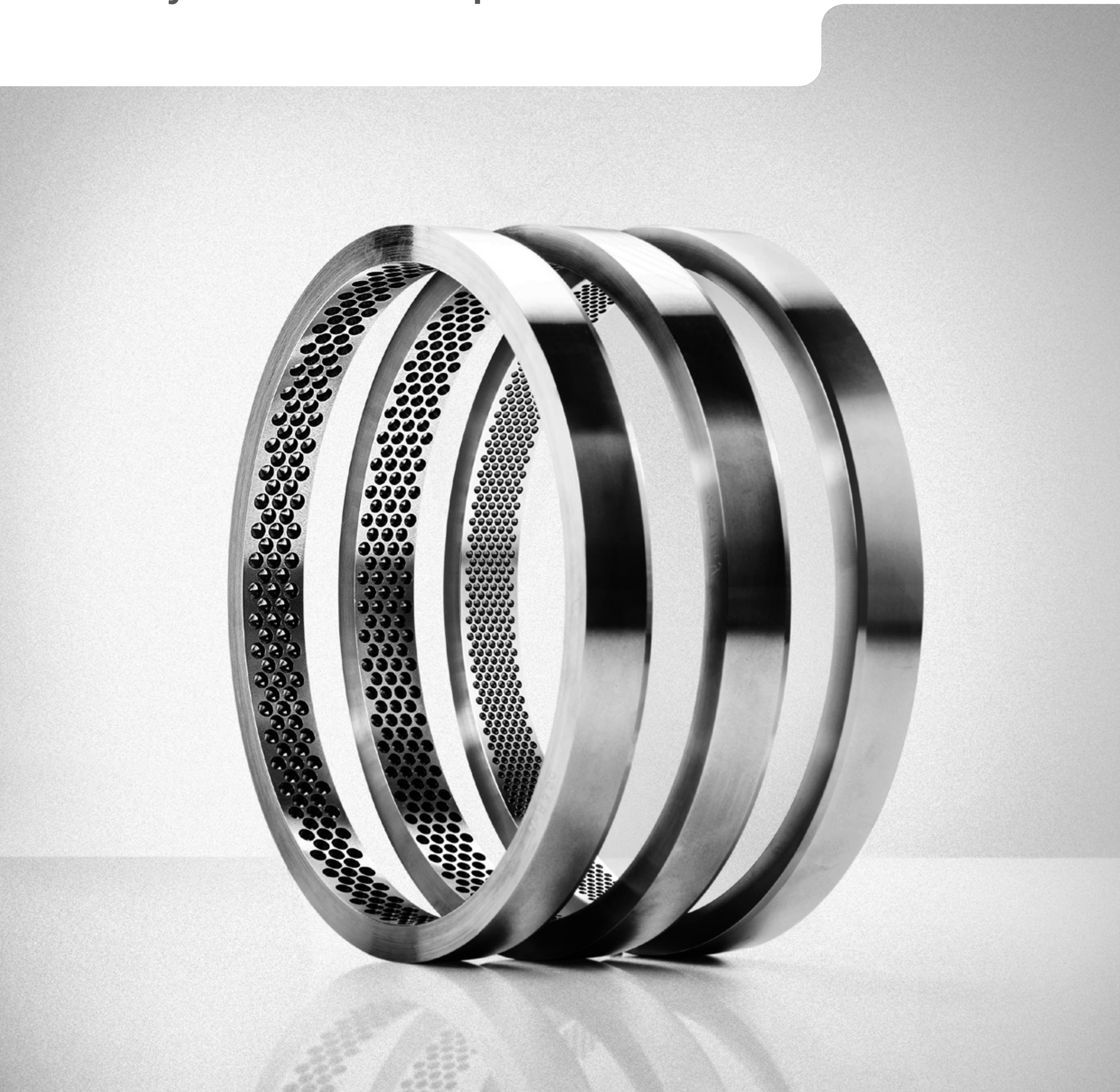
KSB Group

Half-year Financial Report 2015



CONTENTS

INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2015

MACROECONOMIC ENVIRONMENT AND SECTOR VIEW

There were once again strong regional differences in how the global economy performed during the first six months. For a global mechanical engineering company like KSB, sales prospects improved in some of the more dynamic markets. At the same time, structural weaknesses in some regions of the world stifled demand for technical goods.

Most of the industrialised countries were showing signs of continued recovery during the first half of the year. According to the report prepared by the German Engineering Federation (VDMA), the economic prospects of the euro zone countries in particular have noticeably improved since the beginning of the year. In India, too, the economy began picking up speed again. Nevertheless, in June the VDMA continued to assess the global economic environment as “challenging”.

Areas of economic weakness were identified in North America and several emerging markets during the first six months. The International Monetary Fund (IMF) attributed an unsatisfactory first quarter in the USA, with knock-on effects on its economic partners, to the long winter among other factors, with the strength of the dollar only adding to an already difficult situation. Economic development in the emerging markets was hampered by low commodity prices, structural problems and finance difficulties. In addition, the economic slowdown in China and political flashpoints slowed growth in this group of countries.

Against this background, the IMF downgraded its global growth forecast, as cited in the KSB 2014 Annual Report, from 3.5 % to 3.3 % for the current year.

Demand picks up in some sectors

Some of the key sectors for our business showed signs of improvement during the first half of 2015. This particularly applied to the water and waste water sector, but demand from general industry also picked up. Project orders were, however, still subject to fierce price competition, above all with regard to power plant equipment.

Chemical and petrochemical business, along with mining, was down on 2014 levels during the first six months. Weak economic performance in several of the emerging markets and the changed offer situation for commodities and fossil fuels combined to have a negative impact.

The construction industry developed positively during the first six months. This gratifying trend, however, did not apply to our home market of Europe, the development of which is critical to sales of our building services products.

Mechanical engineering sector weakens

As far as the mechanical engineering sector is concerned, the VDMA now expects global growth to average a mere 3 % in real terms (following a figure of 5 % in the previous year). For the euro zone and the European economic area, the VDMA is forecasting a real increase of 2 % in sales of machinery and systems based on current trends.

The pumps and valves industry has been experiencing a downward economic trend, with falling sales revenue recorded by German manufacturers during the first six months. German companies’ price-adjusted sales revenue for liquid pumps was down by 3.3 %, that for industrial valves down by 1.0 %.

BUSINESS DEVELOPMENT AND RESULTS OF OPERATIONS

We introduced further measures during the first half of 2015 to align our operations more closely with non-European growth markets in terms of our sales organisation and production. We rolled out our new sales structure, launched in 2014, to more KSB companies. We are now serving our project business customers, general business customers and the end users of our products in these markets via three separate sales channels, each of which is specially tailored to the needs of each customer group.

With a view to streamlining our production, we have launched a concentration process, the main aim of which is to cut the costs of European production. This involves giving up our plant in Homburg, Germany, by the end of the year, as well as the closure of three relatively small production and assembly units in Denmark, Switzerland and the UK, a process that was initiated during the first half of 2015. In Turkey we have embarked on setting up a mechatronics competence centre, which will also be used for the production of circulator pumps in future.

We are focusing our business activities on three global and two regional key markets. Following a strategy update, we have defined our key global markets as energy supply, water and waste water, and industry. Our regional focuses are the construction and mining markets.

Order intake growth for Valves and Service

The Group's order intake increased by 1.8 % to € 1,152.8 million during the first two quarters of the current financial year, which equates to a rise of € 20.9 million. To this extent we were not yet able to achieve the marked increase forecast for the reporting period.

Sales of our products and services to general business customers have accounted for most of the increase recorded to date. In contrast, fewer orders for large-scale projects were placed during the first six months compared with the period from January to June 2014. This trend was particularly marked at KSB AG, which experienced a year-on-year decline of 7.4 % in order intake with incoming orders totalling € 395.0 million.

We recorded an increase in orders received in the Valves and Service segments during the first half of 2015. Orders for Pumps, despite the positive development in the general business, were down on a year-on-year basis.

Order intake for Pumps totalled € 745.8 million, down € 20.1 million or 2.6 % compared with the first six months of 2014. This decline is attributable to the fact that we received fewer large-scale orders in our project business than during the comparative prior-year period. As well as affecting KSB AG, this was mainly in evidence at our pump company in Brazil, where the oil industry was reluctant to place orders, and in the USA, where the customers of our US subsidiary GIW Industries, Inc. required fewer slurry pumps than in 2014 following the slump in the mining sector. Pump orders placed with our Russian company were also down on the previous year.

Valves order intake rose by € 8.6 million to € 198.1 million (+ 4.5 %). Our companies in East and South-East Asia in particular won major orders for butterfly valves, including cryogenic valves for liquefied gas tankers. In addition, our Luxembourg-based manufacturer of specialist diaphragm valves increased its order intake in the sterile process engineering sector. Sales of valves for power plants were less buoyant.

Our highest level of growth by far during the first six months was achieved in relation to Service, with the volume of incoming orders expanding by 18.3 % to € 208.9 million. Order intake was at healthy levels at various companies in the Americas and Asia, as well as at Frankenthal-based KSB Service GmbH. The latter won additional contracts for the modernisation and expansion of installed systems in the areas of energy generation, water transport and process engineering. € 9.4 million of the Group's total growth of € 32.4 million related to the French company KSB Service Cotumer, which extended its business in France through an acquisition.

Sales increase across all regions and segments

Group-wide sales revenue grew by € 87.0 million to € 1,098.7 million during the first two quarters of the year. This rise of 8.6 %, recorded over the reporting period, exceeded our forecast for the year as a whole.

We posted a higher volume of sales revenue compared with 2014 in all four regions: Europe, Middle East / Africa, Asia and Americas / Oceania. Outstanding increases were achieved in China and South Korea. KSB AG, with sales revenue of € 360.6 million, was 3.7 % down on the previous year.

Our strongest segment in terms of sales revenue, namely Pumps, reported growth of 9.3 %. Sales revenue for these products rose by € 60.1 million to € 704.6 million. The invoicing of several large-scale orders in Chile, China, India, Pakistan and the USA contributed to this strong improvement.

In the Valves segment, sales revenue was € 184.8 million, up by € 5.9 million. This equates to growth of 3.3 %. The French company KSB S.A.S. was a key contributor in this regard, recording successful results with its special valves for tankers.

The strongest increase in sales revenue in percentage terms was reported by Service, where we achieved a sales revenue increase of € 20.9 million or 12.7 % to € 185.3 million. The previously mentioned retrofitting services provided by KSB Service GmbH performed particularly well. In addition, € 4.2 million of sales revenue during the first half of the year related to the above-mentioned service company KSB Cotumer in France.

Renewed rise in orders on hand
Orders on handed totalled € 1.34 billion by the middle of the year, representing a year-on-year increase of € 54 million. Orders on hand thus cover a production period of approximately seven months.

Total output of operations
At € 1,144.5 million, total output of operations was 11.0 % higher than the prior-year figure of € 1,031.5 million. This was influenced by the above-mentioned changes to sales revenue and an increase of € 24.4 million in inventories.

Income and expenses
The cost of materials rose by € 63.9 million compared with the first six months of 2014. This increase can be attributed to the expansion of output coupled with unfavourable currency effects from the conversion into euros of expense items reported in local currencies. This item therefore represents 42.2 % of the total output of operations (previous year: 40.6 %).

As a result of collectively agreed wage increases and due to the unfavourable currency effects referred to above, staff costs with a smaller workforce totalled € 418.8 million (previous year: € 389.4 million). However, staff costs as a percentage of total output of operations were down by 1.2 percentage points to 36.6 %.

At € 185.5 million, other expenses were € 12.8 million higher than in the previous year but dropped by 0.5 percentage points as a percentage of total output of operations. This increase can be primarily attributed to higher costs for repairs, maintenance and third-party services, but also higher selling costs. Here too, the currency effects as detailed above had a negative impact.

Half-year earnings
In the first six months, consolidated earnings before interest and taxes (EBIT) of the KSB Group totalled € 33.6 million (previous year: € 28.4 million). This is an increase of 18.3 %. The Pumps segment contributed EBIT of € 12.8 million (previous year: € 12.3 million), the Valves segment € 4.0 million (previous year: € 4.8 million) and the Service segment € 9.7 million (previous year: € 4.8 million).

Earnings before taxes (EBT), at € 28.6 million (+ 38.0 %), rose even more markedly compared with the previous year's figure of € 20.7 million. This was due to a rise of € 3.0 million in the financial income / expense as a result of an improved interest balance. Falling net interest expenses for pension obligations contributed to this. Accordingly, the return on sales, taking the strong growth in sales revenue into account, increased to 2.6 % (previous year: 2.1 %). For some Group companies with negative contributions to earnings, we were unable to recognise any deferred tax assets. The income tax rate increased as a result, up by 9.9 percentage points to 37.9 %, compared with 28.0 % for the first half of 2014. Earnings after income taxes totalled € 17.7 million (previous year: € 14.9 million).

Earnings attributable to non-controlling interests increased from € 3.8 million to € 4.9 million, which resulted in a change in the ratio to earnings after taxes from 25.6 % to 27.7 %.

The earnings attributable to shareholders of KSB AG (€ 12.8 million) were € 1.7 million higher than in the previous year (€ 11.1 million).

Earnings per ordinary share were € 7.20, compared with € 6.21 in the previous year, and € 7.46 per preference share, compared with € 6.47 in 2014.

FINANCIAL POSITION AND NET ASSETS

Equity

KSB Group equity has improved from € 829.2 million (31 December 2014) to € 852.7 million, which equates to an increase of 2.8 %. As well as the net retained earnings for the year, positive currency effects also contributed to this improvement. These positive factors were offset by dividend payments and the change in actuarial gains / losses under IAS 19 resulting from the continued decline in the discount rate. With total assets also having risen (+ 3.4 %), the equity ratio is only slightly changed at 36.2 %, down 0.2 percentage points on the 2014 year end.

Liabilities

Liabilities have increased by € 53.7 million since year end 2014. Provisions increased by € 9.2 million. We increased long-term provisions for employee benefits by € 13.9 million, partly as a result of the above-mentioned changes in actuarial gains / losses under IAS 19. Bank loans and overdrafts were down by € 9.0 million, while trade payables increased by € 9.8 million and advances received rose by € 37.5 million.

Investments

At € 36.9 million, investment in property, plant and equipment was significantly higher than the comparative prior-year figure of € 29.4 million. The expansion of our foundry capacities in the USA for the mining business was the main factor responsible for this rise. Aside from our investments in the USA, we continued to focus our spending on China and India, as well as Europe. We maintained our policies for measuring depreciation and amortisation in the year under review.

Net financial position

The KSB Group's net financial position (the difference between interest-bearing financial assets and financial liabilities) was reduced by € 5.2 million to € 147.7 million compared with 30 June 2014. This was due to higher investment levels, among other factors.

Liquidity

Cash flows from operating activities amounted to € + 22.1 million, compared with € + 14.1 million for the first six months of the previous year. Increased inventories as well as receivables and other current assets resulted in the tying up of resources. A higher volume of advances received and of trade payables had an inverse effect. The latter fell during the previous year.

Our higher level of investment, primarily in the USA, resulted in lower liquidity during the first six months. However, we freed up considerably more cash from term deposits with a maturity of more than 3 and up to 12 months than in the comparative prior-year period. Our investing activities generated cash flows of € + 23.9 million (prior-year period: € – 19.6 million).

Cash flows from financing activities amounted to € – 29.2 million (previous year: € – 34.3 million). This value was affected during the reporting period by such factors as a decrease of around € 6 million in dividend payments.

Cash and cash equivalents with a maturity of under 3 months grew from € 290.5 million at the beginning of the year to total € 310.3 million. Exchange rate effects amounting to € + 3.1 million (previous year: € + 3.6 million) played a role in this increase. The KSB Group's cash and cash equivalents fell from € 432.7 million to € 384.5 million due to the major decrease in term deposits with a maturity of more than 3 and up to 12 months.

Net assets

Total assets amounted to € 2,355.0 million as at 30 June 2015, representing an increase of € 77.3 million or 3.4 % over year end 2014.

Changes in non-current assets (€ + 33.7 million) are due primarily to an increase in property, plant and equipment (€ + 18.2 million) as a result of greater investment activity. Deferred tax assets also increased, rising by € 9.7 million. The increase in long-term provisions for employee benefits was a contributory factor in this regard.

Inventories, at € 496.7 million, exceeded the 2014 year-end level of € 449.8 million. This increase was due to higher inventories of work in progress for orders in hand.

Receivables and other assets totalled € 729.6 million, up € 45.9 million on the 2014 year-end level (€ 683.7 million). As a result of the increase in sales revenue, trade receivables grew by € 11.7 million. Receivables recognised by PoC (€ + 18.9 million) and other assets (€ + 14.5 million) also increased.

Higher financing requirements for inventories, receivables and other current assets, as well as the increase in non-current assets impacted on cash and cash equivalents, which amounted to € 384.5 million (year end 2014: € 432.7 million).

BOARD OF MANAGEMENT'S SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

Our business performance during the first half of 2015 met our expectations in some regards.

Order intake growth remained moderate. This can be primarily attributed to the fact that the volume of project orders during the first six months was lower than planned. We recorded success in the development of our after-market business, as a result of which we achieved an above-average increase in service orders. Currency effects totalling some € 61 million also had a positive impact.

Our consolidated sales revenue developed well during the first six months and thus more strongly than forecast. As well as the invoicing of several large-scale orders as referred to above, positive currency effects with a volume of approximately € 53 million contributed to this. These mainly resulted from the euro's fall in value against the Chinese, Indian and US currencies.

Earnings before interest and taxes (EBIT) rose by € 5.2 million compared with the prior-year figures, with earnings before taxes (EBT) increasing by € 7.9 million. Consequently, our expectations regarding the performance indicators referred to above and regarding return on sales for the first six months were not met. A key factor in this regard was the unsatisfactory development of margins in the first half of the year.

In contrast, the Group's net financial position is in line with our planning.

In the Pumps segment, we expect to see a tangible increase in both order intake and sales revenue in 2015. We have not yet achieved this with regard to purchase orders, but sales revenue already exceeded our forecast for 2015 as a whole by the middle of the year. Our EBIT has not yet improved in line with the considerable increase that was forecast. With regard to Valves, there were not yet any major increases in EBIT during the first half of the year, while we achieved this target in relation to orders received. We also succeeded in achieving a significant rise in sales revenue. As far as Service is concerned, we exceeded our expectations regarding order intake and sales revenue (moderate growth in each case). As planned, we have been able to increase earnings before interest and taxes considerably.

Over the first six months of the current financial year, our overall business performance has therefore been less favourable than expected.

EMPLOYEES

The number of employees in the Group as at 30 June 2015 fell by 141 year on year to 16,339. The German companies have cut staff levels by 187 within the past twelve months. In addition, our pump companies in Brazil and China have each reduced their headcount by 70. At the same time, the integration of the French company KSB Service Cotumer has resulted in the addition of 136 new employees.

REPORT ON EXPECTED DEVELOPMENTS

In the 2014 consolidated financial statements we presented a detailed estimate of how we expect the market and our sales opportunities to develop in the current year. Despite the way in which business has developed in the first six months of 2015, we still expect a marked increase in order intake for the full year, provided that we are successful in securing the orders for power plant projects that we currently expect to receive in the second half of the year. In terms of the segments, we continue to expect to see tangible growth in Pumps and significant increases with regard to Valves. We are now anticipating considerable rather than moderate growth in the Service segment.

Looking to the second half of 2015, we expect sales revenue to continue to develop positively and are confirming our forecast of a significant sales increase for the full year. We continue to anticipate tangible growth in Pumps and Valves. With regard to the Service segment, we see good opportunities to exceed our original target of moderate growth for the full year and to achieve a considerable expansion in volume.

The Group's EBIT will improve substantially, an improvement that we also expect to see in the earnings of the Pumps and Service segments. We are continuing to plan for marked increases in Valves.

As far as earnings before taxes (EBT) are concerned, we are also continuing to anticipate considerable growth. The extent to which we can move close to a three-digit million euro amount will depend on whether there will be a tangible recovery during the second half of the year of the industry's unexpectedly weak economic activity. The return on sales before income tax is expected to increase to a value in the medium single-digit percentage range.

We continue to expect a net financial position of between € 180 million and € 190 million.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements and information that are based upon the assumptions of Management. They express our current forecasts and expectations with regard to future events. As a result, these forward-looking statements and information are exposed to risks and uncertainties that lie outside the Management's sphere of influence. We wish to point out that actual events or results may differ materially from the forward-looking statements and information mentioned, if one or more of the following opportunities or risks, or other opportunities, risks and uncertainties should materialise, or if the assumptions underlying the statements prove to be inaccurate.

OPPORTUNITIES AND RISKS REPORT

In the 2014 Annual Report, we presented in detail the opportunities and risks we see facing our business. These have since undergone no significant reassessment.

AUDIT REVIEW

This interim management report and the underlying condensed interim consolidated financial statements have neither been audited nor reviewed in accordance with section 317 of the German Commercial Code [*HGB*].

PUBLICATION

The half-year financial report is published in the *Bundesanzeiger* [German Federal Gazette], as well as on our web site (www.ksb.com). A print version is also available on request.

BALANCE SHEET

ASSETS

(€ thousands)	Notes	30 June 2015	31 Dec. 2014
Non-current assets			
Intangible assets	1	114,415	111,441
Property, plant and equipment	1	493,979	475,808
Non-current financial assets	1	8,711	7,320
Investments accounted for using the equity method	1	29,482	28,001
Deferred tax assets		96,391	86,659
		742,978	**709,229**
Current assets			
Inventories	2	496,749	449,826
Receivables and other current assets	3	729,596	683,749
Cash and cash equivalents	4	384,456	432,673
Assets held for sale		1,184	2,234
		1,611,985	**1,568,482**
		2,354,963	**2,277,711**

EQUITY AND LIABILITIES

(€ thousands)	Notes	30 June 2015	31 Dec. 2014
Equity	5		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		596,369	585,054
Equity attributable to shareholders of KSB AG		707,804	696,489
Non-controlling interests		144,915	132,719
		852,719	**829,208**
Non-current liabilities			
Deferred tax liabilities		15,396	15,058
Provisions for employee benefits	6	543,378	529,526
Other provisions	6	16,619	16,254
Other liabilities	7	154,060	159,427
		729,453	**720,265**
Current liabilities			
Provisions for employee benefits	6	98,214	99,060
Provisions for taxes	6	8,941	4,158
Other provisions	6	71,690	80,688
Tax liabilities	7	27,970	20,837
Other liabilities	7	565,976	523,286
Liabilities held for sale		–	209
		772,791	**728,238**
		2,354,963	**2,277,711**

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

(€ thousands)	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
Sales revenue	8	**1,098,670**	**1,011,638**
Changes in inventories		43,619	19,241
Work performed and capitalised		2,226	669
Total output of operations		**1,144,515**	**1,031,548**
Other income	9	11,356	12,043
Cost of materials	10	– 482,570	– 418,644
Staff costs	11	– 418,779	– 389,417
Depreciation and amortisation expense		– 30,504	– 29,274
Other expenses	12	– 185,488	– 172,670
Other taxes		– 6,479	– 6,453
		32,051	**27,133**
Financial income	13	4,337	3,217
Financial expense	13	– 9,400	– 10,969
Income from / expense to investments accounted for using the equity method	13	1,589	1,320
		– 3,474	**– 6,432**
Earnings before income taxes		**28,577**	**20,701**
Taxes on income	14	– 10,831	– 5,791
Earnings after income taxes		**17,746**	**14,910**
Attributable to:			
Non-controlling interests	15	4,913	3,811
Shareholders of KSB AG		**12,833**	**11,099**
Diluted and basic earnings per ordinary share (€)	16	7.20	6.21
Diluted and basic earnings per preference share (€)	16	7.46	6.47

STATEMENT OF INCOME AND EXPENSE RECOGNISED IN EQUITY

(€ thousands)	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
Earnings after income taxes		**17,746**	**14,910**
Expense and income recognised directly in equity and not reclassified to profit or loss in subsequent periods		**– 3,500**	**– 25,331**
Taxes on income		1,500	10,856
Expense and income recognised directly in equity and reclassified to profit or loss in subsequent periods		**26,923**	**7,418**
Currency translation differences		25,338	9,970
Measurement of financial instruments		1,719	– 3,736
Taxes on income		– 134	1,184
Other comprehensive income		**23,423**	**– 17,913**
Total comprehensive income		**41,169**	**– 3,003**
Attributable to:			
Non-controlling interests		14,578	5,841
Shareholders of KSB AG		**26,591**	**– 8,844**

Also see the relevant information in the Notes.

STATEMENT OF CHANGES IN EQUITY

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2014	44,772	66,663
Other comprehensive income	–	–
Earnings after income taxes	–	–
Total comprehensive income	**–**	**–**
Dividends paid	–	–
Capital increases / decreases	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
30 June 2014	**44,772**	**66,663**

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2015	44,772	66,663
Other comprehensive income	–	–
Earnings after income taxes	–	–
Total comprehensive income	**–**	**–**
Dividends paid	–	–
Capital increases / decreases	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
30 June 2015	**44,772**	**66,663**

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
Balance at 1 Jan. 2014	– 79,197	– 30,789	**– 109,986**
Change in 2014	7,793	2,177	**9,970**
Balance at 30 June 2014	**– 71,404**	**– 28,612**	**– 100,016**
Balance at 1 Jan. 2015	– 52,986	– 18,166	**– 71,152**
Change in 2015	15,759	9,579	**25,338**
Balance at 30 June 2015	**– 37,227**	**– 8,587**	**– 45,814**

Revenue reserves						
	Other comprehensive income					
Other revenue reserves	Currency translation differences	Measurement of financial instruments	Actuarial gains / losses under IAS 19	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
771,825	– 79,197	3,461	– 77,270	730,254	114,240	844,494
–	7,793	– 2,405	– 25,331	– 19,943	2,030	– 17,913
11,099	–	–	–	11,099	3,811	14,910
11,099	**7,793**	**– 2,405**	**– 25,331**	**– 8,844**	**5,841**	**– 3,003**
– 21,240	–	–	–	– 21,240	– 1,777	– 23,017
–	–	–	–	–	–	–
– 1,249	–	–	–	– 1,249	–	– 1,249
– 528	–	–	–	– 528	293	– 235
759,907	– 71.404	1,056	– 102.601	698,393	118,597	816,990

Revenue reserves						
	Other comprehensive income					
Other revenue reserves	Currency translation differences	Measurement of financial instruments	Actuarial gains / losses under IAS 19	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
788,712	– 52,986	– 3,993	– 146,679	696,489	132,719	829,208
–	15,759	1,499	– 3,500	13,758	9,665	23,423
12,833	–	–	–	12,833	4,913	17,746
12,833	**15,759**	**1,499**	**– 3,500**	**26,591**	**14,578**	**41,169**
– 15,111	–	–	–	– 15,111	– 2,382	– 17,493
–	–	–	–	–	–	–
– 165	–	–	–	– 165	–	– 165
–	–	–	–	–	–	–
786,269	– 37,227	– 2,494	– 150,179	707,804	144,915	852,719

STATEMENT OF CASH FLOWS

(€ thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014
Cash flow	**55,747**	**49,291**
Other changes in cash flows from operating activities	– 33,659	– 35,215
Cash flows from operating activities	**22,088**	**14,076**
Cash flows from investing activities	**23,874**	**– 19,594***
Cash flows from financing activities	**– 29,168**	**– 34,281**
Net change in cash and cash equivalents with a maturity of under 3 months	16,794	– 39,799*
Effects of exchange rate changes on cash and cash equivalents with a maturity of under 3 months	3,124	3,586
Effects of changes in consolidated Group	– 97	803
Cash and cash equivalents with a maturity of under 3 months at beginning of period (1 Jan. 2015 / 1 Jan. 2014)	290,470	331,641
Cash and cash equivalents with a maturity of under 3 months at end of period (30 June 2015 / 30 June 2014)	**310,291**	**296,231**

(€ thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014
Cash and cash equivalents with a maturity of under 3 months	**310,291**	**296,231**
Term deposits with a maturity of more than 3 and up to 12 months	59,415	91,107
Term deposits to hedge credit balances for partial retirement arrangements and long-term working hours accounts with a maturity of more than 3 and up to 12 months	14,750	16,268
Cash and cash equivalents	**384,456**	**403,606**

(€ thousands)	1 Jan. 2015	1 Jan. 2014
Cash and cash equivalents with a maturity of under 3 months	**290,470**	**331,641**
Term deposits with a maturity of more than 3 and up to 12 months	126,935	101,835
Term deposits to hedge credit balances for partial retirement arrangements and long-term working hours accounts with a maturity of more than 3 and up to 12 months	15,268	17,962
Cash and cash equivalents	**432,673**	**451,438**

* Corrected by € 12,422 thousand, see Section on General Information on the Group and the Accounting Principles Applied

NOTES

GENERAL INFORMATION ON THE GROUP AND THE ACCOUNTING PRINCIPLES APPLIED

The accompanying unaudited condensed interim consolidated financial statements of KSB Aktiengesellschaft, Frankenthal/Pfalz, Germany (KSB AG) have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU), taking account of the interpretations of the IFRS Interpretations Committee (IFRIC). They have been prepared in euros (€) on a going concern basis. Amounts in this report are generally presented in thousands of euros (€ thousands) using standard commercial rounding rules and in condensed form pursuant to IAS 34.

The standards and interpretations applicable as at 1 January 2015 were used in the preparation of the interim consolidated financial statements. Those standards and interpretations that were required to be applied for the first time had no impact on the Group's net assets, financial position or results of operations.

A correction was made in the statement of cash flows as in the previous year's interim consolidated financial statements cash and cash equivalents included term deposits with a maturity of more than 3 and up to 12 months. The amount of these deposits is presented following the statement of cash flows in the reconciliation of the adjusted amount of cash and cash equivalents with a maturity of under 3 months to the "Cash and cash equivalents" balance sheet item.

BASIS OF CONSOLIDATION

In addition to KSB AG, 9 German and 82 foreign companies were fully consolidated in the interim consolidated financial statements. We used the equity method to consolidate four joint ventures and one associate company.

Mäntän Pumppauspalvelu Oy, Mänttä-Vilppula, was merged with KSB Finland Oy, Kerava. A merger also took place in Norway between WM Teknikk AS, Ski, and KSB Norge AS, Ski. The Belgian company KSB SERVICE VRS SA, Feluy, and the Dutch company Nederlandse Pompservice (N.P.S.) B.V., Velsen-Noord, were deconsolidated. The resulting impact on these interim consolidated financial statements was not material.

The KSB Group relinquished control of B & C Pumpenvertrieb Köln GmbH, Cologne, in February 2015 through the sale of shares. The resulting effects are shown in the changes to "Assets held for sale" and "Liabilities held for sale" in the balance sheet. The impact on the results of operations, expenses and earnings is not material.

There were no changes to consolidation methods or currency translation methods.

ACCOUNTING POLICIES

The accounting policies have not changed as against the last financial statements and apply to all companies included in the interim consolidated financial statements.

BALANCE SHEET DISCLOSURES

1 Fixed assets

In the first six months of 2015 we invested € 36,929 thousand in property, plant and equipment; in the first half of 2014 the corresponding figure was € 29,437 thousand. At € 28,618 thousand, depreciation and amortisation hardly changed compared with the previous year (€ 27,055 thousand).

As in the first half of 2014, we did not recognise any impairment losses on intangible assets and items of property, plant and equipment in the reporting period.

The value of investments accounted for using the equity method increased from € 28,001 thousand to € 29,482 thousand, due to such factors as positive currency effects.

2 Inventories

(€ thousands)	30 June 2015	31 Dec. 2014
Raw materials, consumables and supplies	159,966	161,789
Work in progress	200,623	149,056
Finished goods and goods purchased and held for resale	115,155	115,961
Advance payments	21,005	23,020
	496,749	**449,826**

3 Receivables and other current assets

(€ thousands)	30 June 2015	31 Dec. 2014
Trade receivables	508,239	496,018
Receivables from other investments, associates and joint ventures	33,499	33,001
Receivables recognised by PoC	106,637	87,724
Receivables recognised by PoC (excl. advances received from customers PoC)	190,168	166,527
Advances received from customers (PoC)	– 83,531	– 78,803
Other receivables and other current assets	81,221	67,006
	729,596	**683,749**

Receivables from other investments include loans at the usual interest amounting to € 3,512 thousand (previous year: € 2,542 thousand). Impairment losses on receivables from other investments amount to € 3,531 thousand (previous year: € 3,181 thousand). There were no impairment losses on receivables from joint ventures, as in the previous year, or on receivables from associates (previous year: € 341 thousand).

4 Cash and cash equivalents

(€ thousands)	30 June 2015	31 Dec. 2014
Cash and cash equivalents with a maturity of under 3 months	310,291	290,470
Term deposits with a maturity of more than 3 and up to 12 months	59,415	126,935
Term deposits to hedge credit balances for partial retirement arrangements and long-term working hours accounts with a maturity of more than 3 and up to 12 months	14,750	15,268
	384,456	**432,673**

Cash and cash equivalents include also term deposits with short maturities and call deposits, as well as current account balances. Part of the term deposits is used in Germany for hedges of credit balances prescribed by law for partial retirement arrangements and long-term working time accounts. They are available to us at any time due to the underlying contractual structure.

5 Equity

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

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

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

6 Provisions

(€ thousands)	30 June 2015	31 Dec. 2014
Employee benefits	641,592	628,586
Pensions and similar obligations	528,463	514,657
Other employee benefits	113,129	113,929
Taxes	8,941	4,158
Taxes on income	8,149	3,304
Other taxes	792	854
Other provisions	88,309	96,942
Warranty obligations and contractual penalties	46,375	45,360
Provisions for restructuring	7,506	7,893
Miscellaneous other provisions	34,428	43,689
	738,842	**729,686**

The pension obligations in the KSB Group include defined contribution and defined benefit plans and contain both obligations from current pensions and future pension benefit entitlements. Plan assets are offset to a small extent in relation to the obligation.

Approximately 90 % of the provisions for pensions result from defined benefit plans of the German Group companies. Provisions for other employee benefits relate primarily to profit-sharing, jubilee payments, compensated absence and partial retirement obligations.

The tax provisions shown contain amounts of tax still payable for the year under review and for previous years for which no final tax assessment has yet been received.

The provisions for warranty obligations and contractual penalties reported under other provisions cover the statutory and contractual obligations to customers and are based on estimates prepared using historical data for similar products and services. The provisions for restructuring relate to measures designed to improve earnings in Germany. They include costs for the closure of a production site in Saarland and the reduction of our foundry activities at the Pegnitz site. Miscellaneous other provisions include, inter alia, provisions for expected losses from uncompleted transactions and onerous contracts, customer bonuses, accrued costs and environmental measures. In addition, risks of litigation and legal proceedings are covered if the recognition criteria for a provision are met.

7 Liabilities

NON-CURRENT LIABILITIES

(€ thousands)	30 June 2015	31 Dec. 2014
Financial liabilities		
Loan against borrower's note	139,807	139,766
Bank loans and overdrafts	13,178	18,203
Finance lease liabilities	918	1,185
Other	157	273
Total non-current liabilities	**154,060**	**159,427**

CURRENT LIABILITIES

(€ thousands)	30 June 2015	31 Dec. 2014
Financial liabilities		
Loan against borrower's note	35,000	35,000
Bank loans and overdrafts	52,807	56,774
Finance lease liabilities	555	525
Liabilities to other investments, associates and joint ventures	793	1,215
Other	367	10
	89,522	**93,524**
Trade payables		
Trade payables to third parties	218,771	209,808
Trade payables to other investments, associates and joint ventures	2,721	1,915
	221,492	**211,723**
Tax liabilities	**27,970**	**20,837**
Other liabilities		
Advances received from customers	103,035	73,902
Advances received from customers (PoC)	55,323	46,980
Social security and liabilities towards employees	30,313	28,706
Miscellaneous other liabilities	66,291	68,451
	254,962	**218,039**
Total current liabilities	**593,946**	**544,123**

TOTAL NON-CURRENT AND CURRENT LIABILITIES

(€ thousands)	30 June 2015	31 Dec. 2014
Total liabilities	**748,006**	**703,550**

INCOME STATEMENT DISCLOSURES

8 Sales revenue

The KSB Group's consolidated sales revenue was € 1,098,670 thousand (previous year: € 1,011,638 thousand).

The impact of the percentage of completion method pursuant to IAS 11 and the breakdown of sales revenue by segment (Pumps, Valves and Service) is presented in the segment reporting.

9 Other income

(€ thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014
Gains from asset disposals and reversals of impairment losses (write-ups)	648	2,063
Income from current assets (primarily measurement effects concerning receivables)	1,223	1,807
Currency translation gains	206	720
Income from the reversal of provisions	3,100	1,354
Miscellaneous other income	6,179	6,099
	11,356	**12,043**

10 Cost of materials

(€ thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014
Cost of raw materials, consumables and supplies and of goods purchased and held for resale	443,156	388,577
Cost of purchased services	39,414	30,067
	482,570	**418,644**

11 Staff costs

(€ thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014
Wages and salaries	335,524	314,030
Social security contributions and employee assistance costs	65,761	61,111
Pension costs	17,494	14,276
	418,779	**389,417**

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

We employed an average of 16,371 people in the reporting period (previous year: 16,532).

12 Other expenses

(€ thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014
Losses from asset disposals	137	291
Losses from current assets (primarily measurement effects concerning receivables)	2,666	3,892
Currency translation losses	432	2,135
Other staff costs	13,009	11,898
Repairs, maintenance, third-party services	45,193	39,379
Selling expenses	40,668	36,586
Administrative expenses	46,479	43,269
Rents and leases	14,211	13,776
Miscellaneous other expenses	22,693	21,444
	185,488	**172,670**

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

13 Financial income / expense

(€ thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014
Financial income	**4,337**	**3,217**
Income from equity investments	–	–
thereof from other investments	(–)	(–)
Interest and similar income	4,328	3,203
thereof from other investments	(35)	(26)
thereof from investments accounted for using the equity method	(19)	(–)
Other financial income	9	14
Financial expense	**– 9,400**	**– 10,969**
Interest and similar expenses	– 9,376	– 10,924
thereof to other investments	(–)	(–)
Expenses from the remeasurement of financial instruments	–	– 2
Other financial expenses	– 24	– 43
Income from / expense to investments accounted for using the equity method	**1,589**	**1,320**
Financial income / expense	**– 3,474**	**– 6,432**

Interest and similar expenses include the net interest cost in accordance with IAS 19 amounting to € 5,652 thousand (previous year: € 6,789 thousand).

14 Taxes on income

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

(€ thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014
Effective taxes	18,184	14,501
Deferred taxes	– 7,353	– 8,710
	10,831	**5,791**

15 Earnings after income taxes – Non-controlling interests

The net profit attributable to non-controlling interests amounts to € 5,740 thousand (previous year: € 5,187 thousand) and the net loss attributable to non-controlling interests amounts to € 827 thousand (previous year: € 1,376 thousand). They relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India.

16 Earnings per share

		Six months ended 30 June 2015	Six months ended 30 June 2014
Diluted and basic earnings per ordinary share	€	7.20	6.21
Diluted and basic earnings per preference share	€	7.46	6.47

An additional dividend attributable to preference shareholders of € 0.26 (previous year: € 0.26) per share is assumed.

FINANCIAL RISKS

We are exposed to certain financial risks as a consequence of our business activities. These risks can be classified into three areas:

On the one hand, we are exposed to **credit risk**. We define credit risk as potential default or delays in the receipt of contractually agreed payments. We are also exposed to **liquidity risk**, which is the risk that an entity will be unable to meet its financial obligations, or will be unable to meet them in full. Finally, we are exposed to **market price risk**. The risk of exchange rate or interest rate changes may adversely affect the economic position of the Group. Risks from fluctuations in the prices of financial instruments are not material for us.

We limit all of these risks through an appropriate risk management system, and define how these risks are addressed through guidelines and work instructions. In addition, we monitor the current risk characteristics continuously and regularly provide the information obtained in this way to the Board of Management and the Supervisory Board in the form of standardised reports and individual analyses.

SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

The table below shows **earnings before interest and taxes (EBIT)** for the segments and **consolidated earnings before income taxes (EBT)** including non-controlling interests. The effects from measuring construction contracts in accordance with IAS 11 are presented separately as reconciliation effects.

(€ thousands / Six months ended 30 June)	Order intake		External sales revenue		EBIT	
	2015	2014	2015	2014	2015	2014
Pumps segment	745,851	765,912	704,587	644,460	12,830	12,316
Valves segment	198,062	189,469	184,782	178,853	4,036	4,770
Service segment	208,871	176,493	185,348	164,433	9,697	4,822
Reconciliation	–	–	23,953	23,892	7,062	6,514
Total	**1,152,784**	**1,131,874**	**1,098,670**	**1,011,638**	**33,625**	**28,422**
		Other financial income / expense			**– 5,048**	**– 7,721**
		Earnings before income taxes (EBT)			**28,577**	**20,701**

The EBIT of the Pumps segment includes depreciation and amortisation expense of € 20.3 million (previous year: € 19.2 million), the EBIT of the Valves segment includes depreciation and amortisation expense of € 5.1 million (unchanged on the previous year) and the EBIT of the Service segment includes depreciation and amortisation expense of € 5.1 million (previous year: € 4.9 million).

€ 288,057 thousand (previous year: € 294,960 thousand) of the sales revenue presented was generated by the companies based in Germany, € 129,683 thousand (previous year: € 110,688 thousand) was generated by the companies based in France, € 96,519 thousand (previous year: € 80,809 thousand) by the companies based in the USA, and € 584,411 thousand (previous year: € 525,181 thousand) by the other Group companies.

There were no relationships with individual customers that accounted for a material proportion of Group sales revenue.

At the reporting date, the total non-current assets of the KSB Group amounted to € 513,791 thousand (year-end figure in 2014: € 494,469 thousand), with € 180,399 thousand (year-end figure in 2014: € 182,151 thousand) being attributable to the companies based in Germany and € 333,392 thousand (year-end figure in 2014: € 312,318 thousand) being attributable to the other Group companies. The non-current assets include intangible assets and property, plant and equipment. Goodwill, non-current financial instruments and deferred tax assets are not included.

OTHER DISCLOSURES

Contingent liabilities (contingencies and commitments)

Contingent liabilities and other financial obligations and commitments fall within the scope of what is required to carry on normal business activities. They have not changed materially compared with those at 31 December 2014.

Research and development costs
Research and development costs in the reporting period amounted to € 24,154 thousand (previous year: € 25,031 thousand).

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

The transactions in relation to the parent company Klein Pumpen GmbH are based on a rental and services agreement between KSB AG and Klein Pumpen GmbH. The transactions with subsidiaries of Klein Pumpen GmbH primarily comprise transactions with Abacus Personaldienstleistungen GmbH, which has entered into a contract for work with KSB AG, and with Palatina Versicherungsservice GmbH, which provides services in the area of private and corporate insurance cover. A rental and services agreement is in place between Palatina Versicherungsservice GmbH and KSB AG. A service agreement has also been agreed between KSB AG and Abacus alpha GmbH, a Klein Pumpen GmbH joint venture.

This resulted in the recognition of expenses of € 24 thousand (previous year: € 24 thousand) and income of € 7 thousand (previous year: € 7 thousand) at KSB AG in relation to Klein Pumpen GmbH in the reporting period. As at 30 June 2015 there were no liabilities (30 June 2014: € 57 thousand).

Auditors
PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, based in Frankfurt am Main with an office in Mannheim, were appointed as auditors and group auditors for the financial year 2015 at the Annual General Meeting of KSB AG on 6 May 2015.

This half-year financial report has been neither reviewed nor audited in accordance with section 317 of the *HGB* [German Commercial Code].

Events after the balance sheet date
There were no reportable events after the balance sheet date.

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

APPROPRIATION OF THE 2014 NET RETAINED EARNINGS OF KSB AG

The Annual General Meeting on 6 May 2015 resolved to appropriate the 2014 net retained earnings of € 17,126,086.06 of KSB AG, Frankenthal, containing retained earnings brought forward of € 102,220.43, as follows:

Distribution of a dividend of € 8.50 per ordinary no-par-value share	€ 7,536,227.50
and, in accordance with the Articles of Association, € 8.76 per preference no-par-value share	€ 7,574,877.12
Appropriation to revenue reserves	€ 2,000,000.00
Total	€ 17,111,104.62
Carried forward to new account	€ 14,981.44
	€ 17,126,086.06

The dividend was paid out on 7 May 2015.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable interim reporting principles, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group during the remainder of the financial year.

Frankenthal, 13 August 2015

The Board of Management

SHAREHOLDER INFORMATION

12 NOVEMBER 2015
Interim report
January – September 2015

29 JANUARY 2016
Preliminary report on financial year 2015

31 MARCH 2016
Financial press conference
67227 Frankenthal, Germany

1 APRIL 2016
Invitation to Annual General Meeting

29 APRIL 2016
Interim report
January – March 2016

11 MAY 2016
Annual General Meeting
Frankenthal, Germany

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

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

Should you need additional information,
please contact:

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

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

CONCEPT AND DESIGN
KSB Communications (CC), Frankenthal, Germany

PRINTING
Ottweiler Druckerei und Verlag GmbH, Ottweiler,
Germany

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