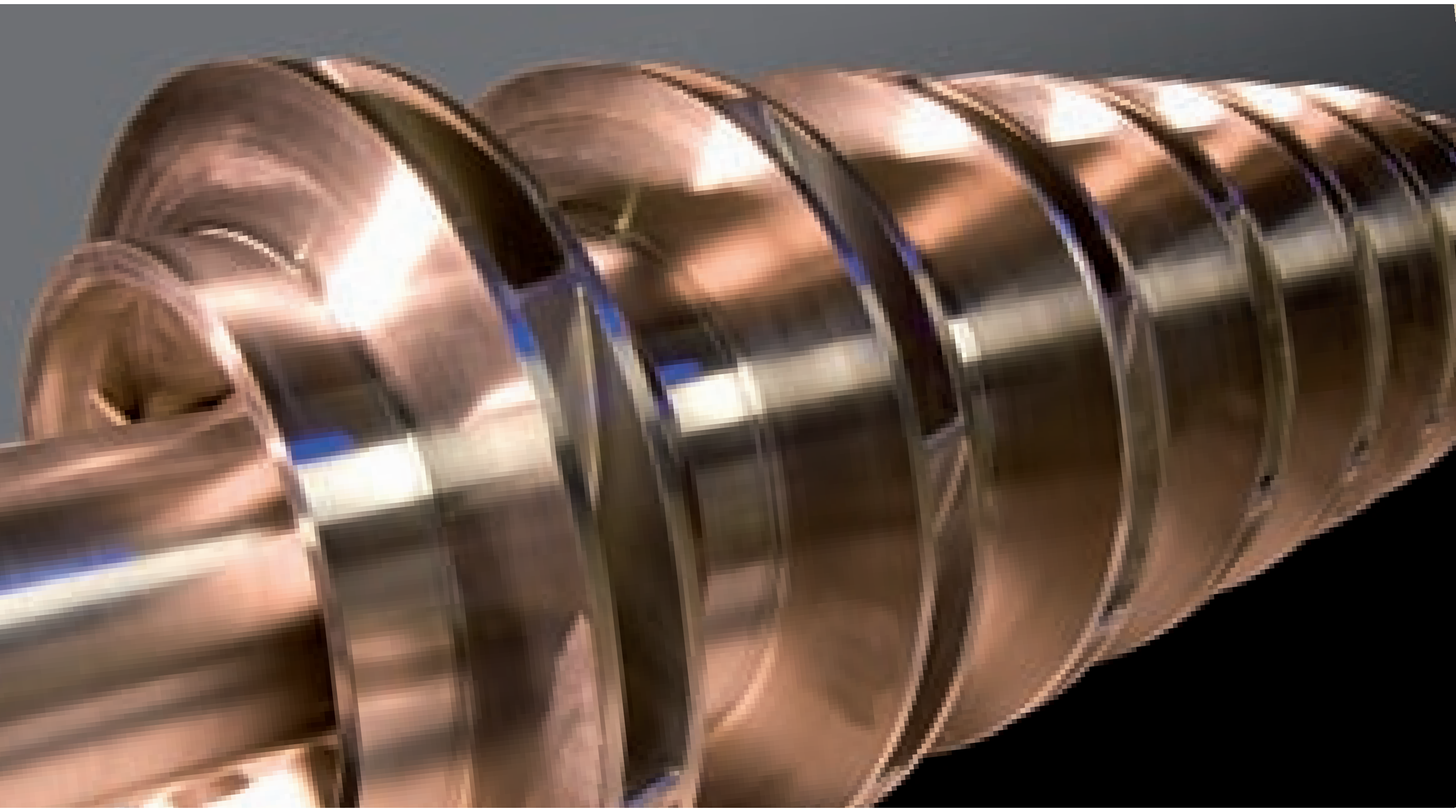
KSB Group

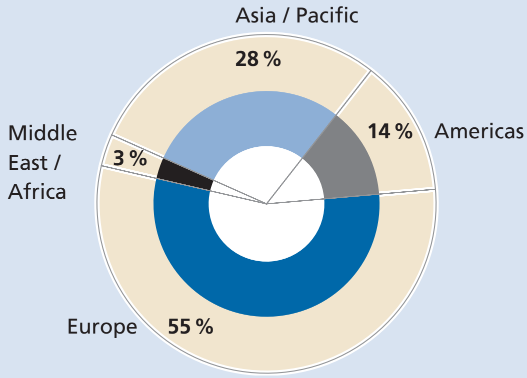
Annual Report 2007



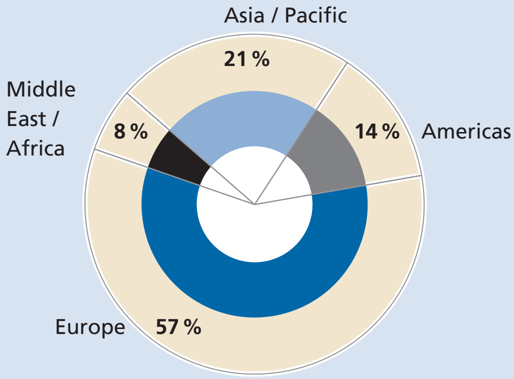
GROUP FINANCIAL HIGHLIGHTS

		2007	2006	2005	2004	2003
EARNINGS						
Sales revenue	€m	1,770.9	1,607.4	1,401.4	1,266.8	1,178.1
Earnings before interest and taxes (EBIT)	€m	137.1	100.2	41.4	33.6	39.7
Earnings before taxes (EBT)	€m	128.7	90.2	29.6	22.1	29.8
Net profit for the year	€m	89.9	62.4	19.8	14.7	18.7
Cash flow	€m	138.5	101.2	71.0	59.5	63.1
BALANCE SHEET						
Balance sheet total	€m	1,258.0	1,130.4	1,054.6	982.6	926.5
Fixed assets	€m	340.8	301.2	287.3	261.2	270.1
Capital expenditure	€m	62.7	46.5	45.2	33.7	60.4
Depreciation and amortisation expense	€m	34.6	33.2	34.2	33.2	30.2
Current assets	€m	904.9	815.5	737.0	693.8	633.0
Equity (including minority interest)	€m	505.9	426.6	390.0	354.8	346.0
Equity ratio (including minority interest)	%	40.2	37.7	37.0	36.1	37.4
PROFITABILITY						
Return on sales	%	7.3	5.6	2.1	1.8	2.5
Return on equity	%	27.6	22.5	8.0	6.3	8.5
Return on capital employed	%	12.1	9.7	4.4	3.9	4.9
EMPLOYEES						
Number of employees at 31 Dec.		13,927	13,063	12,963	12,467	12,281
Staff costs	€m	581.6	521.7	508.5	477.4	450.5
SHARES						
Market capitalisation at 31 Dec.	€m	774.7	657.1	252.9	212.9	211.9
Earnings per ordinary share (EPS)	€	43.73	27.99	5.85	4.16	6.74
Earnings per preference share (EPS)	€	43.99	28.51	6.88	5.19	7.26
Dividend per ordinary share	€	9.00	2.00	–	–	2.50
Dividend per preference share	€	9.26	2.52	1.03	1.03	3.02

Employee population by region



Sales revenue by sales region



Products and Services

Industry

Pumps and valves, as well as associated control and drive systems; installation, commissioning, start-up, inspection, servicing, maintenance and repair services

More information
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Building Services

Pumps and valves, pressure boosting and sewage lifting units, associated control and drive systems for use in domestic water supply, drainage, heating, and air-conditioning systems; installation, commissioning, start-up, inspection, servicing, maintenance and repair services

More information
▶ Page 24

Water

Pumps and valves, pressure exchangers, associated control and drive systems, as well as water transport subsystems; installation, commissioning, start-up, inspection, servicing, maintenance and repair services

More information
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Waste Water

Pumps, mixers, associated control and drive systems, as well as waste water transport installations and subsystems; installation, commissioning, start-up, inspection, servicing, maintenance and repair services

More information
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Energy

Pumps and valves, as well as associated control and drive systems for use in power stations and district heating systems; installation, commissioning, start-up, inspection, servicing, maintenance, repair and rehabilitation services

More information
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Mining

Slurry pumps for use in the mining industry and on suction dredgers, as well as installation, commissioning, start-up, inspection, servicing, maintenance and repair services

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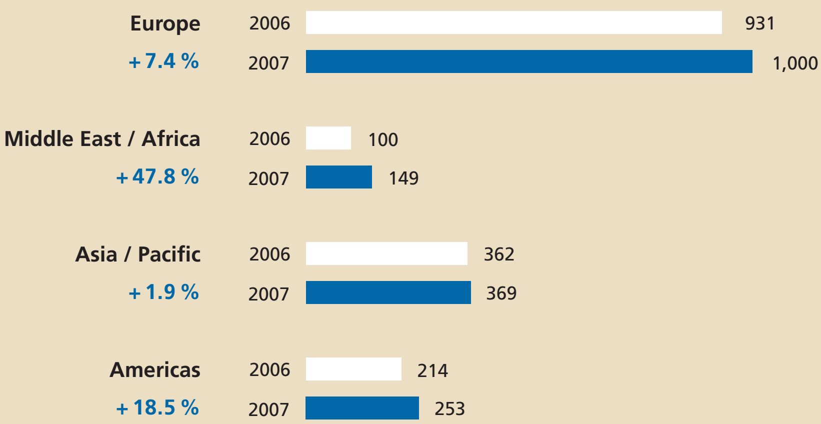
KSB manufactures its products on all five continents. With production sites in 19 countries and a tightly knit sales and service network, KSB employees are always close at hand when customers have fluids to transport or flow to shut off.

Sales revenue development by geographic area (€ millions)

(See segment reporting on pp. 66/67)



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.

Two new Board members

KSB facility in South Africa

KSB at ISH 2007

January

- Two new members of the Board of Management take up work in Frankenthal: Dr. Peter Buthmann (left) and Prof. Dr. Dieter-Heinz Hellmann. Both have many years of experience with KSB.
- The KSB Group expands its group of consolidated companies to include two sales companies in Dubai and Thailand, one service company in Belgium and a production company in Brazil.

February

- In South Africa, KSB completes the acquisition of the 50 percent stake of the previous joint venture partner in KSB Pumps (S.A.) (Pty) Ltd., Germiston. For the newly founded subsidiary of this company, KSB Pumps and Valves (Pty) Ltd., which manages the operative business, we take on a local partner with an interest of about 25 percent.
- KSB S.A.S. in France acquires the service company SVFM in Rambervillers, Lorraine, with around 50 employees.

March

- The ISH international trade fair for bath, building, energy and air-conditioning technology in Frankfurt / Main, attracts a record 215,000 visitors. KSB presents its range of building services products, including new sewage lifting units and pressure boosting systems, to customers.
- For a steel works in Linz, Austria, KSB supplies one of the largest axially split water pumps ever built. The 13 tonne unit pumps more than 3,300 litres a second.

A Look Back at 2007

August

- At Pegnitz, an investment programme is started to increase production capacity for industrial pumps and large valves. This site in Northern Bavaria aims to create around 5,500 m^2 of production and warehouse space by the end of 2008.

September

- KSB presents Microchem® to the public. Journalists from the international trade press are the first to be informed about the world's first centrifugal pump for transporting the smallest of quantities in micro-process engineering.
- A new sales and service company is started up in Algeria. KSB Algérie Eurl, based in Algiers, is dedicated in particular to catering to the growing demand for service in the country.

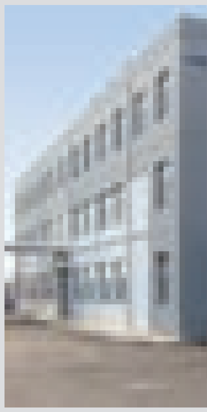
October

- Jan Stoop, previously Managing Director of KSB's Dutch subsidiary DP industries B.V. for 15 years, joins KSB AG as the new Board of Management Member responsible for Sales. He succeeds Dr. Willi Enderle.

Production of industrial pumps in Pegnitz

First centrifugal pump for micro-process engineering

Jan Stoop becomes the new Board Member responsible for Sales



New company building in Singapore

More than 600 service employees in France

Libyan pumping station starts operations

April

- KSB Singapore (Asia Pacific) Pte. Ltd. inaugurates its new office in Singapore. The premises also include a warehouse and a service workshop.
- On Cyprus, three KSB high-pressure pumps of the HGM®-RO type are used in a seawater desalination plant. They offer the world's best efficiency measured in cold water (87 percent) for ring-section pumps.

May

- KSB S.A.S. acquires the French Metis Group whose subsidiaries are focused on providing service for pumps, motors and compressors. This acquisition strengthens our service network in France.

June

- Leader of a consortium in Libya, KSB starts up the C 319 pumping station costing € 75 million. The station is part of the Great Man-Made River Project to transport fossil groundwater from the Sahara desert to the Libyan coastal region.
- The Supervisory Board approves a comprehensive programme of investment to expand the production and testing facilities for large power station and water pumps.

- In Dalian (North China), KSB moves to a new site for the production of valves. In the 6,000 m² facility, 100 employees manufacture butterfly valves for a variety of applications.

November

- In Shanghai, KSB Shanghai Pump Co. Ltd. inaugurates a new facility for the production of standard pumps. Most of the pumps manufactured here are industrial pumps for China's domestic market.

December

- The 65,000th Eta® pump leaves the Frankenthal site. This is a new annual record in the history of the world's most successful KSB standard pump, of which 1.2 million have now been sold.

New valves production facility in Dalian (China)

Inauguration of standard pumps production

Eta pumps waiting for shipment

Dr. Wolfgang Schmitt,
Chairman of the Board
of Management

Dear shareholders and business partners,

2007 was a very successful year for KSB. We again achieved a double-digit percentage growth in order intake and sales revenue, and also increased our pre-tax earnings by some 43 percent to € 129 million. These developments provide us with new financial flexibility. We intend to use this both to launch important investments for the future and to propose a suitably increased dividend at the Annual General Meeting.

We owe our current record levels of order intake, sales revenue and earnings to the many customers who in 2007 again displayed their confidence in our product quality and ability to perform. It is precisely this trust that we have to keep earning, again and again. KSB's continuing success thus stems not least from the commitment of dedicated employees. All around the world, they put every effort into ensuring that despite 2007's very high order volume, we still served our customers fast and reliably.

Changes and the search for opportunities

The temptation here might be to say "Keep it up!" Our market, however, is changing by the year. Very soon, moving successfully on "up" will often require more than just a "keep it". The changes in our operating environment include new technologies we can use and emerging markets we want to serve. They also include shifts in currency exchange rates that affect our purchasing and pricing policy. So KSB is always on the move in its markets, technology and service to customers.

We are permanently on the lookout for new opportunities to continue profitable growth, for new products and services that excite our customers, and for new employees and partners who will enable future successes.

In 2008 we shall be conducting a thorough review of our medium and long-term strategy. We will weigh tomorrow's market opportunities against the risks and our own capabilities, and consider where new avenues may be opening up for KSB.

Potential for expansion

Growth ambitions demand adequate resources. In 2006, some of our subsidiaries reached the limits of their personnel and machinery capacity. In 2007, we thus boosted our manufacturing, sales and service teams with additional employees; we also began expanding our production facilities.

We chose the boom markets of China and India as the first in which to extend our technical capacity. Last October, we opened a large valves plant in the Dalian special economic zone; this was followed a month later by our new manufacturing site for standard pumps in Shanghai. In India we were able to create additional capacity through alterations to the existing production technology. The result is a 25 percent rise in valve output. As well as this, we now have plans in place for additions to our Indian pump and valve manufacturing facilities.

This year we are also investing in what continues to be our major market: Europe. Key elements of the investment programme are new production and test centres for large power station and water pumps, together with the expansion of our industrial pump production. We are committing € 70 million to these measures in Frankenthal, Pegnitz and Halle (Germany), and are also investing in butterfly valve production at La Roche-Chalais in France.

Even more important than capacity are up-to-date products and services. These require innovations that respond to customer wishes – or better still, anticipate them. A good example is our pulsation-free pump for microprocess engineering, about which you will find further details in this report. This pump's currently unique performance profile enables users to run their future chemical processes more flexibly and economically.

KSB aims to turn more ideas of this sort into products demanded by the market. At the beginning of 2008 we therefore reorganised Research and Development. The changes are designed to concentrate innovation potential and ensure high efficiency through clearly structured and controlled processes.

Profitable growth remains primary goal

Our goal for 2008 and beyond is profitable growth for the KSB Group. Based on the positive developments hitherto, we aim for our sales revenue to pass the two billion euro mark by 2010. By then at the latest, our goal is also to achieve an eight per cent return on sales.

The market offers numerous opportunities for achieving these targets. As our shareholders and business partners, we warmly invite you to accompany us further along the road forward.

Yours sincerely

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

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, IT Management, Communications, Legal Affairs and Corporate Development.

Jan Stoop
has been a Member of the Board of Management since 1 October 2007 and is responsible for Sales and Marketing. Before this, he was Chief Executive Officer of the Dutch KSB subsidiary DP industries B.V.

Prof. Dr.-Ing. Dieter-Heinz Hellmann
joined the Board of Management on 1 January 2007. He is responsible for Research, Product Management, Product Development and Variants Management.

Dr.-Ing. Peter Buthmann
has been a Member of the Board of Management since 1 January 2007. He is responsible for Production, Service, Internal Audits and Integrated Management Systems.

Report of the Supervisory Board

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

2007 was an extremely successful financial year both for KSB Aktiengesellschaft [German public company] and for the KSB Group, which led to another significant improvement in earnings. Favourable market conditions coupled with the Company's good positioning and the dedication of our employees contributed to this. However, 2007 was also an important year for making investment decisions to secure the earnings-driven growth we are projecting.

In financial year 2007, 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 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. The same applied to the course of business and to the current position of the Group. 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, the Chairman of the Supervisory Board was also in regular contact with the Board of Management outside the meetings to discuss the current business development and significant transactions. In addition to this, the Company's prospects and its strategic focus were dealt with in separate strategy meetings with the Board of Management, at which other Supervisory Board Members were present.

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 2007. The plenary sessions regularly dealt with the business developments of KSB Aktiengesellschaft, the Group and the individual segments, in particular 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 European service activities. As the basis for and in preparation of our decisions, we informed ourselves in each case of particular results of the due diligence reviews and the valuation models applied. In view of the high number of acquisitions completed over the past few years, we addressed in detail the economic situation of the companies acquired.

Against the background of the significant further increase in the order intake, the Supervisory Board – as in financial year 2006 – placed great value on continuously informing itself of the general situation, the utilisation of production plants and the results of measures which led to their permanent optimisation. In this context, particular importance was attached to a new production system whose introduction at a number of German and European locations was completed in 2007. The implementation phase, which lasted several years, and the results that are now beginning to emerge, were subjected to a critical review. We also dealt with the concept and implementation of key investments in buildings and machinery on several occasions; these are designed to increase production capacity for large pumps at various German locations. Substantial investments for expansion were also approved in particular for India and China.

The Supervisory Board held a two-day meeting in September at the Dutch location in Alphen, not least to see for itself the business developments there and the modern production technology. A particular focus of this meeting was the appointment of a new Member of the Board of Management with responsibility for Sales. On the basis of a proposal by the Personnel Committee, Mr. Jan Stoop was appointed as successor to Dr. Willi Enderle as a regular Member of the Board of Management of KSB Aktiengesellschaft with effect from 1 October 2007. Mr. Stoop, a well-known individual in the international business environment, is highly qualified for this responsible task. As a long-serving Managing Director of our Dutch subsidiary DP industries B.V., he made an important contribution to that company's successful development. In December 2007, at the last meeting in the year under review, we primarily dealt with the budget for financial year 2008 and the medium-term plans for financial years 2009 / 2010. Also, as part of the implementation of the recommendations of the German Corporate Governance Code, the Supervisory Board has established a Nomination Committee and adapted its rules of procedure accordingly.

To ensure its tasks are performed efficiently, the Supervisory Board has established six committees and three working groups acting as sub-committees. These committees prepare the Supervisory Board's resolutions and those issues to be discussed at the plenary sessions. They also make their own decisions – to the extent that this is legally permissible – in place of the Supervisory Board. This allocation has proved to be extremely worthwhile in practice. At the plenary meetings, the Chairs of the Committees regularly and comprehensively reported on the content and results of the work in the committees; the committees were informed of the results of the working groups.

The Planning and Finance Committee met three times in financial year 2007. It dealt with the preparation of the budget for 2008 and medium-term planning. The need to increase investments goes hand in hand with the positive business development. The committee addressed in detail the need for and the profitability of an expansion of production capacities in the area of engineered pumps. At six meetings, a working group set up to support this major project discussed in detail the conceptual decisions and the first implementation stages with the Board of Management.

The Personnel Committee held nine meetings in the past financial year. It primarily dealt with questions relating to Board of Management remuneration, including the terms of the service contracts for the individual Board of Management Members as well as other Board of Management issues. The Committee discussed in detail the appointment of a new Member of the Board of Management with responsibility for Sales and held talks with a number of candidates in connection with this. KSB's human resources development system was also a main focus of the Committee's activities. In particular the issue of "young executives" was critically reviewed.

The work of the Audit Committee primarily focused on the financial statements and management reports of KSB Aktiengesellschaft and of the Group, as well as the auditors' reports submitted by the auditors. In addition, it supervised the risk management system in place and assisted in its development. The work of the internal audit department, whose head was regularly available at the Committee's meetings, was taken into account. The body also dealt with the engagement of the auditors, including the determination of the auditors' fees. The Audit Committee also supported and discussed the preparation of the half-yearly financial report in detail. Particular attention was paid to compliance activities within the Company and the related establishment of a Group-wide Code of Conduct. The Committee met five times in the year under review; the auditors were present at several meetings.

The Strategy Committee coordinates the consultation process between the Board of Management and the Supervisory Board to revise strategy. As part of eleven meetings, in some cases lasting two days, the Committee supported the strategic development process led by the Board of Management and developed the necessary contributions for this on behalf of the Supervisory Board. Working groups were established to address the issues of “Innovation” and “Leadership and Corporate Culture”. The working group reviewing Leadership and Corporate Culture at KSB already met in 2007 for the first time.

The Nomination Committee, which was established in December 2007, will start its work in the current financial year and propose suitable candidates to the Supervisory Board for election by the Annual General Meeting as shareholder representatives on the Supervisory Board. There was no requirement during the year under review to convene the Mediation Committee required by section 27(3) of the MitbestG [Mitbestimmungsgesetz – German Co-Determination Act].

Corporate governance and statement of compliance

The Supervisory Board continuously monitored the ongoing development of corporate governance standards. 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 11 – 12 of this Annual Report. They issued an updated statement of compliance in accordance with section 161 of the AktG [Aktiengesetz – German Public Companies Act] on 12 December 2007 and made it permanently available to shareholders on the Company’s web site. With just a few exceptions, KSB Aktiengesellschaft complies with the recommendations set out in the Code in the version dated 14 June 2007, last published on 20 July 2007 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

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Mannheim, audited the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2007 prepared in accordance with the provisions of the *Handelsgesetzbuch* [HGB – German Commercial Code], the consolidated financial statements and the Group management report, and issued an unqualified auditors’ opinion. In accordance with section 315a of the 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 proper accounting treatment of delays in delivery and a review of the draft Code of Conduct. The auditors’ reports submitted by the auditors and the other accounting documentation, in addition to the proposal by the Board of Management on the appropriation of net retained earnings, were provided in good time to all Members of the Supervisory Board. They were addressed in detail by the Audit Committee on 27 March 2008 as well as the Supervisory Board plenary session on 10 April 2008 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.

We concur with the auditors’ findings. The examination by the Audit Committee and our own final review 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. The Supervisory Board concurs with the proposal on the appropriation of the net retained earnings of KSB Aktiengesellschaft submitted by the Board of Management.

Dependent company report

The auditors also audited the dependent company report prepared by the Board of Management in accordance with section 312 of the AktG. The auditors 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, or disadvantages were compensated;
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 for supplemental information. Both the recommendation by the Audit Committee and the final results of the Supervisory Board's examination did not give rise to any objections to the audit findings. This includes the statement by the Board of Management at the end of the dependent company report.

Changes in the Supervisory Board and Board of Management

Dr. Peter Buthmann and Prof. Dr. Dieter-Heinz Hellmann resigned from the Supervisory Board on 31 December 2006 on account of their move to the Board of Management. As representative of the executives, Mr. Carl-Wilhelm Schell-Lind succeeded Dr. Buthmann on the Supervisory Board on 1 January 2007. The Annual General Meeting elected Dr. Hermann Nestler to replace Prof. Dr. Hellmann as Member of the Supervisory Board on 13 June 2007 after he had been previously appointed as Member of the Supervisory Board by court order on 11 April 2007. Dr. Nestler's defined term of office differs from the remaining term of office of his predecessor; the aim is to define individual terms of office in the future, too. Owing to his retirement, Mr. Heinz Köppel resigned his position as 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 Member of the Supervisory Board effective 1 January 2008.

Dr. Willi Enderle left the Company's Board of Management on 30 September 2007. In his place, Mr. Jan Stoop was appointed Member of the Board of Management effective 1 October 2007.

The Supervisory Board extends its gratitude to the retiring Members of the Boards 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 Members of 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 extremely successful year for KSB.

Frankenthal, April 2008

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 always ranked highly at KSB. We therefore welcome the principles set out in the German Corporate Governance Code. 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. In doing so, we were guided by generally accepted national and international standards of good and responsible business conduct and management. 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. After the Government Commission resolved to amend the Code on 14 June 2007, KSB continues to comply with its recommendations with few exceptions. A particular focus of our corporate governance activities in the year under review was laying the foundations for the structured development of our compliance organisation. In the current financial year, we will continue to work on conceptual aspects of our compliance policy and concentrate on implementing and embedding these in the Company.

Cooperation between the Board of Management and the Supervisory Board on a basis of mutual trust

KSB AG is an *Aktiengesellschaft* (public company) under German law. The Board of Management and Supervisory Board are therefore responsible for the management of the Company. The members of the Supervisory Board are selected according to the rules of the German Co-determination Act and the German Public Companies Act. The continuous dialogue between these two executive bodies, based on mutual trust, forms the basis for the long-term success of the Company.

Our activities are based on good corporate governance

Good corporate Governance plays a major role for the Board of Management and the Supervisory Board, covering all areas 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 amendments to the Code adopted by the Government Commission on 14 June 2007 were thus incorporated within the framework of the Company's internal process flows.

Compliance is a key task of corporate management

A key task of the Board of Management is to establish compliance measures that comply with current law and the Company's internal guidelines. Particular importance was attached to the development and positioning of a Group-wide Code of Conduct in the year under review. For this reason, 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 Group-wide introduction of the Code of Conduct is planned for the current financial year. The aim is to continue to ensure and keep improving compliance with the legal framework, as this is indispensable for sustainable business activity.

Our compliance activities also focused on the areas of cartel law and preventing corruption. For this reason, additional Group guidelines were developed in the year under review based on the provisions of the Code of Conduct. These guidelines explain the applicable legal provisions in more detail and give practical support for proper conduct in concrete situations. They are planned for introduction at the same time as the Code of Conduct. Accompanying training courses geared to practical requirements were already held for employees in 2007 to communicate to them the core content of the guidelines, and to create a forum for discussions. The training will be continued in 2008.

The Supervisory Board monitors the compliance measures initiated by the Board of Management in accordance with the general allocation of responsibilities in a German public company. As stipulated in the German Corporate Governance Code, the Audit Committee of the Supervisory Board assumes responsibility for dealing with such matters due to the close connections between financial reporting, risk management and compliance. The Supervisory Board's rules of procedure were modified accordingly.

Rules of procedure for the Board of Management revised
In the past financial year, the Supervisory Board completed the revision of the rules of procedure for the Board of Management and adopted them. The list of transactions that may be effected only with the consent of the Supervisory Board was thus adapted to current requirements and is now included in the Board of Management's rules of procedure. Accordingly, the Annual General Meeting resolved on 13 June 2007 to amend KSB AG's Articles of Association and to delete the passage in them regarding transactions requiring consent to avoid arrangements governing this issue in different documents.

Nomination Committee formed
The Government Commission decided to add a recommendation for the creation of a Nomination Committee to the German Corporate Governance Code on 14 June 2007. The Supervisory Board has followed this recommendation and resolved to establish a Nomination Committee in December 2007.

Statement of compliance updated
The Board of Management and Supervisory Board issued an updated statement of compliance in accordance with section 161 of the AktG [Aktiengesetz – German Public Companies Act] on 12 December 2007 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 14 June 2007 apart from a handful of exceptions. The departures from compliance with the recommendations of the Code are explained below:

- We depart from the recommendation on disclosing details of the remuneration for individual members of the Supervisory Board (section 5.4.7). We prefer to provide summarised information about the remuneration of the members of the Supervisory Board, rather than breaking it down into the compensation components, as the latter would not provide any additional benefits for shareholders or the development of the Company. The remuneration of the Supervisory Board members is governed by the Articles of Association. The total remuneration of the Supervisory Board is contained in the notes to the consolidated financial statements.
- We depart from the recommendation in section 7.1.2 to the extent that the consolidated financial statements are not published within 90 days of the end of the financial year. KSB already publishes its annual financial statements well ahead of the statutory deadlines, so we do not believe there is any need to further accelerate their publication.

Going forward, we will continue to respond quickly to further developments in the German Corporate Governance Code to ensure that suggestions and recommendations that are applicable to KSB are implemented in the interests of sustained transparency and growth in our enterprise value.

Remuneration report
The remuneration arrangements for the Board of Management are structured as transparently as possible. 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 base salary is paid monthly; the benefits include the use of a company car as well as covering insurance premiums. 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 to pay a fixed amount of severance compensation, so as to keep the costs predictable that would arise for the Company in such a situation.

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 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 2007 was € 5,928 thousand. For this period, additions of € 3,241 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 47 and 99 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 version dated 14 June 2007, 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 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 5.4.7).

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 12 December 2007

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) of the AktG

In the Group management report for financial year 2007, we have summarised and explained the disclosures required by section 315(4) of the 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, 28 March 2008

The Board of Management

Innovations That Set Standards

At KSB, we have been developing pumps, valves and related systems for over 130 years. Again and again, our research and development experts set new yardsticks in hydraulics, materials engineering and automation. Some of our products' technical "extras" have become standard solutions and the examples for our entire sector to follow. At the same time, our modular range of standard products is always flexible enough to meet almost every customer request.

Decades of tradition, right up to date: the current CPKN chemical pump continues the history of a highly successful series.

The path of progress

KSB is a dynamic pathfinder, providing its customers with strings of innovations to match their needs. The key to success in our markets is to recognise those needs early, and then be the first to find the right solutions. Importantly, we do not just stop there: series such as the CPK standardised chemical pump or the Eta standardised water pump provide solutions that we have continued to enhance through decades of technical refinement.

When variety becomes the norm

The Eta series has numerous imitators, but still remains the unsurpassed choice for classic applications in industry and building services. Behind that success lies a development team that keeps our standardised water pump permanently ahead in fluid dynamics, components' mechanical properties, machine dynamics, noise reduction and operating reliability. We have sold over a million Eta pumps so far, and another 65,000 left our Frankenthal works in 2007. Strictly speaking, these "standard" products are in fact all unique – no two pumps sold last year were fully identical. That kind of variety puts the Eta series in a class of its own.

Pumps that match the media

Chemical pumps are important plant components. Forty years ago, the introduction of binding standards marked a milestone in their safe and consistent use. KSB engineers were closely involved then, as they are today. We have continued to optimise our standardised chemical pumps, and provided chemical and process engineers with solutions for a wide range of media. Consistent use of a modular design system has made our chemical pumps the all-rounders for demanding industrial applications, including the transport of aggressive, corrosive and explosive fluids.

Lively exchange of expertise

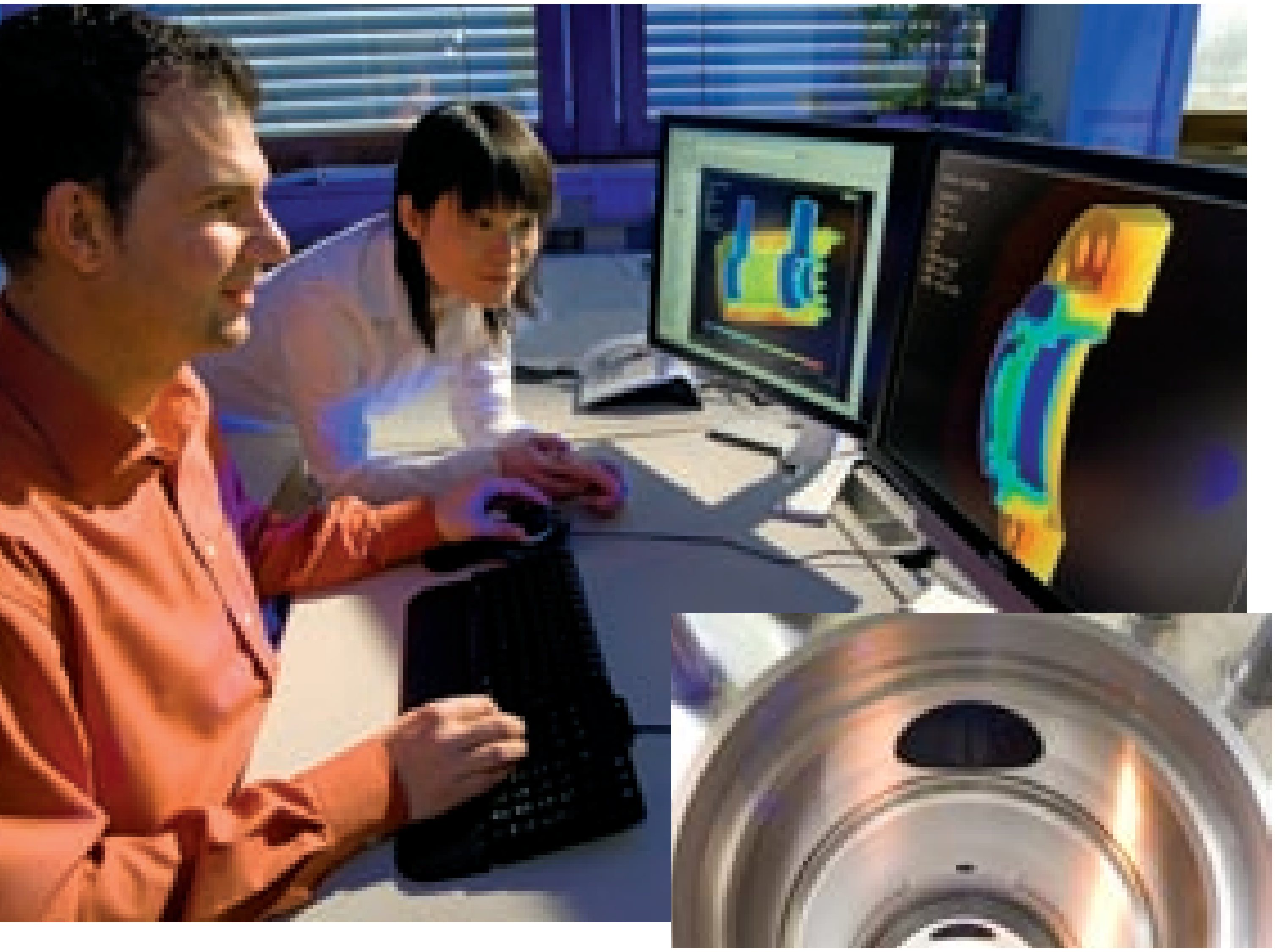
Pump and valve innovations depend on intelligent blends of expertise from different disciplines. At KSB, hydraulics experts team up with materials and electronics specialists. These interdisciplinary teams often also involve sales colleagues, who help turn customer needs into product ideas. Modern methods such as computational simulation keep the R&D process fast and efficient. These techniques help optimise pumps' and valves' flow characteristics and thus frequently reduce facilities' energy requirements. Not surprisingly, KSB pumps are often the world's most efficient. Also top of their league are the materials we use for pumps and valves, some of them specially created in house. Computer-based numerical modelling predicts alloys' characteristics. This both speeds up development and avoids the cost of expensive empirical testing.

Close cooperation with academia

The latest findings in science and technology help our products to get better and better. We aim to turn new scientific theories rapidly into practice. Our development centres in France, Germany, India and the USA cooperate closely with well-known universities and research institutes. Joint projects in hydraulics, materials science and automation have already generated numerous product ideas.

◀ Final assembly of the Etanorm® standard pump

Specialists check the loads on the material of the barrel casing and casing cover of a boiler feed pump using computer-based simulation programs.



Modern methods of pigment production include micro-process engineering. This still fairly new approach offers both economic and environmental advantages. It enables efficient production of high-value chemicals.

An idea becomes a global first

KSB took just three years to get its most recent innovation to market: Microchem®. Our specialists developed this novel centrifugal pump for pulsation-free transport of very small quantities at high pressures. Microchem is a major technical breakthrough for the chemical industry. Operators use it primarily in the steadily growing area of micro-process engineering. Manufacturers of chemical intermediates, for example, use this method in relatively small-scale production facilities called "mini-plants".

Increasing efficiency, reliability and safety

One of mini-plants' advantages is that product quality can be significantly improved. Another is that only small amounts of liquid feedstock are involved in reactions at any one time. This makes production using hazardous chemicals considerably safer and more economical than in large-scale facilities. In the past, however, mini-plant operators did not have access to a reliable pump that could permanently ensure a precise feed of the necessary fluids. The positive displacement pumps used hitherto have the disadvantage of pulsation. This prevents constant precision mixing of the required substances.

Solutions that the market really wants

Microchem is one of the smallest centrifugal pumps in KSB's history, and looks quite different to all the company's previous products. The entire unit measures about 50 centimetres. It consists of a pump, a drive and the electronic Microchem Control Unit. The latter ensures precise, constant and pulsation-free flow of anything from a few grams per minute to several hundred kilos per hour. The only centrifugal pump of its kind in the world, this product is yet another new proof of our technological skill.

Front-runner in digitalisation and automation

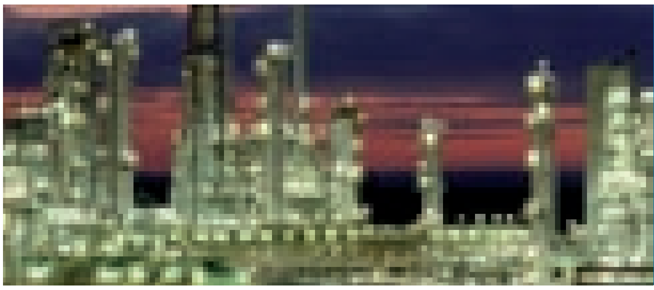
Running modern industrial plants requires professional and intelligently controlled interplay between numerous different components. Two decisive trends in future development projects will be digitalisation and automation. They enable solutions that improve availability and process reliability, reduce running costs and help to prevent breakdown damage by continually monitoring all the process parameters.

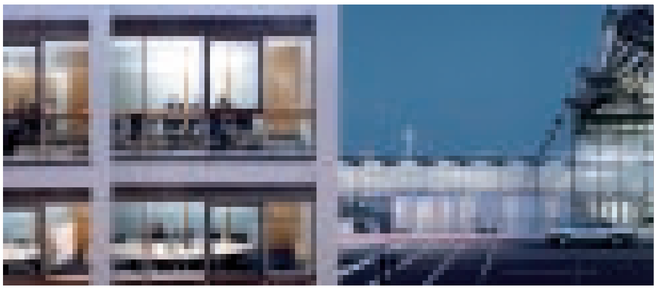
KSB has long added automation solutions to its range of pumps and valves, and relieved customers of the burden of systems operation. A comprehensive platform-based automation concept enables safe and economic fluids transport coupled with efficient plant management in every respect. KSB automation components ensure reliable diagnosis and both open and closed-loop pump control. All our modules are fully compatible, communicate with each other and share a common user interface concept. Digital intelligence comes alive in products such as our innovative PumpExpert diagnostic system, which keeps track of all relevant parameters. PumpExpert is the only system of its kind to turn this information into clear plain-text recommendations for action in the event of a fault.

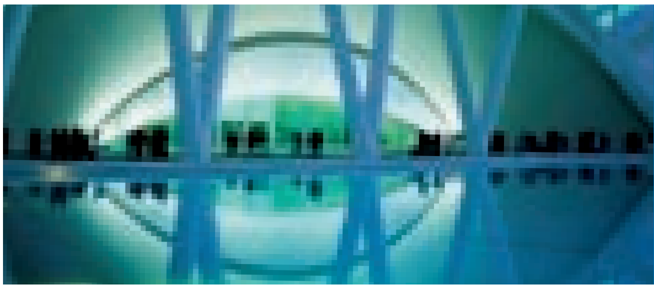
Clear focus on tomorrow

Our pumps run lifetime marathons. The very latest design, materials and quality technology create reliable, long-lasting, economic and environmentally friendly products. Their application spectrum continues to evolve. Technological advances will open up new possibilities, and our customers will focus on new requirements.

It is therefore essential that we explore opportunities today for commercial successes tomorrow. We do this through forward-looking scouting and prospective studies that lead to new product ideas. A specially created project group is tasked with structuring, implementing and evaluating the ideas. The results will open up new business avenues. KSB intends to continue setting new standards and shaping the future of technology.







Industry

- Equipment of drilling platforms and gas tankers
- Process pumps for biofuel production
- Innovation in micro-process engineering

KSB pumps and valves are used for a wide variety of demanding processes in industry. Not only aggressive and corrosive liquids, but also toxic, explosive and solids-laden fluids may have to be safely transported or shut off. Extreme temperatures and high pressures are further system conditions that call for safe and reliable technical equipment with a broad range of variants.

Only a few manufacturers of pumps and valves offer an appropriately diverse range that also meets high standards in terms of both quality and safety. For this reason, 2007 saw even more customers from the Industry segment than in the previous year opting for KSB products in order to modernise their plants or increase their production capacity. Particularly strong demand came from the chemical, petrochemical and pharmaceutical industries. Order intake was also very positive in shipbuilding and flue gas desulphurisation. In addition, we saw the highest demand to date for standard pumps for simple industrial processes.

Europe's largest bioethanol plant in Zeitz, Germany, uses pumps and valves from KSB.

Surge in demand from oil and gas industry
The strong demand from the petrochemical industry was related not only to the expansion of existing plants, but also to the building of new capacity in the oil-producing countries themselves. Consequently, we received orders from this region for refinery-specific pumps and valves.

Another special focus of activity was our collaboration on large Indian refinery projects, which included the delivery of high-pressure pumps for several hydrocrackers. Oil and gas-producing companies also needed our products for new drilling platforms.

Where no pipelines are available for gas transport, the only alternative is to ship the gas on liquefied gas tankers. Today, most of the world's liquefied gas tankers are fitted with KSB cryogenic butterfly valves. The good experiences of customers with these special valves led to further orders in 2007. Cryogenic butterfly valves were also ordered by customers for new gas liquefaction plants and terminals.

Sustained trend towards biofuels
To counteract the growing shortage of fossil fuels, more and more biofuels are being used. This trend is leading to the expansion of appropriate production sites, for which our customers need a variety of process pumps. In plants that produce biodiesel, there are now 1,500 KSB pumps in operation around the world. These include seal-less pumps for transporting methanol and pumps of duplex cast steel for corrosive condensates.

After the boom in biodiesel plants, orders have been dominated most recently by demand from plants that produce bioethanol. These plants also use non-clogging impeller pumps to transport high-viscosity materials.

Record production of standard pumps
In addition to special pumps for demanding media, customers increasingly needed standard pumps. KSB is the leading manufacturer in the Industry segment for these standardised and close-coupled pumps. A major contribution to this market position came from Eta series pumps, whose production reached a new record level in 2007. Altogether, 1.2 million of these pumps are in use worldwide.

Innovative pump for micro-processes
With the introduction of micro-process engineering into chemical production, the equipment needs of this industry are changing. Small items of equipment are replacing large plant parts, which presents new pump engineering requirements in terms of efficiency and precision. As the world's first manufacturer in this field, KSB therefore launched a pulsation-free centrifugal pump with integrated control system in 2007. This pumps very small quantities from a few millilitres to 300 litres per hour with utmost precision. Despite this low pumping volume, the Microchem can generate pressures of up to 25 bar and is thus eminently suitable for the specific requirements of micro-process engineering.

New offers in service for industry
The energy consumption of pumps is an important cost factor in industrial plant operations. So KSB started to provide energy efficiency consultations followed up by technical support for major customers as part of our service range. This allowed a substantial reduction in the life cycle costs of pumps used, also in old plants, as barely a third of these costs are accounted for by the purchase price.

Service also added another string to its bow with the overhaul of valves in steam reducing stations, which lower pressures and temperatures in process engineering systems. In 2007, we inspected and converted valves of this kind in the steamcracker of a German chemical company.

Fuel injection for the farmer
Made from renewable raw materials, bioethanol contributes to reducing fossil fuel consumption. With rising oil prices, the production of alternative fuels is becoming increasingly lucrative, which is leading to the construction of new plants. Advanced KSB pumps also play a part in this challenging production process where, amongst other things, they are used to pump the mash and other media containing solids.

Building Services

- New waste water lifting unit helps to boost orders
- Heating supply stations equipped in Eastern Europe
- 1,000 pumps ordered for residential building projects in the Emirates

Pumps, valves and systems from our building services portfolio perform important supply and waste disposal functions in residential and office buildings, in airports, hospitals and industrial production facilities. With our products for building services systems we serviced not only the needs of dealers in 2007 but also in particular the needs of equipment suppliers of large buildings in the industrial and municipal sectors. Key areas of demand were in domestic water supplies, building drainage and HVAC (heating, ventilation and air-conditioning). Outside our domestic market of Europe, stronger growth was seen especially in the countries of the Middle East, in Russia and also in some Asian markets.

Lifting unit responds to differences in resistance

At the international ISH trade fair in Frankfurt / Main, we presented a series of new and trend-setting products to consultants, dealers, plant engineering contractors, plumbers and installation contractors. We achieved the greatest success with a smart lifting unit that drains building sections below flood level. The system, which features a con-

In many buildings of the new “Moskva City” business centre, KSB technology will provide for air-conditioning, water supplies and waste water disposal.

trol unit and level sensor, can adapt automatically to changes in friction losses in piping of the kind that are caused, for example, by deposits on the walls of pipes. The system is also built for energy-efficient and low-noise operation. Customers' orders after the trade fair exceeded our expectations, with the result that we had to increase production at short notice.

Other innovations presented at the trade fair were a pressure boosting system that provides for constant water pressure with changes in pumping volume, and also new shut-off valves with short face-to-face length and electric actuators. To coincide with the trade fair, we also started a web portal that facilitates building services project work for engineering contractors. The working aids on the Consultant Platform include type series-specific overviews, product information, technical literature and specialist reports. Today, this platform is being used by engineering contractors up to 250 times a day.

Energy-saving operation through automation

For anyone who is looking for energy efficiency in the operation of building services equipment, pumps with variable speed systems are indispensable. In the year under review, the PumpDrive was accordingly the KSB automation product most in demand. It allows quick, continuously variable speed control of a pump's drive to match current demand, thus enabling energy savings of up to 50 %.

The PumpDrive was also ordered by customers for a number of large projects. Four hundred and sixty of these units were used in a East European district heating system. We equipped its 130 heat transfer stations with 2,500 pumps and valves. Where our valves are used to shut off hot water pipes, the hardness of the water prompted our customer to opt for diaphragm valves from our Luxembourg subsidiary SISTO Armaturen S.A., whose design and lining are not sensitive to limescale deposits.

Large building projects in Russia and the Middle East

Pumps with variable speed systems are also needed by equipment suppliers in Moscow, where numerous large buildings are currently under construction. One of them is, for example, the White Square Office Centre, which will open in the current year. KSB pumps will perform all the hydraulic supply and waste disposal functions in this office complex in the centre of the capital. And Europe's tallest building, the Russian Federation Tower, is also using KSB products for heating, ventilation and air-conditioning.

Where the economy booms, there is always a demand for residential space. In the Middle East there are therefore numerous building projects which, in parallel with the construction of new offices, are improving the range of living quarters on offer for people working there. These include three villa settlements in Dubai and Kuwait, for whose water supply and pressure boosting systems we are installing more than 1,000 high-pressure pumps.

Growth in industrial buildings

Despite the higher growth rates in the boom regions, by far the biggest market for sales of our building services products in 2007 was again Europe, with the key areas being in Germany and France. While sales in the private market declined, especially in Germany, demand from industrial construction and public building departments showed dynamic growth.

Outstanding projects in the commercial sector included the equipment of large data and server centres in Germany and the Netherlands. Our pumps will help to ensure that the IT systems operate efficiently thanks to effective cooling of the building.

In addition to servicing large projects of this kind, we managed to expand our dealer business and win new service partners in some European countries.

Moscow reaches for the sky

Every day sees more people moving to the Russian capital because this is where they see their future. For urban planners, it is a huge challenge to meet the growing demand for living space and office buildings in the European mega-city. On the outskirts of the city, a new business centre is being built, which will feature Europe's tallest building. Here and in many other new buildings, the pumps, valves and control systems being used come from KSB.

Water

- Reliable drinking water supplies call for high investments
- Pumping station for supplying "Sahara water" now in operation
- High-pressure pumps for new seawater desalination plants

In many countries, there is a growing number of people who need to be supplied with fresh water every day. This calls for huge investments in wells, water works and distribution systems. Moreover, climatic changes in regions at risk of drought require more intensive irrigation of arable land.

For KSB, these challenges involve the task of providing pumps that collect the raw water needed, transporting it to water treatment plants and finally piping the treated water to the points of consumption. This is achieved with the aid of submersible borehole pumps that operate in well shafts, high-pressure pumps that help with seawater desalination and the kind of large volute casing pumps needed in waterworks and pipeline stations. In addition, KSB supplies butterfly valves which are used to shut off long-distance pipelines of up to four metres in diameter.

Water is scarce in many regions in Australia. KSB is helping in the tapping of new sources of supply.

Submersible borehole pumps in demand in India

The market for drinking water pumps in 2007 was shaped by infrastructure developments in Eastern Europe, China and the Middle East. Major projects in seawater desalination and water engineering activities in Australia also played a part.

In India, population growth and industrialisation generate a rising need for water. This boosted demand for submersible borehole pumps which pump groundwater to the surface, and also into storage tanks for times of water shortage. The Indian market is the most important for our submersible borehole pumps, which we also produce locally in Nashik, as well as in Brazil, Mexico and Germany.

Pumping stations in Australia and North Africa

Large pipeline pumps from Germany, Brazil or China are used when volumes of water have to be transported over long distances. Our technical experts are often already involved in the planning of these supply projects at an early stage.

A large order which KSB Australia Pty. Ltd. received in 2007 covers the equipment of five pumping stations of the Southern Regional Water Pipeline. This supply line will be completed by the end of 2008 and is intended to transport fresh water 120 km from the Cameron Hills, west of Brisbane, to Gold Coast. To minimise the number of pumping stations needed, the system is designed to cope with high system pressure. Powerful special pumps are equipped with drives rated at up to 2.7 MW and can pump 2000 litres per second. Since the stations are being built in residential areas, the operators have also specified very low noise levels for pump operation.

In 2007, we completed the construction of a pumping station close to the Libyan city of Benghazi. The plant is part of the Great Man-Made River project designed to supply the coastal region with fossil water from under the Sahara. As part of our project responsibilities, we shall now monitor its operation for a year. After a trial phase, the station will be pumping 9,000 litres per second for households and the agricultural sector.

Drinking water from the sea

We are the only pump manufacturer which systematically equips large seawater desalination plants that work on reverse osmosis with radially split high-pressure pumps. Very good efficiency and high ease of maintenance can be achieved with this type of pump. Equipment suppliers and operators are increasingly recognising the cost advantages of this principle. Moreover, they can save enormously on electricity costs if they decide to use our pressure exchanger for energy recovery.

Our range of high-pressure pumps for seawater desalination went down well with customers in the Middle East and Southern Europe, amongst others. In the Emirate of Sharjah, UAE, for example, we are completely equipping a seawater desalination plant with more than 50 pumps this year. The scope of this order includes the process pumps, as well as the seawater intake pumps and large pipeline pumps that carry the desalinated water to consumers.

Our products are also being used in new plants on the Mediterranean coast of Spain, including not only pumps for the desalination process, but also our energy recovery system. This system helps to produce drinking water from the sea at comparatively low cost.

Australia's thirst for water

The demand for water in the booming coastal region of Eastern Australia is growing fast. At the same time, the region has been suffering for years from a sustained drought. New large pumps from KSB are therefore transporting water to people over long distances. In addition, the country is planning the construction of new desalination plants. These use the principle of reverse osmosis and filter the salt from seawater to render it drinkable. Powerful high-pressure pumps from KSB provide the required pressure in the system.

Waste Water

- Growing importance of water pollution control worldwide
- New large sewage treatment plants need powerful pumps
- Biogas plants use waste water mixers

Wherever people live or work, they generate waste water. Disposal of this waste means reliably removing it and purifying it in sewage treatment plants. Only then can it be returned to the natural water cycle. KSB offers the companies involved in waste water treatment a full range of sewage and effluent pumps for their transport and purification processes.

The growing requirements to be met for a clean environment boosted the construction of sewage treatment plants and waste water pump stations worldwide in 2007. In addition, there were a number of large-scale modernisation projects. Europe – and in particular Germany – remained an important market for our products. Extensive orders came, for example, from export-oriented engineering contractors. Our customers engaged in major projects mainly in non-European countries with a need to catch up on environmental engineering standards.

Shanghai is building the largest sewage treatment plant in Asia. KSB environmental engineering products are used in the purification of waste water.

Pumps for waste water pipelines

Particularly wide-ranging measures are needed in countries where water pollution control has long been neglected. Especially in the large cities of Asia characterised by poor infrastructure and in some cases difficult topographical conditions, water pollution control calls for smart waste disposal concepts. As in Europe, there is a trend towards the construction of large centralised sewage treatment plants. In some cases, the waste water has to travel long distances to reach these treatment plants.

Pumps that operate in the pipelines transporting the waste water have to be very powerful. To ensure that we can meet the growing demand for these products quickly and at reasonable cost, we included in our standard 2007 product portfolio several large submersible pumps installed in discharge tube that had hitherto been categorised as special models.

Pumps of this type are also used in sewage treatment plants to move waste water and sludge. In the year under review, for example, we delivered 160 of these units to what is set to become Asia's largest sewage treatment plant. Situated to the south of Shanghai, the plant is planned to treat 3.4 million cubic metres of waste water in its second development stage.

Secondary use of purified waste water

Modern high-performance sewage plants help compensate for the scarcity of clean water by opening up opportunities for using purified water a second time. For example, a plant in Singapore is using methods of microfiltration, reverse osmosis and UV radiation that even produce water of drinkable quality. Last year, we added large volute casing pumps to the KSB products already operating here. These serve to pump the purified water to the consumer.

Flood control and surface drainage

We also place our range of waste water engineering products in the service of flood control and surface drainage. The pumps used here are mostly pumps that move large quantities of water at low discharge heads. Units of this kind are mostly needed where the water has to be pumped across dams and dikes from low-lying areas of rain- or stormwater.

If surfaces are sealed, risks to traffic can also arise after heavy rainfall, for example on roads, racing circuits or airfields. In this case, rapid removal of the rainwater is, apart from anything else, a safety requirement. For the extension of Berlin's Schönefeld airport, which will become the capital's main airport by 2011, we therefore received an order to plan eight stormwater stations and equip them with pumping gear.

Submersible motor mixers for biomass

Our range of waste water engineering products includes not only pumps and systems, but also submersible motor mixers. These are mostly used in applications where waste water in the sewage tanks needs to be aerated and homogenised.

With the trend towards building biogas plants, however, a new field of application has opened up for our slow-running mixers. In these mostly agricultural plants, they mix the biomass to ensure a continuous gasification process. Thanks to their energy efficiency, they go a long way to ensuring that the plants have an energy surplus.

Our customers have already equipped several small plants of up to 500 kW. The emergence of larger biomass plants improves the opportunities for these products in the near future.

China has a demand for sewage treatment

Centres of population in emerging and developing countries often suffer from inadequate waste water systems. To date, for example, only half of all Chinese cities have efficient sewage treatment plants. The Chinese government has recognised the need and is investing more in waste water technology. Shanghai aims to make a huge step forward in its water pollution control efforts with one of the world's largest sewage treatment plants.

Energy

- Power engineering market continues to show strong growth
- Sustained trend towards coal-based power generation in large plants
- Standardised products for power plant "convoy construction"

Ensuring and increasing the comfort of more and more people means that adequate quantities of electrical power have to be provided. This in turn requires an expansion of power plant capacity, especially in countries with high growth rates. In addition, many industrialised countries are engaged in modernisation and renewal projects. Asia shows the greatest growth rate with an annual 100 gigawatt increase in generating capacity, followed by Europe with an annual 35 gigawatt growth. Other energy markets experiencing strong growth are the USA and Russia.

When plants are designed and built in these and other countries KSB is involved in many projects as the world's leading manufacturer of power plant pumps. As well as supplying boiler feed, boiler recirculation, cooling water and condensate pumps, KSB provides power plant valves for these projects. KSB Service, which is the leading provider in Europe, is engaged in new installations, modernisation activities and plant overhauls and contributes substantially to our success on the market.

Los Angeles at night: KSB power engineering products help to meet the growing demand for electricity of the Californian metropolis.

New coal-fired power stations in Asia and Europe

The availability of fuels increasingly takes centre stage in the planning of new power plants. As a result of the rising cost of oil and increasing gas prices, 2007 saw a sustained trend towards the building of new coal-fired power stations. This was especially the case in China, which produces around a quarter of the world's coal and uses this as its preferred power-generating fuel. Our pumps and valves have been ordered by Chinese or international engineering contractors for a large number of coal-fired power stations that are planned. We are supplying this equipment either from our local production facility in Shanghai or from Germany.

Our companies also received orders for new coal and lignite-fired power stations in Germany, South Africa, India and the USA. For Indian builders and operators of power stations, our subsidiary in India has a full range of locally manufactured high-pressure pumps and valves for power plant capacities of up to 500 MW.

Large pumps for highly efficient power plants

Aiming to generate power more efficiently than ever, engineering contractors are planning large power stations with a unit output of around 1,000 MW, especially in the field of coal-based power generation. At steam temperatures of almost 600 °C and pressures up to 270 bar, very high levels of efficiency can be achieved in these plants. At the same time, they are ecologically more acceptable than conventional power station blocks. The technical equipment for this type of plant includes boiler feed pumps that have a drive rating of about 15 MW and can operate reliably at these high pressures and temperatures.

To ensure that we are able to manufacture growing quantities of such large pumps, we are building a new production facility this year. This will enable us to meet customer demand within the required time frame, and we can already forecast good capacity utilisation until at least 2010.

Series orders for standardised plant units

With a view to designing and constructing power station units at favourable cost, engineering contractors today are building identical units at different sites. From China we received in 2005 and 2006 our first orders for what is referred to as power station "convoy construction". In the year under review, customers from Germany and India ordered pumps and valves packages for comparable projects.

Decisive criteria for awarding these large orders were the efficiency of the units and their permanent availability in the plant. This includes longer maintenance intervals and low rates of downtime. In addition, the customers attached importance to professional project management.

New combined cycle power stations planned

Power station operators are also continuing to plan and build gas-fired combined cycle power stations because of the high levels of efficiency they offer. In these plants, the hot exhaust gases from gas turbines are used for generating steam that drives a downstream steam turbine. For power stations of this type, which are being built especially in Europe, the Middle East and the USA, we supply high-pressure pumps from our standard range. In 2007, we received orders for more than 20 new combined cycle power stations, which will be built in the coming years.

Power plant service expanded

In 2007, we further expanded our service for power plants in Europe. The growing number of long-term framework agreements with major energy suppliers contributed to this development. These suppliers use our services in particular for the inspection and maintenance of all pumps and valves during planned outages. Specialist teams perform this kind of work within narrow time frames. In the year under review, one new service offered proved particularly advantageous in removing jammed bolts from the casing using a technique that preserved the thread of the bolts, thereby saving valuable overhaul time.

Tremendous hunger for energy

As the world's largest economy, the USA consumes about a quarter of the world's energy. In view of the ever scarcer oil and gas reserves, increasingly sparing use is being made of available energy sources even in the country with the greatest hunger for energy in the world. This includes modernisation projects and also the building of highly efficient power stations in which KSB technology is used.

Mining

- New pumps for oil sands hydrotransport in Canada
- Growing intake of orders from the mining industry
- Improved hydraulics for suction hopper dredger pumps

Rising industrial production and an ever greater need for energy have driven sustained growth in the mining sector. The so-called BRIC states, i.e. Brazil, Russia, India and China, in particular, are showing an increase in the demand for raw materials and energy sources. In response to this trend, the mining industry is expanding its production facilities.

To transport minerals from the mines for further processing, operators are increasingly opting for hydrotransport systems in which slurry pumps convey the materials through pipelines mixed with water. The same principle is used for the removal of tailings and waste materials.

As the world's second-largest manufacturer of slurry pumps, our US subsidiary GIW Industries, Inc. continued to profit from these developments in 2007. The key areas of growth were in ore and oil sands mining, as well as in the phosphate industry. In addition, GIW pumps are used in flue gas desulphurisation.

Ore mines, such as this one in Para Caraja, Brazil, are increasing their production worldwide.
KSB products help in the hydraulic transport of ore and tailings.

Successful engagement in Canada

Rising oil prices and the political instability of important oil-producing countries stimulated growth in the oil sands industry. Our customers in Canada again needed more slurry pumps and spare parts than in the previous year for mining bitumen sands. As a pump supplier for the oil sands companies operating in Alberta we received major orders. Foremost among these was a large order for the delivery of 30 highly wear-resistant pumps in the double-digit million euro range. The pumps serve to transport mixtures of bitumen sand, clay and water from the open-cast mine to the extraction plant.

Aiming to remain a consistently attractive partner for customers in the oil sands industry, we have stepped up the development of new technologies. In 2007, for example, GIW Industries developed a new slurry pump that allows simplified maintenance based on a proven hydraulic design. At the same time, it offers improved parts wear life.

Pumps required for metal ore and mineral mining

We saw strong demand from companies engaged in mining for base metals and precious metals. Large orders came from Chilean copper mining companies, the Brazilian aluminium industry and the Indonesian zinc mining sector.

From South Africa we shall be supplying a large copper mine in Botswana both with water pumps and with slurry pumps. KSB South Africa is also involved in mining projects in Namibia, Madagascar, Zambia and Tanzania.

In Europe, we started back in 2005 to step up the supply of slurry pumps to the mining sector. For example, we obtained an order for the second development stage of an iron ore mine in Ukraine, where pumps of our production are already in use. Based on the operator's good experience with their wear resistance and service friendliness, the mine will now by supplied with a further 50 or so pumps from the GIW range.

Partners in the phosphate industry

In the USA, we have had a presence in Florida's phosphate industry for many years now. Our pumps handle the transport of phosphate slurries to the processing plants. In 2007, we set our customer / supplier relationship with one of the USA's leading phosphate producers on a new footing and concluded an exclusive agreement. This defines us as the sole supplier of slurry pumps and spare parts and also as service provider for the maintenance and repair of pumps and other rotating equipment. An important prerequisite for this was the excellent performance of our service branch in Florida.

New impellers for suction hopper dredger pumps

As well as in the mining sector, slurry pumps are needed on suction dredgers. These are above all used to keep harbours and waterways clear of sandbanks or to help reposition soil in land reclamation projects. The most important manufacturers and operators of such ships are based in Belgium and the Netherlands. We received a number of orders from there in the year under review, including an order for newly developed impellers. These pump components will help a Belgian customer to upgrade competitor units, which have hitherto worked less efficiently and with higher failure rates, so that they meet state-of-the-art requirements. These impellers which can pump solids of up to 500 mm in diameter without clogging were developed in close cooperation between our development centres in Frankenthal, Germany, and Grovetown, USA.

Metals for the global economy

The economic upswing of emerging markets is further stimulating the demand for metals. Countries rich in resources, such as Australia, Brazil, Chile and South Africa, are profiting from this. Many mining companies are enlarging their mines and tapping new deposits. Where ore or tailings have to be moved, hydrotransport with special KSB slurry pumps offers an alternative to conveyor belts which are prone to malfunction.

Earnings improved again

In 2007, the KSB Group increased its earnings before tax (EBT) by around 43 % to

€ 128.7 million

Group Management Report

Impellers are the heart of centrifugal pumps.

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 revenues 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) of the HGB [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). Klein Pumpen GmbH, Frankenthal, holds about 75 % of the ordinary shares. The remaining ordinary and preference shares comprise the free float.

Each ordinary share authorises the holder to one vote at KSB AG's Annual General Meeting. 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 preference 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 to the Articles of Association that only affect their wording 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).

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.

Products, 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 globe valves, gate valves and butterfly 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 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 the public sector, the energy industry, building services and mining. 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.

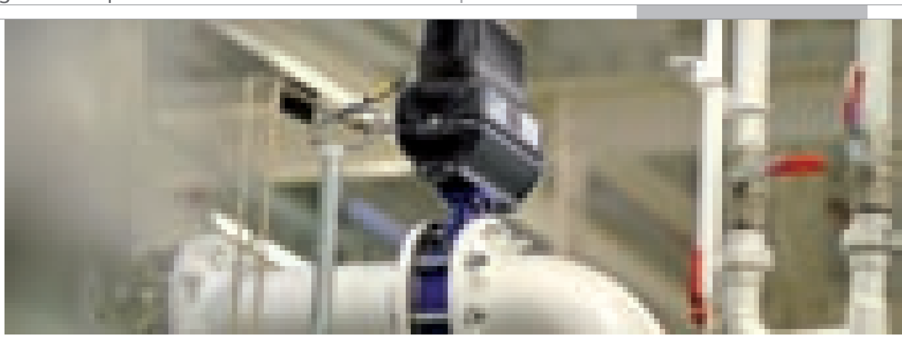
The market generating the highest sales revenue for KSB products in 2007 was once again industry, where KSB is positioned as the second-largest manufacturer of pumps in the world.

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. In determining the required growth, we are governed by developments in the market and our relative competitive position. Our objective is to grow more quickly than our most successful competitors in each of the strategically important markets.

We have undertaken to achieve an 8 % return on sales by no later than 2010 and came significantly closer to reaching this target in 2007.

In addition, we see ROCE (return on capital employed) as a management parameter for the Group. ROCE will become an important indicator of the areas of business we are currently defining as part of our strategic review.



KSB butterfly valves are integrated in process control systems via the Amtronic control and actual-position feedback unit.

Economic Environment

- Global economy continues to perform well
- Asia remains most important growth region
- Strong demand from the industry, energy and mining sectors

Our range of pumps, valves, systems and services again found a very receptive market in 2007. Global output again expanded substantially by more than 4 %, further fuelling growth in the capital goods sector. Only the economic slowdown as a result of the US mortgage crisis and the problems on the financial markets towards the end of the year dampened growth prospects slightly.

The Asian heavyweights China and India were once again important growth drivers in 2007. However, countries in the Middle East also benefited from high cash inflows from the oil and gas business, which allowed them to increase capital expenditure. Economic growth in Europe remained at a high level, although the rate of expansion slowed marginally compared with the previous year.

Strong growth in important markets

KSB's most significant markets, the industry and energy sectors, grew rapidly in the year under review, with demand being strongest in Europe and Asia.

A fresh wave of demand for building services came from countries in Europe, Asia and the Middle East, where building activity boomed in both industrial and residential construction.

The sustained economic upswing in industry and the hunger for raw materials in many emerging economies also caused the mining industry to expand further and led to increased demand for slurry pumps.

The water and waste water industry also enjoyed healthy growth in 2007. Given the global challenges for water supplies and environmental protection, we believe that this industry has even greater growth potential in the future.

Buoyant growth in the pumps and valves industry

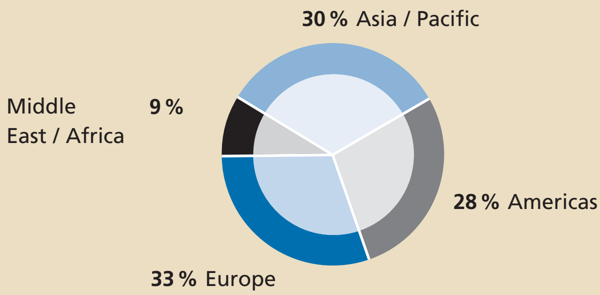
Global growth in the pumps and valves industry continued, with order intake and sales revenue at a high level. Strong demand benefited KSB as well as other international suppliers.

2007 was another year of good export opportunities for European pump and valve manufacturers, although exchange rate movements made it more difficult to sell into the US dollar area. Manufacturers with production facilities there used the opportunity to increase the proportion of locally manufactured products in order to mitigate the currency-related price pressure.

Consolidation of the competitive environment

The consolidation of the pumps and valves industry continued to a limited extent. In 2007, several major competitors strengthened their market positions by taking over small and medium-sized companies or succeeded in entering new market segments.

Global market for centrifugal pumps and valves



Business Development

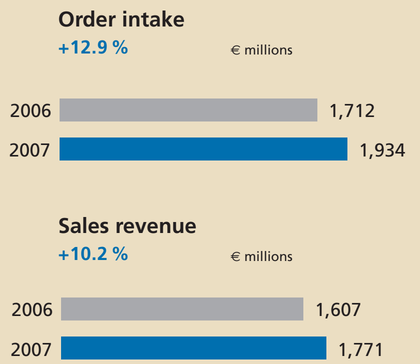
- Double-digit order intake and sales revenue growth
- Industry and power station business again buoyant
- Expansion of production capacity started

The KSB Group's positive business development continued, also propelled by the healthy economy. We achieved double-digit growth in both order intake and sales revenue and improved our performance in all four Regions. These improvements benefited all activities in Industry and Building Services, Water and Waste Water, as well as Energy and Mining. In all Regions and markets, the Group thus once again sold more pumps, valves, systems and associated services than in the previous year.

Order intake rises to almost € 2 billion

The volume of new orders received increased by 12.9 % (previous year: 16.7 %) to € 1,934 million in 2007, around € 222 million more than in 2006. Most of this was attributable to the rapidly expanding industry business, whose order intake increased by over € 100 million year on year. The highest percentage increase was recorded in orders from mining, where mining equipment suppliers and mine operators needed our slurry pumps. We also achieved double-digit growth in the Water and Waste Water market segment. Order intake growth in Energy and Building Services was equally encouraging.

Based on the healthy economy, the Group companies in Europe had the highest order intake and volume-based increase overall of all the Regions. Here, the order intake was dominated by orders from industry and power station customers, including many engineering contractors, who ordered our products for indirect export to other regions. Order intake also improved significantly in the water business, where the main focus was on fresh water transport and equipment for seawater desalination plants.



KSB AG continued its excellent performance, winning 10.0 % more orders (previous year: 20.3 %), which pushed its order intake to € 790.9 million. This growth was primarily driven by orders for products used in industrial applications, and power station pumps and valves.

In the Region Middle East / Africa, many of our customers benefited from the high commodity and energy prices. The resulting increase in capital-spending potential had an overall positive impact on the order intake of our three Group companies operating in this Region.

Our companies in the Region Asia / Pacific drew most of their additional order intake from the waste water and industry sectors. In the waste water sector, our companies in Australia and Pakistan won several major orders; in the industry sector, our Indian subsidiary KSB Pumps Ltd. took advantage of increased demand in the oil and petrochemical industries. In South-East Asian countries, growth was additionally driven by demand in the palm oil and biofuels industry.

KSB Service has its own business model, which encompasses the maintenance and repair not only of pumps and valves, but also of motors, gear units, compressors and turbines.

Demand for energy engineering products continued to be buoyant in Asia, impacting in particular on the order situation of KSB Shanghai Pump Co. Ltd. in China and KSB Pumps Ltd. in India. Our Australian subsidiary benefited from demand for mining equipment. Like our companies in India and Pakistan, it recorded particularly high growth rates.

Overall, growth in order intake in the Region Americas even exceeded the expansion in Asia / Pacific. Brazil's KSB Bombas Hidráulicas S.A. achieved the highest growth rates, thanks to orders from the oil producing and processing industries. The company also took advantage of the order opportunities presented by major mining and water engineering projects. Business in Argentina and Chile also performed well. In North America, the order intake rose at our slurry pumps specialist GIW Industries, Inc. and at KSB, Inc., which was successful in energy and waste water engineering.

Orders on hand in the Group totalled around € 770 million as at the closing date of 31 December 2007 (previous year: around € 600 million), corresponding to an order backlog of 5 months.

Strong sales revenue growth in Europe and the Americas

Consolidated sales revenue rose by 10.2 % (previous year: 14.7 %) to € 1,770.9 million, thus again recording double-digit percentage growth. Most of the € 163.5 million increase is attributable to the great success of the industry business. However, sales revenue generated with our products for building services, the water and waste water sectors, as well as energy and mining, also exceeded the previous year.

As announced in the 2006 report on expected developments, order intake in 2007 once again rose faster than sales revenue. This needs to be seen in the context of the high proportion of longer-term orders, which will only be recognised as sales revenue in future years. We concentrate on these types of orders with later delivery dates above all in our energy engineering division in order to avoid supply shortages.

Sales revenue in Europe increased by around 9 %. Our companies in this Region benefited in particular from the good performance of the industrial pumps and valves business; in addition, some major energy engineering orders were invoiced. As a result, KSB AG also increased its sales revenue (in accordance with HGB) by 14.3 % to € 696.8 million. There was also good sales revenue development at the French company KSB S.A.S. and at several Southern European companies.

The Group companies in the Region Middle East / Africa also recorded higher sales revenue, with further improvements at KSB South Africa in particular.

In the Region Asia / Pacific, KSB Shanghai Pump Co. Ltd. had invoiced a number of major power station orders in the previous year, which was not repeated to the same extent in 2007. Compared with other Regions, sales revenue growth of above 7 % was therefore slightly more moderate, even though our Indian companies in particular recorded good growth rates.

In the Region Americas, sales revenue advanced by around 16 %, driven by sharp increases at our companies in Argentina, Brazil and Chile, as well as at GIW Industries, Inc. in the USA, which expanded its slurry pumps and spare parts business.

Another factor to be considered is the initial consolidation of four operating companies in Belgium, Brazil, Dubai (UAE) and Thailand. Without these new Group companies, the order intake would have risen by 11.1 % and sales revenue by 8.3 %.

Further expansion in service business

In addition to orders for pumps, valves and systems, orders for services also increased in 2007. Orders were concentrated in the energy and industry sectors. In addition, our acquisition of smaller service companies in Belgium, France, Germany and the United Kingdom broadened our customer base.

As part of our service strategy, we firstly want to grow in our core business, and secondly acquire new skills for use in business development. In addition to closing regional gaps in our service network, the new acquisitions were aimed at expanding our technical options for servicing rotating machinery, including motors, and for servicing valves.

Expansion of production facilities in Asia and Europe

As a result of another sharp increase in order intake, much of our production capacity was highly utilised. We therefore expanded our production facilities in the boom countries China and India.

In Dalian in Northern China, we relocated the production of butterfly valves to a newly built factory, which allows the production of larger volumes. In Shanghai, our main location in China, a production plant for standard pumps came on-stream in November. In India, lean manufacturing measures increased the capacity of local valve production by 25 %. In addition, we are planning to construct new factory buildings at several Indian plants between 2008 and 2010.

In Europe, we responded in 2007 to years of rising demand for special valves for cryogenic applications and created a new production line at La Roche-Chalais in France.

Moreover, we took decisions on important investments for our German locations in the year under review. For example, we will build a factory in Frankenthal for power station pumps, which will increasingly be required in new types of large-scale plants in the future. Our plant in Halle will expand its production of large water pumps. Test facilities to match the performance classes of these products will be attached to both production plants. In addition, we are planning to expand pump and valve production at Pegnitz in the current year.

Development of new purchasing sources

The very rapid growth in business also required new purchasing strategies and measures to be implemented. Our purchasing staff was tasked with covering the increased demand for commodities and product components from our plants on tighter supply markets. They succeeded in doing so, above all by entering into flexible framework agreements with long-standing business partners. There was also a need to develop supplementary purchasing sources through the KSB procurement network. The low exchange rate of the dollar against the euro was one of the factors on which the selection of new suppliers was based.

Information technology upgraded and standardised

To allow us to serve our customers as efficiently and speedily as possible, we continued to upgrade our IT environment in 2007. At the same time, our companies in Asia and Eastern Europe began to further standardise and simplify their IT systems. This included firstly the installation of the SAP R/3 system in India and secondly the introduction of SAP Business One sales software in Russia and three EU countries in Eastern Europe. This also helped to reduce our operating costs.

Growth and innovation programme migrated

At the end of 2007, we transferred the 700Up growth and innovation programme into the new structure of our research and development department and the regional and market segment organisation, where all activities for the creation of new products and services and the intensification and expansion of existing business are being continued. From today's perspective, the target, defined in 2003, of generating sales revenue growth of € 700 million by 2010 is expected to be achieved ahead of schedule.

CPK standard chemical pumps are in use worldwide in industrial plants.

Net Assets, Financial Position and Results of Operations

- Substantial increase in consolidated earnings
- Significant improvement at parent company KSB AG
- Net financial position improved

In the previous year's report, we had forecast continuing growth in order intake and sales revenue, resulting in further positive development in earnings. We have met these expectations and significantly exceeded the projected figures.

RESULTS OF OPERATIONS

Earnings before taxes

The KSB Group generated earnings before income taxes of € 128.7 million, after € 90.2 million in 2006. We therefore recorded a return on sales of 7.3 % (previous year: 5.6 %), significantly more than the target we had set for 2007.

Marked increase in total output of operations

Because of the high proportion of projects with relatively long lead times, sales revenue did not match the order intake, as in the previous year. However, the level of completion of these orders, for which we report the proportionate revenue in accordance with the percentage of completion method, led to a € 12.5 million increase in "Sales revenue recognised by PoC". We increased work in progress and inventories of finished goods by € 28.4 million, thus achieving a total output of operations of € 1,800.8 million (up 13.6 % on € 1,585.2 million in the previous year).

Improved cost structure

Another structural improvement to our income statement is evident in the staff costs. Although these rose by 11.5 % in absolute terms to € 581.6 million, they fell to 32.3 % of total output of operations (after 32.9 % in the previous year). The number of employees rose more slowly than the year-on-year increase in total output of operations. In addition to KSB AG and Frankenthal-based KSB Service GmbH, we hired new staff especially at our companies in Brazil, the USA, India and South Africa to provide the capacity required for our growth. The average output per employee in the KSB Group rose year on year from € 122 thousand to € 131 thousand.

The ratio of other operating expenses to total output of operations declined further (17.3 % compared with 18.4 % in the previous year), also reflecting our cost-cutting measures taken in previous years. The other operating income rose, partly attributable to prior-period income, from € 18.1 million to € 20.6 million.

Cost of materials rose by 15.4 %, slightly faster than total output of operations (up 13.6 %). The figure of € 750.4 million is equivalent to 41.7 % of total output of operations (previous year: 41.0 %). Rising prices in our procurement markets considerably hampered our efforts to reduce the cost of materials. The increased use of purchased services also contributed to the rise in cost of materials as a percentage of total output of operations.

Earnings after taxes

The income tax rate declined marginally year on year (30.2 % compared with 30.9 % in 2006). The change in the tax rate in Germany was one of the contributing factors to this development. The net profit for the year of € 89.9 million (previous year: € 62.4 million) rose by 44.1 %, slightly more than earnings bevore income taxes (up 42.6 %).

The minority interest in net profit / loss only rose marginally to € 13.1 million (previous year: € 12.9 million) in absolute terms, but fell from 20.7 % to 14.5 % when measured as a percentage of net profit for the year. The main reason for this significant change is that earnings growth was predominantly generated at companies without minority interest and above all at KSB AG.

The consolidated net profit for the year of € 76.8 million is thus 55.2 % higher than in the previous year (€ 49.5 million).

Earnings per share

Earnings per ordinary share were € 43.73, compared with € 27.99 in the previous year, and € 43.99 per preference share, compared with € 28.51 in 2006.

Earnings growth at parent company KSB AG

KSB AG reported pre-tax earnings (in accordance with HGB) of € 21.8 million, several times higher than in 2006 (€ 5.9 million). Both sales revenue (up 14.3 %) and total output of operations (up 11.8 %) rose substantially year on year.

Higher dividends for both share classes

The sharp improvement in KSB AG's earnings allows a significant increase in the dividend. We will be proposing to the Annual General Meeting to distribute a dividend of € 9.00 per ordinary share and € 9.26 per preference share (including a preference dividend right of € 0.26).

Segment results

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

At the companies in the Region Europe, sales revenue growth led to a significant improvement in earnings. As outlined above, KSB AG was responsible 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 € 77.8 million (previous year: € 47.6 million).

As a result of a significant expansion in sales revenue, the Region Middle East / Africa improved EBIT by 20.1 % to € 6.2 million, in part due to the initial consolidation of our company in Dubai (UAE).

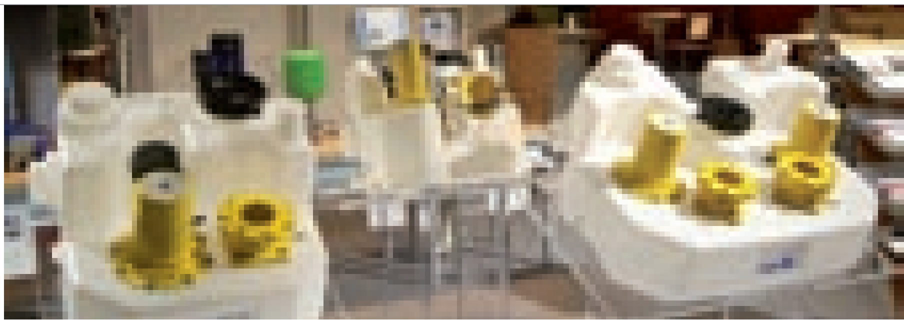
With a slightly higher average headcount (up 3.2 %), the Region Asia / Pacific succeeded in achieving sales revenue growth of 7.3 %. As a result, it generated EBIT of € 31.4 million, 12.3 % more than in 2006.

The Region Americas also recorded growth in earnings on the back of a significant 15.7 % rise in sales revenue. At € 21.5 million, the figure for EBIT is 10.9 % higher than in the previous year. To cope with the volume of orders, the average headcount was increased by 13.1 %.

FINANCIAL POSITION

Principles and objectives of financial management

Central financial management in the KSB Group works within the framework of the guidelines laid down by the Board of Management and bases the nature and scope of all financial



Sewage lifting units were among the KSB innovations presented at the Frankfurt ISH trade fair in 2007.

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 growth at optimum conditions. In financing our export business, we hedge foreign exchange risks to the greatest extent possible. Proactive receivables management ensures that our outstanding amounts are settled by their due dates as far as possible.

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 still being completed. 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 have cash credit lines amounting to around € 132 million. An adequate proportion of this is confirmed for a period of more than one year. To provide the collateral required in the project business, we have guarantees amounting to approximately € 372 million.

Equity

The KSB Group's equity amounts to € 505.9 million (previous year: € 426.6 million). This includes KSB AG's subscribed capital of € 44.8 million. The capital reserve is € 66.7 million. Revenue reserves amount to € 247.6 million. The financial statements show a consolidated net profit for the year of € 76.8 million and minority interest of € 70.0 million. Despite the € 127.6 million (11.3 %) rise in total equity and liabilities, the equity ratio once again improved substantially to 40.2 % (previous year: 37.7 %).

Minority interest relates mainly to KSB Pumps Ltd. / India (€ 26.0 million), PAB GmbH / Germany (€ 12.0 million), KSB America Corp. / USA (€ 8.1 million), KSB Shanghai Pump Co. Ltd. / China (€ 6.3 million), SISTO Armaturen S.A. / Luxembourg (€ 4.7 million) and GIW Industries, Inc. / USA (€ 3.2 million).

Liabilities and provisions

The largest item under liabilities and provisions are pension provisions, which we increased by 5.8 % to € 213.4 million as of the reporting date. A large number of the pension plans currently in use in the KSB Group are defined benefit models. In the near future, we will reduce the resulting risks, such as demographic changes, inflation, or salary increases, for example by increasingly introducing defined contribution plans for newly recruited employees.

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 € 45.6 million), mostly for obligations under partial retirement plans and for jubilee payments. The excess relates to provisions for mainly short-term uncertain liabilities.

The liabilities are also almost exclusively short-term. They relate mainly to purchased goods and services, corresponding to 14.3 % of total equity and liabilities, roughly at the same level as the previous year's ratio of 14.0 %. At 3.5 % (previous year: 5.6 %) of total equity and liabilities, bank loans and overdrafts are relatively insignificant.

Contingencies and commitments

The KSB Group's off-balance-sheet contingent liabilities amounted to a total of € 26.0 million as at the reporting date (previous year: € 29.0 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 usual purchase obligation.

Liquidity

At € 127.6 million, 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, is positive. The figure is 36.8 % better than in the previous year (€ 93.3 million).

Source and application of funds

Cash flows from operating activities amounted to € 123.8 million, a year-on-year increase of € 44.6 million. This is, of course, mainly the result of the sharply improved net profit for the year. This was partially offset by outflows due to the increase in inventories and receivables. These are attributable to the increase in the volume of business, although they were offset to a significant extent by the increase in advances received from customers.

The volume of our investing activities rose significantly compared with the previous year, resulting in cash flows of € –83.1 million (previous year: € –51.9 million).

Cash flows from financing activities rose to € –22.5 million (previous year: € –6.1 million), primarily as a result of higher repayments of financial liabilities.

The KSB Group's cash and cash equivalents arising from all cash flows together rose from € 142.1 million to € 160.8 million, although this includes effects resulting from changes in the consolidated Group.

We assume that we shall continue to be able to meet our outgoing payments largely from operating cash flow. External funding measures are thus not currently viewed as necessary.

NET ASSETS

Our total assets rose by 11.3 % to € 1,258.0 million, mainly a result of the expansion in our volume of business. This is mainly evidenced by the rise in current assets, but also by the increase in property, plant and equipment to expand production capacity.

As in the previous year, round 27 % is attributable to fixed assets. Intangible assets and property, plant and equipment with a historical cost of € 741.5 million have carrying amounts of € 301.2 million. Investments in property, plant and equipment in the year under review amounted to € 53.5 million, considerably in excess of depreciation (€ 30.1 million). The reasons include a sharp increase in advance payments and assets under construction. The main focus of our investing activities was the Region Europe, especially the German production centres and our valves plant in La Roche-Chalais, France. Moreover, additions to assets rose by over 60 % in the Region Asia / Pacific. In particular our companies in India and China invested in expanding capacity. We maintained our policies for measuring depreciation and amortisation in the year under review. Non-current financial assets increased by € 9.2 million due to capitalisation measures, the formation of new companies, and the acquisition of smaller service companies in Europe. Initial consolidation partially offset this increase.

Inventories are financed to a considerable extent by advance payments from customers, which again rose sharply. After offsetting advance payments, inventories tie up around 19 % of our funds, slightly more than in the previous year (17 %). In line with our current order situation, we have, for example, added 24 % to raw materials and production supplies.

As a result of the continued growth in our business, including in particular the project business, the value of customer orders in progress increased. Note that this increase, measured at € 12.5 million using the percentage of completion method, is reported under sales revenue and therefore increases the reported receivables (see the comments on total output of operations on page 42). However, a sharp rise in advance payments from customers partially offset this increase. Receivables and other current assets account for around 39 % of total assets (previous year: around 41 %). They are primarily attributable to the Group's current deliveries of goods and services.

As in the 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 € –6.1 million. This was taken directly to equity.

Growing awareness of environmental issues is boosting the worldwide sale of flue gas scrubber pumps.

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

In the year under review, the KSB Group took further steps to improve its economic position, with considerable support from the favourable global economic environment. The structural improvement measures we had implemented in previous years, especially at the parent company KSB AG, also had a noticeable effect. The growth in orders and the simultaneous improvement in our cost position led to a sharp increase in profit. The resulting positive effects on the financial position and net assets are a visible sign of this development.

The net financial position is clearly positive and allows the Group to fund its growth internally.

BASIC ELEMENTS OF THE REMUNERATION SYSTEM FOR THE BOARD OF MANAGEMENT

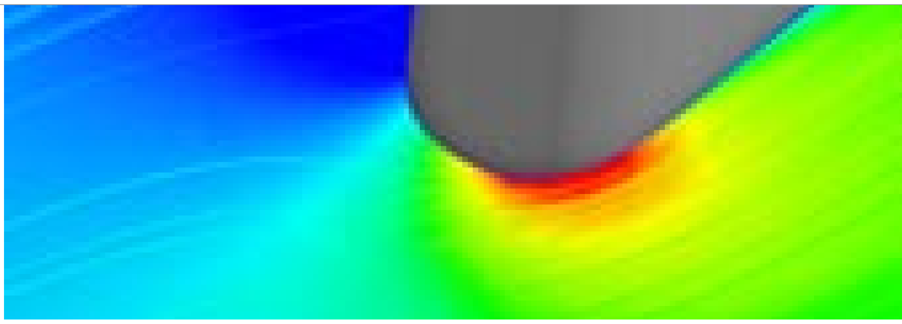
The remuneration of the Board of Management consists of fixed and variable components. The amount of the fixed remuneration is governed primarily by the function and responsibility assigned to the Member of the Board of Management. The fixed remuneration consists of a fixed sum plus benefits as well as pension commitments (retirement, occupational disability and widow's pensions). The fixed base 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 section 312(3) AktG [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.



Computer-based simulation programs visualise flow velocities in an impeller.

Research and Development

- Computer program for waste water engineering
- Impeller construction modelled on nature
- Automation engineered for the pump lay person

Important potential for innovative KSB products lies in the smart interplay of hydraulics, materials engineering and automation. It is in these three disciplines that we traditionally see our strengths. We do our utmost to develop both powerful and efficient components and systems for our customers' fluid transport needs. For this we have at our disposal an international network of the company's own research and development facilities. In addition, we cooperate with universities, research institutes and partner companies to turn new business ideas into products quickly.

In 2007 we invested € 31 million (previous year: € 28 million) in research and development, which corresponds to 1.8 % (previous year: 1.7 %) of our sales revenue. Worldwide, 311 (previous year: 295) employees were engaged in research and development in the year under review.

Increase in output per size of power station pumps

For our hydraulic engineers, 2007 was above all a year of improvements in our range of products which contribute to higher pump output and energy-efficient operation. They designed boiler recirculation pumps of smaller dimensions which, thanks to improved flow characteristics, nevertheless achieve an equally good or better hydraulic performance than larger models.

A reduction in the surface areas exposed to pressure results in lower loads on the material. Under design aspects, due account can thus be taken of the ever increasing requirements to be met by materials used at extreme pressures and temperatures in power stations. To achieve reliable results, we not only apply numerical modelling methods, but also test model pumps empirically.

In waste water engineering our hydraulic specialists addressed the problem of planning biological sedimentation tanks. For engineering contractors, it is basically difficult to determine exactly how many mixers have to be placed at which points to ensure that the thorough mixing of waste water required by the process can be achieved with a minimum of effort.

With this in mind, we have developed a new computer program which can be used to simulate flow conditions in a tank. To take into account the bubble columns rising from the openings in the floor of the tank, our hydraulic experts examined in particular the flow characteristics of water / air mixtures. The results of this work will help in the creation of a user-oriented selection software that will make the planning of sedimentation tanks easier in the future.

Impellers "knitted" from natural fibres

The heart of any centrifugal pump is the impeller. The thinner its vanes, the better the efficiency and the cavitation characteristics of the pump. However, the thickness of metal impeller blades cannot be arbitrarily reduced. Therefore, to design pumps for even more efficient operation or a higher output per size, completely new materials and manufacturing procedures are needed.

Nature offers many examples of fibre composite structures whose geometry and fibre reinforcement are optimally adapted to the relevant load. So our materials specialists and designers worked jointly with a well-known German research institute to develop plastic impellers that possess an internal structure reinforced with fibres.

To design such an impeller, we first studied thermoplastic hybrid yarns. Using these yarns based on carbon fibres capable of withstanding heavy loads, textile forms can be created that serve as precursor products for the later manufacture of an impeller. It is thus possible to design structures that make optimum use of the properties of high-performance fibres. And in this way, it will be possible in the future to manufacture impellers with internal structures modelled on nature.

Special steels for high temperatures

Another "materials project" covers power station valves made of special steels for operating temperatures of more than 700 °C. The aim is to reduce material stresses in these valves and, ultimately, prolong their service life. Early in 2008, we started testing the first prototypes with these new materials in long-term studies. The project was carried out as part of a programme sponsored by the German Federal Ministry of Education and Research and also private-sector partners.

Automation simplifies pump handling

The automation of pumps and valves serves to make their use more efficient and reliable. In this area, the tasks which our experts were engaged in during 2007 included developing a control device for our new Microchem. Ease of use was a key requirement. Intended for micro-process engineering applications, the pump is to be capable of being operated both in lab and pilot plant by specialists not versed in pump technology. Our developers therefore designed a device that can be installed and operated without any special knowledge of pump or system curves. After the desired volume flow is entered in the display of the control unit, Microchem automatically looks after the programmed volume of fluid. Thanks to its ease of handling, the pump can operate without any problem in the production of fine and speciality chemicals.

In the field of automation applications, we also addressed the problem of clogging in waste water pumps and the impact which this can have on the drive components connected to the pump. The work of our developers is based on many years of experience that we have gathered in the use of the PumpExpert monitoring and diagnostic system. The aim of this work, which is not yet completed, is to ensure that our automation components are capable of diagnosing potential clogging before it causes problems and to respond accordingly.

At university fairs we meet the specialists and managers of tomorrow.

Employees

- Personnel development follows strong order intake
- Strategies to combat skills shortages
- Widening of search and promotion of young talent

The strong growth of orders in 2007 also presented us with new challenges in Human Resources. Since the options offered by flexible working time had already been largely exhausted the year before, we started recruiting new people again in Production, Sales and Service. At the same time, we empowered people to take on new responsibilities through qualification activities.

Order situation requires an increase in personnel

In 2007, the number of KSB employees worldwide rose by 864 to 13,927. In particular, the headcount in the Group increased by 360 employees with the initial consolidation of four operative KSB companies.

With an additional 452 employees, Region Europe posted the largest increase in personnel. This Region continued to have the largest proportion of staff in our Group with 7,646 employees. In KSB AG alone we recruited an additional 141 people in the year under review.

The companies of Region Asia / Pacific, where it was mostly KSB Pumps Ltd. in India that added to its workforce, had a total of 3,883 employees at the end of the year, 145 more than a year earlier.

Our workforce in the Region Americas was increased by 189 people to 1,934 mainly through the consolidation of our Brazilian valves company.

In the Region Middle East / Africa, there was a noticeable increase in the workforce in South Africa, and a company in Dubai was consolidated for the first time. The number of employees in the Region thus rose by 78 to 464.

Campus recruiting supplements classic personnel recruitment approaches

With our need for engineers and other technical specialists we find ourselves in an ever tougher competition for the brightest people in the industry. To ensure that we find and attract the right people for our company, we are actively engaged at academic educational institutions. By presenting our company at university fairs and offering work experience and trainee programmes during academic studies, we can get young people interested in working with KSB early on.

This strategy is proving increasingly successful in many places, for example in Shanghai, where we recruit around 20 new graduates from three universities every year. Entry programmes and mentoring for newcomers are helping here – as they are in other places – to familiarise people starting out in their career with company practice.

In Germany, we can meet our needs for young engineering talent not only with graduates from universities or universities of applied sciences but also through the dual education approach in the disciplines of mechanical engineering and business administration. To this end, we offer places for students from universities of cooperative education.

In addition to campus recruiting, we use the classic approaches of job advertisements and job exchanges on the Internet for recruiting new people. An advantage here is that KSB has an attractive range of offers for employees, from profit sharing and bonus schemes to company pensions. The opportunities for an international career are another persuasive argument for many applicants we have talked to.

Intensive training of young talents

To a large extent, we train our people for vocational careers ourselves. KSB companies have various qualification options in place for this purpose, including dual education programmes along German lines.

In Germany, we are currently preparing 224 young people for later employment in the company. The aim of vocational training at KSB is to provide young people with the whole experience of "company life". In coordination with the vocational college, we teach apprentices and trainees both technical know-how and methodology, as well as social skills which are necessary for collaborating in working groups and project teams.

To ensure that our young talents can practise their skills on state-of-the-art equipment during their training, we stepped up investment in the machine park of our vestibule training workshops during the year under review. Overall, we spent around € 6 million on vocational training in Germany, up 10 % from the previous year.

Training programmes get us fit to meet new requirements

As employees in a "learning organisation", KSB people constantly have to adjust to new market and technology challenges. To this end, they attend KSB seminars, workshops and courses aimed at broadening their skills. They can learn new technologies, methods, languages and IT programs in more than 300 events every year.

To improve their intercultural skills, employees also familiarise themselves with culture-specific behaviour and thinking in assignment-oriented training sessions.

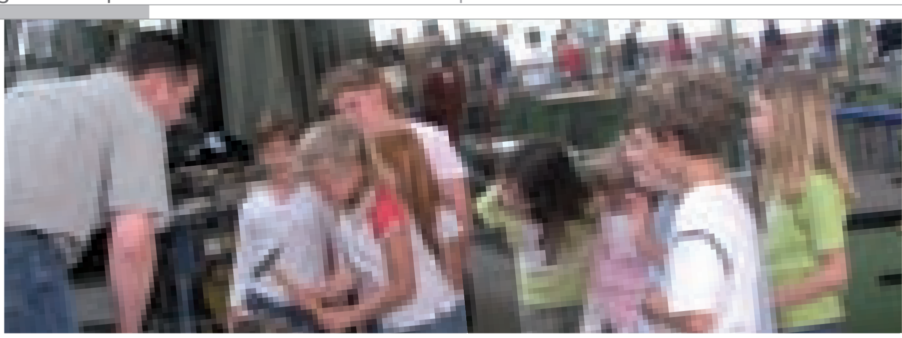
2007 saw the start of a new training programme intended for the European market in particular, in which sales employees adjust to the requirements of individual countries and broaden their consulting skills. This programme is designed to run for several years.

Of the companies outside Europe, KSB Pumps Ltd. in India ran a particularly comprehensive training programme in 2007. As well as developing their IT and sales skills, Indian employees took part in training events on quality and environmental management. A primary focus for managers was on strengthening their social and methodological skills. They also broadened their communication and problem-solving skills.

Thanks to the staff

Our business performance in 2007 was only possible thanks to the responsible work of so many employees. The sustained growth in orders called for a high degree of flexibility and stamina in Purchasing, Sales, Design, Engineering, Production and Logistics in order to ensure our customers were supplied on time. In the vast majority of cases, our efforts proved successful, for which we extend our warmest thanks to all our staff.

Our thanks also go to the employee representatives both at home and abroad, including the Executives' Committee. They supported the company in many projects which are not only helping to make us successful on the market today, but will also have an impact in the future.



Arousing enthusiasm for technology is one of the objectives we are pursuing in educational cooperation with schools.

Corporate Responsibility

- Environmental protection cuts costs
- Enhancing the compatibility of family and job
- Engagement for the education of young people

For us, corporate responsibility does not only mean care for our employees, but also fairness in dealing with our business partners and competitors as well as social commitment in the areas where our companies are located. A further important part of our corporate policy includes compliance with high environmental standards.

Environmental protection

Active environmental protection shapes our corporate behaviour. We therefore engage in preventive activities that go beyond what is required of us by law. Through inspections and internal audits, we identify risks at an early stage and can prevent environmental damage. This enables us not least to avoid expenditure that would be needed for follow-up remediation. Energy savings of environmental relevance also directly reduce our costs.

We not only systematically review the impact of production on people and the environment, but also design our products in such a way that they make a contribution to environmental protection. For example, we build recyclability of materials into new products and also develop products which are used in both air and water pollution control.

In the year under review we again invested in environmental protection at our sites worldwide. A key focus of activities was on our foundries. This included the sealing of a former foundry sand landfill in Pegnitz, which we also fitted with drainage systems and channels. This landfill is no longer needed today, because for many years in Germany we have been treating used moulding sand after casting and re-using it.

After already reducing the CO_2 emissions of our foundry in Pakistan in 2006, we invested further in improving air quality in 2007. This included the procurement of a modern high-frequency furnace, which at the same time increased production capacity, and also the installation of a dust collection system in the fettling and cleaning shop. Further measures to improve air quality are planned for 2008 and 2009.

As part of our Integrated Management System, which encompasses environmental protection, quality management and also occupational health and safety, we had our sites in Hassanabdal (Pakistan), Várzea Paulista, Americana and Barueri (all Brazil), Dalian (China) and Echternach (Luxembourg) certified by the TÜV Rheinland Group in the year under review.

Work and employment

As a flexible company, we provide for conditions of work that enable people to find an appropriate career environment to match their family situation, age or qualification.

This includes promoting the compatibility of job and family with measures that permit those with young children or relatives in need of care to engage in an active working life. Examples of these efforts are the free support provided by an external family service, cooperation with a crèche for small children and collaboration in the *Frankenthal Alliance for the Family.*

With a view to easing work-related stress for older employees, we have set up a programme ranging from free health check-ups through exemption from night shifts to extra holiday. Older employees also benefit, like other members of staff, from intensive preventive health care. This includes preventive back pain training, vaccinations, special offer weeks and, as from 2008, also a form of early cancer detection. In addition, we do our utmost to ensure a high degree of safety for our people at the workplace.

KSB is well aware of its social responsibility for the future of young people. This includes youngsters with schooling weaknesses who also need a career opening. The young people we recruited in Pegnitz in 2007 therefore included for the first time youngsters who had not been able to find an apprenticeship because of their school performance. These are given the opportunity to qualify for their further training in a special programme lasting up to a year. Former KSB managers at Pegnitz are also acting as mentors for basic secondary school pupils to accompany them on their path towards their first job.

Market

The good reputation of our company with customers, suppliers and cooperation partners calls for professional and, at all times, impeccable behaviour in business life. This includes compliance with current law and with internal company guidelines.

In the year under review, we drew up a Code of Conduct as a basis for our compliance activities. This lays down in concrete terms the defining principles of law and business policy on which we base not only relations with our business partners but also our internal collaboration. In addition, we have issued global Guidelines on the Prevention of Corruption and Guidelines on Compliance with Cartel Law.

Integrity, reliability and transparency are key values for our behaviour on the market. Together with the quality of our products and services, they are important prerequisites for justifying the trust of our customers and for achieving sustainable success in the market.

Social commitment

Our social commitment is geared towards helping children, adolescents and socially disadvantaged people. At three sites in Germany, we again donated € 40,000 for projects in aid of children, youths and the needy as part of our *Donations instead of Christmas Gifts* campaign at the end of 2007.

In the field of education, we are engaged at our German sites in various cooperative school projects. The aim of these activities is to allow children and youngsters early insights into the day-to-day routine of work and life in industry. We also support schools in efforts to provide children with a sense of fun in science with scientific experiment sets. This takes place in a project of the *Wissensfabrik Deutschland e.V.* [“knowledge factory”], of which we are a founding member.

We also promote business-mindedness with regional competitions in which school classes develop business ideas from their own particular environment in life. They put these ideas into practice in projects such as setting up school kiosks or imprinting school clothes.

In some Asian countries where schooling is not yet a matter of course, we aim to provide financial aid next year. To this end, KSB companies in the Region have prepared the first steps.

When disasters occur in the world, we see ourselves particularly required to do what we can when they strike in countries where we can be directly involved. In Indonesia, for example, we provided relief aid for earthquake victims in the south-east of Java and also for families affected by the flooding in Jakarta.

Modern paint spray shops use environmentally acceptable paints.

Risk Management

- Identifying and assessing risks on a global scale
- Overcoming production and delivery bottlenecks
- Limiting currency risks and disadvantages

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 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 operative units observe these guidelines and whether they are actively 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 seven categories:

Market / Competition

The year 2007 was marked by strong demand for our products. This led to a sustained high level of capacity utilisation on the production and assembly lines at various sites. The demand for products was particularly intense in the Energy and Industry segments, as well as in Mining.

We managed to reduce the delays in delivery that occurred in the previous year to a level that was in line with the market. For this we used the global KSB infrastructure and expanded our capacity where necessary. The development of new production and test facilities will eliminate bottlenecks that still affect some products. This is accompanied by a restructuring of order handling processes.

Competition in the market for standardised products remains high. We are able to defend our position well here thanks to our computer-based order handling and clearly structured business processes. In addition, we strengthened the global production network in 2007 and set up a new production facility for standard pumps in Shanghai.

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 competitors. We offset these currency disadvantages to some extent through increased purchasing and production in the dollar region.

Products / Projects

There were no significant risks that could result from any technical problems of our products.

We largely eliminated the problems that occurred in 2006 with the launch of new production processes and SAP R/3 software. In the current year, we shall finally stabilise all the processes affected by these innovations.

In addition to these process issues, the rapid completion of orders at various sites was made difficult in particular by some bottlenecks on procurement markets. We therefore quickly developed alternative sources of supply and adjusted to the scarcer availability of resources in the planning and handling of material procurement.

Changing conditions such as rising material costs can constantly raise a question mark over the competitiveness of individual product prices. To ensure that we can offer our pumps, valves and systems in each case at market prices, we adopt a so-called 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. These include risks that arise from fluctuating currency exchange rates. To minimise the financial risks, Finance and Accounting constantly analyse current developments and react accordingly. They report on the company's financial position to the Board of Management and the Supervisory Board at least once a month. (The financial risks we face are dealt with in greater detail in the "Hedging financial risks" section of the "Financial Position" chapter of this management report.)

A standardised global reporting system helps to identify profit and liquidity risks early on. To avoid payment defaults, we practise a strict payment management system, especially in the large-scale projects business. This includes advance payments and instalments. We use hedging schemes to reduce the increased currency risks resulting from the weakness of the dollar.

In the course of our continuous improvement process, we operate an active cost management system. This instrument helps to ensure that the lasting improvements we achieved with the Efficiency Enhancement Programme which finished at the end of 2006 are secured in the long term.

Procurement

Prices in general and for high-grade steel in particular stabilised at a very high level in 2007. In view of the sustained strength of demand, we assume that we shall be able to pass on these price increases to the market. Bottlenecks may occasionally occur on the procurement side and lead to prolonged delivery times. To prevent this, we are extending strategic partnerships with important suppliers in 2008. At the same time, we are continuing the search for alternative sources of supply. With a view to ensuring that we can start materials planning for orders earlier still, we have refined the relevant planning instruments.

Technology / Research and Development

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

KSB also increasingly manufactures products that have been developed to 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

Just like other companies, KSB is subject to numerous environmental protection laws and regulations of the EU and individual countries. Aiming to reduce 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 keep to internal environmental standards that go beyond these regulations.

Appropriate provisions are set aside 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 processes in companies. Even more serious business disadvantages can be caused by manipulation or loss of data. We minimise these risks by using powerful state-of-the-art hardware with the latest software versions. We also have replacement capacity to protect ourselves from outage-related bottlenecks. State-of-the-art standards and methods help us secure our data against misuse by third parties.

Overall assessment

In 2007, we did not identify any risks that could cause substantial or sustained damage to the company's net assets, financial position or results of operations.

Barrel casings of power station pumps have to withstand constant high pressures.

Report on Expected Developments

- Market development offers further growth opportunities
- Significant increase in consolidated sales revenue planned
- Further improvement in earnings is prime objective

Market developments and sales opportunities
Global demand for pumps, valves, systems and associated services remains at a high level. In line with the construction of new plants and the extension of existing plants in industry and building services, water and waste water, and energy and mining, demand for our products and services is set to increase further.

However, we expect the economic momentum of the two previous years to diminish. The crisis on the financial markets will weigh on economic development in industrialised countries and slow growth in emerging economies. In sectors experiencing a decline in investment activity, this will impact on our order intake after a time lag.

Our plans for the current year are based on the assumption of global economic growth of just under 4 %, with slightly weaker economic development in Europe, Asia and Latin America, and an increase in the Region Middle East / Africa. We expect growth in the North American market, which is less important for KSB's business, to stabilise at a low level.

Continued weakness of the dollar may have a negative impact on the sales opportunities for European products in the Asian growth regions tied to the US currency. For this reason, we will continue with the strategy we embarked on in 2007 of manufacturing as many products and components as possible locally for these markets and of using local purchasing sources.

Demand for industrial goods, including pumps and valves, will not increase as rapidly in 2008 as in the two previous years. Exceptions will be specific industry segments, such as tanker equipment or the construction of liquefied gas plants. In addition, the processing of a number of major orders in the industry business will ensure high sales revenue.

In building services, we expect our future growth, including beyond 2008, to stem mainly from Asia and the Middle East, where demand for industrial and residential buildings is currently higher than in European countries, for example, which have lower economic and population growth.

The water business will be driven in 2008 and 2009 by infrastructure development projects and the construction of new seawater desalination plants. We currently expect major projects in which we can be involved with pumps and valves in the Middle East and in Asia. Overall, we believe that our order intake and sales revenue will rise sharply especially in the water business. We will expand our production facilities in Halle, Germany, accordingly in 2008.

The market for waste water products will also experience renewed growth, specifically in the Middle East. In addition, new major projects in Eastern European countries, including Russia, as well as in Asia offer good growth prospects. For 2008, we are planning to grow significantly faster than the market as a whole in the waste water business, which is largely unaffected by macroeconomic developments.

In the energy sector, we expect the order intake to retreat somewhat from the records achieved in the previous year, due to the limited capacity of Western European engineering contractors. However, we expect our high orders on hand to translate into substantial rises in sales revenue. By expanding our production facilities for power station pumps, we are preparing specifically for orders for high-performance pump sets, which will be increasingly required in new large-scale power stations in the near future. China and India will continue to be important energy markets that we will serve from our local production centres.

Direct exports from Europe to China are likely to decrease, because the engineering contractors operating there increasingly want to use local products. Russia, too, will continue to be an interesting market.

In mining, continuing demand for raw materials and energy sources will lead to new capital expenditure on plant and equipment, including our slurry pumps. However, fewer major contracts will be awarded in the current year – especially in the oil sands industry. This cyclical market behaviour may lead to a slight decline in our order intake, although orders on hand will allow for further growth in sales revenue.

Outlook for the Group and for the Regions

In view of the subdued outlook for economic development, we expect only a moderate increase in order intake for the Group in 2008. The consolidated sales revenue is anticipated to rise sharply again. This means orders on hand will not increase at the same rate as in the previous two years.

The European market will grow only moderately overall in 2008. We expect a substantial increase above all in water engineering as a result of projects ready to be awarded. From today's perspective, the industry business will provide the largest volume increases. By expanding our production and testing capacity, we can improve our delivery capability for high-quality pumps and valves and enhance our appeal as a high-performing partner, especially for customers in industry, water engineering and energy generation.

In the Region Middle East / Africa, we expect a marked rise in our order intake over the next two years because of the sustained high prices for fossil fuels and mineral raw materials. They lead us to expect the capital spending boom to continue in the Arab countries as well as in South Africa. We will further expand our sales and service presence in the Region. However, if political tension mounts in the Middle East, the growth trend may be disrupted for a longer period.

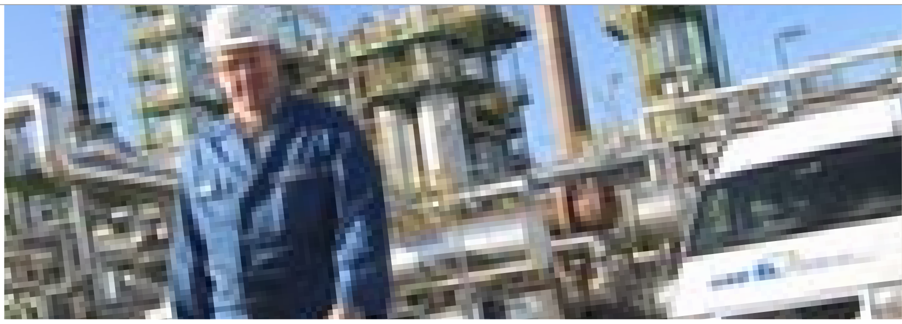
The economies in the Region Asia / Pacific will again grow faster than those in other Regions in 2008 and 2009. This applies to all sectors served by KSB, from energy – focusing on China and India – to industry, where strong growth is forecast for some sub-segments in particular. We expect higher order levels in particular from the biofuels and palm oil industry in South-East Asia, shipbuilding in South Korea and Japan, flue gas desulphurisation in China and the oil processing industry in India. In the service sector, we want to take advantage of our opportunities in the sophisticated pump and valve technology segment.

The order intake in the Americas, which grew rapidly in 2007, especially in South America, will stabilise at this high level in 2008. The market offers good business opportunities in industry, mining and in Brazil's oil sector. In the water and waste water business, customers are also planning new projects in which our local companies will become involved if possible. In the energy market, we expect demand to slow in 2008, although a number of new power station projects are under preparation; they are expected to be implemented in the following years.

Measures to safeguard the future of the Company

In order to ensure long-term success, we began to review our corporate strategy in 2007. This process is designed to align the KSB Group's market focus and technology with current or expected changes and open up new business prospects by the end of 2008. This task has been assigned to an international management team, which reports regularly on progress and interim results to the Board of Management and the Supervisory Board of KSB AG. The strategic review may lead to changes in the Group's organisation, market presence and technical focus starting in 2009.

In the development of new products, we continue to believe in meeting our customers' needs for sustainably reliable, energy-efficient and low-maintenance products. This product strategy coincides with the growing willingness of many users to base



During planned outages, KSB service staff overhaul pumps and valves, as well as other system components, about 250 times every year.

their purchase decisions not only on the price of a product, but on its life cycle costs. In order to meet these requirements, we are committed to developing new hydraulic systems, automating our products and using highly durable materials for pumps and valves.

The varied nature of customer requests in the wake of globalisation has made our product range and response processes highly complex in some areas of application. In the course of integrating our product series into a new selection program, we are investigating whether regional variants of our pumps and valves in particular can be replaced by products from our global standard programme, providing they meet the key requirements.

In the current year, we will continue the intensification of the standard business, announced in 2006, in selected countries. In this context, we will create new sales and distribution channels and logistics facilities that will allow us to supply standard pumps and valves to customers in those countries promptly and efficiently. When we serve our customers, we rely to a very large extent on our electronic order processing system. Our medium-term objective is to increase the share of standard business as a proportion of the Group's total business.

Financial outlook

On the basis of our strong order books, we expect sales revenue to increase further in both 2008 and 2009, in spite of the slowdown in order intake growth. For the current year, we expect a rate of growth of just below 10 %, while the rise in the following year is assumed to be at a lower level.

The increased output will continue to lead to high utilisation of our production capacity; this will result in further decreases in unit fixed costs on the one hand, while the planned capacity expansion measures will push up costs on the other. Overall, however, we expect to keep cost increases smaller than the rise in output, so that earnings will have further upward potential in the next two years. In 2008, we will be able to make much headway in achieving our targeted return on sales of 8 %. We do not rule out that we can already reach the target in 2009.

The measures already resolved will result in capital expenditure being significantly above the previous years' figures in the current and the following year. At the same time, the continued rise in output will lead to an increase in funds tied up in current assets. Both factors may lead to a decline in the net financial position.

Business at the parent company of the KSB Group, KSB AG, will mostly develop in line with the Group. We also expect its earnings to improve further on the back of increased output.

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. 2007	31 Dec. 2006
Non-current assets			
Intangible assets	1	46,929	39,353
Property, plant and equipment	1	254,272	231,501
Non-current financial assets	1	39,559	30,349
Deferred tax assets	2	12,384	13,663
		353,144	314,866
Current assets			
Inventories	3	238,304	191,035
Receivables and other current assets	4	485,216	462,801
Current financial instruments	5	20,535	19,597
Cash	5	160,803	142,115
		904,858	815,548
		1,258,002	**1,130,414**

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 Dec. 2007	31 Dec. 2006
Equity	6		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		247,638	199,111
Consolidated net profit for the year		76,807	49,476
Minority interest		70,021	66,541
		505,901	426,563
Non-current liabilities			
Deferred tax liabilities	7	13,339	13,291
Provisions for pensions and similar obligations	8	213,383	201,641
Other provisions	9	45,609	36,477
Liabilities	10	29,521	49,445
		301,852	300,854
Current liabilities			
Other provisions	9	180,296	164,482
Liabilities	10	269,953	238,515
		450,249	402,997
		1,258,002	**1,130,414**

Income Statement

(€ thousands)	Notes	2007	2006
Sales revenue invoiced		1,758,344	1,555,454
Sales revenue recognised by PoC		12,531	51,937
Sales revenue	11	**1,770,875**	**1,607,391**
Changes in inventories		28,362	–24,148
Work performed and capitalised		1,590	1,950
Total output of operations		**1,800,827**	**1,585,193**
Other operating income	12	20,616	18,080
Cost of materials	13	–750,417	–650,225
Staff costs	14	–581,571	–521,694
Depreciation and amortisation expense		–34,638	–33,239
Other operating expenses	15	–312,052	–291,342
Other taxes		–8,338	–8,226
		134,427	**98,547**
Income from investments	16	2,939	2,200
Other financial income / expense	16	–8,664	–10,501
		–5,725	**–8,301**
Earnings before income taxes		**128,702**	**90,246**
Taxes on income	17	–38,841	–27,878
Net profit for the year		**89,861**	**62,368**
Minority interest in net profit / loss	18	–13,054	–12,892
Consolidated net profit for the year (attributable to shareholders)		**76,807**	**49,476**
Diluted and basic earnings per ordinary share (€)	20	43.73	27.99
Diluted and basic earnings per preference share (€)	20	43.99	28.51

Statement of Changes in Fixed Assets

(€ thousands)	Historical cost					
	1 Jan. 2007	Change in consolidated Group / CTA* / Other	Additions	Disposals	Reclassi-fications	31 Dec. 2007
Intangible assets						
Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets	26,588	−42	5,586	4,323	2,349	30,158
Goodwill	30,973	2,896	3,303	–	–	37,172
Advance payments	2,348	–	384	–	−2,348	384
	59,909	**2,854**	**9,273**	**4,323**	**1**	**67,714**
Property, plant and equipment						
Land and buildings	187,795	−796	2,689	904	96	188,880
Plant and machinery	309,135	−2,265	23,502	3,602	8,164	334,934
Other equipment, operating and office equipment	131,776	208	14,597	10,383	496	136,694
Advance payments and assets under construction	9,321	73	12,681	38	−8,757	13,280
	638,027	**−2,780**	**53,469**	**14,927**	**−1**	**673,788**
Non-current financial assets						
Investments in affiliates	25,913	−6,913	15,372	–	–	34,372
Loans to affiliates	2,262	–	–	–	–	2,262
Other investments	2,552	–	1,417	–	–	3,969
Non-current financial instruments	990	−12	–	132	–	846
Other non-current loans	62	–	1	–	–	63
	31,779	**−6,925**	**16,790**	**132**	**–**	**41,512**
	729,715	**−6,851**	**79,532**	**19,382**	**–**	**783,014**

* CTA = currency translation adjustments

	Accumulated depreciation / amortisation						Carrying amounts	
	1 Jan. 2007	Change in consolidated Group / CTA* / Other	Additions	Disposals	Reclassi-fications	31 Dec. 2007	**31 Dec. 2007**	31 Dec. 2006
	20,556	–46	4,554	4,280	1	20,785	9,373	6,032
	–	–	–	–	–	–	37,172	30,973
	–	–	–	–	–	–	384	2,348
	20,556	**–46**	**4,554**	**4,280**	**1**	**20,785**	**46,929**	**39,353**
	88,280	–785	4,402	557	–	91,340	97,540	99,515
	222,293	–2,425	14,590	3,326	–1	231,131	103,803	86,842
	95,953	–205	11,092	9,795	–	97,045	39,649	35,823
	–	–	–	–	–	–	13,280	9,321
	406,526	**–3,415**	**30,084**	**13,678**	**–1**	**419,516**	**254,272**	**231,501**
	387	–	–	–	–	387	33,985	25,526
	500	–	500	–	–	1,000	1,262	1,762
	461	–	–	–	–	461	3,508	2,091
	82	–	23	–	–	105	741	908
	–	–	–	–	–	–	63	62
	1,430	**–**	**523**	**–**	**–**	**1,953**	**39,559**	**30,349**
	428,512	**–3,461**	**35,161**	**17,958**	**–**	**442,254**	**340,760**	**301,203**

Statement of Changes in Equity

including minority interest

(€ thousands)	1 Jan. 2006	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	Measure-ment of financial instruments	Adjust-ments taken directly to equity / Other	**31 Dec. 2006**
Subscribed capital of KSB AG	44,772	–	–	–	–	–	–	–	–	44,772
Capital reserve of KSB AG	66,663	–	–	–	–	–	–	–	–	66,663
Revenue reserves	193,326*	–	–	10,238	–	–10,429*	–	5,377	599	199,111*
Consolidated net profit for the year	11,129	49,476	–891	–10,238	–	–	–	–	–	49,476
	315,890	49,476	–891	–	–	–10,429	–	5,377	599	360,022
Minority interest	60,947*	12,892	–1,697	–	754	–5,633*	–1,136	–	414	66,541*
	376,837	**62,368**	**–2,588**	**–**	**754**	**–16,062**	**–1,136**	**5,377**	**1,013**	**426,563**

(€ 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	Measure-ment of financial instruments	Adjust-ments 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)	31 Dec. 2006	**31 Dec. 2007**
Accumulated currency translation differences	–56,954*	–63,824
thereof applicable to minority interest	–17,677*	–18,055

* Restated in accordance with IAS 8.41

Cash Flow Statement

(€ thousands)	2007	2006
Net profit for the year	89,861	62,368
Depreciation and amortisation expense	35,138	33,916
Increase in non-current provisions	13,933	5,968
Gain / loss on disposal of fixed assets	–391	–1,076
Cash flow	**138,541**	**101,176**
Increase / decrease in inventories	–57,675	6,907
Increase in trade receivables and other assets	–54,105	–89,779*
Increase in current provisions	20,396	25,097
Increase in advances received from customers	44,433	15,921
Increase in liabilities (excluding financial liabilities)	31,582	19,253*
Other non-cash income / expenses (operating)	673	685*
	–14,696	–21,916
Cash flows from operating activities	**123,845**	**79,260**
Proceeds from disposal of intangible assets	43	4
Payments to acquire intangible assets	–5,970	–3,664
Proceeds from disposal of property, plant and equipment	1,640	3,239
Payments to acquire property, plant and equipment	–53,469	–42,045
Proceeds from disposal of non-current financial assets	132	2
Payments to acquire non-current financial assets	–16,790	–7,880
Net cash flows from the acquisition and sale of consolidated companies and other business units (basically successive acquisitions)	–9,028	–1,900
Other non-cash income / expenses (investing)	359	343*
Cash flows from investing activities	**–83,083**	**–51,901**
Proceeds from additions to equity / payments related to capital decreases	143	754
Dividends paid for prior year (including minority interest)	–5,858	–2,588
Deferred compensation within the scope of employee pension plans	3,260	2,681
Net cash flows from financial liabilities	–17,080	–3,331
Net cash flows from financial receivables	–3,308	–3,926
Other non-cash income / expenses (financing)	337	343*
Cash flows from financing activities	**–22,506**	**–6,067**
Net change in cash and cash equivalents	18,256	21,292
Effects of exchange rate changes on cash and cash equivalents	–342	–134
Effects of changes in consolidated Group	774	–
Cash and cash equivalents at beginning of period	142,115	120,957
Cash and cash equivalents at end of period	**160,803**	**142,115**
Supplemental disclosures:		
Interest received	7,123	5,162
Interest paid	–5,391	–5,668
Income taxes paid	–33,571	–24,957
Dividends received	2,939	2,200

* Restated in accordance with IAS 8.41

Segment Reporting

by region

(€ thousands)	Region Europe 2007	Region Europe 2006	Region Middle East / Africa 2007	Region Middle East / Africa 2006
External sales revenue of the Group companies by segment	**1,228,270**	**1,128,618**	**50,139**	**35,951**
by geographic area				
Europe	997,156	928,766	93	48
Middle East / Africa	87,619	63,168	49,763	35,900
Asia / Pacific	123,592	124,870	153	–
Americas	19,903	11,814	130	3
Inter-segment sales revenue	**62,780**	**51,746**	**1,555**	**423**
Segment result (EBIT)	**77,847**	**47,622**	**6,243**	**5,199**
thereof depreciation and amortisation expense	25,402	25,640	619	525
thereof write-downs of non-current financial assets	500	677	–	–
thereof other non-cash items	12,652	5,645	216	38
thereof net profit or loss of equity-accounted investments	–	–	–	–
thereof income from investments	2,007	1,665	364	169
Segment assets	**886,619**	**800,956**	**29,804**	**23,782**
Segment liabilities	**585,276**	**558,309**	**22,319**	**6,617**
Capital expenditure	**40,992**	**30,785**	**1,054**	**1,216**
Number of employees (annual average)	**7,546**	**7,138**	**459**	**379**

by market

(€ thousands)	Industry and Building Services 2007	Industry and Building Services 2006
External sales revenue of the Group companies by segment	**941,777**	**827,173**
Segment assets	**662,436**	**574,687**
Capital expenditure	**40,848**	**28,476**

Region Asia / Pacific		Region Americas		Total	
2007	2006	**2007**	2006	**2007**	2006
251,885	**234,799**	**240,581**	**208,023**	**1,770,875**	**1,607,391**
223	31	2,797	2,329	1,000,269	931,174
10,866	1,186	130	143	148,378	100,397
240,771	233,548	4,652	3,938	369,168	362,356
25	34	233,002	201,613	253,060	213,464
9,463	**7,706**	**5,281**	**5,413**	**79,079**	**65,288**
31,423	**27,978**	**21,537**	**19,428**	**137,050**	**100,227**
3,854	3,060	4,763	4,014	34,638	33,239
–	–	–	–	500	677
611	–20	63	–771	13,542	4,892
–	–	–	–	–	–
481	193	87	173	2,939	2,200
186,470	**166,474**	**142,725**	**125,539**	**1,245,618**	**1,116,751**
76,055	**76,963**	**47,976**	**42,621**	**731,626**	**684,510**
14,132	**8,536**	**6,564**	**5,936**	**62,742**	**46,473**
3,867	**3,747**	**1,921**	**1,698**	**13,793**	**12,962**

Water and Waste Water		Energy and Mining		Total	
2007	2006	**2007**	2006	**2007**	2006
321,179	**307,467**	**507,919**	**472,751**	**1,770,875**	**1,607,391**
225,919	**213,617**	**357,263**	**328,447**	**1,245,618**	**1,116,751**
13,930	**10,584**	**7,964**	**7,413**	**62,742**	**46,473**

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) of the HGB (German Commercial Code). We applied the Framework, as well as all Standards and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in force at the reporting date. For the purposes of this document, the term IFRSs includes applicable International Accounting Standards (IASs).

The accompanying consolidated financial statements were approved for issue by the Board of Management on 28 March 2008.

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 and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) became effective as at 1 January 2007:

- IFRS 7 *Financial Instruments: Disclosures*
- Amendment to IAS 1 *Presentation of Financial Statements: Capital Disclosures*
- IFRIC 7 *Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*

In particular the first-time application of IFRS 7 *Financial Instruments: Disclosures* had a direct impact on our consolidated financial statements. We have presented the resulting additional information requirements relevant for KSB, including the prior-period comparative disclosures, in the notes to the consolidated financial statements and the Group management report.

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

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*
- IFRS 8 *Operating Segments*
- IAS 23 *Borrowing Costs*.

Basis of consolidation

Consolidated Group

In addition to KSB AG, 4 German and 48 foreign companies (previous year: 4 German and 43 foreign companies) were fully consolidated. 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.

The following changes to the consolidated Group occurred in the year under review:

- We significantly increased our activities in South Africa at the beginning of the year. To do this, we acquired the 50 % interest in KSB Pumps (S.A.) (Pty) Ltd. held by the previous co-owner. We transferred the entire operative business to the newly formed KSB Pumps and Valves (Pty) Ltd., which was initially consolidated as at 1 January. KSB holds an interest of just under 75 % in this company; the remaining interest is held by a strategic financial investor from South Africa.
- In addition, we included the following companies for the first time in the consolidated financial statements effective 1 January 2007:

  – KSB Mechanical Services On Site NV, Belgium – service company
  – KSB Pumps Co. Ltd., Thailand – sales company
  – KSB Middle East FZE, Dubai / UAE – sales company
  – KSB Válvulas Ltda., Brazil – production company

The changes in the consolidated Group described above contributed around 1 % to consolidated net profit and had the following effects on the consolidated financial statements:

Effects of changes in the consolidated Group in 2007
(€ thousands)

Non-current assets	–246
Current assets	10,187
Assets	**9,941**
Equity	2,338
Non-current liabilities	277
Current liabilities	7,326
Equity and liabilities	**9,941**

Overall, we spent € 9,028 thousand (previous year: € 1,900 thousand) on successive acquisitions of consolidated companies in the year under review. € 16,789 thousand (previous year: € 5,618 thousand) was spent on companies that have not yet been consolidated. This amount resulted from newly formed companies, capital measures and the acquisition of small 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 non-current 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. 2007	31 Dec. 2006	2007	2006
1 US dollar	0.679	0.759	0.730	0.796
1 Brazilian real	0.381	0.356	0.375	0.365
100 Indian rupees	1.725	1.791	1.828	1.840
100 Chinese yuan	9.300	9.728	9.601	9.995

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 the settlement date; only derivatives are recognised 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, associates 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 value 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

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.

Government grants relating to property, plant and equipment are deducted from the assets concerned.

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 the sales revenue.

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” chapter).

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 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 dollar (USD). Interest rate risks are minimised for 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 value. 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 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

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 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. The discount rate, which was 7.00 % in the year under review (previous year: 6.75 %), is based on the interest rate for risk-free 10-year Bunds, increased by a company-specific risk premium. All goodwill was determined to be recoverable, and no impairment losses on goodwill were required to be charged.

Investments in property, plant and equipment were approximately 27 % higher than in the previous year. Among other factors, this is due to the increased investing activity to expand our capacity. € 53,469 thousand was invested in the year under review, compared with € 42,045 thousand in 2006. Depreciation amounted to € 30,084 thousand, and was thus slightly higher than the previous year's figure of € 29,011 thousand.

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 € 8,516 thousand (previous year: € 9,382 thousand).

Disposals of items of property, plant and equipment resulted in book gains of € 1,150 thousand (previous year: € 2,260 thousand) and book losses of € 759 thousand (previous year: € 1,183 thousand). The book gains and losses are reported in the income statement under other operating income and other operating expenses.

We did not recognise any impairment losses on intangible assets and items of property, plant and equipment in the year under review (previous year: € 1,393 thousand).

Changes in non-current financial assets resulted from capital measures, newly formed companies and the acquisition of small service units in Europe, among other factors. They were offset by the effects of initial consolidation. We currently have no plans for the disposal of investments in affiliates and associates.

Currency translation adjustments taken directly to equity resulted in a loss of € 2,923 thousand (previous year: loss of € 4,908 thousand).

Details of changes in fixed assets are presented in a separate table (Statement of Changes in Fixed Assets).

2 __ Deferred tax assets

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

3 __ Inventories

(€ thousands)	31 Dec. 2007	31 Dec. 2006
Raw materials and production supplies	128,558	103,627
Work in progress	81,493	63,934
Finished goods and goods purchased and held for resale	71,219	59,851
Advance payments	14,369	10,007
Advances received from customers	−57,335	−46,384
	238,304	**191,035**

Part of the inventories (approximately 10 %, as in the previous year) are 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. 2007	31 Dec. 2006
Trade receivables	382,689	348,535
Intragroup and associate receivables	17,919	19,284
Receivables recognised by PoC (excl. advances received from customers PoC)	145,028	131,829
Advances received from customers (PoC)	–98,982	–68,340
Receivables recognised by PoC	46,046	63,489
Other receivables, other current assets and prepaid expenses	38,562	31,493
	485,216	**462,801**

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 5,058 thousand (previous year: € 8,184 thousand). Associate receivables amounted to € 1,406 thousand (previous year: € 1,631 thousand).

Construction contracts under IAS 11 include recognised earnings of € 9,588 thousand (previous year: € 5,856 thousand) and costs of € 135,440 thousand (previous year: € 125,973 thousand).

The other receivables, other current assets and prepaid expenses include recoverable taxes, receivables from employees and deferred interest. They also include other financial assets from hedging instruments in accordance with IAS 39 amounting to € 7,261 thousand (previous year: € 4,735 thousand). € 496 thousand (previous year: € 356 thousand) of this amount relates to interest rate derivatives.

At the balance sheet date, the notional volume of all currency forwards was € 146,498 thousand (previous year: € 174,071 thousand), and the notional volume of all interest rate derivatives was € 24,277 thousand (previous year: € 28,160 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	146,498	126,215	20,283	–

The fair values of receivables correspond to the carrying amounts reported.

5 __ Current financial instruments and cash

Current financial instruments amount to € 20,535 thousand (previous year: € 19,597 thousand). They are mostly held by the German Group companies, which use these financial instruments for hedges of credit balances prescribed by law for partial retirement arrangements.

Cash relates primarily to term deposits with short maturities and call deposits.

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. There are no deferred tax assets resulting from these adjustments. Deferred tax liabilities amount to € 1,311 thousand (previous year: € 1,006 thousand).

Equity includes changes in the fair value of derivatives used to hedge future cash flows amounting to € +4,532 thousand (previous year: € +2,739 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.

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 changed as follows compared with the previous year: The discount rate applied to the obligations was increased from 4.5 % to 5.5%. The assumed rate of future salary increases is 2.7 % (previous year: 2.5 %), and the assumed growth rate for the pension trend is 1.9 % per annum (2006: 1.8 %). The biometric assumptions are based on the "2005G" mortality tables published by Prof. Klaus Heubeck. A mean fluctuation rate 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)	2007	2006
Opening balance at 1 Jan.	189,780	179,420
Annual pension expense (see below)	18,035	16,977
Employee deferred compensation	3,260	2,682
Net pension payments	−9,498	−9,299
Closing balance at 31 Dec.	**201,577**	**189,780**

The present value of pension commitments amounts to € 203,643 thousand (2006: € 218,402 thousand; 2005: € 207,595 thousand). This resulted in a significant year-on-year reduction in the net actuarial loss of € 2,066 thousand (previous year: € 28,622 thousand). Experience adjustments to the plan amounted to € -3,129 thousand (previous year: € -2,002 thousand). Changes in measurement reduced the losses by € 29,165 thousand. Previously unrecognised actuarial losses of € 520 thousand (previous year: € 586 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)	2007	2006
Current service cost	7,910	7,247
Actuarial gains / losses	520	586
Interest cost	9,605	9,144
	18,035	**16,977**

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.

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 € 11,806 thousand (previous year: € 11,861 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. 2007	Change cons. Group / CTA* / Other	Utilisation	Reversals	Additions	31 Dec. 2007
Taxes	7,556	–499	–6,073	–131	7,442	8,295
Other staff costs	123,123	498	–79,411	–406	93,783	137,587
Warranty obligations and contractual penalties	28,242	–138	–16,237	–2,636	31,009	40,240
Other obligations	42,038	18	–30,080	–4,497	32,304	39,783
	200,959	**–121**	**–131,801**	**–7,670**	**164,538**	**225,905**

* 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, profit bonuses, 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, 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.

€ 45,609 thousand of the other provisions is non-current (previous year: € 36,477 thousand). This relates mainly to provisions for jubilee payments, partial retirement and warranty obligations.

10 __ Liabilities

(€ thousands)	31 Dec. 2007	31 Dec. 2006
Non-current liabilities		
Financial liabilities		
Bank loans and overdrafts	22,524	43,717
Finance lease liabilities	4,366	5,381
Other	2,631	347
	29,521	49,445
Total non-current liabilities	**29,521**	**49,445**
Current liabilities		
Financial liabilities		
Bank loans and overdrafts	22,051	20,041
Finance lease liabilities	1,333	1,323
Other	7,877	8,493
	31,261	29,857
Trade payables		
Trade payables to third parties	176,708	155,214
Intragroup trade payables	2,995	2,976
	179,703	158,190
Other liabilities and deferred income		
Taxes	19,311	17,112
Social security	7,839	7,123
Miscellaneous other liabilities and deferred income	31,839	26,233
	58,989	50,468
Total current liabilities	**269,953**	**238,515**
Total liabilities	**299,474**	**287,960**

Assets amounting to € 6,801 thousand (previous year: € 4,924 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, € 884 thousand (previous year: € 762 thousand) relate to property, plant and equipment, € 4,247 thousand (previous year: € 2,126 thousand) to inventories and € 1,670 thousand (previous year: € 2,036 thousand) to receivables.

€ 8,648 thousand (previous year: € 8,655 thousand) of the liabilities was secured by land charges or similar rights in the year under review.

The weighted average interest rate on bank loans and overdrafts was 4.48 % (previous year: 4.12 %). The interest rate risk is limited 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 € 880 thousand (previous year: € 872 thousand). € 32 thousand (previous year: € 89 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 906 thousand (previous year: € 468 thousand).

The fair values of liabilities correspond to the carrying amounts reported.

Income statement disclosures

11 __ Sales revenue

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

Companies consolidated for the first time in the year under review accounted for € 29,991 thousand.

12 __ Other operating income

(€ thousands)	2007	2006
Gains from asset disposals and reversals of impairment losses (write-ups)	1,150	2,260
Income from current assets	1,955	2,461
Currency translation gains	725	2,548
Income from the reversal of provisions	7,586	3,323
Miscellaneous other income	9,200	7,488
	20,616	**18,080**

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 € 651 thousand (previous year: € 607 thousand).

13 __ Cost of materials

(€ thousands)	2007	2006
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	687,667	605,931
Cost of purchased services	62,750	44,294
	750,417	**650,225**

The increase in the consolidated Group accounted for € 14,590 thousand.

14 — Staff costs

(€ thousands)	2007	2006
Wages and salaries	464,532	412,910
Social security contributions and employee assistance costs	104,914	97,628
Pension costs	12,125	11,156
	581,571	**521,694**

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

Initial consolidation in the year under review accounted for € 11,697 thousand of staff costs.

Average number of employees	2007	2006
Wage earners	6,658	6,177
Salaried employees	6,782	6,442
Trainees and apprentices	353	343
	13,793	**12,962**

361 employees were added from the companies that were initially consolidated in the year under review.

15 — Other operating expenses

(€ thousands)	2007	2006
Losses from asset disposals	759	1,183
Losses from current assets	7,184	10,586
Currency translation losses	4,553	1,010
Other staff costs	22,078	20,664
Repairs, maintenance, third-party services	74,361	70,872
Selling expenses	80,698	74,080
Administrative expenses	60,474	58,987
Rents and leases	18,849	17,319
Miscellaneous other expenses	43,096	36,641
	312,052	**291,342**

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

€ 5,806 thousand of the other operating expenses relates to newly consolidated companies.

16 __ Financial income / expense

(€ thousands)	2007	2006
Income from investments	2,939	2,200
thereof from affiliates	(2,129)	(1,782)
Interest and similar income	7,123	5,162
thereof from affiliates	(149)	(263)
Interest and similar expenses	–15,471	–15,143
thereof to affiliates	(–528)	(–218)
Miscellaneous financial income / expense	–316	–520
	–5,725	**–8,301**

Interest and similar expenses include the interest cost on discounted pension provisions amounting to € 10,080 thousand (previous year: € 9,475 thousand). Income from other non-current financial instruments and non-current loans amounting to € 184 thousand (previous year: € 157 thousand) is classified as miscellaneous financial income / expense. Amortisation and write-downs amounting to € 500 thousand (previous year: € 677 thousand) were charged on non-current financial assets and current financial instruments.

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)	2007	2006
Effective taxes	35,133	25,619
Deferred taxes	3,708	2,259
	38,841	**27,878**

€ 322 thousand (previous year: € 0 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 913 thousand (previous year: € 381 thousand) to tax arrears.

Reconciliation of deferred taxes

(€ thousands)	2007	2006
Change in deferred tax assets	1,279	4,010
Change in deferred tax liabilities	48	2,069
Change in deferred taxes recognised in balance sheet	**1,327**	**6,079**
Change in deferred taxes taken directly to equity	–305	–2,991
Changes in consolidated Group, currency translation adjustments and other	2,686	–829
Deferred taxes recognised in income statement	**3,708**	**2,259**

Allocation of deferred taxes (€ thousands)	Deferred tax assets 2007	Deferred tax assets 2006	Deferred tax liabilities 2007	Deferred tax liabilities 2006
Assets				
Intangible assets, property, plant and equipment	1,772	2,994	23,816	32,779
Inventories	6,649	6,641	15,547	15,004
Receivables and other current assets	3,023	2,494	2,770	2,703
Other assets	373	179	1,398	1,510
Equity and liabilities				
Provisions for pensions and similar obligations	11,440	13,204	832	693
Other provisions	12,287	12,315	2,306	2,581
Other equity and liabilities	3,717	2,638	3,658	2,663
Tax loss carryforwards	10,111	17,840	–	–
Gross deferred taxes – before offsetting	**49,372**	**58,305**	**50,327**	**57,933**
Offset under IAS 12.74	–36,988	–44,642	–36,988	–44,642
Net deferred taxes – after offsetting	**12,384**	**13,663**	**13,339**	**13,291**

In the financial statements for financial year 2006 and the financial statements of previous financial years, deferred taxes were recognised for differences between the carrying amount of investments in subsidiaries in the tax accounts and the carrying amount of their net assets in the consolidated financial statements. From today's perspective, however, the criteria of IAS 12.39 and IAS 12.44 were not met.

Specific balance sheet items as at 31 December 2006 were therefore restated as follows in accordance with IAS 8.41: deferred tax assets: € 13,663 thousand instead of € 29,093 thousand; deferred tax liabilities: € 13,291 thousand instead of € 11,515 thousand; revenue reserves: € 199,111 thousand instead of € 211,390 thousand; minority interest: € 66,541 thousand instead of € 71,468 thousand. The following items were also restated as at 1 January 2006: revenue reserves: € 193,326 thousand instead of € 203,051 thousand; minority interest: € 60,947 thousand instead of € 64,363 thousand.

The corresponding loss carryforwards, for which deferred taxes were recognised, amount to € 35,614 thousand (previous year: € 49,421 thousand). They are 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.

We did not recognise deferred tax assets from loss carryforwards amounting to € 12,149 thousand (previous year: € 14,063 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)	2007	2006
Earnings before income taxes	128,702	90,246
Calculated income taxes on the basis of the applicable tax rate (37 %)	47,620	33,391
Differences in tax rates	–10,206	–6,650
Unused tax loss carryforwards	–180	1,404
Tax-exempt income / non-deductible expenses	–2,213	–1,724
Prior-period taxes	591	381
Non-deductible foreign income tax	1,385	1,214
Other	1,844	–138
Current taxes on income	**38,841**	**27,878**
Current tax rate	30 %	31 %

The applicable tax rate of 37 % is a composite rate resulting from the current German corporation tax, solidarity surcharge and trade income tax rates.

This tax rate will fall to 29 % starting in 2008 primarily as a result of the reduction in the German corporation tax rate from 25 % to 15 % as a consequence of the 2008 business taxation reform. We have already reflected this tax rate reduction when calculating deferred taxes for the German companies. The resulting deferred tax income of € 917 thousand is contained in the “Differences in tax rates” heading in the reconciliation. The total deferred tax income resulting from changes in existing local tax rates amounted to € 577 thousand in the year under review.

18 __ Minority interest in net profit / loss

The minority interest in net profit amounts to € 13,311 thousand (previous year: € 13,160 thousand), and the minority interest in net loss amounts to € 257 thousand (previous year: € 268 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 € 31,189 thousand (previous year: € 27,948 thousand).

20 __ Earnings per share

		2007	2006
Consolidated net profit for the year	(€ thousands)	76,807	49,476
Additional dividend attributable to preference shareholders	(€ thousands)	–225	–450
	(€ thousands)	**76,582**	**49,026**
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	(€)	**43.73**	**27.99**
Diluted and basic earnings per preference share	(€)	**43.99**	**28.51**

Additional disclosures on financial instruments

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

Balance sheet item / Class (€ thousands) ASSETS	Category	Measurement	Carrying amount 31 Dec. 2007	Fair value 31 Dec. 2007	Carrying amount 31 Dec. 2006	Fair value 31 Dec. 2006
Non-current assets						
Non-current financial assets						
Investments in affiliates, other investments	AfS	Amortised cost	37,493	37,493	27,617	27,617
Non-current financial instruments	AfS	Fair value	741	741	908	908
Loans to affiliates and other non-current loans	LaR	Amortised cost	1,325	1,325	1,824	1,824
Current assets						
Receivables and other current assets						
Trade receivables	LaR	Amortised cost	382,689	382,689	348,535	348,535
Intragroup and associate receivables	LaR	Amortised cost	17,919	17,919	19,284	19,284
Receivables recognised by PoC	LaR	Amortised cost	46,046	46,046	63,489	63,489
Other receivables, other current assets	LaR	Amortised cost	15,978	15,978	13,632	13,632
Derivatives included in hedging relationships	n / a	Fair value	2,179	2,179	1,416	1,416
Derivatives not included in hedging relationships	FAHfT	Fair value	5,082	5,082	3,319	3,319
Current financial instruments	AfS	Fair value	20,535	20,535	19,597	19,597
Cash	LaR	Amortised cost	160,803	160,803	142,115	142,115

Balance sheet item / Class (€ thousands) EQUITY AND LIABILITIES	Category	Measurement	Carrying amount 31 Dec. 2007	Fair value 31 Dec. 2007	Carrying amount 31 Dec. 2006	Fair value 31 Dec. 2006
Non-current liabilities						
Financial liabilities excl. finance lease liabilities	FLAC	Amortised cost	25,155	24,160	44,064	43,003
Finance lease liabilities	n / a	IAS 17	4,366	4,366	5,381	5,381
Current liabilities						
Financial liabilities excl. finance lease liabilities	FLAC	Amortised cost	29,928	29,928	28,534	28,534
Finance lease liabilities	n / a	IAS 17	1,333	1,333	1,323	1,323
Trade payables	FLAC	Amortised cost	179,703	179,703	158,190	158,190
Other liabilities – miscellaneous	FLAC	Amortised cost	30,053	30,053	24,892	24,892
Derivatives included in hedging relationships	n / a	Fair value	329	329	292	292
Derivatives not included in hedging relationships	FLHfT	Fair value	551	551	580	580
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Amortised cost	624,760	624,760	588,879	588,879
Available-for-sale financial assets	AfS	Fair value	21,276	21,276	20,505	20,505
Available-for-sale financial assets	AfS	Amortised cost	37,493	37,493	27,617	27,617
Financial assets held for trading	FAHfT	Fair value	5,082	5,082	3,319	3,319
Financial liabilities measured at amortised cost	FLAC	Amortised cost	264,839	263,844	255,680	254,619
Financial liabilities held for trading	FLHfT	Fair value	551	551	580	580

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 results by measurement category in 2007:

		From subsequent measurement				
(€ thousands)	From interest	At fair value	Currency translation	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**

Net results by measurement category in 2006:

		From subsequent measurement				
(€ thousands)	From interest	At fair value	Currency translation	Impairment losses	From disposal	Net results
LaR	4,798	–	–1,346	–162	1	3,291
AfS	364	–	–	–	1	365
FLAC	–5,668	–	147	–	–	–5,521
	–506	**–**	**–1,199**	**–162**	**2**	**–1,865**

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

The AfS measurement category resulted in a remeasurement loss of € 119 thousand, which was recognised directly in equity. No amounts were removed from equity and recognised in profit or loss 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” chapters.

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)	2007	2006
Opening balance at 1 Jan.	19,000	19,338
Additions	4,950	7,589
Utilised	–2,187	–5,743
Reversals	–1,653	–1,760
Currency translation changes	–366	–424
Closing balance at 31 Dec.	**19,744**	**19,000**

The maturity structure of trade receivables is as follows:

(€ thousands)	31 Dec. 2007	31 Dec. 2006
Receivables that are neither past due nor impaired	296,967	274,645
Receivables past due		
1 to 30 days	32,911	29,278
31 to 90 days	22,196	15,684
91 to 180 days	7,654	8,713
> 180 days	8,036	6,622
Total	70,797	60,297
Receivables individually determined to be impaired	14,925	13,593
Carrying amount (net)	**382,689**	**348,535**

With regard to the trade receivables that are neither past due nor 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 future 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.

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**

2006 (€ thousands)	**Total**	Up to 1 year	1–5 years	> 5 years
Financial liabilities	89,108	32,359	48,869	7,880
Trade payables	158,190	156,407	1,783	–
Other liabilities	24,892	22,888	2,004	–
Derivative financial instruments	3,657	3,219	474	–36
	275,847	**214,873**	**53,130**	**7,844**

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 € 26 million (previous year: approximately € 31 million). The volume of trade payables denominated in USD amounts to around € 7 million (previous year: approximately € 6 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 € 8.6 million higher (lower); € 5.9 million results from USD and € 2.7 million from the other currencies.

At the previous year’s reporting date, equity and the fair value of the derivatives would have been € 10.1 million higher (lower); € 7.7 million would result from USD and € 2.4 million from the other currencies.

The theoretical effect on profit in the year under review 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.

The theoretical effect on profit in the previous year would have been an increase (decrease) of € 4.5 million. € 3.3 million would be attributable to USD and € 1.2 million to the other currencies.

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

As part of our interest rate sensitivity analysis, we simulate a 100 basis point increase (decrease) in market interest rates and analyse the effects on the floating rate financial instruments. In 2007, the net interest balance would have been € 1.4 million (previous year: € 1.1 million) lower (higher). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 0.4 million (previous year: € 0.6 million).

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; **segment liabilities** consist of all liabilities and provisions, net of provisions for income taxes.

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)	2007	2006
Liabilities	**731,626**	**684,510**
Provisions for income taxes	7,136	6,050
Provisions and liabilities	**738,762**	**690,560**

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

(€ thousands)	2007	2006
Segment result (EBIT)	**137,050**	**100,227**
Interest income	7,123	5,162
Interest expense	– 15,471	– 15,143
Earnings before income taxes	**128,702**	**90,246**

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)	2007	2006
Liabilities from guarantees	10,147	10,170
Liabilities from warranties	14,259	15,567
Liabilities from the granting of other security for third-party liabilities	1,544	3,223
	25,950	**28,960**

Other financial obligations from rental agreements and operating leases amount to a total of € 15,418 thousand (previous year: € 13,395 thousand). Of these, € 8,701 thousand is due within one year and € 6,715 thousand (previous year: € 5,650 thousand) due between one and five years. In the year under review, € 7,745 thousand was expended on these agreements.

Operating leases relate primarily to vehicles.

	Minimum lease payments		Present values	
Finance leases (€ thousands)	2007	2006	2007	2006
Due within one year	1,416	1,366	1,333	1,323
Due between one and five years	4,489	5,673	3,975	4,942
Due after more than five years	392	444	391	439
	6,297	**7,483**	**5,699**	**6,704**

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 € 38,150 thousand (previous year: € 44,371 thousand) over a term of one to five years.

There are no purchase price obligations from acquisitions of companies (previous year: € 1,900 thousand) and no payment obligations from capital measures at Group companies (previous year: € 85 thousand).

The aggregate purchase obligation for investments amounts to € 18,972 thousand (previous year: € 13,096 thousand). Almost all of the corresponding payments are due in 2008.

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

Klein Pumpen GmbH, Frankenthal, holds a majority interest (75,23 %) in the voting power of KSB AG.

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 (previous year: € 66 thousand) and income of € 8 thousand (previous year: € 10 thousand) at KSB AG in the year under review. Interest of € 267 thousand (previous year: € 210 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 2007 amounted to € 7,028 thousand (previous year: € 7,399 thousand).

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

The total remuneration of members of the Supervisory Board amounts to € 741 thousand for financial year 2007 (previous year: € 418 thousand), and the total remuneration of the Board of Management amounts to € 5,928 thousand (previous year: € 3,769 thousand). € 20,951 thousand (previous year: € 18,660 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 € 1,347 thousand in the year under review (previous year: € 1,347 thousand).

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

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were appointed as the auditors and group auditors for financial year 2007 by the Annual General Meeting on 13 June 2007. The expenses for financial year 2007 include corresponding audit fees of € 290 thousand (previous year: € 240 thousand). A further € 48 thousand (previous year: € 31 thousand) was incurred for the audits of the German subsidiaries. In addition, fees of € 19 thousand (previous year: € 7 thousand) were incurred for other assurance and valuation services.

Events after the balance sheet date

There were no reportable events after the balance sheet date.

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 of the AktG [German Public Companies Act] in 2007. 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 12 June 2008 to appropriate the net retained earnings of KSB AG, Frankenthal, of € 16,154,525.99, containing retained earnings brought forward of € 117,723.97, as follows:

Distribution of a dividend of		
€ 9.00 per ordinary no-par-value share	=	7,979,535.00 €
and, in accordance with the Articles of Association,		
€ 9.26 per preference no-par-value share	=	8,007,233.12 €
Total		15,986,768.12 €
To be carried forward to new account		167,757.87 €
		16,154,525.99 €

Frankenthal, 28 March 2008

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, 28 March 2008

The Board of Management

The annual financial statements of KSB AG, Frankenthal, were prepared in accordance with German accounting principles. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Mannheim, 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 the KSB Aktiengesellschaft, Frankenthal (Pfalz), comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2007. 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 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 (*Handelsgesetzbuch* "German Commercial Code") 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.

Mannheim, April 2, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Kern	Beyer
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	268	– 83	■
KSB Service GmbH, Schwedt	Germany	C	100.00	1,023	PPA	
UDER Elektromechanik GmbH, Friedrichsthal	Germany	C	100.00	26	PPA	
Motoren-Jacobs GmbH, Heide	Germany	N	100.00	369	221	■
Pumpen-Service Bentz GmbH, Reinbek	Germany	N	100.00	927	290	■
Dynamik-Pumpen GmbH, Stuhr	Germany	N	100.00	808	548	■
NOMIG GmbH, Reken	Germany	N	49.00	857	419	■
B & C Pumpenvertrieb GmbH, Cologne	Germany	N	100.00	967	310	■
Elektro Berchem GmbH, Cologne	Germany	N	100.00	296	11	■
KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	N	100.00	574	– 2	■
KSB OOO, Moscow	Russia	N	100.00	27	– 494	■
PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	C	51.00	24,426	195	
KSB America Corporation, Richmond / Virginia	USA	C	51.00	21,114	2,445	
GIW Industries, Inc., Grovetown / Georgia	USA	C	51.00	20,347	4,376	
AMRI, Inc., Houston / Texas	USA	C	55.91	6,044	907	
KSB, Inc., Richmond / Virginia	USA	C	51.00	5,929	986	
PPM – KSB, Inc., Bakersfield / California	USA	C	51.00	1,803	185	
KSB Finland Oy, Kerava	Finland	C	100.00	2,738	711	
KSB Mörck AB, Askim (Gothenburg)	Sweden	C	55.00	3,281	1,026	
KSB Pompy i Armatura Sp. z o.o., Warsaw	Poland	C	100.00	4,705	766	
KSB Pumpy + Armatury sr.o., Prague	Czech Republic	C	100.00	2,571	313	
KSB Čerpadlá a Armatúry, spol.sr.o., Bratislava	Slovak Republic	N	100.00	458	214	■
KSB Szivattyu és Armatura Kft., Budapest	Hungary	C	100.00	1,615	371	
KSB Zürich AG, Zurich	Switzerland	C	100.00	1,308	695	
Motori Sommersi Riavvolgibili S.r.l., Berzo Demo	Italy	N	25.00	4,454	883	■
KSB Bombas e Válvulas S.A., Algés (Lisbon)	Portugal	N	95.00	813	155	■
Hydroskepi GmbH, Amaroussion (Athens)	Greece	C	100.00	1,346	– 4	
KSB TESMA AG, Amaroussion (Athens)	Greece	N	59.74	639	32	■
KSB Viosen AG, Patras	Greece	N	60.28	481	– 141	■
KSB Service LLC, Abu Dhabi	UAE	N	49.00	473	– 88	■
KSB Pumps Company Limited, Lahore	Pakistan	C	58,89	6,509	2,050	
MIL Controls Limited, Mala	India	C	70,86	5,047	2,406	
KSB Tech Pvt. Ltd., Pimpri (Pune)	India	N	100.00	620	641	■
KSB Limited, Hong Kong	China	C	100.00	1,691	699	
KSB Valves (Shanghai) Co, Ltd., Shanghai	China	N	100.00	1,016	– 98	■
KSB Taiwan Co, Ltd., Taipei	Taiwan	N	100.00	645	114	■
KSB Korea Ltd., Seoul	South Korea	N	100.00	229	121	■
KSB Ltd., Tokyo	Japan	N	100.00	50	160	■
KSB Pumps Co, Ltd., Bangkok	Thailand	C	40.00	2,209	471	
KSB Singapore (Asia Pacific) Pte. Ltd., Singapore	Singapore	C	100.00	3,473	1,154	
Canadian Kay Pump Ltd., Mississauga / Ontario	Canada	C	100.00	4,722	723	
KSB Pumps Limited, Pimpri (Pune)	India	C	40.54	42,756	8,607	
KSB de Mexico, S.A. de C.V., Querétaro	Mexico	C	100.00	470	– 143	
KSB Mexicana, S.A. de C.V., Querétaro	Mexico	N	100.00	104	– 34	■
KSB Chile S.A., Santiago	Chile	C	100.00	7,338	1,127	

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	111,746	7,103	
KSB Limited, Loughborough	United Kingdom	C	100.00	1,899	1,613	
RES Rotary Equipment Services Ltd., Loughborough	United Kingdom	C	100.00	549	145	
H.A. Kidd Electrical Engineers Limited, Llanishen	United Kingdom	N	100.00	•	•	
KSB Finance Nederland B.V., Zwanenburg	The Netherlands	C	100.00	10,037	3,209	
DP industries B.V., Alphen aan den Rijn	The Netherlands	C	100.00	11,766	4,614	
KSB Nederland B.V., Zwanenburg	The Netherlands	C	100.00	5,391	982	
Nederl. Pompservice (N.P.S.) B.V., Velsen-Noord	The Netherlands	N	100.00	– 183	– 167	■
KSB Belgium S.A., Wavre	Belgium	C	100.00	4,827	677	
KSB Mechanical Services On Site NV, Antwerp	Belgium	C	100.00	2,402	1,096	
KSB On Site Machining BVBA, Wilrijk	Belgium	N	100.00	459	255	■
KSB Engineering Services NV, Antwerp	Belgium	N	51.00	•	•	
VRS Industries S.A., Feluy	Belgium	N	100.00	•	•	
SISTO Armaturen S.A., Echternach	Luxembourg	C	52.86	9,569	689	
KSB Österreich Gesellschaft mbH, Vienna	Austria	C	100.00	2,709	125	
KSB SRB d.o.o. Beograd, Belgrade	Serbia	N	100.00	20	8	■
KSB S.A.S., Gennevilliers (Paris)	France	C	100.00	74,288	13,254	
TPS Techni Pompe Service S.A.S., Hoerdt	France	C	100.00	1,854	511	
Hydraulor Services, Algrange	France	C	100.00	1,215	321	
SEME S.A.S., Forbach	France	N	100.00	1,516	118	
EITB Entrepr. Ind. de Traveaux de Bobinage, Avignon	France	N	100.00	1,119	110	
SBCM S.à r.l., Gennevilliers (Paris)	France	N	100.00	202	0	
SVFM, Rambervillers	France	N	100.00	101	313	■
SPI Energie S.A., La Ravoire	France	N	100.00	1,001	172	■
Metis Levage S.A.S., Villefranche sur Saône	France	N	100.00	337	167	■
Artru Services S.A., Villefranche sur Saône	France	N	100.00	1,708	93	■
Artru Services Rhône-Alpes S.A.S., Villefr. sur Saône	France	N	100.00	44	0	■
Artru Services Auvergne S.A.S., Thiers	France	N	100.00	44	0	■
Artru Services Bourgogne S.A.S., Châtenoy le Royal	France	N	100.00	•	•	
Vibra Services S.A.S., Lyon	France	N	100.00	721	491	■
KSB Export Afrique S.A.S., Gennevilliers (Paris)	France	N	30.00	72	– 1	
Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	N	15.00	275	110	
KSB Italia S.p.A., Milan	Italy	C	100.00	20,851	1,892	
KSB Service Italia S.r.l., Scorzé	Italy	N	100.00	314	187	■
KSB-AMVI, S.A., Madrid	Spain	C	100.00	3,468	308	
AMVI Aplicac, Mecánicas Válvulas Industriales, S.A., Burgos	Spain	C	100.00	7,248	1,184	
KSB ITUR Spain S.A., Zarautz	Spain	C	100.00	13,747	2,046	
KSB Service Suciba S.L.U., Sondika	Spain	N	100.00	430	130	■
KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	C	99.00	5,529	1,082	
KSB Middle East FZE, Dubai	UAE	C	100.00	2,098	588	
KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	N	50.00	2,479	963	■
KSB Shanghai Pump Co, Ltd., Shanghai	China	C	80.00	29,957	8,590	
Dalian KSB AMRI Valves Co, Ltd., Dalian	China	N	100.00	384	– 167	■
PT. KSB Indonesia, Jakarta	Indonesia	C	100.00	1,131	306	
KSB Australia Pty. Ltd., Tottenham (Melbourne)	Australia	C	100.00	9,143	1,857	
KSB Algérie Eurl, Hydra-Alger	Algeria	N	100.00	•	•	
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	100.00	7,853	5,094	
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	74.99	3,037	3,006	
KSB Pumps Inc., Mississauga / Ontario	Canada	N	100.00	1,195	196	■
KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	C	100.00	32,562	5,849	
KSB Válvulas Ltda., Barueri	Brazil	C	100.00	1,663	– 496	
KSB Comp, Sudamericana de Bombas S.A., Carapachay	Argentina	C	100.00	2,841	442	

SUPERVISORY BOARD

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

Dr. Hans-Joachim Jacob, Auditor, Munich
Former member of the Executive Board of BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
(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

Heinz Köppel, Metalworker, Münchberg
1. Delegate of IG Metall Administration Area Ost-Oberfranken
(until 31 Dec. 2007)

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

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

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

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

Stefan Messer, Industrial Trader, Sulzbach [1)]
Chief Executive Officer of Messer Group GmbH

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

Dr. Hermann Nestler, Dipl.-Ing., Regensburg
(since 11 April 2007)

Carl-Wilhelm Schell-Lind, Dipl.-Ing., Wirtsch.-Ing., Freinsheim [2)]
Vice President Regional Sales Europe

Volker Seidel, Electrical and Electronics Installer, Münchberg
1. Delegate of IG Metall Administration Area Ost-Oberfranken
(since 1 Jan. 2008)

BOARD OF MANAGEMENT

Dr. rer. pol. Wolfgang Schmitt, Bad Dürkheim [3)]
(Chairman and Human Resources Director)

Dr.-Ing. Peter Buthmann, Bayreuth [4)]

Dr.-Ing. Willi Enderle, Grünstadt
(until 30 Sept. 2007)

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

Jan Stoop, Aarlanderveen, The Netherlands [5)]
(since 1 Oct. 2007)

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

[1)] Wiethoff Immobilien AG, Schmallenberg, Germany
Elme Messer Gaas A.S., Tallinn, Estonia
Messer Gases del Peru S.A.C., Callao, Peru
Messer Italia, S.p.A., Collegno, Italy
Messer Schweiz Verwaltungs AG, Dällikon, Switzerland
Messer B.V., Moerdijk, The Netherlands
Messer Schweißtechnik AG, Dällikon, Switzerland
Messer Schweiz AG, Lenzburg, Switzerland
Messer Tehnogas AD, Belgrade, Serbia

[2)] KSB Pumpy + Armatury sr.o., 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

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

[3)] 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, Pimpri (Pune), India
KSB Shanghai Pump Co. Ltd., Shanghai, China

[4)] KSB Nederland B.V., Zwanenburg, The Netherlands

[5)] KSB Singapore (Asia Pacific) Pte. Ltd., Singapore
KSB AMRI Sdn., Bhd., Petaling Jaya, Malaysia
KSB Pumps Company Limited, Lahore, Pakistan
DP industries B.V., Alphen aan de Rijn, The Netherlands
KSB ITUR Spain S.A., Zarautz, Spain
KSB Finanz S.A., Echternach, Luxembourg

SHAREHOLDER INFORMATION

22 April 2008, 10:00 h
Financial press conference
67227 Frankenthal

22 April 2008
Interim report
January – March 2008

30 April 2008
Invitation to Annual General Meeting

12 June 2008, 15:00 h
Annual General Meeting
CongressForum Frankenthal
Stephan-Cosacchi-Platz 5
67227 Frankenthal

13 June 2008
Dividend payment

15 August 2008
Half-year financial report
January – June 2008

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Online news
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the KSB Group at www.ksb.com

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GmbH & Co. KG, Hamburg

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Ottweiler

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Horst Kirsch, Frankenthal
Michael Lange, Hamburg

Cover:
Impellers of a boiler feed pump
used in power stations

KEY CORPORATE AND TECHNICAL TERMS

Boiler feed pump Pump which supplies preheated water to a steam boiler to allow a continuous evaporation process.

Boiler recirculation pump Centrifugal pump that recirculates the liquid to be evaporated in a steam boiler.

Centrifugal pump Turbomachine for transporting liquids by means of a rotating impeller.

Condensate pump Centrifugal pump that transports condensate developing in the power station.

Cooling water pump Pump that is used to remove process heat in a cooling system.

Cryogenic butterfly valve Special valve for use in liquefied gas applications.

Great Man-Made River Major project started in 1984 to supply groundwater from the Libyan Sahara to coastal regions.

High-pressure pump See ring-section pump.

Hydrocracker A system in which complex hydrocarbons are broken down into simpler molecules using a catalytic process.

Lean manufacturing Manufacture of a product with minimum possible use of resources, leaving out all redundant operations.

Microchem Centrifugal pump for micro-process engineering.

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

Positive displacement pump Pump whose working volume is periodically enlarged and reduced by a displacement body.

Power station convoy construction Power stations of the same type are built in series one after the other.

PumpDrive Modular electrotechnical system for matching the speed of a pump to variations in demand.

PumpExpert diagnostic system Computer-aided pump monitoring and diagnostic system that helps avoid system or pump failure.

Reverse osmosis Mechanical method of filtration to remove salt from water. This process is used to produce drinking water from the sea.

Ring-section pump Multistage centrifugal pump used to generate high pressures.

Sewage lifting unit System for draining low-lying parts of buildings.

Standardised chemical pump Centrifugal pump with standardised dimensions and standardised performance data for process engineering.

Steamcracker A system in which complex hydrocarbons are broken down into simpler molecules using steam.

Submersible pump in discharge tube Propeller pump that is used to move large flow rates at low heads.

Thermoplastic hybrid yarns Yarn based on highly resilient carbon fibres surrounded by an additional thermoplastic material.

Abbreviations

AktG German Public Companies Act
HGB German Commercial Code
IFRS International Financial Reporting Standards (formerly IAS)
IAS International Accounting Standards
MitbestG German Co-determination Act
RVAGAnpG German Act Adapting the Standard Retirement Age for the Statutory Pension Insurance System

KSB SHARES

Mixed performance on world stock markets in 2007

International stock markets experienced substantial fluctuations in 2007, and their performance was uneven. With an increase of a good 22 %, the DAX performed significantly better than other key indices. The EURO Stoxx 50 and the Dow Jones, the US stock market barometer, also improved year on year at around 6 %, while the Japanese Nikkei suffered a loss of approximately 10 %.

At the start of 2007, the outlook for all indices was still promising. Despite a temporary correction at the end of February, share prices were significantly boosted until the middle of the year by a robust and dynamic global economy, as well as good economic forecasts. A number of indices such as the DAX and the Dow Jones reached new all-time highs. The first significant price declines were then triggered by the developing US mortgage crisis. Apart from the DAX, indices moved lower again in the final quarter following a brief interim high in the autumn. The triggers for this were increasing fears of inflation and uncertainty surrounding economic developments resulting from the crisis on the capital markets.

Further substantial gains for KSB shares

In this market environment, KSB shareholders benefited from rising prices for the third year in a row. The rapid price gains since 2005 continued unabated until October 2007 and led to new all-time highs for our shares. The stock market experienced a sharp price correction for the first time in years in the last quarter. Nevertheless, at the end of 2007 both ordinary shares (up a good 21 %) and preference shares (gaining around 14 %) were higher year on year. KSB ordinary shares closed the year at € 451.50 and KSB preference shares at € 433.00.

In addition, our market capitalisation improved further on the back of the share price development and amounted to € 774.7 million at the end of 2007, up € 117.6 million or approximately 18 % year on year.

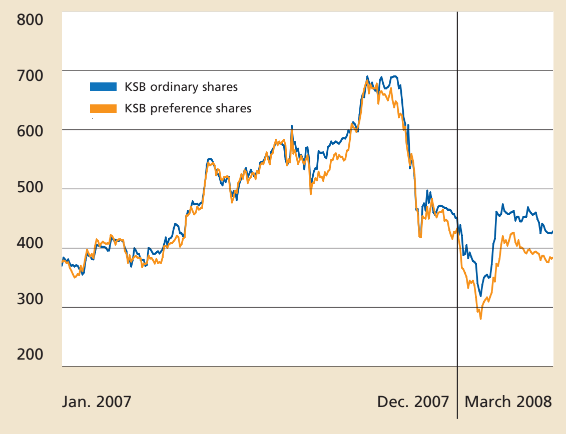
Significant dividend increase proposed

KSB AG's improved earnings situation in 2007 is to be reflected in a substantially higher dividend payment. We will therefore be proposing a significant increase in the distribution to the Annual General Meeting on 12 June 2008. Ordinary shareholders should then receive a dividend of € 9.00 per share (previous year: € 2.00) and preference shareholders € 9.26 per share (previous year: € 2.52).

Dividend development	2007 (Proposal)	2006
Ordinary share		
Dividend	€ 9.00	€ 2.00
Dividend yield	2.0 %	0.5 %
Preference share		
Dividend	€ 9.26	€ 2.52
Dividend yield	2.1 %	0.7 %

	Ordinary shares	Preference shares
ISIN	DE0006292006	DE0006292030
Reuters symbol	KSBG	KSBG_p
Bloomberg symbol	KSB	KSB3
Share capital	€ 22.7 million	€ 22.1 million
Shares in free float	approx. 25 %	100 %
Year-end closing price 28 Dec. 2007	€ 451.50	€ 433.00
Market capitalisation 28 Dec. 2007	€ 774.7 million	

Development of KSB shares in €



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Annual Report 2007

KSB Group