KSB Group

Annual Report 2021

2021

KSB Profile

KSB is a leading supplier of pumps, valves and related service. Its reliable, high-efficiency products are used in applications wherever fluids need to be transported or shut off, covering everything from building services, industry, petrochemicals and chemicals as well as water transport to waste water treatment, power plant processes and mining. Founded in 1871 in Frankenthal, Germany, the company has a presence on all continents with its own sales and marketing organisations and manufacturing facilities. Wherever our customers are in the world, more than 190 service centres and around 3,500 service specialists are on hand to provide local inspection, servicing, maintenance and repair services under the KSB SupremeServ brand. Our success is based on continuous innovation that is the fruit of the company's research and development activities.

GENERAL INDUSTRY

BUILDING SERVICES

PETRO-CHEMICALS / CHEMICALS

WATER

ENERGY

MINING

VALVES

KSB SUPREMESERV

2021 in Figures

Order intake

€ **2,412** million

↗ € +268.3 m | +12.5 %

Sales revenue

€ **2,344** million

↗ € +135.7 m | +6.1 %

EBIT

€ **141.2** million

↗ € +71.0 m | +101.2 %

Employees

15,412 at 31 December 2021

↗ Compared with 2020

Five-year Financial Summary

Business Development and Earnings

		2021	2020	2019	2018	2017
Order intake	€ m	2,411.7	2,143.4	2,453.8	2,303.5	2,265.3
Sales revenue	€ m	2,343.6	2,207.9	2,383.2	2,245.9	2,205.0
Orders on hand	€ m	1,366.2	1,288.5	1,409.3	1,353.9	1,260.8
Earnings before finance income / expense, income tax, depreciation and amortisation (EBITDA)	€ m	222.1	170.1	195.5	179.2	186.9
Earnings before finance income / expense and income tax (EBIT)	€ m	141.2	70.2	113.6	74.7	116.4 *
Earnings before income tax (EBT)	€ m	139.9	61.6	103.4	65.6	104.2
Earnings after income tax	€ m	110.3	4.4	58.5	23.9	52.1
Free cash flow (cash flows from operating activities + cash flows from investing activities)	€ m	87.5	111.6	70.9	–29.1	112.5

Balance Sheet

		2021	2020	2019	2018	2017
Balance sheet total	€ m	2,314.4	2,140.0	2,327.0	2,242.2	2,253.4
Capital expenditure	€ m	103.6	97.6	107.0	79.6	101.9
Depreciation and amortisation	€ m	80.9	99.9	81.9	104.5	70.6
Net financial position	€ m	365.6	304.8	246.3 #	255.0	288.0
Equity (incl. non-controlling interests)	€ m	869.1	703.8	862.6	856.8	885.4
Equity ratio (incl. non-controlling interests)	%	37.6	32.9	37.1	38.2	39.3

Profitability

		2021	2020	2019	2018	2017
EBT margin (sales revenue in relation to EBT)	%	6.0	2.8	4.3	2.9	4.7
EBIT margin (sales revenue in relation to EBIT)	%	6.0	3.2	4.8	3.3	5.3

Employees

		2021	2020	2019	2018	2017
Number of employees at 31 Dec.		15,412	15,076	15.645	15.482 ■	15.455

Shares

		2021	2020	2019	2018	2017
Market capitalisation at 31 Dec.	€ m	727.8	441.9	536.1	491.3	884.4
Earnings per ordinary share (EPS)	€	53.34	–5.63	24.47	6.26	21.10
Earnings per preference share (EPS)	€	53.60	–5.37	24.73	6.64	21.36
Dividend per ordinary no-par-value share	€	12.00 ●	4.00	8.50	3.00	7.50
Dividend per preference no-par-value share	€	12.26 ●	4.26	8.76	3.38	7.76

* Restated retrospectively due to new definition of EBIT as earnings before finance income / expense and income tax (previously earnings before interest and income tax)

2019 amount includes lease liabilities of € 47.1 million from the first-time adoption of IFRS 16.

■ New definition of employee counting method in 2019 (2018 figures restated retrospectively; previous years are presented without adjustments)

● Of which € 3.00 anniversary dividend

Further information is provided in the Notes to the consolidated financial statements.

Global Presence

Backed up by production and assembly sites around the world, as well as a tight-knit sales and service network, KSB staff are always close at hand.

EUROPE

- Austria
- Belarus
- Belgium
- Croatia
- Czech Republic
- Estonia
- Finland
- France
- Germany
- Hungary
- Italy
- Latvia
- Lithuania
- Luxembourg
- Netherlands
- Norway
- Poland
- Portugal
- Russia
- Serbia
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- Ukraine
- United Kingdom

MIDDLE EAST / AFRICA

- Algeria
- Angola
- Egypt
- Ghana
- Kenya
- Morocco
- Namibia
- Nigeria
- Oman
- Qatar
- Saudi Arabia
- South Africa
- Turkey
- United Arab Emirates
- Zambia

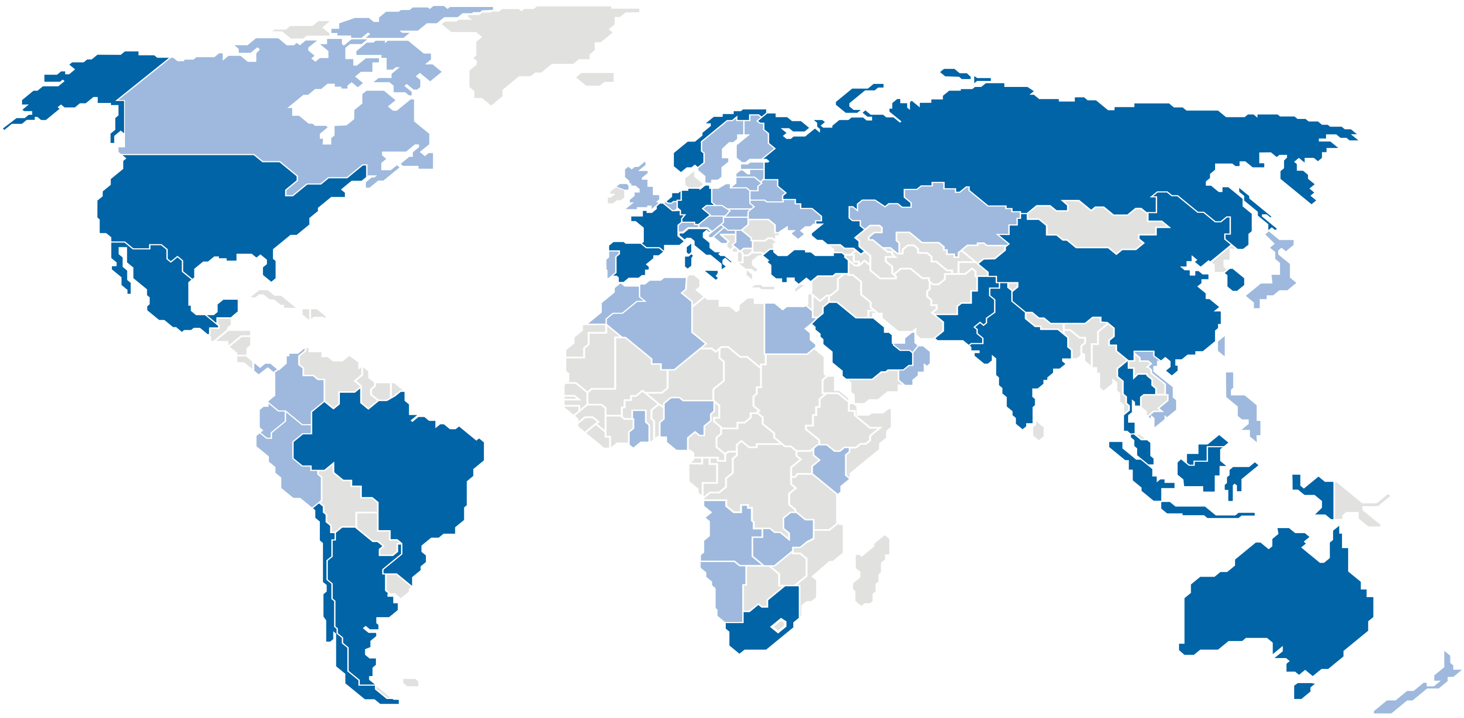
ASIA / PACIFIC

- Australia
- China
- India
- Indonesia
- Japan
- Kazakhstan
- Malaysia
- New Zealand
- Pakistan
- Philippines
- Singapore
- South Korea
- Taiwan
- Thailand
- Vietnam

AMERICAS

- Argentina
- Brazil
- Canada
- Chile
- Columbia
- Ecuador
- Mexico
- Panama
- Peru
- USA

- KSB production / assembly sites
- KSB sales / service sites



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General Information

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Management and Issues 2021

Dr. Matthias Schmitz

As Managing Director of KSB Management SE, Matthias Schmitz is in charge of Finance, Accounting, Controlling, Taxes, Information Technology and Procurement.

Ralf Kannefass

In his position as Managing Director of KSB Management SE, Ralf Kannefass is responsible for Sales, Service and Marketing.

Management

Dr. Stephan Bross

In his role as Managing Director of KSB Management SE, Stephan Bross is responsible for Production, Technology and Digital Transformation.

Dr. Stephan Timmermann

As Managing Director of KSB Management SE and CEO, Stephan Timmermann's responsibilities include Strategy, Human Resources, Communications, Legal and Compliance, and Internal Audits.

Dr. Stephan Timmermann

Dear Shareholders and Business Partners,

2021 was the first full year for the Group's newly established Segments and Market Areas operating in their respective fields of business. Designed as part of the CLIMB 21 strategy project and geared towards future markets, this organisational structure combined with an intensified focus on service provision under the KSB SupremeServ brand allowed us to accelerate our value-enhancing growth and achieve excellent annual earnings.

Although the worldwide impact of the coronavirus pandemic continued though 2021, the global economy experienced a slight recovery which was reflected in increased order intake. Overall, the Group achieved solid business performance despite government-imposed lockdowns, bottlenecks in global supply chains and price increases for raw materials and bought-in components.

I am pleased to report that the 2021 financial year saw us deliver on all promises made and generate substantial value for our stakeholders.

Earnings growth for KSB SE & Co. KGaA

In terms of enhancing the profitability of the parent company KSB SE & Co. KGaA, we have taken a significant step forward. KSB SE & Co. KGaA essentially comprises the Group's German factories and organisational network. It also provides overarching services for the Group as a whole via the Corporate Functions, whose costs are shared globally with, in particular, taxation aspects being taken into careful consideration. In recent years, overall results indicated that KSB SE & Co. KGaA has been loss making. However, efforts to improve earnings initiated in 2020 have led to a significant reduction in costs in the reporting year and thus to an increase in the profitability of KSB SE & Co. KGaA.

Sustainability remains in focus

We remain committed to pursuing our nine defined sustainability goals. 2021 also saw positive progress along the path to achieving overall sustainability for KSB. All production sites are now certified according to the ISO 14001 environmental standard. The factories in Pattensen near Hanover and Concorezzo near Milan are the Group's first climate-neutral locations, and all of our Indian sites are now equipped with photovoltaic systems. The switch to green electricity is also continuing apace. Our first pumps from climate-neutral production will soon be available and promise to make an important contribution to meeting the EU's climate targets. We have summarised all of the measures taken in our Sustainability Magazine, which was published for the first time in 2021.

Progress driven by diversity and cooperation

Diversity is an invaluable asset for international companies. Different employees bring different perspectives, and international teams inject a global dimension into our understanding of the world. We believe in the power of diverse teams including younger and older people with diverse cultural backgrounds and gender orientations. They bring creative, flexible and certainly more multidimensional approaches to their work than homogeneous groups. We offer targeted training for managers and specialist staff to promote diversity. At the same time, we are increasing the proportion of women among our staff and reaping the rewards of a changed discussion and problem-solving culture.

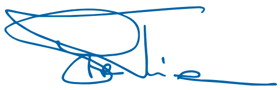
Well-qualified talent

Professional training and development have always been a priority for KSB, as fostering young talent is essential in achieving sustainable success. For years, we have been one of Germany's leading training companies, and trainees who complete their vocational programmes with KSB consistently feature among the year's top performers in their respective regions. The high quality of our training has also been recognised by respected studies. In 2021, for example, Focus Money named us the best training company for mechanical engineering in Germany.

A special anniversary year

18 September 2021 marked the start of our anniversary year, as we celebrate KSB's 150th birthday together and around the world. "People. Passion. Performance." is the motto of a range of initiatives and events adapted to the requirements of the ongoing pandemic. The associated celebrations will take place in the summer of 2022 at the end of the anniversary year – and we are confident that these will be possible with appropriate hygiene measures.

We are well aware that bottlenecks in global supply chains and price increases will continue to pose challenges in 2022, but remain highly confident of our capacity to continue profitable growth in the new financial year.



Dr. Stephan Timmermann, CEO

Report of the Supervisory Board

Dr. Bernd Flohr (Chairman of the Supervisory Board)

KSB developed very well in the 2021 financial year (“reporting year”). Order intake and sales revenue increased and earnings significantly exceeded the figure originally predicted. Key future-oriented projects were brought forward and form the basis for continued profitable performance. Nevertheless, the impact of the coronavirus pandemic that has been unfolding since 2020 remained tangible. KSB continued taking measures to protect customers, business partners and employees, and to keep production up and running at the plants. In addition, supply chain bottlenecks on the international markets brought about new challenges. The Supervisory Board of KSB SE & Co. KGaA closely followed the company’s development during this special time.

In the reporting year, it performed the duties incumbent on it as set out by law, the Articles of Association and the Rules of Procedure with the utmost diligence. The Supervisory Board advised the general partner, KSB Management SE, acting through its Managing Directors, on corporate management issues and monitored its work. The Managing Directors informed the Supervisory Board about current developments, including but not limited to the company’s business, financial and staffing situation, planned investments, corporate planning and strategy via written and oral reports prepared regularly and on an ad hoc basis in a comprehensive and timely manner. The Supervisory Board also convened regularly without the Management.

The Supervisory Board discussed business transactions of significance to the company in depth on the basis of reports submitted by the Managing Directors. Any departures in business developments from the plans and targets were questioned and commented on in detail by the Managing Directors. Beyond the intensive work in plenary sessions and in the committees, the Chairman of the Supervisory Board in particular and other members of the Supervisory Board were in constant contact with the Managing Directors. There was an ongoing exchange of information with the Administrative Board of KSB Management SE, including but not limited to its Chairman, on current business developments and on material transactions, as well as on questions of strategy, planning, risk situations, risk management and compliance. The Chairman of the Administrative Board also participated regularly in the Supervisory Board meetings. The Chairman of the Supervisory Board and his deputy were guests of the Administrative Board on selected issues.

The company continued to support the members of the Supervisory Board in their training measures during the reporting year, providing them with regular information about the rights, obligations and practice of the Supervisory Board. The company also supports the induction of new Supervisory Board members, furnishing them with the necessary information to allow for a quick introduction to internal company workflows.

Main focus of work in the Supervisory Board plenary sessions

The Supervisory Board held five regular meetings in the 2021 financial year, three of which were held as video conferences. Key elements of nearly all Supervisory Board meetings were the performance of the company and the KSB Group, primarily with regard to their business and financial situation, measures for securing future business development and the supply chains, as well as major investment projects for implementing the strategic and organisational direction, for example.

Regular consultations with the Managing Directors on the business development included the analysis of developments in the Market Areas of the Pumps Segment, the Valves and the KSB SupremeServ Segments, as well as in the Regions. Suitable measures to improve results of operations were discussed, as were the growth initiatives presented by the Managing Directors. The Supervisory Board was briefed continuously about the development of the delivery performance, which presented a tangible challenge due to the pandemic-led temporary closure of individual foreign plants. The measures taken to secure the ability to deliver and the supply chains were also clarified. The Managing Directors also provided regular information on the development of ongoing major investments in the production facilities at various sites. The extension of the US plant in Grovetown, Georgia, which specialises in the manufacture of large pumps for mining, was almost completed at the end of 2021, which enabled the Group company GIW Industries, Inc. to expand production capacities, especially for the important spare parts business. Progress was made in further expanding the plant in Shirwal, India; the first sections of the third production hall were completed and commissioned. The SISTO Armaturen S.A. plant in Luxembourg is currently being extended too. It had reached maximum capacity due to strong demand – in particular from the sterile applications market. Work is progressing on schedule and should be completed in the current year. The Supervisory Board was also involved in decisions on establishing a company in Panama and the merger of two French service locations.

The Supervisory Board was briefed regularly on the implementation of the CLIMB 21 strategy project. This growth- and earnings-oriented, Group-wide strategy project entails measures to strengthen the Pumps, Valves and KSB SupremeServ business in the long term. It initially included a reorganisation of the Pumps Segment by markets in 2020. In order to optimally manage the company on the basis of these new structures, it was necessary to convert the business systems and adjust them to reflect the new organisation. The Supervisory Board also dealt with these measures.

The following key topics were discussed at the individual Supervisory Board meetings:

The meeting in March 2021 particularly addressed the audit and approval of the annual financial statements for the 2020 financial year, including the combined management report and the separate combined non-financial report for the company and the KSB Group in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB [*Handelsgesetzbuch* – German Commercial Code]; the auditors also explained the key audit areas and results. The Chairman of the Audit Committee gave a detailed account of the audit carried out on accounting processes for the period. The Supervisory Board agreed to the proposal on the appropriation of the net retained earnings presented by the general partner for the 2020 financial year. Other items on the agenda were a report on the foundry capacities in the Group and their strategic importance.

In May 2021, the Supervisory Board dealt extensively with the project to improve earnings at KSB SE & Co. KGaA. This project aims to enhance the profitability of the parent company by implementing a broad-based series of measures. The IT security situation in the Group was also addressed. This is becoming increasingly important due to digitalisation, which is associated with stronger networking within and outside of KSB. The Supervisory Board was briefed on the outcome of safety checks carried out and on further measures planned.

At the meeting in July, the Supervisory Board dealt in detail with the development of two Pump Market Areas. The General Industry Market Area, which is significant for the Group as a whole, is highly diversified and has customers from different fields of industry. Business activities in the Mining Market Area focus on the Regions Americas and Asia / Pacific as well as the Region Middle East / Africa / Russia. The development plans drawn up for both Market Areas were presented and discussed in detail.

In view of the tense situation on the procurement markets, a key focus of the September meeting was the purchasing strategy and measures to address price increases for materials and delivery bottlenecks. The Supervisory Board acknowledged that materials-related production downtime had been avoided up to then. This was ensured by the broad supplier base and global KSB purchasing network. KSB can only overcome such challenges with a good personnel structure. The Supervisory Board therefore extensively monitored current HR measures on succession planning and employee development. Another agenda item at this meeting was a report on business development and the current key aspects of the work of the KSB SupremeServ Segment, which pools KSB's service activities and spare parts business.

The Supervisory Board addressed the planning for the 2022 financial year and medium-term planning up to 2024 at the meeting in December. The Managing Directors reported at length on the relevant targets, notably on order intake, sales revenue and earnings. Particular emphasis was placed on discussing the investment budget; this is largely earmarked for the extension of production capacities in growth markets and the modernisation of machinery. The performance of the Valves Segment was also on the agenda, in particular the current measures taken to increase the Segment's profitability. The requirements of Section 162 of AktG [*Aktiengesetz* – German Public Companies Act] with regard to the preparation of a remuneration report for KSB SE & Co. KGaA were also discussed, including but not limited to the applicability to the remuneration of the general partner and members of its governing bodies. Preliminary discussions on a personnel decision by KSB Management SE's Administrative Board also took place at this meeting. They concerned the extension of Managing Director Dr. Stephan Bross' term of office, which was set to expire in 2022. The Supervisory Board endorsed the extension.

Main focus of work in the committees

In order to enable it to fulfil its duties efficiently, the Supervisory Board worked with four committees in the reporting year. These prepared the Supervisory Board's resolutions and the special topics to be discussed in the plenary sessions. In addition, they made their own decisions within

SUPERVISORY BOARD COMMITTEES
and their Chairs, as well as number of meetings in the reporting year

CORPORATE DEVELOPMENT COMMITTEE
Chair: Klaus Kühborth
No. of meetings: 4

PERSONNEL COMMITTEE
Chair:
Dr. Bernd Flohr
No. of meetings: 3

NOMINATION COMMITTEE
Members: Dr. Bernd Flohr
Klaus Kühborth
No. of meetings: 1

AUDIT COMMITTEE
Chair:
Klaus Burchards
No. of meetings: 6

Attendance at meeting

	Supervisory Board	Nomination Committee	Corporate Development Committee	Personnel Committee	Audit Committee
Dr. Bernd Flohr, Chair	5/5	1/1		3/3	6/6
René Klotz, Deputy Chair	5/5		4/4	3/3	
Claudia Augustin	5/5			3/3	
Klaus Burchards	5/5				6/6
Arturo Esquinca	5/5		4/4		
Klaus Kühborth	5/5	1/1	4/4		
Birgit Mohme	4/5				5/6
Thomas Pabst	5/5		4/4		
Prof. Dr. Corinna Salander	4/5		4/4		
Harald Schöberl	5/5				6/6
Volker Seidel	5/5		3/4		
Gabriele Sommer	5/5			3/3	

the scope of their authorities. This allocation has proved worthwhile in practice. The Chairs of the committees regularly and comprehensively reported in the plenary sessions on the content and results of the work carried out in the committees.

The **Audit Committee** convened six times in the reporting year. It discussed the 2020 annual and consolidated financial statements and the relevant audit reports submitted by the auditors. The separate combined non-financial report was also discussed in detail. The committee meetings were generally attended by the Managing Directors and the managers of the relevant specialist departments, as well as, on multiple occasions, the auditors. The Audit Committee, in particular its Chairman, regularly exchanged ideas with the auditors in preparatory meetings, without participation of the Managing Directors. The committee prepared the independent examination by the Supervisory Board of the financial statements, the combined management report and the proposal on the appropriation of the net retained earnings. In addition, the Audit Committee submitted a recommendation for the selection of auditors by the 2021 Annual General Meeting to the Supervisory Board plenary session. The committee commissioned the auditors with auditing the annual and consolidated financial statements for the 2021 financial year and defined specific key areas for the audit. It obtained the declaration of independence by the auditors and monitored the auditors' continued independence and performance of non-audit services. The committee also reviewed the quality of the annual financial statements on the basis of previously defined criteria.

In addition, the committee focused on reviewing accounting, monitoring the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, as well as the auditing of the annual financial statements and compliance. In this context, it also discussed the half-year financial report with the Managing Directors. It also focused regularly on the Internal Audits reports. The economic development of the Group and KSB SE & Co. KGaA were the focal point of almost all of the committee's meetings. The company's measures to improve earnings were closely monitored by the committee. Individual large subsidiaries and their economic and financial development were also regular items on the committee's agenda. Other topics that were addressed include the development of the tax rate in the Group and reports about pending legal disputes.

The **Personnel Committee** held three meetings in the reporting year. It focused on subjects and challenges relating to Human Resources activities within the Group. It also decides in particular on the conducting of transactions for which the Supervisory Board has been appointed to represent the company pursuant to Section 112 AktG, as well as on matters relating to the remuneration of the Supervisory Board members. In the reporting year, it obtained information on the development of the personnel structure and key staff figures in the Group. Personnel topics in relation to the Managing Directors were also on the agenda, for example, the remuneration system. This was revised by the responsible Administrative Board of KSB Management SE with the support of an external remuneration expert; the Personnel Committee cooperated in an advisory capacity.

The **Corporate Development Committee** deals with strategic issues in the fields of technology, production and sales, among other things. It also advises on the budget and planning. The committee held four meetings in the reporting year. Aspects of product and process digitalisation, including the interfaces to customers, were a regular agenda item. Another focal point was fundamentally addressing current organisational models; such considerations aimed at promoting agility, innovation and dynamics in the company. The potential of different markets was also discussed, including life sciences applications, which cover the food, cosmetics and pharmaceutical industries. Another market dealt with was the nuclear business in which KSB enjoys great success, among other things, with a reactor coolant pump for the latest reactor type. The committee also received reports on the progress being made in achieving the sustainability goals. It was, for example, demonstrated how KSB can help customers save energy. Finally, the committee examined the annual investment budget and discussed the current investment focus in this context.

The **Nomination Committee** recommends to the Supervisory Board suitable candidates for election as Supervisory Board members, whom the Supervisory Board then proposes to the Annual General Meeting. In looking for and evaluating suitable candidates with the requisite expertise and experience of the industry, long-term succession planning is a key factor. The committee met once in the reporting year.

Corporate Governance and Statement of Compliance

The Supervisory Board continuously monitored developments in corporate governance standards throughout the reporting year. The general partner, acting through its Managing Directors, and the Supervisory Board reported on the company's corporate governance as part of the Corporate Governance Statement pursuant to Sections 289f (2 and 3) and 315d HGB. On 15 December 2021, they issued a joint updated Statement of Compliance in accordance with Section 161 AktG and made it permanently available to shareholders on the company's web site. The company complies with the German Corporate Governance Code's recommendations subject to a few justified exceptions.

In the reporting period, no conflicts of interest arose involving members of the Supervisory Board that would have been subject to disclosure in the report of the Supervisory Board.

Audit of the 2021 Annual and Consolidated Financial Statements

The Supervisory Board examined the annual financial statements of KSB SE & Co. KGaA for the year ended 31 December 2021, which were prepared in accordance with the provisions of the *Handelsgesetzbuch* (HGB), as well as the consolidated financial statements and the combined management report for both financial statements for the year ended 31 December 2021, which were prepared in accordance with the International Financial Reporting Standards (IFRSs), and the proposal by the general partner on the appropriation of net retained earnings. This also applies to the separate combined non-financial report.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, based in Frankfurt am Main with an office in Mannheim, audited the annual financial statements of KSB SE & Co. KGaA for the year ended 31 December 2021, as well as the consolidated financial statements and the combined management report for the company and the Group for the year ended 31 December 2021, and issued an unqualified opinion. The key audit areas defined for the auditors by the Audit Committee for the reporting year's consolidated financial statements included, among other things, impairment testing for goodwill as well as items of property, plant and equipment, provisions for expected losses and impairment testing for deferred taxes. In the annual financial statements, the committee requested a review of the provisions for expected losses, including any ripple effects. The separate combined non-financial report was reviewed by the auditor. The auditor reported on its findings both orally and in writing.

The accounting documentation, the proposal by the general partner on the appropriation of the net retained earnings, the non-financial report and the audit reports submitted by the auditors were provided in good time to all members of the Supervisory Board. They were discussed in detail by the Audit Committee on 3 March 2022 and on 9 March 2022, as well as in the Supervisory Board plenary session on 17 March 2022, and explained in depth by the Managing Directors of the general partner. The auditors attended the meetings of both bodies, reported on the findings of the audit and were available to provide additional information.

The Supervisory Board concurs with the auditors' findings. Following the final results of the examination by the Audit Committee and its own review, the Supervisory Board raised no objections to the annual financial statements, consolidated financial statements, combined management report as well as the separate combined non-financial report. In accordance with the recommendation of the Audit Committee, the Supervisory Board approved the financial statements prepared by the general partner. The proposal of the general partner on the appropriation of the net retained earnings of KSB SE & Co. KGaA, and in particular the increase in the dividend to EUR 12.00 per ordinary no-par-value share and EUR 12.26 per preference no-par-value share, is deemed to be appropriate by the Supervisory Board in accordance with its own review. The dividend includes a bonus dividend of EUR 3.00 per share to mark the company's 150th anniversary. The Supervisory Board concurs with the proposal.

Changes to the Supervisory Board

The composition of the Supervisory Board and its committees remained unchanged in the period under review.

The Supervisory Board would like to thank the Managing Directors and the Administrative Board of the general partner, as well as the employees and employee representatives of all Group companies for their constructive and committed work during the past financial year.

Frankenthal, 17 March 2022

The Supervisory Board

A Look Back at 2021

Q1

150 YEARS
People. Passion. Performance.

An anniversary year

To celebrate the company's 150th anniversary, a special campaign logo is developed for all communications media. "People. Passion. Performance." is KSB's anniversary motto. It recognises that our company's success is driven by people, their passion and their performance.

Pumps for Kuwait

The Umm Al Hayman Waste Water Pumping Station project in Kuwait is considered one of the world's largest and most complex waste water projects. KSB wins an order worth over five million euros to supply 44 different submersible motor pumps. They will handle waste water from southern Kuwait as it is treated for use in agriculture and industry.

Environmental protection in Croatia

KSB supplies 630 waste water pump stations from its manufacturing facility in Lille, France, for use on the Croatian island of Krk. They will lift waste water from summer holiday residences and reduce the amount of water being directly discharged into the sea. The project is being co-financed with EU funds and has a volume valued at more than 85 million euros.

Best training company

In its fifth year of participation, KSB achieves the highest score of 100 in the mechanical engineering category and is named best training company by the Focus Money business magazine and Deutschland Test.

GRIP21+
Reporting 1.0

New reporting system

Since the beginning of the year, KSB has been using GRIP21+, a globally standardised Group reporting system for order intake and sales revenue. It can present data according to the company's new division of Segments and Market Areas.

Q2

A new generation of pumps

May sees the latest generation of KSB's tried-and-tested AmaDrainer 3 submersible waste water pumps launch to market in a new design. Available in four different sizes, these newly developed pumps offer customer-requested features including a compact design and easier handling.

A door opener in the Chinese market

KSB's work bears fruit with an order for almost 500 waste water lifting units for building services applications in the Chinese market. These will perform tasks including metro station drainage. The innovative, space-saving closed waste water lifting units reduce building costs, isolate odours and minimise maintenance costs.

Drinking water certification

The RDLO and Omega type series win approval for use in the USA and Canada. Produced in Halle, Germany, these pumps now meet the NSF/ANSI 61 health certification standard required for drinking water applications in North America.

Location greenery

Sustainability plays an important role at KSB. This can be seen at our Pegnitz location, where fruit trees and flower beds are among the greenery being planted. They support insect biodiversity while providing fruit and shade for employees. KSB has set itself the goal of reducing Group-wide CO_2 emissions by 30 percent.

Clean water for Indonesia

Umbulan, a new Indonesian drinking water supply system in East Java, includes 19 pumps and 376 valves by KSB. The facility provides clean water to 1.3 million residents. The system was inaugurated by Indonesian President Joko Widodo on 22 March, World Water Day.

Q3

Ensuring navigability of the Moselle

Over the next two years, KSB will supply almost 200 butterfly valves for eleven barrage dams on the Moselle river. The valves control the barrages' sector gates, and thus the water level upstream of the respective dam. This ensures the navigability of the Moselle and the smooth operation of hydroelectric power plants in its weirs.

KSB products for the Olympics

KSB lands a contract to supply various products for guest accommodation at the 2022 Winter Olympics in China. 20 pressure booster systems will ensure water supply, while 77 Etaline and Movitec pumps will operate in the building's heating system.

Vaccines

Diaphragm shut-off valves from Luxembourg subsidiary SISTO Armaturen S.A. are now used in the core processes of various producers for the manufacture of COVID-19 vaccines. SISTO performed exceptionally well to achieve the very short delivery times required.

Butterfly valves from La Roche-Chalais

KSB supplies valves manufactured in France for a hydrogen peroxide plant in Jubail, Saudi Arabia. These will replace the butterfly valves of a competitor. The customer chose KSB because similar products were already in use at their other locations. The order illustrates the significant sales potential of customers who have products in operation – even those of competitors.

Donations and voluntary work

KSB donates domestic water supply systems and waste water pumps for the regions in Germany affected by flooding (Rhineland-Palatinate and North Rhine-Westphalia). As well as making material donations, numerous staff provide help on the ground as volunteers to support the work of Germany's Federal Agency for Technical Relief, the German Red Cross, fire brigades, the Malteser relief agency and rescue dog teams.

Q4

Pump upgrades

The world's largest oil producer, Saudi Aramco, commissions KSB to upgrade 74 waste water pumps and provide corresponding spare parts. For KSB, this order is a door opener for the repair of a further 126 pumps. The service centre in Saudi Arabia receives certification from Saudi Aramco while the order is being processed.

A welcome addition to KSB's service portfolio

KSB inaugurates a service location in Baddi, a town in northern India. It is KSB's 193rd workshop in total, and the sixth in India. The location offers maintenance and repair services for pumps from all applications in the Water, Energy and General Industry Market Areas.

100,000 followers

The KSB Group's web site on the LinkedIn professional network is attracting substantial interest worldwide. The world's largest career development and professional networking platform enables users to make business contacts, search for suitable companies and apply for vacancies. KSB is one of the most important mechanical engineering companies on LinkedIn and has reached the 100,000 follower mark.

Speedy response on La Palma

KSB SupremeServ secures the drinking water supply after the volcanic eruption on the Canary Island of La Palma. Service staff participate in the monitoring and commissioning of various pumping systems to supply cut-off regions with fresh water.

Record-breaking delivery

Two months earlier than planned, the first of five RUV reactor coolant pumps for use in the Chinese nuclear power station Shidaowan leaves the Frankenthal factory. The pump sets will be deployed in the very latest generation of Chinese nuclear power stations – the CAP1400.

Separate Combined Non-financial Report

Sustainability is the basis of KSB's corporate strategy. This includes the responsible use of resources and the environment as well as the company's responsibility to employees and corporate social commitment. These topics are covered in this separate combined non-financial report pursuant to Sections 289b(3) and 315b(3) HGB [*Handelsgesetzbuch* – German Commercial Code] and Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (hereinafter referred to as the EU Taxonomy Regulation). The report fulfils the requirements of the CSR Directive Implementation Act [*CSR-Richtlinie-Umsetzungsgesetz*] and combines the statement at company level with the Group statement outside of the management report.

In accordance with its business model, KSB aims to supply customers worldwide with high-quality pumps and valves as well as related service. The company develops the vast majority of its products itself and manufactures them in factories on four continents. The products are sold via its own sales organisation, supported by dealer networks comprising selected partners. KSB's business model is presented in the Group management report on page 44.

By joining the UN Global Compact in 2010, KSB committed to aligning its business activities with ten universal principles. The Global Compact principles apply equally to managers and employees throughout the company as well as to all suppliers and business partners.

The EU taxonomy and KSB

In accordance with Article 8 of Regulation (EU) 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, in conjunction with the Delegated Acts of 4 June 2021 and 6 July 2021, KSB is now required to report on the nature and extent of its environmentally sustainable economic activities as defined in the EU taxonomy's classification system. The EU Taxonomy Regulation pursues six environmental objectives:

1) Climate change mitigation
2) Climate change adaptation
3) Sustainable use and protection of water and marine resources
4) Transition to a circular economy
5) Pollution prevention and control
6) Protection and restoration of biodiversity and ecosystems

Reporting obligations apply to the year under review 2021 as per Article 8 of Regulation (EU) 2020/852 and Article 10 of the supplementary Delegated Act of 6 July 2021. Companies are obliged to report the proportion of business activities which are considered "taxonomy-eligible". The share of total revenue or total capital expenditure / total expenditure accounted for by the sales revenue, capital expenditure (CapEx) and operating expenditure (OpEx) of these activities must be reported. For this first year of reporting, only climate objectives 1) and 2) are relevant.

Taxonomy-eligible economic activities are defined in Annexes I and II to the Delegated Act of 4 June 2021.

However, the catalogue of economic activities described in the EU Taxonomy Regulation only applies to a small proportion of KSB's activities. The Group's principal business – the production of pumps and valves, and the provision of related services – is currently classified as a taxonomy-non-eligible economic activity within the meaning of the EU Taxonomy Regulation.

The European Securities and Markets Authority (ESMA) has pointed out that adjustments to the activities and indicators defined in the EU Taxonomy Regulation are likely. The following reporting reflects the obligations set out in the current published version of the EU Taxonomy Regulation at the time when this non-financial report was prepared and audited.

The Draft Commission Notice published on 2 February 2022 was taken into account as far as the preparation process allowed. It was not possible to complete the complex and quality-assured process of obtaining the necessary information relating to capital and operational expenditure by the publication date. If the EU Taxonomy Regulation had been applied in full, taxonomy-eligible capital and operating ependiture might have been higher.

Process

Taking the above context into account, a cross-departmental project team implemented the requirements of the EU Taxonomy Regulation at KSB. Staff from Integrated Management Systems and Sustainability, Finance and Controlling were involved in the project at Group level. For individual economic activities, detailed information was provided by employees from specialist departments including IT, Product Development, Sales and Facility Management. The analysis is based on the consolidated companies as disclosed in the list of shareholdings of the 2021 consolidated financial statements.

The process was designed in consultation with KSB's Management. The project team informed Management on progress and potential risks and obstacles as well as current developments.

In a first step, all activities as per the catalogue of the EU Taxonomy Regulation were analysed at Group level to establish which of these activities are applicable to KSB and whether they are revenue-generating or exclusively expenditure-driven. The results, relevant definitions of terms and the next steps in this process were determined and documented.

Analysis as per the Delegated Act Annexes did not identify any revenue-generating activities, as KSB is ultimately a supplier of products and technologies. KSB supports other companies in their implementation of enabling activities as defined in the EU Taxonomy Regulation. The services provided in the KSB SupremeServ Segment are not covered by the EU Taxonomy Regulation either. KSB's total sales revenue amounts to € 2,343,577 thousand (see the Notes, Section V. Income Statement Disclosures).

Below is a description of KSB's taxonomy-eligible activities for the Category C KPIs of capital and operating expenditure.

EU Taxonomy Regulation KPIs (Key Performance Indicators)

The KPIs were defined according to the descriptions set out in the Delegated Regulation supplementing (EU) 2020/852, Annex I / KPIs of Non-financial Undertakings. To determine the performance indicators for all taxonomy-eligible economic activities listed in the table below, parameters were set according to the definition of sales revenue as well as capital and operating expenditure, analyses were carried out and decisions were reached on a case-by-case basis. In order to determine the KPIs for all taxonomy-eligible activities, consolidated data from Accounting was used and additional information was obtained from the companies concerned. Items were assigned to a maximum of one taxonomy-eligible economic activity in order

Economic activity by EU taxonomy sector

	Activities of KSB SE & Co. KGaA according to EU taxonomy definition and characteristics
6. Transport	▪ Purchase, financing, rental, leasing and operation of vehicles
7. Construction and real estate	▪ Renovation of existing buildings
	▪ Installation, maintenance and repair of energy efficiency equipment
	▪ Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
	Installation, maintenance and repair of instruments and devices for measuring and controlling the energy performance of buildings
	Installation, maintenance and repair of renewable energy technologies

KSB supports the 17 Sustainable Development Goals set out by the United Nations. Ten of these are particularly important for the company:

to avoid duplicate entries. The capital and operating expenditures of taxonomy-eligible economic activities are assigned to Category C of Annex I to the EU Taxonomy Regulation.

Total capital expenditure comprises all additions to intangible assets under IAS 38, property, plant and equipment under IAS 16, and additions to rights of use under IFRS 16 shown in the Notes (IV. Balance Sheet Disclosures).

The EU taxonomy definition for total operating expenditure only covers a certain portion of operating expenditure. These are expenses related directly to research and development (excluding staff and training expenses), building refurbishment, maintenance and repairs as well as short-term leases (see the Notes, Section V. Income Statement Disclosures).

For the 2021 financial year, taxonomy-eligible capital expenditure accounted for less than 2 %* of total capital expenditure, which was € 103,599 thousand.

For the 2021 financial year, taxonomy-eligible operating expenditure accounted for less than 1 %* of the total operating expenditure within the scope of the EU Taxonomy Regulation, which was € 60,816 thousand.

Given the dynamic situation relating to taxonomy legislation, KSB points out that the impact analysis and interpretation of the financial indicators to be determined may be subject to progressive adjustments in the future.

Sustainability reporting

The management concepts relating to key issues outlined here apply to both the Group and to KSB SE & Co.KGaA; any instances where this is not the case are duly indicated. All information in the non-financial report relates to KSB SE & Co. KGaA and the Group in 2021. References to information not included in the group management report in this section represent supplementary information and are not part of the separate non-financial report. PricewaterhouseCoopers GmbH performed a limited assurance engagement on the information in this report in accordance with ISAE 3000 (Revised) and issued an independent assurance report, see page 39.

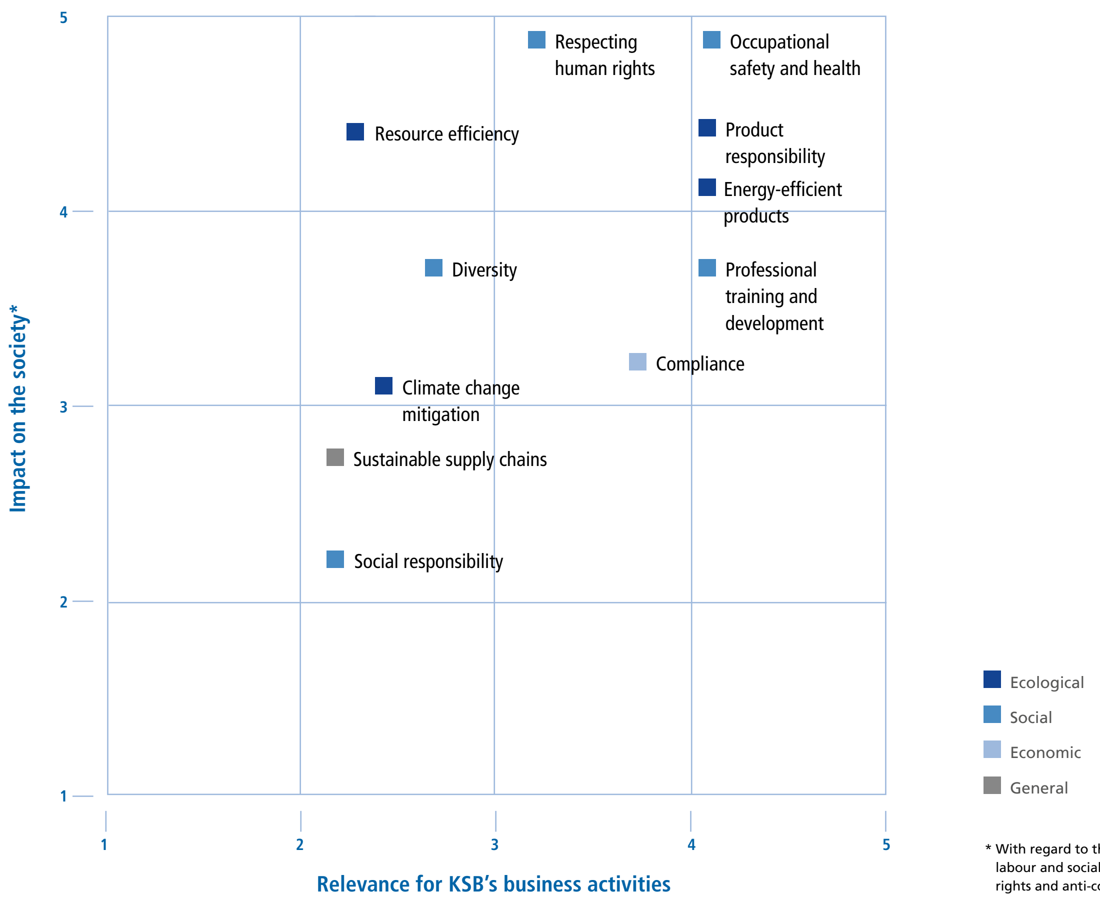
In the areas of human rights, labour standards, the environment, anti-corruption and sustainability in the supply chain, the concepts and activities set out in this report follow the principles of the UN Global Compact.

The non-financial report covers 29 material Group companies, unless otherwise stated. These were selected on the basis of their impact on aspects such as energy consumption and the number of employees in 2017. The 29 Group companies include all consolidated subsidiaries with production plants and two service companies with energy-intensive workshops.

As part of its corporate responsibility strategy, KSB is also committed to supporting social initiatives. The company chooses to report on these activities on an entirely voluntary basis, as these do not have any significant or material impact on its business success.

* Other capital and operating expenditure included in the denominator is not taxonomy-eligible.

Material sustainability issues for KSB



* With regard to the environment, labour and social issues, human rights and anti-corruption.

Material issues

KSB communicates regularly with various stakeholders in order to identify their interests and expectations regarding the company. In the year under review, specialist departments and the Sustainability Committee, with oversight from Management, reviewed and updated the material sustainability issues defined on this basis; see materiality matrix above. The Committee took into account new regulatory requirements arising from the EU taxonomy and Germany's Supply Chain Due Diligence Act (SCDDA) which will apply from 2023, evolving stakeholder expectations and greater focus on KSB's sustainability goals.

The issues were evaluated in terms of their impact on society with regard to the environment, labour and social matters, human rights and corruption. In five cases, KSB has chosen to modify the terminology it uses:

- "Climate change mitigation" has replaced "Emissions"
- "Product responsibility" has replaced "Product safety"
- "Diversity" has replaced "Equal opportunities"
- "Occupational safety and health" has replaced "Occupational health and safety"
- "Professional training and development" has replaced "Education and training"

Non-financial objectives up to 2025 and performance indicators

Aspects	Objectives up to 2025	Performance indicators
Resource efficiency	More than half of newly developed products are subject to ecological assessment.	Number of development projects
Energy-efficient products	KSB's water pumps save an annual 850,000 tonnes of CO_2.	CO_2 savings for KSB water pumps with variable speed drives
Emissions	KSB production plants reduce their CO_2 emissions by 30 %. (Reference year: 2018)	CO_2 emissions at production sites
Education and training	Each employee invests at least 30 hours per year in training and development.	Number of training hours per employee per year
Equal opportunities	Women make up at least 20 % of management staff.	Proportion of women in management positions
Engagement	The employee satisfaction index is 80 %.	Engagement score according to employee survey
Occupational safety and health	The number of working days lost due to occupational accidents is reduced to fewer than 0.3 days per employee per year.	Number of days lost due to accidents (lost time accident rate)
Social commitment	KSB is involved in at least 25 social projects worldwide every year.	Number of CSR projects
Sustainability in the supply chain	The sustainability performance of 90 % of the key regional and global suppliers is assessed.	Proportion of suppliers assessed

* The 17 Sustainable Development Goals of the United Nations take into account the three dimensions of sustainability: social, environmental and economic aspects. KSB's material sustainability issues relate to the goals addressing poverty (1), hunger (2), health and well-being (3), quality education (4), gender equality (5), clean water and sanitation (6), decent work conditions and economic growth (8), sustainable consumption and production (12) and climate action (13).

In its review of material issues, and in consultation with all Members of Management, the Sustainability Committee decided to adjust the positioning of the Group's sustainability focus points to reflect their relevance for KSB's business activities. This included a fundamental analysis of the advantages of effective management of the respective issue, of potential disadvantages when risks arise, and of trends in technologies and individual industry sectors.

The aspects and factors necessary for understanding the development and performance of the business and the position of the company as well as the impact of business activities on the following issues remain the same:

- Environment (resource efficiency, manufacturing of energy-efficient products, climate change mitigation and product responsibility)
- Combating corruption and bribery (compliance)
- Respecting human rights (sustainable supply chains)
- Employee concerns (professional training and development, diversity, occupational safety and health)

These issues are related at a fundamental level to manufacturing, products, business partners and employees. KSB's products also make a direct contribution to protecting the environment, for example, by saving energy or via their use in waste water treatment.

Status as at 31 Dec. 2020	Status as at 31 Dec. 2021	Objective by 2025	SDGs*
7 %	24 %	> 50 %	12, 13
428,902 t CO_2**	369,416 t CO_2**	850,000 t CO_2	9, 12, 13
15.1 %	13.6 %	30 %	13
14.6 hours / year	15 hours / year	30 hours / year	8, 9
13 %	13 %	20 %	5
No survey in 2020; result from 2019: 57 %	No survey in 2021; next survey 2022	80 %	8
0.27 days	0.28 days	< 0.3 days	3
25	26	25	1, 2, 3, 4, 6
> 50 %	Approx. 56 %	90 %	8, 12

** The basis for this calculation can be found on page 32 of this report.

Risks related to non-financial factors

KSB does not see any material risks, as assessed based on the net risk method, associated with its own business and the business relations of the company or its products and services which, in all probability, have or could have a serious negative impact on non-financial aspects such as the environment, anti-corruption, human rights, employee concerns and social issues. The consequences of the COVID-19 pandemic once again led to challenges in 2021, but did not entail material risks. All other risks affecting business activities are described in the Group management report from page 61.

Goals for 2025

KSB supports the 17 Sustainable Development Goals set out by the United Nations. In 2019, the company developed nine specific sustainability objectives which are aligned with these Sustainable Development Goals and the material issues they address. The company aims to achieve them by 2025 at the latest.

The nine objectives adopted by Management cover environmental, employee, social and supply chain sustainability topics. They focus on climate protection, the promotion of decent working conditions and sustainable economic growth, and

Energy consumption

	Total	KSB SE & Co. KGaA	Europe**	Asia / Pacific	Americas	Middle East / Africa / Russia
Total energy consumption*	277,916 MWh	103,468 MWh	144,146 MWh	34,512 MWh	81,040 MWh	18,218 MWh
Total electricity	159,180 MWh	37,435 MWh	56,377 MWh	32,343 MWh	55,896 MWh	14,564 MWh
Electricity from renewables***	72,772 MWh	23,806 MWh	39,975 MWh	9,417 MWh	19,626 MWh	3,753 MWh
CO_2 emissions	87,582 t	20,644 t	26,724 t	22,397 t	27,901 t	10,560 t

* Electricity, gas, fuel oil, district heating, wood, etc.
** Including KSB SE & Co. KGaA
*** Total differs due to rounding

health and well-being. In addition, KSB is committed to doing even more to promote gender equality. The company also intends to gather more comprehensive information on how suppliers deal with sustainability issues. KSB is dedicated to combating poverty and hunger as well as ensuring the availability of clean water and education through social projects. Developing the knowledge of employees is another binding goal. More information on the individual objectives and progress towards their completion at the end of the year under review can be found in the overview on page 28/29, and in the respective sections of this non-financial report.

Management staff with specialist responsibility for Production, Product Management, Human Resources, Purchasing, Communications and Integrated Management have developed plans for achieving the objectives by 2025. The respective departments report their implemented and planned measures to the Sustainability Committee. The Committee reviews progress towards the completion of each objective twice a year and monitors measures taken.

Environment

CLIMATE CHANGE MITIGATION AND RESOURCE EFFICIENCY

Objectives:

As a manufacturing company, KSB endeavours to use natural resources responsibly and is especially committed to reducing its energy and raw materials consumption as much as possible. This helps lessen the impact on the environment while simultaneously increasing the profitability of the company. Furthermore, KSB avoids economic and legal risks which could potentially result from environmental damage and failure to comply with laws and regulations.

By 2025, KSB intends to assess the environmental impact of more than 50 % of its development projects in accordance with the international ISO 14040 standard. This concerns new product developments and significant design modifications to existing type series. Detailed information on the life cycle assessments of new products can thus be determined.

A further goal to be achieved by 2025 is a 30 % reduction in the global CO_2 emissions of the manufacturing plants (based on figures from 2018).

Organisation, processes and measures:

KSB follows the internationally recognised ISO 14001 environmental management system to continuously improve its environmental performance. To date, the company has implemented the environmental management system at 37 production and assembly locations (KSB SE & Co. KGaA: 3 locations); this represents 90 percent coverage.

KSB carries out regular energy audits at its major European locations to reduce energy consumption and CO_2 emissions. In the year under review, audits took place in France, the Netherlands and Spain. The resulting measures include the energy-efficient refurbishment of buildings and foundries.

KSB regularly records and evaluates data on energy consumption and CO_2 emissions. Energy consumption was at 277,916 megawatt hours (KSB SE & Co. KGaA: 103,468 megawatt hours) in the year under review. This represents a year-on-year increase of 10,759 megawatt hours (KSB SE & Co. KGaA:

+ 4,771 megawatt hours). This was due to increased manufacturing activity in the Group, which is reflected in higher sales revenue. Particularly energy-intensive pump testing took place in Frankenthal in 2021, including a 168-hour hot water performance test of a boiler feed pump for a Chinese power plant.

In terms of Group-wide electricity consumption, the share of renewable energies was 45.7 % (KSB SE & Co. KGaA: 63.6 %). This represents a percentage increase of 9 % on the previous year – the highest value the company has ever achieved. KSB calculates CO_2 emissions for Scope 1 and Scope 2 in accordance with the Greenhouse Gas Protocol. The Group's emissions in the year under review amounted to 87,582 tonnes of CO_2 (previous year: 86,342 tonnes of CO_2); for KSB SE & Co. KGaA, the figure was 20,644 tonnes of CO_2, (previous year: 22,181 tonnes of CO_2). While the parent company reduced emissions of the climate-critical greenhouse gas by 1,537 tonnes compared with the previous year, the value recorded across the Group increased by 1,240 tonnes. The reasons for this are increased production costs, particularly in regions relying on an energy mix with larger proportions of conventional energy sources such as coal and gas.

Waste is a by-product of manufacturing. KSB therefore continuously modernises its factories to reduce the amount of hazardous substances used in the manufacturing processes. If environmental pollution is identified at a location, the company sets aside provisions to meet obligations for necessary remediation. Provisions totalling € 1,022,000 have been recognised for KSB SE & Co. KGaA in the financial statements.

In 2020, KSB developed a life cycle assessment strategy in accordance with the ISO 14040 international standard to assess the environmental impact of new product developments and significant design changes to existing type series. In a pilot project, the company's product developers defined a suitable process to apply to further development projects. Three more projects were added in 2021. This means that KSB has assessed the environmental impact of around a quarter of its new developments in accordance with the international ISO 14040 standard.

The year under review saw KSB adapt its product creation process for new developments. Each development is now analysed to determine the extent to which it is suitable for the circular economy. In addition to the well-known goal of maximising the products' service life, aspects such as modularisation for straightforward, mono-material dismantling and recycling quotas are becoming increasingly important.

Percentage of renewable energy in power consumption

45.7

(KSB SE & Co. KGaA: 63.6 %)

Climate change mitigation is one of the most important global challenges. KSB is therefore seeking to reduce greenhouse gas emissions at its locations. At some locations, the company has already managed to make electricity consumption climate-neutral. Three locations in Germany and Italy received corresponding certificates in 2021. A total of six KSB companies in Europe obtain 100 % of their electrical energy from renewable sources.

Although very few business trips took place in 2021 due to the pandemic, KSB employees opted for climate-neutral means of transport such as trains, which use 100 % green electricity in Germany. This saved almost 26 tonnes of CO_2 compared with other means of transportation.

As in the previous year, KSB installed numerous water dispensers at many locations in the year under review to conserve resources. These devices allow employees to obtain drinking water from the immediate vicinity of their workplace in the office or workshop. This supports the company's contribution to sustainability and relieves its burden on the environment.

Results:

- KSB has conducted life cycle assessments for 24 % of newly developed products.
- KSB has again increased the share of renewable energy in its electricity consumption. This increased from 36.7 % to 45.7 % in the Group compared with the previous year.
- In 2021, KSB SE & Co. KGaA reduced its CO_2 emissions by 1,537 tonnes despite increased energy consumption.

Products

Objectives:

KSB's products and service offerings contribute to the efficient and responsible operation of customers' systems. The company therefore strives to maximise its range of products offering many years of operation characterised by reliability and low energy consumption.

By 2025, KSB aims to reduce the CO_2 emissions generated through the operation of its water pumps by 850,000 tonnes per year in Europe alone by using variable speed drives.

Organisation, processes and measures:
To assess how much carbon dioxide KSB water pumps save during operation, Product Management in the year under review determined the number of these pump sets in use based on the production volume since 2007, and calculated their average annual energy consumption. This estimate assumes 7,000 operating hours and a typical load profile for these applications as well as the average CO_2 equivalent for Europe of 295.8 g/kWh according to the German Association of the Automotive Industry (VDA) for 2022 for the European Union electricity mix. As shown in the Energy Efficiency with Electric Drives study from the German Electrical and Electronic Manufacturers' Association (ZVEI), demand-oriented operation via the use of variable speed drives and high-efficiency motors allows energy savings averaging 30 % compared with conventional fixed-speed pump systems. Savings of at least 30 % can therefore also be assumed for KSB's standardised water pumps. The calculation will be continued.

With many countries seeing increased expansion of renewable energies and a renaissance in nuclear power, the electricity mix has changed considerably. The CO_2 savings attributable to KSB water pumps with variable speed drives have thus decreased by about 60,000 tonnes of carbon dioxide compared with the previous year. The Sustainability Committee will examine whether the target defined for the 2022 financial year needs to be adjusted in light of these developments.

KSB attaches great importance to the role of product quality and safety in preventing accidents and environmental pollution. In production, the company complies with recognised standards such as CE and a well-established quality management system in accordance with the international ISO 9001 standard. This allows processes to be designed such that systematic errors during product manufacturing can be avoided. In addition, the company's own Made by KSB certification available at twelve locations designates a level of quality which exceeds the requirements of the international standard for quality management. The certification stands for quality, short delivery times, professional service and optimised manufacturing processes.

Results:

- With their variable speed drives, KSB's population of water pumps are estimated to have saved approx. 370,000 tonnes of CO_2 in 2021.
- A total of 127 of KSB's locations are certified to the ISO 9001:2015 quality management standard to ensure the reliability and safety of their products. As in the previous year, the year under review saw TÜV Rheinland audit 15 locations worldwide. In addition, internal audits are carried out annually at all locations.

Compliance

Objectives:

For KSB, lawful conduct is an important and indispensable part of corporate social responsibility. Customers and business partners expect the company to act with integrity. That is why compliance with legal regulations and Group-wide directives is part of KSB's core values.

The aim is to train all relevant employees on anti-trust / cartel law and anti-corruption policies. Using a global matrix of requirements, KSB for example ensures that all personnel with customer or supplier contact are familiarised with these topics. Group-wide training is repeated every three years and will be performed again in 2022. Any interim training needs are covered twice a year.

Organisation, processes and measures:

Lawful conduct is an integral element of KSB's corporate social responsibility. A binding compliance management system supports the compliant conduct of employees. It ensures compliance with legal provisions and internal regulations, thereby safeguarding the economic success of the company in the long term. The compliance system is designed to ensure that KSB and its employees always act in line with applicable laws and directives.

Group Management is responsible for organising compliance and is monitored by the Supervisory Board's Audit Committee. A Group Compliance Officer is responsible for compliance management and reports to Group Management on relevant topics every six months. Support is provided by a Group Compliance Committee, consisting of top-level managers from the company.

KSB's Compliance Manual describes structures and processes designed to ensure compliant conduct, and specifies responsibilities and instruments.

A core element of the compliance system is the KSB Code of Conduct, which applies across the entire Group. It defines the key legal and business policy principles, providing employees with guidance for their actions. The Code also sets forth the corporate values which govern conduct in day-to-day work: honesty, responsibility, professionalism, trust and appreciation. On this basis, KSB has formulated and communicated specific principles and rules of conduct.

In order to avoid risks resulting from a loss of reputation and legal repercussions, KSB issued two binding corporate directives, one covering compliance with cartel / anti-trust law and one dealing with the prevention of corruption. Both of these directives help to prevent potential violations. Employees receive appropriate training in recognising potential risks and practical guidance to ensure proper conduct.

In the event that employees become aware of violations or are unsure whether their actions are compliant, they refer the matter to the compliance organisation, and specifically to the designated Compliance Officer. If necessary, reports will be treated anonymously. In addition, any circumstances that give rise to legal or anti-trust concerns can be reported directly to an independent ombudsperson, who can process potential cases without naming informants. Plausible evidence indicating infringements is investigated.

KSB does not tolerate any violations of compliance by its employees. If investigations reveal sufficient evidence of a violation, this will have consequences for the individual concerned. Depending on the severity, sanctions range from a disciplinary warning to immediate termination of employment; law enforcement agencies may also be involved.

Results:

- 2021 saw 478 employees successfully complete compliance training e-learning modules.
- Reports of suspected compliance violations submitted via the ombudsperson and the compliance organisation triggered a clearly defined three-stage procedure in each case to clarify the facts and initiate the necessary measures.

Human rights / Sustainability in the supply chain

Objectives:

Respecting human rights is a core element of corporate social responsibility as practised by KSB. The company recognises the obligations this entails – internally and along the entire value creation chain. It is KSB's declared goal to prevent all forms of discrimination on the basis of individual characteristics such as age, origin, religion, appearance, gender, sexual orientation, disability or marital status. KSB does not tolerate discrimination, harassment or reprisals of any kind in the work environment.

The company also refuses to accept human rights violations by its suppliers. KSB therefore aims to assess 90 % of its global and regional key suppliers in terms of their sustainability performance by 2025. This will focus on, but not be limited to, their safeguarding of human rights.

Organisation, processes and measures:

By signing the UN Global Compact, KSB has undertaken to protect and respect international human rights. The company also complies with the conventions of the International Labour Organisation (ILO). All KSB companies respect the freedom of association and the right to collective bargaining. The company also observes government sanctions such as embargoes, and communicates internal directives on export control.

In 2020, KSB published a Human Rights Policy Statement. It documents the company's commitment with respect to employees, business partners and the public. The policy statement defines human rights criteria which must be observed in everyday business.

The year under review saw KSB appoint a Human Rights Officer. This means that the company already fulfils the requirement to name an internal contact person stipulated in the German Supply Chain Due Diligence Act (SCDDA) in force from 2023. The Officer will report at least once a year on the status of human rights at KSB.

Basic conduct requirements among the workforce and with business partners are governed by the KSB Code of Conduct.

2021 also saw KSB renew its commitment to the UK Modern Slavery Act. This includes a commitment to ensure that all business conducted – including the supply chain – is free from all forms of forced labour, slavery or human trafficking.

KSB uses active supplier management to identify and avoid risks in the supply chain. For every order placed, the supplier declares that it complies with the rules in the company's Code of Conduct, which corresponds with the human rights principles defined in the UN Global Compact. These measures were taken to minimise the risk of human rights violations in the supply chain. As a matter of principle, KSB does not work with companies that are known to violate human rights.

In 2021, KSB introduced online training for buyers and employees from other areas to raise awareness of human rights issues in the supply chain. The e-learning is compulsory for all relevant employees, and participants receive a certificate after successfully completing a test.

Purchasing uses questionnaires to assess human rights risks at suppliers. This allows potentially critical business partners to be identified throughout the Group, especially with regard to child labour and the use of conflict materials. KSB expanded its database during the year under review. The most important indirect purchasing suppliers are now included alongside the most important principle material groups.

KSB derives suitable measures from the self-disclosures requested from its suppliers via questionnaires. These include careful examination of how the issues are handled and monitoring of improvement measures taken.

KSB's employees can contact the compliance organisation or an ombudsperson regarding human rights issues, following the same procedure as for suspected compliance violations (see page 33). The newly appointed Human Rights Officer is available as an additional contact person.

Results:

- An online training course launched in 2021 raises participants' awareness of human rights issues in the supply chain. In the year under review, 273 employees participated.
- KSB has assessed the sustainability performance of approx. 56 % of its key global suppliers. This also includes the actions of business partners regarding human rights.

Employees

SUCCESS THROUGH DIVERSITY

Objectives:

Around the globe, more than 15,000 KSB employees aim to offer customers the best experience possible. The company celebrates the diversity of its staff, because diverse teams contribute the greatest range of different perspectives to the company's success. As a mechanical engineering company with a traditionally low quota of women, KSB is therefore seeking to develop the potential of its female employees in particular. The goal is to increase the proportion of women in management positions to at least 20 % by 2025 (2021: 13 %).

High-performing and motivated staff are the basis for a company's economic success. KSB is therefore striving to increase its engagement score, which measures employee satisfaction, to 80 % by 2025.

Lifelong learning plays a crucial role in identifying the needs of markets and customers. KSB thus implements targeted training and continuous learning measures to steadily develop the skills of its workforce. By 2025, the company aims to increase the number of training hours per employee per year to 30 hours; in the year under review this figure was 15 hours.

Number of training hours per employee

15

(KSB SE & Co. KGaA: 14)

Organisation, processes and measures:

Overall responsibility for human resources work at KSB lies with the head of Human Resources, who reports directly to the CEO and coordinates Group-wide HR issues. Individual locations' human resources departments look after their local managers and employees.

When recruiting future employees, the company uses several channels. In addition to traditional job advertisements, contact with potential applicants is also established via online social networks and platforms. Due to the pandemic, opportunities to participate in recruitment fairs in 2021 were once again limited. The same applies to cooperations with universities and schools, another channel by which KSB establishes contact with potential candidates.

In order to ensure demand for skilled staff is met, the company continuously trains young people. Opportunities for trainees include completing part of their training with one of KSB's international companies. This improves their capacity for international cooperation and offers valuable experience gained in a different environment. At the end of 2021, 249 trainees and students in dual work / degree programmes prepared for professional life at KSB's German locations. In 2021, KSB spent € 7,962,000 on its multi-award-winning vocational training programmes. With the official handover of the refurbished vocational training centre in Frankenthal, KSB aims to deliver quality training far into the future.

KSB continuously develops the skills and knowledge of its employees to prepare them for specialist and management positions. The company has developed a three-stage approach for this purpose. It distinguishes between Group-wide, departmental and individual professional training measures. Training requirements are agreed between managers and employees at annual performance evaluation interviews. Qualification measures cover engineering, business administration, information technology, social competence, communication and leadership.

In an effort to increase the number of training hours, KSB has intensified communication within the company to inform the staff about relevant opportunities. These include training modules, courses, workshops and time for free self-study and knowledge exchange between staff. An additional e-learning course for managers was launched to raise awareness of the training opportunities. In 2021, employees invested an average of 15 hours into activities for their professional development (KSB SE & Co. KGaA: 14.6 hours).

2021 saw KSB launch a one-year scholarship programme open to all Group employees. It is specifically designed around the requirements of the digital transformation and provides up-to-date information, relevant background knowledge and explanations on key digitalisation topics.

KSB's internal distance learning programme Pump Applications Professionals, which has been in place for more than ten years, offers interested engineers and technicians with relevant experience to become experts in this field. Since 2021, KSB has been offering the internal professional development opportunity as an external distance learning course in cooperation with the technical universities in Berlin and Graz.

A new Human Resources tool introduced in 2020 which enables KSB to automate and standardise HR processes is now available to all Group companies following its Group-wide rollout in the year under review. Managers use the web-based application to support the professional development of their employees. In addition, all users can update information on their knowledge and skills in their personal profile. This increases the visibility of knowledge available in the company.

The second year of the pandemic saw KSB continue to expand its range of e-learning modules and online trainings. For example, employees took advantage of the company's

Number of training hours

	Total	KSB SE & Co. KGaA	Europe	Asia / Pacific	Americas	Middle East / Africa / Russia
Hours per employee	15	14	14	18	13	14

web-based learning platform to an even greater extent than in the record year of 2020, using this virtual environment to continue their training without the need for face-to-face contact. More than 14,000 staff from 66 countries can now use the learning platform.

Diversity and equal opportunities are an important basis for economic success in a globalised world. KSB's binding human resources principles align with the Conventions of the International Labour Organization (ILO) and apply to all Group companies. The company selects candidates for positions exclusively on the basis of necessary professional requirements and the individual performance and potential of the applicant. Clear responsibilities were defined to support this process. Management works to ensure that the principles of equal opportunities and diversity are realised in company practice. Human Resources communicates these principles within the Group and adapts them where required. HR also fosters an awareness of this important topic and offers corresponding training and advice.

KSB also focuses on equal opportunities when filling management positions with at least one direct report. In 2021, the proportion of female managers in the Group remained unchanged compared with the previous year at 13 % (KSB SE & Co. KGaA: 10 %); the share of women in the total workforce is 16 % (KSB SE & Co. KGaA: 19 %). In order to achieve a more balanced mix of men and women in management, KSB implemented several measures in the year under review. Once again, these included local and global events for young female talent attended by members of Management. This supports KSB's efforts to ensure that talented women are seen and heard within the company. Specialised professional development opportunities are available to support female employees in planning their career and prepare them for their professional future. In addition, KSB is increasingly seeking to appoint women to management positions if applicants are equally qualified. Human Resources and managers make concerted efforts to approach potential female candidates, make them aware of their prospects and encourage them to take advantage of opportunities.

Challenges associated with the COVID pandemic arose once again in the form of school and nursery closures. The company provided its employees with mobile working options in order to ease the burden on parents in particular. In addition, many employees used flexible working time models to care for their family members.

A motivating work environment brings out the best in employees, fostering the commitment, passion and performance required for a company to succeed. KSB thus strives to be an attractive employer. The company regularly evaluates the satisfaction of its workforce by conducting a Group-wide employee survey every three years; the next one will be carried out in 2022. In the year under review, two shorter local surveys were conducted for the first time in the Region Europe West and at KSB Shanghai Pump Co., Ltd. in China in order to determine current levels of satisfaction among staff.

Employee engagement is a living part of KSB's corporate culture. Even under the difficult conditions of the second year of the pandemic, measures were taken worldwide to increase employee satisfaction and engagement. As in the previous year, virtual events continued to support open exchange between managers and employees. The company has introduced its own satisfaction brand to raise awareness within the Group workforce and support the internal communication of measures designed to boost engagement. These measures are regularly communicated within the company, for example via the Intranet.

Measures to promote employee engagement were undertaken in all companies in 2021, with managing directors reporting directly to Group Management on their implementation.

Due to pandemic-related restrictions, it was only occasionally possible for staff to meet for sports and leisure activities in 2021. As a substitute, virtual get-togethers were organised.

Results:

- KSB has made an HR tool introduced in 2020 available to all Group companies. It automates and standardises personnel-related processes.
- The number of completed training sessions recorded via the company's online learning platform increased again after a record year in 2020 to 31,322 (2020: 24,164). 9,473 (2020: 8,617) employees completed training sessions.
- In 2021, the vocational training department moved into the newly renovated vocational training centre in Frankenthal. This is where KSB's experts of the future are trained.

OCCUPATIONAL SAFETY AND HEALTH

Objectives:

Employee health and safety are top priorities for KSB. The company's goal is to protect staff from risks at work and to keep the number of occupational accidents as low as possible. By 2025, KSB aims to permanently reduce the number of days lost due to accidents to fewer than 0.3 days per employee (2021: 0.28 days). In addition, employees have access to a range of health-focused services.

Organisation, processes and measures:

KSB has set up an interdisciplinary COVID task force to respond quickly and flexibly to unfolding events. The company has established operational protective protocols at all locations. Remote working arrangements were put in place to reduce the risk of infection. In addition, locations introduced a range of measures and rules applying equally to employees and external parties depending on the local situation. These included general hygiene measures and avoiding business trips, face-to-face meetings as well as customer visits, and the implementation of mandatory requirements for wearing masks and keeping distance. The communication of appropriate hygiene measures and the distribution of protective masks were also part of the measures.

COVID-19 vaccination campaigns took place at the three largest German production locations. Employees gladly accepted the offer for first, second and booster vaccinations to protect themselves and those around them from the coronavirus.

The focus of accident prevention in everyday work at KSB is in the production areas due to their increased risk. Appropriate training, instruction and other preventive measures are implemented regularly. In the year under review, 36 production and assembly sites (including all factories of KSB SE & Co. KGaA) were certified according to the ISO 45001 international occupational health and safety standard. This represents 88 % of the locations.

2020 saw KSB begin introducing the global Vision Zero concept developed by the International Social Security Association (ISSA) in its production departments in order to reduce the number of occupational accidents. This aims to increase involvement of management staff so as to raise awareness of improved occupational safety and health. Managers learn about suitable measures that they can apply individually to their production facilities.

Local contact persons at all major production sites received training on the concept and its implementation. In the year under review, central Integrated Management assessed the current status of Vision Zero via quarterly surveys. In cases where the target of fewer than 0.3 accident-related days lost per employee was not met, members of staff responsible collaborated to identify causes and initiate suitable measures to achieve a long-term increase in safety. In 2021, this was the case at the locations of seven companies.

Occupational stress is an ever-increasing health hazard. In order to minimise psychological strains and to ensure a well-balanced work load, KSB completely revised an analysis form that has been available since 2013. Managers in Germany can use the form to record instances of psychological stress in the workplace and assess possible hazards.

KSB maintains an active occupational health management system with a holistic approach. As well as fulfilling the company's legal occupational health and safety obligations, this framework enables KSB to provide voluntary health-focused services such as flu vaccinations. To this end, the company offers ongoing health initiatives including support for giving up smoking and preventive health care courses.

110

In 2021, KSB contributed to 110 social projects and charitable initiatives worldwide.

Results:

- In Germany, the company medical service organised 2,897 first, second and booster vaccinations against COVID-19. 717 flu vaccinations were also administered.
- The number of accident-related days lost per employee and year was slightly higher than in the previous year at 0.28 (lost time accident rate).

Society

Objectives:

KSB strives to foster sustainable development and well-functioning cooperation within society. The company is therefore committed to providing financial support for organisations engaged in social initiatives. With its charitable commitments, KSB seeks to contribute to the development of the common good. By 2025, the company intends to support at least 25 social projects every year.

Organisation, processes and measures:

KSB's binding Donation Directive sets out for which purposes and under which conditions the company may make financial or material commitments. In this context, the focus is on supporting organisations and projects dedicated to the education, social support and protection of children and young people. The company is also committed to helping the disadvantaged. In the event of disasters it provides assistance to both people and organisations.

The year under review witnessed floods in many parts of the world which cost numerous lives and caused enormous destruction. KSB supported the victims of these flood disasters with financial resources and pump donations, for example in Germany, the Balkans and Indonesia.

KSB's Indian companies have traditionally been strongly committed to charitable organisations and institutions in the vicinity of their locations. The company has thus made a contribution to improving living conditions, especially for children and women. KSB also donated regularly to projects around the world to provide people with clean drinking water.

The company's social engagement sees KSB making a contribution towards achieving the United Nations' 17 Sustainable Development Goals. As in previous years, the company focused on health and well-being (goal 3), quality education (goal 4) and industry, innovation and infrastructure (goal 9).

Founded in 1942, the Geheimrat Dr. Jacob Klein-Unterstützungseinrichtung e.V. benevolent fund originally functioned to finance the KSB pension scheme. Since 1999, the charitable organisation has continued to support current and former employees of KSB SE & Co KGaA (including employees of the German Group companies) and their immediate families in cases of urgent financial need, for example, by providing grants for health care treatment and medical aids.

Results:

- In 2021, KSB participated in 26 social projects and 84 charitable initiatives worldwide.

More information on social commitment is available at **www.ksb.com/csr-en**.

Limited Assurance Report on the Combined Non-financial Report

To KSB SE & Co KGaA, Frankenthal

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting[1]

We have performed a limited assurance engagement on the combined non-financial report of KSB SE & Co KGaA, Frankenthal, (hereinafter the "Company") for the period from 1 January to 31 December 2021 (hereinafter the "Combined Separate Non-financial Report").

Not subject to our assurance engagement are the external sources of documentation or expert opinions mentioned in the Combined Separate Non-financial Report.

RESPONSIBILITY OF THE EXECUTIVE DIRECTORS

The executive directors of the Company are responsible for the preparation of the Combined Separate Non-financial Report in accordance with §§ (Articles) 315c in conjunction with 289c to 289e HGB („Handelsgesetzbuch": „German Commercial Code") and Article 8 of REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the „EU Taxonomy Regulation") and the Delegated Acts adopted thereunder, as well as for making their own interpretation of the wording and terms contained in the EU Taxonomy Regulation and the Delegated Acts adopted thereunder, as set out in section "EU-Taxonomy and KSB" of the Combined Separate Non-financial Report.

This responsibility includes the selection and application of appropriate non-financial reporting methods and making assumptions and estimates about individual non-financial disclosures of the Group that are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal controls as the executive directors consider necessary to enable the preparation of a Combined Separate Non-financial Report that is free from material misstatement whether due to fraud or error.

The EU Taxonomy Regulation and the Delegated Acts issued thereunder contain wording and terms that are still subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Therefore, the executive directors have disclosed their interpretation of the EU Taxonomy Regulation and the Delegated Acts adopted thereunder in section "EU-Taxonomy and KSB" of the Combined Separate Non-financial Report. They are responsible for the defensibility of this interpretation. Due to the immanent risk that indeterminate legal terms may be interpreted differently, the legal conformity of the interpretation is subject to uncertainties.

[1] PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the Combined Separate Non-financial Report and issued an independent practitioner`s report in German language, which is authoritative. The following text is a translation of the independent practitioner`s report.

INDEPENDENCE AND QUALITY CONTROL OF THE AUDIT FIRM

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

RESPONSIBILITY OF THE ASSURANCE PRACTITIONER

Our responsibility is to express a conclusion with limited assurance on the Combined Separate Non-financial Report based on our assurance engagement.

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the Company's Combined Separate Non-financial Report, other than the external sources of documentation or expert opinions mentioned in the Combined Separate Non-financial Report, are not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "EU-Taxonomy and KSB" of the Combined Separate Non-financial Report.

In a limited assurance engagement the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgement of the assurance practitioner.

In the course of our assurance engagement, we have, amongst other things, performed the following assurance procedures and other activities :

- Gain an understanding of the structure of the Group's sustainability organisation and stakeholder engagement
- Inquiries of the executive directors and relevant employees involved in the preparation of the Combined Separate Non-financial Report about the preparation process, about the internal control system relating to this process and about disclosures in the Combined Separate Non-financial Report
- Identification of likely risks of material misstatement in the Combined Separate Non-financial Report

- Analytical procedures on selected disclosures in the Combined Separate Non-financial Report
- Reconciliation of selected disclosures with the corresponding data in the consolidated financial statements and group management report
- Evaluation of the presentation of the Combined Separate Non-financial Report
- Evaluation of the process to identify taxonomy-eligible economic activities and the corresponding disclosures in the Combined Separate Non-financial Report
- Inquiries on the relevance of climate-risks

In determining the disclosures in accordance with Article 8 of the EU Taxonomy Regulation, the executive directors are required to interpret undefined legal terms. Due to the immanent risk that undefined legal terms may be interpreted differently, the legal conformity of their interpretation and, accordingly, our assurance engagement thereon are subject to uncertainties.

ASSURANCE OPINION

Based on the assurance procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Combined Separate Non-financial Report of the Company for the period from 1 January to 31 December 2021 is not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "EU-Taxonomy and KSB" of the Combined Separate Non-financial Report. We do not express an assurance opinion on the external sources of documentation or expert opinions mentioned in the Combined Separate Non-financial Report.

RESTRICTION OF USE

We draw attention to the fact that the assurance engagement was conducted for the Company's purposes and that the report is intended solely to inform the Company about the result of the assurance engagement. Consequently, it may not be suitable for any other purpose than the aforementioned.

Accordingly, the report is not intended to be used by third parties for making (financial) decisions based on it. Our responsibility is to the Company. We do not accept any responsibility to third parties. Our assurance opinion is not modified in this respect.

Frankfurt am Main, 9 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
Wirtschaftsprüfer
German public auditor

ppa. Meike Beenken

2

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

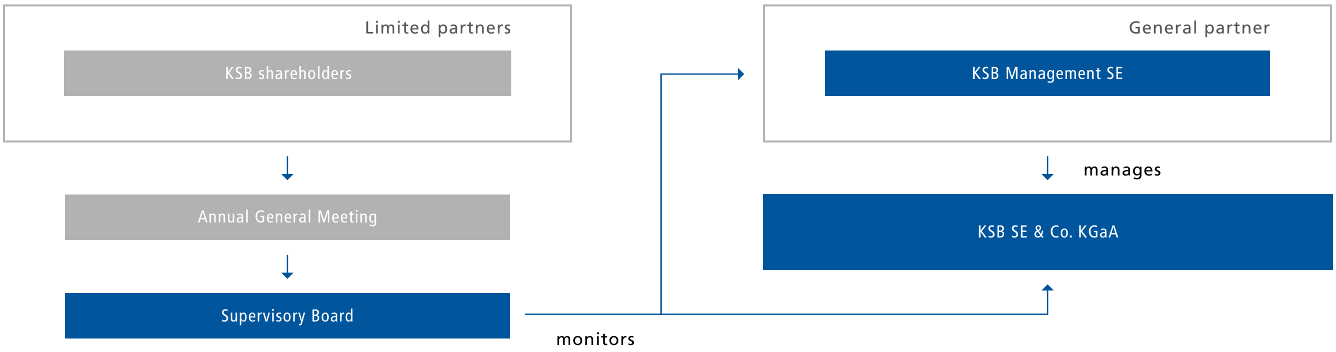
KSB SE & Co. KGaA was formed from KSB Aktiengesellschaft by entry in the *Handelsregister* [German Commercial Register] on 17 January 2018. The *Kommanditgesellschaft auf Aktien* (KGaA) [partnership limited by shares] is a common legal form in Germany for companies with a family- and foundation-dominated 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.

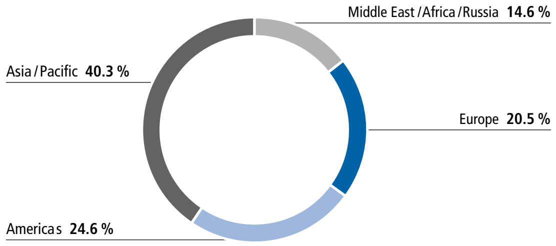
In the USA, government spending to shore up the economy, especially on infrastructure, as well as the recovery in consumer spending, brought significant economic growth of 5.6 %. This performance was above the forecast made at the beginning of the year despite the continuing difficult health situation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

€ thousands	Order intake 2021	Order intake 2020	Sales revenue 2021	Sales revenue 2020	EBIT 2021	EBIT 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.

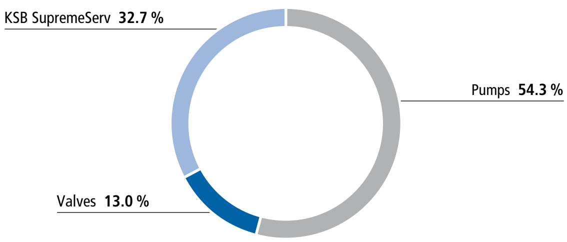
Europe remained by far the largest Region with sales revenue of € 1,261.4 million, followed by Asia / Pacific with € 557.4 million, Americas with € 376.7 million and the Region Middle East / Africa / Russia with € 148.0 million. The largest percentage increase was reported in the Region Asia / Pacific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

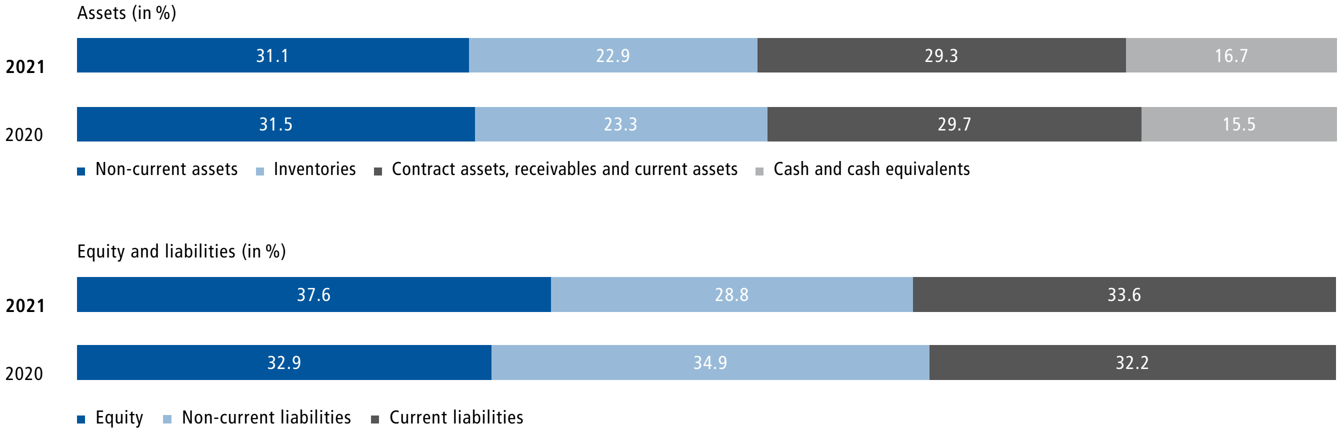
Net financial position

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.

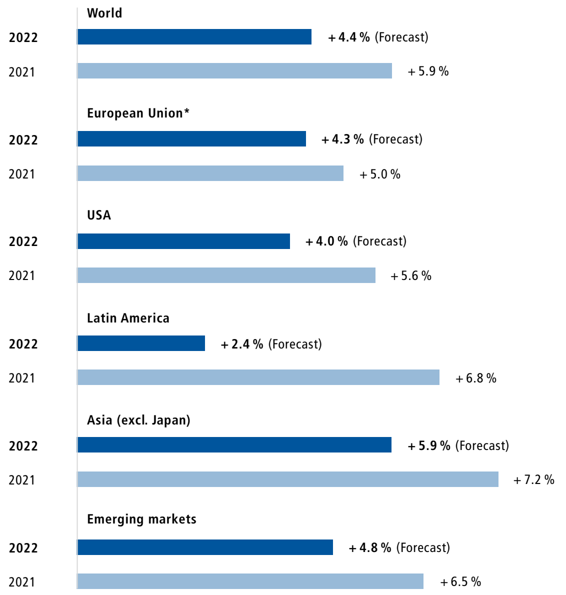
The IMF is projecting an overall growth rate of + 4.8 % for the emerging markets and developing countries.

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.

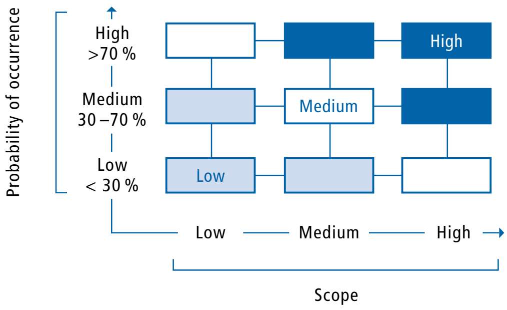
RISK MANAGEMENT SYSTEM

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.

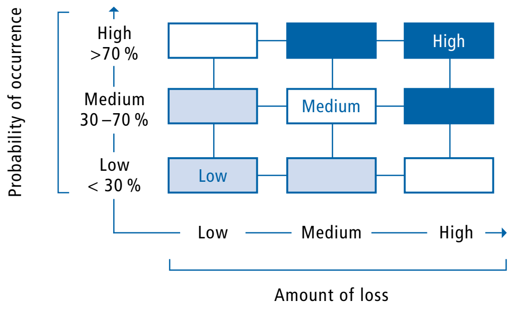
Managers are encouraged to take timely action to define and implement measures to limit or avoid damage that may result from the occurrence of risk events. All corporate and central functions and Group companies, including Group companies that are not consolidated, are included in the risk management 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.

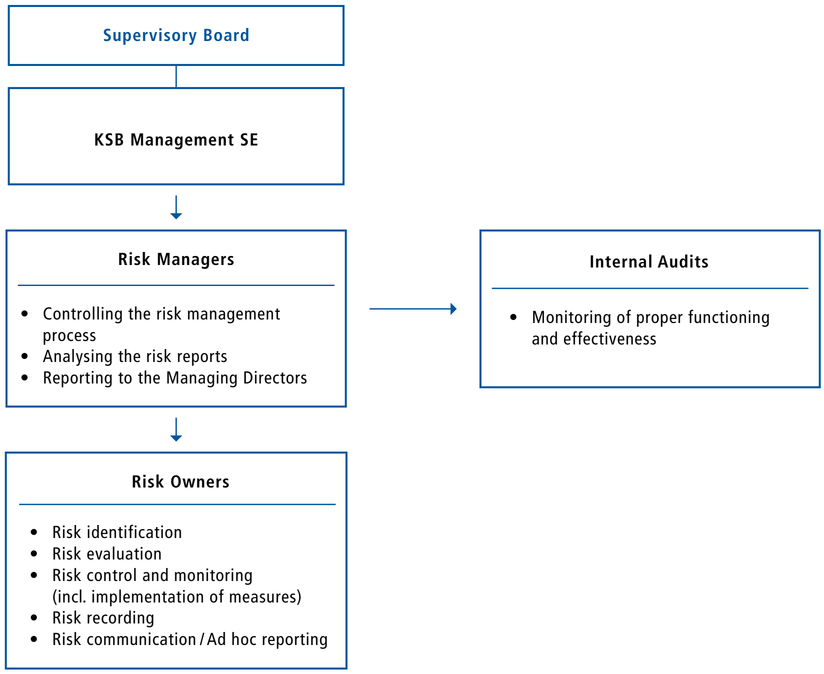
→ Qualitative risks – Quantitative risks

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.

3

Consolidated Financial Statements

Balance Sheet

Assets

€ thousands	Notes	31 Dec. 2021	31 Dec. 2020
Non-current assets			
Intangible assets	1	75,927	79,935
Right-of-use assets	2	42,709	41,641
Property, plant and equipment	3	537,786	500,680
Non-current financial assets	4	1,508	2,267
Other non-financial assets *	5	7,592	4,857
Investments accounted for using the equity method	6	20,184	19,787
Deferred tax assets	19	34,619	27,360
		720,325	**676,526**
Current assets			
Inventories	7	529,451	497,495
Contract assets	8	79,300	82,412
Trade receivables	8	479,244	444,174
Other financial assets *	8	80,140	80,655
Other non-financial assets	8	39,298	27,189
Cash and cash equivalents	9	386,683	331,512
		1,594,115	**1,463,437**
		2,314,440	**2,139,964**

* Compared with the 2020 consolidated financial statements, the presentation for the reporting year and for the previous year was amended so that the assets from defined benefit plans previously reported under current other financial assets are now shown under non-current other non-financial assets.

Further information is provided in the Notes to the consolidated financial statements.

Equity and Liabilities

€ thousands	Notes	31 Dec. 2021	31 Dec. 2020
Equity	**10**		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		563,316	416,439
Equity attributable to shareholders of KSB SE & Co. KGaA		674,751	527,874
Non-controlling interests		194,372	175,928
		869,123	**703,803**
Non-current liabilities			
Deferred tax liabilities	19	9,177	8,430
Provisions for employee benefits	11	629,245	684,858
Other provisions	11	1,569	3,017
Financial liabilities	12	27,067	50,624
		667,058	**746,929**
Current liabilities			
Provisions for employee benefits	11	7,677	10,168
Other provisions	11	93,451	79,674
Financial liabilities	12	51,898	32,033
Contract liabilities	12	157,389	153,690
Trade payables	12	272,813	237,558
Other financial liabilities	12	26,635	27,205
Other non-financial liabilities	12	157,466	136,045
Income tax liabilities	12	10,931	12,860
		778,258	**689,232**
		2,314,440	**2,139,964**

Further information is provided in the Notes to the consolidated financial statements.

Statement of Comprehensive Income

Income statement

€ thousands	Notes	2021	2020
Sales revenue	**13**	**2,343,577**	**2,207,881**
Changes in inventories		14,528	–15,214
Work performed and capitalised		1,997	3,186
Total output of operations		**2,360,102**	**2,195,853**
Other income	14	27,730	31,649
Cost of materials	15	–975,410	–899,579
Staff costs	16	–837,154	–804,831
Depreciation and amortisation	1 - 3	–80,892	–99,906
Other expenses	17	–353,215	–353,014
Earnings before finance income / expense and income tax (EBIT)		**141,161**	**70,172**
Finance income	18	10,425	5,374
Finance expense	18	–11,494	–12,100
Income from / expense to investments accounted for using the equity method	18	–157	–1,850
Finance income / expense		**–1,226**	**–8,576**
Earnings before income tax (EBT)		**139,935**	**61,596**
Taxes on income	19	–29,612	–57,216
Earnings after income tax		**110,323**	**4,380**
Attributable to:			
Non-controlling interests	20	16,675	14,015
Shareholders of KSB SE & Co. KGaA		**93,648**	**–9,635**
Diluted and basic earnings per ordinary share (€)	21	53.34	–5.63
Diluted and basic earnings per preference share (€)	21	53.60	–5.37

Further information is provided in the Notes to the consolidated financial statements.

Statement of income and expense recognised in equity

€ thousands	Notes	2021	2020
Earnings after income tax		**110,323**	**4,380**
Remeasurement of defined benefit plans	11	54,554	–43,540
Taxes on income		–8,289	–43,546
Remeasurement of defined benefit plans attributable to investments accounted for using the equity method		201	–32
Items not reclassified to profit or loss in subsequent periods		**46,466**	**–87,118**
Currency translation differences		28,704	–61,268
Changes in the fair value of financial instruments: Hedging reserve		–7,887	6,652
Taxes on income: Hedging reserve		2,035	–2,019
Changes in the fair value of financial instruments: Hedging cost reserve		3,617	464
Taxes on income: Hedging cost reserve		–1,108	–140
Expense and income recognised directly in equity relating to investments accounted for using the equity method		1,622	–1,154
Items reclassified to profit or loss in subsequent periods if required		**26,983**	**–57,465**
Other comprehensive income		**73,449**	**–144,583**
Total comprehensive income		**183,772**	**–140,203**
Attributable to:			
Non-controlling interests		30,367	–2,837
Shareholders of KSB SE & Co. KGaA		**153,405**	**–137,366**

Further information is provided in the Notes to the consolidated financial statements.

Statement of Changes in Equity

€ thousands	Subscribed capital of KSB SE & Co KGaA	Capital reserve of KSB SE & Co. KGaA
1 Jan. 2020	**44,772**	**66,663**
Other comprehensive income	–	–
Earnings after income tax	–	–
Total comprehensive income	**–**	**–**
Dividends paid	–	–
Capital increase / decrease	–	–
Step acquisitions	–	–
Other	–	–
31 Dec. 2020	**44,772**	**66,663**

€ thousands	Subscribed capital of KSB SE & Co. KGaA	Capital reserve of KSB SE & Co. KGaA
1 Jan. 2021	**44,772**	**66,663**
Other comprehensive income	–	–
Earnings after income tax	–	–
Total comprehensive income	**–**	**–**
Dividends paid	–	–
Capital increase / decrease	–	–
Step acquisitions	–	–
Other	–	–
31 Dec. 2021	**44,772**	**66,663**

Revenue reserves								
	Other comprehensive income							
Other revenue reserves	Currency translation differences	Changes in the fair value of financial instruments: Hedging reserve	Changes in the fair value of financial instruments: Hedging cost reserve	Remeasurement of defined benefit plans	Equity attributable to shareholders of KSB SE & Co. KGaA	Non-controlling interests	Total equity
892,652	**–95,765**	**–3,298**	**–606**	**–224,067**	680,351	**182,210**	862,562
–	–46,364	4,611	324	–86,302	–127,731	–16,852	–144,583
–9,635	–	–	–	–	–9,635	14,015	4,380
–9,635	**–46,364**	**4,611**	**324**	**–86,302**	–137,366	**–2,837**	–140,203
–15,111	–	–	–	–	–15,111	–3,445	–18,556
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–1,696	–	–	–	1,696	–	–	–
866,210	–142,129	1,313	–282	–308,673	527,874	175,928	703,803

	Other comprehensive income						
Other revenue reserves	Currency translation differences	Changes in the fair value of financial instruments: Hedging reserve	Changes in the fair value of financial instruments: Hedging cost reserve	Remeasurement of defined benefit plans	Equity attributable to shareholders of KSB SE & Co. KGaA	Non-controlling interests	Total equity
866,210	**–142,129**	**1,313**	**–282**	**–308,673**	527,874	**175,928**	703,803
–	17,961	–5,852	2,509	45,139	59,757	13,692	73,449
93,648	–	–	–	–	93,648	16,675	110,323
93,648	**17,961**	**–5,852**	**2,509**	**45,139**	153,405	**30,367**	183,772
–7,230	–	–	–	–	–7,230	–11,923	–19,153
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
702	–	–	–	–	702	–	702
953,330	–124,168	–4,539	2,227	–263,534	674,751	194,372	869,123

Statement of Cash Flows

€ thousands	2021	2020
Earnings after income tax	110,323	4,380
Taxes on income	29,611	57,216
Finance income	–10,425	–5,374
Finance expense	11,494	12,100
Depreciation and amortisation	80,892	99,906
Gain / loss on disposal of intangible assets and property, plant and equipment	389	881
Gain / loss on the sale of subsidiaries	–	2,654
Change in inventories	–17,903	15,051
Change in contract assets	3,369	–7,699
Change in trade receivables	–23,214	35,226
Change in provisions	–1,790	6,455
Change in contract liabilities	–3,046	–252
Change in trade liabilities	15,511	–3,723
Change in other assets and liabilities	3,953	–10,134
Income tax paid	–44,835	–28,142
Interest received	9,587	5,310
Cash flows from operating activities	**163,916**	**183,855**
Proceeds from disposal of intangible assets and property, plant and equipment	1,276	1,392
Payments to acquire intangible assets and property, plant and equipment	–73,972	–83,073
Sale of subsidiaries and other operations less cash and cash equivalents sold	481	1,374
Proceeds from deposits with an original maturity of more than 3 months	2,888	47,800
Payments for deposits with an original maturity of more than 3 months	–4,282	–38,601
Proceeds from investments in Group companies that are not fully consolidated	710	100
Payments for investments in Group companies that are not fully consolidated	–2,193	–1,466
Proceeds from dividends from Group companies that are not fully consolidated	733	750
Proceeds from capitalisation measures with Group companies that are not fully consolidated	–	–
Payments for capitalisation measures with Group companies that are not fully consolidated	–2,030	–514
Cash flows from investing activities	**–76,389**	**–72,238**
Dividends paid to shareholders of KSB SE & Co. KGaA	–7,230	–15,111
Dividends paid to non-controlling interests	–11,924	–3,445
Proceeds from financial liabilities	9,893	1,367
Payments for financial liabilities (not including lease liabilities)	–14,395	–9,032
Repayment of lease liabilities	–16,917	–16,848
Interest paid	–2,852	–5,407
Cash flows from financing activities	**–43,425**	**–48,476**
Changes in cash and cash equivalents	44,102	63,141
Effects of exchange rate changes on cash and cash equivalents	8,353	–12,504
Effects of changes in consolidated Group	2,716	–
Cash and cash equivalents at beginning of period	331,512	280,875
Cash and cash equivalents at end of period	**386,683**	**331,512**

Further information is provided in Section VII. Statement of Cash Flows in the Notes to the consolidated financial statements.

Notes

I. GENERAL INFORMATION AND BASIC PRINCIPLES

General Information on the Group

KSB SE & Co. KGaA, Frankenthal / Pfalz, Germany, is a capital market-oriented *Kommanditgesellschaft auf Aktien* [partnership limited by shares] under the law of the Federal Republic of Germany. The company is registered with the *Handelsregister* [German Commercial Register] of the *Amtsgericht* [Local Court] Ludwigshafen am Rhein, registration No. HRB 65657, and has its registered office at Johann-Klein-Straße 9, 67227 Frankenthal / Pfalz, Germany. KSB SE & Co. KGaA was formed from KSB Aktiengesellschaft by entry in the German Commercial Register on 17 January 2018. 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 jointly managed by its two shareholders, the non-profit KSB Stiftung [KSB Foundation], Stuttgart, and the non-profit Kühborth-Stiftung GmbH [Kühborth Foundation], Stuttgart. KSB SE & Co. KGaA and thus the KSB Group are managed via KSB Management SE, which has four Managing Directors and a five-member Administrative Board.

KSB SE & Co. KGaA is the ultimate and immediate parent company whose consolidated financial statements include the single-entity financial statements of KSB SE & Co. KGaA. The consolidated financial statements of KSB SE & Co. KGaA prepared in accordance with International Financial Reporting Standards as adopted by the EU are published in the *Bundesanzeiger* [German Federal Gazette].

The KSB Group (hereinafter also called "KSB" or the "Group") is a global supplier of high-quality pumps, valves and related systems and also provides a wide range of support services to users of these products. The breakdown of the Group's business activities by segment has changed as of the 2021 financial year, as explained in Section VIII. Segment Reporting in these Notes, and is now based on the three new Pumps, Valves and KSB SupremeServ Segments.

Basis of preparation of the consolidated financial statements

The accompanying consolidated financial statements of KSB SE & Co. KGaA were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the additional requirements of German commercial law under Section 315e(1) HGB [*Handelsgesetzbuch* – German Commercial Code]. To do so, the Conceptual Framework and all Standards applicable at the reporting date and adopted by the European Commission for use in the EU that are of relevance to the KSB Group as well as the interpretations of the IFRS Interpretations Committee were applied. For the purposes of this document, the term IFRSs includes applicable International Accounting Standards (IASs). The consolidated financial statements of KSB SE & Co. KGaA therefore meet the requirements of the IFRSs as adopted by the EU. The consolidated financial statements were prepared on a going concern basis in accordance with IAS 1.25. On principle, the historical cost is the measurement basis used for the consolidated financial statements, unless Section III. Accounting Policies provides otherwise.

Amounts in this report are generally presented in thousands of euros (€ thousands) using standard commercial rounding rules. Due to rounding, there may be minor differences in the totals and percentages presented in this report.

The financial year of the companies consolidated is the calendar year.

The income statement as part of the statement of comprehensive income has been prepared using the nature of expense method.

All material items of the balance sheet and the income statement are presented separately and explained in these Notes.

The main accounting policies used to prepare the consolidated financial statements are presented below. The policies described were applied consistently for the reporting periods presented unless stated otherwise.

The consolidated financial statements, the annual financial statements of the parent company and the combined management report are submitted to and published in the *Bundesanzeiger*.

The consolidated financial statements are approved by the Managing Directors of KSB Management SE on 9 March 2022 for forwarding to the Supervisory Board. The Supervisory Board is expected to approve the financial statements on 17 March 2022.

New accounting principles

a) Accounting principles applied for the first time in the 2021 financial year
The new or revised accounting Standards and Interpretations listed below which were adopted for the first time in the reporting year had no or no material impact on the Group's net assets, financial position and results of operations.

KSB made use of the practical expedient from the IASB pronouncement on COVID-19-Related Rent Concessions after 30 June 2021 as an amendment to IFRS 16 Leases in the 2021 financial year. As in the previous year, the treatment of rent concessions identified to be a direct result of the coronavirus pandemic was simplified compared with the regular presentation of lease modifications. From the Group's perspective, the extent of such rent concessions was not material in the reporting year.

b) Accounting principles that have been published but that are not yet mandatory
The new or revised Accounting Standards and Interpretations listed below were not yet mandatory and were not applied in the 2021 financial year.

As a matter of principle, the new or revised Standards or Interpretations shown in the table have not been adopted early. We expect no or no material effects on our net assets, financial position or results of operations from these amendments.

Accounting principles applied for the first time in the 2021 financial year

	First-time adoption in the EU
Amendments to IFRS 4 Insurance Contracts	1 Jan. 2021
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases (Interest Rate Benchmark Reform – Phase 2)	1 Jan. 2021
Amendments to IFRS 16 Leases by IASB pronouncement on COVID-19-Related Rent Concessions after 30 June 2021	1 April 2021

Accounting principles that have been published but that are not yet mandatory

	First-time adoption in the EU
Amendments to IFRS 3 Business Combinations	1 Jan. 2022
Amendments to IAS 16 Property, Plant and Equipment	1 Jan. 2022
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Receivables	1 Jan. 2022
Annual improvements to IFRSs (2018–2020 cycle) by amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture	1 Jan. 2022
IFRS 17 Insurance Contracts, including amendments to IFRS 17	1 Jan. 2023

II. CONSOLIDATION PRINCIPLES

Consolidated Group

As at 31 December 2021, in addition to KSB SE & Co. KGaA, 9 German and 77 foreign companies (previous year: 9 German and 76 foreign companies) were fully consolidated in the consolidated financial statements. A majority interest is held, either directly or indirectly, in the voting power of these subsidiaries which the KSB Group has the option to control under IFRS 10.

Subsidiaries are companies controlled by the Group. The Group controls a company if it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power of disposition over the company. The financial statements of subsidiaries are included in the Group's financial statements from the date on which control begins until the date on which control ends. Changes in the investment ratio that do not result in a loss of control are treated as a transaction between shareholders and recognised directly in equity. Such transactions do not result in the recognition of goodwill or the realisation of disposal profits.

The consolidation principles apply accordingly to the five joint ventures and associated companies accounted for using the equity method as at 31 December 2021. Upon the loss of joint control or significant influence any retained interest in the investee is remeasured at fair value through profit or loss.

Associates are companies in which the Group has significant influence but does not have control or joint control over financial and business policy. A joint venture is an agreement through which the Group exercises joint control, in that it has rights to the net assets of the agreement rather than rights to its assets and obligations for its liabilities. The shares in companies included at-equity are measured at cost of acquisition plus or minus cumulative changes in net assets, with recognised goodwill reported in the carrying amount of the investment.

The Thai company KSB Pumps Co. Ltd., Bangkok, and the Indian company KSB Limited, Pimpri (Pune), are included in the group of fully consolidated affiliates despite the fact that KSB holds less than 50 % of the voting rights. KSB does, however, have the power to determine their business and financial policies and thus the level of variable returns.

KSB gained control over KSB Limited, Pimpri (Pune), in which KSB owns 40.54 % of the shares, through contractual agreements with other shareholders. These agreements ensure that KSB has the majority of voting rights in management committees and also exercises control over the budget.

Likewise, KSB exercises control over KSB Pumps Co. Ltd., Bangkok, in which it owns 40 % of the shares, through additional agreements which give KSB the majority of voting rights in management committees and control over the budget.

Companies that were not consolidated due to there being no material impact are reported as other investments under non-current other financial assets.

Changes in the consolidated Group

In the 2021 financial year, there were the following changes in the consolidated Group, none of which had a material impact on the Group's assets, financial position and results of operations.

The companies KSB Perú S.A., Lurin, Peru, KSB Algérie Eurl, Bordj el Kifane, Alger, Algeria, and KSB PUMPS AND VALVES LIMITED, Nairobi, Kenya, which were previously not consolidated due to immateriality, are now included as fully consolidated companies of the Group. As part of the first-time consolidation of these companies as at 1 January 2021, assets and liabilities totalling € 5,800 thousand were included in the consolidated balance sheet. The total contribution of the three companies to the Group's earnings after income tax amounted to € 477 thousand in the reporting year.

In addition, KSB Egypt SOC, Cairo, Egypt, KSB Service Egypt LLC, Cairo, Egypt, KSB BOMBAS E VÁLVULAS (ANGOLA), LDA, Belas, Angola, and KSB Panama S.A., Panama City, Panama, were founded. None of the companies newly founded in the 2021 financial year are consolidated for reasons of immateriality.

The South African-based and previously fully consolidated company FORTY FOUR ACTIVIA PARK (PTY) LTD, Germiston (Johannesburg), was liquidated in the reporting year.

The previously fully consolidated company VM Pumpar AB, Gothenburg, Sweden, was merged with its previous shareholder, the Group subsidiary KSB Sverige Aktiebolag, Gothenburg, Sweden.

The shares in FluidPartner GmbH, Stein, Germany, which had previously not been consolidated for reasons of immateriality, were sold in the 2021 financial year. By contrast, the Group's share in KSB ZAMBIA LIMITED, Kitwe, Zambia, which was also not consolidated due to immateriality, increased from 80 % in the previous year to 100 %.

A 60 % interest was acquired in KSB Pumps and Valves Nigeria Ltd, Lagos, Nigeria, which formerly operated as JUAL - EMAC NIG LTD. For reasons of immateriality the company was not consolidated.

A full list of the shareholdings held by the KSB Group is provided at the end of these Notes to the consolidated financial statements.

Compared with the presentation in the Annual Report 2020, the list of shareholdings now includes all five subsidiaries of D.P. Industries B.V., Alphen aan den Rijn, Netherlands, which are listed individually and no longer as a whole entity together with their immediate parent company. Accordingly, these companies are included as individual Group subsidiaries as at the reporting date in the "Changes in the consolidated Group" sub-section above. The previous year's disclosures were adjusted accordingly.

Consolidation methods

For the purposes of consolidation, the effects of any intercompany transactions are eliminated in full. Any receivables and liabilities between the consolidated companies are offset against each other, and any unrealised gains and losses recognised in fixed assets and inventories are eliminated. Any revenues from intercompany sales are offset against the corresponding expenses.

Capital consolidation is based on the purchase method of accounting pursuant to IFRS 3. This means that the amortised cost of the parent's shares in the subsidiary is eliminated against the remeasured equity attributable to the parent at the date of acquisition.

Any goodwill created from the application of the purchase method denominated in a currency other than the functional currency of the KSB Group is measured at the relevant current closing rate. Goodwill is reported under intangible assets and tested for impairment at least once a year. If an impairment is identified, an impairment loss is recognised. Any excess of our interest in the fair values of net assets acquired over cost is recognised in profit or loss in the year it occurred.

Those shares of subsidiaries' equity not attributable to KSB SE & Co. KGaA are reported as non-controlling interests. Further explanations on non-controlling interests of other shareholders are included under Notes No. 10 Equity.

Currency translation

The consolidated financial statements have been prepared in euro (€). Unless otherwise stated, amounts in this report are presented in thousands of euros (€ thousands) using standard commercial rounding rules.

Currency translation is effected on the basis of the functional currency of the consolidated companies. As in the previous year, the functional currency is exclusively the local currency of the company consolidated, as it operates as a financially, economically and organisationally independent entity.

Transactions denominated in foreign currencies are translated at the individual companies at the rate prevailing when the transaction is initially recognised. Monetary assets and liabilities are subsequently measured at the closing rate. Measurement effects are recognised in the income statement.

When translating financial statements of consolidated companies that are not prepared in euro, assets and liabilities are translated at the closing rate; the income statement accounts are translated at average exchange rates (modified closing rate method). The sole exception as at 31 December 2021 was the translation of the financial statements of KSB Compañía Sudamericana de Bombas S.A., Carapachay (Buenos Aires), Argentina, where, as in the previous year, the income statement items were translated at the closing rate in application of IAS 29 Financial Reporting in Hyperinflationary Economies. Gains and losses from the translation of items of assets and liabilities compared with their translation in the previous year are taken directly to equity in other comprehensive income and reported under currency translation differences.

The exchange rates of the most important currencies for the KSB Group at the reporting date and on an annual average are as shown in the table below.

→ Exchange rates of the most important currencies

Hyperinflation

Argentina has been rated as a hyperinflation country for accounting purposes since 2018. As such, KSB is following the information of the International Practices Task Force (IPTF) of the Center of Audit Quality (CAQ). Based on this assessment, activities in Argentina have been reported under IAS 29 Financial Reporting in Hyperinflationary Economies. No further information was provided as the impact on the Group's net assets, financial position and result of operations was not material.

Exchange rates of the most important currencies

	Closing rate		Average rate	
	31 Dec. 2021	31 Dec. 2020	2021	2020
US dollar	1.1326	1.2271	1.1827	1.1422
Brazilian real	6.3101	6.3735	6.3784	5.8943
Indian rupee	84.2292	89.6605	87.4355	84.6392
Chinese yuan	7.1947	8.0225	7.6280	7.8747

III. ACCOUNTING POLICIES

Acquisition and production costs

In addition to the purchase price, acquisition cost includes attributable incidental costs (except for costs associated with the acquisition of a company) and subsequent expenditure. Purchase price reductions are deducted.

As well as directly allocated costs, production costs also include reasonable proportions of material and production overheads based on standard capacity utilisation of the relevant production facilities, if and to the extent these were incurred as part of the production process. This also includes production-related administrative expenses. General administrative expenses, research costs and selling expenses are not capitalised.

Borrowing costs as defined in IAS 23 that can be directly allocated to the acquisition or production of qualifying assets are capitalised. As in the previous year no such borrowing costs were incurred.

Fair value

Fair value is the price that independent market participants would, under standard market conditions, receive when selling an asset or pay when transferring a liability at the measurement date. This applies irrespectively of whether the price is directly observable or has been estimated using a measurement method.

The KSB Group defined a monitoring framework concept for determining fair value. This includes the monitoring of all material measurements at fair value and the direct communication of material facts to Management and, if necessary, to the audit committee. For the purposes of calculating fair value, KSB makes use wherever possible of estimates from market participants or estimates derived from these. As an initial step, regular checks are made to ascertain if there are current prices on active markets for an identical transaction. If no quoted market prices are available, the preference is to use the market-based approach (deriving the fair value from the market or transaction prices of comparable assets, for example multipliers) or the income-based approach (calculation of fair value as a future value by discounting future cash surpluses).

Based upon the input factors used in the measurement methods, fair values are assigned to different levels of the fair value hierarchy.

- Level 1: Quoted prices (unadjusted) on active markets for identical assets and liabilities
- Level 2: Measurement parameters that are not the quoted prices taken into account for level 1, but that are observable for the asset or the liability either directly as a price or indirectly derived from prices
- Level 3: Measurement parameters for assets or liabilities that are not based on observable market data

If input factors categorised into different levels are included in the fair value measurement, the measurement must be categorised in its entirety in the level of the lowest level input factor that is material for the entire measurement.

Reclassifications between different levels in the fair value hierarchy are recognised at the end of the reporting period during which the change has occurred.

Financial assets and financial liabilities

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised in the consolidated balance sheet at the time when KSB becomes a contractual party. When the contractual right to payments from financial assets expires, these are derecognised. Financial liabilities are derecognised at the time when the contractual obligations are settled or cancelled or have expired. The acquisition and sale of financial instruments on an arm's length basis are recognised at the value at the date of settlement. This applies to primary financial instruments, such as trade receivables and financial receivables. Only derivative financial instruments are recognised at the value at the trade date.

a) Primary financial instruments
In the KSB Group, primary financial instruments are allocated to the following measurement categories as financial assets and financial liabilities based on the requirements of IFRS 9:

Financial assets:

- Financial assets at amortised cost – Receivables, credits, cash and cash equivalents, loans and other financial assets
- Financial assets at fair value through profit or loss (FVPL) – Financial instruments

Financial liabilities:

- Financial liabilities at amortised cost – Loans, trade payables and other financial liabilities

Financial assets and liabilities are reported at fair value on initial recognition. Financial assets and liabilities that are not measured at fair value are recognised after adjustment for transaction costs. Subsequent measurement is in line with the measurement category allocated to the financial asset or financial liability.

The fair value option is not being used at the moment.

b) Derivatives
Derivatives are exclusively used for hedging purposes. Future cash flows and existing recognised underlyings are hedged against foreign currency and interest rate risks. The hedging instruments used are exclusively currency forwards and interest rate derivatives entered into with prime-rated banks. The hedged currency risk is mainly in US dollars. Interest rate risks are minimised for long-term borrowings at floating rates of interest. Group guidelines govern the use of these instruments. These transactions are also subject to continuous risk monitoring.

Derivative financial instruments are categorised as at fair value through profit or loss unless they are part of hedge accounting. In the case of designated cash flow hedges, changes in the fair value of the effective portions of the currency derivatives are recognised under other comprehensive income and reported under "Changes in the fair value of financial instruments" in equity for as long as the underlying transaction is not recognised in the income statement. Only the spot element of the derivative hedging instrument is designated, while the forward element and currency basis spreads are excluded from the hedge and reported separately in the hedging cost reserve in other comprehensive income. Any ineffectiveness and changes in the market value of currency forwards not designated as hedges are recognised in the income statement.

Changes in the fair value of interest rate derivatives used to hedge against interest rate risks in liabilities are recognised under other comprehensive income and reported under "Changes in the fair value of financial instruments" in equity.

The carrying amounts equal fair value and are determined on the basis of input factors observable either directly (as a price) or indirectly (derived from prices). Fair values may be positive or negative. Fair value is the amount that KSB would receive or have to pay at the reporting date to settle the financial instrument. This amount is determined using the relevant exchange rates, interest rates and counterparty credit ratings at the reporting date. Information is obtained solely from recognised external sources.

Currency forwards and interest rate swaps are reported under other financial assets, and under other financial liabilities.

The maturities of the currency derivatives used are, as in the previous year, mostly between one and two years. As in the previous year, there were no interest rate derivatives in the reporting year. The maturities of the hedging instruments are matched to the period in which the forecast transactions are expected to occur. In the reporting year, almost all hedged forecast transactions occurred as expected.

Intangible assets
Intangible assets are recognised at (acquisition or production) cost and reduced by straight-line amortisation. Depreciation / amortisation is reported under "Depreciation / amortisation" in the income statement. The underlying useful life of intangible assets – excluding goodwill (indefinite useful life) – is between 2 and 15 years. If an intangible asset's recoverable amount is lower than its carrying amount, an impairment loss is recognised. Impairment testing is carried out at least once a year for goodwill, other intangible assets with indefinite useful lives and intangible assets under development at the reporting date. In addition, all types of intangible assets are subject to impairment testing if there are indications as defined in IAS 36 of a possible impairment. If the reasons for an impairment loss in a previous period no longer apply, it is reversed up to a maximum of amortised cost (write-up), with the exception of goodwill.

Goodwill is scheduled to be tested for impairment once a year. The test relates to cash-generating units (CGUs). The delimitation of the cash-generating units for the impairment test according to IAS 36 changed in the reporting year compared with the previous year in the course of the introduction of the Group's new segmentation. As of the reporting year, the cash-generating units are generally represented by the respective share in a legal entity that is allocated to an operating segment. The Group's total of five newly defined operating segments encompass Energy, Mining and Standard Markets for new business with Pumps, new business with Valves and KSB SupremeServ. A legal entity comprises several cash-generating units if the main business activities are spread over several operating segments. Further details on KSB's new segmentation are provided in Section VIII. Segment Reporting in these Notes to the consolidated financial statements. In the previous year, however, the cash-generating units as per the former segmentation generally corresponded to the legal entities.

The goodwill is reduced by the difference in value or down to zero at maximum if the value in use is lower than the carrying amount of the CGU. If the difference exceeds the carrying amount of goodwill, further impairment testing is required at the level of intangible assets, rights to use leased assets and property, plant and equipment. Reversal of an impairment loss from an earlier period is not possible for goodwill.

The discounted cash flow model is used to determine the recoverable amount (value in use). The future earnings (EBIT in accordance with IFRS) applied are taken from a multi-year financial plan (five years), based on the 30 September reporting date taking into account the medium-term strategy approved by Management for the respective cash-generating unit. This planning is carried out based on certain assumptions which are drawn from both forecasts from external sources, e.g. current German Mechanical Engineering Industry Association (VDMA) publications, and own experience-based knowledge of markets and competitors. The earnings of the last plan year are consistently extrapolated as a constant, if that level is considered to be achievable in the long term. Growth rates are derived taking account of the estimates with regard to economic circumstances. The Group regularly tests goodwill for impairment in the fourth quarter of every year based on the figures as per 30 September of the year in question. In addition, a review of impairment is always carried out when events or circumstances ("trigger events") suggest that the value could be impaired.

In order to assess the risk of impairment of material goodwill, the Group also performs sensitivity analyses as part of its impairment testing. To this end, changes deemed possible in material assumptions underlying the calculation of the value in use are taken into account.

When companies are acquired, purchase price allocations are made and the fair value of the assets and liabilities acquired is determined. In addition to the assets and liabilities already recognised by the selling party, account is also taken of marketing-related aspects (primarily brands or trademarks and competitive restrictions), customer-related aspects (primarily customer lists, customer relations and orders on hand), contract-related aspects (mainly particularly advantageous service, work, purchasing and employment contracts) as well as technology-related aspects (primarily patents, know-how and databases). The residual value method, the excess earnings method and cost-oriented procedures are primarily applied to determine values.

Development costs are capitalised as internally generated intangible assets at cost where the criteria described in IAS 38 are met and reduced by straight-line amortisation as from the time the asset becomes operational. Research costs are expensed as incurred. Where research and development costs cannot be reliably distinguished within a project, no costs are capitalised.

Leases

According to IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For leases where KSB is the lessee, lease liabilities and right-of-use assets (rights to use leased assets) must be recognised on the balance sheet. Leases of low value assets and short-term leases with a term of up to 12 months are exempt from this provision as KSB has elected to make use of the practical expedient of accounting for lease payments as an expense. In this context, leased assets with a fair value of up to € 5,000 are defined as low-value assets.

Lease liabilities and right-of-use assets are generally recognised at the time at which the leased asset is made available to KSB by the lessor for use. The carrying amount of the two items is essentially based on the present value of the future minimum lease payments. It is discounted using the incremental borrowing rate of KSB if no interest rate implicitly underlying the lease is available. Extension and termination options are included in the term and the carrying amounts of a lease if it is deemed reasonably certain that they will be exercised by KSB. Only lease components and in particular no separate service components are taken into account in the measurement of lease payments. The right-of-use assets are depreciated over the economic useful life of the leased asset or over the term of the lease, whichever is shorter. Lease liabilities are subsequently measured at amortised cost using the effective interest rate method in the form of a redemption and interest portion. Changes in lease payments are taken into account through re-measurements of lease liabilities. The interest expense for the lease liability and depreciation / amortisation expense for the right-of-use asset are recognised separately.

KSB's activities as a lessor mainly relate to operating leases. The associated lease payments are recognised by KSB as income on a pro rata basis.

Property, plant and equipment

In accordance with IAS 16, property, plant and equipment is measured at cost and reduced by straight-line depreciation over its useful life. If an asset's recoverable amount is lower than its carrying amount, an impairment loss is recognised. Impairment testing of property, plant and equipment is always carried out if there are indications as defined in IAS 36 of a possible impairment. If the reasons for an impairment loss recognised in a previous period no longer apply, the impairment loss is reversed (write-up) up to a maximum of amortised cost.

Government grants relating to property, plant and equipment are transferred to an adjustment item on the liabilities side. This adjustment item is reversed over a defined utilisation period. As far as government grants recognised which are to be held for specific periods of time are concerned, these periods are expected to be complied with.

Maintenance expenses are recognised as an expense in the period in which they are incurred, unless they lead to the expansion or material improvement of the asset concerned.

The following useful lives are applied:

Useful life of property, plant and equipment

Buildings	10 to 50 years
Plant and machinery	5 to 25 years
Other equipment, operating and office equipment	3 to 25 years

Non-current financial assets

Interest-bearing loans are recognised at amortised cost, whereas non-current financial instruments are recognised in the income statement at fair value as at the reporting date. Financial assets such other cash deposits are subject to an expected default risk. The impairment loss is calculated based on the loan amount on the closing or reporting date, the loss ratio of the loan amount and the term-weighted credit default spreads as a benchmark for probability of failure. Furthermore, partial or complete impairment is recognised as soon as there are signs of an increase in default risk. No significant default risks of counterparties were determined during the year. They were within investment grade as a whole.

Non-current other non-financial assets

Investments in non-consolidated subsidiaries are measured at amortised cost.

Investments accounted for using the equity method

Investments accounted for using the equity method are companies in which the parties exercise joint control (joint venture) or have the power to exercise significant influence over the companies' operating and financial policies (associate); this is usually the case where an entity holds between 20 % and 50 % of the voting power. These assets are recognised at cost at the time of acquisition. If the costs of acquisition exceed the share of the net assets, adjustments are made on the basis of the fair value (pro rata hidden reserves and liabilities). The remaining amount is recognised as goodwill. It forms part of the carrying amount of the joint venture or associate and is not amortised. For subsequent measurement, the carrying amounts are increased / reduced annually by the pro-rata earnings, distributed dividends or other changes in equity of the joint venture or the associate. If local accounting principles differ from the Group's standard accounting policies, adjustments are made accordingly. The share of earnings is reported in the consolidated income statement in a separate line (earnings from investments accounted for using the equity method), and changes such as currency translation effects are taken directly to Group equity. If the losses attributable to the KSB Group correspond to the carrying amount of the company or exceed this, they are not recognised unless KSB has entered into obligations or has made payments for the company. Intercompany gains and losses from transactions between Group companies and investments accounted for using the equity method are offset against the carrying amount in profit or loss. At each reporting date, a review is carried out to determine whether there are any objective indications of impairment, and the amount of such impairment is calculated if required. If the carrying amount exceeds the recoverable amount of an investment, it is written down to the recoverable amount. Any impairments or reversals of impairments are reported in the consolidated income statement under finance income / expense.

Inventories

Pursuant to IAS 2, inventories are recognised at the lower of cost and net realisable value as at the reporting date. Cost is measured using the weighted average method. KSB takes account of the inventory risks resulting from slow-moving goods or impaired marketability through write-downs to the net realisable value. This also applies if the selling price is lower than production cost plus costs still to be incurred. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up).

Advance payments made on inventories are also presented under inventories because of the correlation and expected realisation of these advances (through conversion into inventories) within the normal business cycle.

Contract assets and contract liabilities
A contract asset shows KSB's claim to consideration in exchange for goods or services transferred to customers, with the right to payment being not only conditional on the passage of time but also on the satisfaction of an overall contractual performance obligation by KSB. By contrast, receivables reflect KSB's unqualified claim to consideration. A contract liability also represents KSB's obligation to transfer goods or services to a customer. However, in these cases KSB has already received consideration from a customer that exceeds the amount of the goods or services provided. Contract assets relate to ongoing projects that have not yet been invoiced and are subject to similar credit risks as trade receivables for the same types of contract. Against this background, the expected loss ratios of trade receivables are also used for the risk provision for expected credit loss (ECL) of contract assets determined using the simplified impairment model. If it becomes apparent to KSB at the respective project stage that it is sufficiently likely that customers will default on payments, these risks are taken into account by appropriate individual impairment allowances for the contract assets concerned.

Trade receivables
Trade receivables and other current assets are subsequently recognised at amortised cost. Low-interest or non-interest-bearing receivables are discounted. In addition, identifiable risks are taken into account by charging individual impairment losses. Individual impairment allowances are regularly made if insolvency or collection proceedings have been instigated, on the default or failure to meet agreed repayment plans and on overdue payments. Receivables are derecognised if it is reasonably certain that payment cannot be expected. A risk provision for expected credit losses (ECL) is set aside under the simplified impairment model according to IFRS 9 for receivables that are not individually impaired. To measure expected credit losses, trade receivables are summarised on the basis of common credit risk features (risk classes) and number of days overdue. The expected default rates stem from the historical payment profiles of sales revenues over the last three financial years before the reporting date. The historical and forward-looking information forms the basis for the expected probability of failure, adjusted for future-oriented macroeconomic factors.

Part of the default risk exposure of trade receivables is hedged. For more information, please refer to Section VI. Additional Information on Financial Instruments" – sub-section "Financial risks – Credit risk".

Trade receivables for which collateral, such as credit insurance, has been provided or letters of credit have been opened are recognised as impaired, taking account of default risks of the provider of the security and the company's macroeconomic factors.

If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up).

Other non-financial assets
The prepayments made that are presented in this item relate to accrued expenditure prior to the reporting date that will only be classified as an expense after the reporting date.

Cash and cash equivalents
Cash (cash and sight deposits) and cash equivalents (short-term, highly liquid financial investments that are readily convertible to defined amounts of cash, and that are subject to only immaterial fluctuations in terms of their value) are recognised at amortised cost. Cash and cash equivalents are subject to an expected credit default risk. The impairment allowance under IFRS 9 is calculated based on the loan amount on the closing date, the loss ratio of the loan amount and the term-weighted credit default spreads as a benchmark for probability of failure. Furthermore, partial or complete impairment allowances are recognised as soon as there are signs of an increase in default risk. No significant default risks of counterparties were determined during the year. They were within investment grade as a whole.

Non-current assets and disposal groups held for sale
Pursuant to IFRS 5, non-current assets or disposal groups are classified as held for sale if it is highly likely that the carrying amount will be realised primarily by a sales transaction and not through continued use of that asset. It must be assumed that the sale will be completed within one year. If the Group is committed to a sale that involves loss of control of a subsidiary, all assets and liabilities of that subsidiary will be classified as held for sale, provided the above conditions are met. The intangible assets, right-of-use assets for leases, and property, plant and equipment of the held-for-sale assets are no longer amortised / depreciated, but instead are recognised

at the lower of the carrying amount and fair value less costs to sell.

Taxes on income

Current taxes on income are recognised in income tax liabilities to the extent that they have not yet been paid. If the amount already paid exceeds the amount owed, an income tax receivable is recognised and reported in other tax assets under other non-financial assets.

Deferred taxes are accounted for in accordance with IAS 12 using the balance sheet liability method on the basis of the enacted or substantively enacted local tax rates. This means that deferred tax assets and liabilities generally arise when the tax base of assets and liabilities differs from their carrying amount in the IFRS financial statements, and this leads to future tax expense or income. Deferred tax assets from tax loss carryforwards are recognised in those cases where it is more likely than not that there will be sufficient taxable profit available in the near future against which these tax loss carryforwards can be utilised. Deferred taxes are also recognised for consolidation adjustments. Deferred taxes are not discounted. Deferred tax assets and liabilities are always offset where they relate to the same tax authority. Changes to deferred taxes in the consolidated balance sheet generally result in deferred tax expense or income. If, however, a direct entry is made in other comprehensive income in equity, the change in deferred taxes is also taken directly to equity.

Provisions

a) Provisions for pensions and similar obligations

Provisions for pensions and similar obligations pursuant to IAS 19 are calculated on the basis of actuarial reports. They are based on defined benefit pension plans. They are measured using the projected unit credit method.

Actuarial gains and losses are taken directly to other comprehensive income and reported in equity under "Remeasurement of defined benefit plans". The actuarial demographic assumptions and the setting of the discount rate (based on senior, fixed-income corporate bonds) and other measurement parameters (for example income and pension trends) are based on best estimates.

Net interest is calculated by multiplying the discount rate with the net liability (pension obligation minus plan assets) or the net asset value that results if the plan assets exceed the pension obligation.

The defined benefit costs include the service cost, which is included in staff costs under pension costs, and the net interest income or expense on the net liability or net asset value, which is recognised in finance income / expense under interest and similar expenses or under interest and similar income.

No provisions are set aside for defined contribution pension plans. In these cases, the premium payments are recognised directly in staff costs in the income statement. Other than an obligation to pay premiums, KSB has no further obligations. Consequently, the insurance risk remains with the insured parties.

b) Other provisions

Provisions are recognised if an event that occurred by the reporting date of the respective financial year results in a present legal or constructive external obligation that the company has no realistic alternative to settling, where settlement of this obligation is expected to result in an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably. The amount of the provision corresponds to the best estimate of the settlement amount of the current obligation on the reporting date. Any more or less secure recourse or reimbursement claims are recognised as separate assets.

Obligations in the form of expected losses from onerous contracts are recognised if the unavoidable costs to KSB of fulfilling a contract exceed the expected economic benefits. In the case of customer contracts that are expected to be loss-making, first an impairment of contract-related inventories is recognised before additional provisions are recognised. In contrast, contract assets are reported gross on the one hand and provisions for expected losses from onerous customer contracts are recognised on the other hand.

Provisions for restructurings are recognised only if the criteria set out in IAS 37 are met.

Non-current provisions are discounted if the effects are material.

Contingent liabilities

Contingent liabilities, which are not recognised, are potential obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events. Contingent liabilities may also be present obligations that arise from past events where it is possible but not probable that there will be an outflow of resources embodying economic benefits.

Contingent liabilities correspond to the extent of liability at the reporting date.

Revenue from contracts with customers

KSB generates sales revenue from the sale of goods and goods purchased and held for resale from the production, sale and trade of machinery, systems and other industrial products, particularly pumps and valves and related support services. The breadth of orders with pumps ranges from the supply of an individual pump to customised pump sets, including drive and control systems. These goods and services are sold to engineering contractors, OEMs and end users or, in some cases, distributed via dealers. Some customer contracts contain several service components, such as manufacture of a pump and the related installation and commissioning. These installation services cover integration services and can only be carried out by specifically trained and qualified staff. They are not accounted for as independent performance obligations and the transaction price is not split.

Sales revenue is recognised in the amount of the consideration expected by KSB based on the transfer of goods or provision of services to the customer. Depending on the type of performance and contractual structure, sales revenue is recognised either over time or at a point in time in line with satisfaction of the performance obligation by KSB.

If a performance obligation meets the criteria for recognising sales revenue over time under IFRS 15 and the progress towards completion and expected consideration can be reliably estimated, the sales revenue is recognised based on progress towards complete satisfaction of the performance obligation. KSB specifically recognises sales revenue over time for contracts covering the production of customised pumps and valves as well as contracts for the provision of services. By contrast, standard products in the pumps and valves areas are typically subject to sales revenue recognition at a point in time. KSB applies the input-oriented method to determine progress that is measured by the factors used. The percentage of completion of contracts is determined on the basis of the proportion that contract costs incurred for work performed up to the reporting date bear to the estimated total contract costs at the reporting date and thus follows the cost-to-cost method. Contract revenue consists of all contractually agreed revenues, as well as additional claims and incentive payments that are likely to result in revenue and are capable of being reliably measured. Contract revenue may vary, for instance because of renegotiations or penalties. Sales revenue is accounted for based on the amount fixed in the contract less expected consideration. Variable considerations (penalties, bonuses) are estimated at the most likely value. Restrictions on estimate options are taken into account. Estimates on costs and contract progress are corrected if circumstances change. Any resultant increases or reductions in the estimated proceeds or costs are reflected in the profit and loss account for the period in which the circumstances giving rise to the correction occurred. If the earnings from a service or production order with sales revenue recognition over time cannot be reliably estimated, revenue will only be recognised in the amount of the contract costs incurred that are likely to be covered and the contract costs recognised as an expense for the period in which they are incurred.

Sales revenue is recognised at a point in time for performance obligations that do not meet the criteria for recognising sales revenue over time under IFRS 15. At KSB, this typically applies in particular to standard products without any significant customer-specific characteristic in the Pumps and Valves Segments. The point in time at which KSB satisfies the performance obligations from contracts with customers subject to sales revenue recognition at a point in time is based on the agreed supply terms and conditions or acceptance by the customers. At the time of revenue recognition, receipt of the consideration must be probable and the amount of sales revenue must be reliably measurable. A reliable estimation of the associated costs and potential return of the goods must also be possible. Sales revenue from delivery is as a rule recognised in line with the agreed INCOTERMS. For standard products, FCA or EXW terms and conditions apply in most cases. For some international deliveries, the contractual risk transfer takes place when the goods are loaded onto a cargo ship in the port or delivered to the customer in the destination country. In these cases, sales revenue is also recognised on the basis of the contractually agreed INCOTERMS. For certain deliveries and services, a declaration of acceptance by the customer is required for the recognition of sales revenue. For customer contracts based on sales revenue recognised at a point in time, sales reductions also reduce sales revenue.

KSB agrees payment terms and conditions for customer contracts that allow for payment in a reasonable period after the invoice has been issued. Extended payment terms are not usually granted to customers. There are usually no long-term financing components.

In individual cases and in compliance with the statutory requirements of IFRS 15, a customer may ask to obtain control of a product prior to delivery of the goods (bill-and-hold arrangements). This can result in earlier sales revenue recognition.

For regular fixed-price contracts, the customer pays a fixed amount using a payment plan. Depending on the ratio of the customer payments received to the claim to consideration acquired by KSB based on the transfer of goods and services to the customer, there is an advance or subsequent type of payment on the reporting date for the respective customer contract. Contract assets are reported reduced by advances received, if the amount of the goods and services provided by KSB exceed the payment amount. Payments received from the customer that exceed the amount of the goods and services provided by KSB for the respective customer contract result in the reporting of a contract liability.

Interest income and expense are recognised in the period in which they occur. **Dividend income** from investments is collected when the legal entitlement to payment is created. **Operating expenses** are recognised when they are incurred or when the services are utilised. **Income tax** is calculated in accordance with the statutory tax rules in the countries in which the Group operates. Deferred taxes are accounted for on the basis of the enacted or substantively enacted income tax rates.

Estimates and assumptions

The preparation of consolidated financial statements in accordance with the IFRSs as adopted by the EU requires management to make estimates and assumptions that affect the accounting policies to be applied. When implementing such accounting policies, estimates and assumptions affect the assets, liabilities, income and expenses recognised in the consolidated financial statements, and their presentation. These estimates and assumptions are based on past experience and a variety of other factors deemed appropriate under the circumstances. Actual amounts may differ from these estimates and assumptions. The estimates and assumptions made are constantly reviewed. If more recent information and additional knowledge are available, recognised amounts are adjusted to reflect the new circumstances. Any changes in estimates and assumptions that result in material differences are explained separately.

Impairment tests for goodwill, which are conducted at least once per year, require an estimate of the recoverable amounts for each cash-generating unit (CGU). These correspond to the higher amount from the fair value less costs to sell and value in use. The earnings forecast on the basis of these estimates are affected by various factors, which may include exchange rate fluctuations, progress in Group integration or the expectations for the economic development of these units. Although Management believes that the assumptions used to calculate the recoverable amount are appropriate, any unforeseen changes in these assumptions could lead to an impairment loss.

Estimates and assumptions must also be made when testing the impairment of other intangible assets, the rights to use leased assets and property, plant and equipment. For each asset it must be verified to what extent there are indications of an impairment. When determining the recoverable amount of property, plant and equipment, the estimation of the relevant useful life is subject to uncertainty.

Contract assets are subject to the impairment rules of IFRS 9. Contract assets relate to ongoing projects that have not yet been invoiced and are subject to similar credit risks as trade receivables for the same types of contract. Against this background, the expected loss ratios of trade receivables are also used for the risk provision for expected credit loss (ECL) of contract assets determined using the simplified impairment model.

If performance obligations meet the relevant criteria of IFRS 15, KSB recognises revenue from customer contracts over time in line with progress towards completion. The progress towards completion is determined according to the percentage of completion. This requires estimates regarding the total contract costs and revenue (including the variable considerations based on experience), contract risks as well as other relevant factors. These estimates are reviewed regularly by those with operative responsibility and adjusted where necessary.

Provisions for employee benefits, in particular provisions for pensions and similar obligations, are determined according to actuarial principles, which are based on statistical and other factors so as to anticipate future events. Material factors are the reported market discount rates and life expectancy. The actuarial assumptions made may differ from actual developments as a result of changing market and economic conditions, and this can have material effects on the amount of provisions and thus on the company's overall net assets, financial position and results of operations. For the material pension plans of the German companies, every employee is entitled to apply at any time during the ongoing employment contract for payment in annual instalments, as a one-time payment or as a pension for life. KSB's estimate as to how the specific workforce is likely to decide on exercising the lump-sum option is reviewed on a regular basis and is reflected accordingly in the measurement of pension provisions.

Other provisions are recognised for uncertain liabilities with a probability of occurrence of more than 50 %. The provision corresponds to the best estimate of the expenditure to fulfil the current obligation on the reporting date. The later, actual outflow can, however, differ from the estimate as a result of changed economic, political or legal conditions. This will be reflected in additional expenses or income from reversals.

The Group's global scope of activities must be taken into account in relation to taxes on income. Based on operative activities in numerous countries with varying tax laws and administrative interpretation, differentiated assessment is required for determining tax liabilities. Uncertainty may arise due to different interpretations by taxable entities on the one hand and local finance authorities on the other. Uncertain tax assets and liabilities are recognised if their probability of occurrence exceeds 50 %. The best estimate of the expected tax payment is used for reporting purposes; depending on the case in question this will take the form of the most probable result or of the expected value. Although KSB believes it has made a reasonable estimate regarding any tax uncertainties, it is possible that the actual tax obligation will differ from the original estimate. With regard to future tax benefits, KSB assesses their realisability as at every reporting date. For this reason, deferred tax assets are only recognised if sufficient taxable income is available in future. In assessing this future taxable income within the planning horizon of three to five years it must be taken into account that expected future business developments are subject to uncertainties and are in some cases excluded from control by company management (for example changes to applicable tax legislation). If KSB comes to the conclusion that previously reported deferred tax assets cannot be realised because of changed assumptions, then the assets will be written down by the appropriate amount.

In connection with the sustainability issues of environment (E), social issues (S) and responsible corporate governance (G), estimates are required in the preparation of the consolidated financial statements with regard to the effects on the financial statements. ESG-related aspects did not have a material impact on KSB's net assets, financial position and results of operations in the reporting year. For further information in this context, please refer to the Group's opportunities and risks report as part of the combined management report.

Maturities
Maturities of up to one year are classified as current.

Assets that can only be realised after more than twelve months, as well as liabilities that only become due after more than twelve months, are also classified as current if they are attributable to the operating cycle defined in IAS 1. An operating cycle of more than 12 months typically applies to made-to-order production (construction contracts).

Assets and liabilities not classified as current are non-current.

Impact of the coronavirus pandemic
The 2021 financial year was characterised by significant recovery in economic performance and a renewed willingness to invest on the part of customers. Nevertheless, the business and economic environment for the Group continued to be impaired by the coronavirus pandemic in the reporting year.

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 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 a result of the coronavirus pandemic, individual expense items in the other expenses section were below pre-pandemic levels in the reporting year, as in the previous year.

Overall, the impact of the COVID-19 pandemic on KSB's consolidated financial statements depends in particular on the further emergence and spread of virus variants, the global progress of vaccination campaigns and the continued effectiveness of the vaccines. All these future developments and circumstances, as well as government and regulatory measures to contain the coronavirus pandemic in individual countries, may have a negative impact on the business performance of the Group. In this context, the effects on the procurement markets and logistics chains are of particular significance for KSB.

The above-mentioned aspects can generally affect the recognition and measurement of assets and liabilities as well as the amount and timing of the recognition of earnings and cash flows. Assessments in this regard are currently characterised by great uncertainty about the further global course of the coronavirus pandemic and its duration and impact. These consolidated financial statements have been prepared by KSB using the best available knowledge. The COVID-19 pandemic had no material negative impact on the net assets, financial position and results of operations of the Group.

IV. BALANCE SHEET DISCLOSURES

1. Intangible assets

Statement of changes in intangible assets

€ thousands	Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets		Goodwill		Internally generated intangible assets		Advance payments		Intangible assets Total	
Historical cost	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Balance at 1 January	72,629	72,533	32,249	70,200	40,219	40,155	3,975	2,908	149,072	185,796
Currency translation adjustments	845	–2,008	122	–2,429	–	–	7	1	974	–4,436
Other	–828	–304	–	–	–	–	–	–	–828	–304
Additions	1,673	2,094	–	–	151	65	2,138	2,078	3,962	4,237
Disposals	–106	–690	–960	–35,522	–	–1	–	–8	–1,066	–36,221
Reclassifications	458	1,004	–	–	13	–	–471	–1,004	–	–
Balance at 31 December	74,671	72,629	31,411	32,249	40,383	40,219	5,649	3,975	152,114	149,072
Accumulated depreciation and amortisation	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Balance at 1 January	63,092	60,814	1,625	27,127	4,420	727	–	–	69,137	88,668
Currency translation adjustments	752	–1,716	35	–1,464	–	–	–	–	787	–3,180
Other	–162	–255	–	–	–	–	–	–	–162	–255
Additions	3,975	4,576	–	11,155	3,695	3,693	–	–	7,670	19,424
Disposals	–285	–327	–960	–35,193	–	–	–	–	–1,245	–35,520
Reclassifications	–9	–	–	–	9	–	–	–	–	–
Balance at 31 December	67,363	63,092	700	1,625	8,124	4,420	–	–	76,187	69,137
Carrying amount at 31 December	7,308	9,537	30,711	30,624	32,259	35,799	5,649	3,975	75,927	79,935

The additions to intangible assets amounting to € 4.0 million (previous year: € 4.2 million) are distributed among various software applications.

The "Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets" item includes € 6.6 million (previous year: € 8.1 million) of software including software licences valid for a limited period. As in the previous year, there are no restrictions on ownership or use.

KSB reported internally generated intangible assets of € 32,259 thousand (previous year: € 35,799 thousand). These are primarily attributable to the KSBase sales software.

In the reporting year, no impairment losses were recognised on intangible assets. The impairment losses on intangible assets in the previous year in the amount of € 11,155 thousand were entirely related to goodwill and were recognised in the income statement under depreciation and amortisation.

As in the previous year, no product-related development costs were capitalised in the reporting year because not all of the comprehensive recognition criteria defined in IAS 38 were met.

Impairment testing under IAS 36

As explained in Section VIII. Segment Reporting in the Notes to the consolidated financial statements, a new segmentation has come into effect at the Group in the 2021 financial year. In this context, the delimitation of the cash-generating units for impairment testing according to IAS 36 has changed compared with the previous year. As of the reporting year, the cash-generating units are generally represented by the respective share in a legal entity that is allocated to an operating segment. The Group's total of five newly defined operating segments comprise Energy, Mining and Standard Markets for new business with Pumps, new business with Valves and KSB SupremeServ. A legal entity contains several cash-generating units if the main business activities are spread over several operating segments.

Against the background of the above explanations, KSB's change in segmentation was identified as a general indication of a potential impairment of assets under IAS 36. Accordingly, goodwill, other intangible assets, rights of use to leased assets and property, plant and equipment were tested for impairment on an ad hoc basis in the 2021 financial year. For goodwill, the mandatory annual impairment test, as described below, was also performed.

a) Impairment testing for goodwill

The date defined by KSB for the mandatory annual impairment testing for goodwill is 30 September of each year. The impairment testing methodology is explained in more detail in Section III. Accounting Policies in the "Intangible assets" subsection.

The following information on the basic assumptions and parameters for the impairment testing of goodwill relates to the consideration as at 30 September 2021.

Basic assumptions and parameters

The carrying amounts of the cash-generating units in connection with the impairment testing of goodwill do not contain any items relating to income tax or financing activities.

To determine the discount factor, the weighted average cost of capital (WACC) method is applied in conjunction with the capital asset pricing model (CAPM), taking into account a peer group. Under this method, first the cost of equity is determined using CAPM and the borrowing costs are defined, and then the individual capital components are weighted in accordance with the capital structure taking account of the peer group. The peer group information includes aspects like beta factors, capital structure data and borrowing costs. The peer group includes companies that are similar to the Group in terms of industry, size and activity. To account for changes in market parameters, the composition of the peer group is reviewed at regular intervals and adjusted if necessary (e.g. due to changes in the business model of either the cash-generating unit or the comparable company being looked at).

The interest rate for risk-free 30-year Bunds was used as a base rate. This rate was 0.1 % in the reporting year (previous year: 0.0 %). The market risk premium was set at 7.2 % (previous year: 7.2 %), with a beta factor of 1.15 (previous year: 1.16). In addition, country-specific tax rates and country risk premiums are taken into account individually for each cash-generating unit (CGU). The growth rate for all cash-generating units in the reporting year was set at 0.5 %, as in the previous year. The regular review of the peer group did not generate any new findings in relation to the business models of comparative companies. The peer group for examining the weighted capital cost factor therefore remained the same as in the previous year.

Basic parameters for the impairment testing of goodwill considered material (30 September 2021)

Name of CGU	Carrying amount of goodwill (€ thousands)	Percentage of total carrying amount of goodwill	Method	Planning time horizon	Discount rate	Growth rate
KSB SupremeServ operating segment of D.P. Industries B.V., Netherlands	10,146	33 %	Value in use	5 years	10.9 % before tax / 8.3 % after tax	0.5 %
Operating segment Standard Markets Pumps of D.P. industries B.V., Netherlands	8,139	26 %	Value in use	5 years	10.9 % before tax / 8.3 % after tax	0.5 %

Basic parameters for the impairment testing of goodwill considered material (30 September 2020)

Name of CGU	Carrying amount of goodwill (€ thousands)	Percentage of total carrying amount of goodwill	Method	Planning time horizon	Discount rate	Growth rate
D.P. Industries B.V., Netherlands	18,285	60 %	Value in use	5 years	10.8 % before tax / 8.3 % after tax	0.5 %

D.P. Industries B.V., Alphen aan den Rijn, Netherlands, represents the only goodwill considered material for KSB from the Group's perspective, both in the reporting year and in the previous year, totalling € 18,285 thousand. In the previous year, there was only one goodwill item at the level of the legal entity. As a result of introducing the Group's new segmentation, this goodwill was reallocated in the reporting year to the KSB SupremeServ operating segment and the Standard Markets operating segment for the company's new business with Pumps.

In addition, the carrying amount of the other goodwill of € 12,426 thousand is spread over a large number of the Group's cash-generating units. There are no other significant carrying amounts of individual goodwill in relation to the total carrying amount of the Group's goodwill.

The basic parameters for the impairment testing of material goodwill are summarised in the tables above.

The Group's material assumptions impacting cash flows from the multi-year financial plan on which the impairment test as at 30 September 2021 is based relate to the performance of order intake, sales revenue and earnings before finance income / expense and income tax (EBIT). For all three of the above-mentioned key indicators, tangible growth was projected in all five years of the detailed planning period as at 30 September 2021, both for the KSB SupremeServ operating segment and for the Standard Markets operating segment for new business with pumps of D.P. Industries B.V. The assessments take into account the company's own experience-based knowledge of competitors and markets as well as published economic data collected externally.

Impairment loss on goodwill

The impairment tests in the reporting year did not result in any impairment requirement.

In the previous year, goodwill impairments amounting to € 11,155 thousand were recognised. Based on the previous structure of the cash-generating units, the impairments were distributed over a total of eight goodwill items with amounts between € 406 thousand and € 2,980 thousand.

Sensitivity analyses

For the cash-generating units in the form of the operating segments Standard Markets for new pump business and KSB SupremeServ of D.P. Industries B.V., with goodwill considered material from the Group's perspective, additional sensitivity analyses were performed based on the parameters as at 30 September 2021. As in the previous year, the following assumptions were made: a 15 % increase in the cost of capital (Sensitivity 1), a reduction in the growth rate to 0.0 % (Sensitivity 2) and a reduction in sales revenue of 10 % with the corresponding impact on expense items and performance indicators (Sensitivity 3).

As in the previous year, the sensitivity analyses did not reveal any impairment requirement in the reporting year.

b) Impairment testing for other intangible assets, right-of-use assets and for property, plant and equipment

In addition to goodwill, impairment testing was also carried out for other intangible assets as well as for right-of-use assets and property, plant and equipment under IAS 36 in the 2021 financial year. Within this framework, neither the requirement for impairment nor a reversal of impairment losses for assets was identified.

2. Right-of-use assets

€ thousands	31 Dec. 2021	31 Dec. 2020
Right-of-use assets	**42,709**	**41,641**
of which land and buildings	29,176	26,915
of which technical equipment and machinery	1,284	963
of which other equipment, operating and office equipment	12,250	13,763

Additions to right-of-use assets in the reporting year amounted to € 17,626 thousand (previous year: € 12,916).

Depreciation on right-of-use assets in the reporting year was as follows:

€ thousands	2021	2020
Depreciation on right-of-use assets	**17,101**	**17,417**
of which land and buildings	9,165	9,079
of which technical equipment and machinery	638	516
of which other equipment, operating and office equipment	7,298	7,822

3. Property, plant and equipment

Statement of changes in property, plant and equipment

€ thousands	Land and buildings		Plant and machinery		Other equipment, operating and office equipment		Advance payments and assets under construction*		Property, plant and equipment	
Historical cost	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Balance at 1 January	438,002	435,055	603,765	612,334	237,832	239,915	42,346	34,729	1,321,945	1,322,033
Currency translation adjustments	8,663	−16,096	13,793	−22,360	4,505	−9,805	2,910	−2,642	29,871	−50,903
Other	152	−2,422	372	−2,665	512	−565	–	−16	1,036	−5,668
Additions	10,674	14,031	14,087	17,023	15,926	19,439	41,324	29,944	82,011	80,437
Disposals	−3,425	−1,037	−10,039	−7,806	−17,888	−14,793	−254	−318	−31,606	−23,954
Reclassifications	7,479	8,471	8,012	7,239	3,236	3,641	−18,727	−19,351	–	–
Balance at 31 December	461,545	438,002	629,990	603,765	244,123	237,832	67,599	42,346	1,403,257	1,321,945
Accumulated depreciation and amortisation	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Balance at 1 January	205,209	199,489	445,992	439,115	170,064	172,148	–	–	821,265	810,752
Currency translation adjustments	3,934	−4,582	9,902	−14,573	3,346	−6,957	–	–	17,182	−26,112
Other	76	−1,380	226	−2,215	365	−460	–	–	667	−4,055
Additions	11,983	12,528	25,368	31,006	18,767	19,531	–	–	56,118	63,065
Disposals	−3,026	−846	−9,609	−7,341	−17,126	−14,198	–	–	−29,761	−22,385
Reclassifications	–	–	67	–	−67	–	–	–	–	–
Balance at 31 December	218,176	205,209	471,946	445,992	175,349	170,064	–	–	865,471	821,265
Carrying amount at 31 December	243,369	232,793	158,044	157,773	68,774	67,768	67,599	42,346	537,786	500,680

* The carrying amount of advance payments on property, plant and equipment as at the reporting date amounts to € 9,154 thousand (previous year: € 6,848 thousand).

The impairment test for assets within the scope of IAS 36 explained in Notes No. 1 "Intangible assets" did not result in any impairment losses on property, plant and equipment in the reporting year. No other material impairments or reversals of impairments on property, plant and equipment were recognised in the reporting year.

In the previous year, impairment tests as at 31 December 2020 resulted in impairments on property, plant and equipment totalling € 4,323 thousand. Of this amount, € 3,790 thousand was attributable to assets in the technical equipment and machinery asset class, € 508 thousand to land and buildings, and € 25 thousand to other equipment and operating and office equipment. The impairment losses were recognised in the income statement under depreciation and amortisation.

There were no other material impairments on property, plant and equipment in the previous year.

Disposals of intangible assets and items of property, plant and equipment resulted in book gains of € 700 thousand (previous year: € 653 thousand) and book losses of € 1,089 thousand (previous year: € 1,533 thousand). The book gains and losses are reported in the income statement under other income and other expenses.

4. Financial assets

€ thousands	31 Dec. 2021	31 Dec. 2020
Loans	1,458	2,190
Financial instruments	50	77
	1,508	**2,267**

Of the loans, € 1,056 thousand (previous year: € 1,783 thousand) are accounted for by loans to equity investments.

5. Other non-financial assets

€ thousands	31 Dec. 2021	31 Dec. 2020
Other investments	3,833	3,302
Defined benefit assets	3,758	1,555
	7,592	**4,857**

Compared with the 2020 consolidated financial statements, the presentation for the reporting year and for the previous year was amended so that the defined benefit assets previously reported under current other financial assets are now shown under non-current other non-financial assets.

Other investments are investments in affiliates that were not consolidated due to there being no material impact. As in the previous year, there was no depreciation and amortisation applied in the reporting year.

6. Investments accounted for using the equity method

The following table lists the KSB Group's material joint ventures. "Seat" refers to the country in which the main activity is performed. All joint ventures and associates are accounted for using the equity method and can also be found in the list of shareholdings in these Notes to the Consolidated Financial Statements. The share of capital corresponds to the share of voting rights.

→ Material joint ventures

Neither of the two material joint ventures is listed on a stock market, which is why there is no active market.

Summarised financial information on these material joint ventures of the KSB Group and a combined summary for all the individually immaterial joint ventures and associated companies are provided in the following tables:

→ Summarised balance sheet

→ Summarised statement of comprehensive income

→ Reconciliation to carrying amount of Group share in joint ventures

→ Summarised information on joint ventures and associates that are immaterial individually

As in the previous year, there are no pro rata losses that have not been recognised from the consolidation at equity.

Material joint ventures

Name and seat	Capital share	Nature of the entity's relationship
KSB Pumps Arabia Ltd., Saudi Arabia	50.00 %	KSB Pumps Arabia Ltd. in Riyadh, Saudi Arabia, offers a wide range of services and activities for the energy market as well as in water, waste water and building services applications. The portfolio includes business development and marketing, supply chain management, production of pressure booster systems and pump sets, sale of pumps, valves and systems and technical service activities. KSB Pumps Arabia Ltd. is important for the growth of the Group in the Saudi Arabian market.
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., China	45.00 %	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. in Shanghai, China, produces suitable auxiliary pumps for the secondary coolant circuits and modern reactor coolant pumps for the primary cooling circuits of nuclear power stations. Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. is a strategic partnership on the part of the Group, through which KSB is participating in the expansion of energy capacity in China and other Asian markets.

Summarised balance sheet

	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
€ thousands	**2021**	**2020**	**2021**	**2020**
Non-current assets	9,370	9,339	79,397	74,887
Current assets	26,307	29,360	167,968	122,760
of which cash and cash equivalents	494	1,958	16,240	24,887
Non-current liabilities	–1,205	–1,693	–4,929	–3,989
of which non-current financial liabilities (excluding trade payables and provisions)	–	–	–4,929	–3,989
Current liabilities	–25,759	–25,021	–205,116	–162,103
of which current financial liabilities (excluding trade payables and provisions)	–6,418	–6,978	–15,920	–11,786
Net assets	**8,713**	**11,985**	**37,319**	**31,555**

Summarised statement of comprehensive income

	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
€ thousands	**2021**	**2020**	**2021**	**2020**
Sales revenue	20,989	28,015	79,490	76,103
Depreciation / amortisation	872	915	4,610	4,716
Interest income	–	–	158	130
Interest expense	–444	–356	–656	–964
Earnings from continuing operations	–4,320	–4,740	2,477	1,737
Taxes on income	–79	–	–465	–
Earnings after taxes from continuing operations	**–4,399**	**–4,740**	**2,012**	**1,737**
Earnings after taxes from discontinued operations	–	–	–	–
Other comprehensive income	1,127	–1,224	3,752	–803
Comprehensive income	**–3,272**	**–5,964**	**5,764**	**934**
Dividends received from joint ventures	**–**	**–**	**–**	**–**

Reconciliation to carrying amount of Group share in joint ventures

€ thousands	KSB Pumps Arabia Ltd. 2021	KSB Pumps Arabia Ltd. 2020	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. 2021	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. 2020
Net carrying amount at 1 January	11,985	17,949	31,555	30,622
Earnings after income tax	–4,399	–4,740	2,012	1,737
Distribution of dividends	–	–	–	–
Other comprehensive income	1,127	–1,224	3,752	–803
Net carrying amount at 31 December	**8,713**	**11,985**	**37,319**	**31,555**
Investment in joint venture (50 % / 45 %)	4,357	5,993	16,794	14,200
Elimination of intercompany profit and loss	–	–	–6,289	–5,338
Goodwill	–	–	–	–
Carrying amount at 31 December	**4,357**	**5,993**	**10,505**	**8,862**

* The effects shown as elimination of intercompany profits and loss in the reconciliation to the carrying amount of KSB's investment in Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China, result from eliminations in connection with the oncharging of product licences from KSB SE & Co. KGaA, Frankenthal / Pfalz, to this joint venture.

Summarised information on joint ventures and associates that are immaterial individually

€ thousands	Joint ventures 2021	Associates 2021	Total 2021	Joint ventures 2020	Associates 2020	Total 2020
Group share of earnings from continuing operations	56	734	**790**	69	631	**700**
Group share of other comprehensive income	225	–	**225**	–340	–	**–340**
Group share of comprehensive income	281	734	**1,015**	–271	631	**360**
Total carrying amounts of Group shares in these companies	**3,956**	**1,366**	**5,322**	**3,675**	**1,257**	**4,932**

7. Inventories

€ thousands	31 Dec. 2021	31 Dec. 2020
Raw materials and production supplies	178,319	170,965
Work in progress	158,779	132,022
Finished goods and goods purchased and held for resale	173,482	176,692
Advance payments	18,871	17,815
	529,451	**497,495**

As at the reporting date, inventories amounting to € 49,807 thousand (previous year: € 51,134 thousand) is carried at net realisable value.

The impairment losses on inventories recognised as an expense in the reporting period amount to € 11,252 thousand (previous year: € 14,761 thousand).

Reversals of impairments on inventories in the amount of € 4,018 thousand (previous year: € 2,837 thousand) resulted from increased net realisable values compared with the previous year. Impairment losses and reversals of impairment losses on inventories are recognised in the income statement under cost of materials and changes in inventories.

Inventories amounting to € 960,882 thousand (previous year: € 914,793 thousand) were recognised as an expense in the reporting period.

Of the inventories as at the reporting date, work in progress and finished goods amounting to a total of € 63,168 thousand (previous year: € 66,595 thousand) have a maturity of more than one year.

8. Contract assets, trade receivables and other financial and non-financial assets

€ thousands	31 Dec. 2021	31 Dec. 2020
Contract assets	**79,300**	**82,412**
Trade receivables	**479,244**	**444,174**
Trade receivables from third parties	444,601	419,458
Trade receivables from other investments, associates and joint ventures	34,643	24,717
thereof from other investments	3,071	3,715
thereof from associates	–	317
thereof from joint ventures	31,572	20,684
Other financial assets *	**80,140**	**80,655**
Receivables from loans to other investments, associates and joint ventures	1,918	710
Currency forwards	643	4,694
Other receivables and other current assets *	77,579	75,251
Other non-financial assets	**39,298**	**27,189**
Other tax assets	28,205	18,360
Deferred income	11,093	8,829

* Compared with the 2020 consolidated financial statements, the presentation was amended for the reporting year and the previous year so that the defined benefit assets are no longer shown under other receivables and other assets and thus no longer under current other financial assets. They are now reported under non-current other non-financial assets.

At € 79,300 thousand (previous year: € 82,412 thousand), the balance of contract assets at the end of the reporting year was at a comparable level to the previous year. Impairment losses on contract assets amounted to € 1,630 thousand (previous year: € 524 thousand). Of the contract assets as at the reporting date, € 16,779 thousand (previous year: € 19,449 thousand) relate to project orders with customers whose completion is not expected until more than one year after the reporting date.

Impairment losses of € 35,181 thousand (previous year: € 35,110 thousand) were recognised on trade receivables from third parties as at the reporting date.

Impairment losses on trade receivables and contract assets include the individual impairment allowance (EWB) and risk provisions for expected credit losses (ECL).

Impairment losses on trade receivables from third parties

€ thousands	31 Dec. 2021	31 Dec. 2020
Gross carrying amount of trade receivables from third parties	479,782	454,568
of which unhedged receivables	345,870	320,875
of which hedged receivables	133,912	133,693
Individual impairment allowance (EWB)	−32,165	−32,254
Risk provisions for expected credit losses (ECL)	−3,016	−2,856
of which ECL for unhedged receivables	−2,384	−2,239
of which ECL for hedged receivables	−632	−617
Net carrying amount of trade receivables from third parties	**444,601**	**419,458**

Impairment losses on contract assets

		31 Dec. 2021	31 Dec. 2020
Gross carrying amount of contract assets	€ thousands	80,930	82,936
Individual impairment allowance (EWB)	€ thousands	–1,211	–
Risk provisions for expected credit losses (ECL)	€ thousands	–419	–524
Net carrying amount of contract assets	€ thousands	**79,300**	**82,412**
Expected default risk in relation to ECL	in %	0.5	0.6

Impairment losses on receivables from loans to other equity investments amounted to € 320 thousand, as at the prior-year reporting date. As in the previous year, there are no impairment losses on other receivables from other equity investments, associates and joint ventures.

The reconciliation of impairment losses on trade receivables from third parties and contract assets between the opening and closing balance sheets is shown in the following tables.

Reconciliation of impairment losses 2021

	Trade receivables from third parties			Contract assets		
€ thousands	**EWB**	**ECL**	**Total**	**EWB**	**ECL**	**Total**
Opening balance at 1 January	**–32,254**	**–2,856**	**–35,110**	**–**	**–524**	**–524**
Additions	–11,591	–1,202	–12,793	–1,254	–18	**–1,272**
Utilised	5,996	–	5,996	–	–	**–**
Reversal	6,864	1,056	7,920	–	121	**121**
Currency translation / Other	–1,180	–14	–1,194	43	2	**45**
Closing balance at 31 December	**–32,165**	**–3,016**	**–35,181**	**–1,211**	**–419**	**–1,630**

Reconciliation of impairment losses 2020

	Trade receivables from third parties			Contract assets
€ thousands	**EWB**	**ECL**	**Total**	**ECL**
Opening balance at 1 January	**–31,228**	**–3,772**	**–35,000**	**–204**
Additions	–7,810	–884	–8,694	–331
Utilised	1,220	–	1,220	–
Reversal	4,609	1,377	5,986	11
Currency translation / Other	955	423	1,378	–
Closing balance at 31 December	**–32,254**	**–2,856**	**–35,110**	**–524**

Risk provision for expected credit losses by maturity of trade receivables

31 Dec. 2021		Not overdue	Up to 30 days	Up to 90 days	Up to 180 days	Up to 360 days	Over 360 days	Total
Gross carrying amount of unhedged trade receivables from third parties	€ thousands	240,617	34,508	22,751	12,204	8,186	27,603	345,870
ECL	€ thousands	–865	–377	–309	–233	–235	–366	–2,384
Expected default risk in relation to ECL	%	0.4	1.1	1.4	1.9	2.9	1.3	–
31 Dec. 2020								
Gross carrying amount of unhedged trade receivables from third parties	€ thousands	221,187	30,739	20,647	10,578	11,416	26,308	320,875
ECL	€ thousands	–622	–310	–315	–164	–276	–552	–2,239
Expected default risk in relation to ECL	%	0.3	1.0	1.5	1.6	2.4	2.1	–

The expected default risk of unhedged trade receivables from third parties determined based on the simplified impairment model is distributed over the age structure of the receivables portfolio at gross carrying amount as shown in the table above.

In the case of unhedged trade receivables from third parties with high overdue amounts, the risk provision for expected credit losses (ECL) in the reporting year partly results in a lower expected default risk compared with time bands with lower overdue amounts. This is the result of the above-average recognition of individual impairments for the entirety of the far overdue open receivables items.

Other receivables and other current assets include hedges of credit balances prescribed by law for partial retirement arrangements and long-term working time accounts of the German Group companies in the amount of € 11,425 thousand (previous year: € 13,825 thousand).

€ 42,072 thousand (previous year: € 34,495 thousand) of total receivables and other assets are due after more than one year.

9. Cash and cash equivalents

Cash and cash equivalents are term deposits with short maturities and call deposits, and also current account balances. Cash equivalents include short-term deposits with an original maturity of less than three months.

10. Equity

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

The capital reserve results from the appropriation of premiums from capital increases in previous years.

In addition to revenue reserves from previous years, the revenue reserves include currency translation adjustments, consolidation effects, remeasurements of defined benefit plans under IAS 19 and changes in the fair value of interest rate derivatives taken directly to equity. These issues resulted in deferred tax assets in the amount of € 43,776 thousand (previous year: € 51,113 thousand) and deferred tax liabilities in the amount of € 166 thousand (previous year: € 505 thousand).

The development of the currency translation differences recognised in equity is shown in the table below.

→ Development of currency translation differences in equity

A total of € 7,230 thousand (dividend of € 4.00 per ordinary share and € 4.26 per preference share) was paid from equity by resolution of the Annual General Meeting of the Group's parent company KSB SE & Co. KGaA, Frankenthal, on 6 May 2021.

The proposal on the appropriation of the net retained earnings of KSB SE & Co. KGaA for the reporting year calculated in accordance with HGB [*Handelsgesetzbuch* – German Commercial Code] is shown at the end of these Notes.

The development of the equity items, including the non-controlling interests explained in more detail below, is shown in the statement of changes in equity".

Non-controlling interests

The table below shows the subsidiaries with material non-controlling interests from the Group's perspective. "Seat" refers to the country in which the main activity is performed.

→ Subsidiaries with significant non-controlling interests

Non-controlling interest thus relates primarily to PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal / Pfalz, and the interests it holds, as well as to companies in India and China. KSB FINANZ S.A., Echternach, Luxembourg, holds a 51 % interest in PAB Pumpen- und Armaturen-Beteiligungsges. mbH, while Johannes und Jacob Klein GmbH, Frankenthal / Pfalz, holds a 49 % interest.

Development of currency translation differences in equity

€ thousands	Currency translation differences in equity attributable to shareholders of KSB SE & Co. KGaA	Currency translation differences in non-controlling interests	Total amount of currency translation differences in equity
1 January 2020	–95,765	–18,175	–113,940
Change in 2020	–46,364	–16,058	–62,422
31 December 2020	**–142,129**	**–34,233**	**–176,362**
1 January 2021	–142,129	–34,233	–176,362
Change in 2021	17,961	12,365	30,326
31 December 2021	**–124,168**	**–21,868**	**–146,036**

Subsidiaries with material non-controlling interests

Name and seat	Non-controlling interest in capital	Earnings after income tax attributable to non-controlling interests		Accumulated non-controlling interests in equity	
€ thousands	2021 / 2020	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
PAB, Germany / USA (subgroup)	49.00 %	3,931	4,121	89,996	85,334
KSB Limited, India	59.46 %	9,231	7,061	70,476	58,801
KSB Shanghai Pump Co., Ltd., China	20.00 %	1,618	1,585	12,021	11,236
Subsidiaries with individually immaterial non-controlling interests		1,895	1,248	21,879	20,557
Total amount of non-controlling interests		**16,675**	**14,015**	**194,372**	**175,928**

Composition of the PAB subgroup as at 31 Dec. 2020

Cons. No.	Name and seat	Country	Capital share in %	Held by No.
1	PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	51.00	–
2	KSB America Corporation, Richmond / Virginia	USA	100.00	1
3	GIW Industries, Inc., Grovetown / Georgia	USA	100.00	2
4	KSB Dubric, Inc., Comstock Park / Michigan	USA	100.00	2
5	KSB, Inc., Richmond / Virginia	USA	100.00	2
6	KSB, Inc. – Western Division, Bakersfield / California	USA	100.00	2
7	Standard Alloys Incorporated, Port Arthur / Texas	USA	100.00	2

Information on the subgroup that comprised the subsidiaries of the KSB Group listed in the following table as at 31 December 2021 is summarised under the name “PAB”.

→ Composition of the PAB subgroup as at 31 Dec. 2021

The summarised financial information regarding the KSB Group’s subsidiaries with significant non-controlling interests and the PAB subgroup considered here is provided below. Except for the details on the PAB subgroup, this information corresponds to the amounts shown in the subsidiaries’ financial statements prepared in accordance with IFRS prior to intercompany eliminations. The required intercompany eliminations were taken into consideration for the PAB subgroup.

→ Summarised balance sheet

→ Summarised statement of comprehensive income

→ Condensed statement of cash flows

Summarised balance sheet

	PAB		KSB Limited		KSB Shanghai Pump Co., Ltd.	
€ thousands / 31 Dec.	2021	2020	2021	2020	2021	2020
Non-current assets	108,641	84,872	50,013	45,465	29,418	27,019
Current assets	137,589	142,099	141,942	127,489	141,570	135,705
Non-current liabilities	–12,267	–15,884	–4,117	–2,924	–71	–226
Current liabilities	–50,299	–36,935	–69,310	–71,138	–110,812	–106,318
Net assets	**183,664**	**174,152**	**118,527**	**98,892**	**60,104**	**56,180**

Summarised statement of comprehensive income

	PAB		KSB Limited		KSB Shanghai Pump Co., Ltd.	
€ thousands	2021	2020	2021	2020	2021	2020
Sales revenue	208,571	216,548	169,957	141,838	176,035	152,632
Earnings after income tax	8,022	8,410	15,832	12,262	8,092	7,926
Other comprehensive income	16,491	–16,585	7,187	–11,466	6,320	–2,375
Comprehensive income	24,512	–8,175	23,019	796	14,412	5,551
Other comprehensive income attributable to non-controlling interests	8,080	–8,127	4,273	–6,818	1,264	–475
Comprehensive income attributable to non-controlling interests	12,011	–4,006	13,505	243	2,882	1,110
Dividends paid to non-controlling interests	–7,350	–	–2,012	–1,956	–2,098	–787

Summarised cash flow statement

	PAB		KSB Limited		KSB Shanghai Pump Co., Ltd.	
€ thousands	2021	2020	2021	2020	2021	2020
Cash flows from operating activities	16,041	30,552	7,102	20,112	16,451	11,822
Cash flows from investing activities	–7,909	–21,520	323	–36,039	–876	–689
Cash flows from financing activities	–8,037	–1,533	–10,889	–3,739	–10,913	–3,274
Changes in cash and cash equivalents	**95**	**7,499**	**–3,464**	**–19,666**	**4,662**	**7,859**
Cash and cash equivalents at beginning of period	12,974	6,544	9,755	31,664	38,410	31,622
Effects of exchange rate changes	1,350	–1,069	497	–2,243	4,540	–1,071
Cash and cash equivalents at end of period	**14,419**	**12,974**	**6,788**	**9,755**	**47,612**	**38,410**

11. Provisions

Composition of provisions

€ thousands	31 Dec. 2021 Total	Non-current	Current	31 Dec. 2020 Total	Non-current	Current
Employee benefits	**636,922**	**629,245**	**7,677**	**695,025**	**684,858**	**10,168**
Pensions and similar obligations	613,380	613,380	–	670,239	670,239	–
Other employee benefits	23,542	15,865	7,677	24,786	14,618	10,168
Other provisions	**95,020**	**1,569**	**93,451**	**82,691**	**3,017**	**79,674**
Warranty obligations and contractual penalties	55,600	–	55,600	48,733	–	48,733
Onerous contracts *	17,162	–	17,162	16,766	–	16,766
Miscellaneous other provisions *	22,258	1,569	20,689	17,192	3,017	14,175
	731,941	630,814	101,128	777,716	687,875	89,841

* In order to increase transparency, the presentation was amended compared with the 2020 consolidated financial statements in that the provisions for onerous contracts are now shown separately and no longer as part of the miscellaneous other provisions. The restructuring provisions are now included in miscellaneous other provisions for reasons of materiality.

Development of individual provision categories

€ thousands	1 Jan. 2021	CTA** / Other	Utilisation	Reversal	Additions	31 Dec. 2021
Employee benefits	**695,025**	**558**	**–32,771**	**–53,774**	**27,882**	**636,922**
Pensions and similar obligations	670,239	547	–22,337	–49,746	14,676	613,380
Other employee benefits	24,786	11	–10,435	–4,028	13,206	23,542
Other provisions	**82,691**	**1,484**	**–33,625**	**–7,601**	**52,071**	**95,020**
Warranty obligations and contractual penalties	48,733	703	–23,398	–6,927	36,490	55,600
Onerous contracts *	16,766	40	–3,871	–20	4,246	17,162
Miscellaneous other provisions *	17,192	741	–6,356	–654	11,335	22,258
	777,716	2,043	–66,396	–61,375	79,953	731,941

* Restated compared with the presentation in the 2020 consolidated financial statements; cf. explanations below the “Composition of provisions” table.

** Currency translation adjustments

Provisions for pensions and similar obligations

The pension obligations in the KSB Group include defined contribution and defined benefit plans and contain both obligations from current pensions and future pension benefit entitlements.

Defined contribution pension plans

Total expenses for defined contribution pension plans in the reporting year amounted to € 49,603 thousand (previous year: € 39,966 thousand). Of this figure, € 27,457 thousand (previous year: € 27,859 thousand) resulted from contributions into the statutory pension insurance scheme in Germany.

Description of the defined benefit pension plans

The obligations for defined benefit pension plans for employees of the Group are mainly due to pension obligations in Germany, as well as in France, the United States and Switzerland.

More than 90 % of the defined benefit plans are attributable to the German Group companies. These relate to direct commitments by the companies to their employees. The commitments are based on salary and length of service. Contributions from employees themselves are also considered. This pension provision can be broken down into purely company-financed basic provision and the top-up provision from the employer. The latter is based on the amount of own contributions and the generated return on sales before taxes on income. Both components take account of the general pension contribution (the amount of which partially depends on company performance), personal income (the relationship between pensionable income and maximum income threshold) and the annuity conversion factor (based on age). Within the scope of the material pension plans of the German companies, every employee is entitled to apply at any time during the ongoing employment contract for payment in annual instalments, as a one-time payment or as a pension for life.

Pension schemes in France are governed by the provisions of the respective collective agreements. The obligations are basically covered by assets that have been paid in to an external fund. At the beginning of the final quarter of each year, an actuarial report is prepared to calculate the current scope of obligation. If there is a shortfall, a compensation payment is made to the fund. Differences in the calculation parameters under local and international law ultimately result in a surplus of obligations in the Group. Upon retirement, the employees concerned receive a one-off payment from the fund.

The defined benefit pension plans in the United States are closed to new entrants. The pension benefit amount is derived from the average salary and years of service before closure of the plan. The retirement age is 65 years; from this point a monthly payment is made to the beneficiaries. The pension benefits are financed by external funds.

Pension obligations in Switzerland are predominantly based on statutory obligations. This also includes details on a minimum pension which all employees with uninterrupted contributions are entitled to by law. The employer is therefore required to pay in contributions which are high enough for the respective pension fund or insurance company to pay out these minimum amounts. As well as pension benefits, the plans encompass other benefits such as disability or survivors' benefits. Both employer and employee contributions are paid to the pension fund, with the company having to make contributions that at least match the employee contributions specified in the terms and conditions of the plan. The retirement benefits are paid out in monthly instalments, but all employees have the option to receive a (partial) capital payment.

In addition, employees in other countries are also entitled to a limited extent to retirement and partly to medical care benefits, depending mainly on the length of service and salary.

These defined benefit plans harbour actuarial risks, such as the longevity risk and interest rate risk. The payments associated with the pension obligations are mostly serviced through liquidity. Plan assets are also partially available for financing these obligations. Most of the plan assets are managed by insurers who set their own appropriate investment policies.

The actuarial valuations of the present value of the defined benefit obligation (and the related current service cost and the past service cost) are measured and calculated annually on the basis of actuarial reports using the projected unit credit method (IAS 19). Plan assets are measured at fair value.

Explanation of the effects of the defined benefit pension plans on the balance sheet and income statement

The regional allocation of the total defined benefit pension plans from the Group's perspective, as well as the change in the present value of the defined benefit obligation, the fair value of plan assets and the net liability from defined benefit obligations, as consolidated for the Group, is presented in the following tables.

→ Regional allocation of the defined benefit pension plans

→ Change in present value of defined benefit obligations

→ Changes in the fair value of the plan assets

→ Changes to the net liability of the defined benefit obligations

Regional allocation of the defined benefit pension plans

€ thousands	Defined benefit obligations (DBOs) 31 Dec. 2021	Fair value of plan assets 31 Dec. 2021	Net balance approach 31 Dec. 2021	Defined benefit obligations (DBOs) 31 Dec. 2020 *	Fair value of plan assets 31 Dec. 2020 *	Net balance approach 31 Dec. 2020 *
Germany	589,511	–	589,511	638,984	–	638,984
France	11,633	3,315	8,318	16,637	4,380	12,257
USA	13,617	15,389	–1,772	13,651	11,500	2,151
Switzerland	13,750	12,848	902	13,955	12,204	1,751
Other countries	49,812	37,149	12,663	43,764	30,223	13,541
	678,323	**68,701**	**609,622**	**726,991**	**58,307**	**668,684**

* The presentation was amended compared with the 2020 consolidated financial statements in that, in addition to the net liabilities reported under provisions for pensions and similar obligations, the net assets from defined benefit pension plans are now also included in the overview of the regional allocation of defined benefit pension plans.

Change in present value of defined benefit obligations

€ thousands	2021	2020 *
Opening balance of the defined benefit obligation (DBO) – 1 Jan.	**726,991**	**687,500**
Current service cost	12,682	12,520
Interest cost	6,469	8,400
Employee contributions	226	229
Remeasurements	–	–
– / + Gain / loss from the change in demographic assumptions	–226	14
– / + Gain / loss from the change in financial assumptions	–49,313	39,827
– / + Experience-based gain / loss	904	3,014
Benefit payments	–25,018	–20,641
Past service cost (incl. effects of settlements and curtailments)	–1,049	–56
Transfer of assets	–	–
Currency translation differences	3,750	–4,335
Changes in consolidated Group / Other	2,907	519
Closing balance of the defined benefit obligation (DBO) – 31 Dec.	**678,323**	**726,991**

* Restated compared with the presentation in the 2020 consolidated financial statements; cf. explanations below the "Changes in the net balance sheet approach from defined benefit obligations" table.

Changes in the fair value of the plan assets

€ thousands	2021	2020 *
Opening balance of the plan assets measured at fair value – 1 Jan.	**58,307**	**57,883**
Interest income	1,605	1,847
Remeasurements	–	–
+ / – Gain / loss from plan assets excluding amounts already recognised in interest income	5,918	–685
Contributions by the employer	1,284	1,627
Contributions by the beneficiary employees	226	229
Currency translation differences	3,356	–3,485
Paid benefits	–4,827	–3,595
Changes in consolidated Group / Other	2,832	4,486
Closing balance of the plan assets measured at fair value – 31 Dec.	**68,701**	**58,307**

* Restated compared with the presentation in the 2020 consolidated financial statements; cf. explanations below the "Changes in the net balance sheet approach from defined benefit obligations" table.

Changes to the net balance sheet approach of the defined benefit obligations

€ thousands	2021	2020 *
Opening balance of the net balance sheet approach from defined benefit obligations – 1 Jan.	**668,684**	**629,617**
Current service cost	12,682	12,520
Net interest expense	4,864	6,553
Employee contributions	–	–
Contributions by the employer	–1,284	–1,627
Remeasurements	–	–
– / + Gain / loss from plan assets excluding amounts already recognised in interest income	–5,918	685
– / + Gain / loss from the change in demographic assumptions	–226	14
– / + Gain / loss from the change in financial assumptions	–49,313	39,827
– / + Experience-based gain / loss	904	3,014
Benefit payments	–20,191	–17,046
Past service cost (incl. effects of settlements and curtailments)	–1,049	–56
Transfer of assets	–	–
Currency translation differences	394	–850
Changes in consolidated Group / Other	75	–3,967
Closing balance of the net balance sheet approach from defined benefit obligations – 31 Dec.	**609,622**	**668,684**
of which assets from defined benefit assets	3,758	1,555
of which provisions for pensions and similar obligations	613,380	670,239

* The presentation was amended compared with the 2020 consolidated financial statements in that, in addition to the changes in the items reported as net liabilities under provisions for pensions and similar obligations, the changes resulting from the net assets from defined benefit pension plans are now also included in the reconciliations.

Current and past service costs are recognised in staff costs under pension costs.

The interest rate effect from accounting for the defined benefit pension plans, in the form of interest expenses from the DBO and interest income from the plan assets, is recognised in the income statement as a net amount under the interest and similar expenses item and thus in the finance income / expense.

The remeasurement of defined benefit obligations and plan assets is included in other comprehensive income and thus directly in the Group's equity.

Explanation of the plan assets

The composition of the plan assets is explained in the table of the same name.

In principle, the pension funds are endowed with the amount needed to meet the respective statutory minimum requirements.

The actual income from plan assets amounted to € 7,523 thousand (previous year: € 1,162 thousand).

In the following year, employer contributions to plan assets are expected to be at the level seen in the 2021 financial year. The amounts in 2021 came to € 1,284 thousand.

Actuarial assumptions, sensitivities and other disclosures on defined benefit pension plans

A mean fluctuation rate (2.0 %) continues to be applied to staff turnover for the German plans, as in the previous year. The biometric assumptions are based on the 2018G mortality tables published by Prof. Klaus Heubeck, and the retirement age used for the calculations is based on the *Rentenversicherungs-Altersgrenzenanpassungsgesetz* 2007 [RVAGAnpG – German Act Adapting the Standard Retirement Age for the Statutory Pension Insurance System]. Other measurement parameters (e.g. cost trends in the medical care area) are not material.

The discount rate and future mortality were identified as key actuarial assumptions.

→ Actuarial assumptions

As in the previous year the basis for the calculation of the sensitivities is the same method which was used for the calculation of the provisions for pensions and similar obligations. Were the discount factor to increase by 100 basis points, the DBO would fall by € 92,054 thousand (previous year: € 99,673 thousand). A 100 basis point reduction in the discount factor would increase the DBO by € 120,135 thousand (previous year: € 159,405 thousand). It should be noted that a change in the discount factor due to particular financial effects (such as compound interest) does not affect the development of the DBO on a straight-line basis. Were life expectancy to increase by 1 year, the DBO would increase by € 24,920 thousand (previous year: € 25,114 thousand). Additionally, the individual actuarial assumptions are mutually dependent, but these interdependencies are not taken into account in the sensitivity analysis.

On 31 December 2021 the weighted average term of the DBO was 17 years (previous year: 18 years).

KSB's expected benefit payments from defined benefit pension plans over the next five years are shown in the table below.

→ Expected pension benefit payments

Composition of plan assets

	Quoted market price in an active market	No quoted market price in an active market	Total	Quoted market price in an active market*	No quoted market price in an active market*	Total*
€ thousands	**31 Dec. 2021**	**31 Dec. 2021**	**31 Dec. 2021**	**31 Dec. 2020**	**31 Dec. 2020**	**31 Dec. 2020**
Equity instruments (shares)	32,651	–	**32,651**	23,121	–	**23,121**
Debt instruments (loans)	15,460	398	**15,858**	18,340	–	**18,340**
Government bonds	9,061	398	**9,459**	11,457	–	**11,457**
Corporate bonds	6,399	–	**6,399**	6,883	–	**6,883**
Currency forwards	387	–	**387**	219	–	**219**
Money market investments	1,070	195	**1,265**	1,023	398	**1,421**
Real estate	3,468	147	**3,615**	3,419	179	**3,598**
Insurance contracts	353	6,988	**7,341**	–	7,020	**7,020**
Bank credit balances	480	4,051	**4,531**	1,997	–	**1,997**
Other investments	3,050	3	**3,053**	2,301	290	**2,591**
	56,919	**11,782**	**68,701**	**50,420**	**7,887**	**58,307**

*The disclosures for the previous year have been supplemented by the values of the plan assets in connection with defined benefit assets in accordance with the previous year's adjustments in the previous tables in this section compared with the 2020 consolidated financial statements.

Actuarial assumptions

	Discount rate		Assumed rate of salary increase *		Assumed rate of pension increase *	
in %	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Germany	1.2	0.7	2.7	2.7	1.9	1.9
France	1.0	0.5	2.8	2.5	–	–
USA	2.5	2.2	–	–	–	–
Switzerland	0.2	0.2	1.0	1.0	–	–

* The assumed rate of salary increase and assumed rate of pension increase is presented in addition to the actuarial assumptions, which are deemed to be material by KSB. No sensitivity calculations were made for these two variables.

Expected pension benefit payments

€ thousands at 31 Dec. 2021	2022	2023	2024	2025	2026
Expected payments	21,080	22,914	22,615	25,267	27,788

€ thousands at 31 Dec. 2020	2021	2022	2023	2024	2025
Expected payments	25,938	24,754	23,658	23,830	25,951

Other employee benefits

Provisions for other employee benefits relate primarily to anniversary and partial retirement obligations.

Other provisions

The provisions for warranty obligations and contractual penalties cover the statutory and contractual obligations to customers and are based on estimates prepared using historical data for similar products and services. They amount to € 55,600 thousand (previous year: € 48,733 thousand) in the reporting year.

The provisions for onerous contracts amounting to € 17,162 thousand (previous year: € 16,766 thousand) result in particular from project orders with customers.

Miscellaneous other provisions include provisions for litigation risks in the amount of € 2,685 thousand (previous year: € 1,253 thousand).

€ 28,683 thousand (previous year: € 19,262 thousand) of the other provisions are expected to become cash-effective after more than one year.

12. Liabilities

Non-current liabilities

€ thousands	31 Dec. 2021	31 Dec. 2020
Financial liabilities	**27,067**	**50,624**
Loan against borrower's note	–	21,992
Bank loans and overdrafts	2,284	3,985
Finance lease liabilities	24,494	24,336
Other	289	310

Current liabilities

€ thousands	31 Dec. 2021	31 Dec. 2020
Financial liabilities	**51,898**	**32,033**
Loan against borrower's note	21,996	–
Bank loans and overdrafts	15,382	17,578
Finance lease liabilities	14,512	14,446
Other	8	9
Contract liabilities	**157,389**	**153,690**
Trade payables	**272,813**	**237,558**
Trade payables to third parties	272,193	236,547
Liabilities to other investments, associates and joint ventures	619	1,011
Other financial liabilities	**26,635**	**27,205**
Currency forwards	6,332	2,623
Miscellaneous other financial liabilities	20,303	24,582
Other non-financial liabilities	**157,466**	**136,045**
Social security and liabilities to employees	128,761	103,045
Tax liabilities (excluding income tax)	20,023	23,399
Prepaid expenses	3,845	4,847
Investment grants and subsidies	4,837	4,754
Income tax liabilities	**10,931**	**12,860**

In 2012, to safeguard liquidity in the medium term, KSB SE & Co. KGaA took the precaution of placing a loan against borrower's note with a total volume of € 175 million. This loan is divided into repayment tranches of 3, 5, 7 and 10 years. Tranches of € 153 million in total were repaid in 2019, 2017 and 2015, some early. As the different repayment tranches have different terms, different rates of interest apply, some of which are fixed and some variable. As at the prior-year reporting date, liabilities from loans against borrower's note consist of bank loans and overdrafts in the amount of € 13.5 million and other financial liabilities in the amount of € 8.5 million. As at the reporting date of the reporting year, the outstanding balance of the loan against a borrower's note is reported in view of its maturity under current financial liabilities within one year of the reporting date.

The weighted average interest rate on bank loans and overdrafts as well as on an open-market credit (loan against borrower's note) was 4.77 % (previous year: 4.55 %).

The maturity analysis of lease obligations at the reporting date is as follows:

Maturity analysis of liabilities from lease obligations

€ thousands	31 Dec. 2021	31 Dec. 2020
Due within 1 year	14,512	14,446
Due between 1 and 5 years	21,208	22,276
Due after more than 5 years	3,286	2,060
	39,006	38,782

At € 157,389 thousand (previous year: € 153,690 thousand), the balance of contract liabilities at the end of the reporting year was at a comparable level with the previous year. In the reporting year, KSB recognised sales revenue of € 80,352 thousand (previous year: € 82,106 thousand) which was contained in the balance of contract liabilities at the beginning of the reporting year.

The reported investment grants and subsidies largely comprise funding from the European Union and German entities for new buildings and development aid projects.

Overall, assets of the Group amounting to € 21,918 thousand (previous year: € 21,718 thousand) are used to secure liabilities and are subject to corresponding restrictions on disposal by KSB or pledges. Of this amount, € 12,751 thousand (previous year: € 13,825 thousand) is attributable to other receivables and other current assets, which mainly relate to the hedging of credit balances from partial retirement arrangements and long-term working accounts of the German Group companies. In addition, property, plant and equipment in the amount of € 1,280 thousand (previous year: € 3,187 thousand) and other assets in the amount of € 7,887 thousand (previous year: € 4,706 thousand) serve as security for liabilities.

As in the previous year, no liabilities were secured by land charges or similar rights in the reporting year.

There were no covenant agreements for loans in the reporting year, as was the case in the previous year.

V. INCOME STATEMENT DISCLOSURES

13. Sales revenue

Breakdown of sales revenue for the 2021 financial year

€ thousands	Pumps Segment	Valves Segment	KSB SupremeServ Segment	Total
Sales revenue	**1,271,104**	**305,570**	**766,903**	**2,343,577**
of which sales revenue from the sale of goods	1,271,104	305,570	461,041	2,037,715
of which sales revenue from the provision of services	–	–	305,862	305,862
of which goods and services transferred at a specific time	1,029,091	278,401	366,268	1,673,760
of which goods and services transferred over a period of time	242,013	27,169	400,635	669,817

The table above shows the breakdown of the Group's sales revenue in the reporting year by product category, timing of revenue recognition and Segment. Detailed information on KSB's new Segments relevant for the 2021 financial year is provided in Section VIII. Segment Reporting of the Notes to the consolidated financial statements.

The sales revenue of the previous year, totalling € 2,207,881 thousand, resulted with € 1,965,199 thousand from the sale of goods and with € 242,682 thousand from the provision of services. Sales revenue of € 1,535,249 thousand was recognised from the transfer of goods and services at a point in time, and of € 672,632 thousand from the transfer over a period of time.

Of the sales revenue for the 2020 financial year, € 1,467,957 thousand was attributable to the former Pumps Segment, € 335,454 thousand to the former Valves Segment and € 404,470 thousand to the former Service Segment. The segmented sales revenues of the previous year are not comparable with the segment values of the reporting year due to the Group' s changed segmentation.

The Group's new segmentation includes a full allocation of the spare parts business for pumps and valves to the KSB SupremeServ Segment. In order to make an indicative comparison between the sales revenue of the reporting year according to the new segmentation and the sales revenue of the previous year according to the former segmentation, the sales revenue from the spare parts business of the former Pumps and Valves Segments is reclassified below for the 2020 financial year and added to the former Service Segment.

In the previous year, the sales revenue of the former Pumps Segment minus the related spare parts business of € 329 million amounted to approximately € 1,139 million (corresponds to 52 % of the Group's sales revenue), the sales revenue of the former Valves Segment excluding the spare parts business of € 26 million amounted to approximately € 310 million (corresponds to 14 % of the Group's sales revenue) and the sales revenue of the former Service Segment including the spare parts business from the former Pumps and Valves Segments amounted to approximately € 759 million (corresponds to 34 % of the Group's sales revenue).

In comparison, of the total sales revenue of € 2,343,577 thousand in the reporting year, around 54 % is attributable to the new Pumps Segment, 13 % to the new Valves Segment and 33 % to the new KSB SupremeServ Segment.

The Group's order book, in the form of the total transaction price of performance obligations unsatisfied or partially unsatisfied as at the reporting date, is as follows:

Performance obligations unsatisfied or partially unsatisfied as at the reporting date (orders on hand)

€ thousands	31 Dec. 2021	31 Dec. 2020
Total transaction price of performance obligations unsatisfied or partially unsatisfied as at the reporting date (orders on hand)	**1,366,205**	**1,288,539**
of which expected sales revenue within the next 12 months	1,077,126	984,445
of which expected sales revenue after more than 12 months	289,079	304,094

14. Other income

€ thousands	2021	2020
Income from the reversal of impairment losses	8,041	5,997
Government grants *	5,032	5,110
Currency translation gains	3,832	–
Insurance compensations *	647	4,975
Income from disposal of assets	700	653
Miscellaneous other income *	9,478	14,915
	27,730	31,649

* Restated compared with presentation in the 2020 consolidated financial statements.

Compared with the previous year's consolidated financial statements, the presentation for the reporting year and the previous year was amended to provide a better overview in that the income from government grants previously included in miscellaneous other income item and the income from insurance compensations are now shown as separate items in other income.

Other income relates to a large number of individual items and includes, among other things, remuneration for various other services provided by the Group outside its primary business activities. In addition, profits from the sale of subsidiaries in the amount of € 3,060 thousand were recognised in this item in the previous year.

There are no material unfulfilled conditions or other contingencies related to the income from government grants.

15. Cost of materials

The cost of materials amounted to € 975,410 thousand (previous year: € 899,579 thousand) in the reporting year. This item includes expenses for raw materials, consumables and supplies and for goods and services purchased.

16. Staff costs

€ thousands	2021	2020
Wages and salaries	679,826	649,947
Social security contributions and employee assistance costs	127,485	127,479
Pension costs	29,844	27,405
	837,154	804,831

Pension costs are reduced by the interest component included in the allocation of provisions that is reported in financial income / expense.

The average number of employees in the Group during the year and as at the reporting date is shown in the table below.

→ Employees

The decline in the average number of employees compared with the previous year is due in particular to the fact that the previous year's figure, in contrast to the figure for the reporting year, includes the pro-rata number of employees of the French subsidiaries sold in the 2020 financial year up to the respective date of sale.

The increase in staff costs compared with the previous year is due in particular to increased profit bonuses for employees. In addition, staff costs in the previous year were reduced on account of a decrease in the Group's obligations from holiday and time credits.

Employees

	Average for the year		At reporting date	
	2021	2020	31 Dec. 2021	31 Dec. 2020
Wage earners	6,532	6,959	6,529	6,696
Salaried employees	8,755	8,389	8,883	8,380
	15,287	15,348	15,412	15,076

17. Other expenses

€ thousands	2021	2020
Repairs, maintenance, third-party services	120,550	118,179
Administrative expenses	73,422	73,008
Selling expenses	59,049	58,301
Other staff costs	27,030	28,155
Other taxes	11,950	13,244
Rents and leases	10,455	9,639
Impairment losses on trade receivables and contract assets	14,065	9,025
Currency translation losses	3,650	5,316
Losses from current assets	494	808
Losses from asset disposals	1,089	1,533
Miscellaneous other expenses	31,459	35,806
	353,215	**353,014**

The expenses for rents and leases consist of expenses for leases with low-value underlying assets of € 2,975 thousand (previous year: € 2,201 thousand), expenses for short-term leases in the amount of € 4,374 thousand (previous year: € 4,595 thousand), expenses from variable lease payments of € 885 thousand (previous year: € 1,187 thousand) and expenses for rents and other leases in the amount of € 2,222 thousand (previous year: € 1,656 thousand).

Other expenses are primarily made up of expenses from the additions to provisions for warranties and expected losses associated with customer contracts. Income from the reversal of such provisions is also included in this item. In addition, losses from the sale of subsidiaries in the amount of € 5,714 thousand were recognised in other expenses in the previous year.

18. Finance income / expense

The increase in interest and similar income compared with the previous year results in particular from interest on back payment claims.

Interest and similar expenses include the net interest expense for pension provisions amounting to € 4,864 thousand (previous year: € 6,553 thousand). In addition, the item also includes interest expense from the subsequent measurement of lease liabilities in the amount of € 785 thousand (previous year: € 1,056 thousand).

Finance income / expense

€ thousands	2021	2020
Finance income	**10,425**	**5,374**
Income from equity investments	108	–
thereof from other investments	108	–
Interest and similar income	10,317	5,310
thereof from other investments	62	96
thereof from investments accounted for using the equity method	461	371
Other finance income	–	65
Finance expense	**–11,494**	**–12,100**
Interest and similar expenses	–9,567	–11,747
Other finance expense	–1,927	–353
Income from / expense to investments accounted for using the equity method	**–157**	**–1,850**
Finance income / expense	**–1,226**	**–8,576**

19. Taxes on income

This item shows the effective and deferred taxes on income of the companies included in the consolidated financial statements. The applicable tax rate of 30.7 % in the 2021 financial year (previous year: 30.0 %) is a composite rate resulting from the current German corporation tax, solidarity surcharge and trade tax rates.

Taxes on income

€ thousands	2021	2020
Effective taxes	43,292	39,921
Deferred taxes	–13,681	17,295
	29,612	57,216

Effective taxes include prior-period tax refunds in the amount of € 250 thousand (previous year: € 439 thousand) and tax arrears in the amount of € 125 thousand (previous year: € 2,815 thousand). As in the previous year, the introduction of new local taxes had no effects in the reporting year. Changes in foreign tax rates led to a reduction in the total tax expense of € 88 thousand (previous year: reduction of € 302 thousand).

Contingent liabilities from income tax issues amount to € 688 thousand (previous year: € 361 thousand). There are currently no indications that the utilisation of these obligations is likely.

Reconciliation of deferred taxes

€ thousands	2021	2020
Change in deferred tax assets	–7,259	67,741
Change in deferred tax liabilities	747	–2,716
Change in deferred taxes recognised in balance sheet	**–6,512**	**65,025**
Change in deferred taxes taken directly to equity	–7,362	–45,705
Changes in consolidated Group / CTA * / Other	194	–2,025
Deferred taxes recognised in income statement	**–13,680**	**17,295**

* Currency translation adjustments

The allocation of deferred tax assets and deferred tax liabilities to the items in the Group's balance sheet is shown in the table below.

→ Allocation of deferred taxes

As at the reporting date, deferred tax assets (after offsetting) of € 3,696 thousand (previous year: € 2,618 thousand) were recognised in the balance sheet, which arose from companies posting a loss in the reporting year or in the previous year and whose realisation depends exclusively on the creation of future profit. Based on the planning figures available, KSB expects realisation to take place.

Income tax included under equity

€ thousands	2021	2020
Remeasurement of defined benefit plans *	54,755	–43,572
Taxes on income	–8,289	–43,546
Currency translation differences *	30,326	–62,422
Taxes on income	–	–
Changes in the fair value of financial instruments	–4,270	7,116
Taxes on income	927	–2,159
Other comprehensive income	**73,449**	**–144,583**

* These items include the changes taken directly to equity relating to investments accounted for using the equity method. Further details can be found in the statement of comprehensive income.

Allocation of deferred taxes

€ thousands	Deferred tax assets 2021	Deferred tax assets 2020	Deferred tax liabilities 2021	Deferred tax liabilities 2020
Non-current assets	**5,198**	**4,104**	**36,487**	**43,436**
Intangible assets	424	525	194	10,951
Right-of-use assets	26	–	8,560	7,281
Property, plant and equipment	3,872	3,578	25,782	24,668
Financial and non-financial assets *	876	1	1,951	536
Current assets	**30,961**	**29,948**	**22,090**	**21,478**
Inventories	28,926	25,134	30	15
Receivables and other current assets *	2,035	4,814	22,060	21,463
Non-current liabilities	**51,978**	**59,311**	**792**	**63**
Provisions	47,461	55,540	792	63
Other liabilities **	4,517	3,771	–	–
Current liabilities	**23,410**	**16,777**	**28,529**	**27,193**
Provisions	10,118	7,152	1,002	355
Other liabilities **	13,292	9,625	27,527	26,838
Tax loss carryforwards	**1,793**	**960**	–	–
Gross deferred taxes – before offsetting	**113,340**	**111,100**	**87,898**	**92,170**
Offset under IAS 12.74	–78,721	–83,740	–78,721	–83,740
Net deferred taxes – after offsetting	**34,619**	**27,360**	**9,177**	**8,430**

* The presentation of the previous year's figures was amended compared with the 2020 consolidated financial statements in that the deferred tax liabilities from defined benefit assets in the amount of € 435 thousand are now allocated to non-current non-financial assets and no longer to current other assets, in accordance with the reclassification of the defined benefit assets in the consolidated balance sheet.

** Deferred tax assets from non-current lease liabilities amount to € 3,306 thousand (previous year: € 3,772 thousand) and those from current lease liabilities to € 2,185 thousand (previous year: € 2,416 thousand). They are reported under deferred taxes for other liabilities (non-current and current).

Reconciliation of income tax

€ thousands	2021	2020
Earnings before income tax (EBT)	139,935	61,596
Calculated income taxes on the basis of the applicable Group tax rate	42,960	18,479
Differences in tax rates	–7,589	–5,154
Unused tax loss carryforwards	33	8,729
Impairment loss / reversal of impairment on deferred taxes on tax loss carryforwards	–13,818	–423
Impairment loss on goodwill	–	2,624
Impairment loss / reversal of impairment on deferred taxes for temporary differences	3,552	20,945
Tax-exempt income	–5,332	–2,739
Non-deductible expenses	5,259	8,791
Prior-period taxes	2,152	2,376
Other tax credits	–828	–289
Non-deductible foreign income tax	1,022	2,944
Investments accounted for using the equity method	–140	664
Miscellaneous	2,343	269
Current taxes on income	**29,612**	**57,216**
Current tax rate	21%	93%

As far as net income from affiliates and other equity investments is concerned, withholding taxes incurred in connection with distributions and German taxes incurred are recognised as deferred taxes if these gains are expected to be subject to corresponding taxation, or there is no intention of reinvesting them in the long term. No deferred tax liabilities were recognised for temporary differences of € 76,078 thousand (previous year: € 71,011 thousand) in relation to affiliates and associates as it is unlikely that these temporary differences will be reversed in the foreseeable future.

No deferred tax assets were recognised for loss carryforwards amounting to € 150,529 thousand (previous year: € 160,584 thousand) because it is unlikely that there will be sufficient taxable profit available in the near future against which these deferred tax assets can be utilised. The loss carryforwards are largely available for an indefinite period. The income resulting from the use of loss carryforwards for which no deferred tax liabilities have been recognised so far was € 2,240 thousand (previous year: € 2,052 thousand).

Deductible temporary differences for which no deferred tax assets had to be set up amounted to € 262,065 thousand (previous year: € 274,012 thousand). The vast majority of this amount is attributable to KSB SE & Co. KGaA, as in the 2020 financial year. In the Group's opinion, deductible temporary differences beyond taxable temporary differences for the tax group of KSB SE & Co. KGaA were impaired as in the previous year.

20. Earnings after income tax – Non-controlling interests

The net profit attributable to non-controlling interests amounts to € 17,646 thousand (previous year: € 14,832 thousand) and the net loss attributable to non-controlling interests amounts to € 971 thousand (previous year: € 817 thousand). Further details on the non-controlling interests are provided in Notes No. 10 "Equity".

21. Earnings per share

Earnings per share are calculated using the weighted average number of shares as the denominator.

Earnings per share

		2021	2020
Earnings after income tax – Attributable to KSB SE & Co. KGaA shareholders	€ thousands	93,648	–9,635
Additional dividend attributable to preference shareholders (€ 0.26 per preference share) (previous year: € 0.26 per preference share)	€ thousands	–225	–225
	€ thousands	**93,423**	**–9,859**
Number of ordinary shares		886,615	886,615
Number of preference shares		864,712	864,712
Total number of shares		**1,751,327**	**1,751,327**
Diluted and basic earnings per ordinary share	**€**	**53.34**	**–5.63**
Diluted and basic earnings per preference share	**€**	**53.60**	**–5.37**

VI. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

Financial instruments – Carrying amounts, fair values and other disclosures by measurement category

Financial instruments by measurement category – 31 Dec. 2021

Balance sheet item / Class € thousands	Measurement category *	Carrying amount	Fair value	Fair value Level 1 **	Fair value Level 2 ***	Fair value Level 3 ****
Assets						
Non-current assets						
Non-current financial instruments	FVPL	50	50	50	–	–
Loans	AC	1,458	1,458	–	1,458	–
Current assets						
Trade receivables from third parties	AC	444,601	–	–	–	–
Trade receivables from other investments, associates and joint ventures	AC	34,643	–	–	–	–
Trade receivables from other investments, associates and joint ventures	AC	1,918	–	–	–	–
Currency forwards designated as hedges	n / a	494	494	–	494	–
Currency forwards not designated as hedges	FVPL	149	149	–	149	–
Other receivables and other current assets	AC	77,579	–	–	–	–
Cash and cash equivalents	AC	386,683	–	–	–	–
Equity and Liabilities						
Non-current liabilities						
Financial liabilities excluding lease obligations	AC	2,573	2,379	–	2,379	–
Lease obligations	n / a	24,494	–	–	–	–
Current liabilities						
Financial liabilities excluding lease obligations	AC	37,386	–	–	–	–
Lease obligations	n / a	14,512	–	–	–	–
Trade payables	AC	272,813	–	–	–	–
Currency forwards designated as hedges	n / a	5,052	5,052	–	5,052	–
Currency forwards not designated as hedges	FVPL	1,280	1,280	–	1,280	–
Other financial liabilities	AC	20,304	–	–	–	–

Measurement categories aggregated under IFRS 9 – 31 Dec. 2021

Assets	AC	946,882
Equity and Liabilities	AC	333,076
Assets	FVPL	199
Equity and Liabilities	FVPL	1,280

* AC = Amortised cost, FVPL = Fair value through profit or loss

** Level 1: Fair value is determined on the basis of quoted prices (unadjusted) on active markets for identical assets and liabilities.

*** Level 2: The fair value is determined on the basis of measurement parameters that are not the quoted prices taken into account for level 1, but are observable for the asset or the liability either directly as a price or indirectly derived from prices.

**** Level 3: The fair value is determined on the basis of measurement parameters for assets or liabilities that are not based on observable market data.

Financial instruments by measurement category – 31 Dec. 2020

Balance sheet item / Class € thousands	Measurement category *	Carrying amount	Fair value	Fair value Level 1 **	Fair value Level 2 ***	Fair value Level 3 ****
Assets						
Non-current assets						
Non-current financial instruments	FVPL	77	77	77	–	–
Loans	AC	2,190	2,190	–	2,190	–
Current assets						
Trade receivables from third parties	AC	419,458	–	–	–	–
Trade receivables from other investments, associates and joint ventures	AC	24,717	–	–	–	–
Trade receivables from other investments, associates and joint ventures	AC	710	–	–	–	–
Currency forwards designated as hedges	n / a	4,211	4,211	–	4,211	–
Currency forwards not designated as hedges	FVPL	483	483	–	483	–
Other receivables and other current assets	AC	75,251	–	–	–	–
Cash and cash equivalents	AC	331,512	–	–	–	–
Equity and Liabilities						
Non-current liabilities						
Financial liabilities excluding lease obligations	AC	26,287	30,404	–	30,404	–
Lease obligations	n / a	24,336	–	–	–	–
Current liabilities						
Financial liabilities excluding lease obligations	AC	17,587	–	–	–	–
Lease obligations	n / a	14,446	–	–	–	–
Trade payables	AC	237,558	–	–	–	–
Currency forwards designated as hedges	n / a	1,474	1,474	–	1,474	–
Currency forwards not designated as hedges	FVPL	1,149	1,149	–	1,149	–
Other financial liabilities	AC	24,582	–	–	–	–

Measurement categories aggregated under IFRS 9 – 31 Dec. 2020

Assets	AC	853,838
Equity and Liabilities	AC	306,014
Assets	FVPL	560
Equity and Liabilities	FVPL	1,149

* AC = Amortised cost, FVPL = Fair value through profit or loss

** Level 1: Fair value is determined on the basis of quoted prices (unadjusted) on active markets for identical assets and liabilities.

*** Level 2: The fair value is determined on the basis of measurement parameters that are not the quoted prices taken into account for level 1, but are observable for the asset or the liability either directly as a price or indirectly derived from prices.

**** Level 3: The fair value is determined on the basis of measurement parameters for assets or liabilities that are not based on observable market data.

The carrying amount of financial assets measured at amortised cost approximates fair value. This is also the case for all financial liabilities with the exception of non-current financial liabilities. This is mainly due to the short maturities of these financial instruments.

The fair values of the current and non-current financial instruments are based on prices quoted in active markets (level 1).

Fair values within level 2 are determined using a discounted cash flow method. This relates to loans, non-current financial liabilities and currency forwards. KSB applies an appropriate yield curve for discounting. Future cash flows from currency forwards are calculated on the basis of forward exchange rates (observable rates on the reporting date) and the contracted forward exchange rates.

Level 3 includes financial instruments whose fair value is based on measurement parameters that are not based on observable market data.

In the reporting year, as in the previous year, there were no significant reclassifications of financial assets or liabilities between the hierarchy levels described above.

The net gains and losses from financial instruments, after taking into account the relevant tax effect, are presented in the following table:

→ Net results by measurement category

The interest shown is a component of finance income / expense. The effect from the application of the effective interest rate method is immaterial here as the interest expenses are virtually offset by the resulting interest income. The other gains and losses are partly reported in other income and other expenses.

Differences between the gross and net carrying amounts of financial assets, which are reflected in the table on net results in the “Impairments” column, mainly concern trade receivables. For further details, please refer to Notes No. 8 “Contract assets, trade receivables and other financial and non-financial assets”.

The amount of financial assets and liabilities subject to offsetting agreements is not material.

Net results by measurement category in 2021

		From subsequent measurement				
€ thousands	From interest and dividends	At fair value	Currency translation	Impairment losses	From disposal	Net results
Amortised cost (assets)	5,633	–	1,130	–5,045	–	1,718
Amortised cost (equity and liabilities)	–3,813	–	16	–	–	–3,797
FVPL (assets and equity and liabilities)	–	–466	–	–	–	–466
	1,820	**–466**	**1,146**	**–5,045**	**–**	**–2,545**

Net results by measurement category in 2020

		From subsequent measurement				
€ thousands	From interest and dividends	At fair value	Currency translation	Impairment losses	From disposal	Net results
Amortised cost (assets)	5,310	–	–696	–2,434	–	2,180
Amortised cost (equity and liabilities)	–3,998	–	211	–	–	–3,787
FVPL (assets and equity and liabilities)	–	–665	–	–	–	–665
	1,312	**–665**	**–485**	**–2,434**	**–**	**–2,272**

Financial risks

KSB is exposed to certain financial risks as a consequence of its business activities. These risks can be classified into three areas:

KSB is firstly exposed to credit risk. Credit risk is defined as the 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. The risk of exchange rate or interest rate changes may adversely affect the economic position of the Group. Risks from fluctuations in the prices of financial instruments are not material for KSB.

KSB limits all these risks through an appropriate risk management system, defining how these risks are addressed through guidelines and work instructions. Furthermore, KSB continuously monitors the current risk characteristics and regularly provides the information obtained to the Managing Directors and the Supervisory Board in the form of standardised reports and individual analyses.

The three risk areas are described in detail in the following. Additional information is also provided in the group management report, in particular in the Economic Review, Report on Expected Developments, Opportunities and Risks Report sections.

Credit risk

The primary credit risk is that there is a delay in settling a receivable, or that it is not settled either in full or in part. KSB minimises this risk using a variety of measures. As a matter of principle, KSB runs credit checks on potential and existing counterparties. KSB only enters into business relationships if the results of these checks are positive. Additionally, European companies in particular take out trade credit insurance policies. In exceptional cases KSB accepts other securities (collateral) such as guarantees. The insurance policies primarily cover the risk of loss of receivables. Moreover, cover is also taken out against political and commercial risks in the case of specific customers in selected countries. For both types of insurance, KSB has agreed deductibles, which represent significantly less than 50 % of the insured volume. The total amount of unhedged trade receivables as at the reporting date is shown under Notes No. 8 “Contract assets, trade receivables and other financial and non-financial assets”. As part of receivables management, KSB continuously monitors outstanding items, performs maturity analyses and establishes contact with customers at an early stage if delays in payment occur. In the case of major projects, the terms and conditions provide for prepayments, guarantees and – for export transactions – letters of credit. These also mitigate risk. KSB recognises impairment losses for the residual risk remaining in trade receivables. It regularly examines the extent to which individual receivables need to be written down for impairment. Indications of this are significant financial difficulties of the debtor, such as insolvency or bankruptcy. Receivables are derecognised when it is reasonably certain that payment cannot be expected.

The maximum default risk, excluding collateral received, corresponds to the carrying amount of the financial assets. These all have an investment grade rating.

There is no concentration of risk because the diversity of KSB’s business means that it supplies a considerable number of customers in different sectors.

Liquidity risk

Liquidity management ensures that the liquidity risk is minimised in the Group and that solvency is ensured at all times. There are no concentrations of risk because KSB works with a number of credit institutions, on which strict creditworthiness requirements are imposed.

KSB generates its financial resources primarily from its operating business. These are used to finance investments in non-current assets. KSB also uses them to cover working capital requirements. To keep these as low as possible, KSB monitors changes in inventories, contract assets, trade receivables, trade payables and contract liabilities regularly using a standardised Group reporting system.

The reporting system additionally ensures, with the help of monthly rolling cash flow planning, that the Group’s central financial management is continuously informed about liquidity surpluses and requirements. This enables KSB to optimally meet the needs of the Group as a whole and of the individual companies. In order to be able to provide the necessary collateral in the project business, KSB makes corresponding guarantee volumes available.

In addition, it is always ensured that free credit facilities are sufficient; KSB identifies the need for these on the basis of regular liquidity planning. This way, it can react at any time to fluctuating liquidity requirements. Approved cash loans and credit lines total approximately € 1,281.2 million (previous year: approx. € 1,258.3 million), of which € 839.9 million (previous year: € 840.8 million) has not yet been utilised.

Cash loans and credit lines included amounts from a syndicated loan agreement signed in December 2018 whose credit line can be used at any time. The credit line has a fixed term of five years with the option to renew twice by one year each time. In the 2019 financial year, KSB made use of the one-year extension for the first time. In the previous year, KSB availed itself of this option again and extended the fixed term of the line early, until the end of 2025.

The utilisation of cash loans and credit lines from the syndicated loan agreement by the Group was as follows at the end of the reporting year:

€ thousands / Type of line	Maximum amount of line	Utilisation as at 31 Dec. 2021
Loans	300,000	4,167
Sureties	350,000	104,911

The following tables show the contractually agreed non-discounted future cash flows of the financial liabilities (primary financial instruments) and derivative financial instruments. Interest payments on fixed-rate liabilities are determined on the basis of the fixed rate. Floating-rate interest payments are based on the last floating interest rates fixed before 31 December. Projections for future new liabilities are not included in the presentation. Based on the current state of knowledge, it is neither expected that the cash flows will take place significantly earlier, nor that the amounts will differ significantly.

Cash flows of financial liabilities 2021

€ thousands	Total	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	81,945	54,025	24,514	3,406
of which from lease obligations	41,123	15,546	22,235	3,342
Trade payables	272,813	272,813	–	–
Miscellaneous other financial liabilities	20,304	17,662	2,642	–
Derivative financial instruments	6,332	5,892	440	–
	381,394	**350,392**	**27,596**	**3,406**

Cash flows of financial liabilities 2020

€ thousands	Total	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	87,871	34,418	51,068	2,385
of which from lease obligations	41,774	15,537	23,955	2,282
Trade payables	237,558	237,558	–	–
Miscellaneous other financial liabilities	24,582	22,103	2,479	–
Derivative financial instruments	2,623	2,355	268	–
	352,634	**296,434**	**53,815**	**2,385**

Market price risk

Global business activities expose KSB primarily to currency and interest rate risk. Any changes in market prices can affect fair values and future cash flows. Sensitivity analyses are used to determine the hypothetical impact of such market price fluctuations on earnings and equity. In doing so, KSB assumes that the portfolio at the reporting date is representative of the full year.

Currency risk mainly affects cash flows from operating activities. It arises when Group companies settle transactions in currencies that are not their functional currency. KSB minimises this risk using currency forwards. Further information is presented in Section III. Accounting Policies under "Financial assets and liabilities – b) Derivative financial instruments". KSB uses micro hedges (hedging individual transactions) and macro hedges (hedging an overall risk portfolio) to hedge transactions already recognised in the balance sheet and expected future transactions. The hedging instruments used share the essential terms and conditions with the underlying transactions, i.e. with regard to amount, term and quality. Internal guidelines govern the use of financial instruments. Such transactions are also subject to ongoing risk control measures. The effectiveness of hedges is determined at the beginning of the hedge and through regular prospective assessment. The aim is to ensure that there is a financial relationship between the hedge underlying and hedging instrument. The hedging instruments used are exclusively currency forwards entered into with prime-rated banks. To hedge forward exchange transactions, the Group takes out hedges where the contractual modalities of the hedging instrument essentially match those of the hedged underlying. The hedge ratio for hedges is 1:1, i.e. the volume of hedge transactions matches the designated underlyings. In order to measure the effectiveness or ineffectiveness of hedges, KSB compares the fair value of the underlying and the hedge transactions. Changes in the fair value of the derivatives are almost completely offset by changes in the fair value of the cash flows from the underlyings (dollar offset method). The change in fair value of the underlyings and hedges in the financial year therefore match the unrealised profits and losses recorded under equity. As a rule, KSB does not hedge currency risks from the translation of foreign operations into the Group currency (€). Ineffectiveness can arise from hedging currency risk if the material measurement parameters of the underlying and hedge no longer match. There was no material ineffectiveness in the KSB Group in respect of currency hedges in the 2021 and 2020 financial years.

At the reporting date, the notional volume of the currency forwards designated as hedges was € 167,185 thousand (previous year: € 186,903 thousand). The contractual maturities of payments for these currency forwards are as follows:

Notional volumes in 2021

€ thousands	Total	Up to 1 year	1 – 5 years	> 5 years
Currency forwards designated as hedges	167,185	133,266	33,383	536

Notional volumes in 2020

€ thousands	Total	Up to 1 year	1 – 5 years	> 5 years
Currency forwards designated as hedges	186,903	136,524	49,843	536

The weighted average rate of hedging instruments for the main foreign currencies was:

Hedging of currency risk

	2021	2020
Average rate EUR / USD	1.18	1.18
Average rate EUR / CNY	7.81	8.15
Average rate EUR / CHF	1.07	1.07

The "Changes in the fair value of derivatives" table shows the change in the hedging reserve and in the cost of the hedging reserve for currency hedges before tax. In the reporting year, the realisation of the underlying recognised in income includes amounts of € 29 thousand (previous year: 3,041 thousand) resulting from hedging transactions in which the hedged future cash flows are no longer expected to occur.

Fair value changes in derivatives in 2021

	OCI	
€ thousands	Cash flow hedges – Hedging reserve	Cash flow hedges – Hedging cost reserve
Currency risk		
Opening balance at 1 January	1,899	–404
Effective portion of changes in fair value	–2,396	1,069
Realisation of underlying recognised in income	–5,491	2,548
Closing balance at 31 December	**–5,988**	**3,213**

Fair value changes in derivatives in 2020

	OCI	
€ thousands	Cash flow hedges – Hedging reserve	Cash flow hedges – Hedging cost reserve
Currency risk		
Opening balance at 1 January	–4,719	–868
Effective portion of changes in fair value	5,108	–449
Realisation of underlying recognised in income	1,510	913
Closing balance at 31 December	**1,899**	**–404**

Currency volumes

€ thousands	CNY 31 Dec. 2021	CNY 31 Dec. 2020	USD 31 Dec. 2021	USD 31 Dec. 2020
Trade receivables	45,965	47,659	26,263	21,209
Trade payables	46,396	33,750	20,403	14,778
Balance	**–432**	**13,909**	**5,860**	**6,431**

The key foreign currencies in the KSB Group are the US dollar (USD) and Chinese yuan (CNY). For the currency sensitivity analysis, KSB simulates the effects based on the notional volume of existing foreign exchange derivatives and foreign currency receivables and liabilities at the reporting date. For the analysis, a 10 % increase (decrease) in the value of the euro versus the other currencies is assumed. In the reporting year, this would have amounted to approximately € 0.0 million (previous year: € 1.4 million) for CNY, € – 1.5 million (previous year: € – 1.9 million) for USD and € – 3.4 million (previous year: € – 3.7 million) for the remaining currencies.

→ Currency volumes

Based on the measurement of derivatives, at the reporting date, equity and the fair value of the derivatives would have been € 9.0 million lower (higher), with € 4.5 million resulting from USD and € 4.5 million from the other currencies. At the previous year's reporting date, equity and the fair value of the derivatives would have been € 10.1 million lower (higher), with € 5.8 million resulting from USD and € 4.3 million from the other currencies.

KSB regularly monitors the interest rate risks associated with its financing activities. To avoid the negative effects of interest rate fluctuations on the international capital markets, KSB concludes interest rate hedges (interest rate swaps) where necessary, generally for long-term loans. These are used exclusively to hedge floating rate loans against rising interest rates. In the reporting year, as in the previous year, no such transactions or other interest rate derivatives were recognised.

As part of the interest rate sensitivity analysis, KSB simulates a 50 basis point increase (decrease) in market interest rates and analyses the impact on the floating rate financial instruments. In the 2021 reporting year, the net interest balance would have been € 2.2 million (€ 1.9 million) (previous year: € 1.8 million (€ 1.4 million)) higher (lower).

VII. STATEMENT OF CASH FLOWS

The cash flow statement shows how the Group's cash and cash equivalents reported in the balance sheet changed during the reporting year as a result of cash inflows and outflows. In accordance with the requirements of IAS 7, a distinction is made between cash flows from operating activities and from investing and financing activities. The exact composition of these individual components can be seen in the individual items listed in the cash flow statement.

Non-cash effects from currency translation and from changes in the consolidated Group are eliminated in the respective items. Consequently, the cash flows from changes in balance sheet items shown in the cash flow statement cannot be reconciled with the corresponding movements in the Group's balance sheet.

Cash flows reported by Group companies in foreign currencies are translated into euros at average exchange rates for the year, while cash and cash equivalents are translated at the closing rate. The effect of exchange rate changes on cash and cash equivalents, as well as the effect of changes in the consolidated Group, are shown in a separate item in the cash flow statement.

The cash flow from investing activities includes the cash effects from additions and disposals of intangible assets and property, plant and equipment. The total additions and disposals in the reporting year can be found in the explanatory notes to the balance sheet items in these Notes to the Consolidated Financial Statements.

The cash flows from the sale of subsidiaries in the amount of € 481 thousand also shown in the cash flow from investing activities in the reporting year relate to residual purchase price payments resulting from the sale of subsidiaries completed in the previous year.

The change in financial liabilities in the reporting year, including the cash-effective portion of this change, which is included in the cash flows from financing activities, is shown in the table below.

→ Change in financial liabilities

As in the previous year, the cash and cash equivalents reported as at the reporting date are not subject to any restrictions on disposal by KSB.

Change in financial liabilities in 2021

			Non-cash changes		
€ thousands	1 Jan. 2021	Cash-effective in cash flows from financing activities	Additions / Disposals / Acquisitions / Other	Exchange-rate-related changes	31 Dec. 2021
Non-current financial liabilities (excluding lease liabilities)	26,287	–2,295	–21,235	–183	2,574
Current financial liabilities (excluding lease liabilities)	17,587	–4,274	24,201	–128	37,386
Lease liabilities	38,783	–17,702	17,263	662	39,006
Total financial liabilities	**82,657**	**–24,271**	**20,229**	**351**	**78,966**

Change in financial liabilities in 2020

			Non-cash changes		
€ thousands	1 Jan. 2020	Cash-effective in cash flows from financing activities *	Additions / Disposals / Acquisitions / Other *	Exchange-rate-related changes	31 Dec. 2020
Non-current financial liabilities (excluding lease liabilities)	24,714	–264	1,991	–153	26,287
Current financial liabilities (excluding lease liabilities)	29,303	–11,751	2,360	–2,325	17,587
Lease liabilities	47,051	–17,904	10,604	–968	38,783
Total financial liabilities	**101,068**	**–29,919**	**14,955**	**–3,447**	**82,657**

* The presentation of cash and non-cash changes in financial liabilities was expanded compared with the 2020 consolidated financial statements to include the amounts from interest paid as well as the compounding effect on the carrying amounts from the application of the effective interest rate method.

VIII. SEGMENT REPORTING

Segment reporting is prepared in accordance with IFRS 8 based on the management approach and corresponds to the internal organisational and management structure as well as the reporting lines to the Managing Directors as the chief operating decision-makers.

As of the 2021 financial year, KSB has adapted its control system and internal Group reporting to the realignment of the organisation that began in the previous year. The changes in the organisation have resulted in the following new reporting Segments (hereinafter also referred to as "Segments") of Pumps, Valves and KSB SupremeServ for the Group from financial year 2021.

Even with 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). Reporting the relevant assets, number of employees and inter-segment sales revenue for these segments is, as in the past, not part of internal reporting.

Based on comprehensive consideration, the new reporting segments were aligned with the Group's products and services. For the derivation of the Pumps Segment, the underlying differentiation of individual Market Areas must also be taken into account, as described below.

The redefined Pumps Segment comprises new business with single-stage and multistage pumps, submersible pumps and the associated control and drive systems. The applications are assigned to the Market Areas of Energy and Mining and to the Market Areas of Water, Building Services, Petrochemicals / Chemicals and General Industry, which are grouped together in the organisational and reporting structure of the Group as Standard Markets. Each customer is assigned by the Group to a specific Market Area according to their main business activity. The allocation of transactions with customers to the Market Areas follows this clear assignment of customers by KSB, irrespective of the specific product underlying the transaction.

For the new business with pumps, the Energy, Mining and Standard Market Areas are derived from the changed organisational and reporting structure of the Group as operating segments as defined by IFRS 8. These segments share the characteristic that they are based on a common product group, i.e. pumps. Furthermore, it follows from the customer-related delineation of the Market Areas described above that these operating segments are not based on a classification according to specific products and services, taking into account technological and economic characteristics, such as production processes or sales methods. According to KSB's estimates and expectations, the three pumps operating segments have similar long-term earnings trends and may also involve fundamentally comparable risks. As a result, the operating segments considered here are aggregated into the Pumps reporting segment pursuant to IFRS 8 in view of the close technological and economic interrelationships from the Group's perspective.

The redefined Valves Segment comprises the Group's business activities with regard to new business in butterfly valves, globe valves, gate valves, control valves, diaphragm valves and ball valves, as well as associated actuators and control systems. The basic applications for these products are identical to those for pumps. However, in contrast to the Pumps Segment, the Valves Segment is not divided into individual Market Areas for the central management of the Group.

The KSB SupremeServ segment on the one hand comprises the spare parts business for pumps and valves, whose continued intensification is a central focus of the new segmentation. On the other hand, KSB's service activities are allocated to this Segment. These include the installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves, as well as modular service concepts and system analyses for complete plants.

Up to and including the 2020 financial year, the Group was managed on the basis of three segments: Pumps, Valves and Service. Although some of these segments have the same names, the content of these segments differs significantly from the new Segments effective from the 2021 financial year: Pumps, Valves and KSB SupremeServ. In particular, the spare parts business for pumps and valves was basically allocated to the individual segments in the previous structure depending on the type of underlying product or service. While the spare parts business was thus reflected in all three segments in the previous analysis, with sales revenue of € 329 million and order intake of € 306 million in the former Pumps Segment and sales revenue of € 26 million and order intake of € 27 million in the former Valves Segment in the 2020 financial year, these transactions are fully subsumed under the KSB SupremeServ Segment as per the new segmentation.

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 2021 reporting year 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 for the reporting year are made exclusively on the basis of the 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 for the key financial performance indicators are only comparable for the reporting year and the previous year for the Group as a whole, but not at segment level. The other disclosures in this section on the geographical areas, however, are independent of the changes in segmentation and continue to be fundamentally comparable with the prior-year figures.

The amounts disclosed for the individual segments have been established in compliance with the accounting policies of the present consolidated financial statements.

The order intake by segment presents order intake generated with third parties.

The sales revenue by segment presents sales revenue generated with third parties.

The "Segment reporting" table shows earnings before finance income / expense and income tax (EBIT) including non-controlling interests.

EBIT for the reporting year includes depreciation and amortisation of € 38,035 thousand for the Pumps Segment, € 11,123 thousand for the Valves Segment and € 31,734 thousand for the KSB SupremeServ Segment.

In the previous year, the former Pumps Segment accounted for depreciation and amortisation of € 61,450 thousand, the former Valves Segment of € 15,456 thousand and the former Service Segment of € 23,000 thousand. The total depreciation and amortisation of the previous year included impairment of goodwill in the amount of € 11,155 thousand and impairment of property, plant and equipment in the amount of € 4,323 thousand. Of the total impairment losses, € 6,132 thousand was attributable to the former Pumps Segment, € 2,413 thousand to the former Valves Segment and € 6,933 thousand to the former Service Segment.

€ 571,700 thousand (previous year: € 577,612 thousand) of the sales revenue shown were generated by the companies based in Germany, € 197,013 thousand (previous year: € 172,728 thousand) by companies in China, € 183,144 thousand (previous year: € 194,654 thousand) by companies in France, € 182,304 thousand (previous year: € 206,998 thousand) by companies in the USA and € 1,209,416 thousand (previous year: € 1,055,889 thousand) by the other Group companies.

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

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 new segmentation of the Group, 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 at segment level for the reporting year and the previous year are not comparable.

At the reporting date, the total non-current assets of the KSB Group under review for the purposes of segment reporting amounted to € 676,607 thousand (previous year-end figure: € 642,042 thousand), with € 238,698 thousand (previous year-end figure: € 234,733 thousand) being attributable to the companies based in Germany and € 437,909 thousand (previous year-end figure: € 407,309 thousand) being attributable to the other Group companies. The values shown include intangible assets, rights of use to leased assets, property, plant and equipment and investments accounted for using the equity method.

IX. OTHER DISCLOSURES

Capital disclosures

Sufficient financial independence is a key requirement for safeguarding KSB's continued existence in the long term. Obtaining the necessary funds for ongoing business operations is also extremely important for KSB. KSB regularly monitors the development of the net financial position that is derived from the balance of interest-bearing financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans to companies accounted for using the equity method as well as companies that were not consolidated due to there being no material impact, cash and cash equivalents and receivables from deposits). One objective is to avoid net debt. The net financial position at the end of the reporting year was € 366 million (previous year: € 305 million). The increase in the net financial position compared with the previous year is due in particular to the high cash flows from operating activities.

Contingent liabilities

Contingent liabilities to third parties and other investments are as follows at the reporting date:

Contingent liabilities

€ thousands	31 Dec. 2021	31 Dec. 2020
From legal disputes	3,636	769
From guarantees	2,000	445
From warranty agreements	5,591	4,000
From other tax matters	13,035	5,602
From other contingent liabilities	3,006	–
	27,268	10,816

In the context of establishing the contingent liabilities, estimates are required in particular with regard to the existence of any obligations and in relation to the probability and amount of an outflow of resources.

At present, KSB does not expect a payment obligation for the total of contingent liabilities listed in the table of that name.

In addition, the KSB Group has contingent liabilities towards associates and joint ventures of € 5,732 thousand (previous year: € 6,201 thousand). The extent to which these will result in a cash outflow depends on the future business performance of the respective company.

As at the reporting date of the reporting year, there are no material contingent receivables of the Group, as in the previous year.

Other financial obligations

As in the previous year, there are no purchase price obligations from acquisitions of companies and no payment obligations from capitalisation measures at Group companies.

The aggregate purchase obligation for investments amounts to € 19,112 thousand (previous year: € 22,992 thousand). Of this amount, € 706 thousand (previous year: € 386 thousand) is attributable to intangible assets and € 18,406 thousand (previous year: € 22,606 thousand) to property, plant and equipment. All of the corresponding payments are due in 2022.

Leases

KSB as lessee

Lease agreements in which KSB is the lessee mainly relate to real estate and motor vehicles. The terms of leases and additional cancellation and renewal options for one or both contracting parties are agreed individually and at different conditions.

The total cash outflow from leases, in the form of the repayment of lease liabilities, payments for leases relating to low-value assets and for short-term leases as well as variable lease payments, totalled € 25,151 thousand in the reporting year (previous year: € 24,831 thousand).

KSB as lessor

KSB acts as a lessor in the context of operating leases. This relates, among other things, to the leasing of real estate. In total, the Group generated income from operating leases of € 693 thousand in the reporting year (previous year: € 811 thousand).

The maturity analysis of future lease payments from operating leases is as follows:

Maturity analysis of future operating lease payments

€ thousands	31 Dec. 2021	31 Dec. 2020
Due within 1 year	2,575	1,829
Due between 1 and 2 years	1,208	1,821
Due between 2 and 3 years	991	836
Due between 3 and 4 years	799	476
Due between 4 and 5 years	667	328
Due after more than 5 years	471	–
	6,711	5,290

The financing leases where KSB acts as a lessor have minor significance for KSB and do not have any material effect on the consolidated financial statements.

Research and development costs

Research and development costs in the reporting year amounted to € 52,452 thousand (previous year: € 51,095 thousand). Most of these costs are order-related expenses.

Related party disclosures

Pursuant to section 21(1) of the 28 Dec. 2007 version of the WpHG [*Wertpapierhandelsgesetz* – German Securities Trade Act], KSB Stiftung [KSB Foundation], Stuttgart, notified us on 21 May 2008 that its voting interest in KSB SE & Co. KGaA, Frankenthal / Pfalz exceeded the 75.00 % threshold on 5 May 2008 and amounted to 80.24 % (711,453 voting shares) on this date. 0.54 % of the voting rights (4,782 voting shares) were held directly by KSB Stiftung, Stuttgart, and 79.70 % (706,671 voting shares) were attributed to KSB Stiftung, Stuttgart, pursuant to section 22(1), sentence 1, No. 1 of the 28 Dec. 2007 version of the WpHG. The voting rights attributed to KSB Stiftung, Stuttgart, were held by Johannes und Jacob Klein GmbH, Frankenthal / Pfalz. In 2018 the voting interest of Johannes und Jacob Klein GmbH increased to 83.94 %.

Related parties are KSB Management SE as general partner, KSB Stiftung, Stuttgart, and Kühborth Stiftung GmbH, Stuttgart, each with their direct and indirect interests, joint ventures and associates. These are primarily Johannes und Jacob Klein GmbH, Frankenthal / Pfalz, Klein, Schanzlin & Becker GmbH, Frankenthal / Pfalz, Palatina Versicherungsservice GmbH, Frankenthal / Pfalz, and the companies of Abacus alpha GmbH, Frankenthal / Pfalz. Furthermore, related parties also include entities controlled or jointly controlled by the Managing Directors of Johannes und Jacob Klein GmbH, the Managing Directors or members of the Administrative Board of KSB Management SE or the Managing Directors or members of the Advisory Board of Klein, Schanzlin & Becker GmbH.

The members of the Supervisory Board, the Managing Directors of KSB Management SE and the members of the Administrative Board of KSB Management SE are deemed to be related parties of KSB SE & Co. KGaA. In the reporting year, two members of the Administrative Board held an immaterial share of interests in KSB SE & Co. KGaA.

As part of normal business activities, KSB SE & Co. KGaA maintains business relationships with numerous companies, including affiliates that are deemed to be related parties.

The company maintains relationships with affiliates in the following areas:

- Buying / selling assets
- Sourcing / providing services
- Usage / transferring usage of assets
- Granting of loans

Balances and transactions between KSB SE & Co. KGaA and its subsidiaries, which are related parties, have been eliminated during the consolidation process and are not explained in further detail. Details regarding transactions between the KSB Group and other related parties are provided below.

The following table shows services provided and used, as well as pending receivables and liabilities owed from and to related parties:

→ Services, receivables and liabilities in dealings with related parties

Services, receivables and liabilities in dealings with related parties

€ thousands	Sales of goods and services 2021	Sales of goods and services 2020	Purchases of goods and services 2021	Purchases of goods and services 2020	Receivables 31 Dec. 2021	Receivables 31 Dec. 2020	Liabilities 31 Dec. 2021	Liabilities 31 Dec. 2020
KSB Management SE	5	5	7,012	5,805	–	–	3,926	3,267
Klein, Schanzlin & Becker GmbH	–	–	–	–	–	–	–	–
KSB Stiftung and Kühborth-Stiftung GmbH	–	–	–	–	–	–	–	–
Johannes und Jacob Klein GmbH	–	1	–	–	–	–	–	–
Subsidiaries of Johannes und Jacob Klein GmbH	606	581	3,525	3,335	108	119	27	7
Associates / joint ventures of Johannes und Jakob Klein GmbH	–	–	–	–	–	–	–	–
Joint ventures *	40,619	22,872	1,214	1,261	31,572	20,684	318	561
Associates *	3	2	–	–	–	317	–	–
Companies not consolidated due to immateriality *	6,540	10,301	48	274	3,071	3,715	301	450
Other related parties (corporate bodies), excluding "Management remuneration"	33	27	–	–	–	–	–	–

* Compared with the presentation in the 2020 consolidated financial statements, the service relationships and balances with the Group's associates and joint ventures as well as with the companies not consolidated due to immateriality were added to the table. The amounts related to Geheimrat Dr. Jacob Klein-Unterstützungseinrichtung e.V., which were previously listed in a separate line, are now included under companies not consolidated due to immateriality.

The liabilities to KSB Management SE are due in the short term. As the legal representative, KSB Management SE provides management services and accepts KSB's liability as general partner. It receives reimbursement of its costs as a management fee and 4 % of its share capital for acceptance of liability.

Further information on joint ventures, associates and companies not consolidated due to immateriality (related party transactions) can be found in Section IV. Balance Sheet Disclosures – Notes No. 4 "Other financial assets", Notes No. 6 "Investments accounted for under using the equity method", Notes No. 8 "Contract assets, trade receivables and other financial and non-financial assets", Notes No. 12 "Liabilities" and in Section IX. Other Disclosures – Contingent Liabilities. In addition, the cash flows from the granting of loans and from capital measures with the above-mentioned companies are shown in the statement of cash flows under cash flows from investing activities.

Relations covering the supply of products and services in relation with Johannes und Jacob Klein GmbH were of minor scope in the reporting year as in the previous year. In addition, Johannes und Jacob Klein GmbH received dividend payments.

Transactions with subsidiaries of Johannes und Jacob Klein GmbH comprise transactions with Palatina Versicherungsservice GmbH, Abacus alpha GmbH, Abacus Resale GmbH, Abacus Experten GmbH, Salinnova GmbH and airinotec GmbH). There were minor transactions with associates or joint ventures of KSB with Johannes und Jacob Klein GmbH in the reporting year.

A services agreement for insurances is in place between Palatina Versicherungsservice GmbH and KSB SE & Co. KGaA. Abacus Experten GmbH concluded a number of service agreements with KSB SE & Co. KGaA; there is a framework delivery and service agreement with Abacus Resale GmbH for the purchase of returns and the provision of additional related services. In addition, products were delivered to the company as part of the normal business activities. KSB SE & Co. KGaA and Abacus alpha GmbH have also concluded service agreements. KSB products were delivered to airinotec GmbH and Salinnova GmbH as part of normal business activities. KSB purchased spare parts from Salinnova GmbH in the previous year.

Transactions with related parties are performed at arm's length.

Pending balances at the year end are unsecured, do not accrue interest and are settled by means of payments. No guarantees were given or received. The receivables presented here, as in the previous year, are not subject to write-downs and no provisions have been created for this purpose.

Disclosures and information on affiliates and investments accounted for using the equity method provided in other sections of these Notes refer to relations covering the supply of products and services on an arm's length basis.

Pursuant to IAS 24, the remuneration of key management personnel of the Group must be disclosed. The following table presents the relevant information for the KSB Group on remuneration paid to the Managing Directors and the members of the Administrative Board of KSB Management SE by KSB under an expense reimbursement agreement.

Management remuneration

€ thousands	2021	2020
Short-term benefits	4,397	3,539
Post-employment benefits	1,961	1,662
Other long-term benefits	581	–
Termination benefits	–	–
Share-based payments	–	–
Total	**6,939**	**5,200**

In the year under review, KSB Management SE received from KSB SE & Co. KGaA reimbursed expenses of € 73 thousand (previous year: € 605 thousand) for managing KSB's business in addition to the above-mentioned reimbursement of expenses for remunerating the members of the governing bodies of KSB Management SE.

As at 31 December 2021, KSB set aside provisions of € 783 thousand (previous year: € 833 thousand) for pension obligations to current Managing Directors of KSB Management SE, and € 40,267 thousand (previous year: € 45,717 thousand) for pension obligations to former members of the Board of Management of KSB AG (excluding the Managing Directors of KSB Management SE) and their surviving dependants; total benefits paid to these persons amounted to € 2,727 thousand in the reporting year (previous year: € 3,038 thousand).

The short-term benefits paid to members of the Supervisory Board amounted to € 786 thousand for the 2021 financial year (previous year: € 806 thousand). At the end of the financial year, a liability of € 465 thousand (previous year: € 453 thousand) was recognised towards the members of the Supervisory Board.

An updated remuneration system for the Managing Directors of KSB Management SE was introduced in 2021 financial year. The basic features of this remuneration system consist of components that are not performance-related, in the form of fixed sum plus benefits, and pension commitments, as well as short-term and long-term variable remuneration components. In this context, 60 % of the regular annual salary, i.e. the sum of fixed and variable remuneration, is accounted for by the fixed component. The variable remuneration accounts for 40 % of the regular annual salary, with about two thirds of this being allocated to the long-term variable remuneration. The majority of the variable remuneration is thus linked to the long-term performance of the company.

The short-term variable remuneration with an assessment period of one year is designed as a target bonus model and is awarded annually. The target amount, i.e. the amount paid out if 100 % of the target is achieved, corresponds to 15 % of the respective regular annual salary. The Administrative Board of KSB Management SE has set the performance targets of EBIT margin, sales revenue and the overall assessment of the personal performance of the Managing Directors in equal parts as the basis for assessment.

The long-term variable remuneration is structured as an annually granted plan with a three-year, forward-looking assessment period. The target amount corresponds to 25 % of the respective regular annual salary. The Administrative Board has defined the performance target as the equally weighted average of the earnings per share (EPS) over three years with a weighting of 80 % and the achievement of sustainability targets in the areas of environment, social issues and governance (ESG) with a weighting of 20 %. By considering earnings per share, a focus is placed on the long-term successful performance of the company as well as linking the interests of the Managing Directors with the interests of the shareholders.

The final payment of the long-term variable remuneration is made after the end of the assessment period. For the financial years 2021 and 2022, a one-time payment on account amounting to 40 % of the target value in the event of 100 % target achievement has been agreed. At the end of the assessment period, it will be offset against any amount paid out in excess of this; no repayment has been agreed in the event that the sum falls short of this amount.

The members of the Supervisory Board receive a fixed remuneration and attendance fees. In addition, they receive remuneration for activities that require them to devote special time to the tasks of the Supervisory Board that go beyond preparing and holding meetings of the Supervisory Board and its committees.

The members of the Supervisory Board, the Managing Directors and the members of the Administrative Board of the general partner are listed before the information on the proposal on the appropriation of net retained earnings for KSB SE & Co. KGaA.

Auditors
PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, based in Frankfurt am Main with an office in Mannheim, were appointed as auditors and group auditors for the 2021 financial year at the Annual General Meeting of KSB SE & Co. KGaA on 6 May 2021. Overall, fees (including expenses) amounting to € 901 thousand were recognised as expenses. Of this, € 808 thousand relate to audit services, € 69 thousand to other certification services and € 24 thousand to other services.

The audit fees include costs for the audit of the consolidated financial statements and of the statutory annual financial statements of KSB SE & Co. KGaA and the German subsidiaries included in the consolidated financial statements. The fees for other certification services primarily include attestation services outside of the audit of the consolidated financial statements. The fees for other services primarily include fees for project-specific consultancy services in IT and Compliance.

Use of exemption option
KSB Service GmbH, Frankenthal, 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, have made partial use of the exemption provision pursuant to Section 264(3) HGB [German Commercial Code].

Events after the Reporting Period
The acts of war that started in Ukraine in February 2022 could lead to material adverse effects on the Group's net assets, financial position and results of operations. These cannot be foreseen at the time of preparing these consolidated financial statements and are therefore not quantifiable. The Group companies located in Russia, Ukraine and Belarus only account for a negligible share of the Group's overall business activities.

Beyond this, there were no events after the close of the financial year that are of particular significance for the Group's net assets, financial position and results of operations.

German Corporate Governance Code
The Managing Directors and the Supervisory Board of KSB SE & Co. KGaA issued the current Statement of Compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with Section 161 AktG [*Aktiengesetz* – German Public Companies Act] on 15 December 2021. The Statement is accessible to the public at KSB's web site: www.ksb.com > Investor Relations > Corporate Governance > Corporate Governance Statement / Statement of Compliance with the German Corporate Governance Code.

List of Shareholdings

Affiliates (national and international)

Cons. No.	Name and seat	Country	Activity*	Capital share in %	Group share of capital in %	Held by No.
1	Canadian Kay Pump Limited, Mississauga / Ontario	Canada	H	100.00	100.00	
2	KSB Limited, Pimpri (Pune)	India	P	40.54	40.54	1
3	KSB MIL Controls Limited, Annamanada	India	P	49.00	19.86	2
				51.00	51.00	
4	Pofran Sales & Agency Limited, Pimpri (Pune)	India	S	100.00	40.54	2
5	Dynamik-Pumpen GmbH, Stuhr	Germany	SVC	100.00	100.00	
6	Hydroskepi GmbH, Amaroussion (Athens)	Greece	H	100.00	100.00	
7	KAGEMA Industrieausrüstungen GmbH, Pattensen	Germany	P	100.00	100.00	
8	KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	H	100.00	100.00	
9	OOO "KSB", Moscow	Russia	P	100.00	100.00	8
10	IOOO "KSB BEL", Minsk	Belarus	S	98.10	98.10	9
				1.90	1.90	8
11	TOV "KSB Ukraine", Kyiv	Ukraine	S	100.00	100.00	9
12	KSB, Bombas e Válvulas, SA, Albarraque	Portugal	S	92.00	92.00	
				1.00	1.00	32
				1.00	1.00	69
				1.00	1.00	15
13	KSB Chile S.A., Santiago	Chile	P	100.00	100.00	
14	KSB de Mexico, S.A. de C.V., Querétaro	Mexico	P	100.00	100.00	
15	KSB FINANZ S.A., Echternach	Luxembourg	H	100.00	100.00	
16	Aplicaciones Mecánicas Válvulas Industriales, S.A. (AMVI), Burgos	Spain	P	100.00	100.00	15
17	Dalian KSB AMRI Valves Co., Ltd., Dalian	China	P	100.00	100.00	15
18	KSB Algérie Eurl, Bordj el Kifane (Alger)	Algeria	S	100.00	100.00	15
19	KSB Australia Pty Ltd, Bundamba QLD	Australia	P	100.00	100.00	15
20	KSB New Zealand Limited, Albany / Auckland	New Zealand	S	100.00	100.00	19
21	KSB Belgium S.A., Bierges-lez-Wavre	Belgium	S	100.00	100.00	15
22	KSB Service Belgium S.A./N.V., Bierges-lez-Wavre	Belgium	S	100.00	100.00	21
23	KSB BRASIL LTDA., Várzea Paulista	Brazil	P	100.00	100.00	15
24	KSB Compañía Sudamericana de Bombas S.A., Carapachay (Buenos Aires)	Argentina	P	95.00	95.00	15
				5.00	5.00	
25	KSB Finance Nederland B.V., Zwanenburg	Netherlands	H	100.00	100.00	15
26	D.P. Industries B.V., Alphen aan den Rijn	Netherlands	P	100.00	100.00	25
27	KSB B.V., Alphen aan den Rijn	Netherlands	S	100.00	100.00	26
28	Duijvelaar Installatiebouw B.V., Alphen aan den Rijn	Netherlands	SVC	100.00	100.00	26
29	DP Pompen B.V., Alphen aan den Rijn	Netherlands	P	100.00	100.00	26
30	DP Pumps B.V., Alphen aan den Rijn	Netherlands	S	100.00	100.00	26
31	DP Service B.V., Alphen aan den Rijn	Netherlands	SVC	100.00	100.00	26
32	KSB Nederland B.V., Zwanenburg	Netherlands	S	100.00	100.00	25

* P = Production / assembly, S = Sales, SVC = Service, H = Holding

Cons. No.	Name and seat	Country	Activ-ity*	Capital share in %	Group share of capital in %	Held by No.
33	KSB Italia S.p.A., Milano	Italy	P	99.00	99.00	15
				1.00	1.00	
34	KSB ITUR Spain S.A., Zarautz	Spain	P	100.00	100.00	15
35	KSB Limited, Loughborough	United Kingdom	S	100.00	100.00	15
36	KSB Middle East FZE, Dubai	U.A.E.	S	100.00	100.00	15
37	KSB Österreich Gesellschaft mbH, Vienna	Austria	S	100.00	100.00	15
38	KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	P	100.00	100.00	15
39	KSB Pumps and valves L.t.d., Domžale	Slovenia	S	100.00	100.00	15
40	KSB Pumps Inc., Mississauga / Ontario	Canada	S	100.00	100.00	15
41	KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	H	100.00	100.00	15
42	KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	P	70.00	70.00	41
43	KSB PUMPS AND VALVES LIMITED, Nairobi	Kenya	S	100.00	100.00	41
44	KSB S.A.S., Gennevilliers (Paris)	France	P	100.00	100.00	15
45	KSB POMPES ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca	Morocco	S	100.00	100.00	44
46	KSB Shanghai Pump Co., Ltd., Shanghai	China	P	80.00	80.00	15
47	PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	H	51.00	51.00	15
48	KSB America Corporation, Richmond / Virginia	USA	H	100.00	51.00	47
49	GIW Industries, Inc., Grovetown / Georgia	USA	P	100.00	51.00	48
50	KSB Dubric, Inc., Comstock Park / Michigan	USA	SVC	100.00	51.00	48
51	KSB, Inc., Richmond / Virginia	USA	P	100.00	51.00	48
52	KSB, Inc. – Western Division, Bakersfield / California	USA	SVC	100.00	51.00	48
53	Standard Alloys Incorporated, Port Arthur / Texas	USA	SVC	100.00	51.00	48
54	PT. KSB Indonesia, Cibitung	Indonesia	P	94.06	94.06	15
				5.94	5.94	
55	PT. KSB Sales Indonesia, Cibitung	Indonesia	S	99.00	99.00	54
				1.00	1.00	
56	SISTO Armaturen S.A., Echternach	Luxembourg	P	52.85	52.85	15
57	KSB Finland Oy, Kerava	Finland	S	100.00	100.00	
58	KSB Hungary Kft., Budapest	Hungary	S	100.00	100.00	
59	KSB Korea Ltd., Seoul	South Korea	P	100.00	100.00	
60	KSB Limited, Hong Kong	China	S	100.00	100.00	
61	KSB Pump & Valve Technology Service (Tianjin) Co., Ltd, Tianjin	China	SVC	100.00	100.00	60
62	KSB Ltd., Tokyo	Japan	S	100.00	100.00	
63	KSB Norge AS, Ski	Norway	P	100.00	100.00	
64	KSB Perú S.A., Lurin	Peru	S	100.00	100.00	
65	KSB Polska Sp. z o.o., Ozarow-Mazowiecki	Poland	S	100.00	100.00	
66	KSB Pumps Co. Ltd., Bangkok	Thailand	P	40.00	40.00	
67	KSB Pumps Company Limited, Lahore	Pakistan	P	58.89	58.89	
68	KSB-Pumpy+Armatury s.r.o., koncern, Prague	Czech Republic	S	100.00	100.00	
69	KSB (Schweiz) AG, Oftringen	Switzerland	S	100.00	100.00	
70	KSB Seil Co., Ltd., Busan	South Korea	P	100.00	100.00	
71	KSB Service GmbH, Frankenthal	Germany	SVC	100.00	100.00	
72	KSB Service GmbH, Schwedt	Germany	SVC	100.00	100.00	
73	KSB Singapore (Asia Pacific) Pte Ltd, Singapore	Singapore	P	100.00	100.00	

* P = Production / assembly, S = Sales, SVC = Service, H = Holding

Cons. No.	Name and seat	Country	Activ-ity*	Capital share in %	Group share of capital in %	Held by No.
74	KSB Malaysia Pumps & Valves Sdn. Bhd., Shah Alam	Malaysia	P	100.00	100.00	73
75	KSB PHILIPPINES, INC., Makati City	Philippines	S	100.00	100.00	73
76	KSB Vietnam Co., Ltd, Long Thanh District	Vietnam	S	100.00	100.00	73
77	KSB Sverige Aktiebolag, Gothenburg	Sweden	S	100.00	100.00	
78	KSB Sverige Fastighets AB, Gothenburg	Sweden	S	100.00	100.00	77
79	PUMPHUSET Sverige AB, Sollentuna	Sweden	SVC	100.00	100.00	77
80	KSB Taiwan Co., Ltd., New Taipei City	Taiwan	S	100.00	100.00	
81	KSB Tech Pvt. Ltd., Pimpri (Pune)	India		100.00	100.00	
82	KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	P	100.00	100.00	
83	PMS-BERCHEM GmbH, Neuss	Germany	SVC	100.00	100.00	
84	Pumpen-Service Bentz GmbH, Reinbek	Germany	SVC	100.00	100.00	
85	REEL s.r.l., Ponte di Nanto	Italy	P	100.00	100.00	
86	Uder Elektromechanik GmbH, Friedrichsthal	Germany	SVC	100.00	100.00	

Compared with the presentation in the Annual Report 2020, the above list of national and international affiliates includes all five subsidiaries of D.P. Industries B.V., Alphen aan den Rijn, Netherlands, individually under consecutive numbers 27 to 31 and no longer as a whole unit together with their immediate parent company.

Joint ventures (international)

Cons. No.	Name and seat	Country	Activ-ity*	Capital share in %	Group share of capital in %	Held by No.	Equity** € thousands	Net profit / loss for the year ** € thousands
87	KSB MOTOR TEKNOLOJİLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ, Ankara	Turkey	P	55.00	55.00	38	140	100
88	KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	P	50.00	50.00	15	8,713	–4,399
89	KSB Service LLC, Abu Dhabi	U.A.E.	SVC	49.00	49.00		7,917	5
90	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	P	45.00	45.00		37,319	2,012

Associates (international)

Cons. No.	Name and seat	Country	Activ-ity*	Capital share in %	Group share of capital in %	Held by No.	Equity** € thousands	Net profit / loss for the year ** € thousands
91	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy		25.00	25.00		5,467	2,937

* P = Production / assembly, S = Sales, SVC = Service, H = Holding
** Data according to latest annual financial statements under IFRS

Companies not consolidated because of immateriality – Affiliates (national and international)

Cons. No.	Name and seat	Country	Activ-ity*	Capital share in %	Group share of capital in %	Held by No.	Equity** € thousands	Net profit / loss for the year ** € thousands	
92	Geheimrat Dr. Jacob Klein-Unterstützungseinrichtung e.V.	Germany		100.00	100.00		102	–7	
93	KSB BOMBAS E VÁLVULAS (Angola), LDA, Belas	Angola	S	65.00	65.00	15	625	–	
94	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	S	100.00	100.00		66	–50	
95	KSB Colombia SAS, Funza (Cundinamarca)	Columbia	S	100.00	100.00	15	405	25	
96	KSB Ecuador S.A., Samborondón	Ecuador	S	99.00	99.00	23	622	119	
				1.00	1.00	15			
97	KSB Egypt SOC, Cairo	Egypt	H	100.00	100.00		190	–	
98	KSB Panama S.A., Panama	Panama	S	100.00	100.00	23	53	–	
99	KSB Pumpe i Armature d.o.o. Belgrade	Serbia	S	100.00	100.00	39	215	19	
100	KSB pumpe i armature d.o.o., Rakov Potok	Croatia	S	100.00	100.00	39	210	–5	
101	KSB PUMPS AND VALVES (NAMIBIA) (PROPRIETARY) LIMITED, KLEIN WINDHOEK	Namibia	S	100.00	100.00	41	–158	–213	
102	KSB Pumps and Valves Nigeria Ltd, Lagos	Nigeria	S	60.00	60.00	15	294	–51	■
103	KSB Service Egypt LLC, Cairo	Egypt	SVC	48.00	48.00		1,512	–	
				11.00	11.00	97			
				1.00	1.00	15			
104	KSB ZAMBIA LIMITED, Kitwe	Zambia	S	100.00	100.00	41	396	185	
105	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	SVC	100.00	100.00	45	–595	–8	
106	TOO "KSB Kazakhstan", Almaty	Kazakhstan	S	100.00	100.00	9	382	91	

* P = Production / assembly, S = Sales, SVC = Service, H = Holding
** Data according to latest annual financial statements under IFRS
■ Prior-period figures

Supervisory Board

Dr. Bernd Flohr, Dipl.-Kfm., Dipl.-Soz., Geislingen
Former Executive Board Member of WMF AG (Chair)

René Klotz, NC Programmer, Heßheim
Chair of the General Works Council of KSB SE & Co. KGaA and KSB Service GmbH (Deputy Chair)

Claudia Augustin, Office Management Assistant, Pegnitz
Deputy Chair of the Pegnitz Works Council of KSB SE & Co. KGaA

Klaus Burchards, Dipl.-Kfm., Stuttgart
Independent Auditor

Arturo Esquinca, Dipl.-Chemieing., MBA, Forch, Switzerland
M&A and Strategy Consultant

Klaus Kühborth, Dipl.-Wirtsch.-Ing., Frankenthal
Managing Director of Johannes und Jacob Klein GmbH

Birgit Mohme, Industrial Business Management Assistant, Frankenthal
First Delegate and Managing Director of IG Metall Ludwigshafen / Frankenthal

Thomas Pabst, Dipl.-Ing., Freinsheim 1)
Head of the Energy Market Area of KSB SE & Co. KGaA

Prof. Dr.-Ing. Corinna Salander, Dipl.-Physikerin, Dresden
Director of the German Centre for Railway Traffic Research at Eisenbahn-Bundesamt [Federal Railway Authority]

Harald Schöberl, Industrial Business Management Assistant, Plech
Full-time Member of the Pegnitz Works Council of KSB SE & Co. KGaA

Volker Seidel, Electrical and Electronics Installer, Münchberg
First Delegate and Treasurer of IG Metall Ostoberfranken

Gabriele Sommer, Dipl.-Geol., Wörthsee 2)
Spokesperson for the Management of TÜV Süd Management Service GmbH

Mandates of KSB Supervisory Board members on the Supervisory Board / Board of Directors of other companies

1) Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China

2) TÜV SÜD Industrie Service GmbH, Munich
TÜV SÜD Auto Service GmbH, Stuttgart

Legal Representatives

Managing Directors of KSB Management SE

Dr. Stephan Jörg Timmermann,
CEO, Augsburg [1)]
Strategy, Human Resources, Communications, Internal Audits, Legal & Compliance, Patents & Trademarks

Dr. Stephan Bross, Weinheim [2)]
Global Operations, Research and Development, Innovation and Complexity Management, Digital Transformation, Committees and Associations

Ralf Kannefass, Regensburg [3)]
Sales, Service and Marketing

Dr. Matthias Schmitz, Frankenthal [4)]
Taxes, Controlling KSB Group, Finance, Accounting, Information Technology and Procurement

Mandates of the Managing Directors on the Board of Directors of KSB companies

1) KSB America Corporation, Richmond / Virginia, USA
GIW Industries, Inc., Grovetown / Georgia, USA

2) KSB Limited, Pimpri (Pune), India
KSB MOTOR TEKNOLOJİLERİ SANAYİ VE TİCARET ANONİM ŞİKETİ, Ankara, Turkey
KSB MIL Controls Limited, Annamanada, India
(since 29 December 2021)

3) KSB Shanghai Pump Co., Ltd., Shanghai, China
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa

4) KSB FINANZ S.A., Echternach, Luxembourg
KSB Finance Nederland B.V., Zwanenburg, Netherlands
Canadian Kay Pump Limited, Mississauga / Ontario, Canada
KSB Limited, Pimpri (Pune), India
KSB Shanghai Pump Co., Ltd., Shanghai, China
KSB BRASIL LTDA., Várzea Paulista, Brazil
KSB Pumps Arabia Ltd., Riyadh, Saudi Arabia
KSB Österreich Gesellschaft mbH, Vienna, Austria

Members of the Administrative Board of KSB Management SE

Oswald Bubel, Chair, Saarbrücken

Monika Kühborth, Deputy Chair, Homburg
Managing Director of Klein, Schanzlin & Becker GmbH

Günther Koch, Ludwigshafen

Dr. Harald Schwager, Speyer [1)]
Deputy Chairman of the Executive Board of
Evonik Industries AG

Andrea Teutenberg, Berlin [2)]

Mandates on statutory Supervisory Boards

1) Evonik Operations GmbH, Essen (Chair of the Supervisory Board)
Member of the Presidential Board of DEKRA e.V., Stuttgart, since 14 April 2021

2) Bauer AG, Schrobenhausen

Proposal on the Appropriation of the Net Retained Earnings of KSB SE & Co. KGaA

The following proposal on the appropriation of the net retained earnings of € 40,933,115.04 of KSB SE & Co. KGaA will be submitted to the Annual General Meeting on 5 May 2022:

Proposal for the appropriation of net retained earnings

€	
Dividend of € 9.00 per ordinary no-par-value share	7,979,535.00
Dividend of € 9.26 per preference no-par-value share	8,007,233.12
Anniversary dividend of € 3.00 per ordinary no-par-value share	2,659,845.00
Anniversary dividend of € 3.00 per preference no-par-value share	2,594,136.00
Total	**21,240,749.12**
Carried forward to new account	**19,692,365.92**
	40,933,115.04

Frankenthal, 9 March 2022

KSB Management SE

The Managing Directors

The annual financial statements of KSB SE & Co. KGaA were prepared in accordance with German accounting principles. They are published in the *Bundesanzeiger* [German Federal Gazette] and are also available online: annualreport2021.ksb.com/SE

4

General Information

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined management report for the Group and KSB SE & Co. KGaA includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankenthal, 9 March 2022

KSB Management SE

The Managing Directors

Independent Auditor‘s Report

To KSB SE & Co. KGaA, Frankenthal

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

AUDIT OPINIONS

We have audited the consolidated financial statements of KSB SE & Co. KGaA, Frankenthal, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, and notes to the consolidated fi-nancial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of KSB SE & Co. KGaA which is combined with the Company’s management report, for the financial year from 1 January to 31 December 2021.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursu-ant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabili-ties, and financial position of the Group as at 31 December 2021, and of its financial perfor-mance for the financial year from 1 January to 31 December 2021, and

- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reserva-tions relating to the legal compliance of the consolidated financial statements and of the group man-agement report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management re-port in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subse-quently as “EU Audit Regulation”) in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with

Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and ap-propriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ **Recoverability of goodwill**
❷ **Accounting treatment of project orders recognized over time**

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Recoverability of goodwill

① In the Company's consolidated financial statements goodwill amounting in total to EUR 30.7 million is reported under the "Intangible assets" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating unit, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally calculated on the basis of the value in use. The present value of the future cash flows from the respective cash-generating unit normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors as well as the expected effects of the ongoing Corona crisis on the business activities of the Group are also taken into account.

The discount rate used is the weighted average cost of capital for the relevant cash-generating unit. As a result of the impairment test, no impairment was identified.

The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective cash-generating unit, on the discount rate used, the rate of growth as well as other assumptions, and is therefore, also against the background of the effects of the Corona crisis, subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector specific market expectations. In this connection, we also evaluated the assessment of the executive directors regarding the effects of the Corona crisis on the business activities of the Group and examined how they were taken into account in determining the future cash flows. We also assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied and assessed the calculation model. We evaluated the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections. We verified that the necessary disclosures were made in the notes to the consolidated financial statements relating to the cash-generating units for which a reasonably possible change in an assumption would result in the recoverable amount falling below the carrying amount of the cash-generating units including the allocated goodwill.

Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill are contained in section III "Accounting policies", IV. "Balance sheet disclosures" note 1 of the notes to the consolidated financial statements.

❷ Accounting treatment of project orders recognized over time

① In the Company's consolidated financial statements revenue totaling EUR 2,343.6 million is reported in the consolidated income statement. The Company has put in place comprehensive systems and processes throughout the Group for the purposes of accurately recognizing and deferring revenue.

Revenue amounting to EUR 669.8 million is attributable to project orders recognized over time and the service business. In the case of project orders, the stage of completion is estimated based on the ratio of costs already incurred to budgeted total costs. IFRS 15 requires estimates and judgments to be made for certain areas, which were assessed for appropriateness in the context of our audit.

In particular, the estimation of the planned total costs of the project orders to be recognized over time and the appropriate allocation of costs incurred to the orders are based on the estimates and assumptions made by the executive directors. Against this background and due to the resulting estimation uncertainties and the complexity of the accounting treatment under Group-wide application of IFRS 15, this matter was of particular significance in the context of our audit.

② As part of our audit, among other things we assessed the processes and controls established by the Group for the recognition of revenue from project orders recognized over time, taking into account the stage of completion. In addition, with respect to project orders recognized over time we examined projects on a sample basis to determine whether they met the requirements for recognizing revenue over time in accordance with IFRS 15. We assessed the estimates and judgments made by the executive directors with respect to the recognition and deferral of revenue for the various business models of the Group companies.

Furthermore, we assessed the calculation of percentage of completion and the proportionate recognition of revenue and profit derived from this. In this connection we examined the calculation of both the budgeted total costs and the costs actually incurred. We assessed the progress of the respective projects, among other things based on interviews with project managers and by inspecting project documentation. In addition, we assessed the consistency of the methods used to calculate the costs incurred. We also addressed the inherent audit risk in this audit area by means of audit procedures that were consistently applied throughout the Group.

We were able to satisfy ourselves that the systems, processes and controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue is appropriately accounted for.

③ The Company's disclosures on the accounting treatment of project orders recognized over time are contained in sections III. "Accounting policies", IV. "Notes to the balance sheet", nos. 8 and 12 and V. "Notes to the income statement", no. 13 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information.

The other information comprises

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB
- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory Requirements

REPORT ON THE ASSURANCE ON THE ELECTRONIC RENDERING OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT PREPARED FOR PUBLICATION PURPOSES IN ACCORDANCE WITH § 317 ABS. 3A HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file "ksbsecokgaa_KA_LB_ESEF-2021-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 6 May 2021. We were engaged by the supervisory board on 5 August 2021. We have been the group auditor of the KSB SE & Co. KGaA, Frankenthal, without interruption since the financial year 2015.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

REFERENCE TO AN OTHER MATTER– USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christina Pöpperl.

Mannheim, 9 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Ulrich Störk Wirtschaftsprüfer [German Public Auditor]	Christina Pöpperl Wirtschaftsprüferin [German Public Auditor]

Glossary

ABBREVIATIONS

ASEAN
Association of South East Asian Nations

GDP
Gross domestic product

CSR
Corporate Social Responsibility

HGB
Handelsgesetzbuch
[German Commercial Code]

IFRS
International Financial Reporting Standards

IIoT
Industrial Internet of Things

IMF
International Monetary Fund

VDMA
Verband Deutscher Maschinen- und Anlagenbau e.V.
[German Mechanical Engineering Industry Association]

KEY CORPORATE AND TECHNICAL TERMS

Additive manufacturing
Previously referred to as rapid prototyping: a process which enables rapid and cost-effective production of patterns, samples, prototypes, tools and final products

After-sales business
Consulting, training and spare parts services following a sale

Chief Compliance Officer
Assesses and reviews, inter alia, compliance with applicable law and internal guidelines by staff

Corporate Governance
The company-specific Corporate Governance System encompasses the entirety of relevant laws, directives, codes, memoranda of understanding, corporate guidelines and practices of the company's Management, as well as the relevant supervisory bodies.

E2E e-sales
The development of electronic end-to-end business is part of KSB's digital transformation. The overarching objective is to create an end-to-end, practical solution for customers around the world that gives them a fast and convenient purchasing experience.

Equity method
Method of accounting whereby enterprises adjust the investments in other companies by the acquisition cost and net profits for the year; they are then recognised accordingly in the annual financial statements.

EU taxonomy
Regulation (EU) 2020/852 defines requirements for sustainable investments.

Fraud activities
Technical term used in internal auditing to describe fraudulent practices and transactions

Geheimrat Dr. Jacob Klein-Unterstützungseinrichtung e.V.
Charitable organisation in the form of a benevolent fund which provides support to current and former employees and their immediate families in cases of urgent financial need

Greenhouse Gas (GHG) Protocol
Standard for calculating CO_2 and greenhouse gas emissions

International Labour Organisation (ILO)
Specialised United Nations agency responsible for drawing up and overseeing international labour standards and social standards

Machine learning
Machine learning is a subfield of artificial intelligence (AI). It enables IT systems to recognise patterns and principles based on available data and algorithms and to develop suitable solutions.

Microgrid
A small, independent power grid

Multiphysics simulations
Based on mathematics, physics and numerical analyses, machine behaviour in all key operating modes is simulated on the computer. Errors can thus be detected and avoided early on.

Oxford Economics
Drawing on global forecasting and quantitative analyses, the company develops market trends and assesses their economic, social and business impact.

Process mining
An integral part of business data analysis that is used to improve operational processes in a company

Stakeholders
Groups of people who are directly or indirectly affected by a company's activities; KSB's main stakeholders are customers, suppliers, investors, employees and the public.

Sustainable Development Goals
17 goals for sustainable development set out by the United Nations

UK Modern Slavery Act
British law combating modern slavery, forced labour and human trafficking

UN Global Compact
United Nations initiative for responsible corporate governance based on ten universal principles

Vision Zero
Prevention concept developed by the International Social Security Association (ISSA) in order to reduce the number of occupational accidents

Contacts

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PHOTOGRAPHY
Gaby Gerster, Frankfurt, Germany (pp. 8 / 9, 10)
Robert Kwiatek, Frankenthal, Germany (p. 12)

WE SUPPORT

As a signatory to the United Nations Global Compact, KSB is committed to endorsing the ten principles of the international community in the areas of human rights, labour standards, environmental protection and anti-corruption.

The KSB Group's Annual Report is also available in German.

Digital Annual Report
Online Annual Report
with additional functions:
annualreport2021.ksb.com
PDF for download:
annualreport2021.ksb.com/pdf

Financial Calendar

24 March 2022
Financial press conference
10:00, Frankenthal

28 April 2022
Interim report
January – March 2022

5 May 2022
Annual General Meeting
10:00, Frankenthal

4 August 2022
Half-year financial report
January – June 2022

10 November 2022
Interim report
January – September 2022

31 January 2023
Preliminary report on the 2022 financial year

You will find the latest information on
the 2022 Annual General Meeting at:
www.ksb.com/agm

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