



Water = Life

Annual Report 2002

WEDECO AG
Water Technology

Key figures

	2000 € 000	2001 € 000	2002 € 000
Revenue	50,302	81,371	143,928
Revenue growth	67.1%	61.8 %	76.9 %
EBITDA	7,707	11,153	20,893
EBITDA growth	219.5%	44.7%	87.3%
EBIT	7,055	9,050	13,301
EBIT growth	203.7%	28.3%	47.0%
Net profit	4,581	6,072	8,390
Net profit growth	169.5%	32.5%	38.2%
Net profit return	9.1%	7.5%	5.8%
Earnings per share	0.46	0.58	0.77
Earnings per share growth	170.6%	26.1%	32.8%
Cash flow from operating activities	-448	3,567	3,334
Total assets	50,155	94,654	149,832
Shareholders` equity	33,152	67,455	75,169
Equity ratio	66.1%	71.3%	50.2%
Capital expenditure	15,967	11,479	56,405
Average number of employees	259	418	724
Revenue per employee	194	195	199

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Equipped for the future of water



Werner Klink

Dear shareholders, business partners, customers and employees,

Each of us comes into contact regularly with water, uses its multi-facetted properties. Water is everywhere. It is not only the indispensable raw material of nature, but has become a precious food due to its scarcity. The declaration of the year 2003 as "[International Year of Freshwater](#)" by the General Assembly of the United Nations underlines this.

For more than a quarter of a century we have occupied ourselves at WEDECO with water. The focus of our work is less the natural raw material, but rather water in its direct relation to human beings – as drinking water, as waste water, as a raw material and as an element in a wide variety of different production processes. The following sentence is ascribed to Benjamin Franklin: "[When the well's dry, we know the worth of water](#)". We at WEDECO are making our contribution to ensure that the wells do not become dry. By supporting the water loop with UV disinfection and ozone oxidation, we ensure that water can be used more frequently and more intensively. [With our technologies we restore to water much of its original nature](#). This is what differentiates water treatment with UV light and ozone from the traditional chemical methods.

After a 61.8% sales increase in the previous year, we also generated a [sales increase](#) of 76.9% in the 2002 financial year, securing us an exceptional position in comparison with most of the other companies in the DAX 100. On sales of € 143.9 million we generated an [EBITDA](#) of € 20.9 million and a consolidated [net income](#) of € 8.4 million. This is an EBITDA margin of 14.5% and a net return on sales of 5.8%. These key financial figures were part of the remarkable data of the 2002 financial year embedded in a less than pleasing general economic situation. The granting of a [long-term loan](#) of € 25 million for the development of our business underscored the confidence of the capital market in our company.

2002 was not only another successful year, but also one in which the course for the future was determined. At the beginning, the strategically important decision had to be made on whether to use a [second technological method, ozone oxidation](#). From the market, we know that the water problem cannot

be comprehensively solved with UV disinfection alone. More and more organic, inorganic and highly toxic suspended solids pollute the water and the requirements on water purity for industrial and human use are becoming more and more demanding. With UV and ozone technology we are considerably expanding our [expertise in state-of-the-art water treatment](#). As had been demonstrated with sales of € 63.5 million and EBITDA of € 8.6 million (EBITDA margin 13.5%), ozone oxidation is also a method commensurate to UV disinfection in economic terms. Essential here is a significant market position. With the [acquisition of Trailligaz](#), the third largest producer of ozone devices, in March 2003, we further improved this market position against the chemical treatment of water with chlorine.

An intensive presence on the North American and Asian markets is essential for the future of the company. With a joint venture in China and the development of our companies in Singapore and Korea we are prepared accordingly. In the USA we have combined the two divisions at one new location in Charlotte, North Carolina. [In terms of technology, we have also made progress](#). The core component of our UV systems, now at production standard, the UV Spekrotherm® HP lamp, offers our clients a range of advantages. With the new residential series AQUADA we view ourselves as well prepared in the residential market for UV disinfection. Sales agreements with large distributors in the USA indicate that we have developed a competitive product. On the application side, we demonstrated that the combination of UV and ozone systems is suitable to counteract the increasing pollution of water with persistent agents, in particular endocrine disrupter substances. A patent application has been made for this method. For the 2003 financial year we have targeted further growth to € 170 million. We are thus only € 80 million away from the target we promised our shareholders in 1999 at the IPO: € 250 million in 2005. If extreme external events do not hinder us, we will also achieve this objective.

Yours



Werner Klink

Chairman of the Management Board



Business basis extended with ozone oxidation



Michael Stolskij

Dear Shareholders,

In line with the functions incumbent on the Supervisory Board according to legislation, the company's articles of association and terms of reference, the Supervisory Board implemented its tasks in four joint meetings with the Management Board, with meetings of its committees and in writing. It monitored management and provided advice. In the process it was informed on an ongoing basis verbally and in writing by the Management Board about business developments and the situation at WEDECO AG and the subsidiaries. Furthermore, the Supervisory Board was in regular dialogue with the Chairman of the Management Board and when necessary and in the course of the scheduled meeting held individual meetings with other Management Board members. [Key aspects of these talks were the issues of risk management, the strategic alignment of the WEDECO Group, and financial management.](#) With effect from March 1, 2002, the Supervisory Board appointed John Marrino to the WEDECO AG Management Board. John Marrino is responsible for both divisions of the company in America. The contracts of Management Board members Christoph Dicks and Dr. Andreas Kolch were extended by three years to August 31, 2005.

On May 25, 2002, the Annual General Meeting elected Dr. Peter Hess, Michael Roesen and Horst Wedekamp as further members of the Supervisory Board. As of July 30, 2002, Adrian Schmassmann resigned his mandate on the Supervisory Board. In accordance with § 104 of the German Stock Corporation Act, Professor Dr. Martin Exner was appointed to the Supervisory Board as his successor. In its new composition, the Supervisory Board together with the Management Board concerns itself exclusively with the [requirements of the German Corporate Governance Code](#). Following the approval of the Annual General Meeting for the necessary changes of the articles of association, WEDECO AG complies completely with the recommendations of the Code. The Management Board and the Supervisory Board both published the declaration of conformity in line with § 161 of the German Stock Corporation Act.

In the 2002 financial year, the work of the Supervisory Board was again characterised by the strong growth of the company. The acquisition of ozone technology in particular strengthened the market position of WEDECO AG as a leading company for water treatment with state-of-the-art alternative technologies. As the acquisition of ozone technology was a transaction between related parties, the Supervisory Board examined the transaction with particular care. For this examination the Supervisory Board had at its



disposal not only the purchase agreement, but also an assessment by the international audit company Warth & Klein, Düsseldorf on the adherence to the arm's length principle and the valuation report in line with IDW [Institute of German Auditors] Standard S1. The market presence of [WEDECO AG in China](#) was supported by the foundation of a joint venture. To focus more strongly on the core business areas UV Disinfection and Ozone Oxidation, WEDECO disposed of the Solar segment for the cosmetic and medical application of UV light. On numerous occasions the Supervisory Board dealt in detail with the [take-over of Trailligaz from Vivendi Water Systems-Group](#) and its participation in the Ozone subsidiary WEDECO Gesellschaft für Umwelttechnologie mbH. The important measures in the 2002 financial year include raising two long-term loans totalling € 25 million with a seven year term. The conditions of the long-term loans reflect the good credit standing of the company.

The annual financial statements of the company and the management report prepared in line with HGB and the consolidated financial statements, including the consolidated management report as of December 31, 2002 prepared in line with IFRS (International Financial Reporting Standards) were audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, and [given an unqualified audit opinion](#). The audit report, together with the management letter and the insights from the early warning system for the identification of risks, was discussed in detail in joint meetings with the Management Board and the auditor. The report of the auditor was noted with approval by the Supervisory Board. The Supervisory Board approved the annual financial statements and the management report for the 2002 financial year prepared by the Management Board which are thus adopted, and noted with approval the consolidated financial statements and the consolidated management report for the 2002 financial year. After examination, the Supervisory Board concurs with the proposal of the Management Board on the appropriation of the profit shown on the balance sheet. The Supervisory Board would like to thank the Management Board and all employees and express its appreciation for another successful year.

Düsseldorf, March 2003



Michael Stolskij
Chairman of the Supervisory Board

Management Board



Werner Klink
Chairman

- Born 1941
- Married, 2 children
- Businessman
- Self-employed entrepreneur since 1973
- Founder of the predecessor of the companies of the WEDECO Group
- Chairman of the WEDECO AG Management Board since 1999



Christoph Dicks
Finance

- Born 1969
- Single
- Degree in business administration
- Head of International Controlling in the WEDECO Group from 1997 to 1999
- Vice Chairman and Chief Financial Officer on the WEDECO AG Management Board since 1999



Dr. Andreas Kolch
Research & Development

- Born 1965
- Married, 1 child
- Ph.D in biology
- Head of Research and Development of the UV company in the WEDECO Group from 1994 to 1999
- WEDECO AG Management Board member with responsibility for R&D since 1999



John Marrino
North America

- Born 1966
- Married
- Bachelor of Science (Engineering)
- Various management positions in the WEDECO Group between 1990 and 1999
- WEDECO AG Management Board member with responsibility for North America since 2002

Corporate governance stands for the responsible management and monitoring of companies. Efficient cooperation between the Management Board and Supervisory Board, respecting shareholder interests, openness and transparency in corporate communication are material aspects of good corporate governance. At WEDECO AG Water Technology, corporate governance enjoys high status. For this reason WEDECO welcomes the German Corporate Governance Code, which presents a comprehensive catalogue of measures for assessing good corporate governance. In line with § 161 of the German Stock Corporation Act, the Management Board and Supervisory Board are to submit a declaration of conformity with the regulations of the governmental commission on the German Corporate Governance Code on an annual basis. The first declaration of conformity is as follows:

Declaration of conformity

"WEDECO AG Water Technology conforms to the regulations of the 'German Corporate Governance Code Government Commission' with the following exception: Supervisory Board members have not received any performance-related compensation and the Vice Chairman of the Supervisory Board and the chair and membership in Supervisory Board committees are not compensated separately (Code 5.4.5 Para. 1 sentence 3 and Para. 2 sentence 1). The Management Board and Supervisory Board shall propose to the Annual General Meeting on May 21, 2003 to supplement Section 15 Para. 1 of the WEDECO AG Articles of Association with a regulation on the performance-related compensation of the Supervisory Board and the compensation of the Vice Chairman and the chair and membership in committees of the Supervisory Board."

Supervisory Board



Michael Stolskij
Chairman

- Born 1947
- Married, 3 children
- Management Consultant
- Managing Partner at LIGA Management Consultants GmbH since 1999
- Chairman of the WEDECO AG Supervisory Board since 1999



Holger Künzel
Vice Chairman

- Born 1943
- Married
- Degree in business administration
- Managing Director at WBL Holding GmbH since 1998
- Vice Chairman of the WEDECO AG Supervisory Board since 1999



Prof. Dr. med. Martin Exner

- Born 1951
- Married, 4 children
- Full Professor and Director of the Institute for Hygiene and Public Health at the University of Bonn
- Doctor of Hygiene and Environmental Medicine
- Member of the WEDECO AG Supervisory Board since October 8, 2002



Dr. jur. Peter Hess

- Born 1948
- Married, 6 children
- Laywer
- National Assembly member
- Co-owner of a lawyers office in Zug/Switzerland
- Member of the WEDECO AG Supervisory Board since May 9, 2002



Michael Roesen

- Born 1936
- Married, 2 children
- Lawyer
- Owner of a legal partnership in Düsseldorf since 1964
- Member of the WEDECO AG Supervisory Board since May 29, 2002



Adrian Schmassmann

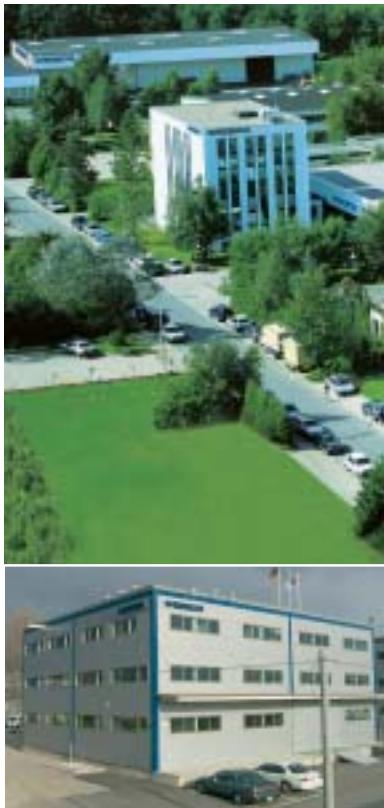
- Born 1959
- Married, 1 child
- Degree in business administration
- Chief Executive Officer at Katadyn Holding AG, Wallisellen/Switzerland since 1997
- Member of the WEDECO AG Supervisory Board from 1999 to June 30, 2002



Horst Wedekamp

- Born 1938
- Married, 2 children
- Engineer
- Managing Director at WEDECO Gesellschaft für UV-Verfahrenstechnik mbH, 1995 to 1999
- Member of the WEDECO AG Supervisory Board since May 29, 2002

WEDECO, think global – act local



Korea



Great Britain

WEDECO designs, develops and produces leading equipment and systems for environmentally friendly disinfection and oxidation of drinking water, waste water and industrial process water using ultraviolet light and ozone. The global alignment of the company with its own locations in all growth regions, a broad-based network of representatives, the targeted orientation of the product areas to the demands of national and international customers combined with high investments in product development and in the research of new applications, secure the competitive advantage.

The company resulted from the merger of the UV activities of WEDECO Umwelttechnologie Wasser-Boden-Luft GmbH, Düsseldorf, and Katadyn Holding AG, Switzerland. On October 26, 1999 WEDECO AG was approved for official trading on the Frankfurt Stock Exchange in the SMAX market segment. From March 20, 2000 the share was listed in the SDAX and from September 18, 2000 in the MDAX of the DAX100. At the beginning of 2002, WEDECO AG with WEDECO Gesellschaft für Umwelttechnologie mbH and its four subsidiaries acquired the world market leader in ozone oxidation. In addition, in March 2003 the ozone company of Vivendi Water Systems group, Trailigaz, Paris/France was acquired. On January 1, 2003, in the course of the resegmentation of the indices on the German Stock Exchange, the company received approval for the Prime Standard and since March 24, 2003 has been included in the TecDAX, which is constituted of the 30 most important growth stocks.



USA

Hungary

WEDECO AG Water Technology,
Germany



WEDECO AG corporate structure in 2003

Ongoing development of the market position



January

- After the first trading day of the new year, the WEDECO share trades at € 32.40.

February

- WEDECO acquires the ozone group WEDECO Gesellschaft für Umwelttechnologie mbH, world market leader in ozone oxidation. As a result WEDECO becomes the global market leader of leading technologies for the oxidation and disinfection of water without using chemicals.

March

- Official opening of the joint venture WEDECO-Kangda in Chongqing in the presence of high ranking Chinese politicians and the WEDECO AG Chairman of the Management Board.
- In America, the California Department of Health Services approves the WEDECO disinfection system TAK 55 for water recycling projects in line with Title 22. Waste water disinfected in line with these criteria may be used directly for the irrigation of agricultural areas, parks, playing grounds and golf courses and directly discharged into the ground water.

April

- At the balance sheet press conference in Düsseldorf and at the analysts conference in Frankfurt, WEDECO reports on the 2001 financial year: growth + 61.8%, EBITDA + 44.7%, net profit + 32.5%.
- The American city of Dallas grants WEDECO an order for the construction of the world's largest ozone system for the treatment of drinking water.

May

- WEDECO obtains a framework agreement from United Utilities, the second largest water provider in England, for the supply of 19 UV waste water disinfection systems with a total value of € 8.1 million.
- WEDECO publishes the figures for the first quarter. With the initial consolidation of the Ozone division, year-on-year sales almost doubled. EBITDA increases by 90%.
- At the world's largest waste water fair, the IFAT in Munich, WEDECO with its two technologies posts excellent attendance figures.
- The participants of the Annual General Meeting on May 29 resolve all issues on the agenda by a large majority. They elect the lawyer and public notary Dr. Peter Hess, Zug/Switzerland, the lawyer Michael Roesen, Düsseldorf and the engineer Horst Wedekamp, Herford, to the Supervisory Board which had previously been extended to six members.



June

- In the middle of the year, the stock price is € 18.40.

July

- North Shore City, New Zealand, equips the Rosedale water treatment plant with the second-largest UV disinfection system in New Zealand. The WEDECO system treats water for 185,000 people.

August

- On presenting its half-year figures, WEDECO reports another strong rise in sales (+ 80.9%) and solid results (EBITDA + 40.3%).
- On August 24, WEDECO dispatches the world's largest ozone system for a paper bleaching plant on its 15,000-kilometre journey to the paper factory Votorantim Celulose Papel in Brazil.
- The Acque del Chiampo water treatment plant is to treat the waste water of five smaller cities using the largest UV disinfection system in Italy.

September

- The Belgian water provider PIDPA grants WEDECO the fifth consecutive order for equipping a drinking water system with UV disinfection technology.
- Two Korean tourist cities order UV systems for waste water disinfection from WEDECO. A key use is to protect the extraordinary coral reefs from the consequences of the previous uncontrolled discharge of waste water.

October

- Professor Dr. med. Martin Exner, Director of the well-known Institute for Hygiene and Public Health at Bonn University is elected to the WEDECO AG Supervisory Board.
- The city of Auburndale in Florida awards WEDECO a contract for the construction of an UV waste water system. It is planned to use the waste water directly as cooling water in a power station.
- After a journey lasting several weeks, the ozone system for Votorantim Celulose Papel reaches its destination in Brazil and can be commissioned in the same month.

November

- On November 7, when publishing its figures for the third quarter, WEDECO confirms the ongoing growth momentum with sales (+ 76.8%) and EBITDA (+ 63.4%).

December

- WEDECO gains another important reference project in Asia. The city of Shenzhen orders a large ozone system for the treatment of drinking water.
- IKB Deutsche Industriebank AG and Allianz AG grant WEDECO loans totalling € 25 million with a term of 7 years.
- On the last day of the year the WEDECO share closes trading in a weak market at € 12.66.

The WEDECO share



General Meeting 2002 in Düsseldorf, Germany

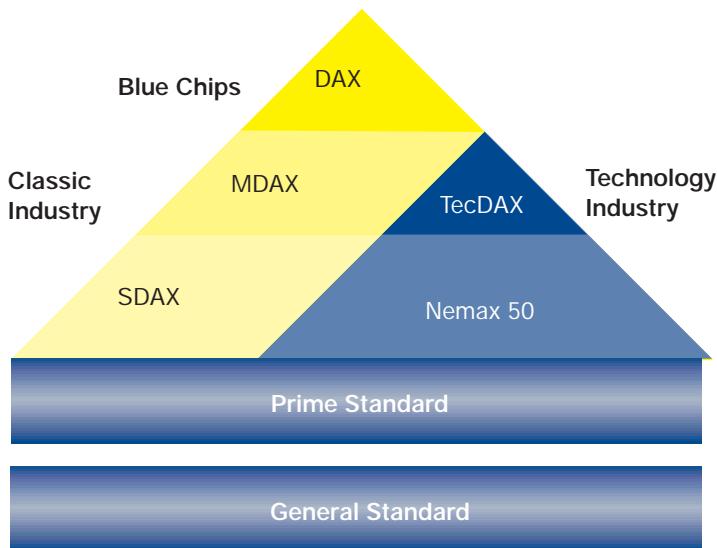
Share data

Securities identification number	514180
ISIN	DE 0005141808
Exchange abbreviation	WDO
Trading exchanges	Frankfurt, Berlin, Bremen, Düsseldorf, Hamburg, Munich, Stuttgart
Trading segment	MDAX, from March 24, 2003: TecDAX
Issue price	€ 7.80
Year high	€ 35.25
Year low	€ 9.95
Year end closing price	€ 12.66
Average price for year	€ 19.92
Performance since IPO	+ 62.3%
Market capitalisation at the year end	€ 139.2 million
PER at year end	11.0
Earnings per share	€ 0.77
Number of shares	10,995,000

Performance in comparison with the most important indices

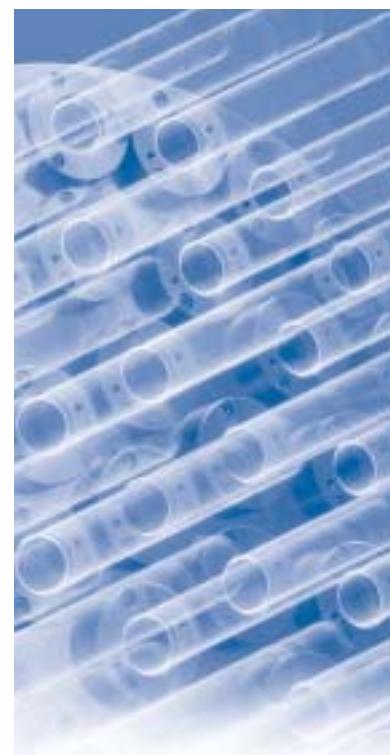


WEDECO in the new index concept of the German stock exchange



Within the context of the resegmentation of the indices at Deutsche Börse AG a new index, the TecDAX, was introduced on March 24, 2003. It covers 30 national and international stocks with different weightings from the sectors telecommunication (1%), software (26%), technology (28%), pharma & healthcare (26%) and industry (19%). The condition for inclusion in the TecDAX is meeting the high transparency requirements of the Prime Standard such as publishing quarterly reports, application of international accounting standards, an analyst conference, ad-hoc disclosures and ongoing reporting in English and the publication of a financial schedule.

Deutsche Börse AG allocated WEDECO AG as one of 5 MDAX companies to the new TecDAX. In the TecDAX WEDECO is part of the Industry Prime Segment, belonging to the industry group Advanced Industrial Equipment. The TecDAX started on Monday March 24, and with a closing price of € 12.55, WEDECO had a very good mid-field positioning in the new index covering technology and growth stocks. It was ranked 21 in terms of market capitalisation and 15 in terms of liquidity.



*"Without water weal (well-being) is none".
(Johann Wolfgang von Goethe)*

2003 – the International Year of Freshwater

Water is the basis of all life on the "Blue Planet".

All parts of life are integrally related to the existence of water. No living thing – whether plant, animal or human being – is capable of surviving without water.

Water is the basis of all progress in society. Without water there is no agricultural production, no industrialisation, no prosperity. But water as food or nourishment and as a raw material is scarce. What is more, the world's limited freshwater reserves are unequally distributed. People in climatically favoured regions currently do not need to give a thought to water or scarcity of water. But 1.4 billion people in over 80 countries suffer acute and chronic water shortages. They live in inadequate hygienic conditions. The little water they have is not clean.

Every year, 5 million people die of illnesses resulting from unclean drinking water. Half of them are children.

According to estimates of the United Nations, the subject of water will develop in the coming years to become a focus of international politics. For this reason, UNO declared 2003 as the International Year of Freshwater. The current World Water Forum in Kyoto/Japan takes up this issue. Sustainable water management, protection of drinking water supplies, intensive treatment of waste water, management of the water loop and many other topics are being discussed at this and other national and international conferences. The common agenda is providing [healthy water for everyone](#).

H2O – a unique substance

Pure water displays numerous chemical and physical properties resulting from the specific structure of the water molecule. These characteristics give the fundamental resource water a unique position among the materials nature provides.

The water quantity on the earth is a constant. It can neither be increased nor decreased. Under normal pressure, water changes its state at 0° Celsius into a solid and at 100° Celsius into a gas.

In the permanent water loop between the earth, oceans and the atmosphere, water occurs in all three states. As part of the loop, water is distributed on a highly variable basis, both in terms of space and time.

The [uncontrolled use of water](#) by human beings, their intervention in nature, climatic change and population growth are increasingly destabilising the equilibrium of the water loop and the rhythm of its temporal and spatial availability.

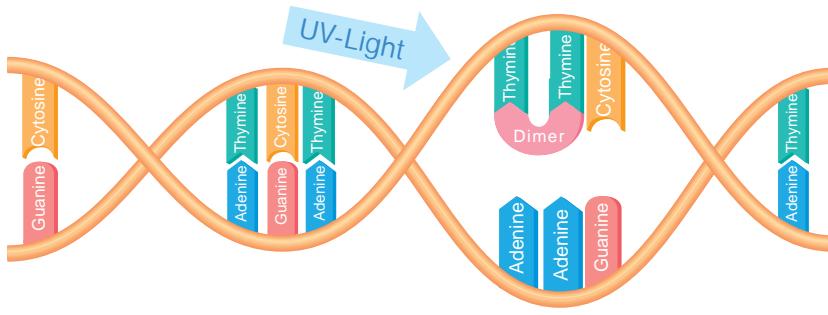
The global water crisis is intensifying. In 2025 between 2.7 billion and 3.3 billion people will suffer from water shortages. Water is a public commodity. Healthy water is an issue for everyone.



*"Water is the best
of all things"
(Pindar)*

WEDECO UV Technology – High-tech for healthy water

The deployment of chlorine, chlorine dioxide, oxychloride and other chemical substances to disinfect liquids can result in effects which are detrimental to health and the environment. This has been scientifically demonstrated. UV technology is the better alternative to chlorine disinfection. The intensive research and technologically mature disinfection method with ultraviolet light is adapted from the natural action of sunlight. UV light can be deployed in a versatile fashion. It is suitable for disinfecting water, for destroying harmful microorganisms in other liquids, on surfaces and in air.



From the principle.....

The light necessary for UV disinfection is generated in special UV lamps. A watertight quartz tube surrounds each lamp. The liquid to be disinfected is passed through the quartz tubing.

The gas plasma generated in the lamp emits light with a primary wavelength of 253.7 nm. This intensive UV light reaches the microorganisms in the water and impacts directly on their DNA. By [changing the DNA](#) the cell division of the microorganism is interrupted – it can no longer reproduce itself and thus loses its pathogenic effect. With WEDECO technology it is possible to destroy more than 99.99% of all pathogens in water, without the addition of chemicals, without harmful side effects, inexpensively, highly efficiently and absolutely reliably.

Legionella pneumophila –
The bacteria extremely to chlorine is reliably destroyed in drinking water using WEDECO UV technology

.....to the WEDECO system

The core elements of the WEDECO UV systems are very high performance UV lamps developed in house. Their impact is increased by electronic control devices specially coordinated to the lamps. In each system, calibrated sensors monitor and log all material factors for the [disinfection process](#). Moreover, additional functions such as UV dosage display, automatic cleaning and remote monitoring of all process functions via telemetry and the internet can be integrated. For optimum efficiency, specific computer-based radiation geometries have been developed.



WEDECO Spekrotherm® lamps in use

WEDECO UV installations



WEDECO waste water system TAK 55

Chalkis/Greece: Reuse of waste water

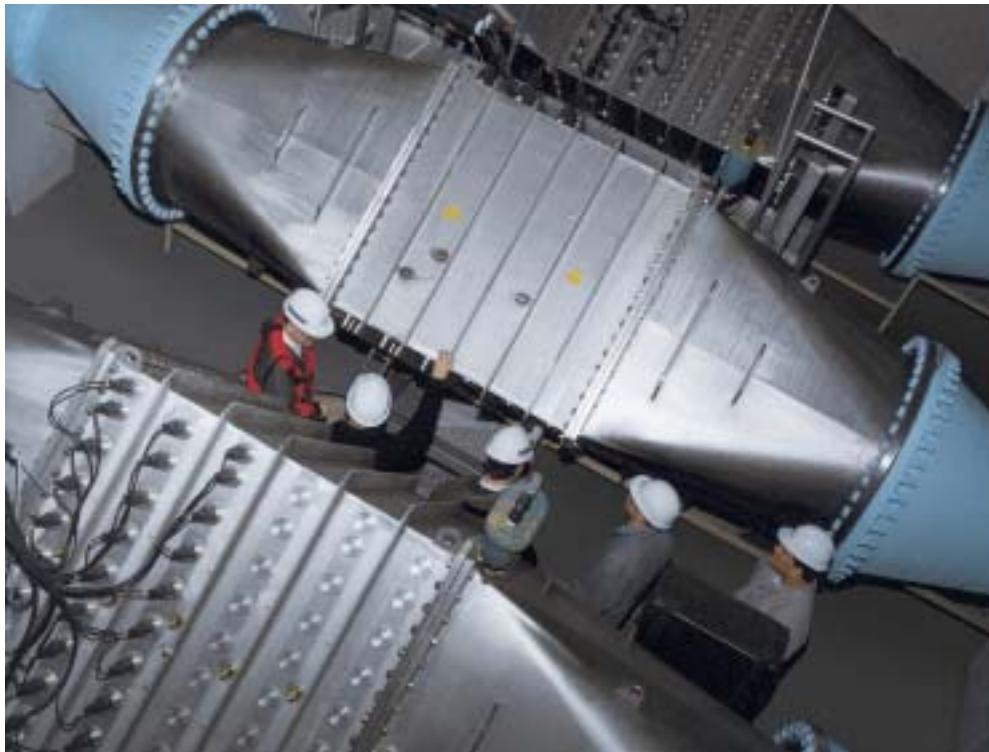
The earth is facing a serious water crisis. One of the reasons for this is the wrong management of water resources. Thus across the world 70% of the scarce drinking water supplies are being used for irrigation in agriculture. Even in dry areas of our earth, plants with extremely high water requirements are cultivated and the irrigation methods follow traditions handed down over generations.

However, there are good new approaches to considerably improve the efficiency of irrigation and to preserve valuable drinking water reserves. One trend is the [multiple use of water](#). In this connection UV disinfection of the waste water represents an important, perhaps even the decisive step.

On average, 10 million microorganisms per 100 millilitres – equivalent to the content of glass of water – exit the conventionally fitted water treatment plant with the purified waste water and reach the surface water of lakes and rivers. As a result the health of people coming into contact with this water, when bathing or pursuing water sports, is placed in acute jeopardy. Of course this water is also unsuitable for the irrigation of parks and green spaces, wooded areas or agriculturally used land.

For this reason, more and more local authorities are starting to disinfect the waste water before it is discharged into rivers and lakes. Others –for example the operators of the municipal water treatment plant of the Greek city of Chalkis – are already going one step further. They deploy the waste water disinfected with a WEDECO UV [system for the irrigation](#) of a recently planted wood and several green areas. The area around Chalkis is one of great dryness and sparse vegetation. In 1998, aforestation was commenced in Chalkis. Up to now some 2,500 trees have been planted in the immediate vicinity of the water treatment plants and over 12,000 trees close to the city have been planted and irrigated with disinfected waste water. As a result of the extremely positive experience of recent years, the local authorities have decided to plant a further 100,000 eucalyptus and pine trees.





WEDECO drinking water installation in Clayton County, USA

Clayton County/USA: Drinking water disinfection on a large technical scale

The deployment of UV technology for disinfecting drinking water is state-of-the-art. This has also been recognized by the large water utilities. As a result, demand for large UV systems for deployment in the provision of drinking water is growing. Thus, the American Clayton County Water Authority, Georgia/USA, made a decision for the introduction of **UV disinfection as the last barrier stage** against microbiological impurities in water. The WEDECO UV system disinfects up to 1,900 cubic metres of drinking water an hour. The complete system is made up of three K type systems, two of which are for continuous operation and one for standby. After commissioning, Clayton County will have the largest disinfection system for the treatment of drinking water in North America.





WEDECO waste water disinfection in Bad Tölz, Germany



The Board of the water authority justified its investment ultimately with its [responsibility to consumers](#). They have a right to clean and pure drinking water at all times. As UV technology impairs neither the taste, nor the smell or clarity of the water it sees its decision for UV technology as essential, particularly as there are no by-products detrimental to health, as is the case when chlorine is used.

At the beginning of 2002 the American Environmental Working Group published a study on this subject ("Consider the source"), dealing with the consequences of the long-term consumption of chlorinated drinking water on human health. According to this study, people in the USA regularly drink chlorinated drinking water and thus absorb chlorine by-products. These chlorine by-products increase the risk for certain types of cancer. The American health authority, EPA, estimate that 9,300 cases of cancer of the bladder are the result of consuming [water with chlorine by-products](#). In addition there is increased risk for unborn children, such as congenital malformations, premature births and miscarriages, neuronal defects, low birth weight and cleft palates. There is also an increased risk of intestinal cancers, impairment of the function of liver and spleen, irritation of the immune systems and the formation of special neurotoxic effects.

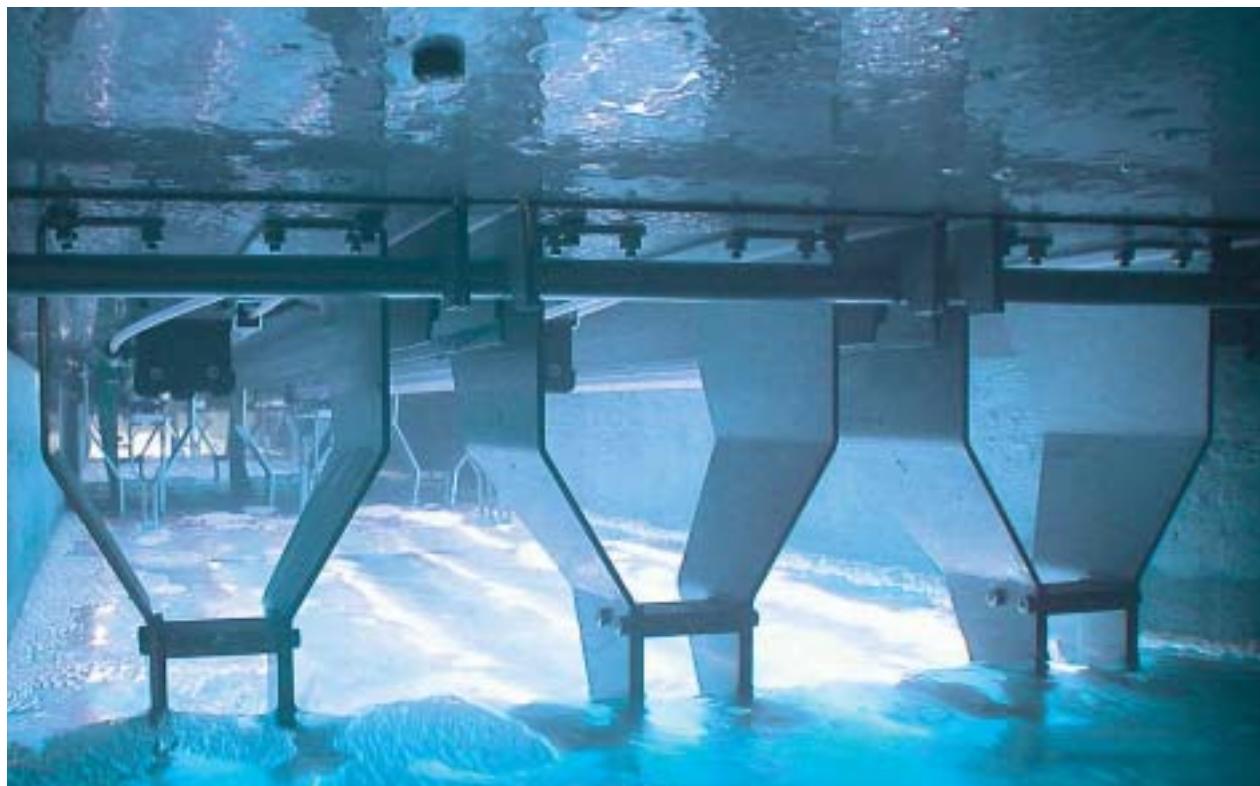
Isar/Germany: Bathing again possible

But it is not only large-scale systems which produce a great effect. Consistent equipping of many small water treatment plants with [standardised UV technology](#) can be an important contribution to environmental protection and to improving the quality of life of human beings. An example is the [waters protection project](#) along the Isar and Loisach rivers. In the summer months the Upper Isar in particular- between Sylvensteinsee and Munich – is used by the population as an area for relaxation. In the past the permitted ceilings for coliform microorganisms in the river water were exceeded on a repeated basis. As a result, the regional authorities had to declare a prohibition on bathing for months. Many people who ignored this became sick. The main cause for the microbial pollution of the river water was identified as waste water discharges from the bordering waste water plants.

Within the framework of a waters protection program, the Bavarian state government has started to improve the water quality of the Isar and the Loisach by means of targeted waste water disinfection of the local waste water plants.

This program is unique in Germany and Europe. The objective is to allow unrestricted bathing in this important local holiday area in line with the [EU Bathing Water Directive](#).

Four cities (Bad Tölz, Lenggries, Penzberg und Benediktbeuren/Bichl) along the two rivers have already opted for WEDECO UV technology. The key factors were the high reliability of the systems, the particularly low operating costs in a competitive comparison and the general positive experience obtained in Bad Tölz in operating a WEDECO TAK 55 system for over two years.



WEDECO UV system TAK 55 disinfecting waste water

*"We live by the grace
of water"
(National Geographic, Nov. 1993)*

WEDECO ozone technology: Environmentally friendly and effective

Ozone is one of the most powerful technically produced gaseous oxidants. It reacts quickly with a large number of compounds with the separation of one of its three oxygen atoms. This single highly reactive oxygen atom oxidizes the pollutants in water and air. The particular advantage in the deployment of ozone is in its environmentally friendly mode of action. Pollutants, colours, smells and microorganisms are destroyed, without toxic by-products originating. Thus ozone is eminently suitable for the treatment of drinking water and waste water and as an oxidant in a whole range of industrial processes.

Well-known method...

Ozone cannot be stored. It must be generated directly and locally where it is to be used. This is done by **ozone generators**. The key component for generating ozone is the electrode.

In a strong electrical field the oxygen molecules flowing through the electrodes are split and broken down into two oxygen atoms. These oxygen atoms bond with other oxygen molecules to form a **three-atom ozone molecule**.



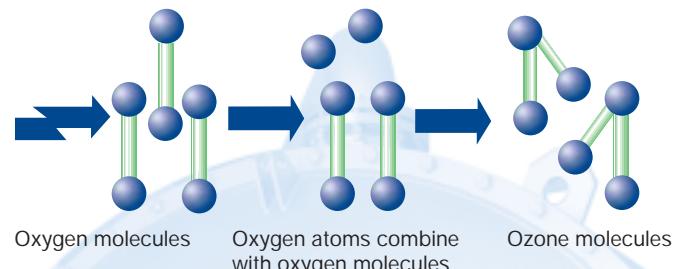
WEDECO Effizon® HP electrode

....deployed intelligently

What does it take to convert the simple principle of ozone generation into a marketable ozone system? The key requirement is the development of high-performance electrodes. In combination with a programmable electronic controller (PLC), **WEDECO Effizon®HP electrodes** achieve a high ozone performance with low energy and oxygen requirements.

In addition ozone generators for the ozone quantities required need to be developed. The spectrum ranges from a few grams of ozone an hour to six-foot high reactors with thousands of electrodes generating over several hundred kilograms of ozone per hour. The application technology develops a **special system solution** for each function. Here, there is optimal alignment between the provision of oxygen, ozone introduction system, control technology, residual-ozone destruction, system monitoring and other system components required by clients. WEDECO has solutions for the treatment of drinking water and waste water, for cleaning swimming pool water and purifying outgoing air, for sterilisation of bottles, for bleaching processes in the paper and cellulose industry, the destruction of pests in fish-farming, ozonolysis in the chemical and pharmaceutical industries and many further applications.

Ozone formation in an electric field



WEDECO ozone installations



Air treatment / oxygen supply

Kalundborg/Denmark: Innovative waste water oxidation for active environmental protection

The municipal waste water plant in the Danish city Kalundborg, located to the west of Copenhagen, treats the waste water of over 20,000 inhabitants. In itself this is nothing special, as here only the normal organic and biological toxic residues occur. The challenge for the operators of the water treatment plant is the waste water from the local international pharmaceutical company, which also produces insulin. As has been seen, this waste water [contains a high level of organic waste](#) where biological biodegradability is difficult. In view of a planned extension of the pharmaceutical production the local authorities in Kalundborg decided on a fundamental extension of the water treatment plant. For the last waste water treatment stage, [ozone treatment](#) within the recirculation system is planned. This means that having gone through the standard phases of a traditional water treatment plant, the pre-purified waste water is treated with ozone in two loops each with two reaction tanks in series, each containing 50 cubic metres.



Ozone generator in the WEDECO factory building Herford, Germany

The ozone system was built to reduce the increasing level of organic waste due to extended production. This system secures adherence to the [Danish current ceiling for discharge of municipal waste water](#). But Kalundborg does not only want to meet today's requirements on the purification of waste water. It wants to be well prepared for future tasks, such as the elimination of endocrine disrupter substances. Endocrine disrupter substances are suspected of having a massive impact on the hormonal systems of human beings and animals. These can be residues of oral contraceptives from thyroid gland treatments or by-products from industrial chemicals, such as nonylphenol.

In fish, crayfish and water flea tests, the negative effects of endocrine substances have been unequivocally demonstrated. There has been no conclusive research on how endocrine substances impact the human body. However, there are serious indications that these substances have a similar effect on human beings as the female sexual hormone oestrogen, that is producing impairment to fertility for men. A key issue is that endocrine disrupter substances are insufficiently decomposed using conventional water treatment methods. They reach the environment, and thus the water loop, from which then new drinking water is obtained.

Depending on the substance up to 99% of endocrine disrupter substances [can be destroyed on an oxidative basis with ozone](#). This method, also in combination with an UV system, was successfully tested within the framework of the EU Poseidon research project. The ozone treatment of the waste water at Kalundborg will thus also reliably prevent the contamination of the environment with endocrine disrupter substances.

Dallas/USA: Drinking water processing for 2.1 million people

Alongside UV technology, the environmentally friendly ozone is being used increasingly for processing contaminated drinking water. Ozone also functions, as does UV light, without undesirable side effects. When it is used, no carcinogenic substances such as trihalogenomethyl (THM) are formed, as in the case with the use of chlorine.



WEDECO ozone introduction system



Compact ozone destructor



HC-500 ozone monitor

Modern processing of drinking water is becoming more and more important for water works. This is also how the operators of the large Eastside waterworks in the North American city of Dallas view things. Within the framework of general modernisation of the large Eastside water works, new Effizon ozone generators were ordered from WEDECO. After commissioning this year, the complex will be [the world's largest system for the treatment of drinking water using ozone](#). Together with the two water works Bachman and Elm Fork it will then provide water on a daily basis to 2.1 million people.

Jacarei/Brazil: Cellulose bleaching with ozone integrates environmental protection into the product



In the past, prosperity and industrial progress in a society were often inseparable with strong exploitation and contamination of the environment. That this does not have to be the case, is demonstrated by the deployment of WEDECO ozone technology in the paper and cellulose industry. In the production of cellulose [very large quantities of water are deployed](#). In the past, chlorine was used primarily for bleaching the yellow-brown raw fibres. The by-products inevitable in the chlorination reactions, such as chlorinated hydrocarbons (AOX), subsequently reached the environment via the outgoing air and waste water. Environmental damage in the vicinity of paper and cellulose factories were often obvious. With the deployment of ozone technology, this has now changed fundamentally.

With an annual output of 670,000 tonnes of cellulose, Votorantim Celulose Papel is one of the largest cellulose factories in Brazil. In its plant in Jacarei, 80 kilometres north of Sao Paulo, ozone is now used for cellulose bleaching. The use of ozone technology has saved more than 17,000 tonnes of chlorine a year in this plant alone. To make this more understandable: this is equivalent to 700 trucks which if driving end to end would have a length of 10 kilometres.



Every day three WEDECO ozone generators with a combined performance of more than 500 kilograms an hour bleach some 2,400 tonnes of cellulose per day for Votorantim Celulose Papel, one of the largest cellulose factories in Brazil

For the provision of the required ozone quantities of 500 kilograms an hour, an efficient, compact and most importantly, a plug and play system had to be constructed in a very short time period. Never before has such an ozone system been contracted, placed in a container, shipped across the globe on schedule, installed and successfully commissioned within a few days. It is natural that the employees at WEDECO Gesellschaft für Umwelttechnologie in Herford are proud of this achievement.

Environmental protection and cost saving – with the WEDECO ozone system Votorantim Celulose Papel managed to combine both demands. For the replacement of chlorine with ozone is also positive for the cellulose producer in economic terms. Annual savings at Votorantim Celulose Papel are quantified at EUR 9 million. This positive result has been a key factor in the strong increase of interest from the cellulose industry in WEDECO's efficient ozone technology.

Auditor's Opinion

We have audited the consolidated financial statements comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the WEDECO AG Water Technology for the business year from January 1, 2002 to December 31, 2002. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, 2002 to December 31, 2002, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 2002 to December 31, 2002 satisfy the conditions required for the company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Düsseldorf, March 20, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Moesta Hemker
Wirtschaftsprüfer Wirtschaftsprüfer

Consolidated Balance Sheet at 31 December 2002

Assets	Notes	31.12.2002 €000	31.12.2001 €000
Non current assets			
Intangible assets	(5, 7)	10,997	609
Goodwill	(3, 7)	51,220	18,592
Property, plant and equipment	(5, 7)	6,903	4,341
Deferred tax assets	(5, 7, 8)	2,314	887
		71,434	24,429
Current assets			
Inventories			
Raw materials and supplies	(5, 9)	11,296	11,042
Work in progress	(5, 9)	22,120	10,946
Finished goods and merchandise	(5, 9)	3,267	2,099
Advance payments	(5, 9)	81	664
		36,764	24,751
Receivables and other assets	(5, 10, 11)	34,333	22,359
Cash and cash equivalents	(34)	7,301	23,115
		78,398	70,225
		149,832	94,654
Shareholder's equity and liabilities			
Shareholder's equity			
Capital stock	(12)	10,995	10,995
Capital reserves	(13)	44,856	45,856
Other comprehensive income	(14)	-562	0
Treasury shares	(15)	0	-886
Retained earnings		19,880	11,490
		75,169	67,455
Minority Interest	(16)	657	0
Non current liabilities			
Financial liabilities	(5, 17)	25,977	1,062
Pension provisions	(5, 18)	495	318
Other liabilities	(5, 17)	1,064	1,535
Deferred taxes	(5, 19)	2,757	988
		30,293	3,903
Current liabilities			
Advanced payments from customers		865	4,157
Trade account payables	(5, 9)	12,396	8,024
Financial liabilities	(5, 20)	3,099	29
Tax accruals	(21)	3,988	2,897
Other accruals and provisions	(5, 21)	8,118	2,905
Other liabilities	(9, 20)	15,247	5,284
		43,713	23,296
		149,832	94,654

Consolidated Profit and Loss Account

	Notes	2002 €000	2001 €000
Revenue	(5, 22)	143,928	81,371
Cost of sales	(5, 23)	-93,523	-48,996
Gross profit		50,405	32,375
Selling expenses	(24)	-18,282	-12,414
General and administrative expenses	(25)	-10,355	-6,440
Research and development expenses	(26)	-6,059	-4,214
Other operating income	(27)	5,699	1,498
Other operating expenses	(28)	-11,297	-1,755
Profit from the disposal of discontinued operations	(36)	3,190	0
Operating profit (EBIT)		13,301	9,050
Interest and similar income		1,239	1,081
Interest and similar expenses		-2,195	-733
Net interest		-956	348
Profit from ordinary activities		12,345	9,398
Taxes on income	(29)	-3,970	-3,326
Net profit before minority interest		8,375	6,072
Minority interest		15	0
Net profit attributable to the group		8,390	6,072
Basic earnings per share in €	(30)	0,77	0,58
Diluted earnings per share in €	(30)	0,76	0,57
EBITDA in €000	(31)	20,893	11,153

Consolidated Cash Flow Statement

	2002 €000	2001 €000
Net profit attributable to the group	8,390	6,072
Amortization of positive goodwill	3,799	1,291
Reduction of negative goodwill	-202	-315
Depreciation on other intangible assets and property, plant and equipment	3,995	1,127
Taxes paid	-3,830	-1,345
Interest paid	-949	-517
Exchange rate losses	-300	-60
Increase of accruals and provisions	3,780	4,682
Profit from the disposal of discontinued operations	-3,190	0
Profit from disposal of subsidiaries	-1,207	0
Result on disposal of non current assets	-3	16
Change of deferred tax asset	900	98
Increase of inventories, receivables and other assets	-6,331	-15,849
Change of trade accounts payable and other liabilities	-1,518	8,367
Cash flow from operating activities	3,334	3,567
Acquisition of subsidiaries, net of cash acquired	-35,542	-7,849
Disposal of subsidiaries, net of cash disposed	4,129	0
Cash proceeds on disposal of non current assets	982	166
Cash payments to acquire property, plant and equipment and intangible assets	-7,303	-1,363
Cash flow from investing activities	-37,734	-9,046
Cash receipts from issue of capital stock including share premium	0	28,170
Decrease of capital reserves	-1,000	-188
Change in treasury shares	886	-619
Increase of other assets from disposal of business	-4,763	0
Increase of liabilities for acquisitions	16,000	0
Change in financial liabilities	7,463	-2,390
Cash flow from financing activities	18,586	24,973
Change in cash funds	-15,814	19,494
Cash and cash equivalents at January 1	23,115	3,621
Cash and cash equivalents at December 31	7,301	23,115

Consolidated Statement of Changes in Shareholders' Equity

	Other comprehensive income								
	Capital stock		Revaluation reserves		Exchange rate differences	Sum	Other		
	Capital €000	reserves €000	reserves €000		€000	€000	Treasury shares €000	Retained Earnings €000	Total €000
December 31, 2000	10,000	18,681		140	0	140	-1,087	5,418	33,152
Capital stock increase	995	26,987		-	-	0	-	-	27,982
Gains on treasury shares	-	188		-	-	0	-	-	188
Treasury shares issued	-	-		-	-	0	201	-	201
Cash flow hedges	-	-		-140	-	-140	-	-	-140
Net profit for the year	-	-		-	-	0	-	6,072	6,072
<i>Recognized gains and losses</i>	<i>0</i>	<i>0</i>		<i>-140</i>	<i>0</i>	<i>-140</i>	<i>0</i>	<i>6,072</i>	<i>5,932</i>
December 31, 2001	10,995	45,856		0	0	0	-886	11,490	67,455
Loss on treasury shares	-	-152		-	-	0	-	-	-152
Sale of treasury shares	-	-		-	-	0	886	-	886
Share price guarantees	-	-848		-	-	0	-	-	-848
Exchange rate differences	-	-		-	-562	-562	-	-	-562
Net profit for the year	-	-		-	-	0	-	8,390	8,390
<i>Recognized gains and losses</i>	<i>0</i>	<i>0</i>		<i>0</i>	<i>-562</i>	<i>-562</i>	<i>0</i>	<i>8,390</i>	<i>7,828</i>
December 31, 2002	10,995	44,856		0	-562	-562	0	19,880	75,169

Notes to the Consolidated Financial Statements for fiscal year 2002

The consolidated financial statements of the WEDECO Group presented by the parent company, WEDECO AG Water Technology (hereafter referred to as WEDECO AG), have been drawn up using uniform accounting policies in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

In applying International Financial Reporting Standards (IFRS), the parent company is taking advantage of the provisions available under German commercial law which allow it to prepare consolidated financial statements in accordance with a recognised set of international accounting principles.

These consolidated financial statements, together with the group management report, fulfil the exemption requirements contained in § 292a HGB as interpreted by the German Accounting Standards Committee (GASC). The consolidated financial statements of WEDECO AG are not included in any higher level consolidated financial statements.

The consolidated profit and loss account is presented using the cost of sales format.

Accounting policies and principles

(1) Underlying accounting principles

The consolidated financial statements have been drawn up in accordance with IFRS and differ therefore in a number of respects from consolidated financial statements prepared in accordance with German commercial law. The main differences, which are described in detail in the relevant notes to the consolidated financial statements, are as follows:

- Percentage of completion method (IAS 11)

In contrast to financial statements prepared in accordance with HGB, IFRS requires that profits are

realised on long-term construction contracts (work in progress) in the period in which they are earned. This is reflected in the level of revenue and cost of sales recognised.

- Deferred taxes (IAS 12)

Deferred tax assets and liabilities arise from differences between the carrying values of the individual assets and liabilities in the IFRS financial statements and their tax base as well as from tax loss carry-forwards.

- Derivative financial instruments (IAS 39)

In contrast to German accounting rules, derivative financial instruments are measured under IFRS at their fair value.

- Pension provisions (IAS 19)

Pension provisions are measured in accordance with the requirements of IAS 19.

- Intangible assets (IAS 38)

In contrast to German accounting rules, development costs which fulfil the requirements of IAS 38 are capitalised.

The consolidation methods applied in these consolidated financial statements for IFRS purposes are the same as those used in German consolidated financial statements.

No IAS Standards or Interpretations which have been released but which are not yet mandatory have been adopted early.

(2) Consolidated companies

All affiliated enterprises are consolidated in which WEDECO AG, either directly or indirectly, holds a majority of the shares. The group reporting entity therefore consists of five domestic (including parent company) and 20 foreign companies.

The following newly incorporated or acquired companies were consolidated for the first time in 2002.

Company	External Sales €000	Share-holding %	Date of Acquisition/ Incorporation
Acquired subsidiaries			
WEDECO Gesellschaft für Umwelttechnologie mbH, Düsseldorf/Germany including following subsidiaries:	34,772	100%	January
• PCI WEDECO Environmental Technologies Inc., WestCaldwell, New Jersey/USA	23,676	100%	January
• OZOMATIC Wasseraufbereitungsgeräte GmbH, Herford/Germany	1,190	100%	January
• WEDECO Kft. Viz- és Környezetvédelmi Technológlák, Vac/Hungary	1,164	51%	January
Incorporated subsidiaries			
WEDECO Ozotech Ltd., Burgees Hill/Great Britain	2,151	100%	January
Chongqing WEDECO-Kangda Water Technology Co. Ltd, Chongqing/China	-	51%	February
WEDECO UV Light GmbH, Düsseldorf/Germany	7	100%	November
WEDECO Ltda., São Paulo/Brazil	-	100%	December
	62,960		

The purchase consideration paid for WEDECO Gesellschaft für Umwelttechnologie mbH, including ancillary acquisition costs amounted to € 39,116 thousand.

These subsidiaries accounted for € 3,592 thousand of the consolidated net profit for 2002 (before consolidation entries).

WEDECO Tecnologica de Aquas Ltda., São Paulo/Brazil and Advanced UV Light GmbH, Essen were sold in the fiscal year 2002 and, hence, deconsolidated. We refer to note 36 for further details regarding the sale of Advanced UV Light. Further details relating to consolidated companies are provided in Note 40.

(3) Consolidation principles

Subsidiaries are consolidated in accordance with the purchase method. The difference between the cost of investment and net assets acquired is based on values at the date of acquisition. Minority interests are calculated based on the book value method.

In accordance with IAS 22, both negative and positive goodwill are presented under non-current assets. Negative goodwill is recognised as income over the period in which the tax loss carry-forward which gave rise to the negative goodwill is being utilised. Positive goodwill is amortised on a straight-line basis over 15 years.

Receivables and payables between consolidated companies are eliminated. Similarly, income and expenses relating to inter-company transactions are also eliminated.

(4) Foreign currency translation

All Assets including goodwill and liabilities in the financial statements of group companies which are not drawn up in Euros are translated using closing exchange rates. Income and expenses are translated using the average exchange rates. Differences arising from this translation are recorded directly in the balance sheet as a separate component of equity.

Foreign currency receivables and payables are translated at the closing rate and the relevant gains or losses are recorded in profit and loss account.

(5) Accounting policies

Intangible assets are stated at purchase cost less accumulated scheduled amortisation. Intangible assets are amortised based on the following useful lives:

Software	3 to 4 years
Certification costs	5 years
Product development costs	5 years
Patents	based on the patent's useful life

Product development costs include, in addition to external development costs, directly attributable internal development costs.

Positive goodwill is amortised on a straight-line basis over 15 years. Negative goodwill is recognised as income over the period in which the tax loss carry-forward which gave rise to the negative goodwill is being utilised.

Property, plant and equipment are stated at purchase or manufacturing cost less accumulated scheduled amortisation. In the case of equipment manufactured by a Group company, cost includes a proportion of production

overheads. Moveable assets are depreciated on a straight-line basis. Depreciation is based on the following estimated useful lives:

Leasehold improvements	8 years
Warehousing equipment	15 years
Motor vehicles	4 years
Office equipment, fixtures and fittings	3 to 10 years

Deferred tax assets are recognised in accordance with IAS 12 (Income Taxes) on tax loss carry-forwards existing at the balance sheet date to the extent that future benefits are probable.

Raw materials and supplies are stated at purchase cost and taking into account the usability of the inventories at the reporting date. **Work in progress and finished goods** are valued at the lower of cost or net realisable value.

Manufacturing cost includes all direct production costs as well as production and material overheads. The percentage of completion method is applied to long-term construction contracts, in which case work in progress is measured at manufacturing cost plus realisable profit margin. Identified risks for slow-moving and obsolete items are recognised through inventory write-downs.

Receivables and other assets are stated at their nominal value. Specific allowances are recorded to cover identifiable recoverability risks.

All assets, with the exception of inventories and deferred tax assets, are subject to an **impairment** review at each reporting date in accordance with IAS 36 to identify any losses in value.

Accruals and provisions are recognised to cover all identifiable risks and all liabilities of uncertain amount. The amounts are measured on the basis of management's assessment of the probability of incurrence.

Short-term **liabilities** are stated at their repayment amount. Non-current liabilities, excluding costs of debt acquisition, are stated at their repayment amount and, to the extent that they do not bear interest, are discounted to their net present value.

In the case of small equipment and spare parts, **revenue** is recognised on delivery of goods to the customer, i.e. after transfer of economic ownership. In the case of services, revenue is recognised after services have been performed. The Group applies the percentage of completion method to long-term construction contracts. Revenue is recognised in accordance with the stage of completion of each long-term contract at the reporting date as measured by the number of working hours completed for each contract. Final invoicing takes place after the contract has been completed.

(6) Events after the balance sheet date

On 17 March 2003, WEDECO AG and WEDECO Gesellschaft für Umwelttechnologie mbH signed a contract with Trailigaz Compagnie Generale De L'Ozone (hereafter referred to as Trailigaz) in connection with the combination of all activities in the Ozone business. After this contract becomes effective, Trailigaz will contribute its Ozone subsidiary in return for shares in WEDECO Gesellschaft für Umwelttechnologie mbH. Trailigaz will then hold approximately 15.2% of WEDECO Gesellschaft für Umwelttechnologie mbH. In addition to that, Trailigaz has the right to increase its shareholding up to 25% at the end of 2003 and up to 49.9% in three years. Irrespective of whether these increases are made, Trailigaz also has the right to decrease its shareholding after five years by a total of 7.6 percentage points.

Notes to the consolidated balance sheet

(7) Non current assets

The following table shows the movements during the year of the individual captions included in non current assets based on gross purchase and manufacturing cost.

	Balance 1 Jan. 2002 €000	Additions €000	Acquisition €000	Disposals €000	Exchange rate differences €000	Balance 31 Dec. 2002 €000
Acquisition and manufacturing cost						
Intangible assets						
Licences to industrial property rights and other similar rights	1,040	1,398	8,518	68	-39	10,849
Product development	0	2,492	0	0	0	2,492
	1,040	3,890	8,518	68	-39	13,341
Goodwill	20,591	36,276	0	79	29	56,817
Property, plant and equipment						
Leasehold improvements	417	397	150	281	4	687
Plant and equipment	1,659	1,531	1,325	733	-268	3,514
Office equipment, fittings and fixtures	3,353	1,286	2,833	589	-37	6,846
Advance payment to suppliers	182	199	0	0	0	381
	5,611	3,413	4,308	1,603	-301	11,428
Deferred taxes	887	824	2,009	971	-435	2,314
	28,129	44,403	14,835	2,721	-746	83,900
Depreciation and amortisation						
Intangible assets						
Licences to industrial property rights and other similar rights	431	1,337	521	50	-4	2,235
Product development	0	109	0	0	0	109
	431	1,446	521	50	-4	2,344
Goodwill	1,999	3,597	0	0	1	5,597
Property, plant and equipment						
Leasehold improvements	48	242	21	59	10	262
Plant and equipment	48	778	780	383	-35	1,188
Office equipment, fittings and fixtures	1,174	1,529	674	279	-23	3,075
Advance payment to suppliers	1,270	2,549	1,475	721	-48	4,525
	3,700	7,592	1,996	771	-51	12,466
Net book values						
Intangible assets						
Licences to industrial property rights and other similar rights	609					8,614
Product development	0					2,383
	609					10,997
Goodwill	18,592					51,220
Property, plant and equipment						
Leasehold improvements	369					425
Plant and equipment	1,611					2,326
Office equipment, fittings and fixtures	2,179					3,771
Advance payment to supplies	182					381
	4,341					6,903
Deferred taxes	887					2,314
	24,429					71,434

At 31 December 2002, negative goodwill of € 196 thousand (31 Dec. 2001: € 398 thousand) has been deducted from the goodwill balance. The negative goodwill relates to tax loss carry-forwards and future additional tax deductible depreciation available under Swiss tax law. The negative goodwill balance is being released to income on a time-apportioned basis as the tax benefits are utilised up the end of 2003. In the year 2002 an amount of € 202 thousand (2001: € 315 thousand) was released to income.

(8) Deferred tax assets

The deferred tax assets are computed in accordance with IAS 12 (Income Taxes). They relate mainly to tax loss carry-forwards amounting to € 1,215 thousand (31 Dec. 2001: € 491 thousand) and future additional tax deductible depreciation amounting to € 1,047 thousand (31 Dec. 2001: € 396 thousand). Future additional tax deductible depreciation will also arise in conjunction with restructuring costs relating to the relocation of a subsidiary in the USA amounting to € 1,005 thousand (31 Dec. 2001: € 0 thousand).

(9) Inventories

Work in progress includes profits resulting from the application of the percentage of completion method (IAS 11) amounting to € 7,601 thousand (31 Dec. 2001: € 665 thousand). In connection with € 201 thousand (31 Dec. 2001: € 645 thousand) of this recognised profit, advance payments have been received from customers amounting to € 82 thousand (31 Dec. 2001: € 290 thousand).

(10) Receivables and other assets

	31 Dec. 2002 €000	31 Dec. 2001 €000
Trade receivables	25,168	20,755
Other assets	8,637	1,336
Prepaid expenses	528	268
	34,333	22,359

The management in each of the WEDECO Group enterprises monitors the inherent credit risk relating to the trade accounts receivable of the Group and takes appropriate measures to mitigate this risk in line with defined corporate instructions. Firstly, a large portion of receivables is due from local government operators, using WEDECO equipment in the various countries. For these, once a contract reaches a specified limit, progress advance payments based on the degree of contract completeness are obligatory. Secondly, receivables with identified collectibility risks are generally secured with export letters of credits.

Other assets include mainly sales price receivables of € 4,706 thousand (31 Dec. 2001: € 0 thousand) in conjunction with the sale of a subsidiary and loans receivables from Advanced UV Light GmbH amounting to € 1,890 thousand (31 Dec. 2001: € 0 thousand). This company was sold during the year under report.

Other assets include € 1,261 thousand (31 Dec. 2001: € 0 thousand) which falls due in one to five years. All other receivables and other assets are of a short-term nature.

(11) Derivative financial instruments

Derivative financial instruments are used to minimise the currency risk from operating activities. They are accounted for at their fair value at the balance sheet date in accordance with the principles of hedge accounting. The derivative financial instruments employed by the Group relate exclusively to forward currency sales

(futures) intended to hedge the currency risk on US dollars. The forward contracts are matched with the timing of the anticipated transactions.

Depending of their intended usage, the futures are classified in accordance with IAS 39 into fair value and cash flow hedges. Whereas fair value hedges relate to existing assets denominated in foreign currencies, cash flow hedges relate to future cash flows. All of the conditions required to apply hedge accounting have been met.

Forward currency contracts amounting to USD 400 thousand (31 Dec. 2001: USD 0 thousand) were in place throughout the group at the balance sheet date as a hedge of existing assets. The positive fair value of these financial instruments amounting to € 83 thousand (31 Dec. 2001: € 0 thousand) and relating only to fair value hedges at 31 December 2002, is reported under other assets and other operating income, respectively.

(12) Share capital

Share capital comprises 10,995,000 non-par bearer ordinary shares each with a (computed) nominal value of € 1 per share.

The parent company has a contingent share capital with a nominal value of € 268,750 ([contingent share capital I](#)) and a contingent share capital with a nominal value of € 300,000 ([contingent share capital II](#)). The contingent share capital increases will only be issued in conjunction with the exercise of stock options granted under the WEDECO 1999 and 2001 stock option plans, where such stock options can neither be transferred nor sold. Up to 268,750 and 300,000 new shares respectively, each made out to bearer and each equivalent to a nominal value of € 1 may be issued. The new shares participate in profits from the beginning of the financial year in which they are issued.

In accordance with the authority granted to it and, with the approval of the Supervisory Board, the Management Board issued 268,750 stock options in connection with the 1999 stock option plan. The stock options run for a maximum period of up to five and a half years. The stock options relating to the 1999 stock option plan may be exercised at the earliest in 2003 and only as a result of reaching certain agreed targets.

The Management Board is authorised, with the approval of the Supervisory Board, to issue 300,000 stock options relating to the 2001 stock option plan, either in one or several steps, until 29 May 2006, comprising up to 100,000 to members of the Management Board of the parent company, up to 75,000 to members of the executive boards of subsidiaries, up to 75,000 to employees of the parent company and up to 50,000 to employees of subsidiaries. In 2002 the Management Board did not make use of this option (2001: 172,000 stock options issued). The stock options run for a maximum period of five years, commencing at the grant date. The stock options relating to the 2001 stock option plan can be exercised at the earliest two years after the grant date and only on a condition that certain agreed targets have been reached.

In addition, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the parent company until 31 December 2003 by issuance of new ordinary shares and/or non-voting preference shares in return for cash, either in one or several steps, up to a total amount of € 1,505,000 ([authorised share capital I](#)). The possible capital increase before the capital increase in May 2001 had been € 2,500,000.

The new shares must be offered to the existing shareholders at the time of the issue. The Management Board is authorised, however, with the approval of the Supervisory Board, to exclude fractional amounts from the subscription rights of the shareholders. If non-voting preference shares have already been issued and new ordinary shares and non-voting preference shares are being issued in equal proportions, the Management Board is also authorised, with the approval of the Supervisory Board, to exclude the right of holders of one of the types of shares to acquire the other type. Other or more wide-ranging exclusions from or restrictions to the subscription rights of the shareholders permissible by law or in accordance with the Articles of Association are not affected.

The Management Board is also authorised, with the approval of the Supervisory Board, to increase the share capital of the parent company up to 31 December 2003 by issuance of new ordinary shares and/or non-voting preference shares in return for cash or a contribution in kind, either in one or several steps, up to a total amount of € 2,500,000.00 ([authorised share capital II](#)).

Existing shareholders are excluded from the subscription right. The issue price will be determined by the Management Board; it must, however, at a minimum, be equivalent to the weighted average market price of WEDECO shares on the Frankfurt Stock Exchange during the 10 trading days prior to the issue.

(13) Capital reserves

The capital reserves comprise the share premium arising on the company's flotation in 1999 and the share capital increase in 2001. Costs associated with the flotation and share capital increases (net of related income taxes) have been set off against capital reserves.

Losses on treasury shares amounting to € 152 thousand (31 Dec. 2001: € 0 thousand) arose from the sale of treasury shares. The amount of the loss is computed as the difference between the book value and the market value of shares at the date of sale. Gains on treasury shares attributed to previous years of € 188 thousand arose as a result of use of these shares for acquisition purposes. In the case of a sale of treasury shares, the difference between the value of the treasury shares at the date of sale and their original acquisition cost is transferred out of capital reserves. In the case of a purchase of treasury shares, the difference between acquisition cost and market value at the date of utilisation is transferred to capital reserves. Income taxes attributable to the losses amounted to € 59 thousand (2001: income taxes on gains amounting to € 73 thousand).

In addition, an amount of € 848 thousand (31 Dec. 2001: € 0 thousand) has been deducted from capital reserves in connection with share value guarantees in accordance with IAS 22.70. These guarantees were given in conjunction with the acquisition of various subsidiaries. Income taxes attributable to these guarantees amounted to € 203 thousand (31 Dec. 2001: € 0 thousand).

(14) Other comprehensive income

An amount of € 0 thousand (2001: € 140 thousand) was transferred out of other reserve in connection with cash flow hedges. In addition, other reserves include translation differences of € 562 thousand relating to the translation of the financial statements of consolidated foreign subsidiaries prepared in foreign currency.

(15) Treasury shares

At 31 December 2002 the group does not hold any treasury shares (31 Dec. 2001: 31,204 shares).

(16) Minority interests

Minority interests relate to shareholdings of third parties in Chongqing WEDECO Kangda Water Technology Ltd., Chongqing/China and WEDECO Kft. Víz- és Környezetvédelmi Technológlák, Vac/Hungary, in both cases amounting to 49%.

(17) Non current liabilities**(18) Pension provisions**

During the fiscal year 2002, three pension commitments (including widows' pension entitlements) to individuals with fixed pension payments were taken over in conjunction with the acquisition of WEDECO Gesellschaft für Umwelttechnologie mbH. In addition, there is an individual pension commitment to the former general manager.

The present value of the obligations were computed actuarially in accordance with IAS 19 using a discount rate of 5.75% (31 Dec. 2001: 6%). The provision at 31 December 2002 amounting to € 495 thousand (31 Dec. 2001: € 318 thousand) corresponds to the present value of the obligation net of unrecognised actuarial losses of € 36 thousand (31 Dec. 2001: € 0 thousand). The net pension expense for 2002 amounted

	31 Dec. 2002			31 Dec. 2001		
	Total €000	Thereof with a maturity of		Total €000	Thereof with a maturity of	
		1 to 5 years €000	more than 5 years €000		1 to 5 years €000	more than 5 years €000
Financial liabilities	25,977	17,131	8,846	1,062	720	342
Other liabilities	1,064	1,015	49	1,535	1,493	42
	27,041	18,146	8,895	2,597	2,213	384

Financial liabilities comprise mainly two long-term loans received in 2002 for € 15 million and € 10 million which are subject to interest rates of 5.6% and 5.88% p.a., respectively. Repayment commences in 2004 and ends in 2009. Other financial liabilities relate to other bank liabilities which are subject to interest rates of between 4.50% and 7.25% p.a. as well as long-term leasing liabilities.

Other non-current liabilities include mainly residual purchase price payables due in connection with business acquisition amounting to € 723 thousand (31 Dec. 2001: € 928 thousand).

to € 53 thousand (31 Dec. 2001: € 18 thousand) and pension payments in 2002 amounted to € 23 thousand (2001: € 23 thousand). Pension expenses were recorded as general administrative expenses in the profit and loss statement.

(19) Deferred taxes

The amount disclosed under this caption relates to deferred tax liabilities in accordance with IAS 12 (Income Taxes). It comprises mainly divergent accounting and tax bases for investments (€ 819 thousand) and for intangible assets € 1,811 thousand arising on initial consolidation in conjunction with purchase accounting in accordance with IAS 22.

(20) Current liabilities

Financial liabilities comprises short-term loans and bank overdrafts amounting to € 3,099 thousand (31 Dec. 2001: € 29 thousand) which are subject to normal market interest rates.

Other liabilities include residual purchase price amounts due in connection with business acquisition amounting to € 12,993 thousand (31 Dec. 2001: € 734 thousand); liabilities from social security of € 861 thousand (31 Dec. 2001: € 374) as well as taxes payable of € 644 thousand (31 Dec. 2001: € 2,652 thousand).

(21) Accruals and provisions

Tax accruals and other accruals and provisions comprise the following:

	Acquisitions/ 1 Jan. 2002 €000		Disposals €000	Utilisation €000	Release €000	Allocation €000	31 Dec. 2002 €000
Taxes on income	2,897		618	3,417	98	3,988	3,988
Personnel	1,379		786	2,125	40	2,007	2,007
Warranty	601		759	673	13	664	1,338
Consulting	249		0	249	0	300	300
Shareholders' meeting	220		0	184	0	142	178
Outstanding invoices	399		185	483	101	2,550	2,550
Other	57		1,624	678	0	742	1,745
Other accruals and provisions	2,905		3,354	4,392	154	6,405	8,118

Other accruals and provisions include a restructuring provision of € 1,173 thousand relating to the relocation of a subsidiary in the USA, planned to take place in the middle of 2003.

Accruals and provisions cover all identifiable risks of the Group to third parties. They are measured on a full cost basis.

Notes to the consolidated profit and loss account

(22) Revenues

Revenue by country (based on the location of the registered office of the customer) is as follows:

	2002 €000	2001 €000
Europe	85,891	56,733
North- and South America	41,771	16,636
Asia/Pacific	15,839	7,335
Africa	427	667
	143,928	81,371

Revenue by product and services is as follows:

	2002 €000	2001 €000
Product sales	113,919	61,074
After sales services	30,009	20,297
	143,928	81,371

Revenue includes an amount of € 28,709 thousand (2001: € 1,319 thousand) recognised on uncompleted projects in accordance with the percentage of completion method.

(23) Cost of sales

Cost of sales comprise the costs incurred to manufacture products sold as well as the purchase cost of merchandise sold. In compliance with IAS 2, it includes all directly attributable costs such as material and personnel expenses and a proportion of overheads including depreciation on plant and equipment used in the production process. Cost of sales includes € 21,108 thousand (2001: € 929 thousand) in accordance with the percentage of completion method.

(24) Selling costs

Selling expenses comprise the cost of the sales departments and sales force of the group companies as well as the cost of advertising and logistics.

(25) General and administrative expenses

This caption includes the personnel and overhead costs of management and administrative cost centres.

(26) Research and development expenses

Product development costs of € 2,492 thousand (2001: € 0 thousand) are recognised in accordance with IAS 38 as intangible assets and are being amortized over a period of five years.

Other research and development expenses incurred principally to improve existing products and processes which do not meet the asset recognition criteria of IAS 38 are recorded as expenses.

(27) Other operating income

Other operating income comprises mainly foreign exchange gains of € 3,321 thousand (2001: € 495 thousand) and gain on the disposal of investments amounting to € 1,207 thousand (2001: € 0 thousand) and the credit representing the reduction of the negative goodwill balance amounting to € 202 thousand (2001: € 315 thousand). The caption also includes gains on the sale of property, plant and equipment and income from the release of accruals and provisions.

(28) Other operating expenses

Other operating expenses comprise mainly foreign exchange losses amounting to € 3,915 thousand (2001: € 351 thousand), amortisation of goodwill amounting to € 3,799 thousand (2001: € 1,291 thousand) and the cost of restructuring measures involving the relocation of two subsidiaries within the USA amounting to € 3,265 thousand.

(29) Taxes on income

	2002 €000	2001 €000
Current tax expense	4,344	2,832
Deferred tax expense	-374	494
3,970	3,326	

Corporation tax in Germany is 25% plus a solidarity surcharge of 5.5% on the corporation tax liability itself. Together with municipal trade tax, the effective tax rate on profits arising in Germany for the year 2002 is 38.8% (2001: 38.8%). The following table provides an explanation of the relationship between the actual tax expense and the notional tax expense derived from applying applicable tax rates to the IFRS accounting profit before taxes. The effective tax rate for the Group in the year under report is 32.2% (2001: 35.4%).

	2002 €000	2001 €000
Profit before taxes	12,345	9,398
Notional tax expense derived from applying applicable tax rates to the <u>accounting profit before tax</u>	4,790	3,646
Effect of different tax rates in foreign subsidiaries	-498	-616
Change in tax rates	2	0
Permanent differences	-418	196
Prior year taxes	49	36
Other	45	64
Disclosed taxes on income	3,970	3,326

Legislation has been enacted in Germany to increase the corporation tax rate for the year 2003 only from 25% to 26.5%. The effective tax rate on profits arising in Germany for the year 2003 will therefore be 40.3%. This rate has therefore been applied to temporary differences between IFRS carrying values and tax bases that are expected to reverse in the financial year 2003.

Other non-income taxes are included in the appropriate expense line by function.

(30) Earnings per share

Basic earnings per share were computed on the basis of 10,962,946 shares, the average number of shares outstanding during the year. For the purposes of computing diluted earnings per share, the number of shares was increased by 122,957 shares bringing the total to 11,085,903 to take account of issued stock options.

(31) EBITDA

EBITDA is defined as the operating profit (EBIT) adjusted for amortisation and depreciation on intangible assets, goodwill and property, plant and equipment and the income from the release of negative goodwill.

(32) Personnel expenses and employees

	2002 €000	2001 €000
Wages and salaries	27,805	15,859
Social security expenses	4,753	2,357
Pension costs	390	384
Personnel expenses	32,948	18,600
	Employees	Employees
Production, engineering, service	444	253
Administration	106	51
Selling	142	94
Research and development	32	20
Average number of employees	724	418

Other disclosures

(33) Related Parties (IAS 24)

IAS 24 requires disclosure of all relationships with related parties (individuals and enterprises).

The Chairman of the Management Board of the parent company, who has the right to represent the company on his own, is the controlling shareholder of WBL Holding GmbH, Düsseldorf/Germany, which in turn owns 24.64% of the shares in WEDECO AG Water Technology. For this reason, WBL Holding GmbH and companies in which this company holds a majority of the shares are considered to be related parties as defined by IAS 24.

At 31 December 2002, the Group had receivables from related parties amounting to € 0 thousand (31 Dec. 2001: € 406) thousand. Payables to related parties amounted to € 13,217 thousand (31 Dec. 2001: € 1,027 thousand). These liabilities comprise mainly remaining purchase price consideration payable in connection with the acquisition of WEDECO Gesellschaft für Umwelttechnologie mbH. Sales to related parties in 2002 were € 2,787 thousand (2001: € 689 thousand) and purchases of goods and services from related parties amounted to € 41,066 thousand (2001: € 3,895 thousand). The figure for purchases of goods and services includes the acquisition of WEDECO Gesellschaft für Umwelttechnologie mbH for a consideration of € 39,000 thousand. The pricing of sales to and purchases from related parties is based on arm's length principles. The consideration for the acquisition of WEDECO Umwelttechnologie mbH was confirmed by a valuation report issued by an independent auditor.

(34) Notes to the cash flow statement

Cash and cash equivalents include balances with banks and cash on hand. The amounts disclosed are not subject to any access restrictions.

Business acquisitions and disposals by the Group had the following effects on the Group's assets and liabilities:

	2002 €000	2001 €000	2001 €000
	Disposals	Acquisitions	Acquisitions
Non-current assets	444	10,830	837
Current assets	13,270	27,897	4,648
Cash and cash equivalents	634	3,574	139
Non current liabilities	-4,097	-414	-1,451
Current liabilities	-9,885	-39,047	-4,001
Net assets	366	2,840	172
Purchased goodwill	-	36,276	7,816
	39,116	7,988	
Selling price	4,763	-	-
Cash and cash equivalents acquired/disposed	634	3,574	139
Outflows/proceeds in connection with acquisitions/disposals	4,129	35,542	7,849

(35) Segment information

Segment information has the objective of providing users of the financial statements with financial information on the performance, growth and risks of individual operating and geographical segments, based on the internal reporting structures of the enterprise.

As a result of the acquisition of WEDECO Gesellschaft für Umwelttechnologie mbH and subsidiaries, the segment presented in the previous year as the "Water" segment has been split into the segments "Water UV" and "Water Ozone". The previous years figures have been adjusted accordingly. The aggregated comparative figures for the segments Water UV and Water Ozone are identical to the last year disclosures for the segment Water. The three (2001: two) segments Water UV, Water Ozone and Solar (primary segments) are defined as follows:

Water UV

Research and development, production and sale of water treatment equipment based on UV light technology.

Water Ozone

Research and development, production and sale of water and air treatment equipment based on ozone technology.

Solar

Development, production and sale of products involving cosmetic and medical use of UV light.

2002	Water UV €000	Water Ozone €000	Solar €000	Total €000
Revenue	70,910	63,512	9,506	143,928
thereof Equipment	52,086	53,318	8,514	113,918
thereof After sales	18,824	10,194	992	30,010
EBIT	4,964	4,655	3,682	13,301
Assets	81,514	68,318	0	149,832
thereof Goodwill	17,883	33,337	0	51,220
Liabilities/provisions	55,827	18,179	0	74,006
Capital expenditure	7,590	35,989	0	43,579
Depreciation and amortisation	3,023	4,388	181	7,592
thereof Goodwill	1,202	2,395	0	3,597

2001	Water UV €000	Water Ozone €000	Solar €000	Total €000
Revenue	69,501	3,008	8,862	81,371
thereof Equipment	50,118	2,998	7,958	61,074
thereof After sales	19,383	10	904	20,297
EBIT	8,072	298	680	9,050
Assets	88,551	1,599	4,504	94,654
thereof Goodwill	18,592	0	0	18,592
Liabilities/provisions	22,208	875	4,116	27,199
Capital expenditure	10,011	0	642	10,653
Depreciation and amortisation	2,356	0	62	2,418
thereof Goodwill	1,291	0	0	1,291

Segment information by geographical regions (secondary segments):

2002	North-/ South America				Asia/ Pacific €000	Africa €000	Total €000
	Europe €000						
Revenue							
Water UV	47,736	14,713	8,166	296	70,911		
Water Ozone	32,705	23,698	6,977	131	63,511		
Solar	5,450	3,360	696	0	9,506		
Total	85,891	41,771	15,839	427	143,928		
Assets excluding Goodwill							
Water UV	46,383	13,698	3,550	0	63,631		
Water Ozone	21,016	13,937	28	0	34,981		
Solar	0	0	0	0	0		
Total	67,399	27,635	3,578	0	98,612		
Capital expenditure excluding Goodwill							
Water UV	1,225	565	0	0	1,790		
Water Ozone	4,798	551	164	0	5,513		
Solar	0	0	0	0	0		
Total	6,023	1,116	164	0	7,303		
Depreciation excluding Goodwill							
Water UV	1,511	241	69	0	1,821		
Water Ozone	1,746	247	0	0	1,993		
Solar	181	0	0	0	181		
Total	3,438	488	69	0	3,995		

2001	Europe €000	North-/ South America €000	Asia/ Pacific €000	Africa €000	Total €000
Revenue					
Water UV	47,442	14,454	6,937	668	69,501
Water Ozon	3,008	0	0	0	3,008
Solar	6,283	2,182	397	0	8,862
Total	56,733	16,636	7,334	668	81,371
Assets excluding Goodwill					
Water UV	53,809	13,979	2,049	0	69,837
Water Ozon	1,599	0	0	0	1,599
Solar	4,626	0	0	0	4,626
Total	60,034	13,979	2,049	0	76,062
Capital expenditure excluding Goodwill					
Water UV	2,198	653	170	0	3,021
Water Ozon	0	0	0	0	0
Solar	642	0	0	0	642
Total	2,840	653	170	0	3,663
Depreciation excluding Goodwill					
Water UV	858	171	36	0	1,065
Water Ozon	0	0	0	0	0
Solar	62	0	0	0	62
Total	920	171	36	0	1,127

The disclosures are based on the location of the registered office of Group companies, except in the case of revenue, which is analysed by reference to the location of the customer.

(36) Income and expenses from discontinued operations

In accordance with IAS 35, this note shows the results of the Solar line of business which was sold at the end of 2002. The Solar line of business corresponds to the Solar segment presented above as part of the segment disclosures, in other words the development, production and sale of products involving cosmetic and medical use of UV light.

The disposal of the Solar line of business is in line with the group's strategy to focus on the treatment of water with UV light and ozone and to discontinue unrelated activities.

The disposal of the Solar line of business was decided after receipt of a purchase offer during the fourth quarter of 2002. The offer was approved by the Supervisory Board and the sale agreement signed with effect from 31 December 2002. The disposal gave rise to a net gain of € 3,190 thousand. Further details are summarized as follows:

	2002 €000	2001 €000
Revenue	9,506	8,862
Expenses	-9,085	-8,372
Profit before tax	421	490
Income taxes	-257	-224
Result	164	266
Assets	4,190	4,626
Liabilities	4,356	4,166
Cash flow		
• operating	-95	
• investing	-2,904	
• financing	3,600	

(37) Contingent liabilities and other financial commitments

	due 2003 €000	due 2004 to 2007 €000	due 2008 and afterwards €000	Total €000
Rental expenses	1,761	4,736	2,411	8,908
Vehicle and machinery lease expenses	1,213	1,602	4	2,819
Other	828	1,193	164	2,185
	3,802	7,531	2,579	13,912

At 31 December 2002, all trade accounts receivable of WEDECO AG were pledged as collateral to a bank in return for a credit guarantee facility from a commercial bank totalling € 17,895 thousand (31 December 2001: € 15,343 thousand). At the balance sheet date, the credit facility drawn by the parent company (for bank guarantees only) amounted to € 8,304 thousand (31 Dec. 2001: € 0 thousand).

Capital commitments amounted to € 13,752 thousand (31 Dec. 2001: € 4,386 thousand).

(38) Leasing (IAS 17)

The Group has entered into leasing arrangements for plants, production machinery, motor vehicles and office equipment which qualify as finance leases under IAS 17. The carrying amount of leased assets at 31 December 2001 amounts to € 1,682 thousand (31 Dec. 2001: € 639 thousand) and is included in property, plant and equipment at the balance sheet date. Total minimum lease obligations at 31 December 2002 amounted to € 2,089 thousand (31 Dec. 2001: € 654 thousand). The net present value of minimum lease obligations, using an

incremental borrowing rate of 8%, is € 1,436 thousand (31.12.2001: € 565 thousand), of which € 1,038 thousand have a remaining period of under one year and € 398 thousand have a remaining period of between 1 and 5 years.

Expenditure on operating leases in the year amounted to € 1,314 thousand (2001: € 2,383 thousand).

(39) U.S. GAAP reconciliation

The Group's consolidated financial statements have been prepared in accordance with IFRS, which differs in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). For the first time, the Company prepared

a reconciliation to U.S. GAAP as of and for the year ended December 31, 2002. The differences that have a significant impact on the consolidated balance sheet as of December 31, 2002 and the consolidated statement of operations for the year ended December 31, 2002 are set out below.

Consolidated Balance Sheet

	31 December 2002		
	IFRS €000	Adjustments €000	U.S. GAAP €000
Cash and cash equivalents	7,301	0	7,301
Accounts receivable and other assets	34,333	-218	34,115
Unbilled revenue / advance payments	81	7,601	7,682
Inventory	36,683	-7,601	29,082
Deferred taxes	0	3,576	3,576
Income taxes receivable	0	218	218
Total current assets	78,398	3,576	81,974
Future income taxes	2,314	-1,992	322
Capital assets, net	6,903	0	6,903
Patents and other intangible assets, net	10,997	-2,383	8,614
Goodwill	51,220	3,995	55,215
Total non-current assets	71,434	-380	71,054
Total assets	149,832	3,196	153,028
Bank indebtedness	1,099	0	1,099
Accounts payable and other accruals	36,626	0	36,626
Tax accruals	3,988	0	3,988
Deferred taxes	0	851	851
Current portion of long term debt	2,000	0	2,000
Total current liabilities	43,713	851	44,564
Long-term debt	27,041	0	27,041
Deferred taxes	2,757	35	2,792
Pension provisions	495	0	495
Total non-current liabilities	30,293	35	30,328
Minority Interest	657	0	657
Share capital	10,995	0	10,995
Capital surplus	44,856	0	44,856
Other comprehensive income	-562	0	-562
Additional Paid-in capital	0	614	614
Retained earnings	19,880	1,696	21,576
Total shareholders' equity	75,169	2,310	77,479
Total liabilities and equity	149,832	3,196	153,028

Consolidated Profit and Loss Account

Year ended 31 December 2002

	IFRS €000	Adjustments €000	U.S. GAAP €000
Revenue	143,928	-9,506	134,422
Cost of sales	-93,523	7,992	-85,531
Gross margin	50,405	-1,514	48,891
Administrative and selling expenses	-28,637	2,986	-25,651
Research and development expenses	-6,059	-2,332	-8,391
Other operating expenses, net	-5,598	3,871	-1,727
Interest expenses, net	-956	72	-884
Income from continuing operations before taxes	9,155	3,083	12,238
Minority Interest	15	0	15
Income tax provision	-3,970	955	-3,015
Income from continuing operations	5,200	4,038	9,238
Discontinued operations (see below in d.)			
Results from operations of the Solar business (including gain or disposal of € 3,190 thousand)	3,190	421	3,611
Income tax expense	0	-257	-257
Gain from discontinued operations	3,190	164	3,354
Net income before cumulative effect of accounting change	8,390	4,202	12,592
Cumulative effect of accounting change (net of tax) (see below in b.)	0	398	398
Net income	8,390	4,600	12,990
Statement of comprehensive income (see below in k.)			
Net income under U.S. GAAP	8,390	4,600	12,990
Adjustments – other comprehensive income	-562	0	-562
Total	7,828	4,600	12,428

a. Goodwill and Other Intangible Assets

The Company was required to adopt SFAS 142 "Goodwill and Other Intangible Assets" in its entirety on 1 January 2002. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment annually (or more frequently if impairment indicators arise) in

accordance with the provisions of SFAS 142. Under IFRS, goodwill and intangible assets continue to be amortized on a systematic basis over their estimated useful lives. This difference in accounting treatment results in a decrease in amortization expense under U.S. GAAP of € 3,799 thousand during the twelve month period ended 31 December 2002.

As discussed above, upon adoption of SFAS 142, the Company was required to evaluate its existing intangible assets and goodwill that were acquired in prior purchase combinations, and to make any reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. This evaluation did not result in any reclassifications. Upon adoption of SFAS 142, the Company was also required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments. This reassessment did not result in any significant amortization period adjustments. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company is required to test the intangible asset for impairment in accordance with the provisions of SFAS 142 within the first interim period. Any impairment loss should be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period. No impairment loss was recognized as a result of these impairment tests, as the Company did not identify any intangible asset as having an indefinite useful life.

SFAS 142 also requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of 1 January 2002. The Company determined the fair value of each reporting unit and compared it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication existed that the reporting unit goodwill may be impaired and the Company will then have to perform the second step of the transitional impairment test. In

the second step, the Company then, must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company finalized the second step of the impairment test and changed the method of evaluating goodwill from the recoverability test based upon discounted cash flow for the company as a whole to a fair value approach for each reporting unit. Accordingly, the Company's previously recognized goodwill was tested for impairment based on the fair value of the reporting units using a discounted cash flow analysis. As a result of this analysis, the Company concluded that goodwill was not impaired.

b. Negative goodwill

Under IFRS, the Company has negative goodwill which is classified as a deferred credit which is being released to income on a time-apportioned bases as the tax benefits are utilized up to the end of 2003.

Upon adoption of SFAS 141, the accounting for negative goodwill has been fundamentally changed under U.S. GAAP. Conceptually, the FASB views negative goodwill as arising principally from measurement errors occurring in determining the fair value of the assets acquired and liabilities assumed. Therefore, SFAS 141 requires the acquiring company to reduce proportionately the purchase price allocated to all of the acquired assets, including in process research and development (IPR&D) intangible assets, with certain exceptions, for the amount of negative goodwill, but not below zero. The purchase price allocated to the following acquired

assets is not reduced because they are viewed as having a more reliably determinable fair value: financial assets; assets acquired with the intent to dispose of by sale in the near term; deferred taxes; prepaid pension assets and other current assets. If any negative goodwill remains after the above allocation, SFAS 141 requires that it be recognized as an extraordinary gain in the period of the acquisition.

Upon adoption of SFAS 141 on 1 January 2002, the Company had € 398 thousand of unamortized unallocated negative goodwill remaining from transactions entered into prior to 1 July 2001 that would have been accounted for in accordance with APB 16. Therefore, this unamortized unallocated negative goodwill has been written off as the cumulative effect of a change in accounting principle (referred to as cumulative effect of accounting change in the tables above). A corresponding adjustment has been made to the current IFRS consolidated statement of operations as it relates to the current year IFRS negative goodwill amortization in the amount of € 202 thousand. The year end balance of € 196 thousand under IFRS has been eliminated for U.S. GAAP purposes as of 31 December 2002.

c. Research and development

Under IFRS research is defined as original and planned investigation undertaken with the prospect of gaining new knowledge and understanding. Research costs are expensed as incurred. Development costs are defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials or products. If an internally generated intangible asset arises from the development phase or a project, it must be capitalized if the Company is able to meet certain specific criteria. Under U.S. GAAP, the definitions of research and development are similar. However, with the exception of certain internally developed computer software, all other

research and development costs are expensed as incurred. This difference in accounting treatment resulted in the reversing of development costs capitalization classified within intangible assets (net) to research and development (expenses) in the amount of € 2,383 thousand for the year ended 31 December 2002.

d. Discontinued operations

In August 2001, the FASB approved for issuance SFAS 144. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement also supersedes SFAS 121 and the accounting and reporting provisions of APB Opinion No. 30 "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). The Company was required to adopt the provisions of this Statement on 1 January 2002. The adoption of the new pronouncement led to the following disclosure requirement differences between IFRS and U.S. GAAP.

In accordance with SFAS 144, in a period in which a component of an entity either has been disposed of or is classified as held for sale, the statement of operations of a business enterprise for the current and prior periods shall report the results of operations of the component, including any gain or loss recognized in accordance with the measurement principle of the Standard, in discontinued operations. The results of operations of a component classified as held for sale shall be reported in discontinued operations in the period in which they occur. The result of discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes.

Under IFRS, the Company has the option and hence, did not present the results of its discontinued operations as a single amount in the income statement (see note 36 "Income and expenses from discontinuing operations"). As it relates to the disposal of the Solar Business, the classification and disclosure have been presented within the U.S. GAAP consolidated statement of operations for the year ended 31 December 2002. As the Solar Business was disposed of on December 16, 2002, no reclassification or disclosures are required within the U.S. GAAP consolidated balance sheet as at 31 December 2002.

e. Stock-Based Compensation

Under U.S. GAAP, the Company has elected to measure compensation costs by using the intrinsic value approach, pursuant to which compensation cost is equal to the difference between the market value of the share under option and the exercise price at the measurement date. The measurement date is the first date on which both the exercise price and the number of shares under option become fixed. This method of measurement is consistent with Accounting Principles Board Opinion (APBO) No. 25, "Accounting for Stock Issued to Employees".

The Company has currently two stock based compensation plans ("1999 plan" and "2001 plan") as presented below:

1999 plan

Under a stock option plan adopted by the Company's General Meeting on 20 September 1999, the Company had the authority to grant to the executives of the Company and its affiliates up to 300,000 options to acquire shares in the Company. 268,750 options were granted under the plan in two tranches, as detailed below.

In September 1999, a total of 143,750 options were granted to 13 executives of the Company and its affiliates in a first tranche. The final maturity date of that first tranche is 28 June 2005. The strike price at the date of grant amounted to € 7.71 per option. The options of the first tranche can be exercised by the recipients within specific periods of time and in each case, only after the publication of the financial results of the Company for the previous business year. The exchange ratio for the options granted under the first tranche is 1.0115 Company share per option.

In May 2001, a total of 125,000 options were granted to a further 10 executives of the Company and its affiliates in a second tranche. The final maturity date is 3 November 2006. The strike price at the date of grant amounted to € 31.88 per option. The options of the second tranche can be exercised by the recipients within specific periods of time and in each case, only after the publication of the financial results of the Company for the previous business year. The exchange ratio for the options granted under the second tranche is 1.0115 Company share per option.

The options under the first and second tranches were granted without consideration and can only be exercised during certain periods if the Company's stock market price outperforms the SMAX Index by a minimum of 10% on five consecutive trading days within the six weeks prior to the exercise of the option, and if the Company shares are traded on the Xetra at a minimum of € 9.75 per share. By resolution of the Company's General Meeting dated 29 May 2001, no further options are available under the 1999 plan.

None of these options granted for the 1999 plan were exercised, forfeited or expired as of and for the twelve month period ended 31 December 2002.

2001 plan

On 29 May 2001 the Company's General Meeting adopted a second stock based compensation plan. Under the 2001 plan, the Company may grant up to 300,000 options to the employees and executives of the Company and its affiliates and this until 29 May 2006. On 21 November 2001 and to date, 172,000 options have been granted to 27 members of the management and employees. The options granted under the 2001 plan have fixed maturity of five years. The strike price at the date of grant amounted € 34.65 to per option. The options can be exercised by the recipients within specific periods of time.

The options under the 2001 plan were also granted without consideration and can only be exercised if the Company's stock market price for the period between the date of grant and the expiration of the applicable waiting period for the exercise of the options outperforms the MDAX Index by a minimum of 20%.

None of these options granted for the 2001 plan were exercised, forfeited or expired as of and for the twelve month period ended 31 December 2002

Under both plans, the number of shares to which the employee or executive is entitled is not known until the stock price meets the target price conditions. Accordingly, the measurement date under APB No. 25, is the date that such condition is met and compensation cost should be recognized for the difference between the market price of the stock and the strike price on the measurement date. Under U.S. GAAP, the accounting policy of the Company is to begin to accrue

compensation costs over the service period when it is considered probable that the performance hurdles will be met. Under IFRS, the Company does not recognize compensation costs until the options are actually exercised. As a result of the difference in accounting treatment, the Company has recorded Additional paid in capital amounting to € 2,904 thousand with a corresponding entry within retained earnings in its 31 December 2002 consolidated balance sheet. For the period ended 31 December 2002, due to decrease in the stock price as compared to 2001, the company reversed previously recorded compensation costs amounting to € 2,290 thousand in its consolidated statement of operations (presented under administrative and selling expenses).

As an alternative to accounting for stock based compensation under APB No. 25, SFAS No. 123, "Accounting for Stock Based Compensation", as amended by SFAS 148 "Accounting for Stock Based compensation – Transition and Disclosures" establishes a fair value method of accounting for stock purchase and option plan or similar equity instruments. The Company has not calculated what compensation cost for these plans would have been as determined in accordance with SFAS No. 123 as amended by SFAS 148.

f. Tax effect of U.S. GAAP adjustments

This reconciliation item includes all tax effects due to the aforementioned reconciling items.

g. Earnings per share

The following table sets forth the presentation of basic and diluted earnings per share after reconciliation to U.S. GAAP.

	Year ended 31 Dec. 2002	€
Earnings per share under U.S. GAAP		
Basic earnings per share		
Income from continuing operations	0.84	
Discontinued operations (see above in d.)	0.30	
Cumulative effect of change in accounting principle (see above in b.)	0.04	
Net income	1.18	
Diluted earnings per share		
Income from continuing operations	0.83	
Discontinued operations (see above in d.)	0.30	
Cumulative effect of change in accounting principle (see above in b.)	0.04	
Net income	1.17	

Additional U.S. GAAP information**h. Statement of operations**

Certain items in the consolidated statements of operations would be classified differently under U.S. GAAP. These items include the reversal of certain provisions that would generally be recorded in the same line items as the provisions were originally recorded under U.S. GAAP, rather than as other income. As a result of these classification differences, an amount of € 154 thousand was reclassified from other operating income to administrative and selling expenses. In addition, U.S. GAAP would preclude the disclosure of non GAAP financial measures such as EBITDA on the face of the financial statements.

i. Balance sheet

Certain items in the consolidated balance sheets would be classified differently under U.S. GAAP as compared to IFRS.

In accordance with IFRS, all deferred tax assets and liabilities are classified as non-current. Under U.S. GAAP, deferred tax assets and liabilities would be classified as current or non-current depending on the classification of the underlying assets and liabilities or when the related benefit or expense is expected to be realized. As of 31 December 2002, € 3,576 thousand would be classified as current deferred tax assets and € 851 thousand, would be classified as current deferred tax liabilities. Additionally, under U.S. GAAP, tax loss carry forwards and other credits that are available to reduce

future taxes are recognized as deferred tax assets. Such amounts are reduced by a valuation allowance to the extent that it is deemed more likely than not that the tax benefit related to the utilization of such tax loss carry forwards or credits will not be realized. Under IFRS, a deferred tax asset should be recognized for the carry forwards of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Deferred tax assets are related to tax loss carry forwards as of 31 December 2002 amounting to € 2,395 thousand net of valuation allowances of € 0 thousand.

In accordance with IFRS, profits resulting from the application of the percentage of completion method are included in Work in progress, whereas under U.S. GAAP these profits are shown in a separate line item Unbilled revenue.

j. Cash flow statement

The cash flow statement is prepared in accordance with IAS 7.

k. Reporting of comprehensive income

SFAS No. 130 "Reporting Comprehensive Income" establishes standards for the reporting and presentation of comprehensive income and its components in general-purpose financial statements and requires the reporting of comprehensive income, which includes all changes in stockholders' equity except those resulting from investments by or distributions to shareholders.

The statement of comprehensive income for the twelve months ended 31 December 2002 presents no difference as compared to the statement of comprehensive income under IFRS which is presented within the statement of stockholders' equity.

	Year ended 31 Dec. 2002 €000
Comprehensive income under U.S. GAAP	
Net income under U.S. GAAP	12,990
Other comprehensive income (loss), net of tax	
Foreign currency translation adjustments	-562
Comprehensive income, net of tax	12,428

(40) Consolidated companies

The following subsidiaries are fully consolidated in the consolidated financial statements of WEDECO AG:

Company	Registered Office	Shareholding	
		31 Dec. 2002 %	31 Dec. 2001 %
WEDECO KATADYN AG	Wallisellen/Switzerland	100	100
<u>WEDECO Ltd.</u>	Manchester/Great Britain	100	100
WEDECO Technologie Ochrony Srodotwiska sp.z.o.o.	Posen/Poland	100	100
WEDECO KATADYN GmbH	Düsseldorf/Germany	100	100
WEDECO KATADYN France S.A.	Roissy-en-Brie/France	100	100
WEDECO Ideal Horizons Inc.	Charlotte, North Carolina/USA	100	100
WEDECO VISA Water Technology GmbH	Seewalchen/Austria	100	100
WEDECO UV Systems plc.	Sudbury/Great Britain	100	100
WEDECO Rex S.A.	Madrid/Spain	100	100
WEDECO Puro srl.	Bannone di Traversetolo/Italy	100	100
WEDECO Tecnologie Acque srl.	Bari/Italy	100	100
Advanced UV Light GmbH	Essen/Germany	-	100
WEDECO Sung Jin Co. Ltd.			
Water Technology	Seoul/Korea	100	100
WEDECO Water Technology Pte. Ltd.	Singapore	100	100
WEDECO Water Technology Ltd.	Auckland/New Zealand	100	100
WEDECO B.V.	Helmond/Netherlands	100	100
WEDECO Tecnologica de Aguas Ltda.	Sao Paulo/Brazil	-	100
WEDECO AVP Pty. Ltd.	Sydney/Australia	100	100
Chongqing WEDECO Kangda Water Technology Co. Ltd	Chongqing/China	51	-
WEDECO Gesellschaft für Umwelttechnologie mbH	Düsseldorf/Germany	100	-
PCI WEDECO Environmental Technologies Inc.	West Caldwell, New Jersey/USA	100	-
OZOMATIC			
Wasseraufbereitungsgeräte GmbH	Düsseldorf/Germany	100	-
WEDECO Ozotech Ltd., Great Britain	Burges Hill/Great Britain	100	-
WEDECO Kft. Víz- és Környezetvédelmi Technológlák	Vac/Hungary	51	-
WEDECO UV Light GmbH	Düsseldorf/Germany	100	-
WEDECO Ltda.	Sao Paulo/Brazil	100	-

(41) Corporate Governance

WEDECO AG Water Technology complies with the recommendations of the German Corporate Governance Codex issued by the Government Commission with the following exception: up to now the remuneration of the members of the Supervisory Board has not been based on the performance of the Company or Group and deputy chairmanship of the Supervisory Board and membership or chairmanship of Supervisory Board committees has not been remunerated (Codex 5.4.5 § 1 (3) and 5.4.5 § 2 (1)). The Management and Supervisory Boards will propose to shareholder at the Annual General Meeting that § 15 (1) of the Articles of the Association of the Company be amended to incorporate Supervisory Board remuneration based on performance and remuneration for deputy chairmanship the Supervisory Board and membership or chairmanship of Supervisory Board committees.

(42) Representative bodies

The Management Board of WEDECO AG comprises:

Werner Klink, Businessman (Chairman);
 Christoph Dicks, Graduate in business administration (Deputy Chairman);
 Dr. Andreas Kolch, Biologist;
 John Marrino, Engineer (from 19 February 2002).

Werner Klink and Christoph Dicks are entitled to represent the company individually. They are both exempted from the restrictions contained in § 181 of the German Civil Code (BGB).

During the year 2002, the members of the Management Board held 9,700 (2001: zero) WEDECO shares.

The Supervisory Board during the year consisted of the following members:

Michael Stolskij, Businessman (Chairman);
 Holger Künzel, Graduate in business administration (Deputy Chairman);
 Dr. Peter Hess, Attorney and Public Notary (from 29 May 2002);
 Michael Roesen, Attorney (from 29 May 2002);
 Horst Wedekamp, Businessman (from 29 May 2002);
 Prof. Dr. med. Martin Exner, Scientist (Professor) (from 8 October 2002);
 Adrian Schmassmann, Graduate in economics (until 30 June 2002);

At the balance sheet date members of the Supervisory Board held 75,930 WEDECO shares (31 December 2001: 41,000).

(43) Remuneration of the representative bodies

Total remuneration of the members of the Management Board in 2002 amounted to € 1,239 thousand (2001: € 528 thousand). As at 31 December 2002, 122,500 stock options had been granted to members of the Management Board; none of these granted in 2002.

Total remuneration of the members of the Supervisory Board in 2002 amounted to € 79 thousand (2001: € 60 thousand).

(44) Mandates of the members of the Management and Supervisory Boards

The member of the Supervisory Board Holger Künzel is Chairman of the Supervisory Board of Realeyes AG, Munich. Other members of the Management and Supervisory Boards do not hold any other mandates in German statutory Supervisory Boards or in comparable bodies.

Group Management Report 2002

Overview

The need for clean water in the world is growing permanently. Availability of healthy water for everyone is one of the stated objectives of the United Nations which has designated 2003 as "The Year of Fresh Water".

Against this background, the expansion of WEDECO's range of activities through the acquisition of a line of business specialising in ozone technology is a very significant step. WEDECO is now the world's market leader in the area of disinfection with ultraviolet light and the oxidation of water pollutants with ozone. There is a growing trend to reduce the use of chemicals. Ozone and UV techniques are seen as alternatives to using chemical additives in water. This is creating a growing demand for WEDECO's products.

The economic situation has deteriorated throughout the world. This has had an impact on demand for UV equipment in the industrial sector. This area of business was marked by a definite reticence to invest on the part of customers. This was compensated, however, by demand for UV disinfection in the municipal sector and by the excellent progress made with ozone products. WEDECO was therefore able to generate growth in both lines of business and achieve forecasted targets, despite the generally adverse economic climate.

A further factor behind continued success is WEDECO's ability, through research and development, to advance new solutions on the basis of up to date knowledge of illnesses caused by polluted water.

Business trends

With effect from 1 January 2002, WEDECO acquired all the shares of WEDECO Gesellschaft für Umwelttechnologie mbH, Düsseldorf/Germany (together with its subsidiaries in the USA, the United Kingdom, Hungary and Germany) for a consideration of € 39 million. The new segment, Ozone was integrated seamlessly into WEDECO AG's organization. The Ozone segment of WEDECO AG generated revenues of € 63.5 million in the financial year 2002. The combination of UV and ozone technologies provides particularly good prospects in the area of multi-barrier systems and the development of new methods to treat organically and inorganically polluted water.

In February 2002, WEDECO AG also set up a joint venture in China with Chongqing Kangda Environment Protection Inc., China. WEDECO holds 51% of the shares of Chongqing WEDECO Kangda Water Technology Co. Ltd. and Kangda holds 49%. The joint venture has its registered offices in Chongqing/China. One of the first tasks of the joint venture was to install and operate the Beipei UV project in Chongqing, an important reference contract for the whole region and for the Three Gorges Project at Yangtse.

Following the sale of the Solar business, WEDECO will focus on its two core activities, ozone oxidation and UV disinfection.

In the USA, WEDECO has begun to merge its production sites in Vermont (UV disinfection) and New Jersey (ozone oxidation) at a joint site in Charlotte/North Carolina. The UV disinfection division has already relocated, and the ozone division will move to Charlotte in summer 2003. As well as lasting synergy benefits, North Carolina will provide a better infrastructure with first-class universities, an international airport, well educated employees and a lower cost of living. The relocation costs incurred in 2002 were offset by the gain on the disposal of the Solar segment.

Growth and the increasingly high demands placed on innovative solutions in the area of water treatment without chemical additives require a strong and sound financial basis. This, in turn, necessitates active financial and credit management. In December 2002, the IKB Deutsche Industriebank AG and Allianz AG issued loans against promissory notes totalling € 25 million with a term of seven years. The loans have been used to repay short-term liabilities. The terms of the loans reflect the Company's good credit-standing.

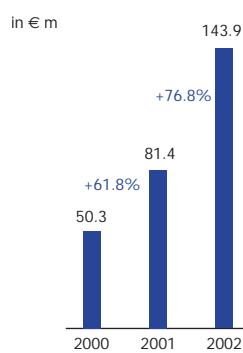
Revenues and business development

Overview

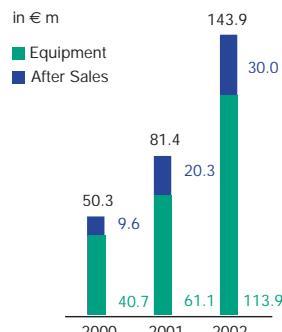
WEDECO AG recorded revenues of € 143.9 million for the financial year 2002. This was a 76.8% improvement over the previous year's figure of € 81.4 million. Sales growth in 2001 and 2000 had been 61.8% and 67.1% respectively. Through internal growth and targeted acquisitions, WEDECO has therefore managed to increase its business volume with UV light and ozone products almost threefold in only three accounting periods.

Sales in Europe accounted for 59.7% (2001: 69.7%) of revenues, compared to 29.0% (2001: 20.4%) in America and 11.0% (2001: 9.0%) in the Asia/Pacific region. Business in Africa was negligible in both years. Variations in the proportion of revenues generated in different regions are partly attributable to the effect of individual major projects.

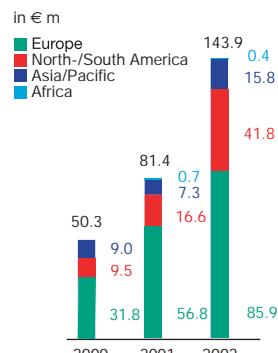
Revenue 2000 - 2002



Revenue by Equipment/ After Sales



Revenue by Regions



UV segment

Revenues generated by UV water treatment products went up marginally from € 69.5 million to € 70.9 million. The segment accounts therefore for 49.3% of total revenues. The bulk of UV business is generated from the production and sale of small and medium-sized equipment. The segment's products are sold to customers such as local authority waterworks, pharmaceutical companies and food and drink companies. Larger-scale UV equipment is normally contracted to companies operating large-scale drinking water and sewage treatment plants.

Equipment sales rose from € 50.1 million to € 52.1 million; revenues from after sales-business for the UV segment fell slightly from € 19.4 million to € 18.8 million. By contrast, revenues generated from industrial water treatment with UV light fell sharply as a result of the economic situation. Industrial customers held back on capital expenditure and to some extent drew, apparently, on their existing inventories of UV lamps to meet requirements. Revenues from UV business with local authorities more than offset this effect, however, so that the UV segment as a whole was still able to report growth.

Two thirds of UV segment revenues are generated in Europe (67.3%), one fifth (20.7%) in America and 11.5% in the Asia/Pacific region.

WEDECO installed several large UV systems in the USA and Canada during the financial year 2002. United Utilities, England's second largest water company, signed a framework agreement with the British WEDECO subsidiary, WEDECO UV Systems plc., for the supply of 19 units for UV-sewage disinfection plants. As a consequence of a sales agreement with the largest

American group of companies for disinfection equipment with more than 60 sales centers, WEDECO has obtained access to supply smaller local authorities requiring disinfection equipment for the treatment of drinking water. Sales agreements were concluded with several organizations in the USA for the series products AQUADA and DLR. This equipment is used for disinfection of small and medium quantities of water at the point of entry, e.g. residential houses.

Ozone segment

Ozone business generated revenues of € 63.5 million, well ahead of expectations. This segment therefore accounted for 44.1% of total revenues. Sales of ozone plant and equipment amounted to € 53.3 million and after-sales services amounted to € 10.2 million. The Ozone segment performed well in all four lines of business, namely drinking water, sewage treatment, industrial water and special applications.

Ozone segment revenues were generated in Europe (51.5%), America (37.3%) and the Asia/Pacific region (10.9%).

The largest proportion of revenues related to large ozone projects, mainly from municipal customers, well-known water companies and industrial customers, for example from the paper and pulp industry.

Several ozone projects were completed in America during 2002. The world's largest ozone plant started operations in Brazil for a paper bleaching enterprise. Further major ozone systems were installed in Denmark and Bahrain to treat waste water.

Solar segment

Revenues of the Solar line of business for medical and cosmetic applications which was sold at the end of the year amounted to € 9.5 million compared to € 8.9 million in the previous year. The sale of this line of business will permit WEDECO to focus on its core area of expertise in the water treatment market.

Order book

At 31 December 2002 the order book stood at € 47.1 million. Of this amount, € 19.4 million relate to the UV segment and € 27.7 million to the Ozone segment.

Once again, it has been proven that the pursuit of a strategy of diversification, based on wide regional presence and both new and after-sales business, makes it possible to grow without significant risk since opposite effects often cancel each other out.

Cost of sales and gross profit

As a percentage of revenues, cost of sales went up by 4.8%. This was attributable to the different cost structure of the Ozone segment compared to the UV segment. This was offset partly by an 4.2% reduction in selling, general and administrative and research and development expenses. This is a clear evidence of the fact that both segments are equally profitable.

Sales

The regional structure of the WEDECO Group ensures that customers do not have long distances to reach a Group company and obtain expert local advice. Water treatment is a business where it is particularly important to take account of specific local circumstances. Diverse drinking water quality and origin, the level of pollution of industrial and municipal sewage, specific processes for industrial disinfection and oxidation applications as well as national rules and regulations mean that it is essential to have experts in the field with a knowledge of the local situation and the ability to work out appropriate solutions. In the period of just over three years since flotation, the WEDECO Group has succeeded in becoming an organization which displays expertise in the area of non-chemical water treatment and which has proved that it can work with its customers with a high degree of professionalism. Regular management conferences and sales meetings serve as a basis for the flow of information.

Selling costs increased by 47.6% from € 12.4 million in 2001 to € 18.3 million in 2002. As a percentage of revenues, selling costs fell sharply from 15.2% in 2001 to only 12.7% in 2002. This underlines the beneficial effect of using a joint sales platform for the two lines of business. In addition, selling costs for ozone projects (which are generally larger on average) are significantly lower in comparison to the selling costs which have to be incurred to generate an equivalent level of revenues from small and medium-sized UV systems.

The wide range of UV and ozone systems supplied by WEDECO in 2002 cover the whole spectrum of uses for UV and ozone technology in all of the main regions. This underpins the excellent strategic position of WEDECO AG in terms of the range of products available and its closeness to the market.

Administration and controlling

General and administrative expenses went up from € 6.4 million in 2001 to € 10.4 million in 2002 (+ 62.5%). As a proportion of revenues, however, they fell from 7.9% to 7.2%. The increase in general and administrative expenses in absolute terms and the reduction in administrative expenses in relative terms are both attributable to the Ozone segment.

In the meantime, the business software system, Navision, has been installed by all of the German-speaking locations in the Group. The first English speaking companies in the Group to use Navision are WEDECO UV Systems plc., Great Britain, and WEDECO Ideal Horizons Inc., USA. This system permits online-access to data at a local level and at the Corporate Office in Düsseldorf. The reporting structures of the Ozone segment, including accounting and financial reporting, have been brought into line with WEDECO AG standards.

Research and development

Research and development represent an investment for the future. R&D expenses in 2002 amounted to € 6.1 million, 43.8% more than in the previous year. Research and development expenses represented 4.2% of revenues, down from 5.2% in the previous year. This reduction was attributable to the fact that R&D expenses are slightly lower for ozone activities.

The number of employees working in the area of research and development increased from 20 to 32 (average for the year) due to the addition of the ozone business.

The main focus of research and development was the improvement of the core components of the Group's systems and the development of new application solutions.

A completely new generation of spectrothermal HP low pressure lamps for UV disinfection allows the construction of more compact equipment and reduces construction, installation and maintenance costs. After successful testing, the development department passed the next generation of AQUADA and DLR equipment (intended for household usage) for sale to customers. Development costs incurred in connection with these new developments amounting to € 2.4 million were recognized as assets in accordance with IAS 38.

The discovery of new organic and inorganic water pollutants requires the continuous optimisation of disinfection and oxidation systems and the development of combined applications. Research and development projects undertaken jointly by the two segments are striving to identify solutions to reduce chloramines and trihalogen-methanes in public swimming pools. WEDECO also succeeded in reducing the volume of endocrinol substances in water through the combined uses of UV light and ozone. One of the main sources of gastric illnesses is helicobacter pylori, a bacterium, which can be taken into the body via drinking water. Helicobacter pylori can be deactivated by UV light, an additional argument for the installation of UV disinfection systems as a regular component of drinking water systems and sewage plants, so that infections can be effectively hindered before they affect the consumer.

WEDECO is so far the first enterprise to have received approval from the Californian Department of Health Services for water recycling projects with UV light under the new "Title 22" criteria valid in California.

Other operating income

Other operating income in 2002 amounted to € 5.7 million (2001: € 1.5 million). The increase was attributable mainly to exchange rate gains amounting to € 3.3 million, which compared with exchange rate losses of € 3.9 million reported under other operating expenses.

WEDECO mitigates the risk of exchange rate fluctuations by financing assets with matching currencies.

Other operating expenses

Other operating expenses in 2002 amounted to € 11.3 million (2001: € 1.8 million). This includes amortization of goodwill amounting to € 3.8 million. This was € 2.5 million more than in the previous year as a result of the purchase of the ozone business. Exchange rate losses amounted to € 3.9 million and arose primarily because of the weakness of the U.S. dollar against the Euro. The merger of the locations in the USA in 2002 gave rise to costs of € 3.3 million which were compensated by the gain on the sale of the Solar segment.

Gain on disposal of discontinued operations

The sale of the activities of the Solar segment in 2002 generated a gain of € 3.2 million. Following the sale of this line of business, WEDECO will concentrate on its core areas of expertise, namely the treatment of water with UV and ozone.

Financial result

In the year under report, the financial result was a net financial expense of € 1.0 million compared to net financial income of € 0.3 million in the previous year. This was due to the need to finance the purchase price for the ozone companies and because of financial debt assumed.

Results of operations

On a consolidated basis, WEDECO achieved an operating profit (EBIT) of € 13.3 million, a 46.1% improvement over the previous year when an EBIT of € 9.1 million was reported. EBIT as a percentage of revenues fell from 11.2% in 2001 to 9.2% in 2002. This reduction was attributable mainly to the increase in amortization and depreciation (+ € 2.5 million) due to the higher level of goodwill following the purchase of the Ozone business. Before amortization of € 3.8 million on goodwill (2001: € 1.3 million) and depreciation of € 4.0 million on other non-current assets (2001: € 1.1 million), the EBITDA climbed by 86.6% to € 20.9 million compared to € 11.2 million in the previous year. As a percentage of revenues, EBITDA improved from 13.8 % in 2001 to 14.5% in 2002.

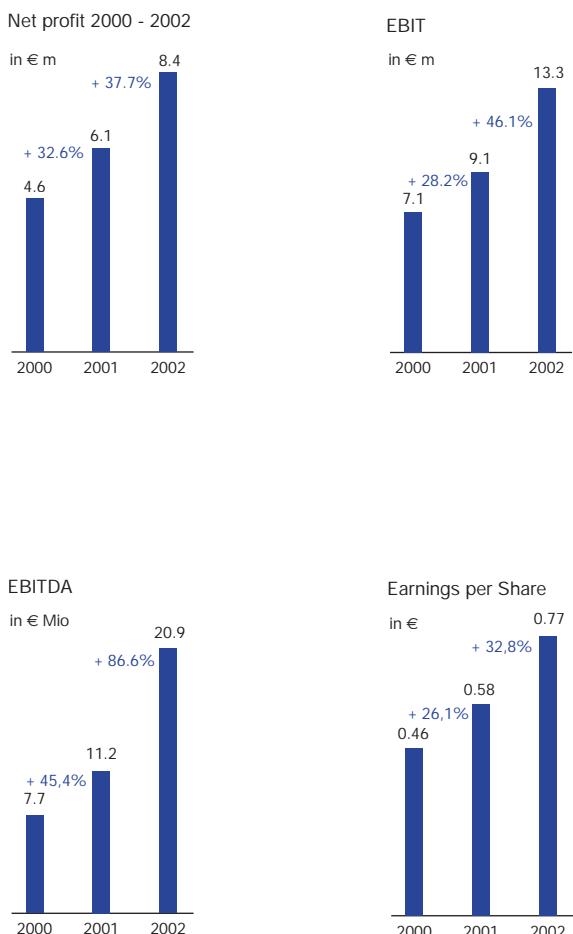
It can be seen that the higher proportion of revenues from ozone activities generated a similar profit to the revenues from UV systems and only results in lower earnings after taking account of goodwill amortization.

The profit from ordinary activities amounted to € 12.3 million, compared to € 9.4 million in 2001. This 30.8% improvement was mainly due to the contribution of the Ozone segment. The acquisition of the ozone business resulted, however, in an increase in the expense for goodwill amortization, as described above, and higher interest expenses.

The group net income for the year rose sharply from € 6.1 million in 2001 to € 8.4 million in 2002.

(+ € 2.3 million). This represents an improvement of 37.7% following on from the 32.6% improvement in 2001, and is in line with forecasts. Thanks to strong diversification, the Group was able to achieve its forecasts in 2002 during a difficult period for the world economy.

Basic earnings per share amounted to € 0.77 compared to € 0.58 in the previous year.



Cash flow

As in the previous year, the Group generated a positive cash flow from operating activities amounting to € 3.3 million.

In conjunction with the acquisition of the ozone companies, cash outflow for investing activities amounted to € 37.7 million. This was financed by a cash inflow of € 18.6 million from financing activities and by reducing cash funds on hand from € 23.1 million to € 7.3 million.

The earnings performance in 2002 and the positive cash flow demonstrate that the potential for both organic and external growth is being exploited and that the Group has a sound foundation for future success.

Personnel

The workforce of the WEDECO Group on average for the year increased from 418 to 724 (+ 306) employees. Of the new additions, 188 employees belong to the Ozone segment. 61.3% of employees (2001: 60.5%) work in production and 19.6% (2001: 22.5%) in sales. Revenues per employee went up slightly by 2% from € 195 thousand in 2001 to € 199 thousand in 2002.

In line with the strategic importance attached to the American market for both segments and in order to give appropriate weight to the new Ozone segment in the Management Board, the Supervisory Board appointed the President of the ozone company PCI-WEDECO (and also of the UV company WEDECO Ideal Horizons), John Marrino, to the Management Board of WEDECO AG with effect from 1 March 2002 and given him responsibility for the activities in North America. The contracts of Christoph Dicks und Dr. Andreas Kolch as members of the Management Board, initially running until 31 August 2002, were extended by three years to 31 August 2005.

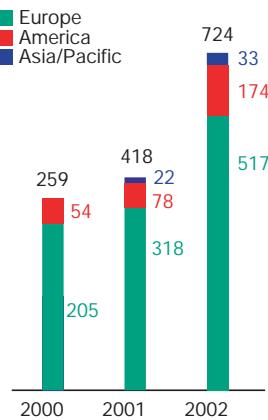
Balance sheet

The WEDECO consolidated financial statements at 31 December 2002 include 24 fully consolidated companies from 17 countries. As a consequence of the acquisition of the ozone companies, all of the main balance sheet captions have increased sharply.

The increase in intangible assets and goodwill is attributable to the acquisition of the Ozone segment. Thanks to improved inventory management, the ratio of inventories to revenues fell from 30.4 % to 25.5 %. An important contribution was made by extending use of the two-container system (Kanban) for raw materials, consumables and supplies; the benefits achieved here were able to compensate the effect of sales growth and the consolidation of the ozone companies.

Accounts receivable and other assets went up by approximately 53%. As well as trade accounts receivable (which did not rise at the same pace as revenues), accounts receivable include the consideration receivable for the sale of the solar business.

Staff by Region



The equity ratio of 50.2% (31.12.2001: 71.3%) is computed on the basis of the balance sheet total (total assets/total equity and liabilities) which increased by 58.2% from € 94.7 million to € 149.8 million. Long-term debt increased to € 30.3 million. This, and in particular the promissory note loans from IKB and Allianz with a term of seven years totaling € 25.0 million, have improved the balance sheet structure.

Short-term liabilities increased in comparison to the previous year as a result of the outstanding purchase price instalments for the acquisition of the ozone business and due to the higher level of other accruals and provisions.

Risks of future business development

The business risks to which the WEDECO Group is exposed are monitored continuously and analyzed systematically in terms of their effect on individual group companies and the Group as a whole. The objective is to identify risks as early as possible, evaluate them correctly and limit their effect. A risk management system has been put in place to achieve this. In addition, the corporate controlling department assists the management of the individual group companies to identify business risks.

Risk management, as a function of corporate governance, is allocated directly to the Management Board and covers all areas of the Group. It is embedded into the group-wide budgeting process and is kept up to date through monthly reporting procedures. Risks are classified by nature, frequency and potential loss and measured qualitatively and, where possible, quantitatively. The Supervisory Board also receives the Risk Report and, on a quarterly basis, the internal reporting package. It also addresses carefully the issues of risk management in accordance with number 5.3.2. of the German Corporate Governance Code.

General economic risks affect mainly the industrial business, but can also affect public sector customers regionally in conjunction with fiscal, legal and political considerations. As people's awareness grows of the limited availability of clean drinking water and of the increasing pollution of drinking water resources by industrial and household sewage, the forecast of strong growth for water treatment technologies is turning into reality. Non-chemical water treatment methods are coming more and more to the fore. Nevertheless, establishing a strong regional position and building on competitive strengths are essential prerequisites for the sustained growth of the WEDECO Group.

The WEDECO Group counters specific sector risks by continuously developing UV disinfection and ozone oxidation processes and by expanding its sales channels. Traditional chemical/chlorine-based solutions still function cheaply and are therefore the Group's strongest competitor. In order to ensure the Group's future development, it is therefore essential that the cost of using UV light and ozone methods for water treatment are reduced. By pursuing a strategy of diversification, based on different technologies, wide regional presence and the combination of new and after-sales business, WEDECO actively reduces the risks to which it is exposed. This means that it has been able to improve its competitive position perceptibly even in a year marked by worldwide adverse economic trends.

Due to the higher proportion of revenue generated by the Ozone segment with larger projects compared to the UV segment, the risk structure is varied. Experienced management, a well-trained work-force and appropriate control instruments allow the Group to deal with the various risks to which it is exposed.

In line with the legal provisions, the WEDECO Group's risk management system has also been subject to the scrutiny of the independent auditors who concluded that the Management Board has taken suitable measures to comply with § 91 (2) AktG and that the monitoring system implemented by management meets those requirements. The Audit Committee also reached the same conclusion.

Corporate Governance

From the middle of 2002, WEDECO AG's Supervisory Board consists of six members. At the ordinary meeting of the shareholders held on 29 May 2002, Dr. Peter Hess and Michael Roesen (both attorneys) and Horst Wedekamp (an engineer) were appointed to the expanded Supervisory Board. At the beginning of October, WEDECO was able to replace the departing Supervisory Board member, Adrian Schmassmann, with an acclaimed scientist. Professor Dr. med. Martin Exner is the Director of the Institute for Hygiene and Public Health at Bonn University and active in national and international bodies in the area of environmental hygiene. The Supervisory Board now comprises two members with a business background, two attorneys and two members from scientific background with substantial research experience in the area of water treatment.

The size of the Supervisory Board has not only been increased as a reaction to WEDECO's growth, but also reflects the importance attached to good corporate governance. In order to fulfil the increased requirements placed on an active Supervisory Board, the various tasks to be performed must be allocated. At the last

meeting held in the year under report, the Personnel Committee, Audit Committee and Corporate Governance Committee were constituted. Prior to this, the Management Board has given its commitment to the principles of transparent and responsible corporate governance with the underlying aim of creating added-value. Both bodies resolved unanimously to take measures to fulfil the requirements of the German Corporate Governance Code and brought the Board's own terms of reference, the contracts of the members of the Management Board and various internal control mechanisms into line with the recommendations published with the code. At the Annual General Meeting to be held on 21 May 2003, proposals to change the Company's statutes will be put forward for approval by the shareholders, including rules relating to the remuneration of the Supervisory Board as contained in the recommendations to the code. The Management and Supervisory Boards have declared in accordance with § 161 of the German Stock Corporation Act (AktG) that they have complied with the recommendations of the German Government Corporate Governance Code Commission (status 7 November 2002) as published by the Federal Ministry of Justice in the official part of the electronic version of the Federal Gazette. Until the resolutions are actually approved by the shareholders at the Annual General Meeting, the only exceptions are those in conjunction with the formal changes to the statutes.

Events after the balance sheet date

On 17 March 2003, WEDECO AG acquired, via its subsidiary, WEDECO Gesellschaft für Umwelttechnologie mbH, the ozone activities of Trailigaz Compagnie Generale De L'Ozone, Paris/France from Vivendi Water Systems Group, Paris/France. Vivendi Water Systems will contribute Trailigaz Ozone to WEDECO Gesellschaft für Umwelttechnologie GmbH in conjunction with a share capital increase of that company, and, in return, will take up a 15.2% investment in WEDECO Umwelttechnologie.

Trailigaz is a leading ozone equipment manufacturer with annual revenues in the region of € 12 million. The company has production facilities in Paris and a service business in the USA which has also been acquired.

There were no other events of any major significance after the balance sheet date.

Prospects

The volume of available water on the earth is fixed and can neither be reduced nor increased. Nevertheless, from a global perspective, only 5% of all waste water is cleaned and most countries are a long way away from managing limited fresh water resources on a sustainable basis. Some 2.4 billion people live under unhygienic conditions and suffer illnesses, caused by dirty water. Every year, 8 million people die from illnesses relating to dirty drinking water. For this reason, new technologies which can work without chemical additives, will have to be utilized to greater extent. WEDECO is now equipped with two technologies and is therefore in an excellent position to make its contribution to improving quality of life all over the world, and, at the same time, to achieve above-average growth.

Düsseldorf, 20. March 2003

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This Annual Report is also available in german.

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