

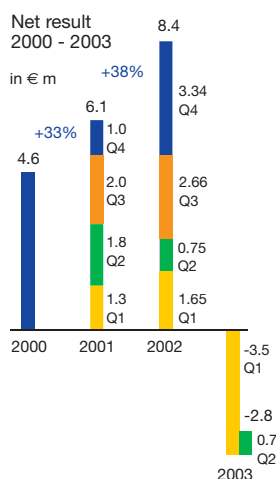
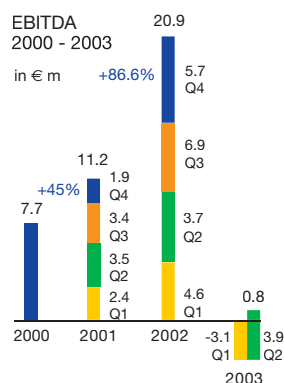
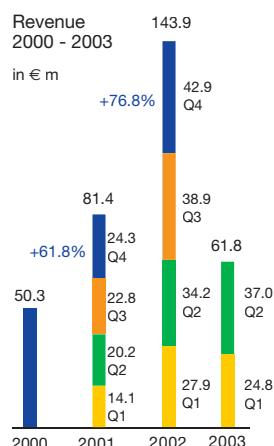
Water = Life

6-Month Report
January 1 to June 30, 2003

WEDECO AG

Water Technology

6-Month Report January 1 to June 30, 2003



Revenue and business development: considerable revenue increase in second quarter

In the second quarter of 2003, WEDECO generated revenue of € 37.0 million. Combined with the revenue of € 24.8 million from the first quarter, this results in consolidated revenue of € 61.8 million for the first six months. This is comparable to the revenue in the corresponding period of the previous year (€ 62.1 million). In the UV-Disinfection segment, which includes the spare parts and service business, revenue at € 32.6 million were € 0.3 million up year-on-year.

In the first half of 2003, the Ozone Oxidation segment including services generated € 29.2 million in revenue, compared with € 25.1 million in the first six months of the previous year. The Ozone business thus increased by € 4.1 million or 16.3% compared to the first half of 2002. The Ozone business does not include revenue from the recently acquired Trailgaz, which will be consolidated from July 1, 2003.

The revenue figures given above include service business, in particular, sales of UV lamps, which at € 16.5 million (first half year 2002: € 14.2 million) posted a considerable increase of 16.2%.

The Solar segment was sold at the end of 2002. In the first half of 2002 it contributed € 4.7 million to group revenue.

After the weak first quarter 2003 which had been expected the second quarter of 2003 was considerably better, with a revenue increase of 49.2%. The Asia/Pacific region and North and South America made significant contributions to these increases. In Europe, revenue declined as a result of the disposal of the Solar segment.

As is already apparent in the order backlog at the mid point of the year and with the current flow of incoming orders, a further considerable increase in revenue is to be expected for the second half of the year.

At the end of June 2003, the order backlog totalled € 57.9 million (prior year: € 49.5 million and at the beginning of the year € 47.1 million). € 39 million of this will be recognised as revenue this year.



New North American facilities in Charlotte, North Carolina / USA

Trailgaz, consolidated from July 1, 2003 contributes an additional order backlog level of € 8.3 million. Within July, orders totalling € 10.2 million had been awarded. If one calculates regular after sales business at an expected level of € 17.5 million and ongoing sales of small devices at € 10 million, then new orders totalling € 13.2 million are necessary to achieve the targeted annual revenue figure of € 160 million. With a current quotation volume of approximately € 740 million for UV and Ozone Systems, this target will be reached.

Cost of sales and gross profit: margin improved

In the second quarter of 2003, a gross profit of 33.3% was generated. This is slightly up on the figure from Q2 2002 (33.1%). Due to reduced capacity utilisation in the first quarter gross profit for the first six months was at 32.3%. A further improvement in capacity utilisation and the success of cost savings measures, lead one to expect a considerable margin improvement for the second half of the year.



WEDECO UV installation for drinking water in Marheez / Netherlands

Sales: strong incoming orders

Higher sales efforts are reflected by higher selling expenses. Compared to the first six months of 2002 selling expenses increased by 13.4%. Selling expenses in relation to revenue had been at 13.8% within the first half of last year, currently the ratio is 15.8%. If the annual target is achieved, these costs will decrease considerably in relation to revenue. The positive effect of the extended sales activities is an increasing order intake and consolidated market share in the areas of environmentally friendly UV and Ozone technology.

In the second quarter of 2003, WEDECO was awarded contracts against direct competitors in a number of key projects. In May and June, incoming orders for projects totalled € 30.8 million. In subsequent weeks, all sales areas recorded increased demand for UV disinfection systems and ozone oxidation projects. The increasing volume of projects reflects a reinforced global trend to protect the scarce resource of water. In order to escape the increasing contamination of the water cycle with new contaminants that are harmful to health it is necessary to use environmentally-friendly methods at various critical points in the

Consolidated Statement of Changes in Shareholder's Equity

| | Jan 1 to Jun 30, 2003 | Jan 1 to Jun 30, 2002 |
|---------------------------|--------------------------|--------------------------|
| | € 000s | € 000s |
| January 1 | 75,169 | 67,455 |
| Change in treasury shares | 0 | 605 |
| Exchange rate differences | -915 | -337 |
| Net result for the period | -2,773 | 2,406 |
| June 30 | 71,481 | 70,129 |

Segment information

| | Water UV | Jan 1 to Jun 30, 2003 Water Ozone | Total |
|-------------------------|----------|--------------------------------------|--------|
| | T€ | T€ | T€ |
| Revenue | 32,601 | 29,193 | 61,794 |
| EBITDA | -553 | 1,343 | 790 |
| Operating profit (EBIT) | -2,143 | -833 | -2,976 |
| Number of employees | 530 | 189 | 719 |
| Order backlog | 16,168 | 41,735 | 57,903 |



WEDECO UV System Type K for disinfection of drinking water in Clayton County / USA



UV modules ready for maintenance in Manukau / New Zealand

Sales by products and services

| | Jan 1 to Jun 30, 2003 | Jan 1 to Jun 30, 2002 |
|-------------|--------------------------|--------------------------|
| | € 000s | € 000s |
| Systems | 45,325 | 47,892 |
| After sales | 16,469 | 14,180 |
| | 61,794 | 62,072 |

Sales by countries (address of customer)

| | Jan 1 to Jun 30, 2003 | Jan 1 to Jun 30, 2002 |
|-----------------------------|--------------------------|--------------------------|
| | € 000s | € 000s |
| Europe | 37,639 | 42,239 |
| North- and South America | 15,786 | 14,884 |
| Asia/Pacific | 7,732 | 4,681 |
| Africa | 637 | 268 |
| | 61,794 | 62,072 |

water cycle without adding chemicals to the water. This applies not only to drinking water disinfection, but also to processing municipal wastewater and industrial process water. With its ozone and UV systems, WEDECO sets the system design standards in more and more countries.

In New Zealand the authorities of the city of Dunedin are utilising only UV technology. The Mount Grande drinking water plant is to use

WEDECO UV systems. The waste water from the municipal water treatment plant is already being processed with a WEDECO UV system. The success of the the world's largest UV system for waste water disinfection, which WEDECO installed in Auckland, was a decisive factor in gaining these orders.

The rigid threshold limits that apply in Brazil for the microbiological quality of waste water result in an

increasing number of water treatment plant operators deploying UV technology. Five new water treatment plants along the coastal region of the state of Parana are to receive WEDECO UV systems.

In June, several UV and Ozone projects with a total value of almost € 3.0 million were awarded by North American municipalities for drinking and waste water processing.



Ozone oxidation of waste water for Lang Paper in Ettringen / Germany

In Korea, China and Middle East, WEDECO was awarded orders with a total volume of over € 2.1 million. In China there is a great demand for comprehensive processing of waste water which has yet to be satisfied. Experts estimate that only 4% of waste water in China is actually treated. In the area of the city of Chongqing alone, with its 31 million inhabitants, above the world-famous Three-Gorge dam, the authorities want to invest over USD 4.8 billion, partly in the construction of 260 water treatment plants until 2010. For many of these projects, WEDECO has participated in tender proceedings.

The development in Korea is similar. Here WEDECO Sung Jin has prepared offers for more than 300 water treatment plants across the whole country. Many of these projects are now in the concrete decision-making phase.

The Italian WEDECO Tecnologie Acque srl. is to supply a large system for UV waste water disinfection with a total value of € 1.6 million for the first of Milan's three new water treatment plants. In Great Britain WEDECO UV Systems Ltd. concluded another framework agreement with a large water utility. Over the next three years, Southern Water will use exclusively WEDECO UV

technology to disinfect waste water in its water treatment plants. A second British water utility, Welsh Water, is also to fit two water treatment plants with WEDECO waste water disinfection systems. The total volume of these orders is € 3.8 million. In Germany, managers at the Essen Übertuhr drinking water plant ordered an ozone system consisting of three individual reactors for € 1.7 million, including automation and control engineering. In Turkey WEDECO was awarded a € 2.3 million order to supply a large ozone system for the Kagithane drinking water plant in Istanbul. An East European paper and cellulose company is receiving, in conjunction with the

largest Germany company for industrial gases, a WEDECO ozone system for chlorine-free cellulose bleaching with a value exceeding € 7 million. The newest WEDECO company, Trailigaz, received an order to supply an ozone drinking water processing system from Syria.

Strong incoming orders for UV and ozone projects are being supplemented by strong demand for small units and spare parts.

Administration and controlling: administration expenses further reduced

For comparative purposes, the general administrative expenses should be adjusted for the non-recurring expenses of € 3.0 million resulting from the negotiations relating to a merger with a competitor. On this adjusted basis, administration costs declined in absolute terms by € 0.3 million, now making up 8.4% of revenue as opposed to 8.8% one year ago and 10.0% in Q1 2003. The key tasks of administration and controlling in the second quarter were the integration of Trailigaz in the organisation of the WEDECO Group, the optimisation of the administrative processes within the

Consolidated Balance Sheet

| Assets | Jun 30, 2003 | Dec 31, 2002 |
|---|----------------|----------------|
| | € 000s | € 000s |
| Non current assets | | |
| Intangible assets | 10,376 | 10,997 |
| Goodwill | 49,921 | 51,220 |
| Property, plant and equipment | 6,657 | 6,903 |
| Deferred tax asset | 2,811 | 2,314 |
| | 69,765 | 71,434 |
| Current assets | | |
| Inventories | | |
| Raw materials and supplies | 14,172 | 11,296 |
| Work in progress | 20,881 | 22,120 |
| Finished goods and merchandise | 3,397 | 3,267 |
| Advance payments | 344 | 81 |
| | 38,794 | 36,764 |
| Receivables and other assets | 29,064 | 34,333 |
| Cash and cash equivalents | 3,997 | 7,301 |
| | 71,855 | 78,398 |
| | 141,620 | 149,832 |
| Shareholders' equity and liabilities | Jun 30, 2003 | Dec 31, 2002 |
| | € 000s | € 000s |
| Shareholders' equity | | |
| Capital stock | 10,995 | 10,995 |
| Capital reserves | 44,856 | 44,856 |
| Other comprehensive income | -1,477 | -562 |
| Retained earnings | 17,107 | 19,880 |
| | 71,481 | 75,169 |
| Minority interest | 596 | 657 |
| Non current liabilities | | |
| Financial liabilities | 26,744 | 25,977 |
| Pension provisions | 510 | 495 |
| Other liabilities | 1,047 | 1,064 |
| Deferred taxes | 2,386 | 2,757 |
| | 30,687 | 30,293 |
| Current liabilities | | |
| Advanced payments from customers | 127 | 865 |
| Trade accounts payable | 12,940 | 12,396 |
| Financial liabilities | 10,415 | 3,099 |
| Tax accruals | 2,858 | 3,988 |
| Other accruals and provisions | 7,763 | 8,118 |
| Other liabilities | 4,753 | 15,247 |
| | 38,856 | 43,713 |
| | 141,620 | 149,832 |

companies and between the individual companies and the Duesseldorf headquarters. The examination of the strategic contribution of all companies within the group resulted in decisions being taken, which are to be implemented in the course of the second half of the year.

Research and development: progress with components and processes

In first half year 2003, research and development expenses at € 3.1 million totalled 5.1% of revenue, after 4.8% in the comparable period of the previous year.

In the UV R&D, even more powerful electronic control devices were developed. The improved development of UV reactors in medium-sized and small drinking water and process water devices was concluded. Two patents were granted in the USA. They relate to waste water disinfection at low transmissions and an innovative electronic control principle.

The ozone R&D developed a new module for generating ozone for small process loops.

Consolidated Cash Flow Statement

| | Jan 1 to Jun 30, 2003 | Jan 1 to Jun 30, 2002 |
|--|--------------------------|--------------------------|
| | € 000s | € 000s |
| Net loss/profit attributable to the group | -2,773 | 2,406 |
| Amortization of positive goodwill | 1,908 | 1,871 |
| Disposal of negative goodwill | -98 | -100 |
| Depreciation on other intangible assets and property, plant and equipment | 1,955 | 1,476 |
| Taxes paid | -913 | -1,135 |
| Interest paid | 223 | -675 |
| Exchange rate differences | -894 | 317 |
| Change of accruals and provisions | -557 | 4,043 |
| Result on disposal of non current assets | -2 | 0 |
| Change of deferred taxes | -868 | -14 |
| Change of inventories, receivables and other assets | -1,524 | 5,167 |
| Change of trade accounts payable and other liabilities | 5,898 | -15,253 |
| Cash flow from operating activities | 2,355 | -1,897 |
| Acquisition of business, net of cash acquired | -690 | -36,038 |
| Cash proceeds on disposal of non current assets | 58 | 0 |
| Cash payments to acquire property, plant and equipment and intangible assets | -1,654 | -1,499 |
| Cash flow from investing activities | -2,286 | -37,537 |
| Change of treasury shares | 0 | 605 |
| Change of other assets from the disposal of business | 4,763 | 0 |
| Change of liabilities for acquisitions | -16,000 | 23,000 |
| Change in financial liabilities | 7,864 | -2,429 |
| Cash flow from financing activities | -3,373 | 21,176 |
| Change in cash funds | -3,304 | -18,258 |
| Cash and cash equivalents at January 1 | 7,301 | 23,115 |
| Cash and cash equivalents at June 30 | 3,997 | 4,857 |

Work on methods to eliminate biofilms in drinking water pipeline systems continued. Progress was made in eliminating endocrine disrupters from drinking and waste water. WEDECO has suitable solutions, which have proved successful in practise in eliminating legionella from contaminated drinking water. Co-operation with technical universities was extended.

Other operating expenses and income

Other operating expenses include exchange rate gains and losses, which balance each other out. The net other operating expenses and other operating income position results largely from the amortization of goodwill of € 1.9 million.

Financial result: moderate interest expenses

A financial result of € -1.2 million was posted. It consists largely of interest expenses for longterm loans.



New on the market: WEDECO UV System BX for drinking water disinfection

Result: positive operating result in Q2

In Q2 2003 a positive EBIT of € 2.0 million was generated. As Q1 2003 generated a negative EBIT of € -5.0 million – largely due to non-recurring expenses of € 3.0 million for negotiations on a possible merger, the EBIT for the first half year 2003 is now just under € -3.0 million.

In Q2 2003, EBITDA at € 3.9 million is slightly up on the figure of € 3.7 million generated in the comparable period of the previous year. In the first half year, EBITDA was € 0.8 million (first half year 2002: € 8.3 million).

In the second quarter, net income was € 0.7 million. For the first half of 2003, WEDECO posted a consolidated loss of € -2.8 million. Adjusted for non-recurring charges, the half-year result was € -1.0 million, after € 2.4 million in the first half year 2002. Earnings per share were € -0.25 after € 0.22 one year ago.

Cash flow: positive operating cash flow

Cash flow from current operating activities is positive. It provides € 2.4 million for current financial requirements, against € -1.9 million from the first half year 2002.

Balance sheet: equity ratio over 50%

The balance sheet does not include any items from the Trailgaz acquisition. There are material changes in the balance sheet in the area of short-term liabilities due to payment of the last instalments for the purchase price of the Ozone segment. This was financed by higher financial liabilities and positive operating cash flow. Against the 2002 year end, the equity ratio improved slightly to 50.5%.

Human resources: no material changes

In the first half of 2003, WEDECO AG employed worldwide an average of 719 staff, 10 more than the average of the first six months of the previous year. 530 employees work in the UV segment, 189 in the Ozone segment.

Outlook: target for the whole year confirmed

In the second half of 2003 several large projects will be delivered. Business with medium-sized and small UV and ozone systems has revived. The spare parts and service business has moved up strongly. Projects, on which delivery will be made in 2004, will result in good utilisation of the engineering and production areas. Added to this are the consolidation of Trailgaz from July 1, 2003, cost reduction programs and various individual measures within the companies. These are all contributory factors for the decisive improvement of the revenue and earnings situation in the second half of the year. On the basis of an expected revenue level of € 160 million for the whole of 2003, net income exceeding € 6 million will be achieved.

The Management Board

Consolidated Profit and Loss Account

| | Jan 1 to Jun 30, 2003 | Jan 1 to Jun 30, 2002 | Apr 1 to Jun 30, 2003 | Apr 1 to Jun 30, 2002 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | € 000s | € 000s | € 000s | € 000s |
| Revenue | 61,794 | 62,072 | 37,008 | 34,179 |
| Cost of sales | -41,827 | -38,714 | -24,680 | -22,859 |
| Gross profit | 19,967 | 23,358 | 12,328 | 11,320 |
| Selling expenses | -9,740 | -8,591 | -4,891 | -4,724 |
| General and administrative expenses | -8,206 | -5,478 | -2,729 | -2,690 |
| Research and development expenses | -3,130 | -3,010 | -1,629 | -1,757 |
| Other operating income | 2,521 | 623 | 1,600 | 495 |
| Other operating expenses | -4,388 | -1,885 | -2,636 | -917 |
| Operating profit (EBIT) | -2,976 | 5,017 | 2,043 | 1,727 |
| Interest and similar income | 90 | 211 | 31 | 190 |
| Interest and similar expenses | -1,260 | -886 | -603 | -409 |
| Net interest | -1,170 | -675 | -572 | -219 |
| Result from ordinary activities | -4,146 | 4,342 | 1,471 | 1,508 |
| Taxes on income | 1,376 | -1,941 | -743 | -753 |
| Net result before minority interest | -2,770 | 2,401 | 728 | 755 |
| Minority interest | -3 | 5 | 4 | 4 |
| Net result attributable to the Group | -2,773 | 2,406 | 732 | 759 |
| Basic earnings per share in € | -0,25 | 0,22 | 0,07 | 0,07 |
| Diluted earnings per share in € | -0,25 | 0,22 | 0,07 | 0,07 |
| EBITDA in € 000s | 790 | 8,264 | 3,898 | 3,651 |

This WEDECO quarterly report for the first half year of 2003 is in line with International Financial Reporting Standards (IFRS) and with International Accounting Standard 34 regarding interim financial reporting.

The same accounting and valuation methods were used as in the annual consolidated financial statements for the year ending December 31, 2002.

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