

Dear Shareholders and Business Partners,

New journeys create new paths. In 2016 we set a series of important milestones to map out our company's progress for the next few years. This will help us respond to changing markets, technologies and customer requirements, as you will see below.

KSB's current direction has put us on the right track towards achieving a return on sales of more than 6 percent for 2018, bringing us closer to our target of 8 percent. This is what we are doing to achieve our goals:

1. We are strengthening our business in the water and waste water sector.

In some regions outside of Europe, our customers perceive us as a company that offers the best technical solutions for the most demanding fluids. We want to continue living up to this reputation in the industry, energy, mining and transport sectors. KSB has extensive expertise in handling hot or cryogenic liquids, acids, lyes, oils or water/sand mixtures, and the transport of water is an area in which we continue to excel.

It is therefore all the more important for us to strengthen our image as a supplier of technical products and services for the water and waste water industry. We have an optimum range of products and services; the market is growing continuously and in sales and production we are investing all of our efforts to tap opportunities associated with this growth. To pursue this goal, we launched a global sales initiative, added selected products to our portfolio and put together an international team of experts for important projects. Water is also a key topic in this annual report, as outlined in the following section.

2. We are intensifying our standard and service business.

This is our response to the persistently weak demand for large-scale projects. Our strategy is to expand our general business with standard products and to progressively modernise and automate their production. 2016 saw the first launch of a worldwide campaign for our most important standard product, the Eta pump family. This also involved the commissioning of a new production facility for pumps used in heating and air-conditioning systems. We have extended our network of service centres for all types of pumps and valves worldwide. At the same time, we are focussing on inspiring our customers' interest in new service offers, for example identifying energy savings.

3. We are setting new standards in plant engineering

Our plant engineering customers are adapting to the increased level of competition through modularisation and standardisation; KSB is supporting them in this process. In key account management, we are helping major customers to develop standardised solutions for industrial

plants and power stations. This will enable these companies to act more quickly in their markets and remain competitive in future. KSB itself is using framework agreements to increase production volume as well as leveraging its global manufacturing network to serve these key account customers within the short lead times demanded by the market.

4. We are researching and investing in Industry 4.0.

For companies in our sector, digitalisation is a fundamental requirement for ensuring business success. Our new Business Innovation Lab has been set up to explore the opportunities emerging in an increasingly connected world of technology for KSB and its customers. Working in cooperation, we are developing digital solutions for practical use in industry. This will open up new paths for us to explore, ranging from remote plant diagnosis to 3D printing of spare parts.

5. We are changing our cost basis.

As announced, we launched our Efficiency Improvement Programme 10/10/10 in 2016 to reduce our material, staff and overhead costs by € 200 million. To achieve this, we have initiated more than 1,300 projects. Some 900 are already being implemented and are expected to deliver the targeted savings. The associated one-off costs impacted our 2016 earnings, however, and will continue to affect our results in 2017.

We are aware that the measures introduced require a certain amount of patience from our shareholders. 2017 will represent an interim step towards our goal. At the latest by 2018 we will be able to present KSB as a company ideally equipped for the future with attractive earnings.

KSB's Board of Management looks forward to outlining tangible progress in our report to you next year.



Dr. Peter Buthmann



Werner Stegmüller