KSB Group

Half-year Financial Report 2013

CONTENTS

INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2013

ECONOMIC ENVIRONMENT

The general economic conditions remained strained in the first half of 2013. The investment climate in the EU was noticeably impaired by the financial difficulties and economic situation in the Southern European countries. An additional factor was the weakening economic dynamism in important emerging countries including China.

Against this background, machinery orders declined by 1 %, according to the German Engineering Federation [*Verband Deutscher Maschinen- und Anlagenbau e. V. (VDMA)*], while production fell by 4 %. The Federation expects a drop in production of 1 % over the full year.

BUSINESS DEVELOPMENT

In light of the ongoing difficult starting position in the project business, we concentrated on expanding our range and sales of standard products. Among other things, we launched a completely updated standardised water pump, which can also be used in industrial processes, and an energy-saving circulator pump for heating and cooling systems.

A second focus was on leveraging opportunities in the mining industry. To this end, we opened or expanded sales and service centres in important mining regions last year. These locations help to intensify sales of our pumps for the hydraulic transport of solids such as ore, oil sands or tailings.

Weaker order situation in Europe, Asia and South America

From January to June 2013, our Group companies received orders with a total value of € 1,096.4 million, corresponding to a decrease of € 65.4 million or 5.6 % compared with the first half of 2012. This was attributable to the 7.5 % decline in order intake for pumps (€ 711.2 million) and the 7.8 % decrease in order values for valves (€ 193.0 million). Service orders, which grew by 4.7 % (€ 192.2 million) could only partly compensate for these reductions in orders.

In the European Group companies, orders totalling € 640.4 million (– 6.4 %) were received in the first six months. In the same period, KSB AG posted an order intake of € 380.1 million (– 6.9 %).

Our Group companies in the Region Middle East / Africa reported strong growth. The order volume for our companies based in the Region grew by a total of 11.3 % to € 63.9 million.

In Asia, the order situation of our largest company in India improved, despite continuing difficulties in the market. Order intake in the other subsidiaries was lower than in the previous year. In total, we received orders amounting to € 173.1 million (– 10.9 %).

Since the beginning of the year, we have divided the American market into the Regions North America (including Oceania) and South America. Order intake in our North American companies was encouraging, with a 3.5 % improvement to € 130.9 million. A key factor in this was demand from the mining and Canadian oil sands industries for slurry pumps from our US subsidiary GIW Industries, Inc. In South America, KSB Chile S.A. also benefited from increased orders from mine operators. By contrast, order intake in our largest Brazilian subsidiary remained affected by the continuing economic weakness of its domestic market. The volume of incoming orders in South America fell by 11.2 % to € 88.1 million.

Eight smaller companies in France, India and Portugal consolidated for the first time at the beginning of 2013 contributed € 15.2 million to the Group's consolidated order intake in the first six months.

Sales revenue at previous year's level

Our sales revenue from valves (€ 187.0 million) and service (€ 185.5 million) in the first half of the year was higher than in the same period in 2012, while sales revenue from pumps (€ 725.5 million) remained almost static. The Group's total sales revenue, at € 1,090.1 million (– 0.8 %) remained flat as a result of reconciliation effects from the measurement of construction contracts under IAS 11. The sales revenue of the eight companies consolidated for the first time, amounting to € 12.2 million, must also be taken into account.

In the European Group companies, sales revenue fell by 1.2 % to € 656.3 million. KSB AG invoiced several major power plant and industrial orders, which increased its total sales revenue (in accordance with *HGB* [German Commercial Code]) to € 415.5 million (+ 4.2 %). However, this development contrasted with significant declines in sales revenue in other European companies.

Sales revenue generated by our subsidiaries in the Region Middle East / Africa rose by 1.8 % in the first six months to € 57.3 million.

During the same period, the total sales revenue of our Asian companies declined by 1.2 %, reaching a volume of € 161.0 million.

Sales revenue from our companies in North America rose significantly (by 5.9 %), reaching a volume of € 128.3 million. The performance of our US subsidiary GIW Industries, Inc., was outstanding, increasing its sales revenue by more than a third. At € 87.2 million, total sales revenue at our South American companies was below that of the comparative prior-year period (– 6.9 %). This was down to a decline in sales revenue at our Brazilian pump company KSB Bombas Hidráulicas S.A., with one of the reasons being project-related delays in delivery dates in the oil business. Growth in the other Group companies in South America was unable to compensate for this setback.

Orders on hand remain high
The volume of new orders received in the first half of the year followed a similar pattern to sales revenue. Orders on hand, at approximately € 1.2 billion, have therefore remained at the same level compared with the end of 2012. They include both orders that need to be fulfilled at short notice and purchase orders that are due for delivery in 2014 or 2015, or in some cases even later.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

Due to the unexpectedly difficult overall economic situation, it was not possible to increase the volume of business in the first half of 2013. Sales revenue remained almost unchanged compared with the first six months of 2012. Earnings before income taxes were below those of the comparative prior-year period.

At 37.8 %, the equity ratio remains very sound and the Group's financial position remains solid. The decline in investments in non-current assets resulted in an improved net financial position.

It should be borne in mind in the following explanations that the previous year's figures include the effects resulting from the revision of IAS 19 Employee Benefits. More information is provided in the notes to the consolidated financial statements.

RESULTS OF OPERATIONS

Total output of operations
At € 1,112.2 million, the total output of operations is 1.0 % below the prior-year figure of € 1,123.6 million. It was influenced by the above-mentioned changes to sales revenue and somewhat smaller increases in inventories.

Cost structure
The cost of materials fell by € 32.9 million compared with the first six months of 2012 as a result of declining procurement prices, accounting for 41.0 % of the total output of operations (previous year: 43.5 %). Staff costs rose from € 375.3 million to € 394.2 million. This is above all attributable to the increase in headcount in the wake of the above-mentioned first-time consolidations and to collectively agreed salary increases. As a result, staff costs as a percentage of total output of operations rose by 2.0 percentage points to 35.4 %. At € 183.2 million (previous year: € 182.9 million), other expenses remained at prior-year level and, expressed as a percentage of total output of operations, remained virtually unchanged. Depreciation and amortisation increased by € 2.0 million.

Half-year earnings
Earnings before income taxes for the first six months of the year amounted to € 48.8 million, some 6.7 % or € 3.5 million lower compared with the first half of 2012. The return on sales was accordingly slightly lower at 4.5 % (previous year: 4.8 %). In particular, the sustained pressure on prices in the project business had an adverse impact.

With a moderate fall in the tax rate in the first half of the year, earnings after income taxes declined by € 1.6 million to € 33.4 million.

Earnings after income taxes attributable to non-controlling interest increased to € 6.9 million (previous year: € 5.7 million). This is the result of the good performance of some companies in the Americas in which KSB does not hold a 100 % stake. Earnings per ordinary share attributable to shareholders of KSB AG stand at € 15.04 (previous year: € 16.62) and earnings per preference share attributable to shareholders of KSB AG at € 15.30 (previous year: € 16.88).

Segment performance

In the Business Unit Pumps, we generated EBIT of € 43.9 million (versus € 28.1 million for the first six months of 2012), with sales revenue virtually unchanged (+ 0.3 %). The increase in earnings stems from the encouraging development of our mining business and the better profit quality of orders invoiced, which in the previous year had a positive impact on the EBIT for construction contracts under IAS 11.

The Business Unit Valves saw sales revenue rise by 2.4 % compared with the first half of 2012. At € 1.4 million, EBIT fell short of the prior-year figure of € 5.7 million, mainly because of the poorer profit quality of orders for power station valves.

The Business Unit Service posted sales revenue growth of 5.1 %. In contrast, EBIT fell from € 20.0 million to € 12.3 million due to declining margins.

The measurement of construction contracts under IAS 11 had a negative impact on both sales revenue (– € 23.8 million) and EBIT (– € 7.2 million) compared with the prior-year period.

FINANCIAL POSITION

Equity

The equity of the KSB Group declined slightly in the first six months of 2013 to total € 824.8 million, compared with € 832.5 million as at 31 December 2012. The fall is mainly attributable to higher dividend payments from the Group companies with non-controlling interests. At 37.8 %, the equity ratio is now 0.2 percentage points lower than at year end 2012.

Liabilities

Liabilities were almost unchanged year on year. Provisions declined overall by € 24.6 million, primarily as a result of lower staff-related provisions. Other provisions were also slightly reduced due to items settled in the first half of the year. Financial liabilities, on the other hand, rose by € 13.3 million, as we took out short-term bank loans to take advantage of the favourable conditions on the capital markets. Higher advances received from customers 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) showed an improvement of € 10.3 million compared with 30 June 2012.

Cash flows from operating activities amounted to € +25.1 million, versus € –3.2 million for the first six months of the previous year. This is primarily attributable to a marked decline in cash tied up in receivables compared with the prior-year period.

Our investing activities resulted in a reduced cash outflow of € –35.0 million (prior-year period: € –54.7 million). Contributors to this were both reduced payments for property, plant and equipment and lower expenses for non-current financial assets.

Cash flows from financing activities amounted to € –18.0 million (prior-year period: € –49.2 million). This figure was impacted by short-term loans of around € 15 million in the period under review, while the prior-year period saw the repayment of a loan against borrower's note.

NET ASSETS

Totals assets amounted to € 2,184.5 million as at 30 June 2013, a decline of € 3.6 million or 0.2 % compared with year end 2012.

The changes in non-current assets (– € 1.9 million) are attributable, among other things, to the companies consolidated for the first time. Intangible assets increased by € 8.1 million, primarily as a result of goodwill attributable to the newly consolidated companies in Europe. The decrease of € 2.8 million in property, plant and equipment is primarily attributable to subdued investing activities, with first-time consolidations making a positive contribution of + € 6.0 million.

Non-current financial assets declined from € 38.8 million to € 31.9 million. Investments in start-ups and smaller company acquisitions were not sufficient to offset the effects of the first-time consolidations.

At € 480.8 million, inventories were higher than at year end 2012 (€ 457.2 million). This was the result of increases in stocks for pending orders in the second half of the year, particularly for work in progress.

Receivables and other assets, at € 688.7 million, remained on a par with year end 2012 (€ 688.0 million). The fall in receivables was compensated for by the increase in other current assets.

The higher financing requirement for inventories impacted financial instruments and cash and cash equivalents, which amounted to € 375.1 million (year-end figure in 2012: € 401.0 million).

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

The volume of business in the first half of 2013 was almost unchanged from the previous year. Our earnings before income taxes did not quite match the level of the first six months of 2012. The financial situation of the KSB Group remains sound.

EMPLOYEES

The number of employees in the Group as at 30 June 2013 increased by 547 to 16,565 over the comparative prior-year reporting date. This development is mainly attributable to the increase in headcount of 465 in the Group year on year as a result of the first consolidations at the start of 2013 and the integration of the Smedegaard Group at the end of 2012.

Based on their good order situation, our companies involved in mining in the US and Chile have increased the number of staff they employ. Several South East Asian companies have also taken on more employees, while, in contrast, we have moderately reduced our staffing levels in Brazil, India and China, in line with market developments in those countries.

RISK REPORT

In the 2012 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 management report of the 2012 consolidated financial statements we presented a detailed estimate of how we expect the market and our sales opportunities to develop in the current year. As the global economy has unexpectedly continued to be challenging, our expectations for the first half of the year have not been confirmed.

For the full year we expect to make up the shortfall in order intake and sales revenue by means of imminent project awards in the second half of the year. We continue to anticipate moderate 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, despite some small signs of improvement.

We want to achieve growth in sales revenue roughly in line with the increase in order intake in all three segments in 2013.

Based on a slight improvement in business volume, we expect to see largely stable earnings approximately at the previous year's level, despite higher costs and continued pressure on prices in the project business.

Were, however, the expected economic recovery in the second half of the year not to materialise, this would have a negative impact on our business volume and could jeopardise achievement of our forecast annual targets. In this case, we would intensify the measures already initiated to secure earnings.

The net financial position will continue to improve in the second half of the year, as almost all the dividend and bonus payments for the 2012 financial year were paid out in the first six months of the year. The objective is to return to the 2012 year-end figure.

Our expenditure on property, plant and equipment is unlikely to exceed that of the previous year.

We will continue to provide the necessary financial resources and personnel capacity for the implementation of our global strategy projects.

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 interim consolidated financial statements – have neither been audited nor reviewed in accordance with section 317 of the *HGB* [German Commercial Code].

PUBLICATION

The half-year financial report is published in the *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 2013	31 Dec. 2012 *
Non-current assets			
Intangible assets	1	110,680	102,624
Property, plant and equipment	1	457,783	460,595
Non-current financial assets	1	31,912	38,820
Deferred tax assets		39,578	39,803 *
		639,953	**641,842 ***
Current assets			
Inventories	2	480,753	457,208
Receivables and other current assets	3	688,671	687,960
Current financial instruments	4	101	–
Cash and cash equivalents	4	374,980	401,031
		1,544,505	**1,546,199**
		2,184,458	**2,188,041 ***

EQUITY AND LIABILITIES

(€ thousands)	Notes	30 June 2013	31 Dec. 2012 *
Equity	5		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		599,649	596,834 *
Equity attributable to shareholders of KSB AG		711,084	708,269 *
Non-controlling interest		113,742	124,237 *
		824,826	**832,506 ***
Non-current liabilities			
Deferred tax liabilities		14,580	13,754 *
Provisions for employee benefits	6	412,814	418,042 *
Other provisions	6	17,526	17,205
Other liabilities	7	207,056	208,041
		651,976	**657,042 ***
Current liabilities			
Provisions for employee benefits	6	98,843	109,044
Other provisions	6	74,889	84,427
Tax liabilities	7	27,391	22,047
Other liabilities	7	506,533	482,975
		707,656	**698,493**
		2,184,458	**2,188,041 ***

*Adjustment due to the amendment to IAS 19

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

(€ thousands)	Notes	Six months ended 30 June 2013	Six months ended 30 June 2012 *
Sales revenue	8	**1,090,116**	**1,098,510**
Changes in inventories		21,300	24,262
Work performed and capitalised		773	794
Total output of operations		**1,112,189**	**1,123,566**
Other income	9	13,048	15,525
Cost of materials	10	– 455,829	– 488,722
Staff costs	11	– 394,163	– 375,304 *
Depreciation and amortisation expense		– 30,159	– 28,202
Other expenses	12	– 183,241	– 182,860
Other taxes		– 6,097	– 6,222
		55,748	**57,781** *
Financial income	13	4,330	5,312
Financial expense	13	– 11,241	– 10,768
		– 6,911	**– 5,456**
Earnings before income taxes		**48,837**	**52,325** *
Taxes on income	14	– 15,422	– 17,282 *
Earnings after income taxes		**33,415**	**35,043** *
Attributable to:			
Non-controlling interest	15	6,858	5,709
Shareholders of KSB AG		**26,557**	**29,334** *
Diluted and basic earnings per ordinary share (€)	17	15.04	16.62 *
Diluted and basic earnings per preference share (€)	17	15.30	16.88 *

RECONCILIATION TO TOTAL COMPREHENSIVE INCOME**

(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012 *
Earnings after income taxes	**33,415**	**35,043** *
Income and expense recognised directly in equity and not reclassified to profit or loss in subsequent periods	**7,260**	**– 50,418** *
Actuarial gains / losses under IAS 19	10,288	– 71,949 *
Taxes on income	– 3,028	21,531 *
Income and expense recognised directly in equity and reclassified to profit or loss in subsequent periods	**– 18,713**	**1,509**
Currency translation differences	– 18,521	1,593
Measurement of financial instruments	– 310	– 181
Taxes on income	118	97
Other comprehensive income (after taxes)	**– 11,453**	**– 48,909** *
TOTAL COMPREHENSIVE INCOME	**21,962**	**– 13,866** *
Attributable to:		
Non-controlling interest	3,965	6,225 *
Shareholders of KSB AG	**17,997**	**– 20,091** *

*Adjustment due to the amendment to IAS 19 ** Presentation adjusted due to first-time application of the amended IAS 1

STATEMENT OF CHANGES IN EQUITY

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2012	44,772	66,663
Changes in accounting policies under IAS 19	–	–
1 Jan. 2012 (adjusted)	**44,772**	**66,663**
Income and expense recognised directly in equity	–	–
Earnings after income taxes	–	–
Total comprehensive income	–	–
Dividends paid	–	–
Capital increases / decreases	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
30 June 2012 (adjusted)	**44,772**	**66,663**

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2013	44,772	66,663
Changes in accounting policies under IAS 19	–	–
1 Jan. 2013 (adjusted)	**44,772**	**66,663**
Income and expense recognised directly in equity	–	–
Earnings after income taxes	–	–
Total comprehensive income	–	–
Dividends paid	–	–
Capital increases / decreases	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
30 June 2013 (adjusted)	**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. 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**
Balance at 1 Jan. 2013	–35,750	–20,784	**–56,534**
Change in 2013	–15,770	–2,751	**–18,521**
Balance at 30 June 2013	**–51,520**	**–23,535**	**–75,055**

	Earnings recognised directly in equity					
Revenue reserves	**Currency translation differences**	**Measurement of financial instruments**	**Actuarial gains/losses under IAS 19**	**Equity attributable to shareholders of KSB AG**	**Non-controlling interest**	**Total equity**
670,203	–25,554	–2,574	–	753,510	115,614	**869,124**
–	–	–	– 13,630	– 13,630	– 1,580	**– 15,210**
670,203	**–25,554**	**–2,574**	**– 13,630**	**739,880**	**114,034**	**853,914**
–	1,135	–135	– 50,425	– 49,425	516	**– 48,909**
29,335	–	–	– 1	29,334	5,709	**35,043**
29,335	1,135	–135	– 50,426	– 20,091	6,225	**– 13,866**
–21,240	–	–	–	–21,240	–1,124	**–22,364**
–	–	–	–	–	–	**–**
4,013	–	–	–	4,013	7	**4,020**
–	–	–	–	–	–12	**–12**
682,311	**–24,419**	**–2,709**	**–64,056**	**702,562**	**119,130**	**821,692**

	Earnings recognised directly in equity					
Revenue reserves	**Currency translation differences**	**Measurement of financial instruments**	**Actuarial gains / losses under IAS 19**	**Equity attributable to shareholders of KSB AG**	**Non-controlling interest**	**Total equity**
720,801	–35,750	676	–	797,162	125,807	**922,969**
–	–	–	– 88,893	– 88,893	– 1,570	**– 90,463**
720,801	**–35,750**	**676**	**–88,893**	**708,269**	**124,237**	**832,506**
–	–15,653	–33	7,126	– 8,560	– 2,893	**– 11,453**
26,557	–	–	–	26,557	6,858	**33,415**
26,557	–15,653	–33	7,126	17,997	3,965	**21,962**
–21,240	–	–	–	–21,240	–12,042	**–33,282**
–	–	–	–	–	–	**–**
6,300	–117	–	– 119	6,064	– 2,499	**3,565**
–6	–	–	–	– 6	81	**75**
732,412	**–51,520**	**643**	**–81,886**	**711,084**	**113,742**	**824,826**

STATEMENT OF CASH FLOWS

(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012
Cash flow	**64,758**	**66,846**
Other changes in cash flows from operating activities	– 39,622	– 70,060
Cash flows from operating activities	**25,136**	**– 3,214**
Cash flows from investing activities	**– 34,949**	**– 54,649**
Cash flows from financing activities	**– 18,034**	**– 49,216**
Net change in cash and cash equivalents	– 27,847	– 107,079
Effects of exchange rate changes on cash and cash equivalents	– 1,301	– 636
Effects of changes in consolidated Group	3,097	654
Cash and cash equivalents at beginning of period	401,031	305,707
Cash and cash equivalents at end of period	**374,980**	**198,646**

NOTES

GENERAL

The accompanying unaudited condensed interim consolidated financial statements of KSB Aktiengesellschaft, Frankenthal/Pfalz, Germany (KSB AG), have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). They have been prepared in euros (€) on a going concern basis. Amounts in this report are generally presented in thousands of euros (€ thousands) using standard commercial rounding rules.

CHANGE IN ACCOUNTING PRINCIPLES

The following new or revised Interpretations and Standards issued by the International Accounting Standards Board (IASB) were required to be applied for the first time in financial year 2013.

The amendment to **IAS 1 Presentation of Financial Statements** requires a breakdown in other comprehensive income into items that in subsequent periods are reclassified in the income statement (recycled to profit or loss) and those that are not reclassified. In addition, the related tax effects for these two categories are to be presented separately.

The revised **IAS 19 Employee Benefits** contains new rules on the recognition, measurement and presentation of defined benefit pension plans and benefits upon termination of employment. As a result of the abolition of the corridor method, actuarial gains and losses (experience adjustments and effects of changes to actuarial assumptions) are now immediately recognised directly in equity, taking into account the relevant tax effect. In accordance with the transitional provisions, the first-time application of the revised IAS 19 is retroactive. Thus, the prior-period figures presented have been calculated as though the new regulations had already been applied last year. Actuarial gains and losses which to date have been accounted for outside the balance sheet in line with the corridor method have been adjusted in equity as at 31 December 2012 by direct recognition in equity of € 90 million, with deferred tax assets of € 11 million and deferred tax liabilities of € 28 million being taken into account. The effects on provisions as at 31 December 2012 amounted to € 129 million. The impact in the income statement of past service cost is insignificant.

IFRS 13 Fair Value Measurement to be applied prospectively as from 1 January 2013 provides a single framework across standards for measuring fair value, and requires additional disclosures in the Notes. Fair value is the price that independent market participants would, under standard market conditions, receive when selling an asset or pay when transferring a liability at the measurement date. The first-time application did not result in any material deviations when measuring fair values.

The other new or revised Interpretations and Standards that were required to be applied for the first time for financial year 2013 have no material impact on our interim consolidated financial statements.

BASIS OF CONSOLIDATION

As well as KSB AG, 10 German and 82 foreign companies were fully consolidated in the interim consolidated financial statements, seven more than in the period ended 31 December 2012.

The following companies which were acquired or founded in prior years were included for the first time in 2013:

- KSB, Bombas e Válvulas, SA, Albarraque, Portugal
- KSB Service EITB-SITELEC S.A.S., Montfavet, France
- Metis Levage S.A.S., Villefranche sur Saône, France
- KSB SERVICE ETC S.A.S., Chalon-sur-Saône, France
- KSB SERVICE MEDIATEC S.A.S., Chalon-sur-Saône, France
- Société de travaux et Ingénierie Industrielle (ST II), Déville lès Rouen, France
- MD Invest, Déville lès Rouen, France
- KSB Tech Pvt. Ltd., Pimpri (Pune), India

In addition, two already consolidated companies in France were merged with each other.

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)	2013
Non-current assets	8,130
Current assets	12,266
Assets	**20,396**
Equity	6,343
Non-current liabilities	984
Current liabilities	13,069
Equity and liabilities	**20,396**

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 except for the changes described above in the section "Change in accounting principles". They apply to all companies included in the interim consolidated financial statements.

BALANCE SHEET DISCLOSURES

1 Fixed assets

In the first six months of 2013 we invested € 26,635 thousand in property, plant and equipment; in the first half of 2012 the corresponding figure was € 37,920 thousand. After sustained high investing activity in previous years, we have invested less in expansion in the current financial year. Depreciation and amortisation rose year on year from € 25,394 thousand to € 27,396 thousand.

As in the first half of 2012, 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 declined overall due to the first-time consolidations, with the resulting goodwill accounting for the increase in intangible assets. Investments in new companies did not fully compensate for the above-mentioned effect on the non-current financial assets.

2 Inventories

(€ thousands)	30 June 2013	31 Dec. 2012
Raw materials and production supplies	159,878	161,594
Work in progress	189,113	168,172
Finished goods and goods purchased and held for resale	110,193	105,136
Advance payments	21,569	22,306
	480,753	**457,208**

3 Receivables and other current assets

(€ thousands)	30 June 2013	31 Dec. 2012
Trade receivables	470,900	481,900
Intragroup receivables	6,713	8,011
Associate receivables	12,550	8,926
Receivables recognised by PoC	123,494	130,737
Receivables recognised by PoC (excluding advances received from customers PoC)	220,994	230,546
Advances received from customers (PoC)	– 97,500	– 99,809
Other receivables and other current assets	75,014	58,386
	688,671	**687,960**

Intragroup receivables include loans at the usual interest amounting to € 1,561 thousand (previous year: € 2,690 thousand). Impairment losses on intragroup receivables amount to € 3,823 thousand (previous year: € 6,374 thousand).

4 Current financial instruments, cash and cash equivalents

Current financial instruments amount to € 101 thousand (previous year: none).

Cash and cash equivalents are primarily term deposits with short maturities and call deposits. Part of the term deposits is used in Germany for hedges of credit balances prescribed by law for partial retirement arrangements. These are available to us at any time due to the underlying contractual structure.

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 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 and non-controlling interest are contained in the Statement of Changes in Equity.

6 Provisions

Changes (€ thousands)	1 Jan. 2013	30 June 2013
Employee benefits	527,086*	511,657
Pensions and similar obligations	399,966*	396,079
Other employee benefits	127,120	115,578
Other provisions	101,632	92,415
Taxes	11,438	10,111
Taxes on income	10,169	8,508
Other taxes	1,269	1,603
Warranty obligations and contractual penalties	48,540	49,426
Miscellaneous other provisions	41,654	32,878
	628,718*	**604,072**

*Adjustment by € 129 million due to the amendment to IAS 19

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 2013	31 Dec. 2012
Financial liabilities		
Loan against borrower's note	180,640	180,597
Bank loans and overdrafts	24,429	24,638
Finance lease liabilities	1,253	1,352
Other	734	1,454
Total non-current liabilities	**207,056**	**208,041**

CURRENT LIABILITIES

(€ thousands)	30 June 2013	31 Dec. 2012
Financial liabilities		
Loan against borrower's note	–	–
Bank loans and overdrafts	68,632	54,060
Finance lease liabilities	438	703
Intragroup liabilities	163	162
Associate liabilities	197	268
Other	14	14
	69,444	**55,207**
Trade payables		
Trade payables to third parties	198,183	193,564
Intragroup trade payables	652	1,896
Associate trade payables	1,417	8,554
	200,252	**204,014**
Tax liabilities	**27,391**	**22,047**
Other liabilities		
Advances received from customers	106,587	94,054
Advances received from customers (PoC)	53,912	54,121
Social security and liabilities towards employees	27,401	20,473
Miscellaneous other liabilities and deferred income	48,937	55,106
	236,837	**223,754**
Total current liabilities	**533,924**	**505,022**

TOTAL NON-CURRENT AND CURRENT LIABILITIES

(€ thousands)	30 June 2013	31 Dec. 2012
Total liabilities	**740,980**	**713,063**

INCOME STATEMENT DISCLOSURES

8 Sales revenue

KSB Group sales revenue amounted to € 1,090,116 thousand (previous year: € 1,098,510 thousand). The changes in the consolidated Group in the year under review accounted for € 12,178 thousand.

The breakdown of sales revenue by product groups (Pumps, Valves and Service) is presented in the segment reporting.

9 Other income

(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012
Gains from asset disposals and reversals of impairment losses (write-ups)	418	478
Income from current assets	1,170	1,090
Currency translation gains	912	–
Income from the reversal of provisions	2,383	2,190
Miscellaneous other income	8,165	11,767
	13,048	**15,525**

The changes in the consolidated Group did not have any material impact on other income.

10 Cost of materials

(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	424,506	458,797
Cost of purchased services	31,323	29,925
	455,829	**488,722**

The changes in the consolidated Group accounted for € 824 thousand.

11 Staff costs

(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012
Wages and salaries	314,448	298,634
Social security contributions and employee assistance costs	66,787	65,528
Pension costs	12,928	11,142*
	394,163	**375,304***

*Adjustment by € 2 thousand due to the amendment to IAS 19

Pension costs are reduced by the interest component of provisions for pensions and similar obligations, which is reported as a net interest cost in financial income / expense.

The changes in the consolidated Group in the year under review accounted for € 7,508 thousand.

We employed an average of 16,578 people in the reporting period (previous year: 16,101). The changes in the consolidated Group in the year under review led to the addition of 361 people.

12 Other expenses

(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012
Losses from asset disposals	403	61
Losses from current assets	2,730	4,707
Currency translation losses	2,277	1,130
Other staff costs	11,573	11,089
Repairs, maintenance, third-party services	41,520	50,310
Selling expenses	43,287	45,143
Administrative expenses	46,976	43,415
Rents and leases	13,680	12,748
Miscellaneous other expenses	20,795	14,257
	183,241	**182,860**

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

The changes in the consolidated Group accounted for € 2,808 thousand.

13 Financial income / expense

(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012
Financial income	**4,330**	**5,312**
Income from investments	1,512	2,800
thereof from affiliates	(1,257)	(2,027)
Interest and similar income	2,781	2,416
thereof from affiliates	(33)	(74)
Write-ups of financial assets	–	–
Income from the remeasurement of financial instruments	–	–
Other financial income	37	96
Financial expense	**– 11,241**	**– 10,768**
Interest and similar expenses	– 11,206	– 10,728
thereof to affiliates	(–)	(–)
thereof net interest cost on employee benefits	(– 6,624)	(– 7,374)
Write-downs of financial assets	–	–
Expenses from the remeasurement of financial instruments	–	– 2
Other financial expenses	– 35	– 38
	– 6,911	**– 5,456**

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 income statement after other expenses.

(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012
Effective taxes	17,900	17,278
Deferred taxes	– 2,478	4*
	15,422	**17,282***

* Adjustment by € – 1 thousand due to the amendment to IAS 19

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 € 7,358 thousand (previous year: € 5,981 thousand), and the non-controlling interest in net loss amounts to € 500 thousand (previous year: € 272 thousand). These relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds.

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

The amendment to IAS 19 had no material impact on the non-controlling interest in the previous year.

16 Research and development costs

Research and development costs in the period under review amounted to € 23,992 thousand (previous year: € 21,569 thousand).

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

17 Earnings per share

	Six months ended 30 June 2013	Six months ended 30 June 2012
Diluted and basic earnings per ordinary share (€)	15.04	16.62
Diluted and basic earnings per preference share (€)	15.30	16.88

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.

The amendment to IAS 19 did not require the prior-period figures to be adjusted due to its immaterial impact.

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

	External sales revenue		EBIT	
(€ thousands)	Six months ended 30 June 2013	Six months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Business Unit Pumps	725,480	723,387	43,941	28,080 *
Business Unit Valves	186,956	182,636	1,444	5,684
Business Unit Service	185,556	176,549	12,264	20,046
Reconciliation	– 7,876	15,938	– 386	6,826
Total	**1,090,116**	**1,098,510**	**57,263**	**60,636** *

*Adjustment by € – 2 thousand due to the amendment to IAS 19

€ 306,662 thousand (previous year: € 327,182 thousand) of the sales revenue presented was generated by the companies based in Germany and € 783,454 thousand (previous year: € 771,328 thousand) by the other Group companies.

At the balance sheet date, the total non-current assets of the KSB Group amounted to € 472,290 thousand (year-end figure in 2012: € 477,805 thousand), with € 186,070 thousand (year-end figure in 2012: € 190,679 thousand) being attributable to the companies based in Germany and € 286,220 thousand (year-end figure in 2012: € 287,126 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 – 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 **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 e**arnings 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. They have not changed materially compared with those at 31 December 2012.

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, Stuttgart, and 79.70 % (706,671 voting shares) were attributed to KSB Stiftung, Stuttgart, pursuant to section 22(1), sentence 1, No. 1 of the *WpHG*. The voting rights attributed to KSB Stiftung, Stuttgart, 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 € 12 thousand (previous year: € 24 thousand) and of no income (previous year: € 10 thousand) at KSB AG in the period under review. Any KSB AG short-term deposits with Klein Pumpen GmbH, and any Klein Pumpen GmbH short-term deposits with KSB companies carry appropriate rates of interest.

Auditors

On 15 May 2013, BDO AG Wirtschaftsprüfungsgesellschaft, based in Hamburg with an office in Frankfurt am Main, were appointed as auditors and group auditors for the financial year 2013 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 2012 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 2012 NET RETAINED EARNINGS OF KSB AG

The Annual General Meeting on 15 May 2013 resolved to appropriate the 2012 net retained earnings of € 31,445,354.22 of KSB AG, Frankenthal, containing retained earnings brought forward of € 323,128.16, 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		€ 10,000,000.00
Total		€ 31,240,749.12
Carried forward to new account		€ 204,605.10
		€ 31,445,354.22

The dividend was paid out on 16 May 2013.

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 2013

The Board of Management

SHAREHOLDER INFORMATION

13 November 2013
Interim report
January – September 2013

End of January 2014
Preliminary report on
financial year 2013

27 March 2014
Financial press conference
67227 Frankenthal

1 April 2014
Invitation to Annual General Meeting

End of April 2014
Interim report
January – March 2014

14 May 2014
Annual General Meeting
CongressForum Frankenthal
Stephan-Cosacchi-Platz 5
67227 Frankenthal

15 May 2014
Dividend payment

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