


Q3/2003 report
Dräger Group

Highlights in Q3/2003

- *Despite one-off expenses and unfavorable exchange rates, EBIT at year-earlier level*
- *Q3 group order intake and sales up by around 10 percent*
- *Much improved capital structure through joint venture*
- *Dräger Medical acquiring North American incubator specialist Air-Shields, thus opening the door to the US neonatology market*
- *Siemens joint venture off to a flying start worldwide and now in the phase of operational inception. At the insistence of the antitrust and cartel authorities, the Siemens anesthetic and respiratory operations were sold to GETINGE AB, thus allowing the JV to reach its consummation (Dräger Medical)*
- *Dräger Safety branching out further into NAFTA and Asia/Pacific*
- *Takeover of the respiratory air business of RWE Piller GmbH (Dräger Safety)*

After nine months the Dräger Group continuing on course

Order intake, sales, and earnings

Against the backdrop of a still sluggish European economy, lingering uncertainty in the Asia/Pacific region yet initial indicators of an economic rebound in the United States, the Dräger Group continued on course in Q3/2003. Compared with the year-earlier figures, order intake and sales both advanced by around 10 percent to €361 million and €332 million, respectively (parity-adjusted, roughly 19 percent in each case) while despite higher nonrecurring expenses, Q3 EBIT showed a slight growth from the prior year's €8.9 million to €9.5 million.

Total 3Q order intake (€1,027 million) and sales (€949 million) rose 4.0 and 4.4 percent, respectively, over the year-earlier values. Parity adjusted, the gains were as high as 10.8 percent (order intake) and 11.2 percent (sales). For seasonal reasons, order intake is €78 million higher than sales to date.

A major factor was business at Dräger Medical where sales surged by a nominal 8.2 percent to €598 million, partly due to the smooth integration of the Monitoring unit since the launch of the joint venture between Siemens and Dräger Medical as of July 1, 2003. Between then and September 30, these new products have already yielded sales of €29.1 million and orders of €48.2 million.

Amid a very hostile environment, Dräger Safety upheld its position with sales of €340 million, nominally 1.2 percent down from the year-earlier figure.

The favorable trend of production cost within the Group offset the increase in the remaining expenses (including the one-time cost burden for the joint venture), the effects on operations of interperiod euro exchange rate movements and exchange losses on the translation of reported results. At €43.0 million, 3Q EBIT repeated the year-earlier magnitude of €42.5 million. Before nonrecurring expenses and before the differences from EBT translation netted against one-time license fee income, 9-month EBIT came to €59 million (up from €47.5 million like-for-like).

Three-quarter net income zoomed from €12.1 million in 2002 to €34.4 million by end-September 2003, substantially due to the €20.5 million gain from the disposal of Dräger Aerospace. The currency translation of non-euro EBT claimed €4.0 million of 3Q net income.

Net-asset and financial position

JV-related changes

The new joint venture appreciably upgraded the Dräger Group's balance sheet structure. Summarized, the following items were taken over as of July 1, 2003:

	€ mill.
fixed assets	4.0
inventories	24.1
trade receivables	27.4
other assets	355.6
	411.1
equity	316.0
less unpaid capital	(20.7)
pension accruals	13.0
other accruals	53.4
other liabilities	49.4
	411.1

The Group's total equity was thus raised by €316 million, €27.6 million of which was contributed from a cash capital increase. The latter includes €6.9 million already paid up while the balance will be contributed in the form of cash & cash equivalents from the sale by Siemens AG of the LSS unit whose exclusion from the JV deal was enforced by the antitrust and cartel authorities. In the quarterly financial statements, Group equity is stated net after deduction of the unpaid capital.

The other accruals provide for takeover-related obligations and will be applied to part of the JV integration expenses and utilized to refund to Siemens AG the costs incurred for the sale of the LSS operations. The other assets of €355.6 million represent a transitory item until the cash & cash equivalents from the disposal of the LSS unit have been accounted for and the fair value of acquired intangible assets has been determined. The net balance after deducting these items will equal the goodwill originating from the JV's formation. Final accounting for this goodwill and related upstream items is very likely to be completed in fiscal 2003.

When closing the joint venture deal, hidden reserves were uncovered at €96.1 million—an amount that results from the expert appraisal at €316 million of Siemens AG's Electromedical Systems—and transferred to, and only to, Group equity by recognizing them in the reserves retained from earnings. The takeover by Siemens of a 35-percent stake in Dräger Medical under the JV agreement entailed the recognition of minority interests at €199.0 million.

In the scope of the JV, Dräger Medical has taken over close to 600 employees.

Asset/capital structure and financial position at September 30, 2003

The joint venture with Siemens AG boosted the Dräger Group's equity by about €295 million, net income for 3Q/2003 accounting for an additional rise in equity. This total increase contrasts with adverse exchange rate effects and the cash dividend payout for fiscal 2002. On balance, equity totaled €479.8 million as of September 30, 2003 (up from €170.1 million at December 31, 2002), bringing the equity ratio to around 39 percent (up from 20.1 at year-end 2002). Fixed assets merely inched up while inventories mounted in line with the season and the takeover of inventories from the JV, the latter also increasing the remaining assets and the accruals (as mentioned above). Capital employed soared by €331 million from the end-2002 magnitude to €862.2 million as of September 30, 2003.

At the end of Q3/2003, net financial debts came to €171.3 million (down €18 million from December 31, 2002, mainly due to the cash inflow from the divestment of Dräger Aerospace).

€164.8 million of financial debts has a remaining term of one to six years.

General remarks

The Dräger Group's quarterly financial statements have been prepared in conformity with the German Commercial Code and derived unaudited from Drägerwerk AG's group accounting system. In anticipation of the migration to a new consolidation and reporting system, the income statement has been presented in a summarized format, disclosure of a cash flow statement being altogether waived.

Group indicators

Sales and earnings

		Q3/2003•	Q3/2002•	3Q/2003•	3Q/2002•
Order intake	€ mill.	361.4	330.3	1,027.1	987.8
Net sales	€ mill.	332.9	298.9	949.2	909.4
EBITDA••	€ mill.	19.5	19.1	75.6	74.5
Depreciation/amortization	€ mill.	(9.7)	(10.1)	(32.0)	(31.6)
Goodwill amortization	€ mill.	(0.3)	(0.1)	(0.6)	(0.4)
EBIT••	€ mill.	9.5	8.9	43.0	42.5
Interest expense	€ mill.	(3.2)	(3.1)	(10.0)	(10.6)
Tax expense	€ mill.	(4.9)	(3.9)	(15.5)	(16.6)
Dividend for participation certificates (prorated)	€ mill.	(1.2)	(1.1)	(3.6)	(3.2)
Extraordinary capital gain from the disposal of Aerospace	€ mill.	0.0	0.0	20.5	0.0
Net income	€ mill.	0.2	0.8	34.4	12.1
Earnings per share	€	0.02	0.06	2.71	0.95
EpS after minority interests	€	(0.14)	0.00	2.46	0.78
Average total headcount		10,442	9,831	10,282	9,769
Employees in Germany		5,520	5,817	5,728	5,781
Capital expenditures	€ mill.	18.0	10.1	40.2	27.7

Balance sheet

		9/30/2003•	12/31/2002
Fixed assets	€ mill.	208.0	201.0
Inventories	€ mill.	268.0	213.0
Trade receivables	€ mill.	329.7	342.7
Cash & cash equivalents	€ mill.	71.1	42.4
All other assets	€ mill.	346.2	46.4
Total assets	**€ mill.**	**1,223.0**	**845.5**
Equity	€ mill.	479.8	170.1
Pension accruals	€ mill.	143.2	129.0
Other accruals	€ mill.	209.2	154.1
Financial debts	€ mill.	242.4	231.7
All other liabilities	€ mill.	148.4	160.6
Total equity & liabilities	**€ mill.**	**1,223.0**	**845.5**
Capital employed	**€ mill.**	**862.2**	**531.5**

• The Q3 and 3Q data has not been audited.

•• including €16 million nonrecurring expenses, €13.4 million thereof from the Dräger Medical/Siemens JV (up from €5 million and €1.5 million a year earlier, respectively)

Change in CE and EBIT disclosure principles: other than in prior-year publications, capital employed now includes cash & cash equivalents (previously deducted), and EBIT represents the earnings before interest expense (formerly net interest result) and all taxes. The year-earlier comparatives have been restated accordingly.

Statement of changes in equity
Dräger Group

	Capital stock	Additional paid-in capital	Reserves retained from earnings	Group earnings	Participation capital	Minority interests	Total
	€ mill.	€ mill.	€ mill.	€ mill.	€ mill.	€ mill.	€ mill.
Balance at 12/31/2001	**32.5**	**38.9**	**18.1**	**2.5**	**74.8**	**5.2**	**172.0**
Dividend payout for prior years	–	–	–	(2.5)	–	(1.2)	(3.7)
Group net income	–	–	–	19.8	–	–	19.8
Minority interests in profit	–	–	–	(2.3)	–	2.3	–
Transfer to/(from) reserves	–	–	13.4	(13.4)	–	–	–
Prorated offset of goodwill	–	–	(0.7)	–	–	–	(0.7)
Offset of goodwill from initial consolidation	–	–	–	–	–	–	–
Currency translation differences	–	–	(11.2)	–	–	(0.3)	(11.5)
Other changes from corporate restructuring	–	–	(5.8)	–	–	–	(5.8)
Balance at 12/31/2002	**32.5**	**38.9**	**13.8**	**4.1**	**74.8**	**6.0**	**170.1**
Dividend payout for prior years	–	–	–	(4.1)	–	(1.1)	(5.2)
Group net income	–	–	–	34.3	–	–	34.3
Minority interests in profit	–	–	–	(4.3)	–	4.3	–
Minority interests in loss	–	–	–	2.3	–	(2.3)	–
Transfer to/(from) reserves	–	–	–	–	–	–	–
Prorated offset of goodwill	–	–	(0.3)	–	–	–	(0.3)
Offset of goodwill from initial consolidation	–	–	(0.1)	–	–	–	(0.1)
Currency translation differences	–	–	(10.6)	–	–	(0.9)	(11.5)
Effects of the Siemens takeover as of 7/1/2003	–	–	96.1	–	–	199.2	295.3
All other changes	–	–	(2.6)	–	–	(0.2)	(2.8)
Balance at 9/30/2003	**32.5**	**38.9**	**96.3**	**32.3**	**74.8**	**205.0**	**479.8**

Segment report

		Dräger Medical		Dräger Safety	
		Q3/2003	Q3/2002	Q3/2003	Q3/2002
Sales and earnings					
Order intake	€ mill.	249.0	203.4	112.5	123.1
Net sales	€ mill.	220.2	181.4	109.3	116.0
EBITDA•	€ mill.	11.6	15.3	9.4	11.2
Depreciation/amortization	€ mill.	(4.1)	(3.9)	(3.7)	(3.0)
Goodwill amortization	€ mill.	(0.1)	0.0	(0.1)	(0.1)
EBIT•	€ mill.	7.4	11.4	5.6	8.1
Interest expense	€ mill.	(0.8)	(2.2)	(0.4)	(0.4)
Tax expense	€ mill.	(3.5)	(3.9)	(1.8)	(2.4)
Dividend for participation certificates (prorated)	€ mill.	–	–	–	–
Extraordinary result	€ mill.	–	–	–	–
Net income	€ mill.	3.1	5.3	3.4	5.3
Capital expenditures	**€ mill.**	**9.1**	**5.0**	**5.2**	**1.7**

		Dräger Medical		Dräger Safety	
		3Q/2003	3Q/2002	3Q/2003	3Q/2002
Sales and earnings					
Order intake	€ mill.	654.8	617.2	361.3	352.0
Net sales	€ mill.	597.7	552.5	339.5	343.6
EBITDA••	€ mill.	43.1	44.0	35.2	40.4
Depreciation/amortization	€ mill.	(12.0)	(11.6)	(10.0)	(9.0)
Goodwill amortization	€ mill.	(0.2)	(0.1)	(0.3)	(0.3)
EBIT••	€ mill.	30.9	32.3	24.9	31.1
Interest expense	€ mill.	(3.0)	(4.8)	(1.5)	(2.0)
Tax expense	€ mill.	(11.2)	(11.2)	(7.9)	(9.1)
Dividend for participation certificates (prorated)	€ mill.	–	–	–	–
Extraordinary result•••	€ mill.	–	–	–	–
Net income	€ mill.	16.7	16.3	15.5	20.0
Capital expenditures	**€ mill.**	**17.2**	**11.5**	**14.3**	**6.3**

		Dräger Medical		Dräger Safety	
		9/30/2003	12/31/2002	9/30/2003	12/31/2002
Capital employed	**€ mill.**	**675.5**	**328.8**	**176.5**	**164.8**
Average headcount					
Total		**5,370**	**4,934**	**3,398**	**3,289**
thereof Germany		2,652	2,664	1,572	1,559

• including €7.5 million nonrecurring expenses (up from €4.0 million), €6.4 million thereof at Dräger Medical from the Dräger Medical/Siemens JV (up from €0)

•• including €16.0 million net nonrecurring expenses (up from €5.0 million), €11.5 million thereof at Dräger Medical from the Dräger Medical/Siemens JV (up from €0)

••• €20.5 million capital gain from the disposal of Dräger Aerospace GmbH

Holding Company Others Consolidation		Dräger Group	
Q3/2003	Q3/2002	Q3/2003	Q3/2002
(0.1)	3.8	361.4	330.3
3.4	1.5	332.9	298.9
(1.5)	(7.4)	19.5	19.1
(1.9)	(3.2)	(9.7)	(10.1)
(0.1)	0.0	(0.3)	(0.1)
(3.5)	(10.6)	9.5	8.9
(2.0)	(0.5)	(3.2)	(3.1)
0.4	2.4	(4.9)	(3.9)
(1.2)	(1.1)	(1.2)	(1.1)
–	–	0.0	0.0
(6.3)	(9.8)	0.2	0.8
3.7	**3.4**	**18.0**	**10.1**

3Q/2003	3Q/2002	3Q/2003	3Q/2002
11.0	18.6	1,027.1	987.8
12.0	13.3	949.2	909.4
(2.7)	(9.9)	75.6	74.5
(10.0)	(11.0)	(32.0)	(31.6)
(0.1)	0.0	(0.6)	(0.4)
(12.8)	(20.9)	43.0	42.5
(5.5)	(3.8)	(10.0)	(10.6)
3.6	3.7	(15.5)	(16.6)
(3.6)	(3.2)	(3.6)	(3.2)
20.5	0.0	20.5	0.0
2.2	(24.2)	34.4	12.1
8.7	**9.9**	**40.2**	**27.7**

9/30/2003	12/31/2002	9/30/2003	12/31/2002
10.2	**37.9**	**862.2**	**531.5**
1,514	**1,642**	**10,282**	**9,865**
1,504	1,620	5,728	5,843

Dräger Medical

Operating EBIT up 31 percent—Order intake up 6.1 percent and sales up 8.2 percent over year-earlier figures—Joint venture off to a flying start

For the first nine months of fiscal 2003 Dräger Medical posted an operating EBIT of €42.4 million (before the JV-related one-off expenses of €11.5 million). Compared with the €32.3 million in 3Q/2002 this is a leap of 31 percent and equivalent to an EBIT margin of 7.1 percent (up from 5.8 percent).

At €13.8 million, Q3 EBIT by Dräger Medical was for the 11th time in series above the year-earlier figure (€11.4 million). This repeatedly profitable performance is not least of all the outcome of the ongoing optimization of global business processes and the related even more efficient cost structures within Dräger Medical.

3Q/2003 sales total €597.7 million (up from €553 million), a gain of 8.2 percent. This means that in the third quarter (just as in the second), Dräger Medical has made good the first quarter's shortfall.

The same applies to order intake where the aggregate decline over 2002 has been made good, with order influx for 3Q/2003 amounting to €654.8 million or 6.1 percent over the €617.2 million of 2002. Despite a sound regional balance in value-added terms, the weak US dollar had quite some impact on earnings at Dräger Medical: applying like-for-like currency translation rates, EBIT adds up to €50.7 million, equivalent to a 57-percent hike, while the sales and order intake gains are 15.3 and 13.1 percent, respectively.

This repeatedly commendable performance is the outcome of a purposeful and swift enactment of a wide variety of process and productivity programs. The third quarter saw, moreover, the smooth operational implementation of the joint venture. From the very inception date of operations (July 1, 2003), it proved possible in all major countries worldwide to perform the services for the installed base of the former Siemens units. In over 150 countries, patient monitoring business was transferred from Siemens Medical Solutions to Dräger Medical. Also completed without a hitch was the assimilation of the almost 600 extra employees. Now that operational integration had been completed as early as August, a number of support programs for cultural convergence will continue until year-end.

Despite uncertainty in Germany concerning future health policies and ongoing spending reluctance, Dräger Medical is still holding on to its strong domestic market position. As to the US market, Dräger Medical made good its sales shortage during the period and at a nominal 3 percent, is now slightly above the year-earlier level. Business in China and a number of European countries is also making very good progress.

Dräger Safety

Again global growth in high-volume products—Gains in NAFTA and Asia/Pacific—European market share upheld

In the first nine months of 2003, Dräger Safety achieved an EBIT of €24.9 million, a result that suffered from the strong euro. Applying LFL parities to operating business and retranslating the numbers yield an EBIT of €30.6 million, just short of the year-earlier €31.1 million.

At €339.5 million, sales were a slight 1.2 percent short of the year-earlier €343.6 million yet in terms of LFL parities again grew, by 5.4 percent. Order intake measured by current parities climbed 2.6 percent to €361.3 million (up from €352 million). Adjusted, the gain was 9.6 percent.

Q3/2003 order influx dropped to €112.5 million (down 8.6 percent, LFL down 1.8 percent), sales to €109.3 million (down 5.8 percent, LFL up 0.8 percent). EBIT amounted to €5.6 million (down from €8.1 million).

Market shares were gained in NAFTA, in LFL parities a 31.8-percent increase in orders received. Alongside contracts for "domestic preparedness," Dräger Safety posted orders for gas detection and personal protection gear from the public sector, fire departments, and industry. In some instances, the subgroup was also entrusted with the accompanying safety training for the fire-fighters and the service management for the respiratory equipment.

Parity-adjusted order intake surged by 31.3 percent in the Asia/Pacific region. Here, too, Dräger Safety further expanded its market share, contracts including a further order for the Piccola filtrating respiratory protection masks against the SARS pulmonary epidemic and for Australia 2,000 units for detecting gassing agents housed in containers.

In Europe, Dräger Safety reaffirmed its strong market position, orders advancing slightly by 2 percent. Q3 contracts included a second rescue train for the St. Gotthard tunnel presently under construction. In response to its customer-specific systems solutions approach, Dräger Safety was commissioned by a chemicals company with planning, engineering, and building a combined gas monitoring and warning system.

In order to expand its product portfolio. Dräger Safety acquired in October 2003 the respiratory air business of RWE Piller GmbH, thus underscoring its role as a supplier of holistic hazard management solutions. Based in Osterode in the Harz mountains, this respiratory air division of RWE Piller GmbH is a specialist in the development, engineering and assembly of vehicle-mounted respiratory supply systems.

Holding Company, Others, Consolidation

Drägerwerk AG as holding company is an intragroup service provider, while its service and production companies mostly supply products or render services within the Dräger Group. Up to June 10, 2003, the order intake and net sales reported for this segment mainly reflected data of Dräger Aerospace, however, whose performance in the period is recognized in the extraordinary result.

Other divestments besides Dräger Aerospace involve the operations of Dräger Electronics GmbH and the sheet-metal parts production of ProTech GmbH. This latter transaction burdened the 3Q EBT with €2 million of prior-year expenses which had not been provided for. In the same context, the headcount was in absolute terms reduced by 413 from the level at December 31, 2002.

The negative segment EBIT of €12.8 million (improved from the year-earlier, equally red, €20.9 million) is the result of additional expenses for the holding company's activities and of nonrecurring expenses allocable to the companies subsumed in this segment. In contrast, the segment bottom line was bettered by the cash inflow from a one-time license fee. The segment's net income of €2.2 million (up from a 3Q/2002 net loss of €24.2 million) was substantially influenced by the extraordinary €20.5 million gain from the divestment of Dräger Aerospace.

Prospects

Upon the consummated takeover of Siemens Life Support Systems by GETINGE AB, Dräger Medical expects the cash to flow in some time in Q4/2003.

Regarding the announced acquisition of the Neonatology division of the North American Hill-Rom Company, Inc. (operating worldwide under the name of Air-Shields), Dräger Medical looks forward to the start-up of operations in the course of Q1/2004, once the authorities have given the required go-ahead.

Following a seasonally strong September, Dräger Medical is budgeting for Q4/2003 exceptionally good year-end business and is hoping for 2003 sales of €940 million and an EBIT of €95 million before the one-off expenses caused by the Siemens JV.

With business making good progress in Q4/2003, Dräger Safety foresees slightly reduced sales of a nominal €460 million for the period due to still disadvantageous parities. In terms of LFL parities, the budgeted sales gain is expected to materialize. As to EBIT, Dräger Safety believes in achieving the budgeted €39 million (down from €41.3 million).

As part of its policy of focusing on core businesses, Dräger will sell in the course of Q4 Dräger InPlast GmbH (plastic parts producer) and the PrintCenter (document management), as well as close down DrägerForum GmbH (employee education).

For the Dräger Group as a whole and discounting the joint venture and despite the exchange rate burdens, 12-month sales just as during H1/2003 are expected to reach the year-earlier level and, as a result of the incremental sales accruing from the joint venture, rise to €1,415 million. EBIT (before one-off expenses from the integration phase of the JV) and Group net income are budgeted to climb to €98 million and €37 million, respectively.

Future-oriented statements

This interim report contains statements and forecasts referring to the Dräger Group's and its companies' future development, as well as economic and political trends. These forecasts are estimates based on all the information available to us to date. If the underlying assumptions do not materialize, or if further risks surface, the actual figures may differ from such estimates and currently expected results. We therefore do not give any warranty for such statements and estimates.

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Financial diary

Q3/2003 report Conference call	November 13, 2003
Publication of provisional financial data on 2003	mid-March 2004
Annual accounts press conference Meeting with financial analysts	May 13, 2004
Q1/2004 report	May 13, 2004
Annual stockholders' meeting	June 11, 2004
H1/2004 report	August 12, 2004
Q3/2004 report	November 11, 2004
Annual stockholders' meeting	June 10, 2005