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 and spare parts 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, 10 domestic and 78 foreign companies are fully consolidated; another 5 companies are accounted for under the equity method. KSB is currently represented in 53 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 Service GmbH, Frankenthal, Germany
- KSB BRASIL LTDA., Várzea Paulista, Brazil
- D.P. Industries B.V., Alphen aan den Rijn, Netherlands

The basic business model has not changed during the 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

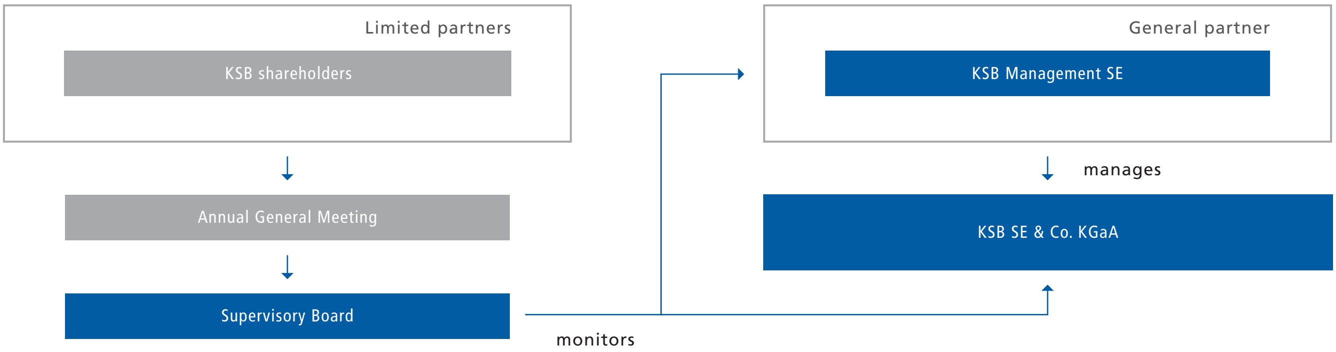
KSB SE & Co. KGaA was formed from KSB Aktiengesellschaft by entry in the *Handelsregister* [German Commercial Register] on 17 January 2018. The *Kommanditgesellschaft auf Aktien* (KGaA) [partnership limited by shares] is a common legal form in Germany for companies with a family- and foundation-dominated 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. The company's bodies are the Managing Directors, the Administrative Board and the Annual General Meeting.

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, inspection, servicing, maintenance, reverse engineering 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, sales revenue is generated mainly 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 2023, 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. Well 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 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 markets 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.

Research and Development

Research and development are vital for KSB. The research and the development of innovative products and solutions are critical to maintaining and expanding the Group's competitiveness. They are key to KSB's long-term success, as the customers' needs and market requirements develop continuously and the sales portfolio needs to be adjusted as required to meet them. Based on KSB's business areas, the research and development work focuses predominantly on the areas of digitalisation, materials, drives, actuators and hydraulics as well as manufacturing technology.

MANUFACTURING TECHNOLOGY AND MATERIALS

Additive manufacturing has come to be an indispensable manufacturing method for KSB. Initially, additive manufacturing technology was used to produce commonly available components using the laser fusion process. Today, design engineers are employing this method to create completely new technical solutions. Containment shrouds produced using additive manufacturing are a particularly impressive example. By using this production method, disadvantages such as heating and eddy current losses in these complex components can be avoided, while significantly increasing the level of safety. The lower temperature rise and eddy current losses allow the pumps to be operated while consuming considerably less energy.

In addition to further tests with pump components, tests with additively manufactured valve bodies for pharmaceutical and hydrogen applications were also carried out in 2023.

To make additive manufacturing more interesting and cost-effective for other components, KSB conducted fundamental research in the reporting year into the qualification of additional materials. In one project, the materials experts undertook extensive testing using various stainless steel powders with the aim of reducing production costs. They succeeded in using water-atomised stainless steel powder, which is considerably more cost-effective than conventional gas-atomised powder. Following successful testing and determination of the material properties, the material is now available for production.

60.6

Research and development expenses in € millions

DRIVES AND HYDRAULIC SYSTEMS

Waste water treatment is an important process to protect ecosystems and guarantee clean water for human consumption and the environment. It is also much more energy-efficient to treat waste water than to desalinate seawater. Climate-related heavy rainfall events and population growth are placing ever growing demands on waste water systems.

Taking these developments into account, KSB further expanded its portfolio of waste water pumps. It developed even more efficient hydraulic systems and improved the output per size for two type series. An additional, radial multi-vane impeller has been added to the programme range of other type series. This is used primarily for handling fluids containing solid substances and long fibres. In addition, the electric drives for various waste water pumps were improved.

In 2023, the development teams also worked on components for intelligent drainage systems. The aim is, as well as providing numerous additional functions, to enable the pumps to identify and eliminate clogging in the hydraulic system automatically in the future. This can save service costs for KSB's customers.

DIGITALISATION

Despite highly developed computer simulation, test facilities for pumps and valves are still the predominant instrument used to verify the quality, reliability and safety of the actual units produced. Computer simulation helps predict the behaviour of pumps and valves under different conditions. Despite its effectiveness, pumps and valves still need to be tested in real test facilities, in order to definitively ensure their performance, reliability and durability.

As part of the Standardising Test Facilities Worldwide project, KSB worked on improving the testing processes for pumps, valves and individual components in the reporting year. Together with the Testing Engineering department in Frankenthal, the specialist departments that look after the global test facilities on site were involved in the planning, design, engineering, implementation, commissioning and documentation of new test facilities. This also included preparing design and engineering requirements, as well as harmonising the data acquisition process and associated test stand software. This will make it easier for KSB and its customers to compare the measurement results of the different test facilities.

Launched a few years ago, KSB Guard is a smart monitoring service for pumps and other rotating machinery. It comprises a sensor component that is attached to a pump or other rotating machinery, a transmission unit and an app that allows users to remotely review a pump’s condition and operating data. KSB Guard records and analyses important data. It prevents potential damage from happening before it can lead to costly disruptions.

Previously, only measurements with a manually selectable time interval were carried out by KSB Guard. In the reporting year, the KSB specialists worked on advanced functions, such as repeat measurement. If an unusual value is detected in the pump’s performance during a measurement, the system triggers further measurements. This generates a better database for diagnosing the related machine behaviour.

Even though KSB Guard is primarily aimed at monitoring pumps, steps must also be taken to ensure that the sensor unit itself works reliably. Advanced functions are therefore used to monitor transmission reliability and battery battery charge condition.

Overall, the Group spent € 60.6 million on research and development in the reporting year. This equates to 2.1 % of sales revenue. KSB SE & Co. KGaA invested € 42.6 million in research and development in the reporting year, which equates to around 4.8 % of sales revenue. Across the Group, 445 staff were employed in research and development on average over the year. At KSB SE & Co. KGaA, 285 staff worked in research and development in the reporting year.

Economic Review

Macroeconomic Environment and Sector View

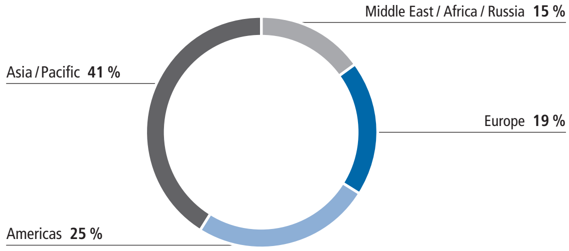
The forecast for global economic growth in 2023 was below the growth rate of the previous year from the outset and therefore also below the growth path before the COVID-19 pandemic. In the course of the year, the International Monetary Fund (IMF), whose figures are used for planning, increased its estimate only slightly to 3.1 %. This compares with the forecast of 2.9 % for global economic growth at the start of the year. Factors for lower growth included the long-term consequences of the pandemic, the effects of the war in Ukraine and the growing geopolitical fragmentation. In addition and especially in the past year, the restrictive monetary policy that is aimed at reducing inflation was a drag on growth. Inflation worldwide eased to 6.8 % but was still above the expectation of 6.6 % at the start of the year.

The IMF raised its growth estimate slightly for the group of economically advanced countries to 1.6 % in 2023. At the beginning of the year the forecast was still at 1.2 %. Economic growth in the emerging markets and developing countries was 4.1 %, which slightly exceeded the forecast at the start of the year (+ 4.0 %).

Europe continued to be of major importance for the KSB business in 2023. 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 0.5 % in the euro zone. Economic output in France and Italy grew by 0.8 % and 0.7 % respectively. Spain achieved a higher growth rate of 2.4 % compared with other European countries, reflecting its lower dependence on imports of natural gas from Russia. In contrast, the economy in Germany contracted by – 0.3 %. The high share of exports coupled with weaker growth in demand globally, falling production in energy-intensive industries and the weakening of capital-intensive and interest rate-sensitive sectors contributed to this development. The UK reported lower growth of 0.5 % in view of higher key interest rates and high energy costs.

Economic growth of 2.5 % in the USA was significantly higher than the expectations of 1.4 % at the start of the year. This was supported by higher capital expenditure and robust growth in consumer spending.

World market of centrifugal pumps and valves



Source: KSB estimate (February 2024)

China's economy recovered only moderately after the pandemic and grew by 5.2 %. Nevertheless, growth, which was slowed by the property market crisis, a high level of youth unemployment and weaker exports in some sectors, met expectations at the beginning of the year.

Supported by higher consumer spending, growth in India of 6.7 % was higher than expected at the start of the year. The economies of the five economically most important countries in South East Asia – Indonesia, Malaysia, the Philippines, Thailand and Vietnam – grew by 4.2 % overall, which was only marginally lower than start-of-the-year expectations.

Growth expectations at the beginning of the year for South America could not be met on average. Chile's economy declined by – 0.5 %, with a significant decrease reported in private consumer spending and investment. Thanks to the good harvest and recovery in the services sector, economic output of 3.1 % in Brazil exceeded expectations at the start of the year.

Economic developments in the countries in the Region Middle East / Africa / Russia remained below expectations at the beginning of the year. In Turkey, the economy grew more than expected by 4.0 %, bolstered by robust private consumer spending. Power cuts and weaker exports led to a decline in growth to 0.6 % in South Africa. For Saudi Arabia, likewise a large sales market for KSB, the IMF reported a decline of – 1.1 % as a result of falling crude oil prices and production. This was significantly lower than expected at the start of the year.

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 past year. The production of capital goods was curbed by inflation and higher interest rates, but increased nonetheless. The pharmaceutical industry, which was one of the winners of the pandemic, were unable to reach the high growth rates of previous years. Given the weaker previous year and existing orders on hand, the automotive industry performed above expectations at the beginning of the year.

The water and waste water industry, in which economic fluctuations are more moderate than in other economic sectors, posted modest growth in terms of production value. This was dampened by the weaker development in industry as well as the rise in costs in this sector. Investment in municipal water and waste water management was driven by digitalisation and the use of artificial intelligence, as well as by requirements to expand the use of waste water.

The war in Ukraine and its impact on energy prices affected the energy industry again last year. Global production increased only slightly, given lower economic growth and lower demand especially from Europe and the USA. Electrification in the transport sector and for building heat experienced a strong boost. Investments in expanding storage technologies also increased. The increase in new capacities for generating renewable energies accelerated strongly. Coal-fired electricity generation increased, including as a substitute to hydropower and led by Asia, in particular China and India. Electricity generation from natural gas increased only slightly. In contrast, electricity generation from nuclear energy rose again following the decline in the previous year. Investment in nuclear energy continued to rise worldwide. New nuclear power plants were commissioned in China and the USA, among other countries, and construction work started on others in the past year.

Global oil production rose somewhat more strongly than expected at the beginning of the year, supported by stronger demand from China. Gas production worldwide was down slightly from the previous year's level, as the structural changes since the outbreak of the war in Ukraine continued. Production in Russia continued to fall. This was offset by the USA, the Middle East and Asia. Liquefied gas exports from the USA increased once again. Worldwide refinery capacity utilisation increased marginally, albeit with major regional differences. While production rose in Asia and in particular China and in the Middle East, it stagnated in North America and declined in Europe. The chemical industry also recorded weak growth worldwide in response to weaker demand from key sectors. China proved to be a material regional driver, while the chemical industry in Europe declined once again due to high energy and raw material costs.

Despite lower expectations at the start of the year, the construction industry was able to grow at a higher rate year on year. This development was supported by stimulus spending on expanding infrastructure in many countries. Despite lower real income and higher interest rates, residential building construction increased. However, momentum was lower than in other sectors. Growth was also reported in non-residential construction. Clear regional differences were evident in the development of the two sectors.

Mining continued to be supported by strong demand for metals that are required for producing green technologies. There was a significant increase in the demand for metals required for electromobility, renewable energy generation and grid expansion, and for the production of storage technologies. These include copper, aluminium, nickel and lithium. The strong growth in demand was partially reflected in a sharp increase in the extraction of these metals. The demand and global trade in iron continued to grow, too, supported by high demand from China. Coal mining also expanded, driven by Asia, particularly with a strong increase in production in India. The extraction of oil sands was marginally higher than in the previous year. The growth momentum of investment in mining slackened on the back of higher interest rates and inflation.

MECHANICAL ENGINEERING STAGNATED

The slowdown in investment led to below-average demand for mechanical engineering products. According to the German Mechanical Engineering Industry Association (VDMA), global sales revenue in the mechanical engineering sector stagnated in real terms in 2023, albeit with significant regional differences. While Asian countries achieved considerable growth, sales revenue in Europe and North America declined.

According to VDMA, sales revenue in the German mechanical engineering sector fell by – 0.1 % in real terms. Based on the provisional calculations of the German Federal Statistical Office, production up to November rose very slightly by 0.1 % in real terms. Capacity utilisation was down on the previous year.

In the liquid pumps sector, VDMA recorded real sales revenue growth of 0.3 % among German pump manufacturers. Sales revenue with industrial valves was down – 5.8 % on the previous year, while building services valves saw sales revenue fall by – 13.9 %.

Business Development and Results of Operations

The 2023 financial year was defined by global political tensions due to the ongoing war in Ukraine, the China-Taiwan conflict and the outbreak of war in the Gaza region as a result of the attack on Israel. High interest rates led to uncertainty and a decrease in investment. In Germany, the manufacturing industry continued to be challenged by higher gas prices. At the same time, the situation on the procurement markets eased somewhat with regard to price and availability of bought-in parts.

Thanks to the company's broad global positioning across several market areas, economic downturns were offset by positive developments. The KSB SupremeServ Segment made a significant contribution to order intake growth.

Overall, there was a substantial increase in sales revenue and EBIT compared with the previous year. Despite signs of a slowdown in demand in the Standard Markets in the second half of the year, mainly in Europe, total order intake was considerably higher than in the previous year. The reasons for the changes are explained in the sections on order intake, sales revenue and EBIT.

ORDER INTAKE

The volume of incoming orders rose significantly by € 97.4 million (+ 3.4 %) to € 2,959.5 million in the financial year. The order intake would have been € 83.4 million higher excluding exchange rate effects (excluding the hyperinflationary economies of Argentina and Turkey). This increase is mainly attributable to the positive development of order intake in the KSB SupremeServ Segment.

The largest percentage growth was reported in the Region Americas with a plus of € 62.0 million (+ 12.0 %) and the Region Asia / Pacific with a plus of € 38.2 million (+ 5.1 %). Order intake in the Region Europe remained at the previous year's level with plus € 8.0 million (+ 0.6 %). On the other hand, the companies in the Region Middle East / Africa / Russia reported a decline of € 10.9 million (– 6.5 %). The marked reduction was largely due to unfavourable exchange rate effects.

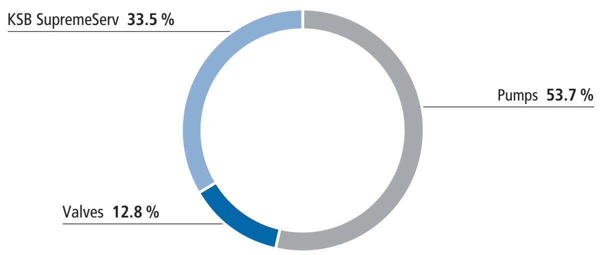
Pumps

Order intake in the Pumps Segment amounted to € 1,576.5 million compared with € 1,585.7 million in the previous year. The order intake in this Segment is therefore marginally lower than in the prior-year period, which had been impacted positively by several major orders. The Standard Markets accounted for € 1,263.9 million (previous year: € 1,256.3 million) of the total order intake in the Pumps Segment. Order intake in the Water Market Area declined due to a major order in the previous year that was not matched by comparable order intake in the reporting year. Despite the economic slowdown, which led to a weaker second half of the year, increases were achieved in all other Standard Markets. Significant growth was recorded in General Industry in particular, due to the positive development in the Region Asia / Pacific as a result of the relocation of production by many companies from China to India, among other things. In the Energy and Mining operating segments, which include project business in particular, order intake amounted to € 312.6 million (previous year: € 329.5 million). The Mining operating segment recorded substantial growth, thanks to several major orders and positive development of order intake in Brazil. In contrast, order intake in the Energy operating segment declined sharply, because the prior-year figure included two important major orders.

Segment reporting

	Order intake		Sales revenue		EBIT	
€ thousands	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Pumps Segment	1,576,483	1,585,727	1,513,653	1,390,192	52,301	27,718
Valves Segment	392,573	359,676	361,435	333,072	–7,522	–4,635
KSB SupremeServ Segment	990,418	916,684	943,900	850,123	179,123	146,020
Total	**2,959,474**	**2,862,087**	**2,818,988**	**2,573,387**	**223,902**	**169,103**

Sales revenue by segment



The Region Europe contributed the largest share of order intake of the Pumps Segment with € 732.7 million (previous year: € 775.6 million), followed by the Region Asia / Pacific with € 489.7 million (previous year: € 490.4 million) and the Regions Americas and Middle East / Africa / Russia each with lower contributions in absolute terms. The highest growth rate was reported in the Region Americas, while the Region Europe posted a marked decline. This is partly due to the aforementioned major order in the Water Market Area in the previous year.

Valves

Order intake in the Valves Segment amounted to € 392.6 million compared with € 359.7 million in the previous year. The growth is driven by the very positive development of the project business, while the Standard Markets remained stable. The largest positive contribution was recorded in the energy industry, where major investments were made in the power plant market. Investment activity was also stepped up in the marine market. The largest Region by far is Europe with € 229.5 million (previous year: € 222.7 million), followed by Asia / Pacific with € 123.3 million (previous year: € 105.2 million) and the Regions Americas and Middle East / Africa / Russia each with lower contributions in absolute terms.

KSB SupremeServ

Order intake in the KSB SupremeServ Segment – which covers all service and spare parts activities – reached € 990.4 million and is thus considerably higher than in the previous year (€ 916.7 million). This increase is due to the positive development of the spare parts business. Higher order levels in the nuclear sector, in particular, as well as extensive service assignments as part of maintenance inspections of larger plants in the chemicals / petrochemicals industry contributed to the increase.

In the KSB SupremeServ Segment, too, the Region Europe made the greatest contribution to order intake with € 470.4 million (previous year: € 426.4 million), followed by Americas with € 292.3 million (previous year: € 276.4 million) and Asia / Pacific and Middle East / Africa / Russia. The highest growth rate was reported in the Region Asia / Pacific.

SALES REVENUE

The Group's consolidated sales revenue, which lags behind order intake, grew strongly by € 245.6 million (+ 9.5 %) to € 2,819.0 million). Sales revenue would have been € 77.3 million higher excluding exchange rate effects (excluding the hyperinflationary economies of Argentina and Turkey).

All the Regions contributed to this sales revenue growth. Europe remained by far the largest Region with sales revenue of € 1,427.8 million (previous year: € 1,271.7 million, followed by Asia / Pacific with € 708.1 million (previous year: € 646.4 million), Americas with € 523.7 million (previous year: € 498.1 million) and the Region Middle East / Africa / Russia with € 159.3 million (previous year: € 157.2 million). The largest percentage increase was reported in the Region Europe with € 156.1 million (+ 12.3 %), followed by the Region Asia / Pacific with € 61.7 million (+ 9.5 %). The Region Americas also developed well with a plus of € 25.6 million (+ 5.1 %). The companies in the Region Middle East / Africa / Russia remained stable with an increase of € 2.1 million (+ 1.4 %).

Pumps

Sales revenue in the Pumps Segment amounted to € 1,513.7 million (previous year: € 1,390.2 million). The Standard Markets accounted for € 1,232.0 million and the Energy and Mining operating segments together for € 281.6 million. The sharp increase in sales revenue in the Pumps Segment is attributable in particular to the positive development in the Water and General Industry Market Areas. In the Water Market Area, the major order received in the previous year was completed. Order intake increased in the General Industry Market Area, especially in the Region Europe, due to sales revenue recognition of orders from the previous year. Europe remains by far the largest Region with sales revenue of € 755.9 million (previous year: € 670.1 million), followed by Asia / Pacific with € 434.4 million (previous year: € 407.4 million), then the Region Americas and the Region Middle East / Africa / Russia.

2.8

Consolidated sales revenue in € billions

Valves

In the Valves Segment, sales revenue was € 361.4 million after € 333.1 million in the previous year. This increase is due to the very positive development of the project business, while development in the Standard Markets remained stable. The damage caused by the hail storm at the La Roche-Chalais site in France in 2022 led to delays in production during the reporting year. These delays were reduced significantly by the end of the year by introducing a more effective production layout. Europe remains by far the largest Region with sales revenue of € 213.8 million (previous year: € 199.7 million), followed by Asia / Pacific with € 116.3 million (previous year: € 102.2 million), then the Region Americas and the Region Middle East / Africa / Russia. Strong double-digit growth rates were achieved in the Regions Asia / Pacific and Middle East / Africa / Russia.

KSB SupremeServ

Sales revenue in the KSB SupremeServ Segment amounted to € 943.9 million (previous year: € 850.1 million). This strong increase was a result of the positive development of the spare parts business in the Energy and Mining operating segments. Spare parts orders from previous years were invoiced in the Energy operating segment and the Mining operating segment benefited from the strong capacity utilisation of the mines as well as new long-term service contracts. The largest Region by far is Europe with sales revenue of € 458.1 million (previous year: € 401.9 million), followed by Americas with € 280.8 million (previous year: € 257.9 million), then Asia / Pacific and Middle East / Africa / Russia. The Region Asia / Pacific achieved the strongest growth rate.

223.9

Consolidated earnings (EBIT) in € millions

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

The KSB Group achieved earnings before finance income / expense and income tax (EBIT) of € 223.9 million (previous year: € 169.1 million). The earnings improvement is primarily attributable to growth and margin strength in the KSB SupremeServ Segment.

Pumps

EBIT in the Pumps Segment amounted to € 52.3 million (previous year: € 27.7 million), with the Standard Markets in particular contributing to the very good performance. The main drivers were higher sales revenue and a better profit quality. The EBIT margin achieved was 3.5 % (previous year: 2.0 %).

Valves

EBIT in the Valves Segment was € – 7.5 million (previous year: € – 4.6 million) and it therefore € 2.9 million lower than in the previous year. The development is largely attributable to project provisions and the after-effects of the damage caused by hail at the French site in La Roche-Chalais in the 2022 financial year. These negative effects could only be partially offset by the higher volume of sales revenue and insurance compensation paid out in 2023 for the hail damage in La Roche-Chalais. The EBIT margin achieved was – 2.1 % (previous year: – 1.4 %).

KSB SupremeServ

Thanks to the profitable growth in the spare parts business, especially in the energy and chemicals industry, EBIT was increased by € 33.1 million to € 179.1 million (previous year: € 146.0 million). This equates to an EBIT margin of 19.0 % (previous year: 17.2 %).

INCOME STATEMENT

€ thousands	2023	2022	Percentage change
Sales revenue	**2,818,988**	**2,573,387**	**9.5**
Changes in inventories	24,271	99,412	–75.6
Work performed and capitalised	1,959	1,716	14.2
Total output of operations	**2,845,217**	**2,674,515**	**6.4**
Other income	44,384	34,462	28.8
Cost of materials	–1,153,651	–1,156,292	–0.2
Staff costs	–960,699	–901,551	6.6
Depreciation and amortisation	–88,094	–90,419	–2.6
Other expenses	–463,257	–391,612	18.3
Earnings before finance income / expense and income tax (EBIT)	**223,902**	**169,103**	**32.4**
Finance income	9,382	7,461	25.7
Finance expense	–29,656	–17,712	67.4
Income from / expense to investments accounted for using the equity method	5,361	1,816	195.2
Finance income / expense	**–14,913**	**–8,435**	**76.8**
Earnings before income tax (EBT)	**208,989**	**160,668**	**30.1**
Taxes on income	–32,376	–33,330	–2.9
Earnings after income tax	**176,613**	**127,338**	**38.7**
Attributable to:			
Non-controlling interests	24,318	23,689	2.7
Shareholders of KSB SE & Co. KGaA	**152,295**	**103,649**	**46.9**
Diluted and basic earnings per ordinary share (€)	86.83	59.05	47.0
Diluted and basic earnings per preference share (€)	87.09	59.31	46.8

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

TOTAL OUTPUT OF OPERATIONS

Total output of operations amounted to € 2,845.2 million compared with € 2,674.5 million in the previous year. While sales revenue increased by € 245.6 million, the change in inventories of € 24.3 million (previous year: € 99.4 million) reduced the total output of operations by € 75.1 million.

INCOME AND EXPENSES

Other income rose by € 9.9 million year on year to € 44.4 million (previous year: € 34.5 million). This was mainly due to the insurance compensation received in connection with hail damage at the French plant in La Roche-Chalais in 2022.

The cost of materials as a percentage of total output of operations fell from 43.2 % in the previous year to 40.5 % in the reporting year. The cost of materials remained at the previous year's level, while sales revenue increased year on year. This was due to sales revenue growth in the KSB SupremeServ Segment, among other things. In addition, procurement costs, some of which were slightly lower, had an effect.

Staff costs rose from € 901.6 million to € 960.7 million in the financial year (a rise of € 59.1 million). The increase is largely attributable to the higher headcount, increased profit bonuses for employees and general wage and salary increases. The number of employees rose from 15,643 to 15,938 on average over the year. On average in the reporting year, the KSB Group had 295 employees (1.9 %) more than in the previous year. Asia / Pacific reported the greatest increase in the number of employees with a plus of 209. The number of employees in the Region Europe rose by 123. On the other hand, employee numbers in the Region Middle East / Africa / Russia fell by 115. Despite the higher number of employees, the total output of operations per employee rose from € 171 thousand to € 179 thousand, due to the 6.4 % increase in the total output of operations.

Depreciation and amortisation fell by € 2.3 million to € 88.1 million compared with the prior-year period. This is due to a € 5.3 million reduction in impairment losses. At € 87.8 million, scheduled depreciation and amortisation, by contrast, was € 3.0 million higher than in the previous year (€ 84.8 million).

At € 463.3 million, other expenses exceeded the prior-year level (€ 391.6 million) by € 71.7 million. This is largely attributable to € 30.0 million higher administrative and selling expenses. Higher consulting costs and an increase in travel activity contributed to the increase. € 20.0 million higher maintenance costs and third-party services were also incurred. Expenses for warranties rose by € 17.5 million as a result of provisions for several projects. As a percentage of total output of operations, expenses increased only moderately from 14.6 % in the previous year to 16.3 % in the financial year.

The finance income / expense amounted to € – 14.9 million (previous year: € – 8.4 million), largely because of the € 9.1 million increase in interest expenses on pension claims.

EARNINGS

The KSB Group generated earnings before income tax (EBT) of € 209.0 million compared with € 160.7 million in the previous year. The return on sales before income tax rose from 6.2 % in the previous year to 7.4 %. Taxes on income of € 32.4 million were at the previous year's level (€ 33.3 million). While effective taxes rose by € 16.4 million to € 65.0 million, deferred taxes accounted for an income of € 32.6 million. Income from deferred taxes is largely defined by the full reversal of impairment losses on deferred tax assets in the previous year for loss carryforwards and temporary differences in the KSB SE & Co. KGaA tax group. The income tax rate fell again to 15.5 % after 20.7 % in the previous year, which was due, in particular, to the reversal of impairment losses. Overall, earnings after income tax rose from € 127.3 million in the previous year to € 176.6 million in the reporting year.

At € 24.3 million, earnings attributable to non-controlling interests rose by € 0.6 million compared with the previous year. The ratio of non-controlling interests to earnings after income tax declined noticeably from 18.6 % to 13.8 %.

Earnings attributable to shareholders of KSB SE & Co. KGaA (€ 152.3 million) were € 48.7 million higher than in the previous year (€ 103.6 million).

Earnings per ordinary share were € 86.83, compared with € 59.05 in the previous year, and € 87.09 per preference share, compared with € 59.31 in 2022.

Financial Position and Net Assets

STATEMENT OF CASH FLOWS

€ thousands	2023	2022	Percentage change
Earnings after income tax	176,613	127,338	38.7
Taxes on income	32,376	33,330	–2.9
Finance income / expense	20,274	10,251	97.8
Depreciation and amortisation	88,094	90,419	–2.6
Gain / loss on disposal of intangible assets and property, plant and equipment	153	–305	–150.2
Change in working capital	–1,676	–206,525	–99.2
Change in other assets and liabilities as well as provisions	22,230	–12,970	–271.4
Income tax paid	–65,058	–45,789	42.1
Interest received	7,298	6,360	14.7
Cash flows from operating activities	**280,304**	2,109	13.190.8
Payments to acquire intangible assets and property, plant and equipment	–106,461	–102,393	4.0
Change in deposits	1,251	10,638	–88.2
Change in the other items from investing activities	1,674	2,718	–38.4
Cash flows from investing activities	**–103,536**	–89,037	16.3
Dividends paid	–40,687	–30,032	35.5
Change in financial liabilities (including lease liabilities)	–19,454	–41,942	–53.6
Interest paid	–3,347	–3,866	–13.4
Cash flows from financing activities	**–63,488**	**–75,840**	**–16.3**
Changes in cash and cash equivalents	113,280	–162,768	169.6
Effects of exchange rate changes on cash and cash equivalents	–3,001	4,252	–170.6
Effects of changes in consolidated Group	1,571	403	289.8
Cash and cash equivalents at beginning of period	228,570	386,683	–40.9
Cash and cash equivalents at end of period	**340,420**	**228,570**	48.9

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

FINANCIAL POSITION

The KSB Group's financial position remains very good. Equity increased in the reporting year and amounted to € 1,216.9 million (previous year: €1,125.6 million). The equity ratio of 45.6 % was at the previous year's level (45.4 %).

Liquidity

KSB recorded cash flows from operating activities of € 280.3 million compared with € 2.1 million in the previous year. This very positive development is mainly due to the good financial position and working capital management. While an outflow of € 206.5 million was recorded in the 2022 financial year, KSB kept working capital almost stable despite the significant increase in business volume in the financial year. In addition, the € 49.3 million increase in earnings after income tax contributed to the inflow of funds.

The outflows from investing activities rose by € – 14.5 million from € – 89.0 million in the previous year to € – 103.5 million in the reporting year. This is attributable to a € 4.1 million increase in payments to acquire intangible assets and property, plant and equipment on the one hand, and a € 9.4 million decrease in net proceeds from deposits with an original maturity of more than three months on the other hand.

Despite the € 10.7 million increase in dividend payments, cash outflows in the cash flows from financing activities were € 12.4 million lower than in the previous year. The final tranche of the loan against borrower's note was repaid in the previous year, leading to a cash outflow of € 22.0 million in the 2022 financial year.

Overall, cash and cash equivalents increased sharply from € 228.6 million in the previous year to € 340.4 million in the reporting year.

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 € 9.8 million are above the prior-year level (€ 5.2 million).

Investments in property, plant and equipment of € 99.9 million in the reporting year are € 1.1 million lower than in the previous year (€ 101.0 million). At € 34.8 million, the highest additions related to advance payments and assets under construction, as in the previous year (€ 38.1 million). Another € 23.0 million related to other equipment, operating and office equipment (previous year: € 20.5 million), while € 22.4 million related to technical equipment and machinery (previous year: € 22.7 million). As in 2022, the focus of capital investment activity was the Region Europe, mainly Germany, the Netherlands and France. Outside Europe, the highest additions were made at the plants in India, the USA and China.

Net financial position

At € 324.9 million, the net financial position rose substantially by € 99.3 million from € 225.6 million in the previous year. It is derived from the balance of interest-bearing financial liabilities and financial assets (mainly cash and cash equivalents and receivables from deposits). The increase in the net financial position is attributable to the significant rise in cash flows from operating activities, in particular.

324.9

Net financial position in € millions

Contingent liabilities and other financial obligations

Contingent liabilities as at the reporting date totalled € 27.2 million and were therefore € 6.7 million lower (previous year: € 33.9 million).

There are no other obligations and commitments beyond the reporting date. Further financial obligations arose only within the normal scope from purchase commitments amounting to € 27.9 million (previous year: € 27.3 million).

NET ASSETS

Around 31.9 % of funds is attributable to non-current assets (previous year: 30.6 %). Intangible assets and property, plant and equipment with a historical cost of € 1,711.0 million (previous year: € 1,657.0 million) had carrying amounts of € 677.9 million (previous year: € 651.2 million). Total intangible assets rose from € 72.7 million in the previous year to € 75.7 million. In the reporting year, impairment of goodwill in the Pumps Segment of € 0.4 million (previous year: € 0.8 million) and of € 0.2 million (previous year: € 0.9 million) in the KSB SupremeServ Segment was reported.

Right-of-use assets for leases (€ 46.9 million) were up on the prior-year level (€ 40.2 million).

Property, plant and equipment increased from € 578.5 million to € 602.2 million as a result of capital expenditure (€ 99.9 million) in excess of depreciation of € 62.0 million. Currency translation effects had a negative impact of € – 12.9 million.

ASSETS

€ thousands	2023	2022	Percentage change
Non-current assets			
Intangible assets	75,716	72,673	4.2
Right-of-use assets	46,939	40,220	16.7
Property, plant and equipment	602,166	578,512	4.1
Non-current financial assets	1,227	1,191	3.0
Other non-financial assets	7,728	7,319	5.6
Investments accounted for using the equity method	24,480	20,833	17.5
Deferred tax assets	94,040	37,074	60.6
	852,295	**757,822**	**12.5**
Current assets			
Inventories	748,393	719,221	4.1
Contract assets	58,969	80,018	–26.3
Trade receivables	554,583	579,539	–4.3
Other financial assets	70,888	71,517	–0.9
Other non-financial assets	44,272	42,203	4.9
Cash and cash equivalents	340,420	228,570	48.9
	1,817,524	**1,721,069**	**5.6**
	2,669,819	**2,478,890**	**7.7**

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

The carrying amount of financial assets, investments accounted for using the equity method and non-current other non-financial assets was € 33.4 million. At € 24.5 million, the investments accounted for using the equity method were up € 3.7 million on the previous year's level (€ 20.8 million).

Deferred tax assets rose by € 56.9 million to € 94.0 million (previous year: € 37.1 million), in particular as a result of the reversal of impairment losses on deferred tax assets in the KSB SE & Co. KGaA tax group.

Inventories amounted to € 748.4 million (previous year: € 719.2 million) so that the figure recognised was € 29.2 million higher. The change is due to the higher volume of business, with the 4.1 % increase in inventories being lower overall than that of total output of operations (6.4 %).

Contract assets declined from € 80.0 million in the previous year to € 59.0 million, owing to the sharper decline in KSB's contract progress relative to the associated advance payments received compared with the reporting date.

Trade receivables were down despite the growth in sales revenue from € 579.5 million at the end of the previous year to € 554.6 million, as the high sales revenue dominated the end of the previous year.

At € 70.9 million, other financial assets were largely at the prior-year level (previous year: € 71.5 million). Other non-financial assets amounted to € 44.3 million, up € 2.1 million on the prior-year level (previous year: € 42.2 million). This increase is attributable to slightly higher recoverable taxes.

Cash and cash equivalents accounted for around 13.0 % of assets, totalling € 340.4 million (previous year: € 228.6 million). The reasons for the increase are explained in the Liquidity section of the management report.

Total assets rose by 7.7 % to € 2,669.8 million, mainly due to the € 96.4 million increase in current assets and € 94.5 million increase in non-current assets. In addition to the € 111.8 million increase in cash and cash equivalents, the € 29.2 million increase in inventories also contributed to the increase in current assets, while trade receivables declined by € 25.0 million.

Non-current assets were mainly impacted by the increase of € 56.9 million in deferred tax assets and of € 23.7 million in property, plant and equipment.

EQUITY

KSB Group equity amounts to € 1,216.9 million (previous year: € 1,125.6 million). This includes KSB SE & Co. KGaA's subscribed capital of € 44.8 million as in the previous year. The capital reserve remains unchanged at € 66.7 million. Revenue reserves increased by a total of € 84.5 million. The net profit for the year of € 176.6 million had a particular impact in this context. On the other hand, the remeasurement of defined benefit plans in the amount of € 39.4 million led to a reduction in equity.

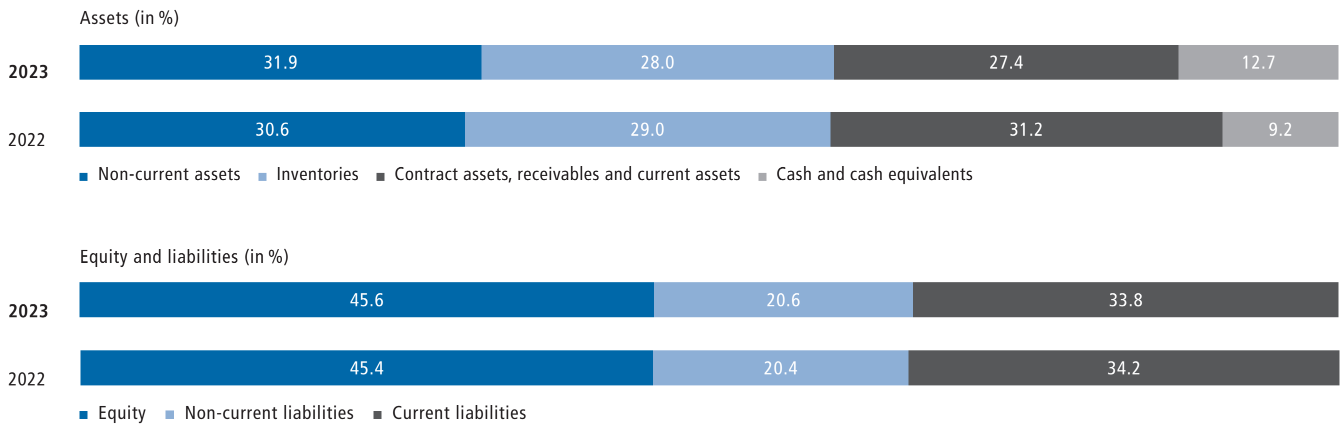
This was contrasted by the taxes on income of € 27.6 million attributable to the remeasurement of defined benefit plans. This includes the reversal of impairment losses that were recognised in the previous year on deferred tax assets in the KSB SE & Co. KGaA tax group; the reversal of € 15.3 million was recognised under other comprehensive income. Dividend payments to shareholders of KSB SE & Co. KGaA of € 34.4 million were € 13.2 million higher than in the previous year (previous year: € 21.2 million).

EQUITY AND LIABILITIES

€ thousands	31 Dec. 2023	31 Dec. 2022	Percentage change
Equity			
Subscribed capital	44,772	44,772	–
Capital reserve	66,663	66,663	–
Revenue reserves	888,998	804,484	10.5
Equity attributable to shareholders of KSB SE & Co. KGaA	1,000,434	915,919	9.2
Non-controlling interests	216,465	209,653	3.2
	1,216,899	**1,125,572**	**8.1**
Non-current liabilities			
Deferred tax liabilities	9,857	12,010	–17.9
Provisions for employee benefits	496,114	451,568	9.9
Other provisions	15,703	16,715	–6.1
Financial liabilities	28,960	24,116	20.1
	550,634	**504,409**	**9.2**
Current liabilities			
Other provisions	120,781	98,999	22.0
Financial liabilities	26,053	26,630	–2.2
Contract liabilities	202,619	186,477	8.7
Trade payables	324,723	333,361	–2.6
Other financial liabilities	27,659	23,921	15.6
Other non-financial liabilities	181,804	164,604	10.4
Income tax liabilities	18,649	14,918	25.0
	902,286	848,910	**6.3**
	2,669,819	2,478,890	**7.7**

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

Balance sheet structure



Currency translation effects led to a loss of € 33.4 million in the reporting year (previous year: gains of € 12.5 million). The revenue reserves include the proportion of earnings after income tax attributable to KSB SE & Co. KGaA shareholders, at € 152.3 million (previous year: € 103.6 million). Out of total equity, € 216.5 million (previous year: € 209.7 million) is attributable to non-controlling interests. The equity ratio is stable at 45.6 % (previous year: 45.4 %).

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 € 6.9 million (previous year: € 4.6 million), is included in the income statement under other finance expense within finance income / expense.

45.6

Equity ratio in percent

Currency translation of financial statements of consolidated companies that are not prepared in euro gave rise to a difference of € – 33.4 million (previous year: € + 12.5 million). The total of currency translation differences was taken directly to equity.

Liabilities

The largest item under liabilities continues to be pension provisions, which increased by € 44.5 million from € 451.6 million to € 496.1 million. Higher interest rates account for this increase. This effect was reported in actuarial losses at € 39.4 million (previous year: € – 158.4 million). Obligations for current pensioners and vested benefits of employees who have left the company account for about 49.9 % of the amount recognised in the balance sheet. The rest is attributable to defined benefit obligations for current employees.

Non-current financial liabilities fell slightly by € 4.9 million year on year to € 29.0 million (previous year: € 24.1 million).

Other non-current and current provisions increased from € 115.7 million in 2022 to € 136.5 million in 2023. This is mainly attributable to the € 18.8 million increase in provisions for warranties and contractual penalties.

Current liabilities rose overall by € 53.4 million to € 902.3 million compared with € 848.9 million at the end of 2022. The share of current liabilities relative to total equity and liabilities fell marginally to 33.8 % (previous year: 34.2 %).

Current financial liabilities of € 26.1 million are largely unchanged from the previous year's level (€ 26.6 million).

Contract liabilities increased from € 186.5 million in the previous year to € 202.6 million. This is attributable to a € 9.9 million reduction in the level of completion of customer contracts and to a € 6.2 million increase in advance payments.

Trade payables fell by € 8.7 million to € 324.7 million (previous year: € 333.4 million).

Other non-financial liabilities increased by € 17.2 million, above all due to higher personnel liabilities.

Summary of the Performance in the Financial Year

The marked increase in order intake from € 2,862.1 million to € 2,959.5 million placed it within the forecast range between € 2,750 million and € 3,000 million. KSB is very satisfied with the order intake achieved in the reporting year. The order intake figures of the individual Segments have developed better than originally expected. The Pumps Segment reported a stable development contrary to the anticipated noticeable decline. Order intake figures for the Valves and KSB SupremeServ Segments also showed strong growth. A slight to tangible increase was forecast for the Valves Segment, while KSB anticipated slight growth in the KSB SupremeServ Segment.

The forecast for sales revenue provided in the 2022 Annual Report, which was expected to be in a range between € 2,500 million and € 2,850 million, was confirmed. The Group is very satisfied with the sales revenue achieved of € 2,819.0 million (previous year: € 2,573.4 million). The forecast of a strong increase for the Pumps Segment was achieved with growth of 8.9 %. Instead of the slight to noticeable growth forecast for the Valves Segment and the stable to slight increase for the KSB SupremeServ Segment, both Segments recorded strong growth.

In an ad hoc statement, the forecast for EBIT in the 2022 Annual Report, which was expected to be in a range of € 165.0 million to € 200.0 million, was adjusted to a range of € 210.0 million to € 230.0 million. At € 223.9 million, EBIT in the 2023 financial year was therefore in the upper half of the adjusted forecast range. The basis for the adjustment of the forecast was the positive development in the KSB SupremeServ Segment, which was more pronounced than originally assumed. The strong growth forecast for the Pumps Segment was achieved in the financial year. EBIT in the Valves Segment was expected to increase strongly but declined significantly instead. However, this was more than offset by the very positive development in the KSB SupremeServ Segment, for which KSB predicted a stable to slight increase, with strong growth in the reporting year. Detailed information on the reasons for the EBIT performance is provided in the “Earnings before finance income / expense and income tax (EBIT)” section.

The assumption made in the previous year’s financial statements that global economic growth would be decisive for the development of the key indicators has largely materialised. The growth in sales revenue also exceeded the growth in order intake, as predicted. KSB expected EBIT growth to be driven primarily by the Standard Markets. However, EBIT growth was mainly attributable to the positive development in the KSB SupremeServ Segment already described above. The company can confirm the expected contribution to earnings from the Region Europe. 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

In its current forecast for global economic growth, the International Monetary Fund (IMF) most recently anticipated an increase of + 3.1 % in real terms for 2024, which equates to the prior-year growth rate. Despite the restrictive monetary policy measures, which resulted in higher interest rates in order to curb inflation, the economies in the USA and China in particular are resilient. The medium-term outlook for economic growth remains the lowest seen in decades. Inflation is expected to fall further, which should lead to a reduction in interest rates in the current year.

While the downside risks to this forecast still prevail, they have diminished in view of the resilience of the global economy recently observed. Looking ahead to 2024, inflation risks and the risks of a financial crisis and associated recession risks in particular eased over the course of the past year. Geopolitical risks have increased at the same time. Besides current regional conflicts and intensification of the mutual decoupling between the USA and China, the war in Gaza heightened the risk of escalation in the Middle East. Further risks to global economic growth include economic developments in China and its government's approach to addressing the property crisis, as well as possible turbulence on the commodities markets. The latter could be triggered either by geopolitical escalation, including further attacks in the Red Sea, or extreme climatic conditions.

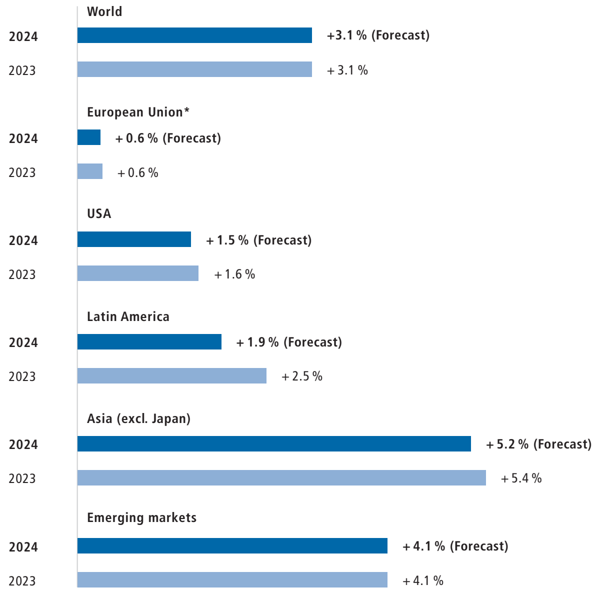
The IMF is projecting an overall growth rate of + 4.1 % for the emerging markets and developing countries.

At + 1.5 % in 2024, expected growth in the industrialised nations is lower than in 2023. Growth expectations in the USA are at + 2.1 %. These were raised again recently to take account of robust consumer spending and investments. At the beginning of the year the forecast was at 1.0 %. The forecast for the Canadian economy was lowered slightly to + 1.4 %.

Growth in the euro zone will pick up only slightly to + 0.9 %. For Germany, the most recent forecast was for growth of + 0.5 %. In France, economic growth is anticipated at + 1.0 %. For Spain, the forecast is + 1.5 %. Modest growth of 0.6 % is forecast for the UK.

The IMF expects growth in Turkey to slow down to + 3.1 %. At 2.7 %, Saudi Arabia's economic growth is projected to significantly exceed the prior-year year level.

Gross domestic product growth



Source: International Monetary Fund (January 2024)
*Source: EU Commission (November 2023)

In Asia, the growth rate is expected to be down slightly overall from the previous year, which is attributable to lower year-on-year growth in China. The most recent forecast of + 4.6 % for China is well below the pre-pandemic level. The IMF anticipates a growth rate of + 6.5 % for India in the current year.

Growth of + 4.7 % is expected for the ASEAN countries, which also include important sales markets for KSB.

The Latin American countries are also expected to grow overall by + 1.9 %, as in the previous year. Growth of only + 1.7 % is projected in Brazil. The economy in Chile is anticipated grow by + 1.6 %.

Given the weakening of global economic growth, the growth in demand for capital goods is expected to be lower. VDMA expects global machinery sales revenue to stagnate at 0 % in real terms. An increase is anticipated at the largest production facilities in Asia, which should offset the decline in the other regions. In China, sales revenue is expected to grow by + 2 %. A decline of – 2 % is expected for the USA. For Germany, the VDMA forecast is – 2 %.

For manufacturers of liquid pumps in Germany, VDMA foresees a below-average growth of + 0 % in nominal terms in the current year. It predicts a decline of – 1 % for industrial valves. Sales revenue from building services valves is expected to fall by – 2 % in nominal terms.

SUMMARY OF EXPECTED DEVELOPMENT

For the 2024 financial year, KSB expects to achieve the key financial performance indicators presented in the table below:

Expected development

€ millions	Actual 2023	Forecast 2024
Order intake	2,959.5	2,800 – 3,150
Sales revenue	2,819.0	2,700 – 3,050
EBIT	223.9	210 – 245

KSB expects to grow in terms of order intake and sales revenue in the 2024 financial year. The growth in order intake will be driven by the Regions Asia / Pacific and Middle East / Africa / Russia. By contrast, KSB expects slight growth in order intake in Europe, its largest market. The highest growth in sales revenue is expected in the Region Europe and – in line with order intake – in the Region Asia / Pacific. The Group expects higher EBIT, largely from the Regions Europe and Asia / Pacific.

For the 2024 financial year, the Group anticipates a substantial increase in orders received by the Pumps Segment, which achieved an order intake of € 1,576.5 million in the reporting year. This growth will be supported mainly by the Standard Markets operating segment. By contrast, KSB anticipates a slight increase in order intake in the Valves Segment, which amounted to € 392.6 million in the reporting year. KSB expects a slight increase in the order intake of € 990.4 million in the reporting year for the KSB SupremeServ Segment in 2024.

The Pumps Segment contributed € 1,513.7 million to the Group's consolidated sales revenue in the reporting year. KSB anticipates a marked increase in this Segment for the 2024 financial year. It expects a marked to strong increase in 2024 for the Valves Segment, which achieved sales revenue of € 361.4 million in the reporting year. The KSB SupremeServ Segment contributed € 943.9 million to consolidated sales revenue. KSB forecasts moderately higher sales revenue for this Segment.

The Pumps Segment generated earnings before finance income / expense and income tax (EBIT) of € 52.3 million in the 2023 reporting year. KSB is planning a tangible increase in EBIT in this Segment for the 2024 financial year. It also expects a strong increase in the Vales Segment. In the reporting year, the Valves Segment achieved EBIT of € – 7.5 million. In the KSB SupremeServ Segment, which contributed € 179.1 million to EBIT in the reporting year, KSB expects a slight to tangible increase in EBIT.

The forecast may be influenced in particular by the ongoing geopolitical tensions, which are explained in more detail in the Opportunities and Risks Report.

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 business-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 also offer opportunities. This includes those 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 examined to further increase KSB's global presence, by establishing new companies or expanding KSB SupremeServ sites and 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. The following section describes the processes related to the Group-wide opportunities and risk management system, which is based on the Auditing Standards 340 (IDW PS 340 n. F.) and 981 (IDW PS 981) issued by the Institute of Public Auditors in Germany.

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 this manual, KSB also formalises the risk strategy that was specified in detail in 2023.

The Managing Directors of KSB Management SE are responsible for determining, implementing and releasing the risk management system that is effective throughout the Group. The risk strategy is reviewed regularly to ensure it is oriented on the Group strategy and meets the regulatory requirements. Changes to the risk strategy require the approval of the Managing Directors of KSB Management SE.

KSB's risk strategy serves as a basis for evaluating business decisions and is based on normative guiding principles. These guiding principles include, among other things, a clear commitment to promoting an interdisciplinary and Group-wide risk culture, efficient and time-critical risk communication processes and a stakeholder-centred focus on value creation and preservation. These qualitative criteria are supplemented by a quantitative approach to analysing the risk-bearing capacity.

KSB defines the risk-bearing capacity as an aggregated risk potential that can be absorbed in the medium term without posing a threat to the business continuity of KSB. A corresponding concept for risk-bearing capacity, taking into account the overall risk strategy, was established within the Group. It specifically examines whether and to what extent developments could jeopardise the continued existence of the KSB Group with regard to its equity and / or liquidity position.

The regular derivation of the risk-bearing capacity and its communication to management is an integral process of the risk management system and is the responsibility of the Risk Manager. Changes require the approval of the Managing Directors of KSB Management SE. If the analysis of the risk-bearing capacity reveals a need for additional requirements for risk provisioning, equity or liquidity, further measures are defined to ensure that adequate account is taken of the KSB Group's risk-bearing capacity in accordance with its risk strategy. In addition to risk-bearing capacity, KSB defines risk appetite as part of the risk strategy as a level of risk that it is prepared to bear over a certain period of time.

KSB uses risk management software to support these analytical processes and to enhance the efficiency and effectiveness of risk management. This supports the systematic identification, assessment, management and monitoring of Group-wide risks and enables the precise and immediate recording of risk information.

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 central Risk Manager on all recognised risks in the categories of market and competitive risks, technological risks, project- and product-related risks, financial risks, procurement risks, ESG (Environmental, Social and Governance) risks, other business-specific risks and long-term strategic risks in a bottom-up process. 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, such as strategic risks that have been a greater focal point of KSB's risk management since 2023. In addition, 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.

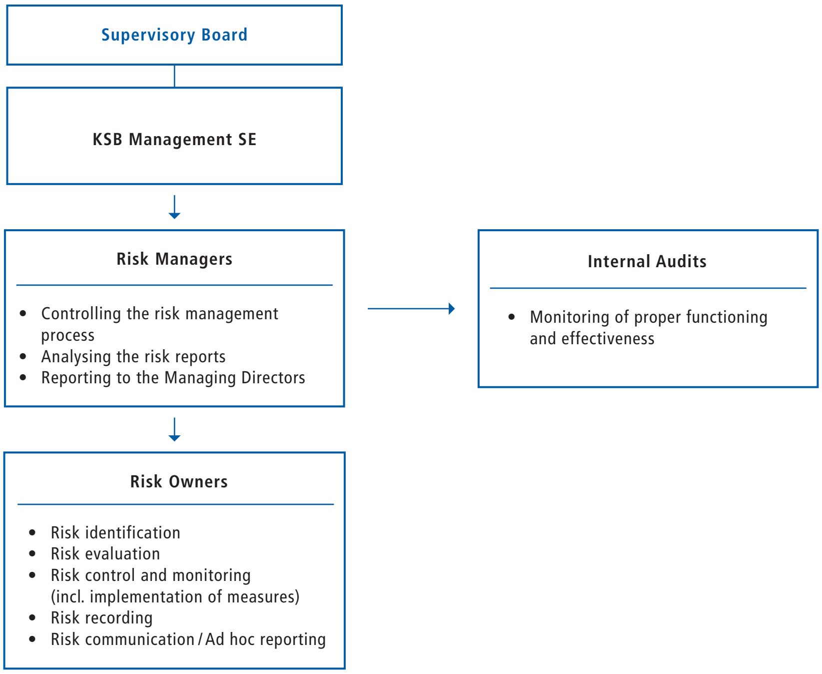
The regular identification and updating of risks in all the Group companies and in the respective corporate and central functions ensure that risk awareness within the KSB Group remains at a high level across the board. A distinction is made between qualitative and quantitative risks.

Qualitative risks are developments that cannot or cannot yet be thoroughly quantified due to a lack of precise information. However, to be able to evaluate them for further analysis steps, the scope is assessed using defined evaluation intervals. The mean value of these evaluation intervals is used to determine the significance of these risks for the Group.

Quantitative risks are risks for which the 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. In 2023, KSB further developed the risk assessment methodology, by evaluating the amount of loss using three scenarios rather than one scenario (one-point evaluation): worst case, most likely case and best case. A distinction is also 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 on EBIT of all individual and similar risks of € 500 thousand or more before countermeasures in the most likely case scenario 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 the most likely case).

KSB defines as material all risks or aggregate risks, for which the product of the probability of occurrence and the most probable amount of loss, after deducting the amount of countermeasures, is greater than € 5.0 million. This applies to qualitative and quantitative risks. The materiality threshold of € 5.0 million presented replaces the previous materiality thresholds for individual risks, which were categorised as "medium" or "high" based on the defined classification from the previous year. As a result of the new evaluation scheme, risks that were still categorised as high in the previous year according to the risk matrix are no longer material. New reported risks, that would have been classified as high in the former evaluation scheme, fall below the newly defined materiality threshold in the reporting year.

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 two risk reports per financial year. These reports include all the risks classed as material that exceed pre-defined threshold values individually or collectively, taking into consideration any corrective action that has been taken (net risk), as well as further significant developments. 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 new or changed risks that are classified as significant are to be reported by the responsible managers to the Risk Managers on an ad hoc basis. The latter review the information and pass it on to the Managing Directors of KSB Management SE. Opportunities are also taken into account in KSB's current risk management system and are reported in line with the specifications for risk assessment.

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. Relevant basic documents on risk management are archived in accordance with the statutory applicable deadline and in the statutory required formats.

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 net risks classified as material and other net risks that are relevant to the Group as well as the material opportunities for the 2024 financial year. If risks are not flagged as material, they are considered to be of secondary importance. Unless otherwise stated, the following risks relate to all Segments.

Markets / Competition

The forecast for the 2024 financial year is based on the expectations and assumptions regarding general economic performance and the development of global GDP as described in the Report on Expected Developments. Risks for the Group's business arising from high inflation rates have eased considerable but they continue to exist. 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 current geopolitical uncertainty resulting from trade conflicts and numerous global flashpoints. KSB classifies in particular the further development of the conflicts in Ukraine and in the Middle East as a risk with regard to duration and potential escalation, as it is currently not possible to estimate the effects on the global economy and thus on the Group's business activities and further escalation cannot be ruled out. 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.

Projects / Products

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

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 and export regulations or sanctions, staff shortages, technical difficulties or quality problems – including potential contractual penalties – that reduce the 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. 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 are structured in such a way that they at least cover the costs incurred. KSB reports contingent liabilities of € 1.8 million (previous year: € 5.1 million) for risks that result from warranty obligations and contractual penalties risks and 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).

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 € 1.1 million (previous year: € 0.2 million) from risks associated with income taxes. Of this amount, € 0 million is attributable to KSB SE & Co. KGaA, as in the previous year. € 13.4 million (previous year: € 13.2 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. An increase in costs for raw materials and components can have a negative impact on the earnings situation if the cost increases cannot be compensated for or passed on to customers. Ineffective supply chains, 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.

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.

Environmental, Social and Governance (ESG)

ESG – short for Environmental, Social and Governance – refers to a comprehensive set of standards covering environmental, social and governance aspects for assessing the Group's sustainable and ethical activities. 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 insurance policies. 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 give rise to infringements and that the necessary authorisation for the relevant business might be lost and KSB's reputation might be damaged as a result. Legal requirements or restrictions related to products, such as RoHS (Restriction of Certain Hazardous Substances according to EU Directive 2011/65/EU), may lead to a restriction or – in a worst-case scenario – to a ban on selling individual products containing hazardous substances. KSB categorises this risk, which was identified for the first time in the reporting year, as material and is monitoring the current legal situations closely. Identified risks are addressed by continually adjusting the product design in order to be able to offer products that comply with market requirements. 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, which include earthquakes, flooding, lightning strikes and wildfires. The occurrence of these risks would lead to disruptions in ongoing business operations at the respective sites. 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.

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 risks are usually disputes arising from operative business, generally involving unclear warranty issues or labour law disputes. In some cases, the continuous further and new development of products can lead to similarities with competitors' products. KSB limits the risk of resulting legal dispute by submitting patent applications at an early stage of the product development. 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 € 2.3 million (previous year: € 3.1 million) in the Notes to the consolidated financial statements, € 1.0 million of this is attributable to KSB SE & Co. KGaA (previous year: € 2.0 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.

Other business-specific opportunities and risks – Information technology

The worldwide increase in threats to IT security and cyber crime entail a risk in terms of the security of systems and networks, as well as the confidentiality and availability of data. KSB plans to further expand IT security in the years ahead as part of a multi-year programme to continuously extend the protection of the IT systems.

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.

Strategic opportunities and risks

Strategic risks are uncertainties and threats arising from strategic decisions and the business environment, which can adversely affect a company's long-term performance and competitiveness. They are closely linked with a company's long-term objectives, orientation and success. Strategic risks typically arise from the complexity and dynamics of the business environment. The occurrence of such risks can be far-reaching and impact a company's long-term growth, profitability and image, among other things. It is therefore crucial to recognise and evaluate strategic risks in order to take appropriate measures. The strategic risks presented here are long-term in nature and therefore mainly affect time horizons that extend beyond the following financial year.

As was already described in the Environmental, Social and Governance (ESG) section, tighter environmental regulations, which will only come into force in a few years' time, can have negative implications for KSB's business. To counter such risks in good time, relevant measures are defined to identify and subsequently eliminate any violations.

If the continuous monitoring of the current market situation and forecast developments lead to acquisition plans, there is always a risk that these will fail before a contract is concluded. This can result in a loss of planned income within the scope of strategic planning.

Long-term opportunities stem from the fact that hydrogen is playing an increasingly important role in reducing CO_2 as a climate-neutral energy source. KSB participates in this technological trend by providing products for use in hydrogen production and storage. This offers opportunities for the Energy Market Area.

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 € 249.9 million (previous year: € 224.0 million). € 179.9 million of this is attributable to KSB SE & Co. KGaA (previous year: € 160.2 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 summarised in a consolidated appraisal. Compared with the previous year, there was no material change in the overall risk situation for KSB, which is essentially measured in terms of value at risk.

More stringent legal requirements to be met by the materials used in products in order to lower the environmental impact represent the primary risk for the KSB Group. Risks also arise from the future development of current flashpoints, such as Russia's war of aggression against Ukraine and the conflict in the Middle East. The risk of rising prices of commodities and materials, which was still considered one of the biggest risks at the end of the previous year, has become much less significant due to price adjustments and better availability.

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 2024 will be on the material risks described above. 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. 2023	31 Dec. 2022
Fixed assets		
Intangible assets	38,437	38,276
Property, plant and equipment	175,660	157,067
Financial assets	346,053	337.838
	560,150	**533,181**
Current assets		
Inventories	283,330	300,754
Advances received from customers	–68,142	–88,664
	215,188	**212,090**
Receivables and other assets	339,293	362,283
Cash and balances with credit institutions	102,868	34,704
	442,161	**396,987**
Prepaid expenses	**4,258**	**3,970**
	1,221,757	**1,146,228**

Equity and liabilities

€ thousands	31 Dec. 2023	31 Dec. 2022
Equity		
Subscribed capital	44,772	44,772
Capital reserve	66,663	66,663
Revenue reserves	136,180	136,180
Net retained profits	88,641	73,637
	336,257	**321,253**
Provisions		
Pensions and similar obligations	517,464	504,498
Miscellaneous other provisions	128,524	111,046
	645,987	**615,544**
Liabilities	**239,513**	**208,171**
Deferred income	–	1,260
	1,221,757	**1,146,228**

Income Statement

Income statement

€ thousands	2023	2022
Sales revenue	**996,306**	**899,583**
Changes in inventories	–16,118	18,012
Work performed and capitalised	1,683	1,244
Total output of operations	**981,871**	**918,839**
Other operating income	22,558	33,322
Cost of materials	–418,203	–414,807
Staff costs	–379,718	–368,642
Depreciation and amortisation expense	–21,163	–20,056
Other operating expenses	–191,097	–163,544
	–5,752	**–14,887**
Income from equity investments	61,613	93,320
Other finance income / expense	1,791	–16,863
	63,404	**76,457**
Taxes on income	–6,889	–5,910
Earnings after taxes	**50,763**	**55,660**
Other taxes	–1,383	–1,715
Net profit / loss for the year	**49,380**	**53,945**
Profit / loss carried forward	39,262	19,692
Appropriation to other revenue reserves	–	–
Net retained earnings	**88,641**	**73,637**

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

The 2023 financial year was defined by global political tensions due to the ongoing war in Ukraine, the China-Taiwan conflict and the outbreak of war in the Gaza region as a result of the attack on Israel. High interest rates led to uncertainty and a decrease in investment. In Germany, the manufacturing industry continued to be challenged by higher gas prices. At the same time, the situation on the procurement markets eased somewhat with regard to price and availability of bought-in parts.

In Europe, inflation and general uncertainty led to a noticeable slowdown in demand, particularly in the standard business.

Thanks to the company's global and broad positioning across several market areas, economic downturns were offset by positive developments.

Sales revenue and EBIT under IFRS were significantly higher than in the previous year. Order intake remained largely unchanged. 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 € 5.7 million to € 863.8 million in the reporting year, an increase of 0.7 %. Despite the economic slowdown, which led to a weaker second half of the year, KSB SE Co. KGaA's diversification across numerous regions and markets helped keep the order intake at a high level.

SALES REVENUE

At € 996.3 million, total sales revenue under HGB was up € 96.7 million on the prior-year figure of € 899.6 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 € 916.3 million generated in the 2023 financial year represents a year-on-year increase of € 87.5 million (10.6 %).

70.0 % of sales revenue relates to new business with Pumps, 9.4 % to new business with Valves, and 20.6 % 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 rose from € 796.0 million in the previous year to € 884.4 million. This is attributable to improved business in the Standard Markets and higher sales revenue from large-scale projects.

INCOME AND EXPENSES

Other operating income declined from € 33.3 million to € 22.6 million. This decline was mainly due to lower currency translation gains.

At € 418.2 million, the cost of materials was almost unchanged from the prior-year level of € 414.8 million. The cost of materials as a percentage of total output of operations fell from 45.1 % in the previous year to 42.6 % in the reporting year. This is due in particular to procurement costs, some of which were slightly lower.

Staff costs increased in absolute terms by € 11.1 million to € 379.7 million. Higher wages and salaries due to the collectively agreed pay adjustment as from June 2023 as well as provisions for profit bonuses and the collectively agreed, one-off payment of the inflation compensation bonus had an impact here. At 38.7 %, staff costs as a percentage of total output of operations were down on the previous year's figure of 40.1 %.

Other operating expenses of € 191.1 million showed a marked increase after € 163.5 million in the previous year. In addition to a general increase in costs, additions to provisions for warranties and penalties (€ 16.5 million) and expenses for maintenance of buildings and machinery (€ 4.9 million) contributed significantly to this increase. Expenses from exchange rate losses showed a contrary trend.

Overall, the income from equity investments, at € 61.6 million, was well below the prior-year level (€ 93.3 million). In the 2022 financial year, 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, had been reported under this item. The item includes profit transfers from the German service companies of € 19.0 million (previous year: € 14.6 million) and dividend income from affiliates and equity investments of € 42.7 million.

NET PROFIT / LOSS FOR THE YEAR UNDER HGB

Operating earnings improved from – € 14.9 million to – € 5.8 million, especially due to the significantly improved total output of operations. Lower finance income / expense had an opposite effect; in the previous year, it included income from the spin-off of the operational business activities at KSB Finanz S.A., Luxembourg, and subsequent integration into KSB SE & Co. KGaA. As a result, KSB SE & Co. KGaA generated a net profit for the year of € 49.4 million in the 2023 financial year; this compares with a net profit of € 53.9 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 to € 4.1 million in the 2023 financial year (previous year: € – 6.0 million). The increase in total output of operations at almost constant cost of materials was higher than the offsetting increases in staff costs and other operating 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 € 13.0 million to € 517.5 million on the reporting date. Other expenses, at € 128.5 million, were significantly higher than in the previous year (€ 111.0 million). This was due to additions to provisions for warranties.

Of liabilities totalling € 239.5 million (previous year: € 208.2 million), € 68.5 million was accounted for by trade payables at year end (previous year: € 71.5 million). Liabilities towards affiliates and equity investments increased significantly from € 128.4 million in the previous year to € 162.4 million. They include € 132.7 million (previous year: € 100.2 million) for intercompany loans and cash investments.

NET ASSETS

Total assets, at € 1,221.8 million, are up 6.6 % on the prior-year level of € 1,146.2 million. The cash and balances with credit institutions item posted an increase. An increase in fixed assets was also recorded. This was offset by almost constant inventories and lower receivables.

In the reporting year, fixed assets made up 45.8 % (previous year: 46.5 %) of total assets. The share accounted for by current assets was 54.2 % after 53.5 % in 2022. Inventories including advance payments received totalled € 215.2 million after € 212.1 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 2022 net retained earnings of € 73.6 million, dividends totalling € 34.4 million (dividend of € 19.50 per ordinary share and € 19.76 per preference share) were distributed by resolution of the Annual General Meeting on 4 May 2023. The remaining amount of € 39.3 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. Order intake was comparable to the previous year. The forecast tangible decrease due to fewer large-scale orders has not materialised. The expectations for considerable growth in sales revenue under IFRS were met, with higher revenue achieved in the Standard Markets. 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

In its current forecast for global economic growth, the International Monetary Fund (IMF) most recently anticipated an increase of 3.1 % in real terms for 2024, which equates to the prior-year growth rate. The slowdown was due to the restrictive monetary policy measures, which resulted in higher interest rates to curb inflation. The medium-term outlook for economic growth remains the lowest seen in decades. Inflation is expected to fall further, which should lead to a reduction in interest rates in the current year.

While the downside risks to this forecast still prevail, they have diminished in view of the resilience of the global economy recently observed. Looking ahead to 2024, inflation risks and the risks of a financial crisis and associated recession risks, in particular, eased over the course of the past year. Geopolitical risks have increased at the same time. Besides current regional conflicts and intensification of the mutual decoupling between the USA and China, the war in Gaza heightened the risk of escalation in the Middle East. Further risks to global economic growth include economic developments in China and its government's approach to addressing the property crisis, as well as possible turbulence on the commodities markets. The latter could be triggered by geopolitical escalation or extreme climatic conditions.

The IMF is projecting an overall growth rate of + 4.1 % for the emerging markets and developing countries.

The expected growth in the industrialised nations, at + 1.5 % in 2024, is lower than in 2023.

Growth in the euro zone will pick up only slightly to + 0.9 %. For Germany, the most recent forecast was for growth of + 0.5 %.

Given the weakening of global economic growth, the growth in demand for capital goods is expected to be lower. The VDMA expects global machinery sales revenue to stagnate at 0 % in real terms. An increase is anticipated at the largest production facilities in Asia, which should offset the decline in the other regions. In China, sales revenue is expected to grow by + 2 %. A decline of – 2 % is expected for the USA. The VDMA forecast for Germany is also for – 2 %.

For manufacturers of liquid pumps in Germany, VDMA foresees a below-average growth of + 0 % in nominal terms in the current year. It predicts a decline of – 1 % for industrial valves. Sales revenue from building services valves is expected to fall by – 2 % in nominal terms.

Overall, KSB SE & Co. KGaA foresees moderate to tangible growth in sales revenue in the 2024 financial year. Sales revenue growth will be supported especially by growth in the Standard Markets and in large-scale projects. Rising orders in the standard business will result in a moderate increase in the order intake of KSB SE Co. KGaA. EBIT under IFRS will rise significantly to sharply compared with the 2023 financial year.

The forecast horizon for the above-mentioned information and statements is the 2024 financial year.

The forecast may be influenced in particular by the continuing geopolitical tensions.

Acquisition-related Disclosures

A summary of the acquisition-related disclosures required by Sections 289a and 315a HGB [*Handelsgesetzbuch* – German Commercial Code] is given below and explanatory information is provided pursuant to Section 176(1) AktG [*Aktiengesetz* – German Public Companies Act].

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 Prime 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 is supervised by the Administrative Board and 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 *Mitbestimmungsgesetz* [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 11 March 2024 is accessible to the public at www.ksb.com > Investor Relations > Corporate Governance / Statement and Report. 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 [*Handelsgesetzbuch* – German Commercial Code] 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-report. 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 is provided 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 is provided 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

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 2023 was the renewed analysis of the compliance management system for the areas of anti-corruption and anti-trust / cartel law at central level; such an analysis was last carried out in 2020. The analysis aims to reveal further development potential for existing processes. Support for this was provided by an auditing firm, whose specialists subjected the relevant internal processes to a critical review. Similarly, the specific handling of the aforementioned compliance regulations was analysed at a selected national company, GIW Industries, Inc., USA. The identified potential for improvement and modernisation will be implemented in the current financial year. Another focus was on the implementation of a country-specific risk analysis for specific compliance sub-areas. This served as a preparatory pilot project for a corresponding Group-wide audit, which is planned for the current financial year. In addition, further relevant compliance sub-areas were subject to an annual status control, in some cases also with the help of external support. Compliance training was continued throughout the year for new employees and employees who were transferred internally to relevant functions. The targeted preventive effect of compliance measures is rounded off by the specific review of operative projects for compliance with the regulations.

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 appropriateness and effectiveness of the compliance management system is also continuously monitored by Internal Audits, mainly in the course of general or special audit measures. 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, selected parts of the compliance management system occasionally undergo external analyses by auditors, which are based on the requirements of IDW PS 980. The Audit Committee of the Supervisory Board is always involved in these processes and their findings, in particular to facilitate independent monitoring of the compliance management system by the Committee.

The Managing Directors are involved in monitoring the appropriateness and effectiveness of the systems by coordinating the specific key areas for the audit by Internal Audits, commissioning external auditors, managing a Group Compliance Office and maintaining regular dialogue with those responsible for the governance systems, among other things.

Based on the continuous findings from the aforementioned 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 and the internal control system.