

Annual Report
2002

GO AHEAD



DEUTZ Group: Sales by regions
in % (2001 figures)



- 25.5** > Germany (24.4)
- 35.0** > Other Europe (33.4)
- 20.2** > Asia/Australia (17.0)
- 14.3** > America (19.2)
- 5.0** > Africa (6.0)

DEUTZ Group: Sales by segments
in % (2001 figures)



- 70.2** > Compact engines (63.0)
- 29.8** > Medium-sized and large engines (37.0)

DEUTZ Group: Key figures

		2000*	2001	2002	Change in %
Sales	€ million	1,285.1	1,184.9	1,160.9	-2.0
Foreign sales proportion	%	75.0	75.6	74.5	-
Engines Business	€ million	1,160.6	1,184.9	1,160.9	-2.0
Compact engines	€ million	772.2	746.1	815.0	9.2
Medium-sized and large engines	€ million	388.4	438.8	345.9	-21.2
Industrial Plant Business	€ million	124.5	-	-	-
Unit sales**	Units	159,957	146,645	154,032	5.0
Compact engines	Units	159,122	145,538	153,285	5.3
Medium-sized and large engines	Units	835	1,107	747	-32.5
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	81.3	89.1	103.0	15.6
Operating profit (EBIT)	€ million	15.6	27.9	41.0	47.0
Profit/loss on ordinary activities	€ million	-25.4	-13.7	4.4	-
Profit/loss for the year	€ million	-8.9	-31.8	2.0	-
Earning per share	€	-0.14	-0.49	0.03	-
Fixed assets	€ million	408.2	520.8	496.8	-4.6
Net financial debt	€ million	320.0	339.7	302.0	-11.1
Cash flow (before financing)	€ million	-84.4	-82.8	37.7	-
Stockholders' equity	€ million	125.0	93.0	95.0	2.2
Stockholders' equity proportion	%	11.8	8.2	9.1	-
Balance sheet total	€ million	1,065.1	1,142.2	1,048.6	-8.2
Investments	€ million	69.2	41.7	59.5	42.7
Depreciation	€ million	43.7	65.8	62.4	-5.2
Employees (December 31)	Number	6,614	5,979	5,470	-8.5

* including the since sold Industrial Plant Business

** worldwide from 2000 onwards

DEUTZ segments

	2002		2001	
	COMPACT ENGINES		MEDIUM-SIZED AND LARGE ENGINES	
	Our compact engines cover the output range from 4 to 440 kW. Within this segment we produce liquid cooled and air cooled diesel engines in Cologne, Ulm and Zafra (Spain).		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 (2001 figures)			
Engines	642.8	(580.9)	164.9	(264.4)
Mobile machinery	243.2	(220.5)	–	–
Stationary equipment	187.0	(185.2)	107.5	(196.1)
Agricultural machinery	96.7	(86.4)	–	–
Automotive	83.6	(49.8)	–	–
Marine	13.4	(11.2)	57.4	(68.3)
Miscellaneous	18.9	(27.8)	–	–
Service	172.2	(165.2)	181.0	(174.4)
DEUTZ Group	815.0	(746.1)	345.9	(438.8)

Milestones in 2002

> January 2002

- > Series start-up for Volvo wheel loader produced in Sweden with co-operation-agreement MVS engines
- > Series start-up for the new 914-series air-cooled engines meeting stage II of the exhaust emission regulations

> February 2002

- > Series start-up for the Volvo crawler-excavator produced in Korea with co-operation-agreement MVS engines
- > DEUTZ appears at the »Samoter«, the international construction machinery exhibition in Verona

> March 2002

- > Nicolaus August Otto is accepted into the »European Automotive Hall of Fame« in Geneva
- > DEUTZ presents its results for 2001: Re-Launch-Programme even more successful than planned, EBIT almost doubled

> April 2002

- > In Mannheim DEUTZ starts up Germany's most modern test beds for medium-sized engines and at the same time commissions its own combined heat-and-power station with the new 20-cylinder gas engine
- > DEUTZ World Meeting in Cologne: international strategy conference for the worldwide DEUTZ organisation

> May 2002

- > DEUTZ presents its first quarterly report for 2002: Re-Launch-Programme continues to be successful, break-even almost attained
- > DEUTZ presents awards to its top suppliers: four receive special awards

> June 2002

- > DEUTZ-FAHR equips its Agrotion tractors with the new EMR2 electronic motor regulator from DEUTZ
- > DEUTZ AG Annual General Meeting in Cologne: Re-Launch-Programme on the right track. New three-pillar strategy presented

Worldwide presence

> More than 800 independent DEUTZ sales and service partners in more than 130 countries



> 22 sales companies

Europe

Germany

Berlin, Erfurt, Hanover, Hamburg, Cologne, Mannheim, Nuremberg, Ulm, Unterföhring, Übersee, Wilhelmshaven

Rest of Europe

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

America

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

Asia

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

Africa

Casablanca (Marocco) · Hydra (Algeria) · Tripoli (Libya)

Australia

Braeside, Kalgoorly, Springwood, Hornsby, South Fremantle

4 production works, 20 service centres, 14 sales offices

> July 2002

- > Reorganisation of DEUTZ ENERGY: concentration on decentralised energy equipment with DEUTZ gas engines
- > DEUTZ road show for investors in London

> August 2002

- > DEUTZ presents its 2002 first half-year report: break-even achieved, DEUTZ back in the profit zone
- > DEUTZ Xchange Centre in Duisburg makes its start: Xchange-Programme enlarged to take in medium-sized and large engines

> September 2002

- > DEUTZ reorganises its sales and service network in Germany: Regional Agency West represents the first element
- > DEUTZ appears at the »SMM« in Hamburg, the world's leading exhibition for the ship-building industry: new stand design sets new standards

> October 2002

- > DEUTZ presents its nine-month report for 2002: market presence strengthened, earnings improve by € 22 million over the preceding year.
- > DEUTZ ENERGY Autumn Conference in Mannheim: Forum for decision-makers from the energy business

> November 2002

- > Series start-up for Volvo wheel loader produced in Sweden with co-operation-agreement MVS engines
- > DEUTZ ENERGY appears at the »Horti Fair« in Amsterdam, the world's biggest exhibition for horticultural machinery

> December 2002

- > DEUTZ signs a technology co-operation agreement with FAW, the biggest commercial vehicle manufacturer in China
- > DEUTZ submits its Declaration of Conformity with the German Corporate Governance Code

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Our Vision is to set standards and shape the future.

Our Mission is to make DEUTZ into 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.

Dear shareholders,
Dear friends of our company,

We have a difficult but very successful year behind us. The most important message is this: DEUTZ is a profitable company again and is generating a positive cash flow. In a very difficult economic environment we have fought our way forwards against the general trend and greatly improved our company results. Whilst sales remained almost constant at € 1,161 million, operating profits rose by 47 percent to € 41 million. Following a negative figure of almost € 32 million in the preceding year, in the year under review we have made a profit for the year of € 2 million – and have thus achieved the turn around.

We have also greatly improved our liquidity. Strict asset management has enabled us significantly to reduce the funds tied up in the company and to increase the cash flow before financing from € -83 million in the preceding year to € 38 million this year. DEUTZ now has an adequate free reserve of liquidity of more than € 73 million and we have reduced net financial debt by about € 38 million to € 302 million.

The three-year DEUTZ Re-Launch-Programme that was initiated in 2001 is having an effect. Compared with the base year of 2000, last year we had already achieved a profit improvement of about € 46 million although we had only planned to achieve € 35 million. We are confident that we will surpass the target set for the Re-Launch-Programme that was set at € 60 million in 2003.

We tightened up the Re-Launch-Programme still further in 2002 in response to changing market conditions. The foundry was closed down even ahead of the planned date. We pushed ahead energetically with our global sourcing activities and with trimming down the logistics processes. We have stripped more than 300 more jobs out of the administrative area, which means that since the Re-Launch-Programme started we have slimmed down the »overhead« area by more than 600 jobs. We have also further rationalised our sales and service network and reduced the number of affiliated companies. As part of the comprehensive asset management system we have greatly reduced fixed assets, inventories, and accounts receivable. Our quality offensive tackle problems at their roots, with teams drawn from many departments working intensively on cutting production costs. In addition to this, with an intensive risk management campaign we have reduced risk factors from the Industrial Plant Business and Engines Business. At the beginning of this year we were able to put an end to litigation with General Electric, USA, that had been smouldering since 1998.

The action we have taken has produced measurable successes. In all the works we have increased productivity by a 5 percent average. Compared with the preceding year we have reduced the balance sheet total by € 94 million and increased our EBIT profitability to 3.5 percent. The cost-run-rate, which we have introduced as the yardstick for our cost trends, is also improving; in 2000, € 0.97 was still necessary in order to achieve € 1.00 in sales but by 2001 it was € 0.92 and in the year under review € 0.91. Our aim for the 2003 financial year is € 0.89.

The progress we have made so far strengthens us in further pursuing the route we have taken. We will continue the DEUTZ Re-Launch-Programme systematically and focus our efforts on our areas of core competence. DEUTZ is now a pure specialist in engine technology. Our structures and processes are now so designed that we can reach the profit threshold even if we only sell 130,000 compact engines and 1,000 medium-sized and large engines. The aim of all our restructuring activities is to set DEUTZ up to be profitable and less vulnerable to market fluctuations, as well as securing jobs and constantly increasing shareholder value.

We have focussed our sales activities on growth regions and segments. We increased the unit sales of our compact engines during the year under review on average by 5 percent, to more than 153,000 engines, and contrary to the market trend we increased sales at a rate significantly above average, in fact by more than 9 percent to € 815 million. The basis for this very satisfactory improvement was success in sales, particularly in the growth regions of the People's Republic of China and the Far East and in Eastern Europe, but also on the domestic market and in the success-



Gordon Riske
CEO



ful further development of our strategic co-operation agreement with Volvo. We thus succeeded in compensating for the slack course of business with medium-sized and large engines. As a result of turbulence in the American energy sector and the low level of investment in the European telecommunications industry, sales in this area during the year under review fell to € 346 million (2001: € 439 million). Difficult though the market environment was, our sales were only 2 percent lower at € 1,161 million. At the same time we improved the sales structure by increasing the proportion of the more profitable products and services. With our success in gaining new customers we have also laid the foundation stone for the future of our company.

Our medium-term strategy stands on three pillars: with liquid-cooled compact engines, air-cooled compact engines, and medium-sized and large engines we completely cover all the different fields of application for diesel and gas engines. The element that links the three pillars together is our service business, which contributes about 30 percent to total sales. In liquid-cooled engines the alliance with our Swedish partner Volvo will help us to achieve rapid growth. With our air-cooled series of engines we have achieved an outstanding unique selling position on the market, and we intend to strengthen it further. With our ultra-modern medium-sized and large engines we aim to grow particularly in the segment in which demand is strong, converting renewable sources of energy. The successes achieved by our Re-Launch-Programme gives us confidence that we will attain our market goals in this area even without a co-operation partner.

In the medium-term we are aiming to achieve further concentration in our production, assembly, and administrative locations, but the top priority must go to the preparations for our re-entry into the commercial vehicles segment. We aim to come back into it in 2005 with a newly developed series of engines.

The capital market has not yet started to appreciate the progress we have been making on the way towards becoming a profitable company with a secure future. Although the DEUTZ share price remained stable in a difficult environment

throughout 2002, and was not affected by the MDAX collapsing by an average of 30 percent, the continuing uncertainty from which the capital market is suffering on account of the Iraq crisis has also put increasing pressure on DEUTZ shares. We are expecting, however, that the company's return to financial health, especially in conjunction with an improvement in the climate on the stock exchange, will lead to a higher share price. We have been admitted to the new Prime Standard and from March 24, 2003 we will be quoted in the SDAX.

In 2002 we moved a lot in our customers' world. New orders are going in the right direction and we are expecting the systematic further implementation of the Re-Launch-Programme to yield more benefits because many of the measures already initiated will not take their full effect until this year and next. Although our view of the markets in Europe, North America, and the Middle and Far East gives grounds for cautious economic expectations, the sales and structural successes we have achieved during the year under review have created the right conditions for another successful year in 2003.

One main reason for our confidence is the people who form and support our company. These include our employees, whom we would like to thank for their great commitment to the pursuit of shared goals. Our thanks also go to our customers, our partners, and our suppliers for the confidence they place in our company. And finally we would also like to thank our shareholders for their loyalty to DEUTZ, the basis for our work.

Cologne, March 2003



Gordon Riske
CEO



Karl Huebser
Technology



Dr Stefan Schulte
Finance/Personnel



Dr Stefan Schulte



Karl Huebser

> Aims of restructuring programme achieved

DEUTZ Re-Launch-Programme

Focussing of the model range

Implemented in 2002

- > Costs of complexity reduced
- > Scope created to round out product range
- > Customer benefit increased

Concentration of production

- > Complexity of production planning reduced
- > Logistics processes rationalised
- > Foundry closed earlier than planned

Leaner structures

- > Administrative staff reduced by more than 300 employees. Since 2000, staff have been reduced by more than 600
- > Affiliated companies further reduced
- > Service and sales network simplified

Quality offensive

- > Quality costs reduced by more than 20 percent
- > Know-how transfer within the Group accelerated
- > Recertificated under DIN ISO 9001

Promotion of co-operations

- > Co-operation arrangements with Volvo widened
- > Licence contract with Norinco signed
- > Technology transfer contract with FAW signed





GO HIGH ^

QUALITY >



GO HIGH

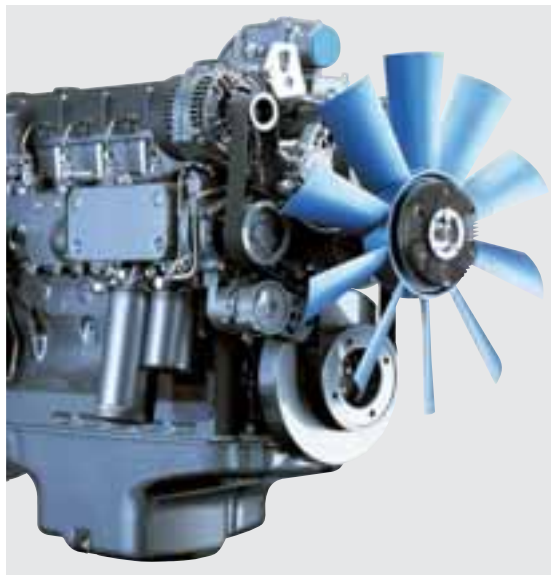
> Products, services + strategies

DEUTZ has been »moving the world« for nearly 140 years and is continuing to do so. With our successful Re-Launch-Programme we are concentrating on the engines business again. DEUTZ is a full-line engine specialist with a range of diesel engines stretching from 4 to 3,500 kW and a comprehensive portfolio of gas* engines from 180 to 4,000 kW. For our customers we are an independent partner, and one who can supply not only customer-specific drive systems but also a comprehensive range of services from joint project development right through to after-sales service. We have a worldwide presence with our highly competent sales and service partners, and are continuing to broaden our core competence in research and development and in efficient engine production.

Three-pillar concept

Our comprehensive range of products that is marketed by our DEUTZ MOTOR business area is based on three pillars.

With our liquid-cooled compact engines we cover an output range from 4 to 440 kW. Mechanical, electronic/mechanical, and fully electronic injection and motor management systems are available on a modular basis in order to cover the many and various customer requirements perfectly in the application segments of mobile machinery, stationary equipment, agricultural machinery, and the marine and automotive segments. It goes without saying that all the engines leaving our works in Porz (Cologne) and Ulm meet all the latest emission requirements. 58,000 units of our best seller alone, the 1011-series, leave our ultra-modern assembly plant in Porz (Cologne) every year. We intend to transfer this success to new products in the lower output classes over the next few years. The larger series, with 4 to 7 litres swept volume, are the core element in our strategic partnership with Volvo, who is opening up additional growth potential in this field.



* Note for American readers: these engines run on natural gas and similar fuels, not on gasoline. In keeping with British parlance we refer to gasoline as »petrol«.



In the medium-term we intend to increase the annual unit sales of our liquid-cooled compact engines from their present-day level of 118,000 to a total of about 150,000 units.



We also have a leading world position in the field of air-cooled diesel engines. Our engines, from the plant in the Deutz district of Cologne, from Ulm, and from Zafra (Spain) cover the output range from 4 to 400 kW and combine modern technology with traditional durability, reliability, and ultra-simple maintenance. Our air-cooled engines are mainly used in mobile machinery, agricultural machinery, and stationary equipment. Since their launch onto the market in 1967 more than 3 million engines of our legendary 912/913-series have been sold. Series production began during the year under review of the new 914 air-cooled series, which meets the present stage II exhaust emission requirements. The final additions to our range of smaller air-cooled engines has been coming off the line in Spain since the beginning of 2003; this range reaches right down to the single-cylinder engine for vibratory plates, dumpers, concrete saws and pumps. Our medium-term aim is to increase unit sales from their present level of about 35,000 to 50,000 units. To achieve this we have made the technical innovations necessary for them to meet the latest emission regulations and thus to attain an absolute unique selling position on the market.



Our medium-sized and large engines are manufactured in Mannheim and are mainly used in the application segment of stationary equipment and the marine segment. In the medium-term we intend to increase unit sales in these segments from their present level of about 750 engines to something well over 1,000 a year. The diesel versions cover the output range from 320 to 3,600 kW, whilst the gas versions take up the spectrum from 280 to 4,000 kW. Their unique feature is our platform concept for the two medium-sized engine series, the 616 and the 620. Both are produced in diesel and gas versions, and the proportion of shared parts in them is about 85 percent.

We have now implemented this innovative concept with our compact 1015 engine from the Ulm works, and have thus extended our range of gas engines downwards to an output of 180 kW.

On the basis of this enlarged gas engine range, our DEUTZ ENERGY Business Area now supplies modular-design products stretching from individual gas engines with electronic motor management and power units and modules for combined heat-and-power stations to complete systems for converting various kinds of gas into mechanical, electrical, or thermal energy. Gas as a primary energy source is gaining increasingly in significance for stationary power and heat generation. The focus nowadays is not only on making use of deposits of natural gas but also of renewable energy from industrial and agricultural sources such as waste dumps, sewage works, coking plant, and bio-gas plant. In addition to the comparatively high total efficiency and the positive environmental impact, public funding programmes and restrictive emission requirements are also encouraging this trend towards decentralised energy conversion with gas engines. In the medium-term we are expecting above-average growth rates worldwide in this market segment, and have therefore given the DEUTZ ENERGY Business Area a new strategic alignment during the year under review and focussed it, under new management, on this profitable application segment and on new regions.

Comprehensive support for our customers

The basis on which all our three pillars stand is the DEUTZ SERVICE Business Area. In this division we have bundled all our after-sales activities from handling warranty work and supplying spare parts to maintenance and servicing contracts. As part of a »pull-through« strategy the business area provides well directed service support to the operators of our engines and sales support for those of our customers who install new engines in machinery; we are all well aware that SERVICE »sells the second engine«. We are thus continually broadening our range of services. In our



new central warehouse concept we are bundling our logistics forces in the medium-term into five economic-zone centres. This will not only enable us to reach the customer faster but also to reduce the stocks of spare parts we hold all over the world. In the year under review we made the preparations for an additional sales channel for original DEUTZ parts – the internet. Our homepage will come into operation in the spring of 2003. We aim to extend these e-business activities over the coming years.

In the middle of 2002 we expanded our successful Xchange-Programme of reconditioned parts and engines by bringing in our medium-sized and large engines. This included incorporating our Duisburg location into the Xchange-Programme as part of the restructuring of our German sales and service organisation. Here hull engines, so-called short-blocks, components and individual parts will be inspected and reconditioned. After reconditioning, original DEUTZ Xchange-Products exactly match new products in terms of quality and are sold under the same warranty terms, so we can offer our customers a low-priced and environmentally friendly alternative. Relatively short delivery periods averaging 14 days for a fully operational Xchange-engine add to the attractions of this service. In addition to this, we now have a product range with which we can offer our customers engines that are no longer in series production.



DEUTZ – leading market positions in all application segments

We hold leading positions worldwide in the so-called »non-captive market«, the one in which market potential is defined by customers who do not produce their own engines. In the case of mobile machinery we are the undisputed number one in the range from 30 to 60 kW, and number three on the world market in the range above 60 kW. We intend to extend this outstanding position further in the medium-term in the engine range below 30 kW as well. We hold the number one position in Germany for stationary equipment and the number two position in Western Europe, the Middle East, and Africa. It is our strategy to strengthen our positions considerably in this application segment over the next few years in the regions of North America and Asia.



In agricultural machinery we hold second place in the core output range for tractors of 60 to 200 kW, mainly on account of our unique selling position as a full-line supplier of air-cooled engines. The new air-cooled 914 series, which meets all the current requirements of exhaust emission legislation, will be coming into use this year in a new generation of tractors from our major customer, Fendt.

In the marine field we are amongst the leading specialists for powering patrol vessels, large yachts, harbour tugs, and fishing boats. Ship owners in the commercial marine sector and yacht owners trust in the reliability of our marine engines as well as as the lifeboat organisations and the coast guard authorities that equip their off-shore rescue vessels and high-speed boats with »marine power« from DEUTZ.

Success with customers

In the automotive application segment we are already represented particularly in Eastern Europe, the Middle East, and the People's Republic of China with unit sales of more than 8,000 engines. We equip rail vehicles and heavy trucks, and also buses of various sizes, with our 1012, 1013, and 1015-series engines. One particular speciality is produced by our licensee in Turkey, Otokar, who is equipping his 14-seater mini-buses – an indispensable sight on the streets of such major conglomeration as Istanbul – with 912-series air-cooled engines produced under licence. In the medium-term we intend to expand our business considerably in the field of medium-weight trucks with the support of other co-operation partners.

In all application segments we have strengthened our position with existing customers and gained new customers during the year under review with innovative air-cooled and liquid-cooled compact engines. We have developed prototype engines for a total of about 80 models, a stage that represents the most important step towards series supply to new customers. A number of these customers have already given undertakings that they will start series production using our engines during the course of this year.





Another priority in our selling activities is to extend our position as a »solution provider«, supplying complete systems all from one source. Our new »power pack« for pumps is one example: the engine, tank, control instruments, and exhaust system are all installed ready on a carrier frame. Once the pump has been coupled up the unit is immediately ready to operate. We have gained a foothold in new application segments for our medium-sized and large engines as well; the first engines for use in rail locomotives and heavy dump trucks have already been delivered to France, South Africa, and Russia.

At home in all the main markets

As an internationally organised company we gain 75 percent of our sales from outside Germany. We are maintaining strong market positions in Western Europe, the Middle East, and in America. The European markets (outside Germany) contribute 35 percent to total Group sales, North America 14 percent, and Asia and Australia 20 percent together. Germany provides about a quarter of our sales. We regard future growth potential as mainly lying in Asia, Australia, and Eastern Europe.

Our business in the People's Republic of China and Hong Kong developed at an above-average rate during the year under review. By bundling our activities we increased sales to about € 80 million (2001: € 55 million). The contracts that have been signed with the two leading Chinese commercial vehicle manufacturers FAW and Norinco are of particular significance for the further expansion of this market. In Eastern Europe we expanded the selling activities based on our Moscow branch, which works for all our business areas. We achieved initial successes in exploiting the large market potential here in supplying a complete power station to Kazakhstan with a total of seven diesel power units built in Mannheim. Sales in this region have more than doubled to a total of € 34 million.

> The key elements in our strategy

Focussing of the model range



DEUTZ is renowned for its tailor-made drive systems. Maintaining and building on this competitive advantage, however, is not concomitant with further increasing the diversity of versions, as this would mean further increasing complexity in all parts of the company from development to after-sales service. With innovative platform concepts and the possibilities opened up by modern electronic systems in engines we intend to continue covering the whole range of outputs and uses with fewer model series and versions. In the medium-term we intend to reduce our number of versions by implementing this platform strategy.

We are thus creating scope for extending the product range downwards. It is in the output range below 30 kW, in which the trend is increasingly towards compact units, that we aim further to extend our market position with new products. We therefore defined a new medium-term and long-term product strategy during the year under review and directed our development activities accordingly.



Concentration of production

In international competition it is not only competitive products but also competitive production processes that are necessary. DEUTZ is reducing costs and increasing productivity by optimising the depth of manufacture. The right »make or buy« decisions, based on the criteria of quality and economy, make DEUTZ even more competitive. For this reason we closed down the foundry at the Deutz location in Cologne in October 2002 and thus gained potential cost savings of about € 8 million a year.

In the Mannheim works we are implementing a new structural concept. For our medium-sized engines we have created the necessary conditions for expanding production with an improved manufacturing structure, a newly designed flow-manufacturing layout, and the use of the latest testing technology. This year we will start to implement the same plans for the large engines. We have methodically turned our works in the Spanish town of Zafra into the main component supplier for cylinder heads, gears, and conrods for our compact engines.

However, it is not only the further optimisation of the depth of manufacturing and the works structure that is on our programme of work. As part of a project entitled »Productivity + Utilisation Level = Capacity Increase« (PUC) we are working on systematic and continual improvements to production processes in all our works and are introducing new elements such as target and incentive systems or method training.

Our activities are proving significantly successful. During the year under review the level of productivity in all our works rose on average by 5 percent and the level of plant utilisation has also improved further.

Leaner structures

The considerable reduction in complexity is one central element in our strategy. We set to work in all the operating functional areas and thus achieve a slimming-down of the whole organisation. We can thus manage DEUTZ with the structures of a much smaller company and can be quicker, more direct, and more flexible. The three Business Areas – DEUTZ MOTOR, DEUTZ ENERGY und DEUTZ SERVICE – concentrate totally on their sales tasks in the market. Customer orientation and customer proximity are the strategic guidelines, customer satisfaction and profitability are the yardsticks. A matrix-type organisation enables the newly structured central departments such as development, production, accounts/controlling, personnel and marketing to support the three Business Areas. Many functions have been merged together in this way and the »overhead« area was reduced by a further 311 jobs during the year under review compared to 309 the year before. In addition to this we have reduced the number of affiliated companies further. We made a start during the year under review on the reorganisation of our sales and service network with which we aim to exploit further synergistic potential in the various regions and application segments.





Quality offensive

The high quality of DEUTZ engines is a permanent standing feature of DEUTZ's market image. To maintain and extend this competitive advantage, and also to reduce the costs associated with quality assurance, we initiated a quality campaign during the year under review and brought the quality management function together under uniform management. Quality is »a boardroom matter« at DEUTZ. Our quality assurance manager reports directly to the CEO. However, the driving force behind the quality campaign is not only the approximately 100 employees in quality management; under the slogan »Quality starts in people's heads« we initiated a series of workshops during the year under review in which we are involving all DEUTZ employees in our quality campaign. The know-how transfer in the company has thus been greatly accelerated. Product improvements now flow more quickly through into series production, and we can achieve our quality targets at lower cost. These activities are paying off: customer satisfaction is increasing and quality costs have been reduced by more than 20 percent. At the end of 2002 DEUTZ was granted a certificate under the new and more stringent DIN ISO 9001 regulations.



Promotion of co-operations

It is part of our corporate philosophy to retain our independence. We aim to be an independent supplier to our OEMs and not to compete against them. Independence, however, does not mean that we aim to do everything on our own. We are open-minded towards any kind of collaboration at the selling, production, or any other technological level. Collaborating with highly competent partners will help us to meet the constantly rising demands of the engine manufacturers.

Our alliance with Volvo, which has been in effect since 1998, is going in the right direction. Our supply volume of engines for power units, ships' main drives, and construction machinery from Volvo has risen constantly during the year under review. In the medium-term we aim to achieve substantial further growth through this co-operation arrangement. Our new co-operation with the Chinese commercial vehicle manufacturers Norinco and FAW are clearing the way for our re-entry into the commercial vehicle segment, in which we intend to place our engines with high unit volumes.





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INNOVATION >

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> Research and development

Technical masterpieces

140 years ago DEUTZ was the initiator of worldwide motorisation. Numerous technical masterpieces mark the path that led our company through to the present day. Nicolaus August Otto and Eugen Langen founded the world's first engine factory in Cologne in 1864. 1876 saw the first four-stroke engine and 1898 the first DEUTZ diesel engine. In 2001 Cologne celebrated the 125th jubilee of the world-famous »Otto-Motor«, as the four-stroke engine is always called in German. In March 2002 our founder, Nicolaus August Otto, was accepted into the »European Automotive Hall of Fame«. The other highlights of 2002 include the new 20-cylinder gas engine with the outstanding efficiency level of 44 percent and the »DEUTZ Common Rail system«.

Research and development – the basis for enduring success

One of the basic principles of our company is to develop state-of-the-art top-quality technical products with a high level of customer benefit and to bring them up to readiness for series production. We regard this as the basis for the enduring success of the business. Our product philosophy is based on the knowledge that technological leadership cannot in itself guarantee enduring success and that systems that are nothing more than technically advanced can also display outstanding good quality. The enduring success of a product is determined by its having the best possible combination of innovative technology and comprehensive quality.

Legislation in Europe and North America is demanding ever greater reductions in exhaust emissions at ever shorter intervals, and this in turn requires greater speed from the development departments of the automotive industry. That is why we have realigned our research and development efforts in the last two years and focussed them on the work that will be decisive in meeting statutory requirements and in differentiating our products from the competition. The priorities are the development of ignition systems, modular injection and engine management systems for our diesel and gas engines, and the best possible technical ways of reducing exhaust



and noise emissions. In addition to this we are working continually on raising output and efficiency levels in order to increase the customer-benefit content of our engines. More than 500 patents in Germany, the rest of Europe, America, and other countries testify to our innovative power and secure our product strategy. We are spending the appropriate amounts on the development of new products and the further development of existing ones. During the year under review we invested more than € 47 million or about 6 percent of our new engine sales in research and development. About 400 employees at our Cologne and Mannheim locations are working intensively on research and development projects.

New products in the range

In the segment of medium-sized and large engines we have been working intensively during the year under review on further quality improvements to our products and have achieved some clear successes in this field, but it was a thorough review of nearly all our engine series that stood in the forefront of our activities. The successors to the 616, 620, and 632-series will be coming onto the market this year with substantial increases in performance and efficiency. In addition to this we have augmented our product range with two new types of gas engine; the new 20-cylinder 620 with an output of 2,000 kW and the new 12-cylinder 632 with 3,000 kW take account of the current market trend towards these output classes. We have been particularly successful with one of these masterpieces, the 620-series V20 engine, which is the only engine of its class in the world that will fit into a standard 20-foot container as a complete power unit including a generator.



Our activities in the compact engines segment have been concentrating on meeting the latest exhaust emission regulations and on our return to the commercial engines market. The market introduction of our industrial engines that meet the stage II exhaust regulations in Europe and North America has been running since the beginning of 2001. This introduction process will continue until 2004 because different start dates have been prescribed for the various different output categories. Our development work, however, will not stop there; we are already working intensively on the new technical concepts for meeting the stage III exhaust emission limits, which will become compulsory between 2006 and 2008. The effectiveness of our concepts for engine internal reduction of exhaust emissions has already been demonstrated on the test bed.

Technology-driver commercial vehicles segment

Driven by the strategic goal of re-conquering the commercial vehicles segment for DEUTZ we have been immersing ourselves in the details of the technical concepts for this special application segment. On the basis of this knowledge our engineers have developed an ingenious injection system that is particularly economical and has to have a long potential future. Our system is the »DEUTZ Common Rail system: DCR®«, which combines the conventional injection technology of industrial engines with the common rail system already in use on commercial vehicle engines.

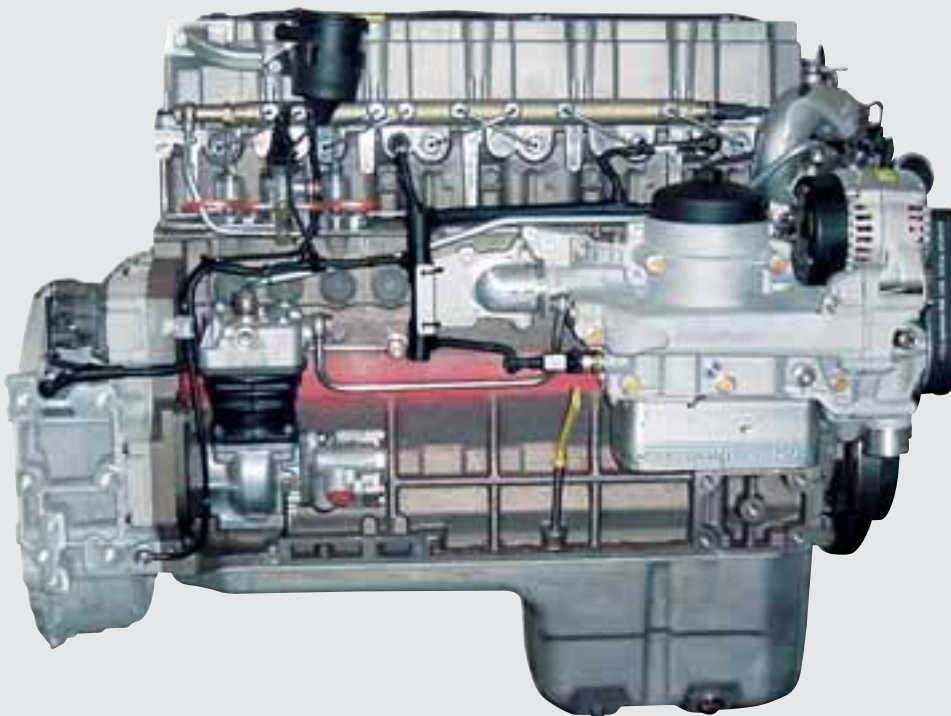
The pump-line-nozzle system used in many industrial engines provides one pump for each cylinder to supply the injection nozzle with fuel through a short fuel line. In conventional common rail systems a special high-pressure pump attached to the outside of the engine provides the individual injection nozzles through the one »common rail«. In our new »DEUTZ Common Rail system« two conventional insertion pumps provide all the cylinders with fuel through a common rail. We thus achieve all the advantages of the common rail system without having to install the expensive high-pressure pump and thus without having to change the installation dimensions of our engines. These advantages include better reaction, greatly reduced noise emissions at tick-over and full load, and better exhaust conditions.



High pressure behind the commercial vehicle engine

We intend to install the new »DEUTZ Common Rail system« in our new commercial vehicle engines initially, and after that to start equipping our industrial engines with it for the Tier III exhaust emissions. The advantages of the new system are convincing and we are equipping the 4-cylinder and 6-cylinder engines with it that are still under development. We started running the first of these prototypes on our development test bed at the beginning of this year, and we are expecting series production to start in 2005.

In addition to these priority projects, the series production work on the current model ranges is also on the jobs list of our development departments. Continual quality improvements, reductions in production costs, and shared-parts programmes are further major elements in our Re-Launch-Programme and our engineers are working just as actively on them as on the project work for our sales departments.





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RELIABILITY >

GO DEEP

> Customers, employees + partners

Long-term co-operation is our aim

We have summarised our responsibility towards our customers in the slogan »We move your world«. Reliability, a partner-like behaviour, and active communications form the basis for long-lasting co-operation with our OEMs, our sales and service partners, and the operators of our engines. DEUTZ engines represent the beating heart of the equipment sold by those of our OEMs, and in order to ensure that both they and we enjoy success with the operators of this equipment we also have to align our product and service strategies with the operators' requirements.

Tracking down customer requirements

In order to achieve competitive advantages we align ourselves systematically to the aims and challenges of our customers. Active communications enable us to identify existing and future customer needs and to turn them into the basis for our development and strategic decisions. The focus here is not only on the performance characteristics of the engines, value for money, and delivery periods but also and increasingly on lifecycle costs, which are dominated by consumption figures and maintenance costs. This is where our worldwide presence is valuable. Our sales and service network is fine-meshed and covers the whole globe. We have 22 subsidiaries on all continents and operate 20 service centres and 14 sales offices. More than 800 independent sales and service agencies ensure universal customer service, and our customer support available around the clock. Our spare parts availability level is very high at 95 percent.





New sales and service structures

We intend further to optimise our sales and service network under the DEUTZ Re-Launch-Programme. By merging sales and service activities for all product and application segments we are expecting to become more efficient, quicker, and more flexible and thus to come even closer to the customer. Our aim is that they should in future obtain all available services from DEUTZ: engine sales, after-sales service, everything from one source.

During the year under review we have done a great deal in this area. We have re-organised our subsidiaries in Denmark and Sweden into DEUTZ Nordic, thus exploiting synergistic potential in a way that benefits customer service. We have taken the same steps in the USA and Canada, and in the Netherlands and Belgium. In Germany we have created the Regional Agency West as the first element in a new regional system. It is managed by an independent contractual partner and handles all sales and service activities in its region for the entire DEUTZ product range. Four other regional agencies, which will operate either in the same way or as DEUTZ-owned branches, are to follow. In South Korea and the United Arab Emirates we have signed contracts with new sales and service partners. In the People's Republic of China and Hong Kong we have merged our activities and brought them together into a single area of responsibility.

Partnerships secure our future

In 1998 we found in Volvo a partner who fits together with DEUTZ better than any other ever could. Volvo has an outstandingly good position on the world market with its various product companies in nearly all the application segments that are relevant to diesel engines. Since 2000 we have been series-producing and supplying Volvo Penta with engines in the 4 to 7 litre displacement range for installation in power-generation equipment and as the main drives for ships, and many of the construction machines produced by Volvo Construction Equipment are to be changed over one by one to the engines we produce in Cologne. Series production started during the year under review for a number of the products that this division sells in South Korea, Sweden, and Canada. Further series starts are to follow this year.

During the year under review we found in the Chinese commercial vehicles manufacturer Norinco, a licensee who was interested in installing our biggest compact engine, the 1015, into his heavy trucks. Starting with deliveries of complete engines from our Ulm works ready for installation, Norinco will gradually take over production of this model series in the People's Republic of China for itself. The last stage of development is envisaged as the local production of about 10,000 engines a year on the basis of parts and components supplied by DEUTZ.

With a current annual unit sales rate of more than 150,000 vehicles a year FAW is the number one in the Chinese commercial vehicle market and one of the world's five largest producers of trucks. FAW and DEUTZ have been collaborating in the field of medium-weight trucks for ten years already, and the engines supplied by DEUTZ have successfully withstood all the challenges of the difficult Chinese market. During the year under review we entered into a new co-operation agreement with FAW under the first stage of which we will supply engines in the 90 to 220 kW range for installation in FAW's medium-weight trucks. In parallel with this FAW and DEUTZ are working on the further development of these engines and are preparing to set up local production in the People's Republic of China. In the second stage FAW will start on its own production of engines in a newly built diesel engine works in Dalian, in the north of China.

Employees with an entrepreneurial spirit



Motivated employees with high levels of commitment and professional qualifications and an entrepreneurial spirit are the basis for our business success. This includes an efficient environment with clear target agreements, teamwork, an open exchange of information, mutual respect, and appreciation for performance achieved. In order further to improve this working environment in our company we have initiated a number of measures during the year under review; in addition to delegating responsibility further down than ever we are making more use of target agreements between management and employees as a management instrument. We have also prepared the necessary incentives for this purpose, and from 2003 onwards we are incorporating individually agreed targets into the variable components of the salaries of those managers and specialists who are not paid on the basis of collective wage agreements. In components manufacturing we have introduced a remuneration system during the year under review that is more closely aligned with productivity, and this year we aim to extend it to other production areas as well.

Basic training for the employees of tomorrow

Intensive programmes for trainees are a good investment in the future of our company, and that is why we are maintaining our training programmes at a high level even during difficult times. During the year under review a total of 184 young people were undergoing basic training at DEUTZ. Competent training teams at various locations are preparing them for their future work with seven different technical and three commercial qualifications. 43 trainees passed their final examinations in the spring of 2002 and were taken on by DEUTZ with temporary contracts. Another 50 newcomers will be starting their vocational training at DEUTZ in the autumn of this year.

We also devote great attention to graduates in order to gain their interest in our company. During the year under review we prepared a new trainee programme and initiated it in January 2003. Young graduates in engineering and business administration will be going through comprehensive on-the-job and off-the-job training within the next two years; they will be deployed on project work in important parts of the company in order to gather practical experience. Involving them at an early stage in demanding tasks supports our aim of filling management positions mainly from within. We offer students the possibility of taking internships in our company and set them to work in areas in which they can write their degree thesis papers on a highly practical basis.



Corporate Identity creates togetherness

DEUTZ as a product name can look back on a tradition covering about 100 years. When the name of Klöckner-Humboldt-Deutz AG was changed to DEUTZ AG in 1997, the product name and the company name started to grow together again. By concentrating on the engines business under the Re-Launch-Programme we have finally created the basis for our company's integral corporate identity on which we have initiated a corporate identity process covering the areas of corporate design, corporate communications, and corporate behaviour.

The core elements are the vision and the mission statement, in which we have defined the goals, values, and basis for taking decisions in our daily work. The mission statement is supplemented by six corporate principles applicable to the specific subjects of products, customers, employees, processes, profitability, and corporate culture. In addition to this we have drawn up management principles that represent guidelines for the relationship between managers and their employees. For this purpose we have created a »Code of Corporate Behaviour« covering every action taken in the name of DEUTZ.

The internal implementation of this new code of behaviour will start in the spring of 2003, when a campaign will run all through the company and through all German and foreign locations.

We also aim this year to supplement this work with a careful adaptation of our existing corporate design, covering not only the communications design but also product design as part of the development of new products and further development of existing ones. The basis for uniform corporate communications has already been created during the year under review by merging the organisational units for marketing and communications.

> Share

2002 – the year of uncertainties

2002 was the worst year the stock exchanges have seen since 1974. For the first time since the Great Depression of 1929 to 1931, share prices have declined for the third year in a row. The downward trend that gripped the stock exchanges after the terrorist attack on the USA on September 11, 2001 continued into 2002 after only a short break. Triggered by the downturn in the U.S. economy, which dragged the economies in Europe and Asia down to the brink of recession, and exacerbated by unlawful accounting practices in certain major U.S. corporations and by the anxiety caused by the rising flood of bankruptcies, a mass flight from shares set in that was only made worse since the summer by the spectre of war in Iraq – this cast even deeper shadows over the capital markets. Share prices and indices dropped to levels that had not been seen for years.

All the indices on the German stock exchange fell massively. During the course of the year the DAX lost 44 percent, the MDAX 30 percent, the CDAX 29 percent, and the SMAX 30 percent. The growth segment of the stock exchange suffered even more seriously as the Nemax-All-Share dropped by 63 percent and the NEMAX 50 by as much as 74 percent.

DEUTZ – firmly against the trend

On this weak ground the DEUTZ share price held up well. From the beginning to the end of 2002 it rose by 4.2 percent to € 1.74, fluctuating between a high for the year of € 2.94 and a low of € 1.41. After it had fallen last year by about 40 percent, the clear success achieved by the Re-Launch-Programme was able to prevent any further loss of confidence by the investors.

The stock market capitalisation of our shares came to € 111.9 million, compared with € 107.4 million as of December 31, 2001. Equity capital per share amounted to € 1.48, and earnings per share improved from a minus figure of € 0.49 a year earlier to € 0.03.

The shareholder structure of our company has not changed significantly during the year under review. Out of a common share capital of € 164.3 million, Deutsche Bank AG holds 26 percent indirectly and Volvo 10 percent. The remaining 64 percent is held in free float. DEUTZ shares are traded on the German stock market in Frankfurt/Main and Düsseldorf on the official trading floor and on the XETRA electronic market.

Increasing value through profitability

Profitability is the most important prerequisite for increasing corporate value durably and thus ensuring the necessary confidence of our capital providers. The generation of profits is the necessary prerequisite for the future of DEUTZ, for the implementation of our visions and strategies, and for securing our jobs. For that reason we are pursuing a strict value-orientated corporate policy and directing all our decisions systematically in accordance with profitability criteria. With our DEUTZ Re-Launch-Programme we have achieved the turn around within two years and now we are focussing all our efforts on consolidating these achievements into a lasting success.

Open communications

As additional support for our share price we have strengthened our investor relations activities mainly by addressing the investment funds that specialise in smaller shares, the so-called Small Caps. We held road shows in London and Frankfurt during the year under review and met with a huge response. The fund managers warmly welcomed the company's strategic alignment and the operational implementation of our plans. We will be continuing these activities during the current year in Germany and other countries.

We communicate detailed information about our company in many different ways. On our website at www.deutz.de we provide a broad spectrum of many different items of information, and more specific information is available on the Reuters information service under the code DEZG.F and in the Bloomberg information service under DEZ.GR. We publish annual, mid-year, and quarterly reports as well as ad hoc press bulletins. In addition to this we also provide information at press conferences and analysts' meetings.

More transparency

The German Code of Corporate Governance imposes requirements, over and above statutory regulations, on the management and supervision of publicly quoted German companies. The substance of the code mainly includes relationships with shareholders, the responsibilities and duties of the people who sit on Management and Supervisory Boards, and requirements for accountancy and transparency. All these requirements are intended to increase the confidence of investors, customers, employees, and the public in the management and supervision of listed companies. We set a high value on Corporate Governance. The Management and Supervisory Boards of DEUTZ AG support the recommendations of the German Corporate Governance Code Government Commission and issued a declaration in December 2002 of their intention of adhering closely to these recommendations.

Inclusion in the Prime Standard

DEUTZ shares have no longer been included in the calculation of the MDAX share index as at March 18, 2002. Following a decision of the German Stock Exchange to restructure the indices into new segments, we applied in December 2002 for inclusion in the Prime Standard, which is a basic prerequisite condition for inclusion in one of the selective indices of the German Stock Exchange. It is dependent on the fulfilment of extensive requirements imposed on the transparency and reporting system of a company. DEUTZ AG meets all these stringent requirements, and we were granted admission to the Prime Standard in January 2003. DEUTZ shares have therefore been included in the calculation of the SDAX since March 24, 2003, and we regard this as another major step towards a better future for our shares.

Management Report

DEUTZ AG and DEUTZ Group

< Economic environment

The 2002 financial year was mainly marked by a weak economic environment in Germany and the main countries in Western Europe and also in the USA. The expectations that were still being held at the beginning of the year of an economic recovery in Western Europe and the USA only led to disappointment.

The economic situation in the USA at the beginning of the year was still showing signs of a sturdy up-swing, but growth seriously lost momentum in the months that followed; investment in particular provided no new impetus.

Economic trends in Germany and Western Europe likewise did not match expectations. A moderate economic recovery had been forecast for these countries in the second half of 2002, but Germany proved to be particularly short on growth. One cause of this was the perceptible caution of private households towards spending on consumer goods, and another was the disinclination of companies to invest. Exports, which had provided powerful growth impetus the year before, likewise lost their dynamic force.

The predominant trend in Asian and East European countries, which are gaining rapidly in importance for DEUTZ, was a powerful economic upturn. The Chinese economy deserves special mention here, as it is continuing to grow at an above-average rate.

< Development of the business

The downward trends in the general economic environment had only a partly negative influence on demand for our products. Whilst the business with compact engines grew considerably in all applications, business development was weak in medium-sized and large engines.

DEUTZ focussed its sales activities on growth regions and segments during the 2002 financial year and thus succeeded, despite the difficult market environment, in almost completely balancing out the sales losses in individual regions and segments. Group sales only declined by 2.0 percent, from € 1,184.9 million to € 1,160.9 million. The foreign proportion was 74.5 percent, the same figure as a year earlier. New orders increased slightly, from € 1,133.9 million to € 1,138.8 million.

< Operating profit trend

The high level of unit sales of compact engines has shifted the sales structure of DEUTZ in the direction of more profitable products and services. The DEUTZ Re-Launch-Programme has been stepped up, with positive results for the profit situation. Despite a slight fall in sales by value, earnings improved structurally by a considerable amount. Operating profits (EBIT) came

to € 41.0 million, 47.0 percent above the previous year's figure (€ 27.9 million). The EBIT margin rose from 2.4 to 3.5 percent.

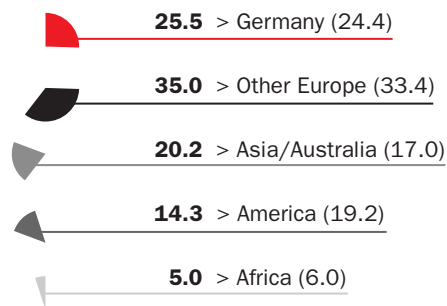
Further activities with long-term impacts were initiated as part of the DEUTZ Re-Launch-Programme to enable us to work profitably even in difficult market conditions. Organisational and strategic matters were at the forefront, as were innovations in products and business processes. 311 jobs were eliminated from the »overhead« area, and the beneficial effect of this move was reflected in personnel costs as a percent of sales; they fell by 1.1 percentage points to 25.1 percent.

< Profit/loss on ordinary activities

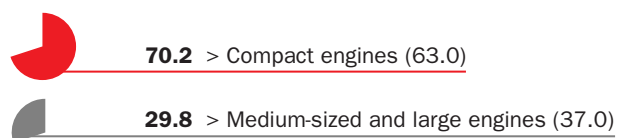
Financial debt has been further reduced. The combination of a low market interest rate and strict asset management resulted in net interest expenditure to drop to € 36.6 million (2001: € 41.6 million).

Higher operating profits and lower net interest expenditure led to profit on ordinary activities of € 4.4 million; the previous year had seen a minus figure of € 13.7 million at this level.

DEUTZ Group: Sales by regions
in % (2001 figures)



DEUTZ Group: Sales by segments
in % (2001 figures)



Deutz Group: Overview

		2002	2001	Change
				in %
Sales	€ million	1,160.9	1,184.9	-2.0
Domestic	€ million	295.6	288.6	2.4
Foreign	€ million	865.3	896.3	-3.5
of which direct exports	€ million	380.8	337.6	12.8
through foreign Group companies	€ million	484.5	558.7	-13.3
New orders	€ million	1,138.8	1,133.9	0.4
Orders in hand (December 31)	€ million	179.2	201.4	-11.0
Investments	€ million	59.5	41.7	42.7
of which tangible assets	€ million	28.5	38.7	-26.4
financial assets	€ million	31.0	3.0	933.3
R&D	€ million	47.1	48.3	-2.5
Employees (December 31)	Number	5,470	5,979	-8.5
of whom domestic	Number	4,330	4,684	-7.6
foreign	Number	1,140	1,295	-12.0
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	103.0	89.1	15.6
Operating profit (EBIT)	€ million	41.0	27.9	47.0
Interest expense, net	€ million	-36.6	-41.6	-12.0
Profit/loss on ordinary activities	€ million	4.4	-13.7	-
Extraordinary income/expenses (-), net	€ million	-	-16.9	-
Pre-tax profit	€ million	4.4	-30.6	-
Profit/loss for the year	€ million	2.0	-31.8	-

< Profit for the year in the DEUTZ Group

The profit for the year of € 2.0 million was a substantial improvement over the previous year, which had seen a negative figure of € 31.8 million.

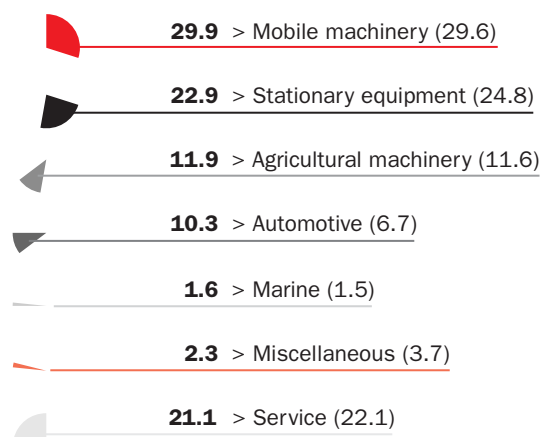
< DEUTZ AG

DEUTZ AG achieved sales of € 990.2 million (2001: € 951.0 million) and profit on ordinary activities of € 2.6 million after a negative result of € 23.8 million in the preceding year. Profit for the year was € 2.0 million (2001: € -27.9 million).

< Segment: Compact engines

Sales of compact engines and the associated service business rose by 9.2 percent to € 815.0 million (2001: € 746.1 million). In Germany sales rose by 9.0 percent to € 212.9 million (2001: € 195.4 million) and outside Germany by 9.3 percent to € 602.1 million (2001: € 550.7 million). New orders came to € 807.8 million, 8.8 percent above the preceding year's figure of € 742.3 million.

Compact engines: Sales by application segments in % (2001 figures)



Operating profit (EBIT) improved by 76.5 percent, from € 31.0 million to € 54.7 million. The profit improvement can be explained from the rise in new-engine business and the beneficial effect of intensifying the DEUTZ Re-Launch-Programme.

In **new-engine business with compact engines** DEUTZ attained sales growth of 10.7 percent, bringing the figure to € 642.8 million (2001: € 580.9 million). Worldwide unit sales have risen to 153,285 engines; compared with the preceding year's figure of 145,538 this represents an increase of 5.3 percent.

In the field of **mobile machines** (engines for construction machinery, materials handling, and mining equipment), sales rose by 10.3 percent to € 243.2 million (2001: € 220.5 million). This growth mainly resulted from the co-operation agreement with Volvo on engines in the 4 to 7 litre range, which are primarily used in construction machinery, but also from the strengthening of our market position in the People's Republic of China.

Business with **stationary equipment** (engines for gensets, pumps, and compressors) grew from € 185.2 million to € 187.0 million. This comparatively modest growth rate resulted from faster sales growth with pumps counterbalanced by a downward trend in compressors and stagnant demand for power generation units.

The business with engines for applications in **agricultural machinery** grew at an extraordinarily high rate on the strength of orders mainly from our major customers SAME (DEUTZ-FAHR) and AGCO (Fendt) and from a newly acquired customer, Merlo in Italy. Sales rose by 11.9 percent to € 96.7 million (2001: € 84.6 million).

Sales in the **automotive** field rose by 67.9 percent, which means that an above-average growth rate has been achieved once again. Sales advanced to € 83.6 million (2001: € 49.8 million). This very satisfactory development was mainly the result of sales in the People's Republic of China, Eastern Europe, and Turkey.

Sales of compact engines in the **marine** sector rose mainly through our co-operation arrangements with Volvo Penta to € 13.4 million (2001: € 11.2 million).

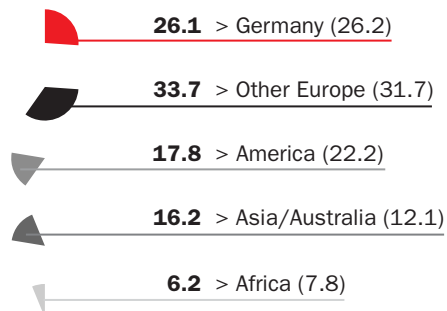
In the service business with **compact engines**, which is based on the roughly 1.3 million DEUTZ compact engines in service all over the world, service sales came to € 172.2 million (2001: € 165.2 million).

Sales in **Germany** increased by 9.0 percent to € 212.9 million (2001: € 195.4 million) mainly as a result of growth in the agricultural machinery, construction machinery, and compressors segments. A comparison of unit sales figures shows that Germany has returned to the number two position with total sales of 41,600 engines (2001: 38,600). Sales in the related service business in Germany rose by 3.8 percent to € 46.9 million.

In the **other European countries** sales rose in total by 16.0 percent to € 274.7 million (2001: € 236.8 million). The main reason for the increase was the business with Volvo in Sweden,

Compact engines: Sales by regions

in % (2001 figures)



but the trends in sales were also most satisfactory in Italy, Austria, and Greece. Unit sales in the whole of the EU outside Germany totalled 55,600 engines, which was 11.6 percent above the preceding year's figure of 49,800 engines. The higher unit sales are likewise mainly attributable to Sweden.

In the East European countries sales almost tripled, from € 4.9 million to € 13.8 million. The business in Poland, Russia, and Belarus, and also in the Czech Republic, developed particularly successfully.

Following the near-collapse of the business in Turkey in the preceding year as a result of its financial crisis, sales in the year under review returned to the level of € 9.7 million (2001: € 5.6 million).

On the European markets the related service business increased sales by 9.0 percent to € 63.9 million.

Sales in **America** declined to € 144.7 million (2001: € 165.4 million). This decline was mainly attributable to the USA; were sales fell to € 107.4 million (2001: € 125.8 million). A total of only 33,100 engines (2001: 38,600) were sold here during the year under review. The USA now takes third place in our sales statistics. The related service sales in USA held steady at last year's level and came to € 21,9 million (2001: € 22.3 million).

The development of DEUTZ's **Asia/Australia** business was, with sales of € 132,3 million (2001: € 90,1 million) extraordinarily satisfactory. Sales in the People's Republic of China almost doubled and reached € 64.6 million, while unit sales rose from 3,000 to 7,000 engines, mainly as a result of the co-operation with Norinco and FAW. Another growth market in the Far East is South Korea, where sales more than tripled to € 14.7 million. This increase was mainly attributable to demand from Volvo Korea. The related service sales in Asia/Australia rose to € 19.5 million (2001: € 17.6 million). Sales growth was achieved in the Middle East as well as in the Far East.

< Segment: Medium sized and large engines

Business in the segment of medium-sized and large engines declined despite a satisfying increase in the service business. The main reason for the decline in new-engine business was the fall in demand for decentralised power generation plant in the USA and for emergency power generators for the telecommunications industry in Europe. Sales fell by 21.2 percent to € 345.9 million (2001: € 438.8 million). Sales in Germany came to € 82.7 million (2001: € 93.2 million) or 11.3 percent below the preceding year's level, whilst sales outside Germany declined from € 345.6 million to € 263.2 million. New orders declined by 15.5 percent, from € 391.6 million to € 331.0 million.

As a result of the more difficult conditions on the market, operating profit (EBIT) fell by € 20.4 million to € 3.9 million.

New-engine business with medium-sized and large engines declined in all application areas. Sales fell markedly by € 99.5 million to € 164.9 million (2001: € 264.4 million). Worldwide unit sales in the DEUTZ Group fell from 1,107 to 747 engines.

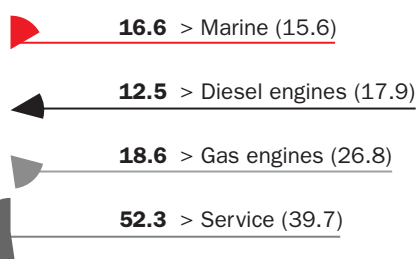
In the **marine** application area sales fell by 16.0 percent, from € 68.3 million to € 57.4 million. Higher sales in Germany, Italy, and Denmark were unable to compensate for declines in the Netherlands, Norway, and particularly the South-East Asian region. In the preceding year trends in South-East Asia had benefited from orders for refitting working ships with new engines.

Sales of medium-sized and large diesel and gas engines* for **stationary equipment** went down to € 107.5 million (2001: € 196.1 million). Sales of diesel engines fell heavily, by 45.2 percent to € 43.1 million, and of gas engines by 45.1 percent to € 64.4 million. In the preceding year it had been the energy crisis in California in particular that had set off a short-lived burst of demand for power generating equipment.

In the field of **diesel engines** sales fell in Germany, Great Britain, and Italy, and also outside Europe in North America and the Middle East.

Medium-sized and large engines: Sales by application segments

in % (2001 figures)



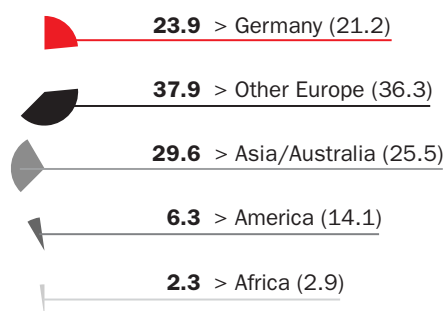
* Note for our American readers: these engines run on natural gas and similar fuels, not on gasoline. In keeping with British parlance we refer to gasoline as »petrol«.

In **gas engines** demand declined in Western Europe as a result of the liberalisation of the energy markets, which led to decentralised power becoming less profitable. Positive trends in Eastern Europe, especially in Hungary, were unable to compensate for declines in Western Europe. Sales in the USA declined sharply. The Asian-Pacific market exploited the market potential for the DEUTZ products. Sales in this region have more than doubled.

The profitable **service business with medium-sized and large engines** was intensified further. There are currently about 30,000 of these DEUTZ engines in operation. Service sales rose by 3.8 percent to € 181.0 million (2001: € 174.4 million).

Medium-sized and large engines: Sales by regions

in % (2001 figures)



In **Germany** sales declined to € 82.7 million (2001: € 93.2 million). The related service business, however, rose by 4.4 percent to € 54.1 million (2001: € 51.8 million).

Sales in **other European countries** fell from € 159.1 million to € 131.1 million. Eastern Europe, and Hungary in particular, were not able to compensate for lower sales in Western Europe. Sales in the related service business rose from € 68.0 million to € 72.7 million.

In **Asia/Australia** sales declined to € 102.5 million (2001: € 111.9 million). Whilst sales in the Far East grew mainly on the strength of satisfactory business with gas engines, sales in the Middle East and Australia declined. Sales in the related service business held steady at last year's level and came to € 34.6 million.

In **America** sales fell off markedly from € 61.9 million to € 21.8 million. In the related service business it proved possible to maintain sales at the previous year's level despite the unfavourable trends in the economy.

< Assets and financial situation

> Group balance sheet

The balance sheet total of the DEUTZ Group as of December 21, 2002 was € 1,048.6 million or € 93.6 million less than it had been a year earlier.

The fixed assets total was € 24.0 million less. The reduction in tangible fixed assets was € 41.1 million. The change in financial assets went in the opposite direction on account of loans granted to affiliated companies.

It proved possible to reduce current assets considerably, by € 74.1 million to € 526.7 million. This reduction is mainly attributable to continuing and comprehensive efforts in the field of asset management.

DEUTZ Group: Balance sheet structure in %

	Dec. 31, 2002	Dec. 31, 2001
Assets	%	%
Business expansion expenses	2.0	1.3
Fixed assets	47.4	45.6
Inventories	24.2	23.8
Receivables/other assets/ deferred expenses	24.6	26.5
Liquid assets	1.8	2.8
Total	100.0	100.0
Stockholders' equity and liabilities		
Stockholders' equity	9.1	8.2
Convertible profit-participation certificates	2.4	2.2
Provisions	43.5	42.7
Accounts payable/ deferred income	45.0	46.9
Total	100.0	100.0

The proportion of equity capital has risen from 8.2 percent to 9.1 percent. The main factor here was the far lower balance sheet total and the profit for the year.

Provisions for pensions and other provisions have been reduced by a total of € 32.2 million. The principal causes of this reduction were the planned reduction in pension provisions and, more importantly, the utilisation of provisions made in the preceding year for the closure of the foundry and redundancy payments to personnel.

The main reduction in liabilities came in accounts payable to credit institutions.

> Debt

DEUTZ Group: Debt

	Dec. 31, 2002	Dec. 31, 2001
	€ million	€ million
Amounts owed to credit institutions	321.3	371.7
Liquid assets	-19.3	-32.0
Net financial debt	302.0	339.7
Trade payables	71.9	82.8
Other liabilities/bills of exchange payable	30.4	50.9
Total debt	404.3	473.4

The step-by-step reduction in leased assets that had been initiated in the preceding year in the consolidated accounts has made the financial structure of the DEUTZ Group completely and transparently visible in the Group balance sheet.

Amounts owed to credit institutions have been reduced from € 371.7 million to € 321.3 million. Financial liabilities were counterbalanced on the closing date for the accounts by liquid resources of € 19.3 million (2001: € 32.0 million). Thus the net financial debt on the closing date was € 302.0 million, a reduction of 11.1 percent from the preceding year's figure.

Total debt has been reduced by € 69.1 million, from € 473.4 million to € 404.3 million.

Negotiations over a prolongation of short-term credit lines reached a successful conclusion in March 2003. The prolongation covers a roughly two year period and will last until the end of 2004. All the credit institutions agreed to the prolongation, but two of them made their conditional upon ratification by the relevant bodies. DEUTZ is expecting to receive this final approval shortly.

> Production

In compliance with the production-location concept developed by DEUTZ the entire production range will basically be handled at three locations. The works in Cologne and Ulm will assemble liquid-cooled and air-cooled compact engines whilst Mannheim will produce medium-sized and large engines. In addition to this, the production location in Zafra (Spain) will manufacture core components.

During the 2002 financial year the DEUTZ Group produced a total of 151,557 compact engines and 770 large and medium-sized engines.

The productivity of the works has increased as a result of improvements in the works structures and processes and optimisation of the depth of manufacture. As one step in the reduction of the depth of manufacturing the foundry at the Cologne location was closed down in October 2002 and the production of castings transferred to a number of outside suppliers. It proved possible to complete this step sooner than planned, and this

will reduce the risks of insufficient capacity utilisation in relation to the reserved production capacity at times of economic fluctuation.

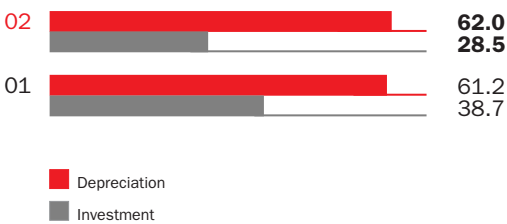
> Investments

A total of € 59.5 million (2001: € 41.7 million) was invested in tangible and financial assets. Despite a strict cost management programme no cuts were made in essential future projects or in necessary replacement investments. The priorities in fixed-asset investments were carefully planned increases in capacity and replacement purchases for engine production in Cologne as well as the systematic continuation of the restructuring programme at the Mannheim works.

At the **Cologne** location the main investments were replacement purchases for crankshaft and camshaft production as part of the expansion of the highly productive CBN grinding technology. A new paint shop for air-cooled compact engines was taken into operation in the Deutz works in Cologne as was a new high-precision milling centre for crankcases. In the assembly works in Porz (Cologne) we mainly made replacement investments in modern fastenings technology and took steps to improve quality.

Investments and depreciation tangible assets

in € million



The main priority for investments in **Ulm** was the renovation of the flexible parts production facility, which enables special parts to be produced as quickly as possible in the direct vicinity of the production line. Other investments went into technical inspection equipment and increasing quality.

€ 3.8 million was invested at the Spanish location of **Zafra**, which mainly operates as the system supplier for core components. The priority projects were increasing capacity on cylinder heads for the 2012/2013 and 1013-series. The series start-up for the new production island making con-rods for the 1015-series and the integration of 2012/2013 con-rods into the existing 1012/1013 production line were completed successfully. Con-rod cracking machinery was installed for the smaller 2011-series. This process is in widespread use in the automotive industry and leads to a further reduction in production costs and to an increase in competitiveness.

The production of medium-sized and large engines in **Mannheim** is being renewed from the inside outwards as part of the new works structure concept. Investments totalling € 6.4 million were made in this context during the 2002 financial year.

These investments include the new and ultra-modern test plant for medium-sized engines of the 616- and 620-series, which includes the most modern test beds for gas and diesel engines

anywhere in Germany. Up to 1,200 engines can be tested every year on the three test beds with three-shift operation.

The new test plant technology is radically reducing through-put times; a fully fitted-out engine can now be set up so that it is ready to start in only 20 minutes, a job that used to take between seven and ten hours according to which series was involved. The time spent on the test bed has also been greatly reduced; 620-series engines, for instance, used to spend anything up to 35 hours under test and can now be tested in about 15 hours.

In addition to this a new combined heat-and-power station has been taken into operation as a reference plant for DEUTZ ENERGY that will supply the Mannheim works with electricity and heat. It is powered by the newly developed 20-cylinder 620-series gas engine, which runs on natural gas and will in future also provide the refrigeration for the new test plant.

Investments in **tangible assets** came to € 28.5 million, € 21.0 million of which was accounted for by compact engines and € 7.5 million by medium-sized and large engines.

Investments in **financial assets** were € 31.0 million, far more than the preceding year's figure (€ 3.0 million), and mainly involved loans to affiliated companies.

> Cash flow

The success of the asset management programme and the upward trend in profits have led to a major improvement in cash flow (before financing) of € 37.7 million.

> Purchasing

Definite improvements were made in purchasing during the year under review. Despite higher energy and raw materials prices the total cost of materials remained constant at € 626.5 million (2001: € 625.2 million).

As part of the global sourcing programme more than 1,500 parts were approved for transfer of production to low-wage countries. This achievement was brought about by the appointment and the good work of five regional purchase offices for Eastern Europe, India, South-East Asia, Southern Europe, and Turkey. Benchmarks were set up on these purchase offices in 2002 covering more than 30 percent of the entire quantity of materials used in production.

The »lead supplier« concept has also been introduced. The supplier, who is allowed in turn to buy in from sub-suppliers, supplies complete systems or modules on his own responsibility.

This concept leads to the optimisation of prices, a reduction in the costs of purchasing, logistics, and assembly, the release of tied-up capital, and a rationalisation of the network of suppliers.

A supplier development team has been established with the aim of achieving further cost reductions. The team works operationally with the supplier, and even on his premises, to investigate and exploit cost-reduction potential within his production processes. The work of the team has enabled us to cut costs and to select suppliers.

< Research and development

Spending on research and development was once again at a high level in the year under review at € 47.1 million (2001: € 48.3 million), and in fact rose slightly as a proportion of new-engine business from 5.8 to 5.9 percent. The main priority in this work was the reduction of exhaust and noise emissions.

Our research and development facilities are concentrated at the Cologne and Mannheim locations. Compared with the preceding year the number of employees engaged in this work fell slightly from 410 to 397 (as of December 31, in each case).

Research and development work in the **compact engines** segment was dominated by the need to meet the strict exhaust standards and the work entailed in re-entering the commercial vehicles business. Research and development expenditure on compact engines came to € 34.6 million (2001: € 36.7 million), 63 percent of which was devoted to new products and the further development of existing ones.

Research and development expenditure in the **medium-sized and large engines** segment rose from € 11.6 million in the preceding year to € 12.5 million in the year under review. More than 60 percent of the expenditure related to series design work.

Research and development expenditure in € million

02		47.1
01		48.3

The general aim of research on diesel engines was to meet the emission requirements and the increased performance requirements. The main priority in R&D in the gas engine field was to increase the level of efficiency while at the same time raising performance and making other quality improvements. With regard to lengthening the effective service life, for instance, it proved possible to lengthen the maintenance intervals on the 632-series from 48,000 to 64,000 hours. In addition to this the newly developed 20-cylinder 620-series gas engine was approved for series production.

< Environmental protection

DEUTZ believes in environmentally harmless products. The distinguishing features of DEUTZ engines include their low fuel consumption and their incomparably low noise and exhaust emissions. The environmental orientation of the products also emerges in the possibilities they offer of using renewable resources such as bio-gas or bio-diesel.

In the production of its engines DEUTZ adheres to the environmentally responsible and commercially valid aims of reducing the consumption of energy and water and also the quantity of waste.

Environmental protection, which also involves the use of instruments from quality and safety management, is practised at all locations and adheres to the relevant regulations in all cases. Projects and training sessions are organised regularly to ensure this adherence, and lines of responsibility are defined and procedural and working instructions issued that prevent any misunderstandings.

In the year under review a total of € 5.5 million (2001: € 4.8 million) was spent on environmental measures.

< Employees

The DEUTZ Group was employing 5,470 people worldwide at the end of 2002 (2001: 5,979), which means that the employees had been reduced by 8.5 percent. The main factor in this reduction was the closing of the company's own foundry and the worldwide adjustment of the headcount in the »overhead« area as part of the DEUTZ Re-Launch-Programme.

It proved possible to transfer the employees in the foundry to an employment and training company or to find new jobs for them within DEUTZ AG. The reduction in the »overhead« headcount formed part of the restructuring programme, part of which involves grouping together similar functions from several different departments or locations. This part of the programme was in all cases carried out in a socially responsible manner.

Employees

	Dec. 31, 2002	Dec. 31, 2001	Change
	Number	Number	in %
Compact engines	3,450	3,775	-8.6
Medium-sized and large engines	1,615	1,739	-7.1
Central areas	405	465	-12.9
DEUTZ Group	5,470	5,979	-8.5
of which Domestic	4,330	4,684	-7.6
Foreign	1,140	1,295	-12.0
of which Wage earners	3,109	3,420	-9.1
Salaried staff	2,177	2,376	-8.4
Trainees	184	183	0.5

Personnel expenses

	2002	2001	Change
	€ million	€ million	in %
Wages	111.3	116.8	-4.7
Salaries	126.5	131.3	-3.7
Social security	47.5	49.8	-4.6
Pension	6.3	8.2	-23.2
DEUTZ Group	291.6	306.1	-4.7

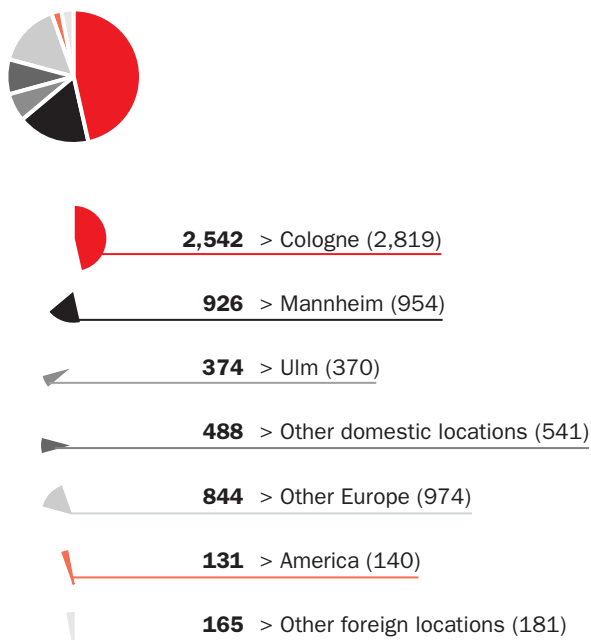
The lower number of employees resulted in total personnel costs being reduced by 4.7 percent, to € 291.6 million, despite increases in wage rates under collective agreements.

The number of employees in Germany was reduced by 7.6 percent to 4,330. In other countries 1,140 people (2001: 1,295) were employed on the last day of the year under review. The number of trainees in the DEUTZ Group remained almost exactly constant at 184 (2001: 183). This represents 4.2 percent of all the employees within Germany.

A company retirement pension plan financed by the employees was introduced during the 2002 financial year under the self-provision concept now incorporated into German law. It is handled by external pension funds.

Employees by regions/locations

Number (2001 figures)



< Corporate governance

DEUTZ AG welcomes the German Corporate Governance Code that was presented to the public in February 2002. With the exception of a few points that are specific to the company, DEUTZ AG fully endorses the recommendations of the German Corporate Governance Code.

The Management and Supervisory Boards of DEUTZ AG issued their first declaration in December 2002 of their intention of adhering closely to the recommendations of the German Corporate Governance Code Government Commission in compliance with Article 161 of the (German) Companies Act.

The Supervisory and Management Boards of DEUTZ AG hereby make the following declaration in compliance with Article 161 of the Companies Act in conjunction with Article 15 of the Introductory Act to the Companies Act:

We declare conformity with the recommendations of the »Government Commission on the German Code of Corporate Governance« with the following exceptions:

The written form prescribed by Article 134 paragraph 3 sentence 2 of the Companies Act is still necessary for authorisation to exercise voting rights at the Annual General Meeting, so to this extent there is no provision for the time being for facilitating the personal exercising of shareholders' rights through the use of telefax and electronic media. DEUTZ will, however, continue to keep the technical possibilities under observation (see sub-clause 2.3.3 of the Code).

The D&O (Directors' and Officers') insurance taken out for the members of the Supervisory and Management Boards of DEUTZ AG does not provide for any excess, but the Supervisory and Management Boards have a basically positive stance towards a suitable excess. As the D&O policy is still set to run until December 31, 2003, however, no change is to be made until that date (see sub-clause 3.8 paragraph 2 of the Code).

The chairpersons and members of the Supervisory Board committees have not up to now received any specific remuneration, but the Supervisory and Management Boards are in favour of introducing it. They will therefore propose to the forthcoming Annual General Meeting on June 26, 2003 that Article 15 of the Statutes of DEUTZ AG should be augmented by a clause on the remuneration of the chairpersons and members of the Supervisory Board committees. Assuming the AGM approves the proposal, this addition to the Statutes will take effect for the first time in the 2003 financial year (see sub-clause 5.4.5 paragraph 1 sentence 3 of the Code).

There has not up to now been any provision for examining the efficiency of Supervisory Board work (see sub-clause 5.6 of the Code). The development of standards in this field, however, will be kept under observation, and a decision on examining efficiency will be taken if uniform and objective standards start to emerge (see sub-clause 5.6 of the Code).

The Group's financial and interim statements are not yet being drawn up in accordance with internationally recognised accounting principles. The application of internationally recognised accounting principles will not take effect until the preparation of balance sheets in conformity with IAS principles has become statutorily obligatory in Germany, which will be in 2005 at the latest (see sub-clause 7.1.1 sentence 3 of the Code).

< Risk management

DEUTZ operates in many countries all over the world through its subsidiary companies and dealers, and is thus exposed to many regional risks that are specific to its business and are connected with its international business activity.

It is the overall aim of DEUTZ to generate long-term profits. The aims of risk management are therefore to be able to recognise and quantify risks at an early stage that could endanger corporate goals and to take the necessary steps to prevent risks from materialising and to limit their impact.

A system exists for this purpose that increases employees' ability to check on risks, develop a sense of personal responsibility, and become sensitive to risks. It also ensures that risks are discovered at an early stage and assessed and communicated, and it leads to the implementation of effective measures for avoiding risk. The basic principles, control standards, per-

sonal responsibilities, functions, and procedures for risk management have been laid down by the Management Board for this purpose and are contained in a handbook developed in accordance with the latest knowledge and accumulated experience. The related reporting system, which has binding effect, and the Risk Management Committee that has been specially set up ensure that all the main areas of risk have been identified and communicated and that suitable countermeasures can be taken and implemented in good time.

Risk inventories are drawn up quarterly. Risk officers in all parts of the company establish whether and to what extent measures that have already been taken are having their effect and whether major new risks have arisen. Compulsory countermeasures, implementation timetables, and individual responsibilities are decided on the basis of the Risk Management Committee's assessments and proposals. Reports also have to be submitted ad hoc, independently of the quarterly reports, on any major new risks that arise or dangers that may be increasing.

> Unit sales risks

Although current market forecasts indicate economic risks in individual markets and segments, particularly regarding Western Europe and the USA. The U.S. market situation has worsened further because of the fall in the exchange rate. There are also uncertainties relating to political developments in the Middle East.

Concentration on growth regions and segments is expected to produce higher unit sales in 2003. The crucial factors here will be in particular the above-average growth effects in Asia and Eastern Europe and the existing co-operation agreements, e.g. those with Volvo and FAW.

DEUTZ has linked its sales strategy closely to its product development strategy. Constant up-dating, taking account of such factors as changing customer requirements, competitive benchmarks, and the tightening of emission-limit legislation, limit the risk of development work taking the wrong direction, and lead to the development of new products and the further development of existing ones being undertaken at an early point in time and with full customer orientation.

In daily operational business the sales activities are closely coordinated with production planning on the individual engine series and types. Unit sales expectations are constantly being checked against production capacity during the course of the year and optimised accordingly.

> Production risks

By rationalising production and placing components with external suppliers DEUTZ is reducing the kind of risk that arises from changes in markets and cycles in the economy. In this connection the production of castings was transferred to external suppliers in 2002 more quickly than planned in connection with the closure of the foundry, and this further reduced our dependence on the economic cycle.

> Personnel risks

Risks arising from excessive personnel capacity, especially in the administrative area, started to be reduced in 2001. Since the beginning of the relevant programme of action the number

of jobs in the »overhead« departments in the DEUTZ Group has been reduced by 620.

Training sessions and personnel development programmes have been carried out in order to increase the efficiency and the levels of qualification of the employees. Successors for management positions have been secured under a new programme for the development of the next generation of managers. Trainees have been taken on with effect from January 1, 2003 who will be undergoing an 18-month training programme.

> IT and organisational risks

DEUTZ is pursuing a uniform IT strategy throughout the Group on the basis of a uniform IT infrastructure. Regular adaptation of the hardware and software to meet the latest technological standards and collaboration with external service companies are limiting the risks from the IT area. The planned introduction of SAP R/3 for all areas of application on January 1, 2004 is currently in the preparation stage. This will provide DEUTZ with a continuous and uniform platform that matches the latest technological standard and enables other innovations to be made in the IT area. The change-over to SAP R/3 is being supervised by a Steering Committee that is responsible for ensuring that the necessary resources are available for the change-over and that the right conditions are created for SAP R/3 to be introduced correctly and at the right time, in order to reduce to a minimum the risks involved in introducing a new system.

The organisation was slimmed down further during the year under review. DEUTZ ENERGY GmbH was integrated into DEUTZ AG and will now be free, like the other sales divisions DEUTZ MOTOR and DEUTZ SERVICE, to concentrate totally on its selling tasks.

The restructured central departments now have a matrix organisation and support the three sales divisions. As part of the restructuring, for instance, the central purchasing and logistics departments have been amalgamated. The organisational merging of central functions and services to cover all locations and segments ensures uniform procedures throughout the Group in all the functional areas whenever specific technical problems arise, and also a uniform approach to solving them.

All operational levels including the foreign subsidiaries are integrated into a detailed planning, control, and reporting system the core elements of which are revolving short-term and medium-term plans, monthly plan/actual comparisons, regular review/planning meetings, and forecasts. Reports are submitted under this system on all significant events that are relevant to the business and that have occurred or are expected to occur so that a decision can be taken on any measures that may be necessary.

> Quality risks

The area of responsibility of the central quality department covers the whole Group. It co-ordinates all measures for improving quality and is able to reduce guarantee costs. Guarantee risks are reduced by the systematic analysis of the cost drivers, the optimisation of internal production processes, improving suppliers' quality, and ensuring satisfactory series production start-ups. The procedure for selecting suppliers is based on a uniform set of standards that mean, for instance, that process audits are carried out on suppliers and result in suggestions for further improvements.

> Financial risks

Annual financial plans with sub-divisions within the year and regular analyses of deviations from plans reduce the financial risks. The trends in and structure of accounts receivable are constantly monitored and analysed, which allows risks to be recognised in good time and the necessary measures initiated. DEUTZ collaborates with leading banks and credit institutions which have made credit lines available, the unused portions of which appear as things stand today to provide adequate liquidity. The trends in interest rates and currency exchange rates observed over the past year, particularly in relation to the U.S. Dollar, are not having any positive impact on the business in the relevant regions. DEUTZ is containing the negative impacts of exchange rate movements by constantly hedging. The greatest proportion of sales is generated within Europe, so there is no exchange-rate risk in the countries that utilise the euro. In addition to this the current trend in interest rates can contribute to cancelling out the negative exchange-rate impacts almost entirely.

Any more stringent borrowing terms are being offset by successes in asset management and the positive trend in profits, which are leading to a far better cash flow and a lower level of net indebtedness and in turn to lower net interest expenditure. Further progress is expected during 2003.

Despite lower sales in the year under review we have generated a profit again. The figure of € 2.0 million is vastly better than the previous year's result, which was a loss of € 31.8 million. The slight increase in equity capital combined at the same time with a greatly reduced balance sheet total led to the proportion of equity capital being increased by 9.1 percentage points.

In light of its financial state the DEUTZ Group will continue to be dependent on the co-operation of its financial partners; reference is made to the explanations relating to the financial situation.

> Legal and litigation risks

Existing and imminent litigation is constantly registered, analysed, and assessed. This ensures that the legally appropriate action is always taken.

Risks that remained with DEUTZ AG after the disposal, in 2001, of the Industrial Plant Division because old orders were still being finally completed are quantified regularly and taken into account in on-going provisions against risk.

No developments currently exist that could jeopardise the further existence of the DEUTZ Group.

< Events after the end of the 2002 financial year

After the end of the financial year the litigation against General Electric, USA, in connection with the development of a series of engines was settled out of court and with finality in February 2003. The conclusion of these proceedings has already been accommodated in the 2002 financial statements.

Apart from this no other events occurred after the end of the 2002 financial year that were of major significance to the DEUTZ Group or that could lead to any different assessment of the company.

< Prospects

The main indicators of the mood in the economy show that 2003 is not giving any grounds for expecting any great economic improvement in Germany, Western Europe, or the USA. The business environment is also suffering from political imponderables, particularly with regard to the situation in the Middle East.

It may be possible for a recovery to start in the USA in the second half of the year on account of the recently approved economic policy measures such as the tax cuts and a low rate of interest. An increase in investment is expected in particular. As things stand at the moment, however, growth in the American economy cannot return to the dynamic growth of the 1990s. It is also uncertain whether the measures that have been initiated will be able to deliver the desired effect before the end of 2003.

In Western Europe the revitalisation of the economy is only making slow progress. Although a slightly higher rate of growth is currently expected in 2003 than in the preceding year, the point of weakness is still a cautious attitude to investment.

In Germany there is as yet no sign of any up-swing. The main decisions on economic policy have not yet been defined, neither in their substance nor in their timing. Forecasts of economic growth, low enough in the first place, are being cut back at frequent intervals.

Strong growth is set to continue in Asian countries, particularly in the People's Republic of China, South Korea, and Vietnam. The countries of Eastern Europe are also gaining in business significance for DEUTZ.

DEUTZ has prepared itself for the difficult economic environment. Sales efforts will continue to be focussed intensively on growth markets and segments, particularly in the Far East, and on energetically extending our business with our various co-operation partners. Additional impetus is expected from the beginning of 2003 onwards from the higher-performance engines and product innovations launched onto the market at the beginning of 2003. At the same time, measures for improving DEUTZ's cost and profit situation will continue to be taken systematically. For one thing, DEUTZ will be able to gain the full profit benefit in 2003 from the cost-savings and cost-reductions initiated in 2002 such as the closing of the foundry, and for another there are further measures already in the process of implementation. These sales activities and structural changes are being backed up with a greater intensification of asset management, in which it is believed there is still plenty of untapped potential.

Despite a political and economic environment that is not exactly easy, but in light of the structural measures that have been taken and still are being taken, it is still being assumed that the 2003 financial year will see a further improvement in earnings.

Financial Statements

Balance Sheet

	Notes	DEUTZ AG		DEUTZ Group	
		Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
		€ million	€ million	€ million	€ million
Assets					
Business expansion expenses		20.6	15.1	20.6	15.1
Intangible assets		7.3	8.8	20.8	24.0
Tangible assets		158.5	161.9	419.5	460.6
Financial assets		222.0	238.8	56.5	36.2
Fixed assets	1	387.8	409.5	496.8	520.8
Inventories	2	188.0	175.6	253.7	271.4
Receivables and other assets	3	245.5	292.2	253.7	297.4
Liquid assets	4	13.2	22.2	19.3	32.0
Current assets		446.7	490.0	526.7	600.8
Prepaid expenses and deferred charges	5	1.1	1.4	4.5	5.5
Total		856.2	916.0	1,048.6	1,142.2
Stockholders' equity and liabilities					
	Notes	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
		€ million	€ million	€ million	€ million
Subscribed capital		164.3	164.3	164.3	164.3
Capital reserves		6.0	6.0	1.7	1.7
Accumulated loss		-69.6	-71.6	-70.0	-72.0
Minority interests		-	-	-1.0	-1.0
Stockholders' equity	6	100.7	98.7	95.0	93.0
Convertible profit-participation certificates	6	25.6	25.6	25.6	25.6
Provisions	7	396.7	411.4	456.2	488.4
Accounts payable	8	333.2	380.3	471.4	534.6
Deferred income		-	-	0.4	0.6
Total		856.2	916.0	1,048.6	1,142.2

Financial Statements

Profit and Loss Account

	Notes	DEUTZ AG		DEUTZ Group	
		2002	2001	2002	2001
		€ million	€ million	€ million	€ million
Sales	11	990.2	951.0	1,160.9	1,184.9
Increase/decrease (–) in finished goods and work in process	12	0.8	-4.5	-3.8	-25.6
Own work capitalised	12	5.7	6.7	6.0	7.0
Total output		996.7	953.2	1,163.1	1,166.3
Other operating income	13	64.4	79.7	65.1	71.0
Cost of materials	14	-592.1	-568.2	-626.5	-625.2
Personnel expenses	15	-229.6	-229.1	-291.6	-306.1
Depreciation	16	-27.3	-28.0	-62.0	-61.2
Other operating expenses	17	-180.1	-183.4	-209.2	-210.7
Income from investments in other companies	18	3.9	-3.7	2.5	-1.6
Amounts written off financial assets	19	-12.6	-20.8	-0.4	-4.6
Interest expenses, net	20	-20.7	-23.5	-36.6	-41.6
Profit/loss on ordinary activities		2.6	-23.8	4.4	-13.7
Extraordinary income/expenses (–), net	21	–	-3.5	–	-16.9
Taxes on income		-0.1	-0.1	-0.8	–
Other taxes		-0.5	-0.5	-1.6	-1.2
Profit/loss for the year		2.0	-27.9	2.0	-31.8
Accumulated loss at the beginning of year		-71.6	-43.7	-72.0	-40.2
Accumulated loss at the end of year		-69.6	-71.6	-70.0	-72.0

Financial Statements

Cash Flow Statement

	DEUTZ Group	
	2002	2001
	€ million	€ million
Profit/loss for the year	2.0	-31.8
Depreciation of fixed assets	62.4	68.8
Change in pension provisions	-6.9	-3.5
Gains from disposal of other fixed assets	0.5	-21.4
Cash flow	58.0	12.1
Business expansion expenses	-5.5	-6.5
Change in inventories	11.5	27.8
Change in receivables and other assets	34.3	-17.3
Change in liabilities and short-term provisions	-41.8	29.3
Cash flow from normal operating activities	56.5	45.4
Investments in intangible and tangible assets	-28.9	-209.4
Investments in financial assets	-2.4	-3.0
Proceeds from sale of corporate sub-units	-	34.9
Proceeds from sale of other assets	12.5	49.3
Cash flow from investing activities	-18.8	-128.2
Change in liabilities towards credit institutions	-50.4	96.3
Other financial transactions	-	-0.2
Cash flow from financial activities	-50.4	96.1
Change in liquid funds	-12.7	13.3

Segment Reports

Breakdown by segments

		Compact engines		Medium- sized and large engines		Central areas		DEUTZ Group	
		2002	2001	2002	2001	2002	2001	2002	2001
Sales	€ million	815.0	746.1	345.9	438.8	-	-	1,160.9	1,184.9
Operating profit (EBIT)	€ million	54.7	31.0	3.9	24.3	-17.6	-27.4	41.0	27.9
Extraordinary income/ expenses (-), net	€ million	-	-6.0	-	-1.1	-	-9.8	-	-16.9
Investments	€ million	50.4	29.0	7.6	12.1	1.5	0.6	59.5	41.7
Depreciation	€ million	49.3	50.6	11.8	10.0	0.9	0.6	62.0	61.2
Assets	€ million	674.7	693.8	300.6	332.5	73.3	115.9	1,048.6	1,142.2
Employees (Dec. 31)	Number	3,450	3,775	1,615	1,739	405	465	5,470	5,979

Segment Reports

Breakdown by regions

	Sales		Investments		Depreciation		Employees	
	2002	2001	2002	2001	2002	2001	2002	2001
	€ million	€ million	€ million	€ million	€ million	€ million	Number	Number
Germany	295.6	288.6	51.7	32.6	53.5	52.4	4,330	4,684
Other Europe	405.8	395.9	6.6	7.9	7.3	7.4	844	974
America	166.5	227.3	0.5	0.9	0.6	0.5	131	140
Asia	215.6	181.4	0.7	0.2	0.1	0.5	90	90
Other countries	77.4	91.7	–	0.1	0.5	0.4	75	91
DEUTZ Group	1,160.9	1,184.9	59.5	41.7	62.0	61.2	5,470	5,979

Statements of Stockholders' Equity

Movement of stockholders' equity

DEUTZ AG	Subscribed capital	Capital reserves	Loss/Accumulated loss	Total
	€ ,000	€ ,000	€ ,000	€ ,000
January 1, 2001	164,344	5,952	-43,712	126,584
Loss 2001	–	–	-27,900	-27,900
December 31, 2001	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, 2001	164,345	5,952	-69,612	100,685

Movement of stockholders' equity

DEUTZ Group	Subscribed capital	Capital reserves	Loss/Accumulated loss	Minority interests	Total
	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000
January 1, 2001	164,344	1,717	-40,178	-854	125,029
Changes in minority interests	–	–	–	-238	-238
Loss 2001	–	–	-31,800	–	-31,800
December 31, 2001	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

Financial Statements

Fixed Assets Schedule

DEUTZ AG

	Gross value Purchase or production cost				Dec. 31, 2002 € ,000
	Jan. 1, 2002 € ,000	Additions € ,000	Disposals € ,000	Reclassi- fication € ,000	
Business expansion expenses	15,100	5,500	–	–	20,600
Concessions, industrial and similar rights and assets and licences in such rights and assets	69,201	2,583	–	-13	71,771
Goodwill	6,491	–	–	–	6,491
Intangible assets	75,692	2,583	–	-13	78,262
Land, similar rights and buildings including buildings on land owned by third parties	82,838	669	1,739	99	81,867
Technical equipment and machines	234,705	23,519	2,783	9,343	264,784
Other equipment, factory and office equipment	140,359	9,147	2,345	1,020	148,181
Advance payments on tangible assets and construction in progress	10,604	2,118	–	-10,449	2,273
Tangible assets	468,506	35,453	6,867	13	497,105
Shares in affiliated companies	267,655	10,694	65,622	–	212,727
Loans to affiliated companies	113,280	4,344	–	–	117,624
Participating interests	12,788	–	5,124	–	7,664
Loans to companies in which participating interests are held	5,557	28,863	–	–	34,420
Other loans	904	–	22	–	882
Financial assets	400,184	43,901	70,768	–	373,317
Fixed assets	944,382	81,937	77,635	–	948,684
Total	959,482	87,437	77,635	–	969,284

DEUTZ Group

	Gross value Purchase or production cost				Dec. 31, 2002 € ,000	
	Jan. 1, 2002 € ,000	Changes in consolidated Group € ,000	Additions € ,000	Disposals € ,000		Reclassi- fication € ,000
Business expansion expenses	15,100	–	5,500	–	–	20,600
Concessions, industrial and similar rights and assets and licences in such rights and assets	60,245	–	2,861	267	-13	62,826
Intangible assets	60,245	–	2,861	267	-13	62,826
Land, similar rights and buildings including buildings on land owned by third parties	245,675	-437	772	7,496	99	238,613
Technical equipment and machines	501,962	-30,719	13,190	14,566	9,481	479,348
Other equipments factory and office equipment	189,410	-4,094	9,444	4,118	1,038	191,680
Advance payments on tangible assets and construction in progress	11,351	–	2,198	350	-10,605	2,594
Tangible assets	948,398	-35,250	25,604	26,530	13	912,235
Shares in affiliated companies	14,010	–	1,689	2,836	–	12,863
Loans to affiliated companies	4,448	–	–	719	–	3,729
Associated companies	16,625	–	124	6,207	–	10,542
Participating interests	1,447	–	–	13	–	1,434
Loans to companies in which participating interests are held	5,556	–	28,864	–	–	34,420
Long-term investments	2,445	–	272	563	–	2,154
Other loans	3,511	-2	45	464	–	3,090
Financial assets	48,042	-2	30,994	10,802	–	68,232
Fixed assets	1,056,685	-35,252	59,459	37,599	–	1,043,293
Total	1,071,785	-35,252	64,959	37,599	–	1,063,893

Gross value Accumulated depreciation				Net value		
Jan. 1, 2002	Additions	Disposals	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001	
€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	
-	-	-	-	20,600	15,100	
60,408	4,017	-	64,425	7,346	8,793	
6,491	-	-	6,491	-	-	
66,899	4,017	-	70,916	7,346	8,793	
19,573	2,240	1,208	20,605	61,262	63,265	
175,835	24,005	2,277	197,563	67,221	58,870	
111,194	11,260	2,004	120,450	27,731	29,165	
-	-	-	-	2,273	10,604	
306,602	37,505	5,489	338,618	158,487	161,904	
154,997	12,000	22,700	144,297	68,430	112,658	
-	-	-	-	117,624	113,280	
2,000	637	6	2,631	5,033	10,788	
3,700	-	-	3,700	30,720	1,857	
691	-	-	691	191	213	
161,388	12,637	22,706	151,319	221,998	238,796	
534,889	54,159	28,195	560,853	387,831	409,493	
534,889	54,159	28,195	560,853	408,431	424,593	

Gross value Accumulated depreciation				Net value		
Jan. 1, 2002	Changes in consolidated Group	Additions	Disposals	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001
€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000
-	-	-	-	-	20,600	15,100
36,235	-	6,015	180	42,070	20,756	24,010
36,235	-	6,015	180	42,070	20,756	24,010
51,613	-437	5,903	2,399	54,680	183,933	194,062
292,341	-28,706	32,039	11,851	283,823	195,525	209,621
143,707	-4,094	18,048	3,580	154,081	37,599	45,703
200	-	-	-	200	2,394	11,151
487,861	-33,237	55,990	17,830	492,784	419,451	460,537
6,087	-	132	488	5,731	7,132	7,923
-	-	-	-	-	3,729	4,448
81	-	252	-	333	10,209	16,544
1,413	-	6	6	1,413	21	34
3,700	-	-	-	3,700	30,720	1,856
7	-	-	-	7	2,147	2,438
535	-	-	34	501	2,589	2,976
11,823	-	390	528	11,685	56,547	36,219
535,919	-33,237	62,395	18,538	546,539	496,754	520,766
535,919	-33,237	62,395	18,538	546,539	517,354	535,866

Financial Statements

Notes to the DEUTZ AG and DEUTZ Group Financial Statements

< General explanations

The Group accounts and the annual accounts of DEUTZ AG for the 2002 financial year have been drawn up in accordance with the regulations contained in the HGB (German Commercial Code) supplemented by those in the Aktiengesetz (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 interests 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 embrace 5 (2001: 8) German and 17 (2001: 17) foreign companies in addition to DEUTZ AG.

The companies included in the consolidation have changed as follows:

DEUTZ ENERGY GmbH of Mannheim has been amalgamated into DEUTZ AG of Cologne on the basis of a change of legal form resulting in total legal succession.

Motoren-Werke Mannheim AG, Mannheim, was merged into DEUTZ AG of Cologne on the basis of a merger contract dated November 21, 2002 and the resolution passed by the Annual General Meeting on the same date and by means of a transfer of the entirety of the assets.

KHD Guss GmbH, Cologne, (the foundry company) was dropped from the consolidation on account of its ceasing all operational activities on December 31, 2002.

There have been no changes affecting the consolidation of any foreign companies.

7 (2001: 6) German and 13 (2001: 14) foreign companies have been omitted from the consolidation because of their insignificance. They include the service and asset management companies that work for the DEUTZ Group.

No German companies and 3 foreign companies (2001: 4) 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 2002 and 2001 balance sheet conversions and differences arising from the conversion of individual profit and loss account items have been dealt with in arriving at the net profit 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.

> 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	Depreciation rate
	years	%
Buildings and exterior plant	5 – 40	2.5 – 20
Technical equipment and machines	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-off 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 to the balance sheets and profit and loss account

> 1. Fixed assets

The value of the fixed assets in the Group has decreased by € 24.0 million from the preceding year's figure and of tangible assets by € 41.1 million.

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

The increase in financial assets of € 20.3 million is mainly connected with an increase in loans to companies in which participating interests are held.

> 2. Inventories

	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
	€ ,000	€ ,000	€ ,000	€ ,000
Raw materials and supplies, purchased components and spare parts	108,292	114,520	131,756	143,503
Work in process	54,912	46,951	60,532	73,410
Finished goods	29,991	19,847	67,562	63,967
	193,195	181,318	259,850	280,880
Advance payments made on inventories	1,075	749	1,762	1,388
	194,270	182,067	261,612	282,268
Advance payments received on orders	-6,289	-6,409	-7,955	-10,858
Total	187,981	175,658	253,657	271,410

> 3. Receivables and other assets

DEUTZ AG a) DEUTZ Group b)		Maturing in	Maturing in	Dec. 31, 2002	Dec. 31, 2001
		less than 1 year	more than 1 year	Total	Total
		€ ,000	€ ,000	€ ,000	€ ,000
Trade receivables	a)	93,126	193	93,319	87,434
	b)	188,502	632	189,134	211,106
Receivables from affiliated companies	a)	101,631	–	101,631	134,674
	b)	7,855	–	7,855	10,124
Receivables from enterprises in which participating interests are held	a)	12,647	–	12,647	39,506
	b)	12,792	–	12,792	40,824
Other assets	a)	24,257	13,570	37,827	30,625
	b)	30,173	13,728	43,901	35,408
Total	a)	231,661	13,763	245,424	292,239
	b)	239,322	14,360	253,682	297,462

In the DEUTZ AG figures, trade accounts receivable from affiliated and other Group companies made up € 65,660,000 and € 2,511,000 (2001: € 78,688,000 and € 3,909,000) respectively.

In the Group figures, trade accounts receivable from affiliated and other Group companies made up € 5,183,000 and € 2,626,000 (2001: € 8,502,000 and € 5,228,000) respectively.

> 4. Liquid assets

This heading covers cheques and cash on hand and at the Deutsche Bundesbank and other banks.

> 5. Prepaid expenses and deferred charges

Prepaid expenses and deferred charges, amounting to € 1.1 million (2001: € 1.4 million) in the DEUTZ AG and € 4.5 million (2001: € 5.5 million) in the Group for pension payments, rent expenses, and miscellaneous expenses.

> 6. Stockholders' equity

Subscribed capital

The DEUTZ AG subscribed capital (share capital) came to € 164,344,894.50 at the end of 2002 and is divided into 64,286,135 unit shares.

Deutsche Bank AG, of Frankfurt am Main, has informed us in compliance with Article 21 paragraph 1 and Article 24 of the Securities Trading Act that its Group company, DB Enterprise GmbH Co. Achte Beteiligungs-KG of 25870 Norderfriedrichskoog (formerly BOJA Beteiligungs AG & Co. Achte Beteiligungs KG of 65760 Eschborn) passed the threshold level of 25 percent of the voting shares in our company on April 8, 2002 and now holds 25.91 percent of DEUTZ AG.

Deutsche Bank AG, of Frankfurt am Main, has informed us in compliance with Article 21 paragraph 1 and Article 24 of the Securities Trading Act that its Group company, DB Value GmbH of 25870 Norderfriedrichskoog passed the threshold level of 25 percent of the voting shares in our company on November 25, 2002 and now holds 25.91 percent of DEUTZ AG. Both the shares held in the past by DB Enterprise GmbH Co Achte Beteiligungs-KG of 25870 Norderfriedrichskoog and those now held by DB Value GmbH of 25870 Norderfriedrichskoog are attributable to Deutsche Bank AG.

Authorised capital

At the Annual General Meeting on May 4, 2000 a resolution was passed on a new Authorised Capital I of € 9,600,000 for issuing new staff unit shares, and a further Authorised Capital II of € 3,900,000 for issuing new par shares to managers including the members of the Management Board. Approval in both cases expires on December 31, 2003.

The Annual General Meeting on May 4, 2000 also approved the creation of a further Authorised Capital III (including the possibility of increasing fixed capital excluding subscription rights). The basic capital can be increased at any time up to May 3, 2005 by the issue of new unit shares in return for contributions in cash or in kind, and in one block or several, up to a total of € 68,671,000.

As of December 31, 2002, Authorised Capital I amounted to € 9,600,000, Authorised Capital II to € 3,900,000, and Authorised Capital III to 68.671.000.

Conditional capital

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

The Annual General Meeting on May 27, 1999 also approved a conditional increase in share capital up to a maximum of € 40,000,000. 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 bonds 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 basic capital to be increased under certain predetermined conditions by a maximum of € 16.6 million.

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 bonds 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 DM 50 million.

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

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

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

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

The profit-participation certificates entitle holders to exchange them for shares of DEUTZ AG on a 1:1-basis at par value. In the 2001 financial year 9 convertible profit-participation certificates were exchanged for DEUTZ AG shares; as of December 31, 2002, profit-participation certificates were outstanding to a total amount of € 25,552,680.96.

> 7. Provisions

	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
	€ ,000	€ ,000	€ ,000	€ ,000
Provisions for pensions and other obligations	264,400	268,400	290,784	300,910
Tax provisions	300	150	873	409
Other provisions	132,069	142,923	164,571	187,136
Total	396,769	411,473	456,228	488,455

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 are no unaccrued pension obligations.

In the case of Unterstützungsgesellschaft mbH der DEUTZ AG of Cologne, which is a relief fund financed by DEUTZ AG, there was no deficit 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.

Tax provisions include amounts provided in respect of the current year and other periods not yet audited by the tax authorities. The additional Group accruals for deferred taxes amount to € 13,000 (2001: € 131,000).

Other provisions cover all identifiable risks and other uncertain liabilities. Besides provisions for restructuring measures they consist primarily of costs expected from the completion of old orders in connection with sale of the industrial plant business and severance settlements. Costs are also shown for guarantees and contingencies, contractual risks, and provisions for personnel and social security expenses.

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

> 8. Accounts payable

DEUTZ AG a) DEUTZ Group b)		Maturing in	Maturing in	Maturing in	Dec. 31,	Dec. 31,
		less than 1 year	1 to 5 years	more than 5 years	2002 Total	2001 Total
		€ ,000	€ ,000	€ ,000	€ ,000	€ ,000
Amounts owed to credit institutions	a)	191,543	–	–	191,543	205,885
	b)	221,960	64,442	34,934	321,336	371,696
Trade payables	a)	55,859	–	–	55,859	65,606
	b)	71,881	30	–	71,911	82,751
Bills of exchange payable	a)	–	–	–	–	–
	b)	155	–	–	155	533
Amounts owed to affiliated companies	a)	48,963	–	21,832	70,795	75,798
	b)	24,568	23,194	–	47,762	29,197
Amounts owed to companies in which participating interests are held	a)	–	–	–	–	41
	b)	–	–	–	–	41
Other payables, taxes	a)	–	–	–	–	4,011
	b)	4,024	–	–	4,024	7,701
Other payables, social security	a)	6,002	–	–	6,002	5,731
	b)	7,319	–	–	7,319	7,276
Other payables, miscellaneous	a)	8,983	–	–	8,983	23,256
	b)	16,593	2,288	–	18,881	35,388
Total	a)	311,350	–	21,832	333,182	380,328
	b)	346,500	89,954	34,934	471,388	534,583

In the DEUTZ figures, trade accounts payable by affiliated companies and other Group companies came to € 6,580,000 and € – (2001: € 13,175,000 and € 41,000) respectively.

Out of the accounts payable in the Group as of December 31, 2002, those payable to credit institutions came to € 107.7 million (DEUTZ AG: € – million) that are secured by mortgages and other accounts payable to € 3.3 million that are secured by liens on movable assets.

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

In the Group figures, trade accounts payable to affiliated and other Group companies came to € 3,497,000 and € – (2001: € 476,000 and € 41,000) respectively.

The Group's net financial debt as of December 31, 2002 amounted to € 302.0 million (2001: € 339.7 million).

> 9. Contingent liabilities and other financial commitments

Contingent liabilities

	DEUTZ AG		DEUTZ Group	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
	€ ,000	€ ,000	€ ,000	€ ,000
Contingent liability on endorsed bills of exchange	3,629	5,782	9,940	12,065
Contingent liability on guarantees	35,630	91,891	23,425	73,102
Contingent liability on warranty contracts	24,274	56,057	18,581	36,522
Provision of security for the liability of others	–	–	8	9
Total	63,533	153,730	51,954	121,698

Other financial commitments

As of December 31, 2002 the aggregate amounts of other financial commitments not shown on the balance sheet or as contingent liabilities were: DEUTZ AG € 321.8 million (2001: € 344.4 million), of which affiliated companies € 228.4 million (2001: € 256.0 million) and the Group € 115.8 million (2001: € 114.6 million).

These amounts comprise obligations under tenancies and leases with a nominal value of € 288.7 million (Group: € 82.7 million) expiring at various times during the next 10 years (Group: 18 years) and purchase order commitments for items of capital expenditure of € 33.1 million (Group: € 33.1 million).

Liabilities under tenancies and leases at DEUTZ AG were partly balanced by counterclaims with a nominal value of € 7.1 million (Group: € 12.8 million).

The voluntary arrangement entered into with the Pension Guarantee Association in May/June 1996 as part of the financial restructuring embodies a »when things improve« clause whereby amounts received from the Association between 2000 and 2002 will be repaid when certain conditions are fulfilled. As in the preceding year, no use was made of this clause during the year under review.

> 10. Imminent and pending litigation

After the end of the financial year the litigation against General Electric, USA in connection with the development of a series of engines was settled out of court and with finality in February 2003. The conclusion of these proceedings has already been accommodated in the 2002 annual accounts.

Also, DEUTZ AG and other companies in the Group are involved in a number of court cases and arbitration proceedings mainly revolving around breakdowns to operation, consequential damage, and compensation for loss or damage.

Sufficient provision has been made in the balance sheet for the risks entailed in these actions.

In the nature of things it is not at the moment possible to assess the probable outcome of this litigation with any finality but in our estimation no major negative impact is to be expected on the asset, financial, or profit situation of DEUTZ AG or the Group.

> 11. Sales

Breakdown by segments

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	€ million	€ million	€ million	€ million
Compact engines	732.6	638.2	815.0	746.1
Medium-sized and large engines	257.6	312.8	345.9	438.8
Total	990.2	951.0	1,160.9	1,184.9

Breakdown by regions

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	€ million	€ million	€ million	€ million
Germany	323.0	344.5	295.6	288.6
Other EU-countries	262.8	244.6	345.6	349.8
Other Europe	53.0	32.1	60.2	46.1
North America	118.9	119.2	158.4	216.1
Latin America	4.4	6.3	8.1	11.2
Africa	43.4	52.1	58.2	71.1
Asia	178.2	145.9	215.6	181.4
Australia	6.5	6.3	19.2	20.6
Total	990.2	951.0	1,160.9	1,184.9

> 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	
	2002	2001	2002	2001
	€ ,000	€ ,000	€ ,000	€ ,000
January 1	66,798	71,249	137,377	213,501
Accrue ment	17,326	-	-	-
Effect of change in composition of Group	-	-	-5,529	-50,503
Finished goods and work in process after change in composition of Group	-	-	131,848	162,998
December 31	84,903	66,798	128,094	137,377
Increase/decrease (-) in finished goods and work in process	779	-4,451	-3,754	-25,621

Other own work capitalised

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

> 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-currency exchange rates, income the reversal of write-offs 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.

Income from the reversal of other provisions came to € 19.8 million (2001: € 20.3 million) in the Group and € 17.7 million (2001: € 10.0 million) at DEUTZ AG.

> 14. Cost of materials

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	€ ,000	€ ,000	€ ,000	€ ,000
Cost of raw materials and supplies and goods purchased for resale	582,420	556,935	607,483	599,329
Cost of purchased services	9,718	11,297	18,992	25,923
Total	592,138	568,232	626,475	625,252

> 15. Personnel expenses

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	€ ,000	€ ,000	€ ,000	€ ,000
Wages and salaries	189,312	187,337	237,825	248,110
Social security and other expenses	35,896	35,783	47,518	49,793
Pension expenses	4,432	6,018	6,316	8,166
Total	229,640	229,138	291,659	306,069

Employees (annual average)

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	Number	Number	Number	Number
Wage earners	2,596	2,624	3,233	3,478
Salaried staff	1,498	1,576	2,208	2,422
Trainees	167	181	169	183
Total	4,261	4,381	5,610	6,083

> 16. Depreciation

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	€ ,000	€ ,000	€ ,000	€ ,000
Intangible assets	3,952	3,943	6,015	6,096
Tangible assets	23,301	24,040	55,990	55,078
Total	27,253	27,983	62,005	61,174

The figures for non-scheduled depreciation of fixed assets are € 363,000 at DEUTZ AG and in the Group.

> 17. Other operating expenses

The other operating expenses include in particular cost of services, provision against risks arising from uncompleted contracts and guarantee obligations, rent and leasing costs, the administrative and selling costs include freight and commission on sales, and losses and expenses resulting from the write-off in value of current assets non including stocks.

> 18. Income from investments in other companies

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	€ ,000	€ ,000	€ ,000	€ ,000
Income from profit/loss transfer agreements	2,864	946	2,257	946
Income from investments in				
– affiliated companies	–	3,154	65	300
– other companies	2,838	56	–	56
Income from associated companies	–	–	1,699	-2,141
Losses transferred from subsidiaries	-1,794	-7,836	-1,506	-807
Total	3,908	-3,680	2,515	-1,646

> 19. Amounts written off financial assets

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

> 20. Interest expenses, net

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	€ ,000	€ ,000	€ ,000	€ ,000
Income from other long-term investments and loans	7,030	6,869	991	496
– of which from affiliated companies	6,175	6,586	–	303
Other interest and similar income	4,127	4,717	1,875	1,757
– of which from affiliated companies	2,659	4,118	235	357
Interest and similar expenses	-31,812	-35,125	-39,433	-43,846
– of which paid to affiliated companies	-3,448	-3,615	-1,788	-525
Total	-20,655	-23,539	-36,567	-41,593

> 21. Extraordinary income/expenses (–), net

	DEUTZ AG		DEUTZ Group	
	2002	2001	2002	2001
	€ ,000	€ ,000	€ ,000	€ ,000
Extraordinary income	–	43,998	–	34,642
Extraordinary expenses	–	-47,454	–	-51,569
Total	–	-3,456	–	-16,927

> 22. Other information

Corporate governance

In December 2002 the Supervisory and Management Boards of DEUTZ AG issued its first Declaration of Conformity to the recommendations of the Government Commission on the German Code of Corporate Governance in compliance with Article 161 of the Aktiengesetz (Companies Act) and made it permanently available to shareholders on the company's website (www.deutz.de). This Declaration of Conformity is reprinted on page 37 of this Annual Report.

Executive bodies of the company

The information on the members of the Supervisory and Management Boards (and their other Supervisory Board seats) is given separately in lists starting on pages 60/61.

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

Total emoluments of members of the Management Board for 2002 were € 2,006,000 (DEUTZ AG and the Group) and were made up of fixed salaries of € 1,500,000 and variable bonuses totalling € 506,000.

Payments to former members of the Management Board or their surviving dependants totalled € 1.427,000 (DEUTZ AG and the Group). In respect of pension commitments to these persons provisions have been made totalling € 9,712,000.

The emoluments of members of the Supervisory Board for 2002 were € 67,500 in DEUTZ AG and the Group and consisted exclusively of a fixed amount for each one; the members receive € 5,000, the Chairman € 10,000, and the Vice-Chairman € 7,500.

Loans and advances to members of the Management Board and Supervisory Board

There were no loans outstanding to members of the Management Board and the Supervisory Board as of December 31, 2002.

Cologne, March 13, 2003

DEUTZ Aktiengesellschaft
The Management Board


Gordon Riske Karl Huebser Dr Stefan Schulte

Financial Statements Auditor's Certificate

We have audited the annual accounts, including the book-keeping, and the Group accounts and annual reports on DEUTZ Aktiengesellschaft and the Group for the year from January 1, to December 31, 2002. The accounting, the annual financial statements, and the consolidated financial statements drawn up in accordance with the provisions of German commercial law lie within the responsibility of the company's Management Board. Our task is to give an assessment, on the basis of the audit we have carried out, of the annual accounts, the book-keeping, and the Group accounts, as well as the summarized management report of the company and the Group.

We have audited the annual and consolidated accounts and the report in compliance with Article 317 of the HGB (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 would 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 book-keeping, 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 lead to any objections being raised.

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 and accurately presents the risks entailed in its future development. The combined management report for the company and the Group, taken as a whole, gives a fair presentation of the company's and the Group's situation and of the risks entailed in future developments.

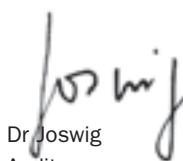
Without qualifying this assessment in any way we also wish to draw attention to the significance of the prolongation of the credit lines of the DEUTZ Group, which is described in the Management Board's explanations concerning the company's asset and financial situation in the Management report.

Düsseldorf, March 14, 2003

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft



Kaiser
Auditor



Dr. Joswig
Auditor

Shareholdings

DEUTZ AG and DEUTZ Group

As of: December 31, 2002

No.	Name and registered offices of company	Holding	Equity capital	Profit/loss (-)
		in %	€ ,000	€ ,000
1	DEUTZ AG	–	100,685	2,000
Affiliated companies included in consolidation				
Domestic				
2	DEUTZ Beteiligungsverwaltung GmbH, Cologne	100.0	511	-288
3	DEUTZ Grundstücksverwaltung GmbH, Cologne	100.0	95	133
4	DEUTZ Vermögensverwaltung GmbH, Cologne	100.0	307	607
5	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne	100.0	26	–
6	Ad. Ströver KG (GmbH & Co.), Hamburg	94.0	2,901	677
Foreign				
Europe				
7	DEUTZ Austria GmbH, Vienna (Austria)	100.0	1,694	152
8	DEUTZ Belgium NV-SA, Antwerp (Belgium)	100.0	2,471	31
9	DEUTZ B.V., Rotterdam (Netherlands)	100.0	2,783	-1,819
10	DEUTZ DANMARK A/S, Copenhagen (Denmark)	100.0	952	-783
11	DEUTZ DITER S.A., Zafra (Spain)	100.0	2,125	-137
12	DEUTZ DITER COMPONENTES S.A., Zafra (Spain)	100.0	10,195	380
13	DEUTZ FRANCE S.A., Gennevilliers (France)	100.0	8,274	522
14	DEUTZ IBERIA S.A., Madrid (Spain)	100.0	6,962	-5,922
15	DEUTZ MOTOR ESPANA S.A., Madrid (Spain)	100.0	2,942	52
16	DEUTZ Sverige AB, Barkarby (Sweden)	100.0	444	132
17	DEUTZ UK Ltd., London (UK)	100.0	9,561	-615
America				
18	DEUTZ Canada Inc., Ville St Laurent, Quebec (Canada)	100.0	2,692	266
19	Deutz Corporation, Atlanta (USA)	100.0	10,932	3,503
20	DEUTZ of America Corporation, Atlanta (USA)	100.0	22,938	2,256
Africa/Asia/Australia				
21	Nile Ste MAGIDEUTZ S.A., Casablanca (Marocco)	100.0	1,659	72
22	DEUTZ Asia-Pacific (Pte) Ltd., Singapore (Singapore)	100.0	6,070	414
23	Deutz Australia (Pty) Ltd., Braeside (Australia)	100.0	2,343	307

As of: December 31, 2002

No.	Name and registered offices of company	Holding	Equity capital	Profit/loss (-)
		in %	€ ,000	€ ,000
Other affiliated companies				
Domestic				
24	DEUTZ Casino und Catering-Service GmbH, Cologne	100.0	102	-450
25	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne	100.0	26	432
26	DEUTZ Versicherungsvermittlung GmbH, Cologne	100.0	1,534	482
27	KHD Guss GmbH, Cologne	100.0	12,271	-1,032
Foreign				
28	DEUTZ CHINA LIMITED, Kowloon (Hong Kong)	100.0	-974	12
29	DEUTZ Hungaria Kft., Budapest (Hungary)	100.0	341	88
30	KHD Humboldt Wedag Espana S.A., Madrid (Spain)	100.0	871	-283
Associated companies				
Foreign				
31	DEUTZ AGCO MOTORES S.A., Haedo (Argentina)	50.0	-2,478	-2,855
32	ASIA POWER (PRIVATE) LIMITED, Colombo (Sri Lanka)	31.8	30,178	5,657
33	D.D.Power Holdings (Pty) Ltd., Elandsfontein (South Africa)	17.7	5,455	707

Supervisory Board

Dr Michael Endres

Chairman

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

- a) Heidelberger Druckmaschinen AG, Heidelberg
Lucent Technologies Networks Systems GmbH, Nuremberg, Chairman
ARCOR Verwaltungs-AG, Eschborn
Bankgesellschaft Berlin AG, Berlin
- b) Schott Glas-Stiftung, Mainz
Gemeinnützige Hertie-Stiftung, Frankfurt/Main, Chairman

Werner Scherer*

Vice-Chairman

Chairman of the Group Works Council of DEUTZ AG, Cologne

- a) KHD Humboldt Wedag AG, Cologne
Vice-Chairman (until June 19, 2002)

Klaus-Otto Fruhner

Cologne City Councillor, Cologne

- a) Flughafen Köln/Bonn GmbH, Cologne
Häfen und Güterverkehr Köln AG, Cologne
Abfallwirtschaftsbetriebe Köln GmbH & Co. KG, Cologne (until June 20, 2002)
Abfallentsorgungs- und Verwertungsgesellschaft Köln mbH, Cologne
Kölner Verkehrs-Betriebe AG, 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-CMS GmbH, Ratingen
ABB-APR GmbH, Eschborn
- b) Sparkasse Rhein-Neckar-Nord, Mannheim

Michael Haupt

Schweinfurt

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

Prof Dr-Ing Klaus G. Lederer

Former Chairman of the Management Board of Howaldtswerke Deutsche Werft AG, Kiel (until December 31, 2002)

- a) FAG Kugelfischer Georg Schäfer AG, Schweinfurt, Chairman (until September 30, 2002)
Krantz-TKT GmbH, Bergisch Gladbach, Chairman (until June 18, 2002)
AE Energietechnik GmbH, Vienna (Austria), Chairman (until July 1, 2002)
Babcock Borsig Ltd., Calcutta (India), Chairman (until June 19, 2002)
Babcock Borsig Capital Corporation, Worcester (USA), Chairman (until August 26, 2002)
Babcock Borsig España S.A., Madrid (Spain), Chairman (until June 18, 2002)
Lufthansa Cargo AG, Frankfurt/Main (until July 19, 2002)
- b) Administrative Board, BHF Bank AG, Frankfurt/Main (until November 20, 2002)
Advisory Board, INA Wälzlager Schaeffler OHG, Herzogenaurach (until December 31, 2002)

Helmut Müller*

Chairman of the Senior Staff Committee of DEUTZ AG, Cologne

- b) DEUTZ FRANCE S.A., Gennevilliers (France)
DEUTZ Canada Inc., Ville St Laurent, Quebec (Canada), Chairman
DEUTZ Australia (Pty) Ltd., Braeside (Australia)
Henkelhausen Holding GmbH, Krefeld

Karl-Heinz Müller*

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

- a) KHD Humboldt Wedag AG, Cologne (until June 19, 2002)

Management Board

Dr Witich Rossmann*

Chief Executive IG-Metall, Cologne
(metal-working industry trade union)

a) Ford Werke AG, Cologne

Peter Schwab*

Chairman of the Works Council of DEUTZ AG
(Mannheim engine works), Mannheim

Prof Dr Hans-Jürgen Warnecke

President of the Fraunhofer Gesellschaft, Munich

a) Mahle GmbH, Stuttgart
Rohde & Schwarz Messgerätebau GmbH, Memmingen
Deutsche Beteiligungs AG, Frankfurt/Main
JENOPTIK AG, Jena
Wanderer-Werke AG, Augsburg
MAN Roland AG, Offenbach
Dynamit Nobel AG, Troisdorf
Howaldtswerke-Deutsche Werft AG, Kiel
Microlog Logistics AG, Lorsch

Peter Zühlsdorff

General Manager of the Tengelmann Warenhandelsgesellschaft,
Mühlheim/Ruhr

General Manager of the DIH – Deutsche Industrie Holding GmbH,
Frankfurt/Main

a) GfK AG, Nuremberg, Chairman
Escada AG, Munich, Chairman
TV-Loonland AG, Munich, Chairman
Merck KGaA, Darmstadt
Quelle AG, Fürth
Kaisers Tengelmann AG, Viersen
(Affiliated company of Tengelmann Unternehmensgruppe)

Gordon Riske (45)

CEO
Market, Cologne

a) ISRA VISION SYSTEMS AG, Darmstadt

b) DEUTZ FRANCE S.A., Gennevilliers (France)
Deutz Corporation, Atlanta (USA), Chairman

Karl Huebser (57)

Technology, Overath

b) WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO. LTD.,
Weifang, (People's Republic of China), Chairman

Helmut Meyer (53)

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

Dr Stefan Schulte (42)

Finance/Personnel, (until April 15, 2003), Cologne

b) DEUTZ B.V., Rotterdam (Netherlands), Chairman
DEUTZ UK Ltd., London (Great Britain), Chairman
DEUTZ IBERIA S.A., Madrid (Spain), Chairman
DEUTZ DITER S.A., Zafra (Spain), Chairmann
DEUTZ DITER COMPONENTES S.A., Zafra (Spain), Chairman
DEUTZ Asia-Pacific (Pte) Ltd., Singapore (Singapore),
Chairman

a) Membership of Supervisory Boards in Germany and abroad

b) Membership of comparable supervisory bodies in Germany and abroad

* Employees' representatives on the Supervisory Board

Report by the Supervisory Board

The Supervisory Board concerned itself in detail during the 2002 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 by 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 and the systematic focussing of all activities on the implementation of this programme. Other matters discussed were joint-venture projects, the production location strategy, and the research and development strategy.

Other regular items on the agenda were 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 December 2002 the Supervisory and Management Boards issued a Declaration of Conformity under Article 161 of the Companies Act (AktG).

There was no need to call in the Conciliation Committee prescribed by the Co-Determination Act during the year. The Balance sheet and the Human Resources Committees each met twice.

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, 2002 and the combined annual report of DEUTZ AG and the Group, based on the book-keeping, and awarded its unqualified certificate of confirmation. The risk early-warning and monitoring system required by Article 91 paragraph 2 of the Companies Act was also audited in compliance with Article 317 paragraph 4 of the Commercial Code (HGB).

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 (former Balance Sheet Committee) at its meeting on March 14, 2003 and to the Supervisory Board at its meeting on March 25, 2003 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, the Group financial statements, and the annual report, 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 2002 financial year:

On December 31, 2002 Professor Dr Klaus Lederer resigned his seat on the Supervisory Board. The Supervisory Board would like to thank Professor Dr Lederer for his good work.

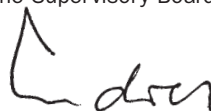
Dr Stefan Schulte will relinquish his position as the Management Board director responsible for finance and accounts, taxes, controlling, organisation, legal affairs, human resources, and EDV/IT on April 15, 2003 and join the Management Board of Fraport AG, the company that manages Frankfurt International Airport. In his function at DEUTZ AG Dr Schulte made a substantial contribution to the company's successful turn around. Because of his commitment DEUTZ has been able to make clear progress in introducing leaner organisational structures, in improving income and cost structures, and in asset management. He also initiated a new set of key figures for the accounting system. The Supervisory Board would like to thank Dr Schulte for his great commitment and valuable work.

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 currently the finance and administration director of the holding company of G. Siempelkamp GmbH & Co. KG in Krefeld, and will take up his new 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 2002 and for the successes they have achieved.

Cologne, March, 2003

The Supervisory Board



Dr Michael Endres
Chairman



DEUTZ AG

Financial Calendar

Event	Date	Location
Annual results conference 2002 financial statements Prospects for 2003	March 31, 2003	DEUTZ AG, Cologne
Analysts' conference	March 31, 2003	DEUTZ AG, Cologne
1st quarterly report, 2003	May 6, 2003	
Annual General Meeting	June 26, 2003	CologneMesse
Press conference First half-year report, 2003	July 29, 2003	DEUTZ AG, Cologne
Analysts' conference	July 30, 2003	DEUTZ AG, Cologne
Nine-months report, 2003	October 23, 2003	
Annual results conference 2003 financial statements Prospects for 2004	March 30, 2004	DEUTZ AG, Cologne
Analysts' conference	March 30, 2004	DEUTZ AG, Cologne
1st quarterly report, 2004	May 4, 2004	
Annual General Meeting	June 24, 2004	CologneMesse
Press conference First half-year report, 2004	July 27, 2004	DEUTZ AG, Cologne
Analysts' conference	July 27, 2004	DEUTZ AG, Cologne
Nine-months report, 2004	October 26, 2004	

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The title page shows the ocean-going lifeboat Berlin at full speed ahead, powered by DEUTZ engines.