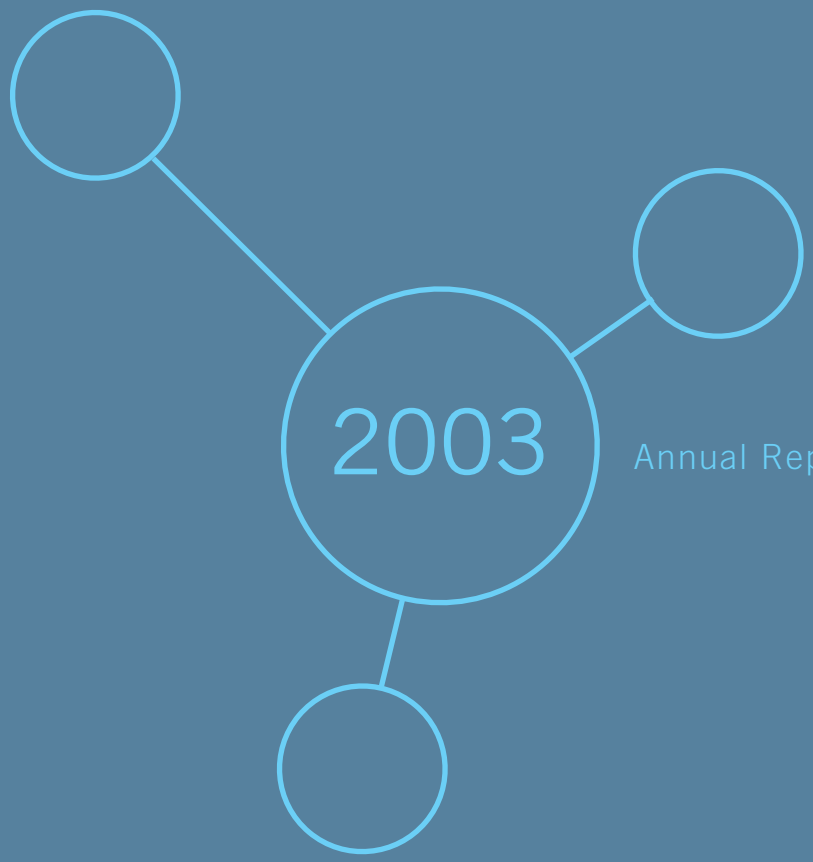

Annual Report

H&R WASAG AG

The Group in figures

(IFRS)

		2003	2002
Net sales	€ m	211.2	191.6
Operating income	€ m	12.7	9.8
Income before income taxes and minority interests	€ m	10.6	8.2
Income before minority interests	€ m	5.8	4.4
Net income	€ m	4.9	4.4
Cash flow from operating activities	€ m	20.3	17.4
Earnings per share			
- basic earnings per share	€	0.26	0.23
- before amortization of goodwill	€	0.37	0.34
Dividend per share	€	0.30 [1]	0.45 [2]
Balance sheet total	€ m	165.7	134.1
Shareholders' equity	€ m	79.4	68.7
Equity ratio	%	48	51
Employees (Dec. 31)		1,215	883

The Divisions in figures

(IFRS)

		2003	2002
Sales			
Chemical/Pharmaceutical Raw Materials	€ m	139.2	146.6
Precision Plastics	€ m	33.0	32.7
Explosives	€ m	39.2	12.4
Income before income taxes			
Chemical/Pharmaceutical Raw Materials [3]	€ m	8.1	8.5
Precision Plastics	€ m	3.8	3.5
Explosives	€ m	1.4	1.4 [4]

1) Proposal to the annual shareholders' meeting

2) Including a bonus of € 0.15

3) In order to achieve better comparability with last year's figures, the customer base write-offs (€ 3.0 m, previous year € 0.5 m) and interest expense (€ 0.9 m, previous year € 0 m) which are neutral at the consolidated level, are not reflected in the figures; cf. page 41

4) Including an exceptional income of € 0.5 m resulting from the sale of land and buildings

The consolidated financial statemens of the H&R WASAG Group has been prepared for the first time in accordance with the rules of the International Financial Reporting Standards (IFRS). This means that the Group is making use of the regulations contained in § 292a HGB (German Commercial Code) which permits listed German companies to issue consolidated financial statements in accordance with international accounting rules, exempting them of the obligation to prepare consolidated financial statements in accordance with German law. Compared with consolidated financial statements in accordance with HGB, the application of IFRS accounting standards provides more transparent information that also facilitates international comparisons. The comparative values for 2002 were determined retrospectively in accordance with IFRS.

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Foreword by the Executive Board

Dear shareholders,

The past financial year has earned a very special place in the young history of H&R WASAG AG:

- with the acquisition of the WESTSPRENG group, we have now given the H&R WASAG group three strong columns to stand on,
- the takeover of BP's European specialty refinery activities positions us as one of the largest producers of chemical/ pharmaceutical specialty products in Europe, and
- by paying an attractive dividend, we have set the tone for a shareholder-oriented dividend policy.

The successes achieved in 2003 have even surpassed the ambitious expectations we had set ourselves when we merged to form H&R WASAG AG in 2001. The current developments in a tough economic climate are an impressive proof that the merger represents a success story that is truly unique.

All the milestones reached last year are the consequence of a rigorous implementation of our group strategy.

By taking over WESTSPRENG and its subsidiaries, we have transformed our explosives activities – which had been operating at a low level till then – into the market leader in Germany in a single stroke. The division is also the technology leader in modern explosives and superbly placed on the European market, particularly in the growth markets of Eastern Europe.

For us, this expansion in the Explosives division is an important step in many ways. On the one hand, we have significantly increased the sales and earnings potential of the division, even if we have not yet been able to fully reflect this development due to negative external influences in 2003. On the other hand, we now have three healthy divisions in which our subsidiaries occupy leading competitive positions, and we have thereby further optimized our risk strategy of securing the business by spreading horizontally. We are now better able to offset individual market risks which can have a negative effect on the growth of one division by means of the other two.

The figures for the group in 2003 reflect the takeover of WESTSPRENG with sales rising by 10% to € 211.2 m. At the same time, we achieved even faster growth in earnings, with pre-tax earnings almost 30% up on the previous year at € 10.6 m.

The integration of WESTSPRENG has completed the foundations of the group. Every division is either the market leader and/or the technology leader in its markets. We now have a broad base on which to build. We embarked on this expansion in 2003. In the fall, we acquired BP's European specialty refinery activities with financial effect from the beginning of the new financial year 2004. The centerpiece of the acquisition is the specialty refinery in Hamburg-Neuhof.

The takeover positions us as one of the largest producers of chemical/pharmaceutical raw materials in Europe and will lead to a doubling of our group sales in 2004. Earnings will also grow at the same rate, although one-off integration costs are still to be expected in 2004. Overall, the integration process will be favored by the fact that the new facilities and new activities are an ideal complement to our activities in our Chemical/Pharmaceutical Raw Materials division. This situation will result in great potential for synergy effects in nearly every area of activity which we intend to exploit in the coming months and years.

The increase in the value of the company was also reflected in a significantly higher share price in 2003. In the course of the year, the H&R WASAG stock gained by over 50%. There was also an attractive dividend payment of € 0.45 which contained a bonus of € 0.15 to mark the first-time payment of a dividend. We will propose a dividend of € 0.30 to the shareholders' meeting for the past financial year.

In the current year, we will continue to concentrate our efforts on achieving sustained growth in the value of the company. The focus here will be on all divisions: in the Chemical/Pharmaceutical division, we intend to further internationalize our activities; the Plastics division will set up a production facility in China in 2004; in the Explosives division, we will review possible acquisitions and alliances in the coming months, and may be taking concrete steps.

The success story that we have achieved to date would not have been possible without the efforts of our staff. We therefore extend our warm thanks to all employees throughout the group for their engagement and commitment. We would also like to thank the employee representatives for the good working relationship in 2003.

Salzbergen, April 2004
The Executive Board

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

Report of the Supervisory Board

Dear shareholders,

In the financial year 2003, we performed the tasks conferred on us in accordance with statutory regulations and the company's articles of association, we advised the executive board in the course of their management duties and we monitored the management of the company. In the process, we took a detailed interest in the position of the company and the growth of the business. The executive board kept all members of the supervisory board promptly and thoroughly informed on a regular basis, both verbally and in writing.

We were involved in decisions of major significance in good time. All transactions requiring our agreement were dealt with in detail and discussed within the supervisory board as well as with the executive board.

The focus of our work in the reporting period was the strategic development of the group with the acquisitions of Westspreng GmbH and the European specialty refinery activities of BP and the accompanying restructuring of the two divisions, Explosives and Chemical/Pharmaceutical Raw Materials. Both projects met with our approval. We also paid particular attention to the expansion of activities in the Plastics division with the establishment of a production facility in China.

In December, we approved the annual declaration of conformity with the German Corporate Governance Code. The declaration which was submitted in conjunction with the executive board, confirms that the recommendations contained in the Code were adhered to in so far as individual cases of divergence were not regarded as relevant.

The supervisory board met five times in total during the reporting year. No member of the supervisory board attended fewer than half the meetings. Outside the meetings, the executive board remained in close contact with the chairman of the supervisory board in order to keep the board informed of the current development of the business and the status of important projects.

The committee for personnel matters regarding the executive board met one time in 2003, but the committee set up to attend to capital measures did not meet.

We asked the firm of chartered accountants chosen by the shareholders' meeting SUSAT & PARTNER OHG, Hamburg, to audit the annual accounts and the consolidated financial statements as of December 31, 2003, as well as the combined management report for the financial year. The consolidated financial statements were prepared for the first time in accordance with International

Financial Reporting Standards (IFRS), taking advantage of § 292a HGB (German commercial code). H&R WASAG AG is thereby exempted from its obligation to prepare consolidated financial statements in accordance with German law. Both the annual statement of accounts and the consolidated financial statements were audited by SUSAT & PARTNER and approved without reservation. The auditors also confirmed that the management board had taken the measures required in accordance with § 91 Para. 2 AktG permitting it to detect developments potentially endangering the existence of the company at an early juncture.

We also checked the annual statement of accounts and the consolidated financial statements and combined management report ourselves. For this purpose, all members of the supervisory board had access to the auditors' reports. SUSAT & PARTNER also reported on the significant results of its audit in the balance sheet meeting held on March 17, 2004, and was available to the supervisory board for the purpose of providing additional information. After conducting its own audit of the accounts and the joint management report, the supervisory board raised no objections and approved the result of the audit. We have passed both the annual statement of accounts and the consolidated financial statements. The annual statement of accounts is thereby approved. We agree with the proposal made by the executive board to distribute a dividend of € 0.30 per share.

The executive board prepared a report on the relationship with affiliated companies belonging to the Hansen & Rosenthal group which was reviewed by the auditors and given the following certificate of approval:

"After conducting our audit and making our assessment in accordance with our duties, we confirm that :

1. *the statements of fact in the report are correct,*
2. *the payments of the company in the legal transactions listed in the report was not inappropriately high and*
3. *with regard to the measures detailed in the report, no circumstances point to a significantly different assessment than that submitted by the executive board."*

The report of the management board and the auditor's report were available to us. Our own audit gave rise to no objections, and we approve the reports.

We would like to extend our warm thanks to members of the executive board, works councilors and all employees of the group for their commitment and the successful work they have performed.

Hamburg, April 2004
The Supervisory Board

Bernd Günther
- Chairman -

Executive Board / Supervisory Board

Executive Board

Dr. Horst-Rüdiger Hollstein

- CEO -
Jesteburg

Membership in supervisory or advisory boards:

- Member of the supervisory board of Ravensberger Bau-Beteiligungen AG i.I., Berlin
- Member of the supervisory board of Otto M. Schröder Bank, Aktiengesellschaft, Hamburg

Maria-Elisabeth Ostermann-Müller

- CFO -
Lingen (Ems)

Niels H. Hansen

- CSO -
Hamburg

Supervisory Board

Bernd Günther

- Chairman of the Supervisory Board -
Business administration (Kaufmann)

CEO Hamburger Getreidelagerhaus AG, Hamburg

Membership in other supervisory or advisory boards:

- Member of the Supervisory Board of Autania AG, Kelkheim (until Dec. 31, 2003)
- 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	
- Vice-Chairman of the Supervisory Board - Business administration graduated (Diplom-Betriebswirt)	Chief Executive of Bohlen Industrie GmbH, Essen Chief Executive of Bohlen Handel GmbH, Essen Chief Executive of Prosecur Holding GmbH, Munich *Membership in other supervisory or advisory boards:* - Chairman of the Supervisory Board of Feierabend AG Onlinedienste für Senioren, Frankfurt/Main
Nils Hansen	
Business administration (Kaufmann)	Partner in Hansen & Rosenthal KG with personal liability
Günter Papenburg	
Business administration (Kaufmann)	Chief Executive of GP Günter Papenburg AG, Schwarmstedt *Membership in other supervisory or advisory boards:* - Member of the Supervisory Board of AVA Allgemeine Handelsgesellschaft der Verbraucher AG, Bielefeld - Member des Supervisory Boards der 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 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
Reinhold Grothus	
- Employee representatives - Chemical foreman	H&R ChemPharm GmbH, Salzbergen
Dieter Obert	
- Employee representatives - Electrician	Gaudlitz GmbH, Coburg

EXPLOSIVES

H&R WASAG share / Corporate Governance

Basic data on the H&R WASAG share

ISIN	DE0007757007
Abbreviation	WAS
Type	No par ordinary bearer shares
Listings	Amtlicher Markt (official market) Frankfurt (Prime Standard), Hamburg and Düsseldorf; over-the-counter market Stuttgart and Munich
Indexes	SDAX (since March 2004), Prime Standard All Share, Classic All Share, Prime Chemicals and Prime IG Chemicals Speciality
Designated Sponsor	Concord Effekten Aktiengesellschaft

H&R WASAG share: Financial year 2003

Capital stock	€ 48,357,986.13
Number of shares	18,916,000
Shareholder structure	50.87 % free float 39.64 % H&R Beteiligung GmbH 6.65 % Wilhelm Scholten Beteiligungen GmbH 2.84 % Nils Hansen
Earnings per share	€ 0.26
Dividend proposal	€ 0.30
High / low for year	€ 10.25 / € 5.55
Average price	€ 6.71
Closing price on Dec. 30, 2003	€ 8.53
Market capitalization as per Dec. 30, 2003	€ 169.0 m

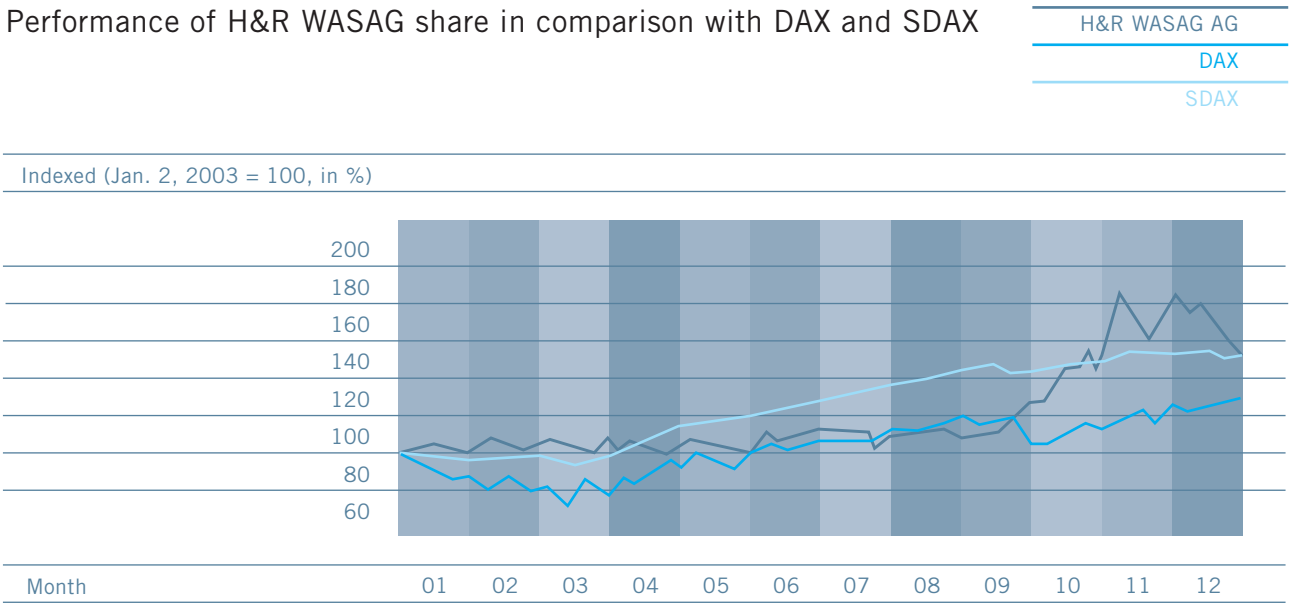
Movement in share price in 2003: +53 %

As had already occurred in 2002, the H&R WASAG stock again outperformed the relevant comparable indexes in the past year with an increase of 53 %. The Deutsche Aktienindex DAX gained 28 %; the index for small and medium-sized companies, the SDAX, 50 %.

The price of the H&R WASAG stock began at € 5.57 on January 2, 2003. In the course of the following months, the price moved sideways in a range between € 5.70 and € 7.00. In the fourth quarter, the stock then climbed significantly, reaching its peak for the year at € 10.25 after the announcement was made of the takeover of the European specialty refinery activities of the oil group BP, on December 9, 2003. The stock closed the year at € 8.53.

The movement in the share price went hand in hand with a rising trading volume. While almost 50,000 H&R WASAG shares were traded on German bourses in January 2003, by December the monthly trading volume had risen to nearly 700,000 shares.

Performance of H&R WASAG share in comparison with DAX and SDAX



H&R WASAG stock in the SDAX since March 2004

The positive movement in the share price and trading volume in 2003 smoothed the way for our stock to be admitted to the select index, SDAX, to which it has belonged since March 4, 2004. Belonging to the SDAX, which was set up by Deutsche Börse AG as a select index for small and medium-sized companies, will further enhance the importance of our company on the stock exchange in general. In addition, we are increasingly attracting the attention of those institutional investors who only concentrate on index values.

Shareholders' meeting approves extensive agenda

The annual shareholders' meeting in 2003 was dominated by the takeover of the WESTSPRENG group. We financed the acquisition of the company by issuing new shares in our subsidiary SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH. These shares were issued to the former shareholders of WESTSPRENG with the option of swapping them for new preferred shares in H&R WASAG AG from the end of 2006 onwards.

The shareholders' meeting therefore had to approve preparations for issuing preferred shares as well as the special options granted to former shareholders of WESTSPRENG. The existing profit and loss transfer agreement between H&R WASAG AG and SYTHENGRUND also had to be amended due to the changed ownership structure of the latter company.

Attractive dividend to be paid, including bonus

The shareholders' meeting also approved the outpayment of an attractive dividend of € 0.45 per share. This means that we have already paid a dividend in year one after the merger of WASAG-CHEMIE AG and Schmierstoffraffinerie Salzbergen GmbH (H&R group) to form H&R WASAG AG, thereby quickly achieving an important goal of the merger, namely to allow shareholders to share in the success of the company. The dividend contained a bonus of € 0.15 which was paid on the resumption of dividend payments.

With respect to the share price on the day of the dividend payment, the dividend corresponded to a return of 7.1%; with respect to the average price for 2003, the return was 6.7%.

The executive board and supervisory board will propose to the shareholders' meeting 2004 to distribute a dividend of € 0.30 for the past financial year 2003. The dividend would then match last year's, once adjusted to allow for the one-off bonus paid in 2002. We intend to pursue an attractive dividend policy in the future, too, and pay out a large part of the profits.

Greater attention from analysts and investors

With the positive growth of the business and the accompanying rise in the share price and trading volume, we have been steadily attracting interest from new target markets on the capital markets. For example, the number of interested investors and analysts grew continuously throughout the year. We actively promoted and encouraged this process by conducting road shows and corporate presentations.

We will further extend our investor relations activities in the current year. We are planning a series of road shows in Germany and also in England for the first time. We will also increase our presence at shareholder fairs in order to maintain direct contact with private investors and offer further platforms – in addition to the annual shareholders' meeting – for dialoging with our shareholders.

Our communication strategy will focus in particular on the growth of the specialty refinery activities taken over from BP. We will report on this in detail as part of our quarterly reports.

Transparent management put into practice

The management of H&R WASAG AG is committed to the welfare of the group and to increasing its corporate value. To this end, the executive board and supervisory board work closely together. Corporate policy is presented and explained to our shareholders in a transparent manner in the course of regular publications.

The code issued by the government commission, "German Corporate Governance Code", combines international and national conduct recommendations for managements under obligation to their shareholders. We again confirmed that we had adhered to this code in the financial year 2003, and any divergence from the commission's recommendations were disclosed. Such variances relate either to planned but not yet implemented recommendations or to ones which have not been implemented for important reasons in individual cases. Such variances due to requirements specific to the industry or company, are expressly provided for by the government commission as part of the flexible construction of corporate governance.

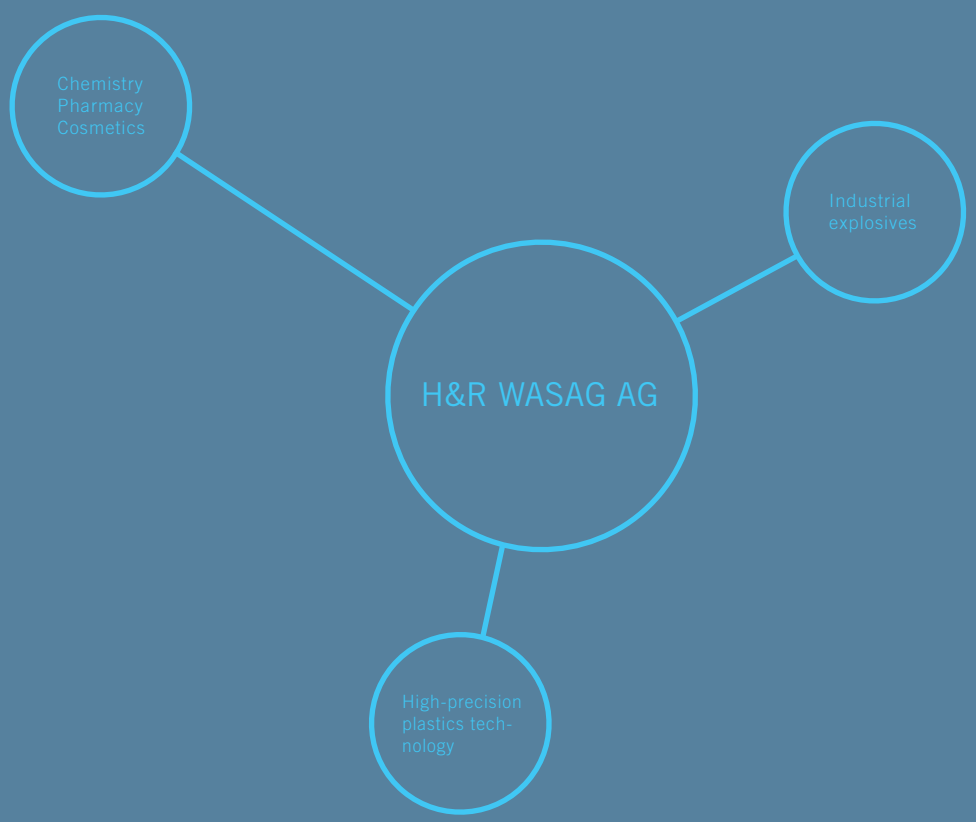
Declaration of conformity dated December 2003

The declaration of conformity submitted in December 2003 is as follows:

"H&R WASAG AG complies with the recommendations for conduct contained in the German Corporate Governance Code in the version dated May 21, 2003 with the following exceptions:

- For the annual shareholders' meeting in July 2003, not all the documents available for viewing by shareholders were published to their full extent on the company's website. The documents not published on the Internet contained sensitive information which could have been misused by competitors. Shareholders were sent the documentation on request.
- No own risk portions have so far been agreed for the existing D&O insurance contracts. It is intended to amend the contracts by incorporating a suitable own risk portion.
- The basic elements of the remuneration system for the executive board will in future be explained in more detail, for the first time in the annual report for 2003 and as part of the annual shareholders' meeting for the financial year 2003. The remuneration is shown in the notes to the consolidated financial statements, split between its fixed and variable components. This presentation, together with the general explanation of the remuneration system, gives a sufficient basis for assessing the appropriateness of the remuneration and the incentives created by the remuneration system. The remuneration is not shown on an individualized basis.
- There are no age limits for members of the executive board or supervisory board. The choice of persons proposed for election to the supervisory board is made on the basis of the knowledge, skills and technical experience required for the task. The appointment of members of the executive board by the supervisory board also follows the same criteria. It is not intended to define an age limit as a criterion for exclusion.
- The supervisory board did not set up an audit committee. The subjects proposed in the government commission's Corporate Governance Code for such an audit committee, are the subject of intense debate within the entire supervisory board at H&R WASAG AG.
- The remuneration of members of the supervisory board is defined in the articles of association. Until now the chairmanship or membership of a committee has not been taken into account. It is intended to amend the remuneration system.
- Disclosure of trading activities carried out by members of management bodies in shares of the company is made in accordance with the statutory regulations contained in §15a WpHG. It is not intended to make any more far-reaching disclosures.
- The accounting system was changed in the financial year 2003 from HGB to IAS/IFRS. Accounts were published for the first time as at June 30, 2003 in accordance with international accounting regulations.
- Due to the high number of subsidiaries included in the annual statement of accounts, it was not possible to publish the consolidated financial statements for the financial year 2002 until April 2003. In future, efforts will be made to publish the consolidated financial statements by the end of March. Publication of the report on the second quarter of 2003 was delayed due to the conversion of the accounting system from HGB to IAS/IFRS carried out in the course of the year. The other quarterly reports were each published within 45 days of the end of the reporting period."

Group structure



Chemical/Pharmaceutical Raw Materials

Specialty refinery activities (Production of crude oil-based specialties as raw materials for various industries)

Blending
(Mixing and filling of lubricants)

Precision Plastics

Manufacturing of high precision molded plastic components

Mold construction

Explosives

Production of industrial explosives for the use by different industries

Holding and divisions

H&R WASAG as a listed group holding company

As the group management company within the group, H&R WASAG AG performs the tasks of a strategic holding company. This includes taking decisions on the operational direction and strategic control of the group and its individual divisions. The holding structure also enables funds to be efficiently allocated between the various activities. As the link to the capital markets (both for shareholders' equity and borrowed capital), H&R WASAG AG creates value added for the operating companies in the group.

We have bundled our business activities in three divisions:

- Chemical/Pharmaceutical Raw Materials,
- Precision Plastics and
- Explosives

Positioning of the divisions

It is the declared strategy of the group to position the subsidiaries as the market and/or technology leader in their particular markets. In this way, we are able to minimize our dependence on short-term developments in the market.

In positioning our activities, we align ourselves with the particular market environment and the specific needs of customers. The factors which link all subsidiaries are high earning power, the same corporate culture with respect to tailoring the product range to meet the needs of individual customers, a high level of reliability and quality in the products and services offered and strong innovative potential.

The top priority in group activities is to increase the value of the company on a permanent basis. Available funds in the group are channeled into those projects where the returns exceed the cost of the capital invested. In the process, the pay-off period should not be more than a few years. The individual divisions in the group are managed and assessed on the basis of various key profitability data, in particular on the basis of the return on sales before tax, taking the specific risks of the market into the calculation.

No synergy effects are achieved between the divisions on an operational level, and each division is independently organized. In the future, however, there will be opportunities for cross-divisional synergy effects, for example, when group subsidiaries draw on the regional know-how of other subsidiaries in setting up foreign activities.

Diversification ensures stability

At a group level, diversification in three different, mutually independent markets serves to stabilize corporate growth. In this way, we are able to offset existing market risks and at the same time achieve exceptional earning power.

Growth in earnings is smoothed and the risk of a collapse in profits minimized by adjusting the relative potential for profit between the divisions. This permits future growth to be forecast to a satisfactory degree in spite of operating in sometimes very volatile markets.

The Chemical/Pharmaceutical Raw Materials division

The Chemical/Pharmaceutical Raw Materials division is among the largest producers of oil-based specialty products in Europe. Basic materials for the consumer goods industry, as well as lubricants are produced at five facilities in Germany, England and the Netherlands.

The specialty business has enjoyed a long tradition in the group. The Salzbergen refinery has been making various products for industry using materials based on crude oil since the middle of the 19th century.

The most important products today are medical and technical white oils (particularly for use in cosmetics and medical creams), paraffins (as wax for the chemical industry as well as the cosmetics and candle industries), plasticizers (for the plastics and rubber industries), distillates (printing inks and rolling oil) and base oils.

The division is still also producing its own lubricants, and acts as a service provider in the blending and mixing of automotive and industrial lubricants for third parties. Over 650 different products are made in total, all to customers' individual specifications.

This division generates the strongest sales in the group.

2003/04: Quantum leap achieved

In the last financial year, we significantly expanded the division by taking over the European specialty refinery activities of BP, thereby further improving our already outstanding position in the market. We are among the market leaders in Germany and/or Europe in all the relevant product segments. We are also the technology leaders in a number of fields thanks to our own products and process patents.

While in the past the division's activities were concentrated in the Salzbergen facility only, we now have additional refinery capacity or conversion plants in Hamburg, Chorley, Tipton (both Great Britain) and Nuth (the Netherlands). In addition, there are the distribution rights to specialty products produced at a refinery in England still belonging to BP. In total, therefore, we have access to up to 800,000 t of specialty products per year which are sold either through our own distribution network or distribution partners with whom we collaborate.

Efficiency secures market positions

The two refineries in Salzbergen and Hamburg are among the most efficient and most modern in the world according to regular benchmark studies. Flexible production processes allow us to keep the capacity utilization factor at a very high level. We regard this as an essential pre-requisite for an attractively priced range of high-quality specialty products.

The same applies to the group's blending and filling capacity. As the most efficient producer in Europe in terms of costs, the division performs the manufacture and distribution of lubricants for large oil companies. In the process, base oils are refined and filled in accordance with different formulations to make high-quality automotive and industrial lubricants. The division's own storage capacity serves as distribution centers for customers.

Market position

	Germany	*Europe*
Product group		
Medical / technical white oils	1	2
Paraffins	2	2
Paraffinic plasticizers	1	1
Aromatic plasticizers	1	1
Label-free plasticizers	1	1
Dark printing inks	1	2
Light printing inks	2	3

Strategic disadvantages offset

The individual subsidiaries and activities within the division are constantly analyzed and evaluated. The focus here is primarily on continuously adjusting the utilization and load factor of individual plant capacities. The type and quantity of specialty products made is based entirely on market demand.

Any potential for optimizing operations can be quickly recognized and analyzed as the actual situation is regularly measured against budget scenarios. Strategic disadvantages which cannot be avoided, have to be offset in other areas. For example, the division is currently implementing a new power strategy at its Salzbergen facility which will offset the disadvantage of the refinery's location in the southern Emsland region. When the new waste incineration plant operated together with RWE Power AG comes on stream in the second quarter of 2004, the division will be able to save approx. € 2 m in energy costs every year. The amount of money saved more or less matches the higher logistics costs which the facility has to bear by comparison with competitors due its unfavorable location far removed from ports or pipelines for the provision of raw materials.

Positive market environment opens up growth potential

By concentrating on special markets, we have turned the division into an international leader in terms of its expertise, and one of the most efficient suppliers in the world. This position will enable it to achieve future growth by taking over further production facilities.

As happened when we acquired the BP activities, the group can benefit here from the consistent trend among the big oil companies towards concentrating more strongly on their core business. The niche activities to be sold off or sourced out represent precisely our markets and strengths.

The Precision Plastics division

Our Plastics division is the technology leader and operates in a very promising growth market. By setting up foreign production facilities, the group is opening up new, regional markets in this segment, and increasing its ties with strategic customers.

At its Coburg facility, the division produces precision plastic parts by injection molding methods, in particular for companies supplying parts to the automotive industry, and to medical and electrical engineering companies. The group's Plastics division has been a reliable partner for over 65 years in the manufacture of moldings from duroplastic and thermoplastic molding compounds. Many years of experience in working with a wide variety of different materials enable the division to work out individual, cost-effective solutions for its customers. In addition, both development and production are flexibly organized to a high degree, resulting in decisive advantages in the competitive race against time.

One-stop shop

However, the division not only offers its customers the processing of plastic materials to form parts, but also all upstream and downstream activities in the form of comprehensive services. The benefit to customers, therefore, is that the division is able to implement complete, one-stop solutions. The range of activities covers advice in selecting the materials to be used, process engineering and the final design of the plastic parts, development of the high-precision molds required for the injection molding process as well as their manufacture, duroplastic or thermoplastic processing and thereby production of the desired plastic part in production quantities, as well as services in the areas of final product assembly, storage and distribution logistics. These services are accompanied by comprehensive quality management which guarantees high product quality and safety, as well as very low reject volumes. The division's production facility is certified to demanding ISO norms which are used generally and specifically in the automotive industry

Committed to future innovations

Activities are centered around the current and expected customer demands and requirements. In the process it is important that the division always remains ahead of competitors in a very broad market characterized by its wealth of suppliers.

The coming developments in the market and changes in demand have to be anticipated today. The product range

then has to be adapted to meet the future demands and requests of customers by implementing the appropriate development projects. The requirements of tomorrow determine the activities of today! In the last few years, the division has proved its high potential for innovation, and it has regularly secured key advantages on the markets thanks to new developments.

Close customer relationships allow highly efficient consulting process

Based on its high level of expertise and many years of experience on the markets, the group is involved in customers' development processes at an early stage. The division can already bring its expertise in the production of plastic parts to bear at the stage in which customers are developing the respective parts. Comprehensive and consistent development management ensures that the entire production chain is economically efficient from the customer's perspective. One important element in this connection is the manufacture of the molds (tools) required for injection molding plastic parts. The quality and profitability of the production process for the customer depends on the design of efficient molds, especially when making very small precision plastic parts. The division has now produced over 12,000 different tools, and therefore commands a correspondingly high level of expertise in the making of molds.

High growth potential in the plastics market

The demand for plastic parts has been growing at a very fast pace of almost 10% per year in the past few years. Car companies and their suppliers are especially prominent in their interest shown.

The background to this market development is the trend towards building lighter and more comfortable cars. Heavy metal parts are being continuously replaced by plastic parts. But in other sectors of industry as well, plastic parts are superseding other materials due to the constant improvements in their properties.

New production facilities to be set up abroad

As a strategic partner to large, international groups, the division secures its involvement in new development projects. In order to further increase customer loyalty and to open up new, regional markets, the group intends to expand its plastics activities abroad. The plan is to set up production plants in the Far East and on the American continent. The division will thereby have a presence in locations where strategic customers are already manufacturing today. Setting up the relevant companies and capacity will be achieved through joint ventures with companies already operating on the local markets. A production plant in China will come on stream as early as 2004.

The Explosives division

Our activities in the explosives business focus on offering a broad range of industrial explosives for a wide variety of applications. In 2003, we positioned the division as the market leader in Germany and a major supplier in Europe by taking over WESTSPRENG.

The roots of the group's own explosives activities go back to 1891 and the setting up of a factory for safety explosives. Today, we produce a complete range of conventional and modern explosives for diverse application areas and sectors of industry.

Since the acquisition of WESTSPRENG in 2003, the production of emulsions now accounts for the largest share. Liquid emulsions which are used both as pump emulsions and in cartridge form, are among the most modern types of explosives, and are characterized by high efficiency and safety while being extremely easy to handle and offering numerous areas of application. The division also supplies conventional ANC or ANFO explosives in powder form. Both emulsions and ANC/ANFO products are currently used mainly in the stone/ earth segment of the market, especially for road and tunnel building as well as in quarries.

The division also produces safety explosives for coal mining. These prevent any gases which may be released by the detonation in underground mining from igniting. Here, the division has a sole supplier contract with Deutsche Steinkohle AG.

The division commands a worldwide presence with a strong brand in the black powder business. High-quality powders in different formulations are supplied for use in hunting and pyrotechnics among other fields.

The comprehensive range of explosives is complemented by advisory, executive and monitoring services as well as accessories such as fuses and fuse cords.

Explosives division is market and technology leader

In the spring of 2003, we took over the technology leader for emulsions in the form of WESTSPRENG, thereby positioning the division as the market and technology leader for industrial explosives in Germany (without taking into account the closed marked in the potash and salt industries). Companies belonging to the division supply almost 20,000 t p.a. which is almost 45% of the amount of industrial explosives required in Germany every year. The division not only looks back on a very long tradition and holds great experience in the production of these highly sensitive products and the necessary, extensive official approvals, but also the market presence required in order to further expand this profitable area successfully.

High potential for operating growth is the result of a tight network of production and distribution locations abroad, in particular in Eastern Europe. New production facilities have been built in the last few years in Poland and Hungary. The division is also able to supply further target areas in Eastern Europe from facilities situated near to the border. Eastern European countries are expected to increase their expenditure on modernizing their infrastructures in the wake of EU accession.

Divisions aligned for growth

The explosives market in Western Europe is a highly saturated market, i.e. operating growth can only be achieved by opening up new regions and developing new applications. We are working very hard on both of these activities. The production of explosives for new areas of application is already well advanced. This will enable us to reach new markets for our explosives in which to date only alien products have been used.

Besides achieving operating growth, the division is also concentrating heavily on expanding its activities by means of acquisitions and alliances. The organizational structure will allow it to integrate further suppliers in the form of buying other companies or mergers in order to expand the division into a European explosives group.

Quality Management

Customer-oriented approach safeguards competitiveness

The constant improvement of the products and services we offer is at the heart of our quality philosophy. The continuous review and dynamic refinement of our services is guaranteed by quality programs and management systems which are implemented in the separate companies. The aim is to constantly increase the quality awareness of all employees in order to maximize customer satisfaction.

The customer-oriented approach which the group embodies requires that customers' demands are met to their fullest satisfaction, while at the same time added value is created for the customer by comparison with competitors. This maxim requires close customer relationships, as well as close proximity to the sales markets. Only by recognizing and predicting new market developments and changes in customers' requirements at an early stage will we be able to gain advantages on the market by adapting our own products accordingly.

Quality management institutionalized to a high degree

Various quality management systems and programs have been put in place in individual group subsidiaries, thereby ensuring that quality awareness drives the orientation of the product range. However, standardizing procedures and processes not only ingrains the quality philosophy in individual divisions, it also achieves accelerated work processes, while at the same time minimizing the risks arising from operations.

The installation of central, IT-based document administration ensures a high degree of user-friendliness and clarity in the area of guidelines and norms. Comprehensive and thorough training courses are held with employees and instruct our staff in the use of the respective documentation.

Integrated management system successfully introduced

Besides the need to adapt individual management systems to take account of new insights and internal developments, the focus is primarily on collating the existing directives and recommendations to form integrated management systems. Here we made an important advance in 2003 by installing such a system in the Salzbergen facility. Documentation on the subjects of quality management, safety, environmental and health protection were combined to form a comprehensive management tool which allows processes and procedures to be viewed in a comprehensive, process-oriented manner. The integrated management system was certified to the following norms: DIN EN ISO 9001-2000 (quality management)

and DIN EN ISO 14001 (environmental protection). Confirmation was also given that the documentation meets the requirements of OHSAS 18001 (work and health protection). All laboratories at the facility are also accredited to DIN EN ISO/IEC 17025 norms. The establishment of an integrated management system is also being actively pursued at other group facilities.

Numerous audits and certifications in 2003

Audits and certifications were successfully carried out in all divisions and nearly all subsidiaries in 2003. The majority concerned customer audits, among them also very demanding tests by large, international groups whose requirements in terms of quality management, environmental protection and work safety reach well beyond the extensive ISO or comparable norms.

There were also numerous first-time certifications and re-certifications, as well as accreditations carried out by external auditing companies which covered all areas (quality management, environmental protection and safety at work). In the process, industry-specific requirements were also taken into consideration in individual companies as well as the generally applicable ISO norms. For example, the production of plastic parts was certified to the comprehensive and detailed "Certification specifications of the automotive industry for the Technical Specification ISO/TS 16949:2002". In the Chemical/Pharmaceutical Raw Materials division, laboratories were accredited in accordance with the DIN EN ISO/IEC 17025 norm by DASIM – the German Accreditation Body for Oil. Running parallel to the external audits, a whole series of intern-al audits was once again conducted that serve to continuously improve the existing quality management system.

Successful work continued in 2004

Extensive measures for guaranteeing high-quality products and services are already planned for the new financial year. On the basis of the experience gained at the Salzbergen facility, our aim is to combine the existing single systems to form integrated management systems at other group facilities too.

At the same time, the software structure for documenting corporate processes will be simplified. As part of a new sys-tem of responsibilities, individual areas of tasks and responsibility belonging to central posts will be increasingly organized on a decentralized basis.

Environmental safety

Environmental protection and safety accorded top priority

Environmental awareness and responsibility as well as minimizing the consumption of natural resources are principles that are firmly rooted in our corporate philosophy. Our high standards result from the fact that we handle dangerous materials on a daily basis, mainly in the Chemical/Pharmaceutical Raw Materials and Explosives divisions. All our subsidiaries are obliged to conform to the highest, most stringent safety standards which serve to protect employees as well as the environment. Individual processes are also regularly reviewed with regard to the emissions they produce and whether more environmentally-friendly alternative procedures are already available.

Embedded in management systems

While we implement technical measures to extend environmental protection and safety, our sense of responsibility is also clearly evidenced in the central institutionalization of environmental protection and safety regulations and norms within our management systems. Employees also receive regular training which heightens their awareness of environmental protection and work safety issues.

Environmental programs initiated

Plant-specific programs are pursued in each division in order to optimize processes with regard to keeping water, air and the ground clean and minimizing waste.

Most of the investments completed in 2003 and those still ongoing relate to production systems in our Chemical/Pharmaceutical Raw Materials division. By implementing technical environmental protection measures, we are reducing the emissions of substances, odors and noise.

One important project in this regard is the construction of the thermal waste treatment plant in the Salzbergen facility. Commissioning this plant and simultaneously reducing the operation of the oil-fired power station will enable us to significantly cut back the atmospheric emissions occurring in the generation of power. The incineration of residual gases will also be extended in this facility in 2004 by adding a new flue-gas desulfurization system.

Health protection programs expanded

As far as industrial safety and safety at work is concerned, the systems in place for avoiding accidents have been largely optimized. This development is proved by the consistently low number of accidents in the group subject to reporting requirements.

We are now also concentrating strongly on the subjects of illness prevention and health promotion. By setting up pilot projects, various measures and programs are to be developed that will eliminate health risks at individual workplaces.

In collaboration with a major health insurance company, we have initiated a health program to this end at a number of group companies that assesses and evaluates technical workplaces as well as the working conditions in administrative areas with regard to their effects on employees' health. In 2004 it is planned to draw up a dietary program that will complement the current, ongoing health promotion programs.

PRECISION PLASTICS

Performance

Tough economic environment in Europe

The economies in the most important European industrial countries again only grew at moderate rates in 2003. And the German economy, showing a decline in GDP of 0.1% in real terms, was one of the back markers in Europe. The continuing weakness in consumer demand had a particularly negative effect, caused as it was by persistent uncertainty with regard to political reforms and negative developments in the labor market. Businesses also reduced their investment expenditure with the result that even the slight increase in state spending and the small rise in exports were not able to prevent the German economy from experiencing negative growth for the first time in ten years.

H&R WASAG Group remains on growth course

The H&R WASAG Group developed well in this difficult climate and acted systematically in positioning its activities to fit its Group strategy. Two important acquisitions in 2003 enabled H&R WASAG to secure national and international market positions in its Chemical/Pharmaceutical Raw Materials division and Explosives division. The Precision Plastics division also continues to operate successfully as technology leader. This means that all H&R WASAG AG's operational divisions are market leaders and strategically well positioned for the future. With its acquisitions, the Group has at the same time laid the foundations for a leap in sales and earnings in the new financial year 2004.

At the end of April, the Group took over Westspreng GmbH Sprengstoffe + Sprengtechnik (WESTSPRENG) with effect from the beginning of 2003 (consolidated from May 1, 2003). This company is the market leader in Germany in the production of emulsion explosives, and has a close network of operating subsidiaries, particularly in the growth markets of Eastern Europe. As a result of integrating WESTSPRENG, the Explosives division of H&R WASAG AG has risen to become the leading supplier of industrial explosives in Germany. As a result of these developments the smallest Group division now forms a third, strong column of business activities.

In October, H&R WASAG acquired the European specialty refinery activities of the British oil company, BP, with financial effect from January 2, 2004. With the specialty refinery in Hamburg-Neuhof and three blending and filling plants in England and the Netherlands, the purchase comprises a total of four production facilities. In addition, the Group also secured the supply rights for the special products of a further BP refinery in England, and it took over BP's entire distribution unit for specialty products in Europe. With the integration of these new activities, the Chemical/Pharmaceutical Raw Materials division will further expand and cement its already outstanding market positions in Germany and Europe.

Sales ahead of last year due to acquisitions

Group turnover for the financial year 2003 grew by 10% over the previous year, rising to € 211.2m (2002: € 191.6 m). The growth stems exclusively from the first-time inclusion in the accounts of WESTSPRENG, which was consolidated with effect from May 1, 2003. In these eight months, the WESTSPRENG Group recorded sales of € 25.5 m in total, and consequently sales in the Explosives division rose in the reporting year to € 39.2 m (2002: € 12.4 m). On the other hand, revenues in the strongest division in the Group in terms of sales, the Chemical/Pharmaceutical Raw Materials division, fell slightly, the figure falling to € 139.2 m as at December 31, 2003 (2002: € 146.6 m). The main reason for this was the fall in domestic sales of its special products due to the general state of the economy. Sales in the Plastics

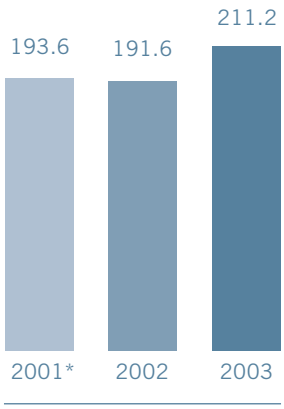
Sales by division

(€ m)	*2003*	*2002*	*Change, in %*
Chemical/Pharmaceutical Raw Materials	139.2	146.6	- 5 %
Precision Plastics	33.0	32.7	+ 1 %
Explosives	39.2	12.4	+ 216 %
Sum divisions	211.4	191.7	+ 10 %
Other activities	1.3	1.7	- 24 %
Consolidation	- 1.5	- 1.8	—
Consolidated net sales	**211.2**	**191.6**	**+ 10 %**

division stood at € 33.0 m (2002: € 32.7 m), which were at the same level as the previous year, in spite of the loss of around 10 % of the previous year's sales due to plants closing or relocating and customer insolvencies.

The various degrees of sales growth in the divisions led to a slight shift in the percentage split in Group sales by comparison with 2002. However, the Chemical/Pharmaceutical Raw Materials Division still accounted for the largest share of Group sales with 66 % (2002: 77 %). The integration of WESTSPRENG led to the share of sales contributed by the Explosives division in the past financial year increasing to 19 % (2002: 6 %). Sales in the Plastics division made up 15 % (2002: 17 %) of Group sales in 2003.

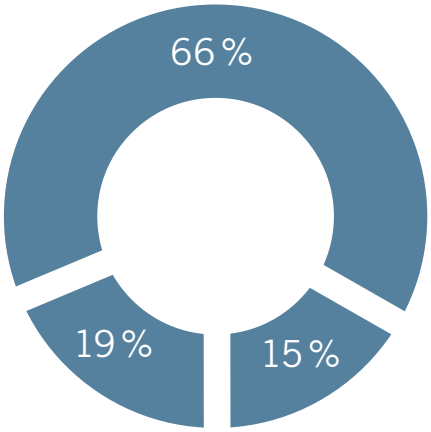
Net sales (€ m)



** according to HGB*

Sales by divisions (in %)

66% Chem./Pharm. Raw Materials, 15% Precision Plastics, 19% Explosives



Results

Results of the H&R WASAG group

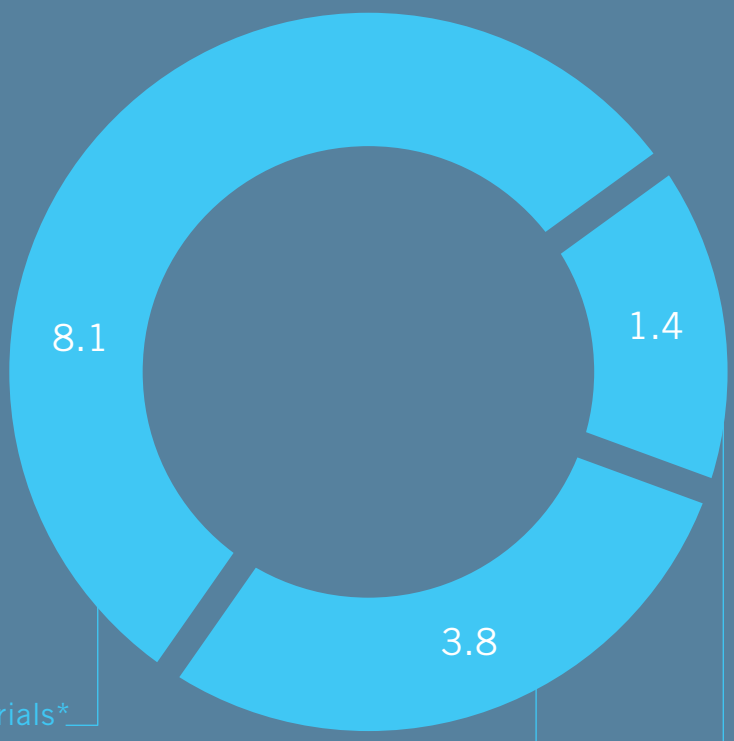
(€ m)	2003	2002	Change, in %
Net sales	211.2	191.6	+ 10 %
Operating income	12.7	9.8	+ 30 %
% of net sales	6.0	5.1	+ 0,9 % -Pts
Income before income taxes and minority interests	10.6	8.2	+ 29 %
% of net sales	5.0	4.3	+ 0,7 % -Pts
Income before minority interests	5.8	4.4	+ 32 %
% of net sales	2.7	2.3	+ 0,4 % -Pts
Net income	4.9	4.4	+ 11 %
% of net sales	2.3	2.3	—

Income significantly improved

The major items of expenditure have also changed in parallel with the growth in sales, in particular as a result of integrating WESTSPRENG. By reducing its overall costs, the company was able to significantly increase its group operating income to € 12.7 m (2002: € 9.8 m). Income before taxes and minority interests rose to € 10.6 m (2002: € 8.2 m), thereby achieving a return on sales of 5.0% (2002: 4.3%).

After an income tax burden of € 4.8 m (2002: € 3.8 m), income before minority interests stand at € 5.8 m (2002: € 4.4 m). As part of the takeover of WESTSPRENG, shares in WESTSPRENG were acquired in return for issuing new shares in the group subsidiary, SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH (SYTHENGRUND). From the end of 2006, the former shareholders of WESTSPRENG have the right to swap these shares in SYTHENGRUND for preferred shares in H&R WASAG AG which are to issued new (in total 2,875,000).

Income before income taxes by divisions (€ m)



* Before special items which are neutral at the consolidated level due to the sale of activities within the group; cf. page 41

Income before income taxes by divisions

(€ m)	2003	2002	Change, in %
Chemical/Pharmaceutical Raw Materials [1]	8.1	8.5	- 5 %
Precision Plastics	3.8	3.5	+ 9 %
Explosives	1.4	1.4 [2]	–
Total	**13.3**	**13.4**	**- 1 %**

1) In order to achieve better comparability with last year's figures, the customer base write-offs (€ 3.0 m, previous year € 0.5 m) and interest expense (€ 0.9 m, previous year € 0 m) which are neutral at the consolidated level, are not reflected in the figures; cf. page 41
2) Including an exceptional income of € 0.5 m resulting from the sale of land and buildings

Outside shareholders of SYTHENGRUND do not participate directly in the company's profits due to the profit and loss transfer agreement. They receive a compensatory payment from H&R WASAG AG in accordance with § 304 AktG (Companies Act). In 2003, the minority interests in group earnings amounted to € 0.9 m.

Positive contributions towards earnings from all divisions

The Chemical/Pharmaceutical Raw Materials division posted pre-tax earnings before exceptional effects of € 8.1 m (2002: € 8.5 m). Exceptional effects result from the internal sale of activities for which depreciation and interest expenditure were incurred in 2002 and 2003 for differing periods (see page 41 for details).

The earnings contribution from the Precision Plastics division grew to € 3.8 m (2002: € 3.5 m). The systematic implementation of measures to increase productivity and reduce costs was the determining factor in this pleasing development.

Earnings in the Explosives division remained unchanged at € 1.4 m (2002: € 1.4 m). However, it has to be taken into account in assessing earnings from the previous year that they contain exceptional income of € 0.5 m from the sale of land and property in 2002.

Dividend proposal of € 0.30

As the parent company of the Group with a right to distribute profits, H&R WASAG AG is reporting a net income for 2003 of € 4.7 m. In the process, the remaining tax loss carryforwards were used up in the reporting year. Taking into account earnings brought forward totaling € 23.4 m, the company's accumulated income as at December 31, 2003 stood at € 28.2 m. Of these earnings, € 5.7 m is to be distributed to shareholders in the form of a dividend of € 0.30 per share. The dividend per share is therefore at the same level as last year's once adjusted to reflect the additional, one-off bonus of € 0.15 per share paid in 2003.

Statement on affiliated companies

In the interests of comprehensive reporting, the Executive Board and Supervisory Board have decided, due to the repeated majority presence of the Hansen & Rosenthal group, to report in accordance with § 312 AktG (the so-called dependence report) in spite of the fact that their holding is less than 50%.

The Executive Board submits the following dependence report on its collaboration with affiliated companies from the Hansen & Rosenthal group in the financial year 2003, in accordance with § AktG:

"In all transactions and actions listed in this report, H&R WASAG AG always received adequate consideration according to the circumstances known to us at the time the transaction was made or the action taken or omitted, and was put at no disadvantage by the fact that such actions were taken or omitted. H&R WASAG AG did not incur any disadvantages from any relationship with the controlling company or companies affiliated with it."

CHEMICAL/PHARMACEUTICAL RAW MATERIALS

The Divisions

Chemical/Pharmaceutical Raw Materials division

Segments:
Specialty refinery activities
Blending

Sales and income

(€ m)	2003	2002	Change, in %
Sales	139.2	146.6	- 5 %
Income before income taxes*	8.1	8.5	- 5 %
Return on sales (%)	5.8	5.8	–

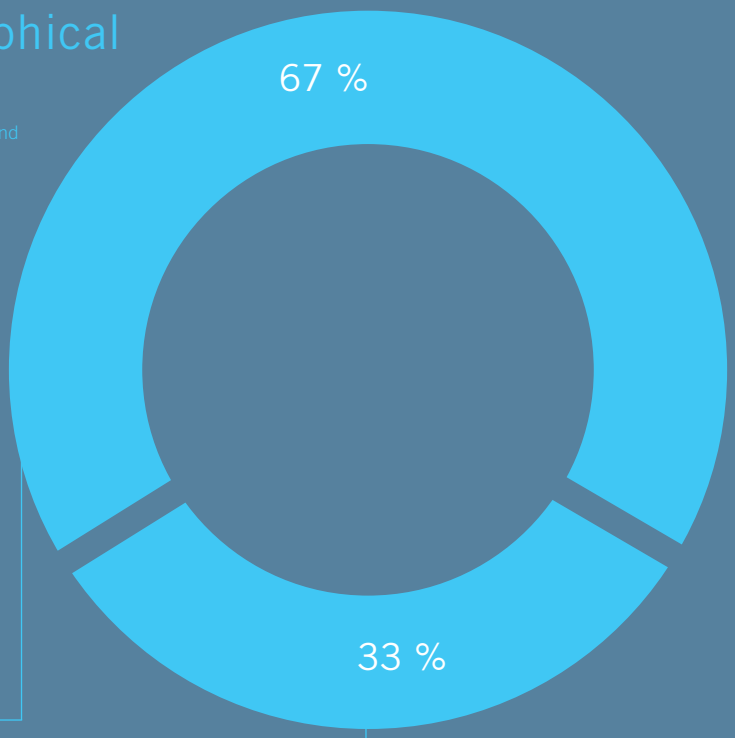
* In order to achieve better comparability with last year's figures, the customer base write-offs (€ 3.0 m, previous year € 0.5 m) and interest expense (€ 0.9 m, previous year € 0 m) which are neutral at the consolidated level, are not reflected in the figures; see below

Iraq crisis and economic weakness affect business growth

The activities of the Chemical/Pharmaceutical Raw Materials division grew at a satisfactory pace altogether in the reporting period in a difficult climate. However, sales for the division stood at € 139.2 m (2002: € 146.6 m), which was slightly below the previous year. Earnings before tax and special effects reached € 8.1 m (2002: € 8.5 m). Special items affecting the division's results result from the sale of the doped lubricants business within the group to J.P.S. Schmierstoffvertrieb GmbH in 2002. The sale was made in order to

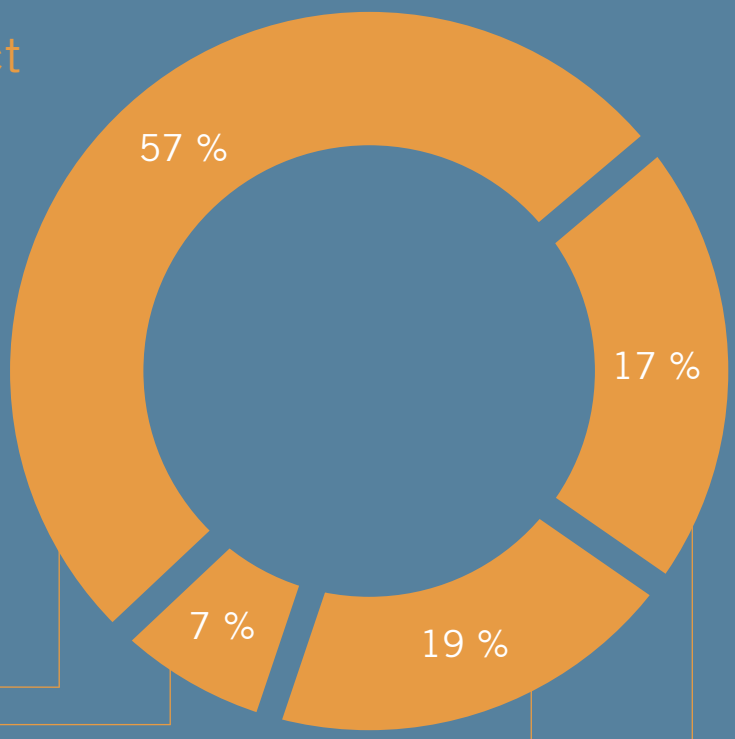
Sales by geographical area * (%)

* after distribution through own companies and external distribution partners



Germany
Rest of Europe

Sales by product groups (%)



Other specialties
Coproducts
Paraffins
Medical white oils

achieve a better demarcation of these activities. J.P.S. is writing off the acquired customer base by the straight line method. This depreciation was only incurred in the previous year within the division for the months of November and December but in the reporting year for the entire year. To this must be added increased interest expenditure paid for the first time in 2003 for a full year as part of the intercompany financing of the purchase. This expenditure totaled € 0.5 m in 2002 and € 3.9 m in 2003.

High utilization of refinery capacity

The decline in divisional sales by comparison with the previous year is due to a slight fall in the sales of chemical/pharmaceutical main products. As a result of consumer reticence in Germany, many domestic customers of the division have reduced their production of consumer goods. Consequently, the demand for paraffins and white oils was weaker, among others, two of the strongest selling product groups in the division. Export sales also dipped slightly due the lasting rise in the Euro exchange rate in the course of the year. In total, the volume of main products sold fell to almost 239,000 t (2002: 244,000 t).

However, the Group's refinery capacity was fully utilized through-out the year. Only bought-in products were reduced. Products are bought in when the company's own production capacity is unable to meet customer demand. From a financial point of view, bought-in products are almost meaningless as the margins on them are very low.

High volatility in raw material prices

The price of crude oil was on average 15% higher than in the previous year, whereby this rise was partly offset by movements in the US$ exchange rate. In particular, the political unrest in Venezuela and the USA's military intervention in Iraq led to very high price peaks in the short term. This was compounded by a constant shortage of stocks among OECD states as a result of strong economic growth in South East Asia (in particular China). While consistent, foreseeable growth in the price of crude oil does not affect the earnings stability of the division, the margins on chemical/pharmaceutical specialty products can be subject to significant changes when prices experience sharp peaks in a very short period of time.

One such effect occurred as a result of the crisis in Iraq. A sharp rise in the price of crude oil within a few weeks due to the escalation of the conflict, resulted in the most important raw materials, long residue and vacuum gas oil, becoming

more expensive. It was only possible to adjust sales prices to reflect the new raw materials price level after a time lag of four to eight weeks. However, the losses incurred in this period (so-called windfall losses) were largely offset by the fact that the margins exceeded budgeted levels for a period of a few weeks after conditions in the crude oil market eased (windfall profits). It also proved possible to partially offset the negative effects by moving investments affecting liquidity and by implementing cost reduction programs.

In paraffins, the second half of the year was marked by heightened pressure on prices as a result of a surfeit of Chinese products. However, revenues for the most important product groups were on average on a par with those of the previous year.

New precision distillation plant commissioned

A new precision distillation plant was commissioned on schedule at the beginning of 2003 at the Salzbergen facility. The new plant has doubled capacity in this area, and created the conditions for extensive production of ISO paraffins. ISO paraffins are expected to be in high demand in the future from various industries for use as raw materials. With the commissioning of the new precision distillation plant, the division has expanded its product range in order to meet customer needs.

The plant's load factor for the reporting period was higher than the capacity of the old plant which can still be used for the production of precision distillates if required. However, the sale of ISO paraffins is only growing slowly. After having sent out product samples to the relevant target markets for testing as the first step, we are expecting orders to pick up in the coming months.

The division advanced a series of research and development projects in 2003. A major part of this activity centered on measures for developing and releasing paraffins. However, the research and development project "Reesterification of native oils" was put on hold in the course of the reporting year. The reason for this is the deterioration of the market environment for chemical/pharmaceutical products on the basis of renewable raw materials. Neither an efficient supply of high-quality raw materials nor satisfactory sales of the products can be guaranteed in sufficient quantities in the current market climate.

Strategic positioning of blending activities improved

The Group's activities in the blending and filling of lubricants were also affected by the volatile movements in the price of crude oil. While volumes declined in the spring and summer, the last few months in the reporting period were much busier

again. The company was able to cope with these load factors by adjusting its personnel structure.

The Group succeeded in the reporting period in further improving the positioning of its blending activities and in portraying itself as an expert supplier in the lubricants business. Although division's service business had been previously heavily dominated by production of the entire lubricants range for ARAL, it succeeded in winning new orders from international companies in the reporting period after the ARAL contract had been terminated on December 31, 2003. In the process, both the production and the laboratory capacity of the blending and filling plant at the Salzbergen location were subject to extensive audits and testing.

The activities in the doped lubricants business, which were bundled in a separate Group company in 2002, produced a stable performance.

Takeover of ESP

In October, the H&R WASAG Group acquired the European specialty refinery activities of BP (ESP, European Special Products) effective from the beginning of 2004. BP is abandoning the production of chemical/pharmaceutical specialty products as part of the process of concentrating on its core business. The takeover concerns a special refinery in Hamburg-Neuhof, two blending and filling plants in Chorley and Tipton (both Great Britain) and a further conversion plant in Nuth in the Netherlands.

In addition, the supply rights to specialty products from the BP refinery in Coryton (Great Britain) were also acquired which in future will be sold through the Group's distribution network. H&R WASAG also took over BP's distribution unit responsible for its European business. In total, 308 new employees were integrated into the division in January 2004.

The new plants produce the same chemical/pharmaceutical specialty products which the Group is already making at its Salzbergen location. As a result, H&R WASAG will be able to further reinforce and even expand its leading market position in the relevant product areas both at a national level and on the European stage. After the takeover, the division is well positioned for the future as either the largest supplier in Europe in all important segments of the market, or else as the number two. The purchase also includes patents to an innovative process for producing label-free plasticizers. These very environmentally friendly products are expected to attract high demand from the market in the future. The focus here is primarily on the tire industry as it uses this specialty chemicals as an admixture for car tires.

Volumes more than doubled

With the acquisition of ESP, the Group has more than doubled production volumes of its main products from 2004 from previously up to 300,000 t p.a. to 800,000 t p.a. Both refinery locations (Salzbergen, Hamburg) produce approx. 300,000 t of chemical/pharmaceutical specialty products per year. A further 200,000 t come from other Group facilities and the refinery in Coryton which still belongs to BP. Production of these specialty products also results in approx. 400,000 t of coproducts. The sale of these increased volumes is expected to generate additional sales of at least € 230 m p.a.

Extensive synergy effects possible

Extensive synergy effects can be exploited within the division thanks to the increased processing capacity and the nearly identical production processes. On the procurement side, larger volumes will be required in future which will increase the Group's importance as a consumer of raw materials.

The central divisions will be amalgamated in the administrative area. In all new locations, the Group has already taken over only those administrative jobs that will be needed for future operations. Consequently, there will be no major reduction in personnel. Further synergies relate to logistics cost as part of the process of optimizing the flows of raw materials and products, activities in the field of research and development as well as sales through the integrated coordination of the product mix.

Precision Plastics division

Segments:
Production of precision plastic parts using injection molding techniques
Mold construction

Sales and income

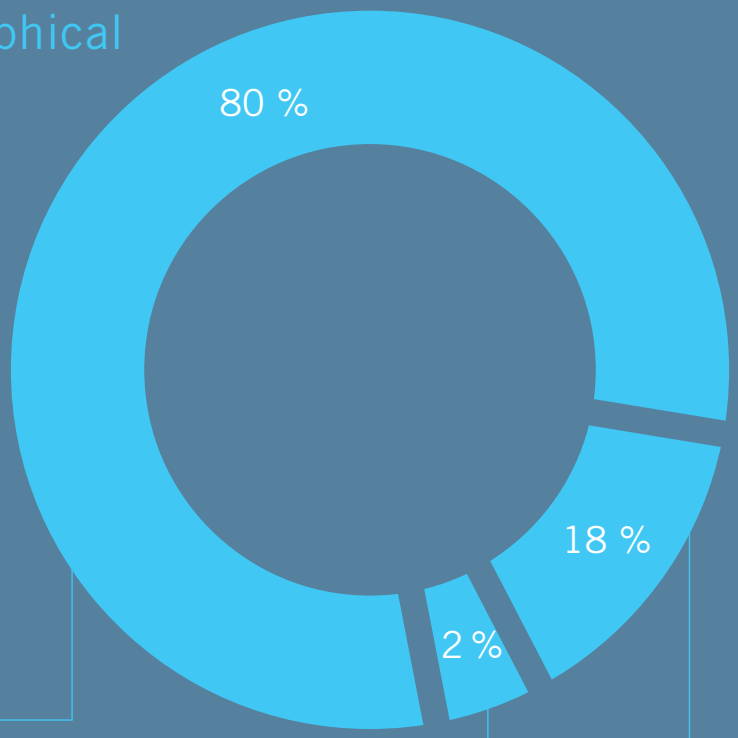
(€ m)	2003	2002	Change, in %
Sales	33.0	32.7	+ 1 %
Income before income taxes	3.8	3.5	+ 9 %
Return on sales (%)	11.5	10.7	+ 0.8 % -Pts

High earning power safeguarded in 2003

The plastics division again achieved good profitability in the past financial year in spite of the difficult climate. Sales climbed to € 33.0 m (2002: € 32.7 m). Earnings also improved at the same time. The division posted pre-tax earnings of € 3.8 m (2002: € 3.5 m).

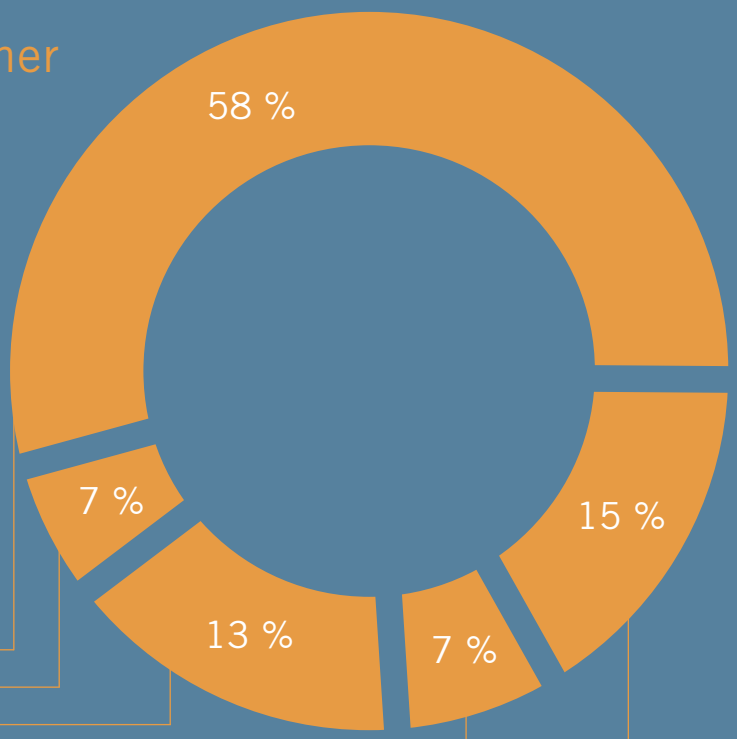
The basis for this pleasing growth in earnings was formed by the implementation of important restructuring measures in the second half of 2002. A reduction in the number of employees by approximately 10 % in 2002 enabled the high collective bargaining agreement (increase of 3.1%) to be offset in the reporting year, thereby safeguarding continuity in the fixed costs. In addition, further improvements were achieved

Sales by geographical area (%)



Germany
Rest of Europe
Rest of World

Sales by customer segments (%)



Automotive
Electronics
Medical
Measurement and control systems
Others

in processes in the reporting period which led to a reduction in personnel costs. This enabled the pressure on margins to be successfully offset.

Moderate growth achieved in difficult market environment

The slight growth in sales is due both to an expansion of business with existing customers and to the winning of new customers. At the same time, the division had to cope with the loss of approximately 10% of sales from 2002 as a result of customers closing down plants or going bankrupt.

Within the division, there was a slight shift between the two different production areas. Plastics processing remained stable in the reporting period while sales in tool-making rose significantly. The development and production of tools forms the basis for future orders for making plastic parts in production quantities.

Sales used to be traditionally higher in the first half of the year than in the last six months. The reason for this is the fact that many customers shut down production during the summer and Christmas holidays.

The main target market for the division's products in 2003 was again the components supply industry for the automotive industry. Their share of sales rose from 55% in 2002 to 58% in the last financial year. Against this, the share of total sales contributed by the medical engineering segment of the market fell from 17% to 13%. Companies engaged in electrical engineering and measuring and control engineering each contributed 7% of sales.

Collaboration with major customers which had already been stepped up in the previous year, was continued and expanded in 2003. Important customers chose the division as their strategic supplier. In this way, the Group is able to secure early participation in new projects.

Preparation for international expansion of activities

The division pushed ahead with the international expansion of its activities in the last financial year. New facilities are to be set up overseas as part of joint ventures. The focus here is on regions in which strategic customers already have their own production plants. Contacts with potential collaboration partners were intensified in 2003 with this aim in mind. In particular, the setting up of a production facility in China as a joint venture with a local company was nearly completed.

Technology leadership secures stability

The division's great experience and its existing expertise in tool-making again proved to be important means for ensuring customer loyalty in 2003. Drawing on leading edge development tools, the division is able to efficiently draw up individual product solutions for the production of precision plastic parts.

In order to maintain this technology lead and the competitive advantages this position entails for the future, tool making was again the main focus of research and development activities in the past financial year. Important projects included the design of high-quality tools and micro-tools.

Explosives division

Segments:
Stone / earth
Safety explosives
Black powder

Sales and income

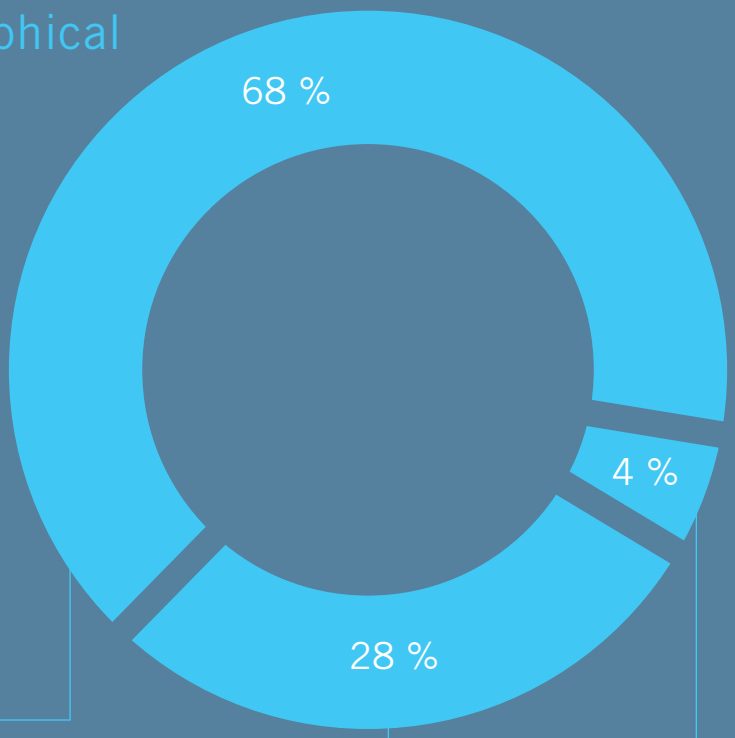
(€ m)	2003	2002	Change, in %
Sales	39.2	12.4	+ 216 %
Income before income taxes	1.4	1.4*	–
Return on sales (%)	3.6	11.3	- 7.7 % -Pts

* Including an exceptional income of € 0.5 m resulting from the sale of land and buildings

Acquisition of WESTSPRENG

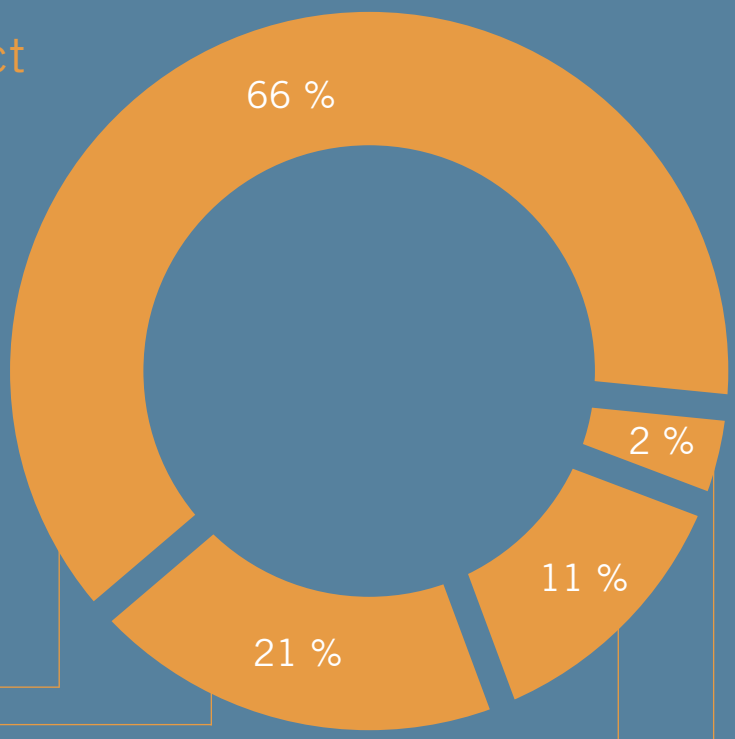
The situation in the Explosives division changed significantly in the reporting year, and the first important step in the strategic restructuring of the division was successfully implemented. Previously, explosives activities have only concentrated on the product segments of safety explosives and black powder. Due to the structure of the market which has been saturated for many years and the division's own lack of infrastructure in its warehouses and plants, it was not possible to achieve satisfactory operating growth. At the same time, it had to be expected that the sale of safety explosives would

Sales by geographical area (%)



Germany
Rest of Europe
Rest of World

Sales by product groups (%)



Stone/earth
Safety explosives
Black powder
Others

fall continuously due to the expected developments in the German coal industry. Although the explosives business was highly profitable, the levels of sales achieved were very low, and it had to be thoroughly restructured to meet the current demands of the market and those expected for the future.

Explosives division is now the market leader in Germany

This step was implemented in April 2003 with the acquisition of the WESTSPRENG Group. Westspreng GmbH Sprengstoffe + Sprengtechnik and its subsidiaries produce and distribute modern emulsion explosives as well as ANFO/ANC explosives. WESTSPRENG is the technology leader in emulsions and its product range complements the products sold to date. With this acquisition, the explosives division of H&R WASAG AG becomes the market leader in industrial explosives in Germany (without taking into account the closed market for the potash and salt industry). In addition, the division now has a tight sales network in Europe, especially in the growth markets of Eastern Europe.

Foundation of H&R Eurospreng planned

The takeover of the WESTSPRENG shares was achieved by issuing new shares in Group subsidiary SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern to the former owners of WESTSPRENG. These shares can be swapped for new preferred shares in H&R WASAG AG at a defined ratio from the end of 2006. A new intermediate holding company, H&R Eurospreng, will be set up under SYTHENGRUND. All participating interests in explosives companies will be taken over by the new company.

Sales increased

As a result of consolidating WESTSPRENG from May 1, 2003, sales in the Explosives division jumped from € 12.4 m in 2002 to € 39.2 m. In these eight months, the WESTSPRENG Group recorded sales of € 25.5 m in total. Pre-tax earnings at the divisional level reached € 1.4 m (2002: € 1.4 m) although in the previous year there was exceptional income of € 0.5 m resulting from the sale of land and buildings.

The principal determining factor in this performance, in addition to the first-time consolidation of WESTSPRENG, was a rise in the sales of safety explosives and special explosives.

However, earnings in the stone/earth segment of the market in which WESTSPRENG operates were below expectations. In Germany, the construction industry – and particular road and tunnel building – had to face a further loss in orders in the reporting year.

For this reason, the demand for explosives in the stone / earth segment of the market was also modest. This was compounded by the fact that the extremely long, cold weather conditions in the first few months of 2003 had a negative effect on the German market; explosives projects were postponed. Business in Eastern Europe, on the other hand, proceeded satisfactorily, and the volumes sold in Poland, in particular, increased noticeably. However, earnings in the division were affected by unfavorable movements in the rates of exchange of the Polish Zloty and the Hungarian Forint.

Sales in the service segment remained at the level of the previous year in 2003.

Besides the modest growth in orders, a shift in the product mix sold in the same stone/earth segment of the market also contributed to the fact that the earnings for the division were not higher. The very dry weather in the summer months favored the use of low-priced alternatives to the technically sophisticated emulsions, thereby incurring a negative effect on margins.

Activities in the segment for safety explosives developed pleasingly in connection with supplies to Deutsche Steinkohle AG. The expected sales volumes were slightly exceeded with the result that a scheduled reduction in volumes did not materialize. There was also a rise in the sale of special explosives.

Sales of black powder also showed positive growth. The quantities sold abroad, in particular, increased significantly, above all because of the joint venture set up with American partners in USA. But export volumes to South Africa also increased.

The land business which is allocated to the Explosives division proceeded according to schedule in 2003. Preparations for the planned mining of the silica sand under the extensive land owned by the Group were pursued. The procedures for completing the necessary environmental compatibility tests and inclusion of the project in the development plan for the area were progressed nearly to the point of completion.

Successful research and development activity in 2003

The division also pushed ahead with its activities in researching new applications for explosives in the last financial year. The emphasis lay on developing new techniques for the use of pump emulsions in order to open up new markets for this product. By comparison with cartridge emulsions, pump emulsions are easier to handle and more efficient. The new products have already been employed successfully.

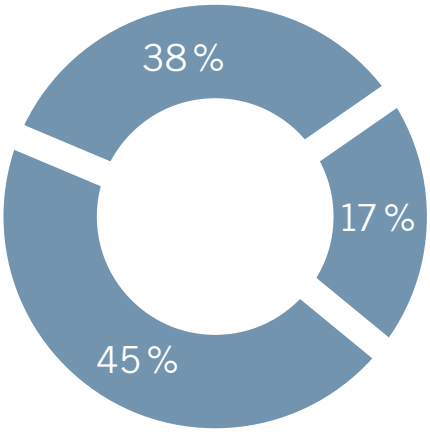
Investments and capital structure

Investments made for the future

Companies belonging to the H&R WASAG group invested a total of € 10.1 m (2002: € 9.5 m) in fixed assets in 2003.

Capital expenditure by divisions (%)

45 % Chem./Pharm. Raw Materials, 17 % Precision Plastics, 38 % Explosives



Restructuring of blending and filling capacity

The blending and filling capacity at the Salzbergen facility is being extensively converted. The aim is to further extend the division's lead in terms of costs in order to reinforce its already successful services in the blending of lubricants. Aligning activities to enable the division to take on further orders and quantities also necessitates more efficient use of the existing buildings.

In 2003, work started on building the new blending and filling lines. An important step in the second quarter of 2004 will be completion of the conversion of the drum filling line. Conversion of the goods inwards area for loose additives and their storage has already been completed.

In the course of the year, the refinery capacity was also dapted to meet the latest developments in the field of environmental protection. One important project here was the preparation for the building of a new residual gas incinerator in Salzbergen.

Construction of the thermal waste treatment plant on schedule

Construction of the refuse incineration plant begun in 2002 in Salzbergen was progressed to schedule in the past financial year. The operating company is SRS EcoTherm GmbH, in which the H&R WASAG Group has a 10% stake. The investment is being mainly financed by RWE Power AG that holds a 90% stake in SRS EcoTherm.

The construction phase was completed at the end of the year and a substantial test phase was started. Trial operations are due to start in April 2004. Thereafter the plant will supply most of the steam required for operating the production systems in the Salzbergen facility. This means that operation of the existing oil-fired power station can be substantially reduced with correspondingly beneficial effects on energy costs. In future, the realization of this new power strategy should save at least € 2 m annually. The Group has thereby offset the disadvantage of Salzbergen's location by comparison with other better situated refineries (coast or pipeline). The expected savings more or less correspond to the increased logistics cost for transporting raw materials to the refinery.

Investments implemented to reduce costs and increase efficiency

Investment in the Plastics division mainly involved replacing equipment and rationalization measures with the aim of bringing further relief to the cost structure.

Activities in Explosives centered on increasing the pool of special vehicles for the use of pump emulsions. At the same time, a new testing line was built for black powder combustion tests.

Cash Flow has increased significantly

The expansion of operations has gone hand in hand with a rise in the cash flow generated across the group. The inflow of funds from current operations climbed to € 20.3 m (2002: € 17.4 m) due to the improvement in earnings. Liquid assets in the group increased significantly in the course of the year, rising from € 4.8 m to € 10.8 m.

Relative balance sheet numbers unchanged

The consolidation of WESTSPRENG has not resulted in any major changes in the relative numbers in the balance sheet; only total assets have risen significantly from € 134.1 m to € 165.7 m (+ 24 %).

Long-term assets increased to € 95.2 m (Dec. 31, 2002: € 70.8 m) and as of the date of the balance sheet they represent 57 % (Dec. 31, 2002: 53 %) of total assets. Above all, tangible assets and goodwill have increased, both as a result of the consolidation of WESTSPRENG.

Short-term assets have also increased. Inventories and receivables have risen due to the expansion of business activities. However, the share of total assets represented by short-term assets and deferred income taxes fell slightly to 37 % (Dec. 31, 2002: 40 %) and 6 % (Dec. 31, 2002: 8 %).

Solid financing of growth

On the liabilities side of the balance sheet, the equity ratio as at December 31, 2003 remains very high at 48 % (Dec. 31, 2002: 51 %). As a result of integrating WESTSPRENG and due to the consolidated profits posted in the last financial year, net equity increased by 16 % to € 79.4 m (Dec. 31, 2002: € 68.7 m).

As at the end of the year, the H&R WASAG Group is again showing amounts due to banks, particularly from having taken over loans belonging to the WESTSPRENG Group. However, in total, these only account for 11 % of total assets. Long-term liabilities increased as a result of the loans to € 39.5 m (Dec. 31, 2002: € 32.1 m) or 24 % (Dec. 31, 2002: 24 %) of total assets. Pension provisions equal 17 % (Dec. 31, 2002: 22 %) of liabilities and their amounts have hardly changed.

The utilization of loans can also be seen in short-term liabilities. A rise in provisions also led to short-term liabilities increasing to € 44.0 m (Dec. 31, 2002: € 32.7 m) or 27 % (Dec. 31, 2002: 24 %) of total assets.

Balance sheet of H&R WASAG Group

(as of Dec. 31, € m)

Employees

Rising number of employees in the Group

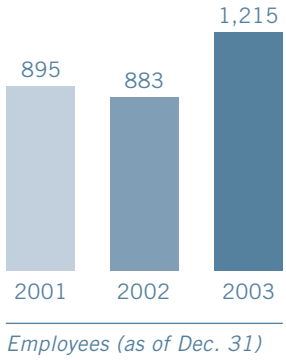
As a result of the takeover of the WESTSPRENG Group, the number of employees as of December 31, 2003 increased by comparison with the previous year, reaching 1,215 (Dec. 31, 2002: 883). Of these, 392 persons alone are employed at Westspreng GmbH and its subsidiaries, thereby accounting for the majority of the 496 employees in total (Dec. 31, 2002: 118) active at the Explosives division.

The Chemical/Pharmaceutical Raw Materials division employed 356 members of staff (Dec. 31, 2002: 398) on the date of the balance sheet. The decline is primarily due to the organizational restructuring of Group activities. When the thermal waste treatment plant was set up, the workforce in the Group's own power station was transferred to the new operating company in which the Group has a 10% stake. The division also restructured a sales unit. Real adjustments in staffing levels were only made at the blending and filling facilities where the number of employees was reduced.

The number of employees active at the Plastics division remained stable at 360 (Dec. 31, 2002: 363). The Group holding company, H&R WASAG AG, employs three members of staff.

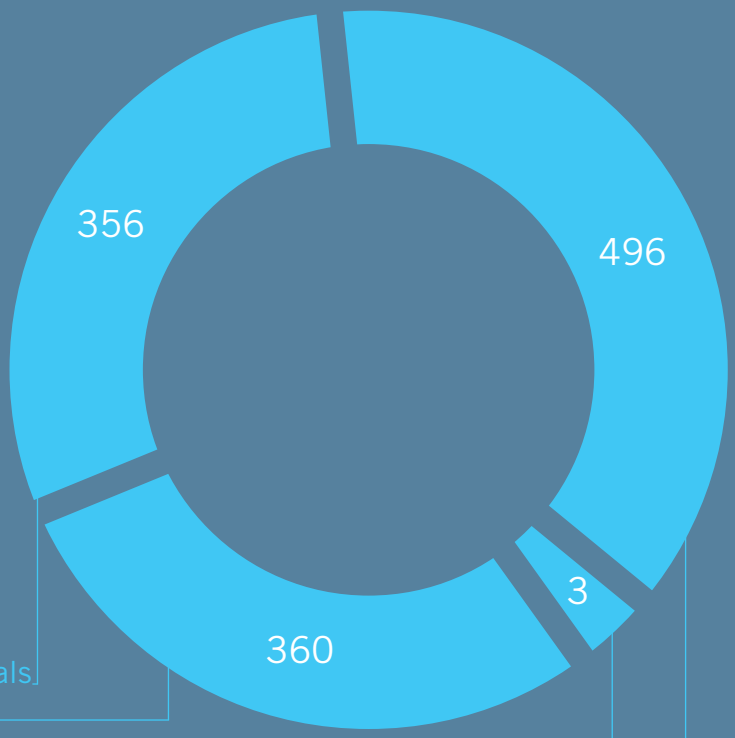
Of the 1,215 Group employees, 188 (Dec. 31, 2002: 0) were employed at foreign subsidiaries of H&R WASAG AG. These persons are all with the WESTSPRENG Group.

Employees (as of Dec. 31)



Employees by divisions

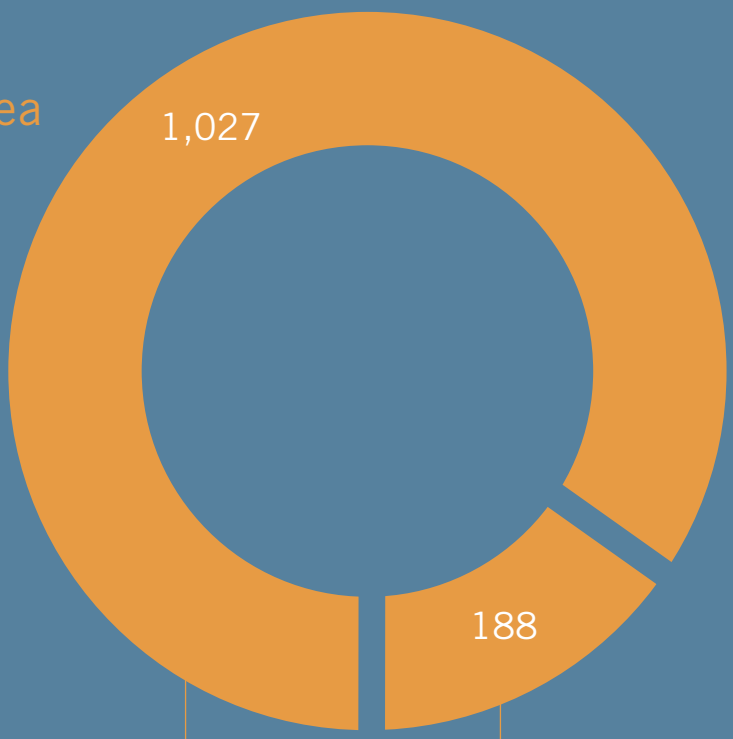
(as of Dec. 31, 2003)



Chem/Pharm Raw Materials
Precision Plastics
Holding
Explosives

Employees by geographical area

(as of Dec. 31, 2003)



Germany
Rest of Europe

Number of trainees unchanged

As of the balance sheet date, there were 56 young people (Dec. 31, 2002: 57) engaged in traineeships. The major share, namely 51 trainees (Dec. 31, 2002: 53) are being trained in trades (machine tool mechanic, chemist, laboratory assistant, process technician), while 5 (Dec. 31, 2002: 4) are training in commercial occupations (business economist, industrial clerk) as of December 31, 2003.

Staff training safeguards competitiveness

In training technicians, Group companies also participate in programs run by external training organizations. For example, there is a collaboration between companies in the Chemical /Pharmaceutical Raw Materials division and the vocational institute of Emsland. Participation in this program concludes with a test conducted by the IHK (Chambers of Commerce) which leads to a qualification in business economics (BA).

As well as training young people, Group companies also invest specifically in further training. Training courses and seminars are held in the technical units as well as in administration in order to expand employees' specific professional skills and technical knowledge.

Risks and risk management

Early detection of risks ensures positive corporate growth

The subsidiaries of the H&R WASAG Group operate with their products and services in markets that are characterized by various specific risks. A Group-wide risk management system allows risks to be systematically identified and recorded. Imminent risks can be eliminated by introducing suitable counter-measures, and correspondingly negative effects on the Group's net worth, finance and earnings position avoided or minimized.

A differentiation is made in possible risks between strategic and specific operational risk categories. Among the strategic risks to future growth are those resulting from acquisitions
or which concern employee competence or product quality. Strategic risks are also identified in competitive positions and market developments. Specific operational risks comprise in particular fluctuations in the price of key constituents to the business (the price of crude oil, foreign exchange relationships), risks from accidents and damage as well as risks posed by statutory environmental requirements.

One important tool for detecting risks is a comprehensive system of information and reporting. By constantly comparing the actual situation with budget scenarios, variances can be identified. In addition, both the current developments in Group companies and future courses of action are analyzed and initiated in the course of regular meetings of the board of directors, management meetings, strategy meetings and steering meetings.

Diversification at Group level

The impact of individual risks concerning the individual divisions is buffered at a Group level through diversification in three different markets that all show different risk profiles and dependent factors. The possibility that risks endangering the existence of H&R WASAG AG will actually occur, is thereby minimized.

It is the defined Group strategy to position all divisions and Group companies as market or technology leaders in their particular markets. With the integration of WESTSPRENG, this has now also been accomplished in the Explosives division in 2003. This allows possible market risks and competitive risks to be very well monitored, both at a divisional and Group level.

Possible product risks or risks to growth affecting individual segments of the market can also be controlled to a large degree through diversification.

Solid finance guards against risks in refinery business

Financial results in the Chemical/Pharmaceutical Raw Materials division can be subject to large fluctuations due to unexpected, sudden movements in the price of raw materials. An unfavorable change in the price of crude oil which largely determines the costs of the raw materials processed in the division, as well as the US dollar/Euro exchange rate can lead to a sudden increase in the price of raw materials which cannot be passed on to customers immediately.

Normally it takes several weeks to adjust one's own sales prices to reflect the higher cost base. It is only when the rise in the price of raw materials is subsequently reversed that the losses incurred can be recovered. A sufficiently large financial framework must be held in readiness for such periods at a Group level. H&R WASAG is solidly furnished with shareholders' equity and has a low level of bank loans which provides it with the necessary financial maneuverability, even including its expanded activities in the production of specialty products from 2004 onwards. This is why the Group chooses not to secure its raw material costs via derivatives which are costly and risky.

The supply of raw materials for the production of chemical/pharmaceutical specialty products is largely secured as the relevant materials occur as by-products in the course of the production of fuels amongst other products. No deterioration in the market situation is foreseeable.

The pressure on prices has intensified in some sales areas due to the entry of new competitors.

Risks from the takeover of BP activities

In acquiring new companies, extensive tests are carried out in advance in order to eliminate potential legal, financial, technical or product-related risks. In order to ensure that these steps are implemented successfully, the Group evaluated all the relevant corporate and market information in the course of the takeover process with the greatest care, and built this information into the decision-making process.

The takeover of the European specialty refinery activities has doubled Group turnover. Future financial growth depends largely on how successful the Group will be in integrating its new facilities, in linking them to each other and on the strategic positioning of the expanded Chemical/Pharmaceutical Raw Materials division in the market.

Integrating the new activities is made easier by the fact that the Group was already operating in the same business

beforehand. The purchasing markets, process engineering, systems, products and sales situation are therefore all known. A plan of action for ensuring the best possible management of the systems and raw material and product streams was drawn up on the basis of an analysis of the strengths and weaknesses of each facility in the division, and this plan is currently being put into action. The aim is to achieve a profit-oriented utilization of existing capacity, while realizing the greatest possible synergy effects at both refinery facilities.

Broadening of customer base

Activities in the blending and filling of lubricants are being more closely aligned to fit a larger customer base in order to avoid dependency on single customers or major contracts. To this end, more staff have been employed in the new business acquisition area. Orders from new customers had already been won in the financial year 2003.

The Explosives division has been heavily dependent on supplying safety explosives to Deutsche Steinkohle AG. The acquisition of WESTSPRENG has removed this dependence.

High rate of innovation in the plastics business

The plastics market is highly competitive. The Plastics division of the H&R WASAG Group also generates a high share of its sales with companies from one sector of industry, namely suppliers to the automotive industry.

The Plastics division has relied on a high rate of innovation for many years in order to extend the technology lead it has acquired in the processing of plastics. Extensive research and development work as well as many years experience and a high level of precision plastics expertise form the basis for the constant refinement of existing processes or the development of individual customer solutions.

The Plastics division is meeting the tougher earnings situation brought about by high wage agreements and increasing pressure on prices from customers, by constantly adjusting its cost structure through increased productivity. In addition, the division will be setting up a production facility in China in 2004 as part of a joint venture. A presence in China will improve ties with strategic customers who are already operating in the country.

Possible risks from setting up new production are met by conducting extensive analysis of the relevant factors affecting the situation.

Environmental risks

Both the operating companies in the Explosives division and the corresponding extensive ownership of land and real estate are subject to far-reaching regulations and controls. This also applies to the production facilities in the Chemical/ Pharmaceutical Raw Materials division. The implementation of changes to environmental requirements, for example, could lead to added financial pressure on the Group.

Outlook

Significant growth in sales and earnings expected in 2004

The financial scenario for 2004 assumed by the company anticipates slight growth in Germany. The economies of other important European countries should also recover somewhat. Stronger growth is expected for the Eastern European countries joining the EU. The price of crude oil will remain volatile and at a relatively high level.

The activities already belonging to the Group in 2003 should be able to hold their own in this climate. The Group is budgeting for a small increase in sales in these areas by comparison with the previous year. Pre-tax earnings should be on a par with 2003.

However, sales and income figures at a Group level will increase significantly as a result of the facilities taken over from BP on January 2, 2004, which in company terms are structured as a separate unit within the Chemical/Pharmaceutical Raw Materials division.

With regard to the first year of the expanded H&R WASAG Group and its new activities, the management board is forecasting that sales will double. This growth will not be fully reflected in earnings in 2004, as integration costs of up to € 5 m are expected to be incurred

ESP earnings primarily to serve financing costs

The earnings posted by the new activities are to be used primarily to finance the purchase and repay the corresponding loans. The aim is to quickly repay the loans taken out in the course of the takeover in order to restore a solid financial base for new acquisitions.

Most of the liquidity paid out in the new year in connection with the purchase relates to the cost of financing the working capital taken over, i.e. receivables and inventories.

Integration on schedule

The transfer of the business from BP to the H&R WASAG Group at the beginning of January 2004 proceeded smoothly. The IT systems were up and running again on full power after a short conversion and test phase.

The particular focus of the integration process in the first few months of the new financial year will be on establishing a uniform Group reporting system in the new facilities. From the second quarter of 2004 the emphasis will shift to achieving synergy effects on the basis of the information collected and following a thorough analysis of material streams and capacity utilization. Synergy effects are expected to materialize

in all the relevant areas (purchasing, production, engineering, research and development, logistics, administration and sales).

A strengths and weaknesses analysis of the existing refinery capacity had already been conducted in the first few weeks of the new year and the results were used to draw up the strategic positioning for individual facilities.

The plant in Hamburg-Neuhof will exploit its technological lead in the production of label-free plasticizers in order to further extend its outstanding market position in this segment. At the same time, the plant's flexibility is to be expanded in order to be able to produce smaller quantities of specialty products in the future on a profitable basis. Here the Group is able to draw on the experience held at the Salzbergen facility.

Extensive investment in chemical/pharmaceutical activities

Both the old and the new activities in the Chemical/Pharmaceutical Raw Materials division will be adapted in the next few years to meet the expected demands of the market by making the appropriate investments. At the same time, the plants will also be converted to the latest processes and environmental technology developments. At the Salzbergen facility, the main focus is on converting the blending and filling capacity. Conversion of the drum filling line is to be completed in 2004 and mixing operations by 2005.

Investments will also be made in Salzbergen to further reduce pollutant emission levels. To what extent existing bottlenecks in the production capacity will be removed by expanding plants will be decided in the course of the year, taking into consideration the extended total capacity of the division. No investments can be made in this regard until the distribution of plant capacities has been finally decided.

However, it has been possible to adjust the long-term investment program for the Salzbergen facility against the background of the acquisition of the new refinery capacity. The extensions to the dewaxing and the hydrorefining plants, which were originally planned to start in 2007, may not be carried out.

Nevertheless, definite increases in capacity are planned to be carried out at the new Hamburg-Neuhof facility. Here the extraction plant for making label-free plasticizers is being expanded, and by the middle of 2005 capacity will have been more than doubled to a capacity of up to 60,000 t p.a., as demand for this product is expected to grow. At the same time, the investment program will also include renewing the IT structure and setting up a new process control system.

Plastic production in China to be set up

The Plastics division will set up a production facility in China in the new year in collaboration with a local partner. The Group will hold a 51% stake in the new company. The aim of this step is to follow the movement abroad of production plants of strategic customers in order to increase customer loyalty and extend the competitive advantages gained as a result.

The expansion of plastics activities in the Far East may also produce synergy effects for other Group divisions in the medium term if the opportunity arises to set up other activities in the same region.

Expansion of Explosives division is prepared

By positioning the Explosives division as the market leader in Germany and a serious competitor in Europe, the Group has laid the foundations for a further expansion of its explosives activities. The intention in the medium term is to complete the product range of this division by adding the missing product segment of dynamite.

Business growth in the first weeks of 2004

Margins in the production of chemical/pharmaceutical raw materials came under pressure from March onwards due the rise in the price of raw materials. At the beginning of April, the group acquired further facilities for producing crude oil-based special products from BP with financial effect from July 1, 2004. These facilities are plants located in South Africa, Australia, Thailand and Great Britain. In addition, the worldwide sales organization active in this area was also take over. The new business activities represent a sales volume of approx. € 50 m p. a.

In the Plastics division, further progress has been made in setting up the new facility in China. Orders for the production of plastic parts are very healthy.

Sales in the Explosives division are relatively low due to seasonal factors. In the stone / earth segment of the market, in particular, hardly any projects involving blasting are carried out in the winter season. However, the sale of safety explosives was once again slightly above budget.

Consolidated financial statements

for the fiscal year ended December 31, 2003

H&R WASAG AG, Salzbergen

Consolidated balance sheet

as of December 31, 2003

Assets

	Notes	Dec. 31, 2003 T€	Dec. 31, 2002 T€
Short-term assets, total		60,833	52,309
Cash and cash equivalents	1	10,755	4,799
Marketable securities	2	458	432
Trade accounts receivable	3	15,239	14,572
Receivables due from affiliated companies	4	300	0
Receivables due from participation companies	5	2,801	853
Inventories	6	28,574	26,727
Short-term prepaid expenses and other short-term assets	7	2,706	4,926
Long-term assets, total		95,152	70,817
Property, plant and equipment / Fixed assets	8	53,711	40,250
Intangible assets	9	1,071	1,188
Goodwill	10	30,659	20,716
Financial assets	11	2,231	1,965
Financial assets (equity)	11	732	27
Loans	11	5,050	5,079
Long-term prepaid expenses and other long-term assets	12	1,698	1,592
Deferred income taxes	13	9,752	10,944
Total Assets		165,737	134,070

Equity and liabilities

	Notes	Dec. 31, 2003 T€	Dec. 31, 2002 T€
Short-term liabilities, total		43,970	32,679
Short-term debt and current portion of long-term debt	14	10,957	11
Trade accounts payable	15	8,775	10,572
Advanced payments received	16	361	887
Short-term provisions	17	16,910	13,105
Other short-term liabilities	18	6,847	7,477
Short-term deferred income	19	120	627
Long-term liabilities, total		39,490	32,133
Trade accounts payable		259	0
Long-term debt	20	6,951	71
Pension provisions	21	28,831	29,000
Long-term provisions	22	2,856	2,347
Long-term deferred income	23	593	715
Minority interests	24	1,718	8
Shareholders' equity, total		79,404	68,712
Issued capital	25	48,358	48,358
Additional paid-in capital		2,823	2,823
Retained earnings	26	14,676	71
Accumulated income	27	13,823	17,460
Foreign currency translation adjustments		- 276	0
Deferred income taxes	28	1,155	538
Total Shareholders' equity and liabilities		165,737	134,070

Consolidated income statement

for the fiscal year ended December 31, 2003

	Notes	2003 T€	2002 T€
Net sales	29	211,151	191,582
Other operating income	30	10,433	6,924
Changes in inventories of finished goods and work in progress		- 1,916	- 87
Production of own fixed assets capitalized		27	53
Material costs	31	- 119,104	- 114,030
a) Raw materials and supplies		- 111,824	- 109,073
b) Purchased services		- 7,280	- 4,957
Personnel expenses	32	- 45,964	- 40,143
a) Wages and salaries		- 38,176	- 33,489
b) Social security payments and expenses for pensions and for support		- 7,788	- 6,654
Depreciation and amortization		- 9,223	- 8,793
Amortization of goodwill		- 2,106	- 2,088
Other operating expenses	33	- 30,059	- 22,762
Other taxes	34	- 534	- 826
Operating income		12,705	9,830
Net interest result	35	- 2,179	- 1,570
Other income and expenses	36	81	- 68
Income before income taxes and minority interests		10,607	8,192
Income taxes	37	- 4,824	- 3,773
Income before minority interests		5,783	4,419
Minority interests		- 908	0
Net income		4,875	4,419
Basic earnings per share (€)	38	0.26	0.23
Diluted earnings per share (€)	38	0.26	0.23

Consolidated cash flow statement

for the fiscal year ended December 31, 2003

			2003 T€	2002 T€
1.		Income before income taxes, minority interests and interest result	12,786	9,761
2.	+/-	Depreciation of fixed assets	11,324	10,881
3.	+/-	Changes in long-term provisions	- 1,751	- 1,823
4.	+/-	Net interest result	- 543	174
5.	+/-	Income taxes	- 817	- 1,040
6.	+/-	Other non-cash expenses and income	- 9	1,546
7.	+/-	Changes in short-term provisions	- 901	573
8.	-/+	Result from disposals of fixed assets	32	- 696
9.	-/+	Changes in inventories and trade receivables and other assets not attributable to investing or financing activities	9,623	- 3,128
10.	+/-	Changes in trade payables and other liabilities not attributable to investing or financing activities	- 9,458	1,196
11.	=	Cash flow from operating activities (Sum of 1 to 10)	20,286	17,444
12.	-	Purchase of Westspreng GmbH (minus cash acquired)	- 1,877	0
13.	+	Proceeds from disposals of fixed assets	1,912	1,122
14.	-	Capital expenditures for property, plant and equipment	- 10,073	- 9,495
15.	-	Capital expenditures for intangible assets	- 420	- 1,939
16.	+	Proceeds from disposals of financial assets	49	0
17.	-	Purchase of financial assets	- 345	- 5,695
18.	=	Cash flow used in investing activities (sum of 12 to 17)	- 10,754	- 16,007
19.	-	Payment of H&R WASAG dividend	- 8,512	0
20.	+	Proceeds from financial liabilities	6,310	0
21.	-	Repayment of financial liabilities	- 1,374	- 10
22.	=	Cash Flow used in financing activities (sum of 19 to 21)	- 3,576	- 10
23.		Net change in cash and cash equivalents (sum of 11,18 and 22)	5,956	1,427
24.	+	Cash and cash equivalents at the beginning of year	4,799	3,372
25.	=	Cash and cash equivalents at end of year	10,755	4,799

Consolidated statement of changes in shareholders' equity

for the fiscal year ended December 31, 2003

2003

	Issued capital T€	Additional paid-in capital T€	Valuation of financial assets T€	Retained earnings T€	Accumu-lated profit/loss T€	Foreign currency translation adjustments T€	Total T€
As of Dec. 31, 2002	48,358	2,823	71	0	17,460	0	68,712
Dividend	0	0	0	0	- 8,512	0	- 8,512
Valuation of financial assets	0	0	-9	0	0	0	- 9
Westspreng/Schneider Sprengtechnik	0	0	0	14,614	0	0	14,614
Foreign currency trans-lation adjustments	0	0	0	0	0	- 276	- 276
Net income	0	0	0	0	4,875	0	4,875
As of Dec. 31, 2003	48,358	2,823	62	14,614	13,823	- 276	79,404

2002

	Issued capital T€	Additional paid-in capital T€	Valuation of financial assets T€	Retained earnings T€	Accumu-lated profit/loss T€	Foreign currency translation adjustments T€	Total T€
As of Dec. 31, 2001	48,358	2,823	60	0	13,041	0	64,282
Valuation of financial assets	0	0	11	0	0	0	11
Net income	0	0	0	0	4,419	0	4,419
As of Dec. 31, 2002	48,358	2,823	71	0	17,460	0	68,712

Notes to the consolidated financial statements

as of December 31, 2003 (IFRS)

Principles and methods

The listed company H&R WASAG AG with its head office in Salzbergen, operates in various specialty chemicals markets through its subsidiaries. Activities comprise the production of chemical/pharmaceutical raw materials, the manufacture of precision, injection molded plastic parts and the development and production of industrial explosives.

The consolidated financial statements of H&R WASAG AG have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim reports as of June 30, 2003 were prepared to IFRS for the first time. All standards valid at the time when the consolidated financial statements were prepared, were applied. The transition to IFRS accounting was conducted with the prior application of IFRS 1.

The conditions of § 292a HGB (German commercial code) governing exemption from the obligation of preparing consolidated financial statements in accordance with German commercial law, assessed on the basis of German Accounting Standard No. 1 (DRS 1) published by the German Standardization Council, have been met.

The consolidated financial statements for 2003 were prepared in Euros (€). All the values shown are in thousands of Euros (T€) unless specified otherwise.

Disclosures in accordance with § 292a Para. 2 No. 4 HGB (German Commercial Code)

The present consolidated financial statements contain the following material accounting and valuation methods differing from German law:

- In accordance with IAS 37, provisions are only formed for current legal obligations or actual past obligations for which it is probable that an event requiring fulfillment of the obligation will lead to an outflow of resources and where a reliable estimation of the size of the obligation can be made

- The valuation of pension provisions in accordance with the fiscal going concern method is not permitted under IFRS – the projected unit credit method pursuant to IAS 19 was applied taking into account future salary growth

- the valuation of anniversary provisions must be made by the projected unit credit method pursuant to IAS 19, and the going concern method is not permitted

- The straight line method of depreciation was chosen for the depreciation of fixed assets instead of the declining balance method, as it corresponds to the curve of use in accordance with IAS 16

- According to IAS 12, deferred taxes must be formed for all temporary differences between tax balance sheet valuations and those contained in the consolidated balance sheet; this also includes deferred taxes on loss carryforwards if it is sufficiently sure that they will be used

- With regard to raw materials and supplies, as well as finished and unfinished products, certain allowances permitted under HGB were corrected for valuation to IAS 2

- Flat-rate allowances for receivables are not permitted under IFRS and have therefore not been formed

- Rented items of fixed assets which are to be allocated to the beneficial ownership of the lessee in accordance with the criteria of IAS 17, must be capitalized and the resulting payables shown as liabilities

- Foreign currency receivables and payables must be converted at the mean rate of exchange on the date of the balance sheet under IFRS as opposed to the principle of imparity under HGB; the resulting profits and losses are recorded with their due effect on net income

- Under IFRS, long-term provisions must be discounted which results in a lower valuation in the balance sheet

- The special reserve with equity portion formed as a result of a fiscal revaluation of materials and supplies in 1999, is not permitted under IFRS

- Long-term and short-term security investments must be valued at their attributable current market value in compliance with IAS 39

- H&R EcoClean GmbH, Salzbergen, H&R Erste Kapitalverwaltungs-GmbH, Salzbergen (now Paul Fütterer GmbH, Neustadt in Weinstraße), H&R Zweite Kapitalverwaltungs-GmbH, Salzbergen (now H&R ESP International GmbH, Hamburg), H&R Dritte Kapitalverwaltungs-GmbH, Salzbergen (now H&R ESP Sales GmbH, Hamburg), H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Salzbergen, and J.P.S. Schmierstoffvertrieb GmbH, Salzbergen, were all fully consolidated for the first time for the opening balance on January 1, 2002

Consolidation methods

Group of consolidated companies

All significant domestic and foreign subsidiaries controlled by H&R WASAG AG, have been included in the consolidated

financial statements of H&R WASAG AG, i.e. where H&R WASAG AG has a direct or indirect majority of the voting rights, exercises overall management and is able to derive a benefit from the activities of the company concerned due to its power of control.

The cut-off date for initial consolidation is the time of acquisition. In contrast to previous procedures, H&R EcoClean GmbH, H&R Erste Kapitalverwaltungs-GmbH (now Paul Fütterer GmbH), H&R Zweite Kapitalverwaltungs-GmbH, H&R Dritte Kapitalverwaltungs-GmbH as well as H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH and J.P.S. Schmierstoffvertrieb GmbH were fully consolidated for the first time on January 1, 2002.

H&R Zweite Kapitalverwaltungs-GmbH was renamed H&R ESP International GmbH with UR No. 1577/2003 dated December 4, 2003, and at the same time the head office was moved from Salzbergen to Hamburg (registered with the Hamburg district court on February 10, 2004 under No. HRB 89736). H&R Dritte Kapitalverwaltungs-GmbH was also renamed H&R ESP Sales GmbH with UR No. 1578/2003 dated December 4, 2003, and the head office moved from Salzberg to Hamburg (registered with the Hamburg district court on February 10,2004, No. HRB 89731). Both companies started operating on January 2, 2004 as part of the takeover of the European special refinery activities of BP.

A total of 22 domestic subsidiaries and 7 foreign subsidiaries were fully consolidated in the consolidated financial statements as of December 31, 2003 (see page 132).

Westspreng GmbH Sprengstoffe + Sprengtechnik, Finnentrop-Fretter, with their significant domestic and foreign subsidiaries have been consolidated for the first time. In April 2003, the former shareholders of Westspreng GmbH Sprengstoffe + Sprengtechnik contributed their entire shares in the company to SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH, Haltern (SYTHENGRUND), with contractual effect from January 1, 2003 in return for the granting of new company shares in SYTHENGRUND amounting to € 23,000.00. As a result, H&R WASAG AG holds 56.6% of SYTHENGRUND in total either directly or indirectly, and the remaining shares lie with the former shareholders of Westspreng. The shareholders have the right to swap their shares in SYTHENGRUND for new preferred shares in H&R WASAG AG by December 31, 2006 at the earliest. For an explanation of this right of exchange, we refer to note 25 on Conditional Capital 2003. A payment was also made of T€ 2,066. The companies were consolidated for the first time on May 1, 2003.

Schneider Sprengtechnik GmbH, Bad Sobernheim, was also included in the consolidated financial statements. The owner of Schneider Sprengtechnik GmbH contributed all shares in Schneider Sprengtechnik GmbH to Westspreng in June 2003 in return for new shares amounting to € 114,750.00. After the new shares were issued, SYTHENGRUND holds 93.04 % of Westspreng shares. Schneider Sprengtechnik GmbH was consolidated for the first time on July 1, 2003.

Consolidation was made by the acquisition method. Here the acquired share of the attributable current market values of identifiable assets and liabilities is set off against the acquisition costs. The acquisition costs of T€ 25,748 for Westspreng comprise the purchase price paid and the attributable current market value of the shares granted in SYTHENGRUND, also

taking into account incidental expenses in connection with the acquisition. As it is not possible to obtain reliable estimates of the current market values of the production technology and patents existing at Westspreng, the surplus arising from capital consolidation was recorded in the balance sheet as goodwill (T€ 12,025). The goodwill attributable to minority shareholders was set off against minority interests.

The group's earnings reserves increased by T€ 14,614 as a result of the first-time consolidation of the Westspreng group as part of the acquisition method used. Goodwill of T€ 11,491 is shown for the Westspreng group on December 31, 2003 of which T€ 534 was already written off in 2003. Further increases on the assets side of the balance sheet were recorded with fixed assets growing by T€ 15,386 and inventories by T€ 4,159. On the liabilities side, the main effect of the first-time consolidation, besides the increase in group earnings reserves, was an increase in amounts owed to banks of T€ 11,768. In the profit and loss account, sales grew by T€ 25,485, material costs by T€ 10,250, personnel expenses by T€ 7,457 and other operating expenses by T€ 5,523. Consolidated earnings for the financial year were reduced by a total of T€ 479 as a result of the inclusion of the Westspreng Group, taking into account the goodwill amortization.

The following companies were not consolidated due to their secondary importance in showing the group's net worth, finances, and earnings position: WAFA Kunststofftechnik Verwaltungs. GmbH, Augsburg, i. K., WAFA Kunststofftechnik GmbH & Co. KG, Augsburg, i. K., Romblast S.R.L., M-Ciuc, Rumania, H&R ESP Limited, H&R ESP Sales Limited, H&R ESP Tipton Limited, H&R European Special Products Chorley Limited, H&R European Special Products Sales Limited, H&R European Special Products Tipton Limited (all Milton Keynes, Great Britain). H&R ESP Limited, H&R ESP Sales Limited and H&R ESP Tipton Limited were founded for the purposes of the takeover of the European special refinery activities of BP. They started operating on January 2, 2004.

Capital consolidation

IFRS 1 always requires the fully retrospective application of IAS 22 for the transition to IFRS. In the case of company mergers taking place before the time of the IFRS 1 opening balance, IFRS 1 allows the retrospective application of IAS 22 to be ignored, by way of an exception. No differences therefore result for the capital consolidation of those companies belonging to the group of consolidated companies before January 1, 2002, when transferring from the book value method under HGB to IFRS.

The annual accounts of the companies included in the consolidated financial statements were prepared in accordance with uniform accounting and valuation methods.

The remaining differences on the assets side of the balance sheet resulting from the consolidation, must be shown as goodwill pursuant to IAS 22 and must be written off over their planned useful life of 15 years.

Negative differences amounting to T€ 129 resulted from consolidations before the opening balance cut-off date. These were set off against the opening balance value of the earnings brought forward.

Other consolidation methods

The effects of intercompany transactions have been eliminated in accordance with IAS 22. Receivables and payables are netted off, intercompany profits and losses eliminated and intercompany income is set off against the corresponding expenditure. The tax accruals and deferrals on temporary differences resulting from consolidation required by IAS 27 have been made pursuant to IAS 12.

Affiliated companies are shown in the balance sheet by the equity method if the participating interest is between 20% and 50% or H&R WASAG AG is able to exercise a determining influence on the company. Four companies were treated by this method in the financial year 2003. Other participating interests are shown at the cost of acquisition.

A list of significant subsidiaries, affiliated companies and participating interests can be found on page 132.

Currency conversion

The consolidated financial statements for 2003 were prepared in Euros (€). The annual accounts for foreign subsidiaries are converted into Euros. No foreign companies were included in the consolidated financial statements in the previous year.

Assets and liabilities are converted at the mean rate on the date of the balance sheet, and profit and loss accounts at the average rate for the year. Any conversion differences resulting from this procedure are shown in a separate item under equity.

The exchange rates for currencies with a significant effect on the consolidated financial statements showed the following values:

	Balance sheet exchange rate 2003	*Average exchange rate for 2003*
Polish Zloty	4.7019	4.3996
Hungarian Forint	261.25	253.62

Accounting and valuation methods

Liquid assets

Bank balances and cash in hand are shown at their face value in the balance sheet. Foreign exchange is valued at the rate of exchange on the date of the balance sheet.

Marketable securities

The short-term investments are assets available for sale in accordance with IAS 39. These are valued at their market value on the date of the balance sheet. Changes are shown in a separate item under equity.

Receivables and other short-term assets

Short-term receivables and other short-term assets are shown at their cost of acquisition minus individual allowances which are determined by the probable risk of non-payment.

Foreign exchange receivables are valued at the rate on the date of the balance sheet.

Inventories

The inventories item contains raw materials and supplies, work in progress as well as finished products. They are shown at the cost of acquisition, determined by the sliding average method or at the cost of manufacture. Manufacturing costs include the individual material and production costs directly attributable to the manufacturing process as well as a suitable share of materials and production overheads and production-related administration overheads. Finance costs are not taken into account.

Valuation on the date of the balance sheet is either made at the cost of acquisition or manufacture or the net sales price achievable - whichever is lower. The net sales price achievable is given by the expected sales price minus sales costs to be incurred. In addition, individual allowances are made for inventory risks.

Assets

Tangible assets which are to be used in the company for longer than one year are valued at their cost of acquisition or manufacture minus scheduled, straight line depreciation. The economic useful life for buildings and tank farms is usually 25 years, for technical systems and machines 10 to 15 years and for other systems, fixtures, furniture and office equipment 3 to 6 years. Low value items with an acquisition cost of less than € 410 are written off in full in the year of acquisition.

If movable fixed assets are purchased in the first half of the year, the full depreciation amount for the year is set off. In the case of movable fixed assets purchased in the second half of the year, half of the annual depreciation amount is set off.

Leasing

In accordance with IAS 17, the lessee is credited with the beneficial ownership of assets if he essentially bears all the risks and opportunities in connection with the object of the lease (finance lease).

If group companies to be credited with the beneficial ownership of assets, they are capitalized at their attributable current value or the cash value of minimum lease payments which-ever is the lower, plus any incidental expenses to be borne by the lessee. The methods of depreciation used correspond to those for comparable assets owned by the company.

Intangible assets

Intangible assets acquired against payment are shown in the balance sheet at the cost of acquisition and written off over their planned useful life (3 years) by the straight line method. Goodwill is capitalized and written off over its probable useful life of a maximum of 15 years by the straight line method. The intrinsic value of the goodwill is reviewed on a regular basis. If required, any permanent impairment is taken into account.

Financial assets

Participating interests and long-term security investments are shown under financial assets.

Participating interests are shown at the cost of acquisition as it is not possible to determine a reliable market value.

Long-term investments are to be classified as financial assets available for sale in accordance with IAS 39, and are valued at their market price on the date of the balance sheet. Changes are shown in a separate item under equity.

Financial assets shown by the equity method

These are shown in the balance sheet at their share of equity in accordance with IAS 28.

Loans

Loans are to be classified as financial investments to be held until final maturity in accordance with IAS 39, and are shown at their cost of acquisition.

Impairment of value

If there are indications of a loss of value for a particular asset in accordance with IAS 36, i.e. the "achievable income" for the asset falls below its book value, unscheduled depreciation is applied. The "achievable income" is the net sales value of the asset or the cash value of the estimated inflow of funds resulting from its continued use and its retirement at the end of its useful life, whichever is the higher. If the reasons for unscheduled write-offs no longer apply, corresponding write-ups are applied. No write-ups are conducted on goodwill.

Liabilities

Liabilities are shown at their nominal value or at the rate of repayment on the balance sheet date if higher. Foreign exchange liabilities are valued at the rate on the date of the balance sheet.

Provisions

The anniversary provisions are valued by the projected unit credit method in compliance with IAS 19.

In accordance with IAS 37, other provisions are only formed if a current legal or actual obligation exists as a result of a past event, an outflow of resources in connection with the fulfillment of this obligation is probable, and the size of the obligation can be reliably estimated. If one of the criteria specified is not met, the obligation is shown as a contingent liability.

Pension provisions

Provisions for pensions are calculated by the projected unit credit method in accordance with IAS 19, taking into account future movements in salaries. The interest portion contained in the transfer of the pension reserve is shown in investment earnings.

Minority interests

Shares in the equity of subsidiaries belonging to other owners may not be shown in group equity in the consolidated balance sheet. They must be shown as a separate item between borrowed capital and shareholders' equity.

Realization of sales and income

Sales and other operating income are realized on the provision of the service or when the claim arises.

Interest income and expenditure are recorded on an accrual basis.

Subsidies

An investment subsidy was granted to H&R Lube Blending GmbH, Salzbergen by the Land of Niedersachsen (Lower Saxony) in 1998. The subsidy is 15% of the investment sum and is shown under prepaid expenses and deferred charges. The subsidy is taken on a pro rata basis over time in accordance with the particular useful life of the subsidized assets.

Income subsidies are released over the term of the contract.

Research and development costs

In accordance with IAS 38, research costs cannot be capitalized but are treated as expenditure. Development costs can be capitalized if certain, precisely defined conditions are met, but otherwise they must be treated as expenditure. Capitalization is always required if it is sufficiently likely that the development activity will lead to future income. In addition, various criteria with regard to the development project must also be cumulatively fulfilled. As in previous years, the conditions are not given.

Deferred taxes

Deferred taxes are taken into account in accordance with IAS 12 for temporary differences between the balance sheet valuations of assets and liabilities and their valuations in the tax balance sheet. They are determined by means of the liability method based on the balance sheet. Deferred tax credits on loss carryforwards are capitalized to the probable value to which they can be used in future.

The calculation for determining deferred taxes is based on the expected tax rates at the time of their probable realization. A tax rate of 36.53% was used for the present consolidated financial statements. Deferred taxes are divided between tax assets (deferred tax assets) and tax liabilities (deferred tax liabilities). They are always deemed to be long-term in accordance with IAS 12.70.

Financial instruments and hedging policy

Original financial instruments which also include trade account receivables and payables, as well as other financial receivables and payables under IAS 32, can be taken from the balance sheet. Due to their short terms, the market values of the relevant items do not differ significantly from their book values. For financial assets, the risk of non-payment is limited to the amounts shown on the assets side of the balance sheet. Foreign exchange risks from operating business activity exist mainly due to their influence on the price of raw materials. The risk of changing interest rates which applies in particular to long-term financial debts with no fixed-interest agreement over the whole term, is of minor importance.

No group company uses any derivative financial instruments which would have to be accounted for in accordance with IAS 39 in order to safeguard itself against financial risks.

Contingent liabilities

Contingent liabilities pursuant to IAS 37 are given in the Notes as long as the outflow of funds is not unlikely and the size of the obligation can be reliably estimated.

Notes to the consolidated balance sheet

(1) Cash and cash equivalents

	Dec. 31, 2003 *T€*	*Dec. 31, 2002* *T€*
Cash and cash equivalents		
Cash in hand	39	10
Checks	153	1
Bank balances	10,563	4,788
Total	**10,755**	**4,799**

Foreign currency balances are valued at the rate of exchange on the date of the balance sheet.

(2)) Marketable securities

The amount of T€ 458 shown (previous year: T€ 432) relates exclusively to securities at H&R WASAG AG.

In the case of shares for which a hedge exists, the hedge is valued at the cost of acquisition (T€ 374). All further shares were valued at their market value on the balance sheet date according to movements in their share price.

(3) Trade accounts receivable

Total allowances on trade accounts receivable as at December 31, 2003 stood at T€ 323 (previous year: T€ 74).

Of trade accounts receivable, T€ 4,828 (previous year: T€ 8,476) has been pledged as col-lateral for loans.

(4) Receivables due from related parties

The amount shown of T€ 300 (previous year: T€ 0) relates to receivables belonging to H&R WASAG AG from H&R ESP Sales Ltd. on an ongoing clearing account.

(5) Receivables due from participation companies

	Dec. 31, 2003 *T€*	*Dec. 31, 2002* *T€*
Receivables due from participation companies		
Schuetzen Powder L.L.C.	114	0
Schmidtmann GmbH	9	0
SRS EcoTherm GmbH	2,119	227
Westfalen Chemie GmbH & Co. KG	559	626
Total	**2,801**	**853**

(6) Inventories

	Dec. 31, 2003 *T€*	*Dec. 31, 2002* *T€*
Inventories		
Raw materials and supplies	7,958	6,922
Work in progress	8,028	7,981
Finished goods	12,425	11,824
Advance payments on inventories	163	0
Total	**28,574**	**26,727**

The book value of the inventories shown at their lower net sales value is T€ 1,940 (previous year: T€ 1,436). Inventories amounting to T€ 17,603 (previous year: T€ 18,991) have been pledged as collateral for loans.

(7) Short-term prepaid expenses and other short-term assets

	Dec. 31, 2003 *T€*	*Dec. 31, 2002* *T€*
Short-term prepaid expenses and other short-term assets		
Shot-term prepaid expenses and deferred charges	165	35
Other short-term assets	2,541	4,891
Total	**2,706**	**4,926**

The short-term prepaid expenses and deferred charges item contains prepaid amounts for which the associated expenditure has to be allocated to the following year. The amount shown for this financial year relates essentially to insurance premiums, rental down-payments and accrued IT maintenance fees.

Other short-term assets contain T€ 1,319 of tax claims from the inland revenue. Of this amount, T€ 600 represents claims resulting from tax rebates due to the consequences of the tax audit which had not legally arisen by the cut-off date as the corrected tax declarations for 2001 and 2002 had not yet been submitted.

Individual allowances amounting to T€ 100 (previous year: T€ 59) had been made for other short-term assets as at December 31, 2003.

(8) Property, plant and equipment / Fixed assets

	Land and buildings	*Machniery and technical equipment*	*Other factory and office equipment*	*Construction in progress and prepayments made*	*Total*
	T€	*T€*	*T€*	*T€*	*T€*
Cost					
Jan. 1, 2003	29,497	79,615	11,267	3,863	**124,242**
Translation adjustments	- 79	- 106	- 59	- 8	**- 252**
Additions due to tax audit	60	0	0	0	**60**
Change in consolidated companies	12,531	10,502	12,440	916	**36,389**
Additions	526	4,607	1,322	3,548	**10,003**
Disposals	- 150	- 3,010	- 1,148	- 987	**- 5.295**
Transfers	66	4,052	641	- 4,807	**- 48**
Dec. 31, 2003	42,451	95,660	24,463	2,525	**165,099**
Accumulated amortization and depreciation					
Jan. 1, 2003	- 12,461	- 62,824	- 8,707	0	**- 83,992**
Translation adjustments	8	46	18	0	**72**
Additions due to tax audit	- 9	0	0	0	**- 9**
Change in consolidated companies	- 4,122	- 8,932	- 9,144	0	**- 22,198**
Additions	- 1,105	- 5,745	- 1,832	0	**- 8,682**
Disposals	21	2,289	1,109	0	**3,419**
Write-ups	0	2	0	0	**2**
Dec. 31, 2003	- 17,668	- 75,164	- 18,556	0	**- 111,388**
Book values					
Dec. 31, 2003	24,783	20,496	5,907	2,525	**53,711**
Dec. 31, 2002	17,036	16,791	2,560	3,863	**40,250**

Land and buildings relates mainly to production facilities belonging to group subsidiaries. Additions concern both property and extensions and conversions to buildings. Technical equipment and machines refer to production equipment. The additions in 2003 relate mainly to the modernization of the blending plant and the building of a precision distillation plant with extended tank storage at the Salzbergen facility, various drilling equipment at BST Bohr- und Sprengtechnik GmbH & Co. KG and injection moulding machines at Gaudlitz GmbH. The additions to prepayments and construction in process relate prin-

cipally to the extension of the residual gas incineration plant and to the conversion of the blending and filling plant at the Salzbergen facility.

Land belonging to group subsidiary SYTHENGRUND has approx. 12 m t of underground silica sand reserves according to an expert report. It is intended to mine these reserves in the medium term. As at the balance sheet date, neither the environmental compatibility assessment had been completed nor had the project been finally included in the area development plan. Taking into account the valuation in the course of the merger valuation in 2001, the current market value can be assumed to be approx. € 12.0 m.

Finance leases

The assets to be allocated to the lessee in accordance with IAS 17, total T€ 340 (previous year: T€ 0). These are vehicle lease contracts for special construction trucks at Westspreng GmbH. These assets are shown under other factory and office equipment in the analysis of fixed assets. The lease contracts normally have a fixed basic rental term of 54 months and cannot be terminated during this period. The usual useful life of the vehicles is between 5 and 9 years. On expiry of the non-terminable lease term, the lessor can demand that the lessee buys the vehicles at their calculated residual value. The lease contracts fulfill the conditions for finance leases and for special leases.

	2004	*2005-2008*	*after 2008*
	T€	*T€*	*T€*
Leasing			
Lease payments	91	230	0
Thereof interests	16	16	0
Lease liabilities	75	214	0

Operating Leases

Besides the finance lease contracts, lease and rental contracts were concluded which are to be classified as operating lease contracts by virtue of their contents, as the object of the lease or rental agreement is to be allocated to the lessor. These are mainly cars, fork-lift trucks, office equipment and tank wagons. The terms are between 2 and 5 years. The contracts usually end automatically after the contractual term expires.

(9) Intangible assets

	Software, licences and similar assets *T€*	*Prepayments made* *T€*	*Total* *T€*
Cost			
Jan. 1, 2003	2,874	102	**2,976**
Translation adjustments	- 47	0	**- 47**
Change in consolidated companies	211	0	**211**
Additions	156	259	**415**
Disposals	- 2	- 52	**- 54**
Transfers	98	- 50	**48**
Dec. 31, 2003	3,290	259	**3,549**
Accumulated amortization and depreciation			
Jan. 1, 2003	- 1,788	0	**- 1,788**
Translation adjustments	47	0	**47**
Change in consolidated companies	- 199	0	**- 199**
Additions	- 540	0	**- 540**
Disposals	2	0	**2**
Write-ups	0	0	**0**
Dec. 31, 2003	- 2,478	0	**- 2,478**
Book values			
Dec. 31, 2003	812	259	**1,071**
Dec. 31, 2002	1,086	102	**1,188**

The intangible assets relate mainly to production and user software.

The addition to down-payments made in advance relates to the consultancy payment capitalized as incidental acquisition costs in H&R ESP Sales GmbH in connection with the purchase of BP's European special refinery activities.

(10) Goodwill

	Total T€
Cost	
Jan. 1, 2003	**28,792**
Translation adjustments	**0**
Change in consolidated companies	**268**
Additions	**12,030**
Disposals	**0**
Transfers	**0**
Dec. 31, 2003	**41,090**
Accumulated amortization and deprecia-tion	
Jan. 1, 2003	**- 8,076**
Translation adjustments	**0**
Change in consolidated companies	**- 250**
Additions	**- 2,105**
Disposals	**0**
Write-ups	**0**
Dec. 31, 2003	**- 10,431**
Book values	
Dec. 31, 2003	**30,659**
Dec. 31, 2002	**20,716**

The goodwill item is made up as follows:

	Dec. 31, 2003 *T€*	*Dec. 31, 2002* *T€*
Goodwill		
Companies of the Chemical/Pharmaceutical Raw Materials division	18,215	19,692
Westspreng Group	11,491	0
Paul Fütterer GmbH	953	1,024
Total	**30,659**	**20,716**

The rise in goodwill in 2003 is due to the acquisition and consolidation of Westspreng GmbH and its domestic and foreign subsidiaries. Consolidation is made on the principles applying to the acquisition of companies.

Total goodwill depreciation in the reporting year amounted to T€ 2,106 of which T€ 1,477 was for the goodwill in the H&R Chemical/Pharmaceutical Raw Materials division, T€ 534 for the goodwill in the Westspreng Group and T€ 71 for Paul Fütterer GmbH. The additional goodwill depreciation of T€ 23 relates to goodwill written off to pro memoria values in the financial year 2003.

(11)) Financial assets, financial assets (equity) and loans

Financial assets contain participating interests in SRS EcoTherm GmbH, Salzbergen and Schuetzen Powder LLC, Arlington TX, USA. The participating interests are shown at the cost of acquisition as these financial assets have no market price listed on an active market.

Fund units in Correnta funds I and II also represent a major item in long-term assets under financial assets. These assets are valued at their market value on the date of the balance sheet. Changes are shown in a separate item under equity.

	Investments in affiliated companies	*Investments in associates companies*	*Participating interests*	*Long-term securities*	*Loans*	*Total*
Cost						
Jan. 1, 2003	23,092	71	1,050	910	5,079	**30,202**
Translation adjustments	0	0	0	0	0	**0**
Change in consolidated companies	19	703	0	3	14	**739**
Additions	0	0	282	0	6	**288**
Disposals	- 24	0	0	0	- 49	**- 73**
Changes in fair value	0	0	0	- 14	0	**- 14**
Dec. 31, 2003	23,087	774	1,332	899	5,050	**31,142**
Accumulated amortization and depreciation						
Jan. 1, 2003	- 23,087	- 44	0	0	0	**- 23,131**
Translation adjustments	0	0	0	0	0	**0**
Change in consolidated companies	0	0	0	0	0	**0**
Additions	0	0	0	0	0	**0**
Disposals	0	0	0	0	0	**0**
Write-ups	0	2	0	0	0	**2**
Dec. 31, 2003	- 23,087	- 42	0	0	0	**- 23,129**
Book values						
Dec. 31, 2003	0	732	1,332	899	5,050	**8,013**
Dec. 31, 2002	5	27	1,050	910	5,079	**7,071**

Shares in domestic corporations and partnerships are shown as financial assets in the balance sheet by the equity method for which H&R WASAG AG and its subsidiaries own between 20 and 50 percent of the voting rights, or where the company is able to exercise a significant influence on the corporate policy of the associated company.

Westfalen Chemie GmbH & Co. KG with its partner company, Westfalen Chemie Verwaltungsgesellschaft mbH, operates a hydrogen production and filling plant at the Salzbergen facility. Schmidtmann GmbH and Sprewa Sprengmittel GmbH are involved in the sale of explosives and explosive materials.

	Dec. 31, 2003 *T€*	*Dec. 31, 2002* *T€*
Westfalen Chemie Verwaltungsgesellschaft mbH	28	27
Westfalen Chemie GmbH & Co. KG	0	0
Schmidtmann GmbH	82	0
Sprewa Sprengmittel GmbH	622	0
Total	**732**	**27**

The participating interests valued at equity result in pro-rata deficits which must be offset by the future profits of these participations. These deficits have changed as follows:

	T€
Jan. 1, 2003	358
Addition of proportionate deficits	176
	534

Loans relate mainly to a loan of T€ 5,000 granted by H&R WASAG AG in a contract dated October 16, 2002. The loan has a term of five years and ends on September 18, 2007. An extension to the term is possible. Interest was charged on the loan at a rate of 6.5% until June 30, 2003 and thereafter at a 3 month EURIBOR rate plus a surcharge of 3.5% until December 31, 2003. Pledge agreements were concluded on securities in order to secure the loan.

(12) Long-term prepaid expenses and other long-term assets

The prepaid expenses and deferred charges shown under long-term assets and totaling T€ 116 (previous year: T€ 145) relate to IT maintenance fees accrued until October 31, 2008. In the previous year, these were still shown under short-term assets. An adjustment has been made to the previous year's figures.

The other long-term assets relate to a reinsurance policy amounting to T€ 1,494. This is an insurance policy belonging to Gaudlitz GmbH to cover pension claims from all married, male employees. The item also contains a reinsurance policy at BST Bohr- und Sprengtechnik GmbH & Co. KG amounting to T€ 88. In the previous year, reinsurance policies were still shown under short-term assets. An adjustment has been made to the previous year's figures.

(13) Deferred income taxes

The deferred tax credits contain temporary differences from consolidation measures as well as timing valuation differences in group companies resulting from non-deductible provisions for anticipated losses and other valuation differences in IFRS. The deferred tax credits from loss carryforwards were completely released in 2003.

The composition of the deferred tax assets formed for value differences in the balance sheets is portrayed in Explanation 37 on income taxes.

(14) Short-term debt and current portion of long-term debt

The short-term liabilities to banks are composed of current account overdrafts totaling T€ 2,387, accrued interest amounting to T€ 76, short-term loans of T€ 6,000 and the short-term component to long-term loans totaling T€ 2,494. This relates to repayment installments for medium-term and long-term loans due within the next 12 months.

Short-term credits are made up as follows:

	Amount T€	*Term*	*Interest rate*
Bank			
Deutsche Bank AG, Hamburg	2,500	Jul. 25, 2003 - Jul. 26, 2004	2.86 % p.a.
Commerzbank AG, Hamburg	1,500	Jul. 25, 2003 - Jan. 26, 2004	2.83 % p.a.
HVB Luxembourg S.A., Luxembourg	1,500	Jul. 25, 2003 - Jan. 26, 2004	2.85 % p.a.
HSH Nordbank AG, Hamburg	500	Jul. 25, 2003 - Jul. 30, 2004	2.90 % p.a.

The book value of the secured, short-term financial liabilities is T€ 10,506.

The short-term loans amounting to T€ 6,000 and the accrued interest on them of T€ 70 are secured by registered land charges amounting to T€ 10,226. The residual book value of the encumbered property is T€ 5,160 as at Dec. 31, 2003. These loans are also secured through the blanket assignment of trade receivables with a book value of T€ 4,828 as at Dec. 31, 2003, as well as a space security assignment contract for warehouses with differing stocks. The book value of the inventories on the balance sheet date is T€ 17,603.

For collateral on current account overdrafts and the short-term part of long-term loans, we refer to note 20 on long-term debt.

(15) Trade accounts payable

The trade accounts payable totaling T€ 8,775 (previous year T€ 10,572) have a term of up to one year. They are secured by the usual retentions of title.

(16) Advanced payments received

Payments received on account amounting to T€ 361 only apply to Gaudlitz GmbH. In the previous year, T€ 887 was shown under payments received on account of which T€ 349 related to H&R Chemisch-Pharmazeutische Spezialitäten GmbH and T€ 538 to Gaudlitz GmbH.

(17) Short-term provisions

	Jan. 1, 2003	*Change in consolidated companies*	*Transfer*	*Utilization*	*Reversals*	*Additions*	*Dec. 31, 2003*
	T€	*T€*	*T€*	*T€*	*T€*	*T€*	*T€*
Other provisions / tax provision							
Others							
- Personnel	5,575	409	- 50	4,811	431	4,997	5,689
- Others	2,804	169	0	1,416	722	2,059	2,894
Tax provision	4,726	116	0	573	562	4,620	8,327
Total	**13,105**	**694**	**- 50**	**6,800**	**1,715**	**11,676**	**16,910**

The other provisions give due reflection to all identifiable risks.

The personnel provisions relate mainly to bonuses, severance payments, profit shares, out-standing holidays, flexi-time credit and social insurance contributions. Employees at the Salzbergen and Haltern facilities receive a profit share not subject to collective bargaining but related to each employee's actual salary. The profit share refers to the profits made at each facility. Provisions are made taking into account the payments already made.

The Others item predominantly contains provisions for complaints, outstanding invoices, annual accounts costs, anticipated losses from pending sales transactions, interest on tax payments for prior years, archiving costs and a pending court case.

The tax provision contains amounts for taxes from financial years not yet assessed as well as tax amounts due to the conclusion of an audit.

(18) Other short-term liabilities

	Dec. 13, 2003 *T€*	*Dec. 13, 2002* *T€*
Other short-term liabilities		
Tax liabilities	1,863	3,948
Social security liabilities	1,175	965
Liabilities to former shareholders	2,177	0
Liabilities to employees	535	1,726
Others	1,097	838
Total	**6,847**	**7,477**

Tax liabilities relate mainly to current VAT and wage tax liabilities.

The other liabilities contain T€ 2,125 of loan liabilities of Westspreng GmbH towards the former owners of Westspreng GmbH.

(19) Short-term deferred income

Portions due to be repaid within 12 months are shown under short-term accruals and deferrals.

This item relates mainly to the investment subsidy granted to H&R Lube Blending GmbH by the Land of Niedersachsen (Lower Saxony) amounting to T€ 74 as well as to fees received in advance for the use of software and IT maintenance costs totaling T€ 44. For further commentary, we refer you to the prepaid expenses and deferred charges shown under long-term liabilities (note 23).

(20) Long-term debt

The following table contains the terms and conditions for long-term finance debts as well as their book values with the due dates of repayment obligations:

	Dec. 31, 2003 Book value T€	*2005-2008 Residual term T€*	*after 2008 Residual term T€*
Long-term loans			
Loans with fixed interest rates: 1.50 % - 6.60 % p.a.	5,162	4,201	961
Loans with fixed interest rate terms: 7.00 % - 7.05 % p.a.	1,108	682	426
Loans with interest rates depending on : 1-Month-EURIBOR plus 0.8 % p.a. – 6-Month-EURIBOR plus 0.9 % p.a.	681	566	115
Total	**6,951**	**5,449**	**1,502**

The book value of secured, long-term liabilities is T€ 6,817.

There are registered land charges totaling T€ 20,049 of which T€10,226 are explained in note 14. The remaining land charges amounting to T€ 9,823 serve to secure both short-term and long-term financial liabilities on the balance sheet date. The book value of the land and buildings encumbered with these land charges is T€ 6,667 as at Dec. 31, 2003. Short-term and long-term amounts owed to banks are also secured by the assignment of financed investments and movable assets. The book value of investments assigned as security is T€ 624 on the balance sheet date; the book value of movable assets assigned as security is T€ 1,701.

(21) Pension provisions

Company pension commitments for employees exist in some group subsidiaries.

As a result of the works agreement on October 7, 1986, all employees taken on by SRS GmbH from Wintershall, have a right to company pension benefits in accordance with the Wintershall pension agreement dated January 1, 1987. The works agreement of March 9, 1994 terminated the works agreement of October 7, 1986 with effect from June 30, 1994, and thereby enacted the pension agreement for the new arrivals. The level of benefits agreed depends essentially on the length of service and the last salary drawn. After the termination of the works agreement of October 7, 1986, the entitlements earned were frozen. The pension entitlements of some people drawing pensions are based on the older Wintershall pension charter.

All employees at Wasag-Chemie AG have a right to a company pension in accordance with the pension agreement in the version dated January 1, 1986, last changed by the works agreement of June 4, 1998. For those drawing pensions, their rights in some cases are based on earlier versions of the pension agreement. The level of the pension depends on the number of pensionable years of service and the pensionable salary in the last year before leaving the company. Some employees receive so-called contractual pensions due to individual contractual commitments. The requirements and calculation of benefits differ in individual agreements.

The active managers of Westspreng GmbH at the time of the takeover by the H&R WASAG group each have a pension commitment in accordance with the guidelines of the GHH Association. Benefits are only granted if the person is still in the company's service when he reaches pensionable age or if his entitlement is non-forfeitable in accordance with statutory provisions if he leaves the company early.

In accordance with the pension agreement at GAUDLITZ-WERK GmbH (now Gaudlitz GmbH) in the version of December 18, 1978, all employees who joined the company by June 10, 1978 and whose contracts of employment had not been terminated, had the right to a company pension. The size of the pension depends on the number of pensionable years of service and the pensionable salary in 1978. For those drawing pensions, claims in some cases are based on earlier versions of the pension agreement.

The pension provisions are determined by the projected unit credit method as a performance-related pension scheme in accordance with IAS 19. Future obligations are calculated using actuarial methods, taking into account any future salary increases and other adjustments to benefits.

The scope of the obligations can fluctuate due to changes in the actuarial assumptions. Any actuarial profits or losses arising in the process are treated by the 10 percent corridor rule.

Pension provisions changed as follows:

	2003 *T€*	*2002* *T€*
Brought forward	29,000	29,337
Change of consolidated companies	432	0
Additions	1,715	1,871
Release / utilization	- 2,292	- 2,208
Obligations assumed	- 24	0
Final position	**28,831**	**29,000**

The addition to pension provisions contained in the profit and loss account results as follows:

	2003 *T€*	*2002* *T€*
Expenses in working time	195	177
Amortized actuarial profits / losses	- 65	0
Compound interest on expected pension obligations	1,585	1,694
Addition (total)	**1,715**	**1,871**

Expenses in working time and the amortized actuarial profits are shown as personnel expenses, and the compound interest on the expected pension obligations as interest expense.

The following assumptions were made in order to determine the pension obligations:

	Dec. 31, 2003	*Dec. 31, 2002*
Interest rate	4.8 % - 5.7 %	6.0 %
Expected inflation	1.1 %	0.8 %
Entitlement trend	0.6 % / 2.0 %	0.4 % / 1.4 %
Pensions trend	0 % / 0.9 %	0 % / 0.6 %
Pension age	61 / 63 / 65	61 / 63

The likelihood of leaving is based on the Heubeck guideline tables from 1998.

By not taking the likelihood of fluctuations into account, the assumption is made by way of simplification that no employee will leave the company before the non-forfeitability deadlines are met, and that thereafter the non-forfeitable right to a pension will be exactly financed by the existing provision in each case.

(22) Long-term provisions

The provisions shown under long-term liabilities relate to part-time working regulations for older employees, anniversaries and a price agreement for the supply of natural gas, as well as provisions due to legal obligations arising from the directive concerning systems containing substances harmful to the water supply (VAwS).

The provisions for part-time working for older employees and for anniversaries as well as the price agreement for the supply of natural gas were shown last year under short-term liabilities. These provisions are shown under long-term liabilities in the reporting year. The figure for the previous year has been adjusted accordingly.

(23) Long-term prepaid expenses and deferred charges

This item contains an investment subsidy granted to H&R Lube Blending GmbH by the Land of Niedersachsen (Lower Saxony) amounting to T€ 539. The subsidy was applied for in 1996, approved in 1998 and amounts to 15% of the investment sum. The subsidy was granted on the condition that the company provides evidence of where the subsidy is and the use to which it is put, fulfils reporting obligations and creates 58 permanent jobs. The subsidy is taken on a pro rata basis over time in accordance with the particular useful life of the sub-sidized assets.

The accrued expenses item also contains an amount of T€ 54 for fees received in advance for the use of software and IT maintenance fees.

(24) Minority interests

Shares of minority shareholders include shares of earnings and capital held by third party shareholders. At the same time, the share of goodwill attributable to minority shareholders was set off against minority interests.

Minority interests relate to two outside shareholders (43.4 %) in SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH, one outside shareholder (6.96 %) in Westspreng GmbH, one outside shareholder (25.96 %) in Grundstücksverwaltungs-Beteiligungsgesellschaft mbH and one outside shareholder (30 %) in MEDEX s.r.l..

	T€
Jan. 1, 2003	**8**
Addition from initial consolidation	802
Dividend distribution / loss absorption	0
Minority interests 2003	908
Dec. 31, 2003	**1,718**

(25) Subscribed capital

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

		€	*No Shares*	*to be issued by*
Subscribed capital				
Issued capital	1)	**48,357,986.13**	**18,916,000**	
Conditional capital				
- conditional capital 2002	2)	7,500,000.00	2,933,745	Aug. 20, 2007
- conditional capital 2003	3)	7,349,820.79	2,875,000	
Approved capital				
- approved capital I	4)	15,000,000.00	5,867,490	Jul. 30, 2006
- approved capital II	5)	8,000,000.00	3,129,328	Jul. 24, 2008
- approved capital III	6)	1,000,000.00	391,166	Jul. 30, 2007

1) ordinary shares
2) through the issue of new ordinary bearer shares
3) through the issue of new preferred bearer shares
4) against contributions in cash or in kind through the issue of new ordinary bearer shares
5) against contributions in cash or in kind through the issue of new bearer ordinary or preferred shares
6) against a contribution in cash through the issue of new ordinary bearer shares

Conditional capital

The authorized share capital has been conditionally increased by up to € 7,500,000.00 through 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 which have been issued against cash until August 20, 2007 by the company or its direct or indirect domestic subsidiaries on the basis of the authorizing resolution passed by the shareholders' meeting on August 21, 2002, make use of their conversion or option rights, or the bearers of convertible bonds obliged to convert fulfill their obligation to convert, and to this extent no treasury shares are used to service the operation. The new shares participate in profits from the beginning of the financial year in which they are created through conversion or option rights being exercised or conversion obligations being fulfilled. No conversion and/or option bonds were issued in the financial year 2003.

In a resolution passed by the shareholders' meeting on July 24, 2003, the authorized share capital was conditionally increased by up to € 7,349,820.79 through the issue of 2,875,000 shares of € 2.56 each at an issue price of € 7.20 per share with dividend entitlements from the beginning of the financial year in which they are issued (Conditional Capital 2003). The preferred non-par shares are bearer shares. The total issue amount is € 20,700,000.00. Shareholders are excluded from subscribing. The conditional rights issue serves the purpose of preparing the merger of H&R WASAG AG with SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH through the acquisition of the shareholdings of the outside shareholders of SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH as part of the contribution in kind to be swapped for preferred shares in H&R WASAG AG. The contribution in kind relates to the shareholdings of the outside shareholders of SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH with a par value of € 23,000.00 in total. 6,250 preferred shares will be issued from the conditional capital for a notional shareholding of € 50.00. The conversion right must be exercised by December 31, 2006 at the earliest. The rights issue will only be carried out to the extent that the outside shareholders make use of their option to swap their shareholdings for preferred shares.

Approved capital

The Executive Board is authorized with the approval of the Supervisory Board to increase the share capital once or several times by up to € 15,000,000.00 in total against contributions in cash or in kind by issuing new ordinary bearer shares by July 30, 2006 (Approved Capital I), and with the approval of the Supervisory Board to decide on the conditions of the share issue. The shareholders are to be granted stock options. However, the Executive Board is entitled with the approval of the Supervisory Board to exclude shareholders from stock op-tions for residual amounts. The Executive Board is also authorized with the approval of the Supervisory Board to exclude shareholders from stock options if the rights issue against contributions in kind is carried out for the purpose of acquiring companies or participating in companies, or to the extent that the exclusion of stock options is required in order to give the owners of the company options for the quantity of convertible bonds or loans or warrants still to be issued which they would be entitled to after exercising their option or conversion rights.

In a resolution passed by the shareholders' meeting on July 24, 2003, the approved capital hitherto provided for in § 4 Para. 5 of the articles of association, in the amount of € 8,000,000.00, was cancelled. The Executive Board is now authorized with the approval of the Supervisory Board to increase the share capital once or several times by up to € 8,000,000.00 in total against contributions in cash or in kind by issuing new ordinary or preferred no par bearer shares by July 24, 2008 (Approved Capital II), and with the approval of the Supervisory Board to decide on the conditions of the share issue. The shareholders are to be granted stock options. However, the Executive Board is entitled with the approval of the Supervisory Board to exclude shareholders from stock options for residual amounts. The Executive Board is also authorized, with the approval of the Supervisory Board, to exclude shareholders from stock options for rights issues against contributions in cash if the par value of the new shares does not exceed 10% of the existing capital stock at the time the authorization comes into force, nor 10% of the existing capital stock at the time the new shares are issued, and the issue price of the new shares is not significantly below the market price as defined by § 186 Para. 3 Sentence 4 AktG (Companies Act). The Executive Board is also authorized with the approval of the Supervisory Board to exclude shareholders from stock options if the rights issue against contributions in kind is carried out for the purpose of acquiring companies or participating in companies, or to the extent that the exclusion of stock options is required in order to give the owners of the company options for the quantity of convertible bonds or loans or warrants still to be issued which they would be entitled to after exercising their option or conversion rights.

Finally, the Executive Board is authorized with the approval of the Supervisory Board to increase the share capital once or several times by up to € 1,000,000.00 in total against contributions in cash by issuing new ordinary bearer shares by July 30, 2007 for the purpose of issuing employee shares to employees of the company or affiliated companies (Approved Capital III). Shareholders are excluded from subscribing.

The Executive Board did not make use of its existing authorizations in the financial year 2003.

Authorization to acquire treasury shares

The company was authorized with the approval of the Supervisory Board to acquire up to 10% of the capital stock in treasury shares by December 31, 2004. Trading in its own shares is not permitted as a reason for doing so. The countervalue for the acquisition of these shares may not be more than 15% below or 15% above the mean share price (closing price of the H&R WASAG AG stock on the Frankfurt securities exchange) on the last five trading days before the shares are acquired.

The company did not acquire any treasury shares in the financial year.

(26) Retained earnings

The change in shareholders' equity at group level, resulting from capital increases at subsidiaries, is reported. Retained income comprises the attributable market value of the shares granted in Sythengrund GmbH resulting from the acquisition of Westspreng GmbH (T€ 13,232), to the extent that this value exceeds the capital shares, as well as the attributable market value of the shares granted in Westspreng GmbH from the acquisition of Schneider Sprengtechnik GmbH (T€ 1,382), to the extent that this value exceeds the capital shares. In each case the amounts accrue to H&R WASAG AG. The relevant share of minority shareholders (T€ 10,145 or T€ 103) is shown under minority interests.

(27) Accumulated income

	2003 *T€*	*2002* *T€*
Jan. 1	17,460	13,041
Dividend	- 8,512	0
Net income	4,875	4,419
Dec. 31	**13,823**	**17,460**

(28) Deferred income taxes

The deferred taxes result from temporary differences between valuations in the tax balance sheets and book values in the consolidated balance sheet. The composition of the deferred tax liabilities formed for value differences in the balance sheets is shown in the table in note 37 on income taxes.

Notes to the consolidated income statement

In a contract dated April 28, 2003, the former shareholders of Westspreng GmbH contributed their shares to SYTHENGRUND with contractual effect from January 1, 2003. The Westspreng group, which was included in the consolidated financial statements for the first time, was consolidated from May 1, 2003. The corresponding companies did not produce interim accounts to April 30, 2003 with the result that it was only possible to determine individual amounts for items in the profit and loss account by making allocations after the event. In the process, the amounts assigned to the period from January to April were determined by means of an objective estimation and shown under the relevant items as "Westspreng correction".

(29) Sales

Sales revenues are realized – less sales deductions – at the time when the service is provided or on the passage of risk to the customer.

The report by segment (note 55) gives an overview of the growth of sales by division and region.

(30) Other operating income

The other operating income in the consolidated income statement is made up as follows:

	2003 *T€*	*2002* *T€*
Operating income		
Income from passing on costs	6,211	1,880
Income from using provisions	579	504
Insurance claims	626	18
Other operating income	961	479
	8,377	2,881
Neutral income		
ARAL subsidy	0	1,534
Release of provisions	1,380	1,252
Profits from the disposal of fixed assets	116	700
Gains from foreign exchange	115	70
Income unrelated to period	467	0
Other neutral income	446	487
	2,524	4,043
Correction for Westspreng	- 468	0
Total	**10,433**	**6,924**

The rise in income from passing on costs by comparison with the previous year results mainly from reinvoicing consumption taxes to participation companies, Westfalen Chemie GmbH & Co. KG and SRS EcoTherm GmbH. Last year, the figures for Westfalen KG were shown in net sales. The income from SRS EcoTherm which also contains the reinvoicing of costs paid in advance, arose for the first time in 2003 with the sale of the power station on January 1, 2003.

The ARAL income subsidy was released over the term of the contract. As a result of the termination of the contract on December 31, 2003, the residual amount of the investment subsidy remaining after the contract expired was taken as income in the previous year in the course of the reorganization of the ARAL group.

(31) Material costs

	2003 *T€*	*2002* *T€*
Material costs		
Raw materials	102,197	100,669
Supplies	8,693	7,390
Trade goods	5,587	1,014
Correction for Westspreng	- 4,653	0
Expenditure on raw materials, supplies and trade goods	**111,824**	**109,073**
Energy costs	6,534	4,384
Other services	1,034	573
Correction for Westspreng	- 288	0
Total expenditure on purchased services	**7,280**	**4,957**
Total	**119,104**	**114,030**

(32) Personnel expenses

	2003 in T€	2002 in T€
Personnel expenses		
Wages and salaries	38,176	33,489
Social security payments and expenses for pensions and for support	7,788	6,654
(of which for pensions)	196	234
Total	**45,964**	**40,143**

	2003	2002
Average number of employees		
Manual workers	799	542
Salaried employees	329	247
Employees on fixed-term contracts	45	50
Trainees	53	55
Total	**1,226**	**894**

(33) Other operating expenses

	2003 T€	2002 T€
Other operating expenses		
Third party repairs and maintenance	7,191	6,238
Third party supplies and services	3,893	3,337
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	2,086	1,697
Insurance premiums, fees and contributions	2,170	1,267
Rents and leases	1,823	921
Freight costs, dispatch systems and other distribution costs	1,652	889
Missing quantities ARAL	1,190	824
Other personnel costs	1,241	794
IT costs	724	771
Costs passed on	3,423	550
Others	4,828	4,068
	30,221	**21,356**
Neutral expenses	1,271	1,406
Correction item for Westspreng	- 1,433	0
Total	**30,059**	**22,762**

The rise in other operating expenditure results mainly from the takeover of the Westspreng group. The rise in costs passed on relates mainly to consumption taxes occasioned by Westfalen Chemie GmbH & Co. KG and SRS EcoTherm GmbH (we refer to note 30 on Other operating income). Neutral expenditure includes exchange rate losses from foreign exchange items amounting to T€ 499 (previous year: T€ 131). Of the other operating expenditure, T€ 1,414 (previous year: T€ 2,038) was for research and development costs.

(34) Other taxes

Other taxes mainly relate to taxes on oil, electricity, natural gas and land.

(35) Net interest result

	2003 T€	2002 T€
Net interest result		
Income from other securities and loans in financial assets	377	88
Other interest and similar income	201	244
(of which to affiliated companies)	1	3
Other interest and similar expenses	- 2,757	- 1,902
(of which to affiliated companies)	0	0
Total	**- 2,179**	**- 1,570**

Income from other securities was listed in the Other income and expenses item in 2002. The comparative values for 2002 were determined retrospectively.

In addition, for previous years by contrast with the quarterly reports already published in accordance with IFRS, T€ 21 was taken out of Social security payments and expenses for pensions and for support and moved to Other interest and similar expenses.

(36) Other income and expenses

The other income and expenses amounting to T€ 81 relates to income of T€ 36 from participating interests and T€ 45 from earnings of affiliated companies. Last year's figure of T€ - 68 relates to depreciation of financial assets and short-term security investments.

(37) Income taxes

Taxes on income paid or owed in individual countries as well as tax accruals and deferrals are shown as income taxes.

	2003 T€	2002 T€
Current income tax expense	2,391	3,681
Tax audit / past years	1,083	- 96
Deferred tax expense	1,350	188
Total	**4,824**	**3,773**

Tax accruals and deferrals result as follows from individual items in the balance sheet:

	Dec. 31, 2003		Dec. 31, 2002	
	Deferred tax credits T€	Deferred tax liabilities T€	Deferred tax credits T€	Deferred tax liabilities T€
Intangible assets	366	0	0	0
Fixed assets	854	1,574	854	476
Financial assets	4	23	4	29
Inventories	554	400	69	199
Receivables and other assets	10	92	105	116
Others	0	0	0	27
Pension provisions	967	0	1,064	0
Other provisions	699	206	556	233
Liabilities	175	43	0	105
Loss carryforwards	0	0	355	0
Consolidation measures	7,306	0	8,584	0
	10,935	2,338	11,591	1,185
Net amounts	- 1,183	- 1,183	- 647	- 647
Total	**9,752**	**1,155**	**10,944**	**538**

The tax deferral resulting from consolidation measures is mainly based on the internal sale of the customer base in 2002 and the supply agreements for the doped lubricants business. The item will be released over the depreciation period for the customer base.

The deferred taxes from loss carryforwards capitalized as part of the opening balance were completely released in the financial year 2003.

The net income for the year of German companies is subject to a uniform corporation tax rate of 25 %. The corporation tax rate for the assessment period 2003 was increased to 26.5 %. The effect of this increase in the tax rate which is limited to one year, is of secondary importance and was not taken into account in determining deferred taxes. In addition, there is a solidarity surcharge of 5.5 % on the corporation tax rate. This means that the overall corporation tax rate in 2003 is 26.5 %. With a trade tax burden of 14.0% this gives a total income tax rate of 36.5 % in Germany.

The reasons for the difference between theoretical and actual tax expense in the group are as follows:

	2003 *T€*	*2002* *T€*
Transition account		
Pre-tax earnings	**10,607**	**8,192**
Theoretical tax expense	**3,875**	**2,993**
Previous years' taxes / audit	1,083	0
Goodwill amortization	736	763
Change in loss carryforward from audit	-865	0
Others	- 5	17
Actual tax expense	**4,824**	**3,773**

(38) Earnings per share

	2003	2002
Basic / diluted earnings per share	0.26	0.23
Net income (€)	4,875,150.64	4,419,049.79
Number of shares outstanding	18,916,000	18,916,000

Basic earnings per share

The undiluted earnings per share are determined by dividing the group profit by the weighted average number of shares in circulation during the financial year.

Diluted earnings per share

In order to determine the diluted earnings per share, potential ordinary shares are added to the number of shares in circulation. The calculation is then made by dividing the group profit, possibly corrected to take account of interest and dividends from the conversion of potential ordinary shares, by the weighted average number of ordinary shares in circulation plus the weighted average of potential ordinary shares. There was no dilution effect to be taken into account as at December 31, 2003.

Explanations on the first-time application of International Financial Reporting Standards (IFRS)

In order to present a transparent explanation of the transition to IFRS accounting, the following section shows the transfer balance sheets for the financial years 2001 and 2002 as well as the profit and loss transfer for 2002.

Consolidated balance sheet (as at December 31, 2001)

Assets

	Notes	HGB Dec. 31, 2001 T€	Change T€	IFRS Dec. 31, 2001 T€
Short-term assets, total		**45,740**	**2,286**	**48,026**
Cash and cash equivalents		3,298	74	3,372
Marketable securities		1,532	0	1,532
Trade accounts receivable	39	12,514	289	12,803
Receivables due from related parties		55	- 51	4
Receivables due from participation companies		513	0	513
Inventories	40	24,397	1,971	26,368
Short-term prepaid expenses and other short-term assets		3,431	3	3.434
Long-term assets, total		**63,179**	**1,541**	**64,720**
Property, plant and equipment / Fixed assets	41	37,681	1,974	39,655
Intangible assets		598	0	598
Goodwill		21,732	0	21,732
Financial assets		1,370	- 94	1.276
Financial assets (equity)		365	- 339	26
Loans		113	0	113
Long-term prepaid expenses and other long-term assets		1,320	0	1,320
Deferred income taxes		**0**	**11,358**	**11,358**
Total assets		**108,919**	**15,185**	**124,104**

Equity and liabilities

	Notes	HGB Dec. 31, 2001 T€	Change T€	IFRS Dec. 31, 2001 T€
Short-term liabilities, total		**25,541**	**- 859**	**24,682**
Short-term debt and current portion of long-term debt		49	0	49
Trade accounts payable		8,552	0	8,552
Accounts payable due to affiliated companies		451	- 451	0
Advanced payments received		181	0	181
Short-term provisions	42	10,401	- 408	9,993
Other short-term liabilities		5,460	0	5,460
Short-term deferred income		447	0	447
Long-term liabilities, total		**32,129**	**2,254**	**34,383**
Long-term debt		81	0	81
Pension provisions	43	26,896	2,421	29,317
Long-term provisions	42	2,132	- 22	2,110
Special reserve with equity portion	44	145	- 145	0
Long-term deferred income		2,875	0	2,875
Minority interests		**0**	**0**	**0**
Shareholders' equity, total		**51,249**	**13,033**	**64,282**
Issued capital		48,358	0	48,358
Additional paid-in capital		2,823	0	2,823
Retained earnings		0	60	60
Variance from first consolidation		68	-68	0
Accumulated income		0	13,041	13,041
Deferred income taxes		**0**	**757**	**757**
Total Shareholders' equity and liabilities		**108,919**	**15,185**	**124,104**

Consolidated balance sheet (as at December 31, 2002)

Assets

	Notes	HGB Dec. 31, 2002 T€	Change T€	IFRS Dec. 31, 2002 T€
Short-term assets, total		**51,464**	**845**	**52,309**
Cash and cash equivalents		4,750	49	4,799
Marketable securities		432	0	432
Trade accounts receivable	39	14,253	319	14,572
Receivables due from related parties		59	- 59	0
Receivables due from participation companies		853	0	853
Inventories	40	26,192	535	26,727
Short-term prepaid expenses and other short-term assets		4,925	1	4,926
Long-term assets, total		**69,501**	**1,316**	**70,817**
Property, plant and equipment / Fixed assets	41	38,938	1,312	40,250
Intangible assets		1,188	0	1,188
Goodwill		20,716	0	20,716
Financial assets		1,988	- 23	1,965
Financial assets (equity)		0	27	27
Loans		5,079	0	5,079
Long-term prepaid expenses and other long-term assets		1,592	0	1,592
Deferred income taxes		**9,057**	**1,887**	**10,944**
Total assets		**130,022**	**4,048**	**134,070**

Equity and liabilities

	Notes	HGB Dec. 31, 2002 T€	Change T€	IFRS Dec. 31, 2002 T€
Short-term liabilities, total		**33,121**	**- 442**	**32,679**
Short-term debt and current portion of long-term debt		11	0	11
Trade accounts payable		10,571	1	10,572
Accounts payable due to affiliated companies		0	0	0
Advanced payments received		887	0	887
Short-term provisions	42	13,548	- 443	13,105
Other short-term liabilities		7,477	0	7,477
Short-term deferred income		627	0	627
Long-term liabilities, total		**29,340**	**2,793**	**32,133**
Long-term debt		71	0	71
Pension provisions	43	26,089	2.911	29,000
Long-term provisions	42	2,392	- 45	2,347
Special reserve with equity portion	44	73	- 73	0
Long-term deferred income		715	0	715
Minority interests		**8**	**0**	**8**
Shareholders' equity, total		**67,553**	**1,159**	**68,712**
Issued capital		48,358	0	48,358
Additional paid-in capital		2,823	0	2,823
Retained earnings		0	71	71
Variance from first consolidation		129	- 129	0
Accumulated income		16,243	1,217	17,460
Deferred income taxes		**0**	**538**	**538**
Total Shareholders' equity and liabilities		**130,022**	**4,048**	**134,070**

Explanations on the transfer of the consolidated balance sheets on December 31, 2001 and December 31, 2002

(39) Trade accounts receivable

No general bad debt provisions were made for receivables for the transition to IFRS.

(40) Inventories

For the conversion to IFRS, the book values of raw materials and supplies as well as of finished and unfinished goods are corrected to remove bad debt allowances made under HGB.

(41) Property, plant and equipment / Fixed assets

The declining balance depreciation of fixed assets carried out for tax reasons, is not recognized under IFRS. The straight line method of depreciation is used for the transition to IFRS as it corresponds to the course of use of the capital goods.

To the extent that the lease contracts of H&R WASAG AG meet the conditions of finance leases in accordance with IAS 17, the relevant assets are capitalized and written off in accordance with the methods of depreciation and useful lives for comparable assets in the company's possession. The resulting changes were recorded in a separate item in equity for the transition to IFRS.

(42) Provisions

The anniversary provisions were valued by the projected unit credit method.

The provisions for deferred maintenance measures and for internal annual accounts costs are not permitted for the conversion to IFRS.

Agreements regarding environmental law were taken into account regardless of their economic causation.

In 2003, the long-term adaptation of tank farms belonging to H&R LubeBlending GmbH and H&R Chemisch-Pharmazeutische Spezialitäten GmbH to meet the regulations governing systems handling water-endangering substances and technical

plants (VAwS) was given concrete form in planning terms. In defining its future measures, the company gained new insights into the size of the expenditure and investments which will be incurred and which have necessitated an adjustment to the provisions of T€ 3,680 already made in the past. In order not to distort the portrayal of the company's financial growth in the reporting period by releasing the amount with a corresponding effect on net income, the relevant provision was reduced by this amount with effect from January 1, 2002 and the deferred taxes on it adjusted accordingly for 2002.

(43) Pension provisions

The fiscal going concern method in accordance with HGB is not permitted under IFRS. The pension provisions were valued by the projected unit credit method in accordance with IAS 19. Actuarial profits can be fully amortized for the transition from HGB to IFRS.

(44) Special reserve with equity portion

The special reserve formed as a result of a fiscal revaluation of materials and supplies in 1999, is not permitted under IFRS

Consolidated income statement
for the fiscal year ended December 31, 2002

	Notes	HGB 2002 T€	Change T€	IFRS 2002 T€
Net sales		191,578	4	191,582
Other operating income		7,032	- 108	6,924
Changes in inventories of finished goods and work in progress	45	1,361	- 1,448	- 87
Production of own fixed assets capitalized		53	0	53
Material costs		- 114,039	9	- 114,030
a) Raw materials and supplies	46	- 109,082	9	- 109,073
b) Purchased services		- 4,957	0	- 4,957
Personnel expenses		- 41,418	1,275	- 40,143
a) Wages and salaries		- 33,494	5	- 33,489
b) Social security payments and expenses for pensions and for support	47	- 7,924	1,270	- 6,654
Depreciation and amortization	48	- 8,131	- 662	- 8,793
Amortization of goodwill		- 2,088	0	- 2,088
Other operating expenses		- 22,858	96	- 22,762
Other taxes		- 826	0	- 826
Operating income		**10,664**	**- 834**	**9,830**
Net interest result	49	175	- 1,745	- 1,570
Other income and expenses		- 68	0	- 68
Income before income taxes and minority interests		**10,771**	**- 2,579**	**8,192**
Income taxes	50	- 4,001	228	- 3,773
Income before minority interests		**6,770**	**- 2,351**	**4,419**
Minority interests		0	0	0
Net income		**6,770**	**- 2,351**	**4,419**

Explanations on the transfer of the consolidated income statement for the financial year 2002

(45) Change in inventories of finished goods and work in progress

For the conversion to IFRS, the book values of finished and unfinished products are corrected to remove bad debt allowances made under HGB.

(46) Expenditure on raw materials and supplies

For the conversion to IFRS, the book values raw materials and supplies are corrected to remove bad debt allowances made under HGB.

(47) Social security payments and expenses for pensions and for support

As the fiscal going concern method in HGB is not permitted for calculating pension reserves for the transition to reporting under IFRS, the projected unit credit method was used.

The anniversary provisions were valued by the projected unit credit method, as it is not permitted to show the going concern value.

(48) Depreciation and amortization

The declining balance write-offs carried out for tax reasons, are not recognized under IFRS. The straight line method of depreciation is used for the transition to IFRS as it corresponds to the course of use of the capital goods.

To the extent that the beneficial ownership of leased assets is to be attributed to H&R WASAG AG in accordance with IAS 17, such assets are capitalized and written off in accordance with the methods of depreciation and useful lives for comparable assets in the company's possession.

(49) Net interest result

Pension provisions are calculated by the projected unit credit method as the going concern method is not permitted. The interest portion contained in the transfer is shown in investment earnings.

(50) Income taxes

Deferred taxes are determined by the liabilities method based on the balance sheet. The adjustments result from differing valuations in the tax balance sheet and the consolidated balance sheet.

Other explanations

(51) Explanations on the consolidated cash flow statement

The statement of cash flows shows how the liquid assets of the group have changed in the reporting period. A distinction is made in accordance with IAS 7 between the cash flow from current operations and the payment streams from investment and finance activities. The financial funds shown correspond to the cash and cash equivalents item in the balance sheet and comprise cash in hand, checks and bank balances.

(52) Events after December 31, 2003

The Execuitve Board and the Supervisory Board of H&R WASAG AG propose to the shareholders' meeting that T€ 5,675 of the total accumulated income of H&R WASAG AG of T€ 28,183 be distributed in the form of a dividend of € 0.30 per share. T€ 22,509 is to be carried forward.

In October 2003, BP's European specialty refinery activities were acquired with financial effect from January 2, 2004. Besides the sales organization, trademarks and patents, the acquisition comprises the purchase of fixed assets, inventories and receivables as well as shareholdings in companies. The group's income, finance and assets position have been considerably affected by the inclusion of the new activities and the financing of the acquisition.

In April 2004, the group also took over further BP production facilities in South Africa, Australia, Thailand and Great Britain with financial effect from July 1, 2004.

Financial obligations result from the purchase price for the business, inventories and receivables as well as investments in the facilities to be reflected in 2004. An estimate of the total obligation depends on the specific scope of the measures to be implemented; in total it is assumed that the financial obligation for 2004 to 2006 will be approx. € 120 - 150 m.

(53) Contingent liabilities

On the date of the balance sheet, there were contingent liabilities of T€ 584 resulting from secondary liability for pensions (previous year: T€ 1,473), T€ 2,071 from third party guarantees (previous year: T€ 2.071), T€ 1,187 from outstanding liability contributions (previous year: T€ 1.187), and T€ 2,304 from other contingent liabilities (previous year: T€ 4,049).

The liability for pension obligations transferred to WNC Nitrochemie Aschau GmbH, Aschau, corresponds to the last state of knowledge of H&R WASAG AG.

The liabilities from guarantees relate to a guarantee in favor of Westfalen Chemie GmbH & Co. KG made to Commerzbank AG.

The outstanding liability contributions concern Westfalen Chemie GmbH & Co.

Other contingent liabilities show the joint and several liability for two loans from Kreditanstalt für Wiederaufbau (KfW) in favor of Hansen & Rosenthal KG towards Commerzbank AG for T€ 2,004 (previous year: T€ 3,067) as well as a relationship resembling a guarantee towards H&R Wax Company Vertrieb GmbH with a value of T€ 300 (previous year: T€ 982).

(54) Other financial obligations

	2003 T€	*2002 in T€*
Other financial obligations		
Financial obligations from long-term rental and lease contracts and other long-term obligations		
Due within one year	2,805	1,789
Due between one and five years	4,788	3,577
Due after more than five years	760	167
Total	**8,353**	**5,533**

A further T€ 4,209 in the group relates to order commitments for investments which will all be paid out in 2004.

(55) Reporting by segment

The H&R WASAG group operates in three major divisions: Chemical/Pharmaceutical Raw Materials, Precision Plastics and Explosives. The operating growth of the divisions is explained in the management report. All further activities are combined in the Other activities item. These include primarily the activities of group administration.

The list of shares (page 132) shows to which division each group company belongs. The allocation of individual companies to each division has been changed by comparison with the previous year. Real estate administration companies which were shown under Other activities in 2002, have now been assigned to the corresponding division. Figures from the previous year were adjusted to fit the new allocation.

The variation in earnings in the Chemical/Pharmaceutical Raw Materials division by comparison with the previous year results essentially from the intercompany sale of the doped lubricants business of H&R WASAG AG to J.P.S. Schmierstoffvertrieb GmbH with effect from November 1, 2002 which is writing off its acquired customer base by the straight line method of depreciation. In 2002, these write-offs were only incurred for the months of November and December while in 2003 they applied for the whole year. To this must be added increased interest expenses which were paid for the first time in 2003 when the purchase price became due on December 31, 2002 as part of the internal financing of the purchase.

Sales and revenues between the divisions are always posted at prices which would also have been agreed with third parties. Administrative services are calculated as cost allocations.

For sales revenues, the consolidation column contains the eliminated sales posted between separate divisions. The earnings consolidations relate mainly to the effects of relationships between the divisions affecting net income. On the assets side, the consolidation contains the eliminated receivables and liabilities between divisions as participation book values eliminated as part of the capital consolidation.

	Chem./pharm. Raw Materials		Precision Plastics		Explosives		Other activities		Consoli-dation		Total	
	2003 T€	2002 T€	2003 T€	2002 T€	2003 T€	2002 T€	2003 T€	2002 T€	2003 T€	2002 in T€	2003 in T€	2002 in T€
External sales	139,016	146,491	32,985	32,723	39,150	12,368	0	0	0	0	211,151	191,582
Intersegment sales	229	67	0	0	0	0	1,331	1,678	1,560	1,745	0	0
Total sales	139,245	146,558	32,985	32,723	39,150	12,368	1,331	1,678	1,560	1,745	211,151	191,582
Depreciation and amortization	9,491	6,779	2,094	2,162	2,743	399	1	1	- 3,000	1,538	11,329	10,881
Income from participa-ting interests	16	0	0	0	36	0	294	0	- 310	0	36	0
Income from associa-ted companies	0	0	0	0	44	0	0	0	0	0	44	0
Interest income	223	240	48	69	290	179	1,376	364	- 1,736	- 608	201	244
Interest expenses	1,568	689	280	292	1,230	678	1,413	851	- 1,734	- 608	2,757	1,902
Income before income taxes	4,190	8,002	3,833	3,479	1,412	1,353	446	22,684	726	- 27,326	10,607	8,192
Assets	100,207	99,359	20,398	22,399	54,383	15,062	120,310	116,774	- 129,561	- 119,524	165,737	134,070
Liabilities	40,719	55,757	11,785	13,843	37,907	13,355	35,879	34,073	- 41,675	- 51,678	84,615	65,350
Capital expenditure	4,484	7,819	1,671	1,525	4,260	151	0	0	- 352	0	10,063	9,495

Due to the concentration of group sales in the home market, the only differentiation made by geographical segment is between home and abroad. Sales in the home market in 2003 stood at T€ 187,505, and abroad T€ 23,646.

(56) Management bodies of H&R WASAG AG

Executive Board	*Membership in supervisory or advisory boards*
Dr. Horst-Rüdiger Hollstein	
- CEO - Jesteburg	- Member of the supervisory board of Ravensberger Bau-Beteiligungen AG i.I., Berlin - Member of the supervisory board of Otto M. Schröder Bank, Aktiengesellschaft, Hamburg
Maria-Elisabeth Ostermann-Müller	
- CFO - Lingen (Ems)	
Niels H. Hansen	
- CSO - Hamburg	

Supervisory Board	*Membership in other supervisory or advisory boards*
Bernd Günther	
CEO Hamburger Getreidelagerhaus AG, Hamburg Chairman of the Supervisory Board	- Member of the Supervisory Board of Autania AG, Kelkheim (until Dec. 31, 2003) - 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	
Chief Executive of Bohlen Industrie GmbH, Essen Chief Executive of Bohlen Handel GmbH, Essen Chief Executive of Prosecur Holding GmbH, Munich Vice-Chairman of the Supervisory Board	- Chairman of the Supervisory Board of Feierabend AG Online-dienste für Senioren, Frankfurt/Main

Nils Hansen

Partner in Hansen & Rosenthal KG with personal liability

Günter Papenburg

Chief Executive of GP Günter Papenburg AG, Schwarmstedt

- Member of the Supervisory Board of AVA Allgemeine Handelsgesellschaft der Verbraucher AG, Bielefeld
- Member des Supervisory Boards der 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 Norddeutsche Landes-bank 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

Employee representatives:

Reinhold Grothus

Chemical foreman

H&R ChemPharm GmbH, Salzbergen

Dieter Obert

Electrician

Gaudlitz GmbH, Coburg

(57) Total remuneration of the Supervisory Board and Management Board

Total remuneration paid to the Executive Board in the financial year 2003 was T€ 1,412 (previous year T€ 1,228), of which T€ 654 was the fixed, and T€ 758 the variable remuneration component. The basis for calculating the variable remuneration is annual earnings adjusted for one-off effects from the purchase of companies.

Former members of the Execuitve Board and their surviving dependants received total remuneration of T€ 325 (previous year T€ 342); the pension provisions formed for this group of people totaled T€ 3,411 (previous year T€ 3,128) as of December 31, 2003.

The Supervisory Board received T€ 85 (previous year T€ 120) of which the fixed component was T€ 46 and the variable T€ 39. Apart from being compensated for their out-of-pocket cash expenses, each member of the Supervisory Board receives an annual fee of € 6,135.50. The Chairman of the Supervisory Board receives twice this amount, and the Vice-Chairman one and half times this figure. For each percentage of dividend exceeding the rate of 5%, the fee increases by € 766.94. One member of the Supervisory Board was given a loan of originally T€ 87. This amounted to T€ 50 on the date of the balance sheet. The rate of interest for this loan is 5% p.a. The amount of the loan is set off against the remuneration as a member of the Supervisory Board.

(58) Disclosures of relationships with affiliated persons

The following disclosures on relationships with affiliated persons are made in accordance with IAS 24.

- The following services were provided for or by companies in the Hansen & Rosenthal group in the financial year 2003:

	Volume of the services rendered (T€)	*Volume of the services utilised (T€)*
Services		
Supply with chem./pharm. products	89,203	253
Other services	124	133

The services provided consist in supplying chemical/pharmaceutical products as part of a long-term supply contract. The amount includes additional services and third party costs incurred in supplying the products. The services made use of

comprise the supply of raw materials by companies in the Hansen & Rosenthal group. All supplies were made at market prices.

The services provided are IT services. The services utilized consist mainly of consultancy in the areas of quality management and human resources. Services were invoiced at the market rates for such services. To this must be added the reimbursement of third party costs from the provision of data lines.

- Fees of T€ 17 were paid in 2003 as part of consultancy contracts with BOWAS AG.

- The fees paid and third party costs invoiced as part of the consultancy contract with Idunahall Verwaltungs-Gesellschaft m.b.H. totaled T€ 22 in 2003.

- One member of the Supervisory Board was granted a loan of originally T€ 87. The rate of interest for this loan is 5% p.a. The amount of the loan is set off against the Supervisory Board remuneration.

- The remuneration paid to the Executive Board and the Supervisory Board is detailed in note 57.

- One member of the Execuitve Board owes the company T€ 41 on the balance sheet date.

(59) Declaration of conformity in accordance with § 161 AktG

The declaration on the German Corporate Governance Code specified by § 161 of the Companies Act was submitted in December 2003 and made available to shareholders. The text of the declaration can be found in the 2003 annual report (see page 17) and on the company's website on the Internet at www.hur-wasag.com.

Salzbergen, April 16, 2004

The Executive Board

Dr. Horst-Rüdiger Hollstein

Maria-Elisabeth Ostermann-Müller

Niels H. Hansen

Consolidated subsidiaries and equity interest

	Division	Shareholders' equity [1] T€	Participation ratio %	Earnings [1] T€
Consolidated companies				
H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Salzbergen	a	25,988	100.00	[2]
GAUDLITZ GmbH, Coburg	b	4,502	100.00	[2]
H&R Grundstücksverwaltungs GmbH, Salzbergen	a	7,061	94.90	141
H&R Lube Blending GmbH, Salzbergen	a	1,927	100.00	[2]
H&R LubeTech GmbH, Salzbergen	a	25	100.00	[2]
H&R ChemPharm GmbH, Salzbergen	a	53,636	100.00	[2]
J.P.S. Schmierstoffvertrieb GmbH, Salzbergen	a	473	100.00	[2]
Paul Fütterer GmbH, Neustadt an der Weinstraße	a	144	100.00	[2]
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Salzbergen	a	15	74.04	2
SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH, Haltern	c	2,253	56.60 [5]	[2]
GRA Grundstücks-Verwaltungsges. mbH, Hamburg	d	24	100.00	- 1
WANO Schwarzpulver GmbH, Liebenburg	c	2	100.00	- 1
B.-H. Beteiligungs- und Handelsges. mbH, Essen	d	0	100.00	- 17
H&R EcoClean GmbH, Salzbergen	a	- 50	100.00	- 31
H&R ESP International GmbH, Hamburg (vormals H&R Zweite Kapitalverwaltungs-GmbH, Salzbergen)	a	23	100.00	- 2
H&R ESP Sales GmbH, Hamburg (vormals H&R Dritte Kapitalverwaltungs-GmbH, Salzbergen)	a	23	100.00	- 2
WASAGCHEMIE Sythen GmbH, Haltern	c	2,163	100.00	733
WANO entertainment GmbH, Liebenburg	c	- 185	100.00	- 58
Westspreng GmbH, Sprengstoffe + Sprengtechnik, Finnentrop-Fretter	c	7,067	52.66	1,395
Detona Sprengstoff-Vertrieb Beteiligungs GmbH, Finnentrop-Fretter	c	36	52.66	2
BST Bohr- und Sprengtechnik GmbH & Co. KG, Pölzig	c	51	52.66	447
Ipari Robbano Kft, Peremarton, Hungary	c	264	52.66	- 54
BLASTEXPOL Sp.z o.o., Lubin, Poland	c	2,892	52.66	- 519
LA POUDRERIE s.a., Kockelscheuer, Luxemburg	c	354	52.66	- 120
POUDRERIE DE LESSINES s.a., Brussels, Belgium	c	87	52.66	10
ALPSPRENG Bohr- und Sprengtechnik, Eisenerz, Austria	c	17	52.66	22
MEDEX s.r.l., Rome, Italy	c	99	36.86	- 54
Schneider Sprengtechnik GmbH, Bad Sobernheim	c	360	52.66	232
CS Blast Servis, Prague, Czech Republic	c	- 1	36.86	- 2
Financial assets shown by the equity method				
Westfalen Chemie GmbH & Co. KG, Salzbergen	a	- 2,505	50.00	- 197
Westfalen Chemie Verwaltungsgesellschaft mbH, Salzbergen	a	56	50.00	1
Sprewa Sprengmittel GmbH, Nördlingen	c	[3]	13.22	[3]
Schmidtmann GmbH, Anröchte	c	321	13.69	38
Non-consolidated companies				
WAFA Kunststofftechnik GmbH & Co. KG, Augsburg, i. K.		[3]	100.00	[3]
WAFA Kunststofftechnik Verwaltungs GmbH, Augsburg, i. K.		[3]	100.00	[3]
Romblast S.R.L., M-Ciuc, Rumania		- 8	50.03	- 8
H&R ESP Limited, Milton Keynes, Great Britain		[4]	100.00	[4]
H&R ESP Sales Limited, Milton Keynes, Great Britain		[4]	100.00	[4]
H&R ESP Tipton Limited, Milton Keynes, Great Britain		[4]	100.00	[4]
H&R European Special Products Chorley Limited, Milton Keynes, Great Britain		[4]	100.00	[4]
H&R European Special Products Sales Limited, Milton Keynes, Great Britain		[4]	100.00	[4]
H&R European Special Products Tipton Limited, Milton Keynes, Great Britain		[4]	100.00	[4]
Participating interests				
SRS EcoTherm GmbH, Salzbergen		8,256	10.00	- 1,880
Schuetzen Powder LLC, Arlington TX, USA		[3]	50.00	[3]

Divisions:
a) Chemical/Pharmaceutical Raw Materials
b) Precision Plastics
c) Explosives
d) Other activities

1) In accordance with HGB
2) Profit and loss transfer agreement
3) For these companies, no year-end accounts are available as of Dec. 31, 2003
4) These companies will not present year-end accounts until 2004 under English law
5) The shares of minority shareholders do not carry voting rights

Auditors' report

We have audited the consolidated financial statements prepared by H&R WASAG Aktiengesellschaft, Salzbergen, and consisting of the balance sheet, profit and loss account, movements in net equity, cash flow statement and Notes, for the financial year from January 1 to December 31, 2003. The Executive Board of the company is responsible for preparing the consolidated financial statements and for their contents. Our task is to assess on the basis of our audit whether the consolidated financial statements meet the International Financial Reporting Standards (IFRS). We have conducted our audit of the consolidated financial statements in accordance with German auditing regulations and in compliance with the German principles of proper auditing defined by the Institute of Auditors (IDW). Those principles require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The scope of the audit was planned taking into account our understanding of business operations, the group's economic and legal environment and any potential errors expected. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes an assessment of the accounting principles used and significant estimates made by the company's legal representatives as well as an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements are in compliance with IFRS and present a true and fair view of the net worth, financial position and results of operations of the group as well as of the cash flows during the financial year. Our audit which also extends to the combined management report prepared by the Executive Board for the financial year from January 1 to December 31, 2003, has not led to any reservations. In our opinion, the combined management report together with the other disclosures contained in the consolidated financial statements, provide in their entirety a suitable understanding of the group's position and suitably present the risks to future development. We also confirm that the consolidated financial statements and combined management report for the financial year from January 1 to December 31, 2003 satisfy the conditions required for the company's exemption from its obligation to prepare consolidated financial statements and a combined management report in accordance with German law.

Hamburg, April 19, 2004
Susat & Partner oHG
Wirtschaftsprüfungsgesellschaft

Dr. Roser
Wirtschaftsprüfer

Bischoff
Wirtschaftsprüferin

Contact

If you should have further questions concerning our company or if you like to sign up for the company mailing list please contact:

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