

No. 1

The engine company.

Annual Report 2004



DEUTZ Group: Key Figures

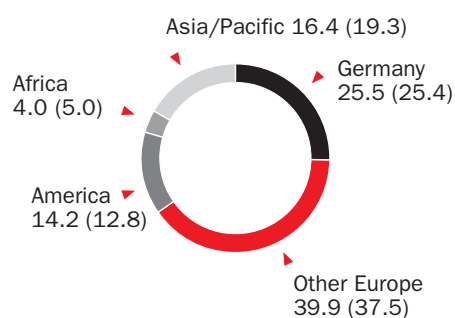
		2001	2002	2003	2004	Change in %
Unit sales	Units	146,645	154,032	156,237	173,440	11.0
Compact engines	Units	145,538	153,285	155,523	172,684	11.0
Medium-sized and large engines	Units	1,107	747	714	756	5.9
Sales	€ million	1,184.9	1,160.9	1,172.6	1,242.1	5.9
Foreign sales proportion	%	75.6	74.5	74.6	74.5	-
Engines Business	€ million	1,184.9	1,160.9	1,172.6	1,242.1	5.9
Compact engines	€ million	746.1	815.0	843.0	909.7	7.9
Medium-sized and large engines	€ million	438.8	345.9	329.6	332.4	0.8
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	89.1	103.0	104.9	104.4	-0.5
Operating profit (EBIT)	€ million	27.9	41.0	44.0	50.1	13.9
Loss/profit on ordinary activities	€ million	-13.7	4.4	11.3	20.7	83.2
Loss/profit for the year	€ million	-31.8	2.0	6.0	-18.6	-
Earnings per share (undiluted)	€	-0.49	0.03	0.09	-0.20	-
Earnings per share (diluted)	€	-0.43	0.03	0.08	-0.14	-
Balance sheet total	€ million	1,142.2	1,048.6	1,017.0	960.2	-5.6
Fixed assets	€ million	520.8	496.8	466.5	443.2	-5.0
Stockholders' equity	€ million	93.0	95.0	169.7	155.6	-8.3
Stockholders' equity proportion	%	8.2	9.1	16.7	16.2	-
Cash flow from normal operating activities	€ million	45.4	56.5	34.6	92.9	168.5
Net financial debt*	€ million	339.7	302.0	224.2	100.0	-55.4
Total debt**	€ million	473.4	404.3	347.7	323.0	-7.1
Investments	€ million	41.7	59.5	40.7	41.0	0.7
Depreciation	€ million	65.8	62.4	64.0	54.4	-15.0
Research and development expenditure	€ million	48.3	47.1	54.9	69.5	26.6
Employees (December 31)	Number	5,979	5,470	5,454	5,472	0.3

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

** Total debt: net financial debt + bonds + trade payables
+ bills of exchange payable + other payables.

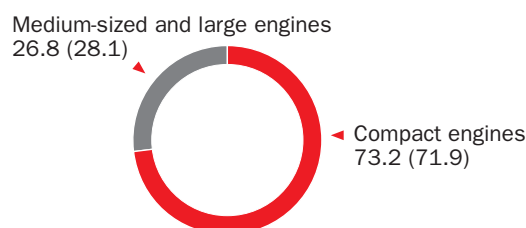
DEUTZ Group: Sales by regions

in % (2003 figures)



DEUTZ Group: Sales by segments

in % (2003 figures)



DEUTZ segments

Compact engines

Our compact engines cover the output range from 4 to 440 kW. Within this segment we produce liquid-cooled and air-cooled diesel engines in Cologne, Ulm and Zafra (Spain).

Medium-sized and large engines

Our medium-sized and large engines cover the output range from 180 to 4.000 kW. We produce diesel and gas engines within this segment in Mannheim.

Application segments

Sales in € million (2003 figures)

Engines	740.2 (677.1)	158.0 (159.3)
Mobile machinery	310.5 (272.6)	-
Stationary equipment	205.5 (161.5)	123.5 (111.7)
Agricultural machinery	124.3 (112.7)	-
Automotive	63.1 (91.2)	-
Marine	14.7 (13.1)	34.5 (47.6)
Miscellaneous	22.1 (26.0)	-
Service	169.5 (165.9)	174.4 (170.3)
DEUTZ Group	909.7 (843.0)	332.4 (329.6)

Worldwide presence More than 800 independent DEUTZ sales and service partners in more than 130 countries
4 production works · 22 sales companies · 14 sales offices · 18 service centres

America



Buenos Aires (Argentina)
Santa Amaro (Brazil)
Ville St.-Laurent (Canada)
Atlanta (USA)

Europe



Germany
Berlin
Cologne
Duisburg
Erfurt
Hamburg
Hanover
Mannheim
Munich
Nuremberg
Übersee
Ulm
Wilhelmshaven

Rest of Europe

Vienna, Wels (Austria)
Antwerp (Belgium)
Copenhagen (Denmark)
Gennevilliers, Boulogne-sur-Mer,
Chassieu (France)
London, Newbury (Great Britain)
Budapest (Hungary)
Dublin (Ireland)
Rotterdam, Harlingen,
Ijmuiden (Netherlands)
Moscow (Russia)
Madrid, Zafra, Las Palmas
de Gran Canaria, Vigo (Spain)
Barkarby, Frölunda (Sweden)
Istanbul (Turkey)

Africa



Hydra (Algeria)
Casablanca (Morocco)

Asia



Dhaka (Bangladesh)
Beijing, Shanghai (People's
Republic of China)
Kowloon (Hong Kong)
Pune (India)
Teheran (Iran)
Cainta Rizal (Philippines)
Singapore (Singapore)
Seoul (South Korea)
Abu Dhabi (UAE)

Australia



Braeside
Hornsby
Kalgoorlie
South Fremantle
Springwood

January 2004

DEUTZ extends the partnership it has enjoyed since 1995 with the SAME DEUTZ-FAHR Group, which means that in the coming years DEUTZ will become the main engine supplier to one of the world's leading agricultural machinery manufacturers.

March 2004

DEUTZ presents its new compact engines series at bauma 2004, the world's largest trade fair for construction machinery and mining equipment. Five types of engine in the output range from 9 to 50 kW broaden the product line in the lower power range.

140 years of DEUTZ. On 30th March 1864, Nicolaus August Otto and Eugen Langen opened the world's first engine factory in Cologne.

May 2004

DEUTZ restructures its medium-sized and large engines business. This new segment »DEUTZ Power Systems« will, in the future, focus on environmentally-friendly, decentralised power generation with gas engines.

July 2004

The successful convertible bond issue underlines the capital market's increased interest in DEUTZ.

The SAME DEUTZ-FAHR Group increases its holding in DEUTZ AG to 29.9 percent and thus emphasises its long-term commitment to the strategic partnership with DEUTZ.

September 2004

On 18th September, DEUTZ celebrates the laying of the foundation stone of the new assembly hall for the future commercial vehicle engines at the Cologne-Porz site, and the 140th anniversary of the company, with a great summer party.

October 2004

DEUTZ signs a partnership agreement with the Algerian agricultural machinery company CMT. This extends a successful, 30-year co-operation by another ten years by bringing in the latest technology.

December 2004

DEUTZ creates 20 more apprenticeships thereby underlining its commitment to production in Germany. In all, 200 young people are undergoing training at DEUTZ.



Within just 18 months an ultra-modern engine assembly for the new premium engine TCD in Cologne-Porz will be complete. Just six months after the Chairman of the Management Board Gordon Riske laid the foundation stone in September 2004, the DEUTZ Management Board could see for themselves the speedy progress of the building works.

Since **1**864

140 years ago, we made history. As the number 1 – the world’s first engine factory. Now, after 140 eventful years, we are going back to our roots as a clearly focused engine maker. Why? Because our aim is still to be the number 1. We already hold the top position in many of our markets. The successful Re-Launch programme implemented between 2001 and 2003 has left us in a position where we can take aim at the market leadership of other segments.

»To be the first choice – this claim should accompany everything we tackle.«

Gordon Riske, CEO



Dear Shareholders, Dear Friends of our Company,

In Year 1 after the Re-Launch, DEUTZ has started strongly towards a new and highly promising future. Unit sales of engines in 2004 rose by eleven percent to 173,440. Sales grew by six percent to €1.24 billion, and the operating profit of €50.1 million was 14 percent above last year's figure. So, in 2004, we achieved our ambitious targets.

That was by no means simple in a marketplace characterised by competitive pressure, economic turbulence, dearer raw materials and a falling dollar. Nevertheless, DEUTZ succeeded in strengthening its position as the leading independent and specialist supplier of diesel and gas engines in Germany and Europe.

We have also continued to improve our balance sheet structure. The convertible bond issue in the summer of 2004 and the action we took to reduce working capital put us in a position to reduce net financial debt by over half to €100.0 million. Moreover, the success of the bond issue confirmed that we are on track to be regarded again as a respectable name by the financial markets.

One of the most vital tasks in Year 1 after the Re-Launch was the strategic restructuring of the medium-sized and large engines segment which we carried out in 2004. The decision having been taken midway through 2004 to pull out of the new engines business for marine engines, we consequently proceeded with the sale of the marine service business early in 2005. This service business was sold to the Finnish company Wärtsilä at a price of €115 million.

We are now concentrating our focus in the medium-sized and large engines business firmly on our core competence, decentralised power generation with gas and diesel engines. Particularly in the burgeoning market for power generation systems driven by renewable fuels such as bio-gas, mine gas and sewage gas, we already enjoy excellent market positions that we can now further strengthen consequently. None of our competitors here have such broad experience as DEUTZ. With decentralised power generation systems, we are already the market leader in Germany and rank second in Europe. Our aim is to be the European market leader.



»The market sees us once again as a leader in technology. And rightly so.«
Karl Huebser, Management Board: Technology

»In hard times we have learnt to stand together, as one.«
Helmut Meyer, Management Board: Finance/Personnel

The decision on decentralised power generation was tied up with outsourcing the medium-sized and large engines business into »DEUTZ Power Systems GmbH & Co. KG« and making it legally autonomous. The fully owned subsidiary of DEUTZ AG began trading at the start of January 2005. By gathering the entire value chain under a single leadership, the DEUTZ Power Systems management was assured the business flexibility they need, while also assuming full responsibility for results from the very start.

We allowed extraordinary expenses of €35 million in the 2004 annual accounts for the strategically necessary and forward-looking restructuring of the medium-sized and large engines business. We believe that the measures that we have taken will improve profitability by around €20 million in the medium term, and considerably increase cash flow. Adjusted for this one-off expense, the financial year 2004 shows a profit almost three times greater than the figure of €6 million the year before.

Business in the compact engines segment proved to be very positive in 2004. In response to the healthy growth in demand, in the autumn we laid the foundation stone for a new assembly hall at the Cologne-Porz site, which is part of an investment package worth over €50 million in 2004 and 2005. Serial production of the newly developed premium engines for use in medium weight trucks and agricultural machinery will commence in the new hall in 2006. The co-operation arrangements between DEUTZ and our large customers and major shareholders Same and Volvo will lead to a continued increase in capacity utilisation in the coming years. Towards the end of 2004 we also began work on installing the production facilities for the new compact series 2008 and 2009, serial production for which commences this spring. This will mean the completion of our product range in the output range below 50 kW, which is a burgeoning sector.

For 2005 we anticipate that sales from our core business will grow once again. We believe that this organic growth will be able to compensate for the planned loss of sales from selling the marine service business. Therefore we anticipate that total sales will reach the same level as last year.

Profits are expected to face pressure in the current year. The divested marine service business will only contribute positively to operating profit in the first quarter. Negative influences are expected from raw material prices continuing to rise and from exchange rate risks, though we shall put appropriate counter measures in place to improve the profit situation. These counter measures include further improvements to our cost structures, price rises and careful changes to our unit sales mix. We anticipate significantly increased profits from focusing the medium-sized and large engines business on the profitable system business with power generation equipment. We believe that this will largely succeed in offsetting negative influences on profits. We are also anticipating a high double-digit extraordinary income from the sale of the marine service business.

We plan to increase engine production to over 200,000 units per year by 2008. This will enable us to increase the EBIT margin considerably, by four percent in comparison to the current level. This will show that DEUTZ is capable of performing even under difficult market conditions. The objective is for all of DEUTZ's products to be profitable.

Our corporate commitment is embedded in a company structure characterised by team spirit and both internal and external openness. It is a relief to know that senior management can rely on a team that stands shoulder-to-shoulder behind us and responds to the trusted motto, »Get stuck in, and never give up.« We are particularly grateful to them, as we are to our business partners and shareholders, whose confidence has made a major contribution to our company's development. As a powerful unit we are able to face DEUTZ's future with enthusiasm and optimism.

With kind regards,



Gordon Riske



Karl Huebser



Helmut Meyer



Dr Michael Endres, Chairman

Report by the Supervisory Board

The Supervisory Board of DEUTZ AG has monitored and advised the company's management through the Management Board. It has received regular, detailed verbal and written reports from the Management Board on the business situation and the company's progress, on business policy, on corporate plans including financial, investment and human resource plans, on business deals that are subject to approval and on major one-off initiatives.

The Supervisory Board met on six occasions during the 2004 financial year. Resolutions were adopted during those meetings based on detailed written and verbal information and on thorough debate.

There was no need to call in the Conciliation Committee prescribed by the Co-Determination Act during the year. The Audit Committee met twice and the Human Resources Committee once. The Supervisory Board was kept informed of all the outcomes of the committees' proceedings.

The 2004 annual accounts were discussed in the Supervisory Board's meeting on 7 April 2005. PricewaterhouseCoopers GmbH, the auditing company in Düsseldorf, has audited the annual accounts presented by the Management Board for the 2004 financial year, the Group's consolidated accounts and the Management Board's report, based on the book-keeping and the company's early risk identification and monitoring system, and has granted its unquali-

fied certificate of endorsement. The annual accounts, the consolidated accounts, the Management Report and the relevant auditor's reports were put before all members of the Supervisory Board. The annual account documentation was, after a report by the auditor and in the auditor's presence, discussed in detail and approved in the Supervisory Board's balance sheet meeting mentioned previously. The annual accounts are thus adopted.

There were no changes to the company's executive bodies in the past year.

On behalf of the Supervisory Board, I would like to thank the Management Board of DEUTZ AG for their work during the 2004 financial year. I am also grateful to all the employees of DEUTZ, and to their elected representatives, for their hard work and dedication. This made a significant contribution to the positive development of the company.

Cologne, April 2005

The Supervisory Board

Dr Michael Endres, Chairman

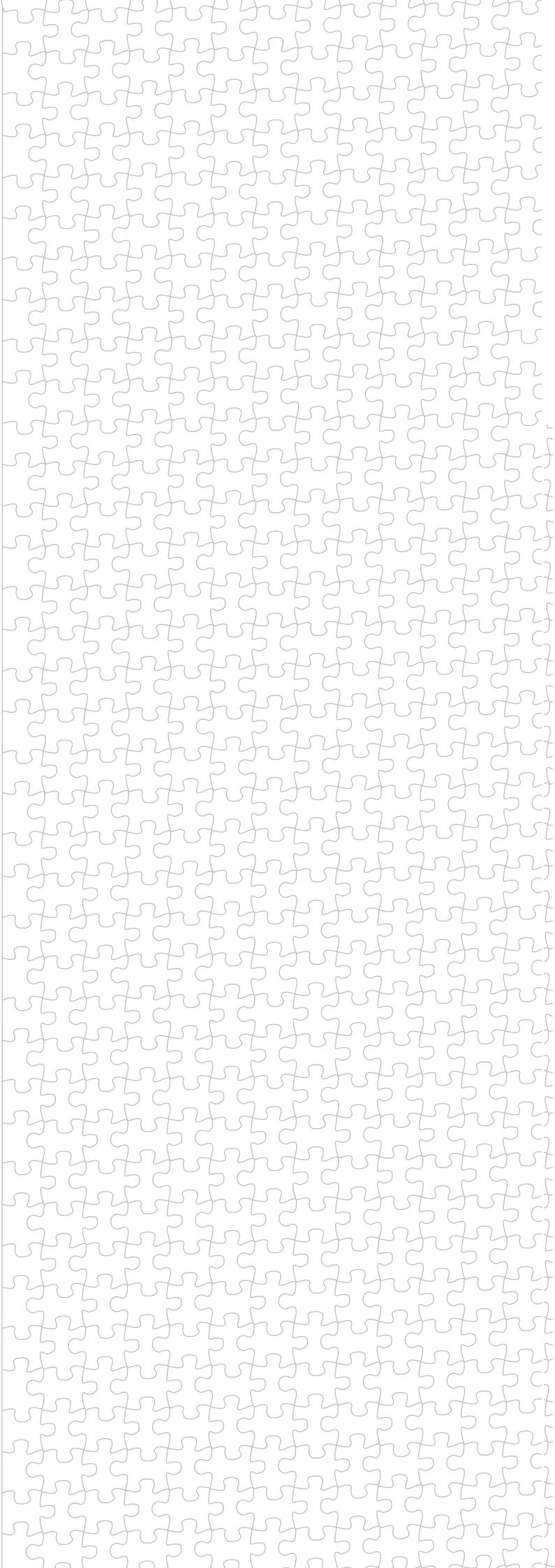
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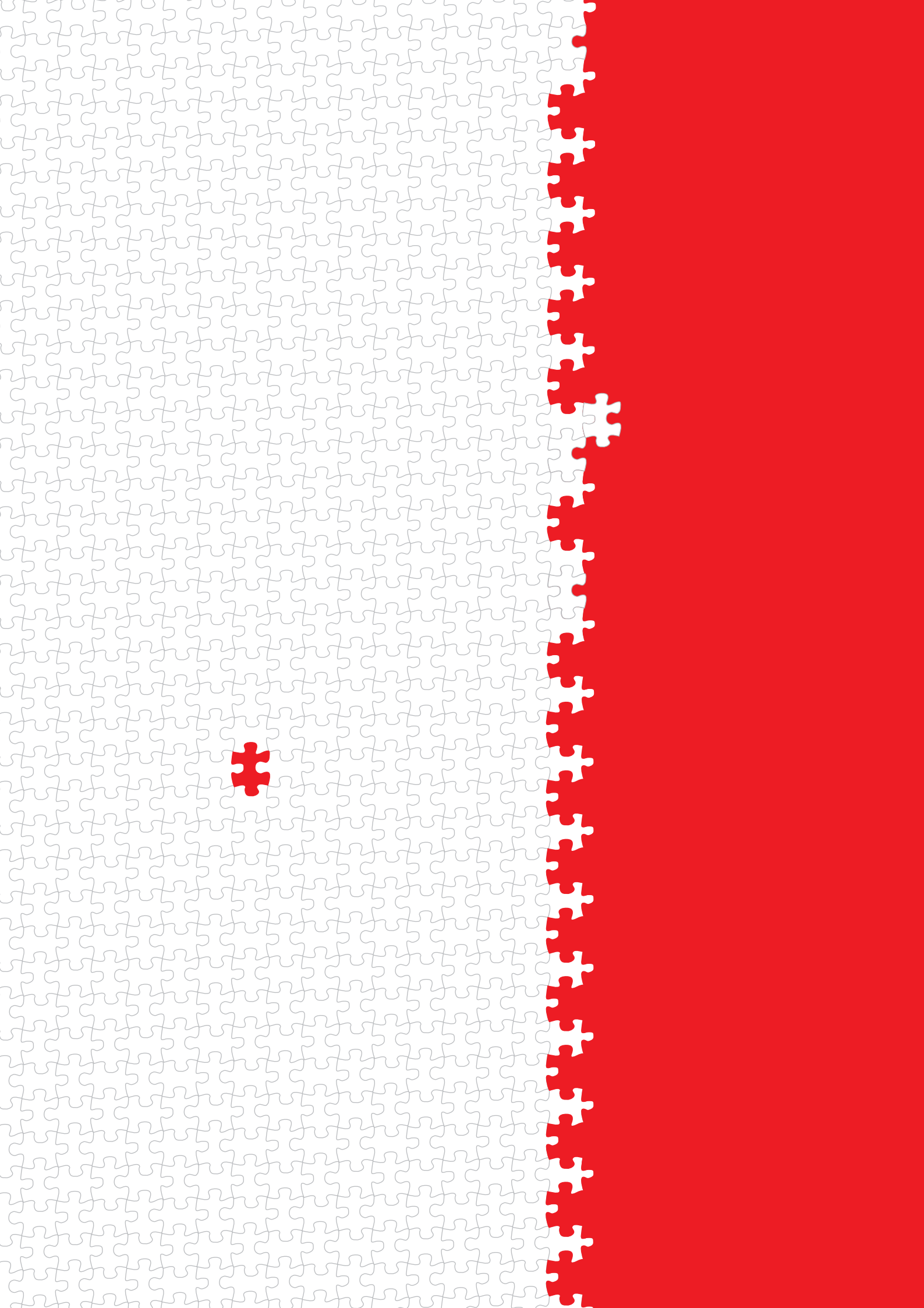
THURSDAY

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The Re-Launch has, since 1 January 2004, been mere history, though a part of our history that we look back on with pleasure. It is where we established the basis for a promising, successful future. In Year 1 after the Re-Launch we are operationally profitable, we have lean structures and processes, with a tight portfolio and a well-filled product pipeline.

At DEUTZ, individuals with a wide range of special talents come together to form **one**, powerful unit.





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We speak many languages, but always with one voice. Regardless of national boundaries, it is the same convictions, hopes and goals that bind and motivate us. This is what makes us successful throughout the world.

Engine technology fundamentals

	1	2	...	8	...	16	...	20	...	30	31	32	33	34	...	41	42
1	1	2	...	8	...	16	...	20	...	30	31	32	33	34	...	41	42
...
49	49	98	...	392	...	784	...	980	...	1470	1519	1568	1617	1666	...	2009	2058
50	50	100	...	400	...	800	...	1000	...	1500	1550	1600	1650	1700	...	2050	2100
...
60	60	120	...	480	...	960	...	1200	...	1800	1860	1920	1980	2040	...	2460	2520
61	61	122	...	488	...	976	...	1220	...	1830	1891	1952	2013	2074	...	2501	2562
62	62	124	...	496	...	992	...	1240	...	1860	1922	1984	2046	2108	...	2542	2604
63	63	126	...	504	...	1008	...	1260	...	1890	1953	2016	2079	2142	...	2583	2646
64	64	128	...	512	...	1024	...	1280	...	1920	1984	2048	2112	2176	...	2624	2688
65	65	130	...	520	...	1040	...	1300	...	1950	2015	2080	2145	2210	...	2665	2730
...
101	101	202	...	808	...	1616	...	2020	...	3030	3131	3232	3333	3434	...	4141	4242
...
127	127	254	...	1016	...	2032	...	2540	...	3810	3937	4064	4191	4318	...	5207	5334
128	128	256	...	1024	...	2048	...	2560	...	3840	3968	4096	4224	4352	...	5248	5376
129	129	258	...	1032	...	2064	...	2580	...	3870	3999	4128	4257	4386	...	5289	5418
130	130	260	...	1040	...	2080	...	2600	...	3900	4030	4160	4290	4420	...	5330	5460
...
251	251	502	...	2008	...	4016	...	5020	...	7530	7781	8032	8283	8534	...	10291	10542
...
457	457	914	...	3656	...	7312	...	9140	...	13710	14167	14624	15081	15538	...	18737	19194

914 DEUTZ's legendary air-cooled range. The 914 series is built to face the emission challenges of the future.

2008/2009 Extremely low exhaust and noise emissions, minimal vibration and future-proof. The new 2008 and 2009 compact engines series, specially developed for the most challenging demands of mobile machinery.

2013 The new TCD 2013 premium engine. With DEUTZ's innovative common rail injection system it is a completely new design for the automotive and agricultural machinery segments.

2015 Superior performance from extremely compact installation dimensions. The 2015 series V engines, used as diesel and gas variants in a wide range of applications.

2016 Outstanding efficiency and long maintenance intervals. The TCG 2016 gas engine, the environmentally friendly and cost-conscious method of power generation.

2020 The very latest gas engines of the 2020 series. Rock-bottom power consumption and optimal availability with different gas types.

2032 Minimal investment and operating costs. The 2032 series succeeds through compact sizing and excellent specific fuel and oil consumption.

Our mastery of engine technology fundamentals is perhaps second to none in this industry. The evidence lies in our output – engines that meet our customers' needs.

Our society operates in a trouble zone between the rising demand for mobility and the need to reduce environmental impacts as much as possible. We invest a considerable amount in helping to maintain the balance in this trouble zone. Our engines set standards for consumption and emission values.





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You achieve more when you're united. Strong partnerships make our business stable.



Wirtgen cold milling machine W1000F with 6-cylinder 1013 series engine.

»As one of the leading construction machinery manufacturers worldwide we are a guarantor of quality for our customers. When buying construction machinery from the Wirtgen Group the customer can be sure of reliability and a long service life. Here, the DEUTZ engines are a crucial factor for us.«

Stefan Wirtgen, Chairman of the Wirtgen Group

Compact Engines

Planned expansion – profitable growth In 2004, the first year after the Re-Launch, DEUTZ produced and sold more compact engines than it had done for ten years: over 173,000 units. That is all of eleven percent more than 2003, and a clear indication that we are more than meeting our customers' needs – with engines that have become even more reliable, economical, maintainable and environmentally friendly.

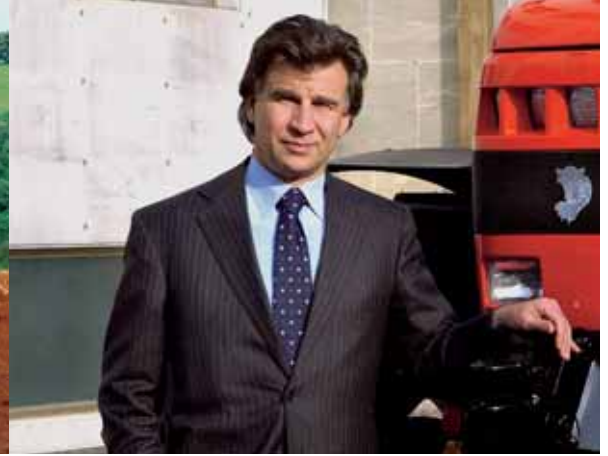
Our medium-term production target is now to top 200,000 engines per year. Production capacity in our assembly plants is very well utilised. One reason for this utilisation is the outcome of the co-operation agreement we signed in 1998 with Volvo covering the 4 to 7-litre swept volume range. Since the first deliveries were made in 2000 the numbers of units supplied annually have increased continuously, to a total of 24,600 units in 2004. On top of the engines we supply for use in construction machinery, gensets, pumps and boats; from 2006 we are also going to be equipping Volvo's and Renault's medium-weight trucks with engines, which will mean a further increase in deliveries of between 20,000 and 25,000 engines per year. And from 2007 our partner SAME DEUTZ-FAHR will be sourcing around 20,000 more engines annually in addition to the 8,000 to 9,000 we already supply.

All this does not merely signify planned expansion, but also profitable growth, as full utilisation enables us to exploit the advantages of economies of scale. The considerable improvements made in productivity are also improving profitability. Whereas twelve engines used to come off the line per hour, by late 2004 the figure was 20 units – a two-thirds increase within just a few years.

Wide-reaching investment programme at the Cologne location Together with North Rhine-Westphalia's prime minister Peer Steinbrück, the Chairman of our Management Board Gordon Riske laid the foundation stone for the new assembly hall at Cologne-Porz on 18 September. The new hall, with a capacity starting at 25,000 engines per year, is at the heart of a total package of around €50 million that we shall be investing in expanding our assembly and production capacity for the new TCD 2013 series alone by the end of 2005. Serial production of this new, premium



SAME tractor Diamond 215 with 6-cylinder 1013 series engine.



Massimo Bordi

»The industrial agreement with DEUTZ is of strategic importance for our Group. In fact, it assures the availability of technologically advanced products for the future. Further, the DEUTZ products are perfectly in line with the emission standards which, because of their restrictedness, are downsizing the number of players able to face them.«

Massimo Bordi, CEO SAME DEUTZ-FAHR Group

engine for use in commercial vehicles and the agricultural machinery segment will begin here from February 2006. In its 6-cylinder variant, this in-line engine with the DEUTZ Common Rail System DCR® outputs 235 kW at a capacity of 7.2 litres. The first prototypes are already out on the street undergoing rigorous testing. This reinforces our claim to be one of the world's leading engine makers with innovative products and first-class service.

Since the very start, Cologne has been our company's base. The building of a new assembly hall at Cologne-Porz is a firm commitment to Germany as a production location.

Late in 2004, work also began on installing the assembly systems for the two new series, 2008 and 2009, in Hall 100 at the Cologne-Deutz site. This will consist of five compact diesel engine types for a wide range of applications in the high-volume output range from 9 to 50 kW. They have been developed as water-cooled models and are particularly well-suited to the stringent demands of Mobile Machinery, Agricultural Machinery and pumps and gensets. The new engines are characterised by very low exhaust and noise emissions, minimal vibrations and compact sizing. The very positive reactions of customers and industry experts when we presented them at bauma 2004, the world's largest construction machinery trade fair, fully confirmed our belief that they will be well accepted in the marketplace.

The technology, the rights to both series and a development centre were acquired in 2004 from an English engine manufacturer. This acquisition brought us not just a fully equipped research and development centre with 27 staff, but also considerably expanded our own development capacity and, as we can go into production more quickly, cut the »time-to-market« factor significantly.



JLG telescopic handler 307 with 4-cylinder 2012 series engine.



William M. Lasky (left), Gordon Riske

»DEUTZ is an important supplier and partner to JLG. As we set record revenues in 2004 they supported us in meeting the increasing demands of our customers. As we continue to grow and expand into new markets the DEUTZ engines are perfect for our products.«

William M. Lasky, Chairman of the Board and CEO JLG Industries, Inc.

The new 2008 and 2009 series will round off DEUTZ's product range optimally at the lower end, supplementing the engines in the 2011 and 2012 series. The assembly process is designed so that it will be sustainably cost-effective even if there are major market fluctuations. Serial production for both series is due to commence in the spring of 2005. The new engines do not simply meet the strict stage II (Europe/USA) exhaust emission standards, but are technically in a position to meet the follow-up stages III and IV which will begin to come into force from 2008.

In co-operation with our partners we are exploiting potential synergies in development and production.

DEUTZ – the No. 1 choice in many applications In 2004 in the Mobile Machinery application segment, we continued to improve our position as an independent engine supplier in almost all of the classical applications such as construction machinery, ground conveyors, forklift trucks, aerial work platforms and mining devices. We were able, for example, to increase our market share in compaction equipment and are now, as we are in compact wheel loaders, the number 1 worldwide. Three years ago we succeeded in moving into telescopic forklifts. Since then we have won representation in almost all of the European manufacturers in this market segment, and we have been able to considerably improve our market share in this short space of time. In the North American market, the construction machinery manufacturer JLG made a decision to opt for DEUTZ towards the end of 2004. Their new telescopic lifts are powered by a 4-cylinder 2012 series engine which won out over international competition. Three manufacturers dominate the world market for mobile aerial work platforms. DEUTZ has become the first choice for these market leaders in the 20 kW class. In Germany we are already the number 1 in Mobile Machinery, and we are one of the market leaders in Western Europe. Our aim is to continue improving our position in the global market.



Geert Follens



Atlas Copco compressor XAS 67 with 3-cylinder 2011 series engine.

»For more than 25 years, DEUTZ has been a strategic supplier for Atlas Copco. Within our wide range of portable compressors and generators, we use their engines to provide our customers with reliable air or electricity wherever they go.« **Geert Follens, President Atlas Copco Portable Air Division**

Business with engines for Stationary Equipment, i.e. for power generation units, compressors and pumps, also made excellent progress last year. We improved sales by 17 percent over the previous year. It was particularly pleasing that a large part of this improvement was achieved through new customers. For many of these customers, our 1013FC series with outputs ranging from 180 to 200 kVA was the first choice. With compressor engines, we achieved significant improvements with well-established customers and were thus able to improve our market share. This success is primarily owed to the highly successful market launch of the exhaust-optimised variant of the 2011 series. Unit sales figures for this engine came out particularly well in the important US market. We believe that there will be a further growth in unit sales from engines for stationary equipment in the current financial year. The increase will mainly stem from genset and pump applications. In both of those areas we expect that business will continue to do particularly well in the air-cooled series and the 2011 series. We anticipate the main areas of expansion to lie in the USA and Middle Eastern countries.

In Agricultural Machinery, our wide range of engine outputs provides coverage for numerous applications. In 2004, as the classic premium supplier, we extended our leading position in the European tractor market between 50 and 200 kW. Leading agricultural machinery manufacturers such as Same, AGCO-Fendt, the Turkish tractor producer Uzel and the Algerian agricultural machinery company CMT (Complexe Moteurs Tracteurs) put their trust in DEUTZ when motorising their tractors and harvesting machines. In 2004 Uzel, with its MF-3000 model which is fitted with the tried-and-trusted 2012 series delivering between 57 and 81 kW, sold over 3,000 tractors, which meant unit sales more than doubled over 2003. On 18 October 2004, in the presence of the German Chancellor Gerhard Schröder and the Algerian President Abdelaziz Bouteflika, a contract was signed with CMT to introduce new technology for the air-cooled DEUTZ engines manufactured there under licence and to extend the 30-year partnership for another ten years.



Yarovit HGV Gloros with 6-cylinder 1015 series engine.

Terex is one of the leading manufacturers of equipment for construction and agriculture, and its subsidiary Terexlift has opted for the high-tech engines of the 2011 and 2012 series in its latest telescopic forklift. The world première of the new design incorporating mechanical drive stirred up great interest amongst customers at the EIMA fair in Bologna, Italy. The engine's benefits were shown to their full advantage – strong torque over a wide range of speeds gives outstanding work performance. Accompanied by low fuel consumption and exhaust and noise emissions. We anticipate that, in the future, we can continue to extend our position of leadership in the global agricultural machinery market, largely due to our partnership with the SAME DEUTZ-FAHR Group.

We are in a position to gradually strengthen our positions of international leadership.

In the growing automotive segment, manufacturers in the aspiring Eastern European markets are, like our partner Volvo, increasingly counting on DEUTZ engines. Of the six Ukrainian bus and vehicle manufacturers, four are already using our water-cooled engines. For example, LAZ, one of the largest bus manufacturers in the country, has opted for DEUTZ engines as standard in their new urban and inter-city buses. They have used 6-cylinder 1013 series engines with turbocharging and charge-air cooling. The Byelorussian commercial vehicle manufacturer MAZ is using our engines in the EURO III exhaust emission category in its trucks and buses, a clear indication that the latest engine technology pays off in markets the world over. In the Turkish capital, Otokar minibuses have dominated the urban landscape for decades – and they are powered by DEUTZ engines. In 2004 we once more increased unit sales strongly, and supplied a total of around 2,700 engines from the water-cooled 1012 and 1013 series to the Turkish bus manufacturer. Vital in this achievement were the engines supplied for the newly launched »Sultan« midibus.



Andrej Biryukov

»What our customers want from us are commercial vehicles that are high-performance and completely reliable, even under the toughest conditions. DEUTZ engines unite these characteristics, along with the latest emission standards and great cost-effectiveness. So it was easy for us to opt for DEUTZ.«

Andrej Biryukov, President of Yarovit

It is self-evident that the new TCD 2013 commercial vehicle engine for the EURO IV exhaust class, to be used in Volvo's and Renault's medium-weight trucks from 2006, meets our customers' most stringent demands. Further proof that this premium engine is top of its class is provided by the fact that the Italian bus manufacturer Breda Menarini will be putting the first prototypes on the road this year in their vehicles.

We also feel that, in the future, we will be more able to profit from the captive market in the commercial vehicle segment. For the large vehicle manufacturers, who have until now been building their own engines, are increasingly looking round for independent engine suppliers. The Volvo partnership illustrates the fact that this market is on the move and a part of the captive market is now opening up to independent engine builders. When unit numbers are smaller it makes particular sense for commercial vehicle producers to outsource their engine production to an independent manufacturer such as DEUTZ. Economies of scale can thus optimise development and production costs per engine.

China – one of DEUTZ's top contacts China, probably the world's most important future market for diesel and gas engines, experienced a major slowdown in growth in some segments during 2004. This was essentially due to initiatives taken by the Beijing government to cool down the over-heated Chinese market. For example, restrictive policies towards construction and import permits had a negative impact on the commercial vehicle market so that in 2004 the number of deliveries we made to our partner FAW, the number 1 in the Chinese commercial vehicle market, fell. However we are already seeing clear signs of recovery in this market segment. Sales of engines for gensets in China were very positive. In this sector we were able to triple our unit sales last year in comparison to 2003. Despite the temporary phase of stagnation, we remain convinced of the enormous potential for growth in the Chinese market. DEUTZ, which has been active in China since the 1970s, is well-placed to take advantage of this growth. We supply engines not only to FAW but also to the vehicle manufacturer Norinco, while through our partnership with Volvo we are benefiting from rapid development in the construction machinery sector, and our joint venture with Weifang Diesel means we are represented there with a production facility. The conditions are thus in place to make further inroads here.



OTSI S.A. power generation plant San Millán with two V16 TCG 2032 series engines.

Medium-Sized and Large Engines

Medium-sized and large engines business refocused In the first year after the Re-Launch, we began to restructure the medium-sized and large engines segment. With effect from 1 January 2005, all the activities in this area were hived off from DEUTZ AG and bundled into the new company DEUTZ Power Systems GmbH & Co. KG. Bringing together the entire value chain, from purchasing through production and sales to service, under a single management has enabled it to be optimally aligned for the project-driven system business with power generation systems. The objective is to continue to expand our presence in the rapidly growing segment for power/heat co-generation with renewable energies, and to make Mannheim into a profitable high-tech production centre for gas and diesel engines.

Once the decision had been taken, as part of the restructuring, to pull out of the new engines business with medium-sized and large engines for marine applications, we consequently proceeded with the sale of the marine service business to the Finnish Wärtsilä Corporation early in 2005. For a purchase price of €115 million, Wärtsilä took over the service business with original spare parts and the repairs and maintenance business for diesel-powered medium-sized and large engines in ships and offshore applications. Around 200 DEUTZ employees across the world will be taken on by the Finnish company. It will not only be our customers that benefit, but also our staff in the marine service business, who will have better prospects with Wärtsilä.

The whole package of measures to restructure the medium-sized and large engines business requires an extraordinary expenditure of €35 million, which was a strategically crucial and sensible investment in the future of



German Cabrera, President

Inigo Bertrand, Vice President Technology

»With more than 180 MW on 30 sites, OTSI S.A. is one of the key players in the Spanish gas to electricity market. Especially with the TCG 2032 engine series DEUTZ Power Systems provides a tailored approach to our market. The excellent efficiency, low emission output and high availability of DEUTZ power-generating units blend in perfectly with the requirements of our customers.«

OTSI S.A.

Mannheim as a production facility. The structural changes and changes to personnel that are required will be over by the end of this year and, in future, the break-even point for the new engines business will be substantially lower.

We are already number **1** in Germany and have set ourselves the same goal for Europe.

Focus on decentralised power generation In the new DEUTZ Power Systems segment, we shall in the future, with our medium-sized and large engines, be focusing more closely on environmentally friendly decentralised power generation. Our customers in the energy industry face increasingly tough challenges. Electricity, heat and cooling have to be available at all times and everywhere, reliably and with no interruptions. At the same time, the protection of the environment and climate are increasingly on the agenda. International plans for climate protection – in line with the agreements reached in the Kyoto Protocol to avoid methane and carbon dioxide emissions from the mining, oil production and waste disposal sectors – mean there are a continually growing number of attractive projects for which DEUTZ Power Systems and its products are in an excellent competitive position. Saving energy and replacing fossil-based primary energies with renewable energy sources are gaining increased importance. Therefore, we anticipate double-digit growth rates in engines for decentralised power generation systems that can be driven by renewable energy sources.



We expect this development to boost gas engines. Up until now, our diesel to gas production ratio has been 2:1. The restructuring will result in this ratio being reversed in favour of gas engines. However, diesel engines will remain a vital complementary technology in the decentralised power generation area and give a distinct competitive advantage over major competitors who only have gas engines in their product portfolio.

In important marketplaces we are pushing to develop unique selling points.

Solutions for the toughest application areas Gas engines as deployed by DEUTZ Power Systems in its power generation systems are characterised by low operating costs and high utilisation levels, by above-average operating safety and availability and by low exhaust and noise emissions. In the 180 to 4,000 kW output range, the gensets produce electricity, heat and cooling from many sorts of gas, including natural gas, landfill gas, sewage gas, biogas, mine gas and coke oven gas, sustainably and with optimal effectiveness. Multiple engines can, with no difficulty, be linked together as modules to form larger power production units.

DEUTZ Power Systems is also pushing to develop unique selling points to gain competitive advantage in strategic market segments. For example, at the Italian Coke coking plant, where nine series TBG 632 and TCG 2032 gensets are generating 25 megawatts of electrical power from the troublesome waste gases from coke produc-



The gas engines from DEUTZ Power Systems create electricity, heat and cooling from different gas types such as natural gas, biogas, landfill gas and sewage gas as well as mine gas and coke oven gas sustainably and with optimum efficiency. The lowest possible exhaust and noise emissions are also a matter of course.

tion – and the engines have an availability record of more than 98 percent. This makes DEUTZ Power Systems the only supplier in the world that is able to utilise 100 percent coke oven gas on a permanent basis, with just a single, scheduled maintenance every six months. In Central China, in the Citic Guan project, seven TCG 2032 gensets are generating 28 megawatts of electricity from natural gas for a modern industrial complex for producing raw materials in an area far removed from any centralised power supply.

Solid support from service business Our expertise extends well beyond mere systems installation. For opportunities to profit from systems operations increase if the scope of delivery is broadened. Thus, for example, associated maintenance contracts extending over periods of between 10 and 15 years ensure a constant inflow of funds. As well as the power generation system itself, DEUTZ Power Systems also supplies the services required for power generation, from start-up operations through servicing to general maintenance.

Our broad range of products and services provides optimal coverage for the market's requirements. This has made us the number 1 in Germany. We are seeking to emulate that in Europe, where we are currently still second. We are also planning to further strengthen our positions on the booming markets of Eastern Europe and Asia. With respect to implementing the often very individualised customer requirements in the special gases sector, DEUTZ Power Systems supplies hardware and services that put us among the world leaders both technically and commercially.



Beate Rosner and Andrea Ciolka,
Worldwide Part Purchasing for Compact
Engines.



Wolfgang Knaak, Engine Locksmith in the Trial
Department.



Alfred Jaeger, Head of Work Scheduling
at the Cologne Assembly Works.

»Everyone has their strengths and weak-
nesses. A team must match perfectly.«

»I want to build the best engines
in the world!«

Employees

The team stands shoulder-to-shoulder The goals that we at DEUTZ achieved together during the Re-Launch years have strengthened the team's commitment and brought us even closer together. Thanks to their dedication, creativity and sense of duty, our employees are largely responsible for the progress the company has made and for safeguarding their own jobs. Gordon Riske, the Chairman of the DEUTZ AG Management Board, has been able to see this for himself on the regular occasions he has met with staff to openly discuss visions, aims and problems. At all levels, the team stands shoulder-to-shoulder behind DEUTZ.

Pride in the company was particularly evident at the big summer party that DEUTZ held to celebrate its 140th anniversary and the laying of the foundation stone for the new engine assembly hall at the Cologne-Porz site. The staff showed their company off to thousands of family and friends. The development and assembly areas, the many historic exhibits and modern examples of our clients' machinery gave visitors a broad taste of life behind the scenes.

A fine reputation for career opportunities DEUTZ continues to enjoy an excellent reputation with ambitious young people. In these times of high youth unemployment, the company's management takes its corporate responsibility towards training particularly seriously. Some 50 school leavers begin their professional lives with us each year. And by adding a further 20 trainee positions in 2004 we again increased the range of apprenticeships we offer. We see this not merely as a commitment to young people and a challenge to the young to grasp their opportunity, but also mean it to illustrate our commitment to Germany as a production location.

Today's apprentices are the skilled workers of tomorrow. The range of apprenticeships extends from industrial roles such as milling-machine mechanic and electrical engineer, to white-collar positions such as office communications personnel and industrial clerks. In all, there were 200 apprentices working at DEUTZ in 2004. If they pass their final exams, we first offer them work contracts of limited duration. Up until now, we have always been able to then take junior staff on under contracts of unlimited duration. In co-operation with the IN VIA agency, a member of



Rositha Kautz, Office Manager for Research and Development, Quality Management.



Alexander Becker, Assembly of Compact Engines.



Tilo Sigenege, Project Manager »Production of Commercial Vehicle Engines«.

»DEUTZ was my first employer. I can't imagine working anywhere else.«

»Series start-ups, new engine variants, continuous productivity increases. We are not short of challenges.«

the Caritas charity organisation, and the Employment Agency, we are also providing training to 36 young people in the training workshop and in operations. This is a social commitment that we have now held for 10 years.

Our strengths come from binding together a wide variety of personalities and talents.

Our trainee programmes offer tomorrow's managers the chance to take on responsibility at an early stage. From the very first day, the college graduates are involved in practical projects where they are supported by so-called 'godfathers'. They are also accompanied throughout the duration of the training by mentors, who make themselves available as coordinators and points of contact. With hierarchies continuing to be reduced and functions bundled, we anticipate from our future managers primarily the ability to think in a joined-up way, but outside the box, and to have a sense of responsibility. We place particular value on the individual's commitment to a customer focus and on international mobility. Seven trainees were taken on during the year under review, to be prepared for future managerial roles. For us this is a valuable investment in our own future.

Cross-generational commitment To link the potential of youth with the experience that comes with age – for many organisations that will be the crucial success factor in the future. In this respect, we at DEUTZ are proud of one figure in particular: the average time spent with our company is 21 years. This means wide-reaching expertise that makes us number one in many sectors. Whether through training, in mentoring the trainees or when putting together project teams, we make sure that this expertise is handed down and that the young and the more experienced are able to profit from one another. This means that we can continually improve the quality of our work and our products. Our customers reap the benefits from this, and that, in its turn, secures jobs for the longer term.



Enabling young people to start their working life. This is also a social responsibility for DEUTZ.

Environment and Society

Doing business with a broader outlook Building top-quality engines is not the only tradition at DEUTZ. Environmental protection, sustainability and workplace safety had been an integral part of the company's philosophy long before laws and regulations made them obligatory in Germany.

A raised awareness for environmental issues made it considerably easier to introduce the DIN EN ISO 14001-compliant environmental management system last year at the Cologne site. We now have it confirmed by recognised certification companies that DEUTZ safely meets international environmental standards and that the system is fit for its purpose.

It is the many small things that indicate success and sustainability. In 2004 we improved our waste figures substantially. A bundle of operational initiatives enabled us to reduce the oil and water mixes from production by 38 percent and electroplating sludge by 65 percent. We managed to cut waste solvent mixes back by 28 percent and paint waste by 14 percent. With only 28 accidents per 1,000 employees in 2004, we achieved our best-ever workplace safety levels. Here we are 25 percent below the sector average.

Right from the research stage, we establish the roots to ensure that all imaginable environmental requirements are identified and properly implemented in our products. This particularly applies to introducing innovative technologies. Fundamental concerns are to avoid harmful emissions and protect available resources.



The Association of German Engineers (VDI) honours Helmut Müller for his achievements in the training and further education of engineers.



In 2004 alone we reduced our paint waste by 14 percent: an active contribution to environmental protection.

We offer our customers a wide range of engines that satisfy the most challenging quality demands and all environmental requirements. Our emission reduction technology DVERT®, a modular system, gives us control over fuel consumption, pollutant discharges and noise emissions in all application areas up to the year 2010 and beyond.

Protecting the environment and assuming social responsibility: a core component of our corporate culture.

Exploiting opportunities, passing on knowledge, caring for traditions Today, more than ever, DEUTZ is facing up to its responsibility towards society. In this context, we always keep the next generation in mind. Thus we have, for over ten years, been working alongside IN VIA to offer young people, who would otherwise find it difficult to get into the job market, training courses that will give them the prospect of a professional career. An example is our commitment towards the next generation of scientists. As part of this commitment, our technical director, Prof Karl Huebser, passes on over 30 years' practical experience in the industry to up-and-coming engineers at the University of Győr in Hungary. And Helmut Müller, a DEUTZ manager for 30 years, has been awarded the Fritz Kesselring Medal of Honour by the Association of German Engineers (VDI) for his publications, seminars and teaching courses, and particularly for his work at the science-technology-marketplace interface. DEUTZ regularly lends exhibits from the early years of the four-stroke »Otto« engine to museums and exhibitions around the world. The aim is more than legitimate – we want to remind people that Cologne-Deutz is the cradle of motorisation.

Excursus: Renewable Energies

»Germany can do with biomass what it did with wind power – become a global leader in the market for sustainable energy technologies. Specific research funding, suitable roll-out programmes and an appropriate framework such as the Renewable Energies Law must pave the way. It won't happen of its own accord.« **Margareta Wolf, Parliamentary State Secretary in the German Federal Environment Ministry**

Around six billion people now inhabit our planet. The earth's population will have grown to eight billion by 2030 and will reach ten billion by 2050 at the latest. The inhabitants of countries where the birth rate is high and of underdeveloped lands will want that same quality of life that the so-called First World achieved long ago. This is not feasible without sufficient and secure energy supplies.

With fossil energy sources becoming scarcer, and having the added disadvantages of damaging the air we breathe with their pollutants and destroying the ozone layer, the focus is increasingly falling on renewable energy sources. Throughout the world, the renewable energies sector is one of the fastest growing market segments within decentralised energy technology.

Along with wind and sun power, there are many gases that fulfil the criterion of renewability. Most of these gases are largely unavoidable by-products, for example given off in the waste management industry

Agricultural companies incorporating animal husbandry are particularly well suited for consistent resource usage in the form of cyclical recycling management. The manure supplies the biogas for the block heat and power station which in turn produces electricity, heat and cooling for the buildings and equipment on the farm.

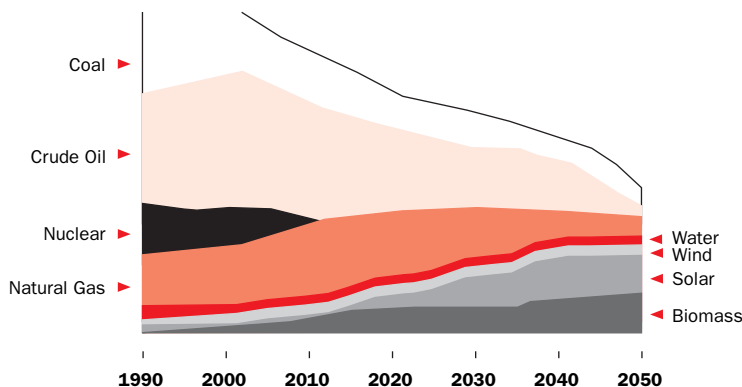


and agriculture by organic materials through processes of biological decomposition. Wherever these gases are given off, there is usually a corresponding need for decentralised power generation. Similarly, the mining and processing of oil and coal leads to huge quantities of gases that harm the climate, and which mainly escape unused and unfiltered into the atmosphere. These latter gases, particularly mine gas and coke oven gas, do not really qualify as renewable in the strict sense of the word because of their fossil origins. However, in some countries their utilisation is also funded in the context of a broader climate protection. As with biogases, there is here, too, a growing economic need to utilise these resources that have been largely ignored up till now.

In recent years in Europe, there has been a constant increase in the number of national regulations designed to promote the use of renewable gases. For example the Renewables Obligation (RO) framework in Great Britain and the Renewable Energies Law (EEG) in Germany. While these national regulations are sometimes administered in quite different ways, new sales markets have emerged during the last 15 years or so, mainly in Europe and the USA, particularly for those organisations that manufacture and operate gas engine technology.

Mine gas is a direct coal-mining product both in working and decommissioned mines. Mine gas poses a huge danger to miners underground as it can cause fire-damp explosions. Every year over 30,000 miners are hurt worldwide as a result of methane gas explosions. Modern ventilation systems take this hazardous gas above ground, where it can be used to generate power for the mine and for the local population. The potential CO₂ reduction from using mine gas is around four million tonnes in the Rhine and Ruhr regions alone. Globally, there is massive potential for mine gas. In China, for example, anthracite is still used to provide a major portion of the country's energy supply – over 70 percent and rising.

Europe's Total Primary Energy Supply



DEUTZ Power Systems has successfully mastered the technological and economical challenges presented by the utilisation of such, often highly impure, gases. Today we have a wide range of products available to be exported worldwide. They are characterised by, for example, the option of a capability to adjust to fluctuating gas quantities by deploying multiple engine systems in a modular way. Gas engines also show better partial-load behaviour and a greater level of electrical efficiency as opposed to gas turbines.

In the international arena, the Russian Federation's ratification of the Kyoto Accord has provided the definitive kick-start for projects aimed at avoiding gases that harm the climate. In particular, methane, whose potential to harm is 21 times greater than carbon dioxide, is well-suited to use with stationary energy generation systems based on modern gas engine technology. By using renewable methane gases in engines, on the one hand damage is reduced by a factor of 21 by burning methane to carbon dioxide, while at the same time fossil resources such as natural gas are protected by using renewable gases.



Helmut Drotziger

Helmut Drotziger, Managing Director DEUTZ Power Systems:

»The use of mine gas with gas engine systems from DEUTZ Power Systems is already the dominant factor in the domestic coalfields of the Rhine, the Ruhr and the Saar. The high degree of reliability and availability of our products has also contributed to many successful projects in Polish and British coal-mining areas. DEUTZ Power Systems has been working with Saar Energie on the first project in which mine gas with only 25 percent methane content can be converted into electricity with the maximum engine power output.«

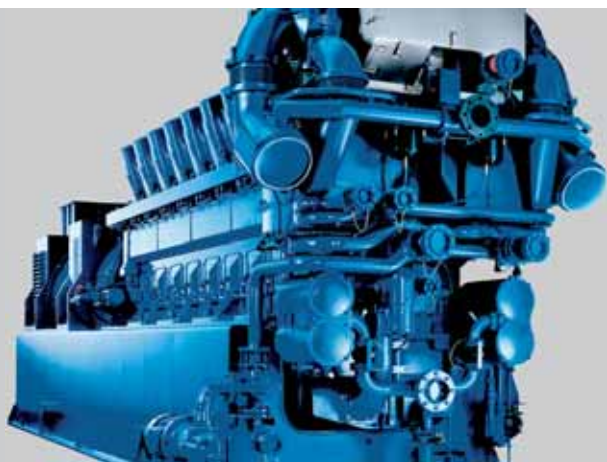
This double benefit is increasingly being applied to projects that are being enabled by the Clean Development Mechanism (CDM) and the Joint Implementation (JI). Donor countries and donor organisations are here given the option of investing in climate protection projects outside their national boundaries and generating so-called carbon credits as dividends. These certificates which, for example, provide evidence of the avoidance of a tonne of carbon dioxide, can be applied for from issuers who are thus able to offset an over-production of carbon dioxide – with regard to which they, as an organisation in one of the countries that have signed the Kyoto Accord, have undertaken to respect upper limits on emissions. So a company that produces large quantities of emissions can either invest directly in climate protection projects in order to comply with their upper limits, or purchase carbon credits from third parties to avoid being fined.

These mechanisms are making many projects financially feasible for the first time, particularly in industrialising nations without their own renewable energy programmes. Experts unanimously agree that this will provide an enormous international boost to the use of landfill gas, biogas, sewage gas and mine gas.

DEUTZ Power Systems identified this global trend at an early stage and have successfully implemented corresponding technical and economical solutions and unique selling points. Thus the roots of success have already taken hold in this vital, burgeoning market.

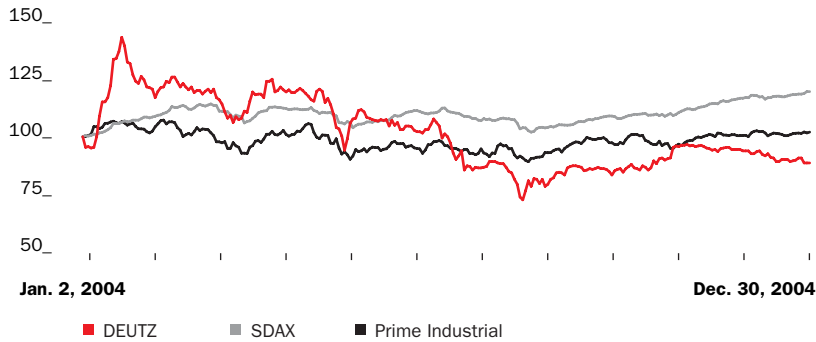
Coke oven gas is given off when converting anthracite to coke for use in furnaces and foundry coke. Globally, the coke product is one of the raw materials most in demand in heavy industry, and its market price has risen by almost ten times in recent years thanks to increased demand. The gas, which is driven out of the coal at high temperatures, is usually badly contaminated and consists of over 50 percent hydrogen, which would appear to make it unusable in highly efficient, modern gas engines. With its TCG 2032 series, DEUTZ Power Systems supplies the only gas engine in the world that converts 100 percent coke oven gas into energy on a permanent basis. Nine such gas engine units near to Genoa, in Italy, provide a total of 25 megawatts of electricity with a proven availability of more than 98 percent.

Unique worldwide: in the Italiana Coke coking plant the TCG 2032 series engines use 100 percent coke oven gas to create energy.



Performance of the DEUTZ share in the financial year 2004

in %



Share

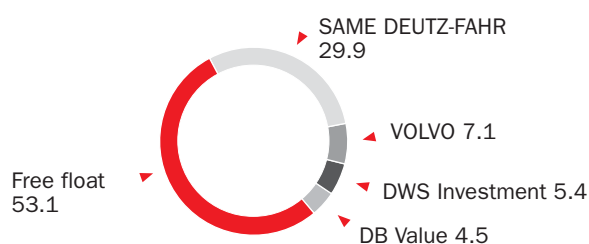
A year with ups and downs for DEUTZ shares DEUTZ shares again attracted increased investor attention during the 2004 financial year. Starting at €3.22 at the end of 2003, DEUTZ shares reached their year's high with significantly increased tradings in January 2004, when they hit €4.70. At the end of June they were still being quoted at €3.55, which represented a 10.2 percent rise in value. That was a little less than the SDAX, which was showing a 14.4 percent rise, but well above the directly comparable Prime Industrial sector index, which had dropped by 0.8 percent.

DEUTZ shares retreated during the second half of the year, amid fluctuations caused by typical market reactions to the convertible bond issue which we announced in July. Over the year, our shares lost nine percent of their value, in comparison to the SDAX gain of 21.6 percent and a Prime Industrial increase of 2.9 percent. At year-end, the share was worth €2.93.

Convertible bond issued successfully The convertible bond issued in 2004 consisted of the issuing of bonds with a maturity of five years, each bearing the right to be converted to one new DEUTZ AG share. The subscription price and nominal value of each bond is €3.40 and the interest rate 3.95 percent. Of the 19,792,998 bonds offered in all, 10,759,918 were offered for subscription to the shareholders and holders of convertible profit-participation certificates. Same, our largest shareholder, exercised its subscription rights as part of this capital measure. The bond issue caused an inflow of funds to the value of €53.8 million to DEUTZ AG, and by year-end, once the remaining bonds had been issued to the value of €13.5 million, the figure had risen to €67.3 million. These funds are to be used to strengthen the capital structure and to finance medium-term growth.

Through a policy of growth, better utilisation of our production capacity and increased operating profits, we aim to create the basis for a higher valuation of DEUTZ shares in the coming years. Our medium-term financial goals are suitably challenging. We aim to significantly improve the EBIT margin from four percent today by 2008. The 2008 target for the Return on Capital Employed (ROCE) is twelve percent, or around twice as high as in the year under review (2004: 5.7 percent).

Shareholder structure
in %



Shareholding structure altered On 2 July 2004, Deutsche Bank AG reduced the 10.5 percent share in DEUTZ which is held by its subsidiary DB Value GmbH to 4.5 percent through a part sale to the SAME DEUTZ-FAHR Group S.p.A. Deutsche Bank's ownership status has, since that point, no longer been subject to mandatory reporting. Our largest individual shareholder, the SAME DEUTZ-FAHR Group, thus further increased its holding from 22.2 to 29.9 percent. The Swedish commercial vehicle manufacturer AB Volvo remained our second largest shareholder with an unchanged 7.1 percent, followed by DWS Investment GmbH, in possession of a 5.4 percent share.

At year-end, and according to the system of calculation employed by Deutsche Börse AG, DEUTZ AG's free float was 63.0 percent. Using this as the basis for the calculation, the company's market capitalisation stood at €168 million at the end of 2004. We aim to carry out further, more intensive and systematic investor relations work to convince new investors of our equity story.

Corporate Governance The Management and Supervisory Boards of DEUTZ AG issued their legal declaration of conformity in December 2004 in compliance with Article 161 of the German Companies Act, and this deviated from the recommendations of the German Corporate Governance Codex in six points. The declaration can be viewed on the Internet at www.deutz.com. To guarantee that information is distributed promptly, equitably and fully, we provide all target groups with access to our press releases, interim reports, annual reports and other relevant information in both German and English versions on our website. Within the framework of our risk management system we take care that risks are identified promptly and that suitable measures are put in place to minimise their consequences.

The DEUTZ share

ISIN	DE0006305006
WKN	630500
Reuters	DEZG.F
Bloomberg	DEZ.GR
Market segment	Official market/Prime Standard
Trading locations	XETRA, Frankfurt, Düsseldorf

	2003	2004
Number of shares (Dec. 31)	91,147,905*	91,149,075
Share price (Dec. 31) in €	3.22	2.93
Share price (high) in €	3.45	4.70
Share price (low) in €	1.35	2.41
Market capitalisation in € million	289.7*	267.1
Earnings per share in €	0.09	-0.20

Base: price XETRA close

* of which 26,861,760 new shares (with closing price Dec. 31, 2003: €3.08).

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Management Report

DEUTZ AG and DEUTZ Group

Economic environment

After initial difficulties in the first quarter, the global economy underwent a sharp upturn last year, particularly in Asian markets and the USA. Robust growth, too, in the Central and Eastern European countries gave economic impetus to the export-driven Western European countries.

Despite this growth impetus, the main economic data in Germany and the entire euro area fell short of expectations. The reasons for this lay, firstly, in the relative strength of the euro against the US dollar and, secondly, in weak domestic demand.

In the final months of the financial year just ended, this trend was further slowed down by weaker growth in the USA and by high oil and steel prices.

The global non-captive market for diesel engines above 7.5 kW and gas engines above 200 kW, which is relevant

to DEUTZ, continued to grow during 2004. A total of around 2.3 million engines were sold globally, for a large range of applications.

With unit sales of over 173,000 engines, DEUTZ is one of the world's five largest suppliers, with a market share of between seven and eight percent, and it enjoys a particularly strong market position in the application segments Mobile Machinery, Stationary Equipment and decentralised power generation systems with special gases. In regional terms, the greatest sales growth was achieved in Germany, Western Europe and North America.

Business development

Despite intense competitive pressure, economic turbulence and a market environment dominated by the falling dollar, DEUTZ was able to hold its own and reinforce its position as the leading independent supplier of diesel and gas engines in Germany and Europe.

DEUTZ Group: Overview

	2004	2003	Change in %
in € million			
New orders	1,264.9	1,179.7	7.2
Unit sales	173,440	156,237	11.0
Sales	1,242.1	1,172.6	5.9
Foreign sales proportion (in %)	74.5	74.6	-
Operating profit (EBIT)	50.1	44.0	13.9
Profit on ordinary activities	20.7	11.3	83.2
Loss/profit for the year	-18.6	6.0	-
Balance sheet total	960.2	1,017.0	-5.6
Stockholders' equity	155.6	169.7	-8.3
Stockholders' equity proportion (in %)	16.2	16.7	-
Cash flow from normal operating activities	92.9	34.6	168.5
Net financial debt	100.0	224.2	-55.4
Investments	41.0	40.7	0.7
Research and development expenditure	69.5	54.9	26.6
Employees (December 31)	5,472	5,454	0.3

New orders rose by 7.2 percent to €1,264.9 million (2003: €1,179.7 million). On 31 December 2004, orders were on hand to the value of €207.8 million – 11.6 percent above last year's figure.

Unit sales of engines rose by 11.0 percent to 173,440 (2003: 156,237). Of these, the compact engines segment accounted for 172,684 engines (2003: 155,523) and the medium-sized and large engines segment for 756 engines (2003: 714). As a result, sales increased significantly. At €1,242.1 million, sales were 5.9 percent higher than in 2003 (€1,172.6 million). The proportion of foreign sales remained almost unchanged, at 74.5 percent (2003: 74.6 percent).

In the **compact engines** segment, DEUTZ enjoyed above-average sales growth, with a rise of 7.9 percent to €909.7 million (2003: €843.0 million). In this segment, sales increases in co-operation with our partners Volvo, Same and Uzel were accompanied by a firm improvement in domestic business and in the USA, where sales were 16.6 percent higher than the previous year. In the **medium-sized and large engines** segment, sales of €332.4 million were up slightly from last year's level of €329.6 million. This increase was mainly achieved by the service business for stationary equipment. In the course of restructuring this segment to focus on decentralised power generation, the marine business was deliberately cut back.

At **DEUTZ AG**, sales rose by 6.1 percent to €1,099.1 million (2003: €1,036.3 million).

Profit trend

In the 2004 financial year, DEUTZ increased its **operating profit** (EBIT) by 13.9 percent from €44.0 million to €50.1 million. The EBIT margin improved to 4.0 percent (2003: 3.8 percent). The burdens of higher material costs, the further fall in the value of the dollar and higher R&D expenditure were, in comparison to last year, more than compensated for by significant improvements in unit sales and sales.

In the **compact engines** segment, operating profit (EBIT) fell by €16.2 million during the year to €49.2 million (2003: €65.4 million). This was primarily due to the burden of higher material costs, exchange rate effects and high R&D costs. There was the added effect of reclassifying €6.7 million costs that had previously been shown in the

other segment (central areas in 2003). The increased unit sales and sales were insufficient to compensate for these costs.

In the **medium-sized and large engines** segment, DEUTZ improved its operating profit (EBIT) by €3.9 million to €13.1 million. Of key importance here were the move towards decentralised power generation that began in 2004 and the planned withdrawal from the less profitable marine segment. There was a negative effect from the reclassifying of €1.4 million costs from the other segment (central areas in 2003).

From 2004, the **other** segment (central areas in 2003) will only show expenditure that has no connection with the operating activities of the compact engines and medium-sized and large engines segments. This change means that expenditure is more closely associated with its cause, and thus makes the results more transparent. As a consequence, expenditure totalling €8.1 million was assigned to the operating segments. Also, compared to last year there was less expenditure on human resources initiatives and on the equity valuation of Group companies in the course of the change in the dollar exchange rate. The total loss of €-12.2 million in the other segment was €18.4 million less than in 2003.

The successful convertible bond issue and a significant reduction in working capital enabled net financial debt to be cut by over half to €100 million. This allowed net interest expenditure to fall by 10.1 percent to €-29.4 million (2003: €-32.7 million). Thus **profit on ordinary activities**, at €20.7 million, was almost double the €11.3 million achieved in 2003.

The costs of €35.0 million associated with the restructuring of the medium-sized and large engines business – a figure €5 million below the €40 million originally expected – are shown under **extraordinary income/expenses (-), net**.

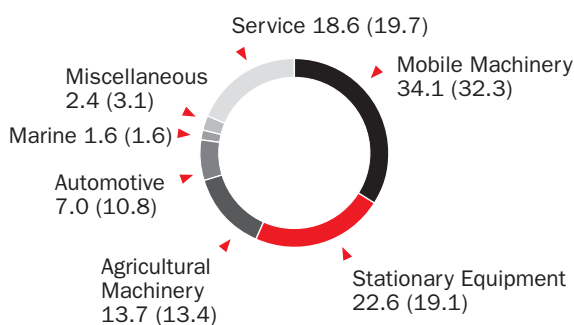
After deduction of this extraordinary expenditure and after deduction of taxes, the DEUTZ Group made a **loss** of €-18.6 million (2003: €6.0 million profit). Undiluted **earnings per share** were €-0.20 (2003: €0.09), while diluted earnings per share were €-0.14 (2003: €0.08).

At **DEUTZ AG**, profit from ordinary activities was €28.9 million (2003: €5.6 million), while there was an extraordinary expense of €-35.0 (2003: -). The loss for the year was €-8.8 million (2003: €1.5 million profit).

Compact engines segment

In the compact engines segment, which covers air-cooled and liquid-cooled diesel engines in the output range from 4 to 440 kW from the production works in Cologne, Ulm, and Zafra, new orders rose during the year under review by 7.8 percent to €917.4 million (2003: €851.4 million). With unit sales rising 11.0 percent from 155,523 to 172,684 engines, DEUTZ increased global sales through compact engines by 7.9 percent to €909.7 million (2003: €843.0 million). Due in particular to increased co-operation with our partners Volvo, Same and Uzel, to the excellent trend in domestic business in almost all application segments, and to the US business, sales from new engines rose by 9.3 percent to €740.2 million. Sales from service activities also rose slightly by 2.2 percent from €165.9 million to €169.5 million. The proportion of foreign sales in the compact engines segment remained, at 74.6 percent, at the same high level as last year's 74.5 percent.

Compact engines: Sales by application segments
in % (2003 figures)



In the application segment **Mobile Machinery**, sales rose by 13.9 percent to €310.5 million (2003: €272.6 million). This increase was mainly due to supplying our partner Volvo, who continued to expand their construction machinery production in the year under review. DEUTZ also achieved higher sales in the material handling sector in the US.

Sales in the **Stationary Equipment** application segment, which includes engines for compressors, pumps, gensets and welding units, increased considerably, by 27.2 percent from €161.5 million to €205.5 million. Sales of engines for pumps and welding equipment to traditional customers in Germany and the rest of Europe, and in the important US market, contributed to this rise. Sales of engines for gensets in China were also very positive.

In the **Agricultural Machinery** application segment, DEUTZ continued to develop its good market position. This is reflected in sales that increased by 10.3 percent from €112.7 million to €124.3 million. Behind this rise were increased sales to leading European agricultural machinery manufacturers such as SAME DEUTZ-FAHR and Fendt, and to the Turkish tractor manufacturer Uzel.

Sales in the **Automotive** application segment fell by 30.8 percent to €63.1 million (2003: €91.2 million). This substantial decline was primarily due to a slump in demand in the Chinese commercial vehicle market, which particularly affected the largest Chinese commercial vehicle manufacturer, our customer FAW. Business with the Algerian commercial vehicle manufacturer SNVI also declined.

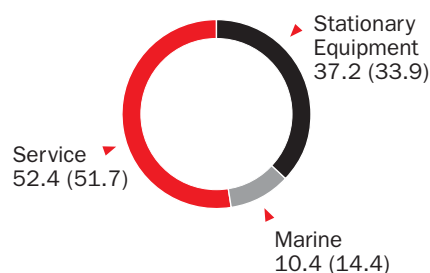
In the **Marine** application segment, sales grew from €13.1 million to €14.7 million. There was, in particular, an increase in deliveries to Asia, while the volume of sales to Volvo remained the same.

In the compact engines **service business**, sales rose by 2.2 percent from €165.9 million to €169.5 million. While the spare parts trade and the Xchange® business with exchange products improved, sales from the onsite customer service in the service centres declined.

Medium-sized and large engines segment

The medium-sized and large engines segment, which includes water-cooled diesel and gas engines in the output range from 180 to 4,000 kW, was restructured in the 2004 financial year. The new segment DEUTZ Power Systems is focusing more than ever on profitable market segments. Business with gas engines for decentralised power generation lies at the core of this. New orders rose by 5.8 percent in the year under review, to €347.5 million (2003: €328.3 million). Unit sales rose by 5.9 percent, from 714 to 756 engines, while sales remained stable at €332.4 million (2003: €329.6 million). The foreign proportion, at 74.5 percent, was just below that of last year (74.9 percent).

Medium-sized and large engines: Sales by application segments
in % (2003 figures)



Sales from engines for **Stationary Equipment** rose by 10.6 percent to €123.5 million (2003: €111.7 million). The diesel engines business grew by 9.4 percent. Business with gas engines, particularly in Germany, the Netherlands, Russia and Asia, increased by 11.1 percent.

In the **Marine** application segment, the deliberate withdrawal from this market segment and the focus on engines for decentralised power generation units led to sales declining by 27.5 percent from €47.6 million to €34.5 million.

The **service business** with medium-sized and large engines rose by 2.4 percent to €174.4 million (2003: €170.3 million). The increased sales was mainly due to the on-site customer service and to the exchange parts business with the Xchange® product centre in Duisburg. Spare parts trade suffered a fall in sales.

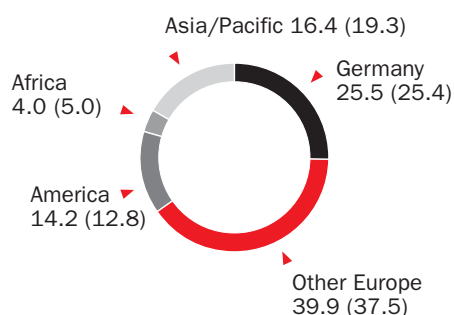
Regional development of the business

In its domestic market, **Germany**, DEUTZ further strengthened its strong market position. Sales rose by 6.2 percent to €316.4 million (2003: €298.0 million). This increase can be attributed to growth in compact engines for construction machinery, agricultural machinery and compressors, and in new medium-sized and large engines business.

In the **other European countries** sales grew healthily by 12.7 percent, from €440.0 million to €495.9 million. The compact engines business did particularly well in Turkey, Sweden, Poland and Spain. Business in gas engines for stationary equipment also developed very positively.

Sales in **America** rose by 17.8 percent, from €149.5 million to €176.1 million. This mainly stemmed from increased sales from compact engines in North America. This more than compensated for a drop in South American sales.

DEUTZ Group: Sales by regions
in % (2003 figures)



Development in **Asia/Pacific** during the year under review was hit by a slump in demand in the Chinese commercial vehicle market which particularly affected the largest Chinese commercial vehicle manufacturer, our customer FAW. Sales fell by 9.8 percent to €203.7 million (2003: €225.9 million).

Sales from **Africa** fell by 15.5 percent from €59.2 million to €50.0 million. Losses in the compact engines business and the service business could not be wholly outweighed by greater sales from business in medium-sized and large engines.

Asset and financial situation

Despite the increased business volume during the year under review, the DEUTZ Group's **balance sheet total** fell again, and on 31 December 2004 was €960.2 million, or €56.8 million less than a year earlier.

DEUTZ Group: Balance sheet structure

	Dec. 31, 2004	Dec. 31, 2003
in %		
Assets		
Business expansion expenses	3.7	2.6
Fixed assets	46.1	45.9
Inventories	24.0	24.6
Receivables/other assets/ deferred expenses	25.4	24.4
Liquid assets	0.8	2.5
Total	100.0	100.0
Stockholders' equity and liabilities		
Stockholders' equity	16.2	16.7
Convertible profit-participation certificates	2.7	2.5
Provisions	43.6	41.2
Accounts payable/ deferred income	37.5	39.6
Total	100.0	100.0

The value of **fixed assets** fell by €23.3 million. This affects both tangible and financial assets. With a strict management of receivables and stocks, the value of **current assets** fell by €49.6 million.

Due to the extraordinary expenditure involved in restructuring the medium-sized and large engines segment, **stockholders' equity** fell by €14.1 million to €155.6 million (2003: €169.7 million). The **stockholders' equity proportion**, at 16.2 percent, was slightly below last year's figure of 16.7 percent.

Provisions fell slightly by €0.4 million to €418.9 million (2003: €419.3 million). The planned reduction of pension provisions was in contrast to a rise in other provisions for restructuring measures in the medium-sized and large engines segment.

DEUTZ Group: Total debt

	Dec. 31, 2004	Dec. 31, 2003
in € million		
Amounts owed to credit institutions	107.9	249.8
Liquid assets	-7.9	-25.6
Net financial debt	100.0	224.2
Bonds	67.3	-
Trade payables	121.9	93.2
Other liabilities/bills of exchange payable	33.8	30.3
Total debt	323.0	347.7

With working capital being substantially reduced, **accounts payable** fell by €42.3 million to €360.1 million (2003: €402.4 million). The successful convertible bond issue enabled the liabilities towards credit institutions to be cut by €141.9 million to €107.9 million. After deducting liquid assets of €7.9 million (2003: €25.6 million), net financial debt on the closing date was €100.0 million. This is 55.4 percent lower than the 2003 figure of €224.2 million. This has considerably improved the DEUTZ Group's financing structure. Total debt was reduced by €24.7 million to €323.0 million (2003: €347.7 million).

Cash flow

DEUTZ Group: Cash flow statement (simplified)

	2004	2003
in € million		
Cash flow	26.5	55.5
Business expansion expenses	-9.1	-6.0
Changes in working capital	55.7	12.8
Changes in other receivables, short-term provisions and other liabilities	19.8	-27.7
Cash flow from normal operating activities	92.9	34.6
Cash flow from investing activities	-36.0	-25.6
Cash flow from financial activities	-74.6	-2.7
Changes in liquid assets	-17.7	6.3

The significant increase in **operational cash flow**, by over €58.3 million to €92.9 million (2003: €34.6 million), results from a strict effort to reduce working capital and the removal of the outflow of funds resulting from the settlement with General Electric, USA, in 2003. Cash flow from **investing activities** increased to an outflow of €-36.0 million (2003: €-25.6 million outflow). The cash flow from **financial activities** came to €-74.6 million (2003: €-2.7 million). This includes the inflow of funds to the value of €67.3 million from the convertible bond issue and a reduction of €141.9 million in the liabilities towards credit institutions. Due to improved cash pooling, **liquid assets** were reduced by €17.7 million (2003: €6.3 million).

Investments

In the 2004 financial year, investments were €41.0 million and therefore similar to 2003 (€40.7 million). In total, investments in **tangible fixed assets** came to €38.1 million, above the previous year's figure of €30.8 million. This rise contrasted with a considerable decrease in investments in **financial assets**, of €2.9 million (2003: €9.9 million).

In the **compact engines** segment DEUTZ invested €32.3 million (2003: €25.2 million) in tangible fixed assets. Key investments included increasing capacity for the new engine series and upgrades for new engine technologies, whereby a major item was the acquisition of all rights for two new series from an English engine manufacturer. Investments were also made at the Cologne-Porz works in upgrading 4 to 7-litre swept volume engines to meet the stage III exhaust emission standards and in new engine test benches for the future EURO IV and EURO V exhaust emission standards.

At the Zafra site there was investment to expand gear production capacity, including new tempering equipment, and in new processing centres for cylinder heads for 4 to 7-litre swept volume engines.

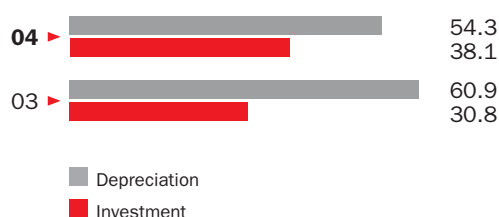
At the Cologne-Deutz and Ulm sites, state-of-the-art grinding machines incorporating CBN grinding technology were procured in order to mechanically process components for 4 to 7-litre swept volume engines.

DEUTZ invested €2.3 million (2003: €5.6 million) in the **medium-sized and large engines** segment, particularly in an absorption cooling system for the medium-sized and large engines testing field, and in technical measuring equipment.

€3.5 million was invested in the **other** segment, mainly in new accounting and financial controlling systems.

**DEUTZ Group: Investments and depreciation
intangible and tangible assets**

in € million



Research and development

Research and development expenditure during the year under review came to €69.5 million, substantially above the previous year's figure (€54.9 million). This is an increase of 26.6 percent. Key development activities were new developments and upgrades to optimise the product range. Research and development expenditure as a proportion of new engines business sales increased from 6.6 percent to 7.7 percent.

In the **compact engines** segment DEUTZ increased its research and development expenditure by 35.2 percent to €55.3 million (2003: €40.9 million) and it thus grew as a proportion of new engines sales to 7.5 percent (2003: 6.0 percent). The main priorities in research and development activities lay, firstly, in completing the market launch of engines for stage II exhaust emission standards and, secondly, in developing new engines and upgrading existing ones for stage III, and a new generation of commercial vehicle engines that comply with the EURO IV exhaust emissions standard, and which will go into series production from 2006 onwards.

Research and development expenditure in the **medium-sized and large engines** segment, at €14.2 million, was similar to last year (€14.0 million). As a proportion of new engines sales in this segment it rose from 8.8 to 9.0 percent. The core investment in gas engines related to continued improvements to robustness, so that even extremely contaminated gas types can be converted into electricity with great reliability. The demanding requirements of a chip manufacturer with relation to extremely narrow supply frequency tolerances were also satisfied. In the case of diesel engines the focus was on further development work to improve quality.

DEUTZ Group: Research and development expenditure

in € million



Employees

At the end of 2004 DEUTZ had 5,472 employees worldwide, 0.3 percent more than a year earlier (5,454). The number of employees increased only fractionally in **Germany** to 4,284 (2003: 4,270) and **outside Germany** to 1,188 (2003: 1,184). The number of apprentices rose by 7.5 percent to 201 (2003: 187) which, when related to the number of employees in Germany, gave an **apprenticeship ratio** of 4.7 percent (2003: 4.4 percent). These new apprenticeships mean that DEUTZ has once again significantly increased its usual quota, and it now has 53 contracted apprentices in their first year. Their specialities range from industrial clerk and grinder operator to machinist.

DEUTZ Group: Employees

	Dec. 31, 2004	Dec. 31, 2003
Number		
DEUTZ Group	5,472	5,454
thereof Cologne	2,599	2,548
Mannheim	830	869
Ulm	363	361
Other domestic locations	492	492
Domestic total	4,284	4,270
Foreign	1,188	1,184
thereof Wage earners	3,077	3,091
Salaried staff	2,194	2,176
Trainees	201	187

DEUTZ Group: Personnel expenses

	2004	2003
in € million		
Wages	119.3	115.1
Salaries	128.4	127.5
Social security	51.4	50.4
Pensions	3.3	3.0
DEUTZ Group	302.4	296.0

Environmental protection and industrial safety

DEUTZ maintained expenditure on environmental protection and industrial safety, totalling €6.5 million, at a similar level to last year (€6.7 million).

The **environmental management system** launched last year in compliance with DIN EN ISO 14001 was successfully extended. All production equipment that affects the environment is state of the art and is being enhanced by the management system's ongoing improvement processes. DEUTZ AG always complies with official requirements and statutory regulations, and this compliance was optimised during the year under review through the introduction of new alarm systems. An ongoing, constructive dialogue is maintained between the supervisory agencies and DEUTZ AG and this helps the company to implement legal standards in good time.

In the field of **industrial safety** DEUTZ was able to achieve its target of stabilising its so-called »thousand-man« rate (the number of industrial accidents per 1,000 employees) at 28. This rate puts DEUTZ around 25 percent lower than the sector average.

Corporate Governance

In December 2004 the Management and Supervisory Boards of DEUTZ AG issued the declaration of compliance with the recommendations of the Government Commission on German Corporate Governance Codex (4 July 2003 version) in compliance with Article 161 of the German Companies Act and made it permanently accessible to the shareholders on the company website (www.deutz.com).

Risk management

DEUTZ operates in a number of application segments worldwide and manages its business through its own subsidiary companies, service centres, sales offices and contract dealers. As a result the company is exposed to various **specific and regional risks**.

The prime corporate goal of DEUTZ is to achieve a sustainable profit. The achievement of this goal requires the early recognition and quantification of risks and the execution of measures that prevent these risks from arising, or at least minimise their effect if they do arise. For this purpose DEUTZ operates a **risk management system** that encourages employees to monitor risks themselves and also raises their sense of responsibility and sensitivity to risks, ensures the early discovery, quantification and communication of risks,

and leads to the implementation of effective countermeasures in order to avoid risk. The basic principles, monitoring standards, personal responsibilities, functions and procedures in risk management have been laid down by the Management Board of DEUTZ AG and are contained in a manual that is subject to constant further development in the light of new knowledge and accumulated experience. A mandatory reporting system and the Risk Management Committee that has been set up for this purpose ensure that all major risk areas are identified and communicated, and that appropriate counter action is taken at an early stage and carried out effectively.

As part of the regular **risk inventory**, risk officers in all parts of the company establish whether and to what extent approved measures have had or are having their effect and whether major new risks have arisen. Appropriate countermeasures, binding deadlines for their execution, and the designation of persons responsible for carrying them out are decided by the DEUTZ AG Management Board on the basis of the analyses and suggestions of the Risk Management Committee. Reports also have to be submitted ad hoc, independently of the regular reports, on any major new risks that arise or dangers that may be increasing. In the 2004 financial year, the risk inventories were carried out three times. Linked to the convertible bond issue in July 2004 a further, comprehensive risk assessment was compiled involving lawyers.

Sales risks: Although current market forecasts are indicating growth tendencies in most regions and application segments in which DEUTZ is represented, they are beset with risks because of the difficulty of forecasting the effects of the economy in general and of movements in currency exchange rates. However, DEUTZ has positioned itself in recent years by expanding its market position in growth regions and segments and by entering into close co-operation with major customers in order to systematically counteract such sales risks. Another step towards reducing sales risks was taken when focusing the medium-sized and large engines business on gas engines for decentralised power generation. In addition to this, DEUTZ has focused its development activities on product strategy goals that are in turn closely intermeshed with the sales strategy as part of the marketing plans. Constant market observation ensures that the product strategy is kept up to date, for instance by taking account of changes in customer requirements, competitive behaviour, or the tightening of emission legislation. This means that the risk of erroneous development work is contained and also that development work is carried out on time and with the right customer orientation.

Production risks: To avoid erroneous planning and investments, the necessary production capacity is reviewed annually as part of the rolling medium-term plans, and weekly as part of the operational assembly programme planning, and then co-ordinated with sales expectations for the individual model series and engine types. In addition to this DEUTZ has, in recent years, further reduced the risk of insufficient capacity utilisation by rationalising production, outsourcing the foundry and focusing on core competence areas.

Personnel risks: In recent years DEUTZ has systematically reduced the risks of excess personnel capacity, particularly in the administrative field. Through centralising the activities of the medium-sized and large engines business in Mannheim, and concentrating on profitable areas of application, DEUTZ can achieve the cost cuts required in this segment with a further reduction of staff. This will make the entire organisation leaner and more efficient. Various training and personnel development measures have been implemented for employees. Succession to management positions is ensured under a new programme for developing future managers.

Information technology (IT) risks: DEUTZ pursues an IT strategy throughout the Group based on a uniform IT infrastructure. Regular adaptation of hardware and software to bring it up to the latest state of the technological art, together with co-operation with external service companies, enable the risks in the IT area to be contained. The migration of DEUTZ AG's main computer systems to SAP R/3 software on 1 January in the year under review passed off smoothly. The subsidiary companies are migrating in stages and this process should be complete by the end of 2006. This will create a complete, uniform software platform for the entire DEUTZ Group that will be in line with the latest technological standard and make further innovations possible in the IT area. Appropriate measures have been put in place to avoid disruption or interruptions to work while migrating to SAP R/3. These measures are being supervised by a steering committee that ensures that the necessary resources are provided and that the migration's requirements are met correctly and punctually.

Organisational risks: To reduce organisational risks, central areas support the individual sales departments in the form of a matrix organisation. The organisational amalgamation of central functions and services across all locations and segments ensures a uniform procedure throughout the company in the various functional areas. All operational levels including the foreign subsidiary companies are integrated into a detailed planning, control and reporting system. The core elements of this system are: revolving short-term and medium-term plans, monthly plan/actual analyses, quarterly forecasts and regular review/planning meetings.

Reports are submitted on all the major business events that have occurred or are anticipated, and any measures needed are put in place promptly.

On 1 January 2005 DEUTZ repositioned its medium-sized and large engines business. DEUTZ Power Systems GmbH & Co. KG, with its headquarters in Mannheim, was founded to concentrate on business with gas engines for decentralised power generation. Loss-making businesses such as the marine business are being reduced. This will increase efficiency and profitability in the medium-sized and large engines business.

Quality risks: In order to reduce quality risks DEUTZ has set up a central quality system as part of the Re-Launch programme that is responsible for quality assurance in all the works and all the divisions. This means that guarantee risks are reduced through the systematic analysis of the origins of defects, the optimisation of the company's own production processes, and the supervision of series-production start-ups. In addition to this, uniform standards have been introduced for the selection of suppliers as well as process audits for improving suppliers' quality. The measures that have been taken have led during the past years to a considerable reduction in defects costs.

Financial risks: DEUTZ aims to exploit opportunities arising from the operating business in the international marketplace, and at the same time to use foresight to reduce the financial risks associated with such opportunities. To reduce financial risk, an annual financial plan is drawn up and regular analyses seek to identify deviations from it. DEUTZ co-operates with leading credit institutions to ensure adequate external financing. Lines of credit that have been granted but not yet utilised ensure adequate liquidity as far as it is possible to judge at the moment. The risk of bad debt losses is reduced by constantly monitoring and regularly analysing the list and structure of accounts receivable. Exchange-rate risks are monitored by means of central currency management and reduced through currency hedge trades. In addition to this DEUTZ is increasing its purchasing from the dollar area in order to mitigate the impact of exchange-rate fluctuations between the euro and the US dollar.

DEUTZ deals with the risk of increasing interest rates in variable interest agreements through interest rate swapping, which protects the current interest rate over the lifetime of the credit. Another initiative was the convertible bond issue, where a fixed interest rate of 3.95 percent was set for its term of five years.

The procurement of components, pre-products and services from third parties, while necessary, can be subject to unanticipated supply problems, unexpected price rises and risks

arising from market shortages. Such supplier-related risks are countered by studying markets closely, running thorough checks of supplier quality and signing long-term supply contracts with a view to ensuring advantageous terms including pricing for materials and services supplied.

Legal risks: Pending and imminent litigation is constantly monitored and analysed at DEUTZ with regard to its potential legal and financial impact. This ensures that appropriate responses are triggered and that, where necessary, financial precautions are taken. Internal company standards such as general terms and conditions of business, sample contracts for various possible applications, and related execution regulations in the form of organisational guidelines ensure that risks are reduced before they even arise. In addition to this the Legal Affairs Department and if necessary external lawyers are regularly brought in on projects and the finalisation of contracts that move into areas outside the standards developed for day-to-day business.

Risks arising from litigation over the winding-up of old industrial plant business orders which remained with DEUTZ AG after that division was sold in 2001 were largely dissipated during 2004. The claims raised by the Greek tax authorities against a Greek subsidiary company of DEUTZ AG for supplementary tax payments and penalties totalling about €35 million are still pending, as are the actions brought by two private persons for alleged harm to health from asbestos against more than 100 companies including two American subsidiaries of DEUTZ AG.

All existing legal risks are assessed regularly and taken into account in routine provisions against risk.

Events after the end of the financial year

After the end of the 2004 financial year, the marine service business with medium-sized and large engines was sold to Wärtsilä Nederland B.V. for €115 million on 31 March 2005. The sale included the business with original spare parts and the repairs and maintenance business for diesel-powered medium-sized and large engines in boats and offshore applications.

The transfer of the marine service business included customer information, know-how, use of brands, use of intellectual property, spare parts stock and logistics worldwide. Around 200 DEUTZ employees across the world will be taken on by Wärtsilä.

Prospects

A further increase in sales from the core business is anticipated for 2005. DEUTZ expects that this organic growth will be able to compensate for the planned loss of sales from

selling the marine service business. Therefore it is anticipated that total sales will reach the same level as last year.

Profits are expected to face pressure in 2005. The divested marine service business will only contribute positively to operating profit in the first quarter. Negative influences are expected from raw material prices continuing to rise and from exchange rate risks, though these will be countered appropriately to improve the profit situation. Counter measures include further improvements to our cost structures, price rises and specific changes to our unit sales mix. Significantly increased profits are anticipated from focusing the medium-sized and large engines business on the profitable system business with power generation equipment.

DEUTZ expects that this will largely succeed in compensating for negative influences on profits. DEUTZ also expects a high two-digit extraordinary profit from the sale of the marine service business to Wärtsilä.

Financial Statements

Balance Sheet

Assets

	Notes	DEUTZ AG		DEUTZ Group	
		Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
in € million					
Business expansion expenses		35.7	26.6	35.7	26.6
Intangible assets		15.2	6.7	24.5	18.1
Tangible assets		148.9	153.8	359.3	387.4
Financial assets		243.6	231.7	59.4	61.0
Fixed assets	1	407.7	392.2	443.2	466.5
Inventories	2	166.9	192.1	230.7	250.5
Receivables and other assets	3	236.3	255.4	233.4	245.5
Liquid assets	4	3.1	15.7	7.9	25.6
Current assets		406.3	463.2	472.0	521.6
Prepaid expenses and deferred charges	5	8.0	1.1	9.3	2.3
Total		857.7	883.1	960.2	1,017.0

Stockholders' equity and liabilities

Subscribed capital		233.0	233.0	233.0	233.0
Capital reserves		13.2	6.1	9.0	1.8
Currency translation		-	-	-2.6	-
Accumulated loss		-76.9	-68.1	-82.6	-64.0
Minority interests		-	-	-1.2	-1.1
Stockholders' equity	6	169.3	171.0	155.6	169.7
Convertible profit-participation certificates	6	25.6	25.6	25.6	25.6
Provisions	7	372.3	368.3	418.9	419.3
Accounts payable	8	290.5	318.2	360.1	402.4
Total		857.7	883.1	960.2	1,017.0

Financial Statements

Profit and Loss Account

	Notes	DEUTZ AG		DEUTZ Group	
		2004	2003	2004	2003
in € million					
Sales	11	1,099.1	1,036.3	1,242.1	1,172.6
Increase/decrease (-) in finished goods and work in process	12	-6.0	-3.7	0.8	-6.5
Own work capitalised	12	9.4	6.2	9.4	6.2
Total output		1,102.5	1,038.8	1,252.3	1,172.3
Other operating income	13	74.7	64.3	64.1	60.5
Cost of materials	14	-691.1	-619.3	-726.3	-638.4
Personnel expenses	15	-244.7	-240.4	-302.4	-296.0
Depreciation	16	-26.2	-27.2	-54.3	-60.9
Other operating expenses	17	-169.0	-183.9	-187.7	-192.7
Income from investments in other companies	18	1.6	2.3	4.5	2.3
Amounts written off financial assets		-	-9.1	-0.1	-3.1
Interest expenses, net	19	-18.9	-19.9	-29.4	-32.7
Profit on ordinary activities		28.9	5.6	20.7	11.3
Extraordinary income/expenses (-), net	20	-35.0	-	-35.0	-
Taxes on income		-2.2	-3.5	-2.7	-3.4
Other taxes		-0.5	-0.6	-1.6	-1.9
Loss/profit for the year		-8.8	1.5	-18.6	6.0
Accumulated loss at the beginning of year		-68.1	-69.6	-64.0	-70.0
Accumulated loss at the end of year		-76.9	-68.1	-82.6	-64.0

Financial Statements

Cash Flow Statement

	DEUTZ Group	
	2004	2003
in € million		
Loss/profit for the year	-18.6	6.0
Depreciation of fixed assets (including extraordinary expenses)	57.1	64.0
Result from valuation at equity	-2.0	-
Change in pension provisions	-10.2	-13.4
Gains/losses from disposal of other fixed assets	0.2	-1.1
Cash flow	26.5	55.5
Business expansion expenses	-9.1	-6.0
Change in inventories	17.8	3.2
Change in trade receivables	9.1	-11.2
Change in trade payables	28.8	20.8
Change in working capital	55.7	12.8
Change in other receivables and other liabilities	6.1	0.7
Change in short-term provisions	13.7	-28.4
Cash flow from normal operating activities	92.9	34.6
Investments in intangible and tangible assets	-38.1	-30.8
Investments in financial assets	-1.5	-2.9
Proceeds from sale of other assets	3.6	8.1
Cash flow from investing activities	-36.0	-25.6
Change in liabilities towards credit institutions	-141.9	-71.5
Payment received on issue of convertible bonds	67.3	-
Payment received on capital increase	-	68.8
Cash flow from financial activities	-74.6	-2.7
Change in liquid assets	-17.7	6.3

Segment Report

Breakdown by segments

	Compact engines		Medium-sized and large engines		Other		DEUTZ Group	
	2004	2003	2004	2003	2004	2003	2004	2003
in € million								
Sales	909.7	843.0	332.4	329.6	-	-	1,242.1	1,172.6
Operating profit (EBIT)	49.2	65.4	13.1	9.2	-12.2*	-30.6	50.1	44.0
Investments	35.2	28.0	2.3	5.7	3.5	7.0	41.0	40.7
Depreciation	45.5	52.2	8.1	11.4	0.8	0.4	54.4	64.0
Assets	667.0	670.1	236.4	289.3	56.8	57.6	960.2	1,017.0
Employees (Number Dec. 31)	3,516	3,495	1,519	1,560	437**	399**	5,472	5,454

* In the 2004 financial year, in order to associate expenditure more closely to its cause, €8.1 million were reallocated from the other segment (central areas in 2003) with €6.7 million going to the compact engines segment and €1.4 million to the medium-sized and large engines segment.

** of which trainees: 201 (2004); 187 (2003).

Segment Report

Breakdown by regions

	Sales		Investments		Depreciation		Employees (Number Dec. 31)	
	2004	2003	2004	2003	2004	2003	2004	2003
in € million								
Germany	316.4	298.0	26.9	30.3	47.0	53.0	4,284	4,270
Other Europe	495.9	440.0	12.1	7.6	6.7	7.1	882	884
America	176.1	149.5	1.3	2.1	0.3	1.4	142	136
Africa	50.0	59.2	0.6	0.5	0.2	0.2	33	33
Asia/Pacific	203.7	225.9	0.1	0.2	0.2	2.3	131	131
DEUTZ Group	1,242.1	1,172.6	41.0	40.7	54.4	64.0	5,472	5,454

Statements of Stockholders' Equity

Movement of stockholders' equity DEUTZ AG

	Subscribed capital	Currency translation	Capital reserves	Loss/Accumulated loss	Total
in € '000					
January 1, 2003	164,345	-	5,952	-69,612	100,685
Capital increase	68,671	-	95	-	68,766
Profit 2003	-	-	-	1,500	1,500
December 31, 2003	233,016	-	6,047	-68,112	170,951
Addition resulting from convertible bonds issue	-	-	7,184	-	7,184
Addition resulting from conversions of convertible profit-participation certificates/convertible bonds	3	-	-	-	3
Loss 2004	-	-	-	-8,800	-8,800
December 31, 2004	233,019	-	13,231	-76,912	169,338

Movement of stockholders' equity DEUTZ Group

	Subscribed capital	Currency translation	Capital reserves	Loss/Accumulated loss	Minority interests	Total
in € '000						
January 1, 2003	164,345	-	1,717	-69,978	-1,064	95,020
Capital increase	68,671	-	95	-	-	68,766
Changes in minority interests	-	-	-	-	-35	-35
Profit 2003	-	-	-	6,000	-	6,000
December 31, 2003	233,016	-	1,812	-63,978	-1,099	169,751
Addition resulting from convertible bonds issue	-	-	7,184	-	-	7,184
Additions resulting from conversions of convertible profit-participation certificates/convertible bonds	3	-	-	-	-	3
Currency translation 2004	-	-2,621	-	-	-	-2,621
Changes in minority interests	-	-	-	-	-56	-56
Loss 2004	-	-	-	-18,600	-	-18,600
December 31, 2004	233,019	-2,621	8,996	-82,578	-1,155	155,661

Financial Statements

Fixed Assets Schedule

DEUTZ AG

	Gross value Purchase or production cost				Reclassi- fication	Dec. 31, 2004
	Jan. 1, 2004	Additions	Disposals			
in € '000						
Business expansion expenses	26,600	9,132	-	-		35,732
Concessions, industrial and similar rights and assets and licences in such rights and assets	73,954	12,439	21,812	2		64,583
Goodwill	6,491	-	6,491	-		-
Intangible assets	80,445	12,439	28,303	2		64,583
Land, similar rights and buildings including buildings on land owned by third parties	80,092	199	9	-6		80,276
Technical equipment and machines	256,166	1,928	7,827	2,506		252,773
Other equipment, factory and office equipment	138,100	8,715	8,252	240		138,803
Advance payments on tangible assets and construction in progress	2,820	7,507	-	-2,742		7,585
Tangible assets	477,178	18,349	16,088	-2		479,437
Shares in affiliated companies	212,727	25	3,033	-		209,719
Loans to affiliated companies	117,624	-	-	-		117,624
Participating interests	9,385	-	-	-		9,385
Loans to companies in which participating interests are held	41,420	-	-	-		41,420
Other loans	867	-	7	-		860
Financial assets	382,023	25	3,040	-		379,008
Fixed assets	939,646	30,813	47,431	-		923,028
Total	966,246	39,945	47,431	-		958,760

DEUTZ Group

	Gross value Purchase or production cost				Reclassi- fication	Dec. 31, 2004
	Jan. 1, 2004	Additions	Disposals			
in € '000						
Business expansion expenses	26,600	9,132	-	-		35,732
Concessions, industrial and similar rights and assets and licences in such rights and assets	64,724	12,465	22,339	2		54,852
Intangible assets	64,724	12,465	22,339	2		54,852
Land, similar rights and buildings including buildings on land owned by third parties	233,166	245	672	-6		232,733
Technical equipment and machines	474,800	6,965	14,468	2,771		470,068
Other equipment, factory and office equipment	180,166	9,212	9,956	240		179,662
Advance payments on tangible assets and construction in progress	3,317	9,234	749	-3,007		8,795
Tangible assets	891,449	25,656	25,845	-2		891,258
Shares in affiliated companies	12,747	97	163	-		12,681
Loans to affiliated companies	3,431	-	3,431	-		-
Associated companies	11,589	1,399	44	-		12,944
Participating interests	1,834	-	-	-		1,834
Loans to companies in which participating interests are held	41,420	-	-	-		41,420
Long-term investments	2,016	93	551	-		1,558
Other loans	2,682	1,265	200	-		3,747
Financial assets	75,719	2,854	4,389	-		74,184
Fixed assets	1,031,892	40,975	52,573	-		1,020,294
Total	1,058,492	50,107	52,573	-		1,056,026

Gross value				Net value		
Accumulated depreciation						
Jan. 1, 2004	Additions	Disposals	Write-ups	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
-	-	-	-	-	35,732	26,600
67,214	3,942	21,812	-	49,344	15,239	6,740
6,491	-	6,491	-	-	-	-
73,705	3,942	28,303	-	49,344	15,239	6,740
21,170	2,216	9	-	23,377	56,899	58,922
190,894	11,717	7,690	-	194,921	57,852	65,272
111,274	9,634	8,265	325	112,318	26,485	26,826
-	-	-	-	-	7,585	2,820
323,338	23,567	15,964	325	330,616	148,821	153,840
140,297	-	104	15,000	125,193	84,526	72,430
-	-	-	-	-	117,624	117,624
3,608	-	-	-	3,608	5,777	5,777
5,788	-	-	-	5,788	35,632	35,632
691	106	-	-	797	63	176
150,384	106	104	15,000	135,386	243,622	231,639
547,427	27,615	44,371	15,325	515,346	407,682	392,219
547,427	27,615	44,371	15,325	515,346	443,414	418,819

Gross value				Net value		
Accumulated depreciation						
Jan. 1, 2004	Additions	Disposals	Write-ups	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
-	-	-	-	-	35,732	26,600
46,667	5,919	22,265	-	30,321	24,531	18,057
46,667	5,919	22,265	-	30,321	24,531	18,057
58,167	7,340	459	-	65,048	167,685	174,999
295,711	32,468	12,710	-	315,469	154,599	179,089
149,944	11,483	9,863	325	151,239	28,423	30,222
200	-	-	-	200	8,595	3,117
504,022	51,291	23,032	325	531,956	359,302	387,427
5,701	128	21	-	5,808	6,873	7,046
-	-	-	-	-	-	3,431
1,310	-	-	-	1,310	11,634	10,279
1,413	-	-	-	1,413	421	421
5,788	-	-	-	5,788	35,632	35,632
7	-	-	-	7	1,551	2,009
450	106	30	-	526	3,221	2,232
14,669	234	51	-	14,852	59,332	61,050
565,358	57,444	45,348	325	577,129	443,165	466,534
565,358	57,444	45,348	325	577,129	478,897	493,134

Financial Statements

Notes to the DEUTZ AG and Group Financial Statements

General explanations

The Group accounts and the annual accounts of DEUTZ AG for the 2004 financial year have been drawn up in accordance with the regulations contained in the HGB (German Commercial Code) and the supplementary regulations of the Aktiengesetz (German Companies Act).

The Group accounts and the annual accounts of DEUTZ AG are explained in the following notes and apply to both sets of accounts unless anything to the contrary is stated. In the interest of clarity some subtotals have been combined in the balance sheet and the profit and loss account and then shown separately in the Notes. The full-cost method has been applied to the profit and loss account.

Consolidated and associated companies

The Consolidated Accounts comprise the accounts not only of DEUTZ AG but also of 5 (2004: 5) German and 14 (2003: 16) foreign companies.

There has been no change in the German companies included in the consolidation.

For DEUTZ Nordic AB, Barkaby (Sweden), and DEUTZ Nordic A/S, Copenhagen (Denmark), following the sale on 31 December 2004 only the income and expenditure in the past year were included in the consolidated accounts.

5 (2003: 4) German and 13 (2003: 13) foreign companies have been omitted from the Consolidated Accounts by reason of insignificance. The German companies left out of the consolidation cover the service companies operating for the DEUTZ Group and asset management companies.

No German companies and 3 foreign companies (both figures as in 2003) have been included in the consolidation under the regulations applicable to associated companies.

The other Group companies did not meet the criteria for inclusion in the consolidation.

Consolidation policies

Capital is consolidated by offsetting the book values of investments in consolidated subsidiaries against the Group's share of the equity in the respective subsidiaries,

based on the values at the time of either the acquisition of the shares or the first consolidation. Any resulting goodwill on consolidation is written off against earnings or capital reserves or charged against the current year's income.

Where associated companies are included in consolidation by the equity method, the treatment of debit and credit balances arising on first inclusion, and the effective date of the offsetting, are governed uniformly by the same principles. The Group's share of the net income or loss for the year of these companies is shown in its profit and loss account under income from investments in other companies.

The financial statements of the individual companies have been prepared and audited in conformity with applicable German statutory consolidation requirements and in accordance with uniform Group accounting and valuation policies.

Intra-Group receivables and payables and intra-Group income and expenditure items relating to transactions between consolidated companies have been offset against one another, and intra-Group profits have been eliminated here but not in the case of associated companies included in consolidation by the equity method.

Foreign currency conversion

DRS 14 having come into force, the foreign currency conversion principle was altered to meet the DRS 14 regulations. Where foreign Group companies' financial statements were presented in the functional currency, the conversion of all the balance sheet items except equity capital was done at the reporting date exchange rate. The items in the profit and loss account, including the year's profit/loss, were converted at the annual average rates. Equity capital, except for the year's profit/loss, was converted at the exchange rates at the previous year's reporting date. Differences arising from the conversion of balance sheet items due to converting equity capital at historic rates and converting the year's profit/loss at annual average rates were posted in a separate equity capital item so that their effect was neutralised. In the year under review, €2.6 million was posted there to reduce equity capital. When a foreign Group company did not present its books in its own functional currency, profits and losses from the conversion to the Group currency were entered so that they affected results.

Accounting and valuation principles

Business expansion expenses

The expenses shown here are connected with opening up the commercial vehicles market segment.

Fixed assets

Intangible assets are valued at cost less scheduled amortisation.

Tangible assets are stated at purchase or production cost, less scheduled depreciation where appropriate. In the individual financial statements and the consolidated financial statements, buildings are depreciated as permitted by tax regulations and on a uniform basis over their expected and reasonable useful lives. Movable fixed assets are depreciated over their usual service lives, in most cases on a straight-line basis. To comply with the change in the tax legislation, additions to fixed assets will no longer be treated according to the half-year tax rule after the current reporting year. Low-value fixed assets are written off completely in the year of acquisition.

Scheduled depreciation is predominately calculated on the basis of the following useful life of each kind of asset:

	Useful life Years	Depreciation rate %
Buildings and exterior plants	5–40	2.5–20
Technical equipment and machinery	10–20	5–10
Other equipment, factory and office equipment	3–10	10–33.3

Non-scheduled depreciation is calculated where the value attributable to a fixed asset at the balance sheet date is lower than its written-down value after scheduled depreciation.

Shares in **affiliated companies and participating interests** are stated at cost less any amounts written off for economic or political reasons. Non-interest or low-interest bearing **loans** are stated at present value.

Current assets

Stocks of **raw materials, supplies and operating materials and purchased components** are valued at the lower of acquisition cost or market price. Historic costs are calculated on the basis of weighted average purchase prices. **Work in process and finished goods** are valued at production cost, which includes direct costs as well as pro-rata production and materials overheads and administrative expenses that

are allowed to be included in inventory valuation under Article 255 paragraph 2 of the Commercial Code.

Where realisable values less completion costs are lower than such valuations, the lower values are applied. Further deductions are made, where necessary, to reflect risk on slow-moving items, diminished utility, and expected losses on contracts.

All economic and political risks identified as affecting **accounts receivable and other assets** have been recognised by providing reasonable valuation allowances. General credit risks are covered by general allowances. Non-interest bearing receivables maturing after more than one year from the balance sheet date are stated at their net present value. Accounts receivable in foreign currencies and due for payment within one year are valued at the exchange rate in force on the closing date for the accounts, but those maturing later than this are valued at the hedged rate or at whichever is the lower value of either the booking date or the closing date. Hedge transactions not directly connected to longer-term accounts receivable or pending orders are subject to a market-to-market evaluation based on the situation on the closing date.

Provisions for pensions and similar obligations

Pension arrangements depend upon statutory regulations in the country concerned and the benefits agreed between the various companies and their employees. Pension commitments are covered by pension funds, insurance policies, relief funds, or pension provisions, the latter being especially used by the Group's German companies.

These pension provisions are calculated in accordance with actuarial principles using the normal entry-age method and applying an interest rate of 6 percent; foreign Group companies providing pension provisions generally use a comparable method.

In order to enhance the informative value of the financial statements, the interest component of such additions has been included under interest expense in the financial statements of DEUTZ AG and in the consolidated financial statements, and not as personnel expenses.

Other provisions

All risks and uncertain liabilities identifiable at the time of preparation of the financial statements are covered by appropriate provisions.

Accounts payable

Accounts payable are principally valued at the amount due for payment. The same explanations apply to accounts payable in foreign currencies as to foreign currency receivables.

The convertible bond issued in the year under review has an interest rate of 3.95% and will mature in 2009. The price of the conversion right, calculated using the discounted benefit of the low yield, was put into capital reserves. A deferred income item was created to the same value in exercise of the right granted by Article 250 paragraph 3 of the German Commercial Code (HGB). This will be written off on a straight-line basis over the bond's lifetime. Where conversion occurs prematurely, the proportionate disagio will be written off against the capital reserves with a neutral effect.

Derivative financial instruments

DEUTZ uses derivative financial instruments such as futures and options exclusively for hedging purposes and only ever within the ambit of operational business activities.

The derivative financial positions below existed at the balance sheet date:

	Nominal value	Derivates with positive market values		Derivates with negative market values	
		Market value	Book value	Market value	Book value
in € '000					
Interest-related business					
OTC business					
Interest swaps (same currency)	45,124	-	-	-222	45,124
Currency-related business					
OTC business					
Foreign currency fixed-date business	1,743	1,447	1,743	-	-

Notes to the Balance Sheet and the Profit and Loss Account

1. Fixed assets

The total value of fixed assets in the Group has fallen from the preceding year's level by €23.3 million.

€0.3 million contrast with depreciations and asset disposals of €54.1 million.

Due primarily to the acquisition of the technology for two new series of compact engines, intangible assets rose by €6.4 million. Tangible assets decreased by €28.1 million in comparison to the previous year. Investments (additions) to the value of €25.7 million and appreciations of

The €1.6 million reduction in financial assets basically comprises additions of €2.9 million and disposals of €4.3 million.

The schedule of the main shareholdings can be seen on pages 62/63.

2. Inventories

	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
in € '000				
Raw materials and supplies, purchased components and spare parts	104,152	103,510	122,059	122,447
Work in process	53,573	52,878	60,800	59,401
Finished goods	20,559	28,273	60,007	62,177
	178,284	184,661	242,866	244,025
Advance payments made on inventories	1,379	12,038	2,388	12,601
	179,663	196,699	245,254	256,626
Advance payments received on orders	-12,730	-4,552	-14,525	-6,065
Total	166,933	192,147	230,729	250,561

3. Receivables and other assets

DEUTZ AG a) DEUTZ Group b)		Maturing in less than 1 year	Maturing in more than 1 year	Dec. 31, 004 Total	Dec. 31, 2003 Total
in € '000					
Trade receivables	a)	98,167	–	98,167	104,029
	b)	189,668	611	190,279	200,337
Receivables from affiliated companies	a)	108,999	–	108,999	122,284
	b)	6,607	–	6,607	9,437
Receivables from enterprises in which participating interests are held	a)	7,666	5,821	13,487	15,946
	b)	8,954	5,848	14,802	16,422
Other assets	a)	14,404	1,237	15,641	13,073
	b)	20,313	1,359	21,672	19,279
Total	a)	229,236	7,058	236,294	255,332
	b)	225,542	7,818	233,360	245,475

In DEUTZ AG, out of the total accounts receivable from affiliated and companies in which participating interests are held, €82,388,000 and €5,625,000 respectively (2003: €90,457,000 and €6,604,000) consist of trade accounts receivable.

In the Group, out of the total accounts receivable from affiliated and companies in which participating interests are held, €4,717,000 and €4,818,000 respectively (2003: €7,140,000 and €7,052,000) consist of trade accounts receivable.

4. Liquid assets

Cash in hand, and credit balances at credit institutions are shown under this heading.

5. Prepaid expenses and deferred charges

The prepaid expenses and deferred charges in the DEUTZ AG accounts amount to €8.0 million (2003: €1.1 million) and in the Group accounts to €9.3 million (2003: €2.3 million) primarily from the €6.8 million reduced interest rate advantage from the July 2004 convertible bond issue, for pension payments and miscellaneous expenditures.

6. Stockholders' equity

Subscribed capital

The DEUTZ AG subscribed capital (share capital) came to €233,018,911.12 at the end of 2004 and is divided into 91,149,075 unit shares. In the 2004 financial year, 1,130 convertible bonds and 4 convertible profit-participation certificates were exchanged for a total of 1,170 ordinary DEUTZ AG shares.

Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main has, in compliance with Article 21 para. 1, 24 Securities Trading Act (WpHG) in connection with Article 32 para. 2 Investment Act (InvG), announced that its subsidiary DWS Investment GmbH, Mainzer Landstr. 178–190, 60327 Frankfurt, exceeded the threshold of 5% of voting rights in DEUTZ AG on 12 January 2004 and now has a 5.07% share of the voting rights.

Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main has, in compliance with Article 21 para. 1, 24 Securities Trading Act (WpHG) in connection with Article 32 para. 2 Investment Act (InvG), announced that its subsidiary DWS Investment GmbH, Mainzer Landstr. 178–190, 60327 Frankfurt, fell below the threshold of 5% of voting rights in DEUTZ AG on 28 May 2004 and now has a 4.97% share of the voting rights.

Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main has, in compliance with Article 21 para. 1, 24 Securities Trading Act (WpHG) in connection with Article 32 para. 2 Investment Act (InvG), also announced that its subsidiary DWS Investment GmbH, Mainzer Landstr. 178–190, 60327 Frankfurt, exceeded the threshold of 5% of voting rights in DEUTZ AG on 15 July 2004 and now has a 5.38% share of the voting rights.

Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main has, in compliance with Article 21 para. 1, 24 Securities Trading Act (WpHG), announced that it fell below the thresholds of 10% and 5% of voting rights in DEUTZ AG on 2 July 2004 and now has a 4.51% share of the voting rights. These voting rights are to be assigned to Deutsche Bank AG in compliance with Article 22 para. 1 sentence 1 no. 1 Securities Trading Act (WpHG).

Deutsche Bank AG has, in compliance with Article 21 para. 1 in connection with Article 24 Securities Trading Act (WpHG) also announced that its subsidiary DB Value GmbH, Scharnhorststraße 20, 06686 Sössen also fell below the thresholds of 10% and 5% of the voting rights in DEUTZ AG on 2 July 2004 and now has a 4.51% share in the voting rights of DEUTZ AG.

Same Deutz-Fahr Group S.p.A., V. le Cassani 14, 24047 Treviglio (BG), Italy, has, in compliance with Article 21 para. 1, 24 Securities Trading Act (WpHG), announced that the Same Deutz-Fahr Holding & Finance BV, Herengracht 548, 1017 CG Amsterdam, Netherlands, exceeded the

threshold of 25% of the voting rights in DEUTZ AG on 2 July 2004 and now owns 29.9%. These voting rights are to be assigned to Same Deutz-Fahr Group S.p.A. in compliance with Article 22 para. 1 no. 1 Securities Trading Act (WpHG).

Conditional capital

On 29 June 1995, the Annual General Meeting authorised a conditional capital increase of DM 50,000,000.00 to be represented by 10,000,000 bearer shares with a par value of DM 5 each. The conditional capital was authorised to enable conversion rights to be granted to holders of convertible profit-participation certificates issued by DEUTZ AG at the end of August 1995. The capital stock will be increased by this conditional capital only to the extent that holders of convertible profit-participation certificates exercise their conversion rights.

A resolution passed at the Annual General Meeting on 28 June 2001 allows the share capital to be increased under certain predetermined conditions by a maximum of €16,600,000.00. This conditional increase will only be carried out to the extent that

- a) holders or creditors of conversion rights or option certificates attached to conversion or option certificates issued by DEUTZ AG or any of the companies in which it holds a controlling majority of the shares up to 27 June 2006 make use of their conversion or option rights, or that
- b) holders or creditors of convertible bond certificates issued by DEUTZ AG or any of the companies in which it holds a controlling majority of the shares up to 27 June 2006 meet their obligation to convert.

The new shares will participate in profits from the beginning of the company's financial year in which they are created by the exercising of conversion or option rights or by the fulfilment of conversion obligations.

On 27 May 2004, the Annual General Meeting approved a conditional increase in share capital by a maximum of €34,000,000.00. This conditional increase will only be carried out to the extent that

- a) holders or creditors of conversion rights or option certificates attached to conversion or option certificates issued by DEUTZ AG or any of the companies in which it holds a controlling majority of the shares up to 26 May 2009 make use of their conversion or option rights, or that
- b) holders or creditors of convertible bond certificates issued by DEUTZ AG or any of the companies in which it holds a controlling majority of the shares up to 26 May 2009 who are obliged to convert meet this obligation.

The new shares will participate in profits from the beginning of the company's financial year in which they are created by the exercising of conversion or option rights or by the fulfilment of conversion obligations.

Capital reserves

The price of the convertible bond, calculated at €7.2 million based on the discounted benefit of the low yield, was put into capital reserves.

Currency translation

Differences arising from the conversion of balance sheet items due to converting equity capital at historic rates and converting the year's profit/loss at annual average exchange rates were posted in a separate equity capital item so that their effect was neutralised. In the year under review, €2.6 million was posted there to reduce equity capital.

Convertible profit-participation rights

A resolution passed by the Annual General Meeting on 29 June 1995 authorised the Management Board to issue registered convertible profit-participation rights with restricted transferability at any time up to 31 December 1996, with the consent of the Supervisory Board, up to a total nominal value of DM 50 million.

In August 1995, the Board of Management, with the consent of the Supervisory Board, decided to make use of this authority to issue convertible profit-participation certificates of total par value of DM 50 million. The 1,000,000 registered convertible profit-participation certificates with restricted transferability were offered to stockholders on a 59:1-basis at a price of DM 100 per certificate with a par value DM 50, payable in cash.

The profit-participation certificates entitle holders to an annual distribution equal to the dividend payable on shares of the same par value and to participate in liquidation proceeds up to the amount of the issuing price. If the certificates fall due before liquidation takes place they will be redeemed but only at par. Holders do not bear any share of losses.

The certificates do not entitle holders to attend Annual General Meetings and carry no voting rights or subscription rights for new shares or new profit-participation certificates.

The profit-participation certificates may be called for redemption by DEUTZ AG and by the holders with effect from the day after a regular general meeting by giving six months' notice; the first permissible effective date of such call is the day after the Annual General Meeting which meets to approve the annual accounts for 2006.

The profit-participation certificates entitle holders to exchange them at the ratio of 1:1 to par value with shares in DEUTZ AG. During the 2004 financial year 4 such convertible profit-participation certificates were converted into DEUTZ AG shares, and at the end of the year the profit-participation certificates were outstanding to a total amount of €25,552,553.14.

7. Provisions

	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
in € '000				
Provisions for pensions and other obligations	248,000	256,000	270,388	280,573
Tax provisions	5,268	3,598	4,250	3,159
Other provisions	119,030	108,725	144,282	135,611
Total	372,298	368,323	418,920	419,343

The pension provisions of DEUTZ AG and other Group companies based in Germany are calculated in accordance with actuarial principles in accordance with Article 6a of the Einkommensteuergesetz (Income Tax Act), and assuming retirement age to be 65 in most cases. There is no shortfall.

In the case of Unterstützungsgesellschaft mbH of DEUTZ AG, Cologne, which is a relief fund financed by DEUTZ AG, a provision (€2.9 million) was set up for the shortfall between the actuarial principles in accordance with the same Article 6a and the maximum amount of assets the fund can own for the purposes of Article 4d of the Act.

For pension commitments governed by foreign law accruals have been set up as permitted by the relevant national law, in addition to which appropriate provision is made on a comparable scale for under-capitalised pension funds and other quasi-pension commitments.

Provisions against tax include provisions for the current year and other periods not yet audited by the tax authorities. The tax provisions relate to €4.7 million in latent taxes at DEUTZ AG and €3.4 million in the Group that result from differences in valuation rates between the commercial and the tax accounts.

The other provisions cover all identifiable risks and other uncertain obligations. A major item relates to provisions for restructuring activities. This mainly shows provisions and expenses relating to the restructuring of the medium-sized and large engines business, the winding-up of old orders taken on as part of the sale of the industrial plant division, and severance payments to personnel. Costs are also shown for guarantees and contingencies, contractual risks, and provisions for personnel and social security expenses.

Valuation allowances and accruals set up for impending losses on (firm) orders in the year-end backlog were computed on a full cost basis. No additional accruals needed to be set up as a result of valuation on a partial cost basis of other orders expected under Engines Division delivery contracts or outline agreements. The calculation of a possible shortfall from full costs cannot be reasonably made because of differences in the structures of long-term delivery contracts and outline agreements.

8. Accounts payable

DEUTZ AG a) DEUTZ Group b)		Maturing in less than 1 year	Maturing 1 to 5 years	Maturing in more than 1 year	Dec. 31, 2004 Total	Dec. 31, 2003 Total
in € '000						
Bonds	a)	–	67,292	–	67,292	–
	b)	–	67,292	–	67,292	–
Amounts owed to credit institutions	a)	25,140	6,165	–	31,305	151,933
	b)	51,414	36,849	19,652	107,915	249,761
Trade payables	a)	101,700	–	–	101,700	78,593
	b)	121,975	–	–	121,975	93,201
Bills of exchange payable	a)	–	–	–	–	–
	b)	158	–	–	158	155
Amounts owed to affiliated companies	a)	71,807	–	–	71,807	72,511
	b)	6,132	23,040	–	29,172	29,100
Other payables, taxes	a)	–	–	–	–	–
	b)	5,024	–	–	5,024	4,664
Other payables, social security	a)	7,114	–	–	7,114	6,832
	b)	8,333	–	–	8,333	8,132
Other payables, miscellaneous	a)	11,300	–	–	11,300	8,368
	b)	20,214	11	–	20,225	17,334
Total	a)	217,061	73,457	–	290,518	318,237
	b)	213,250	127,192	19,652	360,094	402,347

In July 2004 the DEUTZ AG Management Board, with the consent of the Supervisory Board, issued a convertible bond to the value of €67.3 million. A consortium of banks led by HSBC Trinkhaus & Burkhardt KGaA issued a total of 19,792,998 bonds.

10,759,918 bonds were offered to shareholders and holders of convertible profit-participation certificates. Exclusive of the subscription rights of the shareholders and holders of convertible profit-participation certificates, 9,033,080 bonds were placed with investors in the course of a book-building procedure. By 31 December 2004, DEUTZ AG had received income of €67.3 million which was to be deployed to improve the capital structure.

The convertible bond issued has an interest rate of 3.95% per annum on the nominal value of €3.40 and a maturity of 5 years, and is due to be repaid on 22 July 2009. The subscription price was €3.40. Each of the bonds bears the right to be converted to one ordinary DEUTZ AG unit share, which can be exercised by the holder before 10 July 2009.

The capital market interest rate and the nominal interest rate of the bond were determined on 22 July 2004. The difference between the two elements represents the price of the conversion right and a sum of €7.2 million has been placed into capital reserves. An active deferred income item was created to the same value which will be written off over the lifetime of the bond, to have an effect on profits.

In the DEUTZ AG figures, trade accounts payable by affiliated companies came to €1,043,000 (2003: €922,000) respectively.

Accounts payable to credit institutions and other accounts payable are secured by mortgage rights and assignments or transfer of title totalling €104.6 million (DEUTZ AG: €35.4 million).

Trade accounts payable are subject to the customary retention of title by creditors.

In the Group figures, trade accounts payable to affiliated companies came to €3,000 (2003: €45,000).

The Group's net financial debt as of 31 December 2004 amounted to €100.0 million (2003: €224.2 million).

9. Contingent liabilities and other financial commitments

Contingent liabilities

	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
in € '000				
Contingent liability on endorsed bills of exchange	4,474	3,401	18,007	15,291
Contingent liability on guarantees	24,811	32,780	11,481	18,783
Contingent liability on warranty contracts	17,701	23,522	6,944	11,805
Provision of security for the liability of others	-	-	7	7
Total	46,986	59,703	36,439	45,886

Other financial commitments

The total amount of other financial commitments not shown on the balance sheet and not included under contingent liabilities amounted on 31 December 2004 at DEUTZ AG to €250.7 million (2003: €267.9 million), of which those towards affiliated companies totalled €177.6 million (2003: €199.9 million) and in the Group to €96.5 million (2003: €91.7 million).

These involve commitments under rental and leasing contracts with a nominal value of €211.9 million (Group: €57.7 million) for a residual lifetime of contracts up to 8 (in the Group: 16) years and from purchase order commitments on plant investments of €38.8 million (Group: €38.8 million).

Liabilities under rental and leasing contracts at DEUTZ AG are matched by counter-claims totalling €3.8 million (Group: €8.0 million).

10. Pending and imminent litigation

DEUTZ AG and other companies in the Group are involved in a number of court cases and arbitration proceedings mainly arising from alleged breakdowns, consequential damage, and claims for damages.

Provision has been made on the balance sheet for the risks contained in these disputes.

In the nature of things it is not possible at the moment to make any conclusive assessment of the outcome of these pending proceedings. According to our estimates, no major negative consequences are to be expected for the asset, financial, or profit situation of DEUTZ AG or the Group.

11. Sales

Breakdown by segments

	DEUTZ AG		DEUTZ Group	
	2004	2003	2004	2003
in € million				
Compact engines	835.6	779.0	909.7	843.0
Medium-sized and large engines	263.5	257.3	332.4	329.6
Total	1,099.1	1,036.3	1,242.1	1,172.6

Breakdown by regions

	DEUTZ AG		DEUTZ Group	
	2004	2003	2004	2003
in € million				
Germany	309.7	294.5	316.4	298.0
Other Europe	424.4	365.6	495.9	440.0
America	148.2	132.7	176.1	149.5
Africa	32.3	42.5	50.0	59.2
Asia/Pacific	184.5	201.0	203.7	225.9
Total	1,099.1	1,036.3	1,242.1	1,172.6

12. Increase/decrease (-) in finished goods and work in process and other own work capitalised

Increase/decrease (-) in finished goods and work in process

	DEUTZ AG		DEUTZ Group	
	2004	2003	2004	2003
in € '000				
January 1	81,151	84,903	121,578	128,094
Decrease (-) in finished goods and work in process on extraordinary income/expenses (-), net	-1,001	-	-1,001	-
Effect of change in composition of Group	-	-	-632	-
Finished goods and work in process after change in composition of Group	80,150	-	119,945	128,094
December 31	74,132	81,151	120,807	121,578
Increase/decrease (-) in finished goods and work in process	-6,018	-3,752	862	-6,516

Other own work capitalised

This figure mainly shows work carried out in connection with opening up the commercial vehicles segment of the market.

In the DEUTZ AG figures this item also includes the €15.0 million write-up in the shareholding in Deutz of America Corporation, Atlanta (USA) and Group overhead attributions for administrative expenses and miscellaneous expenses.

13. Other operating income

Other operating income includes such items as income from cost of services, income from the reversal of provisions, gains on foreign-currency exchange rates, income from the reversal of write-downs as well as any other kinds of operating income.

Income from the reversal of other provisions came to €12.1 million (2003: €19.7 million) in the Group and €9.7 million (2003: €14.7 million) at DEUTZ AG.

14. Cost of materials

	DEUTZ AG		DEUTZ Group	
	2004	2003	2004	2003
in € '000				
Cost of raw materials and supplies and goods purchased for resale	670,340	603,978	698,174	616,797
Cost of purchased services	20,759	15,353	28,120	21,569
Total	691,099	619,331	726,294	638,366

15. Personnel expenses

Personnel expenses

	DEUTZ AG		DEUTZ Group	
	2004	2003	2004	2003
in € '000				
Wages and salaries	203,916	199,873	247,743	242,639
Social security and other expenses	39,536	39,297	51,381	50,415
Pension expenses	1,287	1,240	3,306	2,954
Total	244,739	240,410	302,430	296,008

Employees (annual average)

	2004	2003	2004	2003
Wage earners	2,505	2,544	3,157	3,159
Salaried staff	1,549	1,545	2,206	2,187
Trainees	172	167	172	168
Total	4,226	4,256	5,535	5,514

16. Depreciation

	DEUTZ AG		DEUTZ Group	
	2004	2003	2004	2003
in € '000				
Intangible assets	3,942	3,569	5,919	5,615
Tangible assets	22,229	23,630	48,384	55,299
Total	26,171	27,199	54,303	60,914

For DEUTZ, €1,338,000 are shown under extraordinary income/expenses (-), net and €2,907,000 in the Group.

17. Other operating expenses

The other operating expenses include in particular cost of services, provision against risks arising from uncompleted contracts and warranty obligations, rent and leasing costs, the administrative and selling costs including freight and commission on sales, and losses and expenses resulting from the write-down in value of current assets not including inventories.

18. Income from investments in other companies

	DEUTZ AG		DEUTZ Group	
	2004	2003	2004	2003
in € '000				
Income from profit/loss transfer agreements	1,598	2,365	1,129	824
Income from investments in				
– affiliated companies	–	–	72	61
– other companies	269	265	–	–
Income from associated companies	–	–	3,329	1,415
Losses transferred from subsidiaries	-287	-310	-26	-29
Total	1,580	2,320	4,504	2,271

19. Interest expenses, net

	DEUTZ AG		DEUTZ Group	
	2004	2003	2004	2003
in € '000				
Income from other long-term investments and loans	7,368	7,635	1,892	1,713
– of which from affiliated companies	5,587	6,028	–	–
Other interest and similar income	2,172	2,402	1,106	1,331
– of which from affiliated companies	1,724	1,951	206	260
Interest and similar expenses	-28,439	-29,953	-32,446	-35,750
– of which paid to affiliated companies	-3,020	-2,700	-1,271	1,665
Total	-18,899	-19,916	-29,448	-32,706

20. Extraordinary income/expenses (-), net

The extraordinary expenses of €35.0 million relate to one-off costs incurred in restructuring the medium-sized and large engines business.

21. Other information

Corporate Governance

In December 2004 the Management and Supervisory Boards of DEUTZ AG issued their declaration of compliance with the recommendations of the Government Commission on German Corporate Governance Code (4 July 2003 version) as required by Article 161 of the German Companies Act and made it permanently accessible to the shareholders on the website (www.deutz.com).

Related party disclosures

Under German Accounting Standard (DRS) No. 11, related party and actions involving parties closely related to DEUTZ AG and its subsidiaries have to be disclosed. During the year under review there were neither any closely related parties in any controlling relationship nor any major business actions with closely related parties that could have had any major possibility of affecting the company.

Executive bodies of the company

The information on the members of the Supervisory and Management Boards, including their seats on other supervisory boards, are shown in a separate list on page 64/65.

Total emoluments of the Management Board, former members of the Management Board, and the Supervisory Board

The total emoluments of the active members of the Management Board during the 2004 financial year came to €2,404,000 at DEUTZ AG and in the Group, and consisted of fixed salaries of €1,900,000 and variable bonuses totaling €504,000.

The emoluments of former Management Board members and their surviving dependants came to €1,272,000 at DEUTZ AG and in the Group, and a pension commitment of €13,901,000 has been formed for a provision towards these persons.

The emoluments of the Supervisory Board during the 2004 financial year at DEUTZ AG and in the Group came to €168,750 and consisted solely of fixed remuneration. Each member of the Supervisory Board is paid a fixed annual amount of €12,500; the Chairman receives twice and the Vice-Chairman one-and-a-half times this amount. Attendance fees for meetings of the Supervisory Board and committees amounted to €93,500 at DEUTZ AG and in the Group. Each member of the Supervisory Board receives an attendance fee of €1,000 per meeting; the Chairman receives double that and the Vice-Chairman receives one and a half times the amount.

Advances and loans to members of the Management and Supervisory Boards

As of 31 December 2004 there were no outstanding advances or loans to any members of the Management or the Supervisory Board, nor had any guarantees or other warranties been issued in favour of any such persons.

Cologne, 9 March 2005

DEUTZ Aktiengesellschaft

The Management Board

Gordon Riske

Karl Huebser

Helmut Meyer

Financial Statements

Auditor's Certificate

We have audited the annual accounts, including the bookkeeping, and the Group accounts of DEUTZ Aktiengesellschaft, Cologne, with a summarised note and the summarised report of the company and the Group for the financial year from 1 January to 31 December 2004. The bookkeeping and the presentation of these documents lie within the responsibility of the company's Management Board under German commercial law. Our task is to give an assessment, on the basis of the audit we have carried out, of the annual accounts, the bookkeeping, and the Group accounts, together with the combined company and Group annual report.

We have audited the annual and consolidated accounts and the report in compliance with Article 317 of the Code of Commercial Law and the principles of proper accounting laid down by the IDW, the German Institute of Auditors, which stipulate that the audit has to be planned and carried out in such a way that any inaccuracies or violations that could have a serious effect on the picture conveyed by the annual report and Group accounts, paying full respect to the principles of proper accounting, of the company's asset, financial, and profit situation, are recognised with a sufficient degree of certainty. The course of the audit is defined in such a way as to take into account knowledge of the company's business activities and the commercial and legal environment in which the company and the Group operate, as well as expectations relating to possible mistakes. As part of the audit, the effectiveness is assessed of the internal control system and of the substantiation of the information in the bookkeeping, annual accounts, Group report and accounts, mainly by taking random samples. The audit covers the assessment of the ac-

counting principles applied to the Group accounts and the companies included in the consolidation, the demarcation of the consolidation, and the accounting and consolidation principles applied, as well as the company's Management Board's main assessments of the two sets of accounts and an evaluation of the overall presentation of the combined management report. We are of the opinion that our audit has provided a sufficiently sound basis for our assessment.

Our audit did not give rise to any objections.

We are convinced that the annual financial statements and the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and of the consolidated Group on the basis of the principles of proper accounting. The combined report gives in total an accurate presentation of the situation of the company and the Group and accurately describes the risks relating to its future development.

Düsseldorf, 10 March 2005

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft



Kaiser
Auditor



(Ms) Kessels
Auditor

Shareholdings

DEUTZ AG and DEUTZ Group

As of: 31 December 2004

No.	Name and registered offices of company	Holding in %	Equity capital €'000	Profit/loss (-) €'000
1	DEUTZ AG	-	169,338	-8,800
Affiliated companies included in consolidation				
Domestic				
2	DEUTZ Beteiligungsverwaltung GmbH, Cologne	100.0	511	-261
3	DEUTZ Grundstücksverwaltung GmbH, Cologne	100.0	95	-105
4	DEUTZ Vermögensverwaltung GmbH, Cologne	100.0	307	469
5	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne	100.0	26	-
6	Ad. Strüver KG (GmbH & Co.), Hamburg	94.0	1,541	-862
Foreign				
Europe				
7	DEUTZ Austria GmbH, Vienna (Austria)	100.0	2,177	291
8	DEUTZ Benelux NV, Antwerp (Belgium)	100.0	2,755	160
9	DEUTZ Benelux B.V., Rotterdam (Netherlands)	100.0	4,632	839
10	DEUTZ DITER S.A., Zafra (Spain)	100.0	-1,330	-1,915
11	DEUTZ DITER COMPONENTES S.A., Zafra (Spain)	100.0	11,773	995
12	DEUTZ FRANCE S.A., Gennevilliers (France)	100.0	9,277	594
13	DEUTZ IBERIA S.A., Madrid (Spain)	100.0	4,675	-1,036
14	DEUTZ UK Ltd., London (Great Britain)	100.0	9,226	390
America				
15	DEUTZ Canada Inc., Ville St.-Laurent, Quebec (Canada)	100.0	3,337	266
16	Deutz Corporation, Atlanta (USA)	100.0	15,434	1,289
17	DEUTZ of America Corporation, Atlanta (USA)	100.0	29,090	1,332
Africa/Asia/Australia				
18	Nile Ste MAGIDEUTZ S.A., Casablanca (Morocco)	100.0	1,629	48
19	DEUTZ Asia-Pacific (Pte) Ltd., Singapore (Singapore)	100.0	2,789	-2,119
20	Deutz Australia (Pty) Ltd., Braeside (Australia)	100.0	2,644	36

As of: 31 December 2004

No.	Name and registered offices of company	Holding in %	Equity capital €'000	Profit/loss (-) €'000
Other affiliated companies				
Domestic				
21	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne	100.0	26	557
22	DEUTZ Versicherungsvermittlung GmbH, Cologne	100.0	1,534	572
23	DEUTZ Power Systems Verwaltungs GmbH, Mannheim	100.0	25	-
Foreign				
24	DEUTZ CHINA LIMITED, Kowloon (Hong Kong)	100.0	-577	130
25	DEUTZ Hungaria Kft., Budapest (Hungary)	100.0	350	12
26	KHD Humboldt Wedag Espana S.A., Madrid (Spain)	100.0	717	-208
Associated companies				
Foreign				
27	DEUTZ AGCO MOTORES S.A., Haedo (Argentina)	50.0	2,792	1,161
28	ASIA POWER (PRIVATE) LIMITED, Colombo (Sri Lanka)	31.8	25,950	5,256
29	D.D. Power Holdings (Pty) Ltd., Elandsfontein (South Africa)	30.0	8,469	1,707

Supervisory Board

Dr Michael Endres

Chairman

Former member of the Management Board of Deutsche Bank AG, Frankfurt/Main

- a) ARCOR Verwaltungs-AG, Eschborn
Bankgesellschaft Berlin AG, Berlin
Landesbank Berlin, Berlin
Schott AG, Mainz
Weberbank Privatbankiers KGaA, Berlin
- b) Gemeinnützige Hertie-Stiftung, Frankfurt/Main,
Chairman
Hertie School of Governance, Berlin

Werner Scherer*

Vice-Chairman

Chairman of the Group Works Council of DEUTZ AG, Cologne

Prof Klaus-Otto Fruhner

Former Cologne City Councillor

Managing Director K.O.F. Projektberatung GmbH, Cologne

- a) Flughafen Cologne/Bonn GmbH, Cologne
(until 18 February 2004)

Reinhold Götz*

Deputy Chief Executive IG-Metall Administrative Office
Mannheim, Mannheim

- a) ABB-Calor Emag Mittelspannung GmbH, Ratingen
- b) Sparkasse Rhein-Neckar-Nord, Mannheim

Michael Haupt

Former member of Group Board of AB SKF,
Schweinfurt

Dr Helmut Lerchner

Management consultant, Aichtal-Rudolfshöhe

- a) ElringKlinger AG, Dettingen, Chairman
- b) Beirat (Süd-West) Dresdner Bank AG, Frankfurt/Main

Helmut Müller*

Chairman of the Senior Staff Committee
of DEUTZ AG, Cologne

- b) Henkelhausen Holding GmbH, Krefeld

Karl-Heinz Müller*

Vice-Chairman of the Group Works Council of DEUTZ AG,
Cologne

Dr Witich Roßmann*

Chief Executive of IG Metall Cologne, Cologne

- a) Ford Werke AG, Cologne
Ford Deutschland Holding GmbH, Cologne

Peter Schwab*

Chairman of the Works Council of DEUTZ Power Systems
GmbH & Co. KG, Mannheim

Management Board

Prof Dr Marco Vitale

President of Vitale-Novello & Co SRL, Milan (Italy)
(from January 1, 2004 onwards)

- a) Same Deutz-Fahr Italia S.p.A., Treviglio (Italy),
Chairman
Same Deutz-Fahr Group S.p.A., Treviglio (Italy)

Peter Zühlsdorff

Shareholder-Director of DIH Deutsche Industrie Holding
GmbH, Frankfurt/Main
Managing Director Duales System Deutschland GmbH,
Cologne

- a) Escada AG, Munich, Chairman
GfK AG, Nuremberg
Merck KGaA, Darmstadt, Chairman
Kaisers Tengelmann AG, Viersen
- b) Tengelmann Verwaltungs- und Beteiligungs GmbH,
Mülheim a. d. R.
The New Germany Fund, Inc., New York (USA)

Gordon Riske (47)

CEO
Market, Cologne

- a) ISRA VISION SYSTEMS AG, Darmstadt
Dräger AG, Lübeck
- b) DEUTZ FRANCE S.A., Gennevilliers (France)
Deutz Corporation, Atlanta (USA), Chairman

Karl Huebser (59)

Technology, Overath

- b) DEUTZ DITER S.A., Zafra (Spain), Chairman
DEUTZ DITER COMPONENTES S.A., Zafra (Spain),
Chairman
WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO. LTD.,
Weifang, (People's Republic of China)

Helmut Meyer (55)

Finance/Personnel, Düsseldorf

- b) Motorpal a.s., Jihlava (Czech Republic)

* Employees' representatives on the Supervisory Board.

- a) Membership of German and foreign supervisory boards.
- b) Membership of comparable German and foreign supervisory bodies.

Glossary

bauma 2004 International trade fair for construction machinery and mining equipment, held every three years in Munich. It is the world's largest and most important fair for the construction machinery sector.

Captive Market, -Segment Market segment comprising equipment and vehicle manufacturers that produce engines in-house.

Carbon Credits The Kyoto Protocol permits emission certificates to be traded so that countries or organisations can compensate for their own greenhouse gas emissions.

Clean Development Mechanism (CDM) Flexible instrument used within the Kyoto Protocol to achieve the most efficient possible, worldwide reduction in environmentally harmful emissions. The CDM enables an industrialised country to invest in an emission-reduction project in a developing country and to count the results achieved there towards its own reduction target.

Common Rail Injection system for diesel engines in which a common fuel rail (or pipe) mounted behind the injection pump is used to serve all the cylinders as a reserve of pressure and to control the injection pressure independently of the speed at which the engine is turning over.

Convertible Bond Joint stock company bond. Gives the bearer both the right to be paid a fixed interest rate and the option to exchange the bond for shares at a given date and at a fixed rate established from the outset.

Corporate Governance The German Code of Corporate Governance contains the rules and recommendations for the management and supervision of public companies with Aktiengesellschaft status.

DIN EN ISO 14001 »Deutsches Institut für Normung, European Standard, International Standardisation Organisation – 14001«, an international, European, and German industrial standard for environmental management.

DVERT® or DEUTZ Variable Emission Reduction Technology. Combination of systems, components and procedures that can be combined in a modular way to create technically optimised, and at the same time cost-effective, solutions for reducing exhaust and noise emissions.

EBIT Earnings before Interest and Taxes.

EIMA Annual agricultural technology trade fair held in Bologna, Italy.

Emission Stages I/II/III/IV Stages of European and US emission laws that prescribe adherence to certain exhaust gas emissions for operating machinery equipped with diesel engines. The stages come into force in a certain chronological order, and basically the maximum permissible exhaust levels drop from one level to the next.

EURO IV Motor vehicle exhaust standard laid down by the European Union. It establishes the limits for the contaminants sulphur dioxide, nitrogen oxides, hydrocarbons, carbon monoxide, carbon dioxide and (diesel) particles, all found in exhaust gas. Comes into force in October 2006.

Free float as in German Stock Exchange Guidelines Free float includes – independently of the investment size – all those shares held in special funds with short-term investment strategies by asset managers and trust companies, funds and pension funds, venture capital companies, capital investment companies or foreign investment companies.

Genset Short for Generating Set. Mobile or stationary, engine-powered system for decentralised, mains-independent power generation.

IN VIA German Association of Catholic Women's Social Work. Charitable organisation that acts as a training agency and an approved youth support agency.

Joint Implementation (JI) Flexible instrument used within the Kyoto Protocol to achieve the most efficient possible, worldwide reduction in environmentally harmful emissions. Within the JI framework, industrialised nations can together work on emission reduction projects and count the results achieved towards their reduction targets.

Kyoto Protocol In 1997, around 150 countries signed the so-called Kyoto Protocol which agreed quantitative objectives for reducing the emissions of six vital trace gases, including carbon dioxide (CO₂) and methane. The industrialised nations undertook to reduce their emissions by an average of 5% below 1990 levels between 2008 and 2012.

Market Capitalisation The market price of a publicly listed company. It is calculated by multiplying the share price at any given moment by the total number of shares in existence.

Material Handling Designation of a special application segment in which diesel engines are used for the equipment that handles all kinds of materials: fork-lift trucks, cranes, conveyor belts, and suchlike.

Prime Industrial German Stock Exchange sector index that includes all the traditional industrial corporations under the Prime Standard.

Prime Standard Literally the »highest requirement«: the segment of admission to the German Stock Exchange for companies that also intend to position themselves towards international investors. Over and above the criteria for the General Standard, which sets the minimum requirements of the Official Market or the Regulated Market, such companies also have to meet stringent international transparency standards. Admission to the Prime Standard is a prerequisite for being included in the selective indices DAX, MDAX, TecDAX, and SDAX.

Re-Launch The term ‚re-launch‘ is normally used when an existing brand or product is reworked and repackaged for the marketplace. In the context of this annual report, Re-Launch refers to the company’s strategic realignment.

Renewable Energies Law Came into force in Germany in March 2000. Last amended in 2004. Its objective is to promote the development of renewable energies for generating power as a core element of climate protection.

Renewables Obligation Introduced in Great Britain in 2002. Obliges energy supply organisations to increase the proportion of all energy generated from renewable energy sources from today’s figure of around 5% to 10% by 2010.

ROCE Return on Capital Employed. The return on the total amount of capital employed by a company.

SDAX German Stock Exchange index for smaller companies – the so-called Small Caps – from the traditional sectors. It consists of 50 stocks listed in the Prime Standard section of the official German share market, which are beneath the MDAX in terms of market capitalisation and share turnover.

Working Capital In the context of this annual report: sum of inventories and trade receivables less trade payables.

Financial Calendar

2005

Day	Date	Time	Event	Venue
Tuesday	April 12	10.00 a.m.	Press conference Publication of the 2004 Annual Report	DEUTZ AG, Cologne
Wednesday	April 13	10.00 a.m.	Analysts' conference	Frankfurt/Main
Tuesday	May 03	–	Publication of 1st Quarter Report, 2005	–
Thursday	June 09	10.00 a.m.	Annual General Meeting	Koelnmesse, Cologne
Thursday	July 28	10.00 a.m.	Press conference Publication of 1st Half-Year Report, 2005	DEUTZ AG, Cologne
Thursday	Oct. 27	–	Publication of 1st to 3rd Quarter Report, 2005	–

2006

Day	Date	Time	Event	Venue
Thursday	June 22	10.00 a.m.	Annual General Meeting	Koelnmesse, Cologne

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Our Vision is to set standards and shape the future.

Our Mission is to make DEUTZ an internationally leading company in the relevant markets.

The customer stands at the focal point of all our activities. We devote all our competence to achieving his goals.

We intend continually to increase the value of DEUTZ in the interests of our customers, our employees, and the providers of our capital.

We at DEUTZ believe in the changes we are making and aim to be proud of our achievements.

DEUTZ – the engine company.

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