

GO FAST

DEUTZ holds its ground against the trend

- > Increase in new orders
- > Sales maintained
- > Profits higher than a year ago



DEUTZ Group: Overview

	7-9/2003	7-9/2002
	€ million	€ million
New orders	282.3	262.8
Unit sales	37,738	37,270
Sales	288.9	290.3
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	22.9	23.9
Operating profit (EBIT)	8.8	8.2
Interest expense, net	-8.7	-8.9
Profit/loss on ordinary activities	0.1	-0.7
Profit/loss	-0.8	-1.0
Earnings per share in € (undiluted)	-0.01	-0.02
Earnings per share in € (diluted)	-0.01	-0.01
Employees (as of 30th September)	5,543	5,723

DEUTZ Group: Segments

	7-9/2003	7-9/2002
	€ million	€ million
Sales		
Compact engines	217.0	207.1
Medium-sized and large engines	71.9	83.2
Total	288.9	290.3
Operating profit (EBIT)		
Compact engines	16.3	13.9
Medium-sized and large engines	-0.4	1.6
Central areas	-7.1	-7.3
Total	8.8	8.2

1-9/2003	1-9/2002
€ million	€ million
890.8	881.2
115,955	120,173
841.4	845.2
76.4	77.4
30.4	30.7
-25.8	-27.6
4.6	3.1
2.5	2.1
0.04	0.03
0.03	0.03
5,543	5,723

1-9/2003	1-9/2002
€ million	€ million
624.9	615.1
216.5	230.1
841.4	845.2
45.7	45.9
-1.4	-0.2
-13.9	-15.0
30.4	30.7

The accounting and valuation principles adopted for the 2002 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 and all other friends of our company,

The third quarter is traditionally a difficult one but we have held our ground well against the trend. Three factors had a negative impact on our business in this period: the after-effects of the Iraq War, exchange-rate factors in the markets of the USA and China, and the slack state of the economy in Europe.

We nevertheless managed to increase the value of incoming orders slightly and to keep our sales stable. With our strict cost management as part of the DEUTZ Re-Launch programme and the low level of interest rates we were able to achieve a cumulative profit by the end of the third quarter of this year of € 2.5 million, compared with € 2.1 million by this time last year.

The most important event in the third quarter was the agreement on broader co-operation with the Italian agricultural machinery manufacturer SAME DEUTZ-FAHR, in whom we have gained a major partner for the future. While we will become the primary supplier of diesel engines to the entire SAME DEUTZ-FAHR GROUP in the coming years, SAME DEUTZ-FAHR will become a major shareholder in DEUTZ as part of a capital increase. This co-operation is the logical next step in our efforts towards broadening our shareholder basis by bringing in

partners who are also major customers for engines. The injection of fresh stockholders' equity will also enable us to secure the long-term independence of DEUTZ as a publicly quoted company. This news, like our good half-year report, had a beneficial effect on our share price.

The factors that have hampered the development of our business will continue to affect the current fourth quarter, but with the Re-Launch programme DEUTZ is well armed and well able to continue holding its ground against the trend. This makes us confident that we will be able to achieve an improvement in profits over the preceding year.

With best regards

A handwritten signature in black ink, appearing to read 'G. Riske'.

Gordon Riske
CEO

< Economy hits rock bottom

In the third quarter of 2003 the economy in Europe slipped down to an even lower level. Slight improvements in the domestic economic climate in September had no impact on the heavily export-dependent engineering industry, which is still suffering under the unfavourable exchange rate between the US Dollar and the Euro. The improvement in the domestic economy in the USA was mainly driven by economic policy measures, and there is still no sign of any positive impetus for the investment climate. Growth in Asia has resumed after the violent setback in the second quarter, although the continued pegging of the Chinese Yuan to the US Dollar is still a burden to trade relations with Europe.

< Increase in new orders

Following a decline in the second quarter, DEUTZ was once again able to increase its level of new orders in the last three months. New orders in the first three quarters of the current year totalled € 890.8 million, slightly above the previous year's figure of € 881.2 million. An increase in the segment of compact engines of 4.2 percent to € 648.4 million (2002: € 622.2 million) enabled DEUTZ to cancel out the relatively slow rate at which orders came in for the segment of medium-sized and large engines, which because of the fall-off in the marine and service businesses dropped to € 242.4 million (2002: € 259.0 million).

< Increase in unit sales of medium-sized and large engines

In the first three quarters of the current financial year DEUTZ sold 115,955 engines worldwide (2002: 120,173). In the segment of compact engines, unit sales totalled 115,487 and thus did not reach the previous year's figure of 119,735. This decline resulted mainly from lower unit sales of air-cooled engines, which the dynamic increases in unit sales of liquid-cooled compact engines were not fully able to balance out. In the segment of medium-sized and large engines, on the other hand, DEUTZ achieved increased unit sales of 468 engines (2002: 438).

< Sales hold steady

Despite the declining market the sales trend stabilised in the third quarter. Sales in the first nine months of 2003 of € 841.4 million were 0.4 percent below the comparable figure in 2002 (€ 845.2 million).

Domestic sales came to € 215.5 million, slightly above the previous year's figure of € 212.6 million. DEUTZ also managed to achieve increases over the previous year, major ones in some cases, in the other West European countries, Central and Eastern Europe, the Middle East, and Africa. These successes, however, were insufficient to balance out the decline in the USA business, which was caused by exchange-rate and economic factors, so foreign sales declined slightly from € 632.6 million to € 625.9 million.

In the segment of compact engines, sales rose to € 624.9 million (2002: € 615.1 million). Sales in the segment of medium-sized and large engines of € 216.5 million fell short of the comparable figure a year earlier of € 230.1 million.

< Profit improved over last year

With slightly lower sales DEUTZ achieved a profit before interest and tax (EBIT) of € 30.4 million (2002: € 30.7 million) and thus an EBIT return of 3.6 percent. In the segment of compact engines, operating profit came to € 45.7 million, virtually the same as a year earlier (€ 45.9 million), whilst because of the weaker service business the segment of medium-sized and large engines had to cope with a loss at the EBIT level of € 1.4 million (2002: € 0.2 million loss). This was mainly made up for by reducing costs in central departments to € 13.9 million (2002: € 15.0 million).

With interests costs down at € 25.8 million (2002: € 27.6 million) DEUTZ managed to increase profits from ordinary activities to € 4.6 million (2002: € 3.1 million). After taxes were deducted the corporate profit in the first three quarters of the current year came to € 2.5 million (2002: € 2.1 million). The undiluted earnings per share thus rose from € 0.03 to € 0.04. When convertible profit-participation certificates are added in the diluted earnings per share were € 0.03 (2002: € 0.03).

< Slight reduction in balance sheet total

As of 30th September 2003 the balance sheet total of the DEUTZ Group was € 1,023.3 million, slightly under the figure at the end of the 2002 financial year (€ 1,048.6 million). This result came mainly from a reduction in fixed assets and provisions. Compared with the figure as of 30th September 2002 (€ 1,093.9 million), the balance sheet total had been reduced by € 70.6 million mainly through a reduction in fixed assets and provisions but also in inventories and in accounts receivable and payable.

KHD Guss GmbH and Otto Werner Alkenbrecher Industrie-Service GmbH, both of Cologne, were merged into DEUTZ AG with effect from the end of 31st December 2002.

< Cash flow depressed by settlement with GE

The outward flow of funds resulting from the settlement with General Electric, USA, depressed the cash flow in the period under review. As a result the cash flow from operating activities, which would otherwise have been positive, came to a negative figure of € 0.8 million (2002: € 24.4 positive). Accordingly the cash flow before financial activities came to a negative € 21.5 million, likewise less than the previous year's figure of € 11.8 million positive. Net financial debt fell from the figure as of 30th September 2002 of € 327.9 million by € 4.4 million to € 323.5 million.

< Slight increase in stockholders' equity proportion

Stockholders' equity increased over the figure at the end of the 2002 financial year by € 2.5 million to € 97.5 million (31st December 2002: € 95.0 million). This meant that the proportion of stockholders' equity rose slightly to 9.5 percent (31st December 2002: 9.1 percent). As of 30th September 2002 the stockholders' equity proportion had been 8.7 percent, when stockholders' equity totalled € 95.1 million.

< Investments in the future increased

Compared with the first three quarters of the previous financial year, DEUTZ increased its investments in fixed assets during the current financial year by 20.4 percent to € 18.9 million (2002: € 15.7 million). Investments mainly covered new production machinery, machine tools, and testing equipment necessary for achieving further increases in productivity and capacity. In the compact engines segment € 14.9 million was invested (2002: € 10.2 million). In the segment of medium-sized and large engines DEUTZ invested € 4.0 million (2002: € 5.5 million).

< Further intensification of research and development

Expenditure on research and development of € 35.6 million in the first three quarters of last year were increased by 21.3 percent to € 43.2 million. This meant that DEUTZ put 7.3 percent of its new engine sales business into the further development of its products (2002: 6.1 percent). The focus of these activities lay on exploring new technologies for reducing exhaust gas and noise emissions and supervising the start of the series production of new engine series. In the compact engines segment expenditure came to € 33.1 million (2002: € 26.4 million). In the segment of medium-sized and large engines € 10.1 million (2002: € 9.2 million) was spent on research and development activities.

< Slight reduction in numbers employed

As of 30th September 2003 the DEUTZ Group was employing 5,543 people worldwide (2002: 5,723). In Germany DEUTZ had 4,289 employees (2002: 4,462), and on the closing date for the accounts the foreign locations reported 1,254 employees (2002: 1,261).

< Independence strengthened through partnership

On 28th July 2003 DEUTZ AG signed a contract with the Italian agricultural machinery manufacturer SAME DEUTZ-FAHR GROUP S.p.A. of Treviglio (near Milan) that will develop its existing customer-supplier relationship into a collaboration in the field of diesel engines for agricultural machinery.

Under this co-operation agreement, full details of which are to be agreed by the end of 2003, DEUTZ will become the primary supplier of diesel engines for agricultural machinery for the entire SAME DEUTZ-FAHR GROUP.

To underpin the intended long-term partnership the SAME DEUTZ-FAHR GROUP will take up all the new shares offered by DEUTZ AG under an approved capital increase at the statutorily established minimum offer price of € 2.56 that are not taken up by current DEUTZ AG shareholders exercising their subscription rights. Deutsche Bank and AB Volvo (publ) as the principle shareholders in DEUTZ AG have undertaken not to exercise their subscription rights. The capital increase is to be carried out during the fourth quarter of 2003 and will bring in about € 68.7 million of new stockholders' equity to DEUTZ AG. At the same time Deutsche Bank has sold its DEUTZ AG convertible profit-participations certificates to the SAME DEUTZ-FAHR GROUP and granted both the SAME DEUTZ-FAHR GROUP and Volvo a subscription option on their holding of DEUTZ shares.

As was also the case in the co-operation agreement with Volvo, with this new partnership DEUTZ is broadening its shareholder basis by bringing in a partner who is also a major customer for DEUTZ engines. The injection of new stockholders' equity will at the same time ensure the long-term independence of DEUTZ AG as a publicly quoted company.

< Price of DEUTZ shares rises further

The price of DEUTZ shares continued to develop positively and gained considerable upward impetus when the new partnership with SAME DEUTZ-FAHR GROUP was announced. DEUTZ shares have risen in value of 72.4 percent in the first nine months of this year, whilst the SDAX over the same period rose by 42.7 percent. The directly comparable Prime Industrial index achieved an increase of 24.1 percent.

< DEUTZ expects profit improvement for 2003

DEUTZ has been able to hold its ground well during the current financial year. Its systematic pursuit of the DEUTZ Re-Launch programme has already exploited great cost-saving potential and will continue to do so; these cost savings are necessary to successfully counter the negative economic factors that will still be existent in the fourth quarter.

Against this background DEUTZ is once again expecting for the whole of 2003 an improvement in profits over the preceding year.

Cologne, October 2003

DEUTZ AG

The Management Board

DEUTZ Group: Balance Sheet

Assets	09-30-2003	12-31-2002
	€ million	€ million
Business expansion expenses	25.1	20.6
Intangible and tangible assets	412.9	440.3
Financial assets	58.4	56.5
Inventories	284.7	253.7
Trade receivables	164.4	189.1
Liquid assets	20.8	19.3
Other current assets/prepaid expenses and deferred charges	57.0	69.1
Total	1,023.3	1,048.6

Stockholders' equity and liabilities

	09-30-2003	12-31-2002
	€ million	€ million
Stockholders' equity	97.5	95.0
Convertible profit-participation certificates	25.6	25.6
Provisions	421.3	456.2
Amounts owed to credit institutions	344.3	321.3
Trade payables	73.3	71.9
Other accounts payable/deferred income	61.3	78.6
Total	1,023.3	1,048.6

DEUTZ Group: Profit and Loss Account

	7-9/2003	7-9/2002
	€ million	€ million
Sales	288.9	290.3
Increase/decrease(-) in finished goods and work in process/Own work capitalised	-2.0	13.2
Total output	286.9	303.5
Cost of materials	-156.6	-168.8
Personnel expenses	-74.4	-74.2
Depreciation	-14.1	-15.7
Other operating expenses/income	-33.0	-36.6
Interest expense, net	-8.7	-8.9
Profit/loss on ordinary activities	0.1	-0.7
Taxes	-0.9	-0.3
Profit/loss	-0.8	-1.0

DEUTZ Group: Cash Flow Statement (simplified)

	1-9/2003	1-9/2002
	€ million	€ million
Cash flow	46.9	48.0
Changes in working capital	-47.7*	-23.6
Cash flow from operating activities	-0.8	24.4
Cash flow from investing activities	-20.7	-12.6
Cash flow before financing	-21.5	11.8
Cash flow from financial activities	23.0	-33.8
Changes in liquid funds	1.5	-22.0

* including funds consumed by settlement with General Electric, USA

1-9/2003 **1-9/2002**

€ million	€ million
841.4	845.2
17.6	38.7
859.0	883.9
-467.0	-482.0
-218.7	-219.8
-46.0	-46.7
-96.9	-104.7
-25.8	-27.6
4.6	3.1
-2.1	-1.0
2.5	2.1

DEUTZ Group: Statements of Stockholders' Equity

09-30-2003 **12-31-2002**

	€ million	€ million
Subscribed capital	164.3	164.3
Capital reserves	1.7	1.7
Accumulated loss	-70.0	-72.0
Profit	2.5	2.0
Minority interests	-1.0	-1.0
Total	97.5	95.0

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