

Interim report as per 30 June 2005

KSB shows strong growth in orders and sales

Economic environment and development in the industry

While the global economy lost some momentum in the first six months of 2005, the trend remains clearly upwards. The strongest growth was once again registered in the up-and-coming Asian countries. But a beneficial climate of growth also prevailed in the countries of the Gulf region, which profited from higher oil prices, as well as in Latin America. The western industrialized nations showed an overall positive economic development, although it was less marked than in the previous year.

Strong growth stimulus for the pumps and valves industry came from the expansion of power plant capacity in Asia, the oil and gas business and the construction of industrial plants, especially by the petrochemicals industry in oil-producing countries. In KSB's major selling markets, France and Germany, demand was subdued.

Order intake development

In the first six months of 2005, the volume of orders in the Group increased by 14.3 percent compared with the same period last year. This is attributable in particular to an intensification of the project business whose share in the company's overall business showed above-average growth compared with the standard business, which offers bigger margins. A further point to bear in mind is the first-time consolidation of seven small KSB companies as from

1 January 2005. However, this accounts for only 2.3 percent of growth in orders.

The most marked increase in order intake was reported from the energy sector, mainly as a result of a series of major orders from Asia. The Group also achieved double-digit percentage growth in the industrial and water business and in the mining sector, which the US subsidiary GIW Industries Inc. services with slurry pumps.

In the development of order intake, the biggest growth was shown by the Region Asia / Pacific. This growth in orders received was particularly strong in the Group companies in China, India, Indonesia and Pakistan. The highest growth rate in Europe was reported by the Dutch company acquired in 2003 (DP industries B.V.).

Sales revenue growth

Sales revenue in the Group, which was up by 12.8 percent (of which 2.2 percent is accounted for by first-time consolidation), was slightly lower than the growth in order intake. This was due to longer-term orders in Europe, especially in KSB AG.

The strongest growth in sales revenue was reported by the Group companies in the Region Asia / Pacific, above all in India and Pakistan. In the Americas, the KSB companies in Brazil and Chile, as well as the US subsidiary GIW, posted marked double-digit percentage growth in sales revenue.

Group figures as per 30 June 2005

KSB Group		01-06/2005	01-06/2004	Change
Order intake	million €	760.4	665.4	+ 14.3 %
Sales revenue	million €	644.6	571.4	+ 12.8 %
Earnings before income tax	million €	14.5	6.1	> 100 %
Employees*		12,826	12,461	+ 2.9 %

* on 30 June

In Europe, the Dutch manufacturer of stainless steel pumps, DP industries B.V., increased its sales revenue substantially. Very good increases in sales revenue were also reported by a number of European sales and service companies.

Group earnings

With half-year pre-tax earnings amounting to 14.5 million € (previous year: 6.1 million €), the Group is well on the way to exceeding its prior-year earnings of 22.1 million €. In the current year, too, Group profit is compromised by the costs of the Structural Programme 2006.

Change in number of employees

At 12,826, the number of employees in the Group on 30 June 2005 was up by 365 on the same period in the previous year. This is essentially a result of the first-time consolidation of companies on 1 January 2005 mentioned previously. The largest increase came with the consolidation of KSB Indonesia, whose 157 employees are now included in the Group headcount.

Implementation of the Structural Programme 2006

The aim of the Structural Programme 2006 is to increase the competitiveness and profitability of the KSB Group. In a first step, cost-reducing measures are being introduced in sales, design and engineering, production, materials management, data processing and administration. These measures, which were already initiated in 2004, will be implemented on schedule.

In a second step, KSB is improving the competitiveness of its European manufacturing centres through the introduction of a new production system. The “job shop principle” used so far is based on the manufacture of components in large numbers of units, some of which are kept in stock. This is being

superseded by exclusively order-driven production of parts in synchronized processes. After a successful pilot phase in 2004, this production method will be successively implemented during the current year at four sites in France and Germany.

As a third step, KSB introduced a new organization at the beginning of 2005, in which global responsibility was assigned to each functional area. The Group has also aligned its activities worldwide according to market segments.

Outlook

The very strong project business in the first six months, with numerous large orders, will not continue in the same way in the second half of the year. The growth rate in order intake can thus be expected to slow. Compared with the previous year, sales revenue growth in the months of July to December will also be less marked than in the first six months.

As things stand at present, the consolidated pre-tax earnings will nevertheless be above those of the previous year. As well as the effects of the Structural Programme, the 700UP growth and innovation project should also ensure a further improvement in the earnings situation. This project is aimed at tapping new sales potential by realizing new business ideas for KSB and stepping up existing activities.

KSB Aktiengesellschaft
The Board of Management

Frankenthal, August 2005