**66,663**	**412,770**	**524,205**	**81,615**	**605,820**

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG	Revenue reserves	Equity attributable to shareholders of KSB AG	Non-controlling interest	**Total equity**
1 Jan. 2009	44,772	66,663	412,770	524,205	81,615	**605,820**
Measurement of financial instruments	–	–	640	640	143	**783**
Currency translation differences	–	–	15,690	15,690	– 1,042	**14,648**
Other income and expense recognised directly in equity	–	–	1,074	1,074	– 190	**884**
Total earnings recognised directly in equity	–	–	*17,404*	*17,404*	*– 1,089*	***16,315***
Earnings after income taxes	–	–	107,614	107,614	14,744	**122,358**
Total recognised income and expense	–	–	*125,018*	*125,018*	*13,655*	***138,673***
Dividends paid	–	–	– 22,116	– 22,116	– 1,815	**– 23,931**
Capital increases / decreases	–	–	–	–	–	**–**
Change in consolidated Group / Successive acquisitions	–	–	–	–	–	**–**
31 Dec. 2009	**44,772**	**66,663**	**515,672**	**627,107**	**93,455**	**720,562**

(€ thousands)	31 Dec. 2007	31 Dec. 2008	**31 Dec. 2009**
Accumulated currency translation differences	– 63,824	– 81,175	– 66,527
thereof attributable to non-controlling interest	(– 18,055)	(– 20,372)	(– 21,414)

CASH FLOW STATEMENT

(€ thousands)	2009	2008
Earnings after income taxes	122,358	139,485
Depreciation and amortisation expense / write-ups	45,848	37,859
Increase in non-current provisions	3,454	6,433
Gain / loss on disposal of fixed assets	– 303	169
Other non-cash income / expenses	1,070	–
Cash flow	**172,427**	**183,946**
Decrease / increase in inventories	41,666	– 45,316
Decrease / increase in trade receivables and other assets	29,189	– 72,948
Decrease / increase in current provisions	– 2,112	23,764
Increase in advances received from customers	13,263	15,281
Decrease / increase in liabilities (excluding financial liabilities)	– 42,191	39,992
Other non-cash expenses / income (operating)	–	– 1,731
	39,815	– 40,958
Cash flow from operating activities	**212,242**	**142,988**
Proceeds from disposal of intangible assets	–	5
Payments to acquire intangible assets	– 3,340	– 2,677
Proceeds from disposal of property, plant and equipment	2,299	1,691
Payments to acquire property, plant and equipment	– 91,328	– 92,253
Proceeds from disposal of non-current financial assets	406	211
Payments to acquire non-current financial assets	– 7,423	– 20,557
Net cash flows from the acquisition and sale of consolidated companies and other business units (basically successive acquisitions)	–	– 127
Other non-cash expenses / income (investing)	–	– 866
Cash flows from investing activities	**– 99,386**	**– 114,573**
Proceeds from additions to equity	–	–
Dividends paid for prior year (including non-controlling interest)	– 23,931	– 18,261
Employee deferred compensation	3,588	3,764
Net cash flows from financial liabilities	147,263	– 6,707
Net cash flows from financial receivables	481	– 7,145
Other non-cash expenses / income (financing)	–	– 866
Cash flows from financing activities	**127,401**	**– 29,215**
Net change in cash and cash equivalents (in 2008 excluding term deposits to hedge credit balances for partial retirement arrangements)	240,257	– 800
Term deposits to hedge credit balances for partial retirement arrangements	–	18,000
Effects of exchange rate changes on cash and cash equivalents	2,223	– 10,643
Effects of changes in consolidated Group	–	–
Cash and cash equivalents at beginning of period	167,360	160,803
Cash and cash equivalents at end of period	**409,840**	**167,360**
thereof term deposits to hedge credit balances for partial retirement arrangements included at the closing date	16,100	18,000
Supplemental disclosures:		
Interest received (cash flows from operating activities)	4,150	7,999
Interest paid (cash flows from financing activities)	– 4,621	– 4,756
Income taxes paid (cash flows from operating activities)	– 43,529	– 43,513
Dividends received (cash flows from investing activities)	5,148	4,283

SEGMENT REPORTING

	Region Europe		Region Middle East / Africa	
(€ thousands)	2009	2008	2009	2008
Order intake of the Group companies by segment	**1,301,557**	**1,503,558**	**68,089**	**83,621**
External sales revenue of the Group companies by segment	**1,298,623**	**1,378,612**	**68,830**	**59,313**
Inter-segment sales revenue	**76,576**	**87,724**	**1,168**	**485**
Earnings before taxes (EBT)	**98,373**	**124,653**	**8,861**	**6,522**
thereof depreciation and amortisation expense	– 28,173	– 25,212	– 709	– 595
thereof write-downs	– 3,332	–	–	–
thereof interest received	2,257	5,888	106	133
thereof interest paid	– 15,557	– 14,423	– 103	– 295
Employees (closing date)	**7,814**	**7,895**	**509**	**505**

€ 704,647 thousand (previous year: € 704,351 thousand) of the sales revenue presented was generated by the companies based in Germany and € 1,188,193 thousand (previous year: € 1,287,388 thousand) by the other Group companies.

At the balance sheet date, the total non-current assets of the KSB Group amounted to € 373,882 thousand (year-end figure in 2008: € 323,999 thousand), with € 188,530 thousand (year-end figure in 2008: € 160,767 thousand) being attributable to the companies based in Germany and € 185,352 thousand (year-end figure in 2008: € 163,232 thousand) being attributable to the other Group companies. The non-current assets include intangible assets and property, plant and equipment. Goodwill, non-current financial instruments and deferred tax assets are not included.

Region Asia / Pacific		Region Americas		Total	
2009	2008	**2009**	2008	**2009**	2008
298,533	**308,629**	**265,804**	**283,180**	**1,933,983**	**2,178,988**
259,040	**267,359**	**266,347**	**286,455**	**1,892,840**	**1,991,739**
10,393	**10,914**	**8,082**	**9,894**	**96,219**	**109,017**
33,658	**35,866**	**31,892**	**33,076**	**172,784**	**200,117**
– 5,450	– 4,151	– 5,708	– 5,059	– 40,040	– 35,017
–	–	–	–	– 3,332	–
958	1,195	829	783	4,150	7,999
– 487	– 652	– 913	– 694	– 17,060	– 16,064
4,028	**3,965**	**1,898**	**1,980**	**14,249**	**14,345**

The external sales revenue is broken down by product group as follows:

Products for … (€ thousands)	**2009**	2008
Industry and Building Services	895,503	1,023,516
Water and Waste Water	385,382	387,423
Energy and Mining	611,955	580,800
Total	**1,892,840**	**1,991,739**

NOTES

General

Basis of preparation

The accompanying consolidated financial statements of KSB AG, Frankenthal, Germany, were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of German commercial law under section 315a(1) of the *HGB* [German Commercial Code]. We applied the Framework, as well as all Standards and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in force at the reporting date. For the purposes of this document, the term IFRSs includes applicable International Accounting Standards (IASs).

The accompanying consolidated financial statements were approved for issue by the Board of Management on 15 March 2010 and are expected to be approved by the Supervisory Board on 30 March 2010.

The consolidated financial statements are published in the electronic *Bundesanzeiger* [German Federal Gazette].

The financial year of the companies consolidated is the calendar year.

All material items of the balance sheet and the income statement are presented separately and explained in these Notes.

The income statement has been prepared using the nature of expense method.

First-time application of new and revised standards

The following new Interpretations and revised Standards issued by the International Accounting Standards Board (IASB) were required to be applied for the first time in financial year 2009:

- IAS 1 *Presentation of Financial Statements*
- IAS 23 *Borrowing Costs*
- IAS 32 *Financial Instruments: Presentation*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards and individual components* of IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*
- IFRS 2 *Share-based Payment*
- IFRS 4 *Insurance Contracts*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 8 *Operating Segments*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*
- *Annual Improvements*

As a matter of principle, we have not voluntarily applied the following new and revised Standards and Interpretations prior to their effective dates:

- IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*
- IAS 32 *Financial Instruments: Presentation*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 3 *Business Combinations*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements)*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 *Distributions of Non-cash Assets to Owners and individual components of IAS 10 Events after the Balance Sheet Date*
- IFRIC 18 *Transfers of Assets from Customers*

Based on our current state of knowledge, application of the above Standards and Interpretations would not have any material impact on our consolidated financial statements.

Basis of consolidation

Consolidated Group

As in the previous year, 4 German and 48 foreign companies were fully consolidated in addition to KSB AG. We hold a majority interest in the voting power of these companies, either directly or indirectly, or we have the power to appoint the majority of the members of the companies' management. No companies are currently accounted for using the equity method or proportionately consolidated.

There were no changes to the consolidated Group in the year under review.

Overall, we incurred, as in the previous year, no expenses for successive acquisitions of consolidated companies in the year under review. € 7,144 thousand (previous year: € 19,956 thousand) was spent on companies that have not yet been consolidated because this would not have had a material impact. This amount resulted mainly from a newly formed company in the Region Middle East / Africa and the acquisition of relatively small companies in Europe.

In light of our new Group strategy which, among other things, involves merging the numerous small companies to form larger legal entities, we have already begun initiating appropriate corporate changes. This will entail a change in the consolidated Group over the course of the next few years.

Consolidation methods

Capital consolidation uses the purchase method of accounting, under which the acquisition cost of the parent's shares in the subsidiaries is eliminated against the equity attributable to the parent at the date of acquisition. Any goodwill arising from initial consolidation is accounted for in accordance with IFRS 3 in conjunction with IASs 36 and 38. It is measured at the relevant current closing rate, presented in intangible assets and tested for impairment at least once a year. An impairment loss is recognised if any impairment is identified.

Any excess of our interest in the fair values of net assets acquired over cost is recognised directly in the income statement.

Those shares of subsidiaries' equity not attributable to KSB AG are reported as non-controlling interest.

All intercompany receivables, liabilities, provisions and contingent liabilities, as well as sales revenue, other income and expenses, are eliminated. Intercompany profits contained in inventories and fixed assets are also eliminated.

The financial statements of all material companies or those required to be audited under local law have been audited and certified by auditors. This audit also extended to the correct reconciliation of the financial statements prepared under local GAAP to the uniform Group IFRS accounting policies.

Currency translation

The consolidated financial statements have been prepared in euros (€). Amounts in this report are presented in thousands of euros (€ thousands) using standard commercial rounding rules.

Transactions denominated in foreign currencies are translated at the individual companies at the rate prevailing when the transaction is initially recognised. Monetary assets and liabilities are subsequently measured at the closing rate. Currency translation gains and losses are recognised in net profit or loss.

Financial statements of consolidated companies that are not prepared in euros are translated using the functional currency principle. These companies are financially, economically and organisationally independent ("foreign entities"). Assets and liabilities are translated at the closing rate; the income statement accounts are translated at average exchange rates for the year. The resulting effects are presented directly in equity.

Gains and losses from the translation of items of assets and liabilities compared with their translation in the previous year are taken directly to equity.

The exchange rates of our most important currencies to the euro are:

	Closing rate		Average rate	
	31 Dec. 2009	31 Dec. 2008	2009	2008
1 US dollar	0.694	0.719	0.718	0.680
1 Brazilian real	0.398	0.308	0.361	0.374
100 Indian rupees	1.492	1.473	1.486	1.568
100 Chinese yuan	10.168	10.531	10.507	9.782

Accounting policies

The accounting policies have generally not changed as against the previous year and apply to all companies included in the consolidated financial statements.

Acquisition cost

In addition to the purchase price, acquisition cost includes attributable incidental costs and subsequent expenditure. Purchase price reductions are deducted from cost. Should borrowing costs pursuant to IAS 23 arise, these will be capitalised from 2009 onwards. No borrowing costs were incurred in the financial year.

Production cost

In addition to direct material and labour costs, production cost includes production-related administrative expenses. General administrative expenses and selling expenses are not capitalised. Should borrowing costs pursuant to IAS 23 arise, these will be capitalised from 2009 onwards. No borrowing costs were incurred in the financial year.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet at the time when KSB becomes a party to a financial instrument and when at least one party has fulfilled the agreement. When the contractual right to payments from financial assets expires, these are derecognised. Financial liabilities are derecognised at the time when the contractual obligations are settled or cancelled or have expired. Regular way purchases and sales of financial instruments are recognised at their value at the settlement date; only derivatives are recognised at their value at the trade date. This applies to so-called primary financial instruments such as trade receivables and monetary receivables, as well as to trade payables and financial liabilities.

Derivatives, which we use to hedge against foreign currency and interest rate risks, are also financial instruments.

Classification in measurement categories:

- FAHfT / FLHfT: Financial assets and liabilities held for trading and measured at fair value through profit or loss (derivatives not included in hedging relationships)
- LaR: Loans and receivables (loans and primary financial instruments not quoted in an active market)
- AfS: Available-for-sale financial instruments (non-derivative financial instruments that are not allocated to any other measurement category, such as investments in unconsolidated affiliates or securities)
- FLAC: Financial liabilities measured at amortised cost (liabilities that are not quoted in an active market, such as trade payables)

None of our financial instruments are classified as “held-to-maturity investments”.

Financial instruments are measured at cost on initial recognition. Subsequent measurement is generally based on fair value. Financial instruments with fixed maturities for which current market prices are not available and for which fair values cannot be reliably measured are accounted for at amortised cost using the effective interest method. We do not currently make use of the fair value option. Fair values are based on market prices determined at the balance sheet date that are obtained from recognised external sources.

Changes in the fair value of “available-for-sale financial assets” are recognised directly in equity. They are recognised in profit or loss when the assets are sold or determined to be impaired.

As in the previous year, we did not make any reclassifications between the individual measurement categories.

Intangible assets

Intangible assets are generally carried at cost and reduced by straight-line amortisation. The underlying useful lives are two to five years.

Write-downs are charged for impairment if the recoverable amount is lower than the carrying amount. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up).

We amortised goodwill originating between 1 January 1995 and 30 March 2004 over a maximum of 15 years. In accordance with IFRS 3, the resulting cumulative amortisation was eliminated against historical cost effective 1 January 2005. Goodwill has been tested for impairment at least once a year since 2005; it is not amortised any longer. This impairment test relates to the “cash-generating units”, which at KSB are the legal entities. Write-downs are charged for impairment if the recoverable amount is lower than the carrying amount. Goodwill originating up to and including 1994 has been deducted from revenue reserves. Negative goodwill originating prior to 30 March 2004 was eliminated against revenue reserves directly in equity. Any excess of our interest in the fair values of net assets acquired over cost arising after 30 March 2004 is recognised directly in the income statement.

Development costs are capitalised as intangible assets at cost and reduced by straight-line amortisation where the criteria described in IAS 38 are met. Research costs are expensed as incurred. Where research and development costs cannot be reliably distinguished within a project, no costs are capitalised.

Property, plant and equipment

Property, plant and equipment is carried at cost and reduced by straight-line depreciation. No tax-motivated depreciation is recognised. Write-downs are charged for impairment if the recoverable amount is lower than the carrying amount. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up).

We have applied the component approach under IAS 16.

Depending on the relevant item, government grants relating to property, plant and equipment are deducted from the assets concerned or transferred to an adjustment item on the liabilities side. This adjustment item is reversed over a defined utilisation period.

Maintenance expenses are recognised as an expense in the period in which they are incurred, unless they lead to the expansion or material improvement of the asset concerned.

The following useful lives are applied:

Buildings	10 – 60 years
Plant and machinery	7 – 25 years
Operating and office equipment	3 – 25 years

Leases

Lease payments that are payable under operating leases are recognised as expenses in the period in which they are incurred. In the case of finance leases, the leased asset is recognised at the time of inception of the lease at the lower of fair value and the present value of future minimum lease payments. A liability is recognised in the same amount for the future lease payment. The asset's carrying amount is reduced by depreciation over its useful life or the shorter lease term.

Non-current financial assets

Investments in unconsolidated affiliates and associates are carried at cost or the lower fair value. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed. Interest-bearing loans are recognised at amortised cost.

Non-current financial assets are measured at amortised cost if their fair value cannot be reliably determined because they are not traded in an active market.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is measured using the weighted average method. Write-downs to the net realisable value take account of the inventory risks resulting from slow-moving goods or impaired marketability. This also applies to write-downs to fair value if the selling price is lower than production cost plus costs still to be incurred. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed.

Advances received from customers are deducted in full from inventories unless they relate to construction contracts under IAS 11.

Construction contracts under IAS 11

The percentage of completion (PoC) method is applied for construction contracts defined under IAS 11. The stage of completion of the contracts is determined on the basis of the total estimated contract costs and the actual contract costs up to the balance sheet date. The percentage contract revenue less the related advances received from customers is reported in receivables and other current assets under a separate heading. Effects in the period are recognised in the income statement as part of sales revenue. The gross amount due to customers for contract work is included in other provisions.

Receivables and other current assets

Receivables and other current assets are generally carried at amortised cost. Low-interest or non-interest-bearing receivables are discounted. In addition, we take account of identifiable risks by charging specific write-downs and experience-based write-downs using allowance accounts. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed.

We hedge part of the credit risk exposure of our receivables (for further explanations, refer to the Financial Risks – Credit Risk section).

The prepaid expenses reported relate to accrued expenditure prior to the balance sheet date that will only be classified as an expense after the balance sheet date.

Financial instruments

Financial instruments are carried at their fair values at the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents are recognised at amortised cost.

Deferred taxes

We account for deferred taxes using the balance sheet liability method on the basis of the enacted or substantively enacted local tax rates. This means that deferred tax assets and liabilities generally arise when the tax base of assets and liabilities differs from their carrying amount in the IFRS financial statements, and this leads to future tax expense or income. We also recognise deferred tax assets from tax loss carryforwards in those cases where it is more likely than not that there will be sufficient taxable profit available in the near future against which these tax loss carryforwards can be utilised. Deferred taxes are also recognised for consolidation adjustments. Deferred taxes are not discounted. Deferred tax assets and liabilities are always offset where they relate to the same tax authority.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are calculated on the basis of actuarial reports. They are based on defined benefit pension plans. The reports are prepared using the projected unit credit method. We apply the 10 % corridor rule, under which actuarial gains and losses that are 10 % greater or lower than the present value of the DBO (defined benefit obligation) are recognised over the average remaining working lives. The actuarial demographic assumptions and the definition of compensation and pension trends, as well as interest rate trends, are best estimates. The interest component is reported as an interest cost in financial income / expense.

KSB companies that use a defined contribution pension plan do not recognise provisions. The premium payments are recognised directly in the income statement as pension costs in the staff costs. These companies have no obligations other than the obligation to pay premiums.

Other provisions

A provision is recognised only if a past event results in a present legal or constructive external obligation that the company has no realistic alternative to settling, where settlement of this obligation is expected to result in an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably. No provisions are recognised for future internal expenses. The amount recognised as a provision is our best estimate. Any recourse or reimbursement claims are recognised separately and are not deducted from the provisions concerned.

Provisions for restructurings are recognised only if the criteria set out in IAS 37 are met.

Non-current provisions are discounted if the effects are material.

Liabilities
Liabilities are recognised at amortised cost.

Derivative financial instruments
We only use derivatives for hedging purposes. We hedge both existing recognised underlyings and future cash flows (cash flow hedges) against foreign currency and interest rate risks. The hedging instruments used are exclusively highly effective currency forwards, currency options and interest rate derivatives entered into with prime-rated banks. We hedge currency risks primarily for items in US dollars (USD). Interest rate risks are minimised through long-term borrowings at variable rates of interest. Group guidelines govern the use of these instruments. These transactions are also subject to continuous risk monitoring.

Fair value changes of currency derivatives used to hedge an existing recognised underlying are recognised in profit or loss, as are changes in the fair value of the related hedged items.

In the case of cash flow hedges, changes in the fair value of currency derivatives are taken directly to equity until the related hedged item is recognised.

Fair value changes of interest rate derivatives used to hedge against interest rate risks in liabilities are recognised directly in equity.

The carrying amounts equal fair value and are determined on the basis of market prices. Fair values may be positive or negative. Fair value is the amount that we would receive or have to pay at the reporting date to settle the financial instrument. This amount is determined using the relevant exchange rates, interest rates and counterparty credit ratings at the reporting date.

There was no material hedge ineffectiveness that would have been required to be reported.

Derivatives are reported under other receivables, other current assets and prepaid expenses, and under miscellaneous other liabilities and deferred income.

The maturities of the currency derivatives used are mostly between one and two years, and those of interest rate derivatives are between six and ten years. The maturities of the hedging instruments are matched to the period in which the forecasted transactions are expected to occur. In the year under review, almost all hedged forecasted transactions occurred as expected.

Contingent liabilities (contingencies and commitments)

Contingent liabilities, which are not recognised, are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events. Contingent liabilities may also be present obligations that arise from past events where it is possible but not probable that there will be an outflow of resources embodying economic benefits.

Contingent liabilities correspond to the extent of liability at the balance sheet date.

Income and expenses

Sales revenue consists of charges for deliveries and services billed to customers, and licence income. Sales allowances reduce sales revenue. Sales revenue is recognised when the deliveries have been effected or the services have been rendered and the significant risks of ownership have been transferred to the buyer. Effects resulting from application of the percentage of completion method are also recognised in the sales revenue.

Expenses are recognised when they are incurred or when the services are utilised.

Estimates and assumptions

Preparation of consolidated financial statements in accordance with IFRSs requires management to make estimates and assumptions that affect the accounting policies to be applied. When implementing such accounting policies, estimates and assumptions affect the assets, liabilities, income and expenses recognised in the consolidated financial statements, and their presentation. These estimates and assumptions are based on past experience and a variety of other factors deemed appropriate under the circumstances. Actual amounts may differ from these estimates and assumptions. We continuously review the estimates and assumptions that we apply. If more recent information and additional knowledge are available, recognised amounts are adjusted to reflect the new circumstances. Any changes in estimates and assumptions that result in material differences are explained separately.

Maturities

Maturities of up to one year are classified as current.

Assets that can only be realised after more than 12 months, as well as liabilities that only become due after more than 12 months, are also classified as current if they are attributable to the operating cycle defined in IAS 1.

Assets and liabilities not classified as current are non-current.

Balance sheet disclosures

1 __ Fixed assets

Statement of changes in intangible assets

(€ thousands)	Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets		Goodwill		Advance payments		Intangible assets Total	
Historical cost	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Balance at 1 January	33,470	30,158	36,664	37,172	1,841	384	**71,975**	**67,714**
Change in consolidated Group / CTA* / Other	295	– 196	478	– 635	1	–	**774**	**– 831**
Additions	1,299	2,709	–	127	44	1,748	**1,343**	**4,584**
Disposals	1,024	172	–	–	–	–	**1,024**	**172**
Reclassifications	548	971	–	–	– 560	– 291	**– 12**	**680**
Balance at 31 December	34,588	33,470	37,142	36,664	1,326	1,841	**73,056**	**71,975**
Accumulated depreciation and amortisation	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Balance at 1 January	24,492	20,785	–	–	–	–	**24,492**	**20,785**
Change in consolidated Group / CTA* / Other	200	– 195	–	–	–	–	**200**	**– 195**
Additions	3,882	3,609	3,332	–	–	–	**7,214**	**3,609**
Disposals	1,024	167	–	–	–	–	**1,024**	**167**
Reclassifications	–	460	–	–	–	–	**–**	**460**
Balance at 31 December	27,550	24,492	3,332	–	–	–	**30,882**	**24,492**
Carrying amount at 31 December	**7,038**	**8,978**	**33,810**	**36,664**	**1,326**	**1,841**	**42,174**	**47,483**

* CTA = currency translation adjustments

As in the previous year, we did not capitalise any development costs in the year under review because not all of the comprehensive recognition criteria defined in IAS 38 were met.

We conduct our impairment tests once a year. If an additional impairment test is deemed to be required because there is an indication that an asset may be impaired (trigger event), the test is performed promptly. This did not become necessary during the year under review; an additional test was performed in the previous year because of the increasing severity of the global economic crisis.

We apply the discounted cash flow model to determine the recoverable amount (value in use). The future earnings (EBIT in accordance with IFRS) applied were taken from a four-year plan, the basis of which was approved in December. We carried out this planning based on certain assumptions which were drawn from both forecasts from external sources (e.g. current VDMA publications) and our own knowledge of markets and competitors. We assumed declining income for the first year. For the second year we anticipated figures to remain on a par with those of the first year. Over the subsequent years we expect a positive economic trend again. In our calculations we consistently extrapolated the result of the fourth plan year as a constant; we did not apply any growth rates. The reconciliation to cash flow is performed to adjust for the effects of scheduled investments for expansion. If the planned depreciation and amortisation amounts deviate significantly from planned replacement investments, the cash flows recognised are also adjusted.

The carrying amounts of cash-generating units do not contain any items related to taxes or financing activities.

To determine the discount rate, the weighted average cost of capital (WACC) method is applied in conjunction with the capital asset pricing model (CAPM). Under this method, first the cost of equity is determined using CAPM and the borrowing costs are defined, and then the individual capital components are weighted in accordance with the capital structure. The interest rate for risk-free 10-year Bunds was used as a base rate. The market risk premium is 5 % and a beta factor of 1.0 was used. The individual discount rate before taxes which was derived for each cash-generating unit ranges – depending on each country's individual tax rates – between 8.69 % and 10.69 %.

The impairment test revealed the need for write-downs of € 3,332 thousand at a cash-generating unit in Belgium due to economic difficulties. In the previous year, all goodwill was determined to be recoverable.

A 10 % increase in the discount rate would not result in any additional write-downs.

Of the carrying amount of all goodwill totalling € 33,810 thousand (previous year: € 36,664 thousand) € 18,285 thousand (previous year: € 18,285 thousand) was attributable to the Dutch Group company DP industries B.V.; € 3,710 thousand (previous year: € 3,710 thousand) to the Italian company KSB Italia S.p.A.; € 2,980 thousand (previous year: € 2,980 thousand) to the German company Uder Elektrotechnik GmbH and € 2,790 thousand (previous year: € 2,278 thousand) to the South African company KSB Pumps (S.A.) (Pty) Ltd. The remaining € 6,045 thousand (previous year: € 9,411 thousand) is attributable to another 12 companies.

As in the previous year, we did not recognise any impairment losses on other intangible assets in the year under review.

Statement of changes in property, plant and equipment

(€ thousands)	Land and buildings		Plant and machinery		Other equipment, operating and office equipment		Advance payments and assets under construction		**Property, plant and equipment Total**	
Historical cost	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Balance at 1 January	196,440	188,880	351,458	334,934	139,207	136,694	51,530	13,280	**738,635**	**673,788**
Change in consolidated Group / CTA* / Other	2,626	– 2,684	3,758	– 5,151	1,885	– 3,160	320	– 739	**8,589**	**– 11,734**
Additions	11,808	10,600	32,397	24,729	17,010	15,743	24,060	47,981	**85,275**	**99,053**
Disposals	791	945	11,838	10,849	10,470	9,984	46	14	**23,145**	**21,792**
Reclassifications	22,741	589	18,756	7,795	1,851	– 86	– 43,336	– 8,978	**12**	**– 680**
Balance at 31 December	232,824	196,440	394,531	351,458	149,483	139,207	32,528	51,530	**809,366**	**738,635**
Accumulated depreciation and amortisation	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Balance at 1 January	94,718	91,340	234,941	231,131	95,796	97,045	–	–	**425,455**	**419,516**
Change in consolidated Group / CTA* / Other	298	– 445	1,762	– 2,424	1,324	– 2,208	–	–	**3,384**	**– 5,077**
Additions	4,998	4,434	18,736	16,005	12,424	10,969	–	–	**36,158**	**31,408**
Disposals	450	611	11,311	9,798	9,388	9,523	–	–	**21,149**	**19,932**
Reclassifications	–	–	– 2	27	2	– 487	–	–	**–**	**– 460**
Balance at 31 December	99,564	94,718	244,126	234,941	100,158	95,796	–	–	**443,848**	**425,455**
Carrying amount at 31 December	**133,260**	**101,722**	**150,405**	**116,517**	**49,325**	**43,411**	**32,528**	**51,530**	**365,518**	**313,180**

* CTA = currency translation adjustments

While investments in property, plant and equipment were approximately 14 % lower than in the previous year, they were still at an above-average level. This was mainly due to the scheduled continuation of major investments begun in previous years.

Assets resulting from finance leases (almost exclusively real property) are recognised as fixed assets in accordance with IAS 17, and corresponding financial liabilities are recognised. The carrying amount of these recognised assets amounts to € 7,167 thousand (previous year: € 8,155 thousand).

Disposals of items of property, plant and equipment resulted in book gains of € 1,538 thousand (previous year: € 715 thousand) and book losses of € 1,235 thousand (previous year: € 884 thousand). The book gains and losses are reported in the income statement under other operating income and other operating expenses.

As in the previous year, we did not recognise any impairment losses on property, plant and equipment in the year under review.

Statement of changes in non-current financial assets

(€ thousands)	Investments in affiliates		Other investments		Non-current financial instruments		Loans		**Non-current financial assets Total**	
Acquisition cost	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Balance at 1 January	45,119	34,372	13,099	3,969	688	846	2,851	2,325	**61,757**	**41,512**
Change in consolidated Group / CTA* / Other	139	– 79	–	–	– 1	– 21	–	– 1	**138**	**– 101**
Additions	5,604	10,826	1,540	9,130	50	–	250	601	**7,444**	**20,557**
Disposals	312	–	–	–	19	137	225	74	**556**	**211**
Reclassifications	22	–	– 22	–	–	–	–	–	**–**	**–**
Balance at 31 December	50,572	45,119	14,617	13,099	718	688	2,876	2,851	**68,783**	**61,757**
Accumulated impairment losses	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Balance at 1 January	3,079	387	461	461	105	105	1,150	1,000	**4,795**	**1,953**
Change in consolidated Group / CTA* / Other	41	–	–	–	–	–	–	–	**41**	**–**
Additions	2,495	2,692	–	–	–	–	–	150	**2,495**	**2,842**
Disposals	–	–	–	–	–	–	150	–	**150**	**–**
Reclassifications	–	–	–	–	–	–	–	–	**–**	**–**
Reversal (write-up)	–	–	–	–	19	–	–	–	**19**	**–**
Balance at 31 December	5,615	3,079	461	461	86	105	–	1,000	**7,162**	**4,795**
Carrying amount at 31 December	**44,957**	**42,040**	**14,156**	**12,638**	**632**	**583**	**1,876**	**1,701**	**61,621**	**56,962**

* CTA = currency translation adjustments

Changes in non-current financial assets resulted primarily from the formation of a sales company which has not yet been consolidated. These changes also include the acquisition of a small service unit in Finland and a German company which operates in the area of fire protection equipment. This was offset mainly by impairment losses on the carrying amount of the investment in three unconsolidated, relatively small service companies in Europe. Our impairment tests at these companies identified impairment losses due to economic difficulties.

We currently have no plans for changes in investments in affiliates and other equity investments.

€ 1,817 thousand (previous year: € 1,640 thousand) of the loans are loans to affiliates.

The effect of currency translation adjustments taken directly to equity on fixed assets was a gain of € 5,877 thousand (previous year: loss of € 7,469 thousand).

2 Deferred tax assets

Explanations on deferred tax assets are presented under “Taxes on income”.

3 Inventories

(€ thousands)	31 Dec. 2009	31 Dec. 2008
Raw materials and production supplies	124,253	139,180
Work in progress	60,276	85,286
Finished goods and goods purchased and held for resale	100,275	93,640
Advance payments	17,564	19,027
Advances received from customers	– 43,299	– 55,036
	259,069	**282,097**

€ 27,455 thousand (previous year: € 34,928 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the period under review amount to € 6,387 thousand (previous year: € 1,040 thousand). We reversed write-downs totalling € 3,742 thousand (previous year: € 1,750 thousand) where the current net realisable value was higher than the prior-period value.

4 Receivables and other current assets

(€ thousands)	31 Dec. 2009	31 Dec. 2008
Trade receivables	366,274	427,048
Intragroup and associate receivables	20,715	22,792
Receivables recognised by PoC (excl. advances received from customers PoC)	211,424	165,560
Advances received from customers (PoC)	– 142,838	– 115,368
Receivables recognised by PoC	68,586	50,192
Other receivables, other current assets and prepaid expenses	34,124	40,375
	489,699	**540,407**

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 5,945 thousand (previous year: € 6,557 thousand). Associate receivables totalled € 2,512 thousand (previous year: € 5,005 thousand).

Construction contracts under IAS 11 include recognised profits of € 27,224 thousand (previous year: € 14,024 thousand) and costs of € 184,200 thousand (previous year: € 151,536 thousand). Sales revenue in accordance with IAS 11 amounted to € 349,428 thousand (previous year: € 340,657 thousand). The gross amount due to customers for contract work is included in other provisions.

The other receivables, other current assets and prepaid expenses include receivables from employees and deferred interest. They also include recoverable taxes (primarily from VAT) in the amount of € 6,319 thousand (previous year: € 8,268 thousand) and other financial assets from currency forwards in accordance with IAS 39 in the amount of € 2,037 thousand (previous year: € 4,307 thousand). As in the previous year, there are no receivables relating to interest rate derivatives.

At the balance sheet date, the notional volume of all currency forwards was € 112,179 thousand (previous year: € 185,960 thousand), and the notional volume of all interest rate derivatives was € 16,430 thousand (previous year: € 20,341 thousand).

The contractual maturities of payments for currency forwards are as follows:

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Notional volume 2009	112,179	104,043	8,136	–
Notional volume 2008	185,960	173,278	12,682	–

€ 15,699 thousand (previous year: € 22,209 thousand) of all receivables and other assets is due after more than one year.

5__Current financial instruments, cash and cash equivalents

There are no current financial instruments (previous year: € 199 thousand).

Cash and cash equivalents are primarily term deposits with short maturities and call deposits. The German Group companies use € 16,100 thousand of cash and cash equivalents (previous year: € 18,000 thousand) for hedges of credit balances prescribed by law for partial retirement arrangements. They are available to us at any time due to the underlying contractual structure.

6__Equity

There was no change in the share capital of KSB AG as against the previous year. In accordance with the Articles of Association, it totals € 44,771,963.82 and is composed of 886,615 no-par value ordinary shares and 864,712 no-par value preference shares. Each no-par value share represents an equal notional amount of the share capital. The preference shares carry separate cumulative preferred dividend rights and progressive additional dividend rights. All shares are bearer shares.

The capital reserve results from the appropriation of premiums from capital increases in previous years.

In addition to revenue reserves from previous years, the revenue reserves primarily include currency translation adjustments and consolidation effects taken directly to equity. These effects resulted in deferred tax assets in the amount of € 128 thousand (previous year: € 333 thousand) and deferred tax liabilities in the amount of € 11 thousand (previous year: none).

Equity also includes changes in the fair value of derivatives used to hedge future cash flows amounting to € – 480 thousand (previous year: € – 1,288 thousand). They changed as follows:

(€ thousands)	2009
Opening balance at 1 Jan.	– 1,288
Disposals	– 1,065
Additions	1,809
Currency translation differences	64
Closing balance at 31 Dec.	**– 480**

Non-controlling interest relates primarily to PAB GmbH, Frankenthal, and the interests it holds, as well as to our companies in India and China. KSB AG holds a 51 % interest in PAB GmbH, while Klein Pumpen GmbH, Frankenthal, holds a 49 % interest.

Details of the changes in equity accounts and non-controlling interest are contained in the Statement of Changes in Equity.

The proposal on the appropriation of the net retained earnings of KSB AG calculated in accordance with *HGB* is shown at the end of these Notes.

Capital disclosures

Adequate capital resources and sufficient financial independence are key requirements for sustainably increasing KSB's enterprise value and safeguarding the company's continued existence in the long term. Obtaining the necessary funds for ongoing business operations is also extremely important for us. In addition to order intake and sales revenue, our key performance indicators are the return on sales and our net financial position (i.e. the difference between interest-bearing financial assets on the one hand, and financial liabilities on the other). The changes in the equity ratio are also relevant for us. We regularly monitor the development of these figures and manage them through active working capital management and by constantly optimising our finance structure, among other things.

We discuss the development of these figures in the management report.

		2009	2008
Order intake	€ million	1,934.0	2,179.0
Sales revenue	€ million	1,892.8	1,991.7
Return on sales	%	9.1	10.0
Net financial position	€ million	223.0	129.1
Equity ratio	%	43.8	42.6

7 _ Deferred tax liabilities

Explanations on deferred tax liabilities are presented under “Taxes on income”.

8 _ Provisions

Changes (€ thousands)	1 Jan. 2009	Change in consolidated Group / CTA* / Other	Utilisation / Prepayments	Reversal	Additions	31 Dec. 2009
Employee benefits	375,132	1,763	– 121,232	– 2,579	126,497	379,581
Pensions and similar obligations	223,737	556	– 12,366	–	23,887	235,814
Other employee benefits	151,395	1,207	– 108,866	– 2,579	102,610	143,767
Taxes	10,395	633	– 9,920	– 117	16,568	17,559
Taxes on income	9,421	583	– 9,377	– 13	15,999	16,613
Other taxes	974	50	– 543	– 104	569	946
Miscellaneous provisions	84,181	661	– 46,570	– 11,219	53,506	80,559
Warranty obligations and contractual penalties	44,596	409	– 24,216	– 4,379	28,215	44,625
Miscellaneous other provisions	39,585	252	– 22,354	– 6,840	25,291	35,934
	469,708	**3,057**	**– 177,722**	**– 13,915**	**196,571**	**477,699**

* CTA = currency translation adjustments

Provisions for pensions and similar obligations

More than 90 % of the provisions for pensions result from defined benefit plans of the German Group companies. These relate to direct commitments by the companies to their employees. The commitments are based on salary and length of service. Contributions from employees themselves are also included.

The amounts provided for these benefit obligations and the annual expense for pension benefits are measured and calculated each year on the basis of actuarial reports using the projected unit credit method (IAS 19).

The actuarial assumptions are as follows: The discount rate applied to the obligations was reduced from 6.0 % to 5.4 %. As in the previous year, the assumed rate of future salary increases is 2.7 %, and the assumed growth rate for the pension trend is 2.0 % per annum. The biometric assumptions are based on the 2005G mortality tables published by Prof. Klaus Heubeck. A mean fluctuation rate (2.0 %) was applied to staff turnover. The retirement age used for the calculations is oriented on the *Rentenversicherungs-Altersanpassungsgesetz* 2007 [*RVAGAnpG* – German Act Adapting the Standard Retirement Age for the Statutory Pension Insurance System]. Actuarial gains and losses outside the 10 % corridor around the present value of the DBO are recognised. Where the cumulative gain or loss exceeds the 10 % corridor, the excess amount is spread over the average remaining working lives of the employees and recognised in the income statements of future periods.

Change in pension provisions from the above-mentioned benefit plans of the German Group companies (€ thousands)	2009	2008
Opening balance at 1 Jan.	213,177	201,577
Annual pension expense (see below)	19,191	18,089
Employee deferred compensation	3,588	3,764
Net pension payments	– 10,178	– 10,253
Closing balance at 31 Dec.	**225,778**	**213,177**

The present value of pension commitments amounts to € 237,905 thousand (2008: € 206,275 thousand; 2007: € 203,643 thousand; 2006: € 218,402 thousand; 2005: € 207,595 thousand). This resulted in a net actuarial loss of € 12,127 thousand (previous year: gain of € 6,902 thousand). This shift is due primarily to the changes in the measurement parameters described above, which led to a rise in the DBO of € 18,586 thousand (previous year: decline of € 12,415 thousand). Experience adjustments to the plan amounted to € – 386 thousand (previous year: € – 3,446 thousand). Previously unrecognised actuarial gains of € 57 thousand (previous year: gains of € 1 thousand) outside the 10 % corridor were recognised in the income statement.

Changes recognised in income statement from the above-mentioned benefit plans of the German Group companies (€ thousands)	2009	2008
Current service cost	7,270	7,234
Actuarial gains / losses	– 57	– 1
Interest cost	11,978	10,856
	19,191	**18,089**

The current service cost as well as actuarial gains and losses are recognised in staff costs under pension costs, and the interest cost is recognised in financial income / expense under interest and similar expenses.

Contributions totalling € 23,361 thousand (previous year: € 22,311 thousand) were paid to state pension insurance funds in the year under review.

There are smaller benefit plans at certain foreign Group companies. At the US companies, there are post-employment medical care obligations for employees. These are partly funded, measured using comparable principles and contained in the provisions for pensions and similar obligations in the amount of € 10,036 thousand (previous year: € 10,560 thousand).

Other provisions

Provisions for taxes contain amounts of tax still payable for the year under review and for previous years for which no final tax assessment has yet been received. Provisions for other employee benefits relate primarily to profit-sharing, jubilee payments, compensated absence, partial retirement and severance payments. The provisions for warranty obligations and contractual penalties cover the statutory and contractual obligations to customers. The provisions for miscellaneous other obligations include provisions for expected losses from uncompleted transactions and onerous contracts (primarily from construction contracts in accordance with IAS 11 in the amount of € 4,577 thousand for 2009 and € 7,733 thousand for 2008), customer bonuses, accrued costs and environmental measures.

€ 43,482 thousand of the other provisions is non-current (previous year: € 45,866 thousand). This relates mainly to provisions for jubilee payments, partial retirement and warranty obligations.

9 Liabilities

(€ thousands)	31 Dec. 2009	31 Dec. 2008
Non-current liabilities		
Financial liabilities		
Liabilities on bonds issued	100,000	–
Bank loans and overdrafts	56,674	17,891
Finance lease liabilities	3,230	3,572
Other	154	2,053
	160,058	23,516
Total non-current liabilities	**160,058**	**23,516**
Current liabilities		
Financial liabilities		
Bank loans and overdrafts	30,275	20,316
Finance lease liabilities	685	1,207
Other	4,215	2,187
	35,175	23,710
Trade payables		
Trade payables to third parties	141,732	196,248
Intragroup trade payables	5,358	4,556
	147,090	200,804
Other liabilities and deferred income		
Taxes	16,740	17,079
Social security and liabilities towards employees	16,270	20,295
Miscellaneous other liabilities and deferred income	39,792	32,345
	72,802	69,719
Total current liabilities	**255,067**	**294,233**
Total liabilities	**415,125**	**317,749**

To safeguard liquidity in the medium term, KSB AG has taken the precaution of placing a loan against borrower’s note worth € 100 million with a 3-year and 5-year maturity. This will serve to ensure the solvency of the company even in a protracted crisis situation.

Assets amounting to € 2,753 thousand (previous year: € 6,738 thousand) have been pledged as security in the KSB Group for bank loans and other liabilities on the basis of standard terms and conditions. Of these, € 184 thousand (previous year: € 876 thousand) relate to property, plant and equipment, € 1,254 thousand (previous year: € 5,108 thousand) to inventories, € 302 thousand (previous year: € 754 thousand) to receivables and € 1,013 thousand (previous year: € 0 thousand) to cash and cash equivalents, as well as other securities.

As in the previous year, liabilities amounting to € 8,648 thousand were secured by land charges or similar rights in the year under review.

The weighted average interest rate on bank loans and overdrafts as well as on an open-market credit (loan against borrower’ note) was 3.05 % (previous year: 3.67 %). Interest rate risk exists for the major portion of the loan against borrower’ note mentioned above as well as other loans amounting to € 60 million.

Covenant agreements must be observed for three loans totalling € 60 million. For two of these loans totalling € 50 million, a creditor-defined indicator (equity ratio) must not fall below 25 %. The covenants of the third loan in the amount of € 10 million refer to compliance with a dynamic debt to equity ratio and debt service coverage ratio. Here, too, both indicators are defined by the creditor. No risks exist at present which could threaten compliance with the covenants agreed.

Taxes classified as other liabilities also relate to taxes that Group companies must remit for third-party account.

Miscellaneous other liabilities and deferred income include changes in the fair value of hedging instruments amounting to € 2,395 thousand (previous year: € 6,912 thousand). € 514 thousand (previous year: € 378 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 848 thousand (previous year: € 1,093 thousand). This also includes investment grants totalling € 2,189 thousand (previous year: € 0 thousand) received for new buildings in Germany.

Income statement disclosures

10 __ Sales revenue

The sales revenue presented includes revenue for services rendered totalling € 110,396 thousand (previous year: € 114,723 thousand).

The breakdown of sales revenue by region and product group is presented in the segment reporting.

11__Other operating income

(€ thousands)	2009	2008
Gains from asset disposals and reversals of impairment losses (write-ups)	1,538	715
Income from current assets	2,865	2,179
Currency translation gains	1,515	378
Income from the reversal of provisions	13,902	17,098
Miscellaneous other income	12,454	10,877
	32,274	**31,247**

Miscellaneous other income relates primarily to services income, commission income, rental and lease income, insurance compensation, grants and subsidies.

Income from government grants for individual projects amounted to € 1,022 thousand (previous year: € 794 thousand).

12__Cost of materials

(€ thousands)	2009	2008
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	668,136	776,941
Cost of purchased services	67,890	66,498
	736,026	**843,439**

13__Staff costs

(€ thousands)	2009	2008
Wages and salaries	491,548	489,181
Social security contributions and employee assistance costs	112,440	111,045
Pension costs	14,280	14,402
	618,268	**614,628**

Pension costs are reduced by the interest component of provisions for pensions and similar obligations, which is reported as an interest cost in financial income / expense.

Average number of employees	2009	2008
Wage earners	6,625	6,721
Salaried employees	7,252	7,096
Trainees and apprentices	450	389
	14,327	**14,206**

14 Other operating expenses

(€ thousands)	2009	2008
Losses from asset disposals	1,235	884
Losses from current assets	10,821	7,038
Currency translation losses	1,810	3,149
Other staff costs	16,963	20,110
Repairs, maintenance, third-party services	94,116	78,601
Selling expenses	76,409	87,315
Administrative expenses	62,321	66,496
Rents and leases	20,019	19,413
Miscellaneous other expenses	40,011	53,759
	323,705	**336,765**

Miscellaneous other expenses relate primarily to warranties, contractual penalties and additions to provisions.

15 Financial income / expense

(€ thousands)	2009	2008
Financial income	9,407	12,649
Income from investments	5,148	4,283
thereof from affiliates	(4,425)	(3,163)
Interest and similar income	4,150	7,999
thereof from affiliates	(433)	(311)
Write-ups of financial assets	–	–
Income from the remeasurement of financial instruments	–	–
Other financial income	109	367
Financial expense	– 20,821	– 19,878
Interest and similar expenses	– 17,060	– 16,064
thereof to affiliates	(– 12)	(– 457)
Write-downs of financial assets	– 2,495	– 2,842
Expenses from the remeasurement of financial instruments	–	– 972
Other financial expenses	– 1,266	–
	– 11,414	**– 7,229**

Interest and similar expenses include the interest cost on discounted pension provisions amounting to € 12,439 thousand (previous year: € 11,308 thousand). The decline in interest and similar income is attributable to considerably lower capital market interest rate levels compared with the previous year. Write-downs of financial assets relate primarily to impairment losses on the carrying amount of the investment in three unconsolidated European service companies due to economic difficulties.

16 Taxes on income

All income-related taxes of the consolidated companies and deferred taxes are reported under this heading.

Other taxes are reported in the income statement after other operating expenses.

Taxes on income (€ thousands)	2009	2008
Effective taxes	50,151	46,274
Deferred taxes	275	14,358
	50,426	**60,632**

€ 224 thousand (previous year: € 305 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 931 thousand (previous year: € 487 thousand) to tax arrears.

Reconciliation of deferred taxes (€ thousands)	2009	2008
Change in deferred tax assets	– 3,744	– 1,319
Change in deferred tax liabilities	3,868	14,775
Change in deferred taxes recognised in balance sheet	**124**	**13,456**
Change in deferred taxes taken directly to equity	– 319	1,644
Changes in consolidated Group, currency translation adjustments and other	470	– 742
Deferred taxes recognised in income statement	**275**	**14,358**

	Deferred tax assets		Deferred tax liabilities	
Allocation of deferred taxes (€ thousands)	2009	2008	2009	2008
Non-current assets	1,282	1,779	27,453	27,204
Current assets	49,132	43,745	61,979	53,612
Non-current liabilities	18,696	17,035	355	1,059
Current liabilities	12,671	13,891	7,071	9,641
Tax loss carryforwards	542	655	–	–
Gross deferred taxes – before offsetting	**82,323**	**77,105**	**96,858**	**91,516**
Offset under IAS 12.74	– 64,876	– 63,402	– 64,876	– 63,402
Net deferred taxes – after offsetting	**17,447**	**13,703**	**31,982**	**28,114**

The structure of the table has been changed this year and prior-period amounts have been adjusted accordingly.

The corresponding loss carryforwards, for which deferred taxes were recognised, amount to € 1,855 thousand (previous year: € 2,447 thousand). At the balance sheet date, deferred tax assets amounting to € 1,332 thousand (previous year: € 728 thousand) were recognised, whose realisation exclusively depends on the creation of future profit. Based on the planning figures available, we expect realisation to take place.

As in the previous year, the introduction of new local taxes had no significant material effects in the year under review. Equally, changes in foreign tax rates did not have any significant impact on the total tax expense (€ 277 thousand), as in 2008.

In the case of net income from affiliates and other equity investments, withholding taxes incurred in connection with distributions and German taxes incurred are recognised as deferred taxes if these gains are expected to be subject to corresponding taxation, or there is no intention of reinvesting them in the long term.

We did not recognise deferred tax assets from loss carryforwards amounting to € 17,334 thousand (previous year: € 14,459 thousand) because it is unlikely that there will be sufficient taxable profit available in the near future against which these deferred tax assets can be utilised. The same applies to minor deductible temporary differences.

Reconciliation of income taxes (€ thousands)	2009	2008
Earnings before income taxes	172,784	200,117
Calculated income taxes on the basis of the applicable tax rate (29 %)	50,107	58,034
Differences in tax rates	2,007	1,147
Change in write-downs on deferred taxes on loss carryforwards and unused tax loss carryforwards	– 195	670
Tax-exempt income / non-deductible expenses	– 711	752
Prior-period taxes	707	182
Non-deductible foreign income tax	1,319	1,318
Other	– 2,808	– 1,471
Current taxes on income	**50,426**	**60,632**
Current tax rate	29 %	30 %

The applicable tax rate of 29 % – as in the previous year – is a composite rate resulting from the current German corporation tax, solidarity surcharge and trade income tax rates.

The tax effects in the amount of € – 305 thousand recognised in the statement on recognised income and expense are mainly related to financial instruments (€ – 324 thousand).

17 Earnings after income taxes – Non-controlling interest

The non-controlling interest in net profit amounts to € 14,826 thousand (previous year: € 16,633 thousand), and the non-controlling interest in net loss amounts to € 82 thousand (previous year: € 269 thousand). These relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India and China.

18 Research and development costs

Research and development costs in the year under review amounted to € 34,352 thousand (previous year: € 31,651 thousand).

19 Earnings per share

		2009	2008
Earnings after income taxes – Attributable to KSB AG shareholders	(€ thousands)	107,614	123,121
Additional dividend attributable to preference shareholders	(€ thousands)	– 225	– 225
	(€ thousands)	**107,389**	**122,896**
Number of ordinary shares		886,615	886,615
Number of preference shares		864,712	864,712
Total number of shares		**1,751,327**	**1,751,327**
Diluted and basic earnings per ordinary share	€	**61.32**	**70.17**
Diluted and basic earnings per preference share	€	**61.58**	**70.43**

Additional disclosures on financial instruments

Financial instruments – Carrying amounts and fair values by measurement category:

Balance sheet item / Class ASSETS (€ thousands)	Category	Measure-ment	Carrying amount 31 Dec. 2009	Fair value 31 Dec. 2009	Carrying amount 31 Dec. 2008	Fair value 31 Dec. 2008
NON-CURRENT ASSETS						
Non-current financial assets						
Investments in affiliates, other investments	AfS	Amortised cost	59,113	59,113	54,678	54,678
Non-current financial instruments	AfS	Fair value	632	632	583	583
Loans	LaR	Amortised cost	1,876	1,876	1,701	1,701
CURRENT ASSETS						
Receivables and other current assets						
Trade receivables	LaR	Amortised cost	366,274	366,274	427,048	427,048
Intragroup and associate receivables	LaR	Amortised cost	20,715	20,715	22,792	22,792
Receivables recognised by PoC	LaR	Amortised cost	68,586	68,586	50,192	50,192
Other receivables, other current assets	LaR	Amortised cost	21,531	21,531	20,381	20,381
Derivatives included in hedging relationships	n / a	Fair value	1,052	1,052	1,434	1,434
Derivatives not included in hedging relationships	FAHfT	Fair value	985	985	2,873	2,873
Current financial instruments	AfS	Fair value	–	–	199	199
Cash and cash equivalents	LaR	Amortised cost	409,840	409,840	167,360	167,360

Balance sheet item / Class EQUITY AND LIABILITIES (€ thousands)	Category	Measurement	Carrying amount 31 Dec. 2009	Fair value 31 Dec. 2009	Carrying amount 31 Dec. 2008	Fair value 31 Dec. 2008
NON-CURRENT LIABILITIES						
Financial liabilities excluding finance lease liabilities	FLAC	Amortised cost	156,828	142,717	19,944	17,730
Finance lease liabilities	n / a	in accordance with IAS 17	3,230	3,230	3,572	3,572
CURRENT LIABILITIES						
Financial liabilities excluding finance lease liabilities	FLAC	Amortised cost	34,490	34,490	22,503	22,503
Finance lease liabilities	n / a	in accordance with IAS 17	685	685	1,207	1,207
Trade payables	FLAC	Amortised cost	147,090	147,090	200,804	200,804
Other liabilities – miscellaneous	FLAC	Amortised cost	34,360	34,360	36,489	36,489
Derivatives included in hedging relationships	n / a	Fair value	1,532	1,532	2,751	2,751
Derivatives not included in hedging relationships	FLHfT	Fair value	863	863	4,161	4,161
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Amortised cost	888,822	888,822	689,474	689,474
Available-for-sale financial assets	AfS	Fair value	632	632	782	782
Available-for-sale financial assets	AfS	Amortised cost	59,113	59,113	54,678	54,678
Financial assets held for trading	FAHfT	Fair value	985	985	2,873	2,873
Financial liabilities measured at amortised cost	FLAC	Amortised cost	372,768	358,657	279,740	277,526
Financial liabilities held for trading	FLHfT	Fair value	863	863	4,161	4,161

The carrying amounts and fair values of all financial assets measured at amortised cost are identical. This also applies to finance lease liabilities, trade payables and other liabilities. This is mainly due to the short maturities of these financial instruments.

In the case of financial liabilities excluding finance lease liabilities, the fair values are determined as the present value of the cash flows associated with the liabilities. We apply an appropriate yield curve to arrive at this present value.

The fair values of the current and non-current financial instruments presented in the table above are based on prices quoted in active markets. The fair values of derivates included and not included in hedging relationships is determined on the basis of input factors observable either directly (i.e. as a price) or indirectly (i.e. derived from prices).

Net gains and losses by measurement category in 2009:

(€ thousand)	From interest and dividends	From subsequent measurement: At fair value	Currency translation	Impairment losses	From disposal	Net results
LaR	4,150	–	– 228	– 7,893	–	– 3,971
AfS	5,169	47	–	– 2,495	–	2,721
FAHfT / FLHfT	–	1,440	–	–	–	1,440
FLAC	– 4,589	–	26	–	–	– 4,563
	4,730	**1,487**	**– 202**	**– 10,388**	**–**	**– 4,373**

Net gains and losses by measurement category in 2008:

(€ thousand)	From interest and dividends	From subsequent measurement: At fair value	Currency translation	Impairment losses	From disposal	Net results
LaR	7,757	–	1,883	– 3,093	–	– 6,547
AfS	4,525	– 583	–	– 3,081	–	861
FAHfT / FLHfT	–	– 3,149	–	–	–	– 3,149
FLAC	– 4,756	–	– 246	–	–	– 5,002
	7,526	**– 3,732**	**1,637**	**– 6,174**	**–**	**– 743**

The interest presented above is a component of financial income / expense; the other gains and losses are partly reported in other operating income and other operating expenses.

The AfS measurement category resulted in a remeasurement gain of € 47 thousand (previous year: none), which was recognised directly in equity. No withdrawals were made from equity and realised during the year under review (previous year: € 583 thousand).

Financial risks

We are exposed to certain financial risks as a consequence of our business activities. These risks can be classified into three areas:

On the one hand, we are exposed to **credit risk**. We define **credit risk** as potential default or delays in the receipt of contractually agreed payments.

We are also exposed to **liquidity risk**, which is the risk that an entity will be unable to meet its financial obligations, or will be unable to meet them in full.

Finally, we are exposed to **market risk**. The risk of exchange rate or interest rate changes may adversely affect the economic position of the Group. Risks from fluctuations in securities prices are not material for us.

We limit all of these risks through an appropriate risk management system. We stipulate how these risks are addressed through guidelines and work instructions. In addition, we monitor the current risk characteristics continuously and regularly provide the information obtained in this way to the Board of Management and the Supervisory Board in the form of standardised reports and individual analyses.

The three risk areas are described in detail in the following. You will also find additional information in the Group management report, in particular in the Net Assets, Financial Position and Results of Operations and Risk Management sections.

Credit risk

The primary credit risk is that there is a delay in settling a receivable, or that it is not settled in part or in full. We minimise this risk using a variety of measures. As a matter of principle, we run credit checks on potential and existing counterparties. We only enter into business relationships if the results of this check are positive. In addition, we take out trade credit insurance policies primarily through our European companies. In exceptional cases we accept other securities (collateral) such as guarantees. The insurance policies primarily cover the risk of loss of receivables. Moreover, cover is also taken out against political and commercial risks in the case of certain customers in certain countries. For both types of insurance, we have agreed deductibles, which represent significantly less than 50 % of the insured volume. As part of our receivables management system, we continuously monitor outstanding items, perform maturity analyses and establish contact with customers at an early stage if delays in payment occur. In the case of major projects, our terms and conditions provide for prepayments, guarantees and – for export transactions – letters of credit. These also mitigate risk. Impairment losses are recognised for the residual risk remaining in trade receivables. We examine regularly the extent to which individual receivables need to be written down for impairment. Indications of this are significant financial difficulties of the debtor, such as insolvency or bankruptcy. We also cover the credit risk of receivables that are past due by recognising valuation allowances on the basis of historical loss experience. Receivables are written off if it is reasonably certain that receipt of payment cannot be expected.

Valuation allowances on "trade receivables" are the only material impairment losses in the KSB Group. They changed as follows:

(€ thousands)	2009	2008
Opening balance at 1 Jan.	21,760	19,744
Additions	8,056	5,338
Utilised	– 1,244	– 1,263
Reversals	– 2,064	– 2,395
Currency translation differences	– 159	336
Closing balance at 31 Dec.	**26,349**	**21,760**

The maturity structure of trade receivables is as follows:

(€ thousands)	31 Dec. 2009	31 Dec. 2008
Receivables that are neither past due nor individually impaired	279,462	324,563
Receivables past due but not individually impaired		
1 to 30 days	36,660	40,420
31 to 90 days	18,313	30,291
91 to 180 days	11,705	14,734
>180 days	14,826	10,800
Total	81,504	96,245
Receivables individually determined to be impaired	5,308	6,240
Receivables individually determined to be impaired at their principal amount	31,657	28,000
Specific write-downs	26,349	21,760
Carrying amount (net)	**366,274**	**427,048**

With regard to the trade receivables that are neither past due nor individually impaired, there are no indications at the reporting date that our debtors will not meet their payment obligations.

The maximum default risk, excluding collateral received, corresponds to the carrying amount of the financial assets.

There is no concentration of risk because the diversity of our business means that we supply a considerable number of customers in different sectors.

Liquidity risk

Our liquidity management ensures that this risk is minimised in the Group, and that solvency is ensured at all times. There are no concentrations of risk because we work together with a number of credit institutions, on which we impose strict creditworthiness requirements.

We generate our financial resources primarily from our operating business. We use them to finance investments in non-current assets. We also use them to cover our working capital requirements. To keep these as low as possible, we monitor changes in our receivables, inventories and liabilities regularly using a standardised Group reporting system.

In response to the extraordinary situation that has arisen in the wake of the global financial and economic crisis, and in case the crisis is of a prolonged nature, we have successfully placed a loan against borrower's note with a 3-year and 5-year maturity as an added precaution.

This reporting system additionally ensures that the Group's centralised financial management is continuously informed about liquidity surpluses and requirements. This enables us to optimally meet the needs of the Group as a whole and the individual companies. For our German companies, for example, we use a cash pooling system. We are also in the process of rolling out our receivables netting procedure within the KSB Group so as to minimise the volume of cash flows and the associated fees. In addition, we always ensure that credit facilities are sufficient; we identify the need for these on the basis of regular liquidity plans.

The following tables present the contractual undiscounted cash flows of primary and derivative financial liabilities. Interest payments on fixed-rate liabilities are determined on the basis of the fixed rate. Floating-rate interest payments are based on the last floating interest rates fixed before 31 December. Net payments on derivatives result both from derivatives with negative fair values and from derivatives with positive fair values. Projections for future new liabilities are not included in the presentation. Based on our current state of knowledge, it is neither expected that the cash flows will take place significantly earlier, nor that the amounts will deviate significantly.

2009 (€ thousands)	**Total**	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	215,930	39,159	172,129	4,642
Trade payables	147,090	147,090	–	–
Other liabilities	34,360	18,172	16,188	–
Derivative financial instruments	– 633	– 47	– 585	– 1
	396,747	**204,374**	**187,732**	**4,641**

2008 (€ thousands)	**Total**	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	50,882	24,882	20,281	5,719
Trade payables	200,804	199,806	998	–
Other liabilities	36,489	26,358	10,131	–
Derivative financial instruments	– 2,523	– 2,307	– 216	–
	285,652	**248,739**	**31,194**	**5,719**

Market risk

Our global business activities expose us primarily to currency and interest rate risk. Any changes in market prices here can affect fair values and future cash flows. We use sensitivity analyses to determine the theoretical effects of such market price fluctuations on profit and equity. In doing so, we assume that the portfolio at the reporting date is representative for the full year.

Currency risk mainly affects our cash flows from operating activities. It arises when Group companies settle transactions in currencies that are not their functional currency. We minimise this risk using currency forwards and options. You will find further information on this in the “Derivative financial instruments” section of the Notes. As a rule, we do not hedge currency risk from the translation of foreign operations into the Group currency (EUR).

The most significant foreign currency in the KSB Group is the USD. The volume of trade receivables denominated in USD amounts to around € 27 million (previous year: approximately € 36 million). The volume of trade payables denominated in USD amounts to around € 5 million (previous year: approximately € 11 million).

For the currency sensitivity analysis, we simulate the effects based on the notional volume of our existing foreign currency derivatives and our foreign currency receivables and liabilities at the reporting date. For the analysis, we assume a 10 % increase (decrease) in the value of the euro versus the other currencies.

At the reporting date, equity and the fair value of the derivatives would have been € 4.2 million lower (higher); € 2.9 million results from USD and € 1.3 million from the other currencies.

At the previous year’s reporting date, equity and the fair value of the derivatives would have been € 6.9 million lower (higher); € 5.6 million would result from USD and € 1.3 million from the other currencies.

The theoretical effect on profit in the year under review would have been an increase (decrease) of € 0.8 million. € 1.1 million would be attributable to USD and € – 0.3 million to the other currencies.

The theoretical effect on profit in the previous year would have been an increase (decrease) of € 1.1 million. € 1.3 million would be attributable to USD and € – 0.2 million to the other currencies.

Floating rate financial instruments are exposed to interest rate risk. In the case of long-term loans, we hedge against this risk using interest rate derivatives on a case-by-case basis. Fixed rate financial instruments are not exposed to this risk.

As part of our interest rate sensitivity analysis, we simulate a 100 basis point increase (decrease) in market interest rates and analyse the effects on the floating rate financial instruments. In 2009, the net interest balance would have been € 2.7 million (previous year: € 1.6 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 0.2 million (previous year: € 0.3 million).

Cash flow statement

The cash flow statement is prepared using the indirect method. Cash flows are classified by operating, investing and financing activities. Effects of changes in the consolidated Group and in exchange rates are eliminated in the relevant items. The effect of exchange rate changes and changes in the consolidated Group on cash and cash equivalents is presented separately.

Cash flows from operating activities include a “cash flow” subtotal that merely comprises the net profit for the year; depreciation, amortisation and impairment losses as well as reversals of impairment losses; changes in non-current provisions; and non-cash effects, for example, of the disposal of fixed assets. This subtotal is combined with the changes in the other operating components of assets (including current financial instruments) and liabilities to determine cash flows from operating activities.

Cash flows from investing activities exclusively reflect cash-effective acquisitions and disposals of investments in intangible assets; property, plant and equipment; and non-current financial assets.

In addition to cash flows resulting from equity items (capitalisation measures and dividend payments), cash flows from financing activities comprise cash flows arising from changes in financial receivables and liabilities. Employee deferred compensation is also presented here as it is externally funded.

If cash and cash equivalents include restricted cash (e.g. cash used to hedge credit balances prescribed by law for partial retirement agreements), this is reported separately.

Segment reporting

Segment reporting corresponds to our internal organisational and management structure, as well as the reporting lines to the Board of Management and the Supervisory Board. In our matrix organisation there are four people responsible for Europe, the Middle East / Africa, Asia / Pacific and the Americas, who work with those responsible for the Industry and Process Engineering, Building Services, Water, Waste Water, Energy and Mining market segments. Management decisions and controlling measures are primarily adopted on the basis of the regional key figures for order intake, sales revenue and earnings before income taxes. In addition, we regularly report the number of employees by region. Reporting respective assets is not part of our internal reporting.

The amounts disclosed for the individual segments have been established in compliance with the accounting policies of the underlying consolidated financial statements.

Transfer prices for intercompany sales are determined on an arm’s length basis.

There were no discontinued operations in the year under review, as in the comparable period of the previous year.

The regional segments include the development, production and marketing of pumps and valves by our operative Group companies, as well as the corresponding service business.

The **order intake of the Group companies by segment** presents order intake generated with third parties and unconsolidated Group companies.

The **external sales revenue of the Group companies by segment** presents sales revenue generated with third parties and unconsolidated Group companies.

Inter-segment sales revenue relates to all sales revenue between the segments.

The segment results show **earnings before taxes** (**EBT**) including non-controlling interest.

Under **cross-segment information** on external sales revenue we have summarised our products on the basis of their applications and areas of use.

The **Industry and Building Services** product group covers pumps, valves and associated control and drive systems for industrial and process engineering applications, domestic water supply, drainage, heating and air-conditioning, as well as service activities.

The **Water and Waste Water** product group covers pumps, valves, mixers, pressure exchangers and associated control and drive systems for use in water and waste water transport installations and subsystems, as well as service activities.

The **Energy and Mining** product group covers pumps, valves and associated control and drive systems for use in power station applications and district heating systems, as well as service for these products. It also covers slurry pumps and service activities for applications in the mining industry and on suction dredgers.

Other disclosures

Contingent liabilities (contingencies and commitments)

Contingent liabilities and security granted (€ thousands)	2009	2008
Liabilities from guarantees	7,846	7,317
Liabilities from warranties	6,509	8,209
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	3,046	2,704
	17,401	**18,230**

At present, there are no indications that any claims will be asserted under these obligations.

Other financial obligations from rental agreements and operating leases amount to a total of € 22,494 thousand (previous year: € 15,620 thousand). Of these, € 10,389 thousand (previous year: € 9,421 thousand) is due within one year and € 10,402 thousand (previous year: € 6,182 thousand) due between one and five years. In the year under review, € 9,421 thousand was spent on these agreements.

Operating leases relate primarily to vehicles and real estate.

Finance leases (€ thousands)	Minimum lease payments 2009	2008	Present values 2009	2008
Due within one year	748	1,338	685	1,207
Due between one and five years	3,199	3,521	2,949	3,235
Due after more than five years	295	337	281	337
	4,242	**5,196**	**3,915**	**4,779**

Finance leases relate almost entirely to real property. The term of the contract covers most of the useful life of the asset concerned, or there is a purchase option, as is the case for a property in Germany.

The annual obligations from IT services agreements amount to € 33,166 thousand (previous year: € 33,009 thousand) over a term of one to five years.

As in the previous year, there are no purchase price obligations from acquisitions of companies and no payment obligations from capitalisation measures at Group companies.

The aggregate purchase obligation for investments amounts to € 11,567 thousand (previous year: € 31,567 thousand). Almost all of the corresponding payments are due in 2010.

Related party disclosures

Pursuant to section 21(1) of the *WpHG* [*Wertpapierhandelsgesetz* – German Securities Trade Act], *KSB Stiftung* [KSB Foundation], Stuttgart, notified us on 21 May 2008 that its voting interest in KSB AG, Frankenthal / Pfalz exceeded the 75.00 % threshold on 5 May 2008 and amounted to 80.24 % (711,453 voting shares) on this date. 0.54 % of the voting rights (4,782 voting shares) were held directly by *KSB Stiftung* and 79.70 % (706,671 voting shares) were attributed to *KSB Stiftung* pursuant to section 22(1), sentence 1, No. 1 of the *WpHG*. The voting rights attributed to *KSB Stiftung* were held by Klein Pumpen GmbH, Frankenthal.

A rental and services agreement has been entered into between KSB AG and Klein Pumpen GmbH. This resulted in the recognition of expenses of € 24 thousand as in the previous year and income of € 9 thousand (previous year: € 7 thousand) at KSB AG in the year under review. Interest of € 3 thousand (previous year: € 417 thousand) was paid on short-term cash deposits by Klein Pumpen GmbH with KSB AG. Short-term deposits by KSB AG with Klein Pumpen GmbH and by Klein Pumpen GmbH with KSB companies carry appropriate rates of interest. Receivables from Klein Pumpen GmbH as at 31 December 2009 amounted to € 473 thousand (previous year: liabilities of € 726 thousand).

All transactions are entered into on an arm's length basis. This is also demonstrated by the dependent company report prepared in accordance with section 312 of the *AktG* [*Aktiengesetz* – German Public Companies Act].

The total remuneration of members of the Supervisory Board amounts to € 1,257 thousand for financial year 2009 (previous year: € 1,171 thousand), and the total remuneration of the Board of Management amounts to € 3,705 thousand (previous year: € 3,336 thousand). € 21,026 thousand (previous year: € 21,760 thousand) has been provided for pension obligations to former members of the Board of Management and their surviving dependants. As in the previous year, total benefits paid to these persons amounted to € 1,428 thousand in the year under review. Additions of € 1,906 thousand (previous year: € 2,231 thousand) were made to the pension provisions for active and former members of the Board of Management.

Based on the relevant legal provisions, the Annual General Meeting on 22 June 2006 resolved not to disclose the remuneration of the Board of Management separately for each member and classified by components.

The members of the Board of Management and the Supervisory Board are listed separately.

Auditors

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, were appointed as the auditors and group auditors for the financial year 2009 by the Annual General Meeting on 17 June 2009. The expenses for financial year 2009 include corresponding audit fees of € 245 thousand (previous year: € 230 thousand). A further € 40 thousand (previous year: € 92 thousand) was incurred for the audits of German subsidiaries. In addition, fees of € 30 thousand (previous year: none) were incurred for other assurance or valuation services.

Events after the balance sheet date

There were no reportable events after the balance sheet date.

This statement does not include the possible effects of the financial and economic crisis. The potential impact of this on the KSB Group's development is addressed in the report on expected developments in the management report.

German Corporate Governance Code

The Board of Management and Supervisory Board of KSB AG issued the current statement of compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act]. The statement of compliance is published on our web site (www.ksb.com) and has thus been made permanently accessible to our shareholders.

Proposal on the appropriation of the net retained earnings of KSB AG

We will propose to the Annual General Meeting on 19 May 2010 to appropriate the net retained earnings of € 33,705,595.01 of KSB AG, Frankenthal, containing retained earnings brought forward of € 413,289.38, as follows:

Distribution of a dividend of		
€ 12.00 per ordinary no-par-value share	=	€ 10,639,380.00
and, in accordance with the Articles of Association,		
€ 12.26 per preference no-par-value share	=	€ 10,601,369.12
Appropriation to revenue reserves		€ 12,000,000.00
Total		€ 33,240,749.12
Carried forward to new account		€ 464,845.89
		€ 33,705,595.01

Frankenthal, 15 March 2010

The Board of Management

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankenthal, 15 March 2010

The Board of Management

The annual financial statements of KSB AG, Frankenthal, were prepared in accordance with German accounting principles. BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has audited these annual financial statements and issued an unqualified audit opinion. The annual financial statements are published in the electronic *Bundesanzeiger* [German Federal Gazette]. The annual financial statements can also be downloaded from our web site at www.ksb.com, or sent in print form on request.

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by KSB Aktiengesellschaft, Frankenthal / Pfalz, comprising the balance sheet, the statement of recognised income and expense, the income the statement, statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a(1) of the *HGB* [*Handelsgesetzbuch* – German Commercial Code] are the responsibility of the parent company's management. 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 of the *HGB* and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* [*IDW* – Institute of Public Auditors]. 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 andgroup 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) of the *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.

Frankfurt am Main, 22 March 2010

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dyckerhoff	Simon-Heckroth
Wirtschaftsprüfer	Wirtschaftsprüfer

LIST OF SHAREHOLDINGS

Name and seat of company	Country		Capital share %	Equity € thousands	Net profit / loss for the year € thousands	
KSB Service GmbH, Frankenthal	Germany	C	100.00	1,534	PPA	
Pumpen- und Motoren-Service GmbH, Neuss	Germany	N	100.00	631	272	■
KSB Atlantic Pump & Valve Service S.L., Las Palmas	Spain	N	47.00	564	167	■
KSB Service GmbH, Schwedt	Germany	C	100.00	1,023	PPA	
Uder Elektromechanik GmbH, Friedrichsthal	Germany	C	100.00	26	PPA	
Motoren-Jacobs GmbH, Heide	Germany	N	100.00	828	165	■
Pumpen-Service Bentz GmbH, Reinbek	Germany	N	100.00	1,041	404	■
Dynamik-Pumpen GmbH, Stuhr	Germany	N	100.00	811	549	■
NOMIG GmbH, Reken	Germany	N	49.00	508	276	■
B & C Pumpenvertrieb GmbH, Cologne	Germany	N	100.00	962	304	■
Elektro Berchem GmbH, Cologne	Germany	N	100.00	584	298	■
Nikkiso-KSB GmbH, Altenstadt	Germany	N	50.00	4,196	196	■
KAGEMA Industrieausrüstungen GmbH, Pattensen	Germany	N	100.00	1,475	526	■
KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	N	100.00	520	– 25	
KSB OOO, Moscow	Russia	N	100.00	528	72	■
PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	C	51.00	30,635	5,850	
KSB America Corporation, Richmond / Virginia	USA	C	51.00	26,238	5,424	
GIW Industries, Inc., Grovetown / Georgia	USA	C	51.00	29,335	6,667	
AMRI, Inc., Houston / Texas	USA	C	55.91	6,966	669	
KSB, Inc., Richmond / Virginia	USA	C	51.00	7,387	2,109	
PPM – KSB, Inc., Bakersfield / California	USA	C	51.00	2,065	28	
KSB Finland Oy, Kerava	Finland	C	100.00	2,807	341	
Mäntän Pumppauspalvelu Oy, Mänttä	Finland	N	100.00	771	298	■
KSB Mörck AB, Askim (Gothenburg)	Sweden	C	55.00	3,092	662	
PUMPHUSET Sverige AB, Sollenthuna	Sweden	N	55.00	634	244	■
KSB Lindflaten AS, Lysaker	Norway	N	89.83	2,316	– 209	
KSB Pompy i Armatura Sp. z o.o., Warsaw	Poland	C	100.00	5,765	1,077	
KSB Pumpy + Armatury sr.o. koncernu, Prague	Czech Republic	C	100.00	2,926	295	
KSB Čerpadlá a Armatúry, spol.sr.o., Bratislava	Slovak Republic	N	100.00	600	268	■
KSB Szivattyú és Armatúra Kft., Budapest	Hungary	C	100.00	1,315	139	
KSB Zürich AG, Zurich	Switzerland	C	100.00	1,556	138	
Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	N	25.00	5,168	1,484	■
KSB Bombas e Válvulas S.A., Rio de Mouro (Lisbon)	Portugal	N	95.00	794	128	■
Hydroskepi GmbH, Amaroussion (Athens)	Greece	C	100.00	1,645	37	
KSB TESMA AG, Amaroussion (Athens)	Greece	N	59.74	1,492	282	■
KSB Viosen AG, Patras	Greece	N	60.28	469	30	■

PPA = Profit Pooling Arrangement
C = Companies fully consolidated in KSB AG's consolidated financial statements
N = Companies not consolidated in KSB AG's consolidated financial statements

■ = Prior-period figures
• = No data available, as company has been recently established / acquired
* = Included

Name and seat of company	Country		Capital share %	Equity € thousands	Net profit / loss for the year € thousands	
KSB Service LLC, Abu Dhabi	U.A.E.	N	49.00	662	944	■
KSB Pumps Company Limited, Lahore	Pakistan	C	58.89	6,370	1,298	
MIL Controls Limited, Mala	India	C	70.86	7,341	2,047	
KSB Tech Pvt. Ltd., Pimpri (Pune)	India	N	100.00	820	1,003	■
KSB Limited, Hong Kong	China	C	100.00	1,236	172	
KSB Valves (Shanghai) Co. Ltd., Shanghai	China	N	100.00	2,998	684	■
Shanghai Electric-KSB Nuclear Pumps and Valves Co. Ltd., Lingang	China	N	45.00	14,310	0	
KSB Taiwan Co. Ltd., Taipei	Taiwan	N	100.00	912	315	■
KSB Korea Ltd., Seoul	South Korea	N	100.00	501	202	■
KSB Ltd., Tokyo	Japan	N	100.00	– 233	– 310	■
KSB Pumps Co. Ltd., Bangkok	Thailand	C	40.00	2,299	147	
KSB Singapore (Asia Pacific) Pte, Ltd., Singapore	Singapore	C	100.00	5,180	1,536	
* KSB Malaysia Pumps & Valves Sdn, Bhd., Petaling Jaya	Malaysia	(C)	100.00	– 87	– 2	
Canadian Kay Pump Ltd., Mississauga / Ontario	Canada	C	100.00	4,050	527	
KSB Pumps Limited, Pimpri (Pune)	India	C	40.54	52,721	9,834	
KSB de Mexico, S.A. de C.V., Querétaro	Mexico	C	100.00	811	230	
KSB Mexicana, S.A. de C.V., Querétaro	Mexico	N	100.00	93	9	■
KSB Chile S.A., Santiago	Chile	C	100.00	8,321	1,240	
KSB Pars Co. (P.J.S.), Shiraz	Iran	N	100.00	•	•	
KSB Finanz S.A., Echternach	Luxembourg	C	100.00	128,393	7,798	
KSB Limited, Loughborough	United Kingdom	C	100.00	2,606	461	
RES Rotary Equipment Services Ltd., Loughborough	United Kingdom	C	100.00	607	92	
KSB Finance Nederland B.V., Zwanenburg	Netherlands	C	100.00	18,314	4,415	
DP industries B.V., Alphen aan den Rijn	Netherlands	C	100.00	17,523	6,704	
KSB Nederland B.V., Zwanenburg	Netherlands	C	100.00	5,124	413	
Nederl. Pompservice (N.P.S.) B.V., Velsen-Noord	Netherlands	N	100.00	– 42	81	■
VRS Valve Reconditioning Services B.V., Vierpolders	Netherlands	N	100.00	622	306	■
KSB Belgium S.A., Wavre	Belgium	C	100.00	6,968	490	
KSB Mechanical Services On Site NV, Antwerp	Belgium	C	100.00	1,858	– 482	
KSB On Site Machining BVBA, Wilrijk	Belgium	N	100.00	236	– 135	■
KSB Engineering Services NV, Antwerp	Belgium	N	51.00	459	359	■
VRS Industries S.A., Feluy	Belgium	N	100.00	281	341	■
SISTO Armaturen S.A., Echternach	Luxembourg	C	52.86	10,104	240	
KSB Österreich Gesellschaft mbH, Vienna	Austria	C	100.00	2,024	– 568	
KSB SRB d.o.o. Beograd, Belgrade	Serbia	N	100.00	40	7	■

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Name and seat of company	Country		Capital share %	Equity € thousands	Net profit / loss for the year € thousands	
KSB S.A.S., Gennevilliers (Paris)	France	C	100.00	101,478	12,754	
KSB Techni Pompe Service S.A.S., Hoerdt	France	C	100.00	1,634	275	
Hydraulor Services, Algrange	France	C	100.00	1,041	123	
KSB Service SEME S.A.S., Forbach	France	N	100.00	1,427	– 17	
KSB Service EITB-SITELEC, Montfavet	France	N	100.00	– 1,212	– 1,286	
SBCM S.à r.l., Gennevilliers (Paris)	France	N	100.00	212	4	
KSB Service Robinetterie, Rambervilliers	France	N	100.00	431	181	
SPI Energie S.A., La Ravoire	France	N	100.00	1,125	59	
Metis Levage S.A.S., Villefranche sur Saône	France	N	100.00	679	34	
KSB Artru Services S.A., Villefranche sur Saône	France	N	100.00	3,439	15	
KSB Artru Services Rhône Alpes S.A.S., Villefr.s. Saône	France	N	100.00	924	– 394	
KSB Artru Services Auvergne S.A.S., Thiers	France	N	100.00	742	23	
KSB Artru Services Bourgogne S.A.S., Châten.-le-Royal	France	N	100.00	1,021	– 525	
Vibra Services S.A.S., Villefranche sur Saône	France	N	100.00	213	– 1	
KSB Export Afrique S.A.S., Gennevilliers (Paris)	France	N	100.00	118	46	■
Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	N	50.00	– 67	– 91	
KSB Pompes et Robinetteries S.à r.l., Casablanca	Morocco	N	100.00	171	132	
KSB Italia S,p,A., Milan	Italy	C	100.00	24,858	3,602	
KSB Service Italia S.r.l., Scorzè	Italy	N	100.00	274	2	■
KSB-AMVI, S.A., Madrid	Spain	C	100.00	4,098	941	
AMVI Aplica, Mecánicas Válvulas Industriales, S.A., Burgos	Spain	C	100.00	10,052	2,232	
KSB ITUR Spain S.A., Zarautz	Spain	C	100.00	18,392	2,782	
KSB Service Suciba S,L,U., Sondika	Spain	N	100.00	515	205	■
KSB-Pompa, Armatür Sanayi ve Ticaret A,S., Ankara	Turkey	C	99.00	6,319	1,269	
KSB Middle East FZE, Dubai	U.A.E.	C	100.00	4,411	1,082	
KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	N	50.00	3,929	2,291	■
KSB Shanghai Pump Co. Ltd., Shanghai	China	C	80.00	41,779	4,777	
Dalian KSB AMRI Valves Co. Ltd., Dalian	China	N	100.00	1,275	312	■
PT. KSB Indonesia, Jakarta	Indonesia	C	100.00	3,545	1,610	
KSB Australia Pty. Ltd., Tottenham (Melbourne)	Australia	C	100.00	11,924	1,466	
* KSB New Zealand Limited, Penrose / Auckland	New Zealand	(C)	100.00	337	106	
KSB Algérie Eurl, Hydra-Alger	Algeria	N	100.00	233	70	■
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	100.00	7,431	15	
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	74.99	5,315	4,707	
KSB Pumps Inc., Mississauga / Ontario	Canada	N	100.00	1,281	228	■
KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	C	100.00	45,971	10,244	
KSB Válvulas Ltda., Barueri	Brazil	C	100.00	2,085	779	
KSB Compañía Sudamericana de Bombas S.A., Carapachay	Argentina	C	100.00	3,121	507	

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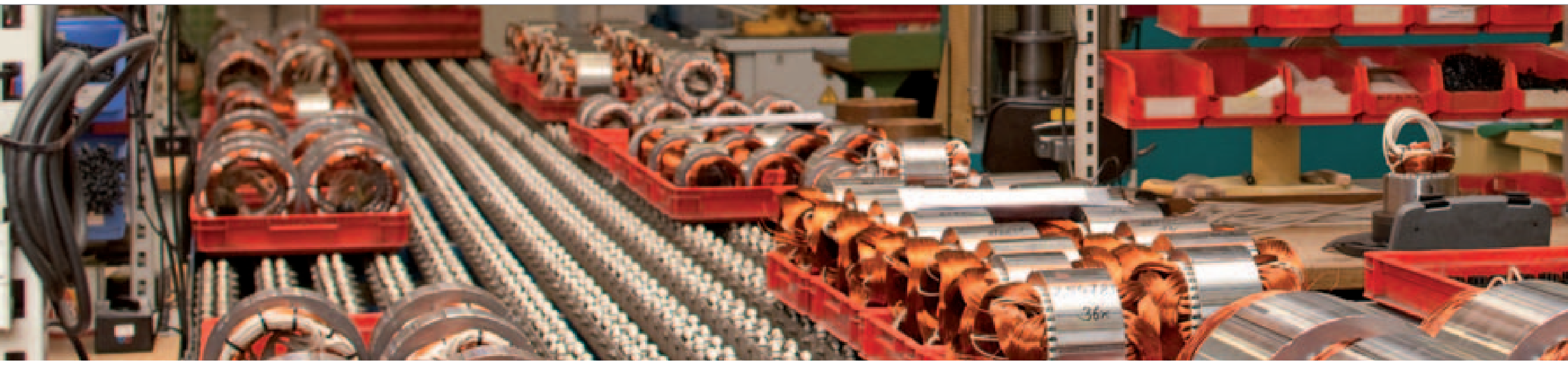


KSB Shares

- Turbulent year on the stock markets ends with significant price gains
- KSB preference share among the top ten in 10-year comparison

Following massive share price losses in 2008, the world's leading stock market indices picked up significantly in 2009. Germany's leading index, the DAX, saw a year-on-year increase of 24 %, while the Nikkei, the Japanese stock market barometer, and the US Dow Jones both rose by 19 %. The EURO Stoxx 50 recorded an increase of 21 %.

A look at share prices throughout the year reveals a clear trend reversal in the spring of 2009. At the beginning of the year, the massive falls which began in 2008 initially continued. Experts feared a protracted recession, which triggered a further price drop of more than 20 % on the world's stock markets between January and March. However, the estimates of market participants changed as a result of the stimulus packages introduced by governments worldwide, which quickly led to more positive valuations of many shares.

The interest rate policies of central banks, initial positive signs from companies and speedy economic recovery in emerging markets supported this turnaround. Share prices therefore began to rise in late March / early April and continued to do so until the end of the year, more than offsetting the losses incurred in the first few months of 2009.

KSB shares experience marked recovery

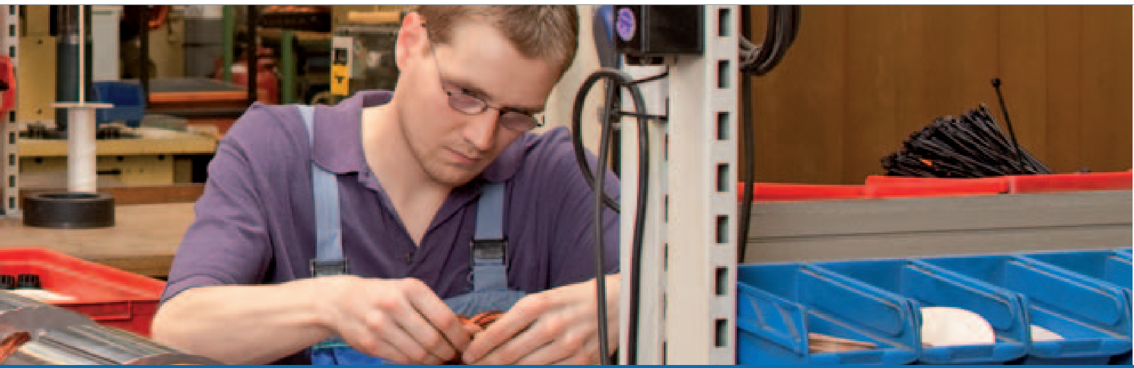
KSB's share price performed in line with the changes on the world's leading stock exchanges described above. The losses from 2008 continued until March, when the turnaround began. The price of ordinary and preference shares increased to varying degrees throughout 2009, however. The gain in preference shares outperformed the leading indices by 35 %. Ordinary shares, on the other hand, reported an increase of around 14 % at the end of 2009 compared with the end of the previous year. At 30 December 2009, the price of our ordinary share was € 409.00, while our preference shares were trading at € 399.00.

As a result, our market capitalisation also increased. At the end of 2009 it stood at € 707.6 million, which is € 133.4 million, or around 23 %, above the level at year-end 2008.

A study commissioned by the stock exchanges of Hamburg and Hanover in early 2010 revealed that long-term investors can achieve excellent performance with KSB shares. Holders of KSB preference shares bought at the end of 1999 registered a gain in value of over 300 % in the space of 10 years, which is why our share was ranked a remarkable 10th place in the study.

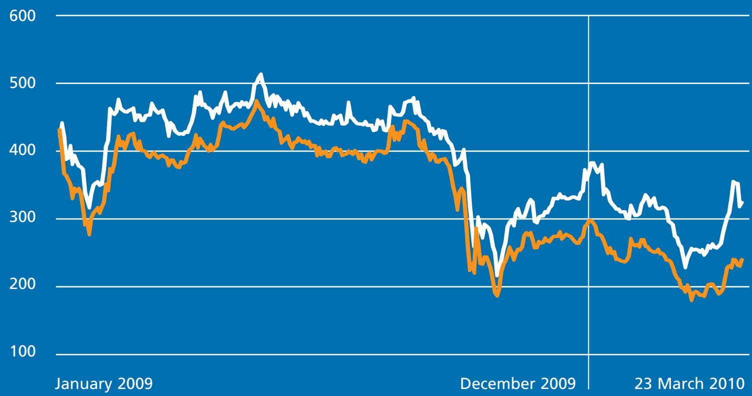
High dividend

As KSB AG's earnings were still good in 2009, the dividend to be paid will be at almost the same level as in the previous year. We will be proposing to the Annual General Meeting on 19 May 2010 a payout to ordinary shareholders of € 12.00 (previous year: € 12.50) per share. Holders of preference shares will receive € 12.26 (previous year: € 12.76).



Motor production at the Halle site

KSB share price development in €



Dividend development	2010 (proposal)	2009
Ordinary share		
Dividend	€ 12.00	€ 12.50
Dividend yield	2.9 %	3.5 %
Preference share		
Dividend	€ 12.26	€ 12.76
Dividend yield	3.1 %	4.3 %

	Ordinary share	Preference share
ISIN	DE0006292006	DE0006292030
Reuters symbol	KSBG	KSBG_p
Bloomberg symbol	KSB	KSB3
Share capital	€ 22.7 million	€ 22.1 million
Shares in free float	20 %	100 %
Year-end closing price 30 Dec. 2009	€ 409.00	€ 399.00
Market capitalisation 30 Dec. 2009	€ 707.6 million	

SUPERVISORY BOARD

Dr. Wolfgang Kühborth, Dipl.-Ing., Frankenthal
(Honorary Chairman)

Dr. Hans-Joachim Jacob, Dipl.-Kaufmann, Munich
Auditor, Management Consultant
(Chairman)

Karlheinz Leitgeb, Industrial Foreman, Pegnitz
Deputy Chairman of the General Works Council and
Chairman of the Pegnitz Works Council
(Deputy Chairman)

Dr.-Ing. Stephan Bross, Erpolzheim
Senior Vice President Business Unit Service
(since 1 Jan. 2010)

Ludwig Udo Kontz, Dipl.-Ing., Königswinter
Freelance Engineer
Owner of Kontz, Network & Group, Bonn

Klaus Kühborth, Dipl.-Wirtschaftsing., Frankenthal
Managing Director of Klein Pumpen GmbH

Alois Lautner, Lathe Operator, Kirchenthumbach
Deputy Chairman of the Pegnitz Works Council

Richard Lederer, Dipl.-Kaufmann, Frankenthal
Former Member of the Management of the
Energy Pumps Division of KSB AG

Sigrid Maurer, Insurance Trader, Neustadt / Weinstraße
Trade Union Secretary of IG Metall Ludwigshafen / Frankenthal

Heinrich Dieter Müller, Techn. Draftsman, Worms-Pfeddersheim
Chairman of the European Works Council, the General Works
Council and the Frankenthal Works Council

Dr.-Ing. Hermann Nestler, Regensburg
Former Managing Director of BSH
Bosch und Siemens Hausgeräte GmbH

Carl-Wilhelm Schell-Lind, Dipl.-Ing., Wirtsch.-Ing., Freinsheim [1)]
Former Vice President, Regional Sales Europe
(until 31 Dec. 2009)

Volker Seidel, Electrical and Electronics Installer, Münchberg
1. Delegate of IG Metall Ostoberfranken

Werner Stegmüller, Dipl.-Kaufmann, Mering
Partner at Horváth & Partner GmbH

BOARD OF MANAGEMENT

Dr. rer. pol. Wolfgang Schmitt, Bad Dürkheim [2)]
(Chairman and Human Resources Director)

Dr.-Ing. Peter Buthmann, Frankenthal

Prof. Dr.-Ing. Dieter-Heinz Hellmann, Frankenthal

Jan Stoop, Bad Dürkheim [3)]

Mandates of KSB Supervisory Board members in the Supervisory Board / Board of Directors of other companies

[1)] KSB Pumpy + Armatury sr.o. koncernu, Prague, Czech Republic
KSB Pompy i Armatura Sp. z o.o., Warsaw, Poland
KSB Finland Oy, Kerava, Finland
KSB Limited, Loughborough, United Kingdom
KSB Belgium S.A., Wavre, Belgium
SISTO Armaturen S.A., Echternach, Luxembourg
KSB Italia S.p.A., Milan, Italy
KSB-AMVI S.A., Madrid, Spain
KSB TESMA AG, Amaroussion (Athens), Greece
KSB Bombas e Válvulas S.A., Rio de Mouro (Lisbon), Portugal
KSB OOO, Moscow, Russia
KSB Čerpadlá a Armatúry, spol.sr.o. Bratislava, Slovak Republic
KSB ITUR Spain S.A., Zarautz, Spain

Mandates of KSB AG's Board of Management members in the Board of Directors of KSB companies

[2)] SISTO Armaturen S.A., Echternach, Luxembourg
KSB Finanz S.A., Echternach, Luxembourg
KSB Pumps (S.A.) (Pty) Ltd., Germiston, South Africa
KSB Pumps and Valves (Pty) Ltd., Germiston, South Africa
Canadian Kay Pump Ltd., Mississauga / Ontario, Canada
KSB America Corporation, Richmond / Virginia, USA
KSB Pumps Limited, Pimpri / Pune, India
KSB Shanghai Pump Co. Ltd., Shanghai, China
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Lingang, China

[3)] KSB Singapore (Asia Pacific) Pte. Ltd., Singapore
KSB Pumps Company Limited, Lahore, Pakistan
DP industries B.V., Alphen aan den Rijn, Netherlands
KSB ITUR Spain S.A., Zarautz, Spain
KSB Finanz S.A., Echternach, Luxembourg
PT. KSB Indonesia, Jakarta, Indonesia
KSB Malaysia Pumps & Valves Sdn. Bhd., Petaling Jaya, Malaysia

SHAREHOLDER INFORMATION

31 March 2010, 10:00 h
Financial press conference
67227 Frankenthal

31 March 2010
Invitation to Annual General Meeting

Beginning of May 2010
Interim report
January – March 2010

19 May 2010, 15:00 h
Annual General Meeting
CongressForum Frankenthal
Stephan-Cosacchi-Platz 5
67227 Frankenthal

20 May 2010
Dividend payment

13 August 2010
Half-year financial report
January – June 2010

Beginning of November 2010
Interim report
January – September 2010

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KEY CORPORATE AND TECHNICAL TERMS

Dual study programme Programmes of this kind are mostly offered by universities of applied sciences in cooperation with commercial enterprises. The student attends university courses concurrently with working in different departments of the cooperating company.

Digester A fermentation tank used to supply bacteria with liquid nutrients in the absence of oxygen and to enhance bacteria growth for biogas production. Horizontal or vertical designs are used employing either steel or concrete; neither air nor light is allowed to enter the tank.

Running clearance A gap required to move a rotating part in a stationary component.

Green Building A "Green Building" is a building whose design and construction seek to reduce the use of resources and minimise environmental impact. The term also refers to a programme initiated by the European Commission with the aim of improving energy efficiency and expanding the integration of renewable energies in non-residential buildings.

Plug&Pump Pumps designed for Plug&Pump operation require only to be installed into the piping and connected via a plug, ensuring straightforward commissioning.

PumpDrive Modular electronic system designed to match the pump's rotational speed to current demand.

Reluctance motor A particularly energy-efficient electric motor design whose rotor is made of a soft magnetic material such as iron and whose stator accommodates the magnetic coils. The rotor does not carry current and is not equipped with permanent magnets.

Resource efficiency Efficiency of using energy and materials in business processes.

System Efficiency Services A range of services aimed at improving the profitability of an existing plant by optimising pumps, valves, piping and other components.

Submersible motor mixer A fully submerged, motor driven unit which mixes the surrounding liquid by means of a propeller.

ABBREVIATIONS

AfS Available for Sale

EVA Economic Value Added is an indicator established by calculating the difference between the return from the capital employed and the opportunity cost of that capital over a defined period of time. A positive figure represents the value the company has added.

FAHfT Financial Assets Held for Trading

FLHfT Financial Liabilities Held for Trading

FLAC Financial Liabilities Measured at Amortised Cost

IAS International Accounting Standards

IFRS International Financial Reporting Standards (formerly IAS)

ISO International Organisation of Standardisation

ISO 14001 International standard under which companies can obtain certification for the integration of environmental protection in their management system.

LaR Loans and Receivables

OHSAS Occupational Health and Safety Assessment Series is a certification system relating to safety at work and health management.

SAP ERP The Enterprise Resource Planning (ERP) System is the software follow-up to SAP R/3 from SAP.

VDMA *Verband Deutscher Maschinen- und Anlagenbau* [German Engineering Federation]

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