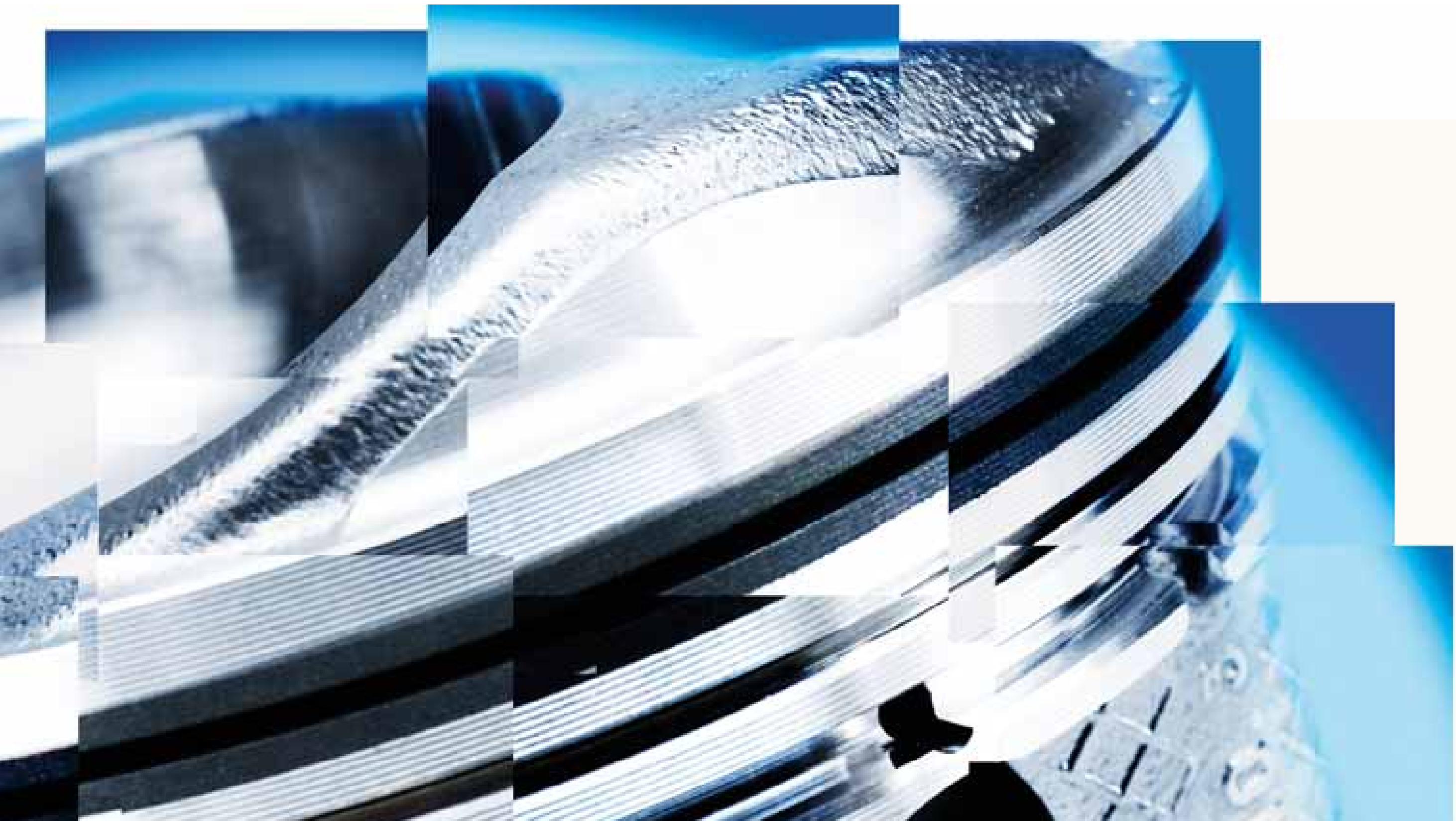
Kolbenschmidt Pierburg AG
Annual Report 2003



KOLBENSCHMIDT
PIERBURG

Kolbenschmidt Pierburg in Figures

[1]	Kolbenschmidt Pierburg in figures		1999	2000	2001	2002	2003
			HGB				
	Net sales	*€ million*	1,527.1	1,776.2	1,825.5	1,882.6	**1,884.2**
	EBITDA	*€ million*	184.4	202.0	238.4	234.8	**239.1**
	EBIT	*€ million*	69.2	54.5	90.5	97.4	**103.1**
	EBT	*€ million*	61.1	21.6	49.5	60.1	**72.6**
	Net income	*€ million*	26.6	7.4	31.8	36.7	**43.2**
	Gross cash flow	*€ million*	150.3	160.8	174.1	170.0	**170.0**
[2] [3]	**Capital expenditures**	*€ million*	177.9	171.1	174.6	144.3	**126.5**
[4]	**Amortization/depreciation**	*€ million*	129.0	147.5	145.6	133.9	**132.0**
	Accounting equity	*€ million*	263.2	313.7	341.1	332.9	**363.2**
	Total assets	*€ million*	946.2	1,384.0	1,338.3	1,251.9	**1,214.3**
	EBIT margins	*in %*	4.5	3.1	5.0	5.2	**5.5**
	ROCE	*in %*	12.8	6.4	10.1	11.8	**13.8**
	Earnings per share (DVFA/SG)	*€*	1.21				
	Earnings per share (IAS)	*€*		0.28	1.18	1.32	**1.51**
	Total dividend	*€ million*	20.5	34.6	14.0	14.0	**14.0**
	Dividend per share	*€*	0.77	1.30	0.50	0.50	**0.50**
	Headcount (Dec. 31)		11,789	12,164	11,662	11,535	**11,316**

[1] *2001 after adjustment under IAS 8; the adjustments are insignificant, both individually and in the aggregate.*

[2] *Excluding financial investments and additions to goodwill*

[3] *Beginning in 2002, tooling grants/allowances have been directly offset against capital expenditures*

[4] *As from 2001, excluding goodwill amortization*

Frontpage

Pistons for modern FSI engines: thanks to a special surface structure, the right degree of turbulence is attained in the combustion chamber

Kolbenschmidt Pierburg Group at a glance

Locations

Divisions

Pierburg

Systems and components for air supply and emission control

Oil and water pumps, vacuum pumps

Sales
€880 million

Headcount
3,540

KS Pistons

Passenger car pistons
Piston modules

Commercial-vehicle pistons

Large-bore pistons

Sales
€595 million

Headcount
5,480

KS Plain Bearings

Plain bearings, Bushings
Thrust washers

Dry bearings
(Permaglide)

Continuous NF castings

Sales
€150 million

Headcount
1,000

KS Aluminum Technology

Engine blocks

Sales
€160 million

Headcount
910

Motor Service

Automotive parts for engine repair and workshops

Sales
€140 million

Headcount
340

A further improvement in performance at Kolbenschmidt Pierburg

In fiscal 2003, the Kolbenschmidt Pierburg Group turned in an above-average performance, attaining its stated operational and strategic goals in what proved to be a difficult business environment both at home and abroad.

Developments of strategic importance included

- the establishment and expansion of a basis for operations in Japan and China;
- entering the engine block finishing business;
- expanding the Group's presence in the German aftermarket trade;
- and the disposal of peripheral activities and termination of loss-making products.

The improved operating performance is reflected in the following figures:

- Sales grew 2.5 percent faster than the market.
- ROCE rose by 2 percentage points to 13.8 percent.
- EBIT increased by 6 percent to €103 million.
- Liquidity improved by 37 percent.

Contents

Report of the Supervisory Board

During fiscal 2003, the Supervisory Board of Kolbenschmidt Pierburg AG performed the functions and duties incumbent on it under law and the bylaws. It regularly advised the Executive Board, monitoring its management of the company. The Supervisory Board was included in decisions of fundamental importance to the company.

The Executive Board reported regularly, quickly and comprehensively to the Supervisory Board on the Group's situation and development, as well as on fundamental issues of business policy, management and corporate planning, including finance, capital expenditure and human resources planning, the risk position and risk management matters. In addition, the Supervisory Board was regularly briefed in writing on the Kolbenschmidt Pierburg Group's business situation and trends.

The Supervisory Board met four times in the first, and twice in the second, half-year periods of 2003. The Supervisory Board's Personnel Committee members convened twice in fiscal 2003 (April 3 and November 11, 2003) and took the actions considered necessary.

When the Audit Committee (previously known as the Finance Committee) met on March 27, 2003, it dealt with the preparatory deliberations concerning the 2002 annual accounts. At its meeting of November 24, 2003, the Audit Committee decided on the main points of the 2003 annual accounts audit, as well as issuing contracts to the statutory auditors. There was no reason for the Slate Submittal Committee to convene.

The full Supervisory Board was duly informed about its committees' activities. At the full Supervisory Board meetings, the members discussed in detail the situation and development of the Group, the various divisions and all major subsidiaries in Germany and abroad, as well as all significant transactions. At its meeting held on November 24, 2003, the Supervisory Board established new rules of procedure for itself, as well as passing the December 15, 2003 declaration on the German Corporate Governance Code. Furthermore, a review of the efficiency of the Supervisory Board's activities in 2003 was carried out.

Furthermore, the Supervisory Board dealt with issues of strategic and organizational orientation and, at its meeting of November 24, 2003, deliberated on the Group's mediumterm plans. All Executive Board actions requiring Supervisory Board approval were submitted in full on a timely basis to the Supervisory Board. After careful scrutiny and detailed discussion, all items were approved. In particular, the Supervisory Board reviewed and approved, as far as necessary,

- the takeover offer of Rheinmetall, the Group's major shareholder;
- the measures for restructuring KS Aluminium-Technologie AG; and
- the measures for restructuring KS Bearing Inc.

The Chairman of the Supervisory Board was briefed continuously and promptly on all major transactions involving the company and the Group. He had major matters and issues referred to the Supervisory Board for discussion and met regularly with the Chairman of the Executive Board to review strategy, current business and risk management issues. The separate and consolidated financial statements and the management reports of Kolbenschmidt Pierburg AG and the Group for the fiscal year ended December 31, 2003, including the accounting system, were all audited by Düsseldorf-based PwC Deutsche Revision AG, Wirtschaftsprüfungsgesellschaft, which had been appointed as statutory auditors by the annual stockholders' meeting on May 21, 2003. On March 3, 2004, the statutory auditors issued their unqualified opinion on both sets of financial statements. Within the scope of the audit, the statutory auditors also had to examine whether the Executive Board had duly implemented the legally required procedures, and especially if it had set up a monitoring system that would identify at an early stage any risks likely to jeopardize the company's continued existence as a going concern. The auditors declared that the Executive Board had met the requirements of Art. 91(2) of the German Stock Corporation Act ("AktG"). At its meeting on March 11, 2004, the Audit Committee of the Supervisory Board reviewed and approved the separate and consolidated financial statements for fiscal 2003 on the basis of the reports and findings of the statutory auditor. The statutory auditors participated in this meeting, reporting on the essential results of the audit and answering questions. No objections were raised. Well before the balance sheet meeting of the Supervisory Board on March 17, 2004, all the members of the Supervisory Board were provided with the annual accounts, the separate and consolidated financial statements, the management reports on the company and the Group, and the report of the statutory auditor. At the balance sheet meeting, the Supervisory Board reviewed these documents in great detail.

The statutory auditor took part in the Supervisory Board's discussion of the separate and consolidated financial statements. The Supervisory Board concurs with the results of the audit, and has reviewed the separate and consolidated financial statements, the management reports on the company and the Group, and the profit appropriation as proposed by the Executive Board, having raised no objections. At its meeting on March 17, 2004, the Supervisory Board approved the separate and consolidated financial statements for fiscal 2003 as submitted by the Executive Board. The separate and consolidated financial statements are thus adopted. The Executive Board proposes for the appropriation of the net earnings for fiscal 2003 that an unchanged cash dividend of €0.50 per no-par share be distributed. The Supervisory Board endorses the profit distribution as proposed by the Executive Board.

The Executive Board's report on affiliations in fiscal 2003 as defined by Art. 312 AktG, and the pertinent report of the statutory auditors, were submitted to the Supervisory Board, which examined the report of the Executive Board and concurs with it, as with the results of the examination by the statutory auditors. The auditors issued the following opinion on the dependency report of the Executive Board concerning affiliations:

"Based on our examination, which we performed with due professional care, and on our evaluation we certify that
(1) the facts stated in the report are valid;
(2) the company's consideration for the legal transactions referred to in the report was not unreasonably high."

After reviewing the final results of its own examination, the Supervisory Board has found no reasons for objections to the Executive Board's concluding statement in the report on affiliations for fiscal 2003.

In accordance with its bylaws, the term of office of all members of the Supervisory Board concluded at the end of the General Meeting on May 21, 2003. At this General Meeting, the stockholders reelected Klaus Eberhardt, Dr. Bernd M. Hönle, Dr. Herbert Müller and Prof. Dr. Dirk Zumkeller; Dr. Andreas Beyer and Burkhard Leffers were elected as new members of the Supervisory Board. On April 8, 2003, the staff reelected Dr. Ludwig Dammer, Erich Hüskes, Heinrich Kmett, Dr. Rudolf Luz and Dietrich Termöhlen to serve as staff representatives on the Supervisory Board, while Gerhard Grasmeier was newly elected. Dr. Martin Hirsch, Jürgen Lemmer and Georg Hadlaczki did not make themselves available for reelection.

The Supervisory Board thanks its departing members for their successful and committed work on behalf of the corporation.

At the constituent meeting of the Supervisory Board on May 21, 2003, Klaus Eberhardt was again elected Chairman of the Supervisory Board, while Dr. Rudolf Luz was reelected as Deputy Chairman of the Supervisory Board. At the meeting, a Personnel Committee and an Audit Committee were formed, and members of these committees elected, as well as to the committee mandated by Art. 27 of the Codetermination Act (MitbestG).

Moreover, the Supervisory Board thanks all employees of the Kolbenschmidt Pierburg Group for their dedication and commitment in 2003.

Düsseldorf, March 17, 2004

The Supervisory Board

Klaus Eberhardt
Chairman

Letter from the Executive Board

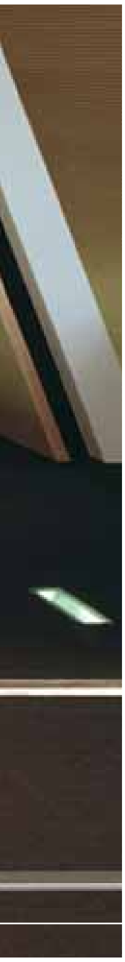
Dr. Jörg-Martin Friedrich   Dr. Gerd Kleinert   Dr. Peter Merten

Ladies and Gentlemen,

In fiscal 2003, the Kolbenschmidt Pierburg Group attained better than average results, the difficult economic conditions notwithstanding.

Adjusted for currency translation and other special factors, sales rose by 4.1 percent compared to the previous year, considerably outpacing the market, which expanded by 1.6 percent. However, the appreciation of the euro and the accompanying translation-related dip in dollar-zone sales meant that the figure posted in the annual accounts is only slightly higher than the previous year. Once again, earnings before tax improved appreciably, rising to €72.6 million. Contributing materially to this increase were the substantially reduced losses of KS Aluminium-Technologie AG, the turnaround in the US pistons business, another improvement in the operating performance of Pierburg, as well as heightened profit contributions by our Chinese joint venture companies.

During the year under review, Group liquidity also improved again. Crucial here was the systematic pursuit of our working capital management program and a selective approach to capital expenditure. Net indebtedness thus continued to drop, falling by €61.0 million to €104.6 million.



However, improved operating performance was by no means the sole concern of the Executive Board, whose work also focused on the continued strategic development of the company.

Pursuing a conscious strategy of globalization, in 2003 Kolbenschmidt Pierburg significantly expanded its presence in Asia through carefully targeted acquisitions. By buying Microtechno Corp. in Japan, and increasing our stake in Kolbenschmidt Shanghai Piston Co. Ltd. in China from 35 to 50 percent, Kolbenschmidt Pierburg stands to benefit even more fully from the tremendous potential of the fast-growing Chinese market. Building on the basis of the company's well-established piston business in Brazil, the stage is now set for further expansion in South America by the Group's Pierburg, KS Plain Bearings and Motor Service divisions. Our strategic position in the market has been further bolstered by a first-ever move into engine block finishing (for the Porsche Cayenne). Moreover, customers awarded us with a number of other forward-looking projects in the engine block domain. A further expansion of the aftermarket operations of MSI Motor Service International GmbH was pursued through the acquisition of the engine parts units of Trost GmbH & Co. KG and PV Autoteile GmbH, which now form part of Motor Service Deutschland GmbH (MSD).

Conversely, peripheral units were sold off, enabling the Group to focus increasingly on its core competencies. In this context, the Pierburg division sold its Electrical Fuel Pumps product unit, as well as giving up the remaining interest in its measuring technology joint venture in January 2004 to AVL Holding GmbH. In addition, all the divisions pursued a systematic policy of terminating loss-making products.

Moreover, the ongoing restructuring program at our plants in Berlin, Nettetal and Neuss is clearly beginning to bear fruit. In order to safeguard and further strengthen our earnings power, in 2003 additional restructuring projects were initiated in Neckarsulm, Hamburg and Livorno, while holdings were reduced.

The renewed improved performance of the Kolbenschmidt Pierburg Group, coupled with last year's friendly takeover bid by Rheinmetall Berlin Verwaltungs GmbH, led to a sharp rise in the value of Kolbenschmidt Pierburg stock. In recognition of this achievement, PricewaterhouseCoopers and Automotive News granted Kolbenschmidt Pierburg AG their "Global Automotive Shareholder Value Award 2003" as the world's best automotive parts company.

In 2004, we plan to build on these successes, further improving the performance of the Kolbenschmidt Pierburg Group. This of course presupposes a stable market environment and underlying economic conditions that are at least on a par with those pertaining in 2003.

Finally, we would like to thank you very much for your trust in Kolbenschmidt Pierburg, and look forward to your continued support in the future.

Sincerely,

Dr. Kleinert Chairman	Dr. Merten	Dr. Friedrich

Kolbenschmidt Pierburg stock

The central event for Kolbenschmidt Pierburg AG stockholders during the period under review was certainly the friendly takeover bid by Rheinmetall Berlin Verwaltungs GmbH on April 7, 2003. At the time of publication, the takeover price of €15.00 was €5.53 (approx. 58%) higher than the sales-weighted average domestic stock market price in the three months prior to publication of the takeover bid. The appropriateness of the offer was confirmed by a fairness report.

When the bid expired on July 18, 2003, Rheinmetall Berlin Verwaltungs GmbH succeeded in increasing its share in Kolbenschmidt Pierburg AG from 85.1 percent to 92.45 percent.

Reduced weight: Magnesium intake manifolds from Pierburg are employed in large-volume medium- and premium-class engines

Stock price trend

		2002	**2003**
Number of shares		28,003,395	28,003,395
Year-end price	€	8.80	22.85
High for the year	€	15.15	25.06
Low for the year	€	7.45	8.55

Further share data

	2002	**2003**
Market capitalization / EBIT	2.5	6.2
Price-earnings ratio (PER)	6.3	15.1
Dividend per share (€)	0.50	0.50
Dividend yield (%)	5.7	2.2

The share price during 2003 was buoyed by the Group's strong performance as well as the takeover bid. After moving between €8.00 and €9.00 during the first quarter, following publication of the takeover bid the stock price reached the €15.00 mark, rising to €15.50 when the dividends were made public. During the second half of the year the Kolbenschmidt Pierburg stock was pushed to an even higher level, eventually peaking at €25.06. At year's end, the stock was trading at €22.85, representing a substantial increase in value compared to the beginning of the year. In all, the Kolbenschmidt Pierburg share price in 2003 rose by 1642.2 percent; during the same period the SDAX increased by just 51.4 percent.

Following the re-segmentation of Germany's equity market indexes in February 2003, the Frankfurt Stock Exchange decided no longer to list Kolbenschmidt Pierburg AG on the MDAX but on the SDAX instead, owing to the heightened requirements for market capitalization of the free float stock and the trading volume.

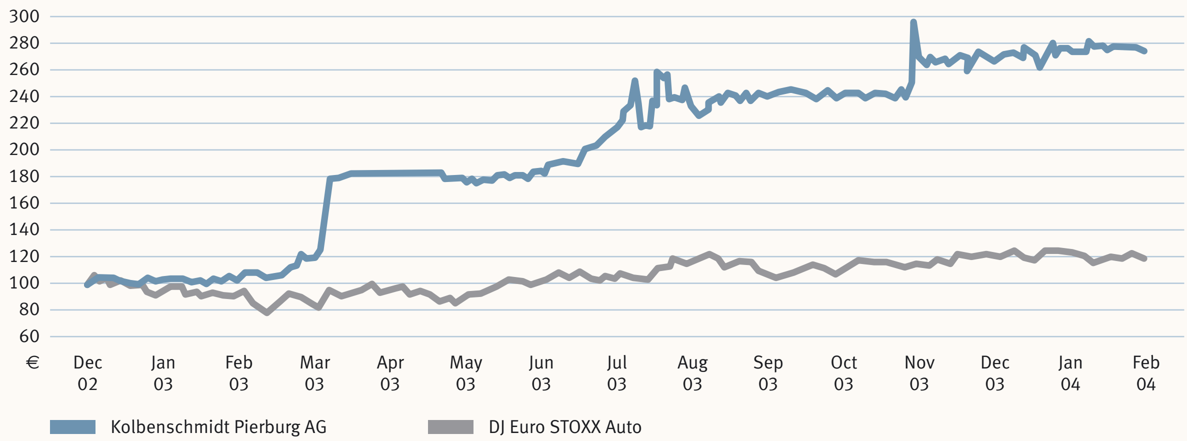
In an ad hoc bulletin on November 6, 2003, Rheinmetall AG announced that its stake in Kolbenschmidt Pierburg AG had since risen to 95.40%. In order to qualify for SDAX membership, 5% of its stock must be in free float; as a result, Kolbenschmidt Pierburg shares were automatically withdrawn from the SDAX, and replaced by the next candidate company meeting SDAX criteria. However, Kolbenschmidt Pierburg stock continues to be traded on the Prime Standard of the Frankfurt Stock Exchange.

Regardless of which stock market segment it is assigned to, Kolbenschmidt Pierburg continues to carry on its Investor Relations activities. For example, following publication of the quarterly results, telephone conferences with stock analysts from banks and institutional investors were conducted. Along with a whole host of individual meetings, the International Frankfurt Motor Show was once again used as a platform for presentations to analysts. Feedback and evaluations of the Group's performance were thoroughly positive.

During the year under review, the rating agencies Standard & Poors and Moody's again assigned Kolbenschmidt Pierburg a BBB or Baa2 rating. In November 2003, Kolbenschmidt Pierburg decided that it would henceforth be rated solely by Moody's.

Stock price trend in comparison to the DJ Euro STOXX Auto

Indexed to Kolbenschmidt Pierburg stock at December 30, 2002 (up to February 29, 2004)



Corporate Governance

Kolbenschmidt Pierburg AG adheres to a policy of responsible and transparent corporate management and control, oriented to securing a sustained increase in corporate value. Even in the past, the company's practices largely corresponded to the recommendations and suggestions of the German Corporate Governance Code. The intention is to reinforce further the confidence of German and international investors, our business partners, our employees and the public at large in the management and monitoring of the Kolbenschmidt Pierburg Group. Kolbenschmidt Pierburg AG sees Corporate Governance as a continuous process for improving the management and control of the company in response to ongoing experience and regulations as well as steadily evolving national and international standards.

In January 2003, the Executive and Supervisory Boards issued their first declaration of conformity pursuant to Art. 161 AktG, stating that Kolbenschmidt Pierburg AG–with four exceptions–was applying the recommendations of the German Corporate Governance Code. During fiscal 2003, appropriate steps were taken to address as far as possible the stated deviations.

The German Corporate Governance Code was further strengthened during the period under review, and expanded to include several new points on May 21, 2003. A statement concerning the recommendations contained in the May 21, 2003 version of the Code not yet implemented by Kolbenschmidt Pierburg AG is included in the following declaration of the Executive and Supervisory Boards, which was published on the corporation's website in December 2003 and March 2004, thereby making it accessible for a prolonged period:

Declaration of conformity of Kolbenschmidt Pierburg AG pursuant to Art. § 161 German Stock Corporation Act (AktG) concerning adherence to the German Corporate Governance Code:

Pursuant to Art. § 161 German Stock Corporation Act (AktG), the Executive and Supervisory Boards have issued the following statement concerning the recommendations of the Government Commission on the Corporate Governance Code:

Kolbenschmidt Pierburg AG adheres to the recommendations set out in the May 21, 2003 version of the German Corporate Governance Code published in the electronic version of the Federal Gazette, with the following exceptions:

– The division of responsibilities and cooperation within the Executive Board are presently not covered by internal regulations. The Executive Board will deal with the establishment of the corresponding rules (Clause 4.2.1).

– The individual compensation of members of the Executive Board (Clause 4.2.4) and Supervisory Board (Clause 5.4.5) is not listed in the notes of the consolidated statements.

Since the last declaration of conformity in January 2003, Kolbenschmidt Pierburg AG has adhered to the following recommendations contained in the November 7, 2002 version of the German Corporate Governance Code, with the following exceptions:

– Up until November 24, 2003, no procedure had been implemented committing the members of the Supervisory Board to report conflicts of interest to the Supervisory Board (Clause 5.5.2) for disclosure to the General Meeting in the Report of the Supervisory Board (Clause 5.5.3).

At its meeting on November 24, 2003, the Supervisory Board of Kolbenschmidt Pierburg AG passed new bylaws for itself, thereby eliminating the aforementioned deviations.

– In assessing the compensation of Supervisory Board members, membership in committees (Clause 5.4.5) was not yet taken into account.

At its meeting on March 17, 2004, the Supervisory Board passed a resolution that, beginning in fiscal 2003, membership in committees of the Supervisory Board would be taken into account when determining compensation, and that this proposal would be presented to the General Meeting in May 2004 to enable the bylaws to be amended accordingly.

Düsseldorf, December 2003/March 2004

The Executive Board The Supervisory Board

The Executive Board

The Executive Board has overall responsibility for managing the company's operations in accordance with uniform objectives, plans and guidelines. The responsibilities and prerogatives of the Executive Board derive from statutory regulations, the bylaws of Kolbenschmidt Pierburg AG and the internal operating procedures of the Executive Board. Until January 20, 2003, the Executive Board of Kolbenschmidt Pierburg AG consisted of five members, from January 21, 2003 onwards, of three. Each member is assigned special responsibility for a particular sphere; however, they are enjoined to place the overall wellbeing of the company above the interests of their own particular sphere. The Chairman of the Executive Board coordinates the work of the Executive Board.

In the notes to the consolidated financial statements, the compensation of the entire Executive Board of Kolbenschmidt Pierburg AG is stated in summarised, informative fashion, broken down into fixed, performance-related and long-term incentive portions. For the shareholder, it is crucial to have an impression of the entire Executive Board, which, as a collegiate body, is charged with joint responsibility for managing the company. The summarized presentation contains all the information necessary for making a rational assessment of the performance of the Executive Board, as well as enabling an assessment of whether the ratio of fixed and performance-related compensation components is appropriate, and whether the necessary performance incentives for the members of the Executive Board have been established. A statement of individual compensation would not contain information relevant to the stock market, nor would it improve the overall quality of the information provided. Moreover, it should be noted that disclosing the compensation paid to individual members of the Executive Board can lead to an undesirable leveling of task- and performance-related remuneration, while the disclosure of salaries could result in a ranking in the importance of individual members of the Executive Board.

The Executive Board members' remuneration is comprised of both fixed and variable components which are set by the Supervisory Board at an appropriate level and on the basis of a personal performance assessment, with due regard to any other compensation paid by the Group. Assessment criteria for defining an appropriate remuneration of Executive Board members include each member's responsibilities and personal performance, as well as the financial strength, success and future prospects of the company, taking into account comparable companies in the industry. Compensation is set at an internationally competitive level capable of attracting highly qualified executives; the amount and structure of Executive Board compensation is oriented to that of comparable German and foreign firms.

As a rule, remuneration consists of a 60 percent fixed-income component and a 40 percent variable component, with 70 percent of the variable component in turn consisting of so-called Result Contribution 1 (a comparison of projected and actual figures viz. the plan of one's own unit), and 30 percent relating to Result Contribution 2 (a comparison of projected and actual figures viz. the plan of the next higher own unit), based on the performance indicators EBIT, EBT and ROCE.

The last stock appreciation rights (SAR) under the SAR program introduced in fiscal 1998 were issued at the beginning of 2002 (for fiscal 2001). The programs for 2000 and 2001 were discharged in January 2004. The program was suspended in response to the increasing criticism of share price-related compensation, as well as the low free float of Kolbenschmidt Pierburg stock following the takeover bid.

Corporate Governance

However, Kolbenschmidt Pierburg is eager to maintain clear and direct incentive systems to ensure that the actions of management remain sharply focused on increasing the value of the company. With this goal in mind, a revamped long-term incentive model known as the Rheinmetall Value Enhancement Program has been introduced for Group executives.

This program is not linked to the performance of the company's stock, but depends instead on the absolute increase in the "fundamental value of equity", based on defined business performance ratios.

Here, the actual figures for the "fundamental value of equity" are calculated by taking the weighted average value for three years in succession. From 2004 on, the program will apply to all members of the Executive Board, as well as to the first two layers of management directly below it.

On May 5, 2004, the Chairman of the Supervisory Board will inform the General Meeting concerning essential features of the compensation system for the Executive Board. In addition, the essential features of the compensation system for the Executive Board can be found on the company's website.

During the year under review, no loans or advances were extended to members of the Executive Board.

The corporation has taken out a Directors' and Officer's Liability Insurance policy for the Executive Board; an appropriate deductible was agreed.

The Supervisory Board

At the meeting of the Supervisory Board on November 24, 2003, the extensively revised bylaws for the Supervisory Board were passed, as were the bylaws for the Personnel, Audit and Arbitration Committees. The former Finance Committee was superseded by the creation of the Audit Committee.

The committees, composed of an equal number of members, deal with complex issues falling under the purview of the full Supervisory Board, as well as preparing resolutions of the Supervisory Board. Specifically, the tasks of the committees are as follows:

Personnel Committee
The Personnel Committee is responsible for all personnel matters pertaining to members of the Executive Board, and represents the company in its dealing with members of the Executive Board. Furthermore, it makes preparations for the appointment and reappointment of Executive Board members, submits recommendations to the full Supervisory Board, and, in cooperation with the Executive Board, engages in long-term planning for an orderly succession.

Audit Committee
The Supervisory Board has established an Audit Committee which is responsible for the tasks specified in Clause 5.3.2 of the May 21, 2003 version of the Code. Moreover, it prepares resolutions of the Supervisory Board relating to capital measures and approval of the annual accounts. It is also charged with monitoring the financial structures of the Kolbenschmidt Pierburg Group.

Arbitration Committee
Mandated by the German Codetermination Act, the Arbitration Committee submits personnel proposals to the Supervisory Board when the majority necessary for the appointment of members of the Executive Board has not been attained.

Compensation paid to the Supervisory Board consists of a fixed and a variable component, the latter depending on the amount of the dividend paid out by the company. The existing system of Supervisory Board compensation is set forth in detail in Art. 13 of the company's Articles of Association. Pursuant to Clause 5.4.5, Sub-clause 1 of the Code, the chairmanship and membership of committees should be taken into account when determining Supervisory Board compensation. This requires a change in the bylaws. The Supervisory Board and the Executive Board will put forward a proposal at the General Meeting on May 5, 2004 for a revision of Supervisory Board compensation, which is intended to take retroactive effect in fiscal 2003, thus meeting the recommendations contained in the May 21, 2003 version of the German Corporate Governance Code.

A survey of members of the Supervisory Board revealed no conflicts of interest as defined in Clauses 5.5.2 and 5.5.3 of the Code.

During the year under review, no loans or advances were extended to members of the Executive Board.

The company has taken out a Directors' and Officer's Liability Insurance policy for the Supervisory Board; an appropriate deductible was agreed.

At the meeting on November 24, 2003, the Supervisory Board reviewed its activities during fiscal 2003, as well as conducting an efficiency audit.

Transparency

Pursuant to Art. 15 of the German Securities Trading Act ("WpHG"), members of the Executive Board and Supervisory Board of Kolbenschmidt Pierburg AG are required to disclose the purchase or sale of Kolbenschmidt Pierburg AG stock. Kolbenschmidt Pierburg AG received no reports of purchase or sale during the period under review; nor did any shareholdings exist which were reportable under the terms of Clause 6.6 of the German Corporate Governance Code.

Communications and marketing

In today's globally networked Information Society, multimedia data pours in from all sides, threatening to submerge the recipient. For the Group's Communication and Marketing units, the task is therefore to disseminate–in a timely and measured manner –essential items of news concerning our corporate strategies, business performance and innovative strength, while making use of the appropriate media channels. Responding to the need for accurate, up-to-date information, our overriding objective is to support the increasingly fast-paced decision-making processes and data flow requirements of the various groups interested in our company, including investors, suppliers, employees, media and business partners.

Aware of their specific needs, Kolbenschmidt Pierburg AG tailors the volume of information disseminated to the requirements of the particular group.

Reflecting the Group's integrated communications concept, our marketing and communication activities include a constantly updated and upgraded presence in the Internet; participation in trade fairs; and Groupwide advertising campaigns. Moreover, Kolbenschmidt Pierburg holds regular press conferences for diverse target groups, as well as issuing press releases to business publications, the regional press, specialist publications and the electronic media; special topic-oriented colloquia for the press are also organized. Interviews and in-depth discussions with journalists on economic issues and highly detailed technical topics round out our media relations work. We also attach particular importance to providing information to, and keeping in close touch with, the regional media at our various locations.

In 2003, the 60th International Motor Show in Frankfurt was an event of special significance for the Kolbenschmidt Pierburg Group. Here, thanks to a newly developed stand concept, we were able to provide the public with a comprehensive insight into the innovative potential of the various divisions of the Kolbenschmidt Pierburg Group. During the run-up to the trade fair, journalists were invited to attend a two-day informational event concerning the new products that would be on show, enabling them to learn about the latest development trends within the Group. Furthermore, with a view to the important US market, American journalists from specialist publications were invited to a special press event held on

The new electronic throttle regulating valves from Pierburg feature high dynamics, low volumes, a modular design and a good price-performance ratio

the sidelines of the Frankfurt show, and brought up to date concerning current Group business trends and new products.

The Group's participation in the Tokyo Motor Show at the stand of the Association of the German Automobile Industry, in which 15 other well-known German auto parts suppliers also took part, underscores the importance Kolbenschmidt Pierburg AG attaches to its international image, as does the presence of the Motor Service division at the Equip'Auto 2003 show in Paris.

Underlying economic conditions

Performance of the world economy

Business confidence in 2003 was influenced by two conflicting factors. During the first six months of the year, the prospect of war in Iraq and the fear that it would result in a global economic crisis resulted in general uncertainty. Tangible signs of this situation were the clear reluctance to invest on the part of the corporate sector; sluggish private consumption; and falling equity prices in the stock markets. This trend reversed during the second half of the year. Certainly by the fourth quarter of 2003, the general consensus was that the world economy had entered a new of phase growth.

The source of this shift in opinion was primarily the US economy, which in the third quarter of 2003 grew faster than it had in nearly two decades. In addition, numerous American economists predicted a recovery in the US jobs market. This positive news clearly improved the mood of consumers: according to preliminary estimates, the US economy grew by 3.1 percent in 2003.

A comparable if somewhat less pronounced trend was visible in the euro zone. After a first half-year marked by contracting economic output and rather pessimistic forecasts, the European economy began to show signs of recovery in the third quarter. Despite the appreciation of the euro, this upswing was propelled by strong export growth, with domestic demand remaining sluggish. The return to growth led at the same time to an improvement in the business climate, which, with the exception of the retail sector, has spread to all areas of the economy. According to initial estimates, gross domestic product in the euro zone in 2003 grew by 0.4 percent.

As in previous years, world economic growth in 2003 was fastest in the Asia-Pacific region. Unlike in recent years, the Japanese economy also returned to growth in 2003, apparently expanding by 2.1 percent. Meanwhile, China’s rapidly expanding economy showed no sign of slowing, swelling last year by over eight percent. In Russia, too, the economic indicators point to a rapid rate of growth of over six percent.

Trends in world automobile production

Global production of light vehicles, i.e. cars and light commercial vehicles (LCVs), rose in 2003 by an estimated 1.6 percent to 58 million units. While the number of cars made remained nearly unchanged at 41.8 million, the production of LCVs increased by 5.5 percent to 16.2 million units. Within the Triad markets (NAFTA, Western Europe and Japan), which together account for roughly three-quarters of world production, output contracted by 1.8 percent compared to the previous year. The Asia-Pacific region (without Japan) accounted for most of the growth, with production expanding by 1.5 million units, or 17.8 percent.

In the NAFTA region, consisting of the United States, Canada, and Mexico, production of light vehicles contracted by 0,5 million units to 15.9 million vehicles, constituting a decline of 3 percent. In the US, heavy price-cutting and zero-percent financing meant that the drop in production could be held to 1.6 percent. Volume in Canada likewise declined (by 3.3 percent), while Mexico experienced a fall in production of 11.8 percent.

In South America, production volume contracted by 0.9 percent to 2.0 million vehicles. In Brazil, which accounts for by far the largest share of regional production capacity, a decline in domestic demand meant that despite strong exports, production of vehicles eased back by 2.0 percent to 1.7 million units.

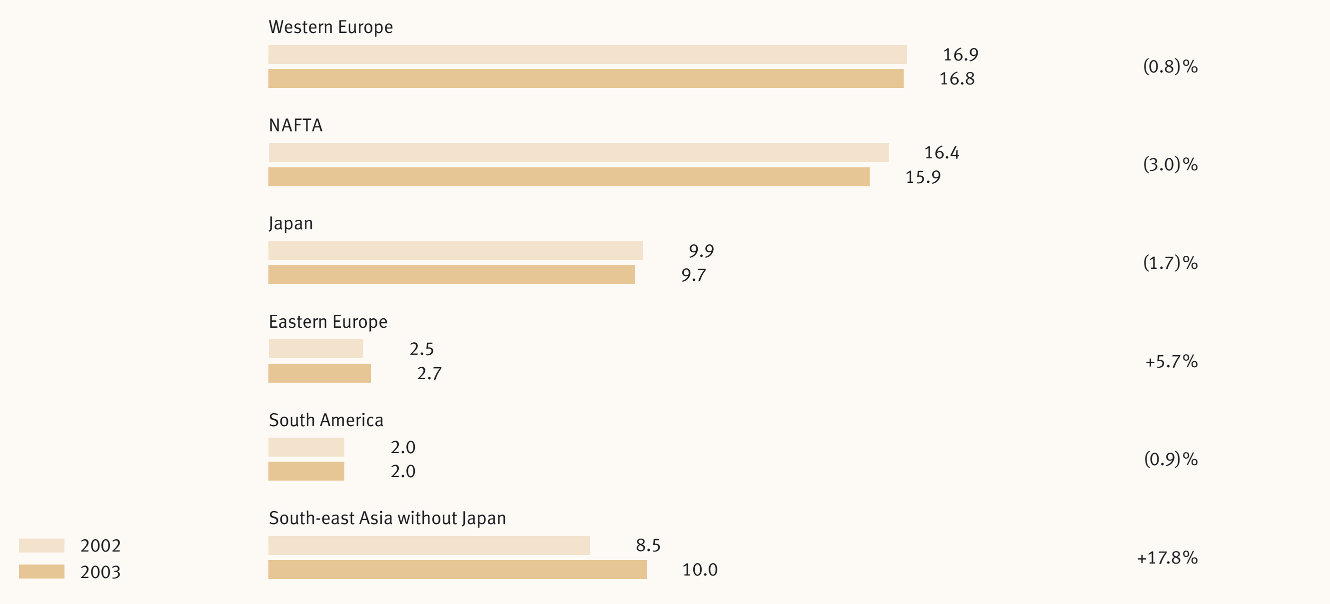
Conversely, the production of light vehicles in Asia in 2003 continued to develop along positive lines, expanding by 7.3 percent, even though Japanese production, which totaled 9.7 million vehicles, fell

1.7 percent short of the previous year's figure. Production in China attained a remarkable rate of growth, with output rising by 39.7 percent to 3.6 million light vehicles. As a result, China has now overtaken South Korea as the region's second largest producer of light vehicles after Japan. In South Korea, production volume remained virtually constant at approximately 3.1 million units, equating to an increase of 0.4 percent.

In 2003, production in Eastern Europe totaled 2.7 million units, up from 2.5 million units the year before, a rise of 5.7 percent. The manufacture of light vehicles in this region primarily takes place in Russia, the Czech Republic, Poland and Slovakia, which together account for some 84 percent of regional output. At 21.2 percent, Slovakia achieved the highest rate of growth in 2003, though Poland turned out 10.8 percent more vehicles than the year before as well.

Western Europe witnessed a slight decline in the number of light vehicles produced, which in 2003 edged back by 0.8 percent to 16.8 million units. Whereas Spain succeeded in increasing its production by 5.7 percent to 3.0 million vehicles, and Britain by 2.7 percent to 1.9 million vehicles, output in Germany slackened by 0.6 percent to 5.3 million vehicles, in Italy by 6.9 percent to 1.3 million vehicles, and in France by 2.6 percent to 3.5 million vehicles.

Production of light vehicles in selected world regions *million vehicles*



The situation of the Group

Significant events

Since the expiration of its public takeover bid on July 28, 2003, Rheinmetall AG, acting via its participation companies, has increased its percentage of the share capital of Kolbenschmidt Pierburg from 92.45 percent to 95.54 percent.

On January 1, 2003, Pierburg GmbH (the Pierburg division) sold its Electrical Fuel Pumps unit. This move further underscores Pierburg GmbH's policy of concentrating on it core competencies.

Moreover, the Pierburg division further streamlined its structures on January 1, 2003 by merging its French holding company Société Mosellane de Services Holding with Pierburg S.à.r.l., another French unit of the division.

During 2003, the Group moved to strengthen its presence in the fast-growing Asian market in two major transactions:

Effective February 4, 2003, KS Kolbenschmidt GmbH, the management company of the KS Pistons division, acting through its subsidiary Kolbenschmidt K.K. of Japan, took over the pistons unit of Microtechno Corp. from Mazda Motor Corp., also both of Japan, in an asset deal.

At the end of 2003, KS Kolbenschmidt GmbH increased its stake in the joint venture Kolbenschmidt Shanghai Piston Co. of China to 50 percent by taking over a further 15 percent from DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH. By taking this step, the Kolbenschmidt Pierburg Group has reinforced its position in the Chinese market, with a particular eye to its additional growth potential.

In the Motor Service division, operations of the UK unit KS Winston Ltd. ceased at the beginning of March 2003, its business now being processed directly by MSI Motor Service International GmbH with a sales partner.

Also in the Motor Service division, contracts were concluded in December 2003 for taking over the engine parts activities of the companies E. Trost GmbH & Co. KG of Stuttgart and PV Autoteile GmbH of Duisburg.

The trend in sales and earnings

In fiscal 2003, Group sales of Kolbenschmidt Pierburg totaled €1,884.2 million, slightly exceeding the previous year's figure of €1,882.6 million. Sales proceeds in 2003 were influenced by a series of special effects; adjusted for these, sales actually increased by over four percent compared to the previous year. These effects included exchange rate-related influences, especially the altered parity of the US dollar and the Brazilian real, as well as the structural effects relating to the disposal of the Electrical Fuel Pumps unit and the acquisition of the pistons unit of Microtechno Corp. in Japan. Thus, Kolbenschmidt Pierburg's growth once again clearly outstripped the growth of the global automotive industry as a whole, which came to 1.6 percent.

The development and manufacture of original equipment for customers in the international automotive industry is the core business of Kolbenschmidt Pierburg. In fiscal 2003 this business accounted for some 89 percent of sales, 1 percentage point more than the previous year. The spare parts business with engine repair shops and workshops saw its share of total sales ease back by 1 percentage point to roughly 7 percent in 2003. Non-automotive applications, including (for example) large-bore pistons and continuous casting products, accounted for around 4 percent of Group sales, just as in 2002.

Sales by region *€ million*

	2002	2003	change *€ million*	change *in %*
Germany	630.1	604.1	*(26.0)*	*(4.1)*
Europe (without Germany)	821.5	833.1	*11.6*	*1.4*
North America	316.2	301.6	*(14.6)*	*(4.6)*
South America	49.5	52.3	*2.8*	*5.6*
Asia [1]	44.6	71.2	*26.6*	*59.6*
Other regions	20.7	21.9	*1.2*	*5.8*
Group	**1,882.6**	**1,884.2**	**1.6**	**0.1**

[1] without the Chinese joint ventures (share of sales in 2002: €26.7 million; in 2003: €46.0 million)

A comparison of sales in Germany with sales abroad in 2003–with the corporate seat of the customer constituting the differentiation criterion–reveals that there was little change vis-à-vis the year before. Once again, customers in Germany accounted for roughly a third of sales. A breakdown of sales by region reveals that Europe (including Germany) comprises 76 percent of the total. Here, too, there were no substantial changes compared with the previous year. As regards overseas markets, in 2003 North America remained the single most important region, accounting for 16 percent of total sales. The slight decline in its share of global sales was essentially due to the weakness of the US dollar. Calculated in local currency, Group business in the US actually grew by around 13 percent. The remaining world markets were responsible for 8 percent of Group sales. Here, Asia's increased share compared to the year before–4 percent–related to the acquisition in 2003 of a Japanese piston manufacturer. Our share in the sales of the Group's two Chinese joint ventures, which amounted to some €46.0 million, are not included here.

Breakdown of sales by region *in %*

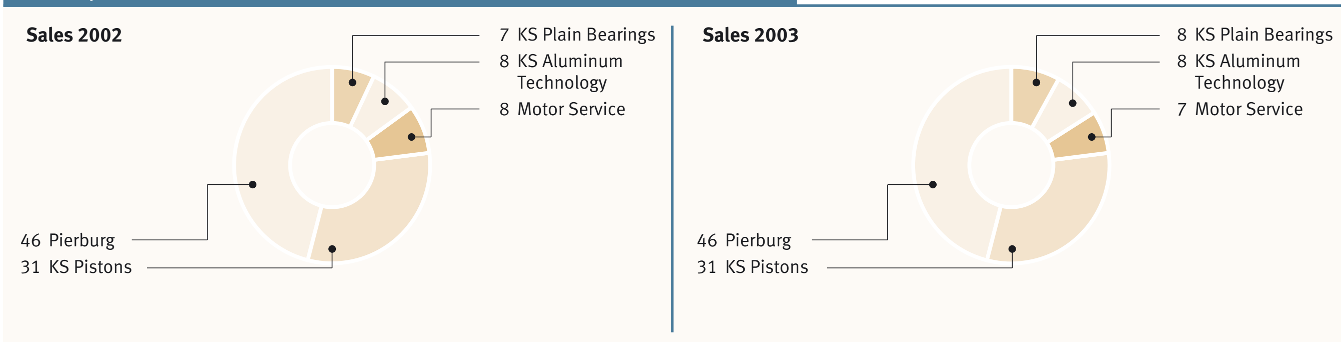
The situation of the Group

Sales by the Pierburg division declined slightly compared to the previous year, edging down by €6.3 million to €877.5 million, a drop of 0.7 percent. This reflects the sale of the division's Electrical Fuel Pumps unit, as well as the negative impact of currency exchange rates, which combined to disguise the division's healthy operational performance: when adjusted to take these factors into account, sales of the division actually improved. The Air Supply product unit–a major driver of sales growth in the past–was unable fully to compensate for the loss of an in-series project caused by a customer discontinuing an engine. Conversely, the Emission Control product unit benefited from a marked upturn in exhaust gas recirculation system sales. Owing to the disposal of its Electrical Fuel Pumps segment, the Pumps product unit failed to attain the previous year's level of sales, though sales of water pumps grew very encouragingly. The Pierburg division's contribution to Group sales remained unchanged at 46 percent.

Due to altered currency parities, and despite the strong growth experienced by its customers, the KS Pistons division was not quite able to match the previous year's sales figures, which edged back from €595.7 million in 2002 to €593.6 million in 2003, a decline of 0.4 percent. In terms of local currency, the division's locations in North and South America achieved increases in sales which were in part substantial. Adjusted for the structural impact of the Japanese piston company acquired in February 2003 and the effects of currency translation, however, sales by the division moved in a distinctly positive direction. The division continued to account for some 31% of Group sales.

The KS Plain Bearings division grew its sales by €1.5 million to €147.3 million, an increase of 1 percent. In particular, sales of high-performance bearings and connecting rod bushings strengthened. The division's share of Group sales rose by 1 percentage point to approximately 8 percent.

Sales by division *in %*



Sales by division *€ million*

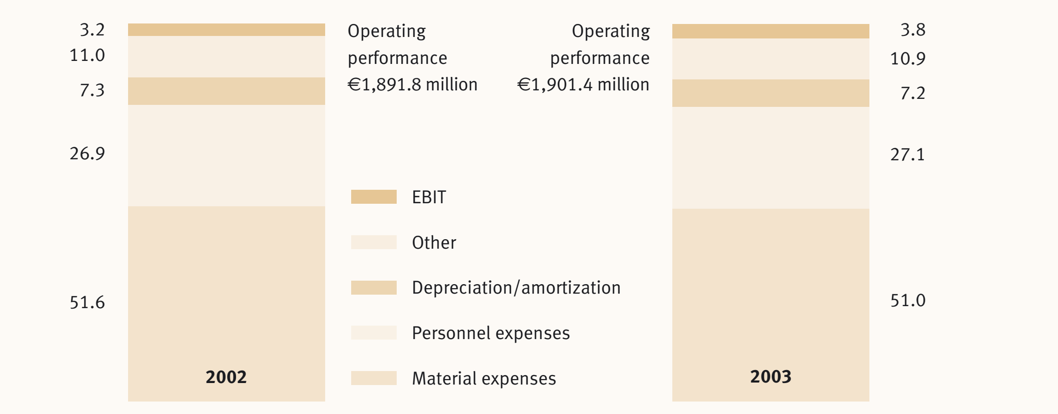
			change	
	2002	**2003**	*€ million*	*in %*
Pierburg	883.8	877.5	*(6.3)*	*(0.7)*
KS Pistons	595.7	593.6	*(2.1)*	*(0.4)*
KS Plain Bearings	145.8	147.3	*1.5*	*1.0*
KS Aluminum Technology	148.8	159.8	*11.0*	*7.4*
Motor Service	146.4	138.5	*(7.9)*	*(5.4)*
Other/consolidation	(37.9)	(32.5)	*5.4*	*14.3*
Group	**1,882.6**	**1,884.2**	**1.6**	**0.1**

In the KS Aluminum Technology division, production run-ups of innovative high-end engine blocks for German premium manufacturers–particularly in the field of low-pressure casting–led to an €11.0 million-increase in sales to €159.8 million, a rise of 7.4 percent. Sales of series-manufactured products, i.e. proceeds generated by the division's three segments without third-party tool proceeds and other sales, rose by more than 19 percent. The KS Aluminum Technology division share of total Group sales remained constant at roughly 8 percent.

Affected by weak demand in certain spare parts markets during the period under review, sales volume of the Motor Service division contracted by €7.9 million (or 5.4 percent) to €138.5 million. Accordingly, its share of total Group sales fell by 1 percentage point to approximately 7 percent.

Compared to the year before, total operating performance of the Kolbenschmidt Pierburg Group in 2003 edged up by €9.6 million (or 0.5 percent) to €1,901.4 million.

Group expenses structure *in %*



The situation of the Group

Material expenses in 2003 fell by €5.3 million to €970.6 million. In light of the scant increase in expenditure on raw materials and supplies, this 0.5 percent-decline reflects reduced external sourcing. Conversely, personnel expenses rose slightly, increasing by €5.6 million to €515.2 million, a rise of 1.1 percent. While spending on wages and salaries grew only marginally, the increased expenditure on retirement benefits was more pronounced. In a year-on-year comparison, the sum of material and personnel expenses reveals an improvement of 0.4 percentage points. Depreciation and amortization remained at the previous year's level. The €16.4 million-increase in other operating earnings essentially relates to the book profit from the sale of the Electrical Fuel Pumps product group, offsetting the €8.8 million-rise in other operating expenses and the reduced financial result, which contracted by €5.8 million. The increase in other operating expenses relates inter alia to higher maintenance costs, the formation of accruals, and expenses arising from semi-retirement schemes. The previous year's financial result was positively influenced by proceeds from the sale of the Group's stake in Preh GmbH & Co. KG.

Kolbenschmidt Pierburg ended the year with an EBT of €72.6 million, an increase of €12.5 million (or 20.8 percent) on the previous year's figure of €60.1 million. The return on sales improved from 3.2 percent in 2002 to 3.9 percent for the year under review.

At €103.1 million, earnings before interest and tax (EBIT) for 2003 likewise exceeded the previous year's figure of €97.4 million. Earnings before interest, tax and depreciation (EBITDA) came to €239.1 million, up from €234.8 million the year before. Accordingly, the return on sales in relation to EBIT, 5.5 percent (2002: 5.2 percent) and to EBITDA, 12.7 percent (2002: 12.5 percent), in both cases exceeded that for the previous year.

In the Pierburg division, EBT fell by €4.2 million to €48.7 million. Adjusted to reflect the special effects of disposing of the Electrical Fuel Pumps product unit and a plot of land in Italy in 2003, as well as the sale of its interest in Preh GmbH & Co. KG the year before, together with restructuring accruals made in 2003, the division succeeded in substantially surpassing the previous year's figure. The earnings trend of the division's Spanish subsidiary was once again remarkably positive. Moreover, its Italian unit showed fundamental improvement compared to the previous year, attaining a positive operating result. Still overshadowed by the cost of restructuring measures, however, it was forced to post a loss for fiscal 2003 as a whole. The division's North American unit, which had to contend with a (planned) decline in sales in 2003, nevertheless made a more positive contribution to earnings than the year before. The sale of the Electrical Fuel Pumps product group also contributed to this.

Compared to the previous year, the KS Pistons division succeeded in doubling its EBT, which rose by €14.4 million to €28.5 million. In particular, this sharp improvement in earnings was due to the turn-

EBT by divisions *€ million*

EBT by divisions	2002	**2003**	*change*
Pierburg	52.9	48.7	*(4.2)*
KS Pistons	14.1	28.5	*14.4*
KS Plain Bearings	8.2	7.2	*(1.0)*
KS Aluminum Technology	(17.8)	(6.8)	*11.0*
Motor Service	13.1	14.2	*1.1*
Other/consolidation	(10.4)	(19.2)	*(8.8)*
Group	**60.1**	**72.6**	***12.5***

around achieved in the United States. Positive too was the contribution to earnings made by the division's Brazilian subsidiary. In fiscal 2003, the division's French unit was able to a large extent to compensate for a sales-related decline in earnings through cost cutting and increased productivity. Despite falling sales, the division's Czech subsidiary was able to duplicate the positive performance attained the year before, the result of an advantageous shift in product structure.

Despite operational improvements, at €7.2 million, the EBT of the KS Plain Bearings division fell short of the previous year's figure (€8.2 million). Earnings of the German management company reached the healthy level attained the year before, while the division's Brazilian subsidiary improved its contribution to earnings. Another negative EBT performance on the part of the US subsidiary KS Bearings Inc. dragged down the division's earnings. Operational improvements at KS Bearings were overcompensated for by the necessary provisions for risk.

Compared to 2002, the KS Aluminum Technology division improved its performance by €11 million, ending the year with a negative €6.8 million. In particular, this was the result of significant advances in productivity and quality attained in the division's low-pressure casting segment.

With an EBT of €14.2 million, the Motor Service division not only succeeded in limiting the impact of declining sales by cutting costs (especially in Germany) and optimizing its product offering, but actually surpassed the previous year's result by €1.1 million.

After income tax, the Kolbenschmidt Pierburg Group earned a net income of €43.2 million for 2003 (up from €36.7 million the year before). The income tax load ratio amounted to 40.4 percent.

Compared to the previous year, ROCE increased by 2.0 percentage points to 13.8 percent. Apart from the 5.9 percent-improvement in EBIT to €103.1 million, this was mainly due to the further reduction in capital employed by €47.2 million to €724.3 million (down 6.1 percent). First and foremost, this success was due to less working capital being tied up, as well as downscaled capital expenditures and reduced inventories.

The 2003 Group accounts reveal that Kolbenschmidt Pierburg has come substantially closer to achieving its ambitious long-term margin and ROCE goals. Adjusted for special effects and circumstances not germane to the period under review, we succeeded in attain-ing our ROCE objective of 15 percent.

Attainment of goals *in %*

	2002	**2003**	goal
EBT margin	3.2	3.9	4.5
EBIT margin	5.2	5.5	6.3
ROCE	11.8	13.8	15.0

The situation of the Group

Asset and capital structure

At December 31, 2003, total assets contracted by €37.6 million to €1,214.3 million, despite a virtually unchanged volume of sales. This was accompanied by a further improvement in balance sheet ratios.

At the end of 2003, fixed assets had declined by €27.4 million to €698.9 million. Accordingly, fixed assets declined to 57.6 percent of total assets, down from 58.1 percent the year before. Here, a distinct

decline in tangible assets owing to optimized capital expenditure was mirrored by a significantly smaller rise in intangibles and financial assets. Financial assets rose thanks to the positive contribution to earnings made by the Group's two Chinese joint ventures, which are valued according to the equity method. Moreover, the Group increased its stake in the Chinese joint venture belonging to the KS Pistons division.

At €436.5 million, current assets at December 31, 2003 remained virtually unchanged compared to a year earlier, down by a scant 0.1 percent. However, owing to lower overall total assets, the share of current assets increased to 35.9 percent, up from 34.9 percent in 2002. Thanks to the strong focus on improving working capital as well as high down payments at the end of the year, inventories fell once

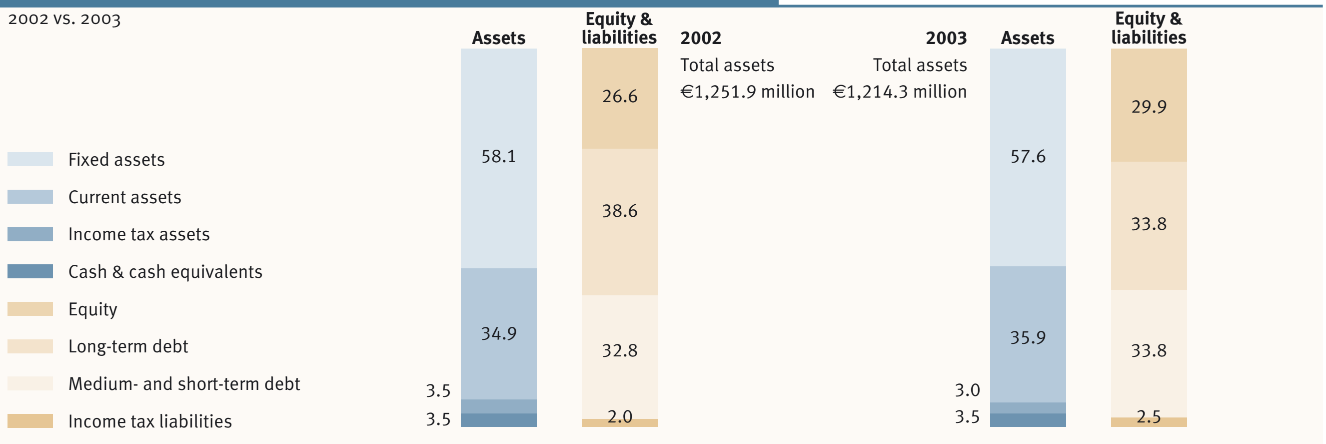
Lower weight and less volume: Pierburg's compact new secondary air pump helps cars to meet international standards for reducing exhaust gas emissions

again compared to the previous year; receivables, on the other hand, were higher than a year earlier. The increased receivables portfolio was due in large measure to factoring at an Italian subsidiary, which was below the previous year's volume.

Cash and cash equivalents held for operational purposes amounted to €42.7 million, a decline of €1.6 million compared to 2002. Its share of total assets remained unchanged at 3.5 percent.

Balance sheet structure *in %*

2002 vs. 2003



The situation of the Group

At December 31, 2003, equity came to €363.2 million, a rise of €30.3 million compared to a year earlier. This was essentially due to the Group's net income for the year of €43.2 million. Taking into account the 3.0 percent reduction in total assets, the equity ratio rose by 3.3 percentage points to 29.9 percent.

At the end of 2003, long-term liabilities had risen by €73.3 million to €410.5 million. In the category of financial liabilities, liabilities owed to banks declined most clearly. Pension accruals were down, due first and foremost to exchange rates, the improved performance of the pension fund in the US, as well as to a special payment into the fund. The share of long-term liabilities in Group equity fell to 33.8 percent, down from 38.6 percent in 2002.

At €410.6 million, medium- and short-term liabilities were only slightly up on the previous year's amount; owing to the reduction in total assets, they made up a slightly larger share of the balance sheet total, increasing to 33.8 percent at December 31, 2003, up from 32.8 percent at the end of 2002. Trade payables and other liabilities declined slightly, while short- and medium-term accruals and financial liabilities edged upwards.

At December 31, 2003, coverage of fixed assets by equity rose to 52.0 percent, up from 45.8 percent a year earlier. Together, equity and long-term debt completely covered fixed assets at the end of 2003. Gearing, i.e. the ratio of net financial liabilities to equity, improved from 49.7 percent at the end of 2002 to 28.8 percent at December 31, 2003.

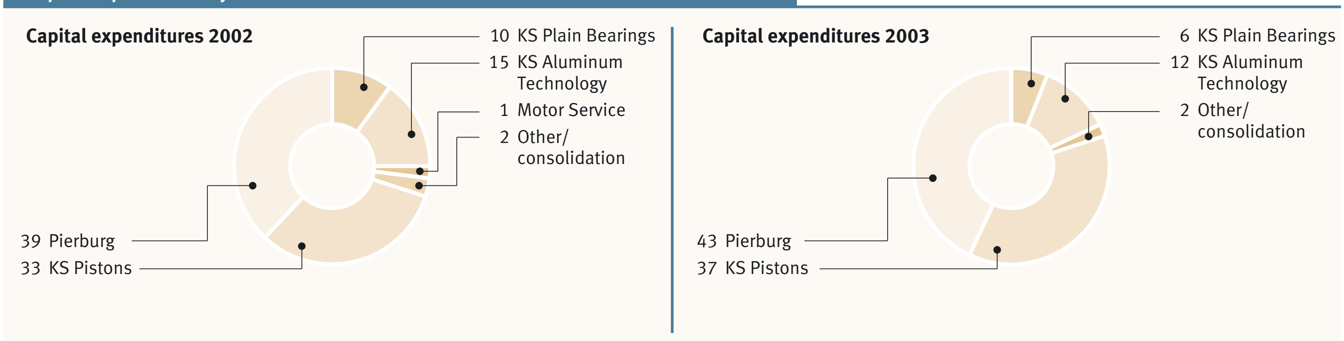
Capital expenditures and depreciation

In fiscal 2003, the Kolbenschmidt Pierburg Group invested a total of €126.5 million, down from €144.3 million the previous year; these capital outlays comprised additions to intangible and tangible assets, excluding goodwill. The increase in tangible assets reflects the acquisition of a Japanese piston manufacturer, acquired during the period under review in an asset deal. Adjusted to take this structural effect into account, capital expenditures in 2003 amounted to €117.2 million. As a ratio of sales, spending in 2003 came to 6.2 percent, compared to 7.7 percent the previous year.

Selective capital expenditures in 2003 resulted from the systematic implementation of an ongoing program of measures designed to improve ROCE. In 2003, the outsourcing of non-core production stages, systematic interplant coordination of free capacity and production facilities, a reinforced emphasis on lean production concepts, and a reduction in the number of special machines once again contributed to a further decrease in the capital expenditure ratio.

Capital outlays in 2003 focused primarily on creating and expanding production capacity for new customer projects, as well as on replacement and rationalization measures in the Pierburg and KS Pistons divisions. The German plants absorbed some 51 percent of Group capital expenditures, as opposed to 60 percent in 2002. The remaining 49.0 percent was expended abroad, compared to 40 percent the previous year, with other European countries accounting for the bulk of expenditure, i.e. 24 percent.

Capital expenditures by division *in %*



The Pierburg division invested primarily in new product run-ups and expanded capacity. Just as last year, the focus was on preparations for the full-scale production of intake manifolds for 6- and 8-cylinder engines made by premium German manufacturers; a new generation of air-mass sensors; and an innovative electrical coolant pump for gasoline-powered engines. Moreover, capacity was increased in order to produce electric throttle bodies as well as the required electro-motors.

Elsewhere in Europe, capital expenditures at Carbureibar S.A. in Spain were targeted at exhaust gas recirculating valves and vacuum pumps. At Italy's Pierburg S.p.A., spending focused on intake manifolds, exhaust gas recirculating valves and oil pumps. In France, meanwhile, Pierburg S.à.r.l. placed the accent on water and oil pumps. In the United States, the expansion of a line for manufacturing electric throttle bodies formed the prime focus of capital expenditures at Pierburg Inc.

In Germany, capital expenditures in the KS Pistons division primarily went into expanding foundry capacity and machining capacities in preparation for new heavy-duty diesel engine pistons. Abroad, the introduction of a new global engine by an international customer spurred capital expenditures on machining capacity at the division's subsidiaries in France, the United States and Japan. Furthermore, spending last year was also targeted at numerous individual projects involving productivity improvements and new technical features.

At both of its German sites, the KS Plain Bearings division invested in plant and equipment for producing aluminum alloys for plain bearings, as well as assembly line equipment. Equally significant was capital expenditure on equipping the plain bearing testing facility, which is currently undergoing expansion. Capital outlays in the United States were aimed at improving the quality of the castline for bronze materials; the division also pressed ahead with restructuring measures. In Brazil, a production line for bearing shells was readied for full-scale series production.

Capital expenditures by division *€ million*

			change	
	2002	**2003**	*€ million*	*in %*
Pierburg	56.7	50.3	*(6.4)*	*(11.3)*
KS Pistons	47.1	43.6	*(3.5)*	*(7.4)*
KS Plain Bearings	14.6	6.7	*(7.9)*	*(54.1)*
KS Aluminum Technology	21.6	14.1	*(7.5)*	*(34.7)*
Motor Service	0.7	0.6	*(0.1)*	*(14.3)*
Other/consolidation	3.6	1.9	*(1.7)*	*(47.2)*
Group	**144.3**	**117.2**	***(27.1)***	***(18.8)***

The situation of the Group

In fiscal 2003, the KS Aluminum Technology division focused squarely on expanding the capacity of its low-pressure casting plant, a necessary prerequisite for increased sales.

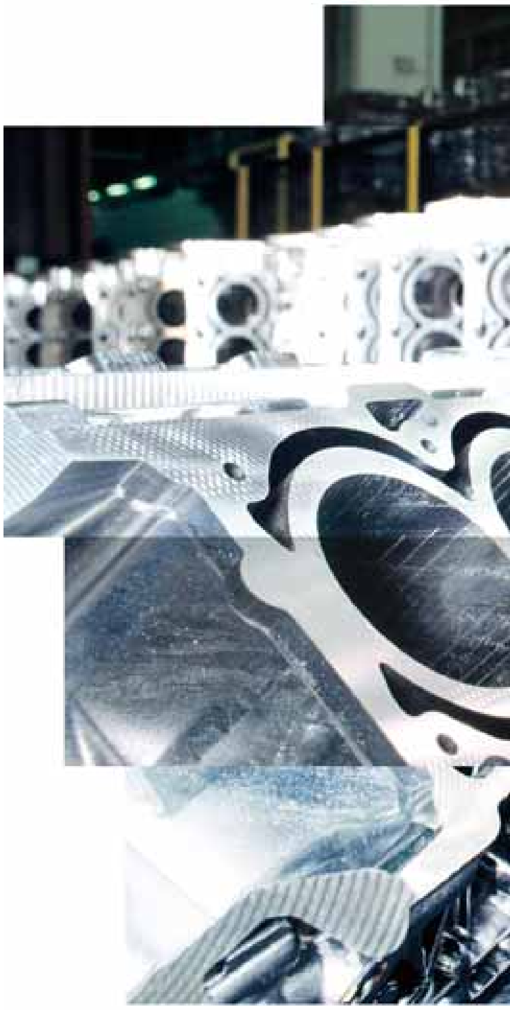
In keeping with its status as a trading unit, the volume of capital expenditures of the Motor Service division were comparatively low, €0.6 million compared to €0.7 million the year before.

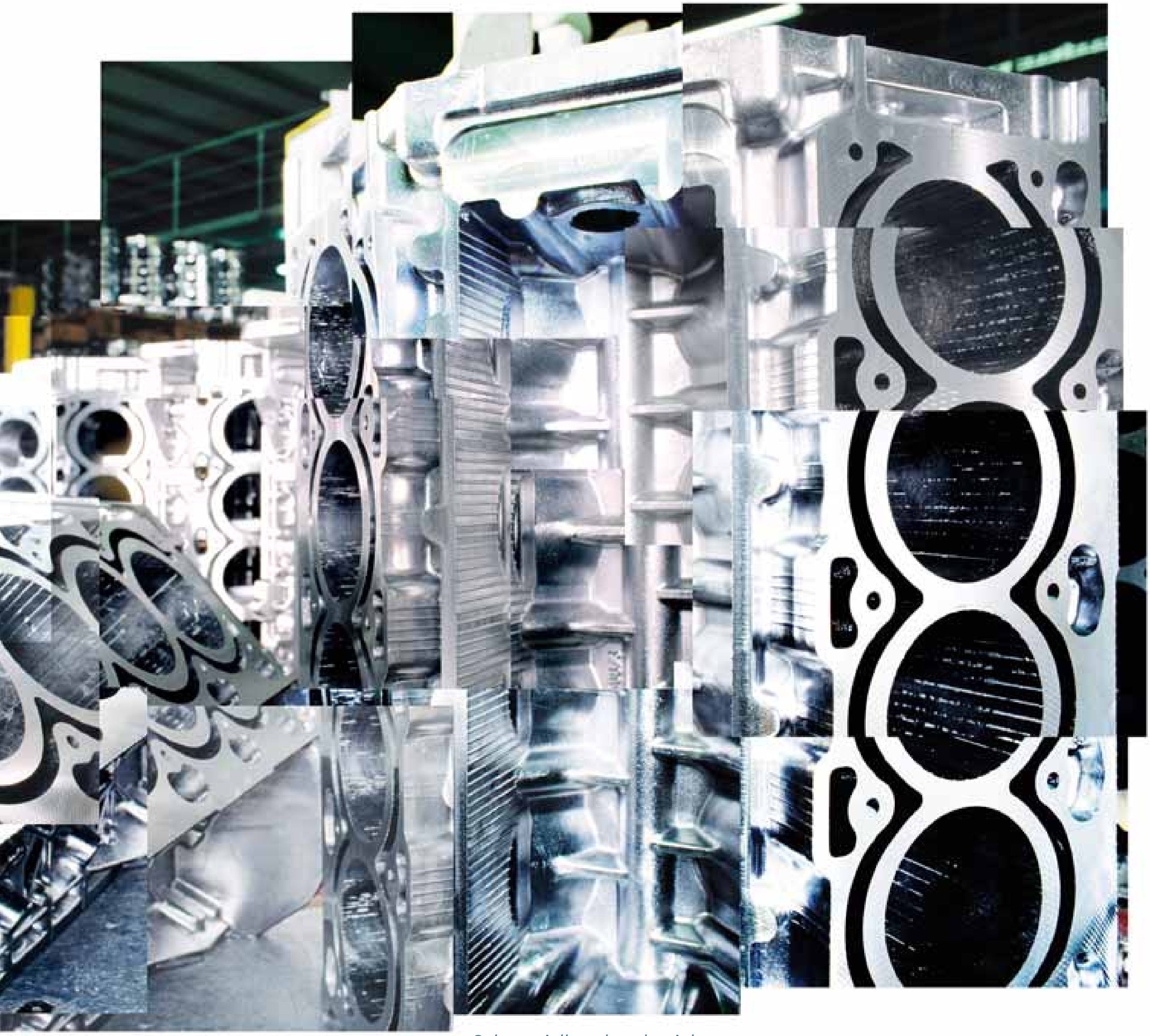
Financial investments amounted to €9.1 million in fiscal 2003, up from €1.2 million the previous year. This rise is due above all to the division's increased stake in the Chinese joint venture Kolbenschmidt Shanghai Piston Co. Ltd., which rose from 35 to 50 percent, as well as the higher at-equity results of both of the Group's joint ventures in China.

During the period January 1 to December 31, 2003, Kolbenschmidt Pierburg generated a gross cash flow of €170.0 million, meaning that it was able to finance its capital expenditure entirely from gross cash flow.

Depreciation of tangibles and amortization of intangibles (excluding goodwill) of the Kolbenschmidt Pierburg Group came to €132.0 million at December 31, 2003, slightly down from the previous year's figure of €133.9 million. Goodwill amortization amounted to €4.0 million (2002: €3.5 million).

Adjusted for the acquisition-related increase in tangible assets, capital expenditures during the period under review amounted to €117.2 million, some 11 percent lower than the depreciation and amortization figure, which came to €132.0 million. In 2002, capital expenditures exceeded depreciation and amortization by approximately 8 percent.





Substantially reduced weight: high-end aluminum engine blocks represent a decisive step in the field of lightweight engine design

The situation of the Group

Research and development

As a producer of engine-related products, Kolbenschmidt Pierburg's business is heavily oriented to technology. Fruitful work in the field of research and development is thus a crucial factor in assuring the Group's success. Viewing Kolbenschmidt Pierburg as a development partner, the world's automobile industry expects us to provide solutions that are at once innovative and economical, and which meet the project-specific requirements of our customers to the utmost extent possible. In order both to reinforce and further expand our position as a Tier 1 direct supplier, in 2003 the Group spent €81.4 million on research and development. The R&D ratio, defined as the ratio of R&D spending to sales, thus amounted to 4.3 percent. Not included here is €5.4 million in R&D spending (2002: €5.3 million) which, under IFRS rules, was activated. Spending on R&D the year before came to €85.6 million, equating to an R&D ratio of 4.5 percent. At December 31, 2003, 6.0 percent of the Kolbenschmidt Pierburg Group staff was engaged in research and development activities.

Research and development expenditures by division *€ million*

	2002	**2003**	*change € million*	*change in %*
Pierburg	54.1	51.4	*(2.7)*	*(5.0)*
KS Pistons	25.3	25.1	*(0.2)*	*(0.8)*
KS Plain Bearings	2.8	2.7	*(0.1)*	*(3.6)*
KS Aluminum Technology	3.4	2.2	*(1.2)*	*(35.3)*
Group	**85.6**	**81.4**	***(4.2)***	***(4.9)***

Development work at Pierburg focused on projects aimed at improving engine performance and reducing emissions and weight. In this context, numerous projects related to demand-controlled, i.e. electrical and electromotor products, which, unlike conventional mechanical components, lead to reduced fuel consumption thanks to demand-controlled operation.

Among the largest individual projects embarked on by the division in 2003 was the development of two magnesium intake manifolds, which offer distinct weight advantages over the soft cast iron and aluminum alternatives, as well as the first application of a demand-controlled electrical coolant pump, which is scheduled to go into full-scale production in 2004.

In the Air Supply product unit, apart from the aforementioned two major intake manifold projects, various applications relating to intake manifolds, electrical throttle bodies and drive modules were successfully concluded. The Emission Control product unit successfully concluded a project to develop an electromotor-driven exhaust gas recirculating valve for diesel applications. Another new product launched on the market was the electrical bypass valve for turbo chargers. Apart from the major project to develop electric coolant pumps, the design and validation of oil pumps formed the chief focus of R&D work in the Pumps product unit.

In order to safeguard its technological edge in the long term, the Pierburg division pressed ahead with pre-development activities in all three product units.

In 2003, the Pierburg division spent €51.4 million on research and development efforts. The R&D ratio thus came to 5.9 percent of sales. At December 31, 2003, 408 employees were engaged in research and development activities.

In the KS Pistons division, the quest for increased power density and further reductions in fuel consumption and emissions have for many years propelled the development of new engine components.

In the case of diesel engines, this generally entails increasing the power density by means of direct fuel injection and/or variable valve control. This poses huge demands on the pistons, which must combine durability with low weight. The KS Pistons division has responded to these requirements by developing LiteKS casting technology, which minimizes the weight of the piston shaft; the run-up to full-scale production took place during the period under review.

Owing to increasing power densities, pistons for new automobile turbo diesel engines can only be achieved by using cooling cavities. The KS Pistons division's GalleriKS technology integrates the oil passage into the ring carrier, thus enabling a further reduction in the critical temperature in the first ring groove. For pistons whose combustion recess dimensions are too small to permit this solution, oil passages with variable cross-sections can be employed. This technology is currently being readied for full-scale production.

Developed on behalf of a number of different customers, Nkw-Pendelschaftkolben are already being produced in series. Follow-on projects are now exploiting the all-steel piston technology developed in recent years. These pistons are suitable for cylinder pressures of up to 250 bar, which engines will need in order to meet future emissions standards.

Last year, improved advanced materials capable of withstanding extreme thermal and mechanical stress in automobile and utility vehicle engines reached the point where they were ready for use. For use in large engines, multiple- and single-part steel pistons are also being developed; the first prototypes have already been dispatched to customers for field testing.

In fiscal 2003, expenditures for research and development activities amounted to €25.1 million in the KS Pistons division, or 4.2 percent of sales. At December 31, 2003, a total of 205 Pistons employees worked in R&D worldwide.

Development work in the KS Plain Bearings division in fiscal 2003 remained sharply focused on responding to market demand for lead-free materials. Accordingly, the division pressed ahead with the development of lead-free plain bearings, which also conform to the steadily increasing requirements regarding environmentally sustainable materials.

Previously launched projects to develop new materials for use in bronze and aluminum plain bearings were successfully pursued and/or concluded. Ongoing projects were aimed not only at developing lead-free materials, but also at producing new galvanic and sputter coatings for use in high-performance diesel-powered automobile engines. In the Permaglide segment, efforts to develop steel-plastic composite materials with a defined friction value for high bearing loads also met with success. Moreover, in cooperation with a university research partner, a new group of materials was developed which, with regard to load carrying capacity, wear resistance and tribological characteristics, will represent a quantum leap for the KS Plain Bearings division, bringing to within its reach applications previously thought unobtainable.

In 2003, the KS Plain Bearings division spent €2.7 million on research and development activities. The R&D ratio amounted to 1.8 percent. In all, 33 employees were active in research and development work.

R&D activity in the KS Aluminum Technology division once again centered on achieving constant and reproducible casting and machining processes, as well as the development of new materials, including technologies for local reinforcement of material strengthening and on expanding the scope of machining.

By allocating increased human resources to the development of new processes, it proved possible to achieve sustained improvements during new product run-ups as well as increased volumes in existing projects. As the business expanded, modern cutting techniques were successfully applied in the final processing of engine blocks.

Furthermore, new techniques were investigated for manufacturing and processing cylinder liner surfaces.

R&D expenditures by the KS Aluminum Technology division amounted to €2.2 million in fiscal 2003, equivalent to 1.4 percent of sales. At year's end, the division employed 29 people in research and development.

The situation of the Group

Personnel

At December 31, 2003, the Kolbenschmidt Pierburg Group employed a global workforce of 11,316, i.e. 219 fewer than a year earlier, equating to a decline of 1.9 percent. The essential reasons for this reduction in headcount were the disposal of the Pierburg division's Electrical Fuel Pumps unit; restructuring measures both at home and abroad; as well as the closure of KS Winston Ltd. in the UK by the Motor Service division. Particularly affected by these restructuring measures were the KS Pistons unit Karl Schmidt Unisia Inc. in the United States and the Pierburg division's Pierburg GmbH. In the KS Pistons division, absorbing the staff of the newly acquired Japanese pistons operation had a countervailing effect, adding 129 employees to total Group headcount. The companies KUS Canada Inc. of Canada and KS Pistões Ltda. of Brazil

Precision manufacturing: the KS Pistons division meets the high standards of quality expected by international carmakers

also took on additional staff, in both cases in response to higher sales. Increased headcount in the Aluminum Technology division was likewise driven by sales.

Per capita sales at Group level came to approximately €163,000, exceeding the previous years figure of about €161,000, a gain of 1.2 percent.

At December 31, 2003, the Kolbenschmidt Pierburg Group had 5,836 employees in Germany, down from 6,135 a year earlier. Of these, 4,197 were blue-collar workers, while 1,639 were salaried employees. The share of Group personnel employed in Germany came to 51.6 percent.

Personnel expenses incurred by Kolbenschmidt Pierburg AG and its subsidiaries in 2003 totaled €515.2 million (2002: €509.6 million). Wages and salaries accounted for €413.8 million of this amount (2002: 411.8 million), social security contributions for a further €71.0 million (2002: €73.7 million), while pension expenses absorbed €30.4 million (2002: 24.1 million).

On the basis of the collective bargaining agreements for the German metalworking industry concluded in 2002, wages, salaries and apprentice pay rose by 2.6 percent at June 1, 2003. Moreover, because the structural components of the framework pay agreement ("ERA") agreed in 2002 came into effect during the period under review, funds had to be allocated to the first part of the so-called ERA adjustment fund. During the course of 2003, the announced ERA pay agreements were concluded for Kolbenschmidt Pierburg AG's German plants in relevant regions of the country. The painstakingly negotiated path toward a uniform wages and salaries framework for blue- and white-collar workers will culminate in the near future in a fundamentally new compensation policy, tailored to the needs of modern industry. These in part highly complex collective bargaining structures will have to be implemented in coming years.

In February 2004, a new wage agreement was concluded which will be in force until February 28, 2006. Under this agreement, wages will increase by 2.2 percent starting on March 1, 2004, and rise by a further 2.7 percent on March 1, 2005. Moreover, greater flexibility in setting the workweek was also agreed.

Also in 2003, the basis of a company framework agreement on semiretirement policy was agreed, oriented to the needs of the Kolbenschmidt Pierburg Group's German plants. To enable continued use of semiretirement as an instrument of restructuring, higher accruals were formed, especially in the KS Pistons division. Just as in previous years, the Group succeeded in introducing additional flexible working hour arrangements at its plants, as well as in expanding the use of group work at its international locations.

The Stock Appreciation Rights (SAR) program introduced in 1998 was terminated and dissolved at the end of fiscal 2003. This move was prompted by the assessment that the reduction of free float Kolbenschmidt Pierburg AG stock to below 5 percent would mean that our share price would in the future no longer be an adequate measure of value creation. We have since developed a new long-term program designed to keep the idea of value creation firmly anchored in the minds of Group executives. Details of the new program are set out on page 12, (Corporate Governance) of this annual report. Starting in 2004, the program will apply to all members of the Executive Board as well as the next two layers of management below it.

At the Group's German units, based on an existing plant agreement, employees whose wages and salaries are governed by collective bargaining will receive a performance-related bonus of €250 per employee owing to the attainment of profitability benchmarks. An amount totaling €1.7 million has been allocated for this purpose.

The situation of the Group

Headcount

			change	
	12/31/2002	**12/31/2003**	*absolute*	*in %*
Pierburg	3,872	3,536	*(336)*	*(8.7)*
KS Pistons	5,400	5,483	*+83*	*1.5*
KS Plain Bearings	973	1,004	*+31*	*3.2*
KS Aluminum Technology	862	913	*+51*	*5.9*
Motor Service	391	344	*(47)*	*(12.0)*
other	37	36	*(1)*	*(2.7)*
Group	**11,535**	**11,316**	***(219)***	***(1.9)***
of which Germany	*[6,135]*	*[5,836]*	*[(299)]*	*[(4.9)]*
of which abroad	*[5,400]*	*[5,480]*	*[+80]*	*[1.5]*

Numerous training courses, not only in the field of modern working techniques but also in management and communication, were conducted in order to sharpen the skills of our employees both in and outside of Germany. A continuous strengthening of employee qualifications and motivation is an essential means of coping with the ongoing process of change brought about by new technologies and the steady transition to contemporary, more efficient forms of business organization.

Another aspect of this is the continuous process of improvement to which all our plants are subject. Moreover, our Corporate Suggestions Scheme taps into a steadily growing potential for improving internal workflows. In submitting these suggestions, our employees demonstrate their interest in improving the efficiency of the organizations where they work.

In 2003, the existing potential of all senior and junior executives at our German companies was systematically identified, analyzed and evaluated. The objective is to support the career development of junior and senior executives through professional qualification and training measures, thus permitting succession and staffing plans to be prepared on a timely basis. The Group-wide concept “Leading by Goals” was extended to new layers of management and other senior staff, and linked to performance-related compensation components. In the future, this concept will be extended all the way down to the shop floor, based on new framework pay accords and local agreements.

We continued to attach great importance to apprenticeship training, seeing in it a crucial means of improving the competitiveness of our company. At December 31, 2003, Kolbenschmidt Pierburg employed 356 apprentices (2002: 364).

The employee representatives at every one of our companies cooperated actively and constructively in putting necessary measures into effect. Invariably based on mutual trust, cooperation with the works councils and staff representatives on the Supervisory Board has always been a factor of fundamental importance in the success of the entire Group.

We thank all the employees of the Kolbenschmidt Pierburg AG companies for their great commitment and exceptional achievements in fiscal 2003.

Environmental management

Kolbenschmidt Pierburg is well aware of its duty toward people and the environment. Indeed, the Group's environmental principles derive from our corporate commitment to act in an environmentally sustainable manner. Here, our objective is to minimize the impact of our plants on the environment, going beyond the minimum legal requirements in a process that takes in the entire value-added chain, particularly the development of products and production processes. At our German and foreign production companies alike, environmental management systems for securing environmental policy targets have been implemented and certified in accordance with the internationally accepted environmental standard ISO 14001. This process should be completed in 2004.

It is to the dedicated commitment of those of our employees entrusted with environment-related functions that we owe the broad-based environmental awareness that now extends throughout the Group.

Dependency report

Through the Berlin-based company Rheinmetall Berlin Verwaltungsgesellschaft mbH of Berlin and KP Beteiligungs GmbH & Co. KG of Düsseldorf, Rheinmetall AG of Düsseldorf owns the majority of Kolbenschmidt Pierburg AG's stock. No direct-control or P&L transfer agreement exists between Kolbenschmidt Pierburg AG and Rheinmetall Berlin Verwaltungsgesellschaft, KP Beteiligungs GmbH & Co. KG, or Rheinmetall AG.

Pursuant to Art. 312 AktG, a report concerning affiliations was prepared by the Executive Board and then examined by PwC Deutsche Revision AG, Wirtschaftsprüfungsgesellschaft, the Düsseldorf-based statutory auditors who issued their unqualified opinion thereon.

This dependency report of the Executive Board closes with the following statement:
“Under the circumstances which were known to us at the time legal transactions were entered into and actions taken or omitted, our company has in all cases received an equitable consideration. No disadvantages for our company have been involved in connection with such acts or omissions.”

Risk management

Risk management constitutes an integral component of the decision-making and business processes of the Kolbenschmidt Pierburg Group, enabling the risks inevitably associated with all forms of business activity to be recognized early on and effectively counteracted.

Essential to the integration of the risk management system in Kolbenschmidt Pierburg's processes and procedures are clear organizational and management structures at all levels, as well as a comprehensive planning system and efficient reporting and information systems. The latter–and this applies to external and internal reporting in equal measure–play a role of central importance, since they ensure that business transactions are presented according to a uniform procedure. We continuously review our reporting and information systems to ensure their effectiveness, fine-tuning them where necessary.

The instruments for identifying, analyzing, controlling and monitoring risks within the framework of risk management are defined in the form of Group-wide uniform guidelines adopted by the Executive Board. The management of risks is based on an annual update of the existing risk landscape, in which potential risks are registered and categorized with respect to their likelihood and the potential loss volume. Embedded in the annual strategic and operative plans and accompanied by monthly controlling reviews, risk reports and meetings of the Risk Committee, the risk management system ensures that all potential risks are identified in good time and their implications assessed. As a result, necessary provisions or remedial action can be initiated early on at the individual companies, divisions, or at Group level. Moreover, whenever a defined ceiling is exceeded, the Supervisory Board is alerted.

The effectiveness of our risk management system is also subject to regular audits by the Group's parent company, Rheinmetall AG, as well as during the annual audit by the statutory auditors (elected by the stockholders' meeting).

The potential risks to which the Kolbenschmidt Pierburg Group is exposed can be subdivided into the following categories: those relating to general economic conditions and the automotive sector; operational risks; as well as financing and legal risks.

Economic and sector risks

Kolbenschmidt Pierburg AG and its subsidiaries develop and manufacture components, modules and systems for the international automotive industry. Hence, the future growth of the Group and its subsidiaries largely depends on global automobile sales.

The impact of individual markets and customers on Kolbenschmidt Pierburg's business performance is mitigated by the de facto internationalization of the Group. Furthermore, the Group's diversified customer base helps to offset fluctuations in production numbers among individual carmakers.

Pressure from customers for further price reductions remains undiminished. One way of limiting risk is to create additional price/ cost latitude, achieved through product and process innovations as well as continuous improvement processes and the enforcement of strict cost management.

Operational risks

Kolbenschmidt Pierburg intends to continue outpacing the international automotive industry by generating better-than-average growth rates. The organic growth envisaged in the sales plans for fiscal 2004 calls for a whole host of complex, technologically advanced new product start-ups which, because of their number, extent and in some cases the limited availability of skilled labor, inherently involves risks.

From the drawing board and the invitation to bid through to initial and full-scale production, every phase of a new product's emergence is subject to comprehensive project management, ensuring that it translates into profitable growth. In the 2003 annual accounts, the accrual for impending losses on individual product start-ups adequately provides for any losses.

Financing risks

Owing to the international nature of Kolbenschmidt Pierburg's operations, certain currency and interest rate risks may arise. These are profiled centrally by the Kolbenschmidt Pierburg AG's Treasury and–whenever feasible and economically warranted–hedged by means of currency futures and forwards. Increasing internationalization of procurement, production and financing is successively curbing the effect of changing parities, especially between the US dollar and the euro. Because of the nature and the mix of the customers, credit risks are very low.

Carmakers will continue to reduce their depth of manufacturing, shifting more and more value adding and development operations to their parts suppliers. For the latter, this entails new challenges with respect to R&D, production and quality standards; it also means greater pressure on the financial resources needed to fund input and additions to tangible assets. Thus, during the budgeting and PIA approval stages, the allocation of investment resources in the Kolbenschmidt Pierburg Group's divisions is closely scrutinized with regard to economic efficiency in order to relieve cash flows.

Legal risks

Sufficient insurance coverage has been taken out to cover adequately risks from loss or damage by natural forces and the resulting interruption of business, as well as warranty, product liability, and recall risks. The existing insurance coverage is regularly reviewed for adequacy and, where necessary, modified. At the same time, ongoing projects for process reliability as well as extensive quality assurance programs aim at preventing such risks from occurring. In the 2003 balance sheet, adequate accruals provide for those risks, which, despite the aforementioned measures, are covered only partially or not at all (deductible loss).

Since 1998, a court of arbitration has been examining the appropriateness of the conversion ratio calculated with regard to the merger of Kolbenschmidt Pierburg (Rheinmetall participations). On the basis of preliminary figures, the expert appointed by the Heilbronn District Court has now submitted an interim report that arrives at significantly deviating estimates of the worth of the two companies, which merged in January 1998. Kolbenschmidt Pierburg AG, however, after having read and considered this interim report, sees no grounds for distancing itself from the originally calculated value comparisons. At the time of the merger of the two companies, these value comparisons were calculated by two independent accounting companies and confirmed by a court-appointed merger and acquisitions expert. Kolbenschmidt Pierburg assumes that the value estimates, which were documented by three different experts, will be vindicated in the final ruling. So as not to prejudice the outcome of this process, we will desist from commenting further on this matter.

From today's vantage point, no fundamental economic or legal risks or other risks posing a threat to the continued existence of Kolbenschmidt Pierburg or its divisions are apparent, nor are any risks posing a sustained, significant threat to the Group's net assets, financial position or operating results.

Future prospects

Significant subsequent events

Effective January 2, 2004, MTS Motorenteile GmbH, a subsidiary of the Group's Motor Service division, took over the engine parts activities of E. Trost GmbH&Co. KG of Stuttgart, as well as those of PV Autoteile GmbH of Duisburg. These operations will be merged with those of MTS Motorenteile GmbH, forming a new company called MSD Motor Service Deutschland GmbH, based in Neckarsulm. The aim of this measure is to reinforce the unit's presence in the market, along with optimizing its array of products and improving customer service and support. The new company, with annual sales of around €25 million, will concentrate on becoming the country's leading supplier of engine-related spare parts.

In January 2004, a Kolbenschmidt Pierburg subsidiary was sued for damages resulting from a plane crash in the United States. Along with our affiliate, 11 other companies were sued. The statement of claim does not imply that parts produced by our subsidiary were the cause of the accident. Based on our current knowledge of the situation, the risk posed by this suit is deemed to be low. Furthermore, comprehensive insurance coverage exists.

At the beginning of January 2004, the Pierburg division sold its 49 percent-stake in Pierburg Instruments GmbH to the majority shareholder, AVL Holding Ges.m.b.H. of Graz, Austria. At December 31, 2003, this participation was included in the Group accounts in accordance with the equity method.

Outlook

World automobile production in 2004 is expected to rise by 5.8 percent to around 61 million vehicles, with the Triad markets–NAFTA, Western Europe and Japan–growing by 3.5 percent. China will continue to be the primary locus of growth.

The Kolbenschmidt Pierburg Group is off to a good start in 2004, providing us with a firm foundation for further organic growth in sales and a renewed increase in profitability.

To a decisive degree, growth for 2004 as a whole–and the attainment of the planned increases in performance in each of the Group's divisions–will be determined by our ability to realize our stated business objectives, set against the backdrop of our projections for the year.

Our key objectives for 2004 include

- expanding the basis of Pierburg's business in North and South American markets, as well as building up a production base in Eastern Europe;
- greater penetration of the Japanese market by the KS Pistons division, coupled with the continued development of operations in Asia as a whole and China in particular;
- in the Aluminum Technology division, pursuing the path to growth through innovative engine blocks, while simultaneously achieving a positive result;
- the continued expansion of the aftermarket business of MSI Motor Service International GmbH in Germany, with special emphasis on the smooth integration of the division's newly acquired engine component units;
- the successful conclusion of ongoing restructuring projects in the KS Plain Bearings division (in the United States), in the KS Pistons division (in Germany), and in the Pierburg division (in Germany and Italy);
- the further optimization of operational flows, especially new product start-ups, thus ensuring the highest standard of quality;
- the continued pursuit of a highly selective policy of capital expenditure as well as stringent working capital management as a means of further debt-reduction.

Provided our fundamental assumptions prove accurate–e.g. steady underlying political and economic conditions as well as stability among our customers and competitors–achieving these goals will lead to additional growth and another improved result for 2004.

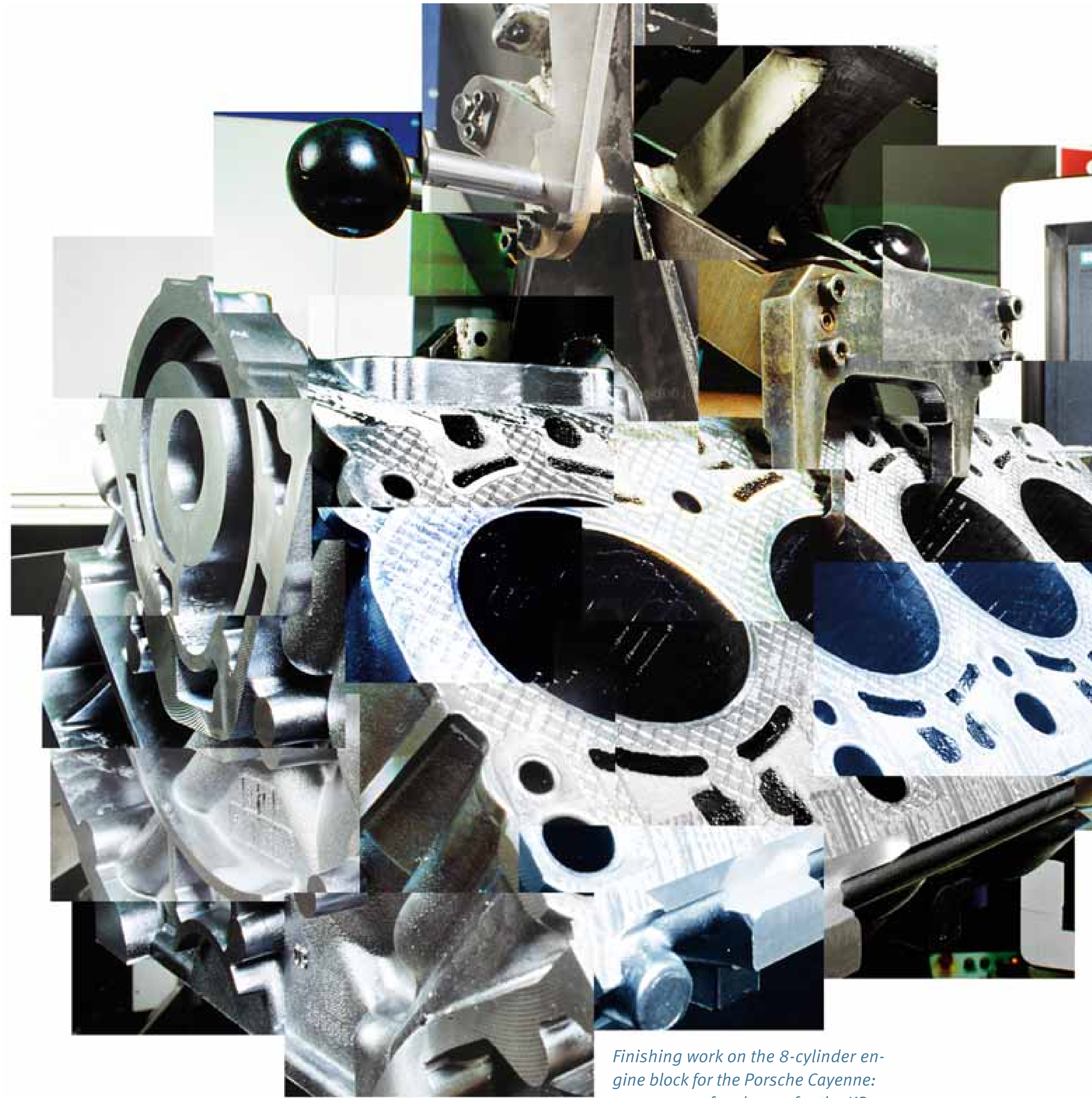
Neckarsulm, March 3, 2004

Kolbenschmidt Pierburg AG
The Executive Board

Dr. Kleinert Dr. Merten Dr. Friedrich
Chairman

In the field of coolant pumps Pierburg is the market leader in Europe

Kolbenschmidt Pierburg AG



Finishing work on the 8-cylinder engine block for the Porsche Cayenne: a new area of endeavor for the KS Aluminum Technology division

As the parent company of the Kolbenschmidt Pierburg Group, Kolbenschmidt Pierburg AG engages primarily in Group management and service activities in the areas of financing, accounting, taxation, and controlling. It does not conduct operational business in the sense of production, sales or distribution of products. Unlike the consolidated financial statements, Kolbenschmidt Pierburg AG's separate financial statements are prepared in accordance with the German Commercial Code (HGB) since they form the basis for calculating dividend distribution.

Owing to its role as a holding company, Kolbenschmidt Pierburg AG's earnings are made up of investment income, service fees and allocations, personnel expenses and the cost of materials, as well as net interest income from financing its operational affiliates.

Net interest income rose from €28.7 million in 2002 to €39.1 million in 2003, an increase of €10.4 million. The units MSI Motor Service International GmbH, KS Kolbenschmidt GmbH and KS Aluminium-Technologie AG all made contributions to earnings exceeding those of the previous year, whereas KS Kolbenschmidt GmbH and KS Aluminium-Technologie AG once again ended the year with a loss; the contributions to earnings of KS Gleitlager GmbH and Pierburg GmbH remained at a high level, albeit lower than in 2002.

Net interest expense (including all other financial expenses and income deriving from Kolbenschmidt Pierburg AG's central financing function) came to €2.6 million in 2003 (2002: €0.5 million).

In both cases, the increase in other operating expenses and other operating earnings compared to 2002 was due to significantly higher currency exchange profits and losses. In fiscal 2003, the currency exchange rate loss was slightly greater than the year before. Personnel expenditure rose compared to 2002 owing to expenses incurred in dissolving the company's stock appreciation rights program. Depreciation and amortization fell below the previous year's level.

For fiscal 2003, Kolbenschmidt Pierburg AG reported earnings before tax of €22.9 million, up from €20.7 million the year before. After deduction of income taxes, net income came to €19.0 million, an increase of €4.9 million compared to the previous year. After the transfer of €5.0 million to reserves retained from earnings, net earnings of €14.0 million result. The Executive and Supervisory Board will propose to the annual stockholders' meeting to distribute a cash dividend for 2003 of €0.50 per Kolbenschmidt Pierburg share, totaling €14.0 million.

At December 31, 2003, Kolbenschmidt Pierburg AG had 36 employees, as opposed to 37 a year earlier. On average, the company had 34 employees during the period under review, down from 38 in 2002.

Pierburg division

The Pierburg division comprises the Group's series production and aftermarket operations in the product areas Air Supply, Emission Control, and Pumps. Pierburg GmbH is the division's parent company.

The product group Electrical Fuel Pumps was sold on January 1, 2003. Moreover, as part of moves to streamline the business, on January 1, 2003, the French holding company Société Mosellane de Services Holding was merged with Pierburg S.à.r.l., also a French company.

Progress in emission control: Pierburg's exhaust gas recirculation system meets the latest emission control regulations

Due to the sale of the Electrical Fuel Pumps product unit and the negative impact of exchange rates on sales when translated from local currencies, the Pierburg division's sales were marginally lower than the previous year, edging down by €6.3 million to €877.5 million, a decline 0.7 percent. Adjusted to take these factors into account, however, the division actually experienced an increase in sales.

Sales in the Air Supply product group–following a very high rate of growth the previous year–contracted by 1 percent. Whereas sales of throttle bodies were once again higher than the year before, sales of intake manifolds and modules fell beneath the previous year's level, due to the customer-driven cessation of a series product. Conversely, the Emission Reduction product group experienced a welcome upturn in sales thanks to increased demand for exhaust gas recirculating valves, rising by 7 percent. Owing to the disposal of the Electrical Fuel Pumps product unit at the beginning of the year, the Pumps product group was unable to match the previous year's sales figure, resulting in an 8 percent decline; however, sales of electrical water pumps developed along distinctly positive lines.

Compared to 2002, sales of Pierburg GmbH fell by 4 percent. Due to the disposal of the Electric Fuels Pumps product unit, it proved impossible for the Pumps product group to attain the previous year's level of sales. On the other hand, sales of throttle bodies, exhaust gas recycling valves and electrical water pumps all rose distinctly compared to 2002, thus compensating for the weaker sales of the other product groups.

The companies Carbureibar S.A. of Spain, Pierburg S.p.A. of Italy, and Pierburg do Brasil Ltda. of Brazil, in part achieved substantial sales increases. The division's Spanish subsidiary in particular benefited from increased customer demand. Conversely, Pierburg S.à.r.l. of France experienced a slight dip in sales. In the United States, sales by Pierburg Inc. (as anticipated) fell short of the previous year's figure.

The Pierburg division's EBT for fiscal 2003 came to €48.7 million, a decline of 8 percent compared to the previous year's figure of €52.9 million. Adjusted to take into account changes in the group of consolidated companies–i.e. the aforementioned sale of the Electrical Fuel Pump unit; the sale of the division's stake in Preh GmbH & Co. KG the year before; as well as the disposal of a superfluous piece of property in Italy and accruals for restructuring–in operational terms the figure for the previous year was clearly exceeded.

Indicators Pierburg *€ million*

			change	
	2002	**2003**	*€ million*	*in %*
Net sales	883.8	877.5	*(6.3)*	*(0.7)*
EBIT	64.9	57.7	*(7.2)*	*(11.1)*
EBT	52.9	48.7	*(4.2)*	*(7.9)*
Net income	44.5	33.0	*(11.5)*	*(25.8)*
Capital expenditures	56.7	50.3	*(6.4)*	*(11.3)*
Headcount at Dec. 31	3,872	3,536	*(336)*	*(8.7)*
EBIT margin (in %)	7.3	6.6	--	--
ROCE (in %)	25.3	25.9	--	--

Pierburg division

Pierburg GmbH posted a lower EBT for fiscal 2003 than the year before. However, when the previous year's figures are adjusted to take into account proceeds resulting from the sale of the company's stake in Preh GmbH & Co. KG, Pierburg's earnings for fiscal 2003 exceed those of the previous year, due to extensive plant- and product-related restructuring measures as well as another increase in profit contributions from its Spanish subsidiary. The book profit from the sale of the Electrical Fuel Pumps product group is offset by its missing contribution to profits, further restructuring expenses and the formation of warranty accruals.

Among the affiliates of Pierburg GmbH, the division's Spanish subsidiary Carbureibar S.A. once again turned in a remarkably positive performance, the result of stronger sales as well as productivity gains. The operating result of Pierburg SpA of Italy, though plainly better than the year before, was still dragged down by the costs of restructuring, meaning that the company had to post another loss for fiscal 2003. Here, the book profit from the sale of a parcel of land was nearly offset by the costs relating to the settlement of a tax law case. The EBT of Pierburg S.à.r.l. of France proved distinctly positive for fiscal 2003, though it failed to reach the previous year's level, which had been influenced by one-time special effects. Despite the projected decline in sales, Pierburg Inc. of the United States made a stronger contribution to earnings than in 2002. Pierburg do Brasil Ltda. of Brazil also reported positive earnings.

The division's Chinese joint venture, Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., in which Pierburg GmbH holds a 50 percent interest and which is consolidated using the equity method, ended 2003 with another sharp increase in sales and earnings, benefiting from strong growth in the Chinese automotive industry.

Capital expenditures by the Pierburg division totaled €50.3 million in 2003, down from €56.7 million the year before. Thus, a mere 52 percent of the division's gross cash flow of €97.3 million was drawn on. Total assets in 2003 came to €535.5 million, a decline of €1.7 million compared to the previous balance sheet date. Owing to the slight increase in equity, which edged up by €1.2 million to €141.6 million, the equity ratio widened a little, moving from 26.1 percent in 2002 to 26.4 percent in 2003. Thanks to the success of measures aimed at reducing the amount of capital employed, the division's ROCE improved from 25.3 percent in 2002 to 25.9 percent for the year under review.

Targets for 2004

- Establishment of a production company in Eastern Europe, including preparations for the start of efficient production operations.
- Expansion of a basis for business in North and South America.
- Conclusion of the restructuring projects initiated in 2003 at the German parent company and its Italian subsidiary.
- Further optimization of operational flows, particularly new product start-ups, so as to ensure top quality.
- The continued pursuit of a selective policy of capital expenditure and stringent working capital management.

Single-winged vacuum pumps: greater fuel efficiency and reduced costs thanks to lower power consumption and fewer parts

KS Pistons division

From the smallest two-stroke motor to huge marine diesel engines: the KS Pistons division offers solutions for a tremendous range of gasoline- and diesel-powered engines

The KS Pistons division develops, manufactures and markets pistons for gasoline and diesel engines used in passenger and commercial vehicles. It also develops and manufactures pistons for 2-stroke and compressor engines, as well as large-bore pistons for stationary engines, marine diesel engines, and locomotives. KS Kolbenschmidt GmbH is the parent company of the KS Pistons division.

Despite robust corporate growth in the markets it serves, in fiscal 2003 the KS Pistons division had sales of €593.6 million, representing a 0.4 percent (or €2.1 million) decline compared to the previous year; this was due to altered exchange rate parities. Calculated in local currencies, the division's units in North and South America in part generated substantially higher sales. Consolidated for the first time in February 2003, the new Japanese piston maker, generated sales of €18.3 million. When adjusted, the division's sales figures compare quite positively with those of the previous year.

At KS Kolbenschmidt GmbH, the sales for fiscal 2003 contracted by some 8 percent. This was due primarily to changes in the sales structure, where the volume of inventory ready for sale declined. Sales of small pistons in 2003 grew by 1 percent compared to the year before. In line with market trends, sales of pistons for diesel-operated passenger cars advanced at the expense of those with gasoline engines. The market for large-bore pistons in 2003 failed to improve. A renewed decline in demand for the division's large-bore pistons resulted in a 14 percent drop in sales compared to 2002. Conversely, sales of plant and licenses exceeded the previous year's level.

Indicators KS Pistons *€ million*

			change	
	2002	**2003**	*€ million*	*in %*
Net sales	595.7	593.6	*(2.1)*	*(0.4)*
EBIT	28.2	38.1	*9.9*	*35.1*
EBT	14.1	28.5	*14.4*	*102.1*
Net income	0.7	19.1	*18.4*	*k.A.*
Capital expenditures	47.1	43.6	*(3.5)*	*(7.4)*
Headcount at Dec. 31	5,400	5,483	83	*1.5*
EBIT margin (in %)	4.7	6.4	--	--
ROCE (in %)	8.0	11.7	--	--

KS Pistons division

Among the division's non-German subsidiaries in Europe, it was above all its French unit, Société Mosellane de Pistons S.A.S., that suffered a sharp decline in sales compared to the previous year. This was due first and foremost to declining demand for gasoline engine pistons. Sales of the Czech subsidiary Metal a.s. were likewise lower than in 2002.

Unlike the division's European units, its North American companies succeeded in significantly increasing their sales compared to 2002, at least when calculated in local currency. In the United States, Karl Schmidt Unisia Inc. developed along highly encouraging lines. However, when translated into euros, its annual sales come in slightly below last year's figure. Conversely, KUS Canada Inc. of Canada was able to increase significantly its sales in terms of Canadian dollars and euros alike, altered currency parities notwithstanding. In the US, sales by KS Large Bore Pistons Inc. increased in terms of local currency, though fell beneath the 2002 figure when translated into euros.

Despite the sharp decline of the Brazilian real against the euro, KS Pistões Ltda. of Brazil succeeded in increasing its sales even in terms of euros, thanks to stronger sales both at home and abroad.

At €28.5 million, the KS Piston division's EBT for fiscal 2003 was more than double the amount achieved the year before. Moreover, when adjusted to take account of restructuring expenses in the US in 2002, as well as the positive contribution to earnings made by the new pistons plant in Japan (consolidated for the first time in 2003) and the impact of exchange rates, the operating result turns out to be distinctly better than in 2002.

Though representing an improvement compared to 2002, KS Kolbenschmidt GmbH once again posted a negative EBT for 2003. After having already made a partial write-down of the book value of the holding company of the French subsidiaries the year before, in fiscal 2003 a new write-down on the investment book value of the North American holding company became necessary. At division level, the two write-downs had a neutral impact. When adjusted for the aforementioned correction of investment book value, the operating result of KS Kolbenschmidt GmbH is firmly in positive territory.

The encouraging result posted by Karl Schmidt Unisia Inc. was due not just to the absence of the previous year's restructuring costs, but also reflects a substantial improvement in productivity coupled with stronger sales, evidence of a successful turnaround. Brazil's KS Pistões Ltda. also turned in an improved performance compared to the previous year, the result of sustained high demand and measures to boost productivity. At Metal a.s. in the Czech Republic, earnings improved despite the aforementioned decline in sales. In France, however, Société Mosellane de Pistons S.A.S. had to contend with a slightly negative EBT, the result of weaker sales. Likewise, KUS Canada Inc. of Canada and KS Large Bore Pistons Inc. in the United States both experienced weaker earnings.

In China, Kolbenschmidt Shanghai Piston Co. Ltd., in which KS Kolbenschmidt GmbH has held a 50 percent interest ever since increasing its share in the joint venture company in December 2003, enjoyed much stronger sales and earnings compared to the previous year. (Kolbenschmidt Shanghai Piston Co. Ltd. is consolidated according to the equity method.)

At €43.6 million, capital expenditures on tangible and intangible assets by the KS Pistons division in fiscal 2003 was €3.5 million lower than the year before. It proved possible to cover this level of capital expenditures entirely from gross cash flow, which rose to €46.1 million (up from €40.5 million the year before). The availment ratio in 2003 came to roughly 95 percent.

At December 31, 2003, the division's assets amounted to €442.1 million, essentially unchanged from the previous year's figure of €445.0 million. Coupled with the €28.5 million rise in equity to €180.9 million, the equity ratio increased to 40.9 percent (2003: 33.6 percent). Owing to the improved earnings situation as well as a further reduction in capital employed, the division's ROCE increased from 8.0 percent in 2002 to 11.7 percent in the year under review.

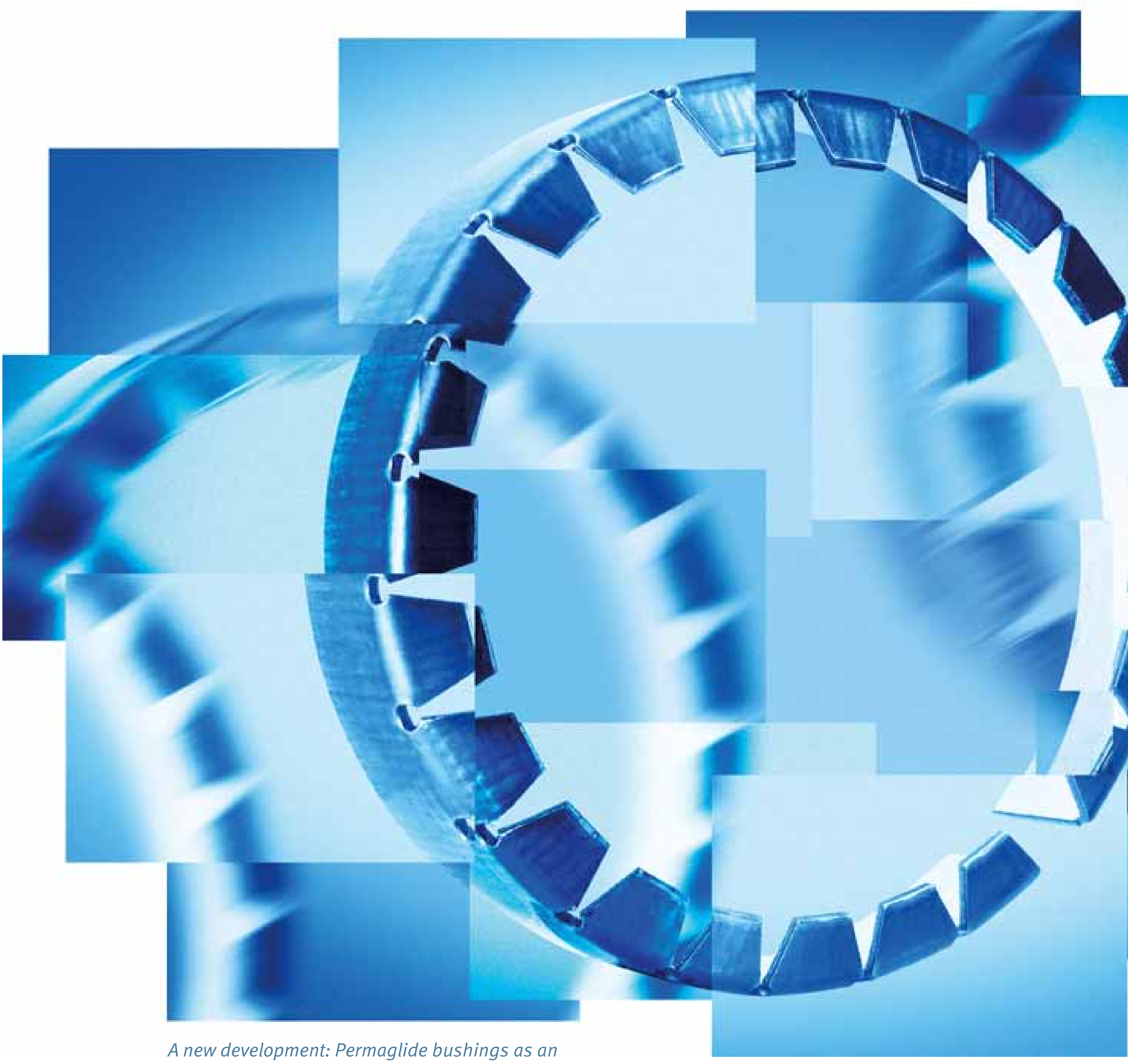
Targets for 2004

Key objectives of the division in 2004 include
- implementing restructuring measures at its German plants;
- ensuring the success of restructuring measures at its US plants;
- growing the operations of its recently acquired pistons unit in Japan, coupled with an expansion of its activities in the Asian market;
- safeguarding market share and profitability in all other locations; and
- ongoing optimization of capital expenditure, including continuation of the working capital management program.

Diesel pistons: a whole host of engineering innovations enable supercharged diesel engines to withstand heightened thermal stress

KS Plain Bearings division

The KS Plain Bearings division develops and produces bearings for engines and non-engine applications as well as maintenance-free sliding elements for the automotive and mechanical engineering sector. Moreover, it also manufactures copper-based continuous-casting products such as tubes, bars and profiles. The division's parent company is KS Gleitlager GmbH.



A new development: Permaglide bushings as an integral component of the vibration absorber in the drive train

At €147.3 million, sales of the KS Plain Bearings division in fiscal 2003 narrowly exceeded the previous year's figure of €145.8 million. This growth was primarily generated by the division's parent company, KS Gleitlager GmbH. Higher sales than in 2002 were chiefly achieved in the Metallic Bearings product unit, i.e. connecting rod bearings for diesel-powered passenger cars with direct injection and sputter bearings. Sales of the Permaglide product group, which encompasses low-maintenance and no-maintenance sliding elements, likewise moved upward. Conversely, sales of continuous-casting products dipped. (Sales volume remained constant; however, falling metal prices were passed on to customers in the form of price reductions.)

In the US, KS Bearings Inc. succeeded in making up for the decline in sales caused by restructuring its product portfolio, achieving the same volume of sales (in US dollars) as the year before; translated into euros, however, the company's volume of sales contracted compared to 2002. In Brazil, on the other hand, the company KS Bronzinas Ltda. was able to increase its sales in terms of local currency and euros alike, a very welcome development.

Indicators KS Plain Bearings *€ million*

	2002	**2003**	change *€ million*	change *in %*
Net sales	145.8	147.3	*1.5*	*1.0*
EBIT	10.1	9.0	*(1.1)*	*(10.9)*
EBT	8.2	7.2	*(1.0)*	*(12.2)*
Net income	2.1	1.4	*(0.7)*	*(33.3)*
Capital expenditures	14.6	6.7	*(7.9)*	*(54.1)*
Headcount at Dec. 31	973	1,004	*31*	*3.2*
EBIT margin (in %)	6.9	6.1	--	--
ROCE (in %)	20.2	18.9	--	--

KS Plain Bearings division

The KS Plain Bearings division generated an EBT of €7.2 million; despite distinct operational improvements at its units, this represents a decline of 12.2 percent from last year's EBT of €8.2 million. Earnings of the German parent company, KS Gleitlager GmbH edged down by 3 percent. Along with greater depreciation/amortization due to the high level of capital expenditure the previous year, increased personnel expenses pulled down earnings in fiscal 2003. Compared to the year before, the contribution to earnings made by the division's Brazilian unit improved as a result of higher sales. In the US, KS Bearings Inc. achieved an improved operating result thanks to the systematic, ongoing implementation of restructuring measures. However, because provisions for risk eroded its annual earnings, its pre-tax loss was still on a par with the previous year's figure.

At €6.7 million, the KS Plain Bearings division spent €7.9 million less on tangible and intangible assets in fiscal 2003 than the year before, a clear reduction. This expenditure was financed entirely from gross cash flow, which in 2003 amounted to €12.3 million (up from €11.9 million in 2002). Compared to 2002, the division substantially cut the amount of capital employed. This is also reflected in the total assets figure, which at December 31, 2003 came to €70.4 million, a reduction of €12.7 million from the previous

Lead-free and resistant to high pressure and extreme temperatures, products from KS Plain Bearings meet the needs of current and future engine technology year's level. Owing to persistently high profit transfers by KS Gleitlager GmbH and the concurrent loss made by KS Bearings Inc., the division's equity ratio at December 31, 2003 fell to 3.0 percent, down from 9.7 percent a year earlier. Owing to lower earnings in 2003, the return on capital employed (ROCE) edged downward to 18.9 percent, despite the improved capital employed figure. Twelve months earlier the ROCE ratio was still 20.2 percent.

Targets for 2004

With a view to returning the division to its previous earning power, the prime objectives for 2004 include

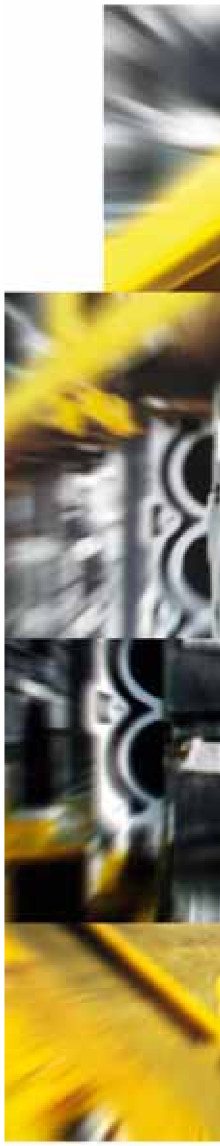
– the successful conclusion of restructuring measures at KS Bearings Inc., coupled with substantial improvements in productivity and product quality;
– reviving the earnings strength of KS Gleitlager GmbH, primarily by terminating loss-making projects; and
– increased competitiveness through a redoubling of R&D, especially in the field of new materials

KS Aluminum Technology division

The KS Aluminum Technology division manufactures cylinder crankcases (engine blocks) made of aluminum and aluminum-silicon alloys. The product groups correspond to the different casting methods used in production, i.e. pressure-die, low-pressure and squeeze casting. KS Aluminium-Technologie AG is the parent company of the division.

The KS Aluminum Technology division succeeded in improving its sales in fiscal 2003 by €11 million to €159.8 million, an increase of 7.4 percent. Aimed at boosting low-pressure casting production capacity, heavy capital expenditures in the preceding two years explain this increase in sales, the result of greater output as new products entered full-scale production. Whereas sales of pressure-die products remained unchanged, flagging demand for squeeze casting products led to a decline in sales compared to the year before. Development and tool sales leveled off to normal following two years of exceptionally high volume.

Compared to 2002, the KS Aluminum Technology division improved its EBT by €11 million to a negative €6.8 million. These improved earnings were due in particular to increased unit output and clear productivity and quality gains in the low-pressure casting field. Moreover, better management of new product start-ups helped to reduce losses.

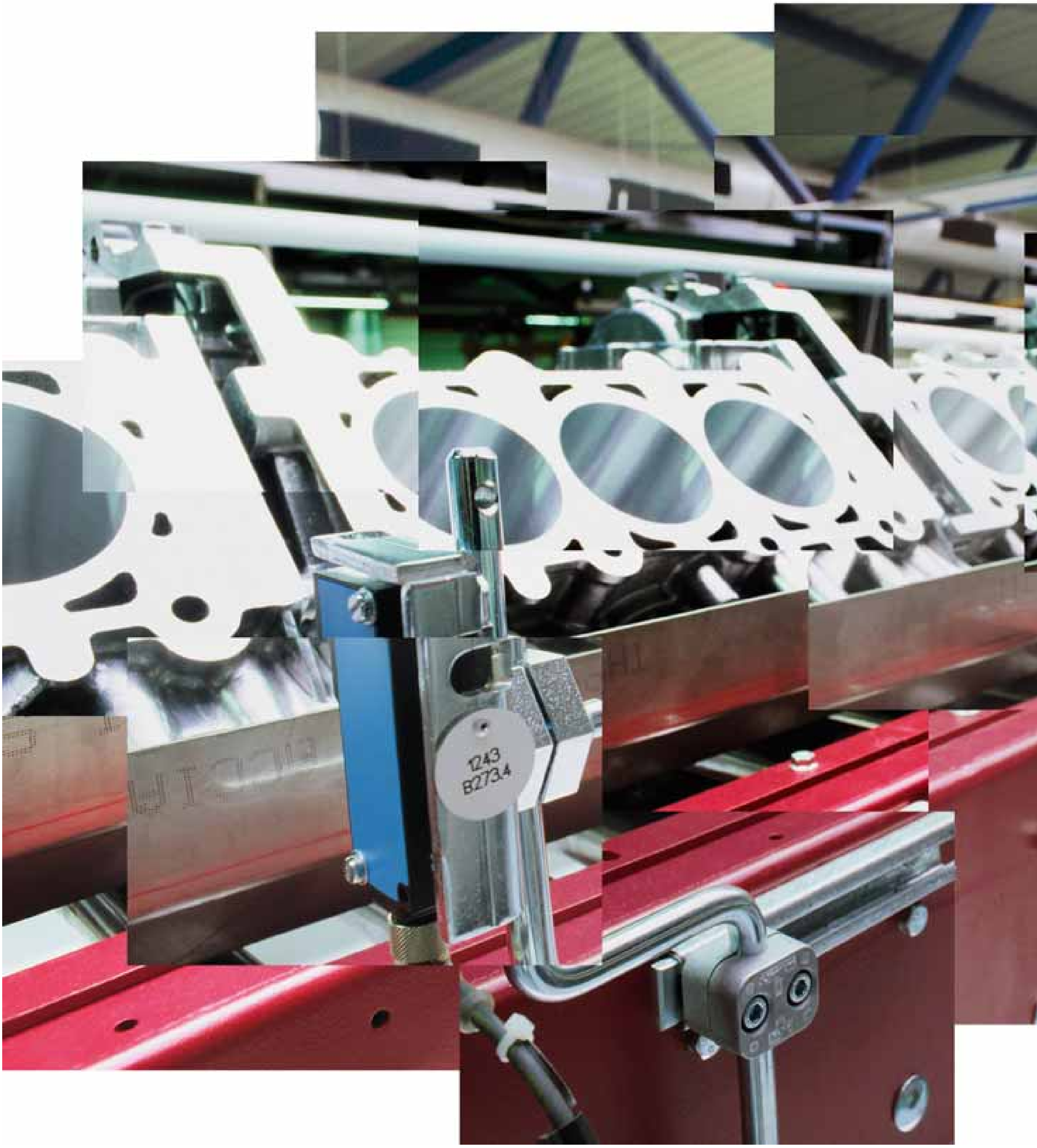


Indicators KS Aluminum Technology *€ million*

			change	
	2002	**2003**	*€ million*	*in %*
Net sales	148.8	159.8	*11.0*	*7.4*
EBIT	(13.3)	(3.3)	*10.0*	*75.2*
EBT	(17.8)	(6.8)	*11.0*	*61.8*
Net income	(11.2)	(4.8)	*6.4*	*57.1*
Capital expenditures	21.6	14.1	*(7.5)*	*(34.7)*
Headcount at Dec. 31	862	913	*51*	*5.9*
EBIT margin (in %)	(8.9)	(2.1)	--	--
ROCE (in %)	(15.7)	(4.3)	--	--

KS Aluminum Technology: the leader in cylindrical crankcases made of hypereutectoid aluminum-silicon alloys

KS Aluminum Technology division



From 4-cylinder to 12-cylinder: many types of vehicles today are powered by lightweight motors with engine blocks made by KS Aluminum Technology

Owing to preparations for planned new projects in the low-pressure casting segment, capital expenditures by the KS Aluminum Technology division were exceptionally high in fiscal 2002. Because recent measures to increase capacity had already been largely completed, the volume of spending in fiscal 2003 was significantly lower, falling by €7.5 million to €14.1 million. On account of the improved earnings situation, gross cash flow rose to €8.3 million, which, however, was still insufficient to finance the full amount of capital expenditure.

Despite higher sales, the division's total assets contracted to €127.0 million(a decline of 1.2 percent). At December 31, 2003, the equity ratio came to 19.2 percent, down from 19.6 percent a year earlier. The improved earnings situation was accompanied by a rise in ROCE, which nevertheless remained at a negative 4.3 percent due to the aforementioned losses.

Targets for 2004

The division's paramount goal for 2004 is to remain on the path to growth, as well as achieving positive earnings. In order to do this, it will be necessary

- to achieve the planned growth in sales in the low-pressure and squeeze casting segments;
- to carry on with the division's successfully initiated program for boosting productivity;
- to minimize still further the reject quota for existing series products;
- to secure an efficient start to the production of new products; and
- to continue optimizing the division's production and administration flows.

Motor Service division

OEM-quality spare parts: MSI supplies auto workshops and repair facilities worldwide

The Motor Service division embraces Kolbenschmidt Pierburg's worldwide aftermarket activities in the engine repair shop and the workshop field. MSI Motor Service International GmbH is the division's parent company.

Owing to a smaller volume of orders in Southeast Asia and the Middle East, as well as difficult market conditions in economically fragile Europe during the first quarter, sales of the Motor Service division contracted in fiscal 2003. Business volume amounted to €138.5 million, a decline of 5.4 percent compared to 2002. Increased sales by KS Produtos Automotivos Ltda. of Brazil were only partially able to offset the decline in sales experienced by the parent company MSI Motor Service International GmbH and the other subsidiaries. KS Winston Ltd., the British subsidiary of MSI Motor Service International GmbH, ceased operations in the first quarter of 2003. Sales in the UK are now being handled by a local distribution partner.

At €14.2 million, the division's EBT exceeded the previous year's figure by €1.1 million (or 8.4 percent), despite a difficult market and slower sales. Here, the further optimization of cost structures, lower interest expenses, and reduced foreign exchange losses all had a positive impact on earnings. The operating result remained roughly at the level of the previous year.

Compared to 2002, MSI Motor Service International GmbH showed stronger earnings. The rise was due in particular to substantial fixed cost savings relating to the introduction of group work models in its logistics operations, as well as slightly improved profit contributions.

MSD Motor Service Deutschland GmbH, the division's German subsidiary (formerly MTS Motorenteile-Service GmbH), generated a negative EBT due to weaker sales. At the beginning of 2004, the engine parts activities of two important German competitors were taken over. The acquisition and integration of these operations is sure to result in a positive EBT this year thanks to increased business volume.

Falling sales meant that the division's French subsidiary, KS Motorac S.A.S., ended the year with a negative EBT, due to the difficult market situation in France coupled with a conscious move away from exports.

Indicators Motor Service *€ million*

			change	
	2002	**2003**	*€ million*	*in %*
Net sales	146.4	138.5	*(7.9)*	*(5.4)*
EBIT	15.9	16.4	*0.5*	*3.1*
EBT	13.1	14.2	*1.1*	*8.4*
Net income	8.3	7.3	*(1.0)*	*(12.0)*
Capital expenditures	0.7	0.6	*(0.1)*	*(14.3)*
Headcount at Dec. 31	391	344	(47)	*(12.0)*
EBIT margin (in %)	10.9	11.8	--	--
ROCE (in %)	20.0	23.9	--	--

Motor Service division

Despite declining sales, the Czech distributor KS Motor Servis CZ s.r.o. once again ended the year just slightly in positive territory, precisely as it did in 2002.

The division’s Turkish unit, KS Istanbul A.S., posted an encouraging improvement in EBT, falling sales notwithstanding.

In Brazil, KS Produtos Automotivos Ltda.–following a sharp, currency-related decline the year before–reported a distinct improvement in sales and earnings. Apart from an upswing in its home market, exports to other South American countries also increased.

Gross cash flow for fiscal 2003 came to €8.9 million, down from €9.8 million the previous year. The Motor Service division's total assets at December 31, 2003 amounted to €88.0 million, a decline of €6.1 million from a year earlier. With equity at a slightly reduced €15.5 million, the division’s equity ratio at the end of 2003 remained virtually unchanged at 17.6 percent (2002: 17.8 percent). The systematic reduction of working capital proceeded unchecked, contracting by 5.3 percent to €62.7 million. ROCE rose to 23.9 percent in fiscal 2003, up from 20.0 percent the previous year.

Targets for 2004

The Motor Service division’s objective for 2004 is to attain profitable growth. The acquisitions made at the beginning of the year have already set the stage for this. The task now is to integrate these new activities into the division as smoothly as possible. Furthermore, the division will continue

- to exploit the international price advantages enjoyed by the Group, while maintaining high standards of quality;
- to review and selectively strengthen its range of engine parts in both width and depth;
- to explore the possibilities for regional cooperation with other auto parts suppliers in the aftermarket field;
- and to press ahead with a policy of stringent working capital management.

Spare parts from MSI: reduced emissions thanks to state-of-the-art exhaust gas recirculation systems

Consolidated Financial Statements for 2003 of Kolbenschmidt Pierburg AG

Kolbenschmidt Pierburg Group
Consolidated balance sheet as of December 31, 2003

Assets *€ million*	12/31/2002	12/31/2003	*Note*
Fixed assets			(6)
Intangible assets	74.1	77.1	(7)
Tangible assets	620.5	582.1	(8)
Investments stated at equity	28.3	37.3	(9)
Other financial assets	3.4	2.4	(9)
	726.3	**698.9**	
Current assets			
Inventories	222.4	212.4	(10)
Prepayments received	0.0	(7.1)	(10)
	222.4	**205.3**	
Trade receivables	183.1	194.8	(11)
All other receivables and sundry assets	29.4	33.4	(11)
Cash & cash equivalents	44.3	42.7	(12)
	479.2	**476.2**	
Income tax assets	44.3	36.2	(13)
Prepaid expenses & deferred charges	2.1	3.0	
Total assets	**1,251.9**	**1,214.3**	

Equity & liabilities *€ million*	12/31/2002	12/31/2003	*Note*
Total equity			(14)
Kolbenschmidt Pierburg AG stockholders' equity			
Capital stock	71.7	71.7	
Additional paid-in capital	174.0	174.0	
Other reserves	46.2	71.4	
Group net income attributable to Kolbenschmidt Pierburg AG stockholders	37.1	42.4	
	329.0	**359.5**	
Minority interests	3.9	3.7	
	332.9	**363.2**	
Accruals			
Accruals for pensions	272.9	256.5	(15)
Other accruals	122.4	137.9	(16)
	395.3	**394.4**	
Liabilities			
Noncurrent financial debts	188.0	119.5	(17)
Current financial debts	21.9	27.8	(17)
Trade payables	190.1	191.7	(17)
All other liabilities	85.6	79.7	(17)
	485.6	**418.7**	
Income tax liabilities	25.1	30.0	(18)
Deferred income	13.0	8.0	(19)
Total equity & liabilities	**1,251.9**	**1,214.3**	

Kolbenschmidt Pierburg Group
Consolidated income statement for fiscal 2003

	€ million	2002	2003	*Note*
	Net sales	**1,882.6**	**1,884.2**	(20)
	Net inventory changes, other work and material capitalized	9.2	17.2	(21)
	Total operating performance	**1,891.8**	**1,901.4**	
	Other operating income	46.3	62.7	(22)
	Cost of materials	(975.9)	(970.6)	(23)
	Personnel expenses	(509.6)	(515.2)	(24)
	Amortization/depreciation/write-down	(137.4)	(136.0)	(25)
	Other operating expenses	(234.0)	(242.8)	(26)
	Operating result	**81.2**	**99.5**	
	Net interest expense	(37.3)	(30.5)	(27)
	Net investment income and other financial results	16.2	3.6	(28)
	of which profit shares of investees stated at equity	*[1.6]*	*[7.6]*	
	Net financial result	**(21.1)**	**(26.9)**	
	Earnings before taxes (EBT)	**60.1**	**72.6**	
	Income taxes	(23.4)	(29.4)	(29)
	Group net income	**36.7**	**43.2**	
	Minority interests	0.4	(0.8)	(30)
	Group earnings (after minority interests)	**37.1**	**42.4**	
1	EBIT	97.4	103.1	
2	EBITDA	234.8	239.1	
3	Earnings per share (EpS), common stock	€1.32	€1.51	(31)

1 *EBT plus net interest expense*

2 *EBT plus net interest expense and amortization/depreciation/write-down*

3 *No diluting effects during the period under review*

Kolbenschmidt Pierburg Group
Consolidated statement of cash flows for fiscal 2003

€ million	2002	2003
Cash & cash equivalents at January 1 (BoP)	**21.2**	**44.3**
Group net income	36.7	43.2
Amortization/depreciation/write-down of fixed assets	137.4	136.0
Change in pension accruals	(4.1)	(9.2)
Cash Flow	**170.0**	**170.0**
Net result from fixed-asset disposal	0.6	(12.5)
Change in other accruals	6.8	18.1
Change in inventories	21.8	10.6
Change in receivables, liabilities (excluding financial debts) and prepaid & deferred items	39.9	(26.9)
Other noncash expenses and income, net	(23.7)	15.1
Net cash provided by operating activities	**215.4**	**174.4**
Cash outflow for additions to tangible and intangible assets	(144.3)	(117.2)
Cash inflow from the disposal of tangible and intangible assets	2.4	19.6
Cash outflow in divisions	0.0	(9.3)
Cash outflow for additions to financial assets	0.0	(3.1)
Cash inflow from the disposal of divisions	0.0	2.4
Cash inflow from the disposal of financial assets	24.8	1.1
Net cash used in investing activities	**(117.1)**	**(106.5)**
Dividends paid out	(14.0)	(14.2)
Financial debts raised	0.0	17.1
Financial debts redeemed	(60.3)	(72.4)
Net cash used in financing activities	**(74.3)**	**(69.5)**
Cash-based change in cash & cash equivalents	**24.0**	**(1.6)**
Parity-related change in cash & cash equivalents	(0.9)	0.0
Total net change in cash & cash equivalents	**23.1**	**(1.6)**
Cash & cash equivalents at December 31 (EoP)	**44.3**	**42.7**
The cash inflow from current operations contain		
interest income	1.6	3.1
interest expenditure	19.6	15.3
tax returns	6.4	6.2
tax payments	31.2	25.2

The consolidated statement of cash flows is discussed in Note 32.

Kolbenschmidt Pierburg Group Statement of changes in equity

€ million

	Capital stock	Additional paid-in capital	Retained earnings	Differences from currency conver-sation	Reserves from market value and other evaluations	Other reserves	Group net income attributable to Kolben-schmidt Pierburg AG stock-holders	Stock-holders' equity of Kolben-schmidt Pierburg Group	Minority interests	Total equity
At January 1, 2002	**71.7**	**174.0**	**30.5**	**8.7**	**9.2**	**48.4**	**32.2**	**326.3**	**14.9**	**341.2**
Dividend payments			(14.0)			**(14.0)**		(14.0)		(14.0)
Exchange differences			20.7	(43.2)	0.1	**(22.4)**		(22.4)	1.1	(21.3)
Consolidation group changes			11.7			**11.7**		11.7	(11.7)	0.0
Other comprehensive income			32.2		(9.7)	**22.5**	(32.2)	(9.7)		(9.7)
Group net income						**0.0**	37.1	37.1	(0.4)	36.7
At January 1, 2003	**71.7**	**174.0**	**81.1**	**(34.5)**	**(0.4)**	**46.2**	**37.1**	**329.0**	**3.9**	**332,9**
Dividend payments			(14.0)			**(14.0)**		(14.0)	(0.2)	(14.2)
Exchange differences			12.4	(11.2)	0.2	**1.4**		1.4	(0.8)	0.6
Consolidation group changes						**0.0**		0.0		0.0
Other comprehensive income			37.1		0.7	**37.8**	(37.1)	0.7		0.7
Group net income						**0.0**	42.4	42.4	0.8	43.2
At December 31, 2003	**71.7**	**174.0**	**116.6**	**(45.7)**	**0.5**	**71.4**	**42.4**	**359.5**	**3.7**	**363.2**

Equity is explained in Note 14.

Segment report by divisions (primary segments)

€ million	2002	2003	2002	2003	2002	2003
Segments	Air supply, emission control & pumps		Large- and small-bore pistons		Plain bearings and continuous castings	
Divisions	Pierburg		KS Pistons		KS Plain Bearings	
Balance sheet						
Segment assets	440.8	430.5	423.5	410.5	79.7	67.1
of which book values at equity	*[20.3]*	*[23.8]*	*[8.0]*	*[13.5]*	*[0.0]*	*[0.0]*
Segment liabilities	341.4	345.4	207.8	181.9	47.2	47.1
Total equity (1)	140.4	141.6	152.5	181.2	8.0	2.1
Pension accruals (2)	127.1	127.4	99.3	81.4	19.8	19.9
Net financial debts (3)	(33.4)	(58.1)	76.5	59.8	26.0	19.7
Capital employed (1) + (2) + (3)	234.1	210.9	328.3	322.4	53.8	41.7
Average capital employed	256.6	222.5	354.4	325.4	50.2	47.8
Income statement						
Net external sales	872.5	871.9	579.9	578.6	135.7	136.6
Intersegment transfers	11.3	5.6	15.8	15.0	10.1	10.8
Total segment sales	883.8	877.5	595.7	593.6	145.8	147.3
of which Germany in %	*[40.6]*	*[37.4]*	*[19.4]*	*[17.4]*	*[55.5]*	*[57.1]*
of which abroad in %	*[59.4]*	*[62.6]*	*[80.6]*	*[82.6]*	*[44.5]*	*[42.9]*
EBITDA	131.5	121.7	75.9	83.0	19.5	19.8
of which P/L at equity	*[1.1]*	*[4.7]*	*[1.1]*	*[2.9]*	*[0.0]*	*[0.0]*
Amortization/depreciation/write-down	(66.6)	(64.0)	(47.7)	(44.9)	(9.4)	(10.8)
of which special write-down	*[0.0]*	*[(5.2)]*	*[0.0]*	*[0.0]*	*[0.0]*	*[(1.0)]*
Segment EBIT	64.9	57.7	28.2	38.1	10.1	9.0
Net interest expense	(12.0)	(9.0)	(14.1)	(9.6)	(1.9)	(1.8)
EBT	52.9	48.7	14.1	28.5	8.2	7.2
Income tax	(8.4)	(15.7)	(13.4)	(9.4)	(6.1)	(5.8)
Net income/Net loss	44.5	33.0	0.7	19.1	2.1	1.4
Other data						
EBIT margin *in %*	7.3	6.6	4.7	6.4	6.9	6.1
ROCE *in %*	25.3	25.9	8.0	11.7	20.2	18.9
Capital expenditures	56.7	50.3	47.1	52.9	14.6	6.7
Headcount December 31	3,872.0	3,536.0	5,400.0	5,483.5	972.5	1.003.5

Operating result + net investment income + net other financial expenses/income + amortization/depreciation/write-down

The segment reports are discussed in Note 33.

2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Engine blocks		Aftermarket							
KS Aluminum Technology		Motor Service		Total		Other/Consolidation/ Holding		Group	
123.1	122.1	88.3	82.7	1,155.4	1,112.9	7.9	22.5	1.163.3	1,135.4
[0.0]	*[0.0]*	*[0.0]*	*[0.0]*	*[28.3]*	*[37.3]*	*[0.0]*	*[0.0]*	*[28.3]*	*[37.3]*
57.1	60.9	21.7	21.7	675.2	657.0	8.7	16.8	683.9	673.8
25.2	24.3	16.8	15.5	342.8	364.7	(9.9)	(1.5)	333.0	363.2
9.8	10.6	3.1	3.4	259.1	242.7	13.7	13.8	272.8	256.5
44.6	40.2	51.8	46.6	165.5	108.2	0.2	(3.6)	165.7	104.6
79.6	75.1	71.7	65.5	767.5	715.6	3.8	8.7	771.5	724.3
85.0	77.4	79.3	68.6	825.5	741.6	2.0	6.3	827.5	747.9
148.2	159.2	146.0	137.6	1,882.3	1,883.9	0.3	0.3	1,882.6	1.884.2
0.6	0.6	0.4	0.8	38.2	32.8	(38.2)	(32.8)	0.0	0.0
148.8	159.8	146.4	138.5	1,920.5	1,916.7	(37.9)	(32.5)	1,882.6	1.884.2
[61.7]	*[63.1]*	*[10.3]*	*[11.2]*	--	--	--	--	*[33.5]*	*[32.1]*
[38.3]	*[36.9]*	*[89.7]*	*[88.8]*	--	--	--	--	*[66.5]*	*[67.9]*
(3.5)	9.0	17.3	17.7	240.7	251.2	(5.9)	(12.1)	234.8	239.1
[0.0]	*[0.0]*	*[0.0]*	*[0.0]*	*[2.2]*	*[7.6]*	*[0.0]*	*[0.0]*	*[2.2]*	*[7.6]*
(9.8)	(12.3)	(1.4)	(1.3)	(134.9)	(133.3)	(2.5)	(2.7)	(137.4)	(136.0)
[0.0]	*[0.0]*	*[0.0]*	*0.0*	*[0.0]*	*[(6.2)]*	*[0.0]*	*[0.0]*	*[0.0]*	*[(6.2)]*
(13.3)	(3.3)	15.9	16.4	105.8	117.9	(8.4)	(14.8)	97.4	103.1
(4.5)	(3.5)	(2.8)	(2.2)	(35.3)	(26.1)	(2.0)	(4.4)	(37.3)	(30.5)
(17.8)	(6.8)	13.1	14.2	70.5	91.8	(10.4)	(19.2)	60.1	72.6
6.6	2.0	(4.8)	(6.9)	(26.1)	(35.8)	2.7	6.4	(23.4)	(29.4)
(11.2)	(4.8)	8.3	7.3	44.4	56.0	(7.7)	(12.8)	36.7	43.2
(8.8)	(2.1)	11.0	11.8	--	--	--	--	5.2	5.5
(15.7)	(4.3)	20.0	23.9	--	--	--	--	11.8	13.8
21.6	14.1	0.7	0.6	140.7	124.6	3.6	1.9	144.3	126.5
861.5	913.0	391.5	344.0	11,497.5	11,280.0	37.0	36.0	11,534.5	11,316.0

Segment report by regions (secondary segments)

€ million	2002	2003	2002	2003
Segments	Air supply, emission control & pumps		Large- and small-bore pistons	
Divisions	Pierburg		KS Pistons	
Germany				
Net external sales by customer location	350.3	322.8	102.3	91.8
Segment assets	258.9	231.4	146.1	138.4
Capital expenditures	37.9	27.8	14.3	9.9
Other Europe				
Net external sales by customer location	453.8	482.8	198.5	184.9
Segment assets	160.7	175.9	59.3	67.7
Capital expenditures	15.6	17.7	7.8	9.7
North America				
Net external sales by customer location	50.2	44.5	239.1	236.0
Segment assets	19.2	20.8	183.5	152.1
Capital expenditures	3.1	4.7	20.5	15.6
South America				
Net external sales by customer location	7.2	7.8	28.7	29.0
Segment assets	2.0	2.4	34.5	36.8
Capital expenditures	0.1	0.1	4.5	3.8
Other regions				
Net external sales by customer location	11.0	14.0	11.3	36.9
Segment assets	0.0	0.0	0.1	15.5
Capital expenditures	0.0	0.0	0.0	13.9

The segment reports are discussed in Note 33.

	2002	2003	2002	2003	2002	2003	2002	2003
	Plain bearings and continuous castings		Engine blocks		Aftermarket			
	KS Plain Bearings		KS Aluminum Technology		Motor Service		Total	
	71.2	73.7	91.2	100.3	15.1	15.5	630.1	604.1
	59.5	52.9	123.1	122.1	70.3	66.5	657.9	611.3
	9.7	5.5	21.6	14.1	0.3	0.4	83.8	57.7
	37.0	40.0	57.0	58.8	75.2	66.6	821.5	833.1
	0.0	0.0	0.0	0.0	13.1	10.7	233.1	254.3
	0.0	0.0	0.0	0.0	0.3	0.1	23.7	27.5
	23.0	17.9	0.0	0.0	3.9	3.2	316.2	301.6
	16.6	10.5	0.0	0.0	0.0	0.0	219.3	183.4
	3.6	1.2	0.0	0.0	0.0	0.0	27.2	21.5
	1.7	2.2	0.0	0.0	11.9	13.3	49.5	52.3
	3.6	3.7	0.0	0.0	4.9	5.5	45.0	48.4
	1.3	0.0	0.0	0.0	0.1	0.1	6.0	4.0
	2.8	2.8	0.0	0.1	39.9	39.0	64.9	92.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.1	15.5
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.9

Notes
Accounting Principles

(1)
General

The consolidated financial statements of Kolbenschmidt Pierburg AG and its subsidiaries for the fiscal year 2003 have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB).

All International Financial Reporting Standards (IFRS) and Interpretations effective at the balance sheet date have been applied.

For enhanced transparency of presentation, certain items of the consolidated income statement and balance sheet have been subsumed in captions, however, which are broken down and discussed in detail in the notes below. The consolidated income statement has been prepared in the total-cost format. Along with the balance sheet and consolidated income statement, a consolidated statement of cash flows and a statement of changes in equity have been prepared.

The consolidated financial statements are presented in euros (€), current- and prior-year amounts being indicated in € million without exception.

Having elected to prepare its consolidated financial statements in accordance with IFRS, Kolbenschmidt Pierburg AG has exercised the exemption option under the terms of Art. 292a German Commercial Code ("HGB"), viz. to draw up the consolidated accounts in accordance with internationally accepted accounting principles in lieu of consolidated financial statements according to German commercial accounting regulations. The assessment of whether the consolidated financial statements and group management report meet the prerequisites of Art. 292a HGB has been made in conformity with the DRSC interpretation in German Accounting Standard DRS-1. The present consolidated statements substantially reflect the following accounting and valuation methods in derogation of the German Commercial Code (HGB):

– capitalization of internally created intangible assets (IAS 38)
– recognition at fair value of certain financial instruments (IAS 39)
– translation of non-euro receivables and payables at the current closing rate and recognition in net income of the resulting translation differences (IAS 21)
– capitalization of the asset and recognition of the residual liability under capital leases according to the definition criteria of IAS 17
– measurement of pension accruals according to the projected unit credit (PUC) method with due regard to future pay trends and the corridor rule of IAS 19
– waiver of providing for accrued liabilities if the probability of accrual utilization is below 50 percent (IAS 37)
– discounting of noncurrent accruals (IAS 37)
– accounting for deferred taxes according to the liability method in accordance with IAS 12

The fiscal year of Kolbenschmidt Pierburg AG and its subsidiaries equals the calendar year. As an officially listed company, Kolbenschmidt Pierburg AG is obligated pursuant to Art. 291(3)(1) HGB to prepare statutory consolidated financial statements. Kolbenschmidt Pierburg AG's consolidated accounts will be included through the group accounts of Düsseldorf-based Rheinmetall AG in the consolidated financial statements of Röchling Industrie Verwaltung GmbH, Mannheim, as the highest tier of consolidation. Rheinmetall AG's consolidated financial statements will be deposited with the Commercial Register of the Local Court of Düsseldorf under number HRB 39401, and those of Röchling Industrie Verwaltung GmbH with the Commercial Register of the Local Court of Mannheim under number HRB 3594.

(2) Group of consolidated companies

Besides Kolbenschmidt Pierburg AG, the consolidated financial statements include all German and foreign subsidiaries in which either Kolbenschmidt Pierburg AG holds the majority of voting rights (wether directly or indirectly) or where the group is otherwise able to control the financial and business policies. Companies are initially consolidated or deconsolidated when control is transferred. Companies in which stakes between 20 and 49 percent are held and over which a controlling influence is exercised (so-called associated affiliates) are stated at equity. Also stated at equity are companies in which a stake of 50 percent is held and which are jointly managed with other partners (joint ventures).

Group of consolidated companies

	12/31/2002	Additions	Disposals	**12/31/2003**
Fully consolidated companies	40	--	1	39
of which in Germany	*[17]*	--	--	*[17]*
of which abroad	*[23]*	--	*[1]*	*[22]*
Investees stated at equity	3	--	--	3
of which in Germany	*[1]*	--	--	*[1]*
of which abroad	*[2]*	--	--	*[2]*

The disposal from the group of consolidated companies relates to the absorption of Société Mosellane de Services Holding S.A.S. by Pierburg S.à.r.l, both located in Basse-Ham (Thionville), France. This merger has no effect on the assets and liabilities as of December 31, 2003, or any significant lines of the consolidated income statement for 2003.

The subsidiaries and the investees stated at equity which are included in the consolidated financial statements of Kolbenschmidt Pierburg AG are listed on pages 106/107. A comprehensive listing of the shareholdings of Kolbenschmidt Pierburg AG will be deposited with the Commercial Register of the Local Court of Düsseldorf (HRB 34883).

(3) Consolidation principles

The financial statements of consolidated German and foreign companies are prepared in accordance with groupwide uniform accounting and valuation methods.

Subsidiaries included for the first time are consolidated according to the purchase method, specifically the book value method under the terms of IAS 22, by offsetting the cost of shares acquired against the subsidiaries' prorated equity. Any difference between cost and prorated equity is, if based on hidden reserves or burdens, allocated at the Group's percentage shareholding in such hidden reserves or burdens to the subsidiaries' assets and liabilities. Any net equity over cost is allocated to the assets of companies acquired and released over the assets' average useful lives. Any residual net equity under or over cost is capitalized as goodwill or badwill within intangible assets. Goodwill is amortized over its estimated useful life, badwill being allocated to the assets of companies acquired and amortized to income over such assets' useful lives. Any residual net equity under cost from pre-1995 acquisitions has been offset against the Group's reserves retained from earnings.

Shares of nongroup shareholders are disclosed as minority interests in the consolidatable capital of subsidiaries, including the profit or loss proratable to such minority interests.

Interests in associated affiliated companies and joint ventures are stated at equity. Taking the cost of purchase at the time the holding was acquired as the point of departure, the respective book value of the investment increases or decreases in accordance with changes in the equity of the affiliated companies or joint ventures, to the extent that these relate to interests held by the Kolbenschmidt Pierburg Group.

To determine the goodwill for equity evaluation principles analogous to consolidation are adopted, goodwill amortization being recognized in net investment income.

Notes
Accounting Principles

Due to the overall secondary significance, further companies are not stated at equity.

Expenses and income from intragroup transactions, as well as intercompany receivables and payables are eliminated in consolidation. Intragroup product and service transactions are calculated based on fair market prices as well as on intercompany prices corresponding to fair market prices. Intermediate results are eliminated unless not insignificant. Deferred taxes are recognized for temporary differences from consoli-

(4)
Exchange differences

The functional currency concept has been adopted to translate the annual financial statements of non-German group companies into euros (where applicable), one Turkish subsidiary excepted. As a rule, their functional currency equals the local currency. Therefore, assets and liabilities are translated at the mean current rates and the income statements at the annual average rates. The translation differences resulting therefrom, as well as those from translating prior-year carryovers are recognized in, and only in, equity. Goodwill created from the capital consolidation of non-German companies is carried at amortized historical cost.

The financial statements of the Turkish subsidiary were prepared in accordance with the historical-cost concept and adjusted in line with the IAS 29 rules governing hyperinflationary economies. Due to changes in the general price level (GPL), the current financial statements and the 2002 comparatives were adjusted in the local currency by applying an inflation index of 14 percent (2002: 31 percent), and then translated into euros.

The exchange rate of the euro to other relevant currencies developed as follows:

Currency translation

		Mean rate in € at		Annual average rate in €	
		12/31/2002	**12/31/2003**	2002	**2003**
Brazil	*1 Brazilian real*	0.2709	0.2771	0.3570	0.2890
Great Britain	*1 pound sterling*	1.5378	1.4207	1.5929	1.4501
Canada	*1 Canadian dollar*	0.6100	0.6104	0.6741	0.6284
Czech Republic	*1 Czech koruna*	0.0318	0.0308	0.0324	0.0314
USA	*1 US dollar*	0.9601	0.8001	1.0581	0.8824
Turkey	*1.000.000 Turkish lira*	0.5612	0.5473	0.6629	0.5635
China	*1 Chinese yuan*	0.1160	0.0967	0.1279	0.1066
Japan	*1 Japanese yen*	0.0081	0.0075	0.0085	0.0076

In the local-currency financial statements of consolidated companies, currency receivables and payables as well as cash & cash equivalents are all translated at the current closing rate. Currency translation differences are duly recognized in the net financial result.

(5)
Accounting and valuation methods

The financial statements of Kolbenschmidt Pierburg AG are prepared on the basis of Group-wide, consistently applied methods of accounting and valuation. This applies also to affiliated companies which are valued according to the equity method.

Intangible assets

Purchased intangible assets are capitalized at (acquisition) cost, internally created intangibles from which the Group is believed to derive future economic benefits and which can reliably be measured are recognized at production cost, either type of intangible asset being amortized by straight-line charges over the estimated useful life. Production cost covers all costs directly allocable to the production process, including any proratable production-related overheads. The cost of finance is not capitalized. R&D costs are principally expensed. Development costs are exceptionally capitalized and amortized on a straight-line basis if a newly developed product or process can be clearly defined, technologically realized and used either internally or is destined for marketing (IAS 38), and if there is a reasonable assurance that its costs will be recovered by future cash inflows. If certain factors hint at an impairment and the recoverable amount is below amortized cost, an intangible asset is written down. Wherever the reason for write-down has ceased to exist, the charge is reversed and the asset written up accordingly.

The following unchanged useful lives underlie amortization:

Useful life	
Concessions, franchises, industrial property rights	2–20 years
Goodwill	15–20 years
Development costs	5 years

Goodwill from either consolidation or the statement at equity is amortized over its estimated period of benefit, which is estimated with due regard to the expected benefits from the market position achieved through the acquisition and from the acquired asset's value-adding potential.

Tangible assets

Tangible assets are carried at depreciated cost less any write-down. The production cost of internally made tangible assets comprises all costs directly allocable to the production or manufacturing process, including the proratable production-related overheads. Borrowing costs are not capitalized as part of cost. Tangible assets are principally depreciated on a straight-line basis over their estimated useful lives unless in exceptional cases another method better reflects the pattern of use.

Notes
Accounting Principles

As in 2002, tangible assets are systematically amortized over the following periods of utilization:

Useful life	
Buildings	20–77 years
Other structures	8–20 years
Production plant and machinery	3–20 years
Other plant, factory and office equipment	2–23 years

Public-sector subsidies and customer grants, whose characteristics cause them to fall into the category of investment subsidies, are shown separately from the respective investments and carried as assets.

Tangible assets obtained under capital leases are capitalized at the lower of their fair values or the present value of minimum rents and depreciated over the shorter of their estimated useful lives or underlying lease terms (IAS 17). If certain factors hint at an impairment and the recoverable amount is below depreciated cost, the tangible asset is written down. Wherever the reason for write-down has ceased to exist, the charge is reversed and the asset written up accordingly.

Financial assets

Shares in Group companies and associated affiliates not stated at equity, as well as the other long-term securities, all shown as financial assets and throughout belonging in the category available for sale, are carried at their fair values. Unrealized gains and losses are accounted for in the reserve from fair valuation. Upon disposal, such gains or losses are duly recognized in the income statement. However, if a value has been impaired and fallen below cost, even unrealized losses are recognized in net income. If fair market values are difficult to determine reliably, value is assessed in accordance with the booked cost of procurement.

In accordance with IAS 39, long-term loans bearing interest at fair market rates are carried at amortized cost, whereas non- or low-interest loans are discounted.

Inventories

Inventories are recognized at cost, as a rule applying the average-price method to acquisition cost whereas production cost comprises all costs directly allocable to the production or manufacturing process, including proratable production-related overheads. The latter include indirect materials, indirect manufacturing costs (labor, etc.), as well as production-related depreciation and pension expenses, but exclude any borrowing costs (IAS 23). Risks inherent in inventories due to reduced utility or to obsolescence are adequately allowed for. If the net realizable value (NRV) of any inventories at balance sheet date is below their carrying value, such inventories are written down to NRV. If the NRV of inventories previously written down has risen, the ensuing write-up is offset against cost of materials (raw materials and supplies) or shown as increase in inventories of finished products and work in process (WIP).

Down payments for orders not constituting manufacturing orders as defined by IAS 11, are, in situations where manufacturing costs have already arisen in connection with a given contract, capitalized and carried separately from inventories. All other payments are stated as liabilities.

Receivables and sundry assets

Receivables and sundry assets are capitalized at cost. Adequate allowances provide for bad debts and doubtful accounts.

Without exception, securities contained in current assets fall into the category 'available for sale', and are stated at their fair value at the balance sheet date. Prior to realization, changes in the reported fair value of securities are treated as having a neutral effect on earnings. However, if substantial indications of a decline in value exist, the unrealized losses are shown with their effect on earnings.

Deferred taxes

Under the terms of IAS 12, deferred taxes are duly recognized on differences between the values of assets and liabilities in the consolidated balance sheet and those in the individual companies' tax accounts. Deferred tax assets also include tax reduction claims from the expected future utilization of tax loss carryovers, always provided that their realization is reasonably certain. If the recent history of a company shows a series of losses, deferred tax assets from unutilized tax losses or credits are only recognized to the extent that the company reports sufficient taxable temporary differences or that conclusive substantive evidence exists which suggests with reasonable assurance that sufficient taxable income will be earned by the company to utilize the hitherto unused tax losses or credits. Deferred taxes are determined by applying the local tax rates current or announced in each country at balance sheet date.

The calculated rate of deferred taxation in Germany remained unchanged at 40 percent (including the corporation tax, solidarity surtax and municipal trade tax on income). Deferred taxation rates outside of Germany ranged between 28 and 38 percent (2002: 30 to 39 percent). In Italy, the Czech Republic and Turkey new tax rates came into force.

On December 22, 2003, the system governing the tax treatment of losses in Germany was altered ("Korb II", a law amending the Municipal Trade Tax Act and other laws). From January 1, 2004 onwards, the taxable income of a joint stock corporation can be netted by only 60 percent with tax loss carryover from previous years; a base amount of €1.0 million of income can be netted indefinitely. This rule also applies to Municipal Trade Tax loss carryovers.

Also altered was the rule governing tax emption on capital gains from the sale of participations to joint stock corporations. Starting January 1, 2004, 5 percent of these capital gains must be allocated to taxable income as non-deductible operating expenses. This has not resulted in a differed tax charge for the period under review.

For fiscal 2003, these changes in the legal framework have had no impact on deferred tax expenditure or claims.

Deferred tax netting is based on the rules of IAS 12.

Minority interests

Minority interests represent those portions of a subsidiary's net income and equity which are allocable to shares not held by Kolbenschmidt Pierburg AG, whether directly, or indirectly via other subsidiaries.

Minority interests are shown in separate lines, in addition to debt and stockholders' equity as well as to Group net income.

Notes
Accounting Principles

Accruals

Accruals for pensions and similar obligations are measured according to the internationally accepted projected unit credit (PUC) method, which is predicated not only on biometrical assumptions (life expectancy/mortality), expected future pay and pension trends, the variation in retiree assumption rates, interest rate trends, but also further actuarial and other parameters. The actuarial gains and losses ensuing from differences between actuarial assumptions and actual trends of the underlying parameters give rise to a gap between the present value of the defined benefit obligation (DBO) and the pension liabilities accrued in the balance sheet according to IAS 19. Actuarial gains and losses outside a 10-percent corridor of the DBO are distributed over the average residual service years of employees. The fair market value of any existing plan or pension fund assets is deducted from pension accruals. Service cost is treated as personnel expense while the interest portion of pension provisions in the fiscal year is shown within the net financial result. Contributions to defined contribution plans (DCPs), under which the company incurs no obligation other than the payment of contributions to earmarked pension funds or appropriated plans, are expensed in the year of their incurrence.

The remaining accruals according to IAS 37 provide at balance sheet date for all identifiable legal and constructive commitments and obligations to third parties if based on past transactions or events and if their amount, due date or maturity is uncertain. Accruals are measured at the best estimate of the settlement amount. Noncurrent accruals are shown, if the effect of discounting is significant, at the settlement amount discounted as of balance sheet date. The settlement amount also contains the cost increases to be taken into account.

Liabilities

Pursuant to IAS 39, liabilities are stated at amortized cost, which as a rule equals their settlement or repayment amounts. Liabilities under capital leases are recognized at the present value of future rents.

Prepaid and deferred items

Such items are disclosed to appropriately recognize pro rata temporis (p.r.t.) any rents, interest, insurance premiums, private-sector investment grants or allowances, etc. that have been prepaid or received in advance.

In accordance with IAS 20, public grants and subsidies not linked to capital expenditures are treated as deferred items and carried under liabilities, and realized at the point of time of expenditure. If the sale price of an asset that has been sold and leased back is above the booked costs of procurement and manufacturing, the capital gains are shown as a liability and stated in the consolidated income statement for the duration of the non-terminable basic period of lease.

Contingent liabilities and assets

Contingent liabilities are potential or existing liabilities, relating to past events or to cases where a fund outflow is unlikely. Contingent assets are potential assets whose existence must be confirmed by the subsequent occurrence of one or more events, which are outside of the company's sphere of influence. Contingent liabilities and assets are stated with their probable realization amounts.

Income and expenses

Net sales and other operating income are recognized upon performance of the contract for goods/services or upon passage of risk to the customer.

Operating expenses are recognized when caused or when the underlying service, etc. is used. The accrual basis of accounting is applied to interest income and expenses.

Derivative financial instruments

Within the Kolbenschmidt Pierburg Group, financial derivatives are solely used to hedge against currency and interest rate risks from operations.

All financial derivatives are recognized at cost and thereafter fair-valued as of the balance sheet date. Financial derivatives with a positive or negative fair value are disclosed as sundry assets or sundry liabilities, respectively.

Fundamentally, any changes in the fair value of financial derivatives are immediately recognized in net income unless an effective hedge exists that satisfies the criteria of IAS 39. If the derivative is a cash flow hedge (CFH) and hence used to effectively hedge expected future cash flows, changes in the financial derivative's fair value are recognized in equity only, under the other reserves. In this case, the changes in the derivative's value would not impact on net income until after the hedged underlying transaction has fallen due or been settled.

Changes in the value of financial derivatives used in fair value hedges (FVHs) to effectively hedge the fair value of recognized assets and liabilities are posted to net income as are any changes in the hedged assets or liabilities (where appropriate, by adjusting their book values), with the result that the compensatory effects are all reflected in the income statement.

The ineffective part of a hedge transaction is carried in the consolidated income statement.

Notes
to the consolidated balance sheet

(6) Fixed asset analysis *€ million*

	Gross values			
	01/01/ 2003	Additions	Disposals	Book transfers
Intangible assets				
Development costs and other internally created intangibles	17.5	5.4	0.0	1.1
Concessions, franchises, industrial property rights and licenses	18.5	5.9	0.6	5.5
Goodwill	74.5	0.0	(1.7)	0.0
Badwill from consolidation	(6.0)	0.0	(6.0)	0.0
Prepayments on intangibles	4.7	1.0	0.0	(5.1)
	109.2	12.3	(7.1)	1.5
Tangible assets				
Land, equivalent titles, and buildings (incl. buildings on leased land)	320.9	5.9	1.2	3.6
Production plant and machinery	1,085.6	47.3	23.1	32.3
Other plant, factory and office equipment	276.6	11.9	20.1	12.0
Prepayments on tangibles	8.0	6.7	0.1	(6.7)
Construction in progress	48.8	42.4	0.9	(42.7)
	1,739.9	114.2	45.4	(1.5)
Financial assets				
Shares in joint ventures	12.7	9.0	0.0	8.0
Shares in associated affiliates	15.6	0.0	0.0	(8.0)
Other long-term securities	1.2	0.0	0.0	0.0
Sundry long-term loans	2.6	0.1	1.1	0.0
	32.1	9.1	1.1	0.0
Total	**1,881.2**	**135.6**	**39.4**	**0.0**

(7)
Intangible assets

The intangible assets mainly comprise goodwill from consolidation.

In the year under review, R&D costs of €86.8 million were incurred (2002: €90.9 million), €5.4 million of which (2002: €5.3 million) met the capitalization criteria as defined in the IFRS.

The following amounts were charged to other operating expenses:

Research and development costs chargeable as expenditure *€ million*

	2002	**2003**
Research costs and noncapitalized development costs	83.3	78.1
Amortization of capitalized development costs	2.3	3.3
R&D costs expensed	85.6	81.4

The total amortization of intangible assets amounted to €10.4 million (2002: €7.8 million). As in 2002, no special write-downs occurred during the period under review. For the year under review, the badwill is shown as a disposal; the year before, it was amortized to other operating income.

		Amortization/depreciation/write-down						Net values	
Currency translation differences	**12/31/ 2003**	01/01/ 2003	Additions	Disposals	Book transfers	Currency translation differences	**12/31/ 2003**	12/31/ 2002	**12/31/ 2003**
0.0	24.0	7.8	3.3	0.0	0.0	0.0	11.1	9.7	12.9
(0.4)	28.9	11.8	3.1	0.6	0.0	(0.3)	14.0	6.7	14.9
(1.3)	74.9	21.5	4.0	(1.7)	0.0	(1.0)	26.2	53.0	48.7
0.0	0.0	(6.0)	0.0	(6.0)	0.0	0.0	0.0	0.0	0.0
0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	4.7	0.6
(1.7)	128.4	35.1	10.4	(7.1)	0.0	(1.3)	51.3	74.1	77.1
(6.1)	323.1	135.0	11.5	0.3	0.0	(2.2)	144.0	185.9	179.1
(37.8)	1,104.3	781.2	83.2	19.9	0.0	(26.1)	818.4	304.4	285.9
(2.0)	278.4	203.2	30.9	18.2	0.0	(1.7)	214.2	73.4	64.2
0.0	7.9	0.0	0.0	0.0	0.0	0.0	0.0	8.0	7.9
(2.6)	45.0	0.0	0.0	0.0	0.0	0.0	0.0	48.8	45.0
(48.5)	1,758.7	1,119.4	125.6	38.4	0.0	(30.0)	1,176.6	620.5	582.1
0.0	29.7	0.0	0.0	0.0	0.0	0.0	0.0	12.7	29.7
0.0	7.6	0.0	0.0	0.0	0.0	0.0	0.0	15.6	7.6
0.0	1.2	0.3	0.0	0.0	0.0	0.0	0.3	0.9	0.9
0.0	1.6	0.1	0.0	0.0	0.0	0.0	0.1	2.5	1.5
0.0	40.1	0.4	0.0	0.0	0.0	0.0	0.4	31.7	39.7
(50.2)	**1,927.2**	**1,154.9**	**136.0**	**31.3**	**0.0**	**(31.3)**	**1,228.3**	**726.3**	**698.9**

(8)
Tangible assets

Depreciation in 2003 amounted to €125.6 million (2002: €129,6 million). The figure for 2003 contains €6.2 million in special write-downs (2002: €0.0 million), of which €1.0 million related to buildings for which no future economic use exists, and €5.2 million to production plant and machinery made redundant by cancelled orders.

Encumbrances of €17.0 million (2002: €15.5 million) rest on land and buildings to collateralize long-term investment loans. Moreover, production plant and machinery of €9.3 million (2002: €10.2 million) were assigned as security for an investment loan.

The property, plant & equipment capitalized under capital leases total €31.1 million (2002: €41.8 million), of which €8.7 million (2002: €9.2 million) is allocable to a long-term property lease; another €22.4 million (2002: €32.6 million) refers exclusively to capital leases for production plant and machinery used in current production. Lease terms vary between 4 and 10 years. Depending on the local market and the contracting date, the interest rates underlying these leases range from 5.9 to 8.0 percent. The future rents payable under capital leases, the interest portions therein included, as well as the present values of future rents are all shown in the table below:

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Rents in subsequent years – Finance leasing *€ million*

[1]	2002				2003			
	2003	2004–2007	from 2008	Total	2004	2005–2008	from 2009	Total
Rents	9.8	25.4	20.3	55.5	9.4	19.2	16.6	45.2
Discount	2.0	5.2	5.9	13.1	2.0	5.1	4.9	12.0
Present values	7.8	20.2	14.4	42.4	7.4	14.1	11.7	33.2

[1] *adjusted for 2002*

There are no subleases.

(9)
Financial assets

The share of assets and liabilities as well as earnings and expenses from joint ventures at the balance sheet date are as follows:

Joint Ventures *€ million*

	2002	2003
Assets [1]	20.4	35.4
Equity	9.7	23.1
Debts [2]	10.7	12.3
Net sales	23.1	46.0
EBT	1.5	8.7

[1] *Including income tax and prepaid expenses and deferred charges*
[2] *Accruals, liabilities, income tax and deferred income*

Participations in joint ventures and affiliated companies developed as follows:

Financial assets *€ million*

	Book value 01/01/ 2003	Repositioning	Additions	P/L share	Dividend payments	Goodwill amortization	Book value **31/12/ 2003**
Joint Ventures							
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd.	12.7	0.0	0.0	4.8	(1.2)	(0.1)	16.2
Kolbenschmidt Shanghai Piston Co. Ltd.	0.0	8.0	3.1	2.9	(0.5)	0.0	13.5
	12.7	**8.0**	**3.1**	**7.7**	**(1.7)**	**(0.1)**	**29.7**
Associated affiliates							
Kolbenschmidt Shanghai Piston Co. Ltd.	8.0	(8.0)	0.0	0.0	0.0	0.0	0.0
Pierburg Instruments GmbH	7.6	0.0	0.0	0.0	0.0	0.0	7.6
	15.6	**(8.0)**	**0.0**	**0.0**	**0.0**	**0.0**	**7.6**

In the year under review, the Group increased its share in Kolbenschmidt Shanghai Piston Co. Ltd. of Shanghai from 35 to 50 percent, so that this company appears under joint ventures.

All securities are available for sale.

The remaining other long-term securities at a total book value of €0.9 million (2002: €0.9 million), for which no quoted market price is available and whose fair value cannot reliably be determined are stated at amortized cost in accordance with IAS 39.

(10)
Inventories

Inventories *€ million*	2002	**2003**
Raw materials and supplies	77.5	65.0
Work in process	50.5	54.3
Finished products and merchandise	94.1	92.3
Prepayments made	0.3	0.8
	222.4	**212.4**
Prepayments received	0.0	(7.1)
	222.4	**205.3**

The book value of inventories stated at the lower NRV totals €22.6 million (2002: €61.7 million). In the year under review, €2.2 million (2002: €1.7 million) of inventories previously written down was written up as their NRV had risen. Inventories are not used to collateralize liabilities.

(11)
Receivables and sundry assets

Receivables and sundry assets *€ million*	2002	of which due after >1 year	**2003**	of which due after >1 year
Trade receivables of which due from	183.1	1.7	194.8	0.0
Group companies	*[0.1]*	*[0.0]*	*[0.0]*	*[0.0]*
joint ventures and associated affiliates	*[1.2]*	*[0.0]*	*[0.1]*	*[0.0]*
All other receivables and sundry assets	29.4	2.5	33.4	1.3
	212.5	**4.2**	**228.2**	**1.3**

The disclosed book values of the monetary assets covered by these items approximate their fair values.

Under an ABT program, the Kolbenschmidt Pierburg Group sells inter alia trade receivables on a revolving basis up to a maximum volume of €126.7 million (2002: €129.3 million). Since IAS 39 requires these receivables to be treated as sold, they have not been shown on the face of the consolidated balance sheet. As of December 12, 2003, the receivables sold had a par value of €93.1 million (2002: €101.7 million).

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Other receivables and sundry assets encompass:

Other receivables and sundry assets € *million*	2002	of which due >1 year	**2003**	of which due >1 year
Accounts due for/from				
non-income taxes	9.9	1.7	13.0	0.8
financing	9.1	0.0	14.0	0.0
prepayments made	0.4	0.0	0.6	0.0
guaranty fund	1.4	0.0	1.1	0.0
investment grants/allowances	0.3	0.0	0.2	0.0
Other	8.3	0.8	4.5	0.5
	29.4	**2.5**	**33.4**	**1.3**

In 2003, allowances for doubtful receivables were charged at €2.6 million (2002: €1.3 million).

(12)
Cash & cash equivalents

Cash & cash equivalents € *million*	2002	**2003**
Cash on hand and checks	0.1	2.3
Cash in banks	44.2	40.4
	44.3	**42.7**

(13)
Income tax assets

Income tax assets € *million*	2002	**2003**	of which recognized in net income	of which not recognized in net income
Deferred taxes				
from temporary differences	22.5	21.7	22.0	(0.3)
from loss carryforward	16.2	12.7	12.7	0.0
	38.7	34.4	34.7	(0.3)
Income tax refundable by the tax authorities	5.6	1.8	1.8	0.0
	44.3	**36.2**	36.5	(0.3)

For temporary differences in holdings in subsidiaries and affiliated companies totalling € 2.7 million no deferred tax liabilities are carried, as the reverse effect can be influenced and neither the payment of a dividend nor the disposal of these companies in the foreseeable future is likely.

At the end of the 2003, tax reduction claims of €12.7 million (2002: €16.2 million) were carried, deriving from the expected utilization of existing loss carryovers and tax credits in subsequent years. Loss carryovers are stated on the basis of corporate planning data at the amount of budgeted future taxable income.

Over and above the deferred tax assets from loss carryovers and tax credits, German and foreign tax loss carryovers exist at a total €158.9 million (2002: €166.2 million) which was not recognizable, €58.9 million thereof (2002: €57.8 million) being allocable to Germany and another €109.3 million (2002: €108.4 million) existing abroad. Even after the introduction of minimum taxation, domestic loss carryforwards are not subject to expiration. Of the foreign loss carryforwards, €0.4 million (2002: €2.2 million) expire between 2005 and 2008; €104.5 million (2002: €103.4 million) expire after 2008; while €4.4 million (2002: €2.8 million) were not subject to expiration. The non-reported foreign loss carryforwards contain tax credits of €2.5 million (2002: €0.0 million), which are not subject to expiration. No deferred taxes adjusted in prior periods were written up (2002: €0.3 million).

(14)
Total equity

Kolbenschmidt Pierburg AG's capital stock amounts to €71.7 million and is divided into 28,003,395 no-par bearer shares of fully voting common stock. No unpaid capital is subscribed.

The Executive Board was authorized to raise the capital stock on or before June 30, 2003, after first obtaining the Supervisory Board's approval, by issuing once or several times new stock against cash contributions for an aggregate maximum of €25.6 million. In 2003, no new no-par shares were issued.

Furthermore, the Executive Board was authorized to raise the capital stock on or before June 30, 2003, after first obtaining the Supervisory Board's approval, by issuing once or several times new stock against cash contributions for an aggregate maximum of €6.6 million. No new shares were issued during the period under review.

The Executive Board was also authorized to acquire on or before December 5, 2003, treasury stock equivalent to an aggregate maximum of 10 percent of the current capital stock. The authority to repurchase any of the company's stock has not been exercised.

Unchanged from the previous year, the additional paid-in capital amounts to an unchanged €174.0 million.

The other reserves include, besides retained reserves, differences from exchange differences, as well as reserves from fair valuation. During fiscal 2003, these reserves developed along the following lines:

Plan assets at fair value *€ million*

	Hedge reserve	Securities available for sale	Reserves from fair valuation
Balance at January 1, 2002	**(0.3)**	**9.5**	**9.2**
Gain realized from the disposal of securities available for sale	0.0	(15.9)	(15.9)
Deferred taxes on the disposal of securities available for sale	0.0	6.4	6.4
Changes in fair value	(0.3)	0.0	(0.3)
Deferred taxes	0.2	0.0	0.2
Balance at January 1, 2003	**(0.4)**	**0.0**	**(0.4)**
Exchange differences	0.2	0.0	0.2
Changes in fair value	1.2	0.0	1.2
Deferred taxes	(0.5)	0.0	(0.5)
Balance at December 31, 2003	**0.5**	**0.0**	**0.5**

Contained in the reserves for hedge operations are the differences deriving from fair valuation of an interest swap transaction, which matures in 2005. Furthermore, the differences from the fair valuation of individual forward exchange operations are contained here, concluded for hedging planned purchases of materials in 2004.

The separate financial statements of Kolbenschmidt Pierburg AG (prepared in accordance with HGB) close the fiscal year with net earnings of €14.0 million, proposed to be distributed in full to pay a cash dividend of €0.50 per no-par share of stock (2002: €0,50).

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(15)
Accruals for pensions

These accruals provide for obligations under vested rights and current pensions payable to eligible active and former employees and their surviving dependants. Such commitments primarily encompass pensions, both basic and supplementary. The individual confirmed pension entitlements are based on benefits that vary according to country and company and, as a rule, are measured according to service years and employee pay. Being a noncurrent provision for the accumulated postretirement benefit obligation, the accrued health care obligations to the retirees of some US group companies are also included in the pension accruals recognized hereunder.

The company pension system consists of both defined-contribution (DCP) and defined-benefit plans. Under a DCP, the company incurs no obligations other than the payment of contributions to earmarked funds or appropriated plans. These pension expenses are shown within personnel expenses. In the year under review, a total €24.3 million (2002: €25.9 million) was paid to DCPs.

Under defined benefit plans, a company is obligated to meet its confirmed commitments to active and former employees.

The following parameters underlay the actuarial calculation:

Pension accruals – calculation parameters *in %*

	12/31/2002		**12/31/2003**	
	Germany	USA	Germany	USA
Discount rate	5.5	6.5	5.5	6.0
General pay rise	3.0	4.0	3.0	4.0
Pay rise (firm commitment)	1.25	--	1.25	--
Pension rise	1.25	--	1.25	--
Health care cost rise	--	12.0–5.0	--	14.0–5.0
Expected return on plan assets	--	9.0	--	9.0

The US interest was adjusted on account of the downward drift of relevant capital market interests since December 31, 2002.

Pension accruals developed in 2003 as follows:

Pension accruals – trends *€ million*

	2002	**2003**
Balance at January 1	**286.2**	**272.9**
Pension payments and contributions to plan	(23.4)	(29.8)
Service cost	6.7	5.3
Effects of plan curtailments/settlements	8.2	(1.1)
Past service costs/revenue	(21.0)	(1.5)
Amortized insurance-related gains and losses	4.3	2.6
Compounding of expected pension obligations	22.9	19.9
Expected return on plan assets	(6.2)	(4.3)
Exchange differences/other	(4.8)	(7.5)
Balance at December 31	**272.9**	**256.5**

Pension accruals are derived from the DBO's present value and the plan assets as shown in this table:

Pension accruals – transition *€ million*

	2002			2003		
	Germany	Abroad	Total	Germany	Abroad	Total
Analysis of the DBO's present value						
Present value of DBO at January 1	216.8	189.3	406.1	217.9	151.5	369.4
Exchange differences	0.0	(26.8)	(26.8)	0.0	(22.8)	(22.8)
Service cost	3.8	2.9	6.7	3.6	1.7	5.3
Interest cost	12.1	10.8	22.9	11.7	8.2	19.9
Pension payments	(10.9)	(14.9)	(25.8)	(12.9)	(13.5)	(26.4)
Plan curtailment/settlements	(0.1)	8.3	8.2	(0.1)	(1.0)	(1.1)
Unrecognized past service returns/costs	0.0	(25.4)	(25.4)	0.0	(1.6)	(1.6)
Actuarial gains/losses	(3.8)	7.3	3.5	(0.2)	1.0	0.8
Plan assets at fair value at December 31	**217.9**	**151.5**	**369.4**	**220.0**	**123.5**	**343.5**
Development of plan assets						
Present value of DBO at Januar 1	0.0	80.7	80.7	0.0	53.9	53.9
Exchange differences	0.0	(10.9)	(10.9)	0.0	(9.6)	(9.6)
Expected return on plan assets	0.0	6.2	6.2	0.0	4.3	4.3
Contributions to plan	0.0	11.3	11.3	0.0	17.1	17.1
Pension payments of plan	0.0	(13.7)	(13.7)	0.0	(13.7)	(13.7)
Actuarial gains/losses	0.0	(19.7)	(19.7)	0.0	6.2	6.2
Present fair value of DBO	**0.0**	**53.9**	**53.9**	**0.0**	**58.2**	**58.2**
Unfunded pension obligations at December 31						
Unrecognized actuarial gains/losses	(3.9)	(42.6)	(46.5)	(3.7)	(28.5)	(32.2)
Unrecognized past service returns/costs	0.0	3.9	3.9	0.0	3.4	3.4
Pension accrual at December 31	**214.0**	**58.9**	**272.9**	**216.3**	**40.2**	**256.5**

The present value of funded pension obligations at December 31, 2003, came to €114.0 million (2002: €121.1 million). The unrecognized actuarial losses of €32.2 million (2002: €46.5 million) are substantially the result of adjusted discount rates and of the deviating actual vs. expected return on plan assets. In 2003, plan assets amounted to €10.5 million (2002: loss of €12.2 million) the previous year prior to a foreign currency loss with a neutral impact on earnings. Actuarial losses are expensed over the average residual service years if outside a corridor of 10 percent of total DBO, those proratable to the year under review amounting to €2.6 million (2002: €4.3 million).

Plan assets break down as follows:

Pension accruals – plan assets *€ million*

	2002	**2003**
Equities	33.3	37.1
Government and corporate bonds	18.8	18.3
Cash & cash equivalents	1.8	2.8
Plan assets	**53.9**	**58.2**

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Pension expenses are structured as follows:

Pension expenses *€ million*

	2002	**2003**
Current service cost	6.7	5.3
Amortized actuarial gains/losses	4.3	2.6
Past service cost/revenue	(21.0)	(1.5)
Effects of plan curtailments/settlements	8.2	(1.1)
Expected return on assets	(6.2)	(4.3)
Compounding of expected pension obligations	22.9	19.9
	14.9	**20.9**

The interest portion in the 2003 pension accruals, as well as the expected return on plan assets, are shown within net interest expense, the remaining items being included in personnel expenses.

The effects of the past service cost/revenue ensue from subsequently renegotiated pension and post-employment health care obligations, while the impact from plan curtailments/settlements is attributable to restructuring programs.

(16)
Other accruals

Other accruals *€ million*

	Warranties	Identifiable losses	Yet unbilled costs	Restructuring	Sales remuneration	Environmental risks	Personnel	Other	Total
Balance at January 1, 2002	**19.0**	**15.4**	**6.3**	**3.0**	**3.2**	**3.6**	**53.4**	**17.5**	**121.4**
Utilized	(4.8)	(9.5)	(5.9)	(1.0)	(2.5)	(0.6)	(35.8)	(6.7)	(66.8)
Released	(1.3)	0.0	(0.2)	(0.2)	(0.5)	0.0	(1.7)	(5.3)	(9.2)
Added/newly provided	6.7	10.8	9.1	0.2	1.7	0.8	36.8	16.8	82.9
Compounded	0.2	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0	0.1
Exchange differences/other	(0.1)	(1.1)	0.0	(0.2)	0.0	(0.3)	(3.2)	(1.1)	(6.0)
Balance at January 1, 2003	**19.7**	**15.6**	**9.3**	**1.8**	**1.9**	**3.4**	**49.5**	**21.2**	**122.4**
Utilized	(4.0)	(8.1)	(8.5)	(0.4)	(1.6)	(0.3)	(37.7)	(7.2)	(67.8)
Released	(1.7)	(1.4)	0.0	(0.7)	(0.2)	0.0	(1.2)	(0.9)	(6.1)
Added/newly provided	10.8	5.7	11.2	3.6	2.0	1.6	49.4	7.4	91.7
Compounded	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Exchange differences/other	(0.2)	(0.3)	0.7	(0.1)	0.0	(0.4)	(0.8)	(1.4)	(2.5)
Balance at December 31, 2003	**24.7**	**11.5**	**12.7**	**4.2**	**2.1**	**4.3**	**59.2**	**19.2**	**137.9**

Known specific warranty risks are accrued at the anticipated amount of the obligation. Accruals for identified losses provide for binding purchasing obligations. Any economic risks beyond are also adequately provided for.

Accruals for obligations to personnel essentially provide for accrued vacation, residual annual leave, overtime and flextime at a total €18.7 million (2002: €19.3 million); for pre-retirement part-time work at €12.2 million (2002; €5.7 million); and for termination benefits at €5.9 million (2002: €8.5 million).

An amount of €8.0 million (2002: €12.5 million) is at issue in a legal claim for damages still pending. Since the subsidiary is not at fault in this issue and the claim for such damages is thus not expected to be successful in this amount, €0.4 million for extra legal costs was added to the €1.2 million reserved for this purpose the year before, bringing the total to €1.6 million. Should higher damages be awarded, it is believed that a portion not yet determinable at present is covered by insurance.

As in 2002, no refunds are expected from accruals. The following cash outflows are predicted for each category of the discounted noncurrent accruals:

Payment outflow accruals *€ million*

	within 1 year	1–5 years	after 5 years	Total
Warranties	20.2	4.5	0.0	24.7
Identifiable losses	11.5	0.0	0.0	11.5
Yet unbilled costs	12.1	0.6	0.0	12.7
Restructuring	1.6	2.6	0.0	4.2
Sales remuneration	2.1	0.0	0.0	2.1
Environmental risks	0.5	3.3	0.5	4.3
Personnel	39.6	17.6	2.0	59.2
Other	15.7	3.4	0.1	19.2
	103.3	**32.0**	**2.6**	**137.9**

(17)
Liabilities

Liabilities *€ million*

	12/31/ 2002	of which due within ‹1 year	of which due within ›5 years	**12/31/ 2003**	of which due within ‹1 year	of which due within ›5 years
Financial liabilities						
due to banks	129.4	9.7	26.7	74.8	7.9	25.5
due to non-consolidated Group companies	0.0	0.0	0.0	10.9	10.9	0.0
under leases	78.9	11.4	38.1	59.4	8.5	11.7
other	1.6	0.8	0.3	2.2	0.5	0.0
	209.9	21.9	65.1	147.3	27.8	37.2
Trade payables	177.0	177.0	0.0	173.0	173.0	0.0
All other liabilities						
prepayments received on orders	6.5	6.5	0.0	9.6	9.6	0.0
notes payable (trade)	6.6	6.6	0.0	9.1	9.1	0.0
Sundry liabilities	85.6	83.3	0.0	79.7	77.6	0.0
	98.7	96.4	0.0	98.4	96.3	0.0
	485.6	**295.3**	**65.1**	**418.7**	**297.1**	**37.2**

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The financial debts under leases include accounts payable by the special-purpose leasing firms to banks at €26.2 million (2002: €36.5 million). Debts owed to banks continue to contain no finance bill liabilities. Out of the accounts due to banks, €17.0 million (2002: €15.5 million) is collateralized by land charges and similar encumbrances, another €9.3 million (2002: €10.2 million) being secured by similar rights and interests.

Sundry liabilities break down as follows:

Sundry liabilities *€ million*

	12/31/2002	**12/31/2003**
Monies in transit	49.3	39.1
Non-income taxes	13.6	10.4
Social security	15.6	13.2
Due to employees	3.6	9.0
Other liabilities	3.5	8.0
	85.6	**79.7**

The liabilities to joint ventures and associated affiliates totaled €0.3 million (2002: €0.2 million). The carrying values of trade payables and all other liabilities approximate their fair values.

The analysis below reflects the terms as well as book and fair values of financial debts:

Liabilities due to banks

Terms	Weighted rate *in %*	Currency	Book value 12/31/2002 *€ million*	Market value 12/31/2002 *€ million*	Rates fixed until	Book value **12/31/2003** *€ million*	Market value **12/31/2003** *€ million*
fixed	3.5	*€*	6.2	6.2	2003	0.0	0.0
fixed	7.4	*US$/¥*	42.0	48.1	2005	33.7	38.3
fixed	1.0	*¥*	0.0	0.0	2006	1.2	1.3
fixed	5.2	*€*	9.5	11.0	2007	9.2	9.6
fixed	3.0	*US$*	0.0	0.0	2008	3.6	3.8
fixed	5.4	*€*	25.7	24.7	2020	24.2	25.2
Variable		*€/Rs*	0.0	0.0	2004	2.9	2.9

Liabilities due to banks of special-purpose leasing firms

Terms	Weighted rate *in %*	Currency	Book value 12/31/2002 *€ million*	Fair value 12/31/2002 *€ million*	Rates fixed until	Book value **12/31/2003** *€ million*	Market value **12/31/2003** *€ million*
fixed	6.0	*€*	36.5	38.1	2008	26.2	27.4

Due under capital leases

Terms	Weighted rate *in %*	Currency	Book value 12/31/2002 *€ million*	Fair value 12/31/2002 *€ million*	Rates fixed until	Book value **12/31/2003** *€ million*	Market value **12/31/2003** *€ million*
fixed	6.5	€	1.1	1.1	2003	0.0	0.0
fixed	5.9	€	5.3	6.8	2004	2.8	2.9
fixed	5.9	€	5.1	5.3	2005	3.5	3.7
fixed	5.9	€	7.6	7.7	2006	5.2	5.5
fixed	6.5	€	5.6	6.1	2008	4.9	5.8
fixed	6.5	€	4.0	4.0	2010	3.6	3.9
fixed	6.5	€	0.6	0.6	2011	0.6	0.6
fixed	6.5	€	1.9	2.0	2012	1.7	1.8
fixed	8.0	€	11.2	13.1	2020	10.9	13.1

The stated fair values were calculated on the basis of interest rates valid at December 31, 2003 for the respective maturities and redemption structures.

(18)
Income tax liabilities

Income tax liabilities *€ million*

	2002	**2003**
Deferred taxes	7.3	5.8
Current income taxes	17.8	24.2
	25.1	**30.0**

The deferred tax assets and liabilities refer to the following:

Composition of deferred tax assets and liabilities *€ million*

	2002 assets	2002 liabilities	**2003** assets	**2003** liabilities
Loss carryforwards and tax credits	16.2	0.0	12.7	0.0
Tangible and intangible assets	13.6	(43.9)	9.4	(37.2)
Pension accruals	19.4	0.0	20.3	(0.5)
Other accruals	10.2	0.0	13.3	0.0
Liabilities	68.6	(86.7)	19.1	(18.8)
Sundry	63.9	(29.9)	19.8	(9.5)
Subtotal	191.9	(160.5)	94.6	(66.0)
Offset	(153.2)	153.2	(60.2)	60.2
Consolidated balance sheet	**38.7**	**(7.3)**	**34.4**	**(5.8)**

(19)
Deferred income

Deferred income *€ million*

	12/31/ 2002	of which >1 year	**12/31/ 2003**	of which >1 year
Customer grants	9.0	2.4	3.4	2.0
Public grants and subsidies	3.5	2.4	3.4	1.2
Other	0.5	0.5	1.2	0.8
	13.0	**5.3**	**8.0**	**4.0**

Notes
to the Consolidated income statement

(20)
Net sales

For a breakdown of the net sales of €1,884.2 million (2002: €1,882.6 million) by divisions and regions, see the segment reports.

(21)
Net inventory changes, other work and material capitalized

Net inventory changes, other work and material capitalized *€ million*	2002	2003
Change in inventories of finished products and work in process	(2.9)	3.9
Other work and material capitalized	12.1	13.3
	9.2	**17.2**

(22)
Other operating income

Other operating income *€ million*	2002	2003
Income from the disposal of plant and equipment	0.4	13.6
Income from the release of accruals	9.2	6.1
Income from investment grants and subsidies	6.5	4.1
Income from credit notes for prior periods	4.0	3.6
Income from customer reimbursements	1.0	8.5
Income from the reimbursement for prototypes and tools	8.7	6.0
Income from the sale of leftover material	1.7	1.4
Income from services	0.4	2.1
Income from the release of accrued non-German tax liabilities	2.4	0.0
Income from the payment of bad debts charged off and the reversal of bad-debt allowances	2.1	2.1
Rental income	2.1	3.7
Income from damages/claims	0.7	0.9
Income from the release of badwill	1.6	0.0
Other income	5.5	10.6
	46.3	**62.7**

(23)
Cost of materials

Cost of materials *€ million*	2002	2003
Cost of raw materials, supplies, and merchandise purchased	885.5	888.8
Cost of services purchased	90.4	81.8
	975.9	**970.6**

The Group's cost of materials decreased in 2003 as inventories were written up at €2.2 million (2002: €1.7 million).

(24)
Personnel expenses

Personnel expenses *€ million*	2002	2003
Wages and salaries	411.8	413.8
Social security contributions	73.7	71.0
Expenses for pensions and related employee benefits	24.1	30.4
	509.6	**515.2**

Pension expense primarily reflects the annual provision for accrued pension liabilities–cf. Note (15)–and the DCP contributions.

Annual average headcount

Annual average headcount	2002	2003
Pierburg	3,961	3,714
KS Pistons	5,461	5,530
KS Plain Bearings	1,009	1,006
KS Aluminum Technology	823	900
Motor Service	393	361
Other	38	34
	11,685	**11,545**

(25)
Amortization/depreciation/write-down

This encompasses amortization of goodwill as well as other intangible and tangible assets. For a breakdown by amortization see the notes to the respective fixed-asset lines. During the period under review, special write-downs totaling €6.2 million were charged (2002: €0.0 million).

NOTES
TO THE CONSOLIDATED INCOME STATEMENT

(26)
Other operating expenses

Other operating expenses *€ million*	12/31/2002	**12/31/2003**
Maintenance and repair	43.9	50.0
Selling, promotion and advertising	25.8	24.0
Group allocations and service fees	20.0	5.8
Other general administration	13.4	15.1
Legal and consultancy fees	12.2	10.2
Rents	11.3	10.2
Data processing	10.8	24.2
Other payroll incidentals	8.9	9.2
Travel	8.8	8.8
Insurances	7.3	7.1
Severance packages, termination benefits, pre-retirement part-time work	6.9	15.9
Non-income taxes	6.5	7.7
Losses on fixed-asset disposal	6.1	1.0
Warranties	4.8	7.1
Outsourced support services	4.6	6.3
Research and development	3.7	5.3
Commissions	2.6	1.4
Provision of labor	2.2	1.1
Cleaning of buildings	2.0	2.1
Physical security	1.7	1.7
Write-down of receivables	1.3	2.6
Losses from damaging events	0.4	0.5
Formation of other accruals	5.8	9.8
Other expenses	23.0	15.7
	234.0	**242.8**

Income from the release of accruals was offset at €13.0 million (2002: €13.3 million) against other operating expenses. The changes in the Group allocation amounting to a negative €14.2 million, and in data processing totaling €13.4 million, relate to the fact that data processing services were provided via Rheinmetall the previous year, and were thus still contained in the Group allocation. These services continue to be provided by the same company, though now acting as an external supplier.

(27)
Net interest expense

Net interest expense *€ million*

	2002	2003
Interest income		
return on plan assets	6.2	4.3
from long-term loans and financial receivables	0.3	0.2
other interest and similar income	1.4	2.9
	7.9	7.4
Interest expense		
from capital leases	(3.8)	(4.9)
compounding of pensions	(22.9)	(19.9)
compounding of other noncurrent accruals	(0.1)	(0.2)
other interest and similar expenses	(18.4)	(12.9)
	(45.2)	(37.9)
	(37.3)	**(30.5)**

(28)
Net investment income and other financial results

Net investment income and other financial results *€ million*

	2002	2003
Net investment income		
from joint ventures	1.4	7.6
from associated affiliates	0.8	0.0
	2.2	7.6
Other financial results		
from foreign exchange	(1.2)	(3.1)
from financial derivatives	1.5	0.5
from the disposal of other long-term securities	14.8	0.0
Other financial expenses/income, net	(1.1)	(1.4)
	14.0	(4.0)
	16.2	**3.6**

The other financial results from foreign exchange includes €0.2 million (2002: €0.9 million), the loss from consolidating the Turkish subsidiary's annual accounts according to the rules for hyperinflationary economies.

(29)
Income taxes

Income taxes *€ million*

	2002	2003
Actual income tax expenses	32.1	28.9
Non-period actual income tax expenses/refunds	(7.4)	0.6
Deferred tax expense	(1.3)	(0.1)
	23.4	**29.4**

Notes
to the Consolidated income statement

The table below reconciles the expected to the recognized tax expense, which is determined by multiplying EBT by an unchanged tax rate of 40 percent. This includes corporate income tax, the solidarity surtax thereon, and municipal trade tax. Expected tax expenses are matched against the effective income tax burden.

Reconciliation of expected to effective tax expenses *€ million*

	2002	**2003**
EBT	60.1	72.6
Expected tax expense	**24.0**	**29.0**
Differences from German tax rates	(0.3)	(0.2)
Differences from foreign tax rates	(2.5)	(4.8)
Losses of subsidiaries not subjected to deferred taxation	10.2	6.4
Tax-exempt income and nondeductible expenses	(10.1)	(0.7)
Nondeductible goodwill amortization	0.7	1.5
Adjustment for non-period income taxes	1.9	0.6
Reduction of deferred taxes due to tax rate change	(0.6)	0.3
Joint Ventures and associated affiliates reported at equity	(0.2)	(2.8)
Other	0.3	0.1
Effective tax expense	**23.4**	**29.4**
Effective tax rate in %	39%	40%
Expected tax rate in %	40%	40%

(30)
Minority interests

Minority interests in profit came to €0.9 million (2002: €0.6 million) and in loss to €0.1 million (2002: €1.0 million).

(31)
Earnings per share (EpS)

EpS is obtained by dividing the weighted average number of shares issued and outstanding in the fiscal year into the Group's earnings. Neither at December 31, 2003 nor December 31, 2002 were any shares outstanding that could dilute earnings per share. Therefore, both in the year under review and the previous year, the undiluted EpS equals the diluted EpS.

Earnings per share (EpS)

	2002	**2003**
Group earnings (after minority interests) €	37,092,377	42,398,238
Weight average number of shares	28,003,395	28,003,395
Earnings per share (EpS) €	1.32	1.51

The weighted average of the shares corresponds to the overall number shares, since there was no change in the number of shares in circulation.

Note

to the consolidated statement of cash flows

(32)
Cash flow statement

The cash flow statement conforms to IAS 7 and breaks down into the cash flows generated by operating, investing and financing activities. The effects of changes in the consolidation group are eliminated but they and parity changes, if impacting on cash & cash equivalents, are shown in separate lines.

Starting from the beginning-of-period (BoP) balance of cash & cash equivalents, this statement shows a cash flow of €170.0 million (2002: €170.0 million), contrasting with net cash provided by operating activities of €174.4 million, €41.0 million lower than the previous year's figure which was positively influenced by the one-off effect of the successful implementation of the Working Capital Program, €69.5 million. Cash inflow from current operations contained interest of €3.1 million (2002: €1.6 million) and a cash outflow for interest of €15.3 million (2002: €19.6 million). Income taxes paid came to €25.2 million (2002: €31.2 million), those refunded totaling €6.2 million (2002: €6.4 million). The dividends received from associated affiliates and investees amounted to €1.7 million (2002: €1.2 million).

The net cash used in investing activities sank by €10.6 million to €106.5 million. The cash inflow deriving from the disposal of tangible assets relates primarily to the sale of the "Electrical Fuel Pumps" to TI Automotive, the cash outflow to the acquisition of the pistons unit of Microtechno Corp. of Japan. The year before, cash inflow from the disposal of investments amounted to €23.0 million, and relates to the selling price of Preh GmbH & Co. KG, which was carried as security.

By redeeming financial debts and paying dividends, the net cash used in financing activities came to €69.5 million for the period under review (2002: €74.3 million).

Note to the segment reports

(33)
Segment reports

In accordance with the Kolbenschmidt Pierburg Group's internal controlling organization, the Group breaks down into five primary divisions, viz.

– Air supply, emission control and pumps
– Large- and small-bore pistons
– Plain bearings and continuous castings
– Engine blocks
– Aftermarket

The "Others/Consolidation" column includes, apart from the Group's parent (Kolbenschmidt Pierburg AG), further companies not allocable to any defined segment as well as consolidation.

Responsibilities are clearly separated between the segments and Kolbenschmidt Pierburg AG, which performs the functions of a strategic management holding company. The management of the company and its internal reporting procedures have been structured accordingly. The companies belonging in each segment/division are listed on pages 106f. in line with the Kolbenschmidt Pierburg Group's shareholder value concept, segment assets comprise the essential assets excluding cash & cash equivalents and income tax assets, while segment liabilities exclude financial debts and income tax liabilities. Net financial liabilities are contained in financial liabilities, minus cash and cash equivalents.

Capital employed (CE) is the sum total of equity (including minority interests), pension accruals, encompassing the net assets used to determine EBIT.

The return on capital employed (ROCE) equals EBIT divided into average capital employed (average of the balances at December 31, 2002 and December 31, 2003.

The intersegment transfers principally indicate sales among divisions and are priced as if at arm's length.

EBITDA means earnings before interest, income taxes, depreciation and amortization. In fiscal 2002, write-up of badwill was included in EBITDA; there was no write-up of badwill in 2003. Accordingly, EBIT betokens earnings before interest and income tax. The EBIT margin is defined as EBIT in relation to total segment sales.

Capital expenditures and amortization/depreciation refer to tangible and intangible assets (including goodwill).

Supplementary disclosures

(34)
Contingent liabilities

Since 1998, a court of arbitration has been examining the appropriateness of the conversion ratio calculated with regard to the merger of Kolbenschmidt Pierburg (Rheinmetall participations). On the basis of preliminary figures, the expert appointed by the Heilbronn District Court has now submitted an interim report that arrives at significantly deviating estimates of the worth of the two companies, which merged in January 1998. Kolbenschmidt Pierburg AG, however, after having read and considered this interim report, sees no grounds for distancing itself from the originally calculated value comparisons. At the time of the merger of the two companies, these value comparisons were calculated by two independent accounting companies and confirmed by a court-appointed merger and acquisitions expert. Kolbenschmidt Pierburg assumes that the value estimates, which were documented by three different experts, will be vindicated in the final ruling. So as not to prejudice the outcome of this process, we will desist from commenting further on this matter.

(35)
Other financial obligations

As of December 31, 2003, the commitments to purchase tangible assets totaled €3.1 million (2002: €17.6 million). Moreover, additional purchase price obligations partly relating to the planned purchase of the aftermarket operations of E. Trost GmbH & Co. KG of Stuttgart and PV Autoteile GmbH of Duisburg amounted to €7.9 million (2002: €13.6 million).

The rents for land and buildings chiefly refer to a long-term property lease that neither includes a purchase option nor a firmly agreed passage of title and, therefore, is an operating lease.

In the year under review, €9.7 million (2002: €10.8 million) was paid under operating leases and recognized in net income. No subleases existed.

In succeeding years, the following disbursements for operating leases will be made:

Rents in subsequent years – Finance leasing *€ million*

	2002			2003		
	2003	2004–2007	after 2007	2004	2005–2008	after 2008
Buildings	2.3	4.8	22.9	1.8	5.1	18.7
Production plant and machinery	2.0	3.7	0.0	1.5	1.9	0.0
Other leases	1.7	2.2	0.0	2.1	2.5	0.0
	6.0	10.7	22.9	5.4	9.5	18.7

(36)
Subsequent events

Via its subsidiary MTS Motorenteile Service GmbH of Neckarsulm, the Motor Service division acquired the engine parts activities of E. Trost GmbH & Co. KG of Stuttgart and PV Autoteile GmbH of Duisburg, effective January 2, 2004. In this context, MTS Motorenteile Service GmbH was refounded as MSD Motor Service Deutschland GmbH, based in Neckarsulm.

In January 2004 the Pierburg division sold its 49-percent share in Pierburg Instruments GmbH to the majority shareholder, AVL Holding Ges.m.b.H. of Graz, Austria. At December 31, 2003, this participation was consolidated at equity in the Group accounts.

On January 28, 2004, along with eleven other companies, KS Bearings Inc. was sued by an American couple as having been responsible for the emergency landing of an aircraft on February 24, 2000 and the ensuing personal injury and damage to property.

Based on its current state of knowledge, the company considers it rather unlikely that the suit will pose a risk to KS Bearings, as it cannot be inferred that parts produced by KS Bearings resulted in the emergency landing and the ensuing injury and damages. The only parts specifically cited in the statement of claim are a connecting rod bolt and connecting rod nut; at no time has KS Bearings Inc. ever manufactured either of these parts. Our risk assessment also takes account of the fact that KS Bearings is covered by insurance. The insurance company has already assured us of its willingness to defend us.

Supplementary disclosures

(37)
Stock Appreciation Rights (SAR)

During the period 1999 to 2002, the Kolbenschmidt Pierburg Group granted SARs to selected managerial staff, enabling them to participate in any stock appreciation. SAR programs are basically phantom stock option plans under which participants receive a cash compensation upon exercise that equals the difference between the stock price at exercise date and the base (reference) price. There are two different programs. For managerial staff, this base price has been fixed at the arithmetic mean of the closing prices quoted on the 10 market days preceding plan commencement; for executive board members, the base price is determined at 50 percent from the arithmetic mean of the closing prices of Kolbenschmidt Pierburg common stock and, at 25 percent each, from the arithmetic mean of Rheinmetall preferred and common stock. Either SAR program has an overall term of 7 years: after a 3-year qualifying period, SARs may be exercised during defined time windows during the residual 4-year term. If not exercised during such period or when eligible staff leave Kolbenschmidt Pierburg for any reason other than retirement or death, the SARs become forfeited and lapse. SARs cannot be exercised unless and until the base price has been exceeded by 25 percent or more on the day of exercise.

Key parameters of the SAR programs launched to date:

SAR Program

SAR-Program	Exercisable until	Baseprice € [1]	Number issued [1]	of which forfeited until 12/31/2002	of which forfeited in 2003	of which settled/exercised in 2003	SAR as of **12/31/2003**
Executive Board							
1998	end-2001	17.64	70,000	30,000	0	40,000	0
1999	end-2002	14.01	60,000	30,000	0	30,000	0
2000	end-2003	11.22	60,000	30,000	0	10,000	20,000
2001	end-2004	14.19	50,000	0	0	30,000	20,000
							40,000
Managerial staff							
1999	end-2002	15.07	250,000	50,000	7,500	192,500	0
2000	end-2003	13.20	245,000	45,000	7,500	192,500	0
2001	end-2004	11.88	222,500	5,000	10,500	207,000	0
							0

[1] *Previous year's figure adjusted*

Obligations under SARs are fair-valued pro rata temporis by using an option price model. An accrual of €0.3 million (2002: €0.4 million) provides for the obligations incurred up to December 31. 2003. In November 2003, the Executive Board presented the SAR holders with an offer of indemnification for SAR plans not yet due from the years 2000 and 2001. The stock price used in calculating the indemnification was derived from the arithmetical mean of the closing prices of the stock on the Frankfurt Stock Exchange (floor trading) during the last ten trading days prior to November 4, 2003.

Under the indemnification program, 439,500 options with a value totaling €3.6 million were indemnified.

(38)
Hedging policy and financial derivatives

The operations and financial transactions of Kolbenschmidt Pierburg as an international group are exposed to financial risks, mainly from exchange rate volatility and interest rate changes. In accordance with the groupwide implemented risk management system of Kolbenschmidt Pierburg AG, such risks are not only identified, analyzed and measured but also managed through derivative financial instruments. No such derivatives may be acquired for speculation. Counterparties of Kolbenschmidt Pierburg Group companies for contracting financial derivatives are exclusively German and foreign banks of prime standing. By setting these high standards on counterparties, the risk of uncollectible debts is minimized. All transactions involving financial derivatives are subject to stringent monitoring, which is particularly ensured by the strict segregation of the contracting, settlement and control functions.

Liquidity risk

The Kolbenschmidt Pierburg Group ensures sufficient liquidity at all times mainly through a liquidity forecast based on a fixed planning horizon as well as through existing, yet unutilized credit facilities.

Default risk

The Kolbenschmidt Pierburg Group primarily supplies customers of top standing and is hence hardly affected by any bad debts or uncollectibles, and even these are covered by adequate allowances according to what the Group is aware of presently. Moreover, the Kolbenschmidt Pierburg has not materially concentrated its credit facilities in one or only few lenders.

The default risk emanating from financial derivatives consists in a failure of the counterparty and is therefore limited to the instrument's positive fair value to the counterparty. Kolbenschmidt Pierburg companies contract financial derivatives solely with German and foreign banks of impeccable standing, thus minimizing default risks.

Currency risk

Due to the international nature of the Kolbenschmidt Pierburg Group's business, certain operational currency risks arise from the fluctuating parity of the euro to other currencies. Open positions exposed to a currency risk are principally hedged through financial derivatives, generally currency forwards or futures.

Interest rate risk

The Kolbenschmidt Pierburg Group's financing activities also use such funding tools as floating-rate facilities. Interest rate hedges such as caps/floors/collars and interest rate swaps contain the risks ensuing from market rate changes. These interest rate options are used to redesign variable-rate into fixed-rate agreements. These hedges are contracted centrally by Kolbenschmidt Pierburg AG. Volumes and maturities of the interest rate swaps exactly match the underlying bank loans and redemption schedules and are denominated in US dollar. They are embedded in a cash flow hedge with loan arrangements and, therefore, the differences from fair value re-measurement are recognized in equity only (reserves retained from earnings).

As of December 31, 2003, the currency and interest rate hedges tabled below existed. Their notional volumes being shown non-netted and thus reflecting the total amounts of all individual contracts. Being marked to the market at December 31, the fair values of financial derivatives correspond to prices in arm's length transactions.

Financial derivatives *€ million*

	Notional volume		Maturing after	Fair market values	
	12/31/2002	**12/31/2003**	(in months)	12/31/2002	**12/31/2003**
Currency hedges					
Currency forwards/futures	63.0	68.9	33	1.0	1.9
Interest rate hedges					
Swaps	12.2	10.3	59	(1.5)	(0.7)
Other derivatives	25.0	25.0	11	0.0	0.0

Supplementary disclosures

(39)
Related-party transactions

The subsidiaries consolidated by Kolbenschmidt Pierburg AG directly or indirectly maintain ordinary business relations with many non-consolidated group companies, as well as associated affiliates and joint ventures. Any and all trade transactions conducted in the scope of ordinary day-to-day business with unconsolidated related companies conform to the arm's length principle.

In addition, Rheinmetall AG as Kolbenschmidt Pierburg AG's majority stockholder as well as Rheinmetall service companies provide extensive services to companies of the Kolbenschmidt Pierburg Group, including (without being limited to) legal, tax, and PR consultancy and insurance services.

As a part of the cash management system of majority stockholder Rheinmetall AG, the Kolbenschmidt Pierburg Group invests and/or borrows cash & cash equivalents within the Rheinmetall Group. All cash management business is transacted as if at arm's length.

Volume of services provided to and/or by related companies:

Details of service transactions with related companies *€ million*

	Volume of services rendered		Volume of services utilized	
	2002	**2003**	2002	**2003**
Rheinmetall AG	0.2	0.0	7.7	5.2
Rheinmetall Service Gesellschaft mbH	0.1	0.0	1.3	0.4
Rheinmetall Informationssysteme GmbH	0.1	0.0	22.4	0.0
Pierburg Instruments GmbH	0.8	1.0	0.0	0.4
Kolbenschmidt Shanghai Piston Co. Ltd.	0.0	0.4	1.8	1.7
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd.	0.7	0.6	0.0	0.0

(40)
Supervisory and Executive Boards

Executive Board
For their duties performed on behalf of the parent company and its subsidiaries, the Executive Board members received fixed remuneration totaling €0.9 million in the year under review (2002: €1.3 million), and profit shares amounting to €2.1 million, (2002: €0.8 million). In addition, members of the Executive Board received income under the Stock Appreciation Rights (SAR) Program, amounting to €0.5 million, and former members of the Executive Board, €0.3 million. From the SAR program for 2000 and 2001, former members of the Executive Board still hold 40,000 shares of phantom stock, viz. 20,000 for the year 2000, and 20,000 for 2001. For further details of the SAR programs, turn to page 100 of this annual report. Furthermore, members of the Executive Board received €0.1 million as compensation in kind. The latter was substantially paid in the form of company car use and grants for social security insurance.
In 2003, the Executive Board thus received remuneration totaling €3.6 million (2002: €2.2 million). €0.4 million (2002: €0.4 million) was paid to former Executive Board members or their surviving dependants. Moreover, for the accrued pension obligations to former Executive Board members and their surviving dependants, a total of €5.1 million has been provided (2002: €3.8 million).

Supervisory Board
Supervisory Board fees amounted to €0.2 million in fiscal 2003 (2002: €0.2 million). No further compensation paid, nor were any benefits granted, to Supervisory Board members for personally rendered advisory or agency services in the year under review.

Shareholdings
As of December 31, 2003, none of Kolbenschmidt Pierburg AG's Supervisory or Executive Board members held any shares in the company.

(41)
Corporate Governance

Since early 2003, Kolbenschmidt Pierburg AG pursuant to Art. 161 AktG. has published a declaration of conformity to the German Corporate Governance Code on the Internet at www.kolbenschmidt-pierburg.com, thus making it available to its stockholders.

Regarding the consolidated financial statements of Rheinmetall AG, a declaration of conformity under the terms of Art. 161 AktG has been published since December 2002 on the Internet at www.rheinmetall.com.

Düsseldorf, March 2, 2004

The Executive Board

Dr. Kleinert
Chairman

Dr. Merten

Dr. Friedrich

Auditor's report and opinion

Kolbenschmidt Pierburg AG, Düsseldorf

Auditor's Report

We have audited the consolidated financial statements of Kolbenschmidt Pierburg Aktiengesellschaft, Düsseldorf, consisting of the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements for the business year from January 1. to December 31, 2003. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, 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 Kolbenschmidt Pierburg Group for the business year in accordance with IFRS.

Our audit, which also extends to the group management report prepared by the Board of Managing Directors for the business year from January 1. to December 31, 2003, has not led to any reservations. In our opinion, on the whole the group management report, together with the other information of the consolidated financial statements, 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 January 1. to December 31, 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 accounting law.

Düsseldorf, March, 3, 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bovensiepen	Staudacher
German Public Auditor	German Public Auditor

Group of consolidated companies at December 31, 2003

Group of consolidated companies at December 31, 2003

			IFRS Equity	Interest held(%) direct	indirect
	Kolbenschmidt Pierburg AG, Düsseldorf	€	286,457,477		
	Pierburg				
1	Pierburg GmbH, Neuss	€	112,198,235	100	
	Carbureibar S.A., Abadiano/Span	€	36,343,419		100
	Pierburg S.à r.l., Basse-Ham (Thionville)/France	€	28,761,387		100
	Pierburg Inc., Fountain Inn (Greenville), USA	US$	12,222,757		100
	Pierburg do Brasil Ind. e Comério Ltda., Nova Odessa, Brazil	Rs	9,199,045	100	
	Pierburg S.p.A., Lanciano/Italy	€	15,361,122		100
	Société Mosellane de Services S.C.I., Basse-Ham (Thionville)/France	€	10,172,049		100
2	Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai/China	Yuan	233,470,668		50
3	Calor Grundstücksverwaltungsgesellschaft mbH & Co. KG, Grünwald	€	(1,997,114)		94
2	Pierburg Instruments GmbH, Neuss	€	17,508,121		49
	KS Pistons				
1	KS Kolbenschmidt GmbH, Neckarsulm	€	176,008,606	100	
	KS Pistões Ltda., Nova Odessa/Brazil	Rs	130,188,136		100
	KS International Investment Corp., Southfield, USA	US$	154,697,466		100
	Karl Schmidt Unisia Inc., Marinette, USA	US$	5,331,180		92
	KS Large Bore Pistons Inc., Marinette, USA	US$	6,582,671		100
	KUS Canada Inc., Leamington/Canada	Can$	8,076,012		92
	KS France S.A.S., Basse-Ham (Thionville)/France	€	18,512,168		100
	Société Mosellane de Pistons S.A.S., Basse-Ham (Thionville)/France	€	20,228,394		100
	Metal a.s., Usti/Czech Republic	Čk	498,498,000		89
2	Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai/China	Yuan	244,627,490		50
3	Tiro Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	€	(301,615)		0
	Kolbenschmidt K.K., Yokohama/Japan	¥	1,084,629,462		100
	KS Plain Bearings				
1	KS Gleitlager GmbH, St. Leon-Rot	€	13,673,459	100	
	KS Bearings Inc., Greensburg/USA	US$	(16,567,353)		100
	KS Bronzinas Ltda., Nova Odessa/Brazil	Rs	14,755,807		100
	KS Aluminum Technology				
1	KS Aluminium-Technologie AG, Neckarsulm	€	20,428,175	100	
	Werkzeugbau Walldürn GmbH, Walldürn	€	519,972		100
	KS Doehler-Jarvis GmbH, Neckarsulm	€	1,225,656		65
	KS Aluminium Beteiligungs-GmbH, Neckarsulm	€	(127,350)		100

			IFRS Equity	Interest held(%) direct	indirect
	Motor Service				
1	MSI Motor Service International GmbH, Neckarsulm	€	15,455,177	100	
	G. Krull GmbH, Neckarsulm	€	39,925		100
	MSD Motor Service Deutschland GmbH, Neckarsulm	€	1,713,324		100
	KS Motorac S.A.S., Le Blanc Mesnil/France	€	631,922		100
	KS Winston Ltd., i.L. Purfleet/Great Britian	£	46,224		100
	Kolbenschmidt Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul/Türkey	TL	5,178,046,607,000		51
	KS Produtos Automotivos Ltda., Nova Odessa/Brazil	Rs	12,219,189		92
	KS Motor Servis CZ s.r.o., Trmice/Czech Republic	Čk	15,844,743		66
3	Litos Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	€	(608,766)		0
	Other				
	Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin, Berlin	€	6,937,275	100	
	KS Grundstücksverwaltung Beteiligungs-GmbH, Neckarsulm	€	31,657	100	
	KS Grundstücksverwaltung GmbH & Co. KG, Neckarsulm	€	8,930,562		100
	IDEKO Industrie Einkauf- und Koordination GmbH, Neckarsulm	€	152,951	100	

1 *P&L transfer agreement with Kolbenschmidt Pierburg AG*

2 *Included at equity*

3 *Special-purpose entity*

Balance Sheet of Kolbenschmidt Pierburg AG as of December 31, 2003 (based on HGB)

Assets € *million*	12/31/2002	12/31/2003
Assets		
Tangible assets	0.2	0.1
Financial assets	313.2	327.3
	313.4	**327.4**
Current assets		
Receivables and sundry assets		
Due from Group companies	105.0	77.6
Sundry assets	6.3	3.7
Cash & cash equivalents	20.6	16.1
	131.9	**97.4**
Prepaid expenses & deferred charges	0.1	0.1
Total assets	**445.4**	**424.9**

EQUITY & LIABILITIES € *million*	12/31/2002	12/31/2003
Equity & Liabilities		
Stockholders' equity	71.7	71.7
Capital stock	174.0	174.0
Reserves retained from earnings	22.4	27.4
Net earnings	14.0	14.0
	282.1	**287.1**
Untaxed/special reserves	**2.0**	**0.0**
Accruals		
Accruals for pensions and similar obligations	11.7	11.8
Other accruals	12.7	17.1
	24.4	**28.9**
Liabilities		
Due to banks	55.5	8.5
Trade payables	0.2	0.2
Due to Group companies	81.1	100.0
Sundry liabilities	0.1	0.2
	136.9	**108.9**
Total equity & liabilities	**445.4**	**424.9**

Income statement of Kolbenschmidt Pierburg AG for the year ended December 31, 2003 (based on HGB)

€ million	2002	2003
Income from investments	28.7	39.1
Net interest income	(0.5)	(2.6)
Net financial result	**28.2**	**36.5**
Other operating income	13.7	17.7
Personnel expenses	(6.6)	(9.0)
Amortization/depreciation/write-down	(0.1)	(0.1)
Other operating expenses	(14.5)	(22.2)
Earnings before taxes (EBT)	**20.7**	**22.9**
Income taxes	(6.6)	(3.9)
Net income	**14.1**	**19.0**
Transfer to reserves retained from earnings	(0.1)	(5.0)
Net earnings	**14.0**	**14.0**

*You can access the complete separate accounts of Kolbenschmidt-Pierburg AG (including the notes) at our website **www.kolbenschmidt-pierburg.com**, or by writing to us at Kolbenschmidt-Pierburg AG, Rheinmetall Allee 1, 40476 Düsseldorf.*

Supervisory and Executive Boards
Membership in other supervisory and comparable boards

Supervisory Board

Klaus Eberhardt
Düsseldorf

Chairman

Executive Board Chairman
of Rheinmetall AG, Düsseldorf

Member of further supervisory boards:

Rheinmetall DeTec AG, Ratingen
(chairman)

STN Atlas Elektronik GmbH, Bremen
(chairman, up to October 31, 2003)

Aditron AG, Düsseldorf
(chairman up to October 15, 2003)

Jagenberg AG, Neuss
(chairman, up to August 27, 2003)

Member of comparable German or foreign boards:

Preh-Werke GmbH & Co. KG, Bad Neustadt a.d.Saale
(chairman of the shareholder committee up to October 31, 2003)

Shareholder Committee EMG, Hamburg
(chairman, up to December 1, 2003)

Dr. Rudolf Luz *
Weinsberg

Vice-Chairman

1st Delegate of the German Metalworkers Union ("IG Metall"),
Heilbronn/Neckarsulm office, Neckarsulm

Member of comparable German or foreign boards:

Wirtschaftsfördergesellschaft Raum Heilbronn GmbH, Heilbronn
(member of the supervisory board)

Bechtle AG, Gaildorf
(member of the supervisory board, as from October 20, 2003)

Dr. Andreas Beyer
Sindelfingen

Director with general power to represent the company
Rheinmetall AG, Düsseldorf
(as from May 21, 2003)

Member of further supervisory boards:

Aditron AG, Düsseldorf
(up to October 15, 2003)

Jagenberg AG, Neuss
(as from September 16, 2003)

Pierburg GmbH, Neuss
(as from October 1, 2003)

Dr. Bernd M. Hönle
Weisenheim a.S.

Management Board member of
Röchling Industrie Verwaltung GmbH, Mannheim

Member of further supervisory boards:

Rheinmetall AG, Düsseldorf

Aditron AG, Düsseldorf
(up to October 15, 2003)

Rheinmetall DeTec AG, Ratingen

BEA Holding AG, Düsseldorf

DeTeWe - Deutsche Telephonwerke Beteiligungs AG, Berlin

Francotyp-Postalia Beteiligungs AG,
Birkenwerder

PFEIFFER & MAY Großhandel AG, Karlsruhe

Seeber Beteiligungs AG, Mannheim

Burkhard Leffers
Bad Homburg v.d.H

Member of the Regional Board of Commerzbank AG
(as from May 21, 2003)

Member of a comparable German or foreign board:

AFFINE S.A., Paris, France
(member of the supervisory board)

Dr. Herbert Müller
Essen

Member of the Executive Board
Rheinmetall AG, Düsseldorf

Member of further supervisory boards:

Rheinmetall DeTec AG, Ratingen
Aditron AG, Düsseldorf
(up to October 15, 2003)

Member of comparable German or foreign boards:

Preh-Werke GmbH & Co. KG, Bad Neustadt a.d.Saale
(member of the shareholders's committee
from April 29, 2003 to October 31, 2003)

* Staff representative

Prof. Dr. Dirk Zumkeller
Munich,

Full Professor of Transport & Traffic
Technical University of Karlsruhe

Member of a further supervisory board:

Rheinmetall AG, Düsseldorf

Dr. Martin Hirsch
Frankfurt am Main

Attorney
Law firm of Gleiss Lutz Hootz Hirsch, Frankfurt am Main

(up to May 21, 2003)

Member of further supervisory boards:

Aditron AG, Düsseldorf

CD Cartondruck AG, Obersulm-Willsbach,
(Chairman)

Member of comparable German or foreign boards

Steiff Beteiligungsgesellschaft mbH, Giengen

Jürgen Lemmer
Bad Homburg

(up to May 21, 2003)

Member of further supervisory boards:

Buderus AG, Wetzlar

Clearing Bank Hannover AG, Hannover
(vice-chairman)

GKN Automotive International GmbH, Lohmar
(chairman)

Member of comparable German or foreign boards:

ARGOR-HERAEUS S.A., Mendrisio, Switzerland
(Director)

Banque Marocaine du Commerce Extérieur,
Casablanca, Morocco (Director)

Korea Exchange Bank, Seoul, Korea
(Non-Standing Director, up to March 28, 2003)

Majan International Bank SAOC, Ruwi, Sultanate of Oman
(Member of the Board of Directors, up to March 31, 2003)

Verlagsbeteiligungs- und Verwaltungsgesellschaft mbH,
Frankfurt/Main (advisory board member)

ADIG-Investment Luxemburg S.A., Luxembourg, Luxembourg
(chairman of the board of directors)

Commerzbank Europe (Ireland) Unltd., Dublin, Ireland
(chairman of the board of directors)

Commerzbank International (Ireland) Unltd., Dublin, Ireland
(chairman of the board of directors)

Dr. Ludwig Dammer *
Düsseldorf

Pierburg GmbH, Neuss

Member of a further supervisory board:

Rheinmetall AG, Düsseldorf (up to December 31, 2003)

Gerhard Grasmeier *
Waghäusel

(as from March 21, 2003)

Chairmain of the Works Council of the St. Leon-Rot
plant of KS Gleitlager GmbH, St. Leon-Rot

Member of a further supervisory board:

KS Gleitlager GmbH, St. Leon-Rot

Erich Hüskes *
Nettetal

Member of the Works Council
Nettetal plant of Pierburg GmbH, Neuss

Heinrich Kmett *
Fahrenbach/Robern

Works Council Chairman
KS Kolbenschmidt GmbH, Neckarsulm

Member of a further supervisory board:

Rheinmetall AG, Düsseldorf

Dietrich Termöhlen *
Hinte

1st Delegate of IG Metall
Neuss Office

Member of further supervisory boards:

Aluminium Norf GmbH, Neuss

Pierburg GmbH, Neuss (deputy chairman)

Georg Hadlaczki *
Mühlhausen

(up to May 21, 2003)

Former member of the Works Council
St. Leon-Rot plant of KS Gleitlager GmbH, St. Leon-Rot

Supervisory and Executive Boards
Membership in other supervisory and comparable boards

Executive Board

Dr. Gerd Kleinert
Gottmadingen

Chairman
Strategy, Operations

Supervisory board memberships:

KS Kolbenschmidt GmbH, Neckarsulm
(chairman as from March 31, 2003)

KS Gleitlager GmbH, St. Leon-Rot
(chairman)

KS Aluminium-Technologie AG, Neckarsulm
(chairman as from March 31, 2003)

Pierburg GmbH, Neuss
(chairman)

Member of comparable German or foreign boards:

KS International Investment Corp., Southfield, USA

Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd, Shanghai, China
(KPSNC), (Vice Chairman)

Pierburg Inc., Fountain Inn (Greenville), USA
(up to January 14, 2003)

STN Atlas Marine Electronics GmbH
(chairman up to April 1, 2003)

Shareholder Committee
EMG EuroMarine Electronics GmbH, Hamburg
(up to December 1, 2003)

Dr. Peter P. Merten
Herrsching

Finance/Controlling, IT

Supervisory board memberships:

KS Kolbenschmidt GmbH, Neckarsulm

KS Gleitlager GmbH, St. Leon-Rot

KS Aluminium-Technologie AG, Neckarsulm

Pierburg GmbH, Neuss

Member of comparable German or foreign boards:

KS International Investment Corp., Southfield, USA

KS France S.A.S., Paris, France (up to November 25, 2003)

Dr. Jörg-Martin Friedrich
Ludwigsburg

Personnel

Supervisory board memberships:

KS Kolbenschmidt GmbH, Neckarsulm
(as from March 31, 2003)

KS Gleitlager GmbH, St. Leon-Rot

KS Aluminium-Technologie AG, Neckarsulm

Pierburg GmbH, Neuss

Member of comparable German or foreign boards:

KS International Investment Corp., Southfield, USA

KS France S.A., Paris, France
(up to November 25, 2003)

Dr. W. Hans Engelskirchen
Kaarst

Production
(up to January 21, 2003)

Supervisory board memberships:

KS Kolbenschmidt GmbH, Neckarsulm

KS Gleitlager GmbH, St. Leon-Rot

KS Aluminium-Technologie AG, Neckarsulm

Pierburg GmbH, Neuss

Pierburg Inc., Fountain Inn (Greenville), USA
(up to January 14, 2003)

Georg Liebler
Düsseldorf

Sales

(up to January 21, 2003)

Supervisory board memberships:

KS Kolbenschmidt GmbH, Neckarsulm

KS Aluminium-Technologie AG, Neckarsulm

Pierburg GmbH, Neuss

Member of comparable German or foreign boards:

Karl Schmidt Unisia Inc., Marinette,USA

Pierburg Inc., Fountain Inn (Greenville),USA
(up to January 14, 2003)

Hirschmann Ges.m.b.H., Rankweil, Austria

Märkisches Werk Halver GmbH, Halver
(chairman of the advisory board)

Preh-Gruppe, Bad Neustadt a. d. Saale
(member of the shareholders’ committee)

Financial glossary

ABT (Asset Backed Transactions)	Self-explanatory. Attractive source of cash for companies which sell, for instance, their trade receivables under ABTs.
Actuarial profit and loss	The actuarial calculation of pension accruals (→Projected Unit Credit Method) essentially depends on forecasted parameters (e.g. wage and pension trends). If these assumptions – based on actual developments – are altered, an actuarial profit or loss results.
Capital Employed (CE)	CE provided by stakeholders etc. and comprising net financial debts, pension accruals and equity. The meaningful interpretation of this indicator requires →EBIT to calculate →ROCE: EBIT should ensure a sufficient return on CE to satisfy the stakeholders concerned.
Cash flow (gross, but after taxes)	Net income/net loss plus amortization/depreciation and changes in pension accruals. This indicator shows a company's ability to internally fund its expenditures and processes and to distribute cash dividends.
Corporate Governance Code	Responsible management and control of a company. The German Corporate Governance Code has compiled certain standards to facilitate comparisons of governance structures between internationally operating German companies. All German listed corporations are required by the law to annually issue a declaration on the extent of past and/or present compliance with the Code's recommendations.
Defined Benefit Obligation (DBO)	The present value of the DBO (determined according to the →projected unit credit method) equals the value discounted as of balance sheet date, without deducting any plan assets, of expected future payments required of a company to settle the obligation from its workforce's service in the current and prior years. The PUC method requires certain assumptions of future pay, pension and interest rate trends to be accounted for.
Deferred taxes	Balance sheet line to disclose temporary differences between tax bases and financial accounting values in order to report tax expense in line with pretax accounting income.
EBIT (Earnings before Interest and Taxes)	Earnings before interest and taxes; used to assess a company's performance irrespective of its financing structure.
EBIT margin	Percentage obtained by dividing EBIT into net sales x 100 and used to compare the profitability of companies of different size. EBIT margins typically vary by type of business.

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation)
Earnings before interest, taxes, depreciation and amortization; being a pretax performance indicator that disregards the corporate financing structure and all noncash expenses. EBITDA reflects the gross cash inflow generated by a company.

EBT (Earnings before Taxes)
Earnings before taxes: the pretax profit/loss after financing expenses is better suited to inform stockholders about the year's performance than net income/loss since tax payments may distort the picture due to past events or special factors.

Earnings per share (EpS) before/after goodwill amortization
Earnings related to the number of shares issued and outstanding; not identical with the dividend and primarily used to assess a company's results of operations. To compare several companies, the investor calculates the price-earnings ratio (PER) by relating EpS to the stock price.

Fair Value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a transaction at arm's length.

Free Float
Self-explanatory. The freely exchange-tradable shares available to the general public as opposed to stakes owned long term by major investors.

Gearing
Net financial debts in relation to equity. Essentially, the lower the ratio, the less dependent a company is on external financing.

Goodwill
In company acquisitions, net equity under cost (or prorated net assets over cost); requires capitalization as an intangible.

International Accounting Standards Board (IASB)
Private law organization that issues the →International Financial Reporting Standards (IFRS). At its inception in 2001, the IASB adopted the entire set of International Accounting Standards (IAS) published by its predecessor, the IASC.

International Financial Reporting Interpretations Committee (IFRIC)
The interpretations of the IFRIC are used to settle disputed questions of accounting. The interpretations are approved by the International Accounting Standards Board (→IASB) and are–as soon as they come into force–obligatory for all →IFRS users.

Financial glossary

International Financial Reporting Standards (IFRS)
Accounting rules of the →IASB. The essential objective is the presentation of decision-oriented information for a broad group of parties interested in the annual accounts, especially investors.

Net financial debts
All interest-bearing liabilities (such as those due to banks) less cash & cash equivalents. This figure provides information about a company's net indebtedness.

Projected unit credit (PUC) method
The PUC method (under IAS 19) is used to provide for pensions and similar obligations. Based on the present value of the DBO, not only the pensions and vested rights (entitlements) as of the balance sheet date are taken into account but also future pay and pension rises.

ROCE (Return on Capital Employed)
Kolbenschmidt Pierburg defines this performance ratio before taxes. It is obtained by dividing →EBIT into the annual average →capital employed. The stakeholders concerned can thus rate the profitability of the capital employed within the company. To add value, ROCE should exceed the percentage cost of capital. If defined identically, ROCE permits a comparison of the profitability of different companies. The ratio is used by management within the Kolbenschmidt Pierburg Group for controlling purposes in line with the shareholder value concept.

Segment assets
All assets less cash & cash equivalents and less income tax assets.

Segment liabilities
All liabilities less equity, financial debts and income tax liabilities.

Stakeholder
Social groups which contribute to the success of the company and which in various ways make claims on the company (e.g. stockholders, banks, customers, employees, government agencies.)

Working capital (net)
Net inventories plus trade receivables, less prepayments received and less trade payables and accruals for missing costs. This brief definition of (net) working capital contains only the essential elements of net current assets relevant to the management of the company, and provides information concerning the amount of financial resources tied up in net current assets. It is an essential component of →capital employed, and can be influenced at short notice. The reduction of working capital frees up financial resources, increasing ROCE and the value of the company

Interest rate swap
An interest rate swap is the exchange of interest payments between two partners, for example enabling variable interest rates to be exchanged for fixed rates or vice versa.

List of addresses

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info-airmanagement@kolbenschmidt-pierburg.com
info-pumps@kolbenschmidt-pierburg.com

KS Pistons division

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Phone (+49-71 32) 33 0
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info-pistons@kolbenschmidt-pierburg.com

Plain Bearings division

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Fax (+49-62 27) 56 302
info-bearings@kolbenschmidt-pierburg.com

Aluminum Technology division

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Fax (+49-71 32) 33 43 57
info-alucasting@kolbenschmidt-pierburg.com

Motor Service division

MSI Motor-Service International GmbH
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Copies of this annual report, which is also available in a German version, can be obtained by contacting the company; or can be downloaded at www.Kolbenschmidt-pierburg.com.

In cases of doubt, the German version takes precedence.

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KOLBENSCHMIDT
PIERBURG

Annual Report 2003 Kolbenschmidt Pierburg AG