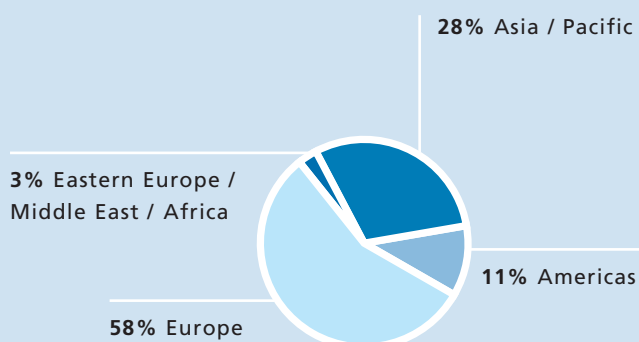


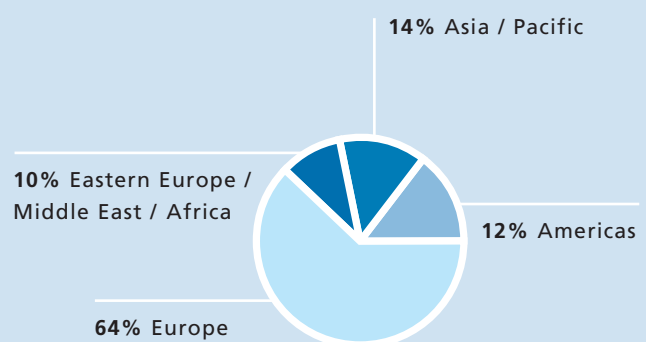


Group highlights		2003	2002	2001
<b>Earnings</b>				
Sales revenue	€m	1,178.1	1,180.2	1,161.9
Earnings before interest and taxes (EBIT)	€m	39.7	43.9	36.8
Earnings before taxes (EBT)	€m	29.8	34.3	26.9
Net profit for the year	€m	18.7	19.6	14.1
Cash flow	€m	63.1	60.3	52.8
<b>Balance sheet</b>				
Balance sheet total	€m	926.5	859.3	909.7
Non-current assets	€m	270.1	234.2	248.5
Capital expenditure	€m	60.4	31.3	29.0
Depreciation and amortization expense	€m	30.2	30.0	32.8
Current assets	€m	633.0	604.4	645.7
Equity (including minority interest)	€m	346.0	355.8	367.6
Equity ratio (including minority interest)	%	37.4	41.4	40.4
<b>Profitability</b>				
Return on sales	%	2.5	2.9	2.3
Return on equity	%	8.5	9.5	7.4
Return on capital employed	%	4.9	5.5	4.7
<b>Employees</b>				
Number of employees at 31 Dec.		12,281	11,948	12,071
Staff costs	€m	450.5	428.6	420.3
<b>Shares</b>				
Market capitalization at 31 Dec.	€m	211.9	140.2	142.7
Earnings per ordinary share (EPS)	€	6.74	8.52	5.19
Earnings per preference share (EPS)	€	7.26	8.78	5.45
Dividend per ordinary share	€	2.50	4.00	4.00
Dividend per preference share	€	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 the solution of major water supply and disposal problems.

## PRODUCTS AND SERVICES

### Industry and process engineering

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

### Water and waste water

Pumps, valves and mixers, as well as associated control and drive systems for municipal and industrial applications

### 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

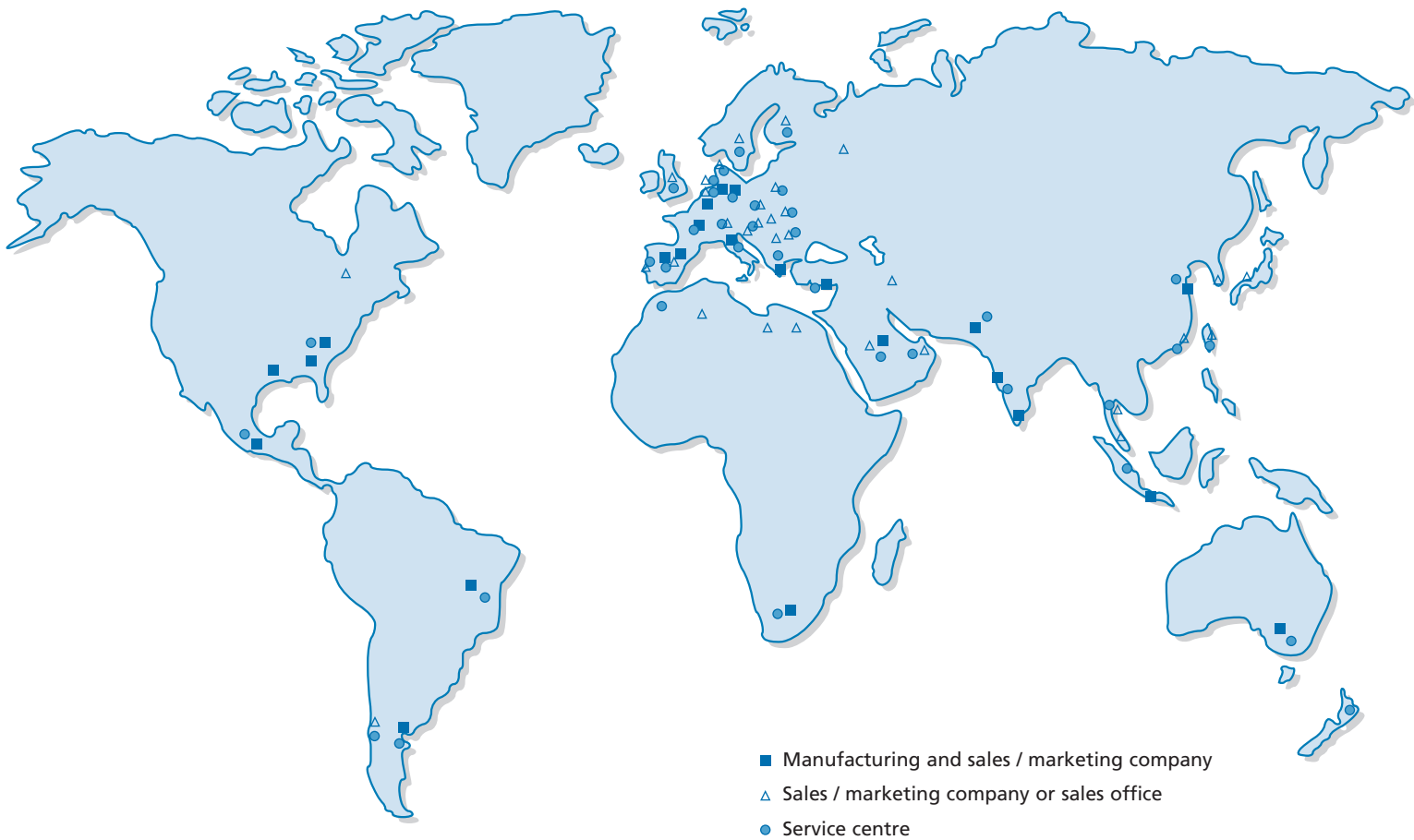
Slurry pumps for use in the mining industry and on suction hopper dredges

### Systems engineering

Design and engineering of fluid transfer systems and subsystems, with a major focus on water and waste water installations

### Service

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

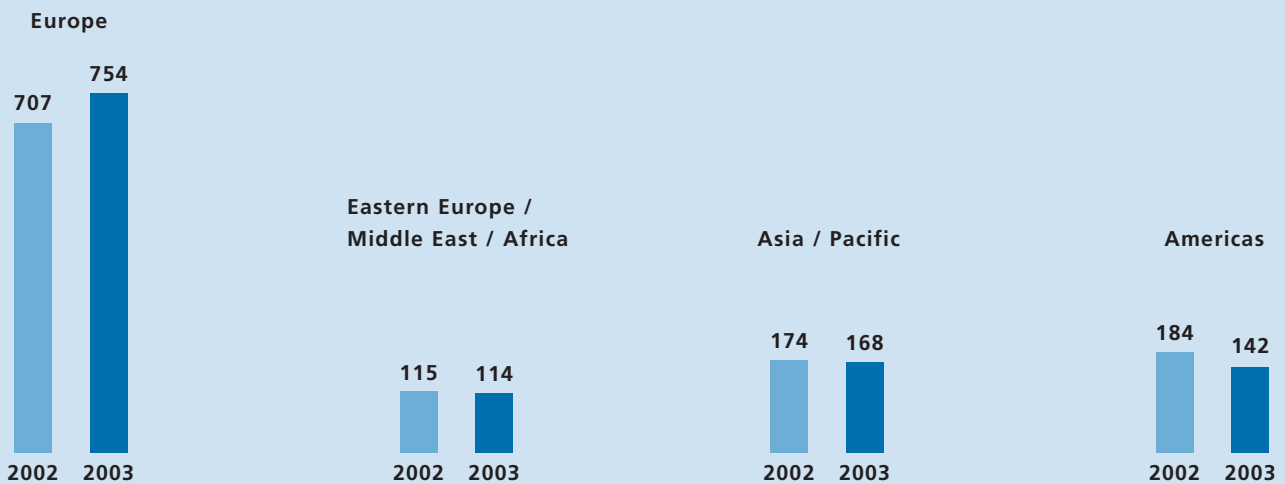


The KSB Group is on hand in over 100 countries. With sales companies, offices, agencies and 31 manufacturing sites.

**Sales revenue development by geographic area**

(See segment reporting on pp. 66/67)

€ millions



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Members of the Board (from left to right): Dr. Alois Wittmann, Peter Wurzbacher, Dr. Willi Enderle, Prof. Dr. h.c. Josef Gerstner

## BOARD OF MANAGEMENT

### Prof. Dr. h.c. Josef Gerstner

joined KSB Aktiengesellschaft in 1996 as Chairman of the Board of Management and Human Resources Director. He is responsible for the Production operations in Europe and Product Management. In addition, he is in charge of the Group functions of Corporate Development, Human Resources, Internal Audits, Global Manufacturing Network and Communications.

### 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 Quality Management and Environmental Protection. His responsibilities also cover KSB Fluid Systems GmbH operations and the Region Eastern Europe / Middle East / Africa.

### Dr. Alois Wittmann

was named member of the Board of Management of KSB Aktiengesellschaft in 1995. His responsibilities cover Commercial Administration, Purchasing and Corporate Law, as well as Group operations in the Region Americas.

### Peter Wurzbacher

joined the Board of Management of KSB Aktiengesellschaft in 1998. His responsibilities include Sales, Marketing and Service. He is also in charge of operations in the Region Asia / Pacific, as well as the Competence Centres in Europe.

## *Dear shareholders and business partners,*

The global market for pumps and valves remains in a state of flux. This is especially true of what is still our most important market, namely Europe. Here the strength of the euro against the US dollar and other currencies in 2003 brought new players onto the scene. In our European home market, we are thus competing today with suppliers who played no part in the market two or three years ago.

We are not afraid of more competition. But it does require that we make the best possible use of our strengths. These lie in competent consultancy, innovative engineering, a high level of delivery reliability and first-class service. And thanks to these strengths, we succeeded in defending our market share in Europe in 2003. In some countries, such as Belgium, the Czech Republic, Hungary and Spain, we even improved our positioning.

But we see the strongest growth in the Region Asia / Pacific. Many of our European customers are investing in countries there. Since we have a significant presence in the Region with twelve companies of our own, we can today provide our customers almost everywhere with pumps, valves, systems and services of the quality they expect. We aim to build on this position through setting up competence centres in selected countries, so that orders in the future will be increasingly handled at the local level.

**We are strengthening our position in growth regions so as to make the best possible use of market opportunities.**

Customers nowadays are gearing their procurement practices to local market prices. It is all the more important, therefore, that we optimize our range in terms of price. We need to create a mix of products which are either manufactured in the region itself or supplied from centres in the Global Manufacturing Network. This network encompasses production facilities on all continents, which enables us to supply customers all over the world both quickly and at reasonable prices.

With a view to optimizing market opportunities further with the resources at our disposal, we shall readjust our activities. To this end, we launched an appropriate structural programme early in 2004. This follows on from the TWIN project successfully implemented at the end of 2002 for the technical and economic realignment of our operations in Europe. With TWIN, we have straightened out the production structures in our home market.

We are now reorganizing our international division of work in the Group in a second major step, which will be completed by 2006. This means that we shall introduce measures to make the best possible use of the various strengths and cost advantages of our different locations for supplying the global market. In this process, our non-European sites in particular will become fitter for taking on more global functions in our service to customers.

The global market for pumps and valves is only growing by about one or two percent annually. A forward-looking company such as KSB therefore has to expand its business beyond pumps and valves to include related market segments where there is strong demand. We are prepared and determined to take on greater responsibility in the value creation chain to the customer.

**We aim to develop from a manufacturer of components to a supplier of modules, systems and innovative services.**

With this in mind, we launched the “700Up” project late in 2002. This initiative for growth is intended to achieve additional sales of € 700 million throughout the Group by 2010. An international team of young employees is dedicated to this challenging task and is getting start-up and intensification projects on the move. In the start-up projects, we are pursuing new business ideas. The intensification projects are aimed at supporting and strengthening current activities under technical or sales-related aspects.

The 700Up initiative for growth intermeshes with the change in our company that was announced in our last annual report: We aim to develop from a pure manufacturer of components to a supplier of modules, systems and innovative services. Current projects focus on automation, remote monitoring and diagnosis of pumps, operations management models, as well as modules for liquefied gas terminals and seawater desalination plants.

By the end of 2003, about 30 business ideas had been submitted to the Board of Management within the scope of the project. After careful evaluation, the 700Up team has now drawn up concrete business plans for the first eight of these.

In the current year, we shall seek a close dialogue with selected “trendsetters” in the industries we serve about further ideas and how they might be implemented. In this way, we can make sure that our business ideas will generate the kind of products and services that will be needed on the market tomorrow. Our customers may rely on being offered further innovations in engineering and services in the years to come – so that business relations with KSB provide them with measurable added value.

Finally, I would like to thank you for the trust you have placed in us. As shareholders, customers and business partners, you can rest assured that we shall continue to work full speed ahead to meet our challenging objectives. These are to achieve profitable growth, to increase the value of our company, to secure attractive jobs and to ensure that our shareholders enjoy an optimal share in the success of KSB AG and the Group.



Prof. Dr. h.c. Josef Gerstner



# K S B S H A R E S

## Brighter picture on the financial markets

Sentiment on the leading international exchanges started picking up again from mid-2003. Although prices had slid sharply early in the year, the German indices also posted gains at year-end. Developments on the equity markets were still driven by political and economic risks in the first quarter. However, the rapid end to the Iraq war saw a trend reversal in March that gained additional impetus from a slight recovery in the global economy from the mid-year point. The DAX closed the year up by around 37 percent, and the MDAX even posted a rise of over 40 percent. International indices, such as the US Dow Jones (up 25 percent), the Euro Stoxx 50 (up 16 percent) and the Nikkei in Japan (up 24 percent) also recorded appreciable year-on-year growth.

## Excellent performance by KSB shares

KSB's share price dipped slightly in the first three months of 2003. However, the recovery that started in April outperformed many other shares. Our ordinary shares closed the year at € 138.00, representing a rise of some 83 percent over the course of the year. Our preference shares also performed well, closing the year at € 103.50 for year-on-year growth in excess of 21 percent. The rise in our share prices drove a significant increase in our market capitalization to € 211.9 million (previous year: € 140.2 million).

KSB shares have been listed in the General Standard following the resegmentation of the Frankfurt Stock Exchange at the end of March 2003.

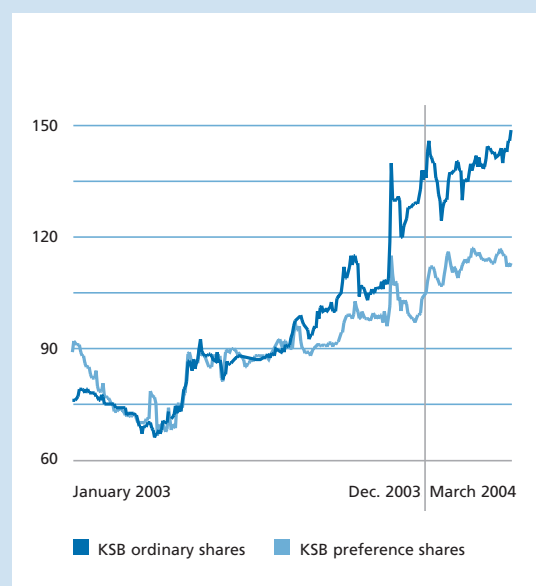
## Dividend proposal

Reflecting KSB AG's earnings development, we will propose a dividend of € 2.50 per ordinary share (previous year: € 4.00) and € 3.02 per preference share (previous year: € 4.26) for resolution by the Annual General Meeting on 7 June 2004. Based on the year-end closing price, this corresponds to a dividend yield of 1.8 percent per ordinary share and 2.9 percent per preference share.

	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. 2003	€ 138.00	€ 103.50
Market capitalization		
31 Dec. 2003	€ 211.9 million	

## Development of KSB shares

in €



## Dividend development

	2003 (Proposal)	2002
<b>Ordinary share</b>		
Dividend	€ 2.50	€ 4.00
Dividend yield	1.8 %	5.3 %
<b>Preference share</b>		
Dividend	€ 3.02	€ 4.26
Dividend yield	2.9 %	5.0 %

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board fulfilled the duties assigned to it by law and the Articles of Association in financial year 2003. 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, about the position of the Group, including its risk position, and about 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

Five Supervisory Board meetings were held in the year under review, including the constituent meeting on 5 June 2003.

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 divisions. The budgets, financing and investment plans for the relevant annual budgeting were discussed and approved.

Discussions focused on the acquisitions made in 2003, the 700Up growth programme and the BIG project. Other key topics included the European location concept and a structural programme involving plans for improving earnings.

The Supervisory Board established four committees from among its members to which shareholder and employee representatives were appointed: the Finance and Investment Committee, the Personnel Committee, the Mediation Committee and the Audit Committee. With the exception of the Audit Committee, all committees are chaired by the Chairman of the Supervisory Board. The Finance and Investment Committee and the Personnel Committee each met once. Their discussions focused on current investment projects and contractual arrangements for members of the Board of Management.

The Audit Committee required by the German Corporate Governance Code was established for the first time in the year under review and started work in 2004. Detailed reports on the meetings and work of the committees are presented at plenary meetings of the Supervisory Board.

### Corporate governance and statement of compliance

The Supervisory Board addressed the German Corporate Governance Code and its implementation on several occasions. The Board of Management and Supervisory Board issued an updated statement of compliance in accordance with Art. 161 of the AktG (Aktengesetz – German Public Companies Act) on 19 December 2003 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 2003 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 5 June 2003 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 Art. 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 2003, 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 18 March 2004 and at the meeting of the Supervisory Board on 6 April 2004. 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 Art. 312 of the AktG. The auditors issued an opinion on this report. 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 on 18 March 2004 and at the meeting of the Supervisory Board on 6 April 2004. 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.

### **Appointments to the Supervisory Board**

The Annual General Meeting on 5 June 2003 saw the end of the five-year term of office of the Supervisory Board that was elected at the 1998 Annual General Meeting. Four shareholder representatives and two employee representatives left the Supervisory Board. The Supervisory Board wishes to thank the retiring members, in particular its long-standing Chairman Dr. Wolfgang Kühborth, for their close cooperation and constructive contributions as members of the Supervisory Board over the past term of office.

A new Supervisory Board was elected for the term of office running from 2003 to 2008. At the constituent meeting of the new Supervisory Board on 5 June 2003, the members elected Dr. Dr. Peter Bettermann as its new Chairman and re-elected Hermann Reutter as its Deputy Chairman. The Supervisory Board also appointed the members of the committees.

Dr. Gerd Kühborth died on 9 June 2003 after a serious illness. We will remember him with great respect.

On 19 December 2003, the Ludwigshafen am Rhein Local Court appointed Klaus Kühborth as a member of the Supervisory Board with effect from 1 January 2004.

The Supervisory Board would like to thank the Board of Management, all employees and the Works Council for their commitment and conscientious work.

Frankenthal, April 2004

The Supervisory Board

## 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 the Supervisory Board issued their first statement of compliance in accordance with Art. 161 of the AktG on 19 December 2002. In the financial year under review, we modified most of the departures from the Code listed in our first statement to comply with the recommendations of the Code. In particular, the Supervisory Board defined the information and reporting duties of the Board of Management in greater detail; an Audit Committee was established; and an appropriate deductible was agreed for the D&O insurance taken out for the Board of Management and Supervisory Board. The Supervisory Board acts on the basis of Terms of Reference and has introduced an age limit for its members.

The Board of Management and Supervisory Board issued an updated statement of compliance on 19 December 2003 and made it available to the shareholders on the Company's web site. As the Supervisory Board plans to have its efficiency examined regularly in the future, only the miscellaneous departures from the recommendations of the Code contained in the statement of compliance are explained in the following. 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. Any personal services rendered by members of the Supervisory Board in 2003 were rendered on an industry-standard, arm's length basis. No such services will be rendered in 2004.

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

CLOSE AT HAND MAKES SERVICE DEPENDABLE

# 100 sites



› The Brazilian job: Rio needs clean beaches, so our **service specialists** help install and commission waste water pumps. And if there's a block-up, those experts will be on hand straightaway. ‹

KSB has customers on every continent. Our worldwide service centre network ensures help is there whenever they need it.



Newton R. Bernardo (left) coordinates service projects in Brazil, for example at the giant Alegria sewage works in Rio de Janeiro. Service technicians like José Norberto Rodrigues provide rapid support.



# From rapid solutions through to full packages

The industrialized world is in the midst of a prolonged period of structural change. Numerous companies continue to hive off non-core activities. This opens up new opportunities for specialized service providers. KSB has made good use of the chances on offer. The company is now the European market leader for pump and valve service.

## 1,500 service experts worldwide

Nowadays, purchase price is just one criterium for choosing a product. Operating costs are also becoming increasingly important. Keeping these down requires rapid, tailor-made service. This minimizes downtimes, or better still prevents them altogether. Companies of every size, just like public utility operators, all want competent partners who keep their systems running safely and reliably. More and more organizations now entrust some or all of their fluid transport facilities to KSB service specialists.

These customers naturally expect service availability round the clock and across the globe. We make this possible with 1,500 service specialists worldwide, aided by local contractors working to KSB specifications.

## Breadth of choice ensures individual solutions

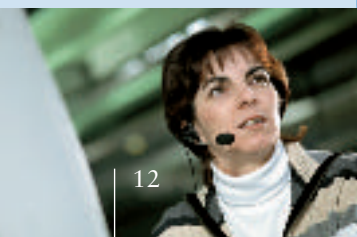
Modern industrial plants or power stations depend on the professional interplay of numerous intelligently controlled components. So KSB has steadily extended its service skills beyond the company's own product range. As well as pumps and valves of all makes, our technicians now also cover a broad spectrum of rotating machinery. This includes motors, compressors, blowers and feed screws. Every customer can select from a series of service modules. These range from individual maintenance and repair tasks to regular servicing or full operations management.

07:30 h Frankenthal / Germany

09:07 h Madrid / Spain

11:45 h Copenhagen / Denmark

12:31 h Santiago / Chile





### Energy savings are part of the service

“Stop moving ahead, and you’re already falling behind”. So we analyse customer needs and service trends well in advance. This enables us to provide innovative solutions to the problems of today and the challenges of tomorrow.

To take an example: our customers want to cut operating costs. We identify the opportunities, and use them. A key target for savings is pump systems’ energy consumption. This often increases as operating conditions change within a plant. KSB helps out with variable speed drives. These allow operators to run their pumps at the ideal operating point at all times. Customers can see exactly what they are saving, thanks to KSB software that visualizes energy cost reductions.

Pump units account for almost 20 percent of the entire electricity use worldwide. So power saving is not just for isolated facility managers. Every contribution is important.

### Safety close at hand from monitoring at a distance

Modern remote monitoring of pump systems avoids the heavy cost of plant downtimes. KSB provides on-line checks at a distance, which keep servicing work to the necessary minimum. Behind this Teleservice concept lies KSB’s proprietary diagnosis and monitoring system, Pump Expert.

This intelligent system analyses and records pump data. Critical changes produce an immediate response: the system automatically informs the operator if individual components or the entire unit are at risk. Pump Expert makes clear recommendations for a remedy, and enables engineers to react quickly.

Pump Expert works on the principle of condition-based predictive maintenance. Regular surveillance of relevant operating parameters allows users to identify faults in good time. They can then exchange any critical parts in danger of wearing out, and avoid the high cost of a full plant stoppage.



14:00 h Abu Dhabi / United Arab Emirates

» The moment a plant shuts for servicing, the clock starts ticking. Every year, specialists check, service and repair more than 20,000 valves in Europe alone. «

This system keeps the pump running permanently in its optimum range. Excellent plant availability and productivity are the result. Pump Expert contributes significantly to the reduction of life cycle costs. These represent the total outlay for buying, using, decommissioning and disposing of a particular unit.

### Major overhauls are a race against time

KSB also manages extensive rehabilitation projects, like those run at regular intervals in industrial plants and power stations. These projects put high technical and logistical demands on everyone involved. Success depends on precise preparation. Downtimes are becoming shorter and shorter. Using them to carry out all the repair and maintenance work on pumps and valves also requires a first-rate pool of fitters and technicians. Sometimes more than 100 service staff are on site simultaneously. A typical task is for them to check, dismantle, service, repair and reinstall a large number of valves from numerous different manufacturers in the short interval available.

As soon as the plant comes to a stop, speed is everything. Our customers view downtimes from an economic standpoint. So service operations in power plants or factories always run to the tightest of deadlines. Which makes combining complex logistics with precise documentation a daily job for KSB service engineers.



Meeting the deadline: major valve rehabilitation projects, like this one in a refinery near Karlsruhe / Germany, often require KSB service teams to be on site for several weeks on end.

» Last year, our British subsidiary RES Ltd. ran and serviced 770 waste water pumping stations in Wales and south-west England. Company experts also took steps to reduce energy consumption. «



16:30 h Metz / France



**Global reach is a service must**

Global corporations want the same high-quality service abroad that they are used to at headquarters. So to keep breaks in production to a minimum, KSB specialists and spare parts have to be on call locally around the clock. If customers wish, we set up a service centre on their site – there are now a number of examples across Europe.

When operations come to an unexpected halt, top speed is almost always of the essence. With our large number of experts in 100 service centres around the world, and a network of local partners, we are in an ideal position to respond.

Sometimes, customers need assistance in remote areas or on particularly complicated plants. The KSB answer is a pool of experienced engineers. Central coordinators in Germany send a hand-picked team to wherever work calls.

In October 2003, for example, our specialists provided rapid help with repairs and parts to save Shakhty from flooding. A population of 300,000 was in serious danger when dewatering pumps failed in a mine above the Russian city.

**Our goal is clear**

KSB is Number 1 in Europe. But we want to go further. We are continuing to build a tighter global service network. A combination of acquisitions and new companies extends both the reach and expertise of our service teams. 2003 saw further strong progress in Europe and the Americas.

Our service goal is to provide the same quality, speed and good results everywhere in the world. As we expand this increasingly important area of business, our customers stand to benefit all the way.



17:15 h Schwedt / Germany

20:00 h Rio de Janeiro / Brazil



PLENTY OF HANDS MAKE SERVICE STRONG

# 1500 specialists



› Powerful demands: making electricity means running pumps. Like in Denmark's biomass power station at Avedøre, which supplies electricity to 500,000 households. Our specialists are on call to maintain the pumps there. ‹

KSB Service is as **individual** as customers' wishes. And there are plenty of options to choose from – installing one-off units, for example, or a full-scale annual inspection. If customers want, we also ensure their entire systems run smoothly – day in, day out.

Liselotte Nielsen, seen here with Heinz Rothe, heads up service operations like those at the Avedøre power station near Copenhagen, Denmark.





## FROM OUR GROUP OPERATIONS

### EUROPE

- > Good market development in the EU accession countries
- > Growing number of framework agreements
- > European service network widened

#### Market position strengthened through acquisitions

We supply pumps, valves and related systems to customers in industry and power stations, in plant engineering, in water and waste water engineering and in building services. As a leading provider, we also offer an extensive service ranging from inspection and maintenance through to assuming full responsibility for operational and service functions.

In terms of order intake and sales revenue, Europe continued to be our most important market in 2003. A network of production sites, sales organizations and service companies caters to the needs of our European customers. In the year under review, we extended its reach through strategic acquisitions, the most prominent being the Dutch company DP industries B.V. and Bombas ITUR, S.A. in Spain.

**In terms of order intake and sales revenue, Europe continued to be our most important market in 2003.**



Added service value: with the acquisition of the French service provider EITB, we have strengthened our know-how in the repair and maintenance of electric motors.



Zero leakage for environmental safety:  
Secochem EX standardized chemical pumps  
reliably transport hazardous fluids.

### Demand at prior-year level

Many of our European customers responded to the difficult economic climate with tough cost-saving measures and restrictive investment policies. In 2003, therefore, the overall demand for pumps and valves in Europe was no higher than in the previous year.

The stronger presence of suppliers from low-wage countries and the US dollar area made market activities more difficult, especially in building services and industry.

Waste water management by contrast showed good growth in Europe. A major contributory factor in this context was implementation of the environmental standards agreed on for the EU, which the accession countries are now adopting.

### Growth in EU accession countries

In 2003, too, we increased our order intake and sales revenue, but this was mainly attributable to new acquisitions. A positive trend in order intake was also reported in some Scandinavian markets, in Spain and in the EU accession countries.

### ► PUMPS AND VALVES

The trend towards simplification of customer / supplier relations and towards package solutions continued in Europe. Companies that want to reduce their purchase costs are increasingly seeking framework agreements for the procurement of pumps and valves.

At the same time, we have also extended our e-business. A growing number of customers are using this distribution channel today for the rapid and uncomplicated purchase of standardized products in the areas of building services and industrial applications, as well as for the procurement of spare parts.

### Slight increase in orders from industry

Business with pumps and valves for industrial applications was marked by declining investments in plants and equipment. This primarily concerned the chemical industry, where major companies invested mostly in Asia. We were only able to share in these projects to a limited extent through exports from Europe.

Nevertheless, we achieved a slight year-on-year growth in order intake in the European industrial business. This was the result of strategic measures that helped us improve market penetration for certain type series outside Germany and France. In addition, we won some large orders from German engineering contractors for the equipment of process engineering systems in Asia, the Middle East and South America. In Germany and France, we also equipped automobile manufacturing plants with pumps and valves.

In chemical and process engineering, the trend towards framework agreements continued throughout Europe. Accordingly, we signed agreements in 2003 with other industrial customers for the ongoing supply of pumps and valves.

Initial sales successes have been reported for the new products that we presented at the Achema chemical industry trade fair held in Frankfurt. These included, for example, seal-less standardized chemical pumps for high-temperature applications, which are fitted with so-called "EC motors". Customers placed orders for these energy-saving systems as well as for other innovations presented at the trade fair in the field of smart automation and monitoring equipment.



We also successfully launched new diaphragm valves for sterile processes. These valves are produced in the modern facility of SISTO Armaturen S.A. in Echternach / Luxembourg, which was completed in 2003. With customer requirements in mind, we have continued to advance our multi-port divert valve technology. Valves of this kind make for an even higher degree of sterility. SISTO block-bodied multi-port valves are currently used in several plants for the biotechnological production of active substances.

#### Increasing sales of submersible borehole pumps

Growth in the water and waste water sector continued in 2003. The water supply segment registered an increase in the sale of submersible borehole pumps used in wells and for water recovery. We won a major order from a Finnish plant engineering contractor, who needed special submersible borehole pumps for the equipment of oil platforms in the Gulf of Mexico. However, European production of these pumps declined as a result of falling orders from other regions.

Through European plant engineering contractors we received orders for water supply systems in North Africa and for seawater desalination plants in the Middle East. The market launch of a new high-pressure pump series which is suitable for the reverse osmosis process was a factor that helped to secure these orders.

In the waste water business, we were able to increase our order intake in Europe by stepping up sales and supplies to selected key markets. Our range of high-performance waste water pumps and submersible motor mixers attracted orders intended for large sewage treatment works in Belgium, Germany, Great Britain and Italy. We also exported waste water products indirectly through European plant engineering contractors, for example to Turkey and Saudi Arabia.

One success factor in the sale of comprehensive equipment packages proved to be our new, jacket-cooled motors from our own production facilities. These are needed for pumps that have to operate regularly above water level in sewage stations and cisterns.

#### Good demand for high-pressure valves

Customers in the energy industry were engaged in only a few new building or extension projects in Europe. However, an increased demand for high-pressure valves was reported for modernization activities. Major orders for these came from Germany and Slovakia. Power station operators were also increasingly focused on installing plants with higher levels of efficiency. For the new technology employed, we provided valves in steel grades suitable for higher pressure and temperature ranges.

For the few construction and extension measures in Europe, we won orders for pumps from France, Italy, Poland, Spain and the Czech Republic. Aiming to meet market prices, which had fallen substantially compared with previous years, we integrated into our deliveries more components and complete pumps from our Global Manufacturing Network facilities. In supplying our power plant customers, this international division of work helped to reduce the competitive disadvantage resulting from currency exchange rates.





Space-saving and reliable: SISTO CM block-bodied multi-port diaphragm valves control fluid flow in compact bioreactors.



### Consultancy activities help project business to grow

In the building services sector in Europe, we offer pumps, valves and small systems for water supply, drainage, heating and air-conditioning installations. Demand for these products in 2003 stagnated or decreased in most European countries. The only exception was the Eastern European market.

Order intake in our volume business declined substantially due to poor demand. By contrast, more intensive technical support to consultants helped us achieve even greater success with our so-called project business than was the case in the previous year. This primarily related to the equipment of public buildings, factories and office complexes.

In 2003, we presented customers with new pumps and valves for heating and air-conditioning systems. These included circulators whose energy-efficient drives enable users to cut their electricity costs by up to 70 percent.

Strong demand was also reported for circulating pumps used in large heating and cooling circuits. Their variable speed motors allow an optimal adjustment of performance to operating conditions.

### ► SYSTEMS

KSB services in the field of systems engineering include the planning and construction of pumping systems in water supply, waste water disposal and surface drainage, as well as of tank cleaning systems. In this area, KSB Fluid Systems GmbH in Frankenthal operates as a primary contractor, a member of joint ventures and cooperations or as a supplier of plant and system components.

In 2003, the capacity-intensive handling of several large projects in the Middle East formed the primary focus of these activities.

In addition, KSB Fluid Systems GmbH prepared for a strengthening of its business with marketing activities in the Eastern European countries, Scandinavia and Great Britain. Sales successes were reported in Great Britain, where our automated cleaning systems are being used in new stormwater retention tanks.

### ► SERVICE

In a difficult economic environment, we expanded our service business and increased our market share as leading service provider in Europe. This involved the acquisition of new service facilities in Belgium, France and Germany. With the integration of small and medium-sized companies, we have for some years not only been closing regional gaps in our service network, but also systematically broadening our service competencies. The employees of our new operation in France, for example, are specialists in the maintenance and repair of electric motors.

In the market, we also convinced customers who opted for service to be furnished by a single provider for several system components – such as pumps, valves, motors and actuators. Thanks to our range of competencies, the year 2003 saw us again successfully covering a wide spectrum of services. In the year under review, two major customers gave us outstanding testimonials in their in-house evaluations for the efficiency and reliability of our operations.

Through long-term commitments in the power plant sector, we succeeded in becoming even better established for valve rehabilitation jobs in the nuclear energy area. Our team strength enables us to act as general contractors for the maintenance, repair and testing of a large number of globe, gate, ball and butterfly valves of different makes and brands during scheduled plant downtimes. Work is completed within very short time frames and in compliance with the highest safety standards.

In Great Britain, a further waste water utility decided to sign a framework service agreement with us. For this company, we have assumed overall responsibility for the operation and maintenance of 420 waste water pumping stations.

It is a prerequisite of good service that adequate solutions are available for different customer problems. Along the lines of a similar approach in industry, a multistage service concept has now also been put in place for the water and waste water sector. This ranges from simple inspections to full plant service and allows a customized combination of different service modules. These include, for example, the early detection of malfunctions through remote monitoring of systems.

## > OUTLOOK

Even if the economy picks up in Europe, demand for our products cannot generally be expected to rise. We do, however, anticipate a positive development in the Eastern European countries and in a few market segments.

In industry – as in other market segments – the development of exchange rates between the euro and the US dollar will determine the competitiveness of European products. To mitigate against negative currency exchange effects, we shall set up competence centres in China and India in the context of our international division of work and will include these in the service we provide to our customers in Europe. We shall also be stepping up our procurement activities in the US dollar zone.

Demand from the water and waste water market is likely to show a slight increase. Greater growth potential is seen both in the waste water segment and in seawater desalination. In addition, we shall develop new opportunities by intensifying consultancy and technical support to planners of small and medium-sized plants.

A regional focus of our activities in 2004 lies in Spain. This applies both to the industrial segment and to the water and waste water markets. The well-developed sales network of Bombas ITUR, S.A. has opened up new business opportunities for us there.

In conventional energy engineering, the growth markets are outside Europe. We can, however, also profit from the creation of new power plant capacity by catering to the needs of European plant engineering contractors who operate on a global basis. Some growth within the Region is to be expected in the equipment of nuclear power stations with shut-off valves and pumps that offer maximum safety and reliability.



Keep the pressure up: stainless steel pumps made by our Dutch subsidiary DP industries B.V. ensure water supply in high-rise buildings.



A slight revival is anticipated for the building services market. Good growth potential is seen in the Eastern European countries, where investments are due in industrial and office buildings.

In the systems business, the aforementioned marketing activities can be expected to yield a slight increase in order intake in the targeted countries. We shall push this growth through the deployment of system specialists in regional sales and distribution units.

Owing to cost-saving measures, the operators of municipal and industrial plants will continue to reduce their own service personnel. This will lead to additional market opportunities for our range of services. We shall broaden our motor service capabilities through appropriate training programmes in our organization. We shall also continue the strategy of rolling out the well-developed service network in Europe to other regions.

**A regional focus of our activities in 2004 lies in Spain. Key target markets will be the industrial, water and waste water segments.**

## EASTERN EUROPE / MIDDLE EAST / AFRICA

- > New company in the Middle East
- > Growth in Russian energy business
- > Successful business expansion in South Africa



Carry some weight: new quarter-turn valve actuators help shut off large water pipelines.

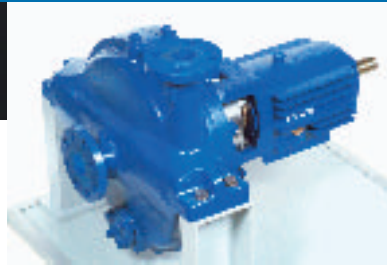
Along with the markets in the Eastern Mediterranean, the Middle East and Africa, the Region encompasses all Eastern European states not about to join the EU in May 2004. KSB has local production facilities in Turkey, Saudi Arabia and South Africa. Only our companies in Turkey and South Africa are consolidated in the Group. Both made a positive contribution to Group results.

### Investor restraint in the Arab states

Overall, our customers in 2003 proved very reluctant to invest. As a result of the war on terrorism and the uncertain situation in Iraq, a downward economic trend was discernible both in North Africa and in the Middle East. Not until the end of the year did the economy begin to pick up again slightly.

Good market development was seen in Russia. Earnings from oil and gas, as well as the investments of foreign investors, provided for growth here.

RPH process pumps transport fluids in refineries and petrochemical plants.



### South Africa registers vigorous growth in orders

The strong euro in 2003 had an impact on our ability to compete with pump and valve suppliers from the US dollar area as well as other countries with weaker currencies. Nevertheless, we succeeded in improving our order intake in the Region. This was above all attributable to double-digit percentage growth in the industrial and energy sectors.

Our company in South Africa reported above-average growth. It increased its order intake in particular thanks to several large orders from industry.

Despite the continuing uncertainty in the economic situation, the KSB company in Turkey reported a rise in orders received. This was not least an achievement of newly established teams engaged in the systems business and in automation. Selected sales and marketing activities for valves resulted in a doubling of orders for these KSB products from our Turkish customer base.

The order intake of our Saudi Arabian joint venture in 2003 ranged approximately at the same level as in the previous year. The strongest interest of customers was for deep-well turbine pumps produced in the country.

### New "hub" for the Middle East

In September 2003, we founded KSB Middle East in the free-trade area of Jebel Ali, Dubai. This enables us to serve markets in the Middle East even more intensively. The new company is being developed to become the hub of our business activities in the region. We are underlining our customer-centered approach through a further strengthening of the sales organization, stockpiling of pumps, valves and components, as well as local assembly facilities.

### ► PUMPS AND VALVES

#### Major orders from the refinery sector

In the industrial business, our South African company in particular succeeded in winning some technically very challenging bids. These related to projects in the country itself as well as in neighbouring countries. Amongst other things, for example, KSB in South Africa is involved in upgrading a large refinery for the production of unleaded petrol.

A major order from the oil-processing industry also came from Iran, for the modernization and expansion of a large refinery in Abadan. For this plant, we shall supply a total of 100 process pumps from Germany.

#### Water and waste water engineering projects postponed

Further improvement of freshwater supply and waste water purification is perhaps the most important future task in North Africa and in the Middle East. However, the development of the water and waste water business did not meet the expectations placed in it for the year 2003. The authorities in Egypt and Saudi Arabia postponed a series of scheduled infrastructure projects; in Libya no budget resources were made available in 2003 for water and waste water engineering.

By contrast, good growth was reported in the water and waste water business in the Arab Gulf states. From the United Arab Emirates our Saudi company received a major order for the deep-well turbine pumps manufactured in Riyadh. Together with other units, 170 of these pumps form the backbone of a new water extraction facility.



## Modernization of power plants in Eastern Europe

In Eastern Europe, there continues to be a huge need to modernize existing power plants and make them more efficient. As well as offering our full range of pumps and valves for the energy sector, we are successfully engaged in this region on various upgrading projects. These are intended to enhance the performance of installed pumps and make them more reliable and efficient.

In Russia, thanks to earnings from oil and gas exports, there are sufficient resources available to implement projects of this kind. Accordingly, we saw a substantial year-on-year increase in order intake in 2003. Major projects included an order for the modernization of pumping systems in a power station in Kaliningrad and also for the equipment of five combined heat and power plants with pumps and butterfly valves. In addition, we received an order from a Russian plant engineering contractor who intends to use our cooling water pumps in Vietnam.

The need for power plant modernization in Bulgaria and Romania also led to a number of orders for pumps and valves.

In spite of the difficult economic situation in Egypt, we won a large order there to fit a new power plant in Cairo with boiler feed pumps.

**In Russia, we saw a substantial year-on-year increase in order intake in 2003.**

## > SYSTEMS

The establishment of a team of system specialists in Turkey has already begun to show results. In 2003, our Turkish company succeeded in winning three project orders in the water supply sector. Two of these projects will help to reduce the acute water shortage in Syria.

KSB Fluid Systems GmbH will be involved in an irrigation project over several years in Egypt. The scope of this order includes the engineering and electromechanical equipment of three pumping stations along the Nile.

In Senegal, KSB Fluid Systems GmbH has started on the construction of the “Méckhé” pumping station. This will supply water to the capital Dakar. Since the new plant is being built in an undeveloped area, KSB is responsible for setting up a high-voltage supply line over 40 kilometres, as well as ensuring that the other infrastructure is in place.

Consultancy work for major water companies formed the focus of our systems business in South Africa. Key areas of planning activity related to systems in Botswana, Zambia and Tanzania. In the process, we already obtained several orders for the modernization of existing plants.

Overall, however, the systems business in the Region fell short of expectations. Reasons for this included in particular the lack of budget allocations in Libya and the aforementioned postponements of projects in Saudi Arabia.



## ► SERVICE

Our company in South Africa stepped up its service activities in the domestic market and also received a number of new orders from other African countries. For the first time, our service specialists there took on maintenance work for a Libyan power plant.

Turkey saw a marked increase in the number of service orders. Our company there caters to the needs of customers through two service centres in Ankara and Istanbul, as well as 15 service partners throughout the country. Apart from classic activities such as maintenance and repair, KSB offers a number of supplementary services in Turkey. These include service agreements aimed at achieving a sustainable reduction in the energy consumption and operating costs of a plant.

## ► OUTLOOK

Growth prospects in the Middle East and in North Africa are closely correlated with the income of oil and gas-producing countries. In principle, after the end of the Iraq war, an increased propensity to invest can be expected from those investors who postponed projects because of the uncertain situation. In Russia, too, sustained high prices for oil and gas will free up new resources for investment. Business dynamics in South Africa will be mainly influenced in the current year by mining and by the chemicals and petrochemicals sector.

With a view to exploiting growth opportunities in North Africa and the Middle East, we shall create additional branches and seek to engage in joint ventures with local partners in the service and systems businesses. In Russia, we shall realign our sales organization and increase our market presence.

KSB's performance and success in the Region will be determined not least by the development of the euro exchange rate versus the US dollar and other currencies. In order to reduce the dependence on foreign exchange rates, we shall increase our local activities.



## ASIA / PACIFIC

- > Strong growth in China, India and Pakistan
- > New service centres established
- > Improved opportunities in the marine market

Led by the “engines of the economy” in the east, China and India, the Asian national economies in 2003 once again showed overall healthy growth. With the exception of Singapore, all the countries of relevance for KSB’s business reported an increase in gross domestic product between two and five percent. Demand for pumps, valves and related systems grew accordingly.

The relative strength of the euro, however, had an adverse impact on business in the second half of the year, especially in Japan, South Korea and Taiwan. Here, the KSB companies supply international plant engineering contractors with products mostly sourced from our European manufacturing facilities.

### Good order intake development

Order intake in the Region Asia / Pacific showed substantial year-on-year growth in local currency terms. Faced with tough competition and severe pressure on prices, the large production companies in China, India and Pakistan nevertheless posted double-digit growth in orders received. Translated into euros, the order growth of the Asian / Pacific companies was correspondingly more modest, but still positive overall.

Overall, our companies in Asia / Pacific achieved an increase in sales revenue and made a positive contribution to Group results.

In China, we successfully defended our position as leading supplier of pumps in 2003. Apart from direct supplies from Europe and the USA, we are also active in this market with our joint venture in Shanghai and with a sales company in Hong Kong.

In 2003, KSB Shanghai reported a 40 percent increase in order volume in local currency terms, above all in industry, the energy market and the water and waste water sector. To keep pace with the rising demand for pumps and valves, the company modernized and expanded its production facilities. The quality standards now achieved make our Chinese production centre an important source of supply both for domestic customers and for companies with international operations.





SEZ cooling water pump on the test rig.

The KSB subsidiary in India likewise extended its market position, especially in industry, energy engineering and the oil sector. In Pakistan, where we already have a very high market share, our local company is in the process of tapping into new areas of application.

Australia's KSB Ajax continued the upward trend started in 2002 after its restructuring and improved profitability. In the business with standard pumps for industry, however, market prices fell as a result of increased imports from Asia.

Order intake in Taiwan stagnated as a result of the difficult business environment. The major areas of focus were flood control projects and the IT industry, which needed cooling water pumps for production processes. In Japan, too, economic conditions remained unfavourable. The same was true of our company in South Korea, except for its business with cryogenic valves.

In Thailand, reluctance in the public sector to invest in water and waste water projects allowed no increase in order volume. By contrast, our company in Indonesia recovered from the weakness of the previous year and made inroads into the country's oil industry. It also won sizeable orders from the building services, industrial and power plant sectors. KSB Amri in Singapore posted strong growth of orders in the water and waste water sector, while industrial business was affected by a marked decline.

## ► PUMPS AND VALVES

### Shipyards show growth potential

With immense investments in chemicals and petrochemicals, industry in China is enjoying strong growth. Through our two local companies, we are supplying both international and domestic companies in the industrial market.

Major orders for valves in China came from the booming shipbuilding industry. A growth market is emerging here in which we are participating with application-specific valves from French production. In this business, KSB Amri, Singapore, is currently providing active support to the Chinese KSB staff.

In India, the pharmaceuticals, chemicals, cement, paper and sugar sectors were particularly attractive in business terms. Our local company KSB Pumps Limited supplies these industries with products of its own manufacture and imported products. A key success factor, especially in the case of valves produced locally, proved to be the short delivery times.

The KSB subsidiary in Pakistan successfully defended its excellent market position in industry. The company opened up a new field of application in sugar production. The first of the 60 or so sugar mills in the country have already placed orders.

We reported very good results in South Korea with equipment suppliers in need of cryogenic valves for cargo ships and liquefied gas tankers. A positive factor here was that the main competitors are also from Europe. This means that the sale of these special valves is not affected by currency-related competitive disadvantages. However, in this business, too, there was a substantial pressure on prices.

### Environmental awareness stimulates waste water business

Demand for equipment for water supply and waste water disposal systems remains strong in the Region Asia / Pacific. Extensive infrastructure measures are necessary in order to supply the rising population with clean drinking water, to irrigate agricultural land and to improve water pollution control.

In India, we focused our efforts in the freshwater business on providing submersible borehole pumps for water supply systems and agricultural irrigation. In this market segment, however, we felt the impact of increased activities by local suppliers and a corresponding pressure on prices. In the strongly growing waste water market, KSB Pumps Limited is in the process of adding new sizes of submersible motor pumps to its product range.

The Chinese water market is growing slowly, but involves large volume. There is a discernible increase in the demand for waste water pumps as a result of the growing awareness of environmental problems. This led to several major orders being won for pumps intended for water pollution control projects.

In Singapore, KSB Amri profited considerably from public sector investments in the water and waste water sector and, amongst other projects, received an order for the equipment of a large sewage treatment plant.

To gain a sound footing in the growth market of waste water engineering, we launched a new waste water pump on the market in Australia. Amongst other things, our local company is equipping the country's largest sewage treatment plant with submersible motor pumps and mixers.

### Energy engineering projects in China and India

KSB supplies the regional power generation sector with pumps and valves from China, India and Germany. This product mix has enabled KSB Shanghai in particular to position itself well in the power plant market. In 2003, it secured several large orders from local electricity supply companies and achieved more than 50 percent of its order intake with energy engineering products.

In China, we succeeded in entering the flue gas desulphurization segment, which is steadily gaining importance in environmental projects aimed at improving the quality of air. For this

application, systems need to be made of special materials with a high level of resistance to wear and corrosion. Pumps for flue gas desulphurization plants are supplied in close cooperation with production centres in Germany and the USA.

In India, where a five-year plan envisages creating an additional capacity of 25,000 MW by 2005, several orders came in for the pumping equipment of new power plant units. To develop further fields of application in energy engineering, the Indian company is extending its range of butterfly valves to ANSI standards.

### > SYSTEMS

Apart from the activities of Germany's KSB Fluid Systems GmbH, the companies in India and Pakistan are involved in the systems business in the Region Asia / Pacific.

In India, major infrastructure programmes offer the promise of increasing future orders in water and waste water engineering, which includes "turnkey projects". In 2003, therefore, India's KSB Pumps Limited presented itself to a large group of consultants and end users for the first time as a provider of turnkey pumping stations. The focus of activities of the Indian systems engineering competence centre was on the construction of eight waste water pumping stations in South India. This project was realized in a consortium with a domestic company.

In cooperation with a large German company, KSB Pakistan obtained a major order in the systems business in 2003. This relates to water supply equipment and includes tubular casing pumps produced locally and other pump units from the Global Manufacturing Network.



Submersible borehole pumps extract water from great depths.

## ► SERVICE

The aim of the service range on offer in the Region Asia / Pacific is not only to provide local companies with rapid and reliable services. It is also intended to provide our international customers with the level of service locally which they are used to finding in their domestic markets. The KSB companies are committed to this goal in several ways: they are continuously training their service personnel, setting up new centres and integrating local service providers in the service for technically less sophisticated products.

In 2003, we established new repair centres in the three most important cities of Pakistan. At the same time, we extended the network of our service partners in India by seven new companies to a total of 65. In addition, KSB has four of its own service centres operating in the Indian market as well as a 30-strong team of service technicians. KSB Shanghai conducted extensive training measures and enlarged its team of specialists for service assignments.

As well as China and Pakistan, our companies in Australia and Thailand reported a double-digit percentage increase – in local currency terms – in their service business in 2003.

## ► OUTLOOK

### Good growth prospects for KSB business

The markets in the Region Asia / Pacific are again likely to develop well in the current year. China and India will continue to act as the engines of the economy.

In view of the high growth rates to be expected, the Chinese market will form a strategic focus for KSB in the coming years. We shall increase our local production, establish new competence centres and strengthen our sales and service organizations.

Increasing energy requirements are anticipated to generate high growth in the Chinese power plant market. Likewise, demand for energy engineering equipment will rise in India, followed by Thailand and Indonesia. For KSB companies in the Region, the supply of customers in the water and waste water sectors as well as industry will also be in the forefront of activities.

In flue gas desulphurization, which is gaining importance especially for coal-fired power stations in the Region, we aim to step up our activities in China and South Korea. In Taiwan and Japan, too, we see good market opportunities for application-specific pumps from the USA and Europe.

An interesting market for us is the shipbuilding industry. In shipbuilding, China is seeking to become the world's market leader by 2030. In this sector, we shall just as actively service the needs of Chinese customers in the future as we already have for shipbuilders in South Korea and Japan. The most important products for the marine sector are cryogenic valves, which are used on liquefied gas tankers. We also produce hydraulically actuated valves and control systems which serve to stabilize ships in a variety of loading conditions. The equipment of tankers for chemicals is considered to be a further prominent field of activity in the current year.

We also see good prospects in the systems business. We shall extend our activities with turnkey systems and pumping stations beyond India and Pakistan to include Indonesia, Thailand and Vietnam.

We remain committed to providing global and high-quality service. Key points of focus will be the establishment of a new repair centre and spare parts warehouse in Taiwan, as well as increasing the density of our service network in growth countries.

## AMERICAS

- > Expansion of pump service in the USA
- > Major orders for flue gas desulphurization
- > Good order intake in Brazilian oil market

### Soft market trends in North and South America

The economy in most American countries in 2003 saw low growth and subdued investment activity in the public sector.

In North America, the water and waste water market performed better than in the previous year, but the energy sector – an important segment for our business in that country – experienced a continued decline in demand. Industry in the USA showed a slight recovery.

In Latin America, Brazil had almost no new infrastructure projects realized in the water, waste water and energy sectors. The oil, industry and agriculture segments, however, offered comparatively good business opportunities.

In Chile, many mining companies postponed their development and modernization projects. New public water and waste water facilities also failed to get beyond the planning stage. The Mexican economy suffered as a result of the soft US economy and low investment activity in the public sector, whereas Argentina recovered to some extent from its severe economic crisis in the year before.

### Positive results in the Region

Operating in a difficult economic environment, some subsidiaries in the Americas achieved good overall growth in orders and sales revenue. Owing to the high euro exchange rate this is, however, better reflected in the local currency figures.

A particularly good development in 2003 was the rise – in local currency terms – in the order intake of companies in Brazil and Argentina, as well as our US American subsidiary GIW Industries.

**Our Brazilian subsidiary received orders from the oil industry. In Argentina, we were successfully engaged in the water sector.**



For a cleaner environment: large process pumps transport lime milk used for flue gas desulphurization in power stations.

Our Brazilian subsidiary received orders from the oil industry, from the industrial and agricultural sectors and from building services. The service and spare parts business also showed favourable growth.

In Argentina, we profited from the improved market environment. We were successfully engaged here in the water, waste water and industrial sectors. By contrast, the KSB companies in Chile and Mexico reported a decline in order intake as a result of the economic situation in their sales markets.

GIW Industries in the USA, specializing in the design, manufacture and supply of slurry pumps, enjoyed a positive development of its business in 2003. Our operation in Richmond managed to compensate reduced pump demand from the energy engineering sector only partly with its water and waste water business. A decline in orders was reported both by our subsidiary in Houston, which specializes in butterfly valves, and by the Canadian KSB company.

Against this challenging background, our companies in the Region made an important contribution to Group profit.

## ► PUMPS AND VALVES

With products from their manufacturing centres in Argentina, Brazil, Mexico and the USA, the KSB companies in the Region cover a broad spectrum of demand. The product range is completed with pumps and valves of European production.

## Good performance in the oil and process industries

Within the framework of Brazil's far-reaching oil programme, the Petrobras company placed important orders with our Brazilian subsidiary. These were predominantly for process pumps used on offshore platforms and in refineries. The expansion in the oil sector is aimed at eliminating the country's dependence on crude oil imports by 2006.

KSB Brazil was also successful with pumps and valves for the petrochemicals sector, the pulp and paper industries, steel mills, as well as for sugar and alcohol production.

## Growth in the US waste water business

Thanks to the positive development of the waste water market in the USA, we managed to improve our positioning in this segment. Activities included the supply of pumps and mixers designed for use in sewage facilities. An order for 139 submersible motor mixers was placed by the City of New York for the upgrade of a large waste water treatment plant.

In Argentina, we received several major orders for pumping equipment, including pumps for flood control applications in the province of Corrientes.

The general lack of public sector investments in Brazil had a very negative impact on order intake in the water and waste water business. One exception was in the area of agricultural irrigation. Our company was involved in a number of major projects and supplied pumps for the conventional irrigation of sugar cane, drip irrigation of orange trees and pivot irrigation of soya beans.



**Slurry pumps help meet clean air requirements**

Order intake for slurry pumps in the USA developed well in 2003. Major orders came in for highly wear-resistant pump sets needed in flue gas desulphurization plants both at home and abroad. Gas scrubbers are being used more and more throughout the world to help prevent “acid rain”. The pumps for these applications carry highly aggressive and at the same time abrasive lime milk, which places high demands both on materials and on engineering.

In Chile, 40 percent of whose economy is dependent on mining, few new orders were received for mining pumps as a result of the postponement of projects. KSB Brazil posted important orders for slurry pumps intended for iron ore mines in Carajás, Cauê and Vitória.

**> SYSTEMS**

In the systems engineering business, our Brazilian company is involved in water management projects in Araraquara and Botucatu, where we equip pumping stations with pumps, piping, control panels and other engineering components.

Good growth was reported also in orders for fire fighting systems. These are supplied by KSB Brazil complete with pumps, Diesel engines or electric motors, base frames, control systems and accessories.

**In the United States, we stepped up our service activities.**

**> SERVICE**

In the United States, we strengthened our capability to provide fast, regional services to our US customers with the acquisition of Precision Pump and Machine, Inc. The activities of the new KSB company, based in Bakersfield / California, include the installation and commissioning of pumps and related machinery, as well as repairs either on site or in its own service centres.

GIW Industries started up a new service centre in Grovetown / Georgia. In addition to a 24-hour emergency service and rapid delivery of spare parts, the facility also offers customers a rebuild programme for slurry pumps. This can be a cost-saving alternative to the purchase of new pumps.

KSB Chile has service agreements with some of the main mining companies for the maintenance and repair of slurry pumps, a very important and specific field. In the same line, our subsidiary services irrigation pumps under contracts with major agricultural companies.

Our company in Brazil concluded long-term service agreements with several local companies. These contracts cover the supply of spare parts, maintenance, and in some cases overall operation of all pumps installed at a site. In Brazil, the company has four service centres of its own, as well as 14 authorized service shops with specially trained personnel. KSB Argentina is also currently in the process of establishing a service structure geared to meeting customer needs even better.



## ► OUTLOOK

The countries in the Region Americas anticipate to see a slight increase in economic activity in the current year, but at relatively low growth rates. For the most important market in the Region – the USA – a recovery is expected in the industrial sector. Despite considerable needs in the water and waste water market, there may be a decline in demand, because various federal states have budget problems. Likewise no visible upturn in demand is expected in the energy and mining sectors.

In Latin America, we expect to see moderate growth in the market in Argentina, Brazil and Chile. The Mexican economy is likely to keep a similar level as in the previous year. Our subsidiary in Mexico has adjusted to this situation and started a radical restructuring programme with the aim of improving the company's productivity and increasing its market share.

KSB Brazil sees good opportunities in 2004 both in the oil industry and in the agricultural sector. The company, which already has the most modern pump manufacturing facility in Latin America, will continue to invest in the technology and quality of its products. New business prospects are opened up by the company's own production of special-alloy steels. These are needed for pumps in wear-intensive applications.

GIW Industries is pursuing an ambitious programme aimed at securing future growth. Two pillars of its strategy are investments in production and major cost-cutting measures. The latter include, for example, selective outsourcing of components.

In order to push the global marketing of GIW products, the company is promoting the development of competence centres in Asia, Latin America and South Africa. Oil sands applications and flue gas desulphurization also offer the company good opportunities for orders in the years to come.

WHEN SPEED SPELLS SERVICE QUALITY

# 120 minutes





› The clock is ticking: if a pump stops running, our service staff start. Off to Peugeot-Citroën, for example, where KSB is on the spot in less than two hours. ‹

When a customer's in trouble, **speed** counts double. So our service experts are on call round that ticking clock, ensuring that manufacturing stays doing what it does best – running.



Lionel Rucin is in charge of organizing maintenance and servicing of over 400 pumps for our customer in Metz / France.



The latest generation of submersible motor pumps for sewage transport.



## ECONOMIC ENVIRONMENT

- > Demand is still unsatisfactory
- > Good market development in Asia
- > Persistent overcapacity in the industry

Demand in our most important markets did not show any substantial improvement in 2003. By the end of the year in most industrialized countries, the forces of economic recovery had not produced any notable impact in the sectors where we operate. However, there was an increase in the need for pumps, valves and related systems in some newly industrialized countries, which led to greater demand in countries such as China and India.

In our core market, Europe, business activity remained very subdued. With the exception of Great Britain, economic growth in the major European countries was unsatisfactory. This is especially true of Germany, where the market was additionally shaped by uncertainties with regard to political reforms.

Stronger demand was seen in some smaller European states, in Spain and in the EU accession countries. In the latter, our products are above all needed for infrastructure projects in the fields of energy, water and waste water.

The countries in the Arab economic area have almost returned to normal after the end of the Iraq war. In some countries, however, there was still a lack of resources for major projects, which were therefore postponed until the current year.

The most important driving forces of the global economy came from Asia. Particularly outstanding was the growth seen in China and India, where the market offered our products good opportunities. The former “engines of growth” South Korea and Japan succeeded in stabilizing their economic situation.

The US American economy suffered under the increased national debt and was unable to show any substantial recovery. Compared with previous years, demand was extremely weak especially in the energy market, which is important for our business in the USA. Most Latin American countries also achieved only low growth rates, which was accompanied by lower investments in infrastructure projects.



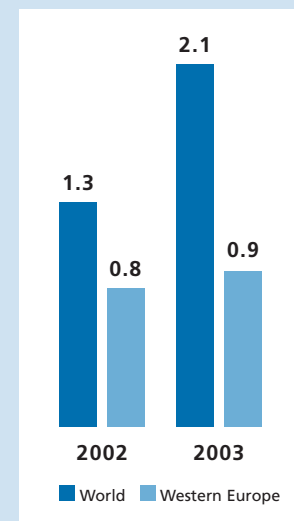
## Development of the industry

In the pumps and valves industry, there were no major company mergers or acquisitions. However, consolidation trends continued in the form of smaller company acquisitions. KSB also played its part here with acquisitions in the areas of pumps and service.

The change in currency exchange rates made it easier for suppliers from the US dollar zone and from low-wage countries to gain a foothold on the European market. These competitors exploited the currency-related price advantages especially in building services and industry. In view of the continued overcapacity among pumps and valves manufacturers, prices have come under heavy pressure due to predatory pricing policies.

**In 2003, the most important driving forces of the global economy came from Asia.**

**Change in real gross domestic product (GDP)**  
in percent





## BUSINESS DEVELOPMENT

- > Order intake and sales revenue at prior-year level
- > Strategic acquisitions continued
- > Implementation of growth programme

### Order intake in the Group stagnating

Order intake in the Group declined by 0.6 percent to € 1,193.2 million in 2003. The background to this is the high exchange rate of the euro, as a result of which the value of the orders received by our companies, when translated into the Group currency, was € 47 million lower.

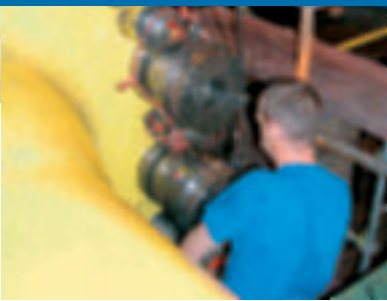
In the Region Americas, order intake measured in euros showed a double-digit percentage decline. All other Regions – Europe, Asia / Pacific and Eastern Europe / Middle East / Africa – reported order growth despite currency-related losses. Of the large individual companies, our Chinese joint venture and our company in South Africa posted the highest double-digit growth rates.

In Europe, the order volume of several sales organizations showed above-average growth. The German KSB AG increased its order intake by 2.3 percent, which above all stemmed from our business with products for waste water, industrial, process and energy applications.

### Turbulence on currency exchange markets slows sales revenue growth

Notwithstanding the currency translation losses resulting from the changes in exchange rates, sales revenue in the KSB Group at –0.2 percent and € 1,178.1 million approximately reached the previous year's level. Substantial and largely currency-related declines in sales revenue were reported in the Region Americas, whereas the other Regions increased their sales revenue. Double-digit sales revenue growth was achieved by our manufacturing companies in Australia, China, South Africa and Turkey.

In Europe, KSB Fluid Systems GmbH posted an increase in sales revenue attributable to the invoicing of major projects. Double-digit growth in sales revenue was reported by our sales organizations in Denmark, Great Britain and Spain. By contrast, KSB AG remained 0.2 percent down on the sales revenue achieved in the previous year, during which a major energy engineering order was invoiced.



A strong partner for KSB Service in Belgium: MSOS based in Antwerp was a welcome addition to the KSB Group in 2003.

### Acquisitions strengthen market position

Through the acquisition of two pump manufacturers, one in the Netherlands and the other in Spain, we strengthened our positioning in the European market in 2003.

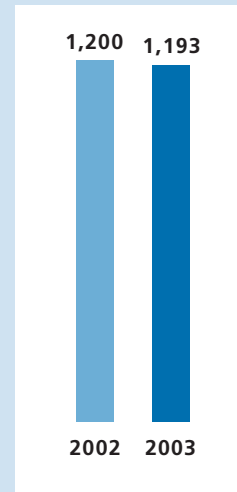
As well as cast and forged steel pumps, deep-drawn stainless steel products are finding increasing acceptance on the market. With DP industries B.V. in Alphen / The Netherlands, and its 280 employees, KSB acquired a company on 16 May 2003 which has extensive experience in designing and manufacturing deep-drawn stainless steel pumps. This offers a sound basis for improving KSB's position in the market for stainless steel pumps. A development and integration team has started work on turning the DP industries facility into our competence centre for sheet steel technology by 2005. This entails the relocation of production from other European sites to The Netherlands.

With a view to increasing our presence in the Spanish market, we acquired an 80 percent interest in Bombas ITUR, S.A., Zarautz, on 12 November 2003. This company, with its 250 employees, is one of the leading pump manufacturers in the Spanish market and has to date been primarily engaged in industry and building services. Backed up by its well-developed sales network and local manufacturing opportunities, we aim to make good use of the growth potential for KSB products in industry, water and waste water management, as well as the service area.

**At about € 1,178 million, sales revenue in the KSB Group approximately reached the previous year's level.**

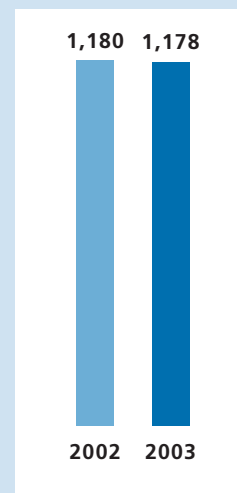
### Consolidated order intake

€ millions



### Consolidated sales revenue

€ millions





Since 1 January 2003, KSB has had a 100 percent subsidiary in Helsinki / Finland trading under the style of KSB Finland Oy. This company was formed from the joint venture Mercantile KSB Oy Ab, founded in 1995, in which KSB only held a minority interest of 25 percent. The company’s business focus lies in the sale of pumps and valves for the energy sector and industry, as well as water valves and service. Several plant engineering contractors run their own international business operations from Finland, where our subsidiary has established itself as the market leader in the energy industry.

In 2003, KSB also acquired service companies in Germany, France, Belgium and the USA, in order to further improve our presence and offering in the area of services.

**Standard SAP R/3 software rolled out to Production**

In 2002, we started to switch our production control systems throughout Europe to SAP R/3 software. This step is an essential part of “Wave 2” of our BIG project. The aim of this project is to implement a standardized and integrated systems landscape that will allow a consistent flow of data. The areas of sales and distribution, materials management, finance and accounting are already integrated in the system.

In the spring of 2003, we introduced the new system in Frankenthal’s industrial pump production as a pilot project for our manufacturing sites. This was preceded by process improvements, as well as technical upgrading of the painting booth and the parts supply system.

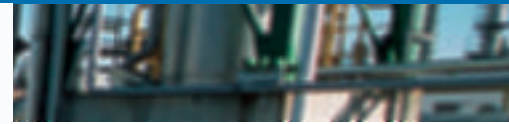
In spring of the current year, the changeover will be completed in the production systems for power plant and submersible borehole pumps. The aim of replacing the legacy systems is to achieve a further shortening of lead times in production and a decrease in inventories.

Apart from Production, the Human Resources department was also involved in the implementation of SAP R/3. In mid-2003, the payroll system in Germany was switched to the new software. It is also planned to use the SAP system for human resources management in France and Germany.

The project in Production and Human Resources is currently scheduled for completion in 2005.



Ship to ship transfer: a KSB-developed coupling system is at the heart of the first flexible terminal for loading and unloading liquefied gas on the open sea.



A smart drive helps significantly reduce the pump's life cycle cost.

### Growth programme for more sales

In view of the inadequate business dynamics in our markets, we pushed ahead in the year under review with our 700Up growth project, which was started at the end of 2002. On the basis of an extensive market and customer analysis, the programme is aimed to generate a sales growth of € 700 million by the year 2010.

An international team is devoted to collecting and evaluating both new business ideas and ideas for the intensification of ongoing activities, as well as translating these into project plans.

Responsibility for new business ideas is assumed by the individual team members. They accompany a start-up project until the costs of the project have been covered and the idea has taken off in sales. Intensification projects are followed up in the established KSB organization and supported by mentors from the team.

The sales ideas range from the classic business with pumps and valves, via smart products, modules and systems, through to service, financing and operations management models. A continuous review process ensures that all projects progress according to schedule.

**In view of the inadequate business dynamics in our markets, we pushed ahead in the year under review with our 700Up growth project, which was started late in 2002.**

## FINANCIAL POSITION

- > KSB Group improves total output of operations at constant sales revenue
- > Profit situation shows regional differences
- > High level of equity investments

### Pre-tax earnings below those of previous year

The KSB Group achieved a profit of € 29.8 million from its ordinary activities. The return on sales declined to 2.5 percent from 2.9 percent in 2002.

Whereas personnel expenses as a percentage of the total output of operations rose by 0.8 percentage points, we were able to reduce the cost of materials ratio by 0.3 percentage points. The other operating expenses were lower than a year earlier both in absolute terms (down € 4.5 million) and in relation to total output of operations (down from 20.1 to 19.1 percent).

Excluding other operating income, the profit from ordinary activities would have improved by € 7.0 million. The fall in other operating income by € 11.4 million is attributable amongst other things to a reduced reversal of provisions and lower currency translation gains. This clearly shows that the reduction in earnings in 2003 was caused exclusively by the decline in other operating income.

### Earnings after taxes

With the tax expense reduced by € 3.5 million, the net profit for the year was only slightly down from the prior-year level (€ 18.7 million versus € 19.6 million in the previous year). Major contributory factors here were the lower pre-tax earnings and lower deferred taxes.

The minority interest in net profit / loss increased by € 1.9 million to total € 6.4 million in 2003, because improved earnings were reported especially in companies with minority interests. Through the restructuring of the Group, in particular the acquisition of major overseas interests by KSB Finanz S.A., Luxembourg, a wholly owned subsidiary of KSB AG, the scale of minority interests was basically reduced. However, this had little impact in 2003, because most of the restructuring measures were not implemented until towards the end of the year.

At € 12.3 million, the consolidated net profit for the year was € 2.9 million below that of the previous year.





BOA-Control IMS valves measure, balance and shut off flow in piping systems.

## Results of companies and Regions

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

KSB AG achieved pre-tax earnings of € 17.6 million, compared with € 18.6 million a year earlier, amounting to a reduction of 5.5 percent. With the inclusion of KSB Armaturen GmbH, Frankenthal, which was merged with KSB AG on 1 January 2003, the sales revenue was 0.2 percent lower than in 2002; the total output of operations rose by 1.8 percent.

In the results posted by KSB AG, the profit pooling arrangements with its German subsidiaries had a positive effect overall. The profits achieved by the Service companies in total were € 0.5 million higher than in 2002, whereas KSB Fluid Systems GmbH transferred a loss which was € 0.4 million above that of the previous year.

KSB S.A.S. contributed to the Group earnings with a profit of € 4.3 million (previous year: € 5.1 million).

Our European companies outside Germany and France improved their earnings performance. They earned € 8.7 million, up from € 4.6 million a year earlier. This is essentially attributable to the two companies KSB Finland and DP industries, which were consolidated for the first time, and to an increase in sales revenue reported by the other companies.

In the companies of the Region Asia / Pacific, both order intake and sales revenue were slightly higher than in 2002. Earnings were markedly increased to € 6.3 million compared with € 5.1 million a year earlier. This was basically attributable to our Indian company KSB Pumps Limited.

After translation into the Group's reporting currency, the Region Americas showed a substantial fall both in order intake and in sales revenue. In local currency terms, the business

volume in most companies actually rose. At € 7.3 million, the earnings calculated in euros could nevertheless be maintained at the prior-year level (€ 7.4 million).

The Region Eastern Europe / Middle East / Africa again posted higher earnings contributions than in 2002 thanks to the two consolidated companies in Turkey and South Africa. The € 0.5 million increase to € 4.1 million resulted from good growth in order intake and sales revenue, especially in our South African company.

## Earnings per share

The earnings per share amount to € 6.74 for ordinary shares compared with € 8.52 in the previous year. For preference shares, earnings per share amount to € 7.26 compared with € 8.78 in 2002.

## Adjustment of dividend

In line with the development of the net profit for the year of KSB AG, we shall be recommending to the Annual General Meeting that the dividend be reduced compared with the previous year. Our proposal on the appropriation of the net retained earnings is to pay a dividend of € 2.50 per ordinary share (previous year: € 4.00) and € 3.02 per preference share (previous year: € 4.26). € 7.5 million (previous year: € 9.0 million) are to be transferred to the revenue reserves.

## 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 Art. 312 clause 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."



### Markedly higher investments through acquisitions

In 2003, the KSB Group's investments in property, plant and equipment exceeded the level of depreciation / amortization. Major additions covered the purchase of business property and buildings in connection with the acquisition of our new Group company DP industries B.V., Alphen / The Netherlands and the new production facility of SISTO Armaturen S.A. in Echternach / Luxembourg. Most of the additions to plant and machinery were reported by KSB AG and KSB S.A.S.

Under intangible assets, we capitalized part of the expenditure for the implementation and adjustment of the SAP system in addition to the software licences already registered. A further addition to the assets came from the goodwill acquired with the new Group companies.

The acquisition of companies which were not yet included in the consolidated Group for the 2003 financial statements has resulted in additions to the non-current financial assets of € 12.5 million.

Overall, we posted additions totalling € 73.8 million to property, plant and equipment as well as non-current financial assets.

### Changed balance sheet ratios

The balance sheet total of the KSB Group in 2003 is € 67.2 million higher than the prior-year value.

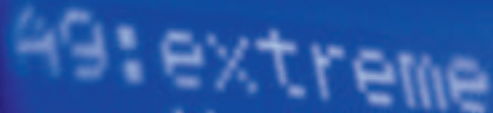
More than half the increase (€ 35.9 million) is shown in the non-current assets. The reasons for this have already been presented above.

The increase in inventories by € 6.6 million (3.5 percent) is almost exclusively due to the higher level of completion of the customer orders which are in progress. In the case of receivables and other assets, we were unable to maintain the relatively low level of the previous year as a result of the high year-end sales compared with the prior-year figure. We posted an increase of € 15.6 million (5.0 percent).

A major item on the equity and liabilities side is the increase in liabilities by € 62.7 million, or 33.9 percent. Most of this increase is attributable to higher financial liabilities in the form of bank loans and overdrafts. The low level of interest rates prompted us to debt-finance a major part of our equity investments.

The decline in the equity ratio by four percentage points to 37.4 percent is basically attributable to the 7.8 percent increase in the balance sheet total to € 926.5 million. Our return on equity fell from 9.5 to 8.5 percent. The return on capital employed amounts to 4.9 percent compared with 5.5 percent in the previous year.

**A major part of the increase in non-current assets stems from our equity investments.**



### Cash flow statement

At € 63.1 million, cash flow increased compared with the previous year (€ 60.3 million).

Cash flows from operating activities fell from € 91.0 million to € 36.8 million. The main reason for this is the increase in inventories and receivables in 2003, whereas the previous year saw a considerable reduction in these items.

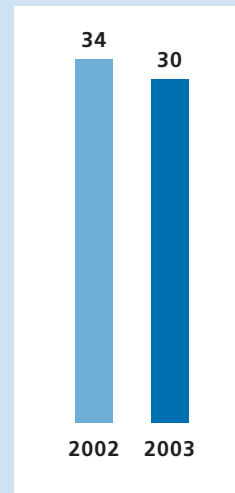
Cash flows from investing activities show an outflow of funds of € 90.0 million (previous year: € 32.4 million). This covers not only investments in property, plant and equipment, but in particular also investments in non-current financial assets and payments for the acquisition of shares in consolidated companies.

Cash flows from financing activities shows an inflow of funds of € 52.7 million compared with an outflow of funds of € 44.2 million in the previous year. Borrowing activities and lower repayments than in 2002 contributed substantially to this change.

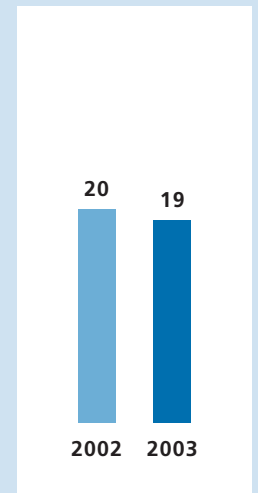
### Net financial position

The balance sheet of the KSB Group on 31 December 2003 shows cash and cash equivalents at € 114.0 million. Compared with the figures on the same date a year earlier, this represents an increase of € 6.5 million. At the same time, we took advantage of the low interest rates and increased our financial liabilities by € 56.1 million, mostly in order to finance our equity investments. On balance, the net financial position of the KSB Group was reduced from € 66.4 million to € 11.6 million.

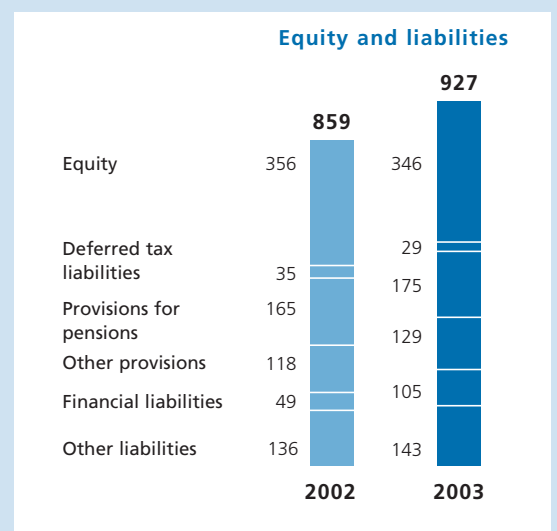
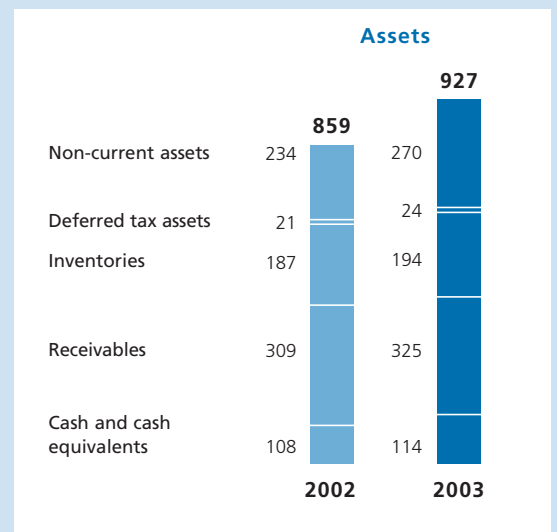
**Earnings before taxes**  
€ millions



**Net profit for the year**  
€ millions



**Balance sheet structure**  
€ millions





## RISK MANAGEMENT

- > Global identification and analysis of risks
- > Structural programme as response to difficult market conditions
- > Measures to secure raw materials supply

Effective risk management is an important means of safeguarding value. It is a function in which all the Group companies of KSB are involved. The responsible risk management officers regularly record and evaluate the identifiable hazard potential. They report relevant risks to the corporate risk management officer, who keeps the members of the Board updated about the overall risk and informs them about the appraisal of major individual risks.

We analyse all relevant risks according to six categories. In these risk areas we monitor the following trends:

### Markets / competition

The competitive situation in our markets is undergoing rapid changes, especially in Europe. While new suppliers are finding their way onto the European market, established competitors are doing their best to extend the fields of application for their products and to enter new market segments. The pressure on prices is increasing accordingly.

We are meeting this challenge with our Structural Programme 2006, which will sustainably improve our competitiveness. To this end, we shall amongst other things trim our current product range and simplify internal processes. By introducing a new and more powerful CAD/CAE system in product development, we shall reduce design times and shorten the duration of development projects. The investments in rationalization and improvements in processes, together with the implementation of SAP R/3, will also reduce our process costs.

### Products / projects

Short delivery times and a high level of delivery reliability are factors which are playing an increasingly important role in buying decisions. The challenge is to avoid any dissatisfaction on the part of a customer in order to avert any loss of orders. The project implemented last year to increase the level of delivery reliability in Europe has improved the quality of our processes in eight of eleven production centres and in some cases has surpassed objectives. Since mid-2003, we have also been working to reduce delivery times for our products further through process improvements.

## Finances / liquidity

We have taken account of the increasing number of insolvencies and payment problems of isolated customers with active credit management and have recognized appropriate general valuation allowances. Major risks were reduced through trade credit insurance, higher advances from customers and coordinated timing of payments received and goods delivered.

In 2004, the effective credit management system in place at our core companies will be extended to include the European sales organizations. In this context, we will be taking advantage of the benefits offered by the standardized SAP platform.

With a view to minimizing foreign currency risks, especially in relation to the currency exchange trends of the US dollar, we engaged in extensive currency hedging transactions in good time. These will provide ample security for our exports from Europe in 2004.

## Procurement

The increasing shortage of materials – such as steel, cast parts and alloy parts – leads us to expect a further price increase in the current year. The background to this is the rising need for raw materials especially in China. To ensure the availability of materials needed for our production, we have concluded framework agreements over several years with suppliers. These agreements provide for the creation of temporary storage facilities on the part of the supplier to avoid potential bottlenecks. We are also examining the use of alternatives to materials in short supply for our product components.

**In our analysis of potential risk areas, no risks have been identified which jeopardize the continued existence of the company.**

Electricity prices rose worldwide in 2003. To counter any further increase in costs, we introduced energy management in 2003. This involves, for example, using systems requiring high electricity input preferably at lower-cost, off-peak times.

The strong euro has resulted in competitive disadvantages for European manufacturers. To lessen the impact for KSB, we shall in 2004 increasingly purchase raw materials, components and products from the dollar area and from countries with associated currencies.

## Technology / research and development

The creation of innovation always entails certain risks, which may, for example, lie in prolonged development times or lack of market acceptance. To mitigate these risks, we involve all the technical and business functions concerned as early as at the product development stage. This is particularly the case for projects in the framework of our 700Up growth programme. To limit the risk in new market areas, we first collect sufficient experience of applications in pilot projects before broadening our activities in the market in a second step.

## Environmental protection

To minimize and as far as possible exclude identifiable risks in environmental protection, we perform regular internal ecological audits. Additional external audits are performed at the European locations by the TÜV CERT accreditation institute, Kaiserslautern, in the context of ISO 14001 matrix certification.

## Overall assessment

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



## EMPLOYEES

- > Qualitative human resources planning introduced in Europe
- > Range of training opportunities increased
- > Vocational training certified to ISO 9001

### Slightly higher number of employees in the Group

At the end of 2003, the number of employees in the KSB Group stood at 12,281, which was 333 more than a year earlier. This is mostly attributable to our acquisitions of various European companies.

In Europe, staff levels thus increased by 426 to 7,081 in 2003. The number of KSB AG employees grew by 85 to 3,841, mainly on account of the staff taken over from the former PSA Lünen and a larger number of trainees. By contrast, the number of employees in KSB S.A.S. remained constant at 1,175.

In the Region Eastern Europe / Middle East / Africa, the headcount rose from 325 to 345. In the Americas, the number of employees remained almost constant at 1,392. A decline in staff numbers in some companies was offset by an expansion in Brazil's KSB Bombas Hidráulicas S.A., where 63 new employees were recruited to strengthen Production.

More efficient production processes reduced the demand for personnel at facilities in the Region Asia / Pacific, where staff levels declined from 3,585 to 3,458, with the number of employees of India's KSB Pumps Limited being reduced by 88.

### Strategic human resources planning in Europe

In the coming years, we aim to achieve our company objectives with a staffing level that is optimal both in quantitative and in qualitative terms. The Qualitative Human Resources Planning system introduced throughout Europe in 2003 is making a vital contribution to this. It enables us to keep a precise record and description of personnel structure based on the number of employees, jobs, qualifications and skills. In this way, optimum use can be made of the company's available skill base, and any gaps in skill can be remedied through personnel development or new appointments.



Andrea Weber in Frankenthal coordinates repair jobs on industrial pumps.

The transformation from a manufacturer of components to a supplier of modules and systems, which we are striving to achieve, requires changes in our development, production and sales structures. To this end, for example, we need to intensify the integration of automation and drives. We also aim to offer new services for the water and waste water segment by 2010. Our employees have to get ready for these changes and broaden their skills accordingly.

### Strengthening intercultural competence

The market requirements on our sales and marketing personnel are continually changing. To ensure that our employees can adjust accordingly, the KSB TrainingCenter in 2003 held a series of seminars and training courses in the European sales organizations and KSB sites in Germany. The focus of this training was on strategic selling and deepening of product knowledge.

The intercultural competence of our employees is a key success factor for KSB as a global player. It is, therefore, important to prepare employees adequately for international assignments. In 2003, for example, our TrainingCenter coached specialists for assignments in China. With this mind, these employees took part in seminars to familiarize themselves with the culture and business conduct of their future partners.

### Certified vocational training

KSB AG is one of the first companies in Germany to have its vocational training certified to DIN EN ISO 9001 quality standards in 2003. This standard defines guidelines for the quality and efficiency of internal workflows and processes. The audits performed were aimed at verifying and providing evidence of our competence in the integrated training of young people. By incorporating learning objectives such as social skills, sense of responsibility and market-oriented thinking and behaviour, we prepare our trainees and apprentices comprehensively for their chosen careers.

In the year under review, 69 school leavers started their training at KSB AG. At present, a total of 226 young people are in training at KSB for 13 different occupations. To provide practical instruction in the field of engineering, we invested € 200,000 in the machinery pool for our apprentices' workshops in 2003.

### A word of thanks to the employees

The Board of Management wishes to thank all employees for their high level of personal commitment, especially in the support provided to customers and in the project aimed at securing the future. Without this exceptional commitment, it would not have been possible to cope simultaneously with the many different tasks. Special thanks are due to the Works Councils and the Executives Committee for their constructive cooperation. This was an important precondition for the successful implementation of measures and projects in the year under review.

**We are one of the first companies in Germany to have its vocational training certified to DIN EN ISO 9001 quality standards in 2003.**



## RESEARCH AND DEVELOPMENT

- > Diagnostic system boosts plant reliability
- > New computer program minimizes risk of cavitation
- > Ceramics make for a long pump life

Our business success is based to an important degree on identifying the needs and wishes of the market at an early stage and developing suitable technical solutions. There is a demand for innovative products and services which offer our customers perceivable added value. Great importance is attached to advanced automation concepts which take account of the changing requirements on systems engineering.

We continually aim to strengthen our ability to supply our markets with technically leading products. So we invested around two percent of sales revenue in Research and Development in the year under review. These R&D activities are mostly pursued at locations in France, Germany, India and the USA.

### Innovative diagnostic system

In many complex installations, pumps perform a key function with the transport of fluids. If there are no standby pumps in place, equipment failure may cause costly downtimes. To increase a plant's availability, it is important to know what conditions lead to what reactions in a pump. With this in mind, we developed the "Pump Expert" diagnostic system.

The system "tells" the operator when pump components are at risk or what the causes of malfunction are. The technical personnel on site automatically receive concrete instructions on what steps to take. The early detection of developing malfunctions allows the process to be optimized. Pump Expert is an important building block for reducing the life cycle costs of pumps and pumping systems.

### Simple handling

Pump Expert is our first product family to feature a display that is designed in accordance with the latest ergonomic findings. The human / machine interface is used to enter technical parameters and to display information. In the future, it will be employed in all KSB automation products. Thanks to intuitive menu operation, it is easy to learn how to use the system and handling is simple. The time that is saved reduces the cost incurred for start-up, training and operation.






Speeds up time-to-market: 3D printing is a fast method of producing complex, pressure-bearing prototypes of impellers and other components.

### Pumps with a long life

Cavitation is a destructive phenomenon in hydraulic machinery and equipment. Every year, it causes damage that can run into the millions for plant operators. In order to minimize or, as far as possible, avoid cavitation, we are constantly exploring the correlations between the operating conditions of a centrifugal pump and the occurrence of cavitation. In close cooperation with the research association of the German Engineering Federation (VDMA) we are developing a computer program that will enable users to simulate cavitation as early as in the design stage of a pump. This will help us shape the inner contours of a new design in a way that ensures it is less at risk of cavitation. The pumps developed using this software will have a substantially longer service life.

### Avoiding unwanted vibrations

Developed plots of land are becoming ever more expensive. So our customers today are looking for ever more compact, space-saving and efficient pumps. This means higher drive speeds and a greater “energy density”. But it also means a higher risk of vibrations. We are therefore intensively studying the interactions between the rotating impeller and the stationary casing components. These may result in vibrations, noise and destructive material fatigue. To ensure that this does not happen, we are working on impeller and casing contours that provide a harmonious match. The most powerful boiler feed pump ever built by KSB, with a drive rating of about 27 MW, is a case in point. Thanks to its low vibration level, the pump produced so little noise that the originally planned sound-absorbing cover proved unnecessary.

### Patented bearing design

In large chemical production plants, pumps are essential for transporting liquids to the various process units. Production downtimes result in financial losses. Systems which require only minimum maintenance and can cope with long service intervals thus offer a huge advantage. For this reason, so-called seal-less pumps have become established on the market in recent years. Since the bearings are located on the inside of the zero-leakage units, only medium-lubricated plain bearings can be used. Silicon carbide (SiC) is particularly suited to applications of this kind because of its anti-friction properties. The limits of conventional SiC materials become apparent, however, when the bearing is not sufficiently wetted with fluid. Working closely with a leading ceramics manufacturer we have therefore developed a new SiC quality. A patented bearing design makes the best possible use of the benefits offered by this high-strength SiC. The new bearings are already being successfully employed in our seal-less pump sets.

### Accelerated time-to-market

The development times for new pumps and valves are becoming ever shorter. With the help of modern technologies in the field of rapid manufacturing, new prospects are opening up for the production of prototypes and for the fabrication of complicated individual and special parts. One example of such a new method is “3D printing”, which serves to produce complex components. In this process, a printer sprays a liquid binder onto a thin layer of metal powder. The binder solidifies one layer of stainless steel powder after the other to build up the targeted geometry. Throughout the production cycle, the part lies in a powder bed and does not need any supporting geometry. The built-up contour is sintered and, in a subsequent heating process, infiltrated with bronze. The bronze produces the component’s pressure-bearing structure. The 3D printing methods allows to manufacture prototypes and, on request from the customer, even one-off components at low cost.



## ENVIRONMENTAL MANAGEMENT

- > European KSB sites certified
- > First Group environment report published
- > Responsible remediation of contaminated sites

As a forward-looking company, we acknowledge our shared responsibility for protecting the natural framework of life on our planet and for the sparing use of natural resources. We meet this responsibility on a global scale, with KSB companies on all continents applying the – typically stricter – European environmental standards and directives.

### Environmental protection processes to ISO standards

In Europe, we successfully completed the certification of our production centres to the international ISO 14001 standards in 2003. The only sites not yet included in this process are our new acquisitions. Our facilities in Burgos (Spain) and Châteauroux, Gradignan and Lille (all in France) received certification in 2003. In the coming year, we shall start to have the KSB sites outside Europe certified.

Although ISO 14001 does not require an environment publication, we shall continue to provide information on our environmental protection activities. In 2003, we published a Group environment report for the first time. This supersedes the environmental statements we have hitherto published on a site-by-site basis in keeping with EC Regulation 1863/93.



Built-in energy efficiency: the power input of variable speed pumps is matched to actual requirements.



### Preventive environmental protection

In terms of preventive environmental protection, we performed internal eco-audits in 2003 for the sites in Halle, Frankenthal and Pegnitz. Such measures, which are continuously implemented at all sites, serve not least to foster our employees' commitment to an environment-friendly approach.

### Green areas in place of contaminated sites

In 2003, we invested about two million euros in environmental protection activities at our sites. One of the most important tasks was the reduction or remediation of old contaminated sites. In Halle, this involved the deconstruction of former production facilities on an area of 5,600 square metres. The free area that was created saw the development in the course of the year of 140 parking spaces for employees and visitors, a warehouse and goods handling area, and a green park area.

In Pegnitz, we completed the recultivation of a former land-fill. The 17,000 square metres of land had been used by KSB for the storage of foundry sand and lime slurry until 1981. This land has now been rehabilitated, the surface sealed, and the area designed as green space.

### Reducing emissions

To improve emissions control, we have started operating a new paint shop at our Frankenthal production facility for industrial pumps. The plant, which cost over € 1 million, now enables all the particles contained in paint mist to be collected and disposed of in an ecologically acceptable manner.

We also invested in the modernization of the incinerator for solids at the combined heat and power station in Pegnitz. With this measure, we can today comply with the limit values for reduced carbon monoxide emissions, as required from 2007 onwards by Germany's Technical Guidelines on Air Quality Control (TA Luft).

### Economical use of energy

Early in 2003, the European Union initiated a programme to reduce the energy input of electric motor-driven systems. KSB is the first pump manufacturer to take part in this "Motor Challenge Programme".

Our engineers are systematically developing products which help to minimize the so-called life cycle costs of a plant. Approaches include energy-efficient drives and variable speed systems. These enable the performance of a pump – and thus the consumption of electricity – to be matched to varying operating conditions.

### Occupational safety and health management

In addition to implementing ISO environmental standards, we are also improving occupational safety and health at our sites. In 2004, we shall start to introduce an occupational safety and health management system throughout the company. By this means, the risk potential of all workplaces will be analysed and employees will be provided with systematic occupational health care.

**In 2003, we invested about two million euros in environmental protection activities at our sites.**



## OUTLOOK

- > No decisive recovery in demand as yet
- > Focus on improved profitability
- > New business ideas for more sales

An improvement in the global economy can be expected for the current year. However, this upward trend will not yet lead to a decisive recovery of market demand for products in our late-cyclical industry. But there are likely to be improved opportunities in individual markets and sectors.

In economic terms, Europe will continue to lag behind in 2004. A persistently weak US dollar will have an even greater impact on exports than last year once the rate-hedging measures of European producers have run their course. Within Europe, the EU accession countries as well as Spain and some smaller states are anticipated to show better growth than the economically stronger countries.

In the Middle East and North Africa, we expect an easing of the political situation, which will increase the propensity to invest. Possible imports from Europe will be compromised by the weak dollar.

In the current year, Asia will remain the region in which the strongest economic growth is to be expected. The most important driving forces are the markets in China and India, whose economic momentum will be carried into surrounding countries.

The US economy has a phase of major rationalization behind it. Experts expect the US economy, partly supported by the low dollar exchange rate, to make a substantial contribution to the global economy in 2004. However, the national debt, and also the debts of the private sector, represent a not inconsiderable risk. The Latin American countries have by and large overcome their crises. In all probability, not least thanks to rising commodity prices, they will start to grow again.

### Regional differences in growth opportunities

In this economic environment we not only see opportunities in strongly growing markets, but are also pursuing the strategy of stepping up our activities and gaining greater market share in markets where KSB has hitherto been under-represented.

The latter also applies to Europe, where we shall substantially increase our market penetration both in the Eastern European states and in a number of other countries, such as Spain.

In the Middle East and North Africa, we shall be working intensively to invest our skills in the projects that were postponed until this year. Key areas of focus will be the water and waste water industry, including seawater desalination. We have also initiated strategic measures to strengthen our standard business in the Region.

In an effort to develop the market in Russia, we have worked out a strategy that will extend over several years and, in its first phase, entail a reorganization of sales and an increase in our market presence.

To match the dynamic growth in Asia, we shall continue to set up competence centres and strengthen production facilities in the Region. In this way, we shall ensure a rapid supply of the market with high-quality products at reasonable prices. The increasingly important Chinese market will also be a focus of our activities in 2004. The newly formulated China strategy is aimed at further developing this market in the areas of sales, production and service, as well as establishing competence centres that will cater to markets in the Region.

In the USA, we shall improve our market position through the expansion of the service network. In Latin America, we shall be stepping up activities in the Brazilian market, where we anticipate not only increased investment activity in the public sector, but also good demand in the oil and agricultural industries.

### Broader range of products and services

In line with our strategic focus, we see most of the growth we are seeking to achieve to be in the field of water and waste water engineering, in industry and process engineering, as well as in the service sector for pumps, valves and related systems. We shall also extend our portfolio with smart instrumentation, control and monitoring systems, as well as modules and subsystems.

Markets which it has not hitherto been possible for KSB to reach because of the low price level will be increasingly supplied with pumps and valves from the Global Manufacturing Network. To this end, we are certifying products from Brazil, China, India and Pakistan to the "Made by KSB" corporate quality standard.

### Higher sales revenue and profitability

We expect the first projects in our 700Up growth programme to start having an impact on sales revenue in 2004. We shall continue translating sales ideas into concrete business projects in the current year.

The persistent overcapacity in our industry is adding to the pressure on prices. To adjust to the difficult market conditions, we shall start to implement a structural programme in the current year which will boost our competitiveness. The measures will include, in particular, giving a stronger global focus to our functional responsibilities and further improving the coordination of our global capacity.

Our declared aim of achieving a return on sales of at least five percent means that the proportion of business that brings high returns has to be increased at the expense of activities which offer low profits.

Improved cost structures and our focus on high-earning business areas will further enhance the profitability of our activities and thus the future opportunities of the KSB Group.

For the current year, we expect order intake and sales revenue to range at prior-year levels. Earnings will deteriorate on account of the foreseeable charges for the Structural Programme 2006.

WHERE BRIGHT IDEAS SPELL SERVICE SKILL

# 200 milliseconds



49: extreme  
Kavitation  
gek.ommen:  
17.05.03  
we.angen:  
17.05.03  
au.tiert:  
17.05.03

› Critical moments: any hint of the unusual, and it's **time to act**. So KSB developed the Pump Expert monitoring system. Every 200 milliseconds, it records and analyses a unit's entire operating data. If it senses critical deviations or finds a failure, the system tells the operator – or the responsible service team, if preferred. Early diagnosis reduces maintenance costs and helps prevent outages. ‹



Stefan Laue (left) and Stefan Reutter from our “Telesolutions” team develop new ways to run pumping systems economically.



# CONSOLIDATED FINANCIAL STATEMENTS

## BALANCE SHEET

### Assets

(€ thousands)	Notes	31 Dec. 2003	31 Dec. 2002
<b>Non-current assets</b>	1		
Intangible assets		36,678	17,131
Property, plant and equipment		210,653	206,886
Non-current financial assets		22,767	10,169
		<b>270,098</b>	<b>234,186</b>
<b>Deferred tax assets</b>	2	<b>23,461</b>	<b>20,809</b>
<b>Current assets</b>			
Inventories	3	193,583	186,971
Receivables and other current assets	4	325,352	309,801
Current financial instruments	5	4,245	70
Cash	5	109,801	107,511
		<b>632,981</b>	<b>604,353</b>
		<b>926,540</b>	<b>859,348</b>

### Equity and liabilities

(€ thousands)	Notes	31 Dec. 2003	31 Dec. 2002
<b>Equity</b>	6		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		169,989	163,482
Consolidated net retained earnings		12,504	15,349
		293,928	290,266
Minority interest		52,116	65,530
		<b>346,044</b>	<b>355,796</b>
<b>Deferred tax liabilities</b>	7	<b>28,531</b>	<b>35,242</b>
<b>Provisions</b>			
Pensions and similar obligations	8	174,833	164,734
Other provisions	9	129,281	118,413
		<b>304,114</b>	<b>283,147</b>
<b>Liabilities</b>	10	<b>247,851</b>	<b>185,163</b>
		<b>926,540</b>	<b>859,348</b>



## INCOME STATEMENT

(€ thousands)	Notes	2003	2002
<b>Sales revenue</b>	11	<b>1,178,092</b>	<b>1,180,167</b>
Changes in inventories		11,532	- 22,211
Work performed and capitalized		3,683	1,496
<b>Total output of operations</b>		<b>1,193,307</b>	<b>1,159,452</b>
Other operating income	12	14,539	25,950
Cost of materials	13	- 453,445	- 444,101
Staff costs	14	- 450,539	- 428,632
Depreciation and amortization expense		- 30,232	- 29,975
Other operating expenses	15	- 228,379	- 232,852
Other taxes		- 6,713	- 7,100
		<b>38,538</b>	<b>42,742</b>
Income from investments	16	1,848	1,637
Other financial income / expense	16	- 10,548	- 10,118
		<b>- 8,700</b>	<b>- 8,481</b>
<b>Profit from ordinary activities</b>		<b>29,838</b>	<b>34,261</b>
Taxes on income	17	- 11,171	- 14,628
<b>Net profit for the year</b>		<b>18,667</b>	<b>19,633</b>
Minority interest in net profit / loss	18	- 6,414	- 4,486
<b>Consolidated net profit for the year</b>		<b>12,253</b>	<b>15,147</b>
Retained earnings brought forward		251	202
<b>Consolidated net retained earnings</b>		<b>12,504</b>	<b>15,349</b>
Earnings per ordinary share (€)	20	6.74	8.52
Earnings per preference share (€)	20	7.26	8.78

STATEMENT OF CHANGES IN NON-CURRENT ASSETS

(€ thousands)	Historical cost					31 Dec. 2003
	1 Jan. 2003	Change in consolidated Group / CTA* / Other	Additions	Disposals	Reclassifications	
<b>Intangible assets</b>						
Concessions, industrial and similar rights and assets, as well as licences in such rights and assets	11,455	- 574	7,003	325	48	17,607
Goodwill	17,210	89	23,521	-	-	40,820
Negative goodwill	-	-	- 6,901	-	-	- 6,901
Advance payments	6	-	15	-	- 6	15
	<b>28,671</b>	<b>- 485</b>	<b>23,638</b>	<b>325</b>	<b>42</b>	<b>51,541</b>
<b>Property, plant and equipment</b>						
Land and buildings	166,398	- 4,528	11,525	484	3,018	175,929
Plant and machinery	275,610	- 7,459	9,946	5,459	1,011	273,649
Other equipment, operating and office equipment	111,178	- 1,578	10,010	6,272	1,741	115,079
Advance payments and assets under construction	6,666	- 157	5,277	559	- 5,812	5,415
	<b>559,852</b>	<b>- 13,722</b>	<b>36,758</b>	<b>12,774</b>	<b>- 42</b>	<b>570,072</b>
<b>Non-current financial assets</b>						
Investments in affiliates	9,537	1	13,281	-	-	22,819
Other investments	2,561	- 382	-	15	-	2,164
Non-current financial instruments	1,004	- 49	126	151	-	930
Other non-current loans	346	13	-	72	-	287
	<b>13,448</b>	<b>- 417</b>	<b>13,407</b>	<b>238</b>	<b>-</b>	<b>26,200</b>
	<b>601,971</b>	<b>- 14,624</b>	<b>73,803</b>	<b>13,337</b>	<b>-</b>	<b>647,813</b>

\* CTA = currency translation adjustments

Accumulated depreciation / amortization							Carrying amounts	
1 Jan. 2003	Change in consolidated Group / CTA* / Other	Additions	Disposals	Reclassifications	Write-ups	31 Dec. 2003	31 Dec. 2003	31 Dec. 2002
6,218	- 99	2,116	322	16	-	7,929	9,678	5,237
5,322	12	2,139	-	-	-	7,473	33,347	11,888
-	-	- 539	-	-	-	- 539	- 6,362	-
-	-	-	-	-	-	-	15	6
<b>11,540</b>	<b>- 87</b>	<b>3,716</b>	<b>322</b>	<b>16</b>	<b>-</b>	<b>14,863</b>	<b>36,678</b>	<b>17,131</b>
75,268	- 1,871	4,110	303	6	-	77,210	98,719	91,130
198,330	- 5,892	12,363	4,989	- 860	-	198,952	74,697	77,280
79,368	- 1,200	10,043	5,792	838	-	83,257	31,822	31,810
-	-	-	-	-	-	-	5,415	6,666
<b>352,966</b>	<b>- 8,963</b>	<b>26,516</b>	<b>11,084</b>	<b>- 16</b>	<b>-</b>	<b>359,419</b>	<b>210,653</b>	<b>206,886</b>
2,185	-	840	-	-	-	3,025	19,794	7,352
884	-	-	15	-	577	292	1,872	1,677
162	- 12	-	-	-	76	74	856	842
48	1	-	7	-	-	42	245	298
<b>3,279</b>	<b>- 11</b>	<b>840</b>	<b>22</b>	<b>-</b>	<b>653</b>	<b>3,433</b>	<b>22,767</b>	<b>10,169</b>
<b>367,785</b>	<b>- 9,061</b>	<b>31,072</b>	<b>11,428</b>	<b>-</b>	<b>653</b>	<b>377,715</b>	<b>270,098</b>	<b>234,186</b>

## STATEMENT OF CHANGES IN EQUITY

Including Minority Interest

(€ thousands)	1 Jan. 2002	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	Adjustments taken directly to equity / Other	31 Dec. 2002
Subscribed capital of KSB AG	44,772	–	–	–	–	–	–	–	–	44,772
Capital reserve of KSB AG	66,663	–	–	–	–	–	–	–	–	66,663
Revenue reserves	171,182	–	–	1,948	–	– 10,039	23	3,512	– 3,144	163,482
Consolidated net retained earnings	9,380	15,147	– 7,230	– 1,948	–	–	–	–	–	15,349
	291,997	15,147	– 7,230	–	–	– 10,039	23	3,512	– 3,144	290,266
Minority interest	75,602	4,486	– 3,095	–	–	– 9,636	88	–	– 1,915	65,530
	<b>367,599</b>	<b>19,633</b>	<b>– 10,325</b>	<b>–</b>	<b>–</b>	<b>– 19,675</b>	<b>111</b>	<b>3,512</b>	<b>– 5,059</b>	<b>355,796</b>

(€ 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	Adjustments 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
	<b>355,796</b>	<b>18,667</b>	<b>– 10,742</b>	<b>–</b>	<b>–</b>	<b>– 6,889</b>	<b>– 12,833</b>	<b>2,042</b>	<b>3</b>	<b>346,044</b>

(€ thousands)	31 Dec. 2002	31 Dec. 2003
Accumulated currency translation differences	– 27,060	– 33,949
thereof applicable to minority interest	(– 14,557)	(– 7,982)

## CASH FLOW STATEMENT

(€ thousands)	2003	2002
Net profit before extraordinary items	18,667	19,633
Depreciation and amortization expense / write-ups (non-current assets)	30,410	29,096
Increase / decrease in non-current provisions	14,016	11,617
Gain / loss on disposal of non-current assets	- 9	- 84
<b>Cash flow</b>	<b>63,084</b>	<b>60,262</b>
Increase / decrease in inventories	- 14,498	36,165
Increase / decrease in trade receivables and other current assets	- 23,191	19,305
Increase / decrease in current provisions	8,043	- 5,291
Increase / decrease in advances received from customers	3,413	- 3,642
Increase / decrease in liabilities (excl. financial liabilities)	- 1,191	- 10,223
Other non-cash income / expenses (operating)	1,144	- 5,599
	- 26,280	30,715
<b>Cash flows from operating activities</b>	<b>36,804</b>	<b>90,977</b>
Proceeds from disposal of intangible assets	3	100
Payments to acquire intangible assets	- 7,018	- 904
Proceeds from disposal of property, plant and equipment	1,699	2,977
Payments to acquire property, plant and equipment	- 36,758	- 30,383
Proceeds from disposal of non-current financial assets	216	126
Payments to acquire non-current financial assets	- 13,407	- 1,559
Net cash flows from the acquisition and sale of consolidated companies and other business units (basically successive acquisitions)	- 35,353	-
Other non-cash income / expenses (investing)	571	- 2,799
<b>Cash flows from investing activities</b>	<b>- 90,047</b>	<b>- 32,442</b>
Dividends paid for prior year (incl. minority interest)	- 10,742	- 10,325
Borrowings and loans raised	51,389	-
Repayment of financial liabilities	- 1,792	- 25,900
Net cash flows from financial receivables	13,254	- 5,180
Other non-cash income / expense (financing)	571	- 2,799
<b>Cash flows from financing activities</b>	<b>52,680</b>	<b>- 44,204</b>
Net change in cash and cash equivalents	- 563	14,331
Effects of exchange rate changes on cash held	2,511	- 6,146
Effects of changes in consolidated Group	4,517	- 176
Cash and cash equivalents at beginning of period	107,581	99,572
<b>Cash and cash equivalents at end of period</b>	<b>114,046</b>	<b>107,581</b>
Supplemental disclosures:		
Interest received	4,130	4,549
Interest paid	- 13,947	- 14,158
Income taxes paid	- 15,248	- 9,594
Dividends received	1,848	1,637

SEGMENT REPORTING

(€ thousands)	Pumps, Valves and Service Europe		Region Americas	
	2003	2002	2003	2002
<b>External sales revenue of the Group companies by segment</b>	<b>918,057</b>	<b>885,840</b>	<b>125,975</b>	<b>168,850</b>
– by geographic area				
Europe	752,027	705,272	1,698	1,729
Americas	18,896	18,327	123,151	166,200
Asia / Pacific	63,501	71,029	1,022	854
Eastern Europe / Middle East / Africa	83,633	91,212	104	67
<b>Inter-segment sales revenue</b>	<b>30,588</b>	<b>35,783</b>	<b>2,639</b>	<b>1,576</b>
<b>Segment result (EBIT)</b>	<b>22,484</b>	<b>27,344</b>	<b>6,754</b>	<b>8,810</b>
thereof depreciation and amortization expense	22,064	21,332	3,205	3,888
thereof write-downs of non-current financial assets	–	–	–	–
thereof other non-cash items	12,585	9,156	588	1,285
thereof net profit or loss of equity-accounted investments	–	–	–	–
thereof income from investments	–	–	–	–
<b>Segment assets</b>	<b>687,029</b>	<b>630,758</b>	<b>81,430</b>	<b>91,484</b>
<b>Segment liabilities</b>	<b>459,282</b>	<b>395,490</b>	<b>27,274</b>	<b>30,517</b>
<b>Capital expenditure</b>	<b>37,377</b>	<b>25,112</b>	<b>2,982</b>	<b>3,857</b>
<b>Number of employees (average)</b>	<b>7,042</b>	<b>6,630</b>	<b>1,379</b>	<b>1,456</b>

	Region Asia / Pacific		Other		Total	
	2003	2002	2003	2002	2003	2002
	104,834	104,060	29,226	21,417	1,178,092	1,180,167
	517	363	69	50	754,311	707,414
	–	5	–	–	142,047	184,532
	102,850	101,558	42	122	167,415	173,563
	1,467	2,134	29,115	21,245	114,319	114,658
	4,205	3,644	215	273	37,647	41,276
	6,603	6,134	3,814	1,582	39,655	43,870
	3,277	3,743	1,686	1,012	30,232	29,975
	–	–	840	593	840	593
	47	– 87	125	– 321	13,345	10,033
	–	–	–	–	–	–
	–	–	1,848	1,637	1,848	1,637
	93,722	92,527	40,898	23,770	903,079	838,539
	50,937	47,736	8,707	– 7,866	546,200	465,877
	2,634	1,823	17,403	495	60,396	31,287
	3,509	3,595	347	326	12,277	12,007

# 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 consolidated 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. In the case of tax loss carryforwards, the IFRSs require deferred tax assets to be recognized 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.

#### **First-time application of new and revised standards**

No new or revised standards for which first-time application was required became operative in the year under review.

## **BASIS OF CONSOLIDATION**

### **Consolidated Group**

In addition to KSB AG, 5 German and 37 foreign companies (previous year: 6 German and 34 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. 34 (previous year: 30) 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:

KSB Armaturen GmbH, Frankenthal, was merged with KSB AG, Frankenthal, effective 1 January 2003. This did not affect the consolidated financial statements.

As of 1 January 2003, we increased the interest in our Finnish sales and marketing company KSB Finland Oy, Vantaa (Helsinki), from 25 % to 100 %. This company was included for the first time as per 1 January 2003.

In May 2003, we acquired Dutch pump manufacturer DP industries B.V., Alphen a.d. Rijn, through our new Dutch financial holding company, KSB Finance Nederland, Zwanenburg. DP industries was first-time consolidated as of 1 May 2003, and the financial holding company was included for the first time as of 1 January 2003.

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

**Effects of changes in the consolidated Group in 2003**

Assets	€ thousands	Equity and liabilities	€ thousands
Non-current assets	24,744	Equity	238
Deferred tax assets	50	Deferred tax liabilities	257
Current assets	– 14,397	Provisions and liabilities	9,902
	<b>10,397</b>		<b>10,397</b>

During the course of a Group reorganization, our Canadian holding company Canadian Kay Pump Ltd. (CKP) sold its interests in the Group companies in Argentina and Brazil to the Luxembourg holding company KSB Finanz S.A., and its interest in our company in Pakistan to KSB AG. In addition, PAB Pumpen und Armaturen-Beteiligungsgesellschaft mbH (PAB) sold its interest in CKP to KSB AG. Because these equity investments were formerly direct or indirect subsidiaries of PAB (in which KSB AG only holds a 51 % stake) these transactions resulted in successive acquisitions of interests in the companies listed above. The newly acquired investments were first-time consolidated as of 30 September 2003 or 31 December 2003. All transaction prices were determined by independent valuers.

In addition to the above-mentioned equity interests acquired in Finland and the Netherlands, we made the following acquisitions in the year under review:

- We acquired an 80 % interest in Bombas ITUR, S.A., Zarautz, Spain, in November 2003. This company will be included for the first time as per 1 January 2004.
- We also extended our service network by acquiring four smaller companies in Germany, France, Belgium and the USA. These companies were not yet consolidated in 2003.

Overall, we spent € 35,353 thousand (previous year: € 0 thousand) on new acquisitions and successive acquisitions of consolidated companies in the year under review, and € 12,518 thousand (previous year: € 1,546 thousand) on the acquisition 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 a maximum of 15 years. Negative goodwill is used as follows: Any excess of the interest in the fair values of the net assets acquired over acquisition 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 the net assets acquired over acquisition cost is reversed over the remaining useful life of the non-monetary assets of the company concerned using the straight-line method. Any amount 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.

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. 2003	31 Dec. 2002	2003	2002
1 US dollar	0.792	0.954	0.884	1.058
1 Brazilian real	0.274	0.273	0.288	0.360
100 Indian rupee	1.818	2.092	1.994	2.303
100 Chinese yuan	9.739	11.701	10.852	13.065

## ACCOUNTING POLICIES

The accounting policies have not changed as against the previous year and 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 on or after 1 January 1995 over a maximum of 15 years. Goodwill originating up to and including 1994 has been deducted from revenue reserves. Negative goodwill is reversed over a maximum of 12 years. 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).

### 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. Where research and development costs 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 carryforwards in those cases where it is more likely than not that there will be sufficient taxable profit available in the foreseeable 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 through 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 seven 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 sharp rise in intangible assets reflects the increase in goodwill in particular. This was partly offset by the first-time recognition of negative goodwill. Both of these are due to the first-time consolidation and successive acquisitions already mentioned. Capitalization of the expenditure for implementing and adapting the SAP R/3 system also contributed to this increase.

The increase in land and buildings is largely attributable to the acquisition of commercial real property and buildings in the Netherlands, and to the construction of our new Luxembourg valves plant by SISTO Armaturen S.A.

Assets resulting from finance leases (almost exclusively real property) are recognized as non-current assets in accordance with IAS 17, and a financial liability is recognized. The carrying amount of these capitalized assets amounts to € 12,362 thousand (previous year: € 12,645 thousand).

Disposals of items of property, plant and equipment resulted in book gains of € 886 thousand (previous year: € 1,659 thousand) and book losses of € 877 thousand (previous year: € 1,575 thousand). These were reported in the income statement under other operating income and other operating expenses.

No impairment losses (write-downs) were charged on intangible assets and property, plant and equipment either in the year under review or in the prior period.



The change in non-current financial assets results from the acquisition of the interest in Bombas ITUR, S.A. in Spain and from the purchase of the four service companies. We also recognized an impairment loss on the carrying amount of our company in Indonesia due to lasting impairment, and reversed an impairment loss charged on the carrying amount of our Saudi Arabian company.

Currency translation adjustments taken directly to equity in the year under review resulted in a loss of € 6,913 thousand (previous year: loss of € 14,851 thousand).

Details of changes in non-current assets are presented in a separate table (p. 62).

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. 85).

## 3\_ Inventories

(€ thousands)	31 Dec. 2003	31 Dec. 2002
Raw materials and production supplies	70,369	69,819
Work in progress	61,802	55,336
Finished goods and goods purchased and held for resale	52,351	52,039
Inventories recognized by PoC	54,760	50,673
Advance payments	3,787	3,919
Advances received from customers	- 49,486	- 44,815
	<b>193,583</b>	<b>186,971</b>

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 € 8,042 thousand (previous year: € 2,530 thousand) and costs of € 46,718 thousand (previous year: € 48,143 thousand).

#### 4\_ Receivables and other current assets

(€ thousands)	31 Dec. 2003	31 Dec. 2002
Trade receivables	286,380	263,958
thereof with more than 1 year to maturity	(8,891)	(8,351)
Intragroup and associate receivables	14,653	21,130
thereof with more than 1 year to maturity	(444)	(486)
Other receivables, other current assets and prepaid expenses	24,319	24,713
thereof with more than 1 year to maturity	(783)	(2,197)
	<b>325,352</b>	<b>309,801</b>

Intragroup and associate receivables include loans to unconsolidated KSB companies amounting to € 1,363 thousand (previous year: € 6,499 thousand). Associate receivables amounted to € 2,308 thousand (previous year: € 3,787 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 hedging transactions in accordance with IAS 39 amounting to € 9,841 thousand (previous year: € 6,168 thousand). At the balance sheet date, the notional volume of currency forwards was € 123,707 thousand (previous year: € 67,289 thousand), the notional volume of options was € 0 thousand (previous year: € 32,289 thousand), and the notional value of interest rate derivatives (used for the first time in the year under review) was € 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 € 4,245 thousand (previous year: € 70 thousand). Cash relates primarily to term deposits with short maturities and call deposits.

## 6\_\_Equity and minority interest

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 authorization to increase the share capital (authorized capital) until 30 June 2003 has expired.

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 € 13,986 thousand (previous year: € 8,030 thousand), while deferred tax liabilities amount to € 3,476 thousand (previous year: € 2,863 thousand).

Equity also includes changes in the fair value of derivatives used to hedge future cash flows amounting to € 6,065 thousand (previous year: € 2,842 thousand). The opening balance as of 1 January 2003 was almost completely withdrawn from equity and included in the measurement of the hedged items. The closing balance as of 31 December 2003 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 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. 64).

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. 92).

## 7\_\_Deferred tax liabilities

Explanations on deferred tax liabilities are presented under "Taxes on income" (p. 85).

## 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 by 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 discount rate applied to the obligations was 5.5 % (previous year: 6.0 %). The other underlying actuarial assumptions were unchanged. The assumed rate of future salary increases is 3.0 %, and benefit contributions are assumed to grow at an annual rate of 2.0 %. A rate of 2.0 % per annum has been applied to future pension trends (or 1.0 % where this reflects the commitment), and the maximum income threshold for social security contribution assessment is assumed to rise by 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 have been recognized.

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

(€ thousands)	2003	2002
<b>Opening balance at 1 Jan.</b>	<b>155,006</b>	<b>150,551</b>
Annual pension expense (see below)	14,738	11,756
Contributions by employees	1,942	–
Net pension payments	– 7,615	– 7,301
<b>Closing balance at 31 Dec.</b>	<b>164,071</b>	<b>155,006</b>

Contributions by employees rose sharply in the year under review and are therefore presented separately for the first time. The present value of pension commitments amounts to € 175,231 thousand (previous year: € 156,362 thousand). This results in a net actuarial loss of € 11,160 thousand (previous year: € 1,356 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)	2003	2002
Current service cost	5,466	2,942
Interest cost	9,272	8,814
	<b>14,738</b>	<b>11,756</b>

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 € 10,762 thousand (previous year: € 9,728 thousand).

We reversed a total of € 0 thousand (previous year: € 34 thousand) of the provisions for pensions and similar obligations in the year under review.

## 9\_\_ Other provisions

Changes (€ thousands)	1 Jan. 2003	Change in cons. Group, CTA* and other	Utilization	Reversals	Additions	31 Dec. 2003
Taxes	3,604	– 134	– 2,706	– 32	6,625	7,357
Other staff costs	59,310	10	– 37,705	– 108	45,106	66,613
Warranty obligations and contractual penalties	21,031	145	– 14,351	– 1,081	14,897	20,641
Other obligations	34,468	– 140	– 26,525	– 1,209	28,076	34,670
	<b>118,413</b>	<b>– 119</b>	<b>– 81,287</b>	<b>– 2,430</b>	<b>94,704</b>	<b>129,281</b>

\* 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. They also include provisions for restructuring amounting to € 527 thousand (previous year: € 391 thousand).

€ 185,721 thousand of the total provisions (including pension provisions) is non-current (previous year: € 176,919 thousand).

## 10\_ Liabilities

(€ thousands)	31 Dec. 2003		31 Dec. 2002	
		thereof < 1 year		thereof < 1 year
<b>Financial liabilities</b>				
Bank loans and overdrafts	82,227	18,142	33,905	14,217
Finance lease liabilities	11,555	1,684	11,910	1,403
Other financial liabilities	10,866	9,759	2,740	1,812
	<b>104,648</b>	<b>29,585</b>	<b>48,555</b>	<b>17,432</b>
<b>Trade payables</b>				
Trade payables to third parties	100,737	95,533	102,928	100,929
Intragroup trade payables	2,714	2,714	3,018	3,018
	<b>103,451</b>	<b>98,247</b>	<b>105,946</b>	<b>103,947</b>
<b>Other liabilities and deferred income</b>				
Taxes	13,486	13,486	8,586	8,586
Social security	11,938	11,938	11,236	11,236
Miscellaneous other liabilities and deferred income	14,328	13,945	10,840	10,797
	<b>39,752</b>	<b>39,369</b>	<b>30,662</b>	<b>30,619</b>
	<b>247,851</b>	<b>167,201</b>	<b>185,163</b>	<b>151,998</b>

Assets amounting to € 2,736 thousand (previous year: € 3,003 thousand) have been pledged as security in the KSB Group for bank loans and other liabilities.

€ 8,648 thousand (previous year: € 0 thousand) of the liabilities was secured by land charges or similar rights in the year under review.

The sharp rise in financial liabilities is attributable primarily to the high volume of equity investments. The low level of interest rates prompted us to debt-finance part of the acquisitions. This related in particular to three loans with a total amount of some € 39 million. 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 4.30 % (previous year: 6.11 %). 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 include changes in the fair value of hedging instruments amounting to € 923 thousand (previous year: € 0 thousand). Deferred income amounts to € 512 thousand (previous year: € 343 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 (p. 66).

Companies that were first-time consolidated in the year under review accounted for € 37,413 thousand of the sales revenue.

### 12\_ Other operating income

(€ thousands)	2003	2002
Gains from asset disposals and reversals of impairment losses (write-ups)	1,548	3,132
Income from current assets	2,152	1,772
Currency translation gains	–	3,704
Income from the reversal of provisions	2,430	7,473
Miscellaneous other income	8,409	9,869
	<b>14,539</b>	<b>25,950</b>

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

### 13\_ Cost of materials

(€ thousands)	2003	2002
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	422,185	417,804
Cost of purchased services	31,260	26,297
	<b>453,445</b>	<b>444,101</b>

Companies that were first-time consolidated in the year under review accounted for € 11,659 thousand of the cost of materials.

## 14\_ Staff costs

(€ thousands)	2003	2002
Wages and salaries	357,001	340,733
Social security contributions and employee assistance costs	83,775	80,556
Pension costs	9,763	7,343
	<b>450,539</b>	<b>428,632</b>

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

First-time consolidation in the year under review accounted for € 9,144 thousand of staff costs.

Average number of employees	2003	2002
Wage earners	5,865	5,692
Salaried employees	6,065	5,973
Trainees and apprentices	347	342
	<b>12,277</b>	<b>12,007</b>

Of the average 12,277 employees in 2003, 297 are attributable to companies that were first-time consolidated in the year under review.

## 15\_ Other operating expenses

(€ thousands)	2003	2002
Losses from asset disposals	877	1,575
Losses from current assets	6,417	6,789
Currency translation losses	1,983	5,624
Other staff costs	9,965	10,048
Repairs, maintenance, third-party services	64,098	68,916
Selling expenses	53,694	54,993
Administrative expenses	51,789	50,202
Rents and leases	12,651	11,483
Miscellaneous other expenses	26,905	23,222
	<b>228,379</b>	<b>232,852</b>



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

€ 4,473 thousand of the other operating expenses relates to newly consolidated companies.

## 16\_\_ Financial income / expense

(€ thousands)	2003	2002
Income from investments	1,848	1,637
thereof from affiliates	(1,848)	(1,517)
Interest and similar income	4,130	4,549
thereof from affiliates	(128)	(185)
Interest and similar expenses	- 13,947	- 14,158
thereof to affiliates	(- 46)	(- 47)
Miscellaneous financial income / expense	- 731	- 509
	<b>- 8,700</b>	<b>- 8,481</b>

Interest and similar expenses include the interest cost on discounted pension provisions amounting to € 9,757 thousand (previous year: € 9,264 thousand). Income from other non-current financial instruments and non-current loans amounting to € 138 thousand (previous year: € 84 thousand), as well as write-downs of non-current financial assets and current financial instruments amounting to € - 869 thousand (previous year: € - 593 thousand), are classified as miscellaneous 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)	2003	2002
Effective taxes	18,669	11,182
Deferred taxes	- 7,498	3,446
	<b>11,171</b>	<b>14,628</b>

€ 16 thousand (previous year: € 392 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 824 thousand (previous year: € 198 thousand) to tax arrears.

**Reconciliation of deferred taxes**

(€ thousands)	2003	2002
Change in deferred tax assets	- 2,652	- 5,301
Change in deferred tax liabilities	- 6,711	5,491
<b>Change in deferred taxes recognized in balance sheet</b>	<b>- 9,363</b>	<b>190</b>
Change in deferred taxes taken directly to equity	1,856	6,878
Changes in consolidated Group, currency translation adjustments and other	9	- 3,622
<b>Deferred taxes recognized in income statement</b>	<b>- 7,498</b>	<b>3,446</b>

**Allocation of deferred taxes**

(€ thousands)	Deferred tax assets		Deferred tax liabilities	
	2003	2002	2003	2002
<b>Assets</b>				
Intangible assets, property, plant and equipment	1,542	679	36,091	36,871
Inventories	5,004	4,865	9,317	8,422
Receivables and other current assets	2,653	2,547	4,156	2,845
Miscellaneous	5	9	11	1,561
<b>Equity and liabilities</b>				
Provisions for pensions and similar obligations	13,409	10,999	722	231
Other provisions	10,153	7,983	4,630	5,187
Currency translation differences recognized directly in equity	18,845	17,112	1,928	3,423
Other equity and liabilities	1,375	1,753	1,201	1,840
<b>Deferred taxes – before offsetting</b>	<b>52,986</b>	<b>45,947</b>	<b>58,056</b>	<b>60,380</b>
Offset under IAS 12.74	- 29,525	- 25,138	- 29,525	- 25,138
<b>Deferred taxes – after offsetting</b>	<b>23,461</b>	<b>20,809</b>	<b>28,531</b>	<b>35,242</b>

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 € 309 thousand (previous year: € 668 thousand) were recognized from tax loss carryforwards. The corresponding loss carryforwards amount to € 1,029 thousand (previous year: € 3,992 thousand).

We did not recognize deferred tax assets from loss carryforwards amounting to € 9,220 thousand (previous year: € 10,097 thousand) because it is unlikely that there will be sufficient taxable profit available in the foreseeable 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)	2003	2002
Profit from ordinary activities	29,838	34,261
Calculated income taxes on profit from ordinary activities on the basis of the applicable tax rate (37 %)	11,040	12,677
Differences in tax rates of foreign Group companies	- 1,255	- 789
Utilization of tax loss carryforwards	354	2,974
Other	1,032	- 234
<b>Current taxes on income</b>	<b>11,171</b>	<b>14,628</b>
Current tax rate	37 %	43 %

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 € 7,332 thousand (previous year: € 6,376 thousand), and the minority interest in net loss amounts to € 918 thousand (previous year: € 1,890 thousand). This relates in particular to the interests held by PAB GmbH during the year under review.

#### 19. Research and development costs

Research and development costs in the year under review amounted to € 23,999 thousand (previous year: € 23,410 thousand).

## 20\_ Earnings per share

		2003	2002
Consolidated net profit for the year	(€ thousands)	12,253	15,147
Additional dividend attributable to preference shareholders	(€ thousands)	- 450	- 225
	(€ thousands)	<b>11,803</b>	<b>14,922</b>
Number of ordinary shares		886,615	886,615
Number of preference shares		864,712	864,712
<b>Total number of shares</b>		<b>1,751,327</b>	<b>1,751,327</b>
Earnings per ordinary share	(€)	<b>6.74</b>	<b>8.52</b>
Earnings per preference share	(€)	<b>7.26</b>	<b>8.78</b>

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 Europe, Asia / Pacific, Americas and Eastern Europe / Middle East / Africa regions.

**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 (p. 66).

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

(€ thousands)	2003	2002
<b>Segment liabilities</b>	<b>546,200</b>	<b>465,877</b>
Provisions for income taxes	5,765	2,433
<b>Provisions and liabilities</b>	<b>551,965</b>	<b>468,310</b>

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

(€ thousands)	2003	2002
<b>Segment result (EBIT)</b>	<b>39,655</b>	<b>43,870</b>
Interest income	4,130	4,549
Interest expense	- 13,947	- 14,158
<b>Profit from ordinary activities</b>	<b>29,838</b>	<b>34,261</b>

## OTHER DISCLOSURES

### Contingencies and commitments

#### Contingent liabilities and security granted

(€ thousands)	2003	2002
Liabilities from the issuance and transfer of bills	5	19
Liabilities from guarantees	7,590	5,532
Liabilities from warranties	12,595	7,389
Liabilities from the granting of other security for third-party liabilities	7,792	12,643
	<b>27,982</b>	<b>25,583</b>

Other financial obligations from rental agreements and operating leases amount to a total of € 9,539 thousand (previous year: € 6,839 thousand), of which € 5,320 thousand is due within one year.

Operating leases relate primarily to vehicles.

Finance leases (€ thousands)	Minimum lease payments		Present values	
	2003	2002	2003	2002
Due within one year	1,911	1,832	1,684	1,403
Due between 1 and 5 years	10,230	9,982	8,725	7,849
Due after more than 5 years	1,373	2,923	1,146	2,658
	<b>13,514</b>	<b>14,737</b>	<b>11,555</b>	<b>11,910</b>

Finance leases relate almost entirely to real property. There are purchase options on two properties in Germany.

The annual obligations from IT services agreements amount to € 20,735 thousand (previous year: € 20,275 thousand) over a term of one to three years.

The aggregate purchase obligation amounts to € 5,199 thousand (previous year: € 3,134 thousand). Almost all of the corresponding payments are due in 2004.

There are no payment obligations from the acquisition of shares of corporations in the year under review (previous year: € 6,038 thousand).

### 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 € 85 thousand (previous year: € 86 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 Art. 312 of the AktG (German Public Companies Act).

The total remuneration of members of the Supervisory Board amounts to € 289 thousand for financial year 2003 (previous year: € 286 thousand), and the total remuneration of the Board of Management amounts to € 2,220 thousand (previous year: € 2,086 thousand). € 12,721 thousand (previous year: € 13,675 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 € 1,113 thousand in the year under review (previous year: € 986 thousand).

The members of the Board of Management and the Supervisory Board are listed separately (p. 95).

### 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 Art. 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 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 7 June 2004 to appropriate the net retained earnings of KSB AG, Frankenthal, containing retained earnings brought forward of € 250,655, as follows:

Distribution of a dividend of	
€ 2.50 per share for 886,615 no-par value ordinary shares	€ 2,216,538
and, in accordance with the Articles of Association,	
€ 3.02 per share for 864,712 no-par value preference shares	<u>€ 2,611,430</u>
Total	<u>€ 4,827,968</u>
Appropriation to revenue reserves	<u>€ 7,500,000</u>
	<u>€ 12,327,968</u>
Carried forward to new account	<u>€ 16,519</u>
	<u>€ 12,344,487</u>

Frankenthal, March 2004

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](http://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 2003. 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 to 31 December 2003, 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 2003 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, 19 March 2004

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



von Hohnhorst  
Wirtschaftsprüfer  
(German Public Auditor)



Benz  
Wirtschaftsprüfer  
(German Public Auditor)

# LIST OF SHAREHOLDINGS OF KSB AG

## Investment in affiliates

Name and seat of the fully consolidated companies	Country	Capital share 31 Dec. 2003 %	Equity 2003 (€ thousands)	Net profit for the year (Net loss for the year) 2003
<b>Direct investments</b>				
KSB Service GmbH, Frankenthal	Germany	100.00	1,534	1)
KSB Service GmbH, Schwedt	Germany	100.00	1,023	1)
KSB Fluid Systems GmbH, Frankenthal	Germany	100.00	3,375	1)
Uder Elektromechnik GmbH, Friedrichsthal	Germany	100.00	26	1)
KSB Zürich AG, Zurich	Switzerland	100.00	1,449	101
Hydroskepi GmbH, Amaroussion	Greece	100.00	1,186	(44)
KSB A/S, Farum (Copenhagen)	Denmark	100.00	178	(133)
KSB Mörck AB, Askim (Gothenburg)	Sweden	55.00	2,061	329
KSB Finland Oy, Vantaa (Helsinki)	Finland	100.00	3,253	1,236
KSB Pompy i Armatura Sp. z o.o., Warsaw	Poland	100.00	1,401	369
KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	74.52	2,369	749
KSB Chile S.A., Santiago	Chile	100.00	4,451	453
KSB de Mexico, S.A. de C.V., Querétaro	Mexico	100.00	515	(943)
MIL Controls Limited, Mala	India	51.00	2,206	262
KSB Pumps Co. Ltd., Lahore	Pakistan	58.89	3,740	319
<b>KSB Finanz S.A., Echternach</b>	Luxembourg	100.00	90,528	2,309
<b>KSB S.A.S., Gennevilliers (Paris)</b>	France	100.00	44,849	2,513
Techni Pompe Service S.A., Hoerdt	France	100.00	1,442	364
AMRI Inc., Houston / Texas	USA	10.03	-	-
<b>KSB Finance Nederland B.V., Zwanenburg</b>	The Netherlands	100.00	2,107	(412)
KSB Nederland B.V., Zwanenburg	The Netherlands	100.00	4,114	72
DP industries B.V., Alphen aan den Rijn	The Netherlands	100.00	4,442	2,064
<b>KSB Verwaltungsgesellschaft S.A., Echternach</b>	Luxembourg	100.00	2,024	3
SISTO Armaturen S.A., Echternach	Luxembourg	52.86	8,346	4
KSB Italia S.p.A., Milan	Italy	100.00	19,773	584
KSB Österreich Ges.mbh, Vienna	Austria	100.00	2,755	294
<b>KSB LIMITED, Loughborough</b>	United Kingdom	100.00	3,736	76
Rotary Equipment Services Ltd., Loughborough	United Kingdom	100.00	614	150
N.V. KSB Belgium S.A., Wavre	Belgium	100.00	2,563	197
KSB-AMVI S.A., Madrid	Spain	100.00	2,918	505
AMVI S.A., Burgos	Spain	99.80	4,545	305
KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	24.48	-	-
KSB Ajax Pumps Pty. Ltd., Tottenham (Melbourne)	Australia	100.00	6,494	182
KSB Pumps (S.A.) (Pty.) Ltd., Germiston (Johannesburg)	South Africa	50.00	7,800	1,977
KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	100.00	14,267	2,314
KSB Comp. Sudam. de Bombas S.A., Carapachay (Buenos Aires)	Argentina	100.00	2,438	162
KSB Shanghai Pump Co. Ltd., Shanghai	China	51.00	10,552	508
<b>PAB Pumpen und Armaturen-Beteiligungsgesellschaft mbH, Frankenthal</b>	Germany	51.00	23,554	26,901
<b>KSB America Corporation, Richmond / Virginia</b>	USA	100.00	17,824	1,855
KSB Inc., Richmond / Virginia	USA	100.00	5,640	729
GIW Industries Inc., Grovetown / Georgia	USA	100.00	19,559	1,784
AMRI Inc., Houston / Texas	USA	89.97	5,061	375
<b>Canadian Kay Pump Ltd., Mississauga</b>	Canada	100.00	4,474	1,955
<b>KSB Pumps Limited, Pune (Bombay)</b>	India	40.54	20,780	3,322
MIL Controls Limited, Mala	India	49.00	-	-

1) Profit pooling arrangement

# SUPERVISORY BOARD AND BOARD OF MANAGEMENT

## > SUPERVISORY BOARD

**Dr. Dr. Peter Bettermann**, Dipl.-Mineraloge, Jurist, Weinheim, Chairman  
Spokesman of the Corporate Management of Freudenberg & Co. Kommanditgesellschaft (since 5 June 2003)

**Dr. Wolfgang Kühborth**, Dipl.-Ing., Frankenthal Chairman  
Chairman of the Advisory Board of Klein Pumpen GmbH (until 5 June 2003)

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

**Jacques Bouvet**, Dipl.-Ing., Marnes-la-Coquette (France)  
Former Président Directeur Général de Charbonnages de France (until 5 June 2003)

**Dr. Peter Buthmann**, Dipl.-Ing., Bayreuth Vice President Service KSB Group (since 5 June 2003)

**Bernd Euler**, Dipl.-Kfm., Buckenhof  
Member of the Executive Management of 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

**Dr. Gerd Kühborth**, Jurist, Bad Dürkheim  
Managing Director Operational Risk Management Deutsche Bank AG (as from 5 June 2003 / died on 9 June 2003)

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

**Richard Lederer**, Dipl.-Kfm., Frankenthal  
Former Member of the Management of the Energy Pumps Division of KSB Aktiengesellschaft (since 5 June 2003)

**Karlheinz Leitgeb**, Industrial Foreman, Pegnitz  
Deputy Chairman of the General Works Council and Chairman of the Pegnitz Works Council (since 5 June 2003)

**Günther Müller**, Dipl.-Ing., Pegnitz  
Vice President Competence Centre Sales Industry and Process Engineering (until 5 June 2003)

**Dr. Michael Rogowski**<sup>1)</sup>, Dipl.-Wirtschaftsing., Heidenheim  
Chairman of the Supervisory Board of Voith AG and President of the Bundesverband der Deutschen Industrie e.V. (BDI) (German Industry Association) (since 5 June 2003)

**Prof. Dr. Franz Steffens**, Wiesenbach  
Professor of Business Administration, Organization and Industrial Information Technology at Mannheim University (until 5 June 2003)

**Prof. Dr. Dietmar Werner**, Dipl.-Ing., Neustadt/Weinstraße  
Former Member of the Board of Management of BASF Aktiengesellschaft (until 5 June 2003)

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

**Klaus-Peter Wingerter**, Machine Fitter, Frankenthal  
Member of the Frankenthal Works Council (until 5 June 2003)

## > BOARD OF MANAGEMENT

**Prof. Dr. h.c. Josef Gerstner**<sup>2)</sup> · Neckargemünd  
Chairman and Human Resources Director

**Dr. Ing. Willi Enderle**<sup>3)</sup> · Grünstadt

**Dr. rer. pol. Alois Wittmann**<sup>4)</sup> · Frankenthal

**Dipl.-Ing. Peter Wurzbacher**<sup>5)</sup> · Frankenthal

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

- 1) Deutsche Messe AG, Hanover;  
EADS European Aeronautic, Defence and Space Company, Amsterdam;  
Haftpflichtverband der Deutschen Industrie V.a.G., Hanover;  
IKB Deutsche Industriebank AG, Düsseldorf;  
Talanx AG, Hanover

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

- 2) KSB Finanz S.A., Echternach, Luxembourg  
KSB S.A.S., Gennevilliers, France  
Bombas ITUR, S.A., Zarautz, Spain
- 3) KSB Pumps (S.A.) (Pty.) Ltd., Germiston (Johannesburg), South Africa  
KSB Pumps Arabia Ltd., Riyadh, Saudi Arabia
- 4) KSB Finanz S.A., Echternach, Luxembourg  
SISTO Armaturen S.A., Echternach, Luxembourg  
KSB Italia S.p.A., Milan, Italy  
KSB America Corporation, Richmond, USA  
GIW Industries Inc., Grovetown, USA  
KSB Bombas Hidráulicas S.A., Várzea Paulista, Brazil  
Canadian Kay Pump Ltd., Mississauga, Canada  
Bombas ITUR, S.A., Zarautz, Spain
- 5) KSB Ajax Pumps Pty. Ltd., Tottenham, Australia  
KSB AMRI (Asia Pacific) Pte. Ltd., Singapore  
KSB Pumps Co. Ltd., Bangkok, Thailand  
KSB Shanghai Pump Co. Ltd., China  
KSB Pumps Limited, Pune, India  
MIL Controls Limited, Mala, India  
KSB Pumps Co. Ltd., Lahore, Pakistan  
KSB Nederland B.V., Zwanenburg, The Netherlands  
KSB Österreich Ges.m.bH, Vienna, Austria  
KSB LIMITED, Loughborough, UK

## 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 been and continues to be in compliance with the recommendations of the German Corporate Governance Code as set out in its relevant applicable version – with the latest being the version dated 21 May 2003 and published on 4 July 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. 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 neither disclosed separately nor subdivided according to components in the Notes to the Consolidated Financial Statements (item 5.4.5).
3. The Supervisory Board has not examined the efficiency of its activities on a regular basis so far (item 5.6 of the Code). It is, however, intended to do so from next year on.
4. KSB publishes the Consolidated Financial Statements well before expiry of the periods of time provided by law. However, the time period 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 19 December 2003

On behalf of the Supervisory Board

On behalf of the Board of Management

Dr. Dr. Peter Bettermann

Prof. Dr. h.c. Josef Gerstner

## SHAREHOLDER INFORMATION

27 April 2004  
Financial press conference, Frankenthal

28 April 2004  
Invitation to Annual General Meeting

7 June 2004, 15:00 h  
Annual General Meeting  
CongressForum Frankenthal,  
Stephan-Cosacchi-Platz 5  
67227 Frankenthal

As from 8 June 2004  
Dividend payment

August 2004  
Interim Report January – June 2004

Should you need additional information,  
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### Concept and design:

HGB Hamburger Geschäftsberichte GmbH & Co. KG,  
Hamburg

### Printed by:

Bliesdruckerei GmbH,  
Blieskastel

# GLOSSARY

## Key corporate and technical terms

**EC motors** Energy-efficient brushless direct current motors, in which integrated electronics are used to commutate or control the winding current that generates the rotating magnetic field.

**Cavitation** A phenomenon caused by localized low pressure zones in a pump or when the static pressure is reduced to vapour pressure at high fluid temperatures. Vapour bubbles develop and then implode again when the pressure rises. Prolonged operation under these conditions may cause the pump to be damaged or even destroyed.

**Competence centres** In the framework of its global strategy, KSB has established competence centres whose staff assume regional responsibility for defined product groups, prepare quotations and process orders. If they have the necessary equipment and know-how, these centres also assemble products and modify them to meet country-specific standards.

**Life cycle costs** Concept that has come to be an important criterion for purchasing decisions: the total costs incurred for equipment over its life span. These include the cost of initial investment, installation, energy, operation, maintenance, downtimes and decommissioning, as well as environmental costs.

**Motor Challenge Programme** EU initiative to aid companies in developing and promoting the use of energy-efficient electric motors.

**Made by KSB** Group-wide quality standards designed to ensure high product quality within KSB's Global Manufacturing Network. Compliance with these standards is documented by certificates.

**Reverse osmosis** Mechanical method of seawater desalination.

## Abbreviations

**API** American Petroleum Institute

**ANSI** American National Standards Institute

**BIG** Business Integration Go is the name of a KSB project set up to implement the SAP R/3 software in the European companies.

**CAD** Computer Aided Design: The term describes the use of computer graphics software for a wide range of design activities, such as the generation of drawings and engineering calculations, in the development of new products.

**CAE** Computer Aided Engineering: Digital integration of all product development steps in a system. Activities range from the design and engineering work (CAD) through to controlling and complete monitoring of the manufacturing process (CAM).

**CAM** Computer Aided Manufacturing: This concept covers the computerized operations scheduling activities and the control of production machinery and equipment.

**IFRS** International Financial Reporting Standards (formerly IAS)

**ISO** International Organization for Standardization

**VDMA** Verband Deutscher Maschinen- und Anlagenbau e.V. (German Engineering Federation)

**TA-Luft** German Technical Guidelines on Air Quality Control: first general administrative regulations within the framework of the federal immission control act.

**700Up** Growth project designed to generate additional sales revenue of € 700 million until 2010.

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