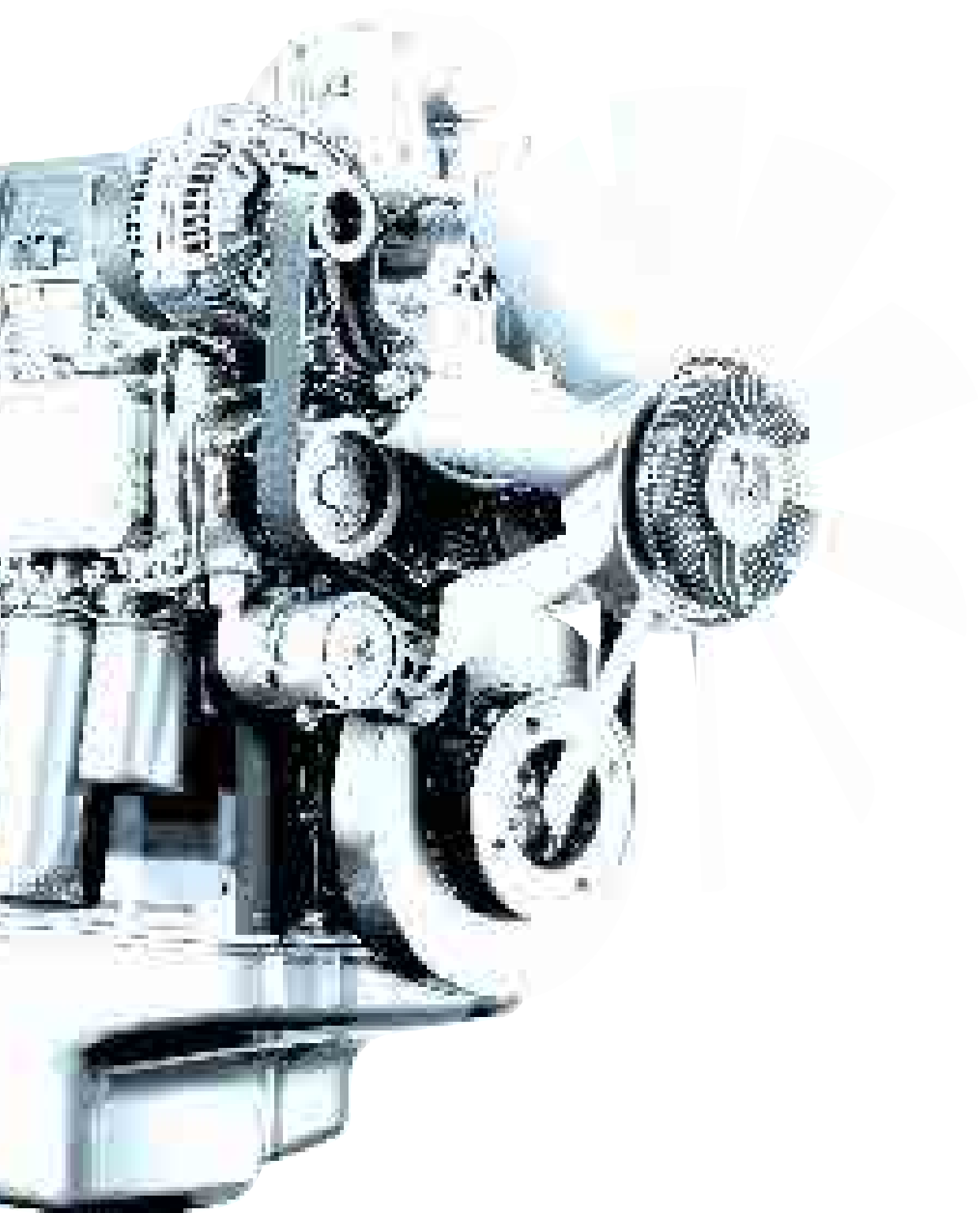


The engine company.



Annual Report 2003



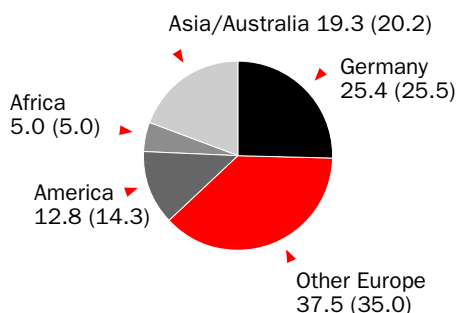
DEUTZ Group: Key figures

		2000*	2001	2002	2003	Change in %
Unit sales	Units	159,957	146,645	154,032	156,237	1.4
Compact engines	Units	159,122	145,538	153,285	155,523	1.5
Medium-sized and large engines	Units	835	1,107	747	714	-4.4
Sales	€ million	1,285.1	1,184.9	1,160.9	1,172.6	1.0
Foreign sales proportion	%	75.0	75.6	74.5	74.6	-
Engines Business	€ million	1,160.6	1,184.9	1,160.9	1,172.6	1.0
Compact engines	€ million	772.2	746.1	815.0	843.0	3.4
Medium-sized and large engines	€ million	388.4	438.8	345.9	329.6	-4.7
Industrial Plant Business	€ million	124.5	-	-	-	-
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	81.3	89.1	103.0	104.9	1.8
Operating profit (EBIT)	€ million	15.6	27.9	41.0	44.0	7.3
Profit/loss on ordinary activities	€ million	-25.4	-13.7	4.4	11.3	156.8
Profit/loss for the year	€ million	-8.9	-31.8	2.0	6.0	200.0
Earnings per share (undiluted)	€	-0.14	-0.49	0.03	0.09	200.0
Earnings per share (diluted)	€	-0.12	-0.43	0.03	0.08	166.7
Balance sheet total	€ million	1,065.1	1,142.2	1,048.6	1,017.0	-3.0
Fixed assets	€ million	408.2	520.8	496.8	466.5	-6.1
Stockholders' equity	€ million	125.0	93.0	95.0	169.7	78.6
Stockholders' equity proportion	%	11.8	8.2	9.1	16.7	-
Cash flow from normal operating activities	€ million	3.5	45.4	56.5	34.6	-38.8
Net financial debt	€ million	320.0	339.7	302.0	224.2	-25.8
Investments	€ million	69.2	41.7	59.5	40.7	-31.6
Depreciation	€ million	43.7	65.8	62.4	64.0	2.6
Research and development expenditure	€ million	54.1	48.3	47.1	54.9	16.6
Employees (December 31)	Number	6,614	5,979	5,470	5,454	-0.3

* Including the since sold Industrial Plant Business.

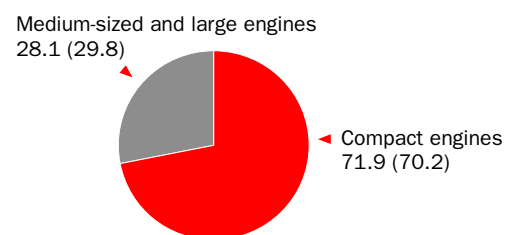
DEUTZ Group: Sales by regions

in % (2002 figures)



DEUTZ Group: Sales by segments

in % (2002 figures)



Highlights 2003 ▶

January 2003

▶ DEUTZ is admitted to the new »Prime Standard« segment on the German Stock Exchange

February 2003

▶ DEUTZ publishes provisional figures for the 2002 financial year: DEUTZ has achieved the turn-around

March 2003

▶ DEUTZ presents its results for the 2002 financial year: main key figures now showing positive trends, Re-Launch Programme successful again in its second year

April 2003

▶ DEUTZ World Meeting in Zafra: the new air-cooled single-cylinder engines are presented to representatives of the worldwide DEUTZ organisation

May 2003

▶ DEUTZ submits its report for the 1st quarter of 2003: new orders exceed expectations, financial debt substantially reduced

June 2003

▶ DEUTZ AG Annual General Meeting in Cologne: DEUTZ presents to its shareholders the prototype of the new commercial vehicle engine with DEUTZ Common Rail technology

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
Erfurt
Hamburg
Hanover
Mannheim
Nuremberg
Übersee
Ulm
Unterföhring
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)
Tripoli (Libya)
Casablanca (Morocco)

Asia



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

Australia



Braeside
Hornsby
Kalgoorlie
South Fremantle
Springwood

July 2003

► DEUTZ submits its half-year report for 2003: profits improved, sales trend back in the 1st quarter on course

August 2003

► Major government order for DEUTZ: the new FENNEK reconnaissance vehicles will be fitted with DEUTZ engines

September 2003

► DEUTZ enlarges its co-operation arrangements with OTOKAR, the Turkish commercial vehicles manufacturer, who will equip his new buses with DEUTZ engines

October 2003

► DEUTZ submits its report for the first 3 quarters of 2003: increase in new orders, profit higher than a year ago

November 2003

► The DEUTZ capital increase has been completed: the SAME DEUTZ-FAHR Group is now a major shareholder in DEUTZ AG

December 2003

► DEUTZ ENERGY receives its first order for a co-generation plant in China: by the middle of 2004 two CHP plants are to be connected to the public mains

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 Zafrá (Spain).

Medium-sized and large engines

Our medium-sized and large engines cover the output range from 280 to 4.000 kW. We produce diesel and gas engines within this segment in Mannheim.

Application segments

Sales in € million (2002 figures)

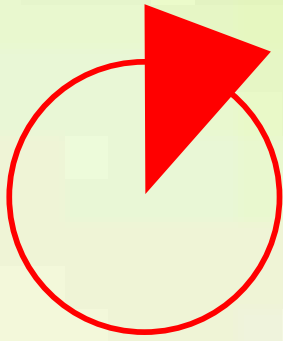
Engines	677.1 (642.8)	159.3 (164.9)
Mobile machinery	272.6 (243.2)	–
Stationary equipment	161.5 (187.0)	111.7 (107.5)
Agricultural machinery	112.7 (96.7)	–
Automotive	91.2 (83.6)	–
Marine	13.1 (13.4)	47.6 (57.4)
Miscellaneous	26.0 (18.9)	–
Service	165.9 (172.2)	170.3 (181.0)
DEUTZ Group	843.0 (815.0)	329.6 (345.9)

A solid red triangle pointing to the right, positioned on the left side of the page.

Swifter Higher Stronger

Sport has coined this motto but it applies just as much to business. It is not so long ago that our campaign motto might have been »Taking part is everything«, but we have worked hard to change this unsatisfactory situation – and changed it we certainly have. Today we deserve a different motto, perhaps the supreme one from the world of sport: »**Swifter, higher, stronger**«. It not only describes the state in which DEUTZ presents itself to the world at the beginning of 2004, it also characterises our new view of ourselves; we enjoy continually improving our performance and striving to achieve the best possible in everything that we do. The successes we have already achieved confirm that we have taken the right path and give us the strength and motivation following it with even greater resolve.

Come with us!



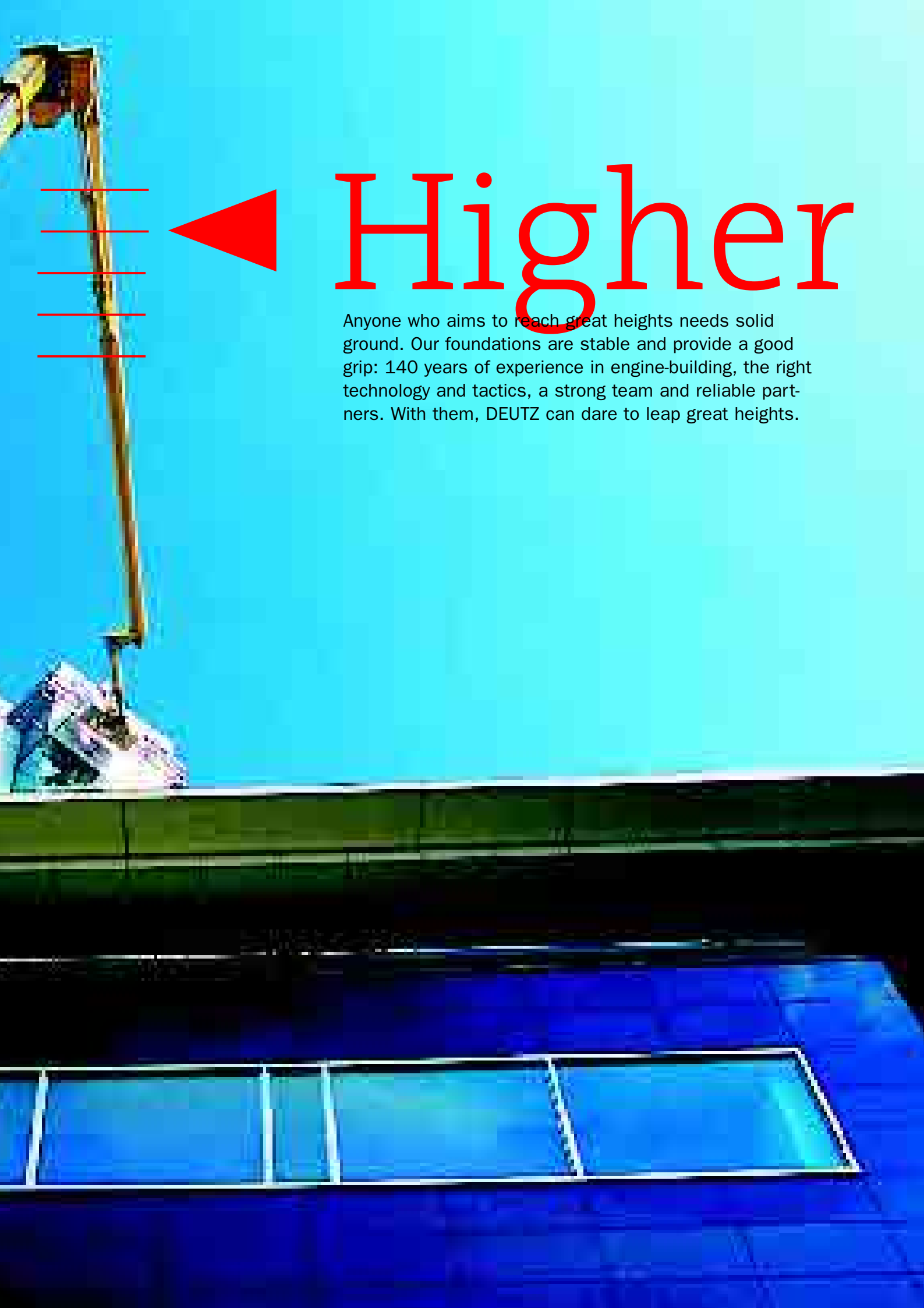
Swifter

Competition is becoming tougher and moving faster, and innovation cycles in the engines industry are becoming shorter and shorter. Anyone who cannot keep up the pace will be left behind. Leaner structures, flatter hierarchies, swifter decisions: DEUTZ has jettisoned its ballast and is quicker than ever before.









Higher

Anyone who aims to reach great heights needs solid ground. Our foundations are stable and provide a good grip: 140 years of experience in engine-building, the right technology and tactics, a strong team and reliable partners. With them, DEUTZ can dare to leap great heights.





Being strong means possessing not only strength but also endurance. And anyone preparing for their greatest-ever performance has to have the necessary reserves. The Re-Launch Programme has made DEUTZ stronger: with lower costs, fewer debts, the right co-operation partners and a new influx of stockholders' equity.

Stronger

FOREWORD

**DEAR SHAREHOLDERS,
DEAR FRIENDS OF OUR COMPANY,**

DEUTZ – the engine company: that is the vision to which we have dedicated ourselves, to making our company the engine supplier of choice. Three years ago we would hardly have dared even to harbour these thoughts but now, with the DEUTZ Re-Launch Programme successfully concluded, we can and we will set ourselves even higher goals.

To this end we laid solid foundations last year and further improved our commercial situation. We even increased sales slightly, to €1,173 million – no easy matter in light of the market situation, dominated as it was by the Iraq crisis, the rise of the euro against the US dollar, and the weak state of the economy in the euro area. Indeed, this shows that the strategy of making our company less vulnerable to market fluctuations by entering into co-operation arrangements with our major customers is successful. It has enabled us to increase our sales of compact engines by €28 million. With medium-sized and large engines, sales declined by €16 million as a result of our deliberate concentration on gas engines, the products with the greatest future potential.

Karl Huebser
Management Board: Technology
Gordon Riske
CEO
Helmut Meyer
Management Board:
Finance/Personnel



With our strict cost-cutting programme and the cost savings achieved by closing the foundry we overcame the heavy pressure caused by exchange rates and by a new collective wage agreement, and thus increased operating profits to €44 million. By systematically reducing debt we brought net interest expenses far below last year's level and were able to improve our profit on ordinary activities more than twice its previous level, from a good €4 million to over €11 million. The profit for the year rose from €2 million to €6 million.

It gives us particular pleasure, however, to report that we have succeeded, by widening our co-operation with SAME* DEUTZ-FAHR and at the same time raising our capital, in strengthening our stockholders' equity base and further reducing our debts. The capital increase of about €69 million, taken together with the further reduction in the balance sheet total achieved by our asset management programme and with the higher profit for the year, has greatly improved our stockholders' equity ratio from 9 to about 17 percent. With the cash inflow from the sale of the new DEUTZ shares we have reduced our net financial debt by almost 26 percent to €224 million.

The co-operation agreement with SAME DEUTZ-FAHR, however, will continue to be a big help to us for a long time to come. Our new principal shareholder will relinquish his own engines production and use DEUTZ engines for his entire range of tractors and harvesters. By 2007 our deliveries of engines to SAME will have risen from its present level of almost 9,000 a year to about 29,000. Following our co-operation agreements with VOLVO, FAW, and UZEL, this new one was the logical next step in the implementation of our strategy of putting ever more impetus behind co-operation partnerships.

However, it is not only this fifth point in the DEUTZ Re-Launch Programme that has powered us forward in the last three years. The 5-Point Programme has finished with a score that we can be proud of: we have rationalised our product range, tightened up our production processes, slimmed the company down, reduced quality costs, and found new strategic partners. Three years ago DEUTZ was an unprofitable company with no proper focus; today, on our 140th birthday, we are generating profits again and have set ourselves clear strategic goals. We do not credit ourselves alone with this achievement; many have contributed to it, and deserve our thanks: our suppliers and customers, and also you, our shareholders. But we owe very special thanks to our employees, without whose commitment and hard work we could never have brought the DEUTZ Re-Launch Programme to such a successful conclusion.

The success of the Re-Launch Programme is also reflected in the trend in our share price, which last year rose by more than 85 percent and thus soared ahead of all the comparative indices. At the beginning of this year the share price continued its clear upward course, and we are confident that this trend will continue because we have set ourselves for the current year the target of a further profit improvement, even though we are not expecting any major improvements in the economic situation or in currency exchange rates.

Dear Shareholders, DEUTZ has mobilised new forces in the past three years and developed a new sporting ambition. We are thus tackling our next tasks: further extending the good market position that DEUTZ enjoys with new products and new co-operation agreements, making our company durably profitable after the turn-around, and thus generating greater returns on the capital with which you provide us.

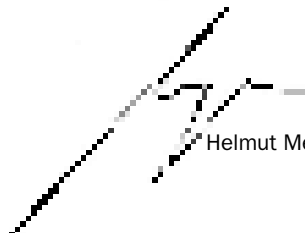
Yours truly,



Gordon Riske



Karl Huebser



Helmut Meyer

* English pronunciation »Sah-May«.

THE TRAINING

To be there is everything – or is it? Those who aim to be the best players on the pitch will have to work hard on themselves. In three years we have brought our company back to a peak of fitness with the DEUTZ Re-Launch/ 5-Point Programme so that it can face all the challenges of competition.

By **focussing the model range** we have reduced the diversity of models and the complexity of our products without relinquishing our competitive advantage as the »bespoke tailor« of the engines business. Right back in the first year of the Re-Launch Programme we stopped the production of two unprofitable series of large engines. During the two subsequent years we did all the necessary detail work, deleted slow-selling variants from the product range, increased the proportion of parts that are shared between the various ranges, and focussed our development work on the clear goals identified under our medium-term and long-term product strategy.

By **concentrating production** we managed to make better use of the existing potential for reducing costs and to increase the capacity utilisation of the various locations. We systematically scrutinised our depth of manufacturing, our works structures, and all our logistics processes. This resulted in a huge bundle of activities, from closing down the foundry to introducing global sourcing and lead-supplier strategies and even mounting a restructuring project in the Porz works. Last year saw the start of the introduction of DPS, the DEUTZ production system with which we can integrate the entire process chain into a single, uniform management system from the arrival of raw materials and components through to the despatch of the finished engine.

True to the principle of **lean structures** we have slimmed down visibly in the last three years and made DEUTZ quicker on its feet. Following the re-alignment of the Divisions and a thorough renewal of top management, even before the end of the first Re-Launch year we had finally disposed of such marginal activities as the industrial plant business. In the second phase we substantially rationalised the administrative area by amalgamating functions and making working processes more efficient. A stringent asset-management programme running in parallel with these activities also enabled us to reduce considerably the resources tied up in the business.

Focussing of the model range ►

The task	<ul style="list-style-type: none"> ▶ Decreasing of variants and complexity ▶ Competitive advantage as »Solution Provider«: hold and expand
The method	<ul style="list-style-type: none"> ▶ Shared-parts programme ▶ Innovative platform strategies ▶ DCR® and EMR® for parallel production of electronically, electronic-mechanically, and mechanically governed variants based on the same basic engine
The success	<ul style="list-style-type: none"> ▶ Unprofitable engine families eliminated ▶ Slow-selling variants/complexity reduced ▶ New mid-term and long-term product strategy defined ▶ Reform of R & D (focussed on strategic goals) ▶ Market launch for new models: 909, 910, 2016, 2020, 2032

Concentration of production ►

The task	<ul style="list-style-type: none"> ▶ Improve capacity utilisation ▶ Exploit all cost reduction potential
The method	<ul style="list-style-type: none"> ▶ Systematic review of depth of manufacturing, logistic processes, and plant structures
The success	<ul style="list-style-type: none"> ▶ Closing of foundry ▶ New mid-term and long-term production strategy defined ▶ Productivity improvement since 2000 of 16 percent ▶ Global sourcing und lead supplier concept ▶ Rationalisation of logistic processes

Leaner structures ►

The task	<ul style="list-style-type: none"> ▶ DEUTZ, a large company with the structures of a small one: fast, direct and flexible management
The method	<ul style="list-style-type: none"> ▶ Centralise functions ▶ Simplify structures and procedures
The success	<ul style="list-style-type: none"> ▶ Re-structuring of business areas, renewal of top management ▶ Non-core activities sold off (industrial plant and agriculture business) ▶ Simplified sales and service network ▶ Total assets reduced by €203 million since 2000 ▶ Closure/slimming down of foreign stocks

With our **quality offensive** we have managed to raise the already high DEUTZ quality standard still further and at the same time to reduce our quality costs. This may sound like a contradiction but it was made possible by a radical restructuring of our quality assurance organisation. We have declared quality to be a top management concern and the corporate quality assurance manager now reports directly to the Management Board. At the same time we are working even harder on the causes of quality deficits, both in our own works and with our suppliers. This preventive approach enables us to eliminate the process of merely curing symptoms.

In placing **more emphasis on co-operation** agreements we have once again overcome a classic case of a conflict of interests: strengthening DEUTZ's international competitive position while at the same time maintaining our position of neutrality in the eyes of our customers. In recent years we have been setting up and widening our co-operation arrangements with key customers. They come from various application segments, and we collaborate with them closely and on a long-term basis. We have found in VOLVO, UZEL, FAW, and SAME the strategic partners with whom we can collaborate closely as their principal supplier, their technology provider, or their joint-venture partner. DEUTZ has learned how to play in a team, and is all the stronger for it.

The keep-fit programme that we have prescribed for ourselves is now coming to an end after three years and has proved to be a **great success**: productivity has been increased by 16 percent, the overheads area has been reduced by 662 jobs, the balance sheet total has been reduced by €203 million, quality costs have been cut by 35 percent, and financial debt has fallen by €139 million. All in all we have clearly surpassed our aim of improving profits by €60 million over the budget figure for the initial year of 2001: the actual improvement was €67 million. But there is something that counts far more than can be shown in bald figures: DEUTZ is now stronger and moves more quickly – and this is a good starting-off position, from which we can now set ourselves ambitious targets.

Quality offensive ▶

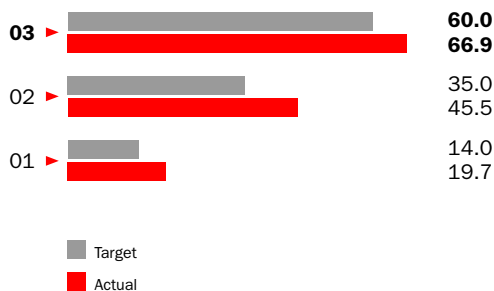
The task	<ul style="list-style-type: none"> ▶ Keeping the high DEUTZ quality standard ▶ Reducing the quality assurance cost
The method	<ul style="list-style-type: none"> ▶ Systematic research into causes ▶ Regular quality meetings in all company areas ▶ Quality »is a matter for top management«
The success	<ul style="list-style-type: none"> ▶ Reorganisation of quality assurance ▶ Focus on resolving top 10 issues ▶ Stringent follow-up of PEP (Product Development Process) ▶ New DIN ISO 9001 certification with even more rigorous requirements ▶ Quality cost reduced by 35 percent since 2000

Promotion of co-operations ▶

The task	<ul style="list-style-type: none"> ▶ Keep independence of DEUTZ ▶ Strengthen international competitive position
The method	<ul style="list-style-type: none"> ▶ Systematic co-operation at sales, production, and technology levels in various regions
The success	<ul style="list-style-type: none"> ▶ Marketing and production co-operation agreement with UZEL ▶ Expansion of co-operation arrangements with VOLVO ▶ Licence and co-operation agreement with NORINCO ▶ Technology transfer contract with FAW ▶ Extension of co-operation with SAME DEUTZ-FAHR

Profit improvement over 2001 budget

in € million



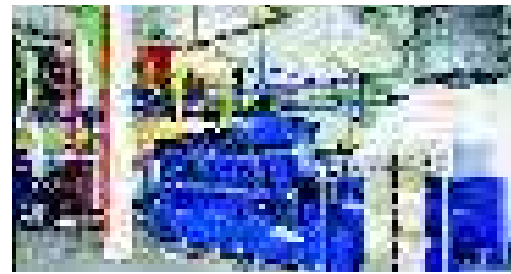
TRACK RECORD

Favourite, dark horse, or outside chance? The track record shows it all: we have established our position amongst the world leaders in nearly all disciplines.

It would now be hard to imagine **Mobile Machinery** on construction sites or in mining without DEUTZ. With engine ratings from 4 to 440 kW, we now cover every application from the vibrator plate to the heavy-duty dump truck. We have traditionally been in good shape on our main selling markets in Europe and America. Our co-operation agreement with VOLVO, one of the world market leaders in the construction machinery field, further strengthens this market position.



In the application segment of **Stationary Equipment**, sturdy DEUTZ engines have been proving their worth for 140 years. To drive power generators, compressors, and pumps we supply diesel engines in the range from 4 to 3,600 kW and gas* engines from 180 to 4,000 kW. We thus not only cover the most widely used rating categories but also meet the rising demand for environmentally friendly engines that can operate on such renewable fuels as bio-gas. We hold leading positions on the principal markets in Europe, the Middle East, and Africa, and are also well represented in America.



Agricultural Machinery is particularly closely linked with the name of DEUTZ. It is not only our co-operation partners SAME DEUTZ-FAHR and UZEL but also many other well known manufacturers that use DEUTZ air-cooled and water-cooled engines with outputs in the range from 14 to 440 kW as the most important components in their agricultural machinery. From the vineyard tractor to the classic general-purpose farm tractor and even beet harvesters, European agriculture places its confidence in DEUTZ.



* Note for American readers: In keeping with British parlance we refer to gasoline as »petrol«. These gas engines run on natural gas and other gaseous fuels.



In the **Automotive** segment we supply engines from 60 to 440 kW for commercial and rail vehicles to manufacturers all over the world, and are much in demand as the specialist in short-series production. DEUTZ engines provide proof of their reliability on the toughest routes in the world, while regional passenger trains driven by our engines bring millions of commuters to work every day.

The most diverse market for diesel engines is the **Marine** field. The spectrum of demand here ranges from the outboard engine to a two-stroke engine as big as a house, and no engine manufacturer is able to cover all of it. We have been concentrating increasingly on special niche markets for our engines in the range from 80 to 3,600 kW and have expanded our co-operation arrangements with VOLVO Penta, one of the world's biggest suppliers of marine drives.

In total we cover all the high-volume application areas for diesel and gas engines with our **4 to 4,000 kW range** and thus hold a strong strategic position against our competitors. We thus belong to the Top Ten in world ranking in virtually all the disciplines and weight classes. DEUTZ – the engine company.

TECHNOLOGY AND TACTICS

What use are power and endurance if the technology is not right? How can you come out on top without tactics? Even the strongest competitors cannot win if they start without any proper strategy. We have focused ourselves on the main application segments. For each one we have developed the right technology and promising tactics so that we can stand on the winners' rostrum in this modern pentathlon.

The market for **Mobile Machinery** is slowly recovering from the setbacks of recent years. Powerful growth rates are being forecast in the medium term in Eastern Europe, China, and North America. The trend that is establishing itself ever more clearly here is towards smaller and more compact construction machines, and this is facing engine manufacturers with new challenges. Customers are looking for compact engines with a high power/volume ratio and the ability to cope with tough on-site operating conditions. In order to meet these requirements perfectly, in the spring of 2004 we will be presenting our new range of compact but sturdy diesel engines that will complete the bottom end of our product range.

Things are also happening in the **Stationary Equipment** segment: For the next few years above-average growth can be expected in diesel-powered units, particularly in Africa and Asia. The field of so-called renewable energy sources is the main growth area in Europe and North America. Converting gas from rubbish dumps, sewage treatment plants, coal mines, or bio-gas plants into electricity and heat is gaining steadily in importance because of interest in environmental protection. We are in pole position in this race because of the product improvements with which we have been pressing ahead in the last two years.

In the medium term the main regional growth areas for **Agricultural Machinery** will be in Asia and North America. In this segment as well there is a trend towards smaller machines, and we are meeting this trend with our new compact engines. In addition to this the requirements for a good volume/power ratio, high torque, and low fuel consumption are becoming more and more similar to those in the commercial vehicles segment. We have developed engine variants specifically for agricultural machinery in order to meet this trend, and we will be launching them from 2006 onwards. The broadening of our co-operation arrangements with SAME DEUTZ-FAHR is also enabling us to achieve a growth rate far above the rather cautious rate forecast for the total market.



The clear focus on five application segments helps us to marshal our forces and hit harder.

The largest part of the market volume in the **Automotive** segment is located nowadays in North America, but the biggest growth opportunities exist in Eastern Europe and China. We are opening up these markets systematically by creating partnerships. We now have an outstandingly good position in China because of our co-operation agreements with the two leading manufacturers of commercial vehicles, FAW and NORINCO. We will be growing strongly in Western Europe with our new commercial vehicle engine. Series deliveries, including those to our partner VOLVO, will start in 2006. The development work is currently reaching its final phase, and in the autumn of 2004 we will be laying the foundation stone for a new production building at our Porz location on the south side of Cologne.



There is no uniform market trend in the **Marine** sector. The factors affecting this market are as diverse as all the applications in this segment. Although higher growth rates are expected in Asia than in Europe or America, the big picture shows that on the world market there will be an increasing tendency towards the consolidation of manufacturers. It is for this reason that we will continue to concentrate on profitable niche markets within this application segment.

One factor is common to all application segments: in the medium term the greatest growth potential will no longer be found in the highly industrialised western world but in the so-called **emerging markets**, those in Eastern Europe, Asia, Africa, and South America. Many countries in these regions were isolated for decades from any normal economic development, and even now their economies are still unstable and are sheltering behind trade barriers, some of which are very high.



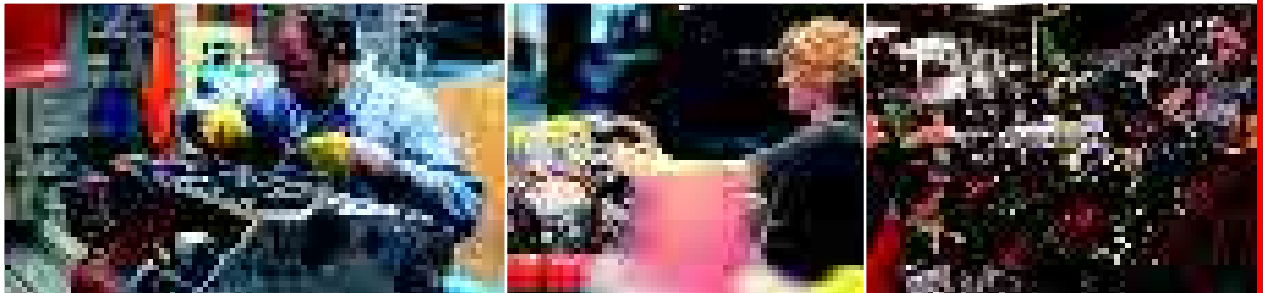
These countries, however, and most particularly China, are now developing at a quickening pace into important trading partners, and are emerging onto the world market not only with the products they produce themselves but also with a huge demand for other countries' products. Newcomers have a hard time in these markets, and this is our crucial competitive advantage: we have been present in these countries for more than 30 years, initially with licenced production and technology transfer but later also with sales offices and service depots. **Patience is a profitable virtue:** nowadays we are much in demand as a valued business partner and supplier to the upward-striving industries in these countries.



DEUTZ committed itself at an early stage to the emerging markets in Asia and Eastern Europe, and is now benefiting from well established business relationships.

We intend to continue pursuing this successful expansion strategy. We are strengthening our marketing and service activities in the growth regions of this world and are creating a **broader business basis** for our company without having to diversify with additional products or fields of business. DEUTZ is thus becoming less dependent on economic fluctuations in the two big economic regions, the United States of America and the European Union.

Those who intend to play in the premier league need to know more than in which disciplines and at what venues they will be appearing. It is just as important to recruit **the right players** to the team. The last ten years have seen major changes in world business, with increasing internationalisation and numerous mergers, and in our segments the customers are tending to become fewer but larger. The new amalgamated companies are looking for synergies: platform concepts, rationalised



product ranges, and ultimately a reduction in the number of suppliers. In this environment we have been pursuing with great success the strategy of securing and widening our customer base with co-operation agreements. The forms that these co-operation arrangements take are as diverse as the world of our application segments.

Our partner **VOLVO** buys its engines in the 4 to 7 litre range from DEUTZ. We are working jointly on the further development of these engines, which VOLVO installs in construction machinery, buses, power units, and marine propulsion systems. From 2006 onwards our new commercial vehicle engine will also drive VOLVO and RENAULT medium-heavy lorries. In all these application segments VOLVO plays in the champions' league – and we are in their team. Deliveries started in 2000 with a good 3,000 engines, but last year more than 19,000 were sent off to VOLVO.

With **UZEL**, the biggest producer of tractors in Turkey, we are setting up a joint venture company that will produce engines in Turkey. At the same time this company will become the focal and pivotal point for our business in the Near and Middle East. Whether they involve production, marketing, service, or purchasing, we are combining all our activities in this region with the efforts of a powerful partner. In the medium term, in collaboration with UZEL we aim to produce about 35,000 diesel engines a year in Turkey.

In **FAW** we have gained the biggest commercial vehicle manufacturer in China. On the basis of our technology we are jointly developing new engine variants for the Chinese commercial vehicle market. In Dalian, in the north of China, FAW is building a new factory with the capacity to build more than 100,000 of these engines under licence. Until that point is reached, however, we will be supplying engines to China from Cologne; last year we delivered some 4,600 of them.

Quality »Made by DEUTZ« cannot exist without the commitment of highly competent employees who identify themselves completely with the company's goals, whether they work on one of our engine assembly lines, assemble tailor-made variants based on the specific customers' requirements, or prepare engines for the test run.

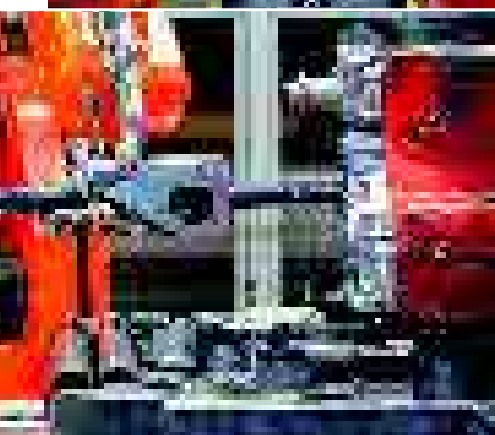
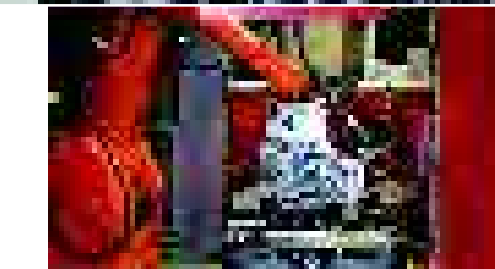
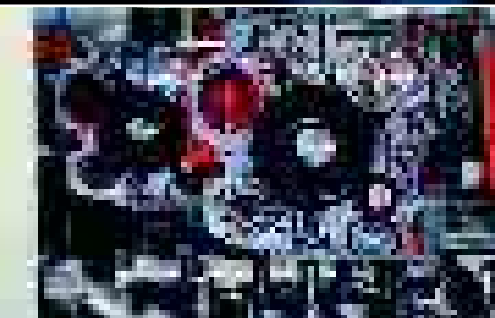
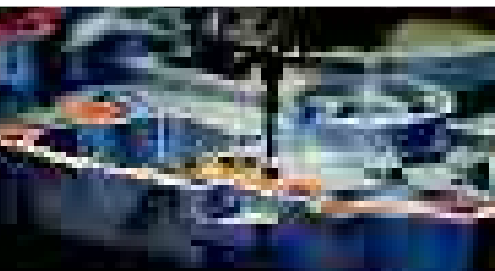
≡◀ The number of engines delivered under co-operation agreements has risen since the start of the Re-Launch Programme from a good 10,000 to 36,000.

The broadened collaboration with the agricultural machinery manufacturer **SAME DEUTZ-FAHR** is working in the same way as with VOLVO. SAME will cease production of its own engines in the medium-term future and DEUTZ will become its principal supplier of diesel engines. In order to provide a secure basis for this comprehensive strategic decision, as part of the capital increase carried out in the autumn of 2003 SAME took an equity holding in DEUTZ and further extended it by purchasing Deutsche Bank's shares. In total this Italian family company now holds 22.2 percent of DEUTZ shares and since the beginning of 2004 has also been represented on the DEUTZ AG Supervisory Board.

Preparations for the installation of our engines are now running at top speed. The necessary contracts have been signed, and by 2007 the engines that used to be produced in the Italian town of Treviglio will be replaced by DEUTZ engines. Our partnership with SAME dates back over many years. In 1995 the company took over the agricultural machinery division of DEUTZ-FAHR from our predecessor-company, known then as Klöckner-Humboldt-Deutz AG. Since then we have been delivering about 7,000 to 8,000 engines every year for DEUTZ-FAHR tractors. The SAME DEUTZ-FAHR Group manufactures not only under the DEUTZ-FAHR name but also under Same, Lamborghini, and Hürlimann, and for the tractors and harvesters under these names we will in future be delivering about an additional 20,000 engines. This will be a major boost for our agricultural machinery segment, which in 2003 sold about 29,000 engines in total.

All these co-operation arrangements have one thing in common: they create **win-win-situations** for both sides. By bundling the development work at DEUTZ, and production as well in some cases, our partners and we can cut costs by exploiting a considerable amount of synergistic potential. In light of the imminent implementation of Stage III of the exhaust gas emission legislation, this potential for reducing costs is more important than ever.

In the interest of our environmental orientation we have also worked intensively, even in advance of the introduction of statutory regulations, on activities and technologies for **reducing exhaust-gas and noise emissions**. This intensity has been stepped up further now that these regulations have come into force. From 2001 until the beginning of this year the market introduction of our products was carried



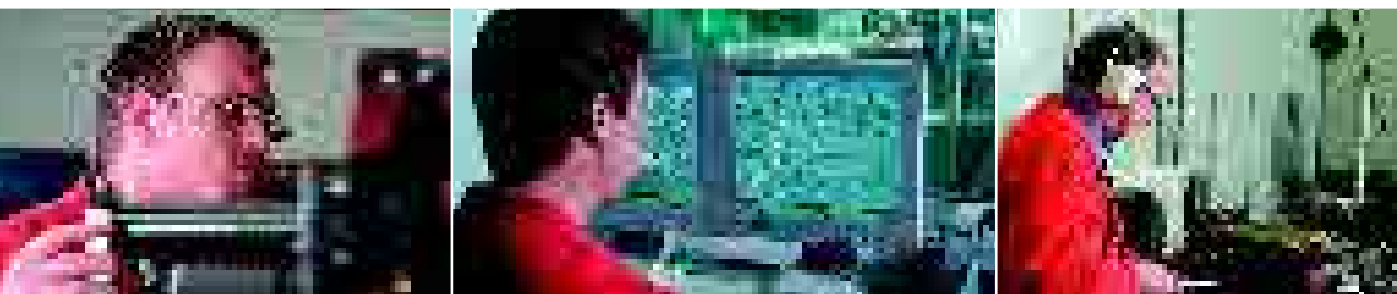


out to meet the Stage II regulations, as required by legislation, but in parallel with this we have been pressing ahead with development work for Stage III, which all according to the power rating category will take effect from 2006 to 2009. The fourth stage of these environmental protection regulations will follow in 2011. That summarises the situation regarding regulations affecting mobile machinery and agricultural machinery, but different time periods and limits apply in some cases to power-generation equipment, and the regulations for commercial vehicles are different again from those for marine engines. On top of all this there is a great number of special national and even local regulations and exemptions.

The expectations of the engine manufacturers are accordingly very high. They are all investigating and developing various technologies for achieving the prescribed limits, and almost every one of them is claiming to have found the »philosopher's stone« in this field. The truth of the matter, however, is this: there is no such thing. Not only do the emission limits differ from one application segment and power rating category to another, but so also do the requirements for the engines in their daily operation. For high-performance, high-revving commercial vehicle engines or tractor engines, preference has to be given to quite different emission reduction methods from those that meet the much simpler requirements of power-generation units or small construction machines.

Our engineers have therefore not limited their research work to one single direction but have developed the right technology for each application. With DVERT®, the **DEUTZ Variable Emission-Reduction Technologies**, we have developed systems, components, and processes that can be combined with one another on a modular basis in order to create technically optimised but at the same time

Low-cost, efficient production also means making use of automation everywhere where it is necessary and makes sense; for instance, a sealant always has to be applied in the same thickness and faultlessly, the engine cover has to be bolted on with exactly the right pressure, or the valve timings have to be measured to within fractions of a second.



cost-efficient systems. Below an output limit of 75 kW we will mainly be using mechanical injection systems in order not to burden this output range with the heavier costs of electronic systems. In the output range from 75 to 250 kW we will use our new DEUTZ Common Rail DCR[®] system, which represents a unique way of combining the advantages of common rail technology with those of our tried-and-trusted unit-pump system (UPS). Between 250 and 500 kW we combine the UPS system with electronically controlled magnetic valves, resulting in our state-of-the-art magnetic valves system DEUTZ MVS[®].



Systems with a modular design enable us to react more quickly to changing market conditions and individual customers' requirements.

With our new commercial vehicle engines, the ones that have to meet the most stringent performance and economy requirements, we will be using Selective Catalytic Reduction (SCR) technology, which means a catalytic converter working with urea injection, or a combination of externally cooled exhaust gas recycling and diesel particulate filters. The process of recycling exhaust gas involves bringing some of the gas back through cooled pipes and a control valve into the intake manifold. High-performance engines for big tractors are subject to customer requirements being similar to those of commercial vehicle engines except that the exhaust gas emission limits are different, so here we use exhaust recycling but no particulate filters. For the engines in mobile machinery, in which the requirements for a compact construction are particularly severe, we only ever make use of internal devices so that the external dimensions of the engines remain unchanged. If required, variable valve timing is also available and this can improve the response behaviour of the engine still further.

For all these techniques, however, the same rule always applies: **as much as necessary, not as much as possible**. Whilst many competitors always use electronic injection systems or four-valve cylinder heads on all their engines, we use these systems in output ranges and individual cases in which they can make full use of their indisputable advantages and thus justify their higher costs, such as in the demanding field of commercial vehicles. Our **OEM customers** are therefore well equipped to meet the constantly rising demands of the market and the ever more stringent statutory requirements.

We too are well equipped, after the three-year training course that we call the DEUTZ Re-Launch/5-Point Programme, to take the next strides forwards. Not only are we in a good shape, but we have also refined our technology and fitted ourselves out with a good strategy for achieving our medium-term goal: sales of more than 200,000 engines a year.

There has been one driving force behind us in the development of our products for 140 years: the desire to build the best engines in the world. We therefore set the highest possible standards for the quality of the bought-in parts, use state-of-the-art test bench equipment, and keep on measuring for as long as it takes until the most critical engineer is satisfied.



THE TEAM

Whether a competitor chooses an individual or a team discipline, behind every success there is always an efficient team. We are proud to know that there is a team behind us that always has faith in our success, even in times when we are not in our best form, and that commits a great deal of energy, enjoyment, and creativity to our shared vision.

Where can so much **commitment** come from in a company that in recent years has had to make some substantial cut-backs even in the personnel area? In some cases it is bound to come from many years of loyalty: the average length of service in our company is over 20 years. In other cases, however, it must also come from the changes that have been ushered in with the DEUTZ Re-Launch Programme. We have taken on the task of becoming slimmer and more like a medium-sized, family-style company, and we have succeeded in doing so. By reducing the hierarchy and merging functions we have not only increased the demands made on individuals but also given them a better overview, raised their levels of responsibility, and given them more scope for personal initiative. Those who are able to make changes are also prepared to roll their sleeves up. The regular rounds of »**DEUTZ Talk**« have also made a contribution; employees selected at random discuss visions, goals, and obstacles in their work with our CEO – openly, and without mincing words either.

This new style is also coming out in the management instruments. Flexitime outlived its purpose long ago for senior managers. Instead, working hours based purely on trust allow managers to apportion their time freely within the ambit of their target agreements. **Individual target agreements** have now become a permanent component of the incentive schemes for those of our salaried staff who



do not come under the collective wage agreements. We have also successfully introduced remuneration systems into the production departments that are based on key productivity figures. We offer our employees a number of different pension schemes to prepare them for retirement, from the trade-union based »MetallRente« to »deferred compensation« for senior salaried staff.



We are raising the motivation of our employees with performance-related remuneration schemes.

However, we are concerned not only about those who are already working for us but also about the **next generation**. Some 50 young people enter traineeships and apprenticeships at DEUTZ every year. They can be trained in eight different trades in our company, from power-plant electronics technicians to lathe and milling machine mechanics. At any given moment there are always about 190 trainees and apprentices in the company; as soon as they have passed their final examinations we offer all of them a temporary contract of employment. In addition to this, last year seven university graduates started their 18-month training programme with DEUTZ. They will work on their own projects in various Corporate Divisions for periods of three to six months at a time and then present their results to Management. In this way the top managers of tomorrow learn about our company from the inside and acclimatise themselves to working with a number of departments simultaneously.

The essential feature of any team is its composition. Old and young, experienced and curious, thoughtful and quick-witted: our **personnel work** ensures the right mixture. This is the right way to be 140 years old and still in the prime of life.



FAIR PLAY

Our aim is clear: wherever we appear we intend to win. However, only fair victories guarantee any durable success. We will happily do without triumphs gained by breaking the rules.

It goes without saying that we keep to the rules in the production of our engines, by which we mean that we meet the statutory requirements. But we do not consider that to be enough. In September 2003 we achieved **environmental certification** under DIN ISO EN 14001 for our main works in the Porz district of Cologne, which accounts for about 75 percent of our engine production. And that is only the beginning. In the coming years we will extend this voluntary auditing, under which all processes are examined from the point of view of sustainability, to the other locations in our company as well.

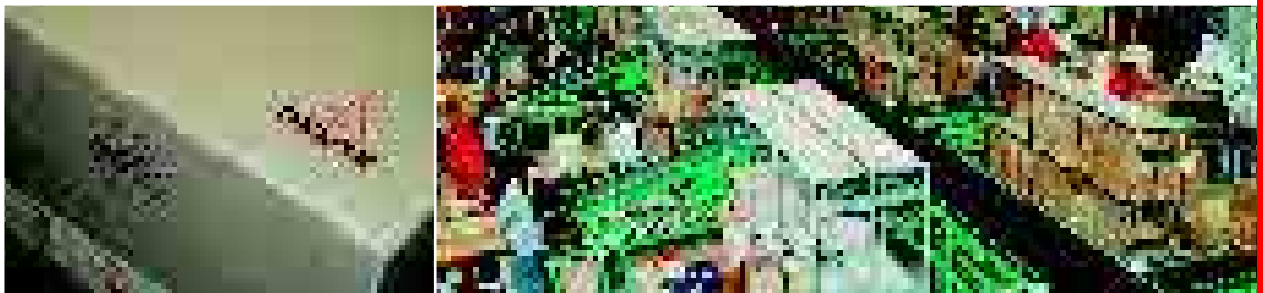


With certification under ISO 14001 processes will be analysed even more critically in future from the point of view of sustainability.

Our engines themselves are also making their contribution. They are low in emissions, quiet, economical in fuel consumption, and in most cases suitable for the use of **bio-diesel**, so they are the right choice from the environmental point of view as well. Gas engines from our works in Mannheim convert gas from rubbish dumps, sewage treatment plants, coal mines, and coking plants into electrical and thermal energy. The overall efficiency level of decentralised heat-and-power stations (co-generation plants) is over 80 percent – this is the proportion of primary energy that is actually put to use, and is a figure that the operators of large, centralised power stations can only dream about.

Our Service Division can show proof that we do more than pay lip service to environmental orientation. In our central spare parts warehouse in the Kalk district of Cologne all spare parts are protected with an environmentally compatible wax preserving agent before they go into storage. From there the spare parts are sent to their destinations all over the world either in packaging made from **recycled** carton





board or in **returnable** containers, which are even friendlier to the environment. To protect our products from damage in transit we use the cartons in which the parts reach us from our suppliers; a special machine chops the used packaging into tiny pieces and produces the filler material that ensures safe transportation.

Recycling is also the key word in relation to a special product programme from DEUTZ: with our **Xchange® programme** we have for years been promoting the systematic reconditioning of used engines and components. It is normally possible to reuse 60 to 80 percent of the old material, and the small residual proportion is sent away for environmentally sensible disposal. In addition to the Übersee location in Upper Bavaria, where we recondition compact engines, our Xchange® Centre in Duisburg concerns itself with medium-sized and large engines and our components workshop in the Kalk district of Cologne specialises in injection pumps and cylinder heads.

Thus our newly produced engines eventually come full circle in our Xchange® works. The invention made by the founder of our company, Nicolaus August Otto, was the four-stroke engine and it changed the world completely. Indeed, it first made the life possible that we lead today. This alone is reason enough for us to feel a sense of responsibility towards the environment.

We do far more than merely paying lip-service to the protection of the environment; indeed, it is part and parcel of our everyday work. In our Xchange® product programme we have been reconditioning used engines and components systematically for several decades. For the despatch of parts we use recycled carton board or returnable containers, and we protect our spare parts with an environmentally compatible wax preservative.

ROUTINE AT DEUTZ

When the outcome of a match hangs by a hair and everyone's nerves are on edge, experience and routine are the decisive factors in success. Our career now spans 140 years, and we have lived through plenty of good times and bad times. This wealth of experience helps us to take the right decisions even in critical situations.

The motorisation of the world began on March 31, 1864 in the historic city centre of Cologne. Nicolaus August Otto and Eugen Langen jointly founded N. A. Otto & Cie, **the world's first »smithy« for internal combustion engines**. It was not long before a bigger factory came into existence on the opposite side of the River Rhine, in the town of Deutz. 50 people were already employed here by 1870, and in 1872 the company's name was changed into »Gasmotoren-Fabrik Deutz AG« and two young engineers were taken on: Gottlieb Daimler became the technical director and Wilhelm Maybach the manager in charge of engine design. Richer by ten years of engine-building experience, these two left the company in 1882 to go their own ways: Gottlieb Daimler founded a company in 1890 that grew into the present-day DaimlerChrysler AG, and Wilhelm Maybach founded his own firm in 1909 that is now the MTU Friedrichshafen GmbH.

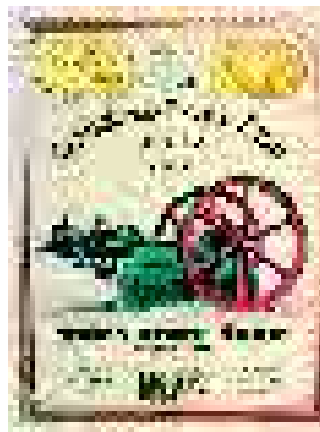


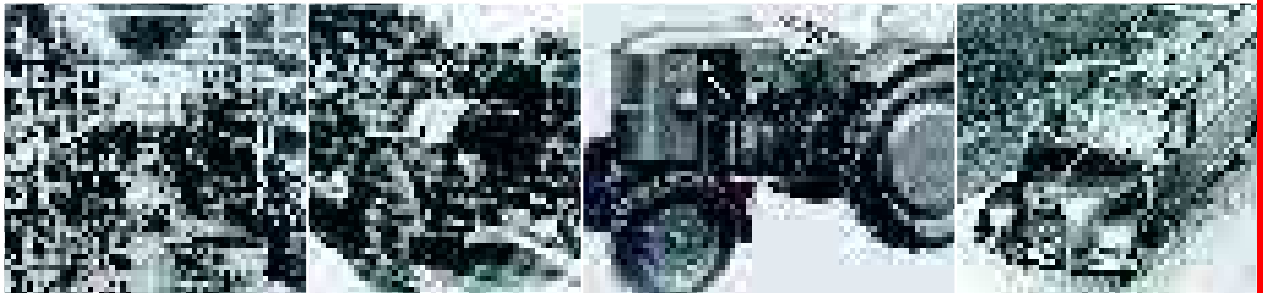
Because of DEUTZ, motorised mobility developed within a few decades from a vision into everyday normality.



In 1876, Nicolaus Otto achieved a break-through success by perfecting the four-stroke engine. This inventor of genius laid the foundation stone for the modern mobile society. »**Otto's new engine**« went into series production a year later and soon conquered the markets in England and America. The pace of development was colossal at that time. Engines quickly become more compact, lighter, but at the same time more powerful. In 1884 Nicolaus Otto invented low-voltage magnetic ignition and thus made engines mobile. They could dispense with an ignition flame, which meant that they could use liquid fuels and were no longer dependent on the public gas supply. Robert Bosch based his whole life's work on this invention.

DEUTZ developed its first diesel engine in 1898, but series production of **DEUTZ diesel engines** did not start until Rudolf Diesel's patent expired in 1907. In the same year Ettore Bugatti joined the company, and cars were built in the Deutz factory for a short time; the DEUTZ brand label appeared on the radiator for the first time.





The company continued to grow and diversified with new products and through acquisitions. DEUTZ diesel tractors started conquering German farm land in 1926, and in 1992 the cumulative total number of tractors produced passed the million mark. In 1930 DEUTZ took over the Humboldt AG engineering company in Cologne and the Motorenfabrik Oberursel AG. In 1936 they were joined by a vehicle manufacturer, Fahrzeugfabrik C. D. Magirus AG in Ulm, and the unstoppable advance of the »**DEUTZ bulls**« began. These lorries, buses, and fire engines with Ulm's cathedral tower on the radiator grille were sold all over the world and earned themselves a reputation for being indestructible.

One reason for this indestructibility was their air-cooled engines, which have been in series production since 1944. Because of their basically simple construction they are extremely sturdy and reliable and need little maintenance. There is no end in sight to their success. From the start of production to the present day we have sold about 4.8 million **air-cooled engines** and are producing about another 30,000 new ones every year.

By the time of its 100th birthday in 1964 our company had grown ceaselessly and was now employing 32,000 people. It was not until then that the first consolidation phase set in. In 1980 Klöckner-Humboldt-Deutz AG, as it still was, divested itself of its commercial vehicles division. This move was followed in 1985 by the take-over of Motoren-Werke Mannheim AG, and in 1995 the agricultural machinery division was sold to the Italian SAME Group. After the crisis in the industrial plant division a further phase of concentration on engine building began. Since 1997 our company has once again been called **DEUTZ AG**, and in 2001 we sold off the remaining industrial plant activities.

For its 140th birthday DEUTZ can present itself in a new and excellent shape: purely as an engine manufacturer with lean structures and clear areas of core competence in the fields of research and development, production and assembly, sales and service. 140 years of experience and an outstanding reputation on the market are good foundations for future success.

140 years of DEUTZ – the engine company. It all started with the atmospheric gas power machine, which was quickly followed by the four-stroke engine. Ettore Bugatti designed DEUTZ cars with which he himself took part in races. The first diesel tractor came from DEUTZ, and the legendary lorries and buses from the Ulm vehicle factory met with wild excitement all over the world.



MARKET VALUE

The market value of an athlete is determined by three factors: his image, his track record, and his prospects for the future. Our market value has developed very positively during the last season, and we regard that as a clear signal that we are on the right track with our work.

2003 was not a bad year on the stock exchange. All the indices were able to recover from the setbacks of the »black year« of 2002. Although it was already clear at the beginning of the year that DEUTZ would be represented in the **Prime Standard** of the German Stock Exchange and on the SDAX shares index, most investors still took a cautious stance. The price of our shares fell below its closing level for the preceding year and touched bottom at the end of February at €1.35. It was not until the end of March, when our annual accounts showed that the Re-Launch Programme had been a success, that the price started to rise slowly.

The DEUTZ share

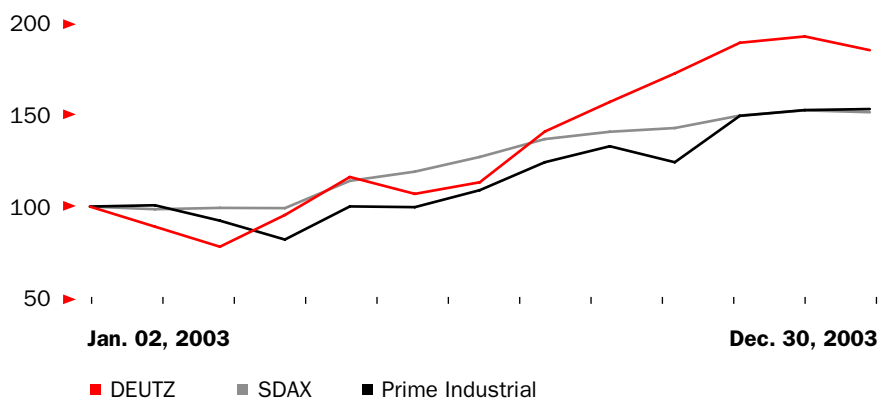
ISIN	DE0006305006
Security identification number	630500
Reuters	DEZG.F
Bloomberg	DEZ.GR
Market segment	Official market/ Prime Standard
Trading locations	XETRA, Frankfurt, Düsseldorf

We were nevertheless unable to keep up with the trend of the new **SDAX**, for the first half of the year, which came into action on the Frankfurt Stock Exchange on March 24, 2003. This new index has since then accommodated the 50 biggest companies below the MDAX in terms of market capitalisation and stock exchange turnover.

These relative growth trends were completely reversed in the second half of the year. Our share price rose sharply as soon as the half-yearly results were announced and continued to rise ahead of the capital increase in the autumn of 2003. By the end of the year DEUTZ shares had increased in value by more than 85 percent, whereas the SDAX had »only« achieved 51 percent. The Prime Standard Industrial index, which covers all the conventional industrial companies within the Prime Standard and thus represents a suitable benchmark for DEUTZ, achieved a 53 percent increase in value. **DEUTZ was now well in the lead.**

Performance of the DEUTZ share in the financial year 2003

in %



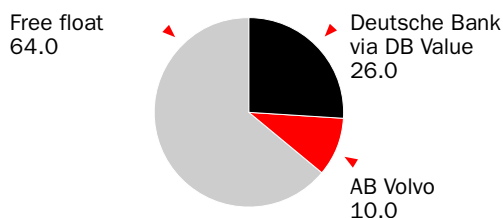
The change finally came with the **capital increase**, the subscription period for which started on November 5, 2003. The purchase guarantee issued by SAME DEUTZ-FAHR under the terms of the widened co-operation arrangements made it possible to carry out this action, to which the 2000 Annual General Meeting had already given approval. The capital increase met with an extraordinarily high level of interest on the capital market. The subscription rights that were in free float were traded energetically, and in the end more than 99 percent of these rights were exercised. That made one thing very clear: investors' confidence in DEUTZ has been restored. Even after the capital increase DEUTZ shares held their relatively high level, and a new surge in demand occurred at the beginning of this year with the regular portfolio »churning« of the share funds.

☞ Our success was acknowledged by the stock exchange as well in 2003, and the market capitalisation of DEUTZ AG rose from €112 million to €290 million.

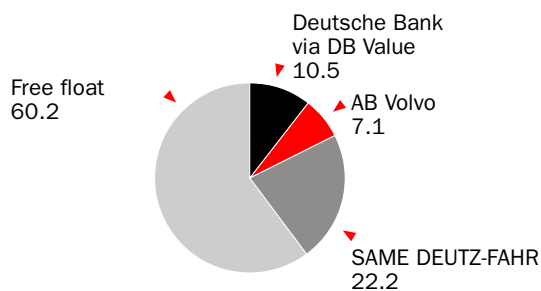
This constant trend is ascribable firstly to the commercial success of the DEUTZ Re-Launch Programme. Secondly, however, it is also the result of systematic **Investor Relations** work. During the year under review we continued the successful Road Shows of the two preceding years. DEUTZ's participation in the German Equity Capital Forum, which was held in Frankfurt am Main in October 2003, also met with great interest. During this two-day event about 2,400 representatives of banks, investment funds, and joint-stock corporations met to obtain information about investment opportunities, capital acquisition, and new market trends. The main focus was on small and medium-sized capital companies (»small-caps« and »mid-caps«).

With more than 60 percent of its shares in free float, DEUTZ is still a **genuinely »public« company** even after the capital increase. Our free-float market value was €172 million by the end of 2003, which has brought it back up to the MDAX level. The stock exchange turnover in our shares also rose considerably during the past year. DEUTZ is on its way to the top.

Shareholder structure before capital increase
in %



Shareholder structure after capital increase
in %



FINANCIAL DATA

33	Management Report
42	Financial Statements
42	Balance Sheet
43	Profit and Loss Account
44	Cash Flow Statement
44	Segment Reports
45	Statements of Stockholders' Equity
46	Fixed Assets Schedule
48	Notes to the DEUTZ AG and Group Financial Statements
57	Auditor's Certificate
58	Shareholdings DEUTZ AG and DEUTZ Group
60	Supervisory Board/Management Board
62	Report by the Supervisory Board

MANAGEMENT REPORT

DEUTZ AG and DEUTZ Group

Economic environment

The world economic situation last year did not bring DEUTZ any forward impetus. Three main factors affected the course of the business: the Iraq crisis, which dampened demand throughout the Middle East, the growing budget deficit in the USA, and the rise of the euro against the Dollar combined with the weak state of the domestic economy in the European countries, especially Germany. The slow pace at which the necessary structural reforms are being carried out and the high level of unemployment are continuing to hold private consumption down. The willingness of those sectors of industry that mainly cater to the domestic market was accordingly at a low ebb.

The German economy did not hit the bottom of its trough until the second half of 2003. Towards the end of the third quarter, positive signs of growth from Asia, Eastern Europe, and the USA were able, despite the contrary impact on prices caused by exchange rates, to breathe life into foreign demand for Western Europe and Germany.

Development of the business

Despite this weak economic environment DEUTZ was able to hold its ground well and to increase **new orders** by 3.6 percent, to €1,179.7 million (2002: €1,138.8 million); **sales in units** rose by 1.4 percent, from 154,032 to 156,237 engines. **Sales** rose slightly, by 1.0 percent, to €1,172.6 million (2002: €1,160.9 million). The proportion of foreign sales only changed slightly, from 74.5 to 74.6 percent. In the **compact engines** segment DEUTZ achieved an above-average increase in its sales by 3.4 percent, to €843.0 million (2002: €815.0 million). This demonstrated the clear success of the strategy DEUTZ is pursuing of expanding the business on the basis of co-operation agreements; the main force driving the upward trend was increases in sales to the co-operation partners VOLVO, FAW, and UZEL. In the **medium-sized and large engines segment** sales declined as a result of the deliberate concentration on the business with gas engines for decentralised power generation, by 4.7 percent to €329.6 million (2002: €345.9 million).

In **DEUTZ AG** sales amounted to €1,036.3 million (2002: €990.2 million).

DEUTZ Group: Overview

in € million	2003	2002	Change in %
New orders	1,179.7	1,138.8	3.6
Unit sales	156,237	154,032	1.4
Sales	1,172.6	1,160.9	1.0
Foreign sales proportion (in %)	74.6	74.5	–
Operating profit (EBIT)	44.0	41.0	7.3
Profit on ordinary activities	11.3	4.4	156.8
Profit for the year	6.0	2.0	200.0
Balance sheet total	1,017.0	1,048.6	-3.0
Stockholders' equity	169.7	95.0	78.6
Stockholders' equity proportion (in %)	16.7	9.1	–
Cash flow from normal operating activities	34.6	56.5	-38.8
Net financial debt	224.2	302.0	-25.8
Investments	40.7	59.5	-31.6
Research and development expenditure	54.9	47.1	16.6
Employees (December 31)	5,454	5,470	-0.3

Earnings

DEUTZ was able to raise its **operating profits** (EBIT) in the 2003 financial year by 7.3 percent, from €41.0 million to €44.0 million. The EBIT margin improved once again, to 3.8 percent (2002: 3.5 percent). This meant that DEUTZ was able to offset the increase in the materials cost rate caused by a shift in mix, and an increase in the labour costs rate caused by a new collective wage agreement and increased employee benefits costs, with a substantial reduction in other operating expenses under a strict cost-management programme, and even to cancel out the heavy currency losses. In the **compact engines** segment, as a result of the foundry closure in 2002 and a strict cost-management programme under the Re-Launch Programme, DEUTZ was able to improve the operating profit (EBIT) during the year under review by 19.6 percent to €65.4 million (2002: €54.7 million). In the **medium-sized and large engines** segment DEUTZ improved the operating profit (EBIT) from €3.9 million to €9.2 million. The decisive factor here was in particular the major reduction in the pressure on profits that had been coming from maintenance contracts in Spain. The operating losses in the **central areas** worsened mainly on account of the change-over to SAP R/3 and severance payments and came to €30.6 million (2002: €17.6 million).

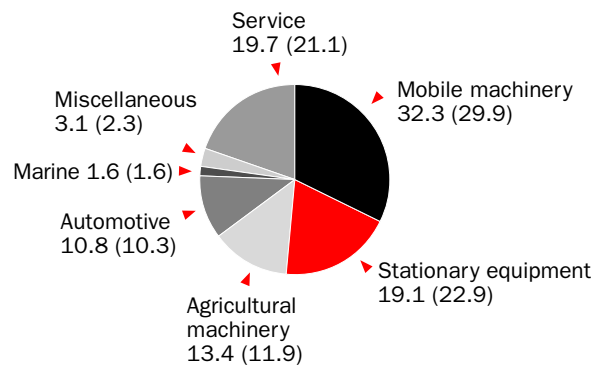
Because of the further reduction of the financial debt the net interest expenditure was reduced by 10.7 percent to €32.7 million (2002: €36.6 million). This brought **profit on ordinary activities** to €11.3 million, more than twice the previous year's figure of €4.4 million. After deduction of tax the DEUTZ Group achieved **profit for the year** of €6.0 million (2002: €2.0 million). This is equivalent to undiluted **earnings per share** of €0.09 (2002: €0.03), or alternatively diluted earnings per share of €0.08 (2002: €0.03).

In **DEUTZ AG** profit on ordinary activities came to €5.6 million (2002: €2.6 million). The profit for the year amounted to €1.5 million (2002: €2.0 million).

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 5.4 percent to €851.4 million (2002: €807.8 million). Although **unit sales** only rose by 1.5 percent, from 153,285 to 155,523 engines, DEUTZ increased its **sales** with compact engines by 3.4 percent, to €843.0 million (2002: €815.0 million). The reason for this is that the proportion of unit sales accounted for by smaller engines declined in favour of the 4 to 7 litre range. Two main factors were at work here: the decline in the USA business, which is mainly focused on small engines, and the further expansion of co-operation with VOLVO in the 4 to 7 litre range. The proportion of foreign sales increased slightly to 74.5 percent (2002: 73.9 percent).

**Compact engines:
Sales by application segments**
in % (2002 figures)



In the application segment of **Mobile Machinery**, DEUTZ increased its sales by 12.1 percent to €272.6 million (2002: €243.2 million). This increase stems primarily from deliveries to the co-operation partner VOLVO, which greatly increased its production of construction machinery, particularly wheeled loaders and hydraulic excavators, during the year under review. In addition to this, DEUTZ was able to gain seven manufacturers of fork-lift trucks as new customers in the materials-handling field.

Sales of engines for **Stationary Equipment** declined from €187.0 million to €161.5 million. The business with engines for compressors, pumps, and gensets suffered particularly from the fall in demand from the Middle East that resulted from the crisis situation. On top of that came the upward movement in the exchange rate of the euro, which led to a decline in genset engines in the USA particularly. Because with genset equipment engines of different makes are easily interchangeable, this application segment reacts particularly quickly to currency exchange-rate movements.

In the area of **Agricultural Machinery** DEUTZ was able to build further on its already good position and to increase sales by 16.5 percent to €112.7 million (2002: €96.7 million). At SAME DEUTZ-FAHR the 1013-series engine has now been introduced into the large tractors sold under the Same and Lamborghini trademarks, and at FENDT the 200-series of vineyard tractors has started production with a 914-series air-cooled engine. Sales in Italy also continued to rise, partly with MERLO, a new customer gained in 2002. Production of tractor engines in Turkey started with the co-operation partner UZEL.

Sales in the **Automotive** area grew by 9.1 percent to €91.2 million (2002: €83.6 million). This was brought about by an increase in deliveries of engines for commercial and rail vehicles. DEUTZ achieved its greatest increases with the Turkish bus manufacturer OTOKAR, who successfully launched his new midi-buses onto the market, with FAW in China, and with the commercial vehicle manufacturer SNVI in Algeria. In the field of rail vehicles DEUTZ benefited from a very good order-book situation with the major Austrian customer PLASSER & THEURER, a manufacturer of railway construction machines.

In the **Marine** application segment DEUTZ suffered a slight fall in sales from €13.4 million to €13.1 million. In this case the sizeable increase in deliveries to VOLVO was unable fully to compensate for the declines in sales to other parts of the market, particularly in Asia. The marine business with compact engines, which are mainly used in on-board auxiliary power units, reacts just as elastically as the gensets market to the impact of exchange-rate movements.

The weak state of the economy during the year under review left clear marks on the **service business** with compact engines. Sales declined by 3.7 percent, from €172.2 million to €165.9 million. Whilst the repair business in the service centres and subsidiary companies mainly remained stable, the decline affected the spare parts trade and the Xchange® business equally. The sales increases, some of them rapid, in Europe, Asia (particularly the Middle East) and South America were not sufficient to compensate completely for declines in sales in America, Africa, and Australia.

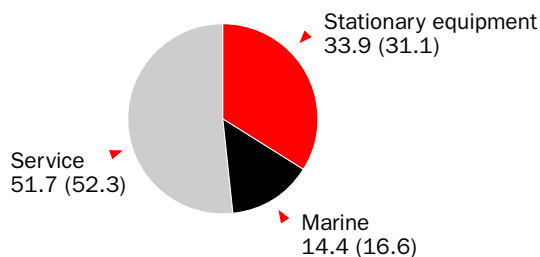
Medium-sized and large engines segment

The segment of medium-sized and large engines, in which DEUTZ sells water-cooled diesel and gas engines in the output range from 280 to 4,000 kW from the production works in Mannheim, developed less satisfactorily during the 2003 financial year than the compact engines segment.

New orders declined by 0.8 percent to €328.3 million (2002: €331.0 million), **unit sales** by 4.4 percent, from 747 to 714 engines, and **sales** of medium-sized and large

Medium-sized and large engines: Sales by application segments

in % (2002 figures)



engines by 4.7 percent to €329.6 million (2002: €345.9 million) as a result of deliberately concentrating on the gas engine business, which has greater potential for the future. The proportion of foreign sales decreased slightly to 74.9 percent (2002: 76.1 percent).

With engines for **Stationary Equipment** DEUTZ was able to increase sales by 3.9 percent to €111.7 million (2002: €107.5 million). The fall in sales for diesel engines was more than cancelled out by a powerful growth of 19.1 percent in gas engines, particularly in Germany and Western Europe. This demonstrates the successes achieved during the course of 2002 by the re-alignment of the DEUTZ ENERGY Business Division. It was in this Division that DEUTZ was able to book its largest single order in the year under review: gas engines for generating power and steam in a major textile factory in Turkey were delivered with a total value of €6.9 million.

In the **Marine** application segment, which in the case of medium-sized and large engines is just as subject to major fluctuations as any project business, sales fell by 17.1 percent from €57.4 million to €47.6 million. Whilst it proved possible to expand the business in Italy, Spain, Norway, Iran, and China, in some cases at triple-digit growth rates, there was a decline in orders from the other Asian countries and also from the Netherlands.

In the **service business** with medium-sized and large engines, sales declined by 5.9 percent to €170.3 million (2002: €181.0 million). Both in sales of spare parts and in the repair business, economic factors caused a reduction in business volume. The development was very good, on the other hand, in the exchange-parts programme, with the Xchange® parts in Duisburg, that had only been introduced the year before. Whilst sales in America and Africa developed positively, service sales in the other regions recorded downward trends.

Regional development of the business

In its domestic market of **Germany** DEUTZ was able effectively to defend its very strong market position. Sales increased by 0.8 percent, to €298.0 million (2002: €295.6 million). Here the sales growth in compact engines for agricultural machinery and in gas engines was able to compensate completely for the declines caused by economic conditions in other application segments and the service business.

In the **other European countries** sales grew healthily by 8.4 percent, from €405.8 million to €440.0 million. The compact engines business developed particularly well with VOLVO in Sweden and Poland and with UZEL and OTOKAR in Turkey, but business development was also positive in the medium-sized and large engines business, particularly in gas engines for stationary equipment.

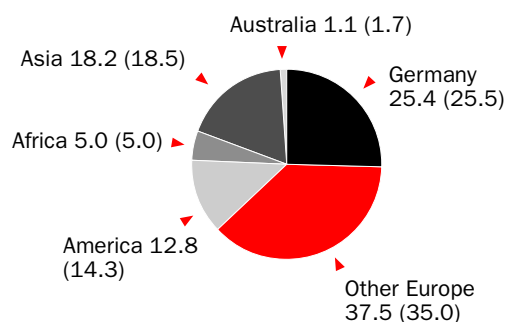
Sales in **America** fell by 10.2 percent, from €166.5 million to €149.5 million. This was mainly the result of the fall-off in sales in North America that had been caused by economic factors and exchange-rate movements, and it was only partly balanced out by a more positive trend in South America. The development of the business in Argentina and Brazil was particularly satisfying; sales of compact engines here grew mainly with AGCO and VOLVO.

The trend in **Asia** suffered during the year under review from the effect of the Iraq crisis. Sales fell by 1.0 percent to €213.4 million (2002: €215.6 million). Whilst in the Far East deliveries of compact engines to VOLVO in South Korea and to FAW in China were more than sufficient to cancel out the fall in sales of medium-sized engines and service, sales to the Middle East declined in all segments.

In **Australia** DEUTZ recorded a fall in sales of 34.9 percent to €12.5 million (2002: €19.2 million), the reason being that special projects for gas engines were completed in 2002 but were not repeated in the year under review. Other segments were stable or even recorded slight increases, like the compact engines business.

DEUTZ Group: Sales by regions

in % (2002 figures)



In **Africa** sales rose slightly, by 1.7 percent, from €58.2 million to €59.2 million. DEUTZ was able to counter-balance slight declines in the service business, particularly in Egypt, with sales increases in its business with compact engines and with medium-sized and large engines for stationary equipment.

Asset and financial situation

The **balance sheet total** of the DEUTZ Group was reduced once again in the year under review, and as of December 31, 2003 had fallen to €1,017.0 million or €31.6 million below the preceding year's figure of €1,048.6 million.

DEUTZ Group: Balance sheet structure

in %	Dec. 31, 2003	Dec. 31, 2002
Assets		
Business expansion expenses	2.6	2.0
Fixed assets	45.9	47.4
Inventories	24.6	24.2
Receivables/ other assets/ deferred expenses	24.4	24.6
Liquid assets	2.5	1.8
Total	100.0	100.0
Stockholders' equity and liabilities		
Stockholders' equity	16.7	9.1
Convertible profit-participation certificates	2.5	2.4
Provisions	41.2	43.5
Accounts payable/ deferred income	39.6	45.0
Total	100.0	100.0

Fixed assets were reduced by €30.3 million; a substantial reduction in tangible fixed assets more than compensated for an increase in financial assets caused by loans to affiliated companies. Further reductions under a strict asset-management programme in inventories and receivable accounts resulted in a cut in **current assets** of €5.1 million.

In November 2003 DEUTZ made use of the capital increase resolution (authorised capital) passed by the Annual General Meeting on May 4, 2000 to carry out a **capital increase**. This increased subscribed capital by €68.7 million, from €164.3 million to €233.0 million. Combined with the profit for the year of €6.0 million, this meant that DEUTZ was able to increase its **stockholders' equity** by a total of €74.7 million and bring it up to €169.7 million (2002: €95.0 million), thus improving its **stockholders' equity rate** from 9.1 percent to 16.7 percent.

Provisions were reduced by €36.9 million to €419.3 million (2002: €456.2 million). This reduction resulted from the planned decrease in pension provisions and from making use of the provision formed in the preceding year against the settlement of the litigation with General Electric in the USA.

DEUTZ Group: Total debt

in € million	Dec. 31, 2003	Dec. 31, 2002
Amounts owed to credit institutions	249.8	321.3
Liquid assets	-25.6	-19.3
Net financial debt	224.2	302.0
Trade payables	93.2	71.9
Other liabilities/bills of exchange payable	30.3	30.4
Total debt	347.7	404.3

With the flow of funds from the capital increase DEUTZ has reduced its **accounts payable** by a total of €69.0 million to €402.4 million (2002: €471.4 million). **Accounts payable to credit institutions** were reduced from €321.3 million to €249.8 million. After deducting liquid assets of €25.6 million (2002: €19.3 million), **net financial debt** came to €224.2 million as of the closing date for the accounts, which represents a substantial reduction of 25.8 percent from the preceding year's figure of €302.0 million. Total debt was reduced by €56.6 million to €347.7 million (2002: €404.3 million).

Cash flow

DEUTZ Group: Cash flow statement (simplified)

in € million	2003	2002
Cash flow	55.5	58.0
Changes in working capital	-20.9*	-1.5
Cash flow from normal operating activities	34.6	56.5
Cash flow from investing activities	-25.6	-18.8
Cash flow from financial activities	-2.7	-50.4
Changes in liquid assets	6.3	-12.7

* Including funds consumed in 2003 by settlement with General Electric, USA.

After eliminating the outflow from the settlement with General Electric in the USA, cash flow from **normal operating activities** rose during the year under review by €9.5 million, from €56.5 million to €66.0 million. The cash flow from **investing activities** was an outflow of €25.6 million, likewise higher than the previous year's outflow of €18.8 million. Accounts payable to credit institutions were reduced by €71.5 million in 2003 mainly by the inflow from the capital increase of €68.8 million. As a result, cash flow from **financial activities** improved from an outflow of €50.4 million to one of only €2.7 million. **Liquid assets** rose during the course of the year by €6.3 million (2002: €-12.7 million).

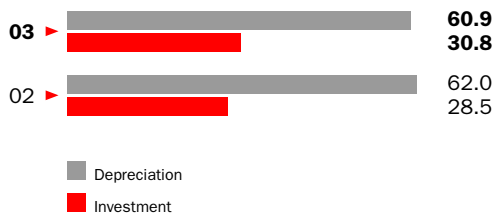
Investments

In the 2003 financial year investment totalled €40.7 million, 31.6 percent below the preceding year's figure of €59.5 million. This reduction resulted from greatly reduced investments in financial assets of €9.9 million (2002: €31.0 million). The **financial assets**, as in the preceding year, mainly involved loans to affiliated companies. DEUTZ invested €30.8 million (2002: €28.5 million) in **tangible assets**.

In the **compact engines segment** DEUTZ invested €25.2 million (2002: €21.0 million) in tangible assets. The main priority here lay in expanding the machining capacity of components for engines in the 4 to 7 litre range. Grinding equipment for crankshafts and camshafts were also modernised at the Cologne and Ulm locations and the output of crankcases from flexible machining centres was increased. In addition to this, cylinder head production at the Zafra location was expanded with new machining centres and the material supply was further improved at the Porz works in Cologne.

In the **medium-sized and large engines segment** DEUTZ invested €5.6 million (2002: €7.5 million) in tangible assets mainly in new instrumentation, exhaust gas processing technology, and funds that were used for the further development of the gas engines. In addition to this the genset test field was modernised and the restructuring of mechanical production virtually completed with the reorganisation of con-rod production.

DEUTZ Group: Investments and depreciation intangible and tangible assets
in € million



Research and development

Expenditure on research and development during the year under review came to €54.9 million, or 16.6 percent more than in the preceding year (€47.1 million). Research and development expenditure as a proportion of total new engines business increased from 5.8 to 6.6 percent.

In the **compact engines segment** DEUTZ increased its research and development expenditure by 18.2 percent to €40.9 million (2002: €34.6 million), which as a proportion of its new-engine business rose from 5.4 to 6.0 percent. The main priorities in research and development activities lay firstly in the completion of the market introduction of engines in exhaust gas Stage II and secondly in the development of new engines and further development of existing ones for Stage III, as well as a new generation of commercial vehicle engines which will go into series production from 2006 onwards.

Research and development expenditure in the **medium-sized and large engines segment** were increased by 12.0 percent, from €12.5 million to €14.0 million. As a proportion of new-engine business in this segment it rose from 7.6 to 8.8 percent. For gas engines, improvements were made in their electronic control systems and in their operating characteristics when running on dump gas. In the case of diesel engines the focus was on further development work to improve quality. In addition to this, project-related development work takes up a large proportion of the effort in this segment.

Employees

At the end of 2003 DEUTZ had 5,454 employees worldwide, 0.3 percent fewer than a year earlier (5,470). In **Germany** the number of employees was reduced by 1.4 percent to 4,270 (2002: 4,330). **Abroad** the number of employees rose by 3.9 percent to 1,184 (2002: 1,140). The number of trainees rose slightly, by 1.6 percent, to 187 (2002: 184). Based on the total number of employees in Germany this represents a training rate of 4.4 percent (2002: 4.2 percent).

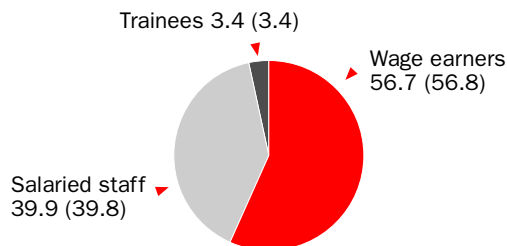
DEUTZ Group: Employees

	Dec. 31, 2003	Dec. 31, 2002
by locations		
Cologne	2,548	2,542
Mannheim	869	926
Ulm	361	374
Other domestic locations	492	488
Domestic	4,270	4,330
Foreign	1,184	1,140
Total	5,454	5,470

During the 2003 financial year the Management Board and the Group Works Council entered into a **new Group works agreement** on remuneration and on working hours for staff not covered by collective agreements. The aim of this agreement is to introduce a remuneration system that meets modern requirements and can be based on a new works organisation on which initial work was carried out during the year under review. It is planned to introduce the new remuneration system on April 1, 2004.

DEUTZ Group: Structure of employees

in % (2002 figures)



Environmental protection and industrial safety

In the field of environmental protection and industrial safety DEUTZ spent €6.7 million during the year under review, only slightly less than in the preceding year (€6.8 million).

The focus of **environmental protection activities** lay on voluntary environmental certification under DIN EN ISO 14001, which was successfully completed for engine assembly in the Porz works (Cologne) and for the Materials Technology/Design Strength Department. This certification is to be extended to other locations during the current year.

In the field of **industrial safety** DEUTZ was able to come in below its target of stabilising its so-called »thousand-man« rate (the number of industrial accidents for every 1,000 employees) at 30. The figure of 28 actually achieved represented a clear reduction of 17.6 percent below the preceding year's figure of 34. This figure also means that the DEUTZ level is about half the average for its industry.

Corporate governance

In December 2003 the Management and Supervisory Boards of DEUTZ AG issued the declaration of compliance with the recommendations of the Government Commission on German Corporate Governance Code (July 4, 2003 version) in compliance with Article 161 of the German Companies Act and made it permanently accessible to the shareholders on the website (<http://www.deutz.de>).

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 risks. 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 through 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 on the basis of the analyses and suggestions of the Risk Management Committee by the DEUTZ AG Management Board. Ad hoc reports have to be made, independently of the regular reports, on major new risks or increasing threats from risk that have already been identified. During the 2003 financial year the risk inventory was carried out three times. Additionally, thorough risk analysis was drawn up, additionally, with the assistance of lawyers and auditors, in connection with the capital increase.

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. 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 wasted development work is contained and also that development work is carried out at the right time and with the right customer orientation.

Production risks: To avoid incorrect planning and false investments, the necessary production capacity is reviewed annually as part of the rolling medium-term plans, and weekly as part of the operational production programme planning, and then co-ordinated with sales expectations for the individual model series and engine types. In addition to this, DEUTZ has further reduced the risk of insufficient capacity utilisation by rationalising production and focusing on core competence areas as part of its Re-Launch Programme. The foundry had already been closed down in the preceding year and the expectations of this action were met in full during the year under review; it has led to a considerable improvement in the operating profit of the compact engines segment.

Personnel risks: DEUTZ has systematically reduced the risks of excess personnel capacity, particularly in the administrative field, as part of its Re-Launch Programme. Since the start of this programme the number of jobs in the overheads area of the DEUTZ Group has been reduced by 662 employees. Various training and personnel development activities have been carried out in order to increase the efficiency of the 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 collaboration with external service companies, enable the risks in the IT area to be contained. The change-over of the main computer systems at head office to SAP R/3 was prepared during the year under review and was completed as planned on January 1, 2004. The subsidiary companies will change over in stages between now and the end of 2005. 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. Suitable measures have been taken to prevent breakdowns and interruptions to the course of operations during the change-over to SAP R/3. The conversion to SAP R/3 is being supervised by a steering committee that ensures that the necessary resources are provided and that the requirements for the change-over are met correctly and punctually.

Organisational risks: To reduce organisational risks, central departments 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 at which reports are given on all major events that have occurred or are expected and are relevant to the business; any necessary decisions are taken on the measures that have to be taken.

Quality risks: In order to reduce quality risks DEUTZ has set up a central quality system as part of the Re-Launch Programme plan that is responsible for quality assurance in all the works and all the Divisions. This means that warranty 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 three years to a considerable reduction in defects costs.

Financial risks: DEUTZ carries out annual financial planning in order to reduce financial risk, with a breakdown within each year and regular reviews of deviations from plan. DEUTZ collaborates with leading banks and finance houses 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 debts losses is reduced by constantly monitoring and regularly analysing the list and structure of accounts receivable. Exchange-rate risks are reduced by means of central currency management and 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. Despite these measures, as far as can be seen today there is still a residual risk from the relentless strength of the euro against the US Dollar and other currencies. DEUTZ is taking account of this risk by maintaining a strict cost management system. As a result of the capital increase that was carried out in November 2003, the increased corporate profit, and the further reduction in the balance sheet total, DEUTZ has greatly improved its financial basis. The stockholders' equity basis has been

reinforced and the inflow of funds has been used for a further and substantial reduction in net financial debt. The decrease in interest expenses is having a positive effect on the corporate profit and this also is reducing the financial risk.

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 legally appropriate steps are taken and that any necessary financial precautions are taken. New risks are reduced before they can even arise by means of in-house legal standards such as general terms and conditions of business, sample contracts for various typical situations, and the appropriate practical regulations in the form of organisational guidelines. In addition to this the legal 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. Major legal risks include litigations over the winding-up of old orders from the industrial plant business that remain with DEUTZ AG after the sale of the Division in 2001. It proved possible to reduce these risks during the year under review. The Greek tax authorities have raised claims against a Greek subsidiary company of DEUTZ AG for supplementary tax payments and penalties totalling about €35 million, and in the USA two private persons have raised actions for alleged harm to health from asbestos against more than 100 companies including two American subsidiaries of DEUTZ AG. In addition to this the »Foundation Campaign of German Business for Remembrance, Responsibility, and the Future« and its founder-members, one of which is DEUTZ AG, was sued by plaintiffs claiming as yet unquantified interest payments for alleged delays in the Foundation's reparation payments. All existing legal risks are assessed regularly and taken into account in routine provisions against risk.

Events after the end of the 2003 financial year

No further events occurred after the end of the 2003 financial year that are of major significance for the DEUTZ Group or that could lead to any different assessment of the company.

Prospects

In Germany the high level of unemployment and the slow implementation of structural reforms are having a dampening effect on domestic demand; no trend in the direction of recovery is expected until the second half of the year 2004. Because of the below-average levels of capacity utilisation no major improvement is expected in the investment climate, with the exception of necessary replacement investments. The gradual resuscitation of the economy will mainly come from foreign demand in the growth regions of Eastern Europe and Asia. This means that a further rise in the value of the euro represents a major economic risk, and not only for the German market. The current economic forecasts thus assume only cautious growth during 2004 for the entire euro area. For the USA a powerful surge in growth is expected, which should halt the decline of the Dollar against the euro. Sustained and dynamic growth is still being forecast for Eastern Europe and Asia, and in particular for China. The high price of oil, however, is casting a slight shadow over world economic prospects.

DEUTZ has been successfully pursuing the strategy in recent years of compensating for the weak market situation in the main markets in Europe and the USA by strengthening its activities in growth regions and making carefully planned co-operation arrangements with major customers. DEUTZ has thus made itself step by step less dependent on the economic situation in Europe and the USA. In addition to this, the DEUTZ Re-Launch/5-Point Programme that has now been concluded has succeeded in making the company more efficient, permanently lowering the break-even point, and greatly improving the financial basis.

Despite all the risks described above that could affect DEUTZ's profit situation DEUTZ is expecting that the 2004 financial year will bring not only a slight increase in sales but also a further improvement in profits over the preceding year.

FINANCIAL STATEMENTS

Balance Sheet

in € million		DEUTZ AG		DEUTZ Group	
	Notes	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Assets					
Business expansion expenses		26.6	20.6	26.6	20.6
Intangible assets		6.7	7.3	18.1	20.8
Tangible assets		153.8	158.5	387.4	419.5
Financial assets		231.7	222.0	61.0	56.5
Fixed assets	1	392.2	387.8	466.5	496.8
Inventories	2	192.1	188.0	250.5	253.7
Receivables and other assets	3	255.4	245.5	245.5	253.7
Liquid assets	4	15.7	13.2	25.6	19.3
Current assets		463.2	446.7	521.6	526.7
Prepaid expenses and deferred charges	5	1.1	1.1	2.3	4.5
Total		883.1	856.2	1,017.0	1,048.6
Stockholders' equity and liabilities					
Subscribed capital		233.0	164.3	233.0	164.3
Capital reserves		6.1	6.0	1.8	1.7
Accumulated loss		-68.1	-69.6	-64.0	-70.0
Minority interests		-	-	-1.1	-1.0
Stockholders' equity	6	171.0	100.7	169.7	95.0
Convertible profit-participation certificates	6	25.6	25.6	25.6	25.6
Provisions	7	368.3	396.7	419.3	456.2
Accounts payable	8	318.2	333.2	402.4	471.4
Deferred income		-	-	-	0.4
Total		883.1	856.2	1,017.0	1,048.6

FINANCIAL STATEMENTS

Profit and Loss Account

in € million		DEUTZ AG		DEUTZ Group	
	Notes	2003	2002	2003	2002
Sales	11	1,036.3	990.2	1,172.6	1,160.9
Increase/decrease (-) in finished goods and work in process	12	-3.7	0.8	-6.5	-3.8
Own work capitalised	12	6.2	5.7	6.2	6.0
Total output		1,038.8	996.7	1,172.3	1,163.1
Other operating income	13	64.3	64.4	60.5	65.1
Cost of materials	14	-619.3	-592.1	-638.4	-626.5
Personnel expenses	15	-240.4	-229.6	-296.0	-291.6
Depreciation	16	-27.2	-27.3	-60.9	-62.0
Other operating expenses	17	-183.9	-180.1	-192.7	-209.2
Income from investments in other companies	18	2.3	3.9	2.3	2.5
Amounts written off financial assets	19	-9.1	-12.6	-3.1	-0.4
Interest expenses, net	20	-19.9	-20.7	-32.7	-36.6
Profit on ordinary activities		5.6	2.6	11.3	4.4
Taxes on income		-3.5	-0.1	-3.4	-0.8
Other taxes		-0.6	-0.5	-1.9	-1.6
Profit for the year		1.5	2.0	6.0	2.0
Accumulated loss at the beginning of year		-69.6	-71.6	-70.0	-72.0
Accumulated loss at the end of year		-68.1	-69.6	-64.0	-70.0

FINANCIAL STATEMENTS

Cash Flow Statement

in € million	DEUTZ Group	
	2003	2002
Profit for the year	6.0	2.0
Depreciation of fixed assets	64.0	62.4
Change in pension provisions	-13.4	-6.9
Gains/losses from disposal of other fixed assets	-1.1	0.5
Cash flow	55.5	58.0
Business expansion expenses	-6.0	-5.5
Change in inventories	3.2	11.5
Change in receivables and other assets	-9.6	34.3
Change in liabilities as well as tax provisions and other provisions	-8.5	-41.8
Cash flow from normal operating activities	34.6	56.5
Investments in intangible and tangible assets	-30.8	-28.9
Investments in financial assets	-2.9	-2.4
Proceeds from sale of other assets	8.1	12.5
Cash flow from investing activities	-25.6	-18.8
Change in liabilities towards credit institutions	-71.5	-50.4
Payment received on capital increase	68.8	-
Cash flow from financial activities	-2.7	-50.4
Change in liquid assets	6.3	-12.7

Segment Reports

Breakdown by segments in € million	Compact engines		Medium-sized and large engines		Central areas		DEUTZ Group	
	2003	2002	2003	2002	2003	2002	2003	2002
Sales	843.0	815.0	329.6	345.9	-	-	1,172.6	1,160.9
Operating profit (EBIT)	65.4	54.7	9.2	3.9	-30.6	-17.6	44.0	41.0
Investments	28.0	50.4	5.7	7.6	7.0	1.5	40.7	59.5
Depreciation	52.2	49.3	11.4	11.8	0.4	1.3	64.0	62.4
Assets	670.1	674.7	289.3	300.6	57.6	73.3	1,017.0	1,048.6
Employees (Number Dec. 31)	3,495	3,450	1,560	1,615	399	405	5,454	5,470

Segment Reports

Breakdown by regions in € million	Sales		Investments		Depreciation		Employees (Number Dec. 31)	
	2003	2002	2003	2002	2003	2002	2003	2002
Germany	298.0	295.6	30.3	51.7	53.0	53.9	4,270	4,330
Other Europe	440.0	405.8	7.6	6.6	7.1	7.3	884	844
America	149.5	166.5	2.1	0.5	1.4	0.6	136	131
Asia	213.4	215.6	0.2	0.7	2.2	0.1	92	90
Other countries	71.7	77.4	0.5	–	0.3	0.5	72	75
DEUTZ Group	1,172.6	1,160.9	40.7	59.5	64.0	62.4	5,454	5,470

Statements of Stockholders' Equity

Movement of stockholders' equity				
DEUTZ AG in € '000	Subscribed capital	Capital reserves	Loss/Accu- mulated loss	Total
January 1, 2002	164,344	5,952	-71,612	98,684
Additions resulting from conversions of convertible profit-participation certificates	1	–	–	1
Profit 2002	–	–	2,000	2,000
December 31, 2002	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

Movement of stockholders' equity					
DEUTZ Group in € '000	Subscribed capital	Capital reserves	Loss/Accu- mulated loss	Minority interests	Total
January 1, 2002	164,344	1,717	-71,978	-1,092	92,991
Additions resulting from conversions of convertible profit-participation certificates	1	–	–	–	1
Changes in minority interests	–	–	–	28	28
Profit 2002	–	–	2,000	–	2,000
December 31, 2002	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

FINANCIAL STATEMENTS

Fixed Assets Schedule

DEUTZ AG in € '000	Gross value				Dec. 31, 2003
	Jan. 1, 2003	Purchase or production cost		Reclassi- fication	
		Additions	Disposals		
Business expansion expenses	20,600	6,000	-	-	26,600
Concessions, industrial and similar rights and assets and licences in such rights and assets	71,771	2,963	781	1	73,954
Goodwill	6,491	-	-	-	6,491
Intangible assets	78,262	2,963	781	1	80,445
Land, similar rights and buildings including buildings on land owned by third parties	81,867	557	2,360	28	80,092
Technical equipment and machines	264,784	8,050	18,394	1,726	256,166
Other equipment, factory and office equipment	148,181	9,421	19,942	440	138,100
Advance payments on tangible assets and construction in progress	2,273	2,742	-	-2,195	2,820
Tangible assets	497,105	20,770	40,696	-1	477,178
Shares in affiliated companies	212,727	-	-	-	212,727
Loans to affiliated companies	117,624	-	-	-	117,624
Participating interests	7,664	1,721	-	-	9,385
Loans to companies in which participating interests are held	34,420	7,000	-	-	41,420
Other loans	882	11	26	-	867
Financial assets	373,317	8,732	26	-	382,023
Fixed assets	948,684	32,465	41,503	-	939,646
Total	969,284	38,465	41,503	-	966,246

DEUTZ Group in € '000	Gross value				Dec. 31, 2003
	Jan. 1, 2003	Purchase or production cost		Reclassi- fication	
		Additions	Disposals		
Business expansion expenses	20,600	6,000	-	-	26,600
Concessions, industrial and similar rights and assets and licences in such rights and assets	62,826	2,985	1,089	2	64,724
Intangible assets	62,826	2,985	1,089	2	64,724
Land, similar rights and buildings including buildings on land owned by third parties	238,613	620	6,095	28	233,166
Technical equipment and machines	479,348	13,486	20,671	2,637	474,800
Other equipment, factory and office equipment	191,680	9,782	21,748	452	180,166
Advance payments on tangible assets and construction in progress	2,594	3,969	128	-3,118	3,317
Tangible assets	912,235	27,857	48,642	-1	891,449
Shares in affiliated companies	12,863	-	116	-	12,747
Loans to affiliated companies	3,729	-	298	-	3,431
Associated companies	10,542	2,077	1,030	-	11,589
Participating interests	1,434	401	1	-	1,834
Loans to companies in which participating interests are held	34,420	7,000	-	-	41,420
Long-term investments	2,154	348	486	-	2,016
Other loans	3,090	48	470	14	2,682
Financial assets	68,232	9,874	2,401	14	75,719
Fixed assets	1,043,293	40,716	52,132	15	1,031,892
Total	1,063,893	46,716	52,132	15	1,058,492

Gross value Accumulated depreciation				Dec. 31, 2003	Net value	
Jan. 1, 2003	Additions	Disposals	Write-ups		Dec. 31, 2003	Dec. 31, 2002
-	-	-	-	-	26,600	20,600
64,425	3,569	780	-	67,214	6,740	7,346
6,491	-	-	-	6,491	-	-
70,916	3,569	780	-	73,705	6,740	7,346
20,605	2,455	1,890	-	21,170	58,922	61,262
197,563	11,428	18,097	-	190,894	65,272	67,221
120,450	10,680	19,856	-	111,274	26,826	27,731
-	-	-	-	-	2,820	2,273
338,618	24,563	39,843	-	323,338	153,840	158,487
144,297	6,000	-	10,000	140,297	72,430	68,430
-	-	-	-	-	117,624	117,624
2,631	977	-	-	3,608	5,777	5,033
3,700	2,088	-	-	5,788	35,632	30,720
691	-	-	-	691	176	191
151,319	9,065	-	10,000	150,384	231,639	221,998
560,853	37,197	40,623	10,000	547,427	392,219	387,831
560,853	37,197	40,623	10,000	547,427	418,819	408,431

Gross value Accumulated depreciation				Dec. 31, 2003	Net value	
Jan. 1, 2003	Additions	Disposals	Dec. 31, 2003		Dec. 31, 2002	
-	-	-	-	-	26,600	20,600
42,070	5,615	1,018	-	46,667	18,057	20,756
42,070	5,615	1,018	-	46,667	18,057	20,756
54,680	5,848	2,361	-	58,167	174,999	183,933
283,823	31,981	20,093	-	295,711	179,089	195,525
154,081	17,470	21,607	-	149,944	30,222	37,599
200	-	-	-	200	3,117	2,394
492,784	55,299	44,061	-	504,022	387,427	419,451
5,731	72	102	-	5,701	7,046	7,132
-	-	-	-	-	3,431	3,729
333	977	-	-	1,310	10,279	10,209
1,413	-	-	-	1,413	421	21
3,700	2,088	-	-	5,788	35,632	30,720
7	-	-	-	7	2,009	2,147
501	-	51	-	450	2,232	2,589
11,685	3,137	153	-	14,669	61,050	56,547
546,539	64,051	45,232	-	565,358	466,534	496,754
546,539	64,051	45,232	-	565,358	493,134	517,354

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 2003 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 sub-totals 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 (2002: 5) German and 16 (2002: 17) foreign companies.

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

DEUTZ MOTOR ESPAÑA S.A. of Madrid (Spain) was merged into DEUTZ IBERIA S.A., also of Madrid (Spain), through the transfer of the entirety of its assets on the basis of the Amalgamation Contract of February 5, 2003 and the resolution passed by its Annual General Meeting on May 5, 2003.

4 (2002: 7) German and 13 (2002: 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 2002) 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 expense 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

The balance sheets of foreign consolidated subsidiaries and their net income or loss for the year and depreciation of fixed assets have been converted at the exchange rates ruling at the balance sheet date. All other income and expense items have been converted at the average rates for the year. Differences between 2003 and 2002 balance sheet conversions and differences arising from the conversion of individual income statement items have been dealt with in arriving at the net income or loss for the year.

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, with depreciation provided for a full year on additions during the first six months and for six months on additions during the second half-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	Depreci- ation rate %
Buildings and exterior plant	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 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. DEUTZ uses derivative financial instruments such as futures and options exclusively for hedging purposes and only ever within the ambit of operational business activities.

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 labour costs.

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.

Notes on the Balance Sheet and the Profit and Loss Account

(All values in €'000 unless otherwise stated)

1. Fixed assets

The total value of fixed assets in the Group has fallen from the preceding year's level by €30.3 million.

The increase in financial assets of €4.5 million mainly relates to an increase in loans to companies in which participating interests are held.

The total value of tangible assets has fallen from the preceding year's level by €32.1 million. Investments (acquisitions) totalling €27.9 million were more than offset by depreciation and disposal of assets of €60.0 million.

The schedule of the main shareholdings can be seen on pages 58/59.

2. Inventories

	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Raw materials and supplies, purchased components and spare parts	103,510	108,292	122,447	131,756
Work in process	52,878	54,912	59,401	60,532
Finished goods	28,273	29,991	62,177	67,562
	184,661	193,195	244,025	259,850
Advance payments made on inventories	12,038	1,075	12,601	1,762
	196,699	194,270	256,626	261,612
Advance payments received on orders	-4,552	-6,289	-6,065	-7,955
Total	192,147	187,981	250,561	253,657

3. Receivables and other assets

		Maturing in less than 1 year	Maturing in more than 1 year	Dec. 31, 2003	Dec. 31, 2002
				Total	Total
DEUTZ AG a)					
DEUTZ Group b)					
Trade receivables	a)	103,838	191	104,029	93,319
	b)	199,471	866	200,337	189,134
Receivables from affiliated companies	a)	122,284	–	122,284	101,631
	b)	9,392	45	9,437	7,855
Receivables from enterprises in which participating interests are held	a)	15,946	–	15,946	12,647
	b)	16,395	27	16,422	12,792
Other assets	a)	12,997	76	13,073	37,827
	b)	19,071	208	19,279	43,901
Total	a)	255,065	267	255,332	245,424
	b)	244,329	1,146	245,475	253,682

In DEUTZ AG, out of the total accounts receivable from affiliated and companies in which participating interests are held, €90,457,000 and €6,604,000 respectively (2002: €65,660,000 and €2,511,000) consist of trade accounts receivable.

In the Group, out of the total accounts receivable from affiliated and companies in which participating interests are held, €7,140,000 and €7,052,000 respectively (2002: €5,183,000 and €2,626,000) consist of trade accounts receivable.

4. Liquid assets

Cheques, 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 €1.1 million (2002: €1.1 million) and in the Group accounts to €2.3 million (2002: €4.5 million) for pension payments, rental expenses, and miscellaneous expenses.

6. Stockholders' equity

Subscribed capital

The DEUTZ AG subscribed capital (share capital) came to €233,015,920.07 at the end of 2003 and is divided into 91,147,905 unit shares.

In compliance with Article 21 paragraph 1 and Article 24 of the Securities Trading Act, the Same Deutz-Fahr Group S.p.A. of 24047 Treviglio (BG), Italy, informed the company that the voting rights holdings of Deutz-Fahr Holding & Finance BV, 1017 CG Amsterdam, Netherlands, in DEUTZ AG passed the 5-percent and 10-percent thresholds on November 21, 2003 and now amount to 14.47 percent. Under Article 22 paragraph 1 clause 1 of the Act, these shares are attributable to the Same Deutz-Fahr Group S.p.A.

Likewise in compliance with Article 21 paragraph 1 and Article 24 of the Act, Deutsche Bank AG of 60325 Frankfurt am Main informed the company that the voting rights holding of DB Value GmbH of 25870 Norderfriedrichskoog in DEUTZ AG fell below the 25-percent threshold on October 23, 2003 and now amounts to 18.27 percent. Under Article 22 paragraph 1 clause 1 of the Act, these shares are attributable to Deutsche Bank AG.

In further compliance with Article 21 paragraph 1 and Article 24 of the Act, AB Volvo (publ), of 40508 Göteborg, Sweden, informed the company that its voting rights holding in DEUTZ AG fell below the 10-percent threshold on October 23, 2003 and now amounts to 7.09 percent.

Authorised capital

The Annual General Meeting on May 4, 2000 passed a resolution on new authorised Capital I amounting to €9,600,000.00 for issuing new unit shares and further authorised Capital II amounting to €3,900,000.00 for issuing unit shares to managers including members of the Management Board. No use was made of either block of capital on December 31, 2003.

The Management Board of DEUTZ AG passed a resolution on August 11, 2003, approved by the Supervisory Board on August 14, 2003, to make use of the authorised capital III under the company's Statutes and to raise the company's subscribed capital from €164,344,920.07 by €68,671,000.00 to €233,015,920.07 by issuing 26,861,760 new shares with no par value (unit shares) with a proportional share in the subscribed capital of about €2.56 and proportional entitlement to participate in profits from October 1, 2003 onwards.

Conditional capital

On June 29, 1995, the Annual General Meeting authorised a conditional capital increase of DM50,000,000.00, to be represented by 10,000,000 bearer shares with a par value of DM5 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.

The Annual General Meeting on May 27, 1999 also approved a conditional increase in share capital up to a maximum of €40,000,000.00. 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 May 26, 2004 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 May 26, 2004 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.

A resolution passed at the Annual General Meeting on June 28, 2002 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 June 27, 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 June 27, 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.

Convertible profit-participation rights

A resolution passed by the Annual General Meeting on June 29, 1995 authorised the Management Board to issue registered convertible profit-participation rights with restricted transferability at any time up to December 31, 1996, with the consent of the Supervisory Board, up to a total nominal value of DM50 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 DM50 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 DM100 per certificate with a par value DM50, 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 2003 financial year 1 such convertible profit-participation certificate was converted into DEUTZ AG shares, and at the end of the year the profit-participation certificate were outstanding to a total amount of €25,552,655.39.

7. Provisions

	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Provisions for pensions and other obligations	256,000	264,400	280,573	290,784
Tax provisions	3,598	300	3,159	873
Other provisions	108,725	132,069	135,611	164,571
Total	368,323	396,769	419,343	456,228

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 der DEUTZ AG of Cologne, which is a relief fund financed by DEUTZ AG, there was no shortfall existing between the valuation of the commitments as calculated 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 €3.0 million in latent taxes at DEUTZ AG and €1.7 million in the Group that result from differences in valuation rates between the commercial and the tax accounts.

Other provisions cover all identifiable risks and other uncertain liabilities. It mainly shows provisions for restructuring measures that consist primarily of costs expected from the completion of old orders in connection with the sale of the Industrial Plant Business and severance settlements. Costs are also shown for warranties 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	Maturing in	Maturing in	Dec. 31,	Dec. 31,
		less than 1 year	1 to 5 years	more than 5 years	2003 Total	2002 Total
Amounts owed to credit institutions	a)	142,918	8,745	270	151,933	191,543
	b)	171,657	52,440	25,664	249,761	321,336
Trade payables	a)	78,593	–	–	78,593	55,859
	b)	93,199	2	–	93,201	71,911
Bills of exchange payable	a)	–	–	–	–	–
	b)	155	–	–	155	155
Amounts owed to affiliated companies	a)	52,182	–	20,329	72,511	70,795
	b)	5,919	141	23,040	29,100	47,762
Other payables, taxes	a)	–	–	–	–	–
	b)	4,664	–	–	4,664	4,024
Other payables, social security	a)	6,832	–	–	6,832	6,002
	b)	8,132	–	–	8,132	7,319
Other payables, miscellaneous	a)	8,368	–	–	8,368	8,983
	b)	16,277	1,057	–	17,334	18,881
Total	a)	288,893	8,745	20,599	318,237	333,182
	b)	300,003	53,640	48,704	402,347	471,388

In the DEUTZ AG figures, trade accounts payable by affiliated companies came to €922,000 (2002: €6,580,000) respectively.

Accounts payable to credit institutions and other accounts payable are secured by mortgage rights and assignments or transfer of title totalling €194.8 million (DEUTZ AG: €110.0 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 €45,000 (2002: €3,497,000) respectively.

The Group's net financial debt as of December 31, 2003 amounted to €224.2 million (2002: €302,0 million).

9. Contingent liabilities and other financial commitments

Contingent liabilities	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Contingent liability on endorsed bills of exchange	3,401	3,629	15,291	9,940
Contingent liability on guarantees	32,780	35,630	18,783	23,425
Contingent liability on warranty contracts	23,522	24,274	11,805	18,581
Provision of security for the liability of others	–	–	7	8
Total	59,703	63,533	45,886	51,954

Other financial commitments

The total amount of other financial commitments not shown on the balance sheet and not included under contingent liabilities amounted on December 31, 2003 at DEUTZ AG to €267.9 million (2002: €321.8 million), of which those towards affiliated companies totalled €199.9 million (2002: €228.4 million) and in the Group to €91.7 million (2002: €115.8 million).

These involve commitments under rental and leasing contracts with a nominal value of €247.2 million (Group: €71.0 million) for a residual lifetime of contracts up to 9 (in the Group: 17) years and from purchase order commitments on plant investments of €20.7 million (Group: €20.7 million).

Liabilities under rental and leasing contracts at DEUTZ AG are matched by counter-claims totalling €5.1 million (Group: €10.0 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 in € million	DEUTZ AG		DEUTZ Group	
	2003	2002	2003	2002
Compact engines	779.0	732.6	843.0	815.0
Medium-sized and large engines	257.3	257.6	329.6	345.9
Total	1,036.3	990.2	1,172.6	1,160.9

Breakdown by regions in € million	DEUTZ AG		DEUTZ Group	
	2003	2002	2003	2002
Germany	294.5	323.0	298.0	295.6
Other Europe	365.6	315.8	440.0	405.8
America	132.7	123.3	149.5	166.5
Africa	42.5	43.4	59.2	58.2
Asia	192.6	178.2	213.4	215.6
Australia	8.4	6.5	12.5	19.2
Total	1,036.3	990.2	1,172.6	1,160.9

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	
	2003	2002	2003	2002
January 1	84,903	66,798	128,094	137,377
Accrument	-	17,326	-	-
Effect of change in composition of Group	-	-	-	-5,529
Finished goods and work in process after change in composition of Group	-	-	128,094	131,848
December 31	81,151	84,903	121,578	128,094
Increase/decrease (-) in finished goods and work in process	-3,752	779	-6,516	-3,754

Other own work capitalised

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

currency exchange rates, income from the reversal of write-downs as well as any other kinds of operating income.

In the DEUTZ AG figures this item also includes 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, proceeds from the sale of assets, gains on foreign-

Income from the reversal of other provisions came to €19.7 million (2002: €19.8 million) in the Group and €14.7 million (2002: €17.7 million) at DEUTZ AG.

14. Cost of materials

	DEUTZ AG		DEUTZ Group	
	2003	2002	2003	2002
Cost of raw materials and supplies and goods purchased for resale	603,978	582,420	616,797	607,483
Cost of purchased services	15,353	9,718	21,569	18,992
Total	619,331	592,138	638,366	626,475

15. Personnel expenses

Personnel expenses	DEUTZ AG		DEUTZ Group	
	2003	2002	2003	2002
Wages and salaries	199,873	189,312	242,639	237,825
Social security and other expenses	39,297	35,896	50,415	47,518
Pension expenses	1,240	4,432	2,954	6,316
Total	240,410	229,640	296,008	291,659
Employees (annual average)	2003	2002	2003	2002
Wage earners	2,544	2,596	3,159	3,233
Salaried staff	1,545	1,498	2,187	2,208
Trainees	167	167	168	169
Total	4,256	4,261	5,514	5,610

16. Depreciation

	DEUTZ AG		DEUTZ Group	
	2003	2002	2003	2002
Intangible assets	3,569	3,952	5,615	6,015
Tangible assets	23,630	23,301	55,299	55,990
Total	27,199	27,253	60,914	62,005

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	
	2003	2002	2003	2002
Income from profit/loss transfer agreements	2,365	2,864	824	2,257
Income from investments in				
– affiliated companies	–	–	61	65
– other companies	265	2,838	–	–
Income from associated companies	–	–	1,415	1,699
Losses transferred from subsidiaries	-310	-1,794	-29	-1,506
Total	2,320	3,908	2,271	2,515

19. Amounts written off financial assets

The writing-down of financial assets in the Group and at DEUTZ AG mainly relates to writing foreign shareholdings down to their book values.

20. Interest expenses, net

	DEUTZ AG		DEUTZ Group	
	2003	2002	2003	2002
Income from other long-term investments and loans	7,635	7,030	1,713	991
– of which from affiliated companies	6,028	6,175	–	–
Other interest and similar income	2,402	4,127	1,331	1,875
– of which from affiliated companies	1,951	2,659	260	235
Interest and similar expenses	-29,953	-31,812	-35,750	-39,433
– of which paid to affiliated companies	-2,700	-3,448	1,665	-1,788
Total	-19,916	-20,655	-32,706	-36,567

21. Other information

Corporate governance

In December 2003 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 (July 4, 2003 version) as required by Article 161 of the German Companies Act and made it permanently accessible to the shareholders on the website (<http://www.deutz.de>).

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 60/61.

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 2003 financial year came to €2,159,000 at DEUTZ AG and in the Group, and consisted of fixed salaries of €1,658,000 and variable bonuses totaling €501,000.

The emoluments of former Management Board members and their surviving dependents came to €1,261,000 at DEUTZ AG and in the Group, and a pension commitment of €13,991,000 has been formed for a provision towards these persons.

The emoluments of the Supervisory Board during the 2003 financial year at DEUTZ AG and in the Group came to €163,542 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.

Advances and loans to members of the Management and Supervisory Boards

As of December 31, 2003 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, March 8, 2004

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 and the combined annual report of DEUTZ Aktiengesellschaft and the Group for the financial year from January 1, to December 31, 2003. 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 accounting 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 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, March 9, 2004

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft



Kaiser
Auditor



(Ms) Kessels
Auditor



SHAREHOLDINGS

DEUTZ AG and DEUTZ Group

As of: December 31, 2003

No.	Name and registered offices of company	Holding in %	Equity capital € '000	Profit/loss (-) € '000
1	DEUTZ AG	-	170,951	1,500
Affiliated companies included in consolidation				
Domestic				
2	DEUTZ Beteiligungsverwaltung GmbH, Cologne	100.0	511	-281
3	DEUTZ Grundstücksverwaltung GmbH, Cologne	100.0	95	1,115
4	DEUTZ Vermögensverwaltung GmbH, Cologne	100.0	307	1,541
5	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne	100.0	26	-
6	Ad. Strüver KG (GmbH & Co.), Hamburg	94.0	2,403	-497
Foreign				
Europe				
7	DEUTZ Austria GmbH, Vienna (Austria)	100.0	1,885	189
8	DEUTZ Benelux NV, Antwerp (Belgium)	100.0	2,569	99
9	DEUTZ Benelux B.V., Rotterdam (Netherlands)	100.0	3,794	1,010
10	DEUTZ Nordic A/S, Copenhagen (Denmark)	100.0	1,236	286
11	DEUTZ DITER S.A., Zafra (Spain)	100.0	584	-1,486
12	DEUTZ DITER COMPONENTES S.A., Zafra (Spain)	100.0	10,778	583
13	DEUTZ FRANCE S.A., Gennevilliers (France)	100.0	8,684	409
14	DEUTZ IBERIA S.A., Madrid (Spain)	100.0	5,712	-1,793
15	DEUTZ Nordic AB, Barkarby (Sweden)	100.0	686	237
16	DEUTZ UK Ltd., London (UK)	100.0	8,851	55
America				
17	DEUTZ Canada Inc., Ville St.-Laurent, Quebec (Canada)	100.0	3,102	373
18	Deutz Corporation, Atlanta (USA)	100.0	12,185	3,074
19	DEUTZ of America Corporation, Atlanta (USA)	100.0	22,733	2,472
Africa/Asia/Australia				
20	Nlle Ste MAGIDEUTZ S.A., Casablanca (Morocco)	100.0	1,601	7
21	DEUTZ Asia-Pacific (Pte) Ltd., Singapore (Singapore)	100.0	5,741	588
22	Deutz Australia (Pty) Ltd., Braeside (Australia)	100.0	2,718	135

As of: December 31, 2003

No.	Name and registered offices of company	Holding in %	Equity capital € '000	Profit/loss (-) € '000
Other affiliated companies				
Domestic				
23	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne	100.0	26	433
24	DEUTZ Versicherungsvermittlung GmbH, Cologne	100.0	1,534	392
Foreign				
25	DEUTZ CHINA LIMITED, Kowloon (Hong Kong)	100.0	-766	47
26	DEUTZ Hungaria Kft., Budapest (Hungary)	100.0	359	109
27	KHD Humboldt Wedag Espana S.A., Madrid (Spain)	100.0	925	58
Associated companies				
Foreign				
28	DEUTZ AGCO MOTORES S.A., Haedo (Argentina)	50.0	1,289	942
29	ASIA POWER (PRIVATE) LIMITED, Colombo (Sri Lanka)	31.8	26,372	4,788
30	D.D.Power Holdings (Pty) Ltd., Elandsfontein (South Africa)	17.7	7,596	1,941

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
Weberbank Privatbankiers KGaA, Berlin
- b) Gemeinnützige Hertie-Stiftung, Frankfurt am Main,
Chairman
KarstadtQuelle Bank GmbH, Neu-Isenburg
Schott-Glas-Stiftung, Mainz

Werner Scherer*

Vice-Chairman

Chairman of the Group Works Council of DEUTZ AG,
Cologne

Klaus-Otto Fruhner

Former Cologne City Councillor, Cologne

- a) Kölner Verkehrs-Betriebe AG, Cologne
Häfen und Güterverkehr Köln AG, Cologne
Flughafen Cologne/Bonn GmbH, Cologne
Abfallentsorgungs- und Verwertungsgesellschaft Köln
mbH, Cologne
Fleischversorgung Köln GmbH, Cologne
modernes Köln Gesellschaft für Stadtentwicklung mbH,
Cologne
Rechtsrheinisches Technologie- und Gründerzentrum
Köln GmbH, Cologne, Chairman

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

Schweinfurt

Former member of Group Board of AB SKF,
Göteborg (Sweden)

Dr Helmut Lerchner

Chairman of the Management Board of ElringKlinger AG,
Dettingen
(from June 26, 2003 onwards)

- b) ElringKlinger S.A., Reus (Spain), Chairman
ElringKlinger Sealing Systems S.L., Reus (Spain),
Chairman
ElringKlinger S.p.A., Mazzo di Rho (Italy), Chairman
ElringKlinger Mexiko S.A. de C.V., Toluca (Mexico),
Chairman
ElringKlinger do Brasil Ltda., Piracicaba (Brazil),
Chairman
Changchun ElringKlinger Co. Ltd., Changchun
(People's Republic of China)
Jeil Elring Co. Ltd., Changwon (Korea)

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 AG
(Mannheim engine works), 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)

Prof Dr Hans-Jürgen Warnecke

Former President of the Fraunhofer Gesellschaft, Munich
(until December 31, 2003)

- a) Mahle GmbH, Stuttgart
Jenoptik AG, Jena
IMIG AG, Leonberg
Messgerätebau GmbH, Memmingen
Dynamit Nobel AG, Troisdorf

Peter Zühlsdorff

Shareholder-Director of DIH Deutsche Industrie Holding
GmbH, Frankfurt/Main

General Manager of Bewerbungskomitee Leipzig 2012

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

Gordon Riske (46)

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 (58)

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 (54)

Finance/Personnel (from June 1, 2003 onwards),
Düsseldorf

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

Dr Stefan Schulte (43)

Finance/Personnel (until April 15, 2003),
Frankfurt/Main

* Employees' representatives on the Supervisory Board

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

REPORT BY THE SUPERVISORY BOARD

The Supervisory Board concerned itself in detail during the 2003 financial year with the company's situation, the development of its Business Areas, and the risk situation at its five formal meetings, in numerous individual discussions with the Management Board, and through oral and written reports from the Management Board. The Supervisory Board has also concerned itself with many individual matters of importance to the company.

One major item under discussion during the year under review was the company's strategic alignment in connection with the DEUTZ Re-Launch/5-Point Programme, which was brought to a successful conclusion in the 2003 financial year.

The co-operation agreement into which the company entered in the second half of the 2003 financial year with the SAME DEUTZ-FAHR Group represents a further milestone in the systematic strategic development of DEUTZ AG. In order to implement these co-operation arrangements the Supervisory Board gave its assent on August 14, 2003 to the resolution of the Management Board of DEUTZ AG of August 11, 2003 to raise the company's share capital by €68.7 million to €233.0 million from authorised capital III.

Other major items under discussion were the medium-term planning, the progress of joint-venture projects, the production location strategy, and the asset management programme.

One regular item of the reports to the Supervisory Board was the Risk Report and discussions on the development of sales by value and by volume and of profits in the company's individual Business Areas. The Supervisory Board thus discharged the duties incumbent on it under the law and the company's Statutes and Rules of Procedure and monitored, advised, and supervised company management.

At its November meeting the Supervisory Board also occupied itself intensively with the recommendations of the Government Commission on the German Corporate Governance Code in particular also concerning the individualised disclosure of the emoluments of Supervisory and Management Board members. In December 2003 the Supervisory and Management Boards issued a Declaration of Conformity under Article 161 of the German Companies Act.

There was no need to call in the Conciliation Committee prescribed by the Co-Determination Act during the year. The Audit Committee (formerly the Balance Sheet Committee) met twice and the Human Resources Committee three times.

PricewaterhouseCoopers GmbH, the auditing company in Düsseldorf, has audited the financial statements of DEUTZ AG and the consolidated Group financial statements as of December 31, 2003 and the combined annual report of DEUTZ AG and the Group, based on the bookkeeping, and awarded its unqualified certificate of confirmation. The risk early-warning and monitoring system required by Article 91 paragraph 2 of the Aktiengesetz (German Companies Act) was also audited in compliance with Article 317 paragraph 4 of the HGB (German Commercial Code).

These documents were submitted to the Supervisory Board together with the auditor's audit report. The auditor gave a detailed explanation of the findings of his audit on the financial statements to the Audit Committee at its meeting on March 12, 2004 and to the Supervisory Board at its meeting on March 24, 2004 and answered all the questions from the members of the Audit Committee and the Supervisory Board. The Supervisory Board took assenting note of the audit report on DEUTZ AG and the consolidated Group. In accordance with the conclusions of its own final study of the financial statements and the Group financial statements, the Supervisory Board approved them and thus at the same time adopted the company's financial statements.

The following changes occurred in the executive bodies of the company during the 2003 financial year:

The Annual General Meeting on June 26, 2003 elected the members of the Supervisory Board who represent the shareholders. The previous members of the Supervisory Board, Dr Michael Endres, Klaus-Otto Fruhner, Michael Haupt, Prof Dr Hans-Jürgen Warnecke, and Peter Zühlsdorff were re-elected, and Dr Helmut Lerchner was elected as a new member.

The members of the Supervisory Board who represent the employees had already been elected before the Annual General Meeting by the employees. Werner Scherer, Reinhold Götz, Helmut Müller, Karl-Heinz Müller, Dr Witich Rossmann, and Peter Schwab were all re-elected.

At its constituting meeting the Supervisory Board elected Dr Michael Endres to be its Chairman and Werner Scherer to be its Vice-Chairman.

On December 31, 2003 Prof Dr Hans-Jürgen Warnecke resigned his seat on the Supervisory Board. The Supervisory Board would like to thank Prof Dr Warnecke for his valuable work. He had been a member since January 1, 1991.

With effect from January 1, 2004 Prof Dr Marco Vitale was appointed to the Supervisory Board as a representative of the shareholders through a ruling by the Local Court of Cologne for the current period of office.

The composition of the committees has not been changed. The chairmanship of the Audit Committee has been transferred from Dr Michael Endres to Mr Peter Zühlsdorff.

Dr Stefan Schulte left the Management Board on April 15, 2003.

At its meeting on February 13, 2003 the Supervisory Board appointed Mr Helmut Meyer to be the new member of the Management Board in succession to Dr Schulte. Mr Meyer is responsible for finance and accounts, taxes, controlling, organisation, legal affairs, human resources, and EDP/IT, and took up his duties on June 1, 2003.

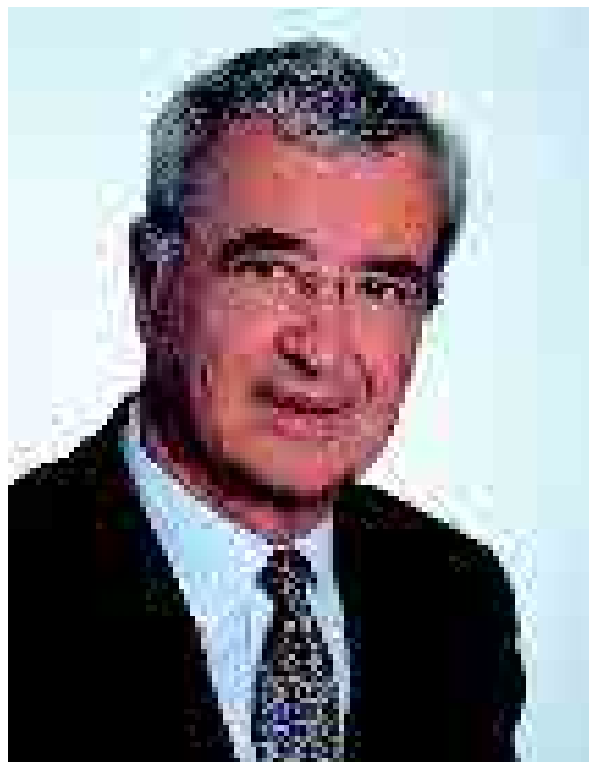
The Supervisory Board would like to express its special thanks and appreciation to all the company's employees and their elected representatives, as well as to the Management Board, for the work they have done in 2003 and for the successes they have achieved.

Cologne, March 2004

The Supervisory Board



Dr Michael Endres
Chairman



GLOSSARY

Asset Management The Asset Management Programme at DEUTZ serves the purpose of reducing the amount of capital tied up in fixed and current assets.

Benchmark A suitable figure against which one can compare one's own performance or position.

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.

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

Deferred Compensation Company pension scheme for employees not covered by collective agreements under which a proportion of their untaxed salaries are converted into their own supplementary pension provisions.

DEUTZ MVS® Engine control system developed and patented by DEUTZ in which the point in time at which fuel is injected and the quantity injected by the unit-pump system are determined by electronically controlled magnetic valves.

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

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.

EMR® Electronic engine control system developed and patented by DEUTZ with which the quantity of fuel injected is adjusted to the performance required from the engine to achieve the optimum rate of consumption.

Free float The proportion of the shares of a company that are »floating freely« in the market and are held and traded in small packages by a large number of shareholders whom the company does not know by name.

Global sourcing Internationalisation of the purchasing of materials and services with the aim of reducing production costs and compensating for fluctuations in currency exchange rates.

Incentive Bonus payments to employees linked to their fulfilling certain corporate goals or to individual target agreements.

Lead Supplier Supplier who works as a principal supplier for DEUTZ in certain fields of goods or services and meets requirements outside the scope of his own range of products by buying them in from sub-suppliers and selling them to DEUTZ, usually integrated into his own goods or services.

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.

Materials 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.

MetallRente MetallRente GbR is a foundation set up jointly by IG Metall, the German metalworking industries trade union, and the corresponding employers' association (Gesamtmetall). It provides those employees who are covered by collective agreements a facility for building up their own supplementary retirement pension by converting a proportion of their salaries into pension contributions.

Overhead The »overhead« area describes the departments within a company that generate costs that cannot be directly charged against orders but are incurred indirectly by all orders.

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.

Road show An information dissemination event for analysts, investment fund managers, and investors held anywhere other than at DEUTZ AG head office.

Solution Provider DEUTZ is not just an engines supplier to its customers but offers complete drive systems and thus solves their problems and meets their requirements.

Turn-around In the context of this Annual Report this means turning a negative business situation around into a positive one.

Win-win-situation A situation in which all the parties involved will gain an advantage from the agreed solution.

Financial calendar

2004

Day	Date	Time	Event	Venue
Tuesday	March 30	10.00 am	Annual results and analysts' conference Publication of the 2003 Annual Report	DEUTZ AG, Cologne
Tuesday	May 04	–	Publication of 1st Quarter Report, 2004	–
Thursday	May 27	10.00 am	Annual General Meeting	koelnmesse, Cologne
Tuesday	July 27	10.00 am	Press and analysts' conference Publication of the 2004 Half-Year Report	DEUTZ AG, Cologne
Thursday	Oct. 21	–	Publication of 1st to 3rd Quarters Report, 2004	–

2005

Day	Date	Time	Event	Venue
Tuesday	April 19	10.00 am	Annual results and analysts' conference Publication of the 2004 Annual Report	DEUTZ AG, Cologne
Tuesday	May 03	–	Publication of 1st Quarter Report, 2005	–
Thursday	June 09	10.00 am	Annual General Meeting	koelnmesse, Cologne
Thursday	July 28	10.00 am	Press and analysts' conference Publication of the 2005 Half-Year Report	DEUTZ AG, Cologne
Thursday	Oct. 27	–	Publication of 1st to 3rd Quarters Report, 2005	–

Imprint

Published by

DEUTZ AG
 Deutz-Mülheimer Straße 147–149
 51063 Cologne
 Germany
 Corporate Communication
 P + 49 221 822 2491
 F + 49 221 822 2116
 info@deutz.de
 www.deutz.de

Concept and layout

Kirchhoff Consult AG

Lithography and print

Bacht, Grafische Betriebe und Verlag GmbH

This is a complete translation of the original German version of the Annual Report.

Our Vision is to set standards and shape the future.

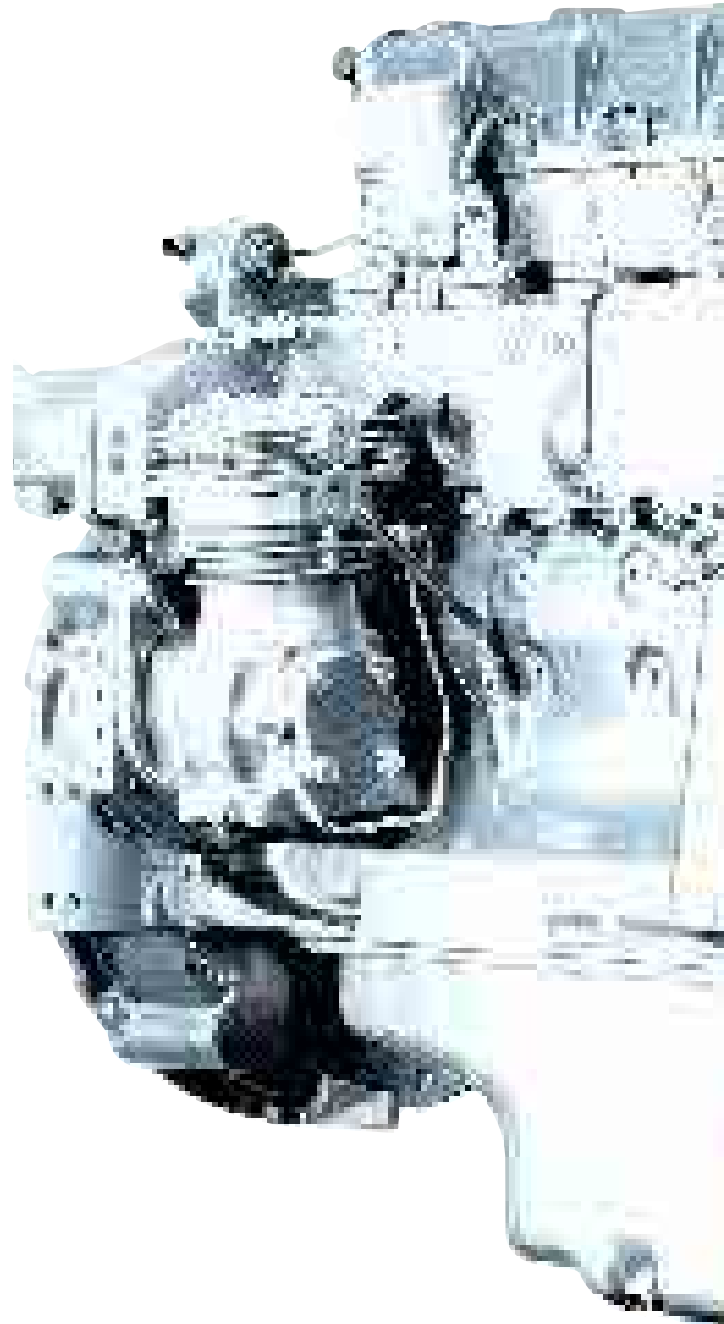
Our Mission is to make DEUTZ an internationally leading company in the relevant markets.

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.**



DEUTZ AG

Deutz-Mülheimer Straße 147–149
51063 Cologne
Germany

www.deutz.de