

## **Corporate Governance Statement and Corporate Governance Report**

In the following the Board of Management – also on behalf of the Supervisory Board – reports on corporate governance at KSB Aktiengesellschaft and the KSB Group. Included are the **Corporate Governance Statement** for the 2016 financial year (as at 22 March 2017), as well as the **Corporate Governance Report** in accordance with subsection 3.10 of the German Corporate Governance Code.

The following information in particular is presented (sections 289a(2) and 315(5) 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 such documents are publicly available
3. Description of the working methods of the Board of Management and Supervisory Board, and the composition and working methods of the committees of these bodies
4. Information on the gender-specific staffing of the Supervisory Board and executive positions  
as well as
5. Other corporate governance issues
6. 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 Board of Management and the Supervisory Board of KSB Aktiengesellschaft at least once a year. The last statement issued on 2 December 2016 reads as follows:

Since the publication of the last statement of compliance on 2 December 2015, KSB Aktiengesellschaft, Frankenthal (Pfalz), has complied with the recommendations of the Government Commission on the German Corporate Governance Code as set out in the latest version dated 5 May 2015 with the exception of the following and continues to comply with the recommendations in this scope:

1. The Board of Management has no chairperson (subsection 4.2.1, sentence 1).

#### Reason:

As of 1 July 2014, the number of members of the Board of Management was reduced from three to two. Special overall coordination of the Board of Management activities is therefore no longer required.

2. The upper remuneration limits contained in the service contracts of the Board of Management members do not fully meet the requirements of the Code (subsection 4.2.3, paragraph 2, sentence 6).

Reason:

At KSB 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.

3. The Board of Management's remuneration will neither be disclosed separately for each member in the remuneration report nor classified by components based on the model tables (subsection 4.2.5, paragraphs 3 and 4).

Reason:

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

4. With the exception of an age limit, the Supervisory Board does not specify concrete objectives regarding its composition (subsection 5.4.1, paragraphs 2 and 3).

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.

5. The performance-related component of the Supervisory Board remuneration is based on the annual dividend; it is thus not oriented toward "sustainable" development of the enterprise as defined in subsection 5.4.6, paragraph 2.

Reason:

We support the sustainability objective of the Code, but do not consider a change in the well-established remuneration structure for the Supervisory Board to be necessary for achievement of this objective.

6. 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, in particular 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 (subsection 5.4.6, paragraph 3).

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 about 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.

## 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. 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 have compiled these and other key rules in the KSB Code of Conduct as well. 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 as required. It is accessible to the public via the company's web site (<https://www.ksb.com/ksb-en/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. Working methods of the Board of Management and the Supervisory Board

KSB AG is a listed public limited company [Aktiengesellschaft] under German law. The applicable provisions of company law define a dual management system which consists of the Board of Management and the Supervisory Board. Each of the two bodies has its own powers and responsibilities.

### Board of Management

The members of the Board of Management manage the Company's business transactions with the due diligence of a prudent and conscientious manager. This is done in accordance with applicable law, the German Corporate Governance Code – to the extent that the Board of Management and Supervisory Board have decided to comply with its recommendations and suggestions –, the Articles of Association, the Rules of Procedure issued by the Supervisory Board and the service contracts of the members of the Board of Management. The strategy and instructions formulated by the Board of Management are implemented under a matrix organisation, based on clear responsibilities and lean processes. Under the provisions of the Articles of Association, the Board of Management consists of at least two people; the two current Board of Management members were appointed by the Supervisory Board and cooperate on the basis of, among other things, the Rules of Procedure issued by the latter. The corporate units, regional units and staff functions are assigned to them as follows:

- **Board of Management jointly:** Strategy and Regions

- **Dr Peter Buthmann:** Technology, Production, Sales, Purchasing and Human Resources, as well as the Pumps and Valves segments. He is also Human Resources Director.
- **Werner Stegmüller:** Finance and Accounting, Controlling, Communications, Investor Relations, IT, Patents & Trademarks, Legal & Compliance, Internal Audits and the Service segment

These assignments do not affect the overall responsibility of the members of the Board of Management for managing the company. The Board of Management has not established special committees. The members of the Board of Management are under the obligation to provide one another with assistance as well as with ongoing, timely information. They shall represent each other in the performance of their tasks. Issues that affect several areas shall be jointly considered and decided. In the event of differences of opinion between the Board of Management members, the Chair of the Supervisory Board shall be informed. The Board of Management reports to the Supervisory Board on a regular basis on all key issues concerning business development and corporate strategy, as well as on any potential risks. Significant events – such as acquisitions or planning – are subject to approval by the Supervisory Board.

The appointment of members to the Board of Management should as a rule not extend beyond their 65th birthday, and shall end not later than upon their reaching the age of 75. With regard to Dr. Buthmann, the Supervisory Board approved that the age limit specified will be exceeded by some months.

## Supervisory Board

The Supervisory Board's key task is to advise and monitor the Management in accordance with the provisions of company law, 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 subsection 5.4.2 of the German Corporate Governance Code, because more than half of the members of the Supervisory Board in particular do not have any business or personal relationship with the company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which might cause a substantial and not merely temporary conflict of interests. In line with the European Commission's view, KSB Aktiengesellschaft considers the employee representatives on the Supervisory Board to be independent. Four 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 subsection 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* [German Public Companies Act]).

At least two regular Supervisory Board meetings are held during each six-month period. The performance of KSB Aktiengesellschaft, 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 Board of Management

generally participates in these meetings, reports on individual agenda items or proposed resolutions and is on hand to answer any questions the Supervisory Board might have.

In accordance with the provisions of section 27 of the *MitbestG* [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 and sub-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 prepares the Supervisory Board's staffing decisions and any issues related to these. It submits proposals to the Supervisory Board for the appointment and termination of the mandate of members of the Board of Management as well as the structure of 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 annual and consolidated financial statements, 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 reports with the Board of Management.
- The obligatory Mediation Committee pursuant to section 27(3) *MitbestG* [German Co-Determination Act] performs the tasks specified in section 31(3) of the *MitbestG*.

Additional information on the focus of work performed in the Supervisory Board plenary sessions and the committees in past financial years is provided in the Report of the Supervisory Board for the year in question (web site: [https:// https://www.ksb.com/ksb-en/Investor-relations/Financial-Reports/Annual-Reports-Group/](https://www.ksb.com/ksb-en/Investor-relations/Financial-Reports/Annual-Reports-Group/)). 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 adopted by the Supervisory Board on 29 March 2011, its members shall as a rule step down with effect from the close of the Annual General Meeting following their 75th birthday, and by no later than their 80th birthday. These rules are currently observed without exception. As disclosed and explained in the current Statement of Compliance, 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 AG, in its capacity as a listed company pursuant to section 3(2) of the *AktG* [German Public Companies Act] and a company that has co-determination based on parity in accordance with the 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*. 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 Annual General Meeting in May 2016, 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 Supervisory Board elections. This meant that two each of the seats on the shareholder/employee side had to be filled by women or men. At the Annual General Meeting in May 2016, Dr Stella A. Ahlers and Ms Gabriele Sommer were elected to the Supervisory Board. As of that date and until the close of the reporting period, three Supervisory Board mandates (two on the shareholder side and one on the employee side) were held by women (previously two Supervisory Board mandates, one on the shareholder side and one on the employee side). The quota was therefore met on the shareholder side. As no further appointments to the Supervisory Board were made in 2016, apart from the elections at the Annual General Meeting, the quota on the employee side was not yet met during the reporting period. The appointment of new shareholder representatives by court order in March 2017 did not result in any change to the current gender quota of the Supervisory Board; the shareholder side had previously again objected to joint fulfilment.

At its meeting on 11 September 2015, the Supervisory Board set its target quota of women for the Board of Management at zero percent by 30 June 2017, which corresponds to the current situation. On 22 September 2015, the Board of Management stipulated the targets for the proportion of women in the two management levels below it, with these also to be achieved by 30 June 2017. Based on these targets, at least the current proportions are to be retained, i.e. zero percent with regard to the top level and 10.4 % at the management level below that.

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 AG 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 reporting directly to the Board of Management. Global

human resources controlling is used to monitor the development of the proportion of women employed in the different countries.

## 5. 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. The principles of corporate governance at KSB are based on the German Corporate Governance Code. 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 Board of Management and Supervisory Board of KSB Aktiengesellschaft 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* [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).

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 Board of Management and Supervisory Board submitted the current Statement of Compliance (cf. section 1 above) on 2 December 2016 and made it available to the shareholders on the company’s web site together with statements from previous years; the Statement is updated when and as needed. Overall we comply with the recommendations of the German Corporate Governance Code with just a 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 AG 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 restrict the time allocated to shareholders to speak or raise questions 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 contributions.

The Annual General Meeting makes decisions pertaining to all of the duties and responsibilities assigned to it by law (e.g. 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. Klein Pumpen GmbH, Frankenthal, holds approximately 80 % of the ordinary shares; the KSB Stiftung [KSB Foundation], Stuttgart, holds the majority of the shares of Klein Pumpen GmbH.

## **Responsible cooperation between the Board of Management and the Supervisory Board**

Good corporate governance requires an ongoing development of the dual management system prescribed for German public limited companies in all sections of the business. This begins with independent management by the Board of Management which is monitored and advised by the Supervisory Board. To promote effective management, the Rules of Procedure for both bodies 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 Board of Management and the Supervisory Board.

Continuous dialogue based on mutual trust between the Board of Management and 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. Both bodies thus collaborate closely for the benefit of the company.

The Supervisory Board receives timely and comprehensive updates, on a regular or ad-hoc basis, from the Board of Management regarding all planning, business development, risk position and compliance issues which are relevant to the company. Decisions of fundamental importance must be approved by the Supervisory Board. 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 principles of the company's strategic and organisational alignment are defined in close cooperation between the Board of Management and the Supervisory Board and are reviewed constantly. At times the Supervisory Board also convenes without the Board of Management 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 Board of Management 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 accessed online (web site: <https://www.ksb.com/ksb-en/>). At the web site, you will also find our financial calendar which contains the scheduled dates for major recurring events and publications.

In the event that any managers' transactions take place which are subject to reporting requirements, we will provide the relevant information on our web site at Investor Relations / Corporate Governance / Managers' Transactions.

KSB AG created an insider list as required by section 18 of the Market Abuse Regulation. The persons affected are informed of their current legal obligations and potential sanctions.

Members of the Board of Management and Supervisory Board are under the obligation to act in the company's interests. When making their decisions, they must neither pursue personal interests nor use for their own purposes any business opportunities that arise 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.

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, the company's executive 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 Board of Management, 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.

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 substantial findings or issues which emerge during the audit or of any grounds for exclusion or partiality.

## Management parameters and control system

Management decisions are taken primarily on the basis of the key indicators that are determined for the Pumps, Valves and Service segments: order intake, sales revenue and the earnings before interest and taxes (EBIT) excluding the effects from measuring construction contracts in accordance with IAS 11 (EBIT excl. PoC). In addition, we take the pre-tax return on sales and net financial position 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)

The Internal Audits department 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 Aktiengesellschaft and the supplementary resolution of the Annual General Meeting dated 16 May 2012. According to the provisions of the Articles of Association, Supervisory Board members shall receive a fixed remuneration in the amount of € 6,000 for the financial year. The Chair is entitled to twice this amount and the Deputy Chair is entitled to 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 committee chairpersons is € 3,000 per committee meeting attended. No attendance fees are paid for meetings of the Committee pursuant to section 27(3) of the *MitbestG* [German Co-determination Act]. 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 Board of Management and the Supervisory Board at standard market conditions.

Finally, Supervisory Board members receive dividend-dependent remuneration for the financial year. For every 25 cents by which the dividend distributed to ordinary shareholders exceeds the amount of € 1, the remuneration paid out to Supervisory Board members amounts to € 1,200 for the Chair, € 900 for the Deputy Chair and € 600 for the remaining members.

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 representatives of IG Metall on the Supervisory Board 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.

Any additional remuneration is reserved for determination by the Annual General Meeting. In 2016, the total remuneration paid to members of the Supervisory Board amounted to € 716 thousand.

We provide information on the remuneration paid to members of the Board of Management 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.

## 6. 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 Board of Management's key management tasks. The Board of Management 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 is similarly applicable to the guidelines prohibiting insider trading.

Responsibility for the compliance organisation lies with the Board of Management, which is supervised in this respect by the Supervisory Board (Audit Committee). 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 the 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 infringement of laws or company regulations, they may contact internal contact persons or, in cases of criminal or anti-trust/cartel relevance, an ombudsperson, also anonymously.

An external law firm is available for this purpose and will promptly forward any information to the Group Compliance Officer.

A major focus of compliance activities in 2016 was on Group-wide refresher courses – at regular intervals – covering anti-trust/cartel law and anti-corruption policies. More than 5,000 employees took part in and completed the two e-learning training sessions and the associated tests. E-learning compliance training was continued throughout the year for new employees and employees who were transferred internally to relevant functions. We also updated our Compliance Manual, which describes the KSB Compliance Management System in detail and is available to all employees on the KSB Intranet. Once again, we randomly audited international projects 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 Aktiengesellschaft** (Date: 22 March 2017)

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

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

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

**Alois Lautner**  
Lathe Operator, Kirchentumbach  
Deputy Chairman of the Pegnitz Works  
Council  
(Deputy Chairman)

**Dr. Stella A. Ahlers** (11 May 2016 – 20 March  
2017)\*  
Feusisberg (Switzerland)  
Chairwoman of the Board of Management  
of Ahlers AG, Herford

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

**Dr.-Ing. Stephan Bross**  
Freinsheim  
Head of Corporate Unit Pumps

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

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

**René Klotz**  
NC Programmer, Frankenthal  
Chairman of the General Works Council of  
KSB AG and Service GmbH

**Günther Koch** (until 11 May 2016)\*  
Dipl.-Wirtsch.-Ing., Ludwigshafen

**Wolfgang Kormann**  
Hand Moulder, Pegnitz  
Chairman of the Group Works Council

**Klaus Kühborth**  
Dipl.-Wirtsch.-Ing., Frankenthal  
Managing Director of Klein Pumpen GmbH

**Monika Kühborth**  
Editor, Homburg  
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(since 21 March 2017)

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\* Independent shareholder representatives

**Committees:**

Mediation Committee: Dr. Seeberg (Chairman) (until 28 Feb. 2017), Dr. Flohr (Chairman) (from 23 March 2017), Dr. Auer (until 28 Feb. 2017), K. Kühborth (from 23 March 2017), Lautner, Mohme

Personnel Committee: Dr. Seeberg (Chairman) (until 28 Feb. 2017), Dr. Flohr (Chairman) (from 23 March 2017), Dr. Großmann (until 22 March 2017), Bubel (from 23 March 2017), K. Kühborth (until 22 March 2017), Lautner, Sommer (from 23 March 2017)

Audit Committee: Dr. Großmann (Chairman) (until 14 April 2017), Dr. Flohr (from 23 March 2017), Klotz, Lautner, Dr. Seeberg (until 28 Feb. 2017)

Nomination Committee: K. Kühborth, Dr. Seeberg (until 28 Feb. 2017), Dr. Flohr (from 23 March 2017)

Corporate Development Committee: Dr. Auer (Chairman) (until 28 Feb. 2017), Bubel (from 23 March 2017), Dr. Bross, Dr. Großmann (until 22 March 2017), Kormann, K. Kühborth, M. Kühborth (from 23 March 2017), Seidel