

1st Quarter Report 2003

GO AHEAD

DEUTZ steaming ahead with new power

- > New orders exceed expectations
- > Financial debt substantially reduced
- > Economic conditions hold sales and profits below last year's levels
- > Profit improvement expected for the whole of 2003



Published by

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Concept and layout
Kirchhoff Consult AG

Print

Bacht, Grafische Betriebe und Verlag GmbH

DEUTZ Group: Overview

	1-3/2003	1-3/2002
	€ million	€ million
New orders	316.0	295.3
Unit sales	36,744	38,569
Sales	257.9	265.9
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	21.1	23.3
Operating profit (EBIT)	5.2	7.4
Interest expense, net	-8.5	-8.9
Loss on ordinary activities	-3.3	-1.5
Loss	-3.8	-1.8
Employees (March 31)	5,517	5,860

DEUTZ Group: Sales by segments

	1-3/2003	1-3/2002
	€ million	€ million
Sales		
Compact engines	191.7	190.0
Medium-sized and large engines	66.2	75.9
Total	257.9	265.9
Operating profit (EBIT)		
Compact engines	9.4	13.5
Medium-sized and large engines	-3.1	-2.1
Central areas	-1.1	-4.0
Total	5.2	7.4

**Dear shareholders and friends
of our company,**

Good news is unfortunately rare these days, so that it gives me special pleasure to open our quarterly report with some glad tidings: measured against the first quarter of 2002, new orders in the first quarter of 2003 increased by 7 percent. This clearly illustrates the success of the sales enhancement measures we initiated last year and are still pursuing with determination. We are especially pleased with the above-average rise of 15 percent in the key medium-sized and large engines segment, which was fuelled by the favourable development of our gas engine business in particular. In the DEUTZ ENERGY division last year's strategic reorientation has triggered an almost two-fold rise in new orders in the first quarter compared with 2002. These sales successes show that DEUTZ remains on the right course. Although the economic situation remains weak, we have acquired new projects and customers, and thus consolidated and improved our market position.

As we feared, however, the war in Iraq and the generally weak state of the global economy have left their mark on our sales figures in the first quarter. The slight improvement in sales in Germany, which we achieved despite the overall trend, was not quite able to cancel out the weakening in the foreign business and there was still a decline of 3 percent in sales below the comparable figure in 2002 – but in light of the extremely unfavourable external factors at work in the market this should perhaps be called a »modest success« rather than a »modest decline«.

Operating and company results in the first three months of this year were depressed by the poor state of the economy and were below those of the first quarter of 2002. We did nevertheless manage to make a considerable improvement in our company's financial situation in comparison with the same quarter last year. With a cash inflow before financial activities of more than € 11 million, as against a small outflow a year earlier, we were able further to reduce our net financial debt.

The stock market is also reflecting the steady successes of the DEUTZ Re-Launch-Programme. After a sharp fall in February, the share price had returned to its previous level at the end of the first quarter. Following publication of the profit in our balance sheet for 2002, analysts have been recommending our shares, and their price has increased appreciably.

Although the war in Iraq has fortunately ended, the likelihood of a desired prompt and sustained economic upturn remains very slight. Against this background we are all the more committed to fostering the DEUTZ Re-Launch-Programme.

While still cautious, I am optimistic that further sales successes will enable us to meet our 2003 earnings targets, and I look forward to opening the next quarterly report with more good news.

Yours sincerely,



Gordon Riske
CEO

< Economic climate: markets stagnating worldwide

The economic situation was weak at the end of 2002 and remained so in the first quarter of 2003. The national economies failed to pick up in Germany, the rest of western Europe and North America. The war in Iraq exacerbated the general reluctance to invest in the western industrial nations and brought business to a standstill in parts of the Middle East. High budget and foreign trade deficits in the USA kept the dollar weak against the euro and thus indirectly affected European exports to the dollar area as well. As in the previous year, signs of growth appeared only in a few Asian countries, notably the People's Republic of China.

< Business development: order books filling up

Despite the inhospitable economic climate, the DEUTZ Group significantly pushed up its new orders in the first quarter of 2003 compared with the first quarter of the previous year, from € 295.3 million to € 316.0 million. New orders climbed to € 226.1 million (previous year € 217.2 million) in the compact engines segment, and at an above-average rate to € 89.9 million (previous year € 78.1 million) in the medium-sized and large engines segment. The DEUTZ ENERGY division performed excellently, posting an almost two-fold increase in its new orders, from € 16.8 million to € 33.1 million. This performance illustrates the great success of the strategic realignment of the gas engines and power units business that was initiated in 2002.

Falling from 38,569 to 36,744 units, the volume of engine sales in the first quarter of 2003 was curtailed by the lacklustre economy. Measured against the first quarter of 2002, compact engine sales declined to 36,624 units (previous year 38,451). The higher unit sales of liquid-cooled compact engines were unable to counterbalance the drop in sales of air-cooled units. Their principal markets, in the Middle East, were weakened by the downturn in business attributable to the war in Iraq. Unit sales of medium-sized and large engines edged up from 118 to 120 units.

Sales of the DEUTZ Group in the first quarter fell slightly, from € 265.9 million in 2002 to € 257.9 million in 2003. The marginal increase in domestic turnover to € 70.1 million (previous year € 69.4 million) could not make good the drop in foreign sales from

€ 196.5 million to € 187.8 million. Although air-cooled engine sales decreased, the turnover generated by the compact engines segment held up well at € 191.7 million (previous year € 190.0 million). Sales in the medium-sized and large engines segment closed in the first quarter of 2003 at € 66.2 million (previous year € 75.9 million), once again because of a low new orders figure in the final quarter of 2002. The favourable impact on sales of the substantial improvement in new orders in the first quarter of 2003 will take a few months to become evident.

< Earnings: progress impeded by economic slump

In the first three months of 2003 the DEUTZ Group posted earnings before interest, taxes, depreciation and amortisation (EBITDA) of € 21.1 million (previous year € 23.3 million). At € 5.2 million, the operating profit (EBIT) was also lower than in the first quarter of 2002, which closed at € 7.4 million. Owing to a fall in the volume of air-cooled units, the operating profit in the compact engines segment decreased from € 13.5 million to € 9.4 million. In the medium-sized and large engines segment the operating loss increased from € -2.1 million to € -3.1 million. With net interest in the first quarter improving marginally from € -8.9 million in 2002 to € -8.5 million in 2003, the loss on ordinary activities was pegged at € -3.3 million (previous year € -1.5 million). The company loss for the first quarter increased from € -1.8 million in 2002 to € -3.8 million in 2003. This corresponds to earnings per share of € -0.06 (previous year € -0.03).

< Assets and financial situation: net financial debt significantly reduced

The accounting and valuation principles adopted for the 2002 financial statements were also applied to the quarterly accounts.

Compared with the annual disclosure for 2002, the balance sheet total of the DEUTZ Group edged up from € 1,048.6 million effective December 31, 2002 to € 1,054.8 million effective March 31, 2003. Spending a total of € 2.7 million, the DEUTZ Group continued to invest cautiously in tangible assets (previous year € 5.7 million). Some € 2.2 million of the total were channelled into the compact engines segment, while medium-sized and large engines attracted investments of € 0.5 million.

Compared with the previous year's € 5.5 million, the cash flow from operating activities was much higher in the first quarter of 2003, at

€ 13.6 million. The cash flow before financial activities in the first quarter climbed appreciably, from € -0.1 million in 2002 to € 11.2 million in 2003. This further reduced the net financial debt to € 290.8 million effective March 31, 2003, which was much less than the previous year's € 339.8 million and below the € 302.0 million posted as of December 31, 2002.

< Research and development: investing in the future

Spending on research and development in the first quarter increased by € 2.0 million, from € 12.1 million in 2002 to € 14.1 million in 2003. More than three quarters of the total were required for the technological modification of our compact engines to comply with the lower statutory exhaust gas emission limits to be introduced in 2006. At 8.1 percent, the ratio of R&D expenditure to new engine sales was also higher than the previous year's 6.7 percent. At € 3.2 million, R&D expenditure on medium-sized and large engines was on a par with the previous year's € 3.1 million. Spending in this segment focused on achieving series production readiness, including higher output and efficiency, for the successors to the 616 and 620 diesel and gas engines series.

< Employees: enhancing efficiency safeguards jobs

As of March 31, 2003 the DEUTZ Group employed 5,517 people worldwide, or 343 fewer than at the end of March 2002. The domestic labour force totalled 4,293 employees, or 268 fewer than at the close of the first quarter of 2002. The foreign facilities of the DEUTZ Group employed 1,224 people, or 75 fewer than on March 31, 2002.

< DEUTZ share: price pushed down by lacklustre stock exchange

Mirroring the generally depressed mood on the stock market, the DEUTZ share price fell by 4.6 percent in the first three months of 2003 and thus performed less well than the SDAX (-0.9 percent), but much better than the Prime Industrial index, which declined by 18.0 percent. At € 1.66, the DEUTZ share price closed March 31, 2003 within reach of the price posted at the end of trading in 2002.

< Prospects: upturn still awaited

Current forecasts do not anticipate a significant improvement in the economic climate in Germany, the rest of western Europe and North America in the near future. Although the quick end of the war in Iraq has relieved the general mood, it is clearly unlikely immediately to improve fundamental economic conditions. In particular, the high US budget and foreign trade deficits will probably be reduced only in the longer term and continue to exert a negative influence on the dollar/euro exchange rate in 2003. This will sustain pressure on European export businesses, which include many of the customers of DEUTZ AG. The favourable prognosis of lasting economic growth in the People's Republic of China and some other Asian countries is currently being impaired by uncertainties concerning the SARS epidemic.

< DEUTZ: taking action not sitting it out

DEUTZ is further intensifying the cost-cutting measures introduced in the context of the Re-Launch-Programme, including a renewed concentration on successful asset management. Costs have also been pared by action taken last year that will not have a full impact on earnings until this year, such as the closure of the foundry.

DEUTZ is also reinforcing its sales focus, fruitfully initiated last year, on high-growth regions and high-demand application segments as a means of compensating for sales losses attributable to the weak economy. The very propitious pattern of new orders in the first quarter of 2003 has verified the success of this strategy.

In view of these measures, DEUTZ expects to close 2003 with earnings that are not only higher than the previous year's, but also sustainable.

Cologne, May 2003

DEUTZ AG
The Management Board

DEUTZ Group: Balance Sheet

Assets	03-31-2003	12-31-2002
	€ million	€ million
Business expansion expenses	22.1	20.6
Intangible and tangible assets	426.8	440.3
Financial assets	56.3	56.5
Inventories, net	274.5	253.7
Trade receivables	164.3	189.1
Liquid assets	38.5	19.3
Other current assets/prepaid expenses and deferred charges	72.3	69.1
Total	1,054.8	1,048.6

Stockholders' equity and liabilities	03-31-2003	12-31-2002
	€ million	€ million
Stockholders' equity	91.2	95.0
Convertible profit-participation certificates	25.6	25.6
Provisions	436.1	456.2
Amounts owed to credit institutions	329.3	321.3
Trade payables	87.9	71.9
Other accounts payable/ deferred income	84.7	78.6
Total	1,054.8	1,048.6

DEUTZ Group: Profit and Loss Account

	1-3/2003	1-3/2002
	€ million	€ million
Sales	257.9	265.9
Increase in finished goods and work in process/own work capitalised	7.8	11.1
Total output	265.7	277.0
Cost of materials	-143.8	-151.0
Personnel expenses	-71.2	-71.9
Depreciation	-15.9	-15.9
Other operating expenses/income	-29.6	-30.8
Interest expense, net	-8.5	-8.9
Loss on ordinary activities	-3.3	-1.5
Taxes	-0.5	-0.3
Loss	-3.8	-1.8

DEUTZ Group: Cash Flow Statement (simplified)

	1-3/2003	1-3/2002
	€ million	€ million
Cash flow	11.6	14.2
Changes in working capital	2.0	-8.7
Cash flow from operating activities	13.6	5.5
Cash flow from investing activities	-2.4	-5.6
Cash flow before financing	11.2	-0.1
Cash flow from financial activities	8.0	-19.5
Changes in liquid funds	19.2	-19.6

DEUTZ Group: Statements of Stockholders' Equity

	03-31-2003	12-31-2002
	€ million	€ million
Subscribed capital	164.3	164.3
Capital reserves	1.7	1.7
Accumulated loss	-70.0	-72.0
Loss/profit	-3.8	2.0
Minority interests	-1.0	-1.0
Total	91.2	95.0