

Interim report as per 30 June 2006

KSB Group substantially increases six-month earnings

Economic environment and development in the industry

The upturn in the global economy continued in 2006, providing consistently favourable conditions in the capital goods sector. Every Region recorded a positive development, including Europe, which continues to be KSB's principal sales market. The German recovery also continued, although economic growth progressed at a pace below the global average.

Due to a strong increase in worldwide demand, capacity utilization in the pump and valves industry was markedly better in the first half of 2006 than in the same period last year. Consolidation within the industry continued apace as individual manufacturers made small and medium-sized acquisitions in order to augment their product lines or to reinforce their regional presence.

Order intake development

By the end of June 2006, the Group's order intake was 21.4 percent (KSB AG: + 27.5 percent) up on the first six months of the previous year. KSB recorded double-digit order growth from the energy, industry, water, waste water and mining sectors. Building services, which remains predominantly focused on European customers, also showed a positive development.

Major orders in the energy sector contributed significantly to the largest growth of orders in over ten years. KSB will, for example, soon equip new power plants and expansion facilities in Central and Northern Europe, and in Spain, with pumps and valves. In addition, several major orders to equip power plants came in from China.

Order intake from industrial customers in Europe continued to improve. Demand from plant engineering contractors and OEMs was a key factor in this development. KSB companies in the Americas and in Asia also generated strong growth, for example with equipment orders for industrial boilers (USA), oil refineries (Brazil) and tankers and loading facilities for liquefied gas transport (South Korea, Japan). KSB's water business benefited from the growing demand for pumps used in seawater desalination systems, and the mining business profited from increases in extraction capacity and the resulting need for slurry pumps.

Sales revenue growth

Consolidated sales revenue rose by 11.8 percent (KSB AG: + 4.9 percent) in the first six months of 2006 compared with the prior-year period. Energy, Water, Waste Water, and Mining recorded double-digit growth rates.

Consolidated revenue growth did not keep pace with order intake. This needs to be seen in the context of the expansion of the project business, in which orders are only recognized as revenue in later periods.

The strongest percentage growth was achieved by Group companies in the Region Americas. This is attributable in part to positive business developments in Brazil and in the USA, as well as to the appreciation of the real and the US dollar in relation to the Group currency, the euro. Group companies in the Regions Asia / Pacific and Middle East / Africa also recorded double-digit growth rates.

Group figures as per 30 June 2006

KSB Group		01-06/2006	01-06/2005	Change
Order intake	€ million	923.1	760.4	+ 21.4 %
Sales revenue	€ million	720,8	645.0	+ 11.8 %
Earnings before income tax	€ million	35.4	14.5	> 100 %
Employees*		12,834	12,826	+ 0.1 %

* on 30 June

Group earnings

At € 35.4 million, the Group more than doubled its six-month earnings year-on-year (previous year: € 14.5 million). Larger earnings contributions than in 2005 came from the Group's European companies, which improved their cost structures by implementing the Efficiency Enhancement Programme. KSB S.A.S. in particular sharply increased its earnings. The French subsidiary benefited from growth in its business with butterfly valves for cryogenic applications. By contrast, Germany-based KSB AG again recorded a loss at the mid-year point of € 8.9 million (previous year: € -11.1 million). However, the company expects significant improvement by the end of the year.

Change in number of employees

At 12,834, the total number of employees in the Group as at 30 June 2006 remained on a level with the previous year (12,826). However, staffing levels across the Group companies changed, as demand shifted to new markets.

The number of Group employees in Europe at the end of June 2006 thus decreased by 172 year-on-year to 7,091. At the same time, Group companies in the Americas and in Asia / Pacific, where demand was very high, increased their headcounts. This mainly concerned the companies in India and US-based GIW Industries Inc.

At the end of June, KSB employed 4,275 people in Germany (previous year: 4,442). This figure includes 3,674 employees of KSB AG (previous year: 3,845). The number of people employed at the German parent company decreased as a result of a comprehensive partial retirement scheme.

Projects for the future increase competitiveness and profitability

The Efficiency Enhancement Programme, launched in 2003 and set to run until the end of 2006, is expected to generate savings of approximately € 100 million at the Group's European companies, primarily in purchasing, sales and marketing, product management, devel-

opment, administration, and IT. This will more than offset rising personnel and material costs, as well as falling prices in certain industries. Beyond 2006, the programme will be turned into a continuous process of improvement.

KSB is continuing its 700Up growth and innovation programme until 2010 to broaden its revenue base. Its objective is not only the expansion of KSB's traditional product and service portfolio, but also the implementation of new business ideas. These result in the development of innovative products and new services.

In order to increase the competitiveness of the European production centres, KSB will implement the new ProSys production system at three German and two French facilities by mid-2007. The goal is to increase productivity by simplifying work flows, shortening cycle times and reducing buffer stocks.

Outlook

The KSB Group's order intake will remain at a high level during the second half of the year. However, the second half of 2006 is not expected to see the same volume of incoming major orders as the first six months of the year. The extraordinarily high growth rate is therefore likely to slow.

Order processing is planned to be further accelerated in the second half of the year in order to generate increased sales revenue. Given continued sales growth, KSB aims to significantly improve consolidated earnings in 2006. KSB AG's earnings development will be the focus of particular attention in order to overcome the loss-making situation at the parent company as soon as possible.

KSB Aktiengesellschaft
The Board of Management

Frankenthal, August 2006