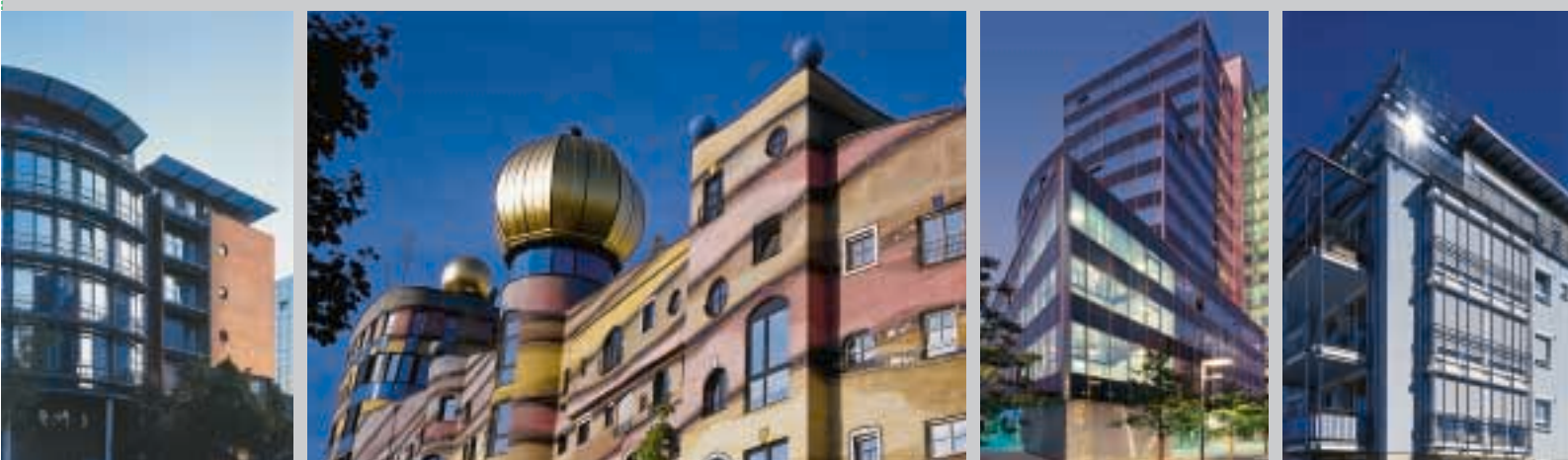


ANNUAL REPORT 2002/2003



ACCOMPLISHING MORE FOR OUR CUSTOMERS.
WITH PROPERTY-RELATED SERVICE AND TECHNOLOGY.

techem



Commercial property,
Hamburg,
Page 12

Property-Related Service and Technology

Life together in Europe: Wherever homes and commercial premises are being built, wherever the efficient use of energy is taken seriously, and wherever service combined with consistent proximity to the customer is sought – Techem is there. Millions of people in countless buildings rely on our energy-related services and products. Some of these properties from our customer list are presented in this annual report as examples. They are representative of the readiness to serve displayed by a strong company that is willing to demonstrate anew its capacity for innovation and its orientation toward the future each day.



The Hundertwasser "Waldspirale",
Darmstadt,
Page 39



Commercial property
"Römergalerie",
Leonberg,
Page 20



Apartment buildings,
Karlsruhe,
Page 8

GROUP STRUCTURE

Techem AG¹⁾			
100 %		99.975 %	
Techem Geschäftsführungs GmbH	0.025 %	Techem Energy Services GmbH & Co. KG	Techem Development GmbH 100 %
	Techem International GmbH		Veridis Software Systeme GmbH
		100 %	70 %
Techem Leasing GmbH & Co. oHG i.L.	95 %	Techem MätService AB, Sweden	100 %
		100 %	Techem Services Einzel e.o.o.d., Bulgaria
			100 %
assisto Leasing GmbH	100 %	Techem Energy Services B.V., Netherlands	100 %
			100 %
EL-ME AG	25 %	"Techem" Techniki Pomiarowe Sp.z o.o., Poland	100 %
			100 %
Techem Drecount Utility Service GmbH	50 %	Techem (Schweiz) AG, Switzerland	100 %
			50 %
Techem Energy Contracting GmbH	100 %	Techem Hellas E.P.E., Greece	75 %
			50 %
Techem Energy Contracting GmbH, Vienna	83.68 %	Techem Calorlux S.à.r.l., Luxembourg	100 %
			100 %
EMS Energie Management Service GmbH	33 %	Techem spol. s.r.o., Slovakia	100 %
			66.7 %
		Techem Energy Services S.R.L., Romania	100 %
			66.67 %
		Caloribel S.A., Belgium	100 %
			100 %

Company Abbreviations

Techem Energy Services
Techem Energy Services GmbH & Co. KG

Techem Development
Techem Development GmbH

Techem International
Techem International GmbH

Techem Energy Contracting
Techem Energy Contracting GmbH

Veridis
Veridis Software Systeme GmbH

WODIS
WODIS wohnungswirtschaftliche
Software GmbH

EL-ME/EMS – at equity

1) Interest relating to Techem AG

As at: September 30, 2003

AT A GLANCE

Techem is one of Europe's leading providers of services to the housing and real estate industries. Our competencies are:

- **Energy Services** – The measuring and billing of energy and water as well as equipment sales, rentals and maintenance; home automation
- **Energy Contracting** – The planning, financing, installation and operation of energy-producing facilities
- **IT Services** – Software applications for the housing industry

(EUR million)	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Revenues	295.7	322.7	355.1	379.3	407.6
EBIT	38.2	43.1	53.2	38.9	44.0 ¹
EBITDA	78.4	87.3	102.4	100.1	97.5
Net income	5.7	18.0	13.1	12.4	14.7
Operating cash flow	52.9	53.2	59.0	91.3	102.2 ²
Depreciation of plant and equipment, rental equipment and capital leases	32.9	36.0	37.3	45.7	40.4
Capital expenditure on plant and equipment, rental equipment and capital lease	40.8	46.8	59.7	70.3	48.0
Shareholders' equity	9.4	86.1	98.4	111.5	126.0
Equity ratio	2.3 %	20.0 %	21.7 %	19.9 %	23.3 %
Total assets	416.3	429.7	452.6	559.0	540.0
Customers (approx.)	294,000	301,000	375,000	565,000	605,000
Number of homes serviced (million approx.)	4.4	5.8	6.0	6.6	6.7
Number of installed devices (million approx.)	29.7	32.3	33.4	36.4	36.6
Germany	n/a	26.9	27.3	28.0	28.0
International	n/a	5.4	6.1	8.4	8.6
Employees ³	1,702	1,958	2,146	2,370	2,371 ⁴

1 EBIT – See Note 2, page 55 for a definition

2 As of 2002/2003, the losses/gains on sale of fixed assets are shown separately

3 Employees excluding commercial representative offices in Germany

4 Number of employees as at October 01, 2003: 2307

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DEAR SHAREHOLDERS, EMPLOYEES, BUSINESS PARTNERS AND FRIENDS OF THE TECHEM GROUP

In fiscal year 2002/2003, we have an eventful year behind us. Under difficult conditions, we succeeded in placing our company on a good and stable course once again. Following changes in the Supervisory Board and at the top level of management, the new management team conducted a review of all internal company processes and then made those adjustments that were necessary in a systematic manner. In the meantime, the successes resulting from our restructuring program are becoming apparent in all areas. The new structures are taking effect, costs are declining, and our employees are developing an even greater awareness of the quality and speed of our services as well as the way in which they are oriented toward and close to the customer.

The facts and figures evidence that Techem is an outstanding, innovative company that looks toward the future above all. We have an intelligent business model that is the envy of many listed companies. Long-term contracts entered into with our customers provide stability and planning certainty. When I assumed my office a good year ago, I announced that our group would be made more flexible and faster. My primary objective from the very outset was to revitalize the Techem Group in terms of revenues and earnings. The most important precondition for achieving this was a fundamental change in our corporate culture: from that of what was once a family-owned business to a modern, service-oriented company that must provide proof of its vigor anew each day, in the market place and on the stock exchange. Of course, a renewal process of this kind cannot take place without cuts that can sometimes be painful. Thus, we had to reduce our staffing levels, which were too high, and to lower them to the necessary extent in a socially acceptable manner. This was not a decision that we made lightly, but in this context I would like to stress that only an economically sound company is an attractive employer for its employees in the long-term.

Our strategic course remains unchanged and continues to be geared toward enhancing the value of the company. In pursuing it, we will concentrate on optimizing our existing business areas of Energy Services, Energy Contracting and IT Services, and on achieving organic growth in all fields. As a service company, improving the quality of the services we provide is a matter of constant concern to us. Customers can only be retained and won through the highest standards of quality. We have now created the necessary foundations in this regard by optimizing operational processes. We will continue to attach great importance to developing our technologies in a direction that meets customer needs. The expansion of the Board of Directors to include a director with responsibility for IT attests to that. Our technological superiority, coupled with a high standard of service and many years of experience will secure our leading role in Europe for the future, too. We are focusing our efforts on optimizing data processing in order to further enhance quality and to cut costs significantly.



Horst Enzelmüller
Chairman of the
Board of Directors

Foreign Sales,
Marketing,
Business Development,
Legal Affairs/
Mergers & Acquisitions,
Personnel,
Investor Relations



Stefan Pattberg
Member of the
Board of Directors

IT Business,
IT Services



Peter Wunderlich
Member of the
Board of Directors

Finance, Accounting,
Controlling,
Receivables Management,
Logistics & Infrastructure
and Audit



Rainer Schamoni
Deputy Chairman
of the Board of
Directors

Sales Germany,
Energy Contracting,
Technology and
Services



The scaling back of total indebtedness is continuing. Similarly, developing our international operations remains a further important area on which attention will continue to be focused. The timing of market entry as well as the rate of market penetration are, however, primarily dependent on the extent to which a respective country wishes to conserve energy and water and therefore use our services.

These measures form the basis on which Techem can become more profitable. This is the only way in which we can achieve financial flexibility, so that the group will remain strong and independent in the future, too.

As you can see, the Techem Group is very much on the right track. Those tangible successes already yielded by restructuring enable us to look to the future with optimism. I am convinced that in the current fiscal year too, the results of our efforts will be reflected in our figures, revealed in black and white, and the group's earnings will show a marked increase.

I would like to express my thanks to all our employees, employee representatives, business partners, customers and shareholders for the confidence placed in us and for the fine way in which we have been able to work together.

Horst Enzelmüller
Chairman of the Board of Directors

January 2004, Eschborn

CORPORATE GOVERNANCE

Techem attaches great importance to the issue of corporate governance. The Supervisory Board and Board of Directors work together closely and feel duty bound to increase the value of the company. Techem always acts in the knowledge that the shareholders of the company have made the necessary equity available and thus shoulder the related entrepreneurial risk. By pursuing a policy of open, timely and on-going information, Techem seeks to strengthen the confidence of private and institutional investors, employees, business partners and the public in the company.

RECOMMENDATIONS CONTAINED IN THE GERMAN CORPORATE GOVERNANCE CODE

The recommendations made by the government commission for the German Corporate Governance Code have been implemented with a few exceptions. In December 2003, the Board of Directors and Supervisory Board made the following compliance declaration:

“The Techem AG Board of Directors and Supervisory Board declare, pursuant to Section 161 of the German Joint Stock Corporation Act, that the recommendations contained in the “German Corporate Governance Code”, in the version of November 26, 2002 have been complied with except in respect of the following:

1. The D&O liability insurance taken out by Techem for the members of the Supervisory Board and Board of Directors does not provide for any deductible. (Code, Item 3.8, par. 2).

In concluding the D&O insurance policy, the agreeing of a deductible was waived, because it was believed that it was unnecessary for the purpose of influencing behavior. This belief is still shared by the Supervisory Board and the Board of Directors.

2. Chairmanship and membership of Supervisory Board committees is currently not taken into account in the remuneration paid to members of the Supervisory Board. (Code, Item 5.4.5, par. 1, sentence 3).

The remuneration payable to members of the Supervisory Board was revised at the General Shareholders Meeting in 2002 in connection with the amending of the articles of association. The level of remuneration that was set already takes account of work for committees. Should it transpire that committee work is not adequately compensated, the Supervisory Board and the Board of Directors will propose an appropriate change in the level of remuneration to the General Shareholders Meeting.

3. Supervisory Board remuneration does not contain any performance-related element at present. (Code, Item 5.4.5, sentence 2)

The Supervisory Board and the Board of Directors are of the opinion that Techem should not create any kind of performance-related incentive system for members of the Supervisory Board. The existing compensation system is better suited for guaranteeing the independence of the Supervisory Board in the effective discharging of its oversight function. It prevents the senior management of the company from focusing one-sidedly on individual parameters of relevance for compensation, and consequently, in our opinion, the existing system better guarantees the long-term success of the company.

4. The consolidated annual financial statements will not be disclosed publicly within 90 days of the end of the fiscal year and the interim reports will not be made public within 45 days of the end of a reporting period. (Code, Item 7.1.2)

At present, Techem AG prepares consolidated financial statements within 90 days of the end of the fiscal year. However, in view of the end of the calendar year and the related public holidays, the publication of the financial statements only takes place after the end of the 90-day period. Techem AG is working intensively on further accelerating the preparation of its financial statements in accordance with the recommendation contained in the German Corporate Governance Code.

The same applies to the interim reports, which are currently published within 60 days, in accordance with Deutsche Boerse rules."

RELATED PARTIES

Significant owners of Techem AG

Ott Vermögensverwaltungs GmbH holds 3,085,143 no par value shares in Techem AG. Felten Vermögensverwaltungs GmbH holds 3,085,143 no par value shares in Techem AG. Capital Group Companies Inc., Los Angeles/USA holds 1,273,168 no par value shares in Techem AG. Jupiter Asset Management Limited, London, Great Britain, holds 3,452,470 no par value shares in Techem AG.

Shares held by the Supervisory Board and Board of Directors of Techem AG:

Mr. Hans Ludwig Grüschow was chairman of the Supervisory Board until August 12, 2003 and held 88,000 no par value shares in Techem AG at that time as well as shares with an aggregate nominal value of EUR 43,612.42 (16.67 percent of the share capital) in Techem Messtechnik GmbH, Innsbruck/Austria. Mr. Stefan Zuschke is a member of the Supervisory Board and holds 200 no par value shares in Techem AG. Supervisory Board members Mr. Harald C. Bieler and Prof. Horst Ziegler, PhD, Dr. Wilhelm Bender and Dr. Martin Ott do not hold any interests in companies belonging to the Techem Group. Mr. Rainer Schamoni is deputy chairman of the Board of Directors and holds 59,900 no par value shares in Techem AG. Mr. Walter Schmidt was a member of the Board of Directors until July 31, 2003 and held 3,448 no par value shares in Techem AG at that time. Mr. Horst Enzelmüller, Mr. Stefan Pattberg and Mr. Peter Wunderlich are members of the Board of Directors and do not hold any interests in companies belonging to the Techem Group.

Shares held by related party family members:

The sister of Supervisory Board member Dr. Martin Ott, Ms. Ursula Felten, holds 68,698 no par value shares in Techem AG.

Transactions with related parties

During fiscal year 2002/2003, Techem AG executed the following transactions with related parties within the meaning of US GAAP.

Under a long-term license agreement concluded many years before he began serving on the Supervisory Board, Prof. Horst Ziegler, PhD, received license fees and the reimbursement of expenses totaling EUR 288,288.96 for fiscal year 2002/2003. In addition, the Paderborn University institute headed by Prof. Horst Ziegler, PhD, was awarded R&D contracts worth EUR 15,000 in fiscal year 2002/2003. The Supervisory Board is and was aware of these two facts.

Supervisory Board chairman Dr. Ziegler is also a member of the Advisory Committee of Hydrometer GmbH, Ansbach. However, he will stop serving in such capacity as soon as possible and by June 30, 2004 at the latest. During the course of the past fiscal year, his function in this regard did not result in any conflict of interest. If, contrary to our expectations, a conflict of interest should arise from his membership of the Advisory Board of our supplier Hydrometer GmbH, appropriate measures have been taken to cover such eventuality. Techem is of the opinion that close cooperation with Prof. Horst Ziegler, PhD, and Hydrometer GmbH is of exceptional importance for the technical development of the Techem Group and consequently, for its position on the market.



Home Automation

The modular radio-controlled system assisto is marketed by the Home Automation business segment, which is part of Techem Energy Services. In addition to radio-controlled consumption measurement, assisto also offers individual room temperature control and can be expanded in several stages.

THE TECHEM SHARE

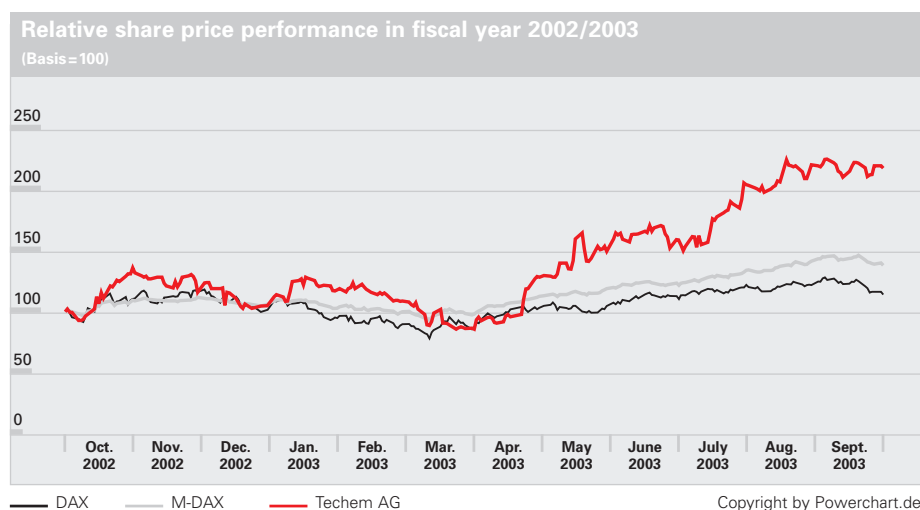
STOCK MARKET TRENDS

The German stock market performed disappointingly in 2002. By contrast, the prevailing trend in 2003 was a positive one, albeit occasionally interrupted by negative economic data as well as the war in Iraq. Nevertheless, the stock markets posted significant gains overall.

During the period under review, October 1, 2002 to September 30, 2003, the DAX grew by almost 14 percent, rising from 2,865.23 points to 3,256.70. The M-DAX grew by a good 39 percent, rising from 2,841.64 points to 3,960.56 points.

TECHEM SHARE PRICE RECOVERS

After falling over the first nine months of 2002, the Techem share rose in value by 122 percent during fiscal year 2002/2003. The Xetra closing price on October 1, 2002 was EUR 6.65 and EUR 14.77 on September 30, 2003. The clear recovery staged by the price of the Techem share also continued at the beginning of the current fiscal year, 2003/2004.



gebaka-Immobilien-gesellschaft apartment buildings, Karlsruhe: Techem's assisto is one the convenient features available in these luxury apartments built for sale.

SHAREHOLDER STRUCTURE

The subscribed capital of Techem AG consists of approximately 24.7 million no par value shares. On September 30, 2003, we conducted a survey of shareholders, enabling us to identify 87.7 percent of the shares outstanding. A total of 25.3 percent of the share capital is held by family shareholders Ursula Felten and Dr. Martin Ott, mainly through Felten Vermögensverwaltungs GmbH and Ott Vermögensverwaltungs GmbH. The remaining share capital identified, 62.4 percent, is primarily held by international institutional investors.

Of the share capital identified, 32.7 percent is held in Great Britain, 30.4 percent in Germany, 6.8 percent in the Netherlands, 3.4 percent in the rest of Europe and 14.4 percent in the United States.

The members of the Supervisory Board – excluding Dr. Martin Ott – and the members of the Board of Directors jointly hold Techem shares representing significantly less than 1 percent of the share capital. We have provided details of the stock options held by members of the Board of Directors as well as the nature of the stock option program for first and second tier management on pages 73 to 76 of the Notes.

INVESTOR RELATIONS ACTIVITIES

Following the new segmentation of the German stock market that took effect at the beginning of March 2003, the Techem share is also included in the new M-DAX, which has been reduced in size to 50 companies, as well as in the Prime Standard segment. A prerequisite in this regard is the fulfillment of international transparency requirements relating to publications, accounting standards and investor relations activities.

During fiscal year 2002/2003, the Techem AG Investor Relations Department was actively involved in providing transparent information to the capital market. The also focus of our activities was on providing information about the company to institutional investors, financial analysts and private shareholders in a timely and reliable manner. In this respect, the General Shareholders Meeting held in March 2003 as well as the Investor Relations pages that appear on our corporate website are important instruments for informing our private shareholders about trends in corporate operations. Annual and quarterly reports, press releases, ad hoc disclosures as well as extensive information about Techem AG can be accessed on the site at all times. In the case of institutional investors and analysts, we staged roadshows and held one-on-one meetings. In addition, we informed the investor community about our quarterly results by means of teleconferences that were simultaneously broadcast over the Internet.

Geographical distribution Techem share as of 30.09.2003

21,633,129 shares = 87.7 % of the total
shares outstanding



The quarterly reports published on a regular basis are supplemented by press releases on current events. A host of German and international financial institutions follow and comment on the way our company is developing. A detailed list can be found on our Investor Relations website under "Equity Research."

The recommendations are overwhelmingly positive, attesting to renewed confidence in our corporate strategy and the attractiveness of the Techem share.

DIVIDEND POLICY

The Techem AG Supervisory Board and Board of Directors have recommended that the Ordinary General Shareholders Meeting scheduled for March 18, 2004 resolve not to distribute a dividend and instead, retain profits within the company in order to develop business areas and penetrate new markets in a way that will enhance value.

Annual reports (German & English), quarterly reports (German & English), the investor relations newsletter, analyst and investor presentations (English) as well as much more concerning the Techem share are available on the investor relations pages of the Techem AG website at www.techem.com.

Share Financial Ratios

	2002/2003	2001/2002	2000/2001
Securities ID Number: 547160			
ISIN: DE0005471601			
Earnings per share in EUR ¹	0.59	0.50	0.53
Dividend in EUR	0.00 ³	0.00	0.00
Price-Earnings ratio in EUR ¹	25.03	13.25	37.74
High 01.10.–30.09. in EUR ²	15.28	26.50	36.25
Low 01.10.–30.09. in EUR ²	5.65	5.90	19.61
Price on 30.09. in EUR ²	14.77	6.76	20.00
Stock market capitalization at 30.09. in EUR million ²	364.5	166.8	493.6
Number of shares	24,681,139	24,681,139	24,681,139

¹ Computation basis: Xetra closing price on 30.09

² Xetra closing price

³ Proposed by Board of Directors and Supervisory Board



IT Services

Techem IT Services offers highly specialized software solutions and consultancy services to the real estate industry. As IT solutions nowadays constitute the core element of a comprehensive range of services, IT Services represents a central business sector for Techem as a service provider.

BUSINESS AREAS

Three business areas – a comprehensive offer: The range of services offered by Techem is consistently aimed at the needs of the housing, real estate and utilities industries. The three business areas of Energy Services, Energy Contracting and IT Services cover all the requirements of our customers.

As at September 30, 2003, Techem provided services right across Europe to about 605,000 customers with about 6.7 million apartments and 36.6 million measuring devices.

In Germany, 291,000 customers with about 4.8 million apartments currently rely on the services provided by Techem. They are served by five regional head offices, 84 branch offices and 24 field offices.

PERCENTAGE SHARE OF TOTAL REVENUES

	EUR 407.6 million = 100 %	Sales revenues EUR
Energy Services	88.3 %	360.0
Energy Contracting	9.6 %	39.2
IT Services	2.1 %	8.4

ENERGY SERVICES

The Energy Services core business comprises the provision of metering and billing services as well as the necessary equipment for the exact measurement of energy and water consumption. On the basis of our portfolio of services, customers are able to compose an individual service package that is precisely tailored to their needs.

The equipment offered ranges from the classic heat cost allocator that operates on the evaporation principle to the radio-controlled system assisto. This modular system is distributed by the Home Automation business segment, which is part of Techem Energy Services. In addition to radio-controlled consumption measurement, assisto also offers individual room temperature control and can be expanded in several stages.

Becken Investitionen & Vermögens-
verwaltung commercial property,
Hamburg: All the units in this multiple
building development are managed
with the help of Techem software.

As at September 30, 2003, assisto was installed in almost 7,000 apartments (previous year: 3,962 apartments).

Installed Base Europe

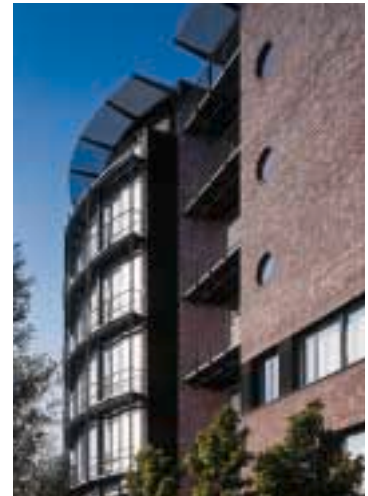
	30. September	
	2002	2003
Radio-controlled devices	2.5	3.2
Electronic devices	12.6	12.8
Water meters	6.6	6.6
Evaporators	14.7	14.0
Total (million)	36.4	36.6

During fiscal year 2002/2003, it was therefore possible to increase the European billing base comprising radio-controlled devices by 28.0 percent. Radio-controlled devices accounted for 8.7 percent of the total installed base.

The constant increase in the demand for electronic and radio-controlled measuring systems guarantees us further business successes throughout Europe. We expect that the pressure for modernization with respect to conventional evaporators will yield higher revenues and strengthen relationships with our customers. The reason for this is that the user-friendliness and capacity for expansion and integration possessed by radio-controlled technology not only opens up opportunities to conclude new contracts but also to develop long-term relationships with customers.

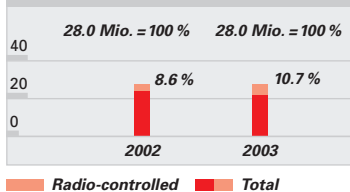
In Germany, we mainly see opportunities for growth in modernization relating to existing customers, too. The replacing of conventional heat cost allocators and water meters with modern radio-controlled systems provides users and us, as suppliers, with two major qualitative advantages: Paperless meter-reading means that virtually no mistakes occur, enabling faster and accurate billing, and in addition, meter readers no longer have to enter the home.

Techem's billing business is based on three stable pillars: closer customer relationships extending over many years, widespread acceptance of consumption based billing by the public, and current national legislation in the field of energy conservation.



Growing demand. |

Radio-controlled device share of total installed base as at September 30 (Germany)

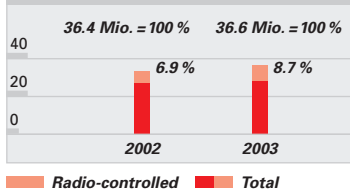


In Germany alone, the increase in the installed base comprising radio-controlled devices was 25 percent. This represents 10.7 percent of the total installed base.

Equipment sales Europe

Fiscal year 2002/2003 saw about 3.6 million new devices sold across Europe (previous year: 3.8 million), including approx. 1.2 million radio-controlled devices, 1.2 million electronic devices (heat cost allocators and heat meters), 0.9 million water meters and 0.3 evaporators. The equipment sales are invoiced, but not yet included in the installed base.

Radio-controlled device share of total installed base as at September 30 (Europe)



Equipment sales Europe:

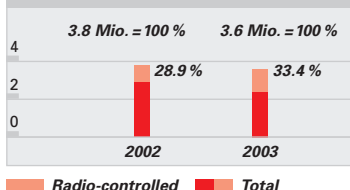
	30. September	
	2002	2003
Radio-controlled devices	1.1	1.2
Electronic devices	1.4	1.2
Water meters	0.9	0.9
Evaporators	0.4	0.3
Total (million)	3.8	3.6

Germany accounted for sales of 1.0 million radio-controlled devices, 0.6 million electronic devices, 0.8 million water meters and 0.2 million evaporators.

The share of total European equipment sales accounted for by radio-controlled technology was 33.4 percent as at September 30, 2003, compared to 28.9 percent as at September 30, 2002.

About 743,000 households (previous year: about 550,000 households) have been equipped with the data radio-controlled system in the meantime.

Radio-controlled device share of total sales as at September 30 (Europe)



Rental and maintenance services

Techem offers its customers preferential equipment rentals on the basis of rental contracts concluded for a period of many years. The number of rental contracts was increased by 8.8 percent to 363,254 (previous year: 333,986). The contracts cover a base comprising 12.9 million devices, which corresponds to just 46.1 percent of the total number of devices installed in Germany. This clearly illustrates that the trend toward renting equipment is still growing.

The number of maintenance contracts in Germany rose by 4.4 percent, from 158,745 to 165,750. With the resulting 4.5 million devices serviced, Techem covers an additional 16.1 percent of the total base of installed devices.

Outside Germany, rental and maintenance contracts are only being offered in Austria and Switzerland at present and on a modest scale.

ENERGY CONTRACTING

The business purpose of Techem Energy Contracting consists in the supplying of heat, cold and electricity under contracting agreements. The range of services we offer is directed at the real estate industry as the owners or managers of residential and commercial property. The high degree of customer acceptance for our services is reflected in the double-digit percentage growth in revenues achieved each year.

The basis for the supplying of energy is the professional operation of both own and leased facilities for the production of heat, cold and electricity: The modular range of services we provide extends from planning, financing and installation to the operation of facilities, including maintenance, conservation and the billing of consumption. As the most experienced provider on the market, we guarantee our customers the safe and cost-effective supply of energy round the clock.

The market is mainly being stimulated by two trends in the real estate sector: the desire of the industry to conserve energy and incur lower ancillary costs as well as a simultaneous demand for achieving higher yields on buildings in a sustained manner.

Possessing a range of products that is tailored to market needs, Techem Energy Contracting is optimally prepared for the provision of rapid solutions. The market potential is undoubtedly present, as the extent to which the German market has been developed still amounts to less than ten percent.

Huge market potential. |

IT SERVICES

Techem IT Services offers highly specialized software solutions and consultancy services to the real estate industry. As IT solutions nowadays constitute the core element of a comprehensive range of services, IT Services represents a central business area for Techem as a service provider. Techem customers, but also Techem itself, make use of the advantages offered by IT solutions tailored to the needs of the real estate industry.

At the beginning of fiscal year 2003/2004, WODIS GmbH, which belongs to the Techem Group, will be renamed Techem IT Services as a clear sign of our commitment to this business area.



Techem IT Services has developed wodis as a modular software solution and it markets the product as well as makes improvements to it on an ongoing basis. Currently, wodis is used by 300 customers, who provide 6,000 jobs, in the field of servicing more than one million residential and commercial property units. Wodis was designed with small and medium-sized real estate industry companies in mind above all, that is, companies that service between 500 and 20,000 units. Typical customers are municipal residential property companies, residential building cooperatives, independent residential property companies and large professional property management companies. An ASP version of wodis managed through the Techem AG computer center has been available since December 2002. It allows the customer to choose from the whole range of Techem services, starting from hosting and extending all the way to full outsourcing, including the outsourcing of business processes.

During fiscal year 2002/2003, we already succeeded in convincing a first group of customers of the advantages of wodis ASP in terms of time and costs.

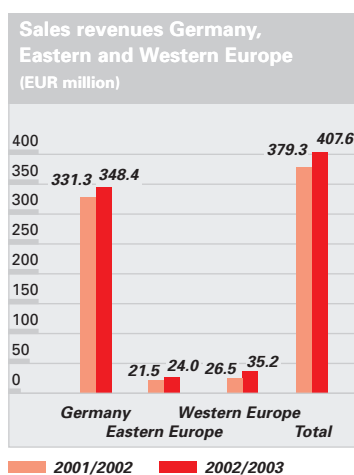
In 2002, Aareon AG, the current market leader, announced that it would end the supply of its own range of products by 2009 and would be focusing on an SAP add-on solution instead. In addition to Aareon, GAP, another competitor, will be launching a new software generation for its outmoded product. This means that a not insignificant number of customers will have to change their business software. Techem IT Services is able to offer these companies a software solution that is technologically up-to-date and mature in terms of functionality; a system that can be operated on an in-house or ASP basis and is attractively priced in relation to the performance it provides. Through consistent integration with the Techem Group, we are already able to satisfy the main requirements of the real estate industry in terms of convincing industry competence, immediate availability and the certain enhancement of our IT solutions over the long-term. During the past fiscal year, it was already possible to initiate the trend with a growth rate of 17 percent. We therefore envisage there being good opportunities to significantly increase our customer base over the coming years.

REGIONS

Energy conservation is becoming an important issue in a growing number of European countries and worldwide, too. The Techem International business segment is represented in 14 countries through 17 subsidiaries. Outside Germany, we provide services to 314,000 customers with 1.9 million apartments.



Techem is already present and operates a comprehensive service network in many countries where there is a reliable basis for our business in the form of appropriate legislation. We will continue to pursue our strategy of international expansion and in doing so, focus on selected Eastern European markets. The market potential of Eastern Europe in particular has been a growth driver for Techem over the past few years.

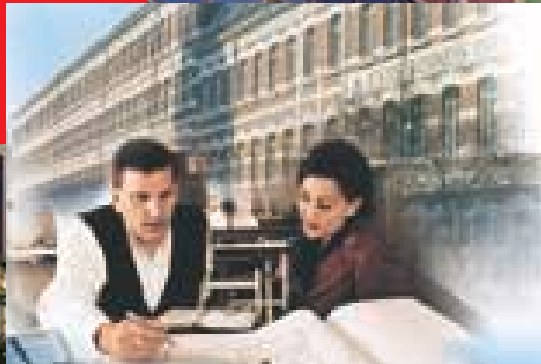


EASTERN EUROPE

In the year under review, we once again succeeded in significantly boosting the revenues we generate in the countries of Eastern Europe: Sales revenues rose by 11.6 percent to EUR 24.0 million (previous year: EUR 21.5 million). The markets of Eastern Europe are of particular interest to Techem as an awareness of the costs associated with energy use is only just beginning to develop in many of these countries. We opened a subsidiary in Romania at the end of November 2002 and have already seen a marked increase in customer numbers as of that heating period. Apart from Romania, we have established subsidiaries, acquired equity interests or entered into cooperation arrangements with local commercial partners in the following ten countries: Bulgaria, Estonia, Lithuania, Latvia, Poland, Russia, Slovakia, the Czech Republic and Hungary. More detailed information on the Eastern European market can be found from page 23 onward in the section entitled "Industry Trends: Energy Services."

WESTERN EUROPE

In the markets of Western Europe (excluding Germany), Techem was once again able to post a marked increase in sales revenues for fiscal year 2002/2003, with revenues growing by 32.8 percent to EUR 35.2 million (previous year: EUR 26.5 million). We are already present in the following ten countries in the region through subsidiaries, equity interests or commercial partners: Belgium, Denmark, Greece, Italy, Luxembourg, the Netherlands, Austria, Sweden, Switzerland and Turkey. More information about the course of business in the individual countries can be found from page 24 onward in the section entitled "Industry Trends: Energy Services."



Energy Contracting

The business purpose of Techem Energy Contracting consists in the supplying of heat, cold and electricity under contracting agreements. The range of services we offer is directed at the real estate industry as the owners or managers of residential and commercial property.

MANAGEMENT REPORT

INDUSTRY TRENDS: ENERGY SERVICES

Germany

The basic situation, characterized by a largely saturated market in Germany, did not change during the year under review as the volume of new construction projects remained low and a tangible recovery is not in sight. Approval was received for a total of 158,700 new construction projects during the first half of 2003. According to the Federal Statistics Office, this meant that 16.3 percent or 22,300 more construction permits were issued than a year ago. However, this can in large measure also be attributed to the bringing forward of applications for single and two-family homes as a result of the political debate over reducing the owner-occupier subsidy [Eigenheimzulage]. Permits for apartments in residential buildings were also higher in the first half of 2003, up 17.5 percent year-on-year, but only increased in the case of single and two-family homes. Permits for apartments in multifamily residences were down slightly, their number falling by 0.4 percent.

Still demand for technical innovations.

The potential for modernization in Germany's new laender is still at a relatively low level. The projected vacancy rate in eastern Germany as at December 31, 2003 was 15.8 percent. About one third of these apartments are to be removed from the market as a result of demolition. A further proportion is to find a new use as a result of other measures, e.g. the combining of apartments or re-designation. The "Stadtumbau Ost" program that was launched by 197 municipalities in 2002 envisages the elimination of 350,000 apartments. Residential property companies in the east are exposed to considerable strains as a result of the loss of rental income, past liabilities, high own contributions to modernization, declining rental receipts and the incurring of operating costs for empty apartments. The reduction that is being sought means that apartments will disappear from our installed base. On the other hand, property companies are employing numerous measures to try in particular to make prefabricated block developments more attractive and to improve the quality of life for tenants. Technical innovations play a significant role in this respect. Initial experience shows that this is an area in which home automation systems such as Techem's assisto are certainly in demand.

The volume of modernization projects in the western part of the country has increased slightly. Each year, about 80,000 apartments in apartment buildings are fitted with central heating systems for the first time. In most cases, the apartments are fitted with both heat cost allocators and water meters. This provides further proof of the increasingly widespread adoption of the consumption-based measuring and billing of hot and cold water. We have also achieved growth through re-equipping with modern radio-controlled technology in the case of evaporators and of electronic heat cost allocators.

Market leadership defended

Competition within the entire industry remains fierce. Eight companies, which all belong to the Arbeitsgemeinschaft Heiz- und Wasserkostenverteilung e.V., account for about 85.5 percent of the market. The remaining segment is divided up among approximately 150, mainly regional, providers.

The "Römergalerie" commercial development at Leonberg: Techem has taken over responsibility for supplying energy to this popular destination with shoppers located close to Stuttgart under a long-term agreement.

As a result of the development of technology, smaller providers are finding it increasingly difficult to finance the requisite high investment in technical know-how. However, what is taking place is not exclusively a price war. Quality of service and our superiority in equipment technology provide us with further competitive advantages, enabling us to defend our position of market leadership as a flexible, innovative service provider. The positive trend in sales shows that the market is receptive to technical innovation.

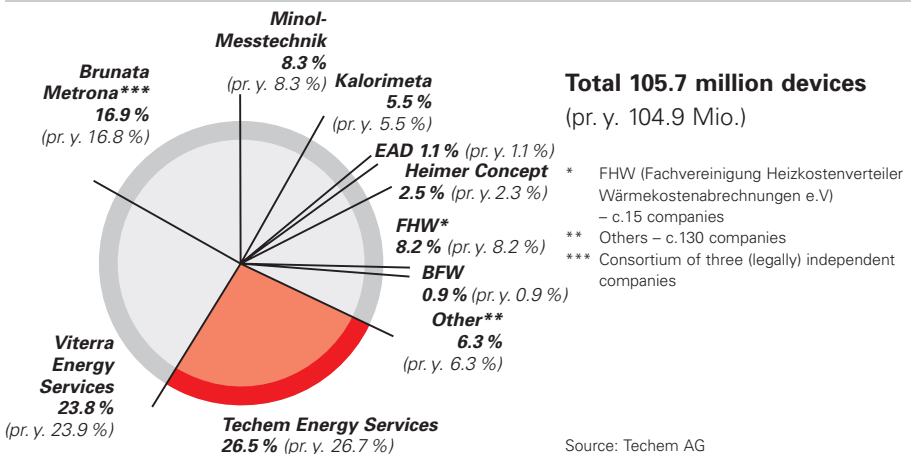
Techem's growth in the Energy Services business area continues to be based on equipping and billing connected with newly built or modernized apartments and subsequent fitting with water meters. In Germany, this growth has largely been driven by the replacing of conventional heat cost allocators and water meters with technologically more advanced devices. In this regard, we have been able to profit from existing relationships with customers. In addition, the positive trend in equipment rentals has continued. We rent most of our devices on a long-term basis, with contracts lasting ten years in the case of heat cost allocators and five or six years in the case of water meters.

Positive trend
in rental business.

No new major competitors

Given the current market situation, there are no indications pointing to the market entry of major competitors. At the local level, a few municipal utility companies are already active on the market or at the planning stage. However, they have no possibility of operating beyond their local market as a result of the legal regulations applicable to municipalities. Thus, they only have very limited scope for attaining a size that makes commercial sense. Municipal utility company activities in relation to the preceding year have not increased, but stagnated. In any case, given the extent to which we are customer oriented and the technological superiority of our measuring

Company market shares in Germany as at September 30, 2003





devices, we view ourselves as being well positioned strategically in Germany and thus able to meet all the challenges posed by the market.

Difficult environment for Home Automation

In the field of home automation for multiple family residences and single and two-family homes, Techem has brought its revenue expectations into line with market conditions.

While the market has essentially responded positively to the concept underlying assisto, purchases have not been that great because of the lower number of new construction projects and restraint with regard to the implementation of modernization and renovation measures.

We have boosted key account management with a view to targeting major customers in the residential property industry, where potential sales are high. We have suspended the marketing of the product for the single and two-family home.

INDUSTRY TRENDS: ENERGY SERVICES

International

Europe South/East Region

(Baltic republics, Bulgaria, Romania, Russia, Slovakia, the Czech Republic, Hungary)

Given the relatively low incomes in the region, the measurement and billing of heating and water is becoming a tried and tested means of saving on costs for households. As these countries come up to European standards, the development of the Energy Services sector, which is as such continually growing, will receive a further boost. Techem is well positioned in these markets and thus able to react to any change in general conditions immediately.

Individual countries

| Bulgaria

As a result of the Energy Law of 2001, apartments in Bulgaria have been extensively fitted with heat cost allocators and water meters. With a market share of about 50 percent, Techem remains the market leader. We expect stable economic development to yield further business opportunities.

| Romania

Individual billing was scarcely known in Romania as a system hitherto. Through its subsidiary, Techem Energy Services S.R.L., which was founded in 2002, Techem has already secured itself a very good starting position on a lucrative market.

| Slovakia

Our market in Slovakia is growing continually. More than one half of the country's apartments are fitted with heat cost allocators. Techem maintained its position of market leadership in the year under review, creating a solid base for itself with long-term billing contracts.

In the Czech Republic, Techem just slightly trails the market leader. The remaining apartments are divided up among Czech competitors. The further increase in the extent to which equipment is in use resulted in competition being stepped up in the fiscal year just ended. Large-scale suppliers of heating are reportedly planning to carry out billing operations themselves. However, as a result of our market position and given the extent of our proximity to the customer, we take a calm view of these developments.

Czech Republic |

Hungary is following a stable course economically and politically. Our market has grown significantly with the help of state aid. Techem is the market leader by far and still sees there being considerable potential.

Hungary |

In the Baltic states, Techem is active through commercial partners and operates model projects in Riga, Tallin and Nida.

Baltic States |

The Russian market remains interesting for Techem given its potential. The representative office in Moscow is sounding out the possibilities for introducing consumption-based billing.

Russia |

Western Europe Region

(Belgium, Greece, Italy, Luxembourg, the Netherlands, Austria, Switzerland)

Western Europe

As has been the case in previous years, the situation in the construction industry, and in the residential property industry in particular, has not improved in most European countries. Nevertheless, our industry has managed to stabilize development in the energy services sector. Although the volume of new construction projects in some countries has in part fallen dramatically, Techem has nevertheless been able to grow its base in those countries as a result of the elimination of competitors. In the established markets, Techem will focus on further increasing the proportion of electronic and radio-controlled heat cost allocators. In the young markets, such as Italy and Greece, the main issue will be one of making target groups generally aware of the subject of heat cost billing and to convince them of its value.

Individual countries

The negative performance of the Belgian economy has also impacted on our industry. Nevertheless, Techem succeeded in achieving its targets for the fiscal year that has just ended and maintained its clear leadership position with a market share of over 50 percent. In the case of Belgium, we see opportunities for the future primarily in the replacement business in relation to the equipment base and in sales of home technology, which have just been launched.

Belgium |

In the case of Greece, the strong growth that was projected in the heat meter sector as a result of a new energy law has not been attained on the desired scale because of the continued absence of an implementation decree. Nevertheless, there was strong demand for Techem products, especially in the final months of the year under

Greece |

review. Techem remained the number one in heat meters, with a market share of over 50 percent. We expect the course of business to remain positive given the special situation that has arisen in the construction sector as a result of the Athens 2004 Olympic Games and because of plans for cooperation with national real estate and energy industry providers.

| *Italy*

The absence of energy-related legislation and the inadequate ecological awareness of apartment occupants have meant that industry development in Italy has remained on a low level. We see good prospects for improving the course of business in Italy through a more attractive pricing policy, innovative products and the expansion of sales territories.

| *Luxembourg*

Although residential construction was stagnant, we managed to gain further market share in Luxembourg. Given our recognized quality of service, we expect to see a further increase in the number of our devices installed during the course of the current fiscal year, too.

| *Netherlands*

The volume of new construction projects has been at its lowest level in 50 years and the expiry of state subsidies for measuring devices at the beginning of the year has placed the industry in the Netherlands under pressure. Nevertheless, Techem has succeeded in improving its market position by winning over customers from the competition. The positive way in which our radio-controlled devices have been received holds out the promise of further growth opportunities in coming years.

| *Austria*

Given the total absence of new residential construction projects in Austria, competition over existing customers further intensified during the fiscal year just ended. With a market share of over 60 percent, Techem has maintained its position of market leader for more than ten years. Naturally, occupying such a position means that we are particularly exposed to competitive pressure, as market volume over the coming years might decline even further. In Austria, Techem will exploit all the available opportunities for achieving synergies in the two business segments of measuring technology and water technology in order to succeed against the competition in the future too by constantly improving processes and billing software.

| *Switzerland*

Techem was also exposed to strong price competition in Switzerland. Against this backdrop, quality of customer service, planning advice and installed base preservation are increasingly important. Techem sees itself well equipped for future challenges with the new field office structure that emerged from last year's merger of Techem Messdienst AG with Calortherm Abrechnungs AG as well as with up-to-date software for taking readings.

Europe North/East Region

(Poland, Sweden and Denmark)

Individual countries

With 21 million radiators installed, the market potential in Poland remains high. Only 7.5 million radiators have been fitted with heat cost allocators so far. The market is continually developing at a constant pace. Techem occupies second place in the sector. About 15 companies in total provide billing services. We expect the market and our business to receive a boost from Poland's entry into the EU on May 1, 2004, because the rapid legal regulation of consumption-based heat measurement can be expected to result from it. In addition, according to estimates from Poland's Main Office of Statistics, about 3.5 million apartments are expected to be built in the country by 2010.

Poland |

In Sweden, the measuring and billing of heat and water was still not a major public issue in the fiscal year just ended. All-inclusive rents remain very common. However, with the successful passage of electricity meter legislation designed to cut energy consumption, we now expect there to be more initiatives aimed at introducing an appropriate law relating to the fields of heat and water. Our business will profit from the monthly electricity meter services being established. The market that is opening up in a country with high prices such as Sweden holds out the prospect of good margins. With its system-based solutions, Techem sees itself in a very good starting position for performing successfully against the competition.

Sweden |

Techem is well positioned on the Danish market through three commercial partners. The venture is a successful one for Techem and is being constantly developed.

Denmark |

INDUSTRY TRENDS: ENERGY CONTRACTING

The difficult economic situation in Germany has resulted in a considerable readiness and need to implement cost-cutting measures. This also applies to the real estate industry. At the same time, property companies are coming under increasing pressure with respect to yields. The situation in Berlin merits particular mention: The abolition of follow-up grants [Anschlussförderung] has resulted in a considerable number of additional tasks being assumed by the real estate industry.

*Property companies under
pressure with respect to yields. |*

The significant increases in energy prices over the past few years coupled with the introduction of more stringent regulations, such as the German Energy Conservation Decree (Energieeinsparverordnung - EnEV), have made property managers more sensitive to energy consumption and the impact that it has on operating costs. This means that there are two trends promoting the market for the industry:

- a) real estate industry demand for energy savings/lower ancillary costs
- b) real estate industry demand for concepts that will boost yields for the available property base.



Energy Contracting as an efficient solution

Energy contracting is a service that offers the real estate industry an excellent opportunity to solve the task that it faces in cutting ancillary costs and boosting property yields without employing own resources. Against this backdrop, there will be considerable demand for services that particularly focus on conserving energy in order to cut ancillary costs. At the same time, residential property management can be expected to become increasingly professional.

The utilization level for the German market amounts to less than ten percent at present. The North-Rhine Westphalia Energy Agency forecasts that this will rise to about 19 percent by 2004 (information provided in connection with the specialist trade fair "E-World of Energy 2002"). Techem Energy Contracting expects this to rise to a maximum of 15 percent by 2005. This means that with a potential of about 1.35 million buildings (of which about 1.0 million are in the residential housing sector), the supply to buildings would increase from about 100,000 buildings at present to about 200,000 by 2005.

Leading market position

By comparison with the direct competition (private sector, providers operating nationally), Techem is a leading market participant. Along with Urbana Fernwärme GmbH, Harpen Energie Contracting GmbH (a RWE subsidiary) and Getec AG, we form the leading group of providers.

The company has prepared itself for the current and future situation in the real estate industry by means of special models. We expect to see marked growth in the case of models designed to save on energy costs in particular. Techem Energy Contracting is represented on the market in this segment under the slogan of professional asset management with innovative products designed to lower operating costs and raise yields.

INDUSTRY TRENDS: IT SERVICES

At the beginning of fiscal year 2003/2004, WODIS GmbH, which belongs to the Techem Group, will be renamed Techem IT Services as a clear sign of our commitment to this business area.

Changes in software releases to come.

During the year under review, companies continued to display noticeable restraint with regard to IT investment. This also applied to the provision of IT services to the housing industry. In particular, the announcement by a competitor that its software would only be withdrawn in 2009 has resulted in a further delay in purchasing decisions. The market remained on the same level as last year: However, there may be a reversal of this negative trend in the foreseeable future. Follow-up products from other companies in the industry are close to reaching the pilot project stage. This means that companies will be able to compare the products with the solutions already available on the market and then reach a decision on whether to switch over to different

software. That is why we assume that the investment backlog will gradually disappear. There are already signs that many companies are in the midst of decision-making processes and will decide on a software changeover in 2004. Techem IT Services sees itself in a good starting position overall in this regard.

Techem IT Services posts highest rate of growth

Aareon AG remains the market leader in the housing industry IT field. It is followed by Techem IT Services, ESS and GAP. However, Techem IT Services, as the number two in the industry, has been growing fastest, at a rate of 17 percent.

Techem stands a very good chance of being able to win over numerous customers from its competitors and thus aspire to market leadership. Finally, we have a mature and technologically up-to-date product in the form of wodis, that offers an attractive price to performance ratio and is particularly well suited for medium-sized residential property companies. In addition, the ASP (Application Service Provider) version of wodis, which has been available since December 2002, has already established itself on the market and convinced a first group of customers of its benefits. We pin hopes of high growth on this product line in particular.

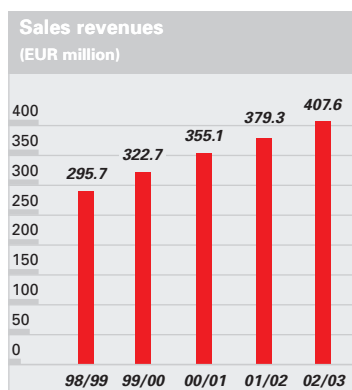
What is certain is that the industry will be making investment decisions over the coming years. The only issue that is unclear is the exact timing. This can impact on the projected growth rate. We are already addressing this risk today in the form of efficient cost management.

There is no basis for expecting the entry of further competitors as the barriers to market entry are very high. Developing specific software for a relatively small market segment such as the housing industry requires high investment outlays. This is a particularly important factor given that the market has been divided up and there are no indications that any new companies with significant property holdings will be established in the near future. This means that competitors will be vying among themselves, a form of competition that Techem IT Services is well equipped to deal with.

COURSE OF BUSINESS

The course of business has been satisfactory for Techem despite difficult economic conditions. It was possible to further enhance our significant market position in the core business area of Energy Services. As in previous years, the Energy Contracting business area developed positively and we were able to maintain our market position. IT Services developed in line with expectations and we were able to consolidate our market share in this regard, too.

Huge barriers to market entry. |



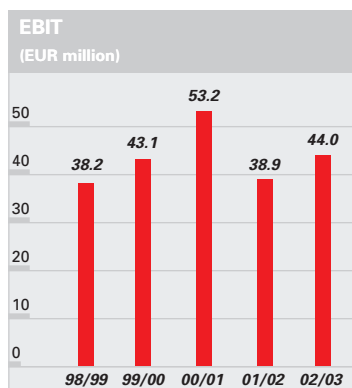
Sales Revenues

Sales revenues for fiscal year 2002/2003 rose to EUR 407.6 million: This represents an increase of 7.5 percent in relation to last year's figure of EUR 379.3 million. The forecast of EUR 406 million was therefore exceeded slightly.

The classic Energy Services business areas centering on the provision of consumption-based measuring and billing services for energy and water remain the Techem Group's core business. However, it is also noticeable that Energy Contracting and IT Services are increasingly contributing to growth.

The sales revenues posted by the individual business segments were as follows:

	30. September		+/- in %
	2002	2003	
Energy Services			
Services	166.9	178.9	+ 7.2
Equipment rentals	103.4	107.7	+ 4.2
Equipment sales	41.9	44.8	+ 6.9
Maintenance	23.5	24.5	+ 4.3
Energy Contracting	31.6	39.2	+ 24.1
IT Services	6.8	8.4	+ 23.5
Other	5.2	4.1	- 21.2
Total	379.3	407.6	+ 7.5



EARNINGS POSITION

Group EBIT rose from EUR 38.9 million in fiscal year 2001/2002 to EUR 44.0 million. The definition of EBIT used in fiscal year 2002/2003 was changed (see the Notes to the Consolidated Financial Statements) and no longer contains the results of associated companies.

Net income

Over the same period, net income rose from EUR 12.4 million to EUR 14.7 million. This means that the Group achieved growth of 18.5 percent.

RESEARCH AND DEVELOPMENT

Our leading position in the housing and real estate industry is based on innovative products and the latest technology. It is therefore understandable that we should accord particular attention to the field of research and development. Outlays for R&D projects in the fiscal year just ended totaled EUR 3.6 million and were thus on the same level as a year ago. The focus of our development work is concentrated on the next generation of radio-controlled heat cost allocators and the optimizing of equipment interfaces for integration with IT system processing.

At present, a team of 16 engineers is exclusively involved with working on R&D projects. In addition, we also draw on external know-how, from both scientific circles as well as industrial partner companies. We have been engaged in close cooperation with university departments at Dresden, Paderborn and Stuttgart for many years. The same is true of the companies Hydrometer, EL-ME and Diehl: There is a lively exchange of views and ideas with these companies' engineers.

Cooperation with external specialists provides us with support for basic research as well as for the development of specific products in the area of future-oriented radio-controlled technology. In the basic research field, it was possible to successfully complete a host of tests, involving, for example, radio signal ranges within buildings as important preparatory work for the next generation of radio-controlled devices.

New generation of radio-controlled systems

The development of the next line of radio-controlled systems was commenced during the year under review. It is scheduled to end on October 1, 2004 with the country-wide product launch of the new radio-controlled devices. The ease with which the new radio-controlled devices can be installed and their capacity for gradual upgrading, through remote metering, will result in a further increase in the rate at which conventional measuring devices are being replaced with radio-controlled technology.

The technology with which our field employees are equipped is of decisive importance for providing an optimal service to the customer. That is why we have launched a new mobile data storage device. As a result of greater measuring device compatibility during data collection, the entire meter-reading process is even safer.

CAPITAL EXPENDITURE

In fiscal year 2000/2003, the Group incurred outlays relating to capital expenditure (including change in consolidation) totaling EUR 54.2 million (previous year: EUR 128.9 million). The outlays were as follows: Intangible assets EUR 6.1 million (previous year: EUR 55.3 million), Property, plant and equipment EUR 7.6 million (previous year: EUR 21.2 million), Rental equipment EUR 35.1 million (previous year: EUR 45.5 million), Assets held under capital leases EUR 5.3 million (previous year: EUR 6.2 million), Financial assets EUR 0.1 million (previous year: EUR 0.7 million)

The assets held under capital leases mainly consist of plant and equipment.

PROCUREMENT

We have concluded long-term agreements with our main suppliers of heat cost allocators and water meters in order to ensure stable prices and availability. We source electronic and radio-controlled heat cost allocators from the two companies EL-ME GmbH, Au i. d. Hallertau, and Elcoteq, Überlingen. Most of the water meters are obtained from Hydrometer, Ansbach.

Cooperation with universities. |



*Security by
Second-Source agreements.*

To avoid excessive dependence on a particular supplier, we have concluded what are known as second-source agreements for all important products. To ensure that these substitute suppliers can immediately take over if necessary, we have also already concluded supply agreements with them and – where necessary – invested in the appropriate production tools. During the fiscal year just ended, our suppliers' ability and readiness to deliver were very good. Orders were received on time and the quality was right.

Procurement prices fell further during the year under review. This can be easily seen from our internal procurement price index. As part of our "Fokus" restructuring program, potential savings in supplies and materials were identified and realized. This has already yielded significant additional savings that will have a positive impact on Techem in coming years, especially given the fact that we assume that procurement prices will also fall in the near future.

CORPORATE STRUCTURE

Techem AG is a holding company with interests in businesses in Germany and outside it. Its corporate purpose consists in holding and managing interests in other companies, including company property. The company has been listed in official trading on the Frankfurt Stock Exchange since February 2000 and was included in the M-DAX on September 18, 2000.

Operational management of the group is the responsibility of Techem Energy Services GmbH & Co. KG, Eschborn, 99.75 percent of which is held by Techem AG as a limited partner, as well as of subsidiaries in Germany and outside it. Techem Development GmbH holds the shares of the IT Services subsidiaries and is a wholly-owned subsidiary of Techem AG.

*Consolidation of
capital structure.*

Techem AG will consolidate its capital structures under the cost-cutting program. During fiscal year 2003/2004, Techem Development GmbH and Techem International GmbH will be merged by absorption into Techem Energy Services GmbH & Co. KG. Consequently, intragroup settlements between the companies will be reduced.

LAUNCH OF THE NEW FISCAL YEAR AND STRATEGIC OUTLOOK

*Techem as synonym for a
modern services company.*

The subject of reform currently occupies a place at the very top of the German political agenda. The country, its laws and its structures must become more modern, more flexible and consequently faster. The aim of all this is not just to preserve Germany's position as a center of business but also to make it more attractive over the coming decades for foreign and domestic entrepreneurs and investors and thus create new and secure jobs. Techem launched an ambitious restructuring and optimization program in the fiscal year just ended and thus laid the groundwork for the group's dynamic development. A new spirit has permeated the company. The aim is to make the group faster, more flexible and more dynamic. At the focal point of all these measures stands the customer – he is the measure of all things. Techem is to become a synonym

for a modern company that is a provider of services to the European real estate and housing industry and that possesses outstanding and motivated employees, creativity and ideas, new technology and innovative products, while at the same time being cost conscious and efficient.

The Board of Directors has once again set lofty goals for fiscal year 2003/2004: Sales revenues are to rise to between EUR 427 million and EUR 432 million, with EBIT growing to between EUR 67 million and EUR 70 million. These goals are ones that can only be realized through great effort and the committed participation of all levels of management and employees. A key role in this regard is played by technology. This is an area in which Techem has been a leader for years. Developing new products and technologies until they are ready to be marketed and then installing them extensively is one of our group's core competencies. Fostering these strengths more visibly than in the past and then delivering them to the European real estate and housing industry with dynamism and creativity is our primary goal over the coming years. We expect to spend about EUR 4 million on R&D during the current fiscal year. Capital expenditure will amount to between about EUR 50 million and EUR 56 million.

Technological leadership as core competence of the Techem Group.

The implementation of this strategy also entails cost structure optimization and the systematic and consistent scaling back of bank borrowings. During new fiscal year 2003/2004, we will realize savings of at least EUR 12 million. Net debt during the current fiscal year should amount to between about EUR 255 million and EUR 260 million. The equity ratio – which latterly stood at about 23 percent – will rise to about 25 percent in the medium term. This means that we will be placing the group on a solid financial footing.

During the current fiscal year, Techem will focus its entire energies on the existing business areas of Energy Services, Energy Contracting and IT Services. The gradual replacing of measuring devices with radio-controlled systems alone offers potential for growth. In this regard, Techem can demonstrate its technological leadership and form an increasing number of long-term customer relationships by means of rental contracts. Considerable room for further expansion is also offered by international markets, where the timing of market entry as well as the rate of market penetration are, however, primarily dependent on the extent to which a respective country wishes to conserve energy and water and therefore use our services.

Material events occurring after the reporting date

There have been no major events, apart from those already mentioned, since the close of the 2002/2003 fiscal year which would be of any material significance for the Techem Group and which could result in a change in the evaluation of the company. Business in the first months of the new fiscal year has confirmed the forecasts made in the section entitled "Outlook."



RISK MANAGEMENT

The Techem Group companies are by the very nature of their activities exposed to risks that are inseparable from entrepreneurial activities. A risk management system has been implemented within Techem AG, Techem Energy Services GmbH & Co. KG, Techem Development GmbH, Veridis GmbH, WPDIS GmbH and Techem Energy Contracting GmbH to facilitate the identification of risks at an early stage, to conduct risk evaluations and to ensure that existing risks are dealt with appropriately. Over the coming fiscal year, the concepts and available instruments that have already been applied successfully will be deployed in further Techem Group subsidiaries.

A uniform guideline defines responsibilities, processes, limits and thresholds.

An ad hoc reporting system forms an integral part of the risk management system. Its purpose is to ensure that it is possible to respond to events that occur during the course of the year by applying immediate measures.

General economic risk

Minimization and control of macroeconomic risk also involves the permanent monitoring of economic trends in relevant markets at all levels of management in relation to our operations.

With respect to risks arising from trends in vacancy rates, especially on the Eastern German property market, please refer to the details provided in the section entitled "Industry Trends: Energy Services."

We do not perceive any macroeconomic trends that would pose any lasting risk to us in terms of the current economic and sociopolitical situation. Legal developments will continue to be monitored intensively.

Industry risks

Installed base growth is influenced by building modernization on the one hand and the volume of new construction projects in the multiple family building sector on the other. A study in our possession indicates that the number of new construction projects that will be completed over the coming years will stagnate. Building modernization and the installation of central heating systems will remain on about the same level as at present in Western Germany. By contrast, the level of building modernization in Eastern Germany will continue to decline. There are no concrete indications at present of new, major competitors entering active markets.

The introduction of new decrees, such as the German Energy Conservation Decree (EnEV) that entered into force on February 1, 2002, might also have implications for Techem in terms of future sales of measuring devices and related billing services. In particular, a further tightening of the provisions of the decree could make measuring

*Macroeconomic trends
pose no discernible risks.*

and billing uneconomic in relation to overall energy costs. At present, the current version of the decree has not had any material impact on Techem's economic development. A positive effect for us consists in the use of home automation systems that this encourages.

Business risks

Sales risks

To identify possible significant drops in sales early on, sales evaluations are prepared and analyzed on a monthly basis. The sales risk to which Techem is exposed is limited by the fact that it is not dependent on any major customer or individual region, although Germany generates the largest share of revenues.

Procurement risks

Techem's procurement strategy essentially provides for two independent suppliers in the case of special articles. Most articles are commodities that can be obtained from other suppliers at short notice. To optimize inventory management, a number of logistics ratios are used. In addition, goods supplied are regularly tested for quality to identify defects before they are dispatched. Measuring devices that immediately become defective after installation are removed and then immediately sent to a central examination unit. The findings are immediately incorporated into a revised version of the installation instructions, or lead to product improvements in the manufacturing process.

Financing risks

The ensuring of liquidity is precisely monitored and controlled by means of financial planning and analysis instruments.

Techem Group refinancing is carried out through a syndicate comprising seven internationally recognized commercial banks. Refinancing is contractually secured until the end of May 2008. Possible interest rate fluctuations are hedged by means of interest rate cap/swap transactions in the form of a sufficient number of capped rate agreements concluded with a major German credit institution.

*Refinancing contractually
secured until 2008.*

The bulk of sales revenues are generated within the euro area with the result that no exchange rate risk is involved. Trends in accounts receivable and their structure form an integral part of our periodic reporting. As there is a large number of customers, no single instance of default would be of material significance for the Techem Group.

In the Energy Contracting area, the risk of default in the event of a contractual partner becoming insolvent is minimized by the timely suspension of deliveries. In general, if property owners become insolvent, those creditors who have taken security in their property ensure that the property is then placed under court administration. In addition, the priority interest of property users to be supplied with energy essentially remains intact at all times.



Legal risks

We are not aware of any pending or threatened court or arbitration proceedings that could have a material impact on the economic position of the companies.

With the announcement of the Federal Labor Office decision of April 29, 2002 stating that the employment relationships with our meter readers are such that a social insurance liability is incurred, arrears in respect of social insurance contributions are essentially due as of that date in respect of existing (and existing as of that date) “sham self-employment relationships” if, following a possible legal dispute, the Federal Labor Office decision is upheld and becomes final.

With the entry into force of the first “Law on Social Insurance Adjustments and the Securing of Employee Rights” (law on combating sham self-employment) of December 19, 1998, Techem issued a central instruction that the assignment contract relationships with meter readers be converted into employee employment relationships (short-term employment, minimal employment, employment as fitter/meter reader). It was only with the enactment of the “Law on Promoting Self-Employment” dated December 12, 1999 (with retroactive effect from January 1, 1999) that an amnesty solution became available to those affected who had applied to the Federal Labor Office for a determination of status procedure to be conducted before June 30, 2000. Techem filed such application and is therefore not required to pay social insurance contribution arrears for the past four years. Nevertheless, provisions have been established for the period as of April 29, 2002.

Investment risks

The acquisition of new companies and the entry into new business areas can, by their very nature, conceal new risks. By means of extensive investigations, involving external experts with relevant industry experience, prior to acquisitions and to the entry into new business areas, these risks are weighed against the new opportunities available to Techem. Extensive contractual provisions reduce our risk until the time of actual acquisition. Close management of the new companies, a professional integration process, the introduction of Techem reporting procedures and regular talks between the directors of the transferee and the transferor should provide support for developing business positively. Possible risks relating to business operations can be uncovered directly in this way and appropriate measures can be determined and implemented. Given that the IT Services business area is young and that the investments held in it are so important, Techem will step up the attention paid to it during the course of ongoing risk monitoring in the future, too.

Other risks and IT risks

Techem employs an integrated and uniform EDP infrastructure. By using modern hardware and software and in cooperation with competent service provider partners, we are able to address any IT risks that may arise.

Significant business transactions and changes in earnings are analyzed on an on-going basis and feedback is provided. Proceeding from a market-oriented, decentralized form of planning within individual companies, projections are prepared on a quarterly basis and coordinated with the plans.

Overall risk

In conclusion, it can be stated that there is no risk to the continued existence of the Techem Group, neither in terms of substance nor of liquidity. There is no evidence of any risks that could threaten its existence in the foreseeable future. To continue by beginning with the causes of risks and identifying opportunities early on, risk management has the status of an absolute basic premise for Techem and one that we implement in all corporate areas and functions. An assessment of the internal control system and of risk management is also an integral part of the auditing of the annual financial statements.

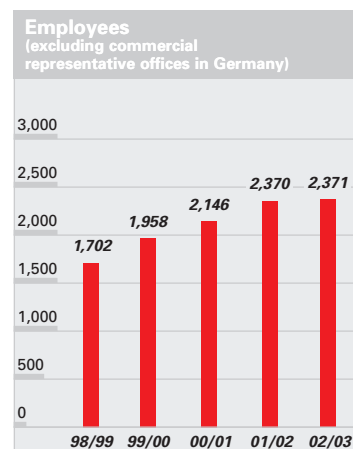
MERGERS & ACQUISITIONS

Techem's primary strategic goal is the enhancing of the value of the company, a goal that was pursued in the fiscal year just ended through both organic growth as well as selective acquisitions and adjustments to the investment portfolio. By acquiring the remaining 15 percent of Agpo Techem Meettechniek B.V. (Breda/the Netherlands), we have strengthened our core business outside Germany.

We have completed our realignment within the IT Services business area by selling our 80-percent stake in HausPerfekt GmbH & Co. KG (Tönisvorst) and acquiring a further twelve percent of the shares of WIB Consult. In this business area, Techem will increasingly focus on the servicing and recruiting of customers in the form of non-profit making residential property companies and cooperatives, independent residential property companies as well as large professional property and asset management companies. Over the next few years, our starting position in this regard will improve significantly in the light of the impending system changeover on the part of about 2,000 companies and the dividing up of the market anew that this will entail.

EMPLOYEES

The "Fokus" restructuring program launched in fiscal year 2002/2003 caused all business processes to come under scrutiny. Following in-depth analyses, restructuring measures aimed at enhancing efficiency, optimizing quality of services and boosting revenues were implemented throughout the company. Techem downsized jobs as part of the restructuring process. Downsizing also affected employees on fixed term contracts. In addition, a large number of selected employees have decided to take advantage of the possibility of pre-retirement part-time work. The hierarchical structure applicable to the directors responsible for various business segments was completely disbanded. In addition, the scope of responsibilities at the regional head level has been expanded and there are now five, rather than seven, regional head offices.



These measures have resulted in the new figures for employee numbers. As at the reporting date, September 30, 2003, Techem employed a total of 2,371 throughout Europe. In Germany, the number of employees fell to 1,821.

*Hiring ratio of 60 percent
for trainees.*

Training

The company remained faithful to the concept of "Training for Techem" during the fiscal year just ended. We have hired 18 new trainees nationwide. This means that 79 trainees are employed at the 37 sites where traineeships are offered. After successfully completing their examinations, 15 trainees were retained as employees. The hiring ratio of 60 percent for trainees shows that the Techem trainee concept pays off, for both the company and for young people.

Employee career development programs

Employees remain our most important form of capital. Thus, employees were trained with regard to special Techem goals under career development programs during the year under review. Employees completed the junior staff career advancement program during the fiscal year just ended. Eight employees were prepared for the future tasks by gaining project leader qualifications, and twelve persons commenced a management development program that will be completed in the current fiscal year.

Seminar program

A total of 200 seminars on Techem-specific subjects attended by 1,242 of our employees were staged with the aim of preserving and improving the high quality of our services and products.

Eschborn, December 2, 2003



Horst Enzelmüller



Rainer Schamoni



Stefan Pattberg



Peter Wunderlich



Energy Services

The Energy Services core business comprises the provision of metering and billing services as well as the necessary equipment for the exact measurement of energy and water consumption. Customers can use our portfolio of services as the basis for creating their own individual service package.

techem ENERGY SERVICES



The Hundertwasser "Waldspirale," Darmstadt: This residential development designed by Friedensreich Hundertwasser, the world famous artist, is completely equipped with the data radio-controlled system.



TECHEM AG, CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2003 AND 2002

Assets

	Note	2003 KEUR	2002 KEUR
Cash and cash equivalents		16,038	13,756
Trade accounts receivable	3	38,200	52,927
Unbilled receivables	4	110,993	104,007
Accounts receivable due from group companies		25	417
Other receivables	5	8,979	14,335
Total accounts receivable		158,197	171,686
Inventories	6	26,243	29,776
Deferred tax assets	20	2,042	566
Other current assets		881	1,582
Total current assets		203,401	217,366
Financial assets	7	1,052	1,140
Accounts receivable, long-term		6,284	6,341
Total financial assets		7,336	7,481
Rental equipment	9	137,200	136,201
Capital lease	8	8,780	5,413
Property, plant and equipment	9	44,541	46,223
Total fixed assets		190,521	187,837
Intangible assets	9	125,080	134,629
Deferred tax assets	20	13,683	11,723
Total assets		540,021	559,036

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Liabilities

	Note	2003 KEUR	2002 KEUR
Trade accounts payable		9,687	12,371
Bank overdrafts and borrowings	10	35,004	283,857
Progress payments		1,214	946
Accounts payable due from group companies		216	237
Capital lease obligations, current portion	8	2,945	2,054
Other current liabilities	11	28,589	18,413
Tax accruals		8,091	10,819
Other accrued expenses	12 21	37,495	27,863
Deferred tax liabilities	20	809	1,705
Other deferred items		814	822
Total current liabilities		124,864	359,087
Bank loans	10	233,341	38,732
Capital lease obligations, less current portion	8	6,062	3,439
Pension accruals	13	12,257	12,181
Other accrued expenses	12	26,852	24,833
Deferred tax liabilities	20	7,030	3,957
Other deferred items	14	592	2,581
Total non-current liabilities		286,134	85,723
Total liabilities		410,998	444,810
Minority interest		3,068	2,678
Share capital		24,681	24,681
Additional paid-in capital		59,711	59,711
Retained earnings		42,269	27,598
Accumulated other comprehensive income/loss		-706	-442
Total shareholders' equity	15	125,955	111,548
Total liabilities and shareholders' equity		540,021	559,036

(The accompanying notes are an integral part of these financial statements)

TECHEM AG, CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

	Share Capital Shares	Share Capital Amount KEUR	Treasury Stock KEUR
Balance at September 30, 2000	24,681,139	24,681	-342
Currency translation adjustment			
Net add. minimum pension liability			
Treasury Stock			342
Net income			
Balance at September 30, 2001	24,681,139	24,681	0
Currency translation adjustment			
Net add. minimum pension liability			
Net income			
Balance at September 30, 2002	24,681,139	24,681	0
Currency translation adjustment			
Net add. minimum pension liability			
Net income			
Balance at September 30, 2003	24,681,139	24,681	0

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Additional paid-in capital KEUR	Retained Earnings KEUR	Accumulated other com- prehensive Income/loss KEUR	Total Shareholders' Equity KEUR
59,552	2,093	81	86,065
		149	149
		-1,411	-1,411
			501
159	13,079		13,079
59,711	15,172	-1,181	98,383
		-59	-59
		798	798
	12,426		12,426
59,711	27,598	-442	111,548
		-276	-276
		12	12
	14,671		14,671
59,711	42,269	-706	125,955

(The accompanying notes are an integral part of these financial statements)

TECHEM AG, CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

	Note	2003 KEUR	2002 KEUR	2001 KEUR
Revenues	17	407,592	379,254	355,070
Cost of sales		172,731	153,847	134,104
Gross profit		234,861	225,407	220,966
Selling expenses	18	80,241	77,679	74,993
General and administrative expenses	18	92,482	95,428	81,067
Other operating income		8,728	9,180	7,562
Other operating expenses		26,825	22,736	19,392
EBIT		44,041	38,744	53,076
Income from investments		-74	177	144
Interest income/-expense	19	-16,760	-14,192	-18,260
Result before income tax		27,207	24,729	34,960
Income tax	20	11,038	11,927	21,377
Result before minority interest		16,169	12,802	13,583
Minority interest		-421	-376	-504
Net income/-loss before cumulative effects of changes in accounting principles		15,748	12,426	13,079
Net cumulative effects of changes in accounting principles	9	-1,077	0	0
Net income/loss		14,671	12,426	13,079
Other comprehensive income:				
Currency translation adjustment		-276	-59	149
Additional minimum pension liability		19	1,218	-2,203
Tax benefit related to minimum pension liability		-7	-420	792
Comprehensive income/loss		14,407	13,165	11,817
Earnings per share in Euro				
Income before cumulative effects of changes in accounting principles		0.63	0.50	0.53
Net cumulative effects of changes in accounting principles		-0.04	0.00	0.00
Earnings per share in Euro, basic/diluted		0.59	0.50	0.53
Operating Income per share in Euro, basic/diluted		1.78	1.57	2.15

(The accompanying notes are an integral part of these financial statements)

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TECHEM AG, CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

	2003		2002		2001
	KEUR		KEUR		KEUR
Cash flows from operating activities					
Net income/loss	14,671		12,426		13,079
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	50,014		59,110		48,329
Impairment	5,000		2,300		1,000
Deferred tax assets	-1,268		3,810		20,701
Unbilled receivables	-4,884		-12,152		-2,695
Allowances for doubtful accounts	1,186		-529		3,048
Inventory Reserve	540		-512		-2,365
Change in pension and other long-term accruals	2,114		-2,778		-8,285
Losses/(gains) on sale of fixed assets	689		543		471
Debt acquisition costs	328		0		0
Income applicable to minorities	421	54,140	376	50,168	504
	68,811		62,594		73,787
Changes in operating assets and liabilities					
Trade accounts receivable, short-term	17,465		8,352		-17,816
Inventories	3,201		5,463		-1,172
Other current assets	1,069		3,319		-129
Accounts receivable, long-term	61		-936		-788
Trade accounts payable	-2,649		2,531		1,469
Progress payments	268		307		536
Accounts payable due from group companies	-297		-620		-761
Other current liabilities	9,244		-1,096		-2,757
Other accrued expenses	9,773		1,445		7,205
Tax accruals	-2,719		4,936		152
Other deferred items	-1,997	33,419	5,585	29,286	-212
					-14,273
Net cash provided by operating activities	102,230		91,880		59,514
Cash flows from investing activities					
Proceeds from sale of property	0		11,248		0
Proceeds from sale of investments net of cash acquired	-29		0		0
Change in minority interest	119		-431		1,587
Investment net of cash acquired	-139		-43,988		-5,012
Purchase of fixed and intangible assets	9 -54,108		-80,059		-71,324
Disposal of fixed and intangible assets	9 4,766		7,314		5,439
Net cash used in investing activities	-49,391		-105,916		-69,310
Cash flows from financing activities					
Increase/decrease in liquid funds from factoring of accounts receivable	0		-2,971		-751
Changes in financing due to capital lease	3,514		5,105		-2,675
Changes in bank loans: proceeds from borrowing	257,947		45,240		37,380
Changes in bank loans: repayment of debt	-311,873		-27,632		-20,545
Treasury shares	0		0		501
Dividends paid	-145		-1,175		-149
Net cash used in financing activities	-50,557		18,567		13,761
Net change in cash	2,282		4,531		3,965
Net increase/-decrease in cash and cash equivalents	2,282		4,531		3,965
Cash and cash equivalents at beginning of period	13,756		9,225		5,260
Cash and cash equivalents at end of period	16,038		13,756		9,225
<i>Supplemental Disclosures of Cash Flow Information</i>					
- Cash paid on Interest	12,578		17,619		17,212
- Cash paid on Income Taxes	5,141		3,781		1,197

(The accompanying notes are an integral part of these financial statements)

TECHEM AG, CONSOLIDATED INTANGIBLE AND FIXED ASSETS AS OF SEPTEMBER 30, 2003

	Beginning Balance 10. 01. 2002 KEUR	Acquisition Cost				Ending Balance 09. 30. 2003 KEUR
		Current Year Additions KEUR	Change in Consolidation KEUR	Reallocations KEUR	Disposals KEUR	
I. Financial Assets						
1. Investments in affiliated companies	348	0	-101	0	-60	187
2. Long-term loans to affiliated companies	309	0	0	0	0	309
3. Investments at Equity	1,140	173	39	0	-63	1,289
	1,797	173	-62	0	-123	1,785
II. Fixed Assets						
1. Rental Equipment	251,341	35,101	0	0	-19,242	267,200
2. Capital Lease	39,718	5,331	0	0	0	45,049
3. Property, Plant and Equipment						
Property & Plant	8,040	80	0	15	-77	8,058
Technical Equipment	32,350	2,478	0	3,563	-832	37,559
Office Equipment	37,160	5,183	-114	246	-2,329	40,146
Work in Progress	3,140	3,249	0	-3,824	-81	2,484
Subsidies	-288	-3,268	0	0	0	-3,556
	80,402	7,722	-114	0	-3,319	84,691
III. Intangible Assets						
1. Software & Licences	50,288	3,226	-6	7,918	-250	61,176
2. Goodwill						
Energy Services	99,412	0	72	0	0	99,484
Energy Contracting	10,313	0	0	0	0	10,313
IT Services	16,302	479	0	0	-4,572	12,209
3. Other Intangible Assets	6,783	0	72	0	0	6,855
4. EDP Software Work in Progress	6,304	2,224	0	-7,918	0	610
	189,402	5,929	138	0	-4,822	190,647
Total Intangible and Fixed Assets	562,660	54,256	-38	0	-27,506	589,372

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Beginning Balance 10.01.2002 KEUR	Amortization/Depreciation					Ending Balance 09.30.2003 KEUR	Net Book Value	
	Current Year Amort./Depr. KEUR	Change in Consolidation KEUR	Reallocations KEUR	Disposals KEUR	09.30.2003 KEUR		09.30.2002 KEUR	
241	0	0	0	-57	184	3	107	
309	0	0	0	0	309	0	0	
107	133	0	0	0	240	1,049	1,033	
657	133	0	0	-57	733	1,052	1,140	
115,140	30,270	0	0	-15,410	130,000	137,200	136,201	
34,304	1,965	0	0	0	36,269	8,780	5,413	
2,900	898	0	2	-4	3,796	4,262	5,140	
10,681	3,280	0	-161	-262	13,538	24,021	21,669	
20,597	4,730	-59	159	-1,909	23,518	16,628	16,563	
1	0	0	0	0	1	2,483	3,139	
0	-703	0	0	0	-703	-2,853	-288	
34,179	8,205	-59	0	-2,175	40,150	44,541	46,223	
17,424	11,961	-2	0	-57	29,326	31,850	32,864	
29,018	0	0	0	0	29,018	70,466	70,394	
6,177	0	0	0	0	6,177	4,136	4,136	
2,030	1,974	0	0	-3,588	416	11,793	14,272	
124	506	0	0	0	630	6,225	6,659	
0	0	0	0	0	0	610	6,304	
54,773	14,441	-2	0	-3,645	65,567	125,080	134,629	
239,053	55,014	-61	0	-21,287	272,719	316,653	323,606	

TECHEM AG

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2003, 2002 AND 2001

The accompanying consolidated financial statements represent the accounts of Techem AG and its subsidiaries ("the Company" or "Techem Group"). All amounts are stated in thousand Euro (KEUR) unless mentioned otherwise.

1 Basis of Presentation

The consolidated financial statements have been prepared in accordance with the United States generally accepted accounting principles ("U.S. GAAP"). According to the German Commercial Code ("HGB"), Techem Group, since it is listed on the German Stock Exchange, is exempt from publishing consolidated financial statements according to German generally accepted accounting principles ("German GAAP"). The consolidated financial statements have been prepared in accordance with the EC 7th Directive based on the interpretation of the Directive by the German Accounting Standards ("GAS") 1 'Exempting consolidated financial statements in accordance with § 292a of the German Commercial Code' issued by the German Accounting Standards Committee ("GASC").

Local GAAP varies in several respects from U.S. GAAP. Since the Group maintains its books and records in local GAAP, certain adjustments are recorded to convert to U.S. GAAP for preparation of the consolidated financial statements. These adjustments primarily relate to deferred taxes due to deductible temporary differences and tax losses carried forward, accounting for capital leases, accounting treatment of pensions, early retirements, treasury shares, financial instruments, business combinations, intangible assets and capitalization of internally developed software.

Techem Group. In November 1999 the shareholders of the former Techem Beteiligungs GmbH decided to transform the Group into a Corporation under German law ("Aktiengesellschaft") with the name Techem AG; located in Eschborn, Germany, since March 01, 2002. Since February 2000 Techem shares are traded on the German Stock Exchange.

Description of Business. The Techem business consists of three segments, ENERGY SERVICES, ENERGY CONTRACTING, and IT SERVICES. The main market of Techem is Germany, with Western and Eastern Europe increasing in importance.

The segment ENERGY SERVICES consists of the following four areas:

- The Techem Group provides its customers, mainly the housing and real estate industry, with measurement, allocation, and billing of energy and water consumption. Results from operations are subject to a seasonal business cycle in reading and billing of energy and water.
- The Techem Group distributes consumption meters, heat cost allocators (“HKV”), and water meters. The Group’s advanced technology successfully provides the market with meters which enable remote reading. The respective devices can be bought or rented by the customers. Rental contracts for HKV (mainly electronic heat cost allocators, “EHKV”) expire after eight years for contracts entered into prior to 1994, and after ten years for contracts entered into at a later date. Rental contracts for warm water and consumption meters are for a five year term, and six years for cold water meters.
- Techem Group provides maintenance services for its devices. Maintenance of rental devices is covered by the contract. For devices that are sold, the maintenance service provided by Techem is based on a separate maintenance contract with the customer.
- The business area home automation offers a technically advanced wireless system for energy consumption control and reduction. Features include wireless intrusion alarm and fire detection systems. The wireless system assisto is suitable for family houses as well as for apartment houses.

ENERGY CONTRACTING is characterized as follows:

- Techem manages and maintains energy providing facilities on behalf of the customer. Gas, oil, district heating, and electricity are provided; installations are maintained. In the past ten years, Techem has established itself as a market leader in providing solutions for energy contracting for building facilities of all types throughout Germany.

IT SERVICES consists of the following main areas:

- WODIS is a modular software for real estate management exceeding 1,000 units.
- WIB-Consulting, a part of the WODIS group, provides individual customized consulting to optimize real estate management.

Adoption of IAS/IFRS. In 2001 the European Commission passed a regulation which requires European consolidated companies quoted on the stock exchange to account in compliance with the “International Financial Reporting Standards”, IFRS (former “International Accounting Standards”, IAS). Adoption of IAS/IFRS has to take place by 2005.

The Group plans to publish its first consolidated financial year-end report in accordance with IAS/IFRS on September 30, 2004. To accomplish this, the Company launched an IAS/IFRS project in April, 2003. The main differences between US GAAP and IAS/IFRS recognized so far relate to the following: assessment of long-term accruals, assessment of pension obligations and the resulting actuarial gain/loss, accounting for revenue recognition of billings in process, business acquisitions and subsidies. In connection with the transition to IAS/IFRS, the Company has started a project for optimizing and integrating the business’s structure of the profit and loss statement in its financial systems. This has no impact on EBIT.

Principles of Consolidation. The consolidated financial statements include the accounts of Techem AG and its significant majority-owned domestic and foreign subsidiaries. Investments of 20 percent to 50 percent ownership in which the Group has a significant influence are accounted for using the equity method. All significant intragroup balances and transactions have been eliminated.

2 Significant Accounting Policies

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Following is a list of subsidiaries and investments which are accounted for using the purchase or equity method of accounting:

	Equity Ownership %	Equity EUR	Net income EUR	Revenue EUR	EBIT EUR
Techem Energy Services GmbH & Co. KG, Eschborn/Germany ¹	100.00	39,574,105	45,191,196	311,546,178	52,835,886
Techem Geschäftsführungs GmbH, Eschborn/Germany	100.00	15,266	1,105	0	-82,811
Techem Development GmbH, Eschborn/Germany	100.00	30,747,670	1,276,886	24,858,724	-4,376,769
Techem International GmbH, Eschborn/Germany	100.00	2,659,475	1,924,981	143,121	-3,767,398
Techem Energy Contracting GmbH, Eschborn/Germany	100.00	1,524,417	-158,882	37,746,299	2,528,907
assisto Leasing GmbH, Eschborn/Germany	100.00	-25,334	-35,854	211,639	-35,250
Veridis Software Systems GmbH, Bielefeld/Germany	70.00	621,422	373,407	2,215,596	596,908
Techem Leasing GmbH & Co. oHG, Grünwald/Germany (i.L.) ²	95.00	37,027	-	-	-
EL-ME AG, Au/Germany ⁶	25.00	2,404,441	693,000	22,405,000	1,309,000
WODIS GmbH, Dortmund/Germany	100.00	15,635,943	-	6,819,933	-3,401,753
WIB Consult GmbH, Dortmund/Germany ³	88.00	13,115	-62,822	385,179	-46,326
EMS Energie Management Service GmbH, Stuttgart/Germany ⁶	33.00	61,874	675	0	-243
Techem Messtechnik Ges.m.b.H., Innsbruck/Austria	66.67	8,345,145	1,093,540	12,100,767	1,831,441
Techem Wassertechnik Ges.m.b.H., Wels/Austria	66.67	201,989	71,098	1,409,959	100,770
Techem Energy Contracting Ges.m.b.H., Vienna/Austria ⁴	83.66	441,528	-653,040	250,961	-571,334
Techem Energy Services B.V., Breda/Netherlands	100.00	349,889	130,824	2,186,111	168,471
Techem (Switzerland) AG, Zurich/Switzerland	100.00	2,363,912	945,337	10,172,794	1,066,694
Techem Techniki Pomiarowe Sp.z.o.o., Poznan/Poland	100.00	1,039,391	-418,825	3,861,276	34,124

	Equity Ownership %	Equity EUR	Net income EUR	Revenue EUR	EBIT EUR
Inwestor, Glogow/Poland ²	5.00	–	–	–	–
Techem S.r.l., Bolzano/Italy	100.00	57,868	2,967	768,121	22,877
Techem Kft., Budapest/Hungary	100.00	508,315	14,552	1,914,818	111,304
Techem Services Einzel e.o.o.d., Sofia/Bulgaria	100.00	2,429,698	1,010,674	9,035,769	1,563,408
Techem spol s r.o., Prague/Czech Republic	100.00	1,723,235	431,404	8,202,237	1,252,652
Heitech spol s r.o., Prague/Czech Republic ²	50.00	–	–	–	–
I.G.B. Data spol s.r.o., Ostrava/Czech Republic	100.00	6,776	1,578	155,869	2,317
Techem MätService AB, Lomma/Sweden	100.00	202,387	–430,483	689,443	–563,618
Techem spol s.r.o., Bratislava/Slovak Republic	100.00	465,787	134,716	797,438	156,993
Techem Hellas E.P.E., Athens/Greece	75.00	39,896	–13,321	332,518	–7,130
Techem Calorlux S.à.r.l., Bereldange/Luxembourg	100.00	24,752	1,767	379,926	16,477
Caloribel S.A., Brussels/Belgium	100.00	2,905,442	1,085,713	6,976,712	1,803,534
Techem Energy Services S.R.L., Bucharest/Romania ⁵	100.00	51,232	–46,001	88,270	–28,366
Techem Drecount Utility Service GmbH, Dresden/Germany ⁶	50.00	211,489	–88,511	5,108	–89,363

1 thereof 0.025 percent held by Techem Geschäftsführungs GmbH, Eschborn

2 no significant influence

3 will be merged in FY 2004 with WODIS GmbH after increasing the shares to 100 percent

4 thereof 49 percent held by Techem Messtechnik Ges.m.b.H., Austria

5 new companies

6 at equity

In financial year 2003 the shares of Techem Slovenia in the amount of 66.67 percent were sold for KEUR 30, effective as of October 01, 2002. This has no effect on the group of consolidated companies.

Online HAUSING was merged retrospectively with WODIS GmbH on October 1, 2002.

In financial year 2003 shares of Heitech Prague in the amount of 50 percent were sold for a price of KEUR 3. There is no effect on the group of consolidated companies.

Calortherm AG was merged retrospectively with Techem Switzerland on October 1, 2002.

Changes in the Group of Companies Included in Consolidation. The following changes in the companies being consolidated were made in financial year 2003:

- Techem Energy Services B.V., Breda/Netherlands (former Agpo): Techem International acquired an additional 51 percent of the shares for a purchase price of KEUR 231 on December 6, 2002, and now holds 100 percent of Techem Energy Services B.V. Accordingly it is no longer accounted for at equity, but is fully consolidated since the first quarter of financial year 2003.
- A joint venture between Techem Energy Services and Drecount GmbH & Co. KG, Dresden, was entered into, effective as of January 8, 2003. Each partner holds 50 percent of the shares of Techem Drecount Utility Service GmbH (TDUS), i.e. KEUR 150. TDUS offers services all over Germany for small to medium size waste management and supply companies for reading and billing services, credit collection, call center, measuring data and meter management as well as billing of operating costs. TDUS is accounted for using the equity method.
- This financial statement includes the results of Techem Energy Services S.R.L. Romania, founded in financial year 2003. In order to reflect changes in purchasing power of the Romanian currency, balance sheet and income statement have been restated based on SFAS No. 52.
- HausPerfekt GmbH & Co. KG and HausPerfekt Software Verwaltungs GmbH were sold to the minority shareholders, effective April 9, 2003. The purchase price amounts to EUR 1 respectively, the loss resulting from the transaction equals the impairment loss on intangible assets as reported in the second quarter of financial year 2003.
- The master agreement with Best Accounts Receivable Inc. ("BAR"), Grand Cayman Islands, renewed on April 15, 2003, has been revoked. Accordingly BAR is no longer consolidated.

Recent pronouncements. In November 2002 the Financial Accounting Standards Board ("FASB") issued interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This regulation requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in providing the guarantee. The interpretation applies to guarantees issued or modified after December 31, 2002. For further information on the application of the interpretation, please refer to note 12.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement 123". SFAS No. 148 addresses voluntary transition from APB 25 (measurement of stock options at intrinsic value) to SFAS No. 123 (measurement at fair value). SFAS No. 123 accounts for the granting of stock options as personnel expense. In addition SFAS No. 148 requires comprehensive disclosures. Furthermore, quarterly reports now require the calculation of the fair value of stock option plans. The standard does not affect the accounting and measurement of the Techem Group's stock options. For further information please refer to note 15.

Emerging Issues Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables", published in December 2002, defines the unit of accounting of revenue arrangements of multiple deliverables. EITF Issue No. 00-21 applies to arrangements entered into in financial periods beginning after June 15, 2003. The Company has not determined any significant impact on its consolidated financial position or results of operations.

In January 2003, the FASB issued interpretation No. 46, "Consolidation of Variable Interest Entities", which requires a company to consolidate those entities where it is considered primary beneficiary because of its significant variable interests in those entities. Since the master agreement with BAR, which met the criteria for variable interest entities, has been revoked, there is no need for Techem to consolidate variable interest entities anymore.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This statement amends and clarifies the accounting and reporting for derivative instruments, including embedded derivatives and hedging activities. The provisions of SFAS No. 149 are applicable for financial instruments and hedging relationships entered into or modified after June 30, 2003. The standard has no material impact on Techem Group's accounting for financial instruments.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The statement requires certain financial instruments so far classified as equity to be recognized as liabilities. The types of financial instruments affected are mainly those with a future obligation to repurchase shares. The new standard is applicable for financial instruments entered into or modified after May 31, 2003. The standard has no material impact on Techem Group's result of operation or its financial position.

SFAS No. 146 "Accounting for the Costs Associated with Exit or Disposal Activities" regulates accounting of cost associated with restructuring activities. These costs cannot be accounted for in the planning phase of the restructuring, but only when liabilities are actually incurred. Techem Group applies SFAS No. 146. For further information, please refer to note 21, "Restructuring".

In May 2003 the FASB approved EITF 01-8 "Determining Whether an Arrangement Contains a Lease" which defines criteria determining whether a contract contains a lease or not. According to EITF 01-8 a contract contains a lease if the purchaser gains the direct or indirect authority of disposition over the relevant asset or if the benefit of the relevant asset is primarily used by the purchaser. EITF 01-8 is effective for new contracts in reporting periods beginning after May 28, 2003. EITF 01-8 has no material impact on the result of operations or the financial position of the Techem Group.

Definition of Earnings before Interest and Tax (EBIT). The EBIT definition of Techem Group has been changed to the end of the second quarter of financial year 2003 to exclude investment income. This change of definition has no material impact on the result of operations or the financial position of the company.

Foreign Currency Translation. The functional currency for subsidiaries is the respective local currency. Accordingly, assets and liabilities of foreign subsidiaries are translated using the exchange rates at balance sheet date. Income and expense items of these subsidiaries are translated into Euro at average monthly rates of exchange. The resulting gains or losses due to translation are included as a component of shareholders' equity.

Operational gains/losses from foreign currency transactions are charged/credited to current income.

In order to reflect the changes in the general purchasing power of the Romanian currency, balance sheet and income statement of Techem Energy Services Romania have been restated based on SFAS No. 52.

Earnings per Share. Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing net income applicable to common shareholders by the weighted average number of common and dilutive shares outstanding.

The following table reconciles weighted average shares outstanding to amounts used to calculate basic and diluted earnings per share for fiscal years 2003, 2002 and 2001.

	2003	2002	2001
Average shares outstanding	24,681,139	24,681,139	24,675,335
Effect of dilutive options	0	0	0
Average shares outstanding, adjusted for dilutive effects	24,681,139	24,681,139	24,675,335

Revenue Recognition. Rental and maintenance services are rendered based on fixed-price contracts. Service revenue is either recognized over the respective contract term (rental and maintenance contracts), or as the respective services are provided (service and software project contracts).

Sales represent amounts realized, excluding value-added tax and sales reductions/ discounts. The Group recognizes shipping and handling costs as cost of sales.

The Group's policies with regard to the recognition of revenues are in compliance with the guidance of Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", and Statement of Position ("SOP") 97-2 "Software Revenue Recognition" (as amended by SOP 98-4 and SOP 98-9). These statements require the following four criteria to be met prior to revenue recognition:

Persuasive evidence of arrangement. It is the Techem Group's customary practice to have a purchase order prior to recognizing revenue on an arrangement.

Delivery has occurred. Techem Group recognizes sales of products upon shipment with standard transfer terms. Products shipped with acceptance criteria or return rights are not recognized as revenue until all criteria are achieved. Revenue is only recognized when all essential terms of contract have been fulfilled.

Fixed or determinable price. In all purchase agreements, prices and payment terms are fixed.

Collectibility is reasonably assured. Probability of collection is assessed on a customer-by-customer basis. Customers are subject to credit reviews.

Comprehensive Income. Techem Group has adopted SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income, additional minimum pension liability adjustment, and currency translation adjustment, as presented on the face of the consolidated income statements. The statement SFAS No. 130 requires only additional disclosures in the consolidated financial statements; it does not affect the Group's financial position or results of operations.

Financial Instruments. Techem Group's interest income and expense are hedged against fluctuations by interest swaps.

Even though the use of these instruments economically hedges the interest rate risk mentioned above, the hedging criteria of SFAS No. 133 and SFAS No. 138 are not met.

Therefore these instruments are accounted in the interest income/expense line of the profit and loss statement. The interest swaps are included in the balance sheet item "other current liabilities" based on their actual market value.

For further details please refer to note 19 and note 10.

Cash and Cash Equivalents. The Techem Group considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Trade Accounts Receivable. Accounts receivable are stated at nominal value less allowances for doubtful accounts, based upon foreseeable risks and calculated based on the receivables' ageing structure. In addition, a general allowance of one percent is accounted for.

Since financial year 2003, no bad debt allowance is accounted for unbilled receivables any more. The change is due to the prospective nature of unbilled receivables.

Within the Techem Group, installment sales mainly originate in Eastern Europe. When accounting for installment sales, besides receivables, interest income and deferred interest are recognized. Deferred interest is dissolved to interest income over the term of the contract.

In financial year 2003, an accrual for sales deductions amounting to KEUR 3,400 was recognized for the first time and offset from trade accounts receivable.

Inventories. Inventories are reported at the lower of cost or market value, applying a full cost absorption method using a standard cost approach. The underlying standard costs are reviewed and adjusted on purchase of new goods. A reserve is provided for potential losses on obsolete and slow-moving inventories. Cost is primarily determined on a weighted average basis.

Property, Plant and Equipment. Property, plant and equipment are stated at cost. Major additions and improvements are capitalized, while maintenance and repairs which do not extend the lives of the assets are expensed as incurred. Gain/loss on disposal of property, plant and equipment is recognized as income/expense when realized.

Depreciation and amortization are calculated mainly using the straight-line method over the estimated useful life in years:

	Expected useful life in years
Software licenses	4 to 10
Machinery and equipment	3 to 13
Buildings	20 to 25
Other (i.e. Customer relations etc.)	5 to 20
Leasehold improvements	Lower of life of lease/ useful life

Leasing. Leasing fees of operating lease contracts where Techem is lessee are expensed in the profit and loss account.

In case of rental equipment Techem is lessor. The respective assets are capitalized, depreciation and proceeds of rental equipment are accounted for affecting net income. Depreciation periods range between six and twelve years, based on the useful life of the corresponding asset.

Assets of capital lease contracts are capitalized at the lower of fair value or present value of the minimum lease payments. A corresponding liability is recorded. These assets are depreciated over the leasing period. A portion of the lease payments is allocated to interest expense, the remaining portion reduces leasing liabilities.

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Business Acquisitions. During financial years 2003, 2002 and 2001 the Group completed the following acquisitions; all were accounted for using the purchase method of accounting:

Company	Date	Ownership in %	Owner	Purchase Price EUR million
HausPerfekt	Jan. 01	80%	Techem Energy Services GmbH & Co. KG	3.9
I.G.B.	Jun. 01	100%	Techem Czech Republic	0.2
Calorlux	Jun. 01	100%	Techem International GmbH	0.4
energoss	Jul. 01	100%	Techem Energy Services GmbH & Co. KG	0.3
online HAUSING	Jul. 01	100%	Techem Energy Services GmbH & Co. KG	0.2
EMS	Oct. 01	33%	Techem Energy Contracting GmbH	0.2
WODIS Group	Jan. 02	100%	Techem Development GmbH	22.5
Caloribel	Jan. 02	100%	Techem Energy Services GmbH & Co. KG	16.0
Lignotherm	Mar. 02	100%	Techem Energy Contracting GmbH	0.5
Niersberger	May 02	100%	Techem Energy Contracting GmbH	3.4
Techem Breda	Dec. 02	100%	Techem International GmbH	0.2
TDUS	Jan. 03	50%	Techem Energy Services GmbH & Co. KG	0.15

Goodwill and Fair Market Value of Assets and Liabilities Acquired. The excess of the purchase price of the acquired company over the fair market value of net assets acquired, recognized intangibles and capitalized development cost is recorded as goodwill.

Assets and liabilities are recorded at fair value on the date of acquisition.

Until the end of the financial year 2002, goodwill resulting from business acquisitions before July 2001 was amortized on a straight-line basis. If goodwill was found to be impaired, an extraordinary amortization was recorded. In financial year 2003, applying SFAS No. 142, goodwill is no longer amortized on a straight-line basis but tested for impairment at least annually on "reporting unit", i.e. segment level. Upon first-time application, impairment resulting from this evaluation is recorded as a result of changes in accounting principles.

For further information on the results of the initial impairment test in financial year 2003, please refer to note 9.

FINANCIAL YEAR 2002:**Acquisition of WODIS Group.**

The goodwill of the companies acquired in financial year 2002 is subject to the new regulations. In the case of WODIS, EUR 10.7 million were recognized as goodwill, and EUR 11.4 million were allocated to other intangible assets (EUR 9.9 million software, and EUR 1.5 million to customer contracts). Software is an asset which can be sold separately. Customer contracts generate a recurring cash flow which can be evaluated. The software is amortized on a straight-line basis over five years, the customer contracts' amortization period is ten years.

An amount of KEUR 767 to be paid to the former owners of the WODIS Group is no longer outstanding. The former owners paid an amount of KEUR 433 to the Company, decreasing the goodwill of WODIS by the same amount.

No deferred tax liabilities result from the acquisition, since the intangible assets identified were equally treated in the tax books.

A portion of the goodwill resulting from the acquisition, amounting to EUR 3.2 million, is tax deductible and is amortized for tax purposes over a period of 15 years.

Techem Group acquired an additional twelve percent of the shares of WIB Consult for a purchase price of KEUR 6 on September, 2003, and will increase its shares to 100 percent in financial year 2004.

Acquisition of Caloribel S.A.

The goodwill resulting from the acquisition of Caloribel amounts to EUR 10.0 million. Three groups of intangible assets have been recognized as separable assets: software (EUR 0.6 million, amortization period five years), customer contracts (EUR 3.1 million, amortization period ten years) and customer relations (EUR 3.7 million, amortization period 20 years). The software is also used by another subsidiary of the Group and therefore is a separable asset, the customer contracts have a legal basis and generate recurring cash flows. The evaluation of the customer relationships is based on past experience when customers also made use of the services of Caloribel without a contractual basis, as was common in the billing service sector.

In accordance with SFAS 109, long-term deferred tax liabilities amounting to EUR 2.8 million were accounted for, relating to the recognized intangible assets. The goodwill resulting from the acquisition is not tax deductible.

Sundry business acquisitions.

In connection with the acquisition of Lignotherm, no goodwill was recognized and EUR 0.2 million were capitalized as customer contracts, being amortized over ten years.

In connection with the acquisition of Niersberger, no goodwill was recognized and EUR 3.4 million were capitalized as customer contracts, being amortized over 15 years.

The companies Lignotherm and Niersberger were merged with Techem Energy Contracting GmbH subsequent to the acquisition.

FINANCIAL YEAR 2003:

The goodwill resulting from the increase of shares of Techem Energy Services Breda by 51 percent up to 100 percent amounts to KEUR 51. KEUR 36 were recognized as customer contracts and customer relations. Because of the comparability of the business with Caloribel, the same prerequisites of capitalization are applicable.

Amounts and allocations of costs recorded may require adjustments based upon information coming to the attention of the Group that is not currently available.

Information with respect to changes in the Group's goodwill is presented in the Consolidated Intangible and Fixed Assets Schedule included herein.

The regular amortization of intangibles resulting from business acquisitions for the following five years is as follows:

	2004	2005	2006	2007	2008
Amortization	881	879	684	655	561

Impairment of Long-Lived Assets.

The Group applies the provisions of SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of". This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less disposition cost.

Deferred Taxes.

Deferred taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating losses and carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities is recognized in income in the period which includes the enactment date.

Concentration of Credit Risk.

The Group provides services to a wide range of clients who operate in various industry sectors and geographic areas. The Group grants credits to qualified clients and believes it is not exposed to undue concentration of credit risks to any significant degree.

Intercompany Transactions.

Related party transactions are priced at arm's length.

Events subsequent to balance sheet date.

As of October 2, 2003, Techem Group increased its shares of WIB Consult by twelve percent to a total of 100 percent for a purchase price of KEUR 6.

Use of Estimates.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Corporate Governance.

Pursuant to the German Joint Stock Corporation Act ("AktG"), §161 and §15 EG AktG, the Techem Board of Directors and Supervisory Board have issued a declaration of general compliance and have granted shareholders permanent access to this declaration available on the Techem Group's homepage.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED BALANCE SHEETS

3 Trade Accounts Receivable

	2003	2002
Trade accounts receivable, gross	47,028	58,487
Allowance for doubtful accounts	-8,828	-5,560
Trade accounts receivable, net	38,200	52,927

4 Unbilled Receivables

Unbilled receivables represent sales realized on rental equipment and maintenance contracts which are billed annually. Services have been rendered but have not been invoiced as of balance sheet date.

	2003	2002
Unbilled receivables, gross	110,993	106,109
Allowance for doubtful accounts	-	-2,102
Unbilled receivables, net	110,993	104,007

5 Other Receivables

	2003	2002
Tax receivables	2,375	2,599
Advance payments	1,409	585
Receivables from employees	95	250
Guarantee deposit BAR	-	6,136
Other	5,100	4,765
Other receivables	8,979	14,335

6 Inventories

Inventories consist of the following:

	2003	2002
Raw materials	600	981
Work in process	4,996	3,728
Finished goods and supplies	22,212	26,092
Inventories, gross	27,809	30,801
Inventory reserve	-1,565	-1,025
Inventories, net	26,243	29,776

Financial assets comprise the following:

7 Financial Assets

	2003	2002
Techem Energy Services, Breda	0	84
EL-ME	916	805
EMS	10	144
TDUS	123	–
Investment in associated companies	1,049	1,033
Loans to associated companies	–	–
Other financial assets	3	107
Financial assets	1,052	1,140

During the years 1992 to 1994 the Group entered into three sale and lease-back transactions. The subject of these contracts are sale and lease-back of electronic heat cost allocators (“EHKV”) for a period of eight years. According to SFAS 13, “Accounting for leases”, these leases qualify as capital leases.

8 Capital Lease

The profit realized between 1992 and 1994 due to the sale of the respective devices, amounting to EUR 12.1 million, was deferred and depreciated in proportion to depreciation of the leased assets. In financial year 2002, capital lease transactions expired; the Leasing oHG will be dissolved.

In 2002, a new line, property, plant and equipment under capital lease, was added. It contains the following two groups of assets for financial year 2003, which have been leased by Techem:

- Office equipment and IT hardware in the Group’s new headquarters amounting to KEUR 7,731 have been capitalized. Depreciation is accounted for on a straight-line method over the leasing periods, which vary from three to five years.
- Production equipment amounting to KEUR 1,049 has been capitalized. Depreciation is accounted for on a straight-line method over the leasing periods, which vary from five to twelve years.

The balance sheet treatment of the two leased items is shown in the table that appears below.

	2003	2002
Lease equipment, net	8,780	5,413
Current liabilities	2,945	2,054
Long-term liabilities	6,062	3,439

9 Property, Plant and Equipment; Rental Equipment; Intangible Assets

Information with respect to changes in the Group's property, plant and equipment, rental equipment, and intangible assets is presented in the consolidated intangible and fixed assets schedule included herein.

The net book value of the building of the Techem Group in Berlin was adjusted by EUR 1.3 million in August, 2002, to reflect the lower fair market value, based on an appraisal report. The decrease in value is due to the negative trend on the real estate market in Berlin. In financial year 2003 additional KEUR 678 were written off.

In financial year 2003, a heat providing facility in the Czech Republic, originally recorded at a book value of KEUR 440, was adjusted by 85 percent due to insolvency of the main customer.

Intangible Assets. Intangible assets generally consist of goodwill, software, licenses, customer contracts and customer relations.

The following extraordinary amortization was made in financial years 2003, 2002, and 2001:

Financial year 2001: For strategic positioning, the Group increased its shares in online HAUSING in July 2001 from 70 percent to 100 percent. The resulting goodwill of 0.2 million EUR was identified to be impaired and written off.

Financial year 2002: Based on an impairment test, a portion of the goodwill of HausPerfekt amounting to 1.0 million EUR was found to be impaired and written off.

Financial year 2003: The Techem Group initially adopted SFAS No. 142 "Goodwill and Other Intangible Assets," in financial year 2003. The transitional goodwill impairment test required upon introduction of the statement was finalized by Techem Group in the second quarter of financial year 2003. An impairment of HausPerfekt of KEUR 1,077 (KEUR 1,495 less tax of KEUR 418) resulting from this evaluation is recorded as a result of changes in accounting principles. The goodwill of the remaining businesses acquired was tested for impairment and found to be of value.

	2003	2002	2001
Pro forma disclosure of goodwill amortization:			
Net income as reported	14,671	12,426	13,079
Add back: Goodwill impairment and regular amortization	1,974	7,532	7,323
Adjusted net income	16,645	19,958	20,402
Earnings per share in Euro, as reported	0.59	0.50	0.53
Add back: Goodwill impairment and regular amortization	0.08	0.31	0.30
Adjusted earnings per share in Euro (basic/diluted)	0.67	0.81	0.83

Due to strategic changes in the business segment IT Services, intangibles assets of KEUR 721 relating to HausPerfekt were identified as impaired and written off in the second quarter of financial year 2003. The software developed by HausPerfekt and the software online HAUSING have been fully written off by an amount of KEUR 395 and KEUR 237 respectively.

Due to delayed market trends, the targeted sales of assisto will develop in the following years. Accordingly the net book value has been adjusted by EUR 1.1 million in financial year 2003.

Bank Overdrafts and Borrowings, Current:

	2003	2002
Current portion of long-term loans	35,809	231,691
Bank overdrafts	27	52,166
Deferred capital procurement cost	-832	-
Bank overdrafts and borrowings	35,004	283,857

10 Bank Overdrafts and Borrowings; Bank Loans

The decrease in current bank liabilities and the simultaneous increase in long-term bank liabilities result from the new financing agreement entered into in financial year 2003. For further information, please refer to the note "Financing Agreement" below.

Bank loans, long-term:

This item only includes long-term loans which are allocated as follows for the respective years 2003 and 2002:

	2003	2002
1–5 years	234,941	31,775
> 5 years	1,452	6,957
Interest percent p.a.	3.75 – 7.35	4.4 – 7.75
Deferred capital procurement cost	–3,052	–
Total long-term	233,341	38,732

The interest rate for EUR 230 million of long-term bank liabilities amounts to 3.75–3.87 percent. In financial year 2002, the interest rate for EUR 21 million amounted to 5.45 percent, and to 4.485 percent for EUR 9.4 million.

Additionally, the Group has Czech currency bank liabilities of KEUR 2,295 (current) and of KEUR 1,885 (long-term). Interest rates range from 4.99 to 7.15 percent.

Financing Agreement. In financial year 2003, a new financing agreement for a period of five years, amounting to EUR 350 million, was signed by a bank consortium led by Dresdner Kleinwort Wasserstein. The arrangement fee of KEUR 4,212 is offset from bank liabilities in the balance sheet and amortized to interest expense over the term of the contract.

The financing contract consists of the following three tranches:

1. An amortizable loan of EUR 150 million; repayments of EUR 15 million scheduled every six months, starting on November 30, 2003.
2. A bullet term loan of EUR 70 million.
3. A bullet revolving facility of EUR 90 million maximum (EUR 40 million at balance sheet date).

The margin for these tranches amounts to 100 to 165 points over EURIBOR depending on the senior leverage, i.e. net senior debt in relation to EBITDA, of 1.5 to 3.0.

The financing agreement is secured by trade receivables including unbilled receivables, rental equipment and German inventories.

The master agreement with BAR whereupon receivables resulting from device rental contracts in the amount of up to EUR 204.5 million could be sold to BAR, was cancelled on April 15, 2003, and at the same time renewed at a reduced volume (factoring of receivables of EUR 50 million to 90 million). The renewed contract was revoked on September 16, 2003.

Interest swaps arranged in connection with this financing agreement have a nominal value of KEUR 210,000. Their fair value amounted to KEUR -1,699 on September 30, 2003.

The following table details other current liabilities:

11 Other Current Liabilities

	2003	2002
Tax liabilities	15,481	4,590
Social security	3,489	3,190
Salaries and wages	361	375
Commission	3,345	3,803
Other	5,913	6,455
Total	28,589	18,413

Other accrued expenses comprise the following:

12 Other Accrued Expenses

	2003	2002
Other accrued expenses, current	27,274	16,914
Accruals for maintenance contracts, current	10,221	10,949
Total accruals, current	37,495	27,863
Other accrued expenses, long-term	719	111
Accruals for maintenance contracts, long-term	26,133	24,722
Total accruals, long-term	26,852	24,833

Accruals for maintenance contracts account for the exchange of devices subject to maintenance contracts. Accruals are split into a long-term and a current portion, depending on the remaining life of the contract. The current portion represents the contracts which expire within a year.

Other accrued expenses, current, consist of the following positions:

	2003	2002
Personnel and consulting	16,191	8,645
Legal fees	330	334
Commissions	178	240
Guarantee	805	535
Other	9,770	7,160
Total other accrued expenses, current	27,274	16,914

The amount of KEUR 9,770 of other accrued expenses includes the following new items in financial year 2003: an accrual for rented facilities on Gutleutstraße in Frankfurt am Main not being used as a result of restructuring the Techem Group, and an accrual for potential expenses in connection with the pseudo self-employment act ("Gesetz zur Bekämpfung der Scheinselbstständigkeit").

The accrual for guarantee is calculated and accounted for by projecting the relation of prior year expense to prior year sales on current year. Techem grants two years guarantee on its devices.

13 Pension Accruals

The Group sponsors pension plans covering management of Techem Energy Services and Techem AG. The pension plans are based on a special benefit plan for each member of the board of directors.

Consistent with German practice, the pension plan is not funded. Pension costs are recorded based on independent actuarial valuations. Pension benefits under German plans are generally based on a percentage of the employees' compensation for each year of credited service.

The following table contains a reconciliation of the changes in the benefit obligation and the funded status for the respective reporting periods:

	2003	2002
Benefit obligation, beginning balance	11,886	12,753
Service cost	65	148
Interest cost	695	747
Actuarial (gain) loss	-70	-1,140
Benefits paid	-679	-622
Benefit obligation, ending balance	11,897	11,886
Funded status	-11,897	-11,886
Unrecognized net (gain) loss	1,211	1,311
Net amount recognized	-10,686	-10,575
Amounts recognized in the statement of financial position consist of:		
Prepaid benefit cost	0	0
Accrued benefit liability	-11,652	-11,560
Intangible assets	0	0
Accumulated other comprehensive income	966	985
Net amount recognized	-10,686	-10,575

Additionally, KEUR 603 relate to pension accruals recorded in two Austrian companies of Techem Group. Cumulative other comprehensive income is amortized over a period of 15 years.

Principal weighted assumptions used in determining projected benefit obligation are as follows:

	2003	2002
Discount rate	5.5 %	6.0 %
Increase in compensation	2.5 %	3.0 %
Increase in pension payments	1.25 %	1.5 %

The components of net periodic pension cost are as follows:

	2003	2002
Service cost	65	148
Interest cost	695	747
Actuarial (gain) loss	31	115
Net periodic pension cost	791	1,010

**14 Other Deferred Items,
long-term**

The amount of KEUR 592 of deferred items includes KEUR 383 resulting from deferred interest on installment sales recorded by Techem Poland and KEUR 209 miscellaneous deferred items. Installment sales range from two to eight years. The amount of KEUR 2,028 reported in this balance sheet line in financial year 2002 relates to a subsidy which is used for a facility operating over several years and is deducted from fixed assets in financial year 2003.

15 Shareholders' Equity

Share Capital

The share capital as of September 30, 2003 amounts to EUR 24,681,139; representing 24,681,139 ordinary bearer shares.

Authorized Capital

The Board of Directors is authorized, subject to consent of the Supervisory Board, to increase the share capital of the Group, until March 26, 2007, in one or more tranches, up to an aggregate amount not exceeding EUR 5,365,465, through the issuance of new shares against cash contribution or against contribution in kind. Under certain defined conditions and with the consent of the Supervisory Board, the Board of Directors may exclude the shareholders' pre-emptive rights.

Treasury Stock

The Board of Directors is authorized to repurchase shares of the Techem AG up to an amount of EUR 2,468,113. The repurchase can be executed in parts or in total, at one time or at various times. The authorization to repurchase shares expires on September 21, 2004.

Other than selling the shares on the stock exchange, the Board of Directors, subject to the consent of the Supervisory Board, is authorized to act as follows:

- a) in connection with the acquisition of a company, to offer shares to a third party;
- b) withdraw shares from the market, while at the same time reducing share capital, without the additional approval of a shareholders' meeting.

Significant Shareholders

The share capital as of September 30, 2003, is held as follows:

	2003		2002	
	EUR	%	EUR	%
Shares issued at the stock market	13,656,417	55.33	16,888,322	68.43
Jupiter Asset Management Limited, London	3,452,470	13.99	–	0.00
Felten Vermögensverwal- tungs GmbH, Frankfurt am Main	3,085,143	12.50	–	0.00
Ott Vermögensverwaltungs GmbH, Frankfurt am Main	3,085,143	12.50	–	0.00
Capital Group Companies Inc., Los Angeles	1,273,168	5.16	1,273,168	5.16
Fr. Felten, Frankfurt am Main	68,698	0.28	3,249,143	13.16
Hr. Schamoni, Frankfurt am Main	59,900	0.24	59,900	0.24
Hr. Zuschke, Hamburg	200	0.00	2,200	0.01
Hr. Dr. Ott, Elsbethen-Glasenbach	0	0.00	3,085,143	12.50
Hr. Grüschow, Neu-Isenburg	–	0.00	115,845	0.47
Fr. Schmidt, Schwalbach am Taunus	–	0.00	3,970	0.02
Hr. Schmidt, Schwalbach am Taunus	–	0.00	3,448	0.01
Total	24,681,139	100.00	24,681,139	100.00

Payment of Dividends

The basis for payment of dividends is the accumulated retained earnings shown in the Techem AG annual statutory unconsolidated accounts. As of September 30, 2003, the company's German statutory unconsolidated accounts state accumulated earnings amounting to KEUR 79,374 (2002: KEUR 70,549).

Undistributed earnings are taxed at 26.5 percent. As long as the legal reserve and the investment reserve of the statement according to commercial law do not exceed ten percent of the capital subscribed in total, payment of dividends is prohibited by law.

The Board of Directors proposes no payment of dividends for financial year 2003 of the Techem AG's accumulated earnings to the shareholders.

In financial year 2003, KEUR 145 (2002: KEUR 145) were distributed to minority shareholders of Techem Messtechnik GmbH Austria. Minority shareholders of Veridis Software Systeme GmbH received no payment of dividends in financial year 2003 (KEUR 1,030 in 2002).

Stock Options

Stock Option Plan I

A conditional share capital increase was resolved in February 2000 to grant subscription rights to members of management, and to implement the stock option plan explained below.

In March 2000, Techem Group adopted a stock option plan which provides for the granting of up to 1,609,624 shares of Common Stock to officers and key employees of the Group. Under the option plan, options granted approximate market value of the shares at the date of the grant. Such options vest at the end of a three year period commencing at the date of grant; the life of the option amounts to a maximum of three years. The term of the option plan is for eight years.

During the term of the stock option plan, a certain portion of the subscription rights (tranches) out of the total volume of the stock option plan may be issued annually to the beneficiary. No tranche may exceed 43.33 percent of the total options covered in the plan. The individual annual tranches of subscription rights will be issued each year within a period of eight weeks after the annual shareholders' meeting of Techem Group. The first tranche was issued on March 1, 2000, the second tranche on April 9, 2001 and the third tranche on April 4, 2002.

Up to fifty percent of the subscription rights may be exercised respectively, if one of the following two independent performance targets are achieved after the three year vesting period:

- The market price of the Techem Group's shares has increased by an accumulative annual average of at least seven percent between grant and exercise date.
- The market price of the Techem Group's shares develops at least equal to the M-DAX, or out-performs the M-DAX between grant and exercise date.

Since the performance targets were not achieved at balance sheet date, no compensation expense was recognized as of September 30, 2003.

Stock Option Plan II

In March 2001, Techem Group adopted a second stock option plan with conditional capital increase which provides for the granting of up to 436,716 shares of common stock to officers and key employees of the Group. Under the option plan, options granted approximate market value of the shares at the date of the grant. Such options vest at the end of a two-year period commencing at the date of grant; the life of the option amounts to a maximum of three years. The term of the option plan is for five years.

Up to fifty percent of the subscription rights may be exercised respectively, if one of the following two independent performance targets are achieved after the two year vesting period:

- The market price of the Techem Group's shares in Xetra in the closing auction increases by an accumulative annual average of at least 7 percent between grant and exercise date.
- The market price of the Techem Group's shares develops at least equal to the M-DAX, or out-performs the M-DAX at exercise date.

The option was granted on June 1, 2001.

Since the performance targets were not achieved at balance sheet date, no compensation expense was recognized as of September 30, 2003.

The Group has adopted the disclosure provisions of SFAS No. 123, but opted to remain under the expense recognition provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for options granted under the stock option plans described above. Both stock option plans are variable plans. Had compensation expense for options granted under the plan been determined based on fair value at the grant dates in accordance with SFAS No. 123, the Group's charge to income for the year ending September 30, 2003 would have been KEUR 2,100. Net income and earnings per share would have been reduced to the pro forma amounts shown below:

	2003	2002
Net income		
As reported	14,671	12,426
Costs of stock options, after tax	1,247	1,938
Pro forma	13,424	10,488
Earnings per share		
As reported	0.59	0.50
Pro forma	0.54	0.42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The movement in options outstanding during financial years 2003 and 2002 is summarized in the following table:

	Number of options	Weighted average exercise price EUR
Outstanding at September 30, 2001	1,373,746	26.07
Granted during the period	667,404	16.31
Exercised during the period	–	–
Forfeited during the period	–	–
Expired during the period	150,783	26.35
Exercisable at September 30, 2002	–	–
Outstanding at September 30, 2002	1,890,367	22.56
Granted during the period	–	–
Exercised during the period	–	–
Forfeited during the period	–	–
Expired during the period	222,486	21.59
Exercisable at September 30, 2003	–	–
Outstanding at September 30, 2003	1,667,881	22.68

The weighted average fair value of options granted was estimated using the Black-Scholes stock option pricing model. The following weighted average assumptions were used:

	2003	2002
Risk free interest rate	–	4.25 %
Dividend yield	–	none
Annual standard deviation (volatility)	–	22.7 %
Expected life	–	3 years
Fair value of options granted	–	EUR 4.12
Exercise price of options granted	–	EUR 16.31

In financial year 2003, no options were granted.

The following table summarizes the information about the stock options outstanding at September 30, 2003:

Range of exercise prices EUR	Number	Weighted average exercise price EUR	Weighted average remaining contractual life
16	568,053	16.31	4.51
19	354,626	19.00	2.42
29-30	745,202	29.30	3.12
Total	1,667,881	22.68	3.44

Currency Translation Adjustment

The change in the currency translation adjustment within shareholders' equity is as follows:

	Beginning 10.01.2002	Change 2003	Ending 09.30.2003
Currency translation adjustment	171	-276	-105

In financial year 2003 Herr Enzelmüller (as of January 1, 2003), Herr Pattberg (as of August 1, 2003) and Herr Wunderlich (as of August 12, 2003) were appointed to the Board of Directors of Techem Group. Herr Schmidt resigned as of July 31, 2003. The compensation received, consisting of salary and bonus, is as follows (KEUR):

16 Transactions with Related Parties

	2003				2002		
	Salary	Bonus	Other	Number of options granted	Salary	Bonus	Number of options granted
Herr Böhm (as per Sept. 30, 2001)						120	
Herr Dannheimer*				385,772	2,076	239	385,772
Herr Enzelmüller	312						
Herr Pattberg	30						
Herr Schamoni	364	98	250	210,324	261	180	210,324
Herr Schmidt**	1,101	65			212	120	210,324
Herr Wunderlich	41						
Total:	1,848	163	250	596,096	2,549	659	806,420

* This amount includes a severance payment of KEUR 1,790 in FY 2002.

** This amount includes a severance payment of KEUR 840 in FY 2003.

The bonuses relate to EBIT performance goals achieved in the respective prior year.

596,096 stock options are granted to current and former members of the board of directors.

The shareholder Herr Grüşchow, a member of the Supervisory Board since November 1999, retired on August 12, 2003. Herr Grüşchow holds 16.67 percent of Techem Messtechnik Ges.m.b.H., Austria, and indirectly 8.17 percent of Techem Energy Contracting Ges.m.b.H., Austria, since August 2002. In financial year 2003, he received a dividend of KEUR 72.5.

The Group extended an offer to Herr Grüşchow to acquire his shares of Techem Messtechnik Ges.m.b.H., Austria, for EUR 3.2 million. The offer expires on April 30, 2004.

Professor Ziegler was elected as the successor of Herr Grüşchow to the Supervisory Board on August 12, 2003. Professor Ziegler is also a member of the Supervisory Board of Hydrometer GmbH, a main supplier of Techem. Gross sales of Hydrometer GmbH to Techem amounted to KEUR 23,697 in financial year 2003.

Resulting from Techem's license agreements with Prof. Ziegler, he received license fees and compensations amounting to KEUR 288 in financial year 2003. Furthermore, for research and development activities, an amount of KEUR 15 was paid to the physics department of the University of Paderborn, which is headed by Prof. Ziegler.

The annual general meeting in March 21, 2003, appointed Herr Dr. Bender, chairman of the Board of Directors of Fraport AG, to the Supervisory Board of Techem.

The total compensation of Supervisory Board members amounts to:

EUR	Compensation	Travel	Comm- nication	Car	Other
Herr Grüşchow (until August 2003)	43,289	6,393	517	12,580	65,067
Herr Zuschke	25,000	–	–	–	–
Herr Dr. Otto (until November 2002)	2,877	–	–	–	–
Herr Bieler	26,713	–	–	–	–
Herr Dr. Bender (since March 21, 2003)	13,288	–	–	–	–
Herr Dr. Ott	25,000	–	–	–	–
Herr Prof. Dr. Ziegler	39,213	1,677	–	–	–
Total	175,380	8,070	517	12,580	65,067

“Other” includes a bonus of KEUR 65 for Herr Grüschow relating to his marketing achievements with renowned athletes.

If a member of the Supervisory Board is engaged for only a part of the business year, he or she will receive the compensation pro rata temporis.

NOTES TO THE CONSOLIDATED STATEMENTS OF INCOME

	2003	2002	2001	17 Revenues by Business Area
Energy Services				
Service sales	178,860	166,890	162,656	
Rental sales	107,673	103,370	98,748	
Part sales	44,776	41,867	36,896	
Maintenance service	24,543	23,533	25,125	
Energy Contracting	39,218	31,572	27,732	
IT Services	8,436	6,838	2,262	
Other	4,086	5,184	1,651	
Total	407,592	379,254	355,070	

Personnel expense by line of consolidated statements of income

The average number of employees amounts to 2,382 in financial years 2003, 2,277 in 2002 and 2,022 in 2001.

18 Supplemental Cost Information

	2003	2002	2001
Cost of sales	48,415	42,978	35,791
Selling expenses	31,930	26,414	23,422
General and administrative expenses	32,737	31,573	25,661
Other operating expenses	12,157	10,707	8,524
Total personnel expenses	125,239	111,672	93,398

General and administrative expenses

In connection with the move of the Group's headquarters to Eschborn, Techem Energy Services entered into a leasing contract for use of the building. The leasing contract is classified as an operating lease. The annual rental payment amounts to KEUR 4,772. The contract period is 15 years and may be extended two times by 5 year each.

Other operating income/expenses: Exchange gain/-loss

Exchange gains/losses for financial years 2003, 2002, and 2001 are as follows:

	2003	2002	2001
Exchange gain/-loss in KEUR	-1,057	572	232

Selling expense: Advertising expense

Advertising expense for financial years 2003, 2002, and 2001 amounts to:

	2003	2002	2001
Advertising expense in KEUR	5,656	7,960	8,134

19 Interest Income/Expense

	2003	2002	2001
Interest income	1,753	1,408	952
Interest expense	-15,374	-16,712	-19,212
Amortization of deferred capital procurement costs	-328	-	-
Unrealized gains/losses of financial instruments	-	-	-
Trigger swap (loss realized in FY 2003)	-1,112	1,112	-
Constant maturity swap (unrealized loss)	-1,699	-	-
Total interest in KEUR	-16,760	-14,192	-18,260

Deferred capital procurement costs are expensed over the duration of the financing contract of five years.

The trigger swap amounting to EUR 80 million was sold in the third quarter of financial year 2003 resulting in a net gain of KEUR 198.

Interest income on installment sales amounts to KEUR 651 in financial year 2003 (2002: KEUR 577).

The components of income tax expense/benefit are as follows:

20 Income Tax

	2003	2002	2001
Current income tax			
Germany	9,836	6,961	-394
International	2,470	1,156	1,070
Total current income tax	12,306	8,117	676
Deferred income tax			
Utilization of net operating losses	-1,097	2,800	11,237
Tax effect on temporary differences	-171	1,010	9,464
Total deferred	-1,268	3,810	20,701
Total income tax expense	11,038	11,927	21,377

Under German tax law, taxes on income consist of corporate taxes, trade taxes and solidarity surcharge.

Due to corporate income tax loss carried forward, the income in financial years 2002 and 2001 was not subject to corporate income tax.

The Group's net operating loss carry-forward will expire over the respective periods as follows:

Slovak Republic:	1 year
Poland, Hungary:	5 years

In Germany, Sweden, and Austria, net operating losses carried forward are not subject to expiration. German net operating losses represent the majority of the losses carried forward of the Techem Group. The majority of the losses carried forward are incurred in German subsidiaries.

Deferred income taxes are recorded for all significant temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and for tax purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Deferred taxes consist of the following positions:

	2003	2002	2001
Deferred tax assets due to			
net operating loss carried forward	4,553	3,030	6,233
different step up allocation	3,744	7,563	10,210
differences in pension accruals	920	994	1,648
interest swap	644	–	–
capital lease	3,407	–	–
other temporary differences	4,734	2,552	1,078
changes in valuation allowance	–2,277	–1,850	–2,253
Total deferred tax asset	15,725	12,289	16,916
Deferred tax liabilities due to			
capital lease	–3,348	–	–1,400
consolidation adjustments	–66	–1,720	–2,040
trigger swap	–	–435	–
different step up allocation	–2,707	–3,049	–
other temporary differences	–1,718	–458	–
Total deferred tax liability	–7,839	–5,662	–3,440
Net deferred tax asset	7,886	6,627	13,476

As of the balance sheet date, the Group's net operating losses carried forward amount to EUR 29 million. The valuation allowance on deferred tax assets remains at 50 percent for financial year 2003. Estimates may change in future due to the Group's earnings or changes in tax law, which would result in an adjustment of the valuation allowance.

The German statutory tax rate for income tax and trade tax amounted to approximately 37.9 percent in financial year 2003, 38.8 percent in 2002, and 40.6 percent in 2001. The development of the tax rate was taken into consideration when calculating deferred tax assets, depending on the expected time of realization.

The reconciliation of the statutory tax rates and the effective tax rate for the Group is as follows:

	2003	2002	2001
Statutory tax rate	37.9 %	38.8 %	40.6 %
Amortization of goodwill and step up (non tax deductible)	–	8.8 %	6.6 %
Differences in foreign tax rates	–1.1 %	0.7 %	0.9 %
Non tax deductible items	4.8 %	2.5 %	6.5 %
Tax relating to prior periods	–2.9 %	2.0 %	–6.1 %
Change in tax rate due to move to Eschborn	–	–	3.6 %
Change in valuation allowance	1.6 %	–1.6 %	–0.5 %
Change in German tax law	–	–1.5 %	9.5 %
Other	0.3 %	–1.5 %	–
Effective tax rate	40.6 %	48.2 %	61.1 %

In financial year 2003, a restructuring program with the objective of process optimization and of long-term personnel and general cost reduction was started in the Group's headquarters in Eschborn. An accrual of KEUR 7,612 and expenses amounting to KEUR 14,704 have been accounted for. Management assumes the restructuring will be finalized in the following financial year.

21 Restructuring

Expenses are reflected in the profit and loss statement as follows:

	2003
Restructuring expenses:	
Cost of sales	2,362
Selling expenses	980
General and administrative expenses	9,625
Other operating expenses	1,737
Total	14,704

OTHER NOTES**22 Leases and Rentals**

The Group has operating leases for buildings, cars, and office equipment with renewal privileges, which expire at various dates. As of September 30, 2003, minimum annual lease commitments – mainly for buildings – were as follows:

	2003	2002
2003/04	15,322	16,674
2004/05	12,309	13,076
2005/06	10,299	9,613
2006/07	9,034	7,525
2007/08	8,161	6,732
After 2007/08	57,958	9,035
Total minimum lease payments	113,083	62,655

23 Contingent Liabilities

Contingencies due to guarantees of bank loans exist on behalf of HausPerfekt GmbH & Co. KG, in the amount of KEUR 447 (KEUR 362 in FY 2002).

The Group granted a guarantee for a bank loan amounting to KEUR 1,116 for EL-ME AG which is consolidated at equity (KEUR 1,118 in 2002). EL-ME AG is accounted for using the equity method.

Furthermore, the Group is engaged in an order commitment to purchase parts in the amount of KEUR 12,894 (KEUR 13,577 in 2002).

Management is not aware of any other items that could give rise to any other liabilities for the Group that would have an adverse material effect on the Group's business, financial condition or results of operation.

24 Net Debt

	2003	2002
Bank overdraft and borrowing, current	35,836	79,340
Bank overdraft and borrowing related to BAR, current	–	204,517
Bank loans, long-term	236,393	38,732
Capital lease obligations, current	2,945	2,054
Capital lease obligations, long-term	6,062	3,439
Cash	–16,038	–13,756
Net debt	265,198	314,326

Research and development costs amounted to EUR 3.5 million, 3.6 and 4.5 in financial years 2003, 2002, and 2001 respectively.

25 Research and Development

The services provided by all companies included in the consolidated financial statements are similar to those described in note 1 and are all delivered to the same customer base. Services different are only the operations of IT SERVICES and ENERGY CONTRACTING. However, they are not deemed to be separate operating segments according to SFAS No. 131.

26 Segment Reporting

Geographical information at September 2003, 2002 and 2001

	Germany	Europe (excluding Germany)
Gross revenues 2003 by country of origin	348,422	59,170
destination	347,042	60,550
Gross revenues 2002 by country of origin	331,261	47,993
destination	329,329	49,925
Gross revenues 2001 by country of origin	317,465	31,605
destination	315,849	39,221

	Germany	Europe (excluding Germany)
Long-lived assets 2003	161,146	8,475
Long-lived assets 2002	171,132	9,720

Eschborn, December 2, 2003
Techem AG



Horst Enzelmüller



Rainer Schamoni



Stefan Pattberg



Peter Wunderlich

INDEPENDENT AUDITOR'S REPORT

Based on our audit we have issued an unqualified opinion on the consolidated financial statements of Techem AG as of September 30, 2003 together with the group management report for the fiscal year October 1, 2002 to September 30, 2003. In compliance with the German commercial code these statements have been prepared in the German language. The following auditor's report represents a translation of our auditor's report originally issued in the German language:

"We have audited the accompanying consolidated balance sheet of Techem AG and subsidiaries as of September 30, 2003, and the related consolidated statement of income, statement of changes in equity and cash flows as well as notes for the year then ended. These consolidated financial statements prepared in accordance with United States Generally Accepted Accounting Principles are the responsibility of the company's Board of Managing Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respect, the net assets and financial position of Techem AG as of September 30, 2003, and of its result of operations and its cash flow for the year then ended in conformity with United States Generally Accepted Accounting Principles.

Our audit, which also extends to the group management report prepared by the Board of Managing Directors for the business year from October 1, 2002 to September 30, 2003, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from October 1, 2002 to September 30, 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law."

Frankfurt am Main, December 2, 2003

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Lust
German Public Auditor

ppa. Dr. R. Worster
German Public Auditor

SUPERVISORY BOARD REPORT



Prof. Horst Ziegler

In fiscal year 2002/2003, the Supervisory Board carefully oversaw the management of the company and performed the duties imposed on it by law and the company's articles of association. We requested detailed briefings, mainly in the form of written reports prepared by the Board of Directors, on key issues relating to corporate planning, the course of business and important transactions on the part of the company and its affiliates. In particular, the Board of Directors explained, provided reasons for and held discussions with us about the way in which the actual course of business deviated from the business plan. The Board of Directors reported to us on the risk management measures that had been implemented and on business risks that had become recognizable. In addition, the chairman of the Supervisory Board was regularly informed about significant business developments by the chairman of the Board of Directors and by members of the Board of Directors.

During seven meetings attended by all Supervisory Board members, the Supervisory Board held in-depth discussions with the Board of Directors about its reports. The future development of the economic position of the group as well as individual subsidiaries and business areas, its strategic direction and issues relating to corporate, financial and investment planning were examined in detail and formed the subject of consultations held with the Board of Directors. In this regard, particular mention can be made of the "Fokus" cost-cutting program, especially the related downsizing process, and the form of financing. The Supervisory Board advised and oversaw the Board of Directors. Insofar as Supervisory Board approval was required for certain transactions under the articles of association and the bylaws by which the Board of Directors is bound, such approval was granted by the Supervisory Board after the holding of in-depth consultations.

The Supervisory Board has formed a personnel committee and an audit committee. During five meetings and a number of teleconferences held during the course of fiscal year 2002/2003, the personnel committee considered personnel matters relating to the Board of Directors and prepared and implemented decisions on personnel matters. The audit committee met on three occasions during fiscal year 2002/2003 and considered the balance sheet for 2002/2003, the "Fokus" cost-cutting program and risk management in particular. The committees regularly reported to the entire Supervisory Board on their activities.

Professor Ziegler, PhD, was still a member of the Advisory Committee of Hydrometer GmbH, Ansbach, an important Techem supplier, on September 30, 2003. However, he will stop serving in such capacity as soon as possible and will do so by June 30, 2004 at the latest. In addition, the institute that Professor Ziegler, PhD, heads at Paderborn University and Hydrometer GmbH work together on scientific R&D projects. A license agreement has been in force between Professor Ziegler, PhD, and Techem for over 20 years. The agreement is advantageous to Techem overall and its continuation has

been approved by the Supervisory Board. In addition, Techem AG has granted the institute headed by Professor Ziegler, PhD, a minor research assignment. It has been agreed that no more assignments will be granted in the future. During the course of the past fiscal year, these activities and contractual relationships have not resulted in any specific or lasting conflict of interests.

On March 21, 2003, the General Shareholders Meeting appointed Dr. Wilhelm Bender to succeed Dr. Hans-Jochen Otto, who left the Supervisory Board on November 11, 2002, after tendering his resignation. Mr. Hans-Ludwig Grüschow stepped down from the Supervisory Board at his own request with effect from August 12, 2003. Professor Horst Ziegler, PhD, was elected chairman of the Supervisory Board and Mr. Harald C. Bieler its deputy chairman, pursuant to a resolution of the Supervisory Board dated August 12, 2003.

Mr. Horst Enzelmüller was appointed chairman of the Board of Directors with effect from January 1, 2003. Mr. Walter Schmidt resigned from the Board of Directors with effect from July 31, 2003, by mutual agreement with the Supervisory Board.

Mr. Stefan Pattberg has been a member of the Board of Directors since August 1, 2003. With effect from August 12, 2003, Mr. Peter Wunderlich was appointed a member of the Board of Directors. The distribution of area responsibility within the Board of Directors has been reorganized. As chairman of the Board of Directors, Mr. Enzelmüller is responsible for the areas of Foreign Sales, Marketing and Business Development, Legal Affairs and M&A, Personnel and Investor Relations. Mr. Rainer Schamoni, deputy chairman of the Board of Directors, is responsible for the areas of Sales Germany, Energy Contracting, Technology and Services. As CFO, Peter Wunderlich is responsible for Finance and Accounting, Receivables Management, Logistics & Infrastructure, Controlling and Audit. Mr. Stefan Pattberg is responsible for the newly created IT business, which includes the two software firms Techem IT Services (previously WODIS) and VERIDIS.

The annual financial statements of the company and management report according to HGB and the consolidated financial statements and management report according to US GAAP as at September 30, 2003 have been inspected by certified auditors PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, selected by the General Shareholders' Meeting, and have received an unqualified certificate. With regard to the risk early detection system in Germany, the auditors found that the Board of Directors had implemented the measures required under Section 91 par. 2 of the German Joint Stock Corporation Act and that the monitoring system is able to perform its purpose. The annual financial statements and the consolidated financial statements as well as management reports and the profit appropriation recommended by the Board of Directors were supplied to each of the members of the Supervisory Board as soon as they were prepared, as were the audit reports prepared by the certified auditors. The company and consolidated annual financial statements as well as the respective company and group management reports have

been carefully examined by us. No basis was found for the raising of any objections. After being examined in depth, the audit reports prepared by the certified auditors were acknowledged and approved by us. The auditors took part in the meeting of the Supervisory Board held on January 14, 2004, for the purpose of approving the annual financial statements for 2002/2003 as well as the consolidated financial statements, and reported on the main findings of their audit, providing supplementary information during the discussion.

The Supervisory Board has approved and thus ratified the annual financial statements prepared by the Board of Directors. The consolidated financial statements prepared by the Board of Directors were ratified by the Supervisory Board. The company and group management reports and the appraisal of future business development in particular received our approval. The Supervisory Board approves the proposal for the appropriation of balance sheet profits submitted by the Board of Directors.

The Supervisory Board expresses its gratitude to the Boards of Directors, Employee Representative Councils as well as all employees of Techem AG and its affiliates for the work they have performed and the commitment they have displayed over the past year.

Eschborn, January 14, 2004

The Supervisory Board



Professor Horst Ziegler,
Chairman

CONTRIBUTING TO THE COMMUNITY

Making a contribution to the community is an integral part of Techem's corporate culture. We therefore provided support to various areas of the life of the community during the fiscal year just ended.

Sport

In the field of sports, we assisted athletes and sponsored several sports clubs and selected sporting events. A highlight of the year under review was undoubtedly the winning of a gold medal by André Lange in the four-man bobsleigh event during the world championship held at Lake Placid in the United States.

Culture

This is an area in which Techem focuses on assisting up-and-coming talent by providing support to the Hochschule für Musik und Darstellende Kunst [Performing Arts College], Frankfurt, and the Hochschule für Gestaltung [Design College], Offenbach.

Environmental protection

A long-term reduction in energy consumption remains an enormously important topic, especially in the industrialized countries, with their heavy reliance on fossil fuels. The Federal Government issued a new Energy Conservation Decree (EnEV) in February 2002, effectively setting the low energy consumption home as a standard. A high degree of importance was attached to active climate protection even before the 1992 Rio de Janeiro summit, and it remains just as important today, even if the United States, under the leadership of George W. Bush, has now gone back on what was agreed. By contrast, the German Government is continuing with its plans to effect a 25-percent reduction in carbon dioxide emissions in relation to 1990 by 2005. However, only a 16-percent reduction has been achieved so far. Buildings remain a source of concern in this regard, as building CO₂ emissions have even grown in relation to 1990.

Techem and the efficient supply of energy

The consumption-based billing of energy provided by Techem means that the buildings we serve save 13 megawatt hours of fuel each year, which reduces the burden on the environment by three millions tonnes of carbon dioxide. Despite these successes, too much heat energy is still being wasted, because the causes of excessive energy consumption are not sufficiently known. The Energy Information System (E.I.S.), which has been developed with our participation, allows weak points in buildings to be identified, potential energy savings to be found and such findings to be precisely quantified.

Individual room temperature control as provided for by our home automation system assisto also makes it possible to further cut consumption of heating oil and gas. Like the entire range of services offered by Techem, the Energy Contracting business area also contributes to energy consumption in residential and commercial buildings that conserves resources. Consumption costs for the individual user are reduced and the environment preserved at the same time. Numerous independent studies confirm that the consumption-based billing of heating, cold and hot water costs yields savings of about 20 percent on energy and water.

We will also act in as environmentally-friendly a manner as possible when implementing our services in practice. That is why we have produced economic route plans for our meter readers and further optimized scheduling for our fitters. In addition, we also launched paperless meter readings in a first series of test regions during the year under review. In the future, we and our customers will save about 20 tons of paper as a result.

Techem product recycling

The Techem products that we all source from our suppliers must also meet ecological requirements. We set environmental standards for the use of environmentally-friendly materials and long-life batteries for meter-reading devices and systems. Electronic components must be capable of functioning for at least ten years. An additional means of disposal has been established for batteries. There is also a recycling facility for evaporator capsules as well as an own recycling system for the recovery of evaporator fluid and for old electronic heat cost allocators. In developing new devices, particular attention is paid to compatibility with previous versions, e.g. appropriate aluminum casing parts.

In the field of packaging, Techem uses environmentally-friendly materials such as cardboard, and waste paper for lining rather than polystyrene, which is difficult to dispose of. Tried and tested reusable systems, such as Euro paletts (Europool system) and box paletts are used for storage and shipment. Environmentally-conscious thinking in the field of shipping also extends to the company internally. Thus, there are ecological guidelines for the procurement of office furniture and equipment (e.g. low-radiation PC monitors).

Charities

As in preceding years, Techem made donations to various charitable institutions.

THE SUPERVISORY BOARD

Prof. Horst Ziegler, PhD

Chairman (since August 12, 2003)
College lecturer, Paderborn
Professor of Applied Physics at the University of Paderborn
Member of the Advisory Committee of Hydrometer GmbH, Ansbach

Harald C. Bieler

Deputy Chairman (since August 12, 2003)
Consultant, Frankfurt/Main
Member of the Supervisory Board of Märkische Treuhand AG, Heidelberg
Chairman of the Advisory Committee of the Döhler Group, Darmstadt

Dr. Wilhelm Bender (since March 21, 2003)

Chairman of the Board of Directors of Fraport AG, Frankfurt/Main
Member of the Supervisory Board of Lufthansa City Line GmbH
Member of the Supervisory Board of NOVA Allgemeine Versicherung AG
Member of the Supervisory Board of Thyssen Krupp Serv AG
Chairman of the Supervisory Board of Flughafen Hannover-Langenhagen GmbH

Dr. Martin Ott

Diplom-Kaufmann, Elsbethen-Glasenbach, Austria
Member of the Rhein-Main Advisory Committee of Dresdner Bank
Member of the Advisory Committee of Techem Messtechnik Ges.m.b.H.
(Innsbruck/Austria)

Stefan Zuschke

Diplom-Betriebswirt, Hamburg
BC Partner Beteiligungsberatung GmbH, Hamburg
Chairman of the Supervisory Board of Finakabel Verwaltungs AG, Hanover
Director of Finakabel S.A.R.L., Luxembourg

Hans-Ludwig Grüşchow (stepped down August 12, 2003)

Businessman, Neu-Isenburg
Member of the Advisory Committee of Karl Mayer Textilmaschinenfabrik GmbH,
Obertshausen
Member of the Hessen Advisory Committee of Dresdner Bank
Chairman of the Supervisory Board of Deutsche Sport-Marketing GmbH,
Frankfurt/Main
Chairman of the Stiftung Deutsche Sporthilfe, Frankfurt/Main
Member of the Supervisory Board of the Leipzig 2012 GmbH Campaign Committee

Dr. Hans-Jochen Otto (stepped down November 11, 2002)

Lawyer and tax adviser, Stuttgart

THE BOARD OF DIRECTORS

Horst Enzelmüller was born in Grieskirchen (Austria) in 1942. He began his professional career at Zuse KG, Bad Hersfeld, after completing a degree in communications at Vienna. Following the sale of Zuse to Siemens, he moved to Hewlett Packard, Frankfurt am Main, at the beginning of the 1970s, where he set up computer sales and distribution. Tandem Computers Inc. was founded in California in 1974: As a vice president, Horst Enzelmüller was responsible for developing the company's European business from its inception. He subsequently became a general manager of NORSK DATA Dietz, Germany, and later, vice president of marketing at NORSK DATA AS, Oslo. From 1987 until 1993, he was in charge of the German business of the US computer company WANG and was based in Neu-Isenburg. From 1993 until 2002, Horst Enzelmüller was active in the telecom sector. He was then appointed Director Mergers & Acquisitions at British Telecom, Paris, where he launched a number of joint ventures, including one to which VIAG was a party.

Horst Enzelmüller has headed COLT Telecom GmbH, Frankfurt/Main, for the past seven years. As chairman of its executive management, he turned the telecom company into one of Deutsche Telekom's most important competitors in Germany within just a few years. Latterly, as head of the company's central region, he was responsible for COLT's business in Austria and Switzerland alongside Germany. In addition, he was an executive officer of COLT Telecom plc, London, and a member of the presidium of the Verband der Anbieter von Telekommunikations- und Mehrwertdiensten (VATM) e.V. [German association representing providers of telecom and added-value services].

Horst Enzelmüller has been chairman of the Techem Board of Directors since January 1, 2003 and is responsible for the areas of Foreign Sales, Marketing, Business Development, Legal Affairs/Mergers & Acquisitions, Personnel and Investor Relations.

Rainer Schamoni was born in Paderborn in 1956. After graduating in business management, he pursued a career as an EDP coordinator/systems developer with Nixdorf AG, Bertelsmann AG and Techem. Since 1989, he has held various managerial positions in marketing and sales and was appointed to the Techem Board of Directors in 1994. Rainer Schamoni was appointed deputy chairman of the Board of Directors on January 1, 2001. He is responsible for Sales Germany, Energy Contracting, Technology and Services.

Stefan Pattberg was born in Wuppertal in 1964. After graduating in IT/Operations Research from the University of Karlsruhe (technical university) in 1990, Stefan Pattberg began his career at Michelin Reifenwerke KGaA in Karlsruhe. Three years later, he became its head of systems engineering. In 1996, he was appointed Group Project Manager at the Michelin headquarters in Clermont-Ferrand. In 1999, he moved to COLT Telecom GmbH, Frankfurt, to head the company's IT department. After successfully building up the department, he was appointed Chief Information Officer at COLT Telecom Group plc, London. Stefan Pattberg has been a member of the Techem AG Board of Directors since August 1, 2003 and is responsible for the IT field and IT Services.

Peter Wunderlich was born in Nuremberg in 1959. After qualifying as an Industriekaufmann, he held various positions within the Siemens Group in Germany and abroad, latterly as Commercial Head of Siemens Communications Network, Munich/Fürth. From 1998 until 2000, he was a managing director of the Volkswagen Bordnetze GmbH factory in Nitra, Slovakia. In 2000 Peter Wunderlich became head of finance Germany of COLT Telecom GmbH, Frankfurt, and was appointed CFO Central Region Germany/Austria/Switzerland in 2002. Peter Wunderlich was also a member of the Senior Finance Team of the COLT Group. In May 2003, he moved to Techem AG to head Group Controlling and was appointed to the Board of Directors on August 12, 2003. Peter Wunderlich is responsible for Finance, Accounting, Controlling, Receivables Management, Logistics & Infrastructure and Audit.

Walter Schmidt (until July 31, 2003) was born in Weilburg in 1967. He worked for Techem since being appointed to a trainee position with the company, and after completing studies in industrial management, sought a challenge in the energy market. During his career with Techem, he was responsible for controlling and was also general manager of the Techem subsidiary Techem Energy Contracting GmbH for several years. Walter Schmidt was a member of the Board of Directors from 1999 onward and was responsible for Finance and Accounting, Investor Relations, Controlling as well as Logistics, Administration and Audit.

TECHEM HISTORY

- 1952** Friedrich Ott founds Techem GmbH (Society company for the evaluation of technical-chemical processes and patents).
- 1957** Company starts operating internationally with a first licensing agreement.
- 1964** First data processing facility becomes operational, has to issue 380,000 bills.
- 1976** German Energy Conservation Law (EnEG) enters into force.
- 1981** 11 million heat cost allocators already serviced when the German Heating Cost Decree [Heizkostenverordnung] is promulgated.
- 1983** We launch the first electronic heat cost allocators (EHKV).
- 1990** With the collapse of the Wall, business is extended into Germany's new laender and Eastern Europe.
- 1992** We enter the Energy Contracting market.
- 1993** Techem GmbH becomes Techem AG.
- 1996** We launch data as a radio-controlled system for the transmission of billing data Acquisition of Techem Energy Services GmbH & Co. KG; Leveraged buy-out of Techem AG by BC Partner Funds.
- 1998** Acquisition of thermo data Vertriebsgesellschaft für Mess-und Regelinrichtungen mbH.
- 1999** Acquisition of Tec Systems AG; formation of EnyMore GmbH, Acquisition of Servotherm GmbH; formation of Techem MätService AB (Sweden).
- 2000** Acquisition of Messtech AG (Switzerland); acquisition of Calortherm Abrechnungs AG (Switzerland); IPO of Techem AG (official trading, Frankfurt); formation of online HAUSING AG; formation of Techem Services Einzel e.o.o.d. (Bulgaria) Techem AG included in M-DAX.

- 2001** Secondary offering; acquisition of Veridis Software-Systeme GmbH; acquisition of Haus Perfekt GmbH & Co. KG; market launch of radio-controlled home automation system assisto; formation of Techem Hellas EPE (Greece); acquisition of commercial partner NCCC Calorlux (Luxembourg).
- 2002** Acquisition of Computer Wolff GmbH & Co. KG; acquisition of commercial partner Caloribel S.A. (Belgium); formation of Techem Energy Services S.R.L. (Romania); employees move to Techem headquarters at the new group seat in Eschborn.
- 2003** Techem included in the Prime Standard and the new M-DAX.

FINANCIAL AND EVENTS CALENDAR

- 15th January 2004** Release of annual financial statements as at September 30, 2003
Annual report conference
DVFA conference
Telephone conference with analysts and institutional investors
- 1st March 2004** Release of third quarter report as at December 31, 2003
Telephone conference with analysts and institutional investors
- 18th March 2004** Ordinary General Shareholders Meeting
Congress Center Messe, Frankfurt am Main
- 18th May 2004** Release of half-year report as at March 31, 2004
Telephone conference with analysts and institutional investors
- 17th August 2004** Release of third quarter report as at June 30, 2004
Telephone conference with analysts and institutional investors

GLOSSARY

Application Service Provider (ASP)

Central provision of software applications and program functionality by a provider (here: Wodis) on own servers (Techem data service center) for a large number of users (housing industry).

assisto

Radio-controlled home automation system: Controls heating and alarm systems in apartments and single family homes – can be controlled remotely by cellular telephone or over the Internet – and records energy consumption.

at equity

Valuation method used to account for holdings held in associated companies (i.e. companies whose business policies can be significantly influenced).

Billing base

Invoiced, installed devices for which billing services are provided.

Billing unit

Building/building complex for which operating costs are incurred and allocated.

Book value method

Valuation method used to account for the equity of a consolidated subsidiary.

Cash flow

Net balance of cash receipts and cash disbursements.

Consumption measurement

Umbrella term for the primary function of all devices and systems; see Section 4 of the Heat Cost Allocation Decree.

Core business

See Energy Services

CO₂ emissions

Carbon dioxide emissions

Customer

Places orders for the supplying of devices and the preparation of bills (residential property companies, property managers and owners, brokers, building contractors, etc.)

Deferred taxes

Deferred taxes are carried as tax assets or liabilities on the balance sheet and are used to compensate for the difference between taxes actually due and the tax liabilities determined in the financial accounts.

EBIT (“Earnings before Interest and Taxes”)

Earnings before interest and taxes, including associated companies and minority interests.

Electronic heat cost allocators

Measuring devices that electronically process and display metered values in non-physical units.

**Energieeinsparungsgesetz (EnEG)
– German Energy Conservation Act**

Law concerning the conservation of energy in buildings. Encompasses energy conserving insulation in the case of new buildings, requirements applicable to heating and ventilation facilities as well as wastewater facilities and their operation, the allocation of operating costs and special rules and requirements applicable to existing buildings.

**Energieeinsparverordnung (EnEV)
– German Energy Conservation Decree**

Decree concerning energy conserving insulation in buildings and energy conserving building technology.

Energy contracting

The supplying of heat, cold and electricity as well as the planning, construction, financing and operation of energy producing facilities and related measuring and billing of energy costs.

Energy-generating plant

In the context of energy contracting: a facility that supplies heat (e.g. boiler)

Energy Services

Techem's core business encompasses the measuring and billing of energy and water as well as equipment sales, rentals and maintenance.

Equipment sales

Invoiced devices, sold as well as rented.

Exchange of data

Exchange of information and data for billing preparation purposes between Techem and customers by data carrier, data telecommunication or the Internet.

Fair value

Amount for which assets, liabilities and derivative instruments are traded between knowledgeable and willing business partners who are independent of each other.

Follow-up grants

Special form of subsidy extended by the state of Berlin to public housing projects since 1972: So-called follow-up grants provided for state aid to residential construction companies following the expiry of the 15-year basic grants for publicly-owned housing. The program was terminated with effect from December 31, 2002 by a resolution of the Berlin Senate.

Foreign currency translation

The functional currency of every subsidiary is the respective local currency. Accordingly, the balance sheets of foreign subsidiaries are converted to euro applying the mid exchange rates as at the balance sheet date, and income statements are converted applying annual averages.

Fully diluted

Earnings per share are said to be "fully diluted" when they not only take account of all shares actually outstanding, but also reflect shares that could result from, for example, the exercise of stock options.

Goodwill

The positive difference between the price paid for an enterprise and the value of its net assets.

Heat cost allocator

Umbrella term for devices/systems that display consumption in non-physical units.

Heat cost allocator operating on evaporation principle

Device that processes measurements using fluid evaporation and displays readings in non-physical units.

Heat meter

Measuring device for which calibration is obligatory and which is used to count heat consumption in kWh, MWh.

Heizkostenverordnung, HeizkostenV – German Heat Cost Allocation Decree

Decree concerning the consumption-based billing of heating and hot water costs.

Home automation

Included in the core business area of Energy Services; see *assisto* (radio-controlled home automation system).

Impairment test

Test employed to determine the value of long-term assets and which needs to be performed at least once a year. **Impairment:** lasting reduction in the value of an asset.

IT Services

Software and communication services connected with real estate.

Lease agreement

Average duration: heat and water meters – five years, cold water meters – six years, evaporation principle heat cost allocators – ten years.

Leveraged buy-out

Takeover by external or internal (company) investors with the use of limited own funds. In general, capital is procured by taking out bank loans or by issuing bonds. Payments of interest and capital are financed from the future earnings generated by the company taken over or frequently through the sale of company component units.

Maintenance contract

Average duration: heat and water meters – five years, cold water meters – six years, evaporation principle heat cost allocators – ten years.

Maintenance form fitting to consumption measurement

Regular inspections of functioning and safety aspects, including requirements imposed by DIN EN 834 and 835, especially subsequent calibration, replacement of capsules and batteries.

Other Comprehensive Income

Other Comprehensive Income (OCI) is the sum of all changes affecting equity with the exception of net income, increases and reductions in capital and distributions to shareholders. The income statement remains unaffected, i.e. such treatment is neutral with respect to income, the result being taken directly to equity.

Radio-controlled (Techem intern: data)

System of devices for consumption measuring and external data storage for recording of consumption values by radio.

Reading, read (meter)

Recording and documenting of consumption values.

Remote reading, read (remotely)

The automated measuring and storage of consumption values in a central data storage unit. Radio reading, read (using radio): the measuring of consumption values using radio and their storage in a central data storage unit.

Segment reporting

Presentation and disclosure of income statement and balance sheet items for each defined segment.

Utilization level

Also referred to as development level: building potential of a property already supplied by Energy Contracting (see Energy Contracting).

R&D

Research and Development

Usable unit

Usable area (apartment) within a billing unit (building) for which operating costs are computed.

User

Consumer within the usable unit (occupant).

Thermostatic valve

Device (on a radiator) that allows room temperature to be controlled by influencing the flow of hot water. Each change in temperature requires a manual adjustment.

Water meters; hot, cold

Measuring device, calibration obligatory, for counting water consumption in m³, l.

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