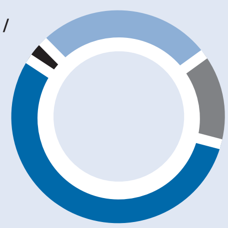
KSB Group

Annual Report 2008

GROUP FINANCIAL HIGHLIGHTS

		2008	2007	2006	2005	2004
EARNINGS						
Sales revenue	€m	1,991.7	1,770.9	1,607.4	1,401.4	1,266.8
Earnings before interest and taxes (EBIT)	€m	208.2	137.1	100.2	41.4	33.6
Earnings before taxes (EBT)	€m	200.1	128.7	90.2	29.6	22.1
Net profit for the year	€m	139.5	89.9	62.4	19.8	14.7
Cash flow	€m	183.9	138.5	101.2	71.0	59.5
BALANCE SHEET						
Balance sheet total	€m	1,421.4	1,258.0	1,130.4	1,054.6	982.6
Fixed assets	€m	417.6	340.8	301.2	287.3	261.2
Capital expenditure	€m	103.6	62.7	46.5	45.2	33.7
Depreciation and amortisation expense	€m	35.0	34.6	33.2	34.2	33.2
Current assets	€m	990.1	904.9	815.5	737.0	693.8
Equity (including minority interest)	€m	605.8	505.9	426.6	390.0	354.8
Equity ratio (including minority interest)	%	42.6	40.2	37.7	37.0	36.1
PROFITABILITY						
Return on sales	%	10.0	7.3	5.6	2.1	1.8
Return on equity	%	36.0	27.6	22.5	8.0	6.3
Return on capital employed	%	16.1	12.1	9.7	4.4	3.9
EMPLOYEES						
Number of employees at 31 Dec.		14,345	13,927	13,063	12,963	12,467
Staff costs	€m	614.6	581.6	521.7	508.5	477.4
SHARES						
Market capitalisation at 31 Dec.	€m	574.3	774.7	657.1	252.9	212.9
Earnings per ordinary share (EPS)	€	70.17	43.73	27.99	5.85	4.16
Earnings per preference share (EPS)	€	70.43	43.99	28.51	6.88	5.19
Dividend per ordinary share	€	12.50	9.00	2.00	–	–
Dividend per preference share	€	12.76	9.26	2.52	1.03	1.03

Employee population by region



Sales revenue by sales region

Products and Services

Industry

Pumps and valves, as well as associated control and drive systems

Building Services

Pumps and valves, pressure boosting and sewage lifting units, as well as associated control and drive systems for use in domestic water supply, drainage, heating and air-conditioning systems

Water

Pumps and valves, pressure exchangers, associated control and drive systems, as well as water transport subsystems

Waste Water

Pumps, mixers, associated control and drive systems, as well as waste water transport systems and subsystems

Energy

Pumps and valves, as well as associated control and drive systems for use in power stations and district heating systems

Mining

Slurry pumps for use in the mining industry and on suction dredgers

Service

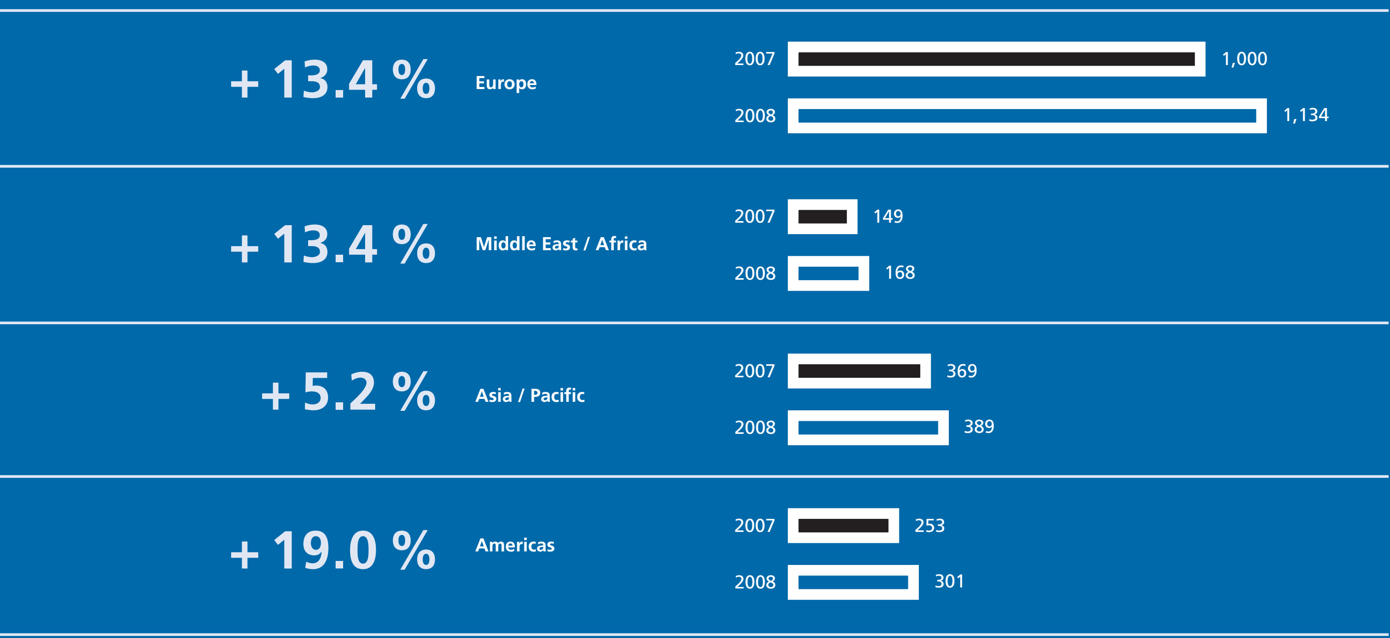
Installation, commissioning, start-up, inspection, servicing, maintenance and repair services for pumps, valves and related systems; modular service concepts for complete systems and systems analyses designed to improve energy efficiency

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.

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.

Sales revenue development by geographic area (€ millions)

(See segment reporting on pp. 86, 87)



Contents

A Look Back at 2008


Company acquisition in Sweden


Laying foundations for new production facility


Water pump from Halle

January

- KSB acquires the Swedish company Pumphuset Sverige AB. The main focus of the company's activities is on service and selling new pumps in the Industry, Water, Waste Water and Building Services segments. The acquisition strengthens KSB's position on the Swedish market for standard products and service.

February

- In Frankenthal, the foundation stone for the 40-million euro production facility with integrated test area for large power plant pumps is laid in the presence of Hendrik Hering, Economics Minister for Rhineland-Palatinate. The building project is part of the major investments in KSB's three German sites at Frankenthal, Halle and Pegnitz, amounting to a total of € 70 million.

March

- In Halle (Saale) construction work is starting for a new production facility. This will allow us to test water pumps with a drive rating of up to two megawatts. The 18-million investment will help us expand our business with pumps for water supply and seawater desalination systems.
- The Prime Minister of Bavaria, Günther Beckstein, visits KSB in Pegnitz, where he is informed about the deployment of older employees and about training activities.

July

- On 25 July, three new facilities for the production of industrial pumps at Pegnitz are handed over for operational start-up. With these new buildings, KSB has the machinery and logistics to cope with a larger volume of orders.

August

- KSB launches a Global Intranet as a work and information platform. The medium promotes new forms of collaboration: colleagues can work on joint projects across borders and departments regardless of location and time zone.
- KSB in Malaysia acquires business and products from CK Pumps Malaysia so that the growing market of the palm oil industry can be fully serviced. Malaysia and Indonesia account for 80 percent of the global market.

September

- KSB acquires around 90 percent of shares in the trading company Lindflaten AS, with headquarters in Lysaker/Oslo. The new KSB Lindflaten AS will help to even better serve the local market for pumps, valves and service. To this end, it will expand both the standard and the service business.


Industrial pump production in Pegnitz


Start of global KSB's Global Intranet


Lysaker near Oslo is the headquarters of KSB Lindflaten AS

Nikkiso – KSB joint venture

Waste water products at IFAT

Pump for the Chinese power-plant market

April

- KSB and Nikkiso, the Japanese manufacturer of canned motor pumps, sign a joint venture agreement. The new company Nikkiso-KSB GmbH will focus on the development and supply of canned motor pumps for customers in Europe and the Middle East.

May

- At the 15th International Trade Fair for Water, Sewage, Refuse and Recycling (IFAT) in Munich, KSB presents its new Amarex N S 32 submersible motor pump and the latest generation of Amamix direct-drive submersible mixers.

- KSB donates a total of € 100,000 in aid of people in the Chinese earthquake zone. The KSB office in Chengdu, the capital of the province affected, remains unscathed.

June

- KSB reaches agreement with China's Shanghai Electric Group Company Limited (SEC) on the establishment of a joint venture. In Lingang near Shanghai, 125 employees will produce and market safety-relevant pumps and valves for the Chinese nuclear power plant market. KSB has a 45 percent interest in the new company and provides the Managing Director. SEC holds 55 percent of the shares.

October

- Pegnitz sees the start-up of a new production facility for large valves, where KSB manufactures globe and gate valves for power stations. It includes a new competence centre for welding work.

November

- In Berlin, KSB wins one of the three prizes in the competition for the "Best Innovator", which is held by consultancy firm A.T. Kearney together with the Wirtschaftswoche weekly journal. The prize is awarded in the Complexity Management category in appreciation of the capacity for manufacturing a very large number of products in different designs, sizes and materials with comparatively little internal effort.

December

- KSB establishes KSB Pompes et Robinetteries S.à r.l. in Morocco. A wholly owned subsidiary of KSB S.A.S., this company is based in Casablanca and sells pumps and valves for all market segments.

Inauguration of new production facility for large valves in Pegnitz

Presentation of Best Innovator award with Prof. Dieter-Heinz Hellmann and Dr. Andreas Kühl

New sales company in Morocco

Earnings at record level

In financial year 2008, KSB increased its consolidated earnings before taxes by around 55 % to

€ 200 million.

Management

Dr. Wolfgang Schmitt,
Chairman of the Board of Management

Dear shareholders and business partners,

Success stories are always especially nice to hear when they start repeating themselves. We therefore find it particularly gratifying to report strong growth both in order intake and in sales revenue for the fifth year in succession: in 2008, we managed to increase both order intake and sales by more than 12 percent. At the same time, our consolidated earnings grew by 55 percent. I would like to thank all our employees, as well as our partners and customers, for this success.

We have thus achieved our business policy goals for 2010 ahead of schedule. The higher profitability in particular strengthens our company at just the right time. In view of the dramatic change in economic conditions, not only are financial independence and stability called for, but also a sound return on sales. This makes KSB sufficiently "weather-proof" to ride out a rough economic storm.

The appropriate response to market changes

We can respond to the new demand situation in sales and production more flexibly than many other companies. This flexibility has a lot to do with the fact that we operate on all continents and in very different markets. The current financial and economic crisis is not having the same impact in every sector.

We certainly felt the economic downturn early on in our business with standard products for industry and building services. But on the other hand our business with the kind of highly engineered pumps and valves needed for large projects has proved quite stable.

This is especially true of orders from countries that are continuing to push ahead with important infrastructure projects despite financial constraints. We thus still see comparatively good opportunities in the water and waste water project business and also in power plant construction. To make the most of these opportunities, we are gearing up the company's sales and production capacity accordingly.

Managing complexity

In our ongoing strategy review process, we see our broad positioning in terms of market and technology as a competitive advantage. We shall not give up this advantage for the purpose of short-term profit maximisation. Instead, the different economic cycles of our market sectors always provide for a certain balance, creating an element of stability and supporting our sustainable profitable growth.

Needless to say, a widely diverse range of products and services makes for a certain degree of complexity. But we are better able than other companies to handle this, as confirmed by the Best Innovator award that was recently conferred on KSB. With this award, the jurors acknowledged our performance as an outstanding company in the Complexity Management category.

Investing in attractive business segments

Preserving the diversity of our activities does not prevent us from making targeted investments in business lines where we see the best business prospects for the coming years. For example, we have identified a number of very attractive markets where we aim to give priority to improving our competitive position in the years to come. These are business lines in which we can achieve a lot in a short time with moderate investments at comparatively low risk. At the middle of the year, we shall make a decision with our managers on the next steps to be taken.

We see the BRIC countries, i.e. Brazil, Russia, India and China, among the most important growth regions of the future, so this Annual Report looks at these countries in more detail. In the last five years, we have done a lot in these countries to build on our market position. Once the financial and economic crisis has subsided, we expect a return to strong, above-average demand in these countries. And we are ideally prepared to make the most of this for new business.

Securing sustainable growth

The sales revenue mark of two billion euros has been a long-term goal of ours for some time. After just falling short of this mark in 2008, we aim to pass this milestone in the next economic upturn phase at the latest. There is a lot of "latent sales revenue potential" which makes us confident that we shall achieve this. While we fully appreciate the enormity of the current economic crisis, we are already looking beyond it.

With the people who are our strength, the technology that excites our customers and the power of our ideas for a successful future, we shall continue down the path of sustainable profitable growth. We invite you as customers, partners, employees and shareholders to join us on this path.

Yours sincerely

W. Schmitt

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

The Board of Management of KSB Aktiengesellschaft in the new production facility for large products in Frankenthal

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, Human Resources, Controlling, Purchasing, Information Technology, Communications, Legal Affairs and Corporate Development.

Prof. Dr.-Ing. Dieter-Heinz Hellmann

has been a Member of the Board of Management since 1 January 2007. He is responsible for Research, Product Management, Product Development and Variants Management.

Dr.-Ing. Peter Buthmann

joined the Board of Management on 1 January 2007. He is responsible for Production, Service, Internal Audits and Integrated Management Systems.

Jan Stoop

has been a Member of the Board of Management since 1 October 2007 and is responsible for Sales and Marketing.

Report of the Supervisory Board

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

2008 was another extremely successful financial year for both KSB Aktiengesellschaft and the KSB Group, which led to a further significant improvement in earnings. Sustained favourable market conditions coupled with the Company's good positioning and the continued dedication of our employees contributed to this.

In financial year 2008, 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 involved directly and in a timely manner in all decisions of fundamental importance to the Company. The Board of Management informed us about the position of the Company, in particular its business, financial and staffing situation, planned investments and relevant corporate planning and strategic development issues via written and oral reports prepared regularly and on an ad hoc basis in a comprehensive and timely manner. In addition, we discussed the Company's risk position and the effectiveness of the risk monitoring system. We also addressed the Company's prospects and its strategic focus in separate strategy meetings with the Board of Management.

We discussed all business transactions significant for the Company in detail on the basis of the Board of Management's reports. Any departures in business developments from the plans and targets were commented on in detail by the Board of Management and reviewed by the Supervisory Board. After thorough examination and discussion, we adopted our resolutions on reports and proposals by the Board of Management; if required, the Supervisory Board also adopted its resolutions in writing. 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 regular 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 and 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 2008, and one constituent meeting. The plenary sessions regularly dealt with the business developments of KSB Aktiengesellschaft, the Group and the individual segments, in particular order intake, sales revenue, earnings and employment trends, the current economic situation as well as investment and acquisition projects. We systematically focused on the latter, in particular in connection with the strengthening of our international service activities. As the basis of and in preparation for our decisions, we informed ourselves in each case of the results of the due diligence reviews and the valuation models applied. Given the large number of acquisitions made by the Company in recent years, (approximately two to three relatively small service units per year), we focused our attention in particular on the planned integration, networking and management of the new units in the Group.

In view of the continued strong growth in the order intake, the Supervisory Board – as in previous financial years – placed great importance on being continuously informed about the general business situation, capacity utilisation at production plants and the results of measures to ensure the permanent optimisation of the plants. We also monitored the implementation status of key expansion investments in buildings and machinery extremely closely. The Board of Management reported to us regularly on this; at the Company's German locations, we also inspected new buildings ourselves and received information on their design.

One focus of our work in the plenary sessions during the first half of the year was the formation of a joint venture for nuclear products in China, which was approved by the Supervisory Board. We also discussed the change of auditors and the resulting selection process in detail. In addition, the Supervisory Board focused on reviewing and further optimising the efficiency of its work in the course of another self-evaluation. Particular importance was placed on the timely and coordinated flow of information between the Board of Management and the Supervisory Board as well as within the Supervisory Board itself.

The five-year term of office for the majority of the Supervisory Board members expired at the end of the Annual General Meeting on 12 June 2008. Following the elections of the shareholder representatives by the Annual General Meeting (the elections of the employee representatives had already been held), the Supervisory Board held a constituent meeting to elect the Chair and Deputy Chair and to make the necessary committee appointments. As a small number of shareholders challenged the elections of the shareholder representatives held by the Annual General Meeting for formal reasons, the shareholder representatives were again appointed by the relevant companies registration office as a precautionary measure on 26 August 2008. In September, the Supervisory Board held a two-day meeting at the Company's Spanish location in Zarautz. The meeting allowed the Board members to experience for themselves the excellent business development and modern production facilities there. At this meeting, we discussed and adopted a redesigned reporting package that provides more useful information for the Supervisory Board's evaluation. Our discussions also focused on strategic and related organisational issues within the framework of the ongoing strategy development process. At the last meeting in the year under review in December 2008, we mainly addressed the budget for financial year 2009, taking into account various scenarios of how current market developments could affect the Company and its course of business. We also discussed the amendments made to the German Corporate Governance Code during the year and their effect on the Company's procedures, as well as the statement of compliance to be adopted.

To ensure its tasks are performed efficiently, the Supervisory Board has established six committees and four sub-committees whose activities are described in detail below. These committees prepare the Supervisory Board's resolutions and those issues to be discussed at the plenary sessions. They also make their own decisions in their respective areas of responsibility – to the extent that this is legally permissible – in place of the Supervisory Board. This allocation has proved 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 Planning and Finance Committee met four times in financial year 2008. It dealt with the preparation of the budget for 2009. Together with the Audit Committee, it discussed the introduction of a new "rolling forecast" procedure that covers a continuous medium-term period. In view of the substantial investment in the expansion of production capacity, we addressed the relevant financing methods in detail on several occasions; this also applied to other fundamental aspects relating to the financial management of the Company. The Major Investments Sub-committee established specially to support significant investments in the area of engineered pumps monitored the performance of the relevant work and the updating of the related investment appraisals. It reported on the implementation status, in particular at the Frankenthal and Halle locations, at five meetings with the Board of Management. The Nuclear Subcommittee held four meetings and mainly dealt with fundamental issues relating to the expansion of business activities with regard to products for nuclear applications. It supported the development of a relevant joint venture in China, Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., which is based in Lingang near Shanghai.

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. On the Committee's recommendation, the Supervisory Board plenary session extended the term of office on the Board of Management of Prof. Dr. Hellmann, who was originally appointed for two years in 2006, by a further year. One focus of the Committee's work was the restructuring of the Board of Management's remuneration. The Committee also discussed in detail possible changes to the division of responsibilities on the Board of Management in light of the forthcoming adjustment of the Company's organisational structure following the completion of strategic discussions. Once again, the Committee's activities focused on a critical review of KSB's human resources development system, which aims to recruit young executives primarily from within the Company. Several measures were adopted to more actively involve the Supervisory Board in the relevant selection procedures; among other things, we intend to bring young executives into direct contact with Supervisory Board members as part of discussion rounds, so as to promote a direct exchange of ideas.

The Audit Committee primarily discussed the annual and consolidated financial statements, the audit reports submitted by the auditors and the internal audit department, and the development of the risk management system and the compliance organisation. The half-yearly financial report was also discussed with the Board of Management. The Audit Committee also addressed in detail on several occasions the tendering process for the audit of the financial statements, the resulting proposal by the Supervisory Board to the Annual General Meeting to appoint the auditors and the award of the audit engagement to the latter, including the determination of the auditors' fee. The declaration of independence by the auditors was obtained in accordance with section 7.2.1 of the German Corporate Governance Code and the auditors' continued independence was monitored. The Committee paid particular attention to compliance activities within the Company and the related establishment of a Group-wide Code of Conduct and a compliance organisation. The Committee met five times in the year under review; the auditors were present at several meetings and the member of the Board responsible for Finance attended all meetings.

The Strategy Committee coordinates the consultation process between the Board of Management and the Supervisory Board as part of the development of an end-to-end corporate strategy, which began in the past year. At ten meetings, in some cases lasting several days, 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. Sub-committees were established to address the issues of "Innovation" and "Leadership and Corporate Culture". The Leadership and Corporate Culture Sub-committee met five times in the period under review and developed a corresponding position paper. The Innovation Sub-committee held six meetings and evaluated the research, development and innovation organisation within the Company.

The Nomination Committee, which was established in December 2007, started its work in 2008 and proposed suitable candidates to the Supervisory Board for election by the Annual General Meeting as shareholder representatives on the Supervisory Board. The Committee met once to do this.

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 and reviewed their implementation if necessary. 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. They issued an updated statement of compliance in accordance with section 161 AktG [*Aktiengesetz* – German Public Companies Act] on 16 December 2008 and made it permanently available to shareholders on the Company's web site. With two exceptions, KSB Aktiengesellschaft complies with the recommendations set out in the Code in the version dated 6 June 2008, last published on 8 August 2008 by the Federal Ministry of Justice 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 3 April 2009 as well as by the Supervisory Board plenary session on 22 April 2009 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 2008, 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 2008, 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 2008, as well as the consolidated financial statements and the Group management report for the year ended 31 December 2008, and issued an unqualified auditors' opinion. In accordance with section 315a HGB, the consolidated financial statements and Group management report were prepared in compliance with International Financial Reporting Standards (IFRSs). The Audit Committee specified particular areas of emphasis for the year under review, for example the effects of the financial market crisis on carrying amounts in the single-entity financial statements and the consolidated financial statements, the completeness and accuracy of the disclosures by the Group companies required to be made in the notes in accordance with IFRSs, and the implementation status of the measures called for in the previous year's audit of the financial statements. The auditors reported their findings on these areas of emphasis both orally and in writing. In addition to its examination of financial accounting practices for compliance with the relevant requirements, the Audit Committee primarily examined provisions for expected losses in connection with its functional assessment of the risk management system; it submitted a written report on this.

The Supervisory Board concurs with the auditors' findings. The examination by the Audit Committee and our own final review in the Supervisory Board plenary session did not raise any objections to the annual financial statements, consolidated financial statements, management report and Group management report. 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 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

Owing to his retirement, Mr. Heinz Köppel resigned his position as a member of the Supervisory Board effective 31 December 2007. By court order on 5 December 2007, Mr. Volker Seidel was appointed to succeed him as a member of the Supervisory Board effective 1 January 2008. Mr. Stefan Messer left the Supervisory Board at the end of the Annual General Meeting on 12 June 2008; he was succeeded by Mr. Werner Stegmüller by court order on 26 August 2008. The Supervisory Board extends its gratitude to the retiring members for their constructive and expert contributions and for many years of work 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, April 2009

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 sections 3.10 and 4.2.5 of the German Corporate Governance Code:

Good, responsible corporate governance has traditionally ranked highly at KSB. Even before the Code was introduced, we implemented the majority of core corporate governance and control processes in such a way that they complied with the current requirements of the Code. We were traditionally guided in this by generally accepted national and international standards of good and responsible business conduct and management. We therefore welcome the work of the Government Commission on the German Corporate Governance Code, as well as the suggestions and recommendations set out in the Code, which were last revised with regard to a number of points on 6 June 2008. The Board of Management and Supervisory Board of KSB Aktiengesellschaft have extensively addressed the issue of compliance with the Code and have adopted this year's statement of compliance on the basis of their consultations. This has been published on our web site – together with the statements of previous years – and will be updated as required. We endeavour to be worthy of the trust placed in us by investors, the financial markets, our staff, the general public and particularly by our customers, and to further increase this trust.

Statement of compliance updated

The Board of Management and Supervisory Board issued an updated statement of compliance in accordance with section 161 AktG [*Aktiengesetz* – German Public Companies Act] on 16 December 2008 and made it available to the shareholders on the Company's web site. The Company complies with the recommendations of the German Corporate Governance Code in the version dated 6 June 2008 apart from a handful of exceptions. The departures from compliance with the recommendations of the Code are explained below:

- The remuneration of the members of the Supervisory Board for their service on the Board, as well as remuneration or advantages extended for services provided individually, in particular advisory or agency services, are disclosed in summary form in the notes to the consolidated financial statements, but in the corporate governance report they are disclosed neither separately for each member nor subdivided according to components (section 5.4.6).

  The remuneration of the Supervisory Board members is governed in detail by the Articles of Association. We prefer to provide summarised information about the remuneration of the members of the Supervisory Board, rather than information broken down into the compensation of individual members and subdivided according to its components, as the latter would not provide any additional benefits for shareholders or the development of the Company. The total remuneration of the Supervisory Board is contained in the notes to the consolidated financial statements.

- KSB publishes the consolidated financial statements well before expiry of the periods of time provided by law. However, the time frame provided by the Code, i.e. within 90 days of the end of the financial year, is not met (section 7.1.2).

  As KSB already publishes its annual financial statements well ahead of the statutory deadlines, we do not believe there is any need to bring their publication forward any further.

We shall continue to concern ourselves with the German Corporate Governance Code and its further development to ensure that suggestions and recommendations which make sense for KSB are implemented in the interests of sustainable transparency and growth in our enterprise value.

Cooperation between Board of Management and Supervisory Board based on mutual trust

For the Board of Management and the Supervisory Board, good corporate governance is a principle that guides all activities of the Company. In pursuit of transparency in the management of the Company, it is stated in the rules of procedure for both Boards that the Company is to be run according to the standards of the German Corporate Governance Code, unless the Board of Management and the Supervisory Board have agreed to an exception being made in justifiable, individual instances. The continuous dialogue between the Board of Management and the Supervisory Board, based on mutual trust, forms an important basis for the success of the Company. The shared objective is to achieve a reasonable level of earnings and a sustainable increase in the value of the Company.

Compliance is a key task of corporate management

A key task of the Board of Management is to define measures that ensure we are in compliance with current law and the Company's internal guidelines. In 2008, a major focus of corporate governance activities was on the creation and introduction of fundamental compliance guidelines as a basis for establishing the concept of a global compliance organisation. Particular attention was paid to the development and publication of a Group-wide Code of Conduct. For this purpose, the Board of Management drew up binding rules for a range of typical day-to-day business situations that must be observed by all employees. The Code of Conduct was introduced in the company on 30 May 2008.

Some key statements in the Code of Conduct have been addressed in depth in further separate Group guidelines. This applies in particular to areas of cartel law and the prevention of corruption; the applicable legal provisions are explained in more detail, and practical support is given for proper conduct in concrete situations. Accompanying face-to-face training geared to practical requirements were held for employees to communicate the core content of the guidelines and to create a forum for discussions. The training will be continued this year and broadened to give it an international scope.

We devoted a lot of attention last year to elaborating a concept that describes a compliance organisation tailor-made for the Company. The Board of Management adopted the draft at the end of 2008. Global implementation is planned for the current year. Amongst other features of the concept, it is planned to appoint Local Compliance Officers, who will control compliance activities in the countries and regions where KSB operates and report to the Group Compliance Officer in Germany.

Remuneration report

The remuneration report summarises the principles applied when defining the remuneration arrangements for the Board of Management of KSB Aktiengesellschaft and explains the level and structure of remuneration for the Board of Management. It is prepared in accordance with the recommendations of the German Corporate Governance Code.

The remuneration arrangements for the Board of Management are structured as transparently and clearly as possible. Criteria for assessing the appropriateness of the remuneration for the Board of Management are primarily the functions of the Board members concerned, their individual performance and experience, the performance of the Board of Management as a whole and also the company's business position within the market.

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; it is reviewed on a case-by-case basis and always when a new member is appointed. The fixed remuneration consists of a fixed sum plus benefits as well as pension commitments (retirement, occupational disability and widow's 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. No loans or advance payments were granted to members of the Board of Management in the year under review. For certain cases of premature termination of office, an agreement has been made with the members of the Board of Management from the outset with regard to the payment of a fixed severance compensation, so as to keep the costs that would arise for the Company in such a situation predictable and within reasonable limits. No further payments in the event of a termination of office were agreed with any member of the Board of Management, nor any compensation payments in the event of an offer of acquisition. On the conclusion of contracts in the future, we shall agree on severance arrangements in accordance with section 4.2.3. paragraph 4 of the German Corporate Governance Codex.

The variable remuneration component is linked to the consolidated net retained earnings for the financial year in question, as well as to responsibility-related and individual, performance-related targets. These are agreed with the members of the Board of Management, to ensure the flexible structuring of the variable remuneration. Apart from that, the total amount of the variable components is limited, to take account of extraordinary, unpredictable developments. 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 of the members of the Board of Management for their activities in financial year 2008 was € 3,336 thousand. For this period, additions of € 2,231 thousand were made to the pension provisions for active and for 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. Further disclosures on the remuneration of the Board of Management are to be found on pages 67 and 125 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 § 161 AktG (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 6 June 2008 –, with the exception of the following:

1. The total remuneration of the members of the Supervisory Board for their service on the Board, as well as remuneration or advantages extended for services provided individually, in particular advisory or agency services, are disclosed with their sum total in the Notes to the Consolidated Financial Statements, but in the Corporate Governance Report they are disclosed neither separately for each member nor subdivided according to components (item 5.4.6).

2. KSB publishes the Consolidated Financial Statements well before expiry of the periods of time provided by law. However, the time frame provided by the Code, i.e. within 90 days of the end of the financial year, is not met (item 7.1.2).

Signed in Frankenthal on 16 December 2008

On behalf of the Supervisory Board

Dr. Hans-Joachim Jacob

On behalf of the Board of Management

Dr. Wolfgang Schmitt

Explanatory Report by the Board of Management in Accordance with Section 120(3) AktG

In the Group management report for financial year 2008, we have summarised and explained the disclosures required by section 315(4) HGB under the heading "Disclosures required by takeover law". These disclosures adequately describe the matters relevant for KSB AG. We do not therefore believe that it is necessary to provide more detailed information and refer to our disclosures in the Group management report.

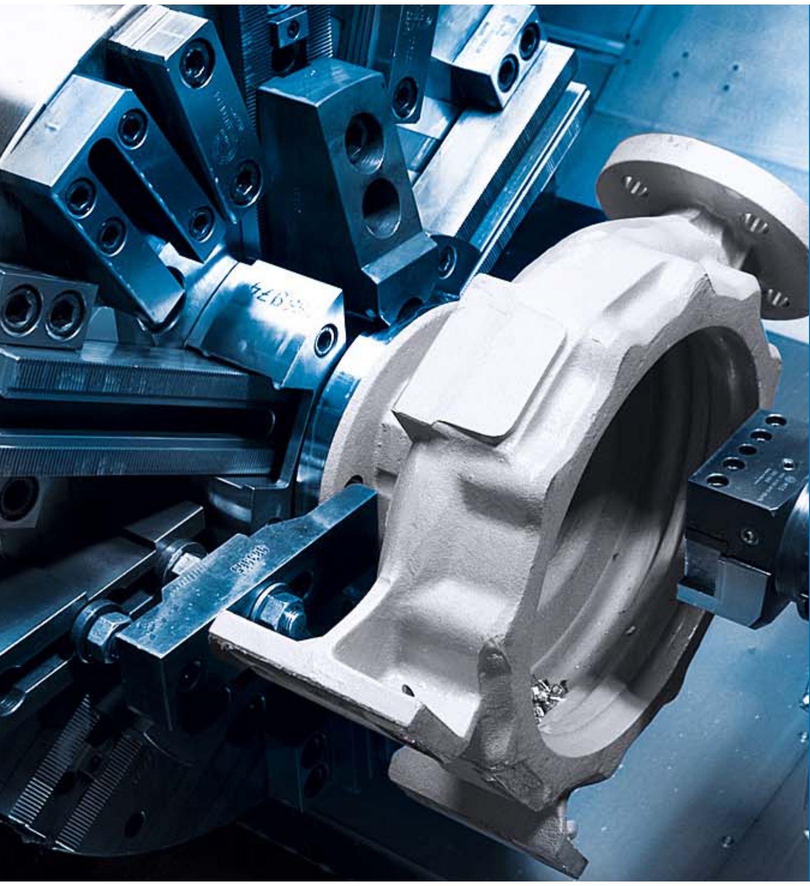
Frankenthal, 19 March 2008

The Board of Management

Sales revenue close to € 2 billion mark.

In 2008, sales revenue in the KSB Group rose by € 220.9 million to

€ 1,991.7 million.



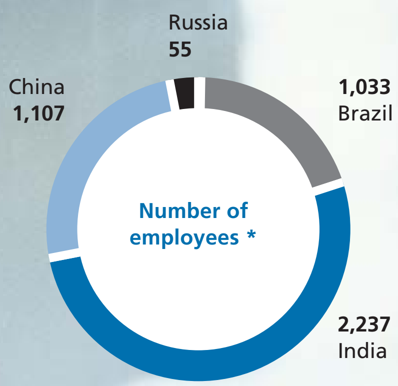
KSB in the BRIC Countries

KSB in the markets of the future

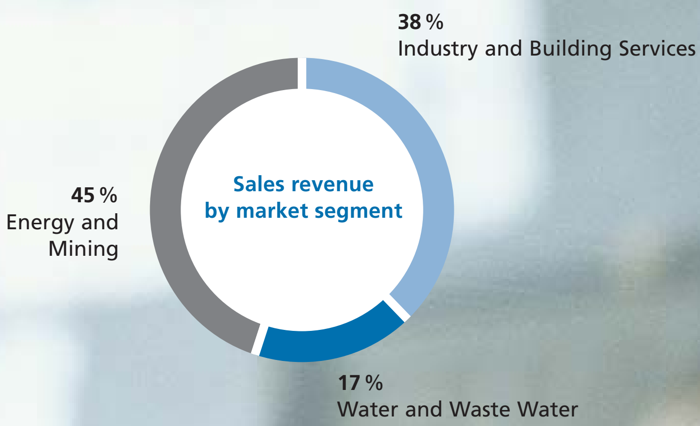
At the end of the 20th century, the classic industrialised nations still dominated the global economy. But for some years, the strongest stimulus for growth has been coming from the so-called BRIC countries: Brazil, Russia, India and China. It is likely that the development will continue once the financial and economic crisis has subsided, and we at KSB adjusted to this development early on.

Development of KSB sales revenue in BRIC countries
(€ millions)

2005	2006	2007	2008
251.6	317.1	339.8	390.5



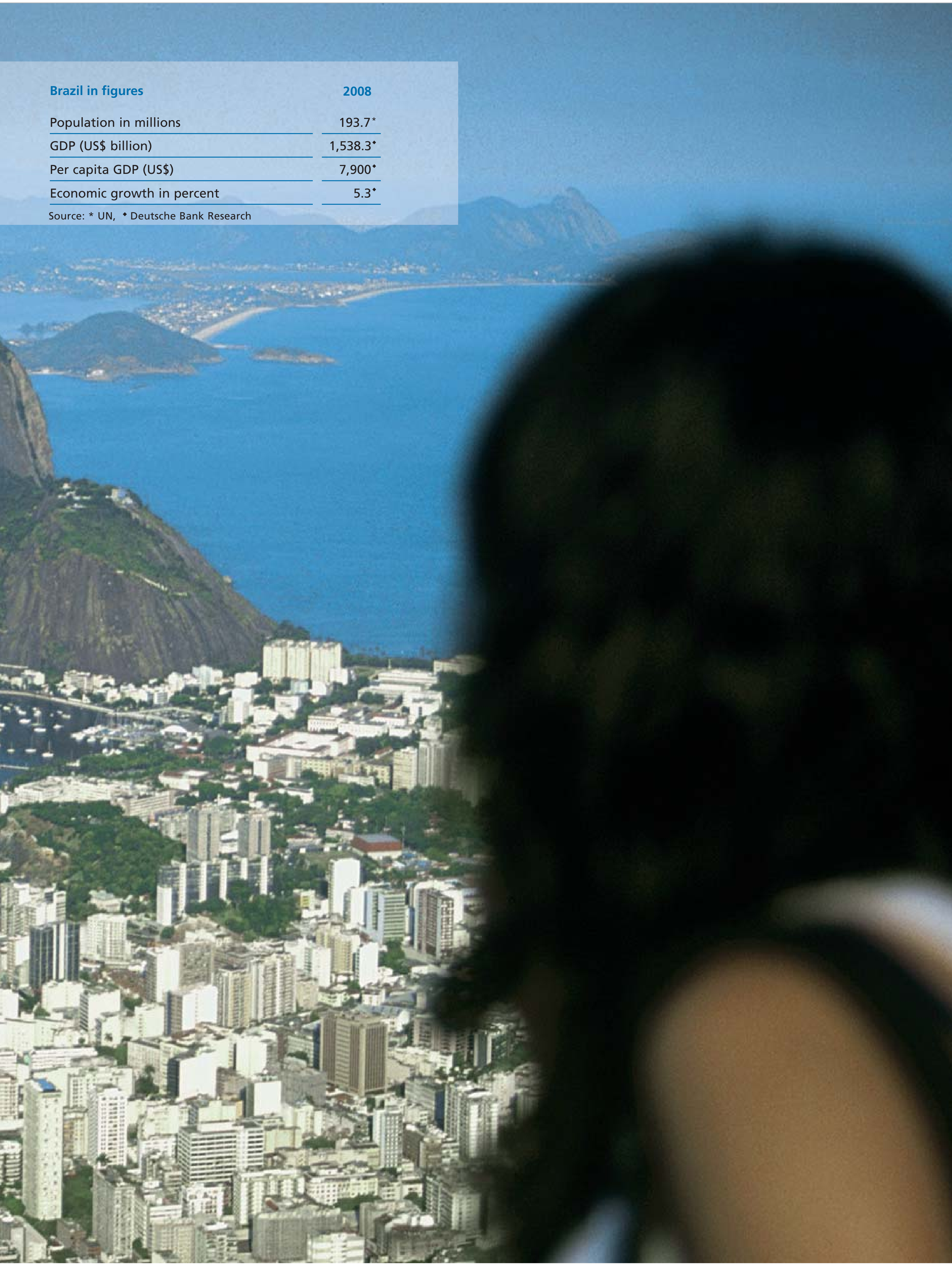
* Group and Group companies




Russia
China
India
Brazil

Brazil

- Brazil becomes an economic power and an "oil producer"
- KSB is Brazil's leading manufacturer of pumps
- More than 50 years on the market build trust among Brazilian customers



Brazil in figures	2008
Population in millions	193.7*
GDP (US$ billion)	1,538.3•
Per capita GDP (US$)	7,900•
Economic growth in percent	5.3•

Source: * UN, • Deutsche Bank Research

Brazil is one of the ten largest industrialised nations. Its high economic potential is also benefiting the Brazilian KSB company which supplies the country with a large number of pumps and valves.

Major economic power

Those for whom Brazil still means just football, coffee and carnival, fail to appreciate reality. With an area of 8.5 million square kilometres, the Federal Republic of Brazil is not only the largest country in South America, but also boasts a gross domestic product of 1.5 billion US dollar, which makes it one of the ten largest economies in the world. Thanks to its agricultural, mineral and energy resources, Brazil has become an important export nation. The abundance of commodities in the country swelled further last year with the discovery of huge offshore oil reserves. There is even the prospect of joining OPEC. But renewable resources are also vital in keeping the economy running: 2008 saw more ethanol than petroleum sold in Brazil for the first time.

In business for 55 years

KSB recognised the opportunities of the Brazilian market early on and established KSB Bombas Hidráulicas S.A. in the federal state of São Paulo in 1954. At its main site in Várzea Paulista, KSB today primarily manufactures pumps for water engineering, industry and oil transport. The company has more than 1,000 employees and is the leading pump supplier in the Brazilian market thanks not least to its network of own sales and service centres, as well as about 220 dealers. Since the end of 2005, the company has also had a subsidiary in Barueri, which manufactures valves and valve actuators. With this extended product range, KSB Brazil is particularly successful in servicing not only the water sector, but also the emerging industrial sector, which also includes the producers of biofuels. As one of the major suppliers for the state oil company Petrobras, KSB is also helping the country to realise the proclaimed ambition of oil independence: KSB pumps and valves are in operation today both on the country's offshore platforms and in its refineries.

Brazil is a major agricultural producer. And a functioning irrigation system is a vital part of this activity. In October 2008, KSB Bombas Hidráulicas S.A. supplied four large tubular casing pumps for the “Jaíba Agroindustrial” irrigation project in the north-east of the country.

The success of the ninth-largest economy in the world is based on its wealth of minerals and agricultural products. While the country has large oil reserves, a lot of cars run on biofuel.

Success through quality and reliability

The KSB brand has stood for quality, expertise and reliability in Brazil for many years. This is true not only for imported products, but also for pumps and valves manufactured locally. Certification to standards such as the ISO 9001 quality standards, ISO 14001 environmental standards and OHSAS 18001 occupational health and safety standards confirms the safety and reliability of domestic products. The high product quality is also assured from the very outset by the company’s own foundry in Americana. Today, within the scope of KSB’s global manufacturing network, KSB products “made in Brazil” go to customers all over the world.

Carmelo Fernandez Moldes, Managing Director of KSB Bombas Hidráulicas S.A. and Regional President Americas, on the discovery of oil fields off Brazil’s Atlantic coast

Carmelo Fernandez Moldes: The recently discovered “Carioca” oil field is estimated to contain oil reserves amounting to 33 billion barrels. In addition, there are the “Tupi” site and further offshore fields that have yet to be explored. The Brazilian oil company Petrobras is considered an expert in deep-sea oil exploration. As a traditional supplier in this market, KSB will certainly be involved in projects of this kind, offering our engineering know-how and all-in pump and valve solutions.

Russia

- Raw material exports to finance Russia's future
- KSB expands dealer and service network
- KSB OOO sales organisation includes seven neighbouring countries

Russia in figures	2008
Population in millions	140.9*
GDP (US$ billion)	1,645.2•
Per capita GDP (US$)	11,600•
Economic growth in percent	5.6•

Source: * UN, • Deutsche Bank Research

Russia is one of the most important suppliers of raw materials. The country is investing the earnings from its exports to develop its industry, to modernise energy and water supply systems and to improve its waste water treatment.

High earnings from exports of raw materials

Thanks to its huge resources, Russia has become one of the largest exporters of raw materials. The country has just over a third of the world's gas reserves, the second largest coal reserves and almost seven percent of the world's oil reserves. This is also reflected in the country's exports, 65 percent of which are accounted for by energy carriers. Russia has accordingly profited from rising prices for several years.

Modernisation of industry and infrastructure

The Russian state is seeking to modernise and stimulate its economy to make it one of the five largest in the world by 2020. This calls for substantial investments in promising industrial areas, water supplies and waste water disposal, as well as power plants and district heating networks. These are business lines in which KSB has a lot to offer. Russia has more than 260 power plants, and their operators want to gradually upgrade them to state-of-the-art facilities. There are also plans to build more than 30 nuclear power plants by 2030, in order to increase the share of nuclear energy from 16 to 30 percent of total electricity production. Companies in the industrial sector, above all petrochemical, chemical and steel-producing companies, are investing in the expansion and modernisation of their production capacity.

Energy and raw materials, especially oil and gas, are the backbone of the Russian economy. But the country also has significant deposits of metals, as well as coal, uranium, cobalt and diamonds.

St. Petersburg is the second-largest city in Russia and the most northern city in the world with a population of several million people. KSB has had its own site here for three years.

Jürgen Sand, Managing Director of KSB OOO in Moscow, on the prospects for KSB

Business contacts since 1986

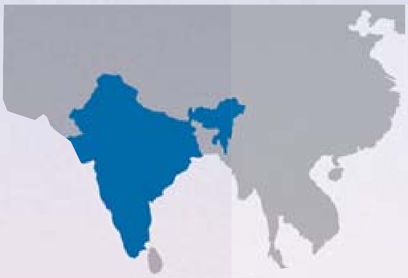
KSB has already been active in Russia for 33 years and established KSB OOO (the Russian abbreviation for a public limited company) in 2005. Since then, we have seen the order intake double. A large part of this increase came from the power plant sector, where close contacts are maintained with the most important energy suppliers and engineering contractors. The Industry sector with oil and gas processing companies as well as steelworks as customers is developing well. In the fields of water and waste water, KSB supplies the public utilities of many Russian local authorities, including Moscow and St. Petersburg. There is also considerable potential for building services and mining.

At the same time, the establishment of Service operations in Russia has been gaining importance. A large number of KSB products reach the Russian market via West European engineering contractors and original equipment manufacturers, as well as through direct sales. KSB OOO provides the after-sales service for these products.

Apart from Russia, the sales and distribution region of the company encompasses the seven countries of Armenia, Georgia, Kazakhstan, Kyrgystan, Tajikistan, Ukraine and Belarus.

Jürgen Sand: To make the most of the opportunities of the Russian market, we have established further sales offices in St. Petersburg, Yekaterinburg, Novosibirsk, Rostov and Krasnoyarsk in the last few years, in addition to expanding our headquarters in Moscow. Samara will follow this year. We are also in the process of tightening up our dealer and service network. In view of the major need for modernisation in industry and infrastructure, we expect a renewed boost to demand once the financial and economic crisis has subsided. Russia also needs to increase its power plant capacity, which opens up good market opportunities for us.

India



- Large domestic market with growing integration into the global economy
- KSB is active on the Indian market with more than 2,200 employees
- Pumps from KSB are leading in industry and power plant engineering

India in figures	2008
Population in millions	1,198*
GDP (US$ billion)	1,147.3◆
Per capita GDP (US$)	999◆
Economic growth in percent	6.3◆

Source * UN, ◆ Deutsche Bank Research

Along with China, India is one of the mega-markets of the future. KSB, which has been active in the country since 1960, is participating in the long-term growth in the economy with six production sites of its own and a dense dealer and service network.

A winner in globalisation

When one looks at the economic boom in India over the last few years, it is hard to imagine that the country was almost insolvent in 1991 and was only able to survive thanks to a loan from the International Monetary Fund. Today, discussion about India's future is no longer about the chances of survival, but rather focuses on the question of when India will become the world's third-largest economy after the USA and China.

Favourable demographic trends

One factor in favour of the further economic growth of India is also its age structure: about one third of the population – approx. 350 million people – are younger than 15 years old, and the average age – at 24.9 years – is the lowest of all the emerging economies. In 2028, India could already have a bigger workforce than China. To make the country efficient, the Indian government must further improve the infrastructure. In its eleventh five-year plan (2007 to 2012), it has therefore announced that it will be increasing investments in infrastructure. Amongst other things, it wants

Long tradition and economic awakening characterise the country with the second-largest population in the world.

to pump money into conventional and renewable energy, the irrigation of arable land and drinking water supplies.

Excellent long-term prospects for KSB

Forecasts for the current year assume that the Indian economy will weaken. Since KSB offers a broad range of products and supplies numerous markets, local sales opportunities nevertheless remain good. Locally produced and imported KSB products are used not only in the building services segment, but also in challenging industrial processes and power plants.

Structurally very important, India's agricultural sector offers a broad range of applications for pumps. Many areas of arable land have to be supplied with water from remote storage tanks and rivers; this calls for powerful centrifugal pumps. The development of drinking water supplies and waste water disposal also requires an enormous use of pumps. Only half of India's households are connected to water supply and sewage systems. Municipal waste disposal facilities need to build new sewage treatment plants and modernise existing ones. These examples show the huge potential of the market for centrifugal pumps. This has grown by 12 to 15 percent in each of the past seven years to a volume of 500 to 600 million euros.

KSB has been represented in India since 1960. Today, more than 2,200 employees are manufacturing pumps and valves at six production sites. Customer support is provided by 21 KSB sales and service centres, as well as 475 dealers and 80 authorised service companies. But India also hosts a research and development centre. At KSB Tech Pvt. Ltd. in Pune, around 75 engineers support their colleagues all over the world in product development and design.

To match production capacity to growing demand, KSB is planning major investments in new factories and machinery in Pimpri, Nashik and Chinchwad until 2011. In addition, KSB is in the process of modernising and expanding its foundry capacity in Vambori to cope with bottlenecks in the procurement of castings. At the end of 2009, employees there will produce an additional 1,200 tonnes of cast steel and alloy steel a year, increasing to 2,400 tonnes a year in the second stage of the development.

Coimbatore is KSB India's production centre for shut-off valves.

Managing Director of the KSB companies in India, talks about growth targets

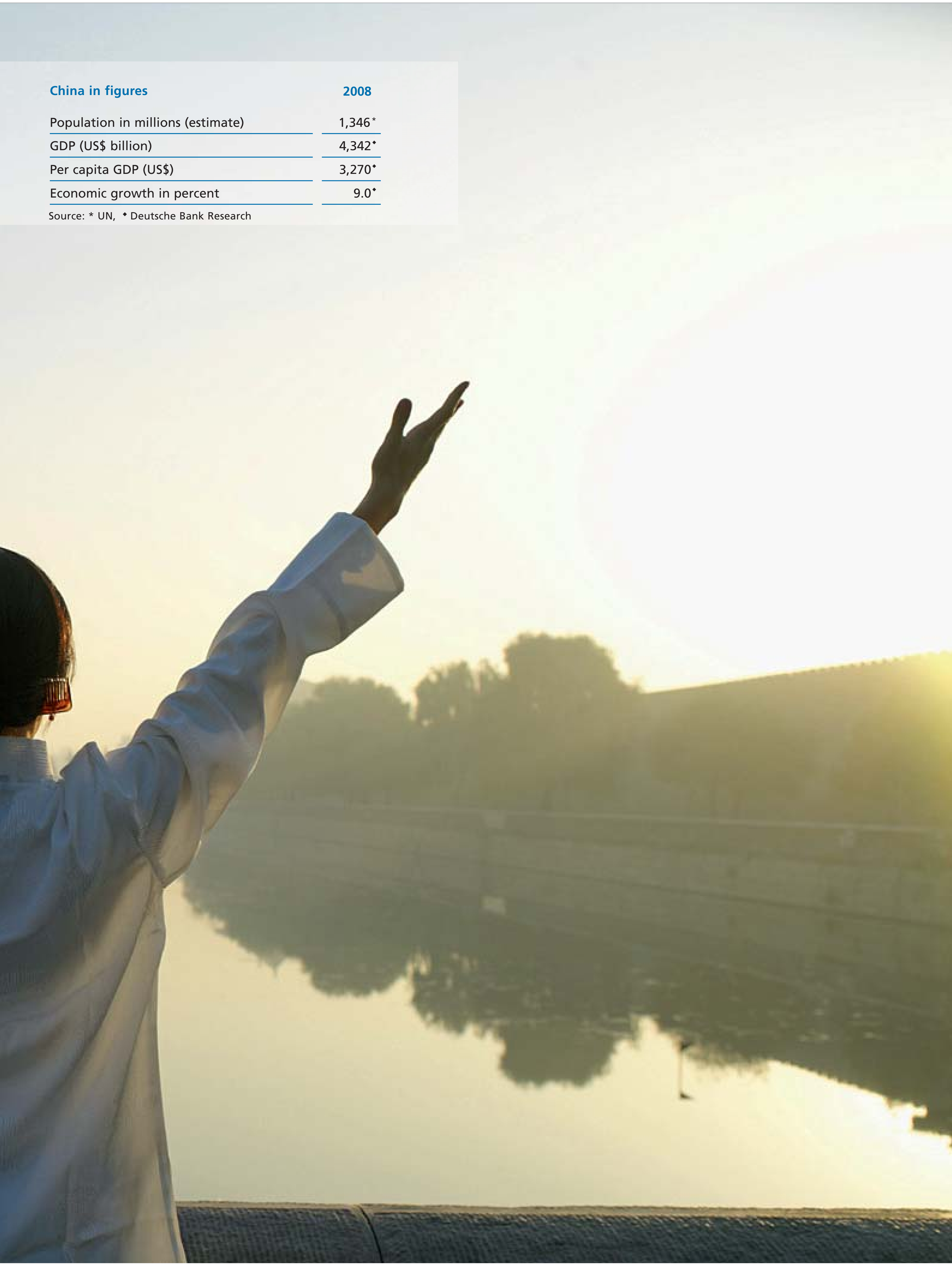
Werner Spiegel: The last three years have seen profitable growth for KSB India at more than 20 percent per annum. All sectors have shown positive development, especially Energy and Industry – here we are number one in the market. The valves business has played a major part in this success. Since we have reached the limits of our capacity in the last few years, we are now investing in our production facilities. The aim is to achieve almost a doubling of our sales and profits by 2011 compared with 2006.

China

- China has a backlog in energy and water supplies and waste water treatment
- KSB is number one on the Chinese market for pumps
- New joint venture for power plant pumps and valves

China in figures	2008
Population in millions (estimate)	1,346*
GDP (US$ billion)	4,342•
Per capita GDP (US$)	3,270•
Economic growth in percent	9.0•

Source: * UN, • Deutsche Bank Research



As the world's fourth largest economy, China offers companies an attractive market. Since 1978, KSB has been making the most of the growing market opportunities and is represented in the country today with five sales and production companies.

More than 200 cities with a population of over a million in 2025

There are currently around 100 cities in China with a population of more than a million people. Experts from McKinsey Global Institutes estimate that this number will increase to 221 by 2025 as a result of a further 350 million people migrating from the country to the cities. By comparison, the USA has a population of 305 million and the 27 EU member states 497 million. These figures clearly illustrate the challenge which inward migration poses for urban planners and both central and provincial governments in China.

Billions invested in infrastructure

The limits to the country's rapid, unstructured growth are already visible today: the water supply for many cities is not secured, electricity is becoming scarce and improvement of the road networks and regional public transport cannot keep pace with developments. To resolve these problems, the central government announced an investment programme worth 465 billion euros in November 2008. To stimulate the economy, further funds will flow into the processing industry and infrastructure.

The Forbidden City is one of the most impressive pieces of Beijing's cultural heritage.

Shanghai presents a picture of bustling activity. A visible symbol of the new affluence is the car, which has replaced the bicycle as the most important means of transport.

Leading supplier of pumps for China's power plants

China's hunger for energy has remained insatiable for many years. Gigantic increases in generating capacity were designed to ensure that the growing economy would not come to a standstill. In particular, coal-fired power plants with outputs of 1,000 megawatts or more shaped the building projects of the energy sector in recent years.

According to experts, the use of fossil fuels will decline, and instead nuclear power will be gaining ground in China. Its share of power supplies is set to increase to four percent by 2020. Sixty nuclear power stations with outputs of 1,000 to 1,600 MW are to be built within twelve years.

For the development plans of the energy sector, KSB has already been supplying the necessary pumps for years and has thus advanced to become the leading supplier in China.

Günter Schaaf, Managing Director of KSB Shanghai Pump Co. Ltd. on the Chinese economic programme

Günter Schaaf: Despite all the progress that China has already made, extensive investments are still necessary to modernise the water and power supply systems and environmental protection nationwide. The country's investment package, which is worth 465 billion euros, is intended to fund relevant supply and waste disposal projects. As China's largest manufacturer of pumps, we are ready with our know-how, our products and our service to become involved in these projects.

KSB manufactures pumps and valves in Shanghai and Dalian (North China).

KSB Shanghai Pump Co. Ltd., a KSB company in which the Shanghai Electric Group (SEC) holds a 20 percent interest, manufactures most of the power station pumps for the Chinese market in-house. If the customer wants European products, the company supplies them above all from KSB AG in Germany. Power plant valves are contributed by KSB Valves (Shanghai) Co. Ltd., which is likewise based in Shanghai and also sells valves for industrial and water engineering applications.

The swing to nuclear technology is accompanied by the founding of a new joint venture between KSB (45 percent of shares) and SEC (55 percent of shares). The company will supply new power plants with ultra-reliable pumps and valves technology from its own production facilities over the next few years. A production site is being built for this purpose in Lingang near Shanghai, where 125 people will be employed.

Water from the south to the north

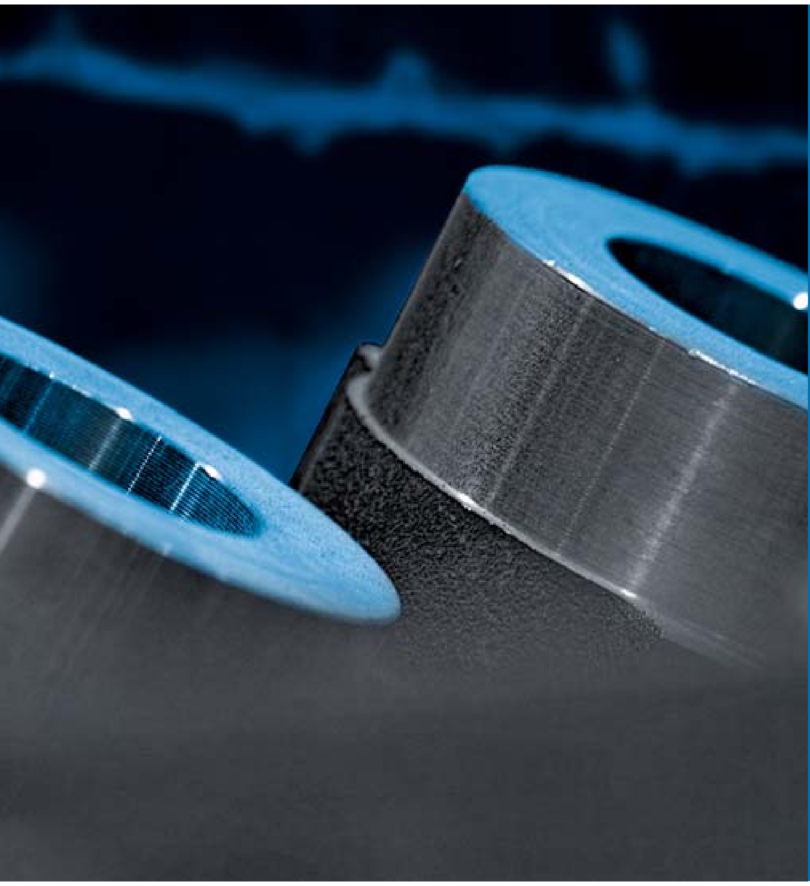
China has some catching up to do not only in the power supply sector. Major infrastructure projects are also under way to supply water for the growing urban population and also for the agricultural hinterland of the industrial regions. A south-north canal is planned, for example, to carry river water from South China, mainly from the Yangtze, to the dry north of the country. KSB is supplying equipment for pumping stations for this huge project.

No less important are projects for environmental protection. Numerous large sewage treatment plants are under construction aimed at improving water pollution control; these plants are likewise being equipped with KSB products. These are undoubtedly less imposing constructions than, for example, the Jin Mao Tower in Shanghai or the Oriental Plaza in Beijing, both of which use KSB building services products. But the benefit of sewage treatment facilities is equally "conspicuous" in China.

KSB shows its presence

KSB is a tried and trusted partner for Chinese customers and international companies operating in the country. A broad range of products on offer, from standard pumps and valves for industry to individually manufactured products for large power plants, covers the most important needs. Additional supplies come from other sites in the KSB Global Manufacturing Network. Five sales and production companies, two of them in Hong Kong and the special economic zone of Dalian, ensure that customers receive a prompt service from KSB. With seven sales offices, four service centres and a dense network of dealers, KSB has a presence in many regions of China today.

KSB will continue to improve the provision of its customers with products and services in 2009.



Markets

Industry

- Sustained strong demand in BRIC countries
- Range of canned motor pumps extended
- Good sales of marine valves and sprinkler pumps

The brisk demand for capital goods made 2008 another successful year for products for industrial and process engineering applications. Engineering contractors, original equipment manufacturers and operators made even greater use of our range of industrial pumps and valves than in previous years.

Special technology was in demand, for example, in those areas where pumps and valves operate at extreme temperatures and pressures and where they have to transport or check the flow of aggressive, corrosive or explosive fluids. We were also able to supply standard pumps and valves, which we adapt to meet order specifications, to customers in general industry within the requested time frames.

Broad demand for industrial pumps and valves

Important markets for our Industry products were not only European countries, but above all also Brazil, Russia, India and China, as well as individual Middle Eastern states. The most frequently ordered products included conventional water and standardised chemical pumps, as well as special high-pressure and canned motor pump sets. Our wide range of industrial valves, from steel and stainless steel valves through butterfly valves to diaphragm valves, were also in demand.

Customers ordered these products for challenging applications in the chemical industry and in refineries, and also for the most widely varying processes in general industry. Further major sales were achieved in the steel industry, which was still booming at the start of the year, in the oil and gas industry and in flue gas desulphurisation.

Last year, we equipped more industrial plants with our pumps and valves than ever before. In chemical and process engineering, extremely reliable equipment is needed for the safe transport of aggressive, corrosive and explosive fluids.

Large order for new plastics production plant

Our customers can draw on our broad industrial range of pumps and valves of the greatest variety of construction types, materials and performance data for almost all stages of their production facilities. In the current year, for example, we shall equip a new plastics factory in the industrial park of Frankfurt-Höchst with pump technology. We are supplying standardised chemical pumps, non-clogging impeller pumps and process pumps for high temperatures. In addition, the scope of supply includes seal-less pump sets and axially split cooling water pumps.

Special markets with a high capacity

Our business with valves designed to shut off liquefied gases continued to develop well. Around 70 percent of all liquefied gas tankers are now fitted with KSB cryogenic butterfly valves. To strengthen our position in this market, we have extended our marine product range with globe, gate and check valves that can be used down to minus 196 °C.

Since liquefied gas tankers are beginning to show a limit to their growth in the market, we increasingly offered our marine valves for other tankers last year. For example, we supplied our sea-water-resistant valves for ships that transport chemicals, oil and liquefied petroleum gas.

A further important special market in 2008 was fire safety technology. A lot of industrial companies invested in new and better fire protection systems to improve safety and meet stricter insurance requirements. With 19 different type series, we offer the most extensive range of pumps for sprinkler systems worldwide, so we were able to participate in these companies' modernisation and development schemes.

Wider range of applications for canned motor pumps

In situations where fluids must not on any account escape into the environment, pumps are required that exclude any possibility of leakage. These include canned motor pumps which are driven electromagnetically and do not require any shaft seal. We have set up a German-Japanese joint venture to round off our range of these seal-less units. The wider portfolio now covers a much broader spectrum of pump heads and flow rates in a temperature range from minus 60 to plus 450 °C.

Pump sets with increased energy efficiency

On average, the energy needed to drive pumps still accounts for about 20 percent of electricity consumption in industrial plants. Faced with rising electricity prices, many operators are looking for ways to reduce this consumption. To this end, they made increasing use last year of the options we offer for adapting pump impellers to match the required operating points as a standard feature, equipping pumps with high-efficiency EFF 1 class motors and automatically controlling drives.

We also responded to customers' wishes for energy-saving units with the expansion of our range of high-pressure pumps. The new size, which generates pressures of up to 40 bar, was designed so that it can be equipped with an integrated speed control system. We are the only manufacturer worldwide to offer this for motors with ratings of up to 45 kW.

Building Services

- A successful supplier for residential and industrial buildings
- Modern technology provides for increased energy efficiency
- Compact systems for building supplies and waste disposal

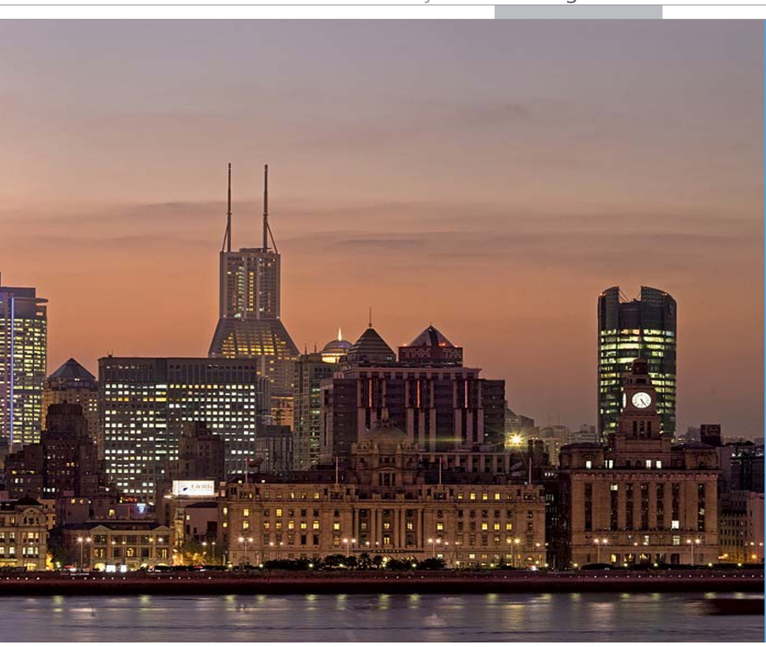
With our range of Building Services products in 2008 we succeeded in broadening our customer base even further in Europe and in increasing our market share. We also strengthened our activities in the regions which had already shown the strongest growth to date, namely the Middle East and Asia.

Overall, our business with components and systems for domestic water supply and drainage and also for heating and cooling circuits showed very positive developments. There was a particular focus on the equipment of air-conditioning systems.

Equipment of large buildings

Building services equipment suppliers in Europe ordered our products for office buildings, exhibition halls, airports, and also for industrial buildings. In the year under review, for example, we equipped the multi-storey test centre of a German automobile manufacturer with pumps, butterfly valves and shut-off globe valves. In this facility, the manufacturer tests vehicles under different climatic conditions. Our products help to simulate a range of temperatures down to minus 50 °C.

In the countries of the Middle East, developers invested in high-quality hotel and office buildings and modern residential areas. Thanks to our local presence and some notable reference projects in the region, we managed to pick up further orders here. These include the supply of pumps, pressure boosting systems and switchgear for the Capital Plaza Development in Abu Dhabi. This multifunctional complex with five high-rise buildings will eventually house a hotel, offices and luxury apartments, amongst other things.



It is not only in Shanghai that buildings are shooting up. In many of the world's large cities, architects and consultants are creating impressive buildings in which KSB products are performing supply and waste disposal functions.

From China, too, we received numerous orders to supply pumping equipment for buildings with offices, shopping centres and apartments. Projects of particular interest are a number of large buildings in Beijing and Shenzhen, as well as the new international financial centre in Shanghai, which will be completed by 2011.

Smart systems reduce life cycle costs

The persistently high cost of electricity means that energy efficiency is an important criterion for the purchasing decisions of many customers. Smart systems that help to save energy are therefore very much in demand in building services. This has added to the attractiveness of our PumpDrive variable speed system. It continuously adjusts the flow rate of a pump to match actual demand and thus saves up to 60 percent of energy compared with fixed speed pump sets. The sales figures for this system increased further in 2008.

An even greater reduction in electricity costs can be achieved in heating and cooling systems equipped with the BOA-Systronic control system. This is based on the coordinated use of pumps and control valves in combination with load-dependent pump control. In 2008, we extended the system range with new sizes.

In the year under review, customers could for the first time check out the efficient interplay of pumps and automation products in our newly installed Automation Learning Centre in Frankenthal.

New compact systems for building equipment

In view of the growing ecological awareness of many consumers and the high price of water, the domestic use of rainwater remains an issue. At trade fairs in Europe and Asia, we therefore presented the new domestic Eco-Rain system to our customers. This system enables rainwater harvesting even in relatively confined spaces, for example in detached single-family or even terraced houses. The compact system is an addition to the tried and trusted product range that serves house owners and equipment suppliers for large buildings alike.

A further innovation last year was the latest generation of the Compacta lifting unit, which has proved very successful in the market. This system disposes of up to 135 cubic metres of domestic waste water an hour from low-lying sections of buildings.

In 2008, we also extended our range of pressure boosting systems with two particularly low-cost models, each equipped with two to three high-pressure pumps. Each pump is controlled by a frequency transformer, which allows water to be delivered as needed and hence more economically.

Future markets at a glance

We have achieved good market penetration with our building services products on the domestic European market, so we can direct our attention beyond this to important future markets. The last few years have seen above all the strengthened economic regions of the Middle East and Asia move more sharply into focus in this respect, but numerous property developments are also planned in Russia both for business and for residential purposes. As in other regions, their realisation will depend substantially on how the financial and economic crisis develops.

Water

- Diversity of technology for drinking water supplies
- Successful systems for seawater desalination
- KSB intake structures save energy

The supply of clean water today is a technical and logistical challenge for many utilities. Falling groundwater levels, lack of rain and increasing consumption mean that new resources have to be tapped and the necessary infrastructure expanded. This calls for consistently reliable systems which allow water to be collected, treated and transported to consumers.

For this, we supply important components like pumps and valves of widely differing sizes and types. This product range is supplemented with hydraulic systems for seawater desalination, water treatment and pressure boosting in pipelines. We also design and build complete pumping stations for our customers.

In 2008, we encountered strong demand for this product range. This came partly from the emerging economies, where industrialisation and population growth result in increased water consumption. At the same time, the construction of new desalination plants in the Mediterranean region and Arab states was another important focus of demand.

Energy-saving systems for reverse osmosis processes

In the desalination of seawater using reverse osmosis, the water is forced through a membrane that is impermeable to salt molecules. For this type of water extraction, we offer a special subsystem of perfectly matched high-pressure pumps, auxiliary pumps and special valves. An integrated pressure exchanger enables the energy input needed for the process to be reduced by means of hydraulic power transmission.

The artificial Palm Jumeirah island is one of the most impressive constructions of modern times. Two seawater desalination plants with KSB high-pressure pumps and large pipeline pumps help to supply the residents of the island with fresh water.

As in previous years, engineering contractors worldwide used our seawater desalination products in 2008 in order to realise major water engineering projects. We received outstanding new orders for projects in Algeria, Australia, the United Arab Emirates and Spain.

Growing demand for pipeline pumps

Increasingly long distances have to be overcome to supply consumers with fresh water. This is an important application for our pipeline pumps, which transport up to 18,000 cubic metres of water per minute. To meet the growing demand for these pump units and also in response to new technical requirements, we extended and modernised our production facilities at Halle in 2008. Here we manufacture volute casing pumps for water management with drive ratings of up to ten megawatts.

New business opportunities emerged in the Middle East for pumps of this type beyond classic water transport. Air-conditioning equipment in individual households is gradually being superseded in the region by centralised district cooling systems, similar to the district heating networks in Europe. These measures bring about energy savings of up to 40 percent and reduce CO_2 emissions. We received orders for district cooling systems from, amongst others, Abu Dhabi, where we are helping to provide air-conditioning to the buildings of two new residential districts with more than 70 large pumps.

Added plant reliability thanks to KSB intake structures

Where industrial facilities, power stations or seawater desalination plants require large quantities of water, there is a need for low-lift pumping stations with tubular casing or submersible pumps. Upstream of these pumps there is typically an intake structure whose design has a significant influence on the plant's operating reliability. Customers therefore like to use a system developed by KSB engineers that ensures a steady, vortex-free inflow. It is matched to the pumps installed and helps to keep installation, service and maintenance costs low.

In 2008, the cost advantages of this approach prompted an order, for example, from the operators of a fertiliser factory in North Africa, for whose production processes large quantities of cooling water are required. The operators of a water extraction plant in Bahrain selected a special intake structure to ensure that inflow conditions are optimal at all water levels. Beforehand, our hydraulics experts tested different inflow conditions in model tests. Thanks to the high 88 percent efficiency of the selected KSB pumps, the plant – which also uses 600 KSB valves – consumes particularly low levels of energy.

New market opportunities in the water supply sector

In light of the looming challenges in the water supply sector, we are in the process of improving the performance of our pumps even further. We are also stepping up our capacity and broadening our technical know-how in the systems business to ensure that we can provide our customers with adequate support in plant engineering and construction.

With a view to tapping new market potential, we have started to make increased use of opportunities in district cooling and in the use of pumps as turbines.

Waste Water

- Main sales areas in Europe, Asia and the Middle East
- New waste water pumps for greater performance
- Submersible motor mixer with improved energy efficiency

In regions with growing population and increasing industrialisation, 2008 was again a year in which additional investments were needed for water pollution control. The implementation of EU waste water standards in several European countries also meant that waste water treatment plants had to be modernised. Worldwide, new sewage treatment plants and waste water transport systems were built.

We contributed to the technical equipment of these plants with an extended range of wet-pit or dry-installed waste water pumps, mixers and agitators for tank recirculation and automatic systems for cleaning stormwater tanks and storage sewers. Our customers were municipal and private waste water companies, engineering contractors and industrial companies that treat their own waste water.

Solutions for large-scale waste disposal

Outside our domestic market of Europe, the two most important areas of our business activities were in Asia and the Middle East. Particularly in Asia, major urban agglomerations are currently developing centralised waste water disposal facilities. Extensive networks of pipelines and pumping stations transport the waste water from numerous households and industrial facilities to these sewage treatment plants.

These large-scale disposal concepts have generated an increased demand for pumps with high flow rates and high discharge pressures. To meet this, we have extended our range of waste water pumps for wet-well or dry installation. Newly developed pumps with higher performance data found immediate use for waste water disposal systems in China, the United Arab Emirates and Eastern Europe.

Biogas Benitz GmbH in Lower Saxony generates energy from renewable resources. KSB submersible mixers and agitators are used in the plant's primary and secondary fermenters to mix 27 tonnes of biomass a day.

Products for draining rainwater

About half the world's population today live in towns and cities, a growing proportion in so-called megacities with more than 10 million inhabitants. The increase in sealed ground associated with this trend calls for special measures for draining off water after heavy rainfall. As well as low-lift pumping stations, which help to drain low-lying areas, installations for storage reservoirs are required in particular.

There is a growing demand for technical equipment that allow stormwater tanks and storage sewers to be automatically cleaned. For this, we have been offering both individual units and also complete systems for a number of years. One British waste water disposal company ordered around 30 jet pumps in the year under review. These ensure that the pollution load that collects in the stormwater tank is drained off with the rainwater.

New model for pumped drainage

In addition to the problems of metropolitan areas, rural regions also present challenges for waste water engineering. In some countries of Eastern Europe, for example, there are still almost 50 percent of households not connected to the public sewer system. This is due to the high costs, which especially in sparsely populated areas make it difficult to implement conventional waste water concepts. For this reason, more and more disposal companies are deciding to remove the waste water of individual properties using small, fully automatic pumping stations. These pumped drainage installations transport the waste water to the mains via low-cost pipelines with small cross-sections.

In 2008, we presented a light-weight and compact submersible motor pump at the world's largest environment trade fair, IFAT, in Munich. This is specially designed for pumped drainage from small collecting tanks. The pump is fitted with an upstream cutter that chops up all solids contained in the waste water so that even a 32-mm pipe is sufficient for removing the waste water. The use of these new pumps can help to minimise the cost of discharge piping networks, including the valves.

Energy-efficient mixers and agitators for biogas systems

We have completely overhauled our range of submersible motor mixers, which are mainly used in waste water treatment tanks. The new generation of these mixers is designed for good operating characteristics with highly viscous media such as sewage sludge. Equipped with high-efficiency motors and energy-saving hydraulic systems, they provide for lower operating costs than conventional units.

Our large agitators have likewise proved very energy-efficient. Outside the sewage treatment sector, these are used today in many biogas plants. In these applications, their slow-running propellers ensure a favourable ratio of electricity consumed to that biologically generated. In 2008, companies that build biogas plants concluded initial framework agreements with us.

A changing market

Our product range for waste water stations, sewage treatment plants, stormwater tanks and energy recovery from biomass is aimed at a market that is constantly changing as a result of ongoing development in environmental engineering and changed standards. By matching our solutions precisely to requirements, we support our customers on the path to technological improvements in their systems. In addition to the provision of pumps with higher performance data, increasing energy efficiency is a key area of development at present.

Energy

- Growing demand for electricity means more power plants
- Large orders for "supercritical" coal-fired power plants
- New production plant installed for large pumps

The marked increase in industrial production and a strong demand for modernisation have prompted the planning and construction of new power plants in recent years. This applies both to the classic industrialised countries in Europe and North America and also to numerous emerging economies, especially China and India.

Apart from the Chinese electricity market, where an annual increase in generating capacity of more than 60 gigawatts is planned, growth is particularly strong in the Indian energy sector. Here, new power plants are being built with an additional total output of about 10 gigawatts every year. Large projects to expand power supplies are also under way in Russia and other Eastern European countries, as well as the countries of the Middle East and the south of Africa.

Market leader in power station pumps

With our broad range of technically advanced, high-quality pumps and our DIN-standard valves, we are number one in the global power plant market. Electricity producers and engineering contractors worldwide rely on our products to supply energy economically and reliably.

These customers use KSB pumps for all primary and secondary circuits of their plants, mainly for feeding water into steam boilers, transporting cooling water or pumping condensate. The liquids are reliably shut off by high-pressure globe, butterfly and gate valves. As well as in nuclear or fossil-fired power station units, our pumps and valves are deployed to use renewable energy and operate district heating systems.

The pumps used in power plants consume up to five percent of the electricity generated. KSB pumps with very high efficiency ratings therefore contribute substantially to low-cost electricity production.

Demand for modernisation and expansion in Europe

The high price of natural gas has acted as a disincentive to build combined cycle power plants. In Europe, therefore, the main emphasis in 2008 was on the construction of new coal-fired power plants. These are designed to increase generating capacity or to replace old plants.

To equip their plants with reliable technology, our clients rely on products that offer trouble-free operation for long periods despite being subject to high loads. Many energy suppliers are also striving to achieve noticeable reductions in electricity consumption to operate their plants. This was why, in 2008, not only price and delivery time, but also efficiency played a major role in the decision to purchase pumps.

Growing trend towards greater plant efficiency

Customers in the growing power plant market of Asia are placing greater value than before on high levels of efficiency in energy conversion. This customer requirement lent an added competitive advantage to our pumps, thanks to the efficient use they make of their drive energy. We are also known for reliably keeping to promised efficiency ratings; this ensures greater planning security for engineering contractors and operators.

The reliability of our technology was particularly in demand for equipping a new type of power plant that operates in extreme temperature and pressure ranges. The operators of these so-called supercritical power stations need high-performance and highly resistant components that are capable of continuous fail-safe operation under these conditions. The outstanding orders that we have received for such plants include an order to supply a coal-fired power plant that is currently being built in Mundra in the west of India. For this plant, we shall start delivery of boiler feed and condensate pumps, including the drives, in late 2009.

Modern production and testing technology for large pumps

We shall manufacture the high-pressure pumps for Mundra in our factory for large products, which was completed in Frankenthal early in 2009. This new facility enables us to manufacture units with the drive ratings needed for supercritical power plants. At the end of 2009, we shall also be able to test such pumps for our customers under practical conditions in a test field at pressures up to 500 bar and temperatures up to 230 °C.

Alternative energy and nuclear technology

Power generation systems based on wind, water and biomass will continue to grow in importance. But from today's point of view, they do not yet offer an adequate alternative to fossil-fired power plant technology or to the use of nuclear energy. For this reason, a growing willingness is discernible worldwide to invest not only in coal and gas-fired power stations, but also in new nuclear power plants. We received large orders for the components needed in such plants from Brazil and China, amongst other countries.

In view of the Chinese programme for the development of nuclear energy, we founded a joint venture last year, which will provide nuclear plants with pumps and valves from Shanghai in the future.

In addition, we continue to keep a watch on the market for alternative energy sources and also the development of CO_2-free power plants, so that we are in a position to deploy our technology when the time is right. This is already the case in a number of pioneering plants, especially in the use of biological raw and waste materials as sources of energy.

Mining

- New hard-rock mining pump reduces operating costs
- Rubber-lined impellers increase wear resistance
- Slurry pumps in power plants and suction dredgers

In the first half of 2008, demand for capital goods in the mining sector continued to be shaped by the boom in commodities. Mining companies placed increasing orders with our US American subsidiary GIW Industries, Inc. for slurry pumps, as well as process and auxiliary pumps, to expand or modernise existing production and processing facilities. Spare parts also made up an important portion of the business as materials' wear life is a major consideration in the pumping of solids.

Slurry pumps enable operators to do without conveyor belts and instead pump solids of all kinds, mixed with water, through pipelines. In 2008 our customers used them in particular for the hydraulic transport of ores, minerals and oil sands, as well as for the removal of tailings. They were also employed on suction hopper dredgers and in power plants.

Pumps for African mines

Outside the USA, we supplied slurry pumps to the classic commodities-producing countries in Latin America, South East Asia, Africa and Australia. Business in Europe also showed positive development. With customer-specific technical solutions, we managed to reduce both the susceptibility to failure and the level of energy consumption in many plants.

In Botswana, for example, we succeeded in reducing the operational wear on two tailings pumps in a nickel mine, thus lowering the life cycle costs. At the same time, our specialists integrated a third pump into the production process without interrupting operations. The customer was pleased to find that even though the individual systems now have a higher output, their energy consumption has not increased.

More and more mines are pumping extracted ores and tailings as water / solid mixtures through pipelines. This calls for the kind of highly wear-resistant pumps that are developed and manufactured by KSB subsidiary GIW Industries, Inc.

The operators of a gold mine in Tanzania which reported frequent pump failures benefited from the use of “slurry diverters” patented by GIW. These design elements divert solid particles circulating in a pump in a way that significantly reduces component parts’ wear. Accordingly, the operators have enjoyed a decrease in production downtime caused by routine maintenance.

Launch of new slurry pump

Stresses and strains on slurry pump components are typically greatest in the transport process from the hard rock mining mills to the separation process systems. In 2008, we therefore launched a new hard-rock mining pump specially developed for this purpose in the USA. The materials selected and the pump’s low specific speed make it extremely wear-resistant. This increases the pump’s service life even when handling demanding, highly abrasive solids. And our customers benefit from lower operating costs.

Large orders for the new slurry pump have already come in from Australia and South America, where it is used in gold and copper mines.

Rubber-lined impellers in use

Depending on the solids pumped and other system conditions, rubber-lined impellers can make slurry pumps even more wear-resistant. We have therefore developed a variant of this highly stressed component that offers a substantially longer service life. Our customers from the mining sector ordered impellers of this kind for new pumping units, but above all also as replacement parts, in order to prolong the life of their pumps.

Slurry pumps for power plants and dredgers

The range of uses for our slurry pumps extends well beyond applications in the raw material extraction and processing sector. Pumps of this kind have been used in the flue gas desulphurisation systems of power plants for years. In 2008, we supplied slurry pumps for the first time to a German lignite power plant for the hydraulic transport of fly ash and bottom ash.

Our slurry pumps have also been used for years on suction hopper dredgers, where they help to keep harbours and shipping lanes clear of deposits or to reclaim new land by dredging up sand from the sea bed. A European customer, for example, ordered units that each pump around 3,600 cubic metres of sand and water mixture every hour. They are intended to equip four new dredgers.

Leading supplier of pumps to oil sand companies

We further built on our position as market leader in the hydraulic transport of oil sands. Canadian customers that extract bitumen sands ordered numerous slurry pumps and spare parts in the year under review. At the same time, they made use of our customer-geared service and our technical consultancy offerings. We continue to defend our leading position in this important future market with innovative products, as well as fast and professional service.

Service

- 2,400 service specialists on hand
- Major overhauls in industrial facilities and power plants
- Energy saving through greater efficiency

For many customers, rapid and reliable service is an added reason for choosing KSB products. With a network of 128 service centres, we remain close to our customers and can provide the required services as they need them. Worldwide, we currently have 2,400 KSB service specialists engaged in installing, inspecting, maintaining and, if necessary, repairing pumps, valves and related systems. As well as KSB products, they handle competitors' makes and motors, gearing, compressors, turbines and other rotating machinery.

In Europe, we have been market leaders for years with the service we offer. In 2008, our business also developed well in the Middle East and Asia in particular. The main focus of our activities remained service operations in industrial facilities and power plants. In addition, our inspection service was in demand in the area of water and waste water management, while our repair and spare parts service was in demand for slurry pumps in the mining sector. Service operations for building services systems were primarily handled by our service partners, like the German PumpenPartner organisation, and other authorised service companies.

Industrial service on site

In the Industry segment, companies continue to have their own maintenance teams focused on a few key systems and accordingly commission outside specialists to handle the service operations for pumps, valves and other components. Many companies have concluded multi-year general framework agreements with us, committing us to ensure the continuous availability of their plants.

Customers also commissioned us on a project-related basis with the overhaul of their systems during scheduled periods of downtime. In 2008, for example, we had service

The service operations of KSB begin with the start-up of new pumps such as here in the lignite-fired power plant at Neurath, Germany. Many customers make use of our inspection and maintenance service to ensure long-term trouble-free operation of their systems.

teams of up to 50 people each working in several Belgian refineries and chemical processing plants to inspect, service and, where necessary, repair plant components.

New installations in 90 power plants

In 2008, our services were also in demand for more than 30 major power plant rehabilitation projects. Strong teams of overhaul specialists had to be put together to perform the required work in even shorter periods than on previous assignments of this kind. Our “transparent service management” enabled the customers to obtain precise information at any time about the status of work and the costs incurred.

In view of the boom in the construction of power plants, the installation of new pumps and valves last year was an important area of activity. Worldwide, our service engineers were involved in 90 new construction projects.

Service for more than 4,000 waste water stations

Municipal and private water supply and waste water disposal companies mainly used our inspection and maintenance service, which we offer in five different service packages. This service is aimed at ensuring a high degree of plant availability through the early identification of defects. It also prevents wear-related component failure by ensuring that parts are replaced in good time.

In Great Britain, two regional waste disposal companies concluded multi-year general framework agreements with us for provision of the required service work. In the next few years, specialists will look after a total of 4,100 wastewater pumping stations in England and Wales and will carry out the necessary maintenance and repair work.

High degree of availability in the mining business

The long-lasting boom in raw materials led to many mining companies stepping up their production and working at the limits of their capacity. In this phase of high capacity utilisation, it was particularly important to prevent system failures or at least to reduce the resulting downtime in the event of damage. Our service teams therefore continuously serviced and maintained these systems, kept spare parts close to hand and carried out quick repairs. To ensure the lasting quality and availability of this service, several companies concluded relevant framework agreements with us.

Consultancy for greater plant efficiency

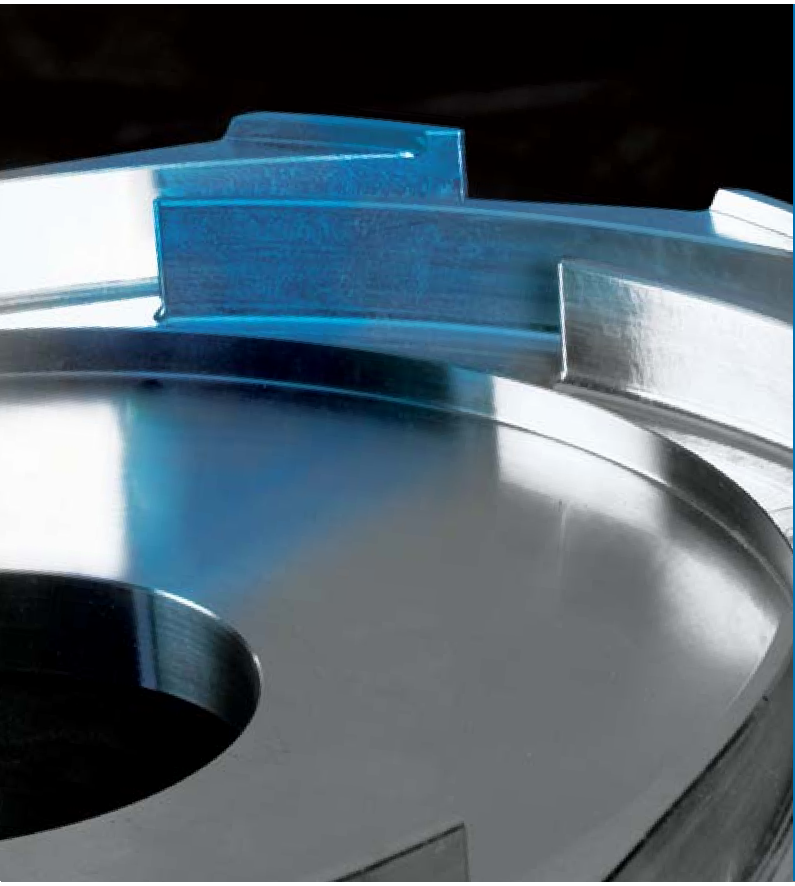
To increase the profitability of their plants, many operators currently endeavour to use high-cost energy as economically as possible. We help them to achieve this goal with our new System Efficiency Service. A specially trained KSB team reviews the condition and operations of customers’ systems to show where there is potential for savings. The analytical and consulting service is generally financed through the cost reduction achieved by the measures that are subsequently taken. Once the consulting side of the service is completed, our specialists provide support for customers with the technical implementation and then review the results.

In 2008, industrial companies in particular made use of this new service. But power plants and also municipal water and waste water utilities have already been involved in relevant projects. In view of further increases in energy costs we expect to be able to extend this special service in the years to come.

Highest return on sales to date

In financial year 2008, KSB significantly exceeded the 8 percent target and achieved a record return on sales of

10 percent.



Group Management Report

Group Structure and Focus of Business

- 46 operating companies worldwide
- Group managed within a matrix organisation
- Management through growth and profit variables

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.

As the parent enterprise, KSB AG, Frankenthal (Germany), directly or indirectly holds the shares 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 Shanghai Pump Co. Ltd., Shanghai, China,
- KSB Service GmbH, Frankenthal, Germany,
- KSB Pumps Limited, Pune, India,
- KSB Bombas Hidráulicas S.A., Várzea Paulista, Brazil,
- GIW Industries Inc., Grovetown / Georgia, USA.

Disclosures required by takeover law

A summary of the disclosures required by section 315(4) HGB [*Handelsgesetzbuch* – German Commercial Code] is given below; 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 officially listed for trading on German stock exchanges ("General Standard" segment).

Each ordinary share authorises the holder to one vote at KSB AG's Annual General Meeting. Klein Pumpen GmbH, Frankenthal, holds approximately 80 % of the ordinary shares; the *KSB-Stiftung* [KSB Foundation], Stuttgart, 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.

There are no resolutions by the Annual General Meeting authorising the Company's Board of Management to increase the share capital (authorised capital) or to buy back shares.

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

The Annual General Meeting resolves the Articles of Association. Amendments that only affect the wording of the Articles of Association may be made 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].

Volute casing pumps of the Etanorm series in the heating supply system of an industrial plant

KSB AG's Board of Management manages and controls the KSB Group. The strategy and instructions stipulated by the Board of Management are implemented under a matrix organisation. Within this organisation, four people responsible for the following four Regions

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

work with those responsible for market-oriented areas of business. The operating business is divided 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), Germany, and La Roche Chalais, 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 the global market leader in pumps for the energy industry and pumps for process engineering; in other industries, KSB is one of the leading manufacturers of pumps.

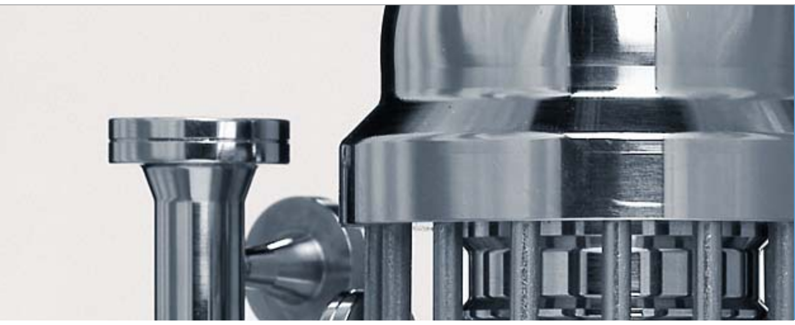
The market generating the highest sales revenue for KSB products in 2008 was once again industry, where KSB is positioned as the second-largest manufacturer of pumps in the world.

Management parameters within the KSB Group

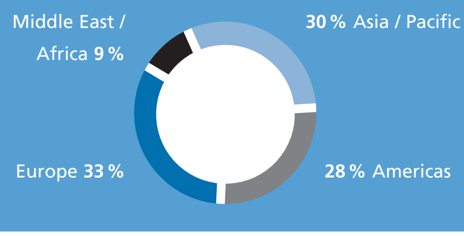
The current target variables for managing the Group are growth in order intake and sales revenue as well as profitability, measured in terms of pre-tax return on sales. We set our growth targets according to the development of the market on the one hand, and the performance of our key competitors on the other.

As part of our ongoing strategy project, we intend to introduce ROCE (return on capital employed) as another management parameter for the Group.

Our goal is sustained profitable growth that safeguards KSB's financial independence in the long term. We also aim to achieve stronger growth than our most successful competitors in each of our strategically important markets.



World market of centrifugal pumps and valves



Economic Environment

- Global economic growth flattens
- Strong overall demand for pumps and valves
- Industry focuses on high-growth markets

Beginning with the economic downturn in the USA, global economic growth slowed in the course of 2008, with certain key countries experiencing a sharp decline in their economies towards the end of the year. The capital goods industry initially performed well, before being hit by the problems on the financial markets during the second half of the year.

The European market – which is particularly important for KSB's business – remained stable for much of 2008. This was driven by the continued increase in indirect exports from Europe to other regions.

Broad-based demand for pumps and valves

Demand for products of the pump and valve industries was strong over the year as a whole. This applied to orders from industrial customers who initially made significant investments, and to customers from the water industry who implemented a large number of projects.

The upswing in the industry also led to strong demand for raw materials that continued into the second quarter of 2008, boosting demand for mining machinery. Countries that are rich in raw materials profited from high prices and therefore had the funds to modernise and extend their production facilities. The continuing industrialisation process in emerging economies and the expansion of production capacity also increased demand for energy, which in turn drove the expansion of existing power stations and the construction of new ones.

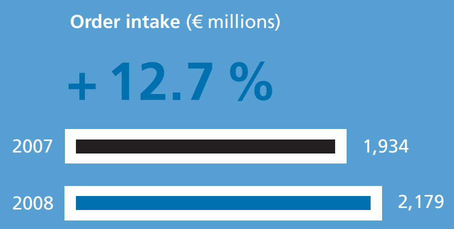
The growing need for water both for private use and for industry and agriculture meant that demand for water engineering equipment remained high. Even towards the end of the year, there were no signs that this demand had been impacted by the financial crisis. The waste water industry suffered from weak demand; however, the need for emerging economies in particular to develop this sector will require substantial investment in the future.

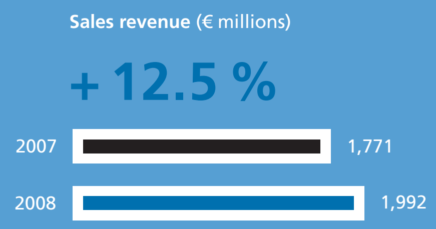
Positive development in the pumps and valves industry

Against the background of the deepening financial crisis, demand in mechanical engineering varied considerably. While growth in consumer- and construction-related sectors slowed in the second half of the year, the sustained high order intake ensured full order books at many engineering contractors and their suppliers. Clear signs of a downturn did not appear in the plant engineering sector until the end of the year. The pumps and valves industry also recorded a drop in orders in the fourth quarter, although this affected individual manufacturers to varying degrees depending on their market focus and production programme.

At the same time, the process of consolidation in the industry continued with the emergence of a major new competitor after a company in the pumps market made various acquisitions. Takeovers in the sector were motivated by companies attempting to move into new market segments and to position themselves in key markets. Companies generally focused their activities more on high-growth business areas, and a trend towards specialisation was apparent among individual providers.

In light of the change in the economic environment, we expect competition in the pumps and valves industry to intensify in 2009.





Business Development and Events

- Substantial increase in order intake and sales revenue
- Further boost in growth of power station business
- Alliances with partners in China and Japan

We significantly increased our Group companies' order intake and sales revenue for the fifth successive year in 2008. Again posting double-digit growth rates, KSB held its position well in the global market for pumps, valves and related systems, and further improved its position in key sales markets.

Order intake exceeds € 2 billion for the first time

The Group's order volume increased by 12.7 % in the year under review (previous year: 12.9 %) to € 2,179.0 million. This growth of € 244.7 million lifted our order intake above the € 2 billion mark for the first time.

More than two thirds of this rise is attributable to orders from customers in the energy and water industries. In particular, we benefited from the global expansion of capacity for electricity generation even more than in previous years. For example, orders for power station pumps and valves as well as for services in energy industry plants alone rose by around € 100 million. The main order intake growth drivers in the water pumps and valves business were large infrastructure projects, including the construction of new seawater desalination plants. Overall, however, industrial customers remained our most important clients.

European companies record strong growth

Our European companies again achieved by far the highest order intake out of our four Regions – Europe, Middle East / Africa, Asia / Pacific and Americas. They also posted around two thirds of the additional order volume that we generated in 2008. This increase in growth was attributable to both higher demand from European companies and engineering contractors in Europe ordering more of our products for indirect export.

KSB AG, too, profited from demand for energy and water engineering products as well as installation and other services. It lifted its order intake by 19.7 % (previous year: 10.0 %) to € 947.5 million, with the buoyant industrial business also being a contributing factor.

Our three operating companies in the Region Middle East / Africa recorded an even higher percentage growth rate than the European companies. KSB Middle East FZE in Dubai, whose activities include equipping district cooling systems with pumps, more than doubled its order intake.

Of the Group's major companies in the Region Asia / Pacific, in particular KSB Shanghai Pump Co. Ltd. in China registered strong order growth. This was driven primarily by government plans to align the electricity supply to the population and industry with forecast demand. Our companies in Thailand and Indonesia also substantially improved their order intake. Their main successes came from products for the industry sector.

In the Region Americas, the customers of our Brazilian company KSB Bombas Hidráulicas S.A. again increased their orders, which also included pumps for offshore oil production and for refinery processes. KSB Argentina also performed well, while our US subsidiaries felt the effects of the economic downturn in their order intakes, with the exception of GIW Industries, Inc.

Orders on hand in the Group totalled around € 950 million as at the closing date of 31 December 2008 (previous year: around € 770 million), corresponding to an order backlog of approximately six months.

Double-digit growth in consolidated sales revenue

Our consolidated sales revenue rose by € 220.9 million in the year under review, reaching a new record level of € 1,991.7 million. At 12.5 %, the growth rate exceeded the previous year's 10.2 %.

We recorded particularly strong growth in our business from energy and water engineering products as well as from slurry pumps for raw materials extraction and processing. The sale of pumps and valves for industry also increased sharply. In addition, sales revenue from building services and waste water products was significantly higher.

The European companies posted the highest aggregate sales revenue growth because they account for a large proportion of total business. KSB AG performed extremely well, lifting its sales revenue (in accordance with HGB) by 17.6 % to € 819.5 million. In addition to the invoicing of major power station orders, this improvement was driven by the delivery of pumps and systems for seawater desalination plants.

In the Region Middle East / Africa, our companies in Dubai and Turkey significantly expanded their business.

Sales revenue also rose sharply in the Region Asia / Pacific, due mainly to strong business development in China and India. However, the weakness of some Asian currencies, in particular the Indian rupee, had a dampening effect when translating into the Group currency, the euro.

The strongest percentage sales revenue growth was recorded by the Group companies in the Region Americas. Business in North America focused on power station components and pumps for mining, including oil sands extraction, while activities in South America were dominated by the delivery of pumps for industry and water engineering plants.

New joint ventures with Asian partners

In the course of financial year 2008, we strengthened our market position through regional cooperation with two Asian companies.

Together with Japanese pump manufacturer Nikkiso, we formed Nikkiso-KSB GmbH, based in Altenstadt near Frankfurt am Main.

This company, in which we hold a 50 % interest, focuses on developing and providing canned motor pumps for customers in Europe and the Middle East. With a volume of around € 50 million, Europe is the largest market for such pumps after Asia. Today, Nikkiso-KSB GmbH is Europe's second-largest provider of seal-less pumps.

In China, the newly formed Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., based in Lingang near Shanghai, will in future produce and sell pumps and valves for the Chinese nuclear power station market. This joint venture – in which KSB AG holds a 45 % interest – is targeting the government programme to drastically increase power generation capacity in the coming years. The new joint venture will initially deliver pumps for secondary circuits at Generation II+ and III nuclear power stations that have an output of 1,000 to 1,600 megawatts per unit.

New production capacity created

We have invested in expanding our production capacity at three German locations in areas where we see particularly good sales opportunities in the medium and long term. This mainly applies to boiler feed pumps for new "supercritical" power stations, large pipeline pumps for water supply and pumps and valves for process engineering applications. Our new production facilities enable us to offer our project business customers in particular shorter delivery times.

The demand for energy is on the increase in many countries.
Our products are used in power plants throughout the world.

We have also started expanding our production capacity in India, where we are expecting growing order volumes in the coming years. Our investment budget provides for measures worth approximately € 29 million from 2008 to 2011.

Information Technology invests in global communication

We implemented two IT-based communications projects in 2008 to simplify the global work of our employees for our customers. The creation of a modern, global intranet now allows us to provide our staff with a large volume of information that they can access rapidly online. A single work and information platform holds product and marketing data, price and delivery lists, project information, guidelines and the latest news as well as other important tools available to our employees. Virtual project rooms enable them to drive forward joint projects with international colleagues.

In addition, we have switched 5,000 users throughout Europe to a new e-mail software that offers benefits when used in conjunction with other programs by the same provider. This saves time for KSB staff when processing data, e-mails and documents.

Programme management for major projects

We established a dedicated programme management team in the year under review to efficiently manage key projects. The team is responsible for identifying opportunities and risks, coordinating resources and integrating projects. It is also establishing a controlling system for major projects and developing a KSB-wide project management manual. The programme managers report to the superordinate steering committee, on which the Board of Management is represented.

They track several projects in order to create global IT and production systems that improve our services and make work flows more efficient.

Developing our corporate strategy

We aim to focus our activities more strongly on growth markets in which we can profitably develop our business and safeguard our future as a financially independent company. To achieve this, an interdisciplinary project team of KSB employees – in close consultation with the Board of Management and the Supervisory Board – has devoted itself to developing our corporate strategy. In this context, they initially examined the issue of which are the most attractive markets for KSB that enable healthy and profitable growth. They also addressed how we can leverage and extend our strengths to be a better partner for our customers than our competitors in these markets.

Starting with these issues, the strategy team analysed each business area in depth and assessed how attractive the corresponding market is, and how strong our competitive position is compared with our key rivals.

The analysis revealed that KSB is currently active in promising markets, but can improve its position in many of them. In the coming years, we therefore intend to make additional investments in business areas that allow us to expand our competitive position with limited risk. In the current year, we are defining the details of this strategic approach, preparing measures and making decisions. In doing so, we are taking into account the changes in the environment caused by the financial and economic crisis and incorporating the resulting opportunities and risks.

Net Assets, Financial Position and Results of Operations

- Significant improvement in consolidated earnings
- KSB AG again lifts earnings
- Net financial position remains stable

In 2008, the Group continued the successful path it has been following for many years. Consolidated earnings for 2008 exceeded our forecast in last year's report on expected developments, as did our order intake and sales revenue.

RESULTS OF OPERATIONS

Earnings before taxes

The KSB Group generated earnings before taxes of € 200.1 million, after € 128.7 million in 2007. Based on this, we achieved a return on sales of 10.0 % (previous year: 7.3 %), significantly more than the target we had set for 2008.

Further increase in total output of operations

Sales revenue development again did not match that of order intake in the year under review, due to the high proportion of projects with relatively long lead times. We measure the proportionate revenue for these orders in accordance with the percentage of completion method and recognise it in sales revenue. Work in progress and inventories of finished goods increased by € 19.8 million year on year. As a result, total output of operations amounted to € 2,013.9 million, up 11.8 % on the previous year (€ 1,800.8 million).

Further improvement in cost structure

We continued to improve the structure of our income statement in the past financial year, which is reflected in particular in staff costs. Although these rose by 5.7 % to € 614.6 million, they fell to 30.5 % of total output of operations (after 32.3 % in the previous year). This is due to the fact that the number of employees grew more slowly than total output of operations. The KSB Group employed an average of 413 more people in 2008 than in the previous year. KSB AG needed to create 172 additional jobs to cope with the increased order volume. The remaining increase in staff by 241 is attributable to other Group companies, without any particular focus. The average output per employee in the KSB Group rose year on year from € 131 thousand to € 142 thousand.

The ratio of other operating expenses to total output of operations also continued to decline (16.7 % compared with 17.3 %). This reflects the sustained effects of our cost-cutting structural measures taken in previous years.

Cost of materials rose by 12.4 %, only slightly faster than total output of operations (+ 11.8 %). The figure of € 843.4 million is equivalent to 41.9 % of total output of operations (previous year: 41.7%). Our efforts to reduce the cost of materials enabled us to stabilise the cost of materials ratio, despite strong price hikes on our procurement markets.

Earnings after taxes

The income tax rate remained virtually unchanged at 30.3 % compared with 30.2 % in 2007. The net profit for the year of € 139.5 million (previous year: € 89.9 million) therefore showed virtually the same growth rate as pre-tax earnings (+ 55.2 % and + 55.5 % respectively).

The minority interest in net profit / loss rose from € 13.1 million to € 16.4 million, but fell from 14.5 % to 11.7 % when measured as a percentage of net profit for the year. The change in the ratio was primarily due to the fact that earnings growth was generated predominantly at companies without minority interests, above all KSB AG.

The new production and testing facilities for large pumps in Frankenthal will enable KSB to safeguard and build on its leading role in the energy industry.

Consolidated net retained earnings of € 123.1 million are thus 60.3 % higher than in the previous year (€ 76.8 million).

Earnings per share

Earnings per ordinary share were € 70.17, compared with € 43.73 in the previous year, and € 70.43 per preference share, compared with € 43.99 in 2007.

KSB AG again sharply increases earnings

KSB AG generated pre-tax earnings (in accordance with HGB) of € 52.8 million, more than double the prior-year figure (€ 21.8 million). Both sales revenue (up 17.6 %) and total output of operations (up 18.4 %) rose significantly year on year.

Dividend up again

The continued improvement in KSB AG's earnings allows the dividend to be raised again. We will be proposing to the Annual General Meeting to distribute a dividend of € 12.50 per ordinary share and € 12.76 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, sales revenue growth led to a significant improvement in earnings. As described above, KSB AG accounted for a substantial proportion of this improvement. However, most of the other companies were also more successful than in the previous year. Overall, the Region increased EBIT to € 132.0 million (previous year: € 77.8 million). A 3.7 % increase in the average headcount was necessary to handle the sales revenue growth of 12.2 %.

The Group companies in the Region Middle East / Africa also improved their earnings by lifting their sales revenue by 18.3 %. Their EBIT rose from € 6.2 million to € 6.9 million.

With a slightly higher average headcount (up 1.7 %), the Region Asia / Pacific achieved sales revenue growth of 6.1 %. As a result, it generated EBIT of € 35.9 million, 14.2 % more than in 2007.

The Region Americas also recorded growth in earnings on the back of a 19.1 % rise in sales revenue. At € 33.4 million, EBIT is 55.2 % higher than in the previous year. To cope with the volume of orders, the average headcount was increased by 1.6 %.

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 € 200 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 € 400 million.

Equity

The KSB Group's equity amounts to € 605.8 million. This includes KSB AG's subscribed capital of € 44.8 million; the capital reserve amounts to € 66.7 million. Revenue reserves total € 289.6 million. The financial statements report consolidated net profit for the year of € 123.1 million and minority interest of € 81.6 million. Despite the € 163.4 million (13.0 %) rise in total equity and liabilities, the equity ratio again improved substantially to 42.6 % (previous year: 40.2 %).

Minority interest relates mainly to KSB Pumps Ltd. / India (€ 27.4 million), PAB GmbH / Germany (€ 12.1 million), KSB America Corporation / USA (€ 10.8 million), KSB Shanghai Pump Co. Ltd. / China (€ 8.7 million), SISTO Armaturen S.A. / Luxembourg (€ 4.9 million) and GIW Industries, Inc. / USA (€ 6.0 million).

Liabilities and provisions

The largest item under liabilities and provisions are pension provisions, which we increased by 4.9 % to € 223.7 million as of the reporting date. A large number of the pension plans currently in use in the KSB Group are defined benefit models. We will increasingly be reducing the resulting risks, such as demographic changes, inflation, or salary increases, for example by introducing a large number of defined contribution plans for new recruits.

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 14 years.

The other provisions also have long-term components (totalling € 45.9 million), mostly for obligations under partial retirement plans and for jubilee payments. The excess relates to provisions for mainly short-term uncertain liabilities.

The PumpDrive variable speed system provides for energy-efficient operation of centrifugal pumps.

The liabilities are also almost exclusively short-term. They relate mainly to purchased goods and services, corresponding to 14.1 % of total equity and liabilities, roughly at the same level as the previous years ratio of 14.3. %. Bank loans and overdrafts amounted to € 38.2 million (of which around € 20 million are due within one year); at 2.7 % (previous year: 3.5 %) of total equity and liabilities, they are relatively insignificant.

Contingencies and commitments

The KSB Group's off-balance sheet contingent liabilities totalled € 18.2 million as at the reporting date (previous year: € 26.0 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 from long-term rental, leasing and services agreements (in particular information technology and telecommunications agreements) and the standard purchase obligation.

Liquidity

The KSB Group's net financial position, i.e. the difference between cash and cash equivalents and current financial instruments on the one hand, and financial liabilities on the other, remains positive at € 129.1 million. This means it is virtually on a level with the previous year (€ 127.6 million).

Sources and application of funds

Cash flows from operating activities amounted to € 143.0 million, a year-on-year increase of € 19.1 million. This is mainly the result of the sharply improved net profit for the year. Cash flows were impacted by the increase in inventories and receivables due to the larger volume of business. However, this was offset to a significant extent by the growth in liabilities and advance payments.

The volume of our investing activities rose significantly compared with the previous year, resulting in cash flows of € –114.6 million (previous year € –83.1 million).

Cash flows from financing activities rose to € –29.2 million (previous year: € –22.5 million), primarily as a result of higher payments of dividends.

The KSB Group's cash and cash equivalents from all cash flows together rose from € 160.8 million to € 167.4 million (including € 18 million of restricted cash used to secure credit balances for partial retirement obligations). This includes changes in exchange rates.

We assume that, in future, we shall continue to be able to meet our outgoing payments largely from operating cash flow. However, we are prepared for any increase in our financing requirements due to the expansion of our agreed credit lines.

NET ASSETS

Our total assets rose by 13.0 % to € 1,421.4 million. This is mainly attributable to the increase in working capital due to the higher volume of business, as well as substantial investment in property, plant and equipment to ensure sufficient production capacity.

Around 29 % is attributable to fixed assets (previous year: 27 %). Intangible assets and property, plant and equipment with a historical cost of € 810.6 million have carrying amounts of € 360.7 million. Investments in property, plant and equipment in the year under review amounted to € 99.1 million, considerably in excess of depreciation (€ 31.4 million). The reasons for this include a sharp increase in advance payments and assets under construction, for which depreciation will only begin in the current financial year. The main focus of our investing activities was the Region Europe, especially the German production centres, as well as our companies in India and Brazil. We maintained our policies for measuring depreciation and amortisation in the year under review. Non-current financial assets increased by € 17.4 million, due among other things to the formation of new companies and the acquisition of relatively small sales and service companies in Europe.

Inventories continue to be financed to a significant extent by advance payments from customers. After offsetting advance payments, inventories tie up around 20 % of our funds. This represents a slight increase compared with the previous year (19 %).

As a result of the growth in our business, in particular the project business, the value of customer orders in progress increased further. This rise of € 20.5 million according to the percentage of completion method contributed to the growth in receivables. However, it was partially offset by a sharp increase in advance payments from customers. Receivables and other current assets account for around 38 % of total assets (previous year: around 39 %). They are primarily attributable to the Company's current deliveries of goods and services.

Around 12 % (previous year: 14 %) of assets comprise current financial instruments and cash.

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 € –17.4 million. This was taken directly to equity.

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

In the past financial year, the KSB Group continued to take major steps in improving its economic situation. This trend is reflected in all key figures and was supported by favourable market conditions almost throughout the entire financial year. The structural improvements that we have implemented in previous years, primarily at the parent company KSB AG, have had an equally beneficial effect. Growth in orders and our improved cost position led to a sharp increase in earnings, boosting our net assets and financial position.

The KSB Group is therefore in a strong position to counter the effects of the current financial and economic crisis.

Diaphragm valves from the Luxembourg KSB site in a pharmaceutical plant

PRINCIPLES OF THE 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 and widow's pensions). The fixed basic salary is paid monthly; the benefits include the use of a company car as well as covering insurance premiums. The variable remuneration component is linked to the consolidated net profit for the financial year in question, as well as to responsibility-related and individual, performance-related targets agreed with the members of the Board of Management, to ensure the flexible structuring of the variable remuneration. Apart from that, the total amount of the variable components is limited, to take account of extraordinary, unpredictable developments. No stock options or other share-based payment arrangements are granted to members of the Board of Management.

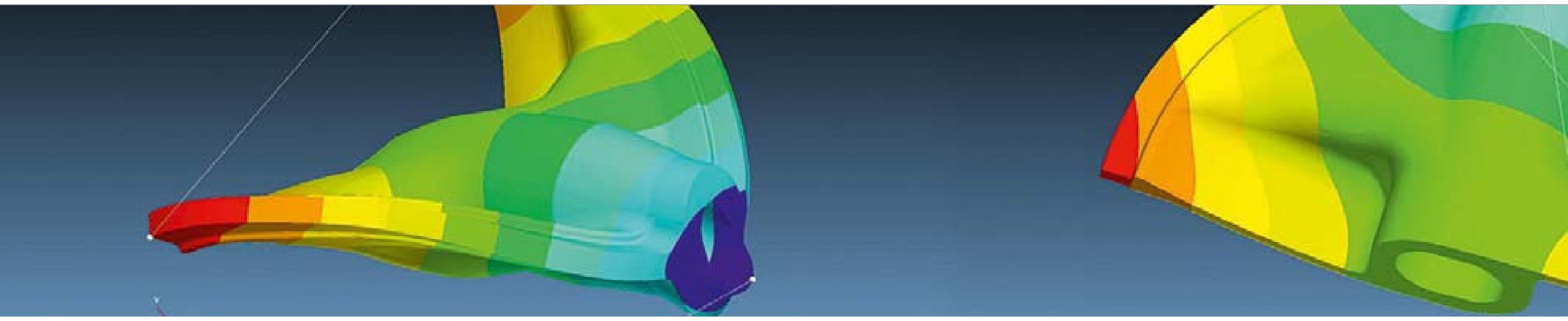
DEPENDENT COMPANY REPORT

The Board of Management has submitted the dependent company report to the Supervisory Board. This concludes with the following declaration: "In accordance with Art. 312(3) 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."

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 take into account the deepening financial and economic crisis. The potential impact of this on the KSB Group's development is addressed in the report on expected developments (page 77 ff.).



Research and Development

- Joint projects to save energy and protect the environment
- Diamond coat increases wear resistance
- Innovation prize for variants management

Innovations are an important competitive factor. To get these off the ground quickly and systematically, we have brought all our research operations together and separated them from the day-to-day business. In this way, selected experts can devote their attention almost exclusively to promising product developments and ideas for new fields of application.

The main focus of our research and development activities lies in the areas of hydraulics, materials engineering, drive technology and automation. With our specialists in these disciplines, we are developing new, ecologically acceptable und sustainable technical solutions. The greatest attention is being paid to the life cycle costs of our products.

Cooperation projects with partners from industry

To link up our research and development activities with the work of outside experts, we are engaging in cooperative projects of universities, public authorities and industrial partners. As part of these projects, we were involved in work on valves for the "725 °C high-temperature test loop" in the Grosskraftwerk Mannheim during the year under review. The aim of this project is to gather experience with valves for the low emissions power plants of the future. The first practical trials with our new high-temperature valves will take place in 2009.

"FlowUnit" is a project we have started in cooperation with a leading manufacturer of control valves and Darmstadt Technical University. The idea behind this project is to combine control valves and variable speed centrifugal pumps in order to save more energy than would be possible with pumps alone.

A further cooperative project that is still under way relates to so-called asset management systems, which serve to selectively maintain and operate equipment. Systems of this kind enable operators by and large to avoid having to keep expensive spare parts to hand. We are currently working on smart sensors together with partners from industry and a university to develop a reliable system. These sensors are intended to register the key operating data of a pump in an appropriate way and to forward the data to a higher-level system.

Tapping know-how at source

In cooperation with the University of Erlangen and various Fraunhofer institutes, we are working to enhance the quality of ceramic plain bearing materials. When it comes to improving the dry-running characteristics of pumps, we apply a thin diamond coating to the ceramic bearings. This is designed to substantially increase the service life of our zero-leakage pumps for process engineering applications.

Aiming to integrate automation products into existing systems in a user-friendly way, we work closely with manufacturers of process control and automation systems. The aim is to design our products in such a way that they can communicate immediately and easily with all the usual higher-level process control systems and automation systems. This simplifies our customers' planning and installation procedures and thus saves them time and money.

Stresses and loads acting on a butterfly valve disc can be analysed with the aid of virtual simulations.

Offering diversity through innovation management

In 2008, KSB was one of the three winners of the "Best Innovator" award, which is organised by the consulting firm A.T. Kearney together with the *Wirtschaftswoche* weekly business magazine. The prize was awarded in the "Complexity Management" category in appreciation of our capacity for manufacturing a large number of different designs, sizes and materials with comparatively little internal effort. The "high degree of transparency on costs and value per product" was also a reason for the jury to award the prize to KSB.

To help our customers to select the right pumps for their needs from the diversity of our product range, we have developed a selection program that is easy to use. This software known as KSB EasySelect® will replace several selection systems for KSB products and offer customers a model optimised in terms of price and technical parameters. The program can also evaluate proposed solutions according to various criteria such as price, level of efficiency and energy costs. The new software, which is available in 20 languages, was presented to customers for the first time at the ISH 2009 trade fair in Frankfurt.

Product innovations as the key to success

Successful new products are the foundation of our business success. The new products launched onto the market in 2008 include a low-speed submersible agitator, which reduces the internal energy consumption of biogas plants. At the same time, use of this product can broaden the range of utilisable biomass. Our engineers designed the rotor blades specifically for this application and calculated how the new units can best be positioned in biogas reactors.

Another example of striking innovations relates to our range of power plant products. The use of a special KSB wet rotor motor helped us to substantially improve the efficiency of our coolant pumps compared with competitor products. Medium-lubricated bearings add to the benefits, so our customers now have at their disposal very efficient seal-less pump sets.

Thanks to the development of a new generation of microprocessor-controlled level control devices, we can offer our customers economically attractive pump control systems for industrial applications and building services. The LevelControl Basic 2 series is easy to use and simplifies system design, because there are no interfaces between pump and monitoring system.

Research and development expenses

In 2008, we invested around € 32 million (previous year: € 31 million) in research and development. In the year under review, there were 340 people (previous year: 311) employed in research and development at KSB sites in Europe, Asia and the Americas.

Employees

- Group workforce increased by three percent
- Intensive recruitment and training of young talent
- Training for process optimisation

The needs of the market for the scope and nature of our services are changing. And as these needs continuously change, so too does the structure of our staff, whose qualification we align to both current and future requirements. In doing so, we set great store by people who commit their specialist skills to achieving the objectives of the company and are prepared to be guided in their work by our shared values.

To recruit, develop and retain such people is the primary task of our human resources work. With our human resources, we aim to be among the best in the international mechanical engineering sector.

418 new jobs created

The sustained level of orders in 2008 meant that we had to increase the workforce in key areas, such as sales, production and service. In several of our Group companies we recruited additional staff to eliminate capacity bottlenecks and make use of new business opportunities. Accordingly, the number of employees rose to 14,345 by the end of the year. Worldwide, we thus had 418 more employees on 31 December 2008 than we had at the end of the previous year.

At the same time, we managed to boost productivity per employee further, enabling us to cope with the strong growth of order intake (+12.7 %) while the increase in staff remained comparatively low (+3.0 %).

In the context of these new recruitments, the number of employees increased in all regions. Our European companies posted the greatest increase with an additional 249 employees.

Increased training of young talent

Our high demand for specialist staff and the demographic changes to be expected prompted us also to increase the number of places for trainees. While 67 young people started a course of vocational training at our sites in Frankenthal, Halle and Pegnitz in 2007, the number in 2008 increased to 83. The trend will continue in 2009. In the current year, we aim to offer apprenticeships to 105 young people, and another 20 jobs are available for participants in dual system studies (cooperative education). At the end of 2008, there were 274 trainees and participants in combined courses of study at our sites in Germany.

As far as country-specific training courses allow, we are also training our own young talents at our sites outside Germany. This applies, for example, to South Africa, where we offer a form of dual training in the context of so-called learnership programmes. This comprises a 56-week course of technical training at our site in Johannesburg, supplemented by external classes teaching theory. In this way, we qualified several young talents in 2008 for jobs in sales and technical departments.

University contacts help in personnel recruitment

Apart from our own training of young talents, we were and are in close contact with universities and universities of applied sciences so that we can get to know suitable engineers, business administration specialists and students of other disciplines at an early stage. Work experience, integrated trainee programmes and subject offers for dissertations provide these people with their first insight into our company.

We train most of our people for industrial jobs ourselves.

We cultivated close contacts last year in particular with the German universities in Aachen, Kaiserslautern and Karlsruhe. But internationally, too, we intensified our cooperation with important educational institutions, offering orientation programmes that are comparable with our German trainee programmes. These opportunities are used, for example, by students of the Jiangsu University in Shanghai, which offers the best research and teaching programme for pump technology in China.

Training offers for continuous learning

On the market, we are known among our customers not only for outstanding product and service quality, but also for the good consultancy skills of our employees. An important prerequisite for this is continuing education for our staff. This ranges from technical and business administration seminars through language courses, process and IT training to intercultural training that we offer for strategically important countries.

KSB employees have to keep abreast of the latest trends at all times through “lifelong learning”, which explicitly includes our older employees. In France and Germany alone, our internal continuing education programme in 2008 included 700 internal courses and training sessions, in which about 4,000 employees took part. A key focus of training was also in India, where 1,200 employees qualified in continuing education programmes.

The content of the courses held in 2008 included methods for improving our processes and fostering internal collaboration. For example, we trained people to act as facilitators in workshops on continuous improvement or to optimise internal processes as Six Sigma experts. Our internal training centre also held team building seminars, which enabled attendees to practice various forms of cooperative work.

Lively feedback culture

Good in-house cooperation also calls for regular feedback discussions, in which participants can exchange information on the quality and various perspectives of their work. This is part of the purpose behind performance appraisal interviews and potential analyses, in which managers talk to their direct reports about their achievements, further training goals and career development opportunities.

By the same token, “management feedback” provides employees with an opportunity to show their managers how they perceive their behaviour. In this way, our managers – from departmental and unit heads to senior executives, managing directors and members of the Board of Management – are given a better understanding of their strengths and weaknesses, so that they can continuously improve their leadership and management work. In 2008, we conducted management feedback rounds in Germany, Austria and Switzerland and for the first time also in Finland. More than two-thirds of all employees in these countries took part.

For the second time since 2004, we also conducted an employee survey in India, in which 95 % of people took part. The respondents had an opportunity to give their views on work processes and collaboration within the company. The results led to an action plan, which we are implementing in the current year. The same applies to dedicated surveys, predominantly on internal services, which were held in several companies.

The objective of such measures is to create a working atmosphere in which tolerance and mutual respect are combined with a professional approach to work and management. In this way, we aim to achieve continuous improvement in the fulfilment of duties at KSB.

Corporate responsibility

- Participation in educational projects of the *Wissensfabrik*
- KSB CARE finances school education in Asia
- Commitment to health and environmental protection

A company's performance can be judged not only by its business success. It is also reflected in the way the company lives up to its responsibilities towards its employees and society. Wherever we operate, we therefore help to tackle common challenges, to protect our environment and to conserve natural resources. Particular importance is attached to the welfare of our employees, whose health we seek to protect through a range of voluntary measures.

Collaboration on educational initiatives

A core theme of our social engagement is pre-school and school education. This is a prerequisite for children developing their skills early on and later pursuing a career that matches their talents and the opportunities open to them. For this reason, the right course for acquiring knowledge needs to be set at any early stage.

As a founding member of a charitable organisation known as *Wissensfabrik – Unternehmen für Deutschland e.V.* [Knowledge Factory], we have been committed since 2005 to the promotion of language learning and to fostering an interest in science, technology and business. Under the auspices of this organisation, which currently counts more than 60 companies among is members, we also initiated school projects and awarded prizes at three sites in Germany during 2008 in which young people were given the opportunity to develop and implement a business idea in the form of a product or a service. The main focus was on practical learning in a group, on teamwork and on understanding business issues.

At several German primary schools we introduced a "how stuff works" kind of experiment kit which enables teachers and pupils to carry out simple scientific experiments under qualified guidance. In a pilot project of the Knowledge Factory, we also held "story-telling workshops" in kindergartens to demonstrate ways of fostering pre-school language learning.

Donor projects in Asia and Germany

Children are the future of every country. But in many developing countries, young people do not even receive an elementary school education. For this reason, KSB companies in the Region Asia / Pacific launched a project called KSB CARE. The objective is to provide project-oriented finance for the education of needy children and to support educational institutions in ten Asian countries. The KSB companies involved aim to spend a total of 65,000 euros on this per year, while KSB India will donate an additional one-off sum of 80,000 euros.

In this context, we are supporting 123 elementary school kids in Hoa-Binh province, 80 kilometres from Hanoi, in Vietnam. We have also provided funding in Thailand enabling 25 pupils to receive education from the first to the third grade. In Pakistan, we funded the renovation of a girls' school in Hassanabdal, as well as school uniforms for male students. In addition, we are helping the rebuilding effort in the Chinese province of Sechuan, which was devastated by a severe earthquake in May 2008. We are supporting a foundation that has set itself the task of re-establishing kindergarten facilities in the province. Our Asian companies and KSB AG donated a total of 100,000 euros for relief aid in the earthquake region.

In Germany, as part of our Christmas "donations instead of Christmas gifts" campaign that has been a regular activity since 1996, we spent 45,000 euros at our three German sites in 2008 in aid of young and socially disadvantaged people. As in previous years, the recipients of this money again included educational institutions.

With a pilot project aimed at promoting language skills, we are engaged in the Knowledge Factory organisation "Wissensfabrik – Unternehmen für Deutschland e.V."

Health management for active employees

Only employees who are healthy can be effective in their work. To ensure the well-being of our staff, we engage in preventive health care at many of our sites. In doing so, we take into account, as we do also in the organisation of work, the special needs of older employees.

Apart from check-ups by the company health officers, our health management activities include, for example, vaccination offers especially for flu prevention, medication for the treatment of minor ailments, such as colds, and regular health checks for employees over 55 years. In the year under review, we also held a special nationwide campaign in Germany, together with health insurers advita BKK, for the early detection of colon cancer. To support the health-promoting activities of our employees, we offer various opportunities to take part in KSB sports groups or use fitness studios.

Our US American subsidiary GIW Industries initiated a programme for its staff aimed at encouraging them to take more exercise and opt for a healthy diet. This programme included advice on health-conscious nutrition and weight reduction, together with a twelve-week competition for employees willing to lose weight. In addition, GIW funded membership of fitness centres for employees who took part in sporting activities at least eight times a month.

Protection for people and the environment

The threat to our climate, the negative impact on our environment and the depletion of natural resources are all factors which we also have to address in our work. We therefore support the objectives of the Kyoto protocol and show responsibility towards our environment. So not only do we contribute to energy efficiency and environmental protection with our products; we also organise our work processes and work environment in such a way that we consume as little electricity, fuel and raw materials ourselves as possible.

In 2008, energy input and emissions were important factors we considered in the planning and construction of new buildings. Production facilities in Frankenthal, Halle and Pegnitz and also the company restaurant in La Roche Chalais were fitted with modern sound insulation and thermal insulation. Structural measures in our new Frankenthal production facility for large pumps provide for plenty of daylight and an efficient cooling system. This makes sure that work in this facility is also advantageous in terms of health aspects.

To conserve energy, we modernised a large 2,600 square metre facility in Shanghai and installed a geothermal system to heat and cool the building. Geothermal energy is a renewable, low-cost energy source that helps to conserve the environment. At the Italian site of Concorezzo, we have taken action to reduce electricity and gas consumption.

To make sure no usable residues are wasted at our Brazilian foundry, we entered into an agreement with a recycling company that recycles the materials left over in surface machining processes. At our site of Dalian in northern China, too, we now have left-over materials such as iron and stainless steel chippings and shavings recycled.

To comply with environmental and occupational health and safety standards, we modernised our coating and paint-spray stations in the Netherlands during 2008. The new booths are now fitted with automatic venting systems.

Environmental protection and occupational health and safety are important aspects of product creation not only for us, but also for many customers. Every year, therefore, we ensure that production sites have ISO 14001 and OHSAS 18001 certification for environmental and occupational health and safety standards. In 2008, four sites in Argentina and Chile received the relevant certification, thus providing documentation of our commitment for customers.

Risk Management

- Internal management system enhanced
- Delivery situation largely back to normal
- Greater risk diversification for investments

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 aid of a corporate risk management system whose organisation and implementation guidelines are documented in a manual. According to the specifications in this 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 which present themselves for profit-oriented growth. The Internal Audits department therefore regularly checks to what extent all operating units observe these guidelines and whether they are actively and regularly cooperating in risk management.

Reporting on identified risks and the countermeasures initiated is an integral part of the planning and controlling process. In this process, the risks are identified and communicated based on the following categories:

Market / Competition

2008 again saw strong demand for our products. This led to a sustained high level of capacity utilisation on the production and assembly lines at various sites.

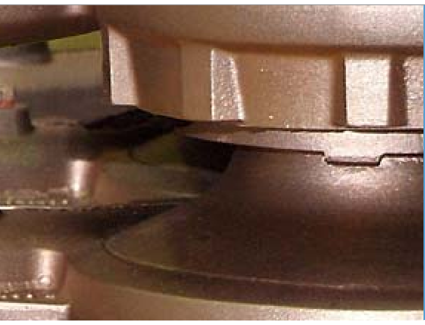
By expanding our capacity, we were able to improve the delivery situation again, which had been strained in the previous years. The development of new production and test facilities will eliminate bottlenecks that still affect some products. At present, competition is particularly tough for standardised products. We are able to defend our position well here thanks in particular to our computer-based order handling and clearly structured business processes.

In the export business, the fall in the value of the dollar against the euro led to a worsening of our position in relation to American and certain Asian competitors. We offset these currency disadvantages to some extent through increased purchasing and production in the dollar zone.

For 2009, we expect several business areas to be affected by the current negative economic trends. In light of the uncertain forecasts about the way the economic crisis will develop, however, it is very difficult at present to assess its impact. We are trying to maintain our market position in this phase of economic weakness and, if possible, to extend our lead over our competitors, through intensive customer support and by acquiring new customers.

We intend to leverage our broad range of solutions to offset declines in certain sectors by increasing our infrastructure-related activities. We believe that global demand for pumps, valves and systems will remain healthy especially in energy generation, water supply and waste water management.

We have enhanced our internal management model so as to be able to identify economic risks in various sectors at an early stage. As part of this, we have introduced a rolling quarterly forecast with a time horizon stretching further into the future. This allows us to respond to changes at an earlier stage.



Pumps and valves are predominantly manufactured from metallic materials.

Products / Projects

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

In the year under review, bottlenecks in the supply markets made it difficult at times to provide our products within the normal delivery periods. We therefore quickly developed alternative sources of supply and adjusted to the scarcer availability of resources in our planning and handling of material procurement.

Changing conditions such as rising material costs can repeatedly call into question the competitiveness of individual product prices. To ensure that we can sustainably offer our pumps, valves and systems at market prices, we adopt a design-to-cost approach. With this method, product developers look for the lowest-cost solution for each component.

Finances / Liquidity

The global nature of our business operations entails a number of financial risks that have increased because of the current financial crisis. To minimise these risks, Finance and Accounting, as well as Controlling, constantly analyse current developments and react accordingly. They report each month on the Group's financial position to the Board of Management and the Supervisory Board.

A standardised global reporting system helps to identify profit and liquidity risks early on. To avoid payment defaults, we have implemented a strict payment management system, especially in the large-scale projects business. This includes advance payments and instalments.

Financial risk also includes risk resulting from exchange rate movements. We use exchange rate hedges to reduce the increased currency risk resulting from the weakness of the dollar.

We invest cash funds with several banks in order to diversify risk. In doing so, we give preference to institutions that currently appear to be less threatened by the financial crisis, or that have received federal or state guarantees.

We only borrow funds to a very limited extent. This applies primarily to a number of ongoing loans that are used to finance long-term projects. As a precaution, we have obtained additional committed credit lines from various banks so that we can cover any financing requirements that arise in the future.

Because of the current uncertainty about the extent and duration of the economic crisis, we are preparing for a period of consolidation and are undertaking particularly critical reviews of the need for investments to expand capacity. Additionally, we are only recruiting new staff in exceptional cases.

Procurement

Bottlenecks may occasionally occur on the procurement side and lead to prolonged delivery times. In 2008, for example, various commodities and materials were only available to a limited extent. To increase the reliability of supplies, we are further extending our strategic partnerships with key suppliers. At the same time, we are continuing the search for alternative sources of supply.

To allow us to start materials planning at an earlier stage, we have made corresponding adjustments to the planning instruments. However, we expect the materials bottlenecks to improve because of the economic situation.

Prices in general, and prices for high-grade steel in particular, were stable at a high level in 2008, and we expect them to fall in 2009.

Technology / Research and Development

The development process for new products encompasses the identification and assessment of technical and market-related risks in good time. For example, design and engineering measures may be taken to make adjustments when new market needs arise. Sales staff are therefore involved in all important phases of product development.

KSB increasingly develops products that have been adapted to meet customer specifications and can only be used in limited applications. The contracts concluded with customers ensure that compensation is paid for customised developments regardless of their later use. This enables any financial risk for the KSB Group 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 internal environmental standards that go beyond these regulations. Appropriate provisions are recognised to provide financial cover for any remediation needed in the event of legacy contamination at individual sites.

Other risks

If IT systems or individual programs fail, this usually hampers work flows in companies. Even more 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 protect ourselves from outage-related bottlenecks.

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 will experience shortages in future. Structured succession planning will make it easier for us to fill vacancies quickly at all management levels.

Overall assessment

In financial year 2008, 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. We cannot yet assess the duration and extent of the financial crisis and the impact it will have on the growth of the real economy.

High-pressure pumps for a seawater desalination plant in Australia

Report on Expected Developments

- Global decline in demand for pumps and valves
- Continued adequate market opportunities in the project business
- Weaker order intake, sales revenue and earnings development expected

Market developments and sales opportunities

The global economic downturn that already emerged at the end of 2008 is affecting economic growth in both industrialised and emerging economies in 2009. For this reason, the global economy will not continue to grow in 2009, but will experience a negative trend for an, as yet, unforeseeable period of time. Export-driven countries will suffer particularly from this new situation.

In Europe, KSB's most important market, economic output – and consequently industrial output – will decline. Demand for plant and machinery will decrease in line with this. In February 2009, the VDMA [German Engineering Federation] forecast an average seven percent decline in real output across all relevant manufacturing sectors for 2009.

Many companies are cutting back on their investments in new production facilities, not least because of financing problems. There will continue to be demand for technical equipment where infrastructure projects are designed to improve supply to the population and industry. This applies in particular to countries that are developing new water resources and creating additional electricity capacity.

Order intake for pumps, valves and related systems is also affected by the general slump in demand. For this reason, the manufacturers will not be able to repeat the positive trend recorded in the previous years. However, while the business with standard pumps and valves responds quickly to economic changes, there is a delay in the impact on the project business with large pumps and valves. At companies such as KSB – which has a broad customer base and product range – this difference in the response to market changes can have a stabilising effect.

As long as customers remain reluctant to invest, the pumps and valves industry must expect order intake and sales revenue to decline. This applies to our market segments to a varying extent.

- Industry and Building Services

In what continues to be KSB's most important sector, industry, demand for standard pumps and valves declined significantly at the beginning of 2009. This is due mainly to production cutbacks at many chemical plants, in the steel industry and in the machine tools and automotive industries. Some industrial customers are also cutting back on maintenance work to a significant extent.

By contrast, additional orders from the refinery and petrochemicals sectors are expected in the project business. These relate to new plants in the Middle East and North Africa, for example. Major projects are also about to be implemented in China and Brazil, which means that business for our industrial products will be able to develop positively in those countries. However, this will not be able to offset the overall decline in the standard business.

Our products for building services are facing a contracting market in 2009. In countries such as Russia and the United Arab Emirates, which experienced buoyant construction activity in the first half of 2008, several investors have halted or slowed down their projects because of financing problems. The economic stimulus packages in a number of countries are likely to generate a positive impetus for our business where these provide funds for refurbishing public buildings. This may involve the increased use of automation products that help cut the energy consumption of technical systems in buildings.

- Water and Waste Water

Continuing population growth and the increasing water shortage in some regions are lifting demand for fresh water. Major water projects are therefore being continued despite the deterioration in the economic situation. Large projects are also currently planned in North Africa, Southern Europe and Australia. These include the construction of new seawater desalination systems. The market for seawater desalination is currently expected to grow by 15 % a year up to 2020, although financing problems caused by the present economic situation will have to be solved. Following the expansion of our production facilities in Halle, we are well equipped to meet demand for the sort of large pumps used in desalination plants and water pipelines.

Our range of pumps, mixers and agitators for the waste water industry enables us to participate in a buoyant project business this year. There are plans to build new water treatment plants or refurbish existing facilities above all in the Middle East, China and Russia. We see more significant financing problems in new construction projects and the modernisation of smaller plants in which our standard products are used. Overall, however, we expect that we will at least be able to stabilise our waste water business in 2009. In addition, we will exploit opportunities that emerge for our submersible motor mixers and agitators in equipment for biogas plants. Such plants are currently being constructed especially in Germany, Italy, Russia and the Balkan nations. We also expect demand in this area to grow outside Europe in 2010.

- Energy and Mining

Power utilities are continuing to build plants to meet the growing demand for electricity. Despite delays in some projects, we received new inquiries in this sector in the first quarter of 2009. Additionally, the companies are implementing a large number of projects for which we have already received orders. We will deliver the pumps and valves ordered for these projects between 2009 and 2011.

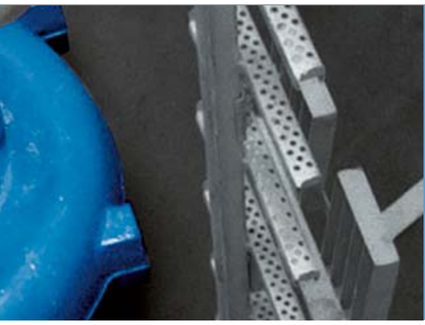
In principle, however, rising costs of capital and consequent financing problems can adversely affect the willingness of the energy industry to invest. A continuation of the crisis may therefore significantly curb this business starting in the coming year.

In the Chinese power plant market, which has recorded strong growth for several years, fewer coal-fired plants are currently being planned. Instead, nuclear power is gaining in importance – as in other countries – to meet the long-term increase in China’s energy needs. Backed up by our new joint venture, Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., which is focused on supplying Chinese nuclear power plants, we are well positioned to participate in this trend.

In the mining industry, the weaker demand for raw materials means that there is a trend toward halting development of new production capacity. The lower capacity utilisation of the existing plants is also reducing demand for replacement systems and components. This also affects our slurry pumps manufactured in the USA.

Outlook for the Group and for the Regions

The future direction of the financial crisis and the resulting economic crisis is uncertain at the time this report was prepared. Our assessment of the economic downturn is that it will result in a significant decline in both order intake and sales revenue in the Group in 2009. In view of the high level of orders on hand of approximately € 950 million – at the beginning of the year – we expect that sales revenue will tend to perform better than order intake.



Submersible pump sets in a waste water pumping station

- Europe

Demand is expected to contract in the pumps and valves market in 2009. The market weakness will be more pronounced in the countries of Eastern Europe than in the core member states of the European Union. In particular the severe crisis in several branches of industry will adversely affect our European business with standard products. By contrast, we still expect that certain segments of our project business will continue to benefit from a good order intake. To be able to exploit the existing potential to the best extent possible, we have reinforced our support for selected customers and also launched a programme to acquire new ones.

- Middle East / Africa

The governments of several Middle Eastern countries have announced that they will stick to their investment plans despite the fall in oil prices. These plans relate in particular to large power plant and real estate projects, although some of these may experience delays. We intend to continue participating in this project business in the Region. In the African countries, our customers are again implementing state-financed water supply and waste water projects in 2009. The stronger presence offered by our own staff allows us to improve support for customers in these countries.

- Asia / Pacific

The brisk pace of economic expansion in the growth drivers in this Region is weakening, and many countries are actually in a recession. Although key infrastructure programmes are being continued, an overall lower contract award volume is expected. In particular projects whose financing has been made more difficult by the banking crisis are being delayed.

We are using our strong presence in the Region to reinforce customer contacts and are focusing primarily on sectors that are less heavily affected by the general economic downturn. We believe that the development of our service business, including the provision of spare parts, offers good potential. In view of the credit crunch, solutions that enable energy-saving operation of pumps and systems are also becoming increasingly attractive.

- Americas

In North America, the origin of the financial and economic crisis, market opportunities have declined further in 2009 compared with the previous year. Our companies there are feeling this in almost all sales markets, including raw materials extraction and processing. The Canadian oil sands industry, for which we provide slurry pumps, has also significantly cut back production because of the fall in oil prices. However, demand is still healthy in the power plant pumps business.

The countries of South America are also feeling the effects of the crisis, which already impacted our business with standard products at the beginning of the year. Projects in the Brazilian oil industry and in the water industry still offer good opportunities. Our companies are also reinforcing their activities in segments that were less actively pursued in the past, such as seawater desalination in the USA, the Caribbean and Chile.

Financial outlook

Uncertainty about how the financial and economic crisis will develop means it is difficult to make a reliable forecast about future order intake. Based on the assumption that our short-cycle standard business will continue to weaken, but the project business will initially see no serious collapse, we believe that the decline in 2009 will be in the single-digit percentage range compared with the previous year. However, the downward trend may accelerate in 2010 if the longer-term project business then also suffers more heavily from the effects of the economic crisis. If the standard business recovers in the coming year, this would generate a positive counter-effect. However, this is still in doubt as things stand today.

Gate valves for use in a chemicals plant in Hungary

2009 sales revenue will probably be lower than in the previous year, although our very high level of orders on hand will partly cushion the decline in order intake. In line with the slackening order intake, however, we are expecting a further significant decrease in sales revenue in 2010.

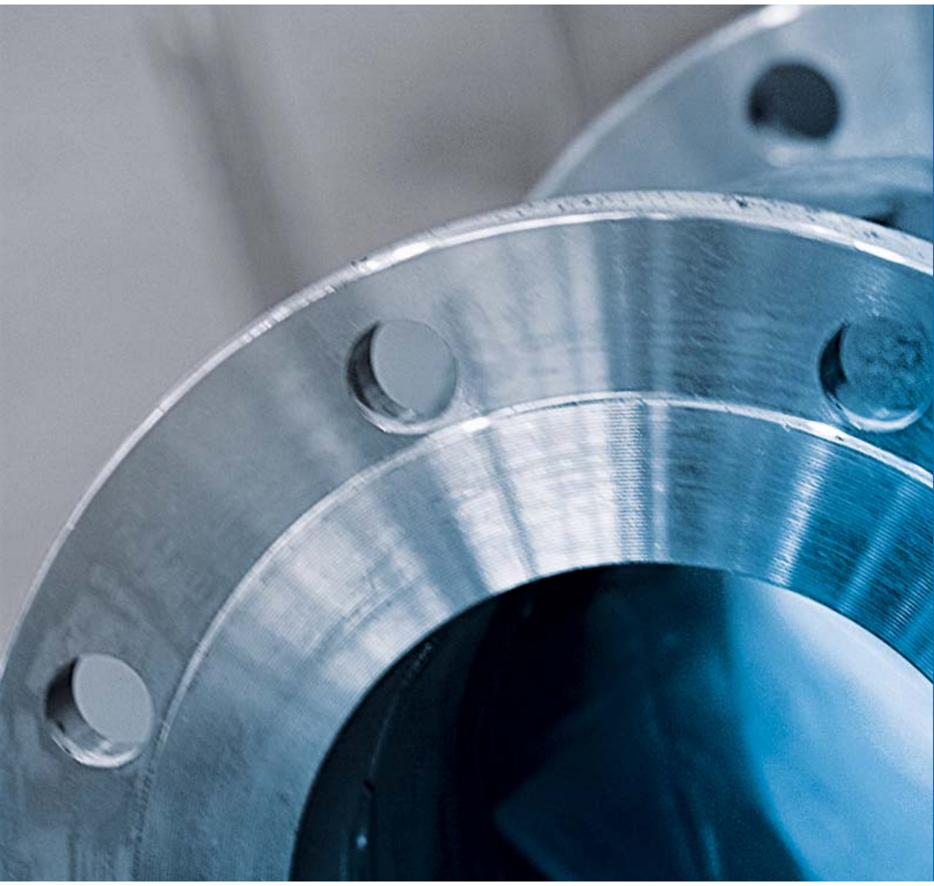
The lower level of capacity utilisation at our production facilities will result in higher unit costs because of the fixed cost remanence. In conjunction with wage cost increases that have already been agreed and stronger price pressure on our sales markets, this will inevitably lead to considerable earnings shortfalls both this year and next year. An offsetting effect can only be expected from stable or even falling prices for purchased materials.

Even in difficult economic times, we intend to continue pursuing our strategic growth targets, although we will manage the funds needed for this extremely judiciously. For investments in property, plant and equipment, this means that we will postpone capacity expansion measures as far as possible and concentrate on investing in rationalisation projects. We will only look at acquisitions if opportunities arise to implement our strategy that prove to be extremely attractive even after considering all financial aspects.

Our top priority in the near term will be to focus on cash management so that we can safeguard the Group's liquidity at all times. Stricter cost management and the restriction of working capital will help us achieve this objective. To allow us to cope with unexpected financial developments, we have agreed committed multi-year credit lines with our core banks. We will obtain commitments on additional credit lines and also take on longer-term debt as a precaution.

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.



Consolidated Financial Statements

Balance Sheet

ASSETS (€ thousands)	Notes	31 Dec. 2008	31 Dec. 2007
Non-current assets			
Intangible assets	1	47,483	46,929
Property, plant and equipment	1	313,180	254,272
Non-current financial assets	1	56,962	39,559
Deferred tax assets	2	13,703	12,384
		431,328	353,144
Current assets			
Inventories	3	282,097	238,304
Receivables and other current assets	4	540,407	485,216
Current financial instruments	5	199	20,535
Cash	5	167,360	160,803
		990,063	904,858
		1,421,391	**1,258,002**

EQUITY AND LIABILITIES (€ thousands)	Notes	31 Dec. 2008	31 Dec. 2007
Equity			
Subscribed capital	6	44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		289,649	247,638
Consolidated net profit for the year		123,121	76,807
Minority interest		81,615	70,021
		605,820	505,901
Non-current liabilities			
Deferred tax liabilities	7	28,114	13,339
Provisions for pensions and similar obligations	8	223,737	213,383
Other provisions	9	45,866	45,609
Liabilities	10	23,516	29,521
		321,233	301,852
Current liabilities			
Other provisions	9	200,105	180,296
Liabilities	10	294,233	269,953
		494,338	450,249
		1,421,391	**1,258,002**

Income Statement

(€ thousands)	Notes	2008	2007
Sales revenue	11	**1,991,739**	**1,770,875**
Changes in inventories		19,765	28,362
Work performed and capitalised		2,417	1,590
Total output of operations		**2,013,921**	**1,800,827**
Other operating income	12	31,247	20,616
Cost of materials	13	– 843,439	– 750,417
Staff costs	14	– 614,628	– 581,571
Depreciation and amortisation expense		– 35,017	– 34,638
Other operating expenses	15	– 336,765	– 312,052
Other taxes		– 7,973	– 8,338
		207,346	**134,427**
Income from investments	16	4,283	2,939
Other financial income / expense	16	– 11,512	– 8,664
		– 7,229	**– 5,725**
Earnings before income taxes		**200,117**	**128,702**
Taxes on income	17	– 60,632	– 38,841
Net profit for the year		**139,485**	**89,861**
Minority interest in net profit / loss	18	– 16,364	– 13,054
Consolidated net profit for the year (attributable to shareholders)		**123,121**	**76,807**
Diluted and basic earnings per ordinary share (€)	20	70.17	43.73
Diluted and basic earnings per preference share (€)	20	70.43	43.99

Statement of Changes in Equity

including minority interest

(€ thousands)	1 Jan. 2007	Net profit/loss for the year	Dividends paid	Transfer to / from revenue reserves	Capital increases / decreases	Currency translation changes	Change in cons. Group / Successive acquisitions	Measurement of financial instruments	Adjustments taken directly to equity / Other	**31 Dec. 2007**
Subscribed capital of KSB AG	44,772	–	–	–	–	–	–	–	–	44,772
Capital reserve of KSB AG	66,663	–	–	–	–	–	–	–	–	66,663
Revenue reserves	199,111	–	–	45,524	–	– 2,601	1,193	1,149	3,262	247,638
Consolidated net profit for the year	49,476	76,807	– 3,952	– 45,524	–	–	–	–	–	76,807
	360,022	76,807	– 3,952	–	–	– 2,601	1,193	1,149	3,262	435,880
Minority interest	66,541	13,054	– 1,906	–	143	– 3,514	– 4,580	76	207	70,021
	426,563	**89,861**	**– 5,858**	**–**	**143**	**– 6,115**	**– 3,387**	**1,225**	**3,469**	**505,901**

(€ thousands)	1 Jan. 2008	Net profit/loss for the year	Dividends paid	Transfer to / from revenue reserves	Capital increases / decreases	Currency translation changes	Change in cons. Group / Successive acquisitions	Measurement of financial instruments	Adjustments taken directly to equity / Other	**31 Dec. 2008**
Subscribed capital of KSB AG	44,772	–	–	–	–	–	–	–	–	44,772
Capital reserve of KSB AG	66,663	–	–	–	–	–	–	–	–	66,663
Revenue reserves	247,638	–	–	60,820	–	– 15,034	–	– 3,824	49	289,649
Consolidated net profit for the year	76,807	123,121	– 15,987	– 60,820	–	–	–	–	–	123,121
	435,880	123,121	– 15,987	–	–	– 15,034	–	– 3,824	49	524,205
Minority interest	70,021	16,364	– 2,274	–	–	– 2,317	–	– 65	– 114	81,615
	505,901	**139,485**	**– 18,261**	**–**	**–**	**– 17,351**	**–**	**– 3,889**	**– 65**	**605,820**

(€ thousands)	31 Dec. 2007	**31 Dec. 2008**
Accumulated currency translation differences	– 63,824	– 81,175
thereof applicable to minority interest	– 18,055	– 20,372

Cash Flow Statement

(€ thousands)	2008	2007
Net profit for the year	139,485	89,861
Depreciation and amortisation expense	37,859	35,138
Increase in non-current provisions	6,433	13,933
Gain / loss on disposal of fixed assets	169	– 391
Cash flow	**183,946**	**138,541**
Increase in inventories	– 45,316	– 57,675
Increase in trade receivables and other assets	– 72,948	– 54,105
Increase in current provisions	23,764	20,396
Increase in advances received from customers	15,281	44,433
Increase in liabilities (excluding financial liabilities)	39,992	31,582
Other non-cash income / expenses (operating)	– 1,731	673
	– 40,958	– 14,696
Cash flows from operating activities	**142,988**	**123,845**
Proceeds from disposal of intangible assets	5	43
Payments to acquire intangible assets	– 2,677	– 5,970
Proceeds from disposal of property, plant and equipment	1,691	1,640
Payments to acquire property, plant and equipment	– 92,253	– 53,469
Proceeds from disposal of non-current financial assets	211	132
Payments to acquire non-current financial assets	– 20,557	– 16,790
Net cash flows from the acquisition and sale of consolidated companies and other business units (basically successive acquisitions)	– 127	– 9,028
Other non-cash income / expenses (investing)	– 866	359
Cash flows from investing activities	**– 114,573**	**– 83,083**
Proceeds from additions to equity	–	143
Dividends paid for prior year (including minority interest)	– 18,261	– 5,858
Deferred compensation within the scope of employee pension plans	3,764	3,260
Net cash flows from financial liabilities	– 6,707	– 17,080
Net cash flows from financial receivables	– 7,145	– 3,308
Other non-cash income / expenses (financing)	– 866	337
Cash flows from financing activities	**– 29,215**	**– 22,506**
Net change in cash and cash equivalents excluding term deposits to hedge credit balances for partial retirement arrangements	– 800	18,256
Term deposits to hedge credit balances for partial retirement arrangements	18,000	–
Effects of exchange rate changes on cash and cash equivalents	– 10,643	– 342
Effects of changes in consolidated Group	–	774
Cash and cash equivalents at beginning of period	160,803	142,115
Cash and cash equivalents at end of period	**167,360**	**160,803**
Supplemental disclosures:		
Interest received	7,999	7,123
Interest paid	– 4,756	– 5,391
Income taxes paid	– 43,513	– 33,571
Dividends received	4,283	2,939

Segment Reporting

by region

(€ thousands)	Region Europe 2008	Region Europe 2007	Region Middle East / Africa 2008	Region Middle East / Africa 2007
External sales revenue of the Group companies by segment	**1,378,612**	**1,228,270**	**59,313**	**50,139**
by geographic area				
Europe	1,129,303	997,156	38	93
Middle East / Africa	107,590	87,619	58,932	49,763
Asia / Pacific	121,479	123,592	223	153
Americas	20,240	19,903	120	130
Inter-segment sales revenue	**87,724**	**62,780**	**485**	**1,555**
Segment result (EBIT)	**131,992**	**77,847**	**6,874**	**6,243**
thereof depreciation and amortisation expense	25,208	25,402	595	619
thereof write-downs of non-current financial assets	2,692	500	–	–
thereof other non-cash items	6,356	12,652	– 27	216
thereof net profit or loss of equity-accounted investments	–	–	–	–
thereof income from investments	3,337	2,007	478	364
Segment assets	**988,044**	**886,619**	**38,935**	**29,804**
Segment liabilities	**607,441**	**585,276**	**26,119**	**22,319**
Capital expenditure	**75,894**	**40,992**	**1,535**	**1,054**
Number of employees (annual average)	**7,828**	**7,546**	**496**	**459**

by market

(€ thousands)	Industry and Building Services 2008	Industry and Building Services 2007
External sales revenue of the Group companies by segment	**1,023,516**	**941,777**
Segment assets	**723,386**	**662,436**
Capital expenditure	**52,669**	**40,848**

	Region Asia / Pacific		Region Americas		Total	
	2008	2007	**2008**	2007	**2008**	2007
	267,359	**251,885**	**286,455**	**240,581**	**1,991,739**	**1,770,875**
	300	223	4,359	2,797	1,134,000	1,000,269
	1,605	10,866	162	130	168,289	148,378
	265,424	240,771	1,171	4,652	388,297	369,168
	30	25	280,763	233,002	301,153	253,060
	10,914	**9,463**	**9,894**	**5,281**	**109,017**	**79,079**
	35,898	**31,423**	**33,418**	**21,537**	**208,182**	**137,050**
	4,156	3,854	5,058	4,763	35,017	34,638
	–	–	–	–	2,692	500
	278	611	–5	63	6,602	13,542
	–	–	–	–	–	–
	234	481	234	87	4,283	2,939
	226,734	**186,470**	**153,975**	**142,725**	**1,407,688**	**1,245,618**
	94,808	**76,055**	**49,668**	**47,976**	**778,036**	**731,626**
	16,619	**14,132**	**9,589**	**6,564**	**103,637**	**62,742**
	3,931	**3,867**	**1,951**	**1,921**	**14,206**	**13,793**

	Water and Waste Water		Energy and Mining		Total	
	2008	2007	**2008**	2007	**2008**	2007
	387,423	**321,179**	**580,800**	**507,919**	**1,991,739**	**1,770,875**
	273,815	**225,919**	**410,487**	**357,263**	**1,407,688**	**1,245,618**
	19,936	**13,930**	**31,032**	**7,964**	**103,637**	**62,742**

NOTES

General

Basis of preparation

The accompanying consolidated financial statements of KSB AG, Frankenthal, 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) 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 19 March 2009.

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 Interpretation and revised Standards issued by the International Accounting Standards Board (IASB) were required to be applied for the first time in financial year 2008:

- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

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

- IAS 1 *Presentation of Financial Statements*
- IAS 23 *Borrowing Costs*
- IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*
- IAS 32 *Financial Instruments: Presentation*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 2 *Share-based Payment*

- IFRS 3 *Business Combinations*
- IFRS 8 *Operating Segments*
- *Annual Improvements*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

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 no expenses (previous year: € 9,028 thousand) for successive acquisitions of consolidated companies in the year under review. € 19,956 thousand (previous year: € 16,789 thousand) was spent on companies that have not yet been consolidated because this would not have had a material impact. This amount resulted from newly formed companies in Europe and Asia, capitalisation measures and the acquisition of relatively small sales and service units in Europe.

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 minority 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. 2008	31 Dec. 2007	**2008**	2007
1 US dollar	0.719	0.679	0.680	0.730
1 Brazilian real	0.308	0.381	0.374	0.375
100 Indian rupees	1.473	1.725	1.568	1.828
100 Chinese yuan	10.531	9.300	9.782	9.601

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. Borrowing costs are not capitalised.

Production cost

In addition to direct material and labour costs, production cost includes production-related administrative expenses. General administrative expenses, selling expenses and borrowing costs are not capitalised.

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. 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 based on market prices or 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 is tested for impairment at least once a year. 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 instruments are carried at their fair values at the balance sheet date.

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 their principal amounts. 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.

Current financial instruments

Current financial instruments are carried at their fair value at the balance sheet date.

Cash

Cash items are carried at their principal amounts.

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 carried at their redemption amount.

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**	
Historical cost	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Balance at 1 January	30,158	26,588	37,172	30,973	384	2,348	**67,714**	**59,909**
Change in consolidated Group / CTA* / Other	– 196	– 42	– 635	2,896	–	–	**– 831**	**2,854**
Additions	2,709	5,586	127	3,303	1,748	384	**4,584**	**9,273**
Disposals	172	4,323	–	–	–	–	**172**	**4,323**
Reclassifications	971	2,349	–	–	– 291	– 2,348	**680**	**1**
Balance at 31 December	33,470	30,158	36,664	37,172	1,841	384	**71,975**	**67,714**
Accumulated depreciation and amortisation	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Balance at 1 January	20,785	20,556	–	–	–	–	**20,785**	**20,556**
Change in consolidated Group / CTA* / Other	– 195	– 46	–	–	–	–	**– 195**	**– 46**
Additions	3,609	4,554	–	–	–	–	**3,609**	**4,554**
Disposals	167	4,280	–	–	–	–	**167**	**4,280**
Reclassifications	460	1	–	–	–	–	**460**	**1**
Balance at 31 December	24,492	20,785	–	–	–	–	**24,492**	**20,785**
Carrying amount at 31 December	**8,978**	**9,373**	**36,664**	**37,172**	**1,841**	**384**	**47,483**	**46,929**

* 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.

The regular goodwill impairment test is based on a three-year business plan for the cash-generating units, which we have extrapolated constantly into the future. It was performed using the discounted cash flow (DCF) method (calculation of value in use). The discount rate, which was 7.00 % as in the previous year, is based on the interest rate for risk-free 10-year Bunds, increased by a company-specific risk premium.

Reflecting the unusual situation due to the global financial and economic crisis, we performed an additional impairment test as part of the preparation of our financial statements at the end of 2008. This test is based on updated figures relating to interest rate levels and business development as well as a higher company-specific risk premium.

All goodwill was determined to be recoverable.

As in the previous year, we did not recognise any impairment losses on 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**	
Historical cost	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Balance at 1 January	188,880	187,795	334,934	309,135	136,694	131,776	13,280	9,321	**673,788**	**638,027**
Change in consolidated Group / CTA* / Other	– 2,684	– 796	– 5,151	– 2,265	– 3,160	208	– 739	73	**– 11,734**	**– 2,780**
Additions	10,600	2,689	24,729	23,502	15,743	14,597	47,981	12,681	**99,053**	**53,469**
Disposals	945	904	10,849	3,602	9,984	10,383	14	38	**21,792**	**14,927**
Reclassifications	589	96	7,795	8,164	– 86	496	– 8,978	– 8,757	**– 680**	**– 1**
Balance at 31 December	196,440	188,880	351,458	334,934	139,207	136,694	51,530	13,280	**738,635**	**673,788**
Accumulated depreciation and amortisation	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Balance at 1 January	91,340	88,280	231,131	222,293	97,045	95,953	–	–	**419,516**	**406,526**
Change in consolidated Group / CTA* / Other	– 445	– 785	– 2,424	– 2,425	– 2,208	– 205	–	–	**– 5,077**	**– 3,415**
Additions	4,434	4,402	16,005	14,590	10,969	11,092	–	–	**31,408**	**30,084**
Disposals	611	557	9,798	3,326	9,523	9,795	–	–	**19,932**	**13,678**
Reclassifications	–	–	27	– 1	– 487	–	–	–	**– 460**	**– 1**
Balance at 31 December	94,718	91,340	234,941	231,131	95,796	97,045	–	–	**425,455**	**419,516**
Carrying amount at 31 December	**101,722**	**97,540**	**116,517**	**103,803**	**43,411**	**39,649**	**51,530**	**13,280**	**313,180**	**254,272**

* CTA = currency translation adjustments

Investments in property, plant and equipment were approximately 85 % higher than in the previous year. This is mainly due to increased investment activity in connection with the scheduled implementation of our construction projects to create additional capacity.

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 € 8,155 thousand (previous year: € 8,516 thousand).

Disposals of items of property, plant and equipment resulted in book gains of € 715 thousand (previous year: € 1,150 thousand) and book losses of € 884 thousand (previous year: € 759 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		Loans to affiliates		Other investments		Non-current financial instruments		Other non-current loans		**Non-current financial assets**	
Acquisition cost	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Balance at 1 January	34,372	25,913	2,262	2,262	3,969	2,552	846	990	63	62	**41,512**	**31,779**
Change in consolidated Group / CTA* / Other	– 79	– 6,913	–	–	–	–	– 21	– 12	– 1	–	**– 101**	**– 6,925**
Additions	10,826	15,372	600	–	9,130	1,417	–	–	1	1	**20,557**	**16,790**
Disposals	–	–	72	–	–	–	137	132	2	–	**211**	**132**
Reclassifications	–	–	–	–	–	–	–	–	–	–	**–**	**–**
Balance at 31 December	45,119	34,372	2,790	2,262	13,099	3,969	688	846	61	63	**61,757**	**41,512**
Accumulated impairment losses	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Balance at 1 January	387	387	1,000	500	461	461	105	82	–	–	**1,953**	**1,430**
Change in consolidated Group / CTA* / Other	–	–	–	–	–	–	–	–	–	–	**–**	**–**
Additions	2,692	–	150	500	–	–	–	23	–	–	**2,842**	**523**
Disposals	–	–	–	–	–	–	–	–	–	–	**–**	**–**
Reclassifications	–	–	–	–	–	–	–	–	–	–	**–**	**–**
Balance at 31 December	3,079	387	1,150	1,000	461	461	105	105	–	–	**4,795**	**1,953**
Carrying amount at 31 December	**42,040**	**33,985**	**1,640**	**1,262**	**12,638**	**3,508**	**583**	**741**	**61**	**63**	**56,962**	**39,559**

* CTA = currency translation adjustments

Changes in non-current financial assets resulted primarily from the formation of two joint ventures in Germany and China, which have not yet been consolidated. These changes also include capitalisation measures and the acquisition of relatively small sales and service units. This was offset mainly by impairment losses on the carrying amount of the investment in an unconsolidated relatively small service company in France. Our impairment test at this company identified an impairment loss due to economic difficulties.

We currently have no plans for the disposal of investments in affiliates and other equity investments.

The effect of currency translation adjustments taken directly to equity on fixed assets was a loss of € 7,469 thousand (previous year: loss of € 2,923 thousand).

2 Deferred tax assets

Explanations on deferred tax assets are presented under "Taxes on income".

3 Inventories

(€ thousands)	31 Dec. 2008	31 Dec. 2007
Raw materials and production supplies	139,180	128,558
Work in progress	85,286	81,493
Finished goods and goods purchased and held for resale	93,640	71,219
Advance payments	19,027	14,369
Advances received from customers	– 55,036	– 57,335
	282,097	**238,304**

Part of the inventories (approx. 11 %; previous year: 10 %) is carried at net realisable value. As in the previous year, the impairment losses recognised in the period under review as an expense are not significant (less than 2 % of the inventories). We only reversed write-downs to a minor extent where the current net realisable value is higher than the prior-period value.

4 Receivables and other current assets

(€ thousands)	31 Dec. 2008	31 Dec. 2007
Trade receivables	427,048	382,689
Intragroup and associate receivables	22,792	17,919
Receivables recognised by PoC (excl. advances received from customers PoC)	165,560	145,028
Advances received from customers (PoC)	– 115,368	– 98,982
Receivables recognised by PoC	50,192	46,046
Other receivables, other current assets and prepaid expenses	40,375	38,562
	540,407	**485,216**

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 6,557 thousand (previous year: € 5,058 thousand). Associate receivables amounted to € 5,005 thousand (previous year: € 1,406 thousand).

Construction contracts under IAS 11 include recognised profits of € 14,024 thousand (previous year: € 9,588 thousand) and costs of € 151,536 thousand (previous year: € 135,440 thousand). Sales revenue in accordance with IAS 11 amounted to € 340,657 thousand (previous year: € 235,671 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 € 8,268 thousand (previous year: € 9,252 thousand) and other financial assets from currency forwards in accordance with IAS 39 in the amount of € 4,307 thousand (previous year: € 6,765 thousand). There are no receivables relating to interest rate derivatives (previous year: € 496 thousand).

At the balance sheet date, the notional volume of all currency forwards was € 185,960 thousand (previous year: € 146,498 thousand), and the notional volume of all interest rate derivatives was € 20,341 thousand (previous year: € 24,277 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 2008	185,960	173,278	12,682	–
Notional volume 2007	146,498	126,215	20,283	–

€ 22,209 thousand (previous year: € 18,959 thousand) of all receivables and other current assets is due after more than one year.

5__Current financial instruments and cash

Current financial instruments amount to € 199 thousand (previous year: € 20,535 thousand). The sharp decline relates to the sale of securities at the German Group companies. In financial year 2007, these financial instruments were used for hedges of credit balances prescribed by law for partial retirement arrangements.

Cash relates primarily to term deposits with short maturities and call deposits. The German Group companies use € 18,000 thousand of cash for hedges of credit balances prescribed by law for partial retirement arrangements.

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 € 333 thousand (previous year: € 0 thousand) and no deferred tax liabilities (previous year: € 1,311 thousand).

Equity also includes changes in the fair value of derivatives used to hedge future cash flows amounting to € –1,288 thousand (previous year: € +4,532 thousand). The opening balance as at 1 January was almost completely withdrawn from equity and included in the measurement of the hedged items. The ending balance at 31 December results primarily from derivatives entered into in the year under review.

The minority 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 minority 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 cash and cash equivalents and interest-bearing investments 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 Group management report.

7 Deferred tax liabilities

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

8 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 increased from 5.5 % to 6.0 %. 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 (2007: 1.9 %). 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)	2008	2007
Opening balance at 1 Jan.	201,577	189,780
Annual pension expense (see below)	18,089	18,035
Employee deferred compensation	3,764	3,260
Net pension payments	– 10,253	– 9,498
Closing balance at 31 Dec.	**213,177**	**201,577**

The present value of pension commitments amounts to € 206,275 thousand (2007: € 203,643 thousand; 2006: € 218,402 thousand; 2005: € 207,595 thousand). This resulted in a net actuarial gain of € 6,902 thousand (previous year: loss of € 2,066 thousand). This shift is due primarily to the changes in measurement parameters described above, which led to a decline in the DBO by € 12,415 thousand (previous year: € 29,165 thousand). Experience adjustments to the plan amounted to € –3,446 thousand (previous year: € –3,129 thousand). Previously unrecognised actuarial gains of € 1 thousand (previous year: losses of € 520 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)	2008	2007
Current service cost	7,234	7,910
Actuarial gains / losses	– 1	520
Interest cost	10,856	9,605
	18,089	**18,035**

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 € 22,311 thousand (previous year: € 21,085 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 € 10,560 thousand (previous year: € 11,806 thousand).

One Group company with about 300 employees in the Netherlands has a multi-employer defined benefit plan in place, which has been accounted for as a defined contribution plan.

9 __ Other provisions

Changes (€ thousands)	1 Jan. 2008	Change cons. Group / CTA* / Other	Utilisation / prepayments	Reversals	Additions	**31 Dec. 2008**
Taxes on income	7,136	– 476	– 8,846	–	11,607	9,421
Other taxes	1,159	– 76	– 966	– 103	960	974
Other staff costs	137,587	– 1,168	– 86,980	– 3,921	105,877	151,395
Warranty obligations and contractual penalties	40,240	– 151	– 19,441	– 5,500	29,448	44,596
Other obligations	39,783	– 716	– 22,230	– 7,459	30,207	39,585
	225,905	**– 2,587**	**– 138,463**	**– 16,983**	**178,099**	**245,971**

* CTA = currency translation adjustments

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 staff costs 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 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 € 7,733 thousand for 2008 and € 10,602 thousand for 2007), customer bonuses, accrued costs and environmental measures.

The increase in the provisions for other staff costs is attributable, among other things, to increased profit-sharing and profit bonus obligations.

€ 45,866 thousand of the other provisions is non-current (previous year: € 45,609 thousand). This relates mainly to provisions for jubilee payments, partial retirement and warranty obligations.

10 Liabilities

(€ thousands)	31 Dec. 2008	31 Dec. 2007
Non-current liabilities		
Financial liabilities		
Bank loans and overdrafts	17,891	22,524
Finance lease liabilities	3,572	4,366
Other	2,053	2,631
	23,516	29,521
Total non-current liabilities	**23,516**	**29,521**
Current liabilities		
Financial liabilities		
Bank loans and overdrafts	20,316	22,051
Finance lease liabilities	1,207	1,333
Other	2,187	7,877
	23,710	31,261
Trade payables		
Trade payables to third parties	196,248	176,708
Intragroup trade payables	4,556	2,995
	200,804	179,703
Other liabilities and deferred income		
Taxes	17,079	19,311
Social security	8,146	7,839
Miscellaneous other liabilities and deferred income	44,494	31,839
	69,719	58,989
Total current liabilities	**294,233**	**269,953**
Total liabilities	**317,749**	**299,474**

Assets amounting to € 6,738 thousand (previous year: € 6,801 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, € 876 thousand (previous year: € 884 thousand) relate to property, plant and equipment, € 5,108 thousand (previous year: € 4,247 thousand) to inventories and € 754 thousand (previous year: € 1,670 thousand) to receivables.

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

The weighted average interest rate on bank loans and overdrafts was 3.67 % (previous year: 4.48 %). The interest rate risk is almost exclusively restricted to overdrafts.

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 € 6,912 thousand (previous year: € 880 thousand). € 378 thousand (previous year: € 32 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 1,093 thousand (previous year: € 906 thousand).

Income statement disclosures

11 Sales revenue

The breakdown of sales revenue is presented in the segment reporting.

12 Other operating income

(€ thousands)	2008	2007
Gains from asset disposals and reversals of impairment losses (write-ups)	715	1,150
Income from current assets	2,179	1,955
Currency translation gains	378	725
Income from the reversal of provisions	17,098	7,586
Miscellaneous other income	10,877	9,200
	31,247	**20,616**

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 € 794 thousand (previous year: € 651 thousand).

13 Cost of materials

(€ thousands)	2008	2007
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	776,941	687,667
Cost of purchased services	66,498	62,750
	843,439	**750,417**

14 Staff costs

(€ thousands)	2008	2007
Wages and salaries	489,181	464,532
Social security contributions and employee assistance costs	111,045	104,914
Pension costs	14,402	12,125
	614,628	**581,571**

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

Average number of employees	2008	2007
Wage earners	6,721	6,658
Salaried employees	7,096	6,782
Trainees and apprentices	389	353
	14,206	**13,793**

15 Other operating expenses

(€ thousands)	2008	2007
Losses from asset disposals	884	759
Losses from current assets	7,038	7,184
Currency translation losses	3,149	4,553
Other staff costs	20,110	22,078
Repairs, maintenance, third-party services	78,601	74,361
Selling expenses	87,315	80,698
Administrative expenses	66,496	60,474
Rents and leases	19,413	18,849
Miscellaneous other expenses	53,759	43,096
	336,765	**312,052**

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

16 Financial income / expense

(€ thousands)	2008	2007
Income from investments	4,283	2,939
thereof from affiliates	(3,163)	(2,129)
Interest and similar income	7,999	7,123
thereof from affiliates	(311)	(149)
Interest and similar expenses	–16,064	–15,471
thereof to affiliates	(–457)	(–528)
Miscellaneous financial income / expense	–3,447	–316
	–7,229	**–5,725**

Interest and similar expenses include the interest cost on discounted pension provisions amounting to € 11,308 thousand (previous year: € 10,080 thousand). Income from other non-current financial instruments and non-current loans amounting to € 367 thousand (previous year: € 184 thousand) is classified as miscellaneous financial income / expense. Amortisation and write-downs amounting to € 3,814 thousand (previous year: € 500 thousand) were charged on non-current financial assets and current financial instruments. They relate mainly to the write-down of the carrying amount of the investment in an unconsolidated relatively small service company in France due to economic difficulties.

17 __ 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)	2008	2007
Effective taxes	46,274	35,133
Deferred taxes	14,358	3,708
	60,632	**38,841**

€ 305 thousand (previous year: € 322 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 487 thousand (previous year: € 913 thousand) to tax arrears.

Reconciliation of deferred taxes (€ thousands)	2008	2007
Change in deferred tax assets	– 1,319	1,279
Change in deferred tax liabilities	14,775	48
Change in deferred taxes recognised in balance sheet	**13,456**	**1,327**
Change in deferred taxes taken directly to equity	1,644	– 305
Changes in consolidated Group, currency translation adjustments and other	– 742	2,686
Deferred taxes recognised in income statement	**14,358**	**3,708**

Allocation of deferred taxes (€ thousands)	Deferred tax assets 2008	Deferred tax assets 2007	Deferred tax liabilities 2008	Deferred tax liabilities 2007
ASSETS				
Intangible assets, property, plant and equipment	1,322	1,772	24,461	23,816
Inventories	8,018	6,649	18,868	15,547
Receivables and other current assets	1,844	3,023	1,016	2,770
Other assets	394	373	1,369	1,398
EQUITY AND LIABILITIES				
Provisions for pensions and similar obligations	13,060	11,440	1,059	832
Other provisions	12,734	12,287	4,745	2,306
Other equity and liabilities	3,816	3,717	4,736	3,658
TAX LOSS CARRYFORWARDS	655	10,111	–	–
Gross deferred taxes – before offsetting	**41,843**	**49,372**	**56,254**	**50,327**
Offset under IAS 12.74	– 28,140	– 36,988	– 28,140	– 36,988
Net deferred taxes – after offsetting	**13,703**	**12,384**	**28,114**	**13,339**

The corresponding loss carryforwards, for which deferred taxes were recognised, amount to € 2,447 thousand (previous year: € 35,614 thousand). The reduction is attributable primarily to the German companies.

As in the previous year, the introduction of new local taxes had no material effects in the year under review. Equally, changes in foreign tax rates did not have any significant impact on the total tax expense, as in 2007.

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 € 14,459 thousand (previous year: € 12,149 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)	2008	2007
Earnings before income tax	200,117	128,702
Calculated income taxes on the basis of the applicable tax rate (29 %; previous year: 37 %)	58,034	47,620
Differences in tax rates	1,147	– 10,206
Unused tax loss carryforwards	670	– 180
Tax-exempt income / non-deductible expenses	752	– 2,213
Prior-period taxes	182	591
Non-deductible foreign income tax	1,318	1,385
Other	– 1,471	1,844
Current taxes on income	**60,632**	**38,841**
Current tax rate	30 %	30 %

The applicable tax rate of 29 % (previous year: 37 %) is a composite rate resulting from the current German corporation tax, solidarity surcharge and trade income tax rates. This change is due to system and tax rate adjustments resulting from the 2008 business taxation reform. As this reform was resolved in financial year 2007, the prior-year deferred taxes attributable to the German Group companies were already measured at the overall domestic tax rate of 29 %.

18 Minority interest in net profit/loss

The minority interest in net profit amounts to € 16,633 thousand (previous year: € 13,311 thousand), and the minority interest in net loss amounts to € 269 thousand (previous year: € 257 thousand). These relate primarily to PAB GmbH, Frankenthal, and the interests it holds, as well as to our companies in India and China.

19 Research and development costs

Research and development costs in the year under review amounted to € 31,651 thousand (previous year: € 31,189 thousand).

20 Earnings per share

		2008	2007
Consolidated net profit for the year	(€ thousands)	123,121	76,807
Additional dividend attributable to preference shareholders	(€ thousands)	– 225	– 225
	(€ thousands)	**122,896**	**76,582**
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	(€)	**70.17**	**43.73**
Diluted and basic earnings per preference share	(€)	**70.43**	**43.99**

Additional disclosures on financial instruments

Financial instruments – Carrying amounts and fair values by measurement category

Balance sheet item / Class ASSETS (€ thousands)	Category	Measurement	Carrying amount 31 Dec. 2008	Fair value 31 Dec. 2008	Carrying amount 31 Dec. 2007	Fair value 31 Dec. 2007
Non-current assets						
Non-current financial assets						
Investments in affiliates, other investments	AfS	Amortised cost	54,678	54,678	37,493	37,493
Non-current financial instruments	AfS	Fair value	583	583	741	741
Loans to affiliates and other non-current loans	LaR	Amortised cost	1,701	1,701	1,325	1,325
Current assets						
Receivables and other current assets						
Trade receivables	LaR	Amortised cost	427,048	427,048	382,689	382,689
Intragroup and associate receivables	LaR	Amortised cost	22,792	22,792	17,919	17,919
Receivables recognised by PoC	LaR	Amortised cost	50,192	50,192	46,046	46,046
Other receivables, other current assets	LaR	Amortised cost	20,381	20,381	15,978	15,978
Derivatives included in hedging relationships	n / a	Fair value	1,434	1,434	2,179	2,179
Derivatives not included in hedging relationships	FAHfT	Fair value	2,873	2,873	5,082	5,082
Current financial instruments	AfS	Fair value	199	199	20,535	20,535
Cash	LaR	Amortised cost	167,360	167,360	160,803	160,803

Balance sheet item / Class EQUITY AND LIABILITIES (€ thousands)	Category	Measurement	Carrying amount 31 Dec. 2008	Fair value 31 Dec. 2008	Carrying amount 31 Dec. 2007	Fair value 31 Dec. 2007
Non-current liabilities						
Financial liabilities excl. finance lease liabilities	FLAC	Amortised cost	19,944	17,730	25,155	24,160
Finance lease liabilities	n / a	in accordance with IAS 17	3,572	3,572	4,366	4,366
Current liabilities						
Financial liabilities excl. finance lease liabilities	FLAC	Amortised cost	22,503	22,503	29,928	29,928
Finance lease liabilities	n / a	in accordance with IAS 17	1,207	1,207	1,333	1,333
Trade payables	FLAC	Amortised cost	200,804	200,804	179,703	179,703
Other liabilities – miscellaneous	FLAC	Amortised cost	36,489	36,489	30,053	30,053
Derivatives included in hedging relationships	n / a	Fair value	2,751	2,751	329	329
Derivatives not included in hedging relationships	FLHfT	Fair value	4,161	4,161	551	551
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Amortised cost	689,474	689,474	624,760	624,760
Available-for-sale financial assets	AfS	Fair value	782	782	21,276	21,276
Available-for-sale financial assets	AfS	Amortised cost	54,678	54,678	37,493	37,493
Financial assets held for trading	FAHfT	Fair value	2,873	2,873	5,082	5,082
Financial liabilities measured at amortised cost	FLAC	Amortised cost	279,740	277,526	264,839	263,844
Financial liabilities held for trading	FLHfT	Fair value	4,161	4,161	551	551

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.

Net gains and losses by measurement category in 2008

(€ thousands)	From interest	From subsequent measurement: At fair value	From subsequent measurement: Currency translation	From subsequent measurement: Impairment losses	From disposal	Net results
LaR	7,757	–	1,883	– 3,093	–	6,547
AfS	242	– 583	–	– 3,081	–	– 3,422
FLAC	– 4,756	–	– 246	–	–	– 5,002
	3,243	**– 583**	**1,637**	**– 6,174**	**–**	**– 1,877**

Net gains and losses by measurement category in 2007

(€ thousands)	From interest	From subsequent measurement: At fair value	From subsequent measurement: Currency translation	From subsequent measurement: Impairment losses	From disposal	Net results
LaR	6,596	–	– 636	– 1,243	–	4,717
AfS	527	–	–	–	132	659
FLAC	– 5,391	–	– 39	–	–	– 5,430
	1,732	**–**	**– 675**	**– 1,243**	**132**	**– 54**

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 no remeasurement gains or losses (previous year: € –119 thousand) that were recognised directly in equity. We withdrew and realised € 583 thousand (previous year: € 0 thousand) from equity in the year under review.

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 credit insurance or accept collateral, for example guarantees. 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 taking appropriate measures 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)	2008	2007
Opening balance at 1 Jan.	19,744	19,000
Additions	5,338	4,950
Utilised	– 1,263	– 2,187
Reversals	– 2,395	– 1,653
Currency translation changes	336	– 366
Closing balance at 31 Dec.	**21,760**	**19,744**

The maturity structure of trade receivables is as follows:

(€ thousands)	31. Dec. 2008	31. Dec. 2007
Receivables that are neither past due nor individually impaired	324,563	296,967
Receivables past due		
1 to 30 days	40,420	32,911
31 to 90 days	30,291	22,196
91 to 180 days	14,734	7,654
> 180 days	10,800	8,036
Total	96,245	70,797
Receivables individually determined to be impaired	6,240	14,925
Carrying amount (net)	**427,048**	**382,689**

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.

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.

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**

2007 (€ thousands)	**Total**	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	67,633	33,294	27,179	7,160
Trade payables	179,703	175,725	3,978	–
Other liabilities	30,053	20,511	9,542	–
Derivative financial instruments	6,598	5,591	996	11
	283,987	**235,121**	**41,695**	**7,171**

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 (€).

The most significant foreign currency in the KSB Group is the USD. The volume of trade receivables denominated in USD amounts to around € 36 million (previous year: approximately € 26 million). The volume of trade payables denominated in USD amounts to around € 11 million (previous year: approximately € 7 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 € 6.9 million lower (higher); € 5.6 million would result 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 € 8.6 million higher (lower); € 5.9 million would result from USD and € 2.7 million from the other currencies.

The theoretical effect on profit in the year under review 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.

The theoretical effect on profit in the previous year would have been an increase (decrease) of € 2.5 million. € 1.7 million would be attributable to USD and € 0.8 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 2008, net interest balance would have been € 1.6 million (previous year: € 1.4 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 0.3 million (previous year: € 0.4 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 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 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. Geographical regions form the primary reporting format, while market segments form the secondary reporting format.

As in the previous year, there were no discontinued operations in the year under review.

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

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

The amounts disclosed for the individual segments are presented in separate overviews attached to these notes.

Segments by region

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

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

The **external sales revenue of the Group companies by geographic area** presents the sales revenue of the segments generated from third parties and unconsolidated Group companies by customer location. Customer locations are allocated to the following Regions: Europe, Middle East / Africa, Asia / Pacific and Americas.

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

The segment result shows the earnings before interest and taxes (**EBIT**), including minority interest in net profit / loss.

Segment assets correspond to the entire assets reported on the balance sheet, excluding recoverable income taxes and deferred tax assets; **segment liabilities** consist of all liabilities and provisions, net of provisions for income taxes and deferred tax liabilities.

Capital expenditure relates to intangible assets, property, plant and equipment.

A reconciliation between the **segment liabilities** and the provisions and liabilities reported in the balance sheet is presented below:

(€ thousands)	2008	2007
Liabilities	**778,036**	**731,626**
Deferred tax liabilities	28,114	13,339
Provisions for income taxes	9,421	7,136
Provisions and liabilities	**815,571**	**752,101**

A reconciliation between the **segment result (EBIT)** and the earnings before income taxes reported in the income statement is presented below:

(€ thousands)	2008	2007
Segment result (EBIT)	**208,182**	**137,050**
Interest income	7,999	7,123
Interest expense	– 16,064	– 15,471
Earnings before income tax	**200,117**	**128,702**

Segments by market

The **Industry and Building Services** segment 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** segment 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** segment 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.

The information on **external sales revenue of the Group companies by segment, segment assets** and **capital expenditure** in the presentation of segments by region applies correspondingly.

Other disclosures

Contingent liabilities (contingencies and commitments)

Contingent liabilities and security granted (€ thousands)	2008	2007
Liabilities from guarantees	7,317	10,147
Liabilities from warranties	8,209	14,259
Liabilities from the granting of other security for third-party liabilities	2,704	1,544
	18,230	**25,950**

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 € 15,620 thousand (previous year: € 15,418 thousand). Of these, € 9,421 thousand (previous year: € 8,701 thousand) is due within one year and € 6,182 thousand (previous year: € 6,715 thousand) due between one and five years. In the year under review, € 8,701 thousand was spent on these agreements.

Operating leases relate primarily to vehicles.

Finance leases (€ thousands)	Minimum lease payments **2008**	Minimum lease payments 2007	Present values **2008**	Present values 2007
Due within one year	1,338	1,416	1,207	1,333
Due between one and five years	3,521	4,489	3,235	3,975
Due after more than five years	337	392	337	391
	5,196	**6,297**	**4,779**	**5,699**

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 € 33,009 thousand (previous year: € 38,150 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 € 31,567 thousand (previous year: € 18,972 thousand). Almost all of the corresponding payments are due in 2009.

A multi-employer defined benefit plan in place at a Group company with about 300 employees in the Netherlands poses a low risk of increased contribution payments, if the number of employers involved is reduced.

Related party disclosures

Pursuant to section 21 WpHG [*Wertpapierhandelsgesetz* – German Securities Trade Act], paragraph 1, *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 WpHG, paragraph 1, sentence 1 No. 1. 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 € 7 thousand (previous year: € 8 thousand) at KSB AG in the year under review. Interest of € 417 thousand (previous year: € 267 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. Liabilities to Klein Pumpen GmbH as at 31 December 2008 amounted to € 726 thousand (previous year: € 7,028 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 AktG [*Aktiengesetz* – German Public Companies Act].

The total remuneration of members of the Supervisory Board amounts to € 1,171 thousand for financial year 2008 (previous year: € 741 thousand), and the total remuneration of the Board of Management amounts to € 3,336 thousand (previous year: € 5,928 thousand). € 21,760 thousand (previous year: € 20,951 thousand) has been provided for pension obligations to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 1,428 thousand in the year under review (previous year: € 1,347 thousand). Additions of € 2,231 thousand (previous year: € 3,241 thousand) were made to the pension provisions for active and for retired 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 financial year 2008 by the Annual General Meeting on 12 June 2008. The expenses for financial year 2008 include corresponding audit fees of € 230 thousand (previous year: € 290 thousand). A further € 92 thousand (previous year: € 48 thousand) was incurred for the audits of the German subsidiaries. No additional fees for other assurance or valuation services were incurred (previous year: € 19 thousand).

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 deepening 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 statement of compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with section 161 AktG [Aktiengesetz – German Public Companies Act] in 2008. 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 17 June 2009 to appropriate the net retained earnings of € 45,029,702.00 of KSB AG, Frankenthal, containing retained earnings brought forward of € 167,757.87, as follows:

Distribution of a dividend of € 12.50 per ordinary no-par-value share	=	11,082,687.50 €
and, in accordance with the Articles of Association, € 12.76 per preference no-par-value share	=	11,033,725.12 €
Appropriation to revenue reserves		22,500,000.00 €
Total		44,616,412.62 €
To be carried forward to new account		413,289.38 €
		45,029,702.00 €

Frankenthal, 19 March 2009

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, 19 March 2009

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 income statement, the statement of changes in shareholders' 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 2008. 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 § 315a Abs. 1 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 § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Frankfurt am Main, 27 March 2009

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	538	183	■
KSB Atlantic Pump & Valve Service S.L., Las Palmas	Spain	N	47.00	198	203	■
KSB Service GmbH, Schwedt	Germany	C	100.00	1,023	EAV	
Uder Elektromechanik GmbH, Friedrichsthal	Germany	C	100.00	26	EAV	
Motoren-Jacobs GmbH, Heide	Germany	N	100.00	723	354	■
Pumpen-Service Bentz GmbH, Reinbek	Germany	N	100.00	990	353	■
Dynamik-Pumpen GmbH, Stuhr	Germany	N	100.00	727	466	■
NOMIG GmbH, Reken	Germany	N	49.00	1,032	575	■
B & C Pumpenvertrieb GmbH, Cologne	Germany	N	100.00	988	331	■
Elektro Berchem GmbH, Cologne	Germany	N	100.00	746	461	■
Nikkiso-KSB GmbH, Altenstadt	Germany	N	50.00	•	•	
KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	N	100.00	553	– 22	■
KSB OOO, Moscow	Russia	N	100.00	35	19	■
PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	C	51.00	24,785	359	
KSB America Corporation, Richmond / Virginia	USA	C	51.00	28,043	5,376	
GIW Industries, Inc., Grovetown / Georgia	USA	C	51.00	27,245	7,272	
AMRI, Inc., Houston / Texas	USA	C	55.91	6,952	1,025	
KSB, Inc., Richmond / Virginia	USA	C	51.00	7,304	2,145	
PPM – KSB, Inc., Bakersfield / California	USA	C	51.00	2,112	192	
KSB Finland Oy, Kerava	Finland	C	100.00	2,465	439	
KSB Mörck AB, Askim (Gothenburg)	Sweden	C	55.00	2,753	618	
PUMPHUSET Sverige AB, Sollenthuna	Sweden	N	55.00	368	61	■
KSB Lindflaten AS, Lysaker	Norway	N	89.93	2,191	294	■
KSB Pompy i Armatura Sp. z o.o., Warsaw	Poland	C	100.00	4,561	989	
KSB Pumpy + Armatury sr.o. koncernu, Prague	Czech Republic	C	100.00	2,574	78	
KSB Čerpadlá a Armatúry, spol.sr.o., Bratislava	Slovak Republic	N	100.00	427	128	■
KSB Szivattyú és Armatúra Kft., Budapest	Hungary	C	100.00	1,438	265	
KSB Zürich AG, Zurich	Switzerland	C	100.00	1,427	12	
Motori Sommersi Riavvolgibili S.r.l., Berzo Demo	Italy	N	25.00	4,685	1,231	■
KSB Bombas e Válvulas S.A., Algés (Lisbon)	Portugal	N	95.00	782	118	■
Hydroskepi GmbH, Amaroussion (Athens)	Greece	C	100.00	1,608	3	
KSB TESMA AG, Amaroussion (Athens)	Greece	N	59.74	1,475	854	■
KSB Viosen AG, Patras	Greece	N	60.28	438	– 43	■
KSB Service LLC, Abu Dhabi	UAE	N	49.00	596	98	■
KSB Pumps Company Limited, Lahore	Pakistan	C	58.89	6,119	1,649	
MIL Controls Limited, Mala	India	C	70.86	6,124	1,931	
KSB Tech Pvt. Ltd., Pimpri (Pune)	India	N	100.00	724	195	■
KSB Limited, Hong Kong	China	C	100.00	1,249	134	
KSB Valves (Shanghai) Co. Ltd., Shanghai	China	N	100.00	1,202	51	■
Shanghai Electric-KSB Nuclear Pumps and Valves Co. Ltd., Lingang	China	N	45.00	•	•	
KSB Taiwan Co. Ltd., Taipei	Taiwan	N	100.00	720	149	■
KSB Korea Ltd., Seoul	South Korea	N	100.00	369	286	■
KSB Ltd., Tokyo	Japan	N	100.00	81	16	■
KSB Pumps Co. Ltd., Bangkok	Thailand	C	40.00	2,475	700	
KSB Singapore (Asia Pacific) Pte. Ltd., Singapore	Singapore	C	100.00	4,752	1,524	
Canadian Kay Pump Ltd., Mississauga / Ontario	Canada	C	100.00	3,965	628	
KSB Pumps Limited, Pimpri (Pune)	India	C	40.54	43,951	10,150	
KSB de Mexico, S.A. de C.V., Querétaro	Mexico	C	100.00	574	184	
KSB Chile S.A., Santiago	Chile	C	100.00	6,736	1,183	

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 newly established / acquired

Name and seat of company	Country		Capital share %	Equity € thousands	Net profit / loss for the year € thousands	
KSB Finanz S.A., Echternach	Luxembourg	C	100.00	120,595	8,841	
KSB Limited, Loughborough	United Kingdom	C	100.00	2,582	1,040	
RES Rotary Equipment Services Ltd., Loughborough	United Kingdom	C	100.00	548	150	
KSB Finance Nederland B.V., Zwanenburg	The Netherlands	C	100.00	13,900	3,862	
DP industries B.V., Alphen aan den Rijn	The Netherlands	C	100.00	14,318	6,052	
KSB Nederland B.V., Zwanenburg	The Netherlands	C	100.00	6,011	1,520	
Nederl. Pompservice (N.P.S.) B.V., Velsen-Noord	The Netherlands	N	100.00	– 123	60	■
VRS Valve Reconditioning Services B.V., Vierpolders	The Netherlands	N	100.00	315	449	■
KSB Belgium S.A., Wavre	Belgium	C	100.00	6,478	1,651	
KSB Mechanical Services On Site NV, Antwerp	Belgium	C	100.00	2,825	971	
KSB On Site Machining BVBA, Wilrijk	Belgium	N	100.00	371	330	■
KSB Engineering Services NV, Antwerp	Belgium	N	51.00	•	•	
VRS Industries S.A., Feluy	Belgium	N	100.00	281	341	■
SISTO Armaturen S.A., Echternach	Luxembourg	C	52.86	9,965	735	
KSB Österreich Gesellschaft mbH, Vienna	Austria	C	100.00	2,692	108	
KSB SRB d.o.o. Beograd, Belgrade	Serbia	N	100.00	29	19	■
KSB S.A.S., Gennevilliers (Paris)	France	C	100.00	88,068	14,462	
TPS Techni Pompe Service S.A.S., Hoerdt	France	C	100.00	1,829	475	
Hydraulor Services, Algrange	France	C	100.00	1,248	333	
KSB Service SEME S.A.S., Forbach	France	N	100.00	1,543	127	
KSB Service EITB-SITELEC. Montfavet	France	N	100.00	74	– 1,544	
SBCM S.à r.l., Gennevilliers (Paris)	France	N	100.00	209	7	
SVFM, Rambervillers	France	N	100.00	175	74	■
SPI Energie S.A., La Ravoire	France	N	100.00	1,184	183	■
Metis Levage S.A.S., Villefranche sur Saône	France	N	100.00	568	231	■
Artru Services S.A., Villefranche sur Saône	France	N	100.00	3,422	1,714	■
Artru Services Rhône-Alpes S.A.S., Villefr. sur Saône	France	N	100.00	1,262	– 32	■
Artru Services Auvergne S.A.S., Thiers	France	N	100.00	677	33	■
Artru Services Bourgogne S.A.S., Châtenoy-le-Royal	France	N	100.00	1,573	29	■
Vibra Services S.A.S., Villefranche sur Saône	France	N	100.00	216	15	■
KSB Export Afrique S.A.S., Gennevilliers (Paris)	France	N	30.00	71	– 1	
Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	N	15.00	278	109	■
KSB Pompes et Robinetteries S.à r.l., Casablanca	Morocco	N	100.00	•	•	
KSB Italia S.p.A., Milan	Italy	C	100.00	22,264	2,383	
KSB Service Italia S.r.l., Scorzè	Italy	N	100.00	314	– 41	■
KSB-AMVI, S.A., Madrid	Spain	C	100.00	3,951	882	
AMVI Aplicac. Mecánicas Válvulas Industriales, S.A., Burgos	Spain	C	100.00	7,820	572	
KSB ITUR Spain S.A., Zarautz	Spain	C	100.00	16,910	3,472	
KSB Service Suciba S.L.U., Sondika	Spain	N	100.00	550	245	■
KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	C	99.00	5,618	1,793	
KSB Middle East FZE, Dubai	UAE	C	100.00	3,427	1,192	
KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	N	50.00	3,275	1,571	■
KSB Shanghai Pump Co. Ltd., Shanghai	China	C	80.00	41,366	7,897	
Dalian KSB AMRI Valves Co. Ltd., Dalian	China	N	100.00	998	40	■
PT. KSB Indonesia, Jakarta	Indonesia	C	100.00	1,643	663	
KSB Australia Pty. Ltd., Tottenham (Melbourne)	Australia	C	100.00	8,122	1,165	
KSB Algérie Eurl, Hydra-Alger	Algeria	N	100.00	244	2	■
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	100.00	6,052	26	
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	74.99	129	2,665	
KSB Pumps Inc., Mississauga / Ontario	Canada	N	100.00	1,172	239	■
KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	C	100.00	30,854	8,105	
KSB Válvulas Ltda., Barueri	Brazil	C	100.00	555	– 1,405	
KSB Compañía Sudamericana de Bombas S.A., Carapachay	Argentina	C	100.00	2,989	481	

KSB shares

- **Global financial and economic crisis causes share prices to slump on global stock markets**

2008 was dominated by massive share price losses on the world's leading stock market indices as a result of the deepening financial and economic crisis. Compared with the previous year, Germany's leading index, the DAX, lost 40 %, the EURO Stoxx 50 fell by 44 % and the Nikkei, the Japanese stock market barometer, lost 42 %. The US Dow Jones recorded a decline of 34 %.

The beginning of 2008 saw a drop in share prices, which was partially offset by a recovery up to the middle of the second quarter. The indices fell again in May. As an increasing number of investors believed that the US mortgage crisis would spill over to the entire financial sector and adversely affect the real economy. A collapse in share prices occurred at the end of September and the beginning of October, due to the failure of the New York investment bank Lehman Brothers and difficulties at various insurers and banks. Although the headlines in the last two months of the year were dominated by more negative economic news and reports of falling corporate earnings, there was little change in share prices until the end of the year.

KSB shares lose ground

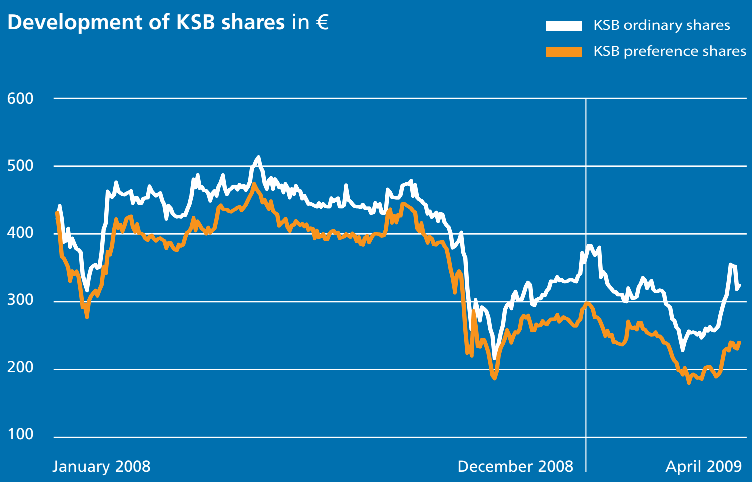
KSB shares, too, were not immune to the downturn in the markets. Following three extremely positive years for KSB shareholders, both share classes declined significantly in 2008. In the first nine months, our share price fluctuated in both directions before settling early in September at a level approaching that at the beginning of the year. However, this was followed by a slump in late in the third / early in the fourth quarter, which had only been partially offset by the end of the year. Our ordinary shares closed the stock market year around 20 % below year-end 2007, while our preference shares recorded a loss of almost 32 %. KSB's ordinary share price was € 360.00 at the end of 2008, and our preference shares were worth € 295.00.

As a result, our market capitalisation also declined. At € 574.3 million at the end of 2008, it was down € 200.5 million or around 26 % as against the end of 2007.

We signed an agreement with a designated sponsor in the fourth quarter of 2008 with the goal of improving the tradability of KSB shares for our investors.

Further increase in dividend proposed

The continued improvement in KSB AG's earnings situation in 2008 will also be reflected in a higher dividend payment. We will therefore be proposing an increase in the dividend distribution to the Annual General Meeting on 17 June 2009. Ordinary shareholders will receive a dividend of € 12.50 per share (previous year: € 9.00) and preference shareholders € 12.76 per share (previous year: € 9.26).



Dividend development	2008 (Proposal)	2007
Ordinary share		
Dividend	€ 12.50	€ 9.00
Dividend yield	3.5 %	2.0 %
Preference share		
Dividend	€ 12.76	€ 9.26
Dividend yield	4.3 %	2.1 %

	Ordinary shares	Preference shares
ISIN	DE0006292006	DE0006292030
Reuters symbol	KSBG	KSBG_p
Bloomberg symbol	KSB	KSB3
Share capital	22.7 Mio. €	22.1 Mio. €
Shares in free float	approx. 20 %	100 %
Year-end closing price 30 Dec. 2008	360.00 €	295.00 €
Market capitalisation 30 Dec. 2008	574.3 Mio. €	

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)

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

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

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

Stefan Messer, Industrial Trader, Sulzbach
Chief Executive Officer of Messer Group GmbH
(until 12 June 2008)

Heinrich Dieter Müller, Techn. Draftsman, Dannstadt-Schauernheim
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)]
Vice President, Regional Sales Europe

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

Werner Stegmüller, Dipl.-Kaufmann, Mering
Partner at Horváth & Partner GmbH
(since 12 June 2008)

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., Algés (Lisbon), Portugal
KSB OOO, Moscow, Russia
KSB Čerpadlá a Armatúry, spol.sr.o. Bratislava, Slovakia
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) Hydroskepi GmbH, Amaroussion (Athens), Greece
KSB TESMA AG, Amaroussion (Athens), Greece
KSB Viosen AG, Patras, Greece
SISTO Armaturen S.A., Echternach, Luxembourg
KSB Finanz S.A., Echternach, Luxembourg
KSB Pumps (S.A.) (Pty) Ltd., Germiston, South Africa
KSB Pumps & Valves (Pty) Ltd., Germiston, South Africa
Canadian Kay Pump Ltd., Mississauga, Canada
KSB America Corporation, Richmond (Virginia), USA
KSB Pumps Limited, 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, The Netherlands
KSB ITUR Spain S.A., Zarautz, Spain
KSB Finanz S.A., Echternach, Luxembourg
PT. KSB Indonesia, Jakarta, Indonesia

KEY CORPORATE AND TECHNICAL TERMS

725 °C high-temperature test loop Test cycle in which components are tested at high temperatures for a new generation of power plants.

Asset management systems Systems in automation technology that provide functions for the management and improved use of capital goods. This includes displaying the time remaining until a given machine is due for its next service.

Canned motor pump A pump that has an electric motor in which the rotor is surrounded by the fluid to be pumped and the winding (stator) is dry.

Efficiency The efficiency is the ratio between useful power and power input.

Fixed cost remanence Low flexibility of fixed costs, which means that these costs cannot be adapted quickly to reflect changes in the economic conditions.

Hard rock mining pump A pump that is designed to transport rocks in the fluid flow.

Life cycle costs The total costs incurred for equipment over its life span. These include the cost of initial investment, installation, energy, operation, maintenance, downtimes and decommissioning, as well as environmental costs.

Management feedback Anonymous survey among employees on the management and leadership behaviour of managers.

Non-clogging impeller pump Pump for transporting fluids containing solid particles.

Plain bearing materials Materials with particularly good sliding properties, for example ceramics or bronze.

Pressure boosting system Used in tall buildings, these systems increase the water pressure so that it is sufficient to supply water to all the floors of the building.

Process pump Pump type whose casing may remain in the piping when it is serviced or maintained.

Rolling quarterly forecast A multi-year survey of all figures of relevance to the company's performance updated every quarter to provide a forecast of business trends

Service life The period of time during which machinery, tools and technical systems can continue to operate until the next service.

Six Sigma expert Specialist in Six Sigma methods, which are used to help optimise operational and internal processes.

Speed control system An electrotechnical or hydraulic system that adjusts the pump speed to match the required flow rate and discharge head.

Standardised chemical pump Pump type with standardised design and standardised flow rates and discharge heads for process engineering applications.

Supercritical coal-fired power stations Power stations that use coal as a fuel and operate at high temperatures and pressures. They produce electricity much more efficiently than conventional plants.

Wet rotor motor Motor in which the rotor and the stator are surrounded by liquid (well and power station pumps).

Abbreviations

AfS Available for Sale

ANSI American National Standards Institute

API American Petroleum Institute

FAHfT Financial Assets Held for Trading

FLAC Financial Liabilities Measured at Amortised Cost

FLHfT Financial Liabilities Held for Trading

IAS International Accounting Standards

IFRS International Financial Reporting Standards (formerly IAS)

ISO International Organisation of Standardisation

ISO 9001 The certification of quality management systems under ISO 9001 standards warrants that appropriate procedures are in place in a company to ensure not only product quality assurance but also clearly defined processes and work flows.

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 18001 "Occupational Health and Safety Assessment Series" is a certification system relating to safety at work and health management.

VDMA German Engineering Federation

SHAREHOLDER INFORMATION

28 April 2009, 10:00 h
Financial press conference
67227 Frankenthal

28 April 2009
Interim report
January – March 2009

7 May 2009
Invitation to Annual General Meeting

17 June 2009, 14:00 h
Annual General Meeting
CongressForum Frankenthal
Stephan-Cosacchi-Platz 5
67227 Frankenthal

18 June 2009
Dividend payment

14 August 2009
Half-year financial report
January – June 2009

November 2009
Interim report
January – September 2009

Editor
KSB Aktiengesellschaft
Johann-Klein-Straße 9
67227 Frankenthal
Tel. +49 6233 86-0
Fax +49 6233 86-3401

Online news
You will find the latest news on the KSB Group at www.ksb.com

Should you need additional information, please contact:

Investor Relations
Ralf Pfundmaier
Tel. +49 6233 86-2053
Fax +49 6233 86-3454
E-mail: investor-relations@ksb.com

Corporate Communications
Ullrich Bingenheimer
Tel. +49 6233 86-2138
Fax +49 6233 86-3456
E-mail: ullrich.bingenheimer@ksb.com

Concept and design
KSB Corporate Communications (V5), Frankenthal
HGB Hamburger Geschäftsberichte GmbH & Co. KG, Hamburg

Lithography / Printing
Ottweiler Druckerei und Verlag GmbH, Ottweiler

Photos
D. W. Schmalow, Mannheim
Horst Kirsch, Frankenthal
Alexandra Leiner, Frankenthal

Cover
Casing of a boiler feed pump used in power stations

Annual Report 2008

KSB Group

KSB Aktiengesellschaft
67225 Frankenthal (Germany)
www.ksb.com