General Information

Responsibility Statement

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

Frankenthal, 13 March 2019

KSB Management SE

The Managing Directors

Independent Auditor's Report

To KSB SE & Co. KGaA, Frankenthal

Report on the audit of the consolidated financial statements and of the group management report

AUDIT OPINIONS

We have audited the consolidated financial statements of KSB SE & Co. KGaA, Frankenthal, and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of KSB SE & Co. KGaA for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018 and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1. **Recoverability of goodwill**
2. **Accounting treatment of project orders recognized over time and initial application of IFRS 15**
3. **Provision for an onerous customer contract**
4. **Measurement of pension provisions**

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

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

Hereinafter we present the key audit matters:

1 Recoverability of goodwill

1 In the Company's consolidated financial statements goodwill amounting in total to EUR 44.4 million is reported under the "Intangible assets" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating unit, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally calculated on the basis of the value in use. The present value of the future cash flows from the respective cash-generating unit normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the relevant cash-generating unit. The impairment test resulted in the recognition of a write-down amounting to a total of EUR 20.6 million with respect to the cash-generating unit KSB Seil Co. Ltd., Busan/South Korea and a total of EUR 7.6 million with respect to two cash-generating units of French service entities. The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective cash-generating unit, on the discount rate used, the rate of growth as well as other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

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

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

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

2 Accounting treatment of project orders recognized over time and initial application of IFRS 15

1 In the Company's consolidated financial statements revenue totaling EUR 2,245.9 million is reported in the consolidated income statement. The Company has put in place comprehensive systems and processes throughout the Group for the purposes of properly recognizing and deferring revenue. In this financial year, the initial application of the new accounting standard on revenue recognition (IFRS 15) had a material impact on revenue recognition and deferral.

Revenue amounting to EUR 618.4 million is attributable to project orders recognized over time and services. In the case of project orders, the progress of work is estimated on the basis of the ratio of the actual contract costs already incurred to the planned total costs.

The initial application of IFRS 15 resulted in an EUR 11.5 million change in revenue (0.6 % of total revenue), which is primarily attributable to a change in the date on which the revenue is recognized. The initial application of IFRS 15 resulted in a significant expansion of disclosure requirements. In addition, in certain areas IFRS 15 necessitate estimates and judgment, the appropriateness of which had to be assessed as part of our audit.

In particular, the estimation of the planned total costs of the project orders recognized over time and the appropriate allocation of costs incurred to the orders are based on the executive directors' estimates and assumptions. In addition, recognizing and deferring revenue correctly in accordance with the Group-wide application of the new accounting standard IFRS 15 is considered to be complex. Against this background, accounting for revenue was of particular significance during our audit.

2 As part of our audit we assessed the processes and controls implemented by the Group and adapted for IFRS 15 for the recognition of revenue, among others.

In addition, with the support of our internal specialists from Capital Markets and Accounting Advisory Services, we assessed the impact of the initial application of IFRS 15 as part of our audit. In connection with the disclosure requirements arising from the initial application of IFRS 15, we assessed among other things the appropriateness of the procedure used to transition to IFRS 15, including the impact analyses conducted within the Group, and assessed the estimates and judgments made by the executive directors with respect to the recognition and deferral of revenue for the various business models of the Group companies.

With respect to project orders recognized over time we examined projects on a sample basis to determine whether they met the requirements for recognizing revenue over time in accordance with IFRS 15. We furthermore assessed the calculation of percentage of completion and the proportionate recognition of revenue and profit derived from this. In this connection we examined the calculation of the planned total costs as well as the costs actually incurred. We assessed the progress of the respective projects, among other things based on interviews with project managers and by inspecting project documentation. In addition, we assessed the consistency of the methods used to calculate the costs incurred. We also addressed the inherent audit risk in this audit area by means of audit procedures that were consistently applied throughout the Group.

We were able to satisfy ourselves that the established systems and processes adapted for IFRS 15, and the controls which are in place are appropriate, and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue is properly recognized in accordance with IFRS 15 as applied for the first time.

3 The Company's disclosures on the initial application of IFRS 15 can be found in section I. "General information on the group" and its disclosures on revenue from project orders recognized over time can be found in sections III. "Accounting policies", IV. "Balance sheet disclosures" note 9 and 10 and V. "Income statement disclosures" note 11 of the notes to the consolidated financial statements.

3 Provision for an onerous customer contract

1 In the Company's consolidated financial statements provisions for onerous contracts amounting to EUR 25.9 million are reported under the "Other provisions" balance sheet item in "Current liabilities". These obligations primarily relate to EUR 17.4 million in provisions for a legacy project in the United Kingdom, of which the completion is scheduled for 2020. The Company assumes that the total costs still to be incurred for the project will exceed the revenues by the amount provided for. The executive directors do not envisage any contract-related risks beyond this. The costs still to be incurred are calculated based on project progress to date and estimates of future progress. These assumptions are based on qualified estimates. In our view, this matter was of particular significance in the context of our audit since the recognition and measurement of this significant item in terms of its amount is to a large extent based on estimates and assumptions made by the Company's executive directors.

2 With the knowledge that estimated values bear an increased risk of accounting misstatements and that the measurement decisions made by the executive directors have a direct and significant effect on net profit or loss, we assessed the appropriateness of the carrying amounts using the measurement bases presented to us. We assessed the total project costs based on project calculations and additional information provided by the executive directors and the project manager, among others. We checked the calculation of project loss and assessed its appropriateness. We also verified the measurement of the provision and assessed the measurement parameters used. We were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors were sufficiently documented and substantiated to justify the recognition and measurement of the provision for the onerous customer contract.

3 The Company's disclosures on other provisions are contained in section IV. "Balance sheet disclosures", note 9 of the notes to the consolidated financial statements.

4 Measurement of pension provisions

1 In the consolidated financial statements of the Company EUR 553.6 million (24.7 % of total assets) relating to long-term pensions and similar obligations are recognized under the "Provisions for pensions and similar obligations" balance sheet item. Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy and staff turnover. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. As part of a supplement to the Group works agreement in financial year 2018, the company pension plan was expanded to include a capital option. When benefits become payable, employees have the option to choose between payment in annual installments, payment as a lump sum, or a lifetime annuity. The Company's executive directors estimated the payment options likely to be chosen by the specific employees, and took this into consideration in measuring the pension provision. Recognizing the capital option reduces the provision in the amount of EUR 46.4 million and is reported under staff costs in the income statement.

From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

2 As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts, among others. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with the standard and appropriateness, in addition to other procedures. In addition, we analyzed the changes in the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and verified their plausibility. We reviewed and assessed the justification for the executive directors' assumptions with respect to the distribution between lump-sum payment, annuity and installments. On this basis, we checked the calculation of the provisions and their presentation in the consolidated balance sheet and the notes to the consolidated financial statements, among other things.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3 The Company's disclosures on pension provisions are contained in section IV. "Balance sheet disclosures", note 9 of the notes to the consolidated financial statements.

OTHER INFORMATION

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

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate Governance Statement" of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

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

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 16 May 2018. We were engaged by the supervisory board on 12 November 2018. We have been the group auditor of KSB SE & Co. KGaA, Frankenthal, without interruption since the financial year 2015.

We declare that the audit opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Dr. Ulrich Störk.

Mannheim, 13 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Ulrich Störk Wirtschaftsprüfer	Christina Pöpperl Wirtschaftsprüferin

Glossary

ABBREVIATIONS

API
American Petroleum Institute

HR
Abbreviation for Human Resources

IMO
International Maritime Organisation, a specialised UN agency

ISO 14001
International standard stipulating requirements for environmental management systems

IMF
International Monetary Fund

VDMA
Verband Deutscher Maschinen- und Anlagenbau e.V. [Mechanical Engineering Industry Association]

KEY CORPORATE AND TECHNICAL TERMS

Additive manufacturing
Previously referred to as rapid prototyping: a process which enables rapid and cost-effective production of patterns, samples, prototypes, tools and final products.

Augmented Reality Repair
The practice of working with data glasses connected to the Internet or a smartphone app. This technology allows an engineer who is not a pump specialist to be guided through a step-by-step maintenance procedure.

Business Innovation Lab
Think tank in which a KSB team develops future-oriented business models for the age of digitalisation

CE marking
The CE marking documents that goods comply with the health and safety requirements of the European Union.

ErP Directive
Directive of the European Union which sets out the requirements for the environmentally compatible design of energy-related products

GHG (Greenhouse Gas) Protocol
Standard for calculating CO_2 and greenhouse gas emissions

International Labour Organisation (ILO)
Specialised United Nations agency responsible for drawing up and overseeing international labour standards and social standards

Stakeholders
Groups of people who are directly or indirectly affected by a company's activities; KSB's main stakeholders are customers, suppliers, investors, employees and the public.

UK Modern Slavery Act
British law combating modern slavery, forced labour and human trafficking

UN Global Compact
United Nations initiative for responsible corporate governance based on ten universal principles

Contacts

EDITOR
KSB SE & Co. KGaA
Johann-Klein-Straße 9
67227 Frankenthal, Germany
Tel. +49 6233 86-0

ONLINE NEWS
You will find the latest news
on the KSB Group at: www.ksb.com

Should you need additional information,
please contact:

INVESTOR RELATIONS
Dieter Pott
Tel. +49 6233 86-2615
E-mail: investor-relations@ksb.com

COMMUNICATIONS
Wilfried Sauer
Tel. +49 6233 86-1140
E-mail: wilfried.sauer@ksb.com

CONCEPT AND DESIGN
KSB Communications, Frankenthal
3st kommunikation, Mainz

PHOTOGRAPHY
Matthias Schmiedel, Neu-Ulm (p. 4/5, 6)
Robert Kwiatek, Frankenthal (p. 8)
arche Nova (p. 32)
Frank Lehmann, Dirmstein (p. 32)
Emanuel Spiegel, Frankenthal (p. 42, 54, 72)
Slimane Zoheir, Algerien (p. 48)
Pamela Ojeda, Chile (p. 60)
Roshan T. Roy, UAE (p. 66)
Adobe Stock (p. 64/65)
Getty Images (p. 36/37, 38/39, 40/41, 44/45, 46/47,
50/51, 52/53, 56/57, 58/59, 62/63, 65, 68/69, 70/71)
Shutterstock (cover page 5)
KSB Image Library

PRINTING
Ottweiler Druckerei und Verlag GmbH, Ottweiler

THE GLOBAL COMPACT
WE SUPPORT

As a signatory to the United Nations Global Compact, KSB is committed to endorsing the ten principles of the international community in the areas of human rights, labour standards, environmental protection and anti-corruption.

A print version of the KSB Group's Annual Report is additionally available in German. We also publish German and English versions online in PDF and HTML formats at http://annualreport2018.ksb.com.