KSB Group

Half-year Financial Report 2012

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INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2012

ECONOMIC ENVIRONMENT

The euro zone proved to be a weak spot in global economic development in the first half of 2012. The sovereign debt crises in southern EU countries also increasingly dampened the investment climate in European core countries. Economic growth lost momentum in the emerging economies, particulary in Asia and Latin America, partly also as a result of lower demand from European countries.

For exporting companies in Europe the weaker euro improved sales opportunities in markets outside the euro zone. German mechanical engineering companies also benefited from this trend. However, the weak economic environment, particularly in markets within Europe, lowered business expectations in the sector overall. According to the Ifo Institute for Economic Research, German mechanical engineering companies adjusted their outlooks downward in June.

The order situation for the pumps and valves business was impacted in the first half of the year by the persistently low number of large projects in, for example, the power plant sector. The general business with standard products, on the other hand, profited from stable demand.

BUSINESS DEVELOPMENT

In view of the subdued global economic climate, many of our activities were devoted to developing new business opportunities. This included the launch of innovative products such as energy-saving chemical pumps and magnet-less high-efficiency motors, which went into production in the first quarter. To modernise and supplement our product portfolio, we acquired a majority stake in Danish pump manufacturer T. Smedegaard A/S, headquartered in Glostrup (Copenhagen), which develops and manufactures circulator pumps for application in building services. The acquisition of a service company in Saint-Étienne-du-Rouvray enabled us to expand our capacities in France for the maintenance and repair of power plant valves. In Kazakhstan and Ukraine, we started up new sales companies to enhance our proximity to customers in these markets.

Order intake up 8.8 %

The volume of orders received by the Group from January to June 2012 amounted to € 1,161.8 million, corresponding to an increase of € 94.2 million or 8.8 % compared with the first half of 2011. The largest absolute growth in order volume was achieved by the Pumps segment, which saw order intake grow by € 41.3 million (+5.7 %) . The Valves segment recorded the highest percentage increase in orders (15.9 %), while the volume of Service orders grew at a similar pace (15.1 %).

Overall, the order intake of our European companies rose by 8.4 % in the first half of the year, with KSB AG and KSB S.A.S. recording the strongest growth at € 17.7 million each. Orders received by KSB AG were 4.5 % up at € 408.4 million. One outstanding development in Europe was the growth recorded by Russian company KSB OOO, where order intake rose by more than 50 % versus the comparative prior-year period on account of orders from the power plant sector.

The KSB company in South Africa was a key contributor to the 9.1 % increase in order intake in the Region Middle East/Africa. Order intake for valves doubled in the Region.

While order intake in the Region Asia/Pacific was reined back by weaker demand in India due to economic factors, other companies in the Region more than offset the lower volume of new orders received by our Indian companies. This was attributable in no small part to the orders from the mining sector received by our companies in Australia and Indonesia. Overall, order intake for companies in the Region was up 6.0 %.

The highest growth rate was achieved by our companies in the Americas, where order intake increased by 13.4 %. The strongest volume growth was reported by our US subsidiary GIW Industries, Inc. and by KSB Chile S.A. Both companies benefited from demand by mining companies for slurry pumps.

The consolidated order intake figures also reflect the first-time consolidation of nine companies, which accounted for € 17.6 million in orders received.

Consolidated sales revenue rose by 13.2 %

In the first half of 2012, the sales revenue of the KSB Group was € 128.0 million higher at € 1,098.5 million. All three segments recorded double-digit growth, with pump sales revenue rising by 13.4 %, valve sales revenue by 13.7 % and service sales revenue by 21.4 %.

Sales revenue generated by the European companies in the first six months of 2012 was 7.4 % higher year on year. While a number of our companies in central and northern Europe performed very well, posting double-digit percentage growth in sales revenue, companies in southern Europe saw sales volume decline due to the strained economic situation in this region. KSB AG increased its sales revenue (*HGB* – German Commercial Code) by 7.4 % to € 398.8 million.

Sales revenue generated by the four consolidated operative companies in the Region Middle East/Africa grew by 13.1 %.

Our companies in the Region Asia/Pacific improved sales revenue in the first half of the year by 24.0 %. Growth drivers were the companies in China, South Korea and Australia, with the billing of pump and valve orders for power plants, tankers and the mining industry. Service sales revenue was also very gratifying.

Sales revenue generated by the American companies rose by 26.2 %. The largest increase in volume was achieved by two US subsidiaries and by our Brazilian pump company. KSB Chile S.A. also saw good growth in sales revenue.

Revenue generated by the newly consolidated companies accounted for € 15.9 million of total sales revenue.

Orders in hand up

As the volume of orders received in the first six months of 2012 exceeded sales revenue, the level of orders in hand increased by around € 63 million compared with year end 2011 to more than € 1.2 billion. This volume includes long-term major orders for pumps and valves scheduled for delivery in two to three years' time.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The Group's business volume increased significantly compared with the first half of 2011, which is reflected in higher inventories and receivables. The fact that the higher sales revenue led to only a minor improvement in earnings before income taxes is attributable to the sustained strong pressure on prices in the project business as well as higher material and staff costs.

The financial situation remains solid, even though the net financial position has declined primarily due to the higher commitment of funds to current assets.

RESULTS OF OPERATIONS

Increase in total output of operations

At € 1,123.6 million, the total output of operations is 10.1 % above the prior-year figure of € 1,020.6 million. Since the positive change in inventories in the first half of 2012 is below the prior-year level, the growth rate for total output of operations is lower than that for sales revenue.

Change in cost structure

The cost of materials increased by € 48.6 million compared with the first six months of 2011 as business was expanded and procurement prices rose. Expressed as a percentage of total output of operations, this represents 43.5 % (previous year: 43.1 %). Staff costs rose from € 343.7 million to € 375.3 million. This is above all attributable to the increase in headcount in the wake of the above-mentioned first-time consolidations. However, staff costs as a percentage of total output of operations decreased by 0.3 percentage points to 33.4 %. Other operating expenses grew by € 17.9 million to € 182.9 million and, expressed as a percentage of total output of operations, remained virtually unchanged. Amortisation and depreciation rose again by € 3.5 million as a result of our ongoing investing activities.

Higher half-year earnings

Earnings before income taxes for the first six months of the year amounted to € 52.3 million, up 4.6 % or € 2.3 million from the figure in the first half of 2011. Because of the higher increase in sales revenue, however, the return on sales was slightly lower at 4.8 % (previous year: 5.2 %). In particular, the sustained strong pressure on prices combined with higher material and staff costs had an adverse impact.

Earnings after income taxes improved by just € 1.0 million to € 35.0 million due to a slightly higher tax rate in the first half of the year.

Earnings after income taxes attributable to non-controlling interests increased to € 5.7 million (previous year: € 3.8 million). Since some companies in Asia and the Americas in which KSB does not hold a 100 % stake posted better earnings year on year, earnings per ordinary share stand at € 16.62 (previous year € 17.13) and earnings per preference share at € 16.88 (previous year € 17.39).

Segment performance

In the Business Unit Pumps, order intake increased by 5.7 % and sales revenue by 13.4 %. We generated EBIT of € 28.1 million (versus € 28.8 million for the first six months of 2011).

The Business Unit Valves saw order intake rise by 15.9 % and sales revenue by 13.7 % compared with the first half of 2011. At € 5.7 million, EBIT was well above the prior-year figure of € –0.2 million.

The Business Unit Service posted strong growth, with order intake up 15.1 % and sales revenue up 21.4 %. EBIT grew from € 18.2 million to € 20.0 million.

FINANCIAL POSITION

Equity

Equity of the KSB Group increased in the first six months of 2012 to total € 887.3 million, compared with € 869.1 million as at 31 December 2011. The increase is primarily attributable to the positive net profit for the year. At 44.4 %, the equity ratio is now 0.4 percentage points higher than at year end 2011.

Liabilities

Liabilities have increased since year end 2011 by € 7.3 million. Provisions declined overall by € 11.5 million, among other things due to lower staff-related provisions. Other provisions were reduced due to items settled in the first half of the year. Financial debt declined substantially by € 20.0 million as a result of the early redemption of significant portions of the loan against borrower's note. Higher advance payments received from customers and higher tax liabilities resulted in an increase in other liabilities.

Liquidity and cash flow

The KSB Group's net financial position (balance of interest-bearing financial assets and financial liabilities) amounted to € 93.4 million at the reporting date; this represents a decline of € 60.6 million compared with 30 June 2011.

Cash flows from operating activities amounted to € –3.2 million, versus € –45.6 million for the first six months of the previous year. This is primarily attributable to a decline in cash tied up in inventories and the higher figure for operating liabilities. Conversely, more cash was tied up in receivables.

Our investing activities generated virtually unchanged cash flows of € –54.7 million (prior-year period: € –56.5 million). Higher payments for property, plant and equipment were offset by lower expenses for non-current financial assets.

Cash flows from financing activities amounted to € –49.2 million (prior-year period: € –5.0 million). The change is mainly attributable to the redemption of the loan against borrower's note.

NET ASSETS

Total assets increased to € 1,999.6 million as at 30 June 2012, compared with € 1,974.1 million as at 31 December 2011.

The changes in non-current assets (€ +38.3 million) are attributable, among other things, to the nine companies consolidated for the first time. Intangible assets increased by € 12.9 million, primarily as a result of goodwill attributable to the newly consolidated companies in Europe. The increase of € 20.2 million in property, plant and equipment is primarily attributable to advance payments made on current investment projects. First-time consolidations accounted for € +8.3 million of this increase.

Non-current financial assets increased from € 40.1 million to € 43.0 million. Above all, a capital increase intended for financing the business expansion at a company in China where we hold a non-controlling interest, as well as investments in start-ups and smaller company acquisitions in Europe more than offset the opposing effects of the first-time consolidations.

At € 470.8 million, inventories were markedly higher than at year end 2011 (€ 425.1 million). The growth in business volume resulted in an increase above all in raw materials and production supplies as well as work in progress.

Receivables and other assets were € 47.8 million higher at € 706.2 million on account of the improved sales revenue.

The early redemption of significant portions of the loan against borrower's note, coupled with the higher financing requirement for inventories, receivables and provisions, impacted current financial instruments and cash and cash equivalents, which amounted to € 199.4 million (year-end figure in 2011: € 305.7 million).

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

In terms of order intake and sales revenue, the KSB Group's current economic position has undergone a positive development in the first six months of 2012. As expected, earnings before income taxes have risen only slightly due to the above-mentioned effects. The Group's financial position remains solid despite an increased level of cash tied up in the first half of the year.

EMPLOYEES

The newly consolidated companies have increased our headcount by 423. Another 161 employees are new entrants, primarily taken on in the Region Americas. In total, therefore, the number of employees in the Group as at 30 June 2012 has risen by 3.8 % year on year to 16,018.

RISK REPORT

In the 2011 Annual Report, we presented in detail the opportunities and risks we see facing our business. These have since undergone no significant reassessment.

REPORT ON EXPECTED DEVELOPMENTS

In the report on expected developments in the 2011 consolidated financial statements we presented a detailed estimate of how we expect the market and our sales opportunities to develop in the current year. Our forecast for the first half of the year was largely confirmed.

Despite the wide range of economic uncertainties, for the full year we still expect to post growth in order intake for all three segments (Pumps, Valves and Service). We expect our general business in particular to perform positively in the second half of the year, while our project business will probably continue to face a difficult market environment. If, however, significant economic slowdown or even recession sets in before the end of the year, this could have a negative impact on our business volume.

We anticipate that sales revenue for all three segments in 2012 will grow roughly in line with the increase in order intake.

Based on growth in business, we expect to see a slight improvement in earnings despite higher costs. KSB is aiming to achieve year-end earnings on a par with those in 2010. Further weakening of the economy in the short term may, however, jeopardise this target.

The net financial position will improve in the second half of the year, although as things stand at present we are unlikely to reach the 2011 year-end figure.

The implementation of strategic projects will remain one of the focal points of our work.

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

FORWARD-LOOKING STATEMENTS

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

AUDIT REVIEW

This interim management report, as well as the underlying condensed consolidated financial statements, have been neither 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 2012	31 Dec. 2011
Non-current assets			
Intangible assets	1	104,606	91,697
Property, plant and equipment	1	448,912	428,756
Non-current financial assets	1	43,023	40,073
Deferred tax assets		26,708	24,433
		623,249	**584,959**
Current assets			
Inventories	2	470,822	425,056
Receivables and other current assets	3	706,151	658,394
Current financial instruments	4	765	11
Cash and cash equivalents	4	198,646	305,707
		1,376,384	**1,389,168**
		1,999,633	**1,974,127**

EQUITY AND LIABILITIES

(€ thousands)	Notes	30 June 2012	31 Dec. 2011
Equity	**5**		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		655,183	642,075
Equity attributable to shareholders of KSB AG		766,618	753,510
Non-controlling interest		120,703	115,614
		887,321	**869,124**
Non-current liabilities			
Deferred tax liabilities		39,976	37,877
Provisions for employee benefits	6	284,703	279,345
Other provisions	6	16,797	17,409
Liabilities	7	26,776	61,743
		368,252	**396,374**
Current liabilities			
Provisions for employee benefits	6	103,589	111,932
Other provisions	6	79,299	87,180
Liabilities	7	561,172	509,517
		744,060	**708,629**
		1,999,633	**1,974,127**

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

(€ thousands)	Notes	Six months ended 30 June 2012	Six months ended 30 June 2011
Sales revenue	8	**1,098,510**	**970,520**
Changes in inventories		24,262	49,299
Work performed and capitalised		794	809
Total output of operations		**1,123,566**	**1,020,628**
Other operating income	9	15,525	11,436
Cost of materials	10	– 488,722	– 440,106
Staff costs	11	– 375,302	– 343,682
Depreciation and amortisation expense		– 28,202	– 24,715
Other operating expenses	12	– 182,860	– 165,006
Other taxes		– 6,222	– 4,118
		57,783	**54,437**
Financial income	13	5,312	6,439
Financial expense	13	– 10,768	– 10,859
		– 5,456	**– 4,420**
Earnings before income taxes		**52,327**	**50,017**
Taxes on income	14	– 17,283	– 15,979
Earnings after income taxes		**35,044**	**34,038**
Attributable to:			
Non-controlling interest	15	5,709	3,814
Shareholders of KSB AG		**29,335**	**30,224**
Diluted and basic earnings per ordinary share (€)	17	16.62	17.13
Diluted and basic earnings per preference share (€)	17	16.88	17.39

STATEMENT OF RECOGNISED INCOME AND EXPENSE

(€ thousands)	Six months ended 30 June 2012	Six months ended 30 June 2011
Earnings after income taxes	**35,044**	**34,038**
Measurement of financial instruments	– 181	2,517
Currency translation differences	1,593	– 22,331
Other income and expense recognised directly in equity	–	–
Taxes on items recognised directly in equity	97	– 724
Total earnings recognised directly in equity	**1,509**	**– 20,538**
Total recognised income and expense	**36,553**	**13,500**
Attributable to:		
Non-controlling interest	6,218	– 2,887
Shareholders of KSB AG	**30,335**	**16,387**

STATEMENT OF CHANGES IN EQUITY

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

(€ thousand)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2012	44,772	66,663
Income and expense recognised directly in equity	–	–
Earnings after income taxes	–	–
Total recognised income and expense	–	–
Dividends paid	–	–
Capital increases / decreases	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
30 June 2012	**44,772**	**66,663**

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
Balance at 1 Jan. 2011	– 14,487	– 12,941	**– 27,428**
Change in 2011	– 15,630	– 6,701	**– 22,331**
Balance at 30 June 2011	– 30,117	– 19,642	**– 49,759**
Balance at 1 Jan. 2012	– 25,554	– 17,089	**– 42,643**
Change in 2012	1,135	458	**1,593**
Balance at 30 June 2012	**– 24,419**	**– 16,631**	**– 41,050**

The changes in the consolidated Group did not have any material impact on the equity items.

Revenue reserves	Earnings recognised directly in equity: Currency translation differences	Earnings recognised directly in equity: Measurement of financial instruments	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
617,652	– 14,487	– 604	713,996	111,570	**825,566**
–	– 15,630	1,793	– 13,837	– 6,701	**– 20,538**
30,224	–	–	30,224	3,814	**34,038**
30,224	– 15,630	1,793	16,387	– 2,887	**13,500**
– 21,240	–	–	– 21,240	– 2,109	**– 23,349**
–	–	–	–	–	**–**
2,753	–	–	2,753	6	**2,759**
–	–	–	–	– 15	**– 15**
629,389	**– 30,117**	**1,189**	**711,896**	**106,565**	**818,461**

Revenue reserves	Earnings recognised directly in equity: Currency translation differences	Earnings recognised directly in equity: Measurement of financial instruments	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
670,203	– 25,554	– 2,574	753,510	115,614	**869,124**
–	1,135	– 135	1,000	509	**1,509**
29,335	–	–	29,335	5,709	**35,044**
29,335	1,135	– 135	30,335	6,218	**36,553**
– 21,240	–	–	– 21,240	– 1,124	**– 22,364**
–	–	–	–	–	**–**
4,013	–	–	4,013	7	**4,020**
–	–	–	–	– 12	**– 12**
682,311	**– 24,419**	**– 2,709**	**766,618**	**120,703**	**887,321**

CASH FLOW STATEMENT

(€ thousands)	Six months ended 30 June 2012	Six months ended 30 June 2011
Earnings after income taxes	35,044	34,038
Depreciation and amortisation expense / write-ups	28,204	25,896
Increase in non-current provisions	4,067	2,423
Gain / loss on disposal of fixed assets	– 417	– 288
Other non-cash income / expenses	– 53	1,793
Cash flow	**66,845**	**63,862**
Other changes in cash flows from operating activities	– 70,059	– 109,488
Cash flows from operating activities	**– 3,214**	**– 45,626**
Cash flows from investing activities	**– 54,649**	**– 56,515**
Cash flows from financing activities	**– 49,216**	**– 5,005**
Net change in cash and cash equivalents	– 107,079	– 107,146
Effects of exchange rate changes on cash and cash equivalents	– 636	– 5,541
Effects of changes in consolidated Group	654	6,992
Cash and cash equivalents at beginning of period	305,707	407,621
Cash and cash equivalents at end of period	**198,646**	**301,926**

NOTES

GENERAL

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

Where balance sheet items are presented as at 30 June 2012, they are compared with the values as at 31 December 2011. In the statement of comprehensive income, the amounts of the first half of the year 2012 are compared with the corresponding amounts of the comparative prior-year period.

BASIS OF CONSOLIDATION

In addition to KSB AG, 9 German and 68 foreign companies (previous year: 9 German and 59 foreign companies) were fully consolidated.

The following companies which were acquired or founded in prior years were included in the consolidated financial statements for the first time in 2012:

- Pumpen-Service Bentz GmbH, Reinbek (Germany)
- Nederlandse Pompservice (N.P.S.) B.V., Velsen-Noord (Netherlands)
- KSB Service Robinetterie, Rambervillers (France)
- KSB Service Centre-Est, Villefranche sur Saône (France)
- SPI Energie S.A.S., La Ravoire (France)
- VRS Valve Reconditioning Services B.V., Vierpolders (Netherlands)
- Mäntän Pumppauspalvelu Oy, Mänttä-Vilppula (Finland)
- Dalian KSB AMRI Valves Co., Ltd., Dalian (China)
- KSB Valves (Changzhou) Co., Ltd., Jiangsu (China)

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

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)	2012
Non-current assets	8,247
Current assets	13,952
Assets	**22,199**
Equity	4,020
Non-current liabilities	199
Current liabilities	17,980
Equity and liabilities	**22,199**

The difference between the carrying amounts and the fair values for companies acquired in prior years is not significant.

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 2012 have no material impact on our interim consolidated financial statements.

BALANCE SHEET DISCLOSURES

1 Fixed assets

In the first six months of 2012 we invested € 37,920 thousand in property, plant and equipment; in the first half of 2011 the corresponding figure was € 28,409 thousand. Depreciation and amortisation rose year on year from € 22,474 thousand to € 25,394 thousand. These changes are a result of our ongoing investing activities.

As in the first half of 2011, we did not recognise any impairment losses on intangible assets and items of property, plant and equipment in the period under review.

Non-current financial assets increased slightly overall. First-time consolidations of companies contributed to a reduction of the total figure, with the resulting goodwill accounting for the increase in intangible assets. Investments in start-ups and acquisitions of smaller companies as well as the capital increase at a company in China more than compensated for the above-mentioned effect on the non-current financial assets.

2 Inventories

(€ thousands)	30 June 2012	31 Dec. 2011
Raw materials and production supplies	161,733	149,616
Work in progress	168,142	147,031
Finished goods and goods purchased and held for resale	109,141	102,107
Advance payments	31,806	26,302
	470,822	**425,056**

3 Receivables and other current assets

(€ thousands)	30 June 2012	31 Dec. 2011
Trade receivables	485,019	461,348
Intragroup and associate receivables	23,386	23,591
Receivables recognised by PoC	131,473	122,147
Receivables recognised by PoC (excl. advances received from customers PoC)	249,663	235,194
Advances received from customers (PoC)	−118,190	−113,047
Other receivables and other current assets	66,273	51,308
	706,151	**658,394**

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 2,603 thousand (previous year: € 8,400 thousand). Associate receivables amounted to a total of € 15,708 thousand (previous year: € 7,566 thousand).

4 Current financial instruments, cash and cash equivalents

Current financial instruments amount to € 765 thousand (previous year: € 11 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 ordinary shares and 864,712 preference shares. All shares are no-par value bearer shares. Each no-par value share represents an equal notional amount of the share capital.

Non-controlling interest mainly relates 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.

6 Provisions

Changes (€ thousands)	1 Jan. 2012	Change in consolidated Group / CTA* / Other	Utilisation / Prepayment	Reversal	Additions	30 June 2012
Employee benefits	391,277	430	– 57,147	– 1,718	55,450	388,292
Pensions and similar obligations	257,717	102	– 6,663	–	13,499	264,655
Other employee benefits	133,560	328	– 50,484	– 1,718	41,951	123,637
Taxes	12,110	21	– 9,467	–	9,578	12,242
Taxes on income	10,920	– 31	– 8,757	–	7,979	10,111
Other taxes	1,190	52	– 710	–	1,599	2,131
Other provisions	92,479	– 179	– 30,184	– 472	22,210	83,854
Warranty obligations and contractual penalties	50,700	127	– 15,387	– 402	13,669	48,707
Miscellaneous other provisions	41,779	– 306	– 14,797	– 70	8,541	35,147
	495,866	272	– 96,798	– 2,190	87,238	484,388

* 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 2012	31 Dec. 2011
Financial liabilities		
Liabilities on bonds issued	6,000	50,000
Bank loans and overdrafts	18,291	9,072
Finance lease liabilities	990	1,190
Other	1,495	1,481
Total non-current liabilities	**26,776**	**61,743**

CURRENT LIABILITIES

(€ thousands)	30 June 2012	31 Dec. 2011
Financial liabilities		
Liabilities on bonds issued	12,500	12,500
Bank loans and overdrafts	68,646	53,164
Finance lease liabilities	598	588
Other	735	1,294
	82,479	**67,546**
Trade payables		
Trade payables to third parties	208,531	201,578
Intragroup trade payables	11,306	4,689
	219,837	**206,267**
Other liabilities		
Advances received from customers	91,117	84,030
Advances received from customers (PoC)	63,364	61,148
Taxes	24,605	19,947
Social security and liabilities towards employees	19,509	17,504
Miscellaneous other liabilities and deferred income	60,261	53,075
	258,856	**235,704**
Total current liabilities	**561,172**	**509,517**

TOTAL NON-CURRENT AND CURRENT LIABILITIES

(€ thousands)	30 June 2012	31 Dec. 2011
Total liabilities	**587,948**	**571,260**

DISCLOSURES ON THE STATEMENT OF COMPREHENSIVE INCOME

8 Sales revenue

The changes in the consolidated Group in the year under review accounted for € 15,867 thousand.

9 Other operating income

(€ thousands)	Six months ended 30 June 2012	Six months ended 30 June 2011
Gains from asset disposals and reversals of impairment losses (write-ups)	478	609
Income from current assets	1,090	435
Currency translation gains	–	570
Income from the reversal of provisions	2,190	2,867
Miscellaneous other income	11,767	6,955
	15,525	**11,436**

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 2012	Six months ended 30 June 2011
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	458,797	411,541
Cost of purchased services	29,925	28,565
	488,722	**440,106**

The changes in the consolidated Group accounted for € 2,502 thousand.

11 Staff costs

(€ thousands)	Six months ended 30 June 2012	Six months ended 30 June 2011
Wages and salaries	298,634	273,031
Social security contributions and employee assistance costs	65,528	60,320
Pension costs	11,140	10,331
	375,302	**343,682**

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 € 7,772 thousand.

We employed an average of 16,101 people in the reporting period (previous year: 15,339). The changes in the consolidated Group in the year under review led to the addition of 425 people.

12 Other operating expenses

(€ thousands)	Six months ended 30 June 2012	Six months ended 30 June 2011
Losses from asset disposals	61	321
Losses from current assets	4,707	3,323
Currency translation losses	1,130	1,537
Other staff costs	11,089	10,113
Repairs, maintenance, third-party services	50,310	38,828
Selling expenses	45,143	41,328
Administrative expenses	43,415	40,218
Rents and leases	12,748	11,743
Miscellaneous other expenses	14,257	17,595
	182,860	**165,006**

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

The changes in the consolidated Group accounted for € 1,889 thousand.

13 Financial income / expense

(€ thousands)	Six months ended 30 June 2012	Six months ended 30 June 2011
Financial income	5,312	6,439
Income from investments	2,800	2,209
thereof from affiliates	(2,027)	(1,627)
Interest and similar income	2,416	4,229
thereof from affiliates	(74)	(200)
Other financial income	96	1
Financial expense	– 10,768	– 10,859
Interest and similar expenses	– 10,728	– 9,581
thereof to affiliates	(–)	(1)
Write-downs of financial assets	–	– 1,181
Expenses from the remeasurement of financial instruments	– 2	–
Other financial expenses	– 38	– 97
	– 5,456	**– 4,420**

Interest and similar expenses include the interest cost on pension provisions amounting to € 7,374 thousand (previous year: € 6,689 thousand).

The changes in the consolidated Group had no material impact on financial income / expense.

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 statement of comprehensive income after other operating expenses.

(€ thousands)	Six months ended 30 June 2012	Six months ended 30 June 2011
Effective taxes	17,278	12,224
Deferred taxes	5	3,755
	17,283	**15,979**

The changes in the consolidated Group had no material impact on the taxes on income.

15 Earnings after income taxes – Non-controlling interest

The non-controlling interest in net profit amounts to € 5,981 thousand (previous year: € 4,257 thousand), and the non-controlling interest in net loss amounts to € 272 thousand (previous year: € 443 thousand). These relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India.

The changes in the consolidated Group had no impact on earnings after income taxes attributable to non-controlling interest.

16 Research and development costs

Research and development costs in the period under review amounted to € 21,569 thousand (previous year: € 21,614 thousand).

The changes in the consolidated Group had no impact on research and development costs.

17 Earnings per share

Earnings per ordinary share stand at € 16.62 (previous year: € 17.13), and earnings per preference share at € 16.88 (previous year: € 17.39). An additional dividend attributable to preference shareholders of € 0.26 (previous year € 0.26) per share is assumed.

The changes in the consolidated Group had no material impact on earnings per share.

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 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

(€ thousands)	Order intake		External sales revenue		EBIT	
	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011
Business Unit Pumps	768,852	727,525	723,387	638,178	28,082	28,782
Business Unit Valves	209,395	180,616	182,636	160,639	5,684	– 190
Business Unit Service	183,554	159,505	176,549	145,411	20,046	18,191
Reconciliation	–	–	15,938	26,292	6,826	8,586
Total	**1,161,801**	**1,067,646**	**1,098,510**	**970,520**	**60,638**	**55,369**

€ 327,182 thousand (previous year: € 327,246 thousand) of the sales revenue presented was generated by the companies based in Germany and € 771,328 thousand (previous year: € 643,274 thousand) by the other Group companies.

At the balance sheet date, the total non-current assets of the KSB Group amounted to € 465,931 thousand (year-end figure in 2011: € 444,011 thousand), with € 190,597 thousand (year-end figure in 2011: € 187,135 thousand) being attributable to the companies based in Germany and € 275,334 T€ thousand (year-end figure in 2011: € 256,876 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, external sales revenue and earnings before income taxes (EBIT) – determined for the Pumps, Valves and Service Business Units. Reporting the relevant assets (including depreciation and amortisation, impairment losses / write-downs), number of employees and inter-segment sales revenue for these Business Units is not part of our internal reporting. The managers in charge of the Business Units, which are geared to product groups, have profit and loss responsibility. They identify business opportunities across markets and industries and assess our options based on current and future market requirements. They also proactively encourage the development of new products and improvements to the available range of products. In this context, they work closely with our Sales organisation and Operations.

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

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

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

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

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 at 31 December 2011.

Related party disclosures

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

A rental and services agreement has been entered into between KSB AG and Klein Pumpen GmbH. This resulted in the recognition of expenses of € 24 thousand (previous year: € 24 thousand) and income of € 10 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 16 May 2012, BDO AG Wirtschaftsprüfungsgesellschaft, based in Hamburg with an office in Frankfurt am Main, were appointed as auditors and group auditors for the financial year 2012 by the Annual General Meeting of KSB AG.

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 in December 2011 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.

APPROPRIATION OF THE 2011 NET RETAINED EARNINGS OF KSB AG

The Annual General Meeting on 16 May 2012 resolved to appropriate the 2011 net retained earnings of € 29,563,877.28 of KSB AG, Frankenthal, containing retained earnings brought forward of € 133,949.34, as follows:

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

The dividend was paid out as from 17 May 2012.

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, 14 August 2012

The Board of Management

SHAREHOLDER INFORMATION

13 November 2012
Interim report
January – September 2012

End of January 2013
Preliminary report on
financial year 2012

27 March 2013
Financial press conference
67227 Frankenthal

2 April 2013
Invitation to Annual General Meeting

End of April
Interim report
January – March 2013

15 May 2013
Annual General Meeting
CongressForum Frankenthal
Stephan-Cosacchi-Platz 5
67227 Frankenthal

16 May 2013
Dividend payment

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