

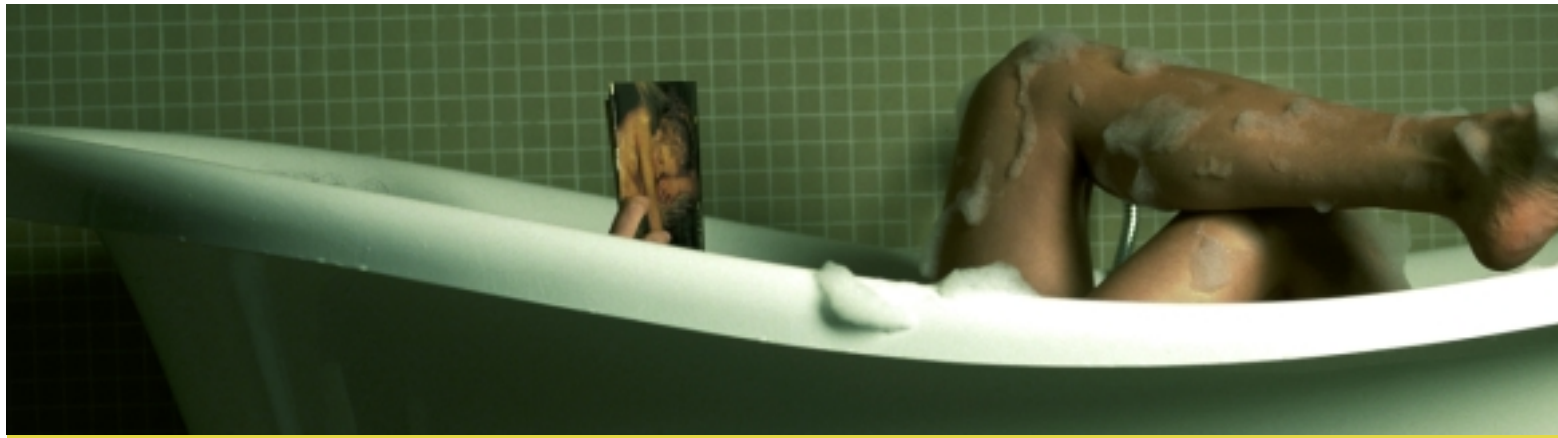


Sanitec

Annual Report

SANITEC'S ON-LINE REPORT

Sanitec was one of the first corporations to publish its annual reports as multimedia presentations on the web. As well as the elements of a standard annual report, the site also contains additional information on various topics related to our company, presented in text, picture, animation and video. Please visit our On-line Report at www.sanitec.com



Sanitec

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Sanitec in Brief

Sanitec Corporation is a European multi-brand group that designs, manufactures and markets bathroom ceramics, bath and shower products and vacuum sewage systems. The company works closely together with customers and industrial partners, architects and designers to develop sustainable bathroom concepts with advanced design that promote healthy lifestyle and wellbeing. Sanitec continues to build on its position as leader in Europe to create new business opportunities, taking advantage of its integrated but decentralised structure.

The Sanitec Group is based around locally well-known brands, which have strong positions and deep roots in the bathroom business. High quality products are a source of pride, and continuous product development ensures innovative solutions not only in design, but also for instance in water-saving technology and waste treatment systems. Operational development is a continuous process and Sanitec actively promotes collaboration and exchange of know-how between its various units in order to make the most of its international composition.

Sanitec has historically grown both organically and through acquisitions. Today it is the leader in its sector in Europe. The company is also the largest or second largest supplier in all its main markets. Sanitec's subsidiary Evac is the world's leading supplier of vacuum sewage systems, which are used in marine vessels, trains, aircraft and buildings. Sanitec's main market area is Europe where it has 34 production plants. Our sales and marketing network is global.

Five years in figures

EUR mill.	1998	1999	2000	2001	2002
				Proforma	
Net sales	570.8	630.0	877.3	994.5	985.4
Operating profit	80.4	81.4	79.5	53.5	52.1
EBITDA	114.7	115.8	130.0	145.6	147.6
Personnel, end of period	5,557	8,399	8,111	8,546	8,299

Markets and Business Segments

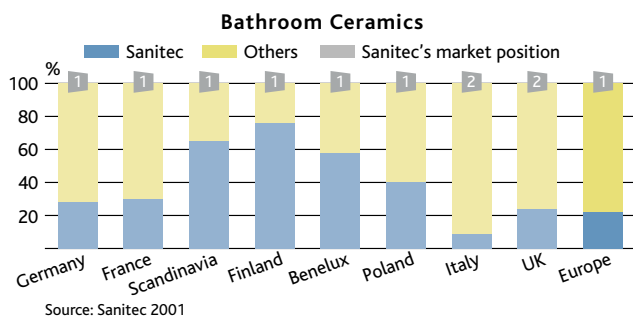
The bathroom industry is changing from offering basic products to presenting total bathroom concepts and experiences. Higher standards of living are encouraging people to pay more attention to bathroom decoration and furnishing, at the same time the strained economic climate poses a challenge to the business. Sanitec continuously monitors its product offering and develops it in line with changing demands.

Sanitec is the only company in Europe with leading positions in both bathroom ceramics and bath and shower products. The product portfolio comprises some of the oldest and most well known local brands in the European bathroom products industry. Through the strength of the brands the company has strong and long-standing relationships with its customers.

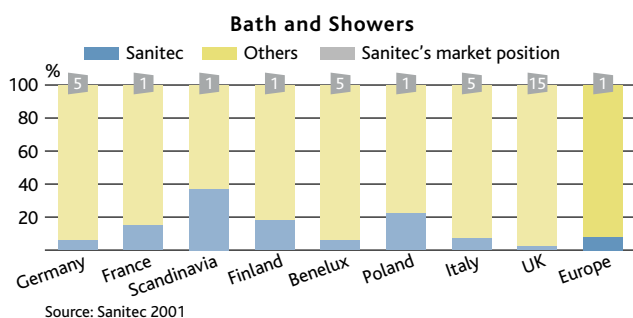
Bathroom ceramics and bath and shower products are distributed from the manufacturer via wholesalers and installers to the end customer. Sanitec has a comprehensive sales network through which it maintains close contact with plumbers, planners and architects. Through its subsidiaries Sanitec has well-established contacts with local distributors.

Since 2000 Sanitec's operations have been divided into three business segments: bathroom ceramics, bath and shower products, and vacuum sewage systems.

MARKET SHARE



MARKET SHARE



Bathroom Ceramics

Wash basins, toilets, bidets, vanity tops

Over the past years Sanitec has grown through acquisitions and now has the largest bathroom ceramic production network in Europe. The company aims to provide high-quality and cost-competitive ceramic products that meet customer needs. Sanitec's network is constantly optimised to satisfy the demands of the markets.

Most of Sanitec's ceramics plants and offices have received the ISO 9000 quality certificate and several of them also fulfil ISO 14001 environmental standards.

Bath and Shower Products

Whirlpools, bathtubs, shower enclosures and shower systems

Wellness is closely linked with the evolution of contemporary society, and in recent years this business segment has grown significantly. The bath and shower market is much more fragmented than the ceramics market. Sanitec sees major opportunities in extending the existing ceramics offering on the main markets with its bath and shower products.

Vacuum Sewage Systems

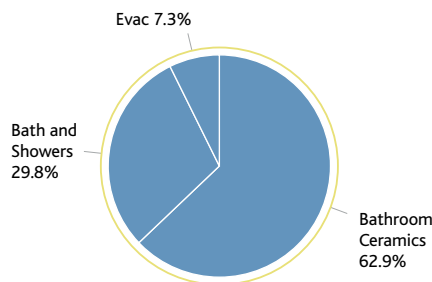
Vacuum toilet systems, sewage treatment, waste collection and emptying systems

Evac Environmental Solutions is a world leader in total wastewater management systems for aviation, building, marine and train. Current technology and continued innovation are the cornerstones for this international project business.

A system using vacuum technology is independent of gravity. Air and pressure instead of water and gravity transport the sewage. Water is used only for rinsing the bowl, not for transporting the waste. A vacuum system can also lift the waste vertically.

NET SALES BY BUSINESS SEGMENT

2002



Words from the President

Last year's developments were characterised by two opposite trends. On the one hand most of our major markets showed growth, while at the same time we successfully implemented measures to increase internal efficiency. On the other hand we saw a considerable decline in sales in Germany and in our vacuum sewage activities in the airline and shipbuilding industries. Thanks to our balanced portfolio of markets and brands, and our ability to control costs, we were nevertheless able to offset this negative effect almost fully in our operational results.

Sanitec's strength as a leader in the very competitive environment of the European bathroom industry, is based on strong local brands and the ability to react fast and precisely to the demands of our local customers. Our focus last year was on transforming Sanitec into one integrated, European multi-brand company. We need to adapt our structures to the ongoing integration of Europe



and not only to current realities, but anticipating future developments that will be triggered by the overall political environment in the EU. Structural changes are required to enable us to benefit from potential cost and operational synergies.

To achieve the desired results, we have made fundamental organisational changes. Sanitec is changing the focus in its organisation and leadership from local legal entities to a "European One Company" concept. Marketing, sales and logistics have been organised with a regional structure, supported by a European ceramic production network and a European bath and shower unit. Corporate services offer support in the form of finance, controlling, purchasing, and information management, along with other corporate level support functions.

The integration of various sales and marketing organisations is already generating their first results. The planned closures of high cost factories are proceeding on schedule and corporate information management and controlling structures are being implemented. The goal of these changes is to provide even better service for our customers and to increase the value of our company.

The changes, which have been widely communicated within our organisation, have been adopted and driven forward by our dedicated, professional management team all over Europe. Similarly, our highly motivated people have taken up the challenge to continue to outperform our peers in the future.

A handwritten signature in black ink that reads "Rainer S. Simon". The signature is written in a cursive, flowing style.

Rainer S. Simon
March 2003



Ceramics – Ancient but Modern

Thousands of years ago, an inhabitant of a Stone Age mammoth hunters' camp made a revolutionary discovery. Soft, moist, malleable clay, if dropped into a hot fire, could become rock-hard and shiny. The same characteristics that made ceramics so functional and attractive to our ancestors make them ideal for today's bathroom concepts of cleanliness, fitness and fashion.

Ceramics represents one of the oldest materials used by mankind, and one of the most versatile. At its best, it is a material that is serviceable, durable and aesthetically pleasing. The briefest glance back at the civilisations of the past gives evidence of this. Ceramics decorated the tombs of the pharaohs, the temple friezes of the Etruscans and the great gate of Babylon. Ceramic pipes have been an integral part of public and private bathing facilities for millennia. In the Roman Empire, baths were leisure centres for men and women alike, not just places to get clean, but also somewhere to meet with friends, to relax and to keep fit. Where the use of marble was impractical or extravagant, the rooms and pools were tiled.

This same ceramic mix of utility and pleasure continued through the ages. Many of Sanitec's subsidiaries have roots deep in the past, six of them with more than 100 years in the business. Pozzi-Ginori can trace its history back to 1735, while Twyford can boast not only of being the first volume manufacturer of sanitaryware in the world, but also that its founder, Thomas Twyford, invented the first one-piece, all ceramic, free-standing wash-out wc.

A Happy Medium

Ceramics still has tremendous appeal today for designers such as **Herbert Alken** of Sphinx. "Ceramics is a natural material. It is never anything except earth and water. Most people forget that, because the technology is so good and everything looks so perfect. The physical characteristics of the body clay and the glazing are very similar. They are

like a happy couple - that is why it is functionally so good."

While it is truly an old medium, ways are still continuously being sought to reshape it to meet the tastes of today. "For example, the wash basin hasn't basically changed for the past 100 years," points out Alken, "But the setting in which it is used has changed. Interior design is bringing new mixes of materials and a new approach. This means a rethinking, away from a single wash basin towards a total solution. Ceramics is now one of the elements in the bathroom space."

Many other materials are found in the bathroom today. Wood, plastics and textiles have found their way into this space. Even so, the popularity of ceramics persists.

Petra Bischof, Corporate Marketing Manager, Private Bathroom (Ceramics) has an unambiguous explanation of why this is so. "Ceramics is one of the few materials throughout history that has never been replaced. The quality that it offers is simply the best you can get and that is why it always comes back. Good things don't need to be replaced, although they need to be adapted to different times and customs."

One good reason why ceramics keep coming back is that it is a material that can bridge the gap between functionality and quality of life.

"We have to understand consumer demands, wishes and habits arising from lifestyles and trends and make our products fit in. Not every ceramic product on its own needs to meet these desires, but ceramics are an integral part and core element of what we now call total bathroom solutions. So, ceramic products are still the main carriers of the innovation process, they connect to other devices. The strength and beauty of ceramics has lasted throughout the ages. A strength, that we at Sanitec build upon."

Complex and Timeless

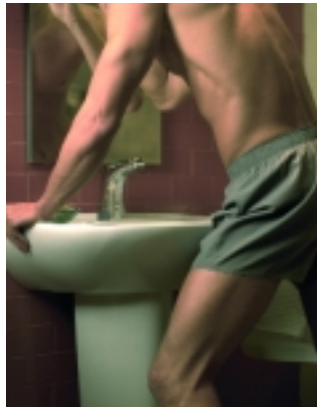
There is something timeless about ceramics as a production medium. However, time has not stood

still in the production process. In this respect, the term "modern" is becoming something of an understatement.

Few consumers have ever actually seen plants that their bathroom ceramics come from. **Richard Perks**, Corporate Vice President for Ceramics Production, Northern Europe, knows what makes an impression. "The first thing is the scale. To make a million pieces a year you need space. The size of a kiln is pretty impressive – around 100 meters long. In the Nordic countries the automation is impressive. Altogether, it is the sheer complexity of the process."

Cutting-edge methods and technologies in ceramics production focus on automation and handling.

"If you look at traditional manufacturing, it is labour intensive. The alternatives are either low-cost countries or cost cutting. In Europe, we are automating quite a lot. We have a plant that will soon be able to make wash basins and wc's so



timeless

that the only human contact will be moving them on forklift trucks. We have found in the Nordic countries that we are able to pig-

gyback on the car industry and benchmark from them."

Despite all this, there is still a niche for some of the old crafts skills with a number of plants hand-producing a limited quantity of special luxury products or items that have a long history but not enough demand to warrant automation. Ceramics – ancient, modern... eternal?

As Richard Perks puts it, "It's a durable product. If made properly, it is completely stainless and will not be damaged by use. A piece of vitreous china is basically a piece of glass, only stronger. It can last forever."



Revitalising Body and Mind

As I close my eyes... I allow the warm water to pulsate against my aching body, I breathe in the tantalising aroma of peppermint and relax with some calming music. I cannot help but feel revitalised. I cherish this release from the stress of my daily schedule.

An exclusive spa resort, you might wonder? No, this scenario takes place in the comfort of the home.

The bathroom is a vital part of any residence. It is the perfect room for people to recharge both physically and psychologically. Wellness is a notion integrated into this experience – you feel most exposed in the bathroom. The need to create a safe haven for pampering only reinforces this concept.

Barbara Borghesan is Corporate Marketing Manager, Wellness, for Sanitec Corporation and based in Italy. Barbara Borghesan knows bathrooms. It is her responsibility to see that all wellness trends are acted upon.

"Wellness is a form of wellbeing. The ultimate feeling is that of harmony between mind and body. Wellness is not a fad, it is a concept here to stay. It answers our wants and soothes our psychological wellbeing."

Inner Harmony

The roots of wellness lie in the evolution of contemporary society. Balancing work and private life is a modern issue that sees no prejudices and spans all socio-economic classes. The desire to satisfy the need for inner harmony is not reserved just for the elite anymore.

"We all have senses that need to be touched. Of course, some consumers prefer to be indulged in

a more luxurious way. Sanitec offers products in all price segments, and whatever the price range, the targeted end result is consistent for all products: to enhance the quality of life", Barbara Borghesan points out.

Sanitec is keen to make use of research connecting the behavioural lifestyle of the end-user to wellness. The solution lies in successfully translating the lifestyle evolution into the experience of the end-user. The end-user's need is very much linked to culture and tradition.

Sanitec uses material published by professionals as well as national statistics to obtain a global understanding of consumer needs and desires. "We



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favour digging deeper into the psyche of the consumer by collecting national research, which reflects much more closely local bathroom psychology. Our research is conducted with a global eye – utilising both global and local data."

"Take, for example, the sauna versus steam experience. There is little chance of selling the steam function to customers in the Nordic region; and likewise, the sauna function is not very welcome down

south! This is purely a matter of culture and tradition."

Design and Function

In general, the focus is ultimately on selling quality of life. In Sanitec, the process incorporates two strategies – design and product function. Design plays a big part by satisfying the aesthetic needs of the consumer; function contributes to satisfaction beyond primary needs. Personal zen can be achieved in the way that the function is experienced. The function is the same, yet each experience is unique.

"An interesting illustration of this is in the use of the water function. Water leaves the product unchanged; but the way it hits the body is individual making each experience different from the previous."

Sanitec draws on these intangible benefits and develops products to make the customer feel better.

"All the senses should be involved. Music and aromas are two new sensations that we have touched upon. To maintain this feeling of wellness, Sanitec stresses continuous research and innovation to create an intangible multi-sensorial experience. Not all of our senses have been tapped yet," notes Borghesan. "We need to carefully watch the lifestyle



evolution and find new ways to derive function." A key premise set into motion is the recreation of the actual experience. For the customer it is crucial to live and feel the benefits, in the same way as it is essential for Sanitec's sales force to sell benefits, not just functions.

"Our showrooms offer test products. Each customer has the opportunity to actually experience a product before making a purchase. We also place products in gyms, hotels, and spas, etc. for end-users to test at their

leisure. Sanitec places great emphasis on sales training. The salesperson must feel the experience to be able to communicate the right answer to the end-user. We have to meet customer's expectations before they buy."

In essence, wellness supports the millennium moniker of cocooning – a term coined by trend expert and marketing futurist Faith Popcorn that represents the idea of shielding oneself from the erratic realism of the outside world. And in this day and age, it is reassuring to know that your bathroom can be your emotional sanctuary.

So, go ahead. Immerse yourself in a well-deserved reward.





The Futuristic Bathroom

20.2.2020, *The morning after my 50th birthday.*

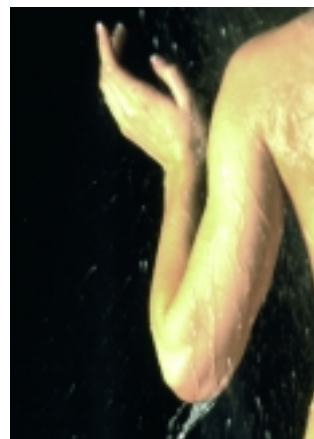
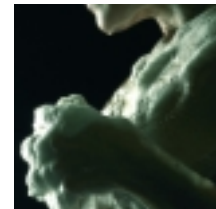
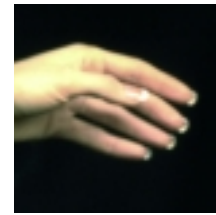
The gentle rocking motion of the bed-alarm, designed to soothe me from REM-sleep into wakefulness, felt more like I was in a dinghy, pitching from side to side in a north-easterly gale. Last night's family celebration had been most pleasant.

I slipped out of bed and padded barefoot towards the bathroom. The bathroom door slid open, and the voice-generator wished me "Good Morning" in that soft-brown voice.

After a glance at the Reuters news ticker, I peered at myself in the mirror over the double basin. The digicam flash when it came surprised and delighted me yet again: strange, after nearly a year, how you are never quite prepared for it. The camera image that appeared on the wall-screen revealed the secrets that try to keep when examining a mirror reflection.

I turned to the urinal, and the display unit on the back wall was filling up with numbers. Two or three of them were in various shades of red.

"Mr. Smith, based on your bowel movement yesterday, I recom-



mend you increase your fibre intake. If you wish I can add an order of bran flakes to your supermarket list."

I sighed contentedly. It was great to have someone looking after me like this.

I now pondered the showering alternatives, but I was too slow. This time the voice was brisk and friendly.

"Based on your personal profile, I recommend an invigorating aromatherapy shower."

"Yes, that is EXACTLY what we need. I'll take the "Smooth Start" programme. Add Patchouli and Vetiver. And some early Beethoven. Please."

It had taken some getting used to, this smart bathroom, but there were some things about it I would never, EVER change. The shower was one of them. The warm, gentle splash of water on my face, adjustable soft lighting, those multiple nozzles and the waterfall effect; an invigorating musical accompaniment. Sheer bliss.

The cooling-off phase had me back in the land of the living again. Softly, softly, our bathroom genie was granting my wishes again. I felt... ten years younger.

How HAD I ever managed 20 years ago?



Fact or fiction?

The above piece is, of course, fiction.

However, it contains more than a grain of fact. We are already witnessing a subtle change in the role the bathroom plays in the home. Experiences, pleasure, and wellness are thrusting the old shower-and-wc routines aside. Bathrooms are becoming home hubs.

The appetite for bathroom solutions that make a pleasure out of our toiletry is definitely growing. Equally, homes are becoming more and more connected and intelligent, and the bathroom is a perfect environment for monitoring our daily well-being.

Petra Bischof is Corporate Marketing Manager for Private Bathrooms at Sanitec. She smiles at the vision of the future, but points to a number of key issues that suggest it is not so far away.

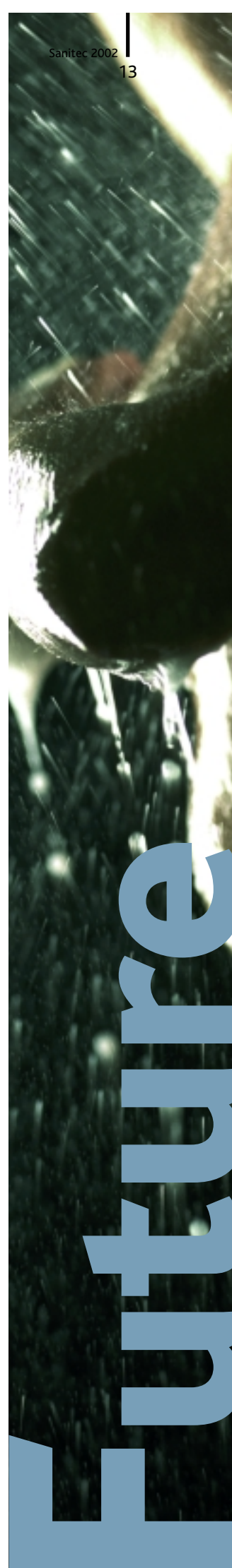
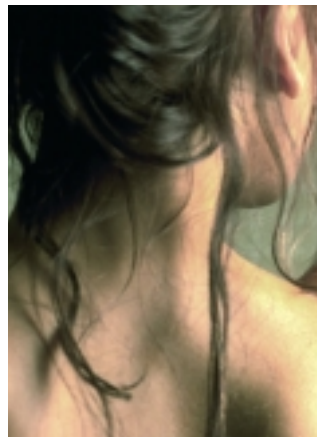
"We have to move away from a needs-based thinking towards experiences. We must understand people's desires in order to develop the bathroom of the future. It is increasingly about experiences and not just products, needs and routines. It will involve us in new strategic alliances that cross the old borders, embracing fields such as lighting, pharmaceutical industry and telecommunications."

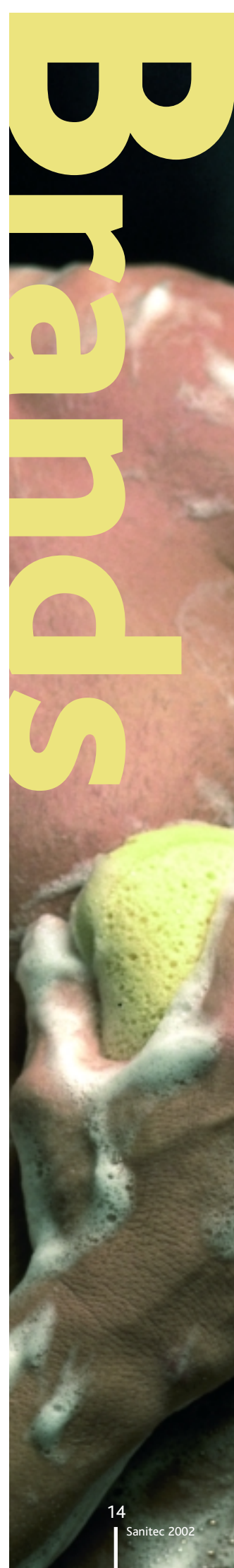
One crucial aspect is the way in which bathrooms are promoted and distributed. As solutions become more complex and more personalised, it is essential for manufacturers to take account not just of the challenges for technology and design, but also of ways of influencing the end-user directly.

The traditional distribution channels of wholesalers and plumbers must be harnessed to show consumers in practice what bathroom solutions can do. Installation, too, will require new skills. Solutions must combine technology with ease-of-use; consumers want to feel supported, even indulged, and not that they are slaves to machinery.

Bischof stresses the need for a new mind-set: "Those companies who can understand how to fulfil people's desires will shape the market of the future, and this is a joint effort across cultures."

There is much to look forward to, and much to be done.





Brandology

Successful brands are strongly rooted in tradition. So how does an international company with over a dozen powerful European brands stay true to form as a leader in each respective market? By introducing a philosophy that incorporates conventional brand-product heritage with a contemporary company-wide legacy.

Dr Georg Wagner is Managing Director of Keramag AG, Senior Vice President, Central Europe for the Sanitec Corporation, and was recently appointed to co-ordinate the Group's total ceramics brand and product portfolio. His viewpoint on Sanitec branding is straightforward: high quality products, continuous product innovation and reliable distribution partnerships.

"The solution lies in a healthier understanding of our leading brands, which subsequently translates into a better positioning statement. We further integrate the efforts of the organisation as a whole to enhance our market reaches."

Greater emphasis is placed on segmentation to develop a more defined profile of the market landscape. But what drives the consumer to buy a Sanitec product?

"A self-evident notion is that of differentiation. Our individual brands have a reputation for being valued. They have strong roots in their respective local markets. Sanitec builds on this heritage to establish trust. This is especially important during an economic downturn. Due to the long heritage of our brands, we can further differentiate between business clusters to create new brand roots in specific sub-sectors. This ultimately supports our growth strategies in new markets or in new segments within existing markets."

Building Brand Awareness

The Sanitec approach to branding is rather classic. What is fresh is the way in which the corporation intertwines all aspects of its strategy to build brand awareness. Training, service and innovation all play an integral part in creating a relationship between the individual brands.

"Recreating the authentic experience is how we support the purchase process," Wagner says. "We encourage the end-user to test-drive the product. Showrooms are designed to accommodate the actual use of products, especially for new product categories. Our wholesalers are well equipped with



a full range of catalogues, as well as training and planning services that are offered to the customer. Additionally, local above-the-line campaigns are used in conjunction with other media tools to provide more information to the consumer. In selected markets, advertising takes place on television and in specialist magazines for renovation and interior decoration. The intention is to provide daily exposure to promote the brands."

"The organisation has a highly accepted service level within the industry. It extends beyond customer service to

encompass a package that includes product reliability and pre-selling/ planning support. Sanitec supports showrooms for its wholesale partners. In addition, the company offers planning support for architects and installers by supplying up-to-date technical data to fulfil the functions in the network. In more developed markets, a separate technical sales force focuses exclusively on the professional side of the business."

Innovative Design and Diverse Styles

Innovation is instrumental for brand leadership. By listening to the customer and creating relevant designs associated with the diverse styles reflective of the European style landscape, Sanitec has developed ground-breaking products for the future under the various brand umbrellas.

It is evident that habits vary from country to country - and some products will crossover into other markets. "Building on the results and successes of the previous years and utilising the various customer perspectives collected, Sanitec has introduced new features and benefits that match the needs of the market," Wagner notes.

The final word on Sanitec brandology?

"Intelligent management. The guidelines are clear. Sanitec products and brands stand for a high level of innovation and quality. We rely on the strength of our leading local brands with strong roots - Sanitec makes the most of this concept by integrating these brands into a company portfolio rich in brand heritage."

Sanitec Group is based around locally well-known brands, most of them leaders in their home markets. Long traditions, well established market positions and high quality products with attractive designs ensure continuous success.

Albatros

ALLIA
PARIS

Doulton

EVAC

IDO

lfö

KERAMAG

KOLO

Koralle
Pure Bathroom

Lecico

LEDA

FRYSLAANDS
KING

POZZI
GINORI

revita.

ROYAL DOULTON

SELLES

Sphinx

Twyford

VARI-COR®
Ideen leben.

Brands

Know-How and Do-How

The Greek philosopher Plato stated that "a good decision is based on knowledge, not on numbers." But, knowledge is of little value if it lies idle. It has to be vigorously maintained, expanded and shared. This is what is happening in the Sanitec Group. Practical knowledge management is helping to make the numbers.

Sanitec is both international and national, multi-brand and local-brand. There is a large variety of national and regional cultures within the Group. About 8,300 persons, producing some 14 million quality ceramics pieces a year, represent a vast storehouse of skills, facts and "best practices".

"We see our diversity as a benefit," says **Michael Hellmund**, Corporate Vice President, Human Resources, Sanitec Corporation. "Having this diversity on board shows our strength in thinking in different scenarios and different ways. In most areas it is done locally – again this is a strength of the Group, as it can also address regional needs."

Organisation is crucial in ensuring that the best of the best comes to the fore. A further integrated organisation allows Sanitec to maximise the benefits of increased co-operation and sharing knowledge. "We usually set up different teams where the specialists and managers within one area meet regularly – in marketing, or technical development, for example. One role of these Group meetings is to illustrate to others what they have achieved so far and what their upcoming targets are. In this context we also make sure that we communicate about current issues. This is one way to increase awareness, to join forces and avoid duplication," notes Michael Hellmund.

Shared Technologies

A case in point can be seen in the recent transfer of glazing cell technology from Ifö to Twyford.

Ifö Sanitär in Sweden has recently developed a new system for glazing sanitaryware. The system is based on parallel capacity with autonomous units operated by robots, creating a unit containing

everything from dry ware on trolleys to fettled and glazed ware on kiln cars.

At the time of the integration into Sanitec, Twyford was planning to invest in more conventional robotic lines. Before making their decision, Twyford toured within Sanitec for more beneficial technologies and to examine robot cells and robot set-ups.

After this benchmarking, Twyford engineers felt that the rather autonomous cell islands in use at Ifö matched their needs best. **Bengt Emilsson**, Technical Manager for sanitaryware at Ifö, was asked how this technology could be transferred from Ifö to Twyford. "The idea was to transfer not only the technology but also a pilot cell – in this way the Twyford team could learn how to operate, install and adapt the method to local circumstances, and how to build and commission the equipment."

"So we transferred a whole new concept. Twyford had a jumpstart in robot technology and avoided some of the traps we 'explored'. We also learned things from Twyford; various ceramic issues and water treatment. Furthermore, the project established a new international network for some of our engineers. All in all, the inter-company project was a success. The new technology has now formed a new platform for automation in Twyford and the full-scale glazing department is at the moment installed by Twyford engineers."

Because the two companies now have identical equipment, there is the opportunity to transfer not only existing know-how, but also knowledge developed in the future. And, that will be a two-way street handled by a user group.

Corporation-wide, according to Bengt Emilsson, knowledge management is a real key to continuing success, "It's a lot about people, sharing problems and targets. If you can share know-how with a number of people, you will be the real winner – because in an open relationship you will always get more back than what you give."

Shared Craftsmanship

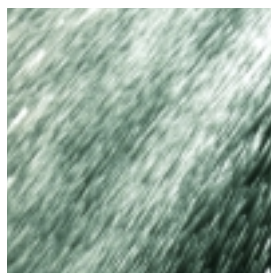
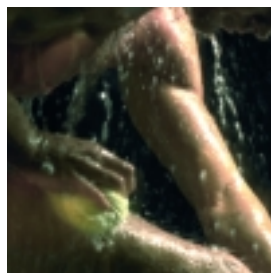
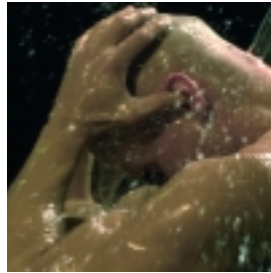
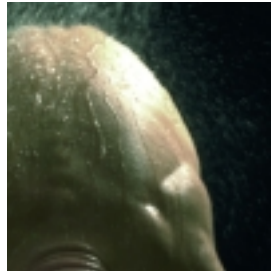
"An eastern European factory can teach its western sister companies about production processes", says **Wilfried Gerstner**, Manager Ceramic Production Projects, Sanitec Corporation. Helping the Ido factory in Finland to master its project "Pro 2000" for a high-pressure casting line, Gerstner used his network with Kolo in Poland along with other Sanitec resources and know-how to implement new methods.

"The high-pressure casting line has a robot which cuts a hole and then takes a sponge and sponges the piece. I had seen that the 'best practice' was to be found in Poland. What I have done, is to take a good experienced caster from Kolo, to show to the robotic programming guys how the caster is doing it by hand and then to transfer this process to the robot. We have done the same for the clay ware inspection."

Other Sanitec resources, such as the high-pressure casting team task force, also contributed to this project. This meant shared best practice with the Sphinx factory in the Netherlands and Ifö in Sweden.

"It is important for new projects within Sanitec that we can use the acquired know-how and transfer it with adaptations to local requirements. You cannot take it one-to-one, you have to adapt it. You have local raw materials, you have local conditions, you have a local workforce, a local culture. You have different people, different approaches," Wilfried Gerstner points out.

Indeed, it can be said that the possibility to share experience and know-how together with such richness in variety of people and of culture, makes Sanitec Group a winning organisation.



Resources

Sustainable Products – From A to Z

It's not a surprise that minimising water consumption is high on the environmental agenda of companies such as Sanitec. Not only is the company aware of the scarcity of this natural resource and the environmental costs of treating and processing it, but so too to an increasing extent are customers and end-users. Water is nevertheless just one - admittedly crucial - aspect of Sanitec's commitment to environmental values.

Sanitec Group companies, and not just in the obvious areas such as Evac's vacuum technology and waste management systems, are committed to reducing the environmental impact of such things as raw materials and energy usage, manufacturing processes, and of products after they have left the factories for the end-user. International certificates of compliance and environmental management standards such as ISO 14001 are obvious benchmark. Sanitec units are expected to treat legal requirements as merely a starting-point, and to push the envelope still further.

One area in which Sanitec Group tests its ability to meet such responsibilities is in "lifecycle analysis" - examining the environmental impact of products throughout every stage of their manufacture and use, with a view to addressing aspects that can be improved and developed at the design stage in order to deliver a more sustainable product.

Juha Tikka, R&D Director, North East Europe, explains the principles:

"There are many parameters involved in managing the environmental impact of a product. We are looking at the most effective use of resources, at safe and easily recycled raw materials, at energy efficiency, at airborne and waterborne emissions, at minimising the use of harmful chemicals and reducing transportation wherever possible - transport is a major environmental load factor, though this is

often forgotten by the consumer."

"Naturally when we manufacture an item we take all the necessary steps to conform to and exceed best practice policies and environmental quality management norms. But the only real way of getting the "big picture", of knowing how one's efforts are shaping up, is to examine critically the entire product lifecycle - including the lengthy spell when the product, whether it is a wc unit, a bathtub, or wash basin, is in constant use in the home or workplace. It has to be a core value that Sanitec items are not simply manufactured safely and in an environmentally sustainable fashion; they must stay that way in decades of operation - and even in their after-life."

Tikka's remarks are borne out by the results of internal studies that show for example the water-saving importance of advances in wc flushing methods, or the ecological benefits of ceramic solutions over such materials as cast marble. As well as offering an indicator of how well the company is doing at present, the research provides a direction for new products and innovations.

Evac Environmental Solutions

No discussion of environmental issues would be complete without mention of the Sanitec subsidiary Evac, whose worldwide operations are geared to water-saving and environmentally-friendly waste management systems.

The company is a world leader in innovative vacuum technology and waste-water solutions. Its initial applications in trains, commercial airliners, and the "green ship concept" seen on thousands of vessels from tugboats to 130,000-ton luxury cruise ships have proved themselves over conventional systems to such an extent that they have now attracted the attention of responsible building contractors concerned about water consumption and costs.





The combination of ecologically-sound solutions and attractive benefits for the smart building market of the future suggest that Evac's services will be required more and more - and not just in highly sensitive areas such as the Brazilian rain-forest or places where water is at a premium.

Sanitec's attention to environmental issues and Evac's acknowledged expertise in demanding water-saving applications allow the company to hold its head high and to cherish the brand image. But as Tikka points out, ultimately it is only in a constant, dogged determination to do better each day, each week, each year that real environmental credibility lies.

A vertical banner image on the right side of the page. It features a close-up of water splashing over a person's shoulder. The water is captured in motion, creating a dynamic, textured effect. Overlaid on the bottom half of the image is the word "Cycle" in a large, bold, yellow sans-serif font, oriented vertically from bottom to top.

Cycle

Group Structure

Group Operational Structure

Sanitec adapts its structure to reflect the changes and demands of its business environment.

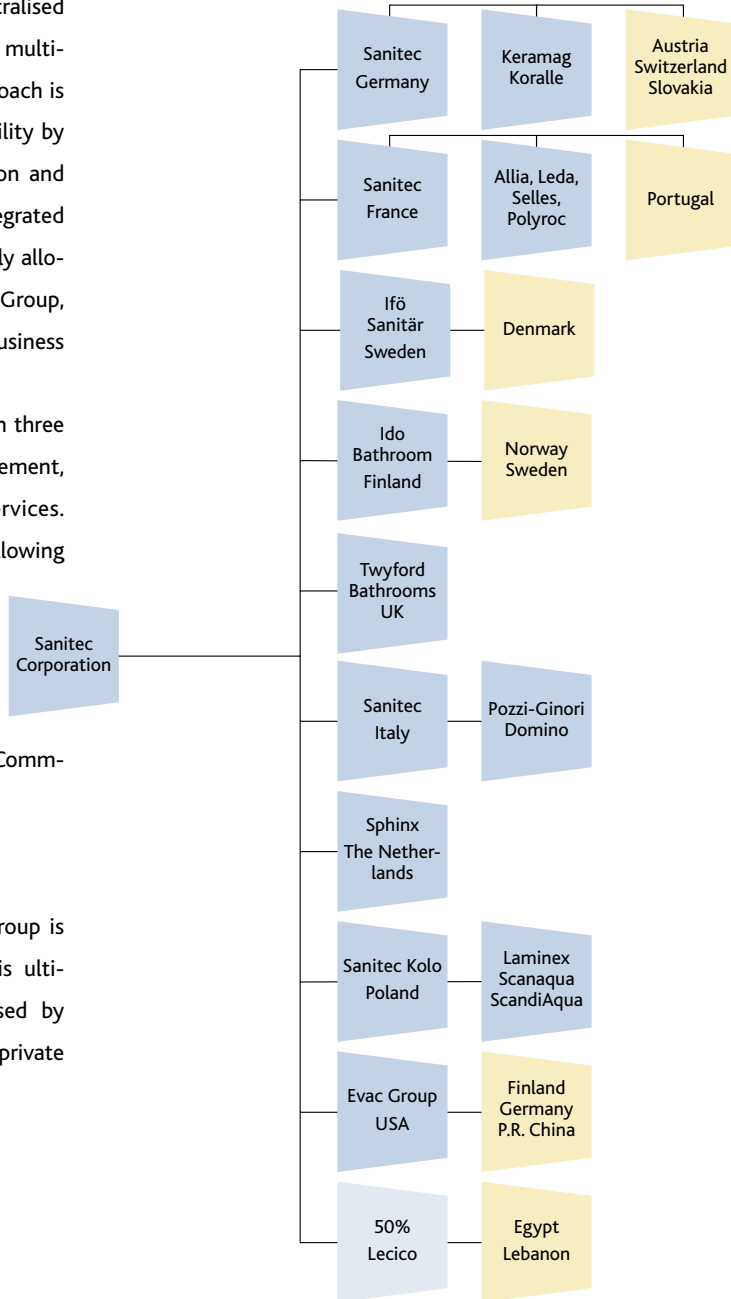
Sanitec is moving from largely decentralised operations towards an integrated European multi-brand organisation. The purpose of this approach is to increase operational efficiency and flexibility by ensuring a common alignment, co-ordination and co-operation within the Group. The new integrated organisation allows Sanitec to more optimally allocate its activities and expertise within the Group, building on the strengths of the local business structure.

The new corporate structure is based on three pillars: Regional Business and Brand Management, Business Segments, and Corporate Services. Sanitec's Corporate Services include the following support functions: Finance (financial controlling, treasury, legal services), Central Services (business controlling, information management, logistics, strategic purchasing, internal audit), Human Resources, and Communications.

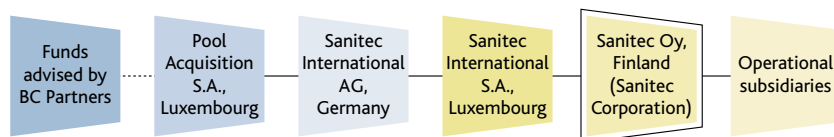
Group Legal Structure

The ultimate parent company of Sanitec Group is Pool Acquisition S.A., Luxembourg, which is ultimately owned by investment funds advised by BC Partners, one of the leading European private equity investors.

Business units and other countries of production



Group legal structure



Sanitec's Business and Brand Regions

Central Europe	Dr Georg Wagner
South West Europe	Jean Nicolas Conroy
UK & Ireland	Alan Brown
Benelux	Rob van Brug
Southern Europe	Corrado Giovannetti
Central Eastern Europe	Marek Kukuryka
North East Europe	Johan Nilsson
Exports	Marek Kukuryka

Management

Supervisory Board

An Extraordinary Shareholders' Meeting of Sanitec Corporation (Sanitec Oy in Finnish) formed the company's previous Board of Directors into a Supervisory Board, effective as of 20 January 2003.

Mr Berndt Brunow was appointed Chairman, and the members are Messrs Jens Reidel, Hanns Ostmeier, Peter Körfer-Schün and Stefano Mazzotti. The same persons, except for Mr Körfer-Schün, also serve as members of the Supervisory Board of Sanitec International AG, which has two additional members, Dr Udo Simmat and Dr Ulrich Wöhr.

Board of Directors

Following the formation of the Supervisory Board, a new Board of Directors was appointed for Sanitec Corporation (Sanitec Oy in Finnish) as of the same date, chaired by Dr Rainer S. Simon. The members are Messrs Timo Lehto and Pertti Lehti. They also form the Board of Directors of Sanitec International AG, along with by Mr Rainer Bauer.

Executive Board of Management

The Executive Board of Management acts within the powers of the President and CEO and acts as the highest operational decision making forum in Sanitec Group. The members are Messrs Rainer S. Simon, Timo Lehto, Pertti Lehti, Corrado Giovannetti and Rainer Bauer.

The group has various joint bodies set up to deal with Group co-ordination.

Board of Management

The Board of Management consists of the members of the Executive Board of Management and the Corporate Senior Vice Presidents in charge of Business Segments and Regions.

Rainer S. Simon
 Doctorate, University St. Gallen,
 born 1950.
 President and CEO of Sanitec
 Corporation since 2002.
 Joined Sanitec in 2002.

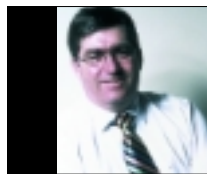


Rainer Bauer
 MBA, born 1958.
 Corporate Senior Vice President,
 Central Services of Sanitec
 Corporation since 2002.
 Joined Sanitec in 2002.



Alan Brown
 Qualified Chartered Accountant,
 born 1955.
 Senior Vice President, UK and
 Ireland, Managing Director of
 Twyford Bathrooms Ltd since 2002.
 Joined Sanitec in 2000.

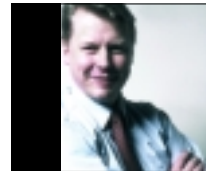
Rob van Brug
 BBA, born 1961.
 Senior Vice President, Benelux,
 Managing Director of Koninklijke
 Sphinx B.V. since 2001. Joined
 Sanitec in 2000.



Corrado Giovannetti
 Born 1953. Corporate Senior Vice President,
 Bath and Shower Products since
 December 2002.
 Senior Vice President, South Europe,
 Managing Director of Sanitec Italia.
 Joined Sanitec in 2000.

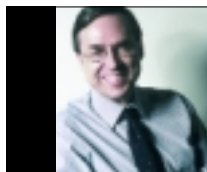


Marek Kukuryka
 MSc (Eng.), Licentiate of Journalism,
 born 1954.
 Senior Vice President, Central Eastern
 Europe and Exports, Managing Director
 of Sanitec Kolo Sp. Z o.o. since 1998.
 Joined Sanitec in 1993.

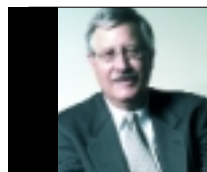
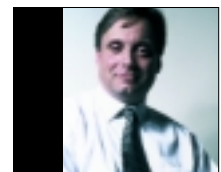


Pertti Lehti
 BSc (Econ.), born 1958.
 Corporate Senior Vice President,
 Bathroom Ceramics of Sanitec
 Corporation since 2001.
 Joined Sanitec in 1988.

Timo Lehto
 LL.M, BSc (Econ.), born 1951.
 Corporate Senior Vice President and
 CFO of Sanitec since 2000.
 Joined Sanitec in 2000.

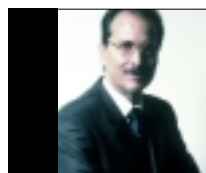


Johan Nilsson
 MSc (Eng.), BSc (Econ.), born 1960.
 Senior Vice President,
 North and East Europe,
 Managing Director of Ifö Sanitär AB
 since 2000. Joined Sanitec in 1993.



Robert Schäfer
 BSc, born 1943.
 Senior Vice President, Vacuum Sewage Systems,
 Managing Director of Evac International Ltd
 since 2002. Joined Sanitec in 1999.

Dr Georg Wagner
 DSc (Econ.), born 1953.
 Senior Vice President, Central Europe,
 Managing Director of Keramag AG since
 1998 and Managing Director of Koralle
 Sanitärprodukte GmbH since 2000.
 Joined Sanitec in 1997.



Events in 2002

Sanitec merged with its parent company

On 31 March 2002 Sanitec Corporation merged with its parent company Pool Acquisition Helsinki Oy (through which BC Partners advised funds had acquired Sanitec in 2001). At the same time, Pool Acquisition Helsinki Oy changed its name to Sanitec Oy, Sanitec Corporation in English.

New President and CEO

As the merger became effective, Dr Rainer S. Simon was appointed new President and CEO of Sanitec Corporation. Mr Berndt Brunow, previously President and CEO, was appointed Chairman of the Board of Directors.

Sanitec issued High Yield Bond

On 7 May 2002 Sanitec issued a 10-year 9% p.a. high yield bond of EUR 260 million, targeted to European and US institutional investors.

Group integration

To face the challenges of a changing market, Sanitec initiated an integration and efficiency programme at the end of 2001. This restructuring and reorganisation was continued throughout 2002 to increase Sanitec's efficiency and flexibility to respond to market demands through increased co-operation and harmonised processes across the Group.

Production optimisation

Sanitec's ceramics production network is being restructured and optimised to achieve the best possible utilisation. The optimisation involves investments in new technology and reallocation of production, including plant closures in Wallhausen, Germany and Stoke-on-Trent, UK. Further announcements of plant closures have been made in Queenborough, UK and Warneton, Belgium.

Evac closed its factories in Bromölla, Sweden and Overath, Germany.

Significant Events in 2003

New corporate structure

As part of the integration programme, Sanitec's operational corporate structure was reorganised at the beginning of 2003 to support the Group's strategy of becoming an integrated multi-brand European company.

Supervisory Board in Sanitec

Due to recent changes in legislation, the previous Board of Directors of Sanitec Corporation (Sanitec Oy in Finnish) was formed into a Supervisory Board, effective as of 20 January 2003. Consequently, a new Board of Directors was appointed, chaired by Dr Rainer S. Simon.

SEC registration of High Yield Bond

In January 2003 the Exchange Offer for the EUR 260 million high yield bond was registered with the Securities and Exchange Commission in the USA. The Exchange Offer was completed by the end of March 2003.

PRODUCT HIGHLIGHTS

Visit by KERAMAG

According to trade experts, the new "Visit" by Keramag fulfils all the specifications of a "small cultural revolution" in the often neglected area of guest wc's. "Visit" combines efficient use of space with attractive design and comfort. Its clear geometrical shapes create an appealing gracefulness. The available product range allows many variable product combinations.



Elements by

ROYAL DOULTON

Modular furniture and basins by Royal Doulton offer the perfect solution to complement a contrasting mood of light and dark in the bathroom. The contrast of dark wenge wood, maple, glass and marble gives a clean look of style and sophistication.



500 by POZZI-GINORI

With its latest innovations, Pozzi-Ginori puts emphasis on the needs of those who want their bathrooms to provide new opportunities of use, optimised space and design, without compromising practicality, quality, and product reliability. According to this concept Pozzi-Ginori introduced 500, a collection designed by the Italian Antonio Citterio.





Mosaik by IDO

Nordic minimalism. In the Mosaik series, the Finnish interior designer Kaarle Holmberg has combined form with functionality. The smooth, clean lines agree with both classical and modern styles, and offer simple and timeless elegance for demanding interior design.



Onis by ALBATROS

The angular Onis bathtub by Albatros is conceived for contemporary people with an active lifestyle, who look for regeneration for both body and mind. Designed by Marc Sadler, this bathtub has also been produced in new, exclusive metallized version in resistant, easy to clean acrylic material, that gives a unique style to the bathroom.

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fax +44 1270 873864



SANITEC'S ON-LINE REPORT

Sanitec was one of the first corporations to publish its annual reports as multimedia presentations on the web. As well as the elements of a standard annual report, the site also contains additional information on various topics related to our company, presented in text, picture, animation and video.

Please visit our On-line Report at www.sanitec.com



Sanitec

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2002

Sanıtec
Annual Report

Introduction

Sanitec Annual Report 2002 presents the financial statements of Sanitec International S.A., a company registered in Luxembourg, and its subsidiaries (the "Group" and the "Successor"). This Group came operatively into existence on April 3, 2002 when previously dormant Sanitec International S.A. became the parent company of the Group.

The Group was originally formed on June 7, 2001, when Sanitec Oy, formerly Pool Acquisition Helsinki Oy, acquired Sanitec Oyj and its subsidiaries (the "Predecessor"). On December 14, 2001 the shares of Sanitec Oy, formerly Pool Acquisition Helsinki Oy were transferred to Pool Acquisition Netherlands B.V. , and on April 3, 2002 the shares of Pool Acquisition Netherlands B.V. were transferred to Sanitec International S.A.

The financial statements in this Annual Report present the financial statements of the Group consolidated at the level of the parent company at the end of each financial period concerned. Due to the acquisition of Sanitec Oyj, the financial statements of the Predecessor prior to and as of June 7, 2001 are not fully comparable to the financial statements of the Successor after that date, as the financial statements of the Successor follow a new accounting basis. For further information on the principles of consolidation please refer to the Summary of Significant Accounting Policies on p. 18 of this Annual Report.

The financial statements presented in this Annual Report include the Statements of Operations, Balance Sheets, Statements of Cash Flows and selected additional financial information of the Predecessor and the Successor.

Sanitec International S.A. was registered with the Securities and Exchange Commission (SEC) in the United States on March 20, 2003. Following the requirements of SEC for foreign registrants, a complete set of financial statements prepared in accordance with Form 20-F will be published and registered with SEC by June 30, 2003. The Form 20-F will be available also on our internet pages www.sanitec.com.

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Summary of Operating and Financial Review and Prospects

The discussion and analysis below provides information which we believe is relevant to an assessment and understanding of our consolidated financial position and results of operations. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes.

The following discussion and analysis may contain management's evaluations and statements reflecting our views about the future performance and may constitute forward-looking statements. These views may involve risks and uncertainties that are difficult to predict and may cause our actual results to differ materially from the results discussed in such forward-looking statements. Readers should consider that various factors, including changes in

general economic conditions, the nature of competition, developments in distribution, industry trends, influence of currency fluctuations and inflation, and other factors which may or may not be discussed below may affect our performance. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

The events which occurred in the United States on September 11, 2001, the conflict in Iraq and further actions which have ensued or could ensue, may influence the global economic environment substantially and could have a material impact on our projected performance.

The discussion below in this subsection includes a comparison of the consolidated historical financial statements of Sanitec International S.A. for the period from January 1, 2002 to December 31, 2002 and the pro forma combined condensed statements of operations of Pool Acquisition

Netherlands B.V. (liquidated) for the period from January 1, 2001 to December 31, 2001, both in accordance with Finnish GAAP. Our operating profit by segment for the period ended December 31, 2001 does not include pro forma adjustments for the amortization of goodwill and other intangible assets in conjunction with the acquisition of Sanitec Oyj by Pool Acquisition Netherlands B.V. (liquidated) as of June 7, 2001 and thus may not be indicative of our results going forward.

Note! Figures in brackets indicate amounts for the corresponding period in the previous year. For further comparisons, refer to the included financial statements.

Highlights 2002

- ***In spite of a difficult market situation, net sales reached 99% of previous year's sales (excluding Germany and Evac sales increased 2.9%)***
- ***EBITDA was €147.6 million, or 15.0% of net sales compared to €145.6 million or 14.6% in 2001.***
- ***Our integration and Sales, General, and Administration cost control strategies have been implemented successfully.***
- ***Industrial capital expenditures were reduced to €36.1 million or 3.7% of net sales compared to €50.8 million or 5.1% of net sales in 2001.***
- ***Net indebtedness was €701.1 million. This amount includes the financing of €23.8 million of one-off costs related to the pay down of a Junior Credit Facility and the new issue of High Yield Senior Notes.***
- ***Sanitec remained within full compliance of all loan covenants and requirements.***

Net Sales

Consolidated.

Despite the weakening economic situation in some of our main markets, we were generally able to maintain our net sales at previous year's levels. Net sales for 2002 were €985.4 million (€994.5 million in 2001), a decrease of 0.9% or €9.1 million. The result is a decrease of 0.4% or €3.9 million if the 2002 net sales are compared to the 2001 sales excluding Sanitec Johnson Suisse, as it was deconsolidated on July 1, 2001. Excluding the impact of exchange rate variances the decrease was a marginal €1.6 million. The negative effect of the weak markets in Germany and the aviation and marine sectors of Vacuum sewage systems was offset by growth, specifically in North-East Europe (the Nordic countries, Russia and the Baltic states). Growth in this area was €17.5 million or 8.5%. Although the markets remained stagnant in most Central European countries, we were able to gain market share and improve the average selling prices of our ceramic products in these markets.

Bathroom ceramics.

Bathroom ceramics net sales for 2002 were €619.7 million (€610.5 million), an increase of €9.2 million or 1.5% over 2001. High sales volumes, particularly in the North-East European market including Russia, are mainly responsible for this increase. An overall decrease in volumes was compensated by higher average selling prices. Excluding sales in Germany, the bathroom ceramics business segment's net sales growth was 4.0%.

Bath and shower products.

Bath and shower products net sales for 2002 were €293.6 million (€294.9 million), a decrease of €1.3 million or 0.4% compared to 2001. Weakness in the German market offset the effect of increased cross-selling activities and sales growth in North-East Europe, the U.K., and the Netherlands. Excluding sales to the German market, net sales increased 3.9% over the previous year.

Vacuum sewage systems.

Vacuum sewage systems net sales for 2002 were €72.1 million (€89.1 million), a decrease of €17.0 million or 19.1%. This decrease was primarily due to the continuing weakness of demand in the aviation and cruise line industries following the events of September 11, 2001.

Operating Expenses

During 2002 we successfully implemented several improvements in our cost structures.

Cost of products sold – materials and consumables increased marginally by 0.7% or €2.1 million to €308.8 million, compared to €306.7 million in 2001. This increase was mainly due to a product mix shift towards higher segment products with higher cost of purchased materials as well as parts and equipment in the bath and shower business segment.

Personnel costs were decreased by 1.5% or €4.7 million to €299.5 million from €304.2 million in 2001. This reflects the effects of the ongoing strategy of restructuring our production network and the related closure of production units, as well as the reorganization and integration of the sales, marketing, and administration functions.

Cost of outside services remained materially unchanged, reflecting a slightly increased cost of freight and transportation but a reduced cost of subcontracting services.

Other operating expenses, net, decreased by 6.1% or €8.8 million to €134.9 million (€143.7 million). In 2001, we incurred a one-off transaction cost of €6.5 million related to the acquisition of Sanitec Oyj by Pool Acquisition Netherlands B.V. Excluding this expense, the decrease in other operating expenses, net, was 1.6% or €2.3 million. Starting in the second half of 2002, we have implemented measures in all business units to cut sales, general, and administration costs. The largest savings to date include those resulting from the operational and administrative integration of our businesses within Italy and Germany as well as sales, general, and administration cost reduction initiatives implemented in Twyford and Evac.

Depreciation and amortization

Depreciation and amortization for the fiscal year 2002 increased by 3.7% or €3.4 million to €95.5 million from €92.1 million in 2001. The increase in depreciation was due to an accelerated depreciation of acquisition related financing cost (debt issuance cost) of €5.9 million, resulting from the repayment of all outstanding indebtedness under the Junior Credit Facility with the proceeds of the new High Yield Senior Notes in May 2002. Excluding this amount, the depreciation and amortization decreased by 2.7% or €2.5 million due to lower capital investments.

Operating Profit

Consolidated.

The operating profit in 2002 decreased 2.6% or €1.4 million to €52.1 million (€53.5 million). The operating profit margin was 5.3% (5.4%). When the impact of €5.9 million accelerated depreciation in 2002 and the one-off transaction cost of €6.5 million during 2001 are excluded, the comparable operating profit was €58.0 million 2002 and €60.0 million in 2001 and the operating profit margins were 5.9% and 6.0% respectively.

Bathroom ceramics.

Bathroom ceramics operating profit was €35.0 million. During the period from January 1 to June 7, 2001 and from June 8 to December 31, 2001, the operating profit was €18.5 million and €17.4 million respectively. Excluding €8.8 million of goodwill amortization allocated to bathroom ceramics in 2002 above the amount allocated in 2001, related to the acquisition of Sanitec Oyj by Pool Acquisition Netherlands B.V. on June 7, 2001, the operating profit in 2002 was €43.8 million. Our performance during the fiscal year 2002 was affected positively by the overall sales, general, and administration cost reductions as well as reductions in customer volume bonuses in Keramag.

Bath and shower products.

Bath and shower products operating profit was €15.0 million. During the period from January 1 to June 7, 2001 and from June 8 to December 31, 2001 the operating profit was €9.7 million and €14.8 million respectively. Excluding €3.8 million of increased goodwill amortization allocated to bath and shower products in 2002 due to the acquisition of Sanitec Oyj by Pool Acquisition Netherlands B.V. on June 7, 2001, the operating profit for the fiscal year 2002 was €18.8 million. The operating profit of bath and shower products during the fiscal year 2002 was negatively impacted by poor market conditions in Germany, which continued to have a negative effect on Koralle's domestic sales.

Vacuum sewage systems.

Vacuum sewage systems operating profit was €2.1 million. During the period from January 1 to June 7, 2001 and from June 8 to December 31, 2001 the operating profit was €2.2 million and €6.3 million respectively. Excluding the additional €0.5 million of goodwill amortization allocated to vacuum sewage systems segment in 2002 due to the acquisition of Sanitec Oyj by Pool Acquisition Netherlands B.V. on June 7, 2001, operating profit for the fiscal year 2002 was €2.6 million. Despite significant reductions in sales, gen-

eral, and administration costs, and an increase in the after sales market (spare parts market), which generally has higher margins, the vacuum sewage systems business was not able to fully offset the lost margin from lower sales. The lost sales are a result of the market downturn in the aviation and cruise line businesses after the events of September 11, 2001.

EBITDA

The EBITDA of 2002 was €147.6 million (€145.6 million). The 2002 figure includes €1.4 million one-off consultancy costs relating to the Group's integration process. The 2001 result included €6.5 million of one-time transaction costs and a €1.1 million loss generated by Sanitec Johnson Suisse which was deconsolidated as of July 1, 2001.

Bathroom ceramics.

Bathroom ceramics EBITDA for 2002 was €99.7 million up from €92.4 million in 2001, an increase of €7.3 million or 7.9%. This increase is mainly driven by the release of customer volume based customer bonuses in the Central European Region.

Bath and shower.

Bath and shower EBITDA for 2002 was €43.1 million up from €41.4 million in 2001, an increase of €1.7 million or 4.1%. This increase is due to increased cross-selling activities as well as savings generated from the strategic purchasing program. These gains were partly offset by the effects of the weak market situation in the Central European Region.

Vacuum sewage systems.

Vacuum sewage systems EBITDA for 2002 was €4.8 million down from €11.8 million in 2001, a decrease of €7.0 million or 59.3%. This development is primarily driven by the continuously deteriorating market in the aviation and marine industries.

Other income and expenses, net

Other income and expenses, net, consists of the net of interest income and other financial income, exchange gains and losses, write downs of financial assets and interest expenses and other financial expenses; in other words it represents our net financial position.

Other income and expenses, net, expense increased by €17.2

million to €100.4 million (€83.2 million) over 2001. The increase is attributable to the expenses of the replacement of the Junior Credit Facility with the High Yield Senior Notes in May 2002. Also, an increase in the capitalized interest of the PIK loan and shareholder loan increased our respective non-cash interest positions. We had no significant gain or loss from financial derivatives. On a net cash basis, the cash outflow from other income and expenses, net, was €60.8 million (€43.1 million January 1-June 7, 2001 and €4.3 million June 8-December 31, 2001).

Income taxes

Income taxes during the fiscal year 2002 were €26.4 million, compared to €21.5 million for the fiscal year 2001. The increase is predominantly due to the taxable profit improvement of Keramag and an increase in deferred taxes. Cash payments of tax were €14.7 million (€5.8 million January 1 – June 7, 2001 and €4.3 million June 8 – December 31, 2001)

Capital expenditure

Our industrial capital expenditure in 2002 was €36.1 million (€50.8 million), or 3.7% (5.1%) of net sales. This reflects our stringent policy of focusing our capital spending, other than the normal maintenance investments, on selected strategically vital targets only. In addition, we have booked as capital expenditure €23.8 million of expenses arising from the refinancing of the Junior Credit Facility by the High Yield Senior Notes in May 2002.

Personnel

At the end of 2002 Sanitec employed 8,299 (8,546) persons, which is a 247 person reduction. The largest headcount reductions resulted from plant closings in Germany and the UK which were partially offset by an addition of personnel in our plants in low cost regions.

Financial Statements 2002

Selected Financial Data

	Predecessor				Successor		
	Sanitec Oyj				Pool Acquisition Netherlands B.V.	Sanitec International S.A.	Proforma ⁽¹⁾ Pool Acquisition Netherlands B.V.
	Year ended December 31,			Period from January 1 - June 7 2001	Period from June 8 - December 31, 2001	Year ended December 31, 2002	Year ended December 31, 2001
(in millions of Euro, except ratios)	1998	1999	2000	2001			
Statement of Operations Data:							
Net sales	570.8	630.0	877.3	446.9	547.6	985.4	994.5
Other operating income	2.5	4.7	6.6	3.1	8.6	7.5	11.7
Operating Expenses:							
Costs of products sold—							
materials and consumables	(167.5)	(194.9)	(265.0)	(130.3)	(176.4)	(308.8)	(306.7)
Personnel	(154.0)	(167.5)	(268.6)	(137.8)	(166.4)	(299.5)	(304.2)
Outside services	(62.6)	(63.7)	(80.6)	(42.0)	(52.3)	(94.6)	(94.3)
Depreciation and amortization	(34.3)	(34.4)	(50.5)	(25.7)	(51.0)	(95.5)	(92.1)
Other operating expenses	(74.5)	(92.8)	(139.7)	(83.8)	(71.6)	(142.4)	(155.4)
Operating profit	80.4	81.4	79.5	30.4	38.5	52.1	53.5
Other income and (expenses):							
Equity in income (loss) of associated companies	(3.0)	(0.8)	(3.8)	(0.5)	0.8	0.5	0.3
Other income and expenses, net	(11.8)	(9.3)	(11.4)	(6.7)	(40.8)	(100.4)	(83.2)
Income (loss) before income taxes and minority interests	65.6	71.3	64.3	23.2	(1.5)	(47.8)	(29.4)
Income taxes	(26.5)	(26.6)	(24.9)	(8.5)	(13.2)	(26.4)	(21.5)
Minority interests	(1.4)	(1.3)	(0.2)	0.0	(0.2)	(0.6)	(0.2)
Income (loss) before extraordinary items	37.7	43.4	39.2	14.7	(14.9)	(74.8)	(51.1)
Extraordinary items	(0.7)	—	—	(1.4)	(2.3)	—	—
Net income (loss)	37.0	43.4	39.2	13.3	(17.2)	(74.8)	—
Cash Flow Information:							
Cash flow from operating activities	58.7	77.8	47.5	9.3	65.0	39.1	—
Cash flow from investing activities	(65.9)	(151.2)	(12.0)	(159.0)	(955.6)	(58.3)	—
Cash flow from financing activities	(4.9)	76.0	(48.6)	152.9	958.6	(14.1)	—
Capital expenditures	33.9	26.3	44.7	22.0	28.8	63.7	—
Cash interest expenses ⁽²⁾	13.8	10.0	14.2	8.9	28.8	68.5	—
Balance Sheet Data:							
Cash and cash equivalents	27.8	30.8	17.7	21.1	68.0	34.6	—
Intangible assets	68.3	132.3	140.7	196.0	801.2	766.6	—
Total assets	503.0	811.0	780.6	995.0	1,590.9	1,501.0	—
Total indebtedness	250.4	403.8	343.4	550.1	1,356.2	1,363.0	—
Total indebtedness, excluding PIK and shareholder loans	251.9	407.7	343.4	550.1	984.0	958.0	—
Total net debt ⁽³⁾	93.5	193.1	156.4	324.5	696.8	716.0	—
Total shareholders' equity	210.1	339.5	366.9	375.4	131.9	40.7	—
Total PIK and shareholder loans	—	—	—	—	372.2	405.0	—
Other Information:							
Operating profit	80.4	81.4	79.5	30.4	38.5	52.1	53.5
Depreciation and amortization	34.3	34.4	50.5	25.7	51.0	95.5	92.1
EBITDA ⁽⁴⁾	114.7	115.8	130.0	56.1	89.5	147.6	145.6
Ratio of earnings to fixed charges ⁽⁵⁾	4.7x	6.5x	4.6x	3.1x	1.0x	(48.3)	(29.7)
Ratio of EBITDA to cash interest expenses	8.3x	11.6x	9.2x	6.3x	3.1x	2.2x	2.6x
Ratio of total net debt to EBITDA	0.8x	1.7x	1.2x	—	—	4.9x	—
Personnel, end of period	5,557	8,399	8,111	9,135	8,546	8,299	8,546

⁽¹⁾ Calculated on a pro forma basis to present financial information of Sanitec International on a consolidated basis, for the period January 1 through December 31, 2001.

⁽²⁾ We define cash interest expenses as interest expenses less accrued interest related to the PIK loan and the shareholder loan.

⁽³⁾ We define total net debt as total long-term debts including current installments and current debt less cash and cash equivalents. Subordinated indebtedness (PIK-loan and Shareholder loan) is excluded.

⁽⁴⁾ We have presented EBITDA in order to allow for greater comparability between periods as well as an indication of our result on an on-going basis. Due to a considerable increase in the amortization of goodwill under Finnish GAAP starting as of June 8, 2001 and a substantial amount of non-cash depreciation and amortization, we believe EBITDA allows additional understanding of our operational performance. We define EBITDA as earnings before interest, taxes, depreciation and amortization.

⁽⁵⁾ Ratio of earnings to fixed charges is computed by dividing our income before income tax expenses, minority interests, equity method earnings (losses) and fixed charges by our fixed charges, all under Finnish GAAP. Our fixed charges consist of interest expensed and capitalized, amortization of capitalized interests and amortization of deferred financing costs plus one-third of rental expenses which we estimate to be the portion attributable to interest. For the year ended December 31, 2001, on a pro forma basis and for the year ended December 31, 2002, the ratio of earnings to fixed charges was less than 1.0x. Sanitec International would have been required to generate additional earnings of €29.7 million and €48.3 million, respectively, to be able to cover its fixed charges during the period. For the periods that the ratio of earnings to fixed charges was less than 1.0x, the difference between earnings and fixed charges is indicated.

Results of Operations

The following table shows, for the periods indicated, financial information derived from our consolidated historical financial statements and proforma financial statements of the Successor for the period of January 1 to December 31, 2001.

	Predecessor				Successor					
	Sanitec Oyj				Pool Acquisition Netherlands B.V.		Sanitec International S.A.		Proforma Pool Acquisition Netherlands B.V.	
	January 1 - December 31, 2000		January 1 - June 7, 2001		June 8 - December 31, 2001		January 1 - December 31, 2002		January 1 - December 31, 2001	
	€ in million	% of net sales	€ in million	% of net sales	€ in million	% of net sales	€ in million	% of net sales	€ in million	% of net sales
(Amounts in millions of Euro)										
Net sales:										
Bathroom ceramics	524.9	59.8	278.5	62.3	332.0	60.6	619.7	62.9	610.5	61.4
Bath and shower products	264.3	30.1	132.0	29.5	162.9	29.7	293.6	29.8	294.9	29.7
Evac	88.1	10.0	36.4	8.1	52.7	9.7	72.1	7.3	89.1	9.0
Total	877.3	100.0	446.9	100.0	547.6	100.0	985.4	100.0	994.5	100.0
Operating expenses:										
Cost of products sold — materials and consumables	(265.0)	(30.2)	(130.3)	(29.2)	(176.4)	(32.2)	(308.8)	(31.3)	(306.7)	(30.8)
Personnel	(268.6)	(30.6)	(137.8)	(30.8)	(166.4)	(30.4)	(299.5)	(30.4)	(304.2)	(30.6)
Outside services	(80.6)	(9.2)	(42.0)	(9.4)	(52.3)	(9.6)	(94.6)	(9.6)	(94.3)	(9.5)
Depreciation and amortization	(50.5)	(5.8)	(25.7)	(5.8)	(51.0)	(9.3)	(95.5)	(9.7)	(92.1)	(9.3)
Other operating income and expenses, net	(133.1)	(15.2)	(80.7)	(18.1)	(63.0)	(11.5)	(134.9)	(13.7)	(143.7)	(14.4)
Total	(797.8)	(90.9)	(416.5)	(93.3)	(509.1)	(93.0)	(933.3)	(94.7)	(941.0)	(94.6)
Operating profit:										
Bathroom ceramics	50.6	9.6	18.5	6.6	17.4	5.2	35.0	5.6	—	—
Bath and shower products	22.2	8.4	9.7	7.3	14.8	9.1	15.0	5.1	—	—
Evac	6.7	7.6	2.2	6.0	6.3	12.0	2.1	2.9	—	—
Total	79.5	9.1	30.4	6.8	38.5	7.0	52.1	5.3	53.5	5.4
Other income and expenses, net	(11.4)	(1.3)	(6.7)	(1.5)	(40.8)	(7.5)	(100.4)	(10.2)	(83.2)	(8.4)
Income taxes	(24.9)	(2.8)	(8.5)	(1.9)	(13.2)	(2.4)	(26.4)	(2.7)	(21.5)	(2.2)
Income (loss) before extraordinary items	39.2	4.5	14.7	3.3	(14.9)	(2.7)	(74.8)	(7.6)	(51.1)	(5.1)
Extraordinary items	—	—	(1.4)	(0.3)	(2.3)	(0.4)	—	—	—	—
Net income (loss)	39.2	4.5	13.3	3.0	(17.2)	(3.1)	(74.8)	(7.6)	—	—
Other financial information:										
EBITDA⁽¹⁾										
Bathroom ceramics	90,7	17,3	37,6	13,5	54,8	16,5	99,7	16,1	92,4	15,1
Bath and shower products	30,4	11,5	15,3	11,6	26,1	16,0	43,1	14,7	41,4	14,0
Evac	8,9	10,1	3,2	8,8	8,6	16,3	4,8	6,7	11,8	13,2
Total	130,0	14,8	56,1	12,6	89,5	16,3	147,6	15,0	145,6	14,6
Personnel by business segment										
Bathroom products (Bath and Showers + Bathroom Ceramics)	7,790		8,813		8,243		8,017		8,243	
Evac	321		322		303		282		303	
Total	8,111		9,135		8,546		8,299		8,546	

⁽¹⁾ See note (4) under "Selected Historical Financial Information" for the definition of EBITDA and method of calculating EBITDA

Net Sales and Operating Profit by Quarter and by Business Segment

	Predecessor				Successor						
	Sanitec Oyj		Pool Acquisition Helsinki Oy		Pool Acquisition Netherlands B.V.		Sanitec International S.A.			Proforma ⁽¹⁾ Pool Acquisition Netherlands B.V.	Sanitec International S.A.
	(unaudited) Period from January 1 - March 31, 2001	(unaudited) Period from April 1 - June 7, 2001	(unaudited) Period from June 8 - June 30, 2001	(unaudited) Period from July 1 - September 30, 2001	(unaudited) Period from October 1 - December 31, 2001	(unaudited) Period from January 1 - March 31, 2002	(unaudited) Period from April 1 - June 30, 2002	(unaudited) Period from July 1 - September 30, 2002	(unaudited) Period from October 1 - December 31, 2002	(unaudited) Period from January 1 - December 31, 2001	Period from January 1 - December 31, 2002
(Amounts in millions of Euro)											
Net sales	258.1	188.8	70.8	232.5	244.4	251.5	257.1	236.9	239.9	994.5	985.4
Other operating income	1.3	1.8	1.9	0.9	5.8	0.9	2.7	0.9	3.0	11.7	7.5
Operating expenses:											
Cost of products sold - materials and consumables	(76.0)	(54.3)	(20.4)	(78.3)	(77.8)	(77.9)	(79.2)	(78.3)	(73.4)	(306.7)	(308.8)
Personnel	(79.5)	(58.3)	(20.2)	(70.5)	(75.7)	(78.8)	(79.0)	(68.3)	(73.5)	(304.2)	(299.5)
Outside services	(23.9)	(18.1)	(6.7)	(23.2)	(22.4)	(24.0)	(25.1)	(22.5)	(23.0)	(94.3)	(94.6)
Depreciation and writedowns	(11.2)	(8.2)	(2.7)	(10.8)	(12.3)	(11.1)	(16.8)	(11.0)	(12.5)	(45.2)	(51.4)
Amortization of goodwill	(3.6)	(2.7)	(2.8)	(8.5)	(13.9)	(11.1)	(11.2)	(11.3)	(10.5)	(46.9)	(44.1)
Other operating expenses	(43.0)	(40.8)	(12.2)	(28.0)	(31.6)	(37.2)	(37.4)	(33.3)	(34.5)	(155.4)	(142.4)
Operating profit	22.1	8.3	7.7	14.2	16.6	12.3	11.1	13.2	15.5	53.5	52.1
Net Sales:											
Bathroom Ceramics	161.5	117.0	44.3	142.0	145.8	159.5	160.7	149.5	150.0	610.5	619.7
Bath and Shower Products	75.1	56.9	20.8	67.4	74.7	74.0	79.0	69.5	71.1	294.9	293.6
Evac	21.5	14.9	5.7	23.1	23.9	17.9	17.5	17.9	18.8	89.1	72.1
Total net sales	258.1	188.8	70.8	232.5	244.4	251.5	257.1	236.9	239.9	994.5	985.4
EBITDA											
Ceramics	23.8	13.8	7.8	19.6	27.4	23.4	25.7	25.2	25.4	92.4	99.7
Bath and showers	10.5	4.8	4.4	9.7	12.0	9.6	12.5	9.0	12.0	41.4	43.1
Evac	2.6	0.6	1.0	4.2	3.4	1.5	0.9	1.3	1.1	11.8	4.8
Total EBITDA	36.9	19.2	13.2	33.5	42.8	34.5	39.1	35.5	38.5	145.6	147.6

⁽¹⁾ Proforma presents the financial statements of the successor for the period of January 1 to December 31, 2001.

Net Indebtedness

(Amounts in millions of Euro)

	Q4/2001	Q1/2002	Q2/2002	Q3/2002	Q4/2002
Total debt (including shareholder loan and PIK loan)	1,137.0	1,141.7	1,146.7	1,139.3	1,155.6
Cash and bank balances (-)	68.0	51.6	29.3	54.0	34.6
Shareholder loan (-)	312.2	312.2	312.0	312.0	334.3
PIK loan (-)	60.0	60.0	66.7	66.7	70.7
Total net debt ⁽¹⁾	696.8	717.9	738.7	706.6	716.0
Interest bearing receivables / short-term (-)	5.8	6.0	6.3	6.0	5.9
Interest bearing receivables / long-term (-)	8.7	9.1	9.0	9.1	9.0
Net indebtedness (excluding shareholder loan and PIK loan)	682.2	702.7	723.4	691.5	701.1
Shareholder loan (+)	312.2	312.2	312.0	312.0	334.3
PIK loan (+)	60.0	60.0	66.7	66.7	70.7
Net indebtedness (incl. shareholder loan and PIK loan)	1,054.4	1,074.9	1,102.1	1,070.2	1,106.1

⁽¹⁾ We define total net debt as the total of Long term debt including current installments and current debt, less cash and cash equivalents. Subordinated indebtedness (PIK-loan and Shareholder loan) is excluded.

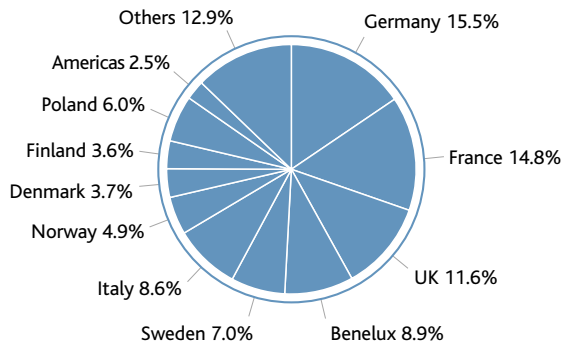
(Amounts in millions of Euro)

	Change	Sanitec International S.A.
Net indebtedness (including shareholder loan and PIK) September 2002		1,070.2
<i>Change of net indebtedness</i>		
Increase of interest bearing debt	16.3	
Decrease of interest bearing loan receivable	0.2	
Decrease in cash and cash equivalents	19.4	
Increase of net indebtedness September-December 2002		35.9
Net indebtedness (incl. Shareholder loan and PIK) December 2002		1,106.1
<i>Uses/sources</i>		35.9
<i>Uses/sources non-cash effective</i>		
Capitalized interest on PIK and Shareholder loans	(26.3)	
Exchange variance of Senior credit facility	2.2	(24.1)
<i>Uses/sources cash effective</i>		
Cash flow from operating activities	(3.2)	
Cash flow from investing activities	(12.0)	
Other variances	3.4	(11.8)
Increase of net indebtedness September-December 2002		(35.9)

Financial Statements 2002

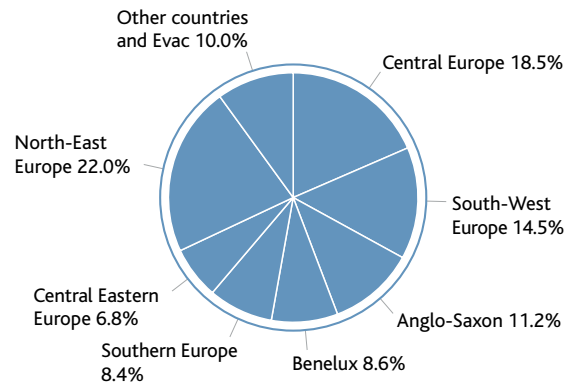
NET SALES BY COUNTRY

2002



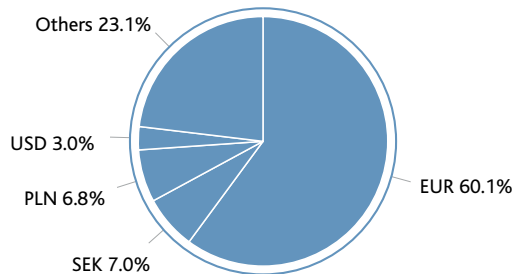
NET SALES BY REGION

2002



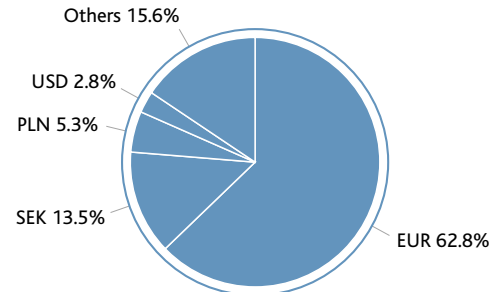
CURRENCY DISTRIBUTION

Invoiced Sales 2002



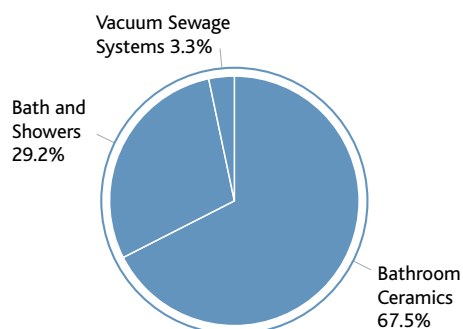
CURRENCY DISTRIBUTION

Operating Costs 2002



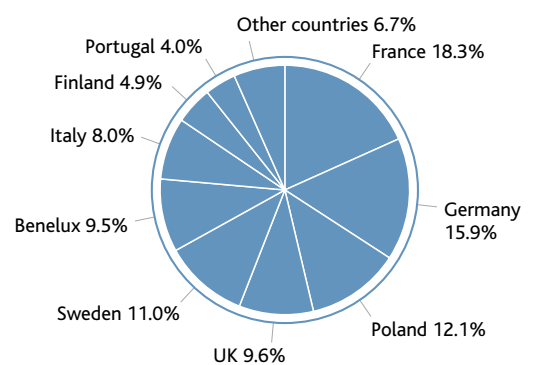
EBITDA BY BUSINESS SEGMENT

2002



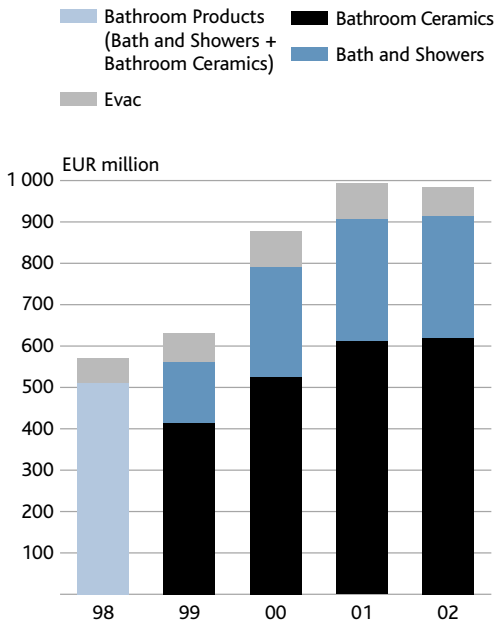
PERSONNEL BY COUNTRY

2002



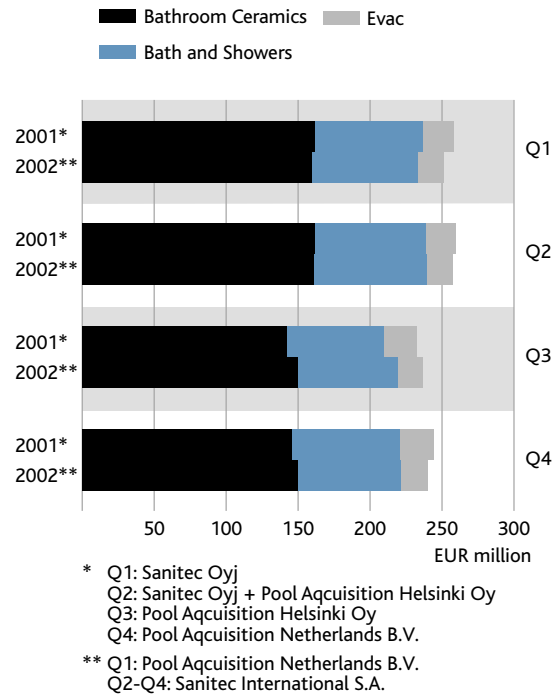
NET SALES BY BUSINESS SEGMENT

1998 – 2002



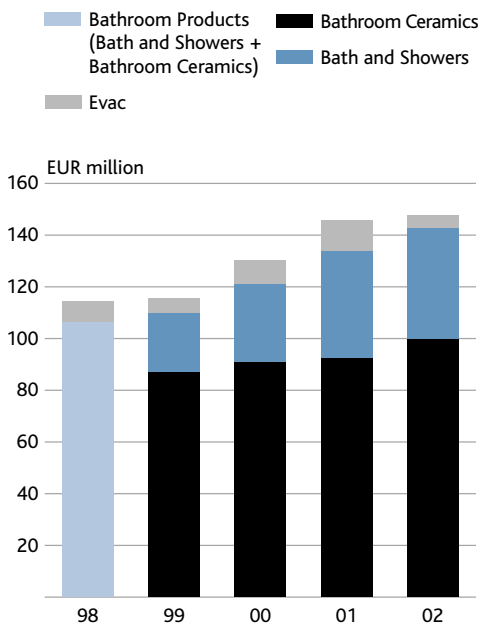
NET SALES BY QUARTER

2001 – 2002



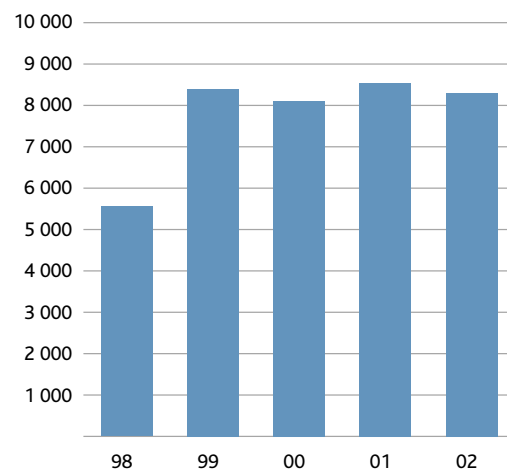
EBITDA

1998 – 2002



PERSONNEL

1998 – 2002



Financial Statements 2002

Consolidated Statements of Operations

(Amounts in millions of Euro)	Pool Acquisition Netherlands B.V.	Sanitec International S.A. ⁽¹⁾		
	(unaudited) Period from January 1 - March 31, 2002	(unaudited) Period from January 1 - June 30, 2002	(unaudited) Period from January 1 - September 30, 2002	Period from January 1 - December 31, 2002
Net sales	251.5	508.6	745.5	985.4
Other operating income	0.9	3.6	4.5	7.5
Operating expenses:				
Cost of products sold - materials and consumables	(77.9)	(157.1)	(235.4)	(308.8)
Personnel	(78.8)	(157.8)	(226.0)	(299.5)
Outside services	(24.0)	(49.1)	(71.6)	(94.6)
Depreciation and writedowns	(11.1)	(27.8)	(38.8)	(51.4)
Amortization of goodwill	(11.1)	(22.3)	(33.6)	(44.1)
Other operating expenses	(37.2)	(74.6)	(108.0)	(142.4)
Operating profit	12.3	23.5	36.6	52.1
Other income (expenses):				
Equity in income (loss) of associated companies	0.1	0.2	0.2	0.5
Other income and expenses, net	(21.0)	(54.5)	(77.0)	(100.4)
Income (loss) before income taxes and minority interests	(8.6)	(30.9)	(40.2)	(47.8)
Income taxes	(5.6)	(13.6)	(18.5)	(26.4)
Minority interests	(0.2)	(0.3)	(0.5)	(0.6)
Net income (loss)	(14.4)	(44.8)	(59.2)	(74.8)
EBITDA	34.5	73.6	109.0	147.6

⁽¹⁾ Sanitec International S.A. was dormant with no operational activity until April 3, 2002.

Consolidated Balance Sheets

(Amounts in millions of Euro)	Pool Acquisition Netherlands B.V.		Sanitec International S.A. ⁽¹⁾		
	At December 31, 2001	(unaudited) At March 31, 2002	(unaudited) At June 30, 2002	(unaudited) At September 30, 2002	At December 31, 2002
Assets					
Fixed assets and other long-term investments					
Intangible assets, net:					
Goodwill	769.6	760.2	751.7	746.3	721.5
Other intangible assets	31.6	30.5	43.1	44.6	45.1
	801.2	790.7	794.8	790.9	766.6
Property, plant and equipment, net:					
Land	52.5	52.4	54.6	55.0	73.1
Buildings	97.1	95.1	90.8	90.5	111.0
Machinery and equipment	104.7	102.8	96.9	94.9	100.9
Other tangible assets	6.7	6.7	6.5	6.2	6.2
Advances paid and construction in progress	15.8	16.3	18.7	20.3	11.2
	276.8	273.4	267.5	266.8	302.4
Long-term investments and receivables:					
Investment securities	1.0	1.0	1.1	1.1	0.8
Other receivables	9.6	10.0	9.5	9.6	9.2
	10.6	11.0	10.6	10.7	10.0
Investments in associated companies	41.7	40.1	35.2	35.6	33.8
Total fixed assets and other long-term investments	1,130.3	1,115.2	1,108.1	1,104.0	1,112.8
Current assets:					
Inventories:					
Finished goods	85.8	85.2	83.3	76.9	78.2
Work in progress	17.3	17.9	19.0	18.9	21.9
Raw material	58.9	60.0	59.3	58.4	56.5
	162.0	163.1	161.6	154.3	156.6
Trade accounts receivable	161.1	182.5	189.2	176.7	154.5
Loans receivable	6.4	6.4	7.1	6.4	6.0
Prepaid expenses and accrued income	41.4	40.4	29.9	26.7	22.1
Deferred tax assets	5.5	5.8	4.9	4.7	–
Other current assets	16.2	13.9	13.7	13.3	14.4
Cash and cash equivalents	68.0	51.6	29.3	54.0	34.6
	298.6	300.7	274.1	281.9	231.6
Total current assets	460.6	463.9	435.7	436.2	388.2
Total assets	1,590.9	1,579.1	1,543.8	1,540.2	1,501.0

⁽¹⁾ Sanitec International S.A. was dormant with no operational activity until April 3, 2002.

Financial Statements 2002

Consolidated Balance Sheets

(Amounts in millions of Euro)	Pool Acquisition Netherlands B.V.		Sanitec International S.A. ⁽¹⁾		
	At December 31, 2001	(unaudited) At March 31, 2002	(unaudited) At June 30, 2002	(unaudited) At September 30, 2002	At December 31, 2002
Shareholders' equity and total liabilities					
Shareholders' equity:					
Share capital	30.0	30.0	10.0	10.0	10.0
Share premium funds	120.0	120.0	140.1	140.1	140.1
Other reserves	0.2	(0.3)	(8.4)	(6.5)	(9.6)
Retained earnings (deficit)	(1.1)	(17.3)	(23.9)	(24.6)	(25.0)
Net income (loss) for the period	(17.2)	(14.4)	(44.8)	(59.2)	(74.8)
Total shareholders' equity	131.9	118.0	73.0	59.7	40.7
Minority interests	3.8	4.0	2.9	3.1	3.2
Provisions	99.0	97.9	98.8	96.0	94.1
Non-current liabilities:					
Long term debt, excluding current installments	731.9	734.7	732.9	733.2	719.6
Shareholder loans and subordinated loans	372.2	372.2	378.7	378.7	405.0
Deferred tax liabilities	–	–	–	–	7.9
	1,104.1	1,106.9	1,111.5	1,111.9	1,132.5
Current liabilities:					
Current debt	14.8	19.5	13.0	3.6	4.9
Current installments of long-term debt	18.1	15.4	22.2	23.7	26.1
Trade accounts payable	91.1	86.9	93.0	83.9	92.5
Accrued expenses and deferred income	108.4	111.7	115.2	143.2	94.6
Other current liabilities	19.7	18.8	14.2	15.1	12.4
	252.1	252.3	257.6	269.5	230.5
Total liabilities	1,356.2	1,359.2	1,369.2	1,381.4	1,363.0
Shareholders' equity and total liabilities	1,590.9	1,579.1	1,543.8	1,540.2	1,501.0

⁽¹⁾ Sanitec International S.A. was dormant with no operational activity until April 3, 2002.

Consolidated Statements of Cash Flows

	Pool Acquisition Netherlands B.V.	Sanitec International S.A.				Sanitec International S.A.		
	(unaudited) Period from January 1 - March 31, 2002	(unaudited) Period from April 1 - June 30, 2002	(unaudited) Period from July 1 - September 30, 2002	(unaudited) Period from October 1 - December 31, 2002	(unaudited) Period from January 1 - June 30, 2002	(unaudited) Period from January 1 - September 30, 2002	Period from January 1 - December 31, 2002	
(Amounts in millions of Euro)								
Cash flow from operating activities:								
Operating profit	12.3	11.1	13.2	15.5	23.5	36.6	52.1	
Intangibles, property, plant and equipment, net								
Depreciation, amortization and write-down	22.1	28.0	22.3	23.1	50.1	72.4	95.5	
Selling profit / (loss) of fixed assets	0.0	(0.2)	(0.1)	0.8	(0.2)	(0.3)	0.5	
Cash flow before working capital changes	34.5	38.9	35.3	39.4	73.4	108.7	148.1	
Changes in working capital								
Current assets, non-interest bearing, (increase) / decrease	(15.2)	(12.4)	15.8	12.9	(27.7)	(11.9)	1.0	
Inventories, (increase) / decrease	(0.9)	(1.9)	7.7	(3.4)	(2.8)	4.9	1.5	
Current liabilities, non-interest bearing, increase/ (decrease)	(16.7)	6.5	(15.4)	(10.4)	(10.1)	(25.6)	(36.0)	
	(32.7)	(7.9)	8.0	(0.9)	(40.6)	(32.6)	(33.5)	
Cash flow from operating activities before financial items and taxes	1.7	31.0	43.4	38.5	32.8	76.1	114.6	
Interest expenses paid	(11.3)	(19.1)	(5.5)	(30.5)	(30.5)	(36.0)	(66.5)	
Interest income received	1.6	1.0	1.0	0.7	2.6	3.6	4.3	
Other financial income received and paid	3.2	2.6	3.9	(8.3)	5.8	9.7	1.4	
Income taxes paid	(6.9)	(1.8)	(2.4)	(3.6)	(8.7)	(11.1)	(14.7)	
Cash flow from operating activities (A)	(11.7)	13.7	40.3	(3.2)	2.0	42.3	39.1	
Cash flow from investing activities:								
Acquisitions	—	—	—	—	—	—	—	
Investments in shares	—	—	—	—	—	—	—	
Investments in other tangible and intangible assets	(7.7)	(32.1)	(9.8)	(14.1)	(39.7)	(49.6)	(63.7) ⁽¹⁾	
Proceeds from sale of tangible and intangible assets	2.3	0.9	0.1	2.1	3.2	3.3	5.4	
Cash flow from investing activities (B)	(5.4)	(31.1)	(9.7)	(12.0)	(36.5)	(46.3)	(58.3)	
Cash flow from financing activities:								
Issuance of share capital	—	—	—	—	—	—	—	
Issue premium	—	—	—	—	—	—	—	
Loans receivable, (increase) / decrease	(0.6)	0.3	0.0	(0.1)	(0.2)	(0.2)	(0.3)	
Current loans increase / (decrease)	(1.4)	(4.6)	(9.4)	5.7	(6.0)	(15.4)	(9.7)	
New long term loans	2.9	277.3	(0.0)	0.0	280.2	280.2	280.2	
Amortization of long term loans	0.0	(276.3)	0.0	(7.6)	(276.3)	(276.3)	(283.9)	
Dividends paid	0.0	(1.2)	0.0	0.0	(1.2)	(1.2)	(1.2)	
Other changes, including exchange rate changes	(0.3)	(0.3)	3.5	(2.1)	(0.6)	2.9	0.8	
Cash flow from financing activities (C)	0.7	(4.8)	(5.9)	(4.1)	(4.1)	(10.0)	(14.1)	
Change in cash and cash equivalents (A+B+C), increase / (decrease)	(16.4)	(22.2)	24.7	(19.3)	(38.7)	(14.0)	(33.3)	
Cash and cash equivalents at the beginning of period	68.0	51.6	29.3	54.0	68.0	68.0	67.9	
Cash and cash equivalents at the end of period	51.6	29.3	54.0	34.6	29.3	54.0	34.6	
Reconciliation of cash and equivalents								
As previously reported	68.0	51.6	29.3	54.0	68.0	68.0	68.0	
Foreign exchange adjustment	0.0	0.0	0.0	(0.1)	0.0	0.0	(0.1)	
Cash and cash equivalents at the beginning of period	68.0	51.6	29.3	53.9	68.0	68.0	67.9	
Change in cash and equivalents	(16.4)	(22.2)	24.7	(19.3)	(38.7)	(14.0)	(33.3)	
Cash and cash equivalents at the end of period	51.6	29.3	54.0	34.6	29.3	54.0	34.6	

⁽¹⁾ €23.8 million relates to refinancing costs of Junior loan into High Yield Senior Notes and other capitalized debt issuance costs. €3.8 million refers to the buy-out of Sanitec's minority shareholders.

Summary of Significant Accounting Policies

a) Description of business

Sanitec International S.A. (the "Group" and "Successor") is a multinational group headquartered in Helsinki, Finland and Hamburg, Germany engaged in the production of bathroom ceramics, bath and shower products and vacuum sewage systems. The Group's sales and production network operates throughout Europe, and its vacuum sewage systems business is global. Net sales of 94% of the Group were generated in Europe and 6% throughout the rest of the world. In 2002, net sales were distributed as follows: bathroom ceramics—63%, bath and shower products—30%, and vacuum sewage systems ("EVAC")—7%. The Group's raw materials are readily available and the Group is not dependent on any single supplier.

b) Basis of preparation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Finland ("Finnish GAAP"). The preparation of the consolidated financial statements in conformity with Finnish GAAP requires the Group's management to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of intangible assets, property, plant and equipment; valuation allowances for receivables, inventories and deferred income tax assets; environmental liabilities; valuation of derivative instruments; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

c) Principles of consolidation

The consolidated financial statements include the financial statements of Sanitec International S.A., a company registered in Luxembourg, and its wholly and over 50% owned subsidiaries, collectively the "Group". Sanitec International S.A. is a 100% owned subsidiary of Sanitec International AG, a company registered in Germany. Sanitec Oy, formerly Pool Acquisition Oy, has entered into a Service and Consultancy Agreement (the "Agreement"), effective March 28, 2002 with Sanitec International AG whereby Sanitec International AG will assist Sanitec Oy in developing a business strategy, implementing process improvements, and developing products and businesses. The CEO of Sanitec Oy, formerly Pool Acquisition Oy, is an employee of Sanitec International AG. Sanitec International AG charges the costs related to such services plus an additional 5% to Sanitec Oy, formerly Pool Acquisition Oy. The Agreement expires on December 31, 2002 but shall be automati-

cally renewed for a year unless terminated in writing by either party at least 60 days prior to the end of the initial or succeeding term. Sanitec International AG is a 93.33% owned subsidiary of Pool Acquisition S.A., a company registered in Luxembourg. Pool Acquisition S.A. has no operating assets or income.

Sanitec Oy, formerly Pool Acquisition Helsinki Oy, was formed by funds advised by BC Partners in order to acquire Sanitec Oy. On June 7, 2001, Sanitec Oy (the "Predecessor") was acquired by Sanitec Oy, formerly Pool Acquisition Helsinki Oy. On November 14, 2001, the total share capital of Sanitec Oy, formerly Pool Acquisition Helsinki Oy, was transferred as contribution in kind to Pool Acquisition Netherlands B.V. On March 31, 2002 Sanitec Oy was merged with Pool Acquisition Helsinki Oy, which changed its name to Sanitec Oy as of the same date.

Sanitec International S.A. was incorporated on May 8, 2001 and was dormant until activated to issue the €260 million Senior Notes in May 2002. The shares of Pool Acquisition Netherlands B.V. were transferred to Sanitec International S.A. as contribution in kind on April 3, 2002. Pool Acquisition Netherlands B.V. was liquidated in November 2002.

Sanitec International S.A. and Sanitec Oy, formerly Pool Acquisition Helsinki Oy, are members of the Group under common control of Pool Acquisition S.A., the parent company. The results of operations and cash flows attributable to Sanitec Oy have been included in the consolidated financial statements of the Group from June 8, 2001.

The acquisition of Sanitec Oy was accounted for as a purchase business combination. Restructuring provisions related to the Group management's plans for the Sanitec acquisition are included as a component of goodwill.

The consolidated financial statements for the year ended December 31, 2000 and the period ended June 7, 2001 present on a historical cost basis the assets, liabilities, revenues and expenses of the Predecessor prior to the completion of the acquisition. Accordingly, the accompanying financial statements of the Predecessor and the Group are not comparable in all material respects, since the Group's financial position, results of operations and cash flows use a new accounting basis.

All significant intercompany balances and transactions have been eliminated in consolidation. Sphinx Technical Ceramics B.V., a wholly-owned subsidiary of the Group, whose ownership was intended to be temporary is excluded from consolidation because it was acquired to be disposed of subsequent to its acquisition.

Investments in the common stock of associated companies, in which the Group owns between a 20% and 50% interest, including 50% owned joint ventures, are accounted for by the equity method.

Minority interests are presented separately on the balance sheet. Results related to minority interests are presented on the income statement as a separate item, net of tax.

d) Transactions denominated in foreign currencies

The financial statements of the Group's subsidiaries are measured using the Euro as the functional currency. The assets and liabilities of the Group's operations are translated into Euro at the current exchange rate prevailing at the balance sheet date and revenues and expenses are translated at the average exchange rate for the financial period. Gains and losses from exchange rate differences arising from translations are recorded directly to retained earnings and other equity, net of exchange rate differences arising on equity hedges of currency borrowings and forward contracts.

Transactions denominated in non-Euro currencies are recorded at the exchange rate prevailing at the date of the transaction. At the end of the accounting period assets and liabilities denominated in non-Euro currencies are translated at the exchange rate prevailing at the balance sheet date. Gains and losses that arise from exchange rate fluctuations on transactions and assets and liabilities denominated in non-Euro currencies are included in the results of operations.

e) Derivative financial instruments

The business operations of the Group give rise to certain exposure to risks related to interest rates and non-Euro currency. These risks are managed to minimize their impact on the Group's profitability and financial position.

The Group considers its derivative financial instruments to be a hedge when certain criteria are met.

For a non-Euro currency derivative instrument to qualify as a hedge, the instrument must be related to a non-Euro currency asset, liability, or commitment, or a portfolio of assets, liabilities and commitments, the characteristics of which have been identified; involve the same currency as the hedged item; and reduce the exposure to the risk of non-Euro currency exchange movements on the Group's operations.

For an interest rate derivative instrument to qualify as a hedge, the instrument must be related to an asset or a liability, or to a portfolio of assets and liabilities; and must change the character of the interest rate by converting a variable rate to a fixed rate or by converting a fixed rate to a variable rate.

The Group does not use derivative financial instruments for speculative purposes.

Forward exchange contracts and currency swaps

Gains and losses on forward exchange contracts and currency

swaps that are designated and effective as hedges are deferred and recognized in income or as adjustments of carrying amounts when the hedged transaction occurs. The interest component determined at the inception of the contract is accrued as interest income and expense over the contract term.

Interest rate swaps

Interest rate swaps that are designated as cash flow hedges of debt obligations are accounted for on an accrual basis. That is, the interest payable and interest receivable under the swap terms are accrued and recorded as an adjustment to the interest expense of the designated liability.

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at each reporting date based on amounts calculated by reference to the respective interest rate swap contracts. Realized gains and losses that occur from the early termination or expiration of contracts are recorded in income over the remaining period of the original swap agreement.

Interest rate and foreign currency options

Gains and losses on interest rate and foreign currency options that are designated and effective as hedges are deferred and recognized in income or as adjustments of carrying amounts when the hedged transactions occur. Option premiums are recorded as either an asset or a liability and amortized over the life of the option.

f) Revenue recognition

The Group recognizes revenue from product sales upon shipment, when the customer takes ownership and when the customer assumes the risk of loss. Generally, revenue is recognized based on the shipping terms at either the shipping point, if the terms are free on board (F.O.B.) shipping point, or upon delivery, if the terms are F.O.B. destination point. The majority of the Group's sales are F.O.B. shipping point. There is no deferred income recorded for the Predecessor as of December 31, 2000 or June 7, 2001 or the Group as of December 31, 2001 or December 31, 2002.

Net sales consist of gross sales revenues reduced by certain items including indirect sales taxes and sales discounts. The Group estimates and records provisions for cash discounts, quantity rebates, sales returns and allowances and original warranties in the period the sale is reported based on its experience.

g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and highly liquid short-term investments. For purposes of the consolidated statement of cash flows, the Group considers

all highly liquid investments to be cash equivalents. As of December 31, 2000, cash equivalents held by the Predecessor, amounting to €1.3 million, were restricted for use by the Group due to the liquidation of a subsidiary. As of December 31, 2001, the Group held cash equivalents of €22.9 million which are restricted to acquisition related payments. As of December 31, 2002 no restrictions were related to Cash and cash equivalents.

h) Accounts receivable

Accounts receivable are recorded at historical cost, less a provision for doubtful accounts. Management considers current information and events regarding the debtors' ability to repay their obligations, and makes a provision against amounts due when it is probable that the full amount will not be collected. Changes in the level of provision are recorded as bad debt expense.

i) Impairment of non-current assets

Impairment of goodwill, property, plant and equipment and other non-current assets is recognized if the estimated future revenue generated by the non-current asset is expected to be permanently lower than the historical cost, net of depreciation. The amount of impairment is calculated as the difference between the estimated future revenue generated and the historical cost, net of depreciation and recorded as an expense. Non-current assets may be revalued upwards to recover amounts previously recorded as impairment.

j) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method for finished goods and the average cost method for raw materials. Cost includes direct manufacturing, labor and materials, variable overhead and full absorption of manufacturing overhead. Costs associated with assets produced for internal use are capitalized and depreciated over their estimated useful lives.

k) Goodwill and other intangible assets

Goodwill, which represents the excess of purchase price over the fair value of certain net assets acquired, is amortized on a straight-line basis over the periods expected to benefit, generally 20 years. Other intangible assets include patents and license rights, computer software, leasehold improvements and are amortized over 3 to 10 years.

Internally developed intangible assets are generally expensed when incurred, while intangible assets acquired from others are capitalized. For non-material intangible assets acquired from others it is allowed to expense the costs when incurred.

Costs attributable to development of computer software are either capitalized or expensed when incurred using the following principles:

- Costs incurred during the preliminary planning and evaluation phase are expensed when incurred
- Costs incurred during the application development stage are capitalized and amortized over the useful economic life of the asset
- Costs incurred after the completion of the application development stage and those incurred during the operation stage are expensed when incurred

For non-material software development costs incurred during the application development stage are allowed to be expensed when incurred.

l) Debt issuance costs

Costs related to the issuance of debt are capitalized under other intangible assets and amortized generally on a straight-line basis over the lives of the related debt.

m) Fixed assets and depreciation

Property, plant and equipment is stated at cost less accumulated depreciation. Interest expense related to major investment projects in Poland has been capitalized.

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets according to plan as follows:

Buildings	20-30 years
Machinery and equipment	3-15 years

n) Investments in Marketable Securities

Investment securities held as short-term investments are recorded at the lower of cost or market value. Investments, which are considered long-term, are recorded at the lower of cost or market value, if the value adjustment is considered permanent.

o) Other current assets

Other current assets consist of prepayments of insurance premiums, income and other taxes, rental payments and other financial items such as interest income receivable.

p) Research and development

Research and development costs are expensed as incurred. Research and development costs amounted to €16.6 million for the year ended December 31, 2000, €9.3 million and €11.0 million for the

periods from January 1, 2001 through June 7, 2001 and June 8, 2001 through December 31, 2001, respectively, and €19.8 million for the year ended December 31, 2002.

q) Warranty costs

The Group's warranty policy provides for coverage of certain products. The Group's policy is to accrue the estimated cost of warranty coverage at the date the sale is recorded. The estimated liability is included as a current liability. Changes in the warranty liability, are charged against earnings for the period.

r) Leasing

The Group leases certain property and equipment under various operating and capital lease arrangements. Leases are classified and accounted for as capital leases if substantially all the benefits of ownership have been transferred to the lessee. Significant financial leasing items are capitalized as fixed assets.

s) Income taxes

Income taxes consist of current and deferred taxes. Current taxes include taxes of consolidated subsidiaries for the year calculated in accordance with local regulations, as well as adjustments to prior year tax accruals and deferred taxes.

Deferred tax liabilities or assets are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax liabilities are recognized regardless of the likelihood of reversal of such amounts and deferred tax assets are reduced by a valuation allowance to the amount that is probable to be realized.

t) Stock-based compensation

The Group does not account for stock-based compensation, as it is not required under Finnish GAAP.

u) Pension arrangements

Statutory and supplementary pension obligations in Finland are covered through a compulsory pension insurance policy. Payments to pension insurance institutions are recorded in amounts determined by the insurance institutions according to certain prescribed actuarial assumptions and other rulings pursuant to the Finnish Employees' Act. Group companies outside of Finland have pension obligations arranged and pension liabilities recorded in accordance with the local regulations and practice. Changes in uncovered pension obligations are recorded as an expense in the income state-

ment and the related pension liability is included as a provision in the balance sheet.

v) Other operating income and expenses

Other operating income includes income from outside ordinary business activities, such as rental income and gains from the sale of fixed assets and other long-term investments.

Other operating expenses include expenses not directly related to production, such as expenses for marketing efforts, research and development, and other expenses related to general administration. Additionally, losses from the disposition of fixed assets and other long-term investments are included within other operating expenses.

w) Provisions

Provisions in the balance sheet include those items, which the Group is obliged to pay, future realization is probable, and the amount can reasonably be estimated. Provisions include uncovered pension liabilities and restructuring expenses. Changes to provisions, excluding restructuring provisions that are a component of goodwill, are included in the income statement.

x) Extraordinary income and expenses

Extraordinary income and expenses are presented on a gross basis and include items, which are outside of the ordinary activities of the Group, such as items arising from divestments of operations.

y) Appropriations

Appropriations comprise voluntary provisions and the temporary differences related to the depreciation of the tax basis as compared to the book basis of fixed assets. Accumulated appropriations are divided into tax liability and shareholders' equity. The change in appropriations, net of the tax liability, is included in the earnings for the year. The amount of appropriations recorded in shareholders' equity is not distributable in the Predecessor according to the Finnish Companies Act.

z) Dividends

Dividends proposed by the Board of Directors are not recorded in the consolidated financial statements until they have been approved by the Annual General Meeting. The Group did not declare dividends for the year 2001 and the year 2002 and does not anticipate doing so in the near future.

aa) Consolidated statement of cash flows

The consolidated statement of cash flows is prepared in accordance with Finnish GAAP using International Accounting Standards (IAS) No. 7, "Cash Flow Statements", as amended.

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Shares and Securities in Subsidiaries, Associated Companies and Other Shareholdings

		% of
Sanitec International S.A. December 31, 2002		shares and votes
SUBSIDIARIES		
Sanitec Oy	Finland	100.0
Pool Sub-Financing Helsinki Oy	Finland	100.0
Pool Financing Helsinki Oy	Finland	100.0
Ido Bathroom Ltd.	Finland	100.0
Ido Baderom A/S	Norway	100.0
Porsgrund Oy	Finland	100.0
Ido Badrum AB	Sweden	100.0
Porsgrund Bad A/S	Norway	100.0
Ifö Sanitär AB	Sweden	100.0
Fastighets AB Pressarna	Sweden	100.0
Ifö Sanitär A/S	Norway	100.0
Scandi-aqualine A/S	Denmark	100.0
Ifö Sanitär Eesti AS	Estonia	100.0
Allia International S.A.S.	France	100.0
Allia S.A.S.	France	100.0
Polyroc S.A.S.	France	100.0
Omnium de Distribution Sanitaires S.A.S.	France	100.0
Omnium de Distribution Sanitaires Sp. z o.o.	Poland	100.0
Murena S.A.S.	France	100.0
Leda S.A.S.	France	100.0
Leda Production S.A.S.	France	100.0
Koralle S.a.r.l.	France	100.0
Produits Ceramiques de Touraine S.A.	France	100.0
S.N.B. Manufacture S.A.R.L.	France	100.0
Koninklijke Sphinx B.V.	The Netherlands	100.0
Sanitair Techniek Rosmalen B.V.	The Netherlands	100.0
Warneton Industrie S.A.	Belgium	100.0
Sanker Spol. S.r.o.	Slovakia	100.0
ODS Panda Sp. z o.o.	Poland	100.0
Sphinx Gustavsberg Wroclaw Sp. z o.o.	Poland	80.4
Deutsche Sphinx Beteiligungen GmbH	Germany	100.0
Sphinx International B.V.	The Netherlands	100.0
Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H.	Austria	100.0
Bekon Koralle AG	Switzerland	100.0
Koralle Sp. z o.o.	Poland	100.0
Sphinx Bathrooms Belgium N.V.	Belgium	100.0
Sphinx Bathrooms Ltd.	Great Britain	100.0
Koralle International GmbH	Germany	94.8
Deutsche Sphinx Sanitär GmbH	Germany	98.0
Koralle Sanitärprodukte GmbH	Germany	98.0
Servico Gesellschaft für Sanitärtechnik GmbH	Germany	98.0
Ceravid GmbH	Germany	100.0
Keramag Keramische Werke AG	Germany	95.0
Keramag Kermische Werke Haldensleben GmbH	Germany	95.0
Varicor S.A.	France	95.0
Keramag Vertriebs Holding GmbH	Germany	95.0
Eurocer Industria de Sanitarios S.A.	Portugal	100.0
Kerallia Productos Sanitarios Lda	Portugal	100.0
Laminex Sp. z o.o.	Poland	100.0
Evac International Ltd.	Finland	100.0
Evac AB	Sweden	100.0
Evac Vacuum Systems (Shanghai) Co Ltd.	China	100.0
Evac GmbH	Germany	100.0
AquaMar GmbH	Germany	100.0
Evac Oy	Finland	100.0
Evac S.A.R.L.	France	100.0
Evac S.r.l.	Italy	100.0
Envirovac Inc.	USA	100.0
Evac Ltda	Brazil	100.0
Sanitec Kolo Sp. z o.o.	Poland	99.5
Scan Aqua Sp. z o.o.	Poland	100.0
Sugarlop B.V.	The Netherlands	100.0
Sanitec Leasing AB	Sweden	100.0
Domino Italia S.p.A	Italy	100.0
Sanitec Italia S.p.A.	Italy	100.0
Pozzi Ginori S.p.A.	Italy	100.0
Sanitec Servizi Logistici S.r.L.	Italy	100.0
Domino S.p.A.	Italy	100.0
Royal Sanitec AB	Sweden	100.0
Sanitec UK	Great Britain	100.0
Twyford Bathrooms	Great Britain	100.0
Twyford Holdings Ltd.	Great Britain	100.0
Twyford Ltd.	Great Britain	100.0
Twyford Plumbing Solutions Ltd.	Great Britain	100.0
Curran Ltd.	Great Britain	100.0
Sanitec Service GmbH	Germany	100.0
ASSOCIATED COMPANIES		
Hutschenreuther-Keramag GmbH	Germany	47.5
Ceramics Holdings Middle East B.V.	The Netherlands	50.0
Ceramic Holdings Middle East C.V.	The Netherlands	50.0
AWEK Industrial Patents Ltd. Oy	Finland	25.0
OTHER SHAREHOLDINGS		
Sanitec Holding AG	Switzerland	19.9
Sanitec Holdings Pte Ltd.	Singapore	19.9
Sphinx Technical Ceramics B.V.(2)	The Netherlands	100.0

⁽¹⁾ Includes its major subsidiaries.

⁽²⁾ Loss for the financial period 2002 of Sphinx Technical Ceramics B.V. was €(5.8) million and the Shareholders' equity as of December 31, 2002 was €(9.2) million.

Sanitec

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A large, stylized graphic of the letters 'SOS' in white, positioned vertically on the right side of the page. The letters are thick and rounded, with the 'S' at the top and bottom, and the 'O's in the middle. The background is a solid blue color.