KSB Group

Annual Report 2011

KSB Group

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The cover of our Annual Report 2011 shows rotor laminations of the energy-saving, high-efficiency SuPremE® motor.

GROUP FINANCIAL HIGHLIGHTS

EARNINGS

		2011	2010	2009	2008	2007
Sales revenue	€ m	2,091.0	1,939.3	1,892.8	1,991.7	1,770.9
Earnings before interest and taxes (EBIT)	€ m	133.4	148.9	185.7	208.2	137.1
Earnings before taxes (EBT)	€ m	120.5	135.8	172.8	200.1	128.7
Earnings after taxes	€ m	83.3	90.0	122.4	139.5	89.9
Cash flow	€ m	137.0	148.5	172.4	183.9	138.5

BALANCE SHEET

		2011	2010	2009	2008	2007
Balance sheet total	€ m	1,974.1	1,861.3	1,645.4	1,421.4	1,258.0
Fixed assets	€ m	560.5	515.3	469.3	417.6	340.8
Capital expenditure	€ m	93.5	72.8	86.6	103.6	62.7
Depreciation and amortisation expense	€ m	51.0	48.1	43.4	35.0	34.6
Current assets	€ m	1,389.2	1,329.2	1,158.6	990.1	904.9
Equity (incl. non-controlling interest)	€ m	869.1	825.6	720.6	605.8	505.9
Equity ratio (incl. non-controlling interest)	%	44.0	44.4	43.8	42.6	40.2

PROFITABILITY

		2011	2010	2009	2008	2007
Return on sales	%	5.8	7.0	9.1	10.0	7.3
Return on equity	%	14.2	17.6	26.1	36.0	27.6
Return on capital employed	%	7.4	8.9	12.4	16.1	12.1

EMPLOYEES

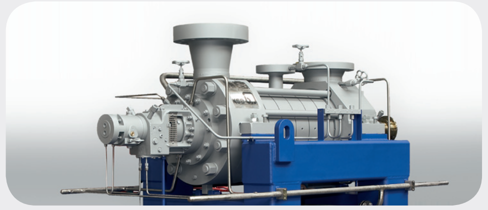
		2011	2010	2009	2008	2007
Number of employees at 31 Dec.		15,674	14,697	14,249	14,345	13,927
Staff costs	€ m	698.0	649.8	618.3	614.6	581.6

SHARES

		2011	2010	2009	2008	2007
Market capitalisation at 31 Dec.	€ m	741.0	1,051.2	707.6	574.3	774.7
Earnings per ordinary share (EPS)	€	40.95	44.09	61.32	70.17	43.73
Earnings per preference share (EPS)	€	41.21	44.35	61.58	70.43	43.99
Dividend per ordinary share	€	12.00	12.00	12.00	12.50	9.00
Dividend per preference share	€	12.26	12.26	12.26	12.76	9.26

PRODUCTS AND SERVICES

SINGLE-STAGE PUMPS
Standardised pumps, process pumps, circulator pumps, service water pumps, slurry pumps



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

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

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

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

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

Promoting efficiency. Energy consumption is rising across the globe. As one of the world's leading suppliers of pumps, valves and related systems, we do not just play a role in the development of power supply facilities. We also offer a comprehensive energy efficiency concept, which incorporates analysis and advisory services as well as energy-saving technology, helping to reduce electricity consumption in fluid transport systems significantly. We also believe that efficiency comes down to using our internal resources in a way that makes good financial sense, harnessing synergies and adopting a spot-on strategy for tapping into attractive market potential in a sustainable manner. Our aim is: KSB finds the best and most economical solutions for its customers – and implements them!

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Proper insulation of valves used in building services contributes to saving costly heating energy.

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System Efficiency Services can help identify ways of reducing operating costs and preventing pump damage, for example in waste water treatment plants.

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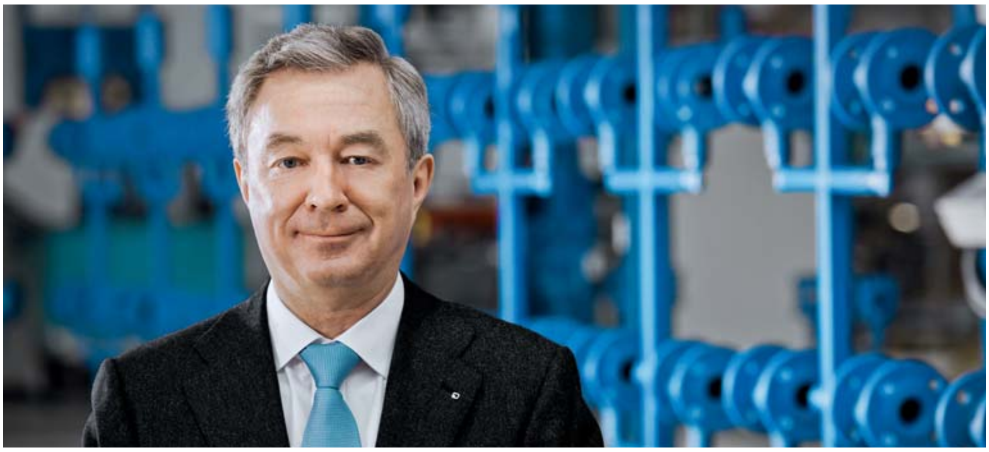

Dr. Wolfgang Schmitt,
Chairman of the Board
of Management

Dear shareholders and business partners,

In 2011 a series of unexpected events resulted in the economy taking a different course to that predicted by many. While at the start of the year most experts expected the economic revival to continue, it quickly became apparent that there could be no "stabilisation of growth" in the face of the disaster in Japan, political upheavals in North Africa and a worsening debt crisis in Europe.

BENEFITING FROM CURRENT MARKET OPPORTUNITIES

Nevertheless, our basic assumptions for the year were confirmed. As a result, we succeeded in continuing to grow our business based on the expected strong demand for our standard pumps and valves. In 2011, we manufactured more standardised and close-coupled pumps for industrial applications than ever before in our Frankenthal plant, and once again increased our production of standard valves for industry and building services. This shows that we have been able to take advantage of the market recovery in the general business as planned.

The demand situation in project business was quite different. Investors remained hesitant to realise large-scale plants, particularly in the energy industry, where many plans were halted in view of new considerations concerning the right energy mix, for example in China. Several water and waste water projects in Arab countries too were put on hold, while in Southern Europe companies simply lacked the money to undertake any major projects.

In consequence, we were only able to increase our order intake in 2011 by a moderate 2.8 %. Due to our strong order book, however, we were able to increase consolidated sales revenue by 7.8 % to € 2,091 million and thus achieve earnings before taxes of € 120.5 million.

TAKING ADVANTAGE OF GLOBAL GROWTH POTENTIAL

We are currently seeking to increase both our sales revenue and profit margins. This involves continuing to implement our strategy projects and analysing our cost structure for possible improvements, particularly within KSB AG. We believe we can increase our earnings in 2012, even if the project business market is unlikely to revive before 2013. In the current year we particularly aim to boost sales by taking advantage of opportunities in the general business with standard pumps and valves in as well as in service.

LONG-TERM THINKING, STRATEGIC ACTION

In the general business in particular, there is a need for strategic action in a number of growth markets outside Europe. In these countries many customers have been impressed by our success in resolving extremely challenging technical tasks – in the fields of power generation, water transport and waste water treatment, and in realising large-scale building services projects. Our product range for standard applications is also based on this expertise, but is not as well-known in some countries. For this reason we plan to promote it in those countries and simultaneously intensify our client relationships via new local sales offices and use of our e-business portal.

As part of our strategy, we also intend to strengthen our medium- and long-term valve business, the potential market for which is even larger than that for pumps. With this in mind, in 2011 we opened our valve factory in Changzhou, China, and acquired the South Korean valve specialist Seil Seres based in Busan. In the current year we will be opening a new plant in Brazil, which initially will exclusively produce valves.

As Europe's number one company for pump and valve servicing, we can see that there is great potential for growing outside our home market in the area of services, including a rapid spare parts service. This so-called after-market is another way of strengthening our global business.

Corporate strength is essentially based on employee performance, innovativeness, and the willingness to expand. Also important is having the tenacity – including the financial tenacity – to bring new ideas to fruition and strength. KSB has this "staying power", not least thanks to its ownership structure, with a principal shareholder for whom the future of the company is a high priority. Everyone ultimately benefits from this: our investors, who receive adequate dividends from us and also enjoy high security as regards their invested capital; customers, who remain loyal to us thanks to our reliable, high-quality products; and employees, who enjoy long-term employment and career prospects at KSB.

Of course the saying that you can't please everyone also applies to companies, but we can try!

Yours,

W. Schmitt

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

BOARD OF MANAGEMENT

JAN STOOP

was a member of the Board of Management from 1 October 2007 to 31 March 2012. He was responsible for Sales and Marketing, Internal Audits and the Business Unit Valves.

DR. WOLFGANG SCHMITT

joined the Board of Management on 7 April 2006, and has been Chairman of the Board since 15 December 2006. He is primarily responsible for Finance and Accounting, Controlling, Legal & Compliance, Communications, Strategy and the Business Unit Service. From 1 April 2012, he will also be in charge of the Business Unit Valves.

DR.-ING. PETER BUTHMANN

has been on the Board of Management since 1 January 2007. His main responsibilities include Operations, Human Resources, Central Purchasing, Programme Coordination and the Business Unit Submersible Pumps. He is also Human Resources Director and will take charge of Sales and Marketing on 1 April 2012.

PROF. DR.-ING. DIETER-HEINZ HELLMANN

joined the Board of Management on 1 January 2007 and is responsible for Technology, which includes Research, Development and Business Processes (Technology). In addition, he is in charge of the Business Units Single-stage Pumps, Multistage Pumps, and Automation and Drives. From 1 April 2012, he will also be responsible for Internal Audits.

Valve production in Frankenthal, Germany

REPORT OF THE SUPERVISORY BOARD

Throughout the last financial year, the Supervisory Board performed its tasks with great care in accordance with the law, the Articles of Association and the rules of procedure. We regularly advised the Board of Management on corporate management issues and monitored its work. The Supervisory Board was consulted directly and at an early stage with regard to decisions of fundamental importance. The Board of Management informed us about the position of the company, including but not limited to its business, financial and staffing situation, planned investments, as well as corporate planning and strategic and organisational development issues via written and oral reports prepared regularly and on an ad hoc basis in a comprehensive and timely manner. We continued to meet on a regular basis to discuss selected issues, both with and in the absence of the Board of Management.

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

MAIN FOCUS OF WORK IN THE SUPERVISORY BOARD PLENARY SESSIONS AND IN THE COMMITTEES

Key topics of discussion with the Board of Management were the monitoring of measures for implementing our strategy and the further development of the organisational structure that was introduced in 2010. The analysis of the history and impact of the European debt crisis was another focus, as was the possible response to developments in some countries, such as the upheavals in the Arab world and the German decision to rapidly phase out the use of nuclear energy.

Four regular Supervisory Board meetings were held in 2011. The performance of KSB Aktiengesellschaft, the Group and the individual units was the subject of regular discussions in plenary sessions, primarily with regard to the performance of order intake, sales revenue, earnings, assets and employment levels as well as the current economic situation, the strategy and investment and acquisition decisions. We focused several times on the latter topic during the past financial year, in particular in connection with projects for implementing our corporate strategy. Once again we discussed the strengthening of our German and international service activities. Given the large number of acquisitions in recent years, an ongoing priority is the structured integration and management of these companies. The Board of Management explained to us in detail the ways in which KSB intends to achieve its overall growth targets over the next few years, including the underlying methodological and strategic considerations. All investments required to pursue these objectives were subjected to critical analysis and subsequently overseen by us. For instance, the status of modernisation and expansion work at our sites in Brazil, Russia, China and India was a topic that was discussed several times. The purpose of this work is to exploit the current potential and secure further business opportunities in these important

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

future markets. In China in particular we need to comprehensively expand our production facilities in order to meet the high requirements to be met by nuclear products in terms of reliability and safety. We discussed the opportunities and risks associated with such upfront outlays extensively with the Board of Management, taking into account the long-term business development.

Another subject of discussion in light of our experiences to date with regard to the global financial and economic crisis was the potential effects of the worsening European debt problem on our business. We subjected the deliberations of the Board of Management on this subject to critical scrutiny, focusing in particular on the development of reliable instruments for detecting market movements at an early stage, which in turn would enable a rapid response.

Repeatedly on the agenda were the implementation status and the continued development of the corporate organisation introduced in 2010. We devoted particular attention in this respect to the structuring of our sales activities. We expect the innovations implemented in selected countries this year to provide us with sufficient insight regarding optimisation potential, on the basis of which we will need to decide on the possibility of a broader introduction of the revised structures. Another focus of our discussions was the progress of the ongoing development of our corporate culture based on established values, on which the Board of Management reported regularly.

In September the Supervisory Board convened for a meeting at the Châteauroux site in France, where it was able to assess how business was developing there and visit the high-performance production facilities. In addition, we received additional in-depth information on the situation of selected products and markets as well as individual regions. In December, we discussed and endorsed the purchase of a small manufacturer of compact pumps, a transaction that has now been successfully completed. We also looked at business performance during the year and planning for 2012.

During the past financial year, the Supervisory Board worked through six committees and two sub-committees to ensure that its tasks were performed efficiently. These prepared the Supervisory Board's resolutions and the special topics to be discussed in the plenary sessions. In addition, they also made their own decisions – to the extent that this is legally permissible – within the scope of their areas of responsibility. This allocation has proved worthwhile in practice. At the plenary meetings, the Chairs of the committees regularly and comprehensively reported on the content and results of the work in the committees; the relevant committees were informed of the topics discussed in the sub-committees. The Chairman of the Supervisory Board also serves as the Chair of the Personnel Committee, the Planning and Finance Committee and the Mediation Committee.

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

The **Planning and Finance Committee** met four times in the year under review. It focuses on corporate and investment planning and the financial situation of the company. In light of our strategic objectives, the discussion of longer-term liquidity needs and management was one focus of examination. The committee also took an in-depth look at the current and anticipated cost situation. In addition, the committee members discussed in detail the quality of planning and the underlying planning assumptions.

The **Corporate Development Committee** met eight times during the year under review. It focused in particular on strategy controlling, production management and innovation, and the development of the nuclear business in Asia. Considerable attention was paid to ways of ensuring and optimising the provision of castings to our manufacturing facilities, with the possibility of expanding our own foundry facilities in Germany also being discussed. The proposals of the committee also resulted in the acquisition of the expertise of a small but innovative German manufacturer of mechanical seals. The heads of the relevant specialist departments often took part in the committee meetings, along with the responsible members of the Board of Management.

The Controlling Sub-Committee met twice. It advises the Board of Management on concrete tasks related to this corporate area, including the relevant interdisciplinary interfaces. In 2011 the focus was on determining the basic conceptual design of this important corporate function.

The Sales Management Sub-committee is looking at ways in which to systematically develop corresponding structures. In 2011, it oversaw the implementation of the above-mentioned business-type-focused new sales organisation in several pilot countries, and met twice for this purpose.

The **Personnel Committee** held eleven meetings in the year under review. It primarily addresses issues relating to the Board of Management's remuneration, including the terms of the service contracts for the individual Board of Management members as well as other Board of Management issues. Decisions on the Board of Management's remuneration are made in plenary session with the committee acting in a preparatory capacity. Personnel development issues were also discussed with the aim of recruiting candidates for the Board of Management and other management positions from within the company's own ranks. Particular emphasis was placed on the development and implementation of an internal selection process for identifying and promoting potential Board of Management candidates within the upper levels of management. In 2011, the committee members again participated in events with potential candidates for all management levels in an effort to foster a direct exchange of ideas. In addition, the committee discussed in detail the early retirement by mutual consent of Mr. Stoop from the Board of Management with effect from the end of March 2012 and the resulting succession planning issues.

The four meetings of the **Audit Committee** were always attended by the Member of the Board of Management responsible for Finance and, on several occasions, by the auditors. The committee primarily examined the annual and consolidated financial statements, the audit reports submitted by the auditors and the internal auditors as well as the further development of the risk management system and compliance organisation. The half-year financial report was also discussed with the Board of Management. Furthermore, the committee defined key audit areas for the independent auditing of the Supervisory Board in accordance with section 171 of the *AktG* [*Aktiengesetz* – German Public Companies Act] and for the external auditing of the financial statements. It submitted a proposal to the plenary session for the appointment of auditors to be voted on by the Annual General Meeting, and subsequently commissioned the auditors with the task of auditing the annual and consolidated financial statements. The declaration of independence by the auditors was obtained in accordance with section 7.2.1 of the German Corporate Governance Code and the auditors' continued independence was monitored.

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

CORPORATE GOVERNANCE AND STATEMENT OF COMPLIANCE

The Supervisory Board continuously monitored the ongoing development of corporate governance standards. 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 127 to 133 of this annual report. On 7 December 2011 they issued a joint updated statement of compliance in accordance with Section 161 *AktG* and made it permanently available to shareholders on the company's web site. With two exceptions, KSB Aktiengesellschaft complies with the recommendations contained in the 26 May 2010 version of the Code which was published by the Federal Ministry of Justice on 2 July 2010.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting documentation, in addition to the proposal by the Board of Management on the appropriation of net retained earnings and the audit reports submitted by the auditors, was provided in good time to all members of the Supervisory Board. The documents were dealt with in detail by the Audit Committee on 20 March 2012 as well as by the Supervisory Board plenary session on 27 March 2012 and explained in depth in both cases by the Board of Management. The auditors attended the meetings of both bodies, reported on the findings of the audit and were available to provide additional information.

The Supervisory Board examined the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2011, which were prepared in accordance with the provisions of the *Handelsgesetzbuch* [*HGB* – German Commercial Code], as well as the consolidated financial statements and the Group management report for the year ended 31 December 2011, which were prepared in accordance with the International Financial Reporting Standards (IFRS), and the proposal by the Board of Management on the appropriation of net retained earnings.

The Frankfurt am Main offices of BDO AG Wirtschaftsprüfungsgesellschaft based in Hamburg audited the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2011, as well as the consolidated financial statements and the Group management report for the year ended 31 December 2011, and issued an unqualified opinion. The Audit Committee defined key audit areas for the year under review: review of the activities of selected companies as part of impairment tests for financial investments and goodwill, examination of the investigative process and the validity of individual disclosures in the Notes, and review of the accounting treatment of corporate acquisitions and related purchase price allocations (including information in the Notes and the treatment of contingent consideration payments). The auditors reported their findings on these key audit areas both orally and in writing.

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

DEPENDENT COMPANY REPORT

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

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

1. the actual amounts and disclosures in the report are correct;
2. the consideration paid by the company for the transactions listed in the report was not inappropriately high."

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

CHANGES ON THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

The composition of the Board of Management and Supervisory Board remained unchanged during the year. Dr. Jacob and Mr. Lederer were re-elected to the Supervisory Board at the Annual General Meeting of KSB Aktiengesellschaft on 18 May 2011; Dr Jacob was re-elected as Chairman of the Supervisory Board on the same day. The change on the Board of Management has been described above. In this context, the Supervisory Board wishes to thank Mr. Stoop for many years of cooperation in an atmosphere of mutual trust.

The Supervisory Board would like to acknowledge and thank the Board of Management, the employees and employee representatives of all Group companies for their good work in the year under review.

Frankenthal, 27 March 2012

For the Supervisory Board

Dr. Hans-Joachim Jacob
(Chairman of the Supervisory Board)

2011 – AN OVERVIEW

01

EXPANSION OF THE GROUP
KSB integrates Standard Alloys Incorporated Port Arthur/Texas, USA, and REEL s.r.l., Vicenza, Italy, (both of which it acquired the previous year) into the Group, along with another seven companies.

SOUTH KOREA
KSB acquires the South Korean company Seil Seres Co. Ltd. in order to expand its portfolio of valves for marine applications. This strengthens KSB's position as supplier of package and system solutions.

AWARD
KSB receives the "Environmental Contribution of the Year" award by the British Pump Manufacturers' Association at the "Pump Industry Awards" in Coventry in recognition of its PumpMeter monitoring unit and PumpDrive variable speed system.

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EUROPUMP
Dr. Sönke Brodersen, head of Research at KSB, is elected President of the European Association of Pump Manufacturers in Amsterdam. Europump represents 18 national associations from the EU, Russia, Turkey and Switzerland.

NEW COMPANY IN SLOVENIA
The first KSB company to be based in Slovenia starts operations on 24 May. The company, which trades under the style KSB črpalke in armature d.o.o. and is based in Ljubljana, has got its sights set primarily on the areas of water transport, water treatment and energy conversion, but also on process engineering and building services.

NEW COMPANY ESTABLISHED IN PERU
KSB establishes the subsidiary KSB Perú S.A. in Lima. Some of the key sales markets for pumps and valves in this South American country are the mining industry, the water sector and the waste water sector.

50 YEARS OF KSB AUSTRIA
KSB Österreich Gesellschaft mbH based in Vienna celebrates a special anniversary. It has around 100 members of staff, who are reaching beyond the Austrian market by also developing the southeast European market.

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REGIONAL CENTRE IN DUBAI
KSB opens a new regional centre in the free trade zone of Jebel Ali (Dubai). From here, KSB Middle East FZE manages all sales and marketing activities in the United Arab Emirates and neighbouring Oman, Bahrain, Kuwait, Qatar and Yemen.

140 YEARS OF KSB
18 September 1871 was the date on which KSB was founded. Staff members celebrate the history of their company under the motto "140 years on the move – Technology that sets standards", a success story that began when the organisation was founded by Johannes Klein, Friedrich Schanzlin and August Becker.

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NEW VALVE PLANT
KSB opens a new valve factory in the Chinese industrial city of Changzhou, which is situated 165 km from Shanghai. Around 100 members of staff are busy manufacturing low-pressure valves for the local and global markets.

STAINLESS STEEL GIANTS
The first of a total of seven tubular casing pumps destined for one of the world's largest seawater cooling systems in Qatar leaves the Frankenthal factory. Each of the 18-metre tall, 70-tonne pump sets is driven by a 4000 kW, 6000 V high-voltage motor.

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KSB SHARES

- High volatility in stock markets at home and abroad
- KSB shares drop in price
- Planned dividend payment to equal that of the prior year

After recovering from the financial crisis to a significant extent in 2009 and 2010, stock markets experienced a more turbulent year in 2011.

The natural and nuclear disaster in Fukushima in March unsettled the financial markets with its uncertain consequences for the Japanese market and the future direction of global energy supplies, while the debate on the US budget deficit similarly darkened the mood of the markets in the summer.

The capital markets also came under pressure due to the intensifying debt crisis in the euro zone, especially in the peripheral European countries. The risks of an impact on the real economy and a worsening economic outlook reinforced the level of caution among investors.

In this market environment, the German DAX fell by 15 % in the year under review. The EURO STOXX 50 and the Nikkei 225 Index suffered similar losses, falling by 17 % and 18 % respectively. Only the Dow Jones managed to end the year higher, increasing by 6 %.

DAX LOWER IN THE SECOND HALF OF THE YEAR

The DAX was firm and relatively stable in the first half of the year. The stock market recovered relatively quickly from the price falls induced by the nuclear disaster in Fukushima, and until July was able to maintain a level just under the year’s high recorded in May. From August onwards, however, the DAX came under pressure, reaching its lowest point in September at almost 30 % below its value at the start of the year. In the final months of 2011 the German blue-chip index traded slightly more firmly and recovered some of its losses.

DIVIDEND DEVELOPMENT

	2011 (proposed)	2010
Ordinary share		
Dividend	€ 12.00	€ 12.00
Dividend yield	2.6 %	1.9 %
Preference share		
Dividend	€ 12.26	€ 12.26
Dividend yield	3.1 %	2.1 %

	Ordinary share	Preference share
ISIN	DE0006292006	DE0006292030
Reuters symbol	KSBG	KSBG_p
Bloomberg symbol	KSB	KSB3
Share capital	€ 22.7 million	€ 22.1 million
Shares in free float	Approx. 20 %	100 %
Year-end closing price 30 Dec. 2011	€ 453.00	€ 392.50
Market capitalisation 30 Dec. 2011		€ 741.0 million

KSB SHARES ALSO DROP IN PRICE

After a steady period at the start of the year, the KSB share price also plummeted in March as part of the stock market reaction to the Japanese nuclear accident. Within just a few days, both the ordinary share price and the preference share price had fallen by more than 10 %.

Both share types had recovered from these losses by early April, and were once again trading at close to their previous year-highs.

The shares could not escape from the subsequent downward trend in stock markets, however, and by the end of the year, the share prices had fallen, with the ordinary shares slightly firmer than the preference shares. On 30 December 2011, the ordinary share price stood at € 453.00, while preference shares were trading at € 392.50.

The market capitalisation of both share types at year end totalled € 741 million.

DIVIDEND UNCHANGED FROM THE PREVIOUS YEAR

By paying out a stable dividend, we want the shareholders of KSB Aktiengesellschaft to share in the growth of the company. For this reason, we will propose to the Annual General Meeting on 16 May 2012 the payment of an unchanged dividend of € 12.00 per ordinary share and € 12.26 per preference share.

EARNINGS PER SHARE BELOW PRIOR-YEAR LEVEL

Earnings per share are lower as a result of weaker consolidated earnings. Earnings per ordinary share were € 40.95 compared with € 44.09 last year, while earnings for preference shares were € 41.21 compared with € 44.35 in 2010.

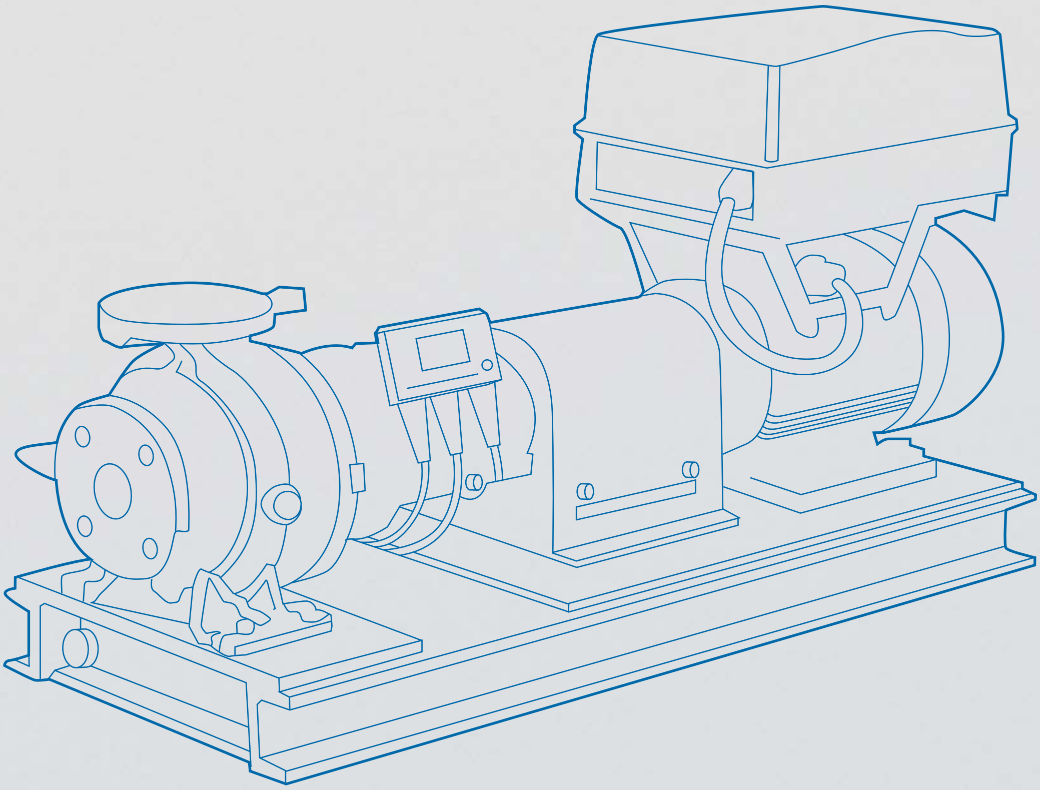
KSB SHARE PRICE DEVELOPMENT IN €

PUMPS

70 %

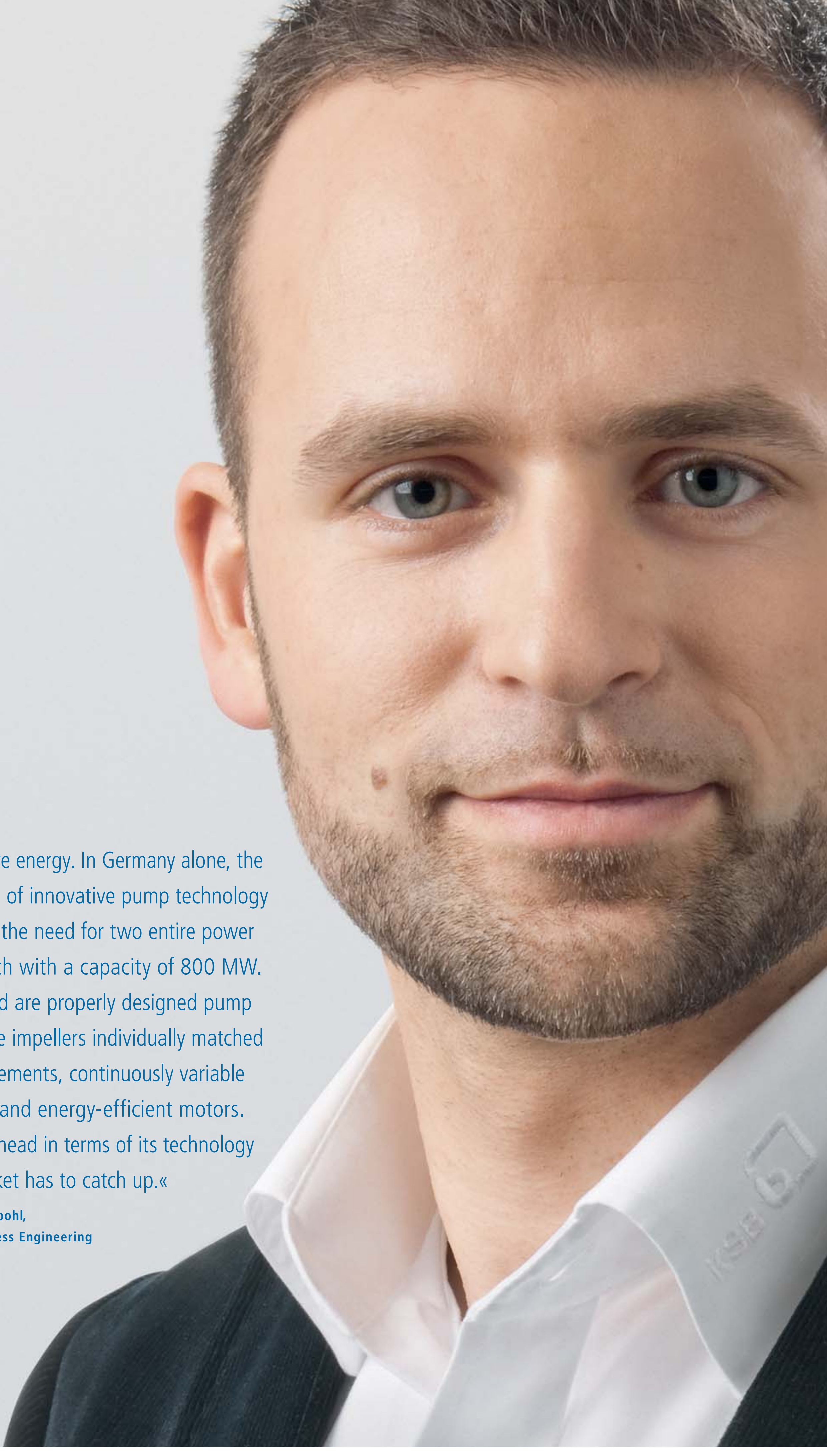
lower power consumption

Energy savings of up to 70 percent can be achieved if pumps are equipped with optimised hydraulic systems, demand-based control systems and high-efficiency motors, for example in process engineering plants.



Chemical pump | **MegaCPK**	Flow rate | **up to 1 400 m³ / h**	Head | **up to 233 m**

The new MegaCPK standardised chemical pump, the highlight of KSB's attendance at ACHEMA 2012, embodies all the features of modern pump technology. It features a highly efficient hydraulic system with an impeller that is perfectly matched to the operating point. The PumpDrive variable speed system automatically adjusts the SuPremE® motor's speed in line with varying fluid requirements of a plant. The PumpMeter analysing and display unit enables users to see at a glance whether the pump is operating efficiently and economically.



»Pumps can save energy. In Germany alone, the widespread use of innovative pump technology could eliminate the need for two entire power plant units, each with a capacity of 800 MW. What is required are properly designed pump sets that feature impellers individually matched to actual requirements, continuously variable speed systems and energy-efficient motors. KSB is streets ahead in terms of its technology – now the market has to catch up.«

Daniel Müller-Pettenpohl,
Sales Plant and Process Engineering

In 2011, the KSB Group’s sales revenue increased by 7.8 percent to € 2,091 million, exceeding the two billion euro mark for the first time.

GROUP MANAGEMENT REPORT

GROUP STRUCTURE AND FOCUS OF BUSINESS

- Ten KSB companies consolidated for the first time
- 61 operating companies worldwide
- Sales in more than 100 countries

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

In the year under review, 61 operating companies in 35 countries were dedicated to achieving this mission. Eight Group companies exercised a holding company function.

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

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

ORGANISATION, MANAGEMENT AND CONTROL

KSB AG's Board of Management manages and controls the KSB Group. The strategy and instructions formulated by the Board of Management are implemented within an organisation that is structured into three areas of responsibility: pumps, valves and service. At the centre of this organisation are the Business Units with their areas of focus, which act as interfaces between Sales and Operations.

All organisational units base their activities on the Group strategy. It aims to ensure sustainable, profitable growth that will secure both KSB's future and financial independence in the medium and long term, in order to achieve and defend a leading competitive position in attractive markets.

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].

MARKETS AND LOCATIONS

Within the KSB Group, centrifugal pumps account for approximately 70 % of sales revenue. These pumps, as well as 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 best developed sales market for these products is Europe, where KSB operates its main manufacturing facilities in Germany and France. KSB AG's main plant in Frankenthal is its largest in Europe, ahead of those in Pegnitz (Bavaria) and Halle (Saxony-Anhalt) in Germany, and La Roche-Chalais in France.

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

KSB manufactures products and components in a total of 20 countries; they are sold through the Group's own companies or agencies in more than 100 countries. With their products, the Group companies serve customers in the manufacturing sector (industry), the chemical and petrochemical industries, the energy industry and building services, transport equipment manufacturers and operators (e.g. ships, rail vehicles), water supply and waste water utilities and mining companies. The top-selling markets for our products in 2011 were the manufacturing and energy supply sectors.

In terms of sales revenue, the KSB Group is one of the world's leading suppliers of centrifugal pumps, and ranks among the world's top-ten valve manufacturers. We succeed in maintaining this market position through our good, long-term relationships with our customers and suppliers. Our highly trained and motivated employees as well as the high quality of our products have also helped cement our reputation.

MANAGEMENT PARAMETERS WITHIN THE KSB GROUP

The current target variables for managing the Group are the development of order intake and sales revenue as well as profitability, which we primarily measure on the basis of pre-tax return on sales.

When setting our targets, we are guided on the one hand by developments in the market, and on the other by the performance of our key competitors.

DISCLOSURES PURSUANT TO SECTION 315(4) OF THE HGB AND EXPLANATORY REPORT

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

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

Each ordinary share entitles the holder to one vote at KSB AG's Annual General Meeting. Klein Pumpen GmbH, Frankenthal, holds approximately 80 % of the ordinary shares; the *KSB Stiftung* [KSB Foundation], Stuttgart, holds the majority of the shares of Klein Pumpen GmbH. The preference shares carry separate cumulative preferred dividend rights and progressive additional dividend rights. Detailed information on the share capital and shareholders holding an interest of more than 10 % is provided in the Notes. Holders of preference shares are entitled to voting rights only in the cases prescribed by law. The issue of additional ordinary shares does not require the consent of the preference shareholders. Similarly, the issue of additional preference shares does not require the consent of the preference shareholders provided that the subscription rights do not exclude newly issued senior or pari passu preference shares.

The company is authorised by a resolution passed at the Annual General Meeting on 19 May 2010 to purchase company shares totalling up to € 4,477,196 of the registered share capital by 18 May 2015. The Board of Management shall be entitled to: (1) Sell company shares purchased on the basis of this authorisation either on the stock exchange or by another means that safeguards the rule of equal treatment of all shareholders; (2) Sell the shares with the consent of the Supervisory Board, excluding shareholders' subscription rights, if the shares are sold for cash and at a price that is not materially lower than the market price for company shares of the same type and with the same features at the time of the sale. This authorisation is limited to the sale of shares which overall represent no more than 10 % of the existing share capital at the date on which such authorisation becomes effective or, if the amount is lower, the date this authorisation is used. The 10 % limit shall include the proportional amount for shares issued within the scope of a capital increase during the term of the authorisation excluding subscription rights or for the maximum number of shares that can be issued for the purpose of servicing warrants and convertible bonds; (3) Sell the shares with the consent of the Supervisory Board, excluding shareholders' subscription rights, to third parties for the purpose of acquiring companies, parts thereof and / or financial interests in companies as well as within the scope of corporate mergers or (4) Redeem the shares. KSB AG has not yet made use of this authorisation to purchase treasury shares.

There are no resolutions by the Annual General Meeting authorising the company's Board of Management to increase the share capital (authorised capital).

KSB AG is managed by a Board of Management that, in accordance with its Articles of Association, must consist of at least two persons and in the year under review comprised four persons. The Supervisory Board decides on the appointment and termination of the mandate of members of the Board of Management in accordance with the statutory provisions.

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

ECONOMIC ENVIRONMENT

- Economic slowdown
- Reorientation of the energy industries
- Strategic acquisitions in the pump industry

During the course of 2011, global growth slowed down considerably. Attempts by the United States and some European countries to limit their budget deficits, as well as the introduction by several emerging countries of regulatory measures to protect their national markets against possible overheating and high inflation all went against the strong recovery experienced in 2010. The lack of recovery in the US economy, the political turmoil in North Africa and the natural and nuclear disaster in Japan also dampened investor willingness in various sectors and regions.

In Europe, economic development manifested itself in two ways as expected: The countries of Northern and Central Europe generally enjoyed stable growth, while demand in Southern Europe and in some Eastern European countries was impacted more strongly by the effects of the debt crisis. The performance of the export-oriented countries in the EU was relatively good, especially that of Germany, which took advantage of the export opportunities to emerging markets. In Eastern Europe, Poland, thanks to stable domestic demand, and Russia, thanks to high commodity prices, both recorded above-average economic growth.

The Region Middle East/Africa benefited from strong demand for energy sources and commodities. The high prices generated high revenues, which were used to finance a number of investment projects. The political and social unrest in several countries, however, impeded economic development. In North Africa especially there was little investment in infrastructure, industry or tourism.

Asia remained by far the fastest growing region in the world. Some countries, however, introduced measures to prevent their economies from overheating, which dampened growth. This applied in particular to China, whose government sought to counteract inflationary tendencies and credit risks. Nevertheless, demand in the Chinese market and in some other Asian countries remained high. In India, the second largest emerging economy in Asia, investment in infrastructure fell due to financing problems and the difficult political situation.

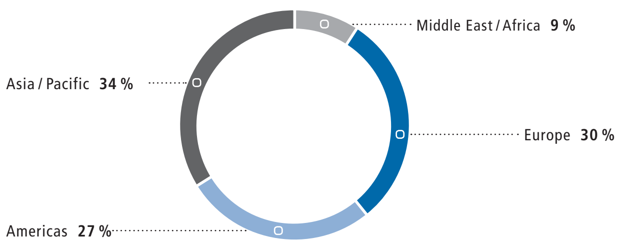
In the Region Americas, there was no sign of a sustained economic recovery in the USA in 2011. Domestic demand in the United States remained weak, weighed down by persistently high unemployment. Economic development in South America, in contrast, was encouraging, with countries benefiting from the high commodity prices. During the year, however, economic growth slowed in Brazil as a result of monetary policy measures implemented to combat rising inflation.

SUSTAINED GROWTH IN MECHANICAL ENGINEERING

Although the pace of global economic growth declined, business development in the mechanical engineering industry continued unabated, expanding by 13 % in real terms globally. However, growth rates varied considerably according to sector.

China's importance as a supplier of mechanical engineering products has increased even further: Around a quarter of all machines produced worldwide now originate in China. Germany's mechanical engineering sector increased its output by 14 % in real terms in the year under review, making it one of the key drivers of German economic growth. Its most important export market continued to be China.

WORLD MARKET OF CENTRIFUGAL PUMPS AND VALVES



Source: DIW Berlin

People need to maintain or modernise their systems. So the types of service that KSB provides at an international level were again very much in demand in 2011.

PUMP AND VALVE MARKET WITH ORDER EMPHASIS ON OUR GENERAL BUSINESS

Demand for pumps and valves developed positively overall in 2011. This applied mainly to our general business with standard products required particularly by industry and the construction sector. In project business, however, the order situation recovered in only a few areas, including the mining industry, which benefited from high commodity prices, and the oil and gas industry, for whose products there was an increased demand.

As the future of energy supplies remains uncertain in some countries, the number of new power plant projects was significantly lower than before the financial and economic crisis. In particular, the construction of planned nuclear power stations came to a halt after the disaster in Fukushima, with future operators urgently examining location- and technology-related safety issues. Construction of conventional power plants was also delayed, resulting in a reduction in the overall number of high-pressure pumps and valves required. The second half of the year also witnessed growing scepticism concerning future economic development, which led to a number of major industrial and infrastructure projects not being awarded.

Opportunities remained good for service providers in the pump and valve market to participate in maintenance and modernisation projects. Of the operators who put new investments on hold, some had higher servicing needs as they attempted to extend the service lives of existing industrial, water and waste water systems. At the same time, Germany’s energy transition policies reduced the demand for inspection, maintenance and repair services from operators of nuclear power plants. The demand for services in the area of renewable energies in contrast increased.

MANUFACTURERS ACQUIRE AND EXPAND IN THE GLOBAL MARKET

Competition among suppliers of pumps and valves to participate in newly awarded major projects was intense in the year under review and the fall in the number of such projects meant that all producers found it harder to obtain fair prices for their products.

In 2011 several pump manufacturers made major acquisitions. The aim of these acquisitions was either to increase the size of existing portfolios of products and services, to expand into new regions, or to develop additional sales channels. Some were also aimed at establishing additional business lines.

To take advantage of the opportunities offered by the emerging markets, pump manufacturers increased their presence in the BRIC countries. In Brazil in particular, several competing companies began to build up production capacity in order to strengthen their market position through local value creation. An increased level of competition was also observable in India.

The valve industry is much more fragmented than the pump manufacturing industry, although acquisitions and mergers are leading to continuous changes on the supply side. This remained the case in 2011.

The concentration process has also continued in the service market and particularly affected the industrial all-rounders, several of which were involved in takeovers. Some service specialists looked for new business areas, for example, the maintenance and repair of renewable-energy power generation plants.

BUSINESS DEVELOPMENT AND EVENTS

- Improved order situation for valves and services
- Sales revenue rises to more than two billion euro
- New sales, manufacturing and service locations

In 2011, our business was influenced by many different factors. In the first half of the year in particular there was robust demand and a strong order intake for our general business products. Quantities sold of industrial standard pumps reached a new record. At the same time, however, there was a palpable reluctance among many customers in project business to make large new investments. Inhibiting factors included political conditions, not least the modified or in some cases still unclear energy policy of some countries following the Fukushima disaster.

These market-related restrictions meant that the increase in our order intake overall was only moderate. Sales revenue on the other hand grew more strongly, based on a continuously high level of orders on hand.

MORE ORDERS FOR VALVES AND SERVICES

The Group's order intake increased by 2.8 % to € 2,132.3 million in the year under review, with the ten newly consolidated companies accounting for € 66.3 million of this order volume.

Orders received for our main product, pumps, totalled € 1,445.7 million. This represented a slight decline compared with the previous year (– 0.4 %). Reasons included the difficult market environment for power plant products. Order volumes for submersible pumps grew strongly, partly due to several major orders for water and waste water systems.

Order intake for valves rose by 5.1 % during the year to reach € 360.0 million. As with pumps, demand was strongest for the standard products. Our Asian business made good progress, aided in particular by marine valve sales.

Our service activities increased by 15.9 % to € 326.6 million, and remain primarily focused in Europe. Progress was hampered here, however, by Germany's decision to turn its back on nuclear energy, as the service needs of the operators of existing nuclear power plants decreased drastically as a result. In contrast, growth outside Europe was very dynamic, with double-digit growth rates.

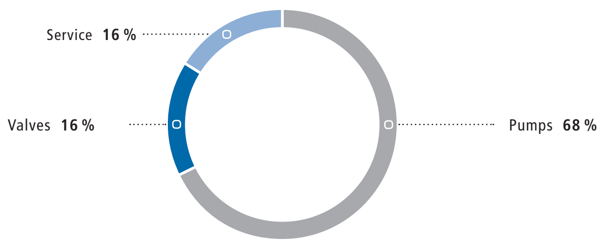
REGIONAL VARIATIONS IN THE ORDER SITUATION

The European Group companies posted a consolidated order intake of € 1,310.2 million, up 2.7 %. KSB AG's order book in the same period increased by a significantly higher percentage, growing by 4.5 % to € 818.9 million, primarily attributable to strong demand for standard pumps and a large Chinese power plant order. The order intake of several companies in Central, Eastern and Northern Europe also grew well, while the production and sales companies in Spain and Italy recorded significant declines in orders received.

In the Region Middle East / Africa the order intake of our four consolidated operating companies fell by 5.8 %, totalling € 105.6 million. Our Turkish company, however, posted excellent growth, mainly due to strong sales of pumps for the water supply, industrial and construction sectors.

In the Region Asia / Pacific, the order boom seen in previous years did not continue in 2011. While several smaller Asian companies and KSB Australia Pty. Ltd. recorded exceptionally strong growth rates, the order volumes of the two large manufacturing companies in China and India were lower in 2011 than in 2010. Reasons for the decline included the overall business development and the devaluation of the Indian rupee against the euro. Total order intake measured in euro (the Group currency) fell by 3.4 % year on year to € 359.0 million.

SALES REVENUE BY SEGMENT



In November 2011, a celebratory opening marked the start of activities at the new valve plant in Changzhou (China).

The strongest growth in order intake was recorded by Group companies in the Region Americas, up 13.4 % and totalling € 357.5 million. The increase achieved by GIW Industries, Inc., was outstanding. With its range of slurry pumps, our US subsidiary benefited from higher demand from the mining sector, including from the oil sands industry in Canada. The KSB Group companies in Argentina and Chile too reported significant double-digit percentage increases.

SALES REVENUE VOLUME GROWS BY 7.8 %

KSB's consolidated sales revenue as expected grew more strongly than order intake due to the processing of ongoing orders from previous years. Increasing by 7.8 %, it totalled € 2,091.0 million for the Group. Thus, in 2011 sales revenue for the first time exceeded the two billion euro mark. The newly consolidated companies accounted for € 64.7 million of this figure. Group sales revenue grew for pumps, valves and service.

Pump sales revenue totalled € 1,408.8 million, up 5.6 % on the previous year. Just as for order intake, sales revenue growth was highest for submersible pumps.

Despite declining in Europe, total valve sales revenue grew by 1.3 % to € 335.6 million. The strong growth in the Asian market offset the volume loss in Europe.

Our service sales revenue rose by 16.8 % to reach € 323.1 million.

GROWTH IN ALL REGIONS

Consolidated sales revenue increased – unlike in the previous year – in all four Regions. The European Group companies improved their sales revenue by 1.0 % to € 1,290.7 million, with the strongest nominal growth being recorded by KSB AG in Germany. It succeeded in increasing its sales revenue by 4.2 % to € 811.3 million (under *HGB* – German Commercial Code). Several Southern European companies suffered declining sales due to the difficult economic situation in those countries.

The companies in the Region Middle East / Africa managed to increase their sales revenue by 2.7 % to € 98.5 million. An outstanding achievement was the high double-digit percentage sales revenue growth of KSB Middle East FZE, Dubai, which resulted from the completion of part of its good level of orders on hand.

The Region Asia / Pacific recorded the highest percentage and absolute growth as a result of the invoicing of several major orders in China and India. The Group companies in Asia and Australia increased their aggregate sales revenue by 26.0 % to € 342.9 million.

In the Region Americas, Group company sales revenue rose by 12.0 % to € 335.4 million, primarily thanks to KSB Bombas Hidráulicas S.A. in Brazil and the US subsidiary GIW Industries, Inc.

GROUP STRATEGY BEING IMPLEMENTED FLEXIBLY

In addition to serving clients in our day-to-day business, we focused our attention on the implementation of our Group strategy in all four Regions. We have implemented a number of strategic measures since the start of 2010; additional projects, which we plan to complete by 2018, are still in the process of being prepared or implemented. These involve measures for accessing and penetrating key markets, developing new products and services, and improving the structures and processes in sales and production. In realising our strategy we will continue to remain flexible, and regularly check whether our approach is in keeping with market and technological developments. Doing so will also allow us to alter the priority status of individual projects in line with current trends and other factors of importance.

Our strategic measures include highly targeted promotion of our general business with standard pumps and valves. This includes setting up and expanding dealer networks, as well as continuously improving our offerings for the electronic selection and ordering of standard products. By the end of 2011 we were able to offer customers almost 200 type series via electronic selection systems in 19 languages. Some 30 % of all orders for pumps and valves worldwide were placed using such programs.

In early 2011 we split our general business sales from project business sales in three countries. This split took place in markets where the majority of our sales consisted of engineered products. The aim of the restructuring was to put the focus on the less developed business segment. After a two-year trial period, we will evaluate the success of this measure and take further organisational steps if necessary.

NEW SITES FOR PRODUCTION, SALES AND SERVICE

With the acquisition of the South Korean company Seil Seres Co. Ltd. in March 2011, we have strengthened our position in the market for marine valves. The product range of the company, which now trades as KSB Seil Co., Ltd., complements the cryogenic valves of our French subsidiary KSB S.A.S. for applications in shipbuilding / marine engineering. The remote monitoring and control systems from South Korea allow us to offer shipyards in East Asia all-in valve packages for equipping new tankers. The construction of tankers for transporting liquefied natural gas to consuming countries in particular is set to increase in 2012.

To expand our valve business, we opened a new production plant in Changzhou, China, at the start of November. Around 100 employees are now engaged in manufacturing ANSI-standard valves, primarily for industrial use. We have also built a warehouse and logistics centre at the new site, which is situated between Shanghai and Nanjing, and we aim to expand this in the future.

In 2011 we also established new sales companies in Peru, as well as in Croatia, Serbia and Slovenia. Our aim is to take advantage of the growing opportunities in these markets, which offer interesting development opportunities.

In mid-2011 we inaugurated a new regional centre in Dubai that includes storage, assembly and service facilities. KSB Middle East FZE now manages all sales and marketing activities in the United Arab Emirates and neighbouring Oman, Bahrain, Kuwait, Yemen and Qatar.

SPOTLIGHT ON ENERGY EFFICIENCY

The discussion on the future of energy supplies is linked to the question of how consumption of electricity by industry, households and public institutions can be further reduced. In this context, the energy-saving potential of fluid transport plants has also come under the spotlight.

At trade fairs at home and abroad, we presented a comprehensive energy efficiency concept under the brand name “Fluid Future®”. Our offering, including the selection of optimum pumps to match system conditions, automation options, solutions for demand-based operation and use of high-efficiency motors, was in line with customers’ desire to reduce their operating costs in a sustainable manner. At the same time, we showed ways of saving valuable resources and reducing CO_2 emissions.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

- Consolidated earnings (EBT) of € 120 million
- Dividend at prior-year levels
- Stable high equity ratio

The trend in order intake and sales revenue basically confirmed the forecasts we made in last year's report. We were not quite able to achieve our earnings targets due to an above-average rise in material costs and continuing price pressure.

RESULTS OF OPERATIONS

The structure of our income statement changed on a value basis in the financial year under review. In this context, the effects of the above-mentioned first-time consolidations described in more detail in the Notes need to be taken into account.

Earnings before taxes

The KSB Group generated earnings before taxes of € 120.5 million, compared with € 135.8 million in 2010, achieving a return on sales of 5.8 % (previous year: 7.0 %).

Increase in output of operations

Total sales revenue increased by 7.8 % thanks to improved business development. Work in progress and inventories of finished goods totalled € 58.9 million, € 46.7 million higher than in the previous year. Thus, total output of operations grew faster than sales revenue, totalling € 2,151.4 million, or 10.1 % above the 2010 figure (€ 1,953.8 million).

Change in cost structure

The cost of materials increased by 15.4 % due to factors such as rising purchase prices in the supply markets. The increase was therefore greater than the change in total output of operations (+ 10.1 %). The figure of € 913.0 million is equivalent to 42.4 % of the total output of operations (previous year: 40.5 %).

Staff costs rose by 7.4 % to € 698.0 million in absolute terms. In relation to total output of operations, this meant a decrease of 0.9 percentage points to 32.4 %. Reasons for the absolute increase included collectively agreed salary increases and the higher number of employees, especially following the first-time consolidations. However, the workforce of KSB AG also increased in size as part of strategy projects, as did the workforces of our companies in Brazil, Chile and China. The KSB Group employed on average 887 more people during the year under review. Compared with the previous financial year, average output per employee improved from € 134 thousand to € 139 thousand.

Measured against total output of operations, other operating expenses changed only slightly (17.8 % compared with 17.4 %). In absolute terms, they increased by € 44.4 million to € 383.9 million. Higher administration costs in the context of our strategy projects were one of the factors that led to this development.

Financial income / expense changed by € + 7.4 million overall, mainly due to higher interest income and lower depreciation / amortisation of financial assets.

Earnings after taxes

The income tax rate fell by 2.9 percentage points, down from 33.8 % in 2010 to 30.9 %. Earnings after taxes of € 83.3 million (previous year: € 90.0 million) therefore decreased less markedly (– 7.4 %) than earnings before taxes (– 11.3 %).

Earnings attributable to non-controlling interest fell from € 12.5 million to € 11.3 million, but remained virtually unchanged relative to earnings after income taxes (13.6 % compared with 13.9 % in the previous year).

At € 72.0 million, earnings attributable to shareholders of KSG AG were thus 7.1 % lower than in the previous year (€ 77.4 million).

Earnings per share

Earnings per ordinary share were € 40.95, compared with € 44.09 in the previous year, and € 41.21 per preference share, compared with € 44.35 in 2010.

Profit situation at parent company KSB AG

KSB AG generated pre-tax earnings (under *HGB*) of € 36.5 million, around 8 % less than the prior-year figure (€ 39.8 million). Taking into account the taxes to be paid, the net profit for the year amounted to € 29.4 million after

€ 27.9 million in 2010. Sales revenue was up by 4.2 %, and total output of operations by 6.3 %. Higher costs, especially material costs, and the high pressure on prices impacted on earnings in the annual financial statements of the parent company, as in the consolidated financial statements.

Stable dividend

With earnings after taxes at prior-year levels, we will be proposing to the Annual General Meeting on 16 May 2012 the distribution of a dividend of € 12.00 per ordinary share and € 12.26 per preference share (including a preference dividend right of € 0.26), as in the previous year.

Segment results

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

In the Business Unit Pumps, orders were down 0.4 % year on year. Sales revenue rose by 5.6 %. We generated EBIT of € 81.9 million (compared with € 121.6 million in 2010) due to the significant price pressure on project orders.

The Business Unit Valves reported 5.1 % more orders and a 1.3 % increase in sales revenue. EBIT, at € 2.5 million, was well below the figure for the previous financial year of € 10.1 million. Price pressure in the project business has increased in this segment too.

The Business Unit Service posted strong growth, with order intake up 15.9 % and sales revenue up 16.8 %. EBIT grew from € 30.5 million to € 42.8 million. It should be noted that special charges had a negative impact on prior-year earnings.

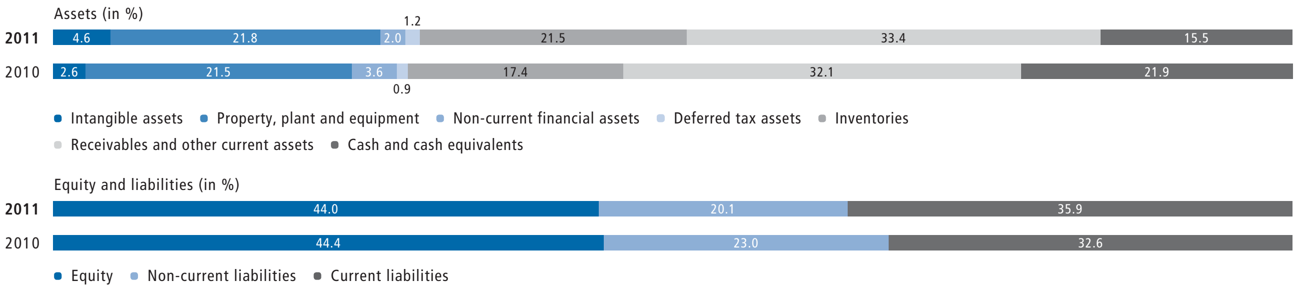
FINANCIAL POSITION

Principles and objectives of financial management

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

COST STRUCTURE IN INCOME STATEMENT

BALANCE SHEET STRUCTURE



We continuously improve our receivables management methods with the goal of settling our outstanding amounts by their due dates.

Hedging financial risks

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

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

We limit the risk of default by taking out credit insurance, arranging advance and partial payments, and agreeing bank guarantees. To ensure long-term liquidity, we agree on 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. In order to be able to provide the necessary collateral in the project business, corresponding guarantee volumes are also made available. Adequate proportions are confirmed for a period of more than one year. Our credit and guarantee lines are around € 959 million (previous year: around € 888 million).

Unless explicitly stated otherwise, the following comments on the financial situation relate to the published prior-year figures.

Equity

The KSB Group's equity amounts to € 869.1 million (€ 825.6 million). This includes KSB AG's subscribed capital of € 44.8 million as in the previous year. The capital reserve remains unchanged at € 66.7 million. Revenue reserves total € 642.0 million (previous year: € 602.5 million), including the proportion of earnings after taxes attributable to shareholders of KSB AG of € 72.0 million (previous year: € 77.4 million). € 115.6 million (previous year: € 111.6 million) are attributable to non-controlling interest. Due to the significant € 112.8 million (6.1 %) rise in total equity and liabilities, the equity ratio declined slightly (44.0 %; previous year: 44.4 %).

Non-controlling interest mainly relates to KSB Pumps Limited, India (€ 37.0 million), PAB GmbH, Germany (€ 18.1 million), GIW Industries, Inc., USA (€ 12.2 million), KSB Shanghai Pump Co. Ltd., China (€ 11.8 million), KSB America Corporation, USA (€ 11.6 million) and SISTO Armaturen S.A., Luxembourg (€ 5.6 million).

Liabilities

The largest item under liabilities are provisions for employee benefits, including, also as the largest item, pension provisions. These were increased by 5.0 % to € 257.7 million as at the reporting date. A large number of the pension plans currently in use in the KSB Group are defined benefit models. We will be reducing the associated risks, such as demographic changes, inflation and salary increases, for example by introducing defined contribution plans for new employees.

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

The remaining provisions for employee benefits, which, in contrast to pension provisions, are predominantly current, fell slightly from € 134.9 million to € 133.6 million.

Other provisions include non-current components of € 16.9 million (previous year: € 15.6 million) for warranty obligations. The excess relates to provisions for mainly current uncertain liabilities.

Non-current liabilities fell significantly from € 109.6 million to € 61.7 million. The reason for this was in particular the early redemption of part of a loan against borrower's note that we had taken out in 2009 in order to secure the liquidity of the Group in the event of a prolonged financial crisis.

Current liabilities increased significantly. The growing business volume resulted in an increase in trade payables (€ + 24.9 million) and advance payments received (€ + 29.3 million). Financial liabilities were € 46.1 million higher than in the previous year. This is attributable to the current tranche (€ 12.5 million) of the remaining loan against borrower's note and the financing of the acquisition of the South Korean valve company. As the increase is greater than the increase in total equity and liabilities, the share of current liabilities in total equity increased to 25.8 % (previous year: 21.8 %).

Contingencies and commitments

The KSB Group's off-balance sheet contingent liabilities totalled € 10.9 million as at the reporting date (previous year: € 13.3 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 continue business operations, such as obligations from long-term rental, lease and services agreements (in particular information technology and telecommunications) and from purchase commitments.

Liquidity

The KSB Group's net financial position, i.e. the difference between interest-bearing financial assets on the one hand and financial liabilities on the other, declined from € 293.0 million to € 187.0 million. Contributing factors were increased spending on financial assets and the funds provided to finance working capital following the increase in business volume.

Sources and application of funds

Cash flows from operating activities amounted to € 36.3 million, a year-on-year decrease of € 125.8 million. Cash flows were impacted by the reduction in earnings and a larger amount of funds tied up in inventories. Resources were freed up primarily through an increase both in liabilities and advances received from customers.

The volume of our investment activity increased compared with the previous year, primarily due to the acquisition in South Korea, leading to total cash flows of € – 102.7 million (previous year: € – 91.6 million).

Cash flows from financing activities changed from € – 88.3 million to € – 35.9 million due to the repayment of bank loans. In 2010 the repayment of bank loans had a significantly greater effect than in 2011.

The KSB Group's cash and cash equivalents from all cash flows together fell from € 407.6 million to € 305.7 million (including € 16.6 million of cash used to secure credit balances for partial retirement obligations, which is available for immediate use at any time, after € 18.9 million the previous year), although this includes changes in exchange rates.

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

NET ASSETS

Unless explicitly stated otherwise, the following comments on net assets relate to the published prior-year figures.

Our total assets rose by 6.1 % to € 1,974.1 million. This is mainly due to an increase in non-current assets, higher inventories as well as an increase in receivables and other assets. In contrast, cash and cash equivalents decreased. The above-mentioned first-time consolidations also have to be taken into account (these resulted in an effect of € 53.5 million).

Around 28 % is attributable to fixed assets, as in the previous year. However, the first-time consolidations caused shifts between the goodwill reported under intangible assets and the financial assets.

Intangible assets and property, plant and equipment with a historical cost of € 1,076.7 million (previous year: € 968.5 million) have carrying amounts of € 520.5 million (previous year: € 449.4 million). The acquisition of our new South Korean valve company and the first-time consolidations of older KSB companies in the year under review resulted in goodwill increasing by € 38.3 million.

Investments in property, plant and equipment in 2011 amounted to € 62.3 million, slightly below the prior-year figure of € 67.8 million, but still in excess of depreciation (€ 45.7 million after € 44.7 million in 2010). The highest additions at € 19.5 million (previous year: € 21.0 million) again relate to other equipment, operating and office equipment. The focus of our investment activities remained the Region Europe, predominantly Germany and France. Outside Europe, the highest additions were made at our plants in Brazil, China, India and the USA. We maintained our policies for measuring depreciation and amortisation in the year under review.

The investments in financial assets amounting to € 11.9 million related primarily to small start-ups in Croatia, Serbia, Slovenia, Peru and Saudi Arabia. In addition, we carried out a cash capital increase with our local partner in a company in China where we hold a minority share. Taking into account the opposing effects of the first-time consolidation, the carrying amount of financial assets fell by € 25.8 million to € 40.1 million.

Due to the increased business volume, also reflected in the higher total output of operations, and the first-time consolidations, inventories increased by 31.0 % to € 425.1 million. They tied up around 22 % of our resources. This is a significant increase year on year (17 %), due to the fact there was relatively little change in total assets.

As a result of the increased sales revenue, in particular in the last quarter, trade receivables were € 34.4 million above the figure at the end of the previous year. Along with an increase in orders on hand of around € 40 million (€ 1.2 billion at the end of 2011), the value of customer orders in progress, measured according to the percentage-of-completion method but not including PoC advance payments, increased by € 13.5 million. As a result, receivables and other current assets made up around 33 % of total assets (previous year: around 32 %), taking into account the change in the total assets.

Cash and cash equivalents account for around 16 % of assets (previous year: approx 22 %). This was attributable to the early redemption of a part of the loan against borrower’s note, expenditure for acquisitions and the provision of funds to finance working capital following the increase in business volume.

Inflation and exchange rate effects

There are no consolidated 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 euro gave rise to a difference of €–15.2 million (previous year: €+39.1 million). This was taken directly to equity.

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

At the end of 2011, the economic situation of the KSB Group was stable at a high level. We consider this a good basis for achieving continued business success in the coming years.

PRINCIPLES OF REMUNERATION SYSTEM FOR THE MEMBERS OF 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 component consists of a fixed sum plus benefits as well as pension commitments (retirement, occupational disability and widow's and orphan's pension). The fixed basic salary is paid monthly; the benefits include the private use of a company car, coverage of insurance premiums and any payments for a post-contractual restraint on competition. The variable remuneration component is linked to the return on sales for the financial year in question. The Board members also receive variable remuneration components which serve as a long-term incentive. These depend on a consideration of the growth in earnings over a period of three years based on the economic added value method.

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

A bonus of no more than three months' salary per financial year may also be paid at the discretion of the Supervisory Board in recognition of special performance by individual members of the Board of Management. Such decisions will be made on an irregular, i.e. not necessarily annual, basis.

DEPENDENT COMPANY REPORT

Transactions made and measures taken in 2011 were mainly attributable to goods and services supplied to affiliated companies. KSB AG billed a total of €289.7 million (previous year: €247.1 million) for these goods and services, and purchased goods and services from affiliated companies for a total value of €99.8 million (previous year: €92.3 million).

The Board of Management has submitted the dependent company report to the Supervisory Board. This concludes with the following declaration: "In accordance with section 312(3) of the *AktG* [*Aktiengesetz* – German Public Companies Act], we declare that our company – on the basis of the circumstances known to us at the time when the transactions were made or the measures were either taken or not taken – received adequate compensation and was not disadvantaged by the fact that the measures were either taken or not taken. No measures were taken or omitted at the instigation or in the interest of the controlling enterprise or a company affiliated with the controlling enterprise."

INTERNAL CONTROL SYSTEM (DISCLOSURES PURSUANT TO SECTION 315(2), NO. 5 OF THE HGB)

Our internal control system (ICS) serves to ensure that regular financial reports and consolidated financial statements are properly prepared. Key elements of the ICS are – in addition to the risk management system that is described in detail elsewhere in this management report – guidelines and regulations which include, among other things, standard accounting and valuation policies. They must be applied to the full extent by all Group companies. There is a clear separation of functions and the four-eye principle is applied. Reviews of our Internal Audits departments ensure that this happens. Our accounting practices also include regular analytical plausibility checks using time series analyses and actual/budget variance analyses. These reviews enable us to identify significant changes early on, which we then examine for accounting and valuation discrepancies. The results are discussed at management level.

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

Corporate Governance Declaration

We will make our updated Corporate Governance Declaration pursuant to Section 289a of the *HGB* accessible to the public from 30 March 2012 at www.ksb.com > Investor Relations > Corporate Governance Declaration. In addition to the Corporate Governance Report (including the Statement of Compliance in accordance with section 161 of the German Public Companies Act), the Corporate Governance Declaration includes relevant information on corporate governance practices applied at KSB AG that go beyond statutory requirements. Also described are the working methods of the Board of Management and Supervisory Board, and the composition and working methods of the committees of the Supervisory Board.

REPORT ON POST-BALANCE SHEET DATE EVENTS

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

RESEARCH AND DEVELOPMENT

- New generation of standardised chemical pumps for the global market
- Higher levels of efficiency for flue gas desulphurisation pumps
- Energy-efficient solar and wind power applications

Innovations are one of the key driving forces behind the growth of our company. We used 2011 as a further opportunity to apply our expertise in the fields of hydraulics, materials technology and automation so that we could develop new pumps, valves and control systems while also making improvements to our existing products. 462 members of staff from across the Group were involved in research and development activities (previous year: 422), and we spent € 42 million (previous year: € 41 million) on R&D. Our development staff also worked on customised designs, which are geared to the specific requirements of our customers.

STANDARDISED CHEMICAL PUMPS FOR THE GLOBAL MARKET

At ACHEMA 2012, the world's largest process industry trade fair, we will be presenting a new generation of standardised chemical pumps. By the end of 2011, the development phase for these pumps had largely been completed. The new MegaCPK is the natural progression from our internationally successful CPK®, CPKN and Megachem® type series. Thanks to the technical innovations we have introduced, this new pump generation achieves what we consider to be exemplary levels of energy efficiency and operating reliability. These enhancements were largely down to improvements in terms of the hydraulic and structural design. In part, these were achieved by applying finite element analysis, a modern calculation method for structural simulation.

PROTECTING IMPELLERS AGAINST CAVITATION

Every year, the physical effect of cavitation causes considerable damage to pumps all around the world. Although casing and impeller design measures can be used to reduce this cause of wear, they cannot eliminate it completely. That is why we are working hard to explore metallic coatings that will make our impellers cope even better with the destructive forces of vapour bubble implosion. In the year under review, we have extended our cavitation research facilities by adding an ultrasonic test stand. The new testing facility allows us to expose specimens made from various materials to extremely high levels of stress. In this way, we can quickly determine whether it would make sense to subject a material to further tests, thereby speeding up the process of selecting materials for new developments.

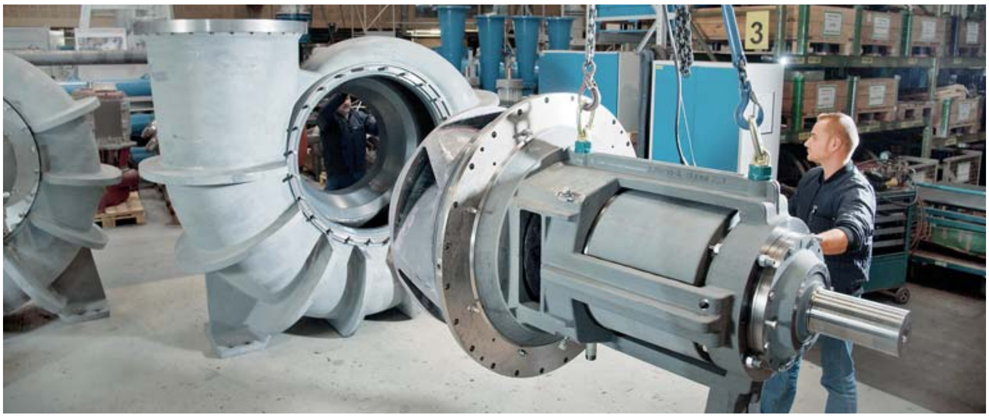
POLYMER INSTEAD OF METAL

Coal is still one of the most important primary energy sources across the world. However, today's power plant operators are increasingly having to rely on coal that contains higher levels of impurities. As a result, there is a higher proportion of problematic pollutants in the flue gases produced during burning, particularly sulphur dioxide. What this means for both new power stations and older facilities alike is that they need efficient flue gas desulphurisation systems that feature special pumps for pumping the lime milk suspensions.

To remain successful within the extremely competitive flue gas scrubber pump market, we have to stay one step ahead in terms of technology. It was for this reason that we developed our highly wear-resistant impellers for the KWP® type series during the year under review. Apart from one metallic turned part, these are made entirely from a ceramic / polymer composite. To ensure the necessary strength, this material requires that the shrouds and vanes be considerably more substantial. Our flow dynamics experts and designers took up the challenge and used computer-based simulations to create impellers that demonstrated an efficiency level of more than 91 % during hydraulic testing. The first 24 pumps featuring these new components are destined for a power plant in South Africa.

MATERIALS KNOWLEDGE FOR DEVELOPERS AND DESIGNERS

The composition of materials for pumps and valves is stipulated at both a regional and national level in the form of various codes and standards. As a manufacturer with a global presence, we are required to take account of whichever of these are applicable. To ensure that our designers and developers are kept constantly up to date, we have put together a database during the year under review. In addition to the applicable codes, regulations and standards, this contains all the details concerning the chemical, physical and mechanical properties of our pump and valve materials. This means that we can make the materials knowledge we have accumulated over decades available to KSB staff all around the world. They can use it to develop pumps or valves that are suitable for the specific application concerned or to provide their customers with the best advice about materials when the products are put to practical use.



The first pumps to feature extremely hard-wearing polymer impellers were produced for a flue gas desulphurisation system in South Africa.

NEW PNEUMATIC ACTUATOR FOR VALVES

In various sectors of industry, there is growing demand for an automatic control valve that is both robust and easy to maintain. We are able to accommodate these requirements with our renowned BOA-CVE type series, which we expanded in 2011 by introducing a pneumatic actuator variant plus associated accessories. Nowadays, operators of modern plants tend to use automation options even for valves that used to be actuated manually. Given that most industrial plants have access to an extensive supply of compressed air, it makes sense to use this for actuation. The new unit rounds off our range of control valves and is primarily intended for shutting off pipes that carry water and steam.

START-UP PROJECTS AND COOPERATION WITH UNIVERSITIES

To cater to conventional applications, we focus on the further development of existing type series or bring new products to market. Alongside these activities, we work on forward-looking solutions that allow us to open up new market sectors. To do so, we sometimes go beyond our core areas of pump and valve technology. The work is done by small start-up teams made up of various nationalities. We are constantly adding new blood to these teams by recruiting from universities. The project teams are tasked with taking innovative products and services from the initial idea right through to the point where they are ready to be launched on the market. We currently have 6 of our employees and 20 external members from universities working in these teams. The main focus of their work is on renewable energies as well as water treatment and process engineering.

Aside from these start-up projects, we are also committed to cooperating with leading universities, public research institutions and partner companies. Within this context, we are involved in joint projects focusing on hydraulics, materials technology and automation. The 100 or so of these cooperative projects that are running across the globe are helping us to expand our specialist knowledge and to turn our business ideas into successful products on the basis of new technologies.

CONTROL SYSTEMS FOR SOLAR AND WIND POWER PLANTS

In 2011, we dedicated some of our development activities in the field of automation technology to finding ways of making solar and wind energy applications more efficient. We are introducing special switching and control systems to supplement our range of technical pump and valve components for plants that convert regenerative energy into electricity.

This means that we can now offer our customers control electronics for solar power plants that are able to increase the electrical energy yield by at least 5 %. The automation equipment solves the problem of electricity generation being impeded by the fact that some parts of a solar panel are in the shade and the control system always has to set the pace according to these “weakest links in the chain”. By using appropriate electronics, it is now possible to control each solar panel group separately. As a result, each individual group is always able to function at the optimum operating point independently of all the others. In this way, the negative effects of being in the shade can be minimised and the energy yield of the entire plant can be increased.

A similar problem is encountered in wind power applications. The power electronics of many plants have to shut down if the grid voltage fluctuates so as to avoid damage. This is primarily the case at locations where there is no powerful and stable power grid to serve as the basic supply. Consequently, even if the wind conditions are adequate, entire wind farms may have to shut down in the event of grid stability problems. That is why we have started to develop some control software and switching circuitry that will allow wind power plant operators to feed their electricity even into weak grids. Using these products should lead to a significant reduction in the payback period for wind power plants in the near future. We have scheduled initial tests to take place in China in 2012.

EMPLOYEES

- First-time consolidations increase Group headcount
- KSB internal pump technology course
- Communication on corporate values expanded

To remain a global technology leader, we rely on the commitment and the performance of our employees. We create space for their ideas, team spirit and desire for continuous improvement. Our collaboration is based on the values of trust, honesty, responsibility, professionalism and appreciation.

STAFF NUMBERS INCREASED BY 6.6 %

The number of employees in the Group as at 31 December 2011 increased by 977 year on year to 15,674. This 6.6 % increase was primarily due to companies consolidated for the first time in 2011. These new Group companies employed 532 individuals at year-end. KSB AG in Germany too increased its headcount by 91, partly in order to be able to implement ongoing and planned strategic projects.

NEW HR PLANNING METHODOLOGY INTRODUCED

To be able to implement our Group strategy and achieve our corporate goals, we need to work out our future staffing needs as precisely as possible and ensure that these are met in good time. For this reason, we have developed a strategic human resources planning method and applied it for the first time in the year under review. We use it to determine current staff numbers for all KSB's areas of activities, and compare these numbers with anticipated requirements for the coming years. Significant planning factors include the area-specific growth targets, the age range and skills and qualifications of our workforce, and the staff numbers needed to lead our planned strategic projects for the years up to 2018 to success. Based on the collected data, we develop HR management measures early on, ranging from education and training to refilling and creating new positions.

ENHANCING OUR PROFILE AS AN INTERNATIONAL EMPLOYER

Competition for the best skilled staff and executives has intensified, especially in our home market of Europe. We have therefore also started to look for experienced professionals and specialists in other regions, to be deployed at our European sites. In order to be globally attractive to potential applicants, we are raising our profile as an international employer with global deployment capabilities.

As a result of demographic changes and our own high demand for skilled workers, we have in recent years continually increased the number of commercial and technical trainee positions that we offer. In Germany, we are currently preparing 406 young people for later employment in the company. Together with vocational colleges, we provide our trainees with technical, methodological and social skills and abilities. We continually invest in our training workshop machinery so that apprentices train on state-of-the-art machining equipment. In the year under review we spent a total of € 8.4 million on vocational training in Germany.

To cover our own future engineering needs, we take on graduates from universities or universities of applied sciences, as well as trainee engineers on combined vocational training and degree programmes. In Germany, 63 young people are currently completing a bachelor's degree in mechanical engineering or business administration while working for KSB.

If permitted by the local training system, we also offer this dual work / study system at sites outside Germany. In 2011 for the first time, Luxembourg-based SISTO Armaturen S.A., the Trier University of Applied Sciences, the Education Ministry of Luxembourg and the local Chamber of Commerce signed a cooperation agreement for a dual work / study programme. This five-year degree course combines production technology studies with a vocational training in mechatronics at SISTO Armaturen S.A.

GLOBAL E-LEARNING SUPPORTS TRAINING AND DEVELOPMENT

We aim to continuously develop the skills of our staff, and thereby prepare them for new and challenging tasks. At the same time we need to ensure that they keep their knowledge up to date and adapt to the changes in their daily work. The range of courses offered by our TrainingCenter and individual KSB companies provides broad coverage for our requirements and is supplemented with external seminars where necessary.

Our internal training programme includes foreign language and IT courses, business and technical training courses, as well as personal development and health management events.

The corporate culture at KSB is shaped by the organisation's clearly defined values. Staff also have an opportunity to discuss what these values mean within the context of day-to-day business with Board of Management members such as Dr. Peter Buthmann (right).

E-learning is playing an ever-increasing role in our training portfolio. It allows employees to receive training via their workplace computers or even at home. "Electronic learning" is particularly suitable for KSB because our global organisational structure prohibits us from offering all events in a classroom training format for mobility and cost reasons. Since October 2011, all e-learning courses have been available throughout the Group on the "KSB E-Academy" Internet platform.

In the year under review we included for the first time the internally developed course entitled "Pump Applications Professional". This is a one-year course for engineers and technicians on pump technology and its applications. In 2011, 22 employees enrolled for this KSB course.

We use various IT systems to serve our customers quickly and individually. These help us collect the necessary data and process and coordinate all customer-oriented processes. At the end of 2010 we launched our Customer Relationship Management (CRM) system. This tool supports Marketing, Sales and Service in creating and updating all the information needed for working and maintaining contact with our customers. In the year under review we trained around 1,800 employees in 13 countries in the CRM system.

CORPORATE CULTURE AND LEADERSHIP SKILLS STRENGTHENED

To further shape and develop our corporate culture, both employees and managers need to focus on what is required to act in accordance with the values. Various training courses and communication forums are available for this purpose. Around 100 managers and 900 employees participated in our international value dialogues, which focused on core KSB values and were conducted by external facilitators. At Halle, Pegnitz and Shanghai events were also held at which a member of the Board of Management spoke with employees about the importance of these values for KSB's success, and how employees experience them in their everyday work.

Strong leadership is important for our corporate culture. The "Value-based Leadership – Leading Professionally with the KSB Values" training course has therefore been integrated into our series of seminars entitled "Leadership and Management". At this seminar, which is mandatory for managers of all levels and regions, participants learn how to perform their management duties based on our values in line with our corporate culture.

OUR EMPLOYEES ARE HIGHLY MOTIVATED

In 2011, our employees introduced new processes and systems at many KSB sites. They initiated and implemented strategic projects and set up manufacturing and sales facilities, often taking on these tasks in addition to their daily work. At the same time, they succeeded in retaining the confidence of our customers in KSB through their work in their core activities, thereby ensuring the continued success of the company.

The Board recognises this achievement and is proud of the commitment shown. A special thanks also goes to the members of the employee representative committees, including the Executives' Committee, for their constructive cooperation based on mutual trust.

CORPORATE SOCIAL RESPONSIBILITY

- Environmental protection strengthened in Brazil, China and India
- Continued focus on energy consumption
- Continuing involvement in academic education

KSB feels a special responsibility towards its employees, the environment and society. We take this responsibility seriously, and make every effort to contribute to a functional social and economic environment. One particular focus for us is the improvement of the education of children and adolescents, but we also act wherever necessary in response to humanitarian emergencies in other regions of the world.

In 2010 KSB committed itself to the ten principles of the Global Compact. This UN pact with companies around the world aims to bring about a higher level of social and economic justice. By endorsing these principles, we also undertake to protect human rights, comply with mandatory labour standards, actively implement environmental protection measures and conduct our business with integrity at all our company sites. Our standards and behaviour go beyond the minimum requirements laid down in the Global Compact and, when it comes to the application of ethical standards, our sights are set even higher.

NON-EUROPEAN PLANTS SET ENVIRONMENTAL STANDARDS

As a manufacturing company, KSB considers environmental protection to be of particular importance. This applies to the consumption of raw materials and energy, as well as to production conditions and the environmental compatibility of our products.

Wherever we modernise or build new plants, we design our production facilities to prevent emissions, to use fresh water sparingly, and to protect employees and residents from noise and pollution. In 2011 this applied primarily to plants in India, China and Brazil. In the interests of economic sustainability, we also use renewable energies at several sites.

Our manufacturing facility in Nashik, India, serves as a model for other KSB plants. In 2011 we built a biogas plant that is used to generate some of the electricity required by the facility, and later on this year, the facility will also be supplied with electricity generated by the wind turbines and solar plants we began constructing last year. In addition, we have installed a local rainwater harvesting system, which now collects almost the entire roof runoff of the buildings. This system will allow us to harvest more than 16 million gallons of rainwater annually, with the water being used for sanitary facilities, etc.

In 2011 we also implemented a measure to reduce water consumption at our pump factory in Shanghai. We have redesigned the cooling system of the test facilities so that the water is now reused in a closed cycle, as in other locations.

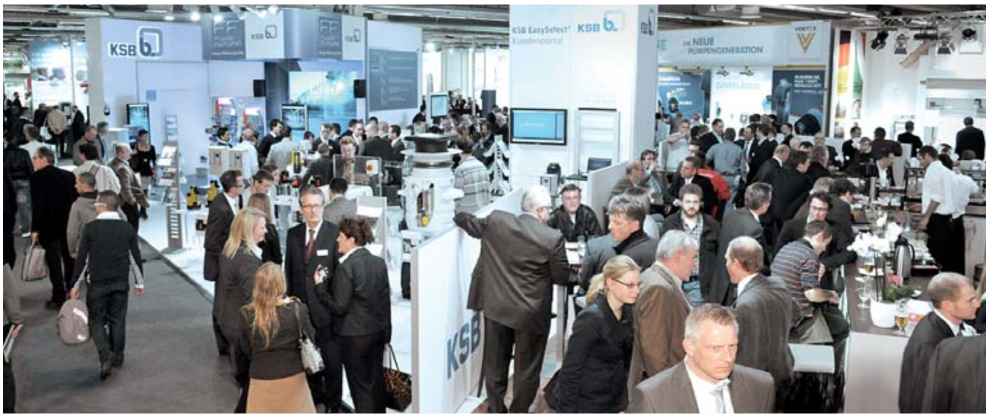
In 2011 we completed construction of our new valve factory in Changzhou, China, reducing production noise to a minimum by using a range of suitable materials and disposing of all pollutant-containing production waste, such as that generated during product painting, in an environmentally responsible manner.

We want our new manufacturing facility in Jundiaí in Brazil, which we began building in 2011, to be another model plant in terms of its ecological objectives. Here we are working with an external partner to implement high environmental and occupational health and safety standards. These will include keeping the emissions from our manufacturing facility as low as possible and creating a pleasant and healthy environment for employees. Once construction work is complete, we will seek environmental certification.

ENERGY MANAGEMENT FOR PERMANENT SAVINGS

In Europe too, we see a great deal of potential for operating in a more environmentally friendly and efficient manner, and are therefore also seeking improvements here. In the year under review, for example, we introduced an energy management system in Germany and France with the aim of permanently and systematically reducing energy consumption at our sites. Measures include improving the energy efficiency of buildings, replacing inefficient equipment, and critically reviewing IT systems to reduce their power consumption.

We have for the first time prepared a comprehensive internal report for our German sites, listing areas besides energy consumption where significant environmental progress has been achieved. Continuing this reporting will enable us to evaluate and interpret our environmental activities more



In 2011, we were awarded the "Green Globe" certificate in recognition of our trade fair stand. Among other things, this demonstrates our commitment to the responsible use of resources.

systematically in the future. The latest report is already helping us selectively improve our environmental management and identify weak points which need to be addressed. The document allows us for the first time to make reliable statements about all the carbon dioxide emissions generated by our manufacturing processes, which means that we can use this information to create carbon footprints for our products, something which is increasingly of interest to customers.

"GREEN" EXHIBITION STAND IN USE WORLDWIDE

We don't just demonstrate environmental awareness at our own sites. We also set standards at the national and international trade fairs we attend to promote our company. KSB is the first mechanical engineering company to be awarded the "Green Globe" certificate for its trade fair stand. It acknowledges that we reduced waste to a minimum, mainly used recyclable materials, and passed on any unconsumed foodstuffs to the needy. Our stand in 2011 therefore symbolised the responsible use of consumer goods.

COMMITMENT TO ENERGY-EFFICIENT SYSTEMS

The demand for products that consume as little energy as possible and that therefore have lower operating costs is growing both for economic and ecological reasons. We also visit operators of hydraulic pump systems to highlight ways in which their energy consumption could be reduced. Our experts look at the entire system, provide technical advice, and adjust individual components so that no energy is wasted. Since pumps are among the largest electricity consumers around, such measures not only help customers cut costs, but also contribute significantly to reducing overall energy consumption in society.

SOCIAL COMMITMENT AIMS AT BETTER EDUCATION

As a company we see it as our duty to play an active role in our regional environment, which includes activities such as involvement in initiatives and associations that pursue social concerns. The focus of our social commitment is the education of children and adolescents, who we see as our employees of the future.

As a founding member of the "*Wissensfabrik – Unternehmen für Deutschland e.V.*" (Knowledge Factory – Companies for Germany), we help schools and kindergartens awaken young people's interest in science and technology at an early stage. We provide learning materials for experiments and practical exercises, and help educators and teachers put these into use. We also support early-childhood language development with a story-telling project. We are delighted that not only current employees, but former employees too are involved in such activities.

In Brazil we have been supporting a programme for more than a decade that prepares young people for the job market. At four locations, we are supporting more than 40 young people who have had very little or no education due to their origin. Participants in this programme gain work experience in our company and also attend school. Our goal is to enable these young people to take up a job and earn their own livelihood.

In Asia, we help educate children with the KSB CARE aid fund, providing financial support to schools in China, India, Thailand and Vietnam. In Myanmar we provide scholarships to children from poor families to attend school.

Our charitable activities primarily involve initiatives and facilities for children, young people and socially disadvantaged groups. However, we also respond wherever necessary to disaster situations in which victims require immediate help. In such cases we provide funds or material goods, generally conveyed to those in need by our local subsidiaries.

We are especially proud of our employees who also support those in need in a personal capacity. This includes those working for the company in the affected countries and elsewhere. KSB employees, for example, donated money and gifts in kind to the victims of the natural and nuclear disaster in Fukushima, to the flood victims in Thailand, and to those threatened by starvation in East Africa.

HEALTH PROTECTION REQUIRES PREVENTION

The health of our employees is important to us. As well as occupational medical check-ups, we also use specific prevention programmes and sports to maintain the health and vitality of our workforce. We also provide counselling services to assist employees in difficult situations, for example with problems such as addictions. The health-promoting measures – which range from flu shots to subsidised memberships of sports clubs – vary by location, reflecting local needs and possibilities.

Prevention measures call for continuity. In Germany around 400 employees are currently participating in an ongoing programme set up in 2010 to prevent disorders of the musculoskeletal system among office workers. Each day participants receive short tutorials via the Internet containing physical exercises they can perform at their desks to prevent such disorders. In 2011 we expanded this programme to include eye-muscle training exercises.

Prevention is also the aim of a health programme for trainees that in 2011 we made even more practical. It aims at increasing awareness of health issues among young employees by teaching them ways of ensuring that the mental or physical strains to which they are exposed at work do not impair their health.

ACTING RESPONSIBLY, REQUIRING RESPONSIBILITY

In our relations with our suppliers and service providers or our customers, we tolerate no misconduct of any kind – for example, in the form of personal benefits or undue influence. Before they can comply with the rules, however, our employees need to know what these are. For this reason, we have developed an e-learning programme for use this year that will make employees aware of the relevant legal issues at the workplace and will also cover compliance issues such as preventing corruption and anti-trust / anti-cartel legislation.

We also believe our business partners carry a responsibility for meeting social, economic and environmental standards. As a signatory to the Global Compact, KSB is committed to ensuring that its business partners also comply with the ten principles formulated therein. Our buyers therefore make sure that they only commission suppliers and service providers who adhere to these basic standards. We have adapted our purchasing terms and conditions to reflect this and prepared a guide that explains our expectations of our partners in the supply chain.

By encouraging our partners to observe ethical and legal standards, we can promote socially acceptable and sustainable economic activities beyond our own corporate confines, with the aim of setting a positive example.

RISK MANAGEMENT

- Continued price pressure in project business
- Intensified competition in emerging countries
- Adaptation to changes in the energy market

As an organisation that operates throughout the world, the KSB Group is exposed to both global and regional risks. We need to be aware of these risks before we can responsibly pursue the opportunities present in our markets. In our Risk Management Manual we defined the task of management as being the continual identification and assessment of risks, and the reporting of these to Group headquarters. Managers are also encouraged to take timely measures to prevent or limit the damage that can result from the occurrence of risk events.

Our risk policy reflects our declared ambition to grow sustainably and profitably. We want to recognise the dangers that threaten the success of the company or its continued existence at an early stage. For this we use various risk management and control systems. Our strategic corporate planning, analysis of early warning indicators and our internal reporting system all provide us with vital information.

In line with the organisational and accountability structure at KSB, the managers of individual units – such as the Business Units, Corporate Functions and Group companies – are all involved with risk management. They are under the obligation, among other things, to supply the business and financial indicators for which they are responsible on a monthly basis. Each quarter they also provide an assessment of the anticipated business development for the following 18 months, and twice a year report all recognised risks to Group headquarters. The Board of Management and Supervisory Board receive a risk report based on this information at least twice a year.

The Internal Audits department is integrated into the risk management system as part of our control system. It regularly checks whether all operating units are complying with the guidelines and are actively contributing to the identification and assessment of impending risks. To allow them to study the highest risk units, auditors are granted access to Group headquarters data. As part of their audit, they ensure that the operating unit managers observe the defined rules and take part in risk management.

Information obtained by Internal Audits on both the recognised risks and the countermeasures introduced in response forms an integral part of the reporting to the Board of Management and the Audit Committee of the Supervisory Board.

Controlling and Finance and Accounting also perform important monitoring tasks when it comes to the management of opportunities and risks. Accounting is responsible for preparing the annual and consolidated financial statements, according to subprocesses clearly defined in advance.

We describe, assess and communicate risks which adversely affect our net assets, financial position or results of operations and our reputation in line with the following categories:

MARKET / COMPETITION

Now that the global financial and economic crisis has subsided, our markets have largely recovered. In our general business, production output has already returned to pre-crisis levels. In project business, however, we are dependent on sectors with long investment cycles, where there is currently still a reluctance to award contracts. Because of the overcapacity that continues to exist on the supply side and the resulting intense competition, the pressure on our products' selling prices is ongoing, a situation that could worsen due to the current uncertainty in the market and in particular the European financial crisis. It is also conceivable that future economic developments will again affect our general business. There is a risk that demand will fall and our sales revenue will grow more slowly than expected. We will counter possible negative impacts on our earnings with measures to improve our margins.

The demand for pumps and valves for power plants, as well as for related services, is determined by the global demand for energy and by environmental policy decisions. Especially in Germany, the power plant market will be altered by the energy transition policies ushered in by the federal government. We are set to lose business volume in terms of the products and services supplied to operators of nuclear power plants, and will need to compensate for this loss by increasing our sales of pumps and valves in other areas, such as that of renewable energies. Where this substitution is associated with higher costs, it may have a negative effect on earnings.

In addition, there are delays in China and India in the construction of new nuclear power plants. Because of the nuclear disaster in Fukushima, the authorities in China in particular have introduced additional safety checks.

In the markets of the Middle East and North Africa, the Arab Spring has led to delays in the awarding of contracts, in particular for major projects. While we believe that individual projects may be implemented this year, there is also the risk of continued or widening conflict. Should demand continue to stagnate, the development in the sub-Sahara region could to some extent help us achieve our regional growth targets.

Competition continues to grow in the BRIC countries, where, in some sectors, our competitors have more financial and technical resources. There are also local suppliers of pumps and valves, some of which have more favourable cost structures. We have implemented a number of strategic measures to open up these markets yet further and defend our existing market share. Awareness of our brand is helping us in these countries, in which we have been active for decades. The changing competitive situation may however still delay our planned growth and reduce our market share.

PROJECTS / PRODUCTS

The fact that our staff are trained in project management means that they are able to recognise the risks associated with our strategic projects at an early stage. This applies equally to risks arising from the acquisition of major orders from our customers. We want to identify these risks before submitting our quotation, and reduce them through targeted measures. Our project managers are supplied with the appropriate management tools and all projects undergo clearly structured approval processes.

New designs involve both technical and financial risks. We limit technical uncertainties by defining intermediate steps and subjecting partial solutions to close scrutiny. This also applies to the pumps which we will be supplying for a new type of power plant as part of a major Chinese order.

We minimise the financial risks associated with the development of user-specific products by drawing up appropriate contracts with our customers.

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

FINANCES / LIQUIDITY

Our strategic development encompasses acquisitions and the formation of joint ventures. The resulting integration of employees, processes, technologies and products also harbours a number of risks. If the harmonisation of structures and programmes does not take place within the planned time frames, this may result in financial burdens.

Project business can generate risks with regard to our liquidity. As well as the continued pressure on our selling prices, which reduces our profit margins, these risks include more stringent contractual terms and conditions, such as lower advances or down-payments and tougher contractual penalties. We counter this risk by carefully monitoring the approval processes in the quotation phase and constantly keeping an eye on our net financial position, which enables us to avoid liquidity shortages. If necessary, we ensure sufficient liquidity by agreeing lines of credit for the affected companies in good time.

We use foreign exchange hedges to reduce the risks from transactions involving different currencies. These are generally currency forwards, which we use both for transactions that have already been recognised and for future cash flows from orders still to be processed. We have concluded currency forward contracts with external partners to cover foreign exchange risks from trade payables and receivables. Their notional volume was € 148.0 million.

To prevent customer payment defaults, we have established a strict receivables management system and also take out trade credit insurance.

PROCUREMENT

We have recently been subjected to strong commodity price and procurement time fluctuations due to market volatility. Where we are unable to compensate for cost increases or pass them on to our customers, this could have a negative effect on our earnings. We are therefore actively seeking new, better value suppliers, especially in Asia, and are taking advantage of the larger purchase volumes that arise when we pool the requirements of the various KSB plants.

TECHNOLOGY / RESEARCH AND DEVELOPMENT

It is essential to our future success that we have a product and service range that is suited to the market in terms of technology, price and delivery time. The changing needs of our customers and new standards and regulations make it necessary to continuously develop and improve our products and services. One of the areas that we are currently focusing on in this regard is the development of extremely energy-efficient products.

It is important to identify the market-related or technical risks early on in order to deploy the resources required for innovations effectively. To this end, we have created and documented a development process that includes various levels of control. As sales employees are regularly included in this process, risks arising from intermittent changes in the markets or application areas are incorporated into the assessment at an early stage.

ENVIRONMENT

Our production activities in particular are subject to numerous environmental protection laws and regulations. At all the company's sites specially assigned employees monitor compliance with laws and regulations as well as with KSB's own internal rules, which in some cases exceed the prescribed environmental standards. When acquiring companies, we always examine existing sites prior to purchase for possible contamination. If we discover any contamination, we set aside provisions to pay for the necessary clean-up work.

STAFF

We need qualified personnel at all our sites if we are to achieve our ambitious growth and profitability targets, including technical specialists. Due to the demographic changes in some countries, the competition for highly qualified professionals is increasing and will intensify when the economy recovers. We counter this risk with demand-oriented measures, systematic human resources planning and international recruitment processes. Where possible, we are training our own young talent, as well as contacting potential candidates at universities and universities of applied sciences.

Our aim is to enable staff to reconcile the needs of family and professional life, and this means that employees with children or family members requiring care should be able to continue working for us even when faced with onerous personal commitments. For more senior staff we create conditions that enable them to work for longer than in the past.

OTHER RISKS

The manipulation and loss of electronic data can lead to serious commercial disadvantages. We minimise this risk through secure access procedures and data backup systems. By centralising the IT systems of our various operating units, we are able to achieve high security standards and reduce the risk of data loss and corruption. Other possible risks associated with the work carried out by our staff include violations of the law and dishonest behaviour that cause KSB financial loss and damage our reputation. We counter these risks by means of the aforementioned compliance training and by ensuring compliance with the KSB Code of Conduct.

OVERALL ASSESSMENT

Overall, we did not identify any risks in the 2011 financial year that could significantly or permanently impair the net assets, financial position, or results of operations.

REPORT ON EXPECTED DEVELOPMENTS

- Overall state of the economy holds many uncertainties
- Growth opportunities for order intake and sales revenue in all segments
- Consolidated earnings in 2012 expected to exceed prior-year levels

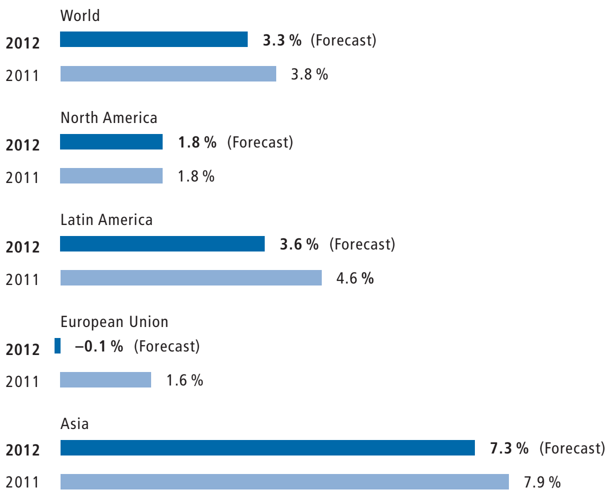
MARKET DEVELOPMENT AND SALES OPPORTUNITIES

The outlook for the global economy deteriorated in the second half of last year. Leading forecasters expect growth in the world economy to be significantly lower in 2012 than in the previous year.

The debt crisis has increased economic risks in the European countries in particular. Should the public finances in these countries worsen, this trend will also indirectly affect export-oriented non-European countries such as China.

The restrictive monetary policies introduced by most emerging economies to combat inflation will render them unable to maintain the same growth momentum as in 2011. In addition, budgetary problems mean that comprehensive programmes to stimulate economic growth in weaker economies are unlikely to be implemented.

GROSS DOMESTIC PRODUCT GROWTH (WORLD)



Source: International Monetary Fund

In the current year and in 2013 we expect to see generally moderate growth in the market, with regional variations. A relapse into recession is possible, particularly in Europe.

- **Pumps**

Should no economic downturn take place in 2012, we foresee a further increase in orders for standard pumps, based on industrial investment and construction activities. The growth rate, however, is unlikely to be as high as in the previous year due to current economic developments. However, our general business sales initiatives could provide an additional boost to standard pump business in selected countries. In addition, we will begin introducing an improved standardised chemical pump in the current year. It will initially be manufactured at two sites in 2012, and from 2013 at three sites on different continents.

The order situation for high-pressure pumps, chiefly used in power plant processes, is expected to remain difficult. It is unclear whether the growing worldwide demand for electrical power can overcome the investment backlog. Countries such as China and India will have no choice but to build additional power generation capacity. However, the prices of power plant pumps have fallen due to many manufacturers having overcapacity. As a result, we need to measure the attractiveness of each order against our return expectations.

We expect demand to remain high in mining, where our pumps are used for the hydraulic transport of solids, among other things. In this market sector, mine operators are investing in new plants and modernising existing open-cast and underground mines. The focus of these investments is in South America and southern Africa, as well as in Canada’s oil sands areas. But the mining industries in Australia, China and Indonesia also offer interesting business prospects.

In 2012, we will be unveiling our new chemical pump series to a wider customer base at the ACHEMA trade fair.

The growth in orders for submersible pumps, primarily used by our customers for wells, sewage systems and building drainage, looks set to continue. However, new water supply and waste water disposal projects generally depend on public-sector entities being willing to invest, who are currently experiencing some financial difficulties. It remains uncertain how demand will develop in the countries of North Africa. Once the political situation there stabilises, deferred water supply and agricultural irrigation projects could result in new orders, for instance orders for submersible borehole pumps used in well fields.

We will increase the marketing of such pump sets, which are also needed for caverns, mines and domestic water supply systems, by means of special sales initiatives in promising markets. A new field of application for our pumps is in the cooling systems of generators and transformers used in the construction of offshore wind energy plants.

Pump energy consumption will remain an important purchasing criterion for cost-conscious customers. As part of our campaign for greater energy efficiency, we aim to convince more and more users to take advantage of the demonstrably high savings potential in pump operation. Accordingly, we anticipate growing interest from customers in automation products such as variable speed systems, diagnostic devices and high-efficiency motors.

Overall, we expect orders for pumps and related automation equipment to grow in 2012 and 2013.

- **Valves**

We also expect sales of globe valves, gate and butterfly valves as well as related control and monitoring systems to increase. This applies in particular to our general business with standard valves for industrial and building services applications. In the coming years we plan to continuously improve our market presence in this business by developing and delivering new products.

Our new Chinese factory in Changzhou will help us tap the global valve market even better. The low-pressure valves manufactured there are supplied to customers in China, and are also used to supply foreign markets with products at competitive prices.

We foresee good growth prospects for the marine market in Asia and expect to receive more orders again for equipment for tankers transporting liquefied natural gas. We are also using the contacts and range of our new South Korean company KSB Seil Co., Ltd. to supply shipyards in South Korea, Japan and China with suitable cryogenic valves, actuators and control systems.

In our domestic market of Europe, we plan to focus our activities in those countries in which demand is growing or in which our share of the valve market is still comparatively low. The intensification of our general business with standard globe, gate and butterfly valves in Europe is designed to help offset the continued weak demand for power plant valves.

Both this year and next we will be launching a range of application-specific products to achieve our growth targets for the valves business. For instance, we are expanding our product range to include new valves for fire protection equipment, stainless steel gate valves for power stations, gate valves, globe valves and check valves for liquefied gas plants, and heat transfer valves for solar thermal systems. In addition, we are introducing improved electronic positioners for valves.

- **Service**

We will continue to expand our service centres outside Europe. We are creating new structures that will provide our customers with fast, expert services and will focus this year on the Region Asia / Pacific. The growing Chinese market in particular offers good prospects when it comes to increasing the volume of our maintenance and repair service business.

We will also strengthen our activities in the mining industry, particularly in Australia and Indonesia, where the demand for maintenance of slurry pumps is always high. Overall, we want to continue to improve our services in countries with intensive mining activity.

A deterioration in economic conditions does not necessarily entail a decline in orders in the service market. This also applies to services relating to pumps and valves. Putting off investments in new plants can in fact result in an increase in the budgets for the maintenance of existing plants. Overall, we anticipate the growth in our service business in 2012 to be roughly equal to that of 2011. The 2013 financial year too is expected to see growth.

OUTLOOK FOR THE GROUP AND THE REGIONS

In 2012 and 2013, in line with our Group strategy, which extends right up to 2018, we will expand our business in the BRIC countries and other interesting markets. The relevant Group companies will focus intensively on this task in addition to carrying out their daily business. A key element of our strategic business development is strengthening our general business with standard pumps and valves, which we plan to achieve by targeting promising markets.

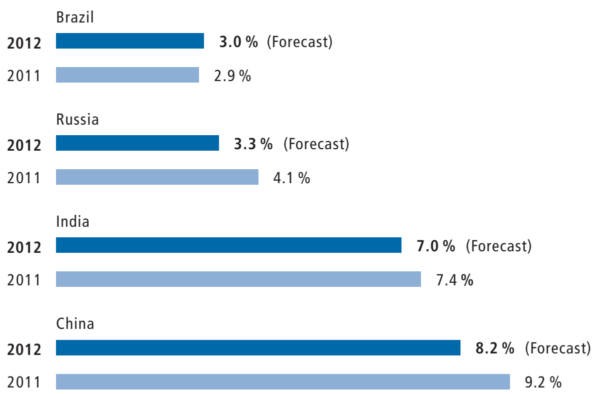
Current business development is marked by the uncertainties described at the beginning of this section and in the Risk Management Report. If economic events significantly alter conditions in the regional markets, we may need to adapt our planned activities as described below at short notice.

- **Europe**

We anticipate a moderate increase in European order intake for standard pumps and valves this year. In 2012, our general business with these products is expected to grow more than project business, backed up by targeted sales initiatives. Project business is more dependent on financing possibilities and investor confidence in continued economic growth. We are confident that the project business too will recover in 2013.

In Southern Europe in particular, it is unlikely that state and municipal authorities will be able to allocate major financial resources to new water supply and waste water treatment facilities over the next two years. A reluctance to invest in energy generation is likely throughout the whole of Western Europe. It is not only financial considerations that are holding back investment but also the ongoing uncertainties about the energy mix that policy makers are seeking.

GROSS DOMESTIC PRODUCT GROWTH (BRIC)



Source: International Monetary Fund

KSB pumps with propellers (shown here during processing) are used around the globe for flood control and transporting waste water.

By contrast we see good opportunities in project business in Eastern Europe, where we intend to establish a new company in Ukraine. Aiming to exploit the opportunities of the growing Russian market, we are opening two new service centres in Moscow and St. Petersburg. These will enable us to offer our Russian customers higher quality service for power plant and water pumps.

• Middle East / Africa

There is continued uncertainty concerning future political developments in North Africa and the Middle East. In the absence of dramatic new events it is to be expected, however, that the economic situation in the Region will at least stabilise to some degree, hence the previously mentioned hope that deferred projects in North Africa will enter the procurement phase. Major contracts are set to be awarded in Saudi Arabia, the United Arab Emirates and Iraq too, which could in turn benefit our pumps and valves business.

South of the Sahara, some countries will be able to continue enjoying extraordinary economic growth thanks to their reserves of oil and raw materials. We mainly tap into this market using our South African production and sales company in Germiston (Johannesburg), which has two sales offices in Ghana and Kenya. We also see good opportunities for driving forward our business in the Republic of South Africa, and, with this in mind, are planning to launch more locally manufactured products onto the market. At the same time we will facilitate access to products produced by our global manufacturing network.

• Asia / Pacific

Despite the projected slowdown in the economy, the markets of the Region Asia / Pacific offer comparatively good prospects for the sale of pumps, valves and services. In China, India and Indonesia we anticipate investment in water and waste water infrastructure, in which we will be able to participate. The same applies to new power plants in the large emerging economies and to the construction of new liquefied gas tankers in East Asian shipyards. In the Chinese market international orders for local power plant construction companies could open up indirect export opportunities. Moreover, we expect that more nuclear power plants will be built in both China and India.

New projects for the extraction of raw materials will create opportunities for using our slurry and process pumps. Australia and Indonesia are two countries in which we are strengthening our business with these pumps and related services.

With a view to servicing the Asian / Pacific market largely from the Region itself, we will use the manufacturing facilities we expanded in 2011 in Pimpri (Pune) in India, and in Shanghai and Changzhou in China. In the current year we will also expand our facilities in South Korea, Malaysia, Thailand and Taiwan and found a new company in Vietnam. The latter will be involved with sales and assembly in addition to providing services to our customers. We are also broadening our sales and distribution network, especially in China, to increase sales of standard pumps and valves in the general business. In Bangladesh too we are planning to increase our sales activities.

• Americas

In the American markets, demand for our products in some key industries could well increase. In several South American countries and Canada major water supply and waste water disposal projects are set to be awarded. Significant investments in mining and oil and gas production are also planned, which will result in corresponding orders for pumps and valves. Realisation of these projects will depend on the prices of raw materials and energy sources remaining attractive.

Demand for pumps and valves for power plants is expected to be rather subdued. Investors, in the US for instance, are waiting for political decisions to be taken on the future of energy supplies. Overall, due to a rapidly changing competitive environment, particularly in Brazil, prices are expected to fall in the project business.

We will promote our general business, focusing on the Brazilian market and on strengthening our local distributor network. At the same time, we plan to expand our service facilities. Overall we expect order intake to grow again.

We are modernising and expanding our production capacity to allow us to supply the American markets quickly with the products they require. In 2012 this will apply both to our US slurry pump plant and our Brazilian valve production facilities. A new basis for the latter will be created with the construction of a new plant in Jundiaí, around 60 km from the city of São Paulo.

FINANCIAL OUTLOOK

Despite the many economic uncertainties, we anticipate, as already stated, moderate growth in order intake for all three segments (pumps, valves and service). We expect our general business in particular to develop positively both this year and next, while we believe the market for project business will remain difficult. We do not expect to see recovery in this sector until 2013. Overall, we forecast a single-digit percentage rise in order intake this year and in 2013. However, any significant economic downturn or a return to recession would have a negative impact on our business volumes.

We anticipate that sales revenue will increase in all three segments in 2012, with growth higher than the increase in the volume of new orders; in 2013 we expect growth to be similar to the growth in order volumes.

Based on this growth in business, we expect an increase in our profit in all three segments this year and next, despite cost increases. For 2012 we aim for earnings on a par with those in 2010. In 2013, absolute growth is expected to exceed that of the previous year. However, if spending in our markets were to decline due to an economic slowdown or if profit quality were to deteriorate, earnings would likely stagnate or fall. Should this turn out to be the case, it is possible that we would intensify our efforts to secure a reasonable level of revenue.

Our expenditure on property, plant and equipment is likely to rise in 2012 and 2013. Thanks to our continuing sound financial situation and restrictive liquidity management, we expect to be able to fully finance these investments from equity capital.

Employee teams are currently implementing the aforementioned strategic projects in all four Regions in order to ensure sustainable and profitable growth in the pumps, valves and service businesses. We will continue to provide the necessary financial resources and capacities for this in future, thus creating the conditions for achieving the goals laid down in our Group strategy.

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

FORWARD-LOOKING STATEMENTS

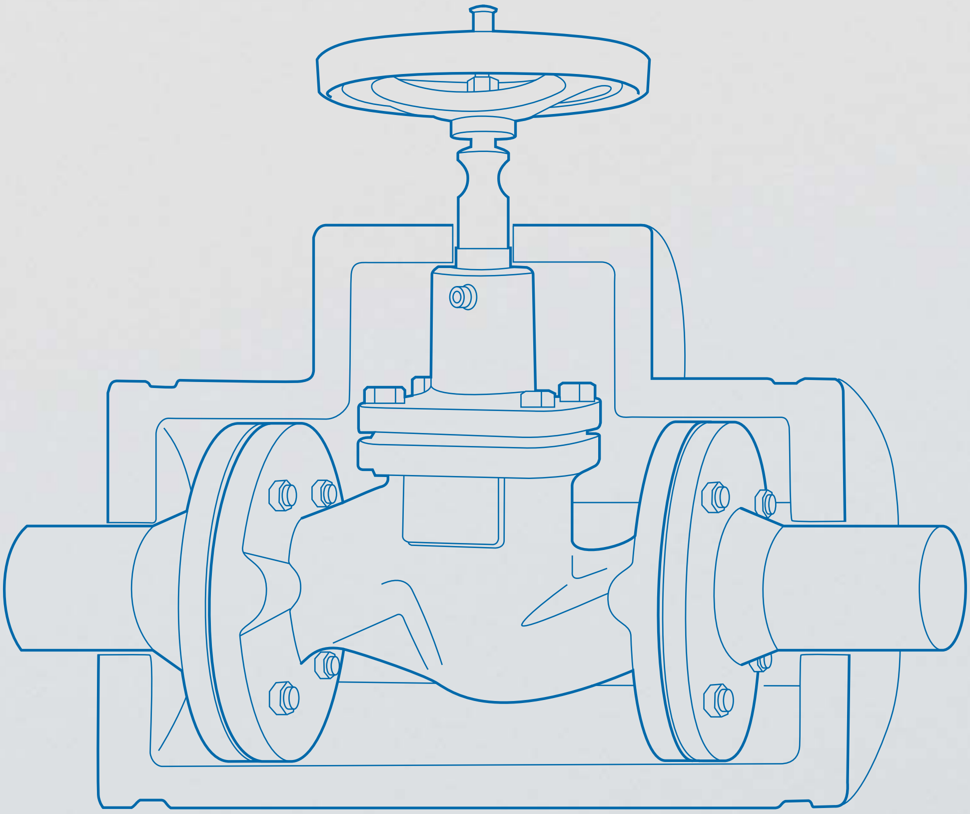
This report contains forward-looking statements. We wish to point out that actual events may differ materially from our expectations of developments if one of the uncertainties described, or other risks and uncertainties, should materialise, or if the assumptions underlying the statements prove to be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

VALVES

50 %

lower heating costs

In building services applications, energy-optimised KSB valves play an important role in air-conditioning, heating and ventilation solutions. By using easy-to-insulate valves in heat transmission systems, it is possible to save 50 percent of the heating costs.



Shut-off valve | **BOA®-H (insulated)**	Nominal size | **DN 15 to 350**	Nominal pressure | **PN 16/25**

The BOA®-H shut-off valve is used in heat transfer systems. It can be supplied with either an on/off disc or a throttling plug and features a position indicator as a standard. The KSB-specific body design enables highly efficient thermal insulation of all parts. The handwheel comes with an integrated colour coding system which tells the user which model is installed even when the valve is insulated.

»Heat will always find a way, whether it goes to the consumer installations as intended or ends up being released into the environment. To ensure that as much of the heat energy as possible arrives at the point of use, we wrap our BOA®-H valve in tight-fitting insulation so that practically the entire component is covered. Only the actuating elements remain exposed and accessible. That may not sound particularly spectacular, but it can help to save around half the heating costs associated with a system.«

Grit Traudt, Head of Integrated Management Valves

The total output of operations of the KSB Group rose by 10.1 percent in 2011 to € 2,151.4 million.

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS

(€ thousands)	Notes	31 Dec. 2011	31 Dec. 2010 (adjusted)	31 Dec. 2010
Non-current assets				
Intangible assets	1	91,697	65,012	48,584
Property, plant and equipment	1	428,756	412,476	400,860
Non-current financial assets	1	40,073	30,598	65,845
Deferred tax assets	2	24,433	17,722	16,824
		584,959	**525,808**	**532,113**
Current assets				
Inventories	3	425,056	332,680	324,518
Receivables and other current assets	4	658,394	605,088	596,545
Current financial instruments	5	11	500	500
Cash and cash equivalents	5	305,707	412,471	407,621
		1,389,168	**1,350,739**	**1,329,184**
		1,974,127	**1,876,547**	**1,861,297**

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 Dec. 2011	31 Dec. 2010 (adjusted)	31 Dec. 2010
Equity	6			
Subscribed capital		44,772	44,772	44,772
Capital reserve		66,663	66,663	66,663
Revenue reserves		642,075	604,405	602,561
Equity attributable to shareholders of KSB AG		753,510	715,840	713,996
Non-controlling interest		115,614	111,596	111,570
		869,124	**827,436**	**825,566**
Non-current liabilities				
Deferred tax liabilities	7	37,877	34,529	33,704
Provisions for employee benefits	8	279,345	269,744	269,547
Other provisions	8	17,409	16,167	16,098
Liabilities	9	61,743	112,493	109,644
		396,374	**432,933**	**428,993**
Current liabilities				
Provisions for employee benefits	8	111,932	112,557	110,784
Other provisions	8	87,180	90,956	90,119
Liabilities	9	509,517	412,665	405,835
		708,629	**616,178**	**606,738**
		1,974,127	**1,876,547**	**1,861,297**

INCOME STATEMENT INCLUDING STATEMENT OF RECOGNISED INCOME AND EXPENSE

INCOME STATEMENT

(€ thousands)	Notes	2011	2010
Sales revenue	10	**2,091,046**	**1,939,254**
Changes in inventories		58,922	12,260
Work performed and capitalised		1,400	2,271
Total output of operations		**2,151,368**	**1,953,785**
Other operating income	11	33,397	35,921
Cost of materials	12	– 912,991	– 790,855
Staff costs	13	– 697,981	– 649,844
Depreciation and amortisation expense	1	– 50,995	– 48,148
Other operating expenses	14	– 383,879	– 339,507
Other taxes		– 8,572	– 8,304
		130,347	**153,048**
Financial income	15	14,533	11,410
Financial expense	15	– 24,403	– 28,662
		– 9,870	**– 17,252**
Earnings before income taxes		**120,477**	**135,796**
Taxes on income	16	– 37,184	– 45,836
Earnings after income taxes		**83,293**	**89,960**
Attributable to:			
Non-controlling interest	17	11,343	12,525
Shareholders of KSB AG		**71,950**	**77,435**
Diluted and basic earnings per ordinary share (€)	19	40.95	44.09
Diluted and basic earnings per preference share (€)	19	41.21	44.35

STATEMENT OF RECOGNISED INCOME AND EXPENSE

(€ thousands)	2011	2010
Earnings after income taxes	**83,293**	**89,960**
Measurement of financial instruments	– 3,137	– 380
Currency translation differences	– 15,215	39,099
Other income and expense recognised directly in equity	– 29	507
Taxes on items recognised directly in equity	937	– 220
Total earnings recognised directly in equity	**– 17,444**	**39,006**
Total recognised income and expense	**65,849**	**128,966**
Attributable to:		
Non-controlling interest	6,939	21,004
Shareholders of KSB AG	**58,910**	**107,962**

STATEMENT OF CHANGES IN EQUITY

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2010	44,772	66,663
Income and expense recognised directly in equity	–	–
Earnings after income taxes	–	–
Total recognised income and expense	–	–
Dividends paid	–	–
Capital increases / decreases	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
31 Dec. 2010	**44,772**	**66,663**

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2011	44,772	66,663
Income and expense recognised directly in equity	–	–
Earnings after income taxes	–	–
Total recognised income and expense	–	–
Dividends paid	–	–
Capital increases / decreases	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
31 Dec. 2011	**44,772**	**66,663**

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
Balance at 1 Jan. 2010	– 45,113	– 21,414	**– 66,527**
Change in 2010	30,626	8,473	**39,099**
Balance at 31 Dec. 2010 / 1 Jan. 2011	– 14,487	– 12,941	**– 27,428**
Change in 2011	– 11,067	– 4,148	**– 15,215**
Balance at 31 Dec. 2011	**– 25,554**	**– 17,089**	**– 42,643**

The changes in the consolidated Group did not have any material impact on the equity items; the same would have been reported in the prior-period consolidated financial statements.

	Earnings recognised directly in equity				
Revenue reserves	Currency translation differences	Measurement of financial instruments	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
561,174	– 45,113	– 389	627,107	93,455	**720,562**
116	30,626	– 215	30,527	8,479	**39,006**
77,435	–	–	77,435	12,525	**89,960**
77,551	30,626	– 215	107,962	21,004	**128,966**
– 21,240	–	–	– 21,240	– 2,926	**– 24,166**
–	–	–	–	–	**–**
167	–	–	167	–	**167**
–	–	–	–	37	**37**
617,652	**– 14,487**	**– 604**	**713,996**	**111,570**	**825,566**

	Earnings recognised directly in equity				
Revenue reserves	Currency translation differences	Measurement of financial instruments	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
617,652	– 14,487	– 604	713,996	111,570	**825,566**
– 3	– 11,067	– 1,970	– 13,040	– 4,404	**– 17,444**
71,950	–	–	71,950	11,343	**83,293**
71,947	– 11,067	– 1,970	58,910	6,939	**65,849**
– 21,240	–	–	– 21,240	– 2,905	**– 24,145**
–	–	–	–	–	**–**
1,844	–	–	1,844	26	**1,870**
–	–	–	–	– 16	**– 16**
670,203	**– 25,554**	**– 2,574**	**753,510**	**115,614**	**869,124**

CASH FLOW STATEMENT

(€ thousands)	2011	2010
Earnings after income taxes	83,293	89,960
Depreciation and amortisation expense / Write-ups	53,102	55,481
Increase in non-current provisions	4,366	3,459
Gain / loss on disposal of fixed assets	– 1,520	– 562
Other non-cash expenses / income	– 2,229	178
Cash flow	**137,012**	**148,516**
Increase in inventories	– 91,211	– 83
Increase in trade receivables and other assets	– 50,905	– 59,752
Increase / decrease in current provisions	124	– 5,438
Increase in advances received from customers	16,855	41,470
Increase in liabilities (excluding financial liabilities)	24,390	37,347
Other non-cash expenses / income (operating)	–	–
	– 100,747	**13,544**
Cash flows from operating activities	**36,265**	**162,060**
Proceeds from disposal of intangible assets	92	–
Payments to acquire intangible assets	– 6,941	– 5,026
Proceeds from disposal of property, plant and equipment	4,205	4,173
Payments to acquire property, plant and equipment	– 60,361	– 69,837
Proceeds from disposal of non-current financial assets	294	455
Payments to acquire non-current financial assets	– 11,869	– 21,313
Net cash flows from the acquisition and sale of consolidated companies and other business operations	– 28,083	–
Other non-cash expenses / income (investing)	–	–
Cash flows from investing activities	**– 102,663**	**– 91,548**
Proceeds from additions to equity / Payments related to capital decreases	–	–
Dividends paid for prior year (including non-controlling interest)	– 24,145	– 24,166
Payments for financial liabilities	– 7,908	– 62,373
Payments resulting from financial receivables	– 3,846	– 1,777
Other non-cash expenses / income (financing)	–	–
Cash flows from financing activities	**– 35,899**	**– 88,316**
Net change in cash and cash equivalents	– 102,297	– 17,804
Effects of exchange rate changes on cash and cash equivalents	– 3,253	10,472
Effects of changes in consolidated Group	3,636	5,113
Cash and cash equivalents at beginning of period	407,621	409,840
Cash and cash equivalents at end of period	**305,707**	**407,621**
Thereof term deposits to hedge credit balances for partial retirement arrangements included at the closing date	16,600	18,900

NOTES

GENERAL

Basis of preparation

The accompanying consolidated financial statements of KSB Aktiengesellschaft, Frankenthal, Germany (KSB AG), were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the additional requirements of German commercial law under section 315a(1) of the *HGB* [*Handelsgesetzbuch* – 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).

KSB AG is a public limited company [*Aktiengesellschaft*] under Germany law. The company is registered with the *Handelsregister* [Commercial Register] of the *Amtsgericht* [Local Court] Ludwigshafen am Rhein, registration No. HR B 21016, and has its registered office in Frankenthal / Pfalz, Germany.

The consolidated financial statements were prepared on a going concern basis in accordance with IAS 1.25.

The accompanying consolidated financial statements were approved for issue by the Board of Management on 9 March 2012 and are expected to be approved by the Supervisory Board on 27 March 2012.

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.

The main accounting policies used to prepare these consolidated financial statements are stated below. The policies described were applied consistently for the reporting periods presented unless stated otherwise.

The consolidated financial statements of KSB AG therefore meet the requirements of IFRS. They were prepared using the historic cost convention, with the exception of measurement at market value for available-for-sale financial assets and measurement at fair value through profit and loss for financial assets and liabilities (including derivatives).

First-time application of new and revised standards
The following new Interpretations and revised Standards issued by the International Accounting Standards Board (IASB) were required to be applied for the first time in financial year 2011:

- IAS 24 *Related Party Disclosures* in conjunction with IFRS 8 *Operating Segments*
- IAS 32 *Financial Instruments: Presentation*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* in conjunction with IFRS 7 *Financial Instruments: Disclosures*
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* in conjunction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- *Annual Improvements* 2010

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

- IAS 1 *Presentation of Financial Statements* (from 1 January 2012)
  The changes relate to the mandatory breakdown of the income statement into profit or loss and other comprehensive income (OCI), as well as the presentation of the latter.
- IAS 12 *Income Taxes* (for reporting periods beginning on or after 1 January 2012)
  The changes relate to the treatment of temporary tax differences arising from the use of the fair value model in IAS 40.
- IAS 19 *Employee Benefits* (from 1 January 2013)
  The changes relate to the presentation of company pension funds.
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (for reporting periods beginning on or after 1 July 2011)
  The changes apply to first-time adopters of IFRS and companies facing hyperinflation.
- IFRS 7 *Financial Instruments: Disclosures* (for reporting periods beginning on or after 1 July 2011)
  The changes relate to duties to provide enhanced disclosures about transfers of financial assets.
- IFRS 9 *Financial Instruments* (for reporting periods beginning on or after 1 January 2013)
  The additions relate to the classification and measurement of financial liabilities and the derecognition of financial assets and liabilities.
- IFRS 10 *Consolidated Financial Statements* (for reporting periods beginning on or after 1 January 2013)
  The standard provides definitions for determining the scope of consolidation.
- IFRS 11 *Joint Arrangements* (for reporting periods beginning on or after 1 January 2013)
  The standard applies to companies that share management of a joint venture or activity.

- IFRS 12 *Disclosure of Interests in Other Entities* (for reporting periods beginning on or after 1 January 2013)
  The standard deals with disclosures to be made in the Notes to the consolidated financial statements on involvements with other entities and joint arrangements.
- IFRS 13 *Fair Value Measurement* (for reporting periods beginning on or after 1 January 2013)
  The standard deals with the measurement of fair value and the associated disclosures in the Notes.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (for reporting periods beginning on or after 1 January 2013)
  The interpretation relates to the accounting treatment of stripping costs incurred in the production phase of a surface mine.

Based on our current state of knowledge, application of the above Standards and Interpretations would not have any material impact on our consolidated financial statements with the exception of the changes in accordance with IAS 19. As a result of the elimination of the corridor method with effect from 1 January 2013, we will in future recognise actuarial gains and losses directly in equity. We expect this to entail increased volatility of the pension obligations and equity shown in the balance sheet.

BASIS OF CONSOLIDATION

Consolidated Group

In addition to KSB AG, 9 German and 59 foreign companies (previous year: 6 German and 52 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.

We included the following companies for the first time in the consolidated financial statements effective 1 January 2011:

- Dynamik-Pumpen GmbH, Stuhr, Germany
- Elektro Berchem GmbH, Cologne, Germany
- B&C Pumpenvertrieb Köln GmbH, Cologne, Germany
- PUMPHUSET Sverige AB, Sollentuna, Sweden
- REEL s.r.l., Ponte di Nanto, Italy
- KSB Taiwan Co. Ltd., Taipei, Taiwan
- KSB Korea Ltd., Seoul, South Korea
- KSB Valves (Shanghai) Co. Ltd., Shanghai, China
- Standard Alloys Incorporated, Port Arthur/Texas, USA

On 24 March 2011 we acquired 100% of the shares (= voting rights) of the South Korean company Seil Seres Co., Ltd., Busan, which merged with the newly established KSB Seil Co., Ltd., Busan. The company's products particularly complement our range of valves for liquefied gas tankers. The difference between the carrying amount of the assets acquired and the cash purchase price was mainly attributable to goodwill (€ 22 million), as well as real estate assets (€ 2 million), customer base and orders on hand (€ 1 million each).

The company's balance sheet has been included in the consolidated balance sheet at the following fair values:

(€ thousands)	Fair value on acquisition	Previous carrying amount
Non-current assets		
Intangible assets	1,923	38
Property, plant and equipment	9,935	7,604
Non-current financial assets	3	3
Deferred tax assets	211	211
	12,072	**7,856**
Current assets		
Inventories	4,110	4,110
Receivables and other current assets	2,599	2,599
Cash and cash equivalents	2,284	2,284
	8,993	**8,993**
	21,065	**16,849**
Equity	**8,090**	**4,289**
Non-current liabilities		
Deferred tax liabilities	415	–
Provisions for employee benefits	–	–
Other provisions	–	–
Liabilities	2,016	2,016
	2,431	**2,016**
Current liabilities		
Provisions for employee benefits	–	–
Other provisions	–	–
Liabilities	10,544	10,544
	10,544	**10,544**
	21,065	**16,849**

It is assumed that the receivables and other assets will be settled in full.

From the date of acquisition in March 2011, KSB Seil Co., Ltd., Busan contributed € 16.4 million of sales revenue to the Group's sales revenue reported in the consolidated income statement. For the full financial year KSB Seil Co., Ltd. would have reported € 21.3 million of sales revenue. The contribution to consolidated earnings for the period of consolidation was € –0.8 million; for the full financial year it would have been € –1.1 million.

The other companies consolidated for the first time were acquired or established in previous years. The carrying amounts of the companies acquired in previous years almost completely matched their fair value. The only difference of note (€ 2 million) between carrying amount and fair value was at REEL s.r.l., Ponte di Nanto, Italy, and was due to real estate assets. Otherwise the main differences arose from the measurement of the customer base and orders on hand. Purchase price allocation based on the data at the time of acquisition had a total impact on the difference between carrying amount and fair value amounting to € 4,404 thousand (previous year: € 239 thousand).

Effective 1 January and 1 April 2011, KSB took over selected individual economic assets of becker Elektromaschinenbau GmbH, Wiehl, Germany. In this way, we added solids separation systems and the associated services to our product portfolio.

In addition, three smaller companies that had not previously been consolidated were merged with consolidated companies.

The above changes to the consolidated Group contributed around 2% or € 2.8 million to consolidated earnings, of which € –0.8 million was attributable to KSB Seil Co., Ltd., Busan. Further effects on the consolidated financial statements are presented in the relevant tables (for example, in the additional column titled “31 Dec. 2010 (adjusted)” included in the balance sheet) and explained in the information provided on individual items.

Over the year under review, as in the previous year, there were no step acquisitions of companies already consolidated. € 11,714 thousand (previous year: € 12,906 thousand) was spent on companies that have not yet been consolidated because this would not have had a material impact. This mainly resulted from the creation of a production facility in China, the capital increase in an investee company in China and the foundation of several smaller companies in Peru, Saudi Arabia, Croatia, Serbia and Slovenia.

In light of our Group strategy which, among other things, involves merging the numerous small companies to form larger legal entities, in 2009 we began initiating appropriate corporate changes. In this context, further companies that have not yet been consolidated will be included in the consolidated Group over the course of the next few years.

On 16 February 2012, KSB acquired 80 %, i.e. the majority of voting shares, in the Danish company T. Smedegaard A/S based in Glostrup (Copenhagen) against payment in cash. The company has three subsidiaries in Taunton / Bridgwater, UK (Smedegaard Pumps Limited), Västra Frölunda, Sweden (VM Pumpar AB) and Beinwil am See, Switzerland (Smedegaard AG, Pumpen und Motorenbau). With this acquisition, KSB intends to secure its building services project business in the areas of heating, ventilation and air-conditioning.

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 remaining after reassessment is recognised in profit or loss.

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

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

The financial statements of all material companies or those required to be audited under local law have been audited, and independent auditors' reports have been issued. 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.

Currency translation is effected on the basis of the functional currency of the consolidated companies. As in the previous year, the functional currency is exclusively the local currency of the company consolidated, as it operates as a financially, economically and organisationally independent entity.

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 profit or loss.

When translating financial statements of consolidated companies that are not prepared in euros 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 one euro are:

	Closing rate		Average rate	
	31 Dec. 2011	31 Dec. 2010	2011	2010
US dollar	1.2939	1.3362	1.3917	1.3321
Brazilian real	2.4159	2.2177	2.3260	2.3377
Indian rupee	68.7130	59.7580	64.8646	60.9563
Chinese yuan	8.1588	8.8220	8.9958	9.0167

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 (except for costs associated with the acquisition of a company) and subsequent expenditure. Purchase price reductions are deducted from cost. Should borrowing costs pursuant to IAS 23 arise, these will be capitalised from 2009 onwards. As in the previous year, no borrowing costs were incurred in the financial year.

Production cost

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

Financial instruments

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

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

Classification in measurement categories:

- Financial Assets Held for Trading (FAHfT) / Financial Liabilities Held for Trading (FLHfT): Financial assets and liabilities held for trading and measured at fair value through profit or loss (derivatives not included in hedging relationships)
- Loans and Receivables (LaR): Loans and receivables (loans and primary financial instruments not quoted in an active market)
- Available for Sale (AfS): Available-for-sale financial instruments (non-derivative financial instruments that are not allocated to any other measurement category, such as investments in non-consolidated affiliates or securities)
- Financial Liabilities Measured at Amortised Cost (FLAC): Financial liabilities measured at amortised cost using the effective interest method (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 fair value on initial recognition. Subsequent measurement is generally based on fair value. Subsequent measurement of loans and receivables is based on amortised cost using the effective interest method. We do not currently make use of the fair value option. The fair values of the current and non-current financial instruments are based on prices quoted in active markets on the reporting date. The fair values of derivates included and not included in hedging relationships is determined on the basis of input factors observable either directly (as a price) or indirectly (derived from prices). All our information is obtained from recognised external sources.

Changes in the fair value of "available-for-sale financial instruments" 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) up to a maximum of amortised cost.

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

When calculating goodwill we apply purchase price allocations and determine the fair value of the assets and liabilities acquired. In addition to the assets and liabilities already recognised by the selling party, we also assess marketing-related aspects (primarily brands and trademarks, competitive restrictions), customer-related aspects (primarily customer lists, customer relations, orders on hand), contract-related aspects (mainly particularly advantageous service, work, purchasing and employment contracts) as well as technology-related aspects (primarily patents, know-how and databases). To determine values we primarily apply the residual value method, the excess earnings method and cost-oriented procedures.

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) up to a maximum of amortised cost.

We have applied the component approach under IAS 16.

Government grants relating to property, plant and equipment are transferred to an adjustment item on the liabilities side. This adjustment item is reversed over a defined utilisation period. As far as government grants recognised which are to be held for specific periods of time are concerned, we expect that these periods will be complied with.

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:

USEFUL LIVES

Buildings	10 – 50 years
Plant and machinery	5 – 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 non-consolidated affiliates and associates are carried at fair value. Interest-bearing loans are recognised at amortised cost.

Non-current financial assets are measured at 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 recognised as current liabilities.

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 contracts is determined on the basis of the proportion that contract costs (excluding indirect material costs) incurred for work performed up to the reporting date bear to the estimated total contract costs (excluding indirect material costs) at the reporting date. The percentage contract revenue less the related advances received from customers is reported – depending on the balance – in receivables and other current assets or in current liabilities. Effects in the period are recognised in the income statement as part of sales revenue. The gross amount due to customers for contract work is included in other provisions.

Receivables and other current assets

For subsequent measurement, receivables and other current assets that are classified as loans and receivables (LaR) are recognised at amortised cost. Low-interest or non-interest-bearing receivables are discounted. In addition, we take account of identifiable risks by charging specific write-downs and experience-based write-downs using allowance accounts. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed.

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

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

Financial instruments

Financial instruments are carried at their fair values at the reporting date.

Cash and cash equivalents

Cash and cash equivalents (cash, bank balances, short-term deposits and other highly liquid financial assets) are recognised at amortised cost.

Deferred taxes

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

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are calculated on the basis of actuarial reports. They are based on defined benefit pension plans. The reports are prepared using the projected unit credit method. We apply the 10% corridor rule, under which actuarial gains and losses that are 10% greater or lower than the present value of the defined benefit obligation (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 classified as financial liabilities measured at amortised cost (FLAC) are recognised at amortised cost using the effective interest method.

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

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

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

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

The carrying amounts equal fair value and are determined on the basis of input factors observable either directly (as a price) or indirectly (derived from prices). Fair values may be positive or negative. Fair value is the amount that we would receive or have to pay at the reporting date to settle the financial instrument. This amount is determined using the relevant exchange rates, interest rates and counterparty credit ratings at the reporting date.

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

Derivatives are reported under other receivables and other current assets, and under miscellaneous other liabilities.

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 reporting 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 in accordance with IAS 11 are also recognised in the sales revenue.

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

Estimates and assumptions

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

Maturities

Maturities of up to one year are classified as current.

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

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

BALANCE SHEET DISCLOSURES

1 Fixed assets

STATEMENT OF CHANGES IN INTANGIBLE ASSETS

(€ thousands)	Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets		Goodwill		Advance payments		Intangible assets Total	
Historical cost	2011	2010	2011	2010	2011	2010	2011	2010
Balance at 1 January	40,365	34,588	41,517	37,142	1,303	1,326	**83,185**	**73,056**
Change in consolidated Group / Other	3,925	347	14,971	3,632	–	–	**18,896**	**3,979**
Currency translation adjustments	161	484	371	743	–	–	**532**	**1,227**
Additions	7,383	3,714	23,310	–	462	1,278	**31,155**	**4,992**
Disposals	788	194	192	–	–	–	**980**	**194**
Reclassifications	968	1,426	–	–	– 730	– 1,301	**238**	**125**
Balance at 31 December	52,014	40,365	79,977	41,517	1,035	1,303	**133,026**	**83,185**
Accumulated depreciation and amortisation	2011	2010	2011	2010	2011	2010	2011	2010
Balance at 1 January	31,269	27,550	3,332	3,332	–	–	**34,601**	**30,882**
Change in consolidated Group / Other	2,429	185	–	–	–	–	**2,429**	**185**
Currency translation adjustments	– 101	241	–	–	–	–	**– 101**	**241**
Additions	4,985	3,423	303	–	–	–	**5,288**	**3,423**
Disposals	788	194	100	–	–	–	**888**	**194**
Reclassifications	–	64	–	–	–	–	**–**	**64**
Balance at 31 December	37,794	31,269	3,535	3,332	–	–	**41,329**	**34,601**
Carrying amount at 31 December	**14,220**	**9,096**	**76,442**	**38,185**	**1,035**	**1,303**	**91,697**	**48,584**

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

We conduct our impairment tests once a year. If an additional impairment test is deemed to be required because there is an indication that an asset may be impaired (trigger event), the test is performed promptly. As in the previous year, this proved unnecessary in the year under review.

We apply the discounted cash flow model to determine the recoverable amount (value in use). The future earnings (EBIT in accordance with IFRSs) applied were taken from a four-year plan, the basis of which was approved in December. We carried out this planning based on certain assumptions which were drawn from both forecasts from external sources, e.g. current German Engineering Federation (VDMA) publications, and our own knowledge of markets and competitors. For the first year we anticipated figures to be moderately above those of the year under review. Over the subsequent years we again expect a positive economic trend.

In our calculations we consistently extrapolated the result of the fourth plan year as a constant; we did not apply any growth rates. The reconciliation to cash flow is performed to adjust for the effects of scheduled investments for expansion. If the planned depreciation and amortisation amounts deviate significantly from planned replacement investments, the cash flows recognised are also adjusted.

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

To determine the discount rate, the weighted average cost of capital (WACC) method is applied in conjunction with the capital asset pricing model (CAPM). Under this method, first the cost of equity is determined using CAPM and the borrowing costs are defined, and then the individual capital components are weighted in accordance with the capital structure. The interest rate for risk-free ten-year Bunds was used as a base rate. As in the previous year, the market risk premium was 4% and a beta factor of 1.0 was used. The individual discount rate before taxes which was derived for each cash-generating unit ranges – depending on each country's individual tax rates – between 6.51% and 8.02% (previous year: between 7.40% and 9.11%).

As in the previous year, impairment testing at Group level revealed no need for any write-downs.

A 10% increase in the discount rate would not result in any write-downs (previous year: € 648 thousand).

Impairment testing at single-entity level revealed the need for write-downs of € 303 thousand (previous year: no need for write-downs).

Of the carrying amount of all goodwill totalling € 76,442 thousand (previous year: € 38,185 thousand), € 18,285 thousand (previous year: € 18,285 thousand) was attributable to the Dutch Group company DP industries B.V.; € 3,710 thousand (previous year: € 3,710 thousand) to the Italian company KSB Italia S.p.A.; € 2,980 thousand (previous year: € 2,980 thousand) to the German company Uder Elektromechanik GmbH; € 2,839 thousand (previous year: € 3,358 thousand) to the South African company KSB Pumps (S.A.) (Pty) Ltd.; € 1,764 thousand (previous year: € 1,764 thousand) to KSB Finland Oy; € 1,281 (previous year: € 1,280 thousand) to KSB Lindflaten AS of Norway and € 1,077 thousand (previous year: € 1,077 thousand) to KAGEMA Industrieausrüstungen GmbH of Germany. € 37,531 thousand relates to companies consolidated for the first time (of which € 3,150 thousand to Dynamik-Pumpen GmbH, € 207 thousand to Elektro Berchem GmbH, € 123 thousand to B&C Pumpenvertrieb Köln GmbH, € 390 thousand to PUMPHUSET Sverige AB, € 9,681 thousand to REEL s.r.l., € 745 thousand to Standard Alloys Incorporated and € 23,235 thousand to KSB Seil Co., Ltd.). The remaining € 6,975 thousand (previous year: € 5,731 thousand) is attributable to another 12 (previous year: 11) companies.

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

STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

(€ thousands)	Land and buildings		Plant and machinery		Other equipment, operating and office equipment		Advance payments and assets under construction		Property, plant and equipment Total	
Historical cost	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Balance at 1 January	254,217	232,824	447,734	394,531	165,503	149,483	17,841	32,528	**885,295**	**809,366**
Change in consolidated Group / Other	13,965	908	3,922	1,444	5,612	1,876	58	–	**23,557**	**4,228**
Currency translation adjustments	–492	6,631	–5,128	11,355	–2,091	5,524	–408	1,405	**–8,119**	**24,915**
Additions	10,248	9,999	15,351	20,234	19,547	20,968	17,200	16,606	**62,346**	**67,807**
Disposals	1,206	314	10,265	10,525	7,711	8,361	13	1,696	**19,195**	**20,896**
Reclassifications	6,614	4,169	6,723	30,695	1,480	–3,987	–15,055	–31,002	**–238**	**–125**
Balance at 31 December	283,346	254,217	458,337	447,734	182,340	165,503	19,623	17,841	**943,646**	**885,295**
Accumulated depreciation and amortisation	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Balance at 1 January	107,394	99,564	268,272	244,126	108,769	100,158	–	–	**484,435**	**443,848**
Change in consolidated Group / Other	754	249	1,085	849	2,496	975	–	–	**4,335**	**2,073**
Currency translation adjustments	237	2,280	–1,944	6,301	–1,370	3,470	–	–	**–3,077**	**12,051**
Additions	6,504	6,444	22,439	24,366	16,764	13,915	–	–	**45,707**	**44,725**
Disposals	628	230	9,169	9,582	6,713	7,473	–	–	**16,510**	**17,285**
Reclassifications	–	–	–317	2,212	317	–2,276	–	–	**–**	**–64**
Reversal (write-up)	–	913	–	–	–	–	–	–	**–**	**913**
Balance at 31 December	114,261	107,394	280,366	268,272	120,263	108,769	–	–	**514,890**	**484,435**
Carrying amount at 31 December	**169,085**	**146,823**	**177,971**	**179,462**	**62,077**	**56,734**	**19,623**	**17,841**	**428,756**	**400,860**

Assets resulting from finance leases (almost exclusively land and buildings, as well as other equipment, operating and office equipment) 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 € 3,263 thousand (previous year: € 7,076 thousand), of which € 2,011 thousand (previous year: € 6,004 thousand) relate to land and buildings.

Disposals of items of property, plant and equipment resulted in book gains of € 3,027 thousand (previous year: € 1,781 thousand) and book losses of € 1,507 thousand (previous year: € 1,219 thousand). The book gains and losses are reported in the income statement under other operating income and other operating expenses.

Impairment losses of € 521 thousand were recognised on property, plant and equipment in the year under review (previous year: none).

STATEMENT OF CHANGES IN NON-CURRENT FINANCIAL ASSETS

(€ thousands)	Investments in affiliates		Other investments		Non-current financial instruments		Loans		Non-current financial assets Total	
Acquisition cost	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Balance at 1 January	55,056	50,572	13,077	14,617	754	718	11,039	2,876	**79,926**	**68,783**
Change in consolidated Group / Other	–27,539	–8,649	–	–	–	–	–8,089	–	**–35,628**	**–8,649**
Currency translation adjustments	20	300	–	–	2	5	1	–24	**23**	**281**
Additions	7,214	12,906	4,500	–	13	31	147	8,376	**11,874**	**21,313**
Disposals	10	1,613	1,659	–	5	–	1,001	189	**2,675**	**1,802**
Reclassifications	–	1,540	–	–1,540	–	–	–	–	**–**	**–**
Balance at 31 December	34,741	55,056	15,918	13,077	764	754	2,097	11,039	**53,520**	**79,926**
Accumulated impairment losses	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Balance at 1 January	10,599	5,615	1,840	461	94	86	1,548	1,000	**14,081**	**7,162**
Change in consolidated Group / Other	–379	–	–	–	–	–	–	–	**–379**	**–**
Currency translation adjustments	19	19	–	–	–	–	–	–	**19**	**19**
Additions	2,139	6,312	–	1,379	6	8	–	548	**2,145**	**8,247**
Disposals	–	1,347	1,381	–	–	–	1,000	–	**2,381**	**1,347**
Reclassifications	–	–	–	–	–	–	–	–	**–**	**–**
Reversal (write-up)	–	–	–	–	–	–	38	–	**38**	**–**
Balance at 31 December	12,378	10,599	459	1,840	100	94	510	1,548	**13,447**	**14,081**
Carrying amount at 31 December	**22,363**	**44,457**	**15,459**	**11,237**	**664**	**660**	**1,587**	**9,491**	**40,073**	**65,845**

Investments in affiliates and other equity investments reported under non-current financial assets declined considerably. Additions, mainly from the formation of smaller companies in China, Peru, Saudi Arabia, Croatia, Serbia and Slovenia and the capital increase at an investee company in China, were more than offset by effects resulting from first-time consolidation. The planned first-time consolidation of further companies is expected to result in another decline in this balance sheet item in financial year 2012.

The considerable decline in loans is the result of the first-time consolidation of Standard Alloys Incorporated, Port Arthur / Texas.

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

€ 1,521 thousand (previous year: € 9,434 thousand) of the loans are loans to affiliates.

The effect of currency translation adjustments taken directly to equity on fixed assets was a loss of € 4,405 thousand (previous year: gain of € 14,112 thousand).

The list of shareholdings is included at the end of these Notes.

2 Deferred tax assets

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

3 Inventories

(€ thousands)	31 Dec. 2011	31 Dec. 2010
Raw materials and production supplies	149,616	129,718
Work in progress	147,031	85,710
Finished goods and goods purchased and held for resale	102,107	91,853
Advance payments	26,302	17,237
	425,056	**324,518**

€ 47,771 thousand (previous year: € 31,711 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the period under review amount to € 1,460 thousand (previous year: € 2,147 thousand). We reversed write-downs totalling € 1,839 thousand (previous year: € 3,431 thousand) where the current net realisable value was higher than the prior-period value. Inventories amounting to € 854,069 thousand (previous year: € 778,595 thousand) were recognised as expenses in the period under review.

4 Receivables and other current assets

(€ thousands)	31 Dec. 2011	31 Dec. 2010
Trade receivables	461,348	428,694
Intragroup and associate receivables	23,591	19,313
Receivables recognised by PoC	122,147	99,311
Receivables recognised by PoC (excl. advances received from customers PoC)	235,194	221,721
Advances received from customers (PoC)	– 113,047	– 122,410
Other receivables and other current assets	51,308	49,227
	658,394	**596,545**

Intragroup and associate receivables include loans to non-consolidated KSB companies amounting to € 8,400 thousand (previous year: € 5,823 thousand). Associate receivables totalled € 7,566 thousand (previous year: € 4,565 thousand).

Construction contracts under IAS 11 include recognised profits of € 44,257 thousand (previous year: € 26,539 thousand) and costs of € 190,937 thousand (previous year: € 195,182 thousand). Sales revenue in accordance with IAS 11 amounted to € 328,575 thousand (previous year: € 328,716 thousand). The gross amount due to customers for contract work is included in other provisions.

The other receivables and other current assets include receivables from employees and deferred interest. They also include recoverable taxes (primarily from VAT) in the amount of € 16,951 thousand (previous year: € 11,294 thousand) and other financial assets from currency forwards in accordance with IAS 39 in the amount of € 1,207 thousand (previous year: € 1,519 thousand). As in the previous year, there are no receivables relating to interest rate derivatives.

At the balance sheet date, the notional volume of all currency forwards was € 147,964 thousand (previous year: € 139,105 thousand), and the notional volume of all interest rate derivatives was € 5,052 thousand (previous year: € 5,532 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 2011	147,964	93,008	54,456	500
Notional volume 2010	139,105	108,383	30,236	486

€ 25,134 thousand (previous year: € 21,638 thousand) of all receivables and other assets is due after more than one year.

5 Current financial instruments, cash and cash equivalents

Current financial instruments amount to € 11 thousand (previous year: € 500 thousand).

Cash and cash equivalents are primarily term deposits with short maturities and call deposits. German Group companies use € 16,600 thousand of cash and cash equivalents (previous year: € 18,900 thousand) to hedge credit balances for partial retirement arrangements as required by law. They are available to us at any time due to the underlying contractual structure.

6 Equity

There was no change in the share capital of KSB AG as against the previous year. In accordance with the Articles of Association, it totals € 44,771,963.82 and is composed of 886,615 ordinary shares and 864,712 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 no-par value bearer shares.

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

In addition to revenue reserves from previous years, the revenue reserves primarily include currency translation adjustments and consolidation effects taken directly to equity. These effects resulted in deferred tax assets in the amount of € 1,025 thousand (previous year: € 230 thousand) and no deferred tax liabilities (previous year: € 20 thousand).

A total of € 21,241 thousand (dividend of € 12.00 per ordinary share and € 12.26 per preference share) was paid from equity by a resolution of the Annual General Meeting of the Group's parent company KSB AG, Frankenthal, on 18 May 2011.

Equity also includes changes in the fair value of derivatives used to hedge future cash flows amounting to € –3,882 thousand (previous year: € –750 thousand). They changed as follows:

(€ thousands)	2011
Opening balance at 1 January	– 750
Change in consolidated Group / Currency translation adjustments / Other	19
Disposals	296
Additions	– 3,447
Closing balance at 31 December	**– 3,882**

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

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

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

CAPITAL DISCLOSURES

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

We present the development of these indicators in the management report.

		2011	2010
Order intake	€ million	2,132.3	2,075.0
Sales revenue	€ million	2,091.0	1,939.3
Return on sales	%	5.8	7.0
Net financial position	€ million	187.0	293.0
Equity ratio	%	44.0	44.4

7 Deferred tax liabilities

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

8 Provisions

Changes (€ thousands)	1 Jan. 2011	Change in consolidated Group / CTA* / Other	Utilisation / Prepayments	Reversal	Additions	31 Dec. 2011
Employee benefits	380,331	1,283	–94,316	–4,126	108,105	391,277
Pensions and similar obligations	245,442	–23	–11,577	–61	23,936	257,717
Other employee benefits	134,889	1,306	–82,739	–4,065	84,169	133,560
Taxes	23,496	161	–23,844	–209	12,506	12,110
Taxes on income	22,539	147	–23,387	–147	11,768	10,920
Other taxes	957	14	–457	–62	738	1,190
Other provisions	82,721	–400	–43,870	–8,156	62,184	92,479
Warranty obligations and contractual penalties	46,702	1,703	–27,103	–6,109	35,507	50,700
Miscellaneous other provisions	36,019	–2,103	–16,767	–2,047	26,677	41,779
	486,548	**1,044**	**–162,030**	**–12,491**	**182,795**	**495,866**

Changes (€ thousands)	1 Jan. 2010	Change in consolidated Group / CTA* / Other	Utilisation / Prepayments	Reversal	Additions	31 Dec. 2010
Employee benefits	379,581	3,663	–106,598	–2,713	106,398	380,331
Pensions and similar obligations	235,814	–719	–12,913	–306	23,566	245,442
Other employee benefits	143,767	4,382	–93,685	–2,407	82,832	134,889
Taxes	17,559	789	–15,579	–406	21,133	23,496
Taxes on income	16,613	657	–14,923	–387	20,579	22,539
Other taxes	946	132	–656	–19	554	957
Other provisions	80,559	2,655	–43,030	–9,775	52,312	82,721
Warranty obligations and contractual penalties	44,625	1,287	–26,179	–2,759	29,728	46,702
Miscellaneous other provisions	35,934	1,368	–16,851	–7,016	22,584	36,019
	477,699	**7,107**	**–165,207**	**–12,894**	**179,843**	**486,548**

*CTA = currency translation adjustments

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

The amounts provided for these defined 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 used at German Group companies are as follows: The discount rate applied to the obligations was increased from 5.3% to 5.4%. As in the previous year, the assumed rate of future salary increases is 2.7%, and the assumed growth rate for the pension trend is 2.0% per annum. The biometric assumptions are again based on the 2005G mortality tables published by Prof. Klaus Heubeck. A mean fluctuation rate (2.0%) continued to be applied to staff turnover. The retirement age used for the calculations is based on the *Rentenversicherungs-Altersgrenzenanpassungsgesetz* 2007 [*RVAGAnpG* – German Act Adapting the Standard Retirement Age for the Statutory Pension Insurance System].

In some cases, the measurement parameters used for non-material benefit plans at foreign companies differ from those used in Germany. Discount rates used vary between 4.3% and 8.2%; the assumed rate of future salary increases is between 2.5% and 8.0% and the assumed growth rate for the pension trend is 1.0% to 2.5%. Other measurement parameters (e.g. cost trends in the medical care area) are not material.

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 profit or loss of future periods.

CHANGES IN DBO (PRESENT VALUE OF THE OBLIGATION)

(€ thousands)	2011	2010
Opening balance at 1 January	**262,093**	**248,337**
Current service cost financed by employer	7,387	7,909
Current service cost financed by employees	3,780	3,726
Interest cost	13,867	12,561
Benefit payments	– 11,711	– 12,274
Actuarial gains / losses (– / +)	– 1,928	4,256
Currency translation adjustments	293	443
Change in consolidated Group / Other	408	– 2,865
Closing balance at 31 December	**274,189**	**262,093**

The present value of pension commitments amounted to € 248 million for 2009, € 217 million for 2008 and € 215 million for 2007.

RECONCILIATION TO CARRYING AMOUNTS

(€ thousands)	2011	2010
DBO at 31 December	**274,189**	**262,093**
Unrecognised gains / losses (– / +)	– 16,459	– 16,651
Change in consolidated Group / Currency translation adjustments / Other	– 13	–
Carrying amount at 31 December	**257,717**	**245,442**

ALLOCATION OF THE ACTUARIAL GAINS / LOSSES IN THE FINANCIAL YEAR

(€ thousands)	2011	2010
Changes in balance	245	456
Changes in measurement parameters	– 2,173	3,800
Total gains / losses (–/+) at 31 December	**– 1,928**	**4,256**

EFFECTS IN THE INCOME STATEMENT

(€ thousands)	2011	2010
Current service cost	11,167	11,635
Actuarial gains / losses	379	234
Interest cost	13,867	12,561
Other	– 415	–
	24,998	**24,430**

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

Contributions totalling € 26,899 thousand (previous year: € 25,849 thousand) were paid to state pension insurance funds in the year under review.

OTHER PROVISIONS

Provisions for taxes contain amounts of tax still payable for the year under review and for previous years for which no final tax assessment has yet been received. Provisions for other employee benefits relate primarily to profit-sharing, jubilee payments, compensated absence, partial retirement and severance payments. The provisions for warranty obligations and contractual penalties cover the statutory and contractual obligations to customers. The provisions for miscellaneous other obligations include provisions for expected losses from uncompleted transactions and onerous contracts (primarily from construction contracts with gross amounts due to customers in accordance with IAS 11 in the amount of € 2,665 thousand for 2011 and € 840 thousand for 2010), customer bonuses, accrued costs and environmental measures.

€ 39,037 thousand of the other provisions is non-current (previous year: € 40,203 thousand). This relates mainly to provisions for jubilee payments, partial retirement and warranty obligations.

As far as the uncertainty with regard to the amount and timing of the outflow of resources in connection with provisions is concerned, we refer to our comments on estimates and assumptions.

9 Liabilities

NON-CURRENT LIABILITIES

(€ thousands)	31 Dec. 2011	31 Dec. 2010
Financial liabilities		
Liabilities on bonds issued	50,000	100,000
Bank loans and overdrafts	9,072	6,186
Finance lease liabilities	1,190	1,041
Other	1,481	2,417
	61,743	109,644
Total non-current liabilities	**61,743**	**109,644**

CURRENT LIABILITIES

(€ thousands)	31 Dec. 2011	31 Dec. 2010
Financial liabilities		
Liabilities on bonds issued	12,500	–
Bank loans and overdrafts	53,164	16,759
Finance lease liabilities	588	2,866
Other	1,294	1,795
	67,546	21,420
Trade payables		
Trade payables to third parties	201,578	174,401
Intragroup trade payables	4,689	6,990
	206,267	181,391
Other liabilities		
Advances received from customers	84,030	60,650
Advances received from customers (PoC)	61,148	55,188
Taxes	19,947	16,656
Social security and liabilities towards employees	17,504	19,543
Miscellaneous other liabilities and deferred income	53,075	50,987
	235,704	203,024
Total current liabilities	**509,517**	**405,835**

NON-CURRENT AND CURRENT LIABILITIES

(€ thousands)		
Total liabilities	**571,260**	**515,479**

To safeguard liquidity in the medium term, in 2009 KSB AG took the precaution of placing a loan against borrower's note worth € 100 million with a 3-year and 5-year maturity. This originally served to ensure the solvency of the company even in a protracted crisis situation. € 37.5 million was repaid before maturity in 2011, so the residual obligation at year end 2011 was € 62.5 million.

Assets amounting to € 16,805 thousand (previous year: € 5,242 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, € 5,771 thousand (previous year: € 124 thousand) relate to property, plant and equipment, € 9,191 thousand (previous year: € 3,674 thousand) to inventories, € 622 thousand (previous year: € 506 thousand) to receivables and € 1,221 thousand (previous year € 938 thousand) to cash and cash equivalents, as well as other securities.

€ 10,545 thousand (previous year: € 9,389 thousand) of the liabilities were secured by land charges or similar rights in the year under review.

The weighted average interest rate on bank loans and overdrafts as well as on an open-market credit (loan against borrower's note) was 4.49% (previous year: 3.70%). Interest rate risk exists for the major portion of the loan against borrower's note mentioned above.

There were no covenant agreements for loans in the year under review, as was the case in the previous year too.

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

Miscellaneous other liabilities include changes in the fair value of hedging instruments amounting to € 6,379 thousand (previous year: € 3,008 thousand). € 253 thousand (previous year: € 350 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 1,371 thousand (previous year: € 2,030 thousand). This also includes investment grants totalling € 3,003 thousand (previous year: € 3,171 thousand) received for new buildings in Germany.

INCOME STATEMENT DISCLOSURES

10 Sales revenue

KSB Group sales revenue amounted to € 2,091,046 thousand (previous year € 1,939,254 thousand), of which € 1,897,193 thousand were from the sale of goods and goods purchased and held for resale (previous year € 1,773,346 thousand) and € 193,853 thousand from services (previous year € 165,908 thousand).

The breakdown of sales revenue by product group as well as by country of origin and third country is presented in the segment reporting.

The change in the consolidated Group to include KSB Seil Co., Ltd. had an impact of € 16,387 thousand. Other companies consolidated for the first time accounted for € 48,275 thousand; in the prior-year consolidated financial statements they would have accounted for € 39,634 thousand.

The sales revenue of smaller non-consolidated companies are not material.

11 Other operating income

(€ thousands)	2011	2010
Gains from asset disposals and reversals of impairment losses (write-ups)	3,027	2,694
Income from current assets	2,904	2,614
Currency translation gains	388	2,165
Income from the reversal of provisions	12,344	12,507
Miscellaneous other income	14,734	15,941
	33,397	**35,921**

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 (for example, for research activities) amounted to € 529 thousand (previous year: € 470 thousand).

The changes in the consolidated Group did not have any material impact on other operating income; the same would have been reported in the prior-period consolidated financial statements.

12 Cost of materials

(€ thousands)	2011	2010
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	849,411	722,275
Cost of purchased services	63,580	68,580
	912,991	**790,855**

The change in the consolidated Group to include KSB Seil Co., Ltd. had an impact of € 8,034 thousand. Other companies consolidated for the first time accounted for € 21,643 thousand; in the prior-year consolidated financial statements they would have accounted for € 19,414 thousand.

13 Staff costs

(€ thousands)	2011	2010
Wages and salaries	557,804	517,980
Social security contributions and employee assistance costs	121,254	113,485
Pension costs	18,923	18,379
	697,981	**649,844**

Pension costs are reduced by the interest component of provisions for pensions and similar obligations, which is reported as an interest cost in financial income/expense. € 2,985 thousand was spent on defined contribution pension plans in the year under review.

The change in the consolidated Group to include KSB Seil Co., Ltd. had an impact of € 3,697 thousand. Other companies consolidated for the first time accounted for € 17,673 thousand; in the prior-year consolidated financial statements they would have accounted for € 12,459 thousand.

AVERAGE NUMBER OF EMPLOYEES

	2011	2010
Wage earners	6,808	6,689
Salaried employees	8,130	7,414
Trainees and apprentices	566	514
	15,504	**14,617**

The changes in the consolidated Group in the year under review led to the addition of 574 people, of which 146 are attributable to KSB Seil Co., Ltd.

14 Other operating expenses

(€ thousands)	2011	2010
Losses from asset disposals	1,507	1,219
Losses from current assets	9,512	6,666
Currency translation losses	502	807
Other staff costs	21,248	19,666
Repairs, maintenance, third-party services	97,732	84,978
Selling expenses	89,926	87,706
Administrative expenses	92,321	75,680
Rents and leases	23,506	22,187
Miscellaneous other expenses	47,625	40,598
	383,879	**339,507**

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

The change in the consolidated Group to include KSB Seil Co., Ltd. had an impact of € 5,731 thousand. Other companies consolidated for the first time accounted for € 7,873 thousand; in the prior-year consolidated financial statements they would have accounted for € 4,629 thousand.

15 Financial income / expense

(€ thousands)	2011	2010
Financial income	14,533	11,410
Income from investments	3,693	4,201
thereof from affiliates	(2,265)	(3,346)
Interest and similar income	9,288	7,159
thereof from affiliates	(467)	(445)
Write-ups of financial assets	38	–
Income from the remeasurement of financial instruments	–	–
Other financial income	1,514	50
Financial expense	– 24,403	– 28,662
Interest and similar expenses	– 22,193	– 20,221
thereof to affiliates	(– 1)	(– 3)
Write-downs of financial assets	– 2,139	– 8,238
Expenses from the remeasurement of financial instruments	–	–
Other financial expenses	– 71	– 203
	– 9,870	**– 17,252**

Interest and similar expenses include the interest cost on pension provisions amounting to € 13,867 thousand (previous year: € 12,561 thousand). The improvement in financial income/ expense is mainly attributable to a decline in write-downs of financial assets. In the year under review, two small service companies in Belgium and France were affected by impairment because of the difficult economic situation. The previous year saw impairments on five small companies in Belgium, Germany and the Netherlands.

The changes in the consolidated Group did not fundamentally have any material impact on the financial income/expense; the same would have been reported in the prior-period consolidated financial statements. It should be noted, however, that the first-time consolidation of KSB Seil Co., Ltd. affected interest expense by € 1,397 thousand. This was mainly the result of the funding structure chosen for the acquisition.

16 Taxes on income

All income-related taxes of the consolidated companies and deferred taxes are reported in this item. Other taxes are reported in the income statement after other operating expenses.

TAXES ON INCOME

(€ thousands)	2011	2010
Effective taxes	39,093	43,550
Deferred taxes	– 1,909	2,286
	37,184	**45,836**

€ 150 thousand (previous year: € 7 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 631 thousand (previous year: € 803 thousand) to tax arrears.

RECONCILIATION OF DEFERRED TAXES

(€ thousands)	2011	2010
Change in deferred tax assets	– 7,609	623
Change in deferred tax liabilities	4,173	1,722
Change in deferred taxes recognised in balance sheet	**– 3,436**	**2,345**
Change in deferred taxes taken directly to equity	909	102
Change in consolidated Group / Currency translation adjustments / Other	618	– 161
Deferred taxes recognised in income statement	**– 1,909**	**2,286**

ALLOCATION OF DEFERRED TAXES

	Deferred tax assets		Deferred tax liabilities	
(€ thousands)	2011	2010	2011	2010
Non-current assets	1,046	1,286	32,105	28,612
Current assets	55,124	49,194	66,444	63,117
Non-current liabilities	16,903	18,243	164	290
Current liabilities	18,164	16,007	9,758	9,703
Tax loss carryforwards	3,790	112	–	–
Gross deferred taxes – before offsetting	**95,027**	**84,842**	**108,471**	**101,722**
Offset under IAS 12.74	– 70,594	– 68,018	– 70,594	– 68,018
Net deferred taxes – after offsetting	**24,433**	**16,824**	**37,877**	**33,704**

At the reporting date, deferred tax assets amounting to € 6,884 thousand (previous year: € 1,293 thousand) were recognised, whose realisation exclusively depends on the creation of future profit. Based on the planning figures available, we expect realisation to take place.

As in the previous year, the introduction of new local taxes had no significant material effects in the year under review. Equally, changes in foreign tax rates did not have any significant impact on the total tax expense (€ 118 thousand), as was the case in the previous year.

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

We did not recognise deferred tax assets from loss carryforwards amounting to € 29,626 thousand (previous year: € 41,841 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)	2011	2010
Earnings before income taxes	120,477	135,796
Calculated income taxes on the basis of applicable tax rate (29%)	34,938	39,381
Differences in tax rates	2,410	– 101
Change in write-downs on deferred taxes on loss carryforwards and unused tax loss carryforwards	– 2,705	7,438
Tax-exempt income / non-deductible expenses	979	– 4,367
Prior-period taxes	– 1,189	796
Non-deductible foreign income tax	1,785	1,419
Other	966	1,270
Current taxes on income	**37,184**	**45,836**
Current tax rate	31 %	34 %

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

The tax effects in the amount of € 937 thousand recognised in the statement on recognised income and expense relate, among other things, to the measurement of financial instruments.

The changes in the consolidated Group did not have any material impact on the taxes on income; the same would have been reported in the prior-period consolidated financial statements.

17 Earnings after income taxes – Non-controlling interest

The non-controlling interest in net profit amounts to € 11,753 thousand (previous year: € 12,767 thousand), and the non-controlling interest in net loss amounts to € 410 thousand (previous year: € 242 thousand). These relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds.

The changes in the consolidated Group did not have any material impact on the earnings after income taxes attributable to non-controlling interest; the same would have been reported in the prior-period consolidated financial statements.

18 Research and development costs

Research and development costs in the year under review amounted to € 42,302 thousand (previous year: € 41,120 thousand).

The changes in the consolidated Group did not have any impact on the research and development costs; the same would have been reported in the prior-period consolidated financial statements.

19 Earnings per share

		2011	2010
Earnings after income taxes – Attributable to KSB AG shareholders	(€ thousands)	71,950	77,435
Additional dividend attributable to preference shareholders	(€ thousands)	– 225	– 225
	(€ thousands)	**71,725**	**77,210**
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	€	**40.95**	**44.09**
Diluted and basic earnings per preference share	€	**41.21**	**44.35**

The changes in the consolidated Group did not have any material impact on the earnings per share; the same would have been reported in the prior-period consolidated financial statements.

ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The changes in the consolidated Group did not have any material impact on the below disclosures on financial instruments; the same would have been reported in the prior-period consolidated financial statements.

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

ASSETS

Balance sheet item / Class (€ thousands)	Category	Initial / subsequent measurement	Carrying amount 31 Dec. 2011	Fair value 31 Dec. 2011	Carrying amount 31 Dec. 2010	Fair value 31 Dec. 2010
Non-current assets						
Non-current financial assets						
Investments in affiliates and other investments	AfS	Fair value / historic cost	37,822	37,822	55,694	55,694
Non-current financial instruments	AfS	Fair value	664	664	660	660
Loans	LaR	Fair value / Amortised cost	1,587	1,587	9,491	9,491
Current assets						
Receivables and other current assets						
Trade receivables	LaR	Fair value / Amortised cost	461,348	461,348	428,694	428,694
Intragroup and associate receivables	LaR	Fair value / Amortised cost	23,591	23,591	19,313	19,313
Receivables recognised by PoC – net –	LaR	Fair value / Amortised cost	122,147	122,147	99,311	99,311
Other receivables and other current assets	LaR	Fair value / Amortised cost	28,797	28,797	32,068	32,068
Derivatives included in hedging relationships	n / a	Fair value	671	671	959	959
Derivatives not included in hedging relationships	FAHfT	Fair value	536	536	560	560
Current financial instruments	AfS	Fair value	11	11	500	500
Cash and cash equivalents	LaR	Fair value / Amortised cost	305,707	305,707	407,621	407,621

EQUITY AND LIABILITIES

Balance sheet item / Class (€ thousands)	Category	Initial / subsequent measurement	Carrying amount 31 Dec. 2011	Fair value 31 Dec. 2011	Carrying amount 31 Dec. 2010	Fair value 31 Dec. 2010
Non-current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	60,553	57,570	108,603	102,507
Finance lease liabilities	n / a	in accordance with IAS 17	1,190	1,190	1,041	1,041
Current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	66,958	66,958	18,554	18,554
Finance lease liabilities	n / a	In accordance with IAS 17	588	588	2,866	2,866
Trade payables	FLAC	Fair value / Amortised cost	206,267	206,267	181,391	181,391
Advances received from customers (PoC)	LaR	Fair value / Amortised cost	61,148	61,148	55,188	55,188
Other liabilities – Miscellaneous	FLAC	Fair value / Amortised cost	42,322	42,322	42,777	42,777
Derivatives included in hedging relationships	n / a	Fair value	4,553	4,553	1,709	1,709
Derivatives not included in hedging relationships	FLHfT	Fair value	1,826	1,826	1,299	1,299
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Fair value / Amortised cost	882,029	882,029	941,310	941,310
Available-for-sale financial instruments	AfS	Fair value	675	675	1,160	1,160
Available-for-sale financial instruments	AfS	Fair value / Amortised cost	37,822	37,822	55,694	55,694
Financial assets held for trading	FAHfT	Fair value	536	536	560	560
Financial liabilities measured at amortised cost	FLAC	Fair value / Amortised cost	376,100	373,117	351,325	345,229
Financial liabilities held for trading	FLHfT	Fair value	1,826	1,826	1,299	1,299

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

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

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

NET RESULTS BY MEASUREMENT CATEGORY IN 2011

(€ thousands)	From interest and dividends	From subsequent measurement: At fair value	From subsequent measurement: Currency translation	From subsequent measurement: Impairment losses	From disposal	Net results
LaR	9,229	–	549	– 3,004	–	6,774
AfS	3,753	– 6	–	– 2,139	1,394	3,002
FAHfT / FLHfT	–	– 543	–	–	–	– 543
FLAC	– 7,108	–	– 280	–	–	– 7,388
	5,874	**– 549**	**269**	**– 5,143**	**1,394**	**1,845**

NET RESULTS BY MEASUREMENT CATEGORY IN 2010

(€ thousands)	From interest and dividends	From subsequent measurement: At fair value	From subsequent measurement: Currency translation	From subsequent measurement: Impairment losses	From disposal	Net results
LaR	7,159	–	– 53	– 5,133	–	1,973
AfS	4,221	– 8	–	– 7,690	–	– 3,477
FAHfT / FLHfT	–	– 1,202	–	–	–	– 1,202
FLAC	– 6,299	–	62	–	–	– 6,237
	5,081	**– 1,210**	**9**	**– 12,823**	**–**	**– 8,943**

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

The AfS measurement category resulted in a remeasurement loss of € 6 thousand (previous year: loss of € 8 thousand), which was recognised directly in equity. As in the previous year, no withdrawals were made from equity and realised 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 define how these risks are addressed through guidelines and work instructions. In addition, we monitor the current risk characteristics continuously and regularly provide the information obtained in this way to the Board of Management and the Supervisory Board in the form of standardised reports and individual analyses.

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

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

Impairment losses on “Trade receivables” are the only material impairment losses in the KSB Group. They changed as follows:

(€ thousands)	2011	2010
Opening balance at 1 January	29,966	26,349
Additions	7,071	6,074
Utilised	– 1,758	– 1,699
Reversals	– 2,798	– 2,960
Change in consolidated Group / Currency translation adjustments / Other	1,032	2,202
Closing balance at 31 December	**33,513**	**29,966**

The maturity structure of trade receivables is as follows:

(€ thousands)	31 Dec. 2011	31 Dec. 2010
Receivables that are neither past due nor individually impaired	353,069	331,168
Receivables that are past due but not individually impaired		
1 to 30 days	41,546	36,308
31 to 90 days	30,150	27,609
91 to 180 days	14,367	11,978
> 180 days	8,938	4,905
Total	95,001	80,800
Receivables individually determined to be impaired	13,278	16,726
Receivables individually determined to be impaired at their principal amount	46,791	46,692
Specific write-downs	33,513	29,966
Carrying amount (net)	**461,348**	**428,694**

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

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

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

LIQUIDITY RISK

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

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

In response to the extraordinary situation that arose in the wake of the global financial and economic crisis, and to provide for the risk of the crisis being of a prolonged nature, in 2009 we successfully placed a loan against borrower's note with a 3-year and 5-year maturity as an added precaution. € 37.5 million was repaid before maturity in 2011, so the residual obligation at year end 2011 was € 62.5 million.

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

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

CASH FLOWS OF FINANCIAL LIABILITIES 2011

(€ thousands)	Total	Up to 1 years	1 – 5 years	> 5 years
Financial liabilities	138,687	71,384	62,513	4,790
Trade payables	206,267	206,090	177	–
Other liabilities	42,322	41,561	761	–
Derivative financial instruments	– 5,152	– 4,476	– 657	– 19
	382,124	**314,559**	**62,794**	**4,771**

CASH FLOWS OF FINANCIAL LIABILITIES 2010

(€ thousands)	Total	Up to 1 years	1 – 5 years	> 5 years
Financial liabilities	144,158	25,670	113,871	4,617
Trade payables	181,391	181,286	105	–
Other liabilities	42,777	37,656	4,782	339
Derivative financial instruments	– 1,569	– 1,101	– 467	– 1
	366,757	**243,511**	**118,291**	**4,955**

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 hypothetical impact 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 foreign exchange risks 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 € 41 million (previous year: approximately € 29 million). The volume of trade payables denominated in USD amounts to around € 13 million (previous year: approximately € 7 million).

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

At the reporting date, equity and the fair value of the derivatives would have been € 7.6 million lower (higher); € 4.4 million results from USD and € 3.2 million from the other currencies.

At the previous year's reporting date, equity and the fair value of the derivatives would have been € 7.2 million lower (higher); € 3.6 million would have resulted from USD and € 3.6 million from the other currencies.

The hypothetical impact on earnings in the year under review would have been a decrease (an increase) of € 1.5 million; the impact on the dollar would have been very small. Accordingly, the effect would have been attributable to the remaining currencies.

The hypothetical impact on earnings in the previous year would have been a decrease (an increase) of € 0.2 million. € 0.7 million would have been attributable to USD and € –0.9 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 impact on the floating rate financial instruments. In 2011, the net interest balance would have been € 2.2 million (previous year: € 3.2 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 0.1 million (previous year: € 0.1 million).

CASH FLOW STATEMENT

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

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

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

In addition to cash flows resulting from equity items (capitalisation measures and dividend payments), cash flows from financing activities comprise cash flows arising from changes in financial receivables and liabilities.

If cash and cash equivalents include restricted cash, this is reported separately.

Cash flows from operating activities include cash flows from interest received amounting to € 9,288 thousand (previous year: € 7,159 thousand) and cash flows from income taxes totalling € –50,712 thousand (previous year € –37,894 thousand). Cash flows from investing activities include cash flows from dividends received of € 3,693 thousand (previous year € 4,201 thousand). Cash flows from financing activities include interest expense of € –8,326 thousand (previous year: € –7,660 thousand).

€ 2.8 million of the cash flows from operating activities is attributable to the first-time consolidation of companies (not including KSB Seil Co., Ltd.); the prior-year figure would have been € 4.0 million. € –1.0 million of the cash flows from investing activities is attributable to the first-time consolidation of companies; the prior-year figure would have been € –11.2 million. € –1.7 million of the cash flows from financing activities is attributable to the first-time consolidation of companies; the prior-year figure would have been € +8.5 million.

SEGMENT REPORTING

	Order intake		External sales revenue		EBIT	
(€ thousands)	2011	2010	2011	2010	2011	2010
Business Unit Pumps	1,445,697	1,450,920	1,408,842	1,333,824	81,889	121,561
Business Unit Valves	359,961	342,393	335,586	331,270	2,466	10,146
Business Unit Service	326,631	281,714	323,088	276,513	42,824	30,452
Reconciliation	–	–	23,530	– 2,353	6,203	– 13,301
Total	**2,132,289**	**2,075,027**	**2,091,046**	**1,939,254**	**133,382**	**148,858**

€ 696,286 thousand (previous year: € 668,367 thousand) of the sales revenue presented was generated by the companies based in Germany and € 1,394,760 thousand (previous year: € 1,270,887 thousand) by the other Group companies.

At the balance sheet date, the total non-current assets of the KSB Group amounted to € 444,011 thousand (year-end figure in 2010: € 411,259 thousand), with € 187,135 thousand (year-end figure in 2010: € 188,167 thousand) being attributable to the companies based in Germany and € 256,876 thousand (year-end figure in 2010: € 223,092 thousand) being attributable to the other Group companies. The non-current assets include intangible assets and property, plant and equipment. Goodwill, non-current financial instruments and deferred tax assets are not included.

Our new South Korean company KSB Seil Co., Ltd., Busan, which was founded in March 2011 and is assigned to the Business Unit Valves, accounted for € 17.9 million of order intake; € 16.4 million of external sales revenue and € –1.1 million of EBIT. The other companies consolidated for the first time impacted order intake by € 15.1 million in the Business Unit Pumps (the previous year it would have been € 14.5 million), € 8.8 million in the Business Unit Valves (the previous year it would have been € 7.7 million) and € 24.5 million in the Business Unit Service (the previous year it would have been € 17.6 million). The impact on external sales was € 15.0 million in the Business Unit Pumps (the previous year it would have been € 14.5 million), € 8.8 million in the Business Unit Valves (the previous year it would have been € 7.7 million) and € 24.5 million in the Business Unit Service (the previous year it would have been € 17.5 million). The impact on EBIT was € 2.5 million in the Business Unit Pumps (the previous year it would have been € 2.8 million), € 0.9 million in the Business Unit Valves (the previous year it would have been € 0.2 million) and € 1.7 million in the Business Unit Service (the previous year it would have been € 0.7 million).

Segment reporting corresponds to our internal organisational and management structure, as well as the reporting lines to the Board of Management and the Supervisory Board. In our matrix organisation management decisions are primarily taken on the basis of the key performance indicators – order intake, external sales revenue and earnings before income taxes (EBIT) – determined for the Pumps, Valves and Service Business Units. Reporting the relevant assets (including depreciation and amortisation, impairment losses / write-downs), number of employees and inter-segment sales revenue for these Business Units is not part of our internal reporting. The managers in charge of the Business Units, which are geared to product groups, have profit and loss responsibility. They identify business opportunities across markets and industries and assess our options based on current and future market requirements. They also proactively encourage the development of new products and improvements to the available range of products. In this context, they work closely with our Sales organisation and Operations.

The **Pumps** product group covers single- and multistage pumps, submersible pumps and associated control and drive systems. Applications include process engineering, building services, water and waste water transport, energy conversion and solids transport.

The **Valves** product group covers butterfly, globe, gate, control, diaphragm and ball valves, as well as associated actuators and control systems. Applications primarily include process engineering, building services, energy conversion and solids transport.

The **Service** product group covers the installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves; as well as modular service concepts and system analyses for complete systems.

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

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

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

The **order intake of the Business Units by segment** presents order intake generated with third parties and non-consolidated Group companies.

The **external sales revenue of the Business Units by segment** presents sales revenue generated with third parties and non-consolidated Group companies. The effects from measuring construction contracts in accordance with IAS 11 are presented separately as reconciliation effects.

The segment results show **earnings before interest and taxes (EBIT)**, including non-controlling interests. The effects from measuring construction contracts in accordance with IAS 11 are also presented separately as reconciliation effects.

OTHER DISCLOSURES

The changes in the consolidated Group did not have any material impact on the other disclosures; the same would have been reported in the prior-period consolidated financial statements.

Contingent liabilities (contingencies and commitments)

CONTINGENT LIABILITIES AND SECURITY GRANTED

(€ thousands)	2011	2010
Liabilities from guarantees	874	2,738
Liabilities from warranties	7,824	7,400
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	2,191	3,151
	10,889	**13,289**

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

Other financial obligations from rental agreements and other operating leases (minimum lease payments) amount to a total of € 30,978 thousand (previous year: € 25,724 thousand). Of these, € 13,783 thousand (previous year: € 11,012 thousand) is due within one year and € 15,399 thousand (previous year: € 12,203 thousand) due between one and five years. In the year under review, € 11,012 thousand was spent on these agreements.

Operating leases relate primarily to vehicles and real estate. There are extension options within the ususal scope.

FINANCE LEASES

	Minimum lease payments		Present values	
(€ thousands)	2011	2010	2011	2010
Due within one year	686	2,990	633	2,866
Due between one and five years	1,043	862	936	789
Due after more than five years	223	252	209	252
	1,952	**4,104**	**1,778**	**3,907**

Finance leases relate almost entirely to real property. The term of the contract covers most of the useful life of the asset concerned.

The annual obligations from IT services agreements amount to € 51,317 thousand (previous year: € 28,498 thousand) over a term of one to five years.

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

The aggregate purchase obligation for investments (primarily in property, plant and equipment) amounts to € 11,703 thousand (previous year: € 6,905 thousand). Almost all of the corresponding payments are due in 2012.

Other covenant agreements

In the year under review, as in the previous year, there are two guarantee credit facilities for € 9 million (previous year € 10 million) for which covenant agreements defined by the lender must be observed. Both agreements relate to defined equity limits and to a dynamic debt level. There are currently no risks that the agreed covenants will not be honoured.

Related party disclosures

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

A rental and services agreement has been entered into between KSB AG and Klein Pumpen GmbH. In the year under review, this resulted in the recognition of expenses of € 33 thousand (previous year: € 77 thousand) and income of € 8 thousand as in the previous year at KSB AG. As in the previous year, no interest 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 2011 amounted to € 19 thousand (previous year: € 7 thousand).

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

The total remuneration of members of the Supervisory Board amounts to € 1,332 thousand for financial year 2011 (previous year: € 1,310 thousand), and the total remuneration of the Board of Management amounts to € 3,327 thousand (previous year: € 4,027 thousand). € 22,195 thousand (previous year: € 19,580 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 € 1,714 thousand in the year under review (previous year: € 1,436 thousand). Additions of € 2,361 thousand (previous year € 1,770 thousand) were made to the pension provisions for active and former members of the Board of Management.

Based on the relevant legal provisions, the Annual General Meeting on 19 May 2010 resolved not to disclose the remuneration of the Board of Management separately for each member and classified by components.

The members of the Supervisory Board and the Board of Management are listed before the presentation of the proposal on the appropriation of the net retained earnings of KSB AG.

Auditors

On 18 May 2011, BDO AG Wirtschaftsprüfungsgesellschaft, based in Hamburg with an office in Frankfurt am Main, were appointed as auditors and group auditors for the financial year 2011 by the Annual General Meeting of KSB AG. The financial statements include € 275 thousand (previous year € 250 thousand) for audit fees and an additional € 90 thousand (previous year € 45 thousand) for auditing German subsidiaries. A further € 34 thousand (previous year € 217 thousand) was paid for other services, € 159 thousand (previous year none) for other confirmation services and € 43 thousand (previous year none) for tax advisory services.

Use of exemption option

KSB Service GmbH, Frankenthal and KSB Service GmbH, Schwedt have made partial use of the exemption option under section 264 (3) of the *HGB* [German Commercial Code].

Events after the reporting period

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

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	
PMS Pumpen & Motoren Service GmbH, Neuss	Germany	N	100.00	737	378	■
KSB Atlantic Pump & Valve Service S.L., Las Palmas de Gran Canaria	Spain	N	47.00	512	– 72	■
KSB Service GmbH, Schwedt	Germany	C	100.00	1,686	PPA	
Uder Elektromechanik GmbH, Friedrichsthal	Germany	C	100.00	26	PPA	
Pumpen-Service Bentz GmbH, Reinbek	Germany	N	100.00	1,058	419	■
Dynamik-Pumpen GmbH, Stuhr	Germany	C	100.00	902	492	
B&C Pumpenvertrieb Köln GmbH, Cologne	Germany	C	100.00	905	246	
Elektro Berchem GmbH, Cologne	Germany	C	100.00	653	163	
Nikkiso-KSB GmbH, Bruchköbel	Germany	N	50.00	4,362	206	■
KAGEMA Industrieausrüstungen GmbH, Pattensen	Germany	C	100.00	2,179	349	
gear-tec GmbH, Eggebek	Germany	N	51.00	1,133	10	■
KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	C	100.00	530	67	
KSB OOO, Moscow	Russia	C	100.00	1,119	117	
PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	C	51.00	37,024	114	
KSB America Corporation, Richmond / Virginia	USA	C	51.00	31,514	4,326	
GIW Industries, Inc., Grovetown / Georgia	USA	C	51.00	36,339	4,923	
AMRI, Inc., Houston / Texas	USA	C	55.91	9,023	952	
KSB, Inc., Richmond / Virginia	USA	C	51.00	8,409	1,346	
Precision Pump and Machine-KSB, Inc., Bakersfield / California	USA	C	51.00	2,360	58	
Standard Alloys Incorporated, Port Arthur / Texas	USA	C	51.00	1,869	82	
KSB Finland Oy, Kerava	Finland	C	100.00	4,099	689	
Mäntän Pumppauspalvelu Oy, Mänttä-Vilppula	Finland	N	100.00	1,054	353	■
Kiinteistö Oy Keravan Savirunninkatu 4, Kerava	Finland	N	100.00	1,253	–	
KSB Mörck AB, Askim (Gothenburg)	Sweden	C	55.00	3,633	568	
PUMPHUSET Sverige AB, Sollentuna	Sweden	C	55.00	869	223	
KSB Lindflaten AS, Lysaker	Norway	C	89.83	2,265	159	
KSB Pompy i Armatura Sp. z o.o., Ozarow-Mazowiecki	Poland	C	100.00	6,802	1,144	
KSB-Pumpy + Armatury s.r.o., koncern, Prague	Czech Republic	C	100.00	3,118	11	
KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovak Republic	N	100.00	99	– 13	■
KSB Szivattyú és Armatúra Kft., Budapest	Hungary	C	100.00	1,114	120	
KSB črpalke in armature d.o.o., Ljubljana	Slovenia	N	100.00	•	•	
KSB pumpe i armature d.o.o., Zagreb	Croatia	N	100.00	•	•	
KSB SRB d.o.o. Beograd, Belgrade	Serbia	N	100.00	40	4	■
KSB Zürich AG, Zurich	Switzerland	C	100.00	1,745	16	
REEL s.r.l., Ponte di Nanto	Italy	C	80.00	455	– 15	
Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	N	25.00	6,137	1,637	■
KSB Bombas e Válvulas S.A., Rio de Mouro (Lisbon)	Portugal	N	95.00	930	255	■

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

Name and seat of company	Country		Capital share %	Equity € thousands	Net profit / loss for the year € thousands	
Hydroskepi GmbH, Amaroussion (Athens)	Greece	C	100.00	1,613	– 15	
KSB TESMA AG, Amaroussion (Athens)	Greece	N	59.74	1,402	13	■
KSB Viosen AG, Patras	Greece	N	60.28	396	– 72	■
KSB Service LLC, Abu Dhabi	U.A.E.	N	49.00	1,787	610	■
KSB Pumps Company Limited, Lahore	Pakistan	C	58.89	6,042	– 884	
MIL Controls Limited, Mala	India	C	70.86	10,021	2,780	
KSB Tech Pvt. Ltd., Pimpri (Pune)	India	N	100.00	1,030	747	■
KSB Limited, Hong Kong	China	C	100.00	2,095	841	
KSB Valves (Shanghai) Co. Ltd., Shanghai	China	C	100.00	5,694	656	
KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	N	100.00	3,951	–	■
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	N	45.00	9,198	– 6,609	■
KSB Taiwan Co., Ltd., Taipei	Taiwan	C	100.00	1,922	903	
KSB Korea Ltd., Seoul	South Korea	C	100.00	929	579	
KSB Seil Co., Ltd., Busan	South Korea	C	100.00	4,000	– 4,479	
KSB Ltd., Tokyo	Japan	N	100.00	– 1,535	– 465	■
KSB Pumps Co. Ltd., Bangkok	Thailand	C	40.00	3,012	451	
KSB Singapore (Asia Pacific) Pte. Ltd., Singapore	Singapore	C	100.00	7,302	1,068	
* KSB Malaysia Pumps & Valves Sdn. Bhd., Petaling Jaya	Malaysia	(C)	100.00	– 127	– 13	
Canadian Kay Pump Limited, Mississauga / Ontario	Canada	C	100.00	5,574	1,048	
KSB Pumps Limited, Pimpri (Pune)	India	C	40.54	59,107	6,762	
KSB de Mexico, S.A. de C.V., Querétaro	Mexico	C	100.00	2,945	486	
KSB Chile S.A., Santiago	Chile	C	100.00	11,636	1,699	
KSB Perú S.A., San Isidro-Lima	Peru	N	100.00	•	•	
KSB Pars Co. (P.J.S.), Shiraz	Iran	N	100.00	543	146	■
KSB Services Ltd. Co., Al-Khobar	Saudi Arabia	N	70.00	•	•	
KSB Finanz S.A., Echternach	Luxembourg	C	100.00	122,437	15,361	
KSB Limited, Loughborough	United Kingdom	C	100.00	3,592	270	
RES Rotary Equipment Services Ltd., Loughborough	United Kingdom	C	100.00	588	92	
KSB Finance Nederland B.V., Zwanenburg	Netherlands	C	100.00	25,732	3,980	
DP industries B.V., Alphen aan den Rijn	Netherlands	C	100.00	27,937	9,817	
KSB Nederland B.V., Zwanenburg	Netherlands	C	100.00	4,995	1,093	
Nederlandse Pompservice (N.P.S.) B.V., Velsen-Noord	Netherlands	N	100.00	– 548	– 389	■
VRS Valve Reconditioning Services B.V., Vierpolders	Netherlands	N	100.00	85	– 384	■
KSB Belgium S.A., Wavre	Belgium	C	100.00	505	– 987	
KSB Service Belgium S.A./N.V., Wavre	Belgium	C	100.00	939	8,492	
KSB On Site Machining BVBA, Wilrijk	Belgium	N	100.00	50	– 86	■
VRS Industries SA, Feluy	Belgium	N	100.00	– 175	– 407	■
SISTO Armaturen S.A., Echternach	Luxembourg	C	52.86	11,389	1,006	
KSB Österreich Gesellschaft mbH, Vienna	Austria	C	100.00	1,866	– 182	

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KSB S.A.S., Gennevilliers (Paris)	France	C	100.00	101,275	10,222	
KSB Techni Pompe Service S.A.S., Hoerdt	France	C	100.00	1,479	46	
KSB-Hydraulor Services, Algrange	France	C	100.00	1,157	57	
KSB Service EITB-SITELEC, Montfavet	France	N	100.00	– 1,049	163	▪
SBCM S.à r.l., Gennevilliers (Paris)	France	N	100.00	220	4	
KSB Service Robinetterie, Rambervillers	France	N	100.00	982	436	
KSB Service ETC, Montcenis	France	N	100.00	822	175	▪
KSB Service MEDIATEC S.A.S., Chalon-sur-Saône	France	N	100.00	390	136	▪
SPI Energie S.A.S., La Ravoire	France	N	100.00	1,235	140	▪
Metis Levage S.A.S., Villefranche sur Saône	France	N	100.00	611	– 48	▪
KSB Artru Services S.A.S., Villefranche sur Saône	France	N	100.00	3,415	– 4	▪
KSB Artru Services Rhône Alpes S.A.S., Villefr.s. Saône	France	N	100.00	707	– 159	
KSB Artru Services Auvergne S.A.S., Thiers	France	N	100.00	736	59	
KSB Artru Services Bourgogne S.A.S., Châten. le Royal	France	N	100.00	944	– 9	
Vibra Services S.A.S., Villefranche sur Saône	France	N	100.00	211	– 2	▪
KSB Export Afrique S.A.S., Gennevilliers (Paris)	France	N	100.00	– 227	– 47	
Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	N	50.00	– 212	– 144	▪
KSB Pompes et Robinetteries S.à r.l., Casablanca	Morocco	N	100.00	136	99	▪
KSB Italia S.p.A., Concorezzo (Milan)	Italy	C	100.00	25,033	1,103	
KSB Service Italia S.r.l., Scorzè	Italy	C	100.00	2,035	446	
KSB AMVI, S.A., Madrid	Spain	C	100.00	3,967	672	
AMVI Aplica. Mecánicas Válvulas Industriales, S.A., Burgos	Spain	C	100.00	11,711	811	
KSB ITUR Spain S.A., Zarautz	Spain	C	100.00	15,555	– 2,413	
KSB Service Suciba S.L.U., Sondika	Spain	N	100.00	567	166	▪
KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	C	99.00	7,368	1,735	
KSB Middle East FZE, Dubai	U.A.E.	C	100.00	5,395	599	
KSB Pumps Arabia Ltd., Ryadh	Saudi Arabia	N	50.00	6,595	3,085	▪
KSB Shanghai Pump Co. Ltd., Shanghai	China	C	80.00	56,321	2,154	
Dalian KSB AMRI Valves Co., Ltd., Dalian	China	N	100.00	1,107	– 256	▪
PT. KSB Indonesia, Cibitung, Jawa Barat	Indonesia	C	100.00	7,921	2,652	
KSB Australia Pty. Ltd., Tottenham (Melbourne)	Australia	C	100.00	15,537	– 613	
* KSB New Zealand Limited, Penrose / Auckland	New Zealand	(C)	100.00	833	139	
KSB Algérie Eurl, Algiers	Algeria	N	100.00	534	– 55	▪
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	100.00	7,645	53	
* Forty-Four Activia Park (Pty) Ltd.	South Africa	(C)	100.00	90	22	
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	74.99	15,728	5,880	
KSB Pumps Inc., Mississauga / Ontario	Canada	C	100.00	1,627	370	
KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	C	100.00	64,127	10,337	
KSB Válvulas Ltda., Barueri	Brazil	C	100.00	3,064	19	
KSB Compañía Sudamericana de Bombas S.A., Carapachay	Argentina	C	100.00	4,112	927	

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SUPERVISORY BOARD

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

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

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

Dr. Martin Auer, Mannheim [1]
Head of Corporate Legal / Compliance and Materials Management
MVV Energie AG

Dr.-Ing. Stephan Bross, Erpolzheim
Senior Vice President Business Unit Service

Reiner Euler, Engineering Technician, Grünstadt
Member of the European Works Council,
Chairman of the General Works
Council and the Frankenthal Works Council

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

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

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

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

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

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

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

BOARD OF MANAGEMENT

Dr. rer. pol. Wolfgang Schmitt, Bad Dürkheim [2]
(Chairman)

Dr.-Ing. Peter Buthmann, Frankenthal [3]
(Human Resources Director)

Prof. Dr.-Ing. Dieter-Heinz Hellmann, Frankenthal [4]

Jan Stoop, Bad Dürkheim [5]

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

1 Palatina Versicherungsvermittlungsgesellschaft mbH, Frankenthal, Germany
MVV Energie CZ a.s., Prague, Czech Republic
Stadtwerke Ingolstadt Beteiligungs GmbH, Ingolstadt, Germany

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

2 KSB Finanz S.A., Echternach, Luxembourg
KSB Pumps (S.A.) (Pty) Ltd., Germiston, South Africa
KSB Pumps and Valves (Pty) Ltd., Germiston, South Africa
Canadian Kay Pump Ltd., Mississauga / Ontario, Canada
KSB America Corporation, Richmond / Virginia, USA
KSB Pumps Limited, Pimpri (Pune), India

3 SISTO Armaturen S.A., Echternach, Luxembourg
DP industries B.V., Alphen aan den Rijn, Netherlands

4 GIW Industries, Inc., Grovetown / Georgia, USA
KSB Shanghai Pump Co. Ltd., Shanghai, China
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Lingang, China

5 KSB Bombas e Hidráulicas S.A., Várzea Paulista, Brazil
KSB Shanghai Pump Co. Ltd., Shanghai, China
KSB Singapore (Asia Pacific) Pte. Ltd., Singapore
KSB Malaysia Pumps & Valves Sdn. Bhd., Petaling Jaya, Malaysia
KSB ITUR Spain S.A., Zarautz, Spain
KSB Finanz S.A., Echternach, Luxembourg
KSB Pumps Co. Ltd., Bangkok, Thailand

PROPOSAL ON THE APPROPRIATION OF THE NET RETAINED EARNINGS OF KSB AG

We will propose to the Annual General Meeting on 16 May 2012 to appropriate the net retained earnings of € 29,563,877.28 of KSB AG containing retained earnings brought forward of € 133,949.34, as follows:

Distribution of a dividend of € 12.00 per ordinary no-par-value share	=	€ 10,639,380.00
and, in accordance with the Articles of Association, € 12.26 per preference no-par-value share	=	€ 10,601,369.12
Appropriation to revenue reserves		€ 8,000,000.00
Total		€ 29,240,749.12
Carried forward to new account		€ 323,128.16
		€ 29,563,877.28

Frankenthal, 9 March 2012
The Board of Management

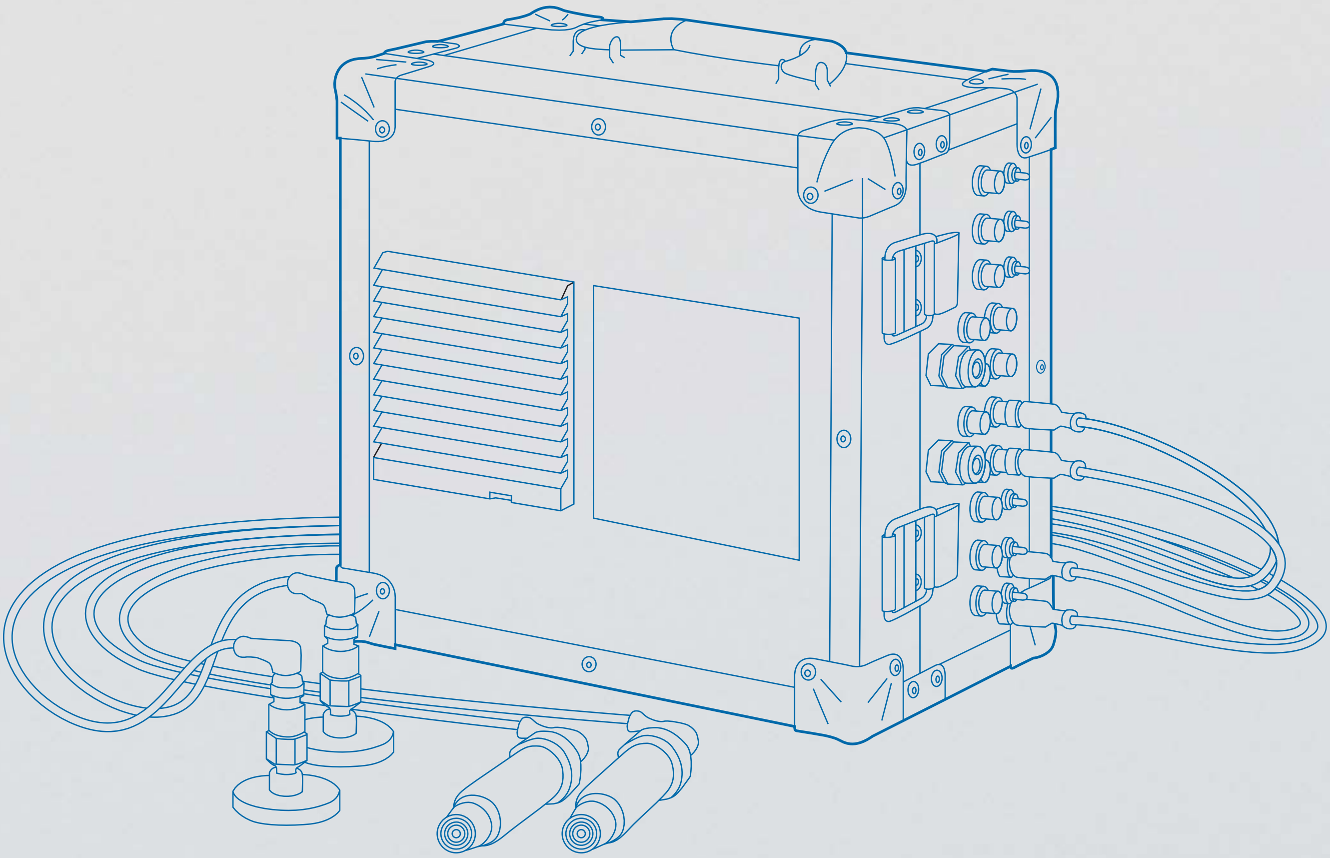
The annual financial statements of KSB AG were prepared in accordance with German accounting principles. They are published in the electronic *Bundesanzeiger* [German Federal Gazette]. The annual financial statements can also be downloaded from our web site at www.ksb.com, or sent in print form on request.

SERVICE

30 %

higher system efficiency

Pumps that have not been optimised for the system they are installed in consume a lot of energy – not least in water engineering applications. The System Efficiency Services approach helps identify potential savings and achieve a 30 percent increase in efficiency.



Type | **SES System Efficiency Services**	Pressure | **up to 400 bar**	Power | **< 4 MW**

A data logger is used to record the process and vibration data for a pump over an extended period. This provides a clear picture of its current load profile, which can then be compared with the specifications. The aim is to identify potential savings and causes of failure with a view to devising recommended courses of action.

»After pump systems have been in operation for a considerable period of time, they tend not to run with optimum energy efficiency. It is the job of our System Efficiency Services to analyse how the system deviates from the optimum values. Using our data logger, we measure changes in operating conditions and then suggest how the pump could be operated more efficiently. Rather than being the exception, electricity savings of 30 percent are actually the norm in terms of what can be achieved in existing systems on average.«

Dr. Falk Schäfer, Head of System Efficiency Services

The Group's equity ratio is 44.0 percent, still well above the average for a German mechanical engineering company.

GENERAL INFORMATION

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, 9 March 2012

The Board of Management

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by KSB Aktiengesellschaft, Frankenthal (Pfalz), comprising the balance sheet, the statement of recognised income and expense, the income statement, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January 2011 to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a(1) *HGB* [*Handelsgesetzbuch* – German Commercial Code] are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt am Main, 21 March 2012

BDO AG
Wirtschaftsprüfungsgesellschaft

Dyckerhoff	ppa. Erbe
Wirtschaftsprüfer	Wirtschaftsprüfer

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:

The term "corporate governance" covers the legal and factual regulatory framework for the management and supervision of companies; it is geared towards responsible management and control with the ultimate goal of sustainable value creation. The principles of corporate governance at KSB are based on the German Corporate Governance Code. This Code provides the basic framework for the management and supervision of listed companies and formulates nationally and internationally recognised standards of good and responsible corporate governance. We welcome the work of the Government Commission of the German Corporate Governance Code as well as the ideas and recommendations contained in the Code. These were last revised on 26 May 2010 and published on 2 July 2010 in the electronic *Bundesanzeiger* [German Federal Gazette].

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

STATEMENT OF COMPLIANCE UPDATED

Pursuant to section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act], the Board of Management and Supervisory Board of listed German public companies are under the obligation to declare once per year whether the German Corporate Governance Code "was complied with and will continue to be complied with or which recommendations were not or will not be applied and why". The majority of the recommendations added to the Code in 2010 were implemented, i.e. they were integrated into internal company workflows and pending decisions. The new recommendation which states that the Supervisory Board should specify concrete objectives for its composition was not complied with, however, although, in principle, we are guided by the criteria specified in the Code in this context, and an age limit is in place. Members of the Supervisory Board shall as a rule step down at the Annual General Meeting held after they reach the age of 75, and not later than upon reaching the age of 80. The appointment of Members of the Board of Management should as a rule not extend beyond their 65th birthday, and shall end not later than upon their reaching the age of 75. These requirements are currently met without exception, although the terms of office of the Supervisory Board members Dr. Jacob and Dr. Lederer, and Board of Management member Prof. Dr. Hellmann exceed, by way of exception, the age limits recommended in the Rules of Procedure, but in each case will end well before they reach the age of 80/75 respectively.

The Board of Management and Supervisory Board once again submitted a Statement of Compliance on 7 December 2011 in accordance with section 161 of the *AktG* and made this accessible to shareholders on the company's web site together with statements from previous years. The Company complies with the recommendations of the German Corporate Governance Code apart from two exceptions. The statement will be updated as required.

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

SHAREHOLDERS AND ANNUAL GENERAL MEETING

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

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

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

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

RESPONSIBLE COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

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

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

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

TRANSPARENCY

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

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

In the event that any directors' dealings take place which are subject to reporting requirements, you will find the relevant information at Investor Relations / Corporate Governance / Directors' Dealings.

KSB AG created an insider directory as required by section 15b of the *WpHG* [*Wertpapierhandelsgesetz* – German Securities Trading Act]. Those persons affected are informed of their current legal obligations and potential sanctions.

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

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

ACCOUNTING AND AUDIT OF THE FINANCIAL STATEMENTS

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

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

MANAGEMENT PARAMETERS AND CONTROL SYSTEM

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

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

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

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

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

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

COMPLIANCE AS A KEY TASK OF CORPORATE MANAGEMENT

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

Some fundamental statements contained in the Code of Conduct are addressed in more detail in other, separate guidelines. This particularly applies to the areas of anti-trust or cartel law and anti-corruption measures. The applicable laws and regulations are explained in greater detail and useful information on proper conduct in concrete situations is provided. The latter is similarly applicable to the guidelines prohibiting insider trading.

One major focus of compliance activities in 2011 was the start of work on aligning and further developing our compliance management system in accordance with the new auditing standards introduced by the *Institut der Wirtschaftsprüfer* [Institute of Public Auditors] in Germany *(IDW)*, which describe the basic elements to be included in a proper compliance system and the necessary framework conditions. To this end, the probability of occurrence of basic compliance risks were first of all re-recorded and re-evaluated across the Group. In the current financial year we will continue with this work and focus in particular on selected operative organisational structures and processes to identify any potential for optimisation. In 2011, to ensure a uniform, international quality standard, the training offering was revised, with the focus on tightening administrative expenditure and introducing more flexibility for participants. These requirements will in future be realised through the use of e-learning, which will largely replace the classroom training conducted up until now. Once again, international projects were randomly audited for compliance with specific compliance issues within the scope of correlated control measures aimed at securing the targeted preventive effects.

REMUNERATION OF THE SUPERVISORY BOARD

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

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

Any additional remuneration is reserved for determination by the Annual General Meeting. The total remuneration paid to members of the Supervisory Board in 2011 amounted to € 1,332 thousand (previous year: € 1,310 thousand).

REMUNERATION OF THE BOARD OF MANAGEMENT (REMUNERATION REPORT)

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

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

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

The variable component of remuneration is linked to the return on sales achieved during the financial year in question, with a weighting factor of 15 % of the maximum annual salary. Board of Management members also receive variable remuneration components which serve as a long-term incentive. These are determined based on an economic value added approach over a three-year period; a weighting factor of 25 % of the member's maximum annual salary is applied. Any negative developments during this period are also taken into consideration when calculating payments for the third year. The total amount of the variable remuneration components is limited in order to take extraordinary, unforeseen developments into account. The weighting factors above do not reflect the additional possibility of a premium, to be paid out in individual cases at the discretion of the Supervisory Board, of no more than three monthly salary payments per financial year in recognition of any special performance of individual members of the Board of Management. Decisions in this respect are only considered on an irregular basis meaning that they are not necessarily made annually.

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

On 19 May 2010 – using a legally permissible option – the Annual General Meeting once again resolved not to disclose the details of the compensation for individual members of the Board of Management for a period of five years. The total remuneration paid to Board of Management members for services provided during the past financial year amounted to € 3,327 thousand. During this period of time, additions of € 2,361 thousand were made to the pension provisions for active and retired members of the Board of Management. No stock options or other share-based payment arrangements are granted to members of the Board of Management. Further disclosures on the remuneration of the Board of Management are to be found on pages 111 to 112 of the annual report.

CORPORATE GOVERNANCE / STATEMENT OF COMPLIANCE

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

Since the publication of last statement of compliance on 8 December 2010 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 version dated 26 May 2010, with the exception of the following:

1. With the exception of an age limit, the Supervisory Board does not specify concrete objectives regarding its composition (subsection 5.4.1, paragraphs 2 and 3).

Reason: We appreciate the diversity in the composition of the Supervisory Board aimed at by the Code, which will generally be conducive to the interests of the company. To date, we have always followed this principle. However, we take a critical view of detailed specifications, in particular of quota systems, as we believe that this would make it more difficult to ensure an appropriate and adequately flexible composition of this body.

2. The total amount of the remuneration paid to the members of the Supervisory Board for their service on the Board, as well as of remuneration or advantages extended for services provided individually, in particular advisory or agency services, is disclosed in the Notes to the Consolidated Financial Statements, but in the Corporate Governance Report the remuneration is disclosed neither separately for each member nor classified by components (subsection 5.4.6, paragraph 3).

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

Frankenthal, 7 December 2011

For the Supervisory Board	For the Board of Management
Dr. Hans-Joachim Jacob	Dr. Wolfgang Schmitt

GLOSSARY

KEY CORPORATE AND TECHNICAL TERMS

Global Compact
Global initiative for businesses launched by the United Nations with the aim of shaping social and ecological globalisation.

High-efficiency motor
Extremely efficient electric drive like the new SuPremE® motor, which does not contain rare earths.

KSB CARE
Aid fund of Asian KSB companies that support educational institutions.

Finite element method
Computer-aided method of structural simulation.

CRM
Customer Relationship Management

Cavitation
If the static pressure of a fluid falls below the vapour pressure, vapour bubbles will develop. These are carried into higher pressure zones by the fluid flow. When the static pressure rises above the vapour pressure again, the cavities will implode, resulting in extreme pressure and temperature peaks.

KSB Code of Conduct
The Code describes the legal and business policy principles that govern the relationship between customers, suppliers and employees and is intended to provide guidance to employees in their day-to-day work.

ABBREVIATIONS

ANSI
American National Standards Institute

BRIC
Collective abbreviation for the emerging markets of Brazil, Russia, India and China

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CONCEPT AND DESIGN
KSB Communications (A-CC), Frankenthal
3st kommunikation, Mainz

PHOTOS
Robert Kwiatek (A-CC), Frankenthal
Shutterstock (p. 18 / 19, 54 / 55)
Getty Images (p. 118 / 119)

PRINTING
Ottweiler Druckerei und Verlag GmbH
Ottweiler, Germany

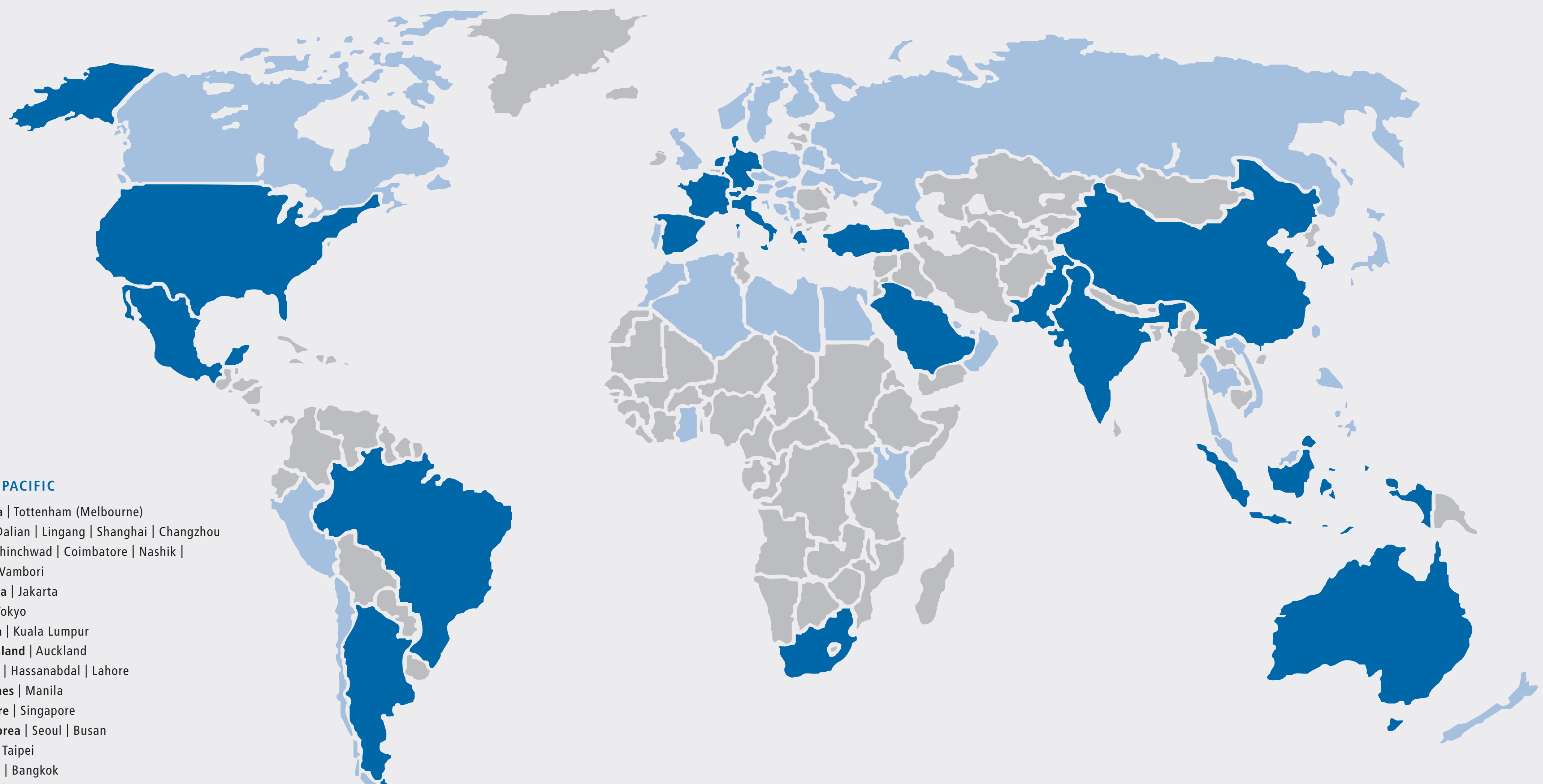
THE GLOBAL COMPACT
WE SUPPORT

As a signatory to the United Nations Global Compact, KSB is committed to endorsing the ten principles of the international community in the areas of human rights, labour standards, environmental protection and anti-corruption.

GLOBAL PRESENCE

KSB manufactures its products on all five continents. With production sites in 21 countries and a tightly knit global sales and service network, KSB staff are always close at hand when customers need to pump or reliably shut off fluids.

- KSB production sites
- KSB sales / service sites



EUROPE

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

MIDDLE EAST / AFRICA

Algeria | Hydra (Algiers)
Egypt | Cairo
Ghana | Accra
Kenya | Nairobi
Libya | Tripoli
Morocco | Casablanca
Qatar | Doha
Saudi Arabia | Riyadh | Al Khobar
South Africa | Germiston (Johannesburg)
United Arab Emirates | Abu Dhabi | Dubai

ASIA / PACIFIC

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

AMERICAS

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

FINANCIAL CALENDAR

30 MARCH 2012
Financial press conference
10:00, Frankenthal

3 APRIL 2012
Invitation to Annual General Meeting

26 APRIL 2012
Interim report
January – March 2012

16 MAY 2012
Annual General Meeting
15:00, Frankenthal

14 AUGUST 2012
Half-year financial report
January – June 2012

13 NOVEMBER 2012
Interim report
January – September 2012

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