



**Corporate Governance Statement**  
**Pursuant to Sections 289f, 315 d German Commercial Code**  
**and**  
**Corporate Governance Report**  
**Pursuant to Section 3.10 German Corporate Governance Code**

In the following, the general partner of KSB SE & Co. KGaA, KSB Management SE (acting through its Managing Directors), and the Supervisory Board of KSB SE & Co. KGaA report on company management and corporate governance at KSB SE & Co. KGaA and its group. Included are the **Corporate Governance Statement** for the 2017 financial year (as at 21 March 2018), as well as the **Corporate Governance Report** in accordance with section 3.10 of the German Corporate Governance Code.

The following information in particular is presented (sections 289f(2 and 3), 315d of the HGB):

1. Statement Pursuant to section 161 of the AktG [*Aktiengesetz* – German Public Companies Act] (Statement of Compliance),
  2. Relevant information on corporate governance practices that go beyond statutory requirements along with information on where it is publicly available,
  3. Description of the working methods of the general partner (including its Managing Directors) and the Supervisory Board, and the composition and working methods of the these bodies,
  4. Information on the gender-specific staffing of the Supervisory Board and executive positions,
  5. Diversity concept for the body authorised to represent and the Supervisory Board,
- and
6. Other corporate governance issues,
  7. Basic principles of the Compliance Management Systems

**1. Statement Pursuant to Section 161 of the AktG [*Aktiengesetz* – German Public Companies Act] (Statement of Compliance)**

The Statement of Compliance is issued by the Managing Directors of the general partner and the Supervisory Board of KSB SE & Co. KGaA at least once a year. The last statement issued on 21 March 2018 reads as follows:

## 1. Preface

The Statement of Compliance with the German Corporate Governance Code (“Code”) pursuant to section 161 of the AktG [*Aktiengesetz* – German Public Companies Act] was last issued by the Board of Management and Supervisory Board of KSB Aktiengesellschaft, Frankenthal (Pfalz), on 12 September 2017. Following the resolution by the Annual General Meeting on 10 May 2017 to change the legal form, KSB Aktiengesellschaft was converted, including the accession of KSB Management SE, Frankenthal (Pfalz), as the general partner, into a partnership limited by shares [*Kommanditgesellschaft auf Aktien* – KGaA] under the name KSB SE & Co KGaA (“Company”). The entry of the new legal form was made in the German Commercial Register [*Handelsregister*] on 17 January 2018.

The Code is tailored to companies with the legal form of a public limited company [*Aktiengesellschaft* – AG] or a European company (“SE”) and does not consider the specifics of a KGaA. Many recommendations of the Code can therefore only be applied to KSB SE & Co. KGaA in a modified form. Aspects to be taken into consideration include but are not limited to:

### (a) Management

Many recommendations of the Code relate to the Board of Management. However, a KGaA has, unlike an AG, no Board of Management; in a KGaA the latter’s tasks are performed by the general partner, in this case KSB Management SE.

### (b) Supervisory Board

Some recommendations of the Code relating to the Supervisory Board do not consider the legal specifics of a KGaA either. For instance, the Supervisory Board of a KGaA, unlike the Supervisory Board of an AG, has no personnel decision-making competence with regard to the management body and can also not commit it by defining transactions requiring consent.

### (c) Annual General Meeting

The Annual General Meeting of a KGaA essentially has the same rights as the Annual General Meeting of an AG. In addition, it decides on the adoption of the annual financial statements of the Company; contrary to an AG, some resolutions of the Annual General Meeting (e.g. the adoption of the annual financial statements) require the consent of the general partner.

The Code was developed against the background of the two-tier system of a public limited company under German law. The Company’s general partner, KSB Management SE, by contrast has a one-tier system. According to articles 43-45 SE Regulation in conjunction with sections 20 et seqq. SEAG, this is characterised by the fact that the management of the SE is the responsibility of a single management body, the Administrative Board. The Administrative Board manages the SE, determines the basic principles of its activities and monitors their implementation by the Managing Directors. The Managing Directors conduct the business of the SE and represent it in and out of court. According to the Articles of Association of KSB Management SE and the valid Rules of Procedure, the Managing Directors are in certain cases bound by directives of the Administrative Board.

## 2. Statement of Compliance

The Managing Directors of the general partner, i.e. KSB Management SE, and the Supervisory Board of KSB SE & Co. KGaA declare that since the publication of the last Statement of Compliance on 12 September 2017 the Company has complied with the recommendations of the Code as set out in the version of 7 February 2017, with the exception of the following, and will continue to do so in the future:

- 2.1 **Section 4.2.3(2), sentence 6:** The upper remuneration limits specified in the service contracts of the Managing Directors of KSB Management SE do not fully meet the requirements of the Code.

Reason:

There are upper limits for the main remuneration components. Occasionally – e.g. for pension commitments and benefits in kind – no amounts are defined, but the amounts can be adequately derived on the basis of the respective commitment. The requirements of the Code exceeding the above provide no sustainable further insight.

- 2.2 **Section 4.2.5(3 and 4):** The Managing Directors' remuneration is neither disclosed separately for each Director in the remuneration report nor classified by components based on the model tables.

Reason:

Pursuant to German commercial law, the Annual General Meeting of KSB Aktiengesellschaft decided to refrain from disclosure of the details of remuneration of the individual Board of Management members. The general partner and the Administrative Board abide by this decision.

- 2.3 **Section 5.4.1(2):** With the exception of an age limit, the Supervisory Board does not specify concrete objectives or defined competencies regarding its composition.

Reason:

We appreciate the diversity in the composition of the Supervisory Board aimed at by the Code, which will generally be conducive to the interests of the Company. To date, we have always followed this principle. However, we take a critical view of detailed specifications going beyond legal requirements, as we believe that this would make it more difficult to ensure an appropriate and adequately flexible composition of this body.

- 2.4 **Section 5.4.6(2):** The performance-related component of the Supervisory Board remuneration is based on the annual dividend for the period until 17 January 2018; it is thus not oriented toward “sustainable” growth of the enterprise as defined in section 5.4.6(2). With the coming into effect of the conversion of KSB Aktiengesellschaft into the legal form of a KGaA on 17 January 2018, the performance-related component of the Supervisory Board's remuneration no longer applies.

Reason:

We support the sustainability objective of the Code, but did not consider a change in the well-established remuneration structure for the Supervisory Board to be necessary for achievement of this objective. Against the background of the change in responsibilities and tasks of the Supervisory Board within a KGaA, the remuneration governed by the Articles of Association was adjusted in the course of the change in legal form.

- 2.5** Section 5.4.6(3): The total amount of the remuneration paid to the members of the Supervisory Board for their service on the Board, as well as of remuneration or advantages extended for services provided individually, including but not limited to advisory or agency services, is disclosed in the notes to the consolidated financial statements, but the remuneration is disclosed neither separately for each member nor classified by components.

Reason:

The remuneration of the Supervisory Board members is governed by the Articles of Association and the supplementary resolution of the Annual General Meeting dated 16 May 2012; these documents provide detailed information on the individual components of the remuneration. Beyond that, we prefer to provide summarised information on the remuneration of the members of the Supervisory Board rather than breaking it down into the compensation paid to the individual members and the components it contains, as we do not believe that the latter would provide any additional benefits for shareholders or the development of the Company.

Frankenthal (Pfalz), 21 March 2018

*The Supervisory Board of KSB SE & Co. KGaA and  
the Managing Directors of the general partner*

## **2. Relevant information on corporate governance practices**

The KSB Group, with its registered office in Frankenthal (Pfalz), Germany, acts in accordance with the applicable statutory provisions, its Articles of Association and the German Corporate Governance Code as implemented in the Company and legal form. Honesty, responsibility, professionalism, trust and appreciation are the values we feel committed to. To highlight what they mean to us, we have made them a fixed constant of our global corporate culture and incorporated them in our Code of Conduct. We consider compliance with these values and the high quality of our products and services to be prerequisites for long-term, satisfying and successful business relationships. KSB's reputation is more important than the individual success of any particular business transaction or person. Against this background, we have formulated and communicated specific principles and rules of conduct. They govern basic aspects such as the way we interact with one another and corporate social responsibility, as well as more specific topics like competition and anti-trust/cartel law or environmental protection. We compiled these and other key rules in the KSB Code of Conduct. It describes the key business policy principles that guide us in our relationships with customers, suppliers and other business partners, as well as in our internal cooperation. We will be monitoring future developments in the legal and business environment and adapting our Code of Conduct as

required. It is accessible to the public via the Company's web site (<https://www.ksb.com/ksb-de/investor-relations/Corporate-Governance>).

KSB has also signed the United Nations Global Compact (web site: [www.unglobalcompact.org](http://www.unglobalcompact.org)). Members undertake to observe and implement ten fundamental principles of the UN in their business practices. These principles relate to the areas of labour standards, environmental protection, anti-corruption and human rights.

### **3. Practice of the general partner and Supervisory Board**

KSB SE & Co. KGaA is a stock exchange-listed German partnership limited by shares [*Kommanditgesellschaft auf Aktien* – KGaA]. The German Stock Corporation Act prescribes a dual management system with a management body and the Supervisory Board for public limited companies and partnerships limited by shares. For the legal form of KGaA, the special aspect arises that its business is conducted by a general partner. In the case of KSB SE & Co. KGaA, this is KSB Management SE. As legally required for the assignment of competencies, the Supervisory Board of KSB SE & Co. KGaA oversees and advises the general partner and its bodies. Tasks and responsibilities of the general partner and Supervisory Board are clearly defined by law and strictly separated.

#### **The general partner and its bodies**

##### The general partner

The sole general partner of KSB SE & Co. KGaA is KSB Management SE based in Frankenthal. Acting through its Managing Directors, it conducts the business of KSB SE & Co. KGaA in observance of the due diligence of a prudent and conscientious manager.

The general partner does not hold a capital stake in the Company and does not participate in the earnings and in the assets of the Company. The general partner is entitled to compensation of all expenses in connection with the conducting of the Company's business. For the management and assumption of personal liability, it also receives an annual remuneration in the amount of 4 % of the share capital that is not based on profit and loss.

KSB Management SE is a one-tier SE, whose bodies are the Managing Directors, the Administrative Board and the Annual General Meeting of KSB Management SE.

##### Managing Directors of the general partner

The Managing Directors of the general partner are responsible for the management of KSB Management SE and therefore also for the management of KSB SE & Co. KGaA. They conduct the business in observance of the due diligence of a prudent and conscientious manager in accordance with the laws, the German Corporate Governance Code – insofar as the general partner and the Supervisory Board have decided to fulfil its recommendations and suggestions –, the Articles of Association, the Rules of Procedure for the Managing Directors and the directions issued by the Administrative Board of the general partner in accordance with its Articles of Association and valid Rules of Procedure. The strategy and instructions formulated by the Managing Directors are implemented under a matrix organisation, based on clear responsibilities and streamlined processes. According to the provisions of the Articles of Association of the general partner, it has one or more Managing Directors who are appointed

by the Administrative Board of the general partner. The Managing Directors work, among other things, on the basis of the Rules of Procedure issued by the Administrative Board of the general partner. The Corporate Units, Regions and staff functions are currently assigned to them as follows:

- **Dr.-Ing. Stephan Jörg Timmermann:** Strategy, Human Resources, Communications, Internal Audits, Legal & Compliance, Patents & Trademarks as well as Region Europe. He is also the spokesperson for Management.
- **Dr.-Ing. Stephan Bross:** Global Operations, Research, Processes, Technology, Digital Transformation, Committees and Associations, the Corporate Unit Pumps, the Corporate Unit Valves, as well as Region Asia West and Region Middle East / Africa.
- **Ralf Kannefuss:** Sales, Marketing and Service, as well as the Region East Asia/Pacific
- **Dr. rer. pol. Matthias Schmitz:** Taxes, Controlling Group, Finance/Accounting, Information Technology, Procurement, as well as Region America North and Region America South.

These assignments do not affect the overall responsibility of the Managing Directors for managing the Company. The Managing Directors have not formed special committees. The Managing Directors are under the obligation to provide one another with assistance as well as with ongoing, timely information about relevant developments. They shall represent each other in the performance of their tasks. In the event of issues which affect all or several areas they shall discuss the matter with each other and reach a joint decision.

Significant events – such as acquisitions or planning – are subject to approval by the Administrative Board.

The appointment of Managing Directors should as a rule not extend beyond their 65<sup>th</sup> birthday, and shall end not later than upon their reaching the age of 75.

#### Administrative Board of the general partner

As a one-tier SE, KSB Management SE has an Administrative Board which is composed of a minimum of two and a maximum of nine members in accordance with the Articles of Association. The Administrative Board currently comprises five members. The Chairman of the Administrative Board is Mr Oswald Bubel. Further members of the Administrative Board of KSB Management SE are Ms Monika Kühborth, Mr Günther Koch, Dr. Harald Schwager and Ms Andrea Teutenberg. The members of the Administrative Board are appointed by the Annual General Meeting of KSB Management SE.

The Administrative Board manages KSB Management SE in accordance with applicable laws, the Articles of Association of KSB Management SE and its Rules of Procedure, determines the principles of its activities and monitors their implementation. It appoints and monitors the Managing Directors. The Administrative Board is regularly and timely informed by the Managing Directors – acting through their spokesperson – about company-relevant questions and issues of business development, risks and compliance, about extraordinary events that are of

particular significance for the general partner or KSB SE & Co. KGaA, as well as about key departures in business performance from the plans and targets set.

For certain decisions of the Administrative Board, in particular the appointment and termination of the mandate of Managing Directors, the Chair and the Deputy Chair of the Supervisory Board of KSB SE & Co. KGaA have a right to participate in the meetings of the Administrative Board of KSB Management SE. The Supervisory Board of KSB SE & Co. KGaA may also suggest topics for consultation by the Administrative Board.

### Supervisory Board

The key task of the Supervisory Board of KSB SE & Co. KGaA is to advise and monitor the Management in accordance with the provisions of company law, the German Corporate Governance Code – insofar as KSB Management SE and the Supervisory Board have decided to fulfil its recommendations and suggestions –, the Company's Articles of Association and its Rules of Procedure. The Supervisory Board consists of twelve members, six appointed by the Annual General Meeting and six elected by employees in accordance with the terms of the *Mitbestimmungsgesetz* [*MitbestG* – German Co-determination Act] of 4 May 1976. The Supervisory Board includes, in its opinion, an adequate number of independent members within the meaning of section 5.4.2 of the German Corporate Governance Code. In particular, more than half of the members of the Supervisory Board do not have any business or personal relationship with the Company, its corporate bodies, a controlling shareholder or a company related to the latter which might result in a material and not merely temporary conflict of interest. In line with the European Commission's recommendation, KSB SE & Co. KGaA presumes the employee representatives on the Supervisory Board to be independent. Five members representing the shareholders, i.e. also more than half of the shareholder representatives, are independent within the meaning of the above definition; in accordance with section 5.4.1 of the German Corporate Governance Code the Supervisory Board considers this to be adequate. The names of these members are listed and identified in the Annex to this Statement. At least one Supervisory Board Member has special expertise in the areas of accounting and auditing. The members as a group are familiar with the sector the Company operates in (section 100(5) of the *AktG* [*Aktienengesetz* – German Public Companies Act]).

At least two regular Supervisory Board meetings are held during each six-month period. The performance of KSB SE & Co. KGaA, the Group and the individual units are the subject of regular discussions in plenary sessions, with a particular focus on developments in order intake, sales revenue, earnings, assets and employment levels, as well as the current economic situation and both investment and acquisition projects. The Managing Directors and the Chairman of the Administrative Board of the general partner attend the meetings as a rule. The Managing Directors report on the individual agenda items or proposed resolutions and are available to answer any questions the Supervisory Board might have.

In accordance with the provisions of section 27 of the *MitbestG* [*Mitbestimmungsgesetz* – German Co-determination Act], the Supervisory Board appoints one Chair and one Deputy Chair from among its members. The Chair of the Supervisory Board coordinates the work within the Supervisory Board, chairs its meetings and represents the Supervisory Board externally. This includes the presentation of the work performed by the Supervisory Board and its committees in an annual report to the shareholders and at the Annual General Meeting. Unless otherwise specified by law or the Articles of Association, the Supervisory Board's resolutions are passed by a simple majority of votes cast. In the event of a tie, the Chair decides whether a new vote should be taken on the matter and when this should take place. If a new vote on the matter results in another tie, the Chair shall have two votes. The Deputy Chair shall take

the Chair's place if the latter is unable to attend. The Deputy Chair is not entitled to a second vote.

The Supervisory Board currently has the following committees. These committees serve to increase the efficiency of the Supervisory Board's work and provide support in handling complex issues. Specifically, they shall professionally prepare the items subject to discussion or decision. The various Chairs of the committees submit regular reports to the Supervisory Board plenary session detailing the work performed by the committees. Sub-committees set up on a case-by-case basis report to the main committee they are assigned to. As a rule, no Chair is appointed for sub-committees; equal representation is not required in every case.

- The **Nomination Committee** looks at the nominations of Supervisory Board shareholder representatives prior to elections at the Annual General Meeting.
- The **Corporate Development Committee** focuses on the strategic development of the Company, including its organisation and structure, as well as on annual planning and financing.
- The **Personnel Committee** essentially decides on certain transactions with or in relation to KSB Management SE, its Administrative Board members and/or its Managing Directors as well as on the consent to other activities of these persons, the granting of loans to the specified persons and on any matters related to the remuneration of the Supervisory Board members.  
Until the coming into effect of the Company's conversion into the legal form of a KGaA on 17 January 2018, the Personnel Committee was responsible for preparing personnel decisions with regard to the Supervisory Board or other associated subjects, including proposals for the appointment and termination of the mandate of members of the Board of Management and for structuring the remuneration system for the Board of Management.
- The **Audit Committee** primarily addresses issues concerning accounting and risk management, the effectiveness of the internal control and audit system, compliance, auditing of the financial statements, review of the non-financial reports, the auditor's eligibility and independence, including consent – to the extent required by applicable regulations – to the provision of non-auditing services, and prepares the auditor's appointment at the Annual General Meeting. It also discusses the half-year financial reports and interim statements with the Managing Directors.

Until the coming into effect of the Company's conversion into the legal form of a KGaA on 17 January 2018, the obligatory Mediation Committee pursuant to section 27(3) *MitbestG* [*Mitbestimmungsgesetz* – German Co-Determination Act] performed the tasks specified in section 31(3) of the *MitbestG*. It became obsolete with the coming into effect of the change in legal form.

For additional information regarding the focus of work performed in the Supervisory Board plenary session and the committees in past financial years, please refer to the Report of the Supervisory Board for the year in question (web site: <https://www.ksb.com/ksb-de/investor-relations/Finanzberichte/Geschaeftsberichte-Konzern>). A list containing the names of all

members of the Supervisory Board and its committees, including the independent shareholder representatives, can be found in the Annex to this Statement.

In accordance with the rules on age limits last confirmed by the Supervisory Board on 20 December 2017, its members shall as a rule step down with effect from the close of the Annual General Meeting following their 75<sup>th</sup> birthday, and by no later than their 80<sup>th</sup> birthday. These rules are currently observed without exception. As disclosed and explained in the current Statement of Compliance pursuant to section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act], the Supervisory Board has not set any other specific targets regarding its composition that extend beyond the statutory rules.

#### 4. Gender-specific staffing of the Supervisory Board and executive positions

The aim of the Act for the Equal Participation of Women and Men in Executive Positions in Private Industry and Public Service, which entered into force in 2015, is to create more equal opportunities in the workplace and to significantly improve the proportion of women in senior management positions.

For KSB SE & Co. KGaA, in its capacity as a listed company pursuant to section 3(2) of the *AktG* [*Aktiengesetz* – German Public Companies Act] and a company that has co-determination based on parity in accordance with the *Mitbestimmungsgesetz* [German Co-determination Act], fixed gender quotas of at least 30 % in each case apply to the inclusion of women and men in the Supervisory Board pursuant to section 96(2) *AktG* as in the past for KSB Aktiengesellschaft. This minimum quota is generally to be met by the Supervisory Board as a body. As the shareholder representatives objected to joint fulfilment before the appointment of new Supervisory Board members by court order in March/April 2017 and the Annual General Meeting in May 2017, the statutory requirements for the gender quota were to be fulfilled separately on the part of the shareholder and employee representatives for the then imminent appointment of new Supervisory Board members and the Supervisory Board elections. This meant that respectively two of the seats of the shareholder representatives and of the employees' representatives had to be filled by women or men. After the retirement of Dr. Stella Ahlers from the Supervisory Board as of 20 March 2017, Ms Monika Kühborth was appointed as member of the Supervisory Board by order of the Amtsgericht [Local Court] Ludwigshafen am Rhein on 21 March 2017 and confirmed in her office by the Annual General Meeting on 10 May 2017. Ms Gabriele Sommer has been a member of the Supervisory Board since May 2016 as a shareholder representative. As such, three Supervisory Board mandates (two shareholder representatives and one employee representative) were assumed by women over the reporting period. The quota was therefore met as far as the shareholder representatives are concerned. As no further appointments to the Supervisory Board were made in 2017, apart from the appointment of new shareholder representatives by court order and the elections at the Annual General Meeting, the quota for employee representatives was still not met during the reporting period.

The appointment of new shareholder representatives by court order in **February 2018** did not result in any change to the current gender quota of the Supervisory Board; the shareholder representatives had previously again objected to joint fulfilment.

At its meeting on 11 September 2015, the Supervisory Board had set its target quota of women for the Board of Management at zero percent by 30 June 2017, which corresponded to the situation over the entire reference period. On 9 May 2017 the Supervisory Board decided to maintain the target quota of women for the Board of Management at zero per cent until 31

December 2021, which corresponds to the status until the coming into effect of the Company's change in legal form on 17 January 2018. As a result of the Company's conversion into the legal form of a KGaA, it no longer has a Board of Management, meaning that the definition of a target quota of women for the Board of Management was no longer applicable.

On 22 September 2015, the Board of Management had stipulated the target quota of women in the two management levels below it also until 30 June 2017 such that at least the current proportions were to be retained, i.e. zero percent with regard to the top level and 10.4 % at the management level below that. Allocation to these two management levels was carried out by 30 June 2017 and continues to be carried out on the basis of internally defined reporting lines. The target quotas were fulfilled during the reference period until 30 June 2017.

On 24 April 2017 the Board of Management defined as the new target quotas for the period until 31 December 2021 a proportion of women of 10.0 % for the first and of 10.5 % for the second management level below the Board of Management.

At the level of the general partner of KSB SE & Co. KGaA, KSB Management SE, neither legal requirements for the quota of women in the bodies nor the requirement of defining target values for the quota of women in the bodies or the highest management levels apply. The proportion of women among the Managing Directors of the general partner is currently 0 % and 40 % for the Administrative Board of the general partner. The general partner has no employees of its own.

In order to improve the situation in the interests of promoting women, and to make it easier for employees to reconcile work and family life, KSB has developed various offers. For many years now, KSB has provided support in relation to child care for different ages of children. Advisory services are also provided with regard to looking after relatives who are in need of care. Both of these offers are complemented by flexible working time models for men and women.

As part of measures to secure the supply of young talent for executive positions, we make a targeted effort to fill attractive vacancies with women. Like their male colleagues, they receive targeted mentoring from managers immediately below the Management level. Global human resources controlling is used to monitor the development of the proportion of women employed in the different countries.

## **5. Diversity concept for the body authorised to represent and the Supervisory Board**

The consideration of diversity is implemented in the corporate culture of the KSB Group. This includes, in addition to an appropriate consideration of women, also diversity as regards the cultural origin, religion and ethnic background as well as the difference between professional backgrounds, experience and mentalities.

It also applies to the Supervisory Board that a heterogeneous composition of the committee will normally promote the Company's interests. We have also implemented such in the past and to this date. When selecting new candidates for the Supervisory Board, the Nomination Committee and the Supervisory Board plenary session – as in the past – consider the aspect

of diversity, in particular the international activities of KSB, potential conflicts of interest, the legal requirements for the gender quota for the Supervisory Board (see Section 4) and the defined age limit for the members of the Supervisory Board. The employees' co-determination on the Supervisory Board also contributes to the diversity of the committee. However, we take a critical view of detailed specifications going beyond legal requirements and the specified age limit, as we believe that this would make it more difficult to ensure an appropriate and adequately flexible composition of this body. The Supervisory Board also believes that in addition to the existing requirements for the composition of the Supervisory Board and the measures previously implemented and aimed at in the KSB Group to promote diversity, an additional diversity concept will not result in any substantial value added. Further targets for the composition of the committee as well as a diversity concept within the meaning of section 289f(2)(6) of the *HGB* [*Handelsgesetzbuch* – German Commercial Code] were therefore not defined. Accordingly, the Company declared in its Statement of Compliance pursuant to section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act] a deviation from section 5.4.1(2) of the German Corporate Governance Code.

The Administrative Board also considers aspects of diversity, for example, when choosing Managing Directors of an age above and beyond the defined age limit in order to achieve a heterogeneous composition. To avoid making a conducive and flexible selection of the Managing Directors difficult, however, a diversity concept within the meaning of section 289f(2)(6) of the *HGB* neither was defined for the Managing Directors.

## **6. Other corporate governance issues**

The term “corporate governance” covers the legal and factual regulatory framework for the management and supervision of companies; it is geared towards responsible management and control with the ultimate goal of sustainable value creation. Corporate governance at KSB is largely guided by the German Corporate Governance Code, taking into account the legal form-specific characteristics of a partnership limited by shares. This Code provides the basic framework for the management and supervision of listed companies and formulates nationally and internationally recognised standards of good and responsible corporate governance. We therefore welcome the work of the Government Commission on the German Corporate Governance Code.

We are convinced that good, responsible corporate governance will contribute significantly to the Company's long-term success. This is why it has always ranked highly at KSB. Even before the Code was introduced, we implemented core corporate governance and control processes in such a way that they complied with the current key requirements of the Code. We have traditionally been guided in this by nationally and internationally recognised standards of transparent, comprehensible corporate governance. During the past financial year, the bodies of the Company discussed compliance with the Code's guidelines as well as the relevant legal requirements in detail on several occasions. Our objective is to continue developing the principles of corporate governance in all parts of our Company.

### **Statement of Compliance updated**

Pursuant to section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act], the Board of Management and Supervisory Board of listed German public companies are under the obligation to declare once per year “*that the recommendations of the ‘Government Commission*

*on the German Corporate Governance Code' published by the Federal Ministry of Justice in the official section of the Bundesanzeiger [German Federal Gazette] were complied with and will continue to be complied with or which recommendations were not or will not be applied and why" (Statement of Compliance). With KSB SE & Co. KGaA as a partnership limited by shares, this obligation applies to the Managing Directors of the general partner and the Supervisory Board.*

All the recommendations added to the Code are discussed in detail and where necessary implemented, i.e. they are integrated into internal Company workflows and pending decisions. Wherever new recommendations are not complied with, we consider our Company's current practices to be preferable. We thus apply the explicit note in the Code that deliberate departures from the recommendations may well be in the interest of good corporate governance.

The Managing Directors of the general partner and the Supervisory Board issued the current Statement of Compliance (cf. Section 1 above) on 21 March 2018 and made it available to the shareholders on the Company's web site together with statements from previous years; the Statement is updated as needed. Overall, we follow the recommendations of the German Corporate Governance Code – taking into account the legal form-specific characteristics of a partnership limited by shares – with few exceptions.

Going forward, we will continue to monitor and respond quickly to further developments in the German Corporate Governance Code to ensure that suggestions and recommendations that are applicable to KSB are implemented in the interests of sustained transparency and growth in our enterprise value. At the same time we want to foster the trust which investors, financial markets, employees, the public and our customers, in particular, have placed in us.

## **Shareholders and Annual General Meeting**

KSB SE & Co. KGaA issued both no-par value ordinary shares and no-par value preference shares. The holders of these shares, our shareholders, exercise their co-determination and control rights at the Annual General Meeting which is held at least once a year.

Each shareholder is entitled to attend the Annual General Meeting in accordance with the requirements as stipulated in the Articles of Association and the law. If shareholders cannot or choose not to attend in person, they can opt to appoint a proxy who will exercise their voting rights on their behalf.

In accordance with the Articles of Association, the Chair of the Supervisory Board presides over the Annual General Meeting. The Chair determines the order in which proceedings are conducted as well as the type and form of voting. The Chair may reasonably restrict the time allocated to questions and speeches by shareholders and, at the start of or during the course of the Annual General Meeting, set time limits for the entire proceedings of the Meeting, the discussion of the various items on the agenda as well as on individual questions and speeches.

The Annual General Meeting makes decisions pertaining to all of the duties and responsibilities assigned to it by law and the Articles of Association (e.g. adoption of the annual financial statements, determination of the annual financial statements, appropriation of net retained earnings, amendments to the Articles of Association, election of Supervisory Board members). Each ordinary share authorises the holder to one vote. The preference shares only entitle holders to voting rights as prescribed by law but carry progressive additional dividend rights.

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 resolutions of the Annual General Meeting require the consent of the general partner insofar as they relate to matters for which the consent of the general partner and limited partners is required for a partnership limited by shares. The approval of the general partner is required, for instance, for the adoption of the annual financial statements, appropriation of net retained earnings differing from section 21 of the Articles of Association, amendments to the Articles of Association or the dissolution of the Company.

The limited shareholders' right to object in the event of extraordinary transactions pursuant to section 164(1)(2) *HGB* [*Handelsgesetzbuch* – German Commercial Code] is ruled out under the Articles of Association.

### **Responsible cooperation between the general partner and the Supervisory Board**

Good corporate governance requires an ongoing development of the dual management system prescribed for German public limited companies and partnerships limited by shares in all sections of the business. This begins with independent management by the general partner which is monitored and advised by the Supervisory Board. To promote effective management, the Rules of Procedure for the Supervisory Board and the Managing Directors of the general partner specifically state that business shall be conducted in accordance with the German Corporate Governance Code, with any departure from compliance with the recommendations in justifiable, individual instances being disclosed by the bodies in charge.

Continuous dialogue based on mutual trust between the general partner and its bodies as well as the Supervisory Board provides an important foundation for the success of the Company. Their common goal is to generate appropriate, sustainable returns through the systematic pursuit and implementation of these principles. All bodies thus collaborate closely in the best interests of the Company.

The Administrative Board receives timely and comprehensive updates, regularly and on an ad hoc basis, from the general partner regarding all planning, business development, risk position and compliance issues which are relevant to the Company. Any departure in business performance from the formulated plans and objectives is discussed in depth and openly; particular importance is attached to maintaining strict confidentiality towards third parties. The general partner is in regular dialogue with the Supervisory Board about the guidelines of the strategic and organisational alignment of the Company. It verifies the observance of these guidelines continuously. At times the Supervisory Board also convenes without participation of the general partner in order to intensify the exchange of ideas within the Board. Between meetings, the Chair of the Supervisory Board in particular is in regular contact with the Managing Directors and the Chairman of the Administrative Board to discuss matters of strategy, planning, business development, risk assessment, risk management and compliance.

### **Transparency**

KSB considers it extremely important to provide capital market participants with regular, comprehensive, consistent and prompt information on the Group's economic situation.

Reporting takes place via annual reports, half-year financial reports and interim reports. All publications are published within the time frames specified.

In addition, we provide information by means of press releases and ad hoc statements whenever necessary. All information can be viewed online (web site: [www.ksb.com](http://www.ksb.com)). Here, you will also find the finance calendar of KSB, which contains the scheduled dates for major recurring events and publications.

In the event that any managers' dealings take place which are subject to the reporting requirements, we will provide the relevant information pursuant to Article 19 of the Market Abuse Regulation (EU) No. 596/2014 on our web site at "Investor Relations / Corporate Governance Statement and Report / Managers' Transactions".

KSB SE & Co. KGaA created an insider list as required by Article 18 of the Market Abuse Regulation. The persons affected are informed of their current legal obligations and potential sanctions.

The Managing Directors and Supervisory Board are under the obligation to act in the Company's interest. When making their decisions, they must neither pursue personal interests nor use for their own purposes any business opportunities that present themselves for the Company. Any conflicts of interest must be disclosed to the Supervisory Board immediately. Should the need arise, the Annual General Meeting must be informed of any conflicts of interest and how they were dealt with in accordance with the Corporate Governance Code.

When presenting nominations for Supervisory Board members to the Annual General Meeting, the Supervisory Board discloses the personal and business relationships of each candidate with the Company and the general partner, their relevant bodies and substantial Company shareholders, provided that – in the opinion of the Supervisory Board – an objective shareholder would consider this information to be decisive for his or her voting decision.

### **Accounting and audit of the financial statements**

The consolidated financial statements and interim financial statements of KSB are prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union. After the consolidated financial statements have been prepared by the general partner, they are audited by the auditors appointed by the Annual General Meeting and approved by the Supervisory Board. Prior to the publication of interim reports and the half-year financial report, these are discussed with the Audit Committee. The adoption of the annual financial statements at KSB SE & Co. KGaA as a partnership limited by shares lies with the Annual General Meeting; the resolution requires the consent of the general partner.

An agreement has been reached with the auditors that the Chair of the Supervisory Board or the Chair of the Audit Committee shall be notified immediately of any material findings or issues which emerge during the audit or of any grounds for exclusion or partiality.

### **Management parameters and control system**

Management decisions are made primarily on the basis of key indicators determined for the Pumps, Valves and Service segments: order intake, sales revenue and earnings before interest and taxes (EBIT). We take the key figures of order intake, sales revenue, earnings before

income taxes (EBT), return on sales before income taxes, net financial position and – from 2018 – EBIT into consideration for controlling the Group as a whole. The pre-tax return on sales describes the ratio between the earnings before income taxes (EBT) and sales revenue; net financial position is the balance of financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans, cash and cash equivalents, and receivables from cash deposits).

Our internal control system is based on guidelines and regulations that specify standard procedures as well as on our Group-wide risk management system. The organisation and implementation of this risk management system are documented in a manual. All Group units are responsible for identifying and assessing risks and reporting these to Group headquarters. They also have to initiate countermeasures to avert or limit any damage.

Reporting on identified risks and the countermeasures initiated is an integral part of the planning, accounting and controlling processes. The Supervisory Board's Audit Committee also looks at the reported risks on a regular basis.

KSB identifies and communicates the risks based on the following categories:

- Market and competitive risks
- Technological risks (including research and development)
- Project and product-related risks
- Financial risks
- Procurement risks
- Other business-specific risks (including tax risks)

Internal Audit performs regular reviews to establish to what extent the specified guidelines and regulations are observed and whether the operative units are appropriately involved in risk management.

## **Remuneration of the Supervisory Board**

The remuneration system for the Supervisory Board is governed by the Articles of Association of KSB SE & Co. KGaA and the supplementary resolution of the Annual General Meeting dated 16 May 2012. Compared to KSB AG (until 17 January 2018), the performance-related component of the remuneration no longer applies in particular. According to the provisions of the Articles of Association, Supervisory Board members shall now receive a fixed remuneration in the amount of € 30,000 for the financial year. The Chair shall receive double the amount, the Deputy Chair one and a half times the amount. In addition, the members of the Supervisory Board receive an attendance fee of € 2,000 per meeting of the Supervisory Board and its committees they attend; the attendance fee for persons chairing committee meetings is € 3,000 for each committee meeting attended. Furthermore, the members of the Supervisory Board are also covered by directors' and officers' liability insurance taken out by the Company on behalf of the members of the Supervisory Board at standard market conditions if and to the extent that such insurance policy is in place; any premiums are paid by the Company. Any additional remuneration is reserved for determination by the Annual General Meeting.

According to the contents of the resolution of the Annual General Meeting dated 16 May 2012, the Supervisory Board members also receive compensation for activities relating to the duties of the Supervisory Board that go beyond the preparation and conduct of meetings of the

Supervisory Board and its committees. Compensation for the time invested shall be based on an hourly rate of € 250. The maximum additional remuneration for all Supervisory Board members is € 900,000 per calendar year.

The employee representatives on the Supervisory Board – with the exception of the representatives of senior managers – declare that they will pay part of their Supervisory Board remuneration, as defined in a directive issued by the *DGB* [*Deutscher Gewerkschaftsbund* – Association of German Trade Unions], to the *Hans-Böckler-Stiftung* [Hans Böckler Foundation], the *DGB*'s co-determination, research and academic support institution.

The total remuneration paid to members of the Supervisory Board in 2015 amounted to € 834 thousand (previous year: € 716 thousand).

We provide information on the remuneration paid to the Managing Directors in the management report published within the relevant annual report of the consolidated financial statements as well as the separate financial statements of the Group's parent company.

## **7. Basic principles of the Compliance Management Systems**

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. It expressed its requirement of professional and honest conduct within our 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 applies but is not limited to the areas of anti-trust/cartel law and anti-corruption policies. The applicable laws and regulations are explained in greater detail and useful information on proper conduct in concrete situations is provided. The latter applies to the same degree for the Insider Directive, which deals with the ban on insider trading and with handling insider information.

The responsibility for managing all compliance-related matters 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 referred to as "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 become aware of any violation of laws or company directives and guidelines, they may contact internal contact persons, also anonymously. In the event of criminal and anti-trust law relevance, an external ombudsman is also available as a contact person who forwards any indications to the Group Compliance Officer without delay.

A key focus of the compliance activities in 2017 was the drawing up of a compliance manual. It describes the details for Group-wide compliance organisation in addition to the tools developed and defined for it and is available to any interested party on the KSB Intranet. This is to promote transparency and acceptance of corresponding measures. Compliance training was continued throughout the year for new employees and employees who were transferred internally to relevant functions. In light of the varied performance relationships of KSB with its majority shareholder, Johannes und Jacob Klein GmbH (formerly Klein Pumpen GmbH), as well as other related persons, the corresponding documentation and approval requirements were reviewed and adjusted in 2017. Once again, an international project was randomly audited for compliance with specific compliance issues within the scope of correlated control measures aimed at securing the targeted preventive effects.

Annex

**Supervisory Board of KSB SE & Co. KGaA** (until 17 January 2018: KSB  
Aktiengesellschaft)  
(Date: 21 March 2018)

**Dr. Wolfgang Kühborth** († 31 Jan. 2017)  
Dipl.-Ing., Frankenthal  
(Honorary Chairman)

**Klaus Burchards\*** (since 18 April 2017)  
Dipl.-Kfm., Stuttgart  
Independent Auditor

**Dr. Thomas Seeberg\*** (until 28 Feb. 2017)  
Dipl.-Kfm., Icking  
Former Managing Director of OSRAM  
GmbH  
(Chairman)

**Arturo Esquinca\*** (since 26 Feb. 2018)  
Dipl.-Chemieing., Forch, Switzerland  
Head of Business Development of the  
Coesia Group, Industrial Process Division

**Dr. Bernd Flohr\*** (since 21 March 2017)  
Dipl.-Kfm., Dipl.-Soz., Geislingen  
Former Executive Board Member of WMF  
AG  
(Chairman)

**Dr. Jörg Matthias Großmann\***  
(until 14 April 2017)  
Dipl.-Kfm., Großhesselohe  
Member of the Management of  
Freudenberg Chemical Specialities SE &  
Co. KG

**Alois Lautner**  
Lathe Operator, Kirchentumbach  
Deputy Chairman of the Pegnitz Works  
Council of KSB SE & Co. KGaA  
(Deputy Chairman)

**René Klotz**  
NC Programmer, Frankenthal  
Chairman of the General Works Council  
of KSB SE & Co. KGaA and KSB Service  
GmbH

**Dr. Stella A. Ahlers\*** (until 20 March 2017)  
Feusisberg (Switzerland)  
Chairwoman of the Board of Management  
of Ahlers AG

**Wolfgang Kormann**  
Hand Moulder, Pegnitz  
Chairman of the Group Works Council  
of KSB SE & Co. KGaA

**Dr. Martin Auer\*** (until 28 Feb. 2017)  
Mannheim  
Head of Corporate Legal, Compliance,  
Procurement and Logistic Services of  
MVV Energie AG

**Klaus Kühborth**  
Dipl.-Wirtsch.-Ing., Frankenthal  
Managing Director of Johannes und Jacob  
Klein GmbH (formerly Klein Pumpen  
GmbH)

**Dr.-Ing. Stephan Bross** (until 14 Sept. 2017)  
Freinsheim  
Head of Corporate Unit Pumps  
of KSB AG

**Monika Kühborth** (21 March 2017 to 31 Jan.  
2018)  
Editor, Homburg  
Managing Director of Klein, Schanzlin &  
Becker GmbH

**Oswald Bubel\*** (21 March 2017 to 31 Jan. 2018)  
Dipl.-Betriebswirt, Saarbrücken  
Managing Director of Hager Electro GmbH  
& Co. KG

**Prof. Dr.-Ing. Corinna Salander\***  
(since 26 Feb. 2018), Stuttgart  
Head of Railway Vehicle Technology at the  
Institute of Machine Components,  
Stuttgart University

**Volker Seidel**  
Electrical and Electronics Installer,  
Münchberg  
1<sup>st</sup> delegate of IG Metall Ostoberfranken

**Birgit Mohme**  
Industrial Business Management Assistant,  
Frankenthal  
Trade Union Secretary of IG Metall  
Ludwigshafen / Frankenthal

**Gabriele Sommer\***  
Dipl.-Geologin, Wörthsee  
Global Head of Human Resources TÜV  
Süd

**Dr. H. Stefan Wiß** (since 15 Sept. 2017)  
General Counsel, Ludwigshafen am Rhein  
Head of the Corporate Functions Legal &  
Compliance, Patents & Trademarks  
of KSB SE & Co. KGaA

\* Independent shareholder representatives

**Current composition of the committees** (Date: 21 March 2018)

Personnel Committee: Dr. Flohr (Chairman), Lautner, Sommer

Audit Committee: Burchards (Chairman), Dr. Flohr, Klotz, Lautner

Nomination Committee: Dr. Flohr, K. Kühborth

Corporate Development Committee: K. Kühborth (Chairman), Esquinca, Kormann,  
Prof. Dr. Salander, Seidel, Dr. Wiß