

REPORT OF THE SUPERVISORY BOARD

Throughout the last financial year, the Supervisory Board continued to perform its tasks with great care in accordance with the law, the Articles of Association and the Rules of Procedure. We regularly advised the Board of Management on corporate management issues and monitored its work. The Supervisory Board was consulted directly and at an early stage with regard to decisions of fundamental importance. The Board of Management informed us in a comprehensive and timely manner about the position of the company, in particular its business, financial and staffing situation, planned investments, as well as relevant corporate planning and strategic and organisational development issues via written and oral reports prepared regularly and on an ad hoc basis. We continued to meet on a regular basis to discuss selected issues, both with and in the absence of the Board of Management.

We discussed all business transactions significant for the company in detail on the basis of the Board of Management's reports. Any departures in business developments from the plans and targets were reviewed and commented on in detail by the Board of Management. We adopted our resolutions on the reports and proposals by the Board of Management after thorough examination and discussion. Beyond the intensive work in the plenary sessions and in the committees, the Chairman of the Supervisory Board in particular and other Supervisory Board members were in frequent contact with the Board of Management outside the meetings to discuss the current business development and significant transactions as well as questions of strategy, planning, risk assessment, risk management and compliance.

In the reporting period, no conflicts of interest arose involving members of the Board of Management or the Supervisory Board that would have been subject to disclosure in the Report of the Supervisory Board.

MAIN FOCUS OF WORK IN THE SUPERVISORY BOARD PLENARY SESSIONS AND IN THE COMMITTEES

Core topics of our discussions with the Board of Management were the revision of strategic objectives, and the continued development of the corporate organisation and international production concept. The analysis of business development in the segments and Regions represented an additional focus, as did major investment projects at various sites. We dealt on an ongoing basis with the company's economic position and the prospects facing selected markets. Based on a recommendation contained in the German Corporate Governance Code, we also looked at the efficiency of our own activity.

Four regular Supervisory Board meetings were held in financial year 2015. The performance of KSB Aktiengesellschaft and the Group was the subject of regular discussions in the plenary sessions, primarily with regard to order intake, sales revenue, earnings, assets and employment levels as well as the current economic situation, strategy, and investment, divestment and

acquisition projects. We examined in detail global service activities and their continued expansion. In a few cases of obvious structural difficulties, we decided to approve the Board of Management's proposals to sell off the units concerned.

The Board of Management regularly explained to us in detail the ways in which KSB can achieve the planned growth for the coming years, including the underlying methodological and strategic considerations. Required investments were subjected to critical analysis before being approved and their implementation was subsequently monitored by us. In this context, the Supervisory Board approved significant financial resources to maintain the high technical level of the plants on a Group-wide basis. For the purposes of enabling production as close to customers as possible, we approved the Board of Management's proposal that we expand our Indian production capacities. On several occasions, we reviewed the status of our expansion work at our US subsidiary GIW Industries, Inc., which is progressing well. Following the completion of initial steps in the modernisation of our foundry in Pegnitz, Germany, the new systems came on line, on schedule, in autumn of last year. In order to obtain a major Chinese order for the supply of pumps, we had to expand our local manufacturing facilities, as already reported. Since the completion of this work, we have been receiving ongoing updates from the Board of Management on the progress made with the contract. We expect the successful implementation of this demanding project to strengthen KSB's market position over the long term. In a number of countries, the start or expansion of business activities led to property acquisitions. In each case we discussed the long-term impact of such measures.

Given the ongoing changes in the energy sector, we continued to look at the impact these radical market movements are having on our business operations. The main focus was on the optimisation of manufacturing capacities within our international production network. The deliberations presented by the Board of Management were critically reviewed, with regard to both conceptual aspects and the initial implementation stages.

Repeatedly on the agenda was the development of the corporate organisation. We devoted particular attention to the topics of cutting internal administrative expenses, by creating central services units, for example, and reducing the number of Group companies. These activities were rounded off with an exchange on the work that has now been completed to ensure the highly automated generation of key performance indicators in Controlling and Finance. Another central focus of our work was the progress made towards strengthening our value-based corporate culture, with the Board of Management providing regular updates. Based on an initial trial, the staff evaluation and employee development system presented by the Board of Management last year has proven to be a suitable tool for the continuous improvement of performance, at both employee and company level.

During the September meeting, the Supervisory Board dealt in detail with solutions, in terms of production technology, logistics and sales, for boosting the company's sales outside Europe. Digital solutions in the context of Industry 4.0 were presented using specific examples. We expect these solutions, which are geared towards the latest market developments and narrowly

focused on customer benefits, to provide significant impetus for the achievement of our strategic objectives. By visiting the state-of-the-art technical facilities at our Frankenthal site, we were able to gain a picture of how the approaches that had been presented to us are being implemented in practice. We also set our target with regard to the proportion of women on our Board of Management between now and 30 June 2017. This will remain at zero percent, as we do not see any realistic way of making female appointments during this period. We also informed ourselves about selected products and functions of the Group. At the December meeting, a major focus was the programme presented by the Board of Management to increase efficiency in all of the Group's corporate units. The aim of this demanding project is to make tangible improvements to processes and cost structures over the next two years, in parallel to the customer-oriented strategic activities. We also looked at business performance during the financial year and planning for 2016.

In order to perform its duties efficiently, the Supervisory Board worked with five committees in 2015. These prepare the Supervisory Board's resolutions and the special topics to be discussed in the plenary sessions. In addition, they also make their own decisions – to the extent that this is legally permissible – within the scope of their areas of responsibility. This allocation has proved worthwhile in practice. The Chairs of the committees regularly and comprehensively report in the plenary sessions on the content and results of the work carried out in the committees.

In the run-up to the election of Supervisory Board members at the Annual General Meeting, on 6 May 2015, the **Nomination Committee** prepared the Supervisory Board's nominations, convening once during the reporting year for this purpose. In looking for and evaluating suitable candidates with the requisite expertise and experience of the industry, long-term succession planning is a key factor.

The **Corporate Development Committee** deals with the company's strategic development, as well as with annual planning and finance, and technology issues. At four meetings in the year under review, it discussed in particular the areas of strategy controlling, production management and innovation, and looked at a number of major investments, including in France and India. The development of particular product areas also figured on the agenda, as did tie-in measures during acquisitions and selected projects. The strategic expansion of valves business, for example, took up a great deal of discussion time. Despite unmistakable successes over the last few years, the Committee still sees considerable potential to be exploited. The heads of the relevant specialist departments took part in the committee meetings, along with the responsible members of the Board of Management.

The **Personnel Committee** held four meetings in the year under review. It primarily addresses topics relating to the Board of Management's remuneration, including the terms of the individual service contracts, as well as other Board of Management issues. Decisions on the Board of Management's remuneration are made in plenary session with the committee acting in a

COMMITTEES OF THE SUPERVISORY BOARD

and their chairs, as well as number of meetings in the year under review

CORPORATE DEVELOPMENT COMMITTEE

Dr. Martin Auer, Chairman
No. of meetings: 4

NOMINATION COMMITTEE

Klaus Kühborth
Dr. Thomas Seeberg
No. of meetings: 1

PERSONNEL COMMITTEE

Dr. Thomas Seeberg, Chairman
No. of meetings: 4

AUDIT COMMITTEE

Dr. Jörg Matthias Großmann,
Chairman
No. of meetings: 4

MEDIATION COMMITTEE

Dr. Thomas Seeberg, Chairman
No. of meetings: 0

preparatory capacity. In the year under review, the Committee also discussed staff development issues with the aim of ensuring that any need for action in terms of filling Board of Management positions and positions at the management level directly below the Board is identified at an early stage and followed up. As proposed by the Committee, on 27 October 2015 the Supervisory Board extended the appointment of the long-standing member of the Board of Management and Human Resources Director, Dr. Peter Buthmann, by a further year, taking his term of office until 30 June 2017. The Supervisory Board approved that the age limit applicable to members of the Board of Management will be exceeded by a few months. The Committee also submitted proposals for the resolution on the new legal requirements regarding the inclusion of women in managerial positions. In 2015, the Committee members again participated in events with staff from various management levels in an effort to foster a direct exchange of ideas.

The four meetings of the **Audit Committee** were always attended by a Member of the Board of Management and, on several occasions, by the auditors and the heads of the relevant departments. The Committee primarily discussed the 2014 annual and consolidated financial statements, as well as the corresponding audit reports prepared by the auditors. The Audit Committee also prepared the independent examination by the Supervisory Board of the financial statements, the management reports and the proposal on the appropriation of the net retained earnings. It also defined key audit areas for the external auditing of the 2015 financial statements. In addition, the 2015 half-year financial report was discussed with the Board of Management. During the auditor selection process, the Committee reviewed the offers submitted and made its recommendation to the Supervisory Board for the election of the auditors at last year's Annual General Meeting. It then commissioned the auditors to carry out the audit of the annual and consolidated financial statements for the 2015 financial year. The declaration of independence by the auditors was obtained in accordance with the recommendations

of the German Corporate Governance Code (section 7.2.1) and the auditors' continued independence was monitored. The Committee was also involved in the monitoring of the accounting process, the risk management system – taking account of relevant reports by Internal Audits – and the effectiveness of the internal control and auditing system, including compliance.

There was no requirement during the financial year under review to convene the **Mediation Committee** required by section 27(3) *MitbestG* [*Mitbestimmungsgesetz* – German Co-Determination Act].

CORPORATE GOVERNANCE AND STATEMENT OF COMPLIANCE

The Supervisory Board continuously monitored developments in corporate governance standards throughout the financial year. The Board of Management and the Supervisory Board report on corporate governance at KSB in accordance with section 3.10 of the German Corporate Governance Code as part of the Corporate Governance Statement pursuant to section 289a *HGB* [*Handelsgesetzbuch* – German Commercial Code]. On 2 December 2015 they issued a joint updated statement of compliance in accordance with section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act] and made it permanently available to shareholders on the company's web site. KSB Aktiengesellschaft complies with the Code's recommendations subject to a few exceptions.

AUDIT OF THE 2015 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting documentation, in addition to the proposal by the Board of Management on the appropriation of net retained earnings and the audit reports submitted by the auditors, was provided in good time to all members of the Supervisory Board. The documents were examined in detail by the Audit Committee on 17 March 2016 as well as by the Supervisory Board plenary session on 23 March 2016 and explained in depth in both cases by the Board of Management. The auditors attended the meetings of both bodies, reported on the findings of the audit and were available to provide additional information.

The Supervisory Board examined the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2015, which were prepared in accordance with the provisions of the *Handelsgesetzbuch* [*HGB* – German Commercial Code], as well as the consolidated financial statements and the group management report for the year ended 31 December 2015, which were prepared in accordance with the International Financial Reporting Standards (IFRSs), and the proposal by the Board of Management on the appropriation of net retained earnings.

The Mannheim office of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt, audited the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2015, as well as the consolidated financial statements and the Group management report for the year ended 31 December 2015, and issued an unqualified opinion. The key audit areas defined for the auditors by the Audit Committee for the year under review were the validity of the measurement assumptions for selected goodwill, the completeness of the disclosures in the notes (particularly in relation to pensions, financial instruments and related party disclosures), as well as the proper preparation of the dependent company report. The auditors reported on their findings on these key audit areas both orally and in writing.

The Supervisory Board concurs with the auditors' findings. Based on its own final examination results, the Supervisory Board plenary session did not raise any objections to the annual financial statements, consolidated financial statements, management report and Group management report. In accordance with the recommendation of the Audit Committee, the Supervisory Board approved the financial statements prepared by the Board of Management; the annual financial statements are thus adopted. After its own examination, the Supervisory Board deems the proposal by the Board of Management on the appropriation of net retained earnings of KSB Aktiengesellschaft, and in particular the reduced dividend following the significantly lower net profit for the year, to be appropriate and concurs with it.

DEPENDENT COMPANY REPORT

The auditors also audited the dependent company report for the 2015 financial year prepared by the Board of Management in accordance with section 312 AktG and issued the following unqualified audit opinion on this report:

“On completion of our audit and assessment in accordance with professional standards, we confirm that

1. the actual amounts and disclosures in the report are correct;
2. the consideration paid by the company for the transactions listed in the report was not inappropriately high.”

The reports by the Board of Management and the auditors were provided in good time to all members of the Supervisory Board and were also discussed by the Audit Committee and at plenary sessions. The auditors attended the meetings of both bodies, reported on the material findings of the audit and were available to provide additional information. The Supervisory Board concurs with the auditors' findings. Both the recommendation by the Audit Committee and the final results of the Supervisory Board plenary session's examination did not give rise to any objections to the dependent company report prepared by the Board of Management and to the statement by the Board of Management at the end of the dependent company report.

CHANGES ON THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The renewed extension of the appointment of Dr. Peter Buthmann as member of the Board of Management and Human Resources Director has already been referred to above. Prof. Dr. Michael Hoffmann-Becking resigned from the Supervisory Board with effect from the close of last year's General Meeting. The Meeting elected Prof. Dr. Dieter H. Hellmann as his successor, and also reappointed Dr. Martin Auer to the Supervisory Board. Prof. Dr. Hellmann and Dr. Jost Wiechmann resigned from the Supervisory Board with effect from the end of August and the end of December 2015 respectively. They were replaced by Günther Koch and Gabriele Sommer, both of whom were appointed to the Supervisory Board by means of an order of the Local Court of Ludwigshafen am Rhein, with effect from 8 September 2015 and 1 January 2016 respectively. Klaus Kühborth resigned as Chairman of the Supervisory Board, while remaining as a member, as of 10 September 2015. Dr. Thomas Seeberg was appointed to succeed him as Chairman. The Supervisory Board would like to thank the members who have left the Board for their many years of close cooperation. It also thanks Mr Kühborth for his prudent leadership over the past few years.

The Supervisory Board would once again like to thank the Board of Management, the employees and employee representatives of all Group companies for their constructive and committed work during the past financial year.

Frankenthal, 23 March 2016

The Supervisory Board