KSB Group

Half-year Financial Report 2018

CONTENTS

INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018

MACROECONOMIC ENVIRONMENT AND SECTOR VIEW

The risks for the global economy and therefore for our business too increased slightly in the first half of 2018. They stem mainly from the trade disputes triggered by the USA and political tensions in the Middle East. The currencies of several countries with a comparatively weak economic basis also came under pressure. Not least European exporters such as KSB feel this, as they report their sales revenue in euros.

Despite the changed overall situation, the International Monetary Fund (IMF) is standing by its global forecast of GDP growth of 3.9 % for the current year. Due to developments in the first half of the year however, the UN organisation sees growth weakening in some European countries such as Germany, France and Italy, which are key markets for KSB's business. In Latin America and India where KSB has strong market positions, the IMF has moderated the economic expectations for 2018 after the first six months.

China remains on the sound growth path forecast by the IMF. At the same time, the economy in some of the emerging and developing countries as well as the oil-exporting countries is expected to fare better than expected.

POSITIVE DEVELOPMENT OF KEY MARKETS

In the first half of 2018, the most important sales markets for KSB continued to be industry, water and waste water management as well as the energy sector.

In industry, the previous year's growth trend in manufacturing continued, and the oil and gas market also recovered. There was continued solid growth in products for water and waste water engineering. In addition to replacement investments in the developed countries, there were more new projects in the emerging economies.

By contrast, the situation on the energy market deteriorated further. The weak demand seen in previous years from energy providers and the engineering contractors commissioned by them for equipment goods continued to decline. In several countries, potential customers postponed their new installation and modernisation projects which meant that no orders were placed with suppliers.

The construction industry and mining fared well overall. KSB operates with a regional sales focus in these two markets. While construction still benefited from low interest rates, previously postponed replacement and modernisation investments in mining helped revive demand.

CONTINUED GROWTH IN MECHANICAL ENGINEERING

The IMF's economic expectations are also partially reflected in the sales forecasts of the German Engineering Federation (VDMA). These assume lower growth in the mechanical engineering sector for both the EU and India compared with the previous year. According to the VDMA's estimates, sector sales in the USA and Latin America should reach the previous year's levels again.

However, against expectations, sales in the mechanical engineering sector in China, which is KSB's most important market in Asia apart from India, declined in the first four months. Nevertheless, the VDMA's annual forecast still predicts growth.

In Germany, the order situation in the mechanical engineering sector in the first six months improved significantly compared with 2017 (+ 7.3 %) and sales revenue also rose (+ 3.5 %). There was also a general upward trend in order intake as well as in sales revenue of German manufacturers of liquid pumps. However, the growth of individual companies varied, not least depending on the ratio of exports to countries with weakening currencies. Industrial valves experienced a differentiated development: order intake fell slightly, while sales revenue rose tangibly.

BUSINESS DEVELOPMENT AND RESULTS OF OPERATIONS

In the first six months, we increased our sales activities in the industrial and water / waste water sectors which are market areas with strategic priority for us. This included the market launch of new products for Industry 4.0 as well as the expansion of our portfolio by large waste water pumps.

In line with our customers' changing buying habits, we focused on expanding electronic sales of pumps and valves via our Web-Shop and e-sales portals. Our growth in the first half of the year was well above average for this distribution channel.

At the same time, we intensified our major customer business and signed new global framework agreements for the supply of products and support services. In that context, we increased the share of our business in the specific purchasing volume of some of these customers.

In May we launched our own brand for our service and spare parts range to exploit existing and future sales potential. This measure accompanied the expansion of our service portfolio. KSB SupremeServ accentuates the quality and efficiency of our globally active service teams. We support their work by providing new, online-enabled monitoring and diagnostic systems.

STILL MODERATE ORDER INTAKE GROWTH

Our order intake rose in the first six months of the year by € 12.6 million to € 1,194.6 million in relation to the comparative prior-year period. This 1.1 % rise does not yet chime with our forecast of a "tangible increase" that is maintained for the full year.

This was due to negative currency translation effects of € 61.9 million, which stemmed primarily from exchange rate changes of the euro against the US dollar, the Brazilian real and the Argentinian peso as well as the Indian and Pakistani rupees. Without these strong effects, we would have reported growth of 6.3 %. The rise in order intake derived mainly from purchase orders from customers from industry, construction and mining.

Our Group companies in Europe reported tangible growth in orders overall, with KSB SE & Co. KGaA increasing its order intake by € 8.2 million (+ 2.1 %) to € 390.0 million. Group companies in the Region Asia / Pacific posted the greatest percentage growth. A particular contribution to this came from our Indian company KSB Pumps Limited, based on a major order from the energy sector.

The order intake in our American companies fell below the levels of the previous year due to the negative currency translation effects. The order values in the Region Middle East / Africa were also heavily affected by exchange rate adjustments.

In the Pumps segment, we recorded growth in orders received of € 18.2 million (+ 2.4 %) to € 792.0 million. This was mainly attributable to increased ordering of standard pumps for building services and slurry pumps for mining, as well as individual large orders for power plant pumps.

The order intake in the Valves segment reached € 179.2 million, almost unchanged from the previous year (– 0.4 %). In this context, increased sales of industrial valves offset the continued fall in demand for power plant globe and gate valves.

In the Service segment, the structural weakness in demand in the energy sector also had a negative impact on orders. Additionally, companies in the mining and in the water / waste water sectors needed fewer support services than in the first half of the previous year. Despite the rise in business in the industrial sector, this caused a decline in order intake of € 5.0 million (– 2.2 %) to € 223.4 million.

Segment reporting

€ thousands / Six months ended 30 June	Order intake		Sales revenue		EBIT	
	2018	2017	2018	2017	2018	2017
Pumps segment	792,066	773,818	698,841	741,170	19,108	43,209
Valves segment	179,176	179,820	161,868	162,180	–4,265	2,324
Service segment	223,361	228,380	193,764	189,946	6,594	11,560
Total	**1,194,603**	**1,182,018**	**1,054,473**	**1,093,296**	**21,437**	**57,093**
				Financial income / expense	–4,752	–4,436
				Earnings before income taxes (EBT)	**16,685**	**52,657**

EXCHANGE RATE CHANGES REDUCE SALES REVENUE FIGURES

The negative exchange rates impacted sales revenue booked in euros by € 51.0 million. At € 1,054.5 million, consolidated sales revenue was still € 38.8 million below that of the previous year (– 3.6 %). Without the currency translation effects, our sales revenue would have risen by 1.1 %.

The region with the strongest sales revenue continued to be Europe, although companies here reported a decline overall. This was mainly attributable to the performance of KSB SE & Co. KGaA where sales revenue of € 368.1 million was € 32.0 million (– 8.0 %) below the comparative prior-year level. The main reason for this was the decline in business with power station pumps. There were fewer large orders to complete and invoice for this product group as a result of weaker project business in previous years.

Measured in euros, the trend in sales revenue performance was markedly down at our companies in the Americas. That said however, the aforementioned exchange rate changes were solely responsible for this. In several countries in the Region Middle East / Africa too, such as Turkey and South Africa, negative currency translation effects were reflected in the sales revenue figures.

Despite adverse exchange rate influences of about € 17 million, sales revenue at our companies in the Region Asia / Pacific was close to the previous year's level.

In the Pumps segment, sales revenue was lower year on year at € 698.8 million, which contrasted with order intake. The discrepancy of € 42.4 million (– 5.7 %) derived from the duration of several project orders that we received in the first half of the year. In line with our customers' construction planning, supply and invoicing will only be effected in subsequent years for these orders.

At € 161.9 million in the Valves segment, sales revenue for globe valves, gate valves and butterfly valves was almost unchanged year on year (– 0.2 %). There was no sales revival yet for special valves for fluid transport due to substantial overcapacity in this sector.

In the Service segment, we achieved growth of € 3.8 million (+ 2.0 %) to reach € 193.8 million. The most significant rise here was in China where we continue to expand our service portfolio.

ORDERS ON HAND

Our orders on hand totalled € 1.4 billion at mid-year which covers a production period of around eight months.

TOTAL OUTPUT OF OPERATIONS

At € 1,100.8 million, the total output of operations was 1.4 % down on the prior-year figure of € 1,116.8 million. It was affected by the change in sales revenue explained previously which was only partially offset by higher positive inventory changes.

INCOME AND EXPENSES

Although the cost of materials fell slightly in absolute terms compared with the first six months of 2017, down by € 2.9 million, it rose from 40.2 % in the previous year to 40.5 % of total output of operations.

Staff costs as a percentage of the reduced total output of operations also rose by 0.8 percentage points year on year to 36.8 %. The rise in staff costs from € 402.4 million to € 405.1 million reflects the increase in staff numbers of 60 since 30 June 2017.

At € 202.6 million, other expenses were € 20.3 million higher than in the comparative prior-year period and thus increased by 2.1 % as a percentage of total output of operations. This was mainly attributable to additions to provisions from a legacy project in the United Kingdom.

HALF-YEAR EARNINGS

The definition of the EBIT earnings figure of our segments changed in the 2018 financial year. Until the 2017 year-end, the EBIT was still defined as the earnings before interest and income tax; since the beginning of 2018, it means earnings before financial income / expense and income tax. In the comments in this interim report, the new definition applies to the indicator; prior-year figures have been restated accordingly.

EBIT declined from € 57.1 million to € 21.4 million. This was due in part to the aforementioned additions to warranty provisions. The Pumps segment contributed EBIT of € 19.1 million (previous year: € 43.2 million), the Valves segment € – 4.3 million (previous year: € 2.3 million) and the Service segment € 6.6 million (previous year: € 11.6 million).

Earnings before income taxes (EBT) fell year on year by 68.3 % from € 52.7 million to € 16.7 million. The return on sales declined accordingly to 1.6 % (previous year: 4.8 %).

The income tax rate for the first half of 2018 is 87.9 %, up from 39.8 % in the comparative prior-year period. This high rate is attributable to the impairment of deferred taxes on loss carryforwards.

Earnings after income taxes thus amounts to € 2.0 million (previous year: € 31.7 million). Earnings attributable to non-controlling interests fell only minimally in absolute terms from € 5.9 million to € 5.8 million. While the proportion of this value amounted to 18.7 % of the earnings after income taxes in the comparative prior-year period, the earnings attributable to non-controlling interests in the first half of 2018 accounted for almost three times the earnings after income taxes.

Earnings attributable to shareholders of KSB SE & Co. KGaA (€ – 3.8 million) were € 29.6 million lower than in the previous year (€ 25.8 million).

Earnings per ordinary share were € – 2.29, compared with € 14.59 in the previous year, and € – 2.03 per preference share, compared with € 14.85 in the first half of 2017.

FINANCIAL POSITION AND NET ASSETS

LIQUIDITY

Cash flows from operating activities amounted to € – 14.7 million, compared with € 33.1 million for the first six months of the previous year. Higher inventories for specific orders resulted in an increase in resources tied up. However, above all higher liabilities from advances received and from trade payables had the opposite effect.

Cash flow from investing activities was essentially marked by payments for investments in property, plant and equipment of € – 22.0 million. Payments for term deposits with a maturity of more than 3 months and up to 12 months rose compared with the same period in the previous year. Our investing activities thus generated cash flows of € – 46.4 million (prior-year period: € – 45.7 million).

Cash flows from financing activities amounted to € – 13.3 million (prior-year period: € – 8.7 million). This change resulted from higher dividend payments compared with the previous year.

Cash and cash equivalents from all cash flows decreased from € 289.5 million at the beginning of the year to € 216.6 million. Exchange rate effects amounting to € + 1.5 million (previous year: € – 7.8 million) played a role in this decrease.

INVESTMENTS

At € 22.0 million, investment in property, plant and equipment was significantly lower than the comparative prior-year figure of € 43.5 million. We focused our investments in Europe, notably Germany and France, and the USA. There were no significant investment projects in the first half of 2018.

NET FINANCIAL POSITION

The KSB Group's net financial position, i.e. the difference between interest-bearing financial assets on the one hand and financial liabilities on the other, declined by € 60.3 million to € 227.7 million compared with 31 December 2017. This reduction resulted mainly from the fall in cash and cash equivalents.

NET ASSETS

The changes in non-current assets (€ – 9.7 million) are primarily attributable to a decrease in property, plant and equipment (€ – 12.7 million). These declined mainly due to depreciation that was € 7.9 million above the investment figure. Currency translation effects also had a reducing effect in the first half of 2018 (€ – 6.0 million).

Inventories, at € 560.7 million, were up € 98.9 million on the 2017 year-end level. This increase was primarily attributable to higher inventories of work in progress for orders on hand (€ 45.4 million) and the effect resulting from the first-time application of IFRS 15 on the inventories presented (€ + 38.8 million).

Trade receivables decreased from € 613.3 million at the end of 2017 to € 520.8 million. This decline resulted mainly from receivables recognised by PoC that were no longer stated under this item in the reporting period. The corresponding contract assets from the application of IFRS 15 are shown as a separate item of € 81.9 million. Such factors as higher prepaid expenses and recoverable taxes led to an increase in other non-financial assets (€ + 21.2 million).

The reduction in cash and cash equivalents from € 289.5 million as at 31 December 2017 to € 216.6 million was almost entirely attributable to a higher commitment of funds as a result of increased inventories.

Total assets amounted to € 2,292.1 million as at 30 June 2018, representing an increase of € 38.7 million or 1.7 % compared with the 2017 year end. This change resulted primarily from the previously described developments in inventories (€ + 98.9 million) and cash and cash equivalents (€ – 72.9 million).

EQUITY

KSB Group equity decreased from € 885.4 million (31 December 2017) to € 844.6 million. This was mainly attributable to a lower equity figure of the shareholders of KSB SE & Co. KGaA. Key factors were the dividend payment, which could not be compensated by positive earnings, and negative currency translation effects. As total equity and liabilities rose by contrast (+ 1.7 %), the equity ratio fell from of 39.3 % as at 31 December 2017 to 36.9 %.

LIABILITIES

Liabilities rose from € 1,368.0 million at the end of 2017 to € 1,447.5 million. This change (€ + 79.5 million or + 5.8 %) resulted primarily from higher advances received from customers (€ + 16.8 million) that exceeded KSB's current performance of services and are reported under contract liabilities in the period under review, as well as higher other current provisions (€ + 29.5 million). Trade payables rose by € 13.7 million. Long-term liabilities were almost constant (+ 0.4 %).

SUMMARY OF THE ECONOMIC SITUATION OF THE GROUP

Excluding the negative currency translation effects, we achieved the tangible improvement in order intake forecast for the 2018 full year in the first half of the year. In euro terms, we did not generate the forecast improvements in any of the segments: The order intake for the Pumps segment rose only slightly (forecast: strong rise) and for the Valves and Service segments, we even saw minor and slight falls (forecast: significant growth and stable trend).

In our 2017 Annual Report we announced a tangible rise in sales revenue for the current year, but we were unable to achieve this, among other things due to the negative currency translation effects in the first half of the year. Adjusted for exchange rate influences, there would have been a slight rise of 1.1 %. In the Pumps segment, we had to accept a marked decline rather than a tangible increase. Contrary to our forecast of a slight rise, sales revenue in the Valves segment was stable. We expected tangible growth in the Service segment, but it recorded a slight rise.

Compared with the previous year's figure, EBIT fell by € 35.7 million. Earnings before taxes (EBT) were € 36.0 million down on the comparative prior-year figure. Key reasons for these changes include the additions to warranty provisions for a legacy project in the United Kingdom as well as negative currency translation effects of € 3.5 million. As a result, the return on sales also fell, standing at 1.6 % compared with 4.8 % in the comparative prior-year period. The net financial position compared with 31 December 2017 declined by € 60.3 million to € 227.7 million. We have not yet been able to achieve the planned significant increase.

Over the first six months of the current financial year, our overall business performance has therefore been less favourable than expected.

EMPLOYEES

The number of employees increased over the past twelve months. As at 30 June 2018, 15,572 people were employed in the KSB Group, 60 more than on the same date in 2017, equivalent to a change of + 0.4 %. The headcount in the Americas fell while there was a slight increase in Europe, the Middle East / Africa and Asia / Pacific.

REPORT ON EXPECTED DEVELOPMENTS

In the 2017 consolidated financial statements we presented a detailed estimate of how we expect the market and our sales opportunities to develop in the current year.

For the current business period we still expect a tangible improvement in order intake, driven primarily by an upturn in our business with standard products, support services and spare parts. We anticipate a significant increase in the Pumps segment, having expected continued strong growth at the end of 2017. Our forecast for significant growth for the Valves segment and a stable trend for the Service segment is unchanged.

We currently expect to see a moderate increase in sales revenue. The Pumps segment is anticipated to contribute to this with an equally moderate rise. From the current perspective, sales revenue in the Service segment will remain stable rather than grow significantly as per our forecast. As already expected at the end of 2017, we continue to anticipate a slight rise in the Valves segment.

Due to adverse currency translation effects and increasing global economic and political risks, like the trade disputes, we expect EBIT for the 2018 full year to fall considerably short of prior-year levels. Included are provisions for the aforementioned legacy project in the United Kingdom. In line with the expected development of EBIT, earnings before income taxes (EBT) will also be well down on the 2017 figure. Our return on sales will deteriorate to the same extent.

In terms of the net financial position, we are expecting a decline contrary to our original forecast of a significant increase.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements and information that are based upon the assumptions of the Managing Directors. They express our current forecasts and expectations with regard to future events. As a result, these forward-looking statements and information are exposed to risks and uncertainties that lie outside the Management's sphere of influence. We wish to point out that actual events or results may differ materially from the forward-looking statements and information mentioned, if one or more of the following opportunities or risks, or other opportunities, risks and uncertainties should materialise, or if the assumptions underlying the statements prove to be inaccurate.

OPPORTUNITIES AND RISKS REPORT

In the 2017 Annual Report, we presented in detail the opportunities and risks we see facing our business. Compared with this presentation, there is no material reassessment, apart from an increased risk resulting from the tensions in the Region Middle East / Africa.

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 German Commercial Code [*HGB*].

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.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

Assets

€ thousands	Notes	30 June 2018	31 Dec. 2017
Non-current assets			
Intangible assets	1	110,941	108,054
Property, plant and equipment	1	493,495	506,214
Non-current financial assets	1	4,110	6,132
Investments accounted for using the equity method	1	22,838	22,185
Deferred tax assets		93,237	91,736
		724,621	**734,321**
Current assets			
Inventories	2	560,730	461,877
Trade receivables	3	520,760	613,311
Contract assets	3	81,891	–
Other financial assets	3	128,902	116,970
Other non-financial assets	3	58,593	37,402
Cash and cash equivalents	4	216,637	289,535
		1,567,513	**1,519,095**
		2,292,134	**2,253,416**

Equity and liabilities

€ thousands	Notes	30 June 2018	31 Dec. 2017
Equity	5		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		573,027	611,855
Equity attributable to shareholders of KSB SE & Co. KGaA		684,462	723,290
Non-controlling interests		160,181	162,108
		844,643	**885,398**
Non-current liabilities			
Deferred tax liabilities		16,488	14,703
Provisions for employee benefits	6	608,480	606,875
Other provisions	6	1,409	1,397
Financial liabilities	7	53,516	54,333
		679,893	**677,308**
Current liabilities			
Provisions for employee benefits	6	75,797	81,472
Other provisions	6	127,895	98,407
Financial liabilities	7	26,522	21,960
Trade payables	7	225,703	212,029
Contract liabilities	7	169,534	–
Other financial liabilities	7	43,342	81,467
Other non-financial liabilities	7	89,343	190,161
Income tax liabilities	7	9,462	5,214
		767,598	**690,710**
		2,292,134	**2,253,416**

Also see the relevant information in the Notes.

STATEMENT OF COMPREHENSIVE INCOME

Income statement

€ thousands	Notes	Six months ended 30 June 2018	Six months ended 30 June 2017
Sales revenue	8	**1,054,473**	**1,093,296**
Changes in inventories		43,060	20,728
Work performed and capitalised		3,305	2,752
Total output of operations		**1,100,838**	**1,116,776**
Other income	9	12,168	14,022
Cost of materials	10	– 446,300	– 449,218
Staff costs	11	– 405,061	– 402,389
Depreciation and amortisation expense		– 31,515	– 33,040
Other expenses	12	– 202,602	– 182,253
Other taxes		– 6,091	– 6,805
Earnings before financial income / expense and income taxes		**21,437**	**57,093**
Financial income	13	2,152	3,481
Financial expense	13	– 7,417	– 9,731
Income from / expense to investments accounted for using the equity method	13	513	1,814
Financial income / expense		**– 4,752**	**– 4,436**
Earnings before income taxes		**16,685**	**52,657**
Taxes on income	14	– 14,666	– 20,947
Earnings after income taxes		**2,019**	**31,710**
Attributable to:			
Non-controlling interests	15	5,804	5,928
Shareholders of KSB SE & Co. KGaA		**– 3,785**	**25,782**
Diluted and basic earnings per ordinary share (€)	16	– 2.29	14.59
Diluted and basic earnings per preference share (€)	16	– 2.03	14.85

Statement of Income and Expense Recognised in Equity

€ thousands		Six months ended 30 June 2018	Six months ended 30 June 2017
Earnings after income taxes		**2,019**	**31,710**
Remeasurement of defined benefit plans		– 23	11,001
Taxes on income		7	– 3,318
Expense and income recognised directly in equity and not reclassified to profit or loss in subsequent periods		**– 16**	**7,683**
Currency translation differences		– 13,222	– 34,128
Attributable to: Expense and income recognised directly in equity attributable to investments accounted for using the equity method		409	– 1,649
Changes in the fair value of financial instruments		– 2,156	9,061
Taxes on income		638	– 2,753
Attributable to: Expense and income recognised directly in equity attributable to investments accounted for using the equity method		– 33	–
Expense and income recognised directly in equity and reclassified to profit or loss in subsequent periods		**– 14,740**	**– 27,820**
Other comprehensive income		**– 14,756**	**– 20,137**
Total comprehensive income		**– 12,737**	**11,573**
Attributable to:			
Non-controlling interests		5,371	– 2,613
Shareholders of KSB SE & Co. KGaA		**– 18,108**	**14,186**

STATEMENT OF CASH FLOWS

€ thousands	Six months ended 30 June 2018	Six months ended 30 June 2017
Cash flow	**36,628**	**68,761**
Other changes in cash flows from operating activities	– 51,351	– 35,654
Cash flows from operating activities	**–14,723**	**33,107**
Cash flows from investing activities	**– 46,379**	**– 45,718**
Cash flows from financing activities	**– 13,319**	**– 8,667**
Changes in cash and cash equivalents	– 74,421	– 21,278
Effects of exchange rate changes on cash and cash equivalents	1,523	– 7,806
Effects of changes in consolidated Group	–	984
Cash and cash equivalents at beginning of period	289,535	288,883
Cash and cash equivalents at end of period	**216,637**	**260,783**

STATEMENT OF CHANGES IN EQUITY

€ thousands	Subscribed capital of KSB SE & Co. KGaA	Capital reserve of KSB SE & Co. KGaA
1 Jan. 2017	44,772	66,663
Other comprehensive income	–	–
Earnings after income taxes	–	–
Total comprehensive income	**–**	**–**
Dividends paid	–	–
Change in consolidated Group / Step acquisitions	–	–
30 June 2017	**44,772**	**66,663**

€ thousands	Subscribed capital of KSB SE & Co. KGaA	Capital reserve of KSB SE & Co. KGaA
31 Dec. 2017	44,772	66,663
Changes under IFRS 9 and IFRS 15	–	–
1 Jan. 2018 (adjusted to comply with IFRS 9 and IFRS 15)	**44,772**	**66,663**
Other comprehensive income	–	–
Earnings after income taxes	–	–
Total comprehensive income	**–**	**–**
Dividends paid	–	–
Change in consolidated Group / Step acquisitions	–	–
30 June 2018	**44,772**	**66,663**

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB SE & Co. KGaA	Non-controlling interests	Total equity
Balance at 1 Jan. 2017	– 44,507	– 5,264	**– 49,771**
Change in 2017	– 25,503	– 8,529	**– 34,032**
Balance at 30 June 2017	**– 70,010**	**– 13,793**	**– 83,803**
Balance at 1 Jan. 2018	– 83,769	– 20,145	– 103,914
Change in 2018	– 13,603	381	**– 13,222**
Balance at 30 June 2018	**– 97,372**	**– 19,764**	**– 117,136**

Revenue reserves						
	Other comprehensive income					
Other revenue reserves	Currency translation differences	Changes in the value of financial instruments	Remeasurement of defined benefit plans	Equity attributable to shareholders of KSB SE & Co. KGaA	Non-controlling interests	Total equity
836,530	– 44,507	– 4,599	– 173,186	725,673	164,661	890,334
–	– 25,599	6,311	7,692	– 11,596	– 8,541	– 20,137
25,782	–	–	–	25,782	5,928	31,710
25,782	**– 25,599**	**6,311**	**7,692**	**14,186**	**– 2,613**	**11,573**
– 9,857	–	–	–	– 9,857	– 2,428	– 12,285
– 966	96	–	–	– 870	–	– 870
851,489	**– 70,010**	**1,712**	**– 165,494**	**729,132**	**159,620**	**888,752**

Revenue reserves						
	Other comprehensive income					
Other revenue reserves	Currency translation differences	Changes in the value of financial instruments	Remeasurement of defined benefit plans	Equity attributable to shareholders of KSB SE & Co. KGaA	Non-controlling interests	Total equity
862,874	– 83,769	437	– 167,687	723,290	162,108	885,398
– 8,716	–	–	–	– 8,716	– 24	– 8,740
854,158	**– 83,769**	**437**	**– 167,687**	**714,574**	**162,084**	**876,658**
–	– 12,788	– 1,518	– 17	– 14,323	– 433	– 14,756
– 3,785	–	–	–	– 3,785	5,804	2,019
– 3,785	**– 12,788**	**– 1,518**	**– 17**	**– 18,108**	**5,371**	**– 12,737**
– 13,360	–	–	–	– 13,360	– 2,296	– 15,656
2,251	– 815	–	– 80	1,356	– 4,978	– 3,622
839,264	**– 97,372**	**– 1,081**	**– 167,784**	**684,462**	**160,181**	**844,643**

NOTES

GENERAL INFORMATION ON THE GROUP AND THE ACCOUNTING PRINCIPLES APPLIED

These unaudited and condensed interim consolidated financial statements of KSB SE & Co. KGaA, Frankenthal/Pfalz, Germany, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as adopted by the European Union (EU), taking into consideration the interpretations of the IFRS Interpretations Committee (IFRIC). 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 and in condensed form pursuant to IAS 34.

We have used the standards and interpretations applicable as at 1 January 2018 in the preparation of the interim consolidated financial statements. Of those standards and interpretations that were required to be applied for the first time, only the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers had a significant impact on the Group's net assets, financial position and results of operations. More detailed explanations are provided in the comments on the accounting policies used in these interim consolidated financial statements.

CONSOLIDATION PRINCIPLES

In addition to KSB SE & Co. KGaA, 9 German and 74 foreign companies were fully consolidated in the interim consolidated financial statements. We used the equity method to consolidate five joint ventures and one associate company.

The new company KSB Sverige Fastighets AB, Gothenburg, established in 2018, was included in the group of consolidated companies on a fully consolidated basis. It is wholly owned (100 %) by KSB Sverige Aktiebolag, Gothenburg, which itself is already fully consolidated. The resulting impact on these interim consolidated financial statements was not material.

There were no changes to consolidation methods or currency translation methods compared with the 2017 consolidated financial statements.

ACCOUNTING PRINCIPLES

The accounting policies have changed compared with the last consolidated financial statements due to the first-time application of the new IFRS 9 and IFRS 15 accounting standards. They apply to all companies included in the interim consolidated financial statements.

Changes in accounting policies due to the first-time application of IFRS 9 Financial Instruments

In July 2014, the IASB published the IFRS 9 Financial Instruments accounting standard as the successor to IFRS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised rules for classifying and measuring financial instruments, new rules regarding the impairment of financial assets and additional rules for recognising hedges.

IFRS 9 was applied by KSB for the first time as per 1 January 2018. The previous categorisation of financial assets under IAS 39 was replaced by the new categorisations of IFRS 9. Furthermore, the expected credit loss model for determining impairments superseded the incurred loss model. The first-time application of IFRS 9 as per 1 January 2018 resulted in a € 994 thousand reduction in revenue reserves. The comparative figures for the 2017 financial year were not restated.

The main effect of the first-time application of IFRS 9 on 1 January 2018 was reflected in higher impairment losses on trade receivables from third parties.

No material expected credit losses were identified under IFRS 9 for contract assets, cash deposits (term deposits) with a maturity of more than three months, investments in Euro Commercial Papers (ECPs), loans to third parties and other financial assets.

In terms of hedge accounting, there was no impact on the amount of revenue reserves.

Changes in accounting policies due to the first-time application of IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB published the new IFRS 15 Revenue from Contracts with Customers standard. The new accounting standard, which is to be applied to financial years that begin on or after 1 January 2018, defines principles that an entity should apply when reporting on the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Sales revenue is recognised when the customer has control over the agreed goods and services and can derive benefits from these. It supersedes the previous IAS 11 Construction Contracts and IAS 18 Revenue standards.

IFRS 15 was applied by KSB for the first time as of 1 January 2018 using the modified retrospective method. Accordingly, the cumulative impact on earnings from the change of € 7,746 thousand was recognised at the beginning of the reporting period as a reduction in revenue reserves. The comparative figures for the 2017 financial year were not restated.

The main effects from the first-time application of IFRS 15 are represented in the reporting period as follows:

Change from sales revenue recognition over time to recognition at a point in time:

Individual KSB customer contracts that were presented according to project progress under the percentage-of-completion method until the end of the 2017 financial year do not meet the criteria for sales revenue recognition over time under IFRS 15. For these customer contracts, it is not possible to continually transfer control over and benefit of the agreed goods and services to the customer under IFRS 15.

For the customer contracts in question, this results in the recognition of sales revenue at a point in time being postponed until control over the agreed goods and services is transferred to the customer.

In the balance sheet, these cases cause inventories to rise, which is offset by a fall in “Receivables recognised by PoC, net” (under the former accounting policies).

Disclosure of new balance sheet items:

Contract assets:

If KSB acquires the right to payment from the supply of goods or services under a contract with a customer and this right exceeds payments already made by or due from the customer and is conditional not only on the passage of time but also on the fulfilment of an overall contractual performance obligation by KSB, this must be presented as contract assets under IFRS 15.

Contract assets at KSB essentially derive from customer contracts if they meet the criteria of IFRS 15 for sales revenue recognition over time. When KSB’s overall contractual performance obligation ends and there is an unconditional right to payment that depends only on the passage of time, contract assets are reclassified as trade receivables.

Contract assets are reported as a new separate balance sheet item. Under the previous accounting policies, items corresponding to contract assets were reported as “Receivables recognised by PoC, net” under “Trade receivables” in the balance sheet.

In total, separate reporting of contract assets in the balance sheet results in a decrease in “Trade receivables”.

Contract liabilities:

Advances received from customers that exceed the amount of goods or services previously transferred by KSB under a customer contract represent contract liabilities under IFRS 15.

Contract liabilities are reported as a new separate balance sheet item. Under the previous accounting policies, items corresponding to contract liabilities were reported as “Advances received from customers (PoC), net” under “Other financial liabilities” in the balance sheet for customer contracts presented using the percentage-of-completion method. For customer contracts not presented according to the percentage-of-completion method, advances received from customers were previously reported under “Other non-financial liabilities” in the balance sheet.

In total, separate reporting of contract liabilities in the balance sheet results in a decrease in “Other financial liabilities” and “Other non-financial liabilities”.

BALANCE SHEET DISCLOSURES

1 Non-current assets

In the first six months of 2018 we invested € 26,697 thousand in property, plant and equipment; in the first half of 2017 the corresponding figure was € 48,686 thousand. At € 31,516 thousand, there was practically no change in depreciation and amortisation compared with the previous year (€ 33,040 thousand).

As in the first half of 2017, we did not recognise any impairment losses on intangible assets and items of property, plant and equipment in the period under review.

2 Inventories

€ thousands	30 June 2018	31 Dec. 2017
Raw materials, consumables and supplies	175,415	162,577
Work in progress	230,348	161,394
Finished goods and goods purchased and held for resale	135,641	121,421
Advance payments	19,326	16,485
	560,730	**461,877**

3 Trade receivables and contract assets as well as other financial and non-financial assets

→ Trade receivables and contract assets as well as other financial and non-financial assets

Impairment losses on trade receivables from third parties amounted to € 30,878 thousand (previous year: € 33,995 thousand). There were no impairment losses on trade receivables from other investments (previous year: € 839 thousand). Impairment losses on contract assets amounted to € 58 thousand. Impairment losses on receivables from loans to other investments amounted to € 3,176 thousand (previous year: € 3,127 thousand). There were no impairment losses on receivables from joint ventures or associates, as in the previous year.

Trade receivables and contract assets as well as other financial and non-financial assets

€ thousands	30 June 2018	31 Dec. 2017
Trade receivables	**520,760**	**613,311**
Trade receivables from third parties	482,763	480,928
Trade receivables from other investments, associates and joint ventures	37,997	32,341
thereof from other investments	8,112	3,524
thereof from associates	–	280
thereof from joint ventures	29,885	28,537
Receivables recognised by PoC, net	–	100,042
Contract assets	**81,891**	**–**
Other financial assets	**128,902**	**116,970**
Receivables from loans to other investments, associates and joint ventures	19,205	13,344
Currency forwards	4,739	5,074
Other receivables and other current assets	104,958	98,552
Other non-financial assets	**58,593**	**37,402**
Other tax assets	43,298	30,830
Deferred income	15,295	6,572

4 Cash and cash equivalents

Cash and cash equivalents are term deposits with short maturities and call deposits, and also current account balances.

5 Equity

There was no change in the share capital of KSB SE & Co. KGaA as against the previous year. In accordance with the Articles of Association, it totals € 44,771,963.82 and, as in the previous year, is composed of 886,615 ordinary shares and 864,712 preference shares. Each no-par-value share represents an equal notional amount of the share capital. All shares are no-par-value bearer shares.

Non-controlling interests relate primarily to PAB GmbH, Frankenthal, and the interests it holds, as well as to our companies in India and China. KSB SE & Co. KGaA holds a 51 % interest in PAB GmbH, while Johannes und Jacob Klein GmbH, Frankenthal, holds a 49 % interest.

Details of the changes in equity accounts and non-controlling interests are presented in the Statement of Changes in Equity.

6 Provisions

→ Provisions

The pension obligations in the KSB Group include defined contribution and defined benefit plans and contain both obligations from current pensions and future pension benefit entitlements. Plan assets have been offset to a small extent in relation to the obligation.

Most of the provisions for pensions result from defined benefit plans in place for the German Group companies. Provisions for other employee benefits relate primarily to profit-sharing, anniversary and partial retirement obligations.

The provisions for warranty obligations and contractual penalties reported under other provisions cover the statutory and contractual obligations to customers and are based on estimates prepared using historical data for similar products and services. Miscellaneous other provisions include, inter alia, provisions for expected losses from uncompleted transactions and onerous contracts and environmental measures. Risks of litigation are covered if the recognition criteria for a provision are met.

The rise in other provisions was mainly attributable to additions to provisions for warranties relating to a legacy project in the United Kingdom.

Provisions

€ thousands	30 June 2018	31 Dec. 2017
Employee benefits	684,277	688,347
Pensions and similar obligations	585,429	586,861
Other employee benefits	98,848	101,486
Other provisions	129,304	99,804
Warranty obligations and contractual penalties	48,663	51,275
Provisions for restructuring	2,985	2,750
Miscellaneous other provisions	77,656	45,779
	813,581	**788,151**

7 Liabilities

Non-current liabilities

€ thousands	30 June 2018	31 Dec. 2017
Financial liabilities	53,516	54,333
Loan against borrower's note	47,964	47,964
Bank loans and overdrafts	4,691	5,468
Finance lease liabilities	534	574
Other	327	327

Current liabilities

€ thousands	30 June 2018	31 Dec. 2017
Financial liabilities	**26,522**	**21,960**
Loan against borrower's note	–	–
Bank loans and overdrafts	25,136	21,275
Finance lease liabilities	312	353
Liabilities to other investments, associates and joint ventures	526	322
Other	548	10
Trade payables	**225,703**	**212,029**
Trade payables to third parties	223,553	210,819
Trade payables to other investments, associates and joint ventures	2,150	1,210
Contract liabilities	**169,534**	**–**
Other financial liabilities	**43,342**	**81,467**
Advances received from customers (PoC), net	–	49,401
Currency forwards	4,511	1,883
Miscellaneous other financial liabilities	38,831	30,183
Other non-financial liabilities	**89,343**	**190,161**
Advances received from customers	–	97,703
Social security and liabilities to employees	41,884	48,703
Tax liabilities (excluding income taxes)	29,993	28,171
Prepaid expenses	12,816	10,788
Investment grants and subsidies	4,650	4,796
Income tax liabilities	**9,462**	**5,214**

INCOME STATEMENT DISCLOSURES

8 Sales revenue

The KSB Group's consolidated sales revenue was € 1,054,473 thousand (previous year: € 1,093,296 thousand).

The breakdown of sales revenue by pumps, valves and service is presented in segment reporting.

9 Other income

€ thousands	Six months ended 30 June 2018	Six months ended 30 June 2017
Income from disposal of assets	359	3,517
Reversal of impairment losses on receivables	1,697	2,483
Currency translation gains	462	831
Income from the reversal of provisions	1,711	1,941
Miscellaneous other income	7,939	5,250
	12,168	**14,022**

Miscellaneous other income mainly includes insurance compensation as well as grants and subsidies.

10 Cost of materials

€ thousands	Six months ended 30 June 2018	Six months ended 30 June 2017
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	405,462	406,907
Cost of purchased services	40,838	42,311
	446,300	**449,218**

11 Staff costs

€ thousands	Six months ended 30 June 2018	Six months ended 30 June 2017
Wages and salaries	330,151	326,816
Social security contributions and employee assistance costs	64,424	64,879
Pension costs	10,486	10,694
	405,061	**402,389**

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.

We employed an average of 15,594 people in the reporting period (previous year: 15,499).

12 Other expenses

€ thousands	Six months ended 30 June 2018	Six months ended 30 June 2017
Losses from the disposal of assets	331	1,167
Losses from current assets	3,791	3,486
thereof additions to impairment losses on trade receivables and contract assets as well as other financial assets	(3,451)	(3,149)
Currency translation losses	1,229	2,843
Other staff costs	13,221	14,944
Repairs, maintenance, third-party services	54,415	42,575
Selling expenses	31,872	33,775
Administrative expenses	41,143	42,448
Rents and leases	12,988	13,146
Miscellaneous other expenses	43,612	27,869
	202,602	**182,253**

Miscellaneous other expenses relate mainly to warranties and contractual penalties. The rise corresponds to the rise in miscellaneous other provisions.

Financial income / expense

€ thousands	Six months ended 30 June 2018	Six months ended 30 June 2017
Financial income	**2,152**	**3,481**
Income from equity investments	255	263
thereof from other investments	(255)	(263)
Interest and similar income	1,894	3,183
thereof from other investments	(99)	(15)
thereof from investments accounted for using the equity method	(303)	(308)
Income from the remeasurement of financial instruments	–	33
Other financial income	3	2
Financial expense	**– 7,417**	**– 9,731**
Interest and similar expenses	– 7,406	– 9,710
thereof to other investments	(1)	(–)
Other financial expense	– 11	– 21
Income from / expense to investments accounted for using the equity method	**513**	**1,814**
Financial income / expense	**– 4,752**	**– 4,436**

13 Financial income / expense

→ Financial income / expense

Interest and similar expenses include the interest cost on pension provisions amounting to € 5,214 thousand (previous year: € 5,143 thousand).

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.

Taxes on income

€ thousands	Six months ended 30 June 2018	Six months ended 30 June 2017
Effective taxes	11,341	20,175
Deferred taxes	3,325	772
	14,666	**20,947**

15 Earnings after income taxes – Non-controlling interests

The net profit attributable to non-controlling interests amounts to € 6,552 thousand (previous year: € 5,928 thousand) and the net loss attributable to non-controlling interests amounts to € 748 thousand (previous year: € 0 thousand). They relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India.

16 Earnings per share

An additional dividend attributable to preference shareholders of € 0.26 (previous year: € 0.26) per share is assumed.

Earnings per share

€	Six months ended 30 June 2018	Six months ended 30 June 2017
Diluted and basic earnings per ordinary share	**– 2.29**	**14.59**
Diluted and basic earnings per preference share	**– 2.03**	**14.85**

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. In addition, we are exposed to **market price risk**. The risk of exchange rate or interest rate changes may adversely affect the economic position of the Group. Risks from fluctuations in the prices of financial instruments are not material for us.

We limit all of 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 Managing Directors and the Supervisory Board in the form of standardised reports and individual analyses.

SEGMENT REPORTING

Segment reporting is prepared in accordance with IFRS 8 based on the management approach and corresponds to our internal organisational and management structure as well as the reporting lines to the Managing Directors as the chief operating decision-makers. In our matrix organisation, management decisions are primarily taken on the basis of the key performance indicators – order intake, external sales revenue and earnings before financial income / expense and taxes (EBIT) – determined for the Pumps, Valves and Service segments. Reporting the relevant assets, number of employees and inter-segment sales revenue for these segments is not part of our internal reporting. The managers in charge of the segments, 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** segment includes 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** segment 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** segment covers the installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves for all applications; as well as modular service concepts and system analyses for complete systems.

Our companies can be allocated to one or more segments based on their business activities.

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 **order intake** by segment presents order intake generated with third parties and non-consolidated Group companies.

The **sales revenue** by segment presents sales revenue generated with third parties and non-consolidated Group companies.

The definition of the earnings indicator of our segments, EBIT, changed in the 2018 financial year. Until the 2017 year-end, the EBIT was still defined as the earnings before interest and income taxes; since the beginning of 2018, it means earnings before financial income / expense and income taxes. In the comments in this half-year financial report, the new definition of the indicator is used; prior-year figures were restated accordingly.

The table shows **earnings before financial income / expense and income taxes (EBIT)** and **earnings before income taxes (EBT)** including non-controlling interests.
→ Segment reporting

The EBIT of the Pumps segment includes depreciation and amortisation expense of € 20,091 thousand (previous year: € 22,804 thousand), the EBIT of the Valves segment includes depreciation and amortisation expense of € 4,844 thousand (previous year: € 3,770 thousand) and the EBIT of the Service segment includes depreciation and amortisation expense of € 6,580 thousand (previous year: € 6,466 thousand).

€ 272,012 thousand (previous year: € 301,169 thousand) of the sales revenue presented was generated by the companies based in Germany, € 112,161 thousand (previous year: € 110,063 thousand) was generated by the companies based in France, € 87,424 thousand (previous year: € 82,936 thousand) by the companies based in the USA, and € 582,876 thousand (previous year: € 599,128 thousand) by the other Group companies.

There were no relationships with individual customers that accounted for a material proportion of Group sales revenue.

At the reporting date, the total non-current assets of the KSB Group under review for the purposes of segment reporting amounted to € 627,274 thousand (year-end figure in 2017: € 636,453 thousand), with € 206,828 thousand (year-end figure in 2017: € 204,209 thousand) being attributable to the companies based in Germany and € 420,446 thousand (year-end figure in 2017: € 432,244 thousand) being attributable to the other Group companies. They include intangible assets, property, plant and equipment and investments accounted for using the equity method; non-current financial instruments and deferred tax assets are not included.

Segment reporting

€ thousands / Six months ended 30 June	Order intake		Sales revenue		EBIT	
	2018	2017	2018	2017	2018	2017
Pumps segment	792,066	773,818	698,841	741,170	19,108	43,209
Valves segment	179,176	179,820	161,868	162,180	– 4,265	2,324
Service segment	223,361	228,380	193,764	189,946	6,594	11,560
Total	**1,194,603**	**1,182,018**	**1,054,473**	**1,093,296**	**21,437**	**57,093**
				Financial income / expense	– 4,752	– 4,436
				Earnings before income taxes (EBT)	**16,685**	**52,657**

OTHER DISCLOSURES

Contingent liabilities, commitments and financial obligations
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 2017.

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 SE & Co. KGaA, 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 attributable 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 Johannes und Jacob Klein GmbH, Frankenthal. The proportion of voting rights of Johannes und Jacob Klein GmbH increased to 83.76 % in 2017.

Related parties also include the subsidiary companies and joint ventures of Johannes und Jacob Klein GmbH, Frankenthal, as well as the Kühborth Stiftung GmbH [Kühborth Foundation], Stuttgart, which holds 1 % of the shares in Johannes und Jacob Klein GmbH. In addition, related parties include the Managing Directors of Johannes und Jacob Klein GmbH, as well as entities controlled or jointly controlled by the Managing Directors of Johannes und Jacob Klein GmbH.

In the reporting period, related parties also included the Supervisory Board and KSB Management SE, which has been managing KSB SE & Co. KGaA since 17 January 2018. The shares of KSB Management SE are wholly owned (100 %) by Klein, Schanzlin & Becker GmbH, Frankenthal, which also counts as a related party. Until 16 January 2018, related parties also included the Board of Management of KSB AG.

There were no material changes in the contractual basis and the supply of services between KSB SE & Co. KGaA and its related parties compared with the previous year, except for the fact that business is now managed by KSB Management SE and not by a board of management.

Auditors
PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, based in Frankfurt am Main with an office in Mannheim, were appointed as auditors and group auditors for financial year 2018 at the Annual General Meeting of KSB SE & Co. KGaA on 16 May 2018.

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 reporting period
There were no reportable events after the reporting date.

German Corporate Governance Code
The Managing Directors and Supervisory Board of KSB SE & Co. KGaA issued the current 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 NET RETAINED EARNINGS OF KSB SE & Co. KGaA

The Annual General Meeting on 16 May 2018 resolved to appropriate the 2017 net retained earnings of KSB SE & Co. KGaA, Frankenthal, of € 13,359,777.62 as follows:

Distribution of a dividend of € 7.50 per ordinary no-par-value share	€ 6,649,612.50
and, in accordance with the Articles of Association, € 7.76 per preference no-par-value share	€ 6.710.165,12

The dividend was paid out on 22 May 2018.

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, 14 August 2018

KSB Management SE

The Managing Directors

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FINANCIAL CALENDAR

8 NOVEMBER 2018
Interim report
January – September 2018

30 JANUARY 2019
Preliminary report
on the 2018 financial year

28 MARCH 2019
Financial press conference
Frankenthal, Germany

4 APRIL 2019
Invitation to Annual General Meeting

25 APRIL 2019
Interim report
January – March 2019

29 MAY 2019
Annual General Meeting
Frankenthal, Germany

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