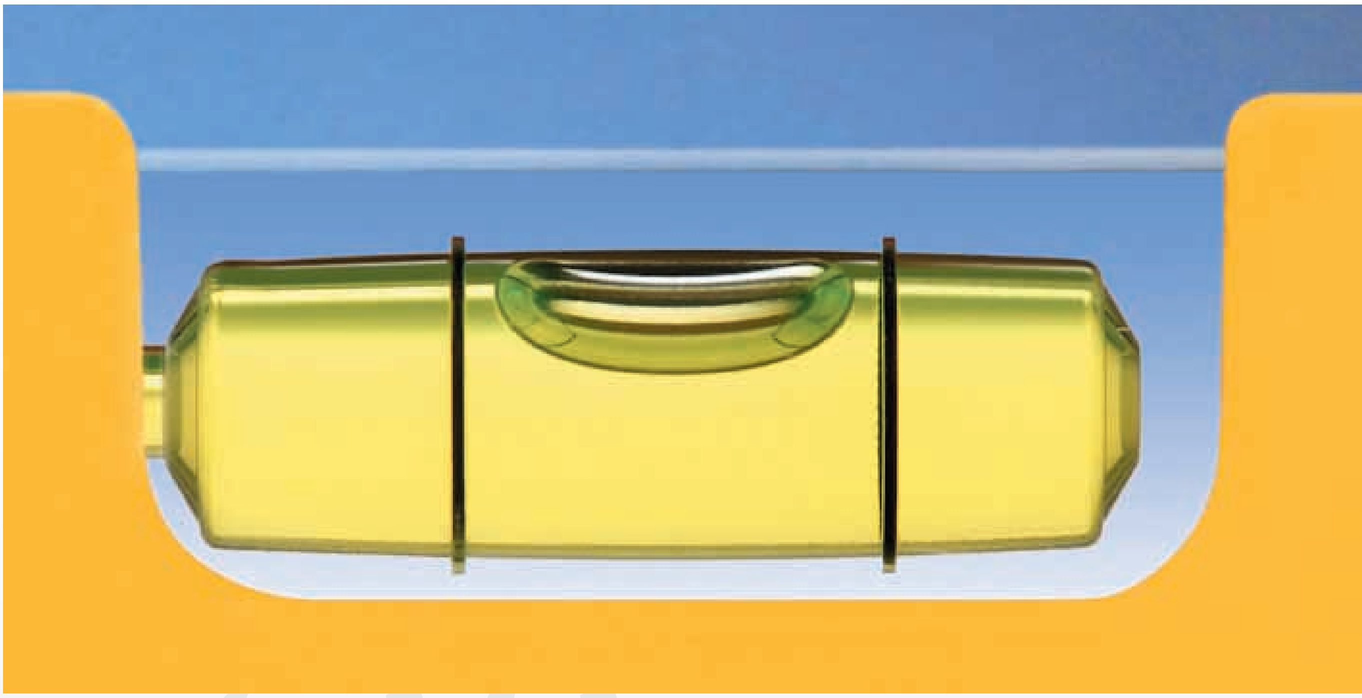

Annual Report 2002

Stability in turbulent times.

Chemistry
Pharmacy
Cosmetics

High-Precision
Plastics Technology

Explosives

H&R WASAG AG

Key figures for the H&R WASAG Group

Figures in € '000	2002	2001	2000*)
Sales	191,578	193,605	43,914
Pre-tax earnings	10,771	12,095	3,561
Net income	6,770	12,071**)	3,248
Earnings per share (in €)	0.36	0.64**)	0.27
Dividend (in €)	0.45***)	–	–
Cash Flow in accordance with DVFA/SG	17,741	22,259	12,424
Total assets	130,022	108,919	34,041
Net equity	67,561	51,250	3,457
Liquid assets	4,750	3,298	4,429
Liabilities to banks	82	130	290
Investment in fixed assets	9,495	10,872	6,138
Average number of employees	894	881	492

*) The key figures for the business year 2000 relate only to the WASAG-CHEMIE AG Group and are therefore not comparable with the key consolidated figures for the following years.

**) before consolidation balance of € –3,542,000 or € 0.19 per share

***) dividend proposal

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Letter to our shareholders

Dear shareholders,
and friends of H&R WASAG AG,

The second business year since the merger of WASAG-CHEMIE AG with lubricant refinery Salzbergen (H&R Group) is now behind us and 2002 was also a successful year for the new H&R WASAG. The group's stable growth in a tough economic environment marked by a high degree of uncertainty, confirms that the merger represented the right approach to positioning the company with an eye to the future. The key figures achieved last year bear impressive testimony to this statement:

- Pre-tax earnings as of December 31, 2002, are € 10.8 m which corresponds to a pre-tax margin on sales of 6%.
- All three divisions delivered positive contributions to earnings.
- Net equity increased from € 51.2 m in 2001 to € 67.9 m in 2002.
- The equity ratio of 47% in 2001 improved to 52% in 2002.
- The group's high level of investment in fixed assets of the past years was also maintained in 2002 with an investment volume of € 9.5 m.
- Investments were financed from cash flow as in the previous year.
- The group operated with no liabilities to banks in 2002 and had a liquidity cushion of almost € 5 m as of December 31, 2002.

We have already met the most significant targets of the merger. Among the most important of these for us is the direct participation of our shareholders in the success of the company. After paying off the balance sheet losses carried forward in the previous year, we are able to pay a dividend in 2002 for the first time since a considerable period. If the annual shareholders' meeting agrees with our proposal, the dividend will be € 0.45 per share. This dividend also contains a loyalty bonus after the company had been unable to pay any dividends in the recent past. In the coming years, we also intend to let our shareholders participate in the success and growth of H&R WASAG by means of attractive dividends.

For us, however, it is not only our financial achievements that count. In 2002 we further optimized the group's strategic alignment and positioned it for future growth. As companies engaged in the field of specialty chemicals, the group companies in our three divisions are outstandingly well positioned in the market and offer great potential.

Expanding our explosives division is the particular focus of our strategy in the current year. We intend to re-embrace this area, making it once again a core division in the group, by means of significant acquisitions. At the same time, we want to pursue with some urgency the road embarked on in our two current core divisions. In Chemical / Pharmaceutical Raw Materials and in Plastics, our focus is on expanding capacity. By doing so we intend to reinforce our core expertise.

We will therefore not be resting on our laurels in the future. The H&R WASAG Group is powerfully positioned in promising markets. Our primary goal now is to exploit this outstanding base and further increase the value of the company.

In this process our employees represent the decisive platform for success. We would therefore like to thank all our employees for their commitment and performance in the past business year. Our thanks also go to many workers' representatives for their constructive support in 2002.

Salzbergen, April 2003

Dr. H. Hollstein   M. E. Ostermann-Müller   N. H. Hansen

H&R WASAG AG

Report of the Supervisory Board

Dear shareholders,

In spite of the economic downturn in Germany and the considerable political uncertainty caused by the Iraq conflict, H&R WASAG AG has once again achieved gratifying overall results.

As the Supervisory Board we monitored the actions taken by the Management Board during the 2002 business year on an ongoing basis, and within this framework we oversaw the strategic progress of the company and offered advice on all individually significant decisions. For this purpose we asked the Management Board to report to us in detail in meetings of the Supervisory Board and additional written and verbal reports on the situation of the business, corporate growth, corporate policy, profitability and corporate planning including the financial planning, investment planning and personnel budget of the company, its subsidiaries and companies in which it holds a participating interest. These reports centered on the effects of a possible heightening of the conflict in the Near East on the price of crude oil, German tax legislation and the effects of wage increases on H&R WASAG AG's business and corporate growth. As well as in meetings of the Supervisory Board, the chairman of the Board also kept himself regularly informed both in writing and in person by the Management Board with respect to current developments in the business and important business events.

The Board convened five times during the 2002 business year. In these meetings we discussed the reports of the Management Board in detail, and reviewed the company's development and growth prospects and those of individual divisions together with the Directors. To the extent that the Supervisory Board was required to make decisions on individual transactions and measures adopted by the Directors, we passed resolutions on such subjects in meetings of the Supervisory Board. In 2002 the Supervisory Board paid particular attention to the integration of the Chemical / Pharmaceutical Raw Materials Division into H&R WASAG AG, the expansion of the Explosives Division and to overseeing the process of admitting shares in H&R WASAG AG for trading on the Amtlicher Markt. At the beginning of 2003 H&R WASAG AG was admitted to the Prime Standard of Frankfurt Stock Exchange.

In addition, the Supervisory Board turned its attention in detail in various meetings to the subject of "Corporate Governance", in particular to the new German corporate governance code and the effects of the German Transparency and Publicity Act.

Prudent corporate governance is an important concern of the Supervisory Board. A partnership of trust between the Management Board and Supervisory Board of H&R WASAG AG is an integral part of the way both bodies identify their roles. For this reason the Supervisory Board issued the first joint declaration of conformity by the Supervisory Board and the Management Board in accordance with § 161 AktG (German Stock Corporation Law) on December 16, 2002. In this declaration, the Management Board and the Supervisory Board stated that they would follow the recommendations of the government commission on the German Corporate Governance Code with a few exceptions.

The Supervisory Board formed two committees: a committee for staffing matters relating to the Management Board and a committee for deciding on capital transactions. The staffing committee met three times in the reporting period. The committee for capital transactions did not meet.

The annual statement of accounts and the consolidated financial statements with a common management report were audited by the firm of chartered accountants commissioned by the Supervisory Board, Susat & Partner OHG, Hamburg, and in each case were given an unqualified certificate of approval. The auditors have also concluded that the Management Board performed its duties in accordance with § 91 para. 2 AktG in a suitable manner. The Management Board has set up an appropriate information and monitoring system suitable for detecting in good time any developments which might pose a threat to the company.

We have checked the annual statement of accounts of H&R WASAG AG for the 2002 business year, the proposal made by the Management Board for the use of retained earnings, the consolidated financial statements and the common management report for H&R WASAG AG and the H&R WASAG Group.

The material to be checked and the auditors’ reports were given to each member of the Supervisory Board in good time. The auditors took part in the balance sheet meeting on April 24, 2003 and gave detailed explanations of its audit reports and the main results of its audit. We acknowledged and accepted the auditors' reports. The results of our own examination correspond fully with the results of the audit. There are no objections to be made following the final results of our examination.

We have approved the annual statement of accounts of H&R WASAG AG submitted by the Management Board as well as the consolidated financial statement. The annual statement of H&R WASAG AG is therefore certified in accordance with § 172 AktG. We agree with the proposal made by the Management Board concerning the use of retained earnings to pay a dividend of Ä 0.45 per share.

As the electoral period had come to an end, the Supervisory Board was due for reelection at the annual shareholders' meeting on August 21, 2002. The Supervisory Board was re-elected in its existing composition. There was one change among the employee representatives on the Supervisory Board. Mr. Reinhold Grothus was elected to the Supervisory Board for the first time as an employee representative as of August 2, 2002 as a replacement for Mr. Gerd Pohl who has left the Board. Mr. Bernd Günther was confirmed as Chairman of the Supervisory Board in the constitutive meeting of the Supervisory Board on August 21, 2002. Mr. von Bohlen und Halbach was elected as Deputy chairman.

We would like to express our sincere thanks to the Management Board and all employees for their outstanding work in a difficult economic environment.

Hamburg, April 2003

The Supervisory Board
Bernd Günther
Chairman

Organs of H&R WASAG AG

SUPERVISORY BOARD	Main business activity and seats on other supervisory boards
Bernd Günther BA in Business Administration Chairman of the Supervisory Board	• Director of Hamburger Getreidelagerhaus AG, Hamburg • Member of the Supervisory Board of Autania AG, Kelkheim • Member of the Supervisory Board of Göttinger Brauhaus AG, Göttingen • Chairman of the Supervisory Board of Ravensberger Bau-Beteiligungen AG i.I., Berlin • Chairman of the Supervisory Board of Patrio Plus AG, Hamburg • Chairman of the Supervisory Board of Maschinenfabrik Heid AG, Stockerau/Austria
Eckbert von Bohlen und Halbach Masters degree in Business Economics Deputy Chairman	• Director of Bohlen Industrie GmbH, Essen • Director of Bohlen Handel GmbH, Essen • Director of Prosecur Holding GmbH, München • Chairman of the Supervisory Board of Feierabend AG online services for senior citizens, Frankfurt/Main
Nils Hansen BA in Business Administration	• Shareholder with personal liability of Hansen & Rosenthal KG, Hamburg
Günter Papenburg BA in Business Administration	• Chairman of the Management Board of GP Günter Papenburg AG, Schwarmstedt • Member of the Supervisory Board of AVA Allgemeine Handelsgesellschaft der Verbraucher AG, Bielefeld • Member of the Supervisory Board of Ravensberger BauBeteiligungen AG i.I., Berlin • Chairman of the Advisory Board of Readymix Beton Saale GmbH & Co. KG, Halle (Saale) • Member of the Advisory Board of Arena Hannover GmbH, Hannover • Member of the Advisory Board of Heide Transportbeton GmbH & Co. KG, Soltau • Member of the Advisory Board of Mitteldeutsche Baustoffe GmbH, Sennewitz • Member of the Advisory Board of Norddeutsche Landesbank Girozentrale, Hannover • Member of the Advisory Board of Poller Steinbrüche GmbH & Co. KG, Vahlbruch • Member of the Advisory Board of Sindelfinger Asphalt-Mischwerk GmbH & Co. KG, Sindelfingen
Dieter Obert Electrician Employee representative	• Electrician with GAUDLITZ GmbH, Coburg
Reinhold Grothus Industrial foreman Employee representative Member of the Supervisory Board since August 2, 2002	• Industrial chemicals foreman with H&R ChemPharm GmbH, Salzbergen
Gerd Pohl Industrial clerk Member of the Supervisory Board until August 1, 2002	• Quality Control Manager of GAUDLITZ GmbH, Coburg

MANAGEMENT BOARD

Dr. Horst-Rüdiger Hollstein
Jesteburg
Chairman

Maria-Elisabeth Ostermann-Müller
Lingen (Ems)

Niels H. Hansen
Hamburg

Positioning of the H&R WASAG Group

With the merger of WASAG-CHEMIE AG with lubricant refinery Salzbergen (H&R Group) in 2001, we have strategically realigned the H&R WASAG Group. In the process we have already met the most significant targets of the merger. Above all, we are now in a position to implement major investments thereby laying the platform for future growth and an increase in the value of the company.

The potential for the group results from the outstanding positioning of individual subsidiaries in our two core divisions, Chemical / Pharmaceutical Raw Materials and Plastics, as well as in the Explosives division.

Significant market positions in Chemical / Pharmaceutical Raw Materials

H&R WASAG AG occupies an important position in the market within strategic product groups in the Chemical / Pharmaceutical Raw Materials Division: market positions in detail by product group can be seen in the following diagram:

Product group	Germany	Europe
Medical / technical white oils	1	2
Fully refined paraffins	2	4
Paraffinic softening agents	1	1
Aromatic softening agents	2	2
Printing ink oils, dark	1	2
Printing ink oils, light	2	3

Our aim is to maintain or build upon these leading positions.

In this division, preparations are now being made to increase dewaxing capacity and to set up a fourth hydrogenation plant following the expansion in precision distillation capacity from 30,000 t/a to 60,000 t/a which was completed by the end of the business year 2002. However, it will not be possible to begin the investment itself before the end of 2005 due to the extensive engineering work required. As an alternative, we are examining the question as to whether the same effect can be achieved by means of an acquisition and therefore at an earlier date.

Technological lead in precision plastics

In the Plastics Division, the group holds the leading technology position in the manufacture of precision plastic parts thanks to GAUDLITZ GmbH in Coburg. The strong position of the company is also evidenced by the fact that the company's management intervened quickly to halt a downturn in the business in 2002, successfully bringing the company's profitability back on track.

The Plastics Division is so well positioned in terms of earnings and competitiveness that we will continue to invest massively in the expansion of GAUDLITZ.

Expansion of Explosives Division targeted

While we are planning to achieve further growth in what are currently the group's core divisions, the strategic positioning of the Explosives Division has been less favorable to date. The market for industrial explosives is basically highly profitable. In the course of time, however, the Explosives Division of H&R WASAG AG lost touch with the development of this highly lucrative market. A critical analysis of the division reveals the following picture:

The explosives plants of H&R WASAG AG are not ideally designed in terms of their operating size, infrastructure and product range. In view of the many problems that the Explosives Division of H&R WASAG AG sees itself exposed to in its present configuration, a fundamental restructuring of the division is the only alternative to an exit strategy. We have therefore put together a series of measures that are required in order to turn the division around:

1. We must once again gain a position on the nonmetallic minerals market (stone and earth). This market is presently closed to WASAG as WASAG-CHEMIE AG sold off its infrastructure (local warehouses) to the competition at the beginning of the 90s, and access to this market has been blocked since then.

2. We must rejoin the market for modern explosives, i.e. become active in emulsions technology. The market for dynamite has been shrinking for years and is being increasingly replaced by emulsions technology.

3. The company must be sized in such a way that WASAG can once again be a supplier to be taken seriously in the group of European competitors such as Orica/Dynamit Nobel, Westspreng, Dyno, UEE, EPC and SNPE.

4. A new H&R Explosives Division must occupy a strong position not only in the traditional markets in Europe but also in Eastern European countries. The Eastern European markets are growth markets.

A forward-looking strategy remains our preferred alternative for the Explosives Division. Besides the exclusivity and high profitability of the business, the strength of the "WASAG" brand in particular offers outstanding potential in the respective industries. The strong brand represents a key asset that has been built up over decades. To build a brand name with the same awareness today would require the investment of high marketing expenditure on an annual basis. However, a forward-looking strategy can only be achieved through the acquisition of a major competitor. We have now decided to take this step.

Our aim is to re-integrate the Explosives Division into H&R WASAG AG's core business. If the intended acquisition goes well, H&R WASAG AG will have three highly profitable divisions of equal strength with scarcely any limits on their capacity for expansion.

Organisational chart of the operating companies in the group

H&R WASAG AG

Group structure / Organisational chart

Directors: Dr. Hollstein (Chairman), Ostermann-Müller, N. H. Hansen

ChemPharm – H&R ChemPharm

- H&R ChemPharm GmbH
  F. Geerdes • Ostermann-Müller • Büter
- H&R Chem.-Pharm. Spezial. GmbH
  F. Geerdes • Ostermann-Müller • Büter
- H&R LubeBlending GmbH
  F. Geerdes • Ostermann-Müller • Büter
- H&R LubeTech GmbH
  F. Geerdes • Ostermann-Müller
- H&R EcoClean GmbH
  F. Geerdes • Ostermann-Müller
- H&R Grundst.verw. GmbH
  F. Geerdes • Ostermann-Müller
- Westfalen-Chemie GmbH & Co. KG
  F. Geerdes • Dr. Koch
- SRS EcoTherm GmbH
  Büter • Dr. Schulz • Petrich
- J.P.S. Schmierstoffvertrieb GmbH
  Büter • Ostermann-Müller
- Paul Fütterer GmbH
  Büter • F. Geerdes

Plastics – GAUDLITZ

- Gaudlitz GmbH
  Schilling • Brückl

Explosives – WASAG

- WASAGCHEMIE Sythen GmbH
  Dr. Hollstein • Ostermann-Müller • Jänsch
- SYTHENGRUND Wasagchemie Grundstücksverwertunggesellschaft Haltern mbH
  Dr. Hollstein • Ostermann-Müller
- WANO Schwarzpulver GmbH
  N. H. Hansen • Ostermann-Müller

H&R WASAG AG

H&R WASAG shares

Basic data on the H&R WASAG stock

ISIN / German Sec. ID	DE0007757007 / 775700
Stock exchange code	WAS
Type	no par value bearer shares
Listings	Amtlicher Markt Frankfurt (Prime Standard), Hamburg and Düsseldorf; Freiverkehr Stuttgart and Munich
Indexes	Prime Standard All Share, Classic All Share, Prime Chemicals and Prime IG Chemicals Speciality
Designated Sponsor	Concord Effekten Aktiengesellschaft

The H&R WASAG stock: Business year 2002

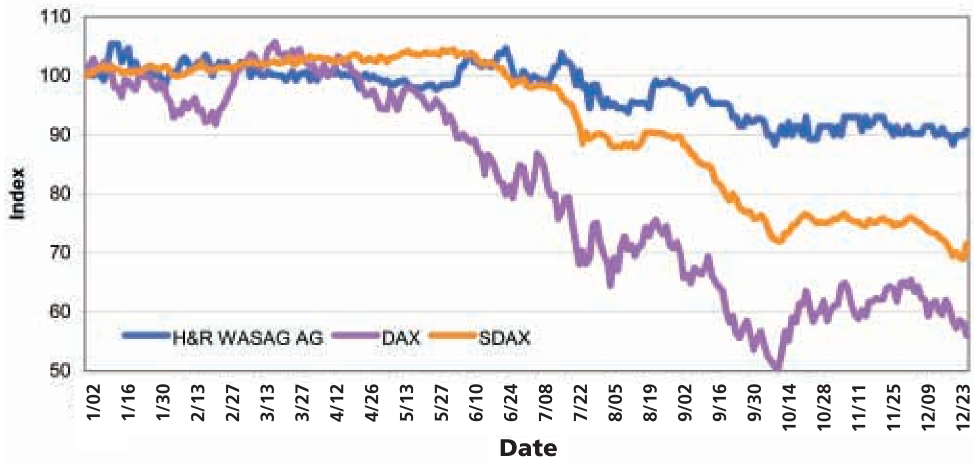
Share capital as of December 31, 2002	48,357,986 €
Number of shares as of December 31, 2002	18,916,000
Shareholding structure as of December 31, 2002	50.87 % diversified holdings, 39.64 % H&R Beteiligung GmbH, 6.65 % Wilhelm Scholten Beteiligungen GmbH, 2.84 % Nils Hansen
Consolidated net income per share	0.36 €
Dividend proposal	0.45 €
Annual high / low	6.80 € / 5.70 €
Average price	6.28 €
Closing price on December 30, 2002	5.85 €
Market capitalization as of December 30, 2002	110.7 Mio. €

Development of share price in 2002

The worldwide collapse of the stock markets continued in 2002. The main negative effects resulted from high uncertainty concerning geopolitical developments (especially in the Near East) and from weak global economic growth. Many companies reported falling sales and profits. In addition there were various corporate and accounting scandals that added to the loss of confidence in the stock markets. In the course of the year, the German share index DAX, lost 44%, while SDAX, the share index for small and medium-sized companies, fell by 28%.

In this tough environment, the H&R WASAG stock remained pleasingly stable. On January 1, 2002 the stock stood at € 6.45 and by January 11, 2002 it had risen to its peak for the year of € 6.80. In the following months the price moved sideways at a level of over € 6.00. In line with the general movement of the markets, the stock then came under slight pressure in August and September, and on October 9, 2002 it reached its low for the year of € 5.70. Nearly all other shares lost significantly more value in this same period. For the rest of the year H&R WASAG's stock moved sideways and closed at € 5.85 on December 30, 2002.

Movement of H&R WASAG stock, DAX and SDAX in 2002



Solid investment with a high dividend return

However, the attractiveness of our stock is not only the result of holding a stable share price in an extremely tough market. After the merger of WASAG-CHEMIE AG with lubricant refinery Salzbergen (H&R Group) in 2001 and the resulting increase in the group's profitability, we are now also able to offer our shareholders attractive dividends. For the business year 2002 we will consequently propose a dividend of € 0.45 to the annual shareholders' meeting in 2003. This results in an outstanding dividend return of over 7% with respect to the average share price for the year. We intend to pursue an attractive dividend policy in the future, too, thus enabling our shareholders to take an appropriate share of our corporate success.

Investor Relations activities expanded

The merger also saw a significant expansion of our Investor Relations activities. This included publishing quarterly reports for the first time. We also kept our shareholders and the financial world regularly informed of developments through shareholders' letters and press releases. We also considerably expanded the Investor Relations content on our website at www.hur-wasag.com and we now offer private and institutional investors a comprehensive information platform on all matters relating to the H&R WASAG stock.

Last year the focus was on communicating the new company and its potential. Through press releases, investor conferences and individual conversations with investors and representatives of the financial press, we revealed and explained in detail the background to the merger and its aims.
We will continue to conduct a high level of Investor Relations work in 2003 in order to further increase acceptance of the stock. We want to position the H&R WASAG stock as an investment in a solid special chemicals company with an attractive dividend policy and outstanding growth prospects.

Admission to the Prime Standard

In the course of the business year just ended we applied for entry to the new Frankfurt exchange segment, the Prime Standard. H&R WASAG AG was thus one of the first companies to be admitted to this segment which is characterized by increased obligations of transparency and publicity. By joining the Prime Standard we want to convey the high standard we set ourselves for our communications policy to the outside world. We therefore welcome the new segmentation of the stock market on the Frankfurt stock exchange, and we hope that it will help to win back investors' lost confidence in the stock market.

With our admission to the Prime Standard, we also signed up a Designated Sponsor for our stock. By this means we want to provide additional liquidity in the stock, thereby further optimizing its tradability for private and institutional investors. In doing so, we have also fulfilled the formal requirements for admission to a select index.

Corporate Governance Code implemented

After the recommendations of the government commission on the German Corporate Governance Code were published, we examined our own regulations for managing and monitoring the company and adapted them accordingly where necessary. In the last business year, we subsequently made the declaration of intent to observe the code as required by § 161 AktG for the first time, and in the process we identified the following differences from the commission's recommendations:

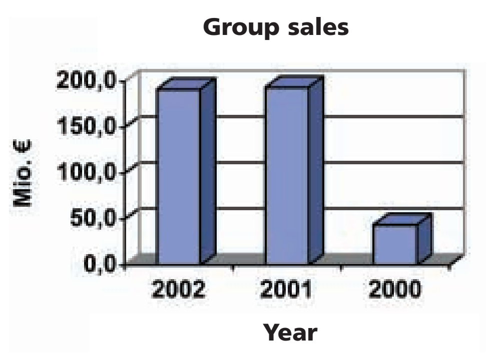
- Our existing D&O insurance contracts contain no own risk portion. It is intended to amend the contracts by introducing a suitable own risk portion.
- There are no age limits for members of the Management Board or Supervisory Board. The selection process for people proposed for election to the Supervisory Board, is conducted on the basis of having the knowledge, skills and technical experience required for the job. The appointment of board members by the Supervisory Board is also based on these criteria. It is not intended to define an age limit as an exclusion criterion.
- The Supervisory Board has not set up an audit committee. The main subject areas proposed for such an audit committee in the government commission's Corporate Governance Code, are covered in depth by the whole Supervisory Board at H&R WASAG AG.
- The remuneration of members of the Supervisory Board is defined in the company's articles of association. Until now chairmanship or membership of a committee has not been taken into account.
- The disclosure of trading in the company's shares conducted by board members is carried out in accordance with the statutory regulations set out in §15a WpHG. There is no provision for any further-reaching disclosure.
- The consolidated financial statements and quarterly reports have hitherto been prepared in accordance with HGB accounting principles. In the business year 2003 accounting practices will be converted to internationally recognized principles.

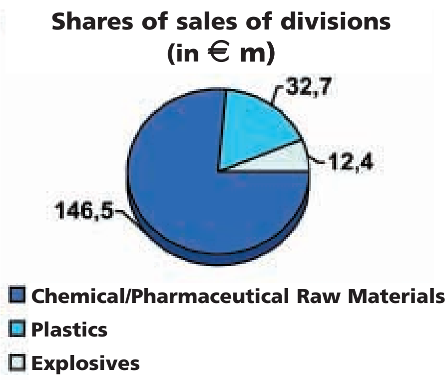
In the current business year, we will summarize and also publish all the principles which we adhere to in managing and monitoring the company's affairs in a code of our own.

Group Management Report
The course of business

The economic situation in Europe continued to worsen In 2002. The year was marked by a high degree of uncertainty over geopolitical developments (especially in the Near and Middle East). The German economy was also affected by uncertainty concerning political reforms and by marked consumer abstinence in the private sector. Although it proved possible to offset this decline through increased exports, overall the German economy stagnated at the level of the previous year.

In spite of this tough economic and political environment, the H&R WASAG AG Group succeeded in posting successful year-end figures for the business year 2002. Sales, however, declined slightly by comparison with the previous year, falling to € 191.6 m (previous year € 193.6 m). As in 2001 the lion's share of the sales was recorded by the Chemical / Pharmaceutical Raw Materials Division with a figure of € 146.5 m (previous year € 148.1 m). The Plastics Division posted € 32.7 m (previous year € 34 m) and the Explosives Division € 12.4 m (previous year € 11.4 m).

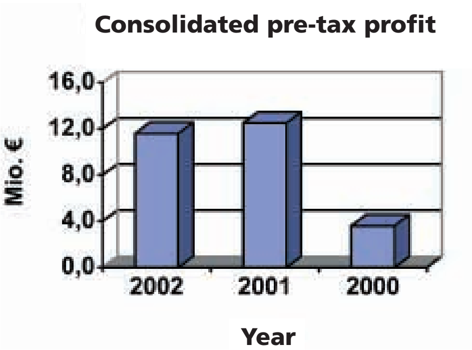




The pre-tax earnings figure of € 10.8 m was almost in line with budget (€ 11.2 m), although € 1.3 m below the previous year. The return on sales figure of almost 6% is within the target corridor defined by the Board, however, and can be termed satisfactory.

All three divisions delivered positive contributions towards these results. The Chemical / Pharmaceutical Raw Materials Division recorded a pre-tax profit of € 9.1 m (previous year € 9.9 m), the Plastics Division € 3.6 m (previous year € 5.0 m) and the Explosives Division € 1.4 m (previous year € 0.7 m). At a group level, goodwill depreciation costs were incurred amounting to € 2 m (previous year Ä 1.5 m) and holding costs of € 1.3 m (previous year € 1.5 m).

Shares of sales of divisions (in € m)



The company will pay trade tax again for the business year 2002 for the first time in a number of years. While the trade tax losses carried forward have been used up, the loss carryforward for corporation tax had also been reduced to a small residual amount by the end of 2002. Earnings after tax amount to € 6.8 m. Again for the first time in a number of years, the company will pay a dividend to shareholders on its 2002 earnings. The Management Board and the Supervisory Board are proposing a dividend of € 0.45 per share to the annual shareholders' meeting.

The company's available equity has increased further. The relative equity ratio has risen accordingly from 47% to 52%. The company's liquidity is also satisfactory. The investments in fixed assets of around € 9.5 m and the investments in replacements, upgrades and modernization of around € 1.3 m made in 2002 were able to be financed entirely from cash flow. As at the balance sheet date of December 31, 2002, the company had cash assets of almost € 5 m. No money was owed to banks.

Chemistry
Pharmacy
Cosmetics

High-Precision
Plastics Technology

Explosives

The special refinery of subsidiary H&R Chemisch-Pharmazeutische Spezialitäten GmbH is one of the most efficient and productive plants in the world (according to a recent SOLOMON benchmark study carried out in 2001). Here we make sophisticated, high-quality products that are used by our customers in turn as raw materials for, among other things, cosmetics, printing inks and lubricants. We systematically expanded the refinery's capacity in 2002 with the commissioning of a new precision distillation facility.

Development of the divisions

Chemical / Pharmaceutical Raw Materials Division

H&R ChemPharm Group

The companies belonging to the Chemical / Pharmaceutical Raw Materials Division will be put into an intermediate holding company from January 1, 2003, H&R ChemPharm GmbH, in order to ensure that the results of the individual divisions can be clearly displayed. The operating entities in the group are as follows:

- **H&R Chemisch-Pharmazeutische Spezialitäten GmbH**, a special refinery for the production of base oils, white oils, paraffins, precision distillates and solvates.
- **H&R LubeBlending GmbH**, a service company for the production of automotive and industrial lubricants.
- **H&R LubeTech GmbH**, a certified major laboratory for conducting chemical and physical tests on mineral oils and paraffins, analyzing environmental impacts and providing services.
- **Paul Fütterer GmbH**, a special mixing and filling operation for lubricants and anti-freeze products. The company was acquired in 2002.
- **J.P.S. Schmierstoffvertrieb GmbH**, a company belonging to H&R WASAG AG which has so far not been operative. The company has taken over the customer base belonging to H&R WASAG AG's doped lubricants business which is not part of the group's core business, with effect from November 1, 2002. The takeover serves the purpose of clearly separating the success and results of the doped lubricants business and preparing the way for a possible spin-off from the group.

H&R Chemisch-Pharmazeutische Spezialitäten GmbH (CPS)

CPS succeeded in further expanding its capacity in 2002. The output volume rose from 322,000 t in 2001 to 325,000 t in 2002. Sales of the main products (solvates, white oils, paraffins, precision distillates) increased by 10,000 t over the previous year and are now at 249,000 t. At the beginning of 2002, the end-user price level changed to reflect the price of crude oil that fell to \$ 18. This price level remained constant throughout the course of 2002 although raw material prices rose dramatically due to the unfavorable geopolitical circumstances. The margin per ton fell by an average of € 28 / t over the whole year by comparison with the previous year.

Nevertheless, the company was still able to post operating earnings of € 6.4 m (previous year € 9.5 m).

H&R LubeBlending GmbH

H&R LubeBlending GmbH posted sales revenues of € 46.6 m against € 48.3 m in the previous year (minus 4%). However, the company succeeded in improving its gross yield by 12.2% as well as reducing its fixed costs with the result that operating earnings amounted to € 2.6 m (previous year € 0.7 m).

The existing service contract with Aral was terminated to the end of 2003 by BP that took over Aral from E.ON in 2002. BP is intending to conclude a new service contract with LubeBlending, although for a different mix of products. The contractual negotiations are due to take place in the 2nd quarter of 2003.

Intensive negotiations are also taking place with other potential partners. In particular, negotiations are far advanced with ESSO that is intending to close its blending and filling factory in Hamburg in the 3rd quarter of 2003.

Paul Fütterer GmbH

The new acquisition of Paul Fütterer GmbH in Neustadt/Weinstrasse posted pre-tax earnings of almost Ä 200,000 for the short year from May until the end of December 2002. The plant is a good complement to the blending and filling operation of LubeBlending as it is capable of producing some special products for which LubeBlending in Salzbergen is not suited. These include, in particular, bottling in special containers for the German armed forces as well as the bottling of solvents and anti-freeze products.

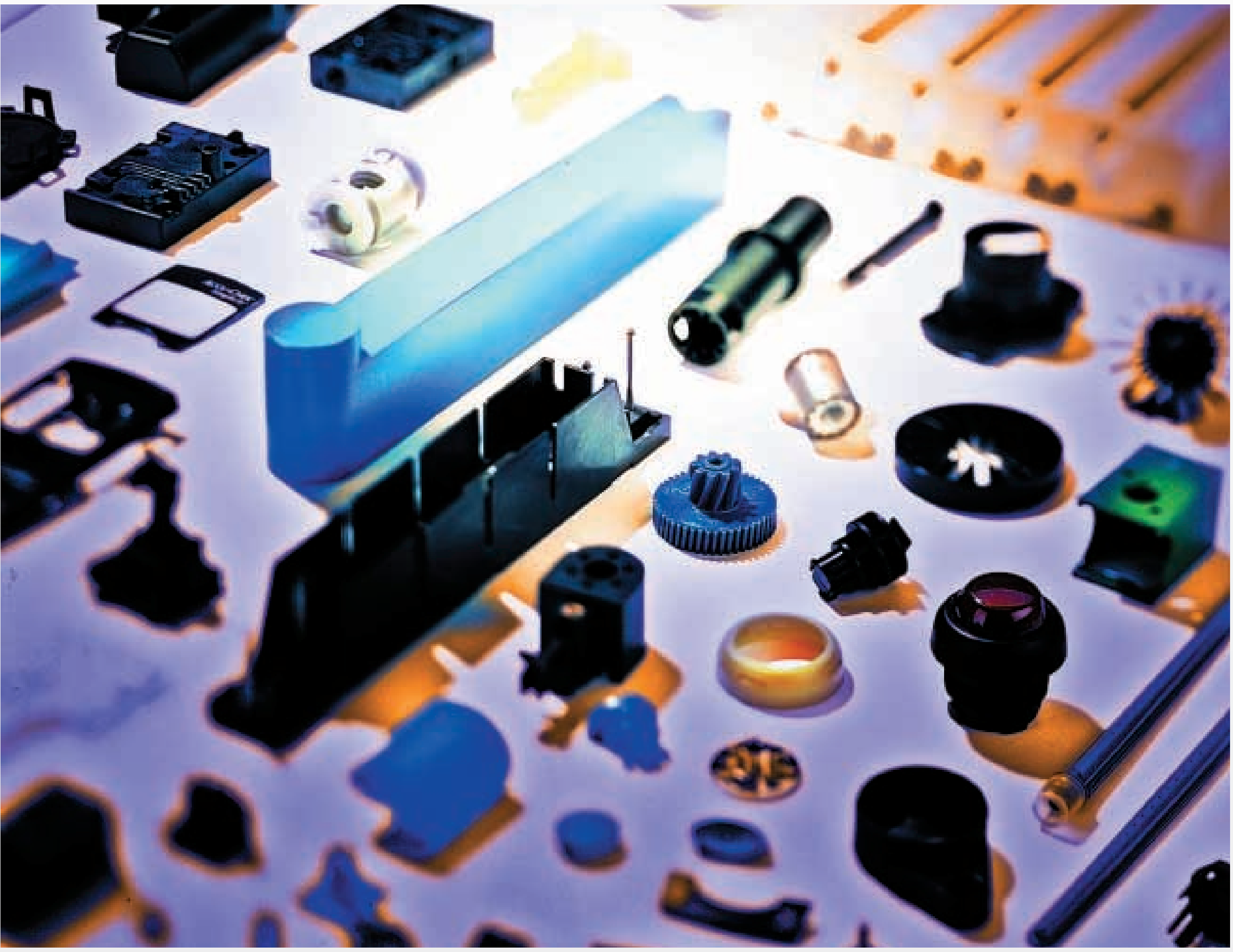
H&R LubeTech GmbH

H&R LubeTech GmbH performed over 100,000 analyses in 2002. The third party share (sales to third parties) stood at 5%.

LubeTech GmbH recorded pre-tax earnings of € 365,000 on sales of € 2.1 m.

J.P.S. Schmierstoffvertrieb GmbH

J.P.S. Schmierstoffvertrieb GmbH took over the customer base of H&R WASAG AG's doped lubricants business with effect from November 1, 2002 for a purchase price of over € 20 m. The resulting book profit is netted off in the group balance sheet. This step paves the way for the sale of the doped lubricants business that does not form part of H&R ChemPharm's core business, in contrast to H&R LubeBlending's service business.

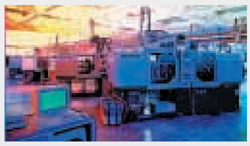


Chemistry
Pharmacy
Cosmetics

High-Precision
Plastics Technology

Explosives

Group subsidiary GAUDLITZ GmbH is engaged in the high-precision plastic parts manufacture at the Coburg facility. Here the company is the technology leader in a long-term growth market. Major customers are from the automotive supply industry, as well as medical and electrical engineering.



GAUDLITZ

Plastics Division

GAUDLITZ Group

The Plastics Division has grown by an average of 8 – 9% in the last few years. After the first four months of 2002 saw growth keeping pace with the previous year, it came to an abrupt halt from May onwards. Sales flattened and fell by comparison with the previous year until the 4th quarter of 2002. Sales over the whole year amounted to € 32.7 m which was 4% below last year. The plastic parts sector was most heavily hit with a decline of 6.2%. The weakness in the plastics industry thus caught up with H&R WASAG AG's plastics business one year later. This was a direct consequence of the restructuring measures with which customers in this sector responded to the fall in sales which had already set in the previous year due to economic effects, i.e. the closure of plants, the shifting of production, etc. had a negative effect on the overall business.

The negative trend was also exacerbated by a new wage agreement with IG Metall union (7.2% over 12 months: a 4.2% increase as per July 1, 2002 and a further 3% increase in June 2003). Company management was forced to react quickly to this critical development. The most significant steps were to reduce the workforce by approx. 10% in order to bring down fixed costs, and to implement a new sales strategy.

The new sales strategy consists in forming strategic partnerships with major customers. The company succeeded in initially establishing strategic partnerships with two major customers. GAUDLITZ specialists are involved at an early stage in the design phase in the customer's design office and in the development of new parts. These steps resulted in an upturn in toolmaking which started as early as the 3rd quarter of 2002. Toolmaking was thus able to increase sales by 7.7% to € 5.1 m and it achieved this in spite of the economic crisis. The level of the order book for tools is crucial for the future growth of plastic part sales – naturally offset by a period of 6 to 15 months. In fact the order book for plastic parts as of December 31, 2002 stood at € 13.5 m which is 4.3% above last year's figure, while orders for tools came in at € 2.4 m or 25% higher than in the previous year.

There were also noticeable shifts within individual market segments in the reporting year caused by economic factors. The automotive supply industry climbed from 46% in 2001 to 55% in 2002. The medical engineering share fell from 19% to 17%. The steepest fall was recorded in the electrical engineering sector with minus 8% while sales in measuring and control engineering were flat by comparison with the previous year at 6% of total sales.

As a result of the negative economic environment, the Plastics Division missed its budget earnings of € 4.2 m by € 0.6 m. This disproportionately steep fall in earnings of 14% against the budget figure is not only the result of declining sales but is also due to price reductions which customers demanded by way of compensation for similarly immoderate cost increases imposed by upstream suppliers on the basis of collective agreements.

Irrespective of the negative economic developments, the GAUDLITZ Group once again succeeded in 2002 in maintaining its position as the technology leader in the manufacture of precision plastic parts. The workforce was reduced by 38 employees from the beginning of July to the end of September 2002. At the same time the company established a working relationship with an external personnel agency in order to enable faster response to future changes of the level of orders on the books.

Chemistry
Pharmacy
Cosmetics

High-Precision
Plastics Technology

Explosives

Group subsidiary WANO Schwarzpulver GmbH is the world's market leader in the production of high-quality black powder in a wide variety of formulations, granulations and finishes. The company also makes fuse powder and safety fuses that can also be used for setting off major firework displays. In 2002 we expanded WANO's international activities by entering into a Joint Venture in the USA.

Explosives Division

The Explosives Division comprises three operating companies: WASAGCHEMIE Sythen GmbH, SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH and WANO Schwarzpulver GmbH. Developments in these companies were as follows in 2002:

WASAGCHEMIE Sythen GmbH

As a result of its existing sole supplier contract with DSK (Deutsche Steinkohle), production at WASAGCHEMIE concentrated mainly on safety explosives and rock explosives for the coal mining industry. Out of a total sales volume of 2,600 t, no less than 1,550 t were intended for the mining of hard coal.

Sales at WASAGCHEMIE Sythen climbed to € 8.8 m which represented an increase of € 0.8 m over the previous year. Pre-tax earnings grew from € 0.3 m in the previous year to € 0.4 m. However, earnings were affected by one-off exceptional items amounting to € 0.4 m. Among other things, considerable additional costs were incurred as a result of explosion damage suffered in July 2002.

To date it has not proved possible to implement the measures planned for further reducing fixed costs such as hiving off the maintenance area and reorganizing the laboratory, as no agreement has been reached between the management and the works council.

SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft mbH Haltern

Sythengrund posted pre-tax earnings of € 0.9 m (previous year € 0.4 m). These results contain exceptional income amounting to € 0.4 m raised from the sale of two blocks of flats situated on land belonging to Sythengrund.

According to generally accepted expert opinion, Sythengrund is valued at € 26 m. This figure includes approx. 3 m m^2 of land as well as buildings. The valuation does not include the quartz sand reserves contained on the land with a proven volume of over 10 m m^3. The intention is to mine this quartz sand at a later date – probably starting in 2007 – and possibly to refine some of it. Talks with the local authorities regarding these plans have so far gone well.

WANO Schwarzpulver GmbH

Sales of WANO Schwarzpulver GmbH were flat by comparison with the previous year at € 3.6 m. Pre-tax profits, however, fell from € 83,000 to € 75,000. While domestic sales were roughly at last year's level at 333 t, foreign sales rose from 250 t to 277 t although transport in particular to South Africa is still proving difficult due to restrictive regulations imposed by departure ports as well as by the responsible shipping companies. In USA the company has entered a Joint Venture with Petro-Explo. The joint company is trading under the name of "Schuetzen Powder" which replaces the "Elephant" brand. The company's sales growth has already proved satisfactory in the first few months.

In order to reduced the company's fixed costs, a strategy was developed which focused in particular on optimizing the maintenance sector but also on other areas of the overhead and on production. The intention is to realize the savings potential identified in the order of € 0.3 – 0.4 m as quickly as possible.

The Explosives Division is operating with high positive cash flow.

The construction of a thermal waste treatment plant in conjunction with RWE Power will enable us to achieve a considerable reduction in our energy costs at our Salzbergen facility. The plant will be integrated into the existing oil-fired power station, and will supply the refinery belonging to Chemisch-Pharmazeutische Spezialitäten GmbH with the base load of steam required for its operation.

Investments, research & development

As in the two previous years, investment was kept at a high level in 2002. Investment in fixed assets amounted to € 9.5 m. In addition, € 1.3 m was expended on replacing systems, upgrades and modernization. This means that around € 11 m was used for investment purposes in the group.

With a figure of € 5.9 m, the major part of this investment was spent on H&R Chemisch-Pharmazeutische Spezialitäten GmbH (CPS), the refinery. The most significant individual investments in CPS were the construction of a new precision distillation plant for the production of precision distillates. Precision distillates are used as high boiling solvents and as a raw material for printing inks and rolling oils. As a result of the investment, an old plant was replaced and at the same time capacity doubled. The plant was commissioned at the beginning of 2003.

The new precision distillation plant is also capable of producing ISO paraffins. There is a requirement for such products in the chemical industry, cosmetics and in pharmaceuticals. The intention is to become increasingly active in these special chemicals markets in the future.

H&R LubeBlending invested € 2.2 m in the business year 2002. This investment was made in order to increase productivity especially in the blending plants. H&R LubeBlending is not only one of the largest blending and bottling operations in Europe but it is also the cost leader in the industry. The company's management is pursuing the aim of maintaining or further extending its favorable competitive position.

The Plastics Division invested mainly in replacements and rationalization measures. In the business year 2002 these investments totaled € 1.6 m.

The new power station currently being built at the Salzbergen location in which RWE and H&R ChemPharm have stakes of 90% and 10% respectively, is being financed primarily by RWE. The investment volume is approximately € 50 m.

€ 2 m was spent on research and development during the business year. In the Chemical / Pharmaceutical Raw Materials Division, the research program amounts to € 1.3 m. A major portion of this sum was spent on the "re-esterification of native oils" project. The project, already started in 2001 with the aim of constructing a plant for the manufacture of products on the basis of renewable raw materials, had progressed by the end of 2002 to the point where it was possible to confirm that the basic engineering process developed worked successfully. Trials for fully continuous operation simulating real process conditions have yet to be run. The project phases comprising the construction and operation of a mini-plant and the engineering for the construction of a major plant are intended to be completed in 2003 and 2004.

In the Plastics Division, € 0.5 m was spent on developing and manufacturing high-quality 6 – 8 up moulds as well as on developments for cube tools, micro-tool technology and for insert methods for molding metals.

Some € 0.2 m was spent in the Explosives Division on the development of production techniques for cetane number improvers for diesel fuels and on developing improved hunting powder.

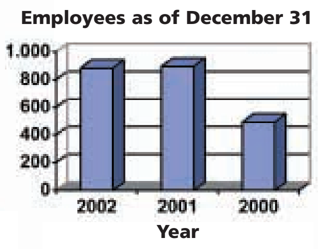
Preliminary work on the certification of a new Integrated Management System (IMS) was carried out at the Salzbergen location in 2002 on behalf of H&R ChemPharm GmbH, H&R Chemisch-Pharmazeutische Spezialitäten GmbH, H&R LubeBlending GmbH, H&R LubeTech GmbH, H&R EcoClean GmbH, SRS EcoTherm GmbH and die Westfalen-Chemie GmbH & Co. KG (Joint Venture with Westfalen AG, 50% stake). The system meets the requirements of the DIN EN ISO 9001:2000 (quality), DIN EN ISO 14001 (environmental protection) and OHSAS 18001 (work protection) norms. The system has now been successfully certified by representatives of DQS (German company for the certification of management systems).

At GAUDLITZ (Plastics Division), the monitoring audit for DIN EN ISO 14001 and certification to DIN EN ISO 9001:2000 (replacement for DIN EN ISO 9001), VDA 6.1 and ISO/TS 16949 (replacement for QA-9000) were successfully completed.

Employees

Thanks to the attractiveness of the company with its three divisions it is no problem to recruit junior staff or experienced specialists. It is one of H&R WASAG AG's most important aims to assign a high degree of responsibility to employees and to encourage them to think and act in an entrepreneurial manner. Customer orientation and entrepreneurial conduct on the part of employees is the desired and already intensively practiced corporate culture at H&R WASAG AG. Employees' awareness of safety, the environment, health and quality is continually trained and improved through a series of projects and the introduction of relevant IT-supported systems.

The earning power of the Plastics Division threatened to be worryingly undermined on the one hand as a result of a market-related decline in sales, and on the other by the new collective wage agreement reached with the IG Metall union (an increase in labor costs of more than 7% within a period of 12 months). This made it necessary to quickly reduce the workforce in the division by approx. 10%. As a result, the number of employees in the H&R WASAG Group including those with fixed-term contracts fell from 895 as of December 31, 2001 to 883 as of December 31, 2002.



Risks / risk management

H&R WASAG AG operates and monitors an extensive risk management system throughout the entire group. Regular board meetings are held in order to monitor and where necessary neutralize and remove existing risks as well as identify risks in the making for the group as a whole or parts of the group. When strategic risks as well as risks specific to a particular business are identified, their significance is set down and minuted and suitable measures put in place in order to defuse them.

In the Chemical / Pharmaceutical Raw Materials Division, the volatility of the oil price represents a particular business challenge as it does for every company operating in the oil industry. When the prices of raw materials rise quickly over a short period, this can create windfall losses and trigger considerable liquidity problems. One essential requirement for securing future growth therefore consists in securing a sufficient equity base as well as a sufficient credit limit from partner banks. The current relative equity ratio of 52% of total assets (equity € 67.6 m, total assets € 130 m) and the credit lines granted by the partner banks amounting to Ä 30 m represent important progress achieved by the company in controlling these risks and therefore in securing its future. When the costs of raw materials rise suddenly, the company is today better placed to cover its increased need for liquidity on a temporary basis until such time as end-user prices adjust, than ever before in its history.

Supplying the special refinery, H&R Chemisch-Pharmazeutische Spezialitäten GmbH, with raw materials entails higher transport costs due to the plant's inland site by comparison with its relevant competitors. In order to make up for this location disadvantage, a thermal waste treatment plant (SRS EcoTherm GmbH) is currently under construction in collaboration with RWE Power AG which will be integrated into the existing oil-fired power station and provide the refinery with the base load of steam required, i.e. 50 t per hour. The steam price per ton negotiated with SRS EcoTherm GmbH is the equivalent of an oil-generated steam price corresponding to a crude oil price of $ 10 per barrel. The savings that can be achieved on the delivery of steam are able to fully compensate for the increased transport costs in relation to the delivery of raw materials due to the plant's location. The plant will be commissioned in the first quarter of 2004.

In the Plastics Division (GAUDLITZ GmbH), the high share of total sales represented by the automotive supply industry (55%, previous year 46%) has still not proved a disadvantage. On the contrary: in the 2002 business year in which in particular the electrical engineering, medical engineering and measurement and control industries suffered a major decline for economic reasons, the growth recorded in the automotive vendor parts business was able to prevent an even more serious decline. Although the automotive industry has also been affected by the current economic weakness, it responds to times when competition increases by raising the level of fixtures and fittings in their vehicles. However, this sector is the natural working environment and sales terrain of suppliers to automobile manufacturers whom GAUDLITZ services with their technology and products. Moreover, GAUDLITZ's overall business is characterized by a broad customer base with more than 300 active customers at home and abroad.

In order to maintain its technological lead, GAUDLITZ is forced to compete on investment at a comparatively high level. High earning power is a pre-requisite for such a strategy. The pay policy pursued by the IG Metall union therefore threatened to pose a competitive disadvantage for the company and its location. The company is relatively personnel-intensive due to the depth of its production. Almost half the fixed costs are personnel costs. Although GAUDLITZ has a leading technological position as a result of its investment policy, and the company's productivity has grown at an above-average rate in the last few years, labor cost increases of 7.2% over 12 months cannot be compensated. The company is presently considering whether to leave the employers' federation.

The continued existence of WASAGCHEMIE Sythen is largely dependent on the sole supplier contract with Deutsche Steinkohle which is provisionally limited to the year 2005, now that the setting up of a new product line, namely the production of cetane number improvers for diesel fuels at the Sythen location, has failed due to bureaucratic obstacles.

WANO Schwarzpulver GmbH's black powder business is increasingly having to battle problems with transport logistics. Ports and shipping companies are both banning the transshipment of explosives or else they are defining maximum volumes that may be transshipped per shipment. These restrictions can drive transportation costs so high that the business on which they are based can no longer be profitably processed. Competitors from Asia and East Asia are not subject to restrictions of this nature. The risks contained in the Explosives Division are forcing the company to restructure its explosives business.

Outlook

The Management Board compiled a group budget for 2003 as a standard procedure and presented it to the Supervisory Board on December 16, 2002. In view of the Iraq crisis which was coming to a head at the time and the resulting massive increase in crude oil prices with all the negative consequences for growth in the world economy as well as the special negative economic effects on the domestic front, the Management Board had the Supervisory Board grant it exemption from its obligation to present a binding budget for 2003.

The Chemical / Pharmaceutical Raw Materials Division suffered from steeply rising and volatile crude oil prices in the first few months of 2003 – caused by the Iraq crisis. In 2002 the average price for crude oil was $ 24.98 per barrel. In the first three months of 2003, the average price rose by 26% to $ 31.46 per barrel. As the budget assumed an average price of $ 25 for the whole of 2003, the first three months have seen windfall losses within the division. This means that as it was not possible to raise end-user prices quickly enough to keep pace with the rise in the price of raw materials, there was considerable pressure on margins in the first three months. Only at the beginning of April was it possible to increase market prices in the order of € 30 to € 70 / t. Earnings in the division will depend heavily on whether there will be any windfall profits in the course of the year, and if so over what length of time. Windfall profits occur when quarterly end-user prices come in lower than budgeted figures due to the falling price of raw materials.

To the extent that management is able to influence developments, far-reaching steps have been taken to ease the situation. These include halting investment and implementing drastic cost control systems in the maintenance area. In addition, advance payments to the workforce resulting from the existing profit-sharing model have been suspended until further notice.

The utilization of capacity in the refinery was relatively high in the first few months in spite of the negative economic environment. Sales of strategically important products such as white oils, paraffins and ink solvents were roughly at last year's levels. The new precision distillation plant has begun operating which means that we are able to supply the market with additional volumes of printing ink oils. The new market segment of ISO paraffins which has now opened up as a new sales area as a result of the new plant, is still sluggish at present.

The “Native Oils” research project will require a further € 2 m before the development plan has been completed. In view of the uncertainty regarding future political and economic developments, the project has been hit by the halt imposed on investment and has been put on hold until further notice.

Construction of the thermal waste treatment plant at the Salzbergen refinery is proceeding to schedule. The plant which is being mainly financed by RWE Power AG, will provide the special refinery with steam by the beginning of 2004. From this point onwards, energy costs will be reduced by an average of approx. € 2 m per annum.

The Plastics Division is going surprisingly well in spite of the weak economic environment. The order book has now reached the level of half a year’s sales (industry average: 6 – 7 weeks). The level of orders for tools, the real source of future sales, has doubled by comparison with the previous year, and has reached an all-time record. The pressure on prices remains high. The company is trying to offset the wage increase of approx. 3% already collectively agreed for July 1 by means of an agreement with employees to lengthen weekly working hours.

Work on restructuring the Explosives Division of H&R WASAG AG is proceeding apace.

Consolidated Statement of Accounts of H&R WASAG Aktiengesellschaft, Salzbergen for the business year 2002

Balance Sheet as of December 31, 2002

Assets		Dec. 31, 2002	Dec. 31, 2001
Notes	€		€ ,000
Assets			
Intangible assets	1	21,904,253	22,330
Fixed assets	1	38,938,446	37,681
Financial assets	1	7,067,351	1,848
		67,910,050	**61,859**
Working capital			
Inventories	2	26,191,277	24,397
Trade receivables		14,252,857	12,514
Other receivables and other assets	3	7,248,959	5,134
Securities	4	432,011	1,532
Liquid assets	5	4,749,679	3,298
		52,874,783	**46,875**
Prepaid expenses and deferred charges		180,087	185
Tax accrual item in accordance with § 306 HGB	6	9,057,132	0
		130,022,052	**108,919**

Shareholders' equitiy and liabilities		Dec. 31, 2002	Dec. 31, 2001
	€		€ ,000
Shareholders' equity			
Subscribed capital	7a	48,357,986	48,358
Capital reserves		2,823,050	2,823
Variance from first consolidation	7d	129,245	68
Group accumulated profit	7e	16,243,056	0
Consolidation balance for shares of other companies	7f	7,518	0
		67,560,855	**51,249**
Special reserve with equity portion	8	72,568	145
Accruals			
Accruals for pensions and similar obligations	9	26,088,645	26,896
Other accruals	9	15,940,968	12,533
		42,029,613	**39,429**

Accounts payable		Dec. 31, 2002	Dec. 31, 2001
		€	€ ,000
Bank loans and overdrafts	10	82,070	130
Customer advances	10	887,187	181
Trade accounts payable	10	10,571,019	8,552
Other accounts payable	10	7,477,098	5,911
		19,017,374	**14,774**
Deferred income		1,341,642	3.322
		130,022,052	**108,919**

Profit and Loss Statement as of December 31, 2002

	Notes	2002 €	2001 € ,000
Sales	13	191,577,898	193,605
Changes in finished goods and work in process		1,360,906	-844
Other own work capitalized		53,108	44
Other operating income	14	7,032,674	5,831
		200,024,586	**198,636**
Cost of materials	15	-114,038,786	-112,870
Personnel expenses	16	-41,418,402	-39,484
Depreciation on fixed intangible assets and tangible assets	17	-10,219,062	-10,146
Other operating expenses	18	-22,858,180	-23,635
		-188,534,430	**-186,135**
		11,490,156	**12,501**
Income from participating interests		0	-36
Write-down of financial assets and current securities		-68,476	-1
Interest income	19	175,684	-6
Group net operating income		**11,597,364**	**12,458**
Taxes on income	21	-4,000,807	-24
Other Taxes	20	-826,193	-363
Group net operating income after taxes		**6,770,364**	**12,071**
Consolidation balance		0	-3,542
Group net income / net loss for year		**6,770,364**	**8,529**
Deferred taxes as of January 1, 2002	7e	9,472,692	0
Losses brought forward from previous year		0	-27,678
Withdrawals from capital reserves		0	19,149
Group accumulated profit		**16,243,056**	**0**

Consolidated Cash Flow Statement

			2002 € ,000	2001 € ,000	Variance € ,000
1.		Result for period (including share of earnings of minority shareholders) before extraordinary items	6,770	12,071	-5,301
2.	+/–	Write-offs / Write-ups of tangible assets	10,244	10,146	98
3.	+/–	Increase / decrease in long-term accruals	-807	5	-812
4.	+/–	Other non-payment expenses / income	1,534	37	1,497
	=	**Cash Flow in accordance with DVFA/SG (Sum of 1. to 4.)**	**17,741**	**22,259**	**-4,518**
5.	+/–	Increase / decrease in short-term accruals	3,408	9	3,399
6.	–/+	Profit / loss from retirement of fixed assets	-697	-164	-533
7.	–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-4,149	5,248	-9,397
8.	+/–	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activities	1,142	-8,954	10,096
9.	=	**Cash Flow from running operations (Sum of 1. to 8.)**	**17,445**	**18,398**	**-953**
10.		Contributions from the retirement of fixed assets	1,121	2,197	-1,076
11.	–	Payments for investments in tangible assets	-9,495	-10,872	1,377
12.	–	Payments for investments in intangible assets	-1,939	-671	-1,268
13.	–	Payments for investments in financial assets	-5,695	-215	-5,480
14.	=	**Cash Flow from investment activities (Sum of 10. to 13.)**	**-16,008**	**-9,561**	**-6,447**
15.	–	Payments to former shareholders of SRS-GmbH	0	-5,662	5,662
16.	–	Payments for the repayment of loans and (financial) credits	-10	-4,772	4,762
17.	=	**Cash Flow from financing activity (Sum of 15. to 16.)**	**-10**	**-10,434**	**10,424**
18.		**Changes in funds resulting from payments (Sum of rows 9, 14, 17)**	**1,427**	**-1,597**	**3,024**
19.	+/–	Changes in funds due to exchange rates, consolidated companies and valuation factors	25	0	25
20.	+	Funds at the beginning of the period	3,298	4,895	-1,597
21.	=	**Funds at the end of the period (Sum of 18. bis 20.)**	**4,750**	**3,298**	**1,452**

H&R WASAG Aktiengesellschaft, Salzbergen

Notes to the Consolidated Financial Statements 2002

GENERAL INFORMATION

In accordance with § 290 para. 1 HGB, H&R WASAG AG presents consolidated financial statements. The German accounting standards (DRS) produced by the German Accounting Standards Committee (DRSC) have been taken into account.

The consolidated financial statements are deposited with the Companies Register Lingen (Ems) under HR B 3494 and at the same time announced in the Federal Official Gazette (§ 325 para. 3 HGB).

The declaration regarding the German Corporate Governance Code required under § 161 of the German Corporation Law was made in December 2002 and made available to the shareholders.

The annual accounts of all companies included in the consolidated financial statements are drawn up in accordance with the regulations of commercial law. The Profit and Loss Accounts are drawn up in accordance with the cost-summary method.

For the sake of clarity, various items in the balance sheet and Profit and Loss Account have been combined in accordance with § 265 para. 7 HGB.

Consolidated companies

The following subsidiaries have been included for the first time in the consolidated financial statements of H&R WASAG AG together with those subsidiaries required to be consolidated in the previous year:

- J.P.S. Schmierstoffvertrieb GmbH
- H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH
- Paul Fütterer GmbH

J.P.S. Schmierstoffvertrieb GmbH was still treated as an associated company in the previous year.

The following companies were not included as being of secondary importance:

- Westfalen Chemie Verwaltungsgesellschaft mbH
- H&R EcoClean GmbH
- Two shelf companies

Methods of consolidation

1. Cut-off date

The time of acquisition of the particular subsidiary was taken as the cut-off date for first-time consolidation in accordance with § 301 para. 2 HGB, or the time of first inclusion (January 1, 2002).

The accounts of companies included have been prepared to December 31, 2002.

2. Uniform valuation

The assets and debts of the companies included which appear in the consolidated financial statements have been uniformly valued and shown in the balance sheet in accordance with the principles described.

3. Capital consolidation

Capital consolidation has been carried out by the book value method (§ 301 para. 1 No. 1 HGB). Negative goodwill (€ 61,000) was created in the course of first-time consolidation in 2002.

Associated companies in which H&R WASAG AG has a determining stake have been consolidated by the equity method (book value method in accordance with § 312 para. 1 No. 1 HGB) and shown in a separate item. The company in question is Westfalen Chemie GmbH & Co. KG (50 %).

The associated companies are shown at their book value in the consolidated balance sheet. Changes in net equity affect the investment book value in the consolidated accounts.

4. Consolidation of debts

In the process of debt consolidation, the receivables and liabilities of incorporated companies have been netted off. This did not result in any set-off differences. The receivables and liabilities of individual group companies towards third parties were not netted off (no so-called third party debt consolidation).

5. Expenditure and income

The Profit and Loss accounts of incorporated companies were fully consolidated; expenditure and income within the group were set off against each other. Consolidation transactions relate mainly to income and expenditure from profit and loss transfer agreements and supplier relationships, head office charges and services, rental expenses and rental income as well as the netting of interest between incorporated companies.

6. Elimination of inter-company profits

The elimination of company profits in the reporting year comprised the intra-group sale of the doped lubricants business and a participating interest as well as inventories.

7. Tax accrual and deferral

Tax accruals and deferrals comprise deferred tax credits (corporation tax and trade tax) due to losses carried forward and resulting from the elimination of inter-company profits. The deferral is made at the consolidated tax rate of 35%.

Accounting and valuation methods

1. Intangible assets

Acquired intangible assets are capitalized at the cost of acquisition and are subject to scheduled depreciation over the expected useful life by the straight line method of depreciation. Low value computer programs are written off fully in the year of acquisition and at the same time shown as retirements.

Unscheduled depreciation is effected when an impairment in value is likely to be permanent.

The goodwill shown amounting to € 19,692,000 stem from the capital consolidation and is written off over 15 years. Scheduled depreciation amounting to € 2,040,000 was carried out in the business year 2002.

2. Fixed assets

Fixed assets are valued at the cost of acquisition or manufacture less depreciation; in the process, systems which form a functional or useful entity, are combined to form one asset.

Fixed assets are written off by the straight line method and the declining balance method in accordance with their probable useful life. Unscheduled depreciation is effected when an impairment in value is likely to be permanent.

In most cases the depreciation period for buildings and tank farms is 25 years, for technical systems and machines 10 years and for other systems as well as fixtures, furniture and office equipment 6 years.

Low value assets are written off fully in the year of acquisition and at the same time shown as retirements.

3. Financial assets

Shares in affiliated or associated companies and loans are valued at the cost of acquisition or at their fair value if lower. Identifiable risks are reflected in unscheduled write-offs.

When the equity method is used, losses are taken into consideration up to the level of the investment. Thereafter earnings are only taken when the losses from previous years have been made up.

4. Inventories

Inventories are always shown at the average cost of acquisition or manufacture on the principle of the lower of cost or market, or else at their exchange or market price or attributable value by the inverse method from the sales proceeds on the balance sheet cut-off date whichever is lower. Manufacturing costs contain a share of overhead costs including depreciation as well as directly attributable costs. The manufacturing costs are determined on the basis of a normal utilization of capacity in the production plant. In the case of raw materials and supplies, the cost of acquisition is determined as an average cost.

For raw materials and supplies, the replacement cost is used as the lower of exchange or market price, and for unfinished and finished goods, the cost of re-manufacture or the probable sales revenue minus the costs incurred up to the point of sale and an average margin is used as the attributable value whichever is lower. A valuation discount is applied to warehouse materials. These discounts take into account all identifiable stock risks.

5. Receivables and other assets

Receivables are shown at their nominal value or cash value depending on their term. Individual risks are reflected in write-offs. The general interest rate risk and risk on non-payment are taken into account in the form of a general bad debt provision. Foreign exchange receivables and short-term security investments are always valued at the acquisition rate or the rate on the balance sheet cut-off date if lower.

6. Pension accruals and similar obligations

Pension accruals are determined by using actuarial principles on the basis of the 1998 guideline tables by the going concern method in accordance with § 6 a EStG with an interest rate for accounting purposes of 6%.

The newly defined age limits based on the 1999 pension reform were used for the calculation.

7. Tax provisions and other provisions

Provisions for taxes, uncertain liabilities and anticipated losses from pending transactions as well as maintenance work not carried out in the business year just ended but which will have to be rescheduled, are shown at the level at which they will probably be incurred.

Provisions for anniversary bonuses are determined on the basis of the 1998 guidelines by the going concern method.

8. Conversion of foreign exchange amounts

The acquisition costs of assets from foreign exchange funds are recorded at the rate on the day of reference at the time when the business transactions occurred.

Foreign exchange liabilities are valued in foreign currency at the selling rate at the time when they are incurred or at the rate on the accounting reference date if higher.

US dollar accounts are converted at the rate on the day of reference.

9. Accrued expenses

Accrued expenses contain one private and one public subsidy that have so far been released on a pro rata basis over time. Fees received in advance for the use of software as well as IT maintenance costs have been put in this item for the first time.

Equity list:

	Equity € ,000	Partici-pation quota %	Results 1) € ,000
Consolidated subsidiaries			
H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Salzbergen	25,988	100.00	EAV
GAUDLITZ GmbH, Coburg	4,502	100.00	EAV
H&R Grundstücksverwaltungs GmbH, Salzbergen	7,230	94.90	180
H&R LubeBlending GmbH, Salzbergen	1,927	100.00	EAV
H&R LubeTech GmbH, Salzbergen	25	100.00	EAV
H&R ChemPharm GmbH, Salzbergen	179	100.00	EAV
J.P.S. Schmierstoffvertrieb GmbH, Salzbergen	473	100.00	47
Paul Fütterer GmbH, Neustadt an der Weinstraße	144	100.00	120
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Salzbergen	13	74.04	-15
SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH, Haltern	26	98.00	EAV
GRA Grundstücks-Verwaltungsges. mbH, Hamburg	25	100.00	-3
WANO Schwarzpulver GmbH, Liebenburg	4	100.00	54
B.-H. Beteiligungs- und Handelsges. mbH, Essen	18	100.00	-14
WASAGCHEMIE Sythen GmbH, Haltern	1,430	100.00	359
WANO entertainment GmbH, Liebenburg	-127	100.00	0
Associated companies			
Westfalen Chemie GmbH & Co. KG, Salzbergen	-2,308	50.00	-442
non-consolidated companies			
H&R EcoClean GmbH, Salzbergen	-19	100.00	-20
H&R Zweite Kapitalverwaltungs-GmbH, Salzbergen	25	100.00	0
H&R Dritte Kapitalverwaltungs-GmbH, Salzbergen	25	100.00	0
Westfalen Chemie Verwaltungsgesellschaft mbH, Salzbergen	55	50.00	1
WAFA Kunststofftechnik GmbH & Co. KG, Augsburg, i. K.	2)	100.00	
WAFA Kunststofftechnik Verwaltungs. GmbH, Augsburg, i. K.	2)	100.00	
Participations			
SRS EcoTherm GmbH, Salzbergen	10,137	10.00	-99

1) EAV = profit and loss transfer agreement.

2) No accounts are available for these companies as of December 31, 2002.

Explanatory comments on the balance sheet

1. Fixed assets

Changes in individual items of fixed assets are shown separately in the analysis of fixed assets.

Movement of fixed assets as of December 31, 2002

	Cost of acquisition or production				
	Status on 01.01.2002	Changes in the consolidated entity	Additions Transfer = U	Retirements Transfer = U	Status on 31.12.2002
I. Intangible assets					
1. Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	1,906,120.48	11,503.04	764,409.17 U 220,299.77	28,498.05	2,873,834.41
2. Goodwill	27,719,194.15	0.00	1,072,908.95	0.00	28,792,103.10
3. Prepayments	220,299.77	0.00	101,764.74	U 220,299.77	101,764.74
	29,845,614.40	**11,503.04**	**1,939,082.86** **U 220,299.77**	**28,498.05** **U 220,299.77**	**31,767,702.25**
II. Fixed assets					
1. Land, similar rights and buildings	29,062,809.19	0.00	603,833.08 U 20,082.88	189,359.64	29,497,365.51
2. Technical equipment and machinery	75,525,809.68	0.00	4,160,690.41 U 629,690.71	701,327.57	79,614,863.23
3. Other equipment, factory and office equipment	10,179,069.86	0.00	1,195,162.82 U 95,150.03	202,529.69	11,266,853.02
4. Prepayments and assets under construction	1,074,747.38	0.00	3,535,062.51	1,454.52 U 744,923.62	3,863,431.75
	115,842,436.11	**0.00**	**9,494,748.82** **U 744,923.62**	**1,094,671.42** **U 744,923.62**	**124,242,513.51**
III. Financial assets					
1. Shares in affiliated companies	23,163,233.07	-44,337.33	4,645.00	31,794.19	23,091,746.55
2. Shares in associated companies	402,032.21	-357,904.32	0.00	0.00	44,127.89
3. Participating interests	386,000.00	0.00	690,000.00	0.00	1,076,000.00
4. Securities	842,687.91	511.29	0.00	22.58	843,176.62
5. Other loans	113,000.62	0.00	5,000,000.00	34,283.25	5,078,717.37
	24,906,953.81	**-401,730.36**	**5,694,645.00**	**66,100.02**	**30,133,768.43**
Total fixed assets	**170,595,004.32**	**-390,227.32**	**17,128,476.68** **U 965,223.39**	**1,189,269.49** **U 965,223.39**	**186,143,984.19**

Cumulative depreciation					Net book values	
Status on 01.01.2002	Changes in the consolidated entity	Additions	Retirements Write-up = Z	Status on 31.12.2002	Status on 31.12.2002	Status on 31.12.2001
1,528,619.20	11,502.53	266,388.03	18,527.86	1,787,981.90	1,085,852.51	377,501.28
5,987,458.05	0.00	2,088,009.48	0.00	8,075,467.53	20,716,635.57	21,731,736.10
0.00	0.00	0.00	0.00	0.00	101,764.74	220,299.77
7,516,077.25	**11,502.53**	**2,354,397.51**	**18,527.86**	**9,863,449.43**	**21,904,252.82**	**22,329,537.15**
11,687,386.21	0.00	853,190.52	77,039.40 Z 2,200.64	12,461,336.69	17,036,028.82	17,375,422.98
58,461,915.07	0.00	5,983,499.48	481,874.32	63,963,540.23	15,651,323.00	17,063,894.61
8,012,183.39	0.00	1,027,975.08	160,967.96	8,879,190.51	2,387,662.51	2,166,886.47
0.00	0.00	0.00	0.00	0.00	3,863,431.75	1,074,747.38
78,161,484.67	**0.00**	**7,864,665.08**	**719,881.68 Z 2,200.64**	**85,304,067.43**	**38,938,446.08**	**37,680,951.44**
23,010,593.45	0.00	25,000.00	25,000.00	23,010,593.45	81,153.10	152,639.62
36,783.48	7,343.90	0.00	0.00	44,127.38	0.51	365,248.73
0.00	0.00	0.00	0.00	0.00	1,076,000.00	386,000.00
11,696.68	0.00	0.00	0.00	11,696.68	831,479.94	830,991.23
0.00	0.00	0.00	0.00	0.00	5,078,717.37	113,000.62
23,059,073.61	**7,343.90**	**25,000.00**	**25,000.00**	**23,066,417.51**	**7,067,350.92**	**1,847,880.20**
108,736,635.53	**18,846.43**	**10,219,062.59 25,000.00**	**763,409.54 Z 2,200.64**	**118,233,934.37**	**67,910,049.82**	**61,858,368.79**

2. Inventories

	Dec. 31, 2002	Dec. 31, 2001
	€ ,000	€ ,000
Raw materials and supplies	6,800	6,539
Work in progress	7,858	6,784
Finished products and goods	11,533	11,074
	26,191	**24,397**

3. Other receivables and other assets

	Dec. 31, 2002	Dec. 31, 2001
	€ ,000	€ ,000
Receivables from affiliated companies	59	55
Receivables from participation companies	853	513
SonsOther assets	6,337	4,566
	7,249	**5,134**

Of the other assets, € 1,463,000 (previous year € 1,324,000) have a residual term of more than one year.

4. Securities

Short-term security investments comprise shares.

5. Liquid assets

	Dec. 31, 2002	Dec. 31, 2001
	€ ,000	€ ,000
Cash in hand	10	14
Cash in banks, checks	4,740	3,284
	4,750	**3,298**

6. Tax accruals in accordance with § 306 HGB

The tax accrual item was formed losses carried forward still existing as of December 31, 2002 (€ 724,000) and for cases where eliminating inter-company profits affects operating results (€ 8,333,000).

7. Equity

Information in accordance with §§ 21 para. 1, 41 para. 2 WpHG:

	Information dated	Total	Attributable
H&R Beteiligung GmbH, Hamburg	01.04.02	34.95%	18.50%
Nils Hansen, Quickborn	01.04.02	39.37%	34.95%
Wilhelm Scholten, Münster	15.05.02	6.65%	

Nils Hansen, member of the Supervisory Board, owns 2.84% of the company's shares.

	€	Shares	To be issued by
Subscribed capital	48,357,986.13	18,916,000	
Conditional capital	7,500,000.00	2,933,745	20.08.2007
Approved capital			
– approved capital I	15,000,000.00	5,867,490	30.07.2006
– approved capital II	8,000,000.00	3,129,328	30.07.2007
– approved capital III	1,000,000.00	391,166	30.07.2007

a) Subscribed capital

Subscribed capital amounts to € 48,357,986.13. It is divided into 18,916,000 ordinary bearer shares with an accounting par value of approx. € 2.56 each.

In order to carry out the merger with lubricant refinery Salzbergen GmbH (H&R Group), the annual shareholders' meeting held on August 23, 2001 decided to increase the company's capital stock of Ä 31,086,546.38 by Ä 17,271,439.75 (DM 33,780,000.00) bringing it to € 48,357,986.13 (DM 94,580,000.01) by issuing 6,756,000 new ordinary bearer shares with an accounting par value of € 2.56 each (rounded). The new shares were issued to the shareholders of lubricant refinery Salzbergen GmbH in return for the transfer of lubricant refinery Salzbergen GmbH's assets in the course of the merger. The new shares are entitled to dividends from the beginning of the 2002 business year.

The decision to increase the capital and the rights issue itself were registered with the Companies Register in the local court of Essen on April 3, 2002.

The capital stock was conditionally increased by up to € 7,500,000.00 by the issue of up to 2,933,745 new ordinary bearer shares (Conditional Capital 2002). The conditional rights issue will only be carried out to the extent that the bearers of convertible and/or option bonds to be issued against cash by the company or its direct or indirect domestic subsidiaries by August 20, 2007 on the basis of an authorization passed by the shareholders' meeting held on August 21, 2002 make use of their conversion or option rights or the bearers of the convertible bonds committed to the conversion discharge their conversion obligation, and to the extent that none of the company's own shares are used to service the operation. The new shares participate in profits from the beginning of the business year by being created through the exercising of conversion or option rights or the fulfillment of conversion obligations.

No convertible bonds and/or option bonds were issued in the business year 2002.

b) Approved capital

The Management Board is authorized to increase the capital stock once or several times by up to € 15,000,000.00 in total against cash contributions or contributions in kind in the period up to July 30, 2006 with the approval of the Supervisory Board, by issuing new ordinary bearer shares (Approved Capital I), and to decide on the terms of the share issue with the approval of the Supervisory Board. Shareholders must be given a stock option. However, the Management Board is authorized to except peak amounts from the shareholders' stock options with the approval of the Supervisory Board. The Management Board is also authorized to cancel shareholders' stock options with the approval of the Supervisory Board if the rights issue is made against a contribution in kind for the purpose of acquiring companies or stakes in companies or insofar cancellation of the stock option is required in order to grant the bearers of convertible bonds, loans or options yet to be issued by the company sufficient subscription rights to match their entitlement on exercising their option or conversion rights.

The Management Board is also authorized to increase the capital stock once or several times by up to € 8,000,000.00 in total against cash contributions or contributions in kind in the period up to July 30, 2007 with the approval of the Supervisory Board, by issuing new ordinary bearer shares (Approved Capital II), and to decide on the terms of the share issue with the approval of the Supervisory Board. Shareholders must be given a stock option. However, the Management Board is authorized to except peak amounts from the shareholders' stock options with the approval of the Supervisory Board. The Management Board is also authorized to cancel shareholders' stock options with the approval of the Supervisory Board if the rights issue is made against contributions in kind for the purpose of acquiring companies or stakes in companies or insofar cancellation of the stock option is required in order to grant the bearers of convertible bonds, loans or options yet to be issued by the company sufficient subscription rights to match their entitlement on exercising their option or conversion rights.

Finally, the Management Board is also authorized to increase the capital stock once or several times by up to € 1,000,000.00 in total against a cash contribution in the period up to July 30, 2007 with the approval of the Supervisory Board, by issuing new ordinary bearer shares for the purpose of issuing employee shares to employees of the company and of affiliated companies (Approved Capital III). Shareholders here are excluded from holding stock options.

The Management Board made no use of its existing empowerments in the 2002 business year.

c) Authorization to acquire the company's own shares

The company was empowered to acquire its own shares up to a total of 10% of the capital stock by December 31, 2003 with the approval of the Supervisory Board. Trading its own shares is excluded as a purpose for such action. The countervalue for the acquisition of these shares may not be more than 10% below the average share price (closing price of the H&R WASAG AG stock on the Frankfurt stock exchange) on the last five trading days before the acquisition of the shares, nor may it exceed it by more than 10%.

The company did not acquire any of its own shares in the business year.

d) Variance from first-time consolidation

In the course of the first-time consolidation of the subsidiaries, J.P.S. Schmierstoffvertrieb GmbH and H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH which have been added to the list of consolidated companies, negative goodwill was created amounting to € 61,000.

e) Retained earnings

Consolidated retained earnings are made up of the net income for the year amounting to € 6,770,000 and the capitalization of deferred taxes on tax losses carried forward as of January 1, 2002 (DRS 10) amounting to € 9,473,000 which has no effect on the P&L. The deferred tax payments comprise trade tax and corporation tax.

f) Consolidation balance for shares of other companies

A consolidation balance for shares of other companies amounting to € 8,000 is shown for the first time in the reporting year.

Analysis of group equity to DRS 7 (in € ,000)

	Parent company						
	Sub-scribed capital	Capital reserves	Group equity earned	Cumulated other consolidated earnings	Equity in accor-dance with con-solidated balance sheet / equity	Minorities	Group equity
				other neutral transactions			
Position on Dec. 31, 2001	48,358	2,823		68	51,249		51,249
Capitalization of tax losses carried forward as of January 1, 2002			9,473		9,473		9,473
Change to list of consolidated companies				61	61		61
Other changes						8	8
Consolidated net income / total earnings			6,800		6,800		6,800
Position on Dec. 31, 2002	48,358	2,823	16,273	129	67,583	8	67,591

8. Special reserve with equity portion

This item relates solely to H&R Chemisch-Pharmazeutische Spezialitäten GmbH. The special item was formed in accordance with § 52 para. 16 EStG 1999 and results from the re-evaluation of the warehouse stock taking into account the requirement to reinstate original values (§ 280 HGB). This item is released in installments of 1/5 of the original reserve.

9. Provisions

There are no under-accruals for pension reserves and similar obligations or anniversaries of service. The pension reserves are based on actuarial calculations relying on biometric calculations (1998 guideline tables published by Klaus Heubeck).

The other reserves are composed as follows:

	Dec. 31, 2002 € ,000	Dec. 31, 2001 € ,000
Tax reserves	4,726	1,257
Other reserves	11,215	11,276
	15,941	**12,533**

Other reserves represent a suitable reflection of all identifiable risks. They relate mainly to bonuses, severance payments, profit-sharing schemes, part-time working regulations for older employees, long service anniversaries, outstanding holidays, flexitime credit, provisions for anticipated losses, social insurance contributions and one pending court-case.

10. Liabilities

Liabilities	Residual term up to one year € ,000	Residual term between one and five years € ,000	Residual term of more than five years € ,000	Total amount € ,000	of which amount secured through mortage liens or similar rights € ,000
to banks	11	41	30	82	–
Previous year € ,000	(49)	(41)	(40)	(130)	–
Advance payments received	887	0	0	887	–
Previous year € ,000	(181)	(0)	(0)	(181)	–
from trade accounts	10,571	0	0	10,571	–
Previous year € ,000	(8,552)	(0)	(0)	(8,552)	–
towards affiliated companies	0	0	0	0	–
Previous year € ,000	(451)	(0)	(0)	(451)	–
Other Liabilities	7,477	0	0	7,477	–
Previous year € ,000	(5,460)	(0)	(0)	(5,460)	–
Total	18,946	41	30	19,017	–
Total previous year € ,000	(14,693)	(41)	(40)	(14,774)	–

Other liabilities contain:

Liabilities	€ ,000
from taxes	3.948
(previous year)	(1.701)
as part of social security	965
(previous year)	(955)

11. Contingent liabilities

On the balance sheet cut-off date, there were contingent liabilities resulting from secondary liability for pensions amounting to € 1,473,000 (previous year: € 1,473,000), guarantees to third parties amounting to € 2,071,000 (previous year: € 2,071,000), outstanding liability contributions € 1,187,000 (previous year: € 1,187,000), as well as other contingent liabilities amounting to € 4,050,000 (previous year: € 3,068,000).

There are no further contingent liabilities as defined by § 251 HGB in connection with § 268 HGB.

12. Other financial obligations

Other financial obligations exist to a normal business extent for rental and leasing contracts and for obligations for commissioned investments.

Explanatory comments on the Profit and Loss Account

13. Sales revenues

Sales revenues were generated in the following divisions:

	2002 € ,000	2001 € ,000
Chemical / Pharmaceutical		
Raw Materials	146,488	148,106
Precision Plastics	32,723	34,083
Explosives	12,367	11,416
	191,578	**193,605**

The sales were mainly generated in the domestic market.

14. Other operating income

This item contains € 73,000 from the release of the special reserve with equity portion.

15. Material costs

	2002 € ,000	2001 € ,000
Raw materials and supplies	109,082	108,068
Purchased services	4,957	4,802
	114,039	**112,870**

16. Personnel expenses

	2002 € ,000	2001 € ,000
Wages and salaries	33,494	31,275
Social security payments and expenses for old age pensions and for support	7,924	8,209
(of which for old age pensions)	(1,504)	(1,970)
	41,418	**39,484**

17. Depreciation

As well as depreciation on goodwill resulting from the capital consolidation, depreciation also contains unscheduled write-offs amounting to € 670,000.

18. Other operating expenses

Other operating expenses comprise mainly legal and consultancy costs, rents and leases, freight, third party repairs and maintenance costs, insurance premiums as well as external products and services.

19. Interest earnings

	2002 € ,000	2001 T€
Income from other securities and loans of financial assets	88	58
Other interest and similar income	246	282
(of which to affiliated companies)	(3)	(2)
Other interest and similar expenditure	–159	–346
(of which to affiliated companies)	(0)	(–16)
	175	**-6**

20. Other taxes

Operating taxes are shown here. This is mainly made up of oil and natural gas tax.

21. Income taxes

Income taxes contain € 415,000 of deferred taxes.

Other information

Employees (average for year)

	2002 Number	2001 Number
Manual workers	542	544
Employees	247	242
Employees on fixed-term contracts	50	44
Trainees	55	51
	894	**881**

Reports by segment

In accordance with § 297 para. 1 HGB the following report relates to the operating segments of the group. For this purpose, the consolidated financial statements are derived from the separately managed and monitored divisions, Chemical / Pharmaceutical Raw Materials, Precision Plastics, Explosives and other activities.

As in the previous year, the Chemical / Pharmaceutical Raw Materials Division comprises H&R Chemisch-Pharmazeutische Spezialitäten GmbH, H&R LubeBlending GmbH, H&R ChemPharm GmbH and H&R LubeTech GmbH, all situated in the Salzbergen location. J.P.S. Schmierstoffvertrieb GmbH in the Salzbergen location and Paul Fütterer GmbH in the Neustadt location have been included in the segment report for the first time. As a result, the report covers all the activities regarding the production of chemical pharmaceutical products. In this segment in 2002 the largest customer represented sales totaling € 82.3 m.

The Precision Plastics Division comprises GAUDLITZ GmbH in the Coburg location. This covers all the activities regarding the manufacture of high precision plastic parts and injection moulds. In this segment in 2002 the largest customer represented sales totaling € 11.7 m.

The report for the Explosives Division covers the businesses of WASAGCHEMIE Sythen GmbH as well as WANO Schwarzpulver GmbH and WANO entertainment GmbH. This covers all operational areas, therefore, regarding industrial explosives, the ignition and measurement engineering of ZEB as well as black powder and fuse cords. In this segment, the largest customer represented a sales volume of € 5.5 m.

Other activities include primarily rental activities at the Sythen, Salzbergen and Kunigunde locations, but also group administration in the Salzbergen location. For this purpose, the companies, H&R WASAG AG, SYTHENGRUND WASAGCHEMIE Grundstücksverwertungsgesellschaft Haltern mbH, H&R Grundstücksverwaltungs GmbH, H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, GRA Grundstücks-Verwaltungsgesellschaft mbH and B.H. Beteiligungs und Handelsgesellschaft mbH were combined.

H&R Grundstücksverwaltungs GmbH was reported on in the Chemical / Pharmaceutical Raw Materials Division in the 2001 reporting year, and H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH has been included for the first time.

	Chemical / Pharmac. Raw Materials		Precision Plastics		Explosives		Activities		Consolidations		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000
Sales	146,514	148,143	32,723	34,083	12,367	11,416	3,504	996	-3,530	-1,033	191,578	193,605
Depreciation	5,672	5,850	2,131	2,193	279	355	575	177	1,562	1,571	10,219	10,146
Earnings from participating interests	0	0	0	0	0	0	11,393	15,852	-11,393	-15,851	0	1
Earnings from associated companies	0	0	0	0	0	0	0	-37	0	0	0	-37
Interest income	239	183	68	32	402	365	305	386	-768	-684	246	282
Interest expense	220	149	0	93	8	7	699	781	-768	-684	159	346
Earnings from normal operations	10,309	11,015	3,636	5,035	487	329	36,556	14,205	-39,391	-18,127	11,597	12,458
Segment assets (Total assets)	81,886	70,449	21,005	20,498	13,390	12,657	133,633	91,394	-121,933	-86,079	130,022	108,919
Expenditure on fixed assets	7,212	6,115	1,525	4,567	151	156	608	34	0	0	9,495	10,872

The consolidation column contains under segment assets primarily the investment book values of H&R WASAG AG, the group goodwill resulting from the first-time consolidation of SRS GmbH and receivables and payables with affiliated companies.

The Management Board

Dr. Horst-Rüdiger Hollstein, Jesteburg (Chairman)

Maria-Elisabeth Ostermann-Müller, Lingen (Ems)

Niels H. Hansen, Hamburg

Supervisory Board

Name/Qualifications/Position	Membership in other supervisory or advisory boards
Shareholders' representative:	
Bernd Günther Chairman of the Management Board of Hamburger Getreidelagerhaus AG, Hamburg Chairman of the Supervisory Board	• Member of the Supervisory Board of Autania AG, Kelkheim • Member of the Supervisory Board of Göttinger Brauhaus AG, Göttingen • Chairman of the Supervisory Board of Ravensberger Bau-Beteiligungen AG i.I., Berlin • Chairman of the Supervisory Board of Patrio Plus AG, Hamburg • Chairman of the Supervisory Board of Maschinenfabrik Heid AG, Stockerau, Österreich
Eckbert von Bohlen und Halbach Director of Bohlen Industrie GmbH, Essen Director of Bohlen Handel GmbH, Essen Director of Prosecur Holding GmbH, München Deputy Chairman of the Supervisory Board	• Chairman of the Supervisory Board of Feierabend AG online services for senior citizens, Frankfurt/Main
Nils Hansen Shareholder with personal liability of Hansen & Rosenthal KG, Hamburg	
Günter Papenburg Chairman of the Management Board of GP Günter Papenburg AG, Schwarmstedt	• Member of the Supervisory Board of AVA Allgemeine Handelsgesellschaft der Verbraucher AG, Bielefeld • Member of the Supervisory Board of Ravensberger Bau-Beteiligungen AG i.I., Berlin • Chairman of the Advisory Board of Readymix Beton Saale GmbH & Co. KG, Halle (Saale)

- Member of the Advisory Board of Arena Hannover GmbH, Hannover
- Member of the Advisory Board of Heide Transportbeton GmbH & Co. KG, Soltau
- Member of the Advisory Board of Mitteldeutsche Baustoffe GmbH, Sennewitz
- Member of the Advisory Board of der Norddeutsche Landesbank Girozentrale, Hannover
- Member of the Advisory Board of Poller Steinbrüche GmbH & Co. KG, Vahlbruch
- Member of the Advisory Board of Sindelfinder Asphalt-Mischwerk GmbH & Co. KG, Sindelfingen

Employee representative:

Reinhold Grothus
Industrial chemicals foreman with
H&R ChemPharm GmbH, Salzbergen

Dieter Obert
Electrician with
Gaudlitz GmbH, Coburg

Remuneration of the Supervisory Board and the Management Board, credits, contingent liabilities

The total remuneration of the Management Board amounted to € 1,228,000 in the business year 2002 (previous year € 747,000) of which € 828,000 was fixed and € 400,000 variable.

Former members of the Management Board and their surviving dependants received total remuneration of € 342,000 (previous year € 453,000); the pension reserves formed for this group of people amounted to € 3,060,000 on December 31, 2002 (previous year € 3,423,000).

The Supervisory Board received € 120,000 (previous year € 46,000) of which the fixed share was € 46,000 and the variable remuneration component was € 74,000. A loan of Ä 87,000 was granted to one member of the Supervisory Board. The interest rate for this loan is 5% p.a. The amount of the loan is set off against the supervisory board remuneration.

Salzbergen, March 31, 2003

The Management Board

Dr. Horst-Rüdiger Hollstein

Maria-Elisabeth Ostermann-Müller

Niels H. Hansen

Certificate of approval

We have audited the consolidated financial statements prepared by H&R WASAG Aktiengesellschaft, Salzbergen, as well as the group management report on the situation of the company and the group for the fiscal year from January 1 to December 31, 2002. It is the responsibility of the company's legal representatives to draw up the consolidated financial statements and group management report in accordance with German commercial regulations. It is our duty to assess the consolidated financial statements and the report on the situation of the company and the group on the basis of our audit.

We conducted our audit of the consolidated statements in accordance with § 317 HGB following the principles of proper auditing in Germany laid down by the Institute of Auditors (IDW). According to these principles, the audit must be planned and conducted in such a way that it is sufficiently certain that mistakes and violations which seriously affect the portrayal of assets, financial and earnings position of the company as communicated by the consolidated financial statements following the principles of proper accounting and by the report on the situation of the company and the group, will be detected. In defining the audit procedure, we take into account our knowledge of the company's business activities and the economic and legal environment in which it operates as well as expectations over possible mistakes. In the course of the audit, the effectiveness of the internal, accounts-related monitoring system as well as documentary evidence for the figures in the consolidated statements and in the management report are mainly assessed on the basis of random checks. The audit comprises an assessment of the annual statements of the companies included in the consolidated statements, the definition of companies to be included in the consolidated statements, the accounting and consolidation principles applied, the major judgements made by the company's legal representatives as well as an appraisal of the overall presentation of the consolidated statements and the group management report. We believe that our audit represents a sufficiently safe foundation for our assessment.

Our audit has not led to any objections.

It is our conviction that the consolidated financial statements following the principles of proper bookkeeping, give a picture of the assets, financial and earnings position of the group which corresponds to the actual circumstances. The group management report on the company and the group gives an overall accurate portrayal of the situation of the group and presents the risks to future growth correctly.

Hamburg, April 14, 2003

Susat & Partner oHG
Auditors

Dr. Roser	Bischoff
Auditor	Auditor

Company structure.

H&R WASAG AG		
Chemistry, Pharmacy, Cosmetics H&R ChemPharm	**High-Precision Plastics Technology** GAUDLITZ	**Explosives** WASAG
H&R ChemPharm GmbH	**Gaudlitz GmbH**	**WASAGCHEMIE Sythen GmbH** **WANO Schwarzpulver GmbH**

The H&R WASAG-shares
ISIN: DE0007757007

Listings: Amtlicher Markt Frankfurt (Prime Standard), Hamburg and Düsseldorf, Freiverkehr Munich and Stuttgart

Share Capital: € 48,357,986, divided into 18,916,000 shares.

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H&R WASAG AG