



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

KSB Management SE with registered office in Frankenthal (Pfalz) is the general partner of KSB SE & Co. KGaA (hereinafter also the “Company”) with registered office in Frankenthal (Pfalz). In the following, the general partner of KSB SE & Co. KGaA, acting through its Managing Directors, and the Supervisory Board of KSB SE & Co. KGaA report on company management and corporate governance at the Company and within the KSB Group. This includes both the current **Corporate Governance Statement** dated 13 March 2019 (for the 2018 financial year) and the **Corporate Governance Report** pursuant to Section 3.10 of the German Corporate Governance Code.

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

1. Statement Pursuant to Section 161 AktG [*Aktiengesetz* – German Public Companies Act] (Statement of Compliance)
2. Relevant information on corporate governance practices that are applied above and beyond statutory requirements along with details of where this information is publicly available
3. Description of the working practices of KSB Management SE, including those of the Managing Directors and the Administrative Board
4. Description of the working practices of the Supervisory Board of KSB SE & Co. KGaA, along with the composition and working practices of its committees
5. Cooperation between KSB Management SE and the Supervisory Board
6. Information on the gender-specific composition of the Supervisory Board and staffing of executive positions
7. Diversity concept for the body authorised to represent and the Supervisory Board  
as well as
8. Other corporate governance issues
9. Basic principles of the Compliance Management System

## 1. Statement Pursuant to Section 161 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 most recent Statement, issued on 13 March 2019, reads as follows:

### “1. Preface

The German Corporate Governance Code (“Code”) is tailored to companies with the legal form of a public limited company (*Aktiengesellschaft* – “AG”) or a European company (“SE”) with a two-tier management structure and does not consider the specifics of a partnership limited by shares (“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) Company 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 Company’s general partner, KSB Management SE, has a one-tier management structure. According to Articles 43-45 of the SE Regulation in conjunction with Sections 20 et seqq. of the SE Implementation Act (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.

## 2. Statement of Compliance

The Managing Directors of KSB Management SE and the Supervisory Board of KSB SE & Co. KGaA declare that since the publication of the most recent Statement of Compliance on 21 March 2018 the Company has complied with and will continue to comply with the recommendations of the Code as set out in its version dated 7 February 2017, with the exception of the following:

- 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, the legal predecessor of KSB SE & Co. KGaA, decided to refrain from disclosure of the details of remuneration of the individual Board of Management members. The general partner and the Supervisory 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 that go above and 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(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 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.

Frankenthal (Pfalz), 13 March 2019

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

## 2. Relevant information on corporate governance practices

KSB SE & Co. KGaA functions as operative Group parent company of the KSB Group. All Group companies operate in particular on the basis of the effective legal provisions, their respective Articles of Association and – if and to the extent applicable – the German Corporate Governance Code, implemented according to their specific corporate structure 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 Group-wide corporate culture and incorporated them in our Code of Conduct. We consider the implementation of these values and the high quality of our products and services to be prerequisites for long-term, satisfying and successful business relationships. The reputation of the KSB Group in public perception and from the perspective of employees is of crucial importance in this regard. 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 such as competition and anti-trust/cartel law or environmental protection. We also 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 on the Company's web site ([www.ksb.com/ksb-de/investor-relations/Corporate-Governance](http://www.ksb.com/ksb-de/investor-relations/Corporate-Governance)). In addition, the Company has joined 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 practices of KSB Management SE

KSB SE & Co. KGaA is a stock exchange-listed German partnership limited by shares [*Kommanditgesellschaft auf Aktien* – KGaA]. The German Public Companies Act prescribes a two-tier 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, there is a special feature in that its business is conducted by a general partner. In the case of KSB SE & Co. KGaA, this is KSB Management SE. Within the framework of the legal competence assignment, the Supervisory Board of KSB SE & Co. KGaA oversees and advises the general partner and its bodies. The tasks and responsibilities of the general partner and Supervisory Board are clearly defined by law and strictly separated.

Acting through its Managing Directors, KSB Management SE conducts the business of KSB SE & Co. KGaA in observance of the due diligence of a prudent and conscientious manager. The sole shareholder of KSB Management SE is Klein, Schanzlin & Becker GmbH with registered office in Frankenthal (Pfalz), whose shares are held by the foundations KSB Stiftung and Kühborth-Stiftung GmbH, both of which with registered office in Stuttgart.

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 conducting the Company's business. For the management and assumption of personal liability, it also receives annual remuneration not based on profit and loss in the amount of 4 % of the share capital.

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.

**a) The 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 – to the extent that the general partner and the Supervisory Board have decided to fulfil its recommendations and suggestions – the Articles of Association, the internal Rules of Procedure for the Managing Directors and the instructions issued by the Administrative Board of the general partner. The strategy and directives of the Managing Directors are implemented within a matrix organisation. 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 internal 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 the Region Europe. He is also the spokesperson for Management.
- **Dr.-Ing. Stephan Bross:** Global Operations, Research / Technology / Complexity, Digital Transformation, Committees and Associations, the Corporate Units Pumps and Valves, as well as the Region Asia West and the Region Middle East / Africa.
- **Ralf Kannefuss:** Sales and Marketing, Service, Project Management, as well as the Region Asia North and the Region Asia South / Pacific.
- **Dr. rer. pol. Matthias Schmitz:** Taxes, Controlling KSB Group, Finance / Accounting including coordination of Shared Services, Information Technology, Purchasing, as well as the Regions America North and 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. Issues that affect several or all areas shall be jointly considered and decided. The Managing Directors meet as a group for this purpose at regular intervals, but at least once a month.

The spokesperson for the Managing Directors is responsible for coordination and communication among the individual Managing Directors and ensures that all Managing Directors gear their actions towards achieving the defined objectives. This includes but is not limited to aligning individual unit-related processes or transactions with the Company's overall plans and objectives.

Business scenarios of fundamental significance – such as larger-scale acquisitions or planning – are subject to approval by the Administrative Board.

The appointment of Managing Directors should as a rule not extend beyond their 65th birthday, and shall end upon their reaching the age of 75 at the latest. These rules are currently observed without exception.

#### **b) The 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 consists of five members. The Chair 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 elected by the Annual General Meeting of KSB Management SE.

The Administrative Board manages KSB Management SE in accordance with applicable laws, the latter's Articles of Association and its own Rules of Procedure, determines the basic principles of its activities and monitors their implementation. It appoints and monitors the Managing Directors. The Administrative Board is informed regularly and in a timely manner by the Managing Directors – acting through their spokesperson – about company-related 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 significant deviations of business performance from the plans and targets set.

The Administrative Board meets at least once every three months. The Board may form committees from within its ranks if it is of the opinion that these will increase the efficiency of the Administrative Board's work and provide support in handling complex issues. The Administrative Board has currently formed two committees: The Finance Committee essentially deals with issues relating to the Company's business performance and with specific questions concerning the net assets, financial position and results of operations. Its members are Ms Andrea Teutenberg (Chair) and Mr Oswald Bubel. The Human Resources Committee deals with pending personnel decisions, also in respect of the first management level below the Managing Directors. Its members are Oswald Bubel (Chair), Günther Koch and Monika Kühborth.

#### **4. The Supervisory Board of KSB SE & Co. KGaA**

The core remit of the Supervisory Board of KSB SE & Co. KGaA is to monitor the management of the Company by KSB Management SE as general partner and to provide it with advice on the basis of the provisions of the German Public Companies Act, the German Corporate Governance Code – to the extent that the general partner and the Supervisory Board have decided to fulfil its recommendations and suggestions – the Company's Articles of Association and the internal Rules of Procedure for the Supervisory Board. 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, any controlling shareholder or any enterprise related to the latter which might cause a material and not merely temporary conflict of interests. In line with the European Commission's view, KSB SE & Co. KGaA considers 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 of financial statements. The members as a group are familiar with the sector the Company operates in (Section 100(5) AktG [*Aktiengesetz* – 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 KSB 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 Chair of the Administrative Board of the general partner attend the meetings as a rule. The Managing Directors report on the individual agenda items or the proposed resolutions and are available to answer any questions of the Supervisory Board members.

In accordance with the provisions of Section 27 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 of the Supervisory Board shall have the casting vote. The Deputy Chair shall take the Chair's place if the latter is unable to attend. The Deputy Chair does not have a casting vote in this case.

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. This includes but is not limited to professionally preparing 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 **Human Resources Committee** essentially decides on certain transactions with or in relation to KSB Management SE, members of its Administrative Board 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.

- 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, review of the non-financial report, 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. The Audit Committee also discusses the half-year financial reports and interim statements with the Managing Directors.

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: [www.ksb.com/ksb-de/investor-relations/Finanzberichte/Geschaeftsberichte-Konzern](http://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 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 pursuant to Section 161 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.

## 5. Cooperation between the general partner and the Supervisory Board

Good corporate governance requires an ongoing development of the two-tier 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 Supervisory Board receives timely and comprehensive updates, on a regular or ad-hoc basis, from the general partner regarding, in particular, 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 Chair of the Administrative Board to discuss matters of strategy, planning, business development, risk assessment, risk management and compliance, in particular.

For certain decisions of the Administrative Board, including but not limited to the appointment and termination of the mandate of Managing Directors, the Chair and the Deputy Chair of the Supervisory Board have a right to participate in the meetings of the Administrative Board. The Supervisory Board may also suggest topics for consultation by the Administrative Board.

## **6. Gender-specific composition of the Supervisory Board and staffing of 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 world of work and to significantly improve the proportion of women in management positions.

For KSB SE & Co. KGaA, in its capacity as a listed company pursuant to section 3(2) 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. 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 February 2018 and the Annual General Meeting in May 2018, 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 new appointments and the Supervisory Board elections. This meant that, in principle, two each of the seats of the shareholder and employee representatives had to be filled by women or men.

After Ms Monika Kühborth and Mr Oswald Bubel left the Supervisory Board at the end of January 2018, Prof. Dr.-Ing. Corinna Salander and Mr Arturo Esquinca were appointed members of the Supervisory Board by order of the Amtsgericht [Local Court] Ludwigshafen am Rhein on 26 February 2018, and confirmed in their offices by the Annual General Meeting on 16 May 2018. Ms Gabriele Sommer has been a member of the Supervisory Board since May 2016 as a shareholder representative. Consequently, three Supervisory Board mandates (two shareholder representatives and one employee representative) were assumed by women until the close of the 2018 Annual General Meeting. The quota was therefore met as far as the shareholder representatives are concerned.

Within the scope of the new elections of employee representatives to the Supervisory Board on 21/22 March 2018, two women – Ms Claudia Augustin and Ms Birgit Mohme – were elected members of the Supervisory Board with effect from the close of the 2018 Annual General Meeting. Since then, the statutory requirements for the gender quota on the Supervisory Board have also been met as far as the employee representatives are concerned.

At its meeting on 11 September 2015, the Supervisory Board defined the target for the quota of women on the Board of Management until 30 June 2017 at zero percent, which corresponded to the status over the entire reference period. On 9 May 2017 the Supervisory Board decided to maintain the target for the quota of women on the Board of Management at zero percent until 31 December 2021, which was equivalent to the status until the effective date of

the Company's change in legal form on 17 January 2018. As a result of the conversion into the legal form of a KGaA, the Company no longer has a Board of Management, meaning that the definition of a target for the number of women on the Board of Management was no longer applicable.

On 22 September 2015 the Board of Management had stipulated the targets for the proportion 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 targets 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 proportion of women in the bodies nor the requirement of defining target values for the proportion 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 zero percent, and 40 % on 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 in the workplace, and to make it easier for employees to reconcile career and family in general, the Company has developed a selection of offerings. For many years now, it has provided childcare services for various age groups. 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 Company's Management. Global human resources controlling is used to monitor the development of the proportion of women employed in the different countries.

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

The consideration of diversity is established practice at 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.

A heterogeneous composition of the Supervisory Board will promote the Company's interests as a rule. We have implemented such in the past and to date. When selecting new candidates for the Supervisory Board, the Nomination Committee and the Supervisory Board plenary session always consider the aspect of diversity, including but not limited to the international activities of the Company, potential conflicts of interest, the legal requirements for the gender proportion on the Supervisory Board (see above Section 6) 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 this body. 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 Board. The Supervisory Board also believes that in addition to the current requirements for the composition of the Supervisory Board and the measures previously implemented and aimed at in the KSB Group to foster diversity, an additional diversity concept will not result in any substantial value added. Further targets for the composition of the Supervisory Board as well as a diversity concept within the meaning of Section 289f (2.6) HGB have therefore not been defined. Accordingly, the Company declared in its Statement of Compliance pursuant to Section 161 AktG [*Aktiengesetz* – German Public Companies Act] a departure from Section 5.4.1(2) of the German Corporate Governance Code.

When choosing Managing Directors, the Administrative Board also considers aspects of diversity 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) HGB was not defined for the Managing Directors.

## **8. 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 the Company 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 the Company and within the KSB Group. Even before the German Corporate Governance Code was introduced, we implemented the 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 AktG, 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 German Federal Gazette have been and will continue to be complied with or which recommendations have not or will not be complied with, and why”* (Statement of Compliance). For 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 changes made over time with respect to Code recommendations and suggestions 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 comply with the explicit note in the Code that deliberate departures from the recommendations may well be in the interest of good corporate governance.

The Statement of Compliance (see Section 1 above) was issued by the Managing Directors of the general partner and the Supervisory Board most recently on 13 March 2019 and made accessible on the Company's web site, along with the previous years' statements; the Statement will be updated at short notice as and when necessary. 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, initially in particular the changes notified for 2019, to ensure that suggestions and recommendations that are applicable to the Company 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 has issued both no-par value ordinary shares and no-par value preference shares. The bearers of these shares, our shareholders, exercise their co-determination and control rights at the Annual General Meeting, which takes place 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 for 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, 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, with registered office in Frankenthal (Pfalz), holds approximately 84 % of the ordinary shares; the KSB Stiftung [KSB Foundation], with registered office in 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 if and to the extent that they relate to matters which, in the case of a partnership limited by shares, require the consent of the general partner and the limited partners. The consent 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 partners' right to object in the event of extraordinary transactions under Section 164 (clause 1, semi-clause 2) HGB is ruled out under the Articles of Association.

## **Transparency**

The Company and the KSB Group consider it extremely important to provide capital market participants with regular, comprehensive, consistent and prompt information on the Group's economic situation and reportable events. 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 the Company, which contains the planned dates of the key recurring events and publications.

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

KSB SE & Co. KGaA has 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 German 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 (IFRS) 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. Interim reports and the half-year financial report are coordinated with the Audit Committee prior to publication. 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 that 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 EBIT. EBIT is defined as earnings before financial income / expense and taxes. For the control of the entire KSB Group, we use the key indicators of order intake, sales revenue, earnings before income tax (EBT), pre-tax return on sales (ROS), the net financial position and – since the 2018 financial year – EBIT. The pre-tax return on sales describes the ratio between EBT and sales revenue; the net financial position is the balance of interest-bearing financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans to companies accounted for using the equity method, cash and cash equivalents, receivables from deposits). Beginning from the 2019 financial year we will no longer be using the key indicators EBT and ROS. The key indicator ROS will be replaced with the key indicator EBIT margin. The EBIT margin describes the ratio of EBIT to sales revenue.

Our internal control system is based on guidelines, codes 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 them 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 SE & Co. KGaA and the supplementary resolution of the Annual General Meeting dated 16 May 2012. Compared with the arrangement at KSB Aktiengesellschaft (until 17 January 2018), the performance-related remuneration component no longer applies, for instance. According to the provisions of the Articles of Association, Supervisory Board members now receive a fixed remuneration in the amount of € 30,000 for the financial year. The Chair receives 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 committee chairpersons is € 3,000 per committee meeting attended. Furthermore, the members of the Supervisory Board are covered by directors' and officers' (D&O) liability insurance [*Vermögensschaden-Haftpflichtversicherung*] taken out by the Company under usual market conditions in favour of the members of the Supervisory Board if and to the extent that such insurance policy is in place; 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 above and 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 in total per calendar year.

The employee representatives on the Supervisory Board – with the exception of the representative of executives – 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.

In 2018 the total remuneration paid to members of the Supervisory Board amounted to € 932 thousand (previous year: € 834 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 financial statements of KSB SE & Co. KGaA.

## 9. Basic principles of the Compliance Management System

Compliance in terms of implementing measures to ensure observance of applicable law and internal guidelines by Group units is one of the key management tasks of the general partner, which in this regard also acts through its Managing Directors. The requirement for professional and honest conduct is expressed within 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 includes but is not limited to the areas of anti-trust or cartel law and anti-corruption measures. The applicable laws and regulations are explained in greater detail and useful information on proper conduct in actual situations is provided. The latter applies to the same degree for the Insider Directive, which deals with the ban on insider trading and handling of inside information.

The responsibility for the compliance organisation lies with the general partner, acting through its Managing Directors, who are monitored by the Supervisory Board (Audit Committee) in this regard. The compliance organisation is structured as follows:

- Group Compliance Office
- Local Compliance Offices
- Compliance Committee
- Ombudsperson

The Group Compliance Officer (hereinafter also “GCO”) heads the Group Compliance Office. In the Group Compliance Office, the GCO is supported by the Regional Compliance Officers. In addition, there are Local Compliance Offices in place throughout the Group in countries in which KSB Group companies have their registered office; they usually consist of the Local Compliance Officer. Where several Local Compliance Officers are appointed in a country, they may be headed by a Country Compliance Officer.

An interdisciplinary Compliance Committee at Group headquarters provides advice on fundamental compliance issues as well as support to the Group Compliance Office in fulfilling its responsibilities.

If employees become aware of any infringement of laws or company regulations, they may approach 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 compliance activities in 2018 was the implementation of a Group-wide risk analysis in the areas of anti-corruption and anti-trust / cartel law. This is a key instrument of the Compliance Management System to identify any weaknesses and to systematically develop and update compliance measures. By selecting and procuring updated training media, the e-learning training programmes started during the current financial year were prepared for all relevant employees of the KSB Group. This notwithstanding, compliance training was continued throughout 2018 for new employees and employees who were transferred internally to relevant functions. The targeted preventive effect of compliance measures is rounded off by the regular review of operational projects for compliance aspects.

## Annex



## Annex

### Supervisory Board of KSB SE & Co. KGaA (until 17 Jan. 2018: KSB Aktiengesellschaft) (Date: 13 March 2019)

**Dr. Bernd Flohr\***

Dipl.-Kfm., Dipl.-Soz., Geislingen  
Former Executive Board Member  
of WMF AG  
(Chairman)

**Alois Lautner**

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

**Claudia Augustin** (since 16 May 2018)  
Office Management Assistant, Pegnitz  
Member of the Pegnitz Works Council  
of KSB SE & Co. KGaA

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

**Klaus Burchards\***  
Dipl.-Kfm., Stuttgart  
Independent Auditor

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

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

**Wolfgang Kormann** (until 16 May 2018)  
Hand Moulder, Pegnitz  
Chairman of the Group Works Council  
of KSB SE & Co. KGaA

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

**Monika Kühborth** (until 31 Jan. 2018)  
Editor, Homburg/Saar  
Managing Director of  
Klein, Schanzlin & Becker GmbH

**Birgit Mohme**  
Industrial Business Management  
Assistant, Frankenthal (Pfalz)  
2. Delegate of IG Metall  
Ludwigshafen/Frankenthal

**Thomas Pabst** (since 16 May 2018)  
Dipl.-Ingenieur, Freinsheim  
Head of Operations  
Europe Central  
at KSB SE & Co.KGaA

**Prof. Dr.-Ing. Corinna Salander\***

(since 26 Feb. 2018)  
Physicist, Stuttgart  
Holder of the Chair in  
Rail Vehicle Technology at the  
University of Stuttgart

**Volker Seidel**

Electrical and Electronics Installer,  
Münchberg  
1. Delegate of IG Metall Ostoberfranken

**Gabriele Sommer\***

Dipl.-Geologin, Wörthsee  
Global Head of Human Resources  
TÜV Süd

**Dr. H. Stefan Wiß** (until 16 May 2018)

General Counsel, Ludwigshafen am Rhein  
Head of the Corporate Functions  
Legal & Compliance, Patents &  
Trademarks at KSB SE & Co. KGaA

\* Independent shareholder representatives

**Current composition of committees** (Date: 13 March 2019)

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

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

Nomination Committee: Dr. Flohr, Kühborth

Corporate Development Committee: Kühborth (Chairman), Esquinca, Klotz, Pabst,  
Prof. Dr. Salander, Seidel

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