KSB Group

Half-year Financial Report 2010

INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2010

ECONOMIC ENVIRONMENT

The mechanical engineering sector fared relatively well in the worst crisis in post-war times. The first half of 2010 showed clear signs of recovery as demand began to pick up, most notably in non-European markets.

Considering that the KSB Group, building on its broad business base and with a decline in sales revenue of just 5 % in 2009, weathered the storm much better than the mechanical engineering sector overall, the effects of the recovery will also be more moderate. However, it remains to be seen whether the current growth momentum will be sufficient to return to pre-crisis levels of production and sales in the short term.

Lower order volumes in the pumps and valves industry intensified competition, putting growing pressure on prices. This is a situation we faced in the project business in particular. Overall, fewer orders were placed by customers for pumps and valves to equip new large-scale plants. The reason for this was that, in view of the economic crisis, many investors were reluctant to plan and build technical installations for power generation, water supply or industrial goods production. Conversely, business with standardised products for simpler applications showed signs of picking up.

BUSINESS DEVELOPMENT

In line with the general economic situation, we saw renewed demand for our standard pumps and valves in the first half of the year. Having largely refrained from reducing capacities in the relevant sales and production areas during the crisis, we were able to respond quickly to the improved order situation without incurring any delays in delivery. In addition, our “Opportunities in the Crisis” initiative has expanded our customer base over the last eighteen months. As a result we received more orders for standard pumps for industrial and building services applications also from small and medium-sized companies.

As anticipated, the first six months of the year saw a reduction in large orders in the project business with its high proportion of customised products. Intensified acquisition activities to win smaller projects and new customers failed to fully offset this decline, as the effects of both reduced volume and increased price pressure had an adverse impact.

In addition to daily business, we kicked off projects in the first half of the year that were geared to implementing our long-range strategy, which is aimed at strengthening KSB’s market position in the long term. Project activities focused on expanding business in growth regions outside Europe and on catering to new applications.

Order intake just below prior-year levels

Order intake reached € 1,003.0 million at the end of June, down just 2.3 % on the first half of 2009. The improvement in the second quarter compared with the first three months of the year was largely attributable to developments in non-European markets and a redoubling of sales efforts.

Order intake rose sharply in the Regions Asia / Pacific, Americas and Middle East / Africa in the first half of the year. Excellent growth was posted by our Asian companies, which clocked up 30% more orders overall. China and India recorded the strongest growth.

By contrast, our European companies overall posted a lower level of orders than in the first half of 2009. KSB Aktiengesellschaft, in particular, reported a 21.9 % decline in order intake to € 353.6 million due to the comparatively lower order volume for power plant pumps and valves.

The development of the consolidated order intake figures reflects that five new operating companies in Germany, Italy, Canada, Norway and Russia were included in the consolidated Group at the beginning of 2010. Integration of these companies increased the order intake by € 22.3 million in the first six months of the year.

Sales revenue still down slightly

At € 914.9 million, consolidated sales revenue for the first half of 2010 was down 2.3 % year-on-year, although the second-quarter trend showed a marked improvement over the first quarter of 2010 (–6.7% compared with the previous year).

Sales revenue also showed regional differences, with European companies faring worst. The sales revenue of KSB AG (in accordance with the German Commercial Code [HGB]) edged up slightly by 1.8 % to € 360.5 million, due primarily to the invoicing of several large orders.

In regional terms, the companies in the Americas posted the best sales revenue growth, with our Brazilian company showing particularly strong performance thanks to orders from the oil industry and an improvement in business with water and building services products. Likewise, our companies in the Regions Asia / Pacific and Middle East / Africa increased their overall sales revenue.

Orders in hand remain high at over € 1 billion

With orders in hand at around € 1.080 million, we are well placed for future sales revenue development. At 30 June 2010, the level of orders in hand was higher than the prior-year figure of around € 1 billion. Large orders from the Asian energy sector, in particular, contributed to this growth in the current year. The pumps and valves ordered will be delivered until 2013.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Increased pressure on prices and higher staff costs were the major contributors to a marked fall in first-half earnings and hence also return on sales. The KSB Group's financial position remains solid and has improved again slightly compared with the end of last year.

RESULTS OF OPERATIONS

Stable output of operations

Output of operations was virtually unchanged at € 935.2 million (previous year: € 936.1 million). The 2.3 % decline in sales revenue was offset by an increase in work in progress and inventories of finished goods, as opposed to the comparative prior-year period when we reported a decrease.

Change in cost structure

Staff costs rose by € 13.6 million compared with the first six months of 2009. Contributory factors included the increase in headcount due to the aforementioned first-time consolidations. At € 149.3 million (previous year: € 152.9 million), other operating expenses were slightly lower measured against total output of operations. € 394.0 million was spent on materials, which corresponds to 42.1 % of the total output of operations (previous year: 41.8%). Depreciation and amortisation increased by 17.5 % (€ +3.3 million) due to major investments over the past few years. This increase will continue over the full year.

Decline in mid-year earnings

Earnings before income taxes for the first six months amounted to € 49.0 million: 27.4 % or € 18.5 million lower than in the first half of 2009. Return on sales declined to 5.4 % compared with 7.2 % in the same period last year, primarily as a result of tangible pressure on prices and higher staff costs.

Earnings after income taxes – at a practically unchanged rate of income tax – fell by 28.1 % to € 34.4 million (previous year: € 47.9 million).

At € 4.8 million, earnings after income taxes attributable to non-controlling interest fell just slightly (previous year: € 5.1 million).

Earnings per share amounted to € 16.79 (previous year: € 24.24) for ordinary shares and € 17.05 (previous year: € 24.62) for preference shares.

Segment performance

In the Business Unit Pumps we incurred a decline in order intake approaching 7 %, while sales revenue fell by around 1 %. We generated EBIT of € 36.2 million (versus € 39.0 million for the first six months of 2009).

The Business Unit Valves posted a good 6 % increase in order intake, while sales revenue was almost 3 % lower compared with the first half of 2009. At € 1.2 million, earnings were down on the prior-year figure of € 5.3 million.

The Business Unit Service posted strong growth, with order intake up 14 % and sales revenue 15 % higher. EBIT also grew from € 11.0 million to € 13.0 million.

The effects related to the measurement of construction contracts in accordance with IAS 11, which are presented in the reconciliation line, have declined substantially, both for sales revenue (€ –26.0 million) and EBIT (€ –13.9 million).

FINANCIAL POSITION

Equity

Equity of the KSB Group grew in the first six months of 2010 to total € 776.7 million, up from € 720.6 million at 31 December 2009. As well as earnings in the first six months, currency effects were a major factor accounting for the increase. The equity ratio increased to 45.6 %, up from 43.8 % at year-end 2009.

Liabilities

Segment liabilities rose by only € 1.7 million year-on-year. Provisions declined overall by € 19.4 million, primarily due to lower employee benefits. We were able to reduce financial liabilities by € 16.2 million. However, the increase in other liabilities, above all trade payables, outweighed the aforementioned reductions.

Liquidity and cash flow

The KSB Group's net financial position (balance of interest-bearing financial assets and financial liabilities) amounted to € 233.5 million at the end of June. This represents a significant improvement of € 120.0 million compared with 30 June 2009. We started the year with € 223.0 million.

Cash flows from operating activities amounted to € 46.6 million versus € 53.7 million for the first six months of 2009. This difference is mainly due to the fall in earnings year-on-year.

Our investing activities generated cash flows of € -34.6 million (previous year: € -48.1 million), with outflows for intangible assets and property, plant and equipment and payments to acquire financial investments clearly down.

At € -39.8 million, cash flows from financing activities are clearly negative (prior-year period: € +30.2 million). The change is mainly attributable to the repayment of debts in the first half of 2010, whereas borrowing was the major influence in the comparative prior-year period.

NET ASSETS

Total assets increased to € 1,703.2 million at 30 June 2010, compared with € 1,645.4 million at 31 December 2009.

At € 258.7 million, inventories remained largely unchanged compared with the 2009 year-end figure (€ 259.1 million).

Receivables and other assets increased by € 34.5 million, of which receivables recognised by the percentage-of-completion method (PoC) amounted to € 18.5 million.

Despite the significant reduction of € 16.2 million in financial liabilities, financial instruments and cash and cash equivalents amounted to € 405.6 million (31 December 2009: € 409.8 million).

Our investing activities were a major element in the € 28.0 million increase in non-current assets. The counter-effect on financial assets from the first-time consolidations has already been factored into this figure.

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

Considering order intake and sales revenue, the KSB Group's economic situation deteriorated only marginally in the first six months of 2010. By contrast, earnings declined substantially, as projected, owing to the effects described. However, the KSB Group's financial position remains very solid, and indeed improved again slightly in the first half of the year.

EMPLOYEES

At 30 June 2010 the total headcount for the Group was 229 higher at 14,476 compared with the prior-year reporting date. This growth was largely attributable to the first-time consolidation of the five new operative companies, which added a total of 271 employees to the Group. Apart from that, we largely retained current staff levels – also with a view to future growth in business volume.

RISK REPORT

In the Group management report of the 2009 consolidated financial statements, we presented in detail the opportunities and risks facing our business. As things stand today, there have been no significant changes.

REPORT ON EXPECTED DEVELOPMENTS

In the report on expected developments of the 2009 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. Contrary to these estimates, demand for conventional power plant technology (most notably in Europe) has turned out to be less favourable, while business in industry and building services has recovered somewhat faster than expected. In general, our forecast for the first half of the year was largely confirmed.

Our outlook for the full year remains unchanged, with order intake and sales revenue expected to be on a par with the previous year. If the economic momentum that has made itself felt over the past few weeks in Europe is sustained into the second half of the year, moderate growth could also be achieved for the entire financial year. We expect a positive business development primarily in our valves and service business. Given adverse market conditions, however, a slight decline in performance cannot be ruled out.

As reported, consolidated earnings for 2010 are projected to be substantially lower year-on-year due to growing pressure on prices (notably in connection with large projects), increased staff costs, and higher depreciation and amortisation charges for major investments made in previous years. In addition, one-time measures such as the move in 2009 to reduce flexitime balances and annual-leave accounts will not contribute again to improving earnings.

In the second half of the year we will continue to implement our strategy with a view to accessing important growth markets, developing new pumps, drives and automation products, and modernising and expanding our valve product range over the next few years.

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 2010	31 Dec. 2009
NON-CURRENT ASSETS			
Intangible assets	1	47,101	42,174
Property, plant and equipment	1	393,579	365,518
Non-current financial assets	1	53,163	61,621
Deferred tax assets		20,892	17,447
		514,735	486,760
CURRENT ASSETS			
Inventories	2	258,666	259,069
Receivables and other current assets	3	524,160	489,699
Current financial instruments		2,850	–
Cash and cash equivalents	4	402,754	409,840
		1,188,430	1,158,608
		1,703,165	**1,645,368**

EQUITY AND LIABILITIES (€ thousands)	Notes	30 June 2010	31 Dec. 2009
EQUITY	5		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		555,932	515,672
Equity attributable to shareholders of KSB AG		667,367	627,107
Non-controlling interest		109,333	93,455
		776,700	720,562
NON-CURRENT LIABILITIES			
Deferred tax liabilities		32,848	31,982
Provisions for employee benefits	6	266,443	263,892
Other provisions	6	15,706	15,404
Liabilities	7	157,801	160,058
		472,798	471,336
CURRENT LIABILITIES			
Provisions for employee benefits	6	96,615	115,689
Other provisions	6	79,563	82,714
Liabilities	7	277,489	255,067
		453,667	453,470
		1,703,165	**1,645,368**

INCOME STATEMENT

(€ thousands)	Notes	Six months ended 30 June 2010	Six months ended 30 June 2009
Sales revenue	8	**914,904**	**936,300**
Changes in inventories		19,114	– 2,436
Work performed and capitalised		1,164	2,213
Total output of operations		**935,182**	**936,077**
Other operating income	9	8,011	9,676
Cost of materials	10	– 394,028	– 391,482
Staff costs	11	– 321,432	– 307,813
Depreciation and amortisation expense		– 22,350	– 19,017
Other operating expenses	12	– 149,311	– 152,853
Other taxes		– 4,062	– 4,341
		52,010	**70,247**
Financial income	13	6,433	5,731
Financial expense	13	– 9,395	– 8,451
		– 2,962	**– 2,720**
Earnings before income taxes		**49,048**	**67,527**
Taxes on income	14	– 14,640	– 19,659
Earnings after income taxes		**34,408**	**47,868**
Attributable to:			
Non-controlling interest	15	4,782	5,096
Shareholders of KSB AG		**29,626**	**42,772**
Diluted and basic earnings per ordinary share (€)	17	16.79	24.24
Diluted and basic earnings per preference share (€)	17	17.05	24.62

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. 2009	44,772	66,663	412,770	524,205	81,615	**605,820**
Measurement of financial instruments	–	–	535	535	14	**549**
Currency translation differences	–	–	10,579	10,579	– 485	**10,094**
Other income and expense recognised directly in equity	–	–	32	32	10	**42**
Total earnings recognised directly in equity	–	–	*11,146*	*11,146*	*– 461*	***10,685***
Earnings after income taxes	–	–	42,772	42,772	5,096	**47,868**
Total recognised income and expense	–	–	*53,918*	*53,918*	*4,635*	***58,553***
Dividends paid	–	–	– 22,116	– 22,116	– 1,558	**– 23,674**
Capital increases / decreases	–	–	–	–	–	**–**
Change in consolidated Group / Successive acquisitions	–	–	–	–	–	**–**
30 June 2009	**44,772**	**66,663**	**444,572**	**556,007**	**84,692**	**640,699**

(€ 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**
30 June 2010	**44,772**	**66,663**	**555,932**	**667,367**	**109,333**	**776,700**

(€ thousands)	30 June 2008	30 June 2009	**30 June 2010**
Accumulated currency translation differences	– 75,992	– 71,081	– 18,059
thereof attributable to non-controlling interest	(– 23,737)	(– 20,857)	(– 7,982)

STATEMENT ON RECOGNISED INCOME AND EXPENSE

(€ thousands)	Six months ended 30 June 2010	Six months ended 30 June 2009
Earnings after income taxes	**34,408**	**47,868**
Measurement of financial instruments	– 4,561	753
Currency translation differences	48,468	10,094
Other income and expense recognised directly in equity	– 537	42
Taxes on items recognised directly in equity	1,372	– 204
Total earnings recognised directly in equity	**44,742**	**10,685**
Total recognised income and expense	**79,150**	**58,553**
Attributable to:		
Non-controlling interest	18,114	4,635
Shareholders of KSB AG	**61,036**	**53,918**

CASH FLOW STATEMENT

(€ thousands)	Six months ended 30 June 2010	Six months ended 30 June 2009
Earnings after income taxes	34,408	47,868
Depreciation and amortisation expense / write-ups	22,350	18,867
Increase / decrease in non-current provisions	– 865	2,873
Gain / loss on disposal of fixed assets	– 135	– 711
Other non-cash income / expenses	– 3,242	–
Cash flow	**52,516**	**68,897**
Other changes in cash flows from operating activities	– 5,883	– 15,172
Cash flows from operating activities	**46,633**	**53,725**
Cash flows from investing activities	**– 34,649**	**– 48,108**
Cash flows from financing activities	**– 39,758**	**30,228**
Net change in cash and cash equivalents	– 27,774	35,845
Effects of exchange rate changes on cash and cash equivalents	15,575	758
Effects of changes in consolidated Group	5,113	–
Cash and cash equivalents at beginning of period	409,840	167,360
Cash and cash equivalents at end of period	**402,754**	**203,963**

SEGMENT REPORTING

(€ thousands)	Order intake Six months ended 30 June 2010	Order intake Six months ended 30 June 2009	External sales revenue Six months ended 30 June 2010	External sales revenue Six months ended 30 June 2009	EBIT Six months ended 30 June 2010	EBIT Six months ended 30 June 2009
Business Unit Pumps	690,850	741,511	605,857	613,391	36,240	38,970
Business Unit Valves	176,401	166,036	158,941	163,476	1,218	5,252
Business Unit Service	135,775	119,336	127,531	110,833	12,980	10,992
Reconciliation	–	–	22,575	48,600	4,977	18,872
Total	**1,003,026**	**1,026,883**	**914,904**	**936,300**	**55,415**	**74,086**

€ 324,733 thousand (previous year: € 347,829 thousand) of the sales revenue presented was generated by the companies based in Germany and € 590,171 thousand (previous year: € 588,471 thousand) by the other Group companies.

At the balance sheet date, the total non-current assets of the KSB Group amounted to € 402,386 thousand (year-end figure in 2009: € 373,882 thousand), with € 191,225 thousand (year-end figure in 2009: € 188,530 thousand) being attributable to the companies based in Germany and € 211,161 thousand (year-end figure in 2009: € 185,352 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 interest and income taxes – determined for the Business Units Pumps, Valves and Service. 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 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 shows **Earnings before Interest and Taxes (EBIT)**, including non-controlling interest. 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 (IFRSs) as adopted by the EU.

If balance sheet items are presented as at 30 June 2010, they are compared with the values as at 31 December 2009. In the income statement, the amounts of the first half of the year 2010 are compared with the amounts of the comparative prior-year period.

BASIS OF CONSOLIDATION

In addition to KSB AG, 6 German and 52 foreign companies (previous year: 4 German and 48 foreign companies) were fully consolidated.

We included the following companies for the first time in the consolidated financial statements effective 1 January 2010:

- KAGEMA Industrieausrüstungen GmbH, Pattensen (Germany)
- KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal (Germany)
- KSB OOO, Moscow (Russia)
- KSB Lindflaten AS, Lysaker (Norway)
- KSB Service Italia S.r.l., Scorzè (Italy)
- KSB Pumps Inc., Mississauga / Ontario (Canada)

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 in 2010 (€ thousands)	
Non-current assets	– 2,405
Current assets	8,128
ASSETS	**5,723**
Equity	699
Non-current liabilities	666
Current liabilities	4,358
EQUITY AND LIABILITIES	**5,723**

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 2010 do not have any material impact on our interim consolidated financial statements.

BALANCE SHEET DISCLOSURES

1__Fixed assets

The volume of investment in property, plant and equipment has declined as most of the major investments made in previous years were already completed at the end of 2009. In the first six months of 2010 we invested € 32,068 thousand; in the first half of 2009 the corresponding figure was € 39,921 thousand. Depreciation and amortisation have risen compared with the previous year from € 17,186 thousand to € 20,915 thousand.

As in the first half of 2009, we did not recognise any impairment losses on intangible assets and items of property, plant and equipment in the period under review.

Changes in non-current financial assets result primarily from companies included for the first time in the consolidated financial statements.

2__Inventories

(€ thousands)	30 June 2010	31 Dec. 2009
Raw materials and production supplies	117,039	124,253
Work in progress	85,212	60,276
Finished goods and goods purchased and held for resale	99,305	100,275
Advance payments	23,574	17,564
Advances received from customers	– 66,464	– 43,299
	258,666	**259,069**

3__Receivables and other current assets

(€ thousands)	30 June 2010	31 Dec. 2009
Trade receivables	374,791	366,274
Intragroup and associate receivables	15,028	20,715
Receivables recognised by PoC (excl. advances received from customers PoC)	234,265	211,424
Advances received from customers (PoC)	– 147,188	– 142,838
Receivables recognised by PoC	87,077	68,586
Other receivables, other current assets and prepaid expenses	47,264	34,124
	524,160	**489,699**

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 4,198 thousand (previous year: € 5,945 thousand). Associate receivables amounted to € 4,183 thousand (previous year: € 2,512 thousand).

4__Cash and cash equivalents

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 are contained in the Statement of Changes in Equity (p. 10).

6_Provisions

Changes (€ thousands)	1 Jan. 2010	Change in consolidated Group / CTA* / Other	Utilisation / Pre-payments	Reversal	Additions	30 June 2010
Employee benefits	379,581	4,176	– 69,839	– 255	49,395	363,058
Pensions and similar obligations	235,814	1,156	– 7,051	–	10,940	240,859
Other employee benefits	143,767	3,020	– 62,788	– 255	38,455	122,199
Taxes	17,559	673	– 7,285	–	4,978	15,925
Taxes on income	16,613	455	– 7,000	–	4,021	14,089
Other taxes	946	218	– 285	–	957	1,836
Miscellaneous provisions	80,559	3,743	– 21,651	– 435	17,128	79,344
Warranty obligations and contractual penalties	44,625	1,789	– 9,778	– 132	8,810	45,314
Miscellaneous other provisions	35,934	1,954	– 11,873	– 303	8,318	34,030
	477,699	**8,592**	**– 98,775**	**– 690**	**71,501**	**458,327**

* 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, jubilee payments, compensated absence and partial retirement payments.

Miscellaneous other provisions include in particular provisions for expected losses from uncompleted transactions and onerous contracts, customer bonuses and accrued costs.

7_Liabilities

(€ thousands)	30 June 2010	31 Dec. 2009
NON-CURRENT LIABILITIES		
Financial liabilities		
Liabilities on bonds issued	100,000	100,000
Bank loans and overdrafts	56,693	56,674
Finance lease liabilities	1,105	3,230
Other	3	154
	157,801	160,058
Total non-current liabilities	**157,801**	**160,058**
CURRENT LIABILITIES		
Financial liabilities		
Bank loans and overdrafts	14,560	30,275
Finance lease liabilities	2,910	685
Other	3,750	4,215
	21,220	35,175
Trade payables		
Trade payables to third parties	166,268	141,732
Intragroup trade payables	4,012	5,358
	170,280	147,090
Other liabilities and deferred income		
Taxes	17,058	16,740
Social security and liabilities towards employees	18,646	16,270
Miscellaneous other liabilities and deferred income	50,285	39,792
	85,989	72,802
Total current liabilities	**277,489**	**255,067**
TOTAL LIABILITIES	**435,290**	**415,125**

INCOME STATEMENT DISCLOSURES

8__Sales revenue

The changes in the consolidated Group in the year under review accounted for € 15,760 thousand.

9__Other operating income

(€ thousands)	**Six months ended 30 June 2010**	Six months ended 30 June 2009
Gains from asset disposals and reversals of impairment losses (write-ups)	407	1,028
Income from current assets	1,051	1,087
Currency translation gains	–	2,125
Income from the reversal of provisions	690	805
Miscellaneous other income	5,863	4,631
	8,011	**9,676**

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 2010**	Six months ended 30 June 2009
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	361,589	359,063
Cost of purchased services	32,439	32,419
	394,028	**391,482**

The changes in the consolidated Group accounted for € 3,190 thousand.

11__Staff costs

(€ thousands)	**Six months ended 30 June 2010**	Six months ended 30 June 2009
Wages and salaries	257,358	247,395
Social security contributions and employee assistance costs	56,777	55,440
Pension costs	7,297	4,978
	321,432	**307,813**

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 € 7,112 thousand.

We employed on average 14,485 people in the reporting period (previous year: 14,318). The changes in the consolidated Group in the year under review led to the addition of 267 people.

12__Other operating expenses

(€ thousands)	**Six months ended 30 June 2010**	Six months ended 30 June 2009
Losses from asset disposals	272	317
Losses from current assets	1,315	5,249
Currency translation losses	1,967	1,625
Other staff costs	9,242	10,322
Repairs, maintenance, third-party services	35,681	38,873
Selling expenses	38,189	38,207
Administrative expenses	31,701	28,754
Rents and leases	10,574	9,689
Miscellaneous other expenses	20,370	19,817
	149,311	**152,853**

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

The changes in the consolidated Group accounted for € 3,077 thousand.

13__Financial income / expense

(€ thousands)	Six months ended 30 June 2010	Six months ended 30 June 2009
Financial income	**6,433**	**5,731**
Income from investments	3,409	3,589
thereof from affiliates	(2,855)	(3,099)
Interest and similar income	3,016	1,882
thereof from affiliates	(159)	(193)
Write-ups of financial assets	–	150
Other financial income	8	110
Financial expense	**– 9,395**	**– 8,451**
Interest and similar expenses	– 9,383	– 8,441
thereof to affiliates	(–)	(– 7)
Other financial expenses	– 12	– 10
	– 2,962	**– 2,720**

Interest and similar expenses include the interest cost on discounted pension provisions amounting to € 6,471 thousand (previous year: € 6,724 thousand).

14__Taxes on income

All income-related taxes of the consolidated companies 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 2010	Six months ended 30 June 2009
Effective taxes	15,185	16,329
Deferred taxes	– 545	3,330
	14,640	**19,659**

15__Earnings after income taxes – Non-controlling interest

The non-controlling interest in net profit amounts to € 4,864 thousand (previous year: € 5,507 thousand), and the non-controlling interest in net loss amounts to € 82 thousand (previous year: € 411 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 € 17,927 thousand (previous year: € 16,061 thousand).

17__Earnings per share

Earnings per ordinary share stand at € 16.79 (previous year: € 24.24), and earnings per preference share at € 17.05 (previous year: € 24.62). An additional dividend attributable to preference shareholders of € 0.26 (previous year € 0.38) 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. We 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.

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. They have not changed materially compared with those as at 31 December 2009.

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: € 25 thousand) and income of € 7 thousand (previous year: € 7 thousand) at KSB AG in the reporting period. Short-term deposits by KSB AG with Klein Pumpen GmbH and by Klein Pumpen GmbH with KSB companies carry appropriate rates of interest.

Auditors

BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, were appointed as the auditors and group auditors for the financial year 2010 at the Annual General Meeting on 19 May 2010.

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

There were no reportable events after the end of the interim reporting period.

German Corporate Governance Code

The Board of Management and Supervisory Board of KSB AG 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] in March 2010. 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 2009 NET RETAINED EARNINGS OF KSB AG

The Annual General Meeting on 19 May 2010 resolved to appropriate the 2009 net retained earnings of € 33,705,595.01 of KSB AG, Frankenthal, containing retained earnings brought forward of € 413,289.38, 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		12,000,000.00 €
Total		33,240,749.12 €
Carried forward to new account		464,845.89 €
		33,705,595.01 €

The dividend was paid out on 20 May 2010.

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, 13 August 2010

The Board of Management

SHAREHOLDER INFORMATION

November 2010
Interim report
January – September 2010

End of January 2011
Preliminary report on financial year 2010

30 March 2011
Financial press conference
67227 Frankenthal

30 March 2011
Invitation to Annual General Meeting

May 2011
Interim report
January – March 2011

18 May 2011
Annual General Meeting
CongressForum Frankenthal
Stephan-Cosacchi-Platz 5
67227 Frankenthal

19 May 2011
Dividend payment

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