

Water = Life

3 Month Report
January 1 to March 31, 2004

WEDECO AG

Water Technology

3-Month Report January 1 to March 31, 2004

Revenue and business development

In the first quarter of 2004, WEDECO generated a consolidated revenue of € 21.0 million, 15.3% less than in the first three months of the comparative period of the previous year (€ 24.8 million).

The UV division posted € 12.5 million after € 16.2 million in the first quarter of 2003. In the first three months of the year, the Ozone division billed € 8.5 million after € 8.6 million in the equivalent period of the previous year.

At € 7.6 million the After-sales business achieved the same revenues as in the same period of the previous year (€ 7.6 million).

Sales by products and services

	Jan 1 to Mar 31, 2004	Jan 1 to Mar 31, 2003
	€ 000s	€ 000s
Systems	13,374	17,193
After sales	7,585	7,593
	20,959	24,786

Sales by countries (address of customer)

	Jan 1 to Mar 31, 2004	Jan 1 to Mar 31, 2003
	€ 000s	€ 000s
Europe	12,448	15,861
North- and South America	5,455	6,379
Asia/Pacific	2,944	2,477
Africa	112	69
	20,959	24,786

Revenue with systems declined from € 17.2 million to € 13.4 million year-on-year. The regional breakdown of revenues shows a decline of the business in Europe as well as North and South America. Only in the Asia/Pacific area was a slight revenue upturn posted, by 16% from € 2.5 million to € 2.9 million.

Nonetheless, the replacement of chemical water treatment methods by the environmentally-friendly ozone and UV technology is attracting increasing attention, especially in the developed industrial countries and in the emerging countries of Asia. One of the ways this is expressed is in the higher order backlog as at the end of March 2004 of € 69.0 million after € 56.4 million as at the end of December 2003 and € 51.0 million as at the end of March 2003. € 44.4 million of this relates to the UV division and € 24.6 million to the Ozone division. It forms a solid basis for the whole of the 2004 financial year. The strong increase is partly due to projects which were not delivered as planned in the first quarter of 2004.

Cost of sales and gross profit

In the first quarter, the cost of sales increased to 80.8% of revenue. Thus the gross margin declined from 30.8% in the first quarter of 2003 to 19.2% in the reporting period. The main reason for this was the fact the fixed production costs cannot be aligned to lower utilization levels at short notice.

Selling expenses

There was a year-on-year decline of selling costs by 10.4% from € 4.8 million to 4.3 million.

In North America, WEDECO gained several important orders: For the Colorado Springs water treatment plant, the Northern Water Reclamation Facility (NWRP) ordered two separate UV disinfection systems with a total order value of USD 1.3 million. The Kyrene water treatment plant in Tempe in the state of Arizona also commissioned WEDECO with supplying systems for waste water disinfection. UV reactors in the new LBX series are being used to disinfect almost 2,500 m³ of waste water per day. The order has a volume of USD 0.8 million.

In the first quarter, WEDECO obtained the largest order ever given in Germany for a UV waste

Consolidated Profit and Loss Account

	Jan 1 to Mar 31, 2004	Jan 1 to Mar 31, 2003
	€ 000s	€ 000s
Revenue	20,959	24,786
Cost of sales	-16,930	-17,147
Gross profit	4,029	7,639
Selling expenses	-4,327	-4,849
General and administrative expenses	-2,994	-5,477
Research and development expenses	-1,143	-1,501
Other operating income	1,378	921
Other operating expenses	-2,141	-1,752
Operating profit (EBIT)	-5,198	-5,019
Interest and similar income	16	59
Interest and similar expenses	-710	-657
Income from associates	13	0
Net interest	-681	-598
Result from ordinary activities	-5,879	-5,617
Taxes on income	2,216	2,119
Net result before minority interest	-3,663	-3,498
Minority interest	358	-7
Net result attributable to the Group	-3,305	-3,505
Basic earnings per share in €	-0.30	-0.32
Diluted earnings per share in €	-0.30	-0.32
EBITDA in € 000s	-3.208	-3.108

Segment information

	Jan 1 to Mar 31, 2004		
	Water UV	Water Ozone	Total
	€ 000s	€ 000s	€ 000s
Revenue	12,463	8,496	20,959
EBITDA	-1,079	-2,129	-3,208
Operating profit (EBIT)	-1,994	-3,204	-5,198
Number of employees	467	257	724
Order backlog	44,405	24,599	69,004

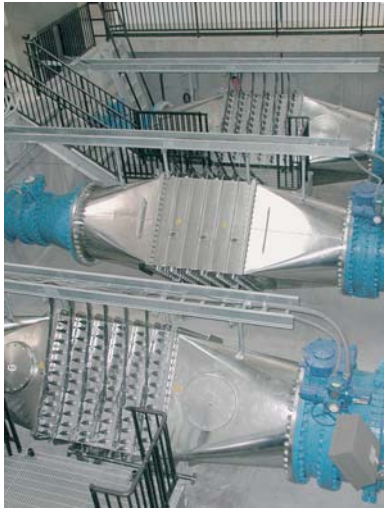
water disinfection system. At the Munich "Gut Marienhof" water treatment plant, the largest UV waste water disinfection facilities in Germany will be created at the beginning of 2005 for € 1.5 million.

In New Zealand too, a large UV order for waste water disinfection was gained in the first quarter. Napier City Council ordered an UV system for € 0.6 million.

In North America, the WEDECO Ozone division obtained a USD 2.0 million order from Cajun Constructors for processing drinking water. The Mosier Valley drinking water plant of the Trinity River Authority in Texas is being developed and will be able to process 13,700 m³ of drinking water per day with ozone.

For its plant in Taiwan, China Steel ordered an ozone container for € 0.7 million to treat organically contaminated industrial wastewater. WEDECO's container concept considerably reduces local installation times.

From SEDIF, one of the largely municipal water utilities in France, Trailigaz, WEDECO's French Ozone subsidiary, obtained an order (€ 0.6 million) to supply residual ozone destructors for the drinking water plant at Choisy, a suburb of Paris. Residual ozone



Large WEDECO UV installation for drinking water disinfection in Weber Basin, USA

destructors are needed to degrade excess ozone after it has been deployed in water treatment. In addition, Trailigaz will supply an ozone generator for € 0.3 million to the Pitkakovski drinking water plant in Helsinki, Finland.

Administration and Controlling

In the first quarter, the administration was involved not only with work for the annual financial statements, but also with additional activities in connection with the acquisition of WEDECO AG by ITT Industries Inc.

Adjusted for the non-recurring expenses incurred for fusion negotiations with a competitor of approx. € 3.0 million, general and administrative expenses increased from € 2.5 million to € 3.0 million.

Research and Development

In the first quarter of 2004, research and development expenses at € 1.1 million were € 0.4 million down on the comparative period of the previous year. The current product portfolio was subjected to a comprehensive analysis making it possible to give new impulses for further research and development projects. The focus here is the growing markets for waste and drinking water applications.

Other operating income and expenses

Other operating expenses relate primarily to goodwill amortization of € 1.0 million. Other operating expenses also include currency losses of € 0.7 million which largely balance out currency gains of € 1.0 million in other operating income.

Financial result

After three months, the financial result is € -0.7 million, in-line with the previous year figure of € -0.6 million. It relates primarily to interest for loans.

Result

In the first quarter of 2004, EBIT at € -5.2 million (first quarter 2003: € -5,6 million) was strongly negative.

Adjusted for deprecation, EBITDA totaled € -3.2 million for the reporting quarter (first quarter 2003: € -3.1 million). € -1.1 million of this relates to the UV division and € -2.1 million to the Ozone division.

Overall, the Group posted a loss of € -3.3 million for the first quarter of 2004. For the first quarter of 2004, basic earnings per share amounted to € -0.30 after € -0.32 one year ago.

Cash flow

For the first three months, cash flow from operating activities is negative, at € -8.5 million (first quarter 2003: € -0.7). While cash flow from investing activities remained virtually unchanged, cash flow from financing activities changed from € -3.3 million in the first quarter of 2003 to € 10.3 million in the first quarter of 2004. Funds from affiliated companies of € 17.8 million have been taken up, part of which was used to replace short-term amounts due to banks of € 7.6 million.

Balance sheet

The individual balance sheet positions have insignificantly changed against the end of 2003. As of March 31, 2004, the balance sheet total was € 146.3 million, almost unchanged to December 31, 2003 (€ 146.1 million).

In the current liabilities position, financial funds from ITT Industries of € 17.8 million have been taken up.

Consolidated Cash Flow Statement

	Jan 1 to Mar 31, 2004	Jan 1 to Mar 31, 2003
	€ 000s	€ 000s
Net loss attributable to the group	-3,305	-3,505
Amortization of positive goodwill	984	949
Disposal of negative goodwill	0	-49
Depreciation on other intangible assets and property, plant and equipment	1,005	1,011
Taxes paid	-252	-541
Interest paid	-599	427
Exchange rate differences	-591	-216
Change of accruals and provisions	-574	3,232
Result on disposal of non current assets	0	-3
Change of deferred taxes	-3,231	-2,327
Change of inventories, receivables and other assets	2,074	2,145
Change of trade accounts payable and other liabilities	-4,001	-1,861
Cash flow from operating activities	-8,490	-738
Cash proceeds on disposal of non current assets	262	49
Cash payments to acquire property, plant and equipment and intangible assets	-637	-395
Cash flow from investing activities	-375	-346
Change of other assets from the disposal of business	0	3,563
Change of liabilities for acquisitions	0	-7,000
Change in financial liabilities	-7,572	100
Change in financial liabilities from affiliated companies	17,822	0
Cash flow from financing activities	10,250	-3,337
Change in cash funds	1,385	-4,421
Cash and cash equivalents at January 1	1,785	7,301
Cash and cash equivalents at March 31	3,170	2,880

Consolidated Balance Sheet

Assets	Mar 31, 2004	Dec 31, 2003
	€ 000s	€ 000s
Non current assets		
Intangible assets	10,485	10,965
Goodwill	46,615	47,554
Property, plant and equipment	6,048	6,256
Investments in associates	329	316
Deferred tax asset	8,630	6,137
	72,107	71,228
Current assets		
Inventories		
Raw materials and supplies	15,872	12,779
Work in progress	21,896	21,479
Finished goods and merchandise	4,608	3,892
Advance payments	1,105	440
	43,481	38,590
Receivables and other assets	27,554	34,519
Cash and cash equivalents	3,170	1,785
	74,205	74,894
	146,312	146,122
Shareholders' equity and liabilities	Mar 31, 2004	Dec 31, 2003
	€ 000s	€ 000s
Shareholders' equity		
Capital stock	11,045	11,045
Capital reserves	43,413	43,413
Other comprehensive income	-890	-795
Retained earnings	7,484	10,789
	61,052	64,452
Minority interest	1,311	1,669
Non current liabilities		
Financial liabilities	25,246	24,961
Pension provisions	533	525
Other liabilities	424	613
Deferred taxes	2,072	2,810
	28,275	28,909
Current liabilities		
Advanced payments from customers	3,339	2,095
Trade accounts payable	12,105	16,471
Liabilities to affiliated companies	17,874	0
Liabilities to associated companies	1	12
Financial liabilities	8,131	15,988
Tax accruals	2,994	3,178
Other accruals and provisions	7,768	8,668
Other liabilities	3,462	4,680
	55,674	51,092
	146,312	146,122

The equity ratio moved from 44.1% as of December 31, 2003 to 41.7% as of March 31, 2004.

Human Resources

In the first three months of the current financial year, the WEDECO Group worldwide employed an average of 724 staff (first quarter 2003: 717 staff), 499 in the UV division and 225 in the Ozone division.

Outlook and events after the balance sheet date

After the majority take-over of WEDECO AG by ITT Industries with the resulting low free float of the WEDECO share, the Management Board of Deutsche Börse AG decided that the WEDECO share would not be listed in the TecDAX and NEMAX 50 from March 23, 2004. WEDECO AG then made an application to Deutsche Börse AG to transfer from Prime Standard to General Standard. Deutsche Börse AG approved this application with effect from July 1, 2004.

With effect from May 6, 2004 the Dusseldorf District Court appointed six new Supervisory Board members for WEDECO AG: Michael F. Oppenhoff, Thomas M. Pokorsky, Charles Reading, Lawrence J. Swire, Charles D. Peiffer and Ortfried Hackelberg. The Dusseldorf District Court thus approved the proposal of the Management Board. The reappointment of the Supervisory Board became necessary, as the previous Supervisory Board resigned in the course of the takeover of WEDECO by ITT Industries. The previous Supervisory Board consisted of Michael Stolskij, Holger Künzel, Prof. Dr. Martin Exner, Dr. Peter Hess, Michael Roesen and Horst Wedekamp as well as the substitute member Hans Werkmeister.

Consolidated Statement of Changes in Shareholder's Equity

	Jan 1 to Mar 31, 2004	Jan 1 to Mar 31, 2003
	€ 000s	€ 000s
January 1	64.452	75.169
Exchange rate differences	-95	-322
Net result for the period	-3.305	-3.505
March 31	61.052	71.342

As a result of the take-over of WEDECO AG by ITT Industries and the change in the Supervisory Board, the Annual General Meeting originally scheduled for May 18, 2004 has been postponed to August 30, 2004.

The Management Board is currently examining all business activities in relation to their contribution to the consolidated result. With a rigorous focus on core markets and competencies, WEDECO is targeting a considerable increase in its competitive position. This will be reflected in a positive earnings development.

Dusseldorf, May 11, 2004

The Management Board

The present quarterly financial statements of WEDECO for the first three months of the 2004 financial year were prepared in line with the International Financial Reporting Standards (IFRS) and the regulations on interim reporting according to International Accounting Standard 34. The same accounting and valuation methods were used as in preparing the annual consolidated financial statements as of December 31, 2003.