


Q1/2004 report
Dräger Group

Business trend in the Dräger Group

Highlights in Q1/2004

- EBIT, order intake and sales again all up
- Growth in America and Asia/Pacific
- Dräger Medical unveils new IT products
- 10 years of Shanghai Dräger Medical Instrument Co. Ltd.
- Outsourcing: IT companies sold off
- Net financial debts once more cut down

Fiscal 2004 off to a successful start

Order intake, sales, and earnings

Even though the international economic situation did not show any appreciable improvement in the course of Q1/2004, the Dräger Group again made good progress. Versus Q1/2003, sales advanced by 11.7 percent to €313 million (up from €280.2 million), order intake mounting 6.0 percent from €330 million to €349.9 million (parity adjusted, the improvement was some 3 percent higher in each case). Before the one-time Siemens joint venture expenses, which added up to only €0,4 million (down from €2.0 million), EBIT surged 18 percent to €14.8 million (up from €12.5 million in Q1/2003). The Group's Q1 net income soared from €2.2 million to €13.4 million albeit the 2004 figure does include one-time gains of €9 million from selling off more of the Dräger service companies, especially the IT enterprises to Capgemini. The remaining income statement captions developed as projected, with the growing cost of materials related to the rise in Q1 inventories following the steep Q4/2003 sales and to the mix of products sold. Taking into account the €2.8 million minority interests in net income, EpS for Q1/2004 totaled €0.83 of which €0.70 is attributable to the extraordinary capital gains from the IT enterprises (up from €0.10 in Q1/2003).

A major factor influencing the Dräger Group's performance was business at the Dräger Medical subgroup where, following the successful assimilation of the units taken over into the joint venture with Siemens, Q1 sales jumped by over 20 percent from €166.6 million to €200.8 million, the parity-adjusted rise amounting to 23.1 percent. EBIT (before one-time JV expenses) of €11.2 million (up from €10.4 million) failed to match the sales increase since the Q1/2004 figure was eroded by the extra expenses for strengthening the sales organization.

The Dräger Safety subgroup raised its Q1 EBIT by around 19 percent to €9.4 million (up from €7.9 million), Q1 sales advancing 3.6 percent from €109.3 million to €113.2 million, at LFL exchange rates even by 6.3 percent. The improved performance was the outcome of ongoing cost-paring programs and a finer-tuned product lineup.

Asset and capital structure, financial position

Net income for Q1/2004 and currency translation gains raised the Dräger Group's total equity to €514.3 million and the equity ratio to 42.5 percent (up from €499.2 million and 41.7 percent, respectively, as of December 31, 2003).

Total assets and capital employed merely inched up from the year-end level 2003, inventories edging up, too, for seasonal reasons, whereas trade receivables shrank. The net cash inflow further pruned net financial debts to €14.4 million (down from €36.7 million as of December 31, 2003).

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. The accounting, valuation and consolidation principles underlying the financial statements as of December 31, 2003, have been consistently applied to the present quarterly accounts.

Quarterly accounts of the Dräger Group

Consolidated income statement		3/31/2004•	3/31/2003•
		€ million	€ million
Net sales		**313.0**	**280.2**
Net inventory change, other work and material capitalized		27.5	25.3
Total operating performance		**340.5**	**305.5**
Other operating income		10.2	9.2
Cost of materials		(118.8)	(101.4)
Personnel expenses		(139.8)	(129.6)
Amortization of intangible and depreciation of tangible assets		(11.2)	(11.9)
Other operating expenses		(67.2)	(62.1)
Income from investments		0.3	0.2
Write-down of financial assets and short-term securities		(0.4)	0.0
Interest income		0.8	0.6
EBIT		**14.4**	**10.5**
Interest expense		(3.3)	(3.1)
Extraordinary result		9.0	0.0
Income taxes		(4.7)	(3.4)
Other taxes		(0.6)	(0.6)
Profit before distribution for participation capital		**14.8**	**3.4**
Distribution for participation capital (prorated)		(1.4)	(1.2)
Net income		**13.4**	**2.2**
Minority interests in net income		2.8	0.9
EpS after minority interests	€	0.83	0.10

• Q1 data has not been audited.

Consolidated balance sheet	3/31/2004•	12/31/2003
	€ million	€ million
Fixed assets	333.9	336.9
Inventories	232.7	203.0
Trade receivables	346.0	418.6
Cash & cash equivalents	189.7	186.2
All other assets	108.6	51.8
Total assets	**1,210.9**	**1,196.5**
Equity	514.3	499.2
Accruals for pensions and similar obligations	131.5	134.4
Other accruals	190.7	173.0
Due to banks	224.8	223.0
All other liabilities	149.6	166.9
Total equity & liabilities	**1,210.9**	**1,196.5**

• Q1/2004 data has not been audited.

Statement of changes in equity, Dräger Group

	Capital stock	Additional paid-in capital	Reserves retained from earnings	Group earnings	Partici-pation capital	Minority interests	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Balance at 12/31/2002	**32.512**	**38.867**	**13.865**	**4.064**	**74.797**	**6.028**	**170.133**
Dividend payout for prior years	–	–	–	(4.064)	–	(1.968)	(6.032)
Group net income	–	–	–	37.807	–	–	37.807
Minority interests in profit	–	–	–	(10.964)	–	10.964	0
Minority interests in loss	–	–	–	0.028	–	(0.028)	0
Transfer to/(from) reserves	–	–	22.172	(22.172)	–	–	0
Prorated offset of goodwill	–	–	(3.721)	–	–	–	(3.721)
Offset of goodwill from initial consolidation	–	–	(0.007)	–	–	–	(0.007)
Currency translation differences	–	–	(15.474)	–	–	(0.377)	(15.851)
Initial consolidation of previous associated affiliates	–	–	(4.192)	–	–	1.065	(3.127)
All other changes	–	–	(1.500)	–	–	0.404	(1.096)
Effects of the Siemens JV							
Reclassification into minority interests	–	–	(93.557)	–	–	93.557	0
Addition of the new operations	–	–	208.700	–	–	112.376	321.076
Balance at 12/31/2003	**32.512**	**38.867**	**126.286**	**4.699**	**74.797**	**222.021**	**499.182**
Dividend payout for prior years	–	–	–	–	–	(1.064)	(1.064)
Group net income	–	–	–	13.390	–	–	13.390
Minority interests in profit	–	–	–	(2.849)	–	2.849	0
Minority interests in loss	–	–	–	0.032	–	(0.032)	0
Transfer due to rescission of P&L transfer agreement	–	–	4.168	–	–	(4.168)	0
Prorated offset of goodwill	–	–	(1.102)	–	–	(0.593)	(1.695)
Currency translation differences	–	–	3.696	–	–	1.032	4.728
All other changes			–	(0.031)	–	(0.259)	(0.290)
Balance at 3/31/2004	**32.512**	**38.867**	**133.048**	**15.241**	**74.797**	**219.786**	**514.251**

Consolidated statement of cash flows, Dräger Group

	Q1/2004	Q1/2003
	€ million	€ million
Operating activities		
Group net income	13.390	2.246
amortization/depreciation of fixed assets	11.212	11.941
increase/(decrease) in accruals	14.842	3.101
(gain)/loss from fixed-asset disposal and translation differences	(7.021)	(1.458)
(gain)/loss from the disposal of subsidiaries	(9.022)	0
(increase)/decrease in inventories	(29.293)	(27.046)
decrease/(increase) in trade receivables and other assets	24.020	21.163
(decrease)/increase in trade payables and other liability items	(14.271)	(1.621)
Net cash provided by operating activities	**3.857**	**8.326**
Investing activities		
cash outflow for additions to intangible assets	(1.891)	(1.233)
cash inflow from the disposal of tangible assets	0.121	0
cash outflow for additions to tangible assets	(12.318)	(10.975)
cash outflow for additions to financial assets	(0.388)	(1.397)
cash inflow from the disposal of financial assets	14.000	0
Net cash used in investing activities	**(0.476)**	**(13.605)**
Financing activities		
net balance of bank loans and other financial debts raised/redeemed	1.888	28.875
increase in minority interests in equity	1.032	1.245
minority interests in loss	0.032	0.085
minority interests in profit	(2.849)	(0.878)
Net cash provided by financing activities	**0.103**	**29.327**
Cash-based changes in cash in the period	3.484	24.048
Cash & cash equivalents at beginning of period	186.213	42.442
Cash & cash equivalents at end of period	**189.697**	**66.490**

Segment report

		Dräger Medical		Dräger Safety	
		Q1/2004	Q1/2003	Q1/2004	Q1/2003
Order intake	**€ mill.**	**220.3**	**192.1**	**130.7**	**130.2**
Sales by regions					
Germany	€ mill.	51.2	45.4	23.7	24.2
Other Europe	€ mill.	80.6	65.8	49.2	49.3
Americas	€ mill.	33.7	22.9	19.7	19.1
Asia/Pacific	€ mill.	26.2	22.1	15.5	10.3
Other	€ mill.	9.1	10.4	5.1	6.4
Total sales	**€ mill.**	**200.8**	**166.6**	**113.2**	**109.3**
in % of group sales	%	64.2	59.5	36.2	39.0
thereof intersegment transfers	€ mill.	2.0	1.8	2.7	2.4
Adjusted (=before one-time JV expenses) EBITDA •	**€ mill.**	**16.7**	**14.3**	**12.9**	**11.3**
depreciation/amortization	€ mill.	(5.5)	(3.9)	(3.5)	(3.4)
Adjusted EBIT ••	**€ mill.**	**11.2**	**10.4**	**9.4**	**7.9**
one-time expenses for Siemens JV	€ mill.	0.4	2.0	0.0	0.0
EBIT ••	**€ mill.**	**10.8**	**8.4**	**9.4**	**7.9**
Capital employed •••	**€ mill.**	**705.0**	**330.9**	**176.0**	**173.4**
Capital expenditures	**€ mill.**	**6.3**	**4.0**	**5.9**	**5.5**
Net financial debts ••••	**€ mill.**	**(183.4)**	**25.3**	**15.6**	**30.3**
Adjusted EBIT margin	**%**	**5.6**	**6.2**	**8.3**	**7.2**
Adjusted ROCE	**%**	**1.6**	**3.1**	**5.3**	**4.6**
Net financial debts ÷ adjusted EBITDA	**factor**	**(11.0)**	**1.8**	**1.2**	**2.7**
Quarterly average headcount					
Germany		2,577	2,657	1,553	1,567
Abroad		3,136	2,465	1,852	1,812
Total		**5,713**	**5,122**	**3,405**	**3,379**

• EBITDA = earnings before interest expense, all taxes, depreciation and amortization

•• EBIT = earnings before interest expense and all taxes

••• total capital less non-interest debt as of March 31

•••• including receivables and payables from cash management systems as of March 31

	Holding Company Others Consolidation		Dräger Group	
	Q1/2004	Q1/2003	Q1/2004	Q1/2003
	(1.1)	**7.7**	**349.9**	**330.0**
	(1.0)	4.3	73.9	73.9
			129.8	115.1
			53.4	42.0
			41.7	32.4
			14.2	16.8
	(1.0)	**4.3**	**313.0**	**280.2**
	(0.3)	1.5	100.0	100.0
	(3.1)	**(1.2)**	**26.5**	**24.4**
	(2.7)	(4.6)	(11.7)	(11.9)
	(5.8)	**(5.8)**	**14.8**	**12.5**
	0.0	0.0	0.4	2.0
	(5.8)	**(5.8)**	**14.4**	**10.5**
	(10.4)	**52.5**	**870.6**	**556.8**
	2.4	**2.7**	**14.6**	**12.2**
	182.2	**138.4**	**14.4**	**194.0**
			4.7	**4.5**
			1.7	**2.2**
	(58.8)	**(115.3)**	**0.5**	**8.0**
	997	1,630	5,127	5,854
	7	16	4,995	4,293
	1,004	**1,646**	**10,122**	**10,147**

Dräger Medical

For the 13th time in succession, Dräger Medical improves on its prior-year quarterly earnings / sales up by over 20 percent / new IT products presented / 10 years of Shanghai Dräger Medical

In 2004, Dräger Medical posted a Q1 EBIT of €11.2 million (before one-time JV expenses), slightly up from €10.4 million a year ago. This means that for the 13th time in succession the subgroup has topped its prior-year quarterly earnings. At 5.6 percent, the EBIT margin is somewhat short of the year-earlier 6.2 percent.

While the ongoing global restructuring efforts coupled with the resulting cost structure enhancements did impact favorably on the operating result, measures taken to improve sales coverage simultaneously squeezed earnings, thus offsetting to some extent the overall uptrend. In the United States, for instance, a far-reaching shakeup of the sales organization entailed a changeover from product-specific to portfolio-based selling while concurrently there was a steep rise in the number of salespersons compared with Q1/2003. In the medium term, such a closer market coverage will have a healthy impact on order intake and earnings, although during Q1/2004, the efforts undertaken did erode both. Other outlays in expanding the subgroup through new subsidiaries in Chile and Mexico also prevented earnings from keeping pace with the added sales.

Whereas in Q1/2003 Dräger Medical showed a receding order intake, this year new orders climbed 14.7 percent to rise to €220.3 million (up from €192.1 million). Based on like-for-like exchange rates, the advance was as high as 17.9 percent.

At €200.8 million, sales were 20.6 percent (at LFL rates, 23.1 percent) up over the year-earlier €166.6 million.

Despite the thorough reformatting of the sales organization, it was in the USA, in particular, that the subgroup generated sales easily over the year-earlier magnitude. In China, too, where Shanghai Dräger Medical Instrument Co., Ltd. celebrated its decennial, sales were likewise soaring. Buoyant sales were also reported in large parts of Europe such as Italy, Spain, and the Benelux countries.

Right from the start of the year, added momentum was injected into the Innovation Initiative drive. At the annual Health Information and Management Systems Society (HIMSS) conference and exhibition in Orlando, USA, the new Innovian™ IT platform was presented along with Innovian™ Anesthesia, the new anesthetics information system specifically developed for anesthesiological workstations. In all, Dräger Medical turned in a commendable performance, succeeding in gaining shares in a slightly growing medical technology market, despite ongoing health care policy uncertainties in Germany, and a repeated reluctance to spend.

Dräger Safety

Earnings and sales up / order intake sufficient to achieve budgeted targets

In 2004, Dräger Safety achieved a Q1 EBIT of €9.4 million (up from €7.9 million), a gain of 19 percent over 2003 and equivalent to an EBIT margin of 8.3 percent (up from 7.2 percent). The earnings upgrade is due to the ongoing improvement of cost structures.

At €113,2 million, worldwide Q1 sales by Dräger Safety were up 3.6 percent from the year-earlier €109.3 million. At LFL parities, sales advanced 6.3 percent.

Q1 order influx at €130.7 million was up in 2004 by 0.4 percent over the year-earlier €130.2 million, the parity-adjusted growth being 3.2 percent.

Business again prospered in NAFTA, driven especially by mass products. Orders booked in the USA and Canada for "domestic preparedness" respiratory protection devices and major fire departments resulted in a steady inflow of new business. Mexico's biggest mineral oil group awarded Dräger Safety a contract for portable gas measuring units. The new X-am 3000 four-gas measuring unit impacted impressively on the NAFTA market. New York City's chief energy supplier was fitted out with the MiniWarn gas detectors. These devices are used to enable employees safe access to confined spaces, pipework and shafts possibly containing gaseous contaminants. The customer opted for these high-grade Dräger units because they have already been successfully launched on the world market.

In all, the subgroup raised orders by a parity-adjusted 10.6 percent in NAFTA.

In the Asia/Pacific region, order intake at LFL exchange rates climbed 12.4 percent and hence, Dräger Safety managed to expand its market position here, too. Major contracts were awarded by the mining, shipping, and firefighting sectors.

Dräger Safety consolidated its market shares within Europe where there was again strong demand for the respiratory protection and gas detection gear employed by firefighters and industry. In Belgium, Italy and France, large firefighting departments were equipped with the respiratory protection units. For the painting line for the new Airbus A 380—the world's biggest passenger aircraft—Dräger Safety will supply a stationary gas monitoring system.

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. The order intake and net sales reported for this segment include also third-party transactions, albeit to a minor extent, the negative data being attributable to inter-subgroup consolidation.

The group of service companies was downsized when, as of March 1, 2004, the IT companies Dräger Synematic GmbH (including EBP GmbH), Nordac Rechenzentrumsgesellschaft mbH and Dräger IT GmbH were sold and transferred to Capgemini. In both 2003 and 2004, this group generated an unchanged negative Q1 EBIT of €5.8 million.

Prospects

During Q2/2004, Dräger Medical expects to receive the last of the cartel authority go-aheads allowing its takeover of the North American Hill-Rom Company Inc.'s Neonatology unit (operating as Air-Shields). Shortly thereafter, this unit will very likely be integrated and consolidated with Dräger Medical and, for the remainder of the fiscal year, it is expected to add around €20 million in sales and, before one-off expenses, break even slightly into the black.

Dräger Medical booked a steep sales gain in Q1/2004. Nonetheless, when measured against the 12-month target, the start was, as in 2003, of generally modest proportions. Regarding its 12-month budget, Dräger Medical predicts target achievement.

Business at Dräger Safety during Q1/2004 indicates that the subgroup has reaffirmed its status in all of its product and service sectors. Dräger Safety likewise expects to achieve its self-set targets.

Within the scope of the core business emphasis, some kind of third-party outsourcing solution is likely for the ProTech GmbH parts producer. As to the remaining Dräger Interservices GmbH (Logistics) and Dräger InTek GmbH (Facility Management), these are closely intermeshed with the Group's operational processes and will therefore stay under Dräger ownership. Inside Drägerwerk AG and outside of the holding company activities, there will thenceforth be fewer costs and expenses entailed by structural and groupwide projects.

At the close of Q1/2004, the Group expects for the full 12 months the budgeted 10+ gain in sales and a more-than-commensurate climb in EBIT and net income.

Future-oriented statements

This quarterly 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.

Financial diary

Annual accounts press conference, Lübeck	May 12, 2004
Q1/2004 report	May 12, 2004
Meeting with financial analysts, Frankfurt/Main Conference call, Frankfurt/Main	May 13, 2004
Annual stockholders' meeting	June 11, 2004
H1/2004 report Conference call	August 12, 2004
Q3/2004 report Conference call	November 11, 2004
Annual stockholders' meeting	June 10, 2005
Annual stockholders' meeting	June 9, 2006

Dräger

Drägerwerk AG
Moislinger Allee 53/55
23542 Lübeck, Germany
www.draeger.com

Corporate Communications
Phone (+49-451) 8 82-22 01
Fax (+49-451) 8 82-39 44

Investor Relations
Phone (+49-451) 8 82-26 85
Fax (+49-451) 8 82-32 96

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