Pumpen Intelligenz.

2010

Together. Worldwide. Successful.

Annual Report 2010

Profile

Pumpen Intelligenz made in Germany

WILO SE is one of the leading manufacturers of pumps and pump systems for heating, ventilation and air conditioning, water supply, sewage disposal and wastewater treatment. Since Louis Opländer founded the company in 1872 as copper and brass factory it has gone on to become a leading innovator in the field of high-tech pumps, with over 60 subsidiaries worldwide and more than 6,200 employees. In 2010, Wilo achieved sales of EUR 1,021.4 million.

There is a long tradition of technological progress in the company's history, stretching back almost 140 years. At Wilo, visionary ideas are turned into intelligent solutions and groundbreaking innovations that set benchmarks in the industry. Wilo products represent premium quality, ease of use and energy efficiency.

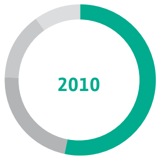
The key to Wilo's success is the people who apply their inventiveness, experience and commitment within the company. All around the world, Wilo's proven engineering ingenuity is a result of productive teamwork.

At a glance

Wilo Group figures

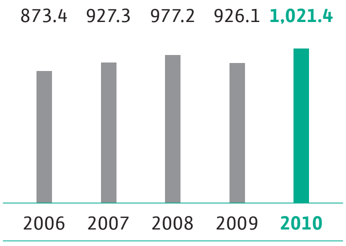
		2010	2009	2008	2007	2006
Sales	EUR million	1,021.4	926.1	977.2	927.3	873.4
Growth in sales	%	10.3	–5.2	5.4	6.2	16.4
EBIT	EUR million	111.4	90.9	88.6	99.4	102.1
(as a % of sales)	%	10.9	9.8	9.1	10.7	11.7
Annual surplus	EUR million	71.1	68.6	45.2	60.7	60.9
(as a % of sales)	%	7.0	7.4	4.6	6.6	7.0
Earnings per share	EUR	7.31	7.04	4.57	6.15	6.12
Net cash from operating activities	EUR million	95.1	142.3	118.5	40.5	66.6
Cash holdings	EUR million	152.8	140.4	45.5	25.3	59.3
Capital expenditure	EUR million	52.4	39.7	52.3	46.4	37.9
(as a % of cash flow)	%	55.1	27.9	44.1	114.6	57.0
R&D costs	EUR million	33.8	35.3	34.5	27.6	24.1
(as a % of sales)	%	3.3	3.8	3.5	3.0	2.8
Equity	EUR million	404.7	351.8	282.5	297.7	265.5
Equity ratio	%	48.2	47.7	42.3	46.6	42.7
Employees (annual average)	Number	6,268	6,027	6,024	5,821	5,328

Regional development of net sales 2009–2010

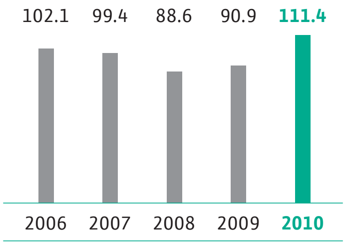


	2010 EUR million	in %	2009 EUR million	in %
Europe	571.5	56.0	544.0	58.7
Asia Pacific	214.0	21.0	170.0	18.4
EMEA	141.6	13.9	117.1	12.6
Others	94.3	9.1	95.0	10.3
Total	**1,021.4**	**100.0**	**926.1**	**100.0**

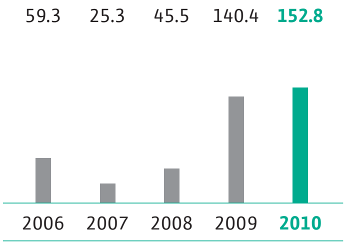
Sales in EUR million



EBIT in EUR million



Cash holdings in EUR million



Market segments

Building Services

In order to maximise the efficiency of buildings, it is becoming increasingly important to use innovative systems incorporating components that are optimally matched to one another. This applies to detached and semi-detached houses, public buildings, industrial buildings, office buildings, hospitals and hotels: Wilo offers energy-efficient solutions for heating technology, air conditioning, water supply and wastewater disposal.

Water Management

All life is completely dependent on water – however, this valuable resource is becoming increasingly scarce. The ability to ensure the purification and supply of water is rapidly developing into a global challenge. Wilo offers professional solutions designed to meet the complex requirements involved in the production of drinking water, water purification, water pumping and wastewater disposal. Wilo water management pumps and systems set benchmarks in the areas of technical performance, efficiency and sustainability.

Industry

Wilo manufactures pumps that guarantee the highest level of reliability, flexibility and efficiency. Our strengths lie especially in applications for peripheral equipment for industrial processes. Our acknowledged expertise is the result of a sophisticated product portfolio, pooled knowledge and an effective quality management system.

Contents

Dr.-Ing. Holger Krasmann (49)

Since April 2008, Holger Krasmann has been Chief Technology and Production Officer of the Wilo Group with responsibility for the global production locations and research & development activities of the Wilo Group. He has held various management positions at Wilo since 1995.

Dipl.-Oec. Oliver Hermes (40)

Since January 2010, Oliver Hermes has been Chairman of the Wilo Group. Since October 2006, he has been responsible for Finance, Controlling and Human Resources. Before working for Wilo, Oliver Hermes was a partner at KPMG, the audit and management consultancy company.

On track for success with a redefined strategy

Dear ladies and gentlemen,

Surviving crises is one thing. Successfully overcoming them is quite another. Wilo achieved this in the last financial year. The company expertly handled the global financial and economic crisis with all its negative economic impacts. And not only that: the company emerged stronger from this situation. The last financial year was the most successful in the company's 139-year history. The EUR 1 billion barrier was broken for the first time. We also set all-time highs with EBIT of EUR 111.4 million, a consolidated annual surplus of EUR 71.1 million and an average headcount of 6,268.

This again justified the innovation and technology-oriented business policy. Whilst restraint prevailed in many areas, we remained fully committed to our growth strategy and rigorously pursued it. Wilo's international market presence, fast responsiveness and effective crisis management were major factors in the pleasing business development, as was the redefined corporate strategy, implementation of which began in 2010. To enable us to reach the targets set in this strategy, we set up the internationally oriented and cross-functional growth and efficiency enhancement programme "Perform to Grow". The first subprojects were completed in 2010.

At the heart of our corporate strategy is a focus on the three market segments Building Services, Water Management and Industry. In this way, Wilo can meet customers' requirements in an even more effective and targeted manner. The aim is to expand our business activities in these market segments in the next few years. In Building Services, we are working towards long-term global market leadership. The 2010 financial year was extremely promising in terms of these targets: Sales in all three market segments rose over the year, particularly as a result of the strong market position of Wilo and the buoyant demand for energy-efficient products.

Employees remain a key factor in the company's current and future success. This is why Wilo invests intensively in human resources. Through organisational adjustments in the context of the new corporate strategy, we made important steps in terms of global human resources management in 2010. As a result of the improved structure and integration, Wilo employees at all locations around the world are being brought closer together. This is mainly geared towards profitable application of the respective cultural characteristics.

Positioning ourselves as an attractive employer is becoming increasingly important in view of the impending shortage of managerial staff. To gain top executives and keep them at the company on a long-term basis, Wilo has developed a wide range of measures and offers for its workforce. Our strength is our employees – this principle is well established in the family-owned Wilo company, and continues to apply in times of ambitious growth. We live this by fulfilling our social responsibility, for example by creating a working environment characterised by trust and respect. In addition to qualifications, emotional balance is also a key factor when it comes to staff motivation and performance.

The new shareholder structure created at the beginning of 2011 is an important element in keeping the company going and safeguarding its future through sound, sustainable and profitable growth: The previous majority shareholder of WILO SE, Dr. Jochen Opländer decided, together with his children, to set up the Caspar Ludwig Opländer Foundation and transfer the majority of the family-owned shares to it. The family foundation also pursues charitable aims.

With its farsighted strategic orientation and long-term innovation policy, Wilo is putting in place the essential conditions for strengthening its economic situation and prospects for the future on a lasting basis. We are therefore looking ahead with confidence. Because of the rising demand for energy-efficient products in large parts of the world as well as the improved market environment and economic climate, we also expect positive business development for the next few years.

Dortmund, March 2011

Dipl.-Oec. Oliver Hermes
Chairman of the Executive Board
Finance, Controlling & Human Resources

H. Krasmann

Dr.-Ing. Holger Krasmann
Executive Board
Technology & Production

Boards

Executive Board

Oliver Hermes
Chairman of the Executive Board
Essen, Germany

Dr. Holger Krasmann
Dortmund, Germany

Eric Lachambre
Saint-Germain-en-Laye, France
from 1 February 2011

Alexander von Schweinitz
Dortmund, Germany
from 1 May 2010 to 31 December 2010

Supervisory Board

Dr. Heinz-Gerd Stein
Chairman
Wollereau, Switzerland

Prof. Dr. Hans-Jörg Bullinger
Stuttgart, Germany

Hans Joachim Früh
Dusseldorf, Germany

Jean-François Germerie
Laval, France

Jan Opländer
Dortmund, Germany

Heinz-Peter Schmitz
Dortmund, Germany

Dr. h.c. Jochen Opländer
is Honorary Chairman of the Supervisory Board.

Highlights 2010

January

United

WILO EMUPORT GmbH and WILO EMU GmbH merge with WILO SE

The two companies previously managed as subsidiaries are now part of WILO SE. This gives Wilo the platform for optimum participation in the increasingly complex international project business. With this major step, Wilo is meeting the requirements of the market and customers for even simpler and more transparent business processes.

April

Outstanding

WILO SE named "top employer for engineers" for the third time

The "Top Employers for Engineers 2010" study by the independent research institute CRF in cooperation with consultancy firm A. T. Kearney and the Technical University of Munich takes into account criteria such as international outlook, corporate culture, remuneration, work-life balance, career development options, job security and innovation management. Wilo received this award for the third time in a row.

June

Highly efficient

"Wilo-Geniax" decentralised pump system on track for success

A long-term performance comparison by the Fraunhofer Institute for Building Physics (IBP) concluded that in a detached house, heating energy can be reduced by 20 % and electrical energy by 50 % with the pump-operated "Wilo-Geniax" compared with hydraulically balanced thermostat valves. The calculated potential savings were officially certified by TÜV Rheinland.

Wilo presented its "Wilo-Geniax" innovation to specialist planners from all over Germany at regional planner events, which featured science journalist Dr. Joachim Bublath as a guest speaker.

June

Prize-winning

WILO USA receives prestigious Merlin Award
In the USA, WILO SE receives the Merlin Award for "Best Innovator". Once a year, the German-American Chamber of Commerce presents this prize to reward outstanding achievements in transatlantic trade relations. Wilo has been active in the American market since 2004. With its innovative and efficient products, the company makes a key contribution towards environmental and climate protection – an issue that is becoming increasingly important, particularly in the USA.

October

Ambitious

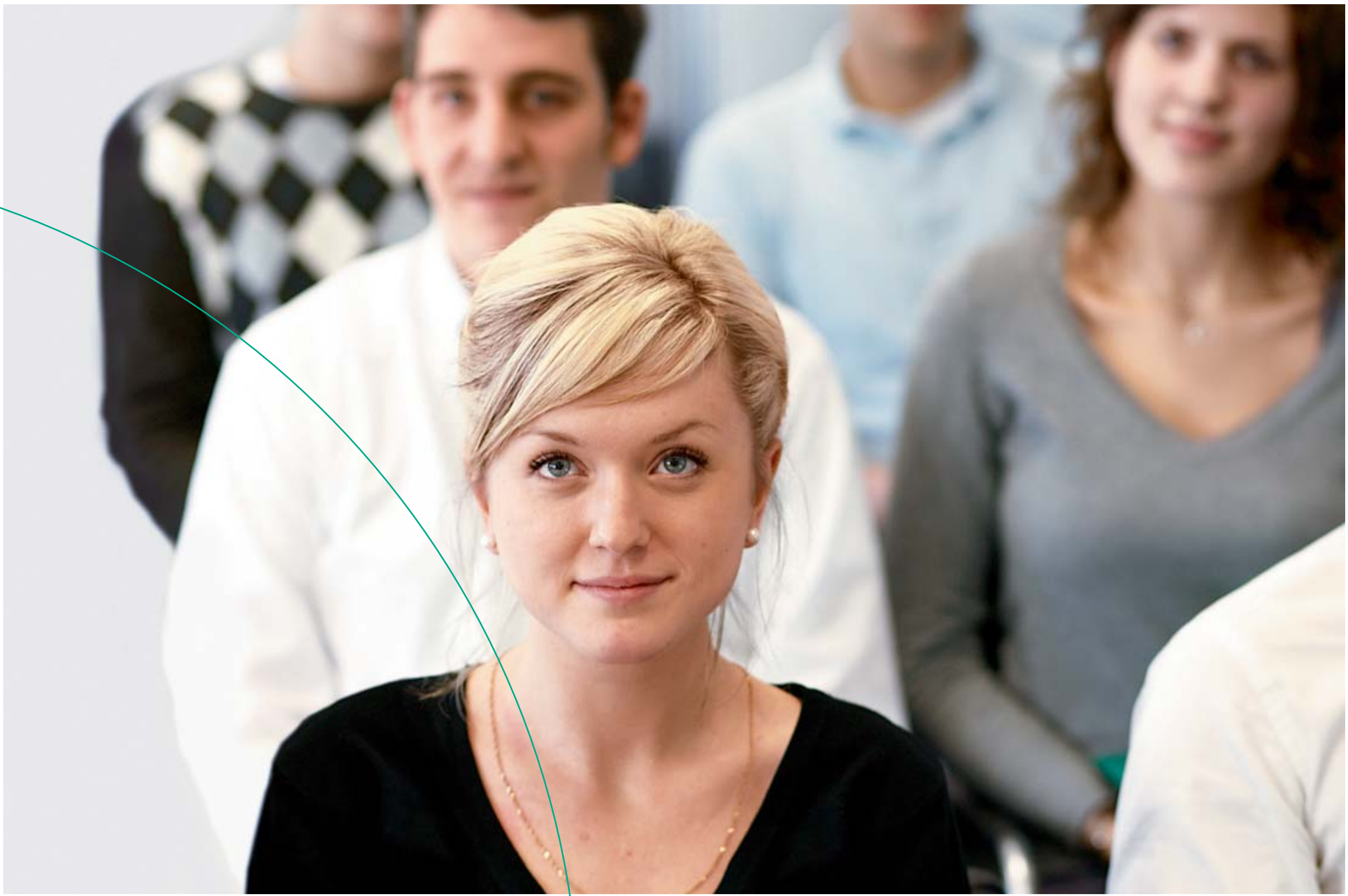
Wilo is the main sponsor of the German eight
The legendary German eight, reigning world rowing champions, now bears the Wilo logo on its boat and on the athletes' chests. The three-year sponsorship agreement also covers the 2012 Olympic Games in London. The German eight and Wilo have a lot in common: values such as efficiency, emotion, team spirit and professionalism are crucial success factors for them both. And they are also linked by the element of water: the world rowing champions are highly efficient at moving on water, and Wilo moves it with highly efficient pump technology.

November

Global

Wilo opens a new location in Dubai
On 21 November, the gates of the new company building were officially opened: the WILO Middle East subsidiary inaugurated its new location in the Jafza free-trade zone in Dubai. Wilo has been represented in the United Arab Emirates by local trading partners for over 20 years, and the subsidiary now provides additional services, for example customer-specific final assembly of booster sets. The company is thus responding to the rising demand for technical support in the important Arab growth markets.

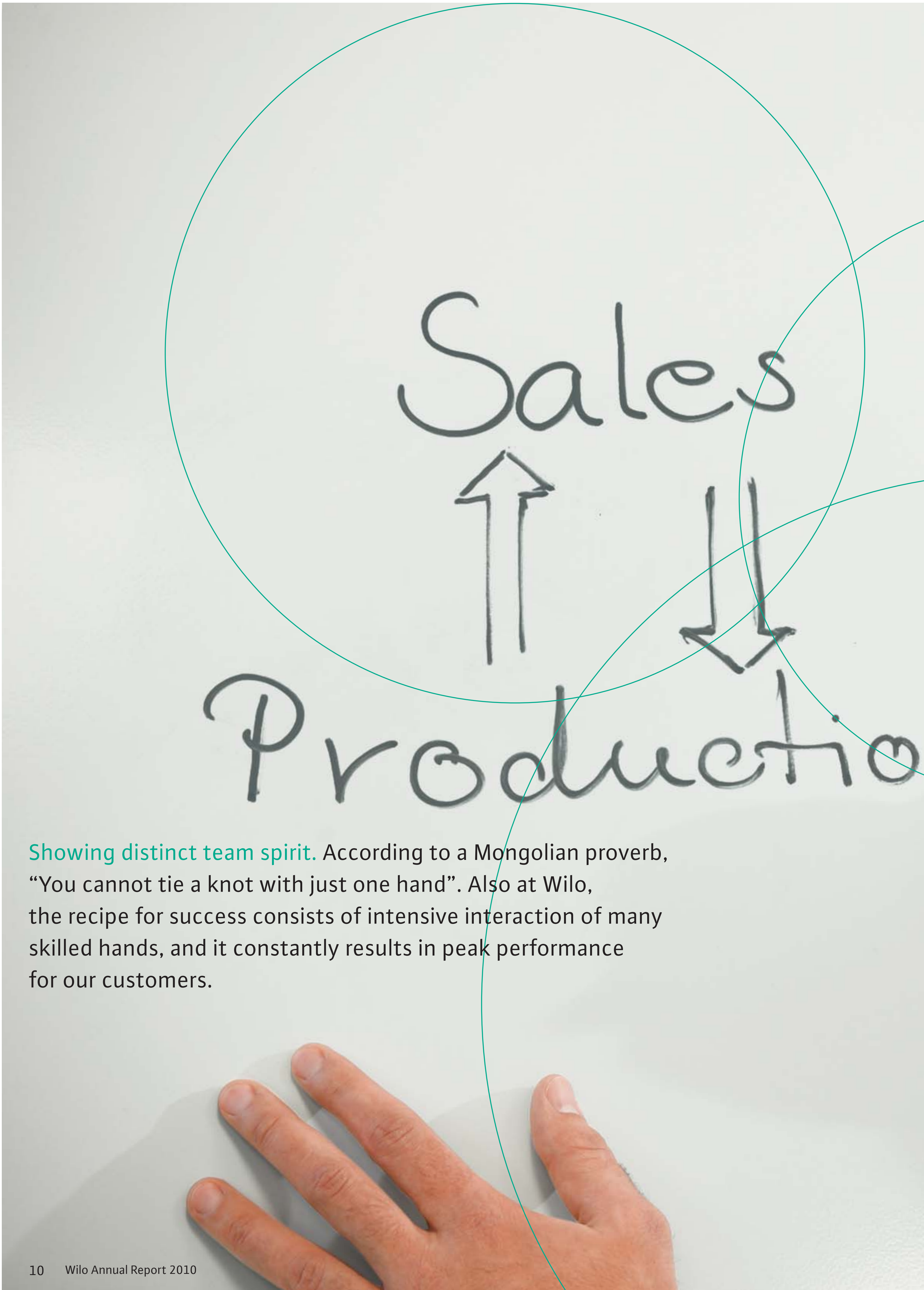

Premium
German Design
WILO



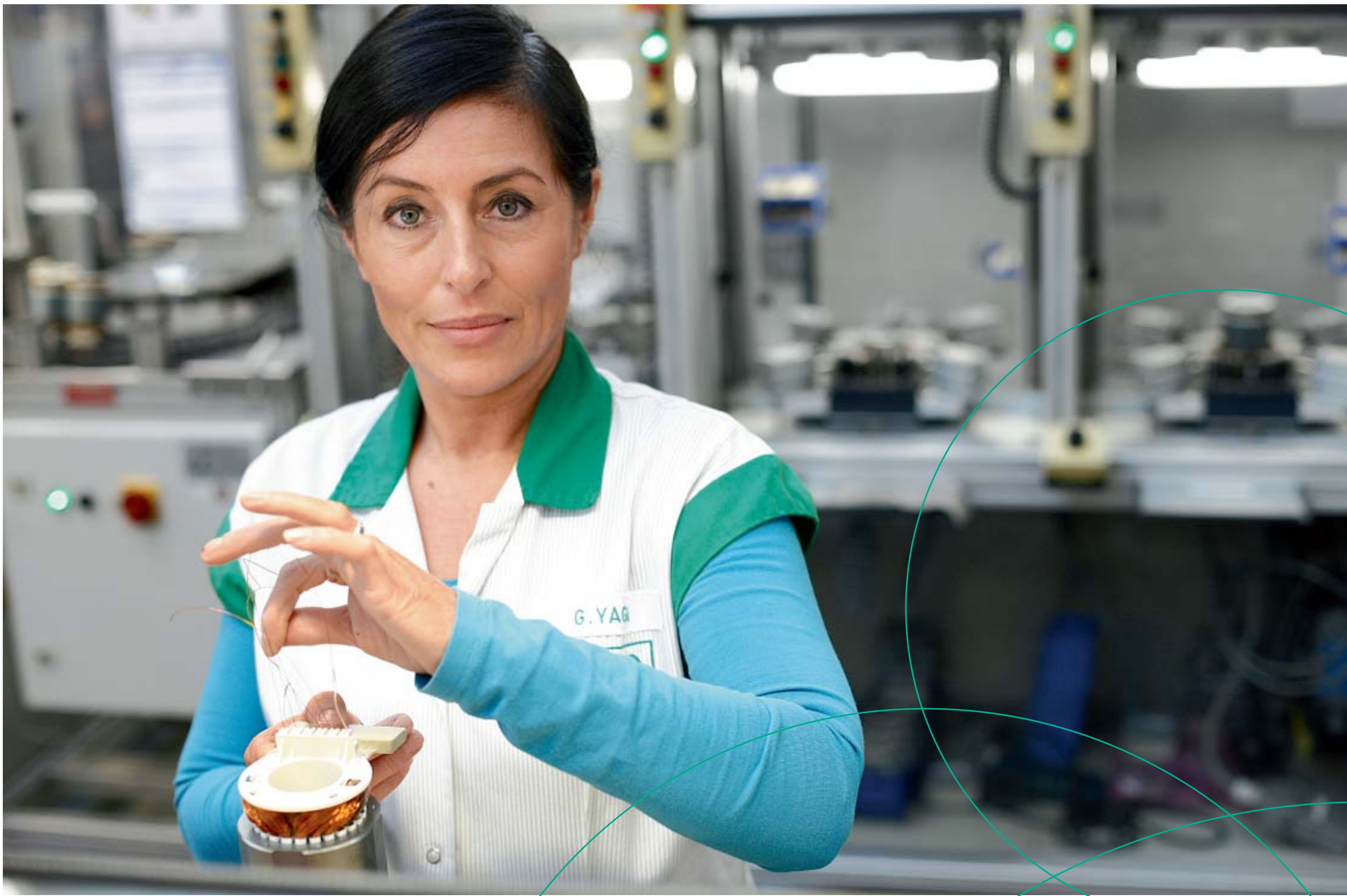
Together. Worldwide. Successful.

At Wilo, complex pump technology is developed through teamwork and not by sole individuals. “We” lies at the heart of our corporate strategy. We know that only motivated employees with top qualifications can foster growth. That is why we have established a culture where teamwork and the principle of learning from each other are key factors. We have top drawer expertise in every division, and the ability to optimally pool this knowledge and incorporate it into new products, processes and services. In this way, as well as benefiting internally, we also achieve excellent results, especially in partnership with our customers.

Whether in the final inspection of Wilo products in Gimhae, Korea (left) or at the training centre in Dortmund (above): with outstanding know-how, we ensure that the customer receives a first-class product. The constant transfer of knowledge within the company is another important aspect here.



Showing distinct team spirit. According to a Mongolian proverb, “You cannot tie a knot with just one hand”. Also at Wilo, the recipe for success consists of intensive interaction of many skilled hands, and it constantly results in peak performance for our customers.

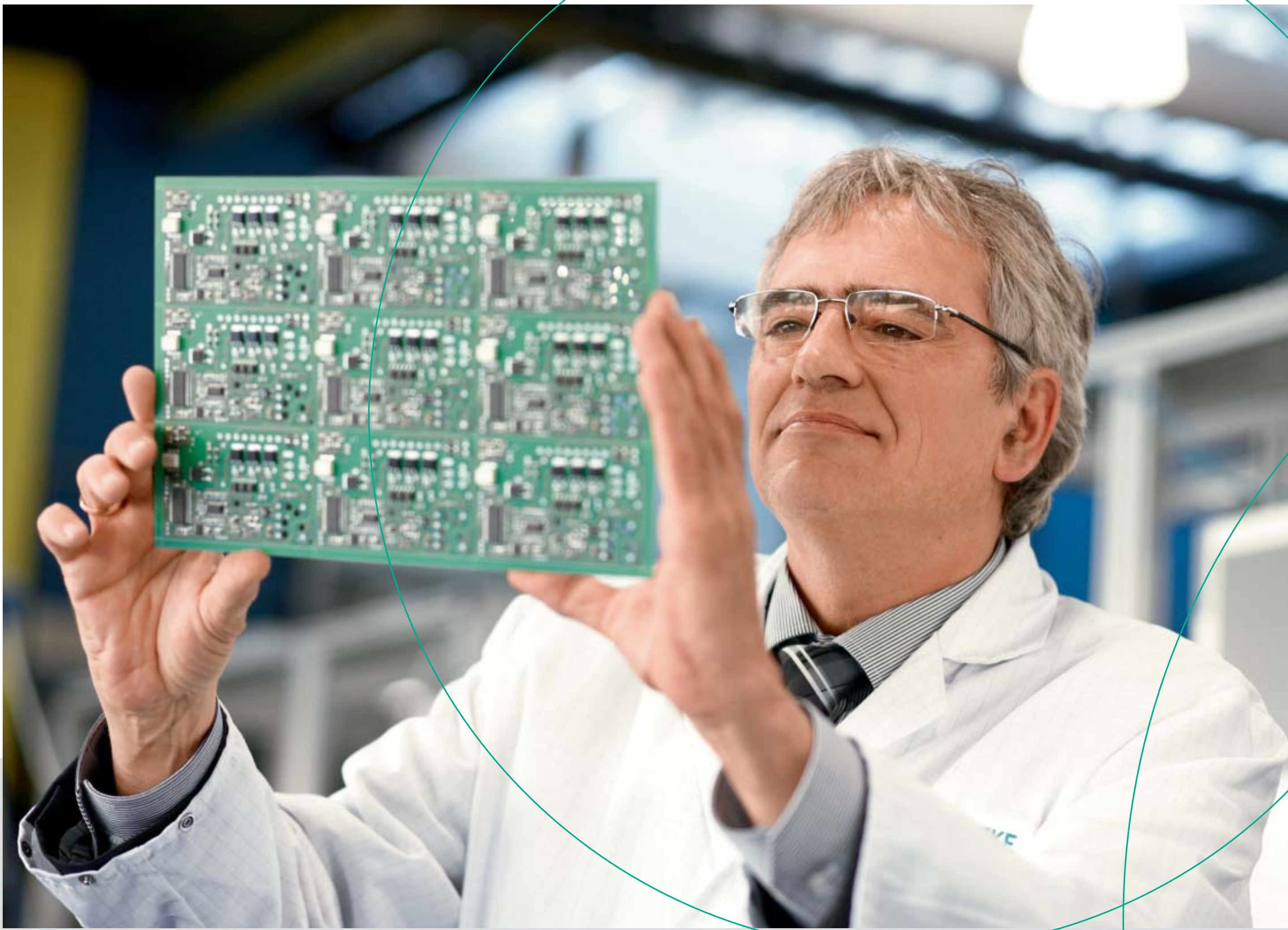


At Wilo, success has many faces – from many different countries. In multinational teams, we work under one roof on our joint targets in our worldwide branches.

Together. Worldwide. Successful.

Figuratively speaking, Wilo is like a tree: it has a strong trunk and roots in Europe and branches out, covering the entire world. As an international group with over 60 companies around the globe, we prove that flat hierarchies and short decision-making channels also work across long distances. Whether in Europe, Asia or North America: we work closely together across cultural boundaries, always in the interests of our customers. At Wilo, project teams consist of committed employees with various backgrounds and from different cultural spheres.

Showing international strength. Those who cross borders are usually rewarded with a whole new world. Internationality is part of the everyday reality at Wilo. With the diversity of markets and cultures, employees and customers, the demands on the group are also growing. We have the right strategies for this.



Taking a close look at electronics and motor production: as in all other areas, quality comes first here for Wilo. The many visitors to the New China International Exhibition Centre (NCIEC) also appreciate this. At the state-of-the-art trade fair and exhibition centre in the Chinese capital Beijing, innovative Wilo pump technology is used for air conditioning (right).

Together. Worldwide. Successful.

As a leading innovator, Wilo uses its in-depth knowledge and strong instinct for the requirements of tomorrow to develop forward-looking solutions. Customer requirements are the benchmark that our Building Services, Water Management and Industry market segments are geared towards.

For instance, the new Ecodesign directive (ErP directive) will specify stricter requirements for the energy efficiency of glandless pumps in the next few years. Wilo already provides high-efficiency pumps that meet the standards that will come into force in 2015. We support our customers, giving expert advice that benefits their construction projects.


水
水

Partnership-based collaboration. The art of creating something big also involves awareness of the fact that the small things count too. We know what our customers depend on because we listen to them carefully – and give them professional support in their daily work. In this way, we are putting in place the essential conditions for the successful realisation of projects.

Top technology for an architectural masterpiece: As Asia's biggest airport, Incheon International Airport in South Korea provides perfect functionality, safety and comfort. The 358 Wilo pumps to be found in many parts of the airport, from the air conditioning system to the water supply, make a key contribution to this.


Willkommen bei Wilo.
Welcome to Wilo.

Together. Worldwide. Successful.

The people at Wilo are our most valuable asset.

Our aim of building on the Wilo Group's strong position as an independently operating global family company is more than just a well-crafted statement. Our firm ambitions up to 2015 are being implemented through the "Perform to Grow" programme. This is based on four clearly defined initiatives – implementation of the market segment approach, optimisation of supply chain performance, restructuring of product lifecycle management and the creation of streamlined structures – to which 21 projects are dedicated. However, the people who give their best for Wilo every day are at the heart of this structure. Only they can bring the individual projects to life and ultimately guide them to success. To fully utilise growth potential, we will use our strengths even more rigorously in future: global integration, close cross-departmental collaboration, uniform processes and smooth transfer of expertise.

Welcome to Wilo: as well as a friendly smile, our customers can above all expect outstanding products and services. This is also guaranteed by our sustainable quality management, for instance at the test plant at our Korean production location.

Top employer for top executives.

We systematically expect and encourage high levels of motivation and qualification at all levels: from training through research and development to production, marketing and customer support. In the competition for the best employees, our innovative concepts attract talented and interested young people to commit to us at an early stage. Intensive cooperations with universities and scientific institutions ensure that we can get smart people on board. Once top executives join the Wilo team, we ensure their constant development with a well-designed training system. Taking responsibility for our employees and enabling them to forge a successful career is hugely important to us. This has been recognised with numerous "top employer" awards.

Strong in teamwork, responsible when working alone. At Wilo, our employees enjoy attractive career prospects in an internationally oriented group. This is a significant motivation factor for the employees – and a good calling card for us as an employer.


1872
WILO
WILO

2010

Management Report on the Group

Highlights of the 2010 financial year

- The Wilo Group increased its sales to EUR 1,021.4 million, thus breaking the EUR 1 billion sales barrier for the first time in the company's 139-year history.

- EBIT and the consolidated annual surplus improved to EUR 111.4 million and EUR 71.1 million, which were also new record highs.

- The glandless product range already complies with the guideline values of the ErP directive for 2013 and 2015.

- The global, cross-functional and cross-departmental growth and efficiency enhancement programme "Perform to Grow" was started in order to implement the enhanced strategic alignment of the Wilo Group, and has already been completed in subprojects.

- The new plant at the Kolhapur location in India was completed and production has started. Several modern sales buildings of subsidiaries in Turkey and Austria were completed and occupied.

General and business conditions

Group structure

Wilo is one of the world's leading manufacturers and providers of pumps and pump systems, associated control systems and services for heating, ventilation and air conditioning, water supply, sewage disposal and wastewater treatment. Products range from the Wilo-Geniax, the decentralised pump system for use in detached houses and commercial buildings, through the high-efficiency pumps of the Stratos series to large cooling water pumps for power plants.

The Wilo Group was established in Dortmund in 1872 as copper and brass factory Louis Opländer. The parent company is WILO SE, based in Dortmund, Germany.

As at 31 December 2010, the Wilo Group and WILO SE consisted of over 60 production and sales companies. It operates in over 40 countries in Europe, Asia, North and South America and Africa with more than 6,200 employees, and is also represented by own branches and independent sales partners in many other countries. The Wilo Group's pumps and pump systems are manufactured on the basis of an efficient and customer-oriented production network at 14 locations in Germany, France, the UK, Ireland, India, China, Korea and the USA, and they are then sold to Wilo Group customers worldwide either directly or via sales subsidiaries.

Corporate strategy

The Wilo Group is geared towards growth and will continuously build on its strong position as an independently operating global company and innovation leader. These aims will be achieved by means of the enhanced corporate strategy. It is centred on a greater orientation towards market segments in order to enable an even better response to customers and their requirements in future. The framework for the market segment orientation are the three market segments *Building Services, Water Management* and *Industry,* which cover all markets relevant to the Wilo Group. Segment-specific market approach measures planned in a targeted manner drive the customer orientation of the Wilo Group.

Building Services

With highly efficient pump technology, the Wilo Group makes a key contribution to climate protection and resource efficiency in the building sector. The Wilo Group is currently most prominent in the *Building Services* market segment. Here, the Wilo Group supports customers from the private and commercial sector as well as the public sector. In the OEM sub-segment, numerous manufacturers – of boilers and heat pumps, for example – rely on Wilo quality and integrate the pumps into their products. The aim is to take the leading position worldwide in the *Building Services* market segment in the medium term.

Water Management

Water is essential to life. In the next few years, the issues of water supply and purification will become increasingly important worldwide. This market segment delivers products and services for the standard sewage business, and the Wilo Group develops customised solutions for complex areas of application. In the *Water Management* market segment, the focus is on ensuring that people are supplied with fresh water and disposing of wastewater. The plan is to increase the sales share sharply in this market segment and make it the second major pillar of the Wilo Group.

Industry

In the *Industry* market segment, the Wilo Group provides customer-specific solutions for selected branches of industry. Here, it supports its customers with processes for cooling, district heating, metal processing, in the food industry and in mining. This market segment is to be selectively enhanced with customised solutions based on the current product range.

Implementation

To enable successful implementation and attainment of the stepped-up strategic targets in the Wilo Group, the internationally oriented, cross-functional growth and efficiency enhancement programme "Perform to Grow" (P2G) was developed, with implementation starting in 2010. The programme consists of four key initiatives that pursue these targets:

- The best possible use of the potential of individual market segments through optimised customer targeting, improved global key account management and process optimisation in sales.
- Improvement of the efficiency of the entire value-added chain by gearing the supply chains to the various requirements of the markets and customers and by optimising the supplier network and purchasing organisation.
- Optimisation of the product range in terms of development of new products and reduction of the complexity of the product range, reorganisation of the global research and development network by optimising structures, responsibilities and processes.
- Slight expansion of the administrative departments by adapting processes and structures.

Management controlling and monitoring

Management and monitoring of the Wilo Group are the responsibility of the Executive Board of WILO SE, which is monitored and overseen by the company's Supervisory Board. The Supervisory Board of WILO SE is appointed by the Annual General Meeting, and it is made up of six members. Two members of the Supervisory Board are employee representatives appointed at the suggestion of the SE Works Council of WILO SE.

The target system of the Wilo Group is geared towards long-term profitable growth. At present, the financial management of the Wilo Group is largely focused on development of sales and earning power. Earning power is measured on the basis of the EBIT margin. The regions as well as the market segments and product divisions are managed in accordance with these primary variables.

Like many other globally operating companies, the Wilo Group believes that it is confronted by ever-tighter legal requirements. One deeply engrained element of the Wilo Group's philosophy is to ensure a business policy that complies with regulations through the conduct of its employees, both now and in future. To continue to help the 6,200-plus Wilo employees in over 40 countries worldwide to achieve this, the Wilo Group will be adapting its compliance activities to regulatory requirements from January 2011. To give Wilo Group employees better guidance, the compliance standards are summarised in the code of conduct "Acting Responsibly".

Economic environment

After the significant slump during the global financial and economic crisis, the global economy recovered strongly in 2010 and entered a moderate upturn phase. In some industrial countries, the sustained structural problems in the finance and property sector as well as the strong consolidation pressure resulting from the high levels of private and public debt negatively impacted economic activity, thus preventing a fast return to pre-crisis levels. In addition, the soaring budget deficits and debt levels of some industrial countries and the associated doubts surrounding their solvency negatively impacted the international financial and capital markets.

Some of the emerging economies have overcome the global financial and economic crisis very quickly, and have been back on track for long-term growth since 2010. However, the economic upturn also tailed off significantly in these countries in the second half of 2010. This was due to restrictive monetary and fiscal policy measures in the emerging economies in order to curb incipient inflationary pressure and counter potential overheating on the property and capital markets. The industrial countries and the emerging economies have not further extended their multibillion economic programmes, opting instead for extensive consolidation measures. Despite the tailing-off of the economic upturn in the second half of 2010, noted economic research institutes such as the Hamburg Institute of International Economics and the Kiel Institute for the World Economy expect a 4.8 % increase in global production for 2010.

The global economic upturn progressed at different speeds in the individual economic regions in 2010. For instance, due to the structural problems in the financial and property sector as well as the intense consolidation pressure caused by the high levels of private and public debt, economist researchers at the ifo Institute estimate that the gross domestic product of the industrial countries rose by just 2.6 % in 2010, thus remaining below pre-crisis levels. US economic growth for 2010 is expected to be 2.8 %, whilst the estimate is 1.8 % for the EU states. In contrast to the industrial countries, economic researchers expect economic growth of 7.9 % for 2010 in the emerging economies, chiefly as a result of the expansion of the Chinese and Indian economies. Estimates indicate 9.7 % growth for the Chinese economy and 9.2 % for India in 2010. In addition, forecasts for the other Asian economies and some Latin American countries suggest high growth rates of 7.2 % and 5.9 % for 2010.

In 2010, the German economy recovered strongly from the negative impacts of the global financial and economic crisis. According to German Federal Statistics Office calculations of January 2011, gross domestic product in 2010 rose by 3.6 % compared with the previous year. The reasons for this were the 14.2 % increase in export output, a substantial rise in domestic demand and a stabilisation of the economic recovery. For instance, investment on new means of production was up 9.9 % year-on-year. In addition, adjusted for price changes, private and state consumption increased by 0.5 % and 2.2 % respectively. This positive development of domestic demand stems from the catch-up effects in capital expenditure and consumer goods, but primarily from the low interest levels as well as the positive employment and income prospects. Although public consumer demand increased, negative impacts arising from the expiry of the multibillion economic programmes were apparent here in 2010.

In 2010, key industries for the Wilo Group in Germany, including construction and building services engineering, recovered strongly from the previous year's decline. The ifo Institute estimates that real construction investment grew by 4.2 % in 2010. Residential construction spending made a major contribution to this growth, particularly in the detached and semi-detached house and apartment building sector, which are likely to have increased by 5.4 %. The reasons for this were favourable financing conditions, rising real wages and the positive development on the labour market. The commercial and public construction sector also contributed to the growth in the construction industry with increases of 2.0 % and 4.2 %, although the impetus on public construction from the expiring economic stimulus packages of the German federal government is set to decrease.

The Association of the German Sanitary Industry estimates that building services engineering in Germany, which also includes the plumbing, heating, air conditioning and ventilation segments, recorded a 6.2 % overall increase in sales growth in 2010. Domestic business improved by 5.3 % compared with the previous year. A rise of as much as 10.3 % is expected for exports. The ifo Institute assumes that the recovery in the 2010 financial is the start of an ongoing upward trend, although the pace of the upturn is likely to tail off.

Business developments

The 2010 financial year was the most successful in the Wilo Group's 139-year history, with the EUR 1 billion sales barrier being broken for the first time. Sales rose by 10.3 % from EUR 926.1 million in the previous year to EUR 1,021.4 million. Moreover, with EBIT of EUR 111.4 million, a consolidated annual surplus of EUR 71.1 million and an average headcount of 6,268, other new records in the long history of the Wilo Group were set in 2010.

There are different reasons for the 10.3 % increase in sales to EUR 1,021.4 million, which may vary from region to region and from market segment to market segment. The positive sales development is associated with the economic recovery of individual economies as well as the favourable development of specific exchange rates in the 2010 financial year. Accordingly, there are variations in the individual regions:

Sales development by region

EUR million	**2010**	**2009**	Change in %
Europe	571.5	544.0	5.1
Asia Pacific	214.0	170.0	25.9
EMEA	141.6	117.1	20.9
Others	94.3	95.0	–0.7
Total	**1,021.4**	**926.1**	**10.3**

In the 2010 financial year, the Wilo Group reorganised its regional sales structure, which now comprises the following four reportable operating segments with the corresponding countries:

- *Europe*: all European states except Russia, Belarus and Ukraine
- *Asia Pacific:* India, China, South Korea, Southeast Asian nations, Australia and Oceania
- *EMEA:* Russia, Belarus, Ukraine, Caucasus nations, Gulf nations, African nations
- *Others*: Nations of the American continent and other nations not assigned to the above regions

In the *Europe* region, the Wilo Group improved its sales level year-on-year by 5.1 % or EUR 27.5 million to EUR 571.5 million, with considerable variations in the change in sales in the individual countries. For instance, sales in the biggest individual market, Germany, were up 9.4 % on the previous year, mainly as a result of the strong demand for energy-efficient Wilo Group products such as the Stratos series. In addition, the general economic upturn, the much-improved economic climate and the economic stimulus packages of the German federal government, which were primarily focused on construction investment, bolstered the increased operating activities in Germany.

Sales in the Eastern European EU states, the northern and Baltic countries and the UK developed very positively in some cases. Here too, the general economic recovery boosted the Wilo Group's operating activities. In addition, the appreciation of individual Northern and Eastern European currencies against the euro led to positive effects on sales. In France and the Benelux nations, sales reached the same level as the previous year, and were down slightly in the Mediterranean countries. The economic recovery is sluggish there. Furthermore, very high budget deficits of individual states such as Greece led to uncertainty and turbulence on the financial and capital markets and the instigated consolidation measures continued to negatively impact the economies concerned.

In the *Asia Pacific* region, the Wilo Group significantly increased sales by 25.9 % or EUR 44.0 million to EUR 214.0 million compared with the previous year, with year-on-year sales growth of more than 25 % being generated on all markets important to the Wilo Group. The main reasons for this are the strong market position and presence of the Wilo Group on the Asian markets as well as the rising demand for energy-efficient products in individual Asian countries. In addition, the strong economic growth of the markets important to the Wilo Group as well as appreciations of individual Asian currencies against the euro boosted the Wilo Group's sales growth in this region.

On the Korean market, the Wilo Group generated sales growth of around 25 %. The increase in sales partly resulted from strong demand for energy-efficient products, which is being encouraged by government policy, with their use being required by law in some cases. Also, the strong market position of the Wilo Group in Korea and new industrial products within the Wilo product range delivered positive impetus for operating activities in this market. The appreciation of the South Korean won against the euro also positively impacted on the sales growth in Korea by more than 50 %.

In China, the Wilo Group increased sales by around 35 % compared with the previous year. Here too, the cause is the high level of demand for energy-efficient products, which is also encouraged by government policy in China. Moreover, the healthy general economic climate in China with GDP growth rates of almost 10 % p.a. and exchange rate effects also had a positive impact on the business development of the Wilo Group on the Chinese market.

The Indian market also developed very positively. The Wilo Group generated sales growth of over 25 % here in 2010. Sales growth particularly stemmed from a larger product range and higher sales of complete systems. In addition, half of the sales growth in euro resulted from the appreciation of the Indian rupee against the euro.

In the 2010 financial year, sales in the *EMEA* region rose by 20.9 % or EUR 24.5 million to EUR 141.6 million compared with the same period of the previous year, with year-on-year sales growth of almost 40 % being attained in some of the key markets for the Wilo Group.

The Wilo Group's operating activities in Russia, Belarus and Ukraine were major factors in the highly positive sales development in this heterogeneous region. Sales in these three countries increased by almost 40 % year-on-year, accounting for more than half of total sales in the *EMEA* region. In some cases, these markets almost showed the same pace of growth as before the financial and economic crisis. The Wilo Group benefited significantly from this as a result of its strong market position. Furthermore, when the financial and economic crisis was at its peak, many projects were suspended, delayed or even abandoned, resulting in an investment backlog until the end of 2009. The easing of this investment backlog also bolstered the operating activities of the Wilo Group in these three countries. In addition, currency translation effects from the appreciation of the Russian rouble against the euro lifted sales in Russia by around 25 %.

The Wilo Group also saw a positive development of operating activities in Africa and the Gulf region and in the Caucasus markets.

Sales in the *Building Services, Water Management* and *Industry* market segments developed positively in the 2010 financial year.

Sales in the *Building Services* market segment were up 9.9 % on the previous year at EUR 756.4 million, mainly as a result of the strong market position and presence of the Wilo Group and strong demand for energy-efficient products and applications. The strong demand primarily stemmed from the significant increase in public awareness of energy sustainability and responsible use of natural resources in recent years. This is partly reflected by the increasingly strict legal directives such as the current ErP directive (Ecodesign directive) of the European Union. Furthermore, the economic recovery, government economic programmes and very low mortgage interest rates in some countries supported the positive sales development in this market segment.

In the *Water Management* and *Industry* market segments, sales rose by 11.3 % to EUR 265.0 million in the 2010 financial year, outstripping the overall sales growth of the Wilo Group. Firstly, this positive development resulted from the easing of the investment backlog from 2009, in which many construction projects were suspended or postponed. Secondly, a significant increase in project business was also posted due to the improved general economic situation and the upturn in many parts of the world. The government economic programmes also had a positive impact on operating activities in the *Water Management* and *Industry* market segments.

Results, assets and financial position

Results of operations

In the 2010 financial year, the Wilo Group increased its EBIT by 22.6 % year-on-year to EUR 111.4 million on the basis of a 10.3 % rise in sales and an associated improvement in gross profit of 12.7 %. The ratio of EBIT to net sales rose significantly compared with the previous year, from 9.8 % to 10.9 %.

Results of operations

EUR million	2010	2009	Change in %
Net sales	**1,021.4**	**926.1**	**10.3**
Cost of sales	-605.6	-557.1	8.7
Gross profit	**415.8**	**369.0**	**12.7**
Selling and administrative expenses	-280.1	-251.2	11.5
Research and development costs	-33.8	-35.3	-4.1
Other operating income	9.5	8.4	13.1
Earnings before interest and taxes (EBIT)	**111.4**	**90.9**	**22.6**
Financial result and at-equity result	-7.8	9.1	> -100
Income taxes	-32.5	-31.4	3.5
Consolidated net income	**71.1**	**68.6**	**3.7**
EBIT (as a % of sales)	**10.9**	**9.8**	**11.1**
Earnings per share (EUR)	**7.31**	**7.04**	**3.8**

The significant 12.7 % improvement in gross profit compared with the rise in sales is partly attributable to structural cost optimisations in production through efficiency increases as well as positive effects in purchasing.

Selling and administrative expenses were up 11.5 % year-on-year from EUR 251.2 million to EUR 280.1 million, a low increase compared with the improvement in gross profit. This is partly due to a rise in sales-related and earnings-related costs such as transport expenses, employee bonuses etc.

Also, the growth and efficiency enhancement programme "Perform to Grow" involved consultancy costs that were not incurred in the reference period. Furthermore, catch-up effects from 2009 for projects and measures that were not commenced or implemented until 2010 were posted. In 2010, the Executive Board of WILO SE continued its cost control and cost efficiency measures introduced in 2009.

Research and development costs fell only slightly by 4.1 % to EUR 33.8 million, as the previous year was impacted by non-recurring effects. They remain at a high level at 3.3 % of sales. As in the past, the Wilo Group has a long-term focus on forward-looking, innovative and promising new developments and technologies.

Finally, other operating income improved slightly on the previous year by EUR 1.1 million to EUR 9.5 million. One major reason for this was the EUR 1.0 million reduction in foreign-currency losses from operating activities.

The financial result of the Wilo Group, including the at-equity result, decreased significantly by EUR 16.9 million from EUR 9.1 million in 2009 to EUR -7.8 million in 2010. This is due mainly to utilisation and measurement effects from commodity derivatives, used to counter price changes on raw materials sourced by the Wilo Group. In the 2010 financial year, the net utilisation and measurement of commodity derivatives increased the financial result by EUR 1.7 million. In the previous year, the positive effect amounted to EUR 23.1 million.

Despite the EUR 16.9 million reduction in the financial result, consolidated net income after taxes rose by EUR 2.5 million to EUR 71.1 million owing to the EUR 20.5 million improvement in EBIT. This corresponds to a 3.7 % improvement on the previous year. Accordingly, earnings per share increased from EUR 7.04 to EUR 7.31 year-on-year. Consolidated net income after taxes amounts to 7.0 % of sales (previous year: 7.4 %).

Financial position

The Wilo Group's total assets have grown 14.0 % since 31 December 2009 to EUR 840.3 million. Non-current assets rose by 11.6 % to EUR 291.4 million, due chiefly to an increase in property, plant and equipment of EUR 19.5 million compared with 31 December 2009. This was caused by capital expenditure on property, plant and equipment of EUR 49.2 million (previous year: EUR 37.8 million), which was particularly geared towards capacity expansion, improved productivity in production and the expansion of existing sales offices. Capital expenditure on property, plant and equipment was thus up 30.2 % on the previous year.

Current assets rose by 15.3 % to EUR 548.9 million compared with 31 December 2009 as a result of a significant increase in the operating activities of the Wilo Group. Inventories increased by 18.2 % to EUR 155.1 million, and current trade accounts receivable by 13.3 % to EUR 204.7 million. This development is chiefly attributable to the sales growth of 10.3 % in the 2010 financial year as well as a build-up of stock on hand in order to be able to meet the higher levels of demand from customers worldwide at any time. Cash and cash equivalents rose by EUR 2.4 million to EUR 152.8 million as at 31 December 2010 despite an increase in net current assets. In addition to the improved operating activities of the Wilo Group worldwide, an even shorter commitment period for financial resources in working capital compared with the previous year was the main factor in the increase in cash and cash equivalents, and further enhanced the internal financial strength of the Wilo Group.

The equity of the Wilo Group rose by EUR 52.9 million or 15.0 % to EUR 404.7 million. This increase largely resulted from the positive consolidated net income after taxes of EUR 71.1 million for the 2010 financial year. The dividend payment of EUR 26.2 million to WILO SE shareholders for the 2009 financial year was deducted from equity. Despite a 14.0 % increase in total assets, the equity ratio rose by 0.5 % points to 48.2 % (previous year: 47.7 %).

Non-current liabilities, consisting mainly of liabilities due to banks amounting to EUR 76.0 million and provisions for pensions and similar obligations of EUR 46.2 million, declined by EUR 3.0 million to EUR 158.9 million.

Current trade accounts payable rose considerably in 2010 by EUR 23.1 million or 33.1 % to EUR 92.9 million. This was caused by the growth in operating activities of the Wilo Group as well as the rise in other current liabilities by EUR 30.5 million to EUR 183.8 million. Current account liabilities due to banks increased by EUR 8.6 million and other current provisions, largely consisting of guarantee, bonus and rebate provisions, were up EUR 5.5 million. Personnel liabilities also increased by EUR 4.0 million compared with the previous year.

The financial position of the Wilo Group as at 31 December 2010 and 2009 is set out below:

Financial position

EUR million	2010	%	2009	%
Non-current assets	291.4	34.7	261.0	35.4
Inventories	155.1	18.5	131.2	17.8
Current trade accounts receivable	204.7	24.4	180.6	24.5
Cash and cash equivalents	152.8	18.2	140.4	19.1
Other current assets	36.3	4.2	23.6	3.2
Total assets	**840.3**	**100.0**	**736.8**	**100.0**

EUR million	2010	%	2009	%
Equity	404.7	48.2	351.8	47.7
Non-current liabilities	158.9	18.9	161.9	22.0
Current trade accounts receivable	92.9	11.1	69.8	9.5
Other current liabilities	183.8	21.8	153.3	20.8
Total liabilities	**840.3**	**100.0**	**736.8**	**100.0**

Capital expenditure

Capital expenditure on property, plant and equipment and intangible assets increased significantly by 32.0 % to EUR 52.4 million compared with the 2009 financial year – mainly as a result of necessary capacity expansion, improvement of productivity in production and the expansion of existing sales offices. Also of note is capital expenditure on modernisation and the expansion of production capacity at the locations in Germany and France, amounting to EUR 17.2 million.

In addition, the production location in Kolhapur, India, was completed. The capital expenditure totalled EUR 4.8 million, of which EUR 3.6 million was carried out in the 2010 financial year.

Furthermore, new sales and administration buildings and associated warehouses were moved into in Austria and Turkey. This involved total capital expenditure of EUR 6.1 million in the 2010 financial year.

The breakdown of capital expenditure in the 2010 and 2009 financial years is as follows:

Capital expenditure

EUR million	2010	2009	Change in %
Capital expenditure on intangible assets	**3.2**	**1.9**	**68.4**
Land and buildings	6.6	3.4	94.1
Technical equipment and machinery	9.4	7.0	34.3
Operating and office equipment	14.7	14.8	-0.6
Advance payments and assets under development	18.5	12.6	46.8
Capital expenditure on property, plant and equipment	**49.2**	**37.8**	**30.2**
Total	**52.4**	**39.7**	**32.0**
As a percentage of depreciation and amortisation on property, plant and equipment and intangible assets	151.4	123.7	

Financial position

The positive net cash provided by operating activities decreased significantly in the 2010 financial year. Furthermore, the negative net cash used in investing activities and financing activities increased compared with the previous year. Despite this, excluding the effects of exchange rate changes, cash and cash equivalents rose again by EUR 11.7 million to EUR 152.8 million, as the positive net cash from operating activities more than compensated for the net outflows from investing and financing activities. Taking exchange rate changes into account, the increase in cash and cash equivalents actually amounted to EUR 12.4 million.

Financial position

EUR million	2010	2009	Change
Net cash from operating activities	95.1	142.3	-47.2
Net cash used in investing activities	-51.7	-38.9	-12.8
Net cash used in financing activities	-31.7	-8.9	-22.8
Change in cash and cash equivalents	11.7	94.5	-82.8
Liquidity at the end of the financial year	**152.8**	**140.4**	**12.4**

Net cash provided by operating activities decreased year-on-year by EUR 47.2 million to EUR 95.1 million. This was primarily due to the EUR 25.5 million rise in trade accounts receivable in the 2010 financial, following a reduction of EUR 15.2 million in the previous year. This development was caused by the substantial growth in the Wilo Group's operating activities in 2010. Furthermore, income tax payments were up EUR 26.1 million year-on-year, as the strong consolidated net income before taxes for the 2009 financial year led to corresponding income tax back-payments as well as increases in advance income tax payments for 2010. In contrast, the EUR 20.5 million increase in EBIT positively impacted the development of the operating cash flow. The rise in inventories was almost offset by the increase in trade accounts payable.

Net cash used in investing activities increased significantly by EUR 12.8 million or 32.9 % to EUR 51.7 million in the 2010 financial year due to higher capital expenditure on intangible assets and property, plant and equipment at the Wilo Group and is therefore at the same level as the 2008 financial year.

The negative net cash used in financing activities was up EUR 22.8 million to EUR 31.7 million year-on-year (previous year: EUR 8.9 million), as dividends of EUR 26.2 million were distributed to shareholders of WILO SE in 2010. No dividend payments were made in the previous year.

In the 2010 financial year, the Wilo Group posted liquidity inflows from the short-term utilisation of credit lines of EUR 8.6 million that amounted to EUR 1.2 million in the previous year. In contrast, the repayment amount for promissory note loans and credit increased from EUR 3.3 million to EUR 5.4 million p. a. as scheduled and in line with the agreements. Interest received and interest paid was almost at the same level as in the previous year.

Financial management

The objectives of financial management are geared to upholding the financial independence and maintaining a strong cash position at all times, thus supporting the operating activities of the Wilo Group. For this reason, WILO SE ensures that adequate binding short and medium-term finance commitments of over EUR 100 million are available from internationally oriented banks and, for several years, has operated active portfolio management with regard to the procurement and maturity structure of borrowings, with financing policy sustaining a balanced focus between return-related and security-related targets.

The Wilo Group had EUR 107.2 million in current and non-current liabilities due to banks as at 31 December 2010 (2008: EUR 100.1 million). These liabilities due to banks mostly consist of bonds totalling USD 80.0 million maturing in 2013 and 2016, taken out by WILO SE in 2006 as part of a US private placement. They had a carrying amount of EUR 59.6 million as at 31 December 2010 (previous year: EUR 55.7 million). In addition, in the 2008 financial year, WILO SE took out a promissory note loan of EUR 25.0 million maturing in 2015 and repayable in half-yearly instalments. The promissory note loan had a carrying amount of EUR 18.7 million as at 31 December 2010 (previous year: EUR 22.9 million).

In addition, as at the balance sheet date, there were bank loans of EUR 3.1 million (previous year: EUR 4.4 million), that will be repaid by 2013, as well as short-term current-account liabilities of EUR 25.8 million (previous year: EUR 17.1 million) due to banks.

WILO SE currently expects that the tranches of the promissory note loans will be repaid on maturity from budgeted operating cash flow. It is not able to state whether the partially uncertain situation of the global banking and financial sector will have any material negative impact on the Wilo Group's financing activities. The Wilo Group held EUR 152.8 million in cash and cash equivalents as at 31 December 2010 (previous year: EUR 140.4 million).

Irrespectively of the sometimes precarious situation in the banking and financial sector, WILO SE borrowed additional capital of EUR 100.0 million as part of its long-term financing strategy at the start of 2011. The additional borrowing consisted of a bond of EUR 75.0 million (USD 98.2 million) issued as part of a US private placement with a lender in February 2011. This bond matures in 2021 and is the first bond issued by WILO SE as part of a private shelf facility (non-binding borrowing facility). The private shelf facility has a total volume with the same lender of USD 150.0 million.

Furthermore, a promissory loan note of EUR 25.0 million that matures in 2020 was taken out with a lender in January 2011. It will be repaid in half-yearly instalments from mid-2011. More detailed information on the financing structure and the borrowing taken out at the beginning of 2011 can be found in note (9.11) of the notes to the consolidated financial statements.

Research and development

As a result of increasing global research and development activities, the Group-wide organisation and responsibilities were restructured and revised in 2010. In general, the basic structure consists of a centralised research and technology unit. Completion and responsibility for series production development of products and systems is assigned to the product divisions on a decentralised basis.

The combination of the centralised research and technology unit and decentralised series production development enables the holistic advancement of basic research and helps to provide the entire R&D organisation with specific expertise, e.g. in the areas of material research and flow calculation. In addition, as a result of market proximity, product development in the product divisions ensures that customer requirements can be met in the best possible way, also enabling recourse to results of central development.

To make better use of global expertise and the resources within product development, a lead engineering concept has also been introduced. In this concept, a lead engineering centre assumes development responsibility for one or more product series regardless of the location at which the product is manufactured. This creates a high level of transparency of the respective development activities and limits the diversity of product derivatives. This realignment was necessary in order to improve the integration of the Asian locations in particular into the Wilo Group's R&D network and to create a structure that is geared towards the targeted growth. Other started projects – including some completed in 2010 – dealing with portfolio optimisation and complexity management of products contributed to this.

In general, additional efforts were made this year to further strengthen and build up the company's technological position. The activities started in recent years to comply with the European ErP directive (Ecodesign directive) for glandless circulation pumps were rigorously continued as scheduled. Already, the glandless product range not only meets the requirements of the energy efficiency limit values to be fulfilled in 2013, but also the limit values that will not be tightened until 2015. In particular, the Ecodesign directive affects the production locations in Laval, Aubigny and Dortmund, where most of the glandless pump range is produced. Corresponding investment in product development and production facilities was made in 2010 and is also planned for the next few years. Overall, R&D work was dedicated to the further optimisation and expansion of the product range and energy efficiency.

In the *Building Services* market segment, in addition to the above-mentioned activities in the glandless circulation pumps sector, progress was made with the projects to expand the stainless steel high-pressure circuit pump range including associated systems as well as expansion of the in-line and standard pump range. Furthermore, the Wilo-Geniax decentralised pump system also reinforced its technology leadership: field tests with the Fraunhofer Institute for Building Physics recorded primary energy savings of 20 % and electrical energy savings of a further 50 % compared with optimised conventional systems. TÜV Rheinland confirmed and certified these investigations.

In the *Water Management* and *Industry* market segments, there was a revamping of the low-output sewage and effluent pumps range, which will be presented at the ISH 2011 trade fair for the first time. Activities also centred on optimisation of the split-case and vertical pump series, which are mainly developed and manufactured in India.

To meet the rising efficiency requirements for dry-running motors in future, the Wilo Group has been pursuing an increase in in-house production of these products, particularly in the lower power sector.

Total research and development costs in the Wilo Group were at a similar level to the previous year at EUR 33.8 million, even though significant development content for the Wilo-Geniax decentralised pump system was completed in 2010. Total research and development costs in the Wilo Group amounted to 3.3 % of sales.

Research and development costs

	2010	2009	Change in %
in EUR million	33.8	35.3	-4.1
% of net sales	3.3	3.8	-13.1

Employees

The Human Resources division of the Wilo Group underwent a major change in 2010. As a result of the organisational realignment of the division, the company took a significant step towards globalisation of HR processes, HR systems and international talent management.

On the basis of the corporate strategy, there was a change of direction in order to further expand the best-practice solutions in place in the company and standardise them internationally. In addition, further successfully trialled instruments for employee management such as management levelling, talent management and competence analysis were globally designed. It is important here to take into account the cultural characteristics of the Wilo national organisations so that a healthy balance can be maintained between corporate standards and global flexibility.

As in previous years, the Wilo Group again further intensified its contact with the major universities and research institutions in the 2010 financial year. Projects to extend the cross-border deployment of interns, diploma students and graduates were initiated and university job fairs were organised.

To ensure that newcomers and lateral entrants successfully meet the company's objectives with their qualifications and quickly fit into the global Wilo community, all candidates go through an extensive selection procedure.

Work-life balance remains a focal point of corporate management at the Wilo Group. In addition to good qualifications, emotional balance and physical fitness are the main characteristics of a successful Wilo Group employee. Therefore, in 2010, the Wilo Group again offered flexible part-time models and time off for employees on parental leave. Employees again had the opportunity in 2010 to attend interesting healthcare seminars, which will be stepped up and promoted more rigorously in the next few years. In terms of remuneration of its employees, the Wilo Group adheres to the applicable collective agreements of the individual national organisations worldwide.

In the 2010 financial year, the Wilo Group increased its global workforce by 4.0 % to an average of 6,268 employees. This was driven by the positive business development of the Wilo Group in the past financial year as well as the improved economic development in many regions of the world.

Average employee numbers for the year were as follows:

Employees

	2010	2009
Production	3,359	3,201
Sales and administration	2,909	2,826
Total	**6,268**	**6,027**
Germany	1,933	1,911
Other countries	4,335	4,116
Total	**6,268**	**6,027**

Certification and approvals

The ISO 9001:2000 and ISO 14001 quality and environmental certifications awarded in previous years remain in place for all production locations in the Wilo Group.

In 2009, we began to establish the occupational health and safety management system OHSAS-18001 at various production locations of the Wilo Group. At the production locations in Dortmund, Oschersleben and Hof (all in Germany), Laval (France), Gimhae (Korea), Qinhuangdao (China) and Thomasville (USA), implementation of this occupational health and safety management system was confirmed by external certification.

Furthermore, the addition of new key products for all relevant markets was secured through country-specific certifications.

Risk report

A modern, integrated, global risk management system enables the Wilo Group to identify business risks at an early stage and take prompt and effective mitigating action. Monitoring the rigorous implementation of the measures is an essential part of the system. Once identified, risks are assessed, where possible controlled, and continuously monitored. The internal audit function is strongly involved in the process chain.

Risk management at Wilo generally follows a decentralised approach. The corporate control function supports second-tier managers with responsibility for risk documentation and reporting.

Checklists and uniform risk classification ensure risk assessment and procedural compatibility. Software in line with Group needs provides a communication and information platform.

Identified risks are assigned a probability and potential impact. The basic aim of risk management is to keep the Wilo Group's overall risk exposure transparent and within acceptable limits.

The results of risk analysis are reported to the Executive Board on a regular basis. The Supervisory Board and the Audit Committee it appoints are fully and continuously informed regarding the status and development of the risk management system.

Economic environment

Wilo faces economic and market risks due to general economic, political and societal trends. Noted economic research institutes are of the opinion that the global economy has entered a moderate upturn phase after a strong economic recovery in 2010. However, the moderate future growth forecasts are linked with risks and uncertainties, some of which are rooted in the global financial and economic crisis. These chiefly include the high private and public debt levels of some industrial countries and the associated doubts surrounding the solvency of specific states. Furthermore, there are still considerable structural problems on the financial and property markets of some industrial countries.

In the emerging economies, restrictive monetary and fiscal policy measures are slowing the pace of the upturn. These measures are necessary in order to curb incipient inflationary pressure and overheating on the property and capital markets.

The predominantly positive economic developments and expectations are being observed closely and attentively by the Wilo Group due to their considerable uncertainties and risks, so as to take any corresponding countermeasures safeguarding the current economic and financial situation of the Wilo Group. These also include country risks. Despite the uncertain conditions on some global markets and risk-laded future expectations, some large Asian, Latin American and Eastern European markets continue to offer good growth opportunities, although they are associated with increased risks. The Wilo Group has considerably reduced the potential risks in this regard by adopting organisational changes, expanding and optimising the utilisation of local production capacity, and exploiting synergies.

Competition

Competition risk remains largely on a par with the previous year. For example, the intensifying price competition on major projects involves risks. The Wilo Group mitigates these risks by making increased use of product lines with unique selling points. The Wilo Group's competitiveness is also ensured by its technological lead over competitors, notably with regard to energy efficiency, as well as our outstanding product quality and our extensive service network.

Production and technology

Value creation and technology risks are largely manageable due to high barriers to market entry and Wilo's market position in the main segments. Wilo invests continuously to strengthen its market position in developing new products and in growing markets so it can continue to meet customer needs and secure competitive advantages. The Wilo Group invested 3.3 % of consolidated net sales in research and development in the year under review. Quality risk is mitigated by uniform Group-wide standards in production (Wilo production system) and integrated quality management.

The Wilo Group significantly reduces the risk of production stoppages by the use of modern production plants and professional control systems. Supply bottlenecks are mainly prevented by ensuring the availability of second-source suppliers. Insurance is also taken out to offset financial impacts of business risks of this kind.

Exchange rates

The Wilo Group's international presence makes it important to manage currency exposures. The Wilo Group faces currency risk primarily in its financing and operating activities. The currency risk that mainly relates to the supply of goods and services to Group companies is countered by the use of same-currency offsetting transactions and derivative financial instruments.

The Wilo Group rates the currency risk on operating business between Group companies and external customers and suppliers as low, as most of such business is transacted in the local currency of the companies concerned. Currency risk in financing activities mostly relates to foreign-currency borrowing from external lenders and foreign-currency lending to Group companies for financing purposes. This currency risk is minimised by the use of derivative financial instruments.

Interest rates

The interest rate risk mainly results from floating rate financial liabilities and invested cash and cash equivalents. Both a rise and a fall in the yield curves result in interest rate exposure. The Wilo Group mitigates adverse changes in value from unexpected interest rate movements by using derivative financial instruments. Interest rate risk is considered to be low as most liabilities due to banks are subject to long-term fixed rates of interest.

Commodity prices

A major factor in the commodity price risk of the Wilo Group is price fluctuations on the global markets for copper, aluminium and stainless steel and their alloys. In addition, the development of price and supply of the rare earth elements are attentively observed. To minimise the commodity price risk, the Wilo Group uses commodity derivatives in a targeted manner if the change in commodity prices significantly impacts on the Wilo Group's earnings and if corresponding financial instruments are available and can be used efficiently.

The prices for most of the copper procurement volume for the 2011 financial year have already been stipulated, as the impacts on earnings from the change in copper prices could be significant for the Wilo Group. In contrast, the prices for the procurement volume for aluminium and stainless steel and their alloys are not hedged, as the available financial instruments cannot efficiently minimise the price change risk for these commodities and the earnings impacts from the price change of these commodities and their alloys cannot currently be regarded as significant for the Wilo Group.

On current information, Wilo Group earnings would primarily be affected by price fluctuations on the world markets for copper from the 2012 financial year.

Credit risk

The Wilo Group counters customer credit risk with a uniform and effective Group-wide system for systematic receivables management and the monitoring of payment behaviour. Dependency on individual customers is limited because Wilo does not generate more than 10.0 % of total net sales with any one customer. The Wilo Group did not feel any significant negative impacts from its customers' payment behaviour in the past financial year.

Liquidity

WILO SE aims to ensure cost-effective coverage of the financing requirements of the operating activities of Group companies at all times and uses a range of financial market instruments to this end. There are also cash pooling and financing arrangements with Group companies where appropriate and permitted under local commercial and tax law.

All Group-level financial transactions are recorded in centralised treasury software and monitored by WILO SE, enabling risks to be balanced among companies in the Group. Detailed information on the use of derivative financial instruments is provided in notes (12) and (13) of the notes to the consolidated financial statements.

Information technology

WILO SE mitigates information technology risk in the form of data loss and system downtime with daily backups of all critical business data. The business database serving production, materials management, order processing, financial accounting and cost accounting conforms to top security standards. WILO SE's critical business applications run in two separate, certified, highly powerful data centres. Certified processes and business recovery plans are also in place for the event of disaster. An annual monitoring audit is performed in order to maintain the certificate. System downtime is additionally minimised by targeted deployment of an in-house support team and outside service providers.

Overall assessment

No risk is currently identifiable that might raise doubt about the entity's ability to continue as a going concern.

Significant events after the balance sheet date

Management participation programme

WILO SE restructured its management participation programme at the end of 2010/start of 2011. This includes members of the Supervisory Board and Executive Board of WILO SE. As part of the restructuring, WILO SE first bought back 65,000 shares in WILO SE held by members of the Supervisory Board and Executive Board for an amount of EUR 2.0 million. WILO SE then sold all 360,000 shares it held to the members of the Executive Board of WILO SE for a purchase price of EUR 14.8 million. In a final step, WILO SE carried out a capital increase of EUR 15.5 million against cash contributions by issuing 117,331 new, registered ordinary shares and by issuing 259,418 new, registered preference shares without voting rights. The new ordinary and preference shares were issued solely to the members of the Supervisory Board and the Executive Board of WILO SE. The members of the Supervisory Board and the Executive Board of WILO SE hold 7.1 % in the share capital of WILO SE after the restructuring of the management participation programme. More detailed information on the management participation programme can be found under note (9.10) of the notes to the consolidated financial statements.

Financing

WILO SE borrowed additional capital of EUR 100.0 million on a long-term basis at the start of 2011. More detailed information can be found in the "Financial management" section of the Group management report and in note (9.11) of the notes to the consolidated financial statements.

Outlook

Economic environment

After a strong recovery in the first half of 2010, the global economy has entered a moderate growth phase that is likely to continue in the next two years. Leading German economic research institutes forecast real growth of between 3.6 % and 4.0 % per year for the global economy in 2011 and 2012. Growth rates will not return to the levels of before the global financial and economic crisis for the foreseeable future. In addition, the positive forecasts for the next two years involve considerable uncertainties that may arise from a restrictive fiscal policy and an expansive monetary policy.

One uncertainty is that it is very hard to estimate how much the necessary consolidation measures to reduce high national deficits and corresponding structural adjustment processes will influence the economic development of each individual state. Moreover, there is the risk that debt-laden states will be forced into drastic cuts if the loss of confidence on the financial and capital markets makes borrowing options much more expensive or even limited for these states. In addition, an extremely expansive policy in many regions of the world involves risks of an increase in current inflation forecasts and exchange rate turbulence.

In the industrial countries, economic researchers predict real gross domestic product growth of only around 1.7 % for 2011, with the European Union members participating in the economic recovery at a rate of 1.6 % and the USA at 1.7 %. In contrast, the ifo Institute believes that the emerging economies, which will remain an important driver of the global economy in coming years, will grow by 6.3 % in 2011. Real gross domestic product is expected to grow by 8.0 % in the Chinese economy and 8.2 % in the Indian economy. The decrease in growth rates in all cases compared with 2010 largely stems from a restrictive fiscal policy and structural adjustment processes of debt-laden industrial countries. They also result from a restrictive monetary policy in the emerging economies in order to counter nascent inflationary trends there and prevent overheating of the property and financial markets.

The German federal government and leading economic research institutes anticipate gross domestic product growth of around 2.3 % for the German economy in 2011. This economic growth will mainly be driven by increased domestic demand and not, as in previous years, by exports. The positive income and employment forecasts, rising real wages of the working population and a very low interest level are likely to lead to a 1.4 % increase in consumer spending of private households in 2011. Forecasts also suggest a 4.8 % rise in investment in means of production by companies and a 1.1 % increase in public-sector consumer spending. Exports are only likely to grow by 7.4 % in 2011 compared with 14.8 % in 2010. This could be caused by a slowdown in demand for German machinery and equipment.

For the German construction industry, the ifo Institute projects an increase of 2.1 % in real construction spending. This is chiefly attributable to the 2.6 % rise in private residential construction investment and the 2.8 % increase in investment in commercial construction. As in 2010, private residential construction will be stimulated by very low mortgage interest rates, real income growth of those in work and positive employment expectations of the population. Low interest rates are also providing positive impetus in commercial construction. Furthermore, rising capacity utilisation in the processing industry and growing demand for commercial properties from service companies is having a favourable impact on the commercial construction sector. In contrast, public-sector construction demand is set to fall by 1.8 %, as the economic stimulus packages of the German federal government are coming to an end and the consolidation measures to reduce debt are taking effect.

The Association of the German Sanitary Industry forecasts that building services engineering – another segment of importance to the Wilo Group – will grow by around 3.5 % in Germany in 2011. Domestic demand is likely to rise by 2.9 % and export activity by 6.3 % here.

Outlook for the Wilo Group

The Wilo Group has not only handled the negative economic impacts of the global financial and economic crisis of the past two years very well, but has also emerged strengthened from the worst-ever post-war recession. The longstanding business corporate strategy of promoting innovation activity and developing technologies was key to this, as were the Wilo Group’s international market presence and its fast response to crisis situations. The significant increase in sales and earnings, the technological innovations, the global increase in workforce and the start of implementation of the enhanced corporate strategy illustrate the strengthened position of the Wilo Group in relation to its global competitors.

In the financial year, the Wilo Group will maintain its existing method of rapid analysis of various developments and devising of alternative scenarios, the short-notice initiation of countermeasures, as well as effective monitoring of the economic situation. The Wilo Group is confident that it is securing and strengthening its long-term future prospects through its enhanced strategic orientation, its long-horizon innovation policy and its effective crisis management. In the event of renewed volatility on the global financial and capital markets with corresponding negative economic impacts, the Wilo Group will instigate appropriate countermeasures.

As a result of rising demand for energy-efficient products in many regions of the world, positive economic forecasts and an improved market environment, the Wilo Group expects sales growth of around 10 % p.a. for the 2011 and 2012 financial years. Sales growth is likely to be generated primarily in the *Europe* and *Asia Pacific* regions.

In the *Europe* region, the Wilo Group sees significant potential demand for energy-efficient products and applications in the *Building Services* market segment as a result of a sharp rise in public awareness of energy sustainability and responsible use of natural resources in recent years. Moreover, rising energy costs will boost the use of such products and applications.

In the *Asia Pacific* region, the Wilo Group not only expects growth in demand for energy-efficient products in the *Building Services* market segment, but also an increase in demand for products and applications in the *Water Management* and *Industry* market segments. The high level of economic growth as well as public-sector infrastructure measures in China and India are likely to deliver corresponding positive impetus for the operating activities of the Wilo Group in these market segments.

For the 2011 and 2012 financial years, the Wilo Group expects a slight year-on-year decrease in the EBIT margin of around 10 % p.a. This is due to a fall in other operating income, which experience suggests is linked with considerable uncertainty. In addition, one-off costs from the growth and efficiency enhancement programme "Perform to Grow" will have a slightly negative impact on the EBIT margin.

It is currently difficult to estimate what implications the continuing risks and uncertainties in the financial banking sector as well as the resultant risks to the stability of the recovery in large parts of the world will actually have for the sales and EBIT projections given by the Wilo Group. This is because the uncertainty inherent in the underlying assumptions and the potential impact of any forecasting inaccuracies are considerably greater than before the global financial and economic crisis. However, the Wilo Group is confident that the optimised financing structure, the very high equity ratio of almost 50 %, and cash and cash equivalents of over EUR 150 million will contribute substantially to the long-term profitable growth and prospects of WILO SE, even in times of higher risks and uncertainties.

Long-term borrowings in place as at 31 December 2010 are subject to customary covenants requiring WILO SE to maintain certain financial ratios within set bands. In the 2010 and 2009 financial years, WILO SE fully complied with these covenants and currently has no indication that it will be unable to comply with them in future. More detailed information can be found under note (9.11) of the notes to the consolidated financial statements.

Unforeseeable developments and events may lead to changes in expectations and deviations from forecasts.

2010

Consolidated Financial Statements

Consolidated income statement
for the period 1 January to 31 December 2010

Consolidated income statement

EUR k	Note	2010	2009
Net sales	(8.1)	1,021,415	926,097
Cost of sales	(8.2)	-605,596	-557,110
Gross profit		**415,819**	**368,987**
Selling expenses	(8.3)	-207,491	-186,481
Administrative expenses	(8.4)	-72,640	-64,670
Research and development costs	(8.5)	-33,846	-35,307
Other operating income	(8.6)	19,616	19,860
Other operating expenses	(8.7)	-10,034	-11,471
Earnings before interest and taxes (EBIT)	(8.11)	**111,424**	**90,918**
Net income from investments carried at equity	(8.8)	0	-321
Net finance costs	(8.9)	-7,767	9,420
Consolidated net income before taxes	(8.11)	103,657	100,017
Income taxes	(8.10)	-32,531	-31,444
Consolidated net income after taxes	(8.11)	**71,126**	**68,573**
of which: attributable to non-controlling interests		252	276
of which: attributable to shareholders of WILO SE		70,874	68,297
The basic and diluted earnings per share amount to EUR 7.31 (previous year: EUR 7.04)			

The notes are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income
for the period 1 January to 31 December 2010

Consolidated statement of comprehensive income

EUR k	2010	2009
Consolidated net income after taxes	**71,126**	**68,573**
Currency translation differences	10,782	2,092
Other consolidated net income	10,782	2,092
Comprehensive income	**81,908**	**70,665**
of which: attributable to minority interests	357	292
of which: attributable to shareholders of WILO SE	81,551	70,373

The notes are an integral part of the consolidated financial statements.

Consolidated statement of financial position
as at 31 December 2010

Assets

EUR k	Note	31.12.2010	31.12.2009
Non-current assets			
Intangible assets	(9.1)	60,197	58,567
Property, plant and equipment	(9.2)	190,614	171,083
Investments carried at equity	(9.4)	2,640	2,640
Trade receivables	(9.6)	4,654	3,224
Other financial assets	(9.7)	6,700	2,942
Other receivables and assets	(9.8)	5,204	3,928
Deferred tax assets	(8.10)	21,406	18,644
		291,415	**261,028**
Current assets			
Inventories	(9.5)	155,063	131,165
Trade receivables	(9.6)	204,685	180,618
Other financial assets	(9.7)	11,573	10,131
Other receivables and assets	(9.8)	24,693	13,512
Cash and cash equivalents	(9.9)	152,821	140,391
		548,835	**475,817**
Total assets		**840,250**	**736,845**

The notes are an integral part of the consolidated financial statements.

Equity and liabilities

EUR k	Note	31.12.2010	31.12.2009
Equity	(9.10)		
Issued capital		26,000	26,000
Retained earnings		391,258	348,641
Currency translation differences		-4,005	-14,682
Treasury shares		-8,222	-8,557
Equity before non-controlling interests		405,031	351,402
Non-controlling interests		-328	412
		404,703	**351,814**
Non-current liabilities			
Financial liabilities	(9.11)	75,967	77,459
Trade payables	(9.12)	1,240	1,218
Other financial liabilities	(9.13)	11,234	14,797
Other liabilities	(9.14)	1,713	1,494
Provisions for pensions and similar obligations	(9.15)	46,205	45,104
Other provisions	(9.16)	4,509	4,143
Deferred tax liabilities	(8.10)	18,048	17,678
		158,916	**161,893**
Current liabilities			
Financial liabilities	(9.11)	31,275	22,686
Trade payables	(9.12)	92,916	69,804
Other financial liabilities	(9.13)	39,504	29,104
Other liabilities	(9.14)	62,779	56,900
Other provisions	(9.16)	50,157	44,644
		276,631	**223,138**
Total equity and liabilities		**840,250**	**736,845**

Consolidated statement of cash flows
for the period from 1 January to 31 December 2010

Consolidated statement of cash flows

EUR k	31.12.2010	31.12.2009	Change
Earnings before interest and taxes (EBIT)	**111,424**	**90,918**	**20,506**
Depreciation and amortisation on intangible assets and property, plant and equipment	34,567	32,130	2,437
Increase in non-current provisions	1,467	3,070	-1,603
Losses/gains on the disposal of intangible assets and property, plant and equipment (net)	337	-165	502
Increase/decrease in inventories	-23,898	15,902	-39,800
Increase/decrease in trade receivables and other assets not attributable to investing or financing activities	-28,352	17,152	-45,504
Increase in current provisions	5,513	2,585	2,928
Increase/decrease in liabilities and other equity and liabilities not attributable to investing or financing activities	36,616	-1,353	37,969
Other non-cash expenses/income (net)	1,652	222	1,430
Cash flows from operations	**139,326**	**160,461**	**-21,135**
Income taxes paid	-44,198	-18,138	-26,060
Net cash from operating activities	**95,128**	**142,323**	**-47,195**
Purchases of intangible assets	-3,164	-1,927	-1,237
Disposals of property, plant and equipment	2,007	2,437	-430
Purchases of property, plant and equipment	-49,248	-37,826	-11,422
Purchases of shares in consolidated companies	0	-1,110	1,110
Other purchases attributable to investing activities	-1,301	-439	-862
Net cash used in investing activities	**-51,706**	**-38,865**	**-12,841**
Dividend payment	-26,204	0	-26,204
Proceeds from new borrowings	8,609	1,187	7,422
Repayment of promissory note loans and borrowings	-5,418	-3,334	-2,084
Purchases of shares in consolidated companies	-2,848	0	-2,848
Purchases of treasury shares	0	-728	728
Disposals of treasury shares	318	0	318
Interest received	1,574	1,559	15
Interest paid	-7,810	-7,696	-114
Dividends received	60	65	-5
Net cash used in financing activities	**-31,719**	**-8,947**	**-22,772**
Net change in cash and cash equivalents	11,703	94,511	-82,808
Effects of exchange rate changes and changes in the composition of the consolidated group on cash and cash equivalents	727	428	299
Cash and cash equivalents at beginning of period	140,391	45,452	94,939
Cash and cash equivalents at end of period	**152,821**	**140,391**	**12,430**

The notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity
for the period from 1 January 2009 to 31 December 2010

Consolidated statement of changes in equity

EUR k	Issued capital	Retained earnings	Currency translation differences	Treasury shares	Total for WILO SE	Non-controlling interests	**Total Equity**
1 January 2009	26,000	280,620	–16,758	–7,829	282,033	424	**282,457**
Consolidated net income 2009	0	68,297	0	0	68,297	276	**68,573**
Purchases of treasury shares	0	0	0	–728	–728	0	**–728**
Currency translation differences	0	0	2,076	0	2,076	16	**2,092**
Owner transactions	0	–839	0	0	–839	–271	**–1,110**
Other changes	0	563	0	0	563	–33	**530**
31 December 2009	**26,000**	**348,641**	**–14,682**	**–8,557**	**351,402**	**412**	**351,814**
1 January 2010	26,000	348,641	–14,682	–8,557	351,402	412	**351,814**
Consolidated net income 2010	0	70,874	0	0	70,874	252	**71,126**
Dividend payment	0	–26,204	0	0	–26,204	0	**–26,204**
Disposals of treasury shares	0	0	0	318	318	0	**318**
Currency translation differences	0	0	10,677	0	10,677	105	**10,782**
Owner transactions	0	–1,809	0	0	–1,809	–1,039	**–2,848**
Other changes	0	–244	0	17	–227	–58	**–285**
31 December 2010	**26,000**	**391,258**	**–4,005**	**–8,222**	**405,031**	**–328**	**404,703**

The notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

for the 2010 financial year

(1.) General information

WILO SE ("the company") has its registered office in Dortmund, Germany, and is the parent company of the Wilo Group. The Group's core business is the production and worldwide sale of machinery, notably liquid pumps and appliances. The Wilo Group develops, manufactures and markets pumps and building technology systems, primarily for heating, refrigeration, air conditioning and ventilation systems, for water supply and for sewage and effluent disposal.

(2.) Basis of preparation

The consolidated financial statements of WILO SE as at 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable for 2010. WILO SE exercises the option provided for in section 315a (3) of the Handelsgesetzbuch (HGB – German Commercial Code) and is therefore not required to prepare consolidated financial statements in accordance with German commercial law. For equivalence with consolidated financial statements prepared in accordance with German commercial law, the disclosure requirements of section 315a (1) HGB are met in addition to the IFRS disclosure requirements. The consolidated financial statements are prepared in accordance with IFRS, including the IAS standards still in effect, as amended at the reporting date. The consolidated financial statements are fully in compliance with IFRS and present an accurate account of the Group's financial position and performance.

A number of items of the income statement and statement of financial position have been combined for clarity of presentation. These items are reported and explained separately in the notes. The consolidated income statement has been prepared using the cost of sales method.

All amounts are in thousands of euro (EUR thousand). The annual financial statements of subsidiaries outside the European Monetary Union are translated from local currency into euro.

(3.) Adoption of new and amended standards

The following new interpretations and amendments to existing standards and interpretations effective for the first time in the 2010 financial year in their current form had no significant impact on the consolidated financial statements of WILO SE:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
- Amendments to IFRS 1 Additional Exemptions for First-time Adopters
- Amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Designation as Hedged Items
- Amendments to IAS 39 Reclassification of Financial Assets: First-time Adoption and Transition
- 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
- IFRIC 18 Transfers of Assets from Customers
- Various amendments as part of the annual Improvements to International Financial Reporting Standards

The following standards, amendments to existing standards and interpretations issued by the IASB and IFRIC are not yet effective in the 2010 financial year or have not yet been endorsed by the EU. WILO SE is not planning early adoption of these standards, amendments to existing standards or interpretations:

- Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures
- Amendments to IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- Amendments to IAS 24 Related Party Disclosures
- Amendments to IAS 32 Classification of Rights Issues
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Various amendments as part of the annual Improvements to International Financial Reporting Standards

The first-time adoption of these standards, amendments to existing standards and interpretations will have no significant effect on the consolidated financial statements of WILO SE.

(4.) Basis of consolidation

The consolidated financial statements include WILO SE and all significant companies that WILO SE controls directly or indirectly. WILO SE controls an entity when it holds more than half of the voting rights in a company or it can otherwise govern its financial and operating policies so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is achieved until it ends. The statements of financial position and income statements of these entities are included in the consolidated financial statements in accordance with IAS 27.

In addition to WILO SE, the consolidated financial statements as at 31 December 2010 include four German entities (previous year: six) and 55 foreign entities (previous year: 57) in which WILO SE directly or indirectly holds the majority of voting rights. Three subsidiaries (previous year: two) are not included in the consolidated financial statements.

In the 2010 financial year, WILO SE increased its majority holding in the Indian subsidiary Mather and Platt Pumps Ltd., Pune, India, from 93.2 percent to 99.9 percent. Mather and Platt Pumps Ltd. first acquired treasury shares from minority interests as part of a buy-back program at a price of INR 275 per share and then reduced its own share capital by withdrawing the shares acquired. The acquisition of treasury shares incurred costs of EUR 2,848 thousand, deducted directly from equity in full in the separate financial statements of Mather and Platt Pumps Ltd.

The increase in the majority shareholding is accounted for as an owner transaction at Group level. The EUR 1,809 thousand difference between the cost of the shares acquired and withdrawn of EUR 2,848 thousand and the pro rata carrying amount of the 6.7 percent minority interest was offset against retained earnings and reported in the consolidated statement of changes in equity under "Owner transactions".

A list of all of WILO SE's direct and indirect shareholdings can be found in the annex to the notes to the consolidated financial statements.

(5.) Consolidation methods

The financial statements of the German and foreign companies included in the consolidated financial statements were prepared using uniform accounting policies. Subsidiaries whose financial year does not end on the same date as the consolidated financial statements (31 December) prepare interim financial statements as at this date.

Business combinations are accounted for using the acquisition method in accordance with IFRS 3, with all hidden assets and liabilities disclosed. The assets, liabilities and contingent liabilities of the acquiree identified in accordance with IFRS 3 are measured at fair value at the acquisition date and offset against the purchase price of the acquisition in capital consolidation. The net fair value of any assets and liabilities not acquired is accounted for as minority interest. Any excess of the purchase price over the value of acquired, remeasured equity is capitalised as goodwill and tested for impairment annually at the level of the cash-generating unit to which the goodwill is allocated. If the acquired equity exceeds the purchase price of the buyer, difference is reassessed and recognised in profit and loss.

Intangible assets are recognised separately from goodwill if they can be separated from the company or result from a contractual or other right. Under IFRS 3, restructuring provisions are not re-recognised on purchase price allocation.

An increase in the shareholding in a controlled and thereby fully consolidated company is treated in the consolidated financial statements as a transaction between owners under IFRS 3. The difference between the cost of the shares acquired and the minority interests of these shares is offset against the Group's retained earnings.

Shares in jointly controlled entities are accounted for using the equity method in accordance with IAS 31.

Intragroup sales, income, expenses, receivables, payables and contingent liabilities are eliminated. Profits and losses resulting from intragroup trading and recognised in inventories are eliminated. Any temporary differences arising on consolidation are accounted for by recognising deferred tax items as appropriate.

(6.) Currency translation

Foreign-currency transactions in the separate financial statements of WILO SE and consolidated subsidiaries are translated into functional currency at the transaction date exchange rate. Foreign-currency monetary assets and liabilities are translated at the average rate on the reporting date and any exchange gains or losses are recognised in profit and loss. Non-monetary assets and liabilities measured at cost are translated at the transaction date exchange rate. Non-monetary items measured at fair value are translated at the measurement date exchange rate.

Items in the separate financial statements of consolidated entities are measured in the currency of the primary economic environment (functional currency). Financial statements prepared in functional currencies other than the euro are translated into euro. The reporting currency used in the consolidated financial statements is the euro. All assets and liabilities are translated at the reporting date exchange rate. Consolidated income statement items are translated for inclusion in the consolidated financial statements at annual average rates, which closely approximate the transaction date exchange rates. Translation differences are accounted for as a separate component of equity until a subsidiary is disposed of.

Translation differences on certain intragroup foreign-currency loans and receivables treated in accordance with IAS 21 as part of the entity's net investment in a foreign operation are recognised directly in equity under currency translation differences.

No restatement in accordance with IAS 29 was necessary in 2010 as the Wilo Group does not have any subsidiaries in hyperinflationary economies.

The main exchange rates used in currency translation are as follows:

Exchange rates

		Annual average rate		Rate as at 31 December	
	1 euro =	**2010**	**2009**	**2010**	**2009**
Pound sterling	GBP	0.8575	0.8907	0.8630	0.8932
Chinese renminbi (yuan)	CNY	8.9329	9.5279	8.7697	9.7660
Indian rupee	INR	60.4041	67.4647	59.6528	66.8570
South Korean won	KRW	1,531.2611	1,770.8065	1,507.2414	1,675.1088
Russian rouble	RUB	40.2052	44.2682	40.5280	43.3528
Swiss franc	CHF	1.3693	1.5089	1.2442	1.4886
Turkish lira	TRY	1.9975	2.1674	2.0625	2.1633
US dollar	USD	1.3213	1.3955	1.3282	1.4303

(7.) Accounting policies

The financial statements of WILO SE and its domestic and foreign subsidiaries are prepared using uniform accounting policies in accordance with IAS 27. Items presented in the statement of financial position are broken down into current and non-current items. An asset or liability is classified as current if it is expected to be realised within twelve months of the end of the reporting period.

Estimates and assumptions

Preparation of consolidated financial statements in line with IASB standards requires management to make estimates and assumptions that affect the amounts and reporting of recognised assets and liabilities, income and expenses and contingent assets and liabilities. The preparers of the consolidated financial statements have a certain amount of discretion.

Essentially the following matters are affected by estimates and assumptions:

- Assessment of impairment on goodwill
- Measurement of intangible assets and items of property, plant and equipment
- Assessment of impairment on trade receivables
- Recognition and measurement of provisions for pensions and similar obligations
- Recognition and measurement of other provisions

In goodwill impairment testing, the recoverable amount of cash-generating units is measured as the higher of fair value less costs to sell and value in use. Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of a cash-generating unit in an arm's length transaction. Value in use is the present value of the future cash flows expected to be derived from continuing use of a cash-generating unit. Changes in influencing factors can affect the fair value and value in use, which can in turn lead to the recognition of impairment losses.

For intangible assets and items of property, plant and equipment, the useful lives used consistently throughout the Group are based on management estimates. Moreover, if necessary, impairment tests determine the recoverable amount of an asset or the cash-generating unit assigned to the asset as the higher of fair value less costs to sell or the value in use. Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of an asset in an arm's length transaction. Value in use is the present value of the future cash flows expected to be derived from continuing use of an asset. Changes in influencing factors can affect the fair value and value in use, which can in turn lead to the recognition of impairment losses or reversals of impairment losses.

Credit risks and risks of default can arise for trade receivables to the extent that customers do not meet their payment obligations and asset losses occur as a result. The necessary write-downs are calculated taking into account the credit rating of the customer, any collateral and experience of historical default rates. The actual default on payment by the customer can differ from the expected default on account of the underlying factors.

The amount and probability of utilisation are estimated for the recognition and measurement of other provisions. The measurement is based on the most likely settlement amount or the expected settlement amount if there are equal probabilities. The amount of actual utilisation can differ from estimates.

Provisions for pensions and similar obligations are based on the parameters and assumptions explained under “Provisions for pensions and similar obligations” (note (7)).

The assumptions and estimates are based on current knowledge and the data currently available. Actual developments can differ from estimates. If the actual amounts differ from those estimated, the carrying amounts of the relevant assets and liabilities are adjusted accordingly.

Expense and revenue recognition

Revenue is normally recognised when service is rendered or goods are delivered. Net sales are presented net of trade discounts and rebates. Cost includes all direct costs and overheads incurred in generating revenue, including depreciation on production machinery. This item also includes amounts recognised for guarantee provisions. Operating expenses are recognised in profit and loss when service is rendered or the expenses incurred. Interest income and interest expenses are recognised on an accrual basis.

Administrative expenses and selling expenses

Administrative expenses and selling expenses include attributable labour and material costs plus depreciation applicable to each functional area.

Research and development costs

Development costs are capitalised as intangible assets at cost and amortised over their useful lives, provided the capitalisation criteria described in IAS 38 are met. Development costs that do not meet the capitalisation criteria in accordance with IAS 38 and research costs are reported as a separate line item in the income statement. The recognition criteria for the capitalisation of development costs in accordance with IAS 38 were not met in 2010 or 2009.

Borrowing costs

Borrowing costs are recognised in profit and loss, provided they do not relate directly to the acquisition, development or production of qualifying assets. If this is the case, these direct borrowing costs are capitalised as incidental costs of acquisition of the qualifying asset. Qualifying assets are assets which require a substantial period of time to bring them to a condition suitable for use or sale. Borrowing costs of EUR 313 thousand were capitalised in the 2010 financial year (previous year: EUR 55 thousand). The borrowing cost rate applied, which formed the basis for determining the capitalisable borrowing costs, was 5.40 percent in the year under review (previous year: 5.11 percent).

Intangible assets

Acquired intangible assets with a finite useful life are capitalised at cost and amortised on a straight-line basis over their useful lives (three to five years in the Wilo Group). The amortisation for the financial year is allocated to the corresponding functional areas. In accordance with IFRS 3 and IAS 38 in conjunction with IAS 36, goodwill and acquired intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they have become impaired. If impairment testing of goodwill or of acquired intangible assets with indefinite useful lives shows the goodwill or the asset to be impaired, the impairment loss is recognised under other operating expenses.

Property, plant and equipment

Physical assets used in the business for longer than one year are measured at cost less straight-line depreciation. Cost comprises the purchase price plus all directly attributable costs incurred in bringing an asset to the location and condition necessary for it to be capable of operating. Useful lives are based on the standard depreciation of the assets. The estimated useful life of a building is between ten and 60 years; leasehold improvements and buildings on third-party land are depreciated over the shorter of the lease term or their useful life. The useful lives for technical equipment and machinery are up to 14 years. Operating and office equipment subject to normal use are depreciated over three to thirteen years. Significant assets that meet the criteria set out in IAS 16 are accounted for using the component approach. The depreciation for the financial year is allocated to the corresponding functional areas.

Leases

If the requirements for classification as a finance lease under IAS 17 are met, the relevant property, plant and equipment are capitalised at the lower of fair value or the present value of minimum lease payments and depreciated on a straight-line basis over the shorter of the economic life or the term of the lease if the leased asset is not acquired by the lessee at the end of the lease term. On first-time recognition of finance leases under IAS 17, the capitalised amount and the liability are identical.

The main finance leases relate to three operating buildings. There are also leases for IT equipment. Leased property is returned to the lessor at the end of the lease term.

Where consolidated companies are lessees under operating leases, lease payments are recognised directly as expense in profit and loss.

Impairment of assets
Assets are tested for impairment at the end of each reporting period. Depreciable assets are additionally tested for impairment whenever there is an indication that their carrying amount may exceed their recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

Goodwill is tested for impairment at least once per financial year and whenever there are indications that it may have become impaired. In impairment testing, the recoverable amount of cash-generating units is measured as the higher of fair value less costs to sell and value in use. Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of a cash-generating unit in an arm's length transaction. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. The recoverable amount is measured using the discounted cash flow method on the basis of approved planning over a strategic planning horizon of up to five years. An appropriate, unit-specific growth factor is applied. The plans are based on past experience and projected market development. The product divisions of the Wilo Group were restructured in the 2010 financial year and now comprise the *Circulators, Pumps & Systems* and *Submersible & HighFlow* divisions. These are broken down by product groups and applications to form the cash-generating units. In impairment testing, goodwill and all other assets are allocated to cash-generating units and compared to the recoverable amount of the respective cash-generating unit. If the recoverable amount of a cash-generating unit is less than the carrying amounts of the goodwill and all other assets allocated to it less liabilities, an impairment loss must be recognised in profit and loss. An impairment loss is deducted from the goodwill allocated to the cash-generating unit and then pro rata from the other assets in the unit. Impairment losses are reported in other operating expenses in profit and loss.

The discount rate used in annual impairment testing of cash-generating units is determined on the basis of market data. A rate of 6.9 percent after taxes was used in the 2010 financial year (previous year: 8.1 percent). The growth factor for the cash-generating units is up to 0.9 percent (previous year: 1.1 percent).

Investments carried at equity
Investments in jointly controlled entities are measured using the equity method of accounting and reported under "Investments carried at equity". The proportionate consolidation method is not used.

Financial assets
Financial assets comprise loans and receivables, acquired equity and debt securities, cash and cash equivalents and derivatives that are assets. Within the Wilo Group, these financial assets are reported under trade receivables, other financial assets and cash and cash equivalents.

Financial assets are recognised and measured in line with IAS 39. Accordingly, financial assets are reported in the consolidated statement of financial position if the Wilo Group has a contractual right to receive cash or other financial assets from another party in accordance with IAS 32. A financial asset is initially recognised at cost. Non-interest-bearing receivables or receivables subject to low interest rates are carried at the present value of the expected future cash flows on first-time recognition.

Subsequent measurement is in line with the classification of financial assets into the following categories in accordance with IAS 39, each of which is subject to different measurement rules:

Financial assets at fair value through profit and loss and financial assets held for trading comprise financial assets held for trading. Any changes in the fair value of financial assets in this category are recognised in profit and loss at the time their value increases or decreases. At the Wilo Group, this category consists exclusively of financial assets held for trading.

Loans and receivables are non-derivative financial assets that are not quoted on an active market. They are measured at amortised cost. This category includes trade receivables as well as receivables and loans classified as other financial assets. The interest income from items in this category is calculated using the effective interest method, provided they are not current receivables and the effect of discounting is immaterial.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity to which they are held. These are measured at amortised cost using the effective interest method. No financial assets of this category were reported by the Wilo Group as at 31 December 2010 and 2009.

Available-for-sale financial assets comprise non-derivative financial assets that are not classified in one of the above categories. These include in particular equity securities (e.g. shares) which are contained in other financial assets. Any changes in the fair value of available-for-sale financial assets in this category are recognised directly in equity. Impairment is recognised in profit and loss only on disposal, unless the fair value over a longer period of time is greater or materially less than amortised cost. In cases where the fair value of equity and debt securities can be determined, this is recognised as fair value.

If no quoted market price exists and no reliable estimate of fair value can be made, these financial assets are measured at cost less impairment expenses. Available-for-sale financial assets in the Wilo Group consist mainly of financial assets for which no quoted market price exists and no reliable estimate of fair value can be made. These comprise shares in unconsolidated subsidiaries and associated companies not accounted for at equity.

If financial assets categorised as loans and receivables, held-to-maturity investments and available-for-sale financial assets that are measured at amortised cost show objective, substantial indications of impairment, they are tested to see if the carrying amount exceeds the present value of the expected future cash flows. If this is the case, an impairment loss is recognised in the amount of the difference. Indications for an impairment include several years of operating losses in a company, a reduction of market value, material deterioration of credit rating, significant default on payment, a particular breach of contract, the high probability of insolvency or other form of financial restructuring on the part of the debtor or the disappearance of an active market. If the reasons for impairment losses recognised in the past no longer apply, they are reversed as appropriate to the maximum of the amortised cost.

Financial assets are derecognised if the contractual rights to payments from the financial assets no longer exist or the financial assets are transferred with all material risks and opportunities.

Inventories

Raw materials and supplies and merchandise are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Work in progress and finished goods are carried at cost. This includes all costs directly attributable to production and appropriate portions of production overheads. Production overheads include production-related depreciation, pro rata administration costs and pro rata social security costs. Cost does not include borrowing costs. Discounts are recognised on raw materials and supplies and merchandise for quality and functional defects and for risks of failure to sell.

Inventories are measured as at the end of the reporting period at the lower of cost on the one hand and net realisable value less estimated costs to sell on the other.

Derivatives

Derivatives are used in the Wilo Group to reduce exchange rate, interest rate and commodity price risk. These instruments are hedges from an economic perspective, but do not meet the requirements of IAS 39 for hedge accounting. The Wilo Group therefore does not use hedge accounting as defined by IAS 39.

Measurement is performed using standard measurement methods based on market parameters specific to each instrument. The market values are calculated using present value and option pricing models. Where possible, the relevant market prices and interest rates at the end of the reporting period are used as the input parameters for these models. All changes in fair value are taken directly to profit and loss.

The fair value of forward exchange contracts is determined using the mean spot exchange rate at the end of the reporting period and taking into account the forward premiums and discounts for the remaining contract term compared to the agreed forward exchange rate. The market value of interest rate swaps is determined by discounting the expected future cash flows with the market rates applicable for the remaining contract term. Commodity futures are measured on the basis of quoted market prices and forward premiums and discounts. Commodity options are measured using option pricing models. The fair value of derivative financial instruments is calculated by banks.

Changes in the fair value of derivatives as at the end of the reporting period are taken directly to profit and loss under other net finance costs. Income and expenses from the realisation of derivatives are disclosed in the income statement in the item in which the effects of hedged items are reported. Income or expenses from the realisation of forward exchange contracts or forward exchange options are recognised under other operating income or expenses, provided the hedged item is assigned to the operating area and the income and expenses from the measurement of this item were recognised accordingly in other operating income and expenditure. If the item relates to financing activities, corresponding income and expenses from the realisation of forward exchange contracts is reported in other net finance costs. Income or expenses from the realisation of interest rate and currency swaps are disclosed in net interest income. Income or expenses from the realisation of commodity futures and options without physical delivery are reported in cost of sales.

Other receivables and assets

Other receivables and assets primarily include tax receivables, advance payments, reinsurance assets, deferrals, and receivables from employees that are not financial assets. These other receivables and assets are measured at amortised cost.

Deferred taxes

Deferred tax assets and liabilities are recognised in accordance with IAS 12 for all temporary differences between the carrying amount of an asset or liability in the IFRS financial statements and its tax base. Deferred tax assets are also recognised in respect of the expected utilisation of unused tax loss carryforwards in subsequent years provided the tax loss carryforwards are sufficiently likely to be utilised. Deferred tax assets are tested for impairment as at the end of the reporting period. The Wilo Group also recognises deferred tax liabilities for the tax expenses to arise on the expected profit distributions by the consolidated subsidiaries to WILO SE in 2011.

Deferred tax assets and liabilities are measured at the tax rates that apply or that are expected to apply at the realisation date according to the current legal situation in the individual countries. Deferred tax assets are only offset against deferred tax liabilities if they relate to the same taxation authority and have matching terms. Information on the deferred taxes as at 31 December 2010 is provided in note (8.10).

Government grants

In accordance with IAS 20, a government grant is only recognised if there is reasonable assurance of compliance with the conditions attached to it and that the grant will be received. Research and investment grants received by the Wilo Group are recognised in profit and loss over the periods necessary to match them to the costs they are intended to compensate. Investment subsidies are recognised as deferred income and reversed to profit and loss over the term of the subsidised assets.

Equity

Treasury shares are measured at cost and reported separately as a deduction from equity.

Financial liabilities

Financial liabilities comprise primary liabilities and derivative liabilities classified as financial liabilities at fair value through profit and loss or financial liabilities held for trading in accordance with IAS 39. In the Wilo Group, financial liabilities consist of liabilities due to banks, trade payables and liabilities reported under other financial liabilities.

Primary liabilities are recognised in the consolidated statement of financial position if the Wilo Group has a contractual obligation to transfer cash or other financial assets to another party in accordance with IAS 32. Primary liabilities are measured at the cost of consideration or the cash received on first-time recognition. In subsequent measurement, finance lease liabilities are carried at the present value of lease payments at the inception of the lease. All other financial liabilities classified as financial liabilities measured at amortised cost are carried at their settlement amount or amortised cost using the effective interest method. Non-interest-bearing financial liabilities and those subject to low rates of interest are discounted using the market interest rate. Financial liabilities are derecognised if the contractual obligations are discharged, cancelled or expire.

Other liabilities

Other liabilities mainly comprise tax liabilities, advance payments received, deferrals and liabilities to employees that are not financial liabilities as defined by IAS 32. These are measured at amortised cost.

Provisions for pensions and similar obligations

Defined contribution plans

Obligations under defined contribution plans are determined by contributions payable for the period under review.

Defined benefit plans

Provisions are recognised for uncertain liabilities from pension obligations. In accordance with IAS 19, pension provisions for defined benefit obligations are calculated using the internationally recognised projected unit credit method. The calculations are based on actuarial appraisals and biometric parameters. Actuarial gains and losses are recognised using the corridor method to the extent that they exceed 10.0 percent of the defined benefit obligation and assets of a third-party provider. Recognised actuarial gains and losses are amortised over the remaining working lives of participating employees. The expense relating to provisions for pensions, with the exception of the interest portion reported in net finance costs, is allocated to the relevant functional areas. The amount of defined benefit obligations was determined using actuarial methods, for which estimates are essential.

The calculations for pension obligations use the following parameters, shown here on a weighted-average basis:

Calculation parameters for pension obligations

in %	31.12.2010	31.12.2009
Interest rate	4.52	4.91
Pension adjustment	1.99	2.11
Salary increase	2.85	2.97
Fluctuation rate	4.11	4.49

The expected return on plan assets allocated for pension obligations is 4.16 percent (previous year: 4.04 percent), estimated on the basis of historical data and stated on a weighted-average basis.

The actuarial present value of pension obligations calculated using the projected unit credit method is reduced by the amount of the corresponding assets at the third-party pension provider if the requirements of IAS 19 for plan assets are met.

Other provisions

Provisions for taxes include current income tax liabilities. Other provisions are recognised in accordance with IAS 37 when there is an obligation to a third party resulting from a past event, settling the obligation will probably require an outflow of resources in future and the amount of the obligation can be reliably estimated. Non-current provisions for obligations not expected to result in an outflow of resources in the subsequent year are recognised at the net present value of the expected outflow of resources. The discount rate is based on market interest rates. The settlement amount includes expected cost increases. Provisions are remeasured as at the end of each reporting period. Provisions are not offset against rights of recourse.

(8.) Notes to the consolidated income statement

(8.1) Net sales

Net sales break down according to the following regions:

Net sales

	2010		2009	
	EUR k	%	EUR k	%
Europe	571,486	56.0	544,021	58.7
Asia Pacific	214,026	21.0	170,026	18.4
EMEA	141,596	13.9	117,110	12.6
Others	94,307	9.1	94,940	10.3
Total	**1,021,415**	**100.0**	**926,097**	**100.0**

(8.2) Cost of sales

This item consists of costs of the products and merchandise sold.

Cost of sales

EUR k	2010	2009
Cost of materials	-428,285	-390,136
Staff costs	-100,212	-96,852
Depreciation and amortisation of intangible assets and property, plant and equipment	-21,421	-20,504
Third-party maintenance	-7,423	-6,101
Other staff costs	-3,677	-2,477
Rental payments	-3,483	-3,522
Travel and entertainment expenses	-2,281	-1,765
Other	-38,814	-35,753
Total	**-605,596**	**-557,110**

(8.3) Selling expenses

Selling expenses

EUR k	2010	2009
Staff costs	-103,202	-94,407
Advertising costs	-25,236	-20,118
Outgoing freight	-21,495	-19,159
Sales force	-16,267	-15,429
Rental payments	-9,916	-8,981
Depreciation and amortisation of intangible assets and property, plant and equipment	-4,670	-4,578
Write-downs on trade receivables (net)	-1,891	-3,796
Legal and consulting costs	-1,015	-970
Defaults	-792	-736
Other	-23,007	-18,307
Total	**-207,491**	**-186,481**

(8.4) Administrative expenses

Administrative expenses are costs of administration not attributable to production, development or sales.

Administrative expenses

EUR k	2010	2009
Staff costs	-34,448	-30,811
Legal and consulting costs	-9,031	-5,704
Depreciation and amortisation of intangible assets and property, plant and equipment	-6,098	-4,984
Other staff costs	-3,841	-4,556
Travel and entertainment expenses	-2,359	-1,863
Rental payments	-1,658	-1,955
Communication costs	-1,556	-1,585
Other	-13,649	-13,212
Total	**-72,640**	**-64,670**

(8.5) Research and development costs

Research and development costs

EUR k	2010	2009
Staff costs	–19,538	–18,747
Third-party maintenance	–7,176	–9,812
Depreciation and amortisation of intangible assets and property, plant and equipment	–2,378	–2,064
Legal and consulting costs	–518	–658
Other	–4,236	–4,026
Total	**–33,846**	**–35,307**

(8.6) Other operating income

Other operating income

EUR k	2010	2009
Foreign-currency gains from operating activities	8,225	8,164
Reversal of provisions for bonuses	2,411	2,257
Charges passed on to third parties	2,345	2,085
Insurance compensation	952	381
Income from disposals of intangible assets and property, plant and equipment	273	1,409
Government grants	227	356
Other	5,183	5,208
Total	**19,616**	**19,860**

The foreign-currency gains from operating activities of EUR 8,225 thousand (previous year: EUR 8,164 thousand) mainly consist of gains due to exchange rate changes between the inception and settlement of foreign-currency receivables and liabilities, and foreign-currency gains resulting from measurement at the reporting date exchange rate. Foreign-currency losses of EUR 6,882 thousand (previous year: EUR 7,846 thousand) from these items are reported under other operating expenses (see note (8.7)).

As subsidiaries mostly trade with customers and suppliers in local currency, these foreign-currency gains and losses mainly arise on intragroup transactions.

(8.7) Other operating expenses

Other operating expenses

EUR k	2010	2009
Foreign-currency gains from operating activities	–6,882	–7,846
Losses on the disposal of intangible assets and property, plant and equipment	–610	–1,245
Other	–2,542	–2,380
Total	**–10,034**	**–11,471**

(8.8) Net income from investments carried at equity

Net income from investments carried at equity in the financial years 2010 and 2009 relates exclusively to the jointly controlled entity WILO Middle East LLC, Riyadh, Saudi Arabia, which has had no operating activities since November 2008. Preparations are underway to open the official liquidation process.

(8.9) Net finance costs

Net finance costs break down as follows:

Net finance costs

EUR k	2010	2009
Net interest income	–6,236	–6,137
Other net finance costs	–1,531	15,557
Total	**–7,767**	**9,420**

Net interest income consists of the following interest income and expenses:

Net interest income

EUR k	2010	2009
Interest income on cash and cash equivalents and loans granted	990	977
Settlement of derivative financial instruments	584	582
Interest income	**1,574**	**1,559**
Interest expenses on financial liabilities	-7,548	-7,329
Interest on finance leases	-262	-367
Interest expenses	**-7,810**	**-7,696**
Total	**-6,236**	**-6,137**

Other net finance costs break down as follows:

Other net finance costs

EUR k	2010	2009
Gains on derivative financial instruments	11,378	23,828
Foreign-currency gains from financing activities	890	1,932
Dividends from associates	60	65
Other provisions	0	56
Other financial income	**12,328**	**25,881**
Losses on derivative financial instruments	-6,662	-7,175
Foreign-currency losses from financing activities	-4,796	-834
Unwinding of discount on non-current provisions and liabilities	-2,401	-2,254
Other provisions	0	-61
Other financial expenses	**-13,859**	**-10,324**
Total	**-1,531**	**15,557**

Gains and losses on derivative financial instruments in the financial years 2010 and 2009 essentially result from positive and negative utilisation and measurement effects of commodity derivatives used to hedge prices for commodities prices within the Wilo Group. In the 2010 financial year, the net utilisation and measurement of commodity derivatives increased net financial income by EUR 1.7 million. In the previous year, this positive effect amounted to EUR 23.1 million.

EUR 3,876 thousand of the foreign-currency losses from financing activities of EUR 4,796 thousand relate to the translation of the bonds issued in 2006 of originally EUR 67.5 million (USD 80.0 million) (see note (9.11)). In the previous year, there was a gain on the currency translation of these bonds of EUR 802 thousand, which was reported under foreign-currency gains from financing activities of EUR 1,932 thousand. The other foreign currency gains and losses from financing activities result from the translation of intragroup foreign-currency loans.

The bonds are fully hedged against currency risks by way of interest and currency swaps. These derivative liabilities had a negative fair value of EUR 5,506 thousand as at the end of the reporting period (previous year: EUR 8,886 thousand). The gain in the measurement of these interest rate and currency swaps of EUR 3,380 thousand (previous year: loss of EUR 4,503 thousand) is reported under gains from derivative financial instruments (previous year: losses on derivative financial instruments).

(8.10) Income taxes

Income taxes

EUR k	2010	2009
Current tax expense	–33,989	–30,955
Prior-period tax expense/income	–617	753
Current income taxes	**–34,606**	**–30,202**
Deferred tax income/expense	2,075	–1,242
Income taxes	**–32,531**	**–31,444**

The calculation of current income taxes in Germany for 2010 is based on a combined statutory tax rate of 15.8 percent for corporation tax and the solidarity surcharge plus trade tax approximating 15.0 percent (previous year: 30.8 percent). As in the previous year, foreign entities are subject to local income tax rates ranging from 10.0 percent to 40.0 percent.

Deferred taxes are also measured using this combined tax rate of 30.8 percent (previous year: 30.8 percent).

Deferred tax income includes the amount of EUR 102 thousand resulting from the reversal of a prior write-down of a deferred tax asset.

Deferred taxes by item
Deferred tax assets and liabilities are recognised as follows in relation to measurement differences on individual items of the statement of financial position and tax loss carryforwards:

Deferred taxes by item

	Deferred tax assets		Deferred tax liabilities	
EUR k	2010	2009	2010	2009
Intangible assets	102	66	1,890	1,700
Property, plant and equipment	764	691	6,198	6,604
Inventories	5,381	4,114	57	84
Receivables and other assets	1,814	1,918	1,481	887
	8,061	**6,789**	**9,626**	**9,275**
Financial liabilities	0	0	2,469	3,670
Trade payables	613	148	1	0
Provisions for pensions and similar obligations	4,129	4,668	33	24
Other provisions and liabilities	7,490	6,711	5,919	4,709
Tax loss carryforwards	1,113	328	0	0
	13,345	**11,855**	**8,422**	**8,403**
Carrying amount	**21,406**	**18,644**	**18,048**	**17,678**

Unutilised tax loss carryforwards amounted to EUR 40,800 thousand (previous year: EUR 29,674 thousand) as at the end of the reporting period, EUR 2,239 thousand of which (previous year: EUR 2,147 thousand) can be carried forward indefinitely. The limited tax loss carryforwards amount to EUR 38,561 thousand (previous year: EUR 27,527 thousand) and can be carried forward for up to 20 years. Applying local income tax rates, the deferred tax assets on loss carry-forwards would amount to EUR 13,653 thousand (previous year: EUR 9,190 thousand). EUR 12,540 thousand (previous year: EUR 8,862 thousand) of this total was not recognised as at the end of the reporting period as it was not sufficiently likely that they will be utilised in future.

As WILO SE is anticipating profit distributions from its consolidated subsidiaries next year, total deferred tax liabilities of EUR 800 thousand have been recognised on these distributions.

Reconciliation of income taxes

The combined statutory tax rate of 15.8 percent consisting of corporation tax and the solidarity surcharge plus the trade tax of approximately 15.0 percent (previous year: 30.8 percent) was used to calculate deferred taxes in Germany for the 2010 financial year.

The Wilo Group reported tax expenses of EUR 32,531 thousand (previous year: EUR 31,444 thousand) in its consolidated income statement for 2010. This is EUR 605 thousand higher (previous year: EUR 629 thousand higher) than the forecast tax expense of EUR 31,926 thousand (previous year: EUR 30,815 thousand) that results from applying the domestic rate of 30.8 percent (previous year: 30.8 percent) at Group level.

The difference is attributable to the following causes:

Tax reconciliation statement

EUR k	2010	2009
Consolidated net income before taxes	103,657	100,017
Expected tax expense	**-31,926**	**-30,815**
Tax rate changes	65	-176
Difference from foreign tax rates	5,426	4,034
Goodwill impairment and other consolidation adjustments	362	387
Other permanent differences	-1,593	-3,118
Tax-free income	1,212	1,429
Unrecognised deferred taxes on tax loss carryforwards	-3,678	-2,902
Withholding tax	-1,683	-762
Prior-period taxes	-617	753
Other	-99	-274
Current tax expense	**-32,531**	**-31,444**

(8.11) Consolidated net income

Consolidated net income

EUR k	2010	2009
Earnings before interest and taxes (EBIT)	**111,424**	**90,918**
Net income from investments carried at equity	0	-321
Net finance costs	-7,767	9,420
Consolidated net income before taxes	**103,657**	**100,017**
Income taxes	-32,531	-31,444
Consolidated net income after taxes	**71,126**	**68,573**

EBIT is stated before net income from investments carried at equity, net finance costs and income taxes. EBIT and consolidated net income are calculated according to the income and expenses posted in the consolidated income statement. Net interest income is included in the consolidated income statement in net finance costs.

(8.12) Earnings per share

Earnings per share are determined by dividing consolidated net income attributable to WILO SE shareholders by the weighted average number of shares outstanding in the financial year. Both basic and diluted earnings per share amount to EUR 7.31 (previous year: EUR 7.04) after deducting consolidated net income attributable to non-controlling interests.

Earnings per share

	2010	2009
Consolidated net income after taxes in EUR k	71,126	68,753
of which: attributable to non-controlling interests in EUR k	252	276
of which: attributable to shareholders of WILO SE in EUR k	70,874	68,297
Number of shares as at 31.12.	9,705,000	9,693,000
Weighted average number of shares outstanding	9,701,300	9,699,875
Earnings per share (EUR)	**7.31**	**7.04**

(9.) Notes to the statement of financial position

(9.1) Intangible assets

Intangible assets developed as follows in the financial years 2010 and 2009:

Intangible assets

EUR k	Patents and property rights	Goodwill	Advance payments	**Total**
Cumulative cost				
As at 1 January 2009	22,212	61,349	160	**83,721**
Currency translation	10	693	0	**703**
Additions	1,405	0	522	**1,927**
Disposals	-1,493	0	-4	**-1,497**
Reclassifications	569	0	-552	**17**
As at 31 December 2009	**22,703**	**62,042**	**126**	**84,871**
As at 1 January 2010	22,703	62,042	126	**84,871**
Currency translation	140	1,181	0	**1,321**
Additions	3,040	0	124	**3,164**
Disposals	-253	0	0	**-253**
Reclassifications	143	0	-115	**28**
As at 31 December 2010	**25,773**	**63,223**	**135**	**89,131**
Cumulative amortisation				
As at 1 January 2009	17,710	7,340	0	**25,050**
Currency translation	11	124	0	**135**
Amortisation in the financial year	2,463	0	0	**2,463**
Disposals	-1,316	0	0	**-1,316**
Reclassifications	-28	0	0	**-28**
As at 31 December 2009	**18,840**	**7,464**	**0**	**26,304**
As at 1 January 2010	18,840	7,464	0	**26,304**
Currency translation	121	219	0	**340**
Amortisation in the financial year	2,536	0	0	**2,536**
Disposals	-253	0	0	**-253**
Reclassifications	7	0	0	**7**
As at 31 December 2010	**21,251**	**7,683**	**0**	**28,934**
Residual carrying amounts				
As at 1 January 2009	4,502	54,009	160	**58,671**
As at 31 December 2009	**3,863**	**54,578**	**126**	**58,567**
As at 1 January 2010	3,863	54,578	126	**58,567**
As at 31 December 2010	**4,522**	**55,540**	**135**	**60,197**

The additions to patents and property rights mainly relate to software purchases. Software has a finite useful life and is amortised over three years.

Goodwill is tested for impairment at least annually. Detailed information on impairment testing is provided in note (7).

The goodwill impairment test performed in the 2010 financial year did not result in any impairment requirements for the cash-generating units.

Goodwill allocated to the product divisions developed as follows in the 2010 financial year:

Development of goodwill

EUR k Division	1.1.2010	Currency translation	31.12.2010
Submersible & HighFlow	30,011	209	30,220
Pumps & Systems	17,534	668	18,202
Circulators	7,033	85	7,118
Total	**54,578**	**962**	**55,540**

(9.2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2010 and 2009 financial years:

Property, plant and equipment

EUR k	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under development	Total
Cumulative cost					
As at 1 January 2009	99,275	123,353	165,444	14,956	**403,028**
Currency translation	124	382	568	–18	**1,056**
Additions	3,447	7,033	14,832	12,514	**37,826**
Changes in the consolidated group	0	0	2	0	**2**
Disposals	–100	–2,752	–7,786	–282	**–10,920**
Reclassifications	6,501	7,189	6,014	–19,721	**–17**
As at 31 December 2009	**109,247**	**135,205**	**179,074**	**7,449**	**430,975**
As at 1 January 2010	109,247	135,205	179,074	7,449	**430,975**
Currency translation	3,076	2,170	2,293	159	**7,698**
Additions	6,569	9,384	14,748	18,547	**49,248**
Disposals	–5,786	–4,541	–7,646	–52	**–18,025**
Reclassifications	112	3,454	4,449	–8,043	**–28**
As at 31 December 2010	**113,218**	**145,672**	**192,918**	**18,060**	**469,868**
Cumulative depreciation					
As at 1 January 2009	34,547	83,853	119,736	0	**238,136**
Currency translation	111	247	534	0	**892**
Depreciation in the financial year	3,348	9,209	17,110	0	**29,667**
Reclassifications	0	0	28	0	**28**
Disposals	–41	–2,682	–6,108	0	**–8,831**
As at 31 December 2009	**37,965**	**90,627**	**131,300**	**0**	**259,892**
As at 1 January 2010	37,965	90,627	131,300	0	**259,892**
Currency translation	536	981	1,502	0	**3,019**
Depreciation in the financial year	3,480	9,214	19,337	0	**32,031**
Reclassifications	0	36	–43	0	**–7**
Disposals	–5,150	–4,284	–6,247	0	**–15,681**
As at 31 December 2010	**36,831**	**96,574**	**145,849**	**0**	**279,254**
Residual carrying amounts					
As at 1 January 2009	64,728	39,500	45,708	14,956	**164,892**
As at 31 December 2009	**71,282**	**44,578**	**47,774**	**7,449**	**171,083**
As at 1 January 2010	71,282	44,578	47,774	7,449	**171,083**
As at 31 December 2010	**76,387**	**49,098**	**47,069**	**18,060**	**190,614**

Property, plant and equipment includes leased assets in the amount of EUR 4,097 thousand (previous year: EUR 7,104 thousand) classified as finance leases under IAS 17 and of which the Group holds beneficial ownership. The net carrying amounts are as follows:

Net carrying amounts of finance leases

EUR k	31.12.2010	31.12.2009
Buildings	1,448	4,147
Technical equipment and machinery	0	184
Operating and office equipment	2,649	2,773
Total	**4,097**	**7,104**

The total future minimum lease payments and the reconciliation to their present value are shown in the table below. The carrying amount of the corresponding liabilities as at the end of the reporting period was EUR 4,784 thousand (previous year: EUR 5,064 thousand).

Minimum lease payments

EUR k	31.12.2010	31.12.2009
Total minimum lease payments	5,174	5,712
Interest portion	-390	-648
Present value	**4,784**	**5,064**
Due within one year	1,769	1,715
Due in one to five years	3,015	3,321
Due after five years	0	28

(9.3) Operating leases

Total future minimum lease payments on operating leases are shown in the table below.

Operating leases

EUR k	31.12.2010	31.12.2009
Total minimum lease payments	**40,286**	**33,529**
Due within one year	12,716	10,297
Due in one to five years	21,243	18,879
Due after five years	6,327	4,353

The operating leases mainly relate to rent for properties and operating and office equipment. Lease payments of EUR 15,457 thousand (previous year: EUR 14,816 thousand) were recognised in profit and loss in the year under review.

(9.4) Investments carried at equity

The investments carried at equity solely consist of shares in the jointly controlled entity WILO Middle East LLC, Riyadh, Saudi Arabia, which has had no operating activities since November 2008. Preparations are underway to open the official liquidation process.

(9.5) Inventories

Inventories

EUR k	31.12.2010	31.12.2009
Raw materials and supplies	45,892	36,316
Work in progress	17,941	16,562
Finished goods and goods for resale	90,874	77,940
Advance payments	356	347
Total	**155,063**	**131,165**

The write-down on inventories results from the difference between the lower of cost on the one hand and the net realisable value less estimated costs to sell on the other. As at 31 December 2010, the write-down on inventories amounted to EUR 22,725 thousand (previous year: EUR 18,191 thousand) based on a gross carrying amount of EUR 177,788 thousand (previous year: EUR 149,356 thousand). Write-downs on inventories of EUR 4,534 thousand (previous year: EUR 570 thousand) were recognised in profit and loss in cost of sales in the period under review. Inventories are not subject to any restrictions on title beyond the suppliers' customary retention of title.

(9.6) Trade receivables

The trade receivables result from normal goods and services transactions in the Wilo Group. Current trade receivables of EUR 204,685 thousand (previous year: EUR 180,618 thousand) are due in 2011. Non-current trade receivables of EUR 4,654 thousand (previous year: EUR 3,224 thousand) are due after more than one year. There are no restrictions on title on trade receivables.

The Executive Board is of the opinion that the carrying amounts of trade receivables are approximately equal to their fair values. Adequate provision is made for default risk by write-downs in the form of specific and general valuation allowances. Specific valuation allowances are recognised on the basis of information available in a specific case as at the end of the reporting period. Specific valuation allowances are recognised in an appropriate amount in relation to any legal, collection or insolvency proceedings against debtors, overdue payments, complaints, third-party collateral, changes in agreed terms of payment and all other transactions or information affecting the collectability of trade receivables. General valuation allowances are recognised on the basis of past experience as to the general credit risk and country risk of debtors. Specific and general valuation allowances are reported in separate adjustment accounts. Objectively uncollectable receivables are derecognised.

Valuation allowances on trade receivables are recognised in separate adjustment accounts. Specific and general valuation allowances on trade receivables changed as follows in the 2010 and 2009 financial years:

Specific valuation allowances

EUR k	2010	2009
As at 1 January	8,289	5,561
Additions	2,229	3,621
Utilisation	-239	-258
Reversals	-400	-635
As at 31 December	**9,879**	**8,289**

General valuation allowances

EUR k	2010	2009
As at 1 January	2,893	2,102
Additions	685	1,318
Utilisation	-374	-19
Reversals	-623	-508
As at 31 December	**2,581**	**2,893**

(9.7) Other financial assets

Other financial assets break down as follows as at 31 December 2010 and 2009:

Other financial assets

	31.12.2010			31.12.2009		
		of which with a remaining term			of which with a remaining term	
EUR k	Total	< 1 year	> 1 year	Total	< 1 year	> 1 year
Receivables from non-consolidated subsidiaries, jointly controlled entities and associates	921	904	17	417	417	0
Receivables from derivative financial instruments	7,332	5,399	1,933	5,107	5,023	84
Loans	1,091	0	1,091	1,038	0	1,038
Available-for-sale financial assets	362	0	362	258	0	258
Other financial receivables	8,567	5,270	3,297	6,253	4,691	1,562
Total	**18,273**	**11,573**	**6,700**	**13,073**	**10,131**	**2,942**

Available-for-sale financial assets include equity securities of EUR 355 thousand (previous year: EUR 245 thousand) whose fair value could not be derived from stock exchange or market prices, or from discounting reliably determined future cash flows. These equity securities were measured at amortised cost.

There was no reclassification of available-for-sale financial assets in the year under review. The Executive Board estimates that the carrying amounts of other financial assets are approximately equal to their fair values. There are no restrictions on other financial assets.

(9.8) Other receivables and assets

Other receivables and assets are composed as follows as at 31 December 2010 and 2009:

Other receivables and assets

	31.12.2010			31.12.2009		
		of which with a remaining term			of which with a remaining term	
EUR k	Total	< 1 year	> 1 year	Total	< 1 year	> 1 year
Tax assets	17,996	17,941	55	6,831	6,797	34
Advance payments	4,321	4,303	18	3,865	3,847	18
Reinsurance assets	5,131	0	5,131	3,876	0	3,876
Deferred expenses	1,545	1,545	0	2,156	2,156	0
Employee receivables	904	904	0	712	712	0
Total	**29,897**	**24,693**	**5,204**	**17,440**	**13,512**	**3,928**

(9.9) Cash and cash equivalents

The cash and cash equivalents of EUR 152,821 thousand (previous year: EUR 140,391 thousand) mainly comprise cash and sight deposits at banks. There are restrictions on title of EUR 179 thousand (previous year: EUR 98 thousand).

(9.10) Equity

Issued capital

The share capital of WILO SE amounted to EUR 26,000 thousand as at the reporting date and is fully paid in. The share capital is divided into 10,000,000 registered no-par shares with restricted transferability.

Retained earnings

The legal reserve in retained earnings in accordance with section 150(2) of the Aktiengesetz (AktG – German Stock Corporation Act) amounts to 10.0 percent of the issued capital of the Group parent WILO SE.

Retained earnings developed as follows in the 2010 and 2009 financial years:

Retained earnings

EUR k	2010	2009
As at 1 January	348,641	280,620
Consolidated net income attributable to the shareholders of WILO SE	70,874	68,297
Dividend payment	-26,204	0
Owner transactions	-1,809	-839
Other changes	-244	563
As at 31 December	**391,258**	**348,641**

More detailed information on owner transactions can be found in note (4).

Currency translation differences

Currency translation differences consist of all translation differences arising on the translation of foreign-currency financial statements of consolidated subsidiaries and entities plus translation differences on certain intragroup foreign-currency loans and receivables treated in accordance with IAS 21 as part of the entity's net investment in a foreign operation.

Treasury shares

As at 31 December 2010, the company reported 295,000 treasury shares (previous year: 307,000) as a result of disposals during the year with a carrying amount of EUR 8,222 thousand (previous year: EUR 8,557 thousand), accounted for as a deduction from equity.

The number of shares outstanding changed as follows in the period under review:

Shares outstanding

Number of shares	2010	2009
As at 1 January	9,693,000	9,720,500
Purchases of treasury shares	0	-27,500
Disposals of treasury shares	12,000	0
As at 31 December	**9,705,000**	**9,693,000**

Non-controlling interests

Non-controlling interests are held by shareholders in Mather and Platt Pumps Ltd., Pune, India (0.1 percent) and Mather and Platt Fire Systems Ltd., Pune, India (44.5 percent).

Dividends

In the 2010 financial year, dividends of EUR 26,204 thousand were distributed to the shareholders of WILO SE. This corresponds to a dividend per share of EUR 2.70. No dividends were distributed to shareholders in the previous year.

The extraordinary general meeting of WILO SE resolved the distribution of a special dividend of EUR 41,750 thousand on 4 February 2011. The special dividend will be distributed in addition to the ordinary dividend from the unappropriated surplus of WILO SE resolved on 13 April 2010 and results in a partial change to the resolution on the appropriation of profits of 13 April 2010. The special dividend relates solely to the 7,263,724 shares held by the Caspar Ludwig Opländer Foundation as the other shareholders waived their right to participate in the distribution of a special dividend. The special dividend paid to the Caspar Ludwig Opländer Foundation has a notional amount of EUR 5.75 per share (rounded).

Capital management
A business objective of the Wilo Group is to sustain the strongest possible equity base in order to foster confidence in all key stakeholders and promote the Group's onward development. A sound equity base is also a key factor in ensuring a stable risk rating with lenders, which is important for obtaining acceptable borrowing terms for the Wilo Group.

The Executive Board, the Supervisory Board and the shareholders of WILO SE ensure a responsible dividend policy and an appropriate return on invested capital to promote value growth and safeguard the company's future.

The Executive Board of WILO SE is kept informed about the equity position of the Wilo Group as part of monthly reporting. The equity positions of consolidated subsidiaries are also reviewed at regular intervals and on an ad hoc basis. Measures are implemented as necessary, taking the tax and legal frameworks into account, to sustain an appropriate capital base that enables each subsidiary to attain its operating targets and the Wilo Group to meet its strategic goals.

The total equity of the Wilo Group as at 31 December 2010 was EUR 404,703 thousand (previous year: EUR 351,814 thousand). This is mostly accounted for by EUR 391,258 thousand (previous year: EUR 348,641 thousand) in freely disposable retained earnings. Retained earnings were reduced by the difference of EUR 1,809 thousand (previous year: EUR 839 thousand) resulting from the buy-back and withdrawal of shares in Mather and Platt Pumps Ltd. in the 2010 financial year. This difference is reported in the consolidated statement of changes in equity under "Owner transactions". More detailed information on the buy-back and withdrawal of shares in Mather and Platt Pumps Ltd. can be found under note (4).

In the context of the borrowing of bonds and promissory note loans, WILO SE is required to report a minimum amount of equity and a minimum equity ratio. The company satisfied this requirement in full in the 2010 and 2009 financial years. More detailed information on these bonds and promissory note loans can be found in note (9.11).

Management participation programme
At the end of 2010/start of 2011, WILO SE restructured its management participation programme. This includes the members of the Supervisory Board and Executive Board of WILO SE.

As part of the restructuring, WILO SE first bought back 65,000 shares in WILO SE held by members of the Supervisory Board and the Executive Board in accordance with purchase and transfer agreements dated 19 December 2010 for an amount of EUR 2,005 thousand effective 4 January 2011. WILO SE then sold all its treasury shares, which amounted to 360,000 shares, to the members of the Executive Board of WILO SE in accordance with purchase and transfer agreements dated 20 December 2010 for a purchase price of EUR 14,818 thousand effective 9 February 2011. Under the restructuring, the measurement of treasury shares was changed from a modified Stuttgart approach to an EBIT method.

Finally, WILO SE performed a capital increase of EUR 15,507 thousand. On 20 December 2010, the Annual General Meeting of WILO SE resolved to increase the share capital of the company by EUR 980 thousand from EUR 26,000 thousand to EUR 26,980 thousand. The capital increase will be performed against cash contributions by issuing 117,331 new, registered ordinary shares with a pro rata share of capital of EUR 2.60 each and by issuing 259,418 new, registered preference shares without voting rights with a pro rata share of capital of EUR 2.60 each. The issue amount for the new shares is

EUR 2.60 per share plus a premium of EUR 38.56 per share and therefore EUR 41.16 per share in total. The total premium amounts to EUR 14,527 thousand and will be transferred to the capital reserves of WILO SE. The new ordinary and preference shares will be issued solely to the members of the Supervisory Board and the Executive Board of WILO SE. The members of the Supervisory Board and the Executive Board of WILO SE will hold a total of 7.1 percent in the share capital of WILO SE after the restructuring of the management participation programme.

The Annual General Meeting on 20 December 2010 also resolved the adjustment of the Articles of Association of WILO SE in line with the capital increase. Under the amended Articles of Association of WILO SE, the new preference shares in particular will receive a preferred profit distribution, whereby the preference shares without voting rights will automatically receive a profit share of EUR 0.01 from the unappropriated surplus for the year per preference share. Both the resolved capital increase and the approved amendment to the Articles of Association of WILO SE must be entered in the commercial register in order to take effect. The resolutions were reported for entry in the responsible commercial register in February 2011. Their entry is still pending.

(9.11) Financial liabilities

Financial liabilities break down as follows as at 31 December 2010 and 2009:

Financial liabilities

EUR k	31.12.2010	31.12.2009
Non-current financial liabilities		
with a remaining term		
of between one and five years	46,154	47,531
of more than five years	29,813	29,928
	75,967	**77,459**
Current financial liabilities		
with a remaining term		
of less than one year	**31,275**	**22,686**

Non-current financial liabilities

Effective 21 March 2006, WILO SE issued bonds ("USPP 2013/2016") as part of a US private placement with a total amount of originally EUR 67.5 million (USD 80 million, in two tranches of USD 40 million each) maturing in 2013 and 2016 with fixed interest of 5.28 percent and 5.33 percent respectively. The bonds had a carrying amount of EUR 59.6 million as at the end of the reporting period (previous year: EUR 55.7 million) and are hedged against currency fluctuations by way of derivative financial instruments. However, the hedge accounting regulations of IAS 39 have not been applied. They are also not secured against real property or financial assets of the company. The company is required to satisfy certain standard financial ratios (ratio collateral pledged to total assets, ratio of consolidated net debt to consolidated EBITDA and a minimum equity requirement). WILO SE fully complied with this obligation in the 2010 and 2009 financial years. The agreement also includes a number of standard grounds for termination.

In the 2008 financial year, WILO SE issued a promissory note loan ("promissory note loan 2015") of EUR 25.0 million maturing in 2015, repayable in semi-annual instalments of EUR 2.1 million and with a fixed interest rate of 5.54 percent. The promissory note loan had a carrying amount of EUR 18.7 million (previous year: EUR 22.9 million) as at the end of the reporting period, which was broken down into a current and non-current portion in accordance with the repayment plan. It is not secured against real property or financial assets of the company. The company is required to satisfy certain standard financial ratios (ratio of consolidated EBITDA to consolidated interest expenses, ratio of consolidated net debt to consolidated EBITDA and a minimum equity ratio). WILO SE fully complied with this obligation in the 2010 and 2009 financial years. The agreement also includes a number of standard grounds for termination.

In particular, financial liabilities also include two loans (previous year: two loans) with a total volume of EUR 10.0 million. These had a carrying amount of EUR 3.1 million (previous year: EUR 4.4 million) as at the end of the reporting period, which was broken down into a current and non-current portion in accordance with the repayment plan. The loans mature in 2013, are repaid semi-annually in the amount of EUR 0.6 million and bear interest at 3.90 percent and 4.05 percent p.a. Furthermore, these two loans are secured as at 31 December 2010 by land charges of EUR 10.0 million on the company's premises at Heimgartenstrasse 1–3, Hof, Germany.

The fair value of the financial liabilities, calculated by banks using net present value models, was EUR 117,512 thousand (previous year: EUR 114,710 thousand) as at 31 December 2010.

Irrespectively of the, at times, precarious situation in the banking and financial sector, WILO SE borrowed additional capital of EUR 100.0 million as part of its long-term financing strategy at the start of 2011. The additional borrowing consisted of a bond of EUR 75.0 million (USD 98.2 million) issued as part of a US private placement with a lender in February 2011. This bond has a bullet maturity in 2021 and bears interest at 4.50 percent p.a. It is the first bond issued by WILO SE as part of a private shelf facility (non-binding borrowing facility). The private shelf facility has a total volume with the same lender of USD 150.0 million.

Furthermore, in January 2011, a promissory note loan was placed with a lender in the amount of EUR 25.0 million, maturing in 2020, repayable semi-annually from 2011 in the amount of around EUR 1.2 million and bearing interest at 4.08 percent p.a.

The company is required to satisfy certain standard financial ratios (ratio of consolidated EBITDA to consolidated interest expenses, ratio of consolidated net debt to consolidated EBITDA and a minimum equity ratio) under the two new borrowing arrangements. Both agreements also include a number of standard grounds for termination. The two new borrowing arrangements are not secured against real property or financial assets of the company.

Current financial liabilities

Current financial liabilities mainly consist of overdrafts and the current portion of non-current financial liabilities to be repaid in the 2011 financial year.

Maturity structure

The following table shows the maturity structure of all financial liabilities of the Wilo Group as at 31 December 2010 and 2009.

Maturity structure of financial liabilities

As at 31 December 2010

EUR million	Nominal volumes	Carrying amount	Maturity structure 2011	2012	2013	2014	2015	2016	2017	Total
USPP 2013/2016	USD 80.0 million	59.6	0.0	0.0	29.8	0.0	0.0	29.8	0.0	59.6
Promissory note loan 2015	EUR 25.0 million	18.7	4.1	4.2	4.1	4.2	2.1	0.0	0.0	18.7
Other loans	EUR 10.0 million	3.1	1.3	1.2	0.6	0.0	0.0	0.0	0.0	3.1
		81.4	**5.4**	**5.4**	**34.5**	**4.2**	**2.1**	**29.8**	**0.0**	**81.4**
Overdraft		25.8	25.8	0.0	0.0	0.0	0.0	0.0	0.0	25.8
Financial liabilities		107.2	31.2	5.4	34.5	4.2	2.1	29.8	0.0	107.2

As at 31 December 2009

EUR million	Nominal volumes	Carrying amount	Maturity structure 2010	2011	2012	2013	2014	2015	2016	Total
USPP 2013/2016	USD 80.0 million	55.7	0.0	0.0	0.0	27.8	0.0	0.0	27.9	55.7
Promissory note loan 2015	EUR 25.0 million	22.9	4.2	4.1	4.2	4.1	4.2	2.1	0.0	22.9
Other loans	EUR 10.0 million	4.4	1.3	1.3	1.2	0.6	0.0	0.0	0.0	4.4
		83.0	**5.5**	**5.4**	**5.4**	**32.5**	**4.2**	**2.1**	**27.9**	**83.0**
Overdraft		17.1	17.1	0.0	0.0	0.0	0.0	0.0	0.0	17.1
Financial liabilities		100.1	22.6	5.4	5.4	32.5	4.2	2.1	27.9	100.1

(9.12) Trade payables

Trade payables break down as follows as at 31 December 2010 and 2009:

Trade payables

EUR k	31.12.2010	31.12.2009
Trade payables		
with a remaining term		
of between one and five years	1,240	1,218
of less than one year	92,916	69,804

Trade payables consist of outstanding obligations to suppliers. The Executive Board assumes that the carrying amounts of non-current trade payables are approximately equal to their fair values.

(9.13) Other financial liabilities

Other financial liabilities break down as follows as at 31 December 2010 and 2009:

Other financial liabilities

EUR k	31.12.2010	31.12.2009
Non-current other financial liabilities		
Liabilities from derivative financial instruments		
with a remaining term		
of between one and five years	3,926	4,849
of more than five years	2,451	4,712
Finance lease liabilities		
with a remaining term		
of between one and five years	3,015	3,321
of more than five years	0	28
Miscellaneous financial liabilities		
with a remaining term		
of between one and five years	1,531	1,566
of more than five years	311	321
Total	**11,234**	**14,797**
Current other financial liabilities		
Bills payable	10,388	6,984
Liabilities to non-consolidated subsidiaries, jointly controlled entities and associated companies	3,025	2,655
Finance lease liabilities	1,769	1,715
Liabilities from derivative financial instruments	594	44
Miscellaneous financial liabilities	23,728	17,706
Total	**39,504**	**29,104**

Current other financial liabilities have a remaining term of less than one year. Miscellaneous financial liabilities include amounts for tax consulting services, annual financial statements, commission, del credere commission and other financial obligations to third-party companies. The Executive Board assumes that the carrying amounts of other financial liabilities are approximately equal to their fair values.

(9.14) Other liabilities

Other financial liabilities as at 31 December 2010 and 2009 break down as follows:

Other liabilities

EUR k	31.12.2010	31.12.2009
Non-current other liabilities		
Deferred income	1,651	1,494
Advance payments received on account of orders	62	0
Total	**1,713**	**1,494**
Current other liabilities		
Tax liabilities	24,846	22,959
Staff liabilities	22,284	18,216
Advance payments received on account of orders	7,581	8,162
Social security liabilities	4,933	4,728
Deferred income	876	543
Miscellaneous other liabilities	2,259	2,292
Total	**62,779**	**56,900**

Non-current other liabilities have a remaining term of between one and five years. Current other financial liabilities have a remaining term of less than one year.

Staff liabilities include accumulated holiday pay, management bonuses and gratuities, outstanding salaries, employer's liability insurance contributions and severance pay.

(9.15) Provisions for pensions and similar obligations

Provisions for pensions and similar obligations were composed as follows as at 31 December 2010 and 2009:

Provisions for pensions and similar obligations

EUR k	31.12.2010	31.12.2009
Provisions for pensions	37,432	36,320
Provisions for similar obligations	8,773	8,784
Total	**46,205**	**45,104**

Provisions for pensions

Provisions for pensions are recognised for defined benefit obligations under defined benefit plans for eligible active and former employees of the Wilo Group and their surviving dependants. The benefit amount depends on country-specific circumstances and is generally based on years of service and pay level. The provisions are recognised on the basis of annual actuarial assessments of existing pension obligations. Defined benefit obligations are recognised in accordance with the actuarial assessment over the service life of employees and consist of staff cost and interest cost. Pension expenses are allocated to the relevant functional areas. Interest cost is included in other net finance costs. Actuarial gains and losses exceeding 10.0 percent of the maximum of the defined benefit obligation and plan assets are distributed over the average remaining working lives of active beneficiary employees. WILO SE's defined benefit plan was discontinued on 31 December 2005. A defined contribution plan has been set up in its place for WILO SE employees for whom a pension obligation has existed from 1 January 2006. An expense of EUR 741 thousand (previous year: EUR 2,873 thousand) was recognised in 2010 for defined contribution plans in the Wilo Group.

The notes on provisions for pensions are as follows:

1. Provisions for pensions developed as follows:

Development of provisions for pensions

EUR k	2010	2009
As at 1 January	36,320	35,936
Pension expenses	2,851	2,672
Pension payments	-1,660	-2,356
Changes in the composition of the consolidated group, currency translation and other changes	-79	68
As at 31 December	**37,432**	**36,320**

There are reinsurance policies to hedge provision-funded pension obligations in the amount of EUR 4,573 thousand (previous year: EUR 3,331 thousand) though these do not satisfy the requirements for classification as plan assets under IAS 19.

2. Pension expenses are made up as follows:

Pension expenses

EUR k	2010	2009
Current service cost	870	780
Past service cost	8	0
Interest expense	2,033	2,121
Expected return on plan assets	-106	-129
Repayment amount for actuarial losses/gains (-)	46	-100
Total	**2,851**	**2,672**

As at 31 December 2010, there was a total actuarial loss of EUR 5,134 thousand (previous year: loss of EUR 3,565 thousand), EUR 4,560 thousand of which is within the 10.0 percent corridor at Group level. The amount outside the corridor for 2010 of EUR 573 thousand will be distributed over the average remaining working lives of active beneficiary employees from 2011. The previous year's actuarial loss of EUR 3,565 thousand was fully within the 10.0 percent corridor at Group level of EUR 4,267 thousand.

3. The present value of benefit obligations developed as follows:

Present value of defined benefit obligations

EUR k	2010	2009
As at 1 January	42,672	36,324
Current service cost	870	780
Interest expense	2,033	2,121
Past service cost	0	102
Increase in actuarial losses	1,569	5,703
Pension payments	–1,660	–2,356
Changes in the composition of the consolidated group, currency translation and other changes	117	–2
As at 31 December	**45,601**	**42,672**
of which funded	4,895	3,771
of which unfunded	40,706	38,901

The EUR 1,569 thousand increase in the actuarial loss to EUR 5,134 thousand as at the end of the reporting period essentially results from a lower average discounting rate as against the previous year of 4.52 percent (previous year: 4.91 percent). 87.1 percent of pension obligations of EUR 45,601 thousand (previous year: EUR 42,672 thousand) relate to Germany (previous year: 88.9 percent).

4. The fair value of plan assets changed as follows:

Fair value of plan assets

EUR k	2010	2009
As at 1 January	3,225	3,122
Expected return	106	129
Actuarial losses	–9	–20
Payments received	183	0
Changes in the composition of the consolidated group, currency translation and other changes	14	–6
As at 31 December	**3,519**	**3,225**

Plan assets mainly consist of qualifying insurance policies with a minimum return. They do not include any financial instruments issued by the Wilo Group or any property or other assets used by the Wilo Group. The actual return on plan assets in the year under review was EUR 68 thousand (previous year: EUR 77 thousand). The company does not currently expect any further payments into plan assets in the coming years.

5. The present value of defined benefit obligations and the fair value of plan assets are reconciled to provisions for pensions as follows:

Reconciliation to provisions for pensions

EUR k	31.12.2010	31.12.2009
Present value of funded defined benefit obligations	4,895	3,771
Less attributable fair value of plan assets	–3,519	–3,225
	1,376	**546**
Present value of unfunded defined benefit obligations	40,706	38,901
Past service cost	0	102
Actuarial loss	–5,134	–3,565
	36,948	**35,984**
Foreign plan assets included in assets	384	321
Changes in the composition of the consolidated group, currency translation and other changes	100	15
Provisions for pensions	**37,432**	**36,320**

6. The present value of defined benefit obligations and the fair value of plan assets on the last five reporting dates are shown below:

Plan surplus/deficit

EUR k	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Present value of defined benefit obligations	45,601	42,672	36,324	38,528	45,165
Fair value of plan assets	–3,519	–3,225	–3,122	–3,114	–2,955
Deficit	**42,082**	**39,447**	**33,202**	**35,414**	**42,210**

Provisions for similar obligations

Provisions for similar obligations amounted to EUR 8,773 thousand (previous year: EUR 8,784 thousand) in 2010. They include partial retirement obligations for WILO SE of EUR 5,658 thousand (previous year: EUR 6,537 thousand). The EUR 1,364 thousand (previous year: EUR 1,182 thousand) fair value of plan assets as at the end of the reporting period is deducted insofar as it relates to obligations under the partial retirement scheme. The remaining plan assets of EUR 557 thousand (previous year: EUR 545 thousand) not attributable to obligations under the partial retirement scheme are reported under reinsurance assets in non-current other assets. The present value of the obligations under the partial retirement scheme as at 31 December 2010 was determined using a discounting rate of 5.16 percent (previous year: 4.85 percent). Moreover, as in the previous year, an annual wage and salary increase of 2.40 percent was assumed (previous year: 3.00 percent).

(9.16) Other provisions

Non-current and current provisions for guarantee are recognised for potential warranty claims on the basis of past experience and planned measures.

The provision for bonuses and rebates mainly relates to customer reimbursement for the 2010 financial year.

Other provisions

EUR k	1.1.2010	Currency translation	Utilisation	Reversal	Additions	31.12.2010
Non-current						
Guarantees	4,143	44	62	213	597	4,509
Current						
Guarantees	16,429	316	258	2,091	4,050	18,446
Bonuses and rebates	20,282	185	18,056	2,411	22,788	22,788
Other provisions	7,933	146	3,244	1,295	5,383	8,923
Total	**44,644**	**647**	**21,558**	**5,797**	**32,221**	**50,157**

(10.) Notes to the consolidated statement of cash flows

The consolidated statement of cash flows is broken down according to cash flows from operating, investing and financing activities. Under the revised IAS 27, proceeds from and payments for disposals or acquisitions of shares in companies already controlled are now reported under cash flows from financing activities rather than cash flows from investing activities. In the 2010 financial year, the subsidiary Mather and Platt Pumps Ltd., Pune, India, acquired treasury shares from minority shareholders. Accordingly, the purchase price paid for these shares of EUR 2,848 thousand was reported as "Purchases of shares in consolidated companies" under cash flow from financing activities.

The effects of exchange rate changes and changes in the composition of the consolidated group on cash and cash equivalents are shown separately. Cash and cash equivalents as at 31 December 2010 consisted of EUR 152,821 thousand (previous year: EUR 140,391 thousand) in cash and sight deposits with banks, EUR 179 thousand (previous year: EUR 98 thousand) of which was subject to restrictions on title.

The consolidated statement of cash flow starts with earnings before interest and taxes (EBIT) derived from the consolidated income statement (see note (8.11)). The changes in cash due to exchange rate changes of EUR 727 thousand relate exclusively to the effect of translating foreign-currency items of cash and cash equivalents into the reporting currency. Detailed information on the consolidated statement of cash flows can be found under "Financial position" in the Group management report.

(11.) Segment reporting

The Wilo Group's segment reporting is prepared, in line with IFRS 8 Operating Segments, according to the internal organisation and management structure as well as the monthly reports to the Executive Board and Supervisory Board of WILO SE. On the basis of a matrix-like organisation within the Wilo Group, regional managers work together with the managers of the product divisions and market segments. The reports to the Executive Board and the Supervisory Board are also organised accordingly. Management decisions and measures by the WILO SE Executive Board are made and performed mainly on the basis of the regional financial ratios of net sales and EBIT. Thus, the regions represent the operating segments within segment reporting.

In the 2010 financial year, the Wilo Group reorganised its regional sales structure, which now comprises the following four reportable operating segments with the corresponding countries:

- *Europe*: all European states except Russia, Belarus and Ukraine
- *Asia Pacific:* India, China, South Korea, Southeast Asian nations, Australia and Oceania
- *EMEA:* Russia, Belarus, Ukraine, Caucasus nations, Gulf nations, African nations
- *Others:* Nations of the American continent and other nations not assigned to the above regions

Segment information is prepared in conformity with the accounting policies used for the underlying consolidated financial statements. Segment figures are stated after consolidation of intra-segment and inter-segment transactions.

Net sales by segment show transactions with third parties and with companies not included in the consolidated financial statements in which the Wilo Group has an interest, and are allocated by customer domicile. Sales between reportable, operating segments are eliminated.

Segment EBIT shows earnings before interest and taxes including any amounts attributable to non-controlling interests.

Segment assets are not shown as they are not a component of the internal monthly reports within the Wilo Group.

Segment information according to the new sales structure for the 2010 and 2009 financial years is as follows:

Segment information

2010

EUR k	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**571,486**	**214,026**	**141,596**	**94,307**	**1,021,415**
Segment EBIT	**79,253**	**11,633**	**19,542**	**996**	**111,424**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	24,041	5,910	3,160	1,456	34,567
of which non-cash expenses	29,282	2,573	1,092	868	33,815

2009

EUR k	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**544,021**	**170,026**	**117,110**	**94,940**	**926,097**
Segment EBIT	**68,181**	**9,746**	**12,149**	**842**	**90,918**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	21,803	4,932	4,187	1,208	32,130
of which non-cash expenses	29,551	3,032	1,009	478	34,070

EBIT in the Group is based on consolidated net income after taxes as follows:

Earnings before interest and taxes (EBIT)

EUR k	2010	2009
Earnings before interest and taxes (EBIT)	111,424	90,918
Net income from investments carried at equity	0	–321
Net finance costs	–7,767	9,420
Consolidated net income before taxes	103,657	100,017
Income taxes	–32,531	–31,444
Consolidated net income after taxes	**71,126**	**68,573**

Net sales break down as follows among the product groups:

Net sales by product group

EUR k	2010	2009
Products for		
Building Services	756,363	688,116
Water Management und *Industry*	265,052	237,981
Total	**1,021,415**	**926,097**

(12.) Financial instrument disclosures

(12.1) Derivative financial instruments

The following table shows the fair values of derivative financial instruments as at 31 December 2010 and the changes as against the previous year.

Derivative financial instruments

	Fair value					Notional amount	
	Time to maturity as of 31 December 2010						
EUR k	Less than one year	Between one and five years	More than five years	Previous year	Total change	31.12.2010	31.12.2009
Forward exchange contracts	–129	20	0	–416	307	35,716	21,810
Interest rate and currency swaps	0	–3,761	–2,451	–9,090	2,878	73,509	76,499
Commodity derivates	4,934	1,746	0	5,008	1,672	20,053	15,711

Net finance costs include gains of EUR 11,378 thousand (previous year: EUR 23,828 thousand) and losses of EUR 6,662 thousand (previous year: EUR 7,175 thousand) (see note (8.9)).

(12.2) Disclosures on the carrying amounts and fair values of financial assets

The following tables show the financial assets and liabilities with their carrying amounts as at 31 December 2010 and 2009 per measurement category. Finance lease liabilities have also been included, even though they are not assigned to an IAS 39 measurement category.

Financial assets and liabilities as at 31 December 2010

		Carrying amount under IAS 39			
EUR k	Measurement category under IAS 39	Amortised cost	Fair value	Carrying amount under IAS 17	**Carrying amount as at 31.12.2010**
Current and non-current financial assets					
Trade receivables	L&R	209,339			209,339
Other financial assets					
Receivables from non-consolidated subsidiaries, jointly controlled entities and associates	L&R	921			921
Receivables from derivative financial instruments	FAHfT		7,332		7,332
Loans	L&R	1,091			1,091
Available-for-sale financial assets	AfS	355	7		362
Miscellaneous financial receivables	L&R	8,567			8,567
Cash and cash equivalents	L&R	152,821			152,821
Current and non-current financial liabilities					
Financial liabilities	FLAC	107,242			107,242
Trade payables	FLAC	94,156			94,156
Other financial liabilities					
Bills payable	FLAC	10,388			10,388
Liabilities to non-consolidated subsidiaries, jointly controlled entities and associated companies	FLAC	3,025			3,025
Finance lease liabilities	n.a.			4,784	4,784
Liabilities from derivative financial instruments	FLHfT		6,971		6,971
Miscellaneous financial liabilities	FLAC	25,570			25,570
of which aggregated by measurement category under IAS 39					
Loans and Receivables (L&R)		372,739			372,739
Available for Sale (AfS)		355	7		362
Financial Assets Held for Trading (FAHfT)			7,332		7,332
Financial Liabilities measured at Amortised Cost (FLAC)		240,381			240,381
Financial Liabilities Held for Trading (FLHfT)			6,971		6,971

Financial assets and liabilities as at 31 December 2009

EUR k	Measurement category under IAS 39	Carrying amount under IAS 39: Amortised cost	Carrying amount under IAS 39: Fair value	Carrying amount under IAS 17	**Carrying amount as at 31.12.2009**
Current and non-current financial assets					
Trade receivables	L&R	183,842			183,842
Other financial assets					
Receivables from non-consolidated subsidiaries, jointly controlled entities and associates	L&R	417			417
Receivables from derivative financial instruments	FAHfT		5,107		5,107
Loans	L&R	1,038			1,038
Available-for-sale financial assets	AfS	245	13		258
Miscellaneous financial receivables	L&R	6,253			6,253
Cash and cash equivalents	L&R	140,391			140,391
Current and non-current financial liabilities					
Financial liabilities	FLAC	100,145			100,145
Trade payables	FLAC	71,022			71,022
Other financial liabilities					
Bills payable	FLAC	6,984			6,984
Liabilities to non-consolidated subsidiaries, jointly controlled entities and associated companies	FLAC	2,655			2,655
Finance lease liabilities	n.a.			5,064	5,064
Liabilities from derivative financial instruments	FLHfT		9,605		9,605
Miscellaneous financial liabilities	FLAC	19,593			19,593
of which aggregated by measurement category under IAS 39					
Loans and Receivables (L&R)		331,941			331,941
Available for Sale (AfS)		245	13		258
Financial Assets Held for Trading (FAHfT)			5,107		5,107
Financial Liabilities measured at Amortised Cost (FLAC)		200,399			200,399
Financial Liabilities Held for Trading (FLHfT)			9,605		9,605

The carrying amounts of the financial assets and liabilities in the scope of IFRS 7 are the same as their fair value per class. This is only not the case for financial liabilities, which have a carrying amount of EUR 107,242 thousand (previous year: EUR 100,145 thousand) and a fair value of EUR 117,512 thousand (previous year: EUR 114,710 thousand). The fair values of financial liabilities are calculated by banks using net present value methods.

The financial assets in the available-for-sale category of EUR 355 thousand as at 31 December 2010 (previous year: EUR 245 thousand) are measured at amortised cost and essentially relate to the subsidiaries formed in 2009 and 2010, i.e. PT. WILO Pumps Indonesia, Jakarta, Indonesia, and WILO Saudi-Arabia Ltd., Riyadh, Saudi Arabia, in which WILO SE holds all shares. The fair value of the shares in these subsidiaries is measured at amortised cost. The fair values of these other financial assets, which are carried at amortised cost, cannot be reliably determined as they are shares in companies for which there are no quoted or other market prices. There are currently no plans to dispose of these companies.

The fair values of assets in the available-for-sale category of EUR 7 thousand (previous year: EUR 13 thousand) are derived directly or indirectly from market and quoted prices as at the end of the reporting period.

The calculation of the fair values of the receivables and liabilities from derivative financial instruments, which are assigned to the financial assets held for trading and the financial liabilities held for trading categories, of EUR 7,332 thousand (previous year: EUR 5,107 thousand) and EUR 6,971 thousand (previous year: EUR 9,605 thousand) respectively, is shown under note (7).

(12.3) Net gains and losses by measurement category

The table below shows the net earnings reported under profit and loss for the 2010 and 2009 financial years in line with IFRS 7, consisting of interest, dividends, changes in fair value, impairment, impairment reversals and the effects of currency translation on each measurement category of financial assets and liabilities. This does not include the earnings effects of finance leases as finance leases do not belong to any IAS 39 measurement category.

Net gains/losses

EUR k Measurement category	Carrying amount as at 31.12.	Interest and dividends	Changes in fair value*	Addition to write-downs	Reversals of write-downs	Foreign-currency effects	Net gains/losses
2010 financial year							
Loans and receivables	372,739	990		-2,914	1,023	67	-834
Available-for-sale	362	60					60
Financial assets/ liabilities held for trading	361	584	4,716				5,300
Financial liabilities at amortised cost	-240,381	-7,548				-3,906	-11,454
Total		**-5,914**	**4,716**	**-2,914**	**1,023**	**-3,839**	**-6,928**
2009 financial year							
Loans and receivables	331,941	977		-4,939	1,143	10	-2,809
Available-for-sale	258	65					65
Financial assets/ liabilities held for trading	-4,498	582	16,653				17,235
Financial liabilities at amortised cost	-200,399	-7,329				1,098	-6,231
Total		**-5,705**	**16,653**	**-4,939**	**1,143**	**1,108**	**8,260**

* The changes in fair value as against the previous year consist of realised and unrealised gains/losses on financial assets and liabilities classified as financial assets and financial liabilities at fair value through profit and loss.These amounts do not include interest income and expense.

(12.4) Fair value hierarchy of financial assets and liabilities

Financial assets and liabilities carried at fair value are divided into the following three levels on the basis of the measurement of their fair value in accordance with IFRS 7:

Level 1: The fair value for an asset or liability is calculated using quoted market prices on active markets for identical assets and liabilities.

Level 2: The fair value for an asset or liability is based on value factors for this asset or liability that are observed directly or indirectly on a market.

Level 3: The fair value for an asset or liability is based on value factors for this asset or liability that do not refer to observable market data.

The following table shows the allocation of financial assets and liabilities accounted for at fair value in the Wilo Group as at 31 December 2010 and 2009:

Fair value hierarchy

	31.12.2010	31.12.2009
EUR k	Level 2	Level 2
Available-for-sale financial assets	7	13
Receivables from derivative financial instruments (financial assets held for trading)	7,332	5,107
Liabilities from derivative financial instruments (financial liabilities held for trading)	6,971	9,605

The Wilo Group did not report any financial assets or liabilities classified as level 1 or 3 based on the method by which their fair value was calculated as at 31 December 2010 and 2009.

(13.) Risk management and derivative financial instruments

Risk management principles

In particular, the assets, liabilities and planned transactions of the Wilo Group are subject to market risks from changes in exchange rates, interest rates and commodity prices. The objective of financial risk management is to mitigate this risk from operating and financial activities. This is achieved using derivative and primary hedging instruments selected according to estimated risk. Derivative financial instruments are solely used to hedge risk. They are not used for trading or other speculative purposes. Hedge accounting as defined in IFRS is not applied. The general credit risk on these derivative financial instruments is low because they are only entered into with banks of excellent credit standing.

The basic principles of financial policy and strategy are determined by the Executive Board and monitored by the Supervisory Board. Responsibility for implementing financial policy and strategy lies with Group Treasury.

Further information on risks and risk management can be found in the risk report section of the Management Report on the Group.

Market risk

Currency risk

The Wilo Group faces currency risk primarily in its financing and operating activities. Currency risk in financing activities relates to foreign-currency borrowing from external lenders and foreign-currency lending to finance Group companies. Currency risk in operating activities mainly relates to the supply of goods and provision of services to Group companies. Currency risk exposure on such transactions is countered by the use of same-currency offsetting transactions and derivative financial instruments. The currency risk on operating business between Group companies and external customers and suppliers is estimated to be low as most of such business is transacted in the functional currency of the companies concerned.

The following table shows the Wilo Group's currency risk as at 31 December 2010 and 2009 resulting from foreign-currency transactions in operating activities and from foreign-currency financing activities up to 31 December 2010 and 2009, and from expected foreign-currency transactions in operating activities in 2010 and 2009. All currency risk shown relates to transactions with third parties. Moreover, only those derivative financial instruments used to hedge operating transactions and financing measures are reported.

Currency risk

	31.12.2010		31.12.2009	
	EUR k	TUSD	EUR k	TUSD
Trade receivables	4,472	2,202	3,647	2,698
Trade payables	-1,991	-1,202	-2,411	-1,743
Financial liabilities	0	-80,000	0	-80,000
Currency risk from assets and liabilities (gross)	**2,481**	**-79,000**	**1,236**	**-79,045**
Expected sales in 2010	16,822	18,541	22,606	31,371
Expected acquisitions in 2010	-11,434	-18,889	-17,249	-19,505
Currency risk from expected transactions in operating activities in 2010 (gross)	**5,388**	**-348**	**5,357**	**11,866**
Derivative financial instruments	0	71,000	0	77,000
Currency risk (net)	**7,869**	**-8,348**	**6,593**	**9,821**

The reported financial liabilities of USD 80.0 million relate solely to the 2006 bond issue, which is fully hedged against currency risk by interest rate and currency swaps.

Foreign-currency receivables and liabilities plus derivative financial instruments in the form of interest rate and currency swaps and forward exchange contracts reported in the Wilo Group's consolidated statement of financial position as at 31 December 2010 have certain sensitivities to currency fluctuations. A 10 percent appreciation (depreciation) of the euro against all foreign currencies as at 31 December 2010 would have resulted in a EUR 75 thousand decrease (increase) in EBIT and a EUR 842 thousand increase (EUR 295 thousand increase) in net finance costs. In the previous year, a 10 percent appreciation (depreciation) of the euro against all foreign currencies would have resulted in a EUR 67 thousand decrease (increase) in EBIT and a EUR 873 thousand increase (EUR 171 thousand increase) in net finance costs.

The change in EBIT in this sensitivity analysis is the result of translating foreign-currency receivables and liabilities into reporting currency. The effect on net finance costs in this sensitivity analysis is the result of two factors: firstly, a 10 percent appreciation (depreciation) of the euro would have resulted in a positive (negative) translation difference on foreign-currency non-current financial liabilities in the amount of EUR 5,963 thousand as at the end of the reporting period and EUR 5,576 thousand in the previous year. Secondly, a 10 percent appreciation (depreciation) of the euro would have resulted in a negative (positive) effect on net finance costs from the measurement of interest and currency swaps, forward exchange contracts and forward exchange options of EUR 5,121 thousand (EUR 6,258 thousand). In the previous year, a 10 percent appreciation (depreciation) of the euro would have resulted in a negative (positive) effect on net finance costs of EUR 4,703 thousand (EUR 5,747 thousand).

The sensitivity analysis is based on the calculated change in the fair value of derivative and primary financial instruments in the event of a defined change in the "currency" risk variable with all other factors influencing value remaining constant as at the end of the reporting date. The calculations are performed using net present value and option pricing models. The changes in EBIT and net finance costs in the sensitivity analysis mostly relate to receivables, payables and derivative financial instruments in US dollars, South Korean won, Indian rupees and various European currencies. Other foreign currencies are of minor importance in the sensitivity analysis.

Interest rate risk

The Wilo Group faces interest rate risk mainly on floating rate financial liabilities and on invested cash and cash equivalents. Both a rise and a fall in the yield curves result in interest rate exposure. The Wilo Group mitigates adverse changes in value from unexpected interest rate movements by using derivative financial instruments. Interest rate risk as defined in IFRS 7 is considered to be low as most financial liabilities have long-term fixed interest rates.

If the market interest rate had been 100 basis points higher (lower) as at 31 December 2010, this would have had a positive effect on net finance costs of EUR 285 thousand (negative effect of EUR 308 thousand). The same change in the previous year would have had a positive effect on net finance costs of EUR 2,455 thousand (negative effect of EUR 2,601 thousand). The change in net finance costs in this sensitivity analysis of EUR 285 thousand and EUR –308 thousand (previous year: EUR 2,455 thousand and EUR –2,601 thousand) relates exclusively to measurement of the interest component of interest rate and currency swaps as at the end of the reporting period. The sensitivity analysis does not indicate any material effect on net finance costs relating to primary, floating-rate liabilities because most financial liabilities have long-term fixed interest rates. The sensitivity analysis is based on the calculated change in the fair value of derivative and primary financial instruments resulting from a specific change in the "market interest rate" risk variable with all other factors influencing value remaining constant as at the end of the reporting date. The calculations are performed using net present value and option pricing models.

Commodity price risk

The Wilo Group is subject to commodity price risk primarily from price fluctuations on the global markets for copper, aluminium and stainless steel and their alloys. The Wilo Group uses commodity derivatives to minimise this risk. The prices for most of the copper procurement volume for the 2011 financial year have already been stipulated. Currently, the Wilo Group's result of operations earnings would be influenced by price fluctuations on the global markets for copper, aluminium, stainless steel and their alloys from the 2012 financial year onwards.

If the prices for copper had been 10.0 percent higher (lower) as at 31 December 2010, this would have had a positive effect on net finance costs of EUR 3,121 thousand (negative effect of EUR 3,017 thousand). The same change in the previous year would have had a positive effect on net finance costs of EUR 762 thousand (negative effect of EUR 762 thousand). The change in net finance costs in this sensitivity analysis of EUR 3,121 thousand and EUR –3,017 thousand (previous year: EUR 762 thousand and EUR –762 thousand) relates exclusively to measurement of commodity derivatives as at the end of the reporting period.

The sensitivity analysis is based on the calculated change in the fair value of derivative financial instruments in the event of a defined change in the "commodity price" risk variable with all other factors influencing value remaining constant as at the end of the reporting date. The calculations are performed using net present value and option pricing models.

Credit risk

Customer credit risk is countered with a uniform and effective Group-wide system for systematic receivables management and the monitoring of payment behaviour. Dependency on individual customers is limited because Wilo does not generate more than 10 percent of total net sales with any one customer. It is not currently possible to predict how the economic crisis will affect customer payment behaviour. The maximum credit risk is equal to the carrying amount of financial instruments. The table below shows the maximum credit risk on and the age structure of financial assets classified as loans and receivables as at 31 December 2010 and 2009. Current and non-current items have been combined.

Trade receivables are secured with retentions of title. The fair value of these retentions of title is equal to the carrying amount of trade receivables. The carrying amount of trade receivables before write-downs is EUR 221,799 thousand (previous year: EUR 195,024 thousand). As at 31 December 2010, EUR 9,879 thousand (previous year: EUR 8,289 thousand) in specific write-downs was recognised on past due trade receivables of EUR 22,709 thousand (previous year: EUR 18,501 thousand). A further EUR 2,581 thousand (previous year: EUR 2,893 thousand) in general write-downs on trade receivables was recognised as at the end of the reporting period for country-specific credit risk. The write-downs were recognised for various and standard reasons.

In addition, there is a maximum credit risk of EUR 362 thousand (previous year: EUR 258 thousand) on available-for-sale financial assets and of EUR 7,332 thousand (previous year: EUR 5,107 thousand) on financial assets held for trading, which consist exclusively of derivative financial instruments. With regard to other financial assets that are neither impaired nor past due, there are no indications as at the end of the reporting period that debtors will fail to make payment. As in the previous year, there was no impairment on other financial assets as at either 31 December 2010 or 2009.

Credit risk

			of which past due in the stated time bands (days) but not yet impaired				
EUR k	Carrying amount	of which neither past due nor impaired	up to 30	31–60	61–90	91–180	over 180
31.12.2010							
Trade receivables	209,339	179,394	13,269	2,849	1,747	1,534	297
Other financial assets *	10,579	10,579	0	0	0	0	0
31.12.2009							
Trade receivables	183,842	151,408	16,973	3,030	1,191	2,106	1,815
Other financial assets *	7,708	7,708	0	0	0	0	0

* The other financial assets are shown without receivables from derivative financial instruments and without available-for-sale financial assets.

Liquidity risk

WILO SE aims to ensure cost-effective coverage of the financing requirements of the operating activities of Group companies at all times and uses a range of financial market instruments to this end. These instruments include committed credit facilities from various national and international reputable banks with maturities of between one and three years. WILO SE had not utilised these credit facilities of more than EUR 100 million as at 31 December 2010. In addition, WILO SE has secured its long-term financial requirements by issuing promissory note loans, which were also placed with financially sound, reputable financial partners (see note (9.11)).

As a result of existing short- and medium-term credit facilities with various prominent banks, the long-term coverage of financial requirements with the promissory note loans and other refinancing options, the Wilo Group is not currently exposed to material credit, concentration or liquidity risk. There are also cash pooling and financing arrangements with Group companies where appropriate and permitted under local commercial and tax law.

The following table shows the remaining contractual maturities and corresponding cash outflows, including estimated interest payments, for financial liabilities as at 31 December 2010 and 2009.

Liquidity risk

			Maturities		
EUR k	Carrying amounts	Agreed payments	< 1 year	> 1 < 5 years	> 5 years
31.12.2010					
Financial liabilities					
Non-current	75,967	-91,522	-4,275	-56,631	-30,616
Current	31,275	-31,275	-31,275	0	0
Trade payables	94,156	-94,156	-92,916	-1,240	0
Finance lease liabilities	4,784	-5,174	-1,964	-3,210	0
Other financial liabilities	38,983	-38,983	-37,141	-1,531	-311
Derivative financial instruments	6,971	-4,635	-10	-2,320	-2,305
Total	**252,136**	**-265,745**	**-167,581**	**-64,932**	**-33,232**
31.12.2009					
Financial liabilities					
Non-current	77,459	-96,428	-4,328	-59,879	-32,221
Current	22,686	-22,686	-22,686	0	0
Trade payables	71,022	-71,022	-69,804	-1,218	0
Finance lease liabilities	5,064	-5,711	-2,018	-3,665	-28
Other financial liabilities	29,232	-29,232	-27,345	-1,566	-321
Derivative financial instruments	9,605	-6,687	540	-2,953	-4,274
Total	**215,068**	**-231,766**	**-125,641**	**-69,281**	**-36,844**

(14.) Other disclosures

(14.1) Waiver of disclosure

The following Group companies waived disclosure in accordance with section 264 (3) HGB: Wilo-Mitarbeiter-Beteiligungsgesellschaft mbH., Dortmund, and WILO Nord Amerika GmbH, Dortmund.

(14.2) Contingent liabilities and other financial obligations

No provisions have been recognised for the following contingent liabilities carried at nominal amount as the probability of the risk is estimated as low:

Contingent liabilities

EUR k	31.12.2010	31.12.2009
Contingent liabilities		
from guarantees	600	1,100
from warranties	4,139	4,900
Total	**4,739**	**6,000**

There is a guarantee under a lease agreement for a building owned by a company in which a family member of a former managing director and one shareholder of WILO SE have an ownership interest. A guarantee of EUR 1,100 thousand provided to the company in 2005 was reduced to EUR 600 thousand in the year under review (see note (14.6)).

The contingent liabilities from warranties essentially result from operating activities with the customers and suppliers of the Wilo Group. Warranties with a nominal obligation of EUR 753 thousand (previous year: EUR 226 thousand) had an agreed remaining term of less than one year as at 31 December 2010, while nominal obligations of EUR 334 thousand (previous year: EUR 1,397 thousand) with an agreed remaining term of more than one year have been contractually stipulated. There are also indefinite warranties and guarantees with a nominal obligation of EUR 3,052 thousand (previous year: EUR 4,377 thousand).

Purchase commitments for planned capital expenditure on property, plant and equipment amount to EUR 10,254 thousand (previous year: EUR 10,186 thousand) as at 31 December 2010. It is not practicable to disclose estimates of the financial effect of contingent liabilities, the uncertainties relating to the amount or timing of any outflows or the possibility of any reimbursement.

(14.3) Average number of employees over the year

Average employee numbers for the year were as follows:

Employees

	2010	2009
Production	3,359	3,201
Sales and administration	2,909	2,826
Total	**6,268**	**6,027**
Germany	1,933	1,911
Other countries	4,335	4,116
Total	**6,268**	**6,027**

The average number of employees rose by 4.0 percent as against the previous year. Staff costs amounted to EUR 257.4 million in the 2010 financial year (previous year: EUR 240.8 million).

(14.4) Proposal for the appropriation of profits

At the Annual General Meeting of WILO SE on 6 April 2011, the Executive Board will propose a resolution for the distribution of a dividend of EUR 2.64 per ordinary share and EUR 2.65 per preference share and to carry forward the remainder of the unappropriated surplus of WILO SE to new account. This distribution is not recognised as a liability in these financial statements.

(14.5) Events after the balance sheet date

Consolidated financial statements as at 31 December 2010
The Executive Board of WILO SE approved the consolidated financial statements for submission to the Supervisory Board on 17 February 2011. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and to state whether it adopts them.

Management participation programme
WILO SE restructured its management participation programme at the end of 2010/start of 2011. More detailed information can be found under note (9.10).

Financing
WILO SE borrowed additional capital of EUR 100.0 million as part of its long-term financing strategy at the start of 2011. More detailed information can be found under note (9.11).

Dividend
The extraordinary general meeting of WILO SE resolved the distribution of a special dividend of EUR 41,750 thousand on 4 February 2011. More detailed information can be found under note (9.10).

(14.6) Related party disclosures

All business transactions consisting solely of the provision of goods and services to non-consolidated subsidiaries, jointly controlled entities and associates of WILO SE are settled at standard market conditions. The outstanding trade receivables from these companies amount to EUR 921 thousand (previous year: EUR 417 thousand). Liabilities to these companies amounted to EUR 3,025 thousand (previous year: EUR 2,655 thousand) as at the end of the reporting period. Sales and services charged on to these companies amounted to EUR 1,641 thousand (previous year: EUR 1,335 thousand).

As at 31 December 2010, 61,000 shares in WILO SE are held by members of the Supervisory Board and 4,000 by members of the Executive Board. In the 2010 financial year, the members of the Supervisory Board bought 10,000 shares in WILO SE at a purchase price of EUR 265 thousand. The members of the Executive Board bought 2,000 shares in WILO SE at a purchase price of EUR 53 thousand in the 2010 financial year. As a result of these transactions, the company reports 295,000 shares as treasury shares with a carrying amount of EUR 8,222 thousand as at 31 December 2010. The current repurchase obligation for shares owned by members of the Supervisory Board and the Executive Board as at 31 December 2010 is recognised as a liability under current other liabilities.

A shareholder owns a heating and air conditioning installation company that purchases pumps in customary quantities from the reporting entity. The same company installs and maintains the heating and air conditioning systems of the reporting entity. These services are remunerated at standard market conditions. As at 31 December 2010, there were liabilities to this company of EUR 227 thousand (previous year: EUR 394 thousand). Sales of EUR 35 thousand (previous year: EUR 49 thousand) were generated with the heating and air conditioning installation company in the 2010 financial year.

There are also leases for land and buildings that are directly or indirectly owned by shareholders. Total lease payments of EUR 483 thousand (previous year: EUR 220 thousand) were made to these shareholders in 2010. The rent was agreed in line with market conditions. There is also a lease agreement for a building owned by a company in which a family member of a former managing director and one shareholder have an ownership interest. EUR 492 thousand (previous year: EUR 414 thousand) was paid in rent in 2010. The resulting finance lease liabilities as at the end of the reporting period amounted to EUR 705 thousand (previous year: EUR 1,572 thousand). A guarantee of EUR 1,100 thousand provided to the company in 2005 was reduced to EUR 600 thousand in the year under review.

There are approved consulting agreements with members of the Supervisory Board. The total volume of these agreements for 2010 amounted to EUR 824 thousand (previous year: EUR 552 thousand), of which EUR 390 thousand (previous year: EUR 389 thousand) had not yet been paid as at 31 December 2010.

In the reporting year, there was a consulting agreement member of the owner family in the amount of EUR 70 thousand (previous year: EUR 70 thousand), of which EUR 70 thousand had not been paid as at 31 December 2010 (previous year: EUR 69 thousand).

(14.7) Auditor’s fees

The following fees were recognised as an expense in the 2010 financial year for services provided by the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, Germany, and its associates (KPMG Europe LLP):

Auditor’s fees

EUR k	2010	2009
Audits of financial statements of which for the previous year: EUR 25 thousand (2008: EUR 0 thousand)	563	384
Other assurance services of which for the previous year: EUR 7 thousand (2008: EUR 4 thousand)	15	11
Tax advisory services	2	2
Other services of which for the previous year: EUR 0 thousand (2008: EUR 36 thousand)	96	156
Total	**676**	**553**

(14.8) Remuneration of the Executive Board and the Supervisory Board

The total remuneration of the Executive Board for the 2010 financial year was EUR 1.6 million (previous year: EUR 1.7 million). EUR 0.9 million (previous year: EUR 0.8 million) of this total relates to fixed remuneration and EUR 0.7 million (previous year: EUR 0.9 million) to variable remuneration, of which EUR 0.3 million (previous year: EUR 0.5 million) was reported as a provision as at the end of the reporting period and will not be paid out until the approval of the consolidated financial statements in the subsequent financial year. EUR 0.1 million was paid out in the 2010 financial year as part of defined contribution pension plans for active and former members of the Executive Board (previous year: EUR 2.2 million).

The total remuneration paid to former members of the Executive Board amounted to EUR 1.9 million in the 2010 financial year (previous year: EUR 2.0 million). EUR 1.1 million of this is a benefit under IAS 24.16 (d). The remuneration of the Supervisory Board amounted to EUR 0.1 million (previous year: EUR 0.1 million). As at the end of the reporting period, a pension provision of EUR 6.8 million (previous year: EUR 6.4 million) was recognised for former members of executive bodies.

(14.9) Boards

Supervisory Board

Dr. Heinz-Gerd Stein
Chairman
former Chief Financial Officer
ThyssenKrupp AG and Management Consultant
Wollereau, Switzerland

Prof. Dr. Hans-Jörg Bullinger
President of the Fraunhofer-Gesellschaft
Stuttgart, Germany

Hans Joachim Früh
Management Consultant
Dusseldorf, Germany

Jean-François Germerie
European Works Council
Laval, France

Jan Opländer
Managing Partner at
Louis Opländer GmbH
Dortmund, Germany

Heinz-Peter Schmitz
European Works Council
Dortmund, Germany

Executive Board

Oliver Hermes
Chairman of the Executive Board
Essen, Germany

Dr. Holger Krasmann
Dortmund, Germany

Eric Lachambre
Saint-Germain-en-Laye, France
from 1 February 2011

Alexander von Schweinitz
Dortmund, Germany
from 1 May 2010 to 31 December 2010

Dr. h.c. Jochen Opländer is Honorary Chairman of the Supervisory Board.

Dortmund, Germany, 17 February 2011

The Executive Board

Oliver Hermes | Dr. Holger Krasmann | Eric Lachambre

Shareholdings of WILO SE as at 31 December 2010

	Interest in %
Bombas WILO-SALMSON Portugal – Sistemas Hidráulicos, Lda., Porto, Portugal	100.0
CCD Pumps Ltd. i.L., London, United Kingdom	100.0
Circulating Pumps Ltd., King's Lynn, Norfolk, United Kingdom	100.0
EMB Pumpen AG, Rheinfelden, Switzerland	100.0
EMU I.D.F. S.A.R.L., Ste. Geneviève-des-Bois, France **	50.0
FLOM S.A.R.L., Couzon au Mont d'Or, France	100.0
Mather and Platt Fire Systems Ltd., Pune, India	55.5
Mather and Platt Pumps Ltd., Pune, India	99.9
POMPES SALMSON S.A.S., Chatou, France	100.0
PT. WILO Pumps Indonesia, Jakarta, Indonesia *	100.0
Rotaqua GmbH, Rheinfelden, Switzerland	100.0
S.E.S.E.M. S.A.S., Saint-Denis, France	100.0
SALMSON Italia s.r.l., Modena, Italy	100.0
SALMSON South Africa Ltd., Johannesburg, South Africa	100.0
STEMMA S.R.L., Trissino, Italy	100.0

	Interest in %
WILO (UK) Ltd., Burton-on-Trent, United Kingdom	100.0
WILO Adriatic d.o.o., Ljubljana, Slovenia	100.0
WILO Baltic SIA, Riga, Latvia	100.0
WILO Bel o.o.o., Minsk, Belarus	100.0
WILO Beograd d.o.o., Belgrade, Serbia	100.0
WILO Bulgaria EOOD, Sofia, Bulgaria	100.0
WILO Canada Inc., Calgary, Canada	100.0
WILO Caspian LLC, Baku, Azerbaijan	100.0
WILO Central Asia TOO, Almaty, Kazakhstan	100.0
WILO China Ltd., Beijing, China	100.0
WILO Danmark A/S, Karlslunde, Denmark	100.0
WILO Eesti OÜ, Tallin, Estonia *	100.0
WILO ELEC China Ltd., Qinhuangdao, China	100.0
WILO EMU Anlagenbau GmbH, Roth, Germany	100.0
WILO Engineering Ltd., Limerick, Ireland	100.0
WILO Finland OY, Espoo, Finland	100.0
WILO France S.A.S., Bois d'Arcy, France	100.0
WILO Hellas A.B.E.E., Athens, Greece	100.0
WILO Hrvatska d.o.o., Zagreb, Croatia	100.0
WILO Ibérica S.A., Alcalá de Henares, Spain	100.0
WILO Industriebeteiligungen GmbH, Dortmund, Germany	100.0
WILO Intec S.A.S., Aubigny, France	100.0
WILO Italia s.r.l., Peschiera Borromeo (Milan), Italy	100.0
WILO Lietuva UAB, Vilnius, Lithuania	100.0
WILO Magyarország Kft., Törökbálint, Hungary	100.0

	Interest in %
WILO Middle East FZE, Dubai, United Arab Emirates	100.0
WILO Middle East LLC, Riyadh, Saudi Arabia ***	50.0
WILO N.V./S.A., Ganshoren (Brussels), Belgium	100.0
WILO Nederland b.v., Westzaan, Netherlands	100.0
WILO Nord Amerika GmbH, Dortmund, Germany	100.0
WILO Norge AS, Oslo, Norway	100.0
WILO Polska Sp.z o.o., Raszyn (Warsaw), Poland	100.0
WILO Pompa Sistemleri San. Ve Tic. A.S., Istanbul, Turkey	100.0
WILO Praha s.r.o., Prague, Czech Republic	100.0
WILO Pumpen Österreich GmbH, Wiener Neudorf, Austria	100.0
WILO Pumps Ltd., Gimhae, Korea	100.0
WILO Pumps Ltd., Limerick, Ireland	100.0
WILO Romania s.r.l, Bucharest, Romania	100.0
WILO Rus o.o.o., Moscow, Russia	100.0
WILO SALMSON Argentina S.A., Buenos Aires, Argentina	100.0
WILO Saudi Arabia Ltd., Riyadh, Saudi Arabia *	100.0
WILO Slovakia s.r.o., Bratislava, Slovakia	100.0
WILO Sverige AB, Växjö, Sweden	100.0
WILO Ukrainia t.o.w., Kiev, Ukraine	100.0
WILO USA LLC, Melrose Park, IL, USA	100.0
WILO-EMU Taiwan Co. Ltd., Taipei, Taiwan	100.0
WILO-Mitarbeiter-Beteiligungsgesellschaft mbH, Dortmund, Germany	100.0
WILO-SALMSON France S.A.S., Chatou, France	100.0
WILO-SALMSON Lebanon S.A.R.L., Beirut, Lebanon	100.0

* Company not included in the 2010 consolidated financial statements.
** Associated company accounted for at cost.
*** Jointly controlled entity accounted for using the equity method.

Auditors' Report

We audited the consolidated financial statements prepared by WILO SE, Dortmund – consisting of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements – and the Group management report for the financial year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the European Union, and the additional regulations of the German Commercial Code (HGB) pursuant to section 315a (1) HGB are the responsibility of the legal representatives of the company. 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 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Essen, 18 February 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Beumer
Auditor

Huperz
Auditor

Report of the Supervisory Board

The Supervisory Board monitored the work of the Executive Board on an ongoing basis while providing intensive support and advice throughout the 2010 financial year. The Supervisory Board was kept fully informed about the development of the Wilo Group's business and all factors affecting it at regular meetings. Members of the Supervisory Board also received regular written reports from the Executive Board on the current business situation and on current and planned Group activities. Measures requiring the approval of the Supervisory Board were discussed at length.

Various key issues were dealt with at the ordinary meetings of the Supervisory Board in 2010. The meeting of 13 April 2010 centred on the 2009 annual financial statements. The impact of the global financial and economic crisis on the Wilo Group's operating activities and the effectiveness of the countermeasures introduced at the end of 2008 were discussed in detail. Another key issue was the status of the efficiency programme for the implementation of corporate strategy. The structures of the new compliance system were also discussed. Finally, the Supervisory Board passed the new Rules of Procedure of the Supervisory Board and the Audit Committee. At the meeting on 30 June 2010, the Executive Board and the Supervisory Board discussed the findings of the strategy review presented. The plans to merge WILO SE with WILO EMU GmbH were debated and the necessary approval for their implementation was issued. In October 2010, the Supervisory Board dealt in detail with the regional activities in North America and Brazil. In December 2010, the Supervisory Board then approved the budget for 2011 and the revised strategic planning extending to 2015.

The Supervisory Board met without the Executive Board in February and September 2010. On these occasions it conducted its routine review of the efficiency of the work of the Supervisory Board and discussed personnel issues.

Throughout the year, the Supervisory Board supported the ongoing development of the Wilo Group's business policy and strategic orientation, notably with regard to new manufacturing technologies, the focus of the product portfolio and human resources planning.

Both the 2010 consolidated financial statements presented with the annual report and the separate financial statements of WILO SE for the 2010 financial year, each comprising an income statement, statement of financial position, management report and notes to the financial statements, have been audited and issued with an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, Germany.

These documents were submitted to the Supervisory Board for examination in a timely manner and subjected to comprehensive scrutiny. The auditors took part in the discussion of the annual financial statements and the consolidated financial statements in the meeting of the Audit Committee on 14 March 2011 in order to report on key audit findings and provide comprehensive supplementary information. The Audit Committee previously performed preparatory work for the Supervisory Board and also appraised the findings of the risk management system.

After thorough examination and discussion of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board endorses the opinion of the auditor and approves the annual financial statements and the consolidated financial statements prepared by the Executive Board by way of resolution of 19 March 2011. The annual financial statements are thereby adopted. The Supervisory Board also approves the proposal for appropriation of the net profit of WILO SE.

There were no changes in the composition of the Supervisory Board and the following changes in the Executive Board in the year under review:

By way of resolution dated 13 April 2010, the Supervisory Board appointed Mr. Alexander von Schweinitz as a further member of the Executive Board effective 1 May 2010. Mr. von Schweinitz resigned his office as a member of the Executive Board of the company later in the year of his own volition. His resignation was accepted by the Supervisory Board and Mr. von Schweinitz left the company as at 31 December 2010. The Supervisory Board thanked Mr. von Schweinitz for his successful work. The Supervisory Board transferred joint responsibility for the Sales and Marketing division to CEO Oliver Hermes and Dr. Holger Krasmann until further notice.

In the interests of good, responsible corporate governance, WILO SE and its executive bodies voluntarily comply with the German Corporate Governance Code as amended 26 May 2010. There are departures from the Code relating to the specific nature of our company (primarily as to the preparation and holding of Annual General Meetings, the publication of reports, and Supervisory Board committees) on the one hand and the individual disclosure of Executive Board and Supervisory Board remuneration on the other, in which connection the statutory provisions are complied with. Detailed information on departures from the Code has again been compiled in full for banks and institutional partners in a declaration of conformity in line with Section 161 of the German Stock Corporation Act.

Subject to the above qualification, WILO SE intends to continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code as amended 26 May 2010 in future.

2010 was Wilo's most successful financial year in its history. The Supervisory Board thanks the members of the Executive Board for its effective crisis management and the systematic, Group-wide implementation of its amended corporate strategy.

The Supervisory Board thanks the employees of the Wilo Group for their work and tremendous loyalty, which played a key part in this success.

Dortmund, March 2011

The Supervisory Board
Dr. Heinz-Gerd Stein
Chairman

Glossary

Asia Pacific
India, China, South Korea, Southeast Asian nations, Australia and Oceania.

Axial split-case pumps
Pumps with an axially split volute casing. Used for applications requiring high delivery rates in circulation systems or for water supply, mainly in Asian countries or when plants are built according to US specifications.

Booster sets
Used for water supply in buildings in which the pressure of the municipal water supply is not sufficient to supply all inhabitants/storeys with water.

Cash flow
Net inflow of cash generated from operating activities.

EBIT/EBITDA
EBIT is earnings before net income from investments carried at equity, net finance costs and income taxes. EBITDA is earnings before net income from investments carried at equity, net finance costs, income taxes and depreciation and amortisation.

EMEA
Russia, Belarus, Ukraine, Caucasus nations, Gulf nations, African nations.

ErP directive
The ErP directive is entitled "ecodesign requirements for energy-related products" and aims to increase awareness of energy use during the entire life-cycle of a product from its manufacture to its disposal.

Europe
All European states except Russia, Belarus and Ukraine.

Glandless pumps
In this design, the rotating part of the electric motor is located in the pumped fluid. Glandless pumps are largely maintenance-free and very quiet in operation.

Glanded pumps
In this design, the drive motor is separate from the pumped fluid; the rotating motor component therefore remains dry.

High efficiency
Efficiency is defined as the ratio of work performed to energy expended. High efficiency means achieving maximum performance with lowest possible energy input in order to conserve resources and reduce environmental impact. One prime example is Wilo-Stratos, the world's first high-efficiency pump for heating and air conditioning systems. It achieves excellent efficiencies and can save up to 80 percent electricity compared with constant-speed heating pumps.

IFRS (International Financial Reporting Standards)

Collective term for all accounting standards and interpretations relevant for international consolidated financial reporting by the Wilo Group: IAS (International Accounting Standards) and IFRS (International Financial Reporting Standards) together with interpretations issued by the SIC (Standing Interpretations Committee) and the IFRIC (International Reporting Interpretations Committee).

LCC (life-cycle costs)

Sum of all costs incurred by a product throughout its lifecycle. The life-cycle includes all stages, from procurement, installation, operation and maintenance right through to decommissioning and disposal.

Management levelling

International regulatory framework in which functions are classified according to their significance in the organisation and which serves as the reference framework for HR management processes.

OEM (original equipment manufacturer)

Manufacturers who fit their products with our pumps (e.g. machine tools, wall heaters or air conditioners).

Others

Nations of the American continent and other nations not assigned to the Asia Pacific, EMEA and Europe regions.

Product lifecycle management

Product lifecycle management is a strategic concept for managing a product throughout its lifecycle.

Second-source suppliers

The term “second-source suppliers” is used in materials management and production management to describe one or more alternative suppliers for a product that is identical in construction to and compatible with another product.

Wilo-Geniax

The decentralised pump system uses multiple miniature pumps installed on the heating surfaces or heating circuits instead of thermostat valves. Wilo-Geniax replaces conventional “supply-oriented heating” using a central heating pump with “demand-oriented heating”. The rotational speed of the miniature pumps is controlled by a central server, enabling them to supply the radiators with hot water according to the precise current heating requirements of each room.

Imprint

Concept and Design
HGB Hamburger Geschäftsberichte GmbH & Co. KG, Hamburg

Lithography
Hirte GmbH & Co. KG, Hamburg

Printing press
Broermann Offset-Druck GmbH, Troisdorf-Spich

Photographer
Sebastian Vollmert, Hamburg

All photos were carried out with Wilo employees.
Many thanks to everyone involved!

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