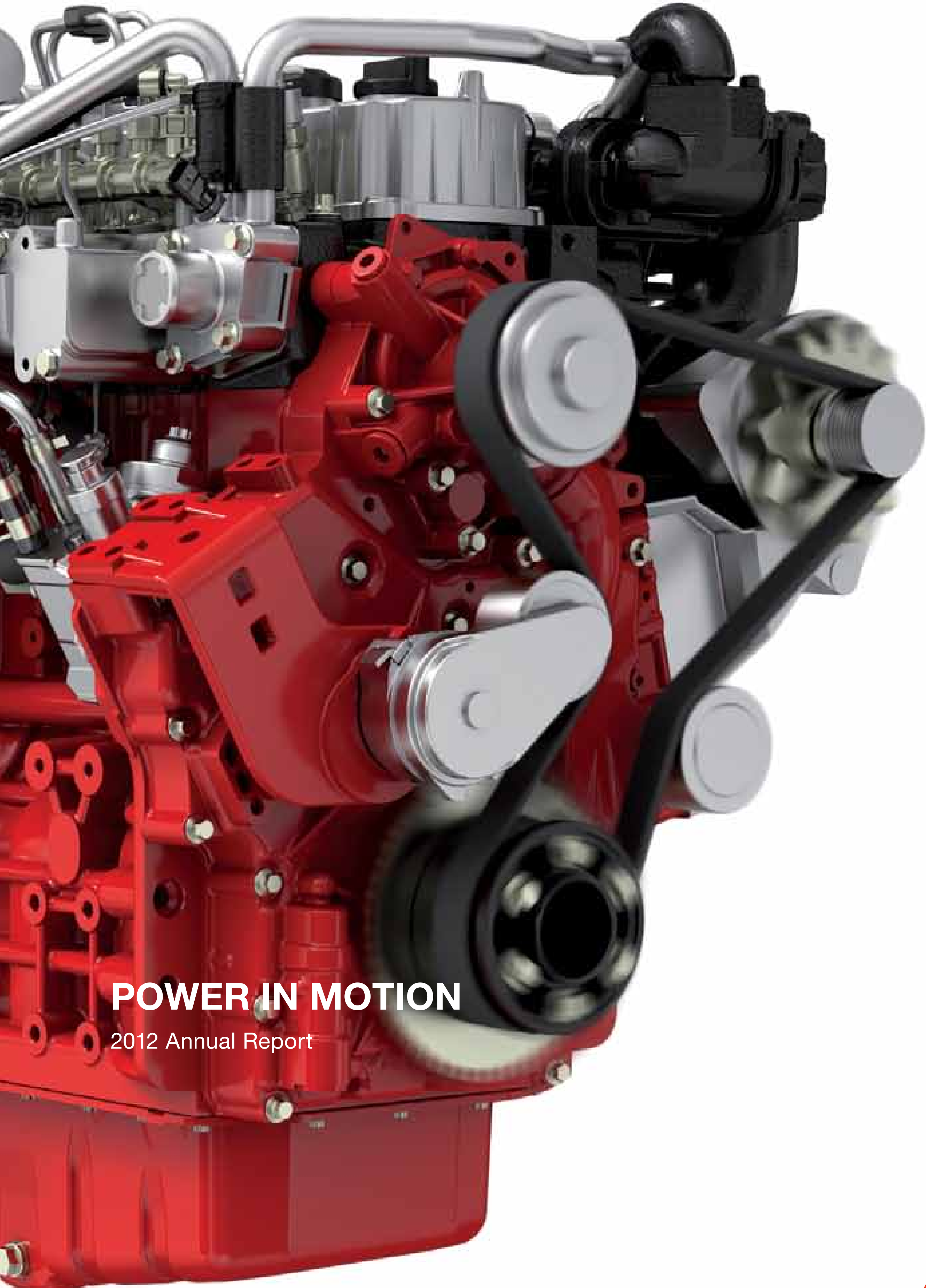


POWER IN MOTION

2012 Annual Report

DEUTZ

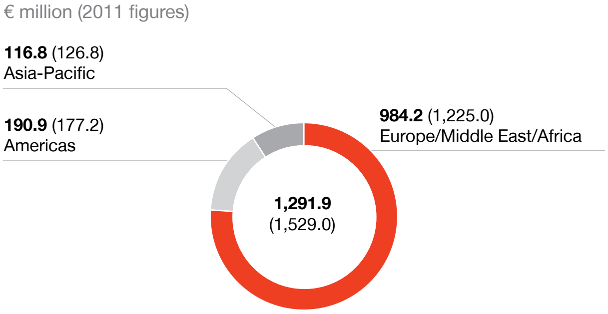
DEUTZ GROUP: KEY FIGURES

	2012	2011	Change in %
€ million			
New orders	1,237.1	1,479.3	–16.4
Unit sales (quantity)	178,774	230,598	–22.5
Revenue	1,291.9	1,529.0	–15.5
thereof excluding Germany (%)	82.0	81.9	–
EBITDA	123.1	160.3	–23.2
EBIT	38.5	91.2	–57.8
EBIT margin (%)	3.0	6.0	–
Net income on continuing operations	22.1	68.7	–67.8
Net income	21.0	75.5	–72.2
Earnings per share for continuing operations	0.18	0.57	–68.4
Earnings per share (€)	0.17	0.62	–72.6
Total assets	1,026.4	1,099.0	–6.6
Non-current assets	621.3	623.1	–0.3
Equity	480.1	453.5	5.9
Equity ratio (%)	46.8	41.3	–
Cash flow from operating activities[1]	104.9	120.0	–12.6
Free cash flow[2]	12.6	4.8	–
Net financial position[3]	–48.6	–69.6	30.2
Working capital[4]	141.6	142.1	–0.4
Working capital as a percentage of revenue (31 Dec, %)[5]	11.0	9.3	–
Capital expenditure (excluding capitalisation of R&D, after deducting grants)[6]	66.4	41.1	61.6
Depreciation and amortisation	84.6	69.1	22.4
Research and development (after deducting grants)[6]	62.1	84.6	–26.6
Employees (31 Dec)	3,991	4,060	–1.7

[1] Interest income, which amounted to €0.9 million (2011: €0.5 million), is now reported under cash flow from financing activities instead of under cash flow from operating activities so that both interest income and interest expense are now shown under financing activities. The prior-year figures have been restated accordingly to improve comparability.
[2] Free cash flow: cash flow from operating and investing activities minus interest expense
[3] Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities
[4] Working capital: inventories plus trade receivables minus trade payables
[5] Working capital as percentage of revenue (31 Dec, %): Working Capital at 31 Dec divided by revenue of the past twelve months
[6] As of business year 2012 the key figures "capital expenditure" and "expenditure for research and development" are presented after deducting grants. Last year's data have been adjusted to this form of presentation to facilitate comparability.

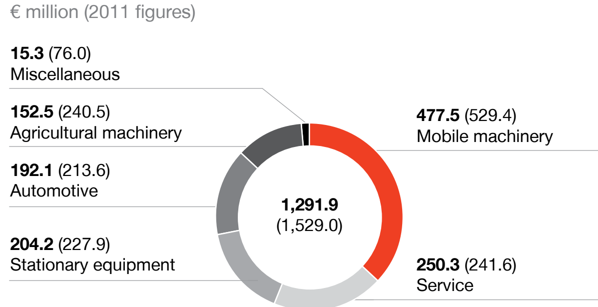
DEUTZ Group: Revenue by regions

€ million (2011 figures)



DEUTZ Group: Revenue by application segment

€ million (2011 figures)



DEUTZ AG

DEUTZ AG is an independent manufacturer of diesel engines with a power output of 25 to 520kW and is headquartered in Cologne, Germany. The Company's history stretches back almost 150 years, during which time it has been synonymous with leading technology and high-quality products. We employ around 4,000 people and have a presence in over 130 countries.

WORLD WIDE

Caption

- ● Productions/assembly/component plant
- ▲ Distribution company
- ■ Sales office

In addition: more than 800 independet DEUTZ distribution and service partners in more than 130 countries

America

Argentina
●▲ Buenos Aires

Brazil
▲ São Paulo

United States
●▲ Atlanta
● Pendergrass

Europe

Germany
● Herschbach
●■ Cologne
● Übersee
●■ Ulm
■ Wunstorf

France
▲ Gennevilliers/ Paris

United Kingdom
■ Cannock

Russia
▲■ Moscow

Spain
▲ Madrid
● Zafra

Turkey
■ Istanbul

Africa

Algeria
■ Algiers

Marocco
▲ Casablanca

South Africa
▲ Cape Town

Asia

China
●▲ Dalian
▲■ Beijing
● Weifang
● Linyi

India
▲ Pune

Singapore
▲ Singapore

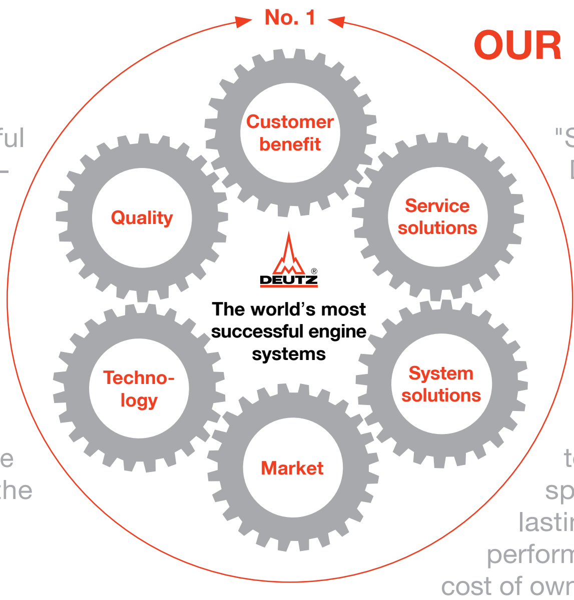
UAE
■ Abu Dhabi

Australia

▲ Braeside/ Melbourne

OUR VISION

"To offer the most successful engine systems in the world" – this is our vision. In 1864, DEUTZ became the world's first engine manufacturer ever. We intend to remain 'No. 1' when it comes to customer benefit, quality, technology and everything to do with engine system and service solutions; not least, we intend to remain No. 1 in the market.



OUR MISSION

"Since its foundation in 1864, DEUTZ has stood for pioneering spirit, passion and innovative strength. We invented the internal combustion engine and have improved it every day since then. We are leading the way in developing environmentally-friendly and efficient drive technologies. Our customer-specific solutions offer long-lasting high quality and reliable performance at an affordable total cost of ownership."

DEUTZ SEGMENTS

DEUTZ Compact Engines

- Liquid-cooled engines of up to 8 litres cubic capacity for on and off-road applications
- Large number of modular approaches to design
- Major joint ventures in China

DEUTZ Customised Solutions

- Air-cooled engines for on-road, off-road and marine applications
- Liquid-cooled engines of over 8 litres for on-road, off-road and marine applications
- Reconditioned (Xchange) engines for all DEUTZ engine series

DEUTZ Compact Engines	**2012**	2011	Change in %
€ million			
New orders	960.6	1,174.2	–18.2
Unit sales (units)	161,899	204,161	–20.7
Revenue	1,005.0	1,199.1	–16.2
EBIT	–15.6	47.2	–

DEUTZ Customised Solutions	**2012**	2011	Change in %
€ million			
New orders	276.5	305.1	–9.4
Unit sales (units)	16,875	26,437	–36.2
Revenue	286.9	329.9	–13.0
EBIT	46.6	46.5	–

POWER IN MOTION

Even during challenging periods, it is important not to lose sight of the long term. In 2012, we laid the foundations that will enable us to continue to operate successfully in the market: by taking timely steps to cut costs and improve efficiency, by stepping up our service and sales activities, by strengthening our presence in the increasingly important Chinese market and by expanding our portfolio of technologically outstanding products.

This will enable us to drive our Company forward and to continue to put power in motion – just as DEUTZ engines do with the vehicles of our customers.

CONTENTS

FOREWORD

Dear shareholders,
friends and partners of our company,

although 2011 had been one of the best years in DEUTZ's history, our business over the course of 2012 was affected by the weak performance of the economy in Europe and of certain parts of the capital equipment sector in China that are of relevance to us.

Our revenue decreased by 15.5 per cent to approximately €1.3 billion in 2012. Unit sales fell by 22.5 per cent to just under 179,000 engines. This meant our operating profit (EBIT) of €38.5 million was significantly down on the 2011 figure of €91.2 million. The EBIT margin for 2012 therefore amounted to 3.0 per cent. This earnings trend is also attributable to smaller contributions to earnings from our joint ventures, start-up costs for our growth projects and the production start-up of new engines.

DEUTZ shares performed along similar lines in 2012. The share price was unable to keep pace with the growth of the benchmark index observed at the end of 2012 and lost almost 14 per cent in value over the course of the year. After one year on the MDAX stock index, DEUTZ shares moved back to the SDAX on 24 September 2012 due to lower market capitalisation. We very much regret this but will nevertheless continue with our intensive capital market communications.

In view of the weaker economic situation in 2012, we took additional steps to reduce costs and improve earnings, including significantly scaling back the number of contract workers deployed. We achieved substantial savings on our overheads and also reviewed our established structures. As a result, we sold our pipe manufacturing operation to a highly capable supplier in 2012. We expect this measure to generate savings and increase our flexibility. Other steps initiated to boost efficiency will begin to have an effect over the course of 2013.

We continued with our successful product offensive in 2012, regardless of the ups and downs of the economy. We also implemented major strategic decisions. We see Asia, and China in particular, as a significant growth market for our products. To take greater advantage of this, we have expanded our existing operations in the region by founding DEUTZ Engine (Shandong) Co., Ltd. in Linyi (China), which assembles diesel engines of less than four litres. We hold a stake of 70 per cent in this new production company.

In addition, we signed a memorandum of understanding with Swedish truck and construction equipment manufacturer AB Volvo in 2012 with the aim of extending and intensifying our long-standing partnership. This includes the establishment of a company, in which DEUTZ will have a majority holding, to produce medium-duty engines in China to meet the engine requirements of the AB Volvo Group and other key construction machinery customers in Asia.

In September 2012, AB Volvo also acquired around 22 million DEUTZ shares from our majority shareholder of many years, SAME DEUTZ-FAHR. AB Volvo now has a stake of just over 25 per cent, making it our largest shareholder. SAME DEUTZ-FAHR remains a key customer and strategic partner.

We agreed with Robert Bosch GmbH that our alliance would continue in the form of an innovation partnership in the fields of exhaust aftertreatment, diesel injection technology and electronics. To this end, we sold our shares in Bosch Emission Systems GmbH & Co. KG to the majority shareholder Bosch.

Another aspect of our corporate strategy is 'greater customer focus', which is why we have stepped up our international sales and service activities. For example, we strengthened our Chinese sales and service company, which we had founded in 2011, by expanding and providing further training for the Chinese dealer network. To help us to achieve our targets for expansion of the service business, we also established a new service centre in Madrid (Spain) and a new service company in Moscow (Russia). This will enable us to serve these markets faster and more effectively.

We have also boosted this area from a personnel perspective by appointing Mr Michael Wellenzohn as an additional member of the Board of Management where, in a newly created position, he will be in charge of sales and marketing.

Dr Margarete Haase
Board of Management member
responsible for Finance,
Human Resources
and Investor Relations

Dr Ing Helmut Leube
Chairman of Board of Management
responsible for Market,
Technical and Central Functions

We reached a further operational milestone in July 2012 when we replaced our previous funding facility. This enabled us to safeguard our Company's growth over the long term and significantly improve our flexibility while reducing our finance costs. In this context we were encouraged by our good key financials in 2012, which we achieved despite the challenging market conditions: free cash flow remained in positive figures at €12.6 million, the working capital ratio as at the balance sheet date was 11.0 per cent while net financial debt declined by some €20 million to below €50 million.

We would like to take this opportunity to say a big thank you to all our employees. Day after day, they demonstrate commitment and motivation in the effort they make on behalf of DEUTZ, thereby playing a key role in the advancement of our Company and its products. We will continue to work together to successfully apply the motto of this year's annual report 'Power in motion' – of that we are sure. Our thanks also go to our long-standing customers and suppliers. We will continue to strengthen our partnership with you.

Following a subdued start to the year, we expect the market to increasingly pick up worldwide in 2013 – something that is already happening according to the uptrend shown by the indicators. On this basis, we anticipate that unit sales will increase only slightly, but with a growing proportion of higher-value engines for the new emissions standards. Overall, we predict revenue of more than €1.4 billion and a year-on-year improvement of the EBIT margin in 2013. However, we expect the EBIT margin to increase only moderately owing to the ongoing expenses resulting from our growth projects and production start-ups.

To our shareholders, we would like to say thank you for your confidence in us. We will do everything we can to continue to justify it in future.

Kind regards from Cologne,

Dr Ing Helmut Leube Dr Margarete Haase

DEUTZ SHARES

The sovereign debt crisis in Europe and uncertainties regarding future global economic growth again impacted on the capital markets in 2012, at least for a time. Nonetheless, the indices had picked up again by the end of the year, when they were generally at their highest level. As a result, the DAX closed at 7,612.39 points on 28 December 2012, up by 29.1 per cent compared with the end of 2011 when it closed at 5,898.35 points.

DEUTZ SHARES PERFORM POORLY OVER THE YEAR

The SDAX and Prime Industrial indices – the benchmarks relevant to DEUTZ – also performed well over the course of 2012 and were almost in sync. DEUTZ shares have been listed on the SDAX again since 24 September 2012. This index rose by 18.7 per cent over the year to close at 5,249.35 points, having closed at 4,421.44 points at the end of 2011. The Prime Industrial Index, which includes major German industrial companies, added 17.8 per cent to close at 3,276.37 points at the end of December 2012 (end of December 2011: 2,782.27 points).

DEUTZ shares – regarded as a cyclical stock – were unable to keep pace with this growth. Having started the year on a positive note and peaking at €5.72 on 20 February 2012, the share price fell constantly during the middle of the year. One of the factors contributing to this decline was the downward revision of our 2012 outlook in mid-July owing to the poor economic situation. Accordingly, the share price reached its lowest level of the year on 4 September 2012 when it hit €2.96. However, the shares recovered again slightly over the following weeks, reaching a year-end closing price of €3.54 on 28 December 2012.

Overall, DEUTZ shares lost 13.9 per cent during the year under review. Market capitalisation stood at €427.9 million as at 28 December 2012, compared with €496.7 million at the end of 2011.

Following the end of the financial year, the DEUTZ share price saw a further recovery and had climbed to €4.25 on 25 February 2013.

Key figures for DEUTZ shares

	2012	2011
Number of shares (31 December)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 31 December (€)	3.54	4.11
Share price high (€)	5.72	7.22
Share price low (€)	2.96	3.23
Market capitalisation as at 31 December (€ million)	427.9	496.7
Earnings per share (€)	0.17	0.62
Continuing operations	0.18	0.57
Discontinuing operations	–0.01	0,05

EARNINGS PER SHARE

Earnings per share is calculated by dividing the net income for the year by the weighted average number of shares in issue. In the year under review, the number of DEUTZ shares in issue was 120.9 million. Basic earnings per share was therefore €0.17, of which €0.18 was attributable to continuing operations. The corresponding amounts for 2011 were €0.62 and €0.57 respectively.

Key data on stock market listing

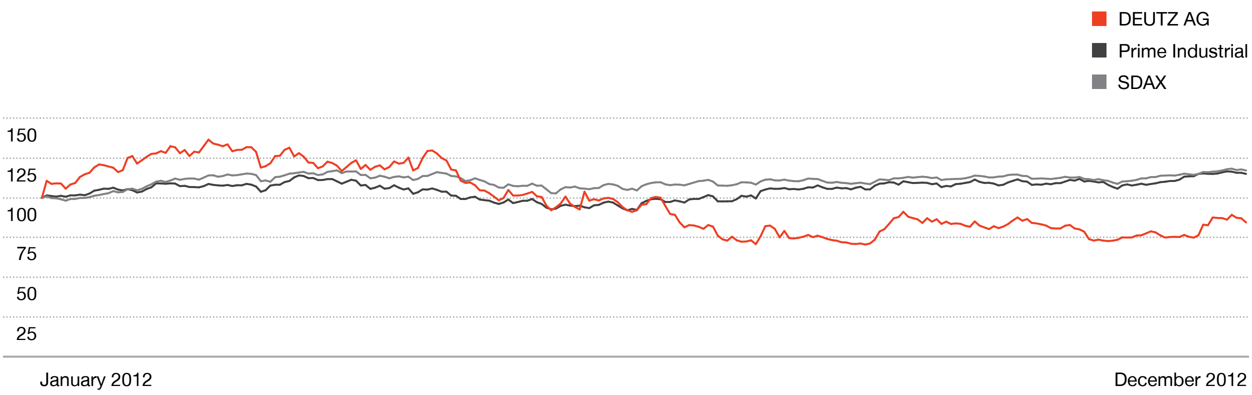
ISIN	DE0006305006
WKN	630500
Reuters	DEZG.F
Bloomberg	DEZ:GR
Market segment	Official market /Prime Standard
Trading platforms	Xetra, Frankfurt/Main, Düsseldorf

DIVIDEND

A dividend can only be paid if the accumulated income determined in accordance with the HGB permits such a distribution. This was not yet the case in 2012 owing to an existing loss carryforward in the separate financial statements of DEUTZ AG. Provided that we meet the necessary conditions under the German Commercial Code (HGB) in future, our intention is to pay a dividend so that our shareholders can regularly share in the Company's success. Moreover, we want to continue to fund a significant proportion of our growth ourselves, that is to say from our own capital, and continue to strengthen our balance sheet. We firmly believe that our corporate strategy gives us a basis on which to create a high level of added value for our Company and our shareholders in the long term. Further information can be found in the Strategy section on page 7.

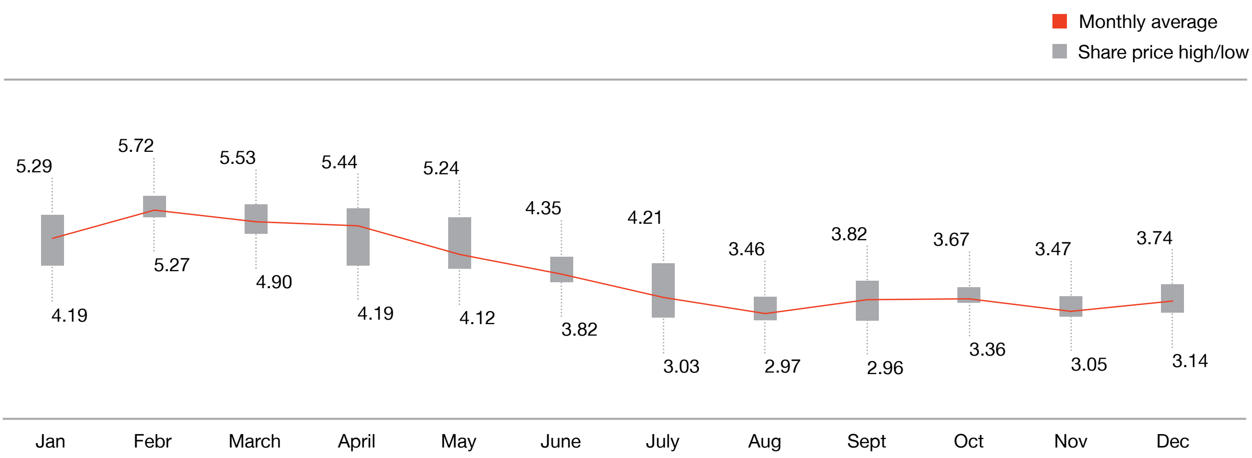
Price performance of DEUTZ share in 2012

in %



DEUTZ share price high and low for 2012

in €

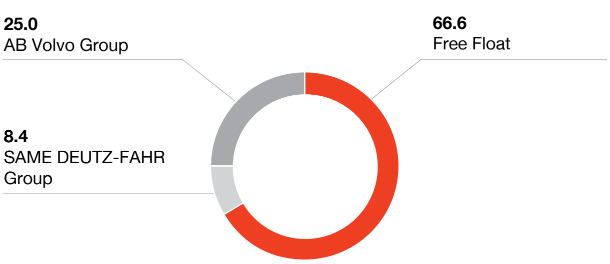


AB VOLVO NOW DEUTZ AG'S LARGEST SHAREHOLDER

As announced in June 2012, Swedish truck and construction equipment manufacturer AB Volvo increased its shareholding in DEUTZ AG from 6.7 per cent to just over 25 per cent in September 2012 by acquiring 22 million shares from SAME DEUTZ-FAHR for approximately €130 million. It is now our Company's largest individual shareholder. SAME DEUTZ-FAHR continues to hold around 8.4 per cent of DEUTZ AG shares and remains one of our major strategic business partners. The proportion of free float shares is currently 66.6 per cent, which is held by a broadly diversified range of private and institutional shareholders both in Germany and abroad.

Breakdown of shareholders as at 31 December 2012

in %



ONGOING INTENSIVE DIALOGUE

As part of our investor relations activities, we again sought dialogue with all relevant stakeholder groups in the reporting year. It is very important to us that all shareholders receive prompt, transparent and comprehensive information about all significant events in our Company. That is why the latest corporate information, such as presentations, financial reports, press releases and ad-hoc announcements, can always be accessed on our website and viewed or downloaded.

At our annual analysts' meeting, which was held on 16 March 2012 in Frankfurt, we presented the DEUTZ annual financial statements and the Company's future strategic direction.

When our three interim reports were published, we held conference calls to discuss our business performance and strategic matters with interested parties from the capital markets.

DEUTZ AG moved from Deutsche Börse's MDAX index back to the SDAX index on 24 September 2012. Unfortunately, the Company had been unable to sustain its market capitalisation at a high enough level to remain in the MDAX, Germany's second most important share index. We are nevertheless continuing with our intensive investor relations activities. In 2012, we were involved in a total of eleven roadshows and investor conferences in Germany, the United Kingdom, France, Switzerland and the United States. We also met personally with analysts, institutional investors and private investors on various occasions throughout the year.

ANALYST COVERAGE

As at the end of 2012, twelve banks and securities houses were watching DEUTZ shares: Bankhaus Lampe, Berenberg Bank, Commerzbank, Deutsche Bank, DZ Bank, Goldman Sachs, HSBC Trinkaus & Burkhardt, Kepler Capital Markets, Metzler, National-Bank, Solventis Wertpapierhandelsbank and UBS. Most analysts recommended DEUTZ as a 'buy' or 'hold'.

Further information can be found on our website at www.deutz.com under Investor Relations.

If you need more information, visit our website or give us a call:

INVESTOR RELATIONS

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Fax: +49 221 822 15 24 91
Email: ir@deutz.com
Website: www.deutz.com

STRATEGY

Throughout 2012, we systematically pursued our strategy, which we had revised and refined in 2011, by expanding our customer and product base and continuing to globalise and internationalise our business. We also made further strategic decisions in the year under review, including implementing structural changes as well as entering into new partnerships and stepping up existing ones. These measures are enabling us to put DEUTZ AG on course for long-term, profitable growth.

In 2011, we enjoyed one of the best years in the history of the Company as we benefited from a considerable reduction in fixed costs and the huge increases in efficiency that had been initiated in the previous years. By contrast, in 2012, several factors had an adverse effect on our business:

There was a noticeable slowdown in the economy in 2012, not only in Europe but also in China. However, there has been no change to our very positive medium-term assessment of the Asian and, in particular, the Chinese market. In recent years, we have also begun work on various projects – mainly in Asia – that at present are still having a negative impact on earnings but that, at the same time, are contributing to further corporate growth. By disposing of our stake in Bosch Emission Systems GmbH & Co. KG in 2012, we have sharpened the focus of our growth projects. However, we stand by our general growth strategy for engine systems. In addition, some of our European customers purchased so-called pre-build engines in 2011 in order to delay using the higher-value and thus more expensive exhaust emissions standard III B engines in the EU. This temporary factor added to the impact the general economic slowdown had on us. The new generation engines are, currently still in the start-up phase. Because volumes are still low and because the product is at an early phase of its lifecycle, costs have not yet stabilised; also, some cost targets have not yet been fully achieved. In 2013, the factors mentioned above will still have an adverse effect on earnings, although to a lesser extent, before our growth projects will increasingly contribute to our results in subsequent years.

Strategic programme until 2020

We supply the most successful engine systems in the world

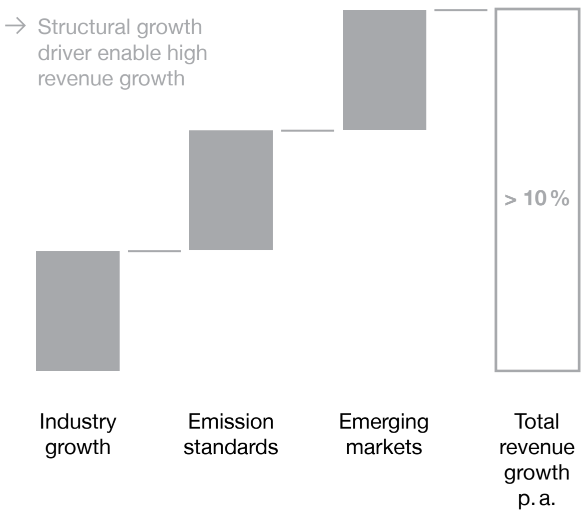
Strategic programme	
Expanding the customer base	→ Growing the Asia business → Reinforcing sales activities → Growing the service business
Expanding the product base	→ Expanding and optimising the engine programme → Expanding the product portfolio by offering system solutions → Expanding and optimising the service programme
Globalisation/ internationalisation	→ Establishing an international production network → Establishing an international development network → Establishing an international procurement network → Establishing an international logistics network
Corporate principles, leadership and cooperation principles	

Against this background we shall stick firmly to our growth strategy, which will see us growing in strength on three fronts in future:

→ First, by **expanding our customer base** and through profitable growth: as before, we see the greatest market growth and business potential in Asia, especially in China. We have increased our sales capacity in Asia accordingly. In Europe and America, we are marketing intensively our new engine generation. This includes stressing the numerous advantages of these engines, such as very compact installed dimensions, intelligent exhaust aftertreatment designs, lower lifecycle costs than their predecessors and much more. Our main strategic focus continues to be agricultural machinery because this allows us to position our business where it is more resilient to cyclical economic instability. In the service business, we see good opportunities for stable growth to build on the successes of recent years and for expanding our market share in terms of the total number of engines in existence. In addition to the active management of dealers and the ongoing product training of our dealer network to meet the growing complexity of our products, we may also invest in service support centres in selected locations and operate them ourselves.

Structural growth driver for DEUTZ

Expected annual revenue growth 2012–2017



→ Second, by **expanding our product base** with products at the leading edge of technology: our range of engines has undergone a fundamental review due to the introduction of the Tier 4 (interim and final) exhaust emissions standard. We have reduced the number of our engine platforms from the previous seven to five without cutting back on the 25 to 520kW power output range they cover. The platform strategy and the possibilities offered by electronic management will considerably reduce the variety of components in the inventory. The development work for the base engine, so that it meets the Tier 4 Final emissions standard being introduced from 2014, is largely already included in the Tier 4 Interim development work.

Our product portfolio is rounded off by system solutions. Emissions legislation has made it absolutely essential to expand our product range to include exhaust aftertreatment systems. Developing, testing and certifying these engine systems is our responsibility. Disposing of our 25 per cent shareholding in Bosch Emission Systems GmbH & Co. KG in 2012 has not altered this. In addition, we intend to expand our application expertise, an area in which we already have a leading market position.

We are also continuously expanding our range of services. For example, during 2012, we significantly expanded our range of remanufacture exchange engines, marketed under the DEUTZ Xchange brand name, and introduced them into the appropriate markets. We now also remanufacture exhaust gas turbochargers, for example, so that we can also offer a service to price-sensitive customers.

→ Third, by **globalising and internationalising** the DEUTZ Group, and thereby recognising that the regional focus of markets has shifted and that the trend is increasingly towards basing assembly nearer to the customer. Against this background, we want to create structures in the three major economic areas of Europe, America and Asia, which in addition to their sales and service activities, also encompass local assembly, purchasing, logistics and application development activities. These activities will need to be closely interlinked and centrally coordinated.

The new assembly sites will predominantly source components either from the production network or from existing suppliers. We do not intend to invest in expanding our own parts and components production capacity. Instead, we will be undertaking a further critical review of the extent of our vertical integration. One example is the planned sale of our pipe manufacturing operation at the Cologne production facility to our supplier T.ERRE with effect from 1 April 2013.

GLOBAL MEGATRENDS DRIVE GROWTH IN ENGINES MARKET

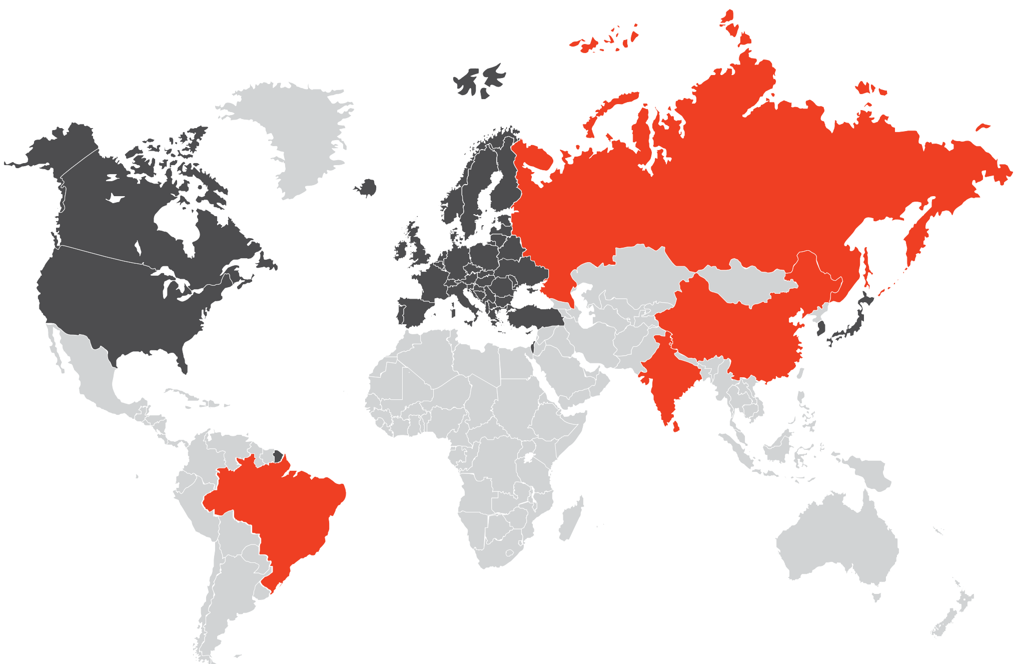
Global megatrends – a growing world population, increasing urbanisation and continuous globalisation – remain intact. These megatrends drive the demand for agricultural machinery, infrastructure investment and additional means of transport, encouraging the further growth of the global engine market, especially in the emerging markets.

At the same time, resources are becoming scarcer and, as a reaction to this, ever more stringent environmental and climate change regulations are being imposed in practically every industrialised country and in the emerging markets. Emissions legislation is consequently the major technology driver in the diesel engine market. We are, however, happy to take up the emissions legislation challenge. As a leading technology company, we regard this legislation more as an opportunity than a threat. Emissions legislation in the emerging economies is generally at least one step behind.

To this extent, the structural growth drivers at DEUTZ are, firstly, the engine systems that meet the new emissions standard, which are of considerably higher value and more complex than their respective predecessors, and, secondly, our investment in the emerging economies. As a result, we regard these trends as offering very attractive growth potential for the Company in the next few years, although we expect the market to remain cyclical.

Environmental and climate protection – emissions legislation

NRMM (Non-Road Mobile Machinery) in 2016
DEUTZ AG's expectations for future global emissions legislation



- US Tier 4/EU Stage IV or equivalent
- US Tier 3/EU Stage III A or equivalent
- Less stringent requirements than US Tier 3/EU Stage III A or equivalent

MORE CUSTOMER PROXIMITY

At present, we have a global service network with its own service companies, service centres and some 800 service partners. We are running training and skills upgrading courses in order to reinforce the existing expertise within the DEUTZ service network, particularly in view of the rapidly increasing complexity of engine technologies such as exhaust aftertreatment systems and electronic control equipment.

In order to be able to react more quickly than before to our customers' needs, we stepped up our international sales and service activities during 2012:

- We have expanded still further the sales and service company DEUTZ (Beijing) Engine Co., Ltd. (China), which we established in 2011. Here, we have concentrated on extending the Chinese service network and training dealers both with regard to DEUTZ products made in Europe and products from our Chinese joint ventures.

- In September 2012, we inaugurated our new service centre in Madrid, which acts as the Tier 4 centre of excellence for central Spain and should better exploit the market potential in the greater Madrid area.

- In November 2012, we established the new LLC DEUTZ Vostok service company in Moscow (Russia) to improve spare parts availability in the Russian market and to provide local support to our OEM customers. Over the next two years, we intend to expand and further upgrade this company as our engine and service business 'hub East'.

- We are using our online platform, DEUTZ P@rts Online, on our website to communicate directly with service business end customers. Menu-guided enquiries for service parts are forwarded directly to a DEUTZ dealer. In addition, to enhance customer loyalty, we offer our customers optional extended warranty programmes and end customer registration via our website.

The purpose of these activities is to position ourselves as close as possible to our customers. We are very confident that the measures we have introduced, together with continuous improvements and new product ranges, will see our service business enjoy continued growth in coming years.


DEUTZ

MORE
GROWTH OPPORTUNITIES

KEY DATA ON
PEOPLE'S REPUBLIC OF CHINA

With some 1.3 billion inhabitants, the People's Republic of China is the world's most populous country. Its rapid economic development has made China the largest market for trucks and construction equipment worldwide. The planned tightening of emissions standards will push up demand for high-quality engine technology. Working in collaboration with key customers, DEUTZ operates joint ventures that will provide us with additional growth opportunities.

2012 market data for China:
→ Trucks and buses[1] ~1.5 million
→ Construction equipment ~350,000

[1] Including light-weight trucks and buses

NUMBER OF DEUTZ ENGINES BUILT IN CHINA IN 2012:

~120.000

Our existing China business is proof that we are already participating to a significant and increasing degree in the potential and growth opportunities offered by the Chinese market. DEUTZ (Dalian) Engine Co. Ltd. is a joint venture in Dalian (China) with the First Automotive Works (FAW) Group in Changchun (China), a leading Chinese vehicle manufacturer, for the production of three to eight-litre diesel engines. The company has a strong focus on engines for the automotive sector but also sells engines for use in other applications. There is also the long-standing WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO., LTD. joint venture in Weifang (China) in collaboration with Chinese engine manufacturer Weichai Power. The 226B engine with its wide range of applications is produced under licence here.

During 2012, we established DEUTZ Engine (Shandong) Co., Ltd. in Linyi (China) to assemble diesel engines of less than four litres. We have a 70 per cent shareholding in this production company, while our partner, Shandong Changlin Machinery Group Co., Ltd. in Qingdao (China), a large and fast-growing Chinese manufacturer of construction machinery and tractors, has a 30 per cent shareholding. We produced the first engines in 2012 for certification purposes.

In addition, in 2012 DEUTZ and AB Volvo signed a letter of intent, whose provisions include the establishment of a company, in which DEUTZ will have a majority holding, to produce medium-heavy-duty engines in China. The aim is to satisfy the demand in Asia from the AB Volvo Group, and from other customers, for construction machinery engines in this engine-power class. The AB Volvo Group is well-placed in the Chinese market with the two Volvo and SDLG (Shandong Lingong) brands and has high ambitions for growth.

Our Chinese sales company, still in its infancy, has been active and so far very successful in the Chinese market. We are well placed, with these activities, to participate in the growth of the Chinese market and to acquire further market share.

MORE COOPERATION

As a leading independent supplier in the premium segment, our objective is to be the force behind innovative, market-driven technologies and to provide our customers not just with engines but with complete system solutions and a comprehensive range of services. We want the DEUTZ name to remain synonymous with quality. DEUTZ AG's corporate philosophy therefore rests on five key principles: innovations, quality, success, trust and responsibility.

So that we can continue to satisfy customer needs as products become increasingly complex, it is essential that we intensify our collaborative partnerships with our customers, for example when providing application engineering services for an electronically controlled engine with exhaust aftertreatment. The technological challenges also call for even closer cooperation within our dealership network as well as additional training.

In line with the increasing globalisation and internationalisation of our business, we are establishing regional application engineering, purchasing, production and logistics operations alongside our local sales and service activities, which we will integrate with each other.

This is only possible if our employees around the world can collaborate with one another effectively. To this end, we promote international dialogue and thereby benefit from the resulting synergies. We respect the diversity of our individual employees worldwide – in terms of their gender, origin, age, religion and disability – and try to harness it for the success of the Company.


Location: Cologne, Germany


Location: Moscow, Russia

Location: Zafra, Spain

Location: Pendergrass/Georgia, USA

Location: Buenos Aires, Argentina

GROUP MANAGEMENT REPORT 2012

OVERVIEW OF 2012

WE WANT TO PUT POWER IN MOTION IN OUR COMPANY

Weak global economic growth The situation in the world economy had already become gloomier in 2011 and the pace of growth continued to tail off in 2012. Global gross domestic product (GDP) rose by just 3.2 per cent owing to fears about growth in all regions. The German economy expanded at a moderate 0.9 per cent, the strongest rate of growth among the larger countries in the euro zone. Economic growth in China, an increasingly important international market for DEUTZ, slowed to 7.8 per cent.

Business performance below 2011 level owing to economic situation DEUTZ's business in 2012 was adversely affected by the weak performance of the economy in Europe and of the capital equipment sector in China, the sector most relevant to our business. Demand for our products declined over the course of the year, which meant we were unable to sustain the encouraging figures reported in 2011: revenue amounted to €1.3 billion, unit sales came to just under 179,000 engines and operating profit (EBIT) decreased to €38.5 million. This earnings trend is the result not only of the decline in volume but also of lower current profit contributions from our joint ventures, start-up costs for our growth projects and the production start-up of new engines.

Increased cost-saving measures In light of our weaker business performance, we took prompt action to cut costs and improve earnings. For example, we significantly scaled back the number of contract workers deployed. We have already achieved substantial savings on our overheads and we are currently in the process of critically examining all established structures. As a result, we decided in November to optimise our value chain by selling our pipe manufacturing operation to a supplier. Other steps to boost efficiency will begin to have an effect in 2013.

Level of funding improved By entering into a new funding arrangement in mid-2012, we were able to safeguard our Company's growth over the long term and significantly improve our flexibility while reducing our finance costs. In this context we were encouraged by our good key financials in 2012, which we achieved despite the challenging market conditions: free cash flow remained in positive figures at €12.6 million while net financial debt declined by some €20 million to below €50 million.

New major shareholder In September 2012, Swedish truck and construction equipment manufacturer AB Volvo became the largest individual shareholder in DEUTZ AG with a stake of just over 25 per cent. Already one of our long-standing business partners and shareholders, AB Volvo acquired approximately 22 million DEUTZ shares from SAME DEUTZ-FAHR, which had been our major shareholder until that point. SAME DEUTZ-FAHR continues to hold 8.4 per cent of DEUTZ AG shares and remains one of our Company's major strategic business partners and customers. We want to step up our alliance with AB Volvo in future.

Modular assembly line for production in Cologne The upcoming production start-up of the 2.9 and 3.6 engine series dominated production and logistics activities in the year under review. We also continued to work hard on further optimising our supply chain and implementing our campaign to improve productivity and quality. In Cologne, we brought a new modular assembly line on stream for our family of engines of less than four litres. The modular structure offers maximum flexibility and the ability to respond to changing market conditions.

Sales and service activities expanded In order to be able to be more responsive to our customers' needs, we stepped up our international sales and service activities during 2012. This included strengthening our Chinese sales and service company by hiring additional staff, expanding the dealer network and providing further training. We also established a new service centre in Madrid (Spain) and a new service company in Moscow (Russia) to give us better and faster market access.

GROUP STRUCTURE AND BUSINESS ACTIVITIES

OPERATING SEGMENTS AND PRODUCT RANGE

As an independent manufacturer of compact diesel engines with outputs of between 25kW and 520kW for both on-road and non-road applications, DEUTZ has been providing reliable drive units for mobile and separate stationary applications for almost 150 years. We develop, design, produce and sell diesel engines that are cooled by water, oil or air. The operating activities of the DEUTZ Group are divided between the DEUTZ Compact Engines segment and the DEUTZ Customised Solutions segment: the DEUTZ Compact Engines segment comprises liquid-cooled engines with capacities of up to eight litres, while the DEUTZ Customised Solutions segment specialises in air-cooled engines and large liquid-cooled engines with capacities of more than eight litres. A principal component of our service business is the supply of reconditioned exchange parts and engines marketed under the name 'DEUTZ Xchange' and offered within the DEUTZ Customised Solutions segment.

DEUTZ AG

DEUTZ Compact Engines	DEUTZ Customised Solutions
· liquid-cooled engines up to 8 litres	· air-cooled engines · liquid-cooled engines > 8 litres

We also offer our customers advice and support on operating the machinery. Our modern products are complemented by a range of attractive services that we have carefully designed to meet the needs of our customers worldwide. We actively assist customers with the repair, maintenance and servicing of their vehicles and equipment fitted with DEUTZ engines. Our global service network, which comprises subsidiaries, service centres and authorised agents, ensures a reliable and speedy supply of spare parts.

LEGAL STRUCTURE AND PRODUCTION SITES

DEUTZ maintains a strong international presence in a globalised market. We offer our customers support almost everywhere and can respond very quickly thanks to our eleven sales companies, nine sales offices and more than 800 sales and service partners in over 130 countries. DEUTZ AG is the executive and operating parent company in the DEUTZ Group; it is headquartered in Cologne, Germany, and has various domestic and foreign subsidiaries. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions. In the year under review, we continued to expand our presence in the emerging markets of China and Russia. Since early 2012, we have been represented by four companies in the Chinese market. Besides our existing joint ventures DEUTZ (Dalian) Engine Co., Ltd. (DDE) in Dalian (China) and WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. in Weifang (China) and the sales company DEUTZ (Beijing) Engine Co., Ltd. in Beijing (China), we teamed up with Shandong Changlin Machinery Group in January 2012 to establish a production company, DEUTZ Engine (Shandong) Co., Ltd., which is based in Linyi (China). DEUTZ AG holds the majority of the voting rights in this company with a stake of 70 per cent. In Russia, we have been represented by an additional sales and service company, LLC DEUTZ Vostok, Moscow (Russia), since July 2012. Detailed information on the joint ventures can be found in the relevant section on page 24.

In addition to DEUTZ AG, six (31 December 2011: seven) German companies and 13 (31 December 2011: eleven) foreign companies were included in the consolidated financial statements as at 31 December 2012. Page 99 of the annex to the notes to the consolidated financial statements lists all the shareholdings of DEUTZ AG as at 31 December 2012.

MARKET AND COMPETITIVE ENVIRONMENT

DEUTZ manufactures diesel engines for professional applications used in countries with stringent emissions standards, in particular Stages II, III and IV. These technically sophisticated applications include construction equipment, agricultural machinery, lifting and material-handling equipment, pumps, gensets and medium-duty and heavy trucks and buses. The market for DEUTZ engines is therefore separate from the market segments for diesel engines used in passenger cars and small commercial vehicles up to a permissible gross weight of around 3.5 tonnes. In addition, our relevant market does not encompass diesel engines based on very outdated technology that are designed for applications used in countries or application segments with only very low requirements regarding product quality, emissions and fuel consumption.

The market for technically sophisticated diesel engines comprises the captive market, in which the equipment manufacturers produce their own engines (such manufacturers also having a presence as engine suppliers in the non-captive market in some cases), and the non-captive market, where equipment manufacturers predominantly do not produce their own engines and therefore obtain them from other suppliers. It is in this non-captive market that DEUTZ sells its high-quality engines with outputs between 25kW and 520kW around the globe.

In recent years, we have attained an outstanding position as one of the biggest suppliers in the non-captive market. The engine providers that compete with us come from western Europe, North America and Asia. None of these competitors offers an identical product range to DEUTZ in terms of the power outputs and application segments that they cover. In various application segments, however, there are competitors whose products are technologically comparable with those offered by DEUTZ.

Main competitors

Application segment	Applications	Main competitors (in alphabetical order)
Mobile Machinery	Construction equipment Ground support equipment Material handling equipment Mining equipment	Cummins, USA Kubota, Japan Perkins, UK Yanmar, Japan
Agricultural Machinery	Tractors Harvesters	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
Stationary Equipment	Gensets Compressors Pumps	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
Automotive	Trucks Buses Rail vehicles	Cummins, USA Fiat Powertrain, Italy MAN, Germany Mercedes, Germany

INTERNAL CONTROL SYSTEM

RESPONSIBLE CORPORATE MANAGEMENT BASED ON TRANSPARENT PERFORMANCE INDICATORS

The DEUTZ Group defines its budget targets and its medium-term corporate targets using selected key performance indicators (KPIs). We manage the Group using this internal system of KPIs in order to boost profitability and achieve sustained growth. The primary KPIs in this system are unit sales and revenue in conjunction with the EBIT margin; we also manage the capital tied up in the business using the working capital ratio[1] and the capital expenditure volume. In conjunction with working capital and EBIT optimisation, this in turn determines the return on capital employed[2]. In managing its liquidity, DEUTZ focuses on free cash flow[3] as a key performance indicator. We also specifically monitor net income and revenue growth as performance indicators in the context of our internal system of KPIs. On the basis of these KPIs, the Group's financial flexibility is subject to constant analysis in the form of a comparison between budget and actual so that we can take swift, appropriate action in the event of significant variances.

In order to enable us to be proactive and respond promptly, DEUTZ has set up an early warning system based on the performance indicators. A monthly reporting process enables the Board of Management to track changes in the performance indicators. This approach ensures that we can respond immediately to the latest business developments. At the same time, we operate a sound system of causal analysis to ensure that we minimise risks and make the most of opportunities. Three times a year we produce an annual forecast for all key performance indicators. In this way, we ensure optimum transparency in our business performance, benefiting both the Group and all stakeholders.

The KPIs stated below show a significant improvement in unit sales in 2011 and reflect the general uncertainty that plagued the markets in 2012, in particular owing to the European sovereign debt crisis:

		2012	2011	2010
Revenue	€ million	1,291.9	1,529.0	1,189.1
Unit sales	Units	178,774	230,598	167,680
EBIT margin before one-off items[4]	(%)	3.0	6.0	3.5
Net income from continuing operations	€ million	22.1	68.7	–15.9
Working capital ratio (as at 31 Dec)	(%)	11.0	9.3	9.5
Working capital ratio (average)	(%)	14.7	10.8	12.9
ROCE before one-off items	(%)	5.1	12.5	6.3
Free cash flow	€ million	12.6	4.8	–55.9
Growth	(%)	–15.5	28.6	37.7

CONTINUOUS OPTIMISATION OF THE CONTROL SYSTEM

The constant optimisation of its corporate management and control system is one of the DEUTZ Group's overriding objectives regardless of fluctuations in the economic cycle. This essentially involves the annual planning of all the performance indicators referred to above. This planning is based on both internal estimates of future business and benchmark figures from competitors. Each organisational unit prepares detailed plans for its area of responsibility, which are coordinated with the management strategy. Both the specific unit sales and revenue targets and the customer- and product-related targets (EBIT margins) are reviewed with the operating units each year taking into account Group-wide objectives and are thus available at the relevant hierarchical levels for use in the operational management of the business.

We specify working capital targets for the individual companies in the DEUTZ Group in order to optimise the capital tied up in the business. These overall figures are then broken down and specific targets for inventories, trade receivables and trade payables are allocated to the individual employees responsible.

[1] Working capital ratio: ratio of average working capital (inventories plus trade receivables minus trade payables) over four quarters to revenue for the last twelve months
[2] Return on capital employed (ROCE): ratio of EBIT to average capital employed. Capital employed: total assets minus cash and cash equivalents, trade payables and other current and non-current liabilities based on average values from two balance sheet dates
[3] Free cash flow: cash flow from operating and investing activities minus interest expense

[4] One-off item: In addition to the information required according to IFRS, the Deutz Group reports an EBIT before one-off items which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant revenue/expenditure (if material) generated outside the normal business activities

We are pursuing long-term growth objectives. In order to secure the financial basis for these, we have centralised the management of capital expenditure, the main element in the management of capital tie-up. Clearly defined budgetary targets determine the level of capital expenditure and development expenditure; actual requirements are derived from the medium-term planning of unit sales and the resulting requirements in terms of capacity and technologies. Those responsible hold annual budget meetings at which they review individual projects, development expenditure and planned capital expenditure in the context of the Group-wide financial planning process and document the outcomes of the review. An additional detailed review is carried out before projects are actually approved. To this end, we use standard investment appraisal methods (internal rate of return, amortisation period, net present value, profit and loss calculation, cost comparisons). A project with an appropriate budget is only approved if there is a clear positive outcome from this investment appraisal.

The liquidity-based performance indicator we use is the free cash flow. A positive figure shows that we can finance our growth and necessary capital expenditure from the net cash provided by our operational business.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Sovereign debt crisis in the euro zone impacts on global economy The world economy grew at a weak rate overall last year. Having already fallen to 3.9 per cent in 2011, global GDP growth slowed to 3.2 per cent in 2012 according to the International Monetary Fund (IMF)[1]. Fears about growth emanated from all regions.

Europe's weak economic performance continued over the course of 2012, weighed down by structural problems in the euro zone, sovereign debt in southern European countries and the growth-inhibiting effects of consolidation measures. However, the markets calmed down again to some extent at the end of the year following the European Central Bank's announcement of unlimited measures to support the euro. Nonetheless, the economy in the euro zone contracted by 0.4 per cent, albeit with large regional differences. Although its rate of growth tailed off, the German economy proved robust overall and expanded by 0.9 per cent, the strongest rate among the larger countries in the euro zone.

The United States saw a slight revival in its growth at 2.3 per cent. The real-estate market settled down and unemployment fell. However, the political conflict about raising the debt ceiling had a negative impact at the end of the year.

The emerging markets did not escape the weakness of the global economy either. Although the economy in China, an important international market for DEUTZ, expanded by 7.8 per cent (2011: 9.3 per cent), there were declines in capital equipment, some of which were significant.

Varying trends in DEUTZ's customer industries DEUTZ's main customer industries exhibited very different trends in 2012. Demand for construction equipment in western Europe and China fell by 3 per cent and 30 per cent respectively[2], while the construction equipment market in the United States recorded growth of 17 per cent.[3] According to its own estimates, the agricultural machinery sector in Europe registered a slight year-on-year growth increase in 2012. The German agricultural machinery sector grew by 8 per cent last year.[4] EU-wide production of medium-duty and heavy trucks decreased by 9 per cent.[5] In China too, the markets for medium-duty and heavy in China contracted by more than 20 per cent.[6]

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS PERFORMANCE

DEUTZ affected by global fears about growth The worsening mood and fears about growth created a reluctance to invest last year, above all in Europe and China. Accordingly, DEUTZ's unit sales fell by 22.5 per cent and revenue by 15.5 per cent. Our main customer industries performed inconsistently, with some registering equally sharp declines.

The economy in the euro zone saw GDP contract by 0.4 per cent in the year under review. There were also downward trends in DEUTZ's main customer industries in this region: demand for construction equipment reduced by 3 per cent in Europe, while EU-wide production of medium-duty and heavy trucks decreased by 9 per cent. DEUTZ's revenue in our largest market, EMEA (Europe, Middle East and Africa), was also down by 19.7 per cent. Unit sales of engines were negatively affected by the noticeable slowdown in our European installation customers' export business in emerging markets. They were also hampered by the fact that European customers had purchased so-called advance production engines at the end of 2011 in the mobile machinery segment and, in particular, the agricultural machinery segment, which resulted in a lower volume of unit sales in 2012. American economic output went up by 2.3 per cent last year. Our business continued to expand in the Americas, where we sold 13.6 per cent more engines than in the previous year, above all owing to increased capital expenditure by American rental companies. The US construction machinery market also grew, gaining 17 per cent. The general slowdown in economic growth also hit growth in China, an important international market for us: although growth rates were lower than in previous years, with GDP growth of 7.8 per cent, they were still very high by international comparison. Moreover, there were

[1] Source: IMF World Economic Outlook Update, January 2013

[2] Source: Off-Highway Research, November 2012
[3] Source: ITR Trends Report, January 2013
[4] Source: German Engineering Federation (VDMA), December 2012
[5] Source: European Automobile Manufacturers' Association (ACEA), January 2013
[6] Source: China Automotive Information Net, December 2012

declines, some substantial, in the capital equipment sector that is critical to our business. For example, demand for construction equipment in China decreased by around 30 per cent, while the markets for medium-duty and heavy trucks in China contracted by more than 20 per cent. Against this backdrop, DEUTZ's revenue fell by 7.9 per cent and unit sales by 12.4 per cent in the Asia/Pacific region. The revenue generated by our largest equity investment in China, DEUTZ (Dalian) Engine Co., Ltd., which is not included in consolidated revenue, shrank by 10.2 per cent.

PROCUREMENT

Our centralised purchasing organisation at head office faced new challenges in 2012. Significant objectives were achieved, such as reducing overall costs, ensuring security of supply, improving quality, outsourcing, expanding procurement from China and implementing embedded material group strategies. We are continuously optimising our value chain while raising quality levels in order to boost our efficiency and secure the supply of materials over the long term. At the same time we are critically reviewing established structures and processes. This is illustrated by the sale of our pipe manufacturing operation to a supplier, the contract for which was signed in November 2012.

DEUTZ AG was again able to decrease its total procurement costs for production materials – which include all individual components used in engine manufacturing – and non-production materials. Significant factors in this success last year included ongoing negotiations with existing and new suppliers relating to purchasing for series production as well as close cooperation with other departments aimed at lowering costs. We are continually working on the technical optimisation and standardisation of existing parts from a cost perspective. This puts us in a stronger negotiating position and lays the foundations for further consolidation of suppliers. The supplier base for C parts has been further reduced over the past two years, resulting in more stable processes and lower costs.

As we are increasingly carrying out activities with joint ventures in China, we require a market-specific procurement strategy. Our activities in this area are supported by our purchasing office in Beijing, which allows us to establish relationships with new, competitive suppliers in China. At the same time, our purchasing office in Bangalore (India) is working hard to identify competitive suppliers in the Indian market and cooperating with the purchasing department at head office to ensure the quality of the materials we procure.

Commodities markets remain flat Prices for cast iron, aluminium, copper and nickel rose for a brief time at the start of 2012 but had fallen again by the end of the year. As a result, average prices for the year remained stable and were within the bandwidths that we had forecast.

In the reporting year, foundry products (particularly cylinder heads and engine blocks) continued to be our most important product category, followed by fuel injection equipment (predominantly pumps and valves) and measurement & control devices (for example mechanical and electronic regulators and sensors). The remaining purchasing volume was spread across the following product categories: generators, starters, exhaust-gas turbochargers, EAT components, EGR modules, turned parts, sheet metal parts, standard and DIN parts, and forged parts.

Further improvement in supplier quality We continued to sharpen the focus of our purchasing strategy on optimisation of supplier quality, which therefore improved considerably again. As a result, process costs for goods inward and the assembly line were far lower. This led to improved security of supply and reduced downtime costs. We succeeded in driving down the PPM figure (parts per million – the KPI for defective parts) by almost 50 per cent.

With the introduction of the new Tier 4 Interim and (from 2014) Tier 4 Final emissions standards, ensuring high standards of quality is a key success factor for DEUTZ and it was therefore one of the main areas of focus in 2012.

PRODUCTION AND LOGISTICS

In 2012, production and logistics were dominated by the upcoming production start-ups for new engines in the 2.9 and 3.6 series, an extensive range of activities to streamline our supply chain and our campaign focusing on productivity enhancement and quality.

Cologne plants In Cologne, we successfully brought a new modular assembly line on stream for our family of engines of less than four litres. All engine series of less than four litres will be assembled here in future. Based on cutting-edge technology, the modular assembly line offers maximum flexibility and the ability to respond to changing market conditions. Expansion of the assembly line allows production capacities to be increased and additional engine series to be included. Separation of basic engine assembly and final assembly into two separate sections ensures that our other production sites worldwide can be supplied with basic engines. This significant milestone is another step towards improving the efficiency of our processes.

Materials are supplied through our just-in-sequence assembly centre. All required parts are supplied on a just-in-sequence basis, apart from DIN and standard parts, which are made available using a 'supermarket' principle.

Particular attention was paid to user-friendliness when the new assembly concept was planned. For example, height-adjustable, revolving assembly equipment is used, which can be adjusted to the different body sizes of our employees. Process steps are made more efficient by deploying hoists, pivots and rotating equipment.

We are again undertaking a critical review of the extent of our vertical integration in mechanical fabrication. One aspect of this is the sale of our pipe manufacturing operation at the Cologne production facility to T.ERRE in 2013. We expect this step to increase our efficiency.

Around 163,000 engines were built at the Cologne site in 2012.

Ulm plant Just over 16,000 engines, including V engine series with a capacity of more than eight litres, were assembled at our site in Ulm in the year under review.

Last year, we steadfastly continued with kaizen activities aimed at boosting our competitiveness. Workshops for assembly, manufacturing, logistics and maintenance resulted in improvements to all key performance indicators: productivity, inventory, throughput time and machine availability. Parts from the manufacturing network are now delivered directly to the assembly lines, which reduces logistics costs.

The Tier 4 Final prototypes for the 12.0 and 16.0 model series were built directly on the series production assembly line in 2012 so as to allow assembly requirements to be incorporated into the development process at an early stage. It also allows problems to be identified and eliminated long before production start-up.

Zafra plant, Spain The plant at Zafra, Spain, is the DEUTZ Group's centre of excellence for the manufacturing of cylinder heads, connecting rods and gearwheels – and therefore one of the largest suppliers for the assembly plants in Cologne and Ulm. Modern, target-oriented and flexible cost management enabled fixed costs and the break-even threshold to be driven down further. The Zafra plant achieved its ambitious goals by closely following the kaizen approach used at DEUTZ and through intensive sharing of information. The Spanish subsidiary was renamed DEUTZ SPAIN, S.A. in January 2013.

Xchange plants at Übersee on Lake Chiemsee and at Pendergrass, Georgia, USA In 2012, the facilities at Übersee on Lake Chiemsee reconditioned around 3,600 exchange engines. A broad range of individual reconditioned components are built into the exchange engine or sold as exchange parts in the service network. We considerably expanded our product range in the year under review. For example, we now also recondition exhaust-gas turbochargers. In addition, we further shortened the average throughput time from order receipt to shipment.

The facilities at Pendergrass in Georgia, USA, produced more than 1,100 exchange engines. This plant allows us to deliver exchange engines to the American market with very short lead times. The focus in the year under review was on broadening the range of products.

Award for improved supply chain on the basis of the DEUTZ logistics platform DEUTZ AG won the 2012 eLogistics Award for the web-based DEUTZ logistics platform, which had been implemented in previous years. The 'Just-in-Time Working Group' handed out this accolade at its annual conference in Saarbrücken in recognition of an element of our supply chain that ensures deliveries to the assembly lines are synchronised with production, starting at source with the suppliers. More than 260 suppliers and freight forwarders worldwide now synchronise their logistics processes using our logistics platform. Every partner in the supply chain therefore has access to all the relevant information simultaneously.

Quality enshrined in our corporate principles In the world of engines, the DEUTZ name is synonymous with high quality standards and efforts are constantly devoted to further consolidating this key factor in the success of our business.

In 2011, the prestigious DQS GmbH certified our quality management system in accordance with ISO 9001 and our environmental management system in accordance with ISO 14001. DEUTZ successfully completed the monitoring audit in 2012. DQS, part of the DQS-UL Group, is the only large certification company to focus on inspecting and certifying management systems and processes in companies and organisations.

At DEUTZ, we use the Six Sigma methodology and are systematically expanding it. We are able to train employees in the methodology ourselves so that it becomes firmly rooted in the Company. The projects begun in 2012 will be completed in 2013. Managers at DEUTZ AG are also initiating and supporting further projects. We carried out a benchmarking workshop with one of our major customers, which confirmed to us that our strategy for securing our quality leadership is the right one and is well established in the Company.

The key performance indicators (KPIs) from our quality report again revealed a positive trend in 2012. We made particular improvements with regard to purchasing quality. Moreover, we have set ourselves ambitious goals for 2013 and will pay special attention to customer satisfaction.

International joint ventures Since 2007, DEUTZ has operated a joint venture with First Automotive Works Group, one of the leading vehicle manufacturers in China. The joint venture, which operates under the name DEUTZ (Dalian) Engine Co., Ltd. and is based in the Chinese city of Dalian, produces three to eight-litre diesel engines, primarily for the Chinese market. The unit sales figure for 2012 was just short of 89,000 engines. This brought in revenue equivalent to €246 million, down by 10.2 per cent year on year. Faced with challenging conditions, the markets for medium-duty and heavy trucks and construction equipment both contracted by more than 20 per cent, with declines of up to 40 per cent in some individual construction equipment applications. Owing to the market trends, DEUTZ (Dalian) made a loss: the pro-rata loss attributable to DEUTZ reduced DEUTZ's EBIT in 2012 by around €11 million. As far as the current year is concerned, we predict that DEUTZ (Dalian) will benefit from the incipient recovery of the markets, the introduction – scheduled for mid-2013 – of the Euro 4 emissions standard in the automotive sector, new truck models from our joint venture partner and, in particular, the measures already initiated to cut costs and boost efficiency. DEUTZ (Dalian) has also been applying the Six Sigma methodology since late 2012. An action programme to reduce working capital has also been drawn up.

Another joint venture, WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. based in Weifang, China, has been run by DEUTZ for many years in collaboration with Chinese engine manufacturer Weichai Power. This joint venture produces 226B series engines under licence for the agricultural machinery, genset, construction equipment, automotive and marine equipment segments. Its unit sales totalled around 33,000 engines in 2012 and it posted revenue of €93 million (2011: €103 million). The company made a small loss as a result of market conditions.

During 2012, we established DEUTZ Engine (Shandong) Co., Ltd. in Linyi (China) to assemble diesel engines of less than four litres. We hold a stake of 70 per cent in this production company, while our partner Shandong Changlin Machinery Group Co., Ltd. in Qingdao (China) holds 30 per cent. In future, the company will produce 2011 series engines, which are designed for use in industrial, construction and agricultural applications and have proven their worth a million times over.

DEUTZ AGCO Motores S.A. (DAMSA), our Argentinian joint venture with the AGCO Group, produces engines for the local market, primarily for installation in agricultural machinery, buses and industrial applications. In 2012, the company sold almost 1,900 engines against a backdrop of challenging market conditions. It generated revenue of €23 million, which was 17.7 per cent less than in 2011. Nonetheless, DAMSA was able to post a small profit.

In the year under review, we sold our 25 per cent equity investment in our joint venture Bosch Emission Systems GmbH & Co. KG, Stuttgart (BESG) to the main shareholder Robert BOSCH GmbH. The original partners have therefore restructured their alliance, which will continue in future in the form of an innovation partnership in the fields of exhaust aftertreatment, diesel injection technology and electronics. The aim of this partnership is to integrate the drive technology systems for mobile machinery more tightly. BESG will continue to supply DEUTZ with exhaust aftertreatment systems. This restructuring will not hamper our growth prospects relating to engine systems, especially as developing, certifying and selling these systems is our responsibility.

DEUTZ operations in China

	DEUTZ Engine (Shandong) Co., Ltd.	DEUTZ (Dalian) Engine Co., Ltd.	WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD.
City (Province)	Linyi (Shandong)	Dalian (Liaoning)	Weifang (Shandong)
Partner	Shandong Changlin Machinery Group	FAW Group	Weichai Holding
DEUTZ shareholding	70 %	50 %	50 %
Consolidation	Fully consolidated	Equity-accounted	Equity-accounted
Engine size	Under 4 litres	3–8 litres	4–8 litres
Main application segment	Mobile Machinery	Automotive	Various
Revenue in 2012 (€ million)	n/a	246	93

NEW ORDERS

DEUTZ Group: New orders

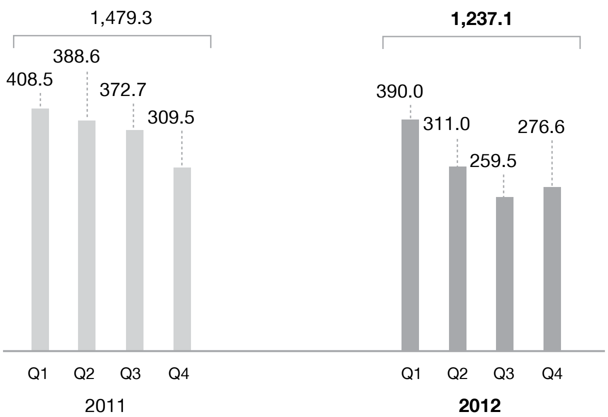
€ million

2012	**1,237.1**
2011	1,479.3
2010	1,315.0
2009	842.3
2008	1,363.5

Fewer orders than in 2011 DEUTZ AG won new orders worth €1,237.1 million in 2012, a decline of 16.4 per cent compared with the 2011 figure of €1,479.3 million. This decrease is attributable to continued general uncertainty in the markets and the weak economic performance of Europe and China. Following a strong first quarter with new orders exceeding €390.0 million, there was a downward trend during the two subsequent quarters. On a positive note, new orders received in the fourth quarter of 2012 amounted to €276.6 million, which was up on the value of new orders in the third quarter of €259.5 million.

DEUTZ Group: New orders by quarter[1)]

€ million



[1)] These and subsequent quarterly figures are based on published quarterly financial statements and have not been audited.

All application segments were affected by the decline in new orders. Only the service business saw an increase in new orders, which rose by 1.9 per cent to €249.4 million. By contrast, the Mobile Machinery application segment saw its new orders fall by 8.9 per cent. New orders in the Agricultural Machinery application segment were down by as much as 35.9 per cent year on year. Besides the economic slowdown, this was due to delays in production start-up at key customers and to advance production of engines that our European customers had already purchased by the end of 2011 in anticipation of the stricter emissions standards that came into force in 2012. The Automotive and Stationary Equipment application segments reported decreased of 5.3 per cent and 10.1 per cent respectively.

As at 31 December 2012, orders on hand stood at €173.0 million, 25.1 per cent lower than the high figure of €231.1 million as at 31 December 2011.

UNIT SALES

DEUTZ Group: Unit sales

units

2012	**178,774**
2011	230,598
2010	167,680
2009	117,961
2008	252,359

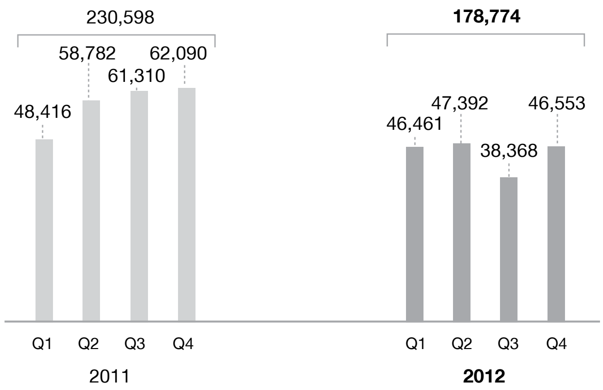
Deterioration in engine sales DEUTZ sold almost 179,000 engines last year, down by 22.5 per cent compared with 2011. Engines in lower power output categories outsold engines in higher categories during the reporting year. Overall, unit sales decreased in all application segments.

However, a regional analysis reveals an inconsistent picture. Our Americas business continued to grow, benefiting from increased capital expenditure by American rental companies. As a result, unit sales rose by 13.6 per cent to approximately 39,000 engines. By contrast, unit sales in our largest market, EMEA (Europe, Middle East and Africa), decreased by 29.7 per cent to around 130,000 engines. We also sold 12.4 per cent fewer engines in the Asia/Pacific region, where unit sales were just short of 9,500 engines.

Fairly steady trend over the year There were only very small fluctuations over the course of the year, with unit sales remaining relatively steady at around 47,000 engines in each quarter. Only the third quarter saw a drop in unit sales, when we sold just over 38,000 engines. This was because some of our customers had shut down production for the summer holidays. Unit sales in the fourth quarter of 2012 were therefore 21 per cent higher than in the third quarter but were down by a quarter compared with the fourth quarter of 2011, when we had reported very strong unit sales.

DEUTZ Group: Consolidated unit sales by quarter

units



RESULTS OF OPERATIONS

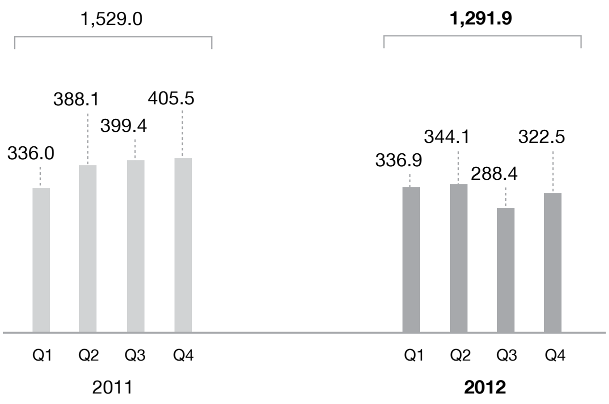
DEUTZ Group: Revenue

€ million

Year-on-year fall in revenue The DEUTZ Group's revenue decreased by 15.5 per cent to €1,291.9 million in 2012. However, the decline in revenue was low in relation to the fall in unit sales due to the greater value and complexity of the engines sold. This was because an increasing proportion of engines sold met the new emissions standards in Europe and North America – a trend that is expected to continue.

DEUTZ Group: Revenue by quarter

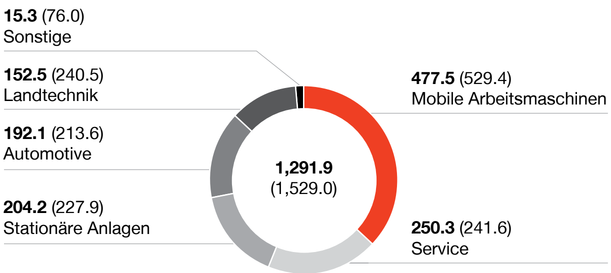
€ million



A look at the year as a whole shows that we generated the highest revenue in the second quarter. In the fourth quarter of 2012, revenue totalled €322.5 million, which was 11.8 per cent higher than in the third quarter of 2012 but down by 20.5 per cent compared with the impressive level of revenue generated in the fourth quarter of 2011. The revenue increase in the fourth quarter of 2011 had also reflected some benefit from the advance production of engines ordered early by European customers to avoid the new emissions standards applicable to diesel engines of between 56kW and 130kW from 2012 and the associated additional costs.

DEUTZ Group: Revenue by application segment

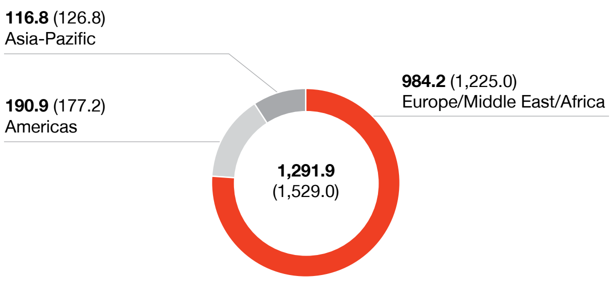
€ million (2011 figures)



Our largest application segment, Mobile Machinery, generated revenue of €477.5 million in 2012, which was 9.8 per cent less than in 2011. Although revenue from the construction equipment and material-handling equipment subsegments declined, there was an increase in revenue from ground support equipment and underground equipment, which are smaller subsegments. Revenue also declined in other application segments: Agricultural Machinery was down by 36.6 per cent, Stationary Equipment was down by 10.4 per cent and Automotive was down by 10.1 per cent. By contrast, revenue in the highly profitable service business grew by 3.6 per cent to €250.3 million. This once again constituted a record for service revenue and primarily reflected the success of various projects in the service business.

DEUTZ Group: Revenue by regions

€ million (2011 figures)



Revenue in the Americas region rose again in 2012, increasing to €190.9 million (7.7 per cent up on 2011). In contrast, revenue in the Asia/Pacific region went down by 7.9 per cent to €116.8 million. The region that accounts for the largest proportion of revenue, EMEA (Europe, Middle East and Africa), did not achieve as much revenue as in 2011 either, reporting a fall of 19.7 per cent to €984.2 million. Germany and the rest of Europe saw particularly substantial revenue decreases of 16.1 per cent and 22.3 per cent respectively.

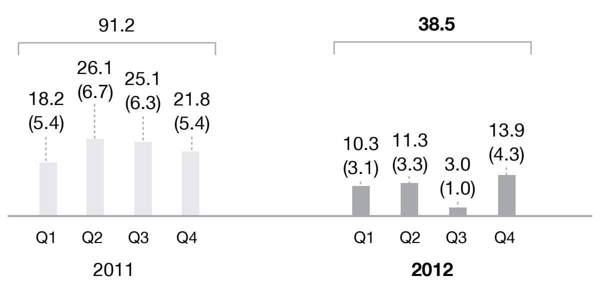
DEUTZ Group: Operating profit/EBIT margin before one-off items

€ million (EBIT margin in %)

[1] Since 2009 the interest cost of defined benefit pension obligations has been reported as part of staff costs. These expenses are no longer shown as part of net interest expense. The prior-year figures have been restated accordingly to improve comparability.

DEUTZ Group: Operating profit/EBIT margin by quarter

€ million (EBIT margin in %)



Earnings performance In 2012, we achieved an operating profit (EBIT) of €38.5 million, equating to a decline of €52.7 million compared with the previous year (2011: €91.2 million). Consequently, the EBIT margin decreased from 6.0 per cent in 2011 to 3.0 per cent in the year under review. Besides the smaller volume of business resulting from the weak economy, this trend was largely attributable to the negative contributions to earnings from our joint ventures, set-up costs for our growth projects and for the production start-up of new engines, and higher depreciation and amortisation charges.

Overview of the DEUTZ Group's results of operations

	2012	2011
€ million		
Revenue	**1,291.9**	**1,529.0**
Changes in inventories and other own work capitalised	37.0	44.7
Total output	**1,328.9**	**1,573.7**
Other operating income	52.5	37.5
Cost of materials	–862.9	–1,021.1
Staff costs	–268.0	–276.8
Depreciation and amortisation	–78.9	–69.1
Impairment	–5.7	–
Other operating expenses	–113.5	–154.5
Net investment income	–13.9	1.5
EBIT	**38.5**	**91.2**
Interest expenses, net	–10.6	–13.4
Other taxes	–1.4	–1.3
Income taxes	–4.4	–7.8
Net income on continuing operations	**22.1**	**68.7**
Net income	**21.0**	**75.5**
%		
EBIT margin	3.0	6.0
Cost of materials	64.9	64.9
Staff costs	20.2	17.6

Cost of materials As a percentage of total operating output, the cost of materials was unchanged year on year at 64.9 per cent. Despite the sharp rise in unit sales of engines for the European Union's III B emissions standard and the corresponding EPA Tier 4 Interim standard in the United States, which have a higher proportion of material costs, we were able to maintain the cost-of-materials ratio at a constant level.

Staff costs Owing to the reduction in the workforce compared with the previous year, staff costs fell by €8.8 million to €268.0 million in 2012 (2011: €276.8 million). However, the staff costs ratio (staff costs as a percentage of total operating output) rose by 2.6 percentage points to 20.2 per cent (2011: 17.6 per cent) as a result of the decrease in revenue. Including the costs for contract workers (reported under other operating expenses), the staff costs ratio went up by just 1.8 percentage points (2012: 21.0 per cent; 2011: 19,2 per cent).

Depreciation, amortisation and impairment Depreciation and amortisation came to €78.9 million in 2012, a year-on-year rise of €9.8 million (2011: €69.1 million). This was predominantly the result of depreciation and amortisation related to capitalised development expenditure resulting from the production start-up of our engines for the Stage III B emissions standard in the EU and the corresponding US EPA Tier 4 Interim standard in the second half of 2011 and in 2012. We also recognised an impairment loss of €5.7 million in respect of previously capitalised development expenditure as a result of changes that were made to the technical concept for a model series at the end of 2012.

Other operating income Other operating income was up by €15.0 million year on year to €52.5 million (2011: €37.5 million). The main reason for this was the disposal of our shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) during the fourth quarter of 2012.

Other operating expenses Other operating expenses totalled €113.5 million in the reporting year, a year-on-year decrease of €41.0 million (2011: €154.5 million). This was predominantly due to lower costs for contract workers and smaller additions to general warranty provisions on the back of the reduced volume of business. Considerably scaled back consultancy services also contributed to this positive trend.

Investment income, net Net investment income decreased by €15.4 million year on year and amounted to a net expense of €13.9 million (2011: net income of €1.5 million). This substantial loss is largely attributable to our equity-accounted Chinese joint ventures DEUTZ (Dalian) Engine Co., Ltd. in Dalian (China) and WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. in Weifang (China), which were affected by the general slowdown in growth in China, and to current profit contributions from Bosch Emission Systems GmbH & Co. KG until its disposal.

Interest expenses, net Owing to the new funding and efficient cash management, finance costs decreased by €2.8 million year on year to €11.6 million in 2012 (2011: €14.4 million). With interest income remaining almost constant at €1.0 million (2011: €1.0 million), net interest expense came to €10.6 million (2011: €–13.4 million) last year.

Income taxes Income taxes from continuing operations reduced from €7.8 million in 2011 to €4.4 million in 2012, a decrease of €3.4 million. The reduction is predominantly attributable to smaller additions to deferred tax liabilities. This trend was partly offset by higher current tax expenses incurred by our American subsidiary.

Net income The lower level of operating profit led to a sharp fall in net income to €21.0 million in 2012, compared with €75.5 million in 2011.

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group segments

	2012	2011
€ million		
New orders		
DEUTZ Compact Engines	960.6	1,174.2
DEUTZ Customised Solutions	276.5	305.1
Total	**1,237.1**	**1,479.3**
Unit sales (quantity)		
DEUTZ Compact Engines	161,899	204,161
DEUTZ Customised Solutions	16,875	26,437
Total	**178,774**	**230,598**
Revenue		
DEUTZ Compact Engines	1,005.0	1,199.1
DEUTZ Customised Solutions	286.9	329.9
Total	**1,291.9**	**1,529.0**
Operating profit (EBIT)		
DEUTZ Compact Engines	–15.6	47.2
DEUTZ Customised Solutions	46.6	46.5
Miscellaneous	7.5	–2.5
Total	**38.5**	**91.2**

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

New orders slightly lower than revenue The DEUTZ Compact Engines segment (DCE) took new orders amounting to €960.6 million in 2012, down by 18.2 per cent compared with 2011. All application segments reported a decline in new orders, except for the service business, where they rose by 6.7 per cent to €141.2 million. Overall, new orders were at a slightly lower level than revenue in the DCE segment. Orders on hand totalled €108.8 million as at 31 December 2012, equating to a year-on-year decrease of 30.0 per cent.

Fewer unit sales In the year under review, unit sales in the DCE segment fell by 20.7 per cent to around 162,000 engines. We had sold some 204,000 engines in the previous year. The Americas was the only region to increase its unit sales (by 34.2 per cent), while this figure fell by 28.8 per cent and 21.3 per cent respectively in the EMEA and Asia/Pacific regions. All application segments registered decreases in unit sales. The Mobile Machinery application segment saw a drop of 17.1 per cent. The reduction of as much as 45.6 per cent in the Agricultural Machinery application segment was due to the economic slowdown, to delays in production start-up at key customers and to advance production of engines that our European customers had already purchased by the end of 2011 in view of the stricter emissions standards that came into force in 2012.

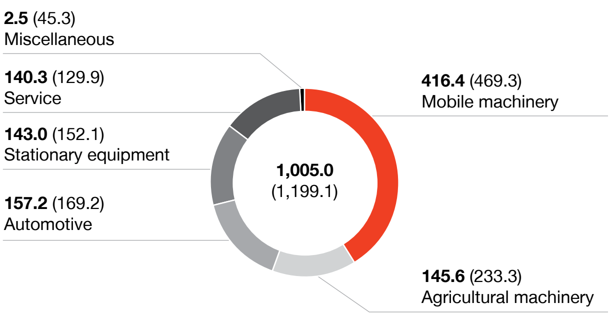
Smaller decrease in revenue than in unit sales At €1,005.0 million, revenue in the DCE segment was down by 16.2 per cent year on year (2011: €1,199.1 million). While revenue rose sharply in the Americas region (by 26.9 per cent), it fell by 20.6 per cent and 22.1 per cent respectively in the EMEA and Asia/Pacific regions. The only application segment to increase its revenue was the service business, which registered an encouraging gain of 8.0 per cent that was generated largely from the spare parts business. By contrast, revenue declined by 11.3 per cent in the Mobile Machinery application segment, while the Automotive and Agricultural Machinery application segments reported decreases of 7.1 per cent and 37.6 per cent respectively.

Fourth quarter better than third quarter The volume of new orders received by the DCE segment in the fourth quarter of 2012 came to €214.0 million, a year-on-year decrease of 9.7 per cent (Q4 2011: €236.9 million). However, this represented an increase of 8.2 per cent compared with the third quarter of 2012. Fourth-quarter unit sales were down by 22.0 per cent year on year to just under 43,000 engines but were up by a quarter in comparison with the third quarter of 2012. The trend in unit sales across the year was also reflected in revenue: in the fourth quarter, the segment generated revenue of €252.5 million, 16.0 per cent more than in the third quarter, but 20.9 per cent less than in the final quarter of 2011.

Operating profit/loss Operating profit in the DCE segment fell by a substantial €62.8 million year on year, resulting in an operating loss of €15.6 million. This trend was driven, above all, by the continued low level of demand in the European market and the negative contributions to earnings from our joint ventures as a result of the economic slowdown. Set-up costs for our growth projects and for the production start-up of new engines also had an adverse impact on operating profit for the segment, as did higher depreciation and amortisation charges.

DEUTZ Compact Engines: Revenue by application segment

€ million (2011 figures)



BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

Small year-on-year decrease in new orders In the year under review, the DEUTZ Customised Solutions (DCS) segment received new orders for products worth €276.5 million, 9.4 per cent lower than in the previous year. The Mobile Machinery and Automotive application segments took 3.1 per cent and 14.5 per cent more orders respectively. All other DCS application segments, including the service business, saw decreases in new orders. Overall, new orders were therefore at almost the same level as revenue in the DCS segment. As at the end of 2012, orders on hand stood at €64.2 million, down by 15.2 per cent on the figure reported a year earlier (31 December 2011: €75.7 million).

Fewer engines sold In the year under review, unit sales in the DCS segment fell by 36.2 per cent to around 17,000 engines. Although engine sales were up by 10.1 per cent in the Asia-Pacific region, they were down by 40.4 per cent and 45.2 per cent respectively in the EMEA and Americas regions. All application segments reported a decline in unit sales.

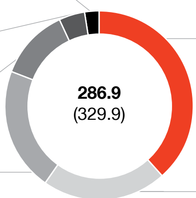
Reduction in revenue Revenue in the DCS segment amounted to €286.9 million last year, a year-on-year decline of 13.0 per cent. Nonetheless, revenue grew by 8.5 per cent in the Asia/Pacific region. However, the EMEA and Americas regions reported revenue decreases of 15.1 per cent and 26.3 per cent respectively.

All application segments saw their revenue fall with the exception of Mobile Machinery, which achieved a small rise in revenue of 1.7 per cent to €61.1 million.

Revenue and unit sales down in fourth quarter New orders in the fourth quarter of 2012 fell by 13.8 per cent to €62.6 million compared with the fourth quarter of 2011 but were at roughly the same level as in the third quarter of 2012. Fourth-quarter unit sales were down by almost a half compared with the same quarter of 2011, amounting to around 3,700 engines; they were also lower than they had been in the third quarter of 2012. Revenue in the fourth quarter of 2012 also fell compared with the fourth quarter of 2011, down by 18.8 per cent to €70.0 million, but remained at the same level as in the third quarter of 2012.

DEUTZ Customised Solutions: Revenue by application segment

€ million (2011 figures)



Operating profit at prior-year level Even though market conditions had worsened overall, we generated an operating profit of €46.6 million in the DCS segment, thereby managing to sustain the very good level reported for the previous year (2011: €46.5 million). This positive result was largely attributable to greater profitability.

BUSINESS PERFORMANCE IN THE OTHER SEGMENT

The successful disposal of our shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) during the fourth quarter of last year was the main factor in the operating profit of €7.5 million earned in the Other segment. This equates to a rise of €10.0 million compared with 2011, when we reported an operating loss of €2.5 million.

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the DEUTZ Group's financial position

	2012	2011
€ million		
Cash flow from operating activities[1]	104.9	120.0
Cash flow from investing activities	–81.4	–102.3
Cash flow from financing activities[1]	–22.2	–34.1
Change in cash and cash equivalents	1.3	–16.4
Free cash flow	12.6	4.8
Cash and cash equivalents at 31 December	52.1	51.6
Current and non-current interest-bearing financial liabilities at 31 December	100.7	121.2
Net financial position at 31 December	–48.6	–69.6

Free cash flow: cash flow from operating and investing activities minus net interest expense

Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities

[1] Interest income, which amounted to €0.9 million (2011: €0.5 million), is now reported under cash flow from financing activities instead of under cash flow from operating activities so that both interest income and interest expense are now shown under financing activities. The prior-year figures have been restated accordingly to improve comparability.

Central responsibility for treasury Responsibility for financial management in the DEUTZ Group lies with DEUTZ AG as the parent company of the Group. Financial management primarily consists of obtaining the necessary funds, managing their use within the Group, pooling cash resources and hedging interest-rate risk, currency risk and commodities risk throughout the Group.

FUNDING

Loan from European Investment Bank and syndicated bank loan ensure sufficient liquidity In mid-2012, a syndicate of five banks provided us with a €160 million working capital facility. It is a floating-rate, unsecured line and, as a revolving facility, can be drawn down as and when we need it until June 2017. DEUTZ can elect whether to utilise the cash line as a bilateral overdraft facility (up to €60 million) or to draw down amounts under the syndicated line with interest periods of three to six months.

In mid-2012, the European Investment Bank also granted us a €90 million loan. This loan, which is also unsecured, is repayable over a period of eight years, although no repayments are due in the first two years. DEUTZ has hedged the interest-rate risk arising from this loan.

As part of the contractual agreements for both loans, DEUTZ is obliged to comply with certain financial covenants. They do not limit our leeway for growth projects, however. The working capital facility and the loan from the European Investment Bank have enabled us to secure funding for our projects and for further growth over the medium to long term. As a result of this new funding, interest expenses will continue to fall in the next few years, while our range of options has expanded significantly.

In the first half of 2012, we had utilised the previous working capital facility, which was for €240 million. This line was fully repaid and replaced in mid-2012. The remaining outstanding amounts due to US noteholders, with a value equivalent to €15.7 million, were also repaid ahead of schedule.

Receivables management optimised by means of factoring The sale of receivables is an important way of optimising receivables management. Because the credit quality of our customer receivables is excellent, factoring is also a cost-effective way of improving working capital, especially as considerable cash resources are required to cover the period from the preliminary financing of production to receipt of payment from the customer. The volume of factoring was slightly lower in 2012 than in the previous year as a result of the business situation, the volume as at 31 December 2012 being around €125 million (31 December 2011: €138 million).

FREE CASH FLOW POSITIVE AGAIN

Although operating profit (EBIT) decreased substantially in 2012 owing to the weak economy, cash flow from operating activities declined by just €15.1 million to €104.9 million (2011: €120.0 million). The main reasons for this were the improvement in working capital compared with the previous year, higher depreciation and amortisation charges, and losses on equity-accounted investments that did not have an impact on cash flow.

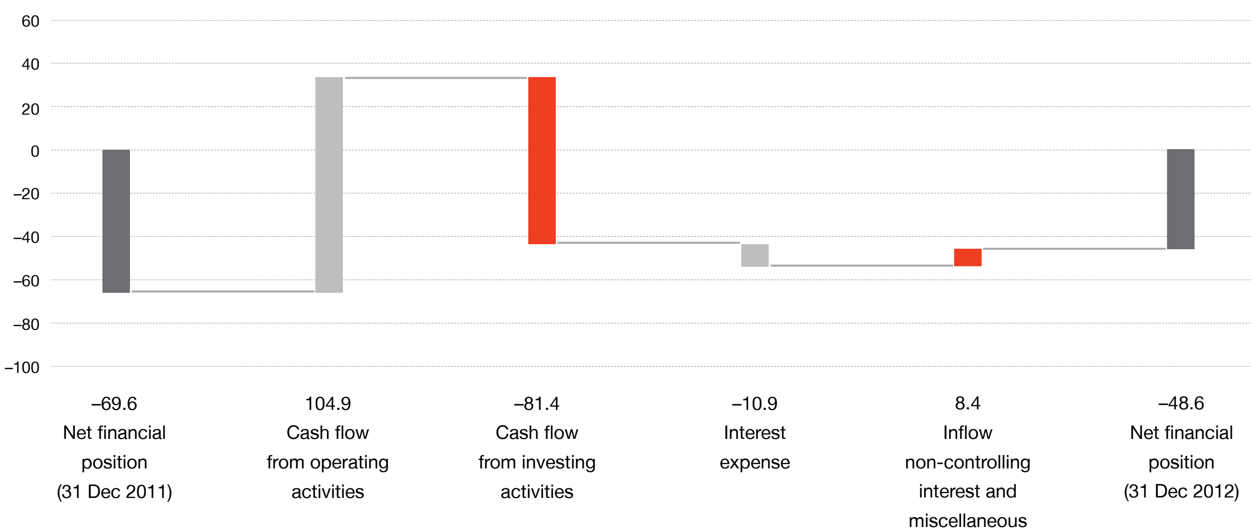
Cash flow from investing activities amounted to minus €81.4 million in 2012. This outflow of funds was primarily the result of capital expenditure on production facilities and tools for production start-ups of our new engine series that had taken place, or were due to take place, and the development of new engines and refinement of existing ones to meet new exhaust emissions standards. The net cash used for investing activities decreased by €20.9 million year on year (2011: €102.3 million), largely due to the disposal of our shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) during the fourth quarter of last year.

The net cash remaining after capital expenditure was predominantly used to repay financial liabilities. At the end of 2012, cash flow from financing activities amounted to an outflow of €22.2 million (31 December 2011: outflow of €34.1 million[1]). Cash flow from financing activities was particularly affected by the restructuring of the funding in mid-2012, which involved paying back old loans and taking up new ones.

Despite the challenging economic conditions, we were able to increase our free cash flow slightly compared with the previous

DEUTZ Group: Change in net financial position

€ million



[1] Since the first quarter of 2012, interest income (2012: €0.9 million; 2011: €0.5 million) has been reported under cash flow from financing activities. The comparative figure for 2011 has been restated accordingly.

year. Free cash flow improved by €7.8 million year on year to €12.6 million at the end of 2012 (31 December 2011: €4.8 million). Factors in this uptrend included an inflow of cash from the disposal of our shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) and the lower interest expense following the restructuring of the funding in mid-2012.

CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT AND ON INTANGIBLE ASSETS

In 2012, our capital expenditure on property, plant and equipment and on intangible assets including investment grants totalled €110.6 million, which was slightly higher than in the previous year (2011: €102.7 million). This was broken down into €56.1 million on property, plant and equipment and €54.5 million on intangible assets. We invested €19.2 million more on property, plant and equipment than in the previous year (2011: €36.9 million) – predominantly on production equipment and tools in connection with the upcoming market launch of the new TCD 2.9 and TCD 3.6 engines and on a new development building. However, our capital expenditure on the development of new engines and refinement of existing ones in accordance with the new exhaust emissions standards, which accounts for the lion's share of capital spending on intangible assets, fell by €17.4 million to €44.2 million (2011: €61.6 million) as budgeted.

As in previous years, capital investment on property, plant and equipment and the development and refinement of products was higher than the depreciation and amortisation of these two groups of assets.

The bulk of the total capital expenditure including investment grants was invested in the DEUTZ Compact Engines segment (2012: €95.0 million; 2011: €92.9 million). Capital expenditure in DEUTZ Customised Solutions was €15.6 million (2011: €9.6 million). Investing activities in both segments focused on property, plant and equipment and on development expenditure.

NET ASSETS

Overview of the DEUTZ Group's assets

	31/12/2012	31/12/2011
€ million		
Non-current assets	639.2	640.3
Current assets	385.4	458.3
Assets classified as held for sale	1.8	0.4
Total assets	**1,026.4**	**1,099.0**
Equity	480.1	453.5
Non-current liabilities	274.8	304.3
Current liabilities	271.5	341.2
Total equity and liabilities	**1,026.4**	**1,099.0**
Working capital (in € million)	141.6	142.1
Working capital ratio at the balance sheet date (%)	11.0	9.3
Working capital ratio (average, %)	14.7	10.8
Equity ratio (%)	46.8	41.3

Working capital: inventories plus trade receivables minus trade payables

Equity ratio: ratio of equity to total equity and liabilities

Non-current assets Despite the sustained high level of capital expenditure on property, plant and equipment and on intangible assets, non-current assets had fallen slightly by the end of the year to €639.2 million, a decline of €1.1 million (31 December 2011: €640.3 million). The reduction in equity-accounted investments resulting from the disposal of our shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) during the fourth quarter of 2012 and from negative contributions to earnings was largely offset by the capital expenditure on property, plant and equipment and on intangible assets.

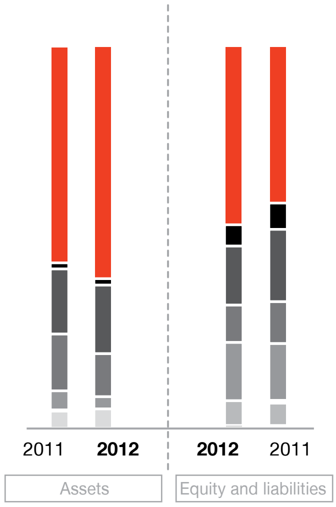
Current assets Current assets had decreased by €72.9 million to €385.4 million as at 31 December 2012 (31 December 2011: €458.3 million). The biggest factor in this trend was trade receivables, which were affected by the decline in business volume.

DEUTZ Group: Balance sheet structure

in % (2011 figures)

Assets

60.5	(56.7)	Non-current assets
1.7	(1.6)	Deferred taxes
18.0	(17.1)	Inventories
11.3	(14.9)	Trade receivables
3.2	(5.0)	Other receivables and assets
5.1	(4.7)	Cash and cash equivalents
0.2	(0.0)	Non-current assets classified as held for sale



Equity and liabilities

46.8	(41.3)	Equity
5.6	(6.9)	Other liabilities
15.5	(19.0)	Trade payables
9.8	(11.0)	Financial liabilities
15.3	(14.9)	Pension provisions
6.7	(6.6)	Other provisions
0.3	(0.3)	Deferred tax provisions

Working capital The ratio of working capital (inventories plus trade receivables minus trade payables) to revenue deteriorated owing to the lower volume of business compared with 2011. The working capital ratio[1)] had grown from the record 9.3 per cent achieved as at 31 December 2011 to 11.0 per cent as at 31 December 2012. The average working capital ratio (ratio of average working capital over four quarters to the revenue for twelve months) increased at an even higher rate, climbing from 10.8 per cent in 2011 to 14.7 per cent in 2012. The reason for this was the higher inventories to revenue ratio during the year under review. Overall, working capital remained roughly the same year on year at €141.6 million (31 December 2011: €142.1 million). However, while inventories were largely unchanged, trade receivables and trade payables both declined by a similar degree.

Unrecognised intangible DEUTZ assets In addition to the assets recognised on the balance sheet, DEUTZ has further assets that are not recognised. The DEUTZ brand is synonymous with highly sophisticated technology, quality and reliability and the Company has been a firmly established player in the equipment manufacturing and operating industry for almost 150 years. DEUTZ also enjoys valuable long-standing relationships with customers; it has entered into long-term cooperation agreements, particularly with its key customers.

Further increase in the equity ratio Equity was €26.6 million higher than it had been at 31 December 2011. This was primarily due to the amount of net income generated in 2012 but was also the result of the capital contribution paid by the Shandong Changlin Machinery Group Co., Ltd. into DEUTZ (Shandong) Engine Co., Ltd., which belongs to the DEUTZ Group. The shares that Shandong Changlin Machinery Group Co., Ltd. holds in the joint venture are reported as non-controlling interests under Group equity. As at 31 December 2012, equity amounted to €480.1 million (31 December 2011: €453.5 million). Consequently, the equity ratio, which had already been very high the previous year, improved by a further 5.5 percentage points to 46.8 per cent (31 December 2011: 41.3 per cent).

Current and non-current liabilities Both current and non-current liabilities decreased year on year. The decline in current liabilities of €69.7 million was predominantly attributable to the reduction in trade payables resulting from the business situation. Non-current liabilities fell by €29.5 million, above all because we had drawn down less from bank loans and because, as expected, provisions for pensions and other post-retirement benefits were lower. As at 31 December 2012, current liabilities came to €271.5 million (31 December 2011: €341.2 million) and non-current liabilities to €274.8 million (31 December 2011: €304.3 million).

As a consequence of the decrease in current assets and liabilities, total assets had fallen by €72.6 million to €1,026.4 million as at 31 December 2012 (31 December 2011: €1,099.0 million).

[1)] Working capital ratio as at the balance sheet date: ratio of working capital (inventories plus trade receivables minus trade payables) at the end of the financial year to revenue for the last twelve months

OVERALL ASSESSMENT FOR 2012

Having had one of the best years in our almost 150-year history in 2011, we were unable to repeat this excellent performance in 2012. This was due above all to the generally weak level of economic growth in Europe and in the parts of the capital equipment sector in China that are relevant to us. The decline in demand for our products caused revenue to decrease by 15.5 per cent to €1.3 billion. Unit sales of 179,000 engines constituted a drop of 22.5 per cent, although we are seeing a growing proportion of higher-value engines for the new emissions standards. Operating profit fell sharply to €38.5 million; the EBIT margin therefore amounted to 3.0 per cent. Besides the reduction in business volume, this earnings trend is above all attributable to smaller contributions to earnings from the joint ventures, start-up costs for our growth projects and the production start-up of new engines. Income from the sale of Bosch Emission Systems GmbH & Co. KG had a countervailing effect. During the year under review, we therefore initiated further measures to cut costs, boost flexibility and improve earnings with the aim of further reinforcing our economic stability. It was encouraging to see that, despite the challenging market conditions, free cash flow remained in positive figures at €12.6 million and net financial debt declined by some €20 million to below €50 million. We are confident that, in the long term, DEUTZ AG is well positioned to take advantage of the improving economic situation thanks to our solid foundations, improved funding structure and increasingly strong presence in Asian growth markets.

EVENTS AFTER THE REPORTING PERIOD

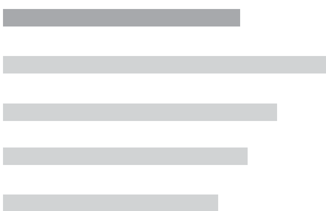
With effect from 1 March 2013, Mr Michael Wellenzohn was appointed as an additional member of the Board of Management where, in a newly created position, he will be in charge of sales and marketing. Mr Wellenzohn was previously sales director at ThyssenKrupp Chassis.

RESEARCH AND DEVELOPMENT

Research and development expenditure (after deducting grants)

€ million (R&D ratio in %)

2012	**62.1**	**(4.8)**
2011	84.6	(5.5)
2010	71.8	(6.0)
2009	64.1	(7.4)
2008	56.4	(3.8)



RESEARCH AND DEVELOPMENT EXPENDITURE

We want to maintain our strong footing in our market and to grow profitably. To achieve this aim, it is critical that we remain one of the innovation leaders in our industry. Research and development lay the foundations for this.

Including grants, expenditure on research and development in 2012 amounted to €82.7 million (2011: €109.8 million). If the grants received from key customers and development partners are excluded, expenditure came to €62.1 million. This equates to a year-on-year decrease of €22.5 million or almost 27 per cent (2011: €84.6 million). The R&D ratio (including grants) – the ratio of net R&D expenditure to consolidated revenue – fell in the year under review to 4.8 per cent (2011: 5.5 per cent). As announced, we were therefore able to scale back expenditure on research and development owing to the advanced stage of the work on new products and the new exhaust emissions standards. In 2012, some 88 per cent (2011: 90 per cent) of all R&D expenditure was accounted for by new engine development and engine refinement, 10 per cent (2011: 8 per cent) by customer applications and support for existing engine series, and the remaining 2 per cent (2011: 2 per cent) by research and preliminary development.

Including grants, R&D expenditure came to €55.3 million (2011: €70.6 million) in the DEUTZ Compact Engines segment and €6.8 million (2011: €14.0 million) in the DEUTZ Customised Solutions segment.

The development work for the design of the basic engines to meet the EU Stage IV and US EPA Tier 4 Final emissions standards, which will apply from 2014, has already been largely included in the development work for EU Stage III B and US EPA Tier 4 Interim. Additional development work will cover combustion optimisation, adaptation of exhaust gas aftertreatment systems and mechatronics.

Development and refinement of our engines A number of products were introduced in 2012, which also saw a continuation of development work for the upcoming EU Stage IV and US EPA Tier 4 Final emissions standards for four to eight-litre engines, which are being launched in 2013 and will have an output of 130kW or higher. In the capacity category of less than four litres, the TCD 2.9 for Tier 4 Final is being developed for use in agricultural equipment and will be available to customers from the second quarter of 2014.

By developing the new TCD 2.9 and TCD 3.6 engines, DEUTZ aims to streamline its overall product range from seven engine series to five. It also wants to further strengthen its foothold in the segment of engines with an output of less than 90kW for agricultural applications by offering engine series tailored to customer requirements. With their current engine architecture, the TCD 2.9 and TCD 3.6 have the potential to be developed for further engine variants and future emissions standards.

The TCD 3.6 is a water-cooled, four-cylinder, in-line, turbocharged engine that meets the EU Stage III B and US EPA Tier 4 Interim emissions standards thanks to its powerful common-rail injection system and highly efficient internal combustion with cooled external exhaust gas recirculation. Achieving excellent values for torque and rated power, this engine series has penetrated a power category previously served only by engines with greater capacity. Different engine parameters, tailored to customer requirements, ensure low fuel consumption, increased engine power and improved engine response in a wide variety of applications.

At INTERMAT 2012, one of the biggest construction equipment and structural engineering trade fairs, we presented the entire range of DEUTZ engines with outputs of up to 390kW for the first time as well as DVERT® components for the EU Stage IV and US EPA Tier 4 emissions standards. This was a chance for us to demonstrate the future of engine technology.

Strategic partnerships In 2012, we entered into a strategic partnership with hydraulics suppliers to achieve all-round optimisation and systems integration of hydraulics components. The results of the strategic partnership will enable us to offer customers an engine that, as an integrated system including the hydraulics, has been optimised in terms of performance and installation.

DEUTZ and Bosch will intensify their future collaboration as part of an innovation partnership in the fields of exhaust aftertreatment, diesel injection technology and electronics. The aim of this partnership is to integrate the drive technology systems for mobile machinery more tightly.

New organisational structure Systems integration was strengthened in early 2012 when a new organisational unit was formed within the development division. In the context of the company's global operations, the development division will take on a leading role in the international development network. In the long term, this will involve setting up further local teams at the future international development sites.

Exhaust aftertreatment Internal modifications to engines to reduce untreated emissions – primarily measures to fine-tune the combustion process, optimise the design of the gas exchange cycle and introduce exhaust gas recirculation mechanisms – are complemented by optimised external exhaust aftertreatment systems.

DVERT® (DEUTZ Variable Emissions Reduction Technology) is a modular, slimline system of technical components compatible with different engine configurations. The various DVERT® elements are external exhaust gas aftertreatment technologies such as oxidising catalytic converters, open and sealed design particulate filters and selective catalytic reduction (SCR) systems. The systems can be combined as required in order to achieve the desired outcome in terms of engine performance, compliance with emissions limits and competitiveness. The solutions have been designed so that they can be upgraded to meet the future, even lower, emissions limits in the EU Stage IV and US EPA Tier 4 Final standards.

Research for the future Preliminary development focuses on the development of groundbreaking technologies and system designs for engines in the next generation but one. We continued with preliminary development on engine concepts to meet the future EPA Tier 5 emissions standard.

In 2012, a pioneering new preliminary development project was launched for a gas engine for use in agricultural applications. As part of the project, the potential for using methane-based fuels, in particular biomethane, is being assessed. Following the start of series production of an engine powered by rapeseed oil, DEUTZ continues to show a keen interest in engines powered by alternative fuels that help to reduce overall CO_2 emissions. A recent market analysis found that running agricultural machinery on biomethane brings economic benefits, while the practically neutral carbon footprint resulting from extremely low levels of pollutant emissions plays a key role in reducing the impact on the environment.

Intellectual property rights protect our expertise We use patents, patent applications and utility models to safeguard our expertise against unauthorised use by third parties. In the year under review, we submitted 20 new patent applications, of which eleven were in Germany. As a result, we now hold a total of 186 patent applications, patents and utility models registered in Germany and 219 registered elsewhere.

EMPLOYEES

Overview of the DEUTZ Group's workforce

	31/12/2012	31/12/2011
Headcount		
DEUTZ Group	**3,991**	**4,060**
Thereof		
In Germany	3,189	3,325
Outside Germany	802	735
Thereof		
Non-salaried employees	2,377	2,459
Salaried employees	1,460	1,440
Trainees	154	161
Thereof		
DEUTZ Compact Engines	3,223	3,242
DEUTZ Customised Solutions	768	818

Number of employees adjusted to decline in production A flattening out of demand and lower capacity utilisation in production meant we had to reduce the number of employees in 2012. The DEUTZ Group employed 3,991 people in total at the end of 2012, which was 69 fewer than at the end of 2011. This equates to a decline of 1.7 per cent in the workforce. As at 31 December 2012, we also had a further 152 people on temporary employment contracts, compared with 538 a year earlier. By offering fixed-term contracts and employing temporary workers, DEUTZ can respond flexibly to any fluctuations in demand. Around 10 per cent of all staff at DEUTZ had fixed-term or temporary contracts as at 31 December 2012.

Approximately 80 per cent of our workforce is employed in Germany. In 2012, as in the past, most of these employees were based in Cologne – 2,489 as at 31 December 2012. At the end of the year, 413 employees were based at the Ulm facilities. Of the 802 employees outside Germany, 459 of them work for our DEUTZ SPAIN subsidiary in Zafra, Spain.

DEUTZ Group: breakdown of workforce by location

	31/12/2012	31/12/2011
Headcount		
Cologne	2,489	2,561
Ulm	413	471
Other	287	293
In Germany	**3,189**	**3,325**
Outside Germany	802	735
Total	**3,991**	**4,060**

When broken down by segment, DEUTZ Compact Engines employed 3,223 people as at 31 December 2012, which was almost the same number as it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 768, down by 6.1 per cent compared with the end of 2011.

Slightly fewer employees in R&D compared with 2011 DEUTZ is an innovation-driven, technology-based enterprise. Research and development is therefore of fundamental importance to us and critical to our long-term technological orientation. Nevertheless, we slightly decreased the number of R&D employees at 31 December 2012 to 520 (31 December 2011: 544) owing to the completion of projects.

A helping hand for a new generation DEUTZ gives young people an optimal start for the future by offering a well-grounded training programme. In the year under review, we provided training at our various plants for 154 young men and women in seven different technical and commercial occupations. The Cologne site employed 109 young people, while the DEUTZ plant in Ulm employed 27. Eleven young people are receiving vocational training from DEUTZ at the XChange plant in Übersee on Lake Chiemsee. DEUTZ employs a further seven trainees at its components plant at Herschbach im Westerwald.

We are especially pleased that another three women joined our Company to pursue technical training in the year under review. Women now account for around eleven per cent of all the apprentices and trainees at DEUTZ. In 2012, the overall domestic ratio of trainees to other employees was around 4,8 per cent (2011: 4.8 per cent). All apprentices and trainees passing their final examinations were then taken on as qualified employees for at least one year.

One of our top priorities is to encourage young people to take an interest in technology while they are still at school. That is why we took part in various training fairs and careers information events again last year. This allows us to make direct contact with young people, while they get to meet their future employer in person. We also provide this opportunity by regularly taking part in the Girls' Day and 'Erlebniswelt Maschinenbau' campaign days. As part of our corporate social responsibility, we have been working closely for more than 20 years with IN VIA – an association under the auspices of the German Caritas organisation – and the German Federal Employment Agency to provide career preparation courses for young persons with learning and social difficulties. A total of 38 participants undergo basic metalwork training over a ten-month period at the DEUTZ training centre. This course provides the participants with a comprehensive range of skills that they will need to take up a career. Our efforts pay dividends: in the year under review, the placement rate for an apprenticeship in industry or the trades was 92 per cent (2011: 100 per cent).

As in 2011, the Cologne Chamber of Industry and Commerce (IHK) awarded our training centre in Cologne its 'Best performer' certificate in 2012 for the centre's outstanding contribution to introductory vocational training. The IHK also awarded certificates in recognition of the exemplary commitment demonstrated by the training departments in Ulm and Herschbach.

The DEUTZ Group is also involved in training activities outside Germany. Last year, DEUTZ Spain took part in a project to become one of the first companies in Spain to offer vocational training combined with studies at a vocational college. This is a new type of training project for Spanish industry and is based on the German vocational college system. A total of 15 trainees have started the programme.

We encourage our employees to submit suggested improvements with the payment of bonuses for ideas accepted through the suggestions management system. In this way, we receive a continuous feed of ideas for increasing profitability, refining health & safety or improving environmental protection. In 2012, DEUTZ employees submitted more than 1,100 suggestions, which led to savings of just under €0.5 million.

Personnel marketing activities expanded DEUTZ continued its successful participation in key university fairs held around the region in Cologne, Aachen and Bonn/Siegburg. Our presence at these three universities, which offer courses in engine-related subjects, enables us to make contact at an early stage with prospective graduate recruits and to provide them with information on the opportunities for work placements, dissertations and career starts at DEUTZ. In 2012, some 100 students on work placements in a wide variety of departments made the most of the opportunity to obtain an initial insight into day-to-day working life and to gain important practical experience. We also provided the opportunity for 51 students to complete their bachelor's or master's degree by preparing a practically relevant dissertation in cooperation with DEUTZ. A new programme was launched, under which particularly talented engineering students are offered a part-time job that allows them to learn about the work of engineers and to deepen and apply this knowledge. The objective of all these activities is to continue to be able to recruit highly qualified staff for DEUTZ.

DEUTZ also took part in the SinoJobs Career Days, a careers fair focusing on China. Attendees were especially interested in our joint ventures in China and the job opportunities there.

Continued talent management and succession planning We continued with the collaboration with Steinbeis University Berlin that we had begun in 2011. The aim is to enable selected young employees to gain a master of science degree in international management based on studies combined with practical experience. The purpose of this degree course is specifically to train the engineers and managers of tomorrow who will support and contribute to DEUTZ's increasing focus on activities at an international level.

In 2011, we had used structured HR development activities to create a pool of talent, which we were able to draw on in 2012 to fill vacant specialist and managerial positions with internal candidates. This is proof positive of the priority given to our own talented employees in terms of opportunities for continuing professional development in Germany and abroad. Based on the outcome of discussions about their potential, DEUTZ-specific training courses were developed on the themes of team-building and leadership that were then run for a number of groups. As the participants' feedback was highly positive, it is planned to continue these training activities in 2013.

Strategic HR activities taking shape As part of its qualitative HR planning activities, DEUTZ is addressing the issue of which skills, qualifications and job profiles it will need in the workforce to successfully implement our corporate strategy in the next few years. Initially, we focused on research and development, sales and assembly. One of the outcomes was that we started taking on trainees in the field of mechatronics for the first time in autumn 2012. This is in recognition of the fact that mechanics and electronics are becoming increasingly interlinked disciplines.

Health management activities stepped up In 2012, we again focused on important health issues in cooperation with the health insurance provider, the company medical service and the works council. The health insurance provider's health report shows that skeletal disorders are the most frequent cause of illness among employees. We carried out a pilot project with a manufacturer of safety shoes to bring about improvements in this area. In the next step, we plan to offer ergonomics advice on site so that employees can find out about correct and incorrect posture in the workplace. These measures have already proved very effective at our site in Ulm.

CORPORATE SOCIAL RESPONSIBILITY

DEUTZ AG's corporate philosophy is based on five principles: innovations, quality, success, trust and responsibility. The latter means that DEUTZ assumes responsibility for its decisions and actions, for its products and services, for its customers and lenders, for the environment and for the society in which we live. As a global company, we have been involved in corporate citizenship activities throughout Germany and beyond for many years, although they are predominantly focused in our home region in the area around Cologne.

Engine museum popular with visitors Last year, DEUTZ AG participated in the Expedition Colonia festival for the first time, during which Cologne-based companies opened their doors to the public. The festival on 23 April 2012 gave engineering enthusiasts the chance to learn about the history of how the internal combustion engine was developed by taking a guided tour of the DEUTZ engine museum. At the technology centre, which covers over 600 square metres, more than 50 exhibits offer a fascinating insight into the world of engine technology and highlight the ingenuity of the company's founder Nicolaus August Otto, who developed the world's first fully functioning four-stroke engine in 1876. This engine can be seen at the technology centre alongside engine no. 1, the first atmospheric gas-powered engine, which dates from 1867 and is also still in working order. As in 2011, we also took part in Heritage Day, which was held throughout Germany on 9 September 2012. Again, we offered free admission to our engine museum and ran guided tours.

Integration of people with disadvantages DEUTZ also sets an example for the integration of people with disabilities. For 25 years, DEUTZ AG has worked with Nostra GmbH, one of the largest and oldest organisations for the integration of disabled and disadvantaged people in Germany. The project creates employment in the regular labour market for 40 people with severe disabilities or who face other disadvantages in the job market. DEUTZ has also worked in partnership with GWK, a not-for-profit organisation based in Cologne promoting the integration of people with disabilities, for more than 40 years. The goods inward, packing and component manufacturing services provided by the two organisations are tightly integrated with DEUTZ AG's processes. We benefit from the high level of precision demonstrated by their employees. In addition, we are involved in the HauptschulPower initiative, which runs targeted programmes aimed at challenging and developing schoolchildren at less academic secondary schools (Hauptschulen), many of whom are disadvantaged, so that they can later undergo vocational training. Our global activities include the 'Learnership for disabled people' programme, which is organised by D. D. Power Holdings (Pty) Ltd. (DDP) in South Africa. Initiated by DDP's supervisory board in September 2011, the programme's objective is to integrate people with disabilities into work processes and improve their job prospects in the economy.

DEUTZ choir performs on the global stage For many years, cultural activities at DEUTZ have included a company choir. Based in Cologne, the DEUTZ choir has added a musical dimension to DEUTZ AG's outstanding international reputation for more than 65 years. The choir is a musical ambassador for the Company and the city of Cologne, bringing people and cultures together with highly respected concerts and tours throughout the world. Last year, for example, the choir sang in a joint concert with the Beijing Symphony Orchestra at the Cologne Philharmonic Hall as part of the 2012 Year of China. The concert celebrated the 25th anniversary of the twinning of Cologne and Beijing and also featured the internationally acclaimed trio, China's Three Tenors. Another highlight took place at the Cologne Philharmonic Hall in June 2012, when the choir took the audience on a musical journey from Berlin to Paris.

The members of the Board of Management and managers at DEUTZ AG are also fully aware of their responsibility to set an example. For many years, they have been personally involved in various charitable associations, trade associations, committees, trusts and other forums.

ENVIRONMENT

ENVIRONMENTAL MANAGEMENT SYSTEM

DEUTZ AG manufactures eco-friendly products that meet the latest emissions standards and therefore make a significant contribution to protecting the environment. Our production processes are also resource-efficient. Ten years ago, DEUTZ decided to implement an environmental management system as a way of contributing effectively to environmental protection. The system keeps track of aspects that are highly relevant to the environment, such as keeping the air clean, avoiding and disposing of waste, protecting against soil and water pollution and sustainably reducing energy consumption.

Each year, the performance of the environmental management system, which DEUTZ introduced voluntarily, is assessed and audited by the external certification organisation DQS. Our environmental management system meets the international standard ISO 14001, as was most recently confirmed in June 2012. This also satisfies a key requirement of our customers.

Besides the external audit conducted by DQS, DEUTZ has its own safety management department that regularly reviews compliance with applicable laws and regulations. Its tasks include evaluating new legal requirements and, if necessary, the related adjustments to our processes.

Air pollution prevention at the production testing centre in Cologne-Porz There were further reductions in emissions of nitrogen oxide, organic dust and benzene in 2012. This was primarily due to two reasons: firstly, a higher proportion of diesel engines with a capacity of less than four litres was tested and, secondly, the diesel engines are subject to increasingly stringent emissions requirements. Another significant factor in the decrease in emissions was the modern exhaust gas collection system used at the production testing centre in Cologne-Porz, whose cleaned gas now has a dust content of just 1.0 mg/m^3. In the year under review, around 1,600 tonnes of CO_2 emissions were released during engine tests at the test centre for engine production (2011: just over 2,000 tonnes). This reduction is particularly encouraging because this source of emissions is of great relevance to the Group's environmental footprint.

Waste disposal and handling of hazardous waste DEUTZ AG is aware of its responsibility when it comes to handling hazardous waste, which is why it set up a sealed collection point for such waste a number of decades ago. Hazardous waste includes scrap parts still contaminated with oil, waste oil, paint residues, solvents and (special) fuels. During the year under review, the existing collection point for hazardous waste was updated with the latest technology. Additional retractable covers and collection trays were also installed outside for the storage of dumper trucks containing steel scrap still contaminated with oil. Extensive training and new company regulations on handling hazardous waste will help to minimise the environmental risk still further.

Water pollution control The research and development unit has drawn up a multi-stage concept for improving water pollution control near engine testing centres. In 2012, around €200 thousand was spent on renovating the testing centre cellars in order to catch any service fluids that may escape during engine testing. These fluids, which include fuel, engine oil and antifreeze, are collected and transported to a waste processing facility, where the high water content is separated from the hazardous waste. The extracted water can then be used in a variety of auxiliary processes at DEUTZ. This significantly reduces the volume of water consumed in production and the cost of waste disposal. During the period under review, approximately $39m^3$ of waste was treated, of which only a small proportion required subsequent disposal.

Energy savings In 2012, additional engine test rigs were equipped with generator brakes as part of a multi-stage concept for improving the development test rigs. The brakes convert the kinetic energy produced by diesel engines on the test rig into electrical energy and feed it into the electricity grid at DEUTZ AG. The use of generator brakes also allows us to buy fuel at special lower tax rates. Generator brakes, combined with the smaller amount of electricity purchased, enabled us to achieve savings of around €700 thousand in 2012.

HEALTH AND SAFETY PROMOTED BY SAFETY MANAGEMENT

Our safety management activities are based on partnership with the relevant managers of the statutory accident insurer and with the German government supervisory authorities for workplace health & safety and environmental protection. This helps to effectively reduce the risk of serious accidents, unsafe conditions and unplanned machinery downtime.

There was an encouraging year-on-year improvement in the KPIs 'notifiable accidents per thousand employees' (TMQ)[1] and 'accident frequency'[2] despite the level of risk not changing: TMQ fell to 29.8 (2011: 33.0) and accident frequency decreased to 23.1 (2011: 26.8). This proves the effectiveness of our internal concepts. The accident frequency KPI also indicates that this improvement was achieved irrespective of the volume of work or the number of employees.

Besides providing employees with extensive training on health and safety during inhouse and external courses, we also analysed our health and safety processes again and took steps to reduce accidents. In particular, these included regular testing of facilities, equipment and tools. This helps to ensure that our employees can use all tools safely and that all processes operate with an adequate level of safety.

RESULTS OF OPERATIONS FOR DEUTZ AG

Income statement for DEUTZ AG

	2012	2011
€ million		
Revenue	1,214.4	1,452.4
Profit/loss from ordinary activities	**58.0**	**21.2**
Net extraordinary expense	–2.3	–2.3
Income taxes	2.9	6.6
Other taxes	–0.4	–0.6
Net income	**58.2**	**24.9**
Loss	–115.8	–140.7
Accumulated loss	**–57.6**	**–115,8**

The annual financial statements of DEUTZ AG are prepared in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The revenue generated by DEUTZ AG in 2012 amounted to €1,214.4 million; a year-on-year fall of €238.0 million (2011: €1,452.4 million). By contrast, the profit from ordinary activities had risen to €58.0 million (2011: €21.2 million), largely on account of the reversal of an impairment loss on the carrying amount of the equity invested in our US subsidiary. After deduction of interest, tax and extraordinary items, the net income for the year was €58.2 million (2011: €24.9 million).

DISCLOSURES PURSUANT TO SECTION 315 (4) HGB

Composition of the issued capital There were no changes to the issued capital (share capital) of DEUTZ AG in 2012. As at 31 December 2012, the issued capital amounted to €308,978,241.98 and was divided into 120,861,783 no-par-value bearer shares.

Direct or indirect shareholdings representing more than 10 per cent of voting rights Since 12 September 2012, AB Volvo has been a shareholder in DEUTZ AG with a voting share of 25 per cent plus one share.

Restrictions affecting voting rights or the transfer of shares There are no longer any restrictions affecting voting rights or the transfer of DEUTZ AG shares as the restrictions (described in last year's annual report) on SAME DEUTZ-FAHR Group S.p.A. in the event that it sold, encumbered or otherwise disposed over the shares that it held in DEUTZ AG elapsed when it sold most of these shares to AB Volvo.

Legal provisions and Statute provisions regarding the appointment and removal of members of the Board of Management and regarding changes to the Statutes According to articles 7 (1) and 7 (2) of the Statutes of DEUTZ AG:

"(1) The Board of Management shall comprise at least two members.
(2) The Supervisory Board shall determine the number of members of the Board of Management and the allocation of responsibilities. It may draw up and issue rules of procedure."

As far as the appointment and removal of members of the Board of Management are concerned, sections 84 and 85 of the German Stock Corporation Act (AktG) and section 31 of the German Codetermination Act (MitbestG) also apply.

According to article 14 of the Statutes of DEUTZ AG:

"The Supervisory Board may change the wording but not the spirit of the Statutes." Sections 179, 133 AktG also apply in the case of changes to the Statutes.

Authority of the Board of Management, in particular with regard to share issue or buyback The authority of the Board of Management is derived from the legal provisions and from the rules of procedure laid down by the Supervisory Board.

The Board of Management is currently not authorised to issue or buy back shares.

[1] Known as TMQ (Tausend-Mann-Quote) in German
[2] Accident frequency: number of accidents x 1 million / hours worked

FURTHER DISCLOSURES

No bearers of shares have any special rights conferring authority to control the Company.

Numerous employees have direct shareholdings in DEUTZ AG. There are no restrictions affecting the direct exercise of rights of control in connection with these shares.

The Technology Project Agreement between DEUTZ and Volvo can be terminated by Volvo for good cause with immediate effect if DEUTZ AG is directly or indirectly acquired by a competitor of Volvo, merged with such a competitor or in any other way falls under the control of such a competitor.

In mid-2012, DEUTZ AG took up a syndicated loan for €160 million from a syndicate of banks and a loan for €90 million from the European Investment Bank. Also in mid-2012, we fully repaid and replaced the working capital facility, which was for €240 million and was still being used in the first half of 2012, and the remaining outstanding amounts due to noteholders, equivalent to €15.7 million. Under the terms of the new loan agreements, the lenders can demand that the outstanding loan be repaid within a specified period in the event of a change of control, i.e. one or more people acting jointly acquire a direct or indirect shareholding of at least 50 per cent of all shares and/or voting rights in DEUTZ AG.

If DEUTZ AG needs to repay a considerable proportion of the loans prematurely in the event of a change of control, it needs to raise the necessary funds some other way in the short term.

The employment contracts of the Board of Management members Dr Helmut Leube and Dr Margarete Haase stipulate the following provision in the event of a change of control: if their appointment is (1) revoked within nine months of the change of control or (2) ended within nine months of the change of control subject to certain other requirements following a change to the legal form of DEUTZ AG, they will receive 150 per cent of the severance cap pursuant to item 4.2.3 of the German Corporate Governance Code. Within the meaning of the employment contracts, a change of control is when one or more people or other companies acting jointly within the meaning of section 30 German Securities Acquisition and Takeover Act (WpÜG) acquire more than 30 per cent of the voting rights and therefore control of the Company; no change of control will be deemed to have occurred if the current major shareholder, AB Volvo, or the former major shareholder, the SAME DEUTZ-FAHR Group, acquires more than 30 per cent of the voting rights in the Company.

DEUTZ AG has no indemnification agreements with employees that would come into force in the event of a takeover bid.

Explanatory statement by the Board of Management in connection with sections 289 (4) and 315 (4) HGB The disclosures contained in the management report and group management report pursuant to sections 289 (4) and 315 (4) HGB relate to arrangements that may be significant in the success of any public takeover bid for DEUTZ AG. It is the opinion of the Board of Management that these arrangements are normal for publicly traded companies comparable with DEUTZ AG.

BASIC PRINCIPLES OF THE REMUNERATION SYSTEM

REMUNERATION OF THE BOARD OF MANAGEMENT

The remuneration paid to the members of DEUTZ's Board of Management in 2012 consisted of fixed, variable and long-term performance-related components. The fixed component is paid monthly as basic salary. The performance-related variable component of remuneration is paid as an annual bonus, which is linked to changes in specific key performance indicators in the DEUTZ Group, such as the EBIT margin, free cash flow and the working capital ratio, and to personal targets related to the individual's areas of responsibility.

The members of the Board of Management also receive options – intended to have a long-term incentive effect – related to the increase in shareholder value. These incentives are virtual share options that are issued on the basis of a Long-term Incentive Plan (LTI Plan) to reward the sustained contribution of management to the success of the business. Before they receive virtual share options, those eligible must invest some of their own capital in DEUTZ shares. The virtual share options include the right to receive a cash payment at the end of a lock-up period of three or four years, providing the performance of DEUTZ shares meets the criteria specified in the LTI Plan. Under these criteria, the price of DEUTZ shares on the exercise date either must be 30 per cent above the defined reference price – the weighted average price of DEUTZ shares in the three months prior to the option grant date – or must have outperformed the Prime Industrial index by 30 per cent.

Additional benefits received by the members of the Board of Management include, in particular, a company car, reimbursement of travel expenses and allowances towards insurance policies.

The members of the Board of Management may defer some of their remuneration and add it to an occupational pension scheme. The Company does not grant the members of the Board of Management any pension entitlements.

Further information on the remuneration paid to the Board of Management can be found on page 96 of the Notes to the consolidated financial statements.

Changes were made to the remuneration system for the members of the Board of Management at the start of 2013. In order to take account of statutory changes which have been introduced by the Act on the Appropriateness of Executive Compensation, the system of variable compensation of the members of the Executive Board of DEUTZ AG has been changed. For DEUTZ AG an amendment or, respectively, extension of the Service Agreements of the respective Executive Board members was due in the year 2012. This has led to the implementation of the change of law already occurred in 2009.

The new compensation systems as resolved by the Supervisory Board provides that the variable compensation of an Executive Board member consists of two elements: on the one hand the Executive Board member receives a performance-based variable compensation ("Bonus"), the calculation of which is dependent on the achievement of certain key performance indicators. On the other hand, upon the beginning of his Service Agreement and thereafter at the beginning of each subsequent year of service, the Executive Board member receives for each full year of service a certain contractually determined Euro amount in the form of Virtual Performance Shares.

The calculation of the Bonus for a business year is dependent on the degree of the achievement of quantative key performance indicators for which the degree of goal achievement is measured on an annual basis ("Short-term KPI's"). Number, content and weight of the Short-Term KPI's is determined annually by the Supervisory Board exercising due discretion, and in each case after considering the view of the members of the Executive Board. The minimum goal achievement for the grant of a Bonus is 75 %; the maximum goal achievement which shall be considered for the achievement of a relevant KPI is 150 %. The maximum amount of a Bonus which would result from maximum goal achievement is determined in the respective Service Agreement. Only 60 % of the Bonus for a business year is paid out after the end of the respective business year. In case of the achievement of further mid-term key performances indicators ("Mid-term KPI's"), further 20 % portions of the Bonus are paid out one and, respectively, two years later, provided that the amount of the pay-out is dependent on the degree of achievement in relation to the respective Mid-term KPI's. Also in relation to these pay-outs the respective maximum amounts are determined in the Service Agreements. The goals for all pay-outs are already determined in the beginning of the business year, for which the Bonus is granted.

Details regarding the Virtual Performance Shares are set forth in a long-term incentive plan for the Executive Board ("LTI-Plan Executives") which is part of the Service Agreement with the Executive Board members. The number of Virtual Performance Shares alloted to an Executive Board member is equal to the annual Euro amount as determined by the Service Agreement, divided by a reference price. The reference price is the average closing price of the DEUTZ share in Xetra-trading (or an equivalent successor system) on the Frankfurt Stock Exchange during the 60 stock exchange trading days preceding the allotment date. Virtual Performance Shares represent an entitlement to payment of a cash amount in accordance with the provisions of the LTI-Plan Executives. The cash amount per Virtual Performance Share corresponds to the average closing price of the DEUTZ share in Xetra-trading (or an equivalent successor system) on the Frankfurt Stock Exchange during the last 60 stock exchange trading days prior to the expiry of a waiting period of four years as from the allotment, and is limited to a maximum of 1.5 times the reference price. The entitlement for the payment claim requires, however, that either the stock exchange price of the DEUTZ share must have increased by at least 30 % as compared to its reference price or the development of the DEUTZ share during the waiting period must have exceeded the development of the M-DAX (or a future index replacing the M-DAX) by at least 10 percentage points. It is further required that the Executive Board member makes a personal investment by holding one DEUTZ share for every 20 Virtual Performance Shares received.

The variable compensation is designed in a way that the greater part of variable compensation is measured against the development of several years. The total compensation structure is intended to support a sustainable business development.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration paid to the Supervisory Board is specified in paragraph 15 of the Company's Statutes. This stipulates that the members of the Supervisory Board of DEUTZ AG receive a fixed annual remuneration of €12,500. They also receive a fee of €1,000 for each Supervisory Board meeting they attend and are reimbursed for their out-of-pocket expenses. Furthermore, each member of the Supervisory Board is paid a fixed amount of €2,000 for each percentage point by which the dividend exceeds 4 per cent of the Company's paid-up share capital; this amount is payable proportionately for fractions of percentage points. The chairman of the Supervisory Board receives double these amounts, and his deputy one-and-a-half times.

The chairmanship and membership of Supervisory Board committees are remunerated separately in accordance with the guidelines set out in the German Corporate Governance Code. DEUTZ also pays each member of a committee a fee of €1,000 for each committee meeting they attend. The chairman of a committee is entitled to twice this sum, and his deputy to one-and-a-half times the amount. In addition, DEUTZ reimburses the members of the Supervisory Board for any VAT they incur in connection with the performance of their mandate.

Further information on the remuneration paid to the Supervisory Board can be found on page 97 of the Notes to the consolidated financial statements.

RISK REPORT

RISK MANAGEMENT SYSTEM

To ensure their long-term survival, companies must act quickly – and react even faster – in a world in which economic conditions and the individual markets are constantly in a state of rapid change. Against the background of increasingly complex corporate structures and growing internationalisation, systematic risk management therefore forms an important basis for long-term business success.

DEUTZ operates in a variety of industries and regions worldwide and manages its business through various organisational units: the operating segments of the Group's parent company, subsidiaries, sales offices and authorised dealers. This organisational structure presents the Company with a large number of opportunities, but also gives rise to business-specific risks.

Our objective is to generate profits on a sustained basis and to increase these profits significantly over the medium and long terms in order to develop the Company and secure its future. It is therefore critically important to identify and assess business risks at an early stage and take corrective action where required. DEUTZ therefore has an appropriate risk management system to ensure it can meet this requirement.

Such a system raises the awareness of employees and strengthens their sense of responsibility with regard to potential or existing risks. It also helps everyone involved to identify, analyse and communicate risks in good time and to initiate effective corrective action.

The basic principles, monitoring standards, personnel responsibilities, functions and procedures in the risk management system have been defined by the Board of Management of DEUTZ AG and summarised in a manual that is continually updated. A systematic reporting structure in conjunction with the Risk Management Committee ensures that all major risks are documented and communicated, and that appropriate corrective action is taken and documented at an early stage.

Risk inventories normally take place four times a year – and this was also the case in 2012. These risk inventories are carried out in all functions and areas of the Company and in the main affiliated companies to identify whether new risks have arisen compared with the Company's short-term and medium-term planning. At the same time, a review is carried out to establish whether and how action that has been agreed and implemented has successfully minimised the risks that have already been identified and whether there is still a need for further action. The Risk Management Committee assesses the risks and makes proposals to the Board of Management, which then decides on appropriate measures to prevent or minimise the risk. To enable the Company to respond promptly at all times to any possible risks arising, risk officers and their employees are under an obligation to submit ad hoc reports on any new material risks or if there is an increase in the threat from known risks, such reports to be separate from the regular reporting requirements.

Each year, the Group internal audit department and the independent auditors carry out an audit of DEUTZ AG's system for the early identification of risks pursuant to section 91 (2) AktG to assess whether the system is functioning efficiently. As in prior years, suggestions for improvements proposed by the internal audit department or the Risk Management Committee were speedily implemented by DEUTZ.

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

The risk management system forms part of, and is closely linked to, the internal control system. Whereas the risk management system focuses on the identification, analysis, assessment, communication and management of risk, the internal control system (ICS) brings together activities aimed at avoiding or limiting risk.

The Board of Management is responsible for setting up, monitoring, refining and ensuring the effectiveness of the ICS. Even a properly structured ICS is unable to provide absolute security; it can only provide a relative amount of security in helping to achieve targets and/or avoid material misstatements.

The aim of the internal accounting-related control system is to ensure that accounting is carried out consistently and in accordance with statutory requirements, generally accepted accounting principles and internal guidelines. The accounting process itself includes those operating processes that provide the value flows for financial reporting, the process for preparing the consolidated financial statements, and all information sources and processes from which the significant disclosures in the consolidated financial statements are derived.

In addition to the fundamental principles of separating functions and restricting access to data, DEUTZ AG issues written work instructions and, in particular, Group accounting guidelines that are regularly updated at head office and communicated throughout the Group in order to ensure that the consolidated financial statements are properly and consistently prepared. Each reporting entity is responsible for compliance with the guidelines, and the data reported to DEUTZ's Group accounting department is validated on an ongoing basis during the preparation of monthly financial statements. Data is reported to the Group head office using a standard reporting tool that has been implemented throughout the Group. Additional control mechanisms covering the risks in the main processes, thereby guaranteeing a reliable accounting and reporting system, are normally set up locally at departmental level.

Information relevant to accounting is shared on an ongoing basis with the Head of Finance, Accounting and Compliance and passed on to the Chief Financial Officer in regular meetings.

Besides discussing the single-entity and consolidated financial statements, the Audit Committee set up by the Supervisory Board regularly discusses the quarterly financial reporting. In addition, the Audit Committee's monitoring function includes the ICS set up by the Board of Management as well as the accounting process itself.

The ICS is subject to regular reviews by the internal audit department, which reports directly to the Board of Management. The internal audit department prepares a risk-based audit plan and verifies whether the statutory regulations and the DEUTZ Group's internal guidelines for its entire control and risk management system are being complied with. The findings allow us to eliminate any deficiencies that have been identified and ensure that the ICS undergoes continuous refinement.

RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS

As a corporate group operating at a global level, DEUTZ is exposed to various financial risks that may have a significant impact on its financial position and financial performance. The objective of the overarching risk management system is to eliminate these potentially negative effects or at least to minimise them.

We hedge financial risks in a number of different ways. Financial management in the Group is the responsibility of DEUTZ AG as the parent company. The Treasury department identifies, measures and hedges financial risk in close collaboration with the Group's operating segments. The Board of Management specifies written principles for the Company's overarching risk management strategy as well as guidelines for certain areas, such as how to manage currency risk, interest-rate risk and credit risk and how to use derivative and non-derivative financial instruments. Derivative financial instruments are only used for hedging purposes, i.e. only in conjunction with corresponding hedged items from the Company's ordinary business activities or financial transactions that have a countervailing risk profile to that of the hedging transaction. The nature and scope of the hedged items are specified in a binding financial directive.

Further information on financial risk management can be found in Note 28 of the notes to the financial statements on page 82.

FINANCIAL RISKS

Risk from bad debts We protect ourselves against the risk from bad debts by means of constant IT-supported monitoring and regular analysis of receivables and their breakdown. The Company takes out credit insurance to cover a large proportion of its receivables unless payment is made in advance or by letter of credit.

Currency risk arising from operating activities Currency risk, which arises as a result of transactions denominated in foreign currency with third parties (at DEUTZ, primarily US dollar transactions), is monitored by means of a central currency management system and mitigated by the use of derivative financial instruments. The DEUTZ Group's net currency exposure is normally hedged by forwards equivalent to 50 to 70 per cent of open items, or 100 per cent in the case of selected project-based contractual commitments. DEUTZ is also taking specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract exchange-rate risks from sales invoiced in US dollars by way of natural hedging.

Interest-rate risk arising from funding arrangements The DEUTZ Group is exposed to risk from interest rate changes, above all in relation to floating-rate loans and other loans that it has taken up. We hedged the interest-rate risk arising from the funding arranged in mid-2012 with the European Investment Bank. This means that, as far as some of our financial arrangements are concerned, we will not be affected by any rises in short-term interest rates in the future.

Liquidity risk The funding arrangements now in place provide the Company with the basis for future funding. During the term of the agreement, DEUTZ AG must ensure that the DEUTZ Group complies with certain financial covenants (ratio of financial liabilities to equity and ratio of financial liabilities to EBITDA). The financial covenants allow sufficient leeway in line with our medium-term balance sheet and profit planning. If, however, there is a dramatic deterioration in the general economic situation, there is a risk of the covenants being breached.

OPERATIONAL AND OTHER RISKS

Market risk The industry in which we work is characterised by particular sensitivity to cyclical influences and this can negatively impact on the financial position and financial performance of the DEUTZ Group. We operate in very cyclical markets in our main application segments – above all Mobile Machinery – and in our principal sales regions of Germany, western Europe and North America. Our objective is to continue to reduce this cyclicality from a regional and application segment perspective. One of the ways in which we are doing so is by continuing to focus further efforts on expanding our Agricultural Machinery application segment, as it follows a different economic cycle to the other application segments. From a regional perspective, we will increase the proportion of revenue accounted for by the fast-growing Asian market.

In the medium and long term, we seek to mitigate regional and application-related sales risks by aligning our development activities with our product strategy and by entering into alliances.

Close alliances with key customers such as Volvo and SAME DEUTZ-FAHR are of considerable importance in enabling us to achieve these sales targets. Our underlying strategy is to expand these long-term alliances with key customers.

We are very well diversified and well positioned for the future in terms of the geographical and sectoral distribution of our customers. We supply the market-leading manufacturers in the various application segments.

Procurement risk Procurement risks resulting from bottlenecks in the market and unforeseen price increases cannot be fully ruled out. As a result of the economic crisis in 2008 and 2009, our suppliers were forced to cut capacity. The subsequent economic recovery led to some bottlenecks in deliveries from our suppliers caused by the rise in demand. They are building up their capacities again only to a very limited degree owing to the ongoing uncertainty in the markets. Despite the renewed slowdown in the global economy and a resulting drop in the level of demand, there continues to be a risk that our suppliers may be unable to respond flexibly enough and this could cause procurement difficulties for DEUTZ. These potential risks arise specifically in connection with the procurement of parts, components and services from third parties. This could have a negative impact on DEUTZ's net income and on its capacity utilisation.

We seek to mitigate these risks by carrying out intensive supplier management and ongoing, increasingly global monitoring of the market. This is supported by the implementation of local purchasing offices in China, India and the USA, which use the infrastructure of DEUTZ subsidiaries abroad. These local offices allow the Group to ensure a high level of quality and supplier performance and, at the same time, to benefit from the low wage costs in these huge growth markets.

Besides these global activities, there are three cornerstones to our procurement strategy for strategic and production-critical components: first, long-term supplier relationships and supply agreements; secondly, increased dual sourcing; and, thirdly, where appropriate, allocation of production to subcontractors. These proven approaches together minimise the procurement risks and secure the required capacity to the greatest possible extent.

Even though the economic conditions have brought about an improvement in the financial position of our suppliers, we are continuing to carry out ongoing analyses to establish which suppliers could be susceptible to financial difficulties and liquidity problems. At the same time, DEUTZ is working on backup solutions to minimise the risk from supplier default. These solutions may involve a switch to inhouse production or a shift to other suppliers.

Production risk The level of dependency on the general economic situation leads to fluctuations in capacity utilisation in production, which in turn can have a negative impact on profitability.

In order to avoid mistakes in planning and capital expenditure, the necessary production capacity is planned using different timescales: over a number of years as part of the medium-term planning process, which is revised each year, and for the following financial year as part of the budget planning process, which is then updated quarterly for the current year. Production programme meetings and capacity planning meetings are held monthly to ensure that our capacity is adjusted in line with sales. We are using temporary employment contracts more and more as a way of flexibly adjusting capacity to the level of orders on hand.

Technological risks Increasingly stringent emissions standards represent a major technological challenge for the DEUTZ Group. In 2011, exhaust emissions standard III B in Europe and Tier 4 Interim in the USA came into force for mobile machinery engines with an output of 130kW or more. From 2012, the standards have also applied to smaller engines with outputs of 56kW to 130kW. Emissions limits will be lowered again from 2014 when the US EPA Tier 4 Final and EU Stage IV emissions standards come into effect. These new standards will require additional optimisation of engines, engine management systems and exhaust aftertreatment systems to achieve both lower fuel consumption and increased engine power, with the result that overall systems will become much more complex.

To mitigate these technological risks, DEUTZ has defined a detailed product development process and implemented it as the standard process for all projects in which new engines are developed or existing ones refined. Mandatory standards and procedures apply at each phase of a product's development, thereby ensuring that projects remain within budget and on schedule. The product development process also includes systematic cooperation with our suppliers and close collaboration with our customers in order to optimally incorporate customer requirements into products and minimise technological risks throughout the value chain. In addition, DEUTZ invests in research and preliminary development as well as carrying out pioneering work with universities and research institutes to develop technology concepts that meet the requirements of the future.

Quality risks The DEUTZ Group is exposed to liability and warranty risks. Potential warranty claims and claims for compensation could have a negative impact on the Company's financial position or financial performance.

We have set up local quality departments to ensure quality in all plants and relevant areas of the Group. These departments systematically analyse sources of errors and defects, optimise their production processes, take action to minimise the risk in series production start-ups and reduce warranty risks. A central quality management organisation ensures standardised processes and methods as well as carrying out regular audits. In addition, DEUTZ has defined uniform standards for the selection of suppliers and, in close cooperation with the suppliers, continuously improves the quality of supplied parts. Regular certification audits and additional quality initiatives enable us to handle the significant technical complexity of engines and to satisfy the steadily increasing quality requirements of our customers.

Provisions are recognised on the balance sheet to account for warranty risks.

IT risks Risks can arise in IT as a result of operating breakdowns in systems, leading to production stoppages and disruption of work processes.

Strategic business processes in the DEUTZ Group are handled using the SAP ECC 6.0 software. The IT service provider continues to operate the data processing centre on the basis of the principles in the current version of the de facto ITIL (IT Infrastructure Library) standard. The operation of systems by our outsourcing partner, Hewlett-Packard, does not currently pose any identifiable material risks. However, we are holding intensive discussions with HP with the aim of restructuring our technology for the future. We are also examining alternatives.

DEUTZ is continuing its strategy of consolidating its information and communication technology systems worldwide. In 2012, further international sites were successfully connected to the central SAP system.

Human resources risks Highly skilled employees are the basis for successful business in a technology-oriented international company like ours.

The risks in this regard arise from not being able to recruit additional personnel quickly enough to meet the requirements of growth in DEUTZ, both in Germany and abroad. In particular, not being able to appoint suitably qualified managers and specialist employees to relevant posts promptly could have a negative impact on the Company's development. We mitigate these human resources risks by systematically analysing the skills and qualifications of our young managerial talent and using this analysis to draw up appropriate measures targeting the development of individual managerial and functional capabilities. By combining this targeted personnel development with long-term succession planning, we are also well positioned from a human resources perspective to meet the challenges of demographic change. We continue to work closely with universities in order to present ourselves at an early stage as an appealing and innovative employer of choice for university graduates.

Legal risks As a Group with multinational operations, DEUTZ is subject to a variety of regulations under tax, competition and patent law as well as to other legal and statutory requirements. Existing and imminent legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and covered by an appropriate amount added to ongoing risk provisioning. DEUTZ's management can therefore take appropriate and timely action and recognise any necessary accounting provisions.

Risk also arises from the winding up of subsidiaries, which can have a negative impact on the Group's financial position and financial performance. This risk is monitored on an ongoing basis with the support of external consultants. Currently, it is not considered likely that this risk will materialise.

Group-wide standards such as the general terms and conditions of business, sample contracts for various uses and implementation provisions in the form of organisational guidelines are refined on an ongoing basis and reduce the level of new legal risks at DEUTZ. The Legal Affairs Department and, if necessary, external lawyers are also regularly consulted about projects and the finalisation of contracts that fall outside the scope of the standards developed for day-to-day business.

Planning risks The preparation of the consolidated financial statements in accordance with IFRS requires significant estimates and assumptions, which have an impact, in particular, on the recognition and measurement of assets and liabilities, including the recognition of deferred tax assets relating to expected future tax reductions based on tax loss carryforwards. The estimates and assumptions are based on projections, which by their nature are subject to a degree of uncertainty. The possibility of routine adjustments to the estimates and assumptions and any associated negative impact on our financial position and financial performance can therefore not be entirely excluded.

Pension risks DEUTZ recognises significant provisions to cover its pension obligations. The amount of these pension obligations is subject to risks arising in connection with the change in life expectancy, the future amount of pension adjustments and the movement in interest rates on capital markets.

Tax risks One of the consequences of the globalisation of the DEUTZ Group's operating business is that the Company must observe a whole range of international and country-specific rules and regulations – most of which are statutory – as well as directives from national tax authorities. The Company faces tax risks if it fails to observe these laws and other regulations. In particular, tax audits and the findings from these audits can lead to additional expenses for the Group in the form of interest, penalties and retrospective tax payments. The Company recognises appropriate provisions when it becomes aware of such tax risks. The external tax audit started in Germany in 2009, covering the tax assessment periods 2006 to 2008, was completed at the end of 2012.

Compliance risks As an international company, DEUTZ is obliged to comply with the legal requirements in every country in which it operates. There is therefore a risk that the Company will not be able to comply with these obligations, resulting in legal and financial risk for DEUTZ, such as penalties and claims for damages. The material compliance risks take the form of corruption, breach of antitrust law, noncompliance with environmental, tax and health & safety laws etc.

To counter these risks, the DEUTZ Board of Management has set up a compliance organisation that systematically examines possible risks and counteracts them by clearly defining the responsibilities and processes for avoiding breaches of legal requirements. For more details on the compliance organisation in the DEUTZ Group, please refer to our corporate management declaration on page 109.

OVERALL ASSESSMENT OF THE RISK SITUATION

Material risks were identified and evaluated using our risk management system. Appropriate action is taken to manage these risks and, as far as possible, bring them under control. Changes in material risks are monitored regularly at Group level. Currently, the DEUTZ Group has not identified any sufficiently probable risks that could jeopardise the continued existence of the enterprise as a going concern.

OUTLOOK

2013: MODEST GROWTH IN GLOBAL ECONOMY[1)]

The forecasts for the further growth of the global economy remain cautious. The International Monetary Fund (IMF) is predicting expansion of 3.5 per cent (2012: 3.2 per cent).

Growth of 1.4 per cent is expected for the industrialised countries in 2013. Economic growth in the euro zone is hampered by unresolved structural problems, the need for consolidation of government finances and companies' reluctance to invest. As a result, the euro zone's economy is anticipated to contract slightly again in the coming year, shrinking by 0.2 per cent. The German economy will also see only muted growth: gross domestic product (GDP) in Germany is expected to go up by 0.6 per cent in 2013. Experts reckon on growth of 2.0 per cent in the USA. Recently, the pace of growth has tailed off slightly in many emerging markets – a trend that is likely to continue. Nevertheless, China and India will remain the main growth drivers in the global economy. Chinese GDP is predicted to rise by 8.2 per cent and Indian GDP by 5.9 per cent.

Significant ongoing threats to growth are the still unresolved problems in the euro zone and the large budget deficit in the USA combined with the recurring discussions about raising the debt ceiling.

However, a noticeable improvement to the sentiment indicators sent out a positive signal at the start of 2013. The business climate index published by the ifo Institute of Economic Research in January 2013, an index that covers trade and industry in Germany, was up for the third month in succession, having fallen for seven consecutive months up to October 2012. In January of this year, the Indicator of Economic Sentiment for Germany issued by the

[1)] Sources: IMF, World Economic Outlook Update, January 2013
Deutsche Bank Research, Outlook 2013, January 2013
ifo Institute of Economic Research, Business Climate Germany, January 2013
ZEW, Indicator of Economic Sentiment, January 2013
ISM, Purchasing Managers' Index, January 2013

Centre for European Economic Research (ZEW) even attained its highest level since May 2010. Also in January, the ISM purchasing managers' index in the USA reached its highest level since April 2012. The improved mood was also reflected in the performance of the stock markets at the start of this year. If the general mood continues to brighten, growth forecasts could rise slightly.

DIESEL ENGINES MARKET[1)]

The diesel engines market essentially follows the applications and markets in which the engines are installed. We anticipate that the mobile machinery, agricultural machinery and automotive applications in Europe will remain flat in 2013. However, in view of the introduction of the EU Stage IV emissions standard for engines with an output of more than 130kW in 2014, we expect to see the effects of the advance production of engines for agricultural machinery and construction equipment, which should generate slight growth in unit sales in the European diesel engines market. In the USA, we predict tangible growth in construction equipment this year. Following the sharp contraction in the Chinese construction equipment and truck markets last year, we expect a recovery in these markets of at least 10 per cent in 2013.

Owing to the increasing proportion of higher-value engines to meet the new emissions standards in Europe and the Americas, the volume of the diesel engines market in euro terms will increase at a faster rate than its unit sales. On balance, we predict that the diesel engines market relevant to us will rise in euro terms by more than 10 per cent in 2013.

STRUCTURAL GROWTH PUSHES UP REVENUE

Building on the structural growth created by growth projects and on the increasing proportion of higher value engines sold to meet the new emissions standards, we expect to generate an encouraging rise in revenue in 2013 and subsequent years. At the same time, we anticipate that the growth projects and production ramp-up of new engines will still impact earnings in 2013. The priorities this year will be measures to cut costs and boost efficiency across the Company (including improving the profitability of our DEUTZ Dalian joint venture), the smooth production start-up for our new engines and improvements to their profitability, plus the successful implementation of various new customer projects. We will also focus on growth projects in China within the scope of our strategy. In addition, we are reviewing the extent of our vertical integration in mechanical fabrication.

NEW ORDERS, UNIT SALES, REVENUE

In view of the continuing macroeconomic risk and the still challenging economic situation in Europe, we predict demand for our engines in the DCE and DCS segments to remain flat or to rise slightly, while there will be further encouraging growth in our service business. From a regional perspective, we forecast that the strongest growth will be in Asia followed by North America, whereas demand in Europe will remain level or increase slightly. We anticipate a significant recovery in the Agricultural Machinery application segment.

Overall, we forecast a small rise in unit sales and revenue of at least €1.4 billion in 2013. Revenue will be supported by a higher proportion of engines meeting new emissions standards, which have a significantly greater value and, thus a higher price.

Given the current environment, our forecasts are of course subject to great uncertainty. The flexibility of our business therefore remains a key factor in our competitiveness. Although we have significantly improved our flexibility over the last few years, we will continue to work hard on increasing it still further.

OPERATING PROFIT (EBIT)

We expect the EBIT margin to be higher than in 2012, i.e. above 3.0 per cent. In view of the ongoing financial burdens, however, we anticipate a moderate increase. Earnings will be boosted by growth in revenue combined with economies of scale and measures to cut costs and boost efficiency at DEUTZ AG and the Chinese joint ventures. However, the set-up costs for growth projects in China will have a negative impact on earnings. Product start-ups will also affect earnings in 2013, although these engines have the potential to generate far better margins in subsequent years due to the higher proportion of common parts used. In addition, depreciation and amortisation related to capitalised development expenditure will rise noticeably. We expect our DCE and DCS segments to achieve similar levels of earnings growth.

COMMODITIES, COLLECTIVE PAY AGREEMENTS

Commodity prices We expect to see primary markets remain flat during the year ahead, although there may be some slight upward movements in prices. Our objective is to drive down the cost level to a low double-digit million euro amount on a permanent basis. We aim to achieve this primarily by continuing to strictly implement our strategy of relocating the procurement of individual parts to low-cost countries and by making technical changes.

Given the increasing importance of technology-intensive Tier 4 Interim engines, there has been a noticeable shift in the distribution of purchasing volumes across the individual product categories in the DEUTZ Group. Injection systems, exhaust aftertreatment, control devices and electronic components are accounting for an increasing proportion of purchasing volume, whereas the proportion of purchasing volume attributable to forged and cast parts, turned parts, sheet metal parts, standard and DIN parts is generally falling.

Rising collectively agreed pay The current collective pay agreement will remain in force until 30 April 2013. We anticipate a moderate increase in collectively agreed pay.

[1)] Sources: Off-Highway Research, November 2012
ITR Trend Reports, January 2013

RESEARCH AND DEVELOPMENT EXPENDITURE

As the development of our engines for the new emissions standards is already well advanced and some projects have been completed, research and development expenditure will fall again in 2013. We forecast research and development expenditure of approximately €55 million after reimbursements.

CAPITAL EXPENDITURE

We forecast that our capital expenditure in 2013 (excluding capitalisation of research and development expenditure and after reimbursements) will amount to between €60 million and €70 million.

JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

In the case of DEUTZ (Dalian) Engine Co., Ltd., we expect market conditions to improve in 2013 although they will remain volatile. Nevertheless, we are forecasting a noticeable improvement in earnings as a result of measures introduced to increase profitability.

WORKING CAPITAL RATIO, FREE CASH FLOW AND EQUITY RATIO

Our objective is to achieve a working capital ratio of around 14 per cent as the quarter-end average. We forecast that free cash flow will be stable or slightly positive in 2013.

We intend to maintain our equity ratio above 40 per cent, a level that it currently comfortably exceeds. The good level of equity reduces our dependency on capital markets in a volatile market environment.

As a consequence of the new rules in the revised version of IAS 19 ‘Employee Benefits’, we expect defined benefit obligations to rise as the corridor approach used in the measurement of these obligations is being eliminated. The obligations measured using the new method will be recognised in other comprehensive income after allowing for deferred taxes. We anticipate that equity will decrease by around €25 million in 2013 and that equity will be more volatile in future.

EMPLOYEES

Flexible headcount adjustment We will continue to take on temporary employees and staff on employment contracts with a flexible term so that we can respond quickly and flexibly to future employment fluctuations. Our site-specific shift patterns also help us to increase or decrease capacity at short notice, where required.

Collective agreement on pre-retirement part-time employment As in 2012, we will again use the ‘Collective agreement concerning the flexible transition into retirement’ in 2013. This will give employees who meet the necessary requirements the opportunity – within the collectively agreed quotas – to retire early by switching to pre-retirement part-time employment.

STATUTORY REGULATIONS, EXHAUST EMISSIONS STANDARDS

On 1 January 2012, the exhaust emissions standard 97/68 Stage III B came into force in the European Union and the corresponding EPA Tier 4 Interim standard came into force in the USA. Both standards apply to diesel engines of between 56kW and 130kW used in non-road applications. Similar standards for smaller engines of between 37kW and 56kW in Europe, and between 19kW and 56kW in the USA, have applied since 1 January 2013 and even more stringent exhaust emissions limits will be introduced in 2014 to 2016. The regulations for these limits, which are the final ones currently planned, require nitrogen oxide (NO_X) emissions to be reduced by 95.7 per cent and soot particles by 96.5 per cent relative to the first limits, which were introduced in 1999.

OUTLOOK FOR 2014

We are expecting significant double-digit revenue growth in 2014. This is based on structural growth from the significantly higher value engines for the new emissions standards and from our business activities in China. However, growth projects and the start-up of engines for the Tier 4 emissions standard will still impact earnings. Overall, we forecast a moderate improvement to the EBIT margin compared with 2013. We expect our DCE and DCS segments to achieve a positive earnings trends.

Global megatrends, such as growth of the world’s population, advancing industrialisation in the agricultural sector and urbanisation along with accompanying investment in infrastructure, are encouraging the further growth of the global engine market, especially in the emerging markets. This will open up significant opportunities for the continued advancement of the DEUTZ Group in the years to come. We plan to seize these opportunities in order to generate profitable growth.

Disclaimer

This management report includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performances, developments and results in the Company or those in sectors important to the Company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Board of Management cannot therefore make any warranty with regard to the forward-looking statements made in this management report.

CONSOLIDATED FINANCIAL STATEMENTS 2012

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million	Note	2012	2011
Revenue	1	**1,291.9**	**1,529.0**
Changes in inventories and other own work capitalised	2	37.0	44.7
Other operating income	3	52.5	37.5
Cost of materials	4	–862.9	–1.021.1
Staff costs	5	–268.0	–276.8
Depreciation and amortisation	6	–78.9	–69.1
Impairment	6	–5.7	–
Other operating expenses	7	–113.5	–154.5
Profit/loss on equity-accounted investments	8	–15.9	–0.2
Other investment income	8	2.0	1.7
EBIT		**38.5**	**91.2**
Interest expenses, net	9	–10.6	–13.4
thereof finance costs		–11.6	–14.4
Other taxes	10	–1.4	–1.3
Net income before taxes on continuing operations		**26.5**	**76.5**
Income taxes	10	–4.4	–7.8
Net income on continuing operations		**22.1**	**68.7**
Net income on discontinued operations	11	**–1.1**	**6.8**
Net income		**21.0**	**75.5**
thereof attributable to the shareholders of DEUTZ AG		21.0	75.5
thereof attributable to non-controlling interests		–[1]	–
Earnings per share (€)[2]	12	**0.17**	**0.62**
thereof from continuing operations		0.18	0.57
thereof from discontinued operations		–0.01	0.05

[1] The rounded amount is less than €0.1 million
[2] Profit for the period attributable to shareholders of DEUTZ AG

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million	Note	2012	2011
Net income		**21.0**	**75.5**
Currency translation differences		–2.6	5.2
Effective portion of change in fair value from cash flow hedges		1.2	–1.5
Change in fair value of available-for-sale financial instruments		0.1	–
Other comprehensive income, net of tax	13	**–1.3**	**3.7**
Comprehensive income		**19.7**	**79.2**
thereof attributable to the shareholders of DEUTZ AG		20.1	79.2
thereof attributable to non-controlling interests		–0.4	–

BALANCE SHEET FOR THE DEUTZ GROUP

Assets	Note	31/12/2012	31/12/2011
€ million			
Property, plant and equipment	14	318.9	311.5
Intangible assets	15	244.3	227.8
Equity-accounted investments	16	47.1	71.8
Other financial assets	17	11.0	12.0
Non-current assets (before deferred tax assets)		621.3	623.1
Deferred tax assets	18	17.9	17.2
Non-current assets		**639.2**	**640.3**
Inventories	19	184.4	187.6
Trade receivables	20	116.1	163.6
Other receivables and assets	20	32.8	55.5
Cash and cash equivalents	21	52.1	51.6
Current assets		**385.4**	**458.3**
Non-current assets classified as held for sale	22	1.8	0.4
Total assets		**1,026.4**	**1,099.0**

Equity and liabilities	Note	31/12/2012	31/12/2011
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		8.2	9.1
Retained earnings		79.1	79.1
Accumulated income/loss (–)		48.5	27.5
Equity attributable to owners of DEUTZ AG		**473.6**	**453.5**
Non-controlling interests		6.5	–
Equity	23	**480.1**	**453.5**
Provisions for pensions and other post-retirement benefits	24	141.6	148.5
Deferred tax provisions	18	3.2	2.8
Other provisions	25	25.4	29.3
Financial liabilities	26	99.6	119.3
Other liabilities	27	5.0	4.4
Non-current liabilities		**274.8**	**304.3**
Provisions for pensions and other post-retirement benefits	24	15.4	15.6
Provision for current income taxes	18	2.2	0.2
Other provisions	25	41.6	43.0
Financial liabilities	26	1.1	1.9
Trade payables	27	158.9	209.1
Other liabilities	27	52.3	71.4
Current liabilities		**271.5**	**341.2**
Total equity and liabilities		**1,026.4**	**1,099.0**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million	Issued capital	Additional paid-in capital	Retained earnings	Fair value reserve[1), 2)]	Currency translation reserve[1)]	Accumulated income/loss	Total Group interest	Non-controlling interests	**Total**
Balance at 1 Jan 2011	**309.0**	**28.8**	**79.1**	**0.1**	**5.3**	**–48.0**	**374.3**	**–**	**374.3**
Comprehensive income	–	–	–	–1.5	5.2	75.5	79.2	–	79.2
Balance at 31 Dec 2011	**309.0**	**28.8**	**79.1**	**–1.4**	**10.5**	**27.5**	**453.5**	**–**	**453.5**
Balance at 1 Jan 2012	**309.0**	**28.8**	**79.1**	**–1.4**	**10.5**	**27.5**	**453.5**	**–**	**453.5**
Capital contribution	–	–	–	–	–	–	–	6.9	6.9
Comprehensive income	–	–	–	1.3	–2.2	21.0	20.1	–0.4	19.7
Balance at 31 Dec 2012	**309.0**	**28.8**	**79.1**	**–0.1**	**8.3**	**48.5**	**473.6**	**6.5**	**480.1**

1) On the face of the balance sheet these items are aggregated under “Other reserves”
2) Reserves from the measurement of cash flow hedges and reserves from the measurement of available-for-sale financial assets

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

	Note	**2012**	2011
€ million			
EBIT		**38.5**	**91.2**
Other taxes paid		–1.4	–1.3
Income taxes paid		–4.2	–2.1
Depreciation, amortisation and impairment of non-current assets		84.6	69.1
Gains/losses on the sale of non-current assets		–14.9	–0.2
Profit/loss on equity-accounted investments		16.8	1.7
Other non-cash income and expenses		1.4	2.6
Change in working capital		–5.3	–26.9
Change in inventories		2.5	–28.8
Change in trade receivables		47.1	–2.5
Change in trade payables		–54.9	4.4
Change in other receivables and other current assets		12.9	–10.7
Change in provisions and other liabilities (excluding financial liabilities)		–23.5	–3.4
Cash flow from operating activities		**104.9**	**120.0**
Capital expenditure on intangible assets, property, plant and equipment		–96.4	–97.8
Capital expenditure on investments		–7.6	–5.2
Proceeds from the sale of non-current assets		22.6	0.7
Cash flow from investing activities		**–81.4**	**–102.3**
Interest income[1]		0.9	0.5
Interest expenses		–11.8	–13.4
Capital contribution by minorities		6.9	–
Cash receipts from borrowings		185.0	20.3
Repayments of loans		–203.2	–41.5
Cash flow from financing activities		**–22.2**	**–34.1**
Cash flow from operating activities		104.9	120.0
Cash flow from investing activities		–81.4	–102.3
Cash flow from financing activities		–22.2	–34.1
Change in cash and cash equivalents		**1.3**	**–16.4**
Cash and cash equivalents at 1 January		**51.6**	**67.9**
Change in cash and cash equivalents		1.3	–16.4
Change in cash and cash equivalents related to exchange rates		–0.8	0.1
Cash and cash equivalents at 31 December		**52.1**	**51.6**

[1] Interest income, which amounted to €0.9 million (2011: €0.5 million), is now reported under cash flow from financing activities instead of cash flow from operating activities in order to show interest income and interest expense associated with financing activities. The prior-year figures have been restated accordingly to improve comparability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

PARENT COMPANY

The parent company of the DEUTZ Group is DEUTZ AG. Its registered office is located at Ottostrasse 1, 51149 Cologne, Germany, and the Company is entered under no. HRB 281 in the commercial register at the local court in Cologne. The Board of Management approved these consolidated financial statements for publication by adopting a resolution dated 25 February 2013.

DEUTZ AG shares are listed in the Deutsche Börse SDAX segment and are publicly traded on the stock exchanges in Frankfurt and Düsseldorf as well as on the Xetra electronic trading platform.

DEUTZ is an independent manufacturer of compact diesel engines. The Group’s activities are divided into two operating segments – DEUTZ Compact Engines and DEUTZ Customised Solutions – and the Other segment. In its two operating segments, DEUTZ focuses on value creation processes involving the development, design, production and sales of liquid-cooled and air-cooled engines. The business is broken down into the main application segments of Mobile Machinery, Agricultural Machinery, Automotive and Stationary Equipment. Comprehensive after-sales service rounds off the product range offered.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The DEUTZ Group’s consolidated financial statements prepared for the parent company DEUTZ AG are based on uniform accounting policies. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations as adopted by the European Union (EU) and are consistent with the statutory obligations applicable to publicly traded parent companies subject to disclosure requirements pursuant to section 315a (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 concerning the application of international accounting standards, as amended (IAS Regulation).

The consolidated financial statements are generally prepared using the cost method. Specific exceptions are derivative financial instruments and available-for-sale financial assets, which are measured at fair value. The consolidated financial statements are prepared in euros. Unless otherwise stated, all figures are rounded up or down to the nearest million euros.

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1) Amendments to accounting policies

The accounting policies on which the consolidated financial statements are based are fundamentally the same as the policies applied in 2011 with the exceptions set out below.

IFRS 7 (revised) “Financial Instruments: Disclosures” These amendments specify enhanced disclosure requirements regarding the relationships between transferred financial assets and the corresponding financial liabilities. They are also intended to make it possible to assess the type and, in particular, the risks of a continuing involvement in the case of derecognised financial assets. As this amendment relates exclusively to the presentation of the financial statements, it has had no impact on the DEUTZ Group's financial position or financial performance.

Changes in presentation Interest income is now reported under cash flow from financing activities instead of under cash flow from operating activities so that both interest income and interest expense are now shown under financing activities. Interest income for the period 1 January to 31 December 2012 amounted to €0.9 million (2011: €0.5 million). The prior-year figures have been restated accordingly to improve comparability.

2) Published but not yet mandatory standards, interpretations and amendments

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published the following standards and revisions to standards that have already become part of EU law via the comitology procedure. However, the application of these standards was not yet mandatory in 2012 and DEUTZ has not opted to apply these standards or amendments to standards before the mandatory application date.

IAS 1 (revised) “Presentation of Financial Statements” The revisions to IAS 1 published in June 2011 affect the grouping of the line items shown in other comprehensive income. Items that will be reclassified to the income statement in a later period (known as 'recycling') must now be shown separately from items that will continue to be recognised in other comprehensive income in future. The change applies to financial years beginning on or after 1 July 2012. As this amendment relates exclusively to the presentation of the financial statements, it will have no impact on the DEUTZ Group's financial position and financial performance.

IAS 12 (revised) “Income Taxes” The amended standard was published in December 2010. Measurement of deferred taxes depends on whether the carrying amount of an asset is recovered through use or sale. The amendment introduces a rebuttable presumption that the carrying amount is normally recovered through sale. Initial application of these amendments is not expected to materially affect the consolidated financial statements. Adoption of the amendment into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2012 to financial years beginning on or after 1 January 2013.

IAS 19 (revised) "Employee Benefits" The IASB issued a revised version of IAS 19 in June 2011. One of the material changes is the abolition of the option to defer recognition of actuarial gains and losses (known as the "corridor method"). Such changes in the fair value of a defined benefit obligation are now recognised in full in other comprehensive income when they occur. Furthermore, the expected return on the plan asset and the interest costs on the defined benefit obligation have been replaced with a single net interest component. Any resulting net interest cost will then have to be recognised in the income statement, whereas expected net interest income will have to be recognised in other comprehensive income. Finally, the IASB has amended the rules on termination benefits and introduced additional disclosure requirements in the revised IAS 19.

The Group will apply the revised pronouncement from 2013 onwards. In accordance with IAS 8 the amendments apply retrospectively. The DEUTZ Group currently recognises actuarial gains and losses using the corridor method. As a result, a substantial proportion of actuarial gains and losses are not shown on the face of the balance sheet. The initial application of the new rules of IAS 19 is therefore expected to have the following material effects on net assets as at 31 December 2012:

- Increase of around €40 million in provisions for pensions and other post-retirement benefits
- Rise of around €13 million in deferred tax assets
- Reduction of around €27 million in reserves in other comprehensive income

The Group does not expect any significant impact on its financial position and financial performance.

IAS 27 (revised) "Separate Financial Statements" The revised standard was issued in May 2011. Following the publication of IFRS 10 and IFRS 12, IAS 27 now only applies to the accounting treatment of subsidiaries, jointly controlled companies and associates in an entity's separate financial statements. DEUTZ AG does not prepare separate IFRS financial statements of this type. Adoption of the amendment into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2013 to financial years beginning on or after 1 January 2014.

IAS 28 (revised) "Investments in Associates and Joint Ventures" The amendment to IAS 28 was published in May 2011. Following the issue of the new IFRS 11 and IFRS 12 standards, IAS 28 was renamed 'Investments in Associates and Joint Ventures' and its scope was extended to the application of the equity method in respect of joint ventures. Adoption of the amendment into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2013 to financial years beginning on or after 1 January 2014. The initial application of the amendment will not have any impact on the Group's financial position and financial performance.

IFRS 32 (revised) "Financial Instruments: Disclosures" This amendment to IFRS 32 was published in December 2011 and is intended to clarify existing provisions regarding the offsetting of financial assets and financial liabilities. The amendment applies to financial years beginning on or after 1 January 2014. As the amendment is for the purpose of clarification only, initial application will not have any impact on the Group's financial position and financial performance.

IFRS 7 (revised) "Financial Instruments: Disclosures" This amendment to IFRS 7 was published in December 2011 and relates to the offsetting of financial assets and financial liabilities. The new disclosures are designed to enable reconciliation of the gross risk position to the net risk position. The amendment applies to financial years beginning on or after 1 January 2013. Initial application of the change will not have any impact on the Group's financial position and financial performance.

IFRS 10 "Consolidated Financial Statements" Published in May 2011, IFRS 10 replaces the provisions of the previous IAS 27 'Consolidated and Separate Financial Statements' relating to consolidated accounting. The new standard also governs the consolidation of special-purpose entities, which was previously covered by SIC 12, and thereby defines a single control concept applicable to all companies, including special-purpose entities. Adoption of the standard into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2013 to financial years beginning on or after 1 January 2014. Initial application of this standard will have no impact on the DEUTZ Group's consolidated financial statements.

IFRS 11 "Joint Arrangements" IFRS 11 was issued in May 2011. It replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities" as part of a large-scale project to improve financial reporting standards and disclosure requirements related to consolidation and joint arrangements. By taking this step, the IASB has eliminated the option of proportionate consolidation for joint ventures, which means that they may now only be accounted for in the consolidated financial statements using the equity method. The categorisation of joint arrangements has also been amended. Adoption of the standard into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2013 to financial years beginning on or after 1 January 2014. Initial application of this standard will not have any impact on the Group's financial position and financial performance.

IFRS 12 "Disclosure of Interests in Other Entities" IFRS 12 was issued in May 2011 as a single standard for disclosure requirements in respect of relationships between companies in the notes to the consolidated financial statements. It contains the disclosure requirements previously covered by IAS 27, IAS 28 and IAS 31 as well as new disclosure requirements. Adoption of the standard into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2013 to financial years beginning on or after 1 January 2014. As the new rules relate exclusively to the notes to the consolidated financial statements, initial application of IFRS 12 will not impact on the DEUTZ Group's financial position and financial performance.

IFRS 13 "Fair Value Measurement" This standard, which was published in May 2011, relates to the procedure for measuring fair value. The assets and liabilities to be measured at fair value continue to be defined by the relevant item-specific standards. IFRS 13 applies to financial years beginning on or after 1 January 2013. Possible effects of this standard on the Group's financial position and financial performance are currently being investigated.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published the following standards and interpretations, the application of which was not yet mandatory in 2012. These standards and interpretations have not yet been adopted by the EU and are not applied by the DEUTZ Group in its consolidated financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" IFRS 9 was published in November 2009; additions regarding the accounting treatment of financial liabilities were published in October 2010. A further amendment was published in December 2011 relating to the mandatory effective date of IFRS 9, which has been changed from 1 January 2013 to financial years beginning on or after 1 January 2015. The first two publications represent the conclusion of the first stage of a three-stage project to replace IAS 39 'Financial Instruments: Recognition and Measurement' with a new standard. The first stage includes some new provisions governing the classification and measurement of financial instruments. As a consequence, the initial application of this standard is expected to affect the measurement of financial instruments and the classification (and therefore the presentation) of financial information. To present a comprehensive picture of the possible effects of this standard on the Group's financial performance and financial position, the Group will only quantify its impact in connection with the other stages once they have been completed.

Investment Entities (amendments to IFRS 10, IFRS 11 and IFRS 12)

The amendments to IFRS 10, IFRS 11 and IFRS 12, which were published in October 2012, exempt qualified investment entities from the requirement to consolidate subsidiaries. Instead, these assets can be recognised at fair value. This amendment will not have any impact on the consolidated financial statements.

Collective standard amending various IFRSs (2009–2011)

The changes were published in May 2012 and are primarily intended to clarify certain ambiguous provisions in the standards. The amendments come into force for financial years commencing on or after 1 January 2013. The application of these amendments will not have any impact on the consolidated financial statements.

Significant estimates and assumptions

To a certain extent, the preparation of the consolidated financial statements in accordance with IFRS requires estimates and assumptions that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date and the reporting of income and expenses. Estimates and assumptions giving rise to a material risk in the form of adjustments to the carrying amounts of assets or liabilities over the next financial year are explained below. Adjustments to estimates are recognised in income when better knowledge becomes available.

Impairment of non-financial assets The DEUTZ Group conducts tests at each balance sheet date to determine whether there are any indications that non-financial assets may be impaired. In order to estimate the value in use, the management must estimate future cash flows expected to be derived from the asset or from the cash-generating unit and select an appropriate discount rate to determine the present value of these cash flows.

Deferred tax assets The DEUTZ Group is obliged to pay income taxes in various countries. It therefore needs to make estimates on the basis of which tax provisions and deferred taxes can be recognised. When determining the amount of deferred tax assets, the management must make judgements – which may involve material uncertainties – regarding the expected timing and amount of future taxable income as well as future tax planning strategies. DEUTZ mainly recognises deferred tax assets on losses carried forward. Taking into account risk adjustments, they are recognised for all unused tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which the loss carryforwards can actually be set off.

As at 31 December 2012, the carrying amount of deferred tax assets recognised in respect of tax loss carryforwards amounted to €63.5 million (31 December 2011: tax loss and interest carryforwards of €58.7 million). Further details can be found under Note 18 on page 73.

Pension benefits The expense for defined benefit plans is determined using actuarial calculations. These actuarial calculations are based on assumptions regarding discount rates, expected returns on plan assets, future increases in wages and salaries, staff turnover, mortality and future increases in pensions. These estimates are subject to material uncertainty owing to the long-term nature of these plans.

Because of changes in economic and market conditions, the costs and liabilities actually incurred may differ significantly from the estimates made on the basis of actuarial assumptions. The rate of pension and salary increases, the longevity of those entitled to pension benefits and the discount rate used can have a material impact on the amount of the defined benefit obligation and, consequently, on future pension costs. A change of 0.5 percentage points in the discount rate produces an estimated decrease of 4.6 per cent or an increase of 5.0 per cent (depending on the direction) for the majority of pension benefit obligations. A change of 0.5 percentage points in the projected rate of pension increase would cause the majority of pension benefit obligations to rise by 4.8 per cent or decline by 4.5 per cent (depending on the direction).

As at 31 December 2012, the provisions for pensions and other post-retirement benefits amounted to €157.0 million (31 December 2011: €164.1 million). Further details on the assumptions used are described in Note 24 on page 76.

Development expenditure is capitalised in accordance with the accounting policies described below. Management makes assumptions about the amount of future cash flows expected to be generated from the development projects, the discount rates to be applied and the period over which the cash is expected to flow into the Company. As at 31 December 2012, the carrying amount of capitalised development expenditure was €226.2 million (31 December 2011: €212.3 million).

Pending or potential legal disputes DEUTZ AG and other companies in the DEUTZ Group are subject to a variety of regulations under tax, competition and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognised in the risk provisions in the accounts. At present, it is not possible to predict the outcome of pending cases with any degree of certainty beyond the provisions already recognised. We do not expect them to have a significantly adverse impact on the DEUTZ Group's financial position or financial performance. The overall position as regards the legal risks facing the DEUTZ Group is explained in more detail in Note 29 on page 91.

BASIS OF CONSOLIDATION

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are all entities (including special-purpose entities) directly or indirectly controlled by DEUTZ AG. Subsidiaries are consolidated from the point at which the parent company acquires control. Consolidation ends when the parent company no longer has control. The consolidated financial statements include DEUTZ AG as well as six (2011: five) German entities and nine (2011: seven) foreign entities in which DEUTZ AG holds the majority of voting rights either directly or indirectly or – as in the case of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf – is exposed to a majority of the opportunities and risks.

In 2012, one German and two foreign subsidiaries were included in the consolidated financial statements for the first time. In the third quarter of 2012, on the basis of a joint venture contract dated 12 January 2012, DEUTZ and Shandong Changlin Machinery Group paid their capital contributions into the new production company DEUTZ Engine (Shandong) Co., Ltd., which has its registered office in Linyi, China. DEUTZ holds 70 per cent of voting shares in the joint venture via DEUTZ Asien Verwaltungs GmbH. The joint venture has been fully included in the consolidated financial statements of DEUTZ AG using the acquisition method. The Shandong Changlin Machinery Group's holding of 30 per cent of the voting shares is reported as a non-controlling interest under Group equity. In addition, the subsidiaries LLC DEUTZ Vostok, whose registered office is in Moscow, Russia, and DEUTZ Engine China GmbH, whose registered office is in Cologne, Germany, were included in the consolidated financial statements of DEUTZ AG in the third quarter of 2012. The capital contributions for these two new companies – of €257 thousand and €25 thousand – were paid on 14 August 2012 and 12 September 2012 respectively. DEUTZ AG holds 100 per cent of the voting shares in both companies. The companies were included in the consolidated financial statements of DEUTZ AG using the acquisition method. Inclusion of the companies in the consolidated financial statements for the first time had no material impact on the financial position and financial performance of the DEUTZ Group because the companies are only at the development phase.

Joint ventures are companies over which control is exercised jointly by DEUTZ and other entities. Associates are entities over which DEUTZ AG exerts a significant influence but that are neither subsidiaries nor joint ventures. Associates and joint ventures are both accounted for in the consolidated financial statements using the equity method.

The consolidated financial statements include one (2011: one) foreign entity in accordance with the rules governing associates and three (2011: five) joint ventures.

Following the disposal of our shares in Bosch Emission Systems GmbH & Co. KG, Stuttgart, Germany, and Bosch Emission Systems Verwaltungs-GmbH, Stuttgart, Germany, in the fourth quarter of 2012, the two companies were deconsolidated. A total gain on disposal of €14.0 million was recognised. From the establishment of the two companies in 2010 until they were deconsolidated, cumulative start-up losses of approximately the same amount were recognised under the equity method of accounting.

Page 99 of the annex to the notes to the financial statements lists the shareholdings of DEUTZ AG as at 31 December 2012.

PRINCIPLES OF CONSOLIDATION

The separate financial statements of the individual entities included in the consolidated financial statements have been prepared using uniform accounting policies in accordance with the regulations on consolidation. The consolidated financial statements comprise the financial statements of DEUTZ AG and of its subsidiaries prepared each year for the twelve months ending 31 December.

The acquisition method has been used to account for business combinations since 1 January 2010. The acquisition cost is measured at the fair value of the assets transferred and of the liabilities incurred or assumed (including conditional liabilities) at the acquisition date, irrespective of the amount of any non-controlling interests. For each business combination, the Group decides whether to measure the non-controlling interest in the acquiree at fair value (full goodwill method) or at the proportionate fair value of the assets acquired and the liabilities assumed. Acquisition-related costs are expensed as incurred.

The acquisition method was used to account for acquisitions between the transition to accounting based on IFRS on 1 January 2005 and 31 December 2009. Under this method, the carrying amount of the investment was offset against the DEUTZ Group's proportionate share of equity in the consolidated subsidiary remeasured at fair value on the acquisition date. Transaction costs directly attributable to the acquisition constituted some of the acquisition-related costs.

The non-controlling interest is the share of net profit/loss and net assets not attributable to the DEUTZ Group. The Shandong Changlin Machinery Group's holding of 30 per cent of the voting shares in DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China, is currently reported as a non-controlling interest.

Income and expenses, receivables and payables, and intercompany profits and losses generated between the consolidated entities are eliminated unless they are of no material significance.

JOINT VENTURES AND ASSOCIATES

Investments in joint ventures and associates are accounted for using the equity method. Under the equity method, investments in an associate/joint venture are recognised on the face of the balance sheet at cost plus any changes in the DEUTZ Group's share of the entity's net assets that have occurred since the acquisition. The goodwill related to the associate/joint venture is included in the carrying amount of the investment and is not amortised. The income statement includes the DEUTZ Group's share of the profit or loss generated by the associate/joint venture. Changes recognised directly in the equity of the associate/joint venture are recognised by the DEUTZ Group in the amount of its investment and, as such, are appropriately presented in the statement of changes in equity. With one exception, the financial statements of the associates and joint ventures are prepared to the same balance sheet date as the financial statements for the parent. Interim financial statements have not been prepared for reasons of materiality. Where required, figures are restated in line with the uniform accounting policies throughout the DEUTZ Group.

CURRENCY TRANSLATION

The items in the financial statements of each individual entity in the DEUTZ Group are measured in the currency that corresponds to the currency of the primary economic environment in which the entity operates (functional currency). Transactions denominated in foreign currency are translated into the functional currency using the relevant exchange rates on the date of the transaction. Subsequently they are translated on every balance sheet date using the closing rate. All currency translation differences are recognised in profit or loss unless they are in connection with qualified cash flow hedges, in which case they are recognised in other comprehensive income.

With the exception of equity, balance sheet items in separate financial statements denominated in foreign currency are translated into the functional currency of the DEUTZ Group (euros) at closing rates. Income and expense items – including net income or loss – are translated at the average rates for the year. Equity – with the exception of net income or loss – is translated at the prevailing historical closing rates.

Differences arising from the translation of equity at historical rates and the translation of net income or loss at average rates for the year are reported in other comprehensive income in a separate item.

The main exchange rates used for currency translation purposes are shown in the following table (€1 translated into foreign currencies):

		Average rates		Closing rates at 31 December	
		2012	2011	**2012**	2011
USA	USD	1.29	1.40	1.32	1.29
UK	GBP	0.81	0.87	0.82	0.84
China	CNY	8.15	9.03	8.22	8.16
Australia	AUD	1.24	1.34	1.27	1.27
Morocco	MAD	11.10	11.26	11.16	11.12
Russia	RUB	40.10	41.04	40.33	41.77

ACCOUNTING POLICIES

Significant accounting policies used to prepare these consolidated financial statements are described below.

REVENUE RECOGNITION

Revenue generated by the sale of engines and services comprises the fair value received excluding VAT, discounts and price reductions.

Revenue and other income is recognised as follows:

Revenue from the sale of engines Revenue from the sale of engines is recognised once a DEUTZ Group entity has delivered to a customer and the risks and rewards have passed to the customer. Estimates of future price reductions are covered by provisions and deducted from revenue.

Revenue generated by services Revenue generated by services is recognised at the time the service is provided.

Interest income, licence income, dividends and other income Interest income is recognised pro rata temporis using the effective interest method. Revenue from user fees is deferred and recognised pro rata temporis in accordance with the substance of the relevant agreements. Dividend income is recognised at the time the right to receive the payment arises. Other income is recognised according to contractual agreement on the transfer of risks and rewards.

BORROWING COSTS

Borrowing costs that can be directly attributed to the construction or manufacture of an asset for which a substantial period is required to bring the asset to its intended usable condition are capitalised as part of the costs of the relevant asset. All the other borrowing costs are expensed as incurred. Borrowing costs are the interest and other costs incurred by a company in connection with borrowing funds.

ADDITIONAL DISCLOSURES

In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before one-off items, which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities. There were no one-off items in 2011 or 2012.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised at cost and, if depreciable, less any depreciation on a straight-line basis and any additional impairment losses. Cost comprises the purchase price and any directly attributable costs incurred to bring the asset to the required location and working condition.

The costs of conversion of property, plant and equipment constructed internally comprise directly attributable costs, pro rata material and production overheads as well as administrative expenses related to production or delivery of the service.

Subsequent costs are added to the carrying amount of the asset concerned as incurred, provided that the recognition criteria are satisfied. Repair and maintenance costs are expensed as incurred.

The depreciation period is based on the expected useful life of the asset. Land is not depreciated.

Straight-line depreciation is based on the following useful lives for the main asset categories:

	Useful life (years)
Buildings and grounds	15–33
Technical equipment and machines	10–15
Other equipment, furniture and fixtures	3–10

Residual carrying amounts, useful lives and depreciation methods are reviewed at the end of each year and adjusted where appropriate.

An item of property, plant or equipment is derecognised either on disposal or if no further economic benefit is expected from further use or sale of the asset. Gains or losses arising from the derecognition of the asset are calculated as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the period in which the asset is derecognised.

INTANGIBLE ASSETS

Intangible assets are measured at cost. The cost of purchase or conversion includes directly attributable costs. The cost of conversion also includes a proportion of overheads and borrowing costs for long-term projects provided the recognition criteria are met. In subsequent periods, intangible assets are reported at cost less amortisation on a straight-line basis and any additional impairment losses. Investment grants from customers are deducted from cost. The useful lives of both purchased and internally generated intangible assets are limited. The amortisation expense and impairment losses are reported in the income statement accordingly.

The following principles are applied:

Internally generated intangible assets The accounting treatment of internally generated intangible assets is based on an implemented development process with defined milestones During this process, the development costs for the products are capitalised provided that
- they are technically and commercially feasible,
- a future economic benefit is likely,
- there is the intention to complete their development and sufficient resources are available to do so, and
- the costs of development can be reliably determined.

The point at which these criteria are regarded as having been met is generally at the beginning of the development process. Development projects at DEUTZ relate almost exclusively to the development of new engine series. The fact that these development projects are technically feasible and will actually be completed is borne out by a multitude of evidence from the past. Until this point, the development and research expenditure incurred is recognised in the income statement in the period in which it is incurred Completed development projects are generally amortised on a straight-line basis over the expected production cycle (three to nine years).

As at 31 December 2012, the material, completed development projects had the following remaining useful lives:

Engine series TCD 12.0/16.0	7 years
Engine series TCD 7.8	7 years
Engine series TCD 6.1	7 years
Engine series TCD 4.1	8 years

The useful lives of completed development projects are reviewed at every year-end, if not more frequently. If any changes in their useful lives are required, they are treated as changes in accounting estimates.

Other intangible assets These are measured at amortised cost and amortised on a straight-line basis over their estimated useful life of three to ten years.

Gains or losses arising from the derecognition of intangible assets are the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the period in which the asset is derecognised.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each balance sheet date the DEUTZ Group carries out tests to establish whether there are any indications that an asset may be impaired. An impairment test is carried out at least once a year on intangible assets that are not yet available for use.

Impairment is determined by comparing the carrying amount with the recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If future cash inflows cannot be allocated to an individual asset separately from cash flows generated independently by other assets, the impairment test is applied to the cash-generating unit that includes the asset concerned. When impairment tests are conducted, assets are aggregated into cash-generating units at the lowest-possible level at which cash inflows can largely be independently identified.

Value in use is calculated by discounting estimated future cash flows to their present value. The calculation uses a discount rate that reflects current market expectations in respect of the time value of money and the risks inherent in the asset or cash-generating unit. The cash flows used in the calculation are derived and extrapolated from operational planning (five-year period) and additional information. If the reasons for previously recognised impairment losses no longer exist, these impairment losses are reversed.

GOVERNMENT GRANTS

The DEUTZ Group deducts government grants relating to purchases of non-current assets from the cost of the respective asset. The amount of depreciation and amortisation is based on the cost of purchase after deduction of such grants. In the case of an interest-free loan that has been received, the value of the interest benefit has been quantified in accordance with the provisions in IAS 39. The loan has been measured at fair value and the interest benefit recognised as deferred income.

INCOME TAXES

Deferred taxes Deferred taxes are recognised using the liability method for temporary differences between the carrying amount of an asset or a liability in the consolidated balance sheet and its tax base as at the reporting date as well as for tax loss and interest carryforwards.

Deferred tax assets are recognised to the extent that sufficient future taxable income is likely to be generated over the planning period against which the deductible temporary differences and the as yet unused tax loss carryforwards can be offset.

Deferred tax liabilities that arise from temporary differences in connection with investments in subsidiaries, joint ventures and associates are always recognised unless the timing of the reversal of the temporary differences can be controlled and it is unlikely that the temporary differences will reverse in the foreseeable future.

Deferred taxes relating to items recognised in other comprehensive income are likewise recognised in other comprehensive income and not in the income statement.

Deferred tax assets and liabilities are netted if the DEUTZ Group is entitled to have the current tax assets offset against tax liabilities and if the deferred taxes relate to income taxes levied by the same tax authority.

Deferred taxes are recognised at the rates anticipated on recognition of the asset or liability. The anticipated tax rate is the rate that has already been enacted or announced at the balance sheet date, provided announcement of the tax rate has the substantive effect of actual enactment.

Current tax expense Current income taxes for the current period and for previous periods are recognised at the amount that is expected to be paid to (or recovered from) the tax authorities or has already been paid. The tax amount is calculated on the basis of tax rates and tax legislation enacted or substantively enacted as at the relevant balance sheet date.

INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price achievable in the ordinary course of business less estimated costs still to be incurred.

The cost of raw materials and consumables as well as bought-in and spare parts is calculated using weighted average purchase prices.

Work in progress and finished goods are measured at the cost of conversion, which includes directly attributable costs as well as a proportion of indirect labour and indirect materials.

Additional write-downs are applied to cover risks resulting from inventories' period of storage and impaired usability as well as contract-related losses.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets are classified as 'held for sale' and recognised at the lower of their carrying amount and their fair value less costs to sell if their carrying amount essentially derives from their sale rather than from their continued use.

FINANCIAL ASSETS

In the DEUTZ Group, financial assets within the meaning of IAS 39 can be in any of the following categories and are classified accordingly:
- financial assets at fair value through profit or loss,
- loans and receivables, or
- available-for-sale financial assets.

On initial recognition, financial assets are measured at fair value. In the case of financial assets other than those classified as at fair value through profit or loss, transaction costs directly attributable to the acquisition of the assets are also included.

Financial assets are classified in one of the measurement categories on initial recognition. Assets may be reclassified if this is permitted and necessary.

Except in the case of held-for-trading financial assets, all regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by DEUTZ. Held-for-trading financial assets are recognised on the trade date, i.e. the date on which the DEUTZ Group enters into the obligation to buy or sell the asset. Regular way purchases and sales are purchases or sales of financial assets that provide for the delivery of the asset within a period determined by market regulations or conventions.

Financial assets at fair value through profit or loss In the DEUTZ Group, the group of financial assets at fair value through profit or loss includes held-for-trading financial assets. To date, the DEUTZ Group has not made use of the option to designate financial assets as at fair value through profit or loss on initial recognition.

Derivatives, including separately recognised embedded derivatives, are classified as held for trading unless they are derivatives designated as hedging instruments and are determined to be effective. Gains and losses on financial assets held for trading are recognised in the income statement. At the time the DEUTZ Group first becomes a party to a contract, it determines whether an embedded derivative needs to be accounted for separately from the host contract. This decision is only reassessed if there is a substantial amendment to the terms of the contract and this amendment results in a significant change to the cash flows that would otherwise have been derived from the contract.

Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. This category comprises trade receivables as well as other receivables and assets. They arise when the DEUTZ Group provides money, goods or services directly to a customer or other debtor. They are classified as current assets, except for those that only fall due twelve months or more after the balance sheet date, in which case they are reported as non-current assets. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any necessary write-downs. A gain or loss is recognised in profit or loss when the loan or receivable is derecognised or written down, and through the amortisation process.

Available-for-sale financial assets Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in one of the other categories stipulated in IAS 39. After initial measurement, available-for-sale financial assets are measured at fair value. Assets whose fair value cannot be determined either using generally accepted measurement methods (e.g. discounted cash flow) or from their market prices are recognised at amortised cost. Unrealised gains and losses are recognised in other comprehensive income. If a financial asset in this category is derecognised or written down, any cumulative gains or losses previously recognised in other comprehensive income are reclassified to the income statement.

IMPAIRMENT OF FINANCIAL ASSETS

At every balance sheet date, financial assets (with the exception of financial assets at fair value through profit or loss) are subjected to an impairment test to establish whether there are any indications of impairment (for example, substantial financial difficulties on the part of the debtor, significant probability of insolvency proceedings against the debtor, the disappearance of an active market for the financial asset, significant changes in the technological, economic, legal and/or market environment in which the issuer operates, a sustained fall in the fair value of the financial asset below amortised cost).

Assets accounted for at amortised cost If there are objective indications that an asset accounted for at amortised cost is impaired, the amount of the impairment loss is determined as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (with the exception of estimated future loan defaults that have not yet occurred), the discount rate being the original effective interest rate for the financial asset, i.e. the effective interest rate determined on initial recognition. The impairment loss is recognised in the income statement.

If the amount of this impairment loss is found to be lower in subsequent reporting periods and this decrease can be attributed objectively to factors occurring after the recognition of the impairment loss, the previously recognised impairment loss is reversed. However, the new carrying amount of the asset must not exceed what the amortised cost would have been at the time the impairment loss is reversed if the impairment loss had not been recognised. The reversal of the impairment loss is recognised in the income statement.

In the case of trade receivables, if there are objective indications that not all due and payable amounts will be received in accordance with the originally agreed invoicing terms and conditions (for example, insufficient creditworthiness on the part of the debtor, dispute regarding the existence or amount of the receivable, legal reasons preventing the enforcement of the receivable, etc.) a valuation allowance is recognised on a valuation allowance account. If the receivables are classified as uncollectible, they are then derecognised.

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts.

Available-for-sale financial assets If an available-for-sale financial asset is impaired, an amount equal to the difference between the cost and the current fair value (less any impairment losses on that asset already recognised in the income statement at an earlier point) is reclassified from other comprehensive income to the income statement. Reversals of impairment losses on equity instruments classified as available for sale are not recognised in the income statement. Impairment losses related to available-for-sale equity instruments that are not publicly traded and that are recognised at cost must not be reversed. The reversal of impairment losses on debt instruments classified as available for sale are recognised in the income statement if the increase in fair value can be objectively related to an event that occurred after the impairment loss was recognised in the income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, short-term deposits with an original term of up to three months, and credit balances held with banks.

FINANCIAL LIABILITIES

In the DEUTZ Group, financial liabilities within the meaning of IAS 39 can be in either of the following categories:
- financial liabilities at fair value through profit or loss, or
- other financial liabilities.

Financial liabilities at fair value through profit or loss In the DEUTZ Group, the group of financial liabilities at fair value through profit or loss includes held-for-trading financial liabilities. To date, the DEUTZ Group has not made use of the option to designate financial liabilities as at fair value through profit or loss on initial recognition.

Derivatives, including separately recognised embedded derivatives, are classified as held for trading unless they are derivatives designated as hedging instruments and determined to be effective. If the fair value of these derivatives is negative, they are recognised under financial liabilities. Gains and losses on financial liabilities held for trading are recognised in the income statement.

Other financial liabilities in the DEUTZ Group for the most part comprise the following:

- financial liabilities (to banks),
- trade payables and
- other liabilities.

Other financial liabilities are classified as current unless the DEUTZ Group does not have to settle the liability until at least twelve months after the balance sheet date. A liability is classified as non-current if it can be expected and required that the liability will be refinanced or extended for at least twelve months after the balance sheet date under the terms of the existing loan agreement.

Other financial liabilities are initially recognised at their fair value including transaction costs. They are subsequently measured at amortised cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

DEUTZ only uses derivative financial instruments (interest-rate and currency derivatives) for hedging purposes as part of its business operations, in particular to reduce foreign currency risk in forecast transactions involving foreign currencies and to reduce interest-rate risk through the use of interest-rate swaps.

Derivatives are initially recognised at their fair value on the day they are entered into and are subsequently measured at the fair value prevailing at the time. The fair value of derivatives corresponds to the present value of estimated future cash flows. The fair value of currency forwards is based on the forward exchange rate as at the balance sheet date.

Changes in the fair value of non-hedging derivatives are immediately recognised in the income statement.

Cash flow hedges Forecast transactions (cash flows) in foreign currency as well as interest rate risks are hedged using cash flow hedges. The effective portion of the changes in the fair value of derivatives designated as cash flow hedges is recognised in other comprehensive income. The ineffective portion of the changes in fair value is reported on the face of the income statement under other expenses.

The changes in fair value reported in the reserve for cash flow hedges are reclassified to the income statement in the period in which the hedged item is recognised in income.

The market values of derivatives designated as cash flow hedges are stated in Note 28. Changes in the cash flow hedge reserve are reported under accumulated under comprehensive income/loss (fair value reserve).

PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The occupational pension scheme offered by the DEUTZ Group takes account of the relevant legislation in various countries and the benefits that each company provides for its staff.

Occupational pensions take the form of **defined benefit pension plans,** which are funded by the recognition of pension provisions. Since pension plans in Germany were closed to new members in 1996, employees in Germany can essentially no longer acquire any further employer-funded pension entitlements. Currently, therefore, existing pension entitlements are simply increased each year by unwinding the discount applied to calculate the present value of the obligation or they are paid out. There is one funded pension plan in the UK (branch of DEUTZ AG), and the subsidiary in the US has pension liabilities.

The obligation reported on the face of the balance sheet equates to the present value of the defined benefit obligation less the fair value of plan assets adjusted for cumulative as yet unrecognised actuarial gains and losses. The amount of the obligation under the defined benefit plans is calculated separately for each plan using the projected unit credit method. In addition to the pensions and accrued benefits known to exist as at the balance sheet date, this method also takes into account estimated future increases in wages, salaries and pensions. The calculation of the present value of the defined benefit obligation taking into account future increases in wages and salaries uses a discount rate that is based on an index of high-quality fixed-income investments at the plans' valuation dates, the maturity of which matches the maturity of the defined benefit obligation. For the parameters used, please refer to our disclosures in note 24. Actuarial gains and losses are recognised in the income statement if the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the prior reporting period exceed the greater of 10 per cent of the defined benefit obligation or 10 per cent of the fair value of the plan assets. These gains or losses are recognised over the average expected remaining working lives of the employees covered by the plan.

The interest element included in pension costs is reported under staff costs.

The DEUTZ Group also has **defined contribution pension plans** (such as direct insurance). The mandatory contributions are immediately recognised as staff costs. In this case, the recognition of provisions is not required because the DEUTZ Group has no obligation apart from the obligation to pay premiums.

OTHER PROVISIONS

Other provisions are recognised if there are legal or constructive obligations towards third parties that arise from past events and are likely to result in cash outflows. Furthermore, it must be possible to estimate the obligation reliably. Provisions are recognised at their settlement value calculated at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted. Provisions for warranty obligations are recognised when products are sold or when new warranties are initiated. The measurement of potential warranty liabilities is based primarily on historical experience.

CONTINGENT LIABILITIES

Contingent liabilities are potential obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events that, however, are beyond the control of the DEUTZ Group. Furthermore, present obligations may constitute contingent liabilities if it is not probable that an outflow of resources will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made.

DISCONTINUED OPERATIONS PURSUANT TO IFRS 5

IFRS 5 stipulates that any material discontinued segment or business that is deconsolidated must be reported separately. The consolidated financial statements include expenses and income in connection with segments discontinued in 2007. These expenses and income are reported separately in the income statement under discontinued operations.

NOTES TO THE INCOME STATEMENT

1. REVENUE

The table below gives a breakdown of revenue for the DEUTZ Group:

	2012	2011
€ million		
Engines	1,041.6	1,287.4
Service	250.3	241.6
Total	**1,291.9**	**1,529.0**

The year-on-year fall in revenue of €237.1 million was largely attributable to the volume-related decline in the engine business resulting from faltering economic activity, particularly in Europe and China. The breakdown of revenue by segment and region is shown in the notes on segment reporting on page 81.

2. CHANGES IN INVENTORIES AND OTHER OWN WORK CAPITALISED

Change in inventories

Changes in inventories of finished goods and work in progress in 2012 amounted to an increase of €3.8 million (2011: increase of €8.8 million).

Other own work capitalised

Other own work capitalised amounted to €33.2 million (2011: €35.9 million). As in 2011, this amount mainly comprised expenditure on new engine development and the further development of existing engines to comply with current and future exhaust emissions standards.

3. OTHER OPERATING INCOME

	2012	2011
€ million		
Income from recharged costs and services	26.3	25.2
Income from the disposal of non-current assets	15.0	0.3
Exchange rate gains	4.8	4.9
Income from the reversal of provisions	2.7	0.9
Income from charged-off liabilities	0.9	0.5
Income from the measurement of derivative financial instruments	0.8	0.8
Rentals and leases	0.3	0.4
Sundry other income	1.7	4.5
Total	**52.5**	**37.5**

The rise in other operating income was largely due to the deconsolidation of Bosch Emission Systems GmbH & Co. KG, Stuttgart, Germany (BESG), following the sale of our shares.

4. COST OF MATERIALS

	2012	2011
€ million		
Cost of raw materials and supplies, bought-in parts and spare parts	816.5	958.2
Cost of services procured	44.2	59.0
Impairment of raw materials, bought-in parts and spare parts	2.2	3.9
Total	**862.9**	**1,021.1**

As a result of the lower volume of business, there was a significant year-on-year fall in the cost of materials in absolute terms.

5. STAFF COSTS

The average number of employees during the year is given in the section about disclosures under German accounting standards.

	2012	2011
€ million		
Salaries	109.2	116.8
Wages	106.6	106.3
Social security contributions	41.9	42.1
Interest cost for pension provisions	7.9	8.6
Cost of post-employment benefits and other long-term employee benefits	2.0	1.5
Cost of severance payments/ personnel restructuring	0.4	1.5
Total	**268.0**	**276.8**

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

This item shows the depreciation and amortisation expense (the allocation of the cost of an asset over its useful life) together with impairment losses determined by means of impairment tests in accordance with IAS 36.

	2012	2011
€ million		
Property, plant and equipment	46.5	45.0
Intangible assets	38.1	24.1
Total	**84.6**	**69.1**

As a result of changes in the technical design of one engine series in 2012, amortisation and impairment of intangible assets included impairment losses of €5.7 million relating to previously capitalised development expenditure (2011: €0.0 million).

7. OTHER OPERATING EXPENSES

	2012	2011
€ million		
Expenses for general services	42.8	46.5
Outward freight	13.6	14.4
Temporary staff	11.0	25.3
Cost of rentals and leases	10.5	10.3
Cost of fees, contributions and consultancy services	8.5	16.1
Exchange rate losses	7.2	3.1
Office, postal, telecommunications, advertising and other administrative expenses	6.9	7.3
Travel, hospitality and representation expenses	5.5	5.7
Expenses in connection with the measurement of currency forwards	1.3	–
Credit insurance	1.1	1.5
Distribution fees	0.8	1.5
Costs of disposal of non-current assets and costs of deconsolidation effects	0.1	0.1
Sundry other expenses	4.2	22.7
Total	**113.5**	**154.5**

The main reasons for the fall in other operating expenses were the sharp reduction in costs for temporary staff and the smaller additions to warranty provisions, which are reported under sundry other expenses, as a result of the reduced volume of business. The considerable reduction in consultancy services also had a positive impact.

8. PROFIT/LOSS ON EQUITY-ACCOUNTED INVESTMENTS AND OTHER INVESTMENT INCOME

	2012	2011
€ million		
Profit/loss on equity-accounted investments		
Income from equity-accounted investments	1.4	4.0
Expenses from equity-accounted investments	–17.3	–4.2
Total	**–15.9**	**–0.2**
Other investment income	**2.0**	**1.7**
Total	**–13.9**	**1.5**

The expenses in respect of equity-accounted investments in 2012 largely consisted of DEUTZ AG's share in the losses made by the joint ventures DEUTZ (Dalian) Engine Co., Ltd. in Dalian, China and WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. in Weifang, China which were the result of a slowdown in economic growth in China. The income relating to equity-accounted investments was mainly attributable to our shareholding in D.D. Power Holdings, South Africa.

Other net investment income included profits transferred by DEUTZ Sicherheit GmbH, Cologne, and DEUTZ Versicherungsvermittlung GmbH, Cologne.

9. INTEREST EXPENSES, NET

	2012	2011
€ million		
Interest received on credit balances held with banks	–	0.1
Other interest income	1.0	0.9
Interest income	**1.0**	**1.0**
Interest paid on liabilities to banks	–5.4	–6.2
Interest paid on bonds	–1.9	–1.2
Other interest expenses	–4.3	–7.0
Interest expenses (finance costs)	**–11.6**	**–14.4**
Interest expenses, net	**–10.6**	**–13.4**

Net interest expense improved significantly compared with 2011 as a result of the new funding structure and efficient cash management.

Borrowing costs of €1.2 million (2011: €2.4 million) were capitalised in 2012. The average interest rate of 5.6 per cent (2011: 6.9 per cent) on borrowings in the reporting period was taken into account in determining the borrowing costs to be capitalised for general borrowings during the reporting period.

10. TAXES

Other taxes Other taxes essentially comprise real-property taxes and VAT on non-cash remuneration.

Income taxes The following table gives a breakdown of income taxes:

2012	Continuing operations	Discontinued operations	Total
€ million			
Current tax expense	5.4	1.1	6.5
thereof unrelated to the reporting period	0.4	1.1	1.5
Deferred taxes	–1.0	–	–1.0
thereof due to temporary differences	3.8	–	3.8
thereof from losses carried forward	–4.8	–	–4.8
Total tax expense	**4.4**	**1.1**	**5.5**

2011	Continuing operations	Discontinued operations	Total
€ million			
Current tax expense	5.0	–6.8	–1.8
thereof unrelated to the reporting period	2.0	–6.8	–4.8
Deferred taxes	2.8	–	2.8
thereof due to temporary differences	15.2	–	15.2
thereof from losses carried forward	–12.4	–	–12.4
Total tax expense	**7.8**	**–6.8**	**1.0**

The current income tax expenses of €5.4 million largely related to additional provisions for anticipated tax payments on current income generated by Group companies in 2012.

The deferred tax income included expenses of €3.8 million arising from temporary differences (2011: €15.2 million), which were largely attributable to higher capitalised development expenditure in 2012.

There are no income tax implications for DEUTZ AG arising from the distribution of dividends to shareholders by DEUTZ AG.

The tax reconciliation table shows the reconciliation from anticipated income taxes to effective taxes as shown on the face of the income statement. Effective income taxes include current and deferred taxes. The applicable tax rate remained unchanged on 2011 at 31.6 per cent and continued to comprise corporation tax at 15 per cent, the solidarity surcharge (5.5 per cent of corporation tax) and trade tax at 15.8 per cent based on an average assessment rate.

	2012	2011
€ million		
Net income before income taxes	26.5	76.5
Anticipated tax	8.4	24.2
Difference in local basis of assessment	–0.3	1.9
Tax rates outside Germany	0.1	–0.1
Change in deferred taxes recognised in respect of loss carryforwards	–7.7	–17.0
Effect of non-deductible expenses	7.3	0.8
Gains/losses on equity-accounted investment	5.3	1.0
Effect of tax-exempt income	–4.1	–3.2
Effects from other periods		
- Tax payments for previous years	1.5	–4.8
- Deferred taxes from tax audits	–1.1	–
Loss from partnerships	–3.9	–1.7
Other	–	–0.1
Effective tax expense	**5.5**	**1.0**
Effective tax rate (%)	**20.8**	**1.3**

The change in deferred taxes recognised in respect of loss carryforwards was due in 2012 to the subsequent recognition of deferred taxes on losses carried forward that can be utilised in subsequent years.

11. DISCONTINUED OPERATIONS

Net income on discontinued operations included an income tax expense of €1.1 million. The tax expense resulted from the ongoing tax audit in connection with the DEUTZ Power Systems segment which DEUTZ AG sold in 2007, together with its associates and subsidiaries. This transaction was reported in 2007 as a discontinued operation in accordance with IFRS 5.

12. EARNINGS PER SHARE

Earnings per share is calculated in accordance with IAS 33. The DEUTZ Group calculates basic earnings per share by dividing the net income attributable to its shares by the weighted average number of shares outstanding.

There were no dilutive effects in 2012 or 2011.

	2012	2011
€ thousand/shares in thousands		
Net income	21,033	75,515
Weighted average of shares outstanding	120,862	120,862
Earnings per share (€)	**0.17**	**0.62**
thereof from continuing operations	0.18	0.57
thereof from discontinued operations	–0.01	0.05

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

13. OTHER COMPREHENSIVE INCOME

Other comprehensive income comprises the elements of the statement of comprehensive income not reported in the income statement. The taxes resulting from other comprehensive income are shown in the following table:

	2012			2011		
	Before taxes	**Taxes**	**After taxes**	Before taxes	Taxes	After taxes
€ million						
Currency translation differences	–2.6	–	–2.6	5.2	–	5.2
Effective portion of change in fair value from cash flow hedges	1.7	–0.5	1.2	–2.2	0.7	–1.5
Change in fair value of available-for-sale financial instruments	0.2	–0.1	0.1	–	–	–
Other comprehensive income	**–0.7**	**–0.6**	**–1.3**	**3.0**	**0.7**	**3.7**

In 2012, losses of €2.2 million on cash flow hedges (2011: gains of €0.8 million) recognised in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating income or other operating expenses in the consolidated income statement.

NOTES TO THE BALANCE SHEET

14. PROPERTY, PLANT AND EQUIPMENT

Gross figures **Cost of purchase/conversion**	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advance payments and assets under construction	**Total**
€ million					
Balance at 1 Jan 2012	**194.7**	**512.2**	**201.5**	**7.3**	**915.7**
Exchange rate differences	–	–0.1	–	–	–0.1
Additions	6.1	14.7	24.3	13.3	58.4
Capital investment grants	–	–	–2.3	–	–2.3
Disposals	–2.8	–6.4	–4.3	–	–13.5
Disposals of non-current assets classified as held for sale	–	–1.3	–0.1	–	–1.4
Reclassifications	0.1	5.5	1.7	–7.3	–
Balance at 31 Dec 2012	**198.1**	**524.6**	**220.8**	**13.3**	**956.8**

Gross figures **Depreciation and impairment**	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advance payments and assets under construction	**Total**
€ million					
Balance at 1 Jan 2012	**71.4**	**380.0**	**152.8**	**–**	**604.2**
Exchange rate differences	–	–0.1	–	–	–0.1
Depreciation	4.9	25.2	16.4	–	46.5
Impairment	–	–	–	–	–
Disposals	–2.2	–6.2	–4.2	–	–12.6
Balance at 31 Dec 2012	**74.1**	**398.9**	**165.0**	**–**	**638.0**
Net carrying amount at 31 Dec 2012	**124.0**	**125.7**	**55.9**	**13.3**	**318.9**

Gross figures Cost of purchase/conversion	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advance payments and assets under construction	Total
€ million					
Balance at 1 Jan 2011	**194.9**	**498.8**	**190.1**	**4.9**	**888.7**
Exchange rate differences	–	0.1	0.1	–	0.2
Additions	0.3	13.3	18.1	7.9	39.6
Capital investment grants	–	–	–2.7	–	–2.7
Disposals	–0.5	–4.5	–4.3	–	–9.3
Reclassifications	–	4.5	0.2	–5.5	–0.8
Balance at 31 Dec 2011	**194.7**	**512.2**	**201.5**	**7.3**	**915.7**

Gross figures Depreciation and impairment	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advance payments and assets under construction	Total
€ million					
Balance at 1 Jan 2011	**67.1**	**358.7**	**142.4**	**–**	**568.2**
Exchange rate differences	–	0.1	0.1	–	0.2
Depreciation	4.8	25.6	14.6	–	45.0
Impairment	–	–	–	–	–
Disposals	–0.5	–4.4	–4.3	–	–9.2
Balance at 1 Jan 2010	**71.4**	**380.0**	**152.8**	**–**	**604.2**
Net carrying amount at 31 Dec 2011	**123.3**	**132.2**	**48.7**	**7.3**	**311.5**

Acquisitions of property, plant and equipment related predominantly to production equipment and tools connected with the market launch of the two new TCD 2.9 and TCD 3.6 engines and to replacement procurement of various kinds.

Disposals of non-current assets classified as held for sale amounting to €1.4 million resulted from the sale of the pipe manufacturing operation at the Cologne site which will take effect on 1 April 2013. Please see note 22.

Government grants at a Spanish subsidiary were deducted from the cost of purchasing the property, plant and equipment. No further government grants have been received since 2009. Government grants totalling €3.3 million were recognised as at 31 December 2012 (31 December 2011: €4.3 million). In 2012, grants of €1.0 million (2011: €1.0 million) were reclassified to the income statement (as a reduction of the depreciation and amortisation expense).

Purchase commitments for property, plant and equipment are described on page 91.

The carrying amount of property, plant and equipment pledged as collateral for financial liabilities amounted to €249.9 million at the end of 2011. No collateral was pledged in connection with the new funding facility.

15. INTANGIBLE ASSETS

Gross figures Cost of purchase/conversion	Internally generated intangible assets	Internally generated intangible assets under development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2012	**179.9**	**120.1**	**107.6**	**407.6**
Additions	32.4	19.8	10.6	62.8
Capital investment grants	–1.4	–6.6	–0.3	–8.3
Disposals	–	–	–2.6	–2.6
Reclassifications	72.5	–72.5	–	–
Balance at 31 Dec 2012	**283.4**	**60.8**	**115.3**	**459.5**

Gross figures Amortisation and impairment	Internally generated intangible assets	Internally generated intangible assets under development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2012	**87.6**	**–**	**92.1**	**179.7**
Amortisation	24.7	–	7.7	32.4
Impairment	5.7	–	–	5.7
Disposals	–	–	–2.6	–2.6
Balance at 31 Dec 2012	**118.0**	**–**	**97.2**	**215.2**
Net carrying amount at 31 Dec 2012	**165.4**	**60.8**	**18.1**	**244.3**

Gross figures Cost of purchase/conversion	Internally generated intangible assets	Internally generated intangible assets under development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2011	**110.8**	**127.8**	**106.3**	**344.9**
Additions	17.5	56.6	5.3	79.4
Capital investment grants	–0.5	–12.0	–1.1	–13.6
Disposals	–0.2	0.0	–3.7	–3.9
Reclassifications	52.3	–52.3	0.8	0.8
Balance at 31 Dec 2011	**179.9**	**120.1**	**107.6**	**407.6**

Gross figures Amortisation and impairment	Internally generated intangible assets	Internally generated intangible assets under development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2011	**71.9**	**–**	**87.4**	**159.3**
Amortisation	15.7	–	8.4	24.1
Disposals	–	–	–3.7	–3.7
Balance at 31 Dec 2011	**87.6**	**–**	**92.1**	**179.7**
Net carrying amount at 31 Dec 2011	**92.3**	**120.0**	**15.5**	**227.8**

Other intangible assets mainly comprise grants for tool costs, licences, purchased development services and software.

Under internally generated intangible assets, the additions largely relate to the capitalisation of development expenditure on new engine development and the refinement of existing engines. Development activities centred on the further development of engines for the forthcoming EU Stage IV/US EPA Tier 4 Final emissions standard for four to eight-litre engines and on the development of the two new TCD 2.9 and TCD 3.6 engines.

In the light of new information, the technical design of one engine series was changed in order to enhance efficiency. This resulted in the recognition of an impairment loss of €5.7 million at the end of 2012.

In addition to depreciation and amortisation on development projects that had already been completed, the income statement for 2012 also included research and development expenditure of €30.5 million (2011: €35.7 million).

16. EQUITY-ACCOUNTED INVESTMENTS

The shares held by the DEUTZ Group in associates and joint ventures, none of which are listed companies, are as follows:

	2012	2011
€ million		
1 January	**71.8**	**69.7**
Additions	–	0.3
Share of profit/loss on equity-accounted investments	–15.9	–0.2
Disposal	–6.8	–
Other changes arising from measurement using the equity method	–2.0	2.0
31 December	**47.1**	**71.8**

Disposals amounting to €6.8 million relate to the sale of our shareholdings in Bosch Emission Systems GmbH & Co. KG, Stuttgart, Germany, and Bosch Emission Systems Verwaltungs-GmbH, Stuttgart, Germany.

One associate has a different financial year (ending on 30 November), but annual financial statements for the year ended 31 December have not been prepared for reasons of materiality.

The following table shows a summary of financial information for the associate. The disclosures show total figures for the associate and not the pro rata figures attributable to the proportion of equity held by the DEUTZ Group.

	31/12/2012	31/12/2011
€ million		
Total assets	17.4	18.5
Total liabilities	6.0	4.9
	2012	2011
Revenue	28.7	30.7
Net income	3.5	4.8

DEUTZ AG holds a 50 per cent equity interest in each of DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO. LTD., Weifang, China, and DEUTZ AGCO MOTORES S.A., Haedo, Argentina. Each of these three companies manufactures engines locally for international DEUTZ customers. The investments in these jointly controlled entities are accounted for using the equity method.

DEUTZ AG's shareholdings in Bosch Emission Systems Verwaltungs-GmbH, Stuttgart, Germany (25.004 per cent) and Bosch Emission Systems GmbH & Co. KG, Stuttgart, Germany (25.002 per cent) were sold in the fourth quarter of 2012 and consequently they were deconsolidated.

The breakdown of the DEUTZ Group's share of the assets, liabilities, revenue and net income of jointly controlled entities is as follows:

	31/12/2012	31/12/2011
€ million		
Current assets	149.1	167.7
Non-current assets	89.2	87.4
Total assets	**238.3**	**255.1**
Current liabilities	151.4	164.0
Non-current liabilities	29.8	9.4
Total liabilities	**181.2**	**173.4**
	2012	2011
Revenue	176.4	204.3
Net income	–11.8	–1.7

17. OTHER FINANCIAL ASSETS (NON-CURRENT)

	31/12/2012	31/12/2011
€ million		
Equity investments	5.8	5.8
Non-current securities	2.1	2.0
Cost of borrowing	1.5	2.9
Loans	1.3	1.3
Other	0.3	–
Total	**11.0**	**12.0**

Equity investments

Equity investments primarily comprise the investments in DEUTZ Versicherungsvermittlung GmbH, Cologne, which is measured at cost.

Non-current securities

This balance sheet item comprises securities amounting to €2.1 million (31 December 2011: €2.0 million) in the form of shares and bonds. The securities are used as a form of investment for the pension obligations of the Group company DEUTZ Corporation, Atlanta, USA.

Cost of borrowing

The cost of borrowing directly associated with the working capital facility is accounted for as a non-current asset and is recognised in the income statement in instalments over the capital commitment period. The financial liabilities (including the pro rata cost of borrowing) are recognised when the working capital facility is drawn down as a loan and are subsequently measured using the effective interest method.

18. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilised tax losses carried forward of €771.0 million for corporation tax (2011: €777.3 million) and €866.9 million for trade tax (2011: €872.2 million). The figure stated in 2011 for tax loss carryforwards was restated as a result of information gained during the tax audit covering the period 2006 to 2008.

Further tax loss carryforwards were also available to international companies in the Group.

The following table gives a breakdown of the deferred taxes and the current tax assets and liabilities reported on the face of the balance sheet:

	31/12/2012	31/12/2011
€ million		
Non-current		
Deferred tax assets	17.9	17.2
Deferred tax provisions	3.2	2.8
Current		
Current tax assets	0.6	0.9
Provision for income taxes	2.2	0.2
Income tax liabilities	0.7	0.6

The total increase of €0.3 million in deferred taxes to €14.7 million was largely attributable to the higher volume of capitalised development expenditure compared with 2011; higher deferred tax assets resulting from loss carryforwards had a countervailing effect. The change was essentially recognised in the income statement.

The following table shows the breakdown of deferred tax assets and liabilities:

	31/12/2012		31/12/2011	
	Assets	**Liabilities**	Assets	Liabilities
€ million				
Intangible assets	–	71.8	–	67.1
Property, plant and equipment	7.8	4.7	7.9	3.4
Equity-accounted investments and financial assets	0.5	–	–	1.0
Inventories	0.9	1.4	0.9	2.0
Receivables and other assets	0.2	0.4	2.8	–
Liabilities	23.6	6.5	28.9	13.6
Losses carried forward	63.5	–	58.7	–
Consolidation	3.3	–	2.6	–
Other	–	0.1	0.2	0.3
Impairment losses	–0.2	–	–0.2	–
Deferred taxes (gross)	99.6	84.9	101.8	87.4
Netting	81.7	81.7	84.6	84.6
Deferred taxes (net)	17.9	3.2	17.2	2.8

The tax asset in excess of deferred tax liabilities – for which sufficient taxable profit will be available in future based on tax budgets – amounted to €14.7 million (31 December 2011: €14.4 million).

The increase of €0.7 million (31 December 2011: decrease of 0.7 million) in deferred taxes in respect of temporary differences, which was recognised in other comprehensive income, was based on changes in financial assets.

As at 31 December 2012, the DEUTZ Group had not recognised any deferred tax liabilities on temporary differences of €25.7 million (31 December 2011: €18.7 million) in respect of taxes on untransferred profits from subsidiaries, associates or joint ventures because the timing of the reversal of the differences can be controlled or the sums are mostly tax exempt and no material impact on taxes is expected in the near future.

In addition to the tax loss carryforwards on which deferred taxes have been recognised, there are loss carryforwards of the following amounts and with the following expiry periods for which deferred taxes have not been recognised because the losses cannot be utilised:

Loss carryforwards on which deferred

	31/12/2012	31/12/2011
€ million		
	1,312.4	**1,411.2**

Thereof: expiry periods for German and international losses carried forward

	31/12/2012	31/12/2011
€ million		
Less than 5 years	–	–
6 to 9 years	1.9	1.9
Indefinite	1,310.5	1,409.3

19. INVENTORIES

	31/12/2012	31/12/2011
€ million		
Raw materials and supplies, bought-in parts and spare parts	104.5	111.4
Work in progress	36.3	34.4
Finished goods	43.6	41.8
Total	**184.4**	**187.6**

As at 31 December 2012, the carrying amount of inventories written down to net realisable value was €44.9 million (31 December 2011: €37.8 million).

The following table shows the change in the valuation allowance account for inventories:

	2012	2011
€ million		
1 January	**27.9**	**27.7**
Changes	2.6	0.2
31 December	**30.5**	**27.9**

Valuation allowances of €2.6 million on inventories were recognised in the income statement in 2012 (2011: €0.2 million).

The carrying amount of inventories pledged as collateral for financial liabilities amounted to €159.5 million at the end of 2011. No collateral was pledged in connection with the new funding facility.

20. RECEIVABLES AND OTHER ASSETS (EXCLUDING INCOME TAX ASSETS)

	31/12/2012	31/12/2011
€ million		
Trade receivables	121.9	169.8
Less adjustments	–5.8	–6.2
Trade receivables (net)	**116.1**	**163.6**
Other receivables and assets		
Receivables from investments	5.0	16.0
thereof trade receivables	2.7	13.6
thereof other receivables	2.3	2.4
Advance payments	0.4	6.7
Derivative financial instruments	0.6	0.7
Sundry other receivables	20.4	21.1
Receivables arising from other taxes	4.7	6.7
Prepaid expenses	1.1	3.4
Total	**32.2**	**54.6**

As at 31 December 2012, the volume of receivables sold under factoring agreements was around €125 million (31 December 2011: €138 million). Virtually all the opportunities and risks connected with title to the receivables that were sold were transferred to the factor so the receivables were not reported in the consolidated financial statements of DEUTZ AG. The remaining exposure in respect of the receivables that have been assigned is limited to the administration and collection of these receivables.

As at 31 December 2012, the receivables sold were offset by receivables amounting to €2.8 million due from one factor. The fair value of these receivables was also €2.8 million. The risk arising from the factoring transaction was the credit risk of the factor, which was lower than the credit risk of the original debtor. The maximum downside risk as at 31 December 2012 was limited to the amount receivable of €2.8 million.

Trade receivables with a principal amount of €8.1 million were written down as at 31 December 2012 (31 December 2011: €7.2 million). The following table shows the change in the valuation allowance account:

	2012	2011
€ million		
Balance at 1 January	**6.2**	**5.6**
Additions	1.0	1.9
Utilisation	–0.5	–0.6
Reversals	–0.9	–0.7
Balance at 31 December	**5.8**	**6.2**

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts. As at 31 December 2012, total write-downs of €25.2 million (31 December 2011: €23.8 million) had been recognised on other receivables and other current assets.

The carrying amount of financial assets pledged as collateral for financial liabilities amounted to €125.8 million at the end of 2011. No collateral was pledged in connection with the new funding facility.

21. CASH AND CASH EQUIVALENTS

As at 31 December 2012, cash and cash equivalents including cash on hand, short-term deposits and credit balances with banks amounted to €52.1 million (31 December 2011: €51.6 million).

Credit balances with banks amounting to €1.9 million (31 December 2011: €0.5 million) were pledged to the factor in connection with factoring agreements.

The carrying amount of cash and cash equivalents pledged as collateral for financial liabilities amounted to €47.4 million at the end of 2011. No collateral was pledged in connection with the new funding facility.

22. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets classified as held for sale as at 31 December 2012 largely related to production equipment worth €1.4 million (31 December 2011: €0.0 million) included in the sale of the pipe manufacturing operation at the Cologne site to T.ERRE GmbH. The effective date of the sale is 1 April 2013. The item also includes the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, situated in Cologne, which are recognised at a carrying amount of €0.4 million (31 December 2011: €0.4 million). Both the production equipment of the pipe manufacturing operation and the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH are allocated to the DEUTZ Compact Engines segment.

23. EQUITY

	31/12/2012	31/12/2011
€ million		
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	8.2	9.1
Retained earnings	79.1	79.1
Accumulated loss	48.5	27.5
Equity attributable to the shareholders of the parent	473.6	453.5
Non-controlling interests	6.5	–
Total	**480.1**	**453.5**

Issued capital
At the end of 2012, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2011) and was divided into 120,861,783 no-par-value bearer shares (also unchanged).

Additional paid-in capital
The additional paid-in capital contains premiums and contributions from shareholders as well as the equity component of compound financial instruments such as non-interest-bearing convertible profit-sharing rights and low-interest-bearing convertible bonds. The value of the conversion right linked to profit-sharing rights and bonds was recognised in equity on the issue date at fair value less pro rata transaction costs, taking account of deferred taxes.

Other reserves

Currency translation Translation differences allocated to the shareholders of DEUTZ AG arising from the translation of equity at historical rates and the translation of the net income or loss at average rates for the year are reported under accumulated other comprehensive income/loss. In the year under review, this item reduced other comprehensive income by €2.2 million (2011: €5.2 million increase in other comprehensive income). The cumulative gain on translation differences recognised in other reserves amounted to €8.3 million at the end of 2012 (31 December 2011: gain of €10.5 million recognised). Total differences arising from currency translation amounted to €2.6 million (2011: €5.2 million), of which €0.4 million was attributable to non-controlling interests (2011: €0.0 million).

Fair value reserve This reserve is used for the recognition of changes in the fair value of available-for-sale financial instruments. That portion of the gain or loss on a cash flow hedging instrument determined to be an effective hedge is also recognised in the fair value reserve.

Retained earnings

Retained earnings comprise DEUTZ AG's legal reserve amounting to €4.5 million and other retained earnings of €74.6 million.

Non-controlling interests

Non-controlling interests relate to the 30 per cent equity investment held by Shandong Changlin Machinery Group Co., Ltd. in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China.

24. PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

DEUTZ AG has both defined contribution plans and defined benefit plans for its employees.

Defined contribution plans

Employees in Germany receive statutory social insurance benefits for which contributions are paid as part of income. At DEUTZ, there are also further direct insurance and pension scheme entitlements that are financed by employees. These plans are treated as defined contribution plans because the Company has no obligation beyond the payment of contributions to public and private insurers. Ongoing contribution payments are reported as an expense for the period concerned.

The employer's contribution to the German statutory pension insurance scheme in 2012 came to €16.2 million (2011: €16.5 million). In addition, a further €3.5 million (2011: €3.0 million) was paid for pension and direct insurance policies in connection with deferred compensation.

Defined benefit plans

Defined benefit obligation for pensions and other post-retirement benefits

	31/12/2012	31/12/2011
€ million		
Unfunded	194.4	177.4
Funded	24.9	23.1
Total	**219.3**	**200.5**

Essentially, no employer-funded pension entitlements have been granted to new employees joining the DEUTZ Group in Germany since 1995 (closed pension plans). There is a funded pension plan in the UK (branch of DEUTZ AG) that is wholly or partly covered by plan assets, and pension liabilities of the US subsidiary are also reported.

The following tables present a summary of the composition of pension benefit expenses recognised in the consolidated income statement and the composition of amounts recognised for pension plans in the consolidated balance sheet.

Total expenses for pensions and other post-retirement benefits

	31/12/2012	31/12/2011
€ million		
Service cost	0.1	0.1
Interest cost	8.7	9.5
Anticipated return on plan assets	–0.8	–0.8
Total	**8.0**	**8.8**

Interest cost and estimated return on plan assets are reported under staff costs. In the year under review, an actual gain of €1.9 million was recognised on plan assets (2011: recognised gain of €0.6 million). All other expenses are also reported under staff costs on the face of the consolidated income statement.

Reconciliation of provisions for pensions and other post-retirement benefits

	31/12/2012	31/12/2011
€ million		
Defined benefit obligation for pensions and other post-retirement benefits	219.3	200.5
External plan assets measured at fair value	–22.3	–20.6
Actuarial gain (+)/loss (–)	–40.0	–15.8
Pension provisions reported on the face of the balance sheet	**157.0**	**164.1**

Change in the present value of defined benefit obligation (DBO)

	2012	2011
€ million		
DBO at 1 January	**200.5**	**198.9**
Service cost	0.1	0.1
Employee contributions	0.2	0.6
Interest	8.7	9.5
Gain (–)/loss (+)	25.7	6.4
Exchange rate differences	0.3	0.7
Pensions paid	–16.2	–15.7
DBO at 31 December	**219.3**	**200.5**

Change in the fair value of plan assets

	2012	2011
€ million		
Fair value of plan assets at 1 January	**20.6**	**18.8**
Anticipated return on plan assets	0.8	0.8
Gains (+)/losses (–) on plan assets	1.1	–0.3
Exchange rate differences	0.4	0.5
Employer contributions	0.4	0.6
Employeer contributions	0.2	0.7
Pensions paid from plan assets	–1.2	–0.5
Fair value of plan assets at 31 December	**22.3**	**20.6**

Composition of plan assets

	31/12/2012	31/12/2011
(%)		
Equities	40	40
Debt securities	40	40
Other assets	20	20

The external plan assets relate to the plan assets of the UK branch of DEUTZ AG as well as to qualifying reinsurance policies. These assets contain neither securities issued by Group entities nor assets used by the DEUTZ Group.

The expected total return on plan assets is calculated on the basis of current market forecasts for the period in which the obligation will be settled. The performance of the capital markets during the reporting year enabled the plan assets to yield a gain.

The measurement of pension obligations is based on actuaries' reports using the following actuarial assumptions:

Actuarial assumptions

	2012	2011
(%)		
Discount rate		
Germany	3.09	4.61
USA	3.75	4.50
UK	4.25	4.75
Foreign countries (weighted)	4.18	4.71
Anticipated return on plan assets		
Germany	–	–
USA	–	–
UK	4.75	4.75
Foreign countries (weighted)	4.75	4.75
Rate of pension increase		
Germany	2.00	2.00
USA	3.00	3.00
UK	2.50	2.50
Foreign countries (weighted)	2.57	2.56
Rate of salary increase		
Inland	–	–
USA	4.00	4.00
UK	2.75	2.75
Foreign countries (weighted)	2.93	2.93

Because the German pension plan has been closed since 1995, the calculation of provisions for pensions is not based on any trend in salaries.

	2012	2011	2010	2009	2008
€ million					
Defined benefit obligation for pensions and other post-retirement benefits	219.3	200.5	198.9	201.8	198.0
External plan assets measured at fair value	–22.3	–20.6	–18.8	–12.8	–10.7
Plan funding (surplus)/deficit	197.0	179.9	180.1	189.0	187.3
Gains (+)/losses (–) based on historical experience					
on obligations	0.7	2.2	1.9	1.0	3.0
on plan assets	1.3	0.3	1.5	0.5	–2.6

The DEUTZ Group forecasts that its contributions to defined benefit pension plans will amount to €15.8 million in 2013.

25. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

	31/12/2012			31/12/2011		
	Total	With a residual term of up to one year	With a residual term of more than one year	Total	With a residual term of up to one year	With a residual term of more than one year
€ million						
Warranties	45.0	28.5	16.5	46.4	26.9	19.5
Imminent losses on pending transactions	4.4	3.1	1.3	5.9	2.2	3.7
Obligations to employees	10.8	5.5	5.3	11.9	8.1	3.8
Personnel restructuring	–	–	–	–	–	–
Other	6.8	4.5	2.3	8.1	5.8	2.3
Total	**67.0**	**41.6**	**25.4**	**72.3**	**43.0**	**29.3**

Other provisions are recognised at their settlement value calculated as at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted at a rate of 4.0 per cent.

Other provisions cover all identifiable risks and other contingent liabilities. The main items covered are the cost of warranties and potential risks, onerous contracts and provisions for obligations to employees.

The following table shows the changes to other provisions in 2012:

	Warranties	Imminent losses on pending transactions	Obligations to employees	Other	**Total**
€ million					
1/1/2012	**46.4**	**5.9**	**11.9**	**8.1**	**72.3**
Additions	1.7	1.2	7.3	2.6	12.8
Exchange differences	–	–	–	–0.1	–0.1
Utilisation	–0.2	–0.8	–6.8	–0.9	–8.7
Reversals	–3.2	–2.0	–1.6	–2.9	–9.7
Accrued interest/effect of changes in interest rates	0.3	0.1	–	–	0.4
31/12/2012	**45.0**	**4.4**	**10.8**	**6.8**	**67.0**

26. FINANCIAL LIABILITIES

	31/12/2012				31/12/2011			
	Total	With a residual term of up to one year	With a residual term of one to five years	With a residual term of more than five years	Total	With a residual term of up to one year	With a residual term of one to five years	With a residual term of more than five years
€ million								
Liabilities to banks	98.8	1.1	58.9	38.8	102.9	1.9	101.0	–
Other financial liabilities	1.9	–	0.6	1.3	18.3	–	17.0	1.3
Total	**100.7**	**1.1**	**59.5**	**40.1**	**121.2**	**1.9**	**118.0**	**1.3**

Liabilities to banks

Liabilities to banks mainly comprises a loan from the European Investment Bank in the amount of €90.0 million. The loan, which was granted in mid-2012, has a term of eight years with no repayments due in the first two years.

The working capital facility, which has also been in place since the middle of 2012, was also drawn down. This floating-rate revolving line of credit for €160 million was provided by a syndicate of banks and runs until June 2017.

As part of the contractual agreements for both loans, DEUTZ is obliged to comply with certain financial covenants.

Other financial liabilities

Other financial liabilities comprise an interest-free government loan. The liabilities to former institutional investors that were still in existence at the end of 2011 were repaid ahead of schedule when the Group's funding was restructured in mid-2012.

The fair value of financial liabilities is described in Note 28 on page 82.

The weighted average interest rates of the financial liabilities amount to:

	31/12/2012	31/12/2011
(%)		
Liabilities to banks	3.01	3.72
Other financial liabilities	–	7.46

The carrying amounts of current and non-current financial liabilities are denominated in the following currencies:

	31/12/2012	31/12/2011
€ million		
€	100.7	108.0
US-$	–	13.2
Total	**100.7**	**121.2**

27. TRADE PAYABLES AND OTHER LIABILITIES

€ million	31/12/2012	31/12/2011
Trade payables	**158.9**	**209.1**
Other liabilities		
Sales liabilities	20.8	22.6
Liabilities to investments	9.1	12.3
Personnel-related liabilities	5.0	13.7
Derivative financial instruments	3.0	2.3
Advances received	1.3	3.1
Liabilities arising from other taxes	0.9	4.7
Other liabilities and deferred income	17.2	17.1
Total	**57.3**	**75.8**

The liabilities from derivative financial instruments resulted from the marking to market of derivatives used to hedge interest-rate risk.

As at 31 December 2012, interest benefits of €2.1 million (31 December 2011: €0.0 million) derived from a loan from the European Investment Bank and of €0.4 million (31 December 2011: €0.4 million) derived from an interest-free government loan were recognised as deferred income. The loans were initially recognised at fair value and are reported as non-current financial liabilities.

NOTES TO THE CASH FLOW STATEMENT

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, short-term deposits and credit balances held with banks.

Cash flows from operating activities included dividend income of €1.1 million for 2012 (2011: €1.5 million).

Proceeds from the sale of non-current assets largely relate to the sale of shares in Bosch Emission Systems GmbH & Co. KG, Stuttgart, Germany.

Capital contributions by non-controlling interests relate to the payment by Shandong Changlin Machinery Group Co., Ltd. for a 30 per cent interest in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China.

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2011 and 2012.

2012	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	1,005.0	286.9	–	1,291.9	–	1,291.9
Intersegment revenue	–	–	–	–	–	–
Total revenue	**1,005.0**	**286.9**	**–**	**1,291.9**	**–**	**1,291.9**
Depreciation and amortisation	70.5	8.3	0.1	78.9	–	78.9
Impairment	–	5.7	–	5.7	–	5.7
Profit/loss on equity-accounted investments	–10.2	0.4	–6.1	–15.9	–	–15.9
Income from the reversal of provisions	0.3	1.4	1.0	2.7	–	2.7
Operating profit (EBIT)	–15.6	46.6	7.5	38.5	–	38.5

2011	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	1,199.1	329.9	–	1,529.0	–	1,529.0
Intersegment revenue	–	–	–	–	–	–
Total revenue	**1,199.1**	**329.9**	**–**	**1,529.0**	**–**	**1,529.0**
Depreciation and amortisation	61.3	7.7	0.1	69.1	–	69.1
Profit/loss on equity-accounted investments	2.6	–	–2.8	–0.2	–	–0.2
Income from the reversal of provisions	0.6	–	0.3	0.9	–	0.9
Operating profit (EBIT)	47.2	46.5	–2.5	91.2	–	91.2

Reconciliation from overall profit or loss of the segments to net income of the DEUTZ Group

	2012	2011
€ million		
Overall profit or loss of the segments	**38.5**	**91.2**
Reconciliation	–	–
EBIT	**38.5**	**91.2**
Net finance costs	–10.6	–13.4
Other taxes	–1.4	–1.3
Net income before taxes on continuing operations	**26.5**	**76.5**
Income taxes	–4.4	–7.8
Net income on continuing operations	**22.1**	**68.7**
Net income on discontinued operations	–1.1	6.8
Net income	**21.0**	**75.5**

External segment reporting is based on intragroup corporate management and internal financial reporting and, in line with the nature of the products and services offered, covers the following reportable operating segments:

DEUTZ Compact Engines This segment comprises new business and the servicing of water-cooled and oil-cooled diesel engines with capacities of up to eight litres.

DEUTZ Customised Solutions This segment focuses on air-cooled engines and large liquid-cooled engines with capacities exceeding eight litres. It also includes customer-specific solutions (gensets) and service. A key component of the service business is the supply of reconditioned exchange parts and engines.

Other This segment contains operations that do not belong in any other segment.

The designation of a business area as an operating segment is based on internal reporting by segment regularly used by the Board of Management to monitor performance and allocate resources.

The reconciliation table shows the elimination of all intercompany relationships – where relevant – between the segments.

The measurement principles applied to the DEUTZ Group's segment reporting are based on the IFRS principles applied in the consolidated financial statements. The Board of Management, in its capacity as the senior decision-making body, assesses the performance of the segments in terms of their operating profit (EBIT before one-off items). If entities included in the consolidated financial statements using the equity method are directly attributable to a particular segment, the relevant share of the net income or loss for the period is reported under that segment. Finance costs, financial income and income taxes are reported for the DEUTZ Group as a whole and are not allocated to individual operating segments. External revenue constitutes the revenue that the segments generate from their customers. Revenue generated between segments – where relevant – is reported as intersegment revenue. Transfers between segments are reported at fair value.

Information about products and services

	2012	2011
€ million		
Engines	864.7	1.069.2
Service	140.3	129.9
DEUTZ Compact Engines	**1,005.0**	**1,199.1**
Engines	176.9	218.2
Service	110.0	111.7
DEUTZ Customised Solutions	**286.9**	**329.9**
Total	**1,291.9**	**1,529.0**

Geographical information about external revenue

	2012	2011
€ million		
Germany	**232.0**	**276.6**
Outside Germany	**1,059.9**	**1,252.4**
thereof rest of Europe	668.3	860.6
thereof Middle East	28.4	29.8
thereof Africa	55.5	58.0
thereof Americas	190.9	177.2
thereof Asia-Pacific	116.8	126.8
Total	**1,291.9**	**1,529.0**

Of the European countries outside Germany, France accounted for €126.8 million in the reporting year (2011: €133.0 million), Sweden for €112.2 million (2011: €137.7 million) and Switzerland for €104.4 million (2011: €137.8 million).

The above information is presented according to customer location. One customer accounted for at least 10 per cent of our total revenue in both 2011 and 2012. The revenue from this customer amounted to €361.6 million (2011: €374.2 million) and is reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

	2012	2011
€ million		
Germany	516.0	503.4
Outside Germany	94.3	107.8
Total	**610.3**	**611.2**

The non-current assets comprise property, plant and equipment, intangible assets and equity-accounted investments. They are presented by location of the consolidated entity.

OTHER INFORMATION

28. FINANCIAL RISK MANAGEMENT AND ADDITIONAL INFORMATION ON CAPITAL MANAGEMENT

Basic principles

Owing to its global business operations, the DEUTZ Group is exposed to various financial risks that can arise from adverse movements and trends in the international sales, procurement, interest-rate and foreign-exchange markets. The overarching risk management strategy used is designed to mitigate potentially negative effects on the DEUTZ Group's financial position.

The management and early identification of financial risks is based on annual financial planning, together with updates and regular analyses of variances during the course of the year. Financial management in the Group is the responsibility of DEUTZ AG as the parent company.

The Treasury department identifies, measures and hedges financial risk in close collaboration with the Group's operating segments. The Board of Management specifies the principles for the Group's overarching risk management strategy as well as guidelines for certain aspects, such as how to manage currency risk, interest-rate risk and credit risk and how to hedge them using derivative and non-derivative financial instruments.

The Finance Committee, which meets every two to three months, provides a forum at which operational issues relating to risk management and other financially relevant decisions are discussed. The Finance Committee consists of the relevant member of the Board of Management plus representatives of the Treasury and Finance departments.

The objective of risk management is to mitigate fluctuations in profits and cash flows caused by volatility in commodity, interest-rate and foreign-exchange markets. Derivative financial instruments are only used for hedging purposes, i.e. only in conjunction with corresponding hedged items from the Group's ordinary business activities or financial transactions that have a countervailing risk profile to that of the hedging transaction. The nature and scope of the hedged items are specified in a binding financing directive.

DEUTZ works exclusively with leading banks in order to minimise counterparty risk.

The Treasury department manages the lines of credit in accordance with the Group's financing principles. Subsidiaries are funded primarily by DEUTZ Group loans.

Liquidity risk

Prudent liquidity management includes holding a sufficient reserve of cash and cash equivalents, ensuring the option of obtaining funding through bank loans and the ability to issue short-term and long-term capital market instruments. Because the business environment is constantly changing, the Treasury department aims to ensure that it has sufficient unused credit lines at its disposal at all times.

The management of liquidity risk in the DEUTZ Group has a number of components: annual planning with interim updates, rolling four-week planning updated weekly and monthly planning updated monthly up to the end of the financial year. Liquidity risk is also assessed in the regular meetings of the Finance Committee.

In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving cash credit line amounting to €160 million that runs until July 2017 and two long-term amortising loans for a total of €90.0 million that are repayable in fixed instalments until 2020 beginning after two years. As part of the loan agreements, the Company is required to comply with certain covenants.

The liquidity analysis provides information on the contractually agreed undiscounted gross payments in respect of interest and the redemption of financial liabilities as at the balance sheet date on the basis of the exchange rates prevailing on the balance sheet date concerned and the most recently set interest rates. As far as the utilisation of revolving credit facilities was concerned, it was assumed that the amounts already drawn down by the balance sheet date would continue to apply until the facilities expire.

31/12/2012	2013 cash outflow	2014–2017 cash outflow	>2017 cash outflow	**Total**
€ million				
Primary financial instruments	**–213.8**	**–72.7**	**–40.9**	**–327.4**
Derivative financial instruments	**–0.5**	**–1.2**	**–0.2**	**–1.9**
Currency derivatives				
thereof gross settlement: cash outflows	–2.3	–	–	–2.3
thereof gross settlement: cash inflows	2.3	–	–	2.3
Interest rate derivatives				
Presentation of net cash flows	–0.4	–1.2	–0.2	–1.8
Commodity derivatives				
Presentation of cash flows	–0.1	–	–	–0.1

31/12/2011	2012 cash outflow	2013–2016 cash outflow	>2016 cash outflow	**Total**
€ million				
Primary financial instruments	**–286.6**	**–130.7**	**–**	**–417.3**
Derivative financial instruments	**–4.6**	**–0.3**	**–**	**–4.9**
Currency derivatives				
thereof gross settlement: cash outflows	–69.6	–	–	–69.6
thereof gross settlement: cash inflows	67.0	–	–	67.0
Interest rate derivatives				
Presentation of cash flows	–0.5	–0.1	–	–0.6
Commodity derivatives				
Presentation of cash flows	–1.5	–0.2	–	–1.7

31/12/2012	Carrying amount	thereof neither past due nor impaired at the balance sheet date	thereof impaired at the balance sheet date: Gross amount before impairment	thereof impaired at the balance sheet date: Impairment
€ million				
Non-current financial assets	**1.3**	**1.3**	**0.7**	**–0.7**
Current financial assets	**146.3**	**121.7**	**38.3**	**–31.0**
Trade receivables	116.1	96.5	8.1	–5.8
Other receivables and assets	30.2	25.2	30.2	–25.2

31/12/2011	Carrying amount	thereof neither past due nor impaired at the balance sheet date	thereof impaired at the balance sheet date: Gross amount before impairment	thereof impaired at the balance sheet date: Impairment
€ million				
Non-current financial assets	**1.3**	**1.3**	**0.7**	**–0.7**
Current financial assets	**207.7**	**165.6**	**43.1**	**–30.0**
Trade receivables	163.6	133.6	7.2	–6.2
Other receivables and assets	44.1	32.0	35.9	–23.8

Credit risk

The overview of written-down financial assets and of the age structure of overdue financial assets that have not been written down does not include cash and cash equivalents of €52.1 million (31 December 2011: €51.6 million), available-for-sale financial assets of €7.9 million (31 December 2011: €7.8 million) or held-for-trading financial assets of €0.6 million (31 December 2011: €0.7 million).

There are no significant concentrations of potential credit risk in the DEUTZ Group. The risk from bad debts is restricted by constant monitoring and regular analysis of receivables and their breakdown. Receivables are to a large extent covered by credit insurance. Further measures, such as guarantees and creditworthiness checks, are used to protect against credit risk. The Group has also put in place procedures and guidelines to ensure that products and services are only sold to customers who have a satisfactory payment record. Appropriate write-downs are applied to allow for the credit risk attaching to financial assets. The maximum credit risk exposure is limited to the carrying amount in the case of trade receivables and other financial assets such as cash and cash equivalents, available-for-sale financial assets and derivative financial instruments. Credit risk in connection with financial instruments is limited by careful selection of counterparties.

As regards trade receivables and other receivables and assets that were neither overdue nor written down as at the balance sheet date, there were no indications that the customers concerned would be unable to meet their payment obligations. Trade receivables relate primarily to DEUTZ AG and are insured with EULER HERMES Deutschland AG. DEUTZ AG usually has an obligation to the trade credit insurance association (WKV) or, where applicable, the German government's export credit guarantee scheme (APG) to meet defaults on the receivables unless they are secured by letters of credit confirmed by a bank or similar instruments. DEUTZ AG does not produce any standardised credit rating for its customers itself but sets the maximum customer exposure in accordance with the level of cover provided by the credit insurance agency. In addition, we have received guarantees amounting to €1.5 million (31 December 2011: €2.1 million) for foreign trade receivables.

thereof past due on the balance sheet date but not impaired			
up to 90 days	91 to 180 days	181 to 360 days	more than 360 days
–	–	–	–
16.4	**0.8**	**0.1**	**–**
16.4	0.8	0.1	–
–	–	–	–

thereof past due on the balance sheet date but not impaired			
up to 90 days	91 to 180 days	181 to 360 days	more than 360 days
–	–	–	–
26.4	**1.6**	**1.0**	**–**
26.4	1.6	1.0	–
–	–	–	–

Currency risk
The DEUTZ Group operates internationally and, consequently, is exposed to currency risk arising from fluctuating exchange rates, principally US dollar exchange rates. Exchange-rate risks are monitored under a centralised currency management system and mitigated by the use of hedging transactions. The Treasury department uses hedges, primarily currency forwards, to hedge currency risk emanating from the net position of estimated future cash flows in foreign currency. Between 50 per cent and 70 per cent of the net positions budgeted for the following year are usually hedged, as are 100 per cent of project-based firm commitments.

DEUTZ also takes specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract currency risk arising from sales invoiced in US dollars by creating a “natural hedge”. Risks arising from the translation of financial statements of subsidiaries prepared in currencies other than the euro are not hedged.

Currency sensitivity analysis
The Group is mainly exposed to exchange-rate risks from the currency of the USA (US-$).

The following table illustrates the sensitivity – from a Group perspective – to a 10 per cent rise or fall in the euro against the respective currency. The sensitivity analysis only takes into account outstanding monetary positions denominated in foreign currency and adjusts the translation of those amounts as at the period end in line with a 10 per cent change in the respective exchange rates. The positions involved include currency forward contracts that form part of an effective cash flow hedge, the purpose of which is to hedge fluctuations in foreign-currency payments and receipts caused by changes in exchange rates. Changes in the exchange rates for the currencies underlying these transactions lead to a change in the fair value of the hedges concerned, these changes being recognised in the hedging reserve in other comprehensive income. Other positions involved are currency forward contracts not related to hedging transactions. Changes in the exchange rates for the currencies underlying these financial instruments result in gains or losses due to restating these instruments at their fair value. Primary instruments (trade receivables and trade payables) denominated in foreign currency and outstanding as at the balance sheet date are also included in the sensitivity analysis. Changes in the exchange rates for the currencies underlying these items result in gains or losses from the measurement of these instruments as at the balance sheet date.

The following tables show the impact on net income and on equity if the euro rises or falls by 10 per cent against the US dollar.

Cash payments and receipts are shown as net amounts under “notional amounts”.

Increase of the Euro by 10%

2012	Notional amounts	Effect on net income	Notional amounts	Effect on equity
€ million				
US-$	50.2	–3.3	9.1	0.1

2011	Notional amounts	Effect on net income	Notional amounts	Effect on equity
€ million				
US-$	26.6	–4.1	64.9	6.0

Decrease of the Euro by 10%

2012	Notional amounts	Effect on net income	Notional amounts	Effect on equity
€ million				
US-$	50.2	4.1	9.1	–1.0

2011	Notional amounts	Effect on net income	Notional amounts	Effect on equity
€ million				
US-$	26.6	4.7	64.9	–7.1

Interest-rate risk and sensitivity analysis

The DEUTZ Group is exposed to risk from interest rate changes, above all in relation to floating-rate and other loans that it has taken up. The sensitivity analyses shown above are based on interest-rate risk exposures at the balance sheet date. As far as the utilisation of revolving credit facilities was concerned, it was assumed that the amounts already drawn down by the balance sheet date would continue to apply for the next twelve months.

If interest rates for floating-rate financial liabilities rose by 100 basis points, net income before tax in the coming financial year would decrease by €0.1 million (2011: €1.2 million). Because of the current level of interest rates, any fall in interest rates would be limited to 20 basis points and would mean a converse effect on net income of close to zero.

Capital management

The DEUTZ Group manages its capital with the primary objective of supporting business operations and ensuring the continued existence of the Company as a going concern over the long term. A healthy financial structure is necessary to assure the required flexibility in the provision of financial resources. At present, no credit rating has been set for DEUTZ. However, the DEUTZ Group is endeavouring to achieve a balance-sheet structure that meets the requirements for an investment-grade rating. Capital management therefore extends to both equity and debt.

DEUTZ is not subject to capital requirements under its statutes. However, it is under an obligation towards the banks from which it has obtained loans to ensure that its ratio of net financial debt to equity does not exceed a certain level. This external requirement has been integrated into capital management.

The net financial position (cash and cash equivalents less interest-bearing financial liabilities) was negative for the most part during the year under review. As at the balance sheet date, the net financial position was minus €48.6 million, which equated to a year-on-year improvement of €21.0 million (31 December 2011: minus €69.6 million). In addition to the net financial position, free cash flow (defined as cash flow from operating activities and investing activities less interest payments) is an essential part of active capital management and is used as a key figure to show changes in the liquidity situation. The free cash flow from continuing operations as at 31 December 2012 was €12.6 million (31 December 2011: €4.8 million).

The equity ratio is another indicator used by the DEUTZ Group to monitor its capital. This indicator reflects the ratio of total assets to Group equity as reported on the face of the consolidated balance sheet. As at 31 December 2012, the equity ratio for the DEUTZ Group was 46.8 per cent (31 December 2011: 41.3 per cent) and therefore remained at a high level in line with internal targets.

Financial instruments

The following table shows the carrying amounts of the individual financial assets and liabilities for each separate category of financial instrument, reconciled to the corresponding balance sheet item.

Financial assets

	Measured at amortised cost		Measured at fair value		Assets not falling under the scope of IAS 39	
31/12/2012	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Held-for-trading financial assets	Carrying amount	**Carrying amount on the face of the balance sheet**
€ million						
Non-current financial assets	**1.3**	**5.8**	**2.1**	**–**	**1.8**	**11.0**
Current financial assets	**198.4**	**–**	**–**	**0.6**	**2.0**	**201.0**
Trade receivables	116.1	–	–	–	–	116.1
Other receivables and assets	30.2	–	–	0.6	2.0	32.8
Cash and cash equivalents	52.1	–	–	–	–	52.1

Financial assets

	Measured at amortised cost		Measured at fair value		Assets not falling under the scope of IAS 39	
31/12/2011	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Held-for-trading financial assets	Carrying amount	**Carrying amount on the face of the balance sheet**
€ million						
Non-current financial assets	**1.3**	**5.8**	**2.0**	**–**	**2.9**	**12.0**
Current financial assets	**259.3**	**–**	**–**	**0.7**	**10.7**	**270.7**
Trade receivables	163.6	–	–	–	–	163.6
Other receivables and assets	44.1	–	–	0.7	10.7	55.5
Cash and cash equivalents	51.6	–	–	–	–	51.6

Financial liabilities

31/12/2012	**Measured at amortised cost** Financial liabilities	**Measured at fair value** Derivates designed as heding instruments (without affecting profit/loss)	Held-for-trading financial liabilities	**Liabilities not falling under the scope of IAS 39** Carrying amount	**Carrying amount on the face of the balance sheet**
€ million					
Non-current financial liabilities	**100.6**	**–**	**0.9**	**3.1**	**104.6**
Financial liabilities	99.6	–	–	–	99.6
Other liabilities	1.0	–	0.9	3.1	5.0
Current financial liabilities	**204.4**	**–**	**–**	**7.9**	**212.3**
Financial liabilities	1.1	–	–	–	1.1
Trade payables	158.9	–	–	–	158.9
Other liabilities	44.4	–	–	7.9	52.3

Financial liabilities

31/12/2011	**Measured at amortised cost** Financial liabilities	**Measured at fair value** Derivates designed as heding instruments (without affecting profit/loss)	Held-for-trading financial liabilities	**Liabilities not falling under the scope of IAS 39** Carrying amount	**Carrying amount on the face of the balance sheet**
€ million					
Non-current financial liabilities	**121.5**	**–**	**1.1**	**1.1**	**123.7**
Financial liabilities	119.3	–	–	–	119.3
Other liabilities	2.2	–	1.1	1.1	4.4
Current financial liabilities	**269.9**	**2.1**	**1.5**	**8.9**	**282.4**
Financial liabilities	1.9	–	–	–	1.9
Trade payables	209.1	–	–	–	209.1
Other liabilities	58.9	2.1	1.5	8.9	71.4

The following table shows the carrying amounts and fair values of all financial instruments included in the consolidated financial statements that fall within the scope of IFRS 7 "Financial Instruments: Disclosures" and that are not measured at fair value.

	31/12/2012		31/12/2011	
	Carrying amount	Fair value	Carrying amount	Fair value
€ million				
Financial assets	**205.5**	**199.7**	**266.4**	**260.6**
Other loans	1.3	1.3	1.3	1.3
Available-for-sale financial assets measured at amortised cost	5.8	–	5.8	–
Trade receivables	116.1	116.1	163.6	163.6
Other receivables and assets	30.2	30.2	44.1	44.1
Cash and cash equivalents	52.1	52.1	51.6	51.6
Financial liabilities	**305.0**	**308.3**	**391.4**	**391.3**
Liabilities to banks and other financial liabilities	100.7	104.0	121.2	121.1
Trade payables	158.9	158.9	209.1	209.1
Other liabilities	45.4	45.4	61.1	61.1

In the case of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities (due within one year), the carrying amounts are virtually the same as the fair values owing to the short residual maturity.

No disclosure of fair value is made for unquoted available-for-sale financial assets, the carrying amount of which was €5.8 million as at 31 December 2012 (31 December 2011: €5.8 million). The reason is that these financial assets are investments for which no fair value can be determined and are therefore measured at amortised cost.

The fair value of non-current financial assets and liabilities is computed by discounting estimated future cash flows using prevailing market discount rates based on credit rating and exchange rates on the balance sheet date.

As at 31 December 2012, the DEUTZ Group held the following financial instruments measured at fair value:

31/12/2012	**Carrying amount**	Level 1	Level 2	Level 3
€ million				
Financial assets				
Available-for-sale-financial assets	2.1	2.1	–	–
Held-for-trading derivatives	0.6	–	0.6	–
Financial liabilities				
Held-for-trading derivatives	0.9	–	0.9	–

31/12/2011	**Carrying amount**	Level 1	Level 2	Level 3
€ million				
Financial assets				
Available-for-sale-financial assets	2.0	2.0	–	–
Held-for-trading derivatives	0.7	–	0.7	–
Financial liabilities				
Held-for-trading derivatives	4.7	–	4.7	–

Level 1: Measurement is based on the price of identical assets or liabilities on active markets.
Level 2: Measurement is based on the price of a similar instrument on an active market./ Measurement using a method in which all the critical input factors are based on observable market data.
Level 3: Measurement using a method in which critical input factors are not based on observable market data.

The fair value of available-for-sale financial assets is derived from prices in active markets.

The fair value of derivative financial instruments (interest-rate swaps, and currency forward contracts) is calculated over the remaining term of the instrument using current exchange rates, market interest rates and yield curves. The disclosures are based on valuations by banks.

Net gains and losses on financial instruments

Net gains or losses recognised in the income statement are broken down by measurement category in IAS 39 as follows:

31/12/2012	Loans and receivables	Held-for-trading financial assets	Financial liabilities measured at amortised cost	Held-for-trading financial liabilities
€ million				
Net gains/losses	–1.4	–0.4	–0.2	–

31/12/2011	Loans and receivables	Held-for-trading financial assets	Financial liabilities measured at amortised cost	Held-for-trading financial liabilities
€ million				
Net gains/losses	2.2	–2.0	0.2	–

The net gains or losses for each measurement category primarily comprise gains and losses recognised in profit or loss resulting from the measurement of financial instruments at fair value, currency translation of financial instrument carrying amounts and impairment losses and/or reversal of impairment losses on financial instruments.

In the year under review, unrealised gains of €0.1 million on available-for-sale financial assets were recognised in other comprehensive income (no gains or losses in 2011). No realised gains or losses were reclassified from other comprehensive income to the income statement in 2012.

Total interest income and interest expense

In 2012, interest income of €1.0 million (2011: €1.0 million) and interest expense of €7.3 million (2011: €7.4 million) were attributable to financial assets and financial liabilities that were not measured at fair value through profit or loss.

Hedging

Cash flow hedges As at both 31 December 2011 and 31 December 2012, the DEUTZ Group had entered into currency forward contracts in US dollars classified as hedges for the purpose of hedging the currency risk on forecast transactions denominated in foreign currency.

Apart from the above, as at 31 December 2012, interest-rate swaps classified as hedging instruments were used for hedging interest-rate risks related to loans bearing variable interest rates.

Unrealised gains of €1.2 million on cash flow hedges were recognised in other comprehensive income in 2012 (2011: losses of €1.5 million), taking into account deferred tax liabilities of €0.5 million (2011: deferred tax assets of €0.7 million). These changes in fair value represent the effective portion of the hedge. In 2012, losses of €2.2 million (2011: gains of €0.8 million) (prior to the inclusion of deferred taxes) recognised in other comprehensive income during the year were reclassified to other operating income or expenses in the consolidated income statement. In 2012, there was no hedging ineffectiveness requiring reclassification from the reserve for cash flow hedges to the income statement. Hedges related to future transactions in the operating business denominated in foreign currency are expected to be cancelled within the next twelve months and the associated gains that have been recognised in other comprehensive income reclassified to the income statement; hedges related to future interest-rate risks are expected to be cancelled after a period of 7 years and 6 months.

Derivative financial instruments

The following derivative financial instruments were reported as at the balance sheet date:

	Notional amounts 2012	Notional amounts 2011	Fair values 2012	Fair values 2011
€ million				
Currency forwards				
not used as hedges	6.8	8.5	0.2	0.7
used as cash flow hedges	9.1	64.9	0.4	–2.1
Interest-rate swaps				
used as cash flow hedges	45.0	100.0	–0.9	–1.1
Commodities				
not used as hedges	–	8.6	–	–1.5

29. CONTINGENT LIABILITIES

Contingent liabilities

The DEUTZ Group's contingent liabilities as at the balance sheet date were as follows:

	31/12/2012	31/12/2011
€ million		
Liabilities on endorsed bills of exchange	3.0	1.1
Liabilities on guarantees	1.3	1.3
Warranty liabilities	–	2.2
Total	**4.3**	**4.6**

Other financial obligations

The following table shows the notional amounts and due dates of other financial obligations:

	31/12/2012	31/12/2011
€ million		
Due in less than 1 year	7.5	7.3
Due in 1 to 5 years	14.4	19.5
Due in more than 5 years	0.3	0.6
Total	**22.2**	**27.4**

The above obligations relate to leases on real estate and movable assets, and other legal obligations.

As in 2011, no obligations under leases were offset by receivables in respect of sub-leases.

Commitments to purchase property, plant and equipment and intangible assets amounted to €37.6. million as at 31 December 2012 (31 December 2011: €50.2 million) and commitments to purchase inventories amounted to €93.1 million (31 December 2011: €88.3 million).

Legal disputes

DEUTZ AG and other companies in the DEUTZ Group are involved in a number of legal disputes, claims for damages and arbitration proceedings that could have an impact on the Group's financial position. Legal disputes are subject to a great deal of uncertainty and the outcome of individual proceedings cannot be predicted with confidence.

Financial provision has been made to cover litigation risks facing the respective Group companies if the event in question occurred before the balance sheet date, an obligation is probable and the amount of the obligation can be determined with a sufficient degree of reliability.

We do not expect the above risks to have a significantly adverse long-term impact on the DEUTZ Group's financial position or financial performance beyond the financial provision already made.

30. RELATED PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties.

These include the business relationships between the DEUTZ Group and entities in which it holds significant investments as well as the following DEUTZ AG shareholders (including their subsidiaries) that are in a position to exert a significant influence over the DEUTZ Group. These are:

- AB Volvo (publ), Gothenburg, Sweden (group) and
- SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy (group).

Related parties also include the Supervisory Board, the Board of Management and other members of the management team.

The following table shows the volume of material goods and services either provided for or received from entities in which the DEUTZ Group holds investments:

	Goods and services		Other expenses incurred in connection with services		Receivables as at 31 Dec		Liabilities as at 31 Dec	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
€ million								
Associates	–	–	–	–	0.8	0.9	–	–
Joint ventures	20.8	33.4	14.7	6.4	3.7	15.1	–	8.8
Other investments	0.5	0.4	4.3	4.2	0.4	–	5.0	4.9
Total	**21.3**	**33.8**	**19.0**	**10.6**	**4.9**	**16.0**	**5.0**	**13.7**

The decline in goods supplied and services rendered to joint ventures was largely attributable to the lower volume of business with our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. on the back of weaker economic growth in China.

Because our business relationship with Bosch Emission Systems GmbH & Co. KG (BESG) in the area of exhaust aftertreatment intensified in the first three quarters of 2012, expenses for services received were higher than in 2011. Our shares in BESG were sold in the fourth quarter of the year under review and the company was deconsolidated.

The fall in receivables due from joint ventures was the result of the settlement of trade receivables due from DEUTZ (Dalian) Engine Co., Ltd. in 2012.

Impairment losses of €25.2 million (31 December 2011: €23.8 million) had been recognised on €29.3 million (31 December 2011: €38.9 million) of the Company's total receivables as at 31 December 2012, which resulted in an expense of €1.4 million in 2012 (2011: €0.5 million). Some of these receivables and liabilities consist of loans granted. Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

The following table gives a breakdown of the significant business relationships between the DEUTZ Group and its shareholders, including their subsidiaries:

	Volvo Group		SAME DEUTZ-FAHR Group	
	2012	2011	**2012**	2011
€ million				
Engines and spare parts supplied	361.6	374.2	46.5	101.1
Services	25.6	27.3	1.0	2.2
Receivables as at 31 December	31.6	42.4	6.0	19.5

All transactions were concluded at arm's-length market rates. DEUTZ has an agreement with the Volvo Group that grants Volvo companies extended credit periods in return for payment of a fee.

The following services were provided for the Supervisory Board, the Board of Management and other members of the management team as related parties of the DEUTZ Group.

	Supervisory Board		Board of Management		Other members of management	
	2012	2011	**2012**	2011	**2012**	2011
€ million						
Current remuneration[1]	0.9	0.9	2.1	2.5	3.1	4.1
Termination benefits	–	–	–	–	–	0.9

[1] The current remuneration for members of the Supervisory Board includes both remuneration for their work as Supervisory Board members and the regular salaries of the salaried employee representatives.

The DEUTZ Group did not maintain material business relationships with any other related parties.

31. EVENTS AFTER THE REPORTING PERIOD

No events with a material impact on the consolidated financial statements occurred after 31 December 2012.

32. REMUNERATION PROGRAMMES

Between 2007 and 2012, DEUTZ AG launched Long Term Incentive Plans Nos. I to VI as long-term components of remuneration. Under these long-term incentive plans, virtual stock options are issued to reward management for its sustained contribution to the Company's success.

General description of the incentive plans of DEUTZ AG

Under DEUTZ AG's incentive plans, virtual options are issued on shares in DEUTZ AG. The Company decides at its discretion who is eligible to participate in the plans. However, only members of the DEUTZ Group's senior management and members of the Supervisory Board of DEUTZ AG may be considered for inclusion. It is at the discretion of the Company to decide how many options are granted.

By the balance sheet date the following Long Term Incentive Plans with the number of options shown had been granted free of charge:

Incentive plan	Date of grant	Number of options
Long Term Incentive Plan No. I	1 July 2007	380,000
Long Term Incentive Plan No. II	1 February 2008 and 1 April 2009	345,000 and 60,000
Long Term Incentive Plan No. III	1 June 2009	330,000
Long Term Incentive Plan No. IV	1 July 2010	330,000
Long Term Incentive Plan No. V	1 June 2011	280,000
Long Term Incentive Plan No. VI	1 August 2012	270,000

A total of 405,000 of these options had been granted to current and former members of the DEUTZ AG Board of Management.

No options had been exercised at the end of either 2011 or 2012. A total of 575,000 options expired as a result of employees and Board of Management members leaving the Company. As a result, 1,420,000 options remained outstanding as at 31 December 2012 (31 December 2011: 1,420,000).

Information on the exercise of options

One of the fundamental requirements for exercising options is that the option holders themselves invest in the Company at a ratio of one share per ten options. The earliest that options can be exercised is three or four years after the date of grant (vesting period) and then only within four years from the end of the vesting period and only within ten days from the date of publication of quarterly financial statements. The Company may delay the start of the exercise window for the options or accelerate the exercise and vesting periods.

Furthermore, options may only be exercised
- if the market price of DEUTZ AG shares has risen by at least 30 per cent relative to the reference price (dividend distributions by DEUTZ AG must be taken into consideration, i.e. for the purposes of calculating the performance target, the total gross dividend distribution up to the exercise date must be added to the DEUTZ AG share price); or
- if in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the Prime Industrial Performance Index – or any future index that replaces the Prime Industrial Performance Index – by at least 30 per cent.

A request to exercise options must be submitted to the Company in writing.

The following specific terms and conditions apply to each incentive plan:

Incentive plan	Earliest exercise date	Reference price
Long Term Incentive Plan No. I	1 July 2010	€10.68[1]
Long Term Incentive Plan No. II	1 February 2011 and 1 April 2012	€6.92 and €1.94
Long Term Incentive Plan No. III	1 June 2013	€2.68
Long Term Incentive Plan No. IV	1 July 2014	€4.39
Long Term Incentive Plan No. V	1 June 2015	€6.10
Long Term Incentive Plan No. VI	1 August 2016	€3.89

[1] However, the reference price for a total of 40,000 options issued at a later date is €8.51

When an option is exercised, the beneficiary receives a cash payment in the amount of the difference between the DEUTZ AG share price on the exercise date and the reference price at the time the option was granted. The beneficiary does not receive shares in the Company.

Long Term Incentive Plan No. I:
No options had been exercised as at 31 December 2011 or 31 December 2012, although a total of 240,000 options had expired as a result of employees and Board of Management members leaving the Company. Therefore, a total of 140,000 options were outstanding as at 31 December 2012 (31 December 2011: 195,000).

Long Term Incentive Plan No. II:
No options had been exercised as at 31 December 2011 or 31 December 2012, although a total of 195,000 options had expired as a result of Board of Management members leaving the Company. Therefore, a total of 210,000 options were outstanding as at 31 December 2012 (31 December 2011: 285,000).

Long Term Incentive Plan No. III:
No options had been exercised as at 31 December 2011 or 31 December 2012, although a total of 50,000 options had expired as a result of employees leaving the Company. Therefore, a total of 280,000 options were outstanding as at 31 December 2012 (31 December 2011: 330,000).

Long Term Incentive Plan No. IV:
No options had been exercised as at 31 December 2011 or 31 December 2012, although a total of 60,000 options had expired as a result of employees leaving the Company. Therefore, a total of 270,000 options were outstanding as at 31 December 2012 (31 December 2011: 330,000).

Long Term Incentive Plan No. V:
No options had been exercised as at 31 December 2011 or 31 December 2012, although a total of 30,000 options had expired as a result of employees leaving the Company. Therefore, a total of 250,000 options were outstanding as at 31 December 2012 (31 December 2011: 280,000).

Long Term Incentive Plan No. VI:
No options had been exercised as at 31 December 2012, and no options had expired as a result of employees leaving the Company. Therefore, a total of 270,000 options were outstanding as at 31 December 2012.

Notes on the fair value of options

Because the virtual options are cash-based instruments rather than equity-based instruments, the Company is obliged to recognise a provision, the amount of which is derived from the fair value of the virtual options at the grant date and apportioned over the vesting period pro rata temporis.

An option pricing model using the Black-Scholes formula was used to ascertain the fair value. The model factors in the aforementioned exercise prices, the term and the value of the underlying asset (DEUTZ AG shares).

Long Term Incentive Plan No. I:
The risk-free interest rate (4.25 per cent) used in the calculation is based on German federal government bonds with terms of four to ten years issued in mid-2007. The assumed volatility (50.88 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €9.68 on 2 July 2007 (the first trading day after the options were granted). It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period. As the vesting period of the options ended on 1 July 2010, the calculation is now based on the assumption that the options might be exercised at any time, taking into account the maximum term of the options.

Long Term Incentive Plan No. II:
The risk-free interest rate (4.00 per cent) used in the calculation is based on German federal government bonds with terms of four to ten years issued at the start of 2008. The assumed volatility (59.28 per cent) is based on the average value for call options on DEUTZ AG shares available on the market on 1 February 2008. Fluctuation was assumed to be 0 per cent. These assumptions were also used in the calculation for the options issued on 1 April 2009 under the rules for LTIP No. II.

The calculation on the grant date was based on the DEUTZ AG share price of €6.92 (€1.94) on 1 February 2008 (1 April 2009). It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period. As the vesting period for some of the options ended on 1 February 2011, the calculation is now based on the assumption that these options might be exercised at any time, taking into account the maximum term of the options.

Long Term Incentive Plan No. III:
The risk-free interest rate (3.50 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2009. The assumed volatility (60.56 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €3.15 on 1 June 2009. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

Long Term Incentive Plan No. IV:
The risk-free interest rate (2.50 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2010. The assumed volatility (48.87 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €4.10 on 1 July 2010. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

Long Term Incentive Plan No. V:
The risk-free interest rate (3.25 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2011. The assumed volatility (51.35 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €6.10 on 1 June 2011. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

Long Term Incentive Plan No. VI:
The risk-free interest rate (1.75 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2012. The assumed volatility (57.30 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €3.07 on 1 August 2012. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

In accordance with the requirement for the fair value of options to be recalculated on each balance sheet date, a calculation was carried out on the basis of the DEUTZ AG share price of €3.54 on 31 December 2012 (31 December 2011: €4.11) which resulted in income of €0.2 million as at 31 December 2012. A total provision of €0.9 million was recognised at the end of 2012 (31 December 2011: €1.1 million). The amount is broken down as follows:

Long Term Incentive Plan No. I:
€0.0 (31 December 2011: €0.1 million)
Long Term Incentive Plan No. II:
€0.2 million (31 December 2011: €0.5 million)
Long Term Incentive Plan No. III:
€0.5 million (31 December 2011: €0.4 million)
Long Term Incentive Plan No. IV:
€0.1 million (31 December 2011: €0.2 million)
Long Term Incentive Plan No. V:
€0.1 million (31 December 2011: €0.0 million)
Long Term Incentive Plan No. VI:
€0.0 million (31 December 2011: €0.0 million)

As at 31 December 2012, the intrinsic value of the options granted on 1 April 2009 (Long Term Incentive Plan No. II) was €1.60 per option.

DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

33. AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR (PURSUANT TO SECTION 314 (1) NO. 4 OF THE HGB)

	2012	2011
Non-salaried employees	2,454	2,600
Salaried employees	1,450	1,415
	3,904	**4,015**
Trainees	140	153
Total	**4,044**	**4,168**

34. CORPORATE GOVERNANCE

In December 2012, the Board of Management and the Supervisory Board of DEUTZ AG issued a declaration of compliance with the recommendations of the German Corporate Governance Code government commission pursuant to section 161 AktG and made this declaration permanently and publicly available on the Company's website (http://www.deutz.de/investor_relations/corporate_covernance.en.html).

35. AUDITORS' FEES

The total fees reported for auditing the consolidated financial statements for 2011 and 2012 can be broken down as follows:

	2012	2011
€ thousand		
Auditing	236	285
Other attestation services	130	140
Other services	93	223
Total	**459**	**648**

36. TOTAL REMUNERATION PAID TO THE BOARD OF MANAGEMENT, FORMER BOARD OF MANAGEMENT MEMBERS AND THE SUPERVISORY BOARD

Board of Management

The following table shows the breakdown of total remuneration for members of the Board of Management:

		Fixed remuneration	Variable remuneration[1]	Other[2]	Total	Number of virtual share options granted	Fair value at grant date	Income (–) or expense (+) recognised for virtual share options[3]
in Tsd. €								
Dr Ing Helmut Leube	2012	675	416	173	1,264	–	–	–187
	2011	675	708	167	1,550	–	–	–163
Dr Margarete Haase	2012	550	166	147	863	–	–	–25
	2011	550	283	141	974	–	–	–7
Total	**2012**	**1,225**	**582**	**320**	**2,127**	**–**	**–**	**–212**
Total	**2011**	**1,225**	**991**	**307**	**2,523**	**–**	**–**	**–170**

[1] The variable remuneration represents the provision for the annual bonus for the year under review including any surplus/shortfall from the previous year.
[2] Including payment of life insurance premiums.
[3] Please refer to Note 33 for a description of the structure of the share-based remuneration agreements. The general contractual conditions are identical for all members of the Board of Management.

Termination arrangements As at 31 December 2012, the employment contracts of the members of the Board of Management provided for a compensation payment in the event of premature termination of contract without good cause. In accordance with the rules under the German Corporate Governance Code, the amount of this compensation payment is limited to twice the amount of annual remuneration (severance cap) and may not exceed the remuneration due for the remaining term of the contract.

As at 31 December 2012, the contracts provided for a post-contractual prohibition of competition. In addition, members of the Board of Management were contractually prohibited from providing services to or for a competitor for a period of one year after leaving the Company. As compensation for this requirement, a payment equivalent to two-thirds of the average remuneration they received in the preceding three years was specified.

Changes were made to the remuneration system for the members of the Board of Management at the start of 2013, as a result of which, there is no longer a post-contractual prohibition of competition.

Remuneration paid to former members of the Board of Management or their surviving dependants This remuneration amounted to €1,448 thousand (2011: €1,448 thousand) for DEUTZ AG and the Group; provisions of €14,214 thousand (31 December 2011: €14,613 thousand) have been recognised to cover pension obligations to these persons.

Supervisory Board
The following table shows the breakdown of total remuneration paid to members of the Supervisory Board for their work as Supervisory Board members:

	Fixed remuneration	Meeting attendance fee	**Total**
in €			
Lars-Göran Moberg Chairman	25,000	54,000	79,000
Werner Scherer Deputy Chairman	18,750	37,500	56,250
Dr Lodovico Bussolati	12,500	11,000	23,500
Dr Francesco Carozza (until 25.9.2012)	9,187	4,000	13,187
Sofia Frändberg (since 26.09.2012)	3,313	2,000	5,313
Michael Haupt	12,500	33,000	45,500
Dr Helmut Lerchner	12,500	6,000	18,500
Dr Michael Lichtenauer (until 25.9.2012)	9,187	4,000	13,187
Torbjörn Holmström (since 26.09.2012)	3,313	1,000	4,313
Caterina Messina	12,500	6,000	18,500
Karl-Heinz Müller	12,500	10,000	22,500
Dr Witich Roßmann	12,500	6,000	18,500
Dr Herbert Vossel	12,500	6,000	18,500
Egbert Zieher	12,500	6,000	18,500
Total	**168,750**	**186,500**	**355,250**

Advances and loans to members of the Board of Management and the Supervisory Board As at 31 December 2012 there were no outstanding advances or loans to any members of the Board of Management or the Supervisory Board, nor had any guarantees or other warranties been issued in favour of any such persons.

37. DISCLOSURES UNDER THE GERMAN SECURITIES TRADING ACT (WPHG)

The German Securities Trading Act (WpHG) obliges investors whose share of voting rights in listed companies reaches certain thresholds to notify the company accordingly. DEUTZ AG has been notified of the following shareholdings:

On 12 September 2012, pursuant to section 21 (1) WpHG, Intractor B.V., Mulderstraat 1–9, HP Amsterdam, Netherlands notified us that its shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had fallen below the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 8.44 per cent (equivalent to 10,200,747 voting rights) on that date. Pursuant to section 22 (1) sentence 1 number 1 WpHG, 8.44 per cent of the voting rights (equivalent to 10,200,747 voting rights) were attributable to the company via Same Deutz-Fahr Group S.p.A., Treviglio (BG), Italy.

On 12 September 2012, pursuant to section 21 (1) WpHG, Mr Vitttorio Carozza, Treviglio, Italy notified us that his shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had fallen below the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 8.44 per cent (equivalent to 10,200,747 voting rights) on that date. Pursuant to section 22 (1) sentence 1 number 1 WpHG, 8.44 per cent of the voting rights (equivalent to 10,200,747 voting rights) were attributable to him via Belfort S.A., Luxembourg, Luxembourg, Intractor B.V., HP Amsterdam, Netherlands and Same Deutz-Fahr Group S.p.A., Treviglio (BG), Italy.

On 12 September 2012, pursuant to section 21 (1) WpHG, Belfort S.A., Luxembourg, Luxembourg notified us that its shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had fallen below the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 8.44 per cent (equivalent to 10,200,747 voting rights) on that date. Pursuant to section 22 (1) sentence 1 number 1 WpHG, 8.44 per cent of the voting rights (equivalent to 10,200,747 voting rights) were attributable to the company via Intractor B.V., HP Amsterdam, Netherlands and Same Deutz-Fahr Group S.p.A., Treviglio (BG), Italy.

On 12 September 2012, pursuant to section 21 (1) WpHG, Ms Luisella Carozza-Cassani, Treviglio, Italy notified us that her shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had fallen below the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 8.44 per cent (equivalent to 10,200,747 voting rights) on that date. Pursuant to section 22 (1) sentence 1 number 1 WpHG, 8.44 per cent of the voting rights (equivalent to 10,200,747 voting rights) were attributable to her via Belfort S.A., Luxembourg, Luxembourg, Intractor B.V., HP Amsterdam, Netherlands and Same Deutz-Fahr Group S.p.A., Treviglio (BG), Italy.

On 12 September 2012, pursuant to section 21 (1) WpHG, Mr Aldo Carozza, Treviglio, Italy notified us that his shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had fallen below the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 8.44 per cent (equivalent to 10,200,747 voting rights) on that date. Pursuant to section 22 (1) sentence 1 number 1 WpHG, 8.44 per cent of the voting rights (equivalent to 10,200,747 voting rights) were attributable to him via Belfort S.A., Luxembourg, Luxembourg, Intractor B.V., HP Amsterdam, Netherlands and Same Deutz-Fahr Group S.p.A., Treviglio (BG), Italy.

On 12 September 2012, pursuant to section 21 (1) WpHG, Mr Francesco Carozza, Treviglio, Italy notified us that his shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had fallen below the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 8.44 per cent (equivalent to 10,200,747 voting rights) on that date. Pursuant to section 22 (1) sentence 1 number 1 WpHG, 8.44 per cent of the voting rights (equivalent to 10,200,747 voting rights) were attributable to him via Belfort S.A., Luxembourg, Luxembourg, Intractor B.V., HP Amsterdam, Netherlands and Same Deutz-Fahr Group S.p.A., Treviglio (BG), Italy.

On 12 September 2012, pursuant to section 21 (1) WpHG, Same Deutz-Fahr Group S.p.A., Viale Cassani 14, 24047 Treviglio (BG), Italy informed us that its shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had fallen below the 10, 15, 20 and 25 per cent thresholds for voting rights and amounted to 8.44 per cent (equivalent to 10,200,747 voting rights) on that date The shares were held directly.

On 14 September 2012, pursuant to section 21 (1) WpHG, AB Volvo (publ), Gothenburg, Sweden notified us that its shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had exceeded the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 25.000001 per cent (equivalent to 30,215,447 voting rights) on that date. The shares were held directly.

38. SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Information on the members of the Supervisory Board and the Board of Management, including non-executive directorships held at other companies, is given in a separate list on page 100/101.

Cologne, 25 February 2013

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

SHAREHOLDINGS OF DEUTZ AG

As at 31 December 2012

Ref no.	Name and registered office of the company	Held via	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG, Cologne	–	–	398,774	58,148
	Consolidated companies in Germany				
2	DEUTZ Abgastechnik GmbH, Cologne[2]	1	100.0	25	768
3	DEUTZ Asien Verwaltungs GmbH, Cologne[1]	1	100.0	16,125	–1
4	DEUTZ Beteiligung GmbH, Cologne[1]	1	100.0	24	0
5	DEUTZ Engine China GmbH, Cologne[1]	1	100.0	24	–1
6	Deutz-Mülheim Grundstücksgesellschaft mbH, Dusseldorf[1]	4	19.6	–21,083	–283
7	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne[1]	1	100.0	–2,413	77
	Consolidated companies outside Germany				
8	DEUTZ ASIA-PACIFIC (PTE.) LTD., Singapore (Singapore)[1]	1	100.0	6,852	1,674
9	Deutz Australia (Pty) Ltd., Braeside (Australia)[1]	1	100.0	8,007	542
10	DEUTZ (Beijing) Engine Co., Ltd., Beijing (China)[1]	1	100.0	2,148	1,155
11	Deutz Corporation, Atlanta (USA)[1]	1	100.0	27,991	2,973
12	DEUTZ Spain S.A., Zafra (Spain)[1]	1	100.0	30,590	844
13	DEUTZ Engine (Shandong) Co., Ltd., Linyi (China)[1]	3	70.0	21,393	–455
14	DEUTZ FRANCE S.A.S., Gennevilliers (France)[1]	1	100.0	10,378	1,078
15	LLC DEUTZ Vostok, Moscow (Russia)[1]	1	100.0	163	–85
16	Nlle Ste MAGIDEUTZ S.A., Casablanca (Morocco)[1]	14	100.0	2,375	743
17	D. D. Power Holdings (Pty) Ltd., Elandsfontein (South Africa)[3, 5]	1	30.0	11,419	3,517
18	DEUTZ AGCO MOTORES S.A., Haedo (Argentina)[3]	1	50.0	6,816	685
19	DEUTZ (Dalian) Engine Co., Ltd., Dalian (China)[3]	1	50.0	81,708	–22,404
20	WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD., Weifang (China)[3]	1	50.0	25,663	-2,339
	Not consolidated companies in Germany				
21	Ad. Strüver KG (GmbH & Co.), Hamburg	4	94.0	–8,248	–935
22	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne[2]	1	100.0	26	883
23	DEUTZ Versicherungsvermittlung GmbH, Cologne[2]	1	100.0	1,534	877
24	Feld & Hahn GmbH i. L., Cologne[2]	1	100.0	470	15
	Not consolidated companies outside Germany				
25	AROTRIOS S.A., Nea Filadelfia (filed for insolvency)	1	100.0	–	–
26	DEUTZ DO BRASIL LTDA., São Paulo (Brasil)	1	100.0	–9,110	–94
27	DEUTZ ENGINEERING druzba za projektiraje, proizvodnjo in trgovino d.o.o., Maribor (Slovenia)	1	100.0	–37	–76
28	DEUTZ Engines (India) Private Limited, Pune (India)[6]	1	100.0	250	18
29	LLC DEUTZ, Moscow (Russia)[4]	1	100.0	20	–
30	DEUTZ UK LTD, Cannock (UK)	1	100.0	141	–9
31	DEUTZ-Xiamen Diesel Engine Co., Ltd., Xiamen (China)	1	100.0	407	–137

[1] Equity and net income in accordance with the annual financial statements prepared for consolidation purposes
[2] Profit pooling contract with DEUTZ AG
[3] Consolidated at-equity
[4] 2010 figures
[5] Figures as at 30 November 2012
[6] Figures as at 31 March 2012

SUPERVISORY BOARD

Lars-Göran Moberg
Chairman
Management consultant and supervisory board member, Stockholm, Sweden
b) Fourier Transform AB, Stockholm, Sweden

Werner Scherer[1)]
Chairman of the Cologne Works Council and of the General Works Council of DEUTZ AG, Cologne, Germany

Dr Lodovico Bussolati
CEO of SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy
b) SAME DEUTZ-FAHR Italia S.p.A., Treviglio, Italy

Dr Francesco Carozza
(until 25 September 2012)
Vice Chairman of SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy
a) SAME DEUTZ-FAHR DEUTSCHLAND GmbH, Lauingen, Chairman

Sofia Frändberg
(since 26 September 2012)
Senior Vice President Corporate Legal, AB Volvo, Gothenburg, Sweden
b) Rossareds Fastighets AB, Gothenburg, Sweden
Volvo China Investment Co., Ltd., Beijing, China
Volvo India Private Ltd., Bangalore, India
AB Agrodus, Töreboda, Sweden
Volvo Trademark Holding, Gothenburg, Sweden

Michael Haupt
Former member of the Group Board of SKF AB, Gothenburg, Sweden

Torbjörn Holmström
(since 26 September 2012)
Executive Vice President GTT, Volvo Group Trucks Technology, AB Volvo, Gothenburg, Sweden

Dr Helmut Lerchner
Management consultant
a) ElringKlinger AG, Dettingen/Erms, Germany, Chairman (until 16 May 2012)

Dr Michael Lichtenauer
(until 25 September 2012)
Lawyer
a) Schwartauer Werke GmbH & Co. KGaA, Bad Schwartau, Germany
Ferrostaal GmbH, Essen, Germany
b) ELAFLEX-Hiby Tanktechnik GmbH & Co., Hamburg, Germany, Chairman
MPC Münchmeyer Petersen & Co. GmbH, Hamburg, Germany
Newport CPI GmbH & Co. KG, Hamburg, Germany

Caterina Messina[1)]
Legal advisor at BMW AG, Munich, Germany

Karl-Heinz Müller[1)]
Deputy Chairman of the General Works Council of DEUTZ AG, Cologne, Germany

Dr Witich Roßmann[1)]
Chief Executive of IG Metall Cologne, Cologne, Germany
a) Ford Werke GmbH, Cologne, Germany
Ford Holding Deutschland GmbH, Cologne, Germany

Dr Herbert Vossel[1)]
Head of Legal and Patents at DEUTZ AG, Cologne, Germany

Egbert Zieher[1)]
Chairman of the Ulm Works Council of DEUTZ AG, Ulm, Germany

[1)] Employee representative on the Supervisory Board
a) Membership of statutory German supervisory boards within the meaning of section 125 AktG
b) Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG

SUPERVISORY BOARD COMMITTEES

HUMAN RESOURCES COMMITTEE

Lars-Göran Moberg, Chairman
Werner Scherer, Deputy Chairman
Michael Haupt

AUDIT COMMITTEE

Michael Haupt, Chairman
Werner Scherer, Deputy Chairman
Karl-Heinz Müller
Lars-Göran Moberg

ARBITRATION COMMITTEE (SECTION 27 (3) GERMAN CODETERMINATION ACT (MITBESTG))

Lars-Göran Moberg, Chairman
Michael Haupt
Werner Scherer
Egbert Zieher

NOMINATIONS COMMITTEE

Lars-Göran Moberg, Chairman
Michael Haupt
Dr Lodovico Bussolati

BOARD OF MANAGEMENT

Dr Helmut Leube (59)
Chairman
Market, technical and head-office functions

b) Deutz Corporation, Atlanta, USA, Chairman
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, Deputy Chairman

Dr Margarete Haase (59)
Finance, human resources and investor relations

a) Fraport AG, Frankfurt am Main, Germany
ElringKlinger AG, Dettingen, Erms, Germany
ZF Friedrichshafen AG, Friedrichshafen, Germany (since 1 January 2012)

b) DEUTZ (Dalian) Engine Co., Ltd., Dalian, China
DEUTZ Engine Shandong Co., Ltd., Linyi, China, Chairwoman

a) Membership of statutory German supervisory boards within the meaning of section 125 AktG
b) Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG

ANNUAL FINANCIAL STATEMENTS IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

BALANCE SHEET OF DEUTZ AG

Assets	31/12/2012	31/12/2011
€ million		
Intangible assets	13.9	14.9
Property, plant and equipment	271.7	263.4
Investments	235.9	184.6
Fixed assets	**521.5**	**462.9**
Inventories	125.7	125.8
Receivables and other assets	151.8	225.3
Cash and cash equivalents	32.0	45.6
Current assets	**309.5**	**396.7**
Prepaid expenses	1.5	3.3
Deferred tax assets	58.0	52.6
Total assets	**890.5**	**915.5**

Equity and liabilities	31/12/2012	31/12/2011
Issued capital	309.0	309.0
Additional paid-in capital	26.8	26.8
Retained earnings		
Legal reserve	4.5	4.5
Other retained earnings	116.1	116.1
Accumulated loss	–57.6	–115.8
Equity	**398.8**	**340.6**
Provisions	232.4	254.4
Other liabilities	258.6	319.8
Deferred income	0.7	0.7
Total equity and liabilities	**890.5**	**915.5**

INCOME STATEMENT OF DEUTZ AG

	2012	2011
€ million		
Revenue	**1,214.4**	**1,452.4**
Increase or decrease in inventories of finished goods and work in progress	3.7	4.9
Other own work capitalised	1.6	0.6
Total Output	**1,219.7**	**1,457.9**
Other operating income	112.2	58.5
Cost of Materials	–888.0	–1,069.1
Staff costs	–219.9	–225.1
Depreciation and amortisation	–44.2	–43.3
Other operating expenses	–103.7	–145.3
Net investment income	8.5	9.8
Net interest expenses	–17.4	–21.5
Write-downs of Investments	–9.2	–0.7
Profit from ordinary activities	**58.0**	**21.2**
Net extraordinary expense	–2.3	–2.3
Income taxes	2.9	6.6
Other taxes	–0.4	–0.6
Net loss	**58.2**	**24.9**
Loss carried forward	–115.8	–140.7
Accumulated loss	**–57.6**	**–115.8**

RESPONSIBILITY STATEMENT

“To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the group management report presents a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.”

Cologne, 25 February 2013
DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

AUDIT OPINION

We have audited the consolidated financial statements prepared by DEUTZ AG, Cologne, – comprising the balance sheet, the income statement and statement of comprehensive income, the cash flow statement, the statement of changes in equity and the notes to the consolidated financial statements – and the group management report for the business year from January 1, 2012 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB („German Commercial Code“) are the responsibility of the parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of DEUTZ AG, Cologne, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Duesseldorf, 13 March 2013

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

signed: (Lammers)
Wirtschaftsprüferin
(German Public Auditor)

signed: (Witt)
Wirtschaftsprüfer
(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD

CLOSE COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

In 2012, the Supervisory Board of DEUTZ AG continued its ongoing monitoring of the management of the business in accordance with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code and provided advice to the Board of Management on key decisions.

Four regular and two extraordinary Supervisory Board meetings were held in 2012. Two members of the Supervisory Board took part in the meeting held on 26 June 2012 by conference call and one member was absent from the meeting held on 27 September 2012 but had sent his apologies; at all other meetings during 2012, all the members of the Supervisory Board were present in person.

At each of the ordinary meetings of the Supervisory Board, the Board of Management reported on the general economic, market and competitive environment for DEUTZ AG, presented a business update and sales report including detailed information on the actual performance of the business over the immediately preceding period, submitted an up-to-date risk report, provided information on key operational issues and offered an overview of the results forecast for the year as a whole. These reports were made on the basis of key performance indicators including new orders, orders on hand, revenue, unit sales, EBIT, research and development expenditure, capital expenditure, working capital and headcount data, in each case compared against the prior-year figures and budget. Reports from the Human Resources and Audit Committees presented by their chairperson were also a regular item on the agenda of the ordinary meetings of the Supervisory Board.

FOCUS OF SUPERVISORY BOARD DELIBERATIONS

Our deliberations and discussions in the year under review focused mainly on the current business position and risk situation of DEUTZ AG as well as on the operational and strategic development of the business. Particular attention was paid to our existing joint ventures, especially those in China, and the plan to establish a further Chinese joint venture together with Volvo which would be for the production of four to eight-litre engines and would be majority owned by DEUTZ. The Board of Management reported on these matters on a regular basis; at our meeting on 26 June 2012 we approved the initiation of discussions with the aim of establishing a new Chinese joint venture with Volvo.

Other key decisions concerned the approval of strategic objectives, consent for DEUTZ AG to enter into a new funding facility totalling €250 million and consent for the winding-up of the joint ventures with Bosch and Eberspächer. As is the case every year, we also adopted resolutions concerning the achievement of targets by the Board of Management – and consequently its variable remuneration for the previous year – as well as the setting of its targets for the current year.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular and timely information at all times. Outside the meetings, the Board of Management regularly informed the members of the Supervisory Board in writing about important events. Furthermore, the chairman of the Board of Management remained in constant contact with the Supervisory Board chairman and kept him comprehensively informed in a timely manner about all major transactions and decisions that needed to be made. All the decisions that the Supervisory Board was required to take in accordance with the law and Statutes were taken on the basis of the reports and draft resolutions submitted by the Board of Management and, where necessary, following preparation by the relevant committees of the Supervisory Board.

PERSONNEL

Following thorough preparation by the Human Resources Committee, the Supervisory Board adopted the following resolutions relating to HR matters. We resolved to extend Dr Leube's term as a member of the Board of Management until 31 December 2017, to appoint him as chairman of the Board of Management for this period and to revise his service contract. We also appointed Mr Michael Wellenzohn as an additional member of the Board of Management for a period of three years and gave our approval for a service contract to be signed with him. Mr Wellenzohn has taken over responsibility for sales and marketing from Dr Leube and he has worked for DEUTZ AG since 1 March 2013. Finally, we brought Dr Margarete Haase's service contract in line with the provisions of the Act on the Appropriateness of Management Board Remuneration (VorstAG). As a result, the service contracts of all the members of the DEUTZ AG Board of Management now comply with this legislation.

CORPORATE GOVERNANCE: DECLARATION OF COMPLIANCE WITH SOME EXCEPTIONS

The Supervisory Board held an in-depth discussion of the German Corporate Governance Code as amended on 26 May 2010 and 15 May 2012 and, together with the Board of Management, issued a declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG). This declaration includes just a few variances from the code and since 12 December 2012 has been available in the "Investors/Corporate Governance" section of the Company's website at www.deutz.com, where it can be downloaded.

Lars-Göran Moberg
Chairman of the Supervisory Board

As it had in previous years, the Supervisory Board reviewed the efficiency of its activities in 2012 by means of a detailed questionnaire that was completed by all members. The results of this survey were presented at the Supervisory Board meeting on 27 September 2012 where they were discussed at length. The overall findings were positive.

MATTERS HANDLED EFFICIENTLY BY FOUR COMMITTEES

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees prepare various topics and resolutions for the full Supervisory Board. Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 100 acc. 101 of this annual report.

The Human Resources Committee makes preparations to enable the Supervisory Board to decide about the following matters: the appointment of members of the Board of Management; the content, conclusion and amendment of employment contracts for members of the Board of Management appointed by the Supervisory Board, including the remuneration specified in the employment contracts; all issues arising between members of the Board of Management and the Company in this connection. The committee met sixteen times in the year under review when it focused on preparations for the decisions mentioned above (under the heading Personnel) and on resolutions related to the achievement of the Board of Management's targets for 2011 and to the setting of Board of Management targets for 2012.

The work of the Audit Committee in the year under review focused on evaluating the single-entity and consolidated financial statements for 2011 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2012 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2012 and the discussion of the audit engagement for the year ended 31 December 2012. Other important topics discussed by the Audit Committee included risk management, compliance, the internal control system, strategic planning, key performance indicators and the development of equity investment structures. The Audit Committee met on four occasions in 2012. The auditors attended three meetings of this committee.

The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) of the Act. It did not need to be convened during the year under review.

The Nominations Committee consists of three Supervisory Board members elected by the Annual General Meeting and is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met on five occasions in 2012. It examined the appointment criteria and remuneration systems for the Supervisory Board and also dealt with the nomination of successors for Dr Carozza and Dr Lichtenauer who resigned from the Supervisory Board with effect from 25 September 2012.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS AUDITED IN DETAIL

The single-entity annual financial statements of DEUTZ AG prepared by the Board of Management in accordance with the German Commercial Code (HGB), the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the respective management reports (in each case for the year ended 31 December 2012) were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, the auditors appointed by the Annual General Meeting on 26 April 2012. The auditors issued unqualified opinions.

The single-entity annual financial statements of DEUTZ AG, the consolidated annual financial statements, the respective management reports and the auditors' reports were made available to all members of the Supervisory Board and were examined by the Supervisory Board. The auditors explained their audit findings in detail to the Audit Committee meeting held on 4 March 2013 and to the Supervisory Board meeting held on 14 March 2013 and answered any supplementary questions raised.

The Supervisory Board noted with approval the findings of the auditors' reports on DEUTZ AG and the DEUTZ Group. The conclusive findings of the Supervisory Board's own audit have not led to any reservations about either the single-entity annual financial statements or the consolidated annual financial statements, and the Supervisory Board has therefore approved them. The annual financial statements have thus been adopted.

COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

Following the resignations of Dr Carozza and Dr Lichtenauer from the DEUTZ AG Supervisory Board with effect from 25 September 2012, at the request of the Board of Management, and as recommended by the Nominations Committee, the local court in Cologne appointed Ms Sofia Frändberg and Mr Torbjörn Holmström as members of the DEUTZ AG Supervisory Board with effect from 26 September 2012. The Supervisory Board would like to thank Dr Carozza and Dr Lichtenauer for their outstanding work and valuable contributions.

The membership of the Supervisory Board committees did not change in 2012.

CONFLICTS OF INTEREST

The Supervisory Board members Dr Francesco Carozza (member until 25 September 2012) and Dr Lodovico Bussolati were or are subject to a conflict of interest because of their functions in companies in the SAME DEUTZ-FAHR Group, which are also major customers of DEUTZ AG. The same applies to Supervisory Board members Sofia Frändberg and Torbjörn Holmström owing to their functions in the VOLVO Group. In each case, the chairman of the Supervisory Board reviewed whether this conflict of interest restricted/restricts the opportunity for the involvement of Dr Carozza, Ms Frändberg, Mr Holmström and/or Dr Bussolati in the work of the Supervisory Board. This was not the case in 2012.

The Supervisory Board would like to express its thanks and appreciation to all employees of DEUTZ AG in Germany and abroad, to the elected employee representatives and to the Board of Management for their valuable efforts and the considerable dedication they showed in 2012.

Cologne, March 2013

The Supervisory Board

Lars-Göran Moberg
Chairman

CORPORATE MANAGEMENT DECLARATION AND CORPORATE GOVERNANCE REPORT

For DEUTZ, a responsible approach to management that meets the standards of good corporate governance forms the basis for enhancing shareholder value over the long term. This is one of the main reasons why we attach great importance to the implementation of the German Corporate Governance Code (DCGK) and ensure quality and transparency in all key decisions and processes in our Company.

DECLARATION OF COMPLIANCE WITH SOME EXCEPTIONS

In 2012, the Board of Management and the Supervisory Board once again carefully considered to what extent it was proper and consistent with the Company's objectives for DEUTZ to apply all the guidelines and recommendations of the DCGK. As a result, DEUTZ AG complies with the recommendations of the Code, as amended on 26 May 2010 and 15 May 2012, with the following exceptions:

1. The D&O insurance taken out by DEUTZ AG for the members of the Supervisory Board does not provide for any excess, contrary to item 3.8 (2) and (3) DCGK. In the case of Supervisory Board members, an excess of this type is, as before, not considered an appropriate means of control.

2. There is no age limit at DEUTZ AG for members of either the Board of Management or Supervisory Board, contrary to item 5.1.2 (2) sentence 3 and item 5.4.1 (2) sentence 1 DCGK. This exception enables DEUTZ AG to retain the option of benefiting from the long years of experience brought to the Company by older members of the Board of Management and Supervisory Board.

3. Contrary to item 5.4.6 (2) sentence 2 DCGK, section 15 (2) of DEUTZ AG's Statutes provides for a traditional dividend bonus. Since this type of performance-based compensation for Supervisory Board members has been the practice for many years at DEUTZ AG and, according to section 113 (3) AktG, is a legally acceptable form of compensation, DEUTZ AG wishes to retain it for the time being.

The current declaration of compliance in accordance with section 161 AktG, which the Board of Management and Supervisory Board submitted on 12 December 2012, can be accessed in the Investors/Corporate Governance section of the Company's website at www.deutz.com. Declarations of compliance from previous years can also be viewed and downloaded there.

COMPOSITION OF THE SUPERVISORY BOARD; IN PARTICULAR THE NUMBER OF INDEPENDENT SUPERVISORY BOARD MEMBERS AND THE CONSIDERATION OF WOMEN

In accordance with item 5.4.1 (1 and 2) DCGK, the Supervisory Board meeting on 12 December 2012 adopted the following resolution about its composition, in particular with regard to the number of independent Supervisory Board members and the consideration of women:

"The supervisory board must be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. In particular, the following applies:

INTERNATIONALITY

DEUTZ AG maintains a strong international presence in a globalised market. DEUTZ customers are supported by eleven distribution companies, two Xchange centres, nine sales offices, 16 service centres and over 800 sales and service partners in more than 130 countries around the world. DEUTZ AG has various domestic and foreign subsidiaries. Its subsidiaries include a production facility in Spain and several companies that perform sales and service functions. DEUTZ AG also operates a joint venture in Argentina (DEUTZ AGCO MOTORES S.A.) and three joint ventures in China: (DEUTZ (Dalian) Engine Co. Ltd., Weifang Weichai-Deutz Diesel Engine Co., Ltd. and DEUTZ Engine (Shandong) Co., Ltd.). To reflect the international operations of the Company, at least two Supervisory Board members shall have several years' experience of international business – preferably acquired abroad.

POTENTIAL CONFLICTS OF INTEREST

The composition of the Supervisory Board shall also take account of potential conflicts of interest of its members. All members of the Supervisory Board are obliged to disclose any conflicts of interest, especially those arising from an advisory function or directorship at customers, suppliers, lenders or other third parties.

Supervisory Board member Dr Lodovico Bussolati is subject to a conflict of interest because of his functions in companies in the SAME DEUTZ-FAHR Group, which are also major customers of DEUTZ AG. The same applies to Supervisory Board members Sofia Frändberg and Torbjörn Holmström owing to their functions in the VOLVO Group. The chairman of the Supervisory Board reviews each individual case to establish whether a conflict of interest restricts the opportunity for the involvement of Ms Frändberg, Mr Holmström and/or Dr Bussolati in the work of the Supervisory Board.

Supervisory Board members shall not be directors of major competitors of DEUTZ AG.

NUMBER OF INDEPENDENT SUPERVISORY BOARD MEMBERS

The Supervisory Board is limiting its target concerning this aspect to the shareholder representatives. It considers this group to have an adequate number of independent members if the number of independent members equals the number of members who are not independent, i.e. at least three.

STANDARD AGE LIMIT

At DEUTZ AG, there is no age limit for Supervisory Board members or for Board of Management members. This is because DEUTZ AG wants to retain the option of benefiting from the long years of experience brought to the Company by older members of the Board of Management and Supervisory Board.

DIVERSITY

The composition of the Supervisory Board shall primarily take the appropriate skills and diversity of its members into consideration, while aiming for an appropriate proportion of women. Currently there are two female members of the Supervisory Board, equating to 16.6 per cent. The Supervisory Board has therefore already achieved the target that it set itself in a resolution dated 10 December 2010 for the next Supervisory Board election, which is scheduled to take place in 2013. In view of the proportion of female employees at DEUTZ AG (7.5 per cent in 2012), the proportion of other female managers and the proportion of women in other companies in the industry, the Supervisory Board is not aiming to increase its number of female members in 2013. However, it will choose its nominations with the aim of again having at least two female members in the next term of office."

In 2012, the Supervisory Board had already met the targets laid out in this resolution. This applies with respect to international experience being represented as well as with respect to the number of independent members and its composition oriented on the criteria qualification, diversity and consideration of an appropriate proportion of women.

CONSIDERATION OF WOMEN WHEN FILLING POSITIONS IN THE BOARD OF MANAGEMENT AND OTHER MANAGERIAL POSITIONS

After Mr Wellenzohn's taking office on 1 March 2013 (details below), the Board of Management of DEUTZ AG consists of three members, one of them being a woman. The Supervisory Board resolved to take diversity into account in future decisions on the composition of the Board of Management, in particular, to aim for considering an appropriate proportion of women (item 5.1.2 (1) sentence 2 DCGK).

To ensure that women are taken into consideration for vacant managerial positions, DEUTZ AG has adopted a staff development programme under which the Board of Management and HR department endeavour to include at least one woman in the short list for all vacancies at the first and second management levels below the Board of Management (item 4.1.5 DCGK).

DESCRIPTION OF THE OPERATING PROCEDURES OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

At DEUTZ, responsibility for the executive function lies with the Board of Management; the Supervisory Board monitors and advises the Board of Management in its activities.

With the long-term development of the Company in mind, the Board of Management and Supervisory Board maintain an open, ongoing dialogue on all strategic decisions in the Company – a process that continued in the year under review. The primary aim of the close cooperation between the two bodies is to enhance the value of the Company over the long term for the benefit of shareholders, employees and business partners. Accordingly, the Board of Management provides the Supervisory Board with regular, comprehensive and timely reports on all relevant issues relating to planning, business performance, risk position and risk management.

The Supervisory Board's work is based on rules of procedure, which can be downloaded from the DEUTZ AG website at www.deutz.com.

Four regular and two extraordinary Supervisory Board meetings were held in 2012.

As it had in previous years, the Supervisory Board reviewed the efficiency of its activities in 2012 by means of a detailed questionnaire that was completed by all members. The results of these questionnaires were presented at the Supervisory Board meeting on 27 September 2012 where they were discussed at length. The overall findings were positive.

No former members of the DEUTZ AG Board of Management are now members of the Supervisory Board. The Supervisory Board is elected for a period that runs until the Annual General Meeting in 2013.

The principles by which the Board of Management operates are summarised in rules of procedure issued by the Supervisory Board, which can also be downloaded from the DEUTZ AG website.

Board of Management meetings generally take place every two weeks.

RESPONSIBLE RISK MANAGEMENT

A forward-looking, prudent and responsible approach to corporate risks forms a core aspect of good corporate governance and the basis for the risk management system at DEUTZ. The Board of Management regularly notifies the Supervisory Board of any existing or anticipated risks. Details of the DEUTZ Group's risk management systems can be found in the risk report on pages 41 et seqq.

COMPREHENSIVE TRANSPARENCY AND ACTIVE INVESTOR RELATIONS

The transparent presentation of developments and decisions in a company forms the core of any model system of corporate governance. Continuous, open dialogue with all stakeholders ensures trust in the Company and its value creation process. DEUTZ therefore attaches the greatest importance to ensuring that all relevant target groups are given the same information at the same time and in a timely manner.

We achieve this objective by using various media. DEUTZ AG reports on the performance and development of its business and on significant changes and events four times a year, in its interim reports and the annual report. Interim reports are published within 45 days of the end of a reporting period; the annual report is published within 90 days of the end of the financial year. The Company maintains constant contact with investors and analysts through its regular investor relations activities. In addition to the annual analysts' meeting held when the Company's consolidated annual financial statements are published, conference calls for analysts and institutional investors take place with the publication of interim reports. The Annual General Meeting is usually held in the first five months of the year; shareholders who do not attend the AGM in person can instruct proxies to vote on their behalf.

Our website also offers comprehensive information on the Company: DEUTZ AG annual and interim reports, press releases and ad hoc announcements, analyst recommendations and investor relations presentations as well as key dates in the financial calendar can all be found at www.deutz.com. The Company's Statutes are also available online. Almost all the pages on our website are provided in both German and English to ensure that important company news and information is as accessible as possible, including to an international audience. Apart from the regularly published information, DEUTZ AG also provides details of circumstances that are not in the public domain but that could have a significant impact on DEUTZ's share price were they to become known. The Company's reporting policy therefore complies both with legal requirements and DCGK guidelines.

ACCOUNTING AND AUDITING

DEUTZ AG's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements are prepared by the Board of Management and reviewed by the auditors.

The auditors have agreed to inform the chairman of the Supervisory Board or the chairman of the Audit Committee without delay if reasons for exemption or disqualification, i.e. any misrepresentations in the declaration of compliance, come to light during the audit. The auditors inform the chairman of the Supervisory Board without delay of any issues or incidents relevant to the role of the Supervisory Board that arise during the audit of financial statements.

COMPOSITION OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD; COMPOSITION AND OPERATING PROCEDURES OF SUPERVISORY BOARD COMMITTEES

Following thorough preparation by the Human Resources Committee, the Supervisory Board adopted the following resolutions relating to HR matters. It resolved to extend Dr Leube's term as a member of the Board of Management until 31 December 2017, to appoint him as chairman of the Board of Management for this period and to revise his service contract. It also appointed Mr Michael Wellenzohn as an additional member of the Board of Management for a period of three years and gave its approval for a service contract to be signed with him. Mr Wellenzohn has taken over responsibility for sales and marketing from Dr Leube and he has worked for DEUTZ AG since 1 March 2013. Finally, the Supervisory Board brought Dr Margarete Haase's service contract in line with the provisions of the Act on the Appropriateness of Management Board Remuneration (VorstAG). As a result, the service contracts of all the members of the DEUTZ AG Board of Management now comply with this legislation.

In accordance with the provisions of the German Codetermination Act (MitbestG), the Supervisory Board of DEUTZ AG comprises twelve members, six members being the representatives of the shareholders and six members being the representatives of the employees.

The Supervisory Board has created four committees to enable it to perform its duties effectively. They are the Human Resources Committee, the Audit Committee, the Arbitration Committee and the Nominations Committee. The Human Resources Committee consists of two representatives of the shareholders and one employee representative, the Audit and Arbitration Committees both consist of two shareholder representatives and two employee representatives, and the Nominations Committee has three members, all of whom represent the shareholders. The Audit Committee follows its own rules of procedure, which can be viewed on the DEUTZ AG website, while the other committees work according to the rules of procedure that apply to the (full) Supervisory Board.

The Human Resources Committee makes preparations to enable the Supervisory Board to decide about the following matters: the appointment of members of the Board of Management; the content, conclusion and amendment of service contracts signed with members of the Board of Management appointed by the Supervisory Board, including the remuneration specified in the service contracts; all issues arising between members of the Board of Management and the Company in this connection. The committee met sixteen times in the year under review when it focused on preparations for the HR-related decisions mentioned above and on resolutions related to the achievement of the Board of Management's targets for 2011 and to the setting of Board of Management targets for 2012.

The work of the Audit Committee in the year under review focused on the single-entity and consolidated financial statements for 2011 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2012 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2012 and the discussion of the audit engagement for the year ended 31 December 2012. Other important topics discussed by the Audit Committee included risk management, compliance, the internal control system, strategic planning, key performance indicators and the development of equity investment structures. The Audit Committee met on four occasions in 2012. The auditors attended three meetings of this committee.

The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) of the Act. It did not need to be convened during the year under review.

The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met on one occasion in 2012 when it dealt with nominating successors for Dr Francesco Carozza and Dr Michael Lichtenauer who resigned from the Supervisory Board with effect from 25 September 2012.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

The membership of the Supervisory Board committees did not change in 2012.

Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 100 acc. 101.

DISCLOSURES RELEVANT TO CORPORATE MANAGEMENT PRACTICES: COMPLIANCE MANAGEMENT SYSTEM, ENVIRONMENTAL AND QUALITY MANAGEMENT

DEUTZ AG has a compliance management system that is firmly enshrined in the Company's organisational structure. The system is continually enhanced in order to meet changing requirements.

The overriding objective of the compliance management system is to prevent breaches of legislation and other applicable rules anywhere in the Company. It therefore also helps employees to familiarise themselves with the applicable laws and regulations and learn how to apply them correctly. This is supported by a code of conduct, special guidelines, including a zero-tolerance policy, and regular training.

A Compliance Officer appointed by the Board of Management coordinates compliance activities at DEUTZ AG. The individual business units and subsidiaries have their own compliance coordinators, who are responsible for compliance in their organisations and report regularly to the Compliance Officer.

Regular meetings are held to develop, discuss and coordinate compliance initiatives. These activities focus on preventing corruption, tackling money laundering and complying with export regulations. They also ensure safety in the workplace, IT & data security, corporate security and product safety. Another aim is to prevent breaches of environmental, antitrust and insider trading laws.

As and when needed, the Board of Management and the Compliance Officer take legal advice on establishing and continuously improving the compliance management system. The internal audit department reviews the activities, and the Audit Committee monitors them on behalf of the Supervisory Board.

The focal points for compliance during the year under review were the issuance of further major directives (bidding guidelines, foreign currency guidelines and funding policy) and the continuation of regular staff training that includes staff at affiliated companies abroad.

Another essential element of corporate management at DEUTZ AG is rigorous environmental and quality management.

Back in 2003, we voluntarily introduced an environmental management system, setting ourselves the objective of mitigating the possible impact of DEUTZ's business activities on the environment. An independent auditor from Deutsche Gesellschaft für Zertifizierung von Managementsystemen (DQS) audited the system again in 2012, confirming that it adheres to the international ISO 14001 standard. The renewed certification by DQS reinforces our commitment to implementing a variety of measures aimed at making a lasting contribution to the protection of the environment.

An independent auditor has monitored quality management at DEUTZ since we first obtained certification in 1993. DEUTZ AG structures all its processes – from development through to the delivery of engines – in accordance with the strict quality guidelines of ISO 9001. DQS again confirmed and certified our compliance with this standard in the year under review. The sustained high level of engine quality was therefore once again one of the outstanding factors in our success in 2012.

The current ISO 14001 and ISO 9001 certificates from DQS are published on the DEUTZ website. All standards set by the Deutsches Institut für Normung e.V., Berlin (DIN) can be inspected free of charge at DIN standards repositories.

CONFLICTS OF INTEREST AND CONSULTANCY AGREEMENTS

Please refer to the aforementioned Supervisory Board resolution dated 12 December 2012 regarding conflicts of interest affecting members of the Supervisory Board.

The Company does not have any consultancy agreements with members of the Supervisory Board.

The members of the Board of Management must also disclose any conflicts of interest to the Supervisory Board, which then reports these cases to the Annual General Meeting.

REMUNERATION REPORT

The remuneration paid to the Board of Management and Supervisory Board complies with the Act on the Appropriateness of Management Board Remuneration (VorstAG) and with DCGK recommendations. In accordance with section 15 (2) of DEUTZ AG's Statutes, the performance-related remuneration paid to the Supervisory Board consists of a traditional dividend bonus and therefore does not comply with the recommendation in the revised version of item 5.4.6 (2) sentence 2 DCGK, namely that the performance-related remuneration of supervisory board members should be oriented towards the sustainable growth of the enterprise. This exception and the reason for it form part of the latest declaration of compliance issued by DEUTZ AG's Board of Management and Supervisory Board on 12 December 2012. Please refer to pages 40 acc. 41 of the Management Report for a description of the main features of the remuneration systems for the Board of Management and the Supervisory Board valid until the end of the 2012 fiscal year as well as a description of the main features of the new remuneration system for the Board of Management valid as of 2013, which has been adapted to the German Act on the Appropriateness of Management Board Remuneration (VorstAG). The remuneration paid to individual members of the Board of Management and Supervisory Board is stated on page 96 acc. 97 of the Notes to the consolidated financial statements.

DEALINGS SUBJECT TO REPORTING REQUIREMENTS

Section 15a of the German Securities Trading Act (WpHG) states that members of supervisory and management boards of public limited companies (Aktiengesellschaften) and persons authorised to take key operational decisions must notify both the company and the German Financial Supervisory Authority (BaFin) of their own dealings in shares of the company or in financial instruments of the company based on such shares.

In 2012, no member of the Board of Management, or any other person required to do so, disclosed the purchase or sale of shares under this provision. Neither did any person required by section 15 WpHG to make such a disclosure do so before the adoption of the annual financial statements. Transactions disclosed in previous years are published on the DEUTZ AG website.

Because he resigned with effect from 25 September 2012, the existing disclosure requirement pursuant to item 6.6 DCGK regarding indirect share ownership by Dr Carozza as a Supervisory Board member no longer applied. As there was no other ownership subject to reporting requirements pursuant to item 6.6 DCGK, the total number of shares in DEUTZ AG held by all members of the Board of Management and other members of the Supervisory Board as at 31 December 2012 accounted for less than 1 per cent of the shares issued by the Company.

Where this corporate governance report refers to the Notes to the consolidated financial statements for further details of remuneration, the information disclosed therein forms part of the corporate governance report.

Glossary

Captive market/segment Market segment in which original equipment and commercial vehicle manufacturers have their own engine production facilities to meet their engine needs. Consequently, the captive market is not generally accessible to independent engine manufacturers.

Cash flow statement Shows the Group's inflows and outflows of cash over the financial year. It distinguishes between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. It also shows the change in cash and cash equivalents.

Common rail Injection system for diesel engines whereby all cylinders are supplied with fuel at constant pressure via a shared high-pressure fuel line. The advantages of common rail injection include better mixture formation in the cylinders, lower fuel consumption and lower emissions.

Compliance Denotes the entirety of measures taken by a company to comply with laws, regulations and directives and also to comply with contractual obligations and self-imposed obligations. Compliance is a key element of corporate governance

Convertible bond A bond that can be converted into the shares of the issuing company under certain conditions at a fixed conversion ratio and within a specified period.

Corporate governance Responsible management and control of a company with a view to long-term value creation and increasing shareholder value.

Covenants Ancillary provisions under loan agreements with which the borrower must comply during the term of the loan agreement. The provisions govern financial and other obligations and contain legal consequence clauses in the form of sanctions.

C parts Concept taken from supply chain management in which components are categorised as A, B or C parts depending on their value. A parts have a high financial value, B parts are of medium value, while C parts are small parts with a low value.

Deferred taxes Differences between the calculation of profit under tax law and under IAS result in differing tax calculations. These differences in the amount of tax are recognised on the balance sheet as deferred tax assets or liabilities.

Dual sourcing Procurement strategy in which one item is procured from two different suppliers in order to minimise the commercial risk.

DIN EN ISO 14001 (Deutsches Institut für Normung – European Norm – International Organization for Standardization – 14001) A German, European and international industrial standard for environmental management.

Diversity Procurement strategy in which one item is procured from two different suppliers in order to minimise the commercial risk.

Dual sourcing Procurement strategy in which one item is procured from two different suppliers in order to minimise the commercial risk.

DVERT® (DEUTZ Variable Emissions Reduction Technology) A combination of systems, components and procedures that are used as modules to create technically optimised and, at the same time, cost-effective solutions for reducing exhaust and noise emissions.

D&O insurance (directors and officers insurance) A liability insurance policy against financial loss taken out by a company to indemnify its directors and senior managers.

EAT component A component of an exhaust aftertreatment (EAT) system. An EAT system is made up of various system components such as DOC, DPF and SCR catalytic converters, supply modules, flexible elements, pipes and cables, which we refer to collectively as EAT components.

Earnings per share A key figure calculated by dividing the net income attributable to the shareholders of DEUTZ AG by the average number of shares in issue.

EBIT (earnings before interest and tax) Income from operating activities (before interest and tax).

EGR module A type of exhaust gas recirculation (EGR) system. EGR systems help to ensure compliance with strict emissions standards. In external, cooled EGR systems, all of the individual components (EGR valve, EGR cooler, EGR pipes and other small parts) are put together like building blocks to form a compact module, the EGR module.

EU Tier I, II, III A, III B, IV Exhaust standard laid down by the European Union for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

Exhaust aftertreatment Earnings before interest and taxes.

Emissions legislation Sets limits for certain exhaust gas constituents in engine-powered vehicles and equipment. Also specifies test procedures, implementation schedules and, in certain cases, transitional periods.

EU Tier I, II, III A, III B, IV Exhaust standard laid down by the European Union for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

Exhaust aftertreatment Ensures compliance with statutory emissions limits for gaseous pollutants such as nitrogen oxides (NOx) and soot particles through the cleansing of combustion exhaust gases. In vehicles, exhaust aftertreatment is achieved by the use of catalytic converters and diesel particulate filters.

Exhaust gas recirculation (EGR) Process for reducing the level of nitrogen oxides (NOx) in combustion exhaust gases. The process involves feeding exhaust gases back into the combustion space of the engine for combustion. The exhaust gas content in the fuel-air mixture results in a comparatively low combustion temperature in the combustion space and this, in turn, reduces the proportion of NOx in the exhaust gas.

Factoring Funding instrument whereby a company secures its short-term liquidity and transfers the default risk associated with receivables by selling trade receivables to a factor (the factor can be a bank or a specialist financial institution).

Forward Individually structured, non-exchange-traded forward transaction.

Free float The proportion of shares in a public limited company (Aktiengesellschaft) not held by a major shareholder. According to the Deutsche Börse definition, shareholdings of less than 5 per cent are classified as free float.

Hedging Hedging interest-rate, currency, price or similar risks through the use of derivative financial instruments that limit the risk associated with the underlying transactions.

Investment grade Credit rating for high-quality bonds.

Long-term incentive plan (LTI) A form of incentive-based remuneration offered to members of the Board of Management and selected senior managers; its purpose is to enable these executives to benefit from the company's long-term success, thereby encouraging them to stay with the company.

Non-captive market/segment Market segment in which original equipment and commercial vehicle manufacturers purchase engines from third-party manufacturers to meet their engine needs. The non-captive market is accessible to independent engine manufacturers.

On-road applications Engine-powered applications that are licensed for use on public roads such as commercial vehicles and buses.

Option Contract that, until the expiry date, gives the holder the right to buy – and the writer the obligation to sell – an underlying instrument (a security or a product/commodity) at an exercise price that has been fixed in advance.

Prime Standard The minimum standard set by Deutsche Börse AG for companies looking to raise capital from international investors. These companies have to meet stringent international disclosure requirements. Admission to the Prime Standard is a prerequisite for inclusion in the DAX, MDAX, TecDAX and SDAX indices.

Rating Used to assess the creditworthiness of a company. It gauges the extent to which the company will be able to repay the principal and interest on its outstanding liabilities at the agreed date.

Return on capital employed (ROCE) The ratio of EBIT to average capital employed. Capital employed: total assets minus cash and cash equivalents, trade payables and other current and non-current liabilities based on average values from two balance sheet dates.

SCR (selective catalytic reduction) Catalytic reduction of nitrogen oxides in the exhaust gas of combustion engines whereby the reducing agent – an aqueous urea solution – is injected into the exhaust gas. In the hot exhaust gas, the urea disintegrates to form ammonia, which converts the nitrogen oxide into harmless molecular nitrogen.

Six Sigma A statistical quality target and a method of quality management.

Soot and particulate filters Devices for reducing the particulates contained in the exhaust gases of diesel engines. There are two types of filter, which work in very different ways: wall-flow filters, in which the exhaust gas penetrates a porous wall; and flow filters, in which the exhaust gas flows through the filter itself.

Support production Outsourcing of the production of a certain quantity of a certain component due to the full utilisation of inhouse production capacity. The use of support production makes it possible to flexibly adjust the production volume of a certain component as required and without the need to expand inhouse capacity.

US EPA TIER 1, 2, 3, 4 US emissions standard for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

Working capital ratio Ratio of average working capital (inventories plus trade receivables minus trade payables) over four quarters to revenue for the last twelve months.

XETRA Stands for "Exchange Electronic Trading" and is the name given to the electronic dealing system run by Deutsche Börse AG (also known as screen-based trading).

DEUTZ GROUP: MULTI-YEAR OVERVIEW

	Continuing operations 2008	Continuing operations 2009	Continuing operations 2010	Continuing operations 2011	**Continuing operations 2012**
€ million					
New orders	1,363.5	842.3	1,315.0	1,479.3	1,237.1
Unit sales (quantity)	252,359	117,961	167,680	230,598	178,774
DEUTZ Compact Engines	219,681	102,420	150,179	204,161	161,899
DEUTZ Customised Solutions	32,678	15,541	17,501	26,437	16,875
Revenue	1,495.0	863.4	1,189.1	1,529.0	1,291.9
thereof excluding Germany (%)	75.6	76.6	80.8	81.9	82.0
DEUTZ Compact Engines	1,143.2	636.0	919.0	1,199.1	1,005.0
DEUTZ Customised Solutions	351.8	227.4	270.1	329.9	286.9
EBITDA [1]	81.8	–8.8	92.7	160.3	123.1
EBITDA (before one-off items) [1]	93.5	20.8	112.6	160.3	123.1
EBIT [1]	7.4	–89.2	22.3	91.2	38.5
EBIT (before one-off items) [1]	21.7	–46.3	42.2	91.2	38.5
EBIT margin (%)	0.5	–10.3	1.9	6.0	3.0
EBIT margin (before one-off items, %)	1.5	–5.4	3.5	6.0	3.0
Net income	–8.3	–124.0	–15.9	75.5	21.0
Continuing operations	–4.2	–119.8	–15.9	68.7	22.1
Discontinued operations	–4.1	–4.2	–	6.8	–1.1
Basic earnings per share (€)	–0.07	–1.03	–0.13	0.62	0.17
Continuing operations	–0.04	–0.99	–0.13	0.57	0.18
Discontinued operations	–0.03	–0.04	–	0.05	–0.01
Total assets	1,206.3	1,071.1	1,041.7	1,099.0	1,026.4
Non-current assets	539.7	539.4	591.5	623.1	621.3
Equity	511.3	379.2	374.3	453.5	480.1
Equity ratio (%)	42.4	35.4	35.9	41.3	46.8
Cash flow from operating activities before payment of compensation for vested company pension rights [2]	76.9	110.7	76.9	120.0	104.9
Cash flow from operating activities [2]	76.5	110.7	76.9	120.0	104.9
Free cash flow	–23.3	12.6	–55.9	4.8	12.6
Net financial position [3]	–12.2	2.9	–73.6	–69.6	–48.6
Working capital [4]	205.0	98.3	112.5	142.1	141.6
Working capital as a percentage of revenue (31 Dec., %)	13.7	11.4	9.5	9.3	11.0
Capital expenditure (excluding capitalisation of R&D, after deducting grants) [5]	66.0	48.8	56.9	41.1	66.4
Depreciation and amortisation	74.4	80.4	70.4	69.1	84.6
Research and development (after deducting grants) [5]	56.4	64.1	71.8	84.6	62.1
Employees (31 Dec.)	4,701	4,012	3,839	4,060	3,991

[1] Since 2009 the interest included in pension costs has been reported as part of staff costs rather than as net interest expense. The comparative figures of previous years have been restated accordingly to improve comparability.
[2] Since 2012 interest income has been reported as cash flow from financing activities rather than as cash flow from operating activities The comparative figures of previous years have been restated accordingly to improve comparability.
[3] Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities.
[4] Working capital: inventories plus trade receivables minus trade payables
[5] Since 2012 the key figures "capital expenditure" and "expenditure for research and development" have been reported after deducting grants. The comparative figures of previous years have been restated accordingly to improve comparability.

	Continuing operations 2008	Continuing operations 2009	Continuing operations 2010	Continuing operations 2011	**Continuing operations 2012**
Revenue by region (€ million)	1,495.0	863.4	1,189.1	1,529.0	1,291.9
Europe/Middle East/Africa	1,195.7	710.3	983.9	1,225.0	984.2
Americas	180.7	69.6	116.1	177.2	190.9
Asia-Pacific	118.6	83.5	89.1	126.8	116.8
Revenue by application segment (€ million)	1,495.0	863.4	1,189.1	1,529.0	1,291.9
Mobile Machinery	529.8	177.7	369.6	529.4	477.5
Stationary Equipment	259.3	153.0	175.8	227.9	204.2
Agricultural Machinery	195.8	162.9	185.0	240.5	152.5
Automotive	266.2	169.7	192.6	213.6	192.1
Service	212.0	175.0	215.8	241.6	250.3
Miscellaneous	31.9	25.1	50.3	76.0	15.3
Key figures DEUTZ shares					
Number of shares (31 Dec.)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Number of shares (average)	120,793,508	120,861,783	120,861,783	120,861,783	120,861,783
Share price (31 Dec., €)	2.38	3.39	6.25	4.11	3.54
Share price high (€)	7.60	3.70	6.38	7.22	5.72
Share price low (€)	1.85	1.59	3.15	3.23	2.96
Market capitalisation (31 Dec., € million)	287.7	409.7	755.4	496.7	427.9
Basic earnings per share (€)	–0.07	–1.03	–0.13	0.62	0.17
Continuing operations	–0.04	–0.99	–0.13	0.57	0.18
Discontinued operations	–0.03	–0.04	–	0.05	–0.01
Diluted earnings per share (€)	–0.07	–1.03	–0.13	0.62	0.17
Continuing operations	–0.04	–0.99	–0.13	0.57	0.18
Discontinued operations	–0.03	–0.04	–	0.05	–0.01

FINANCIAL CALENDAR

Date	Event	Location
19 March 2013	Annual Results press conference Publication Annual Report 2012	Cologne
19 March 2013	Analysts' meeting	Frankfurt/Main
30 April 2013	Annual General Meeting	Cologne
8 May 2013	Interim report 1st quartal 2013 Conference call with Analysts and Investors	
8 August 2013	Interim report 1st Half-Year 2013 Conference call with Analysts and Investors	
7 November 2013	Interim report 1st to 3rd Quarter 2013 Conference call with Analysts and Investors	

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