Combined Management Report

Basic Principles of the Group

Group Business Model

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

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

KSB SE & Co. KGaA, as the parent, directly or indirectly holds the shares in the companies belonging to the Group. Besides it, 9 domestic and 79 foreign companies are fully consolidated; another 5 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 Limited, Pimpri (Pune), India
- GIW Industries, Inc., Grovetown / Georgia, USA
- KSB Shanghai Pump Co., Ltd., Shanghai, China
- KSB BRASIL LTDA., Várzea Paulista, Brazil
- KSB Service GmbH, Frankenthal, Germany
- D.P. Industries B.V., Alphen aan den Rijn, Netherlands

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

ORGANISATION, MANAGEMENT AND CONTROL

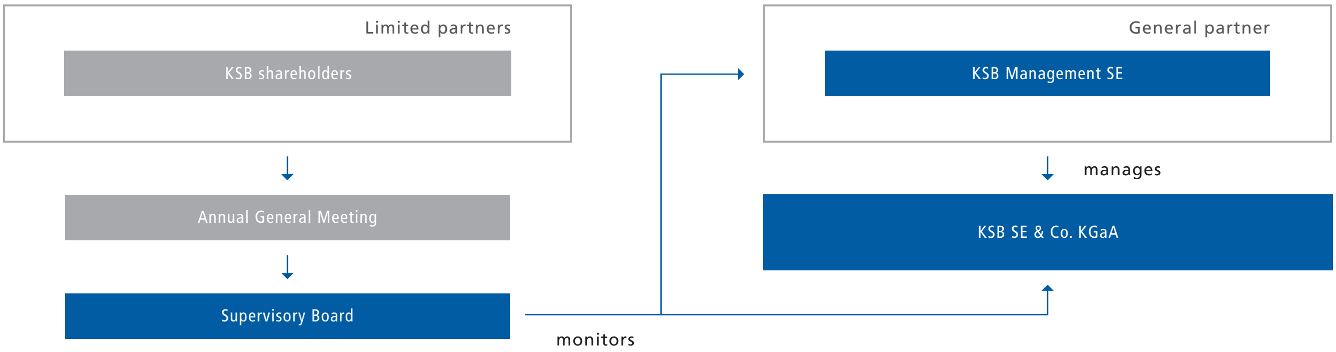
KSB SE & Co. KGaA was formed from KSB Aktiengesellschaft by entry in the *Handelsregister* [German Commercial Register] on 17 January 2018. The *Kommanditgesellschaft auf Aktien* (KGaA) [partnership limited by shares] is a common legal form in Germany for companies with a family- and foundation-dominated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

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

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

→ Bodies / structure

Bodies / Structure



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

The KSB Group organises its business activities in the following Segments: Pumps, Valves and KSB SupremeServ.

The Pumps Segment comprises new business with single-stage and multistage pumps, submersible pumps and the associated control and drive systems. The applications are assigned to the Market Areas of Energy and Mining and to the Market Areas of Water, Building Services, Petrochemicals / Chemicals and General Industry, which are grouped together in the organisational and reporting structure of the Group as Standard Markets.

The Valves Segment combines the Group's business activities with regard to new business in butterfly valves, globe valves, gate valves, control valves, diaphragm valves and ball valves, as well as associated actuators and control systems. The basic applications for these products are identical to those for pumps.

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

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

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

MARKETS AND LOCATIONS

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

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

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

KSB manufactures and assembles products and components in a total of 25 countries; they are sold through the Group's own companies or agencies in more than 100 countries. With their products, the Group companies serve customers in industry including the chemical and petrochemical industries, in the energy sector, in construction / building services, in water and waste water management, and in mining. In 2022, the most important markets were general industry, energy and water.

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

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

Control System

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

Management decisions for the Group as a whole and for the Pumps, Valves and KSB SupremeServ Segments are mainly made on the basis of the following key indicators: order intake, sales revenue and EBIT. EBIT is defined as earnings before finance income / expense and income tax. When specifying key indicators, Management is guided on the one hand by developments in the market and on the other by its main competitors.

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 Management decisions.

Research and Development

KSB uses its globally available resources in research and development to ensure the Group's enduring success. The technological strengths are based mainly on the challenging interplay between hydraulics, materials technology, automation and digitalisation. KSB therefore pays particular attention to these areas. The results of the research and development work are incorporated in the products, strengthen the portfolio and help to develop new markets.

ECONOMICAL AND SUSTAINABLE USE OF MATERIALS

In addition to customer needs, legal requirements also play an important role in the further development of pumps and valves. The EU, for example, which plans to tighten Regulation (EU) 547/2012, is a strong driver in the field of water pumps. This regulation defines the efficiency requirements a pump has to meet. It is therefore conceivable that the trend towards installing smart control technology directly in the pump set will continue. This is already cutting-edge technology now for circulators and will also become a reality in the future for water pumps up into the double-digit kW range. When developing intelligent and highly efficient type series, the developers focus not only on extremely low energy consumption, but also on the economical use of materials. Thanks to higher performance per size, the pump sets need significantly less valuable raw materials compared with their predecessors. In addition to the economical utilisation of the materials used, the unavoidable proportion of CO_2 emissions generated during production is offset. The magnets used in the synchronous motors are classic ferrite magnets. These do not contain rare earths, which cause enormous environmental damage during mining.

56.3

Research and development expenses in € millions

RELIABLE AND EFFICIENT PUMP OPERATION

Monitoring solutions are unquestionably an important tool paving the way toward a digitalised system, improved maintenance and energy-efficient processes. Since 2018, KSB has been offering its customers such a digital service with KSB Guard. Besides contributing to maintenance management, the monitoring solution also provides information on energy efficiency – it is estimated that 75 % of all fixed speed pumps do not run at their best efficiency point. Pumps therefore use much more energy than necessary, leading to huge costs. To identify pumps with high energy demand in a plant, the monitoring solution shows optimisation potential for increasing energy efficiency and thus reducing CO_2 emissions. The developers work continuously on improving the KSB Guard algorithms to offer customers advanced functions based on artificial intelligence. KSB Guard itself was certified as a CO_2-neutral product in 2022.

PROCESS AND COMPLEXITY MANAGEMENT AS A REQUIREMENT FOR IIOT

KSB is consistently expanding its expertise in process and complexity management as a prerequisite for implementing the Industrial Internet of Things (IIoT). In 2021, the publicly funded MAP (Machine Learning for Agile Process Management in Mechanical and Equipment Engineering) joint research project was launched for a period of three years. By integrating various methods for the systematic analysis and evaluation of business processes in KSB's global process and variant management systems, this created the prerequisites for further digital transformation.

ADVANTAGES OF ADDITIVE MANUFACTURING

In the area of additive manufacturing research, further materials were developed and qualified in the field of iron- and nickel-based materials for use in pump engineering, in order to expand the technology's applications. KSB is currently one of the few manufacturers to produce diaphragm valve bodies for the pharmaceutical industry using power bed fusion. These are manufactured from special steel that is particularly difficult to process. They were previously milled from solid material, which was cost-intensive and time consuming. The experts in the competence centre for additive manufacturing in Pegnitz continuously evaluate new technologies and examine whether it makes sense to use them at KSB.

INTELLIGENCE AND DIGITALISATION OPEN UP NEW FIELDS OF APPLICATION

Modern valves feature more and more functions for process control in addition to their shut-off and control duties, which is why KSB worked on broadening the scope of application of these valves with additional equipment during the reporting year. This offers extended technical options, such as the interaction between an automated butterfly valve or globe valve and a higher-level control system. Adding monitoring sensors to existing type series can also help users control the capacity utilisation and wear of their system. As operating conditions in some applications become ever more demanding, especially in the power plant and industrial sector, the development of valves in 2022 focused on expanding the product range for high- and low-temperature applications. This includes handling molten salts or liquid hydrogen. Based on KSB's expertise in additive manufacturing and its experience in qualifying 3D-printed parts, the Valves Segment worked on improving its products using these technologies, in order to save costs and reduce delivery times.

KSB cooperates with external institutes and research facilities. Overall, the Group spent around € 56.3 million on research and development in the reporting year. This equates to about 2.2 % of sales revenue. KSB SE & Co. KGaA invested € 39.9 million in research and development in the reporting year, which equates to around 5.0 % of sales revenue. Across the Group, 438 staff were employed in research and development on average over the year. At KSB SE & Co. KGaA, 283 staff worked in research and development in the reporting year.

Economic Review

Macroeconomic Environment and Sector View

From the start, the forecast for global economic growth in 2022 was below the high growth rate of the previous year, which saw a recovery from the pandemic. In the course of the year, the International Monetary Fund (IMF), whose figures are used for planning, lowered its estimate to 3.4 % most recently. This compares with the forecast of 4.4 % for global economic growth at the start of the year. The war in Ukraine and its negative consequences, in particular for the global energy markets, were a major contributing factor. In addition to this, China imposed pandemic-related curfews that aggravated supply bottlenecks and lowered general economic demand. Furthermore, the sharp increase in energy and commodity costs led to a level of inflation whose duration and severity far exceeded initial expectations. Inflation weighed on real income and led to restrictive monetary policy with rising interest rates in many countries. This weakened growth in capital expenditure and consumer spending. Overall, a renewed downturn loomed on the horizon in the second half of the year, which is expected to be fully reflected in 2023 in particular.

The IMF lowered its growth estimate for the group of economically advanced countries to 2.7 % in 2022. At the beginning of the year the forecast was still at 3.9 %. Emerging markets and developing countries achieved economic growth of 3.9 %, which was also below the forecast at the start of the year (+ 4.8 %).

Europe continued to be of major importance for the KSB business in 2022. In what is KSB's largest market, the global energy crisis triggered by the war in Ukraine and the associated price increases had the greatest impact and curbed economic growth, which was 3.5 % in the euro zone. Economic output in France and Italy grew by 2.6 % and 3.9 % respectively. Spain achieved a higher growth rate of 5.2 % compared with other European countries, reflecting its lower dependence on imports of natural gas from Russia. In contrast, Germany reported growth of only 1.9 %. The high dependency on energy imports from Russia and high share of exports in the face of declining global demand had a dampening effect. The UK posted growth of 4.1 %, despite the political turbulence and uncertainty in the financial markets.

In the USA, inflation developed much more dynamically than initially expected, making it necessary for the central bank to adjust interest rates. These growth-inhibiting factors have been countered by a series of laws to stimulate the economy. However, the economy developed at a much weaker pace of 2.0 % than forecast at the start of the year.

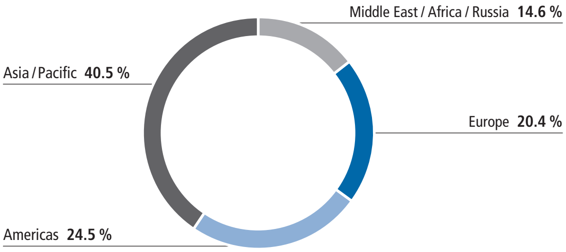
China's economic growth was curbed by weaker domestic demand and lower exports as a result of the pandemic-related curfews. The country achieved an increase of 3.0 %, which also fell short of the expectations at the start of the year.

Growth in India was 6.8 %, due to the slowdown of the global economy and tighter monetary policy to curb inflation. The economies of the five economically most important countries in South East Asia – Indonesia, Malaysia, the Philippines, Thailand and Vietnam – grew by 5.2 % overall.

South America performed better than expected at the start of the year. The economy in Brazil grew by 3.1 %, reflecting rising capital expenditure and higher consumer spending.

The economic development of countries in the Region Middle East / Africa / Russia benefited greatly from rising energy and commodity prices, and likewise exceeded expectations held at the beginning of the year. The economy grew again in Turkey by 5.5 %, supported by exports and a recovery in private consumer spending. In South Africa, higher capital expenditure contributed to growth of 2.6 %. For Saudi Arabia, likewise a large sales market for KSB, the IMF reported a plus of 8.7 % as a result of the rising price and exports of crude oil. The war and sanctions led to an economic downturn of – 2.2 % in Russia, which was alleviated by the high energy prices.

World market of centrifugal pumps and valves



Source: KSB estimate (February 2023), European Industrial Forecasting

MODEST GROWTH IN ALL SALES MARKETS

All markets and regions in which KSB operates reported modest year-on-year growth.

In General Industry, which covers a series of cyclical sectors in the manufacturing industry, production and investment rose in the previous year. The production of capital goods was curbed by the global deterioration, but increased nonetheless. The pharmaceutical industry, which was among the winners of the pandemic, remained on its growth path this year, too. The automotive industry grew slightly, but fell short of the expectations held at the beginning of the year.

The water and waste water industry, in which economic fluctuations are milder than in other economic sectors, posted renewed growth in terms of production value in the previous year. This was dampened by the weaker trends in the industry. Investments in municipal water and waste water management increased, supported by numerous infrastructure projects and stricter legal requirements in a series of countries.

The energy sector faced upheaval due to the war in Ukraine and its implications for energy prices, including but not limited to natural gas. This was felt to a lesser extent in generation in the past year, but much more in the orientation towards new investments and expectations with regard to future expansion of capacity. With weaker global economic growth, worldwide electricity consumption rose less strongly than in the previous year and than initially expected. Electricity generation from natural gas eased slightly and was substituted by a transition to coal, especially in Europe. The available capacities of coal-fired power plants were utilised to a greater extent to meet demand. Electricity generation from nuclear energy declined due to scheduled shutdowns and unexpected power plant outages. At the same time, decisions were made to extend the operating life or to build new power plants. Generation from renewables increased sharply in contrast. Despite the already high initial level in the previous year, the capacity expansion of renewables reached another very high level thanks to political support programmes.

Because of the sanctions imposed on Russian exports and weaker global demand, the increase in oil production worldwide was less than expected at the beginning of the year and global gas production stagnated at the previous year's level, albeit with strong regional shifts. Liquefied natural gas exports from the USA increased sharply again, to compensate for shortfalls in natural gas quantities in Europe in particular. Global refinery capacity utilisation increased marginally in response to subdued global demand, particularly from China. A slight increase was recorded in the course of the year in terms of production volume. There were regional shifts too in the production of refinery products as a substitution for Russian exports. The increase in the price of natural gas, which is used both as a raw material and as a source of energy, slowed down the chemical industry. Europe was hit the hardest.

The construction sector continued its growth trend of the previous year, albeit with less momentum. This development was supported by stimulus spending on expanding infrastructure in many countries. In residential building construction, lower real incomes and higher interest rates held back growth. Growth in non-residential construction was also dampened by higher interest rates, uncertainty in the business environment and cautious policy on investment.

Mining was supported by very strong demand for metals that are required for producing green technologies. A strong increase was recorded for metals such as copper, aluminium, nickel and lithium, which are needed for electromobility, renewable energy generation and grid expansion, and for the production of storage technologies. Coal mining also increased due to increased demand for coal to substitute gas in generating electricity and despite the high starting level in the previous year. The extraction of oil sands increased substantially due to high energy prices and planned financial support for emission-saving measures in industry.

ROBUST INCREASE IN MECHANICAL ENGINEERING

Despite the weaker global economy, the increase in demand for mechanical engineering products was solid, supported by the slight easing in the supply chains in the second half of the year. According to the German Mechanical Engineering Industry Association (VDMA), global sales revenue in the mechanical engineering sector rose by 3.0 % in real terms in 2022. Growth was dampened by the increase in the price of energy, commodities and precursor products, and by easing demand.

According to VDMA, sales revenue in the German mechanical engineering sector rose by 1.7 % in real terms. Based on the provisional calculations of the German Federal Statistical Office, production up to November was also up 0.6 % in real terms compared with the prior-year level. Capacity utilisation was also higher than in the previous year.

In the liquid pumps sector, VDMA recorded a real decline in sales revenue of 1.6 % among German pump manufacturers. Sales revenue with industrial valves exceeded the prior-year level by 0.7 %, while building services valves saw sales revenue fall by 3.0 %.

BUSINESS DEVELOPMENT AND RESULTS OF OPERATIONS

For KSB, the 2022 financial year was marked, among other things, by Russia's war of aggression against Ukraine, which resulted in considerable uncertainties in the procurement markets and supply chains, as well as massive price increases for supplier parts and energy. The COVID-19 pandemic again led to temporary production stoppages and increased absences due to illness at KSB in the reporting year. The production site in Shanghai in particular was affected by a lockdown lasting several weeks.

The successfully averted cyber attack in the second quarter also entailed restrictions across the Group. Temporary interruptions to production and order processing were followed by comprehensive security measures in the IT infrastructure. Hail damage at the French factory in La Roche-Chalais in the summer led to production stoppages. The Group was able to make up for most of the resulting postponements of orders in the second half of the year.

The broad-based international production network proved to be particularly stabilising. The EU sanctions against Russia resulted in impairments on customer orders in the amount of around € 14 million.

Overall, there was a substantial increase in order intake compared with the previous year. This also applies to sales revenue and EBIT for the financial year. The reasons for the changes are explained in the sections on order intake, sales revenue and EBIT.

ORDER INTAKE

While the Group recorded a very high order intake in the first half of the year, despite the outbreak of the Russia-Ukraine war, rising inflation and uncertainty in the global political landscape resulted in slightly muted customer demand in the second half. The diversification of the Group across numerous regions and markets helped keep the order intake at a high level. In addition, KSB acquired several large-scale orders, especially in the Energy operating segment and benefited from strong demand for standard products. KSB could pass on the massive price increases for supplier parts to customers, provided the competitive situation allowed this.

The volume of incoming orders rose significantly by € 450.3 million (+ 18.7 %) to € 2,862.1 million in the financial year. Excluding exchange rate effects, order intake would have been € 43.7 million lower.

Segment reporting

	Order intake		Sales revenue		EBIT	
€ thousands	2022	2021	2022	2021	2022	2021
Pumps Segment	1,585,727	1,307,305	1,390,192	1,271,104	27,718	24,120
Valves Segment	359,676	338,398	333,072	305,570	–4,635	–6,560
KSB SupremeServ Segment	916,684	766,042	850,123	766,903	146,020	123,601
Total	**2,862,087**	**2,411,745**	**2,573,387**	**2,343,577**	**169,103**	**141,161**

The largest percentage growth was reported in the Regions Asia / Pacific with a plus of € 173.3 million (+ 29.9 %) and Americas with a plus of € 117.6 million (+ 29.5 %). The Region Europe also developed well with a plus of € 162.5 million (+ 12.9 %). The companies in the Region Middle East / Africa / Russia remained at around the previous year's level with a slight reduction of € 3.0 million (– 1.8 %). The negative effect from the sanctions imposed on Russia was offset by a positive development in South Africa and in the Middle East.

Pumps

Order intake in the Pumps Segment amounted to € 1,585.7 million compared with € 1,307.3 million in the previous year. The strong increase in the first half of the year, to which advance ordering ahead of announced price increases contributed, weakened in the second half. Standard markets accounted for € 1,256.3 million (previous year: € 1,059.0 million) of the total order intake in the Pumps Segment. All Market Areas developed positively, in particular General Industry and Water. The main driver of the development in General Industry was especially the order intake in the Regions Europe and Americas, as well as a higher number of projects in Asia / Pacific and Middle East / Africa / Russia. The increase in the Water Market Area was as a result of the strong standard business and also of projects. In the Energy and Mining operating segments, which include project business in particular, order intake amounted to € 329.5 million (previous year: € 248.3 million). This substantial increase is mainly attributable to major projects that were acquired in the nuclear sector of the Energy operating segment in the second half of the year. The Region Europe contributed the largest share of order intake of the Pumps Segment with € 775.6 million (previous year: € 663.14 million), followed by the Region Asia / Pacific with € 490.4 million (previous year: € 378.1 million) and the Regions Americas and Middle East / Africa / Russia each with lower contributions in absolute terms. The highest growth rates were reported in the Regions Americas and Asia / Pacific.

Valves

Order intake in the Valves Segment amounted to € 359.7 million compared with € 338.4 million in the previous year. Both the standard business and the project business performed positively over the course of the financial year. The largest positive contribution was made in the chemicals / petrochemicals industry. The largest Region by far is Europe with € 222.7 million (previous year: € 211.1 million), followed by Asia / Pacific with € 105.2 million (previous year: € 94.0 million) and the Regions Americas and Middle East / Africa / Russia each with lower contributions in absolute terms.

2.6

Consolidated sales revenue in € billions

KSB SupremeServ

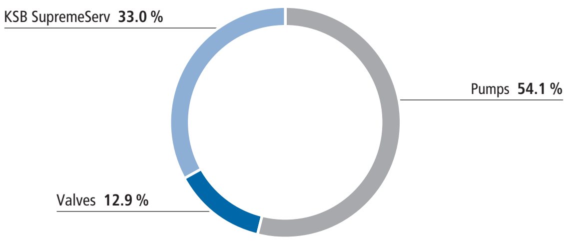
Order intake in the KSB SupremeServ Segment – which covers all service and spare parts activities – reached € 916.7 million and is thus considerably higher than in the previous year (€ 766.0 million). This increase is attributable to the positive development of the spare parts business, which rose noticeably in the second half of the year compared with the first half. This development was supported especially by spare parts orders due to the high capacity utilisation levels of the mines, the acquisition of new pump installations and the good performance in relation to delivery capacity. Major projects were acquired in the Energy, Chemicals / Petrochemicals and Water Market Areas. In the KSB SupremeServ Segment, too, the Region Europe made the greatest contribution to order intake with € 426.4 million (previous year: € 387.8 million), followed by Americas with € 276.4 million (previous year: € 217.1 million) and Asia / Pacific and Middle East / Africa / Russia. The highest growth rate was reported in the Region Asia / Pacific.

SALES REVENUE

Group sales revenue, which lags behind order intake, grew strongly by € 229.8 million (+ 9.8 %) to € 2,573.4 million). However, the supply chains remained strained in 2022 too, which prevented higher sales revenue from being achieved. Sales revenue would have been € 52.2 million lower excluding exchange rate effects.

All the Regions contributed to this sales revenue growth. Europe remained by far the largest Region with sales revenue of € 1,271.7 million (previous year: € 1,261.4 million, followed by Asia / Pacific with € 646.4 million (previous year: € 557.4 million), Americas with € 498.1 million (previous year: € 376.7 million) and the Region Middle East / Africa / Russia with € 157.2 million (previous year: € 148.0 million). The largest percentage increase was reported in the Region Americas with € 121.4 million (+ 32.2 %), followed by the Region Asia / Pacific with € 89.0 million (+ 16.0 %). The Region Middle East / Africa / Russia also developed well with a plus of € 9.2 million (+ 6.2 %). The companies in Europe remained stable with growth of € 10.3 million (+ 0.8 %).

Sales revenue by segment



Pumps

Sales revenue in the Pumps Segment amounted to € 1,390.2 million (previous year: € 1,271.1 million). The Standard Markets accounted for € 1,128.8 million and the Energy and Mining operating segments for € 261.4 million. A decline in sales revenue in the Energy Market Area due to the COVID-19 lockdowns in China and sanctions against Russia was offset by a marked increase in the General Industry and Water Standard Markets in particular. Europe remains by far the largest Region with sales revenue of € 670.1 (previous year: € 661.2 million), followed by Asia / Pacific with € 407.4 million (previous year: € 357.1 million), then the Region Americas and the Region Middle East / Africa / Russia.

Valves

In the Valves segment, sales revenue was € 333.1 million after € 305.6 million in the previous year. Both the standard business and the project business performed positively over the course of the financial year. Severe hail damage in the factory in La Roche-Chalais (France) resulted in production delays, most of which could be worked off by the end of the year. Europe remains by far the largest Region with sales revenue of € 199.7 million (previous year: € 197.2 million), followed by Asia / Pacific with € 102.2 million (previous year: € 85.3 million), then the Region Americas and the Region Middle East / Africa / Russia. Strong double-digit growth rates were achieved in the three Regions Americas, Asia / Pacific and Middle East / Africa / Russia.

KSB SupremeServ

Sales revenue in the KSB SupremeServ Segment amounted to € 850.1 million (previous year: € 766.9 million). This sharp increase was a result of the positive development of the spare parts business. However, the increase in sales revenue did not keep pace with order intake. The largest Region by far is Europe with sales revenue of € 401.9 million (previous year: € 403.0 million), followed by Americas with € 257.9 million (previous year: € 203.0 million), then Asia / Pacific and Middle East / Africa / Russia. The Region Americas achieved the strongest growth rate, mainly due to the positive development of the Mining business.

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

The KSB Group achieved earnings before finance income / expense and income tax (EBIT) of € 169.1 million (previous year: € 141.2 million). The earnings improvement is primarily attributable to higher sales revenue and higher margins in the KSB SupremeServ Segment.

Pumps

EBIT in the Pumps Segment amounted to € 27.7 million (previous year: € 24.1 million), with the standard business in particular contributing to the very good result. The main drivers were higher sales revenue and a better profit quality. The EBIT margin achieved was 2.0 % (previous year: 1.9 %).

Valves

EBIT in the Valves Segment was € – 4.6 million (previous year: € – 6.6 million). Higher sales revenue could more than offset the negative effects of the hail storm at the La Roche-Chalais site in France. The EBIT margin achieved was – 1.4 % (previous year: – 2.1 %).

KSB SupremeServ

Thanks to the profitable growth in the spare parts business, EBIT was increased by € 22.4 million to € 146.0 million (previous year: € 123.6 million). This equates to an EBIT margin of 17.2 % (previous year: 16.1 %).

TOTAL OUTPUT OF OPERATIONS

Total output of operations amounted to € 2,674.5 million compared with € 2,360.1 million in the previous year. In addition to the € 229.8 million increase in sales revenue, the € 99.4 million increase in inventories (previous year: € 14.5 million) also had a positive effect on the total output of operations.

INCOME AND EXPENSES

Other income rose by € 6.8 million year on year to € 34.5 million (previous year: € 27.7 million). The increase is mainly due to € 2.4 million higher insurance income and € 2.3 million higher income from the reversal of impairment losses.

169.1

Consolidated earnings (EBIT) in € millions

The cost of materials in relation to total output of operations increased moderately from 41.3 % in the previous year to 43.2 % in the reporting year, due to higher procurement costs in particular. Overall, the cost of materials thus rose more than the total output of operations to € 1,156.3 million compared with € 975.4 million in the previous year.

Staff costs rose from € 837.2 million to € 901.6 million in the financial year (a rise of € 64.4 million). The increase is largely attributable to the higher headcount and to increased profit bonuses for employees. The number of employees rose from 15,287 to 15,643 on average over the year. On average in the reporting year, the KSB Group had 356 employees (+ 2.3 %) more than in the previous year. Asia / Pacific reported the greatest increase in the number of employees with a plus of 186. The number of employees in the Region Americas rose by 121. Despite the higher number of employees, the total output per employee rose strongly from € 154 thousand to € 171 thousand, due to the 13.3 % increase in the total output of operations.

Depreciation and amortisation fell by € 9.5 million to € 90.4 million compared with the prior-year period. This is as a result of the impairment losses of € 5.6 million on property, plant and equipment and goodwill (previous year: € 0.7 million). At € 84.8 million, scheduled depreciation and amortisation was also € 4.6 million higher than the previous year (€ 80.2 million).

At € 391.6 million, other expenses exceeded the prior-year level by € 38.4 million (€ 353.2 million). This is largely attributable to € 20.5 million higher administrative expenses. A renewed increase in travel activity and higher entertainment expenses contributed in particular to the increase. € 19.1 million higher maintenance costs and third-party services were also incurred. However, the ratio was reduced from 15.0 % in the previous year to 14.6 % of total output of operations in the financial year.

The finance income / expense amounted to € – 8.4 million (previous year: € – 1.2 million). While interest income on back payment claims of € 5.0 million was achieved in the previous year, the € 2.2 million increase in interest expenses on pension claims also contributed to the lower finance income / expense.

EARNINGS

The KSB Group generated earnings before income tax (EBT) of € 160.7 million compared with € 139.9 million in the previous year. Correspondingly, the return on sales before income tax rose marginally from 6.0 % in the previous year to 6.2 %. Taxes on income rose from € 29.6 million to € 33.3 million. The income tax rate fell from 21.2 % in the previous year to 20.7 % in the reporting year. Overall, earnings after income tax rose from € 110.3 million in the previous year to € 127.3 million in the reporting year.

At € 23.7 million, earnings attributable to non-controlling interests rose by € 7.0 million compared with the previous year. Relative to earnings after income tax, there was therefore an increase from 15.1 % to 18.6 %.

Earnings attributable to shareholders of KSB SE & Co. KGaA (€ 103.6 million) were € 10.0 million higher than in the previous year (€ 93.6 million).

Earnings per ordinary share were € 59.05, compared with € 53.34 in the previous year, and € 59.31 per preference share, compared with € 53.60 in 2021.

Financial Position and Net Assets

FINANCIAL POSITION

The KSB Group's financial position remains very good. Equity increased substantially in the reporting year. This was reflected in a higher equity ratio of 45.4 % (previous year: 37.6 %). The strong expansion of net working capital due to uncertain supply chains was financed from the Group's liquidity.

Liquidity

KSB recorded cash flows from operating activities of € 2.1 million compared with € 163.9 million in the previous year. Despite the € 17.0 million increase in earnings after income tax, cash flows from operating activities declined by € 161.8 million. This is mainly attributable to a higher commitment of funds in inventories (€ 174.7 million) and trade receivables (€ 80.2 million). Conversely, trade payables and contract liabilities led to an inflow of funds of € 43.3 million and € 34.7 million respectively.

The outflows from investing activities rose by € 12.6 million from € – 76.4 million in the previous year to € – 89.0 million in the reporting year. This is attributable to € 28.4 million higher payments to acquire intangible assets and property, plant and equipment, partially offset by € 13.6 million higher net proceeds from deposits with an original maturity of more than three months after reclassification to cash and cash equivalents.

The negative cash flow from financing activities increased year on year by € 32.4 million to € – 75.8 million. This is attributable to € 38.2 million in payments for financial liabilities (previous year: € 14.4 million). The increase is a result of the redemption of the last tranche of the loan against borrower's note. In addition, dividend payments rose to € 30.0 million (previous year: € 19.2 million).

All in all, cash and cash equivalents decreased from € 386.7 million in the previous year to € 228.6 million, mainly because of an outflow of € 162.8 million as well as exchange rate gains of € 4.3 million.

From the current perspective, the KSB Group's finance management continues to assume that it meets its goal of ensuring liquidity at all times essentially without any additional external financing measures. In addition, a syndicated loan has been in place since December 2018 to protect against potential liquidity risk and cover the need for bank guarantees of the KSB Group. The credit line can be used at any time and has a fixed term of five years with the option to renew twice by one year each time. In the 2020 financial year, KSB availed itself of this option for the second time and extended the fixed term of the line early, until the end of 2025.

For more information on liquidity management (such as credit lines) see the section on Risk Reporting on the Utilisation of Financial Instruments elsewhere in this group management report.

Investments

The additions to intangible assets amounting to € 5.2 million are above the prior-year level (€ 4.0 million).

At € 101.0 million, investments in property, plant and equipment in the reporting year were up € 19.0 million on the previous year (€ 82.0 million). At € 38.1 million (previous year: € 41.3 million), the highest additions related to advance payments and assets under construction, as in the previous year. Another € 20.5 million related to other equipment, operating and office equipment (previous year: € 15.9 million), while € 22.7 million related to plant and machinery (previous year: € 14.1 million). As in 2021, the focus of capital investment activity was the Region Europe, mainly Germany, Luxembourg and France. Outside Europe, the highest additions were made at the plants in India, the USA and China.

Net financial position

The net financial position, at € 225.6 million, fell by € 140.0 million from € 365.6 million in the previous year. It is derived from the balance of interest-bearing financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans to companies accounted for using the equity method as well as companies that were not consolidated due to there being no material impact, cash and cash equivalents and receivables from deposits). The reduction of the net financial position is essentially due to the significant decline in cash flows from operating activities.

Contingent liabilities and other financial obligations

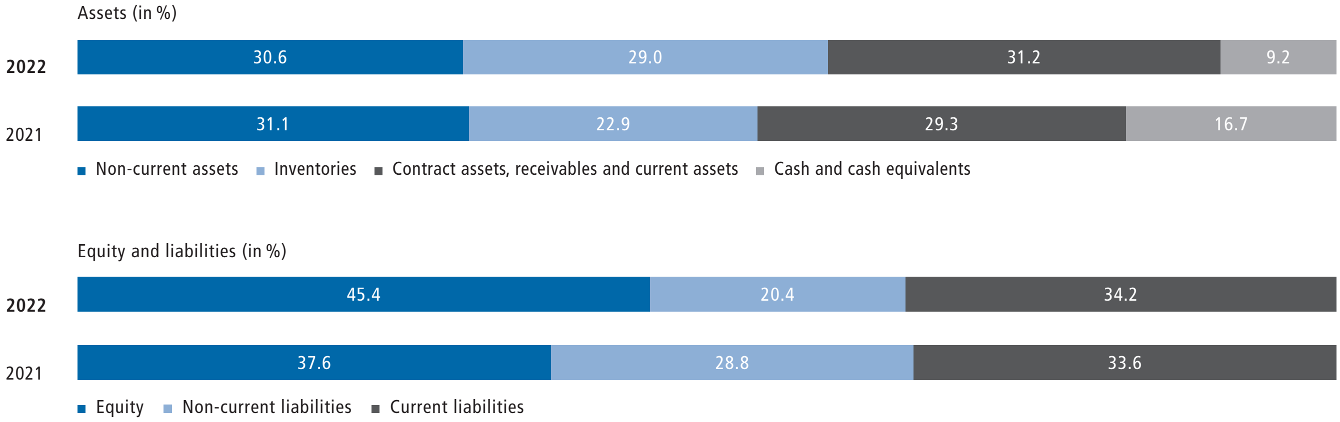
The contingent liabilities as at the reporting date totalled € 33.9 million, ranging at prior-year levels (previous year: € 33.0 million).

There are no other obligations and commitments beyond the reporting date. Further financial obligations arise only within the normal scope from purchase commitments amounting to € 27.3 million (previous year: € 19.1 million).

225.6

Net financial position in € millions

Balance sheet structure



NET ASSETS

Around 30.6 % of funds is attributable to non-current assets (previous year: 31.1 %). Intangible assets and property, plant and equipment with a historical cost of € 1,657.0 million (previous year: € 1,555.4 million) have carrying amounts of € 651.2 million (previous year: € 613.7 million). Total intangible assets fell from € 75.9 million in the previous year to € 72.7 million. This was primarily due to depreciation and amortisation. In addition, impairment of goodwill in the Pumps Segment of € 0.8 million and of € 0.9 million in the KSB SupremeServ Segment was reported.

Right-of-use assets for leases (€ 40.2 million) are at the previous year's level (€ 42.7 million).

Property, plant and equipment increased from € 537.8 million to € 578.5 million as a result of capital expenditure (€ 101.0 million) in excess of depreciation of € 64.9 million. The positive currency translation effects of € 6.0 million also contributed to the increase in property, plant and equipment.

The carrying amount of financial assets, investments accounted for using the equity method and non-current other non-financial assets remained unchanged year on year at € 29.3 million. At € 20.8 million, the investments accounted for using the equity method are largely at the previous year's level (€ 20.2 million).

Deferred tax assets rose by € 2.5 million to € 37.1 million (previous year: € 34.6 million).

Inventories amounted to € 719.2 million (previous year: € 529.5 million) so that the figure recognised was € 189.7 million higher. This increase relates to work in progress and inventories of finished goods and to raw materials, consumables and supplies. In addition to higher procurement prices, the impact of uncertain supply chains also contributed to the increase. On the one hand, materials were ordered earlier than in previous years and put in storage. On the other, orders could not be delivered due to a lack of materials.

Contract assets edged up marginally from € 79.3 million in the previous year to € 80.0 million.

Trade receivables increased from € 479.2 million at the end of the previous year to € 579.5 million. This increase resulted mainly from the high sales revenue at the end of the financial year.

At € 71.5 million, other financial assets were down € 8.6 million from the prior-year level (€ 80.1 million). The € 12.5 million reduction in other cash and cash equivalents with a maturity of more than three months impacted here in particular. At € 42.2 million, other non-financial assets are largely at the previous year's level (previous year: € 39.3 million).

Cash and cash equivalents accounted for around 9.2 % of assets totalling € 228.6 million (previous year: € 386.7 million). The reasons for the decline are explained in the Liquidity section of the management report.

Total assets increased by 7.1 % to € 2,478.9 million, mainly due to the increase in current assets. In addition to the € 189.8 million increase in inventories, the € 100.3 million rise in trade receivables also contributed, while cash and cash equivalents declined by € 158.1 million.

EQUITY

KSB Group equity amounts to € 1,125.6 million (previous year: € 869.1 million). This includes KSB SE & Co. KGaA's subscribed capital of € 44.8 million as in the previous year. The capital reserve remains unchanged at € 66.7 million. Revenue reserves increased by a total of € 241.2 million. The net retained earnings of € 127.3 million had a particular impact in this context. The remeasurement of defined benefit plans in the amount of € 144.8 million also led to an increase. This increase is attributable to the rise from 1.2 % to 3.7 % in interest rates on pension commitments, which resulted in higher actuarial gains. In addition, currency translation gains of € 12.5 million contributed to the increase in equity. The revenue reserves include the proportion of earnings after income tax attributable to KSB SE & Co. KGaA shareholders, at € 103.6 million (previous year: € 93.6 million). Out of total equity, € 209.7 million (previous year: € 194.4 million) is attributable to non-controlling interests. The equity ratio increased to 45.4 % (previous year: 37.6 %) despite higher total equity and liabilities.

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

Inflation and exchange rate effects

Of the Group's consolidated companies, the annual financial statements of the Argentinian and the Turkish company had to be adjusted for the effects of inflation. The net loss from the monetary depreciation of the affected monetary assets and liabilities to be taken into account under IAS 29, amounting to € 4.6 million (previous year: € 1.8 million), is included in the income statement under other financial expenses within finance income / expense.

Currency translation of financial statements of consolidated companies that are not prepared in euro gave rise to a difference of € + 12.5 million (previous year: € + 30.3 million). The total of currency translation differences was taken directly to equity.

45.4

Equity ratio in percent

Liabilities

The largest item under liabilities continues to be provisions for employee benefits, including, also as the largest item, pension provisions, which decreased by € 161.8 million from € 613.4 million to € 451.6 million. The reduction of € 158.4 million (previous year: € 54.6 million) is due to actuarial gains / losses. This is explained largely by the sharp increase in the discount rates. Obligations for current pensioners and vested benefits of employees who have left the company account for about 51.7 % of the amount recognised in the balance sheet. The rest is attributable to defined benefit obligations for current employees.

Long-term financial liabilities fell slightly year on year to € 24.1 million (previous year: € 27.1 million).

The other non-current and current provisions for employee benefits were also largely unchanged at € 22.8 million (previous year: € 23.5 million).

Other non-current and current provisions fell slightly from € 95.0 million in 2021 to € 93.0 million in 2022.

Current liabilities rose overall by € 70.6 million to € 848.9 million compared with € 778.3 million at the 2021 year end. The share of current liabilities relative to total equity and liabilities rose slightly to 34.2 % (previous year: 33.6 %).

The repayment of the last tranche of the loan against borrower's note led to a € 25.3 million decrease in current financial liabilities, from € 51.9 million in the previous year to € 26.6 million.

Contract liabilities increased from € 157.4 million in the previous year to € 186.5 million. This is attributable to a € 21.2 million reduction in the level of processing of customer contracts and to higher advance payments of € 7.9 million.

Trade payables rose to € 333.4 million (previous year: € 272.8 million) as a result of the higher business volume.

Other non-financial liabilities increased by € 7.1 million, above all due to higher personnel liabilities and other tax obligations.

Summary of the Performance in the Financial Year

The company raised the previous year's forecast for order intake, which was expected to be in a range between € 2,350 million and € 2,650 million, in an ad hoc statement in October 2022 to between € 2,800 million and € 3,000 million. This was due to several large-scale orders, especially in the Energy operating segment and to strong demand for standard products. The strong growth in order intake from € 2,411.7 million to € 2,862.1 million placed it within the updated forecast corridor. KSB is very satisfied with the order intake achieved in the reporting year. The figures for the order intake of the individual Segments also performed in line with the circumstances described in the ad hoc statement, with all Segments reporting strong growth compared with the previous year.

The forecast for sales revenue provided in the 2021 Annual Report, expected to be in a range between € 2,300 million and € 2,600 million, was achieved. The Group is very satisfied with the sales revenue recorded of € 2,573.4 million (previous year: € 2,343.6 million). The forecast of a stable to strong increase for the Pumps Segment was achieved with growth of 9.4 %. The two Valves and KSB SupremeServ Segments, for which the Company predicts a stable to noticeable increase in sales revenue, also posted strong growth.

At € 169.1 million, EBIT in the 2022 financial year is at the upper end of the forecast range of € 130 million to € 170 million. Detailed information on the reasons for the EBIT performance is provided in the "Earnings before finance income / expense and income tax (EBIT)" section. The projections for strong growth for the Pumps Segment, as well as the forecast substantial increase for the Valves Segment were achieved in the financial year. KSB assumed a stable to noticeable rise in EBIT for the KSB SupremeServ Segment. This was exceeded in the reporting year with a strong increase.

The assumptions made in the previous year's consolidated financial statements regarding an expected market recovery and the anticipated growth in project business in the Energy operating segment have essentially materialised. The company can also confirm the expected contribution to earnings from the Region Asia / Pacific. As expected, the growth in sales revenue contributed significantly to the increase in EBIT. Combined with an improved profit quality, this led to a positive performance of this indicator. The Management of the KSB Group is therefore very satisfied with business performance in the reporting year.

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

Report on Expected Developments

The International Monetary Fund (IMF) recently lowered its forecast for global economic growth in 2023 again to + 2.9 % in real terms. The adjustment was mainly attributable to the weaker trends in the industrialised nations and China. Overall, expectations regarding inflation for the current year are considerably lower than in the previous year, but were raised recently. The downside risks still prevail in this forecast, especially in conjunction with the ongoing war in Ukraine and its implications for the energy and commodity markets. Geopolitical risks arise in further conflict regions of the world, as well as through the mutual decoupling of the USA and China. Pandemic-related restrictions could also occur again. Getting the monetary policy dosage right also poses a risk, as an overly hesitant policy of raising key interest rates can lead to further increases in inflation expectations, while excessive monetary policy tightening can hamper global growth and push the economy into a prolonged recession.

The IMF is projecting an overall growth rate of + 4.0 % for the emerging markets and developing countries.

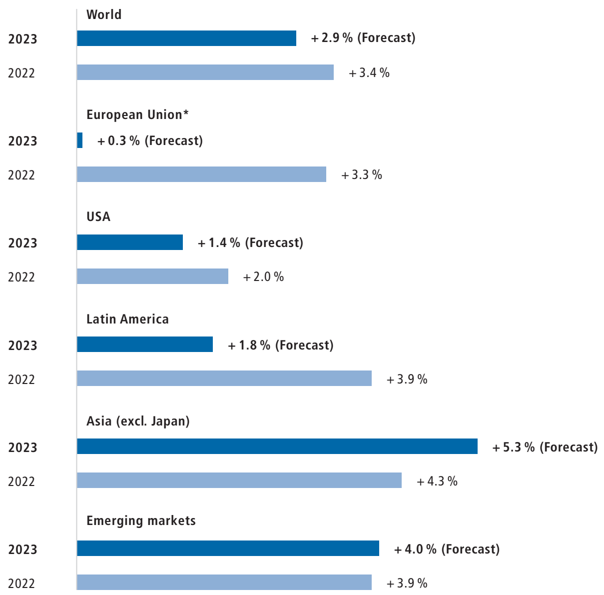
The expected growth in the industrialised nations, at + 1.2 % in 2023, is significantly lower than in 2022. Growth expectations in the USA are + 1.4 %, reflecting the high inflation and rising key rates. They take into account the stimulus effect of the legislation passed in the past two years to promote investment in infrastructure and green technologies. In line with this, the forecast for the Canadian economy was also lowered to + 1.5 %.

Growth of only + 0.7 % is forecast for the euro zone in the face of the energy crisis. For Germany, the most recent forecast was + 0.1 %. In France, economic growth is anticipated to slow down to + 0.7 %. For Spain, the forecast is+ 1.1 %. A decline of – 0.6 % is expected for the UK.

The IMF expects growth in Turkey to slow down to + 3.0 %. Saudi Arabia's economic growth is projected to decline to 2.6 %, down from the previous year.

In Asia, the expected growth rate is expected to exceed the previous year overall, which is attributable to higher year-on-year growth in China. For China, the forecast was most recently + 5.2 %. The IMF anticipates a growth rate of + 6.1 % for India in the current year.

Gross domestic product growth



Source: International Monetary Fund (January 2023)
*Source: EU Commission (November 2022)

Growth of 4.3 % is projected for the ASEAN countries, which also include important sales markets for KSB.

The Latin American countries are also expected to grow more slowly overall than in the previous year, by + 1.7 %. Growth of only + 1.0 % is expected in Brazil.

Given the deterioration in the global economic outlook, the growth in demand for capital goods is expected to be lower. In its forecast for global sales of plant and machinery, VDMA refers to the scenarios from Oxford Economics. Sales revenue adjusted for price is expected to rise by 1 % in the base case scenario. For Germany, the VDMA forecast is – 2 %. In China, sales revenue is expected to grow by 5 %. A decline of – 5 % is expected for the USA.

For manufacturers of liquid pumps in Germany, VDMA foresees a below-average growth of + 3 % in nominal terms in the current year. It predicts an increase of + 5 % for industrial valves. Sales revenue for building services valves is expected to rise by 3 % in nominal terms.

SUMMARY OF EXPECTED DEVELOPMENT

For the 2023 financial year, KSB expects to achieve the key financial performance indicators presented in the table below:

Expected development

€ millions	Actual 2022	Forecast 2023
Order intake	2,862.1	2,750 – 3,000
Sales revenue	2,573.4	2,500 – 2,850
EBIT	169.1	165 – 200

Global economic growth is expected to be the main driver of the development in order intake, sales revenue and EBIT. KSB assumes that growth in sales revenue will exceed that of order intake. The growth in EBIT will be supported by the Standard Markets. KSB expects the strongest growth in EBIT from the Regions Europe and Asia / Pacific, as in the previous year.

The Group anticipates a noticeable decline in the 2023 financial year for the Pumps Segment, which achieved order intake of € 1,585.7 million in the reporting year, as fewer large-scale projects are expected in the 2023 financial year. KSB anticipates a slight to tangible increase in order intake in the Valves Segment, which amounted to € 359.7 million in the reporting year. KSB expects to slightly exceed the order intake of € 916.7 % in the reporting year for the KSB SupremeServ Segment in 2023.

The Pumps Segment contributed € 1,390.0 million to the Group's consolidated sales revenue in the reporting year. KSB expects a strong increase in this Segment for the 2023 financial year. It expects a slight to significant increase in 2023 for the Valves Segment, which achieved sales revenue of € 333.1 million in the reporting year. The KSB SupremeServ Segment contributed € 850.1 million to consolidated sales revenue. KSB forecasts a stable to slightly higher development in sales revenue.

The Pumps Segment generated earnings before finance income / expense and income tax (EBIT) of € 27.7 million in the 2022 reporting year. KSB is planning strong earnings growth in this Segment for the 2023 financial year. It also expects a strong increase in the Vales Segment. In the reporting year, the Valves Segment achieved EBIT of € – 4.6 million. In the KSB SupremeServ Segment, which contributed € 146.0 million to EBIT in the reporting year, KSB expects a stable to slight increase in EBIT.

KSB sees a potential escalation of the Russia-Ukraine war in particular as having negative effects on the forecast. In addition, the supply chains remain strained and rising procurement costs can jeopardise the forecasts, despite the slight improvement.

FORWARD-LOOKING STATEMENTS

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

Opportunities and Risks Report

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

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, Legal, Finance and Accounting as well as Internal Audits perform important monitoring tasks.

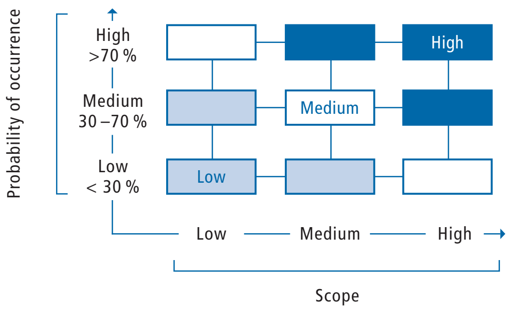
RISK MANAGEMENT SYSTEM

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

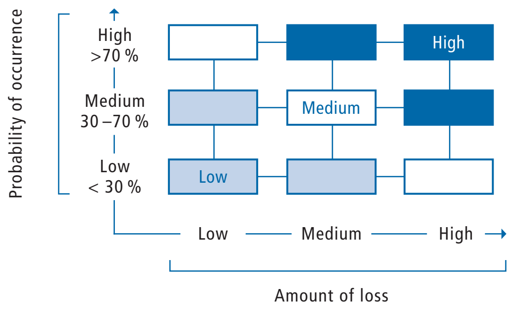
Managers are encouraged to take timely action to define and implement measures to limit or avoid damage that may result from the occurrence of risk events. All corporate and central functions and Group companies, including Group companies that are not consolidated, are included in the risk management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

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

Qualitative risks



Quantitative risks



Categorisation of the loss

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

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

Quantitative risks are risks for which a potential monetary impact on the earnings and/or liquidity of the KSB Group can be estimated. They are evaluated taking into account the specifically calculated probability of occurrence in combination with the potential amount of loss. The scope or amount of loss describes the potential influence of the individual risk on the key indicator of earnings before finance income / expense and income tax (EBIT) or liquidity of the KSB Group or the respective Group company. A distinction is made between a gross method before taking into account any corrective action that has been taken, and a net method after taking into account such measures. Risk assessment at KSB covers all relevant risk areas for internal and external risks arising from the KSB business and the Group's inherent risk profile. In this context, gross impacts of all individual and similar risks of € 500 thousand or more on EBIT are to be reported uniformly throughout the Group at the earliest possible time, regardless of how the risk is assessed in terms of probability of occurrence. Purely cash-effective risks are reported as from a gross impact of € 5.0 million or more.

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

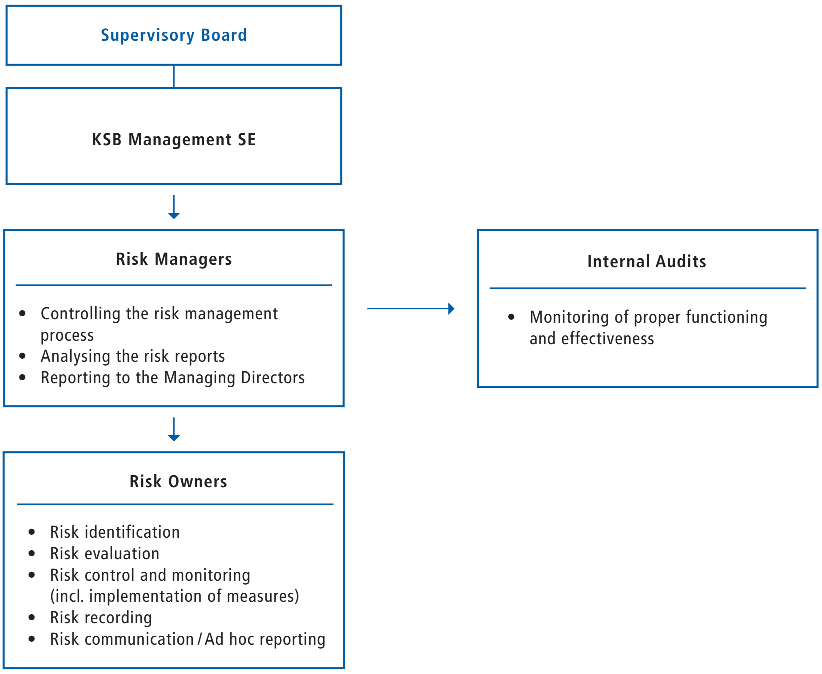
→ Qualitative risks – Quantitative risks

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

→ Categorisation of the loss

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

Risk management at KSB



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

→ Risk management system of the KSB Group

As the legal representative, KSB Management SE assumes overall responsibility for risk management. KSB Management SE reports to the Supervisory Board of KSE SE & Co. KGaA via its Managing Directors during regular Audit Committee meetings and is monitored by the latter. The Managing Directors are supported by the Chief Compliance Officer and the Group Finance and Accounting department of KSB SE & Co. KGaA. The latter coordinates the risk management process at Group level and checks all risks reported for relevance to the preparation of financial statements. This ensures that there is a systematic link with the Group accounting process. The Managing Directors, the Administrative Board and the Supervisory Board's Audit Committee receive at least two risk reports per financial year. These reports include all the risks that are classed as medium or high that exceed pre-defined threshold values individually or collectively, taking into consideration any corrective action that has been taken (net risk). The net method enables the Managing Directors to focus specifically on the reported risks. Additionally, the risk-bearing capacity of the KSB Group is regularly monitored on the basis of the overall risk position, which is developed by aggregating all the risks recorded. This makes it possible to identify early on any developments that could threaten business continuity in the period under review. Particularly time-critical risks and materially new or materially changed risks are to be reported by the responsible managers to the Managing Directors of KSB Management SE on an ad hoc basis. In contrast, opportunities are not taken into account in KSB's current risk management system. They are documented and reported separately by the Risk Managers of the Group headquarters and regional managers in line with the specifications for risk assessment outside the risk management system.

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

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

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

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

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

In addition, Accounting and Controlling carry out regular analytical plausibility checks of the financial information requested from the companies as well as 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. The services of qualified external reviewers are employed to evaluate complex issues (such as the calculation of pension obligations) as part of the preparation of the financial statements.

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 includes guidelines for posting intra-Group transactions. New accounting principles and other official announcements are continually analysed with regard to their relevance and impact on the consolidated financial statements. Guidelines and manual are adapted where necessary and any changes communicated immediately to the companies. Group Accounting likewise monitors compliance with requirements. This reduces the risk of compiling inappropriate financial statements or failing to publish them by the defined deadlines.

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

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

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

INDIVIDUALLY ASSESSED OPPORTUNITIES AND RISKS

The categories presented below include the qualitative and quantitative net risks classed as medium or high and the material opportunities for business development as at 31 December 2022 for the period under review. Where risks are not flagged as high, they are classed as medium risks. Unless otherwise stated, the following risks relate to all Segments.

Markets / Competition

The forecast for the 2023 financial year is based on the expectations and assumptions regarding general economic performance and global GDP as described in the Report on Expected Developments. There are risks for the Group's business, if inflation rates remain persistently high, despite short-term fluctuations, and longer-term bottlenecks in the procurement markets have a negative impact on the growth rates of the countries. These risks have decreased compared with the previous year as a result of their being included in the forecast. In addition, government interventions can lead to a decline in demand in individual businesses. The Group manages the risk of fluctuations in the economy and in demand by remaining active in several markets and industries with different economic cycles. Furthermore KSB monitors the development of the economic environment for its markets. If necessary, capacities are adjusted, production facilities relocated and cost-cutting measures implemented.

Other risks arise in particular through geopolitical uncertainty resulting from trade conflicts and numerous global flash points. KSB classifies the further development of the war in Ukraine as a particularly high risk with regard to duration and potential escalations, as it is currently not possible to estimate the effects on the global economy and therefore on the Group's business activities. In this context, the impact on prices and the availability on KSB's procurement markets is currently not foreseeable either and is therefore not quantifiable.

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

Due to the progression of climate change and the legal requirements this involves, it is becoming increasingly important for many companies to manufacture as energy-efficiently as possible and thus significantly reduce emissions. This development offers KSB opportunities in many respects.

Hydrogen is playing an increasingly important role as a climate-neutral energy source in reducing CO_2. KSB participates in this technological trend by providing pumps and valves for use in hydrogen production systems. This offers opportunities for the General Industry Market Area and for Valves.

CCUS (Carbon Capture, Utilisation and Storage) technologies are another option for reducing emissions, for which KSB provides reliable and secure solutions. Sequestering carbon dioxide under the ground prevents it from being released into the atmosphere.

The energy crisis also offers opportunities for Valves by participating in new and retrofit projects in the energy business and in LNG projects.

Projects / Products

The markets' requirements for the products are constantly changing. KSB will only succeed if it meets its delivery deadlines and offers technically advanced products in good quality at competitive prices. To minimise the high risk of delays in delivery, which may diminish the company's reputation with the customer as well as result in 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 multi-step approval process. In this way, KSB counters the risk of schedule and cost overruns.

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

In KSB's business, there are special requirements when it comes to the processing of technically complex large-scale projects with long contract terms. These typically involve potential risks. There may be cost overruns, tighter import regulations or sanctions, 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 is designed to enable 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. KSB's goal is to ensure that advance payments and collateral provided by customers at least cover the costs incurred. KSB reported contingent liabilities of € 5.1 million (previous year: € 5.6 million) for the warranty obligations and contractual penalty risks that were not covered by corresponding provisions. Of this amount, € 0 million is attributable to KSB SE & Co. KGaA, as in the previous year. Beyond this KSB sees no material residual risk (net risk).

KSB continues to develop new business models as well as the portfolio of digital products and services. There are opportunities here for KSB SupremeServ as a result of climate change and the need to save energy. KSB offers customers the opportunity to achieve a higher level of efficiency by comprehensively measuring all relevant process variables of a plant. By analysing the data, experienced project engineers make recommendations for action that can save 40 % of the energy used on average.

Business with products for the heat transfer fluid industry is developing more positively than assumed in the forecasts, thus providing additional growth opportunities for the General Industry Market Area. Production processes where thermal oil is used as a heat transfer fluid require indirect temperature control. Thermal oil systems assume this task, so there is no need for heating elements for direct temperature control and a second fluid circuit for cooling. Thermal oil systems that previously used mineral heat transfer fluids are increasingly being converted to synthetic heat transfer fluids. To attract new customer groups in this growing market, KSB offers workshops and customer seminars to provide application know-how.

Finance / Liquidity

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. The hedges are based on fixed contracts and on forecasts about future payment streams, the occurrence of which is uncertain.

Economic downturns or newly emerging crisis may adversely affect the financial situation of customers. Delayed payments and defaults on receivables as a result of this can burden the earnings. 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.

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 of every jurisdiction. Uncertainty could arise due to different factual interpretations by taxable entities on the one hand and local finance authorities on the other, as well as due to unclear legislative texts. These may come to light during audits. By cooperating closely with external local tax specialists, KSB counteracts the risk of having to pay back taxes. As KSB continually monitors unclear issues, it can generally classify the probability of occurrence. Should a need for subsequent payment arise, the corresponding tax liabilities are recognised in good time. In the Notes to the consolidated financial statements, KSB also reports contingent liabilities of € 0.2 million (previous year: € 0.7 million) from risks associated with income taxes. Of this amount, € 0 million is attributable to KSB SE & Co. KGaA, as in the previous year. € 13.2 million (previous year: € 13.0 million) are reported as contingent liabilities for risks from other tax matters. Of this amount, € 0 million is attributable to KSB SE & Co. KGaA, as in the previous year.

Procurement

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

Technology / Research and Development

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 – 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.

In addition to these risks, the changing needs of KSB's customers also offer opportunities for future business. KSB meets the requirement for a reliable plant and the associated smooth production process with products featuring integrated sensors and protection modules that enable condition monitoring in real time. Problems can be identified early on and the probability of pump failure is substantially reduced. Maximum operational reliability is of particular relevance in critical applications as part of industrial and chemical manufacturing processes. KSB leverages this potential by producing innovative products that meet the necessary criteria.

Other business-specific opportunities and risks – Environment

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

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

In addition, KSB is exposed to risks from climate and natural hazards. In a first step, KSB evaluates its sites with regard to these risks. Sites identified to be exposed to risks based on this evaluation are examined in greater detail in relation to risks from climate and natural hazards, in order to develop and implement individual solutions. Basically KSB counters risks from climate and natural hazards by means of a differentiated production network. This facilitates a flexible response to breakdowns at production sites.

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.

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

The worldwide increase in threats to IT security and in cyber crime entail a high risk in terms of the security of systems and networks as well as the confidentiality and availability of data. KSC was the target of a cyber attack in the 2022 reporting year. In response to this, the Management decided to disconnect the company from the Internet, and to review and secure the entire IT infrastructure worldwide for malware. These measures led to a temporary production downtime and months of safeguarding work. KSB plans to further expand IT security in the years ahead as part of a multi-year program to continuously extend the protection of the IT systems.

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 programmes.

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 high risks are usually disputes arising from operative business, generally involving unclear warranty issues or labour law disputes. The reassessment of labour law disputes in particular led to increased risk. If as a result of these issues KSB expects negative effects on the success of its business with a probability of occurrence of more than 50 %, corresponding provisions are set aside, which cover not only the anticipated amount of loss, but also the costs of proceedings. In addition, KSB reports contingent liabilities in the amount of € 3.1 million (previous year: € 3.6 million) in the Notes to the consolidated financial statements, € 2.0 million of this is attributable to KSB SE & Co. KGaA (previous year: € 2.3 million).

KSB seeks to counter external fraud activities by raising awareness of its employees and through internal controls. At the same time, KSB continues to develop its compliance organisation. Maintaining its competitive advantage and protecting trade and business secrets is of considerable economic significance to the company. The company responds with specific requirements on conduct to take into account the different protection needs.

To make use of potential opportunities arising from strategic mergers or acquisitions, KSB continuously monitors the current market situation as well as forecast developments. This allows it to expand market shares or tap into new areas of application.

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

RISK REPORT ON THE UTILISATION OF FINANCIAL INSTRUMENTS

Central Finance 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. In export business transactions, foreign exchange and credit risks are hedged. 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 exposed to credit risk, which is defined as potential default or delays in the receipt of contractually agreed payments. KSB is also exposed to liquidity risk which is the risk that an entity will be unable to meet its financial obligations, or will be unable to meet them in full. In addition, KSB is exposed to market price risk. Exchange rate or interest rate changes may adversely affect the economic position of the Group. Risks from fluctuations in the prices of financial instruments are not material.

Foreign exchange hedges are used to reduce the risks from transactions involving different currencies. These are generally currency forwards, which KSB uses both for transactions that have already been recognised and for future cash flows from orders still to be processed. At year end, the notional volume of currency forwards used to hedge exchange rate risks totalled € 224.0 million (previous year: € 221.9 million). € 160.2 million of this is attributable to KSB SE & Co. KGaA (previous year: € 139.6 million). The hedged currency risk is mainly in US dollars. A global network of production sites in the local sales markets reduces potential currency risks.

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

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

OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS

The assessment of the KSB Group’s overall opportunity and risk situation is the result of the consolidated appraisal of all material opportunities and risks. There was no material change to the overall risk situation for KSB. The KSB Group sees IT security and rising prices of commodities and materials as its greatest risks. Significant technical interruptions and breakdowns of relevant systems can lead to considerable disruptions in business and production processes.

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

The risk management system in place as well as the related organisational measures allow KSB Management SE as the legal representative to identify risks in a timely manner and to take adequate measures. The focus of activities in 2023 will be on the principal risks. These are, in particular, IT security and potential changes in the price of commodities and raw materials. On the basis of the risk management system established by the KSB Group, and taking into account the regulatory requirements (IDW PS 340 n. F.), the legal representative states that at the present time, according to the analysis of the KSB Group’s overall risk position and risk-bearing capacity, no threat has been identified to business continuity

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

Balance Sheet

Assets

€ thousands	31 Dec. 2022	31 Dec. 2021
Fixed assets		
Intangible assets	38,276	41,351
Property, plant and equipment	157,067	134,694
Financial assets	337,838	296.511
	533,181	**472,556**
Current assets		
Inventories	300,754	250,936
Advances received from customers	–88,664	–95,924
	212,090	**155,012**
Receivables and other assets	362,283	301,927
Cash and balances with credit institutions	34,704	104,523
	396,987	**406,450**
Prepaid expenses	**3,970**	**3,523**
	1,146,228	**1,037,541**

Equity and liabilities

€ thousands	31 Dec. 2022	31 Dec. 2021
Equity		
Subscribed capital	44,772	44,772
Capital reserve	66,663	66,663
Revenue reserves	136,180	136,180
Net retained profits	73,637	40,933
	321,253	**288,548**
Provisions		
Pensions and similar obligations	504,498	474,225
Miscellaneous other provisions	111,046	111,247
	615,544	**585,472**
Liabilities	**208,171**	**161,001**
Deferred income	1,260	2,520
	1,146,228	**1,037,541**

Income statement

Income statement

€ thousands	2022	2021
Sales revenue	**899,583**	**869,343**
Changes in inventories	18,012	3,197
Work performed and capitalised	1,244	1,745
Total output of operations	**918,839**	**874,285**
Other operating income	33,322	18,467
Cost of materials	–414,807	–383,444
Staff costs	–368,642	–338,780
Depreciation and amortisation expense	–20,056	–20,778
Other operating expenses	–163,544	–150,834
	–14,887	**–1,084**
Income from equity investments	93,320	47,609
Other finance income / expense	–16,863	–38,836
	76,457	**8,773**
Taxes on income	–5,910	–2,465
Earnings after taxes	**55,660**	**5,224**
Other taxes	–1,715	–1,592
Net profit / loss for the year	**53,945**	**3,632**
Profit / loss carried forward	19,692	37,301
Appropriation to other revenue reserves	–	–
Net retained earnings	**73,637**	**40,933**

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, Frankenthal, KSB Service GmbH, Schwedt, Uder Elektromechanik GmbH, Friedrichsthal, Dynamik-Pumpen GmbH, Stuhr, PMS BERCHEM GmbH, Neuss, Pumpen Service Bentz GmbH, Reinbek, and KAGEMA Industrieausrüstungen GmbH, Pattensen. These companies are therefore 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 (IFRSs), which are the basis of preparation for the consolidated financial statements of KSB, arise primarily from the recognition over time of revenue from customer 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

For KSB, the 2022 financial year was marked, among other things, by Russia's war of aggression against Ukraine, which resulted in considerable uncertainties in the procurement markets and supply chains, as well as massive price increases for supplier parts and energy. The COVID-19 pandemic again led to temporary production stoppages and increased absences due to illness at KSB in the reporting year.

The successfully averted cyber attack in the second quarter also entailed restrictions. Temporary interruptions to production and order processing were followed by comprehensive security measures in the IT infrastructure. The EU sanctions against Russia resulted in impairments on customer contracts in the amount of around € 13.5 million.

Order intake rose substantially compared with the previous year. This also applies to EBIT under IFRS for the financial year. Sales revenue under IFRS declined marginally. The key performance indicators – order intake, EBIT and sales revenue under IFRS – are, as described in the Control System section, the material financial performance indicators, which are also used for controlling KSB SE & Co. KGaA.

ORDER INTAKE

The volume of orders received by KSB SE & Co. KGaA rose by € 57.6 million to € 858.1 million in the reporting year, an increase of 7.2 %. While KSB SE & Co. KGaA recorded a very high order intake in the first half of the year, despite the outbreak of the war in Ukraine, rising inflation and uncertainty in the global political landscape resulted in slightly muted customer demand in the second half. KSB SE Co. KGaA's diversification across numerous regions and markets also helped keep the order intake at a high level.

SALES REVENUE

At € 899.6 million, total sales revenue under HGB was up by € 30.3 million on the prior-year figure of € 869.3 million.

The disclosures below refer only to sales revenue from the sale of pumps, valves and spare parts as well as services. Sales revenue of € 828.8 million generated in the 2022 financial year represents a year-on-year increase of € 26.2 million (3.3 %).

68 % of sales revenue relates to the new business with Pumps, 11 % to the new business with Valves, and 21 % to KSB SupremeServ which comprises all the service and spare parts business. The breakdown of sales revenue is broadly similar to that of the previous year.

Under IFRS, sales revenue fell from € 802.6 million in the previous year to € 796.0 million. The decline in large-scale projects is offset by improved business in the Standard Markets.

INCOME AND EXPENSES

Other operating income rose from € 18.5 million to € 33.3 million. This increase was mainly due to currency translation gains.

The cost of materials, at € 414.8 million, was considerably up on the prior-year level of € 383.4 million. The cost of materials relative to the total output of operations rose from 43.9 % in the previous year to 45.1 % in the reporting year.

Staff costs increased in absolute terms by € 29.9 million to € 368.6 million. This was impacted by significantly higher additions to pension provisions. Because of the substantial increase in staff costs, the 40.1 % share in total output of operations is higher than the previous year's figure of 38.9 %.

At € 163.5 million, other operating expenses showed a marked increase after € 150.8 million in the previous year. In addition to a general increase in costs, entertainment and travel costs and currency translation losses in the amount of € 9.7 million contributed significantly to this increase. Expenses for warranties and contractual penalties as well as losses and impairments on receivables showed a contrary trend.

Overall, the income from equity investments, at € 93.3 million, was significantly up from the prior-year level (€ 47.6 million). Income of € 37.6 million from the spin-off of the operational business activities at KSB Finanz S.A., Luxembourg, and subsequent integration into KSB SE & Co. KGaA was a major factor for the marked increase. It also includes profit transfers from the German service companies of € 14.6 million (previous year: € 9.1 million) and dividend income from affiliates and equity investments of € 41.1 million. € 25.0 million of this amount (previous year: € 25.0 million) relate to dividend income from KSB FINANZ S.A., Luxembourg.

NET PROFIT / LOSS FOR THE YEAR UNDER HGB

The decline in operative earnings from – € 1.1 million to – € 14.9 million results in particular from the high additions to pension provisions. This was more than compensated for by the strong increase in finance income / expense. As a result, KSB SE & Co. KGaA generated a net profit for the year of € 53.9 million in the 2022 financial year; this compares with a net profit of € 3.6 million in the previous year.

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

The EBIT determined in accordance with IFRS improved significantly and amounted to € – 6.0 million in the 2022 financial year (previous year: € – 12.0 million). The increases in total output of operations and other income were higher than the offsetting increases in cost of materials, staff costs and other expenses.

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. 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 € 30.3 million to € 504.5 million on the reporting date. Other provisions remained almost unchanged at € 111.0 million (previous year: € 111.2 million).

Of liabilities totalling € 208.2 million (previous year: € 161.0 million), € 71.5 million was accounted for by trade payables at year end (previous year: € 50.7 million). Liabilities towards affiliates and equity investments increased significantly from € 78.2 million in the previous year to € 128.4 million as a result of the partial merger of KSB Finanz S.A., Luxembourg. They include € 100.2 million (previous year: € 50.9 million) for intercompany loans and cash investments. € 22.0 million in liabilities from a loan against borrower's note were repaid in full in 2022. It had been placed on the market in 2012 to secure liquidity in the medium term.

NET ASSETS

Total assets, at € 1,146.2 million, are up by 10.5 % on the prior-year level of € 1,037.5 million. Lower cash and balances with credit institutions are due to the expansion in inventories and higher trade receivables. In addition, an increase in financial assets was recorded due to the partial merger of KSB Finanz S.A., Luxembourg.

In the reporting year, fixed assets made up 47 % (previous year: 46 %) of total assets. The share accounted for by current assets was 53 % after 54 % in 2021. Inventories including advance payments received totalled € 212.1 million after € 155.0 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 2021 net retained earnings of € 40.9 million, dividends totalling € 21.2 million (dividend of € 12.00 per ordinary share and € 12.26 per preference share) were distributed by resolution of the Annual General Meeting of 5 May 2022. The remaining amount of € 19.7 million was carried forward to new account.

Summary of the Performance in the Financial Year

The forecasts made at the beginning of the year were partly exceeded due to the global economic development. The order intake is considerably higher than the comparative figure in the previous year; the forecast had been for slight growth. The expected significant increases in sales revenue under IFRS did not materialise; a marginal decline was recorded due to the lower project business. EBIT under IFRS was expected to remain stable at the level of the previous year. However, a strong increase in EBIT was recorded, the reasons for which were explained in more detail in the “Earnings before finance income / expense and income tax (EBIT) under IFRS” sub-section.

Opportunities and Risks

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

Report on Expected Developments

The International Monetary Fund (IMF) recently lowered its forecast for global economic growth in 2023 again to + 2.9 % in real terms. The adjustment was mainly attributable to the weaker trends in the industrialised nations and China. Overall, expectations regarding inflation for the current year are significantly lower than in the previous year, but were raised recently. The downside risks still prevail in this forecast, especially in conjunction with the further course of the war in Ukraine and its implications for the energy and commodity markets. Geopolitical risks arise in further conflict regions of the world, as well as through the mutual decoupling of the USA and China. Pandemic-related restrictions could also occur again. Getting the monetary policy dosage right also poses a risk, as an overly hesitant policy of raising key interest rates can lead to further increases in inflation expectations, while excessive monetary policy tightening can hamper global growth and push the economy into a prolonged recession.

The IMF is projecting an overall growth rate of + 4,0 % for the emerging markets and developing countries.

The expected growth in the industrialised nations, at + 1.2 % in 2023, is significantly lower than in the 2022 financial year.

Growth of only + 0.7 % is forecast for the euro zone in the face of the energy crisis. For Germany, the forecast was most recently + 0.1 %.

Given the deterioration in the global economic outlook, the growth in demand for capital goods is expected to be lower. In its forecast for global sales of plant and machinery, VDMA refers to the scenarios from Oxford Economics. Sales revenue adjusted for price is expected to rise by 1 % in the base case scenario. For Germany, the VDMA forecast is – 2 %.

For manufacturers of liquid pumps in Germany, VDMA foresees a below-average growth of + 3 % in nominal terms in the current year. It predicts an increase of + 5 % for industrial valves. Sales revenue for building services valves is expected to rise by 3 % in nominal terms.

Overall, KSB SE & Co. KGaA foresees considerable growth in sales revenue under IFRS in the 2023 financial year, largely owing to higher sales revenue in the Standard Markets. Fewer large-scale orders will lead to a tangible decrease in the order intake of KSB SE Co. KGaA. EBIT under IFRS is expected to remain stable at the level of the previous year.

The forecast horizon for the above-mentioned information and statements is the 2023 financial year.

KSB sees a potential escalation of the Russia-Ukraine war in particular as having negative effects on the forecast. In addition, the supply chains remain strained and rising procurement costs can jeopardise the forecasts, despite the slight improvement.

Acquisition-related Disclosures

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

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

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

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

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

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

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

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

The company's business is managed by KSB Management SE, which acts through the 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 Section289f HGB)

The Corporate Governance Statement pursuant to Section 315d HGB in conjunction with Section 289f HGB [*Handelsgesetzbuch* – German Commercial Code] dated 6 March 2023 is accessible to the public at www.ksb.com > Investor Relations > Corporate Governance / Corporate Governance Statement. The Corporate Governance Statement contains the content specified in Section 298f HGB, including the Statement of Compliance in accordance with Section 161 AktG, as well as the relevant information on corporate governance practices applied at KSB SE & Co. KGaA that go above and beyond statutory requirements. Also described are in particular the working methods of KSB Management SE as the general partner and of the Supervisory Board, and the composition and working methods of the committees of the Supervisory Board.

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

The combined separate 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.ksb.com/non-financial-report2022. Under the same address the assurance report for the combined separate non-financial report is also disclosed.

Description of Key Features of the Internal Control System, the Risk Management System and the Compliance Management System in Accordance with the A.5 DCGK 2022* Recommendation

KSB has an internal control system, a risk management system and a compliance management system, which are important elements of corporate governance.

The accounting-related internal control system comprises principles, processes and measures aimed at ensuring the correctness and reliability of the accounting system. This system ensures, for example, that reliable accounting-related information is complete and provided in a timely manner.

Further information on characteristics of the accounting-related internal control system can be found in the Opportunities and Risks Report under Internal Control System and Risk Management System with Regard to the Group Accounting Process.

Controls are also in place in the operative business processes of the Corporate Functions and KSB's decentralised units for handling the risks involved in the business activities. A comprehensive internal control system is set up at KSB by conceptually integrating the accounting-related internal control system with the current elements of an internal control system in the operative business processes beyond accounting.

Risk management is the most important instrument the Managing Directors of KSB have to ensure that all negative and positive developments are reported to them systematically and in a timely manner, and that appropriate measures can be implemented. In addition, risk management is critical for reporting about the risks and developments that could threaten the continued existence of KSB. Group risk management therefore comprises all the organisational rules and methods for recognising and managing risks / opportunities that arise in relation to Corporate Functions and decentralised units, and from markets and business activities. KSB's risk management is oriented on the basic elements of IDW PS 981 published by the German Institute of Public Auditors.

Further information on characteristics of the risk management system can be found in the Opportunities and Risks Report under Risk Management System.

Compliance in terms of implementing measures to ensure observance of applicable law and internal guidelines by Group units is one of the key management tasks of the general partner, which in this regard also acts through its Managing Directors. The requirement for professional and honest conduct is expressed within the Group-wide Code of Conduct.

Some fundamental statements contained in the Code of Conduct are addressed in more detail in other, separate directives and guidelines. This particularly applies to the areas of anti-trust or cartel law and anti-corruption measures. The applicable laws and regulations are explained in greater detail and useful information on proper conduct in concrete situations is provided. The latter equally applies to the Insider Directive, which deals with the ban on insider trading and handling of inside information. Further compliance sub-areas that are material to the company (such as data privacy and protection, export control, money laundering prevention) are assigned to the specific specialist departments for processing.

All material structures and processes of the compliance management system, including handling of violations, are compiled in the Compliance Manual which is available to the employees. In the case of proven violations, consistent sanctions are imposed based on a "zero tolerance" policy.

Responsibility for the compliance organisation lies with the general partner, acting through its Managing Directors, who are monitored by the Supervisory Board (Audit Committee) in this regard.

The compliance organisation is structured as follows:

- Group Compliance Office
- Local Compliance Offices
- Compliance Committee
- Ombudsperson

* Disclosures unrelated to the management report that are excluded from the factual review of the management report by the auditor

The Group Compliance Officer (hereinafter also “GCO”) heads the Group Compliance Office. In the Group Compliance Office, the GCO is supported by the Regional Compliance Officers. In addition, there are Local Compliance Offices in place throughout the Group in countries in which KSB Group companies have their registered office; they usually consist of the Local Compliance Officer. Where several Local Compliance Officers are appointed in a country, they may be headed by a Country Compliance Officer.

An interdisciplinary Compliance Committee at Group headquarters provides advice on fundamental compliance issues as well as support to the Group Compliance Office in fulfilling its responsibilities.

If employees or third parties become aware of infringements of the KSB Code of Conduct, i.e. in particular violations of laws or company guidelines, they can get in touch with internal contacts or an external ombudsperson with the relevant information, also anonymously if they wish. The ombudsperson will immediately contact the Group Compliance Office with regard to processing such information.

A key focus of compliance activities in 2022 was the renewed launch of a Group-wide training campaign in the areas of anti-corruption and anti-trust / cartel law. Modern e-learning training was offered to about 5,000 relevant employees. Another focus was the revision of the KSB Code of Conduct. It was mainly updated with issues covered by Germany’s *Lieferkettensorgfaltspflichtengesetz* [Supply Chain Due Diligence Act] (e.g. human rights and sustainability), which came into force at the beginning of 2023. In addition, foreign trade law was a key aspect dealt with due to the war in Ukraine: Sanctions and export control regulations were continuously updated and taken into consideration on a daily basis. An audit of the penetration rate of the compliance rules in the company, which was carried out primarily by Internal Audits, revealed positive results. Implementation of the improvement measures derived from the findings is planned for the current financial year, along with other activities for the ongoing development of the compliance management system.

STATEMENT ON THE APPROPRIATENESS AND EFFECTIVENESS OF THE SYSTEMS IN ACCORDANCE WITH THE A.5 DCGK 2022* RECOMMENDATION

The internal control system, the risk management system and the compliance management system are subject to process-integrated and process-independent monitoring. Responsibility for process-integrated monitoring lies with the relevant Corporate Functions and decentralised units. The Internal Audits department is responsible for process-independent monitoring of the systems.

Process-independent monitoring of the internal control system comprises an audit of material controls along selected business processes at the level of Corporate Functions and decentralised units. The basis for this is a risk-oriented audit plan of the Internal Audits department, which is updated annually or as needed in a given situation.

Internal Audits also regularly reviews the risk management system for appropriateness and effectiveness on the basis of relevant standards, such as the DIIR Audit Standard No. 2 – Audit of the Risk Management System by Internal Audits.

Finally, the effectiveness of the compliance management system is also continuously monitored by Internal Audits, mainly in the course of general or special audit measures carried out by Internal Audits. For example, the application of compliance regulations in the company is monitored in the form of employee surveys or in-depth analysis of relevant operative projects. In addition, the compliance management system occasionally undergoes an external audit by auditors on the basis of IDW PS 980.

Based on the findings from the above-mentioned monitoring measures, the Managing Directors have no evidence that would call into question the appropriateness and effectiveness of the compliance management system, the risk management system, or the current elements of the internal control system, which is being expanded further.

* Disclosures unrelated to the management report that are excluded from the factual review of the management report by the auditor