

Interim report as per 30 June 2004

KSB Group on course for growth

The economy and industry

Despite the rising cost of energy and raw materials, the world economy showed consistently stable growth in the first half of 2004. The development of the Chinese market was particularly dynamic, but Japan and the USA also showed good growth rates. For the euro zone the economic institutes have made an upward adjustment in their growth forecasts for the current year. The economy in Germany is also being viewed more optimistically, although domestic demand to date still remains weak.

With something of a time lag, the stimulation of global demand is also filtering through to the market for pumps, valves and related systems. But the economic stimulus so far has not been sufficient to reduce the problem of overcapacity in the sector and to ease the tense price situation.

Order intake development

With a growth of 11.8 percent, the order intake of the Group in the first half of 2004 is substantially up on the same period last year. It has to be borne in mind here that the companies newly acquired last year, DP industries B.V. (The Netherlands) and Bombas ITUR, S.A. (Spain) appear in the fully consolidated figures for the first time. Good growth rates were seen especially in the industrial business,

building services and the water and waste water segments.

In Germany KSB AG increased its order intake in the same period by 3.4 percent. An impediment to growth comes not only from the weak domestic economy, but also from the declining exports of European products to the Americas. Here the unfavourable euro-dollar exchange rate plays a major role. Most other European companies showed better growth. Of these companies, particularly high growth rates were reported by the sales organizations in Sweden, Denmark and Austria.

Overseas, the Asia-Pacific Group companies in particular have achieved above-average growth, the leading companies here being in China and Pakistan. Also the Group companies in the Americas and the Region Eastern Europe / Middle East / Africa increased their order volume.

Sales revenue growth

The sales revenue of the KSB Group, including the two newly acquired companies, grew by 10.6 percent in the first half of 2004 compared with the same period last year. At the same time, KSB AG increased its sales revenue volume by 4.5 percent.

Group figures as per 30 June 2004

KSB Group		01-06/2004	01-06/2003	Change
Order intake	million €	665.4	595.1	+ 11.8 %
Sales revenue	million €	571.4	516.6	+ 10.6 %
Earnings before taxes	million €	6.1	- 6.9	> 100 %
Employees (30 June)		12,461	11,946	+ 4.3 %

Particularly strong growth was reported by the Group companies in the Region Asia / Pacific, where the KSB Shanghai Pump Co. Ltd. more than doubled its sales revenue. Also the sales revenue of the European companies outside France and Germany showed good growth overall. A major contribution here came from the services business, in which KSB is a leader throughout Europe and was able to improve its position further by creating new centres.

Group earnings

Unlike in the previous two years, the KSB Group showed a positive operative result of € 6.1 million at the mid-point of this year. However, as already announced, the overall earnings for 2004 will be strongly affected by provisions set aside in the context of the structural programme 2006.

Change in number of employees

The number of employees in the KSB Group on 30 June 2004 was up by 515 people compared with the same time last year to a figure of 12,461. This increase is largely attributable to the consolidation of the new companies in The Netherlands and Spain. However, as a result of the structural programme 2006, the number of employees in Europe will fall substantially by the end of the coming year.

Structural programme 2006

With its structural programme focused on Europe, KSB is in the process of adapting its corporate structures to the changed competitive conditions and strengthening its international division of labour. The aim is to enhance both competitiveness and profitability.

Important measures relate, amongst other things, to the improvement of processes, streamlining of the product range and the development of a site concept which is in keeping with the new underlying conditions and includes a shift in production facilities. These measures will lead to a sustainable increase in return on sales of the European companies, which is lower than in other regions of the world. In parallel with this, a growth and innovation initiative is under way which aims to achieve profitable sales revenue in a broader field of activities.

Outlook

With a sustained economic recovery, the order situation will continue to improve. An increase in order intake can be expected above all in those markets where additional sales channels are available for products and services as a result of new acquisitions. In view of its ROS targets, KSB will assess and pursue new projects and orders increasingly in terms of profitability. Nevertheless, as things stand at present, the KSB Group can be expected to exceed last year's figures for order intake and sales revenue

KSB Aktiengesellschaft
The Board of Management

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