

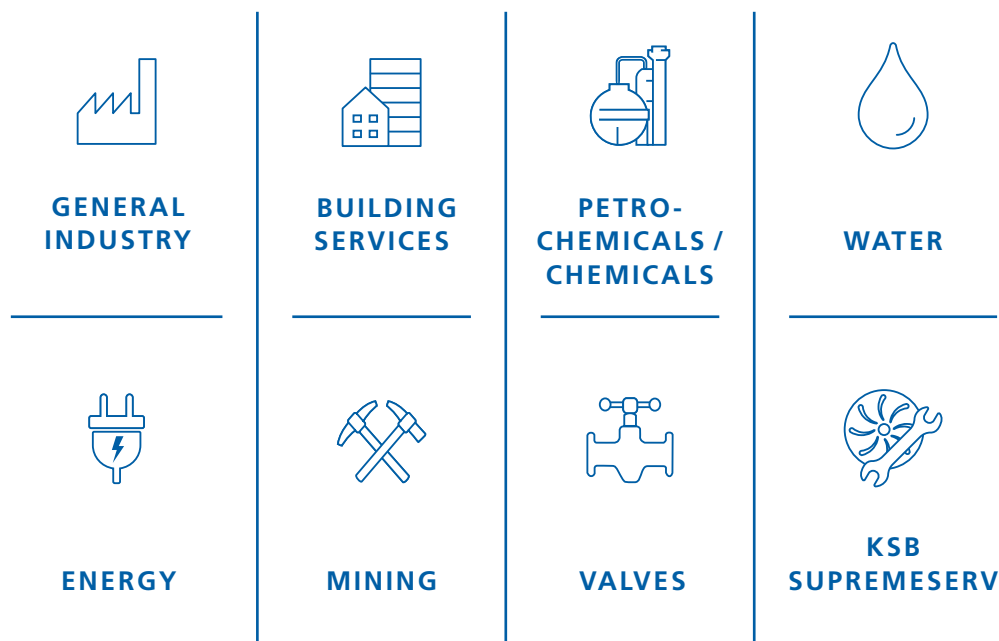
Annual Report 2020

150 YEARS

People. Passion. Performance.

KSB Profile

KSB is a leading supplier of pumps, valves and related service. Our reliable, high-efficiency products are used in applications worldwide where fluids need to be transported or shut off, covering everything from building services, industry, chemicals and petrochemicals as well as water transport to waste water treatment, power plant processes and mining. Wherever our customers are in the world, more than 190 service centres are on hand to provide local inspection, servicing, maintenance and repair services under the KSB SupremeServ brand. Our success – and that of our customers – is based on innovative technology born of the company's research and development activities and the commitment of its employees, whose passion has defined KSB for 150 years.

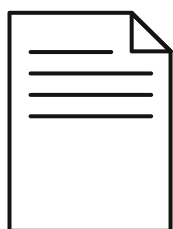


Fields of application for our products

KSB pumps and valves are primarily used to transport or shut off all kinds of fluid. Their efficient and reliable operation is taken care of by around 3,500 service specialists worldwide offering inspection, servicing, maintenance, repairs and consultancy services.

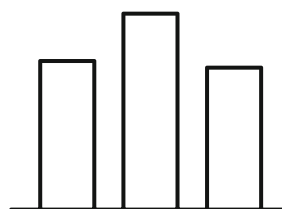
2020 in Figures

Order intake



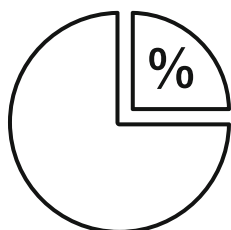
€ **2,143** million
↘ €-310m | -12.6%

Sales revenue



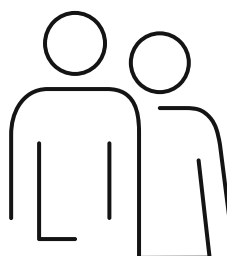
€ **2,208** million
↘ €-175m | -7.4%

EBIT



€ **70.2** million
↘ €-43.4m | -38.2%

Employees



15,076 at 31 December 2020

↘ Compared with 2019

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Combined Non-financial Report



As in sport, so in the world of business: Team spirit is the driving force behind the shared will to succeed – even in turbulent times.

Dr Matthias Schmitz

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

Dr Stephan Bross

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

Management



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.

Ralf Kannefuss

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



Dr Stephan Timmermann

Dear Shareholders and Business Partners,

The 2020 financial year presented each of us with major personal and professional challenges. As the pandemic took on almost unimaginable dimensions, its effects demanded adjustment and change at every level – including the management of the company. Throughout this process, the well-being of our employees has always been the top priority.

Given these conditions, we are very satisfied with what has been achieved. Overall, we were able to lead KSB successfully through the crisis. Although order intake and sales revenue declined compared with the previous year, we secured our earnings thanks to a strong second half and numerous cost-cutting measures. At the same time, we drove forward the strategic and organisational realignment of the company and invested in projects for the future.

Realignment implemented

At the heart of the realignment was the CLIMB 21 strategy project, which sees us focusing on those markets which we expect to deliver sustainable, profitable growth. To this end, we have divided our business into three Segments – Pumps, Valves and KSB SupremeServ – which have different orientations but share a common goal: outstanding customer satisfaction. The Pumps Segment focuses on the General Industry, Mining, Energy, Building Services, Petrochemicals / Chemicals and Water markets. Responding flexibly to the demands of these markets and speaking our customers' language helps us ensure that our solutions are tailored to their needs. We have also consolidated the organisation of the Valves Segment and set up clear responsibilities and new structures. We anticipate that this will enable us to exploit the market potential of our valve products much more effectively. With KSB SupremeServ, we have continued to advance the strategic orientation of our service business. KSB SupremeServ is built on a quality promise which underlines our aspiration to set us apart from the global competition through superior customer satisfaction. This customer-focused corporate strategy is starting to bear fruit in all six Market Areas in the Pumps business, as well as in the Valves and Service Segments.

Hand in hand with CLIMB 21 goes the GRIP 21+ project. Within its scope, we are mapping the business management processes of the new organisational structure, thus paving the way for market-driven management of the company.

Sustainability remains a strategic focus

Sustainability has been an indispensable pillar of our business activities – ever since the company was founded 150 years ago. We have been an active member of the UN Global Compact since 2010, and defined nine measurable CSR goals in the 2019 reporting year which we continue to pursue consistently. A core objective is to significantly reduce our CO₂ emissions. At the turn of the year 2020/2021, we switched completely to electricity from renewable sources in Germany.

Digitalisation as a driver of growth

The COVID-19 year, too, saw progress in the digitalisation of products, processes and services. As part of the digitalisation of our sales processes, the first countries went live with an innovative online shop, opening up new sales channels. In terms of products, we have expanded our KSB Guard family – which offers online monitoring of pump operation – for use in waste water and explosion-proof applications. Last but not least, the bandwidths of our IT network have been massively increased. This enables us to support growing demands for mobile working options while putting in place infrastructure for the increasing digitalisation of our processes.

Corporate culture as a differentiating feature

A motivating, forward-looking corporate culture is an essential asset in the battle to recruit top talent. This was a key argument behind last year's move to again invest considerably in activities designed to strengthen our corporate culture while promoting a sense of belonging and team spirit within the company. Pandemic-induced lockdowns required us to place a special emphasis on virtual events to help employees globally to connect with one another and stay up-to-date. New digital communication formats were used to promote informal exchange between staff. This was further endorsed by digital after-work initiatives and a proactive presence on social media.

Anniversary year 2021

We anticipate that the consequences of the pandemic will continue to dominate the first half of the year at least. Nevertheless, we expect sustained improvement in business performance worldwide towards the end of the year. This allows us to look forward with confidence.

The year 2021 will mark the company's 150th anniversary – an event which we look forward to with pride and some ambitious plans. The anniversary motto "People. Passion. Performance." describes what makes the company successful: The commitment of our employees, the passion they invest in their work, and their exceptional willingness to go the extra mile for our customers – qualities upon which we can build today and in the future.



Dr Stephan Timmermann, CEO

Report of the Supervisory Board



Dr Bernd Flohr (Chairman of the Supervisory Board)

The 2020 financial year (year under review) was defined by the repercussions of the pandemic triggered by the coronavirus. This had severe economic consequences for numerous industries and posed new, demanding challenges for KSB, too. Not least, numerous measures had to be taken to protect employees, customers and business partners. Both KSB's Management and its employees had to deal with these unusual circumstances; the Supervisory Board would like to express its appreciation for how very successful this was.

In the year under review, the Supervisory Board of KSB SE & Co. KGaA performed the duties incumbent on it as set out by the law, the Articles of Association and the rules of procedure with the utmost diligence. It 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 year under review, 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 – specifically Harald Schöberl in the year under review – 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 was also faced with the challenges presented by the coronavirus pandemic in the 2020 financial year. Four regular and two extraordinary Supervisory Board meetings were held, in which it closely followed the company's development in this particular situation, also acting in an advisory capacity. Four of the six meetings 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, as well as major investment projects and the strategic and organisational direction.

Regular consultations with the Managing Directors on the business development included the analysis of developments in the Segments and Regions, as well as the results of operations. Suitable measures to improve them 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 some 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 production facilities at various sites. The extension of production capacities at the US plant in Grovetown, Georgia, which specialises in the manufacture of large pumps for mining, proceeded as planned and is expected to be completed in 2021. However, the expansion of the plant in Shirwal, India, was delayed due to several months of lockdown on the subcontinent. The Supervisory Board was also involved in decisions on establishing a company in Ecuador and the expansion of the plant in Indonesia. This also applies to the planned expansion of the SISTO Armaturen S.A. plant in Luxembourg, which manufactures products for the growing market of sterile applications, among other things.

The Supervisory Board was also briefed regularly on the implementation of the CLIMB 21 strategy project. This results-oriented, Group-wide strategy project entails measures to strengthen the Pumps, Service and Valves business in the long term. It also included a reorganisation of the Pumps Segment by markets in 2020. The adaptation of the business systems to the new structures was discussed, too.

The following topics primarily were also dealt with at the individual Supervisory Board meetings: The meeting in March 2020 particularly addressed the audit and approval of the annual financial statements for the 2019 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, 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 2019 financial year.

In May 2020, the Supervisory Board dealt extensively with the current situation in Sales and with measures for securing a positive economic performance. The current technical and legal aspects of nuclear business in India, which KSB operates since the 1970s, was also covered. The Supervisory Board was also informed of measures taken by the company to enhance IT security, which were prompted by a cyber attack on a European subsidiary's data server. Thanks to the cautious operational action taken, the resulting damage was significantly limited.

Digital transformation was a focal point of the meeting in July. In addition to ground-breaking innovative approaches, new business models that had already been implemented were discussed. Core competences and suitable training concepts are defined and implemented for the relevant units, to support the related further qualification of employees. The Supervisory Board also discussed the subsidiaries whose economic performance was below average relative to other Group companies. Management is placing these subsidiaries in particular under special scrutiny. The Managing Directors also reported on the sale of a total of five French service companies; this action was motivated by strategic reasons and unsatisfactory revenues. These transactions were concluded during the previous financial year.

The Supervisory Board convened for the September meeting in Halle (Saale), its third-largest German plant, where the company manufactures products for the international water and waste water market. Accordingly, the business development and further potential were items on the agenda. China was another focal point of the meeting, where the Managing Directors reported on the country's prospects as a production and sales market. Current priority topics in Purchasing and in Technology and Sales were also presented and discussed in this meeting. Finally, the Supervisory Board concentrated on the topic of self-assessment. It discussed the results and the written survey conducted internally by way of a questionnaire, as well as the interviews conducted by an external law firm following a guideline primarily concerned with the issue of practised

corporate governance. The existence of useful and professionally-used structures and work methods was largely confirmed.

The meeting in October focused on discussing measures to enhance KSB SE & Co. KGaA's earnings capacity. The Group parent company's earnings are particularly important from a commercial perspective. The Supervisory Board therefore called for initiatives to improve earnings and will continually support their implementation.

Planning for the 2021 financial year and the horizon up to 2023 was a focal point of 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 Supervisory Board also addressed the statement of compliance with the German Corporate Governance Code (GCGC) in accordance with Section 161 AktG [*Aktiengesetz* – German Public Companies Act].

Main focus of the work in the committees

In order to enable it to fulfil its duties efficiently, the Supervisory Board worked with four committees during the year under review. These prepared the Supervisory Board's resolutions and the special topics to be discussed in the plenary sessions. In addition, they also made their own decisions – to the extent that this is legally permissible – within the scope of their areas of responsibility. 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 six meetings of the **Audit Committee** during the year under review were generally attended by the Managing Directors involved and the managers of the relevant specialist departments, as well as, on multiple occasions, the auditors. The Audit Committee discussed the 2019 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 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,

SUPERVISORY BOARD COMMITTEES

and their Chairs, as well as number of meetings in the year under review

AUDIT COMMITTEE

Chair:
Klaus Burchards
Meetings: 6

CORPORATE DEVELOPMENT COMMITTEE

Chair:
Klaus Kühborth
Meetings: 1

PERSONNEL COMMITTEE

Chair:
Dr Bernd Flohr
Meetings: 2

NOMINATION COMMITTEE

Members:
Dr Bernd Flohr,
Klaus Kühborth
Meetings: 1

Attendance at meeting

	Supervisory Board	Audit Committee	Personnel Committee	Corporate Development Committee	Nomination Committee
Dr Bernd Flohr, Chair	6/6	6/6	2/2		1/1
René Klotz, Deputy Chair	6/6		2/2	1/1	
Claudia Augustin	6/6		2/2		
Klaus Burchards	6/6	6/6			
Arturo Esquinca	6/6			1/1	
Klaus Kühborth	6/6			1/1	1/1
Birgit Mohme	6/6	6/6			
Thomas Pabst	6/6			1/1	
Prof. Dr. Corinna Salander	6/6			1/1	
Harald Schöberl	6/6	6/6			
Volker Seidel	6/6			1/1	
Gabriele Sommer	6/6		2/2		

the Audit Committee submitted a recommendation for the selection of auditors by the 2020 Annual General Meeting to the plenary session. The committee also discussed the conclusion of four control and profit transfer arrangements, which were approved by the 2020 Annual General Meeting. The Audit Committee also commissioned the auditors with auditing the annual and consolidated financial statements for the 2020 financial year and defined specific key areas for the audit. The declaration of independence by the auditors was obtained, and the auditors' continued independence and performance of non-audit services were monitored.

In addition, the committee focused on reviewing accounting, and monitoring the accounting process, the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as the auditing of the annual financial statements and compliance. In this context, it also debated 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 nearly all of the committee's meetings. The committee also concerned itself with the evaluation of the quality of the annual financial statements – in line with the recommendations of the German Corporate Governance Code – and discussed relevant evaluation criteria. As such, it considers, for example, the independence of the auditors and the auditors' qualifications. It is now intended to carry out this evaluation on a regular basis. The committee was also extensively briefed in 2020 about the positive results of the analysis of the Compliance Management System and Compliance Organisation, which was carried out with the help of external support. The appointed experts also explained opportunities for driving continuous development. Other issues addressed by the committee included particular processes in the project business, which should be extended and more closely interlinked to reduce risks, as well as advice on the development of selected subsidiaries.

The **Personnel Committee** held two meetings in the year under review. It focuses 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 year under review, the committee discussed with the relevant specialist department the initial experience made with the introduction of personnel administration and management software. This will be rolled out gradually across all Group companies and their scope of functions extended. The committee was also briefed on the current measures being taken in relation to talent management and encouraging young employees. Criteria considered important when selecting trainees were also discussed. Other agenda items were the remuneration model for executives and the pension scheme in the German companies.

The **Corporate Development Committee** deals with strategic issues in the fields of technology, production and sales, among other things. Because of the usually large group of participants including managers and experts from various areas of KSB, the committee convened only once in the year under review due to the pandemic. One of the focal points of this meeting was the further development of digital products and services, for example, for waste water applications. The technical development in data centre cooling was also explained; KSB expects demand to increase further in this business area. Finally, the committee addressed 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 year under review.

Corporate Governance and Statement of Compliance

The Supervisory Board continuously monitored developments in corporate governance standards throughout the year under review. 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 8 December 2020, 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.

A conflict of interest involving Supervisory Board member Klaus Kühborth arose in the year under review; this was disclosed to the Supervisory Board. It concerned the approval of a settlement agreement, presented at the 2020 Annual General Meeting, with members of the governing bodies (some of whom are former members) in conjunction with the company's past supply of services to its majority shareholder, Johannes und Jacob Klein GmbH, Frankenthal (Pfalz), and other related parties. Klaus Kühborth did not participate in discussions and the taking of resolutions on this subject area. The settlement agreement became effective following approval by the 2020 Annual General Meeting.

In the reporting period, no other conflicts of interest arose involving members of the Supervisory Board.

Audit of the 2020 Annual and Consolidated Financial Statements

The Supervisory Board examined the annual financial statements of KSB SE & Co. KGaA for the year ended 31 December 2020, 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 2020, 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 2020, as well as the consolidated financial statements and the combined management report for the company and the Group for the year ended 31 December 2020, and issued an unqualified opinion. The key audit areas defined for the auditors by the Audit Committee for the year under review mainly included the annual impairment test for goodwill, intangible assets and items of property, plant and equipment in the consolidated financial statements as well as the annual impairment test for software developed in-house and the audit of provisions set arise for individual major projects in the annual financial statements. The separate combined non-financial report was reviewed by the auditors. The auditors reported on their 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 4 March 2021 and on 9 March 2021, as well as in the Supervisory Board plenary session on 17 March 2021, 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 result 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 reduction of the dividend to EUR 4.00 per ordinary no-par-value share and EUR 4.26 per preference no-par-value share, is deemed to be appropriate by the Supervisory Board in accordance with its own review; it concurs with it.

Changes to the Supervisory Board

Harald Schöberl was appointed employee representative in the Supervisory Board with effect from 1 January 2020. He succeeded Alois Lautner, who stepped down from the Supervisory Board at the end of 2019, having been its Deputy Chairman since 2013. René Klotz was elected as the new Deputy Chairman on 17 January 2020.

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 2021

The Supervisory Board

A look back at 2020

Q1



Turkmenistan

KSB becomes the first pump and valve manufacturer to open a showroom in Turkmenistan. As part of the event, Regional President Dr Sven Baumgarten signed a Memorandum of Understanding for a UN development programme to improve the country's water management, water quality and energy efficiency.



Mechanical seals

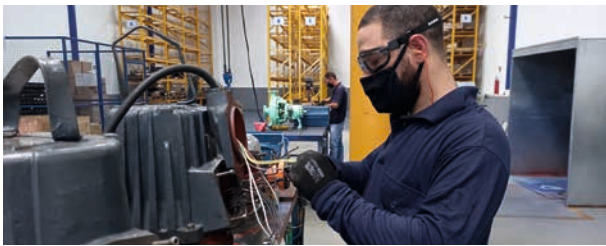
KSB inaugurates a service workshop for mechanical seals in Citibung, Indonesia. KSB intends to impress customers with competitive prices for refurbishment, replacement and direct retrofit seals as well as a one-day repair service for mechanical seals.



Vietnam

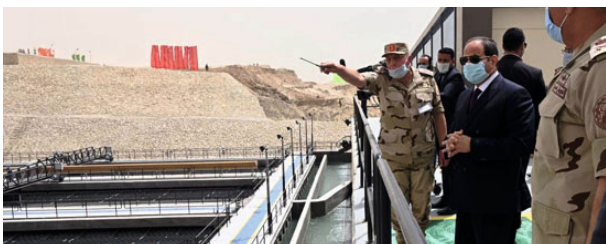
KSB wins a contract to supply three SEZ tubular casing pumps for a power plant in Vietnam. Various departments and local companies were involved in landing the order.

Q2



Brazil

KSB opens a new service workshop in the Brazilian state of Ceará in the northeast of the country. It is Brazil's seventh service centre and contributes to the strategy to generate continuous growth with maintenance, repair and spare parts sales.



Egypt

KSB equips an Egyptian waste water treatment plant with eight SEZ tubular casing pumps. With a capacity of one million cubic metres of water per day, the plant supports the agricultural use of 28,000 hectares of land on the Sinai Peninsula, as well as supplying drinking water to Ismailia city's population of around 750,000 inhabitants. The facility's official inauguration in April was attended by Egypt's President Abdel Fattah el-Sisi.



Released for sale

Amarex KRT submersible pumps with jacket-cooled motors are released for sale. The compact drives feature IP68 enclosures. The pump sets are designed to transport untreated waste water in municipal and industrial waste water management around the globe.



Singapore

KSB lands a major flood protection project in Singapore in a contract worth more than two million euros. The company will equip two pumping stations within the city centre drainage system with eleven Amacan submersible pumps in discharge tubes.



RUV order

KSB books an order with a value in the high double-digit million euro range to supply China's Shidaowan power station with four RUV reactor coolant pumps. RUV is currently the only design on the global market which is certified to meet this customer's exacting specifications.

Q3



Qatar

Products from the KRT, Sewatec, RDLO and Omega ranges manufactured in Halle are installed in three Qatari pumping stations to manage rainwater, lift waste water and pump treated waste water. The facilities are being built for the 2022 FIFA World Cup.



Building Services

KSB wins an order to supply multiple products for new building services systems in the 257-metre-high Frankfurt Trade Fair Tower. The equipment to be installed in its cooling/refrigeration and heating systems includes Hyamat pressure booster systems and pumps from the HPKL, Etaline and Calio ranges equipped with high-efficiency KSB SuPremE motors and PumpDrive variable speed systems.



Logistics

KSB invests in new goods receiving facilities at the Frankenthal location. The aim is to improve logistics and thus significantly accelerate processes in engineered business. Completion is scheduled for the second quarter of 2021.



XXL pumps

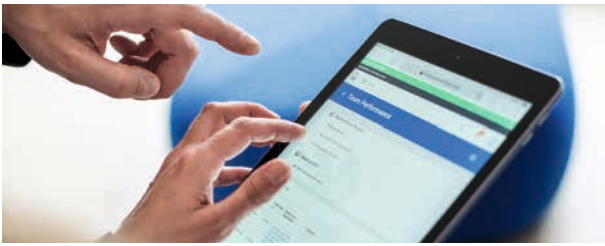
Three submersible borehole pumps from the UPA series with newly developed high-voltage motors are destined for an offshore platform in the South China Sea's Lingshui gas field. The XXL pumps are eight metres long and weigh 12 tonnes each. They will pump seawater up to the platform from a depth of 37 metres to supply its cooling circuits.



A new company

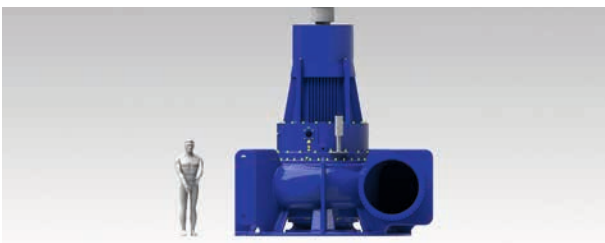
August sees KSB Ecuador S. A. begin operations in Guayaquil. The company runs a sales office and a workshop. Its business focuses on the Water, General Industry and Mining markets. The country will invest heavily in these areas over the coming years.

Q4



Workday

The cloud-based HR management system Workday goes live in Germany. As the digital transformation at KSB continues, the goal is to automate and standardise HR processes as well as creating digital records of relevant information for all employees worldwide.



Giant pumps

KSB wins a double-digit million euro contract to supply six vertical Sewatec SPN waste water pumps for a Colombian pumping station in Bogotá. They will be the largest and most powerful pumps ever manufactured at the factory in Halle.



Submersible borehole pumps

KSB supplies three UPZ submersible borehole pumps for a Russian mine near Novosibirsk. The three pump sets, each measuring some twelve and a half metres long, are used to control groundwater levels.



Top trainers

An independent study names KSB as one of Germany's best vocational training providers. This puts the company in the top one percent of German enterprises offering high-quality training. In the first quarter of 2020, KSB was selected from among 20,000 companies evaluated and ranked one of "Germany's best training companies" for the fourth time in a row.

Separate Combined Non-financial Report

For 150 years, KSB has been committed to sustainable and responsible business practices. This approach has allowed the company to secure lasting success while respecting the rights of individuals and protecting the environment. Sustainability is an integral part of KSB's corporate strategy. This includes the responsible use of resources and the environment, as well as our 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]. 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 (see page 38).

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.

Sustainability at KSB

KSB has formulated its own corporate sustainability principles via a Group-wide sustainability policy. These are binding for all locations and all companies within the KSB Group. A committee chaired by the CEO regularly reviews progress on sustainability issues and the implementation of Group-wide sustainability goals. Management also receives a compliance report twice a year as well as an annual review of management issues relating to quality, the environment and occupational health and safety.

The Sustainability Committee includes the CEO and management staff from Human Resources, Legal & Compliance, Production, Product Management, Purchasing, Communications and Integrated Management.

KSB operates a global integrated management system in order to fulfil consistently high standards worldwide with regard to quality, risk, environment, occupational health and safety, and sustainability. It is process-oriented and complies with the requirements of the international ISO 9001, ISO 14001, ISO 26000 and ISO 45001 standards as well as the UN Global Compact. The management system governs organisational processes and workflows, responsibilities, procedures and processes at Group level and at our individual locations.

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 2020. 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 pages 33–35.

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. The 29 Group companies include all consolidated subsidiaries with production plants and two service companies with energy-intensive workshops.

Key sustainability topics for KSB



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.

Key issues

KSB communicates regularly with various stakeholders in order to identify their interests and expectations regarding the company. The core sustainability issues defined on this basis – see materiality matrix above – have been reviewed and confirmed by specialist departments and the Sustainability Committee, with oversight from Management. 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 our activities on the following issues remain the same:

- Environment (resource efficiency, manufacturing of energy-efficient products, emissions and product safety)
- Combating corruption and bribery (compliance)
- Respecting human rights (sustainability in the supply chain)
- Employee concerns (training and development, equal opportunities, occupational health and safety)

These issues are related at a fundamental level to manufacturing, products, business partners and employees. KSB’s products also

Non-financial objectives up to 2025 and performance indicators

Topics	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	At least 20 % of managers are women.	Proportion of women in management positions
Engagement	The employee satisfaction index is 80 %.	Engagement score according to employee survey
Occupational health and safety	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.	Number of CSR projects
Sustainability in the supply chain	The sustainability performance of 90 % of 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 key sustainability topics 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).

make a direct contribution to protecting the environment, for example, by saving energy or via their use in waste water treatment.



















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 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 led to challenges in

2020, but did not entail material risks. All other risks affecting our business activities are described in the group management report from page 57.

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 key issues they address. The company aims to achieve them by 2025 at the latest.

Status as at 31 Dec. 2020	Objective by 2025	SDGs*
7 %	> 50 %	 
428,902 t CO ₂ **	850,000 t CO ₂	  
15.1 % reduction in CO ₂ emissions	30 %	
14.6 hours / year	30 hours / year	 
13 %	20 %	
No survey in 2020; result from 2019: 57 %	80 %	
0.27 days per employee / year	< 0.3	
25	25	    
> 50 %	90 %	 

** The basis for this calculation can be found on page 25 of this report.

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 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 our suppliers deal with sustainability topics. 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 above, and in the respective sections of this non-financial report.

In the year under review, management staff with specialist responsibility for Production, Product Management, Human Resources, Purchasing, Communications and Integrated Management developed plans for achieving the objectives by 2025. The respective departments have already reported the first measures to the Sustainability Committee. The Committee will continue to monitor the measures and review progress towards the completion of each objective twice a year.

Energy consumption

	Total	KSB SE & Co. KGaA	Europe**	Asia / Pacific	Americas	Middle East / Africa
Total energy consumption*	267,157 MWh	98,697 MWh	140,667 MWh	32,213 MWh	81,742 MWh	12,535 MWh
Total electricity ***	147,155 MWh	36,372 MWh	55,881 MWh	27,590 MWh	53,686 MWh	9,998 MWh
Electricity from renewables	54,042 MWh	18,597 MWh	23,985 MWh	8,599 MWh	18,893 MWh	2,565 MWh
CO ₂ emissions	86,342 t	22,181 t	30,066 t	21,414 t	27,517 t	7,345 t

* Electricity, gas, fuel oil, district heating, wood, etc.

** Including KSB SE & Co. KGaA

*** Total differs due to rounding

Environment

ENERGY CONSUMPTION, CO₂ EMISSIONS AND RESOURCE EFFICIENCY

Objectives:

As a manufacturing company, KSB attaches great importance to the responsible use of natural resources. For this reason, the company aims to reduce its consumption of energy and raw materials as far 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 CO₂ 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 – most recently in 2019 – at its major European locations to reduce energy consumption and CO₂ emissions. The resulting measures include the energy-efficient refurbishment of our buildings and foundries.

KSB regularly records and evaluates data on energy consumption and CO₂ emissions. In the year under review, energy consumption was 267,157 megawatt hours (KSB SE & Co. KGaA: 98,697 megawatt hours). This represents a year-on-year decrease of 27,569 megawatt hours (KSB SE & Co. KGaA: – 466 megawatt hours). 36.7 % of the energy consumed came from renewable sources (KSB SE & Co. KGaA: 51.1 %). Group-wide, this percentage rose by 2.3 compared with the previous year, making it the highest that the company has ever achieved. KSB calculates CO₂ 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 86,342 tonnes of CO₂ (previous year: 99,047 tonnes of CO₂); for KSB SE & Co. KGaA, the figure was 21,181 tonnes of CO₂, (previous year: 21,142 tonnes of CO₂). Emissions of the climate-critical greenhouse gas were thus reduced by 12,705 tonnes across KSB compared with 2019.

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 € 980 thousand 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.

Climate change is one of the greatest challenges facing humanity. KSB is therefore seeking to reduce greenhouse gas emissions. In the year under review, the company piloted a plan to achieve energy savings in manufacturing. Initial organisational measures in 2020 have already led to lower energy consumption. The knowledge gained will also be used for other locations.

In the year under review, KSB implemented various projects to reduce the consumption of resources. These include switching to reusable packaging in company restaurants, setting up a paperless library for employees in one department and switching to environmentally friendly water dispensers at some locations. The vehicle fleet at the Group's headquarters was augmented with an electric vehicle for business trips.

Results:

- Product developers introduced a process to perform life cycle assessments of our new products.
- In 2020, KSB production sites reduced carbon dioxide emissions by more than 15 % (compared with the base year 2018).
- KSB further increased the share of renewable energy in its electricity consumption. This increased from 34.4 % to 36.7 % in the Group compared with the previous year.

Products

Objectives:

Many of 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.

Percentage of renewable energy in our power consumption:

36.7

(KSB SE & Co. KGaA: 51.1 %)

By 2025, KSB aims to reduce the CO₂ 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 our water pumps save during operation, KSB's Product Management in the year under review determined the number of these pump sets in use based on the production volume since 2004, 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 CO₂ equivalent for Europe of 343 g/kWh according to the German Association of the Automotive Industry (VDA) for 2019 for the European Union (EU28) 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 30 % can therefore also be assumed for KSB's standardised water pumps. The calculation will be continued.

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 saved an estimated 428,902 tonnes of CO₂ in 2020.
- A total of 128 KSB locations are certified in accordance with the ISO 9001:2015 quality management standard

to ensure the reliability and safety of their products. In the year under review, TÜV Rheinland audited 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. Training is repeated every three years and was last performed Group-wide in 2019. 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:

- 2020 saw 4,761 employees successfully complete compliance training e-learning modules.
- In China, KSB launched a campaign in the year under review to further improve the employees' awareness of compliance issues. At the heart of the initiative is regular communication between senior management and the workforce to ensure lawful conduct.
- 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 throughout the company 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 working 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 the year under review, 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.

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

In 2020, KSB reaffirmed 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 KSB 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 2020, Purchasing developed a plan for reassessing the risk of human rights violations with suppliers. Potentially critical countries can be identified by means of a process introduced throughout the Group. To date, KSB has assessed the purchasing volume for all main product groups with regard to country-specific risks. Appropriate measures have been derived from the findings, such as requiring self-disclosure from our suppliers via questionnaires.

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 26).

Results:

- 2020 saw KSB publish a Human Rights Policy Statement, thereby supplementing guidelines already in place.
- Since 2017, KSB has assessed the sustainability performance of more than 50 % of its key global suppliers. This also includes the actions of business partners regarding human rights.

Employees**PEOPLE ARE THE FOUNDATION FOR SUCCESS****Objectives:**

Across the globe, more than 15,000 employees are committed to serving KSB's customers. A capable and motivated workforce forms the basis for this success. This is why the company is striving to increase its engagement score, which measures employee satisfaction, to 80 % by 2025.

Employee knowledge is a decisive factor, especially in the age of digitalisation. KSB therefore implements targeted training measures to continuously 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 14.6 hours.

KSB is committed to providing equal opportunities. Its goal is to increase the proportion of women in management positions to at least 20 % by 2025 (2020: 13 %).

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. Due to the pandemic, opportunities to participate in recruitment fairs in 2020 were limited. The same applies to cooperations with universities and schools, another channel by which KSB establishes contact with potential candidates.

Number of training hours per employee:

14.6

(KSB SE & Co. KGaA: 18)

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. As of the end of 2020, 247 trainees and students in dual work / degree programmes prepared for professional life at KSB's German locations. In 2020, KSB invested almost € 7.3 million in vocational training.

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 line managers and employees at annual performance evaluation interviews. Qualification measures cover engineering, business administration, information technology, social competence, communication and leadership. In 2020, employees completed an average of 14.6 hours of professional development activities (KSB SE & Co. KGaA: 18). Regional differences (see table on page 29) emerge above all due to varying qualification levels among new employees, meaning that more specialised training is required in some companies.

Workforce by gender

	Total	KSB SE & Co. KGaA	Europe*	Asia / Pacific	Americas	Middle East / Africa
Male employees	84 %	81 %	80 %	89 %	86 %	86 %
Female employees	16 %	19 %	20 %	11 %	14 %	14 %
Male managers	87 %	91 %	88 %	88 %	81 %	92 %
Female managers	13 %	9 %	12 %	12 %	19 %	8 %

Number of training hours

	Total	KSB SE & Co. KGaA	Europe*	Asia / Pacific	Americas	Middle East / Africa
Hours per employee	14.6	18	16	15	11	14

* Including KSB SE & Co. KGaA

In the year under review, KSB introduced a new HR tool to automate and standardise personnel processes. 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 our company.

In 2020, KSB employees made greater use than ever before of the company's Internet-based learning platform for virtual training. As a result of the pandemic, digital formats replaced most face-to-face training. In addition, training organised within the scope of four international projects covered increased demand for professional development. The implementation of our market-oriented organisational structure also led to new learning content. Almost 13,000 employees from 55 countries can now use the learning platform. In addition, 2020 saw KSB increase access for its employees to virtual training courses offered by external providers. The expansion of e-learning and webinars will continue to be pursued.

Diversity and equal opportunities are an important basis for economic success in a globalised world. KSB's binding human resources principles align with ILO agreements 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.

At KSB, women have the same opportunities as men. In 2020, the proportion of female managers in the Group was unchanged from the previous year at 13 % (KSB SE & Co KGaA: 9 %); women account for 16 % of the total workforce (KSB SE & Co KGaA: 19 %). In order to achieve a more balanced mix of men and women in management, several measures were implemented in the year under review. These included events with female young potentials in which members of Management also took part. In addition, KSB is increasingly seeking to appoint women to management positions if applicants are equally qualified.

Due to coronavirus-related challenges posed by school and day-care closures in the year under review, the company enabled its employees to work on a mobile basis from an early stage in order to ease the burden on parents. In addition, many employees used flexible working time models to care for their family members.

KSB understands the value of employees who are committed and passionate about the company's success. As an attractive employer, the company strives to create motivating working conditions for its employees. KSB regularly evaluates the satisfaction of its workforce by conducting an employee survey every three years; the next one will be carried out in 2022.

KSB has also implemented measures to further increase employee satisfaction under the more difficult conditions caused by the pandemic in 2020. Virtual events enabled the continuation of open exchanges between managers and employees. The company has introduced its own satisfaction brand to raise awareness within the workforce and support the internal communication of measures designed to boost engagement.

KSB promotes the active participation of employees in the company's activities in many areas. The year under review saw employees help shape the future of their work, for example by contributing their ideas on collaboration or future office design, in classic workshops and via our in-house ideas and innovation portal.

Pandemic restrictions during the year under review meant that group sports and leisure activities for employees could only be conducted via virtual channels.

Results:

- KSB is automating and standardising its HR processes with an HR tool introduced in 2020.
- In the year under review, the number of professional development measures recorded via the online learning platform increased significantly to 24,164 (2019: 13,889). 8,617 employees registered for training.
- A strategy for promoting opportunity for women was implemented.

OCCUPATIONAL HEALTH AND SAFETY

Objectives:

As the coronavirus pandemic clearly demonstrated: Employees' health and safety is a valuable asset that must be protected. 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 (2020: 0.27 days). In addition, employees have access to a range of health-focused services.

Organisation, processes and measures:

In response to the coronavirus pandemic, KSB set up an interdisciplinary task force in the year under review to respond quickly and flexibly to unfolding events. Contingency plans were established at all locations at the beginning of the pandemic. To reduce the risk of contagion, the company agreed remote working arrangements with employees wherever possible. 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.

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, 35 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 85 % of our locations.

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In 2020, KSB contributed to more than 25 social projects and 64 charitable initiatives.

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 health and safety. Managers learn about suitable measures that they can apply individually to their production facilities. The concept was tested for the first time at six locations in the year under review and presented to staff responsible for Integrated Management worldwide. Its global implementation is scheduled for 2021.

In order to raise employee awareness of occupational health and safety issues while facilitating constructive dialogue on accident prevention, the year under review saw KSB implement measures from a special campaign launched in 2019 as part of the company's ideas management.

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. Throughout 2020, the company offered a range of health initiatives on a continuous basis. These included stop-smoking courses and training on preventive measures for staying healthy.

Results:

- The number of accident-related days lost per employee and year in 2020 was slightly lower than in the previous year at 0.27 (lost time accident rate).
- The year under review saw KSB introduce the Vision Zero concept in Argentina, Brazil, Chile, Spain, South Africa and the USA to create even greater awareness of occupational health and safety issues.
- In Germany, 905 employees took advantage of the flu vaccination offered by the company medical service.

Society

Objectives:

As a global company, KSB bears responsibility not only for itself, but for broader society as a whole. 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 25 social projects.

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, we focus 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.

Social engagement in the year under review was significantly shaped by the pandemic. Many locations donated protective masks to daycare facilities for children, schools, hospitals and government offices. During the lockdown period, KSB trainees in Frankenthal and Halle took care of shopping for former employees of retirement age and their colleagues working from home. Those who were particularly badly affected received food and financial aid. In France, development specialists succeeded in manufacturing a valve for use in ventilators to alleviate supply bottlenecks in hospitals.

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

The company supports aid projects in the vicinity of its locations to contribute towards a well-functioning community. It also regularly donates to projects around the world to provide people with clean drinking water.

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.

KSB will continue to support social initiatives in the future. Here, the company remains true to the words which its founder, Johannes Klein, had engraved onto the fountain he donated in 1910:

“Do not squander what you have earned through a life of work, instead let it benefit the common good.”

Results:

- In 2020, KSB participated in 25 social projects and 64 charitable initiatives worldwide.

More information on our 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 Reporting¹

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB („Handelsgesetzbuch“: „German Commercial Code“) of KSB SE & Co. KGaA, Frankenthal (hereinafter the “Company”) for the period from 1 January to 31 December 2020 (hereinafter the “Non-financial Report”).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

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.

¹ PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the 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.

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the information in the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the 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 allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the combined group management report
- Evaluation of the presentation of the non-financial information

ASSURANCE CONCLUSION

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

INTENDED USE OF THE ASSURANCE REPORT

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt am Main, 9 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
Wirtschaftsprüfer
[German public auditor]

ppa. Meike Beenken



Group Management Report

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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 71 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
- GIW Industries, Inc., Grovetown / Georgia, USA
- KSB Limited, Pimpri (Pune), India
- KSB Service GmbH, Frankenthal, Germany
- KSB BRASIL LTDA., Várzea Paulista, Brazil
- KSB Italia S.p.A., Milan, Italy

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.

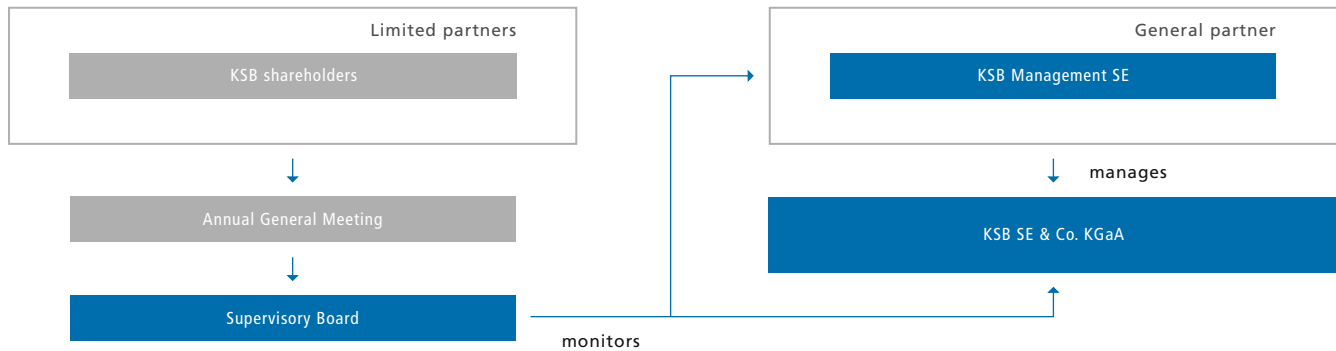
ORGANISATION, MANAGEMENT AND CONTROL

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 (100 %) by Klein, Schanzlin & Becker GmbH, a subsidiary of the non-profit KSB Stiftung [KSB Foundation] and the Kühborth-Stiftung GmbH [Kühborth Foundation]. 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.

Managers and employees implement the strategy and instructions of the Managing Directors within an organisation that is structured according to Segments, Corporate Functions and Regions.

The KSB Group organises its business activities in three Segments based on product groups: Pumps, Valves and Service. The Pumps Segment covers single- and multistage pumps, and associated control and drive systems. Applications are industry, chemicals / petrochemicals, energy supply, water transport and waste water treatment, construction / building services and mining. The Valves Segment covers butterfly, globe, gate, control, diaphragm and ball valves, as well as associated actuators and control systems. The applications for these products are essentially identical to those for pumps. The Service Segment covers the installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves for all these applications, as well as modular service concepts and system analyses for complete systems.

Bodies / Structure



The former KSB AG is now managed in the legal form of a partnership limited by shares [*Kommanditgesellschaft auf Aktien* – KGaA]. Management 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 growth.

The realignment of the organisation, as defined in the CLIMB 21 strategy project, started in June 2020. The Pumps Segment is divided into the General Industry, Mining, Petrochemicals / Chemicals, Energy, Building Services and Water Market Areas. Subsequently, the focus was primarily on developing the corresponding organisational structures and on adjusting the business administration processes. Managing of the Group in the financial year under review and planning for the 2021 financial year was on an unchanged basis.

In the 2021 financial year, KSB will adapt the Segments through which the Group is controlled. The material difference between the previous and future segmentation will be the change in recording spare parts sales and the associated expenses. Spare parts sales were previously assigned to the Segment that had actually sold the spare parts. In the current segment reporting information, all three Segments therefore contain spare parts sales. In future, spare parts sales will be shown in the SupremeServ Segment, together with repair and maintenance work. The previous Pumps and Valves Segments will in future only include the sales of new pumps and new valves.

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].

MARKETS AND LOCATIONS

Within the KSB Group, centrifugal pumps account for around two thirds of sales revenue. 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 products and components in a total of 18 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 2020, the largest markets continued to be 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, KSB determines its key financial performance indicators as follows:

KSB mainly makes management decisions for the Group as a whole and for the Pumps, Valves and Service Segments on the basis of the following key indicators: order intake, sales revenue and EBIT. KSB defines EBIT to be earnings before finance income / expense and income tax. When specifying key indicators, KSB is guided on the one hand by developments in the market and on the other by its main competitors. In addition, KSB continues to use the net financial position 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 go well beyond the legislative requirements for energy efficiency. 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. In addition, additive manufacturing creates entirely new opportunities, also as regards material efficiency.

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 € 51.1 million on research and development in the year under review. This equates to about 2.3 % of our sales revenue. KSB SE & Co. KGaA invested € 37.0 million in research and development in the year under review, which equates to around 5 % of sales revenue.

A large portion of the activities centred on customer projects. Across the Group, 454 staff were employed in research and development on average over the year. At KSB SE & Co. KGaA, 275 staff worked in research and development in the year under review.

51.1

Research and development expenses
in € millions

Economic Review

Macroeconomic Environment and Sector View

Global economic performance during 2020 was defined by the effects of the COVID-19 pandemic. The International Monetary Fund (IMF), whose figures provide the basis for planning, predicted growth of 3.4 % at the start of 2020. Instead, the spread of the coronavirus made it increasingly evident that the year would be defined by economic decline. The 3.5 % decrease was significantly greater than in the global financial crisis of 2008 / 2009. Generous economic stimulus packages, monetary policy measures and quick action taken to curb the spread of the coronavirus in China prevented an even greater decline as feared initially. The recession affected both developed countries (– 4.9 %) and emerging markets and developing countries (– 2.4 %). China was the only country to record moderate economic growth.

Europe continued to be of major importance for the KSB business in 2020. Due to the sharp decline in domestic and international demand, coupled with lower capital expenditure, economic output in KSB's largest market weakened more significantly than on a global scale. Economic output in the euro zone declined by 7.2 %. This is attributable to the high share of services, which had to be scaled back considerably due to the restrictions on social contact. Economic output in France and Italy fell by 9.0 % and 9.2 % respectively. Due to the high share of tourism and the protracted spread of the coronavirus, Spain's economy contracted by 11.1 %. Germany recorded an overall decline of 5.0 % over the year, after the manufacturing industry recovered in the second half of the year. The United Kingdom not only had to deal with the pandemic but also with the uncertainty caused by the imminent exit from the EU. The economy here slumped by 10.0 %.

Following a dramatic economic decline and the unprecedented rise in unemployment figures in the first half of the year, a robust recovery started in the USA, helped by the massive economic stimulus programmes. Overall, the decline of the US economy was limited to 3.4 %.

China recovered quicker than initially expected and is the only country to record positive economic output. Although down significantly on the average of the last few years, it still managed to achieve growth of 2.3 %. On the one hand, the virus had spread there much earlier, with the associated restrictions imposed sooner than in other countries. On the other hand, the Chinese government succeeded in quickly stemming the spread

and supporting the economy with massive public expenditure and monetary policy and structural measures. India imposed curfews for longer periods relative to other countries. Its economy declined by 8.0 %. The economic downturn in the five economically most important countries in South East Asia – Indonesia, Malaysia, the Philippines, Thailand and Vietnam – was less pronounced at 3.7 % overall, thanks to the recovery in domestic and international demand.

South America was one of the regions economically most affected by the pandemic. A decline of 7.4 % was recorded in the important markets for KSB – Argentina, Brazil and Chile. Pandemic-related restrictions in Argentina led to a marked economic decline in a country already weakened by a currency crisis and outflow of capital. This was reflected in lower consumer spending in particular. Despite persistently high infection levels, the economy recovered in Brazil thanks to fiscal and monetary policy measures, as well as to a rapid improvement in consumer confidence and the business climate.

Economic development in the Region Middle East / Africa / Russia was already slow at the start of the year due to international tensions and economic sanctions on the one hand, and to the collapse of the price of oil on the other. Capital expenditure in South Africa, which was already down in previous years, fell even further. For Saudi Arabia, likewise a large sales market for KSB, the IMF forecasts a decline of 3.9 % as a result of a drop in crude oil production.

Russia recorded a decline of 3.6 % in an environment of continuing sanctions and a lack of foreign investment.

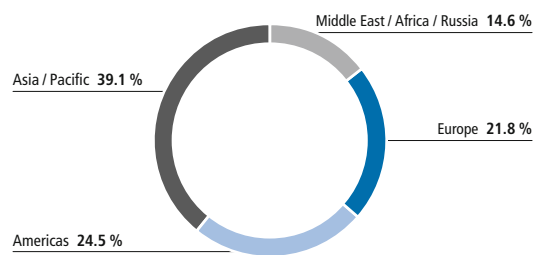
VARIED DECLINE IN DEMAND IN THE SALES MARKETS

All Segments, Market Areas and Regions were impacted by the economic slump, albeit to varying degrees.

In General Industry, which covers a series of cyclical sectors in the manufacturing industry, production and investment fell steeply last year. This applies in particular to the automotive industry. However, individual industries, such as food production and pharmaceuticals, reported stable growth.

Demographic factors, industrialisation and mandatory environmental standards are the driving forces for the water and waste water sector. As part of system-critical infrastructure, they are subject to less cyclical fluctuation than other economic sectors, thanks to public sector intervention, in particular

World market of centrifugal pumps and valves



Source: KSB estimate (February 2021), European Industrial Forecasting

regulation and support. In contrast, industry and trade held back on their investments.

Thanks to the recovery of industry in the second half of the year, the energy sector saw a less pronounced decrease in electricity consumption than expected initially. Substantial differences emerged between the energy sources; however, the pandemic has accelerated already existing trends. While the use of energy from renewable sources rose sharply, the consumption of electricity generated from coal saw the sharpest decline. Investment in the expansion of capacity and for renovation projects fell significantly as a result. This was reflected especially in fossil fuel generation, while the reduction in capital expenditure on nuclear energy and renewable energies was only marginal. Despite the decline in investment, capacities in gas, nuclear and renewable energies increased overall worldwide in the previous year.

The decline in oil and gas production was particularly pronounced in the year under review. This sector already faced a dramatic erosion of prices at the start of the year. Falling demand for oil and gas for the transport sector has not yet recovered as a result of the restrictions on mobility. The decline in the use of fuel also put refineries under pressure and slowed down production and investment. In contrast, the chemical industry recovered along with the rise in industrial production and ended the year down only marginally on the previous year.

The economic crisis triggered by the coronavirus pandemic has also impacted the construction industry worldwide, especially in countries that were already weakened economically. Non-residential construction suffered the biggest slump, as industry and the services sector held back on investments. Major economic stimulus programmes in China and the USA, on the other hand, ensured a certain degree of growth in the coun-

tries' respective construction industries. The construction industry in Germany also ended the year slightly higher. Some countries in Europe and in Central and South America suffered a sharp downturn; these countries faced a more severe recession and have less scope for increasing public spending.

In the mining industry, the impact of the recession was felt most in coal production. Against the background of lower demand for electricity generation, coal production worldwide fell sharply and with major regional disparities. The USA and Europe experienced the greatest decline. Mining of metals also declined overall. This was due on the one hand to lower demand for metals, particularly from the construction sector and the automotive industry and on the other to the lockdown measures, which brought production to a standstill at times in various countries in South and Central America, as well as in India. The fall in the price of crude caused production from oil sands to decline. A recovery set in again in the last quarter.

MECHANICAL ENGINEERING IN A DOWNTURN

The fall in global economic output is also reflected in a drop in demand for machinery and equipment. According to the German Mechanical Engineering Industry Association (VDMA), global sales revenue in the mechanical engineering sector fell by 6 % in real terms in 2020. The decline was less pronounced overall than feared initially. Among the top five locations (China, USA, Germany, Japan, Italy), which account for some 70 % of global sales revenue, only China reported a positive development.

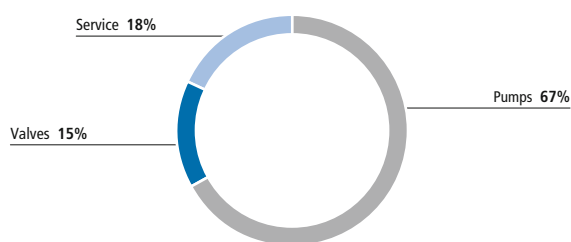
According to VDMA, sales revenue in the German mechanical engineering sector, too, dropped by 10.4 % in real terms. Based on the provisional calculations from the German Federal Statistical Office, real-term production was also down 12 % year on year. Capacity utilisation, which was already below its long-term average in the previous year, declined further.

In the liquid pumps sector, VDMA recorded a real decline in sales revenue of 7.8 % among German pump manufacturers. Sales revenue with industrial valves fell by 2.1 %, while the decline in building services valves was 0.4 %.

Business Development and Results of Operations

The 2020 financial year was characterised from the end of the first quarter by the consequences of the coronavirus pandemic, the government-imposed lockdowns, originating in China and spreading across Pakistan, India, South Africa and large swathes of Europe, and by the associated economic impact.

Sales revenue by segment



Order intake and sales revenue in the first two months of the year were still in line with expectations. However, the effects of the pandemic were felt from March onwards, especially in the business with standard products. This development was exacerbated in the second quarter, before business picked up again in the third and fourth quarters, although it remained below the previous year's figures. Business with engineered products was affected to a lesser extent, as these projects typically have longer lead times. All Segments and Regions are affected by the impact of the COVID-19 pandemic – albeit to varying degrees – and are described in the following sections.

KSB took advantage of market opportunities in the respective markets via the regional KSB sales organisation. Drawing on the international manufacturing network, the regional service organisations were able to partially compensate for the down-times caused by lockdowns. Furthermore, the international service organisation was steadily expanded with the addition of further service centres.

ORDER INTAKE

The volume of incoming orders fell sharply by € 310.4 million (– 12.6 %) to € 2,143.4 million in the financial year. Energy posted the largest percentage decline with € 89.9 million (– 21.6 %), followed by General Industry (€ – 113.5 million / – 16.2 %), Chemicals (€ – 50.0 million / – 14.7 %), Building Services (€ – 28.8 million / – 10.4 %), Mining (€ – 23.3 million / – 8.8 %) and Water (€ – 15.8 million / – 3.7 %).

All Regions were affected, even though to varying degrees. The sharpest declines were posted by the Region Middle East / Africa / Russia with € 32.3 million (– 19.3 %) and the Region Americas with € 62.5 million (– 15.4 %). The companies in the Region Asia / Pacific were down € 89.0 million (– 15.3 %) and in Europe down € 126.5 million (– 9.7 %) on the previous year. Material reasons for the decline were the lack of large-scale orders – with the exception of one nuclear order from China and one waste water order from Columbia – and a lower level of standard business.

Pumps

In the Pumps Segment, order intake was € 1,419.7 million, down by a substantial € 198.1 million (– 12.2 %). While Chemicals and Water posted comparatively lower decreases of € 6.1 million (– 4.1 %) and € 8.1 million (– 2.4 %) respectively, the decline in the other markets was more pronounced. The biggest fall of € 79.1 million (– 17.1 %) was in General Industry, where the coronavirus pandemic accelerated the structural crisis in the automotive industry. Energy was also hit hard, with a decline of € 67.6 million (– 30.0 %). The main reasons for this were deferred major power station orders, especially in India and China. The decline in Building Services was € 27.4 million (– 14.5 %) and in Mining € 23.4 million (– 10.6 %).

Valves

In the Valves Segment, order intake was also down sharply by € 41.6 million (– 11.5 %) to € 320.2 million. The decline is attributable to a lower volume of project business as a result of the COVID-19 pandemic, with a decline especially in Chemicals by € 33.3 million (– 33.9 %), Mining by € 0.6 million (– 5.0 %), Energy by € 3.4 million (– 4.8 %) and General Industry by € 1.8 million (– 1.7 %). By comparison, Water and Building Services were up slightly on the previous year, with growth of € 0.4 million (+ 1.8 %) and € 0.9 million (+ 1.9 %) respectively.

Segment reporting

€ thousands	Order intake		Sales revenue		EBIT	
	2020	2019	2020	2019	2020	2019
Pumps Segment	1,419,712	1,617,825	1,467,957	1,562,462	80,937	84,823
Valves Segment	320,248	361,878	335,454	364,365	–23,271	2,266
Service Segment	403,443	474,060	404,470	456,358	12,506	26,514
Total	2,143,403	2,453,763	2,207,881	2,383,185	70,172	113,603

Service

Order intake in the Service Segment totalled € 403.4 million, which was down by a substantial € 70.6 million (– 14.9 %) on the previous year. In many countries, maintenance inspections of production facilities were carried out on a much smaller scale or cancelled entirely. Reduced maintenance budgets also had a negative impact on the service and spare parts business. This impacted in particular on General Industry with a € 32.6 million decrease (– 25.0 %), Energy with a € 18.9 million decrease (– 15.8 %), Water with a € 8.1 million decrease (– 13.9 %) and Chemicals with a € 10.6 million decrease (– 11.4 %). Although Building Services recorded a considerably lower decline of € 2.3 million (– 6.1 %), the effects were felt nonetheless. In contrast, Mining posted a more moderate decline of € 0.7 million (– 2.2 %). The sale of four French service companies also contributed to the € 32.7 million decline in order intake.

SALES REVENUE

Consolidated sales revenue fell substantially as a result of the coronavirus pandemic by € 175.3 million (– 7.4 %) to € 2,207.9 million.

The effects of the pandemic impacted all Regions. Europe remains the Region with the strongest sales revenue at 55.7 %. The largest entity, KSB SE & Co. KGaA, which serves markets both in and outside Europe, bucked the trend by posting marginal growth of € 10.3 million (+ 1.3 %) to € 789.6 million.

Although the Region Europe proved to be relatively robust by international standards, sales revenue generated by the European companies fell tangibly by € 68.1 million (– 5.3 %) compared with the previous year. The Region Americas reported a similar picture. Sales revenue here fell by € 30.7 million (– 7.9 %). The Region Asia / Pacific was affected to a greater extent with a decline of € 53.9 million (– 10.0 %) and likewise the Region Middle East / Africa / Russia with a decline of € 22.6 million (– 14.5 %).

Pumps

Sales revenue in the Pumps Segment fell by a significant € 94.5 million (– 6.0 %) to € 1,468.0 million. The Region Europe was virtually stable with a slight increase of € 2.7 million (+ 0.4 %). In contrast, the decline was considerable in all other Regions. The Region Americas recorded a year-on-year decline of € 23.0 million (– 7.4 %) and the Region Asia / Pacific a fall of € 54.4 million (– 14.2 %), while the Region Middle East / Africa / Russia was down € 19.8 million (– 15.1 %). The government-imposed temporary lockdowns had a negative effect on operations in the Regions Asia / Pacific and Middle East / Africa / Russia.

Valves

The Valves Segment was also impacted by the effects of the COVID-19 pandemic. Total sales revenue fell by a substantial € 28.9 million (– 7.9 %) to € 335.5 million. While the companies in the Region Americas increased their sales revenue considerably by € 1.5 million (+ 9.8 %) – albeit starting from a low level – all other Regions recorded substantial declines, namely Europe by € 17.3 million (– 7.4 %), Asia / Pacific by € 10.3 million (– 9.7 %) and Middle East / Africa / Russia by € 2.7 million (– 29.3 %).

Service

Sales revenue in the Service Segment fell sharply by € 51.9 million (– 11.4 %) to € 404.5 million. While sales revenue in the Region Asia / Pacific rose substantially by € 10.8 million (+ 21.0 %) and remained stable at the prior-year level at – 0.1 % in the Region Middle East / Africa / Russia, it was down by a marked € 53.5 million (– 16.4 %) in Europe, which is by far the largest Region. Of this amount, € 34.5 million was attributable to the sale of four French service companies. The Region Americas also recorded a significant decline of € 9.2 million (– 14.4 %).

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

The KSB Group achieved earnings before finance income / expense and income tax (EBIT) of € 70.2 million (previous year: € 113.6 million). The Pumps Segment contributed € 80.9 million to this figure, the Service Segment € 12.5 million and the Valves Segment € – 23.3 million.

The reduction in EBIT compared with the previous year is mainly due to the coronavirus pandemic. In addition to the resulting marked decline in sales revenue and thus the margins not realised, write-downs on goodwill as a result of the pandemic also impacted materially on EBIT. Provisions for expected losses on customer contracts and the sale of five French subsidiaries generated additional charges. Individually, the Segments contributed as follows:

2.2

Consolidated sales revenue in € billions

Pumps

At € 80.9 million, EBIT in the Pumps Segment fell sharply by € 3.9 million from the previous year's EBIT of € 84.8 million. Adjusted for impairments on goodwill of € 4.1 million, EBIT in line with the previous year was achieved. The margins not realised due to the € 94.5 million (– 6.0 %) reduction in sales revenue were offset by cost savings. The forecast made in the previous year's report for EBIT to increase by up to 20 % could not be reached.

Valves

EBIT in the Valves Segment has deteriorated significantly from € 2.3 million to € – 23.3 million and is thus also below the predicted growth of up to 40 %. In addition to the € 28.9 million (– 7.9 %) reduction in sales revenue, impairments on goodwill of € 1.1 million and provisions for expected losses from the project business of € 6.7 million also had a negative effect.

Service

In the Service Segment, the KSB Group achieved EBIT of € 12.5 million. The sharp decline of € 14.0 million (– 52.8 %) is attributable on the one hand to the € 51.9 million (– 11.4 %) decline in sales revenue and to impairments on goodwill of € 6.0 million and the negative contribution to earnings of € 4.0 million from the sale of five French subsidiaries on the other. Provisions for environmental protection of € 1.7 million were also recognised in this Segment.

TOTAL OUTPUT OF OPERATIONS

Total output of operations amounted to € 2,195.9 million compared with € 2,381.2 million in the previous year. As well as lower sales revenue, the reduction in inventories (€ 15.2 million after € 9.3 million in the previous year) and in work performed and capitalised (€ 3.2 million after € 7.4 million in the previous year) impacted this figure.

INCOME AND EXPENSES

Other income of € 31.6 million fell slightly by € 1.8 million (previous year: € 33.4 million). Income of € 3.1 million from the sale of two French service companies and a year-on-year increase of € 2.2 million in insurance income are offset by a € 2.5 million reduction in income from asset disposals and income from claims for damages of € 3.5 million received in the previous year. Insurance income includes € 1.2 million from the settlement concluded with three former members of the Board of Management and one member of the Supervisory Board, which was approved by the Annual General Meeting.

70.2

Consolidated earnings (EBIT) in € millions

The cost of materials fell slightly in relation to the total output of operations, down from 41.4 % in the previous year to 41.0 % in the year under review. Thus, overall the cost of materials decreased in step with the total output of operations to € 899.6 million compared with € 984.8 million in the previous year.

Staff costs fell significantly in the 2020 financial year, from € 848.3 million to € 804.8 million (– € 43.5 million). The decline is mainly attributable to lower average staff numbers and to a reduction in holiday, flexitime and bonus entitlements. On average, the KSB Group had 243 fewer employees (– 1.6 %) in the year under review than in the previous year. More than half the decline in headcount was accounted for by Europe, where on average 146 fewer staff were employed. Another notable decrease (– 60 employees) was recorded in Middle East / Africa / Russia. With a 7.8 % drop in the total output of operations and a fall in staff numbers at the same time, the total output per employee declined from € 153 thousand to € 143 thousand. An average of 15,348 people were employed in the reporting year (previous year: 15,591 employees).

Depreciation and amortisation rose by € 18.1 million compared with the prior-year period to € 99.9 million, largely as a result of a € 15.0 million increase in impairment losses on goodwill and property, plant and equipment.

Other expenses fell by € 33.1 million compared with the prior-year period to € 353.0 million. Measures introduced at the start of the coronavirus pandemic to reduce consultancy costs and services procured contributed materially to this figure. Lower travel expenses in the year under review also contributed to the reduction.

Financial income / expense improved by € 1.6 million. This reflects the € 4.7 million higher net interest balance, attributable in particular to lower discount rates for pension provisions. This was largely compensated for by € 3.0 million lower income from equity investments recognised using the equity method.

EARNINGS

The KSB Group generated earnings before income tax (EBT) of € 61.6 million compared with € 103.4 million in 2019. Correspondingly, the return on sales before income tax fell from 4.3 % in the previous year to 2.8 %. Taxes on income rose from € 44.9 million to € 57.2 million. Because of lower EBT and higher taxes on income, the income tax rate rose from 43.4 % in the previous year to 92.9 % in the year under review. The rise was mainly attributable to impairments on deferred tax assets recorded in the financial year. Overall, earnings after income taxes fell from € 58.8 million in the previous year to € 4.4 million in the reporting year.

At € 14.0 million, earnings attributable to non-controlling interests fell by € 1.4 million compared with the previous year. Relative to earnings after income taxes, there was therefore a change from 26.4 % to over 100 %.

Earnings attributable to shareholders of KSB SE & Co. KGaA (€ – 9.6 million) were € 52.7 million lower than in the previous year (€ 43.1 million).

Earnings per ordinary share were € – 5.63, compared with € 24.47 in the previous year, and € – 5.37 per preference share, compared with € 24.73 in 2019.

Financial Position and Net Assets

FINANCIAL POSITION

The financial position of the KSB Group deteriorated slightly. This is reflected in a lower equity ratio of 32.9 % (previous year: 37.1 %).

Liquidity

KSB recorded cash flows from operating activities of € 183.9 million. This was € 38.9 million higher overall than in the previous year, despite the € 54.1 million reduction in earnings after taxes. The improvement was essentially attributable to the working capital initiative started in 2019. As in the 2019 financial year, inventories and trade receivables especially were reduced. This was offset in particular by lower earnings after taxes.

The outflows from investing activities were largely stable compared with the previous year; they fell by € 1.8 million from € – 74.0 million in the previous year to € – 72.2 million in the year under review. Lower inflows compared with the previous year resulting from the reallocation of cash investments and lower proceeds from disposals of intangible assets, property, plant and equipment were offset by lower payments to acquire intangible assets and property, plant and equipment.

The negative cash flow from financing activities is also essentially stable; it increased slightly over the previous year by € 2.1 million to € – 48.5 million. The € 11.0 million increase in dividend payments compared with the previous year is offset by a € 16.6 million reduction in payments for financial liabilities.

All in all, cash and cash equivalents rose significantly from € 280.9 million to € 331.5 million, due to an inflow of € 63.1 million – reduced by exchange rate losses of € 12.5 million.

The KSB Group assumes that, in future, it will continue to be able to meet its outgoing payments largely 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 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 2020, 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 decline in additions to intangible assets to € 4.2 million in the year under review compared with € 15.2 million in the previous year mainly comprised internally generated intangible assets.

Investments in property, plant and equipment in the year under review, at € 80.4 million, were slightly higher than the prior-year figure of € 78.9 million. At € 29.9 million (previous year: € 29.3 million) the highest additions related to advance payments and assets under construction, as in the previous year. Another € 19.4 million related to other equipment, operating and office equipment (previous year: € 19.6 million), while € 17.0 million related to plant and machinery (previous year: € 19.8 million). As in 2019, 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, Australia, India and China.

Net financial position

The net financial position, at € 304.8 million, rose by € 58.5 million after € 246.3 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 € 17.4 million (previous year: € 19.0 million). The decline is largely due to a € 2.2 million reduction in contingent liabilities from income tax issues.

There are no other extraordinary obligations and commitments beyond the reporting date. Further financial obligations arise only within the normal scope from purchase commitments amounting to € 23.0 million (previous year: € 29.5 million).

NET ASSETS

Around 31.5 % of funds is attributable to non-current assets (previous year: 33.6 %). Intangible assets and property, plant and equipment with a historical cost of € 1,471.0 million (previous year: € 1,507.8 million) have carrying amounts of

304.8

Net financial position in € millions

€ 580.6 million (previous year: € 608.4 million). Total intangible assets fell from € 97.1 million to € 79.9 million. This was largely attributable to impairments on goodwill of € 11.2 million, as well as depreciation and amortisation.

Right-of-use assets for leases declined by € 8.5 million. This is largely due to the purchase of a previously leased property in Australia, currency translation effects and depreciation / amortisation.

Property, plant and equipment decreased from € 511.3 million to € 500.7 million despite capital expenditure (€ 80.4 million) in excess of depreciation of € 63.1 million. Negative currency translation effects of € 24.8 million contributed significantly to the decline.

The carrying amount of financial assets, investments accounted for using the equity method and non-current other non-financial assets fell overall by € 3.6 million to € 25.4 million. The investments recognised using the equity method accounted for € – 4.4 million. This decline is mainly attributable to the negative earnings after taxes of KSB Pumps Arabia Ltd., Riyadh, Saudi Arabia.

Deferred tax assets fell by € 67.7 million to € 27.4 million (previous year: € 95.1 million), in particular as a result of recognising impairments on deferred tax assets.

Inventories amounting to € 497.5 million (previous year: € 544.7 million) were recognised. Part of the reduction was attributable to the lower volume of business. However, the positive effects of the aforementioned working capital initiative had a positive effect here too.

Contract assets edged up from € 76.4 million in the previous year to € 82.4 million.

Trade receivables decreased from € 504.1 million at the end of the previous year to € 444.2 million. This decline resulted above all from the lower volume of business and intensified measures to reduce receivables.

Other financial assets were down from € 90.9 million to € 82.2 million. This change is mainly due to a reduction in deposits with an original maturity of more than three months (€ – 11.2 million).

Other non-financial assets likewise showed a reduction (€ – 12.4 million). The main factor was the drop in recoverable taxes, particularly in France, India and Germany, which were down by € 12.9 million at € 18.3 million.

32.9

Equity ratio in percent

Cash and cash equivalents accounted for around 16 % of assets, totalling € 331.5 million (previous year: € 280.9 million).

Assets held for sale in the amount of € 7.8 million in the previous year related to the company SPI Energie S.A.S., France, in the Service Segment, whose shares were sold in January 2020.

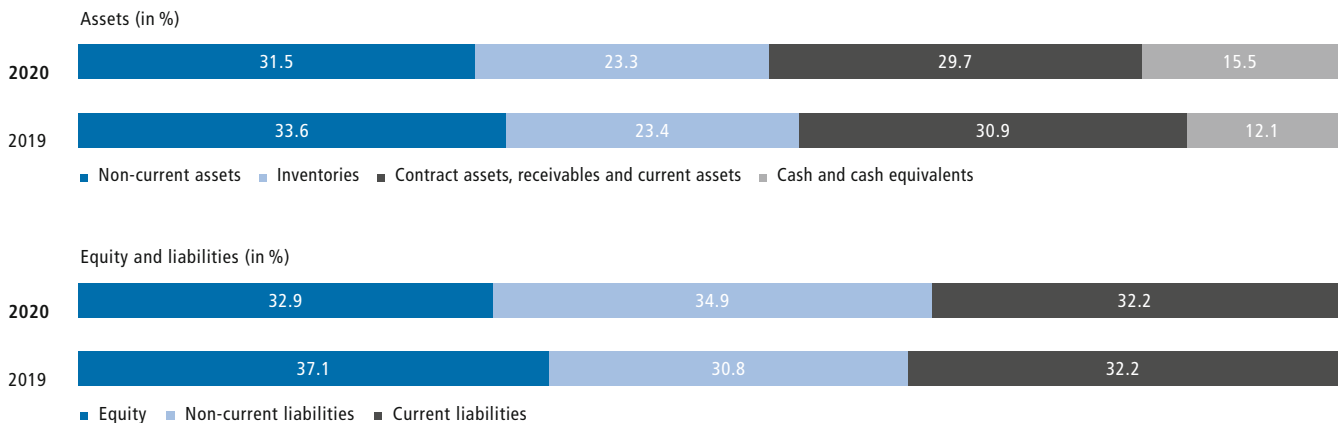
Total assets fell by 8.0 % to € 2,140.0 million, above all owing to the reduction in non-current assets. In addition to the sharp decline of € 67.7 million in deferred tax assets, impairment losses on goodwill of € 11.2 million also contributed to the reduction. The decrease in current assets also resulted in lower total assets.

EQUITY

The KSB Group's equity amounted to € 703.8 million (previous year: € 862.6 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 contracted by a total of € 152.5 million. This figure was impacted in particular by the € 43.5 million charge from the remeasurement of defined benefit plans and impairment losses on deferred taxes of € 55.9 million, which are recognised under other comprehensive income. In addition, currency translation losses of € 62.4 million and higher dividend payments contributed to the marked decline in equity. The revenue reserves include the proportion of earnings after income tax attributable to KSB SE & Co. KGaA shareholders, at € – 9.6 million (previous year: € 43.1 million). Out of total equity, € 175.9 million (previous year: € 182.2 million) is attributable to non-controlling interests. Because of the decline in equity, the equity ratio contracted to 32.9 % (previous year: 37.1 %), despite lower 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.

Balance sheet structure



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.

The translation of financial statements of consolidated companies that are not prepared in euro gave rise to a difference of € - 62.4 million (previous year: € + 3.8 million). The total of currency translation differences was taken directly to equity.

Liabilities

The largest item under liabilities continues to be provisions for employee benefits, including, also as the largest item, pension provisions, which rose by € 40.6 million from € 629.6 million to € 670.2 million. The increase was essentially due to the aforementioned reduction in the discount rates which accounted for € 43.5 million (previous year: € 70.5 million). Obligations for current pensioners and vested benefits of employees who have left the company account for about 45 % of the amount recognised in the balance sheet. The rest relates to defined benefit obligations for current employees.

Non-current financial liabilities fell by € 6.1 million to € 50.6 million, mainly because of € 7.7 million lower lease liabilities. The loan against borrower's note, which still amounts to € 22.0 million, will be repaid in 2022.

The other non-current and current provisions for employee benefits dropped to € 24.8 million (previous year: € 28.9 million) because of the reduction in partial retirement provisions.

Other non-current and current provisions increased from € 69.7 million in 2019 to € 82.7 million in 2020. This is mainly due to the € 4.4 million higher provisions for warranty obligations and € 3.5 million higher provisions for expected losses.

Current liabilities decreased overall by € 59.6 million to € 689.2 million compared with € 748.9 million at year-end 2019. The share of current liabilities relative to total equity and liabilities remained stable at 32.2 % (previous year: 32.1 %).

Current financial liabilities declined by € 12.3 million to € 32.0 million.

Contract liabilities fell from € 165.5 million in the previous year to € 153.7 million. This is due in particular to a higher level of completion of customer contracts on average, where the advance payments received altogether exceeded the work or service performed.

Trade payables fell to € 237.6 million (previous year: € 252.7 million), along with the reduction in the volume of business.

Other non-financial liabilities declined by € 25.5 million, especially as a result of lower personnel liabilities.

Liabilities in the previous year in connection with assets held for sale in the amount of € 4.0 million related to the company SPI Energie S.A.S., La Ravoire, France, in the Service Segment, the shares in which were sold in January 2020.

Summary of the Performance in the Financial Year

The order intake forecast in the previous year, expected to be in a range between € 2,320 million and € 2,520 million, was not achieved. In the Pumps and Valves Segments, where growth of up to 5 % was anticipated, the forecast was not confirmed. In particular, the coronavirus pandemic accelerated the structural crisis in the automotive industry in General Industry, which is the largest market for the Pumps Segment. The pandemic also burdened the project business in the Valves Segment. The forecast was not confirmed either in the Service Segment, where a decline of up to 5 % was expected. This Segment, too, was impacted negatively by a sharp decline in maintenance and inspections due to the coronavirus pandemic.

As with order intake, the forecast for sales revenue, expected to be in a range between € 2,260 million and € 2,450 million, could not be achieved. Sales revenue in the Pumps and Valves Segments, where growth of up to 5 % was anticipated, fell far short of the target. Both Segments were materially affected by the decline in sales revenue in the Region Asia, where prolonged lockdowns were imposed in India, which is an important country for KSB. In the Service Segment, the predicted decline of up to 10 % was not confirmed. This was primarily due to the sharp decline in sales revenue in the Region Europe.

The range between € 100 million and € 130 million anticipated for EBIT could not be attained either. The forecast could not be confirmed in the Pumps Segment, where growth of up to 20 % was expected. The same applies to the Valves Segment, where expected growth of up to 40 % was not achieved. As in the other two Segments, Service also failed to achieve the anticipated growth of up to 5 %. Detailed information on the reasons for the EBIT performance is provided in the “Earnings before finance income / expense and income tax (EBIT)” section.

The significant negative implications of the coronavirus pandemic for KSB’s business that were anticipated at the start of the second quarter were not as severe as expected. The Management of the KSB Group is therefore satisfied overall 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 slightly raised its forecast for global economic growth in 2021 to 5.5 % in real terms. The forecast is based on the assumption that the rollout of the vaccination campaigns will progress rapidly and the virus will be suppressed at a low level in all countries. However, this forecast remains fraught with many uncertainties. It projects global economic output to slightly exceed the level of 2019. Nonetheless, growth momentum will – due to the ongoing interference to production potential because of the pandemic – be slightly down on the pre-pandemic forecasts in the subsequent years.

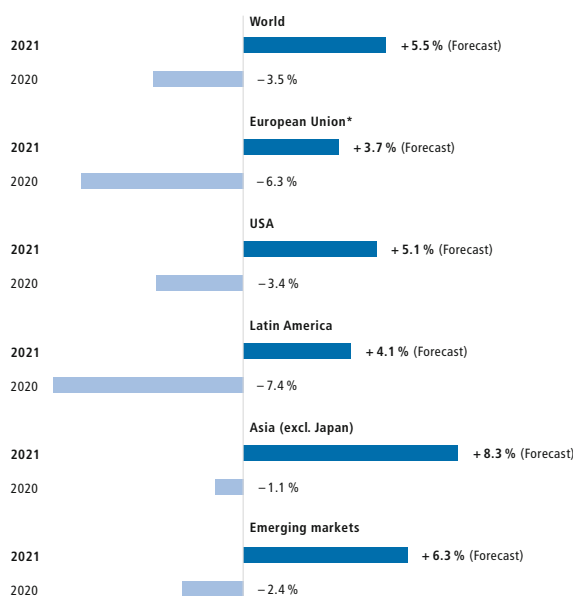
In the year under review, global growth will be driven by the anticipated economic recovery in a number of emerging markets and developing countries in Asia, especially China. The IMF is projecting an overall growth rate of 6.3 % for the emerging markets and developing countries.

Growth of 4.3 % is expected for the advanced industrialised countries in 2021, which will fall just short of economic output in 2019. The IMF anticipates growth of 5.1 % for the USA. The improved forecast is based on the prospect of widespread vaccination and the forthcoming economic stimulus package. The Canadian economy is expected to grow by 3.6 %.

Following the very marked decline in the previous year, growth of 4.2 % is predicted for the euro zone. The economy should grow by 3.5 % in Germany, which is below average compared with other industrialised nations in the euro zone, such as France (+ 5.5 %) and Spain (+ 5.9 %). This is primarily due to the previous year's less pronounced decline by comparison.

For Turkey, the IMF expects muted growth due to geopolitical uncertainties, currency devaluation and uncertainties in the course of the pandemic. The anticipated growth momentum in Russia is also likely to be slower and will be influenced by the progress made in combating the pandemic and the development of the oil price. Saudi Arabia's economy is projected to grow by 2.6 %.

Gross domestic product growth



Source: International Monetary Fund (January 2021)

*Source: EU Commission (February 2021)

The IMF expects robust growth for Asia. China, which already recovered in 2020 at a faster pace than expected, will further expand its share of the global economy based on growth of 8.1 % anticipated for 2021. The growth will be supported by continued high public spending to expand the country's infrastructure. India's growth rate is also expected to be above average at 11.5 %. However, this growth must be seen against the background of the severe recession in the previous year, which led to a particularly sharp decline in domestic demand and capital expenditure.

Growth of 5.2 % is projected for the ASEAN countries, which also include important KSB markets.

Overall growth in the Latin American countries is anticipated to be below average at 4.1 %. A moderate recovery of 3.6 % is expected in Brazil in the current year following the end of the fiscal and monetary policy measures.

Despite the forthcoming global economic recovery, the high level of uncertainty caused by the pandemic is expected to lead to weaker demand for capital goods. 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 another global wave of infections is avoided, sales revenue in real terms will rise by 7 %. Growth of 10 % is forecast for Germany. In China, growth is set to accelerate to 7 %. Sales revenue in the USA and Japan should increase by 6 %, following a decline that varied greatly in strength in both countries.

For manufacturers of liquid pumps in Germany, VDMA foresees a stagnation in sales in nominal terms in the current year (+ / - 0 %). It predicts a decrease of 3 % for industrial valves. Sales revenue for building services valves is expected to rise by 1 % in nominal terms.

SUMMARY OF EXPECTED DEVELOPMENT

Based on the anticipated recovery of the global economy in 2021, the KSB Group expects to achieve growth in order intake, sales revenue and EBIT in the current financial year.

Expected development

€ millions	Actual 2020	Forecast 2021
Order intake	2,143.4	2,150 – 2,450
Pumps	1,419.7	1,420 – 1,620
Valves	320.2	320 – 360
Service	403.4	410 – 470
Sales revenue	2,207.9	2,150 – 2,400
Pumps	1,468.0	1,450 – 1,600
Valves	335.5	320 – 360
Service	404.4	380 – 440
EBIT	70.2	80 – 120
Pumps	80.9	65 – 85
Valves	-23.3	-10 – 0
Service	12.5	25 – 35

This growth will be driven on the one hand by the anticipated market recovery, which will be reflected in standard products, as well as the provision of services and spare parts, and in a number of large-scale projects on the other. In addition, the Group expects the implementation of measures that were defined within the scope of the CLIMB 21 strategy project to yield positive effects. Management also expects the negative implications of the coronavirus pandemic to ease significantly by the end of the third quarter, especially on the back of the aforementioned assumption that the vaccination campaigns will progress rapidly.

Uncertainties with regard to how the coronavirus pandemic might develop and ongoing geopolitical tension will have a negative impact on the forecasts made.

Overall, KSB expects the Regions Europe and Asia in particular to generate the strongest growth in order intake and sales revenue. Order intake of between € 2,150 million and € 2,450 million is expected in the Group, while sales revenue is anticipated to be in the range between € 2,150 million and € 2,400 million. The growth in the Group's EBIT will also be driven mainly by the Regions Europe and Asia. KSB expects to generate EBIT of between € 80 million and € 120 million in the 2021 financial year. The EBIT forecast does not take into account possible one-off expenses from impairment losses on goodwill, other intangible assets and property, plant and equipment, and restructuring measures.

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. KSB always reviews opportunities to expand its global presence. Customer focus is the key principle in this context and is also reflected in the new organisational structure. KSB is able to achieve this through start-ups and acquisitions.

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

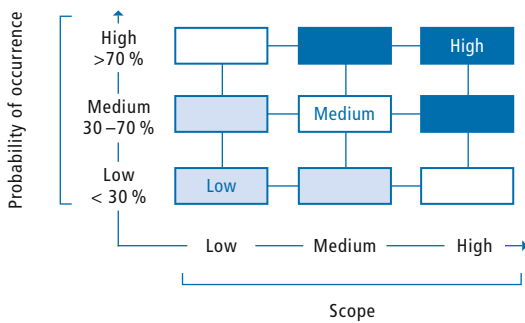
KSB has implemented a Group-wide risk management system for identifying and assessing relevant risks in the different areas of responsibility and reporting these to Group headquarters. The risk management process of the KSB Group consists of the successive phases of identification, assessment, management, 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.

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 for the categories of market and competitive risks, technological risks, project- and product-related risks, financial risks and procurement risks. The monitoring period is divided into two cycles and captures potential risks arising during the year for the current and following financial year, and at the end of the year for the following two financial years. Other business risks (environmental, human resources, etc.) are also reported in this cycle to the Risk Managers at the Group headquarters. The regular identification and updating of risks in the Group companies and in the 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 or planned.

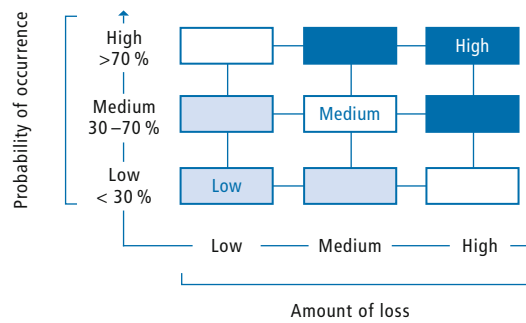
Qualitative risks are long-term developments that could have a negative impact on the KSB Group and which cannot or cannot yet be thoroughly quantified due to a lack of precise information. In order to be able to evaluate them all the same, however, estimates of the probability of occurrence and scope 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 of the KSB Group or of the respective Group company can be estimated. They are evaluated taking into account the specifically calculated probability of occurrence in combination with the potential amount of loss.

Qualitative risks



Quantitative risks



Categorisation of the loss

Magnitude	Sales revenue	Amount of loss (€ thousands)		
		Low	Medium	High
Small companies	Up to € 20m	50 – 125	125 – 250	> 250
Medium-sized companies	€ 20m to € 80m	75 – 250	250 – 500	> 500
Large companies, holding companies, organisational units	From € 80m	100 – 500	500 – 1,000	> 1,000

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) of the KSB Group or the respective Group company, taking into account any action that has been taken or planned.

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 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 loss amount is shown in the overview above.

→ **Categorisation of the loss**

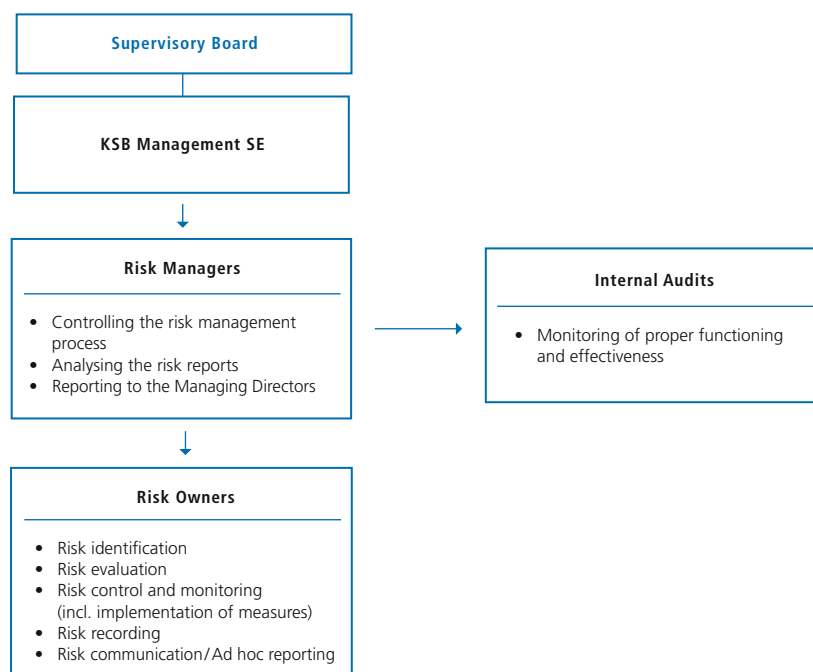
This approach offers the necessary transparency to identify risks in their entirety and to manage them effectively, professionally and in an economically responsible manner.

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

→ **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.

Risk management at KSB



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 or planned (net risk). Contrary to the gross method applied in the previous year, the net view allows the Managing Directors to focus more purposefully on the reported risks. Particularly critical topics are reported on an ad-hoc basis by the managers in charge. 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.

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.

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 auditor examines within the scope of the annual audit the early risk detection system, establishing that it is in place and checking that it is fit for purpose.

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

separation of functions and the four-eye principle is applied. 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. The data is checked at many stages, helping to ensure the processing

quality. Alongside regular system reviews by the auditors, these checks contribute to limiting 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 2020. Where risks are not flagged as high, they are classed as medium risks.

Markets / Competition

Risks

The business opportunities of KSB are again affected by changes in the economic and political environments in the current reporting year. Risks arise for the business model if positive impetus from the world economy and from the markets relevant to KSB fails to materialise and growth rates fail to match the macroeconomic forecasts. In addition, regulatory requirements can lead to a decline in demand in individual businesses. The Group manages the risk of fluctuations in the economy and in demand, which can intensify competition and lead to a deterioration of the market position, 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.

The outlook for the global economy remains a highly uncertain one. At present, risks arise in particular through geopolitical uncertainty resulting from trade conflicts and a number of global flashpoints. The protectionist currency policy of individual central banks can also burden business development. In addition, the East / West relations that are under considerable strain given the political differences between Russia and the USA, and between Russia and most European countries, continue to be significant. This also becomes apparent in the Russian government's import substitution programme. Russian companies have been requested to order more products that are made in the country itself or include a high proportion of local value creation.

The spread of the coronavirus intensified in the fourth quarter with the number of new infections rising rapidly in many countries. 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. Considerable risks to KSB comprise potential adverse effect on production, the procurement market including the supply industry, and the global sales markets.

The departure of the United Kingdom from the European Union harbours risks for the local sales and service company. Cost for imports from the European Union and exports to Ireland are expected to rise.

Opportunities

With the focus on the six Market Areas of General Industry, Mining, Energy, Building Services, Petrochemicals / Chemicals and Water in the Pumps Segment that was introduced in 2020, and the realignment of the Valves Segment, KSB expects better market access and thus profitable growth.

China and India are the two most important growth markets in Asia. Major infrastructure projects are expected to be commissioned again in 2021, particularly in energy and fresh water, which are important applications for KSB. Due to KSB's strong presence in these countries, there is a good chance that it will generate orders as a supplier of pumps, valves and services. The expansion of nuclear energy continues in China and India, for which high-safety pumps are required. KSB is the only manufacturer worldwide that is certified for reactor coolant pumps for the latest generation of Chinese nuclear power stations. In addition, owing to targeted activities in the Service market KSB expects to continue to be able to sell more services and spare parts in China in particular. In India, expansion of the supply of fresh water and the construction of flue gas desulphurisation plants for coal-fired power stations will be factors.

KSB SupremeServ has continued to develop its international presence with new service locations in Brazil, China, Germany, Namibia, Poland, Spain and South Africa. KSB is also planning to establish a joint venture in Egypt and additional locations in Angola, Ecuador and Thailand. The spare parts warehouses for standard and series products were optimised in Brazil, China, Germany, India and South Africa.

By broadening its portfolio of pumps to API specifications, the KSB Group 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 plastics, thus generating opportunities for KSB.

New regulations from the International Maritime Organisation (IMO), which came into force in 2020, should also provide further momentum. They require that all ships on the high seas use fuel with a substantially lower sulphur content. Refineries will continue to invest in the technology for the processes to produce this fuel. This is likely to boost demand for refinery pumps. Moreover, it is possible that ships will continue to use fuel with a high sulphur content, so that these will need to be retrofitted with exhaust gas desulphurisation systems. This

would have a positive impact on order intake, as soon as container shipping takes off again.

The fundamentally positive outlook for the construction industry, in particular in Europe, offers the Building Services Market Area the opportunity to grow in the high-margin project business across the entire range of heating, ventilation, drainage, water supply and fire protection. Growth opportunities will also present themselves outside of Europe and in the general 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 affordable 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. Individual cases harbour a high level of risk here. At the same time, KSB is exposed to the risk that rival products from countries with lower wage costs and therefore lower prices are launched on 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, Care is taken to ensure that advance payments and collateral provided by customers at least cover the costs incurred. Suitable provisions are set aside for warranty obligations and contractual penalty risks. In the 2020 consolidated financial statements, these amounted to € 49 million for the Group, of which KSB SE & Co. KGaA accounted for € 25 million. In the previous year, the total was € 44 million, with € 26 million accounted for by KSB SE & Co. KGaA. Beyond this KSB sees no material residual risk (net risk).

Opportunities

The progressive integration of IoT solutions (Internet of Things) for pumps and drives will in future enable innovative business models, such as the activation of added value via apps, cloud connections for maintenance and the use of operating data for the purpose of plant and product optimisation. These solutions facilitate, among other things, increased sampling rates when monitoring very critical machinery and help identify acute non-conformities or changes in the process more quickly. These functions also enable the KSB control station to support service personnel in its monitoring and analysis tasks.

KSB increasingly uses agile methods. Through interdisciplinary and simultaneous product development, these methods enable customer requirements for ever shorter development times to be met and allow developments to be geared with even greater focus towards market requirements.

At the same time, consistent and intensified use of simulation techniques and modern engineering methods, such as the rapid creation of prototypes using additive manufacturing processes, statistical experimental design and impact analyses reduce development risks.

New products and type series additions are planned for the 2021 financial year, especially in Building Services, which will help develop new fields of application and expand existing market shares.

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.

Risks regarding margins and liquidity are typical of the project business. As well as the continued pressure on selling prices, which is reducing profit margins, these include unfavourable contract conditions such as reduced advances and tougher contractual penalties. As KSB complies exactly with the approval processes in the quotation phase, this risk is minimised. At the same time, this enables KSB to recognise and avoid liquidity shortages. Where necessary, sufficient liquidity is secured by agreeing appropriate credit lines early on.

Persistent recessions or newly emerging crisis may adversely affect the financial situation of customers. Resulting payment delays and defaults on receivables, which were classed as a high risk in the year under review, would impact on 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, which was classed as a high risk in the year under review. KSB takes account of this risk through the working capital initiative started in the 2019 financial year, which focuses on increasing the turnover rate of inventories and improving credit management. A further potential consequence of market developments that exert a permanent strain is an impairment loss on goodwill and assets. If impairment testing in accordance with IAS 36 shows an impairment requirement, KSB recognises a corresponding expense in the financial year. There is also a residual risk with regard to the development of premises that cannot be controlled and on which the earnings are based. For companies with material goodwill, KSB has taken into account the risk assessment through sensitivity analyses to estimate the risk of impairment. Further information is provided in the Notes to the consolidated financial statements in section IV. Balance Sheet Disclosures under "Intangible assets". There is also a risk that claims for guarantees granted are asserted in connection with the sale of the French service companies.

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 high 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

income tax liabilities are recognised in good time. Income tax liabilities in the amount of € 12.9 million (previous year: € 9.1 million) are recognised in the 2020 consolidated financial statements for such matters that are classed as a medium or high risk. In addition, there are contingent liabilities of potentially € 6.0 million, of which € 0 million relates to KSB SE & Co. KGaA (previous year: € 8.4 million, with € 0 million attributable to KSB SE & Co. KGaA).

Procurement

Risks

Commodity prices and procurement times are subject to strong market-related fluctuations. This may adversely affect KSB's earnings situation if it does not manage to make up for cost increases or pass them onto its customers. Delays or bottlenecks in the supply chain for raw materials and components may negatively impact KSB's business operations. If KSB does not benefit promptly from declining procurement prices, the persistent pressure on the selling price of products would have a negative impact on the profit situation.

In its procurement strategy KSB seeks to prevent dependencies on suppliers and thereby counter the risk of a supplier failing. If local conditions mean that it is impossible to ensure sufficient diversification in this regard, KSB will make use of additional foreign business partners.

Opportunities

Every digital transaction leaves its trace in the systems, which are made transparent and analysed with a newly implemented process mining tool. This innovative approach specifically demonstrates the company processes 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.

The global purchasing organisation, and its processes and strategies, were implemented and consistently developed, e.g. by consolidating the purchasing volume and focusing on competitive strategic suppliers. By implementing the product-group strategy, we can generate further savings, while at the same time improving security of supply.

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

By continuing to develop the idea-to-market principle, KSB is also very well positioned to respond quickly and flexibly to changing market conditions, even in a difficult environment. 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 implementation 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. This means that KSB's production network can react to sudden events according to the specific demands of the particular situation.

KSB is regarded as a pioneer in additive manufacturing, and has developed new materials and components through many years of research and a lot 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 is in line with sustainability considerations.

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. Online shops were

established in the first countries in 2020, which 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 losses 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 the 2020 consolidated financial statements, these amount to around € 3.0 million for medium or high risks, of which € 1.0 million relates to KSB SE & Co. KGaA (previous year: € 1.4 million, with € 0.9 million attributable to KSB SE & Co. KGaA).

In markets with tightening environmental regulations, there is a high 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 also monitored by external auditors as part of the management certifications.

Opportunities

At KSB, environmental management is combined 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. Conversely, the KSB Group offers users the opportunity to reduce their electricity costs by selecting energy-efficient KSB products.

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.

As part of the new, systematic assessment of the sustainability activities within the supply chain, KSB can now provide direct answers to and actively inform its stakeholders' (e.g. customers) about new requirements with regard to environmental protection. Within the scope of CSR policy objectives, more than 50 % of development projects will be assessed on the basis of the ISO 14040 international standard on the Principles and Framework for Life Cycle Assessments. KSB views this as a significant market advantage for new products in terms of the environmental footprint.

In line with another CSR goal, using variable speed drives will reduce the CO₂ emissions produced by operating KSB water pumps by 850,000 tonnes by 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 ensuring that production and service locations are checked by auditors and certified to international standards, both the KSB Group and its customers attain a high level of certainty that KSB operations are acting with respect for the environment. KSB's commitment to the UN Global Compact also meets the expectations of its customers and improves order opportunities with companies that pick their suppliers with a view to their responsibility for the environment and society, among other things.

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

Risks

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, corresponding provisions are set aside, which cover not only the anticipated amount of loss, but also the costs of proceedings. In order to exclude any net risk, the 2020 consolidated financial statements include about € 1.3 million for those cases classed as medium or high risks. Of this total, € 0.3 million relates to KSB SE & Co. KGaA (previous year: € 2 million, of which € 1 million attributable to KSB SE & Co. KGaA). Furthermore, provisions were created for disputes with authorities and for staff matters, totalling just under € 1.1 million, of which € 0 million relates to KSB SE & Co. KGaA (previous year: € 2 million, of which € 0 million attributable to KSB SE & Co. KGaA), where these have been classed as medium or high risks in the risk assessment.

The manipulation and loss of electronic data can entail commercial disadvantages. KSK has observed a worldwide increase in the threat to cyber security and higher levels of professionalism in computer-related crime. This leads to risks in relation to the security of products, systems and networks, as well as to the confidentiality, availability and reliability of data. As a multinational group, KSB is exposed to considerable cyber attacks, which we counter 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 prevent damage to the Group and our customers.

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 set up in the financial year under review 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 secrets is of considerable economic significance to KSB, which it responds to by consistently protecting confidential information.

Opportunities

The Workday global HR management system will be implemented in additional countries in 2021, therefore 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 HR activities.

The experiences gained from the coronavirus pandemic regarding working from home will drive a cultural shift towards flexible working models tailored to the KSB business model. These models will also take into account the change in employees' needs.

Approval and signature processes were used to be conducted manually. A pilot project was launched in mid-2020 to prepare for the introduction of electronic signatures at KSB. A cloud-based e-signature service was selected as the provider, which allows the user to send, sign, track and manage signature processes via a browser or mobile device. The application offers significant efficiency and cost-savings potential.

The COVID-19 pandemic has also clearly highlighted the importance and necessity of digitalisation. Secure digital or digitally supported processes and the provision of collaboration tools are not just a material success factor, but an indispensable prerequisite for the future. The modernisation of the IT network infrastructure started in 2020 ensures the necessary performance, flexibility and security is in place to continue to digitalise processes and gradually expand the opportunities for collaboration.

Tools to automate tests can reduce manual effort and speed up tests, while at the same time increasing the scope of testing. This facilitates quicker innovation cycles in the area of applications while minimising the risk for IT operations at the same time.

IMPORTANT OPPORTUNITIES AND RISKS BY SEGMENT

As in the previous year, the opportunities and risks for the Pumps, Valves and Service Segments are most influenced by economic development. The epidemiological trajectory of the coronavirus, which is difficult to assess, and the implementation of measures to dampen its spread will materially impact the development of the Pumps, Valves and Service Segments. High risks to business in the Segments are posed by the need to respond at short notice to regulations and political decisions. To this end KSB must design new products in the Pumps and Valves Segments, and take considerable technical as well as commercial risks in developing and implementing them. Worsening payment morale also bears corresponding risk potential for future business. By contrast, the KSB Group continues to hope that the measures intended to foster growth will provide it with considerable support in achieving its goals. KSB's customers are also often affected by recessions and more intense

competition, which can impair their ability to pay in individual cases.

Negative currency changes in growth countries could threaten exports, in particular those from KSB's European plants. But this would also enable the production facilities in the countries affected to benefit from such developments and to increase their export volumes.

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. It 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 € 244.2 million, with KSB SE & Co. KGaA accounting for € 165.0 million thereof (previous year: € 251.9 million, of which € 187.9 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 opportunities and risks for the KSB Group are mainly derived from macroeconomic influencing factors and their effects on the global mechanical engineering markets and the competition.

The overall risk situation on the reporting date of 31 December 2020 remains virtually unchanged from the previous year. This is due to political developments and their impact on the markets on the one hand and to the uncertainties surrounding the coronavirus pandemic on the other. Moreover, geopolitical instabilities, decisions on sanctions and volatile currencies would have a negative impact on business volume and on planned earnings. Overall, KSB expects an economic performance in line with the IMF forecast for next year.

In this environment, the KSB Group continues to rely on its ability to match capacities and resources to the changing market conditions. A solid financial position and an efficient cost structure are vital in order to maintain long-term competitiveness. KSB is convinced that it can continue to successfully overcome the risks arising from the above-mentioned challenges.

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. In view of the somewhat uncertain situation, the focus of activities in 2021 will continue to be on the management of market risks. The legal representative states that, based on the risk management system established by the KSB Group, at present there are no risks that threaten business continuity and could lead to a lasting and material impact on the net assets, financial position and results of the KSB Group.

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

Balance Sheet

Assets

€ thousands	31 Dec. 2020	31 Dec. 2019
Fixed assets		
Intangible assets	45,739	50,163
Property, plant and equipment	127,204	117,844
Financial assets	291,886	292,864
	464,829	460,871
Current assets		
Inventories	246,917	251,978
Advances received from customers	-100,440	-85,298
	146,477	166,680
Receivables and other assets	310,202	308,664
Cash and balances with credit institutions	53,851	44,864
	510,530	520,208
Prepaid expenses	2,393	1,816
	977,752	982,895

Equity and liabilities

€ thousands	31 Dec. 2020	31 Dec. 2019
Equity		
Subscribed capital	44,772	44,772
Capital reserve	66,663	66,663
Revenue reserves	136,180	136,180
Net retained profits	44,531	67,364
	292,146	314,979
Provisions		
Pensions and similar obligations	445,473	415,998
Miscellaneous other provisions	99,498	106,798
	544,971	522,796
Liabilities	136,855	140,080
Deferred income	3,780	5,040
	977,752	982,895

Income Statement

Income statement

€ thousands	2020	2019
Sales revenue	813,799	841,693
Changes in inventories	755	-1,262
Work performed and capitalised	2,728	6,833
Total output of operations	817,282	847,264
Other operating income	23,605	27,599
Cost of materials	-382,376	-388,604
Staff costs	-322,737	-324,747
Depreciation and amortisation expense	-22,424	-17,801
Other operating expenses	-163,292	-160,920
	-49,942	-17,209
Income from equity investments	84,413	40,991
Other financial income / expense	-38,604	-38,454
	45,809	2,537
Taxes on income	-2,402	-1,369
Earnings after taxes	-6,535	-16,041
Other taxes	-1,187	-1,191
Net profit / loss for the year	-7,722	-17,232
Profit / loss carried forward	52,253	84,596
Net retained profits	44,531	67,364

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 BER-CHEM 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 2020 financial year was characterised from the end of the first quarter by the consequences of the coronavirus pandemic, the government-imposed lockdowns, originating in China and spreading across Pakistan, India, South Africa and large swathes of Europe, and by the associated economic impact. Order intake and sales revenue in the first two months of the year were still in line with expectations. However, the effects of the pandemic were felt from March onwards, especially in the business with standard products. This development was exacerbated in the second quarter, before business picked up again in the third and fourth quarters, although it remained below

the previous year's figures. Business with engineered products was affected to a lesser extent, as these projects have longer lead times.

KSB SE & Co. KGaA took advantage of market opportunities in the respective markets via the regional KSB sales organisation. Drawing on the international manufacturing network and the regional service organisations, the company was able to partially compensate for the downtimes caused by lockdown. Furthermore, the international service organisation was steadily expanded with the addition of further service centres.

ORDER INTAKE

The volume of orders received by KSB SE & Co. KGaA fell in the year under review by € 66.5 million to € 730.0 million, a decline of 8.3 %.

SALES REVENUE

At € 813.8 million, total sales revenue under HGB was down € 27.9 million on the prior-year figure of € 841.7 million.

The disclosures below refer only to sales revenue from the sale of pumps, valves and cast products, and from related service. Sales revenue of € 758.9 million generated in the 2020 financial year represents a year-on-year decline of € 29.4 million (3.7 %). Pumps accounted for 87 % of the sales revenue (previous year: 86 %), while valves made up 12 % (previous year: 12 %).

Under IFRS, sales revenue rose from € 779.4 million in the previous year to € 789.6 million. The main driver of sales revenue was the engineered pumps project business.

INCOME AND EXPENSES

Other operating income declined from € 27.6 million to € 23.6 million, primarily because of lower income from exchange rate gains.

The cost of materials, at € 382.4 million, was down slightly on the prior-year level of € 388.6 million. The cost of materials in relation to the total output of operations rose from 45.9 % in the previous year to 46.8 % in the year under review.

Staff costs fell in absolute terms by € 2.0 million to € 322.7 million. There were no general staff costs increases in 2020. The general reduction in flexitime accounts and holiday entitlements contributed to this improvement. This positive effect was reduced by higher additions made to pension provisions. Staff

costs as a percentage of total output of operations were 39.5 % (previous year: 38.3 %).

At € 163.30 million, other operating expenses showed a slight increase after € 160.9 million in the previous year. Savings of € 14.8 million were made in purchased services and consultancy expenses, as well as in travel and selling costs. Additions of € 7.1 million to provisions for expected losses had an offsetting effect; taking into account the positive effect in 2019 – due to a reduction of these provisions – this results in a change of € 14.0 million. The increase in provisions for partial retirement schemes resulted in higher other staff costs (€ + 2.7 million) compared with 2019.

Overall, the income from equity investments, at € 84.4 million, was sharply up from the prior-year level (€ 41.0 million). This includes profit transfers from the German service companies of € 13.6 million (previous year: € 11.5 million) and dividend income from affiliates and equity investments of € 70.8 million. Of this amount, € 60.0 million (previous year: € 15.0 million) concerns 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 loss for the year of € 7.7 million in the 2020 financial year. This compares with a net loss for the year of € 17.2 million in 2019. Despite the negative impact of the coronavirus pandemic, an improvement was thus achieved overall, especially due to higher investment income.

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

The EBIT calculated under IFRS rules was € – 32.7 million in the 2020 financial year and was therefore virtually unchanged from the prior-year value of € – 32.5 million. A lower total output of operations in 2020 is offset in particular by positive effects from the reduction 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 € 29.5 million to € 445.5 million on the reporting date. This increase of € 35.9 million is mainly explained by the lower discount rate. Other provisions amounted to € 99.5 million (previous year: € 106.8 million). The lower figure is mainly attributable to a reduction in provisions for staff costs.

Of liabilities totalling € 136.9 million (previous year: € 140.1 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 € 2.8 million below the previous year's level. Liabilities towards associated companies and equity investments increased slightly from € 55.1 million in the previous year to € 55.8 million. They include € 28.2 million (previous year: € 30.0 million) for intercompany loans and cash investments.

NET ASSETS

Total assets, at € 977.8 million, are down 0.5 % from the previous year's level of € 982.9 million. Substantial declines in inventories are offset in particular by higher cash and balances with credit institutions, as well as higher non-current assets.

In the year under review, fixed assets made up 48 % (previous year: 47 %) of total assets. The share accounted for by current assets was 52 % after 53 % in 2019. Inventories including advance payments received totalled € 146.5 million after € 166.7 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 2019 net retained earnings of € 67.4 million, dividends totalling € 15.1 million (dividend of € 8.50 per ordinary share and € 8.76 per preference share) were distributed by resolution of the Annual General Meeting of 13 May 2020. The remaining amount of € 52.3 million was carried forward to new account.

Summary of the Performance in the Financial Year

The 2020 financial year was defined by the effects of the coronavirus pandemic from the end of the first quarter onwards. Order intake and sales revenue in the first two months of the year were still in line with expectations. However, the effects of the pandemic were felt from March onwards, especially in the business with standard products. This development was exacerbated in the second quarter, before business picked up again in the third and fourth quarters, although it remained below the previous year's figures. Business with engineered products was affected to a lesser extent, as these projects typically have longer lead times.

The forecasts made at the beginning of the year were not met due to the COVID-19 pandemic. The deviations were comparatively moderate. In terms of order intake, the significant increase anticipated did not materialise, while sales revenue under IFRS grew only slightly as against the substantial rise forecast. Project business registered increases, while standard business failed to meet expectations. A significant increase in EBIT under IFRS – as predicted – could not be achieved either in the 2020 financial year. Nonetheless, it is on par with the previous year's level.

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 slightly raised its forecast for global economic growth in 2021 to 5.5 % in real terms. The forecast is based on the assumption that the rollout of the vaccination campaigns will progress rapidly and the virus will be suppressed at a low level in all countries. However, this forecast remains fraught with many uncertainties. Global economic output is forecast to slightly exceed the 2019 level. Nonetheless, growth momentum will – due to the ongoing interference to production potential because of the pandemic – be slightly down on the pre-pandemic forecasts in the subsequent years.

Despite the forthcoming global economic recovery, the high level of uncertainty caused by the pandemic is expected to lead to weaker demand for capital goods. In its forecast for global sales of plant and machinery, VDMA refers to the scenarios from Oxford Economics.

Overall, KSB SE & Co. KGaA foresees tangible growth in order intake in 2021, largely owing to the Energy market. KSB SE & Co. KGaA expects marginal increases in sales revenue. EBIT under IFRS will improve substantially.

The forecast horizon for the above-mentioned information and statements is the 2021 financial year.

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 aforementioned 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 2021 is accessible to the public at www.ksb.com > Investor Relations > Corporate Governance / Corporate Governance Statement. As well as the Statement of Compliance in accordance with Section 161 AktG, the Corporate Governance Statement includes relevant information on corporate governance practices applied at KSB SE & Co. KGaA that go above and beyond statutory requirements. Also described are 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 289b 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-report2020.ksb.com. Under the same address the limited assurance report for the separate combined non-financial report is also disclosed.

Remuneration Report

The remuneration report provides information on the principles of the remuneration system for the general partner (KSB Management SE) including its Managing Directors and Administrative Board. The relevant recommendations of the German Corporate Governance Code relating to the Board of Management remuneration are not applicable to a KGaA [partnership limited by shares] structured like KSB SE & Co. KGaA; they are therefore only taken into account to a limited extent.

1. REMUNERATION OF THE GENERAL PARTNER

In accordance with the Articles of Association of KSB SE & Co. KGaA (the “company”), the general partner receives annual remuneration not based on profit and loss in the amount of 4 % of the share capital for the management and assumption of personal liability. Accordingly, € 20 thousand was spent on this by the company in the 2020 financial year.

According to the Articles of Association, the company additionally reimburses the general partner for any expenses incurred in connection with the management of business operations; this relates but is not limited to the remuneration of the members of the governing bodies of the general partner.

2. REMUNERATION OF THE MANAGING DIRECTORS

The general partner is responsible for the management of the company. The Administrative Board of KSB Management SE appoints its Managing Directors and is responsible for the contracts of service of the Managing Directors. This responsibility includes the structure of the remuneration arrangements, the amount of remuneration and their regular review.

The remuneration arrangements for the Managing Directors are structured as transparently as possible. The total amount of remuneration for the individual Managing Directors is determined based on various parameters. Criteria for assessing the appropriateness of the remuneration include the responsibilities of the individual Managing Directors, their personal performance, the economic situation, the company’s success and customary remuneration amounts when taking peer companies and the remuneration structure used elsewhere within the company into consideration.

The remuneration of the Managing Directors consists of fixed and variable components. Fixed components are granted regardless of performance and consist of a fixed sum plus benefits, as well as pension commitments (retirement, disability, widow’s or orphan’s pension). The fixed sum makes up 60 % of the normal annual salary and is paid out as a monthly basic remuneration. All Managing Directors are equally entitled to

the accompanying fringe benefits which include the private use of a company car, payment of insurance premiums and any payments associated with a post-contractual non-competition clause. No loans or advance payments were granted to Managing Directors in the past financial year.

To ensure the sustainability of the nature of the remuneration, the variable remuneration component includes a long-term component, which accounts for around two thirds of the variable remuneration. It is calculated on the basis of the net profit of the KSB Group plus depreciation / amortisation. Its calculation in the form of a rolling, weighted three-year average essentially includes the effect of the future financial years over the contract term. The short-term variable portion of remuneration is linked to three reference values in equal part. In addition to the Group’s key indicators of EBIT margin and sales revenue, the calculation is based on the personal goals of the Managing Directors. These goals are set in such a way that their fulfilment has a positive impact on the relevant performance area beyond the year under review.

The total amount of the variable remuneration components is limited in order to take extraordinary, unforeseen developments into account.

The weighting factors above do not reflect the additional possibility of a bonus, to be paid out in individual cases at the discretion of the Administrative Board, of no more than three monthly salary payments per financial year in recognition of any special performance of individual Managing Directors. Such decisions are only made on an irregular basis, meaning that they do not necessarily have to be made annually.

In compliance with recommendation G.13 of the German Corporate Governance Code, payments made to a Managing Director in the event of his or her term of office being terminated prematurely shall not exceed the value of two years’ remuneration (settlement cap) and shall not exceed the remuneration due for the remaining term of the contract of service. No other payments have been promised to any Managing Director in the event of termination of service; similarly no compensation will be paid in the event of a takeover offer. If the contract of service of a Managing Director is terminated for cause, the company shall not make any severance payments. On 13 May 2020 – using a legally permissible option – the Annual General Meeting resolved not to disclose the individualised remuneration for the 2020 financial year.

An updated remuneration system for the Managing Directors is planned to be introduced in the 2021 financial year. To this end, standard market and competitive targets will be used, which will in particular support the implementation of the corporate strategy.

3. REMUNERATION OF THE ADMINISTRATIVE BOARD

The shareholder of KSB Management SE, Klein, Schanzlin & Becker GmbH, decides on the remuneration of the Administrative Board. The remuneration essentially consists of a fixed sum which covers the time spent attending up to 12 meetings of the Administrative Board. A daily or hourly rate in line with usual market rates has been agreed for any extra time spent. Fringe benefits for the Administrative Board have not been agreed and will not be granted. Its members are, however, covered by directors' and officers' (D&O) liability insurance [*Vermögensschaden-Haftpflichtversicherung*] taken out by the company under usual market conditions in favour of the Administrative Board.

Frankenthal, 9 March 2021

KSB Management SE

The Managing Directors

3

Consolidated Financial Statements

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Balance Sheet

Assets

€ thousands	Notes	31 Dec. 2020	31 Dec. 2019
Non-current assets			
Intangible assets	1	79,935	97,128
Right-of-use assets	2	41,641	50,096
Property, plant and equipment	3	500,680	511,281
Non-current financial assets	4	2,267	1,962
Other non-financial assets	5	3,302	2,840
Investments accounted for using the equity method	6	19,787	24,203
Deferred tax assets	20	27,360	95,101
		674,971	782,611
Current assets			
Inventories	7	497,495	544,703
Contract assets	8	82,412	76,428
Trade receivables	8	444,174	504,101
Other financial assets	8	82,210	90,938
Other non-financial assets	8	27,189	39,613
Cash and cash equivalents	9	331,512	280,875
Assets held for sale	10	–	7,753
		1,464,992	1,544,411
		2,139,964	2,327,022

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

Equity and Liabilities

€ thousands	Notes	31 Dec. 2020	31 Dec. 2019
Equity	11		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		416,439	568,916
Equity attributable to shareholders of KSB SE & Co. KGaA		527,874	680,351
Non-controlling interests		175,928	182,210
		703,803	862,562
Non-current liabilities			
Deferred tax liabilities	20	8,430	11,146
Provisions for employee benefits	12	684,858	646,340
Other provisions	12	3,017	1,366
Financial liabilities	13	50,624	56,750
		746,929	715,602
Current liabilities			
Provisions for employee benefits	12	10,168	12,190
Other provisions	12	79,674	68,376
Financial liabilities	13	32,033	44,318
Contract liabilities	13	153,690	165,463
Trade payables	13	237,558	252,741
Other financial liabilities	13	27,205	31,226
Other non-financial liabilities	13	136,045	161,528
Income tax liabilities	13	12,860	9,050
Liabilities related to assets held for sale	10, 13	–	3,967
		689,232	748,858
		2,139,964	2,327,022

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

Statement of Comprehensive Income

Income statement

€ thousands	Notes	2020	2019
Sales revenue	14	2,207,881	2,383,185
Changes in inventories		-15,214	-9,316
Work performed and capitalised		3,186	7,354
Total output of operations		2,195,853	2,381,223
Other income	15	31,649	33,413
Cost of materials	16	-899,579	-984,787
Staff costs	17	-804,831	-848,295
Depreciation and amortisation	1 - 3	-99,906	-81,851
Other expenses *	18	-353,014	-386,100
Earnings before finance income / expense and income tax (EBIT)		70,172	113,603
Finance income	19	5,374	5,741
Finance expense	19	-12,100	-17,098
Income from / expense to investments accounted for using the equity method	19	-1,850	1,186
Finance income / expense		-8,576	-10,171
Earnings before income tax (EBT)		61,596	103,432
Taxes on income	20	-57,216	-44,932
Earnings after income tax		4,380	58,500
Attributable to:			
Non-controlling interests	21	14,015	15,415
Shareholders of KSB SE & Co. KGaA		-9,635	43,085
Diluted and basic earnings per ordinary share (€)	22	-5.63	24.47
Diluted and basic earnings per preference share (€)	22	-5.37	24.73

* Compared with the 2019 consolidated financial statements, the presentation was amended so that other taxes are now included in other expenses and are no longer shown separately in the income statement.

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

Statement of income and expense recognised in equity

€ thousands	Notes	2020	2019
Earnings after income tax		4,380	58,500
Remeasurement of defined benefit plans	12	-43,540	-70,479
Taxes on income		-43,546	21,389
Changes recognised directly in equity relating to investments accounted for using the equity method		-32	-
Items not reclassified to profit or loss in subsequent periods		-87,118	-49,090
Currency translation differences *		-61,268	3,773
Changes in the fair value of financial instruments: Hedging reserve		6,652	-530
Taxes on income		-2,019	162
Changes in the fair value of financial instruments: Hedging cost reserve		464	-45
Taxes on income		-140	13
Changes recognised directly in equity relating to investments accounted for using the equity method *		-1,154	209
Items reclassified to profit or loss in subsequent periods if required		-57,465	3,582
Other comprehensive income		-144,583	-45,508
Total comprehensive income		-140,203	12,992
Attributable to:			
Non-controlling interests		-2,837	16,593
Shareholders of KSB SE & Co. KGaA		-137,366	-3,601

* Compared with the 2019 consolidated financial statements, the presentation was amended so that changes recognised directly to equity relating to investments accounted for using the equity method are now shown as a separate item and not subsumed as "Attributable to" under the currency translation differences item.

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. 2019	44,772	66,663
Other comprehensive income	–	–
Earnings after income tax	–	–
Total comprehensive income	–	–
Dividends paid	–	–
Capital increase / decrease	–	–
Step acquisitions *	–	–
Other *	–	–
31 Dec. 2019	44,772	66,663

€ 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

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	
854,647	-98,270	-2,930	-574	-175,117	689,191	167,600	856,791	
-	2,664	-368	-32	-48,950	-46,686	1,178	-45,508	
43,085	-	-	-	-	43,085	15,415	58,500	
43,085	2,664	-368	-32	-48,950	-3,601	16,593	12,992	
-5,583	-	-	-	-	-5,583	-1,983	-7,566	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
503	-159	-	-	-	344	-	344	
892,652	-95,765	-3,298	-606	-224,067	680,351	182,210	862,562	

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	

* Compared with the 2019 consolidated financial statements, the presentation was amended so that changes in the equity items resulting from changes in the consolidated Group are now included under Other.

Accumulated income and expenses recognised under other comprehensive income as at 31 December 2019 amounted to € - 143 thousand and resulted from provisions for pensions and similar obligations, which represent a disposal group classified as held for sale under IFRS 5.

Statement of Cash Flows

€ thousands	2020	2019
Earnings after income tax	4,380	58,500
Taxes on income *	57,216	44,932
Finance income *	-5,374	-5,741
Finance expense *	12,100	17,098
Depreciation and amortisation / Write-ups	99,906	81,851
Gain / loss on disposal of intangible assets and property, plant and equipment	881	-2,736
Gain / loss on the sale of subsidiaries	2,654	-
Change in inventories	15,051	-1,215
Change in contract assets	-7,699	-2,347
Change in trade receivables *	35,226	13,462
Change in provisions *	6,455	-24,371
Change in contract liabilities	-252	7,720
Change in trade liabilities *	-3,723	-16,710
Change in other assets and liabilities *	-10,134	5,602
Income tax paid *	-28,142	-36,754
Interest received *	5,310	5,638
Cash flows from operating activities	183,855	144,929
Proceeds from disposal of intangible assets and property, plant and equipment *	1,392	5,663
Payments to acquire intangible assets and property, plant and equipment *	-83,073	-91,042
Sale of subsidiaries and other operations less cash and cash equivalents sold	1,374	-
Proceeds from deposits with an original maturity of more than 3 months *	47,800	19,946
Payments for deposits with an original maturity of more than 3 months *	-38,601	-20,865
Proceeds from investments in Group companies that are not fully consolidated	100	12,063
Payments for investments in Group companies that are not fully consolidated	-1,466	-346
Proceeds from dividends from Group companies that are not fully consolidated *	750	575
Proceeds from capitalisation measures with Group companies that are not fully consolidated	-	-
Payments for capitalisation measures with Group companies that are not fully consolidated	-514	-
Cash flows from investing activities	-72,238	-74,006
Dividends paid to shareholders of KSB SE & Co. KGaA	-15,111	-5,583
Dividends paid to non-controlling interests	-3,445	-1,983
Proceeds from financial liabilities	1,367	8,230
Payments for financial liabilities (not including lease liabilities) *	-9,032	-25,630
Repayment of lease liabilities *	-16,848	-16,142
Interest paid *	-5,407	-5,322
Cash flows from financing activities	-48,476	-46,430
Changes in cash and cash equivalents	63,141	24,493
Effects of exchange rate changes on cash and cash equivalents	-12,504	-364
Effects of changes in consolidated Group	-	1,201
Cash and cash equivalents at beginning of period	280,875	255,545
Cash and cash equivalents at end of period	331,512	280,875

* Restated compared with presentation in the 2019 consolidated financial statements.

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 (100 %) by Klein, Schanzlin & Becker GmbH, Frankenthal / Pfalz, a subsidiary of the non-profit KSB Stiftung [KSB Foundation] and the non-profit Kühborth-Stiftung GmbH [Kühborth Foundation]. 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 Group’s operations are divided into three Segments: Pumps, Valves and Service.

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.

In the year under review, minor changes were made to the statement of comprehensive income and the statement of changes in equity compared with the presentation in the 2019 consolidated financial statements. The aim of the adjustments was to use the core taxonomy prescribed by the EU through the European Single Electronic Format (ESEF) as comprehensively as possible. The changes are marked separately in the respective tables. The adjustments made to the cash flow statement compared with the 2019 consolidated financial statements to increase transparency are also partly related to ESEF.

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*.

These consolidated financial statements will be approved by the Managing Directors of KSB Management SE on 9 March 2021 for forwarding to the Supervisory Board. The Supervisory Board is expected to approve the financial statements on 17 March 2021.

New accounting principles

a) Accounting principles applied for the first time in the 2020 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 as an amendment to IFRS 16 Leases in the 2020 financial year. Accordingly, 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 2020 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 2020 financial year

	First-time adoption in the EU
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies	1 Jan. 2020
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (Interest Rate Benchmark Reform)	1 Jan. 2020
Amendments to the cross-references in the Conceptual Framework in IFRS	1 Jan. 2020
Amendments to IFRS 3 Business Combinations	1 Jan. 2020
Amendments to IFRS 16 Leases in the form of the IASB pronouncement on COVID-19-Related Rent Concessions.	1 Jan. 2020

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

	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 and 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 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) in the form of 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
Amendments to IAS 1 Presentation of Financial Statements	1 Jan. 2023

II. CONSOLIDATION PRINCIPLES

Consolidated Group

As at 31 December 2020, in addition to KSB SE & Co. KGaA, 9 German and 71 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 2020. 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. The non-consolidated associated companies also include Geheimrat Dr. Jacob Klein-Unterstützungseinrichtung e.V., Frankenthal / Pfalz.

Changes in the consolidated Group

a) Sale of subsidiaries

As part of the reorganisation of the service activities in France, the Group disposed of the following previously fully consolidated companies in the year under review. The effects on the balance sheet and income statement are fully attributable to the Service Segment.

First, the shares in SPI Energie S.A.S., La Ravoire (France), were sold in January 2020. The assets and liabilities that were part of this divestment were reported separately in the consolidated balance sheet for the year ended 31 December 2019 as assets held for sale and liabilities related to assets held for sale.

Additionally, all shares in the three companies KSB Service Energie S.A.S.U., Rambervillers, France, Société de travaux et Ingénierie Industrielle S.A.S., Déville lès Rouen, France, and KSB SERVICE COTUMER S.A.S., Déville lès Rouen, France, were sold as part of a single transaction in June 2020.

A further sale related to the shares in KSB Service EITB-SITEL-LEC S.A.S., Montfavet, France, in December 2020.

The transactions described above resulted in capital gains of € 3,060 thousand, which are included in other income in the income statement, and capital losses of € 5,714 thousand in other expenses.

The total assets and liabilities divested are as follows, based on the carrying amounts at the time of sale:

Summary of sold assets and liabilities

€ thousands	2020
Non-current assets	2,772
Current assets *	30,012
Total assets	32,784
Non-current liabilities	2,913
Current liabilities	17,533
Total equity and liabilities	20,446
Net assets	12,338

* The item includes cash and cash equivalents of € 193 thousand that were classified as assets held for sale as at 31 December 2019 and at the time of sale in the reporting year and therefore did not form part of the Group's cash and cash equivalents reported in the balance sheet.

The sale of subsidiaries had the following effect on the Group's cash and cash equivalents in the year under review:

Net change in cash and cash equivalents

€ thousands	2020
Payment received in cash and cash equivalents	9,122
Cash and cash equivalents sold	-7,748
Net change in cash and cash equivalents	1,374

As at 31 December 2020, receivables in the amount of € 562 thousand for sale-related payments not yet received in cash or cash equivalents are also recognised in the balance sheet.

b) Other changes

The liquidation of the joint venture previously accounted for using the equity method – Nikkiso-KSB GmbH i.L., Pegnitz, Germany, was completed in the first half of the 2020 financial year by entry in the *Handelsregister* [German Commercial Register]. This did not result in any material impact on the Group.

In addition, KSB Ecuador S.A., Samborondón, Ecuador, and KSB PUMPS AND VALVES (NAMIBIA) (PROPRIETARY) LIMITED, Klein Windhoek, Namibia, were founded in the 2020 financial year. KSB BRASIL LTDA., Várzea Paulista, Brazil, holds 99 % of the shares in KSB Ecuador S.A. and KSB FINANZ S.A., Echternach, Luxembourg, holds 1 %. South Africa-based KSB Pumps (S.A.) (Pty) Ltd, Germiston (Johannesburg), is the sole shareholder of KSB PUMPS AND VALVES (NAMIBIA) (PROPRIETARY) LIMITED. For reasons of materiality the two newly established company will not be 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.

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 remaining after reassessment 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 are included under Notes No. 11 "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 2020 was the translation of the financial statements of KSB Compañía Sudamericana de Bombas S.A., Carapachay (Buenos Aires), Argentina, where income statement items were translated at the closing rate, as in the previous year. 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 Countries. 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. 2020	31 Dec. 2019	2020	2019
US dollar	1.2271	1.1234	1.1422	1.1195
Brazilian real	6.3735	4.5157	5.8943	4.4126
Indian rupee	89.6605	80.1870	84.6392	78.8269
Chinese yuan	8.0225	7.8205	7.8747	7.7348

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. There were no reclassifications carried out in the year under review.

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.

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

Intangible assets

Intangible assets are measured 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), which at KSB are generally the legal entities. Occasionally a group of cash-generating units may also serve as the basis, provided these units reflect the lowest level on which goodwill is monitored. 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 remeasurements 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 balance sheet 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. Any impairment of contract assets is recognised using the simplified impairment model. 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 rates of trade receivables are also applied to the impairment of contract assets.

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 to be applied 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 historic payment profiles of

sales revenues over the last three financial years before the reporting date. The historic 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 the income statement as pension costs in the staff costs. 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. KSB generates most of the sales revenue in the Pumps Segment. The breadth of these orders 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 cost escalation clauses, renegotiations or penalties. Sales revenue is accounted for based on the amount fixed in the contract less expected consideration. Variable considerations (cost escalation clauses, 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. Any impairment of contract assets is recognised using the simplified impairment model. 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 rates of trade receivables are also applied to the impairment of contract assets.

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 latter 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, especially 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 remains unchanged over the previous year 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 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 of 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.

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.

Consideration of the impact of the coronavirus pandemic on the items of the balance sheet and income statement in the reporting year as well as material discretionary decisions and estimation uncertainties in this context

The business and economic environment for the Group was adversely affected by the COVID-19 pandemic in the reporting year. The general ability of the Group to fulfil its obligations to suppliers, customers and other contractual partners was not restricted, nor was the ability to procure goods and services required for operations.

Nevertheless, there was a significant negative impact on the key financial performance indicators of order intake, sales revenue and earnings before finance income / expense and tax (EBIT) in the reporting year. The values of these key figures forecast for the following financial year 2021 have also been negatively affected by the coronavirus pandemic. At the time of preparing these consolidated financial statements, KSB generally assumes that the material impact of the coronavirus pandemic on the Group's net assets, financial position and results of operations will not be of long-term duration. For the fourth quarter of 2021, the earnings contribution is expected to return to a level comparable to the corresponding period of the 2019 financial year before the outbreak of the coronavirus pandemic. As a result, the Group is forecasting that order intake, sales revenue and EBIT for the full year will exceed the figures for 2019 for the first time in the 2022 financial year.

The expectations KSB has described above for future business development are based, among other things, on the forecasts of the International Monetary Fund, which are founded on the assumption of rapid progress in the vaccination campaigns and the containment of the coronavirus to a low level in all countries. Nevertheless, these assessments are marked by great uncertainty about the further global spread of the virus. Overall, the possible future effects of the coronavirus pandemic on the Group in terms of duration and impact can only be predicted to a limited extent and can only be assessed at this point in time using the best available knowledge.

In the consolidated financial statements as at 31 December 2020, KSB has taken into account the economic consequences of the coronavirus pandemic that have occurred and that are expected to occur in the future in the recognition and measurement of items in the balance sheet and the income statement on the basis of the best knowledge and expectations available at the time of preparation. This included an analysis of the potential accounting risks from the coronavirus pandemic for KSB as well as a derivation of estimates and assumptions for accounting purposes. As explained above, these estimates and assumptions are particularly subject to uncertainties resulting from the

future global development of the coronavirus pandemic, so that the actual values in subsequent financial years may differ.

The specific considerations on accounting for the possible risks from the coronavirus pandemic and the associated discretionary decisions and estimation uncertainties in the reporting year essentially covered the issues described below.

Under the impact of the economic effects of the coronavirus pandemic on the Group, impairment losses of € 11,155 thousand were recognised as at 30 September 2020 within the scope of goodwill impairment testing. In addition, an impairment test was carried out for the Group's assets within the scope of IAS 36 as at 31 December 2020. For further details, see Notes No. 1. "Intangible assets" and Notes No. 3. "Property, plant and equipment". The expected impact of the coronavirus pandemic has been taken into account, based on the best possible estimate by Management, in the multi-year financial plans used in impairment testing to determine the recoverable amounts of the cash-generating units. A different, unforeseeable development of the coronavirus pandemic could result in an additional impairment requirement in the future or to a reversal of impairment losses on the property, plant and equipment concerned.

Deferred tax assets were tested for impairment as at 31 December 2020 on the basis of expected future taxable income. The impairment losses on deferred tax assets totalling € 81,097 thousand recognised in the year under review relate to the tax group of KSB SE & Co. KGaA. The impairments result from the history of losses since the 2020 financial year. The economic impact of the coronavirus pandemic in 2020 as well as in 2021 will further postpone the return to positive fiscal results. Further explanations are provided under Notes No. 20 "Taxes on income". In this context, too, a development of the coronavirus pandemic that differs from current expectations may influence the impairments and reversals of impairments to be recognised on deferred tax assets as a result.

The potential risk posed by the pandemic-related decrease in market prices for products sold by KSB was addressed within the scope of impairment testing for inventories by writing down inventories to net realisable value and by recognising provisions for expected losses on customer contracts, where necessary. Future market and price developments may be influenced by the further course of the coronavirus pandemic and may possibly lead to lower net realisable values and thus to higher impairment losses on inventories.

For the measurement of inventories, it was also ensured that the production costs do not include any significant overheads from unused production capacities.

The specific write-downs on contract assets and trade receivables as at the reporting date also take into account, among other things, risks identifiable from the Group's perspective that have arisen due to a decline in the creditworthiness of KSB's contractual partners as a result of the coronavirus pandemic. The expected impact of the coronavirus pandemic on the solvency of contractual partners is also taken into account in the risk provision for expected credit losses recognised as at the reporting date by including future-oriented macroeconomic factors in the measurement. With regard to the items in the income statement, the considerable decline in sales revenue to € 2,207,881 thousand in the reporting year (previous year: € 2,383,185 thousand) is mainly a consequence of the negative economic impact of the coronavirus pandemic. In line with the decline in the Group's total output of operations, the cost of materials also fell significantly to € 899,579 thousand (previous year: € 984,787 thousand).

In addition, the cost-cutting measures introduced at the beginning of the coronavirus pandemic resulted in particular in a reduction of expenses for external consultancy and other services. Together with the significant decrease in travel expenses in the wake of the coronavirus pandemic, this is reflected in a decline in other expenses to € 353,014 thousand (previous year: € 386,100 thousand) in the year under review.

In the following explanations of the present Notes to the Consolidated Financial Statements, the effects described here in connection with the coronavirus pandemic are not explained again for the individual items of the income statement.

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Historical cost										
Balance at 1 January	72,533	69,209	70,200	105,571	40,155	30,745	2,908	773	185,796	206,298
Changes in consolidated Group	–	2	–	–	–	–	–	–	–	2
Currency translation adjustments	–2,008	74	–2,429	–283	–	–	1	–	–4,436	–209
Other	–304	158	–	–	–	–	–	–	–304	158
Additions	2,094	2,844	–	–	65	9,585	2,078	2,735	4,237	15,164
Disposals	–690	–499	–35,522	–33,713	–1	–	–8	–	–36,221	–34,212
Reclassifications	1,004	774	–	1	–	–175	–1,004	–600	–	–
Reclassification to assets held for sale	–	–29	–	–1,376	–	–	–	–	–	–1,405
Balance at 31 December	72,629	72,533	32,249	70,200	40,219	40,155	3,975	2,908	149,072	185,796
Accumulated depreciation and amortisation										
Balance at 1 January	60,814	56,944	27,127	61,191	727	563	–	–	88,668	118,698
Currency translation adjustments	–1,716	37	–1,464	–353	–	1	–	–	–3,180	–315
Other	–255	41	–	–	–	–	–	–	–255	41
Additions	4,576	4,309	11,155	–	3,693	163	–	–	19,424	4,472
Disposals	–327	–488	–35,193	–33,711	–	–	–	–	–35,520	–34,199
Reclassifications	–	–	–	–	–	–	–	–	–	–
Reclassification to assets held for sale	–	–29	–	–	–	–	–	–	–	–29
Balance at 31 December	63,092	60,814	1,625	27,127	4,420	727	–	–	69,137	88,668
Carrying amount at 31 December	9,537	11,719	30,624	43,073	35,799	39,428	3,975	2,908	79,935	97,128

The additions to intangible assets amounting to € 4.2 million (previous year: € 15.2 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 € 8.1 million (previous year: € 10.0 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 € 35,799 thousand (previous year: € 39,428 thousand). These are primarily attributable to the KSBbase sales software.

In the reporting year, impairment losses on intangible assets amounting to € 11,155 thousand (previous year: none) were recognised, all of which related to goodwill. The impairment losses were recognised in the income statement under depreciation and amortisation expense. Further details are provided in the following explanations on impairment testing under IAS 36.

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

Further information on the reclassification from intangible assets to held-for-sale assets in the year under review is provided in Notes No. 10 .“Assets held for sale and liabilities in connection with assets held for sale”.

Impairment testing under IAS 36

When assessing the indicators for a possible impairment of assets as at 31 December 2020, it was found that the carrying amount of the Group’s net assets exceeds market capitalisation. As a result, in addition to impairment testing for goodwill, the Group’s other intangible assets, right-of-use assets and property, plant and equipment were tested for impairment under IAS 36 as at 31 December 2020. From the Group’s perspective, this additional impairment testing also served to identify possible impairments on assets in connection with the adverse economic consequences of the coronavirus pandemic.

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 sub-section “Intangible assets”.

In accordance with the explanations above, impairment testing was carried out again for goodwill as at 31 December 2020 in the same way as at 30 September. For the year-end review, the underlying assumptions and parameters were taken into account on the basis of updated findings. There were no material changes to these assumptions and parameters and no additional impairment requirement for goodwill compared with the analysis as at 30 September 2020. Accordingly, the following information on the basic assumptions and parameters for the impairment testing of goodwill is limited to the consideration as at 30 September 2020. Similarly, the impairments shown represent the result of the calculations at this reporting date during the year.

Composition of goodwill

The carrying amounts of goodwill are allocated to the Group's cash-generating units as follows as at the reporting date:

Goodwill

Name of CGU / € thousands	31 Dec. 2020	31 Dec. 2019
DP industries B.V., the Netherlands	18,285	18,285
Dynamik-Pumpen GmbH, Germany	2,450	3,150
KSB Dubric, Inc., USA	2,244	2,451
Uder Elektromechanik GmbH, Germany	–	2,980
KSB Finland Oy, Finland	–	2,603
KSB Pumps (S.A.) (Pty) Ltd., South Africa	–	1,886
	22,979	31,355
Other 10 (previous year: 15) companies	7,645	11,718
Total	30,624	43,073

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. changes in the business model of either the company, 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 0.0 % in the year under review (previous year: 0.1 %). The market risk premium was set at 7.2 % (previous year: 6.75 %), with a beta factor of 1.16 (previous year: 1.04). 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 companies in the year under review 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.

For the goodwill of DP industries B.V., Alphen aan de Rijn, the Netherlands, which the Group considers to be material, impairment testing was based on the information contained in the following tables. The basic assumptions listed were not affected materially by the coronavirus pandemic in the reporting year.

→ [Detailed information on material goodwill items \(30 September 2020\)](#)

→ [Basic assumptions for goodwill considered material \(30 September 2020\)](#)

Detailed information on material goodwill items (30 September 2020)

Name of CGU	Method	Carrying amount of goodwill (€ thousands)	Percentage of total goodwill	Discount rate	Growth rate	Underlying assumptions, corporate planning	Method for assessing the value of the underlying assumption
DP industries B.V., The Netherlands	Value in use	18,285	60 %	10.8 % before tax / 8.3 % after tax	0.5 %	Low to significant market growth rates	Consideration of macro-economic key data and internal estimates of the relevant purchasing and sales departments

Basic assumptions for goodwill considered material (30 September 2020)

Name of CGU	Order intake	Sales revenue	EBIT	Planning time horizon
DP industries B.V., The Netherlands	Constant growth, on average	Constant growth, on average	Constant growth, on average, as a result of sales revenue and cost planning	5 years

Impairment loss on goodwill

The impairment losses on goodwill recognised in the year under review are shown in the “Impairment loss on goodwill in the 2020 financial year” table. Impairment testing for goodwill in the previous year did not result in any impairment requirement.

→ [Impairment loss on goodwill in the 2020 financial year](#)

Sensitivity analyses

For the cash-generating unit in the form of DP industries B.V., Alphen aan de Rijn, The Netherlands, with goodwill considered material from the Group’s perspective, sensitivity analyses were

performed in addition to the impairment test, based on the parameters as at 30 September 2020. 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 year under review.

Impairment loss on goodwill in the 2020 financial year

Name of CGU	Segment	Discount rate (before taxes)	Discount rate (after taxes)	Recoverable amount in € thousands	Impairment loss in € thousands
Total 31 Dec. 2020					
Uder Elektromechanik GmbH, Germany	Service	11.3 %	8.2 %	2,139	2,980
KSB Finland Oy, Finland	Pumps	11.4 %	9.1 %	7,824	2,603
KSB Pumps (S.A.) (Pty) Ltd., South Africa	Pumps	16.9 %	12.6 %	21,075	1,510
KSB Italia S.p.A., Italy	Service	16.4 %	12.1 %	27,654	1,353
KSB Norge AS, Norway	Service	11.0 %	8.3 %	1,182	895
KSB Seil Co., Ltd., South Korea	Valves	11.5 %	9.2 %	10,274	708
Dynamik-Pumpen GmbH, Germany	Service	11.3 %	8.2 %	4,373	700
KSB MIL Controls Limited, India	Valves	16.0 %	12.1 %	10,699	406
					11,155

The goodwill affected by impairment in the year under review, with the exception of the goodwill attributable to the cash-generating unit Dynamik-Pumpen GmbH (Germany), is fully amortised as at 31 December 2020. In the 2019 financial year, no need for impairment relating to goodwill was identified.

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 as at 31 December 2020.

In doing so, a comparison of the recoverable amount in the form of the value in use with the carrying amount on the reporting date was carried out at the level of individual cash-generating units. The value in use was determined similarly to the discounted cash flow method for the impairment test of goodwill. The underlying discount rates were determined for the reporting date 31 December 2020.

If the impairment test at the level of a cash-generating unit as at the reporting date showed a lower value in use compared with the carrying amount, more extensive impairment testing was generally carried out at the individual level of the material intangible assets, right-of-use assets and property, plant and equipment of the cash-generating unit concerned. For this purpose, the fair value less costs to sell was determined for the assets concerned using appropriate estimation procedures and compared with the carrying amount as at the reporting date.

The excess of the carrying amounts of individual assets over the fair value less costs to sell led to the recognition of impairment losses on individual assets of property, plant and equipment in the year under review. Further details are described in Notes No. 3 “Property, plant and equipment”.

For the other intangible assets (with the exception of goodwill) and for the right-of-use assets for leases, there was no impairment requirement either from impairment testing as at 31 December 2020 or previously in the course of the year under review.

2. Right-of-use assets

€ thousands	31 Dec. 2020	31 Dec. 2019
Right-of-use assets	41,641	50,096
of which land and buildings	26,915	34,210
of which technical equipment and machinery	963	1,139
of which other equipment, operating and office equipment	13,763	14,747

Additions to right-of-use assets in the reporting year amounted to € 12,916 thousand (previous year: € 12,956).

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

€ thousands	2020	2019
Depreciation on right-of-use assets	17,417	15,893
of which land and buildings	9,079	8,807
of which technical equipment and machinery	516	604
of which other equipment, operating and office equipment	7,822	6,482

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Historical cost										
Balance at 1 January	435,055	415,731	612,334	594,186	239,915	226,292	34,729	25,125	1,322,033	1,261,334
Changes in consolidated Group	–	–	–	–	–	325	–	–	–	325
Currency translation adjustments	–16,096	1,394	–22,360	874	–9,805	304	–2,642	607	–50,903	3,179
Other	–2,422	823	–2,665	–	–565	486	–16	–	–5,668	1,309
Additions	14,031	10,130	17,023	19,794	19,439	19,615	29,944	29,322	80,437	78,861
Disposals	–1,037	–3,983	–7,806	–6,913	–14,793	–9,183	–318	–52	–23,954	–20,131
Reclassifications	8,471	10,960	7,239	6,948	3,641	2,365	–19,351	–20,273	–	–
Reclassification to assets held for sale	–	–	–	–2,555	–	–289	–	–	–	–2,844
Balance at 31 December	438,002	435,055	603,765	612,334	237,832	239,915	42,346	34,729	1,321,945	1,322,033
Accumulated depreciation and amortisation										
Balance at 1 January	199,489	188,454	439,115	416,445	172,148	161,240	–	–	810,752	766,139
Currency translation adjustments	–4,582	516	–14,573	680	–6,957	254	–	–	–26,112	1,450
Other	–1,380	514	–2,215	–62	–460	568	–	–	–4,055	1,020
Additions	12,528	11,484	31,006	31,343	19,531	18,659	–	–	63,065	61,486
Disposals	–846	–2,181	–7,341	–6,454	–14,198	–8,579	–	–	–22,385	–17,214
Reclassifications	–	702	–	–862	–	160	–	–	–	–
Reclassification to assets held for sale	–	–	–	–1,975	–	–154	–	–	–	–2,129
Balance at 31 December	205,209	199,489	445,992	439,115	170,064	172,148	–	–	821,265	810,752
Carrying amount at 31 December	232,793	235,566	157,773	173,219	67,768	67,767	42,346	34,729	500,680	511,281

Impairment testing for assets within the scope of IAS 36 as at 31 December 2020 explained under Notes No. 1 “Intangible assets” resulted in impairment losses on a large number of individual items of property, plant and equipment totalling € 4,323 thousand in the reporting year. 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 Pumps Segment was affected by the impairments in the amount of € 2,019 thousand, the

Valves Segment in the amount of € 1,299 thousand and the Service Segment in the amount of € 1,005 thousand. The impairment losses are recognised in the income statement under depreciation and amortisation.

The fair value less costs to sell of the assets concerned, on which the devaluation was based as at 31 December 2020, was determined in the form of the replacement cost of an equivalent modern asset. In addition to an indexation of historical acquisition costs using adequate price indices, this included in particular estimates of technical impairments due to disadvantages

compared with comparable modern technologies as well as estimates regarding depreciation due to the age and use of the assets. As a result of the significant non-observable input factors, the fair value determined as current replacement cost is to be classified in level 3 of the fair value hierarchy in accordance with IFRS 13.

Further descriptions of the assets impaired in the year under review and additional disclosures on the fair value less costs to sell are not provided due to the immateriality of the individual cases for the Group.

No other significant impairments on property, plant and equipment were recognised in the year under review. The impairment losses on property, plant and equipment of € 512 thousand recognised under depreciation and amortisation in the previous year related entirely to a foundry belonging to the Pumps Segment.

Disposals of intangible assets and items of property, plant and equipment resulted in book gains of € 653 thousand (previous year: € 3,190 thousand) and book losses of € 1,533 thousand (previous year: € 453 thousand). The book gains and losses are reported in the income statement under other income and other expenses.

Further information on the reclassification from property, plant and equipment to held-for-sale assets in the previous year is provided in Notes No. 10 “Assets held for sale and liabilities in connection with assets held for sale”.

4. Financial assets

€ thousands	31 Dec. 2020	31 Dec. 2019
Loans	2,190	1,265
Financial instruments	77	697
	2,267	1,962

Of the loans, € 1,783 thousand (previous year: € 778 thousand) are accounted for by loans to equity investments.

5. Other non-financial assets

€ thousands	31 Dec. 2020	31 Dec. 2019
Other investments	3,302	2,840
	3,302	2,840

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 / amortisation applied in the year under review.

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

€ thousands	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
	2020	2019	2020	2019
Non-current assets	9,339	10,718	74,887	81,209
Current assets	29,360	38,101	122,760	125,483
of which cash and cash equivalents	1,958	3,115	24,887	28,718
Non-current liabilities	-1,693	-2,981	-3,989	-21,733
of which non-current financial liabilities (excluding trade payables and provisions)	-	-1,189	-3,989	-12,787
Current liabilities	-25,021	-27,889	-162,103	-154,337
of which current financial liabilities (excluding trade payables and provisions)	-6,978	-7,172	-11,786	-19,321
Net assets	11,985	17,949	31,555	30,622

Summarised statement of comprehensive income

€ thousands	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
	2020	2019	2020	2019
Sales revenue	28,015	33,572	76,103	61,934
Depreciation / amortisation	915	989	4,716	4,323
Interest income	-	-	130	70
Interest expense	-356	-397	-964	-2,149
Earnings from continuing operations	-4,740	-755	1,737	1,032
Taxes on income	-	-	-	-
Earnings after taxes from continuing operations	-4,740	-755	1,737	1,032
Earnings after taxes from discontinued operations	-	-	-	-
Other comprehensive income	-1,224	413	-803	194
Comprehensive income	-5,964	-342	934	1,226
Dividends received from joint ventures	-	-	-	-

Reconciliation to carrying amount of Group share in joint ventures

€ thousands	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
	2020	2019	2020	2019
Net carrying amount at 1 January	17,949	18,291	30,622	29,396
Earnings after income tax	-4,740	-755	1,737	1,032
Distribution of dividends	-	-	-	-
Other comprehensive income	-1,224	413	-803	194
Net carrying amount at 31 December	11,985	17,949	31,555	30,622
Investment in joint venture (50 % / 45 %)	5,993	8,975	14,200	13,780
Elimination of intercompany profit and loss	-	-	-5,338	-3,874
Goodwill	-	-	-	-
Carrying amount at 31 December	5,993	8,975	8,862	9,906

Summarised information on joint ventures and associates that are immaterial individually

€ thousands	Joint ventures	Associates	Total	Joint ventures	Associates	Total
	2020	2020	2020	2019	2019	2019
Group share of earnings from continuing operations	69	631	700	241	751	992
Group share of other comprehensive income	-340	-	-340	74	-	74
Group share of comprehensive income	-271	631	360	315	751	1,066
Total carrying amounts of						
Group shares in these companies	3,675	1,257	4,932	3,946	1,376	5,322

7. Inventories

€ thousands	31 Dec. 2020	31 Dec. 2019
Raw materials and production supplies	170,965	192,740
Work in progress	132,022	168,871
Finished goods and goods purchased and held for resale	176,692	165,221
Advance payments	17,815	17,871
	497,495	544,703

€ 51,134 thousand (previous year: € 88,827 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the reporting period amount to € 14,761 thousand (previous year: € 12,426 thousand). Due to new estimates, write-downs totalling € 2,837 thousand (previous year: € 649 thousand) were reversed where the current net realisable value was higher than the prior-period value. Inventories amounting to € 914,793 thousand (previous year: € 994,103 thousand) were recognised as an expense in the reporting period.

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

€ thousands	31 Dec. 2020	31 Dec. 2019
Contract assets	82,412	76,428
Trade receivables	444,174	504,101
Trade receivables from third parties	419,458	473,873
Trade receivables from other investments, associates and joint ventures	24,717	30,228
thereof from other investments	3,715	5,800
thereof from associates	317	460
thereof from joint ventures	20,684	23,968
Other financial assets	82,210	90,938
Receivables from loans to other investments, associates and joint ventures	710	348
Currency forwards	4,694	850
Other receivables and other current assets	76,806	89,740
Other non-financial assets	27,189	39,613
Other tax assets	18,360	31,237
Deferred income	8,829	8,376

At € 82,412 (previous year: € 76,428 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 € 524 thousand (previous year: € 204 thousand).

Impairment losses of € 35,110 thousand (previous year: € 35,000 thousand) were recognised on trade receivables from third parties as at the reporting date.

Impairment losses on trade receivables include the individual impairment allowance (EWB) and risk provisions for expected

credit losses (ECL). For contract assets, impairment losses include risk provisions for expected credit losses (ECL).

→ Reconciliation of impairment losses

Impairment losses on receivables from loans to other equity investments amounted to € 320 thousands, 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.

Reconciliation of impairment losses 2020

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

Reconciliation of impairment losses 2019

€ thousands	Trade receivables from third parties			Contract assets
	Total	EWB	ECL	ECL
Opening balance at 1 January	-33,943	-29,359	-4,584	-190
Additions	-9,493	-8,107	-1,386	-30
Utilised	1,561	1,561	-	-
Reversals	6,478	4,306	2,172	15
Currency translation / Other	396	371	26	1
Closing balance at 31 December	-35,000	-31,228	-3,772	-204

Risk provisions for expected credit losses of contract assets are determined as follows:

Risk provisions for expected credit losses of contract assets

		Not overdue	
		31 Dec. 2020	31 Dec. 2019
Expected default risk	in %	0.6	0.3
Gross contract assets	€ thousands	82,936	76,632
ECL	€ thousands	-524	-204

The expected default risk of trade receivables from third parties, calculated using the simplified impairment model, is spread across the age structure of the unhedged gross trade receivables, as shown in the “Risk provision for expected credit losses by maturity of trade receivables” table.

→ [Risk provision for expected credit losses by maturity of trade receivables](#)

Furthermore, the balance of risk provisions for expected credit losses on trade receivables from third parties includes an amount of € 617 thousand (previous year: € 407 thousand) which relates to hedged receivables.

Risk provision for expected credit losses by maturity of trade receivables

31 Dec. 2020		Not overdue	Up to 30 days	Up to 90 days	Up to 180 days	Up to 360 days	Over 360 days	Total
Gross trade receivables from third parties excluding hedged receivables								
€ 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	in %	0.3	1.0	1.5	1.6	2.4	2.1	-
31 Dec. 2019								
Gross trade receivables from third parties excluding hedged receivables								
€ thousands		336,985	38,129	25,232	14,430	16,913	33,898	465,587
ECL	€ thousands	-682	-504	-462	-307	-437	-973	-3,365
Expected default risk in relation to								
ECL	in %	0.2	1.3	1.8	2.1	2.6	2.9	-

In the case of trade receivables with high overdue amounts, the risk provision for expected credit losses (ECL) in the year under review 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 € 13,825 thousand (previous year: € 19,600 thousand).

€ 34,495 thousand (previous year: € 29,242 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. Assets held for sale and liabilities in connection with assets held for sale

Assets held for sale

€ thousands	31 Dec. 2020	31 Dec. 2019
Non-current assets	–	3,455
Intangible assets	–	1,376
Right-of-use assets	–	1,208
Property, plant and equipment	–	715
Non-current financial assets	–	41
Deferred tax assets	–	115
Current assets	–	4,298
Inventories	–	1,036
Trade receivables	–	2,375
Other financial assets	–	597
Other non-financial assets	–	97
Cash and cash equivalents	–	193
Total	–	7,753

Liabilities in connection with assets held for sale

€ thousands	31 Dec. 2020	31 Dec. 2019
Non-current liabilities	–	1,361
Provisions for employee benefits	–	398
Financial liabilities	–	963
Current liabilities	–	2,606
Other provisions	–	7
Financial liabilities	–	252
Contract liabilities	–	35
Trade payables	–	1,030
Other financial liabilities	–	6
Other non-financial liabilities	–	1,237
Income tax liabilities	–	39
Total	–	3,967

As far as the assets and liabilities of subsidiary SPI Energie S.A.S., La Ravoire, France, from the Service Segment were concerned, KSB as at the reporting date of the previous year expected a highly likely disposal as defined by IFRS 5 through the sale of shares. Accordingly, the assets and liabilities of this subsidiary were treated as a disposal group held for sale in the previous year and reported in separate balance sheet items.

The sale of the assets and liabilities was completed in the context of a sale of shares in January 2020, as explained in more detail in Section II. “Consolidation Principles” in the “Changes in the consolidated Group” sub-section.

11. 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 € 51,113 thousand (previous year: € 96,957 thousand) and deferred tax liabilities in the amount of € 505 thousand (previous year: € 8 thousand).

In the course of the sale of subsidiaries in the year under review, the remeasurements of defined benefit pension plans attributable to them in the total amount of € 828,000 were reclassified within revenue reserves to the other revenue reserves. The reclassification is included in the statement of changes in equity under "Other".

The accumulated currency translation differences included in the non-controlling interests of other shareholders changed in the year under review by € -16,058 thousand (previous year: change of € 1,318 thousand) to a value of € -34,233 thousand

(previous year: € -18,175 thousand) as at the reporting date. The total amount of currency translation differences recognised in equity as at the reporting date is € -176,362 thousand (previous year: € -113,940 thousand).

A total of € 15,111 thousand (dividend of € 8.50 per ordinary share and € 8.76 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 / Pfalz, on 13 May 2020.

The proposal on the appropriation of the net retained earnings of KSB SE & Co. KGaA for the year under review 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.

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	
		2020 / 2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020
€ thousands					
PAB, Germany / USA (subgroup)	49.00 %	4,121	5,604	85,334	89,340
KSB Limited, India	59.46 %	7,061	7,435	58,801	60,284
KSB Shanghai Pump Co., Ltd., China	20.00 %	1,585	626	11,236	10,913
Subsidiaries with individually immaterial non-controlling interests		1,248	1,750	20,557	21,673
Total amount of non-controlling interests		14,015	15,415	175,928	182,210

Composition of the PAB subgroup as at 31 December 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 2020 is summarised under the name “PAB”.

→ [Composition of the PAB subgroup as at 31 December 2020](#)

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

€ thousands / 31 Dec.	PAB		KSB Limited		KSB Shanghai Pump Co., Ltd.	
	2020	2019	2020	2019	2020	2019
Non-current assets	84,872	85,024	45,465	49,374	27,019	28,485
Current assets	142,099	154,508	127,489	128,272	135,705	125,965
Non-current liabilities	-15,884	-17,764	-2,924	-2,794	-226	-768
Current liabilities	-36,935	-39,442	-71,138	-73,466	-106,318	-99,116
Net assets	174,152	182,326	98,892	101,386	56,180	54,566

Summarised statement of comprehensive income

€ thousands	PAB		KSB Limited		KSB Shanghai Pump Co., Ltd.	
	2020	2019	2020	2019	2020	2019
Sales revenue	216,548	243,635	141,838	163,138	152,632	168,006
Earnings after income tax	8,410	11,436	12,262	12,820	7,926	3,132
Other comprehensive income	-16,585	3,706	-11,466	-1,480	-2,375	322
Comprehensive income	-8,175	15,142	796	11,340	5,551	3,454
Other comprehensive income attributable to non-controlling interests	-8,127	1,816	-6,818	-880	-475	64
Comprehensive income attributable to non-controlling interests	-4,006	7,420	243	6,555	1,110	691
Dividends paid to non-controlling interests	-	-	-1,956	-1,575	-787	-

Summarised cash flow statement

€ thousands	PAB		KSB Limited		KSB Shanghai Pump Co., Ltd.	
	2020	2019	2020	2019	2020	2019
Cash flows from operating activities	30,552	20,264	20,112	24,398	11,822	6,896
Cash flows from investing activities	-21,520	-19,995	-36,039	-4,660	-689	10,740
Cash flows from financing activities	-1,533	-1,270	-3,739	-163	-3,274	1,340
Changes in cash and cash equivalents	7,499	-1,001	-19,666	19,575	7,859	18,976
Cash and cash equivalents at beginning of period	6,544	7,400	31,664	12,493	31,622	12,730
Effects of exchange rate changes	-1,069	145	-2,243	-404	-1,071	-84
Cash and cash equivalents at end of period	12,974	6,544	9,755	31,664	38,410	31,622

12. Provisions

Composition of provisions

€ thousands	31 Dec. 2020			31 Dec. 2019		
	Total	Non-current	Current	Total	Non-current	Current
Employee benefits	695,025	684,858	10,168	658,529	646,340	12,190
Pensions and similar obligations	670,239	670,239	–	629,617	629,617	–
Other employee benefits	24,786	14,618	10,168	28,912	16,722	12,190
Other provisions	82,691	3,017	79,674	69,742	1,366	68,376
Warranty obligations and contractual penalties	48,733	–	48,733	44,304	–	44,304
Provisions for restructuring	52	–	52	410	–	410
Miscellaneous other provisions	33,906	3,017	30,889	25,028	1,366	23,662
	777,716	687,875	89,841	728,271	647,706	80,565

Development of individual provision categories

€ thousands	1 Jan. 2020	Changes in consolidated Group/ CTA**/		Utilisation / Prepayments	Reversal	Additions	31 Dec. 2020
		Other					
Employee benefits	658,529	–4,060		–28,807	–806	70,170	695,025
Pensions and similar obligations	629,617	–3,682		–16,938	–739	61,980	670,239
Other employee benefits	28,912	–378		–11,870	–67	8,190	24,786
Other provisions	69,742	–3,181		–28,876	–4,725	49,730	82,691
Warranty obligations and contractual penalties	44,304	–1,025		–20,593	–1,611	27,658	48,733
Provisions for restructuring	410	–8		–12	–347	9	52
Miscellaneous other provisions	25,028	–2,147		–8,270	–2,767	22,063	33,906
	728,271	–7,241		–57,683	–5,531	119,900	777,716

* 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 year under review amounted to € 39,966 thousand (previous year: € 41,138 thousand). Of this figure, € 27,859 thousand (previous year: € 27,655 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 pension 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 en-

titled 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 point of view, 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

	Defined benefit obligations (DBOs)	Fair value of plan assets	Net liability from defined benefit plans	Defined benefit obligations (DBOs)	Fair value of plan assets	Net liability from defined benefit plans
€ thousands	31 Dec. 2020	31 Dec. 2020	31 Dec. 2020	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019
Germany	638,984	–	638,984	599,720	–	599,720
France	16,637	4,380	12,257	18,150	5,373	12,777
USA	13,651	11,500	2,151	14,278	13,237	1,041
Switzerland	13,955	12,204	1,751	13,890	12,364	1,526
Other countries	41,515	26,419	15,096	41,462	26,909	14,553
	724,742	54,503	670,239	687,500	57,883	629,617

Change in present value of defined benefit obligations

€ thousands	2020	2019
Opening balance of the defined benefit obligation (DBO) – 1 Jan.	687,500	611,183
Current service cost	12,414	12,236
Interest cost	8,113	11,735
Employee contributions	196	265
Remeasurements		
– / + Gain / loss from the change in demographic assumptions	14	490
– / + Gain / loss from the change in financial assumptions	39,827	75,323
– / + Experience-based gain / loss	3,014	–1,024
Benefit payments	–20,321	–20,357
Past service cost (incl. effects of settlements and curtailments)	–56	–20
Transfer of assets	–	14
Currency translation differences	–3,283	1,642
Changes in consolidated Group / Other	–2,676	–3,987
Closing balance of the defined benefit obligation (DBO) – 31 Dec.	724,742	687,500

Changes in the fair value of the plan assets

€ thousands	2020	2019
Opening balance of the plan assets measured at fair value – 1 Jan.	57,883	57,610
Interest income	1,442	1,711
Remeasurements		
+ / – Gain / loss from plan assets excluding amounts already recognised in interest income	–685	4,310
Contributions by the employer	1,544	1,638
Contributions by the beneficiary employees	196	191
Currency translation differences	–2,902	1,111
Paid benefits	–3,275	–3,788
Changes in consolidated Group / Other	300	–4,900
Closing balance of the plan assets measured at fair value – 31 Dec.	54,503	57,883

Changes to the net liability of the defined benefit obligations

€ thousands	2020	2019
Opening balance of the net liability from defined benefit plans – 1 Jan.	629,617	553,573
Current service cost	12,414	12,236
Net interest expense	6,671	10,024
Employee contributions	–	74
Contributions by the employer	–1,544	–1,638
Remeasurements		
– / + Gain / loss from plan assets excluding amounts already recognised in interest income	685	–4,310
– / + Gain / loss from the change in demographic assumptions	14	490
– / + Gain / loss from the change in financial assumptions	39,827	75,323
– / + Experience-based gain / loss	3,014	–1,024
Benefit payments	–17,046	–16,569
Past service cost (incl. effects of settlements and curtailments)	–56	–20
Transfer of assets	–	14
Currency translation differences	–381	531
Changes in consolidated Group / Other	–2,976	913
Closing balance of the net liability from defined benefit plans – 31 Dec.	670,239	629,617

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.

→ [Composition of plan assets](#)

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 € 757 thousand (previous year: € 6,266 thousand).

In the following year, employer contributions to plan assets are expected to be at the level seen in the 2020 financial year. The amounts in 2020 came to € 1,544 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 € 99,673 thousand (previous year: € 84,718 thousand). A 100 basis point reduction in the discount factor would increase the DBO by € 159,405 thousand (previous year: € 143,166 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 € 25,114 thousand (previous year: € 20,554 thousand). Additionally, the individual actuarial assumptions are mutually dependent, but these interdependencies are not taken into account in the sensitivity analysis.

On 31 December 2020 the weighted average term of the DBO was 18 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. 2020	31 Dec. 2020	31 Dec. 2020	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019
Equity instruments (shares)	21,952	–	21,952	23,777	–	23,777
Debt instruments (loans)	16,417	–	16,417	19,822	–	19,822
Government bonds	9,534	–	9,534	5,031	–	5,031
Corporate bonds	6,883	–	6,883	14,791	–	14,791
Currency forwards	219	–	219	–	–	–
Money market investments	1,023	398	1,421	285	327	612
Real estate	3,325	179	3,504	3,785	–	3,785
Insurance contracts	–	7,020	7,020	–	7,175	7,175
Bank credit balances	1,738	–	1,738	1,484	–	1,484
Other investments	1,942	290	2,232	1,228	–	1,228
	46,616	7,887	54,503	50,381	7,502	57,883

Actuarial assumptions

in %	Discount rate		Assumed rate of salary increase*		Assumed rate of pension increase*	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
Germany	0.7	1.1	2.7	2.7	1.9	1.9
France	0.5	0.9	2.5	2.8	1.9	1.9
USA	2.2	3.0	–	–	–	–
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. 2020	2021	2022	2023	2024	2025
Expected payments	25,938	24,754	23,658	23,830	25,951
€ thousands at 31 Dec. 2019	2020	2021	2022	2023	2024
Expected payments	22,759	26,055	23,133	23,687	23,852

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 € 48,733 thousand (previous year: € 44,304 thousand) in the year under review.

Other provisions mainly contain provisions for expected losses of € 16,766 thousand (previous year: € 13,226 thousand), resulting in particular from project contracts with customers. Furthermore, provisions for litigation risks in the amount of € 1,253 thousand (previous year: € 1,771 thousand) are included in miscellaneous other provisions.

€ 19,262 thousand (previous year: € 16,134 thousand) of the other provisions are expected to become cash-effective after more than one year.

13. Liabilities

Non-current liabilities

€ thousands	31 Dec. 2020	31 Dec. 2019
Financial liabilities	50,624	56,750
Loan against borrower's note	21,992	21,988
Bank loans and overdrafts	3,985	2,410
Finance lease liabilities	24,336	32,036
Other	310	316

Current liabilities

€ thousands	31 Dec. 2020	31 Dec. 2019
Financial liabilities	32,033	44,318
Bank loans and overdrafts	17,578	28,698
Finance lease liabilities	14,446	15,015
Other	9	605
Contract liabilities	153,690	165,463
Trade payables	237,558	252,741
Trade payables to third parties	236,547	251,382
Liabilities to other investments, associates and joint ventures	1,011	1,359
Other financial liabilities	27,205	31,226
Currency forwards	2,623	3,336
Miscellaneous other financial liabilities	24,582	27,890
Other non-financial liabilities	136,045	161,528
Social security and liabilities to employees	103,045	126,117
Tax liabilities (excluding income tax)	23,399	23,760
Prepaid expenses	4,847	6,419
Investment grants and subsidies	4,754	5,232
Income tax liabilities	12,860	9,050
Liabilities in connection with assets held for sale	–	3,967

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.

The weighted average interest rate on bank loans and overdrafts as well as on an open-market credit (loan against borrower's note) was 4.55 % (previous year: 5.34 %).

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

Maturity analysis of liabilities from lease obligations

€ thousands	31 Dec. 2020	31 Dec. 2019
Due within 1 year	14,446	15,015
Due between 1 and 5 years	22,276	29,054
Due after more than 5 years	2,060	2,982
	38,782	47,051

The amount of contract liabilities at the end of the reporting year is € 153,690 thousand and is thus below the comparative prior-year value in the amount of € 165,463 thousand. This decrease is mainly attributable to a higher level of contract progress on the part of KSB in the 2020 financial year in relation to the associated advance payments received from customers. In the year under review, KSB reported sales revenue of € 82,106 thousand (previous year: € 78,828 thousand) which was contained in the balance of contract liabilities at the beginning of the year under review.

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 € 21,718 thousand (previous year: € 29,768 thousand) are used to secure liabilities and are subject to corresponding restrictions on disposal by KSB or pledges. Of this amount, € 13,825 thousand (previous year: € 19,600 thousand) is attributable to other receivables and other current assets to hedge credit balances for partial retirement arrangements and long-term working time accounts of the German Group companies. In addition, property, plant and equipment in the amount of € 3,187 thousand (previous year: € 3,416 thousand) and other assets in the amount of € 4,706 thousand (previous year: € 6,752 thousand) serve as security for liabilities.

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

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

The liabilities in connection with assets held for sale reported as at the prior-year reporting date were part of the disposal group explained under Notes No. 10 "Assets held for sale and liabilities in connection with assets held for sale".

V. INCOME STATEMENT DISCLOSURES

14. Sales revenue

Sales revenue by contract type

€ thousands	2020	2019
Revenue from the sale of goods and goods purchased and held for resale	1,965,199	2,109,370
Services sales revenue	242,682	273,815
Sales revenue	2,207,881	2,383,185

KSB generates income from the transfer of goods and services over time or at a point in time in the segments presented.

Spare parts used for repairs are also included in the Service Segment.

Unsatisfied performance obligations

€ thousands	31 Dec. 2020	31 Dec. 2019
Total transaction price of unsatisfied performance obligations as at the closing date (orders on hand)	1,288,539	1,409,339
of which expected sales revenue within the next 12 months	984,445	1,004,543
of which expected sales revenue in more than 12 months	304,094	404,796

Sales revenue by segment and timing of revenue recognition in 2020

€ thousands	Pumps Segment	Valves Segment	Service Segment	Total
Revenue from contracts with customers	1,467,957	335,454	404,470	2,207,881
Timing of revenue recognition				
At a point in time	1,221,646	313,603	–	1,535,249
Over time	246,311	21,851	404,470	672,632

Sales revenue by segment and timing of revenue recognition in 2019

€ thousands	Pumps Segment	Valves Segment	Service Segment	Total
Revenue from contracts with customers	1,562,462	364,365	456,358	2,383,185
Timing of revenue recognition				
At a point in time	1,328,011	337,870	–	1,665,881
Over time	234,451	26,495	456,358	717,304

15. Other income

€ thousands	2020	2019
Income from the reversal of impairment losses	5,997	6,533
Income from disposal of assets	653	3,190
Currency translation gains	–	740
Miscellaneous other income	24,999	22,950
	31,649	33,413

Other income includes income from government grants in the amount of € 5,110 thousand (previous year: € 4,177 thousand) and income from insurance compensations of € 4,975 thousand (previous year: € 2,745 thousand). In addition, profits from the sale of subsidiaries in the amount of € 3,060 thousand were recognised in this item in the year under review. Other income in the previous year included income from claims for damages in the amount of € 3,476 thousand.

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

16. Cost of materials

The cost of materials amounted to € 899,579 thousand (previous year: € 984,787 thousand) in the year under review. This item includes expenses for raw materials, consumables and supplies and for goods and services purchased.

17. Staff costs

€ thousands	2020	2019
Wages and salaries	649,947	685,412
Social security contributions and employee assistance costs	127,479	131,083
Pension costs	27,405	31,800
	804,831	848,295

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

The sale of subsidiaries in the reporting year described in Section II. “Consolidation Principles” in the “Changes in the consolidated Group” sub-section led to a reduction in the number of employees amounting to 178 persons on average for the year and 363 persons as at the reporting date. The average number of employees in the year under review includes the employees of the subsidiaries sold during the year on a pro rata basis corresponding to the length of time these companies belonged to the Group.

→ **Employees**

The decrease in staff costs compared with the previous year is due in particular to the reduction in the average number of employees year-on-year as well as to lower expenses from holiday and time credits as well as bonus entitlements.

Employees

	Average for the year		At reporting date	
	2020	2019	31 Dec. 2020	31 Dec. 2019
Wage earners	6,959	7,220	6,696	7,200
Salaried employees	8,389	8,371	8,380	8,445
	15,348	15,591	15,076	15,645

18. Other expenses

€ thousands	2020	2019
Repairs, maintenance, third-party services	118,179	129,012
Administrative expenses	73,008	97,793
Selling expenses	58,301	64,553
Other taxes*	13,244	13,902
Rents and leases	9,639	12,547
Other staff costs	28,155	26,905
Impairment losses on trade receivables and contract assets	9,025	9,493
Currency translation losses	5,316	210
Losses from current assets	808	1,979
Losses from asset disposals	1,533	453
Miscellaneous other expenses	35,806	29,252
	353,014	386,100

* Restated compared with presentation in the 2019 consolidated financial statements. The sum of the other expenses item has changed accordingly for the previous year.

Compared with the previous year's consolidated financial statements, the presentation was amended for the year under review and for the previous year, so that the other taxes item that was previously reported separately in the income statement was included in other expenses.

The expenses for rents and leases consist of expenses for leases with low-value underlying assets of € 2,201 thousand (previous year: € 2,347 thousand), expenses for short-term leases in the amount of € 4,595 thousand (previous year: € 7,591 thousand), expenses from variable lease payments of € 1,187 thousand (previous year: € 668 thousand) and expenses for rents and other leases in the amount of € 1,656 thousand (previous year: € 1,941 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 year under review.

19. Finance income / expense

Interest and similar expenses include the net interest expense for pension provisions amounting to € 6,671 thousand (previous year: € 10,024 thousand). In addition, the item also includes interest expense from the subsequent measurement of lease liabilities in the amount of € 1,056 thousand (previous year: € 1,556 thousand).

Finance income / expense

€ thousands	2020	2019
Finance income	5,374	5,741
Income from equity investments	–	–
thereof from other investments	–	–
Interest and similar income	5,310	5,638
thereof from other investments	96	8
thereof from investments accounted for using the equity method	371	814
Other finance income	65	103
Finance expense	–12,100	–17,098
Interest and similar expenses	–11,747	–16,802
thereof to other investments	–	–
Write-downs on other investments	–	–
Other finance expense	–353	–296
Income / expense from / to investments accounted for using the equity method	–1,850	1,186
Finance income / expense	–8,576	–10,171

20. Taxes on income

All income-related taxes of the consolidated companies and deferred taxes are reported in this item. Other taxes are reported in the income statement in other expenses.

Taxes on income

€ thousands	2020	2019
Effective taxes	39,921	37,478
Deferred taxes	17,295	7,454
	57,216	44,932

Effective taxes include tax refunds of € 439 thousand (previous year: € 289 thousand) and tax arrears of € 2,815 thousand (previous year: € 715 thousand).

Contingent liabilities from income tax issues amount to € 361 thousand (previous year: € 2,627 thousand). At present, there are no indications that any claims will be asserted under these obligations.

Reconciliation of deferred taxes

€ thousands	2020	2019
Change in deferred tax assets	67,741	-14,710
Change in deferred tax liabilities	-2,716	894
Change in deferred taxes recognised in balance sheet	65,025	-13,816
Change in deferred taxes taken directly to equity	-45,705	21,564
Changes in consolidated Group / CTA* / Other	-2,025	-294
Deferred taxes recognised in income statement	17,295	7,454

* Currency translation adjustments

→ Allocation of deferred taxes

As part of the impairment testing of deferred tax assets as at 31 December 2020, it was found that material deductible temporary differences previously recognised in the tax group of KSB SE & Co. KGaA, Frankenthal / Pfalz beyond taxable temporary differences were impaired. Against this background, deferred tax assets were reduced by € 81,097 thousand. Of this amount, € 25,224 thousand was reflected in deferred taxes via the income statement and € 55,873 thousand in other comprehensive income in equity.

Furthermore, as part of the impairment testing of deferred tax assets as at 31 December 2020, the need for a reversal of an impairment loss relating to KSB Shanghai Pump Co, Ltd, Shanghai (China) was identified. Reasons for this are the positive taxable earnings of the last three financial years and the expected continued profitable performance of the company. In total, deferred tax assets in the amount of € 4,702 thousand were recognised in the income statement in this context. € 4,279 thousand of the total amount resulted from the surplus amount of the deductible over the taxable temporary differences and € 423 thousand from existing tax loss carryforwards.

After taking into account the impairments and reversals of impairments in the year under review, deferred tax assets (after offsetting) of € 2,618 thousand (previous year: € 80,830 thousand) were recognised as at the reporting date, which arose from companies posting a loss in the year under review 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	2020	2019
Remeasurement of defined benefit plans *	-43,572	-70,479
Taxes on income	-43,546	21,389
Currency translation differences	-62,422	3,982
Taxes on income	-	-
Changes in the fair value of financial instruments	7,116	-575
Taxes on income	-2,159	175
Other comprehensive income	-144,583	-45,508

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

Allocation of deferred taxes

€ thousands	Deferred tax assets		Deferred tax liabilities	
	2020	2019	2020	2019
Non-current assets	4,104	3,882	43,001	49,408
Intangible assets	525	412	10,951	11,978
Right-of-use assets	–	–	7,281	10,460
Property, plant and equipment	3,578	3,470	24,668	26,964
Non-current financial assets	1	–	101	6
Current assets	29,948	40,408	21,913	20,801
Inventories	25,134	35,147	15	318
Receivables and other current assets	4,814	5,268	21,898	20,821
Assets held for sale	–	–7	–	–338
Non-current liabilities	59,311	112,271	63	68
Provisions	55,540	105,127	63	68
Other liabilities	3,771 *	7,144	–	–
Current liabilities	16,777	17,332	27,193	19,873
Provisions	7,152	7,219	355	1,182
Other liabilities	9,625 *	10,559	26,838	18,691
Liabilities related to assets held for sale	–	–446	–	–
Tax loss carryforwards	960	212	–	–
Gross deferred taxes – before offsetting	111,100	174,105	92,170	90,150
Offset under IAS 12.74	–83,740	–79,004	–83,740	–79,004
Net deferred taxes – after offsetting	27,360	95,101	8,430	11,146

* Deferred tax assets from non-current lease liabilities amount to € 3,772 thousand (previous year: € 7,124 thousand) and those from current lease liabilities to € 2,416 thousand (previous year: € 3,449 thousand). They are reported under deferred taxes for other liabilities (non-current and current).

Reconciliation of income tax

€ thousands	2020	2019
Earnings before income tax (EBT)	61,596	103,432
Calculated income tax on the basis of the applicable Group tax rate (30 % as in the previous year)	18,479	31,030
Differences in tax rates	–5,154	–4,829
Unused tax loss carryforwards	8,729	13,852
Impairment loss / reversal of impairment on deferred taxes on tax loss carryforwards	–423	950
Impairment loss on goodwill	2,624	–
Impairment loss / reversal of impairment on deferred taxes for temporary differences	20,945	–
Tax-exempt income	–2,739	–3,750
Non-deductible expenses	8,791	6,236
Prior-period taxes	2,376	1,761
Other tax credits	–289	–1,219
Non-deductible foreign income tax	2,944	2,746
Investments accounted for using the equity method	664	–228
Miscellaneous	269	–1,617
Current taxes on income	57,216	44,932
Current tax rate	93%	43%

The unchanged applicable tax rate of 30 % is a composite rate resulting from the current German corporation tax, solidarity surcharge and trade tax rates.

The introduction of new local taxes had minor effects (previous year: none) in the year under review. Changes in foreign tax rates led to a decrease in the total tax expense of € 302 thousand (previous year: increase of € 938 thousand).

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 € 71,011 thousand (previous year: € 83,098 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 € 160,584 thousand (previous year: € 147,818

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 € 2,052 thousand (previous year: € 2,791 thousand).

Deductible temporary differences for which no deferred tax assets had to be set up amounted to € 274,012 thousand (previous year: € 32,586 thousand).

21. Earnings after income tax – Non-controlling interests

The net profit attributable to non-controlling interests amounts to € 14,832 thousand (previous year: € 16,353 thousand) and the net loss attributable to non-controlling interests amounts to € 817 thousand (previous year: € 938 thousand). Further details on the non-controlling interests are provided in the Notes No. 11 “Equity”.

22. Earnings per share

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

Earnings per share

		2020	2019
Earnings after income tax – Attributable to KSB SE & Co. KGaA shareholders	€ thousands	-9,635	43,085
Additional dividend attributable to preference shareholders (€ 0.26 per preference share) (previous year: € 0.26 per preference share)	€ thousands	-225	-225
	€ thousands	-9,859	42,861
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	€	-5.63	24.47
Diluted and basic earnings per preference share	€	-5.37	24.73

VI. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

Financial instruments – Carrying amounts and fair values by measurement category:

Financial instruments by measurement category – Assets

Balance sheet item / Class € thousands	Measurement category	Carrying amount 31 Dec. 2020	Fair value 31 Dec. 2020	Carrying amount 31 Dec. 2019	Fair value 31 Dec. 2019
Non-current assets					
Non-current financial instruments	FVPL	77	77	697	697
Loans	Amortised cost	2,190	2,190	1,265	1,265
Current assets					
Trade receivables from third parties	Amortised cost	419,458	–	473,873	–
Trade receivables from other investments, associates and joint ventures	Amortised cost	24,717	–	30,228	–
Trade receivables from other investments, associates and joint ventures	Amortised cost	710	–	348	–
Currency forwards designated as hedges	n / a	4,211	4,211	850	850
Currency forwards not designated as hedges	FVPL	483	483	–	–
Other receivables and other current assets	Amortised cost	76,806	–	89,740	–
Cash and cash equivalents	Amortised cost	331,512	–	280,875	–

Financial instruments by measurement category – Equity and liabilities

Balance sheet item / Class € thousands	Measurement category	Carrying amount 31 Dec. 2020	Fair value 31 Dec. 2020	Carrying amount 31 Dec. 2019	Fair value 31 Dec. 2019
Non-current liabilities					
Financial liabilities excluding lease obligations	Amortised cost	26,287	30,404	24,714	26,510
Lease obligations	n / a	24,336	–	32,036	–
Current liabilities					
Financial liabilities excluding lease obligations	Amortised cost	17,587	–	29,303	–
Lease obligations	n / a	14,446	–	15,015	–
Trade payables	Amortised cost	237,558	–	252,741	–
Currency forwards designated as hedges	n / a	1,474	1,474	3,336	3,336
Currency forwards not designated as hedges	FVPL	1,149	1,149	–	–
Other financial liabilities	Amortised cost	24,582	–	27,890	–

Carrying amounts aggregated by category under IFRS 9

Balance sheet item / Class € thousands	Measurement category	31 Dec. 2020	31 Dec. 2019
Assets	Amortised cost	855,393	876,329
Equity and liabilities	Amortised cost	306,014	334,648
Assets	FVPL	560	697
Equity and Liabilities	FVPL	1,149	–

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

The fair values of non-current financial liabilities and loans are determined as the present value of level 2 cash flows associated with the liabilities and loans. KSB applies an appropriate yield curve to arrive at this present value.

The fair values of the current and non-current financial instruments presented in the table above are based on prices quoted in active markets (level 1). Fair values within level 2 are determined based on a discounted cash flow method. 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, and are discounted with an adequate interest rate. Level 3 includes financial instruments whose fair value is determined on the basis of inputs not based on observable market data. Foreign exchange derivatives are measured using forward exchange rates. For interest rate swaps the fair value is determined through discounting the future expected cash flows based on the market interest rates and yield curves that apply to the remaining term of the contracts.

The following table shows the financial assets and liabilities measured at fair value on a recurring basis, broken down into measurement categories and the previously described hierarchy levels. There were no reclassifications carried out during the year under review.

→ [Hierarchy levels](#)

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.

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

Hierarchy levels 2020

€ thousands	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Current financial instruments	77	–	–	77
Currency forwards	–	4,694	–	4,694
Financial liabilities recognised at fair value				
Currency forwards	–	2,623	–	2,623

Hierarchy levels 2019

€ thousands	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Current financial instruments	697	–	–	697
Currency forwards	–	850	–	850
Financial liabilities recognised at fair value				
Currency forwards	–	3,336	–	3,336

Net results by measurement category in 2020

€ thousands	From interest and dividends	From subsequent measurement			From disposal	Net results
		At fair value	Currency translation	Impairment losses		
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

Net results by measurement category in 2019

€ thousands	From interest and dividends	From subsequent measurement				Net results
		At fair value	Currency trans-lation	Impairment loss	From disposal	
Amortised cost (assets)	5,741	–	–286	–3,395	–	2,060
Amortised cost (equity and liabilities)	–6,819	–	–427	–	–	–7,246
FVPL (assets)	16	–	–	–	–	16
	–1,062	–	–713	–3,395	–	–5,170

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. As in the previous year, this applies to around 10 % of the Group's trade receivables in total. 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. 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. For selected companies KSB uses a cash pooling system to ensure that available cash is deployed optimally within the Group. A worldwide netting procedure is also applied within the KSB Group so as to minimise both the volume of cash flows and the associated fees. 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 € 1,258.3 million (previous year: approx. € 1,319.4 million), of which € 840.8 million (previous year: € 814.9 million) has not yet been utilised.

Cash loans and credit lines include 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 year under review, 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 year under review:

In € thousands / Type of line	Maximum amount of line	Utilisation as at 31 Dec. 2020
Loans	300,000	2,045
Sureties	350,000	105,536

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 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 – Incoming payments	–4,694	–4,047	–642	–5
Derivative financial instruments – Outgoing payments	2,623	2,355	268	–
	347,940	292,387	53,173	2,380

Cash flows of financial liabilities 2019

€ thousands	Total	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	106,589	47,318	55,875	3,396
of which from lease obligations	49,803	16,211	30,357	3,235
Trade payables	252,741	252,741	–	–
Miscellaneous other financial liabilities	27,890	25,343	2,547	–
Derivative financial instruments – Incoming payments	–849	–750	–99	–
Derivative financial instruments – Outgoing payments	3,335	3,081	254	–
	389,706	327,733	58,577	3,396

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.

KSB reduces the risks resulting from changes in prices on the procurement side for orders with extended delivery dates by agreeing cost escalation clauses or, in the case of fixed-price contracts, by including the expected rate of cost increases in the sales price.

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 ineffectiveness in the KSB Group in respect of currency hedges in the 2020 and 2019 financial years.

At the reporting date, the notional volume of the currency forwards designated as hedges was € 186,903 thousand (previous year: € 251,878 thousand). The contractual maturities of payments for these currency forwards are as follows:

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

Notional volumes in 2019

€ thousands	Total	Up to 1 year	1 - 5 years	> 5 years
Currency forwards designated as hedges	251,878	228,453	23,425	–

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

Hedging of currency risk

	2020	2019
Average rate EUR / USD	1.18	1.14
Average rate EUR / CNY	8.15	7.99
Average rate EUR / CHF	1.07	1.10

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 year under review, the realisation of the underlying recognised in income includes amounts of € 3,041 thousand (previous year: none) resulting from hedging transactions in which the hedged future cash flows are no longer expected to occur.

Fair value changes in derivatives in 2020

€ thousands	OCI	
	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

Fair value changes in derivatives in 2019

€ thousands	OCI	
	Cash flow hedges – Hedging reserve	Cash flow hedges – Hedging cost reserve
Currency risk		
Opening balance at 1 January	–4,149	–823
Effective portion of changes in fair value	4,863	965
Realisation of underlying recognised in income	–5,434	–1,010
Closing balance at 31 December	–4,719	–868

Currency volumes

€ thousands	CNY	CNY	USD	USD
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
Trade receivables	47,659	49,508	21,209	26,584
Trade payables	33,750	33,676	14,778	13,326
Balance	13,909	15,832	6,431	13,258

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 € 1.4 million (previous year: € – 1.6 million) for CNY, € – 1.9 million (previous year: € 1.7 million) for USD and € – 3.7 million (previous year: € 3.0 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 € 10.1 million lower (higher), with € 5.8 million resulting from USD and € 4.3 million from the other currencies. At the previous year's reporting date, equity and the fair value of the derivatives would have been € 12.7 million lower (higher), with € 8.0 million resulting from USD and € 4.7 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 year under review, 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 2020 reporting year, the net interest balance would have been € 1.8 million (€ 1.4 million) (previous year: € 1.6 million (€ 1.1 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 year under review 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 euro 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.

In the year under review, KSB voluntarily adjusted the structure of the individual items shown in the cash flow statement to increase transparency compared with the presentation in the 2019 consolidated financial statements. The affected items are marked accordingly in the cash flow statement. The previous year's presentation was changed in the same way; this did not result in any change in the sum of cash flows from operating activities and from investing and financing activities compared with the values reported in the previous year.

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

For further information on the cash flows from the sale of subsidiaries, which were also shown in the cash flows from investing activities in the reporting year, please refer to the “Changes in the consolidated Group” sub-section in Section II. “Consolidation Principles”.

The change in financial liabilities in the year under review, 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 balance sheet date are not subject to any restrictions on disposal by KSB.

Change in financial liabilities in 2020

€ thousands	1 Jan. 2020	Cash-effective in cash flows from financing activities	Non-cash changes		31 Dec. 2020
			Acquisitions / Other	Disposals / Exchange-rate-related changes	
Non-current financial liabilities (excluding lease liabilities)	24,714	1,726	–	–153	26,287
Current financial liabilities (excluding lease liabilities)	29,303	–9,391	–	–2,325	17,587
Lease liabilities	47,051	–16,848	9,548	–968	38,783
Total financial liabilities	101,068	–24,512	9,548	–3,447	82,657

Change in financial liabilities in 2019

€ thousands	1 Jan 2019	Cash-effective in cash flows from financing activities	Non-cash changes		31 Dec. 2019
			Acquisitions / Other	Disposals / Exchange-rate-related changes	
Non-current financial liabilities (excluding lease liabilities)	29,274	–4,487	–	–73	24,714
Current financial liabilities (excluding lease liabilities)	48,053	–12,912 *	–5,317 *	–521	29,303
Lease liabilities	51,117	–16,142	12,104	–28	47,051
Total financial liabilities	128,444	–33,541 *	6,787 *	–622	101,068

* Restated compared with presentation in the 2019 annual report

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. In KSB's matrix organisation, management decisions are primarily taken on the basis of the key performance indicators – order intake, external sales revenue and earnings before finance income / expense and income tax (EBIT) – determined for the Pumps, Valves and Service Segments. Reporting the relevant assets, number of employees and inter-segment sales revenue for these segments is not part of internal reporting. The managers in charge of these segments, which are geared to product groups, have profit and loss responsibility. They identify business opportunities across markets and industries and assess the options based on current and future market requirements. They also proactively encourage the development of new products and improvements to the available range of products. In this context, they work closely with the Sales organisations and with Operations.

The **Pumps** Segment includes single- and multistage pumps, submersible pumps and associated control and drive systems. Applications include process engineering, building services, water and waste water transport, energy conversion and solids transport.

The **Valves** Segment covers butterfly, globe, gate, control, diaphragm and ball valves, as well as associated actuators and control systems. Applications primarily include process engineering, building services, energy conversion and solids transport.

The **Service** Segment covers the installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves for all applications; as well as modular service concepts and system analyses for complete systems.

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

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

Transfer prices for intercompany sales are determined on an arm's length basis.

There were no discontinued operations in the period under review, as in the comparative period of the previous year.

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

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

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

→ [Segment reporting](#)

Segment reporting

€ thousands	Order intake		Sales revenue		EBIT	
	2020	2019	2020	2019	2020	2019
Pumps Segment	1,419,712	1,617,825	1,467,957	1,562,462	80,937	84,823
Valves Segment	320,248	361,878	335,454	364,365	-23,271	2,266
Service Segment	403,443	474,060	404,470	456,358	12,506	26,514
Total	2,143,403	2,453,763	2,207,881	2,383,185	70,172	113,603

The EBIT of the Pumps Segment includes depreciation and amortisation expense of € 61,450 thousand (previous year: € 54,079 thousand), the EBIT of the Valves Segment includes depreciation and amortisation expense of € 15,456 thousand (previous year: € 11,566 thousand) and the EBIT of the Service Segment includes depreciation and amortisation expense of € 23,000 thousand (previous year: € 16,206 thousand).

€ 577,612 thousand (previous year: € 561,803 thousand) of the sales revenue presented was generated by the companies

based in Germany, € 194,654 thousand (previous year: € 239,353 thousand) was generated by the companies based in France, € 206,998 thousand (previous year: € 212,876 thousand) by the companies based in the USA, and € 1,228,617 thousand (previous year: € 1,369,153 thousand) by the other Group companies.

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

At the reporting date, the total non-current assets of the KSB Group amounted to € 642,042 thousand (previous year: € 682,708 thousand), with 234,733 thousand (previous year: € 240,362 thousand) being attributable to the companies based in Germany and € 407,309 thousand (previous year: € 442,346 thousand) being attributable to the other Group companies. These 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 year under review was € 305 million (previous year: € 246 million). The increase in the net financial position compared with the previous year is due in particular to an increase in 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. 2020	31 Dec. 2019
From legal disputes	769	870
From guarantees	445	–
From warranty agreements	4,000	1,500
From other tax matters	5,602	5,730
From other contingent liabilities	–	479
	10,816	8,579

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 € 6,201 thousand (previous year: € 7,800 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 balance sheet date of the reporting year, there are no material contingent receivables of the Group. The contingent receivables as at the reporting date of the previous year in the amount of € 1,200 thousand related to a reimbursement claim against an insurance company based on a settlement agreement to be approved by the Annual General Meeting. The receipt of the payment in the amount stated above led to a corresponding entry under other income in the income statement in the year under review.

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 € 22,992 thousand (previous year: € 29,484 thousand). All of the corresponding payments are due in 2021.

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 € 24,831 thousand in the year under review (previous year: € 26,748 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 € 811 thousand in the reporting year (previous year: € 740 thousand).

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

Maturity analysis of future operating lease payments

€ thousands	31 Dec. 2020	31 Dec. 2019
Due within 1 year	1,829	1,682
Due between 1 and 2 years	1,821	1,377
Due between 2 and 3 years	836	979
Due between 3 and 4 years	476	584
Due between 4 and 5 years	328	390
Due after more than 5 years	–	350
	5,290	5,362

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 year under review amounted to € 51,095 thousand (previous year: € 50,529 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, 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.

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.

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 year under review, two members of the Administrative Board held an immaterial share of interests in KSB SE & Co. KGaA.

As part of normal business activities, the company 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

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

€ thousands	Sales of goods and services		Purchases of goods and services		Receivables		Liabilities	
	2020	2019	2020	2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
KSB Management SE	5	1	5,805	5,345	–	–	3,267	4,742
Klein, Schanzlin & Becker GmbH	–	–	–	–	–	–	–	–
KSB Stiftung und Kühborth-Stiftung GmbH	–	–	–	–	–	–	–	–
Geheimrat Dr. Jacob Klein-Unterstützungseinrichtung e.V.	–	–	–	–	–	–	114	100
Johannes und Jacob Klein GmbH	1	–	–	–	–	–	–	–
Tochtergesellschaften der Johannes und Jacob Klein GmbH	581	517	3,335	3,280	119	165	7	42
Assoziierte Unternehmen / Gemeinschaftsunternehmen der Johannes und Jakob Klein GmbH	–	–	–	7	–	–	–	–
Other related parties (corporate bodies), excluding "Management remuneration"	27	20	–	–	–	–	–	–

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 and associates (related party disclosures) is presented in Section IV. Balance Sheet Disclosures – Notes No. 6 "Investments accounted for under the equity method", Notes No. 8 "Contract assets, trade receivables and other financial and non-financial assets" and Notes No. 13 "Liabilities", and in Section IX. Other Disclosures – Contingent Liabilities.

The transactions in relation to Johannes und Jacob Klein GmbH are based on a rental and services agreement. 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 year under review.

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.

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.

In the 2020 financial year, a settlement agreement was concluded with three former members of the Board of Management and one member of the Supervisory Board. The settlement agreement became effective upon approval by the Annual General Meeting on 13 May 2020. The settlement amount of € 1,200 thousand paid thereupon has been recognised in other income.

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

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	2020	2019
Short-term benefits (total remuneration)	3,539	3,775
Post-employment benefits	1,662	1,374
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payments	–	–
Total	5,200	5,149

In the year under review, KSB Management SE received from KSB SE & Co. KGaA reimbursed expenses of € 605 thousand (previous year: € 196 thousand) for managing KSB's business in addition to the aforementioned reimbursement of expenses for remunerating the members of the governing bodies of KSB Management SE.

As at 31 December 2020, KSB has set aside provisions of € 833 thousand (previous year: € 784 thousand) for pension obligations to current Managing Directors of KSB Management SE, and € 45,717 thousand (previous year: € 43,505 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 € 3,038 thousand in the year under review (previous year: € 2,648 thousand).

The short-term benefits paid to members of the Supervisory Board amount to € 806 thousand for the 2020 financial year (previous year: € 798 thousand). Provisions of € 453 thousand (previous year: € 452 thousand) were set aside for members of the Supervisory Board at the end of the financial year.

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 2020 financial year at the Annual General Meeting of KSB SE & Co. KGaA on 13 May 2020. Overall, fees (including expenses) amounting to € 764 thousand were recognised as expenses. Of this, € 637 thousand relate to audit services, € 39 thousand to other certification services and € 88 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

There were no events after the end of the financial year that are of particular significance for the Group's net assets, financial position and result 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 8 December 2020. The Statement of Compliance is published on the KSB web site (www.ksb.com) and has thus been made permanently accessible.

List of Shareholdings

Affiliates (national and international)

Cons. No.	Name and seat	Country	Activ-ity*	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	I000 "KSB BEL", Minsk	Belarus	S	98.10	98.10	9
				1.90	1.90	8
11	TOV "KSB Ukraine", Kiev	Ukraine	S	100.00	100.00	9
12	KSB, Bombas e Válvulas, SA, Albarraque	Portugal	S	92.00	92.00	
				1.00	1.00	26
				1.00	1.00	62
				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 Australia Pty Ltd, Bundamba QLD	Australia	P	100.00	100.00	15
19	KSB New Zealand Limited, Albany / Auckland	New Zealand	S	100.00	100.00	18
20	KSB Belgium S.A., Bierges-lez-Wavre	Belgium	S	100.00	100.00	15
21	KSB Service Belgium S.A./N.V., Bierges-lez-Wavre	Belgium	S	100.00	100.00	20
22	KSB BRASIL LTDA., Várzea Paulista	Brazil	P	100.00	100.00	15
23	KSB Compañía Sudamericana de Bombas S.A., Carapachay (Buenos Aires)	Argentina	P	95.00	95.00	15
				5.00	5.00	
24	KSB Finance Nederland B.V., Zwanenburg	The Netherlands	H	100.00	100.00	15
25	DP industries B.V., Alphen aan den Rijn	The Netherlands	P	100.00	100.00	24
26	KSB Nederland B.V., Zwanenburg	The Netherlands	S	100.00	100.00	24
27	KSB Italia S.p.A., Milan	Italy	P	99.00	99.00	15
				1.00	1.00	
28	KSB ITUR Spain S.A., Zarautz	Spain	P	100.00	100.00	15
29	KSB Limited, Loughborough	United Kingdom	S	100.00	100.00	15
30	KSB Middle East FZE, Dubai	U.A.E.	S	100.00	100.00	15
31	KSB Österreich Gesellschaft mbH, Vienna	Austria	S	100.00	100.00	15
32	KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	P	100.00	100.00	15

* P = Production, 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 Pumps and valves L.t.d., Domžale	Slovenia	S	100.00	100.00	15
34	KSB Pumps Inc., Mississauga / Ontario	Canada	S	100.00	100.00	15
35	KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	H	100.00	100.00	15
36	KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	P	70.00	70.00	35
37	FORTY FOUR ACTIVIA PARK (PTY) LTD, Germiston (Johannesburg)	South Africa		100.00	70.00	36
38	KSB S.A.S., Gennevilliers (Paris)	France	P	100.00	100.00	15
39	KSB POMPE ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca	Morocco	S	100.00	100.00	38
40	KSB Shanghai Pump Co., Ltd., Shanghai	China	P	80.00	80.00	15
41	PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	H	51.00	51.00	15
42	KSB America Corporation, Richmond / Virginia	USA	H	100.00	51.00	41
43	GIW Industries, Inc., Grovetown / Georgia	USA	P	100.00	51.00	42
44	KSB Dubric, Inc., Comstock Park / Michigan	USA	SVC	100.00	51.00	42
45	KSB, Inc., Richmond / Virginia	USA	P	100.00	51.00	42
46	KSB, Inc. – Western Division, Bakersfield / California	USA	SVC	100.00	51.00	42
47	Standard Alloys Incorporated, Port Arthur / Texas	USA	SVC	100.00	51.00	42
48	PT. KSB Indonesia, Cibitung	Indonesia	P	94.06 5.94	94.10 5.90	15
49	PT. KSB Sales Indonesia, Cibitung	Indonesia	S	99.00 1.00	99.00 1.00	48
50	SISTO Armaturen S.A., Echternach	Luxembourg	P	52.85	52.85	15
51	KSB Finland Oy, Kerava	Finland	S	100.00	100.00	
52	KSB Hungary Kft., Budapest	Hungary	S	100.00	100.00	
53	KSB Korea Ltd., Seoul	South Korea	P	100.00	100.00	
54	KSB Limited, Hong Kong	China	S	100.00	100.00	
55	KSB Pump & Valve Technology Service (Tianjin) Co., Ltd, Tianjin	China	SVC	100.00	100.00	54
56	KSB Ltd., Tokyo	Japan	S	100.00	100.00	
57	KSB Norge AS, Ski	Norway	P	100.00	100.00	
58	KSB Polska Sp. z o.o., Ozarow-Mazowiecki	Poland	S	100.00	100.00	
59	KSB Pumps Co. Ltd., Bangkok	Thailand	P	40.00	40.00	
60	KSB Pumps Company Limited, Lahore	Pakistan	P	58.89	58.89	
61	KSB-Pumpy+Armatury s.r.o., koncern, Prague	Czech Republic	S	100.00	100.00	
62	KSB (Schweiz) AG, Oftringen	Switzerland	S	100.00	100.00	
63	KSB Seil Co., Ltd., Busan	South Korea	P	100.00	100.00	
64	KSB Service GmbH, Frankenthal	Germany	SVC	100.00	100.00	
65	KSB Service GmbH, Schwedt	Germany	SVC	100.00	100.00	
66	KSB Singapore (Asia Pacific) Pte Ltd, Singapore	Singapore	P	100.00	100.00	
67	KSB Malaysia Pumps & Valves Sdn. Bhd., Shah Alam	Malaysia	P	100.00	100.00	66
68	KSB PHILIPPINES, INC., Makati City	Philippines	S	100.00	100.00	66
69	KSB Vietnam Co., Ltd, Long Thanh District	Vietnam	S	100.00	100.00	66
70	KSB Sverige Aktiebolag AB, Gothenburg	Sweden	S	100.00	100.00	
71	KSB Sverige Fastighets AB, Gothenburg	Sweden	S	100.00	100.00	70
72	PUMPHUSET Sverige AB, Sollentuna	Sweden	SVC	100.00	100.00	70
73	VM Pumpar AB, Gothenburg	Sweden	S	100.00	100.00	70
74	KSB Taiwan Co., Ltd., New Taipei City	Taiwan	S	100.00	100.00	
75	KSB Tech Pvt. Ltd., Pimpri (Pune)	India		100.00	100.00	

* P = Production, 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.
76	KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	P	100.00	100.00	
77	PMS-BERCHEM GmbH, Neuss	Germany	SVC	100.00	100.00	
78	Pumpen-Service Bentz GmbH, Reinbek	Germany	SVC	100.00	100.00	
79	REEL s.r.l., Ponte di Nanto	Italy	P	100.00	100.00	
80	Uder Elektromechanik GmbH, Friedrichsthal	Germany	SVC	100.00	100.00	

Joint ventures (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
International								
81	KSB MOTOR TEKNOLOJİLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ, Ankara	Turkey	P	55.00	55.00	32	119	46
82	KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	P	50.00	50.00	15	11,985	-4,740
83	KSB Service LLC, Abu Dhabi	U.A.E.	S	49.00	49.00		7,365	88
84	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	P	45.00	45.00		31,555	1,737

Associates (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
International								
85	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy		25.00	25.00		5,030	2,524

* P = Production, 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	
National									
86	FluidPartner GmbH, Stein	Germany	SVC	51.00	51.00	64	0	-50	■
International									
87	KSB Algérie Eurl, Bordj el Kifane (Alger)	Algeria	S	100.00	100.00	15	1,167	139	
88	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	S	100.00	100.00		125	-187	
89	KSB Colombia SAS, Funza (Cundinamarca)	Colombia	S	100.00	100.00	15	418	-48	
90	KSB Ecuador S.A., Samborondón	Ecuador	S	99.00 1.00	99.00 1.00	22 15	464	-25	
91	KSB Perú S.A., Lurin	Peru	S	100.00	100.00		1,237	54	
92	KSB PUMPS AND VALVES LIMITED, Nairobi	Kenya	S	100.00	100.00	35	47	113	
93	KSB PUMPS AND VALVES (NAMIBIA) (PROPRIETARY) LIMITED, Klein Windhoek	Namibia	S	100.00	100.00	35	0	0	
94	KSB Pumpe i Armature d.o.o. Beograd, Belgrade	Serbia	S	100.00	100.00	33	216	71	
95	KSB pumpe i armature d.o.o., Rakov Potok	Croatia	S	100.00	100.00	33	214	28	
96	KSB ZAMBIA LIMITED, Kitwe	Zambia	SVC	80.00	80.00	35	53	43	
97	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	SVC	100.00	100.00	39	-567	-12	
98	TOO "KSB Kazakhstan", Almaty	Kazakhstan	S	100.00	100.00	9	379	208	

* P = Production, 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 of the Supervisory
Board since 17 Jan. 2020)

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
1st Delegate and Managing Director of
IG Metall Ludwigshafen / Frankenthal

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

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

Thomas Pabst, Dipl.-Ing., Freinsheim
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
1. Delegate of IG Metall Ostoberfranken

Gabriele Sommer, Dipl.-Geol., Wörthsee ¹⁾
Spokesperson for the Management of
TÜV Süd Management Service GmbH

Legal Representatives

Managing Directors of KSB Management SE

Dr Stephan Timmermann

CEO, Augsburg ¹⁾

Strategy, Human Resources, Communications, Internal Audits, Legal & Compliance, Patents & Trademarks, the Mining and Valves Market Areas, as well as the Region Europe West and the Region Americas North

Dr Stephan Bross, Weinheim ²⁾

Global Operations, Research and Development, Innovation and Complexity Management, Digital Transformation, Committees and Associations, the Energy and Petrochemicals / Chemicals Market Areas, as well as the Regions Asia West and Asia South / Pacific.

Ralf Kannefuss, Regensburg ³⁾

Sales and Marketing, the Water, General Industry and Building Services Market Areas, KSB SupremeServ, as well as the Regions Europe North / East, Asia North, Middle East / Africa / Russia and Americas South.

Dr Matthias Schmitz, Frankenthal ⁴⁾

Taxes, Controlling KSB Group, Finance, Accounting, Information Technology and Procurement, as well as the Region Europe Central.

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

- 1) KSB America Corporation, Richmond / Virginia, USA, since 1 June 2020
GIW Industries, Inc., Grovetown / Georgia, USA, since 1 June 2020
- 2) KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa, until 30 June 2020
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa, until 30 June 2020
KSB Limited, Pimpri (Pune), India
KSB MOTOR TEKNOLOJİLERİ SANAYİ VE TİCARET ANONİM ŞİKETİ, Ankara, Turkey
- 3) SISTO Armaturen S.A., Echternach, Luxembourg, until 22 Sept. 2020
KSB Shanghai Pump Co., Ltd., Shanghai, China
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China
- 4) KSB FINANZ S.A., Echternach, Luxembourg
KSB Finance Nederland B.V., Zwanenburg, The Netherlands
Canadian Kay Pump Limited, Mississauga / Ontario, Canada
KSB America Corporation, Richmond / Virginia, USA, until 1 June 2020
KSB Limited, Pimpri (Pune), India
KSB Shanghai Pump Co., Ltd., Shanghai, China
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China, until 24 Nov. 2020
GIW Industries, Inc., Grovetown / Georgia, USA, until 1 June 2020
KSB BRASIL LTDA., Várzea Paulista, Brazil
KSB Pumps Arabia Ltd., Riyadh, Saudi Arabia
KSB Österreich Gesellschaft mbH, Vienna, Austria, since 6 Oct. 2020

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 Nutrition & Care GmbH, Essen (Chair), until 30 June 2020
Evonik Resource Efficiency GmbH, Essen (Chair), until 30 June 2020
Evonik Performance Materials GmbH, Essen (Chair), until 30 June 2020
Evonik Operations GmbH, Essen (Chair of the Supervisory Board),
since 28 September 2020
- 2) Bauer AG, Schrobenhausen

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

We will propose to the Annual General Meeting on 6 May 2021 that the net retained earnings of € 44,530,795.16 of KSB SE & Co. KGaA be appropriated as follows:

Proposal for the appropriation of net retained earnings

€	
Dividend of € 4.00 per ordinary no-par-value share	3,546,460.00
Dividend of € 4.26 per preference no-par-value share	3,683,673.12
Total	7,230,133.12
Carried forward to new account	37,300,662.04
	44,530,795.16

Frankenthal, 9 March 2021

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]. The annual financial statements can also be downloaded from our web site at www.ksb.com, or sent in print form on request.

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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 2021

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 balance sheet as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial 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 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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 pursuant 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, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020 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. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently 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 appropriate 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 2020. 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:

- ① **Recoverability of goodwill**
- ② **Recoverability of intangible assets and property, plant and equipment**
- ③ **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:

① Recoverability of goodwill

① In the Company's consolidated financial statements goodwill amounting in total to EUR 30.6 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. The impairment test determined to recognize write-downs amounting to a total of EUR 11.2 million with respect to eight cash-generating.

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.

② Recoverability of intangible assets and property, plant and equipment

① In the Company's consolidated financial statements a total amount of EUR 580.6 million is reported under the "intangible assets" and "property, plant and equipment" balance sheet items. The recoverability of the intangible assets and property, plant and equipment were assessed as of the balance sheet date by means of impairment tests in accordance with IAS 36. The carrying amount of the relevant cash-generating unit 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, to which the corresponding assets are allocated, 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. For four cash-generating units, additional external valuation reports with regard to fair value less costs of disposal were requested. The impairment test determined that even after taking into account the fair value less costs of disposal, it was necessary to recognize write-downs amounting to a total of EUR 4.3 million.

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 and the usability of the external valuation reports, 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.

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 intangible assets and property, plant and equipment are contained in section IV. "Balance sheet disclosures" note 1 of the notes to the consolidated financial statements.

③ Accounting treatment of project orders recognized over time

① In the Company's consolidated financial statements revenue totaling EUR 2,207.9 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 672.6 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 13 and V. "Notes to the income statement", no. 14 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section “Corporate Governance Statement” of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the 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 and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or 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 control.

- 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

ASSURANCE REPORT IN ACCORDANCE WITH § 317 ABS. 3B HGB ON THE ELECTRONIC REPRODUCTION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT PREPARED FOR PUBLICATION PURPOSES

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file „KSB_KA_LB_ESEF_2020-12-31.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 engagement only extends 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 this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion 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 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the “Group Auditor’s Responsibilities for the Assurance Engagement on the ESEF Documents” section. Our audit firm has applied the IDW Standard on Quality Management: 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 reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 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 executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor’s report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor’s Responsibilities for the Assurance Engagement 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 engagement. 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 conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement 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 conclusion 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 applicable as at the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML reproduction 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) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 13 May 2020. We were engaged by the supervisory board on 18 November 2020. We have been the group auditor of 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).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Christina Pöpperl.

Mannheim, 9 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Ulrich Störk
Wirtschaftsprüfer
[German Public Auditor]

Christina Pöpperl
Wirtschaftsprüferin
[German Public Auditor]

Glossary

ABBREVIATIONS

ASEAN

Association of Southeast Asian Nations

CSR

Corporate Social Responsibility

HGB

Handelsgesetzbuch
[German Commercial Code]

IFRS

International Financial Reporting Standards

IMO

International Maritime Organisation,
a specialised UN agency

IMF

International Monetary Fund

IoT

Internet of Things

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

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.

Direct retrofit mechanical seals

Technically advanced, high-quality mechanical seals that can be installed in a pump quickly and easily without requiring any adjustments

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.

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 CO₂ and greenhouse gas emissions

International Labour Organisation (ILO)

Specialised United Nations agency responsible for drafting 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.

Memorandum of Understanding (MoU)

A type of agreement between two or more parties expressing a convergence of will indicating an intended common line of action

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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www.ksb.com

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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.

A print version of the KSB Group's Annual Report is additionally available in German. We also publish German and English versions online in PDF format at <https://annualreport2020.ksb.com>.



A climate-neutral process was used to produce this Annual Report. This means that the CO₂ emissions resulting from production were offset through certified climate protection projects.

Group Financial Highlights

BUSINESS DEVELOPMENT AND EARNINGS

		2020	2019	2018	2017	2016
Order intake	€ m	2,143.4	2,453.8	2,303.5	2,265.3	2,156.6
Sales revenue	€ m	2,207.9	2,383.2	2,245.9	2,205.0	2,165.7
Orders on hand	€ m	1,288.5	1,409.3	1,353.9	1,260.8	1,200.6
Earnings before finance income / expense, income tax, depreciation and amortisation (EBITDA)	€ m	170.1	195.5	179.2	186.9	162.6
Earnings before finance income / expense and income tax (EBIT)	€ m	70.2	113.6	74.7	116.4*	90.0*
Earnings before income tax (EBT)	€ m	61.6	103.4	65.6	104.2	74.6
Earnings after income tax	€ m	4.4	58.5	23.9	52.1	47.8
Free cash flow (cash flows from operating activities + cash flows from investing activities)	€ m	111.6	70.9	-29.1	112.5	20.5

BALANCE SHEET

		2020	2019	2018	2017	2016
Balance sheet total	€ m	2,140.0	2,327.0	2,242.2	2,253.4	2,350.2
Capital expenditure	€ m	97.6	107.0	79.6	101.9	82.2
Depreciation and amortisation	€ m	99.9	81.9	104.5	70.6	72.6
Net financial position	€ m	304.8	246.3**	255.0	288.0	259.5
Equity (incl. non-controlling interests)	€ m	703.8	862.6	856.8	885.4	890.3
Equity ratio (incl. non-controlling interests)	%	32.9	37.1	38.2	39.3	37.9

PROFITABILITY

		2020	2019	2018	2017	2016
EBT margin (sales revenue in relation to EBT)	%	2.8	4.3	2.9	4.7	3.5
EBIT margin (sales revenue in relation to EBIT)	%	3.2	4.8	3.3	5.3	4.2

EMPLOYEES

		2020	2019	2018	2017	2016
Number of employees at 31 Dec.		15,076	15,645	15,482 [#]	15,455	15,572

SHARES

		2020	2019	2018	2017	2016
Market capitalisation at 31 Dec.	€ m	441.9	536.1	491.3	884.4	637.7
Earnings per ordinary share (EPS)	€	-5.63	24.47	6.26	21.10	18.68
Earnings per preference share (EPS)	€	-5.37	24.73	6.64	21.36	18.94
Dividend per ordinary no-par-value share	€	4.00	8.50	3.00	7.50	5.50
Dividend per preference no-par-value share	€	4.26	8.76	3.38	7.76	5.76

* 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)

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.

KSB WORLDWIDE | KEY INDICATORS

EUROPE

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

MIDDLE EAST / AFRICA

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

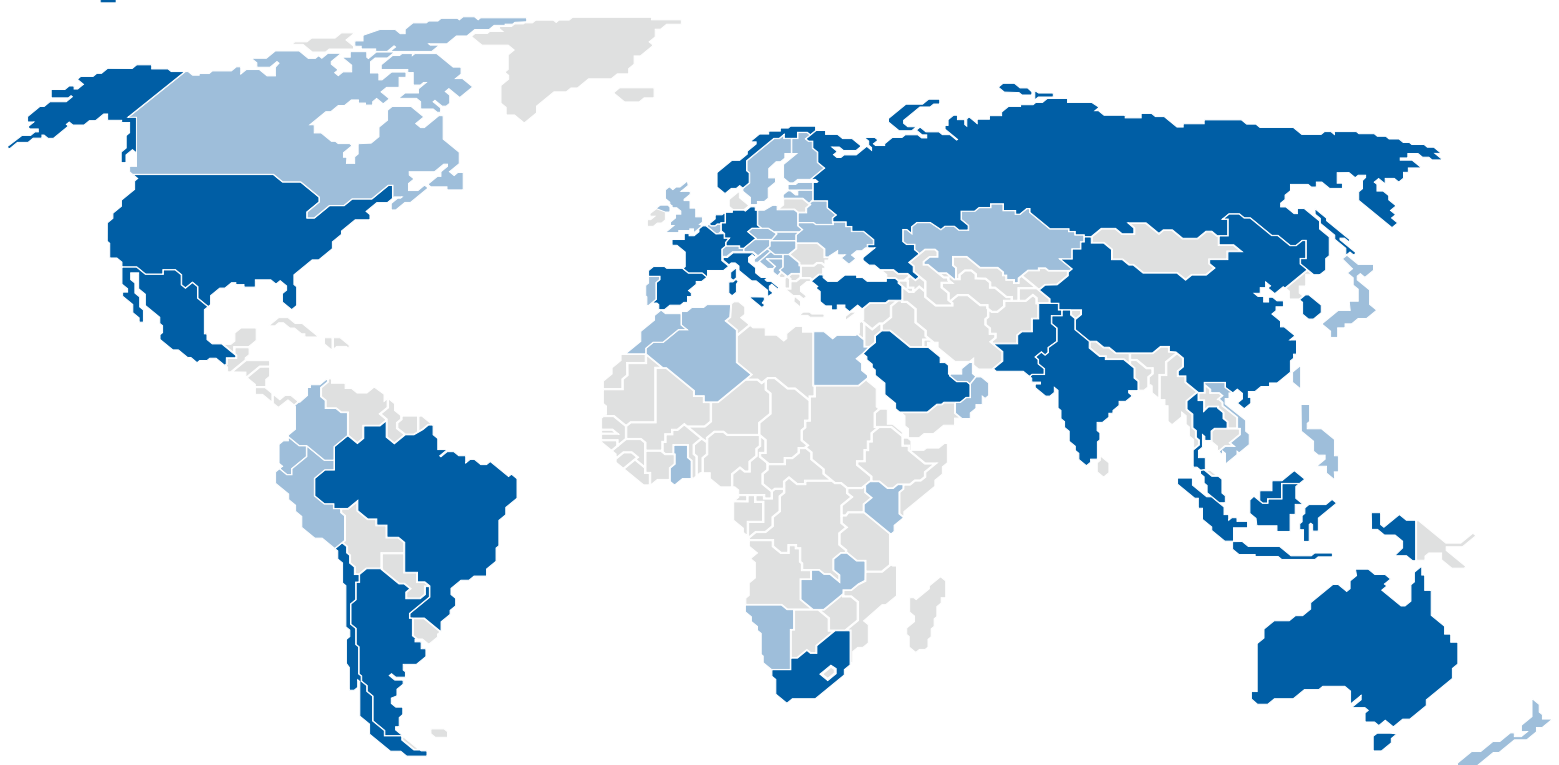
ASIA / PACIFIC

- 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
- Peru
- USA

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



Financial Calendar

25 March 2021

Financial press conference
10:00, Frankenthal, Germany

29 April 2021

Interim report
January – March 2021

6 May 2021

Annual General Meeting
10:00, Frankenthal

12 August 2021

Half-year financial report
January – June 2021

9 November 2021

Interim report
January – September 2021

31 January 2022

Preliminary report on
financial year 2021

You will find the latest information on
the 2021 Annual General Meeting at:
www.ksb.com/agm



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