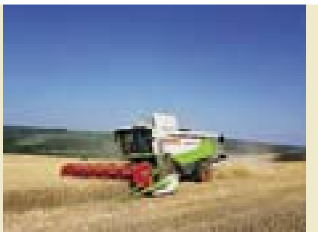
ANNUAL REPORT 2004

Growing together

Product overview

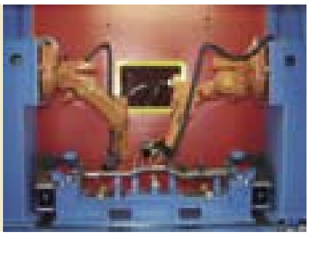
AGRICULTURAL ENGINEERING

- 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: Tractors now included in product range



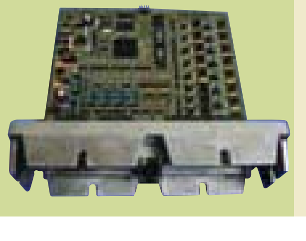
PRODUCTION ENGINEERING

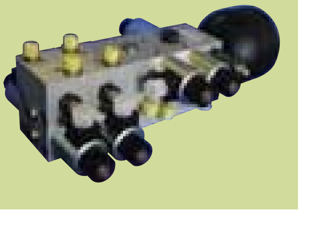
- Development and production of complete production lines for the automotive and aircraft industries around the world



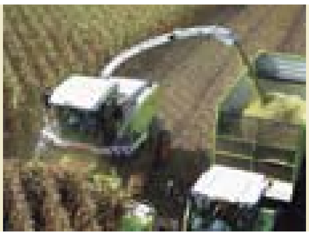
INDUSTRIAL ENGINEERING

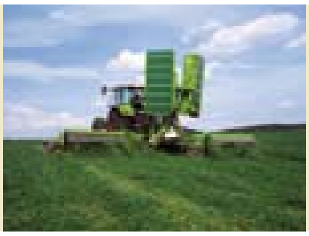
- System supplier for drive technology and hydraulics
- Axles and gears for agricultural and construction machinery, as well as commercial vehicles

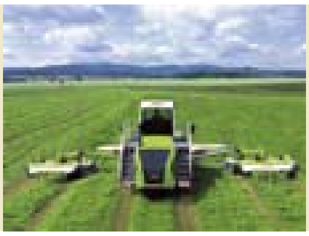


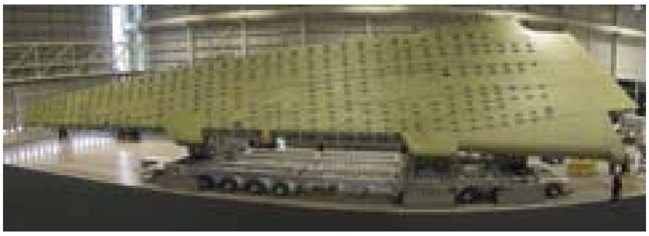



CLAAS







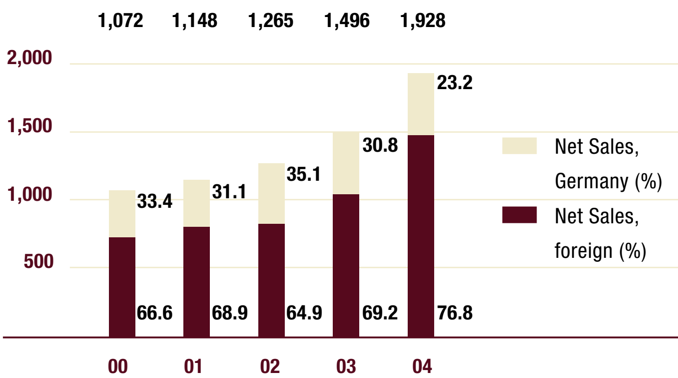


FINANCIAL INDICATORS (US GAAP)

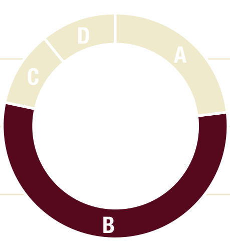
		2004	2003	Change %
INCOME STATEMENT				
Net sales	€ million	1,928.4	1,496.3	28.9
EBIT	€ million	71.5	53.2	34.4
EBITDA	€ million	124.2	90.9	36.6
Net income	€ million	21.5	17.9	20.1
Income before taxes	€ million	37.4	22.6	65.5
Cash flow	€ million	73.8	51.2	44.1
R&D expenses	€ million	72.6	67.2	8.0
BALANCE SHEET				
Equity	€ million	311.6	292.5	6.5
Capital expenditure	€ million	43.5	54.2	-19.7
Total assets	€ million	1,392.3	1,412.8	-1.5
EMPLOYEES				
Employees as of the balance sheet date*		8,134	8,391	-3.1
Personnel expenses	€ million	422.0	352.3	19.8

** including trainees*

NET SALES in € million



SALES PER REGION in € million



A	447.6	(-3.0 %)	Germany
B	1,066.5	(+55.5 %)	EU* without Germany
C	207.6	(+10.5 %)	Other European countries
D	206.7	(+28.3 %)	Non European countries

*EU-15

Growing together

Food is the basis of life, and food production depends on agriculture. The growing global demand for food and the need for ecologically and economically sound cultivation methods call for efficient technology and superior know-how in the agricultural industry.

As an international market and technology leader in agricultural equipment, CLAAS supplies the global markets with agricultural machinery that sets new standards in quality and technical performance. Our innovative strength and expertise have helped to further advance vital processes in the food production chain.

For more than 90 years, CLAAS has been aware of its active role in helping to feed the world's growing population. The commitment and motivation of our staff located worldwide attest to our Company's sense of responsibility. As a family company with long-term objectives, we understand that successful partnerships and integration provide the foundation for steady growth.

This spirit is summarized in the title of this report:

Growing together.

Highlights 03/04

OCTOBER

CLAAS invests in the growth markets of Eastern Europe by beginning construction on a combine harvester plant in Krasnodar, Russia.

NOVEMBER

At the Agritechnica trade fair in Hanover, Germany, CLAAS introduces numerous innovations. This event also features the first public appearance of the green CLAAS tractors.

DECEMBER

JANUARY

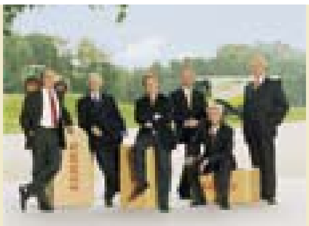
10th annual finance meeting with international investors, analysts and bankers.

FEBRUARY

MARCH

APRIL

First anniversary of the Tractor Division, a result of the successful cooperation between CLAAS and RENAULT Agriculture.



MAY

CLAAS celebrates the production of its 20,000th Jaguar forager. The machine rolls off the assembly line in a special edition.

JUNE

Our financial »fitness« program calls for a joint effort. All employees are encouraged to participate in the program to keep CLAAS in good shape for the challenges of the future.

JULY

AUGUST

SEPTEMBER

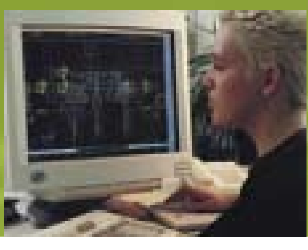
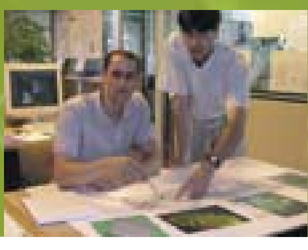
The European CLAAS soccer championship is held in Le Mans, France. Some 200 employees from 12 European CLAAS sites compete for the title. The winner is the CLAAS Hungaria team.

OCTOBER

The CLAAS tractor is a great success in Germany. The 1000th tractor is delivered on the occasion of the Agricultural Festival in Munich.

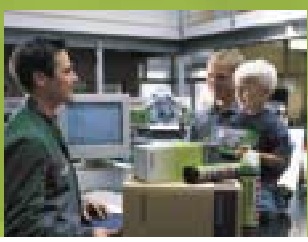
With a vocational program offering training in 20 different vocations, we set new standards in employee training. At a rate of approx. 7%, the number of trainees in the Group clearly exceeds the average in our industry. From the moment our trainees join the Company, they benefit from the experience of their senior colleagues, exchanging ideas and learning from one another. At Claas, we encourage everybody to contribute their ideas to help us move forward. This has been a valued tradition at CLAAS for more than 90 years.

Learning together.

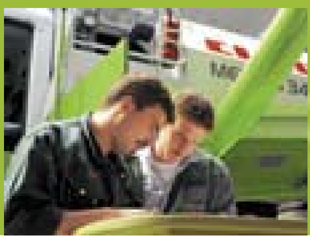
The addition of RENAULT Agriculture has considerably strengthened the position of CLAAS in the market. We can now provide our customers with added value by offering them an extended product portfolio encompassing harvesting machines, tractors, various local services, innovative financing and a large selection of used machinery. With this comprehensive range of products and services, CLAAS has become a one-stop-shop for all our customers' agricultural needs.

Benefiting together.

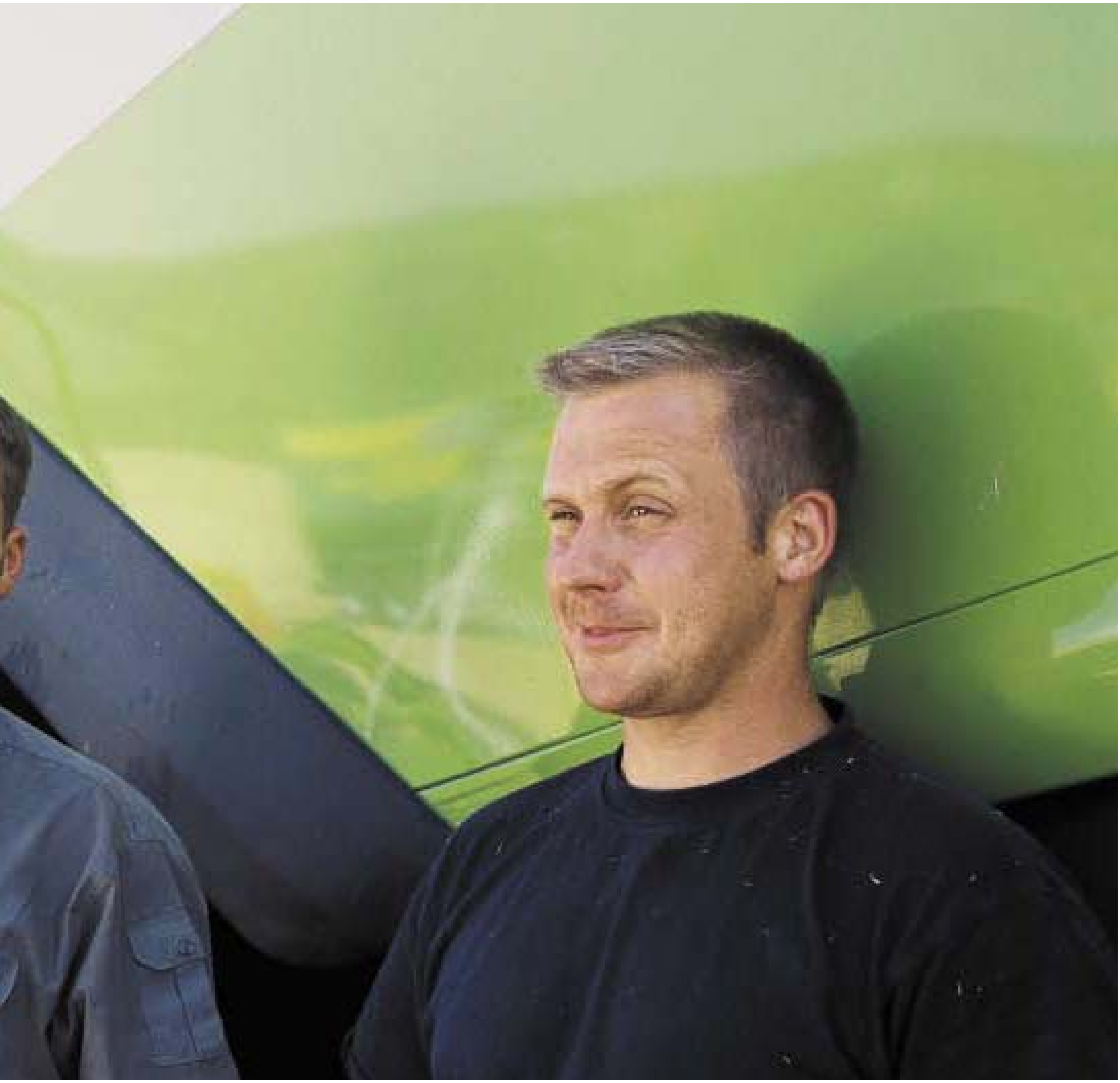


Our combine harvesters are highly complex products, consisting of some 40,000 parts. To ensure these sophisticated machines always deliver top performance, everybody at CLAAS is passionate about quality, every day. Quality in development, in production and in service – delivered by all of our employees, from trainees to managers.

Pursuing quality together.



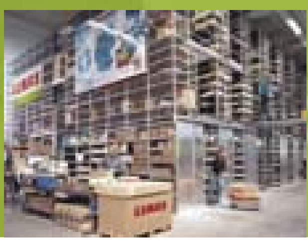
CLAAS is present in 140 countries. We know about the highly diverse demands of our global customers whose farming and harvesting methods vary from country to country. Before we develop a new product, we talk to local farmers. Getting a clear picture of their requirements is the starting point for providing a solution.



Finding solutions together.

There are always new challenges in agriculture. Sudden changes in the weather, diverse climates and different types of soil and vegetation are the typical problems that our customers face every single day. We understand these issues and develop appropriate solutions using our proven technology and flexible service. We want to keep our customers happy even when the sun doesn't shine.

Working together.



Helmut Claas and Cathrina Claas

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 2004. The Supervisory Board's assessments were based on reports by the Executive Board on the Group's strategic orientation; the asset, financial and income positions; deviations from the plans made throughout the course of business and operating decisions. The reports were received at several sessions and used as a basis for the decisions made by the Supervisory Board.

The Supervisory Board's deliberations focused on the sales and earnings outlook, the development of business in comparison to budgets, the acceptance of auditors' reports, the auditing of the annual financial statements of CLAAS KGaA mbH and the CLAAS Group, and plans for the year 2005, including:

- Transition to SAP R/3 in CLAAS companies abroad,
- Integration of RENAULT Agriculture into the CLAAS Group,
- Reorganization and integration of the new tractor business in Western Europe, especially in France, into operating structures of the CLAAS Group,
- Implementation of a cost reduction, synergy and efficiency program (»fitness« program),
- Structuring and placing of an equity bond (subordinated bond with unlimited maturity) and
- European works council.

The Supervisory Board was elected in rotation by the annual general meeting in February 2000 for a further statutory term of office. Its composition remains unchanged from last year, with one exception: Ms. Cathrina Claas replaced Dr. Wilfried Lochte in January 2004.

The financial statements of CLAAS KGaA mbH and the consolidated financial statements of the CLAAS Group as of September 30, 2004 as well as the management reports for CLAAS KGaA mbH and the CLAAS Group were audited by Deloitte & Touche GmbH, Düsseldorf, the auditors elected by the annual general meeting on January 26, 2004 and appointed by the Supervisory Board. The statements and reports received an unqualified audit opinion on December 1, 2004.

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 10, 2005 in the presence of the auditor.

The Supervisory Board then passed the following resolution:

Having examined the financial statements of CLAAS KGaA, the consolidated financial statements and management reports as well as the proposal for the appropriation of profit, the Supervisory Board confirmed the results of the audit. No objections were raised. 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 and agrees with the proposal for appropriation of profits made by the management 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 year under review. We must now continue to focus on cost and process structures, further integration of the tractor business, and the consistent improvement of Group profits.

Harsewinkel, January 10, 2005

The Supervisory Board

Helmut Claas

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

Rüdiger A. Günther

LADIES AND GENTLEMEN,

In these times of rapidly advancing globalization, companies everywhere are changing their strategies and structures, and re-examining their market positions. Entire industries are searching for ways to improve their results and optimize their business portfolios. Agricultural engineering is no exception, and CLAAS cannot afford to stand still. The ongoing integration of RENAULT Agriculture will establish CLAAS as an international player with a comprehensive product portfolio. As we enter a new strategic dimension, we are carefully adapting our organization and beginning to grow together.

Fiscal 2004 demonstrated once again that our staff, united by the CLAAS brand name, can rise to meet difficult challenges. The CLAAS brand is a key asset of our Company and gives orientation to our customers, sales partners, suppliers, investors, employees, and shareholders and embodies their trust and confidence in our Company. Loyalty and commitment lie at the heart of the brand.

This sense of commitment is noticeable throughout the Company. It sets us apart from our competitors and gives us the confidence to successfully meet the major challenges that lie ahead. In the agricultural engineering sector, global consolidation is considerably more advanced than in other sectors. CLAAS is clearly among the few companies today that are sufficiently prepared to assert a presence not just in Europe, but also throughout the world.

The development in fiscal 2004 confirms that we are on the right path. The integration of RENAULT Agriculture is progressing more rapidly than expected; customer acceptance and market successes both confirm the validity of our strategy. In Europe, our share of the combine harvester market has grown in all of the major national markets and we have consolidated our global market lead in foragers. Internally, our financial »fitness« program resulted in sustained structural improvements. With our orientation towards the capital markets, we have reconfirmed our pioneering role in innovative financing as a family company. CLAAS has created a new financing instrument in the form of an »equity bond«. Besides expanding our investor base, this new source of financing also gives us the flexibility to pursue our growth strategy.

Over the last few years, the CLAAS Group averaged annual growth of over 10%. In fiscal 2004, Group sales increased by 29% to € 1.9 billion, and exports now account for 77% of total Group sales. Earnings, too, show sustained improvement and exhibit a double-digit increase by around € 15 million to € 37.4 million. Having achieved our goals for 2004, we can now build on this standard to achieve even greater success in the future.

Our goals are ambitious but attainable. We will focus on our own existing strengths and resources, and regard the European markets and the tractor business as our primary growth drivers. With activities in the US, Russia and India, we have laid the groundwork for future incremental growth in our established core business of harvesting machinery in new markets that will contribute to maintaining our successful position in our home markets in Europe.

The introduction of the CLAAS tractor in Europe has been extremely successful. We have increased production in Le Mans, raised productivity and improved quality. Tractor distribution, spare parts service, customer service and financial and cash management functions have all been integrated into the Group structures. Our green tractors are becoming an increasingly common sight, even in France, where orange Renault tractors have been a tradition for decades. The results from the newly integrated tractor business are very encouraging. We have increased our market position in all regions. In Germany, our market share has more than tripled. Together with our partners in France, we intend to build on these successes and firmly establish the CLAAS tractor throughout Europe.

The expansion of our product portfolio to include tractors has created the basis for future profitable growth, and internally, too, much has already been accomplished. The new Harsewinkel plant has come on stream and strict cost and process management have contributed to the attainment of savings. We will continue to focus on the consistent identification of improvement potential for our cost position.

In the financing of our activities, we take advantage of both classic bank credit and the capital markets. Access to the capital market is not a matter of course for a family company, but we are aware of the requirements and therefore place great importance on open communication, innovation, reliability, and on proving that we can implement our plans. We combine the stability of our shareholder structure with innovative financing approaches to create the best possible value management.

We are now better positioned than ever. The medium and long-term market factors remain favorable. World population is growing, the demand for food is increasing, urbanization continues, and arable land is scarce. This situation clearly calls for increased efficiency in agriculture. The nutritional demands of the world's population can only be met with the help of innovative agricultural engineering. Today, more than ever, we can say with confidence that agriculture has a future. However, this is no reason for us to sit back and rest.

In fact, we demanded a lot from our employees in the past 12 months. We would not have been able to achieve the objectives for fiscal 2004 without their extraordinary efforts, commitment, loyalty and motivation, for which we would like to express our appreciation. Our move into new dimensions promises great opportunities, but also poses significant risks. As a company grows into a larger and more complex structure, there is a danger of losing sight of its own culture and identity, but we will not allow this to happen. We are and will remain CLAAS – strong, assertive, creative and proactive. For us, the recognition of structural deficiencies is not an expression of weakness, but a sign of credibility, determination and confidence. Our current activities encompass much more than the addition of new markets, brands and people: By combining the strengths of different cultures, we are creating added value.

»Growing together« is our message and our invitation to all who work with us. It refers to growth in the economic sense and growth in terms of our relationship with each other. We are referring to our customers, distribution partners, suppliers, investors and stakeholders. We would like to extend our gratitude to all of them for their cooperation and trust. And finally, we thank our shareholders and their committees, who have confidently and constructively supported us in decisions affecting the long-term future of the Company.

Rüdiger A. Günther, Executive President

GUY POVIE
TRACTOR DIVISION

Born in 1949, Guy Povie graduated in Business Management and Engineering. He has held various positions in the RENAULT group since 1969, including Project Manager for Logistics and Quality, and Managing Director of a Renault-Peugeot-Citroën joint venture, before he became Executive President of RENAULT Agriculture. He held this post until May 2003, when he became Executive Vice President at CLAAS.

NIKOLAUS FEIL
AGRICULTURAL MACHINERY DIVISION

Born in 1944, Nikolaus Feil graduated in Engineering. Following a position as Factory Manager at the central plant of an automotive group, he established an automotive plant in South America. Since 2000 Executive Vice President at CLAAS.

LOTHAR KRISZUN
MARKETING, AFTER SALES DIVISION

Born in 1952, Lothar Kriszun graduated in Business Management. He has held various positions in the CLAAS group since 1981 including Head of Finance and Administration at Westfälische Werke, Managing Director of CLAAS Fertigungstechnik. More recently, he was Spokesman of the Management Board of CLAAS Selbstfahrende Erntemaschinen. Since 2002 Executive Vice President at CLAAS.

RÜDIGER A. GÜNTHER
FINANCE
EXECUTIVE PRESIDENT

Born in 1958, Rüdiger A. Günther graduated in Business Management. Following a position with an US investment bank, he was Financial Director for one of the world's leading trading groups. In 1993 he became Head of Finance and Accounting at CLAAS. Since 1997 he has been Executive Vice President at CLAAS, since 2002 Executive President.

THOMAS KLATT
CONTROLLING

Born in 1956, Thomas Klatt graduated in Business Management. He has held various senior positions in the engineering and fine chemicals industry, since 1995 as Managing Director. In June 2004 he became Executive Vice President at CLAAS.

DR.-ING. HERMANN GARBERS
TECHNOLOGY, QUALITY

Born in 1951, Hermann Garbers held research and teaching posts at Braunschweig Technical University (Agricultural Machinery Institute). After being responsible for the development of combine harvesters, forage harvesters and tractors, he became Executive Vice President at CLAAS in 1999.

- Agriculture – a dynamic growth industry
- CLAAS strengthens position in core markets and segments
- Turning our sights to overseas markets
- Tractors drive growth

The acquisition of RENAULT Agriculture has strengthened the position of CLAAS as a comprehensive supplier of agricultural machinery. The extended product portfolio makes us an even more attractive partner for our dealers and customers. We have reinforced our business base in Europe and have laid solid foundations for future growth.

Opening up new horizons together

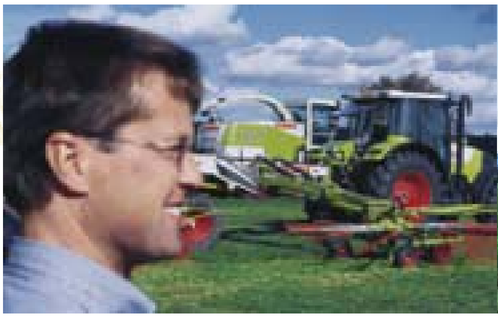
POPULATION GROWTH AND PRODUCTIVITY

Agricultural technology is considered a vital growth industry worldwide. With its upstream and downstream segments, agriculture is one of the world's largest employment sectors and a highly dynamic market with a strong cyclical nature. Of course, the agricultural market will always be demanding due to the unpredictability of the weather, the volatility of the markets and sometimes wildly fluctuating commodity prices – important factors determining the investment decisions of farmers and sub-contractors.

Strong population growth and limited availability of arable land are the defining parameters for the dynamics of the international agricultural technology market. Situated at a central point in the food chain, agricultural engineering contributes significantly to securing sufficient harvesting volumes and appropriate returns. High-performance and responsible farming requires sophisticated machinery.

The world's population is growing rapidly. Every two days, the current figure of more than 6 billion people increases by approximately half a million, or the equivalent of a city the size of Frankfurt, Germany. One of the great challenges of our society is to provide enough food for such a rapidly growing population. In addition to the population explosion, changes in eating habits are also having an effect on agriculture. The demand for grains and meat is growing, and so is the ensuing demand for animal feed. Today, more than half of the global corn harvest is fed to animals.

Approximately one billion hectares are used for agriculture worldwide; this is approximately 90% of all arable land. Most of the earth's surface is either impassable or is too cold or hot, too humid or arid to be used for agricultural purposes. In theory, unless harvest yields are increased, the amount of land available for cultivation would have to more than double by the year 2050, but this is not a very realistic scenario. In fact, an estimated 10 million hectares of fertile farmland are lost every year due to the careless treatment of land; this corresponds to an area roughly a third of the size of Germany. Farmers cannot subsist where wind and water erode the topsoil. Fertile land, however, can often be over-farmed, not allowing sufficient time for the natural regeneration of the soil. Until now, however, mankind has always found a solution to this dilemma: From the invention of the plough to the development of crop rotation, from the first harvester to the use of high-tech products. Modern tractors and innovative harvesting machines, such as combine harvesters or foragers will continue to play a significant role in helping to meet the constantly rising demand for food.



GLOBALIZATION AND CONSOLIDATION

Today, the agricultural engineering business is a global business. It is no longer possible to conquer foreign markets by exports alone. The frequently quoted success secret of multinational companies, »think globally and act locally,« describes an idea that is widely accepted in agricultural engineering today. Machine production needs to be adapted to the highly diverse requirements and logistics processes in the various regional markets. Essentially, a global strategy in agricultural engineering should focus on developing and producing machines that are capable of efficiently and effectively harvesting a large variety of agricultural produce in diverse climates, as part of an integrated process chain.

Multinational companies can significantly increase their strength if they support their worldwide presence with a broad and comprehensive range of process chains. That explains why the globalization of the agricultural engineering industry is accompanied by an intense consolidation process. Internationally, very few companies remain today that are able to offer a comprehensive range of tractor and harvesting machinery; and most of these have become global players only within the last 10 years. The present structure of the agricultural engineering market ensures innovative and efficient development of high-quality devices that reduce costs and are environmentally sound. We expect the consolidation trend in the industry, which had only a minor effect on brand diversity, to continue over the medium term. Targeted acquisitions that serve to complete our offerings in terms of regional presence or suitable production know-how remain a strategic option for CLAAS to ensure we stay ahead of the competition.

WORLD MARKETS FOR AGRICULTURAL MACHINERY

In regional terms, the highest equipment population is found in the Asia/Pacific region, followed by Western Europe, North America, and South America. Figures alone, however, do not accurately reflect the importance of agricultural engineering in the individual regions. In highly developed agricultural markets such as Western Europe, North America, and South America, large, efficient and high-quality agricultural machinery is the major driver of growth. Such machinery is in particularly high demand among large agricultural enterprises. Large machinery accounts for more than two-thirds of the market in Western Europe.

The markets of relevance to CLAAS have developed differently during the period under review. This is especially true of Western Europe. While large agricultural markets such as France and the United Kingdom have shown positive development, the German market has lagged behind expectations. The German combine harvester market alone has declined 15%. Central European markets also experienced a market slump of about 20%. The catastrophic harvests due to the exceptionally hot summer in 2003, uncertainties with regard to EU enlargement and the associated far-reaching transformation processes in the EU accession countries have had an extremely negative impact on farmers‘ investment decisions. The Eastern European market, however, developed positively, sometimes even better than anticipated as a result of good harvests in the CIS, particularly in Russia and the Ukraine. Eastern Europe is increasingly becoming a target market not only for combine harvesters, but also for tractors with Western technology.

The markets of North and South America continued to expand significantly. Growth in agricultural engineering in the US and Canada was around 15% during the period under review, while the South American markets, particularly Brazil, rose by more than 20%. Local sales of tractors and agricultural machinery grew only slightly in the second half of the fiscal year. Exports, however skyrocketed, particularly to Argentina, but also to the US and Europe. In Argentina, the agricultural engineering market continued to thrive.

India's agriculture, strongly affected by monsoons, barely grew at all during the period under review, with farmers' income stagnating. While India's tractor market enjoys consistent growth, the combine harvester market remained difficult, particularly for self-propelled models.

CLAAS STRENGTHENS POSITION IN CORE MARKETS AND SEGMENTS

Our global market performance in fiscal 2004 was shaped by varying developments in agricultural engineering within the core markets of Europe and America. In the combine harvesters segment, our worldwide market share, at almost 15%, remained on the same level as in the previous fiscal year. In North and South America, CLAAS benefited only slightly from the rapid growth in the combine harvester market. In Europe, we were able to maintain our strong market position in our core national markets. Every third combine harvester sold in Europe and every second combine harvester sold in Germany are manufactured by CLAAS. Our market shares in North and South America continued at a low level.

On the whole, the global market for foragers was stable in fiscal 2004, as CLAAS once again proved to be the market leader in foragers. In the baler segment, our market share improved slightly. Market share also rose in the tractor market, our new product segment, in Western and Central Europe. In France, we are among the market leaders with a share of 20% of the tractor market.

INVESTING IN THE DEVELOPMENT OF RUSSIA'S MARKETS

Europe continues to be our most significant and critical market. We are aiming to further expand our market share in Western Europe. As one of the three globally active harvesting technology producers, we are in the best geographic position to target the growth markets in Central and Eastern Europe as well as in the CIS. The expansion of our sales and service network and the construction work that has already begun on a production facility in Russia enhance our leading position. In many of these countries, a shortage of machinery can put harvests at risk. The Food and Agriculture Organization (FAO) predicts that Eastern Europe will become one of the most important regions in the world for grain production in the next few years. Agricultural experts estimate that in Russia approximately 25% of the harvest remains in the fields due to a shortage of agricultural machinery, a high number of machine failures and insufficient machine performance.



The construction of a combine harvester plant at the Krasnodar site in Southern Russia is a significant step in our systematic penetration of Eastern European markets. The plant that is currently being erected in the geographic center of Russian farmland is the first of its kind to be built in the Russian Federation by a Western company. We intend to develop our production facilities in Krasnodar into a local competence center for Agricultural Engineering in the coming years. The conditions are perfect: Krasnodar is considered the corn belt of Russia, there are fields as far as the eye can see, and the location boasts a qualified local work force. The largest Russian university of Agricultural Sciences, located in Krasnodar, will supply a steady stream of engineers.

SETTING OUR SIGHTS ON OVERSEAS MARKETS

Our success is based on our strong market position in Europe. Our goal now is to further increase the CLAAS presence in the world market. The big overseas markets, however, remain challenging. This is particularly true in the case of North America, a market that shows dynamics similar to Western Europe and has a comparable machine population. With regard to foragers, we hold a leading position in the US that is in line with our global market share in that segment. For combine harvesters, however, building up a comparable position to that in Europe will require a high level of commitment and considerable patience. Market share can only be expanded at the expense of the competition. In Omaha, we manufacture LEXION combine harvesters which are tailored to the needs of US farmers. At the Farm Progress Show in Iowa, CLAAS introduced the world's first so-called class 9 combine harvester, adding a unique selling proposition to its product portfolio. We plan to strengthen our market position through close cooperation with the Caterpillar dealers, taking better advantage of the robust state of the US market. Our activities in North America will also help to safeguard the position of CLAAS in European markets.

The production of combine harvesters in India is also of strategic significance to CLAAS. With approximately 140 million hectares of agricultural land and a mechanization rate of just 10%, India is one of the most promising growth markets for agricultural engineering. In addition, the Indian market serves as a springboard to markets in China, Taiwan, Korea and Malaysia.

In South America, CLAAS is not yet sufficiently represented despite having a sales company in Argentina. The FAO considers South America a growth region for soy and grain production. We keep a close eye on the South American market, but will only be able to achieve sustained growth once local production has been established. No decision has been taken at this point on the timing of such a project. Australia, a major sugar and wheat exporter, remains an attractive market, demanding a high level of performance and quality. We have a tightly-knit sales and service network for our combine harvesters here.

TRACTORS DRIVE GROWTH

Traditionally, CLAAS has grown organically in the past, occasionally supplementing internal growth with smaller acquisitions. In the year under review, we created additional external growth on a large scale for the first time with the acquisition of RENAULT Agriculture, which became our Tractor Division. This new core segment constitutes around a third of Group sales. For CLAAS, the acquisition of RENAULT Agriculture is very significant for the strategic development of the Company. Tractors are a key product in the agricultural machinery market, representing a major source of growth potential for CLAAS. We intend to build on the strong standing of RENAULT Agriculture in France to establish these modern and high-performance machines in major European markets. Having adapted the series production in the Le Mans plant to CLAAS standards, we are making good progress in transferring the CLAAS success factors of quality, innovation, reliability, first-class service and spare part supply to RENAULT Agriculture. We are utilizing capacity in the Le Mans plant more efficiently, investing in technology and quality, and reorganizing existing structures. CLAAS tractors have been very well received by farmers and contractors.

The CLAAS tractor benefits us and our distributors, providing long-term stability and independence throughout the sales network. It also offers the Company considerable growth potential for the coming decades. By adding tractors to our product portfolio, CLAAS is now in a position to significantly improve the entire harvesting system consisting of tractors and the respective agricultural machinery. In the past, we always had to adapt our harvesting machinery to the tractors, but now we are able to optimize the complete harvesting system and develop new and improved solutions to suit the exact agricultural needs of farmers. Our success in this area depends on how quickly and efficiently we can merge the tractor know-how of RENAULT Agriculture with the comprehensive agricultural engineering expertise of CLAAS. This pooling of expertise will open up new horizons and possibilities for us and our customers.

- Technology as a growth factor
- A highly diverse product range
- Introducing green tractors
- Consistent focus on the customer
- CLAAS is more than agriculture

We have customers all around the world. With our comprehensive product range, covering virtually the entire agricultural process chain, CLAAS responds to the highly diverse requirements of our customers who are working with a large variety of plants and in different climates. In addition, our machines perfectly complement each other, further optimizing the benefit to our customers.

CLAAS is bigger than the sum of its parts

TECHNOLOGY AS A GROWTH FACTOR

Our product policy reflects the agricultural trends. Structural change in the agricultural industry is driven by a permanent consolidation process aiming at economies of scale. A rise in the degree of mechanization and the use of information technology permit more precise cultivation of smaller fields. In the cultivation of larger fields, increased use of technical equipment is driving the transition from the traditional focus on individual machines towards integrated systems.

Agricultural machines can be fascinating. They rival cars in the use of electronics. Modern, ecologically friendly agriculture is marked by high-tech, electronics and precision farming. Our subsidiary AGROCOM is setting standards in information systems development for farmers and contractors. The respective optimum threshing cylinder speed, basket spacing, sieve sensitivity and air supply for approximately 28 grain types are stored in the LEXION combine harvester's electronic heart. Track overlaps are a thing of the past with the OUTBACK S and E-Drive system developed by AGROCOM. The D-GPS parallel drive system deviates no more than 10 cm from the ideal line on average. The system can be installed on any machine in a few minutes and is compatible with machines of all manufacturers. The AGROCOM COMBINE ONLINE system delivers all current harvesting data to the office computer of the farmer or contractor by GSM and enables efficient fleet management. AGROCOM terminals supply sowing, fertilization and pest control data.

CONTINUOUS INNOVATION

The most recent Agritechnica trade fair in Hanover, Germany, showed that CLAAS is currently in a position to offer the most advanced machine fleet on the market. Our innovation drive has been recognized by the awarding of six silver medals for new development. The motto »better performance, greater economy, new design« applies to the new LEXION 500 class and this is the future generation which we intend to continue optimizing in 2005. The combine harvester MEGA, sold almost exclusively in the Eastern European market and in Russia, is experiencing a comeback. The better-equipped MEGA bridges the gap between the LEXION and the MEDION. The new AGRO COMBINE Online system allows the operations manager to visualize the entire harvest process on the farm computer. The SPEEDSTAR and PROFISTAR models from the new JAGUAR generation are distinguished by different top speeds of 40 km/h and 25 km/h. The models' pulling power has been increased by 12% due to the use of new engines. The self-propelled mower COUGAR has been developed from scratch for customers in the high-performance segment, mowing more than 2,500 hectares a year. The new QUADRANT 2100 completes the square baler range in the upper middle category.

Technical breakthroughs characterize the rise of CLAAS as a market leader in agricultural engineering. Our outstanding brand image, differentiating CLAAS from the competition, is based on technological innovation. CLAAS presented the first European pick-up press in 1934, launched the first combine harvester designed for Europe in 1936 and introduced the first self-propelled foragers in 1973. With these achievements, CLAAS effectively enjoyed a first-mover advantage in its industry. Other examples of pioneering activities include the choice of continuous yield measurements during the threshing process, a laser-assisted automatic control system for agricultural machines, and the introduction of the high-performance LEXION combine harvester equipped with a hybrid threshing system. Our young product line, protected by many patents, reflects our tradition as a consistent innovator. Regardless of business cycles, we invest 4% to 5% of sales per year in research and development. This is a high percentage for the industry, but we know that cutting-edge technology is the key to market leadership.

A HIGHLY DIVERSE PRODUCT RANGE

We have customers on every continent. Their operations vary in size, they work in differing weather conditions, they plant and harvest a variety of agricultural products. Satisfying our customers is our main objective. The CLAAS product range, sales and service are all directed towards this goal, the basis of our success.

An integral approach to farm work is the foundation of our product strategy. Our agricultural machines complement each other, acting as components in economically and ecologically sound production systems. Combining expertise in crop cultivation with professionalism in the design and calibration of machinery, we employ knowledge management and command of the entire process chain to deliver suitable technical solutions for our customers' needs.

The CLAAS product range is broad and tailored to the specific needs and demands of farmers. Our core products are combine harvesters, tractors and foragers. In our combine harvester program we offer the four product groups, LEXION, MEDION, MEGA, and DOMINATOR. A broad selection of headers and other accessories are available for task performance. The LEXION 580 is the world's top performance combine harvester supplying on average 70 tons of wheat per hour. At our Omaha plant, we manufacture the LEXION combine harvester for the American market under the brand name CAT and sell the machines using the dealer network of our cooperation partner, Caterpillar. CLAAS India produces the CROP TIGER in crawler-mounted or wheel version that is designed for use in both rice harvesting in Southern India and grain harvesting in Northern India.

Our forage harvesters chop green fodder and corn, and perform key preliminary tasks for large-scale cattle farming and dairy production. The protein-rich green fodder is stored and used as silage for animal feed. We offer the JAGUAR forager line in five different models. The 20,000th machine rolled off the assembly line during the year under review. Harvesting 170 tons of grass an hour, the JAGUAR 900 holds the world record for performance.

Pressed straw and hay are gaining significance in agriculture worldwide as a separate trading product. In response to this, we have developed concentrated baler production at the French plant in Metz. Our range includes the QUADRANT, a large square baler, as well as the round baler ROLLANT with a fixed diameter and VARIANT with a variable diameter. Large-scale customers press more than 15,000 round or square bales with their machines each season.

The self-propelled mower COUGAR with a working span of up to 14 meters received the »Machine of the Year 2004« award at Agritechnica, the most important agricultural engineering trade fair in the world held in Hanover, Germany. The COUGAR signifies a trend towards highly efficient large-scale applications in cattle breeding and dairy production. Vegetable-based animal feed has gained much greater recognition among meat producers as a result of the BSE epidemic.

The plant in Bad Saulgau specializes in green harvest machinery used principally for grass harvesting. The program contains 26 different models of drawn CORTO and DISCO mowers, 6 VOLTO reverse-drive models and 11 LINER swathe models. The QUANTUM load carriage has a volume of up to 34 cbm.

INTRODUCING GREEN TRACTORS

Our acquisition of RENAULT Agriculture added tractors, a key product in the agricultural machinery market, to our portfolio. We offer tractors in power classes ranging from 50 to 335 hp. CELTIS, the standard tractor available in four power classes, is particularly well suited to mixed and grassland operation. Special tractors for the grape and fruit harvest are marketed under the brand name NECTIS. Our top category is the ARES tractor, available in 9 models. The ATLES line is tailored to suit contractors requiring tractors with power exceeding 200 hp. The tractor range is completed by the multi-functional system vehicle XERION, developed by CLAAS and manufactured in Harsewinkel. A variety of additions and accessories makes the XERION a pivotal machine for agricultural operations and positions it in the top end of the market. In addition to its enormous flexibility, four-wheel drive on equal-sized wheels increases pulling power and considerably reduces soil compaction.

»GROWING TOGETHER« IN PRODUCTION

Companies with true global competence do not simply sell domestically manufactured machinery through foreign sales and service offices, but integrate local value creation to better understand and respond to local market requirements. As part of our growth-oriented production strategy, we channel local capacities and expertise into a global production network to take advantage of the worldwide capabilities of the CLAAS Group. We have invested heavily in product development, as well as in production and logistics chains and Internet-based purchasing systems over the past two fiscal years. Today, a significantly reduced number of suppliers provide us with complete components and modules ready for assembly. We select our suppliers according to strict criteria including technical complexity, value, logistics costs, and supplier competence. We have retrofitted the parent plant in Harsewinkel, making it the leading plant within our global production network. At Harsewinkel, we produce combine harvesters and foragers as well as agricultural engineering components. Restructuring of the plants in Harsewinkel, Bad Saulgau and Törökszentmiklos has been completed. Green harvest machinery and balers manufactured in Bad Saulgau and Metz demonstrate our expertise in green harvesting. The Törökszentmiklos plant contributes significantly to our performance by providing headers for combine harvesters and complete assembly of all drum mowers.

CONSISTENT FOCUS ON THE CUSTOMER

The farmer who chooses CLAAS assesses and analyzes our reliability, our economic condition, our business policy and our future capabilities. Our market presence is strictly customer-oriented. Innovative strength and high-quality service are part of our corporate culture. CLAAS is aware of its customers’ wishes and corresponds to their perceptions of technology, quality and service. The sales and service factor is particularly significant due to the unique qualities of farming. Harvesting periods are getting shorter and are dependent on weather and the time of day. Equipment must be robust and provide high performance come rain or shine. A halt in any single work process in land cultivation has serious consequences for the entire harvest. Our customers rely on rapid service and spare parts replacement.

CLAAS has a dense network of service centers and spare parts warehouses in markets with a high machine population. During the harvesting season, any part can be delivered to any point in Germany in a matter of hours and within 24 hours in Europe. The spare parts center in Hamm-Uentrop, Germany is the central point for our worldwide spare parts sales. CS (CLAAS-Stute) Parts Logistics, jointly operated by CLAAS and the logistics specialists Stute-Verkehrs GmbH (part of the Kühne & Nagel group), is responsible for the warehousing, order entry and dispatch of more than 100,000 parts and components for the German and international CLAAS network.

A COMPREHENSIVE APPROACH TO FINANCING

Our customers expect a service package broader than the mere equipment purchase. Financial services, for instance, play a key role in the purchase decision. CLAAS uses customer financing as a strategic tool to promote sales and intensify customer relations. In addition to traditional loan financing, we offer our customers solutions such as leasing and rental programs in order to help reduce acquisition and maintenance costs. Customer financing is transacted via financing companies under the CLAAS name in key markets. In cooperation with BNP Paribas Lease Group, we operate CLAAS Financial Services (CFS), which allows us to conduct banking business in the EU while the structure of the cooperation ensures that risk is borne by the banking partner. CFS is now offering its services to tractor customers as well. In the case of developing countries and emerging markets with less solid credit markets, we cooperate with export credit insurers, private risk-takers and supranational organizations.

OPENING UP OPPORTUNITIES IN PRE-OWNED MACHINERY

CLAAS is the market leader for used machinery in Western Europe. We were the first manufacturer to define the used machine market as an autonomous business field. Traditionally it is the dealers who handle this business. We are able to reach a broader customer group via this market segment and are selectively opening up attractive opportunities for augmenting the machine population in emerging markets. Sales have more than doubled in the last few years based on a network of used machine centers in Western Europe. Building on our rewarding experience with used harvesting machines, we have established a center for tractors using the same concept at the Langenau site. Approximately 10,000 new and almost 30,000 used tractors are sold every year in the region.

CLAAS IS MORE THAN AGRICULTURE

With our subsidiary, CLAAS Production Engineering GmbH (CFT), we are in a position to leverage available know-how in mechanical engineering and develop related business areas. The original basis of CFT as a specialist in complex manufacturing facilities for the automotive industry has been strengthened by the 100% acquisition of Brötje Automation GmbH from the British Baxi Group. Brötje is the world leader in assembly cells for aircraft fuselages and wing parts. Brötje's customer list reads like the »Who's Who« of the international aircraft industry and its suppliers. Nowadays almost all airplanes are assembled using Brötje's special riveting technique. The core competences of CFT and Brötje complement each other. Lightweight construction, which is characteristic of aviation and involves linking aluminum with carbon-fiber reinforced plastic, is also finding its way into the automobile industry. The technology bridge between CFT and Brötje Automation will extend to CLAAS agricultural engineering in future.

CLAAS Industrietechnik GmbH (CIT) is our system supplier for drive technology and hydraulics. In these areas CIT is an important supplier for the product companies of the CLAAS Group. Purchasing decisions within the Group have been consistently taken according to technological and pricing perspectives for years. CIT has successfully asserted itself in this internal business. Components are sent not only to companies of the CLAAS Group, but also increasingly to external customers, including our competitors in agricultural engineering. CIT has expanded its business with external customers continuously over the past few years and successfully established itself in the market as a systems partner. Today CIT technology is proving itself with power shift gears for extreme all-terrain vehicles, with hydraulic valves that regulate the strongest engines in the world, gear-boxes for small airplanes or track beds for high-speed trains. Over the long-term, CIT wants to tap significant growth potential with sophisticated drive systems, hydraulics systems and electronics systems.

- A global work force
- Successful cooperation
- A flexible and committed employer
- In search of excellence
- Responsibility begins at home

External growth does not simply mean adding more markets, brands or people. It is really a question of successful integration. We want to combine the strengths of different cultures in order to create added value.

A unique spirit of partnership

GROWING TOGETHER

CLAAS is one of the major employers among medium-sized German companies. Our skilled employees demonstrate strong commitment and a passion for developing, producing, selling and servicing our high-tech agricultural equipment in the global markets. They are creative, highly motivated and accepting of other cultures. We search for suitable employees around the world, train them in-house and integrate them thoroughly.

Companies are only as good as the people working in them and their ability to apply what they have learned. Our employees actively drive innovation and change. We asked a lot from them in this regard over the past fiscal year, as our financial »fitness« program focused on a faster pace, changing old habits, perseverance, and the courage to try something new. Their loyalty and commitment to CLAAS have enabled us to stay on course, even in difficult times.

A GLOBAL WORK FORCE

Our employees will be committed if they are content in their working environment. That is why we make sure CLAAS is perceived as an attractive employer. Our corporate culture is founded on credibility, loyalty and trust. We nurture a spirit of open communication marked by honesty and information that becomes visible in our open door policy. The unique spirit of partnership between management and employees is a long-standing tradition at CLAAS. Helmut Claas, as Managing Partner responsible for the operating business for many years and presently Chairman of the Shareholders' Committee and the Supervisory Board, along with other family members, always had an open ear for the needs of the employees. After all, they spend a large part of their time working for the company. At CLAAS, this time is never wasted because it is invested in creativity, mutual understanding and reliability. We encourage our employees to take the initiative to develop their particular strengths. If people were afraid to ask questions, minor problems could become major issues. We meet both during and after work to celebrate success, solve problems and understand strategic decisions. And we take notice of our employees' achievements, awarding them distinctions for success and honoring them on service anniversaries.

Although our employees are based throughout the world, they all share our corporate culture. We encourage our employees to cooperate freely throughout all levels of hierarchy. After all, everybody in the Company is working towards the same goal. Of course, a global work force is characterized by varying cultures, religions, languages, attitudes, climates and time zones. Mentalities in Asia, America and Europe may also differ. As we are becoming a global player in a highly diverse market, we ensure consistent integration management today in order to achieve success tomorrow.

SUCCESSFUL COOPERATION

The integration of RENAULT Agriculture, our largest acquisition to date, is of particular interest. Integrating this acquisition, which adds tractors as a new core product group, requires patience. Everybody involved has to assist in maintaining momentum. We have introduced numerous steps and measures in the past few months in order to make the integration process more transparent and ensure successful results. Seminars, workshops and interdepartmental working groups were set up in Harsewinkel, Germany and in Vélizy and Le Mans, France, discussing aspects of »Successful cooperation between French and German colleagues.« In addition to providing insights into general cultural values as well as company structures and attitudes, the main purpose was to raise awareness of cultural differences among employees. We are pleased to see that employees of both CLAAS and RENAULT Agriculture prove to be open-minded and accepting of change. There are plans to continue these seminars and working groups. In addition, we provide employees with brochures summarizing seminar contents and providing specific tips and suggestions regarding communication, conflict management, organization and the conduct of meetings. We keep our staff informed of the integration process in English, French and German in our newsletter, »upd@te.«

A FLEXIBLE AND COMMITTED EMPLOYER

Given the favorable outlook for agricultural engineering, jobs in this area of industry are particularly secure. We take into account the needs of our employees. Flexible working hour models in the companies of the CLAAS Group permit them to easily combine work, family and leisure. For instance, there are more than 25 different time models available for production employees in Harsewinkel. Remuneration is fair and we make use of available options for incentive models for employees who are exempt from collectively negotiated salaries.

Comprehensive training and social contributions are key to our ability to recruit and retain loyal employees. We spent € 3.1 million on personnel development in the period under review; this corresponds to 0.7% of total personnel expenses. Our training rate is well above the industry average. Last fiscal year, this percentage was increased to 7.7% in German plants and 5.4% worldwide. In Germany, we trained 333 young people in 20 commercial and technical professions in the past fiscal year. 93 of them completed their training and those who chose not to participate in further training have found positions with CLAAS.

IN SEARCH OF EXCELLENCE

Our capacity for courageous change and innovation is derived from the principle of our partner Helmut Claas: »If you want to stay ahead, keep running.« In an increasingly difficult business environment, we must quickly and efficiently respond to the demands of the market and to our own needs. We have instituted a financial »fitness« program throughout the Group to increase efficiency among CLAAS employees throughout the value creation chain. We comprehensively apply the program to Research and Development, Purchasing, Sales, Production, Service and Administration and have implemented the necessary project structures throughout all subsidiaries and functions of the Group. The first phase of the program began in 2003 and has now been successfully completed. We intend to address the issue of efficiency and quality of our business processes even more thoroughly in a second phase, in order to improve costs on a sustainable basis.

The professional demands we place on ourselves are the same criteria we apply in the selection of new employees. They include quality, professionalism, team spirit, decisiveness and confidence. We are always on the lookout for the best. Our systematically promoted in-house candidates fill more than 70% of our vacancies. We have used an international trainee program for university graduates for the past 17 years. Constantly adapted to our needs, this program allows trainees to spend 12 to 18 months in various important Company locations in Germany and abroad. We organize courses and seminars to promote theoretical, practical and social skills, foreign language training, and leadership. We are forerunners in a dual training system e.g. combining practical training with studies at the Professional Academy in Stuttgart and the Technical Business College in Paderborn.

MANAGING KNOWLEDGE

Knowledge is constantly growing in our rapidly changing, networked world, while the shelf life of knowledge becomes ever shorter. The future of our Company hinges on our ability to continuously generate new knowledge. We have combined the objectives of professional and technical education and knowledge transfer in CLAAS ACADEMY, an international educational institution that is open to our staff and sales partners. We supply our technical staff with a broad range of product and service knowledge and assist our marketing and sales staff with arguments for our machines and systems.

Information technology and the specially created e-business at CLAAS provide new opportunities in knowledge management. E-business covers communication, information management and transactions with CLAAS partners. While we essentially manage internal business processes with the SAP R/3 system, e-business opens the company's gates to our business partners. Certain business processes may in future be performed by partners such as suppliers or dealers, sometimes exclusively. Examples include the supplier portal CLIP and the spare parts ordering process for dealers, www.claas-parts.com. We are currently developing an internal information portal as a first step towards knowledge management. The aim is to transform unstructured, scattered individual knowledge into intelligent and accessible company knowledge.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

CLAAS remains actively committed to the protection of the environment and is aware of its social responsibility. We develop and manufacture machines that satisfy both economic and ecological requirements of land cultivation so that people can be provided with sufficient and healthy food today and in the future. Our employees are actively encouraged to perform their tasks in a manner that is socially and environmentally responsible. In our relations with environmental and social interest groups, we endeavor to act as a dependable partner. Our corporate responsibility extends throughout the process chain.

Agriculture depends on healthy, fertile land. The rising global demand for agricultural produce will soon create a shortage of arable land, so fertile soil needs to be cautiously preserved. To keep up with rising demand, more efficient cultivation methods are required that are based on high-performance agricultural machinery and tractors. CLAAS is committed to the protection of soil and develops vehicles that minimize soil compaction. For this reason, we take an interest in tire technology and equip many of our machines with soil-conserving rubber crawler tracks. Specially developed machines focus on environmentally sound methods of harvesting rice and corn. To optimize the use of seeds, fertilizer and crop protection materials, we increasingly employ electronic solutions.

RESPONSIBILITY BEGINS AT HOME

We are an active partner in the Bielefeld Chamber of Trade and Commerce initiative, »Business and education in cooperation.« We have committed ourselves to encouraging cooperation between companies and schools by way of an agreement with the local high school in Harsewinkel. The intention is to promote mutual understanding and to assist students in their career choice.

Our social responsibility not only extends to young people's career choices, but also to our employees and retired former employees. Many of our retirees still take an active interest in the Company. The CLAAS pensioners' club boasts nearly 900 members and offers a variety of activities, including organized visits to the various CLAAS sites.

CLAAS is also actively involved in local charities. Over the last 5 years, CLAAS collected donations of more than € 50,000 on the occasion of its annual senior management meeting.

PROMOTING AGRICULTURAL ISSUES: THE CLAAS FOUNDATION

In response to the growing significance of agricultural engineering and associated sciences, the CLAAS foundation, established in 1999, has taken on the task of promoting awareness of issues and future developments in agriculture and agricultural engineering. Its proceeds are employed to support training and continuing education events and to honor outstanding accomplishments such as dissertations and research studies in Agricultural Technology, Engineering and Business Studies. In the year under review, the CLAAS foundation awarded 10 Helmut Claas scholarships. The first three prizes have been awarded to students at the Technical University Bergakademie Freiberg, Germany, Harper Adams University, UK, and the University of Stuttgart-Hohenheim, Germany.

Although CLAAS today is a global enterprise, we have developed from a strong local base in Westphalia. We look back on a long tradition in Harsewinkel and remain as committed to our production sites here as in other parts of the world. At CLAAS, we care about social responsibility. We train young people, create jobs, invest in new capacity, pay taxes and are active as benefactors and patrons. CLAAS keeps up a constant dialogue with the general public and responds to changes in society. This dialogue is a core component of our Company's strength. Because we know that the only thing that is constant, is change.



- Innovative financing
- A reputation for creativity
- A »perpetual« security
- An ideal environment for value-oriented management
- Open financial communication

CLAAS pursues an open communications policy, maintaining a constant dialogue with our financing partners and stakeholders. Our annual finance meeting is specifically geared to the requirements of banks, investors and analysts, and explains the strategy and long-term growth opportunities of CLAAS.

Inspiring confidence through reliability and openness

INNOVATIVE FINANCING

At CLAAS, corporate financing is a key issue of our growth strategy. With diverse sources of financing and numerous credit commitments, we aim to combine limited net debt with high liquidity and the ability to refinance. Our key financial figures are calculated conservatively, and we consider CLAAS to be »investment grade.« With our diverse and international approach to financing and the focus on extending liabilities' duration, we have set the trend among medium-sized companies operating on a global level.

A REPUTATION FOR CREATIVITY

The primary objective of our financing strategy is to maintain our independence as a private company. In terms of finance, we resemble a corporation and are considered a benchmark for medium-sized enterprises. In addition to traditional bank financing, we also selectively tap the international capital markets. CLAAS is a medium-sized company that competes primarily with large US corporations, and depends on bilateral financing, but we do not have the critical mass to consistently utilize the capital markets. We aim to increase the liquidity potential of our securities with our particularly innovative approach to financial instruments. This also serves to increase recognition of the CLAAS name – an increasingly important factor for capital market transactions.

When assessing investment decisions, international investors look for a history of consistent corporate valuation. Lack of appropriate credit assessments by the capital markets nearly always leads to significant risk premiums. Investor confidence in CLAAS is based on the professional management of our debt position and on our treasury, which is organized as an inhouse bank for all Group companies. Our reputation for innovative financing acts has an added benefit: We enjoy lower financing costs even if we are not permanently active in the capital markets.

A »PERPETUAL« SECURITY

We have continued to pursue our innovative capital market policy by issuing a subordinated bond with unlimited maturity in the volume of over € 80 million in the fall of 2004. This perpetual bond will set the trend on the German capital market because it is a financing instrument that significantly helps to close the »equity gap« typically experienced by German medium-sized companies. According to stringent IAS/IFRS and US GAAP guidelines, a perpetual bond is classified as equity if it meets certain requirements, including infinite term, share in losses, subordination and the absence of payment obligations arising from the bond on the part of the issuer. Our development of this unique financing instrument highlights our pioneering role in financing solutions for medium-sized companies.

CLAAS has a long-standing strategy of supplementing internal financing of growth with external financing commitments. In addition to traditional bank credit lines, the Group's financial resources have been strengthened with a syndicated loan of € 100 million and a euro bond of € 100 million. Furthermore, in December 2002 we continued to diversify our financing base with a private bond placement of $ 200 million in the US and we successfully extended our liability duration.

The syndicated loan, essentially a back-up credit line, becomes due in November 2004. The European Asset-Backed Securities (ABS) program implemented by a special-purpose company has a similar function; we have access to a maximum of € 114 million. Both facilities are to be renewed in fiscal 2005. With the issue of the subordinated perpetual bond, we have already ensured a relevant amount of financing as a follow-up to the syndicated loan.

AN IDEAL ENVIRONMENT FOR VALUE-ORIENTED MANAGEMENT

As part of our long-term growth strategy, our innovative financing approaches are geared to the requirements of the capital markets and are perfectly linked to our shareholder structure, which is representative of a medium-sized German family company. The stability of the CLAAS family business, characterized by a philosophy that spans generations, and owners who are deeply committed to the Company's goals and values, together with our diversified financing approach represents the ideal environment for our value-oriented management. We take advantage of the organized and structured debt markets to finance long-term projects and reduce financing costs, but are not dependent on quarterly results to assess the implementation and success of our strategy vis-à-vis our shareholders. Value-oriented management with the key indicators of cash flow, capital expenditure and cost of capital forms the link between day-to-day operations and the requirements of the capital markets in their evaluation of CLAAS.

OPEN FINANCIAL COMMUNICATION

For years, our financing policy has advocated broad and open financial communication with all of our stakeholders. We regularly provide information on important results and our business development to customers, financial partners, investors and interested members of the public. We satisfy the demands of the capital markets with regard to transparency and comparability by publishing our consolidated financial statements. Since 2001, these have been prepared in accordance with US GAAP. Our annual financial press conference serves to further explain our annual report, now in its 28th year. An additional session addresses the information requirements of banks and investors.

We voluntarily follow essential points of international corporate governance as stipulated in the German Corporate Governance Code, although the code is not mandatory for us as a family business. Our financial reporting meets the highest international standards. In the near future, as a company with an orientation towards the capital markets, we plan to change our accounting to the international accounting standards of IAS/IFRS.

EMPLOYEE PARTICIPATION PROGRAM

We have organized an internal capital market with the silent participation of employees in the Company. The traditionally high percentage (currently 62%) of all entitled employees that have become silent shareholders signals their strong commitment to CLAAS. Of these employees, more than 300 have invested over € 10,000 in the CLAAS employee participation program. The program has a share capital of € 17 million. In the period under review, a dividend of € 2.5 million was paid to the silent shareholders.

Growing together

MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH US GAAP

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Management Report of the CLAAS Group

INDUSTRY DEVELOPMENT IN FISCAL 2004

The agricultural engineering markets of Western Europe developed differently in 2004. Earnings in the agricultural sector varied not only according to region, but also to type of operation. Milk prices, in particular, remained at a low level.

Despite difficult market conditions, the important markets of France and the UK developed positively. In France, the largest European market, capital spending remained stable on the whole. Sales of tractors and other agricultural machinery significantly exceeded the level of the previous year.

In the UK, the market continued the growth trend of the past few years. Compared to other European countries, British farms have largely completed the necessary structural transformation. As a result, they have become more professional and are now in a position to invest in necessary equipment. Earnings in the British agricultural sector increased 20% during 2003, compared to a decline of approx. 15% in Germany.

Lower levels of income in Germany led to noticeable capital spending restraint again in 2004. Compared to the previous year, the German market declined by up to 6%. A slight improvement was visible only in the tractor market. Italy and Spain remained largely stable.

The Central European markets fell significantly in 2004, declining as much as 20%, primarily as a result of uncertainties regarding the effects of the expansion of the European Union and the associated structural changes in the accession countries, together with the effects of an extremely poor harvest in the previous year.

The CIS countries, particularly Russia and the Ukraine, have for the most part enjoyed a good harvest in 2004. Consequently, Eastern European markets were stable and even exceeded expectations in some areas. The region is proving to be increasingly receptive to tractors and combine harvesters with Western technology. Only sales of foragers decreased as a result of lower meat and dairy prices.

In North America, earnings in the agricultural sector reached record heights in 2004. Compared to the previous year, farm income rose by approx. 3% to $ 241 billion. The North American market shows considerable strength and is expected to have grown by approx. 15% in 2004.

South America's two largest markets were characterized by sustained growth in 2004. While market development slowed in Brazil in the second half, the Argentinian market continued its strong growth throughout the year.

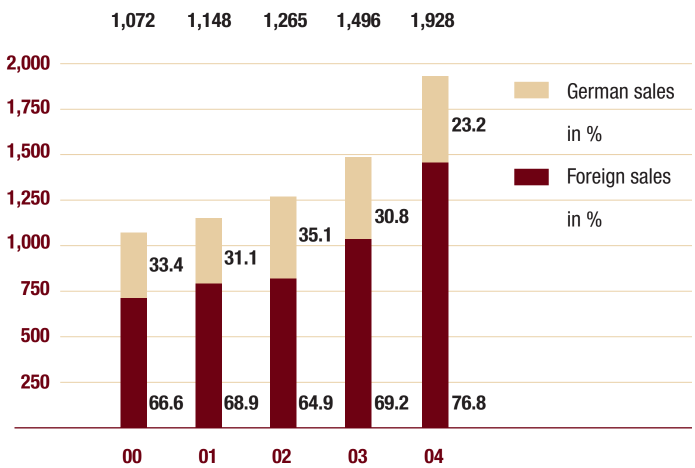
Conditions in the Indian market remained difficult. The agricultural sector grew at a rate of only 1%. Earnings development was unsatisfactory and the willingness to invest was restrained.

SALES DEVELOPMENT

TRACTOR BUSINESS DRIVES GROWTH AND INCREASED INTERNATIONALIZATION

The CLAAS Group achieved an increase in sales of 28.9% to € 1,928.4 million in fiscal 2004. Sales development varied according to segment and region. In the Agricultural Engineering segment, sales rose 32.5% to € 1,776.1 million, with the tractor business, consolidated for the first full year in fiscal 2004, contributing the largest share. Harvesting machinery also showed growth, after a decline in the previous year. As a result of the complete integration of RENAULT Agriculture in fiscal 2004, the CLAAS Group has become even more international. The majority of our tractors are sold outside of Germany, and foreign sales now account for more than three quarters of total Group sales.

Sales in € million



Sales in the Production Engineering segment decreased slightly due to a significant downturn in the German tool-making industry. Third-party sales in the Industrial Engineering segment maintained at the level of the previous year.

CLAAS successfully asserted its position in Europe. Despite the difficult environment characterized by harvest-related declines in farm income and a decrease in grain prices which began in the spring 2004, the Company has gained market shares in all key markets.

In Western Europe, which continues to be the most important agricultural engineering market for CLAAS, sales in the Agricultural Engineering segment surged 37.5% to € 1,408.8 million, primarily as a result of the first full-year consolidation of the tractor business. Excluding the EU accession countries, sales growth in the EU was 38.0%.

In Germany, sales in the Agricultural Engineering segment increased 1.1% against a persistent strong downward trend in the market. Earnings in the German agricultural sector have been declining since 2001. Combined with the negative sentiment among German dairy farmers, this trend caused noticeable restraint in capital spending. In addition, contractors faced the problem of excess machine capacity. Sales in the combine harvester market alone were 15% below the level of the previous year. By contrast, the tractor business recorded positive growth in 2004. Sales of over 1,000 tractors offset the sales decline in harvesting machinery, and enabled a moderate sales growth in the Agricultural Engineering segment to be recorded. CLAAS tripled its sales in the German tractor market compared to the previous year.

In the United Kingdom and France, sales in the Agricultural Engineering segment continued the strong growth trend of the previous years. CLAAS benefited from a market recovery in the UK and achieved significant sales growth of 21.6%. In France, a stable, and the largest, European market for CLAAS sales almost doubled in 2004 due to the integration of RENAULT Agriculture and the expansion of market share in harvesting machinery, which climbed more than 25.0%. In the remaining EU-15 countries, growth in the Agricultural Engineering segment varied; declines in Scandinavia were offset by increases in Austria, Spain and Greece.

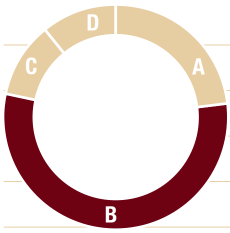
As expected, the important markets of Central Europe experienced a slowdown in fiscal 2004. For the year as a whole, this decline is estimated at approx. 20%. Partly as a result of the compensating effects of the integration of RENAULT Agriculture, CLAAS was able to limit the decline in agricultural machinery sales in virtually all Central European countries to approx. 10%.

In Eastern Europe, expectations were to some extent surpassed with significant sales increases in most countries. The CIS countries, especially Russia and Ukraine, showed stable market conditions. Only in Belarus did sales recede again due to customs barriers implemented in the previous year. On the whole, CLAAS expanded sales in Eastern Europe by 25.9%.

Outside of Europe, agricultural engineering sales surged by 31%. In the US, our largest non-European market, demand for agricultural equipment in fiscal 2004 slightly exceeded the previous year's level. Our two US companies, CLAAS of America and CLAAS Omaha, improved sales by 12.9% in local currency. Due to the rise of the Euro against the US Dollar in 2004, this translated into a sales increase of just 4.1% in Euro terms. In Argentina, one of the largest grain and soy exporters in the world, CLAAS benefited disproportionately from local growth, doubling market share and sales – albeit on a low level.

The consolidation of RENAULT Agriculture for the first full year in 2004, coupled with comparatively low growth in Germany and positive developments in export markets, have raised the share of foreign sales in the Agricultural Engineering segment from 74.2% to 80.3%. In 2004, CLAAS generated 76.8% of total Group sales abroad (previous year: 69.2%).

SALES BY REGION in € million



A	**447.6**	**(-3.0%)**	Germany
B	**1,066.5**	**(+55.5%)**	EU* excluding Germany
C	**207.6**	**(+10.5%)**	Rest of Europe
D	**206.7**	**(+28.3%)**	Other countries

*EU-15

TRACTORS NOW SECOND STRONGEST PRODUCT GROUP IN AGRICULTURAL ENGINEERING SEGMENT – SPARE PARTS AND USED MACHINERY BUSINESS EXPANDED

The various product groups in the harvesting machinery business developed differently in 2004. Despite some significant declines in individual markets, CLAAS managed to achieve a slight rise in sales of its main product, combine harvesters. Sales declines in Germany and Central Europe were offset by increases in Eastern and Western Europe. Foragers and green harvesting machinery lost approx. 5% of sales. Sales of foragers were particularly affected by the difficult market situation in Central Europe, but also decreased in Eastern Europe, while sales of green harvesting machinery were impacted by the problems facing dairy farmers in Western Europe. Baler sales remained just under the level of the previous year. In a shrinking total market this means that CLAAS gained market share.

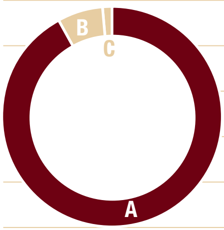
The integration of tractors into the CLAAS product range extended the agricultural machinery business and strategically strengthened the entire product portfolio. Tractors represent a significant product group in the year under review, second only to combine harvesters. In contrast to the previous fiscal year, the full year of tractor sales was consolidated in 2004. In 2003, only sales from May to September had been consolidated, because RENAULT Agriculture joined CLAAS in May. The objectives for the tractor business for 2004 were fully achieved. The CLAAS brand name adds momentum to the sales of tractors. CLAAS immediately reached sixth place in terms of new registrations of tractors in Germany with sales of over 1,000 tractors. In France, where RENAULT tractors have traditionally held a strong position, CLAAS tractors are now sold, considerably strengthening the market presence and brand awareness of CLAAS.

Strong growth was also recorded in our spare parts business, primarily as a result of the full-year consolidation of RENAULT Agriculture. In addition, sales of spare parts for harvesting machinery significantly increased in Central and Eastern Europe. Rising imports of used Western agricultural equipment is generating an increased demand for spare parts in those regions. For CLAAS sales companies, the used equipment business is becoming increasingly important, as our customers see us as a comprehensive supplier throughout the product life cycle. Used equipment sales in the CLAAS Group rose by over 50% in the year under review, with two thirds of this increase resulting from the integration of RENAULT Agriculture. The business expansion in used harvesting machinery benefited primarily our UK sales company and our German sales company, which handles used machinery sales for Central and Eastern European countries.

The Production Engineering segment achieved sales of € 128.3 million, slightly below the level of the previous year. The CLAAS Production Engineering company, located in Beelen, proved successful in the highly competitive German tool-making industry which was characterized by significant decreases in both demand and prices in 2004, but which has recently begun to stabilize. Brötje Automation, Wiefelstede, increased sales by over 5%.

The Industrial Engineering segment recorded third-party sales of € 24.0 million, unchanged from the previous year, from its core business of drive technology and hydraulics.

SALES BY SEGMENT in € million



A	1,776.1	(+32.5%)	Agricultural Engineering
B	128.3	(-2.7%)	Production Engineering
C	24.0	(-0.5%)	Industrial Engineering

EARNINGS DEVELOPMENT

SUBSTANTIAL EARNINGS IMPROVEMENTS

The gross profit on sales rose by € 78.5 million to € 481.8 million in fiscal 2004, primarily as a result of the first full-year consolidation of RENAULT Agriculture in 2004 (previous year: 5 months) and the extremely successful launch of CLAAS tractors in Europe. Due to the fact that margins are lower in the tractor business than in harvesting machinery, the proportional increase in total gross margin is lower than the proportional increase in sales.

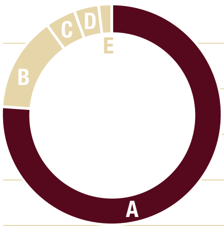
Substantial improvements in gross profit, however, were achieved in harvesting machinery, where higher profitability resulted from new products launched in 2004, which benefit from more efficient production processes. These new products significantly enhance the advantage to our customers and reinforce our position as technology leader and premium supplier. Cost reductions and greater flexibility in cost structures implemented in production in connection with our financial »fitness« program over the past fiscal year have also contributed to an improvement in earnings. The rise in steel prices, shrinking profits in the Production Engineering and Industrial Engineering segments, and negative foreign exchange influences have been compensated.

The financial »fitness« program also contributed to a rise in operating income. While gross profits rose by 19.5%, operating income surged 39.5% to € 63.1 million, mainly as a result of improvements in expense structures and additional efficiency gains in Sales and Administration. Research and Development continues to actively focus on agricultural engineering, particularly tractors. Efficiency improvements in projects under consistent development standards have positively impacted the cost structure. Research and development expense has risen by 8.0% to € 72.6 million compared to the previous year.

In India, our 2004 profit objectives for CLAAS India will have to be postponed as a result of unfavorable weather conditions and related income shortfalls in the past few years in the Indian agricultural sector. Economical and agricultural policy conditions are generally sound in India, and we expect the reorganization of our Indian activities to bear fruit in time. Any discernable risks are taken into account by means of a valuation allowance included in other operating income.

The very successful integration of RENAULT Agriculture into the CLAAS Group has been a compensating factor for other operating income in the past year. Integration expenses in fiscal 2004 were significantly below the level of the previous year.

EXPENSE STRUCTURE in % of total operating expenses



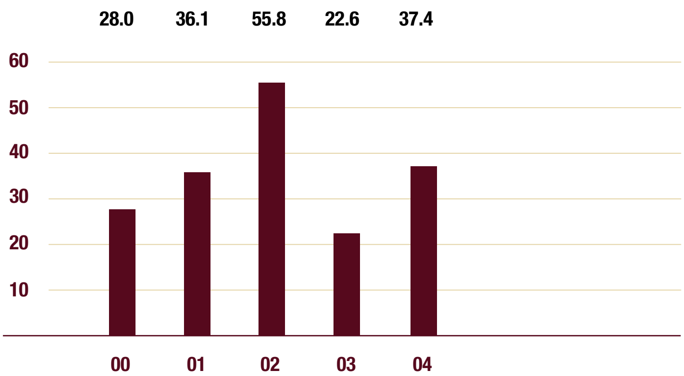
A	76.4	(73.7)	Cost of goods sold
B	13.9	(14.8)	Selling expenses
C	4.3	(5.0)	General and administrative expenses
D	3.8	(4.5)	Research and development expenses
E	1.6	(2.0)	Other operating expenses

Income from investments includes all profit and loss contributions of equity investments not fully consolidated; primarily income from the sales financing companies CLAAS Financial Services and CLAAS Valtra Finance, as well as income from CLAAS GUSS. This item also includes the adjustment for the investment in International Tractors, India, which primarily reflects exchange rate changes since the time of acquisition.

The financial result improved by approx. € 1 million to a loss of € 24.3 million in the year under review. Income from interest and securities decreased by € 5.6 million compared to the previous year. The main reason is a decrease in interest income of € 3.4 million due to lower interest rates and a lower average investment volume as a result of acquisitions. The Group's basic financing is represented by a fixed-income bond in the volume of € 100 million from 1999 and a bond in the amount of $ 200 million privately placed in the US at the end of 2002. Since the US private placement was taken into account for the first full year in 2004, interest expense was approx. € 2 million above that of the previous year.

Other financial income, in contrast to income from interest and securities, rose significantly by approx. € 6.5 million, mainly as a result of timely hedging of the open foreign exchange positions during the fiscal year.

PROFIT FROM ORDINARY ACTIVITIES in € million



Profit from ordinary activities, which is equal to income before taxes, rose 65.5% from € 22.6 million to € 37.4 million as a result of the effects described above.

The Group's net income rose from € 17.9 million to € 21.5 million. After a disproportionately low income tax charge in the previous year, the tax rate for the year under review is 38.3%.

CAPITAL EXPENDITURE IN FISCAL 2004

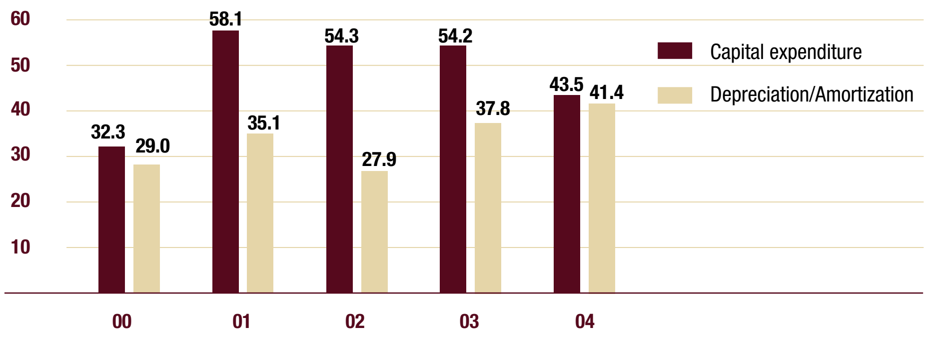
Total capital expenditure in fiscal 2004, at € 60 million, was below the record levels of the previous year. The high volume in 2003 was determined primarily by the acquisitions of RENAULT Agriculture and Brötje Automation. Investments in property, plant and equipment as well as intangible assets excluding goodwill were lower than in the previous year, returning to the normal level of recent years at € 43.5 million. Investments exceeded depreciation and amortization, as in the previous years.

The largest single investment was the acquisition of the remaining 49% of shares in Brötje Automation in the amount of € 11.7 million. The complete acquisition of Brötje Automation, an established market leader in connection and assembly technology for the aviation industry completes a key strategic step in the diversification of CLAAS Production Engineering.

The main focus of capital expenditure for property, plant and equipment was on measures for the modernization and structural optimization of production sites and processes. The goal is to achieve continued improvements in flexibility, production efficiency and quality. One major investment was in a 3000 tons press design at the Beelen site, which opens up totally new perspectives in the area of high-strength steel for customers in the automobile industry and becomes another milestone in the development of future potential for success. The hytronic competence of CLAAS Industrial Engineering was expanded by the acquisition of the product range of the Hydroment company. In addition, the project SYNPRO 10 was finalized at the Harsewinkel site. Significant funds have been committed to new products and existing models as well as to the expansion of our market presence in key European markets. Capital expenditure is concentrated on the production sites of Harsewinkel and Le Mans.

The regional focus of investment was on Western Europe with over 90% of total volume; at the same time, however, investment activity in Eastern Europe is clearly on the rise. The increase in this region relates in particular to the establishment of the production site in the Russian city of Krasnodar which puts CLAAS in a position to expand its traditionally strong standing in the expanding markets of Eastern Europe and to participate more fully in future in the positive developments of these markets.

CAPITAL EXPENDITURE AND DEPRECIATION/AMORTIZATION in € million



CASH FLOW

CASH FLOW SIGNIFICANTLY IMPROVED

Cash flow, calculated in accordance with DVFA/SG principles, amounted to € 73.8 million, and was € 22.6 million, or 44.1%, above the level of the previous year. The main reason for this improvement is the significant rise in cash flow from operating activities. Due to higher amounts of depreciation and amortization, this improvement will not be fully visible in income in fiscal 2004.

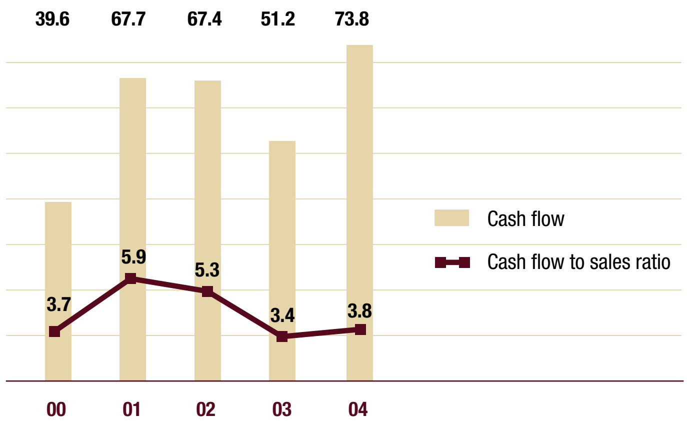
The previous year's consolidated statement of cash flows was strongly influenced by the first-time consolidation of RENAULT Agriculture and Brötje Automation, which impacted cash flow from operating activities. During the year under review, the effects of active working capital management have become apparent, accompanied in particular by a decrease in inventories of € 56.7 million.

Net cash used for investment activities primarily reflects an investment in securities in the amount of € 45.0 million, while payments related to capital expenditure and, above all, for acquisitions remained below the levels of the previous year.

Net cash used for financing activities, at € 59.0 million, mainly relates to the repayment of outstanding participation certificates.

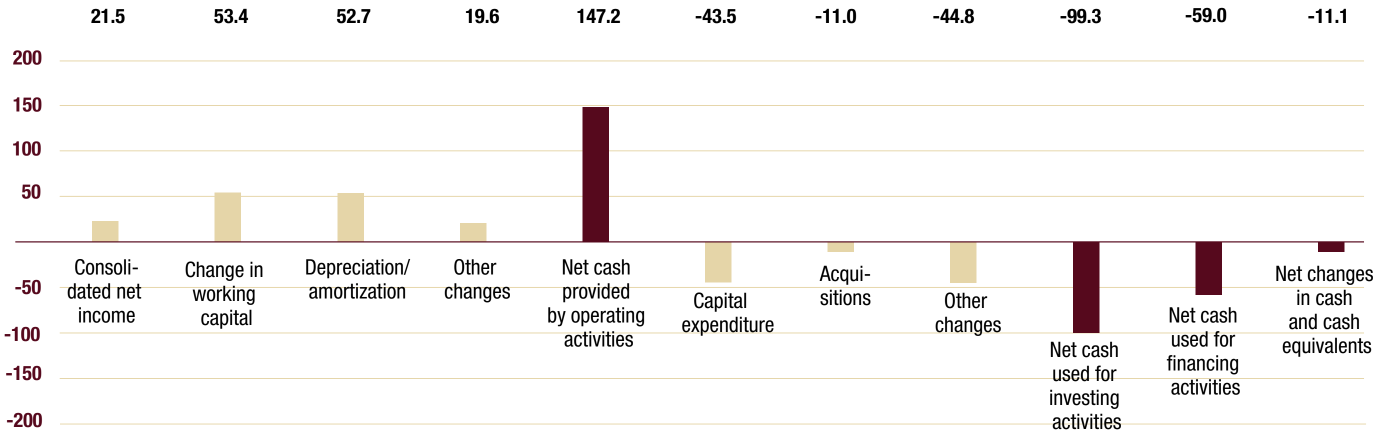
Cash outflows from both investment and financing activities were almost completely financed by cash inflows from operating activities. After repayment of the outstanding participation certificates, cash and cash equivalents decreased by € 11.1 million in fiscal 2004.

CASH FLOW ACCORDING TO DVFA/SG in € million



CONSOLIDATED STATEMENT OF CASH FLOWS	2004 € million	2004 %	2003 € million	2003 %
Cash flow according to DVFA/SG	73.8	33	51.2	22
Net cash provided by/used for operating activities	147.2	66	-3.8	-2
Net cash used for investing activities	-99.3	-45	-84.8	-36
Net cash used for/provided by financing activities	-59.0	-26	155.0	66
Net change in cash and cash equivalents	-11.1	-5	66.4	28
Exchange-rate related changes	–	–	-1.4	–
Cash and cash equivalents at beginning of year	233.2	105	168.2	72
Cash and cash equivalents at end of year	222.1	100	233.2	100

CONSOLIDATED STATEMENT OF CASH FLOWS in € million



LIQUIDITY AND FINANCING

LIQUIDITY AND FINANCING FLUCTUATED OVER THE COURSE OF THE YEAR

Measures to reduce working capital introduced during the fiscal year are reflected in the significantly higher level of available liquidity (cash and cash equivalents plus securities classified as current assets) which increased by € 35.6 million to € 380.4 million. In this connection, it should be noted that the outstanding participation certificates with transfer restrictions from September 1997 were repaid at the end of the fiscal year in the amount of € 40.9 million.

Due to the seasonal nature of the agricultural engineering industry, high liquidity levels manifest themselves at the end of the fiscal year due to the relatively low capital commitments from working capital. In contrast, during the course of the year substantial financing requirements arise in order to fund working capital.

An European Asset-Backed Securities (ABS) program has been in operation since 2000 to reduce liquidity fluctuations; under this program, trade receivables are sold to a special-purpose entity which refinances itself on the capital market.

First-degree liquidity has improved considerably since 2003, the year of acquisitions, rising to 71.5% (previous year: 67.4%). At the same time, second-degree liquidity (ratio of monetary current assets to short-term liabilities) improved from 123.3% to 125.3% as of September 30, 2004.

A considerably higher level of financing commitments was available to the CLAAS Group at the reporting date of September 30, 2004 compared to the previous year. Total commitments rose from € 723.2 million to € 772.9 million. As revealed in the breakdown in the notes, these include a publicly quoted Eurobond of € 100 million with a term of 7 years issued by CLAAS in the international capital markets in the beginning of 1999 and a bond of $ 200 million placed privately with American institutional investors in December 2002. For this bond, a coupon of 5.76%, once again a very favorable interest rate, was fixed for a term of up to 12 years.

Subsequent financing for the € 40.9 million of repaid participation certificates took the form of subordinated securities with unlimited maturity (subordinated perpetual security) amounting to € 80 million issued in October

BALANCE SHEET STRUCTURE	2004 € million	2004 %	2003 € million	2003 %
Fixed assets	374.3	26.9	373.9	26.5
Current assets	1,018.0	73.1	1,038.9	73.5
Assets	**1,392.3**	**100**	**1,412.8**	**100**
Equity	311.6	22.4	292.5	20.7
Funds similar to equity	64.2	4,6	106.3	7.5
Long-term liabilities	484.2	34.8	502.5	35.6
Short-term liabilities*	532.3	38.2	511.5	36.2
Equity and liabilities	**1,392.3**	**100**	**1,412.8**	**100**

** including derivative financial instruments*

2004. This financing meets the requirements for classification as equity under US GAAP and IAS/IFRS. The nominal return is 7.62% and the issue sets new standards in the field of hybrid capital.

NET ASSETS AND FINANCIAL POSITION

ACTIVE ASSET MANAGEMENT, HIGH LIQUIDITY

Changes in the balance sheet structure reflect the expansion of the tractor business, successful working capital management, the first full-year consolidation of RENAULT Agriculture, as well as the acquisition of the remaining shares in Brötje Automation. At € 1,392.3 million, total assets show a reduction of € 20.5 million during the year under review.

Fixed assets rose by € 0.4 million from € 373.9 million to € 374.3 million. Additions totaling € 60.3 million (previous year: € 59.8 million) were partly offset by disposals at a residual carrying amount of € 4.7 million (previous year: € 10.2 million), and depreciation and amortization of € 52.7 million (previous year: € 37.8 million). Additions recognized as intangible assets include € 10.0 million related to goodwill from the acquisition of the remaining shares of Brötje Automation. Property, plant and equipment diminished by € 2.5 million to € 249.8 million. After completion of the plant modernization in Harsewinkel in 2003, property, plant and equipment increased by € 40.2 million. This rise was countered by disposals of residual carrying amounts of € 2.5 million as well as depreciation of € 38.2 million. Factors such as the first full-year consolidation of RENAULT Agriculture and the modernization of production facilities at the Harsewinkel plant caused depreciation to increase by € 3 million. Financial assets were reduced by € 1 million to € 64.8 million compared to the previous year.

Inventories decreased by € 56.7 million or 16.8% from the previous year (€ 337.6 million) to a level of € 280.9 million. This decline is based on higher levels of flexibility in production – once the plant renovation in Harsewinkel had been concluded – coupled with greater market supply, as well as improved and more efficient inventory management.

Trade receivables rose from € 179.9 million to € 197.2 million. Receivables developed differently for the individual sales companies depending on the regional market situation. Taking into consideration the inclusion of tractor sales pro-rated over time from the previous year, the ratio of trade receivables to sales at 10.2% is below the previous year's level of 12.0%.

Cash and cash equivalents (including securities classified as current assets) rose from € 344.8 million to € 380.4 million, due in part to the reduction in inventories. The ratio of cash and cash equivalents to total assets is approximately 27.3%.

SOLID COVER RATIOS MAINTAINED

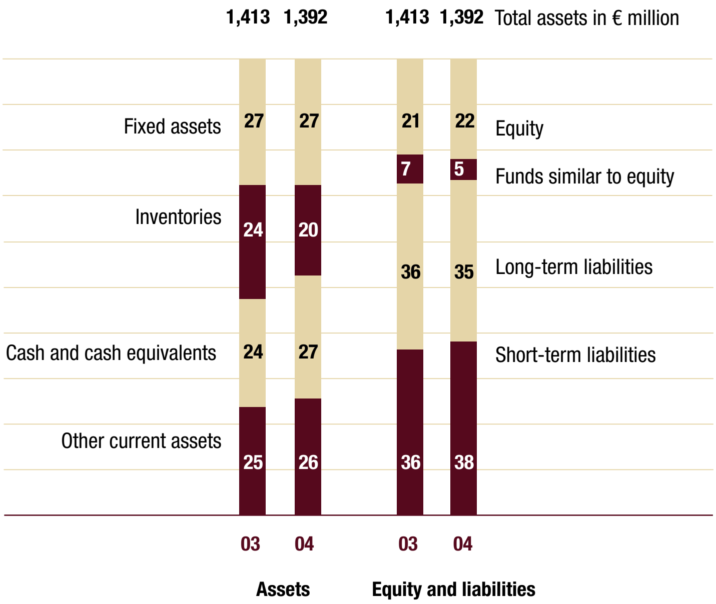
Equity increased from € 292.5 million to € 311.6 million as a result of income generated in the year under review. At 22.4%, the equity ratio is above that of the previous year.

Funds similar to equity fell by € 42.1 million compared to the previous year in particular due to the repayment of participation certificates. Subordinate securities with unlimited maturity in the amount of € 80 million have been issued in October 2004 as subsequent financing. These securities fulfill the criteria to be classified as equity in accordance with US GAAP and IAS/IFRS.

The expanded equity ratio is a solid 27.0%, once funds similar to equity, which include the minority share in RENAULT Agriculture, are taken into account. In addition to minority interests, the silent partnership of the CLAAS employee participation company (CLAAS Mitarbeiterbeteiligungsgesellschaft, CMG) in the amount of € 18.3 million (previous year: € 17.2 million) is also reported under funds similar to equity. In accordance with US GAAP, these items are not normally classified as equity.

Long-term liabilities amount to € 484.2 million (previous year: € 502.5 million). They consist of pension provisions, other non-current provisions and liabilities with a remaining term of more than one year. The decrease is primarily the result of a reduction in liabilities with a term of more than five years.

BALANCE SHEET STRUCTURE in %



Long-term capital, comprised of equity, funds similar to equity and long-term liabilities, covers fixed assets at a ratio of 229.8% (previous year: 241,1%). The extended equity-to-fixed-assets ratio (long-term capital in relation to the aggregate of fixed assets and 50% of inventories), at 167.1% (previous year: 166.1%), remains excellent.

PURCHASING

During fiscal 2004, Purchasing was faced with significantly higher market prices. Steel and oil-dependent raw materials in particular were subject to considerable price increases – not least due to higher demand from Asian countries. CLAAS was largely able to compensate for these increases and avoid delivery bottlenecks. In addition, the use of group-wide purchasing synergies resulted in significant bundling effects, which enabled additional cost savings and efficiency increases. The tractor business contributed significantly to the rise in synergy potential in the agricultural engineering segment.

Purchasing also took part in the group-wide financial »fitness« program of fiscal 2004, whose cost-savings initiative significantly improved operating income. In order to assure that this success can be sustained, it is planned to reinforce the purchasing function throughout the Group. One aspect will be to reorganize Purchasing with a stronger focus on the procurement markets outside of Europe. Another aspect will be the further development of system suppliers.

RESEARCH AND DEVELOPMENT

RESEARCH AND DEVELOPMENT: FOCUS ON PRODUCT INNOVATION

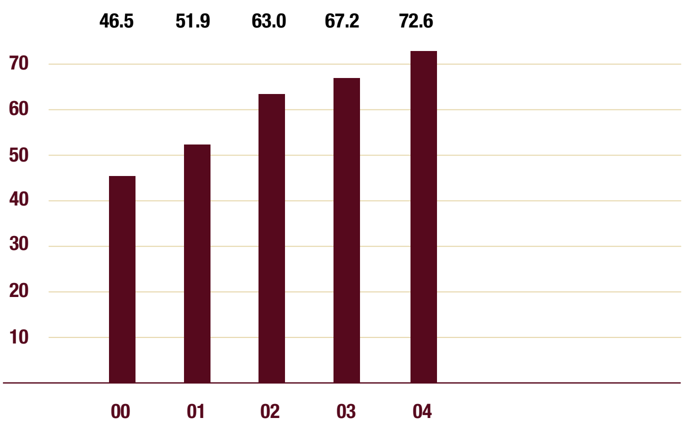
Research and development expenses in the CLAAS Group have risen to € 72.6 million, entering a new dimension as a result of the extensive expansion of the product range through the inclusion of tractors. R&D expenses correspond to approximately 3.8% of Group sales. During the first full fiscal year, CLAAS increased development expenditure at RENAULT Agriculture by 23% compared to 2002.

Further integration of RENAULT Agriculture into the CLAAS development network is a key task for 2004 and 2005. The primary goal is to utilize synergy potential to exploit available capacities and expertise in the enlarged CLAAS Group. At the same time, work is continuing with a view to improving project and process management to further enhance performance capabilities in research and development and to create a basis for future innovations.

Research and development work led to the following innovations in 2004:

- LEXION 590 – the highest performance combine harvester (first in class 9) in North American market
- LEXION 570 combine harvester series – higher-performance jet stream cleaning and GRAIN meter to analyze return consistence
- New DOMINATOR combine harvester series – greater engine performance and grain tank volume, hydrostatic drive
- SIRIUS – 40 ft. soy cutter bars for North America
- 16-row corn-picker for North America
- ROLLANT 254 – new heavy-duty fixed chamber baler with reduced performance requirements, cutting features with improved cutting quality and CLAAS Communicator
- DISCO 8550 AS – large surface mowers for tractor expansion with swath integration
- LINER 1250 Profil – new double swather with side storage for medium-sized operations
- NECTIS – special tractors for vineyards and fruit orchards from 56 to 101 hp with electro hydraulic turn switching
- ERGOS – adaptation of the communal tractor series to exhaust emission tier II and introduction of additional model with 110 hp

RESEARCH AND DEVELOPMENT EXPENSES in € million



OUTLOOK FOR 2005

We anticipate stable to slightly positive developments for agricultural engineering during 2005.

On the whole, we regard the outlook for the Western European agricultural engineering market as promising. We assume that income in the agricultural sector will rise again in those markets that experienced weakness during fiscal 2004, in particular Germany and Scandinavia, generating more liquidity for investment. We believe moderate market growth is possible.

In the UK, we anticipate a slight downward trend in the agricultural engineering market after a very good fiscal 2004. This expectation is mainly based on the fact that this year's grain harvest was severely affected by heavy rain with corresponding losses in quality and price. Due to slightly weaker farm income in France, we expect a mostly stable market at about the same level as the previous year. We also anticipate developments in Italy and Spain to be steady.

Market development in Central Europe is characterized by a generally good harvest in fiscal 2004 and persistently high demand for agricultural engineering products. Necessary structural change will continue at a rapid pace, so we can count on increased investment in modern machinery. Our positive assessment of future developments is significantly influenced by the fact that the EU expansion of May 2004 did not lead to distortions in the agricultural market. A clear trend toward stabilization is based on rising income due to impending EU allocations and initial export success of agricultural products from Central and Eastern Europe. The outlook for Central Europe in 2005 is positive on the whole and expectations are significantly above those of the previous year.

There is a high level of demand for machinery in Eastern Europe. Russia and the Ukraine are countries of high potential for Western manufacturers, even in view of growing local competition. An increasingly stable political environment and rising export revenues should positively impact developments in Russia in particular.

North America will remain the steadiest and strongest agricultural engineering market in 2005. Growth, however, will be lower than in the previous year at a rate of approx. 5%. We expect the markets for tractors and combine harvesters to remain stable. Record harvests in 2004, growing export revenues, very high agricultural aid and price guarantee payments due to shrinking commodity prices will drive investment potential. On the whole, farm income will continue to be healthy in 2005. Current estimates forecast income growth of up to 9% in the American agricultural sector.

In South America, the local market in Brazil will slow. The anticipated withdrawal of government financing will directly impact the agricultural engineering market and result in commensurate sales losses. In Argentina as well, high levels of replacement procurement and the excellent agricultural exports of fiscal 2004 are unlikely to be repeated at the same level. We expect that the agricultural engineering market will stabilize at a lower level.

After the generally good monsoon season in India, we anticipate moderate growth in the agricultural engineering market on the subcontinent. Grower prices are likely to climb by up to 5% by the end of the year. We expect continued pick-up in the tractor market and more promising developments in harvesting machinery.

We anticipate that harvesting machinery and tractor markets will develop positively on the whole in fiscal 2005. CLAAS will continue to pursue its growth strategy. New stimulus for growth will be triggered not least by the integration of the tractor business in the CLAAS sales network. Beyond our traditional markets, activities in Central and Eastern Europe and in particular in Russia will be expanded considerably. Our expectations are that on the whole, sales will rise moderately during fiscal 2005.

We will continue our programs introduced in fiscal 2004 to improve efficiency, and aim to step up research and development activities, particularly in the tractor sector.

High steel prices are anticipated for fiscal 2005. Appropriate purchasing measures will counteract the rise in manufacturing costs in order to minimize any potential impact on income.

We also intend to continue the clearly positive income trend of fiscal 2004 into 2005. A growth rate well into the double-digits will provide additional impetus for lasting income improvements.

RISK MANAGEMENT AND RISK POLICY

CLAAS is exposed to a wide variety of risks as a globally active corporate group with worldwide operations. Since entrepreneurial activity is always accompanied by risks, responsible risk management is a key concern. In the CLAAS Group, the detection and optimization of risk positions as well as the identification of opportunities are supported by a systematic risk management system, which is an integral component of corporate management. Constant observation and management of risks that threaten our continued existence is based on a broad spectrum of information gathered by a risk management system as well as a risk control system we have implemented.

The reporting function, which supplies detailed internal reports and assessments on a monthly basis in addition to external data, constitutes a central element in our ongoing monitoring of business risks. Deviations from budgets, feasibility of plans and the appearance of new monetary and non-monetary risks are investigated and followed up as part of this process. Support from operational and administrative areas of responsibility ensures that the risk management system operates within the framework of existing organizational structures. In addition to this information provided on a regular basis, an obligation for ad hoc risk reporting guarantees prompt action on the part of management.

RISKS FROM BASIC ECONOMIC CONDITIONS

Risks to sustained growth are significant in the global economy. We will continue to counter seasonal and economic fluctuations with a broadly diversified product range for customers from different industries and countries. Discernible risks will be identified by intense observation and assessment of political, legal and financial policy conditions using relevant information. Additional support is provided by indicators and ratios, which take into account and weigh the forecast earnings trends in certain sales markets.

INDUSTRY RISKS

Increasing competitive pressure and further consolidation trends harbor risks that are difficult to estimate, but which we intend to counteract with constant innovation as well as a variety of financing options. Crop yields that can vary considerably as a result of the weather, as well as unfavorable decisions in agricultural policy and other regional risks, must also be considered when assessing risk. Structured monitoring of market-relevant indicators and the comprehensive collection of information at central points within the Company, ensure that these risks are individually monitored.

LEGAL RISKS

We take advantage of substantial legal advice in support of dealing with potential risks that may arise from the great variety of fiscal, competitive, patent or environmental provisions and laws.

OPERATING RISKS

Risk is dispersed throughout our worldwide subsidiaries. This international orientation may lead to disturbances in the production flow; great distances and a broad product portfolio may entail logistical bottlenecks. Corporate freight management, which develops and implements logistics concepts for all CLAAS locations, effectively contributes to the smooth running of the value-creation chain.

FINANCIAL MARKET RISKS

CLAAS addresses financial and currency risks by hedging currency and interest positions using derivatives, as well as carrying out regular stringent monitoring using a set of early-warning indicators. This is centrally coordinated by CLAAS KGaA mbH and is organized according to proper principles of segregation of duties.

RESEARCH AND DEVELOPMENT RISKS

Innovative products are a key success factor. Research and development work is, therefore, of fundamental importance. Despite increasingly short innovation cycles, we must continue to fulfill the high quality expectations of our customers.

PROCUREMENT MARKET RISKS

As a manufacturing firm, CLAAS is exposed to risks arising from geopolitical events that may lead to higher prices of raw materials and energy. In order to promptly identify risks in procurement markets that might affect business activities and income, and in order to react to changes in a timely fashion, the markets concerned are under constant observation from the corporate units responsible as well as the operational areas.

In addition to working closely with suppliers, CLAAS responds to supplier risks by designing agreements and protective measures in such a way as to bind suppliers to the Company for the longest possible term.

QUALITY RISKS

CLAAS has instituted a central quality management function to reduce quality risks. It is the task of this group to devise quality strategies and to agree standards with the operating areas. Moreover, manufacturing and business processes are constantly tested, developed and optimized. Based on complex production processes, any product risks are promptly identified and rapidly analyzed in order to reduce guarantee and product risks.

PRODUCTION RISKS

In order to minimize the risk of downtime at the production facilities (e.g. in the case of fire or technical defects), all equipment is consistently maintained and continuously monitored and potential sources of risk eliminated by modifying the facilities involved. Moreover, for individual production series, the requisite production capacity is adapted to sales expectations on a yearly basis as part of construction program planning. Flexible working hour models ensure that the necessary human resources are available.

SALES RISKS

To facilitate early identification of fluctuations in demand or changes in customer behavior, continuous observation of the markets and individual early warning indicators is maintained. This allows product strategies to be updated and adjusted depending on changes in customer requirements and competitor response.

CREDIT RISKS

Credit risks that may arise from payment defaults, delays or other difficulties when collecting receivables are minimized by means of an effective receivables management system, close cooperation with banks and credit insurance.

IT RISKS

IT management facilitates the effective and continuous adaptation and coordination of systems, security strategies and concepts to current requirements and developments. Our IT strategy is characterized by uniform, standard and transparent IT structures throughout the Group.

HUMAN RESOURCE RISKS

Employee motivation, qualifications and loyalty contribute to corporate success to a great extent. Competition for highly qualified specialist and management staff with industry know-how will continue to be intense. For this reason, CLAAS seeks to attract qualified staff and to strengthen long-term ties between staff and the Company. This explains why CLAAS maintains close contacts with universities and is represented at careers fairs. In addition, comprehensive training and continued education options, as well as individual development opportunities, are organized for all levels of staff in the Group.

INSURANCE RISKS

Our international insurance program continued with very little change; its goals are to achieve optimal risk coverage, as well as uniformity and transparency throughout the Group using global master policies and the relevant national framework agreements. We responded to possible premium increases in the insurance market with a number of aggressive countermeasures.

OTHER RISKS

No additional risks have been identified that could jeopardize the continued existence of the CLAAS Group during and beyond the period under review.

MANAGEMENT STATEMENT ON THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements and the Group management report have been 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 for the fiscal year ending September 30, 2004, were prepared according to United States Generally Accepted Accounting Principles (US GAAP). They comply with Directive 83/349/EEC. Previous year figures were established according to the same principles. Pursuant to Section 292a of the German Commercial Code (HGB), preparation of consolidated financial statements according to US GAAP exempts the Company from preparing additional statements according to HGB.

Systems of internal control, 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 set forth in the risk management manual, applicable to 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 1, 2004

Rüdiger A. Günther	Nikolaus Feil	Guy Povie
Dr.-Ing. Hermann Garbers	Lothar Kriszun	Thomas Klatt

Consolidated financial statements

in accordance with US GAAP

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements of CLAAS Kommanditgesellschaft auf Aktien mbH, Harsewinkel, consisting of the income statement, the balance sheet, the statement of changes in equity, cash flow statement and notes to the financial statements for the fiscal year from October 1, 2003 to September 30, 2004. The preparation and content of the consolidated statements according to United States Generally Accepted Accounting Principles (US GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion, based on our audit, as to whether the consolidated financial statements comply with US GAAP.

We conducted our audit of the consolidated annual financial statements in accordance with German auditing principles and generally accepted German standards for the audit of financial statements as promulgated by the »Institut der Wirtschaftsprüfer«. Those standards require that we plan and perform the audit such that an opinion that the consolidated financial statements are free from material misstatements can be given with reasonable assurance. Knowledge of the business activities and economic and legal environment of the Group and expectations of possible misstatements are taken into account in determining audit procedures. Evidence supporting the reported amounts and disclosures in the consolidated financial statements is examined on a test basis as part of the audit. The audit includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of 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 fiscal year in accordance with US GAAP.

Our audit, which also extends to the Group management report prepared by management for the fiscal year from October 1, 2003, to September 30, 2004, 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 appropriately portrays the risks inherent in future development. In addition, we confirm that the consolidated financial statements and the Group management report for the fiscal year from October 1, 2003, to September 30, 2004, satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and a Group management report in accordance with German law.

Düsseldorf, December 1, 2004

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Schlereth)
German Public Auditor

(Kalvelage)
German Public Auditor

CONSOLIDATED INCOME STATEMENT
for the year ended September 30

		2004 € '000	2003 € '000
Net sales	(9)	1,928,379	1,496,308
Cost of goods sold		1,446,587	1,092,998
Gross profit on sales		**481,792**	**403,310**
Selling expenses	(10)	262,368	219,793
General and administrative expenses	(11)	81,616	74,542
Research and development expenses		72,594	67,209
Other operating income	(12)	28,826	31,710
Other operating expense	(13)	30,974	28,283
Operating income		**63,066**	**45,193**
Income from investments	(14)	-1,337	2,544
Financial income	(15)	-24,330	-25,181
Profit from ordinary activities	(16)	**37,399**	**22,556**
Income taxes	(17)	14,341	3,358
Minority interests		-1,561	-1,297
Consolidated net income		**21,497**	**17,901**

		2004 €	2003 €
Earnings per share	(18)	7.17	5.97

ASSETS		2004 € '000	2003 € '000
Intangible assets		59,700	55,810
Property, plant and equipment		249,775	252,282
Financial assets		64,839	65,760
Total fixed assets	(19)	**374,314**	**373,852**
Inventories	(20)	280,906	337,553
Accounts receivable and other assets	(21/22)	286,852	286,010
Derivatives	(36)	11,939	16,395
Securities with a maturity of more than 90 days	(23)	158,316	111,569
Cash and cash equivalents	(24)	222,070	233,190
Total currents assets		**960,083**	**984,717**
Deferred taxes	(17)	54,733	50,560
Prepaid expenses		3,188	3,631
Total assets		**1,392,318**	**1,412,760**

EQUITY AND LIABILITIES		2004 € '000	2003 € '000
Subscribed capital		78,000	78,000
Capital reserves		38,347	38,347
Accumulated retained earnings		182,881	164,980
Other comprehensive income	(25)	-9,084	-6,752
Retained earnings, current year		21,497	17,901
Total equity	(26)	**311,641**	**292,476**
Participation certificates		–	40,903
Silent partnership	(27)	18,280	17,202
Minority interests		45,916	48,159
Total funds similar to equity		**64,196**	**106,264**
Provisions	(28/29)	398,216	384,884
Liabilities	(30)	556,500	574,048
Derivatives	(36)	56,395	48,136
Deferred taxes	(17)	5,370	6,952
Total liabilities		**1,016,481**	**1,014,020**
Total equity and liabilities		**1,392,318**	**1,412,760**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended September 30

	2004 € '000	2003 € '000
Consolidated net income	**21,497**	**17,901**
Minority interests	1,561	1,297
Depreciation/amortization	52,680	37,752
Change in pension provision	794	4,365
Change in other non-current provisions	2,834	-242
Deferred tax expense	-4,466	-6,984
Other non-cash expenditures	-1,068	-2,938
Cash flow according to DVFA/SG	**73,832**	**51,151**
Change in current provisions	11,413	-9,946
Losses from disposal of fixed assets	-469	-699
Change in inventories, receivables and other assets	57,060	2,139
Change in sundry liabilities and in other equity and other liabilities	5,402	-46,396
Net cash provided by/used for operating activities (I)	**147,238**	**-3,751**
Payments for additions to fixed assets	-45,347	-56,192
Proceeds from disposal of fixed assets	2,110	9,383
Purchase of securities classified as current assets	-104,897	-68,922
Proceeds from disposal of securities classified as current assets	59,872	89,845
Payments for acquisitions net of cash acquired	-11,035	-58,910
Net cash used for investing activities (II)	**-99,297**	**-84,796**
Proceeds from issuance of bonds and loans	4,550	216,709
Repayment of bonds and loans	-18,847	-50,940
Repayment of participation certificates	-40,903	-
Proceeds from silent partnership (CMG)	1,078	1,138
Change in partners' loan accounts	-3,000	-4,107
Payments to minority shareholders	-1,865	-40
Dividends paid out	–	-7,800
Net cash used for/provided by financing activities (III)	**-58,987**	**154,960**
Net change in cash and cash equivalents (I+II+III)	**-11,046**	**66,413**
Effect of foreign exchange rate changes on cash and cash equivalents	-74	-1,459
Cash and cash equivalents at beginning of year	233,190	168,236
Cash and cash equivalents at end of year	**222,070**	**233,190**

				Accumulated Other Comprehensive Income				
	Subscribed capital € '000	Capital reserves € '000	Revenue reserves € '000	Currency translation adjustment € '000	Additional minimum pension liabilitiy € '000	Unrealized gains from securities € '000	Derivative financial instruments € '000	Total € '000
Balance October 1, 2002	**78,000**	**38,347**	**172,780**	**4,289**	**-1,442**	**255**	**–**	**292,229**
Dividend payments			-7,800					-7,800
Consolidated net income			17,901					17,901
Other comprehensive income (OCI)				-5,659	-1,087	547	-3,655	-9,854
Balance September 30, 2003/ October 1, 2003	**78,000**	**38,347**	**182,881**	**-1,370**	**-2,529**	**802**	**-3,655**	**292,476**
Dividend payments			–					–
Consolidated net income			21,497					21,497
Other comprehensive income (OCI)				-1,609	387	1,055	-2,165	-2,332
Balance September 30, 2004	**78,000**	**38,347**	**204,378**	**-2,979**	**-2,142**	**1,857**	**-5,820**	**311,641**

	Historical cost				
	As of Sept. 30, 2003 € '000	Currency translation € '000	As of Oct. 1, 2003 € '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	19,710	-10	19,700	-22	3,303
2. Goodwill	55,890	1	55,891	–	11,266
3. Payments on account	–	–	–	–	–
	75,600	**-9**	**75,591**	**-22**	**14,569**
II. Property, plant and equipment					
1. Land, land rights and buildings including buildings on third-party land	187,566	-579	186,987	-2,819	2,574
2. Plant and machinery	264,908	-3	264,905	22	15,987
3. Other equipment, factory and office equipment	156,912	11	156,923	-345	9,911
4. Payments on account for construction work in progress	9,245	36	9,281		11,151
5. Capital lease	11,693		11,693		615
	630,324	**-535**	**629,789**	**-3,142**	**40,238**
III. Financial assets					
1. Shares in affiliated companies	27,205	-161	27,044		4,520
2. Shares in associated companies	2,646	3	2,649		123
3. Long-term securities	36,045	-379	35,666		625
4. Other loans	967		967		236
	66,863	**-537**	**66,326**		**5,504**
Total	**772,787**	**-1,081**	**771,706**	**-3,164**	**60,311**

** Additions are recognized net of current and accumulated depreciation/amortization.*

		Depreciation/amortization				Carrying amount	
Disposals	Reclassifications	Current depreciation/ amortization	Accumulated depreciation/ amortization	Currency translation	Change in scope of consolidation	As of Sept. 30, 2004	As of Sept. 30, 2003
€ ’000	€ ’000	€ ’000	€ ’000	€ ’000	€ ’000	€ ’000	€ ’000
1,281	105	3,131	13,786	6	-20	8,019	8,379
1,754		7,000	13,722	1		51,681	47,431
–		–	–	–		–	–
3,035	**105**	**10,131**	**27,508**	**7**	**-20**	**59,700**	**55,810**
1,601	1,693	5,073	62,635	-87	-1,509	124,199	127,646
18,527	4,626	20,311	192,580	-46	21	74,433	74,266
8,605	1,638	12,124	122,600	7	-179	36,922	38,094
	-8,062					12,370	9,245
6,368		742	4,089			1,851	3,031
35,101	**-105**	**38,250**	**381,904**	**-126**	**-1,667**	**249,775**	**252,282**
1,510		4,133	4,582			25,472	26,756
47		166	820			1,905	1,992
						36,291	36,045
32						1,171	967
1,589		**4,299**	**5,402**			**64,839**	**65,760**
39,725		**52,680**	**414,814**	**-119**	**-1,687**	**374,314**	**373,852**

I. AFFILIATED COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

DOMESTIC COMPANIES

No.	Company		Share capital	Share-holding in %	Owned by company no.
1	CLAAS Kommanditgesellschaft auf Aktien mbH, Harsewinkel	EUR	78,000,000		
2	CLAAS Selbstfahrende Erntemaschinen GmbH, Harsewinkel	EUR	25,600,000	100	1
3	CLAAS Beteiligungsgesellschaft mbH, Harsewinkel	EUR	52,000	100	42
4	CLAAS Saulgau GmbH, Bad Saulgau	EUR	7,700,000	100	1
5	CLAAS Fertigungstechnik GmbH, Beelen	EUR	5,300,000	100	1
6	CLAAS Automation GmbH, Nördlingen	EUR	260,000	100	5
7	Brötje Automation GmbH, Wiefelstede	EUR	1,030,000	100	5
8	CLAAS Industrietechnik GmbH, Paderborn	EUR	7,700,000	100	1
9	CLAAS Vertriebsgesellschaft mbH, Harsewinkel	EUR	3,100,000	100	1
10	Brandenburger Landtechnik GmbH, Liebenthal	EUR	1,000,000	50.6	9
11	Mecklenburger Landtechnik GmbH, Mühlengeez	EUR	1,000,000	80	9
12	CLAAS Grasdorf GmbH, Grasdorf	EUR	500,000	100	9
13	CLAAS Württemberg GmbH, Langenau	EUR	800,000	90	9
14	AGROCOM GmbH & Co. Agrarsystem KG, Bielefeld	EUR	117,600	87.5	1
15	AGROCOM Verwaltungs GmbH, Bielefeld	EUR	32,150	87.5	1
16	agrocom.Systempartner GmbH, Rostock	EUR	26,000	60	14
17	CLAAS Osteuropa Investitions GmbH, Harsewinkel	EUR	100,000	100	1
18	RENAULT Agriculture GmbH, Rosbach	EUR	511,000	100	23
19	Pius Degenhart GmbH & Co. KG, Memmingen	EUR	409,000	100	18

FOREIGN COMPANIES

No.	Company		Share capital	Share-holding in %	Owned by company no.
20	CLAAS France Holding S.A.S., Paris, France	EUR	21.009.001	100	1
21	Usines CLAAS France S.A.S., Metz-Woippy, France	EUR	2,000,000	100	20
22	CLAAS France S.A.S., Paris, France	EUR	8,842,043	100	20
23	RENAULT Agriculture S.A.S., Vélizy, France	EUR	70,800,000	51	20
24	RENAULT Agriculture Ltd., Shipston on Stour, UK	GBP	3,812,000	100	23
25	RENAULT Agriculture & Sonlika International Plc., Port Louis, Mauritius	USD	900,000	60	23
26	RENAULT Agriculture Holdings Co., Port Louis, Mauritius	USD	5,402	100	23
27	CLAAS Holdings Ltd., Saxham, UK	GBP	10,800,000	100	1
28	CLAAS UK Ltd., Saxham, UK	GBP	101,100	100	27
29	Southern Harvesters Ltd., Saxham, UK	GBP	200,000	100	28
30	Anglian Harvesters Ltd., Market Harborough, UK	GBP	400,000	100	28
31	Western Harvesters Ltd., Cheltenham, UK	GBP	281,000	75	28
32	Eastern Harvesters Ltd., Saxham, UK	GBP	440,000	75	28
33	S.I.S. Ltd., Coventry, UK	GBP	45,000	100	5
34	CLAAS Italia S.p.A., Vercelli, Italy	EUR	2,600,000	100	1

No.	Company		Share capital	Share-holding in %	Owned by company no.
35	CLAAS Ibérica S.A., Madrid, Spain	EUR	3,307,500	100	1
36	CLAAS Hungaria Kft., Törökszentmiklos, Hungary	HUF	552,740,000	100	1
37	CLAAS Finance B.V., Amsterdam, Netherlands	EUR	18,151	100	1
38	OOO CLAAS Vostok, Moscow, Russia	RUB	170,000	100	1
39	CLAAS Ukraina DP, Kiev, Ukraine	UAH	30,000	100	1
40	Port Mellen S.A., Montevideo, Uruguay	UYU	360,000	100	1
41	CLAAS Argentina S.A., Sunchales, Argentina	ARS	12,000	100	1
42	CLAAS North America Holdings Inc., Omaha, Nebraska, USA	USD	700	100	1
43	CLAAS of America LLC., Columbus, Indiana, USA	USD	9,800,000	100	42
44	CLAAS Omaha LLC., Omaha, Nebraska, USA	USD	48,000,000	100	42/3
45	CLAAS North America Finance LLC., Omaha, Nebraska, USA	USD	0	100	42
46	CLAAS India Ltd., Faridabad, India	INR	70,000,000	100	1
47	OOO CLAAS, Krasnodar, Russia	RUB	350,000	99	17

II. SIGNIFICANT SHARES IN ASSOCIATED COMPANIES

No.	Company		Share capital	Share-holding in %	Owned by company no.
48	CLAAS GUSS GmbH, Bielefeld	EUR	4,680,000	44.45	1/4
49	CS Parts Logistics GmbH, Bremen	EUR	1,550,000	50	1
50	Landtechnik-Zentrum Chemnitz GmbH, Hartmannsdorf	EUR	750,000	40	9
51	Worch und Schütze Landtechnik GmbH, Schora	EUR	55,000	39	9
52	Landtechnik Steigra GmbH, Steigra	EUR	615,000	15.1	9
53	CLAAS Traktoren Vertrieb Bayern GmbH, Vohburg	EUR	700,000	30	9
54	Technik Center Grimma GmbH, Pöhsing	EUR	350,000	30	9
55	CLAAS Valtra Finance Ltd., Basingstoke, UK	GBP	3,000,000	49	27
56	CLAAS Financial Services S.A.S., Paris, France	EUR	14,000,000	10.5	1
57	HMC Investments Ltd., Drogheda, Ireland	EUR	152,369	49.57	1
58	Harvest Machinery (Sales) Ltd., Drogheda, Ireland	EUR	126,974	11.83	1
59	International Tractors Ltd., New Delhi, India	INR	55,113,640	20	23
60	G.I.M.A. S.A., Beauvais, France	EUR	8,448,500	50	23
61	Agritalia S.p.A., Rovigo, Italy	EUR	5,631,600	11	23

1 I BASIS OF PRESENTATION

The consolidated financial statements of CLAAS KGaA mbH for the fiscal year ending September 30, 2004 were prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP) and are supplemented by a Group management report and notes in accordance with Section 292a of the German Commercial Code (HGB). The Company is accordingly exempt from the duty to prepare additional HGB statements.

The income statement was prepared using the cost of goods sold method of accounting. In the interest of clear and consistent disclosure, balance sheet and income statement have been structured according to HGB principles.

To improve the clarity of presentation, individual items within the balance sheet and income statement have been combined. These items are analyzed and explained in the notes.

Certain amounts from the previous year have been adjusted to reflect the current presentation format for comparison purposes.

According to Section 264 (3) HGB, the Company is exempt from the duty to publish financial statements in the German Federal Gazette and to prepare notes and management reports for the following 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 I SCOPE OF CONSOLIDATION

FULLY CONSOLIDATED COMPANIES

The consolidation includes CLAAS KGaA mbH and all of its subsidiaries, representing a total of 47 companies (previous year: 53 companies), thereof 19 German and 28 foreign companies. All companies that are directly or indirectly controlled by CLAAS KGaA mbH were consolidated as subsidiaries in accordance with the full consolidation method.

A list of shareholdings has been attached to this report.

ACQUISITIONS DURING THE FISCAL YEAR

Effective January 14, 2004, CLAAS acquired all remaining shares in Brötje Automation GmbH, a company already included in the consolidated financial statements as an affiliated company with a shareholding of 51%. The purchase price for the remaining 49% of shares was € 11.7 million. Goodwill of € 10.0 million arising from the acquisition of the remaining shares was capitalized. In accordance with SFAS 142, goodwill is not amortized, but subject to an annual impairment test.

CLAAS also increased its holdings in Mecklenburger Landtechnik GmbH from 50% to 80% as of April 1, 2004 and included the company in the consolidated financial statements for fiscal 2004 as an affiliated company. Goodwill on this acquisition amounted to € 1.2 million.

COMPANIES VALUED AT EQUITY

Included in the scope of consolidation are 7 (previous year: 7) associated companies of the Agricultural Engineering segment accounted for at equity: CLAAS GUSS GmbH, Bielefeld; CLAAS Valtra Finance Ltd., Basingstoke, UK; 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 following list summarizes the financial key figures of all 7 companies consolidated at equity:

	2004 € '000	2003 € '000
Income before taxes	**17,423**	**8,987**
Fixed assets	77,033	71,461
Current assets	528,973	478,901
Total assets	**606,006**	**550,362**
Equity	89,616	72,370
Liabilities	516,390	477,992
Total equity and liabilities	**606,006**	**550,362**

3 I ACCOUNTING POLICIES

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets acquired for consideration are recognized at cost and, if a useful life can be determined, amortized over their useful life. The useful life of intangible assets ranges from 3 to 10 years. When the useful life of an asset cannot be determined, the asset is not amortized, but tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be permanently impaired. Goodwill is not amortized and is also subject to an annual impairment test.

Property, plant and equipment are measured at cost and, where subject to wear and tear, depreciated on a scheduled basis. Movable fixed assets are depreciated on a straight-line basis over their estimated useful life. The useful life of buildings ranges between 20 and 50 years. Other fixed assets are depreciated over a useful life between 3 and 12 years. Material interest expense on debt capital incurred for a qualified asset during the period of its construction is capitalized and depreciated over asset's useful life after completion.

Impairment tests are performed for fixed and intangible assets if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of an asset is not recoverable and exceeds its fair value, an impairment loss is recognized for the asset or the next higher cash generating unit. In an impairment test of an asset to be held and used, the carrying amount of the asset is compared to the sum of the undiscounted cash flows from the use and eventual disposition of the asset. If the carrying amount exceeds that sum, an impairment loss is recognized and the asset or the next higher cash generating unit is written down to its fair value.

Over the next five years, annual amortization of depreciable intangible fixed assets is expected to amount to approx. € 2.5 million.

EQUITY INVESTMENTS

Equity investments in associated companies and joint ventures are valued at the interest held in shareholders' equity (»equity method«) where the Group has the possibility of exercising significant influence on these companies. Other investments, that are neither part of the trading portfolio nor held to maturity, are classified as securities »available-for-sale« if the shares held by CLAAS are listed on a stock exchange or fair values are publicly available. Other investments for which no fair value can be established, are accounted for at cost (minus impairment where necessary).

SECURITIES

SFAS 115 classifies securities into the three categories of »held-to-maturity,« »available-for-sale,« and »trading« securities. The securities held by CLAAS are either securities that are held to maturity or sold within three months before reaching maturity (»held-to-maturity«), or they are securities »available-for-sale« that are neither part of the trading portfolio nor held to maturity. Securities classified as »held-to-maturity« are stated at amortized cost, while securities classified as »available-for-sale« are reported at fair value (where available). Unrealized gains and losses on »available-for-sale« securities are excluded from earnings and reported in accumulated other comprehensive income, a separate component of equity, net of applicable deferred income taxes.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The CLAAS Group uses derivative financial instruments such as swaps, forward exchange contracts, interest rate swap options, forward interest rate transactions, caps and floors for hedging purposes. According to SFAS 133, »Accounting for Derivative Instruments and Hedging Activities,« all derivative financial instruments must be reported in the balance sheet at fair value as either assets or liabilities. If a clear hedging connection exists, hedge accounting is possible. In hedge accounting, the gains and losses on a derivative instrument depend on the type of the hedge. With cash flow hedges, the effective portion of the gain or loss on a derivative instrument is reported initially as a component of equity (other comprehensive income) and only recorded in the income statement when the hedged forecasted transaction has been recognized in income. The ineffective portion of the gain or loss is recognized immediately in income. With fair value hedges, gains or losses resulting from changes in the fair values of derivatives and their underlying transactions are recognized immediately in income.

FAIR VALUE OF FINANCIAL INSTRUMENTS

According to US GAAP, financial instruments include derivative financial instruments (e.g. swaps, options) as well as original financial instruments (in the case of CLAAS, participation certificates, bonds, receivables, payables, cash and cash equivalents, etc.) The fair value of a financial instrument according to US GAAP is the amount at which the instrument could be exchanged in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Where fair values of financial instruments are not explicitly stated, they deviate only insignificantly or not at all from the carrying amounts.

INVENTORIES

Inventories are stated at the lower of cost or market value. Raw materials, consumables and supplies as well as merchandise are capitalized at average cost. Work in process and finished goods are capitalized at the full production cost, including direct material and production costs as well as directly attributable manufacturing overheads and production-related administrative costs. Inventory risks that result from reduced likelihood of full utilization, as well as risks arising from an assessment of realizable sale prices, are reflected in value adjustments.

RECEIVABLES

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

Long-term construction contracts are reported according to the percentage-of-completion (PoC) method. The amount required to be capitalized is reported under receivables and sales revenues are recognized. The percentage of completion is determined according to the level of expenses incurred. At each balance sheet date, existing contracts are reviewed to assess potential risks. In the case of anticipated losses, corresponding allowances or provisions are created. Receivables denominated in foreign currencies are translated at the current rate of exchange as of the reporting date.

CASH AND CASH EQUIVALENTS

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

PROVISIONS AND LIABILITIES

Pension obligations are calculated using actuarial methods according to the projected-unit-credit method. This method not only takes into account pensions and accrued vested rights known at the balance sheet date, but also anticipated future pay and pension increases. Actuarial gains and losses exceeding a range of 10% of the scope of commitments are distributed over the average residual period of service.

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

Liabilities are generally carried at their repayment amount; liabilities denominated in foreign currencies are translated at the current rate of exchange as of the reporting date.

CURRENT AND DEFERRED INCOME TAXES

Deferred taxes are determined according to SFAS 109, »Accounting for Income Taxes.« They reflect future reductions or increases in the tax burden arising from temporary differences between the consolidated financial statements and the tax accounts. Deferred tax assets also comprise tax reduction claims arising from the expected realization of existing loss carryforwards in subsequent years, the materialization of which is sufficiently probable. Deferred taxes are computed using the tax rate that will apply, according to the current legal situation, at the anticipated point in time when temporary differences are equalized. Abroad, country-specific tax rates are used. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that not all of the deferred tax assets can be utilized against future tax gains or if their realization is limited in time.

RECOGNITION OF SALES

Sales are recognized upon delivery of supply, or service rendered, and transfer of risk to the customer is effected.

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

4 I CONSOLIDATION PRINCIPLES

The individual financial statements of the consolidated subsidiaries have been prepared using the uniform accounting policies relevant for the CLAAS Group. They are generally prepared for the year ending September 30.

Capital is consolidated by setting off the carrying amounts of the subsidiaries against the respective share in equity of the subsidiaries at the time of acquisition. Residual amounts arising on the assets side are capitalized as goodwill and subject to an annual impairment test. Differences arising on the liabilities side are reduced pro rata and offset against non-current non-monetary assets, taking into account deferred taxes. Any remaining excess is recognized as an extraordinary gain.

Investments in associated companies are valued according to the equity method. The same principles as those pertaining to full consolidation are applied with respect to the elimination of inter-company relationships.

Receivables, payables, net sales, income and expenses between consolidated entities are eliminated upon consolidation. Inter-company profits and losses within inventories are adjusted accordingly.

Tax deferrals are created for differing tax charges arising from consolidation measures that impact earnings and are likely to be equalized in future fiscal years. Deferred tax assets and liabilities are offset where applicable.

5 I CURRENCY TRANSLATION

According to SFAS 52, »Foreign Currency Translation,« currency translation is based on the functional currency concept. The functional currency is the currency used in the environment where an entity predominantly operates. As a rule, this is the currency in which cash is generated and expensed.

In the consolidated financial statements, all balance sheet items of eonomically independent foreign entities are translated at the exchange rate at the balance sheet date; expenses and income are translated at the average exchange rate of the fiscal year. Adjustments resulting from currency translations in the financial statements are excluded from income and reported in equity.

The following exchange rates were used for countries not included in the European Monetary Union:

		Average		Balance Sheet Date	
		2004 in €	2003 in €	2004 in €	2003 in €
1	US Dollar	0.82	0.92	0.81	0.86
1	Pound Sterling	1.47	1.47	1.46	1.43
1	Ukrainian Hryvnia	0.15	0.17	0.15	0.16
100	Hungarian Forints	0.39	0.40	0.40	0.39
100	Indian Rupees	1.81	1.95	1.76	1.87
100	Russian Rubles	2.83	2.95	2.78	2.79

6 | LITIGATION AND DAMAGE CLAIMS

As a result of general business operations, CLAAS Group companies are involved in a variety of legal and official proceedings, or such proceedings could be instituted or asserted in the future (for instance with respect to patents, product liability or competition). Although the outcome of individual proceedings cannot be predicted with certainty given the unforeseeable nature of events associated with legal disputes, the current assessment is that no significant adverse impact on the Group's results of operations will occur beyond the risks reflected in liabilities and provisions in the financial statements.

7 | USE OF ESTIMATES

The consolidated financial statements are to some degree based on estimates and assumptions that affect the recording of assets and liabilities, the recognition of contingent liabilities as of the balance sheet date and the reporting of income and expenses during the period under review. Actual amounts may deviate from estimates.

8 | NEW ACCOUNTING PRONOUNCEMENTS

In November 2003, the FASB published FIN 46 (R), »Consolidation of Variable Interest Entities,« replacing FIN 46 of January 2003. This standard sets forth new requirements for the mandatory consolidation of variable interest entities (VIEs) depending on the extent to which major losses and returns of the company have been transferred. Qualifying special-purpose entities (Qualifying SPEs) in accordance with SFAS 140 are specifically excluded from the scope of FIN 46 (R). As a »nonpublic enterprise,« CLAAS is required to comply with FIN 46 (R) as from fiscal 2006.

In December 2003, the FASB issued SFAS 132 (revised 2003), »Employers' Disclosures about Pensions and Other Postretirement Benefits.« This standard extends reporting requirements that already exist under SFAS 132 and was applied by CLAAS for the first time in this annual report, resulting in additional information in the notes on pensions and similar obligations.

In April 2003, the Emerging Issues Task Force published issue no. 02-9, »Accounting for Changes that Result in a Transferor Regaining Control of Financial Assets Sold.« This EITF issue explains the application of SFAS 140, »Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.« EITF 02-9 is not applied at CLAAS, since no matters occurred in the year under review that would fall within its scope.

In May 2003, the FASB issued SFAS 150, »Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.« This standard regulates the classification and recognition of different types of financial instruments with characteristics of both liabilities and equity. Financial instruments that fall within the scope of this standard must be reported as liabilities. As a rule, the standard shall be applied for financial statements prepared after June 15, 2003. CLAAS currently has no financial instruments that fall within the scope of FAS 150.

The first-time adoption of relevant accounting standards had no material effects on the presentation of the economic situation of the CLAAS Group. As of today's perspective, no material effects are expected in future as a result of the adoption of the new standards.

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 that cannot yet be billed is reported under receivables and net sales.

10 | SELLING EXPENSES

Outgoing freight in the amount of € 39.6 million (previous year: € 34.3 million) is reported under selling expenses.

11 | GENERAL AND ADMINISTRATIVE EXPENSES

Administrative expenses of sales companies are not included in general and administrative expenses, as these constitute selling expenses from the point of view of the Group.

12 | OTHER OPERATING INCOME

Other operating income is composed as follows:

	2004 € '000	2003 € '000
Gains on disposal of fixed assets	498	978
Reversal of discounts and allowances for bad debts	1,729	927
Release of provisions	9,404	12,849
Rental and lease income	482	716
Other income	16,713	16,240
Total	**28,826**	**31,710**

13 | OTHER OPERATING EXPENSE

	2004 € '000	2003 € '000
Losses on disposal of fixed assets	217	281
Allowances for bad debts	2,502	779
Goodwill impairments	7,000	–
Other expenses	21,255	27,223
Total	**30,974**	**28,283**

Other expenses comprise a number of minor items such as litigation expenses, fees and charges, and personnel expenses not related to specific functions.

14 | INCOME FROM INVESTMENTS

	2004 € '000	2003 € '000
Net income from investments in associated companies	2,684	2,345
Income from other investments	112	199
Gains/losses on disposal of equity investments	–	–
Impairment of investments	-4,133	–
Total	**-1,337**	**2,544**

Net income from investments consists of all income and expenses resulting from holding or selling investments that are not fully consolidated, including the revaluation of the equity investment in International Tractors Ltd., India.

The impairment is largely due to exchange rate effects after the date of acquisition.

15 I FINANCIAL INCOME

Financial income includes the two components »income from interest and securities« and »other financial income.«

INCOME FROM INTEREST AND SECURITIES	2004 € '000	2003 € '000
Interest expense	-28,019	-25,964
Interest income	8,540	11,936
Proceeds from other securities and long-term financial assets	632	808
Losses from disposal of securities	–	-
Gains on disposal of securities	–	2
Write-ups of financial assets (excluding equity investments) and other securities classified as current assets	–	-
Total	**-18,847**	**-13,218**

Income from interest and securities includes all income and expenses resulting from holding or selling securities or financial assets other than equity investments.

OTHER FINANCIAL INCOME	2004 € '000	2003 € '000
Compensation for participation certificates	-3,599	-2,806
Profits transferred under partial profit transfer agreement (CMG)	-2,472	-1,835
Interest expense on leasing	-93	-194
Exchange gains	8,015	4,429
Exchange losses	-5,406	-8,370
Other financial income	4	543
Other financial expense	-1,932	-3,730
Total other financial income	**-5,483**	**-11,963**
Total financial income	**-24,330**	**-25,181**

The item »Profits transferred under partial profit transfer agreement (CMG)« reflects payments based on Group net income with respect to the silent partnership held by CLAAS-Mitarbeiterbeteiligungs-Gesellschaft mbH (CMG).

16 I PROFIT FROM ORDINARY ACTIVITIES/INCOME BEFORE TAXES

	2004 € '000	2003 € '000
Domestic	20,583	8,692
Foreign	16,816	13,864
Total	**37,399**	**22,556**

Since CLAAS did not record any extraordinary income or expense, profit from ordinary activities is equivalent to income before taxes.

17 I INCOME TAXES

Income taxes comprise current taxes and deferred taxes.

CURRENT TAXES	2004 € '000	2003 € '000
Domestic		
Corporate income tax/solidarity surcharge	6,992	3,558
Municipal trade tax	6,116	2,964
Subtotal current taxes, domestic	**13,108**	**6,522**
Foreign	4,742	4,479
Total current taxes	**17,850**	**11,001**

DEFERRED TAXES	2004 € '000	2003 € '000
Domestic		
Corporate income tax/solidarity surcharge	-3,266	-2,162
Municipal trade tax	-2,655	-1,281
Subtotal deferred taxes, domestic	**-5,921**	**-3,443**
Foreign	2,412	-4,200
Total deferred taxes	**-3,509**	**-7,643**
Total taxes on income	**14,341**	**3,358**

A tax rate of 38.0% was assumed for temporary differences in the calculation of deferred taxes for domestic companies.

Deferred taxes result from temporary differences in the following balance sheet accounts:

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Deferred tax assets		
Fixed assets	3,544	4,822
Current assets	34,289	39,353
Capital lease	709	1,207
Provisions	41,753	45,964
Loss carryforwards	9,839	16,664
Other	17,874	11,877
Subtotal	**108,008**	**119,887**
Valuation allowances	-10,704	-19,418
Total deferred tax assets	**97,304**	**100,469**
Deferred tax liabilities		
Current assets	19,108	19,089
Property, plant, and equipment	16,414	17,560
Other	12,419	20,212
Total deferred tax liabilities	**47,941**	**56,861**
Total deferred tax assets, net	**49,363**	**43,608**

After netting deferred taxes are reported as follows:

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Deferred tax assets	**54,733**	**50,560**
of which non-current	17,884	6,850
Deferred tax liabilities	**5,370**	**6,952**
of which non-current	5,208	6,705
Total deferred tax assets, net	**49,363**	**43,608**

The following table reconciles income tax expense expected in the previous year and the year under review with expenses actually recognized. The expected tax charge is determined by multiplying the Group tax rate with income before taxes. In fiscal 2004, the applicable tax rate was 38.0% (previous year: 37.0%), resulting from German domestic corporate income tax, solidarity surcharge and municipal trade tax.

	2004 € '000	2003 € '000
Current taxes	17,850	11,001
Deferred taxes	-3,509	-7,643
Income taxes	14,341	3,358
Income before taxes	37,399	22,556
Theoretical tax charge at 38.0% (previous year: 37.0%)	**14,212**	**8,346**
Difference in foreign tax rates	-3,707	-5,996
Tax effects on		
Payment of taxes for previous years	-26	377
Goodwill impairment from capital consolidation	2,660	–
Non tax-deductible expenses	1,570	1,420
Application of equity method (associated companies)	-574	-548
Revaluation of deferred taxes based on higher future tax rates	-586	–
Other consolidation influences	1,457	1,290
Other	-665	-1,531
Effective tax charge	**14,341**	**3,358**
Effective tax rate in %	38.3	14.9

The tax loss carryforwards at Group level in the amount of € 28.9 million (previous year: € 47.0 million) may be carried forward to at least fiscal 2007. Due to lack of recoverability, a valuation allowance has been created for € 7.1 million (previous year: € 12.7 million) of loss carryforwards and € 3.6 million (previous year: € 6.7 million) of other deferred tax assets. The loss carryforwards relate to foreign companies.

18 | EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income by the average number of shares. As CLAAS does not issue potential shares such as options or convertible bonds that would dilute earnings per share, basic and diluted earnings per share are identical.

		2004 € '000	2003 € '000
Consolidated net income	(€ '000)	21,497	17,901
Dividends per share	(€)	–	2.60
Number of shares outstanding at September 30	(in thousands)	3,000	3,000
Earnings per share	**(€)**	**7.17**	**5.97**

19 | FIXED ASSETS

Movements in the fixed assets of the CLAAS Group during fiscal 2004 are presented on pages 60 and 61.

Additions to intangible assets primarily reflect goodwill arising from the acquisition of the remaining shares of Brötje Automation.

Additions to shareholdings in associated companies also include proportionate net income of companies accounted for at equity. Dividend payments presented in individual financial statements of companies accounted for at equity are consolidated as disposals.

Total depreciation amounting to € 38.3 million (previous year: € 35.2 million) on property, plant and equipment and amortization of € 10.1 million (previous year: € 2.5 million) on intangible assets was recorded in fiscal 2004.

Long-term securities consist exclusively of »available-for-sale« securities amounting to € 36.3 million (previous year: € 36.0 million). Additions contain reinvested interest income.

During the year under review, a valuation allowance in the amount of € 7.0 million was created with respect to goodwill for CLAAS India. The valuation allowance is based on a conservative estimate of the market for rice harvesting machines in Asia. This resulted in an adjustment of the business plan and a reduction in the fair value of the reporting unit. The company operates in the Agricultural Engineering segment.

20 | INVENTORIES

As of September 30, 2004, payments on account in the amount of € 40.5 million (previous year: € 39.5 million) were offset against finished goods and merchandise.

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Raw materials, consumables and supplies	39,210	44,011
Work in process	48,744	58,483
Finished goods and merchandise	180,777	220,589
Payments on account	12,175	14,470
Total	**280,906**	**337,553**

21 | ACCOUNTS RECEIVABLE AND OTHER ASSETS

Accounts receivable and other assets are broken down below:

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Trade receivables	197,178	179,905
Receivables from companies in which investments are held	6,577	7,969
PoC receivables	21,425	23,292
Other assets	61,672	74,844
Total	**286,852**	**286,010**

Trade receivables include receivables in the amount of € 1.7 million (previous year: € 2.3 million) with a remaining term of more than one year. Other assets include assets of € 1.6 million (previous year: € 13.7 million) with a remaining term of more than one year.

As of the balance sheet date, accounts receivable in the amount of € 12.5 million (previous year: € 16.9 million) were sold to third parties by way of forfait deals.

22 | ASSET-BACKED SECURITIES

CLAAS receivables are sold through a continuous ABS program to a special-purpose entity that is refinanced by issuing securities in the international capital market. Based on the revolving sale of receivables, 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. The receivables sale is a »true sale« in accordance with SFAS 140.

Within the scope of the ABS transaction, CLAAS performs bookkeeping, receivables collection, and dunning services and receives an appropriate service fee from the special-purpose entity.

The program limit is € 114 million. Due to seasonal fluctuations, the volume of receivables sold varies during the course of the year; at the end of the fiscal year, the volume of the receivables sold amounted to € 46.2 million (previous year: € 30.9 million). Expressed as a percentage of total receivables prior to sale, the volume of the receivables sold at the end of the fical year was 18.8% (previous year: 14.6%).

Maturities of receivables sold by the end of the fiscal year:

MATURITY IN MONTHS	1	2	3	4	More than 5	Total pool
€ '000	23,286	4,604	1,772	12,626	3,875	46,163

As a qualifying special-purpose entity (qualifying SPE) in accordance with SFAS 140, the SPE is not included in the scope of consolidation of the CLAAS Group.

OTHER KEY DATA ABOUT THE ABS TRANSACTION	2004 € '000	2003 € '000
Receivables as of September 30	46,163	30,861
Subordinated loan as collateral	532	532
Service fee received (accumulated)	1,434	1,432
Cash proceeds from the sale of receivables as of September 30	29,779	19,246
Fair value of retained interests	1,727	1,817
Fair value adjustment	462	309
Cash held in trust as of September 30	10,111	6,030

Anticipated cash flows from retained interests in receivables sold are required to be capitalized in accordance with SFAS 140. Initial valuation is generally made by allocating the carrying amount of receivables sold between the items »receivables sold« and »retained interests« in proportion to their respective fair value. The valuation of retained interests is made at fair value, which has to be established on the basis of anticipated future cash flows. For purposes of simplification, these are derived from the anticipated future payment receipts on the basis of discounted future cash flows.

The level of anticipated payment receipts from retained interests may be adversely affected by different underlying assumptions and risks (e.g. anticipated bad debts). A very low historical default rate provides an orientation measure for valuing these payment receipts. Any strong negative deviation from this value is expected in future only in the event of significant macroeconomic changes. To estimate the influence of such changes, a hypothetical analysis of a 10% and 20% increase in payment defaults was simulated. The fair value of the anticipated default rate was calculated on this basis, and this in turn was used to calculate the value of the anticipated payment receipts from retained interests.

Influence of changes according to hypothetical analyses:

	Underlying assumptions	Deterioration of assumption by %	
		10	20
Amount of anticipated payment receipts from retained interests € '000	1,727	1,681	1,635

These anticipated effects are based on a purely hypothetical analysis. The effect from the change to the underlying assumption has been calculated without changing other assumptions. In reality, changes to an assumption can lead to changes of other assumptions that can both intensify and mitigate anticipated effects.

23 | SECURITIES WITH A MATURITY OF MORE THAN 90 DAYS

Securities classified as current assets with a maturity of more than 90 days are securities that are held to maturity or that are sold within the final three months before maturity (»held-to-maturity«) and securities »available-for-sale« which are neither part of the trading portfolio nor held to maturity.

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Available-for-sale securities	158,021	98,566
Held-to-maturity securities	295	13,003
Total securities with a maturity of more than 90 days	**158,316**	**111,569**

Securities classified as available-for-sale are stated at quoted market prices (where available). Unrealized gains in the amount of € 1.9 million (previous year: € 0.8 million) from available-for-sale securities are excluded from earnings and reported in accumulated other comprehensive income as a separate component of equity. Securities reported as held-to-maturity are reported at amortized acquisition cost that approximately corresponds to fair value. The amortized cost of held-to-maturity securities corresponds to the original acquisition costs.

24 I CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed as follows:

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Securities (maturity up to 90 days)	–	–
Checks, cash on hand, bank balances	222,070	233,190
Total	**222,070**	**233,190**

Cash and cash equivalents include payment receipts from sold receivables in the amount of € 10.1 million (previous year: € 6.0 million) from the ABS program that are to be transferred to other partners in the contracts.

25 I COMPREHENSIVE INCOME

	2004 € '000	Amount of income taxes deducted	2003 € '000	Amount of income taxes deducted
Consolidated net income	**21,497**		**17,901**	
Currency translation adjustment	-1,609	-986	-5,659	-3,323
Unrealized gains from securities	1,055	647	547	321
Additional minimum pension liability	387	237	-1,087	-638
Changes in derivative financial instruments	-2,165	-1,327	-3,655	-2,147
Changes in accumulated other comprehensive income	**-2,332**	**-1,429**	**-9,854**	**-5,787**
Comprehensive income	**19,165**		**8,047**	

Comprehensive income is comprised of net income and other comprehensive income, covering all changes in equity other than transactions with shareholders such as capital increases or dividend payments. Components of other comprehensive income are determined after deducting the relevant portion of income taxes, which are disclosed in a separate column.

26 I EQUITY/CHANGES IN EQUITY

Amounts reported as subscribed capital and capital reserves in the consolidated financial statements correspond to the amounts in the individual accounts of CLAAS KGaA mbH. Subscribed capital of CLAAS KGaA mbH is composed of 3 million no-par-value shares.

General partner without capital contribution is Helmut Claas GmbH; the direct and indirect shareholders of the limited partnership, CLAAS KGaA mbH, are exclusively members of the Claas family.

Movements in equity are presented separately on page 59 of this report.

27 I SILENT PARTNERSHIP

The silent partnership of the employee participation company, CLAAS-Mitarbeiterbeteiligungs-Gesellschaft mbH (CMG), is compensated in relation to net income and is considered subordinated in the event of liability. According to US GAAP, repayable transferred capital is to be reported outside shareholders' equity.

For its subordinated capital contribution, CMG receives a compensation that is based on the net income of the CLAAS Group. CMG also shares in Group losses. € 7.6 million of the silent partnership can be terminated as of September 30, 2005; additional termination rights of € 5.3 million apply between 2006 and 2009.

28 I PROVISIONS

Provisions are analyzed as follows:

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Provisions for pensions and similar obligations	138,035	137,811
Tax provisions	13,263	11,203
Other provisions	246,918	235,870
Total	**398,216**	**384,884**

Tax provisions are comprised exclusively of provisions for effective taxes; deferred tax liabilities are reported separately.

Long-term provisions amount to € 167.8 million (previous year: € 164.8 million).

Other provisions include short-term provisions for restructuring commitments according to SFAS 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 € 3.8 million. These provisions were needed in previous years due to recessionary market developments and sales restructuring.

Certain measures relating to blue collar and salaried employees within the German production area, which were identified the previous year in response to declining market developments, were implemented in fiscal 2004 and provisions amounting to € 0.5 million utilized accordingly. After further releases the provision as of September 30, 2004 amounts to € 0.1 million (previous year: € 1.5 million).

In fiscal 2003, provisions for restructuring of tractor sales activities amounting to € 8.5 million were created, of which € 4.9 million was in the opening balance sheet of RENAULT Agriculture. Another € 3.6 million had been added to provisions and recognized as other operating expense in the income statement in fiscal 2003. Key restructuring measures took place during fiscal 2004, including compensatory payments for the cancellation of contracts with importers, dealers, and suppliers as well as severance pay. Taking into account payments made of € 4.0 million and releases of € 0.8 million. The provisions amount to € 3.7 million as of September 30, 2004.

These provisions relate to the Agricultural Engineering segment.

29 I PENSION PROVISIONS AND SIMILAR OBLIGATIONS

CLAAS maintains several defined benefit pension plans in Germany as well as one fund-financed plan in the UK and one in Germany.

Under the defined benefit pension plans implemented at 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 also includes pension fund obligations and is reduced by the amount of the fund assets. Fund surpluses, if any, are capitalized as other assets, while fund deficits are shown as a liability under pension provisions. Pension provisions are recorded for obligations from vested rights and current benefits on behalf of eligible active and former employees and their surviving dependants. Obligations relate primarily to old age pensions, which are paid in part as basic and in part as supplementary benefits. Pension obligations are normally based on the employees' length of service and remuneration levels.

Pension obligations are calculated using actuarial methods according to the projected unit credit method. This method not only takes into account pensions and accrued vested rights known at the balance sheet date, but also anticipated future pay and pension increases. The valuation cut-off date for obligations under defined benefit plans in Germany is June 30, 2004. The cut-off date of September 30, 2004, is applicable to the other plans. Actuarial gains and losses exceeding a range of 10% of the scope of commitments are distributed over the average residual period of service.

As in the previous fiscal year, calculations were based on an interest rate of 5.5%, pay rises of 3% and pension increases of 1.5%. These assumptions refer to employees working in Germany to whom the predominant part of the pension obligation relates. Different country-specific assumptions should be used for employees engaged abroad. Anticipated fund return is 7.0% (previous year: 6.9%).

Fund-financed plans exist, to a limited extent, for a company in Germany. These are covered by insurance policies. The total share of these plans is below 5% of fund-financed pension obligations.

Based on the obligations of the British subsidiary, CLAAS Holdings Ltd., that are financed through an investment fund, a balanced strategy is pursued in investing plan assets, with the objective of long-term fund income maximization. Excess fund assets over projected benefit obligations are to be permanently maintained, and unnecessary fluctuations in contributions to plan assets avoided. With respect to investment strategy, the focus is on sufficient diversification in order to distribute investment risk over a variety of markets and securities categories. Plan assets are managed by a trust association, consisting of CLAAS Holdings Ltd. employees, under a trust agreement. The trust association has delegated operational investment decisions to a fund manager. All strategic investment decisions are made by the trust association independently of the employer. Plan assets are divided into an equity portfolio and a bond portfolio. The distribution of assets is kept within specific investment ranges. In the year under review, as in the previous year, the main focus of investment was on British securities.

The equity portfolio is currently 78.1% of plan assets and the bond portfolio 21.3%. The fund also holds a small amount of cash and cash equivalents (0.6%).

The expected return on plan assets is calculated separately according to investment category. The current dividend yield of the FTSE All Share Index plus the inflation rate and the long-term real dividend growth rate are used for the equity portfolio. Return targets for the bond portfolio are based on a discount factor established by an index of corporate bonds quoted in pound sterling with AA ratings and terms of at least 15 years. A short-term money market interest rate is used for cash and cash equivalents. Payments into plan assets of € 0.6 million are expected for 2005.

Pension obligations financed with funds developed as follows:

	Sept. 30, 2004 € ’000	Sept. 30, 2003 € ’000
Projected benefit obligation	31,036	28,473
Less fair value of plan assets	-31,150	-27,613
Funded status	**-114**	**860**
Unrecognized actuarial gains/losses	-10,156	-11,683
Surplus	**-10,270**	**-10,823**

The net amount recognized of € 10.3 million (previous year: € 10.8 million) is composed of an excess of benefit obligations financed with investment funds of € -11.5 million and a deficit of € 1.2 million in fiscal 2004, taking into account unrecognized actuarial gains and losses. The excess is capitalized as other asset, the deficit recognized as cost under pension provisions.

Plan assets developed as follows:

	2004 € ’000	2003 € ’000
Fair value of plan assets at October 1	**27,613**	**25,415**
Actual return on plan assets	3,049	4,403
Employer contributions	584	563
Employee contributions	346	647
Benefits paid	-896	-796
Exchange rate effects	454	-2,619
Other	–	–
Fair value of plan assets at September 30	**31,150**	**27,613**

Coverage of pension obligations financed with funds, without taking into account expected future pay rises (Accumulated Benefit Obligation, ABO), is analyzed below:

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Accumulated benefit obligation	**28,356**	**25,240**
Fair value of plan assets	-31,150	-27,613
Excess of plan assets over benefit obligations	-2,794	-2,373

Benefit obligations not financed with investment funds can be detailed as follows:

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Projected benefit obligation	146,202	146,841
Additional minimum pension liability	3,676	4,844
Unrecognized prior service costs	-1,469	-2,028
Unrecognized actuarial gains/losses	-11,556	-12,987
Pension provision for benefit obligations	**136,853**	**136,670**

Pension provisions are derived from pension obligations not financed with investment funds and the deficit in pension obligations financed with investment funds, as shown below:

	Sept. 30, 2004 € '000	Sept. 30, 2003 € '000
Pension provision for benefit obligations	136,853	136,670
Pension provision for deficit in benefit obligations	1,182	1,141
Net amount recognized (pension provisions)	**138,035**	**137,811**

Coverage of pension obligations not financed with funds, without taking into account expected future pay rises (Accumulated Benefit Obligation, ABO), is analyzed below:

	2004 € '000	2003 € '000
Accumulated benefit obligation	**128,327**	**128,199**
Pension provision for benefit obligations	-136,853	-136,670
Excess of pension provision over ABO	**-8,526**	**-8,471**

Pension costs for funded and unfunded plans can be broken down as follows:

	2004 € '000	2003 € '000
Service cost	5,505	4,388
Interest cost	9,306	8,545
Recognized prior service costs	114	114
Recognized actuarial losses/(gains)	468	503
Expected return on plan assets	-1,944	-1,656
Periodic pension cost	**13,449**	**11,894**

The service cost accrued in the fiscal 2004 and the interest cost for the service cost of previous year relate to both funded and unfunded plans.

Benefit obligations financed both with and without funds developed as follows:

	2004 € '000	2003 € '000
Benefit obligations at October 1	**175,314**	**140,746**
Change in scope of consolidation	–	21,433
Service cost	5,505	4,388
Interest cost	9,306	8,545
Actuarial losses/(gains)	-1,441	8,809
Benefits paid	-8,748	-7,346
Exchange rate effects	462	-2,667
Other	-3,160	1,406
Benefit obligations at September 30	**177,238**	**175,314**

Pension payments for domestic benefit obligations are estimated as follows for the next 10 years:

	€ '000
2005	7,497
2006	7,939
2007	8,514
2008	8,519
2009	10,009
2010-2014	51,922

30 I LIABILITIES

	Sept. 30, 2004			Sept. 30, 2003		
	Remaining term		Total	Remaining term		Total
	up to 1 year	over 1 year	Sept. 30, 04	up to 1 year	over 1 year	Sept. 30, 03
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Bonds	–	262,101	262,101	–	271,101	271,101
Liabilities to insurance companies	3,801	10,056	13,857	3,801	13,857	17,658
Liabilities to banks	5,123	20,313	25,436	4,342	25,449	29,791
Payments received on account	10,448	–	10,448	8,685	–	8,685
Trade payables	100,406	–	100,406	94,947	–	94,947
Liabilities on bills of exchange accepted and drawn	21,921	–	21,921	26,951	–	26,951
Payables to companies in which investments are held	2,181	–	2,181	912	–	912
Leasing payables	765	1,250	2,015	1,810	1,576	3,386
Other liabilities	95,514	22,621	118,135	94,852	25,765	120,617
Total	**240,159**	**316,341**	**556,500**	**236,300**	**337,748**	**574,048**

Liabilities to insurance companies in the amount of € 13.9 million (previous year: € 17.7 million) and liabilities to banks in the amount of € 20.7 million (previous year: € 16.2 million) are secured by real estate liens and collateral assignments.

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, 2004		Sept. 30, 2003	
	Nominal value € million	Fair value € million	Nominal value € million	Fair value € million
Bonds	262.1	269.4	271.1	279.6
Loans granted by banks and insurance companies (with differences in fair value)	19,0	19,5	24.4	26.4
Loans granted by banks and insurance companies (without difference in fair value)	20,3	20,3	23.0	23.0
Total	**301.4**	**309.2**	**318.5**	**329.0**

The bonds (maturing in 2006 or with maturities between 2010 and 2014) carry interest rates of 4.5% p.a. and 5.76% p.a., while the loans from banks and insurance companies have interest rates of 1.0% to 8.3% p.a. (maturities between 2004 and 2011).

Other liabilities include liabilities to shareholders, in particular shareholders in the limited partnership, in an amount of € 35.7 million (previous year: € 46.8 million), of which € 19.9 million (previous year: € 22.9 million) are long-term.

31 | CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

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

MINIMUM LEASE PAYMENTS	Capital lease Nominal value € ’000	Operating lease Nominal value € ’000
Maturing within a year	869	18.093
Maturing within 2 years	668	7.937
Maturing within 3 years	322	5.029
Maturing within 4 years	170	3.054
Maturing within 5 years	144	2.668
Maturing after 5 years	–	7.421
Total	**2.173**	**44.202**
Interest	158	
Present value of commitments	2.015	

Rental and lease expenses amounted to € 9.5 million in fiscal 2004 (previous year: € 10.1 million). Lease payments received under non-terminable sublease agreements amounted to € 14.6 million as of September 30, 2004 (previous year: € 14.7 million).

Capital lease and operating lease commitments arise predominantly from leasing programs under which CLAAS agricultural machines have been leased to CLAAS Leasing GmbH and subleased to final customers.

The aggregate of contingent liabilities in the current fiscal year amounts to € 50.4 million (previous year: € 51.7 million). These are comprised of liabilities on bills of exchange, liabilities under guarantees, and other financial commitments. Liabilities on bills of exchange of the CLAAS Group amount to € 33.6 million (previous year: € 34.0 million) as of the end of the fiscal year. They include commitments in the amount of € 25.7 million that arose after January 1, 2003 and that are matched by equivalent reimbursement claims and realization proceeds. At September 30, 2004, liabilities under guarantees for the Group existed in the amount of € 11.6 million (previous year: € 14.0 million), thereof liabilities under guarantees included in the amount of € 7.3 million that arose after January 1, 2003. These are compensated through reimbursement claims and realization proceeds in the amount of € 4.7 million. The residual amount of € 2.6 million is stated at its fair value of € 8,000.

Contingent liabilities issued after January 1, 2003 primarily relate to liabilities on bills of exchange and guarantees for credit risks assumed in connection with export transactions. Bills of exchange and credit risk guarantees have an average maturity of 23.7 months and 29.7 months, respectively. Potential creditor claims are matched by reimbursement claims from insurance contracts and/or legal title in the products sold.

At September 30, 2004, other financial commitments amounted to € 5.2 million (previous year: € 3.8 million). Other financial commitments do not include rental and leasing commitments.

Based on existing purchase and sale options, contingent liabilities do not include acquisition payments for additional shares in RENAULT Agriculture. A future purchase price can be established in the same way as the purchase price of the shares already purchased.

32 | WARRANTY PROVISIONS

In 2004, provisions for warranty commitments were recorded in the amount of € 55.0 million (previous year: € 47.0 million). They include provisions for special inspections and provisions for payments under warranties and customer complaint settlements. The provision requirement for special inspections is calculated centrally according to standard principles. The computation takes into account parameters such as construction programs, unit numbers and costs of materials and assembly per machine. Provisions for warranties and settlement of customer complaints are calculated 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	Currency translation € '000	Utilization € '000	Release € '000	Additions € '000	Closing balance € '000
46,978	-154	26,889	4,670	39,782	55,047

33 I FINANCING COMMITMENTS

Financing commitments as of the reporting date are classified as follows:

	Up to 1 year		1-5 years		> 5 years		Total	
	As of Sept. 30, 04 € million	As of Sept. 30, 03 € million	As of Sept. 30, 04 € million	As of Sept. 30, 03 € million	As of Sept. 30, 04 € million	As of Sept. 30, 03 € million	As of Sept. 30, 04 € million	As of Sept. 30, 03 € million
Bonds	–	–	100.0	100.0	162.1	171.1	262.1	271.1
Syndicated loans	102.3	–	–	102.3	–	–	102.3	102.3
Credit facilities from banks and insurance companies	328.4	271.0	48.7	44.0	31.4	34.8	408.5	349.8
Total	**430.7**	**271.0**	**148.7**	**246.3**	**193.5**	**205.9**	**772.9**	**723.2**

34 I CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows is broken down according to cash flows from operating activities, investing activities, and financing activities. Effects of changes in the scope of consolidation have been eliminated; their impact on cash and cash equivalents is shown separately, as is the influence of exchange rate fluctuations on cash and cash equivalents.

Cash flow from operating activities includes dividends received in the amount of € 1.1 million (previous year: € 0.8 million); non-cash profit contributions 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 € 615,000 (previous year: € 77,000), which are classified as capital leases. Interest paid was € 37.3 million (previous year: € 32.2 million); income tax payments amounted to € 5.6 million (previous year: € 33.0 million).

35 I EMPLOYEES

AVERAGE NUMBER OF EMPLOYEES	2004	2003
Wage earners	4,027	3,749
Salary earners	3,661	3,127
Trainees	465	416
Total	**8,153**	**7,292**

36 I DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

As a result of its business activities, the CLAAS Group is exposed to exchange and interest risks. Systematic currency and interest rate management is adopted in order to limit these risks. All common financial instruments including derivatives are used as part of this process. Currency risks basically involve the US Dollar, the Hungarian Forint and the British Pound. Forward exchange transactions and currency options are entered into, in order to mitigate or eliminate exchange risk from receivables and payables denominated in foreign currencies, taking into account 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 specifically planned transactions.

The notional amount of the hedging transactions constitutes the aggregate of all underlying buying and selling amounts. The level of the notional amount allows conclusions to be drawn as to the extent that derivatives are used, but does not reflect the Group's exposure from the use of derivatives. It is to be emphasized that notional amounts in the table below do not include the interest and currency positions that were offset by counter-trades. A gross presentation of these amounts would not provide meaningful commercial information. The notional amounts as of the balance sheet date of the interest and currency positions entered into through counter transactions amount to € 210.2 million (previous year: € 210.2 million).

There is a strict segregation of functions in physical and organizational terms between the execution, control and recording of transactions. Levels of discretion in trading in terms of both amount and content are defined in internal guidelines. In the finance area, risk positions are continuously evaluated by means of audited 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 that meets the requirements under the German Act on Control and Transparency in the Corporate Sector (KonTraG) has been implemented. In this context, efficiency of the hedging instruments used and reliability of the internal control systems are regularly reviewed by means of internal and external examinations.

A portion of derivatives are accounted for under hedge accounting. Cash flow hedge accounting hedges both variable future cash flows from long-term liabilities and future sales denominated in foreign currency.

A hedge effectiveness of 100% was evidenced with respect to the cash flow hedge on variable future cash flows from long-term liabilities. Changes in the fair value of these derivatives are recorded in other comprehensive income shown under equity. Reclassification into the income statement has been made in the amount in which the underlying transaction was recognized as income/loss in the period under review. This reclassification was made in the same account in the income statement in which the underlying transaction has been recorded.

The cash flow hedges of future foreign currency sales resulted in ineffective parts in the amount of a net loss of € 106,000 as of September 30, 2004; these are shown as currency expense.

The following table includes both derivatives for which the application of hedge accounting according to SFAS 133 was waived, as well as those to which hedge accounting was applied. The derivative financial instruments are recognized at the following fair values (fair values and carrying values are thus equivalent):

	Notional amount		Remaining term > 1 year		Fair value of assets		Fair value of liabilities	
CURRENCY HEDGING	**Sept. 30, 04 € '000**	**Sept. 30, 03 € '000**	**Sept. 30, 04 € '000**	**Sept. 30, 03 € '000**	**Sept. 30, 04 € '000**	**Sept. 30, .03 € '000**	**Sept. 30, 04 € '000**	**Sept. 30, 03 € '000**
Forward exchange transactions	187,096	172,630	1,255	5,565	3,443	5,583	285	144
Currency options	71,098	59,285	–	–	571	522	33	735
Other currency hedging instruments	200,000	200,000	200,000	200,000	–	–	48,583	36,865
Total	**458,194**	**431,915**	**201,255**	**205,565**	**4,014**	**6,105**	**48,901**	**37,744**

	Notional amount		Remaining term > 1 year		Fair value of assets		Fair value of liabilities	
INTEREST HEDGES	**Sept. 30, 04 € '000**	**Sept. 30, 03 € '000**	**Sept. 30, 04 € '000**	**Sept. 30, 03 € '000**	**Sept. 30, 04 € '000**	**Sept. 30, 03 € '000**	**Sept. 30, 04 € '000**	**Sept. 30, 03 € '000**
Interest options*	330,652	300,904	270,652	270,704	582	1,688	907	1,773
Interest swaps*	177,226	160,226	167,000	160,226	7,343	8,602	6,587	8,593
Other interest hedging instruments	–	20,000	–	–	–	–	–	26
Total	507,878	481,130	437,652	430,930	7,925	10,290	7,494	10,392

** Excluding offsetting counter trades.*

37 | SEGMENT REPORTING

	CLAAS Agricultural Engineering		CLAAS Industrial Engineering		CLAAS Production Engineering		Eliminations		CLAAS Group	
	2004 € million	2003 € million	2004 € million	2003 € million	2004 € million	2003 € million	2004 € million	2003 € million	2004 € million	2003 € million
External sales	1,776	1,340	24	24	128	132	0	0	1,928	1,496
Internal sales	4	5	83	90	3	3	-90	-98	0	0
Total sales	**1,780**	**1,345**	**107**	**114**	**131**	**135**	**-90**	**-98**	**1,928**	**1,496**
Operating profit (EBIT)	65	38	-1	5	6	10	1	0	71	53
Segment assets	1,294	1,309	42	37	135	122	-79	-55	1,392	1,413
Goodwill*	31	36	0	0	21	11	0	0	52	47
Capital expenditure	31	45	3	4	6	3	0	0	40	52
Depreciation/amortization	46	32	4	3	3	2	0	0	53	37
Interest income	9	12	0	0	0	0	0	0	9	12

** Goodwill for the Agricultural Engineering segment has been accumulatively reduced by impairments in the amount of € 13,3 million*

CLAAS defines its segments according to areas of business. The definition of business areas and regions is based on the internal reporting system.

The Agricultural Engineering segment is the core business of CLAAS. The Company is the European market leader with its main products, combine harvesters and foragers. 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 supplemented by the tractor business since 2003.

The CLAAS Industrial Engineering segment is the system supplier for drive technology and hydraulics within the CLAAS Group. Third-party business chiefly involves components for construction machinery and utility vehicles.

The Production Engineering segment is headed 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 acquisition of Brötje Automation, business activity in this segment has been extended to the aviation and aerospace industry.

Internal sales reflect the level of sales between individual segments and are accounted for at arm's-length. Capital expenditure relates to acquired property, plant and equipment.

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

	2004 € '000	2003 € '000
Operating profit (EBIT)	**71,489**	**53,161**
./. Income taxes	14,341	3,358
./. Interest expense	28,019	25,964
./. Compensation CMG	2,472	1,835
./. Compensation for participation certificates	3,599	2,806
./. Minority interests	1,561	1,297
Consolidated net income	**21,497**	**17,901**

The increase in net sales from € 1,496.3 million to € 1,928.4 million is primarily due to increases in EU countries. Acquisitions in the preceding year contributed to this increase.

BREAKDOWN OF SALES BY REGION	2004 € million	2003 € million
Germany	447.6	461.4
Other EU* countries	1,066.5	685.9
Other European countries (excluding EU*)	207.6	188.0
Other countries	206.7	161.0
Total	**1,928.4**	**1,496.3**

** EU-15*

Disclosure concerning important customers: Since the CLAAS Group's sales are primarily in agricultural machinery, the Group's clients predominantly operate in the agricultural sector. Due to the large number of customers, there are no customers who constitute a significant percentage of the Group's sales volume. Furthermore, with the exception of the German and French markets, the customer structure shows no significant concentration on specific geographic regions.

38 I SUBSEQUENT EVENTS

Subsequent financing for the € 40.9 million participation certificates repaid in September 2004 took the form of a subordinated securities issue with an unlimited term (subordinated perpetual security) in the amount of € 80.0 million issued in October 2004. This transaction meets the requirements for classification as equity under US GAAP and IAS/IFRS and delivers a nominal return of 7.62%.

39 I MATERIAL DIFFERENCES BETWEEN GERMAN GAAP (HGB) AND US GAAP

Material differences of recognition and measurement between German GAAP (HGB) and US GAAP are described below.

FIXED ASSETS

According to HGB principles, fixed assets are predominantly depreciated on a declining basis, with tax depreciation normally being applied in the same amount in the tax accounts. An asset's useful life is generally based on depreciation tables established by the fiscal authorities. Under German law, intangible fixed assets acquired without compensation cannot be capitalized.

According to US GAAP, the depreciation method that best reflects the anticipated wear and tear of the asset concerned should be applied. Customarily, therefore, straight-line depreciation is used; tax depreciation is not applicable. Contrary to HGB, depreciation for assets subject to wear and tear is based on a useful life that may differ from the useful life provided in the fiscal depreciation tables. Furthermore, leased fixed assets are capitalized, provided 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 cannot be determined, an impairment test is performed annually (or more frequently, if indications of permanent impairment exist) rather than applying scheduled amortization. Goodwill cannot be amortized on a scheduled basis, but should undergo an annual impairment test. Certain self-generated intangible fixed assets are required to be capitalized under US GAAP.

INVENTORIES

Whereas under German law, inventories may 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 (meaning that allocated 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 reported as PoC receivables depending on their stage of completion.

DEFERRED TAXES

According to German accounting principles, tax assets and liabilities are only deferred in the case of temporary differences between income under HGB and income for tax purposes; quasi-permanent differences may not be deferred. The netting of deferred tax assets and deferred tax liabilities is allowed.

Under US GAAP, deferred taxes are to be recognized for temporary differences between the values recorded in the financial statements and the tax accounts. Furthermore, deferred tax assets are to be recorded for anticipated tax reductions from losses carried forward. Deferred tax assets and deferred tax liabilities are openly netted in the case of identical maturity, identical tax type and identical tax jurisdiction.

ACCOUNTS RECEIVABLE/OTHER ASSETS/DERIVATIVES

Under HGB, a general bad debt charge is made against receivables in accordance with the prudence concept. According to US GAAP, general bad debt charges may only be created if empirical data is available to substantiate the fact that defaults are likely to occur. At CLAAS, an excess of pension assets over pension commitments is reported under other assets in compliance with US GAAP. Under HGB, 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 HGB, securities are recorded at the lower of acquisition cost or market value as of the balance sheet date.

Under US GAAP, securities are classified in the following three categories: 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 stated at their fair value as of the balance sheet date. Unrealized gains and losses from available-for-sale securities are reported in a separate equity account, accumulated other comprehensive income, without impact on earnings, and taking into account deferred taxes.

PENSION PROVISIONS

According to HGB, 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 may not be taken into account. The discount factor may be based on tax provisions.

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 discount factor is equivalent to the capital market interest rate.

In the event that the present value of vested pension rights exceeds the pension provision created in the income statement due to a change in the basis of calculation then, according to SFAS 87, the pension provision is increased by an amount added to the provision (»additional minimum liability«) without impacting income. This amount must be lower than the additional expenses from the adjustment to the plan still to be allocated, otherwise it is offset against equity. The difference in pension valuation is not taken to income under US GAAP. Under HGB, funding and liquidation of this minimum pension liability are immediately taken to income.

OTHER PROVISIONS

According to HGB, options exist allowing accruals for future expenses based on internal commitments.

Under US GAAP, requirements for creating provisions are more restrictive. There are no options for creating a liability in this respect and a high degree of probability must exist before a liability may be recorded. Accruals for future expenses are not allowed.

CASH AND CASH EQUIVALENTS

In contrast to HGB, cash and cash equivalents under US GAAP also include securities with a remaining term at the date of acquisition of up to 90 days.

SILENT PARTNERSHIP

Allocation to equity or external capital according to HGB depends primarily on such factors as profit-related compensation, participation in losses and the subordinated treatment in the case of bankruptcy. According to these criteria, the silent partnership and the participation certificates of CLAAS should be classified as equity in accordance with HGB. According to US GAAP, however, the ability to repay capital transferred is the decisive factor for reporting items under equity.

MINORITY INTERESTS

According to HGB, minority interests are accounted for under equity. According to US GAAP, minority interests are reported as a separate item in the balance sheet not included in equity.

COMPREHENSIVE INCOME/ACCUMULATED OTHER COMPREHENSIVE INCOME

In contrast to German accounting regulations, US GAAP provides for a separate equity component, accumulated other comprehensive income, changes in which, together with net income, form a kind of total operating performance, or comprehensive income. The following elements of accumulated other comprehensive income are to be reported separately: Foreign currency translation differences, supplementary pension provisions (see pension provisions), unrealized gains and losses in connection with the market valuation of securities as well as the effective portion of the fair value changes in derivatives that meet cash flow hedging 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

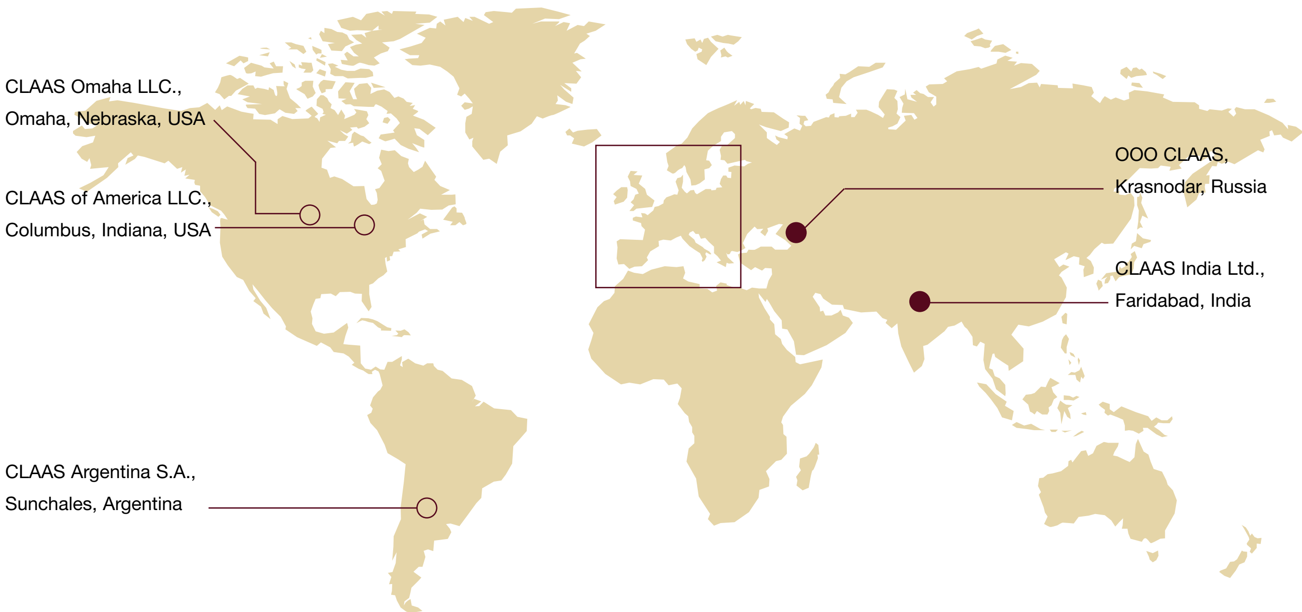
Supervisory Board

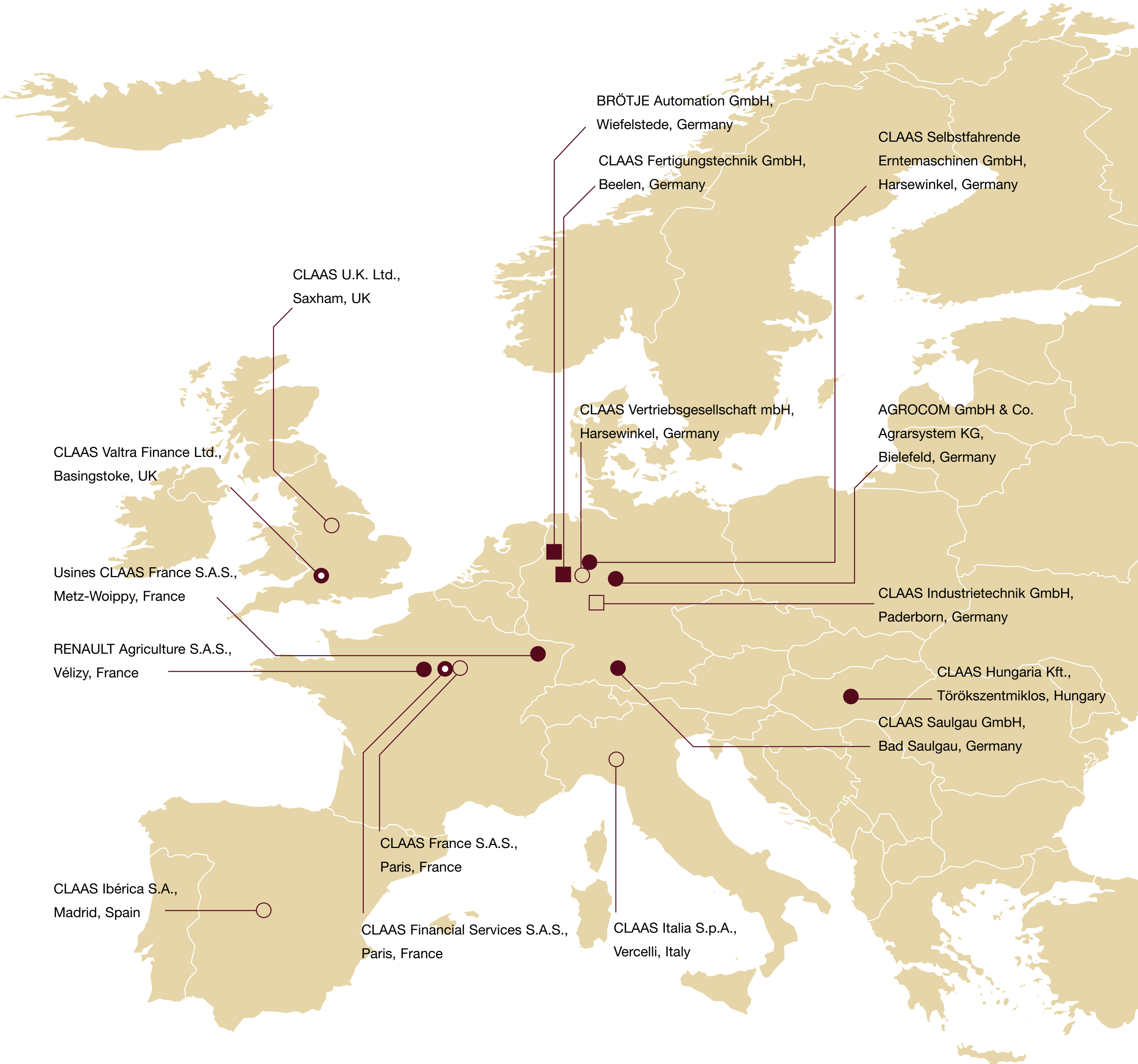
Helmut Claas, Harsewinkel,
Chairman
Guntram Schneider, Münster*
Deputy Chairman
Cathrina Claas, Zurich (since 01/04)
Oliver Claas, Wedel/Holstein
Volker Claas, Harsewinkel
Günther Groß, Beckum*
Claus Helbig, Munich
Günter Laumann, Harsewinkel*
Wilfried Lochte, Groß Schwülper (until 01/04)
Jens Möller, Rheda-Wiedenbrück*
Gerd Peskes, Düsseldorf
Siegfried Vieth, Hövelhof*
Carmelo Zanghi, Paderborn*

** Employee representatives*

Executive Board

Rüdiger A. Günther (Executive President)
Nikolaus Feil
Hermann Garbers
Lothar Kriszun
Guy Povie
Werner Schneider (until 04/04)
Thomas Klatt (since 06/04)





AGRICULTURAL ENGINEERING ■ **PRODUCTION ENGINEERING** □ **INDUSTRIAL ENGINEERING** *As of September 30, 2004*

● **Product companies**

○ **Sales companies**

◉ **Finance companies**

SEVEN YEAR OVERVIEW		2004	2003	2002	2001	2000	1999*	1998*
INCOME STATEMENT								
Net sales	€ million	1,928.4	1,496.3	1,265.5	1,147.9	1,072.5	1,038.5	1,108.5
Foreign sales percentage	%	76.8	69.2	64.9	68.9	66.6	65.5	69.7
Income before taxes	€ million	37.4	22.6	55.8	36.1	26.2	22.4	59.9
Net income	€ million	**21.5**	**17.9**	**32.5**	**14.3**	**11.7**	**5.8**	**27.2**
BALANCE SHEET								
Fixed assets	€ million	**374.3**	**373.9**	**262.3**	**211.2**	**187.1**	**148.1**	**132,0**
Intangible assets	€ million	59.7	55.8	20.0	6.8	3.5	6.0	8.4
Property, plant, and equipment	€ million	249.8	252.3	192.8	155.5	138.7	99.3	83.3
Financial assets	€ million	64.8	65.8	49.5	48.9	44.8	42.8	40.3
Current assets	€ million	**960.1**	**984.7**	**724.8**	**698.2**	**656.4**	**582.5**	**542.8**
Inventories	€ million	280.9	337.6	207.1	168.5	181.2	212.6	224.6
Accounts receivable/derivatives/other assets	€ million	298.8	302.3	217.0	195.6	190.4	133.1	137.2
Cash and cash equivalents	€ million	380.4	344.8	300.7	334.1	284.8	236.8	181.0
Prepaid expenses/deferred taxes	€ million	**57.9**	**54.2**	**32.5**	**22.0**	**16.1**	**25.5**	**16.9**
Equity	€ million	**311.6**	**292.5**	**292.2**	**268.8**	**263.5**	**261.6**	**261.0**
Funds similar to equity**	€ million	**64.2**	**106.3**	**58.3**	**56.3**	**55.5**		
Debt capital	€ million	**1,016.5**	**1,014.0**	**669.1**	**606.3**	**540.6**	**494.5**	**430.7**
Provisions/deferred taxes	€ million	403.6	391.8	330.1	288.2	257.0	246.7	263.1
Liabilities/derivatives	€ million	612.9	622.2	339.0	318.1	283.6	247.8	167.6
Total assets	€ million	**1,392.3**	**1,412.8**	**1,019.6**	**931.4**	**859.6**	**756.1**	**691.7**
RATIOS								
Return on sales	%	1.9	1.5	4.4	3.2	2.4	2.2	5.4
EBIT	€ million	71.5	53.2	84.0	66,7	54.0	48.7	89.6
EBITDA	€ million	124.2	90.9	111.9	111.5	82.5	79.9	113.8
Return on equity	%	6.9	6.1	11.1	5.3	4.4	2.2	10.4
Return on assets	%	5.1	3.8	8.2	7.2	6.3	6.4	13.0
Cash flow according to DVFA/SG***	€ million	73.8	51.2	67.4	67.7	39.6	53.1	70.9
Equity ratio	%	22.4	20.7	28.7	28.9	30.7	34.6	37.7
First-degree liquidity	%	71.5	67.4	83.7	109.7	118.3	111.9	74.3
Equity-to-fixed-assets ratio	%	229.8	241.1	251.7	297.0	330.9	367.7	339.5
Working capital	€ million	362.5	415.9	303.5	251.8	274.0	286.6	298.1
EMPLOYEES								
Employees as of the balance sheet date (including trainees)		8,134	8,391	6,114	5,488	5,558	5,853	6,030
Personnel expenses	€ million	422.0	352.3	291.7	277.3	269.7	269.1	262.0

** The figures up to and including 1999 are based on HGB accounting.*

*** Under US GAAP, participation certificates, the silent partnership and minority interest are not usually recognized as equity.*

**** Deutsche Vereinigung für Finanzanalyse und Anlageberatung e.V./Schmalenbach-Gesellschaft (German association of financial analysts/Schmalenbach-Gesellschaft).*

DEFINITIONS

Return on sales	=	$\frac{\text{Income before taxes}}{\text{Net sales}}$
EBIT	=	*Net income + taxes on income + minority interest -/+ income from changes in accounting principles + interest expense + profit transferred under a partial profit transfer agreement (CMG) + compensation for participating certificates*
EBITDA	=	*EBIT + depreciation of tangible assets + amortization of intangible assets*
Return on equity	=	$\frac{\text{Net income}}{\text{Equity}}$
Return on assets	=	$\frac{\text{EBIT}}{\text{Total assets}}$
Cash flow according to DVFA/SG	=	*Net income + depreciation of tangible assets + amortization of intangible assets +/- changes of pension provisions and other long-term provisions +/- other non cash income/expense*
Equity to assets ratio	=	$\frac{\text{Equity}}{\text{Total assets}}$
First-degree liquidity	=	$\frac{\text{Liquidity}}{\text{Short-term liabilities}}$
Equity to fixed assets ratio	=	$\frac{\text{Equity + funds similar to equity + long-term liabilities}}{\text{Fixed assets}}$
Working capital	=	*Inventories ./. advance payments received +/- trade accounts receivable/payable +/- accounts receivable/payable to investments/associates +/- notes receivable/payable*

CONTACT

CLAAS KGaA mbH
P.O. Box 1163
Münsterstrasse 33
D-33426 Harsewinkel
Germany
www.claas.com

Additional copies of this report and further information about CLAAS are available free of charge on request.

PUBLIC/INVESTOR RELATIONS

Phone: (05247) 12-1743
Fax: (05247) 12-1751
Email: pr@claas.com

This annual report is available in German and English. Both versions may be downloaded on the Internet at www.claas.com

CONCEPT & DESIGN

Kirchhoff Consult AG
Hamburg, Germany

ENGLISH TRANSLATION

ETS-English Translation
Services GmbH
Frankfurt, Germany

- **CLAAS, founded in 1913, is today a leading producer of agricultural machinery. The product range spans the entire agricultural process chain.**

- **CLAAS is the European market leader in combine harvesters, and the worldwide leader in foragers.**

- **CLAAS produces agricultural machinery at 7 sites in Germany and 7 sites abroad. Products are designed to meet specific local requirements and are delivered worldwide.**

- **CLAAS employs approx. 8,000 people throughout the Group.**

CLAAS KGaA mbH
P.O. Box 1163
Münsterstraße 33
D-33426 Harsewinkel
Germany

www.claas.com