

No. 1

The engine company.

Report 1st Quarter 2005

- ▶ € 54 million net profit for the quarter
- ▶ Sales 10 percent up
- ▶ Operating profit improved by 5 percent

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Financial Statements DEUTZ Group, 1st Quarter 2005

Key Figure Summary

	1-3/2005	1-3/2004
in € million		
New orders	346.7	326.4
Unit sales (units)	45,038	40,109
Sales	284.5	258.8
Foreign sales proportion (in %)	73.1	72.4
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	18.9	19.0
Operating profit (EBIT)	6.0	5.7
Loss from ordinary activities	-1.0	-1.9
Extraordinary income/expenses (-), net	67.0	-
Profit/loss	54.0	-2.6
Earnings per share in € (undiluted)	0.59	-0.03
Earnings per share in € (diluted)	0.46	-0.03
Balance sheet total (March 31)	1,093.0	1,056.8
Stockholders' equity (March 31)	211.5	167.1
Stockholders' equity proportion (in %)	19.4	15.8
Cash flow from normal operating activities	-57.6	-15.3
Net financial debt*	65.9	251.6
Investments	4.9	12.1
Research and development expenditure	16.7	14.3
No. of employees (March 31)	5,400	5,506

*Net financial debt: liabilities towards credit institutions less liquid assets

Segments

	1-3/2005	1-3/2004
New orders in € million	346.7	326.4
Compact engines	253.3	229.2
DEUTZ Power Systems	93.4	97.2
Sales in units	45,038	40,109
Compact engines	44,912	40,005
DEUTZ Power Systems	126	104
Sales in € million	284.5	258.8
Compact engines	216.1	203.2
DEUTZ Power Systems	68.4	55.6
Operating profit (EBIT) in € million	6.0	5.7
Compact engines	4.8	12.9
DEUTZ Power Systems	3.0	-5.2
Other	-1.8	-2.0

Dear Shareholders, Dear Friends of our Company,

A major event during the first quarter of 2005 was the sale of the marine service business to the Finnish Wärtsilä group, which was successfully concluded on 31 March. Once all the expenditure associated with this had been taken into account, the transaction made an extraordinary contribution of € 67 million towards the first quarter's results. As a consequence, the quarter showed a net profit of € 54 million. The Group's accumulated loss, which stood at € -82.6 million at the end of 2004, was reduced to € -28.6 million.

The operating business had a good start to the new financial year. Despite an increase in the price of raw materials and negative exchange rate effects, increases in unit sales enabled us to raise operating profit by 5 percent to € 6.0 million.

In the compact engines segment we increased unit sales by around 12 percent and sales by about 6 percent. This increase stemmed from the ongoing strength of the economy in the North American market, especially in terms of mobile machinery. However, the effect of the measures that we took to offset increases in the cost of materials did not show fully during the first quarter, with the result that the operating profit was well below that of last year in this segment.

In April, serial production began of the new 2008/2009 compact engine series for which we acquired the technology from an English engine manufacturer last year. The assembly facilities for this were relocated from England to Germany.

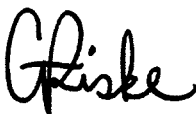
In the DEUTZ Power Systems segment (formerly medium-sized and large engines), the realignment towards the systems business for decentralised power generation bore its first fruits so – in contrast to the same period last year – this segment made a positive contribution to the operating profit. Included also for the last time was the income from the marine service business, which ceased to form part of the DEUTZ Group on 1 April.

New orders for DEUTZ Power Systems declined slightly, as planned, however, the restructuring was reflected in a significant increase in new orders for gas engines in comparison to last year.

Dear shareholders, the sale of the marine service business signalled the completion of the last of the measures taken to restructure the medium-sized and large engines business. The resulting extraordinary income, along with the positive operating profit, brings us a step closer towards a position where we shall be able to issue a dividend.

Following a successful 2004, DEUTZ is now better than ever equipped to achieve sustainable, profitable growth. We would be delighted if you would continue to accompany us on this journey.

With kind regards,



Gordon Riske
Chairman of the Management Board

Management Report 1st Quarter 2005

Economic environment The global economy is currently enjoying a period of distinct growth. The impetus for this growth is coming particularly from the USA and Asia. In comparison to the weakness of the second half of 2004, a more favourable economic picture has been emerging in the euro area. Early indicators show that the German economy, too, enjoyed a little renewed growth in the first quarter of 2005, driven by greater investment and consumption. Risks facing this positive outlook are high oil prices and the continuing uncertainty over the future value of the dollar.

Development of the business Business began well for the DEUTZ Group in the first quarter of 2005. Compared to the first quarter of 2004, new orders rose by 6.2% from € 326.4 million to € 346.7 million, due mainly to the positive trend in the compact engines segment.

In the compact engines segment, new orders rose by 10.5% to € 253.3 million (2004: € 229.2 million). The improvement stems mainly from North America. In the DEUTZ Power Systems segment there was a 3.9% decline to € 93.4 million (2004: € 97.2 million). The significant increase in gas engines, especially in the Eastern Europe, Benelux and South-East Asia regions, was offset by the sharp drop in new orders for diesel engines for power technology applications. The rise in new gas engine orders is the first success to be achieved by the strategic realignment of the division towards decentralised power generation with gas engines.

In the first quarter, unit sales of engines rose by 12.3% to 45,038 engines (2004: 40,109). Unit sales in the compact engines segment rose to 44,912 engines (2004: 40,005). Unit sales in the DEUTZ Power Systems segment increased from 104 engines to 126.

The total sales of the DEUTZ Group was € 284.5 million, 9.9% above the comparable figure of a year ago (€ 258.8 million). Crucial to the increase in sales was the lively demand for compact engines in North America, which was reflected in the growth of the Mobile Machinery segment. This increase was mainly due to increased demand in the construction machinery and materials handling areas. Sales stemming from our co-operation with Volvo also showed a

considerable increase. The overall increase in sales was achieved through growth in the new engines business and expansion of the service business.

In the compact engines segment, sales rose strongly, to € 216.1 million (2004: € 203.2 million). A major contributing factor was the improvement in North American sales. In the DEUTZ Power Systems segment, a sharp increase in service business helped sales to grow to € 68.4 million (2004: € 55.6 million).

The domestic share of total sales was 26.9% (2004: 27.6%), with the foreign share being 73.1% (2004: 72.4%).

Profit trend In the first three months of the current financial year DEUTZ increased its operating profit (EBIT) by 5.3% to € 6.0 million (2004: € 5.7 million). In the compact engines segment, DEUTZ was unable to maintain last year's operating profit, which fell to € 4.8 million (2004: € 12.9 million). The deterioration was mainly due to a disproportionate increase in the cost of materials as well as a higher research and development expenditure. Furthermore the reclassification of costs which were allocated to the other segment in the previous year had a negative effect. The restructuring in the DEUTZ Power Systems segment bore its first fruits. Following last year's loss, operating profit rose by around € 8 million to € 3.0 million. In the other segment (2004: central areas) there was a loss of € -1.8 million (2004: € -2.0 million).

The loss of € -1.0 million from ordinary activities was a little better than the previous year's figure of € -1.9 million, mainly due to another fall in interest expenses. There was also the extraordinary income of € 67.0 million from the sale of the marine service business. In the first quarter of 2005, the DEUTZ Group achieved a profit of € 54.0 million after tax (2004: € -2.6 million).

Undiluted earnings per share thus rose from € -0.03 to € 0.59. Taking the convertible profit-participation certificates and convertible bonds into account, the diluted earnings per share was € 0.46 (2004: € -0.03).

Asset and financial situation At the end of the quarter, the balance sheet total was € 1,093.0 million, i.e. around € 133.0 million above that at 31 December 2004, when it was € 960.2 million. This is an increase of 13.8%. This rise was mainly caused by the inflow of around € 96 million into liquid assets at the 31 March 2005 closing date as a consequence of the sale of the marine service business. This is in contrast with stockholders' equity that rose to € 211.5 million and increased provisions. The stockholders' equity proportion was thus 19.4%. Compared with 31 March 2004 (€ 1,056.8 million) the balance sheet total was 3.4% higher.

Due to the inflow of funds, net financial debt fell from € 100.0 million at the end of December 2004 to € 65.9 million, and was therefore significantly lower, by around € 186 million, than the same figure last year (€ 251.6 million).

Cash flow The increase in working capital caused the cash flow from normal operating activities, at € -57.6 million, to be lower than last year's figure of € -15.3 million. This is due to the business expansion that occurred in the first quarter in contrast to the same period last year, which was relatively weak. This expansion caused a rise in inventory to service the high level of orders and a sharp increase in accounts receivable accompanied by a decline in trade payables.

Cash flow from investing activities was € 91.7 million (2004: € -12.1 million) and includes around € 97 million from the sale of the marine service business.

Cash flow from financial activities was € 61.8 million (2004: € 22.6 million) and stems from the use of short-term capital loans in the first quarter. However, the inflow of € 95.9 million of liquid funds predominantly resulting from the sale of the marine service business needs to be taken into account in this respect. Overall, this led to a reduction of net financial debt by € 34.1 million to € 65.9 million compared to 31 December 2004.

Investments The DEUTZ Group's investments amounted to € 4.9 million in the first quarter of 2005, and included no investments in financial assets. In the first quarter of 2004, the latter contributed € 1.2 million to the total investment figure of € 12.1 million. So

in the first quarter of 2005, DEUTZ invested 60% less than in the same period last year. However, last year's figure included the acquisition of technology for a new compact engine series from an English engine manufacturer. Adjusted for this sum, investments in fixed tangible assets were at roughly the same level as last year. The compact engines segment accounted for € 4.7 million (2004: € 10.6 million) and the DEUTZ Power Systems segment for € 0.2 million (2004: € 0.3 million).

Research and development Research and development expenditure in the first quarter of 2005 was € 16.7 million, 16.8% above the level of the previous year (€ 14.3 million). Research and development expenditure as a proportion of sales from new engines thus rose from 7.8% to 8.3%.

In the compact engines segment the expenditure of € 14.0 million was up about 28% on last year's figure (€ 10.9 million). This was mainly due to spending related to the development of the new commercial vehicle engine in the 4 to 7-litre range which will be going into serial production in 2006. Also included is spending to upgrade engines to meet the TIER III emission standards which will come into force from 2006.

Research and development expenditure in the DEUTZ Power Systems segment fell slightly to € 2.7 million (€ 3.4 million).

Employees As of 31 March 2005, the DEUTZ Group had 5,400 employees worldwide (2004: 5,506). The decline in employee numbers reflects many of the personnel measures taken as part of the restructuring of the DEUTZ Power Systems segment, but this fall was partly offset by new arrivals to increase manufacturing levels for the rise in engine production. The transfer of almost 200 employees from the marine service business to Wärtsilä will only affect staff figures in the half-year report. The number of employees in Germany fell by 2.0% to 4,152 (2004: 4,237). The number of employees working at the DEUTZ Group's foreign locations declined by 1.7% to 1,248 (2004: 1,269).

DEUTZ shares DEUTZ's shares performed well during the first quarter of the year. Showing a strong increase of 27.6% over its closing value at the end of 2004, the share was being quoted at

€ 3.74 at the end of the month, and had therefore outstripped both the SDAX and the Prime Industrial sector index. During the same period, the SDAX only managed a gain of 13.0%, while the Prime Industrial sector index only rose by 2.6%. DEUTZ's shares hit a quarterly low of € 2.86 on the 6 January, and a high of € 3.94 on the 14 March.

At the end of the quarter, therefore, the company's market capitalisation stood at € 340.9 million, or 27.7% above the figure at the end of December 2004 (€ 267.1 million).

The first months of the year also saw changes to the shareholders' structure. Midway through March, DWS Investment GmbH fell below the mandatory reporting threshold of 5%. And since mid-April, the American FMR Corp., part of the Fidelity group, owns a 5.2% share in DEUTZ AG.

Outlook The progress made during the first quarter in terms of unit sales and sales gives the company confidence that it can, during the course of the year and through organic growth, offset the planned loss of sales from the marine service business that was sold on 31 March. The future price of raw materials and exchange rates continue to be regarded as significant, negative risk factors. Therefore we shall continue to vigorously pursue measures to improve cost structures, increase prices and carefully alter the unit sales mix. The first quarter's positive trend in terms of new orders in the power generation systems business supports the view that focusing on this area will create significant increases in profit.

Therefore the company continues to believe that it will largely be able to offset negative influences on its results and the loss of profit from the marine service business.

Cologne, May 2005

DEUTZ AG
The Management Board

Financial Statements DEUTZ Group, 1st Quarter

Balance Sheet

	March 31, 2005	Dec. 31, 2004
in € million		
Assets		
Business expansion expenses	36.6	35.7
Intangible and tangible assets	375.3	383.8
Financial assets	59.5	59.4
Inventories	239.4	230.7
Trade receivables	211.7	190.3
Liquid assets	103.8	7.9
Other current assets, prepaid expenses and deferred charges	66.7	52.4
Total	1,093.0	960.2
Stockholders' equity and liabilities		
Stockholders' equity	211.5	155.6
Convertible profit-participation certificates	25.6	25.6
Provisions	471.0	418.9
Bonds	67.3	67.3
Amounts owed to credit institutions	169.7	107.9
Trade payables	90.4	121.9
Other accounts payable and deferred income	57.5	63.0
Total	1,093.0	960.2

Statements of Stockholders' Equity

	March 31, 2005	Dec. 31, 2004
in € million		
Subscribed capital	233.0	233.0
Capital reserves	9.0	9.0
Currency translation	-0.7	-2.6
Accumulated loss	-82.6	-64.0
Profit/loss	54.0	-18.6
Minority interests	-1.2	-1.2
Total	211.5	155.6

Profit and Loss Account

	1-3/2005	1-3/2004
in € million		
Sales	284.5	258.8
Increase/decrease (-) in finished goods and work in process/Own work capitalised	9.4	20.3
Total output	293.9	279.1
Cost of materials	-171.1	-154.1
Personnel expenses	-74.7	-75.9
Depreciation	-12.9	-13.3
Other operating expenses and income	-29.2	-30.1
Interest expenses, net	-7.0	-7.6
Loss on ordinary activities	-1.0	-1.9
Extraordinary income/expenses (-), net	67.0	-
Taxes	-12.0	-0.7
Profit/loss	54.0	-2.6

Cash Flow Statement (simplified)

	1-3/2005	1-3/2004
in € million		
Cash flow	10.5	10.0
Business expansion expenses	-0.9	-1.4
Changes in working capital	-67.5	-36.0
Changes in other receivables, short-term provisions and other liabilities	0.3	12.1
Cash flow from normal operating activities	-57.6	-15.3
Cash flow from investing activities	91.7	-12.1
Cash flow from financial activities	61.8	22.6
Change in liquid assets	95.9	-4.8

The accounting and valuation principles adopted for the 2004 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).