Combined Management Report

Basic Principles of the Group

Group Business Model

This management report combines the management reports for KSB SE & Co. KGaA, Frankenthal / Pfalz, Germany, and the KSB Group (Combined Management Report).

The KSB Group's (hereinafter "KSB" or "Group") mission is to supply customers around the world with top-quality pumps and valves as well as related systems. It also offers a broad service portfolio to users of these products.

KSB SE & Co. KGaA, as the parent, directly or indirectly holds the shares in the companies belonging to the Group. Besides it, 9 domestic and 77 foreign companies are fully consolidated; 5 other companies are accounted for under the equity method. KSB is currently represented in more than 40 countries with its own subsidiaries.

As well as KSB SE & Co. KGaA itself, the companies in the KSB Group with the highest sales revenue are

- KSB S.A.S., Gennevilliers (Paris), France
- KSB Shanghai Pump Co., Ltd., Shanghai, China
- KSB Limited, Pimpri (Pune), India
- GIW Industries, Inc., Grovetown / Georgia, USA
- KSB Service GmbH, Frankenthal, Germany
- KSB BRASIL LTDA., Várzea Paulista, Brazil
- D.P. Industries B.V., Alphen aan den Rijn, Netherlands

The basic business model has not changed during the year under review. External economic and political changes, however, have had a partial effect on business. These are – where relevant and material to KSB – described in the following sections.

ORGANISATION, MANAGEMENT AND CONTROL

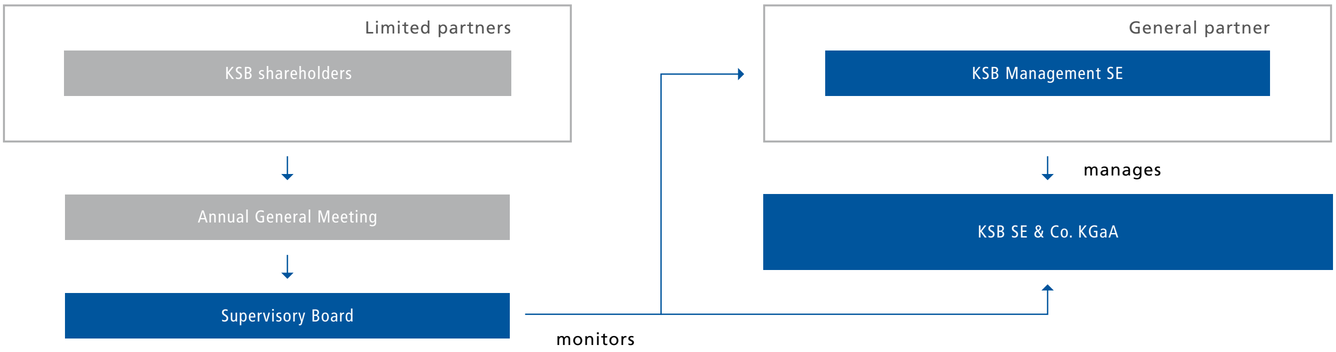
KSB SE & Co. KGaA was formed from KSB Aktiengesellschaft by entry in the *Handelsregister* [German Commercial Register] on 17 January 2018. The *Kommanditgesellschaft auf Aktien* (KGaA) [partnership limited by shares] is a common legal form in Germany for companies with a family- and foundation-dominated ownership structure. The general partner is KSB Management SE, a European public limited company. The shares in this company are wholly owned by Klein, Schanzlin & Becker GmbH, Frankenthal / Pfalz. Klein, Schanzlin & Becker GmbH is subject to the joint management of its two shareholders, the non-profit KSB Stiftung, Stuttgart, and the non-profit Kühborth-Stiftung GmbH, Stuttgart. KSB SE & Co. KGaA and with it the KSB Group are managed via KSB Management SE, which has four Managing Directors and a five-member Administrative Board.

All organisational units in the KSB Group act with the aim of ensuring sustainable, profitable growth to secure both KSB's financial independence and its medium- and long-term future. KSB is monitored by a Supervisory Board consisting of twelve members. The Annual General Meeting of shareholders appoints six members of the Supervisory Board, with the remaining six being delegated by the employees under the terms of the *Mitbestimmungsgesetz* [German Co-determination Act].

The basic structure of the Group is summarised in the following illustration.

→ Bodies / structure

Bodies / Structure



Management of KSB SE & KGaA is the responsibility of KSB Management SE, the individually liable general partner. The responsibilities of the bodies are governed by law and the Articles of Association. This is the basis for efficient corporate governance, which contributes to sustainable corporate development.

As of the 2021 financial year, KSB has adjusted the management of the Group's business activities in line with the realignment of the organisation. The basis for this was the new organisational structures defined in the CLIMB 21 strategy project and implemented in the GRIP21+ project in the business administration processes and in the Group's internal reporting system.

The changes in the organisation have resulted in the following new reporting segments (hereinafter also referred to as "Segments") for the Group from the 2021 financial year: Pumps, Valves and KSB SupremeServ.

Even under the new segmentation, KSB continues to make management decisions primarily on the basis of the key indicators order intake, external sales revenue and earnings before finance income / expense and income tax (EBIT).

Detailed information on the derivation and content of the Group's individual new Segments can be found in section VIII. Segment Reporting of the Notes in this Annual Report.

A material difference to the previous segmentation is that the spare parts business for pumps and valves is fully included in the KSB SupremeServ Segment. According to the previous segmentation, however, these transactions were generally allocated to one of the three former Segments Pumps, Valves or Service, depending on the type of underlying product or service.

The change in organisational alignment and the resulting new segmentation of the Group provide for a separation between the new pumps and valves business and the support services and spare parts business grouped under KSB SupremeServ.

Managing the Group using this new structure is aimed in particular at strategically strengthening the individual divisions and leveraging market potential. This primarily relates to the business activities of the KSB SupremeServ Segment. In addition, KSB is using its new organisational structure and segmentation to focus even more strongly on market-specific and customer-specific needs in the solutions it offers. For the Pumps Segment, this is ensured by considering individual Market Areas separately for internal control purposes.

In addition to the segment information, this management report contains supplementary quantitative explanations on the Group's performance at the geographical region level.

MARKETS AND LOCATIONS

In the KSB Group, around two-thirds of sales revenue is generated from goods and services relating to centrifugal pumps. These pumps, as well as valves, are sold to engineering contractors, OEMs and end users or, in some cases, distributed via dealers. The same applies to control and monitoring systems, and to package units with pumps and valves.

The largest and best developed sales market for these products is Europe, where KSB operates its main manufacturing facilities in Germany and France. The main plant of the present KSB SE & Co. KGaA in Frankenthal is its largest in Europe, ahead of the production sites in Pegnitz (Bavaria) and Halle (Saxony-Anhalt) in Germany, and La Roche-Chalais in France.

The second-largest market for KSB products is the Region Asia / Pacific, followed by the Region Americas and the Region Middle East / Africa / Russia. Outside Europe, KSB's biggest production sites are in Brazil, China, India and the USA.

KSB manufactures and assembles products and components in a total of 25 countries; they are sold through the Group's own companies or agencies in more than 100 countries. With their products, the Group companies serve customers in industry including the chemical and petrochemical industries, in the energy sector, in construction / building services, in water and waste water management, and in mining. In 2021 the most important markets were general industry, energy and water / waste water.

As the largest company in the KSB Group, KSB SE & Co. KGaA serves all the Group's Regions and markets.

In order to be able to offer KSB products at favourable prices, the Group's purchasing requirements are combined and affordable suppliers sourced around the world who meet the relevant quality standards. The KSB Group is able to maintain its market position as one of the leading pump and valve manufacturers through its good and long-term relationships with customers and suppliers. Highly trained and motivated employees as well as the high quality of products have also helped cement this reputation.

Control System

Based upon a matrix organisation, the key financial performance indicators are determined as follows:

Management decisions for the Group as a whole and for the Pumps, Valves and KSB SupremeServ Segments are mainly made on the basis of the following key indicators: order intake, sales revenue and EBIT. EBIT is defined as earnings before finance income / expense and income tax. When specifying key indicators, Management is guided on the one hand by developments in the market and on the other by its main competitors. In addition, the net financial position is still used as a key indicator, although it does not constitute an important material performance indicator.

Management decisions for KSB SE & Co. KGaA are made on the basis of the same control metrics as for the Group.

No non-financial performance indicators are consulted for controlling the Group and for making decisions regarding management issues.

Research and Development

Innovations are a fundamental pillar of KSB's activities and are part of the core elements of its strategy. They are defined as solutions that create added value for customers and translate into new products, services or business models.

Finding creative solutions is the most successful where developers have a high degree of freedom in choosing the approaches or methods. With this objective in mind, KSB has set up the off-site Business Innovation Lab to explore beyond the traditional paths of research and development. In this think tank, young people work together with experienced specialists on developing ideas for the digital transformation of the company and on new paths in the marketing of pumps, valves and hydraulic systems. This also ensures that customer needs are analysed and transformed into a product offering significant customer benefit, such as operating reliability and ease of use.

Beyond these innovation approaches, the integration of hydraulic and electronic systems is a focus of activities. Agile, interdisciplinary and international teams develop products that exceed the legislative requirements for energy efficiency in specific details. The aim is to increase the speed of innovation by scaling the agile approach as it is applied to cross-cutting issues such as uniform user interfaces, sustainability requirements and synergies between platforms. The holistic approach also provides access to new business models. As many product components come into contact with fluids that are corrosive or abrasive, materials research is another key area of the developers' work. Additive manufacturing technology makes it possible to produce components that cannot be manufactured using conventional technology. The integration of several functions within a single component creates entirely new opportunities. The aspect of material efficiency is strongly promoted by this technology.

Increasingly we find that the reduction of complexity is no longer achieved by standardisation and modularisation alone, but also by substituting mechanical / hydraulic complexity with the help of parameterisable device software. This also opens up the way to an increased ease of use and reduced costs at the human-machine interface, realised through a yet greater use of mobile devices.

In these activities, the KSB Group draws on its strong research and development expertise in Europe and beyond. Group-wide product management and the R&D network are being developed systematically to ensure market focus, shorter product development times and robust supply chains. In addition, KSB cooperates with external institutes and research facilities. Overall, the Group spent around € 52.5 million on research and development in the reporting year. This equates to about 2.2 % of sales revenue. KSB SE & Co. KGaA invested € 38.4 million in research and development in the reporting year, which equates to around 4.8 % of sales revenue. A large portion of the activities centred on customer projects. Across the Group, 439 staff were employed in research and development on average over the year. At KSB SE & Co. KGaA, 279 staff worked in research and development in the reporting year.

52.5

Research and development expenses in € millions

Economic Review

Macroeconomic Environment and Sector View

The global economy recovered significantly in the course of 2021 compared with the previous year, despite further waves of infection in the COVID-19 pandemic. The latest estimate of the International Monetary Fund (IMF), whose figures are used for planning, was higher than had been expected at the beginning of the year despite the slowdown in the second half of the year. For 2021, the IMF now reports growth of 5.9 %, up from 5.5 % at the beginning of the year. The vaccination campaign, which has been progressing since the end of the previous year and has now reached almost half the world population with at least two vaccinations, made a significant contribution to this. Growth was hampered by delays in supply chains, a rise in the cost of raw materials and energy, and the renewed more virulent spread of the Omicron coronavirus variant towards the end of the year along with the related economic and social restrictions.

Despite the global recovery, the various groups of countries continued to diverge in their rates of development during the time of the pandemic. For the group of economically advanced countries, the IMF has raised its estimate and assumes growth of 5.0 % in 2021. At the beginning of the year the forecast was still at 4.3 %. Emerging markets and developing countries achieved economic growth of 6.5 %, only slightly above the forecast at the beginning of the year (+ 6.3 %).

Europe continued to be of major importance for the KSB business in 2021. In the largest market, economic output rose more strongly than had been expected at the beginning of the year, despite supply bottlenecks in the manufacturing sector and recently renewed restrictions as well as subdued consumer spending. Economic growth in the euro zone was 5.2 %. In France and Italy it was 6.7 % and 6.2 % respectively – following the sharp decline in the previous year. Spain also achieved a high growth rate of 4.9 %, when one considers the steep decline in the previous year. In Germany, the economy grew by 2.7 %, shaped by supply bottlenecks in industry. The UK recorded growth of 7.2 % despite the trading costs associated with Brexit and continued uncertainty for investments.

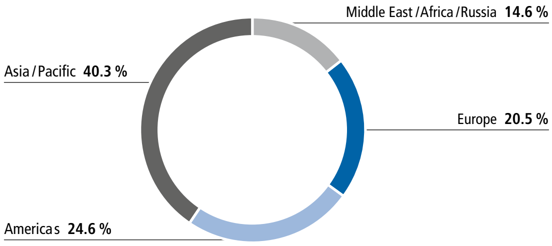
In the USA, government spending to shore up the economy, especially on infrastructure, as well as the recovery in consumer spending, brought significant economic growth of 5.6 %. This performance was above the forecast made at the beginning of the year despite the continuing difficult health situation and impairments in the supply chains.

China's economy achieved robust growth of 8.1 %, which nevertheless did not quite reach expectations held at the beginning of the year. Performance was slowed down by higher energy prices for industry, the uncertainty on the financial markets due to the high debt level in the private real estate sector, as well as the renewed rise in the rate of infections and the associated restrictions in the service sector. In India, growth was 9.0 % despite continuing high case numbers from the pandemic and local restrictions. Growth was supported by state subsidies. The economies of the five economically most important countries in South East Asia – Indonesia, Malaysia, the Philippines, Thailand and Vietnam – grew by 3.1 % overall, less markedly than at first expected, following the further waves of infection.

South America was one of the regions whose economy was most negatively affected by the pandemic. However, performance was better compared with the forecasts at the beginning of the year. In Brazil, economic growth was 4.7 % on the back of rising investment spending and higher exports, as well as the upturn in the service sector in the second half of the year following a decline in new infections. In Argentina, the economy also recovered significantly with 10.0 %.

The economic development of countries in the Region Middle East / Africa / Russia benefited from rising energy and commodity prices and likewise exceeded expectations held at the beginning of the year. In Turkey, the economy grew by 11.0 %, bolstered by strong exports. In South Africa, higher exports and an increase in private and public investments similarly contributed to growth of 4.6 %. For Saudi Arabia, likewise a large sales market for KSB, the IMF reported a plus of 2.9 % as a result of the rising price and exports of crude oil. In Russia, rising commodity prices also had a beneficial effect on economic growth. However, this only reached 4.5 % in an environment of rising infection rates, low vaccination coverage and ongoing economic sanctions.

World market of centrifugal pumps and valves



Source: KSB estimate (February 2022), European Industrial Forecasting

RECOVERY IN ALL SALES MARKETS

All Segments, Market Areas and Regions benefited from the economic upswing, albeit to varying degrees.

In general industry, which covers a series of cyclical sectors in the manufacturing industry, production and investment rose strongly in the previous year. Overall, the production of capital goods exceeded the pre-pandemic level. The pharmaceutical industry, which had already grown in the previous year due to strong demand, continued on its course with accelerated growth. The automotive industry, on the other hand, was unable to keep up despite the recovery.

The water and waste water industry, in which economic fluctuations are milder than in other economic sectors, had already seen only a slight decline in terms of production value in the previous year. The reporting period saw a significant increase on account of the rise in demand from industry. Investments in municipal water and waste water management also increased, supported by investments from the public sector.

The energy sector as a whole can look back on a stronger momentum than initially expected, given the recovery of the global economy and the promotion of renewable energy. Worldwide electricity consumption rose more strongly than global economic output. More extreme weather conditions have also contributed to the increase. Despite the strong rise in consumption from renewable energy sources, electricity consumption from natural gas and coal also reached record levels. Global spending on new and replacement investments increased for all energy sources except for electricity produced from coal. The most pronounced increase was in investments in electricity generation from natural gas, which can be attributed in part to the decline in the previous year. Global investment in nuclear power increased again. Capacities in gas and renewable energies continued to be expanded worldwide in the previous year. Capacities in nuclear energy declined slightly following numerous closures.

Despite the slight increase in oil and gas production, it is coming under strong pressure and was hardly above the 2019 level. Global investments have increased after the drastic downturn in the previous year, but are still well below pre-pandemic levels. Refineries are undergoing structural changes. These are attributable on the one hand to the declining demand for oil and gas for the transport sector, and on the other hand to higher demand for petrochemicals, resulting in increased concentration and regional shifts in production capacities. Refinery utilisation rose overall last year, but remained below the average of the past five years. The chemical industry, however, which had already posted a slight growth in the previous year, achieved significantly stronger growth despite problems in the supply chains and rising energy prices.

The construction industry was on the upswing given the economic recovery and stimulus spending in many countries. In particular, construction of infrastructure and residential buildings experienced a high growth momentum and significantly exceeded the pre-pandemic level of 2019. Non-residential construction was behind with somewhat weaker growth. This can be explained by the recurring restrictions in the service sector and the associated reluctance to invest.

In mining, strong demand from industry and the construction sector provided a significant boost to the mining of metals, in particular iron and copper. This growth took place despite production-related shortfalls in copper mining in Chile and the curtailment of steel production in China in the second half of the year. Copper production as well as mining of rare earths were especially supported by the increasing shift to green technologies. Coal mining also increased after the decline in the previous year. Production from oil sands showed a marked increase, which can be attributed to the very weak level of the previous year.

MECHANICAL ENGINEERING ON THE UPSWING

The recovery of the global economy also contributed to an increase in demand for mechanical engineering products. According to the German Mechanical Engineering Industry Association (VDMA), global sales revenue in the mechanical engineering sector rose by 13.0 % in real terms in 2021. Growth was dampened by rising prices and supply bottlenecks for energy, raw materials and precursor products.

According to VDMA, sales revenue in the German mechanical engineering sector rose by 6.6 % in real terms. Based on the provisional calculations of the German Federal Statistical Office, real-term production was also up 7.2 % year on year. Capacity utilisation increased significantly compared with previous years.

In the liquid pumps sector, VDMA recorded real sales growth of 10.3 % among German pump manufacturers. Sales revenue with industrial valves fell by 3.0 %, while building services valves saw sales revenue growth of 4.1 %.

Business Development and Results of Operations

The 2021 financial year was characterised by a significant recovery of the global economy and a renewed willingness to invest on the part of customers. All markets in which the Group conducts its main business activities benefited from this. There were local impairments due to temporary government-imposed lockdowns in some Asian countries – especially in India and Indonesia – which meant that Service orders in particular could not be carried out.

Particularly in the second half of the year, the bottlenecks in the procurement markets and supply chains resulting from the COVID-19 pandemic became increasingly noticeable. This had an impact on the availability of supplier products on the one hand, and on prices on the other, which in some cases rose significantly as a result of the increased demand and reduced capacity. These effects were partially compensated for by emergency stocks and the existing supplier network.

Viewed overall, order intake and sales revenue in the reporting year almost reached the 2019 levels and were thus significantly above the previous year's values. EBIT for the 2021 financial year increased significantly compared with 2020 and was thus also significantly higher than in the 2019 financial year.

KSB served the respective markets through the regional sales organisation, which was supported by the Market Areas with their specialist expertise when required. Furthermore, the expansion of electronic sales of pumps, valves and spare parts which had been initiated in the previous years was systematically continued. A total of 25 countries now have e-sales platforms. The online platforms have developed well and are increasingly established as a further sales channel. The expansion will continue over the next few years as more countries obtain e-sales platforms. In addition, the international KSB SupremeServ network was continuously expanded by opening additional service locations.

As explained in the previous section on Basic Principles of the Group, KSB changed its organisational structure and segmentation as of the 2021 financial year. In order to reflect the Group's new segmentation, the internal reporting systems were adapted in a comprehensive manner and fully aligned with the new structure. The financial information for the 2020 financial year was not restated retrospectively in line with the new segmentation, as the effort of such a technical system implementation including the associated data collection would have been disproportionately high from the Group's perspective. In order to determine the adjusted comparative data for the previous year, the data for the reporting year 2021 would have had to be manually transferred to the previous structure. This would also have entailed excessive costs for data collection. Against this background, there are no reconciliations between the old and new segmentation for the key financial performance indicators (order intake, external sales, EBIT).

As a result, segmented disclosures are made exclusively on the basis of the Group's new segmentation, while the previous year's disclosures relate exclusively to KSB's former structure. In view of the differences in content between the two segment structures, the disclosures for the key financial performance indicators for the reporting year and the previous year are only comparable for the Group as a whole, but not at segment level.

Segment reporting *

	Order intake		Sales revenue		EBIT	
€ thousands	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Pumps Segment	1,307,305	–	1,271,104	–	24,120	–
Valves Segment	338,398	–	305,570	–	–6,560	–
KSB SupremeServ Segment	766,042	–	766,903	–	123,601	–
Total	**2,411,745**	**2,143,403**	**2,343,577**	**2,207,881**	**141,161**	**70,172**
of which former Pumps Segment	–	1,419,712	–	1,467,957	–	80,937
of which former Valves Segment	–	320,248	–	335,454	–	–23,271
of which former Service Segment	–	403,443	–	404,470	–	12,506

* For the 2021 financial year, segmented disclosures are made exclusively on the basis of the Group's new segmentation, while the previous year's disclosures relate exclusively to KSB's former segmentation. In view of the differences in content between the two segment structures, the disclosures at segment level for the reporting year and the previous year are not comparable.

ORDER INTAKE

The volume of incoming orders rose significantly by € 268.3 million (+ 12.5 %) to € 2,411.7 million in the financial year. Excluding exchange rate effects, order intake would have been € 21.4 million higher.

All the Regions contributed to this growth. The largest percentage growth was reported in the Regions Middle East / Africa / Russia with a plus of € 36.5 million (+ 27.1 %) and Asia / Pacific with a plus of € 86.1 million (+ 17.4 %). The Region Americas also developed well with a plus of € 56.4 million (+ 16.5 %). The companies in Europe, which had proved relatively stable in the previous year, posted an increase of € 89.3 million (+ 7.6 %).

The main reason for the significant increase was the said recovery of the global economy as well as a number of major orders in various markets. In the energy market, KSB obtained major orders to equip nuclear power plants in India and China. Major orders were also won in the building services, general industry, chemicals and water markets.

Pumps

In the Pumps Segment, order intake was € 1,307.3 million. Of this amount, € 1,059.0 million was attributable to the Standard Markets operating segment. In the Energy and Mining operating segments, which include project business in particular, order intake amounted to € 248.3 million. The largest Region by far is Europe. Order intake here amounted to € 663.1 million. This is followed by the Region Asia / Pacific with € 378.1 million and the Regions Americas and Middle East / Africa / Russia.

Valves

In the Valves Segment, order intake was € 338.4 million. Both the standard business and the project business performed positively over the course of the financial year. The largest Region by far is Europe, followed by the Regions Asia / Pacific and Americas.

KSB SupremeServ

Order intake in the KSB SupremeServ Segment – which covers all service and spare parts activities – reached € 766.0 million. The largest Region is Europe with an order intake of € 387.8 million, followed by Americas with € 217.1 million, then Asia / Pacific and Middle East / Africa / Russia.

SALES REVENUE

Consolidated sales revenue increased significantly in the wake of the general economic upturn by € 135.7 million (+ 6.1 %) to € 2,343.6 million. All the Regions contributed to this sales revenue growth.

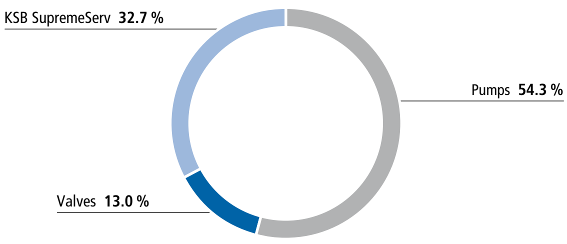
Europe remained by far the largest Region with sales revenue of € 1,261.4 million, followed by Asia / Pacific with € 557.4 million, Americas with € 376.7 million and the Region Middle East / Africa / Russia with € 148.0 million. The largest percentage increase was reported in the Region Asia / Pacific with € 70.5 million (+ 14.5 %), followed by the Region Middle East / Africa / Russia with € 14.7 million (+ 11.1 %).

The Region Americas also developed well with € 18.1 million (+ 5.0 %). The companies in Europe, which had proved relatively stable in the previous year, posted an increase of € 32.4 million (+ 2.6 %).

2.3

Consolidated sales revenue in € billions

Sales revenue by segment



Pumps

Sales revenue in the Pumps Segment amounted to € 1,271.1 million. The Standard Markets accounted for € 985.7 million and the Energy and Mining operating segments for € 285.4 million. Europe remains by far the largest Region with sales revenue of € 661.2 million, followed by Asia / Pacific with € 357.1 million, then the Region Americas and the Region Middle East / Africa / Russia.

Valves

The Valves Segment also benefited from the recovery of the global economy. Sales revenue amounted to € 305.6 million. The largest Region by far is Europe, followed by the Regions Asia / Pacific and Americas.

KSB SupremeServ

Sales revenue in the KSB SupremeServ Segment amounted to € 766.9 million. The largest Region by far is Europe with sales revenue of € 403.0 million, followed by Americas with € 203.0 million, then Asia / Pacific and Middle East / Africa / Russia.

EARNINGS BEFORE FINANCE INCOME / EXPENSE AND INCOME TAX (EBIT)

The KSB Group achieved earnings before finance income / expense and income tax (EBIT) of € 141.2 million (previous year: € 70.2 million). The above-average improvement in earnings is attributable to higher sales revenue, higher margins and the positive effects of the earnings enhancement programme of KSB SE & Co. KGaA. Stringent cost management also had a positive impact on earnings. In addition, the previous year's EBIT of € 23.6 million was heavily weighed down by one-off effects. These included in particular the write-downs on goodwill as a result of the COVID-19 pandemic, the net losses from the sale of French subsidiaries and the additions to provisions for expected losses from the project business in the former Valves Segment.

Pumps

EBIT in the Pumps Segment amounted to € 24.1 million. Standard business in particular contributed to very good earnings, as the recovery of the global economy had an earlier impact here than in the project business. The stringent cost management referred to above also had a positive impact on EBIT. The EBIT margin achieved was 1.9 %.

Valves

EBIT in the Valves Segment was € – 6.6 million. In particular, a purchasing initiative and a high share of standard business helped to avoid a lower EBIT. The EBIT margin achieved was – 2.1 %.

KSB SupremeServ

Good capacity utilisation in the service business and the focus on the high-margin spare parts business in combination with the systematic cost management mentioned above helped achieve EBIT of € 123.6 million. This equates to an EBIT margin of 16.1 %.

TOTAL OUTPUT OF OPERATIONS

Total output of operations amounted to € 2,360.1 million compared with € 2,195.9 million in the previous year. In addition to the € 135.7 million increase in sales revenue, the € 14.5 million increase in inventories (previous year: € 15.2 million decrease in inventories) also had a positive effect on the overall performance.

INCOME AND EXPENSES

Other income fell slightly by € 3.9 million year on year to € 27.7 million (previous year: € 31.6 million). The previous year was characterised by income from the sale of two French service companies amounting to € 3.1 million as well as an increase of € 4.4 million in insurance income. Income in the financial year under review includes exchange rate gains from currency translation of € 3.8 million (previous year: € 0 million).

The cost of materials rose slightly in relation to the total output of operations, up from 41.0 % in the previous year to 41.3 % in the reporting year. Thus, overall the cost of materials increased in step with the total output of operations to € 975.4 million compared with € 899.6 million in the previous year.

141.2

Consolidated earnings (EBIT) in € millions

Despite the slight reduction in the average number of employees over the year, staff costs increased significantly by € 32.4 million from € 804.8 million to € 837.2 million in the reporting year. The increase is mainly due to higher deferred items for profit bonus schemes. The reduction of overtime and annual leave entitlements in the previous year reduced the burden on staff costs. On average, the KSB Group had 61 fewer employees (– 0.4 %) in the reporting year than in the previous year. In Europe, the number of employees fell by 235 on average, while there was an increase in staff numbers by 79 in Asia West and by 76 in the Middle East / Africa / Russia. With a 7.5 % increase in the total output of operations alongside a fall in staff numbers, the total output per employee increased from € 143 thousand to € 154 thousand. An average of 15,287 people were employed in the reporting year (previous year: 15,348 employees).

Depreciation and amortisation fell by € 19 million to € 80.9 million compared with the prior-year period. This is mainly due to impairment losses of € 15.5 million on goodwill and property, plant and equipment in the previous year.

At € 353.2 million, other expenses ranged at prior-year levels (€ 353.0 million). While the previous year showed losses of € 5.7 million from the sale of French service companies, the financial year under review is burdened by € 5.1 million higher expenses from additions to impairment losses on trade receivables. Despite the increase in total output of operations, expenditure was maintained at a constant level. As a result, expenses were reduced to 15.0 % of total output of operations (previous year: 16.1 %).

The finance income / expense amounted to € – 1.2 million (previous year: € – 8.6 million). This reflects in particular € 5.0 million in interest income on back payment claims.

EARNINGS

The KSB Group generated earnings before income tax (EBT) of € 139.9 million compared with € 61.6 million in the previous year. Correspondingly, the return on sales before income tax rose from 2.8 % in the previous year to 5.9 %. Taxes on income fell from € 57.2 million to € 29.6 million. Because of higher EBT and lower taxes on income, the income tax rate fell from 92.9 % in the previous year to 21.2 % in the year under review. The decrease was mainly attributable to impairments on deferred tax assets recorded in the previous year. Overall, earnings after income tax rose from € 4.4 million in the previous year to € 110.3 million in the reporting year.

At € 16.7 million, earnings attributable to non-controlling interests rose by € 2.7 million compared with the previous year. Relative to earnings after income tax, there was therefore a decrease from over 100 % to 15.1 %.

Earnings attributable to shareholders of KSB SE & Co. KGaA (€ 93.6 million) were € 103.2 million higher than in the previous year (€ – 9.6 million).

Earnings per ordinary share were € 53.34, compared with € – 5.63 in the previous year, and € 53.60 per preference share, compared with € – 5.37 in 2020.

Financial Position and Net Assets

FINANCIAL POSITION

The financial position of the KSB Group improved considerably. This was reflected in a higher equity ratio of 37.6 % (previous year: 32.9 %).

Liquidity

KSB recorded cash flows from operating activities of € 163.9 million compared with € 183.9 million in the previous year. Despite the € 105.9 million increase in earnings after income tax, cash flows from operating activities declined by € 20.0 million. While in the previous year a significant inflow of € 50.3 million was achieved from the reduction of inventories and trade receivables, the expanded business volume in the 2021 financial year required a higher commitment of funds in inventories and trade receivables of € 41.1 million. In addition, higher payments for income taxes also contributed to lower cash flows from operating activities.

The outflows from investing activities were largely stable compared with the previous year; they rose by € 4.2 million from € – 72.2 million in the previous year to € – 76.4 million in the reporting year. Compared with the previous year, there were no net proceeds in the financial year under review from the reclassification of cash and cash equivalents to deposits with an original maturity of more than 3 months. However, this was largely offset by lower payments for investments in intangible assets and property, plant and equipment.

The negative cash flows from financing activities are also essentially stable. The cash outflow declined slightly compared with the previous year by € 5.1 million to € – 43.4 million. The dividend payments of € 19.2 million, which were almost unchanged compared with the previous year, were contrasted by an increase of € 8.5 million in payments from financial liabilities.

All in all, cash and cash equivalents rose significantly from € 331.5 million in the previous year to € 386.7 million, due to an inflow of € 44.1 million as well as exchange rate gains of € 8.4 million.

365.6

Net financial position in € millions

The KSB Group assumes that, in future, it will continue to be able to meet its outgoing payments from operating cash flows. From the current perspective its financial management is meeting the goal of ensuring its liquidity at all times essentially without any additional external financing measures. In addition, there has been a syndicated loan agreement of KSB SE & Co. KGaA and KSB FINANZ S.A., Luxembourg, since December 2018 to hedge potential liquidity risk and cover the need for bank guarantees of the KSB Group. The credit line can be used at any time and has a fixed term of five years with the option to renew twice by one year each time. In the 2020 financial year, KSB availed itself of this option for the second time and extended the fixed term of the line early, until the end of 2025. For more information on liquidity management (such as credit lines) see the section on Risk Reporting on the Utilisation of Financial Instruments elsewhere in this group management report.

Investments

The additions to intangible assets amounting to € 4.0 million are at the previous year's level (€ 4.2 million).

Investments in property, plant and equipment in the reporting year, at € 82.0 million, were likewise broadly at the same level as the prior-year figure of € 80.4 million. At € 41.3 million (previous year: € 29.9 million), the highest additions related to advance payments and assets under construction, as in the previous year. Another € 15.9 million related to other equipment, operating and office equipment (previous year: € 19.4 million), while € 14.1 million related to plant and machinery (previous year: € 17.0 million). As in 2020, the focus of capital investment activity was the Region Europe, mainly Germany and France. Outside Europe, the highest additions were made at the plants in the USA, India and China.

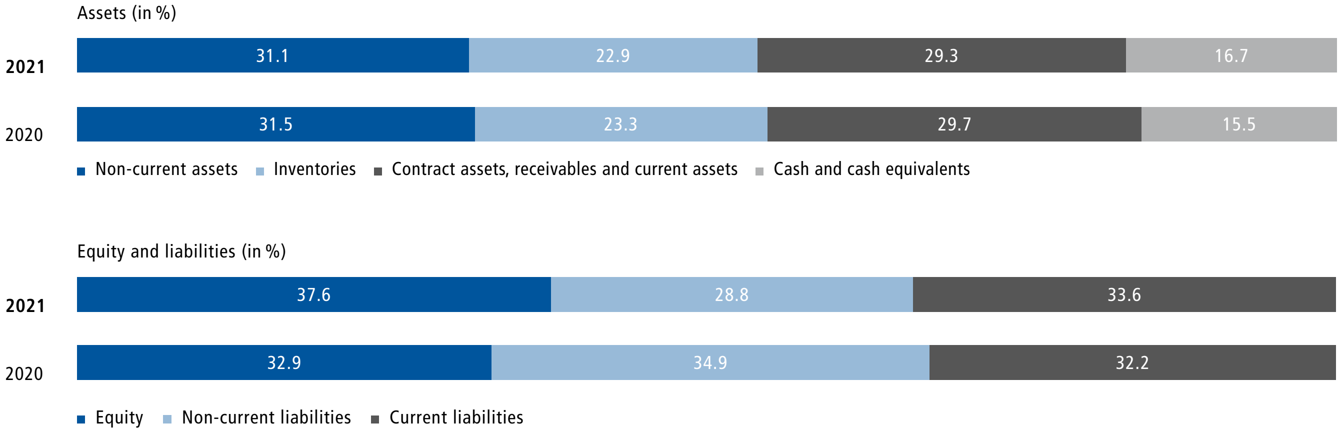
Net financial position

The net financial position, at € 365.6 million, rose by € 60.8 million from € 304.8 million in the previous year. This increase is essentially due to the high cash flows from operating activities.

Contingent liabilities and other financial obligations

The contingent liabilities as at the reporting date totalled € 33.0 million (previous year: € 17.4 million). The increase of € 15.6 million is mainly attributable to higher contingent liabilities from other tax items which rose by € 7.4 million and € 2.9 million from legal disputes.

Balance sheet structure



There are no other obligations and commitments beyond the reporting date. Further financial obligations arise only within the normal scope from purchase commitments amounting to € 19.1 million (previous year: € 23.0 million).

NET ASSETS

Around 31.1 % of funds is attributable to non-current assets (previous year: 31.5 %). Intangible assets and property, plant and equipment with a historical cost of € 1,555.4 million (previous year: € 1,471.0 million) have carrying amounts of € 613.7 million (previous year: € 580.6 million). Total intangible assets fell from € 79.9 million in the previous year to € 75.9 million. This was primarily due to depreciation and amortisation.

Right-of-use assets for leases (€ 42.7 million) are almost at the previous year's level (€ 41.6 million).

Property, plant and equipment increased from € 500.7 million to € 537,8 million as a result of capital expenditure (€ 82.0 million) in excess of depreciation of € 56.1 million. The positive currency translation effects of € 12.7 million also contributed to the increase in property, plant and equipment.

The carrying amount of financial assets, investments accounted for using the equity method and non-current other non-financial assets rose overall by € 2.4 million to € 29.3 million. At € 20.2 million, the investments accounted for using the equity method are largely at the previous year's level (€ 19.8 million).

Deferred tax assets rose by € 7.2 million to € 34.6 million (previous year: € 27.4 million).

Inventories amounting to € 529.5 million (previous year: € 497.5 million) were recognised. This increase was due to the higher business volume.

Contract assets fell slightly from € 82.4 million in the previous year to € 79.3 million.

Trade receivables increased from € 444.2 million at the end of the previous year to € 479.2 million. This increase resulted mainly from the higher business volume at the end of the financial year.

At € 80.1 million, other financial assets ranged at the prior-year level (previous year: € 80.7 million). Other non-financial assets showed an increase (€ 12.1 million). The main factor was the increase in recoverable taxes, particularly in Brazil, Luxembourg, Germany, India and France, which were up by € 9.8 million at € 28.2 million.

Cash and cash equivalents accounted for around 17 % of assets, totalling € 386.7 million (previous year: € 331.5 million).

Total assets increased by 8.2 % to € 2,314.4 million, mainly due to the increase in current assets. As well as the increase in cash and cash equivalents by € 55.2 million, the increase in trade receivables by € 35.1 million and inventories by € 32.0 million also contributed to this.

EQUITY

KSB Group equity amounts to € 869.1 million (previous year: € 703.8 million). This includes KSB SE & Co. KGaA's subscribed capital of € 44.8 million as in the previous year. The capital reserve remains unchanged at € 66.7 million. Revenue reserves increased by a total of € 146.9 million. The marked improvement in the net retained earnings for the year had a particular impact here. The remeasurement of defined benefit plans in the amount of € 54.6 million also led to an increase. In addition, currency translation gains of € 30.3 million contributed to the increase in equity. The revenue reserves include the proportion of earnings after income tax attributable to KSB SE & Co. KGaA shareholders, at € 93.6 million (previous year: € – 9.6 million). Out of total equity, € 194.4 million (previous year: € 175.9 million) is attributable to non-controlling interests. The equity ratio increased to 37.6 % (previous year: 32.9 %) despite higher total equity and liabilities.

The non-controlling interests mainly relate to the following companies: KSB Limited, India, and KSB Shanghai Pump Co., Ltd., China, as well as the PAB subgroup. The latter consists of Pumpen- und Armaturen-Beteiligungsgesellschaft mbH, Frankenthal, and its US subsidiaries.

Inflation and exchange rate effects

Of the Group's consolidated companies, only the annual financial statements of the Argentinian company had to be adjusted for the effects of inflation. As in the previous year, this did not result in any material impact on the net assets, financial position or results of operations.

Currency translation of financial statements of consolidated companies that are not prepared in euro gave rise to a difference of € + 30.3 million (previous year: € – 62.4 million). The total of currency translation differences was taken directly to equity.

37.6

Equity ratio in percent

Liabilities

The largest item under liabilities continues to be provisions for employee benefits, including, also as the largest item, pension provisions, which decreased by € 56.8 million from € 670.2 million to € 613.4 million. The reduction of € 54.6 million (previous year: increase by € 43.5 million) is attributable to the increase in discount rates. Obligations for current pensioners and vested benefits of employees who have left the company account for about 46 % of the amount recognised in the balance sheet. The rest is attributable to defined benefit obligations for current employees.

Non-current financial liabilities fell by € 23.5 million to € 27.1 million. The reason for this is the reclassification of the loan against borrower's note in the amount of € 22.0 million, which will be repaid in the 2022 financial year, to current financial liabilities.

The other non-current and current provisions for employee benefits changed only slightly at € 23.5 million (previous year: € 24.8 million).

Other non-current and current provisions increased from € 82.7 million in 2020 to € 95.0 million in 2021. This is mainly due to € 6.9 million higher provisions for warranty obligations.

Current liabilities rose overall by € 89.1 million to € 778.3 million compared with € 689.2 million at the 2020 year end. The share of current liabilities relative to total equity and liabilities rose slightly to 33.6 % (previous year: 32.2 %).

Current financial liabilities increased by € 19.9 million to € 51.9 million due to the reclassification of the loan against borrower's note mentioned above.

Contract liabilities increased slightly from € 153.7 million in the previous year to € 157.4 million. This is due to the advance payments exceeding the services performed.

Trade payables rose to € 272.8 million (previous year: € 237.6 million) as a result of the higher business volume.

Other non-financial liabilities increased by € 21.4 million, above all due to higher personnel liabilities.

Summary of the Performance in the Financial Year

The order intake forecast in the previous year, expected to be in a range between € 2,150 million and € 2,450 million, was achieved. Both the recovery of the global economy and a renewed willingness to invest on the part of customers contributed to the growth of order intake from € 2,143 million to € 2,412 million. The Group's order intake is thus only slightly below the figure for the 2019 financial year. KSB is very satisfied with the order intake achieved in the reporting year. An assessment of the forecasts made for the former segments in the previous year cannot be made for the 2021 financial year. The reasons for this were explained in detail in the Group Business Model section and in the segment reporting. The values forecast for the 2021 financial year were € 1,420 million to € 1,620 million for the former Pumps segment, € 320 million to € 360 million for the former Valves segment and € 410 million to € 470 million for the former Service segment.

As with order intake, the forecast for sales revenue, expected to be in a range between € 2,150 million and € 2,400 million, was achieved. The reasons for the increase are identical to those given for the order intake. The Group is very satisfied with the sales revenue achieved of € 2,344 million (previous year: € 2,208 million). The values forecast for the 2021 financial year were € 1,450 million to € 1,600 million for the former Pumps Segment, € 320 million to € 360 million for the former Valves Segment and € 380 million to € 440 million for the former Service Segment.

The range between € 80 million and € 120 million predicted for EBIT was very significantly exceeded in the 2021 financial year. Detailed information on the reasons for the EBIT performance is provided in the "Earnings before finance income / expense and income tax (EBIT)" section. The values forecast for EBIT for the 2021 financial year were € 65 million to € 85 million for the former Pumps Segment, € – 10 million to € 0 million for the former Valves Segment and € 25 million to € 35 million for the former Service Segment.

The assumptions mentioned in the prior-period consolidated financial statements, of an expected market recovery for standard products, spare parts and service support, as well as the expected receipt of several major orders, have essentially been realised. In addition, the negative effects of the coronavirus pandemic have subsided much earlier than Management expected. These effects, as well as the realisation of the expected positive contributions from the Climb 21 strategy programme, contributed to the EBIT achieved. The Management of the KSB Group is therefore very satisfied with business performance in the year under review.

KSB continues to have a healthy financial basis for the future.

Report on Expected Developments

The International Monetary Fund (IMF) recently significantly lowered its forecast for global economic growth in 2022 to + 4.4 % in real terms. The adjustment was mainly due to the weaker trends in the two largest economies, the USA and China. Expectations regarding inflation for the current year were raised in view of bottlenecks in logistics and supply chains as well as higher energy and commodity prices. The IMF's baseline forecast is based on expectations of a further spread of the pandemic with the Omicron virus variant in the first quarter and its abatement by the end of the year. The downside risks prevail in this forecast. These include a potential intensification of the pandemic resulting from the emergence of new virus variants, and further disruptions to supply chains, higher price volatility and inflation, and greater political risks.

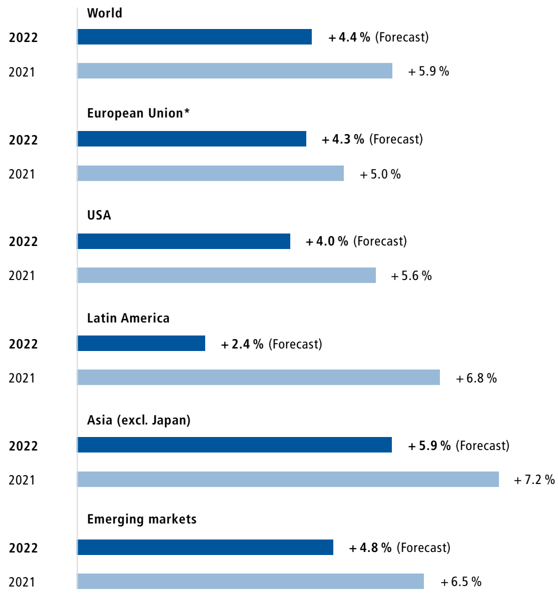
The IMF is projecting an overall growth rate of + 4.8 % for the emerging markets and developing countries.

The expected growth in the industrialised nations, at + 3.9 % in 2022, is significantly lower than in the 2021 financial year. In the USA in particular, growth expectations have weakened to + 4.0 %. This correction is based on lower stimulus spending, a faster transition to a restrictive monetary policy with the raising of interest rates by the US Federal Reserve, and continuing supply chain restrictions. In line with this, the forecast for the Canadian economy was also lowered to + 4.1 %.

Growth of + 3.9 % is forecast for the euro zone in the face of pandemic-related setbacks, with continuing restrictions in mobility and supply chains. For Germany, the forecast was recently lowered to + 3.8 %, although this is still above growth in the previous year. In France, economic growth is anticipated to slow down to + 3.5 %. For Spain, the forecast is up on the previous year at + 5.8 % despite the reduction. In the UK, growth is expected to weaken to + 4.7 % in the current year.

For Turkey, the IMF expects a significant slowdown to + 3.3 % following the strong growth in the previous year. Continuing uncertainties related to high inflation and exchange rates are also anticipated for the current year. In Russia, too, the expected growth momentum is slower at + 2.8 %. Although energy prices are at a very high level, the growth momentum is being slowed down by high inflation, restrictive monetary policy, sanctions and geopolitical risks. Saudi Arabia's economy is projected to grow by 4.8 %.

Gross domestic product growth



Source: International Monetary Fund (January 2022)
*Source: EU Commission (November 2021)

According to the World Bank Group, this assumption is based on high oil prices, high vaccination rates among the population and a good investment climate.

In Asia, the expected growth rate is below the previous year's figure. For China, the forecast was lowered to + 4.8 % in view of the real estate crisis and tighter regulation in the real estate and financial sectors as well as a slower recovery in private spending. For India, the IMF sees a growth rate of + 9 % in the current year, which is as high as in the previous year.

For the ASEAN countries, which also include important KSB markets, growth is expected to increase to + 5.6 % taking into account the delayed recovery from the pandemic.

Overall growth in the Latin American countries is expected to be below average at + 2.4 %. Inflation-related risks in the region are particularly high. In Brazil, the outlook has been tempered to + 0.3 % because the high inflation and restrictive monetary policy are already affecting private consumer spending and investment.

Given the disruptions in supply chains, the growth in demand for capital goods is expected to be lower. In its forecast for global sales of plant and machinery, VDMA refers to the scenarios from Oxford Economics. In the base case scenario, in which there is no new global wave of infections, sales revenue in real terms will rise by 5 %. For Germany, the VDMA forecast is + 7 %. In China, sales revenue is expected to grow by only 5 %. In the USA, growth is anticipated to slow to + 3 %.

For manufacturers of liquid pumps in Germany, VDMA foresees a below-average growth of + 5 % in nominal terms in the current year. It predicts an increase of + 6 % for industrial valves. Sales revenue for building services valves is expected to rise by 5 % in nominal terms.

SUMMARY OF EXPECTED DEVELOPMENT

For the 2022 financial year, KSB expects to achieve the key financial performance indicators shown in the table below:

Expected development

€ millions	Actual 2021	Forecast 2022
Order intake	2,411.7	2,350 – 2,650
Sales revenue	2,343.6	2,300 – 2,600
EBIT	141.2	130 – 170

The main driver of this trend will be the anticipated market recovery, which should be reflected in a higher order intake and sales revenue. The largest share of the expected increase in order intake will be from the Pumps Segment. This includes in particular the project business in the Energy Market Area. Sales revenue growth, on the other hand, is mainly driven by the Standard Markets. Further, the Group continues to expect positive effects from the new market-oriented organisational structure. In addition to sales revenue growth, which will be the main driver for the increase in EBIT, additional positive effects are expected from the implementation of measures defined as part of the earnings enhancement programme of KSB SE & Co. KGaA. KSB expects the strongest growth in order intake, sales revenue and EBIT from the Regions Europe and Asia / Pacific.

In the 2022 financial year, for the Pumps segment the Group expects to be able to at least match or even markedly exceed the order intake of € 1,307.3 million that was achieved in the reporting year. KSB expects a stable to moderate increase in order intake in the Valves Segment, which amounted to € 338.4 million in the reporting year. By contrast, KSB anticipates a stable to significant increase in the KSB SupremeServ Segment. Order intake in this Segment was € 766.0 million in the year under review.

The Pumps Segment contributed € 1,271.1 million to Group sales revenue in the reporting year. KSB expects a stable to strong increase in this Segment in the 2022 financial year. The Valves Segment generated sales revenue of € 305.6 million in the year under review, while the KSB SupremeServ Segment contributed € 766.9 million to consolidated sales revenue. In the 2022 financial year, KSB anticipates stable to noticeably increasing sales revenue in these two Segments.

The Pumps Segment generated earnings before finance income / expense and income tax (EBIT) of € 24.1 million in the 2021 reporting year. KSB is planning stable to strong growth in this Segment for the 2022 financial year. In the Valves Segment, KSB expects a stable to strong increase. In the reporting year, the Valves Segment achieved EBIT of € – 6.5 million. In the KSB SupremeServ Segment, which contributed € 123.6 million to EBIT in the reporting year, KSB expects a stable to noticeably increasing EBIT.

The continuing uncertainties relating to the COVID-19 pandemic and increasing geopolitical tension may have a negative impact on the forecasts made. Moreover, bottlenecks in the supply chains and price increases on the procurement markets can also have a negative impact on the forecast. In addition, the acts of war that started in Ukraine in February 2022 are resulting in considerable further uncertainties for the 2022 financial year, the impact of which KSB cannot currently estimate.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements and information that are based upon the assumptions of Management. They express 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. KSB wishes to point out that actual events or results may differ materially from the forward-looking statements and information presented, 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

As an organisation that operates throughout the world, the KSB Group is exposed to macroeconomic, sector-typical, financial and company-specific risks. The risk policy is designed to enable KSB to grow sustainably and profitably. The KSB Group aims to reduce the risks associated with its business and where possible avoid them completely. At the same time its global alignment and extensive product range offer a wealth of opportunities. This includes but is not limited to any opportunities that arise on the basis of research and development activities, as well as any that are linked to the quality and cost effectiveness of products. KSB's competitive position is also being strengthened by optimising the global sales and production network. In this context, opportunities are constantly being examined to further increase KSB's global presence, on the one hand by establishing or expanding KSB SurpemeServ sites and on the other hand by acquisitions. Customer focus is the key principle and is also reflected in the systematic alignment of the organisation with the markets, which was initiated in 2020 and which is intended to help KSB achieve sustainable, profitable growth.

The Group sees opportunities and risks as possible future developments or events that may lead to departures from forecast or targets. The departure can be both positive and negative. In order to manage the varied opportunities and risks professionally and efficiently, the Group aligns its actions accordingly and focuses upon the respective situation when selecting the persons responsible. In doing so, Controlling, Finance and Accounting as well as Internal Audits perform important monitoring tasks.

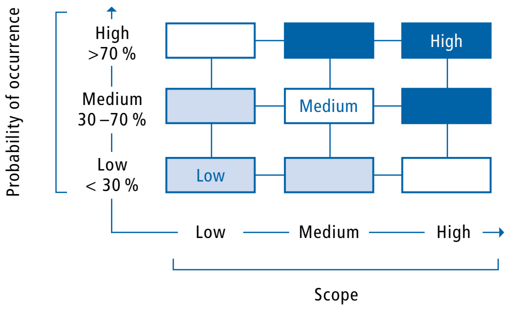
RISK MANAGEMENT SYSTEM

KSB has implemented a Group-wide risk management system for identifying and assessing relevant risks in the different areas of responsibility and reporting these to Group headquarters. The risk management process of the KSB Group consists of the successive phases of identification, assessment, management, control, documentation and communication of risks. The six phases form a continuous and IT-based closed-loop system. This is documented in KSB's Risk Management Manual, as well as the management responsibility and the description of all relevant tasks. In addition to the Risk Management Manual, KSB also documents its risk strategy. This sets out Group-wide principles, goals and strategic measures with which KSB manages and controls the risks arising from the implementation of its corporate strategy. The KSB Group's risk strategy is regularly reviewed by the Managing Directors of KSB Management SE to ensure that it is up to date and adjusted as necessary.

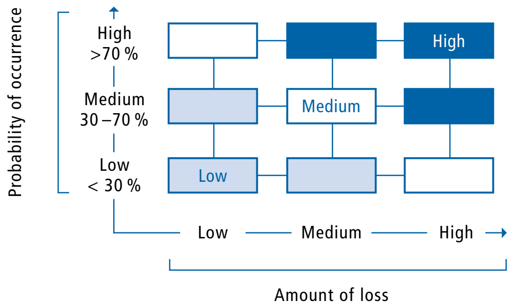
Managers are encouraged to take timely action to define and implement measures to limit or avoid damage that may result from the occurrence of risk events. All corporate and central functions and Group companies, including Group companies that are not consolidated, are included in the risk management system. The responsible managers are required to supply their relevant key business and financial indicators each month. As well as creating quarterly forecasts on business performance, they also report twice a year to the Risk Managers on all recognised risks in the categories of market and competitive risks, technological risks, project- and product-related risks, financial risks and procurement risks. Other business risks (environmental, human resources, etc.) are also reported in this cycle to the Risk Managers at the Group headquarters. The monitoring period was divided into three cycles. In the first cycle, the risks are to be reported for the following financial year or, as part of the risk assessment during the course of the year, for the remainder of the financial year. Accordingly, the second cycle covers the risks that are seen within a time period of up to 24 months. Where applicable, any long-term risks are considered in the third cycle. In addition to formal reporting within the scope of the risk management system, regular management reporting on day-to-day business-related risk developments and issues is provided by the respective corporate and central functions to the Managing Directors of the KSB Group, in order to ensure from a management perspective that such risks are addressed in an action-oriented manner and are continually tracked between the reporting dates.

The regular identification and updating of risks in all the Group companies and in the respective corporate and central functions ensure that risk awareness within the KSB Group remains at a high level across the board. A distinction is made between qualitative risks and quantitative risks, taking into account any corrective action that has been taken.

Qualitative risks



Quantitative risks



Categorisation of the loss

		Amount of loss in € thousands		
Magnitude		Low	Medium	High
All Group companies incl. minority shareholdings, holding companies, outsourced activities		0 – 1,000	1,000 – 5,000	> 5,000

Qualitative risks are long-term developments that could have a negative impact on the KSB Group and which cannot or cannot yet be thoroughly quantified due to a lack of precise information. In order to be able to evaluate them all the same, however, estimates of the probability of occurrence and scope are made using defined evaluation categories. With respect to probability of occurrence, the extent to which the information indicating the potential risk is detailed must be determined.

Quantitative risks are risks for which a potential monetary impact on the earnings and/or liquidity of the KSB Group can be estimated. They are evaluated taking into account the specifically calculated probability of occurrence in combination with the potential amount of loss. The scope or amount of loss describes the potential influence of the individual risk on the key indicator of earnings before finance income / expense and income tax (EBIT) or liquidity of the KSB Group or the respective Group company. A distinction is made between a gross method before taking into account any corrective action that has been taken, and a net method after taking into account such measures. Risk assessment at KSB covers all relevant risk areas for internal and external risks arising from the KSB business and the Group's inherent risk profile. In this context, gross impacts of all individual and similar risks of € 500 thousand or more on EBIT are to be reported uniformly throughout the Group at the earliest possible time, regardless of how the risk is assessed in terms of probability of occurrence. Purely cash-effective risks are reported as from a gross impact of € 5,000 thousand or more.

In order to assess whether qualitative and quantitative individual risks are material for KSB, they are classed as low, medium or high risks. All individual risks categorised as medium or high via the net method that are detailed in the Individually Assessed Opportunities and Risks section are considered to be material for the KSB Group. The relevant classification can be determined from the overviews above.

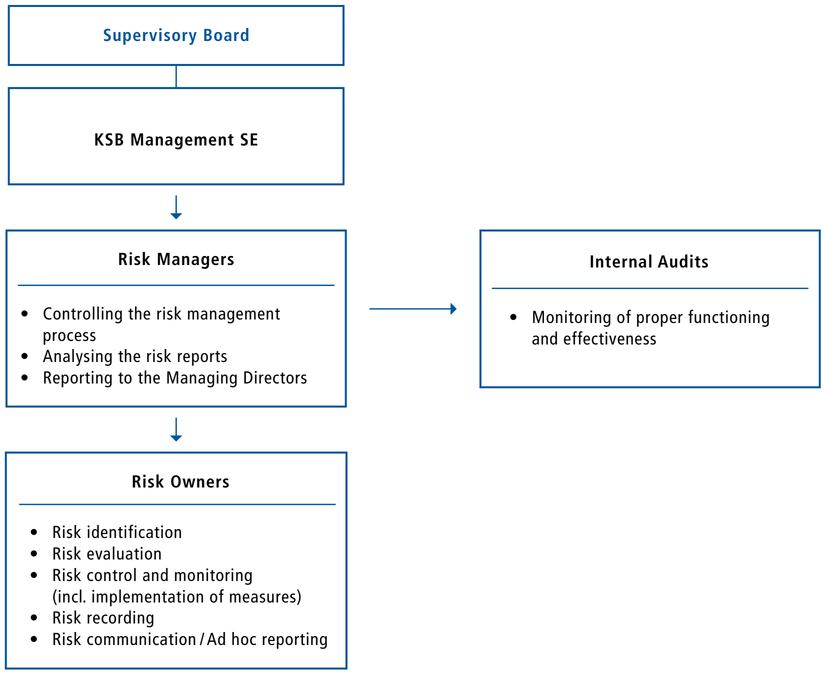
→ Qualitative risks – Quantitative risks

In evaluating the amount of loss and the probability of occurrence, KSB limits itself to three possible classifications: low, medium and high. The probability of occurrence is classed as low under 30 %, medium between 30 % and 70 % and high above 70 %. The categorisation of the net amount of loss is shown in the overview above.

→ Categorisation of the loss

This approach offers the necessary transparency to identify risks in their entirety and to manage them effectively, professionally and in an economically responsible manner.

Risk management at KSB



The bodies to which specific responsibilities and competencies were assigned in KSB's risk management system in the reporting year are presented and explained in the above diagram.

→ Risk management system of the KSB Group

As the legal representative, KSB Management SE assumes overall responsibility for risk management. KSB Management SE reports to the Supervisory Board of KSE SE & Co. KGaA via its Managing Directors during regular Audit Committee meetings and is monitored by the latter. The Managing Directors are supported by the Chief Compliance Officer and the Group Finance and Accounting department of KSB SE & Co. KGaA. The latter coordinates the risk management process at Group level and checks all risks reported for relevance to the preparation of financial statements. This ensures that there is a systematic link with the Group accounting process. The Managing Directors and the Supervisory Board's Audit Committee receive at least two risk reports per financial year. These reports include all the risks that are classed as medium or high that exceed pre-defined threshold values individually or collectively, taking into consideration any corrective action that has been taken (net risk). The net method enables the Managing Directors to focus specifically on the reported risks. Additionally, the risk-bearing capacity of the KSB Group is regularly monitored on the basis of the overall risk position, which is developed by aggregating all the risks recorded. This makes it possible to identify early on any developments that could threaten business continuity in the period under review. Particularly time-critical risks and materially new or materially changed risks are to be reported by the responsible managers to the Managing Directors of KSB Management SE on an ad hoc basis. In contrast, opportunities are not taken into account in KSB's current risk management system. They are reported separately by the Risk Managers of the Group headquarters and regional managers purely in qualitative terms, without further quantification, outside the risk management system.

With regard to financial risks KSB makes use of additional risk identification, assessment, management and communication. The central Finance department is responsible for this task, which is described in further detail later in this section.

Compliance risks are dealt with by the Chief Compliance Officer, who is assigned to the Legal and Compliance, Patents and Trademarks staff function. The Chief Compliance Officer is supported by the members of the Compliance Committee and the Compliance Managers of the individual companies.

Relevant risks from both corporate and central functions as well as other specialised corporate and central functions are transferred to and integrated within the KSB Group's risk management system, thus systematically ensuring a holistic overall risk inventory. The Internal Audits department is integrated into the risk management system as part of the internal control system. When planning audits, it prioritises areas according to potential risks and is provided with all the necessary information. The auditors ensure that all audited units adhere to the applicable guidelines, actively participate in the risk management system, and control or avoid their risks. Information obtained by Internal Audits on both the identified risks and the corrective action initiated in response forms an integral part of the reporting to the Managing Directors and to the Audit Committee of the Supervisory Board. The risk management system is updated promptly if need be, for example in the event of relevant legal or organisational changes. In addition, the auditors examine the early risk detection system within the scope of the audit of the annual financial statements, establishing that it is in place and checking that it is fit for purpose.

REVISION AND OPTIMISATION OF THE RISK MANAGEMENT SYSTEM IN THE 2021 FINANCIAL YEAR

KSB's risk management system was further developed in the 2021 financial year, taking into account the revised regulatory requirements of the new version of Auditing Standard 340 issued by the Institute of Public Auditors in Germany (IDW PS 340 n. F.). In particular, the following core aspects were revised and implemented during the financial year:

- Revision and optimisation of the Group-wide framework directives for KSB's risk management system, including the Risk Management Manual and the Group-wide risk strategy
- Upgrading the software solution for the risk management system to reflect the new regulatory requirements (in particular to determine a stochastically resilient overall risk position)
- Revision of the risk assessment methodology with regard to an extended assessment period beyond the basic two years
- Assessment of potential liquidity risks in addition to the previously considered impacts on earnings
- Adjustment of the evaluation categories for the amount of loss
- Process for determining the overall risk position as well as assessing and monitoring the risk-bearing capacity on the basis of the equity and liquidity key indicators of KSB at Group level, and their comparison

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELATING TO THE GROUP ACCOUNTING PROCESS

The accounting-related internal control system (ICS) contributes towards ensuring proper financial reporting. The aim is to ensure that the consolidated financial statements and group management report comply with all relevant regulations. Key elements of the ICS are – as well as the risk management system described above – guidelines and regulations, which include standard accounting and measurement policies. They must be applied to the full extent by all Group companies. There is a segregation of duties and a double-check system is in place. This is ensured by the audits carried out by the Internal Audits department.

In addition, Accounting and Controlling carry out regular analytical plausibility checks of time series analyses and actual / budget variance analyses. This enables KSB to identify significant changes early on, which are examined for accounting and measurement discrepancies. The resulting findings are then discussed at management level.

The responsibility for Group accounting lies with the employees in the central Accounting KSB Group department. KSB employs the services of qualified external reviewers for certain calculations as part of financial reporting (such as the calculation of complex pension obligations using actuarial assumptions).

Binding schedules and guidelines apply to accounting within the KSB Group and to accounting at each individual subsidiary. The accounting and measurement methods that must be applied to compile the consolidated financial statements are defined in writing in a manual that is updated and revised on a continual basis. This also includes the guidelines for posting intra-Group transactions. New accounting principles and other official announcements are continually analysed with regard to their relevance and impact on the consolidated financial statements. Guidelines and manual are adapted where necessary and any changes communicated immediately to the companies. Group Accounting likewise monitors compliance with requirements. This reduces the risk of compiling inappropriate financial statements or failing to publish them by the defined deadlines.

The financial statement information for all Group companies is automatically processed using certified and tested standard consolidation software. Systematic checks are implemented to help validate the data. Employees in Accounting KSB Group verify any warning signals that arise before using the data. The sequence of the processing steps is strictly specified through the use of the consolidation monitor within the IT system. This ensures the correct processing of data.

To enable a seamless and accurate accounting process, only employees who have the appropriate specialist know-how are assigned to this task. These employees are trained on a regular basis to make sure that their expert knowledge remains up to date.

Access authorisations have been defined for the accounting-related IT system. This protects the data against unauthorised access as well as improper usage and modification. In addition, the checks at many stages ensure the quality of processing and help to limit operational risks.

INDIVIDUALLY ASSESSED OPPORTUNITIES AND RISKS

The categories presented below include the qualitative and quantitative net risks classed as medium or high and the material opportunities for business development as at 31 December 2021 for the period under review. Where risks are not flagged as high, they are classed as medium risks. Unless otherwise stated, the following risks relate to all Segments.

Markets / Competition

Risks

The forecast for the 2022 financial year is based on the expectations and assumptions regarding general economic performance and global GDP as described in the Report on Expected Developments. There are high risks for the Group's business if inflation rates remain persistently high and longer-term bottlenecks in the procurement markets have a negative impact on the growth rates of the countries. In addition, government interventions can lead to a decline in demand in individual businesses. The Group manages the risk of fluctuations in the economy and in demand by remaining active in several markets and industries with different economic cycles. Furthermore KSB monitors the development of the economic environment for its markets. If necessary, capacities are adjusted, production facilities relocated and cost-cutting measures implemented.

Other risks arise in particular through geopolitical uncertainty resulting from trade conflicts and a number of global flash-points. KSB classifies the acts of war that started in Ukraine in February 2022 as a high risk, in particular, as the effects on the global economy and thus on the Group's business activities currently cannot be estimated. In this context, the impact on prices and availability on KSB's procurement markets is not foreseeable at present and is therefore not quantifiable. Furthermore, the Group's sales activities in Russia are subject to risk.

Highly indebted countries may suffer from rising financing costs and take drastic austerity measures as a result of increasing pressure on their governments. A protectionist currency policy of individual central banks in combination with import restrictions can burden business development.

A worsening of the COVID-19 situation could again burden our business in the course of the 2022 financial year. New virus variants, as well as different vaccination rates and age distributions in the population, lead to significant variations in the respective impacts of the pandemic among regions and customer markets. Measures to suppress the virus, which are introduced at short notice and for an indefinite period of time, can lead to significant damage to business. Influenced by epidemiological developments and political decisions, it is difficult to predict the extent and duration of individual effects on business.

Opportunities

Based on the change in organisational alignment and the resulting new segmentation, KSB expects better market access and thus profitable growth. This is supported by a strong global presence in all established and emerging markets, which is to be further expanded in 2022.

In the Pumps Segment, further opportunities are offered by the global megatrends of urbanisation and population growth as well as the trends towards digitalisation, CO_2 reduction and the increasing expansion of wind power. Urbanisation and continued population growth give rise to opportunities in various areas of work such as water supply, waste water and the re-use of treated water, which is used for example in agriculture.

By broadening its portfolio of pumps to API specifications, KSB has steadily improved its position in the oil processing industry. Chemical companies are also investing in new large-scale projects in China, the largest market for chemicals and plastic products. Opportunities arise from the fact that KSB is increasingly able to impress the Chinese market with locally manufactured products.

The demand for environmentally friendly biofuels and chemicals, as well as the growing demand for base materials for new trends in development such as e-mobility and chip manufacturing, offer new opportunities for KSB. In mining, opportunities arise from the ongoing trend towards global decarbonisation and electrification.

Opportunities also include major infrastructure projects in important Asian countries. KSB sees interesting prospects in the renewable energies business through the expansion of biomass power plants and waste incineration plants with power generation (so-called “waste-to-energy plants”). Further opportunities are offered by the expansion of combined cycle power plants with a focus on microgrids to supply energy to industrial complexes, and the transition from coal to gas-fired power plants in order to significantly reduce CO_2 emissions. Additional potential lies in the development of hydrogen technology, for which KSB offers efficient solutions, and in the revival of nuclear energy.

In the Valves Segment, there is a great opportunity to go beyond the electronic sales channels in place and make use of the new digital selection systems that are currently being set up and thus participate more effectively in the growing demand for standard valves.

In the KSB SupremeServ Segment, KSB is continuously expanding its global presence. An expanded global presence, as well as continued expansion of Reverse Engineering and the servicing of third-party products, offer the opportunity to gain further market share in the after-sales business.

Projects / Products

Risks

The markets’ requirements for the products are constantly changing. KSB will only succeed if it meets its delivery deadlines and offers technically advanced products in good quality at competitive prices. To minimise the risk of delays in delivery, which may lead to a diminished reputation with the customer as well as to penalty payments, KSB keeps a constant eye on its sale and production processes. If it discovers that machinery needs to be renewed or capacities expanded, these investment projects are examined as part of a step-by-step approval process. In this way, KSB counters the risk of schedule and cost overruns.

Regular market analysis and monitoring, together with continuous quality management, minimise the risk that products will become technically obsolete or are offered at prices not acceptable in the market.

In KSB’s business, there are special requirements when it comes to the processing of large-scale projects with long contract terms. These typically involve potential risks. There may be cost overruns, tighter import regulations, staff shortages, technical difficulties or quality problems – including possible contractual penalties – that reduce margins. KSB therefore continuously trains its employees in project management and equips them with specialist knowledge. This enables them to identify the risks associated with longer-term orders at an early stage. In addition, project managers are provided with appropriate management tools. Decisions are made in conjunction with clearly structured authorisation processes. Furthermore, there is central monitoring of projects exposed to risk across all KSB companies.

There are also technical and financial risks to orders with newly designed products. The high technical risks are limited to the extent that intermediate steps for development work are defined and partial solutions are subjected to assessments. Commercial risks are minimised by using appropriate contractual clauses. The goal is to ensure that advance payments and collateral provided by customers at least cover the costs incurred. KSB reported contingent liabilities of € 5.6 million (previous year: € 4.0 million) for the warranty obligations and contractual penalty risks that were not covered by corresponding provisions. Of this amount, € 0 million is attributable to KSB SE & Co. KGaA, as in the previous year. Beyond this KSB sees no material residual risk (net risk).

Opportunities

KSB will continue to develop new business models as well as the portfolio of digital products and services. In addition to IIoT (Industrial Internet of Things) – solutions for remote control and monitoring of components and systems via apps – digitally supported services to increase resource efficiency and availability by KSB service personnel are coming to play an increasingly prominent role.

Two aspects are of particular importance to implement this in a cost-efficient and customer-focused way. One is the integration of sensors and fluid handling expertise within the machines. The second is digital networking and interoperability through corresponding interfaces with the customer’s system. These so-called ecosystems will in future require close cooperation with suppliers and customers, for example to ensure that documentation can be exchanged efficiently with a continuous integration of data and without system discontinuities. Therefore KSB is already working with suppliers and customers on a digital document management solution.

One essential task is to solve customers’ problems in a simple manner and thus develop new business models. To this end, digital technologies and cross-functional developments ranging from hydraulics and mechatronics to cybernetics and artificial intelligence are methodically deployed.

New products and type series additions are planned for the 2022 financial year, particularly in building services and in the water, waste water and chemical markets. This can open up new fields of application and also expand the existing market share.

Finance / Liquidity

Risks

The Group's international focus is associated with exchange rate risks. Besides the euro, the most important currencies for KSB are the US dollar, the Indian rupee, the Brazilian real and the Chinese yuan. The liquidity risk arising from foreign currency transactions is hedged by using derivative financial instruments. These hedges are based on fixed contracts and on forecasts about future payment streams the occurrence of which is uncertain. Thus, exchange rate fluctuations may have a negative effect on earnings despite hedging.

Persistent recessions or newly emerging crisis may adversely affect the financial situation of customers. Delayed payments and credit losses as a result of this can place a burden upon the results of operations. The same effect might occur if the foreign exchange regulations become stricter for individual countries. KSB counters this by means of a strict receivables management system and intensive customer contacts.

Changing market conditions mean that business models need to be fundamentally reviewed and the product range adjusted accordingly time and again. This may lead to inventories losing value.

As regards tax matters, the global orientation of the activities of the KSB Group must be taken into consideration. Based on its operative activities in numerous countries with varying tax laws and administrative interpretation, differentiated assessment is required for measuring tax obligations. Uncertainty may arise due to different interpretations by taxable entities on the one hand and local finance authorities on the other. These may come to light during audits. By cooperating closely with external local tax specialists, KSB counteracts the risk of having to pay back taxes. As KSB continually monitors unclear issues, it can generally classify the probability of occurrence. Should a need for subsequent payment arise, the corresponding tax liabilities are recognised in good time. In the Notes to the consolidated financial statements, KSB also reports contingent liabilities of € 0.7 million (previous year: € 0.4 million) from risks associated with income taxes. Of this amount, € 0 million is attributable to KSB SE & Co. KGaA, as in the previous year. € 13.0 million (previous year: € 5.6 million) are reported as contingent liabilities for risks from other tax matters. Of this amount, KSB SE & Co. KGaA accounted for € 0 million, as in the previous year.

Procurement

Risks

Commodity prices and procurement times are subject to strong market-related fluctuations. An increase in costs for raw materials and components, which was assessed as a high risk in the financial year, can have a negative impact on the earnings situation if the cost increases cannot be compensated for or passed on to customers. Ineffective supply chains, as evidenced by supply bottlenecks and capacity restrictions, can lead to production bottlenecks and delays in delivery and adversely affect KSB's business activities. In its procurement strategy KSB seeks to prevent dependencies on suppliers and thereby counter any bottlenecks and delays. If local conditions mean that it is impossible to ensure sufficient diversification in this regard, KSB will make use of additional foreign business partners. Market bottlenecks in the semiconductor industry, which were assessed as a high risk in the financial year, can lead to unexpected price increases for precursor products due to purchasing in secondary procurement markets, and adversely affect the Pumps Segment.

Opportunities

The digitalisation of processes helps to make them transparent. KSB uses a process mining tool for this purpose. This innovative approach specifically demonstrates the company processes and identifies any weaknesses and where there is room for improvement. This formed the basis for the continuous development of the internal workflows from start to end of a process.

Technology / Research and Development

Risks

It is essential to future success to have a product and service range that is suited to the market in terms of technology, price and delivery time. The changing needs of customers together with new standards and regulations – especially in promising markets such as China – require the continuous development and improvement of products and services. The research and development required for adjustments consumes significant financial and human resources, with no guarantee of success in either the medium or the long term.

To avoid any negative impact on earnings, it is important to recognise the market-related or technical risks early on. To this end, the KSB Group is constantly updating the development process, which incorporates various control levels. As sales employees are regularly included in this process, risks arising from changes in markets or applications can be taken into account in good time in the evaluation.

Opportunities

KSB develops its products through an agile product development process so it can act quickly and flexibly within a continuously changing market environment. A key aspect of this is to continuously improve the environmental impact and thus increase the sustainability and reusability of the products.

Global networking of internal and external players on the in-house ideas and innovation platform also helps to better adapt to future trends. The global roll-out of this platform enables KSB to exploit yet further potential of the worldwide network of experts. KSB thus remains able to respond quickly even in a global environment defined by complexity and uncertainties. Establishing digital processes offers the opportunity to structure more sustainable and resilient production processes, with consistent product quality. KSB's production network can thus respond to sudden events according to the specific demands of the particular situation.

In additive manufacturing, KSB has developed new materials and components through many years of research and a great deal of practical experience. By collaborating with external partners and with its stringent orientation on customer needs, this manufacturing technology will broaden its reach and thereby increase competitiveness in global and regional markets. This includes, for example, considerably shorter delivery times. Using this technology can also significantly reduce the volume of material required, which further supports the drive for sustainable solutions.

As well as technical innovation, service, application and process innovations are growing in importance. Thanks to the consistent use of innovative technologies, such as machine learning, multiphysics simulation or process mining, KSB is directly applying the opportunities digitalisation offers. By systematically analysing internal workflows and processes, we can constantly optimise to adapt to the ever-changing environment. At the same time, digitalising customer processes, from customer acquisition to purchasing products and services online, offers additional opportunities. KSB has made considerable advances with its end-to-end e-sales project. After the first countries set up online shops, these will now be optimised before being launched in additional countries.

Other business-specific risks – Environment

Risks

KSB's business activities, primarily in the area of production, are subject to numerous environmental protection laws and regulations. Environmental damage of any kind (for example, groundwater contamination, renovation needed due to outdated construction materials or unpleasant odours arising from the use of chemicals) may result in costs not covered by an insurance policy. Therefore, at all company sites officers monitor compliance with laws and regulations as well as with internal KSB rules. If KSB discovers any contamination, it sets aside provisions to meet the liabilities for the necessary clean-up work.

In markets with tightening environmental regulations, there is a risk that KSB products and its in-house or purchased services might infringe against the regulations and that the necessary authorisation for the relevant business might be lost and KSB's reputation might be damaged as a result. A change in rules on liability in environmental protection can also increase the risks for business success. As a member of national and international professional associations the KSB Group becomes aware of imminent changes in environmental law early on. The legal frameworks that are in place in its Operational Units are continually updated, enabling KSB to ensure that its employees always abide by the applicable law. This is monitored by external auditors as part of the management certifications.

In addition, KSB is exposed to risks from climate and natural hazards. As a first step, KSB therefore evaluated its sites with regard to these risks in the year under review. Based on this initial evaluation, two sites were identified as being at risk in terms of climate and natural hazards. Basically KSB counters risks from climate and natural hazards by means of a differentiated production network. This makes it possible to respond flexibly to breakdowns at production sites.

Opportunities

KSB combines environmental management with an active and forward-looking approach as well as internal processes that enable permanent cost reductions. This applies, for instance, to all measures that reduce energy consumption in production, service and administration. In addition, the KSB Group offers users innovative products that reduce customers' energy costs.

The successful introduction, maintenance and ongoing development of global environmental and occupational health and safety management systems (ISO 14001 and ISO 45001) open up opportunities for identifying any risks or deviations at an early stage and initiating protective measures. In this way, not only is damage to the environment, the company's image and to employees' health prevented, but financial risks are avoided, too.

The first type series can be made available in a climate-neutral manner in 2022. This also helps customers achieve their climate goals more easily. It also allows KSB to further increase its market share.

In line with another CSR goal, using variable speed drives will reduce the CO_2 emissions produced by operating KSB water pumps by 850,000 tonnes annually by the year 2025. This is likely to attract further customers.

Investments in plant and machinery are made on the basis of resource efficiency and environmental and health protection in order to optimise energy costs throughout the entire use phase as well as to prevent any follow-on costs incurred through damage to the environment and/or to health.

With its certified environmental management system, KSB also meets a requirement stipulated by many public sector customers, large companies and entire sectors such as the automotive industry. For them, evidence of an environmental management system is an increasingly important criterion in the selection of suppliers. By having its production and service sites checked by auditors and certified to international standards, the KSB Group and the customers are both assured that KSB respects the environment. KSB's commitment to the UN Global Compact also meets the expectations of its customers and improves order opportunities with companies that are increasingly picking their suppliers according to how they honour their responsibility for the environment and society.

Other business-specific risks – Human resources, legal aspects and IT

Risks

The worldwide increase in threats to IT security and in computer-related crime lead to a high risk in terms of the security of systems and networks as well as the confidentiality and availability of data. As a multinational group, KSB is exposed to considerable cyber attacks, which are countered with a series of measures. These include adequate security systems and access procedures, high security standards, employee training, comprehensive monitoring of our networks and systems to minimise damage to the Group and its customers.

To achieve its growth and profitability business objectives, KSB needs qualified employees at all locations, including technical specialists. Due to the demographic change in some countries, the competition for these and other highly skilled professionals is increasing, KSB counters this risk with demand-oriented measures, systematic human resources planning and international recruitment processes.

Other potential risks associated with the activities of KSB's employees include dishonest conduct or violations of laws, which could damage the image of KSB. The KSB Group counters these risks and safeguards its reputation among customers by organising regular compliance training and through individual initiatives in critical regions.

Legal disputes cannot always be avoided within the framework of business activities. These are usually disputes arising from operations, generally involving unclear warranty issues. If as a result of these issues KSB expects negative effects on the success of its business with a probability of occurrence of more than 50 %, corresponding provisions are set aside, which cover not only the anticipated amount of loss, but also the costs of proceedings. In addition, KSB reports contingent liabilities in the amount of € 3.6 million (previous year: € 0.8 million) in the Notes to the consolidated financial statements, € 2.3 million of this are attributable to KSB SE & Co. KGaA(previous year: € 0 million).

KSB continues to attach great importance to the health and safety of its employees and business partners. In addition to the constant focus on occupational health and safety, a task force was already set up in the previous year to monitor and tackle the different effects of the coronavirus pandemic.

KSB seeks to counter increased external fraud activities by raising awareness of fraud attempts. At the same time, KSB is stepping up compliance. Maintaining its competitive advantage and protecting trade and business secrets is of considerable economic significance to KSB, which it responds to by consistently protecting confidential information.

Opportunities

The Workday global HR management system was implemented in all countries at the end of 2021, thus expanding the basis for global, strategic human resources planning. This enables KSB to deploy its employees in an optimum way, taking into account their individual knowledge and skills, and to open new career opportunities for them, including in other countries. Efficiency improvements arising through the standardisation and digitalisation of staff operational procedures lead to a significantly higher added value in this area.

The experiences gained from the COVID-19 pandemic regarding remote working have driven a cultural shift towards more flexible working models in the administrative areas tailored to the KSB business model. At the same time these models will meet the changing needs of employees and increase employer attractiveness among employees and applicants.

The modernisation initiative launched in 2020 in the area of IT infrastructure will be largely completed in the 2022 financial year. In addition to a state-of-the-art network, a hybrid data centre infrastructure including Cloud solutions and stationary systems at KSB or external service providers (on-premise systems) is to be provided, to support ongoing digitalisation as flexibly as possible. With the switch to Microsoft Office 365, which will begin in the 2022 financial year, collaboration functionalities will be further expanded and improved. This will make mobile working more efficient and comfortable. The change in technology also opens up new possibilities in terms of information protection functionalities.

RISK REPORT ON THE UTILISATION OF FINANCIAL INSTRUMENTS

Central financial management in the KSB Group performs its duties within the framework of the guidelines laid down by KSB Management SE as the legal representative. The KSB Group bases the nature and scope of all financial transactions exclusively on the requirements of its business. It does not lend itself to business of a speculative nature. The aim is to ensure liquidity at all times and to finance activities under optimal conditions. With respect to the export business, foreign exchange and credit risks are hedged to the greatest extent possible. KSB continuously improves its receivables management methods with the goal of settling outstanding amounts by their due dates.

KSB is exposed to the following financial risks as a consequence of its business activities.

KSB is firstly exposed to credit risk, which is defined as potential default or delays in the receipt of contractually agreed payments. KSB is 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, KSB is exposed to market price risk. 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.

Foreign exchange hedges are used to reduce the risks from transactions involving different currencies. These are generally currency forwards, which KSB uses both for transactions that have already been recognised and for future cash flows from orders still to be processed. At year end, the notional volume of currency forwards used to hedge exchange rate risks was € 221.9 million, with KSB SE & Co. KGaA accounting for € 139.6 million thereof (previous year: € 244.2 million, of which € 165.0 million attributable to KSB SE & Co. KGaA). Foreign currency items denominated in US dollars account for the major volume hedged by forwards. A global network of production sites in the local sales markets reduces potential currency risks.

All these risks are limited through an appropriate risk management system, defining how these risks are addressed through guidelines and work instructions. In addition, the current risk characteristics are continuously monitored and the information obtained in this way is provided to the Managing Directors and the Supervisory Board in the form of standardised reports and individual analyses.

For more information on the three risk areas and the impact on the balance sheet, see the Notes, Section VI. Additional Disclosures on Financial Instruments.

OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS

The assessment of the KSB Group's overall opportunity and risk situation is the result of the consolidated appraisal of all material opportunities and individual risks. The individual risks have been strongly affected by the ongoing changes in the external environment, the realignment of the organisation with a focus on markets, the effect of our own countermeasures, and the adjustment of our assessment methodology. There has been no material change to the overall risk situation for KSB except for the decline in expected challenges from the COVID-19 pandemic. The KSB Group sees IT security and rising prices of commodities and raw materials as its greatest risks. Significant technical interruptions and breakdowns of relevant systems can lead to considerable disruptions in business and production processes.

The potential of opportunities has not changed materially since the previous year.

The risk management system in place as well as the related organisational measures allow KSB Management SE as the legal representative to identify risks in a timely manner and to take adequate measures. The focus of activities in 2022 will be on the principal risks. These are, in particular, IT security and potential changes in the price of commodities and raw materials. On the basis of the risk management system established by the KSB Group, and taking into account the revised regulatory requirements (IDW PS 340 n. F.), the legal representative states that at the present time, according to the analysis of the KSB Group's overall risk position and risk-bearing capacity, no threat has been identified to the business continuity of the KSB Group that could have a lasting and material adverse effect on the KSB Group's net assets, financial position and results of operations.

Disclosures Relating to KSB SE & Co. KGaA (HGB)

Balance Sheet

Assets

€ thousands		31 Dec. 2021	31 Dec. 2020
Fixed assets			
Intangible assets		41,351	45,739
Property, plant and equipment		134,694	127,204
Financial assets		296,511	291,886
		472,556	**464,829**
Current assets			
Inventories		250,936	246,917
Advances received from customers		–95,924	–100,440
		155,012	**146,477**
Receivables and other assets		301,927	310,202
Cash and balances with credit institutions		104,523	53,851
		406,450	**510,530**
Prepaid expenses		**3,523**	**2,393**
		1,037,541	**977,752**

Equity and liabilities

€ thousands		31 Dec. 2021	31 Dec. 2020
Equity			
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		136,180	136,180
Net retained profits		40,933	44,531
		288,548	**292,146**
Provisions			
Pensions and similar obligations		474,225	445,473
Miscellaneous other provisions		111,247	99,498
		585,472	**544,971**
Liabilities		**161,001**	**136,855**
Deferred income		2,520	3,780
		1,037,541	**977,752**

Income Statement

Income statement

€ thousands		2021	2020
Sales revenue		**869,343**	**813,799**
Changes in inventories		3,197	755
Work performed and capitalised		1,745	2,728
Total output of operations		**874,285**	**817,282**
Other operating income		18,467	23,605
Cost of materials		–383,444	–382,376
Staff costs		–338,780	–322,737
Depreciation and amortisation		–20,778	–22,424
Other operating expenses		–150,834	–163,292
		–1,084	**–49,942**
Income from equity investments		47,609	84,413
Other financial income / expense		–38,836	–38,604
		8,773	**45,809**
Taxes on income		–2,465	–2,402
Earnings after taxes		**5,224**	**–6,535**
Other taxes		–1,592	–1,187
Net profit / loss for the year		**3,632**	**–7,722**
Profit / loss carried forward		37,301	52,253
Appropriation to other revenue reserves		–	–
Net retained earnings		**40,933**	**44,531**

Business Model

KSB SE & Co. KGaA, as the parent, directly or indirectly holds the shares in the companies belonging to the KSB Group. The KSB Group is managed via KSB SE & Co. KGaA, which is at the same time the Group's largest operative company. The central administrative offices are located at the company's seat (registered office) in Frankenthal; branch operations are located in Bremen, Halle and Pegnitz.

KSB SE & Co. KGaA is associated via control and profit transfer agreements with the following German service companies: KSB Service GmbH, Schwedt, Uder Elektromechanik GmbH, Friedrichsthal, Dynamik-Pumpen GmbH, Stuhr, PMS BERCHEM GmbH, Neuss, Pumpen Service Bentz GmbH, Reinbek and KAGEMA Industrieausrüstungen GmbH, Pattensen. Thus, these companies are under single management by KSB SE & Co. KGaA. Their annual earnings are transferred to KSB SE & Co. KGaA.

The annual financial statements of KSB SE & Co. KGaA have been prepared in accordance with the provisions of the *Handelsgesetzbuch* (HGB) [German Commercial Code] and the *Aktiengesetz* (AktG) [German Public Companies Act] including the German principles of proper accounting.

Differences between the accounting methods under HGB and the International Financial Reporting Standards (IFRS), which are the basis of preparation for the consolidated financial statements of KSB, arise primarily from the recognition over time of revenue from production contracts under IFRS 15, in the calculation of pension provisions, from the recognition of leases under IFRS 16 and in the capitalisation of deferred taxes. Furthermore, differences arise in the recognition of assets and liabilities and of income statement items; under HGB there is expanded scope for the recognition of sales revenue.

Business Development and Results of Operations

The 2021 financial year was characterised by a significant recovery in economic performance and an increased willingness to invest on the part of customers. All markets in which KSB SE & Co. KGaA conducts its main business activities have benefited from this. There were local disruptions due to temporary government-imposed lockdowns in some Asian countries.

Particularly in the second half of the year, the bottlenecks in the supply chains resulting from the COVID-19 pandemic became increasingly noticeable. This had an impact both on the availability of supplier products and on prices, which in some cases rose significantly as a result of the increased demand and reduced capacities. These effects were partially compensated for by emergency stocks and the existing supplier network as well as the activation of secondary suppliers.

Overall, order intake and EBIT increased significantly compared with 2020. A slight improvement in sales revenue under IFRS was also achieved in the 2021 financial year. If one compares the figures to those for 2019, the last year that was still unaffected by the coronavirus pandemic, all key indicators show an increase, some of them a considerable one.

KSB served the respective markets through the regional sales organisation, which was supported by the Market Areas with their specialist expertise when required. Furthermore, the expansion of electronic sales of pumps, valves and spare parts which had been initiated in the previous years was systematically continued. A total of 25 countries now have e-sales platforms. The online platforms have developed well and are increasingly established as a further sales channel. The expansion will continue over the next few years as more countries obtain e-sales platforms. In addition, the international KSB SupremeServ network was continuously expanded by opening additional service locations.

As explained in the previous section on Basic Principles of the Group, KSB changed its organisational structure and segmentation as of the 2021 financial year. In order to reflect KSB SE & Co. KGaA's new segmentation, the internal reporting systems were adapted in a comprehensive manner and fully aligned with the new structure. The financial information for the 2020 reporting period was not restated retrospectively in line with the new segmentation, as the effort of such a technical system implementation including the associated data collection would have been disproportionately high from the point of view of KSB SE & Co. KGaA. In order to determine comparative data for the same period of the previous year, the data for the year under review would have had to be manually transferred to the previous structure. This would also have entailed excessive costs for data collection. Against this background, there are no reconciliations between the old and new segmentation for the key financial performance indicators (order intake, external sales, EBIT).

Further information can be found in the Notes to the consolidated financial statements of the KSB Group.

As a result, segmented disclosures for the reporting year are made exclusively on the basis of the new segmentation implemented by KSB SE & Co. KGaA, while the previous year's disclosures relate exclusively to KSB's former segmentation.

ORDER INTAKE

The volume of orders received by KSB SE & Co. KGaA rose by € 70.5 million to € 800.5 million in the reporting year, an increase of 9.7 %.

SALES REVENUE

At € 869.3 million, total sales revenue under HGB was up by € 55.5 million on the prior-year figure of € 813.8 million.

The disclosures below refer only to sales revenue from the sale of pumps, valves and spare parts as well as services. Sales revenue of € 802.6 million generated in the 2021 financial year represents a year-on-year increase of € 43.7 million (5.8 %). The breakdown of sales revenue is now based on the new organisational structure and segmentation introduced in the reporting year.

A material difference to the previous segmentation is that the spare parts business for pumps and valves is fully included in the KSB SupremeServ Segment. According to the previous segmentation, however, these transactions were generally allocated to one of the three former Pumps, Valves or Service Segments, depending on the type of underlying product or service.

The change in organisational alignment and the resulting new segmentation provide for a separation between the new pumps and valves business and the support services and spare parts business grouped under KSB SupremeServ.

Managing KSB SE & Co. KGaA using this new structure is aimed in particular at strategically strengthening the individual divisions and leveraging market potential. This primarily relates to the business activities of the KSB SupremeServ Segment. In addition, KSB is using its new organisational structure and segmentation to focus even more strongly on market-specific and customer-specific needs in the solutions it offers.

67 % of sales revenue thus relates to the new business with Pumps, 10 % to the new business with Valves, and 23 % to KSB SupremeServ which comprises all the service and spare parts business.

Under IFRS, sales revenue rose from € 789.6 million in the previous year to € 802.6 million. The main driver of the increase in sales revenue was the strong business in the Standard Markets.

INCOME AND EXPENSES

Other operating income declined from € 23.6 million to € 18.5 million. High compensation payments in the previous year were the main reason for the decline.

The cost of materials, at € 383.4 million, was slightly up on the prior-year level of € 382.4 million. The cost of materials in relation to the total output of operations fell from 46.8 % in the previous year to 43.9 % in the reporting year. Positive effects from the earnings enhancement programme at KSB SE & Co. KGaA became noticeable.

Staff costs increased in absolute terms by € 16.0 million to € 338.8 million. Significantly higher additions to provisions compared with 2020, especially those relating to profit bonus schemes, had an impact here. Due to the increase in total output of operations, staff costs at 38.9 % are below the prior-year figure of 39.5 %.

At € 150.8 million, other operating expenses showed a marked decline after € 163.30 million in the previous year. Savings of € 7.7 million were made in maintenance, purchased services and consultancy expenses, as well as in travel and entertainment costs. Taking into account the effect of the previous year, the changes in provisions for expected losses had a positive effect of € 8.7 million; expenses from exchange rate losses were € 3.6 million lower. Losses and impairments on trade receivables, selling costs and cost transfers from Group companies showed a contrary trend.

Overall, the income from equity investments, at € 47.6 million, was well below the prior-year level (€ 84.4 million). This includes profit transfers from the German service companies of € 9.1 million (previous year: € 13.6 million) and dividend income from affiliates and equity investments of € 38.5 million. € 25.0 million of this amount (previous year: € 60.0 million) relate to dividend income from KSB FINANZ S.A., Luxembourg.

NET PROFIT / LOSS FOR THE YEAR UNDER HGB

Due to the changes in the income statement items described above, KSB SE & Co. KGaA generated a net profit for the year of € 3.6 million in the 2021 financial year. This compares with a net loss of € 7.7 million in the previous year. Thus, overall a net profit for the year could be achieved again, in particular due to the significantly improved operating earnings.

EARNINGS BEFORE FINANCE INCOME / EXPENSE AND INCOME TAX (EBIT) UNDER IFRS

The EBIT determined in accordance with IFRS improved significantly and amounted to € – 12.0 million in the 2021 financial year (previous year: € – 32.7 million). A higher total output of operations coupled with a lower cost of materials in the 2021 financial year had a positive impact. The earnings enhancement programme at KSB SE & Co. KGaA also became noticeable. Negative effects resulted from increases in staff costs.

Financial Position and Net Assets

FINANCIAL POSITION

KSB SE & Co. KGaA is embedded within central financial management at the KSB Group. The latter works within the framework of the guidelines laid down by KSB Management SE as the legal representative and bases the nature and scope of all financial transactions exclusively on the requirements of the business. The objective of financial management is to guarantee liquidity at all times and to ensure the financing of activities on optimum terms. In financing export transactions, KSB SE & Co. KGaA hedges foreign exchange and credit risks to the greatest extent possible. KSB continuously improves its receivables management methods with the goal of settling outstanding amounts by their due dates.

LIABILITIES AND PROVISIONS

The largest liabilities item, as in the previous year, was pension provisions, which had grown by € 28.8 million to € 474.2 million on the reporting date. This increase is explained in particular by the addition of interest to pension obligations at € 38.2 million. Other provisions amounted to € 111.2 million (previous year: € 99.5 million). The increase is mainly attributable to higher provisions for staff costs.

Of liabilities totalling € 161.0 million (previous year: € 136.9 million), € 22.0 million were accounted for by liabilities from a loan against borrower’s note that was placed on the market in 2012 to secure medium-term liquidity. Trade payables at year end were € 1.7 million below the previous year’s level. Liabilities towards affiliates and equity investments increased significantly from € 55.8 million in the previous year to € 78.2 million. They include € 50.9 million (previous year: € 28.2 million) for intercompany loans and cash investments.

NET ASSETS

Total assets, at € 1,037.5 million, are up by 6.1 % on the prior-year level of € 977.8 million. Declines in receivables are offset in particular by higher cash and balances with credit institutions, as well as higher inventories.

In the reporting year, fixed assets made up 46 % (previous year: 48 %) of total assets. The share accounted for by current assets was 54 % after 52 % in 2020. Inventories including advance payments received totalled € 155.0 million after € 146.5 million in the previous year.

EQUITY

The share capital of KSB SE & Co. KGaA remained at € 44.8 million. The capital reserve was unchanged at € 66.7 million. At year end, € 136.2 million (previous year: € 136.2 million) was assigned to other revenue reserves. Out of the 2020 net retained earnings of € 44.5 million, dividends totalling € 7.2 million (dividend of € 4.00 per ordinary share and € 4.26 per preference share) were distributed by resolution of the Annual General Meeting of 6 May 2021. The remaining amount of € 37.3 million was carried forward to new account.

Summary of the Performance in the Financial Year

The 2021 financial year was characterised by a significant recovery in economic performance and a catching-up on orders deferred in the previous year. All markets in which KSB SE & Co. KGaA conducts its main business activities have benefited from this.

Particularly in the second half of the year, the bottlenecks in the supply chains resulting from the COVID-19 pandemic became increasingly noticeable. This had an impact both on the availability of supplier products and on prices, which in some cases rose significantly as a result of the increased demand and reduced capacities. These effects were partially compensated for by emergency stocks and the existing supplier network.

The forecasts made at the beginning of the year were partly exceeded due to the global economic recovery. The order intake is considerably higher than the comparative figure in the previous year; the forecast had been for tangible growth. The expected marginal increases in sales revenue under IFRS were also exceeded. Business in the Standard Markets contributed significantly to this. A strong increase in EBIT, the reasons for which were explained in more detail in the “Earnings before finance income / expense and income tax (EBIT) under IFRS” sub-section of this part of the report, was also achieved in the 2021 financial year, as predicted.

Opportunities and Risks

The business performance of KSB SE & Co. KGaA depends significantly on the risks and opportunities faced by the KSB Group, which are set out in detail in the Report on Expected Developments and the Opportunities and Risks Report in the Combined Management Report. KSB SE & Co. KGaA generally shares in the risks of its equity investments and subsidiaries in line with its equity interest.

Report on Expected Developments

The International Monetary Fund (IMF) recently lowered its forecast for global economic growth in 2022 significantly to + 4.4 % in real terms. The adjustment was mainly due to the weaker trends in the two largest economies, the USA and China. Expectations regarding inflation for the current year were raised in view of bottlenecks in logistics and supply chains as well as higher energy and commodity prices. The IMF's baseline forecast is based on expectations of a further spread of the pandemic with the Omicron virus variant in the first quarter and its abatement by the end of the year. The downside risks prevail in this forecast. They include a potential intensification of the pandemic resulting from the emergence of new virus variants, further disruptions to supply chains, higher price volatility and inflation, and greater political risks.

Given the disruptions in supply chains, the growth in demand for capital goods is expected to be lower. In its forecast for global sales of plant and machinery, VDMA refers to the scenarios from Oxford Economics. In the base case scenario, in which there is no new global wave of infections, sales revenue in real terms will rise by 5 %. For Germany, the VDMA forecast is + 7 %.

Overall, KSB SE & Co. KGaA foresees significant growth in sales revenue under IFRS in the 2022 financial year, largely owing to the Standard Markets. For order intake, KSB SE & Co. KGaA expects slight growth, mainly from project business. EBIT under IFRS is expected to remain stable at the level of the previous year.

The forecast horizon for the above-mentioned information and statements is the 2022 financial year.

The continuing uncertainties relating to the COVID-19 pandemic and increasing geopolitical tension may have a negative impact on the forecasts made. Bottlenecks in the supply chains can also have a negative impact on the forecast. In addition, the acts of war that started in Ukraine in February 2022 are resulting in considerable further uncertainties for the 2022 financial year, the impact of which KSB cannot currently estimate.

Acquisition-related Disclosures

A summary of the acquisition-related disclosures required by Section 315a HGB is given below and explanatory information is provided pursuant to Sections 175(2) and 176(1) AktG.

The share capital of KSB SE & Co. KGaA (the company) amounts to € 44.8 million, of which € 22.7 million is represented by 886,615 no-par-value ordinary shares and € 22.1 million by 864,712 no-par-value preference shares. Each no-par-value share represents an equal notional amount of the share capital. All shares are bearer shares. They are listed for trading on the regulated market and are traded in the General Standard segment of the Frankfurt Stock Exchange.

Each ordinary share entitles the holder to one vote at KSB SE & Co. KGaA's Annual General Meeting. Johannes und Jacob Klein GmbH, Frankenthal, holds approximately 84 % of the ordinary shares; the KSB Stiftung [KSB Foundation], Stuttgart, holds the majority of the shares of Johannes und Jacob Klein GmbH. The preference shares carry separate cumulative preferred dividend rights and progressive additional dividend rights. Detailed information on the share capital and shareholders holding an interest of more than 10 % is provided in the Notes to the consolidated financial statements. Holders of preference shares are entitled to voting rights only in the cases prescribed by law. The issue of additional ordinary shares does not require the consent of the preference shareholders. Similarly, the issue of additional preference shares does not require the consent of the preference shareholders provided that the subscription rights do not exclude newly issued senior or pari passu preference shares.

The company is authorised by a resolution passed at the Annual General Meeting on 13 May 2020 to acquire during the period up to (and including) 12 May 2025, for any permitted purpose, ordinary and/or preference shares of the company up to a total of 10 % of the share capital of KSB SE & Co. KGaA existing at the time the resolution is adopted or – if this value is lower – at the time the authorisation is exercised. The general partner shall be entitled to use treasury shares acquired in such a way for any permitted purpose, including but not limited to the following: (1) The acquired treasury shares may be redeemed without the redemption or its execution requiring any further resolution by the Annual General Meeting. The general partner may also determine that the share capital remains unchanged by the redemption and that, instead, the portion of share capital that the remaining shares represent is increased pursuant to Section 8(3) AktG. (2) The acquired treasury shares may also be sold in ways other than over the stock exchange or by way of an offer to all shareholders if the shares are sold for cash at a price that is not materially lower than the stock exchange price of the company's shares of the same type and with the same features at the time of the sale. However, this authorisation shall only apply subject to the proviso that the shares sold to the exclusion of the pre-emptive right pursuant to Section 186(3), sentence 4 AktG shall not exceed a total pro-rata amount of 10 % of the share capital, either at the time this authorisation enters into effect or at the time it is exercised. Any shares issued from authorised capital during the term of this authorisation to the exclusion of the pre-emptive right pursuant to Sections 203(2), sentence 2, and 186(3), sentence 4 AktG shall be counted towards this limit. In addition, shares to be issued to service bonds and/or participation rights with conversion or option rights or a conversion or option obligation shall also count towards this limit if the bonds and/or participation rights are issued during the term of this authorisation to the exclusion of the pre-emptive right in corresponding application of Section 186(3), sentence 4 AktG. (3) The acquired treasury shares may be sold for a contribution in kind, in particular for the acquisition of companies, parts of companies or interests in companies. (4), Finally, the acquired treasury shares may be used to fulfil conversion or option rights that were granted by the company or a domestic or foreign enterprise in which the company directly or indirectly holds a majority of the votes and capital when issuing bonds and/or participation rights, or to fulfil conversion or option obligations from bonds and/or participation rights issued by the company or a domestic or foreign enterprise in which the company directly or indirectly holds a majority of the votes and capital.

The above-mentioned authorisations (1) to (4) on the use of shares of the Company acquired on the basis of previous authorisation resolutions in accordance with Section 71(1) No. 8 AktG or another legal basis, and of such shares acquired by controlled enterprises or enterprises in which the Company holds a majority ownership interest, or pursuant to Section 71d, sentence 5 AktG. The authorisations may be exercised once or several times, in whole or in part, individually or jointly, and also by controlled enterprises or enterprises in which KSB SE & Co. KGaA holds a majority ownership interest, or by third parties acting for their account or for the account of the company.

Where treasury shares are used in accordance with the aforementioned authorisations (2) to (4), the pre-emptive right of the shareholders to these treasury shares is excluded. In addition, the general partner shall, in the event of an offer for treasury shares to the shareholders, be authorised to grant to the creditors of bonds and/or participation rights with conversion or option rights or a conversion or option obligation issued by the company or a domestic or foreign enterprise in which the company directly or indirectly holds a majority of the votes and capital, a pre-emptive right to shares to the extent to which they would be entitled after exercising the conversion or option right or after fulfilling a conversion or option obligation. To this extent, the shareholders' pre-emptive right to such treasury shares shall also be excluded.

The company has not yet made use of this authorisation to purchase treasury shares.

There are no resolutions by the Annual General Meeting authorising the company's individually liable general partner to increase the share capital (authorised capital).

The company's business is managed by KSB Management SE, which acts through the four Managing Directors.

Amendments to the company's Articles of Association are resolved by the Annual General Meeting. If the amendments only affect the wording of the Articles of Association, they can be made by the Supervisory Board, which operates and is formed in accordance with the regulations of the German Co-determination Act.

Corporate Governance Statement (Section 315d HGB in Conjunction with Section 289f HGB)

The Corporate Governance Statement pursuant to Section 315d HGB in conjunction with Section 289f HGB [*Handelsgesetzbuch* – German Commercial Code] dated 8 March 2022 is accessible to the public at www.ksb.com > Investor Relations > Corporate Governance / Corporate Governance Statement. The Corporate Governance Statement contains the content specified in Section 298f HGB, including the Statement of Compliance in accordance with Section 161 AktG, as well as the relevant information on corporate governance practices applied at KSB SE & Co. KGaA that go above and beyond statutory requirements. Also described are in particular the working methods of KSB Management SE as the general partner and of the Supervisory Board, and the composition and working methods of the committees of the Supervisory Board.

Statement on the Non-financial Report (Section 315c in Conjunction with Sections 289c to 289e HGB)

The separate combined non-financial report is prepared in accordance with Section 315c in conjunction with Sections 289c to 289e HGB and disclosed together with the combined management report in accordance with Section 325 HGB. The report can be viewed at: www.non-financial-report2021.ksb.com. Under the same address the assurance report for the separate combined non-financial report is also disclosed.