Group Management Report

Basic Principles of the Group

Group Business Model

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

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

KSB SE & Co. KGaA, as the parent, directly or indirectly holds the shares in the companies belonging to the Group. Besides it, 9 domestic and 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.

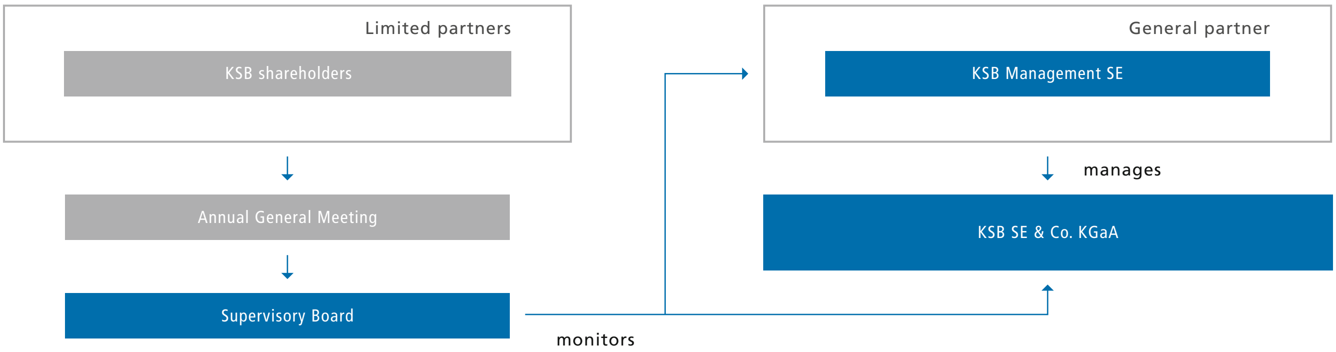
ORGANISATION, MANAGEMENT AND CONTROL

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.

51.1

Research and development expenses in € millions

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.

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 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.

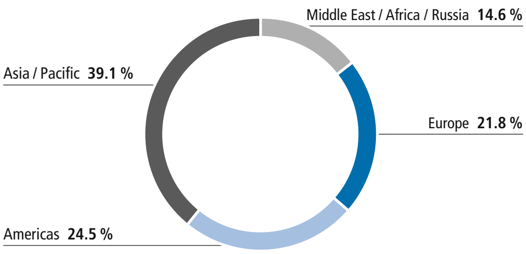
VARIED DECLINE IN DEMAND IN THE SALES MARKETS

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 countries' 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.

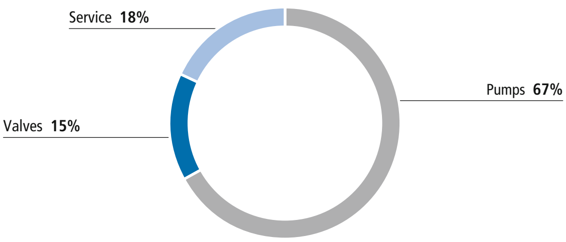
According to VDMA, sales revenue in the German mechanical engineering sector, too, dropped by 10.4 % in real terms. Based on the provisional calculations from the German Federal Statistical Office, real-term production was also down 12 % year on year. Capacity utilisation, which was already below its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

	Order intake		Sales revenue		EBIT	
€ thousands	**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.

304.8

Net financial position in € millions

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

€ 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 recover able 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.

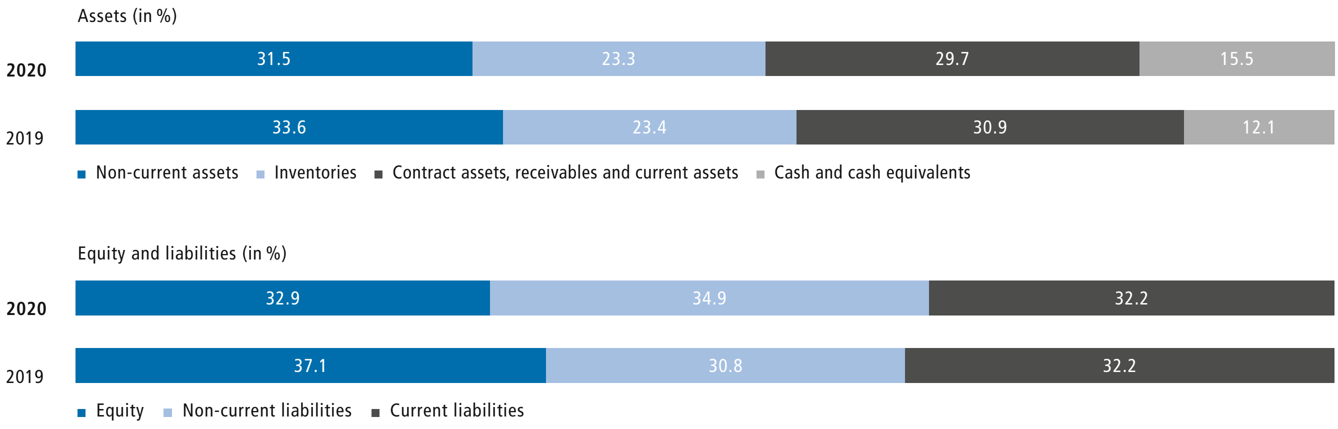
Total assets fell by 8.0 % to € 2,140.0 million, above all owing to the reduction in non-current assets. In addition to the sharp decline of € 67.7 million in deferred tax assets, impairment losses on goodwill of € 11.2 million also contributed to the reduction. The decrease in current assets also resulted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

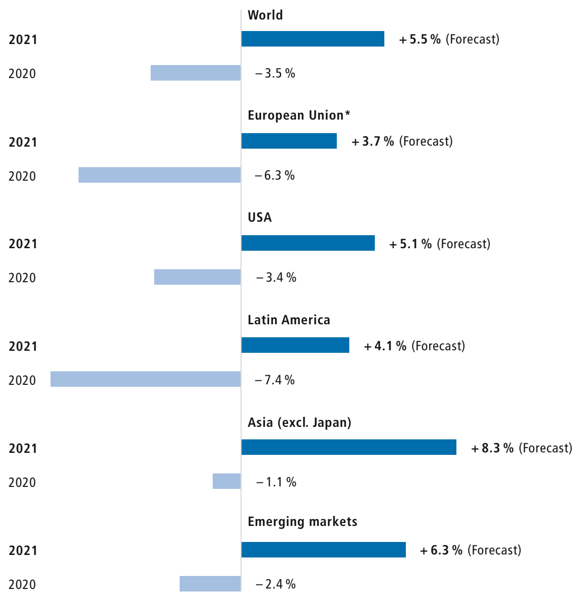
In the year under review, global growth will be driven by the anticipated economic recovery in a number of emerging markets and developing countries in Asia, especially China. The IMF is projecting an overall growth rate of 6.3 % for the emerging markets and developing countries.

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

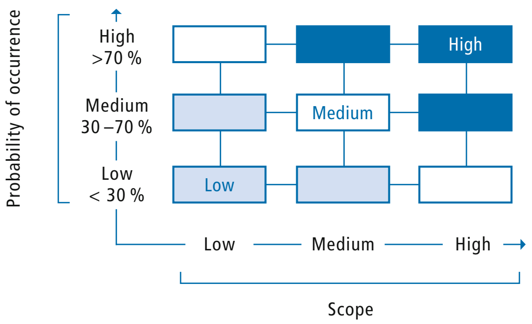
KSB has implemented a Group-wide risk management system for identifying and assessing relevant risks in the different areas of responsibility and reporting these to Group headquarters. The risk management process of the KSB Group consists of the successive phases of identification, assessment, management,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

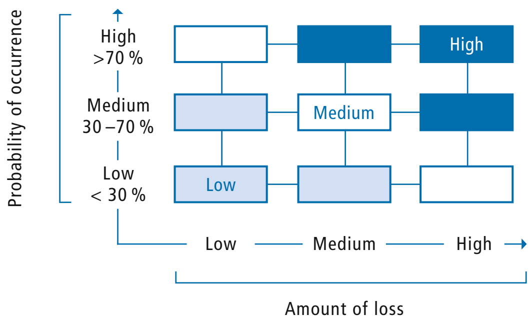
Qualitative risks are long-term developments that could have a negative impact on the KSB Group and which cannot or cannot yet be thoroughly quantified due to a lack of precise information. In order to be able to evaluate them all the same, however, estimates of the probability of occurrence and scope 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

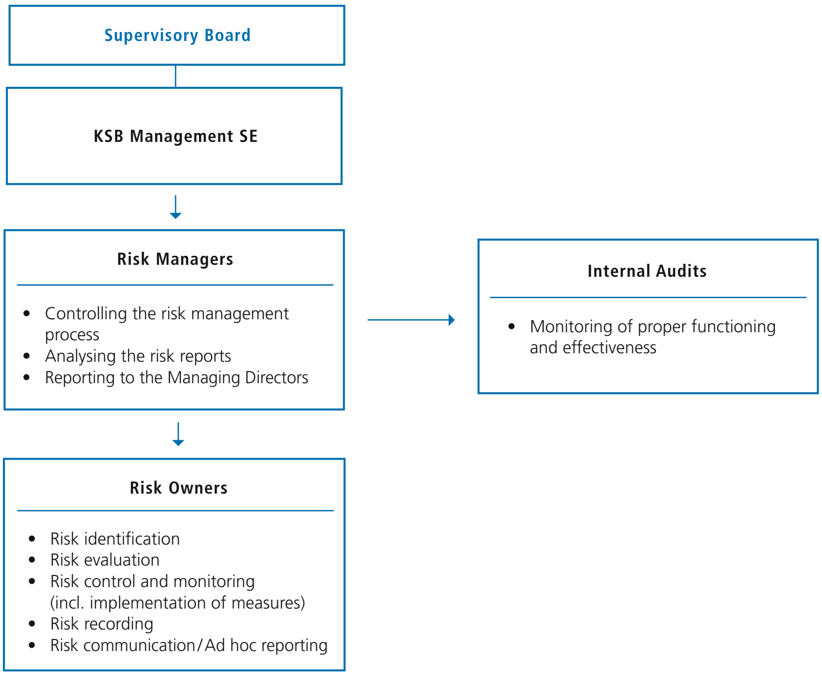
This approach offers the necessary transparency to identify risks in their entirety and to manage them effectively, professionally and in an economically responsible manner.

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 CO_2 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 BERCHEM GmbH, Neuss, Pumpen Service Bentz GmbH, Reinbek and KAGEMA Industrieausrüstungen GmbH, Pattensen. Thus, these companies are under single management by KSB SE & Co. KGaA. Their annual earnings are transferred to KSB SE & Co. KGaA.

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

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

Business Development and Results of Operations

The 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 prin ciples 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