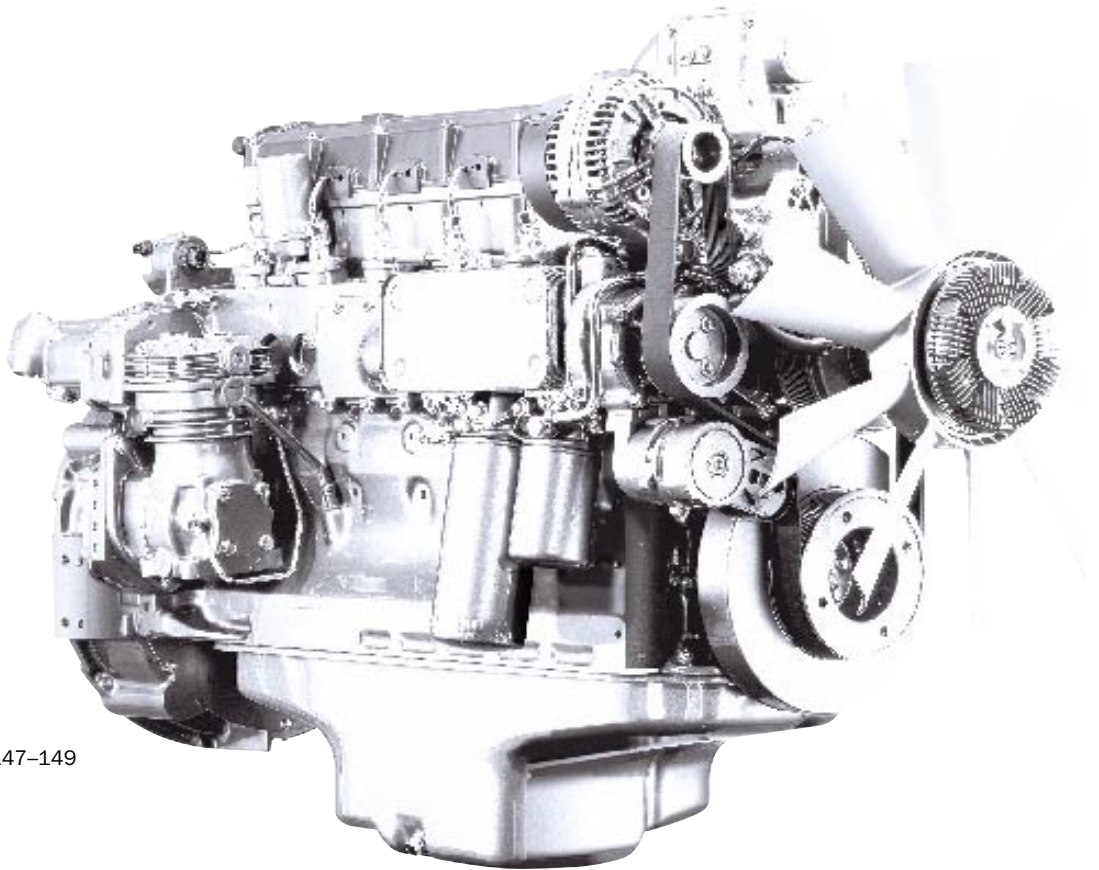


# The engine company.

DEUTZ makes a good start into the financial year

- ▶ Earnings clearly improved
- ▶ Slight increase in new orders and in unit sales and sales
- ▶ Share price rising further



**Published by**

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Report 1st Quarter 2004



## Financial Statements DEUTZ Group, 1st Quarter 2004

Key Figure Summary in € million	1-3/2004	1-3/2003
New orders	326.4	316.0
Unit sales	40,109	36,744
Sales	258.8	257.9
Foreign sales proportion in %	72.4	72.8
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	19.0	21.1
Operating profit (EBIT)	5.7	5.2
Profit/loss on ordinary activities	-1.9	-3.3
Profit/loss	-2.6	-3.8
Earnings per share in € (undiluted)	-0.03	-0.06
Earnings per share in € (diluted)	-0.03	-0.05
Balance sheet total (March 31)	1,056.8	1,054.8
Stockholders' equity (March 31)	167.1	91.2
Stockholders' equity proportion (March 31) in %	15.8	8.7
Operational cash flow	-15.3	13.6
Net financial debt	251.6	290.8
Investments	12.1	2.7
Research and development expenditure	14.3	14.1
Number of employees (March 31)	5,506	5,517

Segments	1-3/2004	1-3/2003
<b>New orders in € million</b>	<b>326.4</b>	<b>316.0</b>
Compact engines	229.2	226.1
Medium-sized and large engines	97.2	89.9
<b>Sales in units</b>	<b>40,109</b>	<b>36,744</b>
Compact engines	40,005	36,624
Medium-sized and large engines	104	120
<b>Sales in € million</b>	<b>258.8</b>	<b>257.9</b>
Compact engines	203.2	191.7
Medium-sized and large engines	55.6	66.2
<b>Operating profit (EBIT) in € million</b>	<b>5.7</b>	<b>5.2</b>
Compact engines	12.9	9.4
Medium-sized and large engines	-5.2	-3.1
Central areas	-2.0	-1.1

The accounting and valuation principles adopted for the 2003 financial statements were also applied to the quarterly accounts.

This quarterly report has been drawn up in compliance with both the DRS 6 (German Accounting Standards) and the German Commercial Code (HGB).

**Dear Shareholders,  
Dear friends of our company,**

The most important message in the first quarter of 2004 is that DEUTZ has significantly improved its earnings over last year's figures. Although the up-turn in the economy is keeping everyone waiting, we are now harvesting the successes of the durable structural improvements that we have been making over the past three years with the DEUTZ Re-Launch/5-point programme. With an EBIT increase of almost 10 percent and lower net interest expenses as a result of the continual reduction in our net financial debt, corporate earnings in this first quarter, which is always a low-profit period, turned out €1.2 million better than a year ago with a loss of only €2.6 million.

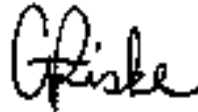
In the segment of compact engines we have increased unit sales and sales particularly dynamically and improved earnings by more than 30 percent. The planned increases with our co-operation partner VOLVO have been achieved, and we also further increased sales with our partner UZEL in Turkey. We were also able to gain market share in Germany and the rest of Western Europe and thus slightly increase sales.

In the segment of medium-sized and large engines, worldwide overcapacity and heavy price-pressure in the market for diesel engines are still causing us concern. We therefore decided a year ago to concentrate in the marine sector on a smaller number of more profitable projects, and this is already showing up in this quarter in the form of lower unit sales and sales. At the same time, in the energy sector we have initiated a strengthening of our sales activities, the success of which can be seen in an overall increase in new orders of more than 8 percent. Further efforts will still be necessary in order to achieve a durable increase in profitability.

The value of our company has moved up substantially in the last three months. Since the end of last year the price of DEUTZ shares has risen by 21 percent and has thus left the comparative indices far behind. In the so-called "free float" ranking order of the German stock exchange we are in 53rd place by market capitalisation and 63rd by stock exchange turnover, which makes us a potential candidate for the MDAX.

Dear Shareholders, although most of the economic forecasts have now been revised downwards again, I am confident that this year we will achieve a modest increase in sales and an improvement in operating profits. DEUTZ is on the right path. Come with us.

Yours truly,



Gordon Riske  
Chairman of the Management Board

# Management Report 1st Quarter 2004

## Economic environment

Hopes for a quick up-turn in the economy at the beginning of 2004 were not realised in the first quarter. Despite the continuation of healthy economic growth in Asia and Eastern Europe, and despite growth impetus from the USA the main economic data for Germany and the whole euro area are falling short of expectations. The reasons for this are firstly the relative strength of the euro against the US Dollar and secondly the slack state of demand within Europe, which goes hand in hand with the high level of unemployment in Germany and the other Western European countries.

## Development of the business

The DEUTZ Group was able to continue its satisfactory development in the first quarter of 2004. New orders rose by 3.3 percent above the level of the first quarter of last year, from €316.0 million to €326.4 million. In the segment of compact engines, new orders rose by 1.4 percent to €229.2 million (2003: €226.1 million). In the segment of medium-sized and large engines DEUTZ achieved an increase of 8.1 percent, to €97.2 million (2003: €89.9 million). Whilst it proved possible to achieve dynamic growth in the new orders for the system business with diesel and gas engines for stationary power generation, new orders in the marine business declined as part of our deliberate policy of concentrating on more profitable niches.

DEUTZ increased its unit sales in the first quarter by 9.2 percent to 40,109 engines (2003: 36,744). Unit sales in the compact engines segment rose to 40,005 engines (2003: 36,624). Powerful sales increases in liquid-cooled compact engines were more than was needed to enable DEUTZ to compensate for the continuing weakness in the unit sales of air-cooled compact engines. In the segment of medium-sized and large engines, unit sales slipped from 120 engines to 104, but improved structurally with a larger proportion of the bigger engine series.

The total sales of the DEUTZ Group was €258.8 million, slightly above the comparable figure of a year ago (€257.9 million). The proportion of sales from within Germany increased slightly to 27.6 percent (2003: 27.2 percent), so the proportion from other countries dropped slightly to 72.4 percent (2003: 72.8 percent). In

total, DEUTZ was able completely to cancel out declines in service business with increases in new engines business. In the segment of compact engines, sales clearly rose to €203.2 million (2003: €191.7 million). The main factors here were mainly the further increases in sales to the co-operation partners VOLVO and UZEL and also a slight increase in our market position in Germany and the rest of Western Europe. In the segment of medium-sized and large engines, sales declined as part of the deliberate policy of concentrating on more profitable applications and because of the weaker service business to €55.6 million (2003: €66.2 million). DEUTZ has, however, booked considerably more orders in this segment in the first quarter than in the comparable period in 2003, and this will have a beneficial effect on sales in the later quarters.

## Earnings

In the first three months of the current financial year DEUTZ increased its operating profit (EBIT) by 9.6 percent to €5.7 million (2003: €5.2 million). In the segment of compact engines, DEUTZ was able to increase operating profits by a very respectable 37.2 percent to €12.9 million (2003: €9.4 million), which was more than enough to compensate for the decline in earnings from the medium and large-sized engines segment, where the loss increased from €3.1 million to €5.2 million. In the central areas the outturn was a loss of €2.0 million (2003: €1.1 million). A further improvement in net interest expenses brought this figure to €7.6 million (2003: €8.5 million), and earnings from ordinary activities also improved to a loss of only €1.9 million, compared with €3.3 million in the same period a year earlier. After deduction of taxes, the DEUTZ Group improved its corporate earnings in the first quarter of 2004 by €1.2 million to a loss of only €2.6 million (2003: €3.8 million). Undiluted earnings per share thus improved from a loss of €0.06 to a loss of €0.03. Taking convertible profit-participation certificates into account, the diluted earnings per share came to a loss of €0.03 (2003: loss of €0.05).

## Asset and financial situation

The balance sheet total of the DEUTZ Group as of March 31, 2004 was €1,056.8 million, slightly above the figure at the end of the 2003 financial year (€1,017.0 million). This slight increase resulted basically from higher inventories and a corresponding increase in accounts payable. In comparison with March 31, 2003 (€1,054.8 million) the balance sheet total was virtually unchanged.

Net financial debt increased to €251.6 million basically on account of the higher inventories and the increasing investment activity in comparison with the 2003 year-end figure of €224.2 million, but was still well below the comparable figure as of March 31, 2003 (€290.8 million).

### **Cash flow**

Cash flow was slightly lower at €10.0 million than it had been in the first quarter of 2003 (€11.6 million). In order to ensure security of supply in the second quarter for the rapidly growing segment of compact engines, inventories were increased during the course of the first quarter. This meant that the operational cash outflow of €15.3 million was well below the inflow a year earlier of €13.6 million. Cash flow from investment activities increased to an outflow of €12.1 million (2003: €2.4 million outflow). The cash flow from financial activities came to €22.6 million (2003: €8.0 million).

### **Investments**

In the first quarter of 2004 DEUTZ broadened its product range with two new engine series for the high-volume application field of compact engines for construction and agricultural machinery. The technology for the new series, which covers the output range from 9 to 50 kW, has been taken over from an English engines manufacturer. In addition to this necessary replacement investments and capacity enlargements have been carried out. In total, investments in tangible assets came to €10.9 million, well above the previous year's figure of €2.7 million. The compact engines segment accounted for €10.6 million of this (2003: €2.2 million), and the medium-sized and large engines for €0.3 million (2003: €0.5 million).

Including investments in financial assets, total investment in the DEUTZ Group in the first quarter of 2004 came to €12.1 million.

### **Research and development**

Expenditure on research and development in the first quarter of 2004 came to €14.3 million, slightly above the previous year's level (€14.1 million). Research and development expenditure as a proportion of new engine sales dropped slightly, from 8.1 to 7.8 percent. In the compact engines segment the expenditure was €10.9 million, the same as a year earlier (€10.9 million). In the medium-sized and large engines segment, research and development expenditure rose slightly to €3.4 million (from €3.2 million).

In both segments the priorities in development activities were the new and further developments for the further optimisation of the product range.

### **Employees**

As of March 31, 2004, the DEUTZ Group had 5,506 employees worldwide (2003: 5,517). In Germany the numbers employed fell by 1.3 percent to 4,237 (2003: 4,293). At the foreign locations of the DEUTZ Group the number rose by 3.7 percent, to 1,269 (2003: 1,224).

### **DEUTZ shares**

The very satisfactory trend in DEUTZ share prices in the last quarter of last year continued into the first quarter of 2004. The closing price at the end of 2003 having been €3.22, DEUTZ shares reached €4.70 in January, their highest level for the year so far. The last time this share price had been reached was back in 2000. At the end of the first quarter, DEUTZ shares were trading at €3.90 and had thus gained 21.1 percent over the quarter. Over the same period of time the SDAX achieved a growth of 13.1 percent and the index for our industry, the Prime Industrial, fell by 1.6 percent.

Over the 12-month period since March 31, 2003, the price of DEUTZ shares has risen by 134.9 percent, the SDAX achieved a growth in value of 72.6 percent, and the Prime Industrial rose by 83.5 percent.

### **Prospects**

DEUTZ has vastly improved its structures and processes under the Re-Launch Programme and has permanently lowered its break-even level. At the same time the Group has reduced its vulnerability to economic trends with a systematic strategic alignment to growth regions, concentration on its core application segments, and well directed co-operation agreements with major customers.

For 2004 as a whole DEUTZ is expecting moderate sales growth and a further improvement in operating profits compared with the preceding year.

Cologne, May 2004

DEUTZ AG  
The Management Board

## Financial Statements DEUTZ Group, 1st Quarter 2004

Balance Sheet in € million	March 31, 2004	Dec. 31, 2003
<b>Assets</b>		
Business expansion expenses	28.0	26.6
Intangible and tangible assets	403.0	405.5
Financial assets	62.2	61.0
Inventories	294.9	250.5
Trade receivables	200.2	200.4
Liquid assets	20.8	25.6
Other current assets, prepaid expenses and deferred charges	47.7	47.4
<b>Total</b>	<b>1,056.8</b>	<b>1,017.0</b>
<b>Stockholders' equity and liabilities</b>		
Stockholders' equity	167.1	169.7
Convertible profit-participation certificates	25.6	25.6
Provisions	431.8	419.3
Amounts owed to credit institutions	272.4	249.8
Trade payables	101.3	93.2
Other accounts payable and deferred income	58.6	59.4
<b>Total</b>	<b>1,056.8</b>	<b>1,017.0</b>

Statements of Stockholders' Equity in € million	March 31, 2004	Dec. 31, 2003
Subscribed capital	233.0	233.0
Capital reserves	1.8	1.8
Accumulated loss	-64.0	-70.0
Profit/loss	-2.6	6.0
Minority interests	-1.1	-1.1
<b>Total</b>	<b>167.1</b>	<b>169.7</b>

Profit and Loss Account in € million	1-3/2004	1-3/2003
<b>Sales</b>	<b>258.8</b>	<b>257.9</b>
Increase/decrease (-) in finished goods and work in process/Own work capitalised	20.3	7.8
<b>Total output</b>	<b>279.1</b>	<b>265.7</b>
Cost of materials	-154.1	-143.8
Personnel expenses	-75.9	-71.2
Depreciation	-13.3	-15.9
Other operating expenses and income	-30.1	-29.6
Interest expenses, net	-7.6	-8.5
<b>Profit/loss on ordinary activities</b>	<b>-1.9</b>	<b>-3.3</b>
Taxes	-0.7	-0.5
<b>Profit/loss</b>	<b>-2.6</b>	<b>-3.8</b>

Cash Flow Statement (simplified) in € million	1-3/2004	1-3/2003
Cash flow	10.0	11.6
Changes in working capital	-25.3	2.0
<b>Cash flow from operating activities</b>	<b>-15.3</b>	<b>13.6</b>
Cash flow from investing activities	-12.1	-2.4
Cash flow from financial activities	22.6	8.0
<b>Changes in liquid funds</b>	<b>-4.8</b>	<b>19.2</b>