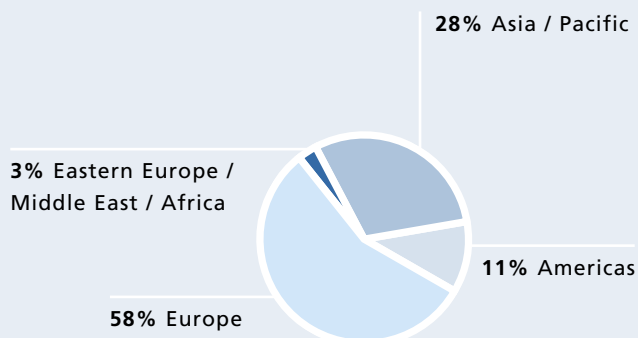


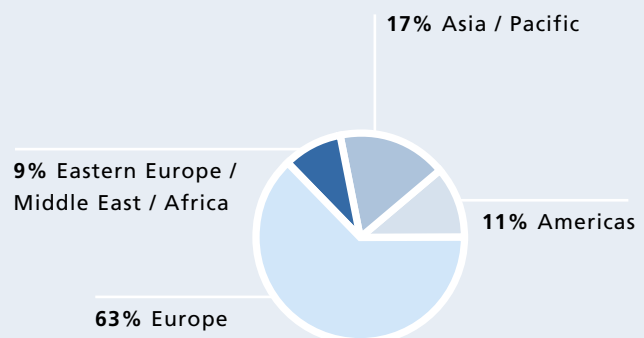


Group highlights		2004	2003	2002	2001
Earnings					
Sales revenue	€m	1,266.8	1,178.1	1,180.2	1,161.9
Earnings before interest and taxes (EBIT)	€m	33.6	39.7	43.9	36.8
Earnings before taxes (EBT)	€m	22.1	29.8	34.3	26.9
Net profit for the year	€m	14.7	18.7	19.6	14.1
Cash flow	€m	59.5	63.1	60.3	52.8
Balance sheet					
Balance sheet total	€m	982.6	926.5	859.3	909.7
Non-current assets	€m	261.2	270.1	234.2	248.5
Capital expenditure	€m	33.7	60.4	31.3	29.0
Depreciation and amortization expense	€m	33.2	30.2	30.0	32.8
Current assets	€m	693.8	633.0	604.4	645.7
Equity (including minority interest)	€m	354.8	346.0	355.8	367.6
Equity ratio (including minority interest)	%	36.1	37.4	41.4	40.4
Profitability					
Return on sales	%	1.8	2.5	2.9	2.3
Return on equity	%	6.3	8.5	9.5	7.4
Return on capital employed	%	3.9	4.9	5.5	4.7
Employees					
Number of employees at 31 Dec.		12,467	12,281	11,948	12,071
Staff costs	€m	477.4	450.5	428.6	420.3
Shares					
Market capitalization at 31 Dec.	€m	212.9	211.9	140.2	142.7
Earnings per ordinary share (EPS)	€	4.16	6.74	8.52	5.19
Earnings per preference share (EPS)	€	5.19	7.26	8.78	5.45
Dividend per ordinary share	€	–	2.50	4.00	4.00
Dividend per preference share	€	1.03	3.02	4.26	4.26

Employee population by region



Sales revenue by sales region



OUR PROFILE

Reliable and cost-effective fluid transport: this is our métier. Throughout the world, more than 12,000 KSB employees are engaged in supplying our customers with pumps, valves, associated systems and services.

We see our future role in the provision of smart products, modules and systems, as well as the best possible service. We aim to achieve profitable growth and contribute to providing solutions that ensure security of supplies and efficient waste water management.

PRODUCTS AND SERVICES

Industry and process engineering

Pumps and valves, as well as associated control and drive systems

Water

Pumps, valves and pressure exchangers, as well as associated control and drive systems; water transport systems and subsystems

Waste water

Pumps and mixers for waste water applications, as well as associated control and drive systems; waste water transport systems and subsystems

Energy

Pumps and valves, as well as associated control and drive systems for use in power stations and district heating systems

Building services

Pumps and valves, as well as associated control and drive systems for domestic water supply, drainage, heating and air-conditioning

Mining

Slurry pumps for use in the mining industry and on suction hopper dredges

Service

Installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, valves and related systems; modular service concepts for complete systems

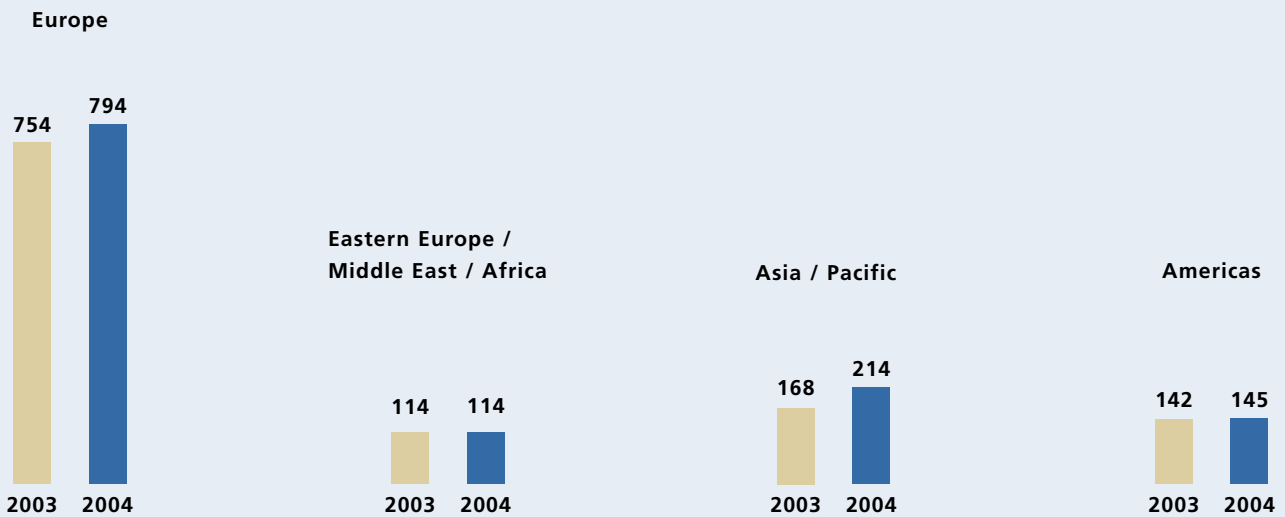


The KSB Group is on hand in over 100 countries. With sales companies, offices, agencies and 32 manufacturing sites.

Sales revenue development by geographic area

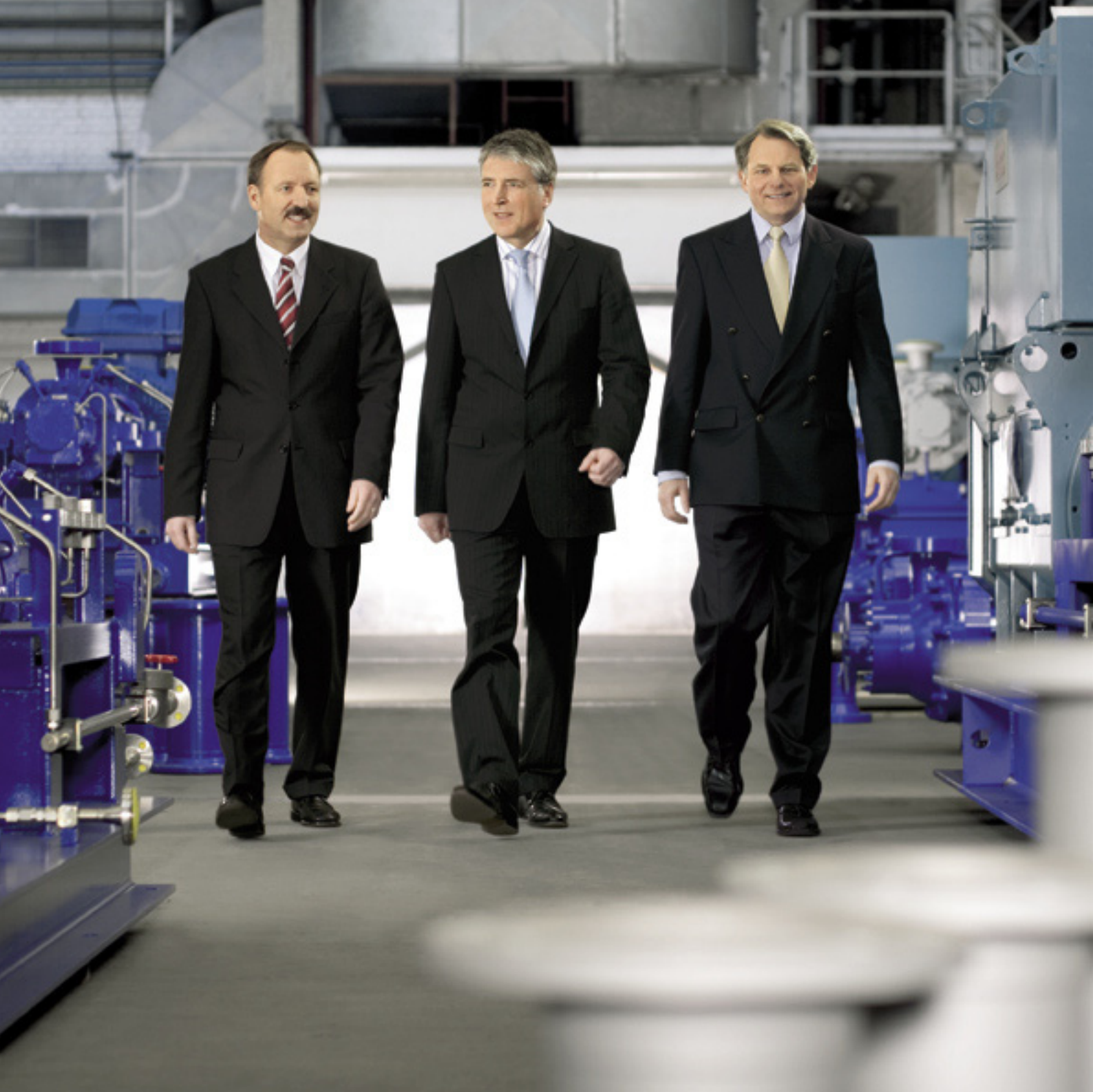
(See segment reporting pp. 64 / 65)

€ millions



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BOARD OF MANAGEMENT

Dr. Willi Enderle

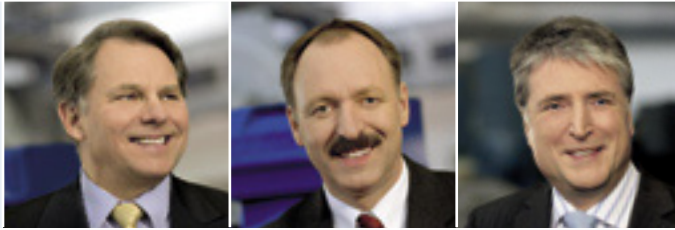
has been a member of the Board of Management of KSB Aktiengesellschaft since 2001. He is responsible for Research, Development and Engineering, as well as Production, Product Management and Integrated Management Systems. His responsibilities also cover KSB Service GmbH activities.

Prof. Dr. h.c. Josef Gerstner

joined KSB Aktiengesellschaft in 1996 as Chairman of the Board of Management and Human Resources Director. He is in charge of Sales / Marketing and the Group functions of Corporate Development, Human Resources, Communications and Internal Audits. In addition, he is responsible for the KSB growth and innovation initiative.

Dr. Alois Wittmann

was named member of the Board of Management of KSB Aktiengesellschaft in 1995. His responsibilities include Purchasing, Controlling, Finance and Accounting. He is also responsible for the Group's IT Management and Corporate Law.



Board of Management of KSB AG
 (from left to right)
 Dr. Alois Wittmann, Dr. Willi Enderle,
 Prof. Dr. h.c. Josef Gerstner (Chairman)

Dear shareholders and business partners,

The slight economic recovery in 2004 also brought some movement into the pumps and valves sector. But unfortunately, the driving forces have not proved sufficient for a self-supporting upswing in our European home market. The economic tail-wind here quickly abated again. All the more important was it, and is it, that we continue to exploit the opportunities that present themselves in regions with substantially better climates for growth.

Our achievement is highlighted by the example of China: this economic powerhouse of the future is becoming an ever more important market. With considerable “staying power” we have led the joint venture company we established ten years ago to success. For two years, KSB has been number one on the Chinese pumps market, and our company is showing sound double-digit growth rates. In 2004, growth was as high as 60 percent.

We are continuing our global innovation initiative to ensure KSB's profitability in the long term. With new products and services, we aim to extend our technical lead.

This success and our experiences to date encourage us to take further steps that will enable us to continue improving in servicing the market with KSB products. In December 2004, we started up a new factory in Dalian for the assembly of valves. We are also preparing an expansion of our manufacturing facilities for pumps in China.

In India, where we currently have six production sites, we shall likewise expand our production capacity in 2005 to keep pace with growing demand. This will take place primarily through process optimization. In addition, we established a company for technical development work, KSB Tech in Pune, in November 2004.

The coordinates of growth have shifted visibly to the east in recent years. While sales revenue growth in Western Europe is achieved only through predatory competition and acquisitions, we are able to meet strongly increasing demand in Eastern Europe, the Middle East and, above all, in Asia.

Our success has to do with the early internationalization of our activities, which started as long ago as in the 1950s. The positioning of KSB in many growing markets, including the countries of South America, is thus unique throughout the industry. We deploy our sales staff, service personnel and local assembly and production facilities in the regions of growth in order to achieve our strategic objectives with all these forces working in concert.

In Europe, our business policy is focused on improving the competitiveness of our production, sales and service centres. For this we have developed a Structural Programme that is associated with a new, international division of work, leaner processes and a more effective production concept.

We see the achievement of greater efficiency and return on investment as a crucial way of helping to keep our financial and technical base in Europe attractive on the global scale. This will enable us not least to safeguard many jobs.

With a view to achieving success in the coming years, we are continuing our global growth and innovation initiative. This is aimed at generating more sales with new products and services and, at the same time, extending our technical lead.

As we know from market surveys, our customers associate the KSB brand in particular with high quality and lasting reliability. Our technical innovations need to live up to these expectations – now and in the future. What our customers ultimately demand in terms of services and functionality depends on the product's conditions of use and regional standards. For this reason, an important objective is to develop flexible, modular solutions to problems and sell them worldwide.

In the process, as reported, we are increasingly going beyond the level of components development and devoting ourselves to the design of complete modules and systems. Current developments include a highly effective system for energy recovery in seawater desalination plants. This reduces the electricity costs by up to 25 percent compared with conventional reverse osmosis systems.

The coming years will see us focusing on providing solutions in the fields of freshwater supplies and waste water disposal, as well as on the development of efficient energy supplies and the reliable transport of fluids in industry, building services and mining. In these areas, producing peak performances which pay off is an important prerequisite for ensuring our customers' – and thus our own company's – success and profitability.



Prof. Dr. h.c. Josef Gerstner



Dipl.-Kfm. Peter Schubert,
Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board fulfilled the duties assigned to it by law and the Articles of Association in financial year 2004. It supervised the management of the Company by the Board of Management and advised it regularly on corporate management issues. The Supervisory Board was directly involved in decisions of fundamental importance. The Board of Management informed the Supervisory Board promptly in comprehensive written and oral reports about all relevant corporate planning and strategic development issues. The same applied to the position of the Group, including its risk position, and to business policy and significant business transactions. Any departures in business developments from the formulated plans and targets were discussed in detail. Between meetings of the Supervisory Board, its Chairman was in regular contact with the Chairman of the Board of Management, discussing strategic issues with him and obtaining information about current business developments and significant transactions.

Focus of the Supervisory Board's work

Four Supervisory Board meetings were held in the year under review. Regular plenary meetings dealt with the reports on business developments, in particular on the order intake, sales revenue, earnings, financial and employment trends in the Group and the individual business segments.

The main topics of discussion last year included acquisitions and the development of the ongoing Structural Programme. This is intended to help improve earnings in several stages. Another important topic was the Group-wide roll-out of SAP R/3.

The Supervisory Board established four committees from among its members, to which shareholder and employee representatives were appointed. Their principal responsibility is to prepare issues to be discussed in plenary Supervisory Board meetings.

The Finance and Investment Committee met once and dealt primarily with planning for the annual budget and significant investments. The Personnel Committee also met once and addressed in particular contractual matters relating to the Board of Management. The discussions during the three meetings of the Audit Committee focused mainly on the audits of the annual and consolidated financial statements and of the existing risk management system. There was no requirement during the year under review to convene the Mediation Committee required by section 27(3) of the MitbestG (Mitbestimmungsgesetz – German Co-Determination Act). Detailed reports on the meetings and work of the committees were presented at plenary meetings of the Supervisory Board.

Corporate governance and statement of compliance

The Board of Management and Supervisory Board issued an updated statement of compliance in accordance with section 161 of the AktG (Aktiengesetz – German Public Companies Act) on 13 December 2004 and made it permanently available to the shareholders on the Company's web site. The Company complies with the recommendations of the German Corporate Governance Code in the version dated 21 May 2003 apart from a handful of exceptions.

The Board of Management reports in this annual report on corporate governance at KSB – including on behalf of the Supervisory Board – in accordance with section 3.10 of the German Corporate Governance Code.

Audit of the annual and consolidated financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Mannheim, audited the annual financial statements of KSB Aktiengesellschaft for the year ended 31 December 2004 prepared by the Board of Management in accordance with the provisions of the HGB (German Commercial Code), the consolidated financial statements and the management reports on the Company and the Group. The auditors were appointed by a resolution of the Annual General Meeting on 7 June 2004 and subsequently engaged to perform the audits by the Supervisory Board. The consolidated financial statements were prepared in accordance with IFRSs (International Financial Reporting Standards). Consolidated financial statements in accordance with the HGB were not prepared, as the Company has exercised the exemption option under section 292a of the HGB. The auditors did not raise any objections to the annual financial statements of KSB Aktiengesellschaft, the consolidated financial statements of the KSB Group and the management reports on the Company and the Group for financial year 2004, and issued each of them with an unqualified audit opinion. The accounting documentation and the auditors' reports submitted by the auditors were provided in good time to all members of the Supervisory Board. They were discussed in great detail by the Audit Committee on 17 March 2005 and at the meeting of the Supervisory Board on 12 April 2005. The auditors attended the meetings of both bodies. They reported on the material findings of the audits and were available for supplemental information.

Following its own examination, the Supervisory Board concurred with the audit findings and approved both the annual financial statements of KSB Aktiengesellschaft and the consolidated financial statements. The annual financial statements are thus adopted. The Supervisory Board concurs with the proposal on the appropriation of net retained earnings submitted by the Board of Management.

Dependent company report

The auditors also audited the dependent company report prepared by the Board of Management in accordance with section 312 of the AktG. The auditors issued an unqualified 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, or that disadvantages were compensated;
3. there are no circumstances relating to the measures listed in the report that would indicate an assessment that is materially different from that of the Board of Management.”

The reports by the Board of Management and the auditors were provided in good time to all members of the Supervisory Board and were discussed by the Audit Committee and at plenary meetings. The auditors attended the meetings of both bodies, reported on the material findings of the audit and were available for supplemental information.

Following its own examination, the Supervisory Board does not raise any objections to the findings of the audit and the statement by the Board of Management at the end of the dependent company report.

Composition of the Supervisory Board and the Board of Management

As mentioned in last year’s report, Klaus Kühborth was appointed to the Supervisory Board by the court with effect from 1 January 2004. He succeeded the late Dr. Gerd Kühborth.

Dr. Dr. Peter Bettermann resigned as Chairman and member of the Supervisory Board with effect from 26 November 2004. Peter Schubert was appointed by the court as a member of the Supervisory Board on 2 December 2004 and was then elected as Supervisory Board Chairman at its next meeting on 13 December 2004. Peter Wurzbacher left the Company’s Board of Management on 31 May 2004. His functions were assumed by the other members of the Board of Management. The Supervisory Board extends its gratitude to the two retiring members of the executive bodies for their commitment and constructive work to further the best interests of the Company. The Supervisory Board would also like to thank the Board of Management, all employees and the Works Council for their commitment and conscientious work during the year under review.

Frankenthal, April 2005
The Supervisory Board

FLOATING FUEL CARRIERS

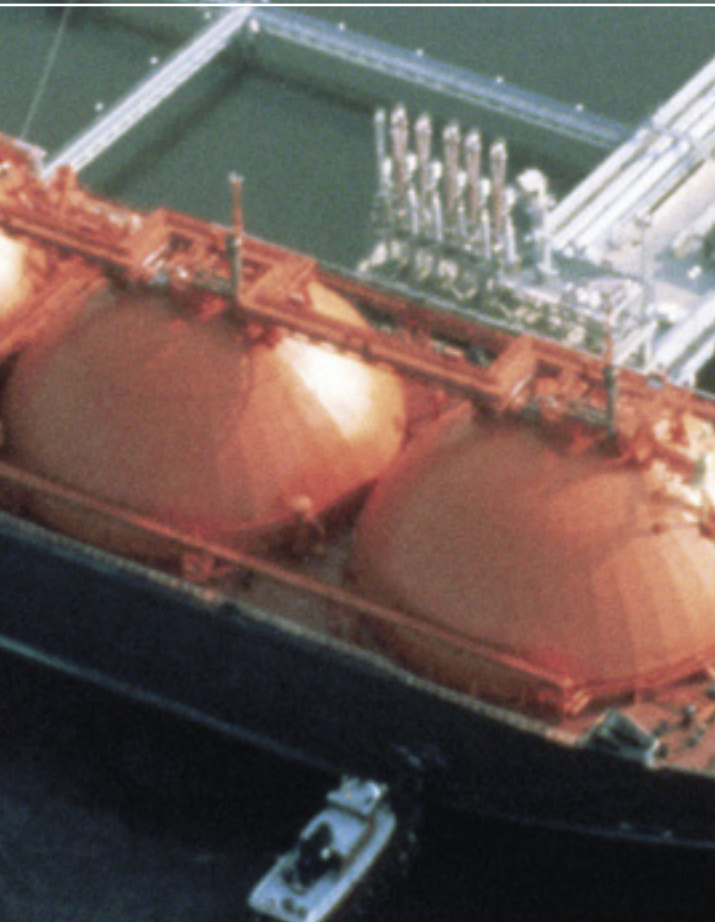
Natural gas cannot be transported everywhere in pipelines. So it is often shipped from the producer to the consumer countries in special tankers. For this purpose, the gas is liquefied at minus 162 degrees Celsius and thus compressed to one six hundredth of its normal volume.

The safe transport of this highly explosive medium is ensured by special butterfly valves which can be relied upon to close even at extremely low temperatures. With a new, multi-functional coupling system from KSB, liquefied gas tankers can be loaded on the open sea.



safe

Transport on the high seas



Customer support consultant Antoine Casteleyn plans the use of special butterfly valves on liquefied gas tankers.



KSB solutions for the energy industry: efficient, safe and reliable

Without energy, very little happens in everyday life and work today. This is why the issue of energy security is becoming increasingly important. KSB contributes to meeting the challenge: with innovative solutions for the effective production and use of energy as well as the transport of fuels.

Focus on security of supplies

Power plant operators are under enormous financial pressure. They constantly have to work on improving the efficiency of their plants and making ever more efficient use of the fuels used. One means to achieving this is to increase boiler pressures and temperatures. This places ever higher demands on components. Pressures up to 520 bar and temperatures up to 600 °C are not unusual. Even under these extreme operating conditions, the technical equipment has to work reliably.

KSB offers a mature range of pumps and valves for use in power plants. All around the globe, KSB products today are busily pumping and controlling boiler feed water, cooling water and condensate. And these products not only meet maximum process requirements, but also offer the highest levels of efficiency as they do so.

Natural gas – fuel of the future

In view of dwindling oil reserves, natural gas is becoming increasingly important. Accordingly, it is predicted that the share of natural gas in global primary energy consumption is set to rise sharply. In 2030, almost half the electricity generated will come from gas power plants. The problem is that gas cannot be transported everywhere via pipelines. To solve this problem, natural gas is liquefied at minus 162 °C and thus compressed to a six hundredth of its normal volume. On the coasts of gas-exporting countries, this liquefied gas is loaded onto ships equipped with special tanks. These floating fuel carriers transport the liquefied gas to the consuming countries, where it is returned to its gaseous state and fed into pipelines.



Choosing the right kind of state-of-the-art pumps and drives means choosing added efficiency.

For safe offshore loading of the tankers, KSB has developed a multi-functional coupling system together with partner companies. With this solution, the docking function and gas isolation are kept technically separate. This enables the docking manoeuvre to be carried out also in rough seas. Key components in this patented system are two butterfly valves. If a tanker has to be disconnected from the docking station very quickly in an emergency, these two valves automatically close. During this process, less than two litres of liquefied gas escape into the atmosphere. In the development of the butterfly valves, which can cope with extremely low temperatures, we were able to draw on our many years' experience in the equipment of liquefied gas tankers. In Japan and Korea, shipbuilders have already fitted 90 tankers with these special KSB valves.

Energy-efficient solutions are gaining ground

Electric motors driving equipment in industry today still need a lot of power. By selecting the right pumps and drives, however, substantial increases in efficiency can be achieved. Better efficiency means less energy consumption. Our engineers are therefore constantly in search of energy-efficient solutions. These include state-of-the-art variable speed drives which help match pump performance – and thus the power input – exactly to varying system requirements.

It is our goal to keep improving the energy utilization of pumping installations. Worldwide, pump systems account for almost 20 percent of electricity consumption. Through more

efficient pump units, German industrial companies alone could save an annual 15 billion kWh. A system's energy consumption depends on the design of the pump and its associated drive, their proper selection and the operating conditions of the entire system. These factors must be carefully balanced. The Pump Expert monitoring and diagnostic system developed by KSB opens up new possibilities: it analyses data that are important for reliable and energy-efficient operations. We have also developed a software which helps us identify energy-saving potential for our customers.



Lothar Ludwig from KSB in the Greppin biodiesel plant



As a renewable energy source, biomass helps conserve other resources. KSB is committed to supporting alternative energy production.



KSB actively supports energy efficiency programmes

The European Union launched an energy-saving programme at the beginning of 2003 aimed at substantially reducing electricity consumption in industry. Companies which supply equipment and services for motor-driven systems can take an active part in this “Motor Challenge Programme” as “endorsers”. On 5 February 2003, KSB became the first pumps manufacturer to be recognized as an endorser.

The end of 2004 saw the start of a nationwide campaign in Germany for “Energy-efficient systems in business and industry”. This is aimed at facilities in all sectors. In Germany, motor applications account for about 65 percent of industrial electricity consumption. There are many opportunities for savings which have not been exploited to date. KSB is supporting the project in order to develop this potential.

Saving costs through energy recovery

Supplying people with drinking water is one of the greatest tasks for the future. In many parts of the world, this can only be done through the desalination of seawater.

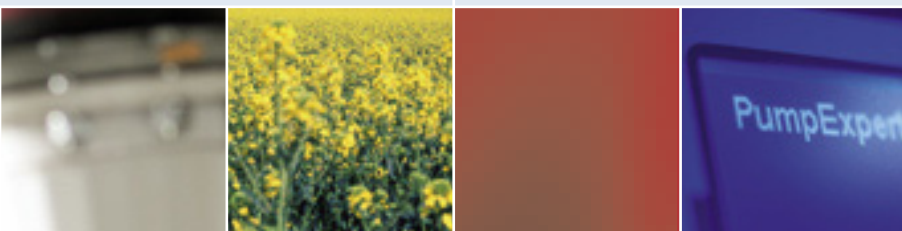
SalTec, a new system developed by KSB, considerably improves the energy balance of systems that operate on the principle of reverse osmosis. This technology allows the energy contained in brine to be recycled into the desalination process. As a result, the production costs of desalinated water are markedly reduced compared with conventional systems.

Very high pressures are needed to desalinate seawater. The seawater is pumped along filter membranes. In the process, part of the water diffuses through the semi-permeable membranes and is led away as desalinated water. The salt dissolved in the water is retained by the membranes. With the KSB system, the high pressures still present after the desalination process can be converted back into useful energy. In this way, losses are avoided, and operators can save up to 30 percent of energy costs compared with conventional turbine systems.

KSB is the first manufacturer to offer a complete core hydraulic system for the reverse osmosis process. It consists of energy recovery and control equipment, as well as high-performance



Hydraulics specialist Dr. Thillainatarajan Ravisundar discusses technical details with design engineer Nora Müller.



pumps for feeding the water into the system. A pilot system has been running on the test rig in Frankenthal since August 2003 and in a reference system in Egypt since May 2004.

Pointing the way forward: electricity from biomass

Reserves of fossil fuels such as oil, natural gas and coal are limited. And increasing environmental pollution, such as climate-changing emissions also suggest it is time to switch to renewable sources of energy.

Biomass is a fuel with chemical binding energy. This energy is based on the ability of plants during photosynthesis to convert the light energy irradiated from the sun into biochemical energy. Plants thus enable us to make use of solar energy in the form of leaves, trunks, bark and wood. The increased use of biomass helps to ensure a sustainable easing of the burden on our environment. Energy production in this case is virtually climate-neutral: each time only as much carbon dioxide is generated as the plants have absorbed during their growth.

Bioenergy has the great advantage that it is available at all times – bound up in the biomass. It thus makes an important contribution to the security of energy supplies. As a renewable source of energy, biomass helps to conserve the planet's fossil resources. Today its possible uses in industry are already very effective thanks to much improved technology. KSB, too, is represented with its own products in the area of alternative energy production.

Biodiesel: fuel from renewable raw materials

The economic and ecological facts are on its side. Biodiesel is a fuel with a future. The advantages are clear: biodiesel does not contain any sulphur; it markedly reduces particle emissions and is rapidly biodegradable. Year after year, the raw material for biodiesel production can, for example, be seen growing in the fields of oilseed rape blazing with yellow flowers. This makes us more independent of the limited oil reserves at our disposal.

Germany already occupies a leading position in this area of technology. In the chemical industrial park of Bitterfeld, rape methyl ester is obtained from oilseed rape crops. Around 500,000 tons of this renewable resource produce 170 million litres of fuel a year. Transporting the various media, such as rapeseed oil, fatty acid, methanol, hydrochloric and phosphoric acid or cooling water, calls for a mix of pumps of a wide variety of designs. KSB fitted Europe's largest and most modern biodiesel plant with all its pumps.

Driven by energy

Whether it is a question of classic energy production or the use of alternative technologies: KSB is successfully engaged in many areas concerned with the issue of energy. In the future, we shall continue to focus our experience and power of innovation on further improving our range of pumps and valves for power generation. In addition, we will be developing energy-efficient products, so that we can help save not only costs but also valuable resources.

forward-looking

Making efficient use of energy



With the development of the PumpDrive control system, KSB engineers like Steffen Horchler (left) and Daniel Gontermann have opened up new opportunities for reducing the energy consumption of large industrial pumps.



KSB HELPS TO SAVE ENERGY

Pumps consume a lot of electricity. Variable speed drives substantially reduce their power input – in Germany alone, users could save an annual 15 billion kilowatt hours.

KSB's PumpDrive control system matches performance exactly to varying requirements. Operators can thus considerably reduce the energy consumption of pumps. Units already in place can be easily upgraded with the new control system.



FROM OUR GROUP OPERATIONS

EUROPE

- > Healthy demand in Eastern Europe and in plant engineering exports
- > New fields of application for industry and water pumps
- > Sustained order growth in the service sector



Large block-forged shut-off valves produced in Pegnitz for use in power stations

> MARKET DEVELOPMENTS AND BUSINESS TRENDS

Some sectors of the European pumps and valves market showed slight recovery in 2004. However, business continued to be strongly influenced by exports to markets outside Europe, with the newly industrialized countries in Asia and Eastern Europe acting as drivers of growth.

In Europe, the industry and energy market segments grew comparatively well. The water, waste water and building services segments with their greater dependency on the domestic market lagged well behind this growth. To some extent, the waste water sector continued to profit from the need of some countries to adjust to EU environmental standards.



Strong growth of orders in the industrial and service business

Europe was again the most important market for KSB in 2004, the largest individual markets being France and Germany. The most marked year-on-year growth in orders was reported in industry and process engineering, as well as in the service segment. A major share of the business with pumps and valves came from international engineering contractors, who benefited from growth outside Europe.

➤ PUMPS AND VALVES

With high-quality engineering, energy-saving products and an excellent service, KSB again proved to be an attractive partner for its European customers in 2004. Many companies across all sectors, i.e. industry, energy, water, waste water and building services, drew on our experience as a provider of all-in solutions to reduce the number of their suppliers and thereby strengthen their business.

Industrial pumps for biofuel production

Business with pumps and valves for industrial applications was essentially based on orders from plant engineering contractors and the chemicals industry in Germany, as well as on orders from the new EU member states Poland and Hungary. In addition, our business with butterfly valves grew well in Finland.

A new focus of activities emerged with orders for the construction of plants in which ethanol or diesel fuel are produced from renewable resources. In this field, which is set to become increasingly important in view of rising oil prices and EU targets for environmental protection, KSB products hold a leading position. In 2004 we received eight orders, some of them of major value, to equip biofuel production plants with pumps and valves.

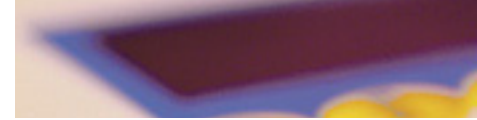
A key success factor for these orders was the breadth of our product portfolio. Bioethanol and biodiesel producers made use of this versatile range to pump solids, crude products, water, acids, alkaline solutions and oils, or to control the flow of these fluids by means of suitable industrial valves.

In 2004, we added a new high-pressure pump to our portfolio for industrial and process engineering applications. And we included additional pumps and valves series in our product range for thermal oil transport.

We also enjoyed success on the market with our new PumpExpert monitoring and diagnostic system and with pumps equipped with variable speed drives. When making their investments, our industrial customers opted for products featuring well-matched automation technology to achieve a sustained reduction in operating costs.

Waste water projects in Southern and Eastern Europe

A key feature of the waste water engineering market was the building of new pumping stations, sewage plants and treatment systems in EU accession states. These states had Community funding at their disposal for adapting to EU environmental standards. The operators of waste water facilities in some South European countries were also modernizing their plants in order to meet EU environmental guidelines. In Central and Western Europe, the trend towards large systems called for new pumping stations. These serve to connect relatively remote waste water collection points.



Our customers in Poland, France and Italy in particular took advantage of our range of waste water pumps and mixers. In France, two large sewage treatment plants in Paris and Marseille are being extended with KSB equipment; in Poland we are fitting three new plants, including the largest sewage works in Cracow.

In Germany, where waste water treatment has already reached a very high level of engineering, order intake lagged behind that of the previous year as a result of the continuing financial constraints public sector customers are faced with.

Aiming to make even better use of the market potential in Europe, we recruited new waste water specialists as account managers in a number of countries in 2004. In user forums we familiarized plant engineering contractors and customer personnel with our waste water engineering products and services.

Submersible borehole pumps for water supplies

In water management, we were particularly successful with our technically revised submersible borehole pumps. A major impetus in this field came from orders placed by Austrian engineering contractors who were engaged in the Balkan countries, amongst other areas, to expand and modernize water supply facilities. Orders from French and German water supply companies, on the other hand, were mainly intended to meet demand for the replacement of pumps on their well fields.

As well as for water recovery, we also offered our submersible borehole pumps for use on drilling rigs with great success. Large submersible borehole pumps of Duplex steel or aluminium bronze are deployed on rigs in the North Sea and the Mediterranean, where they are primarily employed to supply ballast systems with seawater.

Power generation products for international contractors

Energy supplies in Europe are largely secured. Apart from a few new power plant facilities and modernization projects, the main focus was therefore on servicing the needs of engineering contractors with international operations. We supplied these customers with boiler feed, cooling water and condensate pumps, as well as with high-quality butterfly valves.

In the context of new power plant construction projects in other regions, our European products are increasingly being complemented by locally produced pumps or valves. The motivation behind this is to exploit cost advantages or to meet the demand of customers for products from local manufacture.

Building services for industrial facilities

The market for building services products suffered from the continued weakness of the building industry in 2004, especially in France and Germany. This affected the construction of both private and public buildings.



An award-winning display makes for easy and intuitive use of the PumpDrive control system.

In view of the strong pressure on prices in the distributor sector we continued to concentrate on the project business. This includes equipping large facilities such as airports, hotels, office complexes and industrial facilities. Our engineering skills in designing heating, air-conditioning, water supply and building drainage systems were put to good use. In some cases we were involved as early as in the planning phase, enabling us to obtain a number of major orders.

Projects included furnishing two chip factories in Dresden with pumps, valves and control systems. KSB butterfly valves are being used here, for the first time in Europe, in clean room applications.

We were involved in the construction of a new production complex by a Swiss watch manufacturer, supplying 18 different pump and valve series. The scope of the order also covered the installation and start-up operations for our systems.

Other complexes we equipped in 2004 included sports and cultural facilities such as La Scala Opera House in Milan, the Olympic facilities in Athens and the ice-skating rink on one of the platforms of the Eiffel Tower in Paris.

➤ SYSTEMS BUSINESS

Our system engineering activities in Europe were focused primarily on the waste water management sector. As well as the construction and equipment of waste water pumping stations, the supply of systems designed to clean stormwater tanks automatically was a dominant feature of our business. In this growing market, KSB enjoys a clear competitive advantage thanks to the flexibility of the cleaning system used.

The planning and construction of small to medium-sized waste water pumping stations and sewage lifting units constituted another core element of our European activities. Our systems specialists also focused on the development of ongoing large projects in the Middle East and North Africa.

➤ SERVICE

With a team of 1,200 service specialists and 66 service centres, KSB is a leader throughout Europe in providing services for pumps, valves and rotating machinery. The scope of performance ranges from installation, inspection and repair through to complete responsibility for the reliable operation of systems.

In 2004, as in previous years, KSB Service managed to cut an impressive figure with its range of services. Despite a stagnating market, clear increases in order intake and sales were reported. A key service activity was our maintenance work in the power plant sector, where numerous pumps or valves from different manufacturers were dismantled, checked, repaired and re-installed in short periods during scheduled plant downtime. Thanks to the skills and strengths of its team, KSB offers a unique selling proposition in this field.



Regular inspections were especially in demand in municipal facilities. Around 1000 utilities have concluded agreements which guarantee continuous functional and safety-related inspections of their systems. In addition, KSB offers remote monitoring of systems to municipal authorities, power plant operators and industry. Through the integration of monitoring technology into service concepts, both operational faults and failures can be detected and displayed. This enables operators to increase the safety and availability of their systems and to reduce maintenance costs.

We stepped up our regional market coverage through acquisitions. The purchase of an Italian company with sites in Rome, Venice and Assemini (Sardinia) will improve service operations for the 180 power plants in the country. On the Canary Islands, which amongst other things have 150 seawater desalination plants in operation, KSB has established a new service company. Based in Las Palmas on Gran Canaria, the company will provide support for equipment in the power plant and waste water segments, as well as for water pumps.

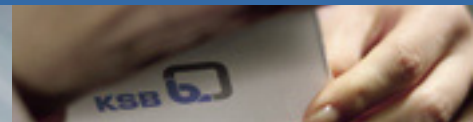
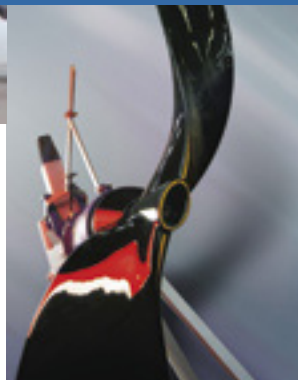
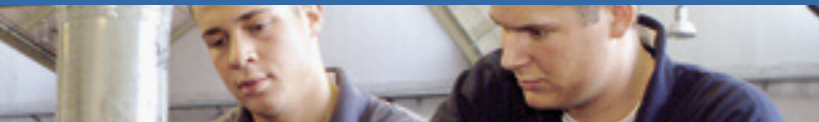
In line with our service strategy, we are continuously broadening the technical skill base of KSB service operations.

There is a growing trend among customers to have their systems serviced by just a few providers. We are responding to this demand by continuously broadening the technical skill base of KSB service operations, in line with our service strategy. Following the acquisition of some specialized operations and the subsequent transfer of know-how, KSB today is able to take on service work for motors, ventilators, fans, blowers and feed screws, as well as various compressors. Customers are making increasing use of this option.

> **OUTLOOK**

In industry we expect the slight economic recovery to continue in the current year. We aim to grow above all through taking advantage of new opportunities in Eastern Europe and increasing our market share in some countries of Southern Europe. We shall expand our standard business with industrial pumps in Europe. At the same time we shall push ahead with marketing our automation products, which offer customers cost benefits in both the medium and the long term.

In the waste water business, emphasis will be on the equipment and modernization of plants in Eastern Europe. The EU states of Southern Europe, too, have considerable catching up to do in terms of ensuring that the technical equipment of their plants complies with EU standards. We see good opportunities for business growth here, where we are one of the few full range suppliers who can offer its customers a versatile range of pump types and mixers. KSB automation products are also beginning to make an impact in this segment of the market.



KSB developed self-cleaning propeller blades for the Amaprop 2500 mixer.

While drinking water supplies in Northern and Central Europe are largely secured, new supply installations are planned in some countries of Southern Europe. Seawater desalination is gaining importance in this area. Our product range for recovering water from the sea reflects how we have adapted to this growing demand. In Spain, where more than 20 seawater desalination plants are to be built in the next few years, our company Bombas ITUR has set up a sales team to ensure optimum development of this market.

In the energy industry, there is a global trend towards power plants with very large capacities. In Germany, too, power plant units with nominal outputs of more than 1000 MW are under review, and we have the engineering skills to enjoy a share of this business. Aiming to improve the quality of the air in accordance with the Kyoto Protocol, operators in Western Europe increasingly opt for combined cycle power plants. Our portfolio includes a leading, technically advanced range of pumps and valves for these plants, which generate only a third of the emissions produced by coal-fired power stations.

The forecasts of the building sector do not suggest that any growth in the demand for building services can be anticipated, except in Eastern Europe. But by stepping up marketing efforts in selected countries, we shall increase our market share further.

To bring KSB strengths more effectively to bear in the systems business, we have been concentrating since the beginning of the year on so-called “functional tenders” in the award of public sector contracts. These less detailed tenders will enable us to offer our customers technically advantageous alternatives and thus show them ways of minimizing the operating and maintenance costs of a system in the long term. We also consider the equipment of stormwater tanks to be a growth business.

In the market for pump- and valve-related services we cannot at present expect to see a substantial improvement. As in previous years, KSB seeks to achieve growth from within. For this purpose, we are developing innovative service concepts. These enable us to offer customers tailor-made services ranging from individual assignments via ongoing service through to operations management models. Through strategic acquisitions we shall close regional gaps in Europe where such gaps still exist.

EASTERN EUROPE / MIDDLE EAST / AFRICA

- > Higher demand in oil-producing countries
- > Development of water supplies in the Middle East
- > Service business continues to grow



In a new pumping station for Istanbul's drinking water supply system, six KSB tubular casing pumps transport 43,000 cubic metres of water per hour.

> MARKET DEVELOPMENTS AND BUSINESS TRENDS

KSB is represented in the Region Eastern Europe / Middle East / Africa by six companies of its own and a number of KSB sales offices and partner companies. The two subsidiaries in South Africa and Turkey are consolidated in the Group's financial statements. Regional Management Europe has been responsible for the KSB companies in the new Eastern European states of the EU since the beginning of 2004.

Market developments in the Region were marked by a boost in demand from oil- and gas-producing countries, including Russia. An exception was Libya, where only very few government contracts were awarded.

In Bulgaria and Romania, which are considered candidates for EU membership in 2007, infrastructure projects co-funded by Brussels helped to stimulate demand for equipment.



Our Group company in South Africa reported a double-digit percentage rise in orders in 2004 and thus further extended its market share. A major share of this growth stemmed from the supply of pumps to industry and the mining sector.

KSB Turkey increased its order intake in local currency terms, but remained at the previous year's level after translation into euros. Growth was achieved in the water, energy and service sectors. In the year under review, the company modernized its IT systems and expanded its production facilities.

➤ PUMPS AND VALVES

Equipment of water pumping stations and sewage works

Infrastructure projects in the water and waste water management sector formed a key focus of our activities in the Region. In Russia, this included equipping what will be the country's largest sewage treatment plant with waste water pumps and submersible motor mixers. This plant in Moscow will commence operations in the middle of the year. From Bulgaria we received orders for the delivery of two water pumping stations.

Infrastructure projects in the water and waste water management sector formed a key focus of our activities in the Region.

In the Eastern Mediterranean and Middle East markets, where water supplies play a vital role, we succeeded in winning new orders especially in Abu Dhabi, Egypt, Saudi Arabia and Turkey. This included the modernization and rehabilitation of seawater desalination plants.

KSB South Africa is well represented in the market for irrigation and water supply equipment, especially with standardized water pumps and small high-pressure pumps. Order intake for these pumps rose again in 2004 compared with the previous year. Orders also came in for equipping water pumping stations with locally manufactured, multistage high-pressure pumps and KSB pumps from the Global Manufacturing Network.

Power plant order from Russia

We have been engaged for many years in the modernization of boiler feed pumps in Russian power plants. By replacing pump shafts and impellers, we are improving the efficiency and reducing the energy consumption of these pump sets. At the same time we are increasing their availability.

Against the background of this successful work, Russia's largest power plant engineering contractor placed an order with us in 2004 within the scope of a project in India. From 2006 onwards, we shall equip three 660 MW power plant units there with more than 20 boiler feed and condensate pumps. The order value in euros is running into eight figures.

Building services in the Middle East

As a result of population growth, the demand for building services equipment is on the increase in some countries of the Middle East. We are serving this market increasingly through KSB Middle East, which we established in 2003 with headquarters in Dubai. In the year under review, for example, we equipped the largest shopping centre in the Middle East with pumps. And we also received an order for the extension of the international airport in Dubai.

In Saudi Arabia, we are involved in an Ministry of Education project to build 500 new schools. Amongst other things, booster systems are needed which increase the pressure of the public water supply system to match the requirements of school facilities.

KSB Turkey likewise enjoys an attractive business with pressure-boosting equipment. The systems manufactured by the company itself in Ankara are fitted with high-pressure pumps from our Dutch producer DP industries.

Pumps and valves for the mining sector

The mining market in Africa is serviced by our competence centre for slurry pumps in Germiston (Johannesburg). At this South African site, we are manufacturing two series of these special, highly wear-resistant pumps specifically for the needs of the continent. We increased our order intake for these pumps in Africa by around 30 percent in 2004. This included orders received by KSB South Africa from Guinea, Senegal and Zambia.

As well as pumps, we also produced diaphragm valves in South Africa for use in the mining sector. These are sold not only in Africa, but also in Australia and New Zealand under the brand name SISTO-KSB. A second series of diaphragm valves is manufactured in Germiston for industrial use.

SYSTEMS BUSINESS

In Turkey, a small team of systems specialists has been engaged for two years in designing complete pumping stations. The successful work of these experts in the year under review included three large orders for the equipment of pumping stations for the transport of drinking water.

The systems business in Egypt is also enjoying good prospects. For example, we received an order to fit two irrigation stations with pumping equipment. We also took on the complete engineering work and the supply of electrical equipment for these stations.



Nori 500 high-pressure valve used in the start-up and stopping processes of power plant turbines

> SERVICE

Our Turkish company provided support for its market through its own two service centres in Ankara and Istanbul, as well as through a network of 16 service partners. A key focus of KSB services was the maintenance and reconditioning of pumping systems in industry and in power plants.

To create more continuous business in this area and to offer customers a high degree of reliability and availability of their systems, KSB Turkey is concluding long-term service agreements with interested customers. To date, it is largely automobile manufacturers and sub-suppliers who have taken advantage of this offer of ongoing support.

KSB Service LLC in Abu Dhabi is in charge of service operations in the United Arab Emirates. In 2004, the company won a major order for the overhaul of about 30 pumps in a power station linked with a desalination plant.

In September 2004, we set up a joint venture service centre in Casablanca. With an initial 20 service specialists we are providing support for Moroccan customers in the petrochemicals industry, as well as the energy and waste water sectors. The newly established Techni Pompe Service Maroc also handles service orders in Algeria and Tunisia.

KSB South Africa has doubled its service business in the last five years. To continue this development, the company deployed local service teams in the country's major industrial regions.

> OUTLOOK

In the current year, a positive business development can be expected in a politically stable and economically favourable environment. In Eastern Europe, the main emphasis for KSB will be on expanding its presence in Russia. This will include new sales offices and a wider range of services.

There is a high and sustained propensity to invest not only in Russia, but also in the oil- and gas-producing countries of the Middle East. After a two-year pause in investment activity, even Libya will set about tackling water supply and waste water disposal projects which have been postponed until now. Africa will see growth not only in the Republic of South Africa, but probably also in Egypt, and this will ensure an increased demand for pumps and valves.

In Eastern Europe, the main emphasis for KSB will be on expanding its presence in Russia.



ASIA / PACIFIC

- > Orders boom in China
- > Strong growth in industrial and energy business
- > Service presence further improved

> MARKET DEVELOPMENTS AND BUSINESS TRENDS

The demand for capital goods in 2004 increased again within a good overall business environment. The most dynamic economy was that of China, which achieved growth of more than 9 percent. In India, Pakistan and Thailand, the gross domestic product grew by between 6 and 7 percent.

The pumps and valves market showed a correspondingly positive development. The strongest stimulus came from demand in the energy sector and in industry. As a result of the growing importance of environmental standards in the Region, there was also a rising potential in the waste water engineering and flue gas desulphurization markets. A further interesting business area was the supply of special valves for use on ocean-going tankers built to ship chemicals and liquefied gas.

In a market shaped by tough competition, the KSB companies consolidated in the Group – as well as the non-consolidated companies – again showed a very healthy development in their overall business. Only the increase in the value of the euro had a dampening effect for some sales and marketing organizations with a high proportion of imports from Europe.

Order intake increased by about 20 percent

In the Region Asia / Pacific, demand grew in almost all market segments. The Group companies profited from this positive trend and increased their order intake and sales revenue by more than 20 percent overall compared with the previous year. As a result they also improved their market share. In terms of the respective local currencies, the rate of growth was even higher.

Our Chinese joint venture KSB Shanghai boosted its order intake in its tenth year of business by almost two-thirds and remains number one in the country's pumps market. The dominant factor here was the energy sector, which accounted for more than half of the order volume.

Our strongest company in the Region, KSB Pumps Limited of India, also reported a substantial improvement in order intake and sales revenue, and achieved a higher return on sales at the same time. With five production centres and a broad product range, it remains the second-largest manufacturer of pumps and valves on the sub-continent. Particularly outstanding in 2004 were the orders received for pumps from the power plant sector and the oil industry.



Volute casing pump designed to ANSI standards



Despite more intense foreign competition, MIL Controls Limited also succeeded in defending its market share in India. This company specializes in the manufacture of control valves.

KSB Pakistan, the country's leading pumps manufacturer, profited in 2004 from investments in industry and in new water supply and waste water disposal installations. The order volume of KSB Ajax in Australia grew mainly as a result of increased orders in the waste water and mining sectors; the company's power plant business also picked up.

Of the non-consolidated companies, KSB Hong Kong in particular reported a sharp jump in order intake for pumps and valves. The products imported by the company were primarily intended for energy supply and flue gas desulphurization, as well as for water and waste water systems.

Our companies in Indonesia, Japan, Singapore, Taiwan and Thailand also filled their order books with purchase orders for imported products. In the process, some of them achieved double-digit year-on-year growth rates. The companies in Japan, Singapore, Taiwan and South Korea took on important tasks in the support provided to international plant engineering contractors and shipbuilders.

New sales offices strengthen market position

Aiming to strengthen our position in the Asian markets and operate in close proximity to our customers, our companies in Indonesia and Korea established new sales offices. KSB Singapore expanded its sales activities in Malaysia and for this purpose increased staffing levels at its subsidiary KSB Amri Malaysia. This company is based in Kuala Lumpur and also covers the market in the Philippines.

> PUMPS AND VALVES

In 2004, the Asian / Pacific markets were mostly supplied with pumps and valves from our factories in Australia, China, India, Indonesia and Pakistan. Despite the unfavourable euro exchange rate, a sustained demand for products sourced from Europe was reported. We also supplied pumps for flue gas desulphurization from the USA to Asia.

Increased demand for industrial pumps and valves

In many Asian countries, there is a considerable pent-up demand for the equipment of local industrial facilities. There is also a high level of investment from foreign companies wanting to share in the economic growth. The main focus in the Region is on China and India as the most important markets of the future.

In China we have started to manufacture standardized pumps for the chemicals industry that comply with international quality standards. In 2004, these products were already much in demand and went, for example, to large companies with global operations which are establishing new chemicals plants in the Region.

KSB Taiwan further expanded its business with industrial pumps, especially in the semiconductor and glass fibre segments. To ensure rapid on-the-spot deliveries to customers, the company started with the assembly of standard pumps in Taichung in 2004. To service the biochemical and pharmaceutical industries in the Region, the company imported diaphragm valves from our Luxembourg subsidiary SISTO Armaturen S.A. and developed appropriate consultancy skills.

In 2004, KSB India witnessed strong growth in many classic sectors of industry, which led to an increased order intake for pumps and valves made to ANSI standards. The company won large orders from the refinery sector in the context of modernization and expansion programmes.

Our Pakistani company increased its order intake in the industrial business, with major emphasis on demand from the sugar industry. KSB Indonesia supplied in particular the palm oil industry with heat transfer fluid and high-pressure pumps. Our company in Thailand collaborated on the continued expansion of the chemicals industry in the country.

For the Asian shipbuilding industry, we supplied butterfly valves needed in tankers for liquefied gas and chemicals. Our company in Korea profited from a strong foothold in this growing market. In 2004, for example, it received an order to equip more than 20 new chemicals tankers with these special valves.

Environmental protection regulations boost demand for pumps

Stricter waste water management directives led to the planning of new sewage works in China, for which pumps, agitators and mixers are needed. Outstanding features were orders for plants in Harbin, north of Beijing, and in Shenzhen in southern China. In addition, KSB Shanghai and KSB Hong Kong imported 35 large tubular casing pumps from Germany to equip flood control pumping stations. Taiwan, too, saw a high and sustained demand for pumps for flood control applications. This demand was handled by our local company with pumps from Shanghai and Halle.

In India, submersible borehole pumps from Pune and Nashik are used for obtaining water supplies from wells and reservoirs. In view of the very heavy monsoon rains, demand for these pumps in 2004 was lower than in the previous year. There was a sustained strong demand, however, in drainage and waste water disposal, for which KSB launched new submersible motor pumps onto the Indian market. Environmental protection standards are becoming increasingly important in this segment.

New pumps for waste water applications were also introduced successfully by KSB Ajax. Companies in Australia ordered these for large waste water treatment projects in Queensland and Victoria. Several large orders were also received by KSB Pakistan for new water supply projects.

In Singapore, 2004 was a successful year for us with our range of equipment for seawater desalination plants. Our local company won an order to deliver 40 high-pressure pump sets made of stainless steel for conveying seawater.

Expansion of energy supply business in China and India

The demand for energy in the Chinese economy requires a major expansion of power plant capacity. KSB Shanghai thus tripled its order intake for energy engineering pumps and valves compared with the previous year.

Our company now offers plant engineering contractors and operators a full range of boiler feed, cooling water, condensate and auxiliary pumps from its own production for power plant units up to 600 MW. Current orders include equipment for the construction of new power plants in Inner Mongolia. The high-pressure valves that are likewise needed in power generation cycles are supplied from France and Germany. Pumps for power plant units with higher outputs also come from Germany.

In India, the expansion of energy supplies is one of the most important infrastructure projects. As one of the two market leaders in power plant pumps and valves, KSB India was able to take an active part in stepping up power plant capacity. In 2004, this included not only equipping classic utility power plants but primarily also fitting combined cycle power plants. Our Indian production company for control valves, MIL Controls, also serviced the growing power plant market with its products.



HGM-RO high-pressure pump made of corrosion-resistant duplex steel

Slurry pumps for the Australian mining sector

Customers in the mining sector in the Region Asia / Pacific were supplied mainly with products from our US American slurry pumps manufacturer GIW. The main focus was on hydrotransport of the ores from which bauxite, gold and copper are extracted. In 2004, KSB Ajax showed an impressive performance in the hotly contested Australian market with pump offers for two large bauxite and zinc mining companies. In Indonesia, we entered the market for drainage of coal mines.

> SYSTEMS BUSINESS

All-in water and waste water systems are offered by the KSB companies in India and Pakistan with their own in-house teams. The range of services includes engineering, the equipment and the construction of pumping stations for water and waste water management. In 2004, KSB Pakistan in particular increased its capacity in order to participate in this market on a larger scale than previously.

In Australia, the main focus of the systems business was on the supply of fire protection systems. A newly set-up team, which focuses exclusively on the engineering, production and sale of these systems, ensured an even faster servicing of this market. It reduced delivery times for KSB fire protection systems to a third and at the same time noticeably improved the cost position in what for KSB Ajax is an important market.

> SERVICE

In the Region Asia / Pacific we further expanded our service business in 2004. During the year under review, the Group companies achieved high growth in service orders and also higher profitability.

To meet the increasing demand for services in power plants, KSB Shanghai recruited additional staff and had service engineers trained in Germany for these tasks. At the production site in Shanghai, the company built a new repair centre with a spare parts warehouse over an area of 1,100 m². Today more than 50 people are employed there.

Our companies in Taiwan and Pakistan established new service centres to provide faster and better service to their customers.

> OUTLOOK

Growth in the Region Asia / Pacific will continue, driven by the Chinese and Indian economies. However, the rates of growth are likely to be lower. In the current year, investments can be expected in industry, the power plant sector, including flue gas desulphurization, and in water and waste water engineering.

The expansion of energy supplies and industrial capacity will again open up good business prospects in these market segments, especially for our companies in China and India. KSB Pakistan will profit from projects in the water and waste water sectors. In other countries of the Region, too, new projects are planned to improve water supplies and meet stricter requirements in waste water treatment.

As a result of high commodity prices, the mining industry in countries such as Australia, China, India and Indonesia is stepping up its investment activities. This offers our Asian / Pacific companies sales opportunities, especially with pumps for the hydraulic transport of solids.

High growth potential for KSB can also be seen in the service segment, whose share of the overall business will continue to increase. The market offers good growth opportunities for turnkey projects. In 2005, we will be making a first start in this market segment in Vietnam.



AMERICAS

- > Improved economic conditions
- > Higher demand for slurry pumps
- > Service activities expanded

> MARKET DEVELOPMENT AND BUSINESS TRENDS

The major countries in the Region Americas saw a positive economic development in 2004. In some sectors of the capital goods industry, the underlying conditions for an expansion of business activities were substantially better than they had been in the previous year. However, opportunities for supplying the market with European products were limited by the increased value of the euro.

The markets in North America offered broader opportunities in mining and industry. In addition, the energy segment in the USA showed some recovery after the dramatic slump in demand of the previous years. The water and waste water sectors in the USA reported moderate growth.

The Latin American economies enjoyed a very positive development especially in the second half of the year. The countries with the strongest economies – Argentina, Brazil, Chile and Mexico – each achieved growth of more than four percent in gross domestic product in 2004. Good business opportunities were opened up by increased demand for equipment especially in industry and in the oil and mining segments. Interesting projects were also initiated in the water, waste water and energy sectors.

Both the companies that are consolidated in the Group and the unconsolidated companies reported healthy overall growth in order intake.



Movitec multistage high-pressure pump equipped with PumpDrive control system

Order intake in South America further improved

A particularly positive trend was shown by South American companies, especially in Argentina, Brazil and Chile.

Our Brazilian company marked its 50th anniversary with a very successful performance and further improved its order intake, sales revenue and profitability. Growth contributions stemmed in particular from activities in the oil business and in industry, in mining and in building services. Additional volume came from individual major projects in the water and waste water segments.

In Chile, our local company made the most of opportunities in the growing mining business. The investment activities of customers in this sector were boosted by high prices on the commodities market. This enabled KSB Chile to increase its total order intake by about two-thirds.

Our Argentinian company posted a substantially higher order intake in 2004 than in the previous year, driven in particular by the demand in industry, in the oil business and in the energy sector.

Taking advantage of opportunities in the US market

The three US American KSB subsidiaries – GIW Industries, KSB Inc. and AMRI Inc. – supply products for different applications.

Considerable growth was reported by GIW Industries based in Grovetown / Georgia. The company develops, manufactures and sells slurry pumps, which are needed especially in the mining industry. The company's order intake – in terms of US dollars – showed double-digit growth.

A positive trend was also seen in orders received by AMRI Inc. in Houston / Texas for butterfly valves for the chemicals industry. Order intake development at KSB Inc. in Richmond / Virginia was less favourable. The company supplies mostly the energy and waste water sectors with pumps from European production. In 2004, this business was affected by the unfavourable exchange rate of the euro to the US dollar.

An increase in orders was posted by KSB Mexico. Crucial factors were not only price and product quality but also the short delivery times for products from the company's own production.

Our Canadian activities likewise showed some growth of orders.

> PUMPS AND VALVES

The companies in the Region cover a broad spectrum of applications in industry, water and waste water management and in the power plant sector with pumps and valves from our manufacturing centres in Argentina, Brazil, Mexico and the USA. They offer the same kind of coverage for building services and the mining industry. The product range from the Region is complemented with KSB products from Europe.

KSB Chile made the most of opportunities in the growing mining business.

Quality and reliability make a persuasive case in the industrial sector

As leading pumps supplier in the industrial sector, KSB Brazil successfully engaged in this growing market in 2004. The company's own specialist personnel and an efficient distributor network ensured a rapid supply of KSB products to industrial customers throughout the country. Key success factors were the technical support provided to customers, as well as the high quality and reliability of the products. KSB Brazil is involved in a number of projects of the state-owned oil company Petrobras with the supply of technically sophisticated pumps and valves.

Our companies in Argentina and Chile managed to increase their order intake in the industrial business and thus consolidate their market position. A special focus was on expanding business in the fire fighting market.

In the USA, our Texan valves company AMRI Inc. achieved a growth in orders from industrial customers. This business is based on the supply of special butterfly valves, which are needed in particular for applications in the chemicals, electronics and paper industries.

Strong position in the water market

In the water and waste water management sector, KSB is one of the best known suppliers of pumps in South America. Our local companies supply the Region with a range of products covering a broad spectrum of applications from deep well water supply, via water transport and irrigation, to waste water treatment.

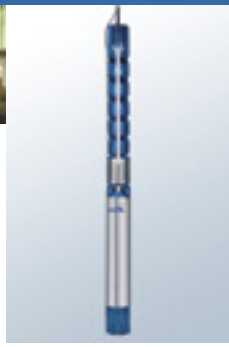
In 2004, KSB Brazil extended the range of submersible sewage pumps produced in the Várzea Paulista manufacturing plant. This step was taken as a way of avoiding currency exchange-related disadvantages. For the same reason, our Mexican company made preparations in 2004 for the local production of submersible motors. These will enter production in the current year.

Substantial order growth in the water business was reported by KSB Chile with pumps for irrigation systems and storm-water pumping stations. Order intake was more moderate in the water and waste water market in the USA, where currency exchange rates did not favour the import of European products.

Rising demand for mining equipment

The investment activity of mining companies in Brazil, Chile and the USA was driven by an increase in demand for metallic minerals. Our organizations in these countries thus focused their efforts on supplying these companies with slurry pumps, process pumps and auxiliary pumps. KSB Brazil stepped up the local production of slurry pumps. Projects included a major contract to supply an aluminium mine with 100 pumps. In our Chilean company's mining business a particular feature of the year was the equipment of a copper leaching plant with special pumps.

GIW Industries in North America continued to perform successfully in the oil sands market. In recent years, technical advances implemented in the hydrotransport slurry pumps manufactured in the USA have substantially contributed to making this source of raw materials even more attractive.



Submersible borehole pump for water extraction from deep wells

➤ SYSTEMS BUSINESS

KSB Brazil developed its business with complete systems for the transport of water and waste water. The company was involved in the modernization of small and medium-sized water and waste water pumping stations. Fire-fighting equipment packages were also among the company's most successful products.

➤ SERVICE

Part of our global strategy is to offer comparably prompt and high standards of service to customers in all regions. With this in mind, we are further expanding our service presence in the Americas.

In 2004, we opened two new service centres in Argentina. From Villa Dolores and Tucumán, our local service specialists provide support primarily for customers in water management and the sugar industry. Our company in Buenos Aires acquired new vehicles that serve as "mobile service workshops". Service business has grown accordingly, helped also by the increased acceptance of service orders for equipment not made by KSB.

Major customers in South America have to an increasing extent entered into service agreements with us to ensure that they have a continuous level of service. In Chile, maintenance agreements with customers in the mining industry and the agricultural irrigation sector now form an important backbone of our service business.

Service business has also grown in Brazil with the help of targeted sales activities and special technical services, such as vibration and efficiency measurements.

In the USA, we pushed ahead in 2004 with the integration into our overall activities of the product support and service capability of Precision Pump and Machine Inc. This company was acquired at the end of 2003 and is based in Bakersfield / California. Its services were above all used by customers in industry and in water management.

➤ OUTLOOK

The economies of North and South America are expected to see a GDP growth of almost four percent in the current year. Good opportunities for successful business activities are offered not only in mining and the oil industry but also by the investments being made by steel mills, the sugar industry and the building sector. In water and waste water management, there are a number of major projects in the offing, which involve equipment items such as pumps and valves.

For KSB Group companies in the Region, we expect to see a further increase in order intake. To make the most of potential business opportunities, we shall focus the marketing of our products and services on the growth sectors mentioned.

Within the context of strengthening our service network, we shall open new service centres in the current year. At the same time, we shall continue to pursue our strategy of making acquisitions with the aim of covering the most important business centres.

KSB PUMPS AND POWER

Electricity for more growth: the booming city of Shanghai has an enormous demand for energy.

This should now be met by the Waigaoqiao plant, China's hitherto largest and most efficient power station. It is fired by domestic coal, and environmentally safe technologies keep CO₂ emissions low. Two new power plant units each generate an output of 900 MW.

In the power plant, huge KSB pump sets are on boiler feed and cooling duty. Since the operators aim to achieve very good levels of efficiency, the boiler pressures and temperatures are very high. Even under these extreme conditions, our pumps do their job safely and reliably.



efficient

Energy for the metropolis

Service manager Zhu Huang Long coordinated the proper installation and start-up of the boiler feed pumps, which were manufactured in Germany.





ECONOMIC ENVIRONMENT

- > Moderate growth in Europe
- > Boom in Chinese economy
- > Increasing competitive pressure

The demand for pumps, valves and systems as a rule lags about six to nine months behind the general economic picture. While some areas of building services respond relatively quickly to economic changes, a longer period can be expected in market segments such as energy engineering before there is any response to economic trends.

In our home market of Europe the major industrial countries again achieved only moderate growth in 2004. In particular, the countries that are our most important markets, namely France and Germany, showed relatively low economic output. By contrast, the new EU countries of Eastern Europe with their considerable pent-up demand for infrastructure and industrial equipment remained a growth driver. The market in Russia started to meet its enormous demand for equipment using income from oil and gas exports.

Thanks to high earnings from the oil business, growth in the Middle East remained strong. The unstable situation in Iraq did not have any major impact on economic development in the region in 2004.

In Asia, the high pace of growth in the Chinese economy was sustained. With its demand, it also had a positive influence on the economic development of other countries. The second large Asian economy, India, likewise showed good growth.

The economic environment in South America improved compared with the previous year. Argentina, Brazil and Chile developed particularly well. The USA, where we continued to serve selected industries, achieved an economic growth of more than four percent.



Tougher competition in growth markets

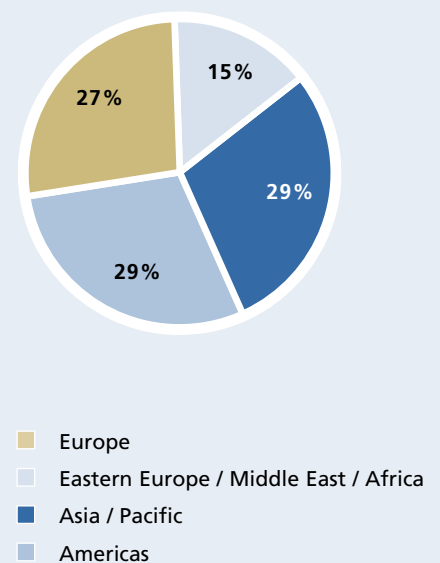
In the pumps and valves sector, the structure of the competitive environment is continuing to change. In 2004, several large pumps manufacturers acquired small to medium-sized companies. They did this to strengthen their own position or to enter new market segments. A notable development was that of a US American company which joined the “top ten” league of pump manufacturers through an acquisition.

In view of the new centres of growth, a number of companies in the industry are concentrating heavily on the Asian and Eastern European markets. This focus is intensifying the competition to offer customers the most attractive solutions.

In Asia especially, KSB can draw on existing sales, production and service structures and use them for expanding the business. In Eastern Europe, where we are likewise represented in several countries with our own sales and marketing organizations, we are stepping up our activities. In Russia in particular, the demand for local added value is increasing. We shall therefore be dealing intensively with this issue in 2005.

The new EU countries of Eastern Europe with their considerable pent-up demand for infrastructure and industrial equipment remained a growth driver.

World market for centrifugal pumps and valves: approx. € 38 billion





BUSINESS DEVELOPMENT

- > Order intake and sales revenue increased
- > Growth programme pushed ahead
- > New organization introduced for KSB Group

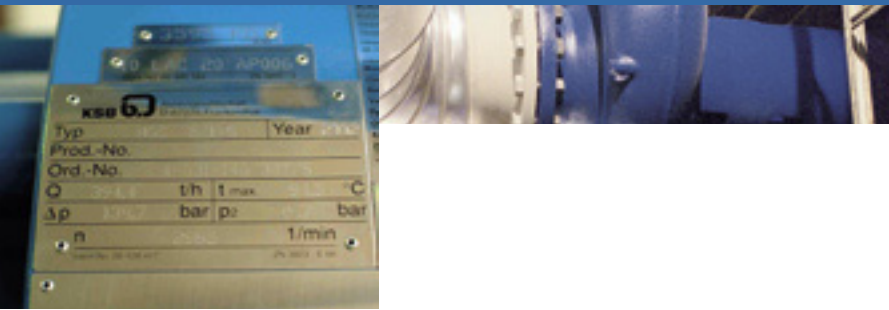
Good order growth in all Regions

Order intake in the Group rose by 8.4 percent to € 1,293.6 million in 2004. In the comparison with the previous year, the first consolidation of Dutch DP industries B.V. on 1 May 2003 and of Spain's Bombas ITUR S.A. on 1 January 2004 must be taken into account. When adjusted for these consolidation effects and currency exchange influences, growth lay at 6.0 percent.

In Europe, the sales and service organizations in particular showed gratifying overall growth. Germany's KSB AG increased its order intake by 3.4 percent to € 556.5 million.

The Group companies in the Region Asia / Pacific reported a marked double-digit increase of orders in percentage terms. This growth was essentially shaped by business developments in China and India. Although order development was also positive in the Region Americas, it fell short of these high growth rates. Nevertheless, the Group companies in Brazil, Chile and the USA posted double-digit growth in local currency terms. As a result of the increase in the value of the euro, the consolidated figures were correspondingly lower when they were translated to the Group currency.

Of the two consolidated companies in the Region Eastern Europe / Middle East / Africa, KSB South Africa posted a double-digit percentage increase in its order volume, while the Turkish company – after currency translation – remained at the same level of order intake as in the previous year.



Sales growth focused in Asia

Group sales ranged at € 1,266.8 million and, at a plus of 7.5 percent, lagged slightly behind order intake (excluding currency translation effects and first-time consolidation: 5.6 percent). This is related to a number of longer-term projects in which KSB AG in particular is involved. The latter’s sales grew by 1.2 percent to € 541.5 million. A substantially stronger increase was reported in Europe for the sales revenue of the Service companies and also of several sales organizations, especially in Belgium, the Netherlands and Austria.

The sales revenue of Group companies in the Region Asia / Pacific increased by more than 25 percent, the strongest growth being achieved by the companies in China and India. In the Region Americas, sales growth overall remained moderate, the most positive results being reported for KSB Chile.

The two consolidated Group companies in the Region Eastern Europe / Middle East / Africa slightly improved their sales revenue overall.

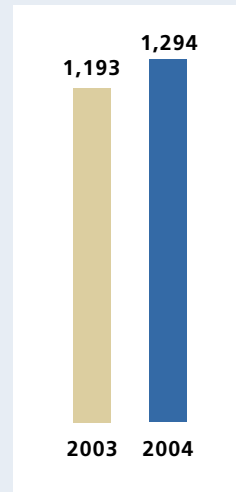
Growth and innovation programme continued

To strengthen our position in the market, we are continually developing new business ideas. We review these in the context of our current future-oriented 700UP project to assess whether they are likely to succeed, are in conformity with the strategy and can be achieved with the resources available. To this end we set up an interdisciplinary team in 2003, which analyses promising ideas in close consultation with the Board of Management and formulates specific requirements and goals.

Order intake in the Group rose to € 1,293.6 million. Group sales improved to € 1,266.8 million.

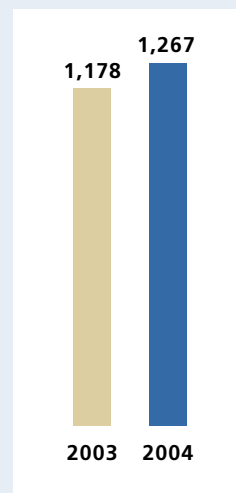
Consolidated order intake

€ millions



Consolidated sales revenue

€ millions





Promising approaches are translated into concrete projects, for each of which a small team takes responsibility from development through to market success.

In 2004, we adopted eight business plans to develop and launch new products, systems and services. In the current year they will make an initial contribution to order growth. Overall, business ideas worth around € 230 million are currently defined in idea profiles, business concepts and business plans. To review these and put them into practice is a prime corporate task.

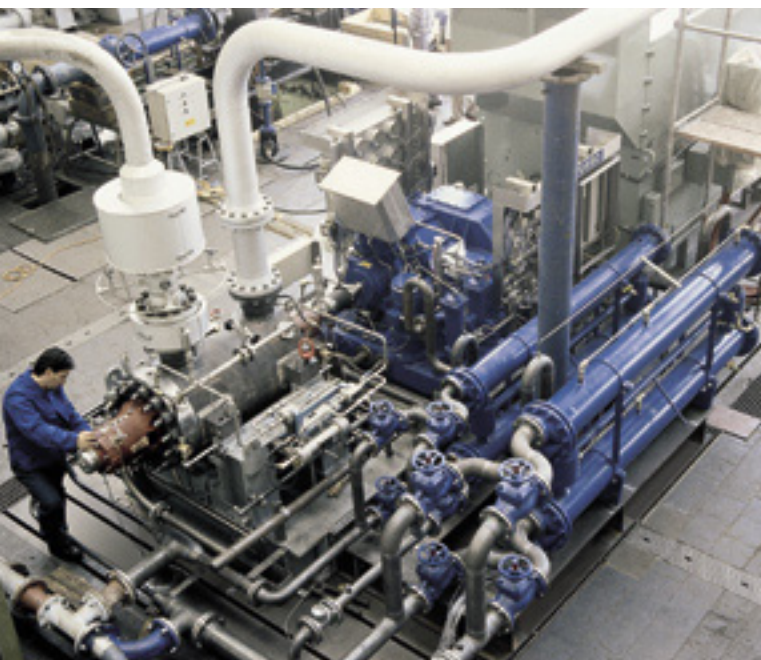
In the year under review, we also continued our three-stage Structural Programme 2006. This encompasses an Efficiency Enhancement Programme, a Site Concept and the realignment of our organization to meet global market requirements.

Higher return on sales through greater efficiency

With our Efficiency Enhancement Programme, which we started at the end of 2003, we are seeking to achieve a five percent return on sales by 2006 – despite the growing pressure on prices in the market. To achieve this goal, it is of utmost importance that the European companies in particular increase their efficiency. Accordingly, they are initiating cost-cutting measures, with particular emphasis on data processing, production, materials management, sales / distribution and administration. From 2006 onwards, the impact of the measures on profit will be of the order of more than € 100 million. This will help us achieve the targeted earnings despite rising costs. The associated personnel adjustments will be made almost exclusively through partial retirement and early retirement arrangements. Most of these measures will have been completed by the end of 2005.

New production structure tested

In a second step, we shall increase the competitiveness of our production centres in Europe by the end of 2006. An important prerequisite is the creation of new production structures in which components and products are only manufactured when they are actually needed by an internal or external customer. Production will be organized into synchronized processes, so that warehousing or temporary stock levels can be kept to a minimum.



Trial run of a high-pressure pump in the Frankenthal test bay



Priam butterfly valve for industrial applications

We carried out a pilot project for this in 2004 at the Pegnitz production site for industrial pumps. After its successful completion, we shall be implementing the new production concept in the current year at four locations in France and Germany. We are also seeking to focus our production centres in Europe either on the standard business or on the engineered products business and thus enhance their effectiveness.

Group organization with global responsibilities

The separation of standard business and individual engineered products was also part of the reorganization of the KSB Group that was introduced on 1 January 2005. Further organizational features are the more globally structured responsibilities of our functional areas and the alignment of our activities with market segments. At the beginning of 2005, KSB AG took over the systems business, which until then had been managed by KSB Fluid Systems GmbH. In the new organization, it is handled by those responsible for the water and waste water segments.

Our Structural Programme encompasses efficiency enhancement measures, a Site Concept and the realignment of our organization to meet global market requirements.

New KSB companies founded in Asia

To ensure that our customers in all regions have more direct access to the products they need, we aim to bring our research and development capacity closer to the relevant markets – and at the same time profit from the more favourable labour costs there. With this in mind, for example, we established KSB Tech Pvt. Ltd. in Pune (India) late in 2004. The engineers and technicians of this company are engaged in development work, create CAD drawings and take technical responsibility for products made primarily in India.

A valves company was founded in northern China at the end of 2004 under the style of Dalian KSB AMRI Valves Co. Ltd. On a newly acquired plot of land in Dalian, the company started production of a first series of butterfly valves at the beginning of 2005. A gradual expansion of the product range is planned.



FINANCIAL POSITION

- > KSB Group increases total output of operations
- > Earnings reduced by restructuring costs
- > Net financial position markedly improved

Pre-tax earnings lower year on year due to high restructuring costs

The KSB Group generated a profit of € 22.1 million from ordinary activities, after € 29.8 million in 2003. Earnings were reduced by restructuring costs of € 22.8 million. Adjusted for the restructuring costs, earnings improved substantially compared with the previous year.

Although the cost of materials as a percentage of total output of operations rose by 1.4 percentage points year-on-year, we were able to reduce personnel expenses as a percentage of total output of operations by 0.6 percentage points. Adjusted for the costs of the restructuring programme, personnel expenses were 1.7 percentage points lower than a year earlier. At 19.6 percent (previous year: 19.1 percent), other operating expenses rose slightly as a percentage of total output of operations. Adjusted for the restructuring costs contained in other operating expenses, however, they were on a level with the previous year as a percentage of total output of operations.

The increase in other operating income is attributable primarily to the disposal of land and buildings of our Italian company.

Earnings after taxes

Due to the € 3.7 million lower income tax expense, net profit for the year (€ 14.7 million following € 18.7 million in 2003) fell less sharply than pre-tax earnings. The principal reason for the reduced tax liability is the negative result at KSB AG.

The minority interest in net profit was almost unchanged year-on-year at € 6.5 million.

The consolidated net profit of € 8.2 million for the year was € 4.1 million lower than in the previous year.



Results of companies and Regions

The comments on the results of the operative companies and Regions are based on the relevant single-entity financial statements. Only the pre-tax earnings are considered.

KSB AG reported a loss of € 13.8 million. This was attributable to the restructuring costs of approximately € 21 million. A profit of € 17.6 million was generated in the previous year on the back of high investment income. Both sales revenue (up 1.2 percent) and total output of operations (up 3.1 percent) rose year-on-year.

Although the profits transferred by KSB AG's German subsidiaries under profit pooling arrangements were still positive overall, they were far from matching the amounts recorded a year earlier. While the aggregate profits of the Service companies were more or less on a level with the previous year, the loss at KSB Fluid Systems GmbH to be absorbed was € 7.2 million higher.

KSB S.A.S., France, contributed a profit of € 7.2 million (previous year: € 4.3 million) to consolidated earnings.

Our other European companies improved earnings overall, generating € 12.8 million compared with € 9.5 million in the previous year. This was due in part to Dutch DP industries, consolidated for the first time in May 2003, which was included for a full year for the first time in 2004.

The companies in the Region Asia / Pacific recorded a significant improvement in earnings to € 10.0 million, from € 6.3 million in 2003. The main contributor to this was our Indian company KSB Pumps Limited, although our companies in China and Pakistan also posted significant growth in profits.

At € 9.2 million, the companies in the Region Americas improved their earnings appreciably year-on-year (€ 7.3 million).

In the Region Eastern Europe / Middle East / Africa, our two consolidated companies in Turkey and South Africa recorded a slight increase in earnings.

Earnings per share

Earnings per share amount to € 4.16 for ordinary shares, compared with € 6.74 in the previous year. For preference shares, earnings per share amount to € 5.19, compared with € 7.26 in 2003.

Dividend adjustment necessary

KSB AG recorded a net loss of € 13.9 million due to restructuring costs for our Efficiency Enhancement Programme. We will therefore be recommending to the Annual General Meeting to distribute a dividend of € 1.03 per preference share in accordance with the Articles of Association (previous year: € 2.50 per ordinary share and € 3.02 per preference share). This will require the withdrawal of € 14.8 million from revenue reserves (previous year: appropriation of € 7.5 million).

Dependent company report

The Board of Management has submitted the dependent company report to the Supervisory Board. This concludes with the following declaration: “In accordance with section 312(3) AktG (German Public Companies Act), we declare that our company – on the basis of the circumstances known to us at the time when the transactions were made or the measures were either taken or not taken – received adequate compensation and was not disadvantaged by the fact that the measures were either taken or not taken.”

Investments match volume of depreciation and amortization

In 2004, the KSB Group’s investments in property, plant and equipment and intangible assets were approximately equal to the volume of depreciation and amortization. Under intangible assets, we again capitalized part of the project expenditure incurred in 2004 for the implementation and adjustment of the SAP system, in addition to software licences.

Non-current financial assets include the addition of € 4.5 million for investments in companies that were not yet consolidated in the 2004 consolidated financial statements.

Overall, we posted additions totalling € 38.1 million to property, plant and equipment as well as non-current financial assets. All capital expenditures were financed from cash flow.

The net financial position improved from € 11.6 million to € 45.4 million.

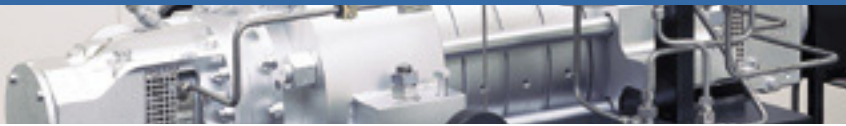
Balance sheet

The balance sheet total of the KSB Group in 2004 was € 56.0 million (6.0 percent) higher than the prior-year value, due to the higher volume of business, among other factors.

An increase of € 60.9 million was recorded in current assets alone. The € 7.4 million (3.8 percent) increase in inventories is attributable primarily to the high level of completion of customer orders in progress. This figure already reflects the strong increase in advances received from customers. Trade receivables recorded a € 18.6 million (6.2 percent) increase, reflecting the 7.5 percent increase in sales revenue. Cash and cash equivalents, including current financial instruments, grew by € 23.9 million.

On the equity and liabilities side, we posted an increase in provisions and liabilities. The major factor affecting provisions are the obligations under partial retirement arrangements. We entered into these obligations to allow us to implement the Efficiency Enhancement Programme already described. A significant increase in provisions for pensions is attributable to the further growth in contributions by employees to their own retirement benefit plans. The increase in the provisions for warranty obligations and for expected losses from uncompleted transactions and onerous contracts reflected the expansion in the volume of business. While financial liabilities were reduced by 7.8 percent, as planned, there was a substantial € 26.1 million increase in trade payables. This was due in turn to the higher volume of business and is also reflected in the increase in inventories, as mentioned previously.

The increase in the balance sheet total to € 982.6 million reduced the equity ratio by 1.3 percentage points to 36.1 percent. The return on equity fell from 8.5 to 6.3 percent, while the return on capital employed was 3.9 percent, following 4.9 percent in 2003.



Cash flow statement

Cash flow amounted to € 59.5 million, a slight decrease compared with the previous year (€ 63.1 million).

Cash flows from operating activities improved significantly. The increase from € 36.8 million to € 64.2 million was attributable primarily to the growth in advances received from customers and trade payables.

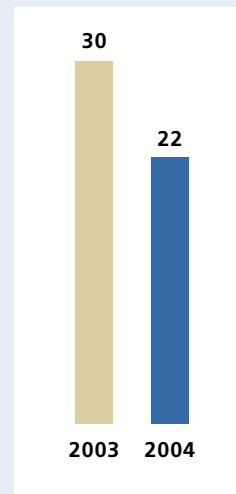
Cash flows from investing activities show an outflow of funds of € 26.4 million (previous year: € 90.0 million). The difference is due to lower payments to acquire items of property, plant and equipment, and non-current financial assets, and to acquire investments in companies.

Cash flows from financing activities recorded an outflow of € 17.0 million, compared with an inflow of € 52.7 million in 2003. This change was attributable principally to the repayment of financial liabilities, while the previous year was marked by borrowing activities.

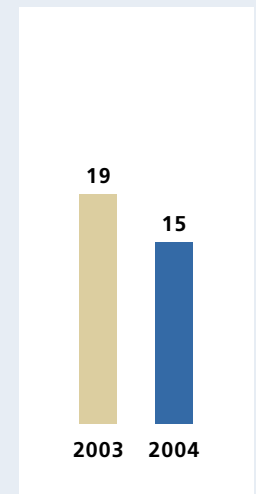
Considerably stronger net financial position

The balance sheet of the KSB Group shows cash and cash equivalents, including current financial instruments, of € 138.0 million. This represents an increase of € 23.9 million compared with the prior-year figures. At the same time, we reduced our financial liabilities by € 8.2 million. Overall, our net financial position improved from € 11.6 million to € 45.4 million.

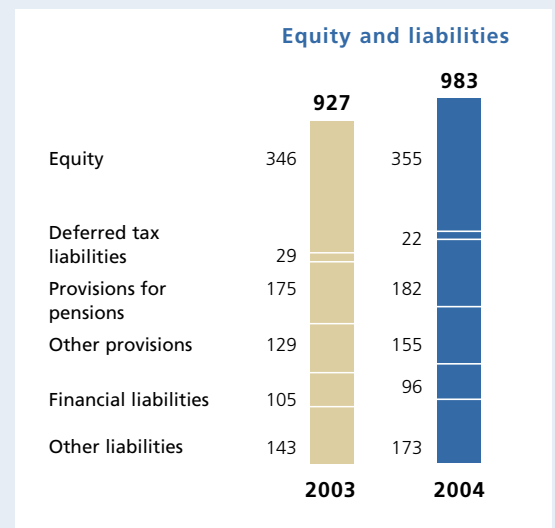
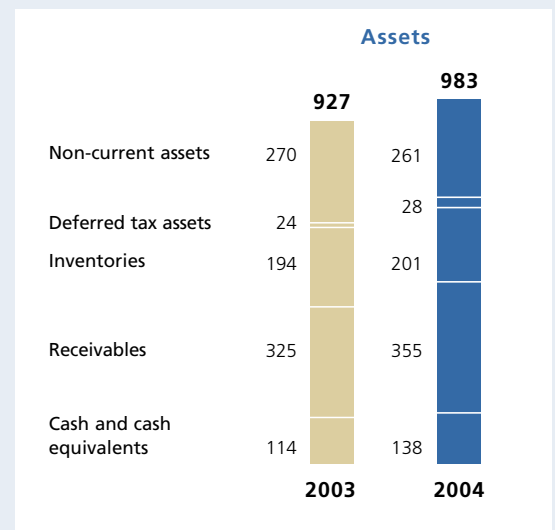
Earnings before taxes
€ millions



Net profit for the year
€ millions



Balance sheet structure
€ millions





RISK MANAGEMENT

- > Group-wide risk identification and assessment
- > Efficient financial management
- > Framework purchasing agreements ensure raw material procurement

It is part of corporate activity to take risks. However, KSB is well aware of the need to take only those risks whose potential adverse consequences will not have a sustained negative impact on the company's prosperity.

All the companies of the KSB Group are involved in the process of identifying, assessing and communicating risks. Through their Risk Management Officers they regularly report all events and activities associated with relevant risks to the Group Risk Management Officer. The latter in turn controls and manages the internal early warning system and keeps the Board of Management informed about the entire risk potential and major individual risks.

All relevant risks are registered, assessed and communicated according to the following six categories:

Markets / competition

In the markets, including our home market of Europe, the emergence of new providers from low wage countries and from the US dollar region is increasing the pressure on prices. To deal with this situation, we are using the cost advantages of our non-European locations. With the supply of compo-

nents and products from these production sites we can keep our offers attractive for customers in terms of price. We are also in the process of improving the cost efficiency of production structures in Europe.

Products / projects

As part of our 700UP growth and innovation initiative, we are developing concepts for products and services aimed at fields of application that have hitherto not been addressed. In those cases where KSB enters into new territory, there is a basic risk of misjudging market requirements or technical needs. To exclude this risk, all business ideas run through several "filters" before they are approved for implementation by the Board of Management.

Finances / liquidity

Constant changes at the political and economic level call for a financial management that protects against liquidity and default risks. Based on the SAP system used throughout Europe, we have improved the efficiency of our financial risk management and refined our early detection system. Risks in the accounts receivable portfolio are reduced by global credit



management, which is monitored and controlled centrally by KSB Finanz S.A., Luxembourg. Instruments used are, for example, trade credit insurance and low-risk payment terms and conditions that require higher advances from customers or letters of credit.

We use currency hedging transactions to minimize exchange rate risks in the project business. In the process, we hedge both recognized underlyings and future cash flows.

Interest rate risks from long-term borrowings at variable rates of interest are hedged by interest rate derivatives entered into with prime-rated banks.

Procurement

For companies with a high demand for cast iron and steel, the shortage of these materials, which was already becoming apparent in 2003, also posed a risk in 2004. However, the focus of Purchasing on securing long-term framework agreements ensured that the difficult situation on the commodities market was manageable for KSB.

The dramatic decline in the value of the US dollar against the euro also dampened the effects of the price increase of these commodities, which are traded in the US American currency. The same was also true of the explosion in the price of oil which increased several times up to October 2004.

Aiming to improve our cost situation further and become less susceptible to fluctuations in currency exchange rates, we are currently stepping up our procurement activities outside the euro zone.

Technology / research and development

To minimize the technological and market-related risks of new products, the innovation process at KSB is clearly defined. The starting point is an exact specification of customer requirements which describes the product features and services that are needed. A well-structured development process with documented work flows and milestones ensures target-focused implementation.

Integrated into this process is a Failure Mode and Effects Analysis (FMEA). Within this framework, an interdisciplinary team examines defined problem areas and has technical adjustments made where necessary. Before a product is launched on the market, field tests take place with selected customers.

Environmental protection

Through the work of Environmental Protection Officers at all KSB sites, we minimize the risk of our corporate activities posing a hazard to the environment. To achieve this goal, the officers are already involved in the development phase of new products or processes. They conduct regular internal environmental audits, in which potential hazard sources are identified and corrective action is initiated. Where environmental pollution is due to the legacy of an old contaminated site, we have taken steps to achieve sustainable remediation.

Overall assessment

For the current year, no risks have been identified whose influence on net assets, finances and income jeopardize the continued existence of the company.



Preparations for a pump test run

EMPLOYEES

- > Internal survey promotes leadership culture
- > Distribution of functions according to qualification profiles
- > Training at any time of one's choosing

The success of the KSB Group hinges on the performance and commitment of its employees. As at 31 December 2004, we employed 12,467 people in our Group companies worldwide. This is 186 more than in the previous year. The increase is mainly attributable to the first-time consolidation of Spain's Bombas ITUR S.A. as of 1 January 2004.

In Europe, the number of employees increased from 7,081 to 7,205. Staff levels were reduced by 37 to 3,804 at KSB AG and by 42 to 1,133 at KSB S.A.S. in France.

The headcount in non-European Group companies overall rose by 63. At the end of 2004, the number of employees in the consolidated companies stood at 3,474 in the Region Asia / Pacific, 1,430 in the Region Americas and 354 in the Region Eastern Europe / Middle East / Africa.

Staff feedback for managers

To achieve our global objectives, we need competent and motivated employees all around the world. Recruiting, training and retaining these people for the company is the ongoing function of Management and Human Resources. In this context, we formulated new standards in 2004 for performance reviews and the development of employees. These standards ensure that we use a standardized approach to identifying, assessing and developing the potential of our technical specialists and managers worldwide.

Good leadership is necessary to ensure that the initiative and commitment of all employees are sustained. It was with this in mind that we developed a set of Management and Teamwork Principles for the entire KSB Group. Starting in Germany, we performed an upward appraisal of managers by reporting staff to determine the level of compliance with these principles. In 2003 and 2004, with external support, we conducted an anonymous survey among 3,223 employees and made the results available to the departments concerned. In this way, we fostered dialogue between managers and staff. We shall successively introduce this management appraisal instrument in the other European companies as well.



Qualification profiles for new functions

In line with the way our markets are developing, we are in the process of re-organizing our international division of work. This includes making greater use of production and assembly capacities outside Europe and also drawing on engineering skills in non-European regions. The resulting personnel changes will lead to 650 fewer jobs in Europe. This will be completed by 2006, largely through partial retirement and early retirement, as part of the Efficiency Enhancement Programme.

Some of the employees who leave for reasons of age will have to be replaced by colleagues from other departments. To this end we have developed a model that groups employees with comparable qualifications and responsibility profiles. This enables us to approach specific potential candidates for new functions in the Group.

Personnel development by E-learning

The continuous training of employees in sales and marketing is an important prerequisite to ensure competent consultancy for our customers. Providing rapid information on new technical developments to staff across all countries presents our training specialists with scheduling and logistical problems. In 2004 we therefore conducted an E-learning project throughout Europe for the first time. On the PC or laptop, participants were able to update their technical knowledge at any time of their choosing.

In addition, we offered employees an extensive range of training opportunities which included 130 seminars and training events in Germany alone. Apart from technical and business-related seminars, IT courses and foreign language training, the offering also included training on health issues and physical fitness.

Recognizing potential, reinforcing skills

For the management of Spanish company Bombas ITUR S.A., Human Resources conducted an analysis of potential and elaborated a training and development plan in 2004. This was an important prerequisite for integrating the managers of this company, which had been acquired the year before, into our personnel development programmes.

In the context of these programmes, we are continually extending the leadership skills of our management team. We are also strengthening the methodological and personal skills of the individual. A second model for personnel development is aimed at preparing young managers for their future leadership responsibility.

Human resources marketing for future tasks

KSB will strengthen its personnel base at some sites and recruit specialists over the next few years for future assignments in growing markets and for new fields of activity. With this in mind, Human Resources engages in targeted marketing, such as the production of a Human Resources promotional film, which has appeared this year in ten languages.

A word of thanks to the employees

The Board of Management wishes to thank all KSB employees for their commitment in providing support to customers in 2004. This commitment is to be appreciated all the more as important future projects at the same time demanded intensive collaboration from a lot of people. A special word of thanks goes to those employees who, in the context of the Structural Programme, decided to take early retirement from the company and thus secure the jobs of their younger colleagues. We should also like to thank the Works Councils and the Executive Committee. Through their constructive cooperation, they substantially helped us make progress on our future-oriented projects.



RESEARCH AND DEVELOPMENT

- > Energy-efficient seawater desalination
- > “Water-driven” pumps
- > Ceramic materials for flue gas desulphurization

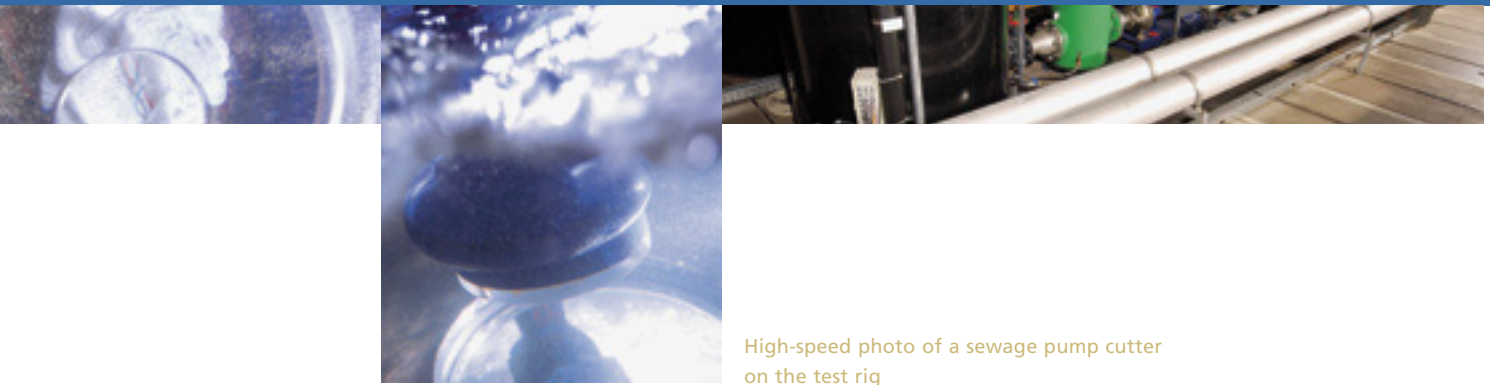
To ensure that we will be able to supply future markets with suitable products, we invest around two percent of sales a year in research and development. A key focus of this investment in 2004 was the fitting of seawater desalination plants with innovative products. We concentrated our activities on new high-pressure pumps and an energy recovery system in plants that work on the principle of reverse osmosis. The development of this system, known as SalTec, required interdisciplinary collaboration between the Automation, Hydraulics, Valves and Materials Technology departments.

Automation reduces the cost of producing drinking water

For the SalTec system, experts from our Automation department developed a computer-based control system. With the aid of sensors, a computer determines the operating conditions in the plant and adjusts the new, patented valve control of a pressure exchanger accordingly. Control takes place in such a way that no pressure surges or vibrations occur despite the large quantities of water flowing back and forth. In terms of smooth running and efficiency, the system is superior to all other units available on the market today.

Using state-of-the-art simulation programs, our hydraulics specialists have measured the specific physical processes in the pressure exchanger. They analysed and optimized the system’s dynamic behaviour on the computer, so that the very first prototypes already showed extremely smooth running characteristics. Our materials engineers supported the development of SalTec by using new surface treatment technologies, such as laser alloying and ceramic coatings, for the patented rotary valve which controls the pressure exchanger’s load cycles.

Through the use of these technologies and suitable materials, we have achieved the corrosion and wear resistance that is necessary for long-term, trouble-free use in seawater desalination. The new system will help our customers reduce the costs of desalinated seawater production by reverse osmosis by up to 25 percent.



High-speed photo of a sewage pump cutter on the test rig

Using water to move water

The Indonesian mainland has two subterranean rivers from which drinking water can be obtained. To tap this potential, we developed a system for transporting the water to the surface at low cost. The hydrodynamic energy of the flowing water is used to drive the system. It consists of a multistage high-pressure pump coupled with a large volute casing pump. Water flows backwards through the latter and, like in a turbine, generates the energy needed to drive the high-pressure pump, which conveys the water to the surface. The system thus works without electricity.

The skills of our hydraulic engineers were also used last year by the aviation industry. For a company in this sector, we developed the hydraulic contour of a fuel pump. What was unusual about this project was that the dimensions were very small: the diameter of the impeller, for example, was just a few centimetres. The construction of the actual pump was carried out by the customer using geometric data provided by KSB. Initial measurements on a prototype have shown that the pump input power was actually below the required value.

Testing cutters for sewage pumps

Municipal waste water is often heavily polluted with textile or other substances. These have the unpleasant tendency to form twisted strands. The strands may wrap around the impeller and clog the pump. Usually, mechanical cutters or macerators installed upstream of the impeller prevent the system from clogging. They cut up the fibres and other organic components. From a hydraulic point of view, however, these rotating cutters tend to have unfavourable effects, because they obstruct the free inflow of the medium and reduce the pump's effectiveness. To achieve an optimum combination of cutting and pumping properties, practical tests are absolutely essential. So we built a new test rig in Frankenthal, on which the pumps can be hydraulically tested under real conditions

while the cutters are filmed or photographed at the same time. These images permit very accurate conclusions to be drawn with regard to the quality and mode of operation of the cutters.

Large power stations or seawater desalination plants all have so-called intake structures. The river water or seawater that is needed for cooling or desalination passes through these structures, which were previously designed more or less in accordance with the technical aspects of building. Today it is known that a lot of energy can be saved using a hydrodynamically favourable design. With the aid of our flow modelling software, we studied a number of intake structures in 2004. Based on our findings, we were able to suggest to our customers design improvements which to some extent have already been put into practice.

New pumps for clean air

In flue gas desulphurization plants, pumps transport highly abrasive limestone suspensions. These are sprayed into the hot gas emissions of a coal-fired power plant, where they bind the sulphur in the gas to the limestone. The casings and impellers of the pumps in these applications are exposed to extremely abrasive and corrosive influences. The pumps used are therefore made of special alloys. We have developed ceramic-based linings as an economic alternative to these expensive materials. These are already being successfully tested in a Polish power plant.

ENVIRONMENTAL MANAGEMENT

- > Certification of eleven sites for environmental standards
- > Focus on water pollution control
- > Recycling of materials and used products



In 2004, the SISTO Armaturen S.A. factory in Luxembourg was certified to meet ISO 14001 requirements.

As a responsible company, we are aware of our obligation to keep our economic aims and the ecological demands on our operations in balance. With this in mind, we are continually optimizing our processes and products. We counter potential risks to humans and nature on a global scale with preventive measures to protect the environment. Our commitment to avoiding negative environmental impact extends well beyond mere compliance with legal and regulatory requirements.

Certified environmental protection

In accordance with the requirements of the international market, we base our environmental management systems on the global ISO 14001 standard. After nine KSB production sites in France, Germany and Spain received certification until 2003, our site in Loughborough, UK, and the new site of KSB subsidiary SISTO Armaturen S.A. in Echternach / Luxembourg followed suit in 2004.



We also started to establish a management system to ISO 14001 at our manufacturing companies in India, South Africa and the USA. The relevant certification is planned for the current year.

Safety at the workplace and protection of health

Measures to protect the environment are closely linked with issues of human health and safety at the workplace. The internationally applicable OHSAS 18001 standard offers criteria for evaluating occupational health and safety management systems. Any organization or company that meets these requirements can obtain certification to show that health and safety principles are integrated into corporate processes.

Halle, La Roche Chalais and Loughborough were the first three KSB sites to be certified under this standard in 2004. In the current year further French and German sites will follow.

We are aware of our obligation to keep economic and ecological requirements on our operations in balance.

Groundwater protection and deconstruction of buildings

In 2004, we invested around € 3 million in environmental protection activities at our sites. A key focus was on measures to prevent contamination of the soil and pollution of the air and water. In those places where we have identified old contaminated sites in our environmental inventory of sites throughout the Group, remediation operations are under way.

At Frankenthal we completed the deconstruction of the former foundry as scheduled at the end of the year under review. We also completed the demolition in 2004 of two unsafe buildings that were no longer in use at our site in Halle.

Re-use of pumps and valves

To ensure that our products can be disposed of in an ecologically acceptable way, we identify their component parts according to the materials used. This makes it easier to recycle and properly dispose of materials that are no longer needed.

Used products that are still useful can be considered either for recycling or for re-use by interested customers. In such cases, a business idea developed in the context of our 700UP project is applied: we offer returned goods, remainders and factory-rebuilt pumps and valves on the Internet, making them available for re-use.



OUTLOOK

- > World economy continues to grow
- > Order intake and sales revenue expected to rise
- > Market presence in growth regions to be strengthened

The global economy is likely to continue to grow in 2005. In the opinion of several economic research institutions, however, global economic activity has already passed its peak. In addition, there are various risks, such as a further rise in the price of oil, which could considerably dampen the economy.

Europe is expected to continue showing only moderate growth. This does not include the new EU countries in Eastern Europe. In these countries, there will be continued demand for equipment for industrial and infrastructure projects.

To make the most of our opportunities in regions with strong growth, we are extending our market presence in these areas.

Growth in Asia will probably weaken slightly, but high growth rates are still to be expected. China is starting new infrastructure projects, including the building of power plants, which lead us to anticipate relevant orders being placed with our industry. The expansion and modernization of industrial facilities will also continue. In India, growth will continue, a key focus here being on energy engineering.

For the South American countries, only moderate economic growth can be expected, while the strongest growth of all the Western industrialized countries is forecast for the USA.

Developments in the Middle East continue to look positive on the basis of high earnings from the oil business, but the picture remains blurred by political uncertainties. The development of water supplies and petrochemicals in this region will be important areas of demand.



Growth centres in Asia and Eastern Europe

Against this economic background, we again expect marked growth in order intake and sales revenue in the current year. We see key areas of growth in the markets of Asia and Eastern Europe and also in sub-markets of other regions.

In industry we are meeting increasing demand from companies in the chemicals and petrochemicals sectors, especially in Asia and the Middle East. We also see good growth opportunities in the supply of special valves for ocean-going tankers and of highly wear-resistant pumps for flue gas desulphurization plants.

In the water and waste water business, the focus is on modernization and expansion projects in Eastern Europe, Asia and the Middle East. We shall make good use of the opportunities offered by the above-average growth market of seawater desalination.

Rising energy demand in countries such as China and India requires the building of new power plants. In Western Europe, investments will be made in combined cycle power plants in order to comply with emission control laws. As one of the world's leading suppliers of pumps and valves for power plant applications, we shall become involved in these projects with our consulting skills and our versatile product range.

In building services we see an increasing demand in Eastern Europe and also in some countries outside Europe with growing populations. To remain attractive with our product range, we are stepping up our innovation activities in this market segment.

In the mining sector, which we supply mostly with slurry pumps, the high demand for industrial materials in countries with important raw materials has resulted in the release of funds for projects that were hitherto postponed. This is likely to boost demand.

Increased market presence in China and Russia

To make the most of our opportunities in the regions with strong growth, we are further extending our sales and marketing, service and production structures in selected target markets, especially in China and Russia.

In China we have created the prerequisites for increasing capacity at our production centre in Shanghai in order to supply this rapidly growing market. With the establishment of the valves company in Dalian, we now have a basis for serving the needs of the valves market even better. We shall likewise intensify our activities in the service market; this applies in particular to power plant service.

Aiming to strengthen our presence and involvement in the growing Russian market, we will be setting up our own sales company and new regional sales offices there in the current year. At the same time, we are extending our service operations. Local value creation will be of paramount importance in the energy market. We are therefore reviewing the opportunities for cooperation with Russian pumps manufacturers. Our aim is to establish a joint venture in the current year.

Targeting a substantial improvement in earnings

For 2005, we expect another increase in the consolidated order intake and sales revenue. Despite continuing charges for the Structural Programme 2006, we aim to improve our earnings substantially.

sustainable

renewable energy



Katrin Preuss selects the pumps for biodiesel systems. A great variety of fluids to be pumped places different requirements on the pump's materials and heat resistance.



BIODIESEL – SAFE AND CLEAN

Renewable fuels: limited oil reserves make biodiesel an economically and ecologically interesting alternative. The raw material re-grows year in year out on blooming yellow fields of oilseed rape. The MUW Greppin plant in Bitterfeld (Germany) produces about 500,000 litres of biodiesel a day. This fuel is comparable to conventional diesel and is already available at numerous filling stations.

In biodiesel plants, the oil from rape seed is converted to rape methyl ester. And KSB pumps reliably transport the raw material, intermediates and the final product.



CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

Assets

(€ thousands)	Notes	31 Dec. 2004	31 Dec. 2003
Non-current assets	1		
Intangible assets		32,377	36,678
Property, plant and equipment		207,834	210,653
Non-current financial assets		20,991	22,767
		261,202	270,098
Deferred tax assets	2	27,541	23,461
Current assets			
Inventories	3	201,016	193,583
Receivables and other current assets	4	354,829	325,352
Current financial instruments	5	2,677	4,245
Cash	5	135,318	109,801
		693,840	632,981
		982,583	926,540

Equity and liabilities

(€ thousands)	Notes	31 Dec. 2004	31 Dec. 2003
Equity	6		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		178,182	169,989
Consolidated net retained earnings		8,197	12,504
		297,814	293,928
Minority interest		56,944	52,116
		354,758	346,044
Deferred tax liabilities	7	21,729	28,531
Provisions			
Pensions and similar obligations	8	182,062	174,833
Other provisions	9	154,629	129,281
		336,691	304,114
Liabilities	10	269,405	247,851
		982,583	926,540

INCOME STATEMENT

(€ thousands)	Notes	2004	2003
Sales revenue	11	1,266,755	1,178,092
Changes in inventories		13,732	11,532
Work performed and capitalized		3,533	3,683
Total output of operations		1,284,020	1,193,307
Other operating income	12	23,805	14,539
Cost of materials	13	– 506,389	– 453,445
Staff costs	14	– 477,419	– 450,539
Depreciation and amortization expense		– 33,217	– 30,232
Other operating expenses	15	– 251,921	– 228,379
Other taxes		– 6,857	– 6,713
		32,022	38,538
Income from investments	16	1,357	1,848
Other financial income / expense	16	– 11,268	– 10,548
		– 9,911	– 8,700
Profit from ordinary activities		22,111	29,838
Taxes on income	17	– 7,457	– 11,171
Net profit for the year		14,654	18,667
Minority interest in net profit / loss	18	– 6,474	– 6,414
Consolidated net profit for the year		8,180	12,253
Retained earnings brought forward		17	251
Consolidated net retained earnings		8,197	12,504
Earnings per ordinary share (€)	20	4.16	6.74
Earnings per preference share (€)	20	5.19	7.26

STATEMENT OF CHANGES IN NON-CURRENT ASSETS

(€ thousands)	Historical cost					31 Dec. 2004
	1 Jan. 2004	Change in consolidated Group / CTA* / Other	Additions	Disposals	Reclassifications	
Intangible assets						
Concessions, industrial and similar rights and assets, as well as licences in such rights and assets	17,607	- 2,098	6,078	131	-	21,456
Goodwill	40,820	-	-	-	-	40,820
Negative goodwill	- 6,901	- 2,942	-	-	-	- 9,843
Advance payments	15	- 15	214	-	-	214
	51,541	- 5,055	6,292	131	-	52,647
Property, plant and equipment						
Land and buildings	175,929	- 132	4,095	2,659	218	177,451
Plant and machinery	273,649	129	10,299	7,285	3,579	280,371
Other equipment, operating and office equipment	115,079	2,651	9,942	8,704	70	119,038
Advance payments and assets under construction	5,415	- 75	3,031	1,079	- 3,867	3,425
	570,072	2,573	27,367	19,727	-	580,285
Non-current financial assets						
Investments in affiliates	22,819	- 6,128	4,300	3	-	20,988
Other investments	2,164	-	191	-	-	2,355
Non-current financial instruments	930	45	-	1	-	974
Other non-current loans	287	14	-	238	-	63
	26,200	- 6,069	4,491	242	-	24,380
	647,813	- 8,551	38,150	20,100	-	657,312

CTA* = currency translation adjustments

Accumulated depreciation / amortization							Carrying amounts	
1 Jan. 2004	Change in consolidated Group / CTA* / Other	Additions	Disposals	Reclassifications	Write-ups	31 Dec. 2004	31 Dec. 2004	31 Dec. 2003
7,929	- 65	2,787	116	-	-	10,535	10,921	9,678
7,473	-	4,088	-	-	-	11,561	29,259	33,347
- 539	-	- 1,287	-	-	-	- 1,826	- 8,017	- 6,362
-	-	-	-	-	-	-	214	15
14,863	- 65	5,588	116	-	-	20,270	32,377	36,678
77,210	- 671	5,417	1,522	7	-	80,441	97,010	98,719
198,952	- 581	12,552	6,405	36	-	204,554	75,817	74,697
83,257	2,698	9,660	8,116	- 43	-	87,456	31,582	31,822
-	-	-	-	-	-	-	3,425	5,415
359,419	1,446	27,629	16,043	-	-	372,451	207,834	210,653
3,025	-	-	3	-	-	3,022	17,966	19,794
292	-	-	-	-	-	292	2,063	1,872
74	-	-	-	-	-	74	900	856
42	-	-	41	-	-	1	62	245
3,433	-	-	44	-	-	3,389	20,991	22,767
377,715	1,381	33,217	16,203	-	-	396,110	261,202	270,098

STATEMENT OF CHANGES IN EQUITY

Including Minority Interest

(€ thousands)	1 Jan. 2003	Net profit / loss for the year	Dividends paid	Transfer to / from revenue reserves	Capital increases / decreases	Currency translation changes	Change in cons. Group / Successive acquisitions	Measure- ment of financial instruments	Adjust- ments taken directly to equity / Other	31 Dec. 2003
Subscribed capital of KSB AG	44,772	–	–	–	–	–	–	–	–	44,772
Capital reserve of KSB AG	66,663	–	–	–	–	–	–	–	–	66,663
Revenue reserves	163,482	–	–	7,868	–	– 3,666	238	2,042	25	169,989
Consolidated net retained earnings	15,349	12,253	– 7,230	– 7,868	–	–	–	–	–	12,504
	290,266	12,253	– 7,230	–	–	– 3,666	238	2,042	25	293,928
Minority interest	65,530	6,414	– 3,512	–	–	– 3,223	– 13,071	–	– 22	52,116
	355,796	18,667	– 10,742	–	–	– 6,889	– 12,833	2,042	3	346,044

(€ thousands)	1 Jan. 2004	Net profit / loss for the year	Dividends paid	Transfer to / from revenue reserves	Capital increases / decreases	Currency translation changes	Change in cons. Group / Successive acquisitions	Measure- ment of financial instruments	Adjust- ments taken directly to equity / Other	31 Dec. 2004
Subscribed capital of KSB AG	44,772	–	–	–	–	–	–	–	–	44,772
Capital reserve of KSB AG	66,663	–	–	–	–	–	–	–	–	66,663
Revenue reserves	169,989	–	–	7,659	–	– 966	1,190	2,485	– 2,175	178,182
Consolidated net retained earnings	12,504	8,180	– 4,828	– 7,659	–	–	–	–	–	8,197
	293,928	8,180	– 4,828	–	–	– 966	1,190	2,485	– 2,175	297,814
Minority interest	52,116	6,474	– 1,590	–	–	– 1,369	1,313	–	–	56,944
	346,044	14,654	– 6,418	–	–	– 2,335	2,503	2,485	– 2,175	354,758

(€ thousands)	31 Dec. 2003	31 Dec. 2004
Accumulated currency translation differences	– 33,949	– 36,534
thereof applicable to minority interest	(– 7,982)	(– 9,351)

CASH FLOW STATEMENT

(€ thousands)	2004	2003
Net profit before extraordinary items	14,654	18,667
Depreciation and amortization expense / write-ups (non-current assets)	33,217	30,410
Increase / decrease in non-current provisions	18,722	14,016
Gain / loss on disposal of non-current assets	- 6,190	- 9
Other non-cash income / expenses	- 873	-
Cash flow	59,530	63,084
Increase / decrease in inventories	- 29,153	- 14,498
Increase / decrease in trade receivables and other current assets	- 21,835	- 23,191
Increase / decrease in current provisions	9,420	8,043
Increase / decrease in advances received from customers	27,448	3,413
Increase / decrease in liabilities (excl. financial liabilities)	15,284	- 1,191
Other non-cash income / expenses (operating)	3,497	1,144
	4,661	- 26,280
Cash flows from operating activities	64,191	36,804
Proceeds from disposal of intangible assets	15	3
Payments to acquire intangible assets	- 6,292	- 7,018
Proceeds from disposal of property, plant and equipment	9,874	1,699
Payments to acquire property, plant and equipment	- 27,367	- 36,758
Proceeds from disposal of non-current financial assets	198	216
Payments to acquire non-current financial assets	- 4,491	- 13,407
Net cash flows from the acquisition and sale of consolidated companies and other business units (basically successive acquisitions)	- 100	- 35,353
Other non-cash income / expenses (investing)	1,748	571
Cash flows from investing activities	- 26,415	- 90,047
Dividends paid for prior year (incl. minority interest)	- 6,418	- 10,742
Borrowings and loans raised, deferred compensation within the scope of employee pension plans	2,286	51,389
Repayment of financial liabilities	- 16,885	- 1,792
Net cash flows from financial receivables	2,284	13,254
Other non-cash income / expense (financing)	1,748	571
Cash flows from financing activities	- 16,985	52,680
Net change in cash and cash equivalents	20,791	- 563
Effects of exchange rate changes on cash held	1,210	2,511
Effects of changes in consolidated Group	1,948	4,517
Cash and cash equivalents at beginning of period	114,046	107,581
Cash and cash equivalents at end of period	137,995	114,046
Supplemental disclosures:		
Interest received	3,712	4,130
Interest paid	- 15,196	- 13,947
Income taxes paid	- 15,853	- 15,248
Dividends received	1,357	1,848

SEGMENT REPORTING

	Pumps, Valves and Service Europe		Region Americas	
(€ thousands)	2004	2003	2004	2003
External sales revenue of the Group companies by segment	974,834	918,057	130,246	125,975
– by geographic area				
Europe	790,494	752,027	2,609	1,698
Americas	22,892	18,896	122,565	123,151
Asia / Pacific	80,063	63,501	3,259	1,022
Eastern Europe / Middle East / Africa	81,385	83,633	1,813	104
Inter-segment sales revenue	28,393	30,588	2,399	2,639
Segment result (EBIT)	10,862	22,484	10,563	6,754
thereof depreciation and amortization expense	24,007	22,064	3,135	3,205
thereof write-downs of non-current financial assets	–	–	–	–
thereof other non-cash items	11,787	12,585	570	588
thereof net profit or loss of equity-accounted investments	–	–	–	–
thereof income from investments	–	–	–	–
Segment assets	730,086	687,029	85,465	81,430
Segment liabilities	507,972	459,282	27,162	27,274
Capital expenditure	26,118	37,377	3,582	2,982
Number of employees (average)	7,280	7,042	1,404	1,379

Region Asia / Pacific		Other		Total	
2004	2003	2004	2003	2004	2003
132,058	104,834	29,617	29,226	1,266,755	1,178,092
393	517	15	69	793,511	754,311
1	–	4	–	145,462	142,047
130,317	102,850	103	42	213,742	167,415
1,347	1,467	29,495	29,115	114,040	114,319
4,264	4,205	297	215	35,353	37,647
9,640	6,603	2,530	3,814	33,595	39,655
3,106	3,277	2,969	1,686	33,217	30,232
–	–	–	840	–	840
– 80	47	– 618	125	11,659	13,345
–	–	–	–	–	–
–	–	1,357	1,848	1,357	1,848
90,214	93,722	49,277	40,898	955,042	903,079
45,510	50,937	20,844	8,707	601,488	546,200
3,200	2,634	759	17,403	33,659	60,396
3,484	3,509	355	347	12,523	12,277

NOTES

GENERAL

Basis of preparation

As in the previous year, the accompanying consolidated financial statements of KSB AG, Frankenthal, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). We applied the Framework, as well as all Standards and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in force at the reporting date. We have not prepared consolidated financial statements in accordance with German accounting principles on the basis of the exemption provided for under section 292a of the HGB (German Commercial Code).

The financial year of the companies consolidated is the calendar year, with the exception of one company that was consolidated on the basis of interim financial statements.

All material items of the balance sheet and the income statement are presented separately and explained in these notes.

The income statement has been prepared using the nature of expense method.

Significant differences between the HGB and the IFRSs

There are certain fundamental recognition and measurement differences between the IFRSs and the German accounting principles. As far as our financial statements are concerned, these include:

- Under the IFRSs, non-current assets are usually measured after deducting straight-line depreciation and amortization, and the economic useful lives are longer than under the HGB. Tax-motivated accelerated depreciation or transfers from the “special reserve with equity portion” are prohibited by the IFRSs. In addition, leased assets are capitalized at the lessee where beneficial ownership is transferred.
- Construction contracts carried under inventories are measured using the percentage of completion method, under which revenue is recognized by reference to the stage of completion. This means that revenue is recognized proportionately prior to completion and billing of the project.
- Foreign currency receivables, cash and cash equivalents, and liabilities, as well as current financial instruments, are translated at the closing rates. This may result in unrealized gains being reported.
- Deferred tax assets and liabilities are accounted for using the balance sheet liability method, rather than by the income statement liability method as used under the HGB. The IFRSs also require deferred tax assets to be capitalized, in contrast to the recognition option under the HGB. The IFRSs require deferred tax assets to be recognized for tax loss carryforwards under certain conditions; this is prohibited under the HGB.
- In addition to future demographic trends, the IFRSs also require future compensation and pension trends, as well as discounting at a long-term capital market interest rate, to be reflected in the computation of pension provisions.

- The recognition criteria for provisions are much more restrictive under the IFRSs than under the HGB. Provisions for future internal expenses are generally prohibited. Provisions may only be recognized for obligations to third parties if it is probable that the obligation will have to be settled.
- Financial instruments are measured at their fair value, while the HGB requires them to be carried at cost.

First-time application of new and revised standards

In the year under review, we applied the new IFRS 3 Business Combinations only to those acquisitions completed after 30 March 2004. The revisions to IAS 36 and IAS 38 made in conjunction with IFRS 3 thus also apply only to such transactions. There were no other new or revised Standards required to be applied by KSB for the first time.

BASIS OF CONSOLIDATION

Consolidated Group

In addition to KSB AG, 5 German and 38 foreign companies (previous year: 5 German and 37 foreign companies) were fully consolidated. We hold a majority interest in the voting power of these companies, either directly or indirectly, or we have the power to appoint the majority of the members of the companies' management. 38 (previous year: 34) subsidiaries were not consolidated because of their insignificance, individually and collectively, for a true and fair presentation of net assets, financial position and results of operations. No companies are currently included at equity or proportionately consolidated.

The following changes to the consolidated Group occurred in the year under review:

We dissolved the Luxembourg company KSB Verwaltungsgesellschaft S.A., Echternach, with effect from 30 November 2004. As the existing parent company, KSB Finanz S.A., Echternach, assumed all assets and liabilities, this had no effect on the consolidated financial statements.

In the year under review, we merged our former unconsolidated Mexican company Inmobiliaria KSB, S.A. de C.V., Querétaro, with KSB de Mexico, S.A. de C.V., Querétaro.

We have included the Spanish company Bombas ITUR S.A., Zarautz, in the consolidated financial statements for the first time as of 1 January 2004. In November 2003, we acquired an 80 % interest in this company, and we acquired a further 10 % in September 2004.

The changes in the consolidated Group described above had the following effects on the consolidated financial statements:

Effects of changes in the consolidated Group in 2004

Assets	€ thousands	Equity and liabilities	€ thousands
Non-current assets	– 4,262	Equity	3,235
Deferred tax assets	2,176	Deferred tax liabilities	–
Current assets	21,819	Provisions and liabilities	16,498
	19,733		19,733

In addition to the acquisitions in Spain mentioned above, we also acquired or formed the following companies in the year under review:

- To further reinforce our service network, we acquired a small company in Italy, and formed a new company in each of France, Spain and Morocco.
- As part of our Efficiency Enhancement Programme, we formed new companies in Dalian (China) and Pune (India) in the second half of 2004.

These companies were not yet consolidated in 2004.

Overall, we spent € 100 thousand (previous year: € 35,353 thousand) on new acquisitions and successive acquisitions of consolidated companies in the year under review, and € 4,491 thousand (previous year: € 12,518 thousand) on the acquisition and formation of companies that have not yet been consolidated.

Consolidation methods

Capital consolidation uses the purchase method of accounting, under which the acquisition cost of the parent’s shares in the subsidiaries is eliminated against the equity attributable to the parent at the date of acquisition. Any goodwill resulting from first-time consolidation is carried as an intangible asset and reduced by straight-line amortization over 15 years in the case of service companies, and 10 years for production and sales / marketing companies. Negative goodwill is used as follows: Any excess of the interest in the fair values of net assets acquired over cost is used to offset expected losses or restructuring expenses at the companies to which this excess amount is attributable. Any remaining excess of the interest in the fair values of net assets acquired over cost is reversed over the remaining useful life of the non-monetary assets of the company concerned using the straight-line method. Any amount of negative goodwill in excess of the fair values of these non-monetary assets is recognized directly in the income statement. Negative goodwill is presented as a deduction from intangible assets.

Starting in 2004, goodwill and any excess of our interest in the fair values of net assets acquired over cost arising from acquisitions completed after 30 March 2004 are now accounted for in accordance with the new IFRS 3 and the revised IAS 36 and IAS 38. Goodwill is no longer amortized, but is tested once a year for impairment. An impairment loss is recognized if any impairment is identified. Any excess of our interest in the fair values of net assets acquired over cost is recognized directly in the income statement.

Those shares of subsidiaries' equity not attributable to KSB AG are reported as minority interest.

All intercompany receivables, liabilities, provisions and contingent liabilities, as well as sales revenue, other income and expenses, are eliminated. Intercompany profits contained in inventories and non-current assets are also eliminated.

The financial statements of all material companies or those required to be audited under local law have been audited and approved by auditors. This audit also extended to the correct reconciliation of the financial statements prepared under local GAAP to the uniform Group IFRS accounting policies.

Currency translation

The consolidated financial statements have been prepared in euros (€).

Transactions denominated in foreign currencies are translated at the individual companies at the rate prevailing when the transaction is initially recognized. Monetary assets and liabilities are subsequently measured at the closing rate. Currency translation gains and losses are recognized in net profit or loss.

Financial statements of consolidated companies that are not prepared in euros are translated using the functional currency principle. Because these companies are financially, economically and organizationally independent ("foreign entities"), assets and liabilities are translated at the closing rate. Almost all income statement accounts are translated at average exchange rates for the year.

Gains and losses from the translation of items of assets and liabilities compared with their translation in the previous year are taken directly to equity.

The financial statements of two Group companies are translated by applying the changes in general purchasing power to eliminate the effects of inflation.

The exchange rates of our most important currencies to the euro are:

	Closing rate		Average rate	
	31 Dec. 2004	31 Dec. 2003	2004	2003
1 US dollar	0.734	0.792	0.804	0.884
1 Brazilian real	0.277	0.274	0.275	0.288
100 Indian rupee	1.684	1.818	1.858	1.994
100 Chinese yuan	8.879	9.739	9.874	10.852

ACCOUNTING POLICIES

There has been no general change in the accounting policies as against the previous year. They apply to all companies included in the consolidated financial statements.

Acquisition cost

In addition to the purchase price, acquisition cost also includes attributable incidental costs and subsequent expenditure. Purchase price reductions are deducted from cost. Borrowing costs are not capitalized.

Production cost

In addition to direct material and labour costs, production cost also includes production-related administrative expenses. General administrative expenses, selling expenses and borrowing costs are not capitalized.

Intangible assets

Intangible assets are carried at cost and reduced by straight-line amortization. The underlying useful lives are two to eight years. We amortize goodwill originating between 1 January 1995 and 30 March 2004 over a maximum of 15 years. Goodwill arising after 30 March 2004 is tested annually for impairment. Goodwill originating up to and including 1994 has been deducted from revenue reserves. Negative goodwill arising up to 30 March 2004 is reversed over a maximum of 12 years. Any excess of our interest in the fair values of net assets acquired over cost arising after 30 March 2004 is recognized directly in the income statement. Write-downs are charged for impairment if the recoverable amount is lower than the carrying amount. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up), where this accounting treatment is permitted by IFRSs.

Development costs

Development costs are capitalized as intangible assets at cost and reduced by straight-line amortization where the criteria described in IAS 38 are met. Research costs are expensed as incurred. If research and development costs for a project cannot be reliably distinguished, no costs are capitalized.

Property, plant and equipment

Property, plant and equipment is carried at cost and reduced by straight-line depreciation. No tax-motivated depreciation is recognized. Write-downs are charged for impairment if the recoverable amount is lower than the carrying amount. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up).

Government grants are deducted from the assets concerned.

Maintenance expenses are recognized as an expense in the period in which they are incurred, unless they lead to the expansion or material improvement of the asset concerned.

The following useful lives are applied:

Buildings	10 – 60 years
Plant and machinery	7 – 25 years
Operating and office equipment	3 – 25 years

Leases

Lease payments that are payable under operating leases are recognized as expenses in the period in which they are incurred. In the case of finance leases, the leased asset is recognized at the time of inception of the lease at the lower of fair value and the present value of future minimum lease payments. Simultaneously, a liability is recognized for the lease payments. The asset's carrying amount is reduced by depreciation over its useful life or the shorter lease term.

Non-current financial assets

Investments in unconsolidated affiliates and associates are carried at cost or the lower fair value. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up). Interest-bearing loans are carried at their principal amount. Low-interest or non-interest-bearing loans are carried at their present value. Non-current financial instruments are carried at their fair values at the balance sheet date.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is measured using the weighted average method. Write-downs to the net realizable value take account of all inventory risks resulting from slow-moving goods or impaired marketability. This also applies to write-downs to fair value if the selling price is lower than production cost plus costs still to be incurred. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed.

Advances received from customers are deducted in full from inventories.

The percentage of completion (PoC) method is applied for construction contracts defined under IAS 11. The stage of completion of the contracts is determined on the basis of the total estimated contract costs and the actual contract costs up to the balance sheet date. The percentage contract revenue is reported in inventories under a separate heading. Gains or losses in the period are recognized in total output of operations in the income statement as changes in inventories.

Receivables and other current assets

Receivables and other current assets are generally carried at their principal amounts. Low-interest or non-interest-bearing receivables are discounted. We take account of all identifiable risks by charging specific write-downs and experience-based write-downs. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed.

Prepaid expenses relate to accrued expenditure prior to the balance sheet date that will only be classified as an expense after the balance sheet date.

Current financial instruments

Current financial instruments are carried at their fair values at the balance sheet date.

Cash

Cash items are carried at their principal amounts.

Deferred taxes

We account for deferred taxes using the balance sheet liability method on the basis of the enacted or substantively enacted local tax rates. This means that deferred tax assets and liabilities generally arise when the tax base of assets and liabilities differs from their carrying amount in the IFRS financial statements, and this leads to future tax expense or income. We also recognize deferred tax assets from tax loss carry-forwards in those cases where it is more likely than not that there will be sufficient taxable profit available in the near future against which these tax loss carryforwards can be utilized. Deferred taxes are also recognized for consolidation adjustments. Deferred taxes are not discounted. Deferred tax assets and liabilities are always offset where they relate to the same tax authority.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are calculated on the basis of actuarial reports. They are based on defined benefit pension plans. The reports are prepared using the projected unit credit method. We apply the 10 % corridor rule, under which actuarial gains and losses outside this 10 % corridor are recognized over the remaining working lives. The actuarial demographic assumptions and the definition of compensation and pension trends, as well as interest rate trends, are best estimates. The interest component is reported as an interest cost in financial income / expense.

KSB companies that use a defined contribution pension plan do not recognize provisions. The premium payments are recognized directly in the income statement as pension costs in the staff costs. These companies have no obligations other than the obligation to pay premiums.

Other provisions

A provision is recognized only if a past event results in a present legal or constructive external obligation that the company has no realistic alternative to settling, where settlement of this obligation is expected to result in an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably. No provisions are recognized for future internal expenses. The amount recognized as a provision is our best estimate. Any recourse or reimbursement claims are recognized separately and are not deducted from the provisions concerned.

Provisions for restructurings are recognized only if the additional criteria set out in IAS 37 are met (detailed restructuring plan that has been announced to those affected by it).

Non-current provisions are discounted if material.

Liabilities

Liabilities are carried at their redemption amount.

Derivative financial instruments

We only use derivatives for hedging purposes. We hedge both existing recognized underlyings (fair value hedges) and future cash flows (cash flow hedges) against foreign currency and interest rate risks. The hedging instruments used are exclusively highly effective currency forwards, currency options and interest rate derivatives entered into with prime-rated banks. We hedge currency risks primarily for items in USD and GBP. Interest rate risks are minimized for long-term borrowings at variable rates of interest. Group guidelines govern the use of these instruments. These transactions are also subject to continuous risk monitoring.

Fair value changes of derivatives used to hedge an existing recognized underlying are recognized in net profit or loss, as are changes in the fair value of the related hedged items.

In the case of cash flow hedges, changes in the fair value of derivatives are taken directly to equity until the related hedged item is recognized.

The carrying amounts reflect fair values.

Derivatives are reported under other receivables, other current assets and prepaid expenses, and under miscellaneous other liabilities and deferred income.

The maturities of the currency derivatives used are mostly between one and two years, and those of interest rate derivatives are between six and ten years.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events. Contingent liabilities may also be present obligations that arise from past events where it is possible but not probable that there will be an outflow of resources embodying economic benefits.

Contingent liabilities correspond to the extent of liability at the balance sheet date.

Income and expenses

Sales revenue consists of charges for deliveries and services billed to customers, and licence income. Sales allowances reduce sales revenue. Sales revenue is recognized when the deliveries have been effected or the services have been rendered and the significant risks of ownership have been transferred.

Effects on the results from application of the percentage of completion method are recognized in changes in inventories.

Expenses are recognized when they are incurred or when the services are utilized.

Estimates

Any estimates necessary for preparation of these consolidated financial statements are based on cautious assumptions. Actual amounts may differ from these estimates.

Any changes in estimates that result in material differences are explained separately.

Maturities

A non-current maturity is one that extends to more than one year.

BALANCE SHEET DISCLOSURES

1_ Non-current assets

We did not capitalize any development costs in the year under review because not all of the comprehensive recognition criteria defined in IAS 38 were met.

The decrease in intangible assets is attributable primarily to the amortization of existing goodwill. In addition, the excess of our interest in the fair values of net assets acquired over cost resulting from the first-time consolidation mentioned above also had an effect. These effects were partly offset by the capitalization of the expenditure for implementing and adapting the SAP R/3 system.

The carrying amount of property, plant and equipment is more or less on a level with the previous year.

Assets resulting from finance leases (almost exclusively real property) are recognized as non-current assets in accordance with IAS 17, and corresponding financial liabilities are recognized. The carrying amount of these recognized assets amounts to € 9,522 thousand (previous year: € 12,362 thousand). The decrease is due primarily to the fact that KSB AG purchased a previously leased property in the year under review.

Disposals of items of property, plant and equipment resulted in book gains of € 7,378 thousand (previous year: € 886 thousand) and book losses of € 1,188 thousand (previous year: € 877 thousand). The book gains are attributable principally to the sale of a property of our Italian company that was no longer required. The book gains and losses were reported in the income statement under other operating income and other operating expenses.

We recognized impairment losses of € 1,032 thousand (previous year: € 0 thousand) on intangible assets and items of property, plant and equipment in the year under review. These impairment losses relate to buildings at our Halle location that are no longer required.

The changes in non-current financial assets result from the initial inclusion of Bombas ITUR S.A. (Spain) in the consolidated financial statements, and to the new companies mentioned above.

Currency translation adjustments taken directly to equity in the year under review resulted in a loss of € 2,285 thousand (previous year: loss of € 6,913 thousand).

Details of changes in non-current assets are presented in a separate table (Statement of Changes in Non-Current Assets) on pages 60 / 61.

The list of shareholdings of KSB AG, Frankenthal, has been filed with the commercial register of the Ludwigshafen (Rhine) Local Court, No. HRB 1016.

2_ Deferred tax assets

Explanations on deferred tax assets are presented under Taxes on income (p. 83).

3_ Inventories

(€ thousands)	31 Dec. 2004	31 Dec. 2003
Raw materials and production supplies	79,774	70,369
Work in progress	68,915	61,802
Finished goods and goods purchased and held for resale	51,291	52,351
Inventories recognized by PoC	68,870	54,760
Advance payments	6,102	3,787
Advances received from customers	- 73,936	- 49,486
	201,016	193,583

A small volume of inventories is carried at net realizable value. We only reversed write-downs to a minor extent where the current net realizable value is higher than the prior-period value.

Construction contracts under IAS 11 include recognized profits of € 6,603 thousand (previous year: € 8,042 thousand) and costs of € 62,267 thousand (previous year: € 46,718 thousand).

4__ Receivables and other current assets

(€ thousands)	31 Dec. 2004	31 Dec. 2003
Trade receivables	300,709	286,380
thereof with more than 1 year to maturity	(6,964)	(8,891)
Intragroup and associate receivables	20,634	14,653
thereof with more than 1 year to maturity	(412)	(444)
Other receivables, other current assets and prepaid expenses	33,486	24,319
thereof with more than 1 year to maturity	(3,010)	(783)
	354,829	325,352

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 3,028 thousand (previous year: € 1,363 thousand). Associate receivables amounted to € 2,940 thousand (previous year: € 2,308 thousand).

The other receivables, other current assets and prepaid expenses include recoverable taxes, receivables from employees and deferred interest. They also include other assets from currency forwards accounted for under IAS 39 amounting to € 14,667 thousand (previous year: € 9,841 thousand). At the balance sheet date, the total notional volume of currency forwards was € 182,985 thousand (previous year: € 123,707 thousand), and the total notional volume of interest rate derivatives was € 34,325 thousand (previous year: € 31,828 thousand).

The fair values of receivables correspond to the carrying amounts reported.

5__ Current financial instruments and cash

The current financial instruments amount to € 2,677 thousand (previous year: € 4,245 thousand). Cash relates primarily to term deposits with short maturities and call deposits.

6__ Equity

There was no change in the share capital of KSB AG, Frankenthal, as against the previous year. In accordance with the Articles of Association, it totals € 44,771,963.82. It is composed of 886,615 no-par value ordinary shares and 864,712 no-par value preference shares. Each no-par value share represents an equal notional amount of the share capital. The preference shares carry separate cumulative preferred dividend rights and progressive additional dividend rights. All shares are bearer shares.

The capital reserve results from the appropriation of premiums from capital increases in previous years.

In addition to revenue reserves from previous years, the revenue reserves primarily include currency translation adjustments and consolidation effects taken directly to equity. The deferred tax assets resulting from these adjustments amount to € 14,825 thousand (previous year: € 13,986 thousand), while deferred tax liabilities amount to € 5,083 thousand (previous year: € 3,476 thousand).

Equity also includes changes in the fair value of derivatives used to hedge future cash flows amounting to € 10,091 thousand (previous year: € 6,065 thousand). The opening balance as of 1 January 2004 was almost completely withdrawn from equity and included in the measurement of the hedged items. The closing balance as of 31 December 2004 results mainly from additions in the year under review.

The minority interest relates primarily to PAB GmbH, Frankenthal, and the interests it holds, as well as to our companies in India, South Africa and China. KSB AG holds a 51 % interest in PAB GmbH, while Klein Pumpen GmbH, Frankenthal, holds a 49 % interest.

Details of the changes in equity accounts and minority interest are contained in the Statement of Changes in Equity (p. 62).

The proposal on the appropriation of the net retained earnings of KSB AG calculated in accordance with HGB is shown at the end of these notes (p. 90).

7__ Deferred tax liabilities

Explanations on deferred tax liabilities are presented under Taxes on income (p. 83).

8_ Provisions for pensions and similar obligations

More than 90 % of the provisions for pensions result from defined benefit plans of the German Group companies. These relate to direct commitments by the companies to their employees. The commitments are based on salary and length of service. Contributions from employees themselves are also included.

The amounts provided for these benefit obligations and the annual expense for pension benefits are measured and calculated each year on the basis of actuarial reports using the projected unit credit method (IAS 19).

The actuarial assumptions were adjusted to reflect the situation prevailing at the balance sheet date. In particular the reduction in the discount rate of 5.5 % applied to the obligations in the previous year to 4.75 % increased the amount of the obligations. The assumed rate of future salary increases is 2.5 % (previous year: 3.0 %), and the assumed growth rate for the fixed pension trend and benefit contributions is 1.8 % per annum (previous year: 2.0 % per annum). A rate of 1.0 % per annum has been applied to future pension trends, and the maximum income threshold for social security contribution assessment is assumed to rise by 2.5 % (previous year: 3.0 %). The assumption for pensionable age is governed by the 1999 German Pension Reform Act. A mean fluctuation table was applied to staff turnover, and the pension calculations are based on the 1998 mortality tables published by Prof. Klaus Heubeck. Actuarial gains and losses outside the 10 % corridor are recognized.

Change in pension provisions from the above-mentioned benefit plans of the German Group companies

(€ thousands)	2004	2003
Opening balance at 1 Jan.	164,071	155,006
Annual pension expense (see below)	13,002	14,738
Contributions by employees	2,476	1,942
Net pension payments	- 8,170	- 7,615
Closing balance at 31 Dec.	171,379	164,071

The present value of pension commitments amounts to € 188,244 thousand (previous year: € 175,231 thousand). This results in a net actuarial loss of € 16,865 thousand (previous year: € 11,160 thousand), which is within the 10 % corridor to be applied. The substantial increase is attributable to the reduction in the discount rate.

Changes recognized in income statement

(€ thousands)	2004	2003
Current service cost	3,591	5,466
Interest cost	9,411	9,272
	13,002	14,738

The current service cost is recognized in staff costs under pension costs, and the interest cost is recognized in financial income / expense under interest and similar expenses. There was no requirement to recognize actuarial gains or losses, or past service cost.

There are smaller benefit plans at certain foreign Group companies. At the US companies, there are post-employment medical care obligations for employees. These are measured using comparable principles and contained in the provisions for pensions and similar obligations in the amount of € 10,683 thousand (previous year: € 10,762 thousand).

9__ Other provisions

Changes (€ thousands)	1 Jan. 2004	Change cons. Group, CTA*	Utilization	Reversals	Additions	31 Dec. 2004
Taxes	7,357	281	- 3,555	- 303	2,395	6,175
Other staff costs	66,613	- 328	- 41,910	- 575	59,666	83,466
Warranty obligations and contractual penalties	20,641	42	- 12,112	- 399	15,336	23,508
Other obligations	34,670	3,037	- 23,277	- 2,984	30,034	41,480
	129,281	3,032	- 80,854	- 4,261	107,431	154,629

*CTA = currency translation adjustments

Provisions for taxes contain amounts of tax still payable for the year under review and for previous years for which no final tax assessment has yet been received. Provisions for other staff costs relate primarily to profit-sharing, jubilee payments, compensated absence, partial retirement and severance payments. The provisions for warranty obligations and contractual penalties cover the statutory and contractual obligations to customers. The provisions for other obligations include provisions for expected losses from uncompleted transactions and onerous contracts, customer bonuses, accrued costs and environmental measures.

The increase in the provision for other staff costs is attributable in particular to higher partial retirement obligations as a consequence of our Efficiency Enhancement Programme.

€ 207,231 thousand of the total provisions (including pension provisions) is non-current (previous year: € 185,721 thousand).

10__ Liabilities

(€ thousands)	31 Dec. 2004		31 Dec. 2003	
		thereof < 1 year		thereof < 1 year
Financial liabilities				
Bank loans and overdrafts	70,608	13,216	82,227	18,142
Finance lease liabilities	8,412	1,217	11,555	1,684
Other financial liabilities	17,464	14,448	10,866	9,759
	96,484	28,881	104,648	29,585
Trade payables				
Trade payables to third parties	126,247	122,599	100,737	95,533
Intragroup trade payables	3,311	3,311	2,714	2,714
	129,558	125,910	103,451	98,247
Other liabilities and deferred income				
Taxes	13,072	13,072	13,486	13,486
Social security	12,258	12,258	11,938	11,938
Miscellaneous other liabilities and deferred income	18,033	16,149	14,328	13,945
	43,363	41,479	39,752	39,369
	269,405	196,270	247,851	167,201

Assets amounting to € 3,439 thousand (previous year: € 2,736 thousand) have been pledged as security in the KSB Group for bank loans and other liabilities.

As in the previous year, € 8,648 thousand of the liabilities was secured by land charges or similar rights in the year under review.

Non-current financial liabilities include loans that we used to partly debt-finance acquisitions in previous years so as to exploit the low level of interest rates. These relate in particular to three loans that we took out with a residual amount of approximately € 36 million in total at the balance sheet date. These are long-term loans and bear interest of between three and five percent.

The weighted average interest rate on bank loans and overdrafts was 3.99 % (previous year: 4.30 %). Interest rate risk is limited to overdrafts and to a long-term redeemable loan with short-term variable interest lock-ins.

Taxes classified as other liabilities also relate to taxes that Group companies must remit for third-party account.

Miscellaneous other liabilities and deferred income in the year under review include changes in the fair value of hedging instruments amounting to € 1,305 thousand (previous year: € 923 thousand). € 563 thousand (previous year: € 51 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 497 thousand (previous year: € 512 thousand).

The fair values of liabilities correspond to the carrying amounts reported.

INCOME STATEMENT DISCLOSURES

11_ Sales revenue

The breakdown of sales revenue is presented in the segment reporting (pp. 64 / 65).

The company that was first-time consolidated in the year under review accounted for € 29,300 thousand of the sales revenue.

12_ Other operating income

(€ thousands)	2004	2003
Gains from asset disposals and reversals of impairment losses (write-ups)	7,378	1,548
Income from current assets	1,643	2,152
Currency translation gains	418	–
Income from the reversal of provisions	4,261	2,430
Miscellaneous other income	10,105	8,409
	23,805	14,539

The book gains are attributable principally to the sale of a property of our Italian company that was no longer required.

Miscellaneous other income relates primarily to services income, commission income, rental and lease income, insurance compensation, grants and subsidies.

13_ Cost of materials

(€ thousands)	2004	2003
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	473,582	422,185
Cost of purchased services	32,807	31,260
	506,389	453,445

The company that was first-time consolidated in the year under review accounted for € 14,184 thousand of the cost of materials.

14_ Staff costs

(€ thousands)	2004	2003
Wages and salaries	382,282	357,001
Social security contributions and employee assistance costs	88,636	83,775
Pension costs	6,501	9,763
	477,419	450,539

Pension costs are reduced by the interest component of provisions for pensions, which is reported as an interest cost in financial income / expense.

The increase in staff costs is primarily a result of measures from the Efficiency Enhancement Programme mentioned above.

First-time consolidation in the year under review accounted for € 9,776 thousand of staff costs.

Average number of employees	2004	2003
Wages earners	6,014	5,865
Salaried employees	6,150	6,065
Trainees and apprentices	359	347
	12,523	12,277

248 employees were added from the company that was first-time consolidated in the year under review.

15 _ Other operating expenses

(€ thousands)	2004	2003
Losses from asset disposals	1,188	877
Losses from current assets	4,524	6,417
Currency translation losses	4,854	1,983
Other staff costs	15,927	9,965
Repairs, maintenance, third-party services	64,641	64,098
Selling expenses	62,375	53,694
Administrative expenses	51,703	51,789
Rents and leases	13,767	12,651
Miscellaneous other expenses	32,942	26,905
	251,921	228,379

Miscellaneous other expenses relate primarily to warranties, contractual penalties and additions to provisions.

The increase in other operating expenses is attributable in part to the effects of our Efficiency Enhancement Programme.

€ 4,042 thousand of the other operating expenses relates to the newly consolidated company.

16__ Financial income / expense

(€ thousands)	2004	2003
Income from investments	1,357	1,848
thereof from affiliates	(1,357)	(1,848)
Interest and similar income	3,712	4,130
thereof from affiliates	(21)	(128)
Interest and similar expenses	- 15,196	- 13,947
thereof to affiliates	(- 177)	(- 46)
Miscellaneous financial income / expense	216	- 731
	- 9,911	- 8,700

Interest and similar expenses include the interest cost on discounted pension provisions amounting to € 9,868 thousand (previous year: € 9,757 thousand). Income from other non-current financial instruments and non-current loans amounting to € 216 thousand (previous year: € 138 thousand), as well as write-downs of non-current financial assets and current financial instruments amounting to € 0 thousand (previous year: € - 869 thousand), are classified as other financial income / expense.

17__ Taxes on income

All income-related taxes of the consolidated companies and deferred taxes are reported under this heading. Other taxes are reported in the income statement after other operating expenses.

(€ thousands)	2004	2003
Effective taxes	15,005	18,669
Deferred taxes	- 7,548	- 7,498
	7,457	11,171

€ 791 thousand (previous year: € 16 thousand) of the effective taxes in the year under review related to tax refunds and € 206 thousand (previous year: € 824 thousand) to tax arrears.

Reconciliation of deferred taxes

(€ thousands)	2004	2003
Change in deferred tax assets	- 4,080	- 2,652
Change in deferred tax liabilities	- 6,802	- 6,711
Change in deferred taxes recognized in balance sheet	- 10,882	- 9,363
Change in deferred taxes taken directly to equity	- 29	1,856
Change in consolidated Group, currency translation adjustments and other	3,363	9
Deferred taxes recognized in income statement	- 7,548	- 7,498

Allocation of deferred taxes

(€ thousands)	Deferred tax assets		Deferred tax liabilities	
	2004	2003	2004	2003
Assets				
Intangible assets, property, plant and equipment	2,344	1,542	36,590	36,091
Inventories	5,197	5,004	8,927	9,317
Receivables and other current assets	2,925	2,653	5,807	4,156
Other assets	48	5	9	11
Equity and liabilities				
Provisions for pensions and similar obligations	13,847	13,409	635	722
Other provisions	15,371	10,153	3,809	4,630
Currency translation differences recognized directly in equity	20,090	18,845	1,663	1,928
Other equity and liabilities	4,447	1,375	1,017	1,201
Gross deferred taxes – before offsetting	64,269	52,986	58,457	58,056
Offset under IAS 12.74	- 36,728	- 29,525	- 36,728	- 29,525
Net deferred taxes – after offsetting	27,541	23,461	21,729	28,531

As in the previous year, changes in existing local tax rates or the introduction of new local taxes had no material effects in the year under review.

Deferred tax assets of € 3,237 thousand (previous year: € 309 thousand) were recognized from tax loss carryforwards. The corresponding loss carryforwards amount to € 8,899 thousand (previous year: € 1,029 thousand).

We did not recognize deferred tax assets from loss carryforwards amounting to € 11,088 thousand (previous year: € 9,220 thousand) because it is unlikely that there will be sufficient taxable profit available in the near future against which these tax loss carryforwards can be utilized. The same applies to minor deductible temporary differences (timing differences).

Reconciliation of income taxes

(€ thousands)	2004	2003
Profit from ordinary activities	22,111	29,838
Calculated income taxes on profit from ordinary activities on the basis of the applicable tax rate (37 %)	8,181	11,040
Differences in tax rates of foreign Group companies	- 1,821	- 1,255
Utilization of tax loss carryforwards	- 2,309	354
Other	3,406	1,032
Current taxes on income	7,457	11,171
Current tax rate	34 %	37 %

The applicable tax rate of 37 % is a composite rate resulting from the German corporation tax, solidarity tax contribution and trade income tax rates.

18_ Minority interest in net profit / loss

The minority interest in net profit amounts to € 6,773 thousand (previous year: € 7,332 thousand), and the minority interest in net loss amounts to € 299 thousand (previous year: € 918 thousand). It relates in particular to PAB GmbH, Frankenthal, and the interests it holds, as well as to our companies in India, South Africa and China.

19_ Research and development costs

Research and development costs in the year under review amounted to € 24,500 thousand (previous year: € 23,999 thousand).

20__ Earnings per share

		2004	2003
Consolidated net profit for the year	(€ thousands)	8,180	12,253
Additional dividend attributable to preference shareholders	(€ thousands)	- 891	- 450
	(€ thousands)	7,289	11,803
Number of ordinary shares		886,615	886,615
Number of preference shares		864,712	864,712
Total number of shares		1,751,327	1,751,327
Earnings per ordinary share	(€)	4.16	6.74
Earnings per preference share	(€)	5.19	7.26

There were no dilutive effects.

SEGMENT REPORTING

Segment reporting corresponds to our internal organizational and management structure, as well as the reporting lines to the Board of Management and the Supervisory Board.

The **Pumps, Valves and Service Europe** segment includes the development, production and marketing of pumps and valves by our European Group companies, as well as the corresponding service business.

The **Region Americas** segment combines all pump, valve and service activities by the Group companies in this region. Valve activities only play a minor role here. The same applies to the **Region Asia / Pacific** segment.

Other contains the amount of Group companies that cannot be allocated to any of the defined segments. It also contains inter-segment consolidation adjustments to enable a reconciliation to the Group amounts.

The amounts disclosed for the individual segments have been established in compliance with the accounting policies of the underlying consolidated financial statements. The amounts have been consolidated within the individual segments.

The **external sales revenue of the Group companies by segment** presents sales revenue generated from third parties and unconsolidated Group companies.

The **external sales revenue of the Group companies by geographic area** presents the sales revenue of the segments generated from third parties and unconsolidated Group companies by customer location. Customer locations are allocated to the following Regions: Europe, Americas, Asia / Pacific and Eastern Europe / Middle East / Africa.

Inter-segment sales revenue relates to all sales revenue between the segments.

The **segment result** shows the earnings before interest and taxes (**EBIT**), including minorities.

Segment assets correspond to the entire assets reported on the balance sheet, excluding recoverable income taxes; **segment liabilities** consist of all liabilities and provisions, net of provisions for income taxes.

The **capital expenditure** relates to intangible assets, property, plant and equipment.

Transfer prices for intercompany sales are determined on an arm's length basis.

The amounts disclosed for the individual segments are presented in a separate overview attached to these notes (pp. 64 / 65).

A reconciliation between the **segment liabilities** and the provisions and liabilities reported in the balance sheet is presented below:

(€ thousands)	2004	2003
Segment liabilities	601,488	546,200
Provisions for income taxes	4,608	5,765
Provisions and liabilities	606,096	551,965

A reconciliation between the **segment result (EBIT)** and the profit from ordinary activities reported in the income statement is presented below:

(€ thousands)	2004	2003
Segment result (EBIT)	33,595	39,655
Interest income	3,712	4,130
Interest expense	- 15,196	- 13,947
Profit from ordinary activities	22,111	29,838

OTHER DISCLOSURES

Contingencies and commitments

Contingent liabilities and security granted

(€ thousands)	2004	2003
Liabilities from the issuance and transfer of bills	–	5
Liabilities from guarantees	10,488	7,590
Liabilities from warranties	14,268	12,595
Liabilities from the granting of other security for third-party liabilities	7,644	7,792
	32,400	27,982

Other financial obligations from rental agreements and operating leases amount to a total of € 10,371 thousand (previous year: € 9,539 thousand), of which € 6,262 thousand is due within one year.

Operating leases relate primarily to vehicles.

Finance leases (€ thousands)	Minimum lease payments		Present values	
	2004	2003	2004	2003
Due within one year	1,602	1,911	1,217	1,684
Due between one and five years	7,224	10,230	6,636	8,725
Due after more than five years	593	1,373	559	1,146
	9,419	13,514	8,412	11,555

Finance leases relate almost entirely to real property. There is a purchase option on one property in Germany. As mentioned above, KSB AG purchased another property in 2004.

The annual obligations from IT services agreements amount to € 20,307 thousand (previous year: € 20,735 thousand) over a term of one to five years.

The aggregate purchase obligation for investments amounts to € 4,445 thousand (previous year: € 5,199 thousand). Almost all of the corresponding payments are due in 2005.

Related party disclosures

Klein Pumpen GmbH, Frankenthal, holds a majority interest in the voting power of KSB AG.

A rental and services agreement has been entered into between KSB AG and Klein Pumpen GmbH. KSB AG paid € 74 thousand (previous year: € 85 thousand) under the terms of this agreement in the year under review. Short-term deposits by KSB AG with Klein Pumpen GmbH and by Klein Pumpen GmbH with KSB companies carry appropriate rates of interest.

All transactions are entered into on an arm's length basis. This is also demonstrated by the dependent company report prepared in accordance with section 312 of the AktG (German Public Companies Act).

The total remuneration of members of the Supervisory Board amounts to € 190 thousand for financial year 2004 (previous year: € 289 thousand), and the total remuneration of the Board of Management amounts to € 1,957 thousand (previous year: € 2,220 thousand). € 16,853 thousand has been provided for pension obligations to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 3,556 thousand in the year under review (previous year: € 1,113 thousand).

The members of the Board of Management and the Supervisory Board are listed separately (p. 93).

Events after the balance sheet date

There were no reportable events after the balance sheet date.

German Corporate Governance Code

The Board of Management and Supervisory Board of KSB AG have issued the statement of compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with section 161 of the AktG (German Public Companies Act). The statement of compliance is published on page 96 of the present Annual Report as well as on our web site (www.ksb.com) and has thus been made permanently accessible to our shareholders.

PROPOSAL ON THE APPROPRIATION OF THE NET RETAINED EARNINGS OF KSB AG

We will propose to the Annual General Meeting on 1 June 2005 to appropriate the net retained earnings of KSB AG, Frankenthal, amounting to € 890,653.36 and containing retained earnings brought forward of € 16,519.00, to distribute a dividend of € 1.03 for each of the 864,712 no-par value preference shares in accordance with the Articles of Association.

Frankenthal, March 2005

The Board of Management

The annual financial statements of KSB AG, Frankenthal, were prepared in accordance with German accounting principles. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Mannheim, has audited these annual financial statements and issued an unqualified audit opinion. They will be announced in the Bundesanzeiger (German Federal Gazette) and filed with the commercial register of the Ludwigshafen (Rhine) Local Court. These annual financial statements can also be downloaded from our web site at www.ksb.com, or sent in print form on request.

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows, as well as the notes to the financial statements prepared by KSB Aktiengesellschaft, Frankenthal (Pfalz) for the business year from 1 January to 31 December 2004. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from 1 January 1 to 31 December 2004, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January to 31 December 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Mannheim, 18 March 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Reineke
Wirtschaftsprüfer
(German Public Auditor)



Benz
Wirtschaftsprüfer
(German Public Auditor)

LIST OF SHAREHOLDINGS OF KSB AG

Investments in affiliates

Name and seat of the fully consolidated companies	Country	Capital share 31 Dec. 2004	Equity 2004	Net profit for the year (Net loss for the year) 2004
		%	€ thousands	€ thousands
Direct investments				
KSB Service GmbH, Frankenthal	Germany	100.00	1,534	1) ¹⁾
KSB Service GmbH, Schwedt	Germany	100.00	1,023	1) ¹⁾
KSB Fluid Systems GmbH, Frankenthal	Germany	100.00	3,375	1) ¹⁾
Uder Elektromechnik GmbH, Friedrichsthal	Germany	100.00	26	1) ¹⁾
KSB Zürich AG, Zurich	Switzerland	100.00	1,365	3
Hydoskepi GmbH, Amaroussion	Greece	100.00	1,358	(45)
KSB A/S, Farum (Copenhagen)	Denmark	100.00	11	(167)
KSB Mörck AB, Askim (Gothenburg)	Sweden	55.00	1,892	144
KSB Finland Oy, Vantaa (Helsinki)	Finland	100.00	2,841	819
KSB Pompy i Armatura Sp. z o.o., Warsaw	Poland	100.00	2,411	1,019
KSB Chile S.A., Santiago	Chile	100.00	5,013	718
KSB de Mexico, S.A. de C.V., Querétaro	Mexico	100.00	627	(309)
MIL Controls Limited, Mala	India	51.00	2,226	325
KSB Pumps Co. Ltd., Lahore	Pakistan	58.89	3,809	643
KSB Finanz S.A., Echternach	Luxembourg	100.00	93,526	2,998
KSB S.A.S., Gennevilliers (Paris)	France	100.00	48,175	4,496
Techni Pompe Service S.A., Hoerdt	France	100.00	1,563	311
AMRI Inc., Houston / Texas	USA	10.03	–	–
KSB Finance Nederland B.V., Zwanenburg	The Netherlands	100.00	1,470	(638)
KSB Nederland B.V., Zwanenburg	The Netherlands	100.00	4,275	261
DP industries B.V., Alphen aan den Rijn	The Netherlands	100.00	7,034	2,592
SISTO Armaturen S.A., Echternach	Luxembourg	52.86	8,458	112
KSB Italia S.p.A., Milan	Italy	100.00	20,815	1,048
KSB Österreich Ges.m.bH, Vienna	Austria	100.00	2,806	332
KSB LIMITED, Loughborough	United Kingdom	100.00	3,558	(176)
Rotary Equipment Services Ltd., Loughborough	United Kingdom	100.00	1,065	451
N.V. KSB Belgium S.A., Wavre	Belgium	100.00	3,158	847
KSB-AMVI S.A., Madrid	Spain	100.00	3,226	508
AMVI S.A., Burgos	Spain	99.80	4,879	334
Bombas ITUR S.A., Zarautz	Spain	90.00	10,718	(407)
KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	99.00	2,482	403
KSB Ajax Pumps Pty. Ltd., Tottenham (Melbourne)	Australia	100.00	6,001	(253)
KSB Pumps (S.A.) (Pty.) Ltd., Germiston (Johannesburg)	South Africa	50.00	9,661	2,515
KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	100.00	15,968	3,150
KSB Comp. Sudam. de Bombas S.A., Carapachay (Buenos Aires)	Argentina	100.00	2,474	236
KSB Shanghai Pump Co. Ltd., Shanghai	China	51.00	10,608	987
PAB Pumpen und Armaturen-Beteiligungsgesellschaft mbH, Frankenthal	Germany	51.00	23,873	319
KSB America Corporation, Richmond / Virginia	USA	100.00	17,219	701
KSB Inc., Richmond / Virginia	USA	100.00	5,835	608
GIW Industries Inc., Grovetown / Georgia	USA	100.00	19,002	1,618
AMRI Inc., Houston / Texas	USA	89.97	5,014	564
Canadian Kay Pump Ltd., Mississauga	Canada	100.00	4,706	282
KSB Pumps Limited, Pune (Bombay)	India	40.54	23,327	5,162
MIL Controls Limited, Mala	India	49.00	–	–

¹⁾ Profit pooling arrangement

SUPERVISORY BOARD AND BOARD OF MANAGEMENT

> SUPERVISORY BOARD

Peter Schubert, Dipl.-Kfm., Heddeshcim ¹⁾
(Member since 2 Dec. 2004 / Chairman since 13 Dec. 2004)

Dr. Dr. Peter Bettermann, Dipl.-Mineraloge, Jurist,
Weinheim (Chairman and Member until 26 Nov. 2004)
Spokesman of the Corporate Management of Freudenberg & Co.
Kommanditgesellschaft

Hermann Reutter, Measurement Technician, Bad Dürkheim
(Deputy Chairman)
Chairman of the General Works Council
and Chairman of the Frankenthal Works Council

Dr. Peter Buthmann, Dipl.-Ing., Bayreuth ²⁾
Vice President, Service KSB Group

Bernd Euler, Dipl.-Kfm., Buckenhof ³⁾
Member of the Board in the Industrial Solutions and
Services Division of Siemens Aktiengesellschaft

Sigrid Feldmann, Insurance Merchant, Neustadt / Weinstraße
Trade Union Secretary of IG Metall
Ludwigshafen / Frankenthal

Heinz Köppel, Metalworker, Münchberg
1. Delegate of IG Metall Administration Area
Ost-Oberfranken

Klaus Kühborth, Dipl.-Wirtschaftsing., Frankenthal
(since 1 Jan. 2004)
Managing Director of Klein Pumpen GmbH

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

Richard Lederer, Dipl.-Kfm., Frankenthal
Former Member of the Management of the
Energy Pumps Division of KSB AG

Karlheinz Leitgeb, Industrial Foreman, Pegnitz
Deputy Chairman of the General Works Council and
Chairman of the Pegnitz Works Council

Dr. Michael Rogowski, Dipl.-Wirtschaftsing., Heidenheim ⁴⁾
Chairman of the Supervisory Board of Voith AG and
President / Vice President of the Bundesverband
der Deutschen Industrie e.V. (BDI) (German Industry Association)

Bernhard Wild, Dipl.-Ing., Königstein ⁵⁾
Chairman of the Board of Management of Braun GmbH

> BOARD OF MANAGEMENT

Prof. Dr. h.c. Josef Gerstner · Neckargemünd ⁶⁾
Chairman and Human Resources Director

Dr.-Ing. Willi Enderle · Grünstadt ⁷⁾

Dr. rer. pol. Alois Wittmann · Frankenthal ⁸⁾

Dipl.-Ing. Peter Wurzbacher · Frankenthal ⁹⁾
(until 31 May 2004)

Mandates of KSB Supervisory Board members in the Supervisory Board / Board of Directors of other companies:

- ¹⁾ Autohaus NIX GmbH, Wächtersbach, Germany
NIX Auto Group GmbH, Wächtersbach, Germany
- ²⁾ KSB Zürich AG, Zurich, Switzerland
KSB Nederland B.V., Zwanenburg, The Netherlands
SISTO Armaturen S.A., Echternach, Luxembourg
KSB Italia S.p.A., Milan, Italy
KSB Österreich Ges.mbH, Vienna, Austria
KSB LIMITED, Loughborough, UK
- ³⁾ Siemens Sp.z o.o., Warsaw, Poland
OOO Siemens, Moscow, Russia
- ⁴⁾ Carl Zeiss AG, Oberkochen, Germany
Deutsche Messe AG, Hanover, Germany
Haftpflichtverband der Deutschen Industrie V.a.G., Hanover, Germany
IKB Deutsche Industriebank AG, Düsseldorf, Germany
KfW Kreditanstalt für Wiederaufbau, Frankfurt, Germany
Talanx AG, Hanover, Germany
EADS European Aeronautic, Defence and Space Company, Amsterdam, The Netherlands
- ⁵⁾ Lafarge Roofing GmbH, Oberursel, Germany

Mandates of KSB AG's Board of Management members in the Board of Directors of KSB companies:

- ⁶⁾ KSB Finanz S.A., Echternach, Luxembourg
KSB S.A.S., Gennevilliers (Paris), France
DP industries B.V., Alphen aan den Rijn, The Netherlands
Bombas ITUR S.A., Zarautz, Spain
KSB Pumps Co. Ltd., Lahore, Pakistan
KSB Shanghai Pump Co. Ltd., Shanghai, China
KSB Pumps Limited, Pune (Bombay), India
- ⁷⁾ KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara, Turkey
KSB Pumps (S.A.) (Pty.) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps Arabia Ltd., Riyadh, Saudi Arabia
- ⁸⁾ KSB Finanz S.A., Echternach, Luxembourg
DP industries B.V., Alphen aan den Rijn, The Netherlands
SISTO Armaturen S.A., Echternach, Luxembourg
KSB Italia S.p.A., Milan, Italy
Bombas ITUR S.A., Zarautz, Spain
KSB Bombas Hidráulicas S.A., Várzea Paulista, Brazil
KSB America Corporation, Richmond / Virginia, USA
GIW Industries Inc., Grovetown / Georgia, USA
Canadian Kay Pump Ltd., Mississauga, Canada
- ⁹⁾ KSB Nederland B.V., Zwanenburg, The Netherlands
KSB Österreich Ges.mbH, Vienna, Austria
KSB LIMITED, Loughborough, UK
KSB Pumps Co. Ltd., Lahore, Pakistan
KSB Ajax Pumps Pty. Ltd., Tottenham, Australia
KSB Shanghai Pump Co. Ltd., Shanghai, China
KSB Pumps Limited, Pune (Bombay), India
MIL Controls Limited, Mala, India
KSB Pumps Co. Ltd., Bangkok, Thailand
KSB AMRI (Asia Pacific) Pte. Ltd., Singapore

KSB SHARES

International financial markets pick up slightly

Overall, the leading international exchanges recorded sideways movement until the autumn of 2004. Following a bright start to the year, prices fell in the summer. In addition to a slow-down in the growth of the global economy, the major factors contributing to this trend were rising commodity prices and interest rate hikes in the USA. A positive reassessment of global economic trends in the final months of 2004 resulted in a year-on-year increase in all key national and international indices. For example, both the DAX and the Euro Stoxx 50 rose by around 7 percent, while the Dow Jones in the USA (up 3 percent) and the Nikkei in Japan (up 8 percent) also recorded year-on-year growth.

KSB shares stabilize at a high level

KSB shares again recorded healthy performance in financial year 2004. Our preference shares recorded continued positive growth, closing the year at € 116.00 for 12 percent year-on-year growth. Reflecting the thin market environment, among other things, our ordinary share price was cyclical in the year under review. An upward movement until the autumn of 2004 was followed by a downward adjustment in the final quarter. At € 127.00, the closing price was down 8 percent year-on-year. In the aggregate, however, our market capitalization rose again slightly to € 212.9 million.

Preference share dividend despite net loss for the year at KSB AG

KSB AG closed 2004 with a net loss due to considerable restructuring expenses. Reflecting the earnings situation, we will propose only the payment of a dividend of € 1.03 per preference share (previous year: € 3.02) provided for in the Articles of Association for resolution by the Annual General Meeting on 1 June 2005.

	Ordinary shares	Preference shares
ISIN	DE0006292006	DE0006292030
Reuters symbol	KSBG	KSBG_p
Bloomberg symbol	KSB	KSB3
Share capital	€ 22.7 million	€ 22.1 million
Shares in free float	approx. 25 %	100 %
Year-end closing price 31 Dec. 2004	€ 127.00	€ 116.00
Market capitalization 31 Dec. 2004	€ 212.9 million	

Development of KSB shares

in €



Dividend development

	2004 (Proposal)	2003
Ordinary share:		
Dividend	–	€ 2.50
Dividend yield	–	1.8 %
Preference share:		
Dividend	€ 1.03	€ 3.02
Dividend yield	0.9 %	2.9 %

CORPORATE GOVERNANCE AT KSB

The Board of Management reports as follows on corporate governance at KSB – including on behalf of the Supervisory Board – in accordance with section 3.10 of the German Corporate Governance Code:

Good, responsible corporate governance has traditionally ranked highly at KSB. Even before the German Corporate Governance Code was introduced, we implemented the majority of core corporate governance processes in such a way that they complied with the subsequent recommendations of the Code. The Board of Management and Supervisory Board work closely together in the best interests of the Company and are committed to ensuring sustained growth in its enterprise value. For this reason, the Company complies with the recommendations of the German Corporate Governance Code in the version dated 21 May 2003 apart from a handful of exceptions.

The Board of Management and Supervisory Board issued an updated statement of compliance in accordance with section 161 of the AktG (Aktiengesetz – German Public Companies Act) on 13 December 2004 and made it available to the shareholders on the Company’s web site. The departures from compliance with the recommendations of the Code are explained below:

We prefer to provide information about the total remuneration of the members of both the Board of Management and the Supervisory Board, rather than breaking it down into the compensation of the individual members and the components it contains, as the latter would not provide any tangible benefits for shareholders or the development of the Company. We would like to draw attention in this context to the fact that the compensation arrangements for the Board of Management are structured as transparently as possible. Compensation therefore comprises two components only: a fixed and a variable component. The variable component is linked to the Group’s results in the respective financial year.

The Supervisory Board continuously addresses the improvement of its work. To date, there has been no need to conduct a separate efficiency review.

KSB already publishes its annual financial statements well ahead of the statutory deadlines, so we do not believe there is any need to further accelerate their publication.

Going forward, we will continue to 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.

The Board of Management

CORPORATE GOVERNANCE: STATEMENT OF COMPLIANCE

Statement by the Board of Management and the Supervisory Board of KSB Aktiengesellschaft on Compliance with the Recommendations of the Government Commission on the German Corporate Governance Code pursuant to § 161 AktG (German Public Companies Act)

Since the publication of last year's statement of compliance KSB Aktiengesellschaft, Frankenthal (Pfalz) has complied and continues to comply with the recommendations of the Government Commission on the German Corporate Governance Code as set out in the version dated 21 May 2003, with the exception of the following:

1. The total remuneration of the members of the Board of Management is reported in the Notes to the Consolidated Financial Statements, but neither separately for each member nor subdivided according to fixed, performance-related and long-term incentive components (item 4.2.4 of the Code).
2. The total remuneration of the members of the Supervisory Board for their service on the Board, as well as remuneration or advantages extended for services provided individually, in particular advisory or agency services, are disclosed in the Notes to the Consolidated Financial Statements, but neither separately for each member nor subdivided according to components (item 5.4.5).
3. At present, the Supervisory Board does not examine the efficiency of its activities on a regular basis (item 5.6 of the Code).
4. KSB publishes the Consolidated Financial Statements well before expiry of the periods of time provided by law. However, the time frame provided by the Code, i.e. within 90 days of the end of the financial year, is not met (item 7.1.2).

Signed in Frankenthal on 13 December 2004

On behalf of the Supervisory Board

Peter Schubert

On behalf of the Board of Management

Prof. Dr. h.c. Josef Gerstner

SHAREHOLDER INFORMATION

21 April 2005, 10:00 h
Financial press conference, Frankenthal
CongressForum Frankenthal,
Stephan-Cosacchi-Platz 5
67227 Frankenthal

21 April 2005
Invitation to Annual General Meeting

1 June 2005, 15:00 h
Annual General Meeting
CongressForum Frankenthal,
Stephan-Cosacchi-Platz 5
67227 Frankenthal

As from 2 June 2005
Dividend payment

August 2005
Interim Report January – June 2005

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Biomass power plant of MVV Energie AG,
Mannheim, Germany
HGM high-pressure pump by KSB

GLOSSARY

Key corporate and technical terms

700UP	In the 700UP project, new business ideas are collected and evaluated by an interdisciplinary team.	PumpDrive	A modular control system for matching the speed of a pump to variations in demand.
Aluminium bronze	An alloy of copper, tin and aluminium. It is used above all for components that come into contact with seawater.	PumpExpert	Computer-aided pump monitoring and diagnostic system that helps avoid system or pump failure.
Ballast systems	These systems are used to keep ships or offshore platforms in a horizontal position.	Reverse osmosis	Mechanical method of filtration to remove salt from water.
Boiler feed pump	A pump which supplies pre-heated water to the steam boiler to facilitate a continuous evaporation process.	SalTec	An energy recovery system for desalination plants which operate on the principle of reverse osmosis.
Combined cycle power plant	A type of power plant in which the hot exhaust gases from a gas turbine are used for the generation of steam that drives a downstream steam turbine.	Slurry pumps	Pumps which are able to pump not only water, but also a high proportion of solids such as ore, sand and rock.
Control valve	A valve that very precisely regulates the volume of liquid flowing through it.	Thermal oil	Liquids which have a very high evaporation point and can therefore transfer high temperatures at low pressure.
Duplex steel	Highly corrosion-resistant steel grade.	Abbreviations	
Kyoto Protocol	International agreement to reduce worldwide CO ₂ emissions.	ISO 14001	International standard under which companies can obtain certification for the integration of environmental protection in their management system.
Laser alloying	A process in which various metals are fused into an alloy by the energy of a laser beam.	OHSAS 18001	OHSAS stands for "Occupational Health and Safety Assessment Series" and is a certification system relating to safety at work and health management.
Motor Challenge Programme	EU initiative to aid companies in developing and promoting the use of energy-efficient electric motors.	IFRS	International Financial Reporting Standards (formerly IAS)
Oil sands	A natural resource in the form of a porous sand layer or sand body saturated with oil.	ANSI	American National Standards Institute
Pressure exchanger	A system in which the high pressure of one medium is transferred to another medium.		

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You will find more information and the latest news
on KSB at www.ksb.com.



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