KSB Group

Annual Report 2010

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The cover of our Annual Report 2010 shows the stainless steel impeller of a Vitachrom hygienic pump.

GROUP FINANCIAL HIGHLIGHTS

EARNINGS

		2010	2009	2008	2007	2006
Sales revenue	€m	1,939.3	1,892.8	1,991.7	1,770.9	1,607.4
Earnings before interest and taxes (EBIT)	€m	148.9	185.7	208.2	137.1	100.2
Earnings before taxes (EBT)	€m	135.8	172.8	200.1	128.7	90.2
Earnings after taxes	€m	90.0	122.4	139.5	89.9	62.4
Cash flow	€m	148.5	172.4	183.9	138.5	101.2

BALANCE SHEET

		2010	2009	2008	2007	2006
Balance sheet total	€m	1,861.3	1,645.4	1,421.4	1,258.0	1,130.4
Fixed assets	€m	515.3	469.3	417.6	340.8	301.2
Capital expenditure	€m	72.8	86.6	103.6	62.7	46.5
Depreciation and amortisation expense	€m	48.1	43.4	35.0	34.6	33.2
Current assets	€m	1,329.2	1,158.6	990.1	904.9	815.5
Equity (incl. non-controlling interest)	€m	825.6	720.6	605.8	505.9	426.6
Equity ratio (incl. non-controlling interest)	%	44.4	43.8	42.6	40.2	37.7

PROFITABILITY

		2010	2009	2008	2007	2006
Return on sales	%	7.0	9.1	10.0	7.3	5.6
Return on equity	%	17.6	26.1	36.0	27.6	22.5
Return on capital employed	%	8.9	12.4	16.1	12.1	9.7

EMPLOYEES

		2010	2009	2008	2007	2006
Number of employees at 31 Dec.		14,697	14,249	14,345	13,927	13,063
Staff costs	€m	649.8	618.3	614.6	581.6	521.7

SHARES

		2010	2009	2008	2007	2006
Market capitalisation at 31 Dec.	€m	1,051.2	707.6	574.3	774.7	657.1
Earnings per ordinary share (EPS)	€	44.09	61.32	70.17	43.73	27.99
Earnings per preference share (EPS)	€	44.35	61.58	70.43	43.99	28.51
Dividend per ordinary share	€	12.00	12.00	12.50	9.00	2.00
Dividend per preference share	€	12.26	12.26	12.76	9.26	2.52

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

Fostering sustainable growth. As a company with a total sales revenue of almost € 2 billion, KSB is one of the world's leading suppliers of pumps, valves and related systems. Our aim is to transport all kinds of fluids both reliably and economically. To do that, we rely on innovative products, excellent service and the expertise of our more than 14,600 employees. They help customers all over the world to manage their fluid transport applications in the best possible way and save valuable energy in the operation of their facilities.
Impressive technological solutions which conserve resources and the environment are the basis of our success, ensuring sustainable, profitable growth to secure the long-term future of KSB.

18

We have created a “triad” made up of strategy, organisation and corporate culture to achieve our global objectives.

20

Improved energy efficiency in the operation of pumps will reduce electricity costs and save valuable resources.

54

New technical solutions are required to make efficient use of regenerative energy sources.

112

KSB provides a wide range of products to help ensure tomorrow’s water supplies.

CONTENTS

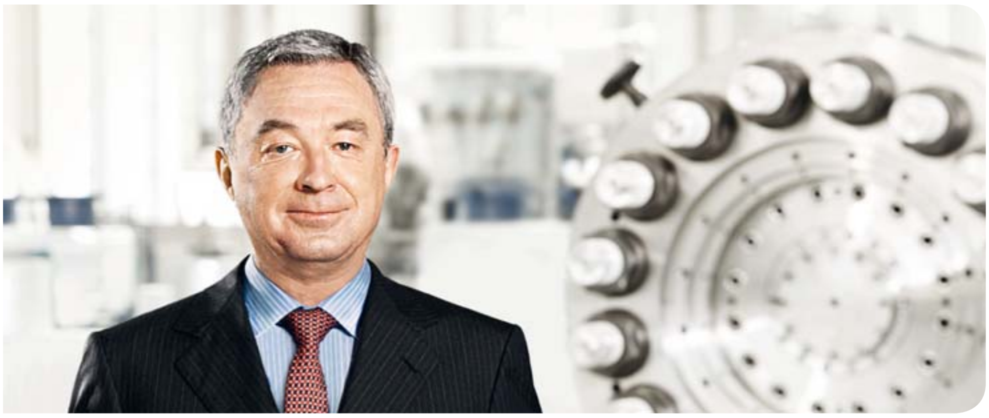
MANAGEMENT AND ISSUES 2010

GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

COVER



Dr. Wolfgang Schmitt,
Chairman of the Board
of Management

Dear shareholders and business partners,

Currently, long-term financial crisis scenarios are no longer an issue and the global economy is picking up steam once again. KSB too, despite some difficulties that remain on the market, is back on track. For the second time, our order intake has exceeded € 2 billion, and we are confident that this year our order volume will return to or even exceed its pre-crisis level. Sales revenue also looks set to continue to rise, as in 2010.

Our growth is supported by our general business with standard pumps and valves, which is directly benefiting from the recovery in demand. Our project business, with its emphasis on engineered products built to order, is growing rather more slowly. This is an area where the impact of the financial crisis – which led our customers to shelve some plans for new plants – will continue to be felt in the current financial year. Accordingly, fewer large project-based tenders are currently being awarded.

WE NEED TO FOCUS STRATEGICALLY, BUT REMAIN FLEXIBLE.

Today we can already see that, on the whole, KSB has weathered the economic storm better than many other companies in our industry. We believe we know the reason why: The stability of KSB, even in a global crisis, has a great deal to do with the good reputation of our products and our financial soundness, as well as with our broad positioning in the market. Since we supply our products to many different sectors and regions, there is always the possibility of balancing out the opportunities and risks in the various sales areas. We have taken advantage of this in the crisis that is now coming to an end, and thereby succeeded in stabilising our business overall. The flexibility and commitment of our employees have helped us very much in this respect.

We need to maintain our broad positioning and flexibility in the markets in the future. At the same time, as part of our strategy for the coming years we need to focus on particularly promising business lines and strengthen our position there. This is not a contradiction: "As focused as possible, as diverse as necessary" – this is one of our new strategic guiding principles.

We are following this principle with a number of strategic projects that aim to tap market opportunities that are interesting for us. One the one hand, we will be breaking new ground in technology, on the other we will be making the most of opportunities to reach more customers worldwide with our current range of products and services.

WE WILL USE OUR GLOBAL OPPORTUNITIES.
To do this, we will coordinate our activities within the KSB Group even more effectively. Putting it more specifically, this means: strengthening KSB's manufacturing network, developing new global products, creating uniform global processes and establishing more regional centres for preparing quotations and handling projects.

By intensifying our activities in the regions outside Europe, we are responding to the shifts in the key growth areas to countries such as China, India and Brazil. In those countries we already rank among the leading suppliers of pumps and valves, and are continuing to expand our sales and production structures. In this context, we aim to grow our general business with standard products in countries where we are firmly established through our project business. But we are also entering some markets in Southeast Asia and South America that are only now starting to develop.

WE ARE BUILDING OUR BUSINESS ON A BASIS OF TRUST AND PERFORMANCE.
Throughout the world, wherever we look after our customers and work on their behalf, we set ourselves the same standard: We want to be better than our competitors, and as a result be more successful. This means constantly developing the trust of our customers, not least through high-quality, durable and energy-efficient products and excellent service.

In the same way, the people who provide these services can rely on us, and on the fact that we take responsibility for our workforce, environment and society. For this reason, in 2010 we signed the United Nations Global Compact, whose logo you will see for the first time in our Annual Report.

If you invested in our company last year, your confidence in KSB has been justified. Within the scope of twelve months our ordinary shares increased in value by more than 50 percent, while the increase in the value of our preference shares was not much lower at 45 percent. In 2011 we intend to ensure that investing your money in KSB will continue to be worthwhile in the long term.

Yours sincerely,

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

BOARD OF MANAGEMENT

From left to right:

JAN STOOP

has been a member of the Board of Management since 1 October 2007 and is 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.

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. On 8 February 2011 he also took over the functions of Human Resources Director.

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). He is also in charge of the Business Units Single-stage Pumps, Multistage Pumps, and Automation and Drives.

REPORT OF THE SUPERVISORY BOARD

The following is a report from the Supervisory Board on its activities during financial year 2010. In summary, the fallout from the global financial and economic crisis continued to leave its mark on 2010, affecting KSB's markets with varying intensity and, to some extent, at different times. As such, projecting its further course and potential consequences was again a prime concern in the year under review. Apart from this, our consultations with the Board of Management largely centred around strategy implementation measures, implementation of the new corporate structure, and the key elements of our corporate culture.

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 relevant corporate planning and strategic and organisational development issues via written and oral reports prepared regularly and on an ad hoc basis in a comprehensive and timely manner.

We discussed key KSB business transactions in detail on the basis of reports drawn up by the Board of Management. Any departures in business developments from the plans and targets were reviewed 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

Four regular Supervisory Board meetings were held in 2010. 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 projects. The latter were the subject of multiple discussions during the past financial year, particularly in connection with the further strengthening of our German and international service activities. In the light of the many acquisitions made during the past few years, special attention was paid to their structured integration and future management within the Group, e.g. by creating uniform reporting and control structures and eradicating managerial weak points, even through partial divestment. The specific ways in which KSB intends to achieve its general growth targets, including the underlying strategic considerations, were explained in detail. We closely monitored the Company's acquisition of a majority interest in an Italian manufacturer of innovative drive technology through which we

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

expect to make major leaps in expertise in an area that is currently the focus of energy efficiency considerations. On several occasions, we were involved in major investment projects, especially in Asia. These initiatives serve to modernise our locations, exploit existing potential and secure future business opportunities.

In view of the crisis experience and the need to introduce correlating control measures, the Supervisory Board attached great importance to optimising the reliability of forecasting.

The instruments recently used in this context were examined with a critical eye. At the same time, the Board of Management presented a series of proposals outlining appropriate and adequately flexible responses to possible developments, with the focus clearly on driving sales activities. Numerous debates on the specific, long-term determinants that govern economic growth rounded off the analysis.

The Supervisory Board continued to pay close attention to our business activities in China, which the Board presented to us from a variety of different angles. Depending on further political decisions, supplementary investments are planned to be made in the current year in our joint venture for nuclear products founded in 2008. In addition, the Supervisory Board approved major investments in the Valves product area in order to facilitate sustained growth in this field through an increase in Chinese production capacity.

A recurring topic on the agenda were measures introduced by the Board of Management to nurture the ongoing development and consolidation of our corporate culture based on established values. Imparted and consolidated in a top-down process starting with the management, these values shall serve as a frame of reference for our staff and also define the standards we expect of them. For this reason, we attach considerable importance to this Group-wide project and its long-term outcome.

The Supervisory Board convened in September for a two-day meeting at the Pegnitz site, where it was able to assess how business was developing and observe the high-performance production facilities, including the latest site expansion. We reviewed the status of the corporate organisation that was restructured at the start of the year and obtained a detailed rundown of the strengths and weaknesses evident in the implementation phase. We also gained an insight into one of the new Business Units. At this and the following meeting, we also examined changes made over the course of the year to the German Corporate Governance Code and its impact on procedures within the Company. In December we chiefly looked at business performance during the year and planning for 2011.

To ensure its tasks are performed efficiently, the Supervisory Board established six committees and seven sub-committees in the past financial year. They prepared the Supervisory Board's resolutions and special issues to be discussed. In addition, they also made their own decisions – to the extent that this is legally permissible – within the scope of their areas of responsibility. This allocation has proved 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 serves as the Chair of all committees with the exception of the Audit Committee, the Nomination Committee and the Corporate Development 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 once during the year under review.

The **Planning and Finance Committee** met four times in the year under review. It addressed corporate and investment planning and the financial situation of the Company, and prepared the Supervisory Board's resolutions on these matters. One focus was the regular examination of the Board of Management's "rolling forecast" report which continuously covers medium-term time frames. The committee members also discussed in detail the underlying planning assumptions and the quality of planning. To this end, they requested an in-depth presentation of the planning process.

The Innovation sub-committee met three times and discussed fundamental aspects of the research, development and innovation organisation within the Company. A focus of attention was the need to intermesh corporate topics and assign them to different specialist departments.

The Nuclear sub-committee met on three occasions and primarily discussed fundamental questions regarding the expansion of business activities for products with nuclear applications. As in the previous year, the development of the joint venture founded in conjunction with a Chinese partner in 2008 for the purpose of manufacturing such products was thus the subject of closer scrutiny.

The Sales and Production Management sub-committees are looking at ways in which to systematically develop their respective corporate areas on an ongoing basis. In 2010, they were principally involved in implementing the new organisational structure, meeting on five and two occasions respectively.

The Corporate Development sub-committee met twice to discuss issues of strategy implementation and the status of current and planned projects.

In September 2010, we created the **Corporate Development Committee**. The new Committee focuses on topics such as corporate development and strategy, innovation, nuclear markets and production management; the corresponding sub-committees were dissolved. Meeting on two occasions in the year under review, it looked at innovative business models and fundamental new trends in technology, in addition to the associated communication aspects.

The Controlling sub-committee established in December 2010 has its origins in corresponding deliberations of the Audit Committee, and convened four times in the year under review.

It advises the Board on tasks related to this corporate area, including the relevant interdisciplinary interfaces.

The **Personnel Committee** held five 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. On the committee's recommendation, the plenary session extended the appointment of Dr. Wolfgang Schmitt and Jan Stoop to the Board of Management, with the new terms ending on 30 June 2014 and 30 June 2013 respectively. Dr. Peter Buthmann took over from Dr. Schmitt as Human Resources Director with effect from 8 February 2011. These changes took place against the backdrop of the reorganisation of the Board of Management's responsibilities, which had been the subject of intense discussions in prior committee and plenary meetings. They will ensure that our strategy and new corporate structure come to the fore. 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. In 2010, the committee members again participated in events with potential candidates of all management levels in an effort to foster a direct exchange of ideas. Special emphasis was also placed on conceptional aspects related to the deployment of staff abroad.

The Leadership and Corporate Culture sub-committee met on one occasion to discuss fundamental considerations relating to the topics defined, as well as specific practical experience in these areas. After a policy paper had been produced and then debated in the Supervisory Board plenary session, the committee was disbanded at the end of the year.

The four meetings of the **Audit Committee** were always attended by the Member of the Board responsible for Finance and, on several occasions, by the auditors. The committee primarily examined the annual and consolidated financial statements, the audit reports submitted by the auditors and the internal auditors as well as the further development of the risk management system and compliance organisation. The half-year financial report was also discussed with the Board of Management. 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. In 2010 too, an ongoing debate as part of the preparations for the work performed in the plenary session, concerned the course and impact of the global financial and economic crisis.

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

CORPORATE GOVERNANCE AND STATEMENT OF COMPLIANCE

The Supervisory Board continuously monitored the ongoing development of corporate governance standards. We held several meetings to discuss the implementation of changes made to the German Corporate Governance Code and the associated statutory changes. The Board of Management and the Supervisory Board report on corporate governance at KSB in accordance with section 3.10 of the German Corporate Governance Code on pages 121 to 125 of this Annual Report. On both 30 March and 8 December 2010 they jointly issued an updated statement of compliance in accordance with section 312 *AktG* and made this 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. It was addressed in detail by the Audit Committee on 22 March 2011 as well as by the Supervisory Board plenary session on 29 March 2011 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 2010, 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 2010, 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/Main offices of BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2010, as well as the consolidated financial statements and the Group management report for the year ended 31 December 2010, and issued an unqualified auditors' opinion. The Audit Committee defined key audit areas for the year under review, such as the structure and efficacy of the accounting process, the validity of planning, the mapping of risks in connection with the adequacy of risk provisioning and the treatment for accounting purposes of company acquisitions and the associated purchase price allocations (the information contained in the Notes and the accounting treatment of conditional purchase price payments were also scrutinised). 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 Super visory 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.

*www.ksb.com/investor-relations **SEE PAGE 128 (GLOSSARY)

DEPENDENT COMPANY REPORT

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

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

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

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

CHANGES IN THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Dr. Stefan Bross joined the Supervisory Board with effect from 1 January 2010 as an elected reserve member for Carl-Wilhelm Schell-Lind, who left the Supervisory Board with effect from 31 December 2009. Ludwig Udo Kontz's term of office on the Supervisory Board ended upon the conclusion of the Annual General Meeting on 19 May 2010; his place as elected member of the Supervisory Board was taken by Dr. Martin Auer. With effect from 1 September 2010, Reiner Euler joined the Supervisory Board as an elected reserve member for Dieter Müller, who left the Supervisory Board with effect from 31 August 2010 in order to enter retirement. The Supervisory Board extends its gratitude to the retiring members of the Boards for their constructive and expert contributions and for many years of work in an atmosphere of mutual trust.

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

Frankenthal, 29 March 2011

For the Supervisory Board

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

2010 – AN OVERVIEW

01

HYGIENIC PUMPS

With its new pumps of the Vita series, KSB is improving its position in the food and beverage industries as well as in the pharmaceutical and biotechnology sectors. The global market for pumps for the hygienic transport of fluids is worth more than € 1 billion.

02

NEW FOUNDRY

A new KSB foundry opens in Vambori, India. It allows KSB Pumps Limited to double its production capacity for steel and stainless steel castings to 1,200 tonnes per year.

ROOM FOR GROWTH

In Frankenthal, guests and employees attend the inauguration of the new production and testing facility for large-sized products. The € 40 million investment will facilitate the production of very large power plant pumps.

GLOBAL COMPACT

KSB signs the United Nations Global Compact, thereby underlining its commitment to recognising and implementing important core values and principles worldwide.

04

05

RESEARCH AWARD

As a project partner, KSB receives the Science Award of the *Stifterverband* [Association for the Promotion of Science] for Research with the Fraunhofer Institute for Mechanics of Materials. The award is in recognition of the joint development of an extremely robust composite material using diamond and ceramics. KSB researchers are now testing a pump with diamond-coated ceramic components in long-term operation.

07

ENERGY-EFFICIENT MOTORS

KSB acquires an 80 percent interest in ITACO s.r.l., an Italian drive specialist. This acquisition ensures access to a new kind of energy-efficient motor that already exceeds the most stringent requirements specified in EU directives for high-efficiency motors.

SERVICE IN THE US

KSB acquires the operations of a company that was established in Texas in 1920 and founds Standard Alloys Inc., based in Port Arthur.

09

RIVER TURBINES

Near the German town of St. Goar on the Rhine river, KSB puts the first prototypes of its river turbines into operation. The environmentally friendly units use the kinetic energy of flowing water to generate electricity.

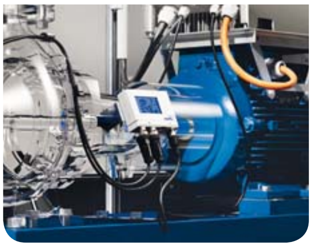
10

KSB INDIA – 50TH ANNIVERSARY

KSB Pumps Limited, based in Pune, India, is celebrating its 50th anniversary. More than 2,000 Indian employees currently work at the company's five production sites and numerous sales and service facilities.

PUMP MONITORING

The PumpMeter monitoring unit can be used to track all of a pump's key measurement variables and to indicate the potential for energy savings. Launched in 2010, this innovative product has won the special-category innovation award for "Industry" by the German federal state of Rhineland-Palatinate.



12

NEW VALVE PLANT

In Changzhou (near Shanghai), KSB Valves (Changzhou) Co., Ltd. starts construction of a new production plant. From the second half of 2011 onwards the plant will manufacture ANSI*-standard valves.

*SEE PAGE 128 (GLOSSARY)

KSB SHARES

- Inconsistent stock market trends
- Value of ordinary KSB shares rose by 51%
- Proposed dividend payout at prior year level

Developments on the world's stock markets varied considerably in 2010: While stock markets in the emerging countries and in the USA continued to recover from the effects of the financial crisis, many exchanges in Europe and Japan (Nikkei – 3 %) suffered losses. In Europe, the ongoing debt crisis was the main reason for the price slump. In addition, investors were concerned about the value of the euro. Thus, the EURO Stoxx 50 fell sharply in the first half of the year and managed to make up only some of the lost ground by the end of the year. Year on year, the loss amounted to almost 6 %.

By contrast, investors in U.S. stocks saw the Dow Jones rise by 11 %. After a good start, the economy started to show signs of running out of steam towards the middle of the year. The stock market responded with a decline in prices falling to values below those seen at the start of the year. However, a new and positive prevailing mood, due in part to changes in monetary policy, led to rising share prices in the third and fourth quarters of the year.

GOOD YEAR FOR THE DAX

In contrast to many other European countries, equity investors in Germany posted gratifying gains. Year on year, the value of the DAX increased by a good 16 %. That said, the DAX had tended to move laterally until September before prices really took off in the subsequent months. The reason for the sudden improvement was surprisingly upbeat news on the economic and corporate fronts which, despite concerns about the high national debt of several European countries, resulted in quite a mood swing.

DIVIDEND DEVELOPMENT

	2010 (proposal)	2009
Ordinary share		
Dividend	€ 12.00	€ 12.00
Dividend yield	1.9 %	2.9 %
Preference share		
Dividend	€ 12.26	€ 12.26
Dividend yield	2.1 %	3.1 %

	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. 2010	€ 618.00	€ 582.00
Market capitalisation 30 Dec. 2010		€ 1,051.2 million

MARKET CAPITALISATION OF KSB SHARES NOW EXCEEDS THE € BILLION MARK

The increase in KSB share prices, already positive in the previous year, continued unabated in the year under review. From the start of the year onwards, investors saw the value of their shares in KSB rise continuously, clearly outperforming the DAX as a whole. Ordinary shares gained 51 % during the year, while preference shares increased by 46 % compared with their value at the end of 2009. At 30 December 2010, the price of our ordinary shares was € 618.00, while our preference shares were trading at € 582.00.

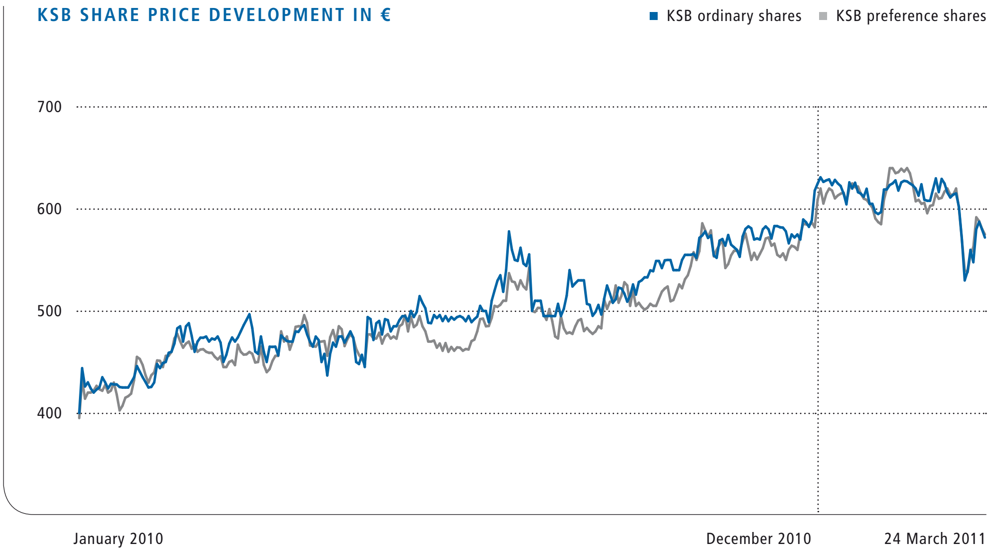
These marked increases were reflected in our market capitalisation, which, by the end of the year, had exceeded the € 1 billion mark for the first time. The year-on-year change constituted a rise of € 343.6 million (around 49 %) to € 1,051.2 million.

STABLE DIVIDEND PAYOUT DESPITE DROP IN EARNINGS AT KSB AG

Even if our earnings did not quite match those of 2009, we want to keep the dividend at the same level as the previous year. We will therefore propose to the Annual General Meeting on 18 May 2011 an unchanged payout to ordinary shareholders of € 12.00 per share. Holders of preference shares once again are to receive € 12.26.

EARNINGS PER SHARE BELOW PRIOR YEAR LEVEL

The decline in consolidated earnings resulted in a drop in the earnings-per-share figure compared with the previous year. Earnings per ordinary share were € 44.09, compared with € 61.32 in the previous year, and € 44.35 per preference share, compared with € 61.58 in 2009.



STRATEGY: FOCUSING ON LONG-TERM SUCCESS FACTORS

- Using synergies, tapping the full market potential
- Taking advantage of a range of opportunities through a global approach
- Project organisation for strategy implementation

Which needs and preferences will govern the purchasing decisions of our customers in the future? Answering this question was essential for the development of our current Group strategy, which will continue to be in focus in the coming years as well. We will continuously analyse the market, survey our customers and identify relevant technical trends. Our intention is to find and implement the best solutions for future customer problems early on. By doing so, we open up new sales opportunities and secure our long-term market position.

This solution-oriented approach, coupled with our expertise in technology and the pursuit of long-term success, is the driving force behind our work. We use the distinctive strengths of our corporate culture, and simultaneously align our organisation with our strategic goals.

Our primary goals include:

- Taking a leading position in attractive markets
- Being better than our competitors in the eyes of our customers
- Ensuring sustainable, profitable growth to secure the future of KSB in the long term

To achieve these goals, we have created a "triad" made up of strategy, organisation and corporate culture. We are continuously developing our three-point management system and adapting it to needs arising from changes in external and internal conditions. The focus is on achieving flexibility.

USING REGIONAL SKILLS GLOBALLY

Our Group strategy calls for the further globalisation of our activities. We are ideally positioned for this. For more than 50 years KSB has been active in countries such as Argentina, Brazil, India, Mexico, Pakistan and South Africa with its own manufacturing plants and sales centres. In response to the specific customer requirements in these and other markets, our local companies have developed special technical skills. When developing our corporate strategy, we examined the extent to which these skills are also relevant in a global context. We will now extend the use of relevant expertise to provide even better service to customers in other markets too.

NEW ORGANISATION CREATES SYNERGIES

For this we needed to reorganise processes and structures within the Group. At the start of the reporting year, we decoupled production and sales responsibility and introduced a global product management system. At the same time we established a network of regional expert teams for project handling. We coordinate these teams on a cross-regional basis in order to be able to quickly serve our customers who operate internationally with the professionalism they have come to expect from us.

By interacting globally, the new organisation aims to exploit synergies and improve the profitability of KSB through economies of scale. Moreover, by making our solutions expertise available to an even larger extent, we can strengthen our quality position in many individual markets, helping to secure our corporate future.

In addition to developing new solutions, part of our strategy is to systematically exploit market potential with existing products and services. For this we draw on our long-standing, good relations with many companies. At the same time, we are striving to make our technologically advanced products and proven solutions available to even more customers.

We can build on our ability to produce a wide range of products and variants efficiently. This ability enables us to implement many individual user requests as part of standardised and partially standardised solutions. As a result we are, for example, able to offer our customers in highly developed industrial countries particularly energy-efficient and durable products that incorporate advanced drive technologies and proprietary materials. However, we can equally provide technical alternatives for less demanding applications.

By making use of the versatility of our existing product range worldwide, we generate the funds necessary to develop new business lines. Here we focus on those we consider to be the most promising for the future.

Creating transparency, setting objectives, making a difference: KSB secures the future of its business using a "triad" made up of strategy, organisation and corporate culture.

MINIMISING RISKS, EXPANDING OPPORTUNITIES

We want our global business to be as focused as possible and as diverse as necessary. This applies to the activities in our various sales regions as well as to the various areas of application for our products, from building services to power plant processes.

To maintain or achieve the necessary strength in strategic business lines, we need to, on the one hand, temporarily concentrate our resources. On the other hand, because we are maintaining the breadth of our activities, we have a high degree of flexibility – not least to balance out economic fluctuations in individual business lines.

Regionally we wish to reduce our dependency on the European market through above-average growth in other regions in the coming years. This will enable us to benefit more from the dynamism of these markets, which include not only Brazil, Russia, India and China, but also attractive smaller markets that we have known for many years and to which we can supply suitable products and services. Still, we will not be neglecting our domestic market of Europe, but will rather be seeking out and taking advantage of new opportunities here as well.

In terms of content we diversify our risks by being involved in many diverse and complex areas such as energy supply and service. With our products for conventional and nuclear power applications, we support, for example, economies that are just embarking on industrialisation. At the same time, we are helping to reduce CO_2 emissions in industrialised countries with our equipment for renewable energy supply systems. In emerging economies, we are also contributing to the establishment of decentralised supply infrastructures.

We have a similar aim when it comes to the deployment of our service expertise in both the industrialised countries – where there are a large number of existing plants – and the emerging markets, where availability, operating reliability and safety, and low life cycle costs are becoming increasingly important. Requirements and market reactions are quite different in both cases.

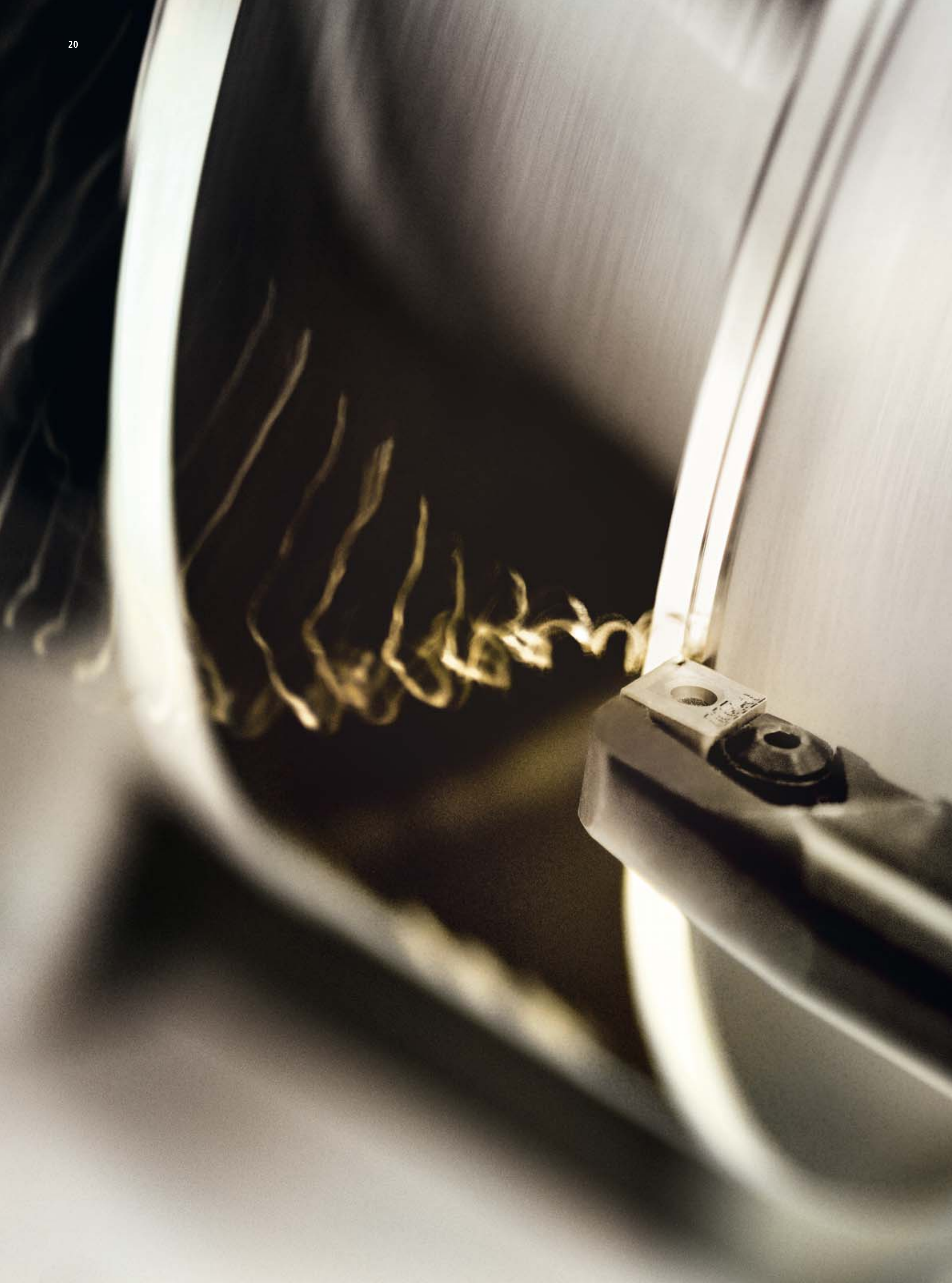
PROJECT ORGANISATION INSTEAD OF HIERARCHICALLY MANAGED EXPERTISE

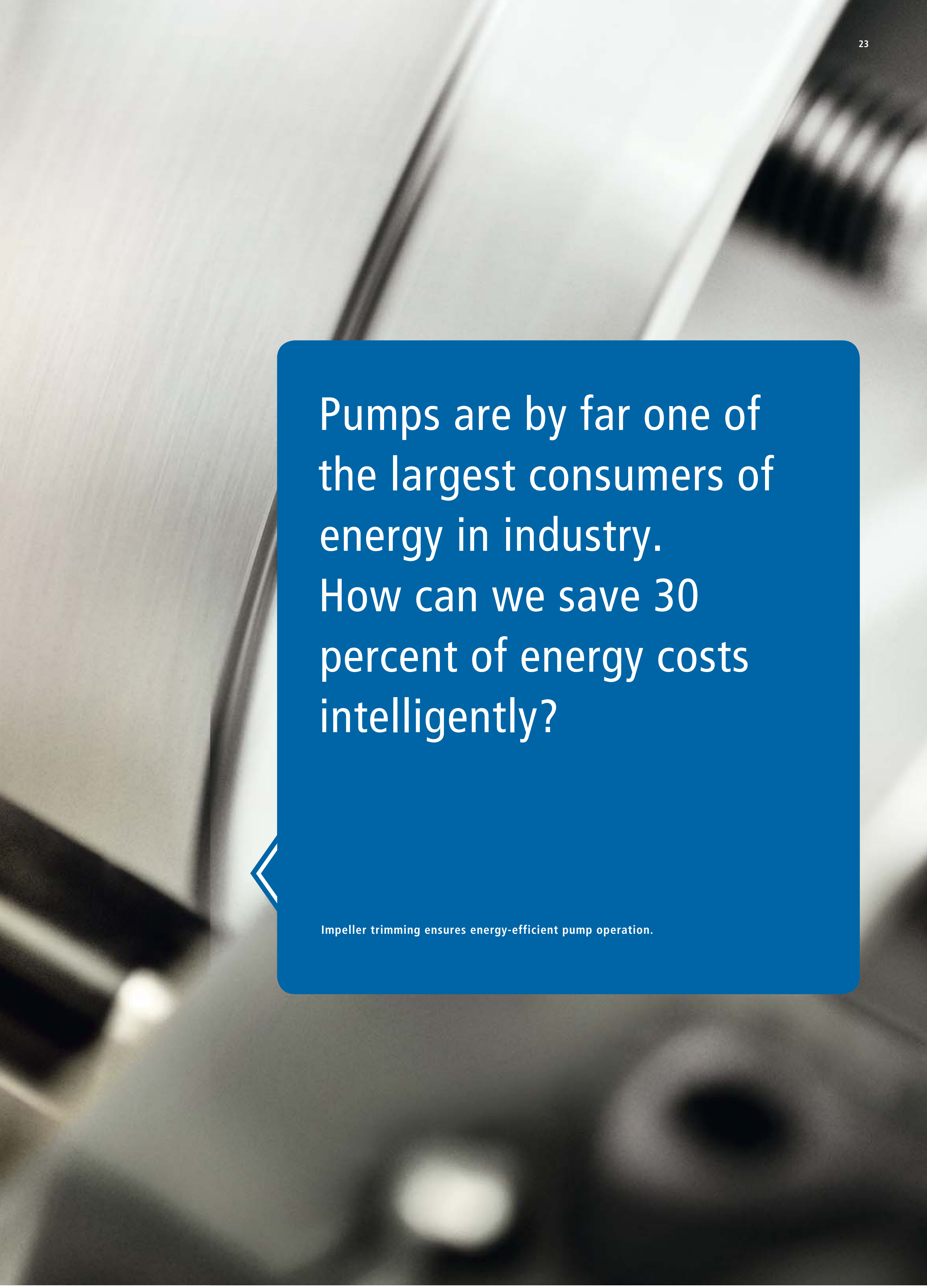
At the same time as defining our strategic projects, we adopted a project methodology and organisation that allow us to prepare and implement our numerous individual projects efficiently. We have decentralised the responsibility for these projects and linked them to local resources, thus ensuring that all Group companies are involved in strategic tasks.

Thus, at KSB, many employees contribute to the success of our corporate strategy in national and international teams. Increased project work marks an organisational and cultural change. It leads away from a hierarchy-based structure to a flexible way of working involving temporary, decentralised responsibility.

Most of our strategic projects require more than a year, and consequently were not yet completed at the end of 2010. Such longer-term projects mainly aim at developing new products, accessing new markets and establishing sales channels.

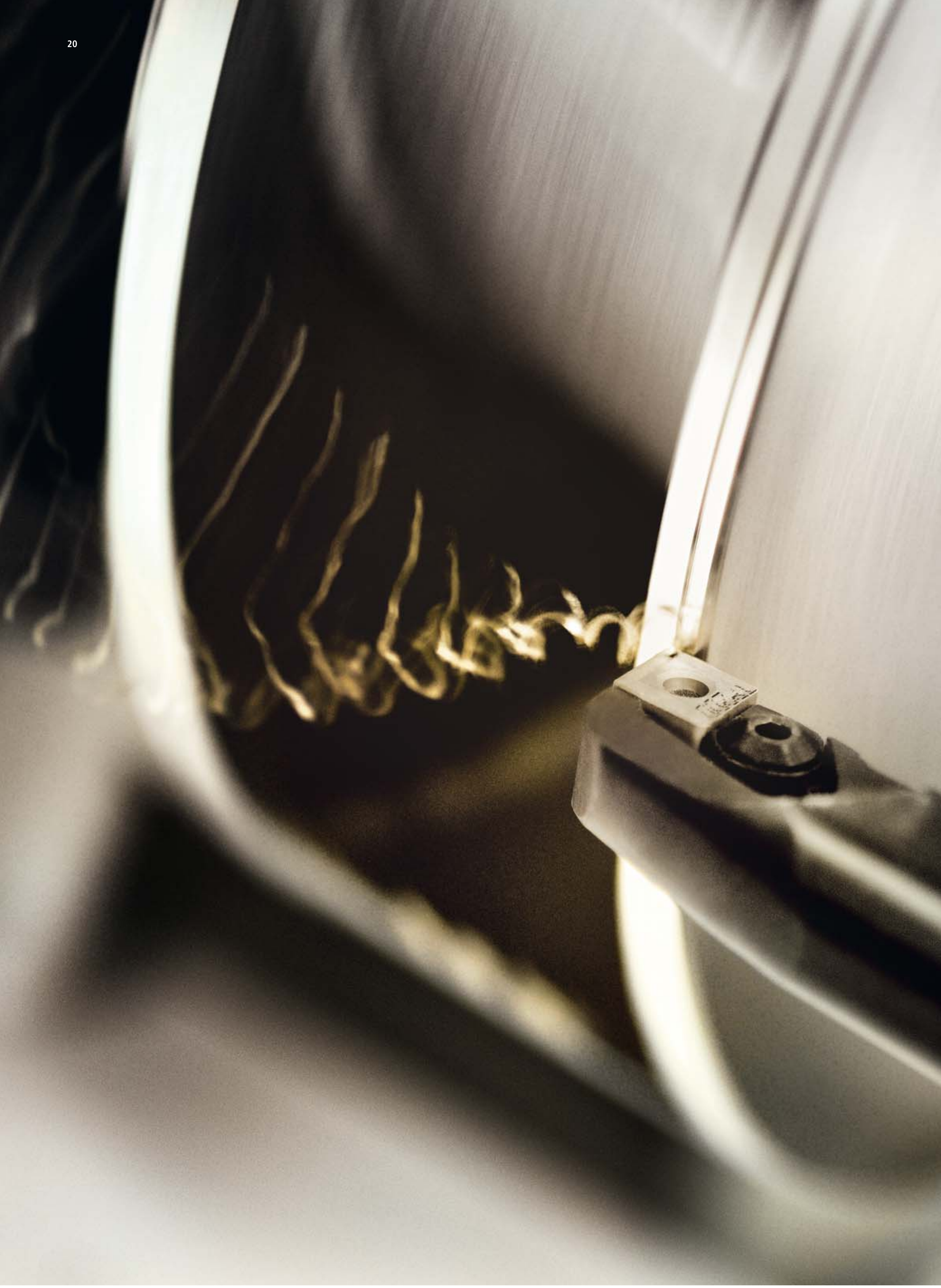
We have implemented a series of short-term measures to reduce costs, globalise materials procurement and expand our service network. Two acquisition projects were successfully concluded in 2010 with the acquisition of a motor manufacturer in northern Italy and of the business operations of a service provider in the southern United States. They represent – along with some of the product launches – important milestones on the road to developing future areas of strategic relevance. We will continue working intensively on this task in 2011 as well. At the same time, we will strengthen our organisation and corporate culture and – where appropriate – improve it even further.





Pumps are by far one of the largest consumers of energy in industry. How can we save 30 percent of energy costs intelligently?

Impeller trimming ensures energy-efficient pump operation.



»The operation of pumps alone requires around 10 percent of all the energy consumed in Europe. Not many people are aware of this. Around a third of this huge amount of energy could be saved if these pumps were selected correctly, automatically controlled and equipped with energy-efficient motors. Our customers are increasingly taking advantage of the opportunities to operate their pump sets economically, not least for commercial reasons. But there is still a lot more we can do in terms of energy efficiency in order to preserve our valuable resources.«

Dr. Sönke Brodersen, Head of Research

Order intake of the KSB Group for the second time exceeded the two billion euro mark in financial year 2010. Group companies outside Europe were the growth drivers.

GROUP MANAGEMENT REPORT

GROUP STRUCTURE AND FOCUS OF BUSINESS

- New organisation since 1 January 2010
- 51 operating companies worldwide
- Sales in more than 100 countries

PURPOSE AND ORGANISATION OF THE GROUP

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

In the year under review, 51 operating companies in 33 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 Shanghai Pump Co. Ltd., Shanghai, China
- KSB Pumps Limited, Pune, India
- GIW Industries, Inc., Grovetown, Georgia, USA

DISCLOSURES PURSUANT TO SECTION 315(4) OF THE HGB AND THE 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 authorises the holder to one vote at KSB AG's Annual General Meeting. Klein Pumpen GmbH, Frankenthal, holds approximately 80 % of the ordinary shares; the *KSB Stiftung* (KSB Foundation), Stuttgart, holds the majority of the shares of Klein Pumpen GmbH. The preference shares 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 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 unless the subscription rights 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 (where 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).

*SEE PAGE 105

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

ORGANISATION, MANAGEMENT AND CONTROL

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

KSB AG's Board of Management manages and controls the KSB Group. The strategy and instructions formulated by the Board of Management are implemented within an organisation that since 1 January 2010 has been divided 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 new Group strategy*, which was presented in the 2009 Annual Report. The strategy aims to ensure sustainable, profitable growth that will secure both KSB's financial independence and medium- and long-term future, in order to achieve and defend a leading competitive position in attractive markets.

MARKETS AND LOCATIONS

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

The 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 in the Region Asia / Pacific, followed by the 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 19 countries; they are sold through the Group's own companies or agents in more than 100 countries. The Group's companies supply its products to customers from industry and building services, the energy industry, mining and the public sector. KSB is world leader in pumps deployed in power plants and process engineering, and the Group ranks among the leading manufacturers in other areas of application as well.

The market generating the highest sales revenue for our products in 2010 was once again industry, where the KSB Group has established itself as the second-largest pump manufacturer in the world.

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 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.

In future, value-based management will play a larger role at KSB. We will use the EVA* (Economic Value Added) performance indicator for this.

*SEE PAGE 18

*SEE PAGE 128 (GLOSSARY) *www.ksb.com/investor-relations

ECONOMIC ENVIRONMENT

- Global economy remains on road to recovery
- Mechanical engineering sector benefits from demand for industrial goods
- Market for standard pumps and valves picks up again

The global economy saw a much faster recovery in 2010 than many experts had predicted. The Asian emerging markets in particular, which had already begun their economic turnaround in the middle of the previous year, showed very dynamic developments. But production in many industrialised nations also increased again. The path to economic recovery was supported by a variety of economic stimulus programmes, generally favourable interest rates and a tangible need to catch up in sectors that had suspended capital expenditure as a result of the crisis.

Asia was once again the fastest growing economic area by far, with the emerging markets in the region achieving average gross domestic product growth of over 9 %. This momentum weakened somewhat during the second half of the year, not least as a result of regulatory measures, especially in China.

The eurozone also saw economic growth of 1.7 % again in 2010. Nevertheless, there was a considerable economic divide between the members of the Monetary Union. For example, the countries hit by the real estate and debt crisis were hardly able to achieve any growth of note. Germany, however, posted a growth rate of 3.6 %, surprisingly strong given the current circumstances in Europe, and a number of smaller eurozone countries also performed well.

In Eastern Europe, the effects of the financial and economic crisis were putting a damper on economic momentum. By contrast, economic stimulus measures and stable domestic demand helped Poland to stand out as an exception among the other countries in this economic area.

The growth leader in the Americas was Brazil, where positive economic prospects stimulated companies' investment activities. Outside of the Brazilian market as well, there were favourable developments in South America. In the US, although there was a slight upward trend in 2010, there were still no signs of a sustainable improvement.

The Region Middle East / Africa benefited from rapidly rising demand for energy sources and raw materials. The oil-producing nations of the Middle East used part of their additional income to reduce their dependency on oil exports through investment in other sectors of industry.

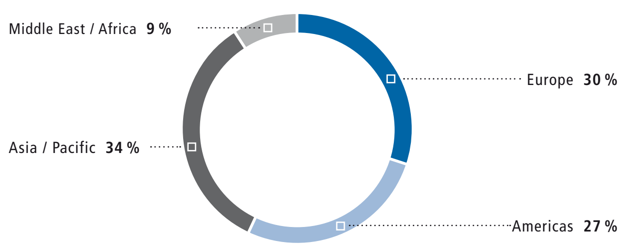
CONSIDERABLE GROWTH IN DEMAND FOR MACHINERY

Mechanical and plant engineering did well weathering the most difficult crisis experienced by the sector in the post-war era and was able to benefit from a rebound in the demand for industrial goods in 2010. Growth-oriented customers ordered new machinery in order to expand their production facilities or catch up on modernisation plans that they had postponed.

The pace of the recovery in order intake in the various branches of the mechanical engineering sector varied depending on the customer industries and their economic cycles. In line with the level of the decline in orders, which was particularly large in the case of foundry, textile and plastics processing machinery, improved demand immediately led to strong growth rates.

Overall, the German Engineering Federation (VDMA – Verband Deutscher Maschinen- und Anlagenbau) recorded 8.8 % growth in production for its member companies. However, this improvement could only partially make up for the previous collapse in order intake. As a result, the volume of incoming orders in mechanical engineering was only at about 2005 levels.

WORLD MARKET OF CENTRIFUGAL PUMPS AND VALVES



Source: DIW Berlin

The standard pump business reacts quickly to economic stimuli. In 2010, the industrial pump manufacturing facility in Frankenthal increased its output again.

UNEVEN DEVELOPMENTS IN THE MARKET FOR PUMPS, VALVES AND SERVICES

Demand for pumps varied considerably in 2010 with respect to areas of application. The economic revival in industry and the construction sector led directly to an increased number of orders for standard pumps starting in the spring. By contrast, the late-cyclical project business, involving a large share of engineered pumps manufactured to order, proved to be affected by negative investment decisions made during the preceding crisis period.

The considerably lower number of new major orders increased price pressure. Competitors with a one-sided focus on plant engineering business were often prepared to accept lower margins in order to utilise their capacity. This made it difficult to generate adequate returns – particularly in the case of power plant pumps. Infrastructure projects such as the construction of waterworks and waste water treatment facilities were less affected by this trend. In fact, the demand for pumps for water engineering plants even grew.

Developments in the valves market were similar to those in the market for pumps. Demand for standard globe, gate and butterfly valves rose at a brisker pace than that for engineered valves. These products are ordered, for example, by plant engineering contractors for use in power plant processes. In 2010 growth momentum for valves came mostly from markets outside Europe. Nevertheless, orders from the Asian shipbuilding industry remained well behind their previous volumes.

In the service market for fluid transport plants, demand was stable for maintenance, inspections and repair services in the power plant sector. Moreover, Germany and France saw a boost in demand from industry.

DEVELOPMENTS IN THE COMPETITIVE SITUATION

Many pump and valve manufacturers responded to the economic crisis by putting in place restructuring measures or cost-cutting programmes, and thus were able to weather a difficult period for business. Manufacturers of standard products were able to benefit from the recovering economy, while suppliers whose sales are focused on project business were hurt by a decrease in the number of new orders awarded.

In the time immediately following the crisis, pump and valve manufacturers focused strongly on overcoming the difficulties in the market and once again making better use of their capacities. No significant corporate takeovers occurred during this time. However, some providers, including KSB, strengthened their position through smaller, strategic acquisitions in selected business areas.

BUSINESS DEVELOPMENT AND EVENTS

- Increase in order intake and sales revenue
- Strategy projects open up growth potential
- Acquisitions strengthen the service business

The rapid improvement in the overall economic situation laid the foundation for positive growth in 2010. Order intake in our general business with standard pumps and valves saw considerable recovery during the second half of the year. Contrary to general opinion made in early 2010, we succeeded in increasing both our order intake and our sales revenue.

ORDER INTAKE UP 7.3 %

Driven by the rebound in general business and good growth of demand overall in markets outside Europe, we increased our order intake by 7.3 %. Once again, the overall volume of orders received within the Group exceeded the two billion euro mark and totalled € 2,075.0 million.

We posted an increase in orders for pumps, valves and services. In percentage terms, the service business achieved the strongest growth thanks to excellent performance in the German and French markets. Some 70 % of all orders were for pumps including automation equipment.

The growth in order intake is primarily attributable to the performance of our companies outside Europe. By contrast, order volume at our European Group companies fell slightly short of the previous year due to the project business, which was still impaired by the after-effects of the crisis. This was felt by KSB AG, in particular, where order intake in the year under review was 5.8 % lower than in the previous year.

Our four consolidated operating companies in the Region Middle East / Africa performed extremely well. This holds true especially for our Turkish company, which was able to boost its order volume by more than 50 % thanks to good business developments in industry, water and waste water engineering. In South Africa, major orders from the water and energy sectors, as well as industry helped generate considerable growth.

Group companies in the Region Asia / Pacific posted the greatest total order growth, increasing the total volume of incoming orders by around one third. This good performance was mainly based on demand from the engineering contractors and operators of power plants, water management companies and industry. Excellent growth rates were posted in China and India where, in addition to general growth in industrial production and the expansion of new power plant capacities, water engineering infrastructure projects stimulated demand. In China we also received orders from Chinese engineering contractors for export, chiefly to India and Indonesia. The order situation for Indian control valves also developed well in 2010.

Order intake at our American Group companies improved considerably over the previous year. Our US subsidiary KSB, Inc., in particular, succeeded in sharply increasing its order volume in 2010 through successful business with products for power plants and waste water engineering. KSB Chile benefited from rising demand for pumps for mining applications. The lion's share of orders in Brazil were for the water business and industry.

SALES REVENUE GROWTH IN REGIONS OUTSIDE EUROPE

Consolidated sales revenue also grew 2.5 % to total € 1,939.3 million. In the strongest segment, pumps, sales revenue rose € 32.0 million to € 1,333.8 million while valve sales increased € 14.6 million to € 331.3 million. Sales revenue in the service business rose € 42.3 million to € 276.5 million.

As they did in order intake, the European Group companies saw a further decline in sales revenue overall (down 2.1 %). KSB AG was not affected by this development and generated sales revenue (in accordance with the German Commercial Code [HGB]) of € 778.8 million, up 1.3 % year on year.

Sales revenue generated by our Group companies in the Region Middle East / Africa rose 12.4 %. Similar to the order intake trend, the companies in Turkey and South Africa posted the most positive changes.

KSB companies in the Region Asia / Pacific also made a strong contribution to growth again in 2010. They succeeded in boosting their sales volume by 12.4 %. Strong growth rates were posted not only by our two Indian companies but also several subsidiaries in smaller countries as well as Australia.

The subsidiaries operating in the Americas also achieved 12.4 % growth. Sales growth in Chile and Mexico was particularly positive; KSB Brazil held its position as the KSB company in the region with the strongest sales by far.

Consolidated order intake and sales revenue reflect the first-time consolidation of five operating companies in Germany, Italy, Canada, Norway and Russia. Without this expansion of the consolidated Group, order intake and sales revenue would have been € 40.2 million and € 35.4 million lower respectively.

IMPLEMENTATION OF THE NEW GROUP STRATEGY

Outside of our operative business, in the year under review, we were focused on implementing our new Group strategy and, by doing so, tapping additional growth potential.

34 strategic projects were launched by the end of 2010. Around 170 further full or sub-projects are currently at varying stages of planning and will be completed by 2018. These include defined plans for

- Developing new products and services or optimising existing ones
- Better tapping selected regional markets, including those of the BRIC* countries
- Creating new sales channels, especially for the sale of standard pumps and valves
- Adapting manufacturing structures and processes in Operations in line with strategic projects

To perform these tasks in 2010, we trained about 150 people in project management. At the same time, we established a system for managing and supervising all projects according to uniform criteria: It ensures that projects that are still in progress can be completed reliably and implemented in line with objectives.

EXPANSION OF PRODUCTION TECHNOLOGY IN ASIA

To implement our strategic projects, in 2010 we further enhanced our production base in India, China and Indonesia. A key step toward expanding our Indian production facilities was the commissioning of a new, environmentally friendly foundry in Vambori, which allowed us to double our production capacity of steel and stainless steel castings in India from 600 tonnes a year to 1,200 tonnes a year.

In China, we integrated a new test field into our standard pump plant, making us equipped at KSB Shanghai Pump Co. Ltd. for planned growth in the sale of industrial pumps. Moreover, we established a new foundry for high-quality stainless steel on location. Starting from 2011, it will produce high-quality investment cast impellers for power plant and industrial pumps.

We completed construction of our factory for power plant pumps in Lingang in 2010. As part of a joint venture founded together with Shanghai Electric Group Co., Ltd. in 2008 we have begun to produce pumps there that will be used in China's new nuclear power plants.

In Indonesia, we transferred our production, including test facilities, to a new plant at mid-year. This step allowed us to adapt our capacities to the strongly growing business of PT. KSB Indonesia. At the new site, the staff will primarily assemble products for industry and building services, mining and the oil and gas industries.

GLOBALLY STANDARDISED SYSTEMS

In order to integrate and accelerate our business processes across companies, we continued the migration of our IT systems to the central SAP ERP* System.

In the year under review we connected our valve sites in Germany to the new system. In the previous year, we had already migrated the IT systems at our butterfly valve production sites in France and Spain. Our sales staff can now directly initiate production orders in all of our European valve plants.

In addition, we integrated all of KSB Shanghai Pump Co. Ltd.'s sales, production, purchasing, controlling and financial processes into the central SAP System in 2010.

As a key strategic measure, we also started to roll out a new CRM** system to provide global support for our customer relationship management. It serves to make complex contacts with our customers clearer for their contact partners in the Group. The system allows us to optimally meet our customers' requests with offerings from individual plants throughout the world and to follow up on projects. Sales, marketing and service activities can be managed more efficiently. Initial-

*SEE PAGE 128 (GLOSSARY)

*SEE PAGE 128 (GLOSSARY) **SEE PAGE 128 (GLOSSARY)

ly, we rolled out the system in selected sales offices in Germany and France and carried out a full rollout in Finland, the UK and Sweden. By 2012, we will integrate around 50 companies into the CRM system.

INNOVATIONS PRESENTED AT 65 TRADE FAIRS

In the year under review, we presented our product range to customers at 65 trade fairs in 27 countries. In addition to showcasing innovative products for heat transfer or high-pressure applications, the food industry and power stations, we put a major focus on energy efficiency.

Our energy-efficient motors supplied by the Italian firm ITACO s.r.l. in Ponte di Nanto, in which we took a majority stake in mid-2010, met with particular interest. The innovative pump drive developed for KSB surpasses even the most stringent requirements of the EU directives for high-efficiency motors* and proved effective in initial practical tests.

Our new monitoring unit, PumpMeter**, helps customers identify further savings potential in pump operation by continuously measuring the difference between optimum performance in terms of energy consumption and the actual operating conditions. The device, which has won an innovation award, has been very well received by the market.

ACQUISITIONS STRENGTHEN THE SERVICE BUSINESS

To strengthen our position in individual technical areas and regions, we made acquisitions of smaller service companies in 2010.

This included the acquisition of the business operations of a service provider in the US at the end of the year, which we incorporated into a newly formed company, Standard Alloys, Inc., based in Port Arthur, Texas/USA. By bringing on board this specialist in the modernisation of pumps and the production of replacement parts we are expanding our service offering, especially for customers in the southern US.

In France we acquired Euro Techno Consulting in Montcenis, a service company for power plant valves. In this way, we have improved the conditions for successfully handling orders for servicing nuclear power plants. These orders are only awarded to qualified service providers with a regional presence and a sufficient number of qualified employees.

Furthermore, in 2010 we acquired a majority interest in gear-tec GmbH in Eggebek, near Flensburg, a specialist in services for wind energy systems, thus expanding our expertise in the area of renewable energies. This brings the number of our service locations to 29 in the German market and over 144 worldwide.

* SEE PAGE 127 (GLOSSARY) ** SEE PAGE 127 (GLOSSARY)

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

- Decline in consolidated earnings
- Stable distribution of dividends at KSB AG
- Another significant improvement in net financial position

The development in order intake, sales revenue and earnings basically confirmed the forecasts we made in last year's Annual Report.

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 € 135.8 million, compared with € 172.8 million in 2009, achieving a return on sales of 7.0 % (previous year: 9.1 %).

Increase in output of operations

Total sales revenue increased by 2.5 % due to improved business development. Work in progress and inventories of finished goods increased by € 12.3 million year on year. As a reduction of inventories was reported in 2009, total output of operations grew more sharply than sales revenue, amounting to € 1,953.8 million, or 3.8 % above the prior-year figure of € 1,881.8 million.

Change in cost structure

Cost of materials increased by 7.4 % due to factors such as increasing purchase prices on the supply markets. The increase was therefore greater than the change in total output of operations (+ 3.8 %). The figure of € 790.9 million is equivalent to 40.5 % of total output of operations (previous year: 39.1 %).

Staff costs rose by 5.1 % to € 649.8 million in absolute terms. In relation to total output of operations, this meant a moderate increase of 0.4 percentage points to 33.3 %. The reasons for this were collectively agreed salary increases and the increase in the number of employees, mainly attributable to the first-time consolidation of five operating companies. However, we also increased headcount at KSB AG – as part of strategic projects – and at our companies in the growth markets of Brazil and India. The KSB Group employed on average 290 more people during the year under review. Compared with the previous financial year, average output per employee improved from € 131 thousand to € 134 thousand.

Measured against total output of operations, other operating expenses changed only slightly (17.4 % compared with 17.2 %). In absolute terms, they increased by € 15.8 million to € 339.5 million. Higher selling expenses were one of the factors contributing to this development.

As forecast, major investments made in previous years are now having an impact on depreciation and amortisation expense. This explains the year-on-year change from € 43.4 million to € 48.1 million.

Financial income / expense declined by € 5.8 million overall. Higher interest income was offset by increased interest expense (the interest on the loan against a borrower's note taken out at the end of 2009 had to be borne for the first time for 12 months in the year under review) and an increase in impairment losses on financial assets.

Earnings after taxes

The income tax rate rose by 4.6 percentage points, up from 29.2 % in 2009 to 33.8 %. As a result, the fall in earnings after income taxes to € 90.0 million (previous year: € 122.4 million) was more substantial (– 26.5 %) than the change in earnings before income taxes (– 21.4 %).

Earnings attributable to non-controlling interest fell from € 14.7 million to € 12.5 million, but rose slightly relative to earnings after income taxes (13.9 % compared with 12.0 % in the previous year).

At € 77.4 million, earnings attributable to shareholders of KSG AG were thus 28.0 % lower than in the previous year (€ 107.6 million).

Earnings per share

Earnings per ordinary share were € 44.09, compared with € 61.32 in the previous year, and € 44.35 per preference share, compared with € 61.58 in 2009.

Decline in earnings also at parent company KSB AG
KSB AG generated pre-tax earnings (in accordance with HGB) of € 39.8 million, down 14 % from the previous year (€ 46.3 million). While sales revenue (+1.3 %) was just slightly above the prior-year level, total output of operations could no longer achieve the level of 2009, dropping 0.5 % due to smaller increases in inventories compared with the previous year, among other things.

High dividend
Despite the decline in earnings, we aim to keep the dividend at a high level. We will therefore be proposing to the Annual General Meeting on 18 May 2011 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.

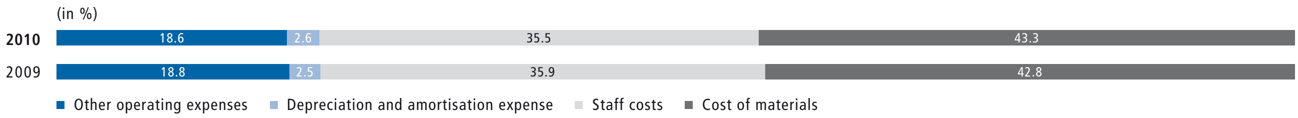
In the Business Unit Pumps we achieved an increase in order intake of 5.3 %. Sales revenue rose by 2.5 %. We generated EBIT of € 121.6 million (compared with € 129.8 million in 2009).

The Business Unit Valves reported just over 9 % more orders and a 4.6 % increase in sales revenue. EBIT, at € 10.1 million, was below the figure for the previous financial year of € 11.2 million.

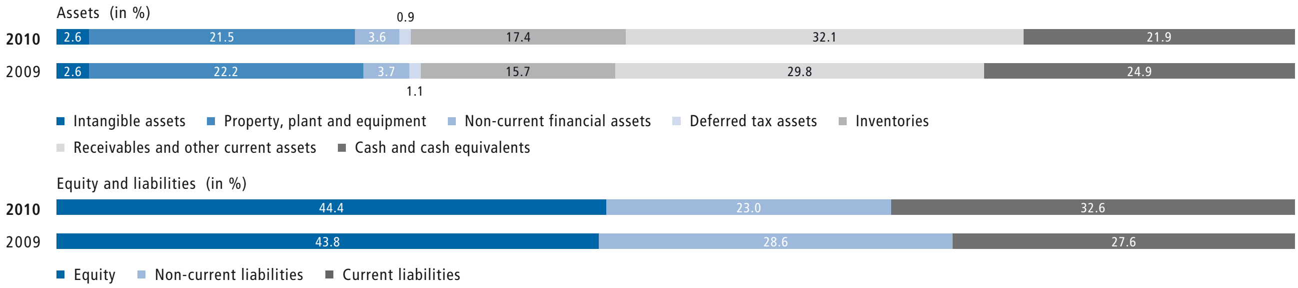
The Business Unit Service posted strong growth, with order intake up 16.4 % and sales revenue up 18.0 %. However, EBIT generated only increased from € 26.9 million to € 30.5 million due to special charges in Belgium.

The effects presented in the reconciliation line related to the recognition of construction contracts under IAS 11 have declined sharply. This applies to both sales revenue (€ – 42.4 million) and EBIT (€ – 31.1 million).

COST STRUCTURE IN INCOME STATEMENT



BALANCE SHEET STRUCTURE



FINANCIAL POSITION

Principles and objectives of financial management

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

Hedging financial risks

Our primary tool for minimising the foreign exchange risks inherent in our export business are currency forwards. This applies both to transactions already recognised and to future cash flows from orders on hand that are still being processed. We transact most of our foreign currency business in US dollars. There is only a relatively low volume 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 securities, appropriate guarantee volumes are also made available. Adequate proportions are confirmed for a period of more than one year. Our cash credit and guarantee credit lines amount to 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 € 825.6 million. This includes KSB AG's subscribed capital of € 44.8 million. Capital reserve amounts to € 66.7 million. Revenue reserves total € 602.5 million, including earnings after taxes attributable to shareholders of KSB AG of € 77.4 million. € 111.6 million are attributable to non-controlling interest. Despite the significant € 215.9 million (13.1 %) rise in total equity and liabilities, the equity ratio once again improved (44.4 %; previous year: 43.8 %). Taking into account the reclassification of advances received from customers and parts of advances received from customers (PoC) as well as the first-time consolidations, the increase in total equity and liabilities would have been € 151.1 million or 8.8 % year on year. The equity ratio would then have increased by 2.3 percentage points.

Non-controlling interest relates mainly to KSB Pumps Ltd./India (€ 39.7 million), PAB GmbH/Germany (€ 18.1 million), KSB Shanghai Pump Co. Ltd./China (€ 11.0 million), GIW Industries, Inc./USA (€ 9.7 million), KSB America Corporation/USA (€ 9.4 million) and SISTO Armaturen S.A./Luxembourg (€ 5.2 million).

Liabilities

The largest item under liabilities are provisions for employee benefits, including, also as the largest item, pension provisions. These were increased by 4.1 % to € 245.4 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 have been reducing the associated risks, such as demographic changes, inflation and salary increases, since 2009, 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 15 years.

The remaining provisions for employee benefits, which, in contrast to pension provisions, are predominantly short-term, fell from € 143.8 million to € 134.9 million as a result of a decline in partial retirement and profit bonus obligations.

Other provisions include long-term components of € 15.6 million for warranty obligations. The excess relates to provisions for mainly short-term uncertain liabilities.

Non-current liabilities fell significantly from € 160.1 million to € 109.6 million. The reason for this is in particular the early redemption of loans that we had taken out in the previous year in order to secure the liquidity of the Group in the event of a prolonged crisis.

Current liabilities increased substantially. In addition to trade payables, there was also a substantial increase of € + 59.6 million in advance payments received that were reclassified as liabilities. As the increase is greater than the increase in total equity and liabilities, the share of current liabilities in total equity rose to 21.8 %.

Contingencies and commitments

The KSB Group's off-balance sheet contingent liabilities totalled € 13.3 million as at the reporting date (previous year: € 17.4 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, once again improved significantly from € 223.0 million in 2009 to € 293.0 million as a result of our systematic liquidity management.

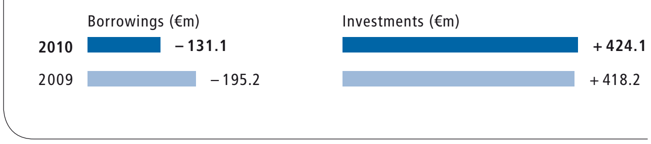
SOURCES AND APPLICATION OF FUNDS

Cash flows from operating activities amounted to € 162.1 million, a year-on-year decrease of € 50.2 million. Cash flows were impacted by the reduction in earnings and a larger amount of funds tied down in receivables. Resources were freed up primarily through an increase both in advances received from customers and in liabilities.

The volume of our investment activity was considerably reduced compared with the previous year, leading to total cash flows of € – 91.6 million (previous year: € – 99.4 million).

Cash flows from financing activities changed from € + 127.4 million to € – 88.3 million due to the redemption of bank loans. In the previous year this figure was affected by borrowings and a loan against borrower's note.

NET FINANCIAL POSITION



The KSB Group's cash and cash equivalents from all cash flows together changed only insignificantly, from € 409.8 million to € 407.6 million (including € 18.9 million of restricted cash used to secure credit balances for partial retirement obligations, compared with € 16.1 million in 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 13.1 % to € 1,861.3 million. This is mainly due to an increase in non-current assets as well as an increase in receivables and other assets. In addition, this includes the above-mentioned reclassifications and first-time consolidations (the latter resulted in an effect of € 8.6 million).

Around 28 % is attributable to fixed assets, as in the previous year. Intangible assets and property, plant and equipment with a historical cost of € 968.5 million have carrying amounts of € 449.4 million. Investments in property, plant and equipment in the year under review amounted to € 67.8 million, considerably below the prior-year figure of € 85.3 million, but still in excess of depreciation (€ 44.7 million). The highest additions relate to other equipment, operating and office equipment (€ 21.0 million), and to plants and machinery (€ 20.2 million). The focus of our investment activities was, as in the previous year, the Region Europe, predominantly Germany and France. Outside Europe, the highest additions were made at our plants in India, China, Indonesia, Brazil and the USA. We maintained our policies for measuring depreciation and amortisation in the year under review. We increased our investments in financial assets year on year; loans in particular increased by some € 8 million compared with the previous year. However, growth amounted to only € 4.2 million overall due to the decline in the carrying amounts of the investments in affiliates and other equity investments. Additions, predominantly resulting from the increase in our stake in an Italian motor manufacturer, were more than offset by effects from the first-time consolidation of six companies and by write-downs as a result of impairment tests. The write-downs basically relate to companies in Belgium, the Netherlands and Germany.

Taking into account the above-mentioned reclassification of advances received from customers and the first-time consolidations, inventories increased by 5.9 % to € 324.5 million, mainly as a result of the growing business volume. They tied up around 17 % of our resources. This is slightly down from the adjusted prior-year figure (18 %) because there was a greater change in total assets.

As a result of the increased sales revenue, in particular towards the end of the year, trade receivables were more than € 60 million above the prior-year value at the end of the reporting period. Along with an increase in orders on hand (more than € 1.1 billion at the end of 2010), the value of customer orders in progress, measured according to the percentage of completion method, not including PoC advance payments, increased by € 10.3 million. As a result, receivables and other current assets made up around 32 % of total assets (previous year 30 %), taking into account the change in the total assets.

Cash and cash equivalents account for around 22 % of assets (previous year: appro. 25 %). This change can be attributed solely to the increase in total assets because, despite the early redemption of loans, we were able to keep the absolute value of cash and cash equivalents virtually constant.

Inflation and Exchange Rate Effects

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

The translation of financial statements of consolidated companies that are not prepared in euros gave rise to a difference of € + 39.1 million. This was taken directly to equity.

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

Despite the negative effects on the financial performance, which we had anticipated, the economic situation of the KSB Group remained stable at a high level at the end of financial year 2010. We therefore have a good basis for achieving continued business success in the coming years.

PRINCIPLES OF THE REMUNERATION SYSTEM FOR THE BOARD OF MANAGEMENT

The remuneration of the Board of Management consists of fixed and variable components. The amount of the fixed remuneration is governed primarily by the function and responsibility assigned to the member of the Board of Management. The fixed remuneration 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.

The additional possibility of a premium, to be paid out at the discretion of the Supervisory Board, of no more than three monthly salary payments per financial year in recognition of the special performance of individual members of the Board of Management was also recently created. Such decisions will be made on an irregular, i.e. not necessarily annual, basis.

DEPENDENT COMPANY REPORT

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

INTERNAL CONTROL SYSTEM (DISCLOSURES PURSUANT TO SECTION 315(2), NO. 5 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 guidelines or codes 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 31 March 2011 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 EVENTS AFTER THE REPORTING PERIOD

The tragic events in Japan have cast a new light on the discussion of the use of nuclear power as a source of energy. It is still too early to assess the extent to which this will have an impact on orders for energy industry components such as pumps and valves. In principle, KSB offers products suitable for all forms of energy conversion. Should the share of global electricity supplies accounted for by nuclear power fall in the future, this would necessarily drive up demand for conventional power plants or renewable energy facilities. From today’s perspective, such a trend towards substitution would not put KSB at a disadvantage.

RESEARCH AND DEVELOPMENT

- Developing the "transparent" pump
- Impeller tests by computer simulation
- New materials for lowering costs

The achievements of our research and development are the basis for KSB's technological leadership, which we put to good use in a wide range of applications for pumps, valves and related systems. In addition to the innovative capacity of our engineers and technicians, one of the keys to our success is our project-oriented collaboration with universities and institutions of higher education. In 2010, as in the past, we took advantage of partnerships like these for a number of technical projects.

MAKING PUMPS "TRANSPARENT"

Unlike most modern machinery, pumps do not yet have electronic displays that give their users up-to-the-minute operating data. Without this information, it is not possible to check whether the units are operating within the desired performance range and with the minimum drive energy. To put an end to "working blindly" in this way, in 2010 we developed PumpMeter, a monitoring device that can be factory-mounted on any pump. It lets operators know whether their units are working efficiently and with minimum wear and tear. In addition, the device analyses the pump operating data to see whether it would make economic sense to use an energy-saving variable speed system. We successfully launched this innovative metering device in the market in 2010.

The use of high-efficiency motors, which we have been promoting for several years, aims at utilising drive energy more efficiently. In 2010 we transposed this technology to the drive system of our wet-installed waste water pumps. This step was a technical challenge, as water-tight electric motors need special sealing systems and combined motor/pump bearings, which suffer greater friction losses than the ball bearings of standard motors. This meant it was harder to meet the requirements of the highest efficiency class (IE3*) with a submersible motor. We succeeded in the year under review, however, by optimising the electrical and magnetic design of our KRT pump series up to a drive rating of 150 kW. The new motors we developed in-house are mechanically and electrically optimised for the requirements of the hydraulic components in waste water pumps.

*SEE PAGE 127 (GLOSSARY)

VIRTUAL TEST RUNS

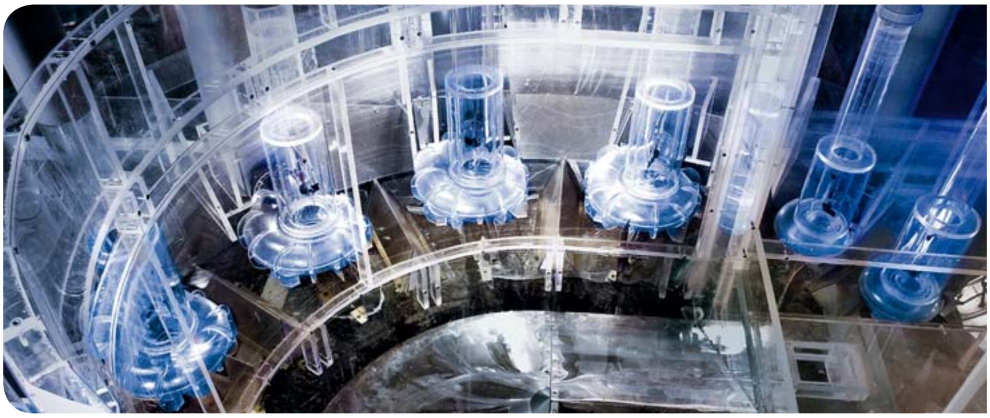
When custom-designed engineered pumps are built, test runs are required to check whether the guaranteed operating data are actually met. Manufacturing tolerances occur more frequently with impellers that have very large diameters. These tolerances call for mechanical finishing of the impeller to ensure its energy-efficient operation. To date, this may have necessitated reassembling the pump and checking it on the test rig several times.

To eliminate the need for these steps in future, KSB specialists are currently developing a method of entering the three-dimensional data of the supplied pump components into a computer and simulating their contours. This should allow them to carry out virtual test runs on the computer instead of on the test rig.

USE IN SOLAR THERMAL APPLICATIONS

The power stations being built in the deserts of the world to convert solar energy into usable thermal energy place high demands on the design and the materials of the pumps used. Huge reflector panels collect the sunlight and heat a liquid which passes on its heat to a water circuit. Unlike conventional power plants, in which the liquid remains at a virtually constant temperature, even over a period of years, these power plants experience substantial temperature fluctuations ranging from sub-zero temperatures at night to 375 °C during the day when the sun's power is at its highest. In order to provide the right pumps, based on proven product series, for such extreme operating conditions, we carried out intensive stress and strength analyses on our boiler recirculation pumps in 2010 and improved their design. The results show that we have pumps ideally suited to solar thermal energy applications*, which we have already been able to sell for a major project.

*SEE PAGE 127 (GLOSSARY)



Using a working model, KSB hydraulic engineers demonstrate how solid deposits can be prevented at a Mexican sewage plant.

IDEAL "WORKING ENVIRONMENT" FOR EVERY PUMP

A significant contribution to a pump's smooth and cost-effective operation is made by ensuring the pump environment is appropriate. This is where our hydraulic engineers can bring their technical expertise to bear and advise customers on the design of intake structures, for example. With computer-aided flow analysis and model testing, they help to find the best compromise between cost-saving design and the optimum layout of the structures from the hydraulic perspective. Customers took advantage of this service in 2010 for the large-scale waste water pumping station of "La Caldera" in Mexico City.

SHUT-OFF VALVES FOR MARINE APPLICATIONS

Aiming to consolidate our position as manufacturers of marine valves, we developed a range of special shut-off butterfly valves for use in the transport of ballast water as well as hydrocarbons and liquefied gases. These applications impose very high design requirements on the valves, as the operating conditions onboard a ship are considerably tougher than those in comparable systems on land.

IRON INSTEAD OF COBALT

As an alloy component, cobalt plays a part in increasing wear resistance and temperature stability in high-alloy metallic materials. In pumps and valves, such alloys are welded to critical wear points to make them more resistant. However, cobalt is in high demand because of its excellent properties and is one of the more costly metals. With the aim of avoiding bottlenecks in the procurement of this material, we examined the possibility of using cobalt-free substitute alloys based on iron. We tested characteristics such as resistance to wear and corrosion, which is of major importance for pumps and valves. The results of our research are highly promising and are set to be continued.

EXPENDITURE ON RESEARCH AND DEVELOPMENT

In 2010 we invested some € 41 million (previous year: some € 34 million) in research and development, which accounts for about 2.1 % of our sales revenue. In the year under review, 422 of our employees (previous year: 414) were involved in research and development activities in locations in Europe, Asia and the Americas.

EMPLOYEES

- 3.1 % increase in the number of employees in the Group
- "Demographic fitness" project launched
- Value-based cooperation promoted

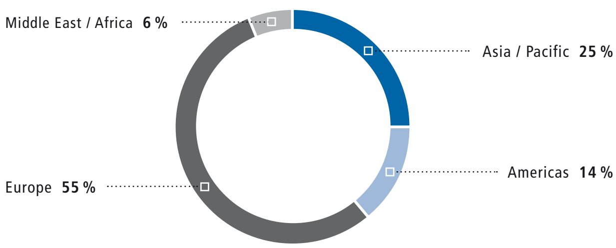
If we want to provide our customers with innovative products and attractive services, we need the very best employees. We seek such employees out around the world, foster them and give them the opportunity to develop their skills in a professional, highly cooperative work environment.

INCREASE IN NUMBER OF EMPLOYEES

At the end of 2010, KSB had 14,697 employees around the world, 448 more than in the previous year. This growth in staff is mainly attributable to the first-time consolidation of five operating companies in Germany, Italy, Canada, Norway and Russia. Staff was also added at KSB AG which launched numerous strategic projects, as well as at two companies in Brazil and India.

EMPLOYEES – TOTAL

EMPLOYEES – BY REGION



Source: DIW Berlin

COMPETITION FOR TALENT

Demographic changes pose new challenges for our human resources department, particularly in Germany. In the Demographic Fitness project launched in late 2010, we are developing analytical methods for identifying location-based problems associated with the aging population and limiting their impact on KSB. Part of this involves finding suitable young talent at an early stage; at the same time we want to give our more senior staff the opportunity to extend their professional lives.

We maintain close contact with students in the disciplines that are important for our activities so that we can recruit well educated, qualified graduates in the near future. Our partnerships with technical universities such as those in the German cities of Kaiserslautern, Karlsruhe and Leipzig help us in our search for engineers. At university job fairs, we show potential young talent which options are available for starting a career at KSB.

In Germany, we satisfy our need for specialists and commercial staff to a large extent through our own vocational training programme. Over the past few years we have continuously increased the number of trainee positions, which reached 327 during the year under review. In 2010 we invested around € 8.5 million in this area, including expenses for equipping our training facilities. All in all, we are currently training young people in 13 different vocations. Methodological skills and social learning form core components of the training programme.

To determine the best candidates for key positions we use the opportunities offered by international recruitment. In 2010 we began standardising these around the world. Defined target processes, uniform quality standards and transparent responsibilities are desigend to help fill these vacancies quickly and more efficiently.

We also provide vocational training to qualify young people for skilled metalworking jobs.

QUALIFIED PROJECT MANAGERS SIMPLIFY STRATEGY IMPLEMENTATION

We offer our employees a diverse range of opportunities, covering a variety of topics and presented using different methods, for improving their professional skills and abilities. They can take advantage of an in-house training portfolio featuring foreign language courses, commercial and technical training, IT seminars and personal development events. In 2010 some 4,600 participants took part in 525 seminars and training sessions from this portfolio. Employees also made use of learning opportunities offered via electronic media. E-learning enables each and every participant to choose when and how quickly they want to study, specify what topics they wish to focus on and repeat content as often as they want.

One key focus of staff development activities during the year under review was to train employees to become project managers. This will make it easier for us to use uniform processes and professional methods to guide our strategic plans to success. With that goal in mind, prospective project managers also completed their qualifications in line with the standards of the "International Project Management Association"*.

DEVELOPING THE CORPORATE CULTURE EVEN FURTHER

We want to base our actions within the Group on clearly defined values and rules of conduct. The values that guide our work and the way we act and interact with each other are trust, responsibility, professionalism, honesty and appreciation. We consider these to be a part of our corporate culture and believe that in developing this culture even further, we also contribute to our economic success.

In 2010 some 300 employees debated the concrete meaning of these corporate values in "value dialogues". During the sessions, these employees discussed with their managers how they relate to the corporate values personally and what relevance the values possess with regard to their business activities. External facilitators structured and guided the process. In addition, managers with leadership functions attended special seminars where they focused on value-based leadership.

Regular feedback, provided both by department heads to their staff and also by staff to their managers, contributes to the KSB leadership culture. Following its success in Argentina, Germany and Finland, the anonymous "Leadership Feedback" initiative was organised on a global scale for the first time in 2010. The results show managers how their behaviour is perceived by employees and how they can improve their work as managers.

OUR EMPLOYEES' SPECIAL ACHIEVEMENTS

2010 was a tough financial year plagued by crisis and yet throughout it all, our employees showed great flexibility in responding to changing market requirements. Some employees in underutilised areas made use of their working time accounts to reduce or prevent short-time work. Our sales staff made good use of generally lower market potentials to stabilise the order situation; production staff quickly re-adjusted to increasing volumes in standard business during the second half of the year. At the same time, employees implemented our new organisation and many of them contributed toward the implementation of strategic projects. This achievement deserves our respect and our gratitude.

*SEE PAGE 127 (GLOSSARY)

CORPORATE SOCIAL RESPONSIBILITY

- Membership in the UN Global Compact
- Resource-saving production processes
- Products with greater energy efficiency

As an employer, consumer, supplier and neighbour, KSB also has a responsibility to society. This includes using sustainable business practices that take environmental and employee-related issues into consideration as well as a long-term social commitment. We arrange our own activities and make donations to promote measures that are important to society as well as to alleviate hardship. Our sustainability principles are an integral part of our corporate policy and benchmarks that guide our actions. They apply at all locations and for all companies within the KSB Group.

In April 2010, KSB signed the UN Global Compact*, an initiative of the United Nations. This initiative aims to give globalisation a more social and also more ecological form. Upon joining, we committed ourselves to implementing the initiative's ten principles in the areas of human rights, labour standards, environmental protection and anti-corruption within our company. We aspire to improve continuously and take practical measures to substantiate this. Likewise, we also demand that our business partners uphold these principles. We take the same approach in applying the core conventions of the International Labour Organisation (ILO**).

ENVIRONMENTALLY-FRIENDLY WORK AND PRODUCTION

At KSB, environmental protection begins at the point when we design our production processes and look at their impact on material and energy consumption. At all of our plants we strive to produce our pumps, valves and related systems in a manner that is as energy-efficient as it is environmentally friendly. With this in mind we regularly review our environmental protection measures and improve continuously. One aspect of conserving our natural resources is to correctly separate waste materials and recycle raw materials. We got several such projects off the ground in 2010.

We try to guarantee that water is used sparingly by using it multiple times wherever possible. In Lille, France, we launched a model project to harvest rainwater. A conduit system transports runoff water from the plant's roof into three containers that can each hold a volume of 10,000 litres. These supply the test station and sanitary facilities, which saves a considerable amount of drinking water. We will implement this concept at additional sites in the years to come.

To cut our energy consumption we are using more and more energy-saving light bulbs in our workshops, warehouses and offices. We also replace old, less efficient machines and devices with modern equipment that has better efficiency levels. As part of this, one focus in 2010 was on modernisation measures in India, which included the installation of energy-saving lighting systems.

At the Lingang site in China, we started up KSB's very first geothermal heat pump system during the year under review. This system uses the Earth's natural capacity to store heat in order to heat and cool buildings. Compared with standard systems, use of the geothermal heat pump cuts energy costs by around 30 %.

During the past few years, we have made an ongoing effort to gradually certify our sites around the world in accordance with the ISO 14001* environmental standard; in 2010 seven additional production and service sites were added in Germany, Italy, the Netherlands and the USA. We are also increasingly demanding that our suppliers provide evidence of their certification under this internationally recognised standard as well.

SAVING ENERGY, REDUCING CO_2 EMISSIONS

Today many customers demand products with low energy consumption, from the perspective of not only economic considerations but environmental aspects as well. We meet customers' expectations by providing pumps with high efficiency levels as well as automation systems that help identify and make use of potential for saving energy. In research and development, we are working on additional solutions which simultaneously reduce the use of energy resources and cut operating costs.

One of the countries where our energy-efficient pumps are experiencing growing demand is India. There, in response to the scarcity of energy, a large-scale government programme has been initiated with the objective of replacing units which consume large amounts of energy with more efficient ma-

*www.ksb.com/global-compact

**SEE PAGE 128 (GLOSSARY)

*SEE PAGE 127 (GLOSSARY)

*SEE PAGE 127 (GLOSSARY)

Internal provisions for screen workers include regular eye tests.

chines. At the same time, these measures also aim to slow down growth in carbon dioxide emissions. Of the pump types produced in our plants in India, 51 already meet the requirements of the two strictest of the country's five efficiency classes.

Reducing greenhouse gases is a global objective pursued by many companies around the world. As a result, suppliers like KSB should be able to provide information regarding the amounts of carbon dioxide (CO_2) released during production of their products. We have been providing this information, known as the "carbon footprint"*, for a series of pumps made in France since 2007. CO_2 information about our butterfly valves has also been available since 2010. We expect that customers will require this kind of information more and more frequently in the future and will continue our efforts to determine the figures for additional products as well. To play a part in helping to reduce carbon dioxide emissions, we have joined an environmental protection initiative in Austria and also help cities and communities to make their contribution.

FURTHER INCREASE IN SAFETY AT THE WORKPLACE

Within the scope of our integrated management approach, we look at the connections between environmental protection, occupational safety and employee health. One example of this is our avoidance of hazardous materials. Moreover, we consider occupational health and safety to be a key aspect of identifying risks at an early stage and preventing accidents and other damage to employees' health. Our objective is to make the workplaces of all employees as safe as possible.

In 2010 we focused on this at our companies in the Americas. In Argentina, Brazil, Chile, Mexico and the United States, some 30 measures were implemented at 10 locations with the goal of reducing the number of accidents in workshops and warehouses. Measures taken included marking danger zones, mandating the use of protective equipment and improving lighting at work stations. In addition, we took several steps to increase the safety of Brazilian sites, such as installing new fire-fighting systems.

MAINTAINING GOOD HEALTH THROUGH PREVENTIVE MEASURES AND SPORT

In addition to workplace safety measures, we use preventive measures to promote the good health of our employees. During the year under review, our company's medical services in Germany alone performed around 2,000 medical check-ups and administered 450 flu shots. We also consider our company-internal athletic offering to be a contribution toward maintaining the good health of our employees. In Italy, where our company was named one of the 100 best employers in 2009, we set up a 100 m² fitness studio for staff at one of our sites. Trainees in Germany benefit from special fitness programmes where they also learn how to correctly lift and carry heavy objects to prevent musculoskeletal damage.

People doing computer work frequently only put weight on one side of their spinal columns, which can lead to back pain. To address this problem, we have launched a programme in Germany which specially targets those employees who work in the office. Over the Internet, participants receive video instructions for exercises aimed at relaxation and strengthening up to three times a day. These can be done right at their desks. So far around 400 employees are taking part in this programme.

NEEDS-BASED OFFERINGS FOR FAMILIES

As a family-friendly company, we offer our employees ways in which they can better harmonise their professional lives with their personal obligations. The precise needs that exist in this area are determined through internal surveys. Depend-

*SEE PAGE 127 (GLOSSARY)

ing on the family's particular circumstances, we can help find childcare or nursing services for relatives. In Germany we collaborate both with partners at our locations as well as with agencies that operate nationwide. In addition we offer operational measures to assist employees who find themselves in difficult circumstances.

COMMITMENT TO EDUCATION AND HELP FOR DISASTER VICTIMS

Our social initiatives are especially geared toward ensuring that children and young people – who we see as our employees of the future – receive an adequate education. Consequently we are a founding member of and actively involved in the Wissensfabrik – Unternehmen für Deutschland [Knowledge Factory – Companies for Germany] initiative, where we help foster children's linguistic and natural science skills. In 2010, for instance, we provided several elementary schools with materials that playfully spark children's interest in topics related to technology and natural science. Moreover, in the "Storyteller Workshop" project we offered additional training for teachers who shape children's linguistic experiences at the pre-school age.

In Asia, too, we make an ongoing commitment toward promoting better education. Via the KSB CARE* relief fund we support several school projects in China, Indonesia and Vietnam which enable better learning for children. At the same time, KSB CARE also helps renovate old sanitary facilities in schools in India and build new ones.

In the event of natural disasters as well, we donate money and make contributions in kind. Together, KSB and its employees contributed € 100,000 in donations for the victims of flooding in Pakistan. Our Pakistani company coordinated how these funds were used to ensure that food, medicine and drinking water reached the people affected as quickly as possible. We not only helped set up water filtration systems but we also assisted with the reconstruction of infirmaries and schools. Furthermore, KSB employees in Pakistan took part in relief campaigns and gave shelter to the homeless.

Company donations are also made for the benefit of children, youths and the socially disadvantaged at our German sites. This was the aim of our 2010 campaign, "Donations instead of presents", in which we granted financial assistance to institutions and projects in Frankenthal, Pegnitz and Halle before Christmas.

* SEE PAGE 127 (GLOSSARY)

RISK MANAGEMENT

- Crisis-related market risks reduced
- Financial flexibility with high reserves
- Rising prices for raw materials

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

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

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

Accounting is responsible for preparing the annual and consolidated financial statements, according to subprocesses clearly defined in advance.

As part of the planning and reporting process, Controlling and Finance and Accounting systematically identify document the opportunities and risks associated with each operating area. In addition, they carry out results analyses on an ongoing basis and report each month to the Board of Management. Twice a year, the individual business operations report on the current situation as well as foreseeable developments. If necessary, measures are then initiated to take advantage of new opportunities and manage recognised risks.

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

Information on recognised risks and the countermeasures introduced in response forms an integral part of reporting to the Board of Management and the Audit Committee of the Supervisory Board. In this process, we identify and communicate risks in line with the following categories:

MARKET / COMPETITION

The global financial and economic crisis affected most of the sectors in which KSB operates. There was a risk that the resulting falloff in demand might take a firm hold, leading to lasting underutilisation of our production facilities. This risk was significantly reduced in 2010 with the change in the economic climate and increased willingness to invest on the part of many customers. By the second half of the year, short-time working, which had been used selectively as a tool, was no longer necessary.

In 2010, our plants producing goods for building services and industrial applications moved back closer to their precrisis production levels. In the business with pumps for the energy industry, there will be a lag before the economic turnaround has an effect on order placements, meaning that pressure on the sales prices of our products will continue. In our production of valves for liquefied gas transport systems, which also saw low capacity utilisation in 2010, we expect an improvement for the current and the following year.

The trend for some economies to close off their markets to foreign providers may continue. We are responding to this development by intensifying our creation of local added value.

Overall, we expect the market risks resulting from the financial and economic crisis to continue to decrease during the current and the following year.

The political upheaval in North Africa may result in a temporary reduction in order placements. However, this will not have a material effect on our overall business, as sales in the affected countries represent only a small proportion of that business.

PRODUCTS / PROJECTS

Technology and prices that reflect market requirements are vital prerequisites for a successful future. For this reason, we are constantly reviewing our product portfolio. Pumps, valves and systems that no longer meet our technical requirements are quickly replaced with new or improved versions that generally offer a higher level of customer benefits. To be able to offer these products at competitive market prices, cost considerations are a crucial part of our design and engineering work. At the same time, in our development process we ensure that the materials we select do not have negative impacts on the environment.

In 2010, we responded to our customers' requirement to make increasing use of energy-efficient motors by acquiring a majority interest in the Italian company ITACO s.r.l. This company offers an innovative drive technology that enables substantial efficiency gains in combination with KSB variable speed systems. Moreover, the motors come without rare earths*, a usual requirement for high-efficiency drives. Such materials are expected to be subject to supply bottlenecks and higher costs.

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

FINANCES / LIQUIDITY

In some cases, the financial and economic crisis had an effect on customers' ability to make payments. To minimise the resulting default risks, we monitor our incoming payments on an ongoing basis. This allows us to respond quickly and adapt our receivables management appropriately. There were no major payment defaults in 2010, which confirms the effectiveness of our measures. We will continue our strict receivables management system and continue to require advance and partial payments, especially in the large-scale projects business. We reduce risks from having payment flows in different currencies by means of foreign exchange hedges. To this end, we mainly use forward currency contracts for transactions that have already been recognised and for future cash flows from orders still to be processed.

We did not have to draw on the loan against a borrower's note placed in the previous year to finance our operating business in 2010. We were also able to finance our strategic projects using our own funds and also make early repayments of loans. In the current year and the following year as well we expect to make at most partial use of our full financial resources, and therefore have access to a considerable cushion of liquidity.

PROCUREMENT

The framework conditions on the supply markets became somewhat more difficult during the year under review. Increasing production in markets such as China and India meant that at times we had to pay higher purchase prices for the finished and raw materials we needed than in 2009.

If the global economic recovery continues during the current year, then prices for these goods can be expected to increase further. Procurement bottlenecks may also be encountered. To respond to this risk, we have secured additional sources of supply, primarily in Asia. However, the economic recovery will also increase our ability to pass on higher material costs to customers via price adjustments.

TECHNOLOGY / RESEARCH AND DEVELOPMENT

During the past financial year, we intensified our activities in research and development. In particular, the Group organisation introduced at the start of 2010 fosters product-related innovation.

When developing our products, we aim to recognise technical and market-related risks in good time. Sales employees are involved in key development phases to ensure that the latest findings from the market flow directly into the process. Where necessary, we respond to these findings with design changes. In order to shorten the time from the development of new products to their rollout on the market, we made appropriate changes to our processes in 2010.

We continue to develop products to meet customer specifications that are only used in very limited applications. Contracts concluded with customers ensure that compensation is paid for customised designs regardless of their use. This avoids any financial risk for KSB.

*SEE PAGE 127 (GLOSSARY)

We do not use scarce natural resources to develop new energy-efficient motors for our pumps.

ENVIRONMENT

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

OTHER RISKS

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

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

As a result of demographic changes, competition for qualified specialists and managers is intensifying. To prepare for this, we are carrying out the Demographic Fitness* project, which involves analysing age structures and creating needs-oriented action plans. Furthermore, we are simplifying and standardising our processes for advertising new positions internationally.

OVERALL ASSESSMENT

Despite a recovering global economy, the markets have still not completely overcome the financial and economic crisis. Therefore, in 2011 and 2012 management will continue to have the key responsibility of identifying the associated risks and countering them in good time.

Overall, we did not identify any risks in financial year 2010 that could significantly or permanently impair the Group's net assets, financial position or results of operations.

*SEE PAGE 42

REPORT ON EXPECTED DEVELOPMENTS

- Order intake and sales revenue set to increase considerably
- Asia / Pacific remains the most important growth region
- Stabilising earnings despite high price pressure

MARKET DEVELOPMENTS AND SALES OPPORTUNITIES

In 2011, the global economy is expected to continue its recovery from the recession of two years ago. Having returned to the growth track early on, emerging markets still offer export-oriented nations good sales potential. This fact, combined with their improving domestic economies, gives reason to hope that the upturn in a number of industrialised nations, including Germany, will gain staying power. By contrast, in some countries with high levels of debt, observers must wait and see whether, and to what extent, the economic situation is going to improve.

On the whole, forecasts for 2011 largely anticipate a continued upward trend in the economy, although this is not likely to develop the same dynamism as in the previous year. The necessary measures taken to consolidate critical state budgets – especially in over-leveraged European nations – could result in a dampening effect. Another factor curbing growth may come from national restriction measures taken in economies such as China, India and Brazil in order to keep inflationary risks in check.

Order intake in the mechanical and plant engineering sectors, which fell sharply during the crisis, will increase again significantly in 2011. Therefore, the German Engineering Federation (VDMA) anticipates production growth of roughly 10 %.

Demand for pumps, valves and systems will also rise during the current year. Continued improvement in order intake is also expected in the short-cyclical general business, whereas the purchase order situation is likely to stabilise in the project business. In 2011, business will be shaped by more intense competition and stronger price pressure.

▪ Pumps

With the end of the financial and economic crisis, our pumps business already showed a marked positive trend in the second half of 2010, and we expect this to continue during the current year. We expect increasing investment in the chemicals industry and in the power and water engineering sectors to produce growing order volumes for single-stage and multistage pumps.

In addition, positive effects should result from the introduction of new pump type series, including very powerful circulating pumps for use in high-rise buildings and additional sizes of our pressure booster pumps for industry, water supply and building services. To increase submersible pumps sales, we will step up our activities in the waste water business, with the aim of winning additional market share.

As part of our strategic projects, we are also intensifying our sales of standard pumps in key markets and focusing on new areas of application. These include, for example, the hygienic fluid transport market, renewable energies and fire-extinguishing systems in line with the US FM / UL* standard. We also see good development opportunities in mining and will intensify our efforts in this market in selected countries.

Customer demand for products with a high level of energy efficiency favours our sales of energy-saving variable speed systems and energy-efficient motors. This is an area where we are technologically well positioned and will use these advantages to boost our sales revenue with automation products.

▪ Valves

We would like to continue the upward trend from the second half of 2010 and increase our order intake for globe, gate and butterfly valves as well. After our successes with standard valves last year, we are counting on the fact that as the economy picks up, it will also drive demand for customised valves for use in specific applications.

* SEE PAGE 128 (GLOSSARY)

We have high expectations in connection with developments in the chemical industry and our power plant business in certain regions. Even the sale of marine valves, which collapsed during the crisis, is likely to recover during the current year. A series of new butterfly valves scheduled to be launched in 2011 will strengthen our position in the valves market.

▪ Service

In the service business, we will continue to improve our customer relationships in selected markets in line with our strategy. The establishment of new service centres in Asia, the Americas and Australia will contribute toward this goal. We will also selectively expand our service presence in the Middle East. We expect a higher percentage growth in the regions outside Europe than for our European core market.

In Europe we expect momentum to come from our nuclear business in France this year. We already concluded initial framework agreements for services there in 2010, drawing on the experience and contacts of our newly acquired French company Euro Techno Consulting, which has specialised in such systems. Furthermore, in Germany and France we will offer our services in the renewable energies sector, especially in the area of wind power plants.

OUTLOOK FOR THE GROUP AND FOR THE REGIONS

Current developments in the markets corroborate the fundamental direction of our strategy, which, among other objectives, involves increasing market penetration in countries outside Europe with strong prospects while stabilising our position within Europe. Within the Group, we will work intensively towards these aims as well as other strategic projects. Based on these initiatives and trends in the market, it is possible that our order intake in the Regions Asia / Pacific and Americas could see much stronger percentage growth in 2011 than in our European home market.

▪ Europe

In the current European market, we can expect to see two types of economic development. While export-oriented economies will benefit from the revival in global trade, other countries will lose ground in their economic recovery as a result of the debt crisis and the difficult process of consolidation.

Our general business with standard products is likely to see further growth. By contrast, our power engineering and water transport project business will remain affected by reluctance on the part of many investors, who launched no new projects during the crisis. This goes for Western Europe in particular, whereas in the Eastern European market, especially in Russia, there are definitely reasons to see potential for positive developments in the project business. In our service business, acquisitions completed in Germany and France in 2010 provide starting points for expanding our business. Moreover, in 2011 as well, we would like to close regional gaps and broaden our service expertise.

▪ Middle East / Africa

The upturn in the global economy and associated demand for energy and base metals has driven prices for these goods upward. Higher revenues in some raw materials and oil-exporting countries have freed up investment capital for infrastructure projects in the areas of water supply and wastewater treatment as well as construction projects. Furthermore, new pumps and valves are required by the oil and gas industry. In North Africa, it is likely that for a temporary period, fewer orders will be placed due to the political unrest.

We serve our customers via a regional trading centre in Dubai and a network of sales companies and trading partners. In Turkey, Saudi Arabia and South Africa we also do direct, local manufacturing in selected markets. In 2011, we would like to focus on improving our regional service offering, which involves a number of service companies, in the United Arab Emirates and Saudi Arabia.

Asia / Pacific

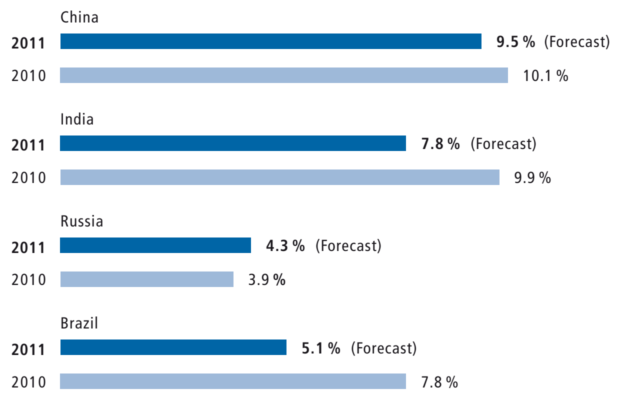
Despite regulatory measures taken in some countries, we expect the momentum in the Asian markets to continue. In the two strongest economies, China and India, we can participate directly in this growth through the sales and production companies we have established there.

As a result of rising industrial production in the region and steadily growing demand for energy, we see good order prospects in the manufacturing industry and in power plant construction. Water and waste water projects will also become more important for our business due to rapid developments in infrastructure. By setting up new regional centres for project management and application consultancy, we will improve our customer support and offer even more effective services, fast and efficiently.

Furthermore we have the strategic goal of intensifying our general business with standard pumps and valves. Special sales teams are putting in place the prerequisites for this in several Asian countries.

Growing new business in the Asia / Pacific region will bring about an increase in the demand for service. This development is associated with the increasing willingness of customers to outsource services to external providers. We will therefore set up new repair centres, above all in China, India and Australia.

REAL ECONOMIC GROWTH IN THE BRIC COUNTRIES



Source: DIW Berlin

Americas

Economic growth in the Region Americas in 2011 will likely end up lower than in 2010. The North American market is experiencing a slow recovery, and we therefore anticipate opportunities to participate in projects related to energy supply and waste water treatment systems. The high oil price will lead to new investments in the Canadian oil sands industry, which we supply with slurry pumps from our US subsidiary GIW Industries, Inc. We also expect an upturn in the service business, with a contribution coming from our new acquisition Standard Alloys Inc.

In South America, we expect stronger growth of the economy, in particular in Argentina, Brazil and Chile, where we are represented by own companies. We are planning to establish a new company in Peru, another promising country. We currently see good opportunities for orders in South America in industry, including the oil industry, water supply and mining.

Overall, intense competition should be expected in the US market. This is due to the increased involvement of producers from other regions, which currently aim to tap the Brazilian and US sales markets. Our longstanding customer relationships will help us to continue to leverage opportunities in the well-established areas of application for our products. At the same time, we intend to expand our business with standard products and service offerings.

FINANCIAL OUTLOOK

Against the backdrop of an improving global economy, we are striving to continue improving our order intake in 2011 and the following year as well. We anticipate growth in all three Business Units: Pumps, Valves and Service. We see growth opportunities during the current year especially in our general business with standard products and in service, while higher order intake in the project business is not expected until 2012. Overall, however, on the basis of forecast prospects for the economy, we will already be able to re-attain pre-crisis levels in 2011.

After China, India is the largest growth market in Asia. We manufacture pumps and valves at five sites in India, like this one in Nashik.

We expect sales revenue to increase at a stronger rate than order intake in all Business Units in 2011. This development is related to the completion of the high level of orders on hand. In the following year, sales revenue will likely see the same increase in volume as order intake.

During the current year, we expect consolidated earnings to reach at least the level of 2010. Considering the pressure on prices in our sales markets and looming increases in material and staff costs, it is not yet certain whether we can improve this figure. In the pumps business, we cannot rule out declines due to the problematic competitive situation, mainly in the project business. By contrast, a positive development is expected in the Business Units Valves and Service. From our current perspective, we anticipate moderate earnings growth overall in 2012.

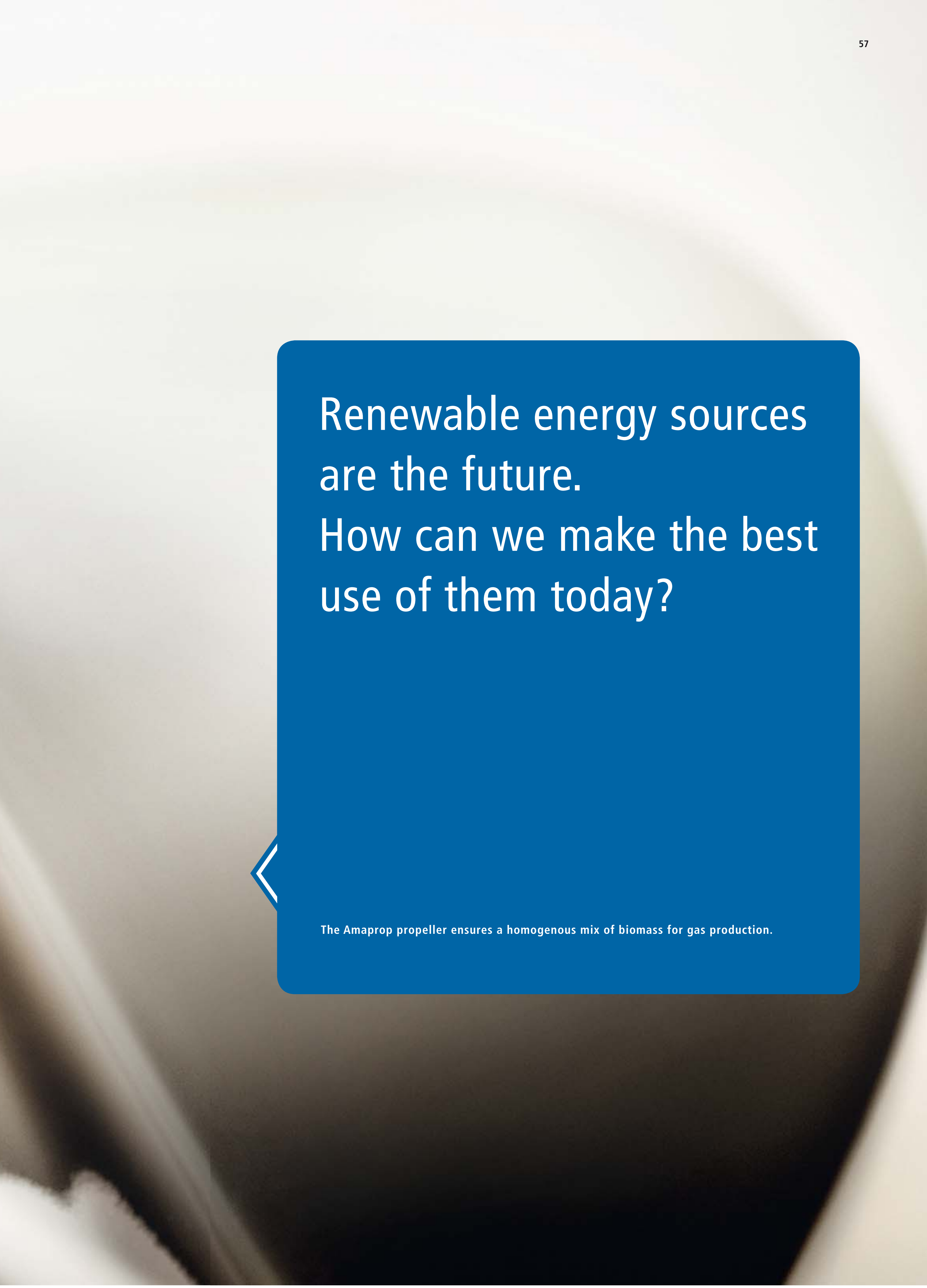
Our expenditure for property, plant and equipment is likely to rise in 2011. Thanks to our very good financial position, we expect to be able to fully finance these investments from equity capital.

The implementation of our strategic projects will be a focus of our activities in 2011 and the coming years as well. We are providing the necessary financial resources and capacities for this.

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.



Renewable energy sources are the future.
How can we make the best use of them today?

The Amaprop propeller ensures a homogenous mix of biomass for gas production.

»Tapping additional regenerative energy sources should make us less dependent on fossil and nuclear fuels. We support this development by providing efficient and durable components for systems which use solar and wind power as well as geothermal energy and biomass to generate electricity. We are also currently testing the first commercial river turbines to convert hydropower into electricity. By developing this "small hydropower plant", we hope to achieve payback periods that are a third shorter than those of wind power plants.«

Kerstin Gündra, Head of Product Management Submersible Pumps

KSB achieved consolidated earnings before taxes of € 135.8 million in 2010, with a return on sales of 7.0 percent.

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS

(€ thousands)	Notes	31 Dec. 2010	31 Dec. 2009 (adjusted)	31 Dec. 2009
Non-current assets				
Intangible assets	1	48,584	45,966	42,174
Property, plant and equipment	1	400,860	367,697	365,518
Non-current financial assets	1	65,845	52,972	61,621
Deferred tax assets	2	16,824	17,664	17,447
		532,113	484,299	486,760
Current assets				
Inventories	3	324,518	306,372	259,069
Receivables and other current assets	4	596,545	504,569	489,699
Current financial instruments	5	500	–	–
Cash and cash equivalents	5	407,621	414,953	409,840
		1,329,184	1,225,894	1,158,608
		1,861,297	**1,710,193**	**1,645,368**

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 Dec. 2010	31 Dec. 2009 (adjusted)	31 Dec. 2009
Equity	6			
Subscribed capital		44,772	44,772	44,772
Capital reserve		66,663	66,663	66,663
Revenue reserves		602,561	515,839	515,672
Equity attributable to shareholders of KSB AG		713,996	627,274	627,107
Non-controlling interest		111,570	93,455	93,455
		825,566	720,729	720,562
Non-current liabilities				
Deferred tax liabilities	7	33,704	32,055	31,982
Provisions for employee benefits	8	269,547	263,892	263,892
Other provisions	8	16,098	15,442	15,404
Liabilities	9	109,644	160,639	160,058
		428,993	472,028	471,336
Current liabilities				
Provisions for employee benefits	8	110,784	116,293	115,689
Other provisions	8	90,119	83,046	82,714
Liabilities	9	405,835	318,097	255,067
		606,738	517,436	453,470
		1,861,297	**1,710,193**	**1,645,368**

INCOME STATEMENT INCLUDING STATEMENT OF RECOGNISED INCOME AND EXPENSE

INCOME STATEMENT

(€ thousands)	Notes	2010	2009
Sales revenue	10	**1,939,254**	**1,892,840**
Changes in inventories		12,260	–13,442
Work performed and capitalised		2,271	2,448
Total output of operations		**1,953,785**	**1,881,846**
Other operating income	11	35,921	32,274
Cost of materials	12	–790,855	–736,026
Staff costs	13	–649,844	–618,268
Depreciation and amortisation expense	1	–48,148	–43,372
Other operating expenses	14	–339,507	–323,705
Other taxes		–8,304	–8,551
		153,048	184,198
Financial income	15	11,410	9,407
Financial expense	15	–28,662	–20,821
		–17,252	–11,414
Earnings before income taxes		**135,796**	**172,784**
Taxes on income	16	–45,836	–50,426
Earnings after income taxes		**89,960**	**122,358**
Attributable to:			
Non-controlling interest	17	12,525	14,744
Shareholders of KSB AG		**77,435**	**107,614**
Diluted and basic earnings per ordinary share (€)	19	44.09	61.32
Diluted and basic earnings per preference share (€)	19	44.35	61.58

STATEMENT OF RECOGNISED INCOME AND EXPENSE

(€ thousands)	2010	2009
Earnings after income taxes	**89,960**	**122,358**
Measurement of financial instruments	–380	1,107
Currency translation differences	39,099	14,648
Other income and expense recognised directly in equity	507	865
Taxes on items recognised directly in equity	–220	–305
Total earnings recognised directly in equity	**39,006**	**16,315**
Total recognised income and expense	**128,966**	**138,673**
Attributable to:		
Non-controlling interest	21,004	13,655
Shareholders of KSB AG	**107,962**	**125,018**

STATEMENT OF CHANGES IN EQUITY

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

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG	Revenue reserves	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
1 Jan. 2010	44,772	66,663	515,672	627,107	93,455	**720,562**
Measurement of financial instruments	–	–	– 242	– 242	– 34	**– 276**
Currency translation differences	–	–	30,626	30,626	8,473	**39,099**
Other income and expense recognised directly in equity	–	–	143	143	40	**183**
Total earnings recognised directly in equity	–	–	*30,527*	*30,527*	*8,479*	***39,006***
Earnings after income taxes	–	–	77,435	77,435	12,525	**89,960**
Total recognised income and expense	–	–	*107,962*	*107,962*	*21,004*	***128,966***
Dividends paid	–	–	– 21,240	– 21,240	– 2,926	**– 24,166**
Capital increases / decreases	–	–	–	–	–	**–**
Change in consolidated Group / Successive acquisitions	–	–	167	167	–	**167**
Other	–	–	–	–	37	**37**
31 Dec. 2010	**44,772**	**66,663**	**602,561**	**713,996**	**111,570**	**825,566**

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
Balance at 1 Jan. 2009	– 60,803	– 20,372	**– 81,175**
Change 2009	15,690	– 1,042	**14,648**
Balance at 31 Dec. 2009 / 1 Jan. 2009	– 45,113	– 21,414	**– 66,527**
Change 2010	30,626	8,473	**39,099**
Balance at 31 Dec. 2010	**– 14,487**	**– 12,941**	**– 27,428**

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.

CASH FLOW STATEMENT

(€ thousands)	2010	2009
Earnings after income taxes	89,960	122,358
Depreciation and amortisation expense / Write-ups	55,481	45,848
Increase in non-current provisions	3,459	3,454
Gain on disposal of fixed assets	– 562	– 303
Other non-cash income and expenses	178	1,070
Cash flow	**148,516**	**172,427**
Increase / decrease in inventories	– 83	41,666
Increase / decrease in trade receivables and other assets	– 59,752	29,189
Decrease in current provisions	– 5,438	– 2,112
Increase in advances received from customers	41,470	13,263
Increase / decrease in liabilities (excluding financial liabilities)	37,347	– 42,191
Other non-cash expenses / income (operating)	–	–
	13,544	39,815
Cash flows from operating activities	**162,060**	**212,242**
Proceeds from disposal of intangible assets	–	–
Payments to acquire intangible assets	– 5,026	– 3,340
Proceeds from disposal of property, plant and equipment	4,173	2,299
Payments to acquire property, plant and equipment	– 69,837	– 91,328
Proceeds from disposal of non-current financial assets	455	406
Payments to acquire non-current financial assets	– 21,313	– 7,423
Net cash flows from the acquisition and sale of consolidated companies and other business operations (basically successive acquisitions)	–	–
Other non-cash expenses / income (investing)	–	–
Cash flows from investing activities	**– 91,548**	**– 99,386**
Proceeds from additions to equity	–	–
Dividends paid for prior year (including non-controlling interest)	– 24,166	– 23,931
Employee deferred compensation	3,726	3,588
Net cash flows from financial liabilities	– 66,099	147,263
Net cash flows from financial receivables	– 1,777	481
Other non-cash expenses / income (financing)	–	–
Cash flows from financing activities	**– 88,316**	**127,401**
Net change in cash and cash equivalents	– 17,804	240,257
Effects of exchange rate changes on cash and cash equivalents	10,472	2,223
Effects of changes in consolidated Group	5,113	–
Cash and cash equivalents at beginning of period	409,840	167,360
Cash and cash equivalents at end of period	**407,621**	**409,840**
Thereof term deposits to hedge credit balances for partial retirement arrangements included at the closing date	18,900	16,100

SEGMENT REPORTING

	Order intake		External sales revenue		EBIT	
(€ thousands)	2010	2009	2010	2009	2010	2009
Business Unit Pumps	1,450,920	1,377,535	1,333,824	1,301,831	121,561	129,779
Business Unit Valves	342,393	314,525	331,270	316,719	10,146	11,200
Business Unit Service	281,714	241,923	276,513	234,252	30,452	26,900
Reconciliation	–	–	– 2,353	40,038	– 13,301	17,815
Total	**2,075,027**	**1,933,983**	**1,939,254**	**1,892,840**	**148,858**	**185,694**

€ 668,367 thousand (previous year: € 704,647 thousand) of the sales revenue presented was generated by the companies based in Germany and € 1,270,887 thousand (previous year: € 1,188,193 thousand) by the other Group companies.

At the reporting date, the total non-current assets of the KSB Group amounted to € 411,259 thousand (previous year: € 373,882 thousand), with € 188,167 thousand (previous year: € 188,530 thousand) being attributable to the companies based in Germany and € 223,092 thousand (previous year: € 185,352 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.

€ 33.8 million of the order intake of the Business Unit Pumps and € 6.4 million of the order intake of the Business Unit Service are attributable to the first-time consolidation of companies. The prior-year figures would have been € 23.8 million and € 3.6 million respectively. The effect of first-time consolidation on the external sales revenue of the Business Unit Pumps was € 29.7 million and on that of the Business Unit Valves € 5.7 million. The prior-year figures would have been € 20.9 million and € 3.1 million respectively. The effect on EBIT was € 0.7 million for the Business Unit Pumps and € 0.1 million for the Business Unit Valves. The prior-year figures would have been € 0.6 million and € 0.1 million respectively.

NOTES

GENERAL

Basis of preparation

The accompanying consolidated financial statements of KSB AG, Frankenthal, Germany, were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of German commercial law under section 315a(1) of the *HGB [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 14 March 2011 and are expected to be approved by the Supervisory Board on 29 March 2011.

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

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

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

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

First-time application of new and revised standards

The following new Interpretations and revised Standards issued by the International Accounting Standards Board (IASB) were required to be applied for the first time in financial year 2010:

- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 2 *Share-based Payment*
- IFRS 3 *Business Combinations*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (Annual Improvement Project 2008)

- IFRIC 12 *Service Concession Arrangements*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 *Distributions of Non-cash Assets to Owners and Individual Components of* IAS 10 *Events after the Reporting Period* as well as IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRIC 18 *Transfers of Assets from Customers*
- *Annual Improvements* [April 2009]

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

- IAS 24 *Related Party Disclosures*
  (for reporting periods beginning on or after 1 January 2011)
  This Standard provides for exemption from disclosure of information in the Notes if the cost of complying with the disclosure requirement would outweigh the benefits of the disclosures to users of the financial statements.
- IAS 32 *Financial Instruments: Presentation* (for reporting periods beginning on or after 1 February 2011)
  The amendments relate to the clarification of the classification of subscription rights as a liability or as equity.
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* in conjunction with IFRS 7 *Financial Instruments: Disclosures*
- *Annual Improvements* [May 2010] (for reporting periods beginning on or after 1 January 2011) The amendments relate to six Standards and one Interpretation.
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (from 1 January 2011)
  The amendments relate to entities with minimum funding requirements within the framework of accounting for pension plans.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (for reporting periods beginning on or after 1 July 2010). This document provides assistance in the interpretation of the IASs/IFRSs.
  This document provides assistance in the interpretation of the IASs/IFRSs.

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

BASIS OF CONSOLIDATION

Consolidated Group

In addition to KSB AG, 6 German and 52 foreign companies (previous year: 4 German and 48 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 2010:

- KAGEMA Industrieausrüstungen GmbH, Pattensen (Germany)
- KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal (Germany)
- KSB OOO, Moscow (Russia)
- KSB Lindflaten AS, Lysaker (Norway)
- KSB Service Italia S.r.l., Scorzè (Italy)
- KSB Pumps Inc., Mississauga / Ontario (Canada)

The changes in the consolidated Group described above contributed around 1 % or € 0.8 million to consolidated earnings. Further effects on the consolidated financial statements are presented in the relevant tables (for example, in the additional column titled “31 Dec. 2009 (adjusted)” included in the balance sheet) and explained in the information provided on individual items.

The carrying amounts of the companies’ assets and liabilities acquired and included in the consolidated financial statements for the first time almost completely matched their fair value. Purchase price allocation, based on the data at the time of acquisition, only resulted in differences amounting to € 239 thousand. These were above all attributable to the measurement of customer base and orders in hand.

Overall, as in the previous year, we had to make no payments for successive acquisitions of consolidated companies in the year under review. € 12,906 thousand (previous year: € 7,144 thousand) was spent on companies that have not yet been consolidated because this would not have had a material impact. This amount resulted mainly from an increase in the interest held in an Italian motor manufacturing firm, a newly formed company in the Americas and the acquisition of shares in relatively small companies in Europe.

In light of our new Group strategy which, among other things, involves merging the numerous small companies to form larger legal entities, 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.

Consolidation methods

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

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

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.

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

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

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

	Closing rate		Average rate	
	31 Dec. 2010	31 Dec. 2009	**2010**	2009
US dollar	1.3362	1.4406	1.3321	1.3933
Brazilian real	2.2177	2.5113	2.3377	2.7706
Indian rupee	59.7580	67.0400	60.9563	67.3098
Chinese yuan	8.8220	9.8350	9.0167	9.5172

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.

In addition to the above-mentioned changes to the consolidated Group, we have made adjustments versus the prior-year presentation of disclosures of advance payments on inventories and, in part, for PoC contracts. We now disclose these advance payments as a component of liabilities, whereas in the previous year they were presented as part of “Inventories” or “Receivables and other current assets”. The effects are described in these Notes in the section on “Liabilities”. For reasons of comparability, the prior-year values of the relevant items were adjusted in the tables presented in the sections on “Inventories”, “Receivables and other current assets” and Liabilities.

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 intragroup 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. Fair values are based on market prices determined at the reporting date that are obtained from recognised external sources.

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

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

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

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

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

We have applied the component approach under IAS 16.

Depending on the relevant item, government grants relating to property, plant and equipment are deducted from the assets concerned or transferred to an adjustment item on the liabilities side. This adjustment item is reversed over a defined utilisation period. 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 – 60 years
Plant and machinery	7 – 25 years
Operating and office equipment	3 – 25 years

Leases

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

Non-current financial assets

Investments in unconsolidated affiliates and associates are carried at 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 (without indirect material costs) incurred for work performed up to the reporting date bear to the estimated total contract costs (without 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 and short-term deposits) are recognised at amortised cost.

Deferred taxes

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

Provisions for pensions and similar obligations

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

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

Other provisions

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

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

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

Liabilities

Liabilities 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 market prices. Fair values may be positive or negative. Fair value is the amount that we would receive or have to pay at the reporting date to settle the financial instrument. This amount is determined using the relevant exchange rates, interest rates and counterparty credit ratings at the reporting date.

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

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

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

Contingent liabilities (contingencies and commitments)

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

Contingent liabilities correspond to the extent of liability at the 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 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	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Balance at 1 January	34,588	33,470	37,142	36,664	1,326	1,841	**73,056**	**71,975**
Change in consolidated Group / Currency translation adjustments / Other	831	295	4,375	478	–	1	**5,206**	**774**
Additions	3,714	1,299	–	–	1,278	44	**4,992**	**1,343**
Disposals	194	1,024	–	–	–	–	**194**	**1,024**
Reclassifications	1,426	548	–	–	– 1,301	– 560	**125**	**– 12**
Balance at 31 December	40,365	34,588	41,517	37,142	1,303	1,326	**83,185**	**73,056**
Accumulated depreciation and amortisation	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Balance at 1 January	27,550	24,492	3,332	–	–	–	**30,882**	**24,492**
Change in consolidated Group / Currency translation adjustments / Other	426	200	–	–	–	–	**426**	**200**
Additions	3,423	3,882	–	3,332	–	–	**3,423**	**7,214**
Disposals	194	1,024	–	–	–	–	**194**	**1,024**
Reclassifications	64	–	–	–	–	–	**64**	**–**
Balance at 31 December	31,269	27,550	3,332	3,332	–	–	**34,601**	**30,882**
Carrying amount at 31 December	**9,096**	**7,038**	**38,185**	**33,810**	**1,303**	**1,326**	**48,584**	**42,174**

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

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

To determine the discount rate, the weighted average cost of capital (WACC) method is applied in conjunction with the capital asset pricing model (CAPM). Under this method, first the cost of equity is determined using CAPM and the borrowing costs are defined, and then the individual capital components are weighted in accordance with the capital structure. The interest rate for risk-free ten-year Bunds was used as a base rate. In response to the global economic recovery we have lowered the market risk premium from 5 % to the pre-crisis level of 4 %; as in the previous year, 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 7.40 % and 9.11 % (previous year: between 8.69 % and 10.69 %).

The impairment test did not identify any impairment requiring a write-down. Last year's impairment test revealed the need for write-downs of € 3,332 thousand at a cash-generating unit in Belgium due to economic difficulties.

A 10 % increase in the relevant discount rate would require write-downs of € 648 thousand (previous year: € 0 thousand).

Of the carrying amount of all goodwill totalling € 38,185 thousand (previous year: € 33,810 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 and € 3,358 thousand (previous year: € 2,790 thousand) to the South African company KSB Pumps (S.A.) (Pty) Ltd. € 3,710 thousand was attributable to the companies included in the consolidated financial statements for the first time (of which € 1,353 thousand to KSB Service Italia S.r.l., € 1,280 thousand to KSB Lindflaten AS and € 1,077 thousand to KAGEMA Industrieausrüstungen GmbH). The remaining € 6,142 thousand (previous year: € 6,045 thousand) is attributable, as in the previous year, to another 12 companies.

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

STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

(€ thousands)	Land and buildings		Plant and machinery		Other equipment, operating and office equipment		Advance payments and assets under construction		**Property, plant and equipment Total**	
Historical cost	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Balance at 1 January	232,824	196,440	394,531	351,458	149,483	139,207	32,528	51,530	**809,366**	**738,635**
Change in consolidated Group / Currency translation adjustments / Other	7,539	2,626	12,799	3,758	7,400	1,885	1,405	320	**29,143**	**8,589**
Additions	9,999	11,808	20,234	32,397	20,968	17,010	16,606	24,060	**67,807**	**85,275**
Disposals	314	791	10,525	11,838	8,361	10,470	1,696	46	**20,896**	**23,145**
Reclassifications	4,169	22,741	30,695	18,756	– 3,987	1,851	– 31,002	– 43,336	**– 125**	**12**
Balance at 31 December	254,217	232,824	447,734	394,531	165,503	149,483	17,841	32,528	**885,295**	**809,366**
Accumulated depreciation and amortisation	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Balance at 1 January	99,564	94,718	244,126	234,941	100,158	95,796	–	–	**443,848**	**425,455**
Change in consolidated Group / Currency translation adjustments / Other	2,529	298	7,150	1,762	4,445	1,324	–	–	**14,124**	**3,384**
Additions	6,444	4,998	24,366	18,736	13,915	12,424	–	–	**44,725**	**36,158**
Disposals	230	450	9,582	11,311	7,473	9,388	–	–	**17,285**	**21,149**
Reclassifications	–	–	2,212	– 2	– 2,276	2	–	–	**– 64**	**–**
Reversal (write-up)	913	–	–	–	–	–	–	–	**913**	**–**
Balance at 31 December	107,394	99,564	268,272	244,126	108,769	100,158	–	–	**484,435**	**443,848**
Carrying amount at 31 December	**146,823**	**133,260**	**179,462**	**150,405**	**56,734**	**49,325**	**17,841**	**32,528**	**400,860**	**365,518**

The volume of investment in property, plant and equipment declined by 20 % compared with the previous year's level. After major investments were made in previous years, we returned to the usual level of investments in the year under review as anticipated in the previous year.

Assets resulting from finance leases (almost exclusively real property) are recognised as fixed assets in accordance with IAS 17, and corresponding financial liabilities are recognised. The carrying amount of these recognised assets amounts to € 7,076 thousand (previous year: € 7,167 thousand).

Disposals of items of property, plant and equipment resulted in book gains of € 1,781 thousand (previous year: € 1,538 thousand) and book losses of € 1,219 thousand (previous year: € 1,235 thousand). The book gains and losses are reported in the income statement under other operating income and other operating expenses.

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

STATEMENT OF CHANGES IN NON-CURRENT FINANCIAL ASSETS

(€ thousands)	Investments in affiliates		Other investments		Non-current financial instruments		Loans		**Non-current financial assets Total**	
Acquisition cost	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Balance at 1 January	50,572	45,119	14,617	13,099	718	688	2,876	2,851	**68,783**	**61,757**
Change in consolidated Group / Currency translation adjustments / Other	– 8,349	139	–	–	5	– 1	– 24	–	**– 8,368**	**138**
Additions	12,906	5,604	–	1,540	31	50	8,376	250	**21,313**	**7,444**
Disposals	1,613	312	–	–	–	19	189	225	**1,802**	**556**
Reclassifications	1,540	22	– 1,540	– 22	–	–	–	–	**–**	**–**
Balance at 31 December	55,056	50,572	13,077	14,617	754	718	11,039	2,876	**79,926**	**68,783**
Accumulated impairment losses	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Balance at 1 January	5,615	3,079	461	461	86	105	1,000	1,150	**7,162**	**4,795**
Change in consolidated Group / Currency translation adjustments / Other	19	41	–	–	–	–	–	–	**19**	**41**
Additions	6,312	2,495	1,379	–	8	–	548	–	**8,247**	**2,495**
Disposals	1,347	–	–	–	–	–	–	150	**1,347**	**150**
Reclassifications	–	–	–	–	–	–	–	–	**–**	**–**
Reversal (write-up)	–	–	–	–	–	19	–	–	**–**	**19**
Balance at 31 December	10,599	5,615	1,840	461	94	86	1,548	1,000	**14,081**	**7,162**
Carrying amount at 31 December	**44,457**	**44,957**	**11,237**	**14,156**	**660**	**632**	**9,491**	**1,876**	**65,845**	**61,621**

Investments in affiliates and other equity investments reported under non-current financial assets declined. Additions, above all resulting from the increase in our interest held in an Italian motor manufacturing firm, were more than offset by effects resulting from the first-time consolidation of six companies and by write-downs. These write-downs relate primarily to five smaller companies in Germany, Belgium and the Netherlands. Our impairment tests at these companies identified impairment losses due to economic difficulties. The planned first-time consolidation of further companies in financial year 2011 is expected to result in another decline in this balance sheet item in 2011.

The increase in loans is attributable to financing measures for a newly formed company in the Americas. For financial year 2011, we expect a significant decline in this item, too, as a result of the planned changes in the consolidated Group.

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

€ 9,434 thousand (previous year: € 1,817 thousand) of the loans are loans to affiliates.

The effect of currency translation adjustments taken directly to equity on fixed assets was a gain of € 14,112 thousand (previous year: gain of € 5,877 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. 2010	31 Dec. 2009*
Raw materials and production supplies	129,718	124,253
Work in progress	85,710	60,276
Finished goods and goods purchased and held for resale	91,853	100,275
Advance payments	17,237	17,564
	324,518	**302,368**

*Adjusted prior-period presentation

€ 31,711 thousand (previous year: € 27,455 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the period under review amount to € 2,147 thousand (previous year: € 6,387 thousand). We reversed write-downs totalling € 3,431 thousand (previous year: € 3,742 thousand) where the current net realisable value was higher than the prior-period value. Inventories amounting to € 778,595 thousand (previous year: € 749,468 thousand) were recognised as expenses in the period under review.

4 Receivables and other current assets

(€ thousands)	31 Dec. 2010	31 Dec. 2009*
Trade receivables	428,694	366,274
Intragroup and associate receivables	19,313	20,715
Receivables recognised by PoC (excl. advances received from customers PoC)	221,721	211,424
Advances received from customers (PoC*)	–122,410	–129,913
Receivables recognised by PoC	99,311	81,511
Other receivables and other current assets	49,227	34,124
	596,545	**502,624**

*Adjusted prior-year presentation

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 5,823 thousand (previous year: € 5,945 thousand). Associate receivables totalled € 4,565 thousand (previous year: € 2,512 thousand).

Construction contracts under IAS 11 include recognised profits of € 26,539 thousand (previous year: € 27,224 thousand) and costs of € 195,182 thousand (previous year: € 184,200 thousand). Sales revenue in accordance with IAS 11 amounted to € 328,716 thousand (previous year: € 349,428 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

€ 11,294 thousand (previous year: € 6,319 thousand) and other financial assets from currency forwards in accordance with IAS 39 in the amount of € 1,519 thousand (previous year: € 2,037 thousand). As in the previous year, there are no receivables relating to interest rate derivatives.

At the reporting date, the notional volume of all currency forwards was € 139,105 thousand (previous year: € 112,179 thousand), and the notional volume of all interest rate derivatives was € 5,532 thousand (previous year: € 16,430 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 2010	**139,105**	108,383	30,236	486
Notional volume 2009	**112,179**	104,043	8,136	–

€ 21,638 thousand (previous year: € 15,699 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 € 500 thousand (previous year: none).

Cash and cash equivalents are primarily term deposits with short maturities and call deposits. The German Group companies use € 18,900 thousand of cash and cash equivalents (previous year: € 16,100 thousand) for hedges of credit balances prescribed by law for partial retirement arrangements. They are available to us at any time due to the underlying contractual structure.

6 Equity

There was no change in the share capital of KSB AG as against the previous year. In accordance with the Articles of Association, it totals € 44,771,963.82 and is composed of 886,615 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 € 230 thousand (previous year: € 128 thousand) and deferred tax liabilities in the amount of € 20 thousand (previous year: € 11 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 19 May 2010.

Equity also includes changes in the fair value of derivatives used to hedge future cash flows amounting to € – 750 thousand (previous year: € – 480 thousand). They changed as follows:

(€ thousands)	2010
Opening balance at 1 January	– 480
Disposals	2,713
Additions	– 3,102
Change in consolidated Group / Currency translation adjustments / Other	119
Closing balance at 31 December	**– 750**

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

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

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

CAPITAL DISCLOSURES

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

		2010	2009
Order intake	€ million	2,075.0	1,934.0
Sales revenue	€ million	1,939.3	1,892.8
Return on sales	%	7.0	9.1
Net financial position	€ million	293.0	223.0
Equity ratio	%	44.4	43.8

7 Deferred tax liabilities

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

8 Provisions

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 are as follows: The discount rate applied to the obligations was reduced from 5.4 % to 5.3 %. As in the previous year, the assumed rate of future salary increases is 2.7 %, and the assumed growth rate for the pension trend is 2.0 % per annum. The biometric assumptions are based on the 2005G mortality tables published by Prof. Klaus Heubeck. A mean fluctuation rate (2.0 %) was applied to staff turnover. The retirement age used for the calculations is oriented on the *Rentenversicherungs-Altersanpassungsgesetz 2007* [*RVAGAnpG* – German Act Adapting the Standard Retirement Age for the Statutory Pension Insurance System]. Actuarial gains and losses outside the 10 % corridor around the present value of the DBO are recognised. Where the cumulative gain or loss exceeds the 10 % corridor, the excess amount is spread over the average remaining working lives of the employees and recognised in the profit or loss of future periods.

CHANGES IN DBO (PRESENT VALUE OF THE OBLIGATION)

(€ thousands)	2010	2009
Opening balance at 1 January	**248,337**	**217,452**
Current service cost	11,635	11,490
Interest cost	12,561	12,439
Benefit payments	– 12,274	– 12,496
Transfer of assets	–	–
Actuarial gains / losses (–/+)	4,256	19,009
Change in consolidated Group / Currency translation adjustments / Other	– 2,422	443
Closing balance at 31 December	**262,093**	**248,337**

The present value of pension commitments amounted to € 217 million for 2008, € 215 million for 2007 and € 230 million for 2006.

RECONCILIATION TO CARRYING AMOUNTS

(€ thousands)	2010	2009
DBO at 31 December	**262,093**	**248,337**
Unrecognised gains / losses (–/+)	– 16,651	– 12,535
Change in consolidated Group / Currency translation adjustments / Other	–	12
Carrying amount at 31 December	**245,442**	**235,814**

ALLOCATION OF THE ACTUARIAL GAINS / LOSSES IN THE FINANCIAL YEAR

(€ thousands)	2010	2009
Changes in balance	456	387
Changes in measurement parameters	3,800	18,622
Total gains / losses at 31 December (–/+)	**4,256**	**19,009**

EFFECTS IN THE INCOME STATEMENT

(€ thousands)	2010	2009
Current service cost	11,635	11,490
Actuarial gains / losses	234	18
Interest cost	12,561	12,439
	24,430	**23,947**

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 € 25,849 thousand (previous year: € 23,361 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 € 840 thousand for 2010 and € 4,577 thousand for 2009), customer bonuses, accrued costs and environmental measures.

€ 40,203 thousand of the other provisions is non-current (previous year: € 43,482 thousand). This relates mainly to provisions for jubilee payments, partial retirement and warranty obligations.

9 Liabilities

NON-CURRENT LIABILITIES

(€ thousands)	31 Dec. 2010	31 Dec. 2009*
Financial liabilities		
Liabilities on bonds issued	100,000	100,000
Bank loans and overdrafts	6,186	56,674
Finance lease liabilities	1,041	3,230
Other	2,417	154
	109,644	160,058
Total non-current liabilities	**109,644**	**160,058**

*Adjusted prior-year presentation

CURRENT LIABILITIES

(€ thousands)	31 Dec. 2010	31 Dec. 2009*
Financial liabilities		
Bank loans and overdrafts	16,759	30,275
Finance lease liabilities	2,866	685
Other	1,795	4,215
	21,420	35,175
Trade payables		
Trade payables to third parties	174,401	141,732
Intragroup trade payables	6,990	5,358
	181,391	147,090
Other liabilities		
Advances received from customers*	60,650	43,299
Advances received from customers (PoC) *	55,188	12,924
Taxes	16,656	16,740
Social security and liabilities towards employees	19,543	16,270
Miscellaneous other liabilities and deferred income	50,987	39,793
	203,024	129,026
Total current liabilities*	**405,835**	**311,291**

NON-CURRENT AND CURRENT LIABILITIES

(€ thousands)	31 Dec. 2010	31 Dec. 2009*
Total liabilities*	**515,479**	**471,349**

*Adjusted prior-year presentation

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.

Assets amounting to € 5,242 thousand (previous year: € 2,753 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, € 124 thousand (previous year: € 184 thousand) relate to property, plant and equipment, € 3,674 thousand (previous year: € 1,254 thousand) to inventories, € 506 thousand (previous year: € 302 thousand) to receivables and € 938 thousand (previous year: € 1,013 thousand) to cash and cash equivalents, as well as other securities.

€ 9,389 thousand (previous year: € 8,648 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 3.70 % (previous year: 3.05 %). 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. In 2009 covenant agreements had to be observed for three loans totalling € 60 million. These loans were repaid before maturity in the year under review due to the sound liquidity situation. In the previous year, two of these loans totalling € 50 million were subject to a creditor-defined indicator (equity ratio) which was not allowed to fall below 25 %. The covenants of the third loan in the amount of € 10 million referred to compliance with a dynamic debt to equity ratio and debt service coverage ratio. Here, too, both indicators were defined by the creditor.

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 € 3,008 thousand (previous year: € 2,395 thousand). € 350 thousand (previous year: € 514 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 2,030 thousand (previous year: € 848 thousand). This also includes investment grants totalling € 3,171 thousand (previous year: € 2,189 thousand) received for new buildings in Germany.

INCOME STATEMENT DISCLOSURES

10 Sales revenue

The changes in the consolidated Group in the year under review accounted for € 35,381 thousand; in the prior-period consolidated financial statements they would have accounted for € 24,059 thousand.

Sales revenue includes revenue from the sale of goods and goods purchased and held for resale amounting to € 1,773,346 thousand (previous year: € 1,782,444 thousand) as well as revenue for services rendered amounting to € 165,908 thousand (previous year: € 110,396 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.

11 Other operating income

(€ thousands)	2010	2009
Gains from asset disposals and reversals of impairment losses (write-ups)	2,694	1,538
Income from current assets	2,614	2,865
Currency translation gains	2,165	1,515
Income from the reversal of provisions	12,507	13,902
Miscellaneous other income	15,941	12,454
	35,921	**32,274**

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

Income from government grants for individual projects amounted to € 470 thousand (previous year: € 1,022 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)	2010	2009
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	722,275	668,136
Cost of purchased services	68,580	67,890
	790,855	**736,026**

The changes in the consolidated Group in the year under review accounted for € 10,126 thousand; in the prior-period consolidated financial statements they would have accounted for € 6,855 thousand.

13 Staff costs

(€ thousands)	2010	2009
Wages and salaries	517,980	491,548
Social security contributions and employee assistance costs	113,485	112,440
Pension costs	18,379	14,280
	649,844	**618,268**

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.

The changes in the consolidated Group in the year under review accounted for € 14,230 thousand; in the prior-period consolidated financial statements they would have accounted for € 9,861 thousand.

AVERAGE NUMBER OF EMPLOYEES

	2010	2009
Wage earners	6,689	6,625
Salaried employees	7,414	7,252
Trainees and apprentices	514	450
	14,617	**14,327**

The changes in the consolidated Group in the year under review led to the addition of 270 people.

14 Other operating expenses

(€ thousands)	2010	2009
Losses from asset disposals	1,219	1,235
Losses from current assets	6,666	10,821
Currency translation losses	807	1,810
Other staff costs	19,666	16,963
Repairs, maintenance, third-party services	84,978	94,116
Selling expenses	87,706	76,409
Administrative expenses	75,680	62,321
Rents and leases	22,187	20,019
Miscellaneous other expenses	40,598	40,011
	339,507	**323,705**

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

The changes in the consolidated Group in the year under review accounted for € 6,329 thousand; in the prior-period consolidated financial statements they would have accounted for € 4,614 thousand.

15 Financial income / expense

(€ thousands)	2010	2009
Financial income	11,410	9,407
Income from investments	4,201	5,148
thereof from affiliates	(3,346)	(4,425)
Interest and similar income	7,159	4,150
thereof from affiliates	(445)	(433)
Write-ups of financial assets	–	–
Income from the remeasurement of financial instruments	–	–
Other financial income	50	109
Financial expense	–28,662	–20,821
Interest and similar expenses	–20,221	–17,060
thereof to affiliates	(–3)	(–12)
Write-downs of financial assets	–8,238	–2,495
Expenses from the remeasurement of financial instruments	–	–
Other financial expenses	–203	–1,266
	–17,252	**–11,414**

Interest and similar expenses include the interest cost on discounted pension provisions amounting to € 12,561 thousand (previous year: € 12,439 thousand). The increase in interest and similar income is attributable to the Group's improved financial position. Write-downs of financial assets relate primarily to the above-mentioned impairment losses on the carrying amount of investments in non-consolidated companies due to economic difficulties.

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

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)	2010	2009
Effective taxes	43,550	50,151
Deferred taxes	2,286	275
	45,836	**50,426**

€ 7 thousand (previous year: € 224 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 803 thousand (previous year: € 931 thousand) to tax arrears.

RECONCILIATION OF DEFERRED TAXES

(€ thousands)	2010	2009
Change in deferred tax assets	623	– 3,744
Change in deferred tax liabilities	1,722	3,868
Change in deferred taxes recognised in balance sheet	**2,345**	**124**
Change in deferred taxes taken directly to equity	102	– 319
Change in consolidated Group / Currency translation / adjustments / other	– 161	470
Deferred taxes recognised in income statement	**2,286**	**275**

ALLOCATION OF DEFERRED TAXES

	Deferred tax assets		Deferred tax liabilities	
(€ thousands)	2010	2009	2010	2009
Non-current assets	1,286	1,282	28,612	27,453
Current assets	49,194	49,132	63,117	61,979
Non-current liabilities	18,243	18,696	290	355
Current liabilities	16,007	12,671	9,703	7,071
Tax loss carryforwards	112	542	–	–
Gross deferred taxes – before offsetting	**84,842**	**82,323**	**101,722**	**96,858**
Offset under IAS 12.74	– 68,018	– 64,876	– 68,018	– 64,876
Net deferred taxes – after offsetting	**16,824**	**17,447**	**33,704**	**31,982**

At the reporting date, deferred tax assets amounting to € 1,293 thousand (previous year: € 1,332 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 (€ 840 thousand), as in 2009.

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 € 41,841 thousand (previous year: € 17,334 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)	2010	2009
Earnings before income taxes	135,796	172,784
Calculated income taxes on the basis of applicable tax rate (29 %)	39,381	50,107
Differences in tax rates	– 101	2,007
Change in write-downs on deferred taxes on loss carryforwards and unused tax loss carryforwards	7,438	– 195
Tax-exempt income / non-deductible expenses	– 4,367	– 711
Prior-period taxes	796	707
Non-deductible foreign income tax	1,419	1,319
Other	1,270	– 2,808
Current taxes on income	**45,836**	**50,426**
Current tax rate	34 %	29 %

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 € –220 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 € 12,767 thousand (previous year: € 14,826 thousand), and the non-controlling interest in net loss amounts to € 242 thousand (previous year: € 82 thousand). These relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds.

The changes in the consolidated Group did not have any 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 € 41,120 thousand (previous year: € 34,352 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

		2010	2009
Earnings after income taxes – Attributable to KSB AG shareholders	(€ thousands)	77,435	107,614
Additional dividend attributable to preference shareholders	(€ thousands)	– 225	– 225
	(€ thousands)	**77,210**	**107,389**
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	€	**44.09**	**61.32**
Diluted and basic earnings per preference share	€	**44.35**	**61.58**

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. 2010	Fair value 31 Dec. 2010	Carrying amount 31 Dec. 2009	Fair value 31 Dec. 2009
Non-current assets						
Non-current financial assets						
Investments in affiliates, other investments	AfS	Fair value / Amortised cost	55,694	55,694	59,113	59,113
Non-current financial instruments	AfS	Fair value	660	660	632	632
Loans	LaR	Fair value / Amortised cost	9,491	9,491	1,876	1,876
Current assets						
Receivables and other current assets						
Trade receivables	LaR	Fair value / Amortised cost	428,694	428,694	366,274	366,274
Intragroup and associate receivables	LaR	Fair value / Amortised cost	19,313	19,313	20,715	20,715
Receivables recognised by PoC – net –	LaR	Fair value / Amortised cost	99,311	99,311	68,586	68,586
Other receivables, other current assets	LaR	Fair value / Amortised cost	32,068	32,068	21,531	21,531
Derivatives included in hedging relationships	n/a	Fair value	959	959	1,052	1,052
Derivatives not included in hedging relationships	FAHfT	Fair value	560	560	985	985
Current financial instruments	AfS	Fair value	500	500	–	–
Cash and cash equivalents	LaR	Fair value / Amortised cost	407,621	407,621	409,840	409,840

EQUITY AND LIABILITIES

Balance sheet item / Class (€ thousands)	Category	Initial / subsequent measurement	Carrying amount 31 Dec. 2010	Fair value 31 Dec. 2010	Carrying amount 31 Dec. 2009	Fair value 31 Dec. 2009
Non-current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	108,603	102,507	156,828	142,717
Finance lease liabilities	n/a	in accordance with IAS 17	1,041	1,041	3,230	3,230
Current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	18,554	18,554	34,490	34,490
Finance lease liabilities	n/a	in accordance with IAS 17	2,866	2,866	685	685
Trade payables	FLAC	Fair value / Amortised cost	181,391	181,391	147,090	147,090
Advances received from customers (PoC)	LaR	Fair value / Amortised cost	55,188	55,188	–	–
Other liabilities – Miscellaneous	FLAC	Fair value / Amortised cost	42,777	42,777	34,360	34,360
Derivatives included in hedging relationships	n/a	Fair value	1,709	1,709	1,532	1,532
Derivatives not included in hedging relationships	FLHfT	Fair value	1,299	1,299	863	863
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Fair value / Amortised cost	941,310	941,310	888,822	888,822
Available-for-sale financial assets	AfS	Fair value	1,160	1,160	632	632
Available-for-sale financial assets	AfS	Fair value / Amortised cost	55,694	55,694	59,113	59,113
Financial assets held for trading	FAHfT	Fair value	560	560	985	985
Financial liabilities measured at amortised cost	FLAC	Fair value / Amortised cost	351,325	345,229	372,768	358,657
Financial liabilities held for trading	FLHfT	Fair value	1,299	1,299	863	863

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 are determined on the basis of input factors observable either directly (i.e. as a price) or indirectly (i.e. derived from prices).

NET RESULTS BY MEASUREMENT CATEGORY IN 2010:

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

NET RESULTS BY MEASUREMENT CATEGORY IN 2009:

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

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 € 8 thousand (previous year: gain of € 47 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 written off if it is reasonably certain that receipt of payment cannot be expected.

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

(€ thousands)	2010	2009
Opening balance at 1 January	26,349	21,760
Additions	6,074	8,056
Utilised	– 1,699	– 1,244
Reversals	– 2,960	– 2,064
Change in consolidated Group / Currency translation adjustments / Other	2,202	– 159
Closing balance at 31 December	**29,966**	**26,349**

The maturity structure of trade receivables is as follows:

(€ thousands)	31.12.2010	31.12.2009
Receivables that are neither past due nor individually impaired	331,168	279,462
Receivables that are past due but not individually impaired		
1 to 30 days	36,308	36,660
31 to 90 days	27,609	18,313
91 to 180 days	11,978	11,705
>180 days	4,905	14,826
Total	80,800	81,504
Receivables individually determined to be impaired	16,726	5,308
Receivables individually determined to be impaired at their principal amount	46,692	31,657
Specific write-downs	29,966	26,349
Carrying amount (net)	**428,694**	**366,274**

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

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

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

LIQUIDITY RISK

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

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

In response to the extraordinary situation that 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.

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 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**

CASH FLOWS OF FINANCIAL LIABILITIES 2009

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

MARKET RISK

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

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

The most significant foreign currency in the KSB Group is the USD. The volume of trade receivables denominated in USD amounts to around € 29 million (previous year: approximately € 27 million). The volume of trade payables denominated in USD amounts to around € 7 million (previous year: approximately € 5 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 € 7.2 million lower (higher); € 3.6 million results from USD and € 3.6 million from the other currencies.

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

The theoretical effect on profit in the year under review would have been a decrease (an increase) of € 0.2 million. € 0.7 million would be attributable to USD and € –0.9 million to the other currencies.

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

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

As part of our interest rate sensitivity analysis, we simulate a 100 basis point increase (decrease) in market interest rates and analyse the effects on the floating rate financial instruments. In 2010, the net interest balance would have been € 3.2 million (previous year: € 2.7 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: € 0.2 million).

CASH FLOW STATEMENT

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

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

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

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

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

Cash flows from operating activities include cash flows from interest received amounting to € 7,159 thousand (previous year: € 4,150 thousand) and cash flows from (income) taxes totalling € –37.894 thousand (previous year: € –43,529 thousand). Cash flows from investing activities include cash flows from dividends received amounting to € 4.201 thousand (previous year: 5,148 thousand). Cash flows from financing activities include cash flows from interest paid amounting to € –7.660 thousand (previous year: € 4,621 thousand).

€ 5.2 million of the cash flows from operating activities is attributable to the first-time consolidation of companies; the prior-year figure would have been € 1.0 million. € –0.6 million of the cash flows from investing activities is attributable to the first-time consolidation of companies; the prior-year figure would have been € –0.0 million. The effect of first-time consolidations on cash flows from financing activities is € 0.0 million; the prior-year effect would have been € –0.8 million.

SEGMENT REPORTING

Segment reporting corresponds to our new 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, sales revenue and earnings before income taxes – determined for the Pumps, Valves and Service Business Units. Reporting the relevant assets (including the resulting 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 interim 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 unconsolidated Group companies.

The **external sales revenue of the Business Units by segment** presents sales revenue generated with third parties and unconsolidated 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 presented separately as reconciliation effects.

The segment reporting format in the prior-period consolidated financial statements was by region, in line with the internal organisational and management structure in place at the time.

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)	2010	2009
Liabilities from guarantees	2,738	7,846
Liabilities from warranties	7,400	6,509
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	3,151	3,046
	13,289	**17,401**

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

Other financial obligations from rental agreements and operating leases (minimum lease payments) amount to a total of € 25,724 thousand (previous year: € 22,494 thousand). Of these, € 11,012 thousand (previous year: € 10,389 thousand) is due within one year and € 12,203 thousand (previous year: € 10,402 thousand) due between one and five years. In the year under review, € 10,389 thousand was spent on these agreements.

Operating leases relate primarily to vehicles and real estate.

FINANCE LEASES

	Minimum lease payments		Present values	
(€ thousands)	2010	2009	2010	2009
Due within one year	2,990	748	2,866	685
Due between one and five years	862	3,199	789	2,949
Due after more than five years	252	295	252	281
	4,104	**4,242**	**3,907**	**3,915**

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

The annual obligations from IT services agreements amount to € 28,498 thousand (previous year: € 33,166 thousand) over a term of one to five years.

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

The aggregate purchase obligation for investments amounts to € 6,905 thousand (previous year: € 11,567 thousand). Almost all of the corresponding payments are due in 2011.

Other covenant agreements
In the year under review there are two guarantee credit facilities for € 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. This resulted in the recognition of expenses of € 77 thousand (previous year: € 24 thousand) and income of € 8 thousand (previous year: € 9 thousand) at KSB AG in the year under review. No interest (previous year: interest of € 3 thousand) was paid on short-term cash deposits by Klein Pumpen GmbH with KSB AG. Short-term deposits by KSB AG with Klein Pumpen GmbH and by Klein Pumpen GmbH with KSB companies carry appropriate rates of interest. Liabilities to Klein Pumpen GmbH as at 31 December 2010 amounted to € 7 thousand (previous year: € 473 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 € 1,310 thousand for financial year 2010 (previous year: € 1,257 thousand), and the total remuneration of the Board of Management amounts to € 4,027 thousand (previous year: € 3,705 thousand). € 19,580 thousand (previous year: € 21,026 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 € 1,436 thousand in the year under review (previous year: € 1,428 thousand). Additions of € 1,770 thousand (previous year: € 1,906 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 the presentation of the proposal on the appropriation of the net retained earnings of KSB AG.

Auditors

BDO AG, Frankfurt am Main, were appointed as the auditors and group auditors for financial year 2010 at the Annual General Meeting in on 19 May 2010. The expenses for financial year 2010 include audit fees of € 250 thousand (previous year: € 245 thousand). A further € 45 thousand (previous year: € 40 thousand) was incurred for the audits of German subsidiaries. In addition, fees of € 217 thousand (previous year: € 30 thousand) were incurred for other services.

Events after the reporting period

The tragic events in Japan have cast a new light on the discussion on the use of nuclear power as a source of energy. It is still too early to assess the extent to which this will impact on orders for energy industry components such as pumps and valves. In principle, KSB offers products suitable for all forms of energy conversion. Should the share of global electricity supplies accounted for by nuclear power fall in the future, this would drive up demand for conventional power plants or renewable energy facilities. From today‘s perspective, such a trend towards substitution would not put KSB at a disadvantage.

German Corporate Governance Code

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

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- und Motoren Service GmbH, Neuss	Germany	N	100.00	635	277	■
KSB Atlantic Pump & Valve Service S.L., Las Palmas	Spain	N	47.00	583	48	■
KSB Service GmbH, Schwedt	Germany	C	100.00	1,023	PPA	
Uder Elektromechanik GmbH, Friedrichsthal	Germany	C	100.00	26	PPA	
Motoren-Jacobs GmbH, Heide	Germany	N	100.00	703	40	■
Pumpen-Service Bentz GmbH, Reinbek	Germany	N	100.00	1,169	531	■
Dynamik-Pumpen GmbH, Stuhr	Germany	N	100.00	640	378	■
NOMIG GmbH, Reken	Germany	N	49.00	567	59	■
B & C Pumpenvertrieb GmbH, Cologne	Germany	N	100.00	882	225	■
Elektro Berchem GmbH, Cologne	Germany	N	100.00	506	220	■
Nikkiso-KSB GmbH, Bruchköbel	Germany	N	50.00	4,155	– 41	■
KAGEMA Industrieausrüstungen GmbH, Pattensen	Germany	C	100.00	1,830	241	
gear-tec GmbH, Eggebek	Germany	N	100.00	623	103	■
KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	C	100.00	463	– 30	
KSB OOO, Moscow	Russia	C	100.00	1,134	325	
PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	C	51.00	36,910	6,275	
KSB America Corporation, Richmond / Virginia	USA	C	51.00	26,011	4,091	
GIW Industries, Inc., Grovetown / Georgia	USA	C	51.00	34,320	5,050	
AMRI, Inc., Houston / Texas	USA	C	55.91	8,153	1,170	
KSB, Inc., Richmond / Virginia	USA	C	51.00	8,201	1,715	
PPM – KSB, Inc., Bakersfield / California	USA	C	51.00	2,225	– 3	
Standard Alloys Incorporated, Port Arthur / Texas	USA	N	51.00	•	•	
KSB Finland Oy, Kerava	Finland	C	100.00	3,411	604	
Mäntän Pumppauspalvelu Oy, Mänttä-Vilppula	Finland	N	100.00	947	246	■
KSB Mörck AB, Askim (Gothenburg)	Sweden	C	55.00	3,709	748	
PUMPHUSET Sverige AB, Sollenthuna	Sweden	N	55.00	643	174	■
KSB Lindflaten AS, Lysaker	Norway	C	89.83	2,093	– 362	
KSB Pompy i Armatura Sp. z o.o., Ozarow-Mazowiecki	Poland	C	100.00	6,921	963	
KSB – Pumpy + Armatury s.r.o. koncernu, Prague	Czech Republic	C	100.00	3,187	86	
KSB Cěrpadlá a Armatúry, s.r.o., Bratislava	Slovak Republic	N	100.00	113	– 200	■
KSB Szivattyú és Armatúra Kft., Budapest	Hungary	C	100.00	1,394	257	
KSB Zürich AG, Zurich	Switzerland	C	100.00	1,696	14	
ITACO s.r.l., Ponte di Nanto	Italy	N	80.0	•	•	
Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	N	25.00	5,700	1,531	■
KSB Bombas e Válvulas S.A., Rio de Mouro (Lisbon)	Portugal	N	95.00	1,125	456	■
Hydroskepi GmbH, Amaroussion (Athens)	Greece	C	100.00	1,627	– 18	
KSB TESMA AG, Amaroussion (Athens)	Greece	N	59.74	1,444	12	■
KSB Viosen AG, Patras	Greece	N	60.28	470	0	■

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

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

Name and seat of company	Country		Capital share %	Equity € thousands	Net profit / loss for the year € thousands	
KSB Service LLC, Abu Dhabi	U.A.E.	N	49.00	1,179	469	■
KSB Pumps Company Limited, Lahore	Pakistan	C	58.89	7,211	880	
MIL Controls Limited, Mala	India	C	70.86	10,005	3,027	
KSB Tech Pvt. Ltd., Pimpri (Pune)	India	N	100.00	997	724	■
KSB Limited, Hong Kong	China	C	100.00	1,941	794	
KSB Valves (Shanghai) Co. Ltd., Shanghai	China	N	100.00	3,843	490	■
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Lingang	China	N	45.00	15,953	0	■
KSB Taiwan Co. Ltd., Taipei	Taiwan	N	100.00	989	72	■
KSB Korea Ltd., Seoul	South Korea	N	100.00	552	213	■
KSB Ltd., Tokyo	Japan	N	100.00	– 1,036	– 699	■
KSB Pumps Co. Ltd., Bangkok	Thailand	C	40.00	3,170	544	
KSB Singapore (Asia Pacific) Pte. Ltd., Singapore	Singapore	C	100.00	7,797	1,602	
* KSB Malaysia Pumps & Valves Sdn. Bhd., Petaling Jaya	Malaysia	(C)	100.00	– 114	– 9	
Canadian Kay Pump Ltd., Mississauga / Ontario	Canada	C	100.00	5,798	1,380	
KSB Pumps Limited, Pimpri (Pune)	India	C	40.54	63,516	8,460	
KSB de Mexico, S.A. de C.V., Querétaro	Mexico	C	100.00	1,432	495	
KSB Mexicana, S.A. de C.V., Querétaro	Mexico	N	100.00	103	– 3	■
KSB Chile S.A., Santiago	Chile	C	100.00	11,645	1,712	
KSB Pars Co. (P.J.S.), Shiraz	Iran	N	100.00	402	– 58	■
KSB Finanz S.A., Echternach	Luxembourg	C	100.00	117,076	3,684	
KSB Limited, Loughborough	United Kingdom	C	100.00	3,213	705	
RES Rotary Equipment Services Ltd., Loughborough	United Kingdom	C	100.00	478	– 89	
KSB Finance Nederland B.V., Zwanenburg	Netherlands	C	100.00	21,751	3,437	
DP industries B.V., Alphen aan den Rijn	Netherlands	C	100.00	22,119	8,097	
KSB Nederland B.V., Zwanenburg	Netherlands	C	100.00	3,902	– 1,072	
Nederl. Pompservice (N.P.S.) B.V., Velsen-Noord	Netherlands	N	100.00	– 159	– 117	■
VRS Valve Reconditioning Services B.V., Vierpolders	Netherlands	N	100.00	468	– 153	■
KSB Belgium S.A., Wavre	Belgium	C	100.00	492	– 6,476	
KSB Mechanical Services On Site NV, Antwerp	Belgium	C	100.00	– 7,554	– 9,411	
KSB On Site Machining BVBA, Wilrijk	Belgium	N	100.00	136	– 100	■
VRS Industries S.A., Feluy	Belgium	N	100.00	60	– 90	■
SISTO Armaturen S.A., Echternach	Luxembourg	C	52.86	10,627	573	
KSB Österreich Gesellschaft mbH, Vienna	Austria	C	100.00	2,148	124	
KSB SRB d.o.o. Beograd, Belgrade	Serbia	N	100.00	40	1	■
KSB S.A.S., Gennevilliers (Paris)	France	C	100.00	95,053	9,617	
KSB Techni Pompe Service S.A.S., Hoerdt	France	C	100.00	1,733	348	
KSB-Hydraulor Services, Algrange	France	C	100.00	1,069	129	

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KSB Service SEME S.A.S., Forbach	France	N	100.00	1,482	56	
KSB Service EITB-SITELEC, Montfavet	France	N	100.00	– 1,049	163	
SBCM S.à r.l., Gennevilliers (Paris)	France	N	100.00	216	4	
KSB Service Robinetterie, Rambervillers	France	N	100.00	520	135	
Euro Techno Consulting, Montcenis	France	N	100.00	•	•	
SPI Energie S.A.S., La Ravoire	France	N	100.00	1,125	59	■
Metis Levage S.A.S., Villefranche sur Saône	France	N	100.00	679	34	■
KSB Artru Services S.A.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	866	– 58	
KSB Artru Services Auvergne S.A.S., Thiers	France	N	100.00	776	34	
KSB Artru Services Bourgogne S.A.S., Châten. le Royal	France	N	100.00	953	– 68	
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	– 180	– 140	
Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	N	50.00	– 68	– 92	■
KSB Pompes et Robinetteries S.à r.l., Casablanca	Marokko	N	100.00	38	– 136	■
KSB Italia S.p.A., Concorezzo (Milan)	Italy	C	100.00	26,003	2,871	
KSB Service Italia S.r.l., Scorzè	Italy	C	100.00	1,588	15	
KSB-AMVI, S.A., Madrid	Spain	C	100.00	3,693	442	
AMVI Aplica. Mecánicas Válvulas Industriales, S.A., Burgos	Spain	C	100.00	10,900	991	
KSB ITUR Spain S.A., Zarautz	Spain	C	100.00	18,804	1,671	
KSB Service Suciba S.L.U., Sondika	Spain	N	100.00	481	166	■
KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	C	99.00	7,480	1,526	
KSB Middle East FZE, Dubai	U.A.E.	C	100.00	4,602	– 144	
KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	N	50.00	5,165	2,463	■
KSB Shanghai Pump Co. Ltd., Shanghai	China	C	80.00	52,499	3,495	
Dalian KSB AMRI Valves Co. Ltd., Dalian	China	N	100.00	1,369	– 51	■
PT. KSB Indonesia, Cibitung, Jawa Barat	Indonesia	C	100.00	5,267	1,230	
KSB Australia Pty. Ltd., Tottenham (Melbourne)	Australia	C	100.00	15,678	1,517	
* KSB New Zealand Limited, Penrose / Auckland	New Zealand	(C)	100.00	676	287	
KSB Algérie Eurl, Hydra-Algiers	Algeria	N	100.00	360	66	■
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	100.00	8,982	36	
* Forty-Four Activia Park (Pty) Ltd.	South Africa	(C)	100.00	82	20	
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	C	74.99	11,908	5,004	
KSB Pumps Inc., Mississauga / Ontario	Canada	C	100.00	1,644	407	
KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	C	100.00	62,065	15,254	
KSB Válvulas Ltda., Barueri	Brazil	C	100.00	3,166	762	
KSB Compañía Sudamericana de Bombas S.A., Carapachay	Argentina	C	100.00	3,670	687	

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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, (since 19 May 2010)

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

Reiner Euler, Engineering Technician, Grünstadt
Member of the European Works Council, Chairman of the General Works
Council and the Frankenthal Works Council (since 1 Sept. 2010)

Ludwig Udo Kontz, Dipl.-Ing., Wachtberg-Adendorf
Freelance Engineer, Owner of Kontz, Network & Group, Bonn
(until 19 May 2010)

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

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

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

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

Heinrich Dieter Müller, Techn. Draftsman, Worms-Pfeddersheim
Chairman of the European Works Council, the General Works
Council and the Frankenthal Works Council (until 1 Sept. 2010)

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 and Human Resources Director)

Dr.-Ing. Peter Buthmann, Frankenthal[3]

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
24/7 IT-Services GmbH, Kiel

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 Pumps Company Limited, Lahore, Pakistan
KSB ITUR Spain S.A., Zarautz, Spain
KSB Finanz S.A., Echternach, Luxembourg
KSB Pumps Co. Ltd., Bangkok, Thailand

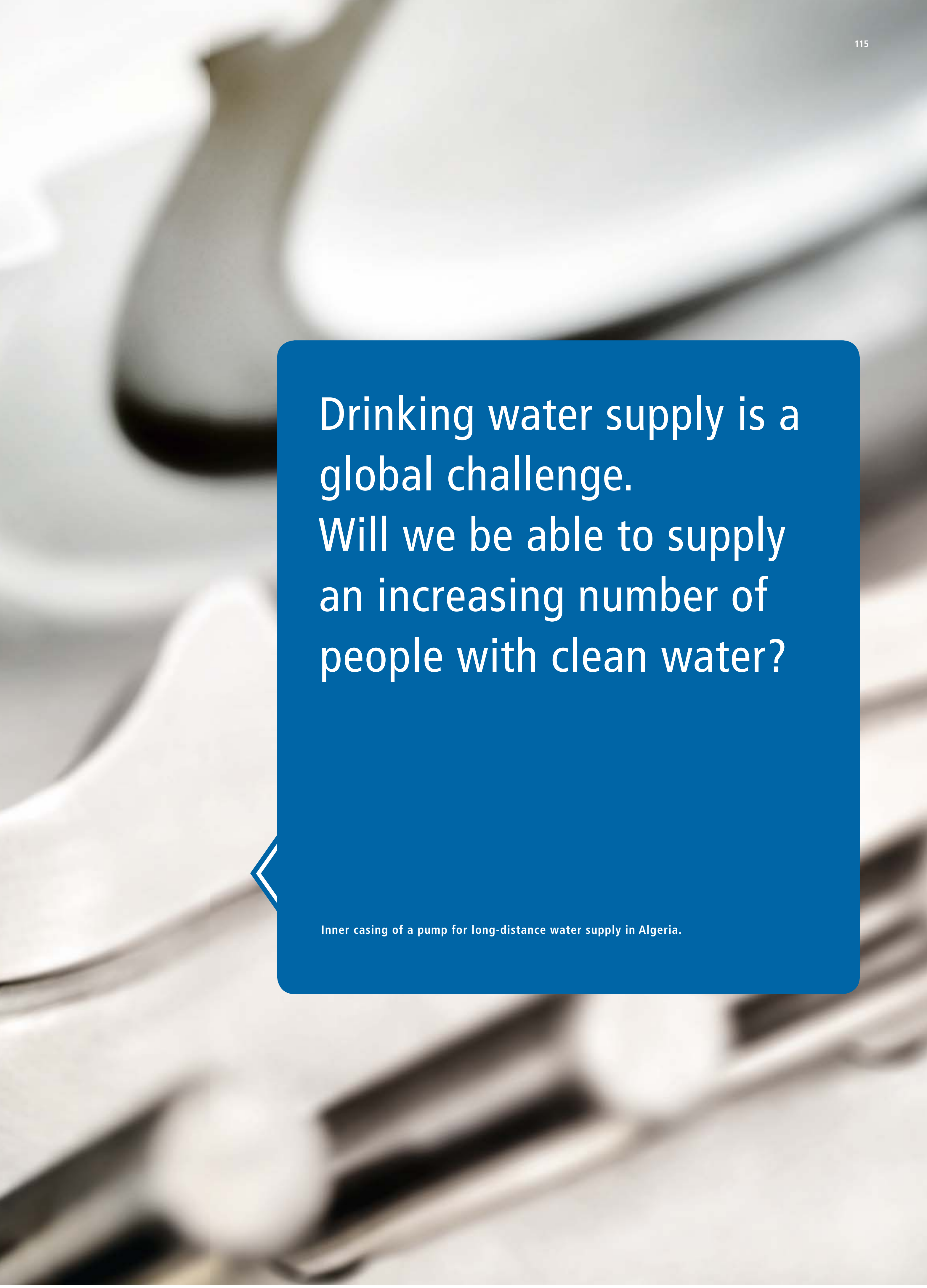
PROPOSAL ON THE APPROPRIATION OF THE NET RETAINED EARNINGS OF KSB AG

We will propose to the Annual General Meeting on 18 May 2011 to appropriate the net retained earnings of € 28,374,698.46 of KSB AG, Frankenthal, containing retained earnings brought forward of € 464,845.89, 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		7,000,000.00 €
Total		28,240,749.12 €
Carried forward to new account		133,949.34 €
		28,374,698.46 €

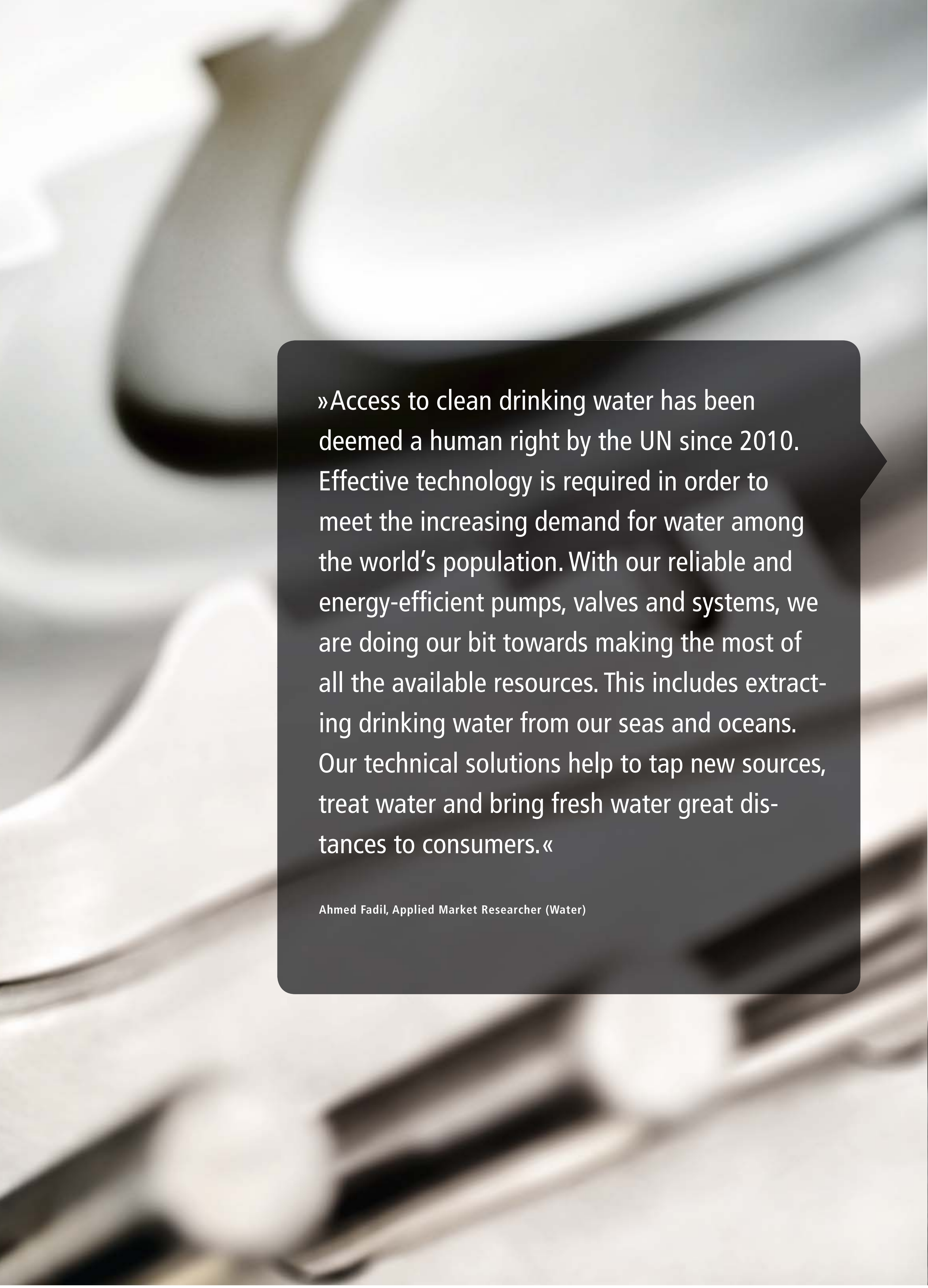
Frankenthal, 14 March 2011
The Board of Management

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



Drinking water supply is a global challenge.
Will we be able to supply an increasing number of people with clean water?

Inner casing of a pump for long-distance water supply in Algeria.



»Access to clean drinking water has been deemed a human right by the UN since 2010. Effective technology is required in order to meet the increasing demand for water among the world’s population. With our reliable and energy-efficient pumps, valves and systems, we are doing our bit towards making the most of all the available resources. This includes extracting drinking water from our seas and oceans. Our technical solutions help to tap new sources, treat water and bring fresh water great distances to consumers.«

Ahmed Fadil, Applied Market Researcher (Water)

The KSB Group once again improved its net financial position. At € 293 million, it provides sufficient financial resources to implement strategic projects and make further investments.

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, 14 March 2011

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 to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a(1) of the *HGB* [*Handelsgesetzbuch* – German Commercial Code] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the *HGB* and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* [IDW – Institute of Public Auditors]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements 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 2011

BDO AG
Wirtschaftsprüfungsgesellschaft

Dyckerhoff
Wirtschaftsprüfer

ppa. Erbe
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 new 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. These rules are currently being observed without exception. Should Dr. Jacob and Mr. Lederer be proposed for re-election at the Annual General Meeting in May 2011, their periods of office would, by way of exception, exceed the age limit recommended in the Rules of Procedure, but end well before the they reach the age of 80.

The Board of Management and Supervisory Board once again submitted a Statement of Compliance on 8 December 2010 in accordance with section 161 of the *AktG* and made this accessible to shareholders on the company's web site www.ksb.com 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.

*SEE PAGE 126

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*.

*www.ksb.com/investor-relations

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 adopted by the Supervisory Board. Prior to the publication of interim reports and the half-year financial report, these are discussed with the Audit Committee.

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

MANAGEMENT PARAMETERS AND CONTROL SYSTEM

As well as order intake and sales revenue, key performance indicators for the management of the KSB Group are the return on sales and the 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
- Procurement
- Technology / Research and Development
- Environment
- Other risks

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

COMPLIANCE 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 whistle-blower 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. This document provides an overview of current legal requirements and specifies a clearing house which can be contacted in the event of any doubts.

The main emphasis of compliance activities in 2010 was the further development and management of our international compliance organisation, particularly with regard to drawing up and implementing suitable report formats. In addition, a Group-wide compliance audit was conducted in order to document and assess how thoroughly previous measures were implemented within the Group. To round this off, spot checks were performed on large-scale projects to ensure observation of special aspects of compliance. The series of global training sessions for employees were continued and, for the time being, completed. The aim of these sessions was to convey the core content of the guidelines in a practical manner and create a forum for discussion. Over the past three years, these sessions gave more than 2,500 employees an opportunity to learn about anti-trust, cartel and anti-corruption legislation; updates are planned for the future. Another focus of the Compliance Office's activities was to address basic issues of IT compliance; these were addressed in greater depth and in more detail during the financial year in cooperation with the department concerned.

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 compensation paid to members of the Supervisory Board in 2010 amounted to € 1,310 thousand (previous year: € 1,257 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. Such decisions shall only be made on an irregular basis meaning that they do not necessarily have to be 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 € 4,027 thousand. During this period of time, additions of € 1,770 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 page´105 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 the last statement of compliance on 30 March 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 latest applicable version – currently that 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, 8 December 2010

For the Supervisory Board

Dr. Hans-Joachim Jacob

For the Board of Management

Dr. Wolfgang Schmitt

GLOSSARY

KEY CORPORATE AND TECHNICAL TERMS

Carbon footprint
Total volume of greenhouse gas emissions, e.g. CO_2, that can be attributed to an organisation, an event, a product or a person

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

International Project Management Association
Globally active project management and certification association

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

KSB CARE
Relief fund of Asian KSB companies that support educational institutions

PumpMeter
Monitoring unit that indicates whether a pump is operating efficiently and economically

Rare earths
Minerals found mainly in China and Australia, which are necessary for key technologies such as electronics

Solar thermal energy
Conversion of solar energy into usable thermal energy

Efficiency classes IE1, IE2 and IE3
New international classification for motors (IE = International Efficiency)
IE1 = standard efficiency
IE2 = high efficiency
IE3 = premium efficiency

ABBREVIATIONS

ANSI
American National Standards Institute

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

CRM
Customer Relationship Management

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

FM / UL Standard
Factory Mutual Research Corp / Underwriters' Laboratories:
US standard for products used in fire protection

IFRS
International Financial Reporting Standards (previously IAS)

ILO
International Labour Organisation:
Special United Nations organisation that defines international labour and social standards

ISO
International Organisation for Standardisation

SAP ERP system
Enterprise Resource Planning System:
SAP software application that supports all business-relevant areas of a company

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Robert Kwiatek, Frankenthal
D. W. Schmalow, Mannheim

PRINTING
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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 19 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
Czech Republic | Prague
Finland | Mänttä-Vilppula
France | Châteauroux | Gennevilliers (Paris) | La Roche-Chalais | Lille
Germany | Frankenthal | Halle | Pattensen | Pegnitz
Greece | Amaroussion (Athens)
Hungary | Budapest
Italy | Concorezzo (Milan)
Luxembourg | Echternach
Netherlands | Alphen | Zwanenburg
Norway | Lysaker
Poland | Warsaw
Portugal | Rio de Mouro (Lisbon)
Russia | Moscow
Serbia | Belgrade
Slovak Republic | Bratislava
Slovenia | Maribor
Spain | Burgos | Madrid | Zarautz
Sweden | Gothenburg
Switzerland | Zurich
Turkey | Ankara
Ukraine | Kiev
United Kingdom | Loughborough

MIDDLE EAST / AFRICA

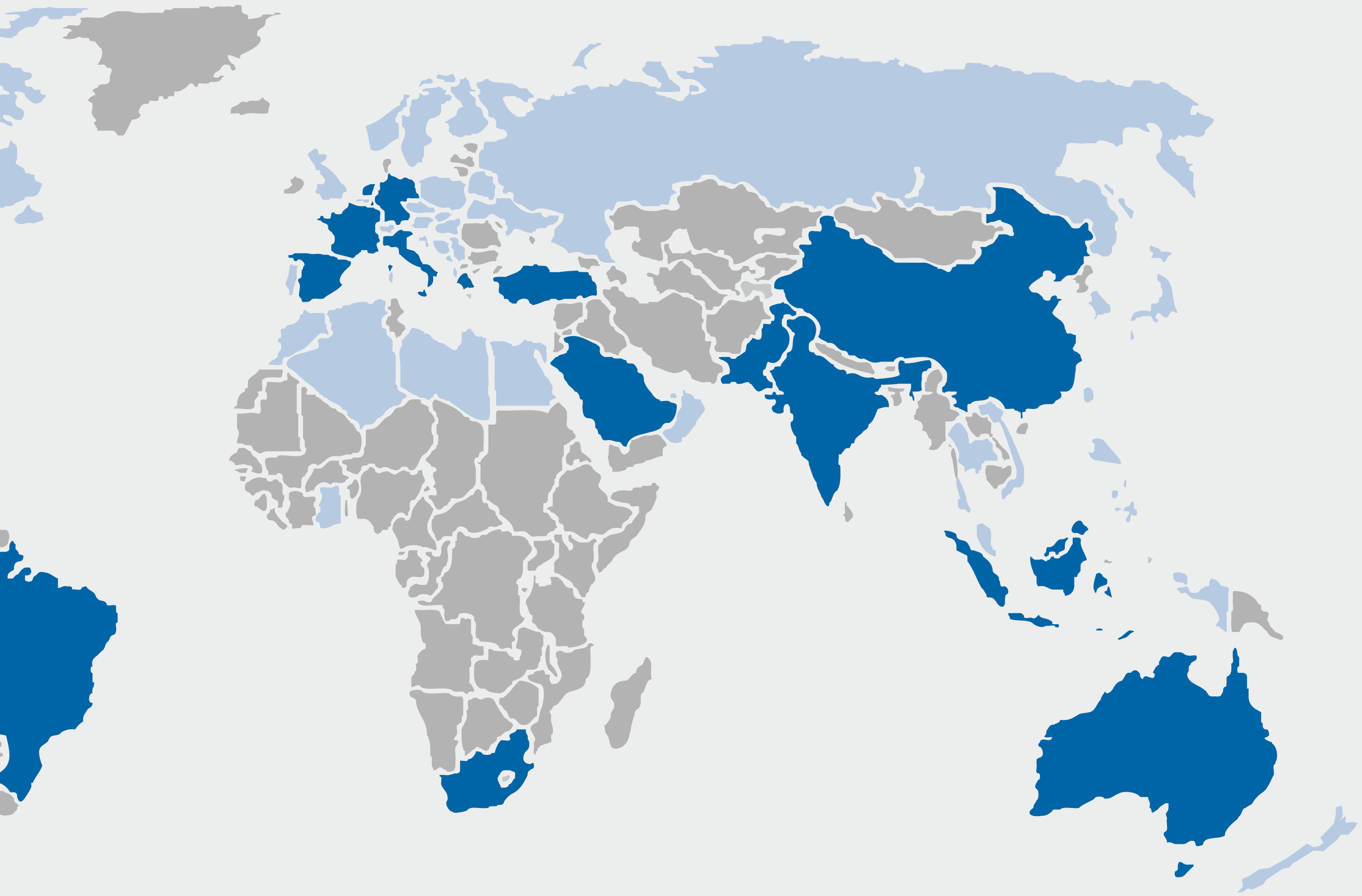
Algeria | Hydra (Algiers)
Egypt | Cairo
Ghana | Accra
Libya | Tripoli
Morocco | Casablanca
Qatar | Doha
Saudi Arabia | Riyadh
South Africa | Germiston (Johannesburg)
United Arab Emirates | Abu Dhabi | Dubai

ASIA / PACIFIC

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

AMERICAS

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



FINANCIAL CALENDAR

31 MARCH 2011
Financial press conference
10:00 h, Frankenthal

1 APRIL 2011
Invitation to Annual General Meeting

9 MAY 2011
Interim report
January – March 2011

18 MAY 2011
Annual General Meeting
15:00 h, Frankenthal

19 MAY 2011
Dividend payment

12 AUGUST 2011
Half-year financial report
January – June 2011

NOVEMBER 2011
Interim report
January – September 2011

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