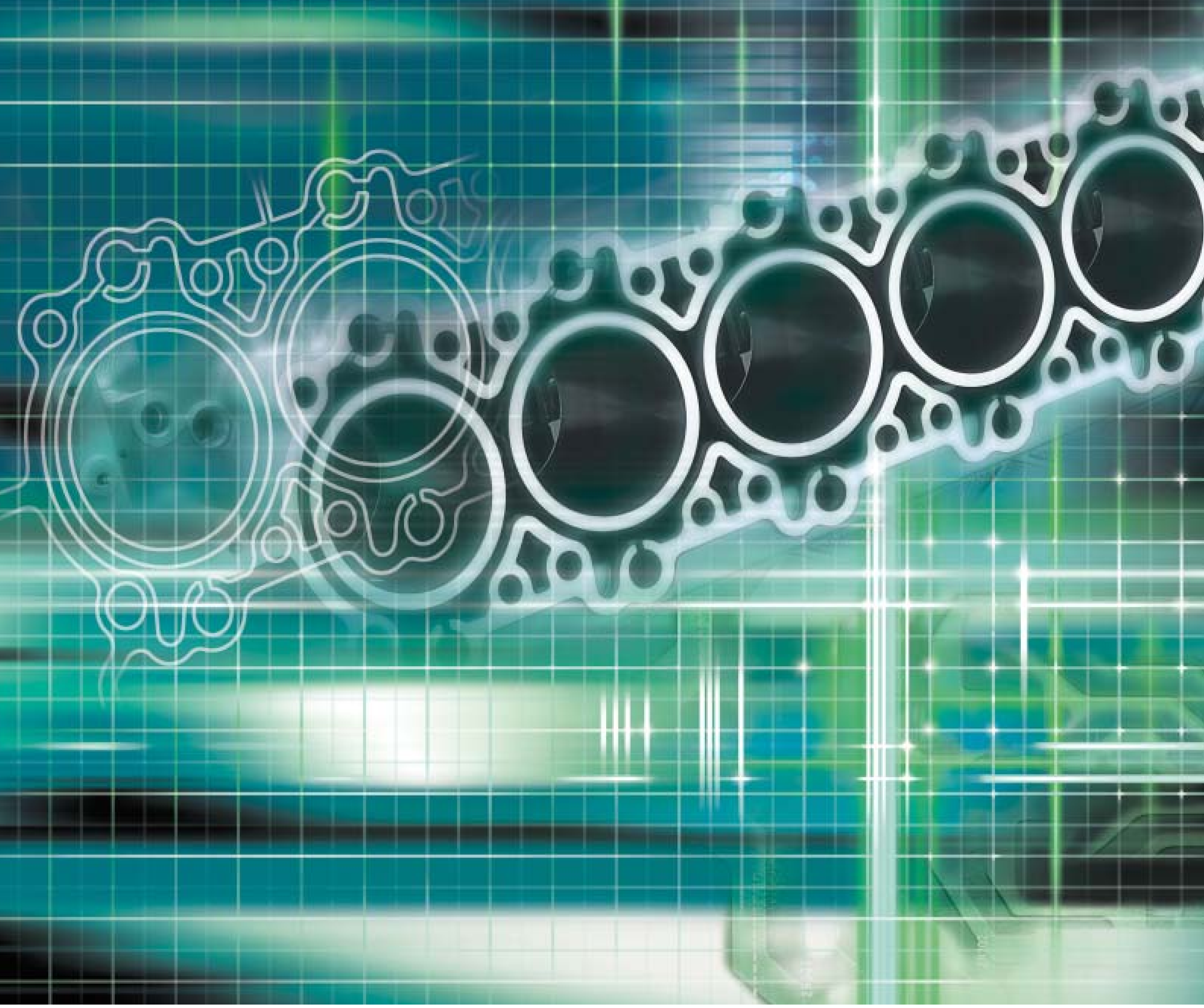


Annual Report 2002

Kolbenschmidt Pierburg AG

KOLBENSCHMIDT
PIERBURG

Kolbenschmidt Pierburg in figures

		1998	1999	2000	2001[1]	2002
		HGB[2]	HGB	IAS	IAS	IAS
Net sales	€ million	1,473.3	1,527.1	1,776.2	1,825.5	1,882.6
EBITDA	€ million	167.2	184.4	202.0	238.4	234.8
EBIT	€ million	68.3	69.2	54.5	90.5	97.4
EBT	€ million	61.9	61.1	21.6	49.5	60.1
Net income	€ million	54.0	26.6	7.4	31.8	36.7
Gross cash flow	€ million	161.0	150.3	160.8	174.1	170.0
Capital expenditures[3) 4)]	€ million	125.5	177.9	171.1	174.6	144.3
Amortization/depreciation[5]	€ million	110.7	129.0	147.5	145.6	133.9
Accounting equity	€ million	327.3	263.2	313.7	341.1	332.9
Total assets	€ million	951.6	946.2	1,384.0	1,338.3	1,251.9
EBIT margin	%	4.6	4.5	3.1	5.0	5.2
ROCE	%	13.1	12.8	6.4	10.1	11.8
EpS (DVFA/SG)	€	1.37	1.21			
EpS (IAS)	€			0.28	1.18	1.32
Total dividend	€ million	20.4	20.5	34.6	14.0	14.0
Dividend per share	€	0.77	0.77	1.30	0.50	0.50
Headcount (Dec. 31)		11,443	11,789	12,164	11,662	11,535

1) After adjustment acc. to IAS 8; the adjustments are insignificant, both individually and in the aggregate.
2) German Commercial Code
3) Excl. financial investments and excl. additions to goodwill
4) In 2002, tooling grants/allowances were for the first time directly offset against capital expenditures
5) As from 2001, excl. goodwill amortization

The Kolbenschmidt Pierburg Group at a glance

Kolbenschmidt Pierburg AG (listed) Sales: €1.9 billion Employees: 11,500

Division	Air Supply & Pumps	Pistons	Plain Bearings	Aluminum Technology	Motor Service
Product groups	Systems and components for air supply and emission control Oil and water pumps, vacuum pumps	Passenger car pistons Piston modules Commercial-vehicle pistons Large-bore pistons	Plain bearings Bushings Thrust washers Dry bearings for low-maintenance and maintenance-free operation (Permaglide) Continuous NF castings	Engine blocks	Automotive parts for engine repair and workshops
Major locations	Germany France Italy Spain USA Brazil China (joint venture)	Germany France Czech Republic USA Canada Brazil Japan China (joint venture)	Germany USA Brazil	Germany	Germany France Great Britain Turkey Brazil
Sales (€ million)	885	595	145	150	145
Headcount	3,900	5,400	970	860	400

As of March, 2003

* The full separate financial statements of Kolbenschmidt Pierburg AG (including notes) are downloadable from our home page at **www.kolbenschmidt-pierburg.com** or may be obtained from us by writing to: Kolbenschmidt Pierburg AG, Rheinmetall Allee 1, 40476 Düsseldorf, Germany.

Kolbenschmidt Pierburg again making good progress

Despite a generally difficult economic environment, the Kolbenschmidt Pierburg Group closed fiscal 2002 successfully and achieved the targets it had set itself:

- EBIT advanced 8 percent to €97 million
- Liquidity improved by 36 percent
- Working capital fell by 24 percent
- The first restructuring successes took effect

Further successful steps in the strategic development of automobile business were the concentration on core activities through the transfer of the interest in Preh GmbH & Co. KG and the sale of the fuel pump business as of January 1, 2003.

Report of the Supervisory Board

Klaus Eberhardt
Chairman of the Supervisory Board

In fiscal 2002, Kolbenschmidt Pierburg AG's Supervisory Board performed the functions and duties incumbent on it under law and the bylaws. The Supervisory Board monitored the Company's management and conduct of business by the Executive Board.

The Executive Board reported regularly, timely and comprehensively to the Supervisory Board on the Company's and the Group's position 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 position and trend.

The Supervisory Board met twice in the first and three times in the second half-year periods of 2002. The Supervisory Board's Personnel Committee members convened twice in fiscal 2002 (April 18 and September 12, 2002) and took the actions considered necessary.

When the Finance Committee met on April 8, 2002, it dealt with the preparatory deliberations about the 2001 annual accounts. 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 material transactions.

Furthermore, the Supervisory Board dealt with issues of strategic and organizational orientation and, at its meeting of November 22, 2002, deliberated on the Group's medium-term plan. All Executive Board actions requiring Supervisory Board approval were timely and fully submitted to the Supervisory Board for information and decision. After scrutiny and detailed discussion, all issues were approved. In particular, the Supervisory Board dealt with and approved

– the conversion of Pierburg AG (a stock corporation) into Pierburg GmbH (a closely held private limited company),
– the conclusion of a P&L transfer and direct-control agreement with KS Aluminium-Technologie AG,
– the restructuring program at Fort Wayne.

The Supervisory Board Chairman 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 Executive Board Chairman 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, 2002, 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 of June 5, 2002. On March 12, 2003, the statutory auditors issued their unqualified opinion on both sets of financial statements.

In the scope of their engagement, the statutory auditors also had to examine whether the Executive Board duly implemented the legally required procedures, especially set up a monitoring system that would early on identify any risks likely to jeopardize the Company's continued existence as a going concern. The auditors stated that the Executive Board met the requirements of Art. 91(2) German Stock Corporation Act ("AktG"). At a joint meeting held on March 27, 2003, with the auditors (who reported on major audit conclusions and answered queries), the Supervisory Board's Finance Committee discussed the separate annual accounts of the Company and the consolidated financial statements for the fiscal year ended December 31, 2002, on the basis of the audit reports and findings. No objections were raised. All members of the Supervisory Board received their copies of both sets of financial statements, the management reports and audit reports in due course prior to the Supervisory Board's annual accounts meeting on April 3, 2003. At this meeting, in which the statutory auditors also participated to the extent that the separate and consolidated financial statements were discussed, the Supervisory Board carefully reviewed all of these documents and concurs with the results of the auditors' examination after its own review of 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. No objections were raised. At its meeting of April 3, 2003, the Supervisory Board approved the separate and consolidated financial statements for fiscal 2002 as submitted by the Executive Board, which are thus adopted. The Executive Board proposes for the appropriation of the net earnings for fiscal 2002 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 concerning affiliations for fiscal 2001 according to 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 representation in the report on affiliations for fiscal 2002.

Versus the year before, Kolbenschmidt Pierburg AG's Supervisory Board changed as follows: With effect as of the close of the annual stockholders' meeting on June 5, 2002, Dr. Klaus Kessler stepped down from this Board, and so did Dr. Siegfried Roth as of July 31, 2002. The Supervisory Board thanks Dr. Kessler and Dr. Roth for their dedicated work in the Company's best interests. At the election of supplementary Supervisory Board members, Dr. Herbert Müller (who had been appointed Supervisory Board member by the Local Court with effect as from March 28, 2002) and Prof. Dr. Dirk Zumkeller were elected as Supervisory Board members. By order of September 2, 2002, the Düsseldorf Local Court of Registration appointed Mr. Dietrich Termöhlen as Supervisory Board member.

Effective January 21, 2003, Dr. W. Hans Engelskirchen and Mr. Georg Liebler resigned from Kolbenschmidt Pierburg AG's Executive Board to go into retirement. Both served on the Executive Board since the Company's incorporation in January 1998. The Supervisory Board thanks both gentlemen for their meritorious and successful services on behalf of Kolbenschmidt Pierburg AG.

Moreover, the Supervisory Board thanks all employees of the Kolbenschmidt Pierburg Group for their dedication and commitment in the fiscal year 2002.

Düsseldorf, April 3, 2003

The Supervisory Board

Klaus Eberhardt
Chairman

Letter to the stockholders

Dear Stockholders:

In 2002, the Kolbenschmidt Pierburg Group succeeded in upholding its position amid a difficult overall economic environment. Sales, earnings and liquidity clearly improved. Moreover, the Group succeeded in sharpening its competitive edge in its areas of business, shedding marginal operations, and thrusting well ahead with the restructuring projects initiated.

With an organic sales growth of 3.1 percent, the Kolbenschmidt Pierburg Group again managed to outpace the industry. At 5.2 percent, the EBIT margin improved over the previous year, approaching the target of a sustained 6.3 percent.

As part of our policy of concentrating on core business, the 25-percent interest in Preh GmbH & Co. KG was sold at fair value to our sister Aditron AG. Moreover, we sold the fuel pumps unit as of January 1, 2003, a marginal activity no longer belonging to our core operations. This transaction has been a successful step, not only for our company as such, but for our employees at the Neuss location as well, these all having been taken over.

And we have made headway in our restructuring program. Clear successes are already evident in the earnings for 2002, especially at Pierburg. The restructuring of the US piston operations is also almost finalized. All related burdens have been absorbed in the 2002 figures.

The Group's liquidity was much improved in 2002. A decisive factor was the extensive measures for reducing working capital, thus slashing the Group's net financial debts by €70 million.

The forecasts for fiscal 2003 still reflect the considerable uncertainty in the political and overall economic environment. We are facing these challenges and exploiting the related opportunities as far as possible for a sustained improvement in our market and competitive position, thus promoting organic growth. On the basis of our technological leadership and a sound financial footing, this year, too, we aim at a better-than-average corporate performance. In the continuation of this successful path I ask you, dear stockholders, also on behalf of my Executive Board colleagues, for your continued confidence.

Sincerely,

Dr. Gerd Kleinert
Executive Board Chairman

Kolbenschmidt Pierburg stock

Poor economic growth worldwide plus the threat of war in Iraq inevitably impacted on stock markets during the past fiscal period. As a consequence, prices in 2002 again fell, just as in 2000 and 2001. America's most important index, the Dow Jones lost 18 percent, the foremost European, the Euro STOXX, 35 percent.

Kolbenschmidt Pierburg following market trends

In Germany, the DAX lost almost half of its value in 2002, tumbling by 44 percent from 5,160 to 2,892 points and slumping to its absolute nadir of 2,519 points in October. On an international comparison, the DAX was thus one of the weakest indices of the stock markets, this being reflected in the fact that none of the prices quoted therein succeeded in maintaining its year-earlier level.

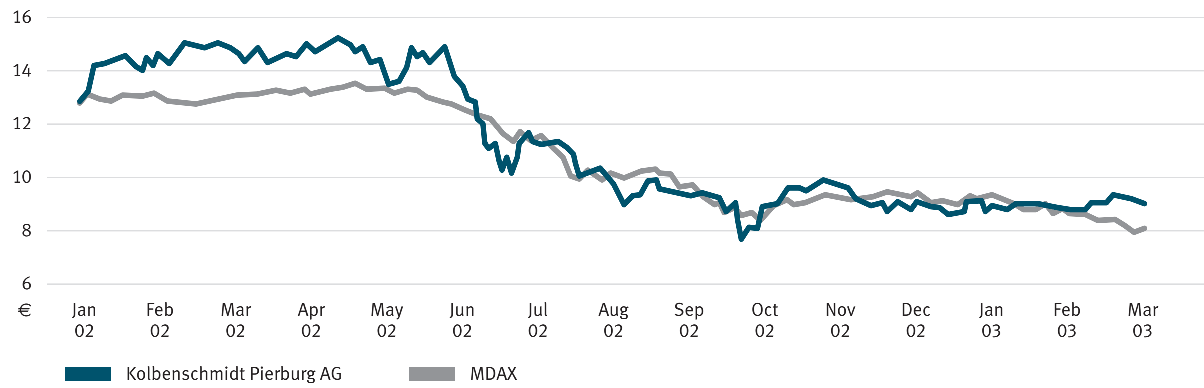
Kolbenschmidt Pierburg AG was among the MDAX stocks, these plunging by 30 percent from 4,326 to 3,025 points. Given this ailing market trend, Kolbenschmidt Pierburg AG shares were likewise affected and tumbled, parallel to the MDAX, from €12.65 at December 31, 2001, to €8.80 at year-end 2002.

The topics dominating the stock markets during 2002 will again have a major impact on events in the global capital markets in 2003.

SDAX listed

With share indexes being resegmented by the Deutsche Börse AG, the German Stock Exchange Corporation, as of March 24, 2003, Kolbenschmidt Pierburg AG is now listed under the SDAX. The main reasons for this decision were a purely technical analysis of the stock's liquidity and the free-floating stock's market capitalization.

Stock price trend in comparison to the MDAX
Indexed to Kolbenschmidt Pierburg stock at January 2, 2002 (up to March 14, 2003)



The past fiscal year was another period in which we continued our extensive investor relations activities. In addition to the many one-to-one talks with analysts of leading banks, we staged quarterly teleconferences. The growing number of participants in these conferences reflects the increasing interest being shown in our company. At a special event held in the fourth quarter of 2002, we invited a number of fund managers from Germany and France to attend an analysts' conference in Frankfurt/Main. Here, too, the response was highly positive.

The feedback shown by financial analysts, investors and banks to our 2001 annual report, reflecting in particular the extensive changes in the wake of the changeover from HGB accounting standards to the IAS, was encouraging throughout. The regular review conducted by Manager Magazin resulted in a "good" rating for our report on the completed fiscal year.

Additionally, our quarterly reports underwent thorough revision in 2002 both in terms of content and design. The publications addressing the changing information needs of the readers, met with a broad and welcome response.

Stock price trend		2001	2002
Number of shares		28,003,395	28,003,395
Annual closing price	€	12.65	8.80
Annual high	€	16.18	15.15
Annual low	€	9.00	7.45

Further share data	2001	2002
Market capitalization / EBIT (€ million)	3.9	2.5
Price-earnings ratio (PER)	10.7	6.3
Dividend per share (€)	0.50	0.50
Dividend yield (%)	4.0	5.7

The rating agencies Moody's and Standard & Poor's (S&P) endorsed our financial policies during the past year and left our long-term rating unchanged at BBB (S&P) and Baa2 (Moody's). Within a market environment currently overshadowed by many downratings, this in itself may be considered as a success.

However, on account of the changed assessment of pension obligations, normally in Germany not covered by an employer's pension liability insurance, S&P awarded us a short-term rating down from A-2 to A-3 and our outlook from "stable" to "negative."

Corporate governance

The Executive and Supervisory Boards of Kolbenschmidt Pierburg AG have reported as follows on the Group's corporate governance according to Clause 3.10 of the German Corporate Governance Code:

For Kolbenschmidt Pierburg AG, sound and responsible corporate governance is an integral element in achieving corporate targets. Even prior to the publication of the German Corporate Governance Code (the "Code"), national and international standards of contemporary corporate governance had been observed.

In January 2003, the Executive and Supervisory Boards issued their first declaration of conformity pursuant to Art. 161 AktG, which reads:

"The Executive and Supervisory Boards of Kolbenschmidt Pierburg AG declare that the Company complies with the recommendations of the German Corporate Governance Code Government Commission as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette version of November 26, 2002, subject to the following exceptions:

– The assignment of responsibilities and the interaction among members within the Executive Board have presently not been laid down in rules of procedure. The Executive Board will deal with the preparation of such rules (Clause 4.2.1 of the Code).

– Supervisory Board members have to date not been compensated for any chairmanship or membership in committees (Clause 5.4.5, subclause 3 of the Code). Such compensation will be decided on at a later date.

– At its next meeting, the Supervisory Board will approve rules to report and record conflicts of interests (Clauses 5.5.2 and 5.5.3 of the Code).

– The Company plans to observe the recommended publication deadlines for the consolidated financial statements and interim reports (Clause 7.1.2, subclause 2 of the Code)."

Stockholders and their meeting

The stockholders of Kolbenschmidt Pierburg AG exercise their rights at their general meeting. They may exercise their voting rights at the stockholders' meetings either personally, by a proxy appointed at their discretion, or by a voting proxy of the Company who is bound by specific instructions.

The statutory reports and documents (including the annual report) submittable at the annual stockholders' meeting will be provided to stockholders on request and are also available on the Internet at Kolbenschmidt Pierburg AG's home page, together with the agenda.

Interaction of Executive and Supervisory Board members

The two boards closely collaborate in a spirit of mutual trust and in the Company's best interests. The Executive Board consults the Supervisory Board in matters regarding the Company's strategic orientation and discusses the progress of strategy implementation with the Supervisory Board at regular intervals.

The Executive Board informs the Supervisory Board periodically, timely and comprehensively about all planning, business development, risk position and risk management issues of relevance to Kolbenschmidt Pierburg. Moreover, the Executive Board discusses and substantiates any variances of actual business data from budget, plan or benchmark figures.

The Company has taken out a D&O policy (Directors' & Officers' liability insurance) with a reasonable deductible for their Executive and Supervisory Board members.

Executive Board

The Executive Board conducts and manages the Company on its own responsibility but in the Company's best interests and with the increase in shareholder value in mind. Including its chairman, the Executive Board had previously consisted of five members; since January 21, 2003, it has had three members.

The Executive Board members' remuneration covers both fixed and variable components which are fixed by the Supervisory Board at a reasonable 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 a reasonable remuneration of Executive Board members mainly include each member's responsibilities and personal performance, as well as the economic situation, success and future prospects of the Company on industry comparison.

In the notes to the consolidated financial statements herein, the remuneration of Executive Board members is broken down into fixed, performance-related and long-term incentive portions.

Any additional or sideline activities performed by Executive Board members (in particular, any nongroup supervisory board membership) require the Supervisory Board's prior approval.

Supervisory Board

The Supervisory Board regularly counsels and oversees the conduct of the Company's business by the Executive Board, and is involved in fundamental decisions affecting the Company. Rules of procedure govern Supervisory Board activity.

The Supervisory Board appoints and removes Executive Board members, whose age is limited to 65 years.

The Supervisory Board has formed a Finance Committee and a Personnel Committee. The Finance Committee also performs the functions of an audit committee as specified in Clause 5.3.2 of the Code. Both Committees are chaired by the Supervisory Board Chairman.

No former Executive Board members are on Kolbenschmidt Pierburg AG's Supervisory Board.

The fees payable to Supervisory Board members are stipulated in the articles of association (bylaws) and include not only a fixed but also a success-related component. The fees take account of the responsibility and work of Supervisory Board members, as well as of the Company's business situation and bottom line. Supervisory Board (vice-) chairmanship is rewarded separately. The compensation for committee chairmanship and membership will be decided at a later date.

An inquiry among the Supervisory Board members indicated that there were no conflicts of interests under the terms of Clauses 5.5.2 and 5.5.3 of the Code.

In the year under review, no loans or advances were granted to Executive or Supervisory Board members.

Transparency

Kolbenschmidt Pierburg practices a policy of timely and complete communication of information to its stockholders, high priority being attached to having the same information communicated at the same time to all target groups.

Private investors, too, are promptly informed on the Kolbenschmidt Pierburg website in English or German about the Company's latest developments and important dates, including through ad hoc notifications, press releases, and annual or interim reports.

Since July 1, 2002, upon enactment of the amended Art. 15a German Securities Trading Act ("WpHG"), the Executive and Supervisory Board members of Kolbenschmidt Pierburg AG have been obligated to disclose their purchase or sale of any Kolbenschmidt Pierburg stock. By March 10, 2003, the Company did not receive any such notice of purchase or sale, nor did any reportable shareholdings exist under the terms of Clause 6.6 of the Code at that date (1-percent stake or more held individually or in the aggregate by board members).

Accounting and statutory audit

Stockholders and third parties are kept abreast through the consolidated financial statements at year-end and interim reports during the year. All such reports are prepared in conformity with internationally accepted accounting principles.

Kolbenschmidt Pierburg AG endeavors to publish its consolidated financial statements and interim reports within 90 and 45 days after the period-closing date, respectively. The financial reporting routines within the multitier Kolbenschmidt Pierburg Group are undergoing revision for improved efficiency.

The Supervisory Board has agreed with the statutory auditors, viz. PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, that it will be promptly informed of any reasons for disqualification, bias or lack of independence which may surface during the audit, as well as of any findings, conclusions and circumstances which were established during the audit and may be of relevance to the Supervisory Board's duties. The statutory auditors have further agreed to notify the Supervisory Board and/or disclose in the audit report that they have found certain facts substantiating that the declaration of conformity issued by the Executive and Supervisory Board pursuant to Art. 161 AktG is incorrect.

The German Corporate Governance Code came into force and effect when published on August 30, 2002, in the electronic version of the Federal Gazette and thus subsequent to Kolbenschmidt Pierburg AG's annual stockholders' meeting. The Supervisory Board Chairman therefore requested the statutory auditor, on the occasion of the annual audit of the separate and consolidated financial statements as of December 31, 2002, to voluntarily issue a declaration of independence pursuant to Clause 7.2.1 of the Code. This declaration by the auditor also stated which other services were in fiscal 2001 and 2002 rendered or contractually agreed on for Kolbenschmidt Pierburg in addition to the statutory annual audit.

Communication and marketing

The inherent purpose of Corporate Communication is to convey information to the investor community at national and international levels. In a globally networked information society, it addresses the financial community's needs, while also acting as an important instrument for channeling information destined for all of a company's stakeholders, since customers, employees, stockholders, business associates, and the media justifiably expect companies to report comprehensively on strategy, financial performance, and technical innovations.

In fiscal 2002, Kolbenschmidt Pierburg met the various information needs of defined target groups with press conferences held jointly with Rheinmetall AG, press releases for the business and trade press, interviews at Executive or Management Board level, and with the Group's own automotive industry press events (trade press meetings, plant tours and product presentations). Furthermore, a good deal of attention was devoted to constant contacts and a regular exchange of information with the regional media at our various business locations.

The press highlights for the Kolbenschmidt Pierburg Group included an information event organized for some 20 trade and daily press journalists at Pierburg subsidiary Carbureibar S.A. in Abadiano in Spain's Basque Province. The main theme of the colloquium held there was the latest technical developments in emission control and an overview of Kolbenschmidt Pierburg's business prospects and strategies for the future.

Proactive press relations were an integral feature of trade fair appearances again in 2002 with the aim of exploiting all communication channels under the overall PR strategy together with media presence in the form of product and image ads. The clear goal is stay close to customers, media and markets. In 2002, the companies of Kolbenschmidt Pierburg AG again attended trade fairs, technical symposia, and trade events. Meriting special mention in 2002 were automechanica in Frankfurt, the world's leading forum for the parts market, and the annual World Congress of the SAE, with a concurrent exhibition held in Detroit by the Society of Automotive Engineers International.

General conditions

World production rebounds

According to present projections and compared with the previous year, **world production** of passenger cars and light commercial vehicles (LCV: <3.5 t) rose 3.7 percent to 56.8 million units in 2002. Passenger cars accounted for 41.5 million units (up 2.3 percent) and LCVs for 15.3 million units (up 7.6 percent). Regionally, trends were mixed. Especially worth mentioning is the recovery of the world's largest automotive market, the USA.

In the course of the year, production in the **NAFTA region** developed favorably. In the USA in 2001, production of passenger cars and LCVs had been downscaled by more than 10 percent due to the lower demand as well as piled-up inventories; production in 2002, in contrast, climbed 7 percent to around 12.3 million units, not least of all due to higher production capacities extended by foreign manufacturers. Altogether 5.0 million units were passenger cars (up 3.3 percent) and around 7.3 million LCVs (up 9.7 percent). In Canada, too, after a drop in 2001, production figures again climbed, by 3.7 percent to a good 2.6 million units, of which passenger cars accounted for 1.4 million units (up 7.8 percent) and LCVs for 1.2 million units (unchanged).

In **South America**, the number of passenger cars and LCVs fell 5.8 percent to around 2.0 million vehicles. Production in Brazil dropped 4.1 percent to 1.6 million units, while the figure for Argentina again plunged, this time by 32.5 percent to 0.2 million units, due to the strained economic situation.

In 2002, production of passenger cars and LCVs in **Asia** again progressed (up 7.7 percent), following the setback in 2001. Especially in the high-volume markets of Japan and South Korea, passenger car production surged to 8.4 million units (up 3.3 percent) and 2.6 million units (up 4.6 percent), respectively. Whereas LCV production in Japan dropped 2.1 percent to 1.3 million vehicles, in South Korea the total climbed 3.1 percent to 0.4 million units. China showed the highest growth rate with a rise in passenger car production of 46.9 percent to 1.1 million vehicles, albeit from a lower baseline. Including the LCVs, with a sizable slice of this nation's output, the total reached around 2.5 million units (up 33.3 percent).

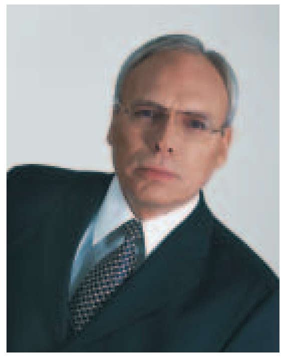
In 2002 and after years of steadily rising production figures, **Western Europe** for the first time recorded a decline of 2.0 percent to 16.9 million units for passenger cars and LCVs. Whereas France and Great Britain managed to raise their production to around 3.6 million vehicles (up 0.5 percent) and almost 1.8 million vehicles (up 10.7 percent), respectively, in Germany it fell to 5.3 million units (down 3.7 percent), in Italy to around 1.4 million units (down 9.3 percent), and in Spain to around 2.8 million units (down 2.2 percent).

German exports slipped 1.0 percent in 2002. With new car registrations in Germany sliding 2.6 percent, the domestic brands lost 4.7 percent and the foreign gained 1.7 percent.

In Western Europe, diesel engine vehicles are making headway, mainly due to the mass producers VW, PSA, and Renault, these offering a large percentage of passenger cars with diesel engines. Whereas in Germany, the proportion of diesel vehicles in passenger car and station wagon production again climbed around 2 percentage points to 40.0 percent, the corresponding figure for France remained almost constant at 43.5 percent. Among new car registrations, the diesels in Germany inched up from 34.6 to 37.5 percent and in France much more, from 56.2 to 62.9 percent.

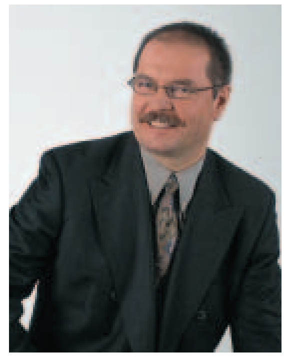
Production of passenger cars/LCVs according to selected world regions
(million vehicles)

The Kolbenschmidt Pierburg AG Executive Board



Dr. Gerd Kleinert
Chairman

Dr. Jörg-Martin Friedrich



Dr. Peter Merten

The situation of the Group

Major events

As of April 8, 2002, Pierburg AG was transformed into a private limited company (“GmbH”). Apart from the favorable effects on overheads, this change will enhance management empowerment.

Business portfolio developments

Karl Schmidt Unisia Inc., USA, raised its capital in June 2002, by converting a stockholder loan, a move not participated in by the co-owner Hitachi Unisia Automotive Ltd., Japan. Hence, the minority interests held in this company by Hitachi Unisia Automotive Ltd. shrank by around 12 percentage points to about 8 percent.

In July 2002, KUS Zollner Division Inc., USA, was merged into Karl Schmidt Unisia Inc., USA. This step strives at synergizing and streamlining the overall corporate structures as well as uniform management and control.

In Air Supply & Pumps, as of October 1, 2002, Pierburg GmbH’s 24-percent interest in Preh GmbH & Co. KG was sold at fair value to Aditron AG, another Rheinmetall AG subsidiary. With this sale, Pierburg GmbH has spun off business that is marginal to Kolbenschmidt Pierburg.

Effective as of October 1, 2002, Kolbenschmidt Pierburg K.K., Japan, was sold to KS Kolbenschmidt GmbH by Kolbenschmidt Pierburg AG. This laid the groundwork for the acquisition of the pistons business of Microtechno Corp., Japan, by KS Kolbenschmidt GmbH in fiscal 2003.

Following the approval by their extraordinary stockholders’ meetings held in Düsseldorf on November 14, 2002, KS Aluminium-Technologie AG and Kolbenschmidt Pierburg AG concluded a direct-control and profit & loss transfer agreement, with retroactive effect as from January 1, 2002.

KS Aluminium-Technologie AG has terminated a joint venture involving the net-machining of engine blocks. Together with the customer it was agreed that the work will now be provided exclusively by KS Aluminium-Technologie AG.

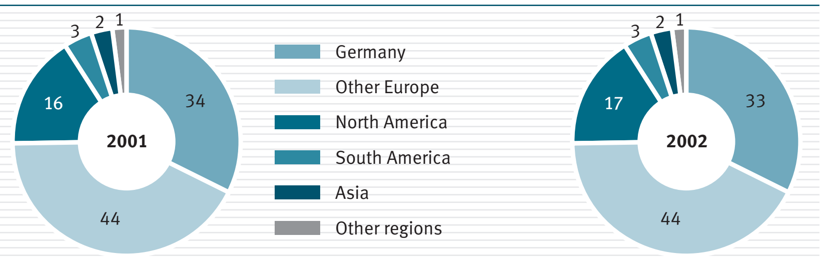
Sales and earnings trend

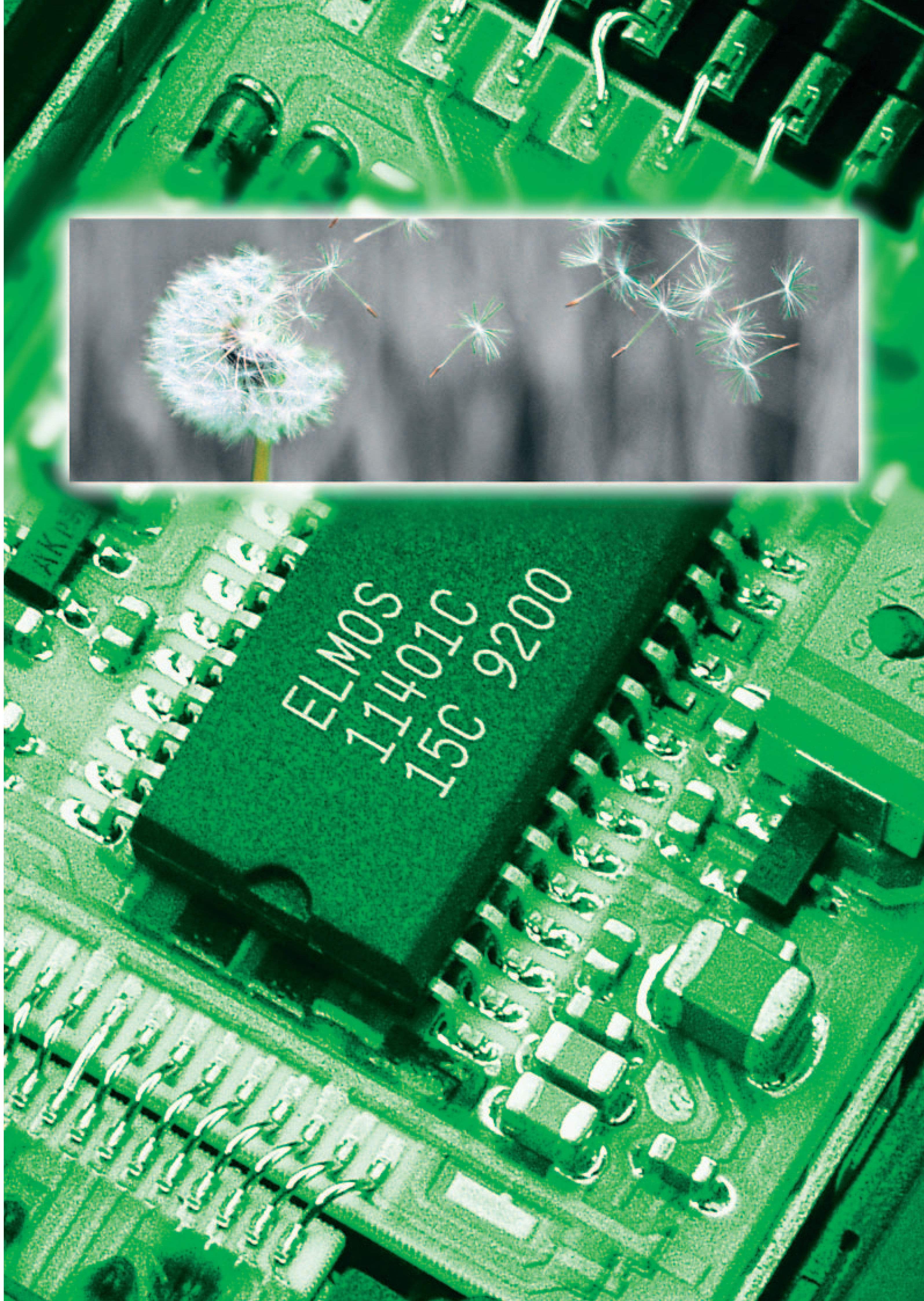
Despite the clouded economic scenario, the Kolbenschmidt Pierburg Group closed fiscal 2002 successfully. Group sales mounted by 3.1 percent to €1,882.6 million over the previous year. Adjusted for MotorEngineering, deconsolidated at the end of 2001, the gain is 5.3 percent. Indeed, this growth on the part of Kolbenschmidt Pierburg again outpaced that of car production worldwide. Three of the five divisions contributed toward improved sales over the previous year. Especially remarkable are the better-than-average contributions by Aluminum Technology and Air Supply & Pumps. The growth regions of the year 2002 were North America and Germany.

Sales growth fueled by innovation

Just as one year earlier, the portion of Group sales to customers outside of Germany was more than 66 percent. There were no major changes in the regional breakdown in fiscal 2002. About one-third of total sales went again to customers in Germany. Together with the remaining European countries, Europe accounts for more than three-quarters of all sales. At an almost unchanged proportion of 17 percent, North America is still the most important overseas market. The remaining world markets accounted for 6 percent of Group sales—just as one year earlier.

Sales by region
(in %)



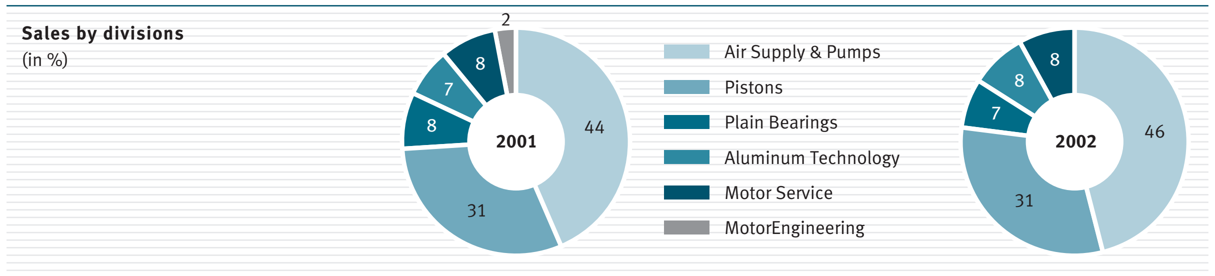


The situation of the Group

The North American customers contributed high sales gains (up €32 million), hence more than compensating the previous year's decline as a consequence of that region's economic weakness. Business with customers in Germany (up €15 million) and the rest of Europe (up €10 million) also advanced. In fact, sales growth in these three regions bucked local industry trends.

Air Supply & Pumps again showed significant sales successes, featuring the highest sales in company history with a plus of €64.0 million to €883.8 million. The growth is exclusively ascribable to the air supply product unit, where apart from high call-offs for ongoing projects, the start-up of new projects impacted favorably. Mainly in the North American companies and following the previous year's market-related sales slump, the Pistons division made good headway and, at €595.7 million, generated sales €24.2 million above the year before. With the start-up of new series products, Aluminum Technology delivered additional revenues of €13.0 million, totaling €148.8 million. The Plain Bearings business suffered from a number of start-up postponements at the German company and the phase-out of individual products at the US subsidiary. Hence, its sales dropped by €7.4 million to €145.8 million. Due to partially weak demand in the aftermarkets, at €146.4 million, Motor Service did not quite achieve the previous year's revenue volume, the decline over the previous year amounting to €4.9 million.

The divisions' respective shares in the Group's consolidated sales slightly changed over the prior year. On the one hand, this is attributable to the deconsolidation of MotorEngineering in the previous year, on the other, to the sales surge at Air Supply & Pumps, the latter again raising its share by 2 percentage points, thus still being the top-sales division.



The Kolbenschmidt Pierburg Group's business is mainly concentrated on the development, production, and marketing of original equipment for the automotive industry, this accounting for 88 percent of total sales, following around 85 percent in 2002. Due to MotorEngineering's deconsolidation, the proportion of sales to engine repair shops and the workshop trade (spare parts and measuring equipment) slipped from 10 percent in 2001 to 8 percent one year later. Four percent of Group sales was accounted for nonautomotive applications such as large-bore pistons for stationary plant and continuous casting products for the building construction industry (down from 5 percent).

EBT much higher

In fiscal 2002, the Kolbenschmidt Pierburg Group delivered an EBT of €60.1 million, hence €10.6 million higher than the year-earlier €49.5 million. Taking into account one-off structural effects, namely the deconsolidation of the MotorEngineering division in the prior year as well as the sale of the minority interest in Preh GmbH & Co. KG in 2002, EBT is €3.0 million above the previous year's.

In 2002 and at €97.4 million, EBIT likewise surpassed the previous year's figure of €90.5 million. Due to lower depreciation/amortization, the EBITDA of €234.8 million in 2002 slightly missed the previous year's €238.4 million. Accordingly, the EBT margin at 3.2 percent (up from 2.7 percent) and the EBIT margin at 5.2 percent (up from 5.0 percent) were both higher.

In response to the sustained price pressure in the automotive vendor sector plus the ongoing increases in the cost of materials and personnel expenses, which all took their toll on the Group's earnings, we successful pushed ahead with our rationalization, process improvement, and purchase price reduction efforts. The growth achieved also improved the allocation of fixed costs.

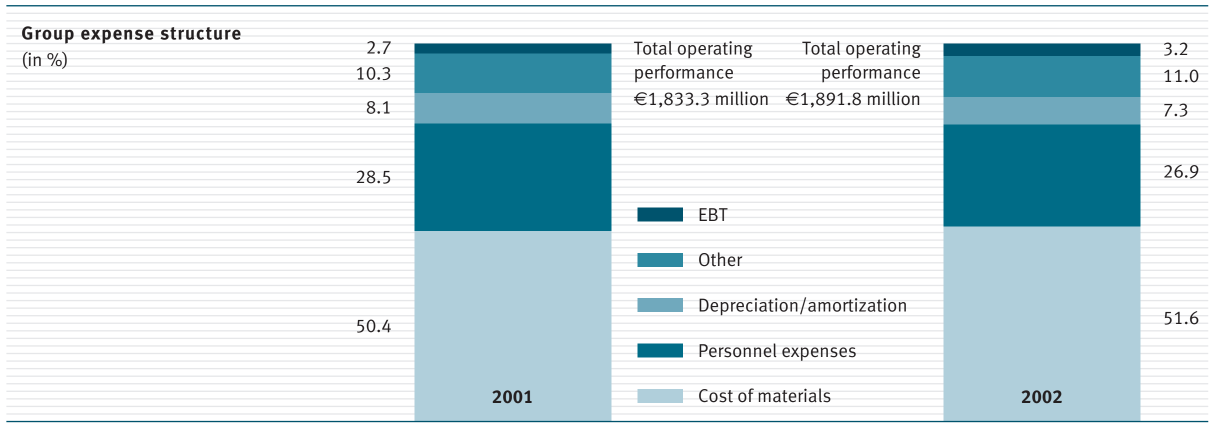
The restructuring measures introduced at various locations of the Group the year before were partly finalized or pushed forward to a large extent. The

Initial restructuring successes

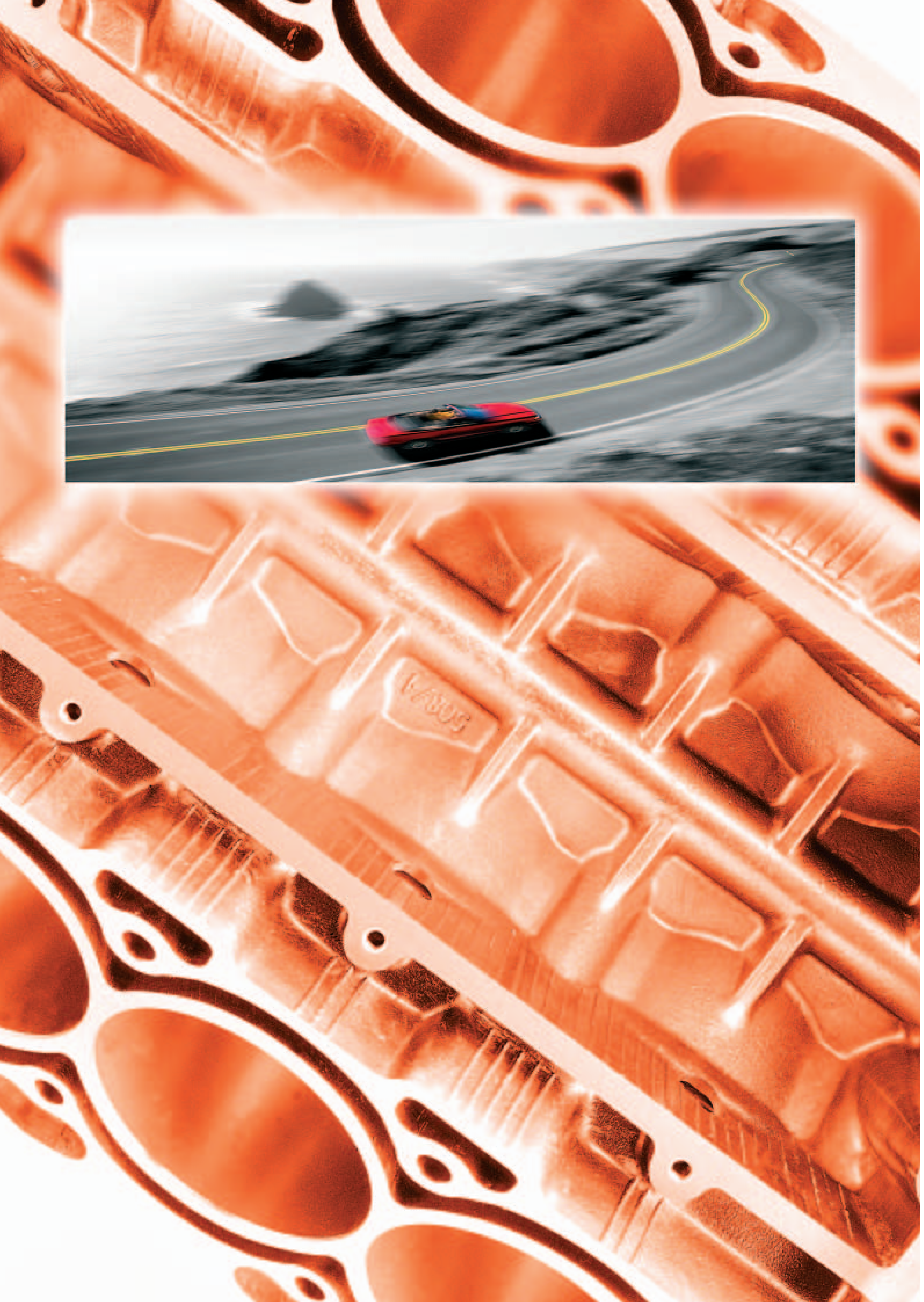
projects at the German plants of Pierburg GmbH have already led to clear improvements in the results of operations. The restructuring measures at the US locations were accelerated, also showing favorable effects on performance in the second half of the year. Yet, 2002 as a whole was burdened by the restructuring expenses.

Aluminum Technology only managed to cope with the high number of low-pressure casting start-ups by incurring heavy additional expenses. Simultaneous start-ups caused by customer postponements as well as the products' inherent complexity led to higher-than-average reject rates. Tackling this challenge was on the agenda for 2002 and, in the second half of the year, clear improvements were evident. In the first six months, the emphasis had been on getting the products shipped out in response to customer call-offs. Upgrading productivity in this division is a key task for the year 2003.

In 2002 and at €1,891.8 million, the total operating performance by the Kolbenschmidt Pierburg Group was €58.5 million or 3.2 percent above 2001.



The rising cost of materials as a share of total operating performance reflects Kolbenschmidt Pierburg's focus on core competencies. Production jobs not among the Group's core competencies are increasingly being farmed out. This was especially true of the past year with regard to work outsourced by Aluminum Technology. The payroll ratio moved in reverse direction. By improving productivity and again extensive production outside of Germany plus favorable exchange rates, it proved possible within the Group to outweigh the eroding effect of increases at company level in personnel expenses. The aggregate ratio of the cost of materials and personnel expenses to total operating performance fell by 0.4 percentage points in a year-on-year comparison.



EBT by divisions	2001 € million	2002 € million
Air Supply & Pumps	12.6	52.9
Pistons	20.0	14.1
Plain Bearings	15.1	8.2
Aluminum Technology	(3.6)	(17.8)
MotorEngineering	7.5	0.0
Motor Service	13.4	13.1
Others/consolidation	(15.5)	(10.4)
Group	**49.5**	**60.1**

Divisionwise, Air Supply & Pumps in particular contributed to the EBT improvement. Compared with the prior year, its EBT rose more than €40 million to €52.9 million. Even allowing for the gains from the transfer of the interest held in Preh GmbH & Co. KG in 2002 and the disposal of the majority stake in MotorEngineering in 2001, the prior-year EBT was still surpassed by over €30 million. This return to the profit level of previous years was attributable to a repeated clear increase in sales, the successful restructuring at the German plants, ongoing very healthy profitability at the Spanish subsidiary, and the successful turnaround orchestrated by the US subsidiary.

At €14.1 million, EBT at Pistons was around €6 million below the previous year's figure. One-off expenses in 2002 for restructuring the US business restricted earnings, but did bring about a sharply improved operating result in the second half of 2002. Apart from this, the division's earnings were fueled by the good performance again shown by the Brazilian subsidiary, better operating results and favorable currency effects being the contributors. Earnings at the German and French companies were down from the 2001 level, mainly on account of shrinking sales.

For the Plain Bearings division, the €8.2 million EBT of fiscal 2002 remained definitely below that of 2001 (down by €6.9 million), this decline mainly being due to slumping sales by the German company with, at the same time, reduced fixed-cost coverage from the capital outlays necessary for the planned sales growth. The first results of the restructuring efforts were evident at the US company, but on balance, the structural reorganization still clipped the year's bottom line.

In the past fiscal year, Aluminum Technology again had to contend with a pretax loss. Following a negative €3.6 million one year earlier, EBT in 2002 reached an equally red €17.8 million, parallel start-ups in the low-pressure castings sector accompanied by an excessive number of rejects hampering earnings. In contrast, the pressure- and squeeze-casting units again turned in a profit.

With an EBT of €13.1 million and despite declining sales revenues, Motor Service managed to almost maintain the previous year's performance due to the introduced cost-paring measures.

After taxes, the Kolbenschmidt Pierburg Group earned a net income of €36.7 million for 2002 (up from €31.8 million).

The income tax load ratio of 38.9 percent thus exceeds the about 37-percent average income tax burden expected by the Kolbenschmidt Pierburg Group in the years ahead. At 1.9 percent, after-tax ROS for 2002 was ratcheted up from the prior-year level. Primary contributor to the higher net income was the improved EBT whereas capitalization of deferred tax assets in 2002 receded. Deferred tax assets were recognized in 2002 for temporary differences between the financial and the tax balance sheets, as well as for loss carryovers realizable short term to reduce income taxes.

The situation of the Group

Capital costs covered

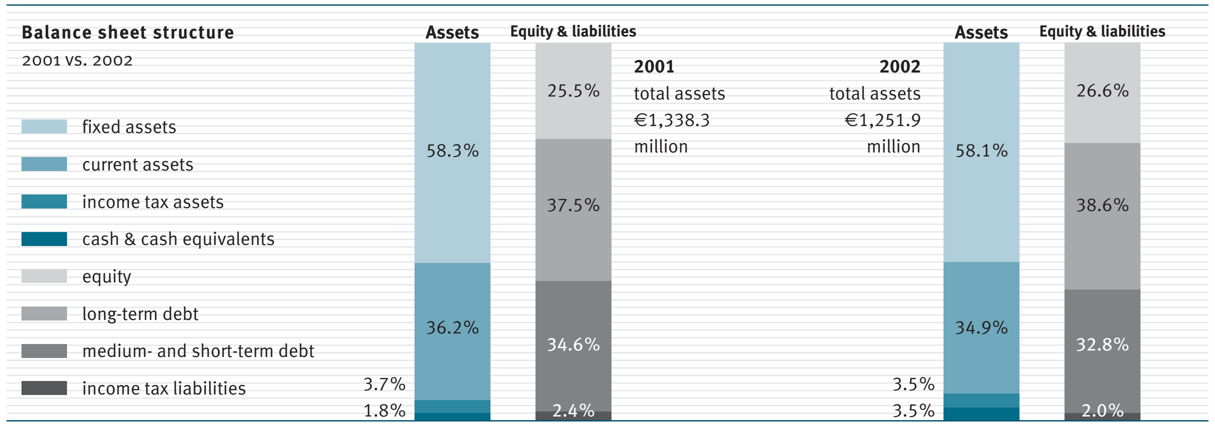
Versus the prior year, ROCE was raised by 1.7 percentage points to 11.8 percent. Apart from the EBIT improvement by 7.6 percent to €97.4 million, this was mainly due to the reduction in capital employed by €112.2 million to €771.4 million (down 12.7 percent). This reward is mainly the outcome of less working capital tied up (down €69.5 million) and downscaled capital expenditures (down €30.3 million).

The long-term EBT margin, EBIT margin and ROCE targets were not yet reached in 2002. However, at 11.8 percent ROCE, the average cost of capital (WACC) was covered. In 2003, all efforts will concentrate on further approaching the ambitious targets the Group set for itself.

Target achievement progress	Target	Actual 2001	Actual 2002
EBT margin	4.5%	2.7%	3.2%
EBIT margin	6.3%	5.0%	5.2%
ROCE	15.0%	10.1%	11.8%

Asset and capital structure

At €1,251.9 million, total assets in 2002 were €86.4 million or 6.5 percent below the prior year's €1,338.3 million, despite the increased business volume. Balance sheet ratios were upgraded on both the asset and capital sides.



Balance sheet ratios upgraded

As of December 31, 2002, fixed assets accounted for 58.1 percent of total assets (virtually unchanged). In absolute terms, fixed assets shrank by €53.7 million. Apart from the lower total of tangibles, reduced due to downscaled capital expenditures, financial assets declined, too, mainly as the Preh interest was disposed of at a book value of €24.0 million. In contrast, the capital increase in the United States raised goodwill by around €17 million.

Working capital consistently downsized

As of December 31, 2002, depreciation of tangibles and amortization of intangibles (excluding goodwill) of the Kolbenschmidt Pierburg Group came to €133.9 million, thus clearly down from the year-earlier €145.6 million. The loss on the scrapping of machines at the US Fort Wayne location meant an additional charge, their book value totaling €5.1 million. The capital expenditures of €144.3 million again clearly outnumber amortization and depreciation, by 7.7 percent in 2002.

Goodwill amortization in 2002 amounted to €3.5 million.

The share of current in total assets slipped from 36.2 to 34.9 percent. The €47.3 million decrease in current assets, achieved by downscaling inventories as well as receivables despite the higher business volume, is proof of the success of the working capital program initiated back in 2001. Cash & cash equivalents rose by €20.4 million.

Summarized balance sheet	2001 € million	2002 € million	€ million	Change %
Intangible assets	54.0	74.1	+20.1	+37.2
Tangible assets	670.7	620.5	–50.2	–7.5
Financial assets	55.3	31.7	–23.6	–42.7
Fixed assets	**780.0**	**726.3**	**–53.7**	**–6.9**
Inventories	244.3	222.4	–21.9	–8.9
Trade receivables	203.6	183.1	–20.5	–10.1
Other current assets	36.4	31.5	–4.9	–13.5
Current assets	**484.3**	**437.0**	**–47.3**	**–9.8**
Income tax assets	50.1	44.3	–5.8	–11.6
Cash & cash equivalents and short-term securities	23.9	44.3	+20.4	+85.4
Assets	**1,338.3**	**1,251.9**	**–86.4**	**–6.5**
Stockholders' equity	**326.2**	**329.0**	**+2.8**	**+0.9**
Minority interests	14.9	3.9	–11.0	–73.8
Total equity	**341.1**	**332.9**	**–8.2**	**–2.4**
Pension accruals	286.2	272.9	–13.3	–4.7
Long-term financial liabilities	202.1	188.0	–14.1	–7.0
Noncurrent other accruals	13.3	22.9	+9.6	+72.2
Long-term debt	**501.6**	**483.8**	**–17.8**	**–3.6**
Current other accruals	108.1	99.5	–8.6	–8.0
Short-term debt	78.0	21.9	–56.1	–71.9
Trade payables	152.6	177.0	+24.4	+16.0
All other liabilities	124.5	111.7	–12.8	–10.3
Medium- and short-term debt	**463.2**	**410.1**	**–53.1**	**–11.5**
Income tax liabilities	32.4	25.1	–7.3	–22.5
Equity & liabilities	**1,338.3**	**1,251.9**	**–86.4**	**–6.5**

The situation of the Group

Finance and capital employed

The Group's gross cash flow for the year ended December 31, 2002, inched down from €174.1 million to €170.0 million. Adjusted for the €5.1 million loss on the scrapping of machinery at Fort Wayne, USA, the gross cash flow climbed €1.0 million to €175.1 million. The capital expenditures of €144.3 million in 2002 were thus again fully funded by the gross cash flow. However, this comparison fails to account for the favorable effects of €69.5 million attributable to the slashed working capital. The free cash flow was spiraled up to a remarkable €98.3 million (from a negative €36.9 million a year ago).

In absolute terms, total equity moved down €8.2 million from €341.1 million to €332.9 million. The change was mainly attributable to net income, which raised equity by €37.1 million, while decreasing effects came from dividend payments (€14.0 million), currency adjustments (€9.4 million) and the lower reserve from fair valuation (€9.7 million), which shrank upon the divestment of the interest in Preh. The overall equity ratio within the Group improved from 25.5 percent in 2001 to 26.6 percent as of year-end 2002.

Equity covers 45.8 percent of fixed assets, while equity plus long-term debt outcover fixed assets by 112.4 percent.

Financial debts again whittled down

The financial leverage (i.e., the ratio of interest-bearing debt to total equity) was pared from 0.82 to 0.63 since financial liabilities were pruned by a considerable €70.2 million, largely thanks to the successful 24.5-percent reduction in working capital (down from €284.2 million to €214.7 million).

Capital expenditures

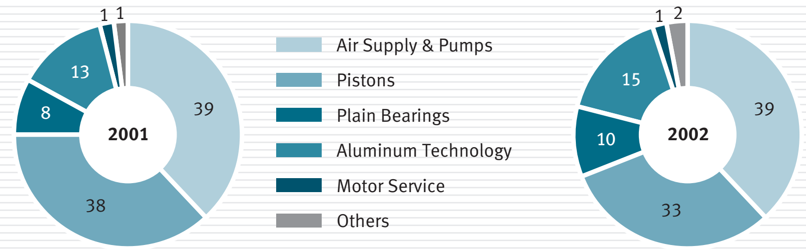
Selective investment policy

The Kolbenschmidt Pierburg Group companies invested altogether €144.3 million in 2002 (down from €174.6 million). The capital outlays comprised additions to intangible and tangible assets, excluding goodwill. For the first time in fiscal 2002, the tooling grants/allowances were not shown as deferred income but directly offset against the additions to tangible assets. The comparable year-earlier volume is €151.7 million. As a ratio of sales, spending in 2002 amounted to 7.7 percent, thus 0.6 percentage points lower than the like-for-like 2001 figure.

Capital expenditure reductions achieved to date are the first fruits of the program for upgrading ROCE. The measures include the outsourcing of production stages if not core competencies of Kolbenschmidt Pierburg, the improved interplant coordination of free capacities and production facilities, limiting of plant interlinkage to the necessary level, as well as fewer specialty machines. Kolbenschmidt Pierburg will accelerate its efforts to further lower its capital expenditure ratio.

As in the previous year, in 2002 capital outlays focused on widening capacities at the Group's domestic locations. Around 60 percent of spending was absorbed by the German plants, the foreign share being in the region of 40 percent. In contrast to fiscal 2001, foreign expenditures centered on North America and not Europe. While in the previous period, capital investments in North America had been reduced due to the weak economy, the volume was in 2002 boosted to €27.2 million, one of the reasons being the initiated restructuring projects. In Europe, spending totaled €23.6 million.

Capital expenditures by divisions
(in %)



Expenditures for tangible assets in the **Air Supply & Pumps division** were mainly incurred in readiness for new start-ups and for expanding available capacities. At home, preparations chiefly concentrated on the series production of two intake manifold projects for 6- and 8-cylinder engines, a new generation of air-mass sensors, and a fuel delivery module for diesel engines. Moreover, capacity was increased for producing electric throttle bodies as well as the required motors.

In Italy, the emphasis of spending at Pierburg S.p.A. was on intake manifolds and exhaust gas recirculating valves. In the USA, capital outlays concentrated on extending a production line for electric throttle bodies.

In the **Pistons division**, most of the expenditure incurred in Germany concerned the foundry and machining capacities in preparation for new high-duty diesel engine pistons. The outlays at the US subsidiaries centered on restructuring and widening production facilities for enhancing productivity on the one hand, and on the other, for producing additional technical features. At the subsidiaries in France, the Czech Republic and Brazil, the existing lines were adapted and enlarged to accommodate new projects.

In the **Plain Bearings division**, the German parent added plant for producing and machining upstream and input materials. Moreover, it was necessary to extend the production space and the capacities of the galvanizing facilities, as well as to set up an eco-friendly cleaning line for bearing shells.

At the US subsidiary, most of the capital spent went into the partial relocation of production facilities within the framework of a restructuring program.

In the **Aluminum Technology division**, new plant and equipment were again purchased to broaden the low-pressure casting production line for creating the required capacities to achieve the planned sales growth. The existing joint venture for net-machining engine blocks was terminated, the lines of the former co-venturer were partly taken over for continuing production on an independent basis.

At €0.7 million (down from €1.0 million) and in line with its trading activities, expenditures by the **Motor Service division** were at a comparably low volume.

Financial investments amounted €1.2 million in the fiscal year, following €21.6 million one year earlier. The prior year's figure was exceptionally high due to the addition of Pierburg Instruments GmbH and Pierburg GmbH's stake in a Chinese joint venture.

Depreciation and amortization (excluding goodwill) by the Kolbenschmidt Pierburg Group in fiscal 2002 amounted to €133.9 million (down from €145.6 million). Besides the achieved reduction in expenditures, this decline also reflects the changed procedure regarding tooling allowances. Goodwill amortization in 2002 reached €3.5 million. Capital expenditures in 2002 exceeded amortization and depreciation by 7.7 percent.

The situation of the Group

Research and development

The dramatic decline in the number of automobile manufacturers due to recent years' consolidation waves contrasts with a sharp increase in brands enjoying unremitting customer loyalty plus a string of specific models addressing certain trends and filling a number of market niches. Coupled with the carmakers' concentration on core capabilities, this leads to a shift of development and production functions to the vendor industry, the critical success factor for the automotive vendor companies still being an ability to add innovative value to the final product, the car.

Innovative capability strengthened

With its products "for every aspect of the engine," Kolbenschmidt Pierburg even now is a longstanding and successful partner of international carmakers. To secure this established position and widen systems competence, R&D expenditure was raised to €85.6 million in fiscal 2002. This is equivalent to 4.5 percent of sales (up from €79.8 million or 4.4 percent). In all, the Kolbenschmidt Pierburg Group employed almost 6 percent of its total workforce on research and development tasks as of Dec. 31, 2002.

These activities by the divisions are mainly carried out by the respective parent companies.

R&D expenditure by divisions	2001 € million	2002 € million
Air Supply & Pumps	49.3	54.1
Pistons	19.9	25.3
Plain Bearings	2.4	2.8
Aluminum Technology	5.0	3.4
MotorEngineering	3.2	0.0
Group	**79.8**	**85.6**

Just as in the previous years, development work at **Air Supply & Pumps** concentrated on products for emission control, performance enhancement, and weight reduction. A large share of projects involved demand-controlled, i.e. electric or motorized products. Compared with conventional mechanical components, which operate non-stop while the engine is on, even when unnecessary for the engine's function—these products lead to fuel cuts through demand-controlled operation. Coolant and oil pumps are just some project examples. Megaprojects for magnesium intake manifolds, remarkable for their reduced weight over the gray-cast or aluminum varieties, were also implemented for passenger car applications.

With the start-up of series production, electric throttle body projects for diesel applications were successfully finalized. Started the previous year, development work went ahead on sensors and valves used in fuel cell drive systems.

Air Supply & Pumps spent €54.1 million for research and development, equivalent to 6.1 percent of sales. As of year-end 2002, altogether 406 employees were engaged in R&D worldwide.

For **Pistons**, too, increasing power density, reducing fuel consumption and further cutting exhaust gas emissions were the driving factors behind R&D activities.

Engines with a very high power density as well as high-pressure injection gasoline and diesel engines place exceptional thermal and mechanical demands on the materials used. Basically, Kolbenschmidt Pierburg uses an established standard alloy. Further-refined materials are under development and at defined places on the piston ready for insertion next year. Another option is to reduce the critical temperature with the aid of a cast-in oil passage. For pistons without any room for this solution due to the combustion recess dimensions, oil passages with a variable cross-section are a possibility. This is a technology presently under series development.

The situation of the Group

In the course of the past year, a new casting technology was advanced to the stage of series production, enabling a more cost-effective production of complex surface geometries.

In recent years, articulated pistons for commercial vehicles have been developed for various customers and are now being or about to be series-produced. All-steel pistons for diesel-engine commercial vehicles with cylinder pressures of up to 250 bar are being developed for series production. For use in large engines, multiple- and single-part steel pistons are being developed for various customers. In both cases, the first prototypes for engine testing have been shipped out.

In 2002, expenditure for research and development activities amounted to €25.3 million in the Pistons division, or 4.3 percent of sales. At December 31, 2002, a total of 190 employees worked in R&D.

R&D activities at **Plain Bearings** in 2002 focused on the continuation of material development. Apart from new steel-aluminum composites for high-duty applications in direct-injection gas and diesel engines, lead-free bronze materials were developed to meet the rising demand for eco-friendly materials and to cater for the EU car-scrapping regulations.

In product and process development, the focal points were connecting-rod bearings for direct-injection engines, balancer shaft bearings, piston pin bushings and assembled flange bearings for passenger car engines.

In the case of steel-plastic composites, efforts concentrated on zero-lead, maintenance-free and low-maintenance materials for use at high temperatures of up to 180 °C. Besides compliance with environmental requirements, research work is focused on tapping future fields of application.

In 2002, total R&D expenditure by Plain Bearings amounted to €2.8 million or 1.9 percent of sales. In this division and as of year-end 2002, 31 employees were involved in development tasks at the respective competence centers.

Development activities at **Aluminum Technology** centered on achieving constant and reproducible casting and machining processes, material developments including technologies for local material strengthening and the extension of the scope of machining.

Against the background of parallel start-ups of complex projects in the low-pressure casting sector, product and process development was intensified. Apart from closely focused, continuous work in production development, it was process technology that received special emphasis. With the takeover of further production stages in the machining of engine blocks it proved necessary to reorganize and strengthen project management. Closely examined were the practicability of modern machining techniques and new in-house developed methods of cylinder surface machining.

Expenditure by Aluminum Technology amounted to €3.4 million in the past fiscal year, equivalent to 2.3 percent of sales. At December 31, 2002, altogether 30 employees worked in the field of research and development.

Employees

As of December 31, 2002, Kolbenschmidt Pierburg AG along with its subsidiaries in Germany and abroad employed a workforce of 11,535 (down from 11,662). The decline by 127 was mainly due to restructuring programs in the USA and as a response to economic factors. With headcount down and sales nonetheless up, (rounded) sales per capita climbed 5.9 percent from €152,000 to €161,000.

During 2002, an average of 210 persons were on limited-term contracts. This compares with 228 the year before.

Sales per capita up

The domestic companies of the Kolbenschmidt Pierburg Group had a workforce of 6,135 as of December 31, 2002 (down from 6,160). Of these, 4,479 were blue- and 1,656 white-collar. German operations accounted for around 53 percent of the total headcount.

Personnel expenses incurred by Kolbenschmidt Pierburg AG and its subsidiaries in 2002 added up to €509.6 million. This total included in 2002 €411.8 million for wages and salaries, €73.7 million for social security taxes, and €24.1 million for pension expenses.

Fiscal 2002 saw the signing of a collectively bargained new pay agreement for Germany's metalworking industry which also laid down the principles of a framework pay agreement (“ERA”) yet to be finalized. The new agreement runs from March 1, 2002, through to December 31, 2003. For the months of March, April and May 2002, employees received a flat €120. From June 1, 2002, a raise in wages, salaries and apprentice pay of 3.1 percent was agreed and starting from June 1, 2003, another 2.6 percent. In preparation for the ERA agreement, so-called ERA structural components were established, the first of 0.9 percent being partly due in July 2002 and the rest in April 2003. The second structural component of 0.5 percent will be paid in September 2003 while for the period June 1, 2003, to December 31, 2003, a further structural component of 0.9 percent has been agreed, which however will not be paid out but deposited in an ERA adjustment fund. Also, key constituents of the collective ERA agreements were laid down. However, such a new collective agreement has not yet been submitted. A welcome aspect is that this agreement for the first time includes a provision according to which the parties state their willingness to make exceptions for companies whose survival is threatened.

On the basis of a general works agreement, preretirement part-time arrangements were agreed also in 2002, tailored to the specific needs of the Kolbenschmidt Pierburg Group’s German operations. As in the previous years, further flexible working hour arrangements were introduced and group work expanded at the various plants.

The stock appreciation rights (SAR) program lauched in 2001 for the second and third management tiers was continued in 2002.

Apprentice and ongoing training: success factors

A large number of training courses not only in the field of modern working techniques but also in management and communication were staged in order to further the skills of our employees in and outside of Germany. This continuous refinement of employee skills and motivation is essential in order to cope with changes due to new technologies and the ongoing move toward state-of-the-art and efficient forms of business organization.

One ingredient of this is a continuous improvement process in effect at all the plants. The corporate suggestions schemes with their continuously growing improvement potential are also helping to fine-tune some of the internal work flows. In submitting these suggestions, employees are demonstrating their interest in improving the organization of the operations at which they work.

Apprentice training was again pursued resolutely and is necessary to increase the efficiency of our operations within the competitive environment. As of December 31, 2002, we employed 364 apprentices worldwide.

The employee representatives at all the companies cooperated constructively in putting into effect our measures. This constructive cooperation with the Works Councils, the Spokesperson Committees of the Managerial Employees and the employee representatives on the Supervisory Board was and is an important foundation stone in the success of the Group as a whole.

We thank all the employees of the Kolbenschmidt Pierburg AG companies for their dedicated efforts and commendable achievements in fiscal 2002.

Employees	12/31/2001	12/31/2002	Change
Air Supply & Pumps	4,010	3,872	–138
Pistons	5,416	5,400	–16
Plain Bearings	1,045	973	–72
Aluminum Technology	772	862	+90
Motor Service	381	391	+10
Others	38	37	–1
Total Group	**11,662**	**11,535**	**–127**
thereof			
Germany	6,160	6,135	–25
abroad	5,502	5,400	–102

The situation of the Group

Environmental management

Kolbenschmidt Pierburg is well aware of its duty toward people and the environment. Indeed, this corporate responsibility for the sustainability of our environmental actions is mirrored in ecopolitical principles that apply to the Group as a whole. The prime components are:

- Responsible and respectful treatment of the environment as an integral component of decision-making and action structures (environmental responsibility);
- Making sure that production operations have minimum impact on the environment above and beyond legal requirements (pollution);
- Considering environmentally relevant factors throughout the value-adding chain, in particular at the development stages (products and production);
- Implementing a management system in order to adequately respond to technical and organizational deviations (environmental management system); and
- Informing, instructing, and inspiring the employees (environmental awareness).

It is to the dedicated application of those of our employees entrusted with environment-relevant functions that we owe a broad-based positive environmental awareness throughout the Group. The establishment of environment-protecting interests as a firm constituent of the way we do business leads to a continuous improvement of environmental protection.

Despite the increasing awareness on the part of employees, environmental management systems for securing environmental goals at the German and foreign production companies have been implemented and approved according to the internationally accepted environmental standard ISO 14001. There are two exceptions, companies whose environmental management systems are currently being revised and improved for certification by the end of 2003.

Dependency report

Through Berlin-based Rheinmetall Berlin Verwaltungsgesellschaft mbH, Rheinmetall AG, 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 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 closes with the following representation: "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

Doing business inevitably entails risks and rewards. At Kolbenschmidt Pierburg, business opportunities are seized and risks only accepted when these are considered in all likelihood to be controllable and conducive to the economic success of the Group. In order to spot risks early on and adequately counteract them, risk management is an essential element of all processes and decisions within the Kolbenschmidt Pierburg Group.

Essential to the integration of the risk management system in Kolbenschmidt Pierburg's processes and procedures are clear organizational and management structures at all level, a comprehensive planning system, as well as efficient reporting and information systems. These latter, both in their external and internal formats, enjoys a key role, since they make sure that business transactions are represented according to a uniform procedure. The reporting and information systems are continuously being reviewed for their effectiveness and, where necessary, fine-tuned.

The instruments for identifying, analyzing, controlling and monitoring risks within the framework of the risk management are defined in the form of groupwide uniform guidelines adopted by the Executive Board. The basis for this is the annual update of the existing risk landscape in the course of which potential risks are recorded and categorized regarding their likelihood and loss potential. 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 any potential risks are identified in good time and their implications assessed. In this way, any 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.

Verifying the risk management system for workability is also one of the duties performed in the course of the annual audit by the statutory auditors (elected by the stockholders' meeting).

The potential risks to which the Kolbenschmidt Pierburg Group is exposed subdivide into general economic, industry, performance, financial as well as legal risks.

General economic and industry risks

Kolbenschmidt Pierburg AG and its subsidiaries develop and manufacture components, modules and systems for the international automotive industry and hence, the Group and its subsidiaries are in their future business development largely dependent on how the automotive climate develops worldwide.

Despite the fears at the start of the year due to the terrorist attacks of September 11, 2001, the global automotive industry in 2002 made good progress. According to provisional data, worldwide 3.7 percent more passenger cars and light commercial vehicles were built than the year before. As to 2003, expectations with respect to worldwide production figures at the start of the period are if anything dampened. Analysts and institutes assume stagnation at best. Major influencing factors are, in addition to the repercussions of any escalation of the Iraq conflict, further rising crude oil prices. In Germany, there is additional uncertainty regarding the tax situation, and in particular company car taxation, as well as the impact of a strong euro on exports by German automakers.

The impact of the individual markets on the economic situation at Kolbenschmidt Pierburg is abated by the Group's measured globalization from an economic point of view. Additionally, the diversified customer structure leads to a balancing of production fluctuations among individual carmakers.

The trend continues toward powerful engines which, too, must comply with the high requirements posed by emission legislation. With the existing product range and new projects under development, emissions by these engines are and will be controlled by reducing fuel consumption. Kolbenschmidt Pierburg expects that it will be able to continue raising its share of engine components. The ongoing diesel engine boom contains further sales potential for the companies of the Group.

Customer pressure to obtain further price reductions persists. This risk is contained by the creation of additional price/cost latitude and the realization of product and process innovations as well as the enactment of continuous improvement processes (CIP) and the enforcement of strict cost management. In the financial statements 2002, the accrual for impending losses on uncompleted contracts adequately provides for any losses related to individual products.

Performance risks

Kolbenschmidt Pierburg intends to continue outpacing the international automotive industry by generating better-than-average growth rates. The organic growth budgeted in the sales plans for fiscal 2003 calls for a large number of complex and 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. A comprehensive project management scheme is being applied throughout all the phases, from conceptualization, invitation to bid through to series start-up and mass production to ensure that these products translate into profitable growth. In the 2002 annual accounts, the accrual for impending losses on individual onerous product start-ups adequately provides for any losses.

The situation of the Group

Financial risks

Due to the international nature of the Kolbenschmidt Pierburg Group's business, certain currency and interest rate risks may arise which are profiled centrally by Kolbenschmidt Pierburg AG's Treasury and hedged by means of currency futures and forwards wherever it is deemed possible and economically recommendable. It is a fact that the progressing globalization of procurement, production and financing will gradually curb the effect of parities, especially between the dollar and the euro. Because of the nature and the mix of the customers, credit risks are very low.

The auto assemblers will continue to download value-adding and engineering development functions to the industry vendors. For the latter, this in turn spells new challenges with respect to R&D, production as well as quality standards and along with this, a growing reliance on the financial resources required to fund input and the necessary additions to tangible assets. Any investment resources deployed by the Kolbenschmidt Pierburg Group's divisions are therefore subject to a particularly strict scrutiny in terms of efficiency both during the budgeting and PIA approval stages in order thus to relieve cash flows. Further possibilities for reducing expenditures have been identified and are being exploited.

Legal risks

Sufficient insurance contracts have been taken out to adequately cover risks from loss or damage by natural forces and the resulting business interruption, as well as warranty, product liability, and callback risks. The existing insurance cover is regularly reviewed for adequacy and, where necessary, adapted. At the same time, ongoing projects for process reliability as well as extensive quality assurance programs aim at avoiding the occurrence of such risks. In the 2002 balance sheet, adequate accruals provide for such risks where covered not at all or not fully (deductible loss).

A certain tax risk emanates from unexercised option rights under the warrant bond issue floated by Kolbenschmidt AG. However, Kolbenschmidt Pierburg AG assumes, supported by the prevailing view of tax law pundits and in jurisprudence publications, that bond redemption is unlikely to entail any tax burden; however, the final judgment in a comparable case has still not yet been passed.

Moreover, certain risks exist from proceedings pending before the court of competent jurisdiction which have been instituted by ten stockholders for review of the share exchange ratio under the merger of Kolbenschmidt Pierburg (Rheinmetall shareholdings), as well as for additional cash compensation. Kolbenschmidt Pierburg continues to believe in the underlying share exchange ratio fairly reflecting corporate value relations and that therefore the proceedings still underway represent only a slight risk. An adequate amount provided in 1999 (unchanged) covers the fees and charges associated with such court proceedings.

From today's vantage point, potentially ruinous economic or legal risks do not exist for Kolbenschmidt Pierburg AG or its divisions, nor do any other risks that might have a long-term significant adverse effect on either the Company's or the Group's net assets, financial position or results of operations.

Prospects

Material subsequent events

Since the closing date for the annual accounts, KS Kolbenschmidt GmbH, the parent company of the Pistons division, has taken over from Mazda Motor Corp., Japan, the pistons business of Microtechno Corp., also Japan. Microtechno has been producing pistons and other precision parts for the automotive industry since 1972. Its pistons business accounts for sales of around €20 million and employs 120 people. For several years now, there has been cooperation in engineering matters between the two companies. The acquisition of Microtechno is for Kolbenschmidt Pierburg another step in the expansion of activities in Asia. Moreover, as a technological center of Asia and the largest market for advanced motor vehicle pistons, Japan offers the opportunity of sharing in the R&D of world market business there and hence securing portions of the market.

In the Air Supply & Pumps division, the electric fuel pump unit of Pierburg GmbH was transferred to TI Automotive as of January 1, 2003. This unit of Pierburg GmbH employed 100 people and generated worldwide sales of about €46 million. The disposal is a step by Pierburg GmbH in its strategy of concentrating on core activities and addresses the trend by the auto assemblers to award contracts in this segment to preferred suppliers of complete fuel tank and fuel delivery systems. The agreement concluded with TI envisages a concentration and continuation of fuel pump production at the Neuss location. A supplementary agreement will detail the future supply to TI Automotive of electric motors by Pierburg's Hartha, Saxony, plant.

Forecast report

At the start of fiscal 2003, call-offs by our customers are at a steady level. Hence and from today's vantage point we expect sales and satisfactory earnings at the year-earlier level for the first quarter of 2003.

Our targets for all of fiscal 2003 are:
- substantially improve earnings through the restructuring of US operations;
- successfully handle the product start-ups of innovative engine blocks by Aluminum Technology and thus achieve a significant enhancement of this division's earnings situation;
- a return to the sound profitability of the previous years by Plain Bearings on the basis of the meanwhile realized start-ups and;
- a stabilization of the working capital program on the sound level attained and the optimized deployment of expenditures aimed at again reducing financial debts.

Assuming stable political and general economic conditions, the achievement of the aforementioned targets combined with the start-up and full capacity manufacture of new products will lead to profitable growth in 2003.

Düsseldorf, March 10, 2003

Kolbenschmidt Pierburg AG
The Executive Board

Dr. Kleinert
Dr. Merten
Dr. Friedrich

Kolbenschmidt Pierburg AG

As the Kolbenschmidt Pierburg Group's parent, Kolbenschmidt Pierburg AG exercises the related parental and service provider functions in the fields of financing, accounting, taxation and controlling. In contrast to the consolidated financial statements, Kolbenschmidt Pierburg AG's separate financial statements are prepared according to German Commercial Code (HGB) regulations since they underlie dividend distribution.

As in previous years, the Company's performance was in 2002, too, chiefly influenced by investment income from P&L transfer agreements, service fees and HQ allocations, personnel expenses, cost of materials, and the net interest result.

Net investment income soared by €32.7 million, from a red €4.0 million the year before to a black €28.7 million in the year under review. Contributions improved in a year-on-year comparison were delivered by Pierburg GmbH and KS Kolbenschmidt GmbH, albeit the latter's was still red. Lower contributions came from KS Gleitlager GmbH, KS Aluminium-Technologie AG, and MSI Motor Service International GmbH.

The net interest expense of €0.5 million (including all other financial expenses and income from Kolbenschmidt Pierburg AG's central financing function) turned around in 2002 from the year-earlier net interest income of €4.3 million.

The other operating income for 2002 inched up while personnel expenses sank and depreciation/amortization remained at the 2001 level. The other operating expenses were lower than the year before.

The Company reported a black EBT of €20.7 million, which compares with a red €9.2 million a year ago. Deducting income taxes of €6.6 million resulted in a net income of €14.1 million for 2002 (up from a net loss of €13.6 million). After transferring €0.1 million to the reserves retained from earnings, net earnings total €14.0 million. The Executive and Supervisory Boards will propose to the annual stockholders' meeting to distribute a cash dividend of €0.50 per Kolbenschmidt Pierburg share for 2002, hence a total €14.0 million.

As of December 31, 2002, Kolbenschmidt Pierburg AG employed a workforce of 37 (down from 38).

Air Supply & Pumps

Indicators Air Supply & Pumps	2001 € million	2002 € million	Change € million
Net sales	819.8	883.8	+64.0
EBIT	25.1	64.9	+39.8
EBT	12.6	52.9	+40.3
Net income	14.2	44.5	+30.3
Capital expenditures [1]	80.4	56.7	−23.7
Headcount at Dec. 31	4,010	3,872	−138
EBIT margin (in %)	3.1	7.3	
ROCE (in %)	8.9	25.3	

[1] For the first time in 2002 tooling allowances were deducted from capital expenditures.

Air Supply & Pumps comprises the series production and aftermarket automotive business with its main product sectors of air supply, emission reduction, fuel supply, and pumps. Pierburg GmbH is the division's parent company.

Streamlined business portfolio

As of October 1, 2002, Pierburg GmbH sold its minority interest in Preh GmbH & Co. KG to Aditron AG, a same-tier subsidiary of Rheinmetall AG. Presently, Air Supply & Pumps sources from Preh in particular sensors and electronic parts for automotive applications as well as automation lines at terms as if at arm's length. In both business fields, Preh competes with alternative sources and hence is not a key supplier for the division to hold through a controlling interest.

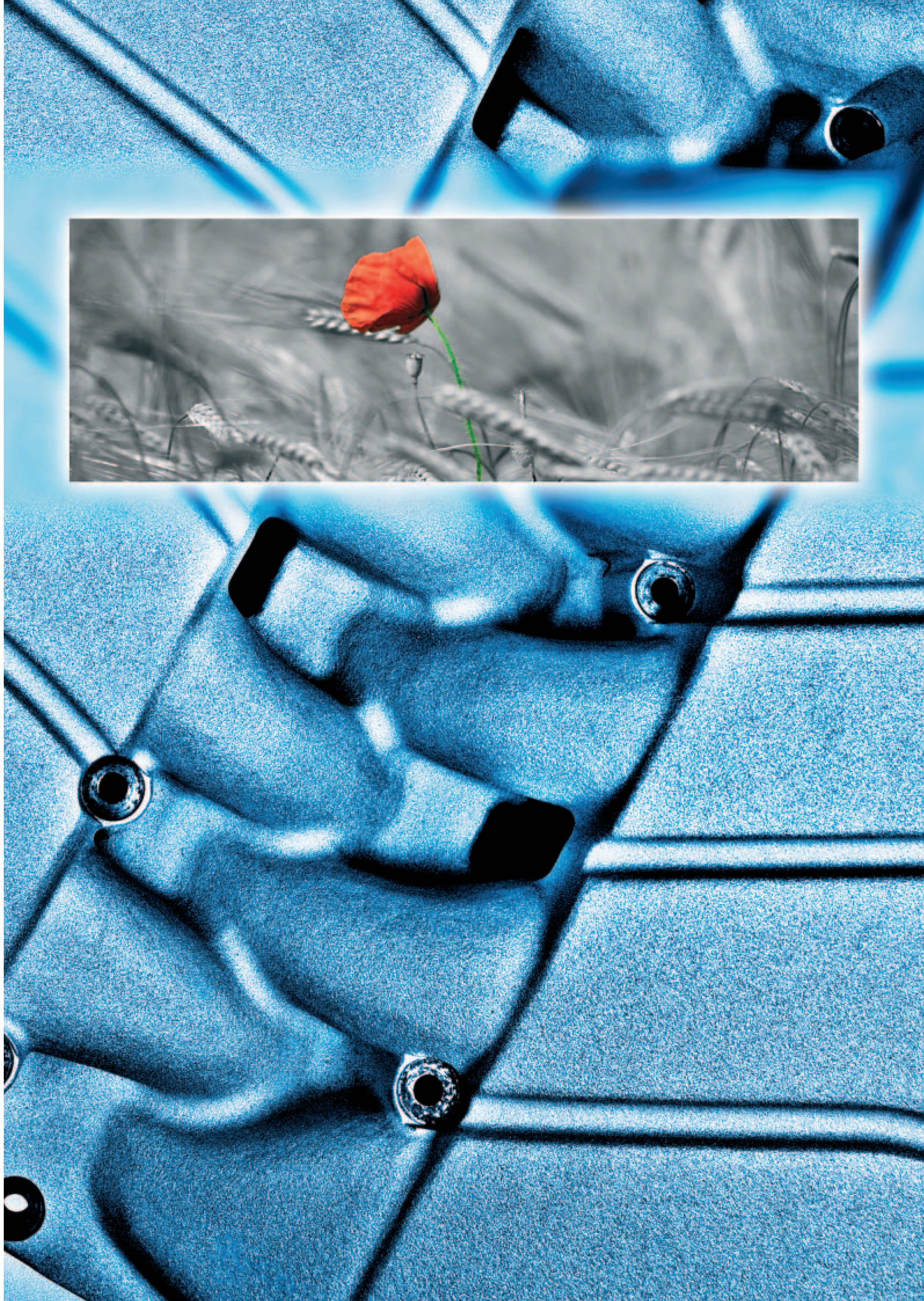
Sales clearly up

In 2002, Air Supply & Pumps again achieved notable sales successes. Sales were boosted around 8 percent, by €64.0 million to €883.8 million, hence even surpassing the previous year's record figure. Solid growth by the air supply unit contrasted with slightly lower pump sales.

The air supply unit raised its sales by around 13.3 percent, all product groups gaining. The highest sales increases resulted from the start-ups in intake manifolds and exhaust gas recirculating valves, for the first time fully impacting on the entire fiscal year, as well as from higher customer call-offs for throttle bodies.

Pump sales were around 1 percent down. Whereas vacuum pumps and mechanical water pumps posted clearly rising sales, the other product groups did not quite achieve the prior year's figures.

Pierburg GmbH's sales were up by 9 percent. This hike resulted solely from air supply products, with intake manifolds, throttle bodies, exhaust gas recirculating valves, and solenoids all showing double-digit sales growth.



Air Supply & Pumps

The non-German European companies likewise shared to a considerable degree in the division's added sales, Carbureibar, Spain, and Pierburg S.a.r.l., France, showing the steepest gains. The Italian company Pierburg S.p.A. also contributed a sizable proportion of the increase while Pierburg do Brasil only slightly topped its year-earlier revenues and, in the United States, Pierburg Inc. did not quite repeat its prior-period performance due to reduced call-offs.

Earnings improved

This division's EBT totaled €52.9 million, thus clearly topping the previous year's €12.6 million. Included in this figure is the one-off €15.1-million gain from the transfer of the minority interest in Preh GmbH & Co. KG.

Earnings of Pierburg GmbH's subsidiaries all showed good progress. With sales up, Carbureibar S.A., Spain, achieved a strong increase in EBT and this year, too, inputted largely to the division's earnings. Despite reduced sales, Pierburg Inc., USA, closed the year with a profit. The year before, production start-ups were still causing a pretax loss. At Pierburg S.à.r.l., France, boosted sales together with a favorable sales mix led to a better EBT. Restructuring expenses plus start-up losses largely eroded the effects of added sales at Pierburg S.p.A., Italy, thus still preventing a positive EBT. Pierburg do Brasil, Brazil, managed to increase its positive EBT, although sales revenues remained constant for parity reasons.

In its second year of operation, the Chinese joint venture Kolbenschmidt Pierburg Shanghai Nonferrous Components, owned by Pierburg GmbH at 50 percent and carried at equity, again showed sound sales and earnings growth.

Gross cash flow up

Division expenditures in 2002 came to €56.7 million (down from a like-for-like €59.0 million) and needed only half of the year's gross cash flow of €112.9 million, however, without offsetting customer tooling grants/allowances against the additions. Total division assets as of December 31, 2002, sank €11.1 million to €537.2 million. Given the almost unchanged accounting equity of €140.4 million, the equity ratio crept up from 25.6 percent in 2001 to 26.1 as of December 31, 2002. Both the higher EBIT and the upgraded average capital employed boosted ROCE from the previous year's 8.9 percent to 25.3 in 2002.

Targets for 2003

To consolidate and further improve the sound earnings level, the division will in 2003

- continue with the restructuring programs successfully enacted last year and aimed especially at enhancing productivity in the various product groups;
- fine-tune its project management;
- return loss-making projects to profitability;
- reduce indirect costs; and
- make best possible use of capital expenditures to achieve another rise in ROCE and continue with the working capital program.

Pistons

Indicators Pistons	2001 € million	2002 € million	Change € million
Net sales	571.5	595.7	+24.2
EBIT	40.0	28.2	−11.8
EBT	20.0	14.1	−5.9
Net income	9.2	0.7	−8.5
Capital expenditures [1]	57.7	47.1	−10.4
Headcount at Dec. 31	5,416	5,400	−16
EBIT margin (in %)	7.0	4.7	
ROCE (in %)	11.1	8.0	

[1] For the first time in 2002 tooling allowances were deducted from capital expenditures.

The 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 plus large-bore pistons for stationary engines, marine diesels, and locomotives. KS Kolbenschmidt GmbH is the parent company of the Pistons division.

Acquisition in Asia

At the end of fiscal 2002 an agreement was signed for the takeover of the pistons business of the Japanese company Microtechno Corp., a subsidiary of Mazda Motor Corp., Japan. Effective as from February 2003, the agreement will serve as a basis for further expanding business within Asia. Another purpose is to consolidate the position on the world market.

North American business boosting sales

In all, the Pistons division achieved sales of €595.7 million in fiscal 2002, an increase of €24.2 million or around 4 percent, mostly from the North American market.

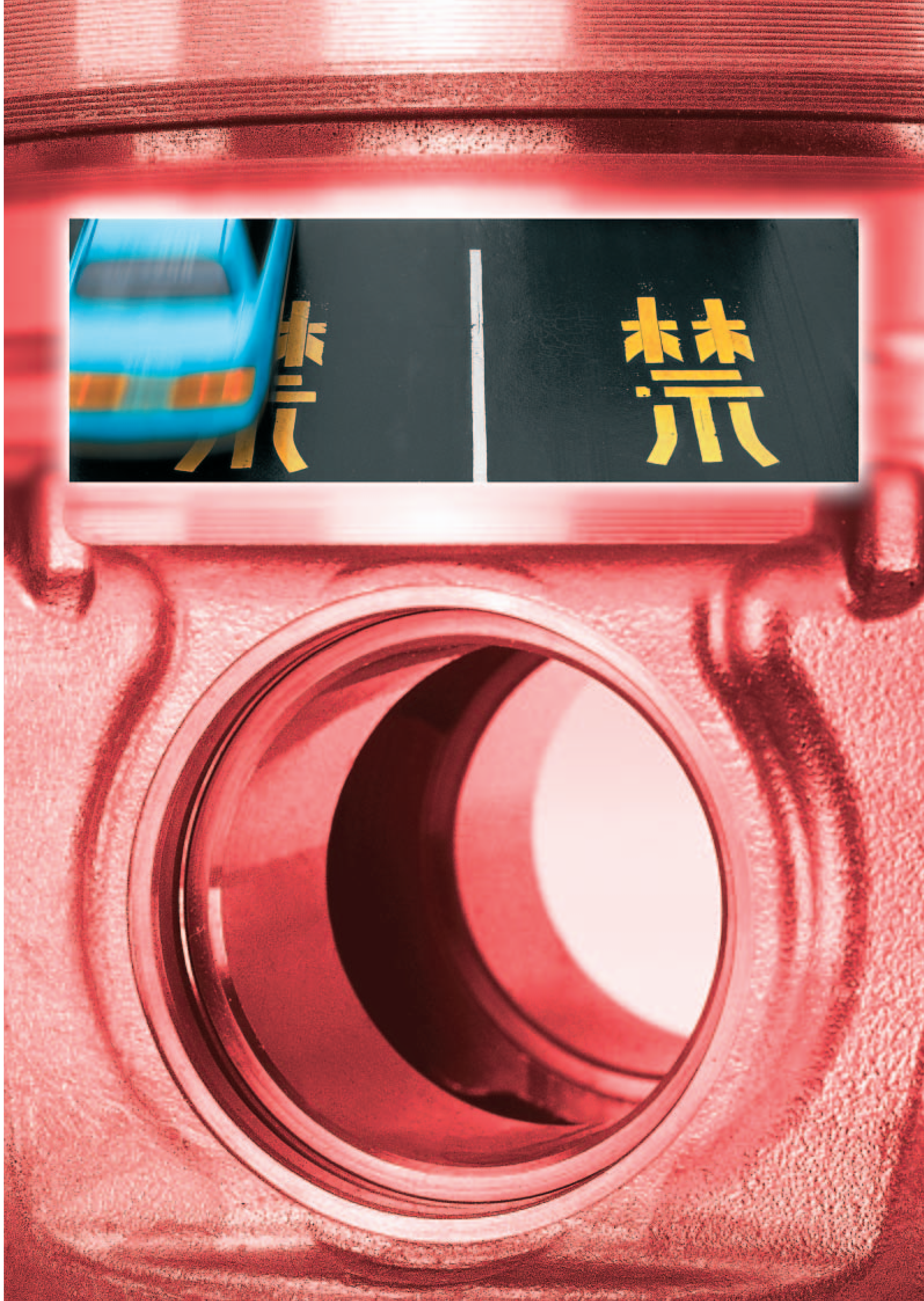
The hostile European environment, the chief sales market of KS Kolbenschmidt GmbH, is reflected in the sales revenues which declined slightly over the previous year's.

Sales of small pistons in 2002 matched those of the year before. In line with general market trends, diesel engine pistons sales once more gained to the debit of gasoline engine pistons. Revenues from the sale of plant and equipment/licenses as well as merchandise were slightly down. A weak market meant that large-bore piston sales slumped.

Among the European subsidiaries it was Société Mosellane de Pistons S.A., Thionville, whose main market is France, that had to absorb a sharp decline in sales compared with the previous period. This was chiefly because of shrinking volumes in the wake of engine range sales remixes and price reductions. The Czech company Metal a.s., Ústí, in contrast, easily topped year-earlier sales, with a number of start-ups further helping to expand capacities.

The previous year had been a poor period for the North American market and 2002 showed a definite recovery. Sales by the North American companies bounced back to the level of 2000. Alongside the general market trend, it was the start-up of new projects that fueled this rebound. With the US locations in the throes of restructuring, sales by the various plants differed widely. The Marinette, Wisconsin, facility achieved a considerable rise from the previous year while sales at Fort Wayne, Indiana, inched down. The Canadian production plant KUS Zollner Canada Ltd., Leamington, Ontario, failed to quite repeat the good year-earlier business level due to the scheduled downscaling of a major program. Another subsidiary, KS Large Bore Pistons Inc., Marinette, Wisconsin, succeeded in generating sales only marginally short of the 2001 magnitude.

The Brazilian subsidiary KS Pistões Ltda., Nova Odessa, had to contend with declining sales; extra shares within a generally frail local market failed to outweigh weaker demand, especially for exports to Western Europe while the sharp fall in parity between the Brazilian real, the euro, and the US dollar also meant receding revenues.



Pistons

Overall, the Pistons division generated an EBT of €14.1 million in fiscal 2002, well below the preceding period's €20.0 million. Adjusted for the US restructuring expenses, the outcome, however, is an improved operating result.

Restructuring efforts burden earnings

KS Kolbenschmidt GmbH's EBT in fiscal 2002 was a negative €13.0 million, compared with an also red €43.0 million the year before. Both years' figures largely reflect the write-down of investments; in 2001 the investment book value of the intermediate holding company for the North American operations of Pistons and Plain Bearings had required write-down for impairment. In 2002, the investment book value of the intermediate holding company for the French Pistons and aftermarket operations was written down, albeit a much lesser amount. These write-downs did not impact on the Pistons division's EBT. KS Kolbenschmidt GmbH failed to repeat in 2002 its year-earlier good operating result due to poorer sales, the severe price squeeze, and a number of nonrecurring burdens shouldered during the period.

All the non-German operating subsidiaries in Europe and South America generated a positive EBT during the fiscal year. Deserving special mention is the Brazilian KS Pistões, where the changed parity, combined with high productivity, helped produce sound earnings. The Czech subsidiary Metal a.s. again turned in a good profit while the French Société Mosellane de Pistons S.A. had to absorb lower earnings due to reduced sales.

Since 2002, the US company Karl Schmidt Unisia Inc. has merged its operations at the Marinette and Fort Wayne locations. At the start of the fiscal year, a decision was made to further restructure the Fort Wayne plant and focus here on high-volume series. The related restructuring expenses impacted on 2002 earnings to such an extent that despite the favorable effects toward year-end the company still posted a loss. In contrast, Zollner Canada Ltd., Leamington, again generated highly commendable earnings. KS Large Bore Pistons Inc., Marinette, too, managed to close the year in the black.

The Chinese joint venture Kolbenschmidt Shanghai Piston Co. Ltd., in which KS Kolbenschmidt GmbH holds a 35-percent stake and which is included at equity, showed improved sales and earnings compared with 2001.

Additions to tangible and intangible assets by the Pistons division during the period reached €47.1 million, down from €57.7 million in 2001, or €57.5 million like-for-like since for the first time in 2002, tooling allowances received from customers have been deducted from the capital expenditures.

Gross cash flow amounted to €40.5 million (down from €56.3 million).

Total division assets of €454.0 million include equity of €152.5 million, equivalent to an equity ratio of 33.6 percent (slightly up from 31.3 percent). ROCE, in contrast, fell from 11.1 to 8.0 percent due to the dip in EBIT and despite improved working capital management.

Targets for 2003

To much improve its profitability the division will in 2003

- raise earnings at the US companies once the restructuring measures have been successfully completed;
- push ahead with the successful integration and further expansion of the pistons operation acquired in Japan; and
- make even better use of its capital expenditures and continue with its working capital management.

Plain Bearings

Indicators Plain Bearings	2001 € million	2002 € million	Change € million
Net sales	153.2	145.8	–7.4
EBIT	17.7	10.1	–7.6
EBT	15.1	8.2	–6.9
Net income	6.0	2.1	–3.9
Capital expenditures[1)]	12.7	14.6	+1.9
Headcount at Dec. 31	1,045	973	–72
EBIT margin (in %)	11.6	6.9	
ROCE (in %)	37.1	20.2	

[1)] For the first time in 2002 tooling allowances were deducted from capital expenditures.

The Plain Bearings division develops and produces bearings for engines and other applications as well as maintenance-free sliding elements for the automotive and mechanical engineering sector (bi- and tri-material bearings, Sputter and Permaglide bearings). Moreover, continuous casting products on a copper basis such as tubes, bars and profiles are also manufactured. The division is parented by KS Gleitlager GmbH.

Business declining

In fiscal 2002 and at €145.8 million, sales of Plain Bearings failed to reachieve the previous year's level (down €7.4 million). At KS Gleitlager GmbH as division parent, business declined mainly due to the postponement by customers of series start-ups for camshaft bearings and assembled flange bearings, with, at the same time, fewer call-offs for series metal bearings. Business in maintenance-free sliding elements, on the other hand, was stable.

In fiscal 2002, sales at the North American shareholding KS Bearings Inc. were hurt by product phase-outs. Business in plain bearings for both commercial vehicles and passenger cars had to contend with receding demand compared with the previous year. Further sales reductions were caused by the partial shutdown and relocation of the production lines. Sales were down compared with 2001. The South American company KS Bronzinas Ltda., Brazil, repeated the previous year's sales volume amid a tough market.

Plain Bearings

With an EBT of €8.2 million, Plain Bearings failed to re-achieve the good year-earlier level (down by €6.9 million) in 2002. The pretax profit of the division's

Earnings suffering

largest company, KS Gleitlager GmbH, declined mainly for reasons of shrinking sales and higher fixed costs. Thanks to successful restructuring measures, earnings by the American company KS Bearings Inc. were better in fiscal 2002 than in the previous year, however, still clearly red due to expenses from partial shutdowns and relocation. Just as the year before, the Brazilian Company KS Bronzinas Ltda. delivered a positive EBT.

In fiscal 2002, the division's capital expenditures of €14.6 million topped those of the previous year (up €1.9 million) despite the first-time offset of tooling grants/allowances. The year-earlier like-for-like figure had been €12.6 million, the difference being therefore an increase of €2.0 million. Due to the drop in earnings and slightly lower depreciation/amortization, gross cash flow, on the other hand, declined and, at €11.9 million, failed to fully cover the cash outflow for fixed-asset additions. The balance sheet ratios as of December 31, 2002, slightly worsened over the prior year, are however still acceptable. With total division assets of €83.1 million (up over the previous year) and equity of €8.0 million, the equity ratio was 9.8 percent. ROCE dropped from 37.1 percent in 2001 to a still good 20.2 percent for the year under review. Initial progress in improving working capital failed to outweigh the slump in EBIT.

Targets for 2003

To return to its erstwhile profitability the division will in 2003

- successfully complete the restructuring programs at KS Bearings Inc. combined with a sharp improvement in productivity and product quality;
- restore KS Gleitlager GmbH to healthy profitability, especially through the full capacity production of the new projects and the turnaround of loss-makers;
- strongly expand sales at KS Bronzinas Ltda.; and
- push ahead with the measures for reducing working capital and for selective capital expenditures.

Aluminum Technology

Indicators Aluminum Technology	2001 € million	2002 € million	Change € million
Sales	135.8	148.8	+13.0
EBIT	0.7	(13.3)	–14.0
EBT	(3.6)	(17.8)	–14.2
Net loss	(3.1)	(11.2)	–8.1
Capital expenditures[1)]	21.2	21.6	+0.4
Headcount at Dec. 31	772	862	+90
EBIT margin (in %)	0.5	(8.9)	
ROCE (in %)	0.8	(15.7)	

[1)] For the first time in 2002 tooling allowances were deducted from capital expenditures.

Aluminum Technology develops, manufactures and machines cylinder crankcases (engine blocks) from aluminum and aluminum-silicon alloys. These product groups represent the pressure-die, low-pressure and squeeze-casting processes used in production. The parent company is KS Aluminium-Technologie AG. The division's cooperation within the framework of a joint venture for further machining and partial assembly of engine blocks was terminated. Together with the customer, it was agreed that the work originally planned for supply in teamwork with the other venturer, will now be provided exclusively by KS Aluminium-Technologie AG.

Sales growth continued

In fiscal 2002, Aluminum Technology ramped up sales by 9.6 percent to €148.8 million. Apart from volume increases for existing products, this growth was due to the start-up of new products. The resulting gains were mainly achieved by the division parent and derived from series business in pressure-die and low-pressure castings. Sales of squeeze castings remained as in 2001. Due to the preparation for the planned sales growth, revenues from development and tooling were almost at the high year-earlier level.

Steep start-up losses

Aluminum Technology closed fiscal 2002 deep in the red. Following a negative EBT of €3.6 million one year earlier, EBT for the past year amounted to a red €17.8 million. The sharp rise in losses is ascribable to KS Aluminium-Technologie AG, specifically its low-pressure castings unit where project postponements led to several simultaneous start-ups which, due to the products' high degree of complexity and the limited resources, inevitably entailed higher-than-average rejects combined with heavy start-up losses. Productivity improvements not achieved as planned due to start-up delays also depressed earnings, as did the necessary provisions for impending losses.

Aluminum Technology

In the first months of 2002, making sure that the new low-pressure castings were being shipped out was of utmost priority; the process optimization measures introduced in the second half of 2002 have already shown marked improvements in the results of operations.

After deducting customer allowances, capital expenditures in this division amounted to €21.6 million, up by €0.4 million or, like-for-like, €1.5 million. This capital outlay was chiefly necessary to facilitate the low-pressure casting start-ups. Gross cash flow amounted to a negative €7.4 million.

With current assets improved, total assets slipped from €129.7 million the previous year to €128.5 million at the close of 2002. With equity as of December 31, 2002, at €25.2 million, the equity ratio climbed to 19.1 percent (up from 15.9). Due to the red EBIT, ROCE plummeted from a black 0.8 percent to a negative 15.7 percent, despite the successes scored by working capital management.

Targets for 2003

To achieve a sustained improvement in earnings the division will in 2003

- further optimize its production processes and reduce the reject rates;
- continue to enhance productivity; and
- make sure that product start-ups are carried out successfully.

Motor Service

Indicators Motor Service	2001 € million	2002 € million	Change € million
Net sales	151.3	146.4	–4.9
EBIT	16.8	15.9	–0.9
EBT	13.4	13.1	–0.3
Net income	7.9	8.3	+0.4
Capital expenditures	1.0	0.7	–0.3
Headcount at Dec. 31	381	391	+10
EBIT margin (in %)	11.1	10.9	
ROCE (in %)	20.0	20.0	

The Motor Service division subsumes Kolbenschmidt Pierburg's worldwide aftermarket activities for engine repair shops and the workshop trade. MSI Motor Service International GmbH is the division's parent company.

Slight revenue losses

In fiscal 2002, the Motor Service division generated sales revenues of €146.4 million (down from €151.3 million). Sales gains at KS Istanbul A.S., Turkey, and at MTS Motorenteile Service GmbH, Germany, were unable to compensate for shrinking sales by the division's other companies, especially due to slacker business at MSI Motor Service International GmbH in the latter half of the period.

Except for filters and valves, the sales shrinkage affected all product groups. Whereas the markets of Western Europe stagnated, sales to customers in Eastern Europe and the Near East broadened. In all, sales shortfalls in Western Europe were not offset by additions elsewhere.

Earnings stable at a high level

At €13.1 million, the division's EBT was stabilized at the year-earlier level of €13.4 million. MSI Motor Service International GmbH failed to repeat the EBT of 2002, although sales-related burdens were mostly outweighed by rationalization effects. The drop in earnings was especially caused by the write-down of a loan to a subsidiary.

The structural reorganization carried out at MTS Motorenteile-Service GmbH led to an improved yet still slightly negative EBT. For 2003, further restructuring in the form of cost savings and sales boosts is on the agenda.

Due to the restructuring measures in 2001, mainly aimed at concentrating at a single warehouse location, the French company KS Motorac S.A. managed in fiscal 2002 to clearly reduce the loss sustained the previous period.

Motor Service

In 2002, the British KS Winston Ltd. again showed a loss due to insufficient sales. In the first half of fiscal 2003, a program will be mapped out, with the purpose of serving the British market more effectively and, especially, more profitably.

As in the year before, the Czech distribution company KS Motor Servis CZ s r.o. generated a slightly positive EBT, from a sales volume a little less than in 2002.

In fiscal 2002, the Turkish company KS Istanbul A.S. turned in a profit. Demand, which the year before had suffered severely from currency rate turbulences, recovered in 2002. Moreover, the opening of a subsidiary in the preferential-tax free-trade zone of Istanbul also upped earnings.

Due to the devaluation of the Brazilian currency over the US dollar, this country's distribution company KS Produtos Automotivos S.A. also had to contend with lower sales and earnings. Through a higher share of exports into other South American countries, the losses in Argentina were partly compensated. At the start of 2003, that part of the Latin American business which was previously handled from Germany, was reassigned to KS Produtos Automotivos S.A. in order to enduringly strengthen the company's market position and enable more closely focused marketing activities.

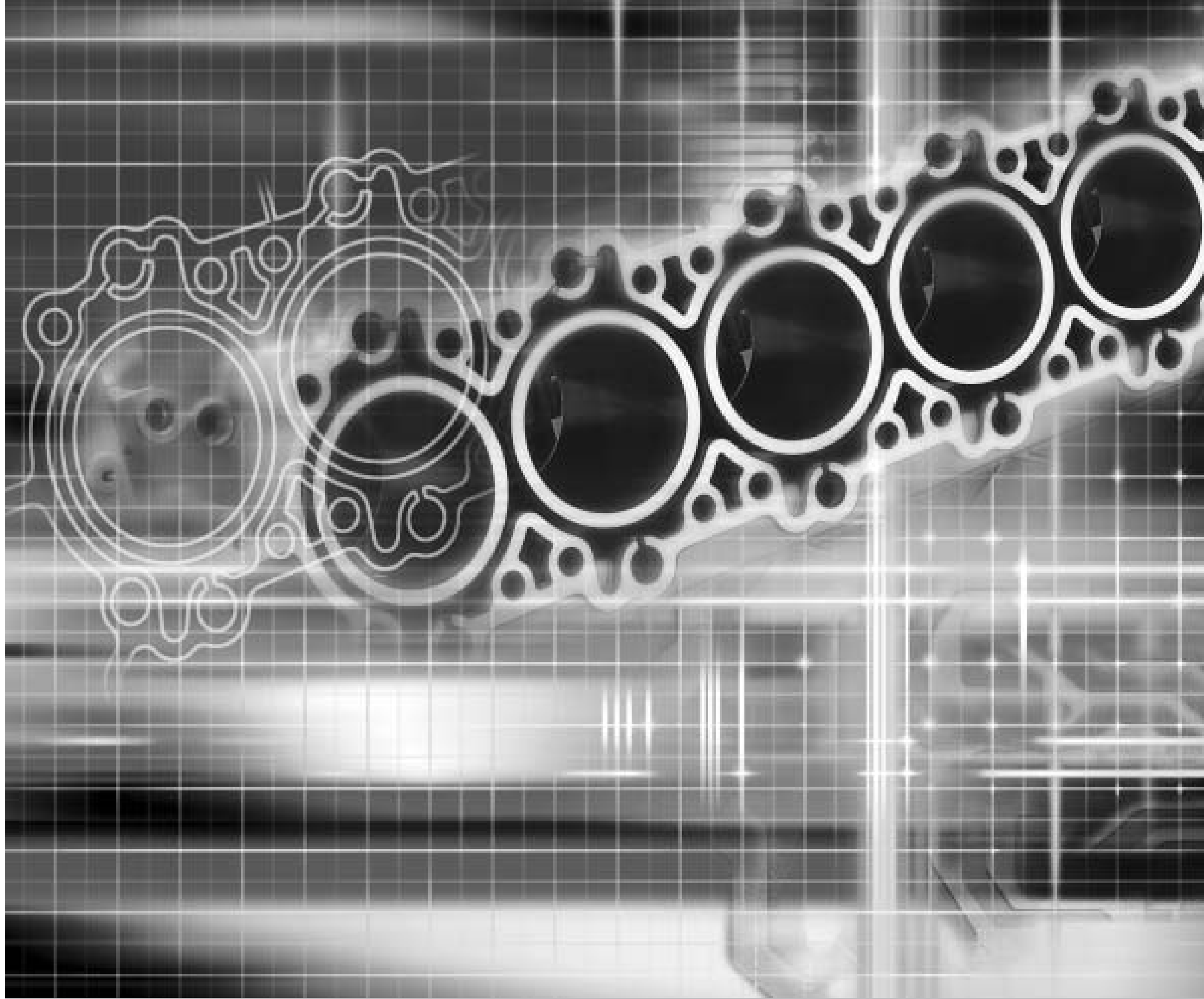
In 2002 and at €0.7 million, capital expenditures within the Motor Service division were slightly below the year-earlier €1.0 million, hence only utilizing a minor portion of the gross cash flow of €9.8 million.

With division equity of €16.8 million and the corresponding equity ratio of 17.8 percent as of December 31, 2002 (up from 16.5 percent), the division has plenty of growth-fueling funds at its disposal. During the past period, working capital was sharply reduced by 18 percent (around €14,5 million) to €65,9 million, this being reflected in the ROCE which despite the shrinking EBIT (down €0.9 million) was again 20.0 percent.

Targets for 2003

To attain further profitable growth the division will in 2003

– solidify the existing product range through relaunches and ongoing additions;
– step up the customer loyalty program consisting of seminars and training courses; and
– reduce working capital through further improvements to A/R and inventories management.



Balance sheet and income statement for fiscal 2002
Consolidated financial statements 2002
Kolbenschmidt Pierburg AG

KOLBENSCHMIDT
PIERBURG

Balance sheet of Kolbenschmidt Pierburg AG as of December 31, 2002 (based on HGB)

ASSETS

€ million	12/31/2001	12/31/2002
Fixed assets		
Intangible assets	0.0	0.0
Tangible assets	0.3	0.2
Financial assets	313.4	313.2
	313.7	**313.4**
Current assets		
Receivables and sundry assets		
Trade receivables	0.6	0.0
Due from group companies	126.9	105.0
Sundry assets	3.3	6.3
Cash & cash equivalents	7.5	20.6
	138.3	**131.9**
Prepaid expenses & deferred charges	**0.0**	**0.1**
	452.0	**445.4**

EQUITY & LIABILITIES

€ million	12/31/2001	12/31/2002
Stockholders' equity		
Capital stock	71.7	71.7
Additional paid-in capital	174.0	174.0
Reserves retained from earnings	22.3	22.4
Net earnings	14.0	14.0
	282.0	**282.1**
Untaxed/special reserves	**4.1**	**2.0**
Accruals		
Accruals for pensions and similar obligations	11.3	11.7
All other accruals	13.4	12.7
	24.7	**24.4**
Liabilities		
Due to banks	82.9	55.5
Trade payables	0.7	0.2
Due to group companies	57.5	81.1
Sundry liabilities	0.1	0.1
	141.2	**136.9**
	452.0	**445.4**

Income statement of Kolbenschmidt Pierburg AG for the year ended December 31, 2002 (based on HGB)

€ million	2001	2002
Income from investments	(4.0)	28.7
Net interest income	4.3	(0.5)
Net financial result	**0.3**	**28.2**
Other operating income	13.5	13.7
Personnel expenses	(7.4)	(6.6)
Amortization/depreciation/write-down	(0.1)	(0.1)
Other operating expenses	(15.5)	(14.5)
Earnings before taxes (EBT)	**(9.2)**	**20.7**
Income taxes	(4.4)	(6.6)
(Net loss)/Net income	**(13.6)**	**14.1**
Transfer from reserves retained from earnings	27.6	0.0
Transfer to reserves retained from earnings	0.0	(0.1)
Net earnings	**14.0**	**14.0**

Kolbenschmidt Pierburg Group
Consolidated balance sheet as of December 31, 2002

ASSETS

€ million	Note	12/31/2001	12/31/2002
Fixed assets	(6)		
Intangible assets	(7)	54.0	74.1
Tangible assets	(8)	670.7	620.5
Investments stated at equity	(9)	27.5	28.3
Other financial assets	(9)	27.8	3.4
		780.0	726.3
Current assets			
Inventories	(10)	244.3	222.4
Trade receivables	(11)	203.6	183.1
All other receivables and sundry assets	(11)	35.5	29.4
Cash & cash equivalents	(12)	21.2	44.3
		504.6	479.2
Income tax assets	(13)	50.1	44.3
Prepaid expenses & deferred charges		3.6	2.1
		1,338.3	**1,251.9**

EQUITY & LIABILITIES

Total equity	(14)	**12/31/2001**	**12/31/2002**
Kolbenschmidt Pierburg AG stockholders' equity			
Capital stock		71.7	71.7
Additional paid-in capital		174.0	174.0
Other reserves		48.3	46.2
Group net income proratable to Kolbenschmidt Pierburg AG stockholders		32.2	37.1
		326.2	329.0
Minority interests		14.9	3.9
		341.1	332.9
Accruals			
Accruals for pensions	(15)	286.2	272.9
Other accruals	(16)	121.4	122.4
		407.6	395.3
Liabilities			
Noncurrent financial debts	(17)	202.1	188.0
Current financial debts	(17)	78.0	21.9
Trade payables	(17)	152.6	177.0
All other liabilities	(17)	101.3	98.7
		534.0	485.6
Income tax liabilities	(18)	32.3	25.1
Deferred income	(19)	23.3	13.0
		1,338.3	**1,251.9**

Kolbenschmidt Pierburg Group
Consolidated income statement for fiscal 2002

€ million	Note	2001	2002
Net sales	(20)	**1,825.5**	**1,882.6**
Net inventory changes, other work and material capitalized	(21)	7.8	9.2
Total operating performance		**1,833.3**	**1,891.8**
Other operating income	(22)	57.1	46.3
Cost of materials	(23)	(924.0)	(975.9)
Personnel expenses	(24)	(522.3)	(509.6)
Amortization/depreciation/write-down	(25)	(147.9)	(137.4)
Other operating expenses	(26)	(209.7)	(234.0)
Operating result		**86.5**	**81.2**
Net interest expense	(27)	(41.0)	(37.3)
Net investment income and other financial results	(28)	4.0	16.2
thereof profit shares of investees stated at equity		0.7	1.6
Net financial result		**(37.0)**	**(21.1)**
Earnings before taxes (EBT)		**49.5**	**60.1**
Income taxes	(29)	(17.7)	(23.4)
Group net income		**31.8**	**36.7**
Minority interests	(30)	0.4	0.4
Group earnings (after minority interests)		**32.2**	**37.1**
EBIT *		90.5	97.4
EBITDA **		238.4	234.8
Earnings per share (EpS), common stock ***	(31)	€1.18	€1.32

* EBT plus net interest expense
** EBT plus net interest expense and amortization/depreciation/write-down
***No diluting effects in the current year

Kolbenschmidt Pierburg Group
Consolidated statement of cash flows for fiscal 2002

€ million	Note (32)	2001	2002
Cash & cash equivalents at Jan. 1 (BoP)		**54.8**	**21.2**
Group net income		31.8	36.7
Amortization/depreciation/write-down of fixed assets		147.9	137.4
Change in pension accruals		(5.6)	(4.1)
Cash flow		**174.1**	**170.0**
Net result from fixed-asset disposal		0.1	0.6
Change in other accruals		(23.3)	6.8
Change in inventories		9.5	21.8
Change in receivables, liabilities (excl. financial debts) and prepaid & deferred items		(24.4)	39.9
Gain from deconsolidation		(5.4)	0.0
Other noncash expenses and income, net		(3.2)	(23.7)
Net cash provided by operating activities		**127.4**	**215.4**
Cash outflow for additions to tangible and intangible assets		(174.6)	(144.3)
Cash inflow from the disposal of tangible and intangible assets		1.2	2.4
Cash outflow for additions to consolidated subsidiaries and financial assets		(11.9)	0.0
Cash inflow from the disposal of consolidated subsidiaries and financial assets		21.0	24.8
Net cash used in investing activities		**(164.3)**	**(117.1)**
Capital paid in		15.4	0.0
Dividends paid out		(34.6)	(14.0)
Financial debts raised		38.0	0.0
Financial debts redeemed		(15.7)	(60.3)
Net cash provided by/(used in) financing activities		**3.1**	**(74.3)**
Cash-based change in cash & cash equivalents		(33.8)	24.0
Parity-related change in cash & cash equivalents		0.2	(0.9)
Total net change in cash & cash equivalents		(33.6)	23.1
Cash & cash equivalents at Dec. 31 (EoP)		**21.2**	**44.3**

Kolbenschmidt Pierburg Group
Statement of changes in equity

€ million Note (15)	Capital stock	Additional paid-in capital	Reserves retained from earnings	Currency translation differences	Reserves from fair and and other valuation	All other reserves	Group net income proratable to Kolbenschmidt Pierburg AG stockholders	Stockholders' equity of Kolbenschmidt Pierburg AG	Minority interests	Total equity
Balance at January 1, 2001 as stated in prior year	**68.1**	**162.1**	**60.0**	**8.2**	**12.9**	**81.1**	**7.6**	**318.9**	**13.9**	**332.8**
Adjustment			**(0.6)**		**(3.4)**	**(4.0)**		**(4.0)**		**(4.0)**
Adjusted balance at January 1, 2001	**68.1**	**162.1**	**59.4**	**8.2**	**9.5**	**77.1**	**7.6**	**314.9**	**13.9**	**328.8**
Capital contributions	3.6	11.9				**0.0**		15.5		15.5
Dividend payments			(34.6)			**(34.6)**		(34.6)		(34.6)
Currency adjustments				0.5		**0.5**		0.5	1.3	1.8
Differences from consolidation group changes			(1.9)			**(1.9)**		(1.9)		(1.9)
Other comprehensive income			7.6		(0.3)	**7.3**	(7.6)	(0.3)		(0.3)
Group net income						**0.0**	32.2	32.2	(0.3)	31.9
Balance at January 1, 2002	**71.7**	**174.0**	**30.5**	**8.7**	**9.2**	**48.4**	**32.2**	**326.3**	**14.9**	**341.2**
Capital contributions						**0.0**		0.0		0.0
Dividend payments			(14.0)			**(14.0)**		(14.0)		(14.0)
Currency adjustments			20.7	(43.2)	0.1	**(10.5)**		(10.5)	1.1	(9.4)
Differences from consolidation group changes			11.7			**11.7**		11.7	(11.7)	0.0
Other comprehensive income			32.2		(9.7)	**10.6**	(32.2)	(21.6)		(21.6)
Group net income						**0.0**	37.1	37.1	(0.4)	36.7
Balance at December 31, 2002	**71.7**	**174.0**	**81.1**	**(34.5)**	**(0.4)**	**46.2**	**37.1**	**329.0**	**3.9**	**332.9**

Notes
Segment report by divisions (primary segments)

Segments Note (33)	Pumps, air & fuel supply		Large- and small-bore pistons		Plain bearings		Engine blocks		Aftermarket							
Divisions	Air Supply & Pumps		Pistons		Plain Bearings		Aluminum Technology		Motor Service		Aggregated total of segments		Others/Consolidation/ Holding Company		Group	
€ million	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Balance sheet																
Segment assets	488.2	440.8	461.2	423.5	74.7	79.7	125.8	123.1	105.2	88.3	1,255.0	1,155.4	9.3	7.9	1,264.3	1,163.2
thereof book values at equity	19.9	20.3	7.6	8.0	0.0	0.0	0.0	0.0	0.0	0.0	27.5	28.3	0.0	0.0	27.5	28.3
Segment liabilities	332.1	341.4	220.4	207.8	49.7	47.2	46.8	57.1	23.0	21.7	672.1	675.2	12.7	8.7	684.8	684.0
Total equity (1)	140.6	140.4	153.4	152.5	16.9	8.0	20.6	25.2	18.2	16.8	349.8	342.8	(8.7)	(9.9)	341.1	332.9
Pension accruals (2)	125.3	127.1	116.0	99.3	19.5	19.8	9.0	9.8	3.0	3.1	272.7	259.2	13.5	13.7	286.2	272.9
Net financial debts (3)	13.1	(33.4)	111.1	76.5	10.2	26.0	60.6	44.6	65.8	51.8	260.8	165.4	(4.7)	0.2	256.1	165.6
Capital employed (1) + (2) + (3)	279.0	234.1	380.5	328.3	46.5	53.8	90.3	79.6	87.0	71.7	883.3	767.5	0.1	3.8	883.5	771.3
Average capital employed	282.1	256.6	360.5	354.4	47.6	50.2	88.7	85.0	83.8	79.3	862.6	825.4	31.2	2.0	893.8	827.4
Income statement																
Net external sales	813.6	872.5	551.2	579.9	138.5	135.7	135.2	148.2	150.9	146.0	1,789.5	1,882.2	36.0	0.4	1,825.5	1,882.6
Intersegment transfers	6.1	11.3	20.3	15.8	14.7	10.1	0.5	0.6	0.3	0.4	42.0	38.3	(42.0)	(38.3)	0.0	0.0
Total segment sales	819.8	883.8	571.5	595.7	153.2	145.8	135.8	148.8	151.3	146.4	1,831.5	1,920.5	(6.0)	(37.9)	1,825.5	1,882.6
thereof Germany (%)	40.9	40.6	19.9	19.4	58.3	55.5	56.2	61.7	9.8	10.3	0.0	0.0	0.0	0.0	33.7	33.5
thereof abroad (%)	59.1	59.4	80.1	80.6	41.7	44.5	43.8	38.3	90.2	89.7	0.0	0.0	0.0	0.0	66.3	66.5
EBITDA [1]	93.1	131.5	93.8	75.9	28.0	19.5	11.9	(3.5)	18.2	17.3	245.0	240.6	(6.6)	(5.8)	238.4	234.8
thereof P/L at equity	0.5	1.1	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	3.6	2.2	0.0	0.0	3.6	2.2
thereof write-up	0.0	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	2.5	0.0
Amortization/depreciation/write-down	(68.0)	(66.6)	(53.8)	(47.7)	(10.3)	(9.4)	(11.2)	(9.8)	(1.4)	(1.4)	(144.6)	(134.9)	(3.3)	(2.5)	(147.9)	(137.4)
thereof write-down	0.0	0.0	0.0	0.0	(1.3)	0.0	0.0	0.0	0.0	0.0	(1.3)	0.0	0.0	0.0	(1.3)	0.0
Segment EBIT	25.1	64.9	40.0	28.2	17.7	10.1	0.7	(13.3)	16.8	15.9	100.3	105.7	(9.8)	(8.4)	90.5	97.4
Net interest expense	(12.5)	(12.0)	(20.0)	(14.1)	(2.6)	(1.9)	(4.3)	(4.5)	(3.4)	(2.8)	(42.8)	(35.3)	1.8	(2.0)	(41.0)	(37.3)
EBT	12.6	52.9	20.0	14.1	15.1	8.2	(3.6)	(17.8)	13.4	13.1	57.5	70.5	(8.0)	(10.4)	49.5	60.1
Income taxes	1.6	(8.4)	(10.8)	(13.4)	(9.1)	(6.1)	0.5	6.6	(5.4)	(4.8)	(23.2)	(26.1)	5.5	2.7	(17.7)	(23.4)
Net income/(Net loss)	14.2	44.5	9.2	0.7	6.0	2.1	(3.1)	(11.2)	7.9	8.3	34.3	44.4	(2.5)	(7.7)	31.8	36.7
Other data																
EBIT margin (%)	3.1	7.3	7.0	4.7	11.6	6.9	0.5	(8.9)	11.1	10.9	--	--	(0.5)	(0.3)	5.0	5.2
ROCE (%)	8.9	25.3	11.1	8.0	37.1	20.2	0.8	(15.7)	20.0	20.0	--	--	(1.5)	(1.0)	10.1	11.8
Capital expenditures	80.4	56.7	57.7	47.1	12.7	14.6	21.2	21.6	1.0	0.7	173.0	140.7	1.6	3.6	174.6	144.3
Order intake	818.6	886.0	587.8	612.0	165.0	156.3	129.7	154.1	149.1	149.6	1,850.2	1,958.0	(7.2)	(41.3)	1,843.0	1,916.7
Order backlog at Dec. 31	147.8	154.3	94.9	110.2	29.3	28.0	19.9	26.1	24.6	23.8	316.5	342.4	(12.0)	(3.7)	304.5	338.7
Headcount at Dec. 31	4,009.5	3,872.0	5,416.0	5,400.0	1,045.0	972.5	772.0	861.5	381.5	391.5	11,624.0	11,497.5	38.0	37.0	11,662.0	11,534.5

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

Notes
Segment report by regions (secondary segments)

Segments Note (33)	Pumps, air & fuel supply		Large- and small-bore pistons		Plain bearings		Engine blocks		Aftermarket			
Divisions	Air Supply & Pumps		Pistons		Plain Bearings		Aluminum Technology		Motor Service		Aggregated total of segments	
€ million	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Germany												
Net external sales by customer location	329.4	350.3	97.7	102.3	75.1	71.2	75.7	91.2	14.9	15.1	592.8	630.1
Segment assets	292.8	258.9	156.4	146.1	52.1	59.5	125.8	123.1	84.2	70.3	711.3	657.9
Capital expenditures	52.3	37.9	22.1	14.3	10.3	9.7	21.2	21.6	0.3	0.3	106.2	83.8
Other Europe												
Net external sales by customer location	426.4	453.8	211.5	198.5	35.2	37.0	58.9	57.0	73.2	75.2	805.2	821.5
Segment assets	168.9	160.7	59.8	59.3	0.0	0.0	0.0	0.0	14.2	13.1	242.9	233.1
Capital expenditures	26.4	15.6	7.1	7.8	0.0	0.0	0.0	0.0	0.6	0.3	34.1	23.7
North America												
Net external sales by customer location	44.7	50.2	204.5	239.1	24.7	23.0	0.0	0.0	4.6	3.9	278.5	316.2
Segment assets	23.4	19.2	186.1	183.5	18.8	16.6	0.0	0.0	0.0	0.0	228.3	219.3
Capital expenditures	1.6	3.1	19.8	20.5	1.5	3.6	0.0	0.0	0.0	0.0	22.9	27.2
South America												
Net external sales by customer location	7.0	7.2	26.9	28.7	1.6	1.7	0.0	0.0	13.8	11.9	49.3	49.5
Segment assets	3.1	2.0	58.9	34.5	3.8	3.6	0.0	0.0	6.8	4.9	72.5	45.0
Capital expenditures	0.1	0.1	8.7	4.5	0.9	1.3	0.0	0.0	0.1	0.1	9.8	6.0
Other regions												
Net external sales by customer location	6.1	11.0	10.6	11.3	1.9	2.8	0.6	0.0	44.4	39.9	63.7	64.9
Segment assets	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Capital expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Notes
Accounting principles

(1) **General**

The consolidated financial statements of Kolbenschmidt Pierburg AG and its subsidiaries for the fiscal year 2002 have been prepared in accordance with the International Accounting Standards (IAS) of the International Accounting Standards Board (IASB) and comprise balance sheet, income statement, cash flow statement, and statement of changes in equity.

All IAS effective at balance sheet date have been applied, as have the Interpretations of the Standing Interpretations Committee (SIC).

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 detailed further below in these footnotes. The consolidated income statement has been prepared in the total-cost format.

The consolidated financial statements are presented in euro (€), current- and prior-year amounts being indicated in € million unless expressly otherwise stated.

With its voluntarily prepared IAS-based consolidated financial statements, Kolbenschmidt Pierburg AG has again exercised the exemption option under the terms of Art. 292 a 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. 292 a 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
– recognition at fair value of certain primary (original) and derivative financial instruments
– translation of non-euro receivables and payables at the current closing rate and recognition in net income of the resulting translation differences
– 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
– discounting of noncurrent accruals
– accounting for deferred taxes according to the liability method
– recognition of certain financial instruments at their fair values

The fiscal year of Kolbenschmidt Pierburg AG and its subsidiaries equals the calendar year. Kolbenschmidt Pierburg AG prepares consolidated financial statements on a voluntary basis, waiving for the last time the optional exemption under the terms of Art. 291(1) HGB. As from fiscal 2003, Kolbenschmidt Pierburg AG as an officially listed company will be 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 statutory group accounts of Düsseldorf-based Rheinmetall AG in the statutory consolidated financial statements of Röchling Industrie Verwaltung GmbH, Mannheim, as the great grandparent and 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 (whether directly or indirectly) or where the Group is otherwise able to control the financial and business policies. Principally, companies are initially consolidated or deconsolidated when control is transferred. Associated affiliates and joint ventures are stated at equity.

	12/31/2001	Additions	Disposals	12/31/2002
Fully consolidated companies	43	--	(3)	40
thereof German	19	--	(2)	17
thereof foreign	24	--	(1)	23
Investees stated at equity	3	--	--	3
thereof German	1	--	--	1
thereof foreign	2	--	--	2

The disposals from the consolidation group refer to the mergers of (i) Karl Schmidt Unisia, Zollner Division, Inc., Fort Wayne, into Karl Schmidt Unisia Inc., Marinette, WI, USA, and (ii) KS Airbag AG and KS Auto- und Motorenteile AG into KS Kolbenschmidt GmbH (all three based in Neckarsulm). These mergers have no effect on the assets and liabilities as of December 31, 2002, or any major lines of the consolidated income statement for 2002.

The subsidiaries and the investees stated at equity which are included in the consolidated financial statements of Kolbenschmidt Pierburg AG are listed on pages 100/101. 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.

Companies in which a direct or indirect majority stake is held or where the financial and business policies can otherwise be influenced and thus controlled are subsidiaries. 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. Upon deconsolidation the residual book values of goodwill and badwill are accounted for accordingly when measuring the net gain or loss on disposal.

Notes
Accounting principles

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.

Expenses and income from intragroup transactions, as well as intercompany receivables and payables are eliminated in consolidation. Intercompany profits and losses are eliminated unless insignificant. Deferred taxes are recognized for temporary differences from consolidation, as required by IAS 12.

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. To determine their goodwill (if any), principles analogous to consolidation are adopted, goodwill amortization being recognized in net investment income. Joint ventures (jointly controlled companies in which a 50-percent stake is owned) are also carried at equity.

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

(4) **Currency translation**

The functional currency concept has been adopted to translate the annual financial statements of non-German group companies into € (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 herefrom, 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.

After in 2001 the functional currency of the Turkish subsidiary had been deemed the euro, the financial statements were now 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 2001 comparatives were adjusted in the local currency by applying an inflation index of 31 percent (down from 89), and then translated into euro (also in accordance with IAS 29).

Variations in the year of major currencies versus the €:

	Mean rate in € at		Annual average rate in €	
	12/31/2001	12/31/2002	2001	2002
1 Brazilian real	0.4852	0.2709	0.4823	0.3570
1 pound sterling	1.6418	1.5378	1.6139	1.5929
1 Canadian dollar	0.7092	0.6100	0.7221	0.6741
100 Czech koruna	0.0312	0.0318	0.0294	0.0324
1 US dollar	1.1334	0.9601	1.1176	1.0581
1,000,000 Turkish lira	0.7429	0.5612	0.9330	0.6629
1 Chinese yuan	0.1371	0.1160	0.1355	0.1279
1 Japanese yen	0.0086	0.0081	0.0092	0.0085

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 spot rate. Currency translation differences are duly recognized in the net financial result.

(5) **Accounting and valuation methods**

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:

Concessions, franchises, industrial property rights	2-20 years
Development costs	5 years

Goodwill from either consolidation or the statement at equity is amortized over its estimated period of benefit, as a rule 15 to 20 years. The period is estimated with due regard to the expected benefits from the market position achieved through the acquisition and from the acquiree'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.

Changes in market conditions have implied that the tooling grants or allowances of several key customers must for the first time be regarded and treated as investment grants while, the year before, the concept that future series manufacture would make up for the price deficit had prevailed. Therefore, commencing in the year under review, these private-sector grants are directly offset against the period's additions. In fiscal 2001, these grants and allowances had been recognized as deferred income.

Investment properties are carried at amortized cost.

Notes
Accounting principles

See Note (8) for the fair value of investment properties. Generally accepted valuation techniques are used for fair value measurement. The following unchanged asset depreciation ranges (ADRs) apply to property, plant & equipment within tangible assets:

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

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

The shares in nonconsolidated group companies and in 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. The price as of settlement date underlies the recognition of such assets, which are all fair-valued. 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.

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.

The shares in associated affiliates and joint ventures disclosed as such are stated at equity. Based on the cost at share acquisition date, the investment book value is increased or decreased to reflect the changes in equity of the associated affiliates or joint ventures to the extent such changes are allocable to the shares held by the Kolbenschmidt Pierburg Group.

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 prorratable production-related overheads. The latter include indirect materials, indirect manufacturing costs (labor, etc.), as well as production-related depreciation and pension expenses, but excludes 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).

Receivables and sundry assets

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

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.

In September 2002, the German government enacted certain flood victim solidarity legislation, thereby raising the corporate income tax rate for the one fiscal year 2003 from 25 to 26.5 percent. Related to the average tax rate of 40 percent (rounded) applied to calculate deferred taxes (including solidarity surtax and municipal trade tax on income), the effect entailed by such legislation is marginal and, therefore, this tax rate is also applied to deferred taxes which will reverse in 2003. Deferred taxation rates outside of Germany ranged between 30 and 39 percent, comparing with the year-earlier range of 32.5 to 38 percent. 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. 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. If the probability of their utilization exceeds 50 percent, accruals are measured at the best estimate of settlement amount. Noncurrent accruals are shown, if the effect of discounting is significant, at the settlement amount discounted as of balance sheet date.

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.

Public grants and subsidies for capital expenditures are recognized as deferred income in line with IAS 20.

Beginning from fiscal 2002 and due to changed market conditions, the private-sector investment grants/allowances recognized the year before in deferred income are henceforth offset directly against the additions to tangible assets.

Income and expenses

Net sales (revenues) 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. Income and expenses from P&L transfer agreements are realized at the close of the fiscal year. Dividends are principally recognized as and when distributed.

Derivative financial instruments

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

Since the first-time application of IAS 39 *Financial Instruments* as of January 1, 2001, 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. Principally, 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.

Notes
to the consolidated balance sheet

(6) **Fixed-asset analysis**

€ million	Gross values							Amortization/depreciation/write-down								Net values	
	1/1/2002	Additions	Disposals	Book transfers	Consolidation group changes	Currency translation differences	12/31/2002	1/1/2002	Additions	Disposals	Write-up	Book transfers	Consolidation group changes	Currency translation differences	12/31/2002	12/31/2001	12/31/2002
Intangible assets																	
Development costs and other internally created intangibles	13.0	4.5	0.0	0.0	0.0	0.0	17.5	5.5	2.3	0.0	0.0	0.0	0.0	0.0	7.8	7.5	9.7
Concessions, franchises, industrial property rights and licenses	15.0	2.0	0.2	2.2	0.0	(0.5)	18.5	10.4	2.0	0.1	0.0	0.0	0.0	(0.5)	11.8	4.6	6.7
Goodwill	60.8	16.8	1.3	0.0	0.0	(1.8)	74.5	21.1	3.5	1.3	(0.4)	0.0	0.0	(1.4)	21.5	39.7	53.0
Badwill from consolidation	(6.6)	0.0	(0.6)	0.0	0.0	0.0	(6.0)	(5.4)	0.0	(0.6)	(1.2)	0.0	0.0	0.0	(6.0)	(1.2)	0.0
Prepayments on intangibles	3.4	4.0	0.4	(2.2)	0.0	(0.1)	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.4	4.7
	85.6	27.3	1.3	0.0	0.0	(2.4)	109.2	31.6	7.8	0.8	(1.6)	0.0	0.0	(1.9)	35.1	54.0	74.1
Tangible assets																	
Land, equivalent titles, and buildings (incl. buildings on leased land)	320.4	2.9	0.4	3.4	0.0	(10.0)	316.3	128.5	10.8	0.3	0.0	0.0	0.0	(4.0)	135.0	191.9	181.3
Investment properties	3.0	0.0	0.0	2.1	0.0	(0.5)	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	4.6
Production plant and machinery	1,098.0	45.5	30.2	33.2	0.0	(60.9)	1,085.6	768.4	87.0	29.6	(0.1)	(1.5)	0.0	(43.0)	781.2	329.6	304.4
Other plant, factory and office equipment	265.3	25.0	12.8	11.1	0.0	(12.0)	276.6	189.6	31.8	9.5	0.0	1.5	0.0	(10.2)	203.2	75.7	73.4
Prepayments on tangibles	6.9	7.0	0.0	(5.8)	0.0	(0.1)	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.9	8.0
Construction in progress	63.6	53.4	17.0	(44.0)	0.0	(7.2)	48.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	63.6	48.8
	1,757.2	133.8	60.4	0.0	0.0	(90.7)	1,739.9	1,086.5	129.6	39.4	(1.0)	0.0	0.0	(57.2)	1,119.4	670.7	620.5
Financial assets																	
Shares in joint ventures	12.0	0.7	0.0	0.0	0.0	0.0	12.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.0	12.7
Shares in associated affiliates	15.5	0.1	0.0	0.0	0.0	0.0	15.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.5	15.6
Other long-term securities	25.3	0.0	24.1	0.0	0.0	0.0	1.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.3	25.0	0.9
Sundry long-term loans	2.9	0.4	0.7	0.0	0.0	0.0	2.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	2.8	2.5
	55.7	1.2	24.8	0.0	0.0	0.0	32.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.4	55.3	31.7
Total	**1,898.5**	**162.3**	**86.5**	**0.0**	**0.0**	**(93.1)**	**1,881.2**	**1,118.5**	**137.4**	**40.2**	**(1.7)**	**0.0**	**0.0**	**(59.1)**	**1,154.9**	**780.0**	**726.3**

(7) **Intangible assets**

The intangible assets mainly comprise goodwill from consolidation, as well as capitalized development costs. Since Karl Schmidt Unisia Inc., Marinette, WI, USA, increased its capital as of June 30, 2002, while the minority stockholder did not participate therein, the resulting acquisition of an additional 12.1-percent stake created in 2002 goodwill of €16.8 million.

In the year under review, R&D costs of €90.9 million were incurred (up from €84.1 million), €5.3 million of which (up from €4.3 million) met the capitalization criteria as defined in the IAS.

The following amounts were charged to other operating expenses:

€ million	2001	2002
Research costs and noncapitalized development costs	78.1	83.3
Amortization of capitalized development costs	1.7	2.3
R&D costs expensed	**79.8**	**85.6**

The total amortization of intangible assets of €7.8 million (up from €5.8 million) included no write-down (down from €0.1 million). The badwill was amortized to other operating income at €1.6 million (virtually unchanged).

Notes
to the consolidated balance sheet

(8) **Tangible assets**

Depreciation in the period totaled €129.6 million (down from €142.1 million) and included no write-down (down from €1.3 million). The different accounting treatment in 2002 of private-sector investment grants/allowances decreased depreciation (see also the explanations in the *Tangible assets* section under *Accounting principles*.

Self-explanatory, investment properties represent real estate that is held to earn rental income or long-term gains in value and is used neither for production nor administration purposes. Such properties are valued at amortized cost. The Kolbenschmidt Pierburg Group's investment properties basically cover one undeveloped plot of land outside of Germany. Its fair value, determined on the basis of selling prices of comparable land, amounted to €4.3 million as of December 31, 2002 (up from €3.3 million). In the year under review, only marginal rental income was earned, the operating expenses incurred in connection with investment properties being likewise nominal.

Encumbrances of €15.5 million (down from €20.2 million) rest on land and buildings to collateralize long-term investment loans. Moreover, production plant and machinery of €10.2 million (up from €9.7 million) and future fixed-asset additions of €3.5 million (down from €4.0 million) were assigned as security for an investment loan.

The property, plant & equipment capitalized under capital leases total €41.8 million (down from €54.2 million), of which €9.2 million (down from €9.7 million) is allocable to a long-term property lease; another €32.6 million (down from €44.8 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 (recognized at equal amounts as financial debts) are all shown in the table below:

	2001			2002		
€ million	2002	2003-2006	after 2006	2003	2004-2007	after 2007
Rents	10.1	32.4	19.6	4.8	30.4	20.3
Discount	0.9	6.7	5.6	0.4	6.8	5.9
Present values	9.2	25.7	14.0	4.4	23.6	14.4

No subleases exist.

(9) **Financial assets**

Analysis of shares in joint ventures and associated affiliates:

€ million	Book value 1/1/2002	Additions	P/L share	Dividend payments	Write-up	Goodwill amorti-zation	Book value 12/31/2002
Joint venture							
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd.	12.0	0.0	1.4	0.6	0.0	0.1	12.7
Associated affiliates							
Kolbenschmidt Shanghai Piston Co. Ltd.	7.6	0.0	1.0	0.6	0.0	0.0	8.0
Pierburg Instruments GmbH	7.9	0.0	(0.3)	0.0	0.0	0.0	7.6
	15.5	**0.0**	**0.7**	**0.6**	**0.0**	**0.0**	**15.6**

The sundry long-term loans are carried at amortized cost pursuant to IAS 39.

Other long-term securities

€ million	12/31/2001	12/31/2002
Book value	25.0	0.9
Fair value	25.0	0.9
Unrealized gain	15.9	0.0

All these securities are available for sale.

In the year under review, one investee (which had been carried under other long-term securities) was sold and produced a cash inflow of €23.0 million; the pertinent amounts hitherto recognized within equity under reserves from fair valuation were released to the income statement.

The remaining other long-term securities at a total book value of €0.9 million for which no quoted market price is available and whose fair value cannot reliably be determined are stated at amortized cost.

(10) **Inventories**

€ million	2001	2002
Raw materials and supplies	81.0	77.5
Work in process	54.9	50.5
Finished products and merchandise	107.1	94.1
Prepayments made	1.3	0.3
	244.3	**222.4**

The book value of inventories stated at the lower NRV totals €61.7 million (down from €68.9 million). In the year under review, €1.7 million (down from €2.8 million) of inventories previously written down was written up as their NRV had risen. Inventories do not collateralize any liabilities.

Notes
to the consolidated balance sheet

(11) Receivables and sundry assets

€ million	12/31/ 2001	thereof due after 1 year	12/31/ 2002	thereof due after 1 year
Trade receivables	203.6	0.1	183.1	1.7
thereof due from				
group companies	3.4	0.0	0.1	0.0
joint ventures and associated affiliates	1.2	0.0	1.2	0.0
All other receivables and sundry assets	35.5	3.4	29.4	3.5
	239.1	**3.5**	**212.5**	**5.2**

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 trade receivables on a revolving basis up to a maximum volume of €129 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 31, 2002, the receivables sold had a par value of €101.7 million (up from €99.0 million).

Breakdown of sundry assets:

€ million	12/31/ 2001	12/31/ 2002
Accounts due for/from		
non-income taxes	11.2	9.9
financing	7.8	9.1
prepayments made	6.2	0.4
guaranty fund	1.3	1.4
investment grants/allowances	0.9	0.3
other	8.1	8.3
	35.5	**29.4**

Allowances for doubtful receivables and sundry assets were charged in 2002 at €1.3 million (down from €1.8 million).

(12) Cash & cash equivalents

€ million	12/31/ 2001	12/31/ 2002
Cash on hand and in bank (incl. checks)	21,2	44,3

(13) Income tax assets

€ million	12/31/ 2001	12/31/ 2002	thereof recognized in net income	thereof not recognized in net income
Deferred taxes				
from temporary differences	23.2	22.5	21.9	0.6
from loss carryovers	22.4	16.2	16.2	0.0
	45.6	38.7	38.1	0.6
Income tax refundable by the tax office	4.5	5.6	5.6	0.0
	50.1	**44.3**	**43.7**	**0.6**

The deferred taxes include tax reduction claims of €16.2 million (down from €22.4 million) derived from loss carryovers utilizable in future periods. 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 €166.2 million (up from €131.7 million) which was not recognizable, €57.8 million thereof (virtually unchanged) being allocable to Germany and another €108.4 million (up from €73.9 million) existing abroad. The German loss carryovers are not subject to expiration whereas the foreign ones as a rule are. Pursuant to IAS 12, further deferred tax assets from temporary differences at a total €80.0 million (down from €104.6 million) were not recognized. Deferred taxes adjusted in prior periods were written up at €0.3 million (down from €0.6 million).

See Note (18) to income tax liabilities for background details.

(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. There is no unpaid capital subscribed.

The Executive Board is 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, duly granting the stockholders their subscription rights. However, the Executive Board is authorized with the Supervisory Board's prior approval to exclude subscription rights to fractions and, moreover, also to the extent required to grant the holders of option or conversion rights under bonds (whether already floated or yet to be issued) the same statutory subscription right of Kolbenschmidt Pierburg AG stockholders as if such stock options or conversion rights had already been exercised (authorized capital I). In the year under review, no new no-par shares were issued.

Furthermore, the Executive Board is 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. With the Supervisory Board's prior approval, the Executive Board may generally exclude the subscription rights if issuing the new stock at a price that is not significantly below the market price. If the Executive Board does not exercise its authority to exclude subscription rights, such subscription may with the Supervisory Board's approval nonetheless be excluded for fractions and to the extent required to grant the holders of option or conversion rights under bonds (whether already floated or yet to be issued) the same statutory subscription right of Kolbenschmidt Pierburg AG stockholders as if such stock options or conversion rights had already been exercised (authorized capital II).

Moreover, the Executive Board has been 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 to date not been exercised.

The additional paid-in capital amounts to an unchanged €174.0 million.

Equity-only adjustments which had been waived the year before in the consolidated balance sheet (basically certain intercompany profits not eliminated within tangible assets) were meantime implemented by deducting €4 million from the other reserves as of January 1, 2001, and adjusting the asset lines affected accordingly (including the corresponding prior-period data). This accounting transaction produced a €0.1 million expense in 2001.

Notes to the consolidated balance sheet

The other reserves include, besides the reserves retained by Kolbenschmidt Pierburg AG from earnings, also the other comprehensive income (OCI), which breaks down into the reserve for adjustments due to the first-time application of the IAS (which are recognized in equity only), differences from currency translation, as well as reserves from fair valuation. The 2002 analysis of such reserves presents the following picture:

€ 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 values	(0.3)	0.0	(0.3)
Deferred taxes	0.2	0.0	0.2
Balance at December 31, 2002	**(0.4)**	**0.0**	**(0.4)**

The differences from the fair valuation of interest rate swaps (which mature in 2005) were posted to the hedge reserve.

The separate financial statements of Kolbenschmidt Pierburg AG 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.

(15) **Accruals for pensions and similar obligations**

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 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 €25.9 million (down from €27.4 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:

in %	12/31/2001 Germany	12/31/2001 USA	12/31/2002 Germany	12/31/2002 USA
Discount rate	5.75	6.50	5.50	6.50
General pay rise	3.00	4.00	3.00	4.00
Pay rise (firm commitments)	3.00	--	1.25	--
Pension rise	1.25	--	1.25	--
Health care cost rise	--	12.0-5.0	--	12.0-5.0
Expected return on plan assets	--	9.00	--	9.00

Since the relevant capital market rates had drifted down from the 2001 year-end level, the German discount rate was adjusted accordingly.

Pension accruals developed in 2002 as follows:

Pension accrual analysis

€million	1/1/2002	Utilized	Released	Added/newly provided	Compounded	Book transfer	Currency transl. differences/other	12/31/2002
Pension accruals	286.2	(23.4)	(12.8)	11.0	16.7	(0.1)	(4.7)	272.9
Prior year	*[289.5]*	*[(28.1)]*	*[(1.9)]*	*[5.7]*	*[17.0]*	*[0.1]*	*[3.9]*	*[286.2]*

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

€million	2001 Germany	2001 Abroad	2001 Total	2002 Germany	2002 Abroad	2002 Total
Analysis of the DBO's present value						
Present value of DBO at Jan. 1	203.4	166.4	369.8	216.8	189.3	406.1
Consolidation group changes	(2.2)	0.0	(2.2)	0.0	0.0	0.0
Currency translation differences	0.0	8.5	8.5	0.0	(26.8)	(26.8)
Service cost	2.5	2.2	4.7	3.8	2.9	6.7
Interest cost	12.2	11.7	23.9	12.1	10.8	22.9
Pension payments	(9.6)	(15.3)	(24.9)	(10.9)	(14.9)	(25.8)
Plan settlements and curtailments	2.8	0.3	3.1	(0.1)	8.3	8.2
Past service cost/revenue	0.0	0.0	0.0	0.0	(25.4)	(25.4)
Actuarial (gains)/losses	7.7	15.5	23.2	(3.8)	7.3	3.5
Present value of DBO at Dec. 31	**216.8**	**189.3**	**406.1**	**217.9**	**151.5**	**369.4**
Analysis of plan assets						
Plan assets at fair value as of Jan. 1	0.0	77.7	77.7	0.0	80.7	80.7
Currency translation differences	0.0	4.4	4.4	0.0	(10.9)	(10.9)
Expected return on plan assets	0.0	6.9	6.9	0.0	6.2	6.2
Contributions paid to plan	0.0	11.2	11.2	0.0	11.3	11.3
Pensions paid by plan	0.0	(7.9)	(7.9)	0.0	(13.7)	(13.7)
Actuarial gains/(losses)	0.0	(11.6)	(11.6)	0.0	(19.7)	(19.7)
Plan assets at fair value as of Dec. 31	0.0	**80.7**	**80.7**	0.0	**53.9**	**53.9**
Unfunded pension obligations at 12/31						
Unrecognized actuarial gains/(losses)	(7.7)	(31.5)	(39.2)	(3.9)	(42.6)	(46.5)
Unrecognized past service cost	0.0	0.0	0.0	0.0	3.9	3.9
Pension accrual at 12/31	**209.1**	**77.1**	**286.2**	**214.0**	**58.9**	**272.9**

Notes
to the consolidated balance sheet

The present value of funded pension obligations as of December 31, 2002, came to €121.1 million (down from €133.7 million). The unrecognized actuarial losses of €46.5 million (up from €39.2 million) are substantially the result of adjusted discount rates and of the deviating actual vs. expected return on plan assets. In 2002, plan assets again returned a loss, this time one of €12.2 million (up from €4.6 million). 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 €4.3 million.

Breakdown of plan assets:

€ million	12/31/ 2001	12/31/ 2002
Equities	38.8	33.3
Government and corporate bonds	18.3	18.8
Cash & cash equivalents	23.6	1.8
Plan assets	**80.7**	**53.9**

Breakdown of pension expense:

€ million	12/31/ 2001	12/31/ 2002
Current service cost	4.7	6.7
Amortized actuarial gains and losses	0.1	4.3
Past service cost/(revenue)	0.1	(21.0)
Effects of plan curtailments/settlements	0.1	8.2
Expected return on plan assets	(6.9)	(6.2)
Compounding of expected pension obligations	23.9	22.9
	22.0	**14.9**

The interest portion in the 2002 pension provision, 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 postemployment health care obligations, while the impact from plan curtailments/ settlements is attributable to restructuring programs.

(16) **Other accruals**

€ million	01/01/ 2002	Utilized	Released	Added/ newly provided	Com- pounded	Consoli- dation group changes	Currency translation differences/ other	12/31/ 2002
Warranties	19.0	(4.8)	(1.3)	6.7	0.2	0.0	(0.1)	19.7
Identifiable losses	15.4	(9.5)	0.0	10.8	0.0	0.0	(1.1)	15.6
Yet unbilled costs	6.3	(5.9)	(0.2)	9.1	0.0	0.0	0.0	9.3
Restructuring	3.0	(1.0)	(0.2)	0.2	0.0	0.0	(0.2)	1.8
Personnel	53.4	(35.8)	(1.7)	36.8	0.0	0.0	(3.2)	49.5
Remaining	24.3	(9.8)	(5.8)	19.3	(0.1)	0.0	(1.4)	26.5
	121.4	**(66.8)**	**(9.2)**	**82.9**	**0.1**	**0.0**	**(6.0)**	**122.4**

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 basically provide for accrued vacation, residual annual leave, overtime and flextime at a total €19.3 million (down from €20.0 million), for preretirement part-time work at €5.7 million (down from €10.6 million), and for termination benefits at €8.5 million (up from €8.4 million).

An amount of €12.5 million is at issue in a litigious claim for damages still pending. Since the subsidiary is not the originator of the damage and the assertion of such damages is not expected to be successful at this amount, €1.2 million has been provided for on the basis of estimates. Should higher damages be awarded, it is believed that a portion not yet determinable at present is covered by insurance.

The remaining accruals refer to environmental risks, bonuses, discounts and rebates, as well as legal, consultancy and audit fees.

Unchanged versus the year before, no refunds are expected from accruals. The following cash outflows are predicted for each category of the discounted noncurrent accruals:

€ million	within 1 year	1–5 years	after 5 years	Total
Warranties	15.4	4.3	0.0	19.7
Identifiable losses	13.5	2.1	0.0	15.6
Yet unbilled costs	8.7	0.6	0.0	9.3
Restructuring	1.5	0.3	0.0	1.8
Personnel	39.8	7.8	1.9	49.5
Remaining	20.6	5.4	0.5	26.5
	99.5	**20.5**	**2.4**	**122.4**

(17) **Liabilities**

€ million	12/31/ 2001	thereof due within ‹1 year	thereof due after 5 years	12/31/ 2002	thereof due within ‹1 year	thereof due after 5 years
Financial debts						
due to banks	168.9	45.9	30.5	129.4	9.7	26.7
due to nonconsolidated group companies	18.5	18.5	0.0	0.0	0.0	0.0
under leases	91.6	12.9	34.8	78.9	11.4	38.1
other	1.1	0.7	0.4	1.6	0.8	0.3
	280.1	78.0	65.7	209.9	21.9	65.1
Trade payables	152.6	152.6	0.0	177.0	177.0	0.0
All other liabilities						
prepayments received on orders	3.4	3.4	0.0	6.5	6.5	0.0
notes payable (trade)	5.2	5.2	0.0	6.6	6.6	0.0
sundry liabilities	92.7	91.2	0.0	85.6	83.3	0.0
	101.3	99.8	0.0	98.7	96.4	0.0
	534.0	**330.4**	**65.7**	**485.6**	**295.3**	**65.1**

Notes
to the consolidated balance sheet

The financial debts under leases include accounts payable by the special-purpose leasing firms to banks at €36.5 million (down from €37.4 million).

Out of the accounts due to banks, €15.5 million (down from €15.7 million) is collateralized by land charges and similar encumbrances, another €10.2 million (up from €9.7 million) being secured by similar rights and interests.

The *sundry liabilities* break down as follows:

€ million	12/31/ 2001	12/31/ 2002
Monies in transit	37.7	49.3
Non-income taxes	16.9	13.6
Social security	16.1	15.6
Due to employees	5.2	3.6
Remaining liabilities	16.8	3.5
	92.7	**85.6**

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

The fair values indicated below are based on such interest rates as were current at balance sheet date and applicable to equivalent remaining terms and redemption schedules.

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

Due to banks

Terms	Weighted average rate (%)	Currency	Book value 12/31/2001 € million	Fair value 12/31/2001 € million	Rates fixed up to	Book value 12/31/2002 € million	Fair value 12/31/2002 € million
Fixed	4.5	€	44.9	44.9	2002	0.0	0.0
Fixed	3.5	€	0.0	0.0	2003	6.2	6.2
Fixed	4.9	€	46.0	45.8	2004	46.0	47.5
Fixed	7.9	€	52.4	58.0	2005	42.0	48.1
Fixed	5.2	€	0.0	0.0	2007	9.5	11.0
Fixed	5.4	€	25.6	19.8	2020	25.7	24.7

Due to the banks of special-purpose leasing firms

Terms	Weighted average rate (%)	Currency	Book value 12/31/2001 € million	Fair value 12/31/2001 € million	Rates fixed up to	Book value 12/31/2002 € million	Fair value 12/31/2002 € million
Fixed	5.96	€	37.4	37.6	2008	36.5	38.1

Due under capital leases

Terms	Weighted average rate (%)	Currency	Book value 12/31/2001 € million	Fair value 12/31/2001 € million	Rates fixed up to	Book value 12/31/2002 € million	Fair value 12/31/2002 € million
Fixed	6.5	€	0.8	0.9	2003	1.1	1.1
Fixed	5.9	€	3.3	3.5	2004	5.3	6.8
Fixed	5.9	€	3.1	3.2	2005	5.1	5.3
Fixed	5.9	€	6.8	7.3	2006	7.6	7.7
Fixed	6.5	€	15.6	18.6	2008	5.6	6.1
Fixed	6.5	€	4.9	5.3	2010	4.0	4.0
Fixed	6.5	€	2.0	2.1	2011	0.6	0.6
Fixed	6.5	€	0.0	0.0	2012	1.9	2.0
Fixed	8.0	€	10.7	12.4	2020	11.2	13.1

(18) **Income tax liabilities**

€ million	12/31/ 2001	12/31/ 2002
Deferred taxes	15.6	7.3
Current income taxes	16.7	17.8
	32.3	**25.1**

The deferred tax assets and liabilities refer to the following:

€ million	12/31/ 2001 assets	12/31/ 2001 liabil.	12/31/ 2002 assets	12/31/ 2002 liabil.
Loss carryovers and tax credits	22.4	0.0	16.2	0.0
Tangible assets	19.0	(67.0)	13.6	(43.9)
Pension accruals	21.8	0.0	19.4	0.0
Other accruals	9.8	0.0	10.2	0.0
Liabilities	89.3	(75.8)	68.6	(86.7)
Sundry	31.5	(21.0)	63.9	(29.9)
Subtotal	193.8	(163.8)	191.9	(160.5)
Offset	(148.2)	148.2	(153.2)	153.2
Consolidated balance sheet	**45.6**	**(15.6)**	**38.7**	**(7.3)**

(19) **Deferred income**

€ million	12/31/ 2001	12/31/ 2002
Deferred grants by customers	19.7	9.5
Deferred public grants and subsidies	3.6	3.5
	23.3	**13.0**

Notes
to the consolidated income statement

(20) Net sales

For a breakdown of the net sales of €1,882.6 million (up from €1,825.5 million) by divisions and regions, see the segment reports.

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

€ million	2001	2002
Change in inventories of finished products and work in process	(11.3)	(2.9)
Other work and material capitalized	19.1	12.1
	7.8	**9.2**

(22) Other operating income

€ million	2001	2002
Income from the release of accruals	7.8	9.2
Income from investment grants	1.6	6.5
Income from credit notes for prior periods	2.7	4.0
Income from the release of accrued non-German tax liabilities	0.0	2.4
Income from the payment of bad debts charged off and the reversal of bad-debt allowances	3.0	2.1
Rental income	1.5	2.1
Income from damages/claims	6.8	0.7
Income from the release of badwill	1.6	1.6
Gain from the deconsolidation of subsidiaries	4.8	0.0
All other	27.3	17.7
	57.1	**46.3**

(23) Cost of materials

€ million	2001	2002
Cost of raw materials, supplies, and merchandise purchased	841.7	885.5
Cost of services purchased	82.3	90.4
	924.0	**975.9**

The Group's cost of materials decreased in 2002 as inventories were written up at €1.7 million (down from €2.8 million).

(24) Personnel expenses

€ million	2001	2002
Wages and salaries	414.4	411.8
Social security taxes	70.1	73.7
Expenses for pensions and related employee benefits	37.8	24.1
	522.3	**509.6**

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

Annual average headcount	2001	2002
Air Supply & Pumps	4,058	3,961
Pistons	5,563	5,461
Plain Bearings	1,069	1,009
Aluminum Technology	725	823
MotorEngineering	193	0
Motor Service	390	393
Other	42	38
	12,040	**11,685**

(25) Amortization/depreciation/ write-down

For a breakdown by amortization of intangible assets (including goodwill) and depreciation of tangible assets, see the notes to the respective fixed-asset lines. No write-down was charged in 2002 to tangible or intangible assets (down from €1.3 million), the prior-year amount largely accounting for impairment losses of production plant and machinery which, due to restructuring, could no longer be used in the future.

Notes
to the consolidated income statement

(26) **Other operating expenses**

€ million	2001	2002
Maintenance and repair (M&R)	55.1	43.9
Selling, promotion and advertising	25.7	25.8
Rheinmetall Group allocations and service fees	16.9	20.0
Other general administration	19.5	13.4
Legal, consultancy and audit fees	10.9	12.2
Rents	9.9	11.3
Data processing	11.1	10.8
Other payroll incidentals	9.0	8.9
Travel	6.7	8.8
Insurances	5.6	7.3
Severance packages, termination benefits, preretirement part-time work	5.8	6.9
Non-income taxes	6.6	6.5
Losses on fixed-asset disposal	0.5	6.1
Warranties	2.2	4.8
Outsourced support services	2.7	4.6
R&D	1.2	3.7
Commissions	1.4	2.6
Provision of labor	0.5	2.2
Buildings cleaning	2.1	2.0
Vigilance/facility security	1.7	1.7
Write-down of current assets	1.8	1.3
Losses from damaging events	5.9	0.4
All other	6.9	28.8
	209.7	**234.0**

Income from the release of accruals was offset at €13.3 million (down from €20.6 million) against other operating expenses.

(27) **Net interest expense**

€ million	2001	2002
Interest income		
return on plan assets	6.9	6.2
from long-term loans and financial receivables	0.2	0.3
other interest and similar income	0.9	1.4
	8.0	7.9
Interest expense		
from capital leases	(3.0)	(3.8)
compounding of pensions	(23.9)	(22.9)
compounding of other noncurrent accruals	(0.4)	(0.1)
other interest and similar expenses	(21.7)	(18.4)
	(49.0)	(45.2)
	(41.0)	**(37.3)**

(28) **Net investment income and other financial results**

€ million	2001	2002
Net investment income		
from joint ventures	0.4	1.4
from associated affiliates	2.8	0.8
	3.2	2.2
Other financial results		
from foreign exchange	0.3	(1.2)
from financial derivatives	(0.3)	1.5
from the disposal of other long-term securities	0.8	14.8
all other financial expenses/income, net	0.0	(1.1)
	0.8	14.0
	4.0	**16.2**

The other financial results from foreign exchange includes €0.9 million being the loss from accounting for the Turkish subsidiary's annual accounts according to the hyperinflationary economies rules.

(29) **Income taxes**

€ million	2001	2002
Current income tax expenses	18.1	32.1
Refunds for prior years	(4.0)	(7.4)
Deferred taxes	3.6	(1.3)
	17.7	**23.4**

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 tax expense comprises German corporate income tax, the solidarity surtax thereon, and municipal trade tax. Expected tax expenses are matched against the effective income tax burden.

€ million	2001	2002
EBT	49.5	60.1
Expected tax expense	**19.8**	**24.0**
Differences from German tax rates	(1.0)	(0.3)
Differences from foreign tax rates	(1.3)	(2.5)
Losses of subsidiaries not subjected to deferred taxation	11.1	10.2
Tax-exempt income and nondeductible expenses	(3.5)	(10.1)
Nondeductible goodwill amortization	1.2	0.7
Adjustment for nonperiod income taxes	(0.5)	1.9
Reduction of deferred taxes due to tax rate change*	0.0	(0.6)
Tax privileges for capital expenditures	(2.4)	0.0
Tax changes from accounting for the tax burden on next-year distribution	(4.9)	0.0
Other	(0.8)	0.1
Effective tax expense	**17.7**	**23.4**
Effective tax rate in %	36%	39%
Expected tax rate in %	40%	40%

* This reduction is attributable to tax rate changes in Italy and France.

(30) **Minority interests**

Minority interests in profit came to €0.6 million (down from €0.8 million) and in loss to €1.0 million (down from €1.2 million).

(31) **Earnings per share (EPS)**

	2001	2002
Group earnings (after minority interests) (€)	32,161,747	37,092,377
Weighted average number of shares	27,244,953	28,003,395
Earnings per share (EPS) (€)	1.18	1.32

EPS is obtained by dividing the weighted average number of shares issued and outstanding in the fiscal year into the Group's earnings. Neither as of December 31, 2002 nor 2001, 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.

Analysis of the number of shares

The weighted average number of shares is determined as follows:

	2001	2002
Number at Jan. 1	26,603,195	28,003,395
Addition	1,400,200	0
Number at Dec. 31	28,003,395	28,003,395

Note to the consolidated statement of cash flows

(32) **Cash flow statement**

The cash flow statement conforms with 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 slightly lower cash flow of €170.0 million, contrasting with net cash provided by operating activities of €215.4 million which includes a cash inflow from interest of €1.6 million (up from €1.1 million) and a cash outflow for interest of €19.6 million (down from €21.3 million). Income taxes paid came to €31.2 million (down from €37.6 million), those refunded totaling €6.4 million (up from €1.5 million). The dividends received from associated affiliates and investees amounted to €1.2 million (up from €0.7 million).

The net cash used in investing activities sank €47.2 million to €117.1 million. The disposal of the interest in Preh GmbH & Co KG produced a cash inflow of €23.0 million. In 2001, the cash outflow for acquisitions totaled €11.9 million and represented the purchase price of Kolbenschmidt Pierburg Shanghai Nonferrous Components Co Ltd., an investee carried at equity, while the divestment of Pierburg Instruments Inc. generated in 2001 a cash inflow of €6.0 million. When the stake in Pierburg Instruments GmbH had been transferred in the previous year, a €14.4 million loan was repaid, too. All acquisitions and disposals were throughout settled in cash.

By redeeming financial debts and paying dividends, the net cash used in financing activities came to €74.3 million. The remaining cash inflow is shown in the change in cash & cash equivalents. Cash & cash equivalents are identical in the cash flow statement and balance sheet.

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 divisions, viz.

- Air Supply & Pumps
- Pistons
- Plain Bearings
- Aluminum Technology
- Motor Service

as primary segments.

The Others/Consolidation column includes, apart from the Group's parent (Kolbenschmidt Pierburg AG), further companies not allocable to any defined segment, the MotorEngineering division deconsolidated in 2001, as well as consolidation transactions.

In comparison to 2001, segment assets and segment liabilities have been redefined, which has also changed segment indicators. Prior-year data has been restated accordingly.

Responsibilities are clearly separated between the segments and Kolbenschmidt Pierburg AG, which performs the functions of a strategic management holding company. Both corporate governance and internal reporting have been structured accordingly. The companies belonging in each segment/division result from the listing on pages 100/101. 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. The year before, segment assets had excluded cash & cash equivalents, and segment liabilities were reported exclusive of pension accruals and financial debts. Capital employed (CE), which is used to generate EBIT, is determined as the sum total of equity, pension accruals and financial debts, less cash & cash equivalents. The return on capital employed (ROCE) equals EBIT divided into average capital employed (average of the balances at December 31, 2001 and 2002). Net financial debts reflect the sum total of financial debts (current and noncurrent) less cash & cash equivalents.

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 (and extraordinary items). Write-up of badwill has consistently been included in EBITDA. The (segment) EBIT margin equals EBIT divided into total segment sales.

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

Supplementary disclosures

(34) **Contingent liabilities/assets**

Due to its hardly probable utilization, the provision for an accrued potential tax liability outside of Germany had to be waived.

As of December 31, 2002, a contingent asset existed at €0.7 million from a claim for damages.

(35) **Other financial obligations**

As of December 31, 2002, the commitments to purchase tangible assets totaled €17.6 million (down from €36.6 million). Additional purchase price obligations from the envisaged acquisition of the pistons operations of Microtechno Corp., Japan, account for another €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, €10.8 million was paid under operating leases and recognized in net income. No subleases existed.

Rents due in succeeding years under operating leases:

	2001			2002		
€ million	2002	2003-2006	after 2006	2003	2004-2007	after 2007
Buildings	2.0	5.5	23.1	2.3	4.8	22.9
Production plant and machinery	1.6	1.9	0.0	2.0	3.7	0.0
Other leases	0.6	1.4	0.0	1.7	2.2	0.0
	4.2	8.8	23.1	6.0	10.7	22.9

(36) **Subsequent events**

After closing the fiscal year, KS Kolbenschmidt GmbH (which parents the Pistons division) acquired via its Japanese subsidiary, Kolbenschmidt Pierburg K.K., the pistons operations of Microtechno Corp. from Mazda Motor Corp. (both in Japan). Microtechno has since 1972 manufactured pistons and other precision parts for the automotive industry. The 120 employees of the pistons operations generate annual sales of around €20 million. For several years, the two companies have already cooperated in the engineering field. The acquisition by Kolbenschmidt Pierburg of Microtechno's pistons business rep-

Notes
Supplementary disclosures

resents another step toward the Group's expansion in Asia. Moreover, as a technological center of Asia and the largest market for advanced motor vehicle pistons, Japan offers the opportunity of sharing in the R&D of world market business there and hence securing portions of the market.

In the Air Supply & Pumps division, the electric fuel pump unit of Pierburg GmbH was transferred to TI Automotive as of January 1, 2003. This unit of Pierburg GmbH employs 100 people and generates sales of about €46 million. The disposal is a step by Pierburg GmbH in its strategy of concentrating on core activities and addresses the trend by the auto assemblers to award contracts in this segment to preferred suppliers of complete fuel tank and fuel delivery systems. The agreement concluded with TI envisages a concentration and continuation of fuel pump production at the Neuss location. A supplementary agreement will detail the future supply to TI Automotive of electric motors by Pierburg's Hartha, Saxony, plant.

(37) Stock appreciation rights (SARs)

Since 1999, the Kolbenschmidt Pierburg Group has granted qualifying managerial staff SARs for 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	Exercisable after	Base price €	Number issued	thereof forfeited after 12/31/2001	thereof forfeited in 2002	SARs as of 12/31/2002
Executive board						
1998	end-2001	18.09	70,000	30,000	0	40,000
1999	end-2002	12.95	60,000	30,000	0	30,000
2000	end-2003	9.24	60,000	30,000	0	30,000
2001	end-2004	16.50	50,000	0	0	50,000
						150,000
Managerial staff						
1999	end-2002	15.07	247,500	12,500	43,000	192,000
2000	end-2003	13.20	247,500	2,500	50,000	195,000
2001	end-2004	11.88	222,500	0	10,000	212,500
						599,500

Obligations under SARs are fair-valued pro rata temporis by using an option price model. An accrual of €0.4 million (up from €0.3 million) provides for the obligations incurred up to December 31, 2002.

(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 remeasurement are recognized in equity only (reserves retained from earnings).

As of December 31, 2002, 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.

Currency hedges	Notional volume		Maturing after	Fair market values	
€ million	12/31/2001	12/31/2002	(months)	12/31/2001	12/31/2002
Currency forwards/futures	40.6	63.0	3	(0.5)	1.0

Interest rate hedges	Notional volume		Maturing after	Fair market values	
€ million	12/31/2001	12/31/2002	(months)	12/31/2001	12/31/2002
Swaps	15.2	12.2	30	(1.5)	(1.5)
Other derivatives	25.0	25.0	23	0.0	0.0

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(39) Related-party transactions

The subsidiaries consolidated by Kolbenschmidt Pierburg AG directly or indirectly maintain ordinary business relations with many nonconsolidated 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 with 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 support, data processing and insurance services.

In the scope 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:

€ million	Volume of services rendered 2001	2002	Volume of services utilized 2001	2002
Rheinmetall AG	0.2	0.2	4.9	7.7
Rheinmetall Service Gesellschaft mbH	0.0	0.1	1.2	1.3
Rheinmetall Informationssysteme GmbH	1.6	0.1	22.6	22.4
Jagenberg London Ltd.	0.0	0.0	0.2	0.0

Stockholders qualifying as related parties are any individuals (including their direct family members) who directly or indirectly own a stake in the reporting entity's voting capital and thus gain a significant influence over such entity.

(40) Supervisory and Executive Boards

Executive Board
For their duties performed on behalf of the parent and its subsidiaries, Executive Board members received a total €2.2 million in the year under review (up from €1.9 million), breaking down into €1.3 million of fixed remuneration, €0.8 million of profit shares, and €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 addition, the Executive Board members received phantom stock under the SAR programs, viz. 40,000 for 1998, 30,000 for 1999, 30,000 for 2000, and 50,000 for 2001. For further details of the SAR programs, turn to page 94 of this annual report.

€0.4 million (up from €0.3 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 €3.8 million has been provided (virtually unchanged).

Supervisory Board
Supervisory Board fees amounted to €0.2 million in fiscal 2002 (virtually unchanged). Neither was any 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, 2002, none of Kolbenschmidt Pierburg AG's Supervisory or Executive Board members held any shares in the Company.

(41) Corporate Governance Code

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

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

Düsseldorf, February 20, 2003

The Executive Board
Dr. Kleinert Dr. Merten Dr. Friedrich

Auditor’s report and opinion

Kolbenschmidt Pierburg AG, Düsseldorf

Independent group auditor’s report and opinion

We have audited the consolidated financial statements prepared by Kolbenschmidt Pierburg AG and consisting of balance sheet, income statement, statement of changes in equity, cash flow statement and the notes thereto, for the fiscal year ended December 31, 2002. The consolidated financial statements in accordance with the International Accounting Standards (IAS) and their preparation are the responsibility and assertions of the Company’s Executive Board. Our responsibility is, based on our audit, to express an opinion on whether the consolidated financial statements conform with the IAS.

We have conducted our audit of the consolidated financial statements in accordance with German auditing regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Accountants & Auditors in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, the evidence supporting the amounts and disclosures in the consolidated financial statements. The audit has also involved assessing the accounting principles used, and significant estimates made, by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion. Based on our audit, it is our opinion that the consolidated financial statements, in accordance with the IAS, present a true and fair view of the Group's net assets, financial position and results of operations as well as of its cash flows in the fiscal year under review.

Our audit, which in accordance with German auditing regulations also covered the group management report as prepared by the Executive Board for the fiscal year ended December 31, 2002, has not resulted in any objections or exceptions.

It is our opinion that the group management report presents fairly, in all material respects, both the Group’s overall position and the risks inherent in its future development. In addition, we confirm that the consolidated financial statements and group management report for the fiscal year ended December 31, 2002, satisfy the requirements for exempting the Company from preparing consolidated financial statements and a group management report in accordance with German law.

Düsseldorf, March 12, 2003

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bovensiepen	pp. Adamaszek
Wirtschaftsprüfer	Wirtschaftsprüfer

Group of consolidated companies as of December 31, 2002

Group of consolidated companies as of December 31, 2002

		Equity (IAS)	Interest held (%) direct	Interest held (%) indirect
Kolbenschmidt Pierburg AG, Düsseldorf	€	281,958,992		
Air Supply & Pumps				
Pierburg GmbH, Neuss [1]	€	111,158,822	100	
Carbureibar S.A., Abadiano, Spain	€	32,621,015		100
Pierburg S.à r.l., Basse-Ham (Thionville), France	€	25,620,220		100
Pierburg Inc., Fountain Inn (Greenville), SC, USA	US$	10,278,360		100
Pierburg do Brasil Ind. e Comércio Ltda., Nova Odessa, Brazil	Rs	7,563,729		100
Pierburg S.p.A., Lanciano, Italy	€	9,220,428		100
Société Mosellane de Services Holding S.A., Basse-Ham (Thionville), France	€	3,331,209		100
Société Mosellane de Services S.C.I., Basse-Ham (Thionville), France	€	10,161,310		100
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai, China [2]	Yuan	167,264,066		50
Calor Grundstücksverwaltungsgesellschaft mbH & Co KG, Grünwald	€	(2,004,427)		95
Pierburg Instruments GmbH, Neuss [2]	€	17,945,444		49
Pistons				
KS Kolbenschmidt GmbH, Neckarsulm [1]	€	172,279,782	100	
KS Pistões Ltda., Nova Odessa, Brazil	Rs	131,109,411		100
KS International Investment Corp., Southfield, MI, USA	US$	156,347,917		100
Karl Schmidt Unisia Inc., Marinette, WI, USA	US$	(1,002,448)		92
KS Large Bore Pistons Inc., Marinette, WI, USA	US$	6,213,121		100
Zollner Canada Inc., Leamington, Canada	Can$	9,082,996		92
KS France S.A., Paris, France	€	17,651,621		100
Société Mosellane de Pistons S.A., Basse-Ham (Thionville), France	€	20,396,872		100
Metal a.s., Usti, Czech Republic	Čk	444,053,587		89
Kolbenschmidt Shanghai Piston Co., Ltd., Shanghai, China [2]	Yuan	197,757,889		35
Tiro Grundstücks-Verwaltungsgesellschaft mbH & Co KG, Grünwald [3]	€	(285,520)		0
Kolbenschmidt Pierburg K.K., Yokohama, Japan	¥	8,121,009		100
Plain Bearings				
KS Gleitlager GmbH, St. Leon-Rot [1]	€	13,329,785	100	
KS Bearings Inc., Greensburg, USA	US$	(7,378,682)		100
KS Bronzinas Ltda., Nova Odessa, Brazil	Rs	13,665,881		100
Aluminum Technology				
KS Aluminium-Technologie AG, Neckarsulm [1]	€	20,697,533	100	
Werkzeugbau Walldürn Gesellschaft mit beschränkter Haftung, Walldürn	€	615,439		100
KS Doehler-Jarvis GmbH, Neckarsulm	€	1,548,244		65
KS Aluminium Beteiligungs-GmbH, Neckarsulm	€	(91,060)		100
Motor Service				
MSI Motor Service International GmbH, Neckarsulm [1]	€	16,194,786	100	
G. Krull Gesellschaft mit beschränkter Haftung, Neckarsulm	€	40,430		100
MTS Motorenteile-Service GmbH, Neuenstadt	€	(483,628)		100
KS Motorac S.A., Le Blanc Mesnil, France	€	1,024,174		100
KS Winston Ltd., Purfleet, UK	£	(437,958)		100
Kolbenschmidt Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul, Turkey	TL	4,231,678,720,000		51
KS Produtos Automotivos Ltda., São Paulo, Brazil	Rs	10,008,816		92
KS Motor Servis CZ s.r.o., Trmice, Czech Republic	Čk	16,165,148		66
Litos Grundstücks-Verwaltungsgesellschaft mbH & Co KG, Grünwald [3]	€	(714,788)		0
Other				
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin, Berlin	€	7,116,867	100	
KS Grundstücksverwaltung Beteiligungs-GmbH, Neckarsulm	€	30,424	100	
KS Grundstücksverwaltung GmbH & Co. KG, Neckarsulm	€	8,996,006		100
IDEKO Industrie Einkauf- und Koordination GmbH, Neckarsulm	€	118,091	100	

[1] P&L transfer agreement with Kolbenschmidt Pierburg AG
[2] Included at equity
[3] Special-purpose entity

Supervisory and Executive Boards
Membership in other supervisory and comparable boards

Supervisory Board

Dipl.-Math. Klaus Eberhardt
Gerlingen
Executive Board Chairman
of Rheinmetall AG, Düsseldorf
Chairman

Member of further supervisory boards:
- Rheinmetall DeTec AG, Ratingen
  chairman
- STN ATLAS Elektronik GmbH, Bremen
  chairman (up to April 10, 2002)
- ADITRON AG, Düsseldorf
  chairman (as from April 5, 2002)
- Jagenberg AG, Neuss
  chairman
- Rheinmetall Elektronik AG, Düsseldorf
  chairman (up to August 12, 2002)
- Pierburg AG, Neuss
  chairman (up to April 8, 2002)

Member of comparable German
or foreign boards:
- Preh Group, Bad Neustadt/Saale
  chairman of the shareholder committee
- Shareholder Committee EMG, Hamburg
  chairman

Dr. rer. soc. Rudolf Luz *)
Weinsberg
1st Delegate of the German
Metalworkers Union ("IG Metall"),
Heilbronn/Neckarsulm office,
Neckarsulm
Vice-Chairman

Member of comparable German
or foreign boards:
- Aesculap AG & Co. KG, Tuttlingen
  advisory board member (up to July 25, 2002)
- Wirtschaftsfördergesellschaft Raum Heilbronn
  GmbH, Heilbronn
  supervisory board member

Dr.-Ing. Ludwig Dammer *)
Düsseldorf
Strategic Production Scheduling,
Pierburg AG, Neuss

Member of a further supervisory board:
- Rheinmetall AG, Düsseldorf

Rolf Dollmann *)
Neckarsulm
Chairman of the General Works
Council of KS Kolbenschmidt GmbH,
Neckarsulm
(up to March 31, 2002)

Dipl. rer. pol. Werner Engelhardt
Karlsruhe
Additional Vice-Chairman
(up to January 14, 2002)

Member of further supervisory boards:
- Rheinmetall AG, Düsseldorf
  chairman (up to January 14, 2002)
- ADITRON AG, Düsseldorf
  chairman (up to January 14, 2002)
- Rheinmetall DeTec AG, Ratingen
  (up to January 14, 2002)
- Rheinmetall Elektronik AG, Düsseldorf
  (up to January 14, 2002)
- STN Atlas Elektronik GmbH, Bremen
  (up to January 14, 2002)
- Pierburg AG, Neuss (up to Jan. 14, 2002)
- Jagenberg AG, Neuss (up to January 14, 2002)

Member of comparable German
or foreign boards:
- WKP Württembergische Kunststoffplattenwerke
  GmbH & Co KG, Unterensingen
  (up to January 31, 2002)
- Depalor S.A.S., Phalsburg, France
  (up to January 31, 2002)

Georg Hadlaczki *)
Mühlhausen
Controller
St. Leon-Rot plant of
KS Gleitlager GmbH, St. Leon-Rot

Dr. jur. Martin Hirsch
Frankfurt/Main
Lawyer
Law firm of Gleiss Lutz Hootz Hirsch,
Frankfurt/Main

Member of further supervisory boards:
- Rheinmetall AG, Düsseldorf
  (up to January 15, 2002)
- ADITRON AG, Düsseldorf
- BARTEC Barlian Holding AG, Bad Mergentheim
  chairman (up to July 31, 2002)
- Bestfoods Deutschland GmbH & Co. OHG,
  Heilbronn (up to April 30, 2002)
- CD Cartondruck AG, Obersulm-Willsbach,
  chairman

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
- Pierburg AG, Neuss (up to April 8, 2002)
- STN ATLAS Elektronik GmbH, Bremen
  (up to February 18, 2002)
- Jagenberg AG, Neuss (up to May 23, 2002)
- 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

*) employee representative

Erich Hüskes *)
Nettetal
Member of the Works Council
of the Nettetal plant of Pierburg AG,
Neuss

Dr. jur. Klaus Kessler
Stuttgart
Lawyer
Dr. Schelling & Partner GbR
Deutsche Schutzvereinigung für
Wertpapierbesitz e.V., Stuttgart
(up to March 31, 2002)
(up to June 5, 2002)

Member of a further supervisory board:
- Schleicher & Co. International AG, Markdorf

Heinrich Kmett *)
Fahrenbach/Robern
Works Council Vice-Chairman
of KS Kolbenschmidt GmbH,
Neckarsulm (as from April 1, 2002)

Member of further supervisory boards:
- KS Kolbenschmidt GmbH, Neckarsulm
  (up to March 31, 2002)
- Rheinmetall AG, Düsseldorf
  (as from November 14, 2002)

Dipl.-Vwt. Jürgen Lemmer
Bad Homburg

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
- Majan International Bank SAOC, Ruwi,
  Sultanate of Oman
  Director (up to December 31, 2002)
- 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.,
  Duplin, Ireland
  chairman of the board of directors

Dr. rer. oec. Herbert Müller
Essen
Executive Board member of
Rheinmetall AG, Düsseldorf
(as from March 28, 2002)

Member of further supervisory boards:
- Pierburg AG, Neuss (up to April 8, 2002)
- Rheinmetall DeTec AG, Ratingen
- ADITRON AG, Düsseldorf
- Rheinmetall Elektronik AG, Düsseldorf
- Jagenberg AG, Neuss

Dr. Siegfried Roth *)
Rüsselsheim
Union Secretary at the General
Secretariat of IG Metall, Frankfurt
(up to July 31, 2002)

Member of further supervisory boards:
- Ford-Werke AG, Cologne
- Ford Deutschland Holding GmbH, Cologne

Dietrich Termöhlen *)
Hinte
1st Delegate of the German
Metalworkers Union ("IG Metall"),
Neuss office, Neuss
(as from September 2, 2002)

Member of a further supervisory board:
- Aluminium Norf GmbH, Neuss

Prof. Dr. Dirk Zumkeller
Munich,
Full Professor of Transport & Traffic
Technical University of Karlsruhe
(as from June 5, 2002)

Member of a further supervisory board:
- Rheinmetall AG, Düsseldorf

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

Member of comparable German or foreign boards:
- Karl Schmidt Unisia Inc., Marinette, USA (chairman)
- Pierburg S.p.A., Lanciano, Italy
- Carbureibar S.A., Abadiano, Spain

Dr.-Ing. 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 (chairman)
- Pierburg GmbH, Neuss

Dr. jur. Jörg-Martin Friedrich
Ludwigsburg
Human Resources

Supervisory board memberships:
- KS Gleitlager GmbH, St. Leon-Rot
- KS Aluminium-Technologie AG, Neckarsulm
- Pierburg GmbH, Neuss

Member of comparable German or foreign boards:
- Kolbenschmidt Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul, Turkey
- KS International Investment Corp., Southfield, USA
- KS France S.A., Paris, France

Dipl.-Kfm. Heinz-Ludger Heuberg
Wülfrath
Finance/Controlling
(up to February 28, 2002)

Supervisory board memberships:
- KS Kolbenschmidt GmbH, Neckarsulm
- KS Gleitlager GmbH, St. Leon-Rot
- KS Aluminium-Technologie AG, Neckarsulm

Dipl.-Betriebswirt Georg Liebler
Düsseldorf
Marketing
(up to January 21, 2003)

Supervisory board memberships:
- KS Kolbenschmidt GmbH, Neckarsulm (chairman)
- KS Aluminium-Technologie AG, Neckarsulm
- KS France S.A., Paris, France
- Pierburg GmbH, Neuss

Member of comparable German or foreign boards:
- Karl Schmidt Unisia Inc., Marinette, USA
- Carbureibar S.A., Abadiano, Spain (up to July 23, 2002)
- Pierburg Inc., Fountain Inn (Greenville), USA
- Märkisches Werk Halver GmbH, Halver advisory board chairman
- Preh Group, Bad Neustadt/Saale Member of the shareholder committee
- Grammer AG, Amberg

Dr. Peter P. Merten
Herrsching
Finance/Controlling
(as from March 1, 2002)

Supervisory board memberships:
- KS Kolbenschmidt GmbH, Neckarsulm
- KS Gleitlager GmbH, St. Leon-Rot
- KS Aluminium-Technologie AG, Neckarsulm
- Pierburg GmbH, Neuss

Financial glossary

ABT (asset-backed transactions)
Self-explanatory. Attractive source of cash for companies which sell, for instance, their trade receivables under ABTs.

Actuarial gains and losses
The actuarial computation of pension accruals is largely based on forecasted parameters (such as pay and pension trends). If these assumptions are changed on the basis of actual developments, actuarial gains or losses result.

Capital employed (CE)
CE provided by stockholders, creditors, employees, 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. Depending on the employment of the capital (on the assets side), CE is determined as the net of →(segment) assets less →(segment) liabilities plus pension accruals.

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
A code that a company commits itself to comply with, regulating internal and external practices and procedures and enhancing the company's transparency in the interests of stakeholders.

Deferred taxes
Roughly, deferred tax assets and liabilities are recognized for temporary differences between the values of assets and liabilities in the tax accounts and the IAS-based financial statements. Deferred taxes thus reflect the expected future tax effects of transactions.

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.

EBIT
Earnings before interest and taxes; used to assess a company's performance irrespective of its financing structure. Key indicator for the Rheinmetall Group's management to control group (company) performance.

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 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: 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. In IAS-based accounts, EBT is synonymous with the result from ordinary operations.

EpS before/after goodwill amortization
Earnings (net income after →goodwill amortization) 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. Since goodwill amortization neither reduces cash nor decreases value and, moreover, is not obligatory in all accounting systems, EpS before goodwill amortization is computed alternatively.

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.

Financial derivatives
Financial instruments (e.g., options, futures) derived from original instruments (such as equities, bonds, foreign currency) and used, inter alia, to hedge against currency and interest rate risks. The prices of derivatives hinge directly or indirectly on the value of the underlying transaction.

Financial leverage
Financial instruments (e.g., options, futures) derived from original instruments (such as equities, bonds, foreign currency) and used, inter alia, to hedge against currency and interest rate risks. The prices of derivatives hinge directly or indirectly on the value of the underlying transaction.

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

Financial glossary

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

International Accounting Standard (IAS)
These standards—developed by international associations of accountants and auditors, preparers of financial statements and scientists—represent an internationally harmonized accounting and reporting system extending beyond the European Union and meant to provide high-quality, meaningful financial information, thus improving international comparability. The IAS provide a standard basis for both companies and investors and presently include 34 standards.

MDAX
This German mid-cap index covers 50 companies of the prime standard from classical sectors. These equities rank directly after the 30 DAX® companies in terms of order book sales and market capitalization.

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 Rheinmetall Group for controlling purposes in line with the shareholder value concept.

SDAX
This German small-cap index covers 50 small companies that rank directly after the 50 MDAX® companies in terms of order book sales and market capitalization.

Segment assets
All assets less cash & cash equivalents and less other assets that bear interest in any form (but not involved in EBIT generation). This total is part of →capital employed for segment reporting.

Segment liabilities
All liabilities less financial debts (which require EBIT service). This total is part of →capital employed for segment reporting.

Standing Interpretations Committee (SIC)
The SIC interprets potentially contentious accounting issues. The Interpretations are approved by the International Accounting Standards Board (IASB) and, from the effective date, are binding on all IAS users.

Financial diary

April 10, 2003	Annual accounts press conference, Düsseldorf Meeting with financial analysts, Frankfurt/Main
May 19, 2003	Report on Q1/2003
May 20, 2003	Teleconference with financial analysts
May 21, 2003	Annual stockholders' meeting of Kolbenschmidt Pierburg AG, Heilbronn
May 27, 2003	Annual stockholders' meeting of Rheinmetall AG, Berlin
August 20, 2003	Report on Q2/2003
August 21, 2003	Teleconference with financial analysts
November 20, 2003	Report on Q3/2003
November 21, 2003	Teleconference with financial analysts

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