KSB Group

Half-year Financial Report 2011

CONTENTS

INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011

ECONOMIC ENVIRONMENT

In the first half of 2011, the global economy had to cope with a series of critical events, including the political upheavals in North Africa, the natural disasters and reactor accident in Japan, and the intensification of the debt crisis. Despite all these factors, the global economy continued to grow.

This expansion was primarily driven by the dynamism of the Asian and Latin American emerging economies, but the economic revival also continued in the more developed economies of Europe and North America. Globally, however, the economic upswing lost some momentum compared with the second half of 2010.

Mechanical engineering companies benefited from increased demand for capital goods in the period under review. This demand was particularly strong in some non-European countries such as China and Brazil. German mechanical engineering companies also managed to increase their exports to Russia.

The general business with standard pumps and valves saw a marked increase in demand in the first six months of 2011, while the volume of newly awarded project contracts was lower than before the economic crisis. The price war in the industry in relation to customised engineered pumps and valves continued as a result of underutilisation in the longer-cycle project business.

BUSINESS DEVELOPMENT

The positive economic development in the emerging markets and in the general business facilitated the successful implementation of our Group strategy, which we adopted in 2009. The strategy encompasses the expansion of our standard pump and valve business as well as the strengthening of our presence in the growth markets outside Europe.

Several sales projects helped increase our general business order intake in the period under review. In addition, we have begun to establish new logistics facilities and dealer networks in selected countries to supply the markets with standard products.

We have modernised and expanded our manufacturing facilities in high-growth markets outside Europe, especially in China, India and Brazil.

Aiming to broaden our global activities, we established two companies in Peru and Slovenia.

In order to expand our already strong position in the marine valve market we took over Seil Seres Co. Ltd., a South Korean company which will operate worldwide under the new name KSB Seil Co. Ltd. We are now able to offer package solutions with different types of valves as well as remote monitoring and control devices for applications on liquefied gas tankers.

Strong order growth in the general business

In the first six months of 2011, consolidated order intake in the Group increased by 6.4 % to € 1,067.6 million. The growth driver was the general business, particularly in industry and building services. The demand for standard products in these sectors was even higher than before the crisis. By contrast, order intake in the late-cycle project business has yet to recover. For the latter, order intake in the first half of 2011 was lower than during the comparative period in 2010.

Order intake rose in all three Business Units – Pumps, Valves and Service. The Business Unit Pumps enjoyed good growth in its business with single-stage pumps and, in particular, submersible pumps. We received several major orders for drinking and cooling water supply systems and waste water treatment. Order intake for multistage pumps, which are required for high-pressure applications, was affected by the postponement of new power plant projects.

Within the regions, order volumes for pumps, valves and services displayed a mixed pattern:

The order growth experienced by the European companies in the first half of the year was on the whole moderate, however there was a clear north-south divide. In the southern countries, especially in Spain and Italy, the order volume was significantly lower due to lower infrastructure project spending by public sector clients. Private customers too invested less. The order situation was more positive in contrast in Scandinavia, Central Europe and France. During the first six months of the year, KSB AG increased its order intake by 10.5 % to € 390.7 million, an order volume which remained, however, below pre-crisis levels. Indirect exports to countries outside Europe accounted for a significant percentage of its growth.

The companies in the Regions Asia/Pacific and Americas once again achieved double-digit growth rates. Our U.S. subsidiary, GIW Industries, Inc., which sells slurry pumps for use in raw materials extraction, performed particularly well, winning several orders from companies active in the Canadian oil sands industry.

The order intake of the Group companies in the Region Middle East/Africa was almost on a par with prior-year figures.

The first-time consolidation of ten small subsidiaries contributed to the growth in order intake within the Group. Their order intake stood at € 28.3 million.

Sales revenue exceeds pre-crisis level

The sales revenue of the Group companies increased by 6.1 % to € 970.5 million compared with the first six months of 2010. We achieved growth in all three Business Units. Pump sales revenue increased by 5.3 %, service sales revenue by 14.0 % and valve sales revenue by 1.1 %.

The overall sales revenue volume of the European companies grew by just 1.5 % compared with the prior-year figure. At € 371.1 million, KSB AG's sales revenue (in accordance with *HGB* – German Commercial Code) grew by 2.9 %. The strongest absolute and percentage sales revenue growth was posted by companies in the Region Asia/Pacific, in particular those in China and India, with an increase of 29.0 % overall. The companies in the Region Middle East/Africa also managed to achieve a double-digit percentage increase in sales revenue (+14.0 %). The sales revenue growth enjoyed by companies in the Region Americas was much more subdued at +4.8 %.

The contribution of the newly consolidated companies to sales revenue growth amounted to € 27.2 million.

Orders in hand up again

As the volume of orders received in the first six months of 2011 exceeded sales revenue, the level of orders in hand increased from € 1.1 billion at year end 2010 to more than € 1.2 billion. This volume includes long-term major orders with delivery times extending to 2014.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Compared with the first half of 2010, earnings were virtually unchanged though business volume had increased. In particular, increased pressure on prices and higher material and staff costs presented challenges. The financial position of the KSB Group remains very solid despite the investments made and the higher commitment of funds to current assets due to the increase in orders in hand.

RESULTS OF OPERATIONS

Increase in total output of operations

At € 1,020.6 million, total output of operations was 9.1 % higher than the prior-year value of € 935.2 million. As well as sales revenue growth, we also recorded a considerably higher increase in work in progress year on year.

Change in cost structure

The cost of materials increased by € 46.1 million compared with the first six months of 2010 as business was expanded and procurement prices rose. Expressed as a percentage of total output of operations, this represents 43.1 % (previous year 42.1 %). Staff costs rose from € 321.4 million to € 343.7 million. This is above all attributable to the increase in headcount in the wake of the above-mentioned first-time consolidations. In addition, some Group companies took on additional staff. Staff costs as a percentage of total output of operations decreased by 0.7 percentage points to 33.7 % though. Other operating expenses grew by € 15.7 million to € 165.0 million and, expressed as a percentage of total output of operations, increased marginally on the value for the first half of 2010. As a result of our ongoing investing activities, amortisation and depreciation rose yet again by 10.6 % (€ +2.4 million).

Half-year earnings largely unchanged

Earnings before income taxes for the first six months of the year amounted to € 50.0 million, up 2.0 % or € 1.0 million from the figure in the first half of 2010. Because of the higher increase in sales revenue, however, the return on sales was slightly lower at 5.2 %; the comparative prior-year figure was 5.4 %. In particular, the considerable pressure on prices combined with higher material and staff costs had an adverse impact.

Earnings after income taxes were down slightly from € 34.4 million to € 34.0 million.

Earnings after income taxes attributable to non-controlling interest fell to € 3.8 million (previous year: € 4.8 million). Earnings per ordinary share thus stand at € 17.13 (previous year: € 16.79) and earnings per preference share at € 17.39 (previous year: € 17.05).

Segment performance

In the Business Unit Pumps, both order intake and sales revenue increased by 5.3 %. We generated EBIT of € 28.8 million (versus € 36.2 million for the first six months of 2010).

The Business Unit Valves achieved an increase of 2.4 % in order intake and of 1.1 % in sales revenue compared with the first half of 2010. At € -0.2 million, EBIT was down on the prior-year figure of € 1.2 million.

The Business Unit Service posted strong growth, with order intake up 17.5 % and sales revenue 14.0 % higher. EBIT grew from € 13.0 million to € 18.2 million.

FINANCIAL POSITION

Equity

The equity of the KSB Group declined slightly in the first six months of 2011 to € 818.5 million, up from € 825.6 million at 31 December 2010. The contraction is primarily attributable to negative currency effects. The equity ratio now stands at 43.6 % after 44.4 % at year end 2010.

Liabilities

Liabilities have increased since year end 2010 by € 23.1 million. Provisions declined overall by € 31.6 million, primarily due to lower staff-related provisions. The provisions for taxes are also notably reduced due to increased advance payments to be offset. Financial liabilities increased by € 28.2 million. In order to avoid currency risks, finance for the acquisition in South Korea was secured primarily in local currency. Higher advance payments received from customers resulted in an increase in other liabilities.

NET ASSETS

Total assets increased to € 1,877.3 million at 30 June 2011, compared with € 1,861.3 million at 31 December 2010.

The changes in non-current assets (€ +26.0 million) are primarily attributable to first-time consolidations. Intangible assets increased by € 42.0 million, primarily as a result of goodwill attributable to the newly consolidated companies in South Korea, Italy and the US. By contrast, financial assets declined by around € 33 million. First-time consolidations accounted for a € 18 million increase in property, plant and equipment.

At € 393.2 million, inventories were markedly higher than at year end 2010 (€ 324.5 million). As a result of the increase in orders in hand, the value of work in progress rose considerably.

Receivables and other assets increased by € 25.6 million to € 622.1 million, with receivables recognised by the percentage-of-completion method (PoC) being up by € 29.9 million.

Higher expenditure for new companies as well as increased financing requirements for inventories, receivables and provisions impacted current financial instruments, cash and cash equivalents, which amounted to € 303.9 million (31 Dec. 2010: € 408.1 million).

Liquidity and cash flow

The KSB Group's net financial position (balance of interest-bearing financial assets and financial liabilities) amounted to € 154.0 million at the end of June. This represents a decline of € 79.5 million compared with 30 June 2010.

Cash flows from operating activities amounted to € -45.6 million, versus € 46.6 million for the first six months of the previous year. Compared with the prior-year period, this is primarily attributable to higher levels of funds tied up in inventories and receivables. Reduced provisions also had a negative impact on cash flows.

Our investing activities generated cash flows of € -56.5 million (prior-year period: € -34.6 million). In particular, payments within the scope of our acquisition activities increased considerably.

Cash flows from financing activities amounted to € -5.0 million (prior-year period: € -39.8 million). The change is mainly attributable to long-term borrowing in the first half of 2011, while the comparative prior-year period was characterised by the repayment of debt.

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

In terms of order intake and sales revenue, the KSB Group's current economic position has improved over the first six months of 2011. As expected though, earnings have remained largely unchanged due to the above-mentioned effects. The Group's financial position remains very solid despite an increased level of funds tied up.

EMPLOYEES

The number of employees in the Group as at 30 June 2011 increased by 958 year on year to 15,434.

593 people are employed in the ten Group companies consolidated for the first time. The other new entrants were primarily taken on by KSB AG, KSB Bombas Hidráulicas S.A. (Brazil), GIW Industries, Inc. (USA) and KSB Shanghai Pump Co. Ltd. (China). These companies increased their staff in order to be able to deal with additional sales and production tasks and to plan and implement strategic projects.

RISK REPORT

In the Group management report in the 2010 consolidated financial statements, we presented in detail the opportunities and risks we see facing our business. These have since undergone significant reassessment. Recent falls in global stock markets are increasing concerns about the development of the global economy. In particular, the consequences of the debt crisis in many industrial nations, the revising of growth forecasts in the US and the interest rate rises in the emerging economies to tackle inflation mean that all the leading indicators suggest a marked weakening in the global economy. Some experts are already warning of the negative effects this may have and see the risk of a renewed recession.

REPORT ON EXPECTED DEVELOPMENTS

In the report on expected developments in the 2010 consolidated financial statements we presented a detailed estimate of our sales opportunities based on how we expected the market to develop in the current year. Our forecast for the first half of the year was largely confirmed.

Forecasting for the full year has been made significantly more difficult by the current expansion of the debt crisis and the risks this entails for the future development of the global economy. As long as there is no significant economic slowdown in the short term, we expect to be able to exceed prior-year levels of order intake and sales revenue for the full year in all three Business Units. Sales revenue may rise even more strongly in the second half of the year as a result of the high level of orders in hand. We expect our general business with standard products and our service business to continue growing, while our project business will probably continue to face an unchanged and difficult market environment.

We continue to aim for consolidated earnings on a par with those in 2010. It is still uncertain whether an improvement will be possible as there is continuing pressure on prices in our sales markets, especially in the project business, and material and staff costs are on the increase. As far as the individual Business Units are concerned, we cannot rule out lower earnings for Pumps and Valves. The trend in Service is, in contrast, forecast to be more positive. Should a slowdown in the global economy occur, any resulting decline in the forecast business volumes for the second half of the year is likely to have a negative impact on earnings.

The implementation of strategic projects will continue to form one of the focal points of our work.

FORWARD-LOOKING STATEMENTS

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

AUDIT REVIEW

This interim management report, as well as the underlying condensed 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 electronic *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 2011	31 Dec. 2010
Non-current assets			
Intangible assets	1	90,536	48,584
Property, plant and equipment	1	416,253	400,860
Non-current financial assets	1	32,680	65,845
Deferred tax assets		18,599	16,824
		558,068	**532,113**
Current assets			
Inventories	2	393,184	324,518
Receivables and other current assets	3	622,134	596,545
Current financial instruments	4	2,007	500
Cash and cash equivalents	4	301,926	407,621
		1,319,251	**1,329,184**
		1,877,319	**1,861,297**

EQUITY AND LIABILITIES

(€ thousands)	Notes	30 June 2011	31 Dec. 2010
Equity	5		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		600,461	602,561
Equity attributable to shareholders of KSB AG		711,896	713,996
Non-controlling interest		106,565	111,570
		818,461	**825,566**
Non-current liabilities			
Deferred tax liabilities		39,266	33,704
Provisions for employee benefits	6	274,936	269,547
Other provisions	6	15,151	16,098
Liabilities	7	139,084	109,644
		468,437	**428,993**
Current liabilities			
Provisions for employee benefits	6	96,728	110,784
Other provisions	6	68,100	90,119
Liabilities	7	425,593	405,835
		590,421	**606,738**
		1,877,319	**1,861,297**

INCOME STATEMENT INCLUDING STATEMENT OF RECOGNISED INCOME AND EXPENSE

INCOME STATEMENT

(€ thousands)	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010
Sales revenue	8	**970,520**	**914,904**
Changes in inventories		49,299	19,114
Work performed and capitalised		809	1,164
Total output of operations		**1,020,628**	**935,182**
Other operating income	9	11,436	8,011
Cost of materials	10	– 440,106	– 394,028
Staff costs	11	– 343,682	– 321,432
Depreciation and amortisation expense		– 24,715	– 22,350
Other operating expenses	12	– 165,006	– 149,311
Other taxes		– 4,118	– 4,062
		54,437	**52,010**
Financial income	13	6,439	6,433
Financial expense	13	– 10,859	– 9,395
		– 4,420	**– 2,962**
Earnings before income taxes		**50,017**	**49,048**
Taxes on income	14	– 15,979	– 14,640
Earnings after income taxes		**34,038**	**34,408**
Attributable to:			
Non-controlling interest	15	3,814	4,782
Shareholders of KSB AG		**30,224**	**29,626**
Diluted and basic earnings per ordinary share (€)	17	17.13	16.79
Diluted and basic earnings per preference share (€)	17	17.39	17.05

STATEMENT OF RECOGNISED INCOME AND EXPENSE

(€ thousands)	Six months ended 30 June 2011	Six months ended 30 June 2010
Earnings after income taxes	**34,038**	**34,408**
Measurement of financial instruments	2,517	– 4,561
Currency translation differences	– 22,331	48,468
Other income and expense recognised directly in equity	–	– 537
Taxes on items recognised directly in equity	– 724	1,372
Total earnings recognised directly in equity	**– 20,538**	**44,742**
Total recognised income and expense	**13,500**	**79,150**
Attributable to:		
Non-controlling interest	– 2,887	18,114
Shareholders of KSB AG	**16,387**	**61,036**

STATEMENT OF CHANGES IN EQUITY

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG	Revenue reserves	Equity attributable to shareholders of KSB AG	Non-controlling interest	**Total equity**
1 Jan. 2010	44,772	66,663	515,672	627,107	93,455	**720,562**
Measurement of financial instruments	–	–	– 3,242	– 3,242	–	**– 3,242**
Currency translation differences	–	–	35,036	35,036	13,432	**48,468**
Other income and expense recognised directly in equity	–	–	– 384	– 384	– 100	**– 484**
Total earnings recognised directly in equity	–	–	*31,410*	*31,410*	*13,332*	***44,742***
Earnings after income taxes	–	–	29,626	29,626	4,782	**34,408**
Total recognised income and expense	–	–	*61,036*	*61,036*	*18,114*	***79,150***
Dividends paid	–	–	– 21,240	– 21,240	– 2,471	**– 23,711**
Capital increases / decreases	–	–	–	–	–	**–**
Change in consolidated Group / Successive acquisitions	–	–	464	464	235	**699**
Other	–	–	–	–	–	**–**
30 June 2010	**44,772**	**66,663**	**555,932**	**667,367**	**109,333**	**776,700**

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG	Revenue reserves	Equity attributable to shareholders of KSB AG	Non-controlling interest	**Total equity**
1 Jan. 2011	44,772	66,663	602,561	713,996	111,570	**825,566**
Measurement of financial instruments	–	–	2,517	2,517	–	**2,517**
Currency translation differences	–	–	– 15,630	– 15,630	– 6,701	**– 22,331**
Other income and expense recognised directly in equity	–	–	– 724	– 724	–	**– 724**
Total earnings recognised directly in equity	–	–	*– 13,837*	*– 13,837*	*– 6,701*	***– 20,538***
Earnings after income taxes	–	–	30,224	30,224	3,814	**34,038**
Total recognised income and expense	–	–	*16,387*	*16,387*	*– 2,887*	***13,500***
Dividends paid	–	–	– 21,240	– 21,240	– 2,109	**– 23,349**
Capital increases / decreases	–	–	–	–	–	**–**
Change in consolidated Group / Successive acquisitions	–	–	2,753	2,753	6	**2,759**
Other	–	–	–	–	– 15	**– 15**
30 June 2011	**44,772**	**66,663**	**600,461**	**711,896**	**106,565**	**818,461**

(€ thousands)	30 June 2009	30 June 2010	**30 June 2011**
Accumulated currency translation differences	– 71,081	– 18,059	– 49,759
thereof attributable to non-controlling interest	*(– 20,857)*	*(– 7,982)*	*(– 19,642)*

CASH FLOW STATEMENT

(€ thousands)	Six months ended 30 June 2011	Six months ended 30 June 2010
Earnings after income taxes	34,038	34,408
Depreciation and amortisation expense / write-ups	25,896	22,350
Increase / decrease in non-current provisions	2,423	– 865
Gain / loss on disposal of fixed assets	– 288	– 135
Other non-cash income / expenses	1,793	– 3,242
Cash flow	**63,862**	**52,516**
Other changes in cash flows from operating activities	– 109,488	– 5,883
Cash flows from operating activities	**– 45,626**	**46,633**
Cash flows from investing activities	**– 56,515**	**– 34,649**
Cash flows from financing activities	**– 5,005**	**– 39,758**
Net change in cash and cash equivalents	– 107,146	– 27,774
Effects of exchange rate changes on cash and cash equivalents	– 5,541	15,575
Effects of changes in consolidated Group	6,992	5,113
Cash and cash equivalents at beginning of period	407,621	409,840
Cash and cash equivalents at end of period	**301,926**	**402,754**

SEGMENT REPORTING

	Order intake		External sales revenue		EBIT	
(€ thousands)	**Six months ended 30 June 2011**	Six months ended 30 June 2010	**Six months ended 30 June 2011**	Six months ended 30 June 2010	**Six months ended 30 June 2011**	Six months ended 30 June 2010
Business Unit Pumps	727,525	690,850	638,178	605,857	28,782	36,240
Business Unit Valves	180,616	176,401	160,639	158,941	– 190	1,218
Business Unit Service	159,505	135,775	145,411	127,531	18,191	12,980
Reconciliation	–	–	26,292	22,575	8,586	4,977
Total	**1,067,646**	**1,003,026**	**970,520**	**914,904**	**55,369**	**55,415**

€ 327,246 thousand (previous year: € 324,733 thousand) of the sales revenue presented was generated by the companies based in Germany and € 643,274 thousand (previous year: € 590,171 thousand) by the other Group companies.

At the balance sheet date, the total non-current assets of the KSB Group amounted to € 429,208 thousand (year-end figure in 2010: € 411,259 thousand), with € 187,503 thousand (year-end figure in 2010: € 188,167 thousand) being attributable to the companies based in Germany and € 241,705 thousand (year-end figure in 2010: € 223,092 thousand) being attributable to the other Group companies. The non-current assets include intangible assets and property, plant and equipment. Goodwill, non-current financial instruments and deferred tax assets are not included.

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, sales revenue and earnings before income taxes – determined for the Business Units Pumps, Valves and Service. Reporting the relevant assets (including the resulting depreciation and amortisation, impairment losses / write-downs), number of employees and inter-segment sales revenue for these Business Units is not part of our internal reporting. The managers in charge of the Business Units, which are geared to product groups, have profit and loss responsibility. They identify business opportunities across markets and industries and assess our options based on current and future market requirements. They also proactively encourage the development of new products and improvements to the available range of products. In this context, they work closely with our Sales organisation and Operations.

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

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

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

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

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

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

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

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

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

NOTES

GENERAL

The accompanying interim consolidated financial statements of KSB AG, Frankenthal, Germany, were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Where balance sheet items are presented as at 30 June 2011, they are compared with the values as at 31 December 2010. In the income statement, the amounts of the first half of the year 2011 are compared with the amounts of the comparative prior-year period.

BASIS OF CONSOLIDATION

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

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

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

The changes in the consolidated Group described above contributed around 1 % to half-year consolidated earnings and had the following impact on the interim consolidated financial statements:

EFFECTS OF CHANGES IN THE CONSOLIDATED GROUP

(€ thousands)	2011
Non-current assets	30,591
Current assets	23,624
ASSETS	**54,215**
Equity	2,759
Non-current liabilities	31,752
Current liabilities	19,704
Equity and liabilities	**54,215**

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

ACCOUNTING POLICIES

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

CHANGE IN ACCOUNTING PRINCIPLES

The new or revised interpretations and standards issued by the International Accounting Standards Board that were required to be applied for the first time for financial year 2011 have no material impact on our interim consolidated financial statements.

BALANCE SHEET DISCLOSURES

1 Fixed assets

The slight decline in the volume of investment in property, plant and equipment is exclusively attributable to lower additions to real estate assets. In the first six months of 2011 we invested € 28,409 thousand; the comparative figure in the first half of 2010 was € 32,068 thousand. Depreciation and amortisation have risen compared with the previous year from € 20,915 thousand to € 22,474 thousand.

As in the first half of 2010, we did not recognise any impairment losses on intangible assets and items of property, plant and equipment in the period under review.

The considerable decline in non-current financial assets results primarily from companies included for the first time in the consolidated financial statements. The resulting goodwill accounts for the increase in intangible assets.

2 Inventories

(€ thousands)	30 June 2011	31 Dec. 2010
Raw materials and production supplies	134,667	129,718
Work in progress	143,692	85,710
Finished goods and goods purchased and held for resale	91,711	91,853
Advance payments	23,114	17,237
	393,184	**324,518**

3 Receivables and other current assets

(€ thousands)	30 June 2011	31 Dec. 2010
Trade receivables	403,698	428,694
Intragroup and associate receivables	18,412	19,313
Receivables recognised by PoC (excl. advances received from customers PoC)	248,479	221,721
Advances received from customers (PoC)	– 119,268	– 122,410
Receivables recognised by PoC	129,211	99,311
Other receivables and other current assets	70,813	49,227
	622,134	**596,545**

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 7,402 thousand (previous year: € 5,823 thousand). Associate receivables amounted to € 6,456 thousand (previous year: € 4,565 thousand).

4 Current financial instruments, cash and cash equivalents

Current financial instruments amount to € 2,007 thousand (previous year: € 500 thousand).

As well as positive bank account balances, cash and cash equivalents include term deposits with short maturities and call deposits. Part of the term deposits is used for hedges of credit balances prescribed by law for partial retirement arrangements.

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 is composed of 886,615 no-par value ordinary shares and 864,712 no-par value preference shares. Each no-par value share represents an equal notional amount of the share capital.

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

Details of the changes in equity accounts and non-controlling interest are contained in the Statement of Changes in Equity (p.10).

6 Provisions

Changes (€ thousands)	1 Jan. 2011	Change in consolidated Group/ CTA* / Other	Utilisation / Prepayments	Reversal	Additions	30 June 2011
Employee benefits	380,331	1,150	– 59,686	– 1,681	51,550	371,664
Pensions and similar obligations	245,442	432	– 6,334	–	13,203	252,743
Other employee benefits	134,889	718	– 53,352	– 1,681	38,347	118,921
Taxes	23,496	95	– 20,528	–	5,312	8,375
Taxes on income	22,539	117	– 20,072	–	4,897	7,481
Other taxes	957	– 22	– 456	–	415	894
Other provisions	82,721	– 615	– 22,901	– 1,186	16,857	74,876
Warranty obligations and contractual penalties	46,702	– 357	– 10,620	– 1,116	9,293	43,902
Miscellaneous other provisions	36,019	– 258	– 12,281	– 70	7,564	30,974
	486,548	**630**	**– 103,115**	**– 2,867**	**73,719**	**454,915**

* CTA = currency translation adjustments

More than 90 % of the provisions for pensions result from defined benefit plans of the German Group companies.

Provisions for other employee benefits primarily include profit-sharing, anniversary and jubilee payments, compensated absence and partial retirement payments.

Miscellaneous other provisions include, inter alia, provisions for expected losses from uncompleted transactions and onerous contracts, customer bonuses, accrued costs and environmental measures.

7 Liabilities

NON-CURRENT LIABILITIES

(€ thousands)	30 June 2011	31 Dec. 2010
Financial liabilities		
Liabilities on bonds issued	100,000	100,000
Bank loans and overdrafts	35,825	6,186
Finance lease liabilities	1,193	1,041
Other	2,066	2,417
	139,084	109,644
Total non-current liabilities	**139,084**	**109,644**

CURRENT LIABILITIES

(€ thousands)	30 June 2011	31 Dec. 2010
Financial liabilities		
Bank loans and overdrafts	18,347	16,759
Finance lease liabilities	599	2,866
Other	1,283	1,795
	20,229	**21,420**
Trade payables		
Trade payables to third parties	176,468	174,401
Intragroup trade payables	5,383	6,990
	181,851	**181,391**
Other liabilities		
Advances received from customers	79,299	60,650
Advances received from customers PoC	59,906	55,188
Taxes	21,514	16,656
Social security and liabilities towards employees	19,613	19,543
Miscellaneous other liabilities and deferred income	43,181	50,987
	223,513	**203,024**
Total current liabilities	**425,593**	**405,835**

TOTAL NON-CURRENT AND CURRENT LIABILITIES

(€ thousands)	30 June 2011	31 Dec. 2010
Total liabilities	**564,677**	**515,479**

INCOME STATEMENT DISCLOSURES

8 Sales revenue

The changes in the consolidated Group in the year under review accounted for € 27,156 thousand.

9 Other operating income

(€ thousands)	Six months ended 30 June 2011	Six months ended 30 June 2010
Gains from asset disposals and reversals of impairment losses (write-ups)	609	407
Income from current assets	435	1,051
Currency translation gains	570	–
Income from the reversal of provisions	2,867	690
Miscellaneous other income	6,955	5,863
	11,436	**8,011**

The changes in the consolidated Group did not have any material impact on other operating income.

10 Cost of materials

(€ thousands)	Six months ended 30 June 2011	Six months ended 30 June 2010
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	411,541	361,589
Cost of purchased services	28,565	32,439
	440,106	**394,028**

The changes in the consolidated Group accounted for € 20,552 thousand.

11 Staff costs

(€ thousands)	Six months ended 30 June 2011	Six months ended 30 June 2010
Wages and salaries	273,031	257,358
Social security contributions and employee assistance costs	60,320	56,777
Pension costs	10,331	7,297
	343,682	**321,432**

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

The changes in the consolidated Group in the year under review accounted for € 9,538 thousand.

We employed on average 15,339 people in the reporting period (previous year: 14,485). The changes in the consolidated Group in the year under review led to the addition of 573 people.

12 Other operating expenses

(€ thousands)	Six months ended 30 June 2011	Six months ended 30 June 2010
Losses from asset disposals	321	272
Losses from current assets	3,323	1,315
Currency translation losses	1,537	1,967
Other staff costs	10,113	9,242
Repairs, maintenance, third-party services	38,828	35,681
Selling expenses	41,328	38,189
Administrative expenses	40,218	31,701
Rents and leases	11,743	10,574
Miscellaneous other expenses	17,595	20,370
	165,006	**149,311**

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

The changes in the consolidated Group accounted for € 3,984 thousand.

13 Financial income / expense

(€ thousands)	Six months ended 30 June 2011	Six months ended 30 June 2010
Financial income	**6,439**	**6,433**
Income from investments	2,209	3,409
thereof from affiliates	(1,627)	(2,855)
Interest and similar income	4,229	3,016
thereof from affiliates	(200)	(159)
Write-ups of financial assets	–	–
Other financial income	1	8
Financial expense	**– 10,859**	**– 9,395**
Interest and similar expenses	– 9,581	– 9,383
thereof to affiliates	(1)	(–)
Write-downs of financial assets	– 1,181	–
Other financial expenses	– 97	– 12
	– 4,420	**– 2,962**

Interest and similar expenses include the interest cost on discounted pension provisions amounting to € 6,689 thousand (previous year: € 6,471 thousand).

The write-downs of financial assets relate to a small, non-consolidated subsidiary in Belgium.

14 Taxes on income

All income-related taxes of the companies included in the consolidated financial statements and deferred taxes are reported under this heading. Other taxes are reported in the income statement after other operating expenses.

(€ thousands)	Six months ended 30 June 2011	Six months ended 30 June 2010
Effective taxes	12,224	15,185
Deferred taxes	3,755	– 545
	15,979	**14,640**

15 Earnings after income taxes – Non-controlling interest

The non-controlling interest in net profit amounts to € 4,257 thousand (previous year: € 4,864 thousand), and the non-controlling interest in net loss amounts to € 443 thousand (previous year: € 82 thousand). These relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India.

16 Research and development costs

Research and development costs in the period under review amounted to € 21,614 thousand (previous year: € 17,927 thousand).

17 Earnings per share

Earnings per ordinary share stand at € 17.13 (previous year: € 16.79), and earnings per preference share at € 17.39 (previous year: € 17.05). An additional dividend attributable to preference shareholders of € 0.26 (previous year € 0.26) per share is assumed.

18 Financial risks

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

On the one hand, we are exposed to credit risk. We define **credit risk** as potential default or delays in the receipt of contractually agreed payments.

We are also exposed to **liquidity risk**, which is the risk that an entity will be unable to meet its financial obligations, or will be unable to meet them in full.

Finally, we are exposed to **market risk**. The risk of exchange rate or interest rate changes may adversely affect the economic position of the Group. Risks from fluctuations in securities prices are not material for us.

We limit all of these risks through an appropriate risk management system, defining 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.

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. These have not changed materially compared with those as at 31 December 2010.

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, Germany, exceeded the 75.00 % threshold on 5 May 2008 and amounted to 80.24 % (711,453 voting shares) on this date. 0.54 % of the voting rights (4,782 voting shares) were held directly by KSB Stiftung and 79.70 % (706,671 voting shares) were attributed to KSB Stiftung pursuant to section 22(1), sentence 1, No. 1 of the *WpHG*. The voting rights attributed to KSB Stiftung were held by Klein Pumpen GmbH, Frankenthal.

A rental and services agreement has been entered into between KSB AG and Klein Pumpen GmbH. This resulted in the recognition of expenses of € 24 thousand (previous year: € 24 thousand) and income of € 7 thousand (previous year: € 7 thousand) at KSB AG in the period under review. Short-term deposits by KSB AG with Klein Pumpen GmbH and by Klein Pumpen GmbH with KSB companies carry appropriate rates of interest.

Auditors

On 18 May 2011, BDO AG Wirtschaftsprüfungsgesellschaft (registered office: Hamburg), Frankfurt am Main Branch, were appointed as auditors and group auditors for the financial year 2011 by the Annual General Meeting of KSB AG.

This half-year financial report has not been subject to a review or audited in accordance with Section 317 of the *HGB* [German Commercial Code].

Events after the balance sheet date

Recent falls in global stock markets are increasing concerns about the development of the global economy. In particular, the consequences of the debt crisis in many industrial nations, the revising of growth forecasts in the US and the interest rate rises in the emerging economies to tackle inflation mean that all the leading indicators suggest a marked weakening in the global economy.

German Corporate Governance Code

The Board of Management and Supervisory Board of KSB AG in December 2010 issued an updated statement of compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act]. The statement of compliance is published on our web site www.ksb.com and has thus been made permanently accessible to our shareholders.

APPROPRIATION OF THE 2010 NET RETAINED EARNINGS OF KSB AG

The Annual General Meeting on 18 May 2011 resolved to appropriate the 2010 net retained earnings of € 28,374,698.46 of KSB AG, Frankenthal, containing retained earnings brought forward of € 464,845.89, as follows:

Distribution of a dividend of € 12.00 per ordinary no-par-value share	=	10,639,380.00 €
and, in accordance with the Articles of Association, € 12.26 per preference no-par-value share	=	10,601,369.12 €
Appropriation to revenue reserves		7,000,000.00 €
Total		28,240,749.12 €
Carried forward to new account		133,949.34 €
		28,374,698.46 €

The dividend was paid out on 19 May 2011.

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, 12 August 2011

The Board of Management

SHAREHOLDER INFORMATION

November 2011
Interim report
January – September 2011

End of January 2012
Preliminary report on financial year 2011

30 March 2012
Financial press conference
67227 Frankenthal

3 April 2012
Invitation to Annual General Meeting

May 2012
Interim report
January – March 2012

16 May 2012
Annual General Meeting
CongressForum Frankenthal
Stephan-Cosacchi-Platz 5
67227 Frankenthal

17 May 2012
Dividend payment

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