

CLAAS

ANNUAL REPORT 2003

together



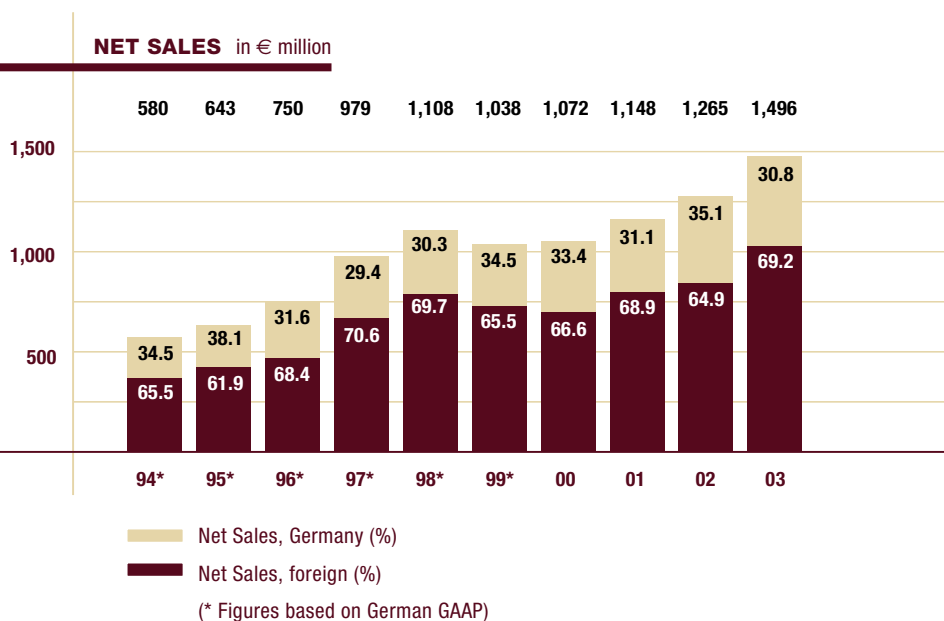
Customers
Partners
Investors
Employees
Society



KEY DATA FOR THE GROUP ACCORDING TO US GAAP

		2003	2002	Change %
PROFIT AND LOSS ACCOUNT				
Net Sales	€ million	1,496.3	1,265.5	18.2
EBIT	€ million	53.2	84.0	(36.7)
EBITDA	€ million	90.9	111.9	(18.8)
Net income	€ million	17.9	32.5	(44.9)
Income before taxes	€ million	22.6	55.8	(59.5)
Cash flow	€ million	58.1	67.4	(13.8)
R&D expenses	€ million	67.2	63.0	6.7
BALANCE SHEET				
Equity	€ million	292.5	292.2	0.1
Capital expenditure	€ million	54.2	54.3	(0.2)
Balance sheet total	€ million	1,412.8	1,019.6	38.6
EMPLOYEES				
Employees as at the balance sheet date*		8,391	6,114	37.2
Personnal expenses	€ million	352.3	291.7	20.8

* including trainees



AGRICULTURAL ENGINEERING

PRODUCTION ENGINEERING

INDUSTRIAL ENGINEERING

- Combine harvesters, forage harvesters, square balers, round balers and conventional high-density balers, as well as green harvest machinery, system carrier vehicles and agricultural information technology
- New: the range of products has been expanded to include tractors

- Development and production of complete production lines for the automotive and aircraft industries around the world

- System supplier for drive technology and hydraulics
- Axles and gears for agricultural and construction machinery, as well as commercial vehicles

As the first »MidCap«-company, within the framework of the Traditional Private Placement, CLAAS issued bonds in the amount of US-\$ 200 million.

Opening of the modernized and a more flexibly designed plant in Bad Saulgau.

Highlights

02/03

OCTOBER

NOVEMBER

DECEMBER

JANUARY

FEBRUARY



CLAAS presented the latest agricultural machinery to 15.000 visitors at a four-week-long »World CLAAS Forum« in the North of France.

CLAAS Fertigungstechnik, a subsidiary company of the CLAAS Group specialising in complex industrial facilities, has taken over a majority stake in Brötje Automation.

CLAAS

in brief

- Founded in 1913, today the company is the fourth largest manufacturer of agricultural machinery in the world, covering the entire processing chain of agricultural engineering.
- In Europe we are the undisputed market leader for combine harvesters, and worldwide we are number 1 for self-propelled forage harvesters.
- In four German locations and five plants abroad, we produce local products globally for all countries of the world.
- Currently more than 8,000 employees work for CLAAS Group worldwide.

In order to build a plant, CLAAS signs an investment agreement with the Russian region Krasnodar.

50 years of modern CLAAS combine harvesters. CLAAS introduced a self-propelled combine harvester »Hercules« to the grain harvest for the first time in 1953.

MARCH

APRIL

MAY

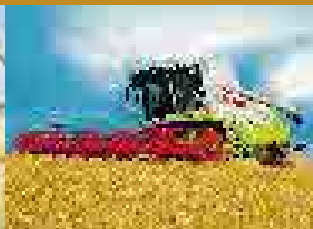
JUNE

JULY

AUGUST

SEPTEMBER

OCTOBER



CLAAS expands its product range with tractors through the acquisition of a majority stake in RENAULT Agriculture

More power and more efficiency in new design – that's the new LEXION 500 series.

Introduction of tractors under the CLAAS name and in CLAAS design.

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DOSSIER: »FOOD – A JOINT TASK FOR THE FUTURE«

The world economy needs sophisticated agricultural machinery and qualified expertise to meet the needs of food production and to ensure sustainable, environmentally safe and economical use of land. As a leader in the market and technology, CLAAS is among the leaders in this future-oriented process. We supply the needs of international agriculture with equipment, systems and accompanying service. In this regard, we consider our machines and ideas to be a key element in the process chain for »food manufacture«. Read more about this in our dossier.

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Success in agriculture is the product of commitment, competence and perfect timing. Today more than ever, CLAAS is a reliable system supplier, now with modern tractors in the product line alongside its proven harvest machinery.





Competence



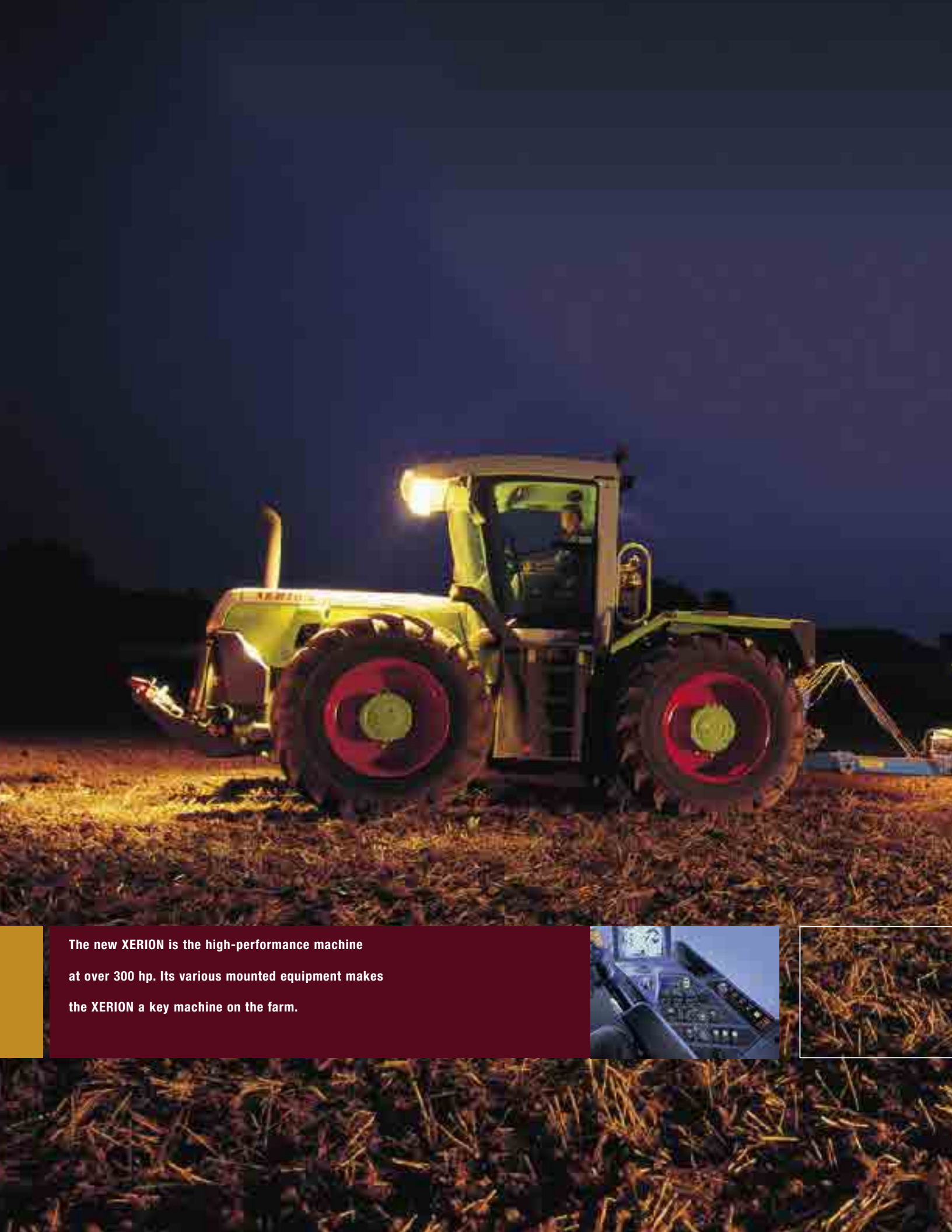
When it comes to efficiency, there's no beating the new LEXION combine harvesters. This year, with an average crop throughput of 70 tonnes of wheat per hour, the LEXION has achieved a world record performance.





Efficiency



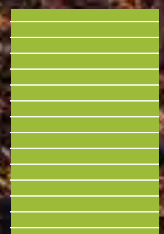


The new XERION is the high-performance machine at over 300 hp. Its various mounted equipment makes the XERION a key machine on the farm.



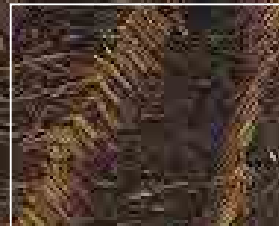


Top Performance



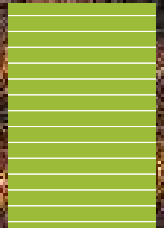


Over 600 hp deliver, not only the maximum power for the harvest they can also show speed on the roads. With the new series of JAGUAR forage harvesters a better performance in the »green harvest machinery« is achieved.





Speed



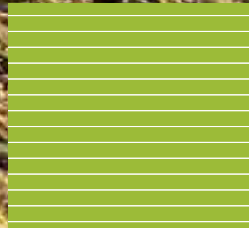


Satellite-assisted harvesting in combination with the very latest on-board information systems are the platform for precision farming and hence maximum efficiency.



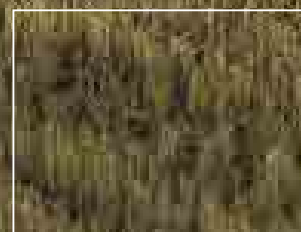


Precision





CLAAS creates added value for the harvest by means of first-class service, fast supply of spare parts, professional training and advice and innovative financing solutions. CLAAS tractors now benefit from this added value package as well.





Added Value



LADIES AND GENTLEMEN,

The Supervisory Board of CLAAS KGaA mbH monitored and analyzed the Group's business situation and risk position at its regular meetings during fiscal year 2003. The Board's assessments were based on reports by the Executive Board on the Group's strategic orientation, the asset, financial and income positions, deviations over the course of business from the plans made and operating decisions. The reports were received at two sessions and used as a basis for the decisions made by the Supervisory Board.

The primary focal points of the Supervisory Board's deliberations comprised the acceptance of the auditors' reports and the auditing of the annual accounts of CLAAS KGaA mbH and the CLAAS Group and plans for the year 2004, including:

- ⇒ Acquisition of a controlling interest in Brötje Automation GmbH
- ⇒ Transacting a private placement in the USA
- ⇒ Acquisition of a controlling interest in RENAULT Agriculture S.A.S. and integration into the CLAAS Group
- ⇒ Russia production project
- ⇒ CLAAS Group product development
- ⇒ Reorganisation of the plant structure at CLAAS Selbstfahrende Erntemaschinen GmbH including corporate colours
- ⇒ Tractor branding and distribution structure
- ⇒ Implementation of a cost reduction, synergy and efficiency programme including optimising Sales and Service

The Supervisory Board was elected in rotation by the ordinary general meeting in January 2001 for a further statutory term of office. Its composition remains unchanged from last year, with the exception that Mr Siegfried Vieth has now joined the Supervisory Board following the retirement of Mr Heinrich Jakobi.

The financial statements of CLAAS KGaA mbH and the consolidated financial statements of the CLAAS Group as at September 30, 2003 as well as the management reports for CLAAS KGaA mbH and the Group were audited by Deloitte & Touche GmbH, Düsseldorf, the auditors elected by the general meeting on January 27, 2003 and appointed by the Supervisory Board. The statements and reports received a full audit opinion on December 8, 2003, resp. on December 9, 2003.

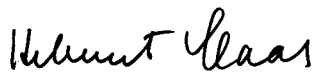
The financial statements of CLAAS KGaA, the consolidated financial statements and management reports as well as the proposal for the appropriation of profit were presented to the Supervisory Board upon completion. These documents as well as the auditors' reports were available to the members of the Supervisory Board and were discussed in detail at the Supervisory Board meeting on January 12, 2004 in the presence of the auditor.

Thereupon the Supervisory Board passed the following resolution:

Following an audit of its own, the Supervisory Board agrees with the audit findings. The final result of the audit by the auditor did not give rise to any objections. The Supervisory Board therefore approves the consolidated financial statements. It recommends to the shareholders that the annual financial statements of CLAAS KGaA mbH be adopted as they stand and agrees with the proposal for appropriation of profits made by the Executive Board of the personally liable partner.

The Supervisory Board would like to thank the Executive Board and all the employees for their commitment during the past fiscal year. The integration of RENAULT Agriculture, which was largely effected within a very short time, constitutes one of the most important tasks for the new business year. The main focus of our endeavours must now be on creating improved cost structures, using synergies and consistently increasing profits.

Harsewinkel, January 12, 2004
The Supervisory Board



Dipl.-Ing. Dr. h. c. Helmut Claas
(Chairman)



Helmut Claas

LADIES AND GENTLEMEN,

This has been an unusually eventful year for CLAAS. We have made some significant acquisitions, pushed ahead with internationalisation on all fronts and continued our innovation offensive. At the same time, we have had to cushion the impact of turbulence in the markets. We have remained consistent in change and in growth and have held on to one of the strengths that characterise us as a family business: »Togetherness«. This is our message to customers, suppliers, investors and partners, as we work together on the solutions for the future, and to our employees, whom we encourage to share the same aims. The world of agricultural engineering centres on Harsewinkel, in Westphalia. We see CLAAS as an integrating group, a framework for people to meet and talk to one another, where solutions are worked out with partners that allow us to grow and prosper together. During the year under review we ventured into a new dimension that brings its own challenges. Facing those challenges requires strong partnerships in all areas and at all levels.

2003 was a year of many facets. It was packed with dynamism and drama – a year of further strategic development for us. The takeover of Brötje Automation, the world technology and market leader in connection and assembly systems for the aircraft industry, has reinforced our Engineering for Production division and given fresh impetus to the possible transfer of technology.

Another milestone in the history of the firm was the acquisition of a controlling interest in the French tractor manufacturer, RENAULT Agriculture. This partnership opens a new chapter in the consolidation process within the global agricultural engineering industry. The two companies complement each other beautifully, as their product lines mesh perfectly. The expanded product range makes us even more attractive to our dealer network and our customers.

We have thus decisively strengthened our base in the two key markets of Germany and France, which together represent around 40% of the European agricultural engineering market, and created a platform for further growth. Together with RENAULT Agriculture, CLAAS will be playing in a different league in future. Our sales will expand by almost 50%. Including the 2,000 or so new employees from RENAULT Agriculture, nearly half the Claas workforce now operates outside Germany. However, the joining up of the two firms means more than simply the sum of their markets, people and machines. Our foremost management task is to fuse the strengths of both corporate cultures and take the enlarged CLAAS Group forward together into a new dimension.

Both the takeover of Brötje and the partnership with RENAULT Agriculture blend seamlessly into our strategy of global orientation. This has been further reinforced by setting up our own production facilities in North America, India and soon in Russia as well.

Along with the bright spots, 2003 also had its darker side. Whereas operations continued on a positive trend for the first half of the year under review, in the second half the markets proved more than sticky. Our continuing growth this year has been due to acquisitions alone. The integration of Brötje und RENAULT Agriculture increased our sales by 18% to € 1.5 billion. We have not reached our ambitious profit targets. We can not be satisfied with the pre-tax profit at € 22.6 million.

A number of factors have brought about this trend. Firstly, the strategic further development of CLAAS involved costs designed to secure the long-term commercial success of CLAAS. Secondly, during the year the market trend turned against the agricultural engineering industry. The exceptionally severe summer in Europe led to drastic crop failures in some places, creating a climate of uncertainty among farmers with regard to investment decisions. This uncertainty was further fuelled in the European markets which we dominate, in both the present EU states and the accession

countries, by the reform of European agricultural policy. Although we succeeded in further growing our market share on weakening markets, sales were perceptibly down in absolute terms. A resumption of business activity in South America was not sufficient to balance the equation, as our operations there are still in the early stages.

Plummeting sales of harvest machinery were only partly offset by rapid adjustments on the production side, leading to increased year-end inventories representing a mortgage on the new fiscal year. The scheduled efficiency improvements at the totally revamped Harsewinkel plant could be only partially implemented, however they will be fully effective in 2004. Although the cost-cutting measures and adaptations introduced early on were quick to take effect, they could not wholly make up for the slimmer margins due to falling sales and the internal charges.

So are the days of profitable growth in agricultural engineering over? We think not. Cyclical fluctuations are typical of our industry. We are used to dealing with them. There is no reason to be deflected from our ambitious long-term goals. The present weakness of the market is only an additional spur to us. We are holding to our growth strategy based on a steady, appropriate increase in value. Growth, profitability and an international outlook are the pillars on which our independence and strengths are founded.

We are well prepared to hold our own in the markets, even in a new dimension. Our high-tech products make us the technology and benefit leaders, while our service creates added value for our customers. We have put value-oriented control systems in place and we operate financial reporting methods that meet international standards. We were one of the first German firms to issue bonds to a value of 200 million dollars via a traditional private placement in the USA, the world's toughest capital market. Along with our own production facility and our own sales organisation in that



Rüdiger A. Günther

major combine harvester market, CLAAS thus also has a new financial pillar. CLAAS lives on a strong, loyal, creative workforce. In the CLAAS family we have an investor that identifies with the firm and the people who make it work.

Simply maintaining the status quo is not enough, though. We need to continue to grow in every area, make our activities even more international and be even more deliberate in positioning the Group as a global player. In the medium term we aim to become a leader within all the main markets. The markets of Central and Eastern Europe are increasingly coming into our area of focus. Our production sites in Russia and India give us an entry to the growth markets of tomorrow. In the USA, we are gearing our high-performance combine harvesters to the local market.

We are striding confidently into the future with a quality and innovation offensive. At Agritechnica we showcased a number of new and enhanced products. Most importantly, though, we have launched a new tractor line in CLAAS colours into the market. This represents a significant pillar for further growth.

The past year makes it very clear that we dare not rest on our laurels. For one thing, entering a new dimension takes a lot of hard work and energy. Our main task will be to further integrate RENAULT Agriculture into the CLAAS Group. In addition, our aim is to reduce our costs further and to make our cost structure even more flexible so that, despite the sales fluctuations that characterise our sector, we are still able to keep jobs secure when times are difficult and create new ones when times are better.

The 2004 fiscal year will not be any easier than the past year. We are not expecting any substantial growth stimuli in our core markets, and developing our operations in foreign growth markets takes time. The higher inventories of finished products at our factories and at our dealers' will hold down sales. Our aim is to continue growing. We will consistently carry on with the work we have begun, in order to put the long-term success of the Group on a secure footing. We will continue to invest in further expanding our produc-

tion network in 2004 and in the integration of RENAULT Agriculture. Already this fiscal year we will consistently improve our results. Together we shall achieve that ambitious aim.

»Together« involves all our stakeholders. Working together with customers, growing together with partners, getting together with investors, belonging together with our employees, thinking together with society. All of them play their part in our corporate mandate of bringing people, technology and organisations together. Our thanks are due to everyone involved for their contribution. We would like to thank our employees for their commitment and loyalty, our customers, dealers and importers, suppliers and business associates for their confidence in us. Our thanks go also to the shareholders and their committees, for their constructive support to us in our endeavours.



Rüdiger A. Günther, Executive President

NIKOLAUS FEIL **PRODUCTION**

Born 1944, Engineering graduate, Factory Manager at an automotive group's central plant, developed an automotive plant in South America, in charge of Production at all CLAAS factories, Executive Vice President at CLAAS since 2000.

LOTHAR KRISZUN **SALES/SERVICES**

Born 1952, Business administration graduate. He has held various positions in the CLAAS group since 1981, including Head of the Business Administration division, Commercial Manager of Westfälische Werke, Managing Director of CLAAS Fertigungstechnik, and most recently spokesman of the management board of CSE. Executive Vice President of the CLAAS Group since October 2002.

DR.-ING. HERMANN GARBERS **RESEARCH AND DEVELOPMENT/ INFORMATION-TECHNOLOGY**

Born 1951, held research and teaching posts at Braunschweig Technical University (Agricultural Machinery Institute), Development Manager for combine harvesters, self-propelled forage harvesters and tractors, Executive Vice President at CLAAS since 1999.



CLAAS

Management

GUY POVIE **TRACTORS**

Born 1949, Business Administration graduate, Technical High School graduate. He has held various positions in the RENAULT group since 1969 – e.g. as Project Manager for Logistics and Quality and as CEO of a Renault-Peugeot-Citroën joint venture. More recently he was Executive President of RENAULT Agriculture. In May 2003 he became Executive Vice President at CLAAS.

WERNER SCHNEIDER **HUMAN RESOURCES**

Born 1949, Economics graduate. He has held various positions in human resources management in international corporations in the metal, retail and logistics industries. Most recently he was the Director of Corporate Human Resources at an international logistics company in The Netherlands, Executive Vice President at CLAAS since June 2002.

RÜDIGER A. GÜNTHER **EXECUTIVE PRESIDENT** **BOARD FINANCE AND CONTROLLING/ MERGERS & ACQUISITIONS**

Born 1958, Business graduate, international career with an US investment bank, Finance Manager of one of the world's leading trading groups. Director of Finance/Controlling at CLAAS since 1993, Executive Vice President since 1997, Executive President board since 2002.



CLAAS regards itself as a systems supplier covering the whole process chain.

MARKET & PRODUCTS

- ▢ Trends in agricultural engineering
- ▢ Product line expanded
- ▢ Proven ability to innovate
- ▢ Working alongside the customer

work together CLAAS & Customers

CHANGE SHAPED BY FOUR TRENDS

Change as the only constant – this has been the challenge facing agriculture from the beginning of time. Today's agricultural industry is characterised by globalisation, concentration, increasing mechanisation and working by systems, along with growing use of information technology. The internationalisation trend began some time ago. Modern agricultural engineering is a global business. It is not possible to penetrate foreign markets by exporting alone. Global operators' sales strategies need to include a local share of production, component manufacturing and service. Globalisation means thinking globally and acting locally.

The global orientation of agricultural engineering goes hand in hand with a major wave of concentration. The consolidation process is already well established in agricultural engineering. Today's global players are confined to a small number of firms. International agricultural engineering is

an open book. Rounding off the range of offerings, in terms of either products or geographical coverage, is still a key strategic choice in a competitive environment.

HIGH-TECH ON THE FARM

As a result of the increasing demands made on agriculture, mechanisation is forging ahead, accelerating the shift from the traditional farmer's single-machine approach to a systems approach. The breathtaking advances in electronics and information technology have opened up new dimensions for agricultural engineering. Integration of electronics is making modern agricultural engineering even more efficient. Precision farming is the key to the agriculture of the future. Precision farming means recording yield and production data in electronic form and using that information in a closed precision farming circuit with computer-assisted



equipment to fine-tune sowing, fertilizing and pesticide application. The aim is more efficient, more sustainable utilisation of a field's yield potential.

These trends are driving the growth in efficient, high-quality agricultural machinery. Demand from professional groups of big agricultural contractors is rising. Use of machines on more than one farm and the structural increase in individual farm sizes are boosting demand for large machines. These now account for two-thirds of the West European market.

CLAAS – AT HOME ON ALL THE WORLD'S FIELDS

Our customers are spread throughout the world, and this is reflected in our product range and service. We develop and build machines to process a wide variety of crops efficiently, in all sorts of climate zones. We see ourselves as a system supplier covering the whole process chain in harvesting technology. Intermeshing machine systems form a balanced chain, in which none of the links snap, but at the same time none of the links are over-sized and thus uneconomic. We want to supply our customers, whatever size of farm they have, with the best machine concept for their purposes.

Our core products are combine harvesters and self-propelled forage harvesters. One combine harvester in three sold in Europe is a CLAAS. In February of this year, combine harvester no. 400,000 came off the production lines at Harsewinkel. We sell one in every two self-propelled forage harvesters in the world market. Our range of green harvest

machinery and balers encapsulates acknowledged expertise in the »green line« sector. Our line includes modern system, transport and commercial vehicles for agricultural use as well as agricultural information technology. We are a system supplier in the drive technology and hydraulics markets, not only to the CLAAS Group but also to external customers. The acquisition of Brötje Automation has significantly strengthened our engineering for production growth segment.

The partnership with RENAULT Agriculture has opened up a new dimension for us. By taking over the French tractor manufacturer, we have added an important key product to our range. We have not previously been known on the market as a tractor manufacturer. Now we can offer a full tractor line from 50 hp to 335 hp. The new product line covers all user segments and makes us a potential supplier to contractors and commercial farmers as well as grassland farmers and wine growers. The first tractors in CLAAS green with red wheels made their appearance in the fields in October 2003. This colour is a sign that CLAAS tractors are a high-quality, reliable product and that we are behind the CLAAS tractor.

CLAAS has launched three tractor families in various power classes. The standard tractor is the CELTIS, designed for mixed and grassland farming. The ARES series is the premium tractor product, while the ATLES models, powered above 220 hp, are ideal for agricultural contractors and big farms. The range of smaller narrow-track tractors for wine and fruit growing comprises the Dionis, Fructus and Pales series. In accordance with our principle of building on the respective companies' strengths and brands, the smaller tractor



series and special tractors that are well established in their markets will initially enter the CLAAS product line under the proven RENAULT Agriculture brand name. The result for the customer is a modern, attractive tractor range with service and parts for both CLAAS and RENAULT Agriculture machines provided by the service network and its support centres at Hamm-Uentrop and Le Mans.

PURSUING AN INNOVATION AND QUALITY STRATEGY

CLAAS' high profile is due among other things to our ability to keep on bringing beneficial innovations to the market. Substantial resources are deployed to that end. At Agritechnica in Hanover, the world's biggest agricultural engineering trade fair, we showcased a whole host of new products. The Lexion 400 series has been replaced by the new 500 series. The specific output has been increased on all the machines. The VARIO cutterbar is available in up to nine metres working width. The Mega series has also benefited from some significant improvements. The LEXION MONTANA can automatically compensate for an up to 17% sideways slope and 6% uphill and downhill gradients. The XERION large tractor rounds off the upper end of the new green tractor range.

In the area of large square balers, we have extended the product line by the addition of the new QUADRANT 2100. A number of new products in the green harvest machinery segment were presented at Agritechnica. Our world 'first', the COUGAR self-propelled mower unit with a 14 m working width, won the »Machine of the Year 2004« title.

CLAAS subsidiary AGROCOM has done a considerable amount of development work in combine harvester fleet management. The new Agro-Map software documents both field yield data and deployment times. Another new product is the Agrocom Online system, which constantly supplies current operating data by GSM to the contractor's office computer. AGROCOM is working with other partners, under the overall control of our biggest product company, CLAAS Selbstfahrende Erntemaschinen (CSE), on the Integrated Agricultural Services project (INA). In the context of progressive automation of agriculture, with increasing transmission and storage of machine and operating data, INA is envisaged as a platform providing farmers and their business partners with information and services on demand. AGROCOM is setting the standard in this field.

MOVEMENT IN THE MARKET ENVIRONMENT

Trends in the markets CLAAS supplies have varied during the year under review. In Western Europe, CLAAS' home market, combine harvester sales dropped by about 10%. Against this background we were able to develop our market leadership and further improve our market share. Following last year's disastrous floods, the severe winter and long summer drought, many farmers have put investments on hold. This also applies to a great extent to Germany. The German combine harvester market has slumped by 22%. We have firmly consolidated our position in a sagging market and now supply one out of every two combine harvesters sold in Germany. The markets of Central and Eastern Europe, where CLAAS is well positioned, have been thrown



Agricultural machinery of the superlatives: at the »World CLAAS Forum« in Chantilly, to the north of Paris, 15,000 visitors from all over the world have experienced a varied programme including agricultural machines, a vaudeville show and informative film sequences.

into temporary uncertainty by poor harvests, but continue to hold great growth potential. Another ten countries are due to join the EU next year. For farmers in the present EU, enlargement creates uncertainty about their future income. The same is true of the accession countries, where a wait-and-see attitude prevails as the EU administrative systems have not yet been introduced in recognizable form.

The dynamic, big combine harvester markets are currently South America and Australia. In North America too, there are signs of a low-level revival of business. Overall, developments on these markets have slightly overcompensated for the losses in Europe, taking the world combine harvester market up to just above 25,000 units.

The world self-propelled forage harvester market showed a slight drop. We are the undisputed forage harvester world market leader. In the baler segment, we have an approximately one sixth of the world market share. The world market for large square and round balers has followed a positive trend. Business in round balers was lively in Europe generally and in Germany. Against this background we were able to increase our market share. The European tractor market proved slightly recessive, with two main trends. Whereas volume at the premium end showed a decline, the market for small tractors grew. RENAULT Agriculture tractors maintained their strong market position in France in particular.



RESPONSIBILITY TO CUSTOMERS

Our strengths derive from a corporate culture which is oriented to the customer. Our customer focus is apparent above all in our ability to innovate plus the quality of our service, which is acknowledged all over the world. Our customers are engaged in a demanding business. Working the land is a long chain of operations that mesh together like cogs. The soil type, vegetation, wind and weather constantly pose fresh challenges for our customers.

To overcome these hurdles, we want to be a first-class partner to our customers, with products and services to match. Our customer care is comprehensive, our service and parts distribution covers all areas and at the same time we can offer innovative financing solutions. We are in touch with our customers everywhere and we listen to them. In the autumn of 2002, we hosted the World CLAAS Forum in France, which was attended by 15,000 guests from all around the world. We exhibit at all the major trade fairs and we also hold dealer seminars to strengthen the links between our authorised dealers and the CLAAS organisation.

EFFICIENT AFTER-SALES ORGANISATION

The success of our growth strategy has always depended on high-quality service and fast supply of the appropriate spare parts. Our state-of-the-art logistics centre at Hamm-Uentrop has demonstrated its efficiency in supplying agricultural engineering around the world during three harvest seasons. After-sales service is one of the key decision criteria when purchasing agricultural machinery. We regard it as a matter of course to support our customers in every respect after the sale.

As an independent family business CLAAS values strong partnerships and works together with partners on future-oriented solutions.



STATUS QUO & STRATEGY

- ▢ The global view
- ▢ CLAAS Fertigungstechnik on the advance
- ▢ A strong team – CLAAS and RENAULT Agriculture
- ▢ Towards a worldwide production network
- ▢ Treasury – our house bank

grow together CLAAS & Partners

Strategies derive from visions. Our vision is to supply international agriculture with machines, systems and accompanying services that set standards in terms of quality and technical performance. We are thus assuming part of society's responsibility for feeding the human race adequately in future.

As opposed to our big competitors, who are without exception international public corporations, we, as a European agricultural engineering firm, are a family business. We will only be able to hold our ground against the competition in our traditional and our newer markets if we continue to grow consistently and profitably. Growth is the key component of our strategy. There are opportunities for growth everywhere. The forces driving our industry are still the same: an expanding world population and rising standards of living are pushing up demand for more food and higher quality food. At the same time, land is a limited resource. High-tech is the answer to draw higher yields from a define area.

Western Europe remains pivotal for our strategy. Most of our sales are realized in the EU. Other regions of Europe are increasingly coming into our focal area. Central and Eastern Europe in our view offer excellent opportunities for expansion. These regions are advancing along with Western Europe to form our future home market. In the medium term, these markets can become as significant as those of Western Europe and North America. Demand for modern agricultural machinery is huge and is set to grow further as a result of EU enlargement. The CIS in particular has a lot of ground to make up. As well as the Ukraine, Russia is a high priority target region from a strategic point of view. The arable land area is greater than the whole of the EU. Of the 150,000 or so combine harvesters currently in use, around 90% are machines over five years old that in many cases are not up to the requirements of modern farming. Estimates are that Russia has only half of the machine capacity needed for sowing and harvesting.

CLAAS enters the growing Eastern European markets and invests in a new combine harvester plant in Krasnodar, Russia. The foundation ceremony was held in 2003.



We have spent the last few years setting up a network of dealers and marketing outlets in the CIS. We are the leaders among combine harvester manufacturers with Western technology in Russia. Around 3,000 self-propelled forage harvesters are now in operation there. However, in order to further open up this market we will need to build machines locally. Within the framework of our global production network we will start by investing € 20 million over the next few years in a new combine harvester plant in Krasnodar. The region is known as the bread basket of Russia. CLAAS will thus be the first Western agricultural engineering manufacturer to have its own manufacturing facility in Russia. The production project is emissioning on main components being made at plants in the Russian Federation for assembly at the Krasnodar production site.

We also have our sights on the big markets of South America and Asia. The Food and Agricultural Organisation of the United Nations (FAO) estimates are for South America to register the steepest growth in cereal production, after Eastern Europe. This area is currently the world's most expanding market. While we have a base in Argentina, CLAAS' market position in South America as a whole is still below average.

Asia offers good prospects for our green harvest machinery and particularly for the combine harvester developed specially for rice harvesting. India is the world's fastest-growing and most significant agricultural market and is now among the leaders in rice growing. Further developing our combine harvester plant in India is therefore strategically important to us. This will enable us to expand our business in the emerging sales markets of Asia. Our presence in India will allow us to cover such markets as China, Taiwan, Korea and Malaysia considerably more effectively.

North America remains a challenge for us. The big markets of the USA and Canada are stable and profitable. The additional subsidies of the US Farm bill which the USA is to pay its farmers by 2007 ought to generate increased investment in agricultural engineering. Local manufacture of our LEXION combine harvesters in the USA is only the beginning. The competition is strong and the only route to growth is predatory competition.



NEW ACTIVITIES IN RELATED AREAS

Agricultural engineering continues to be our core business. Internal growth is the motor of our expansion. Nevertheless, we seize opportunities presented within the industry. The year under review has been punctuated by acquisitions and investments that represent an important foundation on which to secure the success of the CLAAS Group in the long term.

Towards the end of last year CLAAS Fertigungstechnik (CFT) acquired a controlling interest in Brötje Automation GmbH from the British Baxi Group Ltd. Brötje is the technology leader in connection and assembly systems for the aircraft industry. Together with this world market leader in assembly cells for aircraft bodies and wing parts, CFT contributed approximately 9% to Group sales in 2003. The history of CFT is a success story in terms of using existing plant engineering and construction know-how to move into and expand related operating areas. Originally a factory making manufacturing equipment for agricultural machinery, CFT has evolved into a high-tech supplier of complex transfer and production lines for the automotive industry and robot-controlled assembly lines for aircraft manufacturing.

CLAAS AND RENAULT AGRICULTURE – A STRONG TEAM

In acquiring a majority stake in RENAULT Agriculture we have exercised the strategic option of adding tractors to our product line. The dwindling number of independent tractor manufacturers prompted us to take an offensive approach. This strong new alliance between CLAAS and RENAULT Agriculture has enriched the world agricultural machinery market. RENAULT Agriculture is an ideal partner for us. The two product lines mesh beautifully: CLAAS, the harvest machinery specialist with sales of around € 1.3 billion and RENAULT Agriculture, the quality tractor manufacturer with annual sales of over € 600 million. The figures for the year under review include sales since May 2003. Joining forces with RENAULT Agriculture gives the strong CLAAS brand a new dimension.

We shall also be investing significantly in technology and quality in this area in the next few years. The factors for success such as innovation in agricultural engineering, reliability and first-class service and parts availability must also apply fully to CLAAS tractors. Market prospects are

*CLAAS feels at home in
all fields around the world.*



good. RENAULT Agriculture is the market leader in France, though underrepresented elsewhere in Europe. With the help of the CLAAS distribution and service network, which is well developed throughout Europe, new growth opportunities are created. Together with our distributors we are working out country-specific solutions that will enable us to supply customers in the different sales markets with individual machine ranges tailored to their particular commercial structures. Our distributors are poised to do this, with a competitive line of tractors, harvest machinery and other products that fit in well at various points of the chain.

TOWARDS A WORLDWIDE PRODUCTION NETWORK

Cutterbars from Hungary, drive systems and hydraulics from Paderborn, software from Bielefeld and machines from Harsewinkel – CLAAS takes all these things and builds them into what are probably the world's most efficient combine harvesters. When those combine harvesters come together with forage harvesters from Harsewinkel, balers from Metz, green harvest machinery from Bad Saulgau and tractors from Le Mans, the result is the product range of the world's fourth largest agricultural engineering manufacturer. The small Harsewinkel site is big enough to gather the threads from all over the world. Facilities in France, Hungary, Italy, Spain, the United Kingdom, Russia, the USA, Argentina and India all come together under the umbrella of the holding company.

That international spread shows how far we have come in the transition from being purely an exporter to becoming a global player. Our expertise on world markets is no longer founded solely on first-class regional distribution and service organisations, selling machines imported from our company factories. Global expertise means creating maximum benefit for our customers in terms of function and economic efficiency. It also stems from our willingness to create local added value in the respective markets. We will only reap lasting success in our markets of the future, such as Russia and Ukraine, if we build local added value into our strategy. We are gradually expanding our dense network of production sites supplying not only complete machines but also components and assemblies to be turned into finished products at local production facilities around the world.

To implement this global growth and product strategy, an unprecedented investment offensive has been under way for the last few years. We have turned the main factory at Harsewinkel into the hub of the network. This state-of-the-art plant has production lines for combine harvesters and forage harvesters, components and assemblies. Similar restructuring, on a smaller scale, has taken place at our Bad Saulgau and Metz factories. The component plant in Hungary has been extended and a new logistics centre opened at Hamm-Uentrop. Expansion of our production network and optimisation of our manufacturing systems give us greater flexibility as well as pooling our expertise, and thus higher quality coupled with efficiency.



Further components of this selective investment offensive include acquisitions in the USA and India. LEXION machines tailored to the requirements of US farmers are now built under our direct control in Nebraska, USA. CLAAS has also taken charge of combine harvester production in India. The rubber-tracked CROP TIGER machines have been developed specially for local growing and harvesting conditions on wet soils in rice-growing areas.

FINANCING AS A SUCCESS FACTOR

Another key component of our strategy is corporate financing. CLAAS leaves no avenues unexplored here. The Finance Division is organized like a house bank, which plays a central role within the Group by acting as a liquidity buffer and investment source for the various units. Group companies or divisions that have made a surplus or that need funds turn to the holding company. The house bank has to be in a position to offer competitive terms. Another central Group function is risk management. Our control system is by no means confined to simple cash management. By controlling Group risks centrally, we can offset one against another if necessary and thus limit the total exposure. In this way we avoid situations where subsidiaries in different countries assume individual risks that are reasonable for them but in sum are too great for the Group. Central currency, interest rate and credit risk management makes for a balanced risk structure.



Our financing solutions are designed not just for our subsidiaries but above all for our customers. To this end we have formed a joint venture with BNP Paribas that allows us to carry out banking transactions in all the countries of the European Union. Customers can choose between hire purchase, leasing or conventional credit financing when purchasing our products. The joint venture with Paribas, under the name of CLAAS Financial Services, Paris, affords us two main advantages. Firstly, we can offer our customers one-stop shopping and secondly, we have the benefit of the bank's credit rating and handling experience. Flexible, non-conventional sales financing schemes have been devised primarily for newly developing and transformation countries, to support our sales in growth regions like Central and Eastern Europe while eliminating significant financing risks.

get together

CLAAS & Investors



CLAAS is constantly engaged in a dialogue with its investors. The annual financial partners meeting attracts considerable interest.

CAPITAL MARKETS

- ▢ Use of innovative financial instruments
- ▢ Professional financial communication
- ▢ Internal capital market through employee shareholding scheme
- ▢ Value-oriented management

CLAAS has been setting standards in corporate financing for years. As a mid-sized family business, we have long been geared to the requirements of the capital markets. We were quick to foresee the change in German bank financing and to adapt the Group accordingly to diversified sources of funding. The capital market environment is currently beset by considerable uncertainties. Essential business finance issues are presently the subject of public discussion and answers will need to be found soon. These include questions about the future structure of both the German and the international banking, internationally comparable methods to gauge credit quality, the significance of the valuation systems used by external rating agencies or, indeed, the influence of new international accounting standards on corporate finance decisions. On top of that, the economical and political context remains difficult. In such a situation, rapidly changing investor sentiments and highly volatile interest rate and exchange rate movements are only a logical consequence. Given the present capital market environment, our objectives of differentiating and internationalising our financing profile and extending the duration of liabilities are proving to be the correct course.

We continue to take advantage of a wide array of financing options which were given in the market. A case in point was the US private placement in December 2002. American insurance companies, who require an in-depth credit quality assessment, were the principal subscribers to these securities. Notes amounting to US-\$ 200 million were successfully placed with a term of 12 years, a maturity exceeding by far the normal terms available in Europe at the time of issue. The US private placement improves our long-term capital structure, broadens our investor base and underpins our growth strategy at the same time.



PROFESSIONAL FINANCIAL COMMUNICATION

Our ability to attract additional investors is based on open financial information that is not designed to merely fulfill minimum standards required by the regional banking market. Our financial statements have been prepared in accordance with US GAAP for several years now and based on the presentation of our corporate strategy and our system of corporate control, we were able to convince investors at our US road show. We care to the main requirements of the international financial markets with regard to transparency and comparable, up-to-date information. Even though not necessarily relevant to us, we already voluntarily comply with most key points of international board practice as set down in the German Corporate Governance Codex. In terms of the aspects particularly useful to creditors, such as the dual corporate constitution with independent supervisory board, transparency, accounting and auditing, CLAAS scores above average as defined by the first official compliance survey of the German Corporate Governance Index.

INTERNAL CAPITAL MARKET THROUGH EMPLOYEE SHAREHOLDING SCHEME

Within the framework of the Law Promoting Coinvestments by Employees, we have been offering silent partnerships to our employees in Germany since 1984. The acceptance is very good, testifying to the high level of employee identification with the Group. The participation quota of employees, who are entitled to subscribe, is very high at 65.4%. More than 300 silent partners hold capital of more than € 10,000 in CLAAS Mitarbeiterbeteiligungs-Gesellschaft or even more. The share capital qualifying for dividend payment is over € 16 million. The total payments to the silent partners for the year under review amounts to € 1.8 million.

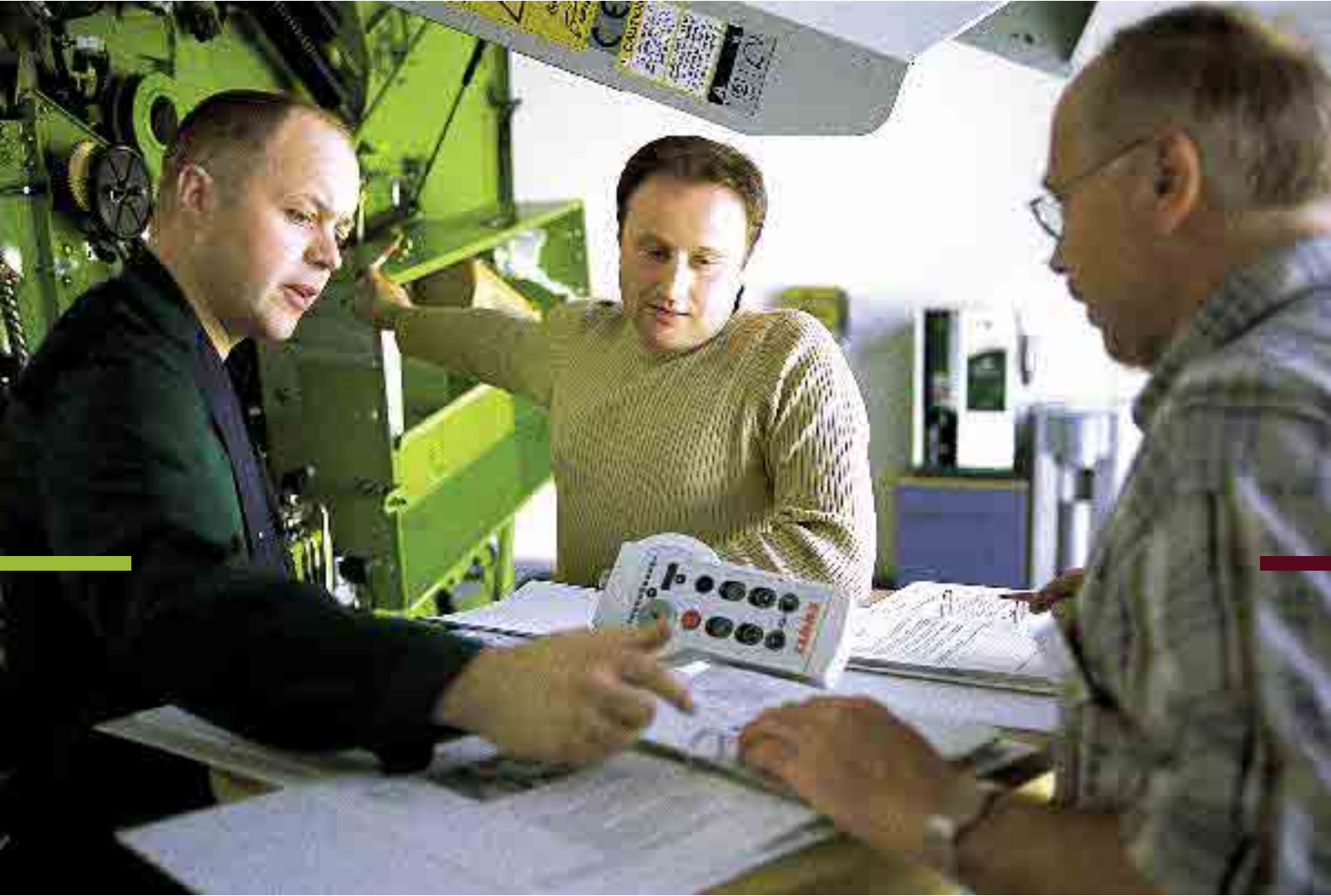


CLAAS explains facts and figures to the journalists at the annual press conference.

VALUE-ORIENTED MANAGEMENT

Our shareholder value philosophy is comprehensive and is not geared to short-term success. It addresses not only investors but also employees, customers and suppliers. This value-oriented, forward-looking approach to control requires a high degree of consistency in our entrepreneurial actions and is enabled and facilitated by the ownership structure at CLAAS. The Claas family, as the Group's sole proprietor, is our safekeeper of consistency through all the cycles that characterise the sector and the sometimes high fluctuations in the capital markets. The value management which we put into practice and its key variables, cash flow and cost of capital, form the links between the day-to-day work of the Group and the standards of valuation applied by third parties.

The main performance indicator which we use in our value management approach is Cash Flow-Return on Investment (CF-ROI). This tells us how much cash after tax has been generated in relation to the capital invested. It becomes economically meaningful when compared with the cost of capital, which expresses the equity holders' and lenders' weighted interest claim after taxes. The cost of debt is determined by the long-term debt financing terms, while the cost of equity reflects stock market yield expectations.



CLAAS-employees traditionally have a strong bond with the company.

EMPLOYEES

- ▢ Personnel development is top priority
- ▢ Worldwide recruitment
- ▢ Cooperative management structure
- ▢ CLAAS ACADEMY knowledge platform

belong together CLAAS & Employees

LEARNING IS A TOP-LEVEL MATTER

CLAAS, a family business, is one of the leading employers among Germany's medium-sized companies and one of the top firms for personnel development. This has been confirmed by a study recently published in Top-Arbeitgeber in Deutschland (Top Employers in Germany). CLAAS scored maximum points in the four areas of employment conditions, social skills, scope for personal development and future prospects for the business. The panel's conclusion was that »CLAAS is a global player with a social face, that puts employees on the ladder to advancement«.

Here at CLAAS, personnel development is of vital significance. Having the best products, the best technology and the best organisation are of no avail unless the employees are firmly behind the company in terms of commitment, skills and willingness to achieve. For that to happen, there has to be job satisfaction. The Human Resources function is part of the holding company management.

We have a huge need for qualified, effective skilled workers and managers. We sell high-tech agricultural machinery all over the world. To do that, we need innovative, motivated, well-trained employees. We recruit young people wherever we operate and train them in-house and in the field for future employment in their own country. Together in Harsewinkel and all over the world.

Cooperation between colleagues is one of the strengths of the CLAAS corporate culture.



We are well aware that an employer who cannot offer attractive working conditions will not get the people it needs. Our employees spend a large part of their available time at work. We make sure that time is not wasted. We attach importance to personal contact and discussion between our staff. A workforce is more than the sum of the individuals; it is a body of colleagues that retains its cohesion even beyond the factory gates. There is a saying within the Group that everyone at Claas has »green blood in their veins«. In other words, they identify strongly with the business. We get together regularly to celebrate our successes, talk through our problems and inject new staff with »green blood«. We recognise and award our employees when they celebrate significant anniversaries.

We operate flexible working hours models. On the commercial side alone, there are ten different time models in operation. Salaried employees are on flexitime and management-level staff work self-regulated hours on a basis of trust. We have introduced variable pay models to motivate our employees. In this connection we use the scope offered over and above the established pay scales. Variable bonus schemes are linked to the attaining of specific agreed targets.

MANAGEMENT STRUCTURE BASED ON RESPECT

Our guiding principles are mutual respect, readiness to accept change, reliability and involvement in decision processes. The yardstick by which the success of our personnel policy is measured is customer satisfaction. The principles of management and co-operation that apply worldwide shape our corporate culture, which is based on credibility, loyalty and trust. An honest and full exchange of information characterises working relations between managers and employees.

We don't mind spending a bit of money on personnel development. During the year under review over € 4 million were invested under this heading, equivalent to 1.2% of total payroll costs. The training ratio is 6.2% worldwide. At our German plants, employing around 4,300 people, it is 7.2% and is thus two to three percentage points higher than the industry average. During the year under review, we had a total of 308 young people in training. Meanwhile, 102 young people completed their training and were all taken on by the Group. We prepare people for over twenty different commercial and technical careers.



ON THE LADDER TO ADVANCEMENT

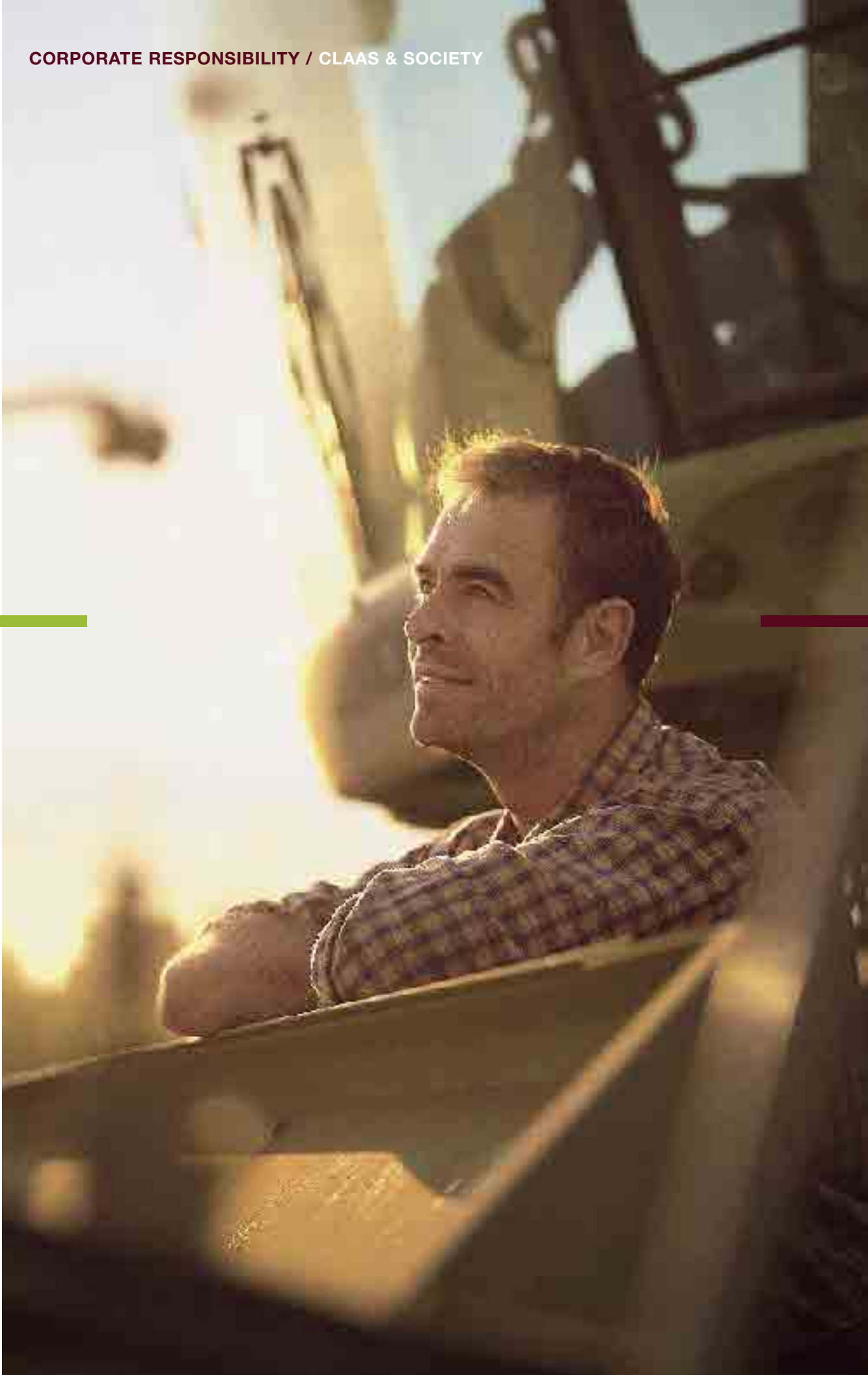
CLAAS fills 70% of its junior staff vacancies in-house. The international trainee programme has been functioning as a strategic instrument for the last 16 years. We take on graduates in a variety of disciplines who spend a year to 18 months working in each area of the business in turn, from administration to production to sales. Periods of time working abroad and in-plant continuing education are an established part of this programme, as is independence in organising the training schedule. The posts offered to the new recruits are not decided until completion of the trainee programme. The contract of employment is indeterminate from the outset. A foreman training programme which operates in parallel prepares employees who have embarked on a foreman's or technician's training to fill supervisory positions within the Group and to become future foremen. Our personnel development programme also comprises seminars and courses to build technical, method and social skills and for language learning and management training.

CLAAS pioneered twin-track studying, which combines practical training with courses of study at the Stuttgart Professional Training College and the Paderborn School of Business Studies. This has proved to be an effective way of training highly qualified employees with a commitment to the Group.

CLAAS ACADEMY KNOWLEDGE PLATFORM

Modern agricultural engineering constantly demands new technical concepts and practical solutions. The development of high-tech solutions is increasingly based on intelligent linking of innovative information technologies and sound practical experience. That requires on-going vocational and continuing education and training. We have institutionalized education and knowledge transfer by setting up the CLAAS ACADEMY. This is a worldwide training organisation, open not only to our staff but also to distribution partners. Through training courses and practical work in the field, we equip staff from the engineering side with essential production and service knowledge and support our marketing and sales specialists with benefit arguments for our machine and system product lines. During the year under review, 3,200 staff from the technical and marketing functions took the opportunity to follow the courses offered at our training centres in Harsewinkel, Bad Saulgau, Metz, Kiev and Belgorod in Russia. The CLAAS ACADEMY is now under a new roof at Harsewinkel, opposite the CLAAS plant. The premises comprise nine seminar rooms with the latest media and presentation technology and two workshop complexes for hands-on training on the machines.

*Future challenges
can only be tackled
together. CLAAS faces
up to this task.*



CORPORATE RESPONSIBILITY

- ▢ **Soil conservation is vital**
- ▢ **CLAAS plays its part**
- ▢ **CLAAS Foundation serving society**
- ▢ **Constant dialogue with the public**

think together

CLAAS & Society

COMBINING ECOLOGY AND ECONOMICS IN AGRICULTURAL ENGINEERING

Feeding the human population with sufficient food that not only fills people up but is also healthy and of good quality poses enormous challenges for agriculture. The main source of the problem is that as the population increases, the land available for farming is shrinking. CLAAS plays a key part in responding to this challenge. Our products and services help create the foundation for the society of tomorrow. That mission obliges us to make an active commitment to the environment and to be socially responsible. The contribution expected of us to feeding people adequately in the future is an essential component of our basic attitude. We create lasting values by becoming actively involved in economic and social life. We encourage our employees and our customers to combine their actions with social and environmental awareness and we make great efforts to be a dependable partner to all the groups with whom we come into contact. Our way of thinking and acting is directed at the whole process with respect to corporate responsibility.

Agriculture is not possible without fertile, healthy soil. For a long time, this was not a problem for the world. Increasing the available land area was not an issue. However, the illusion of the almost limitless capability of the soil to meet our needs was shattered long ago. The world population explosion, rising standards of living and globalisation of markets have led to a huge rise in the demand for food. Land has become a bottleneck. The soil is worked intensively and has little time to recover.

Agriculture and the engineering industry supplying it with technology are expected to do the impossible. On the one hand, they have to produce the food essential for life, while on the other hand, they must ensure that the basis of their work remains intact. Our big agricultural machines and tractors are an indispensable component of economically efficient farming. We have spent years developing machines to meet both economic and environmental demands in the closed system of soil cultivation. We influence tyre technology and devise tyres and track systems to distribute the heavy load over a wide area. Many of our big agricultural machines are fitted with rubber track roller units, which are very efficient yet at the same time gentle on the ground. Special machines for tropical and subtropical regions enable rice and maize to be harvested in a more environmentally sound way. The growing use of electronics is making agricultural engineering more cost-effective and also more environmentally sophisticated. Computer-assisted equipment applies data on growing conditions in order to optimise sowing, fertilizing and plant protection. Fertilizer is only applied where yields are poor, plant protection only where pests are found to occur.

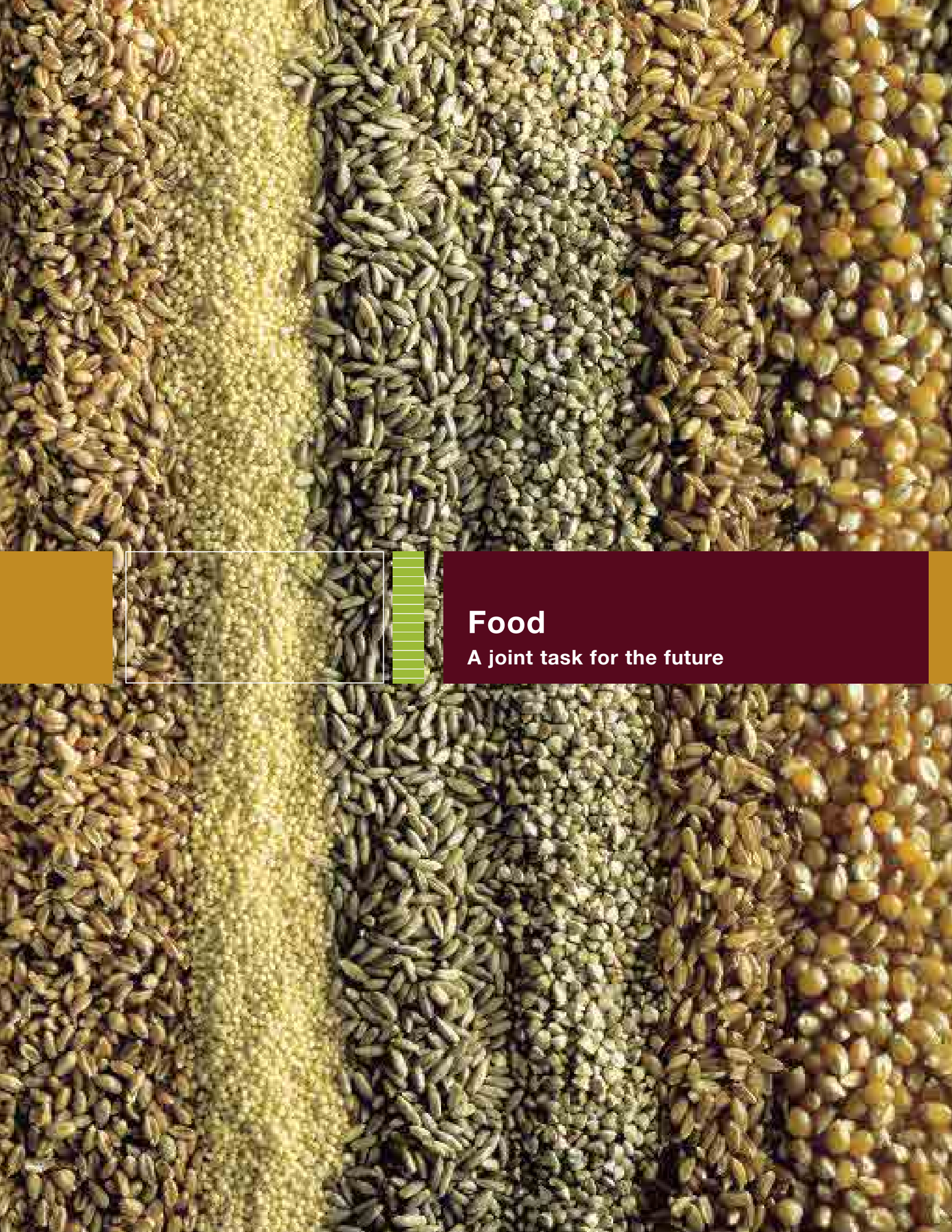
CLAAS FOUNDATION SERVING SOCIETY

Businesses have a responsibility to society. CLAAS is well aware of this. We regard actively helping to shape the social environment as a corporate duty. The CLAAS Foundation, set up in 1999, plays an important part in this, by contributing to agricultural education and knowledge and encouraging the rising generation to face the challenges of the future with new ideas.

The Foundation's aim is to promote science, research and education, principally in agricultural engineering and also in the related fields of engineering and economics. Outstanding project work or dissertations are recognized with the Helmut Claas Scholarship, awarded annually and these are supported as part of project promotion. The Foundation also gives research contracts. The projects that receive such honour all reflect the significance of agriculture and agricultural engineering for the future.

DIALOGUE WITH THE PUBLIC

CLAAS does a lot for society. We train young people, create jobs, invest in plants and pay large amounts in tax. The Group is subject to constant changes, many of which are due to the social environment. In order to adjust to new developments, we try to maintain constant contact with representatives of society. We tell them about our work and discuss all the relevant issues with them.



Food

A joint task for the future



Oh, the delight of freshly baked bread, a steaming bowl of rice or perhaps a steak with chips and a side salad – however diverse their eating habits, every child, every woman and every man should be able to eat their fill.

It is possible. The paddy fields of Asia, Europe's acres of wheat, the American maize plantations and even the millet fields of Africa have the ability to satisfy human hunger. But without modern technology, it won't happen. High-tech in the fields: that's the key to the future.

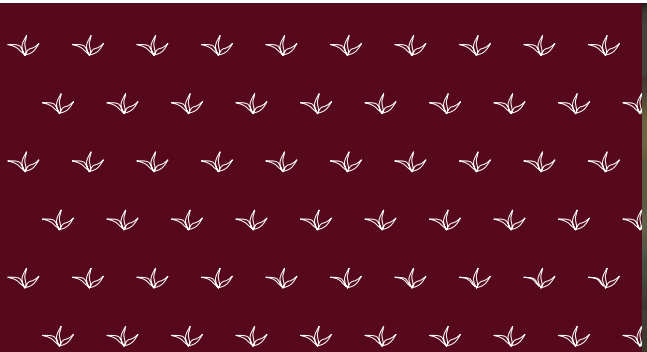
DID YOU KNOW THAT

- ☞ *the world population is expected to grow by almost 40% by the year 2030*
- ☞ *eating habits round the world will become more similar. Per capita meat consumption alone will increase by more than 40% by 2030.*
- ☞ *one young bull needs 9 kg cereal fodder to gain 1 kg in weight.*
- ☞ *an additional 1 billion tonnes of grain are needed by 2030 to meet the growing needs of an expanding world population and changing eating habits.*
- ☞ *90% of the available agricultural land is already farmed today.*
- ☞ *the only way to increase yield to cover the requirements is to perceptibly boost efficiency on existing farm land.*

Source: UN Food and Agriculture Organisation

Six billion people currently live on this earth. The numbers are increasing by the hour. Every day, more food is needed. The problem is that the fields and meadows that are the sources of our food cannot be extended indefinitely. As it is, the greater part of the earth's surface is too hilly and rough, too cold, too hot or too arid to be suitable for growing and harvesting.

Another factor is that eating habits are changing drastically. Pizza, pasta and popcorn are in demand today all round the world. Meanwhile, the trend for more meat continues, as evidenced by the global presence of fast-food chains. More meat means more fodder. Over half of the world's maize crop is already fed to animals today.





The answer is therefore that we need to work the fields more intensively and sustainably, in order to increase the yield from the same area. In other words, we have to apply fertilizer intelligently, choose high-yielding, resistant seed and use modern machinery.

The agricultural sector, including all the related upstream and downstream activities, is the world's biggest employer. Nowadays, one billion farmers feed six billion people. In the world's highly developed countries, one farmer can supply 100 people with food. This has not always been the case. As recently as the 19th century it took six farmers to do that. Such progress has been made possible by constantly developing technology.

The course of development can be charted from the use of the first plough to the invention of crop rotation to today's high-tech products. Combine harvesters, tractors and forage harvesters will continue to ensure in the future that the ever-growing demand for food can be met.





Agricultural machinery improves living conditions. To put it very simply: if you eat well, you are more likely to keep healthy. If you are healthy, you will do better at school. And with a good education, you are likely to get a job. The one thing leads to the next to create the basis for social, political and economic stability – in short: satisfaction.

Food is the basis of life. Where would we be without farming? Thanks to the new technologies, there is every prospect that people everywhere will be able to feed themselves by their own efforts. The task for the future »food« is to be solved jointly. It can be done. Together.





You can find further information on this issue at
»Food and Agriculture Organization of the United Nations«
www.fao.org

Management Report

Consolidated Financial Statements

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Management Report

of the CLAAS Group

INDUSTRY DEVELOPMENT

»EUROPEAN CLIMATE« IMPACTS INVESTMENT CLIMATE

The investment climate in the agricultural engineering markets which, contrary to the general development of business activity, had generally been positive in the previous year, clearly deteriorated in the year under report. The effects were especially noticeable in Europe, but also in North America.

The main reason for the reluctance to invest, in addition to declining incomes in previous years and the uncertain framework conditions surrounding agricultural policy, was the European weather. Extreme drought conditions, at levels previously unknown, were experienced almost all over the Continent. Forest fires throughout Southern Europe, and dried up grain in regions of normally fertile soil, reflected the severity of the conditions. There have never been so many days of temperatures exceeding 30 degrees, since records began.

Grain production in the European Union decreased by almost 10% in 2003, with declines being most extreme in the major agricultural engineering markets of France, Germany, and Italy.

The major markets for agricultural machines in Central and Eastern Europe also suffered considerable declines in both income and profit. Here too, unfavorable weather conditions were the main cause, with the drought conditions following the serious frost damage during the winter period. Total worldwide grain production in 2003 was about 15 million tons below the already depleted production levels of the previous year.

Resolutions reforming EU agricultural policy, the accelerating structural change, and the forthcoming enlargement of the EU in 2004, all intensified the uncertainty among farmers and crop producers. Whilst current EU members fear growing competition and pricing pressure, acceding countries have serious doubts as to whether they will be able to establish competitive business structures on a timely basis.

After a clear recovery in the previous year, there were signs of an overall moderate decline in the agricultural engineering market in Western Europe for 2003. The German agricultural engineering industry also recorded a decline in total sales. In the first half of the year the German market recorded a decrease of 11.3%, which could only be partly compensated through increasing exports. The high exchange rate of the euro strongly affected agricultural engineering exports to non-European markets.

France, the largest agricultural engineering market in Europe, also experienced a slight downward trend for tractors and combine harvesters in 2003. The baler market alone was able to record modest growth. Great Britain recovered further from the deep crisis suffered since the mid-90s, although demand declined noticeably in the tractor market.

The agricultural engineering markets of Western Europe are expected, as a whole, to continue to remain conservative.

Central and Eastern Europe continue to be important target regions of West European agricultural engineering exports due to the high demand for modern, efficient machines. The forthcoming fundamental structural changes in Central Europe will, however, lead to a time delay in investment activity.

The economic development and framework conditions of agricultural policy in the major CIS markets will continue to improve. Government subsidies for the agricultural industry contribute to a recovery of the agricultural engineering market, particularly in Russia. The pressure on capital investment and the trend towards free market orientation will continue.

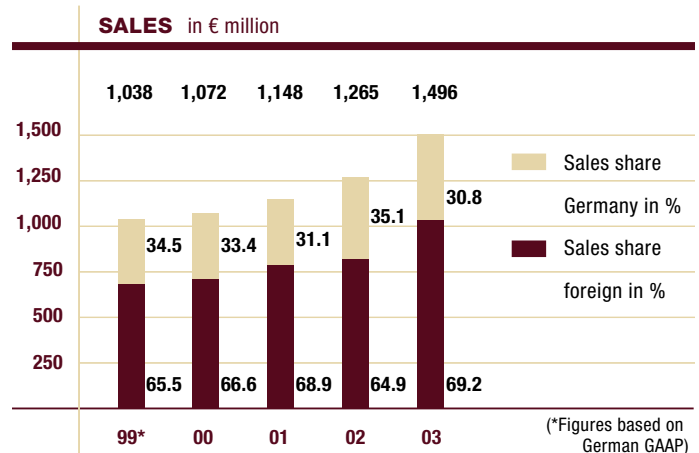
The North American agricultural engineering market showed a slight downward trend during the year under report. South America was the dominant growth market in 2003 and at the end of the year, Brazil had experienced significant growth in both the combine harvester and tractor markets. Argentina's agricultural exports will reach high levels after overcoming the economic crisis in 2003. In line with this development, the agricultural engineering market has already grown considerably this year. The outlook for Argentina as a major worldwide agricultural exporter is positive.

In India, the agricultural engineering market remained difficult throughout 2003. The necessary automation of the agricultural industry however, clearly demonstrates that this country continues to offer huge growth potential.

NET SALES

IMPROVED MARKET SHARES – SALES GROWTH THROUGH ACQUISITIONS

The CLAAS Group achieved an increase in sales of 18.2% to € 1,496.3 million in 2003, as a result of acquisitions. Sales were virtually at the



same high levels at the previous year (€ 1,265.5 million) after excluding the acquisition of majority shares in Brötje Automation GmbH and in RENAULT Agriculture S.A.S.

Sales development within the various segments and regions varied. In the Agricultural Engineering segment, sales improved by 15.8% to € 1,340.4 million as a result of the tractor sales included in the CLAAS Group since May 2003. The Production Engineering segment continued to grow independently from the acquisition of Brötje Automation, and sales achieved by the Industrial Engineering segment were stable at similar levels to the previous year.

CLAAS successfully asserted its position in the European market. Despite the difficult conditions arising from reductions in income levels of the past few years, the extreme drought inexperienced for centuries, and the reforms of EU agricultural policy, CLAAS clearly gained market share. This improvement was, however, insufficient to compensate the market decline in terms of units sold.

In Western Europe, which continues to be the most important agricultural engineering market for CLAAS, total sales improved by 23.7% to € 1,021.2 million. Sales for the original core business of harvest machinery, excluding RENAULT Agriculture, were slightly below the level of the previous year. The moderate decline is primarily attributable to reduced levels of income suffered by the farmers as a result of unfavorable weather conditions. The decrease in sales, at 2.1%, was more pronounced in the EU member states. Grain production in the European Union as a whole fell by 10%.

Following above-average development in the previous year, the sales of harvest machinery decreased by 6.5% in Germany and 2.6% in Italy. The recovery in Great Britain, however, continued and enabled CLAAS to record growth similar to the level of the previous year, at 6.4%. In France, CLAAS recorded a 3.5% increase against a slightly declining market. The development of the harvest machinery business in the remaining EU countries was varied, with declines in Scandinavia, Ireland and Austria being matched by almost equal increases in the Benelux countries and in Spain.

The main agricultural machine markets of Central Europe also suffered from losses in revenue and decreased income on account of the adverse weather conditions of the past season.

In total, the Central European countries recorded a 6.6% drop in CLAAS harvest machinery sales in the financial year 2003. The strength of the euro, coupled with forthcoming fundamental structural changes in the EU acceding countries along with the uncertainty associated with the future shaping of the new agricultural policy, all led to comparatively lower capital expenditures on harvest machinery.

The overall sales development in Eastern Europe was slightly different. CLAAS successfully expanded its business activities in the Russian Federation, recording an 18.6% increase. The start-up of a local combine harvester production facility in the South Russian city of Krasnodar, results in the fact that the barriers to Western machine imports will no

longer be an issue in the future. In addition, subsidies and public assistance for investment in agricultural engineering will be available for locally manufactured CLAAS products. In contrast, last summers drought, continuing restrictions with respect to the financing of machine imports, and the creation of new customs barriers all adversely influenced the business development in the remaining regions of Eastern Europe. Harvest machinery sales in the Ukraine decreased. The introduction of customs duties on agricultural machine imports led to a major sales decline in Belorussia. The strong demand for modern agricultural engineering in Eastern Europe, along with the continuing trend towards free market orientation, leads CLAAS to anticipate considerably improved growth in the future.

CLAAS Agricultural Engineering sales (without tractors) in non-European markets decreased by 1.4% over the previous year to € 146.9 million. In the USA, the largest market outside Europe for CLAAS, the demand for agricultural machines has not recovered from the 2002 drought, despite a good harvest in 2003. Nevertheless, the two American companies CLAAS of America LLC. and CLAAS Omaha LLC. increased sales by approximately 10%, mainly due to an improved spare parts business. The marked change in the exchange rates parity of the euro/dollar from the previous year resulted in a reduction of € 12.5 million, or 16%, of the US sales realized by the CLAAS Group. CLAAS Argentina improved sales, albeit from a modest base. Additional non-European countries enjoying substantial sales growth are located in Central Asia.

The proportion of export sales as a percentage of total sales of the original core business of harvest machinery increased, as a result of the positive trends in export markets and the decline of sales in Germany, from 68.5% in the previous year, to 69.8% in 2003. In total, exports accounted for 69.2% of sales in 2003, compared to the previous year of 64.9%.

SALES BY REGION in € million

	A	B	C	D	
	461.4	685.9	188.0	161.0	Germany
	(+4.0%)	(+48.9%)	(-7.4%)	(+1.9%)	EU without Germany
					Other European countries
					Non-European countries

COMBINE HARVESTERS AND FORAGERS WEAKER – GREEN HARVEST MACHINERY AND BALERS EXTENDED

The modest decline in sales of the Agricultural Engineering segment – after adjusting for acquisitions – is attributable to combine harvesters and foragers. This development results primarily from the adverse weather conditions in both Western and Central Europe, as previously mentioned, but also from the loss of the Challenger track-type tractor

sales which, following termination of the joint venture with Caterpillar in the middle of the last business year, are no longer included in Agricultural Engineering sales.

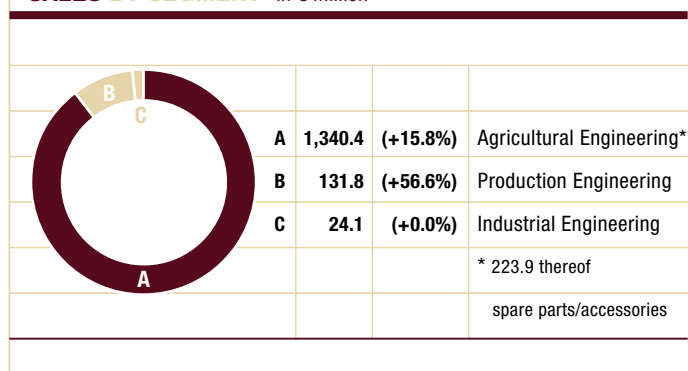
The sales development of green harvest machinery and balers was positive. Particularly pleasing was the development of green harvest machinery in Eastern Europe, where a major step was made towards market penetration in 2003. The rising demand for round balers in the domestic market, and in Hungary, positively influenced sales of balers.

Sales of spare parts and accessories remained at similar levels to the previous year, despite the unfavorable conditions. Including the spare parts for tractors, sales improved to € 223.9 million.

CLAAS Production Engineering continued its upward trend, increasing sales by 13,0%. In acquiring the majority shareholding in Brötje Automation, the technological leader of connecting and assembly technology in the aviation industry, and inclusion of the related sales, total sales of the Production Engineering segment increased by a further € 36.7 million to a total of € 131,8 million, an improvement of 56.6% over the previous year. The acquisition of Brötje Automation has promoted CLAAS Production Engineering into an established and extremely successful partner for almost all automotive producers worldwide as well as for the aviation and aerospace industries.

The CLAAS Industrial Engineering segment achieved third-party sales in line with prior year levels (€ 24.1 million) after recording further sales growth in its core business with gears and hydraulic valves, and following the strategic adjustment of its business areas.

SALES BY SEGMENT in € million



GROWTH THROUGH TRACTORS

The acquisition of the shares in RENAULT Agriculture, and the inclusion of its sales since May 2003, resulted in an increase in sales of € 213.0 million for the CLAAS Group.

The sale of tractors and related spare parts account for the majority, or 60%, of RENAULT Agriculture Group sales, with a further 28% of sales being generated by the sale of other agricultural machines and equipment, which are sold to customers in France via the locally owned RENAULT Agriculture network of outlets. The retail business also accounts for the remaining 12% of sales through trading of used machinery, as well as workshop services. Regional considerations

determined that the sales focus to date was concentrated on France, where 80% of sales are generated. A further 17% of sales are realized in the remaining countries of the EU, with other European countries and the rest of the world accounting for 3% of sales. The future growth potential of this business will be primarily exploited in Central and Eastern Europe via the existing CLAAS sales and marketing network.

RESULT

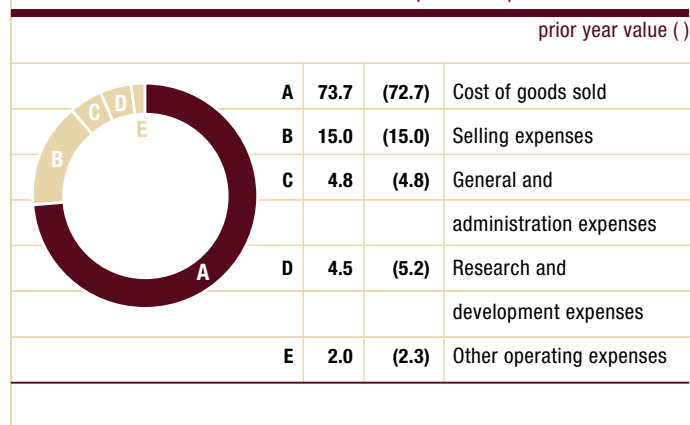
RESULTS STOOD UP TO NEGATIVE IMPACTS

The gross profit on sales rose by 6.5% to € 403.3 million in the financial year 2003, and is due to the profit contributions of RENAULT Agriculture and Brötje Automation. The disproportionate increase in gross profit on sales, compared with sales growth is partly a result of the deviating value-added pattern in the tractor business, and in the plant engineering and construction segment. In addition, the original core business had to cope with adverse impacts in 2003. Excluding the acquisitions, the gross profit on sales would have decreased by 4.9%.

The adverse impacts primarily relate to completion and implementation of the new works structure in Harsewinkel, under absorption of labor capacity as a result of weather-related sales losses. In addition, the modification of the factory in Harsewinkel resulted in an increase in depreciation.

The operating income was correspondingly affected by the aforementioned adverse impacts. The virtually unchanged relation in selling, general and administration, and research and development expenses, as a percentage of sales, resulted in a decreased operating income from € 68.5 million in the previous year to € 45.2 million in 2003. The slightly disproportionate increase in selling and general and administration expenses, relative to sales, results from the first time-consolidation of RENAULT Agriculture and Brötje Automation and marketing expenses incurred to improve customer retention (»World CLAAS«) increased at the beginning of the financial year. The result was further impacted by costs of integrating the tractor business, as well as increases in wages and salaries. Research and development expenses increased from € 63.0 million to € 67.2 million, and were approximately 4.5% when measured as a percentage of sales, whereas the original core business remained at its previous high level of 5.0%.

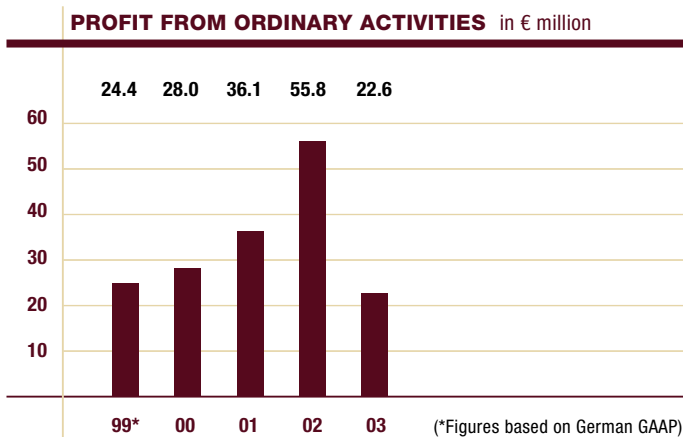
EXPENSE STRUCTURE in % of total operative expenses



The income from investments includes all profit and loss contributions of participations not fully consolidated, and are largely attributable to the sales financing companies CLAAS Financial Services S.A.S. and CLAAS Valtra Finance Ltd. as well as CLAAS GUSS GmbH.

Income from interest and securities decreased by € 4.5 million from the previous year, primarily reflecting the financing costs of the acquisitions undertaken in the financial year 2003. As a result of a € 100 million euro bond issued in 1999, and the US\$ 200 million placement in the USA towards the end of 2002, CLAAS was able to benefit from the historically favorable interest level.

The other financial expense of € 12.0 million includes expenses incurred for participation certificates and for the CLAAS employee profit participation scheme, losses on foreign currency transactions, commission paid to financial service providers (guarantee and security commissions, etc.) and other financing expenses. The significant appreciation in value of the euro compared to other major currencies was largely compensated by CLAAS through timely and effective hedging. Nevertheless, including hedging costs, the net currency expense amounted to € 3.9 million.



Profit from ordinary activities which, as a result of the lack of extraordinary items, corresponds to income before taxes, decreased from € 55.8 million to € 22.6 million as explained by the effects referred to above.

The Group's net income declined from € 32.5 million to € 17.9 million. The disproportionately low income tax burden of approximately 15%, compared to 41% in the previous year, arises from the utilization of tax losses carried forward in foreign Group companies.

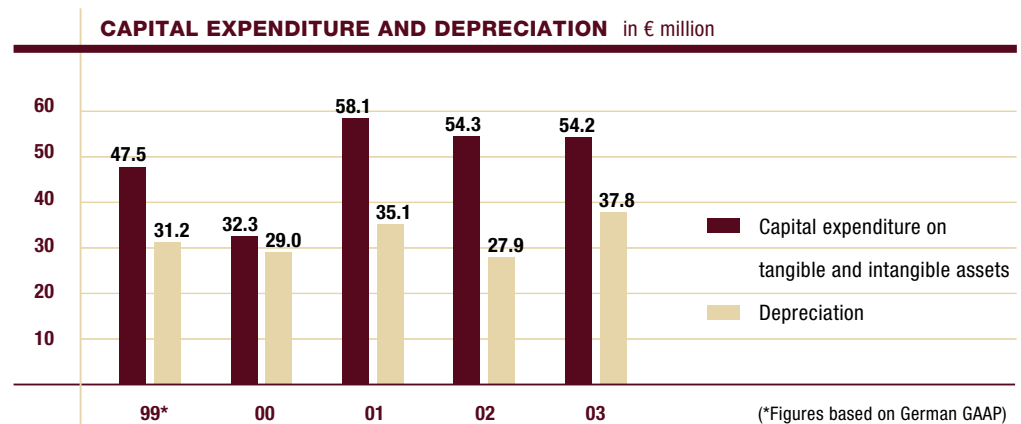
CAPITAL EXPENDITURE

CAPITAL EXPENDITURES INCREASED TO € 142 MILLION

The financial year 2003 was largely characterized at CLAAS Group level by considerable investments in production facilities and, through acquisitions, in the expansion of the product portfolio. Capital investments totaled € 142.3 million. Capital expenditure on tangible and intangible assets, excluding Goodwill, remained at prior year levels of € 54.2 million.

The most significant individual capital investment was the acquisition of shares in RENAULT Agriculture, which accounted for € 74.7 million, whereas the acquisition of the 51% share in Brötje Automation accounted for € 12.6 million. Both acquisitions are important strategic steps towards expanding the market position within the various segments. The addition of tractors to the CLAAS product portfolio provides improved benefit to our customers on account of a broader, integrated range of products on offer from a single source. Similarly, the acquisition of Brötje Automation as an established market leader of connecting and assembly technology in the aviation industry, enables the Production Engineering segment to gain a more rapid foothold in the aircraft construction machinery industry. Synergies arise from the transfer of technologies between the different fields of activity of the Production Engineering segment, as well as from winning new joint customers.

Investments in property, plant, and equipment in 2003 primarily relate to the modernization and restructuring of the production facilities, with focus on the facilities at Harsewinkel and in Saulgau. The SYNPRO10 Project in Harsewinkel has been largely completed, and the goal is to continue to further improve production efficiency, quality and flexibility. In addition, CLAAS invested significant funds on the expansion of the product range and on model maintenance. Further progress was also made in the implementation of the SAP R/3 Software System at various locations.



CASH FLOW

CASH FLOW ACCORDING TO DVFA/SG AT A GOOD LEVEL

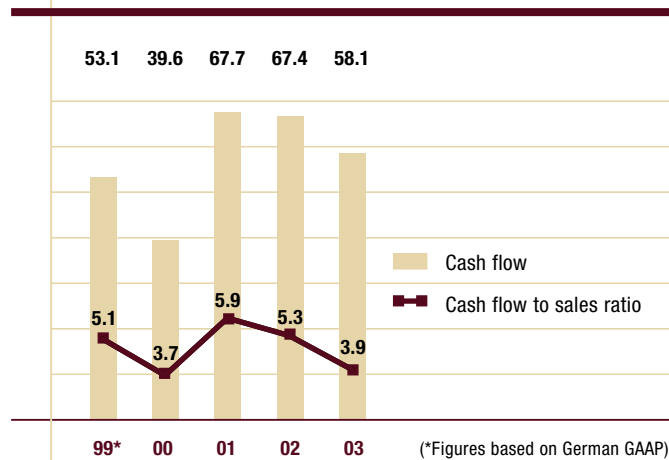
The cash flow, computed in accordance with DVFA/SG principles, amounts to € 58.1 million, and is € 9.3 million, or 13.8%, below the level of the previous year. This indicates that the special negative influences to the profit did not impact the cash flow, as evidenced by the increase in depreciation as a result of the restructuring of the factory in Harsewinkel, which had no impact on cash outflow.

The cash inflow from operating activities is, compared with the previous year, slightly negative at € 3.8 million, which primarily relates to changes in working capital both in the original core business and also at RENAULT Agriculture since its inclusion in the CLAAS Group.

The acquisitions undertaken in the year under report resulted in a marked increase in cash outflow from investing activities, compared to the previous year. The cash outflow amounting to € 84.8 million is more than compensated by a cash inflow from financing activities in the amount of € 155.0 million, primarily due to the placement of a bond in the USA. The residual surplus, together with the cash outflow from operating activities, results in an increase in cash and cash equivalents of € 65.0 million to € 233.2 million.

The cash flow to sales ratio computed on the basis of the cash flow according to DVFA/SG, which amounts to € 58.1 million, is 3.9% (prior year 5.3%).

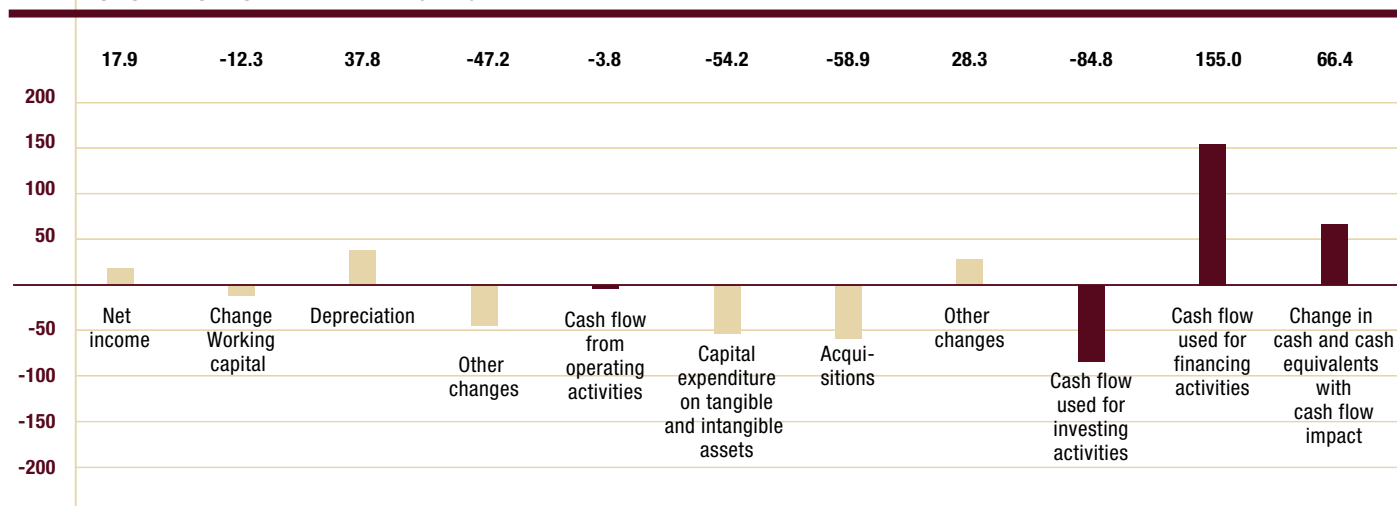
CASH FLOW ACCORDING TO DVFA/SG in € million



CASH FLOW STATEMENT

	2003 € million	2003 %	2002 € million	2002 %
Cash flow according to DVFA/SG	58.1	25	67.4	40
Cash flow from operating activities	(3.8)	(2)	36.6	22
Cash flow used for investing activities	(84.8)	(36)	(35.0)	(21)
Cash flow used for financing activities	155.0	66	(4.9)	(3)
Change in cash and cash equivalents with cash flow impact	66.4	28	(3.3)	(2)
Influence of foreign exchange	(1.4)	0	(0.9)	0
Opening balance of cash and cash equivalents	168.2	72	172.4	102
Closing balance of cash and cash equivalents	233.2	100	168.2	100

CASH FLOW STATEMENT in € million



LIQUIDITY AND FINANCING

LIQUIDITY AND FINANCING FLUCTUATE DURING THE YEAR

As at the balance sheet date, CLAAS had available liquidity (cash and cash equivalents plus securities classified as current assets) of € 344.8 million, which is a marked increase from the previous year (€ 300.7 million). The cyclical business development within a year, which is typical for the agricultural machine industry, leads to considerable liquidity fluctuations during the year. Whereas the relatively low commitment of funds to working capital normally leads to a high liquidity level at the financial year end, the financing requirement rises significantly during the business year, in line with the cyclic business development. The operative measures taken for reducing these liquidity fluctuations in the course of the year (for instance, flexibility in production) are accompanied by an asset-backed securities program (ABS program). Within the scope of this ABS program, trade receivables are sold to a special-purpose entity.

The increase in cash and cash equivalents was largely due to the inflow of proceeds from issuing a US\$ 200 million bond at the beginning of the financial year, which was partly off-set by a cash outflow for financing acquisitions.

After consolidating the acquisitions, first-degree liquidity (liquidity to short-term liabilities ratio) is at 67.4% (prior year: 83.7%). Second-degree liquidity (monetary current assets to short-term liabilities ratio) amounts to 123.3% (prior year: 141.1%).

In addition to the ABS program, the CLAAS Group has received financing commitments in excess of € 720 million, which serve to secure the financing requirements of the CLAAS Group's future growth. The financing commitments are detailed in the notes to the financial statements. In addition to a listed euro bond of € 100 million, which CLAAS issued with a 4.5% coupon and a maturity of 7 years in the international capital market at the beginning of March 1999, they include a US\$ 200 million bond. This bond was placed with American institutional investors in the form of a private placement in December 2002. With a 5.76% coupon, and a maturity of 12 years, it was once again possible to secure a very low level of interest.

Furthermore, through the issuance of participating certificates of € 41 million, and the conclusion of a syndicated credit facility exceeding € 100 million, precautionary measures were taken in the last few years to secure the financing of the CLAAS Group's future growth.

BALANCE SHEET STRUCTURE	2003	2003	2002	2002
	€ million	%	€ million	%
Fixed assets	373.9	26.5	262.3	25.7
Current assets	1,038.9	73.5	757.3	74.3
Assets	1,412.8	100	1,019.6	100
Equity	292.5	20.7	292.2	28.7
Funds similar to equity	106.3	7.5	58.3	5.7
Long-term liabilities	502.5	35.6	309.7	30.4
Short-term liabilities*	511.5	36.2	359.4	35.2
Equity and liabilities	1,412.8	100	1,019.6	100

* including Derivative Financial Instruments

ASSETS

ACTIVE ASSET MANAGEMENT, HIGH LIQUIDITY

The changes to the balance sheet structure were primarily result from the first-time consolidations of RENAULT Agriculture and Brötje Automation. The balance sheet total increased by € 393.2 million to € 1,412.8 million.

Fixed assets increased from € 262.3 million to € 373.9 million. The additions and the effects from first-time consolidations totaling € 166.2 million (prior year: € 90.6 million) are partly off-set by disposals at residual carrying amount of € 10.2 million (prior year: € 11.0 million) and depreciation of € 37.8 million (prior year: € 27.9 million). The changes in scope of consolidation disclosed in intangible assets include Goodwill in the amount of € 36.0 million resulting from the first-time consolidation of the acquisitions Brötje Automation and RENAULT Agriculture for the first time. The additions to tangible assets in the amount of

€ 52.1 million relate primarily to the modernization and restructuring of CLAAS Group's production facilities. In addition, the first-time consolidations of RENAULT Agriculture and Brötje Automation resulted in a further increase in tangible assets of € 55.0 million, with additions to land, land rights, and to technical equipment, constituting the principal amount of € 46.9 million.

Financial assets increased over the previous year (€ 49.4 million) by € 16.4 million to € 65.8 million, with RENAULT Agriculture accounting for € 15.2 million of this increase.

Inventories increased by € 130.5 million to € 337.6 million, when compared to prior year, primarily as a result of the inclusion of RENAULT Agriculture. Through flexibility in production, and the timely adjustment to output levels, CLAAS was able to limit the increase in harvest machinery inventories resulting from the weather-related reduced demand in the spring and summer of 2003, to € 17.7 million.

Trade receivables increased from € 139.5 million to € 179.9 million, of which € 68.5 million relate to RENAULT Agriculture. This consolidation-related increase was partly off-set by decreases in trade receivables at other CLAAS companies. After adjustment for acquisitions, the trade receivables to sales ratio improved considerably from the prior year level of 11.0%, to below 9.0%. This positive development is partly attributable to the sale of receivables within the ABS program, and partly due to strict receivables control in an effort to minimize credit risks.

Liquidity, including securities classified as current assets, improved from € 300.7 million to € 344.8 million, and accounts for approximately one quarter of the balance sheet total.

SOLID COVER RATIOS MAINTAINED

The amount of equity, at € 292.5 million, was basically unchanged from the previous year. The net income for the year 2003 directly compensated distribution to shareholders and exchange rate effects. The equity ratio decreased from 28.7% to 20.7% on account of the increased balance sheet total resulting from the acquisitions.

Including funds similar to equity, which increased to € 106.3 million as a result of the minority share in RENAULT Agriculture, the expanded equity ratio, at 28.2%, remains solid. In addition to minority interests, funds similar to equity also include participation certificates outstanding in the amount of € 40.9 million, and the dormant participation of CLAAS- Mitarbeiterbeteiligungs-Gesellschaft (CMG) in the amount of € 17.2 million (prior year: € 16.1 million). In accordance with US GAAP, these items are not classified as equity in the narrow sense of the meaning.

Long-term liabilities amount to € 502.5 million (prior year: € 309.7 million) and is comprised of pension provisions, other non-current provi-

sions and liabilities with a remaining term of more than one year. The increase in the long-term liabilities relates primarily to the inflow from the US private placement and the absorption of the pension provisions from RENAULT Agriculture.

Long-term capital, comprised of equity, funds similar to equity and long-term liabilities, covers fixed assets at a ratio of 241.1% (prior year: 251.7%). The extended equity-to-fixed-assets ratio (long-term capital in relation to the aggregate of fixed assets and 50% of inventories), at 166.1% (prior year: 180.5%), remains at an excellent level.

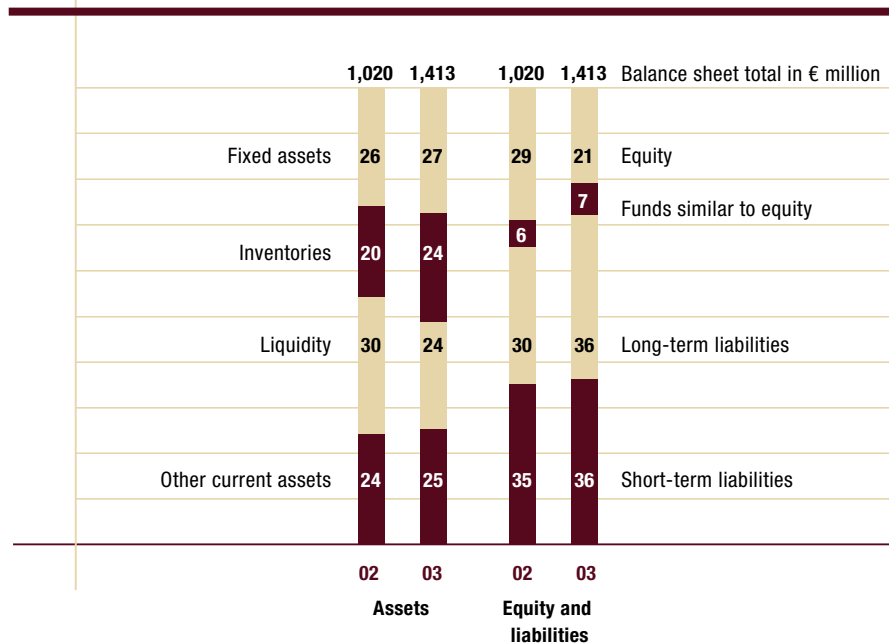
PURCHASING

Market-driven price increases had a distinct effect upon purchasing in 2003. Producer capacity issues created a short supply of steel, which led to a significant increase in world steel prices followed by an increase in steel, and steel-related, products. At the same time, the Iraq crisis resulted in increases to the price of oil, oil-related products, and energy.

The impact of these increases to CLAAS was mitigated by reducing the number of suppliers, and by bundling volumes. In the year under report, the number of suppliers was reduced by more than 10%, leading to economies of scale.

CLAAS has entered into an intensified value added partnership with the remaining suppliers. The cost of materials will be further optimized through joint product development based upon market-orientated costs, agreements to continuously rationalize production and supply-chain processes, and the establishment of clearly defined quality targets. In order to realize these goals, suppliers are being increasingly integrated into the CLAAS business operations. Today, CLAAS is already networked with its most important suppliers through electronic media.

BALANCE SHEET STRUCTURE in %



SIX SIGMA – INNOVATIVE METHODS FOR PROCESS CHAIN OPTIMIZATION

Six Sigma is a project management program utilized by CLAAS for the analysis and sustained elimination of quality issues by means of commonly used modern quality management tools. Six Sigma also serves to design nearly error-free products and services, as well as the underlying CLAAS processes, in accordance with customer requirements. Six Sigma targets are generally consistent with the elementary internal objectives of the CLAAS Group.

RESEARCH AND DEVELOPMENT

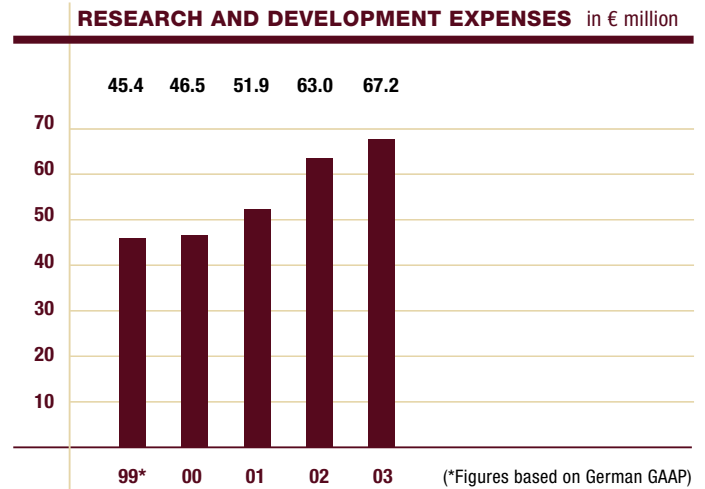
INVESTING IN THE FUTURE: RESEARCH AND DEVELOPMENT

Research and Development expenses for the CLAAS Group increased, with the acquisition of RENAULT Agriculture, to € 67.2 million and account for approximately 4.5% of Group sales.

Numerous innovative products were developed, including:

- ▢ The new LEXION combine harvester series – more power and larger grain tank, »Straw Chopper Special Cut II« with new chaff distributor, new VISTA CAB cabin, electrically adjustable rotor-cut panes and quick-stop header;
- ▢ The new JAGUAR forager models – automatic steering upon swath reception by means of laser pilot, automatic AUTO CONTOUR ground adjustment with row-less RU 600 corn cutter (longitudinal and transverse direction), data capture and storage for output-related invoicing;
- ▢ The XERION system vehicle, with a maximum speed of 50 km/h in the power class exceeding 300 HP, equipped with CVT gearbox and electro hydraulic steering assembly, self-steering parallel and contour drive system;
- ▢ The COUGAR – a self-propelled mower with a working width of 14 m (The world's first!);
- ▢ The QUADRANT 2100 – a new category 2 baler with optimized material-flow through a combination of transversally and longitudinally conveyance-tools on a shaft, 49-knife FINE CUT cutter;
- ▢ The CORTO F-Profile – a three-dimensional kinematics-adjustor for front-end cutters to prevent cutting into the ground;
- ▢ The new VOLTO Family – a new maintenance-free Perma Link power flux system which enables full intervention, tilting movement up to 180°;
- ▢ The DIRECT DISC – a direct cutting tool for foragers which allows total plant silage harvesting;
- ▢ The CROP-Meter – recording of crop conditions by way of a mechanically controlled pendulum for specific spreading of fertilizer or plant protection agents;
- ▢ The CELTIS – an all-round tractor with up to 100 HP, with hydraulic reverse gear unit and INFOTRAC on-board information system.

The CLAAS Group was awarded six medals for innovation during the Agritechnica 2003 Trade Fair. The medals were presented to CLAAS by the Deutsche Landwirtschafts-Gesellschaft (DLG), the German Agricultural Society. With these awards CLAAS has been honoured as one of the most innovative Groups in the agricultural engineering industry.



OUTLOOK

Following a general recovery in the previous year, the agricultural engineering markets slumped again to lower levels in 2003, and we anticipate only moderate growth in 2004. Poor harvests, the weak economic situation internationally and protracted discussions surrounding EU agricultural policy are crucial factors that could influence the willingness of our customers to invest.

We do not anticipate any considerable growth stimulus in Western and Central Europe; the agricultural engineering market is likely to stabilize at the 2003 level. As a result of poor harvests leading to a reduction in incomes for the farmers in 2003, together with the fact that the forthcoming EU expansion eastwards is hampering the demand for capital goods, the current reluctance to buy is expected to continue in 2004. Whereas current EU members are preparing themselves for stronger competition and pricing pressure, there remains a considerable backlog in administrative implementation of the new agricultural system within the acceding countries. We anticipate, however, that this situation will be resolved in the course of 2004. The new partnership with RENAULT Agriculture presents new opportunities for CLAAS that will enable us, despite this difficult market environment, to expand our market position for growth.

There is considerable demand in Eastern Europe for modern, efficient agricultural machinery and this region will continue to be an important market for West European agricultural engineering exports. There remains, however, uncertainty with respect to the exchange rate development and a strong euro could impact the export business. In addition, we anticipate that conditions surrounding agricultural policies in the most important CIS countries will further improve, especially in Russia, where subsidies for the agricultural industry are likely to lead to a recovery of the agricultural engineering market. The extensive requirement

for modernization and the trend towards free market orientation will continue. These assumptions lead us to expect a moderate improvement from the current low level in the Eastern European market. For 2004 we anticipate considerably stronger growth in forthcoming years. Furthermore, in laying the foundation stone of our new factory in the South Russian city of Krasnodar, we have paved our way to play a leading role in this growing market.

The outlook for North America 2004 is more positive than for Western Europe. Demand for agricultural engineering is likely to improve, following the weak demand of previous years. This assumption is based upon the predominantly good harvest, leading to considerably higher operating income as a result of the Farm Bill benefits, which were fully distributed for the first time. The prospects for South America are also believed to be positive, although the strong growth of the previous year is unlikely to be repeated.

An excellent monsoon period, followed by a good harvest in 2003 portray an optimistic outlook for the agricultural engineering market in India. Higher operating income and strong backlog in demand arising from the drought in 2002 indicate that mechanization of agriculture will accelerate in 2004.

In summary, we anticipate that 2004 will be a difficult business year. We expect, however, to be able to maintain our course of growth in the agricultural engineering segment. Our new tractor business will present us with new opportunities, and rising producer prices in grain markets are expected to lead to an improved willingness to invest.

The CLAAS Production Engineering segment will also continue its growth strategy and further increase sales.

We will continue to further develop our global production network in the financial year 2004. In addition to our projects in Russia and India, the successful completion of the integration of RENAULT Agriculture will be necessary to ensure that our goals are achieved. Our strategy is not short-term, instead we will proceed with a course of action to secure the long-term success of our business and have accordingly laid the foundations for a sustainable improvement to profits, with effect from 2004.

RISK MANAGEMENT

CLAAS, as an internationally orientated Group, considers systematic risk management an indispensable instrument and integral part of corporate governance. The continuous monitoring and control of potential risks, which has always remained a task of the Directors, is effected through a Risk Information System as well as Risk Controlling on a broad basis of information. The support of operative and administrative functions of responsibility ensures that the risk management system operates within the framework of existing organizational structures.

CLAAS has systematically identified, analyzed, and evaluated the risks that exist at the level of all Group companies. This procedure is regularly verified in order to be able to guarantee the fastest possible adjustments to a changed corporate environment.

The risk policy of the CLAAS Group constitutes the management of the variety of risks, including their changes, in order to be able to make optimal and efficient use of both present and future business opportunities arising from constantly changing global economic conditions.

No risks have been identified which could threaten the continued existence of the CLAAS Group in the period under report, and beyond. The most significant risk areas for the CLAAS Group, and measures taken to address these risks, are presented below.

MACROECONOMIC RISKS

The persistent weakness of the world economy and potential negative cyclical trends in sales markets could result in noticeable reductions in growth of the CLAAS business. Specifically the markets of North and South America involve substantial risks. Potential risks are addressed by closely monitoring and evaluating the political, legal and financial framework conditions in our sales markets, and are based on information relevant to the environment that is provided by the marketing divisions, and sales subsidiaries, of the CLAAS Group. Additional support is provided by indicators and ratios, which take into account and weigh the forecast trend of earnings in given sales markets. Furthermore, an extensive reporting system produces detailed internal reports and evaluations on a monthly basis, constituting an important element for continuously monitoring economic risks and with deviations from budgets, compliance with planning data and newly arising monetary and non-monetary risks being continuously investigated and reviewed.

SPECIFIC INDUSTRY-RELATED AND BUSINESS RISKS

Apart from macroeconomic developments, growing competition involves a risk that is difficult to calculate. Cross-border competition can lead to loss of sales and market shares through increased price transparency. CLAAS addresses risks which may arise from the competitive situation through continuous innovations, intensive quality management and a variety of financing options offered to end-users. The crop yield, which can vary considerably on account of the weather, as well as unfavorable decisions in agricultural policy and other country risks, constitute further risks. Structured monitoring of market-relevant indicators, and the collation of comprehensive information at central points within the Company, ensure that these risks are controlled. With an increasing involvement of third parties in our complex business processes, we direct our opportunities of exerting influence, among other things, to productivity, quality assurance, supply deadlines, and costs. CLAAS addresses supplier risks through close cooperation with suppliers, with strong ties being established to the CLAAS Group by means of long-term supply agreements within the framework of contract management, wherever possible. In addition, high quality standards are set and intensive controls of goods-inwards are carried out. Credit risks arising from delayed payment by customers, or through other difficulties encountered in collecting receivables, are minimized by means of strict receivables management and close cooperation with banks.

OPERATIVE RISKS

Since CLAAS's subsidiaries are located around the globe, it is possible to spread risks. However, international orientation can also involve risks, which may lead to quality defects, or possibly also disrupt the flow of production. Large distances and a broad product portfolio can result in logistical shortages. The corporate freight management, which develops and implements logistics concepts for all CLAAS locations, effectively contributes to the smooth running of the value-added chain. In order to avoid an impairment of the quality of CLAAS products, production techniques and administrative operations are continuously being reviewed, improved and enhanced. In addition, manuals and procedural instructions, as well as monitoring of their compliance, ensure successful quality management.

FINANCIAL MARKET RISKS

CLAAS addresses financial and currency risks by hedging currency and interest positions through derivative financial instruments as well as through regular strict monitoring of a number of early-warning indicators. To mitigate currency risks and interest rate risks, CLAAS Group implemented a systematic currency and interest rate management,

which is controlled centrally by CLAAS KGaA mbH and is organized according to the principles of due segregation of functions. The use of derivatives is based on relevant risk assessments and detailed guidelines and specifications, with derivatives being in principle used for hedging underlying transactions, i.e. no transactions for trading or speculative purposes are entered into.

HUMAN RESOURCE RISKS

There is strong competition for highly qualified experts and executives. This refers particularly to staff with technical and industry-specific knowledge and experience for developing new products and technologies. For this reason, CLAAS seeks to win, and to successfully integrate, qualified staff and to establish long-term ties between staff and the Group.

In order to win and retain new employees, CLAAS has established close contacts with universities, technical colleges and professional schools and attends recruiting fairs. To ensure the essential expertise of its employees, CLAAS employees at all levels are offered comprehensive training and advanced training courses as well as individual career opportunities.

MANAGEMENT STATEMENT CONCERNING THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements and the Group management report were prepared by the management of CLAAS KGaA mbH. The accuracy and completeness of the information contained in the financial statements are the responsibility of the Company's management. The consolidated financial statements as of September 30, 2003 were prepared according to United States Generally Accepted Accounting Principles (US GAAP). They comply with Directive 83/349/EEC. The prior year figures have been established according to the same principles. According to § 292a of the German Commercial Code (HGB), the consolidated financial statements under US GAAP have the effect of exempting the Company being required to prepare consolidated financial statements in accordance with the German Commercial Code.

The systems of internal accounting controls, uniform Group accounting rules and continuous employee training ensure that the consolidated financial statements and the Group management report are prepared in compliance with generally accepted accounting principles and comply with statutory requirements. Compliance with the guidelines laid down in the risk management manual, which is valid for the Group as a whole, as well as the reliability and effectiveness of the control systems, are continuously being examined by the internal audit function. Our careful examination of the current risk position disclosed no specific risks that could threaten the continued existence of the CLAAS Group.

Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, has audited the consolidated financial statements and the Group management report and has provided the unqualified auditors' opinion presented below.

Harsewinkel, December 9, 2003

Rüdiger A. Günther

Nikolaus Feil

Guy Povie

Dr.-Ing. Hermann Garbers

Lothar Kriszun

Werner Schneider

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Consolidated Financial Statements

in accordance with US GAAP

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by CLAAS Kommanditgesellschaft auf Aktien mbH, Harsewinkel, comprising the profit and loss account, balance sheet, statement of changes in shareholders' equity, cash flow statement and notes to the financial statements for the financial year from October 1, 2002 to September 30, 2003. The preparation and content of the consolidated financial statements according to the United States Generally Accepted Accounting Principles (US GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion as to whether the consolidated financial statements comply with US GAAP based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with the German auditing provisions and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that the opinion that the consolidated financial statements are free from material misstatements can be given with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the values and disclosures in the consolidated financial statements is examined on a

test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group as well as of the cash flows of the financial year in accordance with US GAAP.

Our audit, which also extends to the group management report prepared by management for the financial year from October 1, 2002 to September 30, 2003, has not led to any reservations. In our opinion, the group management report on the whole provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the financial year from October 1, 2002 to September 30, 2003 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

Düsseldorf, December 9, 2003

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Schlereth
Wirtschaftsprüfer
[German Public Auditor]

Kalvelage
Wirtschaftsprüfer
[German Public Auditor]

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Oct. 1, 2002 to Sept. 30, 2003 € '000	Oct. 1, 2001 to Sept. 30, 2002 € '000
Net sales	(9)	1,496,308	1,265,469
Cost of goods sold		1,092,998	886,889
Gross profit on sales		403,310	378,580
Selling expenses	(10)	222,905	183,078
General and administration expenses	(11)	71,430	58,282
Research and development expenses		67,209	63,028
Other operating income	(12)	31,710	22,248
Other operating expenses	(13)	28,283	27,926
Operating income		45,193	68,514
Income from investments	(14)	2,544	1,826
Financial income	(15)	(25,181)	(14,570)
Profit from ordinary activities	(16)	22,556	55,770
Taxes on income	(17)	3,358	22,762
Minority interest		(1,297)	(465)
Net income		17,901	32,543
		2003	2002
		€	€
Earnings per share	(18)	5.97	10.85

		Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
ASSETS			
Intangible assets		55,810	20,045
Tangible assets		252,282	192,784
Financial assets		65,760	49,429
Total fixed assets	(19)	373,852	262,258
Inventories	(20)	337,553	207,058
Accounts receivable and other assets	(21/22)	286,010	206,415
Derivatives	(36)	16,395	10,564
Securities with a maturity of more than 90 days	(23)	111,569	132,494
Cash and cash equivalents	(24)	233,190	168,236
Total currents assets		984,717	724,767
Deferred taxes	(17)	50,560	28,238
Prepaid expenses		3,631	4,335
Balance sheet total		1,412,760	1,019,598
EQUITY AND LIABILITIES			
		Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Subscribed capital		78,000	78,000
Capital reserves		38,347	38,347
Revenue reserves		164,980	140,237
Other comprehensive income	(25)	-6,752	3,102
Net income		17,901	32,543
Total equity	(26)	292,476	292,229
Participation certificates	(27)	40,903	40,903
Silent partnership	(27)	17,202	16,064
Minority interest		48,159	1,343
Total funds similar to equity		106,264	58,310
Provisions	(28/29)	384,884	323,246
Liabilities	(30)	574,048	331,678
Derivatives	(36)	48,136	7,348
Deferred taxes	(17)	6,952	6,787
Total external capital		1,014,020	669,059
Balance sheet total		1,412,760	1,019,598

	2003 € '000	2002 € '000
Net income	17,901	32,543
Minority interest	1,297	464
Depreciation on fixed assets	37,752	27,942
Change in pension provision	4,365	5,030
Change in other non-current provisions	(242)	(105)
Other expenditure/income not counted as payment	(2,938)	1,486
Cash flow according to DVFA/SG	58,135	67,360
Change in current provisions	(9,946)	17,340
Gain on/loss from disposal of fixed assets	(699)	(1,755)
Change in inventories, receivables and other assets	(6,167)	(50,096)
Change in sundry liabilities and in other equity and other liabilities	(45,114)	3,772
Cash flow for/from operating activities (I)	(3,791)	36,621
Expenditure on investments in fixed assets	(56,192)	(55,371)
Proceeds from disposal of fixed assets	9,383	4,616
Cash outflow from purchase of securities classified as current assets	(68,922)	(71,073)
Cash inflow from disposal of securities classified as current assets	89,845	98,917
Acquisitions net of cash acquired	(58,910)	(12,084)
Cash flow used for investing activities (II)	(84,796)	(34,995)
Cash inflow from raising of credits and loans	216,709	19,983
Cash outflow from repayment of credits and loans	(50,940)	(17,226)
Cash inflow from silent partnership (CMG)	1,138	1,021
Decrease/increase in partners' loan accounts	(4,107)	(903)
Dividends paid out	(7,800)	(7,800)
Cash flow used from/for financing activities (III)	155,000	(4,925)
Change in cash and cash equivalents with cash flow impact (I+II+III)	66,413	(3,299)
Exchange rate-related changes in cash and cash equivalents	(1,459)	(902)
Opening balance of cash and cash equivalents	168,236	172,437
Closing balance of cash and cash equivalents	233,190	168,236

	Subscribed capital € '000	Capital reserves € '000	Revenue reserves € '000	Other Comprehensive Income				Total € '000
				Currency translation € '000	Additional minimum liability € '000	Unrealized gains from securities € '000	Derivative financial instruments € '000	
As at Oct. 1, 2001	78,000	38,347	147,813	5,240	(613)	0	0	268,787
Change in scope of consolidation			224					224
Dividend payments			(7,800)					(7,800)
Net income			32,543					32,543
Other comprehensive income (OCI)				(951)	(829)	255	0	(1,525)
As at Sept. 30, 2002/Oct. 1, 2002	78,000	38,347	172,780	4,289	(1,442)	255	0	292,229
Dividend payments			(7,800)					(7,800)
Net income			17,901					17,901
Other comprehensive income (OCI)				(5,659)	(1,087)	547	(3,655)	(9,854)
As at Sept. 30, 2003	78,000	38,347	182,881	(1,370)	(2,529)	802	(3,655)	292,476

	Historical purchase or manufacturing cost				
	As at Sept. 30, 2002 € '000	Currency adjustment € '000	As at Oct. 1, 2002 € '000	Changes in scope of consolidation* € '000	Additions € '000
I. Intangible assets					
1. Concessions, industrial and similar rights and assets and licenses in such rights	16,548	(16)	16,532	2,862	2,068
2. Goodwill	19,936	(4)	19,932	35,958	0
3. Payments in advance	0	0	0	0	0
	36,484	(20)	36,464	38,820	2,068
II. Tangible assets					
1. Land, land rights and buildings including buildings on third-party land	134,480	(4,022)	130,458	54,458	3,008
2. Plant and machinery	193,309	(1,423)	191,886	34,786	24,211
3. Other equipment, factory and office equipment	123,178	(1,056)	122,122	21,599	14,889
4. Payments in advance for construction work in progress	22,801	(132)	22,669	3,595	9,908
5. Capital lease	13,877	0	13,877	0	77
	487,645	(6,633)	481,012	114,438	52,093
III. Financial assets					
1. Shares in associated companies	12,100	(513)	11,587	13,481	3,544
2. Other investments	1,256	(26)	1,230	1,410	6
3. Long-term investments	36,528	(1,318)	35,210	0	2,010
4. Other loans	0	0	0	953	29
	49,884	(1,857)	48,027	15,844	5,589
Total	574,013	(8,510)	565,503	169,102	59,750

* The values added are matched by depreciation and amortization of the period and accumulated depreciation.

Disposals € '000	Reclassifications € '000	Depreciation				Net values	
		Depreciation for financial year € '000	Accumulated depreciation € '000	Thereof currency adjustments € '000	Thereof changes in scope of consolidation € '000	As at Sept. 30, 2003 € '000	As at Prior year € '000
1,795	43	2,517	11,331	(11)	2,645	8,379	8,572
0	0	0	8,459	(5)	0	47,431	11,473
0	0	0	0	0	0	0	0
1,795	43	2,517	19,790	(16)	2,645	55,810	20,045
1,838	1,480	4,691	59,920	(611)	21,375	127,646	99,725
3,088	17,113	15,049	190,642	(638)	20,982	74,266	34,496
5,282	3,584	12,084	118,818	(649)	17,049	38,094	27,988
4,707	(22,220)	0	0	0	0	9,245	22,780
2,261	0	3,411	8,662	0	0	3,031	7,795
17,176	(43)	35,235	378,042	(1,898)	59,406	252,282	192,784
1,407	0	0	449	0	0	26,756	11,651
0	0	0	654	0	649	1,992	1,251
1,175	0	0	0	0	0	36,045	36,527
15	0	0	0	0	0	967	0
2,597	0	0	1,103	0	649	65,760	49,429
21,568	0	37,752	398,935	(1,914)	62,700	373,852	262,258

RELATED COMPANIES AND SIGNIFICANT SHARES IN RELATED COMPANIES
As at September 30, 2003

I. RELATED COMPANIES INCLUDED IN CONSOLIDATED FINANCIAL STATEMENTS

DOMESTIC

Ser. no.	Company		Capital	Holding in %	with
1	CLAAS Kommanditgesellschaft auf Aktien mbH, Harsewinkel	€	78,000,000		
2	CLAAS Selbstfahrende Erntemaschinen GmbH, Harsewinkel	€	25,600,000	100	1
3	CLAAS Beteiligungsgesellschaft mbH, Harsewinkel	€	52,000	100	48
4	CLAAS Saulgau GmbH, Bad Saulgau	€	7,700,000	100	1
5	CLAAS Fertigungstechnik GmbH, Beelen	€	5,300,000	100	1
6	CLAAS Automation GmbH, Nördlingen	€	260,000	100	5
7	Brötje Automation GmbH, Wiefelstede	€	1,030,000	51	5
8	CLAAS Industrietechnik GmbH, Paderborn	€	7,700,000	100	1
9	CLAAS Vertriebsgesellschaft mbH, Harsewinkel	€	3,100,000	100	1
10	Brandenburger Landtechnik GmbH, Liebenthal	€	1,000,000	50.6	9
11	Landtechnik Steigra GmbH, Steigra	€	615,000	90	9
12	Mühlengeez Landtechnik GmbH & Co. Handels KG, Mühlengeez	€	52,000	100	9
13	Mühlengeez Landtechnik GmbH, Mühlengeez	€	26,000	100	9
14	Semmenstedt Landtechnik GmbH, Semmenstedt	€	500,000	100	9
15	CLAAS Württemberg GmbH, Langenau	€	800,000	90	9
16	AGROCOM GmbH & Co. Agrarsystem KG, Bielefeld	€	117,600	87.5	1
17	AGROCOM Verwaltungs GmbH, Bielefeld	€	32,150	87.5	1
18	agrocom.Systempartner GmbH, Rostock	€	26,000	60	16
19	CLAAS Osteuropa Investitions GmbH, Harsewinkel	€	100,000	100	1
20	RENAULT Agriculture GmbH, Rosbach	€	511,000	100	25
21	Pius Degenhart GmbH & Co. KG, Memmingen	€	409,000	100	20

FOREIGN

Ser. no.	Company		Capital	Holding in %	with
22	CLAAS France Holding S.A.S., Paris/France	€	21,009,001	100	1
23	Usines CLAAS France S.A.S., Metz-Woippy/France	€	2,000,000	100	22
24	CLAAS France S.A.S., Paris/France	€	8,842,043	100	22
25	RENAULT Agriculture S.A.S., Vélizy/France	€	70,800,000	51	22
26	RENAULT Agriculture Ltd., Shipston on Stour/Great Britain	£	15,000	100	25
27	RENAULT Agriculture B.V., Lelystad/Netherlands	€	204,210	100	25
28	RENAULT Agriculture & Sonlika International Plc., Port Louis/Mauritius	US-\$	900,000	60	25
29	RENAULT Agriculture Holdings Co., Port Louis/Mauritius	US-\$	5,402	100	25
30	CLAAS Holdings Ltd., Saxham/Great Britain	£	10,800,000	100	1
31	CLAAS U.K. Ltd., Saxham/Great Britain	£	101,100	100	30
32	J. Mann & Son Ltd., Saxham/Great Britain	£	3,627,448	100	31
33	Southern Harvesters Ltd., Saxham/Great Britain	£	150,000	100	31
34	Seward Agricultural Machinery Ltd., Doncaster/Great Britain	£	500,000	100	31
35	Kirby Agricultural Ltd., Market Harborough/Great Britain	£	100	100	32

Ser. no.	Company		Capital	Holding	
				in %	with
36	Western Harvesters Ltd., Cheltenham/Great Britain	£	16,000	75	31
37	RW Marsh Ltd., Lincolnshire/Great Britain	£	440,000	75	31
38	S.I.S. Ltd., Coventry/Great Britain	£	45,000	100	5
39	Teleporters Ltd., Saxham/Great Britain	£	8,401,645	100	30
40	CLAAS Italia S.p.A., Vercelli/Italy	€	2,600,000	100	1
41	CLAAS Ibérica S.A., Madrid/Spain	€	3,307,500	100	1
42	CLAAS Hungaria Kft., Törökszentmiklos/Hungary	HUF	552,740,000	100	1
43	CLAAS Finance B.V., Amsterdam/Netherlands	€	18,151	100	1
44	000 CLAAS Vostok, Moscow/Russia	RUB	170,000	100	1
45	CLAAS Ukraina DP, Kiev/Ukraine	UAH	30,000	100	1
46	Port Mellen S.A., Montevideo/Uruguay	UYU	360,000	100	1
47	CLAAS Argentina S.A., Sunchales/Argentina	ARS	12,000	100	1
48	CLAAS North America Holdings Inc., Omaha/Nebraska/US	US-\$	700	100	1
49	CLAAS of America LLC., Columbus/Indiana/US	US-\$	9,800,000	100	48
50	CLAAS Omaha LLC., Omaha/Nebraska/US	US-\$	48,000,000	100	48/3
51	CLAAS North America Finance LLC., Omaha/Nebraska/US	US-\$	0	100	48
52	CLAAS India Ltd., Faridabad/India	INR	70,000,000	100	1
53	000 CLAAS, Krasnodar/Russia	RUB	350,000	99	19

II. SIGNIFICANT SHARES IN RELATED COMPANIES

Ser. no.	Company		Capital	Holding	
				in %	with
54	CLAAS GUSS GmbH, Bielefeld	€	4,680,000	44.45	1/4
55	CS Parts Logistics GmbH, Bremen	€	1,550,000	50	1
56	Mecklenburger Landtechnik GmbH, Mühlengiez	€	1,000,000	50	9
57	Landtechnik-Zentrum Chemnitz GmbH, Hartmannsdorf	€	750,000	40	9
58	Worch und Schütze Landtechnik GmbH, Schora	€	55,000	39	9
59	CLAAS Valtra Finance Ltd., Basingstoke/Great Britain	£	3,000,000	49	30
60	CLAAS Financial Services S.A.S., Paris/France	€	14,000,000	10	1
61	HMC Investments Ltd., Drogheda/Ireland	€	152,369	49.57	1
62	Harvest Machinery (Sales) Ltd., Drogheda/Ireland	€	126,974	11.83	1
63	International Tractors Ltd., New Delhi/India	INR	55,113,640	20	25
64	G.I.M.A. S.A., Beauvais/France	€	8,448,500	50	25
65	Agritalia S.p.A., Rovigo/Italy	€	5,631,600	11	25
66	SCIMA, Schmitten/Switzerland	CHF	425,000	16.7	25

1 | GENERAL INFORMATION

The consolidated financial statements of CLAAS KGaA mbH for the financial year 2003 (October 1, 2002 to September 30, 2003) were prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). The financial statements have been supplemented with a Group management report and further notes as required under § 292a of the German Commercial Code (HGB). The financial statements therefore satisfy the requirements of exemption from the duty to prepare consolidated financial statements in accordance with German GAAP (HGB).

The cost of goods sold method of accounting has been applied to the consolidated profit and loss account. In the interest of clear and continuous disclosure, the structures of the consolidated balance sheet and of the consolidated profit and loss account are based upon the principles of German commercial law. Amounts relating to prior years are reported accordingly.

In order to improve the clarity of presentation, individual items within the consolidated balance sheet and the consolidated profit and loss account have been grouped. These items have been analyzed and explained in the notes to the financial statements.

Figures relating to prior years have been adjusted to the current presentation format.

In accordance with § 264 (3) of the German Commercial Code, we are not required to publish the annual financial statements in the Official Gazette and neither are we required to prepare notes to the financial statements and management reports, for our subsidiaries CLAAS Fertigungstechnik GmbH, Beelen; CLAAS Industrietechnik GmbH, Paderborn; CLAAS Selbstfahrende Erntemaschinen GmbH, Harsewinkel; CLAAS Vertriebsgesellschaft mbH, Harsewinkel; CLAAS Saulgau GmbH, Bad Saulgau and CLAAS Automation GmbH, Nördlingen.

2 | SCOPE OF CONSOLIDATION

FULLY CONSOLIDATED ENTITIES

CLAAS KGaA mbH and all subsidiaries have been included in the consolidated financial statements. The consolidation represents a total of 53 companies (prior year: 42) including CLAAS KGaA mbH, 21 of which are domestic, and 32 of which are foreign companies. Subsidiary companies consolidated in accordance with the full consolidation method are companies directly, or indirectly, controlled by the CLAAS KGaA mbH.

The list of shareholdings has been attached to this report.

ACQUISITIONS IN THE FINANCIAL YEAR

CLAAS acquired 51% of the shares in Brötje Automation GmbH from the British based Baxi Group Ltd. with effect from December 1, 2002. Brötje Automation is the technological leader of connecting and assembly technology in the aviation industry whose customers include Airbus, Boeing, Bombardier-Shorts, and other renowned manufacturers. As a result of close cooperation with Brötje Automation, CLAAS anticipates synergy effects in the areas of distribution and technology transfer, as well as in the compensation of seasonal fluctuations. The world market leader for assembly cells for fuselages and wing components, based near Oldenburg in northern Germany, realized sales of approximately € 40 million in fiscal 2003, with approximately 220 employees. Brötje Automation was included as a related company within the consolidated financial statements of the financial year 2003 with effect from December 1, 2002. The purchase price amounted to € 12.6 million and, at the time of the acquisition, Brötje Automation had net assets totaling € 26.9 million, equity of € 3.5 million, and external capital of € 23.4 million. The goodwill on this acquisition amounts to approximately € 10.8 million. The remaining shares will be acquired at the beginning of 2004, with the purchase price being calculated on the same basis as the original acquisition of shares.

With effect from April 30, 2003 CLAAS also acquired 51% shareholding in Group RENAULT Agriculture S.A.S., based in Vélizy, France. RENAULT Agriculture is the largest manufacturer of tractors in France, realizing sales in excess of € 600 million in financial year 2002 with approximately 2,000 employees. The integration of RENAULT Agriculture will be of considerable benefit to the CLAAS Group as a result of complementary marketing networks, and the expanded product portfolio. RENAULT Agriculture was consolidated into the CLAAS Group effective May 1, 2003. The purchase price amounted to € 74.7 million and the following chart illustrates the assets and liabilities of RENAULT Agriculture at the time of acquisition:

	€ million
Current assets	231.9
Tangible assets	53.6
Goodwill	24.9
Intangible assets	0.4
Financial assets	15.5
Prepaid expenses/deferred taxes	17.2
Total assets	343.5
Liabilities	161.0
Other provisions and deferred taxes/income	63.9
Minority interest	43.9
Purchase price	74.7

In accordance with the purchase and sale options, following expiry of a two-year waiting period, CLAAS may acquire a further 29% of the remaining shares. The final 20% of shares may be acquired by CLAAS at a subsequent date, but no earlier than January 1, 2010. The purchase price is to be calculated on the same basis as the original acquisition of the shares.

The purchase price allocation revealed hidden reserves and hidden charges, including those relating to existing and identifiable assets, in relation to the shares held by CLAAS in the acquired entities at the time of first consolidation. Potential assets were examined, independently evaluated, and where justified and capitalized. The goodwill arising from the acquisitions, in the amount of € 24.9 million, was capitalized. In accordance with SFAS No. 142, goodwill is not amortized throughout a pre-determined period, but is subject to an annual impairment test. The purchase price allocation process has been largely completed. However, adjustments to fixed assets, provisions, and accruals remain possible.

On the assumption that if RENAULT Agriculture and Brötje Automation had already been included in the consolidated financial statements in the last two financial years, the sales and results from ordinary activities would, as a result of a simplified computation for 2002, have amounted to € 1,867 million and € 65 million, respectively and for 2003, the sales and results from ordinary activities would amount to € 1,863 million and € 14 million, respectively. These values are unaudited.

ENTITIES VALUED AT EQUITY

The number of associated companies consolidated according to the equity method is 7 (prior year: 6) and includes CLAAS GUSS GmbH, Bielefeld, CLAAS Valtra Finance Ltd., Basingstoke/Great Britain, CLAAS Financial Services S.A.S., Paris/France, HMC Investments Ltd., Drogheda/Ireland, Harvest Machinery (Sales) Ltd., Drogheda/Ireland, G.I.M.A. S.A., Beauvais/France, and International Tractors Ltd, New Delhi/India.

The equity was valued on the following composite date basis of the afore mentioned companies:

	2003 € '000	2002 € '000
Total income before taxes	8,987	3,145
Fixed assets	54,118	15,092
Current assets	496,244	356,666
Total assets	550,362	371,758
Equity	72,370	30,993
External capital	477,992	340,765
Total equity and liabilities	550,362	371,758

3 | ACCOUNTING AND VALUATION METHODS

INTANGIBLE ASSETS AND TANGIBLE ASSETS

Intangible assets acquired are capitalized at cost and are amortized over their estimated useful life, if such a useful life can be determined. The estimated useful life ranges from three to ten years. If the useful life of the assets concerned can not be determined, no scheduled amortization is made. Instead, an impairment test is to be performed annually or, if there are corresponding indications of permanent impairment, at an earlier date. Goodwill is also not amortized on a scheduled basis, but subject to an annual impairment test.

Tangible assets are valued at acquisition or production cost and, where depreciable, depreciated on a scheduled basis. Movable assets are depreciated on a straight-line basis over their estimated useful lives. The useful lives amount from 20 to 50 years for buildings. The other items of tangible assets are depreciated over useful lives of between three

and twelve years. Material interest expense on borrowed capital which arises for a qualified asset during its construction time is capitalized and depreciated after completion of the asset over its useful life.

Where indications of impairment exist with respect to intangible assets or tangible assets, impairment tests are performed. If there has been an impairment, the asset or the superior cash generating unit is written down. In the case of non-current assets that are intended to continue to be used and are not intended for sale, the carrying amount of the non-current asset and the aggregate of the expected undiscounted cash flows from the use of the asset are compared in the impairment test. If the aggregate of the expected undiscounted cash flows is lower than the carrying amount, a write-down to the fair value is made.

The annual amortization of the amortizable intangible fixed assets over the next five years is expected to amount to around € 2.5 million.

INVESTMENTS

If it is possible to exercise significant influence, investments in associated companies and in joint ventures are accounted for at the relevant proportion of equity capital (application of the equity method). The other investments are classified as securities that are neither part of the trading portfolio nor held to maturity (»available for sale«) if the shares held by CLAAS are listed on a stock exchange or fair values are publicly available. If there is no publicly available fair value of other investments, they are accounted for at cost (possibly less write-downs).

SECURITIES

According to SFAS No. 115, securities are classified into three categories: »held to maturity«, »available for sale« and »trading«. The securities held by CLAAS are either securities held to maturity or available for sale within the last three months before final maturity (»held to maturity«) or securities that are neither part of the trading portfolio nor held to maturity (»available for sale«). Securities classified as »held to maturity« are carried at amortized cost. Securities classified as »available for sale« are valued at fair values (if available). In a separate equity item, other comprehensive income, unrealized income from, and expenses on, »available for sale« securities are disclosed without profit and loss impact, taking into account deferred taxes.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

CLAAS Group uses derivative financial instruments such as swaps, exchange futures, interest rate swap options, forward interest rate dealings, caps and floors for hedging purposes. Under SFAS No. 133 »Accounting for Derivative Instruments and Hedging Activities«, all derivative financial instruments are required to be reported in the balance sheet either as an asset or as a liability at their respective fair values. If there is a clear hedging connection, hedge accounting (setting up valuation units) is possible. With hedge accounting, the fair value changes of the derivatives depend on the type of the hedge. In the case of a cash flow hedge, fair value changes of the effective part of the derivative are initially booked in equity (other comprehensive income) and not released with profit and loss impact until the underlying transaction is recognized in income. The ineffective part of a hedge is recognized as incurred. Fair value changes of the derivative in the case of a fair value hedge are recognized with profit and loss impact together with the fair value changes of the underlying transaction.

FAIR VALUES OF FINANCIAL INSTRUMENTS

Under US GAAP, financial instruments include derivative financial instruments (e.g. swaps, options) and original financial instruments (at the level of CLAAS, e.g. participation certificates, silent partnership, bonds, receivables, payables, cash and cash equivalents). Under US GAAP, the

fair value of a financial instrument indicates the value at which a financial instrument can be traded among unrelated parties dealing at arm's length if there are parties willing to buy and sell and the transaction concerned is not a compulsory or winding-up sale. Where the fair values of financial instruments are not stated explicitly, they do not or only insignificantly deviate from the carrying amounts.

INVENTORIES

Inventories are stated at the lower of cost or market. Raw materials, consumables and supplies as well as merchandise are capitalized at average cost, work in process and finished goods at production-related full cost, i.e. apart from direct material and prime cost, the directly allocable parts of necessary indirect material and production overhead and production-related administration expenses are also capitalized. Inventory risks that result from reduced likelihood of full utilization, as well as disposal risks based on the estimate of realizable sale prices are taken into account through depreciation.

RECEIVABLES

Receivables and other assets are recognized in the balance sheet at face value. Adequate allowances are made for anticipated non-payment risks. Non-interest-bearing receivables that are not expected to be collected within the normal payment cycle (usually 1 year) are discounted.

The percentage of completion method (PoC method) is applied to long-term construction contracts. The amount required to be capitalized is disclosed under receivables at the same time, sales revenues are realized. The stage of completion is determined according to the expenses incurred. At each balance sheet date, existing contracts are reviewed in respect of potential risks. In the case of anticipated losses, corresponding allowances or provisions are made.

CASH AND CASH EQUIVALENTS

Under US GAAP, cash and cash equivalents include also securities with a remaining term at the time of acquisition of up to 90 days. The cash and cash equivalents disclosed in the cash flow statement correspond to the cash and cash equivalents in the balance sheet.

PROVISIONS/LIABILITIES

Pension obligations are measured through actuarial methods according to the projected unit credit method. With this method, not only the pensions and accrued vested rights known at the balance sheet date are taken into account but also future anticipated pay rises and pension increases. Actuarial gains and losses which are outside a range of 10% of the scope of commitments are distributed over the average residual period of service.

Other provisions are provided for all commitments identifiable as at the balance sheet date that are based on past business transactions or past events and the amount and/or due date of which are uncertain. They are valued at the amount repayable and are not netted with positive profit contributions. If the amount repayable is uncertain, the repayment amount with the highest probability of occurrence is taken as a basis. Provisions are only made if there is an underlying legal or de facto obligation towards third parties.

Liabilities are generally carried at the amount at which they will be repaid; liabilities denominated in a foreign currency are translated at the rate in effect at the balance sheet date.

CURRENT AND DEFERRED TAXES ON INCOME

Deferred taxes are determined according to SFAS No. 109 »Accounting for Income Taxes«. They reflect future reductions or increases in the tax burden that arise from temporary differences between consolidated

balance sheet and tax balance sheet. The deferred tax assets also comprise tax reduction claims arising from the expected realization of existing loss carryforwards in subsequent years and the realization of which is sufficiently probable. Deferred taxes are computed using the tax rate that will be authoritative according to the present legal situation at the probable compensation time of the temporary differences. Abroad, tax rates specific to the country are used. An allowance is made on deferred tax assets if there is a sufficiently high likelihood that not all deferred tax assets can be realized in future through fiscal profits or if the realization is limited in time.

SALES RECOGNITION

Sales are recognized after passage of risk to the customer and performed delivery or service.

In the case of long-term production orders, sales are recorded according to the percentage of completion method (PoC method) in line with reaching contractually agreed milestones or performance progress.

4 | CONSOLIDATION PRINCIPLES

The sets of financial statements of the individual companies are prepared on a uniform basis for inclusion in the consolidated financial statements according to the accounting and valuation guidelines existing for the CLAAS Group. All sets of financial statements are in principle prepared as at September 30.

For the purposes of capital consolidation, the book values of the investments are offset against the proportionate revalued shareholders' equity of the subsidiaries at the date of acquisition. Any residual debit differences are capitalized as goodwill and subject to an annual impairment test. Any arising credit difference is written down taking into account deferred taxes and offset against non-current non-monetary assets. To the extent that the credit difference exceeds the acquired company's assets that can be written down, extraordinary income is reported.

Investments in associated companies are valued according to the equity method. In respect of the elimination of intercompany relationships, the principles applied are consistent with those applied for the purposes of full consolidation.

Receivables and payables, net sales as well as income and expenses between consolidated entities are eliminated. Stocks from intercompany deliveries included in inventories are adjusted for unrealized profits and losses on intra-group transactions.

Consolidation measures with profit and loss impact take into account deferred taxes to the extent that the deviating tax charge is likely to be balanced in later financial years. Deferred tax assets and liabilities are eliminated where applicable.

5 | CURRENCY TRANSLATION

The currency translation according to SFAS No. 52 is based on the concept of functional currency. The functional currency is the currency predominating in the environment in which an entity operates. As a rule, this is the currency in which cash and cash equivalents are generated and used.

In the consolidated financial statements, all balance sheet items of foreign entities are translated at rate of exchange as at the balance sheet

date, and expenses and income are translated at the average rate of the financial year. The translation adjustments resulting from currency translations in the balance sheets are disclosed without profit and loss impact in equity.

The following exchange rates were used for countries that are Non-European Monetary Union members:

	Average		Balance Sheet Date	
	2003 in €	2002 in €	2003 in €	2002 in €
1 US dollar	0.92	1.09	0.86	1.02
1 Pound Sterling	1.47	1.60	1.43	1.59
1 Ukrainian griwna	0.17	0.20	0.16	0.19
100 Hungarian forints	0.40	0.41	0.39	0.41
100 Indian rupees	1.95	2.24	1.87	2.10
100 Russian roubles	2.95	3.51	2.79	3.20

6 | LITIGATION AND DAMAGE CLAIMS

CLAAS Group companies are involved in various legal and official proceedings within the framework of general operations or such proceedings could be initiated or asserted in future (e.g. concerning patents, product liability and competition). Even if the outcome of individual proceedings cannot be predicted with certainty with a view to the unfore-

seeable events associated with legal disputes, according to current estimate, there will be no significantly adverse impact on the Group's results of operations beyond the risks taken into account as liabilities, provisions or accruals in the financial statements.

7 | USE OF ESTIMATES

Estimates and assumptions that influence the recognized assets and liabilities, the recognition of contingent liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting

period must be made to a certain degree in the consolidated financial statements. The amounts actually arising can deviate from the estimates.

8 | NEW ACCOUNTING STANDARDS

In June 2002, the FASB issued Standard SFAS No. 146 »Accounting for Costs Associated with Exit or Disposal Activities«. This standard replaces EITF Issue No. 94-3 »Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)«. SFAS No. 146 governs, among other things, the accounting for costs of disposal of businesses or closure costs. It applies to disposals of businesses and closure activities that are commenced after December 31, 2002. SFAS No. 146 was adopted for the first time in the past financial year.

In November 2002, the FASB issued Financial Interpretation No. 45 »Guarantor's Accounting and Disclosure Requirements for Guarantees« (FIN No. 45), which governs the accounting for commitments under

guarantees. Its accounting and valuation requirements are applicable to guarantees granted or modified after December 31, 2002. FIN No. 45 was adopted for the first time in the past financial year.

In January 2003, the FASB issued Financial Interpretation No. 46 »Consolidation of Variable Interest Entities«. It complements the regulation of ARB No. 51 »Consolidated Financial Statements«. This Standard lays down new requirements for the duty to consolidate variable interest entities (VIEs) depending on the assumption of major opportunities and risks from the company. Qualifying special-purpose entities (QSPEs) in terms of SFAS No. 140 are explicitly excluded from the scope of application of FIN No. 46. CLAAS, in its capacity as a nonpublic enterprise, has to adopt FIN No. 46 from the financial year 2004 onwards.

In April 2003, the FASB issued SFAS No. 149 »Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities«. This Standard includes modifications and clarifications concerning the accounting for derivative financial instruments, financing and debt instruments in the case of embedded derivatives as well as for hedging relationships under SFAS No. 133 »Accounting for Derivative Instruments and Hedging Activities«. SFAS No. 149 is regularly applicable to all contracts that are concluded or modified after June 30, 2003. SFAS No. 149 was adopted in the past financial year.

In May 2003, the FASB issued SFAS No. 150 »Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity«.

SFAS No. 150 establishes standards for the accounting of financial instruments with characteristics of both equity and liabilities. For CLAAS, as a nonpublic entity, the regulation concerning mandatorily redeemable financial instruments is applicable for the first time to reporting periods that commence after December 15, 2004.

Details on the effect of the adoption of SFAS No. 146 are included in the item »other provisions«. The adoption of the other standards did not have any material effects on the presentation of the CLAAS Group's economic situation. As matters stand at present, the new standards are not expected to have any material effects either.

9 | NET SALES

Net sales also include sales from long-term construction contracts which have been accounted for according to the percentage of completion method (PoC method). The amount to be capitalized from long-term

construction contracts which cannot yet be invoiced is disclosed under receivables and net sales.

10 | SELLING EXPENSES

The selling expenses include freight in the amount of € 34,280 thousand (prior year: € 31,970 thousand).

11 | GENERAL AND ADMINISTRATION EXPENSES

The general and administration expenses do not include general and administration expenses of the sales companies because, from the Group's point of view, these expenses constitute selling expenses.

12 | OTHER OPERATING INCOME

The other operating income is composed as follows:

	2003 € '000	2002 € '000
Income from retirement of fixed assets	978	468
Income from release of discounts and allowances on receivables	927	905
Income from release of provisions	12,849	5,929
Rental and leasing income	716	1,173
Other income	16,240	13,773
Total	31,710	22,248

13 | OTHER OPERATING EXPENSES

	2003 € '000	2002 € '000
Loss from disposal of fixed assets	281	86
Allowances on receivables	779	1,508
Other expenses	27,223	26,332
Total	28,283	27,926

The other expenses comprise a number of minor items, e.g. expenses for litigation, fees and charges and personnel expenses not related to specific functions.

14 | INCOME FROM INVESTMENTS

	2003 € '000	2002 € '000
Income from other investments	199	133
Net income from investments in associated companies	2,345	1,693
Gain on/loss from disposal of investments	0	0
Write-downs on investments	0	0
Total	2,544	1,826

The net income from investments includes all income and expenses realized and incurred in connection with the holding or the disposal of not fully consolidated investments.

15 | FINANCIAL INCOME

The financial income is comprised of the two components »income from interest and securities« and »other financial income«.

	2003 € '000	2002 € '000
INCOME FROM INTEREST AND SECURITIES		
Interest expenses	(25,964)	(22,081)
Interest income	11,936	10,889
Proceeds from other securities and non-current financial investments	808	1,094
Loss from disposal of securities	0	(14)
Gain on disposal of securities	2	1,387
Write-ups of financial assets (excluding investments) and other investments classified as current assets	0	9
Total	(13,218)	(8,716)

The income from interest and securities includes all income and expenses realized and incurred in connection with the holding or the disposal of securities or financial assets other than investments.

OTHER FINANCIAL INCOME	2003 € '000	2002 € '000
Remuneration of participation certificates	(2,806)	(2,806)
Profits transferred under partial profit transfer agreement (CMG)	(1,835)	(3,298)
Interest expenses leasing	(194)	(353)
Exchange gains	4,429	4,773
Exchange losses	(8,370)	(3,072)
Other financing income	543	2
Other financing expenses	(3,730)	(1,100)
Total other financial income	(11,963)	(5,854)
Total financial income	(25,181)	(14,570)

The item »Profits transferred under partial profit transfer agreement (CMG)« records the remuneration for the silent partnership held by

CLAAS-Mitarbeiterbeteiligungs-Gesellschaft mbH (CMG) based on CLAAS Group's net income/loss for the year.

16 | PROFIT FROM ORDINARY ACTIVITIES/INCOME BEFORE TAXES

The total income before taxes can be classified by domestic and foreign profit contributions as follows:

	2003 € '000	2002 € '000
Domestic	8,692	42,679
Foreign	13,864	13,091
Total	22,556	55,770

Since CLAAS has no extraordinary income and expense, the results from ordinary activities correspond to the total income before taxes.

17 | TAXES ON INCOME

The taxes on income are comprised of current taxes and deferred taxes.

CURRENT TAXES	2003 € '000	2002 € '000
Domestic		
Corporate income tax/solidarity surcharge	3,558	17,855
Municipal trade tax	2,964	11,175
Subtotal current taxes domestic	6,522	29,030
Foreign	4,479	3,331
Total current taxes	11,001	32,361

DEFERRED TAXES	2003 € '000	2002 € '000
Domestic		
Corporate income tax/solidarity surcharge	(2,162)	(5,353)
Municipal trade tax	(1,281)	(3,649)
Subtotal deferred taxes domestic	(3,443)	(9,002)
Foreign	(4,200)	(597)
Total deferred taxes	(7,643)	(9,599)
Total taxes on income	3,358	22,762

Deferred taxes of domestic companies were determined based upon a tax rate of 37.0% in the case of temporary differences.

The deferred taxes result from temporary differences for the following balance sheet items:

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Deferred tax assets		
Fixed assets	4,822	5,097
Current assets	39,353	20,395
Capital lease	1,207	2,256
Provisions	45,964	25,856
Loss carryforwards	16,664	14,082
Other	11,877	1,717
Total	119,887	69,403
Allowances	(19,418)	(19,843)
Total	100,469	49,560
Deferred tax liabilities		
Current assets	19,089	8,441
Tangible assets	17,560	13,589
Other	20,212	6,079
Total	56,861	28,109
Surplus deferred tax assets	43,608	21,451

After the netting, the deferred taxes are disclosed as follows:

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Deferred tax assets	50,560	28,238
thereof non-current	6,850	2,363
Deferred tax liabilities	6,952	6,787
thereof non-current	6,705	6,394
Surplus deferred tax assets	43,608	21,451

The following table reconciles expenses from taxes on income expected in the prior year and the financial year 2003 with expenses actually recorded. To determine the expected tax charge, the group tax rate valid

in 2003 in the amount of 37.0% (prior year: 37.0%), which results from the domestic corporate income tax rate, the solidarity surcharge and the municipal trade tax, is multiplied with the income before taxes.

	2003 € '000	2002 € '000
Current taxes	11,001	32,361
Deferred taxes	(7,643)	(9,599)
Income taxes	3,358	22,762
Income before taxes	22,556	55,770
Theoretical tax charge at 37.0% (prior year: 37.0%)	8,346	20,635
Difference to foreign tax rates	(5,996)	(2,940)
Tax effects on		
Effects from payment of taxes for prior years	377	2,876
Reduction in corporate income tax rate as a result of distribution	0	(1,372)
Non deductible expenses	1,420	1,404
Application of equity method	(548)	(247)
Other consolidation influences	1,290	994
Other	(1,531)	1,412
Effective tax charge	3,358	22,762
Effective tax rate in %	14.9	40.8

The tax loss carryforwards at Group level in the amount of € 52,301 thousand (prior year: € 37,876 thousand) can be realized at an amount of € 50,495 thousand at least until 2006; the other loss carryforwards can be carried forward at least until 2005. Due to lack of recoverability,

allowances have been made on the loss carryforwards and on other deferred tax assets in the amount of € 12,701 thousand (prior year: € 13,860 thousand) and € 6,717 thousand (prior year: € 5,983 thousand), respectively. The loss carryforwards relate to foreign companies.

18 | EARNINGS PER SHARE

Undiluted earnings per share are computed by dividing the net income for the year related to the shares by the average number of shares.

CLAAS does not issue so-called potential shares (chiefly share options and convertibles) that can dilute the earnings per share. For this reason, the diluted and the undiluted earnings per share are identical.

		2003	2002
Net income	(€ '000)	17,901	32,543
Dividend per share	(€)	2.60	2.60
Number of shares outstanding on September 30	(in '000 units)	3,000	3,000
Earnings per share	(€)	5.97	10.85

19 | FIXED ASSETS

The movements in fixed assets of CLAAS Group in the financial year 2003 are presented on pages 66 and 67.

The additions to intangible assets relate primarily to the goodwill arising upon the first-time consolidation of RENAULT Agriculture and Brötje Automation.

The additions to shares in associated companies include also the proportionate net income for the year of the companies accounted for at equity. Accordingly, the distributions made by the associated companies

that were realized in the sets of individual financial statements and that are to this extent required to be consolidated are disclosed as disposals under this item.

The additions to long-term investments include also reinvested interest income.

Total depreciation on tangible assets and amortization of intangible assets amounts to € 35,235 thousand (prior year: € 25,976 thousand) and € 2,517 thousand (prior year: € 1,966 thousand), respectively.

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Held to maturity securities	0	1,124
Available for sale securities	36,045	35,403
Total long-term investments	36,045	36,527

The fair values of the held to maturity securities differ only insignificantly from their carrying amounts.

20 | INVENTORIES

As of September 30, 2003, payments received in the amount of € 39,450 thousand (prior year: € 39,688 thousand) were offset in finished goods and merchandise.

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Raw materials, consumables and supplies	44,011	36,283
Work in process	58,483	35,271
Finished goods and merchandise	220,589	126,153
Payments made on account	14,470	9,351
Total	337,553	207,058

21 | ACCOUNTS RECEIVABLE AND OTHER ASSETS

Accounts receivable and other assets are composed as follows:

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Trade receivables	179,905	139,487
Receivables from companies in which investments are held	7,969	1,067
PoC receivables	23,292	15,151
Other assets	74,844	50,710
Total	286,010	206,415

€ 2,264 thousand (prior year: € 2,674 thousand) of the trade receivables have a remaining term of more than one year. The other assets

include assets of € 13,683 thousand (€ 16,313 thousand) with a remaining term of more than one year.

22 | ASSET-BACKED SECURITIES

CLAAS sells trade receivables through a continuous ABS program to a special-purpose entity that is refinanced by issuing securities in the international capital market. On account of the revolving sale of receivables, the cash flows are netted between CLAAS and the special-purpose entity at the effective settlement dates.

The receivables are sold by CLAAS to the special-purpose entity without repurchase or guarantee agreements. Under SFAS No. 140, the sale of the accounts receivable is a so-called »true sale«.

Within the scope of the ABS transaction, CLAAS performs bookkeeping, receivables collection, and dunning services and receives a corresponding remuneration (service fee) from the special-purpose entity.

The upper limit for the program usage is € 114,000 thousand. Due to seasonal fluctuations, the volume of receivables sold varies in the course of the year; at the financial year end, the volume of the receivables sold amounted to € 30,861 thousand (prior year: € 40,740 thousand). The volume as a percentage of the total receivables portfolio before the sale at the financial year end was 14.6% (prior year: 22.6%).

Maturity as at the year end of financial assets sold:

MATURITY IN MONTHS	1	2	3	4	More than 5	Total pool
€ '000	16,528	2,458	527	9,030	2,318	30,861

The special-purpose entity is a so-called qualifying special-purpose entity (QSPE) according to SFAS No. 140, which is not included in the group of entities consolidated at CLAAS Group.

FURTHER KEY ELEMENTS OF THE ABS TRANSACTION	2003 € '000	2002 € '000
Receivables portfolio as at September 30	30,861	40,740
Subordinated loan furnished as a collateral	532	532
Service fee received (accumulated)	1,432	1,312
Cash inflow from receivables sold as at September 30	19,246	26,125
Fair value of retained interests	1,817	1,676
Fair value adjustment	309	407
Trust liability as at September 30	6,030	17,975

According to SFAS No. 140 retained interests resulting from the ABS transaction are required to be capitalized. The first valuation is generally made by apportioning the previous carrying amount of the portfolio sold into the portion sold and the retained interests in relation to their fair value. The valuation of retained interests is made at fair value, which has to be established on the basis of anticipated cash inflows. For reasons of simplification, these are derived from the anticipated future receipts of payment on the basis of discounted future cash inflows.

The amount of retained interests can be affected by different underlying assumptions and risks (e.g. anticipated loss of receivables outstanding). The very low historical default rate is a measure of orientation that can be applied in valuing these receipts of payment. A strong negative deviation from this value is anticipated for the future only in the case of significant macroeconomic changes. To estimate the influence of such changes, a hypothetical analysis of an increase by 10% and 20% in the loss of outstanding receivables was made. The fair value of the anticipated default rate, by means of which the value of the anticipated receipts of payment on account of retained interests is then computed for the different scenarios, was established on this basis.

Influence of changes according to hypothetical analyses:

	Underlying assumptions	Deterioration of assumption by %	
		10	20
Amount of expected retained interests in € '000	1,817	1,786	1,755

These anticipated effects are based on a merely hypothetical analysis. The effect from the change to the underlying assumption has been computed without changing other assumptions. In reality, changes to an

assumption can lead to changes of other assumptions that can both intensify and reduce the anticipated effects.

23 | SECURITIES WITH A MATURITY OF MORE THAN 90 DAYS

The securities held by CLAAS which have a maturity of more than 90 days are securities that are held to maturity or that are sold within the last three months before final maturity («held to maturity») and

securities («available for sale») which are neither part of the trading portfolio nor held to maturity.

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Available for sale securities	98,566	102,139
Held to maturity securities	13,003	30,355
Total securities with a maturity of more than 90 days	111,569	132,494

The securities classified as available for sale are given at fair values (where available). The unrealized revenue from available for sale securities is disclosed without profit and loss impact in equity as other comprehensive income in the amount of € 803 thousand (prior year:

€ 255 thousand). Securities disclosed as held to maturity are reported at amortized cost, which more or less corresponds to the fair value. The amortized cost of held to maturity securities corresponds to the original acquisition costs.

24 | CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Securities (maturity up to 90 days)	0	0
Checks, cash-in-hand, bank balances	233,190	168,236
Total	233,190	168,236

Cash and cash equivalents include receipts of payment in the amount of € 6,030 thousand (prior year: € 17,975 thousand) under the ABS Program that have to be transferred to the other parties to the contracts.

25 | COMPREHENSIVE INCOME

	2003	Deducted	2002	Deducted
	€ '000	taxes on income	€ '000	taxes on income
Net income	17,901		32,543	
Translation adjustments	(5,659)	(3,323)	(951)	(558)
Unrealized income from securities	547	321	255	150
Changes in additional minimum liability	(1,087)	(638)	(829)	(487)
Derivative financial instruments	(3,655)	(2,147)	0	0
Changes in other comprehensive income	(9,854)	(5,787)	(1,525)	(895)
Comprehensive income	8,047		31,018	

The comprehensive income is comprised of the net income for the year and the other comprehensive income. It covers, hence, all changes in equity that are not due to transactions with shareholders (e.g. through

capital increases or dividends paid out). The components of the other comprehensive income are determined after deducting a portion of taxes on income, the amount of which is disclosed in a separate column.

26 | EQUITY/MOVEMENTS IN EQUITY

The amounts disclosed as subscribed capital and capital reserves in the consolidated financial statements correspond to the amounts in the individual accounts of CLAAS KGaA mbH. The subscribed capital of CLAAS KGaA mbH is composed of 3 million individual share certificates.

General partner without capital contribution is Helmut Claas GmbH; the shareholders of the commercial partnership limited by shares, CLAAS KGaA mbH, are directly or indirectly exclusively family members.

The movements in equity are separately presented on the face of the financial statements on page 65.

27 | PARTICIPATION CERTIFICATES/SILENT PARTNERSHIP

The respective repayable participation certificates and the silent partnership of CLAAS- Mitarbeiterbeteiligungs-Gesellschaft mbH (CMG) are remunerated through a profit and loss-related compensation and are to be treated as subordinate in the event of liability. Under US GAAP, repayable transferred capital is to be disclosed outside the stockholders' equity.

The participation certificates disclosed include eighty registered participation certificates made out to bearer at a total par value of € 40,903 thousand, which were issued in September 1997. The receivables from the participation certificates are subordinate and possibly participate in

potential losses up to the full amount. The participation certificates are repayable on March 1, 2005; premature termination through the holders of the participation certificates is excluded.

CMG is paid for its subordinated contribution a compensation that is based on the net income for the year of CLAAS Group; there is also a corresponding loss participation. € 6,593 thousand of the silent partnership can be terminated as of September 30, 2004, there are rights of termination between 2005 and 2008 with respect to another € 5,454 thousand.

28 | PROVISIONS

An analysis of provisions is as follows:

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Provisions for pensions and similar obligations	137,811	109,630
Provisions for income and other taxes	11,203	16,590
Other provisions	235,870	197,026
Total	384,884	323,246

The provisions for taxes are comprised exclusively of provisions for effective taxes; deferred tax liabilities are separately disclosed.

The long-term provisions amount to € 164,775 thousand (prior year: € 134,466 thousand).

The other provisions include short-term provisions for restructuring commitments according to SFAS No. 146: »Accounting for Costs Associated with Exit or Disposal Activities« and EITF 95-3: »Recognition of Liabilities in Connection with a Purchase Business Combination« in the amount of € 10.2 million. On account of the declining market development and due to a reorganization in distribution, restructuring measures were required.

The measures taken on account of the declining market developments relate to wage earners and salaried employees in the Production Division in Germany. The adjustment program was resolved by management – besides other measures – in August and/or September 2003. The works council was informed in September 2003. The total expenses expected for severance payments and similar benefits, which are

recognized in other operating expenses as incurred, amount to € 1.5 million. The measures are likely to be implemented until the end of the year 2004.

Starting out from the acquisition of shares in RENAULT Agriculture, negotiations are held to integrate distribution activities for tractors in European foreign countries. Provisions in the amount of € 8.5 million were recorded for compensation to take over distribution activities and for expenses to restructure existing selling companies. Of these, € 4.9 million have already been included in the opening balance sheet of RENAULT Agriculture. Another € 3.6 million have been added to provisions with profit and loss impact (other operating expense) in the financial year 2003. The measures include compensation for the termination of existing contracts with importers, dealers and suppliers as well as severance pay. The restructuring measures are likely to be implemented until the end of the year 2004.

The provisions relate to the Agricultural Engineering segment.

29 | PENSION PROVISIONS AND SIMILAR OBLIGATIONS

CLAAS maintains several defined benefit pension plans in Germany and one fund-financed plan in Great Britain and in Germany each.

Under the defined benefit pension plans implemented by CLAAS, the Company undertakes to comply with its pension obligations towards active and former employees. The pension provision that covers commitments under defined benefit schemes includes also pension fund obligations and is reduced by the amount of the fund assets. Fund surpluses, if any, are capitalized as other assets and fund deficits are carried as a liability as pension provisions. Pension provisions are recorded for obligations from vested rights and current benefits paid to eligible active and former employees and surviving dependants. The obligations relate primarily to old age pensions, which are paid partially as basic partially as supplementary benefits. Pension obligations are normally based on company seniority and the employees' remuneration.

The pension obligations are measured through actuarial methods according to the projected unit credit method. This projected unit credit method does not only take into account pensions and accrued vested rights known at the balance sheet date but also pay and pension increases anticipated in future. Actuarial gains and losses which are outside a range of 10% of the scope of commitments are distributed over the average residual period of service.

The computation was based on an interest factor of 5.5% (prior year: 6%), pay rises of 3% (prior year: 3%) and pension increases of 1.5% (prior year: 1.5%). These assumptions refer to the employees working in Germany to whom the predominant part of the pension obligation relates. For the employees assigned abroad, deviating assumptions that take into account the specific circumstances in the country concerned have to be used. The anticipated return on funds amounts to 6.86% (prior year: 7%).

The pension obligations financed by funds developed as follows:

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Projected benefit obligation of funded plans	28,473	25,977
Less plan assets at fair value	(27,613)	(25,415)
Subtotal (= funded status)	860	562
Less unrecognized net gains/(losses)	(11,683)	(14,507)
Net amount recognized for funded obligations (= balance sheet amount)	(10,823)	(13,945)

In 2003, the netted balance sheet amount of € 10,823 thousand (prior year: € 13,945 thousand) is composed of an excess of pension obligations financed by funds in the amount of € 11,964 thousand and a

deficit in the amount of € 1,141 thousand. The excess is capitalized as other asset, the deficit is included in the accrued pension cost.

The plan assets developed as follows:

	2003 € '000	2002 € '000
Fair value of plan assets as at Oct. 1, 2002	25,415	30,550
Actual return on plan assets	4,403	(4,814)
Employer's contributions	563	463
Employees' contributions	647	260
Actual pension payments	(796)	(805)
Foreign currency exchange rate changes	(2,619)	(239)
Other	0	0
Fair value of plan assets as at Sept. 30, 2003	27,613	25,415

The pension obligations not financed by funds can be analyzed as follows:

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Projected benefit obligation of unfunded plans	146,841	114,769
Additional minimum liability	4,844	2,543
Unrecognized prior service costs	(2,028)	(1,697)
Unrecognized actuarial gains/losses	(12,987)	(5,985)
Pension provision for unfunded obligations	136,670	109,630

The pension provisions are derived as follows from the unfunded pension obligations and from a deficit of the funded pension obligations:

	Sept. 30, 2003 € '000	Sept. 30, 2002 € '000
Pension provision for unfunded obligations	136,670	109,630
Pension provision for funded obligations	1,141	0
Net amount recognized (pension provisions)	137,811	109,630

The pension costs for funded and unfunded plans are classified as follows:

	2003 € '000	2002 € '000
Service cost	4,388	4,322
Interest cost	8,545	8,216
Recognized prior service costs	114	114
Recognized actuarial losses/(gains)	503	410
Expected return on plan assets	(1,656)	(2,136)
Other	0	58
Net periodic pension costs	11,894	10,984

The service cost accrued in the financial year 2003 as well as the interest cost relate to pension obligations for both funded and unfunded plans.

The funded and unfunded projected pension obligations developed as follows:

	2003 € '000	2002 € '000
Pension obligations as at Oct. 1, 2002	140,746	138,465
Change in scope of consolidation	21,433	0
Service cost	4,388	4,322
Interest cost	8,545	8,216
Actuarial losses/(gains)	8,809	-3,673
Actual pension payments	-7,346	-6,580
Exchange rate effects	-2,667	-263
Other	1,406	259
Pension obligations as at Sept. 30, 2003	175,314	140,746

30 | LIABILITIES

	Sept. 30, 2003			Sept. 30, 2002		
	Remaining term		Total	Remaining term		Total
	up to 1 year € '000	more than 1 year € '000	Sept. 30, 2003 € '000	up to 1 year € '000	more than 1 year € '000	Sept. 30, 2002 € '000
Bonds	0	271,101	271,101	0	100,000	100,000
Liabilities to insurance companies	3,801	13,857	17,658	3,801	17,658	21,459
Liabilities to banks	4,342	25,449	29,791	12,384	19,227	31,611
Payments received on account	8,685	0	8,685	0	0	0
Trade payables	94,947	0	94,947	57,016	0	57,016
Liabilities on bills accepted and drawn	26,951	0	26,951	1,835	0	1,835
Accounts payable to investments/associates	912	0	912	423	0	423
Leasing payables	1,810	1,576	3,386	4,607	2,243	6,850
Other liabilities	94,852	25,765	120,617	76,402	36,082	112,484
Total	236,300	337,748	574,048	156,468	175,210	331,678

The liabilities to insurance companies and the liabilities to banks include liabilities in the amount of € 17,658 thousand (prior year: € 21,459 thousand) and € 16,170 thousand (prior year: € 10,672 thousand), respectively, which are collateralized through encumbrances on real property and transfers by way of security.

The fair values and nominal values of the bonds as well as of the loans granted by banks and insurance companies are as follows:

	Sept. 30, 2003		Sept. 30, 2002	
	Nominal value € million	Fair value € million	Nominal value € million	Fair value € million
Bonds	271.1	279.6	100.0	98.5
Loans granted by banks and insurance companies (with fair value difference)	24.4	26.4	34.0	36.1
Loans granted by banks and insurance companies (without fair value difference)	23.0	23.0	19.1	19.1
Total	318.5	329.0	153.1	153.7

The bonds (maturity until 2006 and maturities from 2010 to 2014) accrue interest at a rate of 4.5% p.a. and 5.76% p.a.; interest rates ranging from 1.0% to 8.3% p.a. apply to the loans granted by banks and insurance companies (maturity from 2003 to 2011).

The other liabilities include payables to the shareholders, above all to the shareholders of the commercial partnership limited by shares, in the amount of € 46,846 thousand (prior year: € 44,931 thousand), of which € 22,908 thousand are long-term (prior year: € 27,010 thousand).

31 | CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

The maturities of commitments from leasing and tenancy relationships are as follows:

	Capital Lease Nominal value € '000	Operating Lease Nominal value € '000
MINIMUM LEASE PAYMENTS		
1 year to maturity	2,181	15,892
2 years to maturity	507	7,056
3 years to maturity	470	2,869
4 years to maturity	256	1,281
More than 4 years to maturity	145	3,384
Total	3,559	30,482
Interest	173	
Present value of commitments	3,386	

In the year under audit, rent and rental expenses amounted to € 10,101 thousand. The rentals received under non-terminable sublease agreements as at the balance sheet date amount to € 14,686 thousand.

The capital lease and operating lease commitments arise predominantly under leasing programs under which CLAAS agricultural machines have been leased from CLAAS Leasing GmbH and subleased to final customers. The aggregate of contingent liabilities in the current financial year amounts to € 51,735 thousand (prior year: € 51,156 thousand). These are comprised of notes payable, liabilities under guarantees as well as other financial commitments. The notes payable of CLAAS Group as at the financial year end amount to € 33,959 thousand (prior year:

€ 30,960 thousand). They include commitments in the amount of € 17,741 thousand that arose after January 1, 2003 and that are matched by equivalent reimbursement claims and realization proceeds. As of September 30, 2003, the Group's liabilities under guarantees amounted to € 14,013 thousand (prior year: € 17,072 thousand). The liabilities under guarantees included therein in the amount of € 6,548 thousand that arose after January 1, 2003 are compensated through reimbursement claims and realization proceeds in the amount of € 6,332 thousand. The residual amount of € 215 thousand is valued at its fair value of € 2 thousand.

The contingent liabilities created after January 1, 2003 basically relate to notes payable and guarantees for assumed loan loss risks in connection with export transactions. Notes payable and assumed loan loss risks have an average maturity of 15.5 months and 17.8 months, respectively. The possible availment by the creditor is matched by reimbursement claims from insurance contracts and/or legal title in the products sold.

As of September 30, 2003, the other financial commitments amount to € 3,763 thousand (prior year: € 3,124 thousand). The other financial commitments do not include rental and leasing commitments.

This amount does not include the purchase prices of shares in Brötje Automation and RENAULT Agriculture, which are determined on the same basis as the purchase price of the shares already acquired.

32 | WARRANTY PROVISIONS

In 2003, provisions for warranty commitments were recorded in the amount of € 46,978 thousand (prior year: € 41,168 thousand). They include provisions for special inspections and provisions for warranties and settlement of customers' complaints. The provision requirement for special inspections is calculated centrally according to standard principles. The computation takes into account parameters such as

construction programs, piece numbers and cost of materials, and assembly per machine. The provisions for warranties and settlement of customers' complaints were determined based on historical values using a percentage (as a rule between 0.5% and 0.75% of sales).

The warranty provisions in the Group can be analyzed as follows:

Opening balance € '000	Change in scope of consolidation € '000	Currency translations € '000	Utilization € '000	Release € '000	Addition € '000	Closing balance € '000
41,168	15,157	-815	26,112	6,655	24,235	46,978

33 | FINANCING COMMITMENTS

The financing commitments as at the balance sheet date may be classified as follows:

	Up to 1 year		1-5 years		> 5 years		Total	
	As at Sept. 30, 03 € million	As at Sept. 30, 02 € million	As at Sept. 30, 03 € million	As at Sept. 30, 02 € million	As at Sept. 30, 03 € million	As at Sept. 30, 02 € million	As at Sept. 30, 03 € million	As at Sept. 30, 02 € million
Bonds	–	–	100.0	100.0	171.1	–	271.1	100.0
Credit syndication	–	–	102.3	102.3	–	–	102.3	102.3
Credit lines granted by banks and insurance companies	271.0	244.0	44.0	51.8	34.8	36.6	349.8	332.4
Total	271.0	244.0	246.3	254.1	205.9	36.6	723.2	534.7

34 | CASH FLOW STATEMENT

The statement of cash flows is classified by cash flows from current operating activities, from investing activities, and from financing activities. Effects of changes in the entities included in consolidation have been eliminated; their impact on cash and cash equivalents – like the influence of exchange rate fluctuations on cash and cash equivalents – is separately shown.

The cash flow from operating activities includes dividends received in the amount of € 829 thousand (prior year: € 1,575 thousand); the profit contributions without cash flow impact from the application of the equity method were eliminated. Additions to fixed assets without cash flow impact relate exclusively to additions of leased assets in the amount of € 77 thousand (prior year: € 1,838 thousand), which are to be classified as capital lease. Interest paid amounts to € 32,174 thousand (prior year: € 25,956 thousand); the taxes on income paid amount to € 33,022 thousand (prior year: € 34,477 thousand).

35 | EMPLOYEES

ANNUAL AVERAGE NUMBER OF EMPLOYEES

	2003	2002
Hourly paid	3,749	3,111
Salaried	3,127	2,249
Trainees	416	347
Total	7,292	5,707

36 | DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

On account of its business activities, CLAAS Group is exposed to exchange and interest risks. Exchange risks as well as interest risks are controlled through systematic foreign currency and interest management, using all common financial instruments including derivative instruments. The currency risks relate basically to the US dollar, the Hungarian forint and the British pound. Exchange futures and currency options are entered into for mitigating or eliminating the exchange risk from receivables and payables denominated in foreign currencies including the netting. Interest swaps and interest options serve to hedge the interest risk of asset and liability positions.

All transactions are concluded exclusively on the basis of existing underlying transactions or transactions that are supported by concrete planning data.

The nominal volume of the hedging transactions constitutes the aggregate of all buying and selling amounts underlying the dealings. The amount of the nominal volume permits to draw conclusions as to the scope of derivatives used, but does not reflect the Group's exposure from the use of derivatives. It is to be emphasized that the nominal volumes in the table below do not include the interest and currency positions that were entered into through counter transactions. A gross presentation of these amounts would not provide meaningful information in economic terms. The nominal volumes as of the balance sheet date of the interest and currency positions entered into through counter transactions amount to € 210.2 million (prior year: € 210.2 million).

There is a strict segregation of functions in physical and organizational terms between conclusion, control, and booking of transactions. The competences in terms of amount and contents are defined in internal

guidelines. In the finance area, risk positions are continuously measured by means of tested software.

Business partners are exclusively German and international banks of unquestionable financial standing. Since management and the supervisory bodies of CLAAS attach great importance to systematic risk management, a comprehensive monitoring system, which meets the requirements under the German Act on Control and Transparency in the Corporate Sector (KonTraG), has been installed. In this context, the efficiency of the hedging instruments used and the reliability of the internal control systems are regularly controlled through internal and external examinations.

In the financial year 2003, derivatives were accounted for in the framework of hedge accounting for the first time. Cash flow hedge accounting hedges both variable future cash flows from long-term liabilities and future foreign currency sales.

A hedge effectiveness of 100% could be substantiated for the cash flow hedge on variable future cash flows from long-term liabilities. The fair value changes of these derivatives have been recorded in other comprehensive income disclosed under equity. A reclassification in the profit and loss account has been made in the amount in which the underlying transaction was recognized in income in the period under audit. This reclassification was made in the same item of the profit and loss account under which the underlying transaction was recorded.

The cash flow hedges of future foreign currency sales disclosed ineffective parts in the amount of net € 72 thousand as at 30 September 2003, which have been included with a positive amount in the exchange result.

The following table contains both derivatives where hedge accounting according to SFAS No. 133 was not applied and derivatives where hedge accounting was applied. The derivative financial instruments

have been included in the balance sheet at the following fair values, hence, the fair values correspond to the carrying amounts:

CURRENCY HEDGING	Nominal volume		Remaining term > 1 year		Fair value assets		Fair value liabilities	
	Sept. 30, 03	Sept. 30, 02	Sept. 30, 03	Sept. 30, 02	Sept. 30, 03	Sept. 30, 02	Sept. 30, 03	Sept. 30, 02
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Exchange futures	172,630	100,871	5,565	5,000	5,583	1,105	144	98
Currency options	59,285	60,035	0	10,000	522	737	735	376
Other currency hedging instruments	0	0	0	0	0	0	0	0
Total	231,915	160,906	5,565	15,000	6,105	1,842	879	474

INTEREST RATE HEDGING	Nominal volume		Remaining term > 1 year		Fair value assets		Fair value liabilities	
	Sept. 30, 03	Sept. 30, 02	Sept. 30, 03	Sept. 30, 02	Sept. 30, 03	Sept. 30, 02	Sept. 30, 03	Sept. 30, 02
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Interest rate options*	300,904	210,903	270,704	200,903	1,688	3,611	1,773	673
Interest rate swaps*	360,226	190,226	360,226	150,226	8,602	4,968	45,458	6,201
Other interest hedging instruments	20,000	20,000	0	20,000	0	143	26	0
Total	681,130	421,129	630,930	371,129	10,290	8,722	47,257	6,874

* Without taking into account counter transactions concluded.

The interest hedging instruments disclosed at the level of CLAAS also include cross-currency swaps which are used to hedge currencies.

37 | SEGMENT REPORTING

	CLAAS		CLAAS		CLAAS		Eliminations		CLAAS Group	
	Agricultural Engineering		Industrial Engineering		Production Engineering		2003	2002	2003	2002
	2003	2002	2003	2002	2003	2002				
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
External sales	1,340	1,157	24	24	132	84	0	0	1,496	1,265
Internal sales	5	5	90	95	3	2	(98)	(102)	0	0
Total sales	1,345	1,162	114	119	135	86	(98)	(102)	1,496	1,265
Operating profit (EBIT)	38	70	5	6	10	8	0	0	53	84
Segment assets	1,309	957	37	40	122	52	(55)	(29)	1,413	1,020
Goodwill*	36	11	0	0	11	0	0	0	47	11
Capital investments in fixed assets	45	44	4	3	3	3	0	0	52	50
Depreciation	32	23	3	3	2	2	0	0	37	28
Interest income	12	11	0	0	0	0	0	0	12	11

* For the Agricultural Engineering segment reduced by accumulated amortization in the amount of € 8,459 thousand.

CLAAS defines its segments according to the areas of business covered by the different divisions. The definition of divisions and regions is based on internal reporting data.

Agricultural Engineering is CLAAS's core business. CLAAS is market leader in Europe for its main products, the combine harvester and the forage harvester. CLAAS also holds significant market shares in the baler and green harvest machinery product lines, especially in Western Europe. The Agricultural Engineering segment has been complemented by the newly acquired tractor business since 2003.

CLAAS Industrial Engineering is the system supplier within CLAAS Group for drive assemblies and hydraulic components. The third-party business mainly relates to components for construction machinery and utility vehicles.

The Production Engineering Division is run by CLAAS Fertigungstechnik GmbH. This company has specific expertise in special-purpose mechanical engineering and tool making and in the development and manufacturing of complete transfer and production lines. Since the takeover of Brötje Automation, the business activity in this segment has covered also the aviation and aerospace industries.

Internal sales reflect the amount of sales between Group companies. Internal sales are accounted for under conditions like among unrelated parties dealing at arm's length. Capital investments in fixed assets relate to acquired tangible assets.

Reconciliation of the operating profit, which is defined as EBIT at the level of CLAAS, with the consolidated net income for the year:

	2003 € '000	2002 € '000
Operating profit (EBIT)	53,161	83,955
./. Taxes on income	3,358	22,762
./. Interest expenses	25,964	22,081
./. Compensation CMG	1,835	3,298
./. Compensation participation certificates	2,806	2,806
./. Minority interest	1,297	465
Consolidated net income	17,901	32,543

The increase in net sales from € 1,265.5 million to € 1,496.3 million is primarily due to increases in Germany and the other countries of the

European Union as a result of the acquisitions in the financial year under audit. A sales growth of 26.8% was realized here.

CLASSIFICATION OF SALES BY REGIONS	2003 € million	2002 € million
Germany	461.4	443.8
Other EU countries	685.9	460.7
Other European countries (excluding EU)	188.0	202.9
Non-European countries	161.0	158.1
Total	1,496.3	1,265.5

Disclosure concerning important customers: Since CLAAS realizes its sales primarily with agricultural machinery, the clientele of CLAAS also operates predominantly in the agricultural sector. On account of the large number of customers, there are no customers whose sales

volume would account for a significant percentage of the Group's sales volume. Furthermore, except for the German market, the customer structure shows no significant concentration on certain geographic regions.

MATERIAL DIFFERENCES BETWEEN GERMAN GAAP (HGB) AND US GAAP

Material accounting and valuation differences between German GAAP (HGB) and US GAAP are described below.

FIXED ASSETS

Under German GAAP, fixed assets are predominantly depreciated on a reducing-balance basis, with tax depreciation normally being applied also to the commercial balance sheet. The useful lives are generally based on fiscal depreciation tables. No asset item is permitted to be recognized under German GAAP for intangible fixed assets that were not acquired for a compensation.

Under US GAAP, the depreciation method which best reflects the anticipated depreciation of the asset concerned is to be chosen. Normally, fixed assets are, hence, depreciated on a straight-line basis; no tax depreciation is made at all. Deviating from German GAAP, depreciation for depreciable assets is based on a useful life which can differ from the useful life provided in the fiscal depreciation tables. Furthermore, leased fixed assets are capitalized if the requirements for a capital lease are met. Intangible assets acquired are also amortized over their estimated useful life, if such a useful life can be determined. If the useful life of the acquired intangible asset can not be determined, an impairment test instead of scheduled amortization is performed annually (or even earlier, if corresponding indications for permanent impairment exist). Goodwill is not to be amortized on a scheduled basis, but to be subject to an annual impairment test. Certain self-generated intangible fixed assets are required to be capitalized under US GAAP.

INVENTORIES

Whereas under German accounting principles, inventories are permitted to be valued at prime cost or at full cost (in compliance with tax regulations), inventories are measured at so-called production-related full cost under US GAAP (this means all allocable overheads are capitalized).

The percentage of completion method (PoC) is applied under US GAAP when reporting long-term production orders. Long-term production orders in process are disclosed as PoC receivables depending on the stage of completion.

DEFERRED TAXES

According to German accounting principles, deferred tax assets and liabilities are only recognized for temporary differences between the result under German GAAP and the tax result; quasi-permanent differences must not be deferred. Netting deferred tax assets and deferred tax liabilities is admissible.

Under US GAAP, deferred taxes are to be recognized for temporary differences between the values recognized in the consolidated balance sheet and the tax balance sheet. Furthermore, deferred tax assets are to be recognized for anticipated tax reductions from loss carryforwards. Deferred tax assets and deferred tax liabilities are openly netted in the case of identical maturity, identical tax type and identical jurisdiction to tax.

RECEIVABLES/OTHER ASSETS/DERIVATIVES

Under German GAAP, a general allowance is made on receivables in accordance with the prudence concept. According to US GAAP, general allowances are only permitted to be made if substantiable empirical values are available or if a loss of receivables is probable. An excess of pension assets over pension commitments is disclosed under other assets at the level of CLAAS in compliance with US GAAP. Under German GAAP, derivatives are not to be capitalized with the exception of premiums paid. Under US GAAP, derivatives are capitalized at their fair values.

INVESTMENTS AND SECURITIES

Under German accounting principles, securities are recognized at acquisition cost or at their lower of market value as at the balance sheet date.

Under US GAAP, there are the following three types of securities: Securities that are held to maturity (»held to maturity securities«) should generally be valued at acquisition cost. Securities that are available for sale (»available for sale securities«) and securities that are intended to be sold shortly (»trading securities«) are valued at their current market value as at the balance sheet date. A separate equity item, other comprehensive income, discloses the unrealized gains and losses from available for sale securities without profit and loss impact taking into account deferred taxes.

PENSION PROVISIONS

Under German GAAP, pension provisions are normally measured according to the entry age normal method under tax law. Probable fluctuations are taken into account on a lump-sum basis. Pay and pension rises must not be taken into account. The discounting factor can be based on tax regulations.

Under US GAAP, pension provisions are measured according to the projected unit credit method. Official fluctuation probabilities as well as pay and pension rises are taken into account. The discounting factor corresponds to the interest rate in the capital market.

If, on account of the change in the bases of computation, the present value of vested pension rights exceeds the pension provision that has been set up with profit and loss impact, the pension provision is increased without profit and loss impact by an additional provision amount («additional minimum liability») according to SFAS No. 87. This amount must be lower than the additional expenses from plan adjustments that remain to be allocated. Otherwise, it is offset against equity. The difference arising on the pension valuation has no profit and loss impact under US GAAP. Under German GAAP, the funding and release of this minimum pension commitment is, however, immediately charged against profit and loss in the profit and loss account.

OTHER PROVISIONS

Under German GAAP, there are certain options with respect to provisions and accruals and provisions for charges that are based on an internal commitment are permitted to be carried as a liability.

According to US GAAP, there are more restrictive requirements for recording provisions and setting up accruals. There are no options to show or not to show corresponding items as a liability on the balance sheet and recognition is made contingent upon a high probability that a liability will actually arise. Provisions for charges are inadmissible.

CASH AND CASH EQUIVALENTS

Deviating from German GAAP, liquid funds under US GAAP include also securities with a remaining term at the date of acquisition of up to 90 days.

PARTICIPATION CERTIFICATES/SILENT PARTNERSHIP

The allocation to equity or external capital according to German GAAP depends decisively on profit and loss-related compensation, the loss participation and the treatment as subordinate in the case of bankruptcy. According to these criteria, the silent partnership and the participation certificates of CLAAS are to be classified as equity in accordance with German GAAP. Under US GAAP, however, the repayability of the capital transfer decides on the disclosure within or outside equity.

MINORITY INTEREST

Under German GAAP, minority interest is taken into account within equity. Under US GAAP, minority interest is disclosed as a separate item outside equity on the balance sheet.

COMPREHENSIVE INCOME/OTHER COMPREHENSIVE INCOME

Deviating from German accounting rules, US GAAP provides for a separate equity component, the other comprehensive income, which together with the net income for the year forms a kind of total operating performance, the so-called comprehensive income. The following elements of the other comprehensive income are to be separately disclosed: Foreign currency translation differences, supplementary pension provisions (see pension provision), unrealized gains and losses in connection with the market valuation of securities as well as the effective portion of the fair value variance of derivative instruments that meet cash flow hedge requirements.

CLAAS KOMMANDITGESELLSCHAFT AUF AKTIEN MBH, HARSEWINKEL/GERMANY

Holding company, Sales, Customer Service, Parts

STRUCTURE OF CLAAS KGaA MBH**Personally liable partner**

Helmut Claas GmbH

Shareholders

Helmut Claas
Günther Claas
Reinhold Claas

KGaA shareholders

Family Helmut Claas
Family Günther Claas
Family Reinhold Claas

BODIES OF CLAAS KGaA MBH**Shareholders' committee**

Helmut Claas, Harsewinkel
Chairman

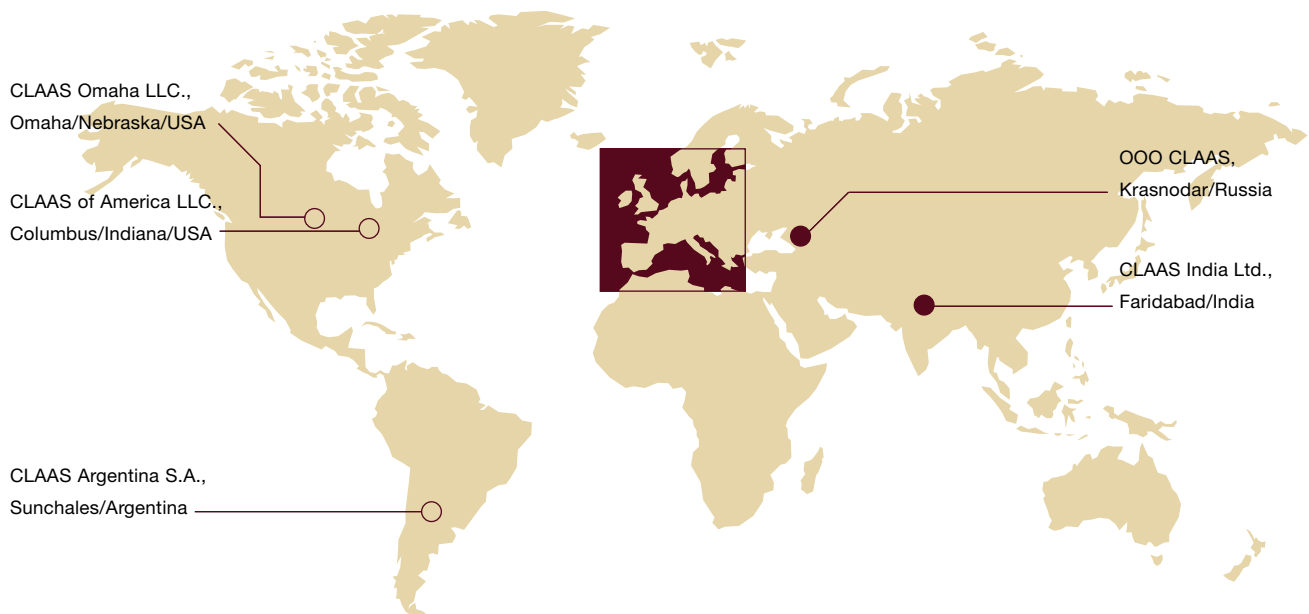
Supervisory Board

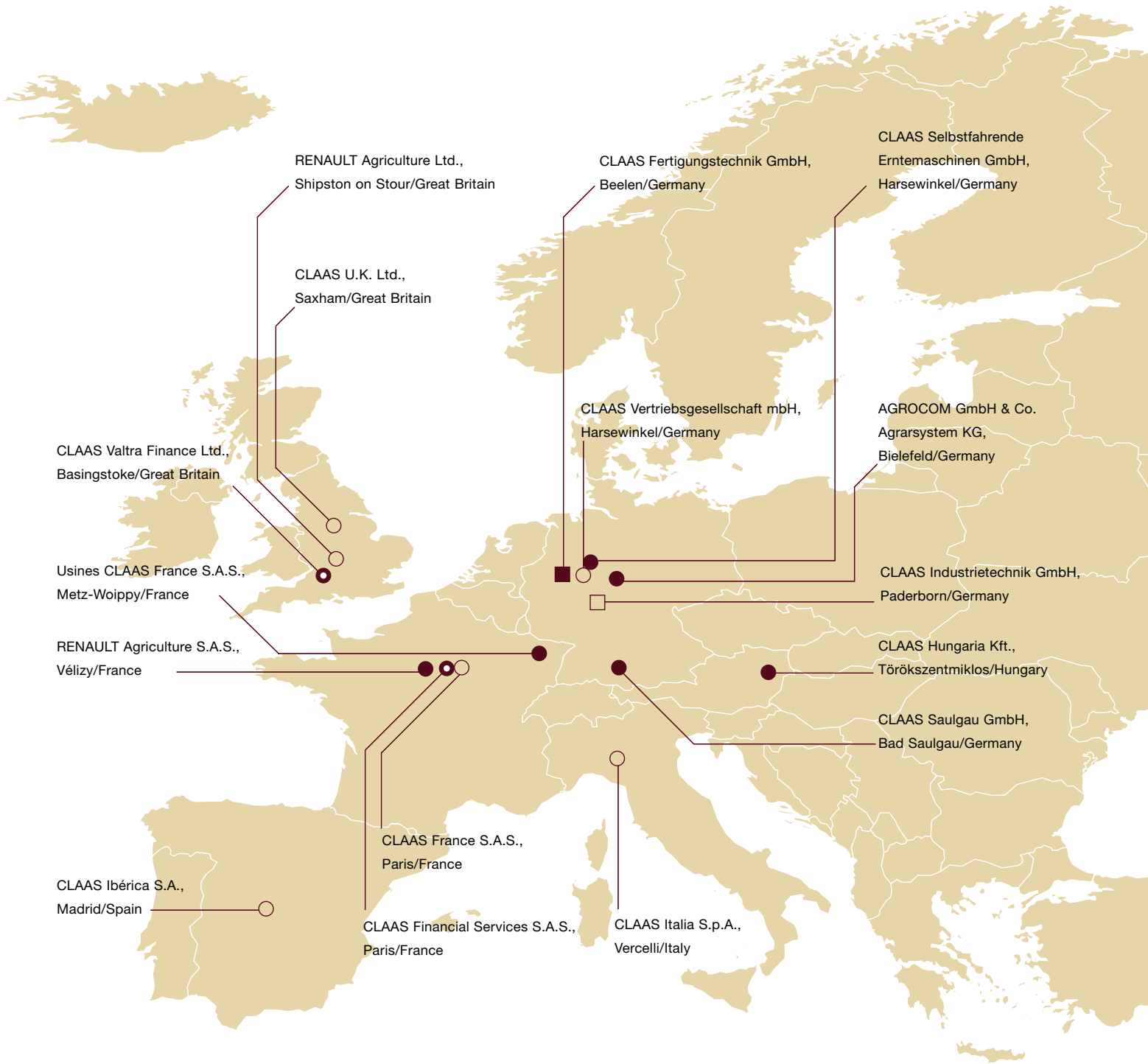
Helmut Claas, Harsewinkel,
Chairman
Guntram Schneider, Münster*
Deputy Chairman
Oliver Claas, Wedel/Holstein
Volker Claas, Harsewinkel
Günther Groß, Beckum*
Claus Helbig, München
Heinz Jakobi, Lichtenau* (until 12/02)
Günter Laumann, Harsewinkel*
Wilfried Lochte, Groß Schwülper
Jens Möller, Rheda-Wiedenbrück*
Gerd Peskes, Düsseldorf
Siegfried Vieth, Hövelhof* (since 01/03)
Carmelo Zanghi, Paderborn*

* Employee representatives

Executive Board

Rüdiger A. Günther (CEO)
Nikolaus Feil
Hermann Garbers
Lothar Kriszun
Guy Povie (since 05/03)
Werner Schneider





AGRICULTURAL ENGINEERING

■ PRODUCTION ENGINEERING

□ INDUSTRIAL ENGINEERING

** As of 31/12/2003*

● **Product companies**

○ **Sales companies**

◉ **Finance companies**

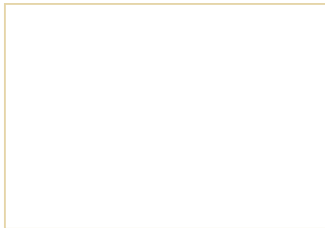
SUMMARY OF FINANCIAL STATISTICS		2003	2002	2001	2000	1999*	1998*	1997*
PROFIT AND LOSS ACCOUNT								
Net sales	€ million	1,496.3	1,265.5	1,147.9	1,072.5	1,038.5	1,108.5	978.7
Exports as a share of sales	%	69.2	64.9	68.9	66.6	65.5	69.7	70.6
Income before taxes	€ million	22.6	55.8	36.1	26.2	22.4	59.9	68.9
Net income	€ million	17.9	32.5	14.3	11.7	5.8	27.2	27.0
BALANCE SHEET								
Fixed assets	€ million	373.9	262.3	211.2	187.1	148.1	132.0	119.3
Intangible assets	€ million	55.8	20.0	6.8	3.5	6.0	8.4	8.0
Tangible assets	€ million	252.3	192.8	155.5	138.7	99.3	83.3	77.1
Financial assets	€ million	65.8	49.5	48.9	44.8	42.8	40.3	34.2
Current assets	€ million	984.7	724.8	698.2	656.4	582.5	542.8	519.5
Inventories	€ million	337.6	207.1	168.5	181.2	212.6	224.6	141.0
Accounts receivable/derivatives/other assets	€ million	302.3	217.0	195.6	190.4	133.1	137.2	149.9
Liquidity	€ million	344.8	300.7	334.1	284.8	236.8	181.0	228.6
Prepaid expenses/deferred taxes	€ million	54.2	32.5	22.0	16.1	25.5	16.9	5.1
Equity	€ million	292.5	292.2	268.8	263.5	261.6	261.0	241.2
Funds similar to equity**	€ million	106.3	58.3	56.3	55.5			
External capital	€ million	1,014.0	669.1	606.3	540.6	494.5	430.7	402.7
Provisions/deferred taxes	€ million	391.8	330.1	288.2	257.0	246.7	263.1	234.1
Liabilities/derivatives	€ million	622.2	339.0	318.1	283.6	247.8	167.6	168.6
Balance sheet total	€ million	1,412.8	1,019.6	931.4	859.6	756.1	691.7	643.9
RATIOS								
Return on sales	%	1.5	4.4	3.2	2.4	2.2	5.4	7.0
EBIT	€ million	53.2	84.0	66.7	54.0	48.7	89.6	90.1
EBITDA	€ million	90.9	111.9	111.5	82.5	79.9	113.8	118.0
Return on equity	%	6.1	11.1	5.3	4.4	2.2	10.4	11.2
Return on total equity employed	%	3.8	8.2	7.2	6.3	6.4	13.0	14.0
Cash flow according to DVFA/SG***	€ million	58.1	67.4	67.7	39.6	53.1	70.9	63.3
Equity ratio	%	20.7	28.7	28.9	30.7	34.6	37.7	37.4
First-degree liquidity	%	67.4	83.7	109.7	118.3	111.9	74.3	103.6
Equity-to-fixed-assets ratio	%	241.1	251.7	297.0	330.9	367.7	339.5	354.7
Working capital	€ million	417.2	303.5	251.8	274.0	286.6	298.1	209.8
EMPLOYEES								
Employees as at the balance sheet date (including trainees)		8,391	6,114	5,488	5,558	5,853	6,030	5,571
Personnel expenses	€ million	352.3	291.7	277.3	269.7	269.1	262.0	222.8

* The figures up to and including 1999 are based on German GAAP.

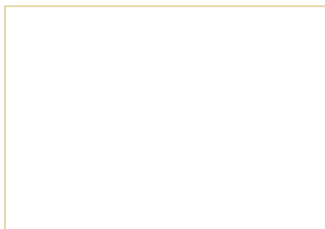
** Under US GAAP, participation certificates, the silent partnership and minority interest are not part of equity in a narrow sense in contrast to German GAAP.

*** Deutsche Vereinigung für Finanzanalyse und Anlageberatung e.V./Schmalenbach-Gesellschaft (DVFA commission für methodology of financial analysis/Schmalenbach-Gesellschaft).

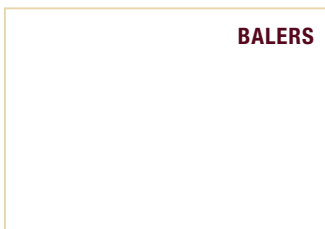
PRODUCT OVERVIEW



COMBINE HARVESTERS



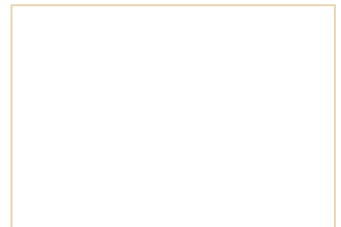
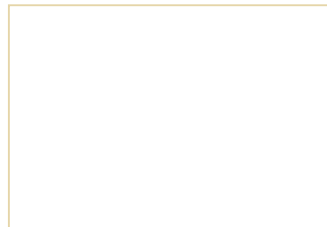
GREEN HARVEST MACHINERY



TRACTORS



SPECIAL PRODUCTS



**PRODUCTION ENGINEERING/
INDUSTRIAL ENGINEERING**



DEFINITIONS

<i>Return on sales</i>	=	$\frac{\text{Income before taxes}}{\text{Net sales}}$
<i>EBIT</i>	=	<i>Net income + taxes on income + minority interest +/- income from changes in accounting principles + interest expense + profit transferred under a partial profit transfer agreement (CMG) + remuneration participating certificates</i>
<i>EBITDA</i>	=	<i>EBIT + depreciation of tangible assets + amortization of intangible assets</i>
<i>Return on equity</i>	=	$\frac{\text{Net income}}{\text{Equity}}$
<i>Return on total capital employed</i>	=	$\frac{\text{EBIT}}{\text{Balance sheet total}}$
<i>Cash flow according to DVFA/SG</i>	=	<i>Net income + depreciation of tangible assets + amortization of intangible assets +/- changes of pension provisions and other long-term provisions +/- other expenses/ income without cash flow impact</i>
<i>Equity ratio</i>	=	$\frac{\text{Equity}}{\text{Balance sheet total}}$
<i>First-degree liquidity</i>	=	$\frac{\text{Liquidity}}{\text{Short-term liabilities}}$
<i>Equity to fixed assets ratio</i>	=	$\frac{\text{Equity + funds similar to equity + long-term liabilities}}{\text{Fixed assets}}$
<i>Working capital</i>	=	<i>Inventories ./ advance payments received +/- accounts receivable/ trade payables +/- accounts receivable/payable to investments/associates +/- notes receivable/notes payable</i>

CONTACT

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www.claas.com

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CONCEPT & DESIGN

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Hamburg, Germany