

Corporate Directive on Prevention of Corruption

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I. PURPOSE AND SCOPE OF APPLICATION OF THIS CORPORATE DIRECTIVE

1. This Corporate Directive provides standards of behaviour for all employees of the KSB Group for the avoidance of corruption. It is intended to help employees conduct themselves correctly in specific situations in order to avoid damage to themselves and the company.
2. In all their business activities and decisions, our employees shall at all times observe the applicable laws and regulations (including the relevant KSB regulations).
3. This Corporate Directive is based on German legislation, and is accordingly mandatory for all German employees of the Group and all Group employees working in Germany.
4. In addition, all other employees of the KSB Group shall also observe the stipulations of this Corporate Directive on the basis of the relevant applicable law, except where stricter provisions are applicable to the actions of the employees on account of their nationality or on account of the laws of the country in which they act. In such case, the stricter standards take precedence over this Corporate Directive.

II. WHAT IS CORRUPTION?

1. In general, the term corruption is understood to mean the acceptance or granting of advantages or benefits for the purpose of the unfair influencing of business or official decisions.
2. Corruption is a crime. Both the recipient and the grantor of the advantage or benefit make themselves criminally liable.
3. Particularly strict provisions apply in relation to dealings with public officials. Corruption is, however, also prohibited in private industry.
4. Corruption does not just begin with the acceptance or granting of benefits. Even the offer, promise, demand or acceptance of a promise already result in criminal liability and all the consequences associated therewith.
5. The prohibition of corruption applies worldwide.

III. CONSEQUENCES FOR EMPLOYEES AND THE COMPANY

Corruption may have far-reaching consequences for employees and the company:

1. CONSEQUENCES FOR EMPLOYEES

- 1.1 A person who is guilty of corrupt behaviour – whether through the granting or the acceptance of advantages – commits a crime. In the course of investigations, searches are frequently carried out of private homes and places of work, and interrogations conducted of work colleagues and supervisors. A person who is found guilty of corruption may be sentenced to several years of imprisonment or a high fine.
- 1.2 Customers, contractors and competitors may suffer damage as a result of corruption. These parties may claim damages from the offenders personally.
- 1.3 Through corrupt behaviour, employees breach their obligations as towards their employer. As a rule, corrupt behaviour entitles the employer to dismiss the employee without notice.

2. CONSEQUENCES FOR THE COMPANY MANAGEMENT

- 2.1 If employees are guilty of corrupt behaviour which would have been prevented or made considerably more difficult through proper supervision on the part of the company management, the management may have an administrative fine imposed upon it, and in individual cases even be made criminally liable.
- 2.2 The company management is therefore obliged by law to counteract corrupt behaviour, to carry out regular checks and controls, to investigate cases of suspicion and penalise breaches accordingly.

3. CONSEQUENCES FOR THE COMPANY

- 3.1 If employees are guilty of corrupt behaviour, a high fine may be imposed on the company. This fine may, in certain circumstances, reach the amount of the sales revenue (!) generated by the transaction affected. The company may also be excluded from public contracts.
- 3.2 If partners to a contract or any competitors have suffered damage by the corrupt action of an employee, the company may face a civil law claim for damages.
- 3.3 According to the credit terms of the credit insurance company Euler Hermes Kreditversicherung, the insurance cover lapses in relation to exports if the applicant has offered, promised or granted unlawful benefits in connection with the relevant contract. The applicant is still charged with the insurance fees. In addition, it faces legal consequences on account of the attempt to obtain insurance cover by false pretences.

IV. THE POSITION OF KSB

1. KSB is determined not to tolerate any corrupt practices, either through employees or business partners. Infringement of the provisions of this Corporate Directive will lead to the legal and employment consequences appropriate in the individual case.
2. KSB prohibits any and all participation in or tolerance of bribery or any other form of corruption.
3. KSB will continuously improve the controls for the avoidance and exposure of corruption in order to detect and eliminate possible weak points that promote corrupt behaviour.
4. The basic principles addressed in the KSB Code of Conduct require that in each commercial activity even the appearance of corruption or corruptibility shall be avoided.
5. KSB expects all employees to regard it as their personal task to contribute to the avoidance and exposure of corruption in the KSB business environment, and thereby to strengthen KSB's reputation.

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V. STANDARDS OF CONDUCT FOR THE PREVENTION OF CORRUPTION

Certain business partners shall be vetted for possible compliance risks already in the early stages of a business relation. Details are given in the separate Directive on Business Partner Risk Analysis.

Furthermore, the following rules of conduct shall serve the avoidance of even the appearance of corrupt behaviour in dealings with business partners:

1. DEALINGS WITH CUSTOMERS AND SUPPLIERS

- 1.1 Suppliers shall be selected exclusively according to principles of competition, i.e. in particular by reason of the price, the quality and suitability of their performance.
- 1.2 KSB employees shall immediately reject any attempt on the part of suppliers to unfairly influence the placing of orders through the offer, promise or granting of personal advantages.
- 1.3 KSB maintains its market share exclusively through the high quality of its products and services, customer friendliness and an attractive price/performance ratio.
- 1.4 KSB employees are prohibited from making any attempt to unfairly influence customer decisions through the offer, promise or granting of personal advantages.

2. PRESENTS AND BENEFITS TO PUBLIC OFFICIALS

- 2.1 KSB employees are prohibited from offering, promising or granting monetary or material benefits of any kind whatever to public officials, however insignificant such benefits may be. The reason for this lies in the particularly strict rules which generally forbid the offering or granting of any benefits to a public official, regardless of their value.
- 2.2 The strict provisions relating to public officials and authorities apply first of all to all holders and institutions of public power, such as federal and state governments, district authorities, municipal authorities, facilities of the German Federal Armed Forces, courts, institutions, corporations and foundations established under public law, employees of the above-mentioned bodies, officials, soldiers and judges (the examples relate to Germany).
- 2.3 The strict provisions relating to public officials and authorities further apply to privately organised establishments with public tasks or state participation, such as public transport or utility companies, public hospitals or waste disposal companies, as well as to their employees.
- 2.4 The prohibition of the granting of benefits under 2.1 also applies to relatives of the public officials mentioned in 2.2 and 2.3, and all other persons who may be suspected of accepting a benefit on behalf of a public official.
- 2.5 Exceptions on an individual basis require the prior consent of the responsible Compliance Officer.

3. PRESENTS AND BENEFITS IN OTHER BUSINESS DEALINGS

- 3.1 Outside the scope of application of the fore-going clause V.2., business partners within the meaning of the following provisions are persons or businesses and their management executives, employees and representatives with whom KSB maintains, has maintained or might in future maintain business relations.
- 3.2 KSB employees shall not demand, either for themselves or third parties, any invitations to meals or events, any presents, other benefits, personal services or any other favours from business partners.
- 3.3 Neither KSB employees or the immediate members of their families may receive any monetary presents – regardless of their amount – from business partners. Conversely, KSB employees shall not offer, promise or give any monetary presents to business partners.
- 3.4 Notwithstanding the above, KSB, within the scope of the applicable laws, takes into account the concept of social custom in the case of the acceptance and granting of presents or benefits.

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Each culture and society has traditional manners of behaviour which are regarded as customary; the failure to observe the same would on occasion even be considered impolite, and convey a low estimation of the opposite party. Accordingly, as a **rule of thumb**, the following applies: The receipt or granting of presents or benefits is, as a rule, impermissible if the same no longer fall within the scope of what is socially customary, i.e. if the boundaries of business custom and also the personal status of the parties involved are exceeded – taking into account the respective level in the hierarchy and the reason for the present or benefit. The specific provisions to be observed at KSB in this connection are set out in the following sections.

- 3.5 The acceptance, offer, promise or granting of any material benefits is only permissible where any possibility is excluded that business decisions might be influenced thereby. Nor may the impression be created that any influencing is intended or possible. **Subject to these conditions**, the acceptance and granting of material benefits is – subject to the provisions set out in 3.9 – always permissible up to a value of 30 euros per beneficiary; higher amounts so long as they remain within the customary social framework. Irrespective of this, the offer, promise or granting of material benefits is always impermissible if there is reason to assume that acceptance of the benefit by the recipient is prohibited by company regulations.
- 3.6 Provided any possibility is excluded that business decisions might thereby be influenced or a corresponding impression thereby be created, KSB employees may, on special business occasions, both participate in and issue business catering invitations within the customary social scope.
- 3.7 The participation in events and trips the costs of which are borne by third parties is permissible for KSB employees if:
- A business reason exists, and the participation coincides in the individual case with the interests of KSB, and
 - The customary business framework is not exceeded, and
 - Any possibility is excluded that business decisions might thereby be influenced or a corresponding impression be thereby created.

The participation in such events and trips which exclusively or primarily pursue social purposes (of a cultural, sporting etc. nature) is permissible only following the prior consent of the responsible Local Compliance Officer (LCO).

- 3.8 Invitations to business partners by KSB to trips or events are permissible if the same remain within the customary social framework, and provided any possibility is excluded that business decisions could thereby be influenced or a corresponding impression be thereby created.
- 3.9 Prior to accepting or granting any benefits or invitations, e.g. to meals, events or trips, which exceed a value of 100 euros per beneficiary, the prior consent of the responsible Local Compliance Officer (LCO) needs to be obtained. From a value of 200 euros, the LCO must also involve the responsible Regional Compliance Officer (RCO). The RCO's decision is leading. The value is to be determined by means of an overall view. Multiple individual benefits linked by a contextual or temporal relationship must be added up. This is particularly applicable to all benefits granted to the same KSB employee by employees of the same business partner or, vice versa, granted by KSB employees in total to one and the same employee of a business partner in the previous six months.

In cases of doubt, the prior consent of the responsible LCO shall be obtained even below the value limits stated above.

If, in exceptional cases, the required approval could not be obtained in advance, the acceptance or granting of benefits requiring approval must be reported to the responsible LCO afterwards, explaining the circumstances.

4. INVOLVEMENT OF AGENTS AND CONSULTANTS

Fees for agents and consultants are in practice frequently open to the suspicion that they serve to conceal corrupt benefits, e.g., by the consultant passing on to the customers' decision-makers excessive remunerations arising from the consulting agreement. Consulting agreements have therefore come into the increased focus of tax authorities. The mere suspicion of unfair business relations may already result in adverse tax consequences and other criminal investigations.

In order to preclude even the appearance of unfair behaviour, a consultant-specific examination shall, as a rule, be performed in accordance with the Directive on Business Partner Risk Analysis when involving agents and consultants. In this connection, the following points which are typically linked to consulting agreements shall, in particular, be scrutinised.

- 4.1 Seriousness of the agent / consultant: The basic principle reads: "(Better) know your consultant"! A critical examination of quality and reputation is always necessary. The agent / consultant must accordingly demonstrably be suited, both technically and personally, to perform the service and shall, ideally, have a subsidiary operation in the host country. However, the location of the head office of a consulting firm in well-known tax havens such as the Cayman Islands or the Channel Islands, but also Liechtenstein, Switzerland and Luxembourg, should arouse suspicion unless reasonable grounds for such location are evident.
- 4.2 Reasonableness of the consideration: The remuneration of the agent / consultant shall always be examined as to its reasonableness and conformity with market conditions. This shall apply, in particular, when agreeing performance-related commissions. The relevant industry, region and the nature of the performance may, inter alia, be used as criteria in this respect. In the case of a bank transfer of the remuneration, the contracting partner shall always be indicated as recipient of the payment if the payment is not actually made direct to him - as will, however, normally be the case.
- 4.3 Nature of the activity and documentation: The performances owed on the part of the agent / consultant shall be laid down in detail by contract (e.g. the negotiation on a case-by-case basis of certain business transactions or certain financing). In the framework of periodic activity reports, the agent / consultant shall document the services he performs for KSB, which shall be followed up by the responsible KSB employee who shall also complement such documentation, if necessary. No payments may be made to the agent / consultant without proper documentation.
- 4.4 The standardised KSB sample contracts shall always be used. They contain, amongst other things, so-called compliance clauses which stipulate that agents / consultants shall not use the money received particularly from KSB for corrupt behaviour, and that KSB shall also not tolerate any other corrupt practices on the part of the agent / consultant. This is ensured through penalties and the right to extraordinary termination of the contract. If an agent / consultant refuses to accept such clauses, this shall, on principle, be seen as an indication for his improper intentions.

VI. YOUR CONTACT PERSONS

1. All employees who have or gain knowledge of specific and reliable facts that indicate an infringement of the foregoing basic principles are required to report the same.
2. The persons to contact in this respect - as well as for all other questions - are the respective superior, the legal department or the company management. The responsible Compliance Officer or Group Compliance Officer may also be contacted in this respect, particularly if confidential treatment is desired.
3. In addition, a law firm specially commissioned for this purpose is available as a contact. Although the law firm will forward relevant information to the Group Compliance Officer, it will not name the informant, so as to ensure confidentiality also in these cases (ombudsman system). Contact can be made from any country, either in German or English, and both by telephone and in writing.
4. You will find the contact details for the Group Compliance Officer and the law firm in the KSB Code of Conduct.