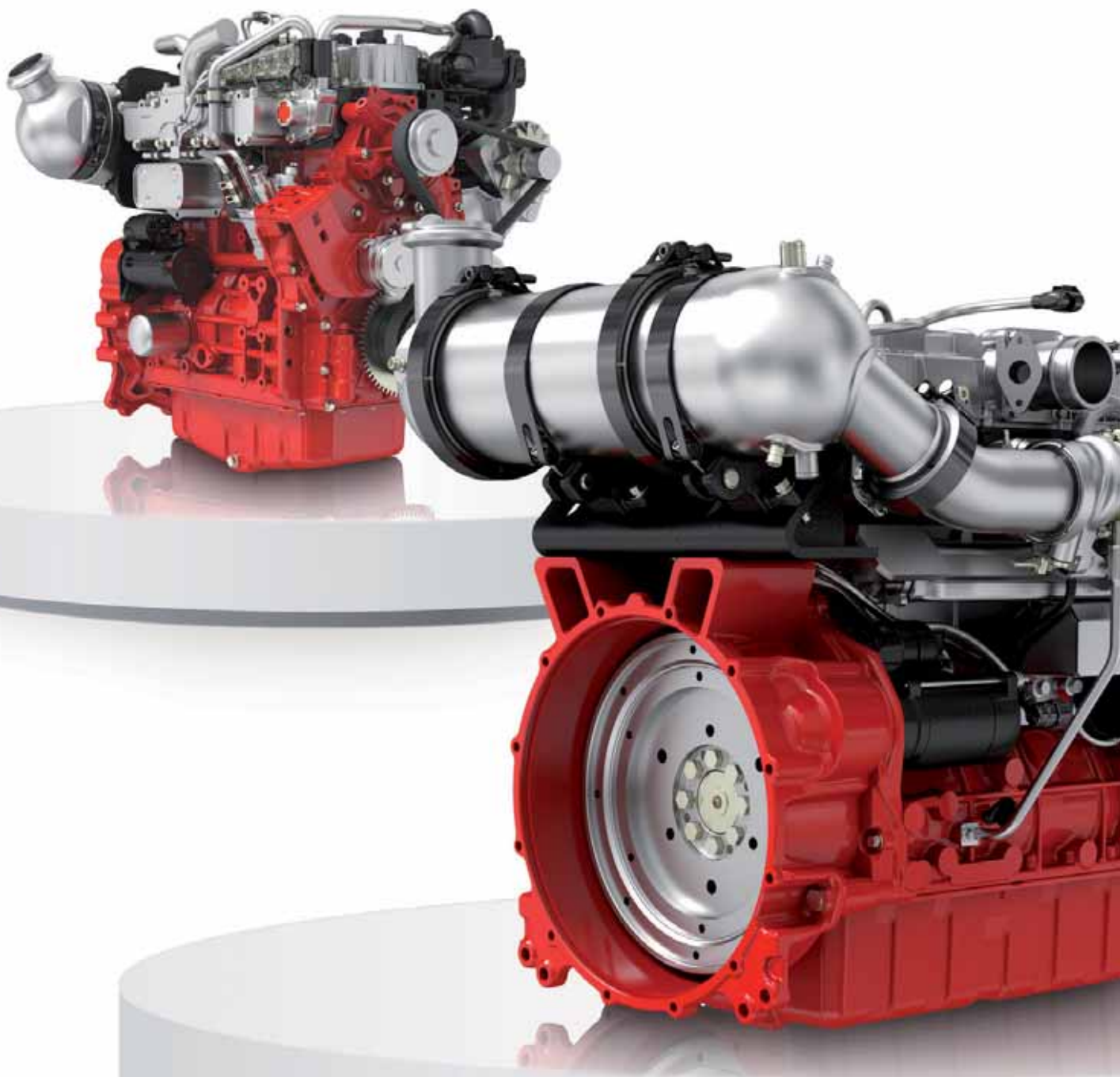


POWERING SUCCESS

Annual Report 2011



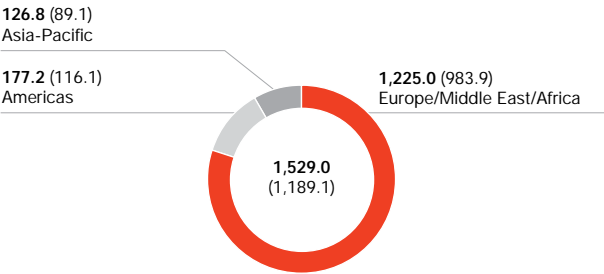
DEUTZ GROUP: KEY FIGURES

	Continuing operations 2011	Continuing operations 2010	Change in %
€ million			
New orders	1,479.3	1,315.0	12.5
Unit sales (quantity)	230,598	167,680	37.5
Revenue	1,529.0	1,189.1	28.6
thereof excluding Germany (%)	81.9	80.8	–
EBITDA	160.3	92.7	72.9
EBITDA (before one-off items)	160.3	112.6	42.4
EBIT	91.2	22.3	> 100.0
EBIT (before one-off items)	91.2	42.2	> 100.0
EBIT margin (%)	6.0	1.9	–
EBIT margin (before one-off items, %)	6.0	3.5	–
Net income on continuing operations	68.7	–15.9	–
Net income	75.5	–15.9	–
Earnings per share for continuing operations	0.57	–0.13	–
Basic earnings per share (€)	0.62	–0.13	–
Total assets	1,099.0	1,041.7	5.5
Non-current assets	623.1	591.5	5.3
Equity	453.5	374.3	21.2
Equity ratio (%)	41.3	35.9	–
Cash flow from operating activities	120.5	78.2	54.1
Free cash flow – continuing operations ¹⁾	4.8	–55.9	–
Net financial position ²⁾	–69.6	–73.6	5.4
Working capital ³⁾	142.1	112.6	26.3
Working capital as a percentage of revenue (31 Dec, %)	9.3	9.5	–
Capital expenditure (excluding capitalisation of R&D)	45.0	61.1	–26.4
Depreciation and amortisation	69.1	70.4	–1.8
Research and development	109.8	101.8	7.9
Employees (31 Dec)	4,060	3,839	5.8

¹⁾ Free cash flow: cash flow from operating and investing activities minus interest expense
²⁾ Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities
³⁾ Working capital: inventories plus trade receivables minus trade payables

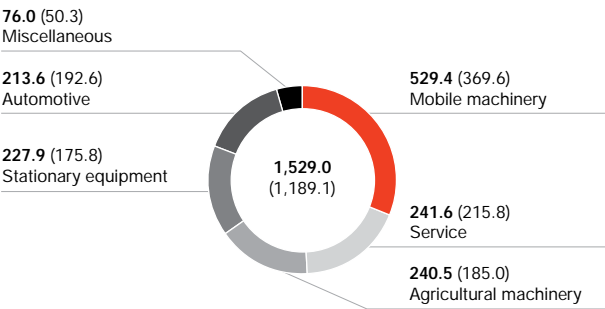
DEUTZ-Group: Revenue by regions

€ million (2010 figures)



DEUTZ Group: Revenue by application segment

€ million (2010 figures)



DEUTZ GROUP: MULTI-YEAR OVERVIEW

	Continuing operations 2007	Continuing operations 2008	Continuing operations 2009	Continuing operations 2010	Continuing operations 2011
€ million					
New orders	1,584.5	1,363.5	842.3	1,315.0	1,479.3
Unit sales (quantity)	285,861	252,359	117,961	167,680	230,598
DEUTZ Compact Engines	248,971	219,681	102,420	150,179	204,161
DEUTZ Customised Solutions	36,890	32,678	15,541	17,501	26,437
Revenue	1,524.2	1,495.0	863.4	1,189.1	1,529.0
thereof excluding Germany (%)	78.0	75.6	76.6	80.8	81.9
DEUTZ Compact Engines	1,186.0	1,143.2	636.0	919.0	1,199.1
DEUTZ Customised Solutions	338.2	351.8	227.4	270.1	329.9
EBITDA ¹⁾	149.7	81.8	-8.8	92.7	160.3
EBITDA (before one-off items) ¹⁾	149.7	93.5	20.8	112.6	160.3
EBIT ¹⁾	84.2	7.4	-89.2	22.3	91.2
EBIT (before one-off items) ¹⁾	84.2	21.7	-46.3	42.2	91.2
EBIT margin (%)	5.5	0.5	-10.3	1.9	6.0
EBIT margin (before one-off items, %)	5.5	1.5	-5.4	3.5	6.0
Net income	183.3	-8.3	-124.0	-15.9	75.5
Continuing operations	59.4	-4.2	-119.8	-15.9	68.7
Discontinued operations	123.9	-4.1	-4.2	-	6.8
Basic earnings per share (€)	1.56	-0.07	-1.03	-0.13	0.62
Continuing operations	0.51	-0.04	-0.99	-0.13	0.57
Discontinued operations	1.05	-0.03	-0.04	-	0.05
Total assets	1,378.6	1,206.3	1,071.1	1,041.7	1,099.0
Non-current assets	511.3	539.7	539.4	591.5	623.1
Equity	557.1	511.3	379.2	374.3	453.5
Equity ratio (%)	40.4	42.4	35.4	35.9	41.3
Cash flow from operating activities before payment of compensation for vested company pension rights	41.1	90.1	117.4	78.2	120.5
Cash flow from operating activities	-38.7	89.7	117.4	78.2	120.5
Free cash flow	-111.5	-23.3	12.6	-55.9	4.8
Net financial position ²⁾	89.7	-12.2	2.9	-73.6	-69.6
Working capital ³⁾	196.9	205.0	98.3	112.5	142.1
Working capital as a percentage of revenue (31 Dec., %)	12.9	13.7	11.4	9.5	9.3
Capital expenditure (excluding capitalisation of R&D)	143.5	69.9	52.9	61.1	45.0
Depreciation and amortisation	65.5	74.4	80.4	70.4	69.1
Research and development	55.8	90.3	104.6	101.8	109.8
Employees (31 Dec.)	4,617	4,701	4,012	3,839	4,060

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

³⁾ Working capital: inventories plus trade receivables minus trade payables

	Continuing operations 2007	Continuing operations 2008	Continuing operations 2009	Continuing operations 2010	Continuing operations 2011
Revenue by region					
(€ million)	1,524.2	1,495.0	863.4	1,189.1	1,529.0
Europe/Middle East/Africa	1,193.2	1,195.7	710.3	983.9	1,225.0
Americas	207.2	180.7	69.6	116.1	177.2
Asia-Pacific	123.8	118.6	83.5	89.1	126.8
Revenue by application segment					
(€ million)	1,524.2	1,495.0	863.4	1,189.1	1,529.0
Mobile Machinery	581.3	529.8	177.7	369.6	529.4
Stationary Equipment	258.8	259.3	153.0	175.8	227.9
Agricultural Machinery	163.7	195.8	162.9	185.0	240.5
Automotive	279.8	266.2	169.7	192.6	213.6
Service	203.5	212.0	175.0	215.8	241.6
Miscellaneous	37.1	31.9	25.1	50.3	76.0
Key figures DEUTZ shares					
Number of shares (31 Dec.)	120,085,030	120,861,783	120,861,783	120,861,783	120,861,783
Number of shares (average)	117,315,867	120,793,508	120,861,783	120,861,783	120,861,783
Share price (31 Dec., €)	6.95	2.38	3.39	6.25	4.11
Share price high (€)	12.02	7.60	3.70	6.38	7.22
Share price low (€)	6.82	1.85	1.59	3.15	3.23
Market capitalisation (31 Dec., € million)	834.6	287.7	409.7	755.4	496.7
Basic earnings per share (€)	1.56	-0.07	-1.03	-0.13	0.62
Continuing operations	0.51	-0.04	-0.99	-0.13	0.57
Discontinued operations	1.05	-0.03	-0.04	-	0.05
Diluted earnings per share (€)	1.52	-0.07	-1.03	-0.13	0.62
Continuing operations	0.50	-0.04	-0.99	-0.13	0.57
Discontinued operations	1.02	-0.03	-0.04	-	0.05

POWERING SUCCESS

DEUTZ can look back on a history of almost 150 years. Since we invented the internal combustion engine, we have been successfully building engines that are mobilizing the world.

DEUTZ combines a pioneering spirit, passion and innovative strength with the courage to seek continuous further development. Based on our newly formulated strategy, we aim to consolidate our position as a leading independent supplier of engine systems in the premium segment and continue to be the innovative force behind market-driven technologies, delivering success for both DEUTZ and our customers.

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FOREWORD

Dear Shareholder and Business Associates,

We have just emerged from an eventful yet successful year. Although there was a slowdown in the global economy, particularly in the second half of the year, we can state with a certain degree of pride that 2011 was one of the best in the history of DEUTZ.

Revenue increased by just under 29 per cent to more than €1.5 billion, which means that we managed to nudge past the existing record level in the current business structure set just a few years ago in 2007. Unit sales were around 38 per cent up on 2010 at more than 230,000 engines. Our operating profit (EBIT) at €91.2 million was more than double the corresponding adjusted figure for 2010. We also achieved an EBIT margin of 6.0 per cent, a milestone in the improvement of our profitability. Following the small loss recorded in 2010, we even managed to achieve net income of €75.5 million. The forecasts that we made at the start of 2011 and revised upwards during the course of the year were therefore achieved in full and, in some cases, exceeded.

We were only able to deliver such outstanding performance with the help of our motivated and competent employees. Their commitment and flexibility are ongoing contributing factors in the successful further development of our engines and the business as a whole. We would like to extend our sincere thanks for their valuable contribution. We would also like to thank our customers and suppliers for their trust and for their reliability and loyalty – we look forward to continuing to work with them all in the future.

Let us turn for a moment to the performance of your shares. The excellent fundamentals at DEUTZ and the upward revision in the profit forecast in August did not have a positive impact on the share price. During the first half of 2011, shares performed well and in July this resulted in a high for the year of €7.22 in the DEUTZ share price. Thereafter, capital markets were overtaken by increasingly gloomy sentiment with a negative impact particularly on shares from companies deemed to be cyclical, DEUTZ being a company in this category. The share price was therefore down at the end of the year under review. On a positive note, we were delighted that DEUTZ shares joined Deutsche Börse's MDAX on 19 September 2011. We are convinced that the shares will henceforward benefit from more liquid trading and greater market awareness of the shares.

Our activities in 2011 were also dominated by our product offensive and our focus on a new generation of engines. Our engines for the new EU Stage III B and US EPA Tier 4 Interim emissions standards are now going into, or will shortly be going into, full production. Particularly worthy of note are our two new smaller engines, TCD 2.9 L4 and TCD 3.6 L4, whose primary features are their compact design and significant power density, largely obviating the need for exhaust aftertreatment. The feedback from customers and the trade press has been very positive.

The expansion of our product base is just one of the key components in our re-formulated corporate strategy. Our vision states that we aim to offer the most successful engine systems in the world. As the 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. The other two components of future strategy are therefore to extend the customer base and to globalise the business. This is where our Asia strategy becomes important, because Asia, and particularly China, is the region that offers the greatest market growth and potential business for DEUTZ. All the more encouraging then that we were able to mark the start of the new financial year by announcing the formation of a company



Dr Ing Helmut Leube

Chairman,
responsible for Market,
Technical and Central Functions

Dr Margarete Haase

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

in China for the production of engines with a capacity of up to four litres. This is a logical, rational enhancement of our existing presence in the region. Further information can be found elsewhere in this report in the strategy section and in the details on events after the reporting period.

In view of the very successful year that we have just enjoyed, we are looking to the future full of confidence, although any forecast for 2012 is still subject to uncertainty. Nevertheless, we predict that, in 2012, we will reach the revenue and EBIT margin achieved in 2011 – supported by excellent performance in the service business and the increasing proportion of the fleet accounted for by new engines with and significantly more inherent value. As things stand, we are able to state with a clear conscience that, whatever happens, we are well equipped to face the future. Over the last few years, we have made huge reductions in our fixed costs and substantially increased efficiency, with the result that, today, we are able to respond even more flexibly to changing circumstances and remain profitable. In the medium term, we believe that our re-formulated corporate strategy will provide the basis for exploiting excellent opportunities for further profitable growth, above all in emerging markets.

To our shareholders, I would like to say thank you very much for your confidence. As it says in the motto for this year's annual report, in 2012 let's work together and keep "powering success"!

Kind regards from Cologne

A handwritten signature in grey ink, appearing to read 'Leube'.

Dr Ing Helmut Leube

A handwritten signature in grey ink, appearing to read 'Haase'.

Dr Margarete Haase

DEUTZ SHARES

In the year under review, trends in equities markets were heavily influenced by the European sovereign debt crisis and the associated looming economic worries. Nervousness in the markets was particularly evident in the very significant day-to-day fluctuations in European share indices and resulted in substantial share price corrections. Over the course of 2011, the DAX fell by 14.7 per cent, closing at 5,898.35 points on 31 December 2011 (31 December 2010: 6,914.19 points). In contrast, the Dow Jones, the leading US share index, closed the year at 12,217.56 points, up 5.5 per cent for the year.

DEUTZ SHARES: DOWNWARD PRESSURE FROM ECONOMIC WORRIES

The MDAX and Prime Industrial – the benchmarks relevant to DEUTZ – both took hits in 2011, as did the DAX. The MDAX, which included DEUTZ shares from 19 September onwards, fell by 12.1 per cent to 8,897.81 points. Back at the end of 2010, it had closed at 10,128.12 points. The Prime Industrial, which includes major German industrial companies, shrank by 17.6 per cent to 2,782.27 points. It had started the year at 3,377.74 points.

The performance of DEUTZ shares was very inconsistent over the course of 2011. The DEUTZ share price started the year at €6.25 and then climbed gradually over the first half of the year on the back of excellent fundamentals. It reached a high for the year of €7.22 on 8 July, thereby outperforming all relevant benchmarks. However, conditions on equities markets took a noticeable turn for the worse over the following months with shares considered to be cyclical coming under heavy pressure. Even though we upgraded our outlook for the whole of the year on 4 August 2011, DEUTZ shares were unable to escape the general downward trend. As a consequence, the share price dropped continuously and reached a low for the year of €3.23 on 23 November.

DEUTZ shares rallied a little towards the end of the year and finally closed at €4.11. This equates to a drop of 34.2 per cent over the year under review as a whole. As at 31 December 2011, the Company's market capitalisation amounted to €496.7 million (31 December 2010: €755.4 million).

Following the end of the financial year, the DEUTZ share price saw a further recovery and had climbed to €5.46 on 29 February 2012.

Key figures for DEUTZ shares

	2011	2010
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 (€)	4.11	6.25
Share price high (€)	7.22	6.38
Share price low (€)	3.23	3.15
Market capitalisation as at 31 December (€ million)	496.7	755.4
Earnings per share (€)	0.62	-0.13
Continuing operations	0.57	-0.13
Discontinuing operations	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 average number of DEUTZ shares in issue was 120.9 million. Basic earnings per share was therefore €0.62, thereof attributable to continuing operations €0.57. The figure for 2010 was a loss of €0.13 per share.

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

NO DIVIDEND PAYMENT FOR 2011

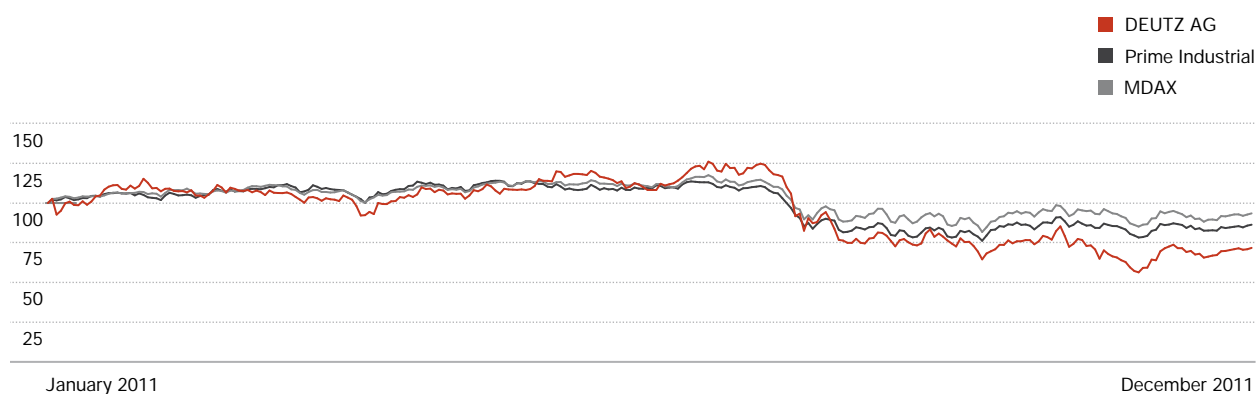
DEUTZ AG will not distribute any dividend for 2011. A dividend can only be paid if the accumulated income determined in accordance with the German Commercial Code (HGB) permits such a distribution. This was not yet the case in 2011. In future, we also plan to fund a significant proportion of our growth ourselves and continue to strengthen our balance sheet. We are convinced that, over the long term, our re-formulated strategy will help us to achieve substantial value added for our business and therefore also for our shareholders. See also the Strategy section on page 7.

NO CHANGES TO SHAREHOLDER STRUCTURE

The agricultural equipment manufacturer SAME DEUTZ-FAHR remains the largest shareholder in DEUTZ AG even though it had previously scaled back its holding from 44.97 per cent to 25.11 per cent at the end of 2010. The second-largest individual shareholder, Sweden's AB Volvo Group, continues to hold 6.7 per cent of shares. We also have a broadly diversified range of private and institutional shareholders, both in Germany and abroad.

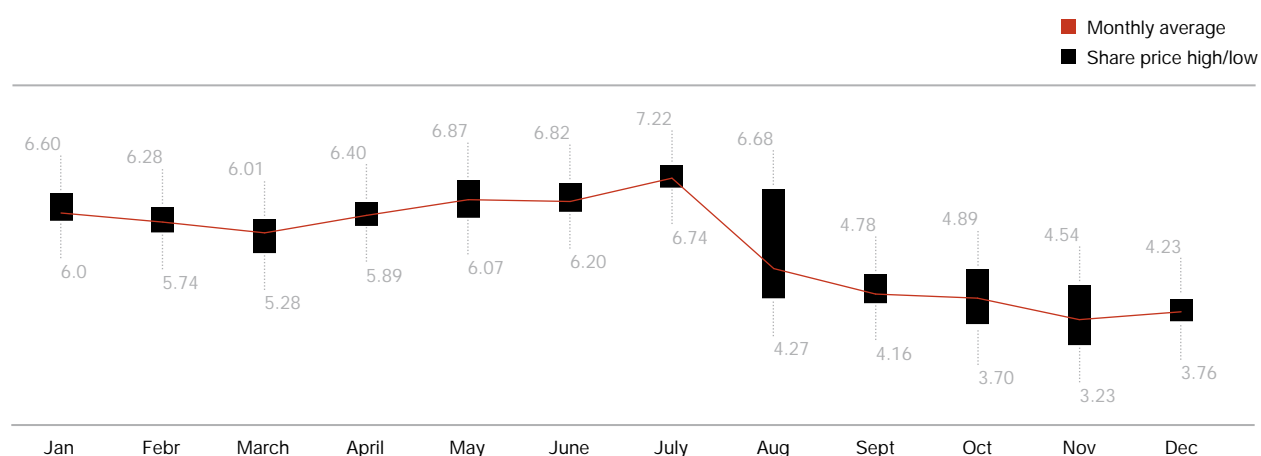
Price performance of DEUTZ share in 2011

in %



DEUTZ share price high and low for 2011

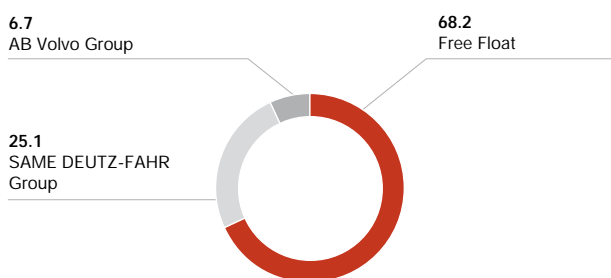
in €



The higher proportion of free float shares (68.2 per cent) that resulted from the sale of shares by SAME DEUTZ-FAHR ensures that there is a sufficient degree of liquidity in trading of the shares. This also helped to satisfy one of the key criteria for the inclusion of DEUTZ shares in the Deutsche Börse MDAX on 19 September 2011. Since then, our shareholders have been able to enjoy the benefits of even greater trading liquidity and enhanced market awareness of the shares.

Breakdown of shareholders as at 31 December 2011

in %



INVESTOR RELATIONS ACTIVITIES STEPPED UP AGAIN

We ensure that we inform all capital market players transparently, comprehensively and in detail about our current performance and corporate strategy. 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.

The DEUTZ annual financial statements for 2010 were presented at our annual analysts' meeting held on 18 March 2011 in Frankfurt. When our interim reports were released, we held conference calls to discuss our business performance and strategic matters with interested parties from the capital markets. Investor relations activities were stepped up yet again in connection with the inclusion of DEUTZ shares in the MDAX. In 2011, we were involved in a total of 13 roadshows and investor conferences in Germany, the United Kingdom, France, Switzerland and the United States. We also met personally with a large number of analysts, institutional investors and private investors.

TWELVE ANALYSTS MONITOR DEUTZ SHARES

At the end of 2011, twelve analyst reports on DEUTZ shares were available. The following banks and securities houses currently watch our shares: Bankhaus Lampe, Berenberg Bank, Commerzbank, Deutsche Bank, DZ Bank, Goldman Sachs, HSBC Trinkaus & Burkhardt, Kepler Capital Markets, Solventis Wertpapierhandelsbank, UBS, Viscardi Securities and WestLB.

Further information on this subject and all other topics 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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STRATEGY

For DEUTZ, 2011 was one of the best years in its history. We significantly reduced our fixed costs, increased our efficiency hugely and thoroughly overhauled our processes. The task now is to build on this commercial success and turn our vision – “We supply the most successful engine systems in the world” – into reality. Our updated and revised strategy is therefore based on three pillars. Firstly, we intend to expand our customer base and generate profitable growth. Secondly, we will broaden our product base with products at the cutting edge of technology. The third pillar is globalisation and internationalisation.

CORPORATE MISSION STATEMENT

We supply the most successful engine systems in the world – that is our vision which we have continued to develop over the past year as part of our ongoing strategic work. In 1864, DEUTZ became the world's first engine manufacturer ever and we intend to remain “No. 1” when it comes to customer benefit, quality, technology and everything to do with engine system and service solutions; and, not least, we intend to remain No. 1 in the market.

As the 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. We want our products and services to generate maximum customer satisfaction and offer our customers the best possible cost-benefit ratio.

In order to achieve these ambitious aims in practice, we have also, in addition to this vision, set out new corporate principles, together with principles applicable to management and collaborative work, representing basic values which are binding both on us as a company and on every single employee.

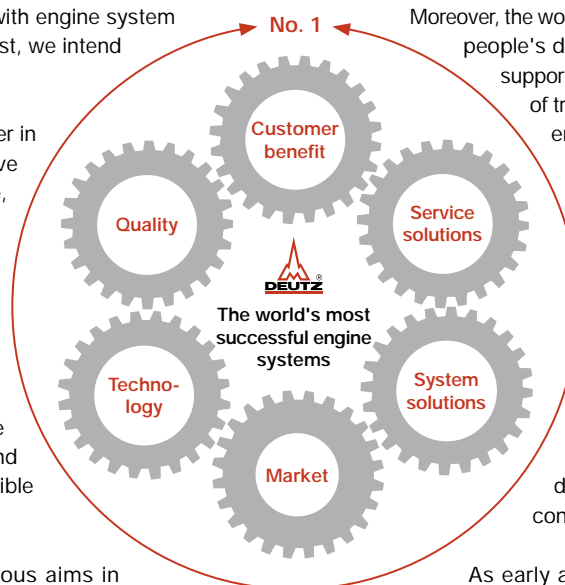
GLOBAL MEGATRENDS DRIVE ENGINE GROWTH

The world's population continues to grow. Combined with increasing prosperity, this is leading to a requirement for greater food production and to the unceasing industrialisation of agriculture. At the same time, the trend towards urbanisation and the associated investment in infrastructure continues unabated.

Moreover, the world keeps getting smaller. Globalisation, people's desire for mobility and the logistics to support the flow of goods require more means of transport. These global megatrends are encouraging the further growth of the global engine market, especially in the emerging markets.

On the other hand, resources are becoming scarcer. What follows is the imposition of ever more environmental and climate change regulations in practically every industrialised country and in the emerging markets. This, in turn, provides the spur for technological development to improve efficiency and conserve resources.

As early as the end of the 1990s, emissions legislation became the major technology driver in the diesel engine market, both for on-road and off-road applications. The technical requirements have been continuously raised. The introduction of the current emissions standard III B in the EU and



EPA Tier 4 Interim in the USA¹⁾ has meant that emissions limits can no longer be achieved by in-engine measures, at least not for the higher power categories. The consequences are:

- for the engine system: the engine will be supplemented by exhaust aftertreatment. In future, it is the engine system, consisting of the engine and the exhaust aftertreatment system, which will be developed, tested, certified and sold.
- for structural growth: engine systems will have considerably more inherent value and be more complex than their respective predecessors. This will lead to structural growth.

As a leading technology company, we are tackling the challenge posed by emissions legislation. In addition to lower exhaust and noise emissions, all DEUTZ engines which meet the new emissions standard enjoy considerably improved performance, lower fuel consumption and reduced lifecycle costs. Emissions legislation in the emerging economies is generally only one step behind.

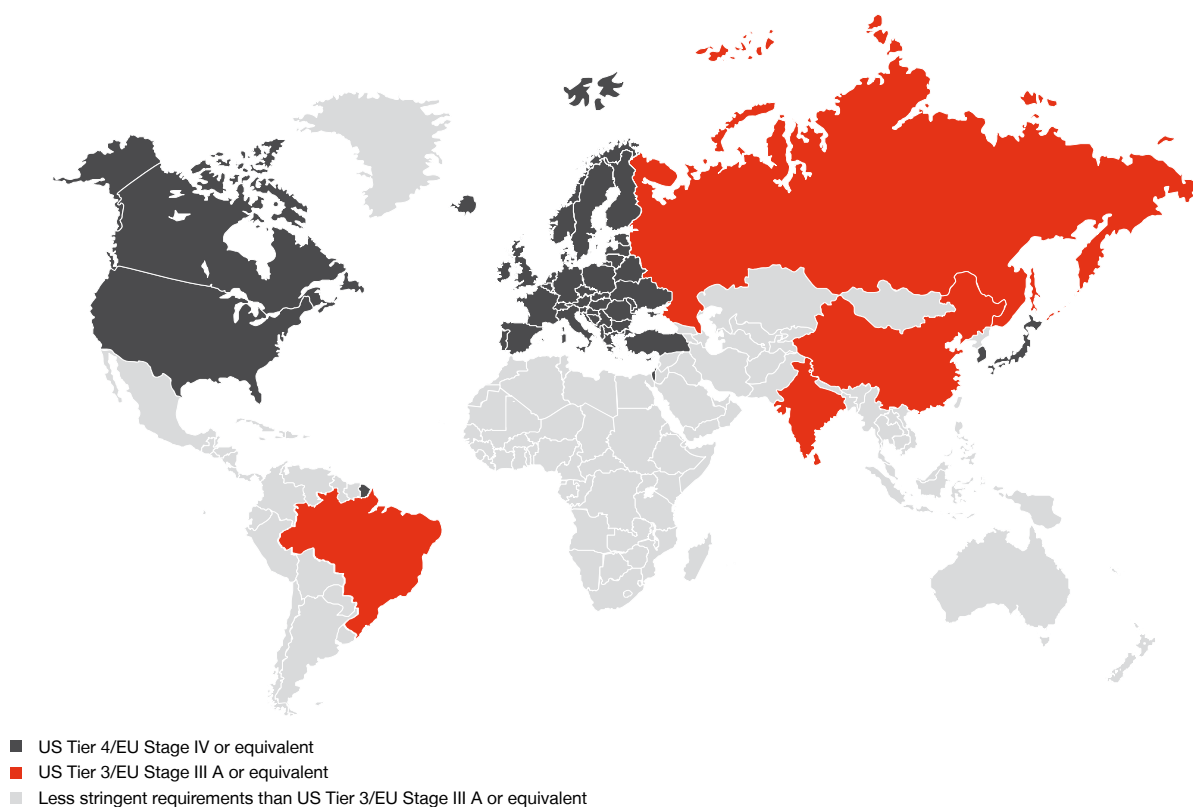
We are convinced that the combustion engine will remain the source of independent motive power, keeping the world on the move and thus contributing to our customers' success. In other words: powering success!

¹⁾ The emissions standards III B for Europe and Tier 4 Interim for the USA, covering the 56 – 130kW power range, came into force on 1 January 2012.

Environmental and climate protection – emissions legislation

NRMM (Non-Road Mobile Machinery) in 2016

DEUTZ AG's expectations for future global emissions legislation



DEUTZ has emerged from the economic crisis with renewed strength. We have significantly reduced our fixed costs, increased our efficiency hugely and thoroughly overhauled our processes. Particular attention has been paid to keeping our structures and costs flexible. The task now is to build on the commercial success enjoyed in the year under review and to further improve profitability.

Having overhauled and refined our strategy, we are now ready to meet the future on three fronts.

→ Firstly, by expanding our customer base and through profitable growth. We are growing our agricultural machinery business, strengthening our market position in Asia, predominantly in

China, and, as a result, putting our business on a more stable economic footing. We are also optimising our service and sales operations.

→ Secondly, by broadening our product base with products at the cutting edge of technology. We are replacing and improving our diesel engines and developing low-emission drive systems. We are adding system solutions and an extended range of services to our portfolio.

→ Thirdly, through globalisation and internationalisation. We intend to make our operations more international by networking and centrally coordinating our local development, procurement, production and logistics activities.

Strategic programme for 2011–2020

We supply the most successful engine systems in the world



Information with SCH

- Brennstoff-Regeneration ohne Betriebsunterbrechungen unter allen Betriebsbedingungen
- Bunker-Regeneration ohne Betriebsunterbrechungen unter allen Betriebsbedingungen

For 4 Interim: TCD 4.1 L4

TCD 6.1 L6

TCD 7.8 L6



- Engine performance improved by up to 25%
- Average fuel consumption up to 10% lower

4 Interim: TCD 4.1 L4*

TCD 6.1 L6*

TCD 7.8 L6*

TCD 10.0 V8

TCD 16.0 V8

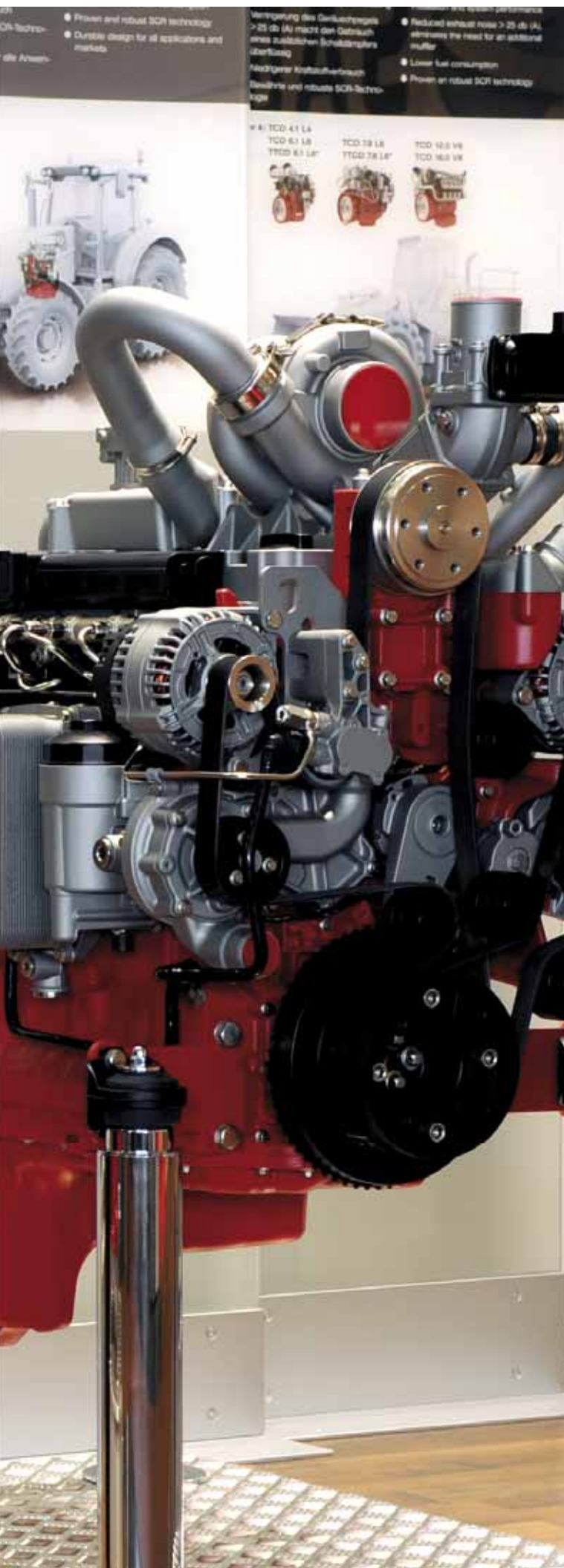


Information with SCH

- Bestwerte und robuste Bauteile
- Langlebige Bauteile für langen und hohen Einsatz

For 4: TCD 3.6 L4





"Good customers relationships are based not only on a first-class product but also on comprehensive back-up over the product's entire service life."

Irmela Friedrich
Sales and Service employee

EXPANDING OUR CUSTOMER BASE

GROWING THE ASIA BUSINESS

We see Asia, and China in particular, as having the greatest market growth and business potential. Our existing international engineering customers are investing strongly in the Asian market in order to participate in the region's growth. They are either opening up local production facilities, taking over local manufacturers or entering into collaborative arrangements. In addition, there are increasing numbers of local equipment producers who would like to position themselves as premium manufacturers, who are often pursuing international ambitions and, for this reason, are interested in high-end diesel engines. This produces business opportunities for all our major application areas: Automotive, Mobile Machinery, Agricultural Machinery, Stationary Equipment and Service.

Our joint ventures in China are already allowing us to take advantage of this potential to a significant and increasing degree. One example is our DEUTZ (Dalian) Engine Co. Ltd. joint venture in Dalian with the First Automotive Works (FAW) Group, a leading Chinese vehicle manufacturer, for the production of three to eight litre diesel engines. After the end of the financial year, we announced the establishment of another company, DEUTZ Engine (Shandong) Co., Ltd. in Linyi in China, for the manufacture of diesel engines of up to four litres cubic capacity. We hold a 70 per cent stake together with our partner, the Shandong Changlin Machinery Group Co., Ltd., a major and fast-growing Chinese manufacturer of construction equipment and tractors. A further

bonus is that these partners are, at the same time, significant customers of our joint ventures. In addition, there is also our long-term WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO., LTD. joint venture in Weifang in China with Weichai Power, the Chinese engine manufacturer, for the production under licence of the 226B engine which has a broad range of applications. We are well placed, with these activities, to participate in the growth of the Chinese market and to acquire further market share.

Moreover, we also see further potential in expanding our Asian business, whether in China, India or other Asian countries, in order to extend our customer base in this growth region.

STRENGTHENING OUR MARKETING ACTIVITY

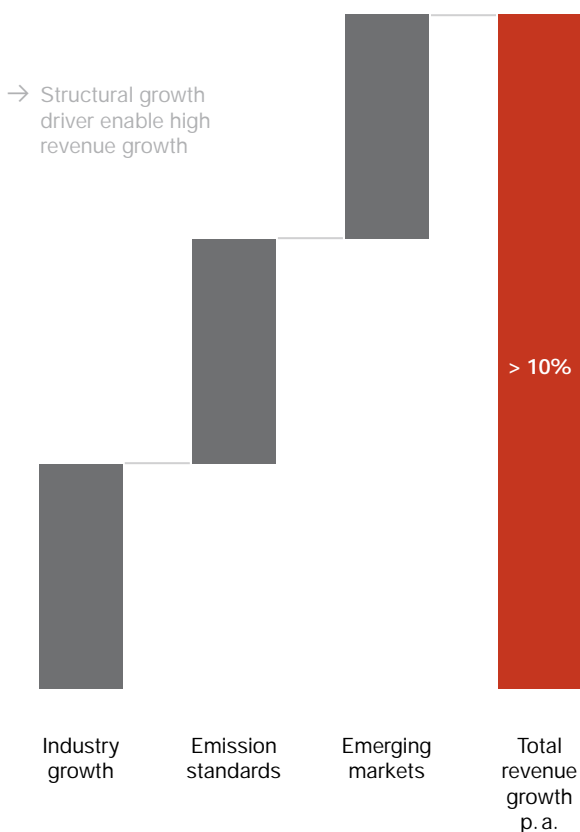
We have intensified our marketing activities so as to advertise the numerous benefits offered by our products: greater power density, more compact installed dimensions, a superior exhaust aftertreatment design, lower lifecycle costs, installation support more precisely tailored to individual customer requirements, the legendary longevity of our products and much more.

For all the technical advantages of our products, it is clear that we need to systematically research our market potential and exploit it in a professional manner. To this end, we have overhauled our sales and marketing structures and improved our sales support. The status of our customer projects is rigorously recorded, updated and reported. As a result, we are confident that our new products and more intensive marketing activities will win us new customers and new applications.

Our main strategic focus here will be on agricultural machinery in order to better compensate for capacity fluctuations in mobile machines which is our biggest application area.

Structural growth driver for DEUTZ

Expected annual revenue growth 2011–2016





EXPANDING THE SERVICE BUSINESS

At present, we have a global service network with its own service companies, service centres and some 800 service partners. Our activity is mainly focused on rounding off our global network coverage and in managing, developing and supporting our dealers. So as to reinforce the existing expertise within the DEUTZ service network, we are running training and skills upgrading courses, particularly in view of the considerably more complex engine technologies such as the electronic control equipment and exhaust aftertreatment systems which are now coming onto the market. As engine complexity increases, this also raises the entry barriers for third-party engine servicing and repair companies.

To this extent, we see good opportunities for increasing our market share of the service business for all the engines currently in use and we are confident that we have already taken the right steps in this direction. The considerable growth in our service business in the last two years and the results of the numerous service projects as part of "Move Fast" underline this assessment.

"We offer a comprehensive range of services, for a truly one-stop solution."

"We've always built the best engines in the world. They shouldn't be, in future, built the best yet in the world?"

Dietmar Ciolka
Exhaust metering service employee

BROADENING THE PRODUCT BASE

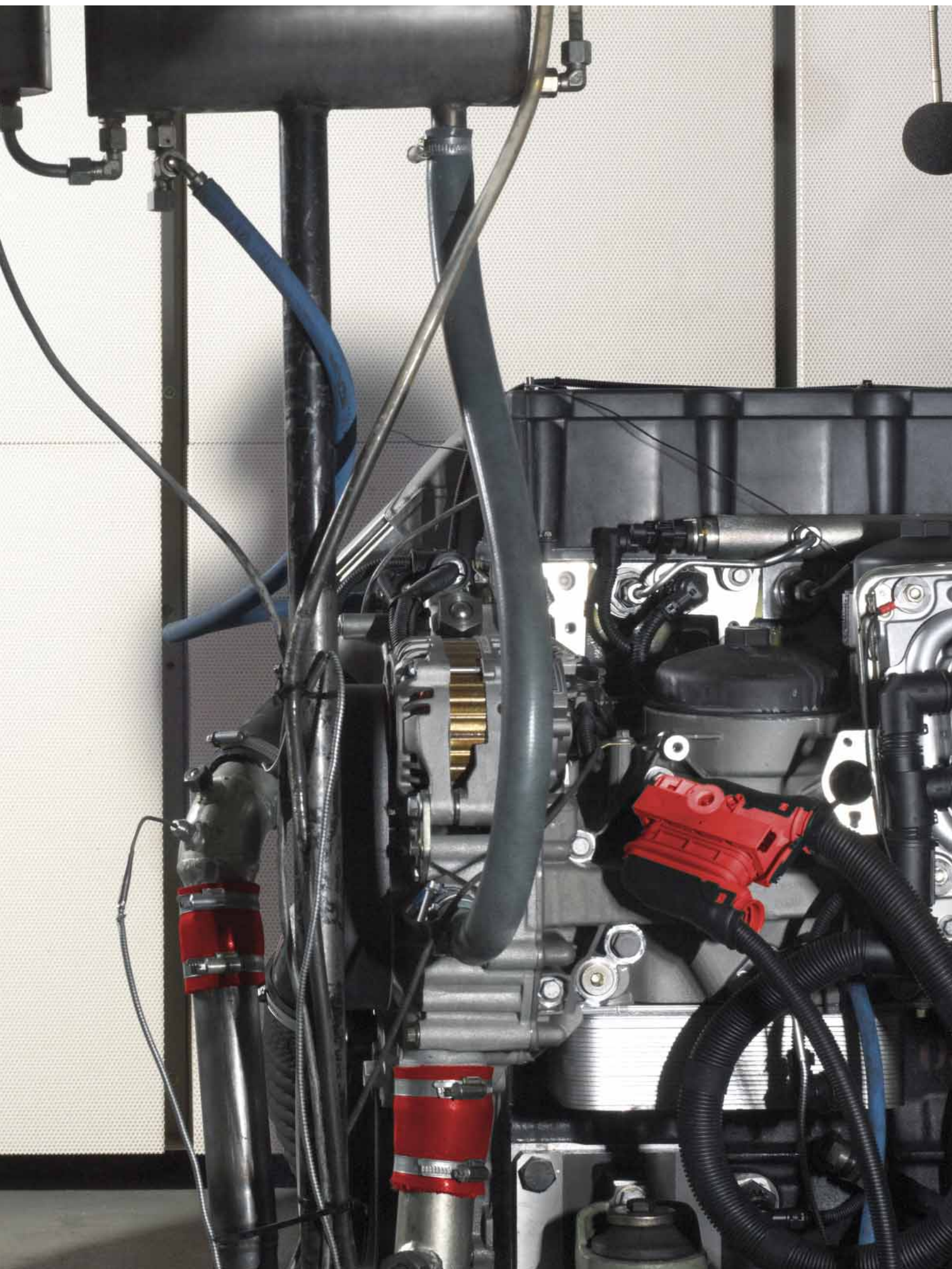
EXTENDING AND OPTIMISING THE ENGINE RANGE

To comply with the introduction of the Tier 4 (Interim and Final) exhaust emissions standard, we have thoroughly overhauled our engine portfolio. 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 engine designations – 2.9, 3.6, 4.1 / 6.1, 7.8 and 12.0 / 16.0 – stand for their respective cubic capacities. Our platform strategy and the options for electronic engine management have considerably reduced the number of different components.

This year, our main concern will be the ongoing development projects for the new range of engines in the less than four litre cubic capacity category and the market launch of the two new TCD 2.9 and TCD 3.6 engines. The main features of these engines are their compact design, high power density and only minimal exhaust aftertreatment requirement, resulting in clear differentiation from the competition. The customer response to these totally new engines has been very positive.

The market launch of the other Tier 4 Interim engines was either completed in the year under review or is currently being implemented. Compared with their predecessors, we were able to significantly improve both the power density and the fuel consumption of every engine model by 5 to 10 per cent.





The development work for the basic 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. Other development activities essentially cover exhaust aftertreatment systems and further performance improvements as regards power output, fuel consumption and maintenance intervals.

"Our low-emission engines make a positive contribution to pollution control."

EXPANDING THE PRODUCT PORTFOLIO BY OFFERING SYSTEM SOLUTIONS

We also intend to round off our product portfolio by adding system solutions. This sees us following the trend towards combining individual subsystems into an efficient integrated system. It will be achieved through the optimum coordination and standardised electronic control of individual components.



Low-emission drive systems are being implemented at several production sites

In view of the growing requirements for fuel-saving and thus low CO₂ drive solutions, designing the engine and the machine to form an integrated system will increasingly become a priority in future. As a manufacturer of engines and of their major system components, DEUTZ is particularly well placed to offer integrated system solutions, from standardised solutions for smaller machine manufacturers to individual systems integration for larger installation customers. Because of our application expertise, we are recognised as leaders in this market; and we will extend our know-how still further.

Emissions legislation has made it absolutely essential to expand our product range to include exhaust aftertreatment systems. Consequently, over recent years, we have extended our development and application expertise well beyond the diesel engine. Our 25 per cent shareholding of Bosch Emission Systems GmbH & Co. KG means that we are now directly involved in the growing exhaust aftertreatment systems segment.

EXTENDING AND OPTIMISING OUR RANGE OF SERVICES

Our high-margin service business essentially consists of sales of spare parts and remanufactured engines. The latter operates under the brand name of DEUTZ Xchange and promises a level of quality equal to that of a new engine. In addition, we are also increasingly using our service logistics for sales of near-engine mounted equipment components and service fluids; we intend to expand this business further over the next few years.

Broadening the product range to include system solutions is also generating new service business. The first step is to incorporate exhaust aftertreatment system components into the product portfolio. This also includes a diesel particulate filter cleaning service for which we shall develop a range of reconditioned items.

DEUTZ engines are powering a range of applications



Tier 4 interim/Tier 4: TCD 2.9 L4
Tier 4 interim: TCD 3.6 L4

- 15 per cent more power than comparable Tier 3 engines
- Up to 10 per cent lower average fuel consumption
- A maintenance-free, compact, integral EAT system



Tier 4 interim: TCD 4.1 L4,
TCD 6.1 L6, TCD 7.8 L6

- Up to 25 per cent more power than corresponding Tier 3 engines
- Up to 5 per cent lower fuel consumption
- A compact EAT system and easy-to-install variants
- Suitable for "Green Zones"
- Burner regeneration without affecting engine functions under all operating conditions



Tier 4 interim: TCD 4.1 L4*,
TCD 6.1 L6*, TCD 7.8 L6*,
TCD 12.0 V6, TCD 16.0 V8
*agricultural machinery engines only

- Particularly clean, over 90 per cent efficient EAT system
- Maintenance-free urea dosing system
- Up to 8 per cent improved engine performance
- Up to 5 per cent lower average fuel consumption



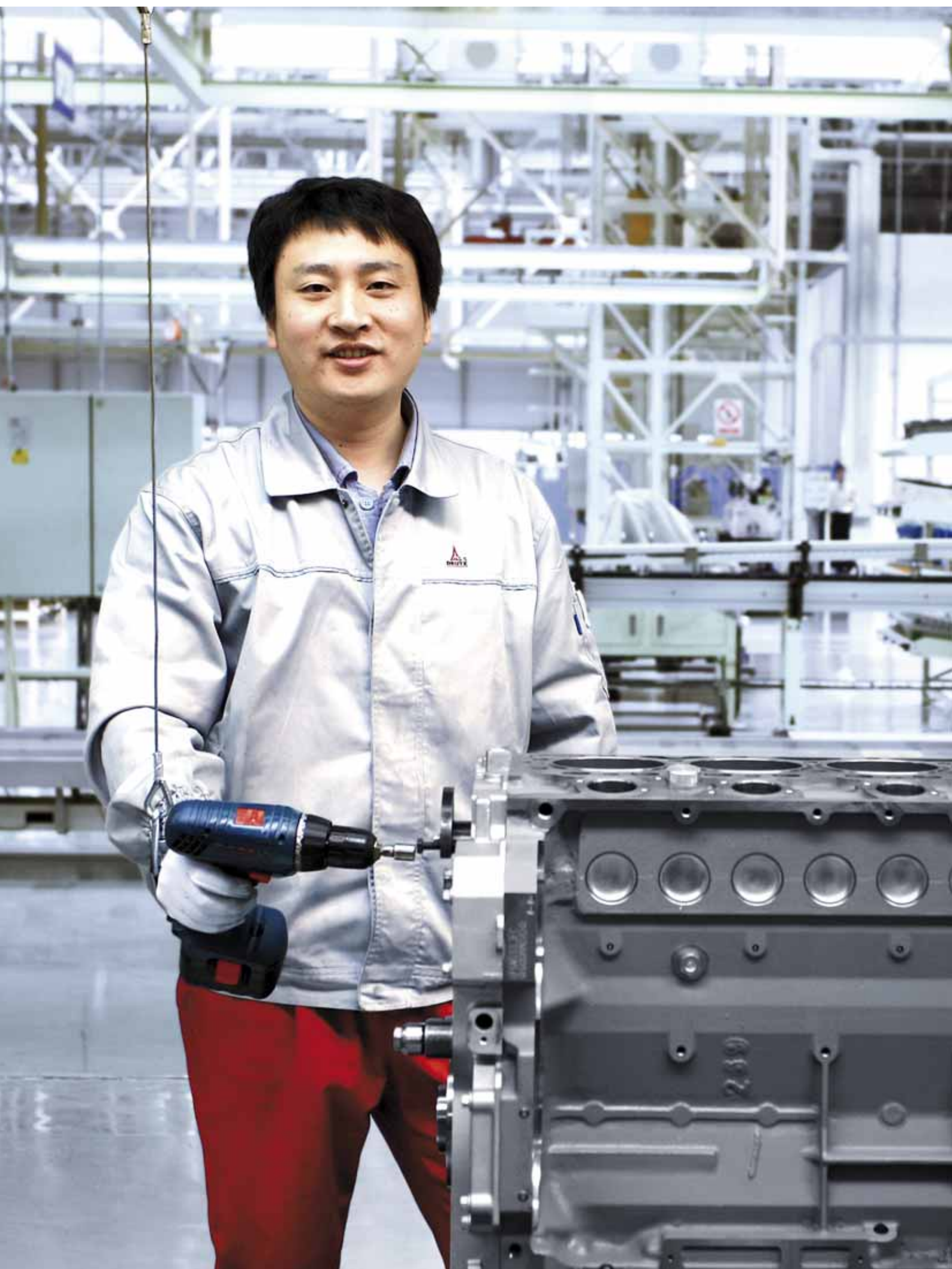
Tier 4: TCD 3.6 L4

- Up to 10 per cent greater power and more torque
- Reduced noise level and lower fuel consumption
- Well-proven, robust SCR technology
- Durable construction for all applications and markets



Tier 4: TCD 4.1 L4,
TCD 6.1 L6, TTCD 6.1 L6*,
TCD 7.8 L6, TTCD 7.8 L6*,
TCD 12.0 V6, TCD 16.0 V8

- Easy-to-install controlled EAT system with optimised system performance
- Noise level reduction of more than 25 db (A) means there is no need to use an additional silencer
- Lower fuel consumption
- Well-proven, robust SCR technology





"I'm delighted at this close international dialogue. We can definitely learn a lot from each other."

Ma Yongpeng
Employee engine assembly

GLOBALISATION / INTERNATIONALISATION

The globalisation and internationalisation strategy pursued by the DEUTZ Group is recognition that the main market focus has shifted and that the trend is increasingly towards basing production nearer to the customer.

Against this background, we want to create structures in the three major economic areas of Europe, America and Asia, which also coordinate local development, procurement, production and logistics activities in addition to their current sales, marketing and service activities.

Management of these regionally-oriented structures will be exercised by a Group head office organised on functional lines. The aim is also to link the existing joint ventures more closely than before into the DEUTZ network. Greater flexibility, closer interlinking and coordination plus the creation of a standardised IT infrastructure are the priorities here.

INTERNATIONAL PRODUCTION NETWORK

At present, the DEUTZ Group production sites are tightly concentrated within Europe. In addition, there is an engine remanufactured plant in the USA. After the end of the financial year, we also announced the establishment of the DEUTZ Engine (Shandong) Co., Ltd. in Linyi, a production company in China in which we hold a majority stake, for the manufacture of diesel engines of up to four litres cubic capacity. We also have a stake in two other joint ventures in China and a joint venture in Argentina, each of which produces diesel engines and which are consolidated using the equity method.

As regards the broadening of our customer base, we also intend in future to set up assembly facilities in the regions close to our customers. This means that interlinking and coordinating the production sites will play an increasingly important role. The new sites will predominantly buy in components either from the production network or from existing suppliers.

In addition to supplying production parts from Germany to our international plants, our Chinese joint venture, DEUTZ (Dalian) Engine Co., Ltd., already acts today as a production support company for crankcases, cylinder heads and camshafts for our Cologne assembly plant.

INTERNATIONAL DEVELOPMENT NETWORK

At present, in addition to the central research and development department in Cologne, the DEUTZ network also includes three other development sites: the development centre operated by our DEUTZ (Dalian) Engine Co., Ltd. joint venture in China, the DEUTZ design company in Maribor, Slovenia and the application centre at the DEUTZ Corporation in Atlanta, USA.

"Our regional production sites and local installation advisory service strengthen customer focus."

In order to broaden our customer base, further development sites will be added, especially in Asia; they will collaborate closely with the existing sites and in particular with the development headquarters in Cologne. This will allow us to locate both application development and support for current series production as close as possible to our markets and our customers. This will then allow the local development sites to develop engines to match relevant market applications and to provide ongoing technical support while fundamental development work is carried out at a central location.

INTERNATIONAL PROCUREMENT NETWORK

Establishing an international procurement network is closely linked to the networking of the production sites. Our strategic objective is to establish an international, process-enabled supplier network of systems suppliers and strategic partners. This, too, should be set up on an international basis and capable at short notice of supplying all our production sites, including those outside Germany, in exactly the same way.



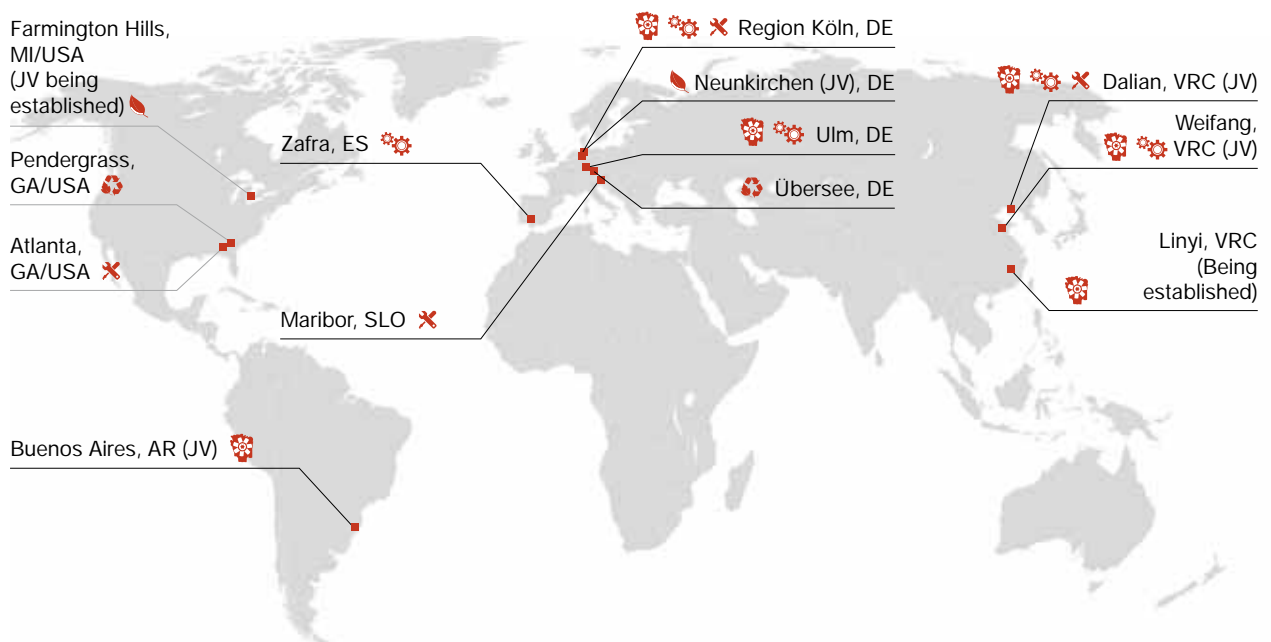
To this end, we have established purchasing offices in the three major economic areas of Europe, America and Asia which have the necessary regional knowledge as regards quality, procurement and logistics and which also possess an adequate level of basic technological expertise. These purchasing offices are centrally controlled but are responsible for selecting and appraising suppliers and for developing and enhancing supplier capabilities in their respective regions. As far as possible, we will also link our joint ventures into this network.

INTERNATIONAL LOGISTICS NETWORK

Global market developments and our company's continuing international orientation pose new logistic challenges. We need to maintain high-quality and highly flexible processes at competitive prices.

As part of our integrated logistics strategy, we are establishing a central supply chain management system as the link between our sales and marketing areas and the production and procurement network. Its core feature is centralised demand and capacity management for optimum network utilisation.

Production and development network



Engine assembly
 Component plant
 Development
 Reconditioned engine
 Exhaust-gas aftertreatment



Location Ulm, Germany



Location Pendergrass, USA



Location Zafra, Spain

HIGHLIGHTS OF 2011

- Unit sales of engines increase by 38 per cent
- Revenue up by 29 per cent to more than €1.5 billion – a new record in the current business structure of DEUTZ
- EBIT reaches €91.2 million, more than double the adjusted 2010 figure; EBIT margin of 6.0 per cent, a milestone in efforts to increase profitability
- Net income on continuing operations stands at €68.7 million
- New generation of engines compliant with the Stage III B and Tier 4 Interim exhaust emissions standards prove highly popular in the marketplace

GROUP MANAGEMENT REPORT 2011

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OVERVIEW OF 2011

DEUTZ ENGINES – AIMING TO KEEP THE WORLD ON THE MOVE

Slower growth in the global economy The recovery phase in the global economy, which had begun at the start of 2010, eased off during the course of 2011. The first six months of the year were excellent, but looming economic concerns were having an adverse impact on markets by the end of the year. Nevertheless, the global economy grew by 3.8 per cent for the year as a whole, driven by strong sustained growth in the emerging markets. Even in Germany, the main pillar of the euro zone, sentiment became rather gloomy at the end of the year; the economy still grew by 3.0 per cent however.

One of the best years at DEUTZ In sharp contrast to the general economic conditions, DEUTZ AG was able to deliver one of the best years in its corporate history. The forecasts, which were revised upwards during the course of the year, were achieved in full and in some cases exceeded: revenue rose to more than €1.5 billion, a record level in the current business structure; unit sales reached more than 230,000 engines and the EBIT margin hit 6.0 per cent, a milestone on our path to profitable growth. Factors contributing to these excellent figures also included our MOVE programme, which showed its full effect in 2011, and the MOVE FAST programme.

DEUTZ shares join the MDAX One of the highlights of the past year for DEUTZ as a listed company was the inclusion of its shares in the MDAX, a Deutsche Börse index comprising the 50 shares that rank immediately below the companies in the DAX index. The membership of the MDAX since 19 September 2011 is a vindication of our efforts and is certain to bring further improvement in trading liquidity and greater awareness of our shares.

Very good capacity utilisation in production and assembly

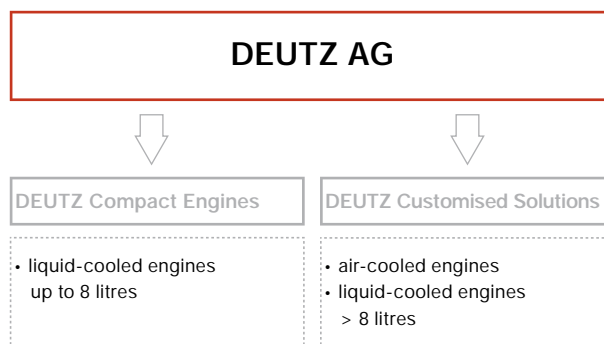
The high level of demand for our products meant that we had to adjust our workforce flexibly in line with the new requirements. In some parts of our assembly lines, we switched to three-shift operation and introduced special weekend shifts. These changes, together with close cooperation with our suppliers, enabled us to successfully service this huge increase in volume. Prudent working capital management also allowed us to bring down the working capital ratio¹⁾ as at 31 December 2011 to 9.3 per cent, the lowest level ever achieved in the history of DEUTZ.

New innovative products launched One of the main features of our product offensive in 2011 was the new generation of engines. Our engines for the new EU Stage III B and US EPA Tier 4 Interim emissions standards are now going into, or will shortly be going into, full production on schedule. At CONEXPO in Las Vegas, USA, we presented our two new smaller engines, TCD 2.9 L4 and TCD 3.6 L4, whose primary features are their compact design and power density. These two engines have already been well received by the market. At Agritechnica, we showcased for the first time our new agricultural machinery engines compliant with the EU Stage IV B and US EPA Tier 4 emissions standards. We are continuously working to live up to our own claim that we aim to be number one in our market in the future.

GROUP STRUCTURE AND BUSINESS ACTIVITIES

OPERATING SEGMENTS AND PRODUCT RANGE

As an independent manufacturer of compact diesel engines with outputs of between 19kW and 520kW for both on-road and non-road applications, DEUTZ has been providing the 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 re-conditioned exchange parts and engines marketed under the name "DEUTZ Xchange" and offered within the DEUTZ Customised Solutions segment.



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

We round off this product range by offering complementary services that are closely aligned with our customers' needs and are constantly being expanded. We guarantee the reliable and speedy supply of spare parts and help our customers to repair, service and maintain their DEUTZ vehicles and equipment. For this purpose, DEUTZ maintains a global service network consisting of its own subsidiaries and service centres, together with authorised agents.

LEGAL STRUCTURE AND PRODUCTION SITES

DEUTZ maintains a strong international presence in a globalised market. DEUTZ customers are supported by ten distribution companies, nine sales offices and over 800 sales and service partners in more than 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. Its subsidiaries include a production facility in Spain and several companies that perform sales and service functions. In 2011, we continued to expand our presence in the rapidly growing Chinese market. In addition to the existing joint ventures in China – DEUTZ (Dalian) Engine Co., Ltd. (DDE) in Dalian (China) and WEIFANG WEICHAH-DEUTZ DIESEL ENGINE CO., LTD. in Weifang (China) – we have been represented in China since January 2011 by the jointly owned sales company DEUTZ (Beijing) Engine Co., Ltd. in Beijing (China). In January 2012, we also announced the establishment of another company, DEUTZ Engine (Shandong) Co., Ltd. in Linyi (China), in which we hold a stake of 70 per cent. Further details can be found in the information on events after the reporting period on page 41. In addition, DEUTZ is involved in two other joint ventures: Bosch Emission Systems GmbH & Co. KG based in Stuttgart and DEUTZ AGCO MOTORES S.A., whose head office is located in Haedo (Argentina). Detailed information on the joint ventures can be found in the relevant section on page 31.

In addition to DEUTZ AG, seven (31 December 2010: six) German companies and ten (31 December 2010: nine) foreign companies were included in the consolidated financial statements as at 31 December 2011. Page 107 of the annex to the notes to the consolidated financial statements lists all the shareholdings of DEUTZ AG as at 31 December 2011.

MARKET AND COMPETITIVE ENVIRONMENT

DEUTZ manufactures diesel engines for professional applications used in countries with stringent emissions standards, in particular Stages 2, 3 and 4. These technically sophisticated applications include construction equipment, agricultural machinery, pumps, gensets and medium-weight 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 older technology that are designed for applications used in countries or application segments with very low emissions standards, in particular Stage 1, or no such standards at all.

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 19kW 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	Cummins, USA Kubota, Japan Perkins, UK Yanmar, Japan
	Ground support equipment	
	Material handling equipment	
	Mining equipment	
Agricultural Machinery	Tractors	Kubota, Japan Lombardini, Italy Perkins, UK Yanmar, Japan
	Harvesters	
Stationary Equipment	Gensets	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
	Compressors	
	Pumps	
Automotive	Trucks	Caterpillar, USA Cummins, USA Fiat Powertrain, Italy Mercedes, Germany
	Buses	
	Rail vehicles	

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 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 ratio¹⁾ and the capital expenditure volume. In conjunction with working capital and EBIT optimisation, this in turn determines the return on capital employed²⁾. In managing its liquidity, DEUTZ focuses on free cash flow³⁾ as a key performance indicator. Since 2011, we have also been specifically monitoring 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 for the years 2009 and 2011 shown below highlight the significant improvement in unit sales as a result of the recovery in the global economy following the crisis in 2009:

		2011	2010	2009
Revenue	€ million	1,529.0	1,189.1	863.4
Unit sales	Units	230,598	167,680	117,961
EBIT margin before on-off items ⁴⁾	(%)	6.0	3.5	-5.4
Net income from continuing operations	€ million	68.7	-15.9	-119.8
Working Capital ratio (as at 31 Dec 2011)	(%)	9.3	9.5	11.4
Working Capital ratio (average)	(%)	10.8	12.9	20.6
ROCE before one-off items	(%)	12.5	6.3	-6.4
Free cash flow	€ million	4.8	-55.9	12.6
Revenue growth	(%)	28.6	37.7	-42.2

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.

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 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.

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

Slowdown in global economic growth Following a good start to 2011, growth in the global economy slowed significantly during the course of the year. Global trade also became sluggish, following the same pattern. At the end of the year, signs that the debt and banking crisis in Europe and the USA was coming to a head, together with some weaker leading indicators, triggered economic worries and fears of a recession. Capital markets became extremely risk averse as a result. According to figures from the International Monetary Fund (IMF)¹⁾ global economic growth in 2011 was 3.8 per cent.

Europe was seriously affected by the slowdown in the global economy and the extensive retrenchment measures in public finances. As the debt and banking crisis worsened, the resulting loss of confidence ultimately meant that economic growth in the euro zone was just 1.6 per cent, although there were significant regional differences. Germany was again the main growth driver in the region, achieving 3.0 per cent growth in its economy in 2011. Even here though, there was also a noticeable cooling-off in the economy at the end of the year.

In the USA, high unemployment and low house prices took their toll on consumer confidence and the high government deficit remained problematic. The US economy therefore saw only modest growth of 1.8 per cent overall. In China – increasingly a key international market for DEUTZ – the impressive rate of growth over the last few years was maintained with a growth rate of 9.2 per cent in 2011, even though the government had initiated action to counter overheating in the economy.

¹⁾ IMF World Economic Outlook, January 2012

Further growth in the worldwide market for diesel engines The market for diesel engines benefited from the modest upturn in the global economy. This is supported by data from Power Systems Research¹⁾, an international market research organisation: unit sales of engines in the target market²⁾ relevant to DEUTZ saw a significant year-on-year rise of just under 11 per cent. Growth in Europe and North America, at 10 per cent in each case, was very robust; the Asian market for compact diesel engines in the premium segment expanded by 13 per cent.

Further growth in DEUTZ customer industries DEUTZ's main customer industries enjoyed increasing demand in 2011. EU-wide production of heavy trucks with a permissible gross weight of more than 3.5 tonnes increased by 20.5 per cent³⁾ in 2011. Our most important customer industry, the engineering industry, also generated significant growth in the year under review, achieving global revenue growth of 13 per cent⁴⁾ on a price-adjusted basis. The European engineering sector expanded by approximately 8 per cent in real terms in 2011, with a number of countries recording double-digit increases, including Germany where the industry growth was approximately 14 per cent. Japan and the USA are also expected to have notched up double-digit growth rates in engineering. Despite the global economic slowdown in the course of the year under review, demand for construction equipment remained encouraging. The German construction equipment sector saw its revenue rise by 25 per cent⁵⁾ in 2011. In the agricultural equipment sector, revenue in Germany increased by 27 per cent⁶⁾.

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS PERFORMANCE

DEUTZ growing faster than the economy Whereas the global economy grew by 3.8 per cent in the year under review and unit sales of engines in the markets relevant to DEUTZ worldwide increased by almost 11 per cent, DEUTZ managed to increase its global unit sales by 38 per cent and revenue by 29 per cent. In doing so, DEUTZ benefited from the initial general economic recovery – even if this subsequently tailed off noticeably – and from the positive trends in its customer industries. In particular, the largest DEUTZ application segment, Mobile Machinery, experienced substantial growth in revenue of 43 per cent. Correspondingly, demand for construction equipment was generally very high. The agricultural equipment sector also enjoyed a good year in 2011, reflected in the 30 per cent rise in revenue figures for this application segment at DEUTZ.

Growth in the euro zone economy was just 1.6 per cent, with the relevant engine market expanding by approximately 10 per cent. Nevertheless, we were able to push up revenue by well over 26 per cent in Europe (excluding Germany), this region being DEUTZ's largest individual market. The European market and, more than any other, the German market again benefited from the strength of the engineering customers based in this region – even if most of the equipment was then exported, primarily to customers in the emerging markets. The somewhat better macroeconomic trends in Germany were also reflected in the higher increases in unit sales at DEUTZ: in the German market, year-on-year unit sales were up by 53 per cent. The sharpest rise in demand for DEUTZ engines was registered by the Americas region, even though growth in the US economy overall was rather modest. In this region, unit sales of DEUTZ engines were up by 64 per cent, with revenue also up by more than half. This was attributable to the strong recovery in the material handling and construction equipment sectors in the USA. DEUTZ also benefited from the disproportionately high economic growth in Asian markets – revenue growth of 42 per cent in the Asia/Pacific region ranked second in the regional analysis of revenue growth rates.

¹⁾ Sources: Power Systems Research (PSR), internal figures

²⁾ Global market for diesel engines adjusted for regions, application segments, technology segments and power output classes not relevant to DEUTZ

³⁾ Source: European Automobile Manufacturers' Association (ACEA), Brussels, New Commercial Vehicle Registrations, December 2011

⁴⁾ Source: German Engineering Federation (VDMA), Frankfurt, Maschinenbau Konjunktur International, December 2011

⁵⁾ Source: German Engineering Federation (VDMA), Frankfurt, press release, November 2011

⁶⁾ Source: German Engineering Federation (VDMA), Frankfurt, press release, February 2012

PROCUREMENT

DEUTZ AG's purchasing department at head office manages the procurement of production parts, systems and components for production throughout the Group. Technologically advanced system components are obtained from tier 1 development partners in the automotive industry. These components include the injection system, turbocharger, piston system, exhaust gas recirculation components, engine management systems and sensors. We have entered into long-term contracts for the most important components in order to secure and consolidate our position as technology leader on an enduring basis. Increasingly, we have relocated the procurement of less complex engine components to low-cost countries. Our head office purchasing organisation also looks after the procurement of non-production items, services and capital equipment. We have set up regional procurement offices in China, India, the USA and in the United Kingdom. The objective is to generate cost benefits, develop suppliers, provide local technical and logistical support, and assure quality. Taking all the cost-cutting projects together, the DEUTZ Group managed to drive down its costs level by a euro amount in the double-digit millions.

Slight consolidation in commodities markets The rise in prices for forged and cast parts, aluminium, nickel and copper seen in 2010 continued in the first half of 2011. This increase in commodity prices reflected the rallying of the global economy. During the second half of 2011, however, commodity prices fell again on the back of general economic worries and, with the exception of steel, were below their 2010 level. For example, by July 2011, the price of cast-iron scrap had increased by 8 per cent; although it was 5 per cent below its 2010 level by the end of the year under review. Prices for steel scrap rose by 33 per cent in the first half of 2011 and, by the end of the year, were 11 per cent higher than they had been at the end of 2010.

The distribution of purchasing volume among the individual product categories remained relatively stable in the reporting year. Foundry products (particularly cylinder heads and engine blocks) continue to account for over 40 per cent of the total purchasing volume for series production, followed by fuel injection equipment (predominantly pumps and valves) at 25 per cent and measurement & control devices (for example mechanical and electronic regulators and sensors) at 10 per cent. The remaining 25 per cent of the purchasing volume was spread across generators, starters, exhaust-gas turbochargers, turned parts, sheet metal parts, standard and DIN parts and forged parts.

Further improvements in supplier quality Improvements in supplier quality also form an integral part of the activities of the head office purchasing organisation. In the year under review, one of the key areas of focus was quality assurance in the production ramp-up for the engines complying with the Tier 4 Interim emissions standard. We succeeded in driving down the PPM figure (parts per million – the KPI for defective parts) by 30 per cent.

PRODUCTION AND LOGISTICS

In 2011, production and logistics were dominated by the substantial rise in demand, production start-ups for new engines in connection with the Tier 4 Interim emissions standard, an extensive range of activities to streamline production facilities and our offensive focusing on productivity enhancement and quality.

Cologne plants Production capacity at our plants in Cologne and the surrounding area had to be increased because of the sharp increase in demand. The deployment of temporary staff and contract workers in all production units enabled us to continue to flexibly adapt our personnel capacity in line with demand. We switched to three-shift operation and introduced special weekend shifts for the assembly of engines in the four litre to eight litre categories. Up to 20 shifts per week were required in many of the mechanical fabrication units. The processes and mechanisms that we had developed with our suppliers helped us respond to the changing economic conditions very quickly and accommodate the massive increase in volume. Where bottlenecks arose, the demand was also covered by turning to third-party support production. At the same time, we coped with spikes in demand by using synergies in the production network, which involved obtaining some components from our DEUTZ Dalian joint venture in China. We implemented more than 100 projects as part of our continuous improvement process. For example, ergonomic improvements enabled us to achieve significant reductions in employee absence and sickness leave.

The plant in Cologne assembled a total of around 207,000 engines in 2011 (2010: almost 151,000 engines). This equates to a year-on-year increase of more than 37 per cent.

Successful production ramp-up for new engines in Cologne

Production ramp-up for new engines at our Cologne plant was a contributing factor in the success of the DEUTZ Group in 2011. The most important new products were the Tier 4 Interim variants¹⁾ of our four to eight-litre TCD 6.1 and 7.8 engines. The integration of the new exhaust aftertreatment systems into production processes represented a particular challenge. The new function test rig for exhaust aftertreatment modules – hitherto a one-off innovative solution – allows exhaust aftertreatment systems pre-assembled in our just-in-sequence assembly centre to undergo complete function testing before the systems are installed on the engine.

The new modular assembly line for our family of engines with capacities of up to four litres represents a further milestone in the implementation of our newly developed worldwide production concept. The installation work is on schedule; production on this line is scheduled to commence in March 2012.

Ulm plant The Ulm facilities assembled just under 26,000 engines in 2011 (2010: around 17,000 engines), which equates to a year-on-year increase of almost 50 per cent. Of this total, 3,600 were engines in the V-engine series with capacities of more than eight litres, and around 22,000 were air-cooled in-line engines in the 912/914 series. In 2011, the Ulm plant's marine centre built over 1,200 engines across all engine series for customers in the maritime and inland waterways transport sector, further strengthening this niche business.

Implementation of the process of continuous improvement was rigorously maintained with the support of kaizen workshops. As a result, we were able to achieve significant improvements in space productivity and close down the central pre-assembly unit. A further area of focus was to eliminate unnecessary walking or transportation of parts in the plant and to organise production as a one-piece flow system. Since the introduction of improvement workshops, we have been able to shorten process distances at the Ulm plant by more than 13 kilometres.

Zafra plant (DEUTZ DITER) 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. DEUTZ DITER is treated as an autonomous, independent supplier and is therefore continuously exposed to competition from outside the Group. The Zafra plant was able to hold its own as a supplier for all three components for the new generation of engines. Its customer portfolio also includes third-party customers such as BMW Service, MTU and SAME.

XChange plants at Übersee on Lake Chiemsee and at Pendergrass, Georgia, USA

In 2011, the facilities at Übersee on Lake Chiemsee remanufactured a total of 3,600 exchange engines, which were then sold worldwide via the service organisation. This equates to an increase of approximately 20 per cent compared with 2010 (3,000 units). The proportion accounted for by air-cooled engine series was slightly higher than in 2010 at almost 25 per cent. A broad range of individual reconditioned components are built into the exchange engines or sold as exchange parts in the service network. The Übersee plant was also able to achieve significant, sustainable optimisation in terms of material flow, process security and health & safety by systematically implementing improvement strategies.

The still relatively new facilities at Pendergrass in Georgia, USA, produced almost 1,000 exchange engines in the year under review, a year-on-year increase of 18 per cent. This plant allows us to deliver exchange engines to the American market with very short lead times; in the event of serious engine damage, this is critical to the buying decision. The focus in the year under review was on broadening the range of products.

Further improvement in supply chain transparency via DEUTZ logistics platform

The DEUTZ web-based logistics platform supports rapid, optimum global communication with our suppliers, freight forwarders and logistics service providers, a requirement that is becoming increasingly important. This system allows all parties involved over the entire supply chain to be brought together online, practically in real time. The introduction of this platform had already been initiated in previous years. In the future, it will offer new options for managing logistics processes and will significantly increase transparency in our global supply chain. The platform allows us to cope with bottlenecks at an early stage and ultimately offers us even more flexibility in responding to customer requirements.

In previous years, we had initiated a process of aligning logistics such that deliveries to the assembly lines would be synchronised with production. In 2011, we were able to systematically extend this process towards the inclusion of suppliers with the first suppliers being switched from the original system of deliveries via our central warehouse to a just-in-time system of deliveries directly to our just-in-sequence assembly centre.

Permanent focus on quality 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 the year under review, we switched to the prestigious DQS GmbH as the company responsible for issuing our certification. We then received certification for our quality management system in accordance with ISO 9001 and also for our environmental management system in accordance with ISO 14001.

¹⁾ The Tier 4 Interim emissions standard is mentioned at various points in the annual report. This refers both to the EPA Tier 4 Interim standard for diesel engines in the United States and to the 97/68 Stage III B exhaust emissions standard in the European Union, but for the sake of simplicity the latter is not always explicitly mentioned.

At the same time, we laid the foundations for a Six Sigma organisation and successfully introduced the Six Sigma methodology in the Company. The first signs of success quickly appeared within the year under review. For example, one project managed to reduce the defect rate in the provision of materials by almost 80 per cent. We will be instigating and implementing new projects in 2012.

Our quality report, which presents DEUTZ AG's KPIs in a transparent manner, documents the significant year-on-year improvements in all key processes. One example is that we were able to drive down the already low defect rate in delivery quality by more than 35 per cent. Further substantial improvements were also achieved in manufacturing quality and in the quality of bought-in parts. Having achieved excellent quality improvements in 2011, we have set further demanding targets for 2012 so that we can continue to increase 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 2011 was 100,000 engines, corresponding to a revenue equivalent to €274 million, 4.5% down on 2010, although still outperforming the market in general. During the year under review, it was possible to expand the industrial engines business, but the automotive business suffered a contraction in the difficult market conditions. Nevertheless, thanks to localisation effects and the systematic efforts to improve productivity, the business was still able to generate a small contribution to profits at joint venture level. As regards the future, we are confident that this joint venture will allow us to participate even more in the positive performance of the Asian market. DEUTZ Dalian engines has a comprehensive portfolio of engines for commercial vehicles and industrial applications in line with the market requirements for the next decade.

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. In 2011, just under 44,000 engines were sold, and revenue increased to €103 million (2010: €100 million). The company generates profits.

In January 2011, we also founded the sales company DEUTZ (Beijing) Engine Co., Ltd. in the Chinese capital. The company manages a network of partners as well as distributing DEUTZ engines and parts in China. In the future, these engines and parts will increasingly come from our Chinese joint ventures.

Our Argentinian joint venture, DEUTZ AGCO MOTORES S.A. (DAMSA), which was established in 1998, achieved a slight year-on-year increase in unit sales of engines for the local market, particularly engines for buses and agricultural machinery applications. In 2011, it sold just under 2,800 engines corresponding to a revenue of €28 million, 9.3% up on 2010. It also generated a further year-on-year increase in profits.

The Bosch Emission Systems GmbH & Co. KG joint venture with Robert BOSCH GmbH in Gerlingen and J. Eberspächer GmbH & Co. KG in Esslingen is also our main supplier for the future Tier 4 Final exhaust aftertreatment systems. The company is a system provider focusing on developing, manufacturing and selling exhaust systems for on-road and non-road applications. As scheduled, the development of this joint venture is in the production start-up phase. The first products, including products for DEUTZ, went into production during 2011. In addition, BESG has already won a major contract from a well-known US vehicle manufacturer and therefore established a subsidiary in the USA in August 2011. In the year under review, the DEUTZ share of the start-up losses was a mid-single-digit million euros amount.

DEUTZ Engagement in China

	DEUTZ Engine (Shandong) Co., Ltd. (being established)	DEUTZ (Dalian) Engine Co., Ltd.	WEIFANG WEICHA DEUTZ DIESEL ENGINE CO., LTD.
Province	Shandong	Liaoning	Shandong
Partner	Shandong Changlin Machinery Group	FAW Group	Weichai Holding
DEUTZ-Shareholding	70%	50%	50%
Engine size	< 4 L.	3–8 L.	4–8 L.
Establishment	2012	2006	1997
Revenue in 2011 (€ million)	n/a	274	103

NEW ORDERS

DEUTZ Group: New orders

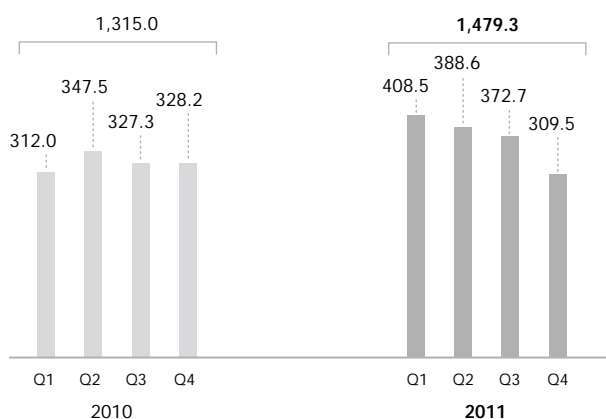
€ million

2011	1,479.3	
2010	1,315.0	
2009	842.3	
2008	1,363.5	
2007	1,584.5	

Plenty of orders on the books In 2011, the total new orders at DEUTZ were worth €1,479.3 million, up by €164.3 million or 12.5 per cent on 2010. However, new orders were just short of the total revenue for the year of €1,529.0 million. New orders were particularly strong in the first half of 2011; over this six-month period, we detected in the marketplace a significant readiness to invest, driven by the upturn in economic conditions. Given our excellent production capacity utilisation, orders were placed early. This resulted in new orders of €797.1 million as at 30 June 2011. In the second half of the year, as economic uncertainty began to take hold, the real economy proved itself to be astonishingly robust. In this period, our customers placed orders worth €682.2 million, but were therefore shortening their planning horizons.

DEUTZ Group: New orders by quarter¹⁾

€ million



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

The upturn in new orders was attributable, in particular, to the high demand in the Agricultural Machinery and Mobile Machinery application segments. New orders in these application segments rose by 22.5 per cent and 20.7 per cent respectively. In contrast, increases in new orders in the Automotive and Stationary Equipment application segments were comparatively low at 1.6 per cent and 1.4 per cent respectively.

As at 31 December 2011, orders on hand stood at €231.1 million, 17.7 per cent lower than the strong figure of €280.8 million as at 31 December 2010. This reflects the fact that lead times had returned to normal levels compared with the longer lead times that had prevailed in some cases in engineering at the start of the year owing to the utilisation of all available capacity.

UNIT SALES

DEUTZ Group: Unit sales

units

2011	230,598	
2010	167,680	
2009	117,961	
2008	252,359	
2007	285,861	

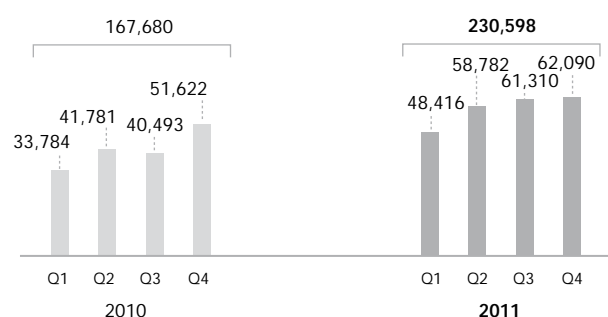
Significant increase in unit sales DEUTZ sold 230,598 engines in the year under review, a considerable year-on-year increase of 37.5 per cent. The increase was generated across all application segments, although the largest contribution came from our biggest application segment, Mobile Machinery, which was responsible for unit sales of 109,717 engines. This was 52.0 per cent more than in 2010. A particularly sharp increase of 40.1 per cent was also registered by the Agricultural Machinery application segment.

Unit sales rose significantly across all regions. The strongest growth was in the Americas where we sold a total of 34,363 engines, up by 63.6 per cent year on year. To some extent, this reflects the benefit that we continued to derive from the recovery in the material handling and construction equipment sectors. In the Asia/Pacific region, unit sales rose by 38.3 per cent to 10,797 engines. Our largest market is Europe, Middle East and Africa (EMEA) where 185,438 engines were sold, up by 33.5 per cent on 2010. Growth was particularly evident in the German market where unit sales were increased by 53.3 per cent to 50,816 engines.

Trend for the year remains positive The excellent unit sales figures for the fourth quarter continued the positive trend throughout 2011 as a whole. There was a further slight increase in unit sales compared with the strong sales in the third quarter. The increase compared with the fourth quarter of 2010 was as much as 20.3 per cent. Advance production of engines had a slight impact on the European business – this resulted from the tighter emissions legislation in the 56kW to 130kW power range that came into effect on 1 January 2012.

DEUTZ Group: Unit sales by quarter

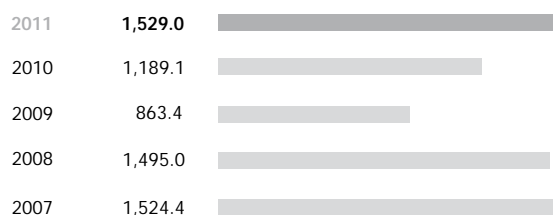
units



RESULTS OF OPERATIONS

DEUTZ Group: Revenue

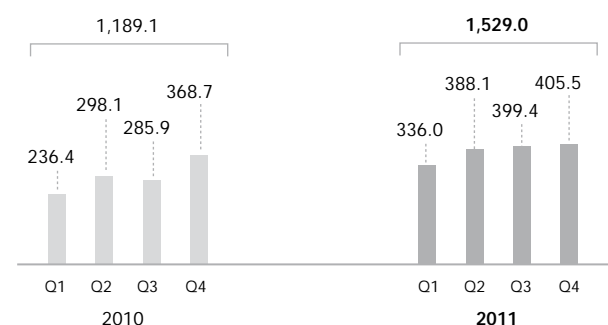
€ million



Significant increase in revenue In 2011, driven by the high level of demand, the DEUTZ Group succeeded in increasing its revenue to €1,529.0 million, a rise of 28.6 per cent. The lower increase compared with the increase in unit sales is attributable to the sale of a greater proportion of engines with smaller capacities brought about by the strength of the business in the USA. It is particularly encouraging that all application segments and regions were able to achieve a significant increase in their revenue in the year under review. The recovery following the 2009 slump therefore continued in 2011.

DEUTZ Group: Revenue by quarters

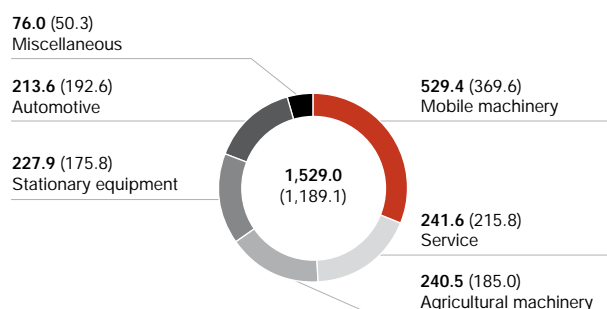
€ million



Revenue also remained on an upward trajectory over the course of the year: revenue in the fourth quarter of 2011 was up by 1.5 per cent on the third quarter. Compared with the fourth quarter in 2010, revenue grew by as much as 10 per cent. The revenue increase in the fourth quarter of 2011 also reflected some benefit from the advance production of engines ordered early by European customers to avoid the new emissions standards for 2012 and the associated additional costs.

DEUTZ Group: Revenue by application segment

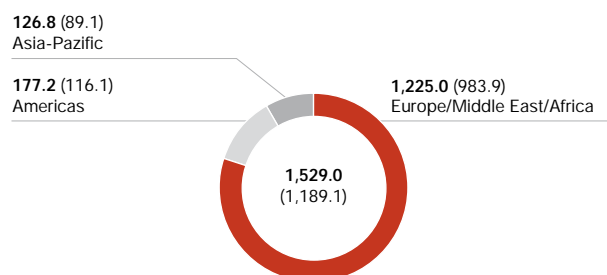
€ million (2010 figures)



Revenue in the largest application segment, Mobile Machinery, saw a particularly steep increase of 43.2 per cent to €529.4 million. One of the factors behind this increase was the high demand in the material handling subsegment, where revenue almost doubled to €128.7 million for the year as a whole. Significant growth was also a feature of all the other subsegments – construction equipment, mining equipment and ground support equipment. Revenue also grew substantially in other application segments: Agricultural Machinery was up by 30.0 per cent and Stationary Equipment was up by 29.6 per cent. In contrast, the Automotive application segment only managed a revenue increase of 10.9 per cent. In the highly profitable service business, revenue reached €241.6 million, 12.0 per cent more than in 2010 and once again a record for service revenue. This primarily reflected the success of various service projects, even though the increase did not match the revenue increase achieved from engine sales.

DEUTZ Group: Revenue by regions

€ million (2010 figures)



In the Americas region, revenue rose by more than half in the year under review, increasing to €177.2 million (52.6 per cent up on 2010). The second highest revenue growth was registered in the Asia/Pacific region where revenue climbed by 42.3 per cent. However, the EMEA region continued to account for the greatest proportion of revenue, with 80.1 per cent of total revenue being generated in this region in the year under review. Year-on-year growth amounted to 24.5 per cent and was generally uniform across all the regional subdivisions. Europe (excluding Germany), the largest individual market, saw revenue increase by 26.2 per cent to €860.6 million.

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

€ million (EBIT margin in %)

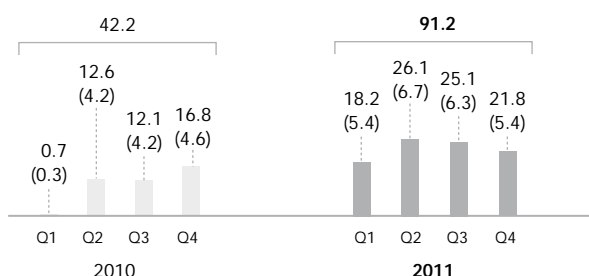
2011	91.2	(6.0)	
2010	42.2	(3.5)	
2009	-46.3	(-5.4)	
2008 ¹⁾	21.7	(1.5)	
2007 ¹⁾	84.2	(5.5)	

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.

The European market, and particularly the German market, benefited from the strength of the engineering customers based in this region. For the most part, however, the equipment manufactured by these customers does not remain in Europe but is exported – primarily to customers in the emerging markets. If we were to carry out an analysis of figures based on end users and include the joint ventures consolidated using the equity method, the DEUTZ Group's revenue in Asia would be three to four times higher than reported here.

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

€ million (EBIT margin in %)



Earnings performance The significant increase in revenue had an enormously positive impact on earnings. Compared with 2010, operating profit (EBIT before one-off items) more than doubled, rising by €49.0 million to €91.2 million. In addition to the sharp rise in revenue, other critical factors behind these successful results included the measures implemented to increase profitability and efficiency. Significant components of these measures were the sustained reduction in fixed costs brought about by the MOVE project and the contributions to earnings from the MOVE FAST project. This is reflected very clearly in the EBIT margin: the figure of 3.5 per cent achieved in 2010 rose to 6.0 per cent in 2011. There were no one-off items in the year under review, whereas EBIT and the reported EBIT margin had been adjusted for one-off items in 2010.

Overview of the DEUTZ Group's results of operations

	2011	2010
€ million		
Revenue	1,529.0	1,189.1
Changes in inventories and other own work capitalised	44.7	46.4
Total output	1,573.7	1,235.5
Other operating income	37.5	55.3
Cost of materials	-1,021.1	-781.1
Staff costs	-276.8	-253.0
Depreciation and amortisation	-69.1	-63.3
Impairment	-	-7.1
Other operating expenses	-154.5	-163.1
Net investment income	1.5	-0.9
EBIT (before one-off items)	91.2	42.2
One-off items	-	-19.9
EBIT	91.2	22.3
Interest expenses, net	-13.4	-26.2
Other taxes	-1.3	-1.4
Income taxes	-7.8	-10.6
Net income on continuing operations	68.7	-15.9
Net income	75.5	-15.9
%		
EBIT margin	6.0	1.9
EBIT margin (before one-off items)	6.0	3.5
Cost of materials	64.9	63.2
Staff costs	17.6	20.5

Cost of materials As a percentage of total output, the cost of materials went up slightly by 1.7 percentage points year on year to 64.9 per cent. The main reasons for this were the increase in services bought in from third parties in order to satisfy the requirements of the significant expansion in production and the production start-up of our engines for the EU Stage III B exhaust emissions standard and the corresponding US standard, EPA Tier 4 Interim, which are comparatively material-intensive.

Staff costs In the year under review, staff costs rose by €23.8 million to €276.8 million (2010: €253.0 million) as a consequence of the increase in the number of employees, particularly in production and assembly. However, staff costs as a proportion of total output continued to decline. Whereas the staff costs ratio in 2010 was 20.5 per cent, the figure for the year under review was down to 17.6 per cent, an improvement of 2.9 percentage points.

Other operating income Other operating income was down by €17.8 million year on year to €37.5 million (2010: €55.3 million). This was largely attributable to lower onward charging of development expenditure to key customers.

Other operating expenses Other operating expenses declined by €8.6 million to €154.5 million (2010: €163.1 million). The particular reason for this decrease was that there was no expense in 2011 equivalent to the expenses incurred in 2010 in connection with funding negotiations and the early repayment of the US private placement. However, some of this decrease was offset by other factors, primarily the increase in expenses for temporary personnel and freight forwarding services associated with the significant increase in business volume.

Interest expenses, net The changes to the funding structure and efficient cash management led to a sharp year-on-year improvement in the net interest expense, which fell from €26.2 million to €13.4 million. Following the replacement of the US private placement by a syndicated bank loan at the end of 2010, there was a significant drop of €21.4 million in finance costs, although interest income also fell at the same time by €8.6 million.

Income taxes Compared with 2010, income taxes on continuing operations fell by €2.8 million to €7.8 million (2010: €10.6 million). The decline was largely attributable to deferred tax liabilities in connection with the capitalisation of development expenditure.

Significant increase in net income Based on the excellent operating profit generated in 2011, net income on continuing operations improved by a considerable €84.6 million year on year to €68.7 million and is thus now well into positive figures again. Net income on discontinued operations amounted to €6.8 million and resulted from a refund of income tax related to the sale of DEUTZ Power Systems in 2007. In total, net income stood at €75.5 million. The Group's results for 2011 were therefore some of the best results ever achieved by DEUTZ in its entire corporate history.

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group segments

	Continuing operations in 2011	Continuing operations in 2010
€ million		
New orders		
DEUTZ Compact Engines	1,174.2	990.7
DEUTZ Customised Solutions	305.1	324.3
Total	1,479.3	1,315.0
Unit sales (quantity)		
DEUTZ Compact Engines	204,161	150,179
DEUTZ Customised Solutions	26,437	17,501
Total	230,598	167,680
Revenue		
DEUTZ Compact Engines	1,199.1	919.0
DEUTZ Customised Solutions	329.9	270.1
Total	1,529.0	1,189.1
Operating profit (EBIT before one-off items)		
DEUTZ Compact Engines	47.2	17.3
DEUTZ Customised Solutions	46.5	33.5
Miscellaneous	-2.5	-8.6
Total	91.2	42.2

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

New orders continue to climb The DEUTZ Compact Engines (DCE) segment enjoyed further increases in demand. Overall, the volume of new orders won by the DCE segment grew by 18.5 per cent to €1,174.2 million in the year under review. Mobile Machinery in particular – traditionally the strongest of our application segments – experienced especially high demand and saw its new orders rise by 26.3 per cent to €448.3 million. Significantly more new orders were also in evidence in the Agricultural Machinery application segment, where new orders were up by 20.9 per cent year on year. In the DCE segment, new orders were at the same level as revenue. As at 31 December 2011, orders on hand stood at €155.4 million, 13.4 per cent lower than the strong figure of €179.5 million as at 31 December 2010.

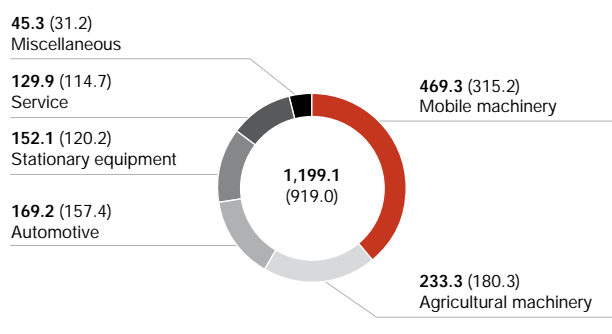
Significantly more engines sold In 2011, the DCE segment sold 204,161 engines, up by 35.9 per cent on 2010. There was particularly strong growth of 57.9 per cent in the unit sales achieved in Germany. However, the Americas and the Asia/Pacific regions recorded substantial upturns of 51.2 per cent and 36.7 per cent respectively. An analysis of application segments shows that the sharpest rise was in the unit sales of engines in Mobile Machinery, where 103,823 engines were sold, a year-on-year increase of 53.2 per cent. Agricultural Machinery also saw a rise in unit sales to 39,655 engines, an increase of 39.0 per cent on 2010.

Revenue up by over 30 per cent At €1,199.1 million, revenue exceeded the 2010 figure by 30.5 per cent. Of this total, €1,017.9 million was accounted for by the EMEA region, which achieved year-on-year revenue growth of 28.2 per cent and contributed 84.9 per cent of the total segment revenue. In the Americas and the Asia/Pacific regions, the 2010 revenue figure was exceeded in each case by approximately 45 per cent. Overall, the revenue increase was particularly significant in the Mobile Machinery application segment, where it rose by 48.9 per cent to €469.3 million. The Agricultural Machinery and Stationary Equipment application segments also managed to notch up substantial revenue increases at 29.4 per cent and 26.5 per cent respectively. In addition, revenue growth was achieved by the Automotive application segment, albeit at the lower level of 7.5 per cent. A particularly pleasing development was the 13.3 per cent rise in service revenue, which was generated largely from the spare parts business.

Encouraging fourth quarter In the fourth quarter of 2011, new orders in the DCE segment amounted to €236.9 million, the same level as that achieved in the fourth quarter of 2010 and 20.9 per cent lower than the strong performance delivered in the third quarter of 2011. This was in line with normal seasonal fluctuations. Compared with the equivalent quarter in 2010, unit sales increased to 54,946 engines, up by 19.0 per cent. This also equated to an increase of 1.3 per cent on the figure achieved in the third quarter of 2011. The positive trends over the year as a whole were also evident in revenue: in the fourth quarter, the segment generated revenue of €319.2 million, 1.3 per cent more than in the third quarter and as much as 10.1 per cent more than in the final quarter of 2010.

DEUTZ Compact Engines: Revenue by application segment

€ million (2010 figures)



Operating profit improved In addition to the significant rise in volume both in new business and in the service business, the strongly improved profitability in particular had a positive effect on the operating profit in the DCE segment (EBIT before one-off items)

At €47.2 million, operating profit in the year under review was €29.9 million higher than the figure achieved in 2010 (2010: 17.3 million). A particularly significant increase in operating profit was achieved through the sale of a large number of engines with smaller capacities.

This increase in operating profit also included profits contributed by the equity-accounted joint venture DEUTZ (Dalian) Engine Co., Ltd. in China.

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

New orders below 2010 level In the year under review, the DEUTZ Customised Solutions (DCS) segment received new orders for engines worth €305.1 million, 5.9 per cent lower than in 2010. This contraction affected all application segments with the exception of Agricultural Machinery and Service. As at 31 December 2011, orders on hand amounted to €75.7 million, 25.3 per cent down on the value as at the end of 2010. The reasons behind the slight contraction in new orders and the sharp drop in orders on hand were that lead times returned to normal levels again during the year (some longer lead times having prevailed at the start of the year owing to the utilisation of all available capacity) and customers shortened their planning horizons. A further factor was that, compared with DCE, the DCS segment has a higher proportion of project business and fewer production start-ups for new products.

Unit sales up by more than 50 per cent In contrast, the growth in unit sales was very encouraging, the DCS segment selling 26,437 engines in the year under review. This equated to an increase of 51.1 per cent compared with 2010. All regions reported considerable increases in unit sales, above all the Americas, which saw its unit sales more than double. In the Asia/Pacific region, unit sales rose by 42.8 per cent and in the EMEA region by 29.4 per cent. In the application segments, particularly impressive increases in unit sales were achieved by Automotive (up by 82.3 per cent) and Stationary Equipment (up by 58.4 per cent).

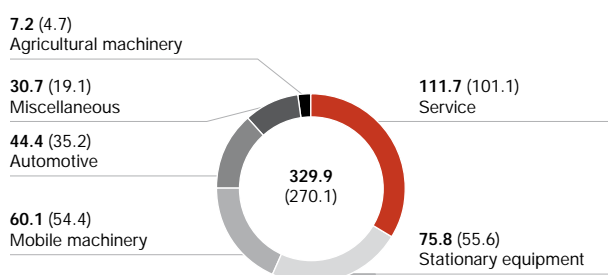
Revenue grows again The DCS segment generated total revenue of €329.9 million, a year-on-year increase of 22.1 per cent. The lower increase compared with the increase in unit sales was attributable to the sale of a greater proportion of engines with smaller capacities. The sharpest rises in revenue were seen in the Americas at 69.0 per cent and in the Asia/Pacific region at 38.8 per cent. In contrast, revenue growth in the EMEA region was just 9.1 per cent. In Germany, there was even a contraction in revenue of 15.4 per cent.

Revenue increased in all application segments, but particularly in Automotive and in the pumps and mining equipment business. Service revenue rose by 10.5 per cent, driven by growth in the exchange engines business.

Revenue and unit sales up in fourth quarter In the final quarter of 2011, the segment received new orders worth €72.6 million, similar to the level in the third quarter. However, this represented a drop of 20.0 per cent compared with the final quarter of 2010. In contrast, unit sales and revenue were up, both in comparison with the previous quarter and in comparison with the corresponding quarter in 2010. Unit sales increased by 1.4 per cent compared with Q3 and by 31.2 per cent compared with the final quarter of 2010. Q4 revenue in the DCS segment was 2.5 per cent up on Q3 2011 and 9.5 per cent up on Q4 2010.

DEUTZ Customised Solutions: Revenue by application segment

€ million (2010 figures)



Operating profit increases The operating profit generated by the DEUTZ Customised Solutions segment in 2011 amounted to €46.5 million. Even though the segment had achieved an excellent operating profit figure in 2010, it was able to exceed this level in 2011 with the help of a higher volume of business (2010: €33.5 million). The long-term measures to increase profitability were also a significant contributing factor.

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the DEUTZ Group's financial position

	2011	2010
€ million		
Cash flow from operating activities	120.5	78.2
Cash flow from investing activities – continuing operations	–102.3	–96.3
Cash flow from investing activities – discontinued operations	–	–3.3
Cash flow from financing activities	–34.6	–125.6
Change in cash and cash equivalents	–16.4	–147.0
Free cash flow (continuing operations)	4.8	–55.9
Cash and cash equivalents at 31 December	51.6	67.9
Current and non-current interest-bearing financial liabilities at 31 December	121.2	141.5
Net financial position at 31 December	–69.6	–73.6

Free cash flow: cash flow from operating activities and from investing activities minus interest expense (continuing operations)

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

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

Syndicated bank loan ensures sufficient liquidity At the end of 2010, we took out a secured syndicated bank loan. The syndicate comprises nine German banks and, besides a guarantee facility and sufficient credit lines for derivatives transactions with which we can hedge interest-rate risk, currency risk and commodities risk, it is providing us with a working capital facility of €265 million. This has secured the financial basis for our planned growth over the medium term. The floating-rate lines will expire on 31 December 2014, although the cash line will be reduced in several instalments from the first quarter of 2012 in accordance with our medium-term liquidity planning. The loan is available to us in the form of a revolving facility, which enables us to draw it down flexibly to suit the Company's requirements. 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 twelve months.

As part of these contractual agreements, DEUTZ is obliged to comply with certain financial covenants. The financial covenants, which are measured quarterly, are based on the ratio of financial liabilities to equity, financial liabilities to EBITDA (before certain one-off items) and EBITDA (before certain one-off items) to net interest cost. The covenant ratios to be complied with vary over time and are based on our medium-term planning at the time the agreement was signed. The loan agreement also allows sufficient leeway based on our current medium-term planning covering the period 2012–2016. In addition, the loan agreement contains various other conditions.

As part of the overall restructuring of funding put in place in December 2010, it was also agreed with the former noteholders that they would receive a nominal interest-bearing sum equivalent to €15.3 million by no later than 31 March 2015. As at the balance sheet date, the average interest rate was 8.57 per cent.

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 in 2011 remained almost unchanged compared with the volume in 2010, the volume as at 31 December 2011 being around €138 million (31 December 2010: €139 million).

FREE CASH FLOW POSITIVE AGAIN

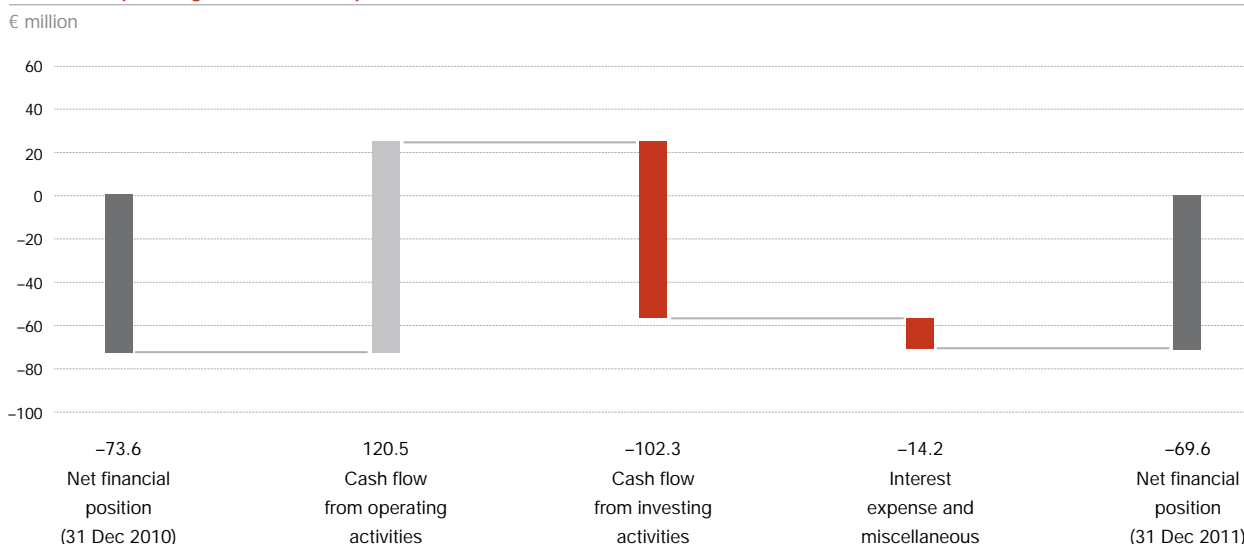
Cash flow from operating activities in the year under review amounted to €120.5 million, €42.3 million more than in 2010 (2010: €78.2 million). The principal driver behind this increase was the significant improvement in operating profit coupled with rigorous management of working capital.

Cash inflows were primarily used for development expenditure connected with the forthcoming implementation of new exhaust emissions standards. Overall, cash flow from investing activities amounted to €102.3 million, a higher figure than in 2010 (2010: €96.3 million).

Cash flow from financing activities in 2011 was minus €34.6 million (2010: minus €125.6 million). This figure was mainly determined by the repayment of financial liabilities following a lower drawdown under the working capital facility. The sharp fall of €91.0 million in cash outflows compared with 2010 arose primarily because the 2010 figure included the repayment of the US private placement in that year. Another contributing factor in the change was the substantially lower interest expense in 2011.

Free cash flow from continuing operations, a key performance indicator for the Company, saw a significant year-on-year improvement of €60.7 million to €4.8 million (2010: minus €55.9 million). DEUTZ therefore generated a positive free cash flow for the first time since the economic crisis in 2009, despite incurring high development expenditure and capital expenditure again in connection with the introduction of the new emissions standard. This was attributable, in particular, to the significantly higher net cash from operating activities and the lower interest expense as a consequence of the more favourable funding structure in place from the end of 2010.

DEUTZ Group: Change in net financial position



CAPITAL EXPENDITURE

In 2011, capital expenditure at DEUTZ amounted to €119.0 million, €15.6 million less than in 2010 (2010: €134.6 million). As in the previous year, capital expenditure was concentrated on the development of new and existing engines to meet current and future exhaust emissions standards. Development activities centred particularly on the market launch of engines complying with the Tier 4 Interim emissions standard, the forthcoming implementation of the Tier 4 Final emissions standard for industrial and agricultural applications, and on the development of the new TCD 2.9 L4 and TCD 3.6 L4 engines. Overall, capitalised development activities accounted for a capital expenditure sum of €74.1 million (2010: €73.5 million). An amount of €39.7 million was invested in property, plant and equipment (2010: €33.0 million): largely in production facilities and tools in connection with the development of our new and existing products.

In the year under review, capital expenditure on development continued to be significantly in excess of the depreciation and amortisation expense, underlining how important it is to us to maintain and improve on our position as a technology leader in the market.

The bulk of the total capital expenditure, an amount of €109.3 million, was invested in the DEUTZ Compact engines segment (2010: €110.2 million). Capital expenditure in DEUTZ Customised Solutions was €9.6 million (2010: €5.1 million). Capital spending in both segments focused mainly on development.

Capital expenditure and depreciation/amortisation and impairment losses (excluding financial assets)

€ million

2011	119.0	
	69.1	
2010	115.0	
	70.4	
2009	119.5	
	80.4	
2008	118.1	
	74.4	
2007	109.9	
	65.5	

■ Capital expenditure
■ Depreciation/amortisation

NET ASSETS

Overview of the DEUTZ Group's assets

	31/12/2011	31/12/2010
€ million		
Non-current assets	640.3	607.9
Current assets	458.3	433.3
Assets classified as held for sale	0.4	0.5
Total assets	1,099.0	1,041.7
Equity	453.5	374.3
Non-current liabilities	304.3	330.4
Current liabilities	341.2	337.0
Total equity and liabilities	1,099.0	1,041.7
Working capital (in € million)	142.1	112.5
Working capital ratio at the balance sheet date (%)	9.3	9.5
Working capital ratio (average, %)	10.8	12.9
Equity ratio (%)	41.3	35.9

Working capital: inventories plus trade receivables minus trade payables

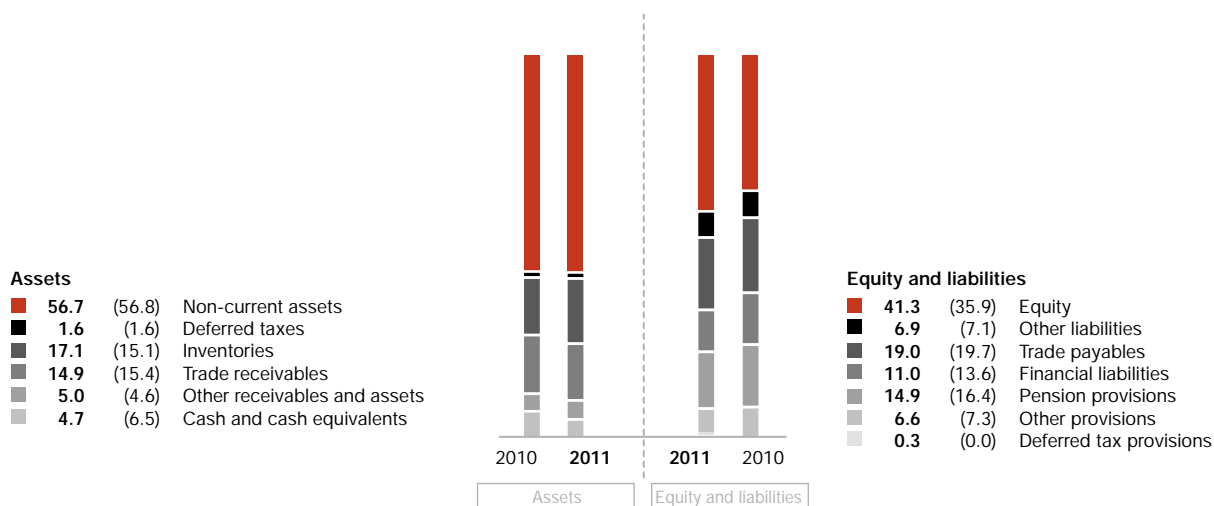
Equity ratio: ratio of equity to total equity and liabilities

As at 31 December 2011, total assets amounted to €1,099.0 million, €57.3 million higher than the equivalent figure at the end of 2010 (31 December 2010: €1,041.7 million).

Non-current assets Non-current assets increased by €32.4 million to €640.3 million (31 December 2010: €607.9 million). The increase in the depreciation expense on property, plant and equipment and in the amortisation expense on intangible assets was attributable, in particular, to the sustained high level of investment in the development of our new and existing products.

DEUTZ Group: Balance sheet structure

in % (2010 figures)



Current assets Current assets amounted to €458.3 million as at 31 December 2011. This equated to a year-on-year increase of €25.0 million, mainly attributable to higher inventories linked to the growth during the year (31 December 2010: €433.3 million).

Working capital In the year under review, there was a further improvement in working capital (inventories plus trade receivables minus trade payables). Whereas revenue saw a year-on-year increase of 28.6 per cent in the year under review, working capital only increased by 26.2 per cent and on 31 December 2011 amounted to €142.1 million (31 December 2010: €112.6 million). Thanks to ongoing, prudent management of working capital, we were able to achieve a further reduction in the ratio of working capital to revenue during the year under review without any adverse impact on delivery performance or customer relationships. As at 31 December 2011, the working capital ratio¹⁾ had improved from 9.5 per cent to 9.3 per cent, the lowest value ever achieved by DEUTZ in the history of the Company. The average working capital ratio (ratio of average working capital over four quarters to the revenue for twelve months) fell by 2.1 percentage points to 10.8 per cent.

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.

High equity ratio As a consequence of the excellent level of net income, there was a sharp rise of €79.2 million in equity to €453.5 million (31 December 2010: €374.3 million). Given the disproportionately low increase in total assets, the equity ratio increased by 5.4 percentage points and as at 31 December 2011 was at the very high level of 41.3 per cent (31 December 2010: 35.9 per cent).

Current and non-current liabilities As at 31 December 2011, non-current liabilities amounted to €304.3 million (31 December 2010: €330.4 million). The decline of €26.1 million was essentially because we had drawn down less of the revolving working capital facility in the form of euro-denominated loans. A further factor contributing to the decrease was the change in the non-current portion of the provisions for pensions and other post-retirement benefits – there was a year-on-year fall in this figure, as forecast. In contrast, there was a marginal increase of €4.2 million in current liabilities.

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 OF 2011

Following a strong year of recovery in 2010, DEUTZ AG continued to perform well in 2011, even though a global economic slowdown gradually took hold again, particularly in the second half of the year. Revenue increased by just under 29 per cent to more than €1.5 billion, which means that we even managed to nudge past the existing record level in the current business structure, set just a few years ago in 2007. Unit sales also climbed significantly by around 38 per cent. Particularly encouraging aspects of these results are that revenue and unit sales increased across all application segments and regions and that the trend during the course of the year was consistently positive. The growth in business volume and the action taken to increase profitability and efficiency were key contributing factors in enabling us to generate an operating profit that was more than double the equivalent adjusted figure for 2010. As a result, DEUTZ AG enjoyed one of the best years in the history of the Company, a period that spans almost 150 years. Given our sound foundations, the improved funding structure, an innovative product portfolio and our increasingly strong presence in Asian growth markets, we are well positioned to continue "powering success".

EVENTS AFTER THE REPORTING PERIOD

On 12 January 2012, DEUTZ AG signed an agreement with the Chinese construction and agricultural equipment manufacturer Shandong Changlin Machinery Group to establish a company for the production of engines. The production company, called DEUTZ Engine (Shandong) Co., Ltd., will be managed from an industrial perspective by DEUTZ and will commence production at the beginning of 2013. Its activities will focus on the production of 2011 series engines with capacities of up to four litres – engines that are designed for use in industrial, construction and agricultural applications and have proven their worth a million times over. DEUTZ AG holds 70 per cent of the shares in the company, with Shandong Changlin Machinery Group holding the remaining 30 per cent; the company will be based in the city of Linyi in Shandong province. Over the medium term, the new plant will have a production capacity of around 65,000 engines. This joint venture complements DEUTZ's existing commitments in Asia, which cover the production and sale of larger engines for the Chinese market. At the moment, China represents the greatest area of potential growth for DEUTZ within the Asia region as a whole.

RESEARCH AND DEVELOPMENT

Research and development expenditure

€ million (R&D ratio in %)

2011	109.8	(7.2)	<div></div>
2010	101.8	(8.6)	<div></div>
2009	104.6	(12.1)	<div></div>
2008	90.3	(6.0)	<div></div>
2007	55.8	(3.7)	<div></div>

RESEARCH AND DEVELOPMENT EXPENDITURE

We want to maintain our strong footing in our market and 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.

Expenditure on research and development in 2011 amounted to €109.8 million (2010: €101.8 million). The DEUTZ Compact engines segment accounted for €95.8 million of this expenditure (2010: €90.8 million). Research and development expenditure therefore remained high in the year under review because of product launches and the work needed to meet the next exhaust emissions standards. The R&D ratio – the ratio of R&D expenditure to consolidated revenue – saw a further fall in the year under review to 7.2 per cent (2010: 8.6 per cent) as a consequence of the increase in revenue.

In 2011, some 90 per cent (2010: 87 per cent) of all R&D expenditure was accounted for by new engine development and engine refinement, 8 per cent (2010: 9 per cent) by customer applications and support for existing engine series, and the remaining 2 per cent (2010: 4 per cent) by research and preliminary development.

The development work for the design of the basic engines to meet the Tier 4 Final emissions standard being introduced from 2014 has already been largely included in the Tier 4 Interim development work. Additional development work will cover combustion optimisation, adaptation of exhaust gas aftertreatment systems and mechatronics.

Engine development and refinement The year under review featured numerous product launches. The TCD 4.1/6.1 and 7.8 in-line engines and the TCD 12.0/16.0 V engines for the EU Stage III B/US EPA Tier 4 Interim exhaust emissions standards were either launched on the market in 2011 or are about to go into series production. We were again able to significantly improve both the power density and the fuel consumption of every engine by 5 to 10 per cent compared with predecessor engines.

Our customers awarded top marks for design and performance to the TCD 2.9 and TCD 3.6, two completely new engines with capacities of less than four litres. The main features of these engines are their compact design, significant power density and

removal of the need for exhaust aftertreatment with particulate filters (although this is still available as an additional option). The market launch is planned for this year.

At the Agritechnica trade fair held in Hannover in November 2011, we successfully showcased a prototype (with a power output range of up to 55.4kW) of the newly designed TCD 2.9 for the Tier 4 Final emissions standard. We also presented twin turbocharged engines in the 6.1 and 7.8 series, designed for the same emissions standard. These engines satisfy the particularly stringent emissions standards in low-emission zones and are significantly quieter.

Exhaust aftertreatment In 2011, our development activities continued to focus on meeting the future Tier 4 Interim and Tier 4 Final emissions standards. 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 and the engines are then individually adapted in line with the needs of our customers and the requirements of the different types of use.

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, regeneration burners 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 B and US EPA Tier 4 Final standards with minor modifications.

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 have initiated preliminary development of technologies related to more stringent emissions legislation expected in the future. This has involved defining an investigation portfolio and getting initial projects underway. One of our most important and most comprehensive preliminary development projects is the development of a hybrid system. The combination of an internal combustion engine and an electric motor has a number of advantages but the most significant is that environmental pollution can be reduced because the lower rated power together with increased efficiency results in lower CO₂ and exhaust-gas emissions. Following the successful completion of the preliminary development to secure the technological lead of DEUTZ engines, we will focus our attention on the development of further new technologies in line with market requirements.

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, 13 of which were in Germany. As a result, we now hold a total of 191 patent applications, patents and utility models registered in Germany and 164 registered elsewhere.

EMPLOYEES

Overview of the DEUTZ Group's workforce

	31/12/2011	31/12/2010
Headcount		
DEUTZ Group	4,060	3,839
Thereof		
In Germany	3,325	3,126
Outside Germany	735	713
Thereof		
Non-salaried employees	2,459	2,289
Salaried employees	1,440	1,373
Trainees	161	177
Thereof		
DEUTZ Compact Engines	3,242	3,081
DEUTZ Customised Solutions	818	758

Number of employees flexibly increased with expansion in production In 2011, strong demand and the high level of production capacity utilisation resulted in the need to recruit additional employees. At the end of 2011, the DEUTZ Group had a total of 4,060 employees, 221 employees more than at the end of 2010. This equates to growth of 5.8 per cent in the workforce, disproportionately very low compared with the growth in revenue. As at 31 December 2011, we also had a further 538 people on temporary employment contracts, compared with 390 a year earlier. By offering fixed-term contracts and employing temporary workers, DEUTZ can respond flexibly to any fluctuations in demand. Around 19 per cent of all staff at DEUTZ had fixed-term or temporary contracts as at 31 December 2011.

DEUTZ also continues to be committed to maintaining its production facilities in Germany: more than 80 per cent of the DEUTZ workforce is employed in Germany. In 2011, most of these employees continued to be based in Cologne – 2,561 as at 31 December 2011. At the end of the year, 471 employees were based at the Ulm facilities. Of the 735 employees outside Germany, 436 of them work for our DEUTZ Diter subsidiary in Zafra, Spain.

DEUTZ Group: breakdown of workforce by location

	31/12/2011	31/12/2010
Headcount		
Cologne	2,561	2,419
Ulm	471	429
Other	293	278
In Germany	3,325	3,126
Outside Germany	735	713
Total	4,060	3,839

When broken down by segment, DEUTZ Compact engines employed 3,242 people as at 31 December 2011, 5.2 per cent more than at the end of 2010. The number of employees at DEUTZ Customised Solutions was 818, up by 7.9 per cent compared with 31 December 2010.

Number of employees in R&D slightly up on 2010 The DEUTZ Group is an innovation-driven, technology-based enterprise; research & development is therefore of fundamental importance and critical to our long-term technological orientation. For this reason, we slightly increased the number of R&D employees at 31 December 2011 to 544 (31 December 2010: 533).

Accepting responsibility as an employer The training of young people is particularly close to our hearts. In the year under review, we provided training at our various plants for 161 young people, 110 of whom were based in Cologne. The DEUTZ plant at Ulm employed 29 apprentices and trainees. At Übersee on Lake Chiemsee, the home of our Xchange business, twelve young people are receiving vocational training. A further eight young people are receiving training in a recognised trade at our components plant at Herschbach im Westerwald. Overall, we are currently providing apprenticeships or traineeships in seven different vocational areas covering technical, trade or commercial careers.

One of our key concerns is to encourage young women to go into technical careers. We are especially pleased that another five women chose to pursue technical or trade careers in the year under review. Women now account for around 10 per cent of all the apprentices and trainees at DEUTZ. In 2011, the overall ratio of trainees to other employees was around 5.0 per cent (2010: 5.9 per cent). All apprentices and trainees passing their final examinations were then taken on as qualified employees for at least one year.

In order to market ourselves as an attractive employer, we take part in various training fairs and careers information events in schools where we can make direct contact with young people. We also invite them to come and find out more about their potential future employer in person, for example during campaign days such as "Erlebniswelt Maschinenbau" or Girls' Day. As part of our corporate social responsibility, we have been working closely for more than 19 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 100 per cent (2010: 97 per cent).

In 2011, the Cologne Chamber of Commerce and Industry praised this course as "excellent training" and awarded our training centre its "Best performer" certificate for the centre's outstanding contribution to introductory vocational training. We are very proud of this accolade and it confirms what we have known for a very long time: training is the future.

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 2011, DEUTZ employees submitted more than 1,100 suggestions, which led to savings of just under €0.5 million.

Personnel marketing activities stepped up DEUTZ continued its successful participation in key university fairs held around the region in Cologne, Aachen and Bonn/Siegburg. Our presence at relevant universities 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 2011, almost 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 gain important practical experience. We also provided the opportunity for 37 students to complete their studies by preparing a practically relevant dissertation (for either a bachelor's or master's degree) in cooperation with DEUTZ. In addition to our activities at universities, we provide financial support in the form of an "NRW scholarship" for a committed engineering student at RWTH Aachen University and thereby support young engineering talent at an early stage. The objective of all these activities is to take the earliest possible action to counter the expected shortage of skilled labour in the future.

Talent management and succession planning In 2011, DEUTZ began a new collaboration with Steinbeis University Berlin, enabling 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 future engineers and managers who will contribute to and help drive forward DEUTZ's increasing focus on activities at an international level.

Using structured HR development activities based on our competency model, we have successfully created a pool of talent. The individual professional development opportunities that we offer our talented employees include job rotation between different departments and challenging international assignments. This is already enabling us to lay the foundations for future internal appointments to managerial and specialist technical posts both in Germany and abroad. The results of these HR development activities also form the basis for overarching succession planning drawn up in conjunction with managers. This planning allows us to make new appointments to senior management positions very rapidly, if so required.

Promoting strategic HR activities 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 the corporate strategy for the next few years. Initially, it is focusing on research and development, sales and the Porz assembly plant. The results will give us the first key insights into the HR activities we will need to undertake in order to ensure that we have the personnel to maintain the success of DEUTZ in the future.

ERA performance appraisal introduced Following the implementation of the ERA collective pay agreement in 2010 – a collective pay agreement that mirrors the collective pay arrangements for the metalworking and electrical engineering industries in the German federal state of North Rhine Westphalia – we introduced ERA performance appraisal in 2011. In November and December 2011, line managers assessed the performance of all staff covered by the collective pay agreement and paid on the basis of working time. To carry out this appraisal, they used the following criteria provided for in the collective pay agreement: application of knowledge and skills, job commitment, flexibility and cooperation/leadership behaviour. This was the first collective appraisal of performance at DEUTZ AG since 1994. Henceforward, it will be carried out annually for all staff covered by the collective pay agreement and paid on the basis of working time.

Standardisation of incentive arrangements for all employees outside the collective pay agreement A standardised system of targets will apply from 2012 for all employees outside the collective pay agreement. In future, the variable remuneration component will be linked to the achievement of personal targets individually agreed with line managers as well as Company-wide targets such as EBIT margin and working capital ratio. Further quantitative corporate targets will be cascaded down to individual units based on a new key performance indicator system and will then be included in the personal targets agreed by individual managers.

Health management activities stepped up In 2011, we ran a special cardiovascular screening programme for employees in cooperation with health insurance providers, the company medical service and the works council. Participants received initial information about any health risks and, if necessary, were advised to visit a specialist doctor. Quit-smoking courses were also offered, at which those interested could learn about different ways of dealing with nicotine addiction.

CORPORATE SOCIAL RESPONSIBILITY

DEUTZ AG is an enterprise operating at global level and is fully aware of its corporate citizenship responsibilities. For many years, it has undertaken activities to fulfil these responsibilities in the areas of environmental protection, social concerns, the arts, education and sport. Many of our activities are well established in our home region in the area around Cologne; however, we also support projects throughout Germany and beyond.

DEUTZ encourages interest in engineering, technology and innovation In 2011, the City of Cologne and DEUTZ AG together awarded the City of Cologne's Nicolaus August Otto Prize for Innovation for the second time. The prize is named after the founder of DEUTZ and comes with prize money of €30,000. The award competition is open to inventive residents of Cologne who have particularly innovative ideas in any one of a wide variety of areas of activity. In this way we support the tradition of invention, in which Nicolaus August Otto also played a part with his invention of the four-stroke engine in 1864. On 11 September 2011, DEUTZ also took part in a nationwide Heritage Day, offering visitors free entry

to our technology centre, which houses an engine museum. The museum's unique collection of historic engines offers a detailed insight into the history of engine design and construction. The highlight of the collection is engine no. 1, the first atmospheric gas-powered engine from 1867, which is still in working order today. In 2011, the technology centre received around 4,600 visitors and conducted 177 guided tours, a new visitor record for our museum.

Integrating people with disabilities For more than 20 years, DEUTZ AG has had a close working relationship with Nostra GmbH, one of the largest and oldest organisations for the integration of disabled and disadvantaged people in Germany. The individual capabilities of disabled, socially disadvantaged and non-disabled people are brought together in integrative work groups. In a project at DEUTZ AG facilities, more than 40 employees from Nostra work together with DEUTZ employees in the goods inward and packaging departments. For as long as 40 years, DEUTZ has also worked in partnership with GWK, a not-for-profit organisation based in Cologne promoting the integration of people with disabilities. DEUTZ AG is one of the largest customers of the GWK workshop in Bergisch Gladbach, which provides employment for 300 people with mental or the most serious multiple disabilities. This workshop carries out packaging work and even manufactures components for DEUTZ. DEUTZ and its customers benefit from the high degree of precision in the work carried out by GWK and the employees are delighted to be able to enjoy active participation in working and social life.

DEUTZ choir on the world stage As far as the arts are concerned, DEUTZ has for many years had its own choir and accordion orchestra. The DEUTZ choir in Cologne has a long tradition and celebrated its 65th anniversary in 2011. Over the years it has become a huge asset to DEUTZ AG and a memorable additional dimension to the profile of the Company. 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 visited Treviglio and SAME DEUTZ-FAHR, our principal shareholder and one of DEUTZ's biggest customers. In September 2012, as part of the 2012 Year of China, the choir will take part in a joint concert with the Beijing Symphony Orchestra at the Cologne Philharmonic Hall. The DEUTZ accordion orchestra, which was originally set up in 1957, still holds a large number of concerts each year, including various fundraising events in Germany and elsewhere in Europe.

Long-service association 100 years old One of the features of DEUTZ is that, even today, current and former employees feel great attachment to "their" company. This is reflected in our long-service association, which celebrated its 100th anniversary in 2011. In 1911, 47 years after the foundation of "N.A. Otto & Cie.", the world's first engine factory, a number of long-standing employees formed a long-service association with the aim of organising regular social events in order to encourage contact among staff members and with the Company. The association has also always received support from the Company. The long-service association still remains active today, organising various events that offer members the opportunity for regular reunions.

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 with a large number of different charitable associations, trade associations, committees, trusts and other forums.

ENVIRONMENT

ENVIRONMENTAL MANAGEMENT SYSTEM

DEUTZ AG is also conscious of its significant corporate responsibility to help protect the environment and climate. Our environmental management system is largely based on the environmental efficiency of our products and a resource-efficient approach to production. We have defined three environmental objectives for the Company and these objectives are pursued in our production and manufacturing operations:

- water pollution control,
- air pollution prevention and
- continuous reduction in the volume of waste.

As well as complying with statutory provisions and other official requirements, we voluntarily undergo inhouse environmental audits in which our processes are evaluated. All departments are involved in the audit process in order to ensure that the audits are successfully implemented.

Our environmental management system is also reviewed by external experts. In the year under review, DEUTZ received confirmation of its environmental certification in accordance with ISO 14001 from DQS GmbH, a prestigious certification organisation. This again confirmed that our processes for sustained improvement in environmental protection are in compliance with this standard. In this context, the certification auditors also looked at how DEUTZ complies with its customers' requirements related to the environment, most of which are aimed at avoiding the use of particularly environmentally damaging materials in the production process.

Energy management and sustainability In 2011, our engine test rigs in the research and development unit at Cologne were subject to a process of continuous modernisation with a significant increase in the proportion of state-of-the-art generator brakes being used in conjunction with the rigs. This enables us to develop engines in a more energy-efficient manner and better satisfy the requirements demanded of our ultra-modern engines. Generator brakes convert the kinetic energy produced on the test rig into electrical energy. The electrical energy recovered from this process is then fed into the DEUTZ AG electricity supply. By systematically expanding the use of this technology, DEUTZ was able to increase the proportion of reclaimed electrical energy by 24 per cent during the year under review. The use of generator brakes also allows us to buy fuel for use in R&D at special lower tax rates. Both of these improvements enabled us to make savings of more than €0.5 million in each case.

Packaging management

Avoiding waste is another key area of environmental management at DEUTZ. While taking into account the significant qualitative requirements for engine components, we again examined the possibility of replacing disposable packaging with returnable containers. The outcome was environmentally beneficial – in the year under review, DEUTZ invested a total of more than €3.0 million in reusable packaging. By avoiding packaging we are also meeting a key requirement of waste legislation in Germany.

Air pollution prevention in production

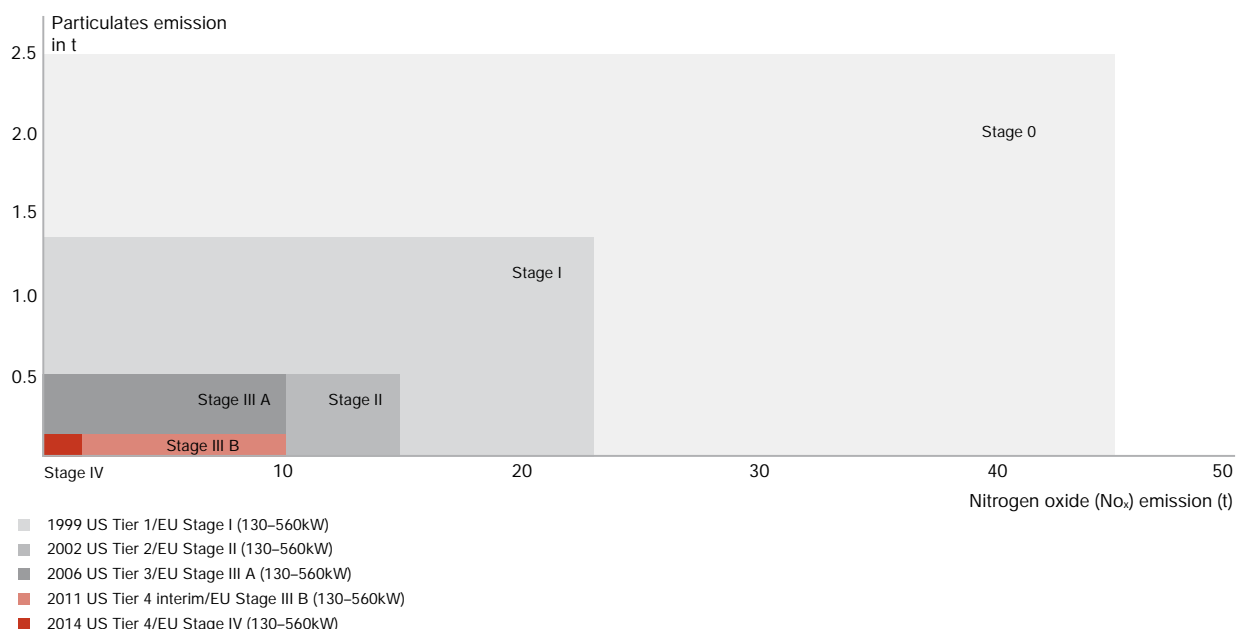
Carbon dioxide emissions generated by our activities are recorded and analysed at regular intervals. In 2011, diesel consumption per compact engine at the Cologne-Porz plant fell by approximately 3 per cent year on year and like for like, i.e. based on no change in the combination of engines in the range. CO₂ emissions also fell as a result. The reduction in fuel consumption was mainly attributable to measures to optimise the length of time for diesel engine test runs, but was also helped by the steady drop in emissions from our engines. This is further enhanced by advanced designs for exhaust gas retention in the field of plant engineering. The operation of our engine testing facilities is subject to a mandatory maximum permissible value for organic dust of 10 mg/m³. When last measured by a recognised monitoring agency, the value registered in the area around the compact engines was less than 1 mg/m³.

Innovative products make significant contribution to environmental protection

Our innovative engines meet the most stringent emissions and environmental standards in force anywhere in the world. They therefore make a significant contribution to protecting the environment and climate, one of the most important social issues of our time. Our products that meet the Tier 4 Interim standard release significantly lower levels of nitrogen oxide and other toxic gases and fewer particulates into the environment than engines that complied with the previous standards. The specified emission limits are gradually being lowered – in the last stage that has currently been published, which will apply from 2014, nitrogen oxide (NO_x) emissions must 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. Our example calculation shows the difference ultimately made by these changes.

New generation engines protect the environment

Emissions of a 500kW engine during a useful life of 10,000h



Furthermore, our new engines need 5 per cent to 10 per cent less fuel than their predecessor models, thus conserving resources and resulting in lower CO₂ emissions. We are also achieving reductions in noise emissions: in the case of our four to eight-litre Tier 4 engines, these emissions are reduced by more than 25db (A). The importance attached by the DEUTZ Group to environmental protection is also highlighted by the Group's research and development expenditure – the bulk of this expenditure is allocated to addressing environmental protection issues. Further information can be found in the Research and Development section on page 41.

HEALTH AND SAFETY PROMOTED BY SAFETY MANAGEMENT

For many years, the departments in DEUTZ AG responsible for safety management have maintained a constructive dialogue with the relevant managers of the statutory accident insurer and with the German government supervisory authorities for workplace health & safety and environmental protection. This ensures that any changes in the law can be taken into account and implemented in good time.

Certified specialists regularly test plants that are potentially environmentally hazardous. The primary purpose is to support health and safety, because the safety of our employees has the highest priority at DEUTZ. The testing also has a financial benefit for the Company because it reduces the probability of downtime as a result of hazardous situations and increases the availability of machinery capacity.

At regular intervals, we record the number of notifiable accidents per thousand employees¹⁾, a KPI that allows us to assess the results of our activities to improve health and safety at DEUTZ AG. In the year under review, this KPI improved by approximately 11 per cent to 33 (2010: 37) despite the significant expansion in the production programme and the associated sharp rise in the number of employee working hours. This improvement is primarily attributable to systematic accident analysis and the resulting introduction of appropriate measures to improve health and safety. When determining any action that needs to be taken as a result of accidents, we always examine safety organisation, the technology used and employee skills and qualifications as part of our ongoing efforts to drive forward the continuous improvement process at DEUTZ. In the year under review, the Board of Management of DEUTZ AG set a target of reducing the number of accidents to zero.

¹⁾ Known as TMO (Tausend-Mann-Quote) in German

RESULTS OF OPERATIONS FOR DEUTZ AG

Income statement for DEUTZ AG

	2011	2010
€ million		
Revenue	1,452.4	1,128.0
Profit/loss from ordinary activities	21.2	-32.0
Net extraordinary expense	-2.3	-7.5
Income taxes	6.6	4.7
Other taxes	-0.6	-0.6
Net income/loss	24.9	-35.4
Loss/profit carried forward	-140.7	-105.3
Accumulated loss	-115.8	-140.7

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). In 2011, DEUTZ AG generated revenue of €1,452.4 million (2010: €1,128.0 million). As a consequence of the increase in business volume, profit from ordinary activities improved significantly to €21.2 million (2010: loss of €32.0 million). After deduction of interest and tax, the net income for the year was €24.9 million (2010: net loss of €35.4 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 2011. As at 31 December 2011, the issued capital amounted to €308,978,241.98 and was divided into 120,861,783 no-par-value bearer shares.

Restrictions affecting voting rights or the transfer of shares

In connection with the secured syndicated bank loan with which DEUTZ AG replaced the existing funding from the US private placement at the end of 2010, SAME DEUTZ-FAHR Holding & Finance B.V. had undertaken – in the event that it sold, encumbered or otherwise disposed over the shares that it held in DEUTZ AG, as a result of which it held less than the minimum shareholding of 25 per cent of DEUTZ AG shares plus one vote – to obtain prior consent for the way in which the shares were sold and, where known, for the buyers of the shares. It had also undertaken not to sell its shares in DEUTZ AG to private equity funds or to their acquisition companies set up specifically for this purpose. Finally, if it sold, encumbered or otherwise disposed over the shares that it held in DEUTZ AG, and such transactions did not result in the shareholding falling below the minimum or such transactions were not subject to the aforementioned requirement of consent, it had undertaken to disclose such transactions without delay once they had taken place. Consent was not required if the

shareholding of SAME DEUTZ-FAHR Holding & Finance B.V. in DEUTZ AG decreased because of an increase in DEUTZ AG's capital. SAME DEUTZ-FAHR Holding & Finance B.V. was also entitled to transfer shares in DEUTZ AG to subsidiaries within the meaning of section 15 et seq. German Stock Corporation Act (AktG) at any time, provided that these subsidiaries undertook to observe the aforementioned restrictions.

SAME DEUTZ-FAHR Holding & Finance B.V. was merged with its sole owner, SAME DEUTZ-FAHR Group S.p.A., on 31 December 2011. The aforementioned restrictions on SAME DEUTZ-FAHR Holding & Finance B.V. in the event that it sold, encumbered or otherwise disposed over the shares that it held in DEUTZ AG were therefore transferred to SAME DEUTZ-FAHR Group S.p.A. by way of universal succession.

Direct or indirect shareholdings representing more than 10 per cent of voting rights SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy, has held a direct shareholding in DEUTZ AG representing 25.11 per cent of the voting rights (previous year: 0 per cent) since 31 December 2011 due to its merger with SAME DEUTZ-FAHR Holding & Finance B.V., Amsterdam, Netherlands. Via SAME DEUTZ-FAHR Group S.p.A., the following companies and individuals held equal, indirect investments in DEUTZ AG:

- Intractor B.V., Amsterdam, Netherlands
- Belfort S.A., Luxembourg, Luxembourg
- Messrs Vittorio, Aldo and Francesco Carozza and Ms Luisella Carozza-Cassani.

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.

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.

DEUTZ AG took up a syndicated cash line of credit amounting to €265 million in December 2010. Under the terms of the loan agreement, each of the banks involved can demand that the amount that it loaned be repaid within a specified period in the event of a change of control. A change of control for the purposes of the loan agreement is when one or more people acting jointly acquire a (direct or indirect) controlling interest (holding of at least 50 per cent of all shares and/or voting rights in DEUTZ AG).

In the event of a demand for repayment as a result of a change of control, the holders of bonds of US\$ 17.1 million and €2.1 million also have the right to demand repayment of these bonds.

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 agreement between DEUTZ, Bosch and Eberspächer for the establishment and management of a joint venture to produce fully integrated diesel exhaust aftertreatment systems grants stock-purchasing rights to the other parties to the agreement in the event of a change in control in DEUTZ AG. A change in control is deemed to have taken place if a third party directly or indirectly acquires a majority stake in DEUTZ AG or in any other way exercises, or is in a position to exercise, control over DEUTZ AG. A change in control is not deemed to have taken place if a competitor of DEUTZ AG acquires a majority interest in DEUTZ AG.

DEUTZ AG has no indemnification agreements with members of the Board of Management or 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 consists 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, four or five years, providing the performance of DEUTZ shares meets the criteria specified in the 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 104 of the Notes to the consolidated financial statements.

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 104 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.

The benefits of such a system can hardly be overestimated: it 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 2011. 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, the independent auditors or the Risk Management Committee were speedily implemented by DEUTZ.

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 net assets, financial position and results of operations. 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 from page 90 et seqq. onwards.

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 AG'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. Control activities also include systematic reviews carried out by the internal audit department.

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.

In addition to discussing the annual financial statements and consolidated financial statements, the Supervisory Board's Audit Committee also regularly discusses interim financial reporting as part of the quarterly financial reporting procedure. 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.

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. DEUTZ AG'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 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 funding in the form of a syndicated bank loan, which was arranged in December 2010, is based on a floating interest rate. In March 2011, we decided to hedge the associated interest-rate risk and entered into interest rate swaps, as a result of which any possible risk in connection with changes in interest rates has largely been eliminated. 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, ratio of EBITDA to net interest cost 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 areas – 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 cyclicity from a regional and application areas perspective. One of the ways in which we are doing so is by focusing further efforts on expanding our Agricultural Machinery application segment, as it follows a different economic cycle from the other application areas. 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 areas.

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. Even given the possibility of a 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 EU 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 will also apply to smaller engines with outputs of 56kW to 130kW. Emissions limits will be lowered again from 2014 when the US 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 results of operations.

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 and 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 pose any identifiable risks. DEUTZ is continuing its strategy of consolidating its information and communication technology systems worldwide. This strategy remains focused on the exploitation of existing potential within the SAP system.

Human resources risks In a technology-oriented international company such as DEUTZ, highly skilled employees are the basis for a successful business.

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.

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.

A US customer is claiming damages of more than US\$ 25 million; the claim has been dismissed by a court of first instance. This action is without substance in the opinion of the Company because the engines were used in a manner contrary to instructions and liability for consequential loss is contractually excluded. A provision has been recognised in the annual financial statements to cover the risk in connection with the litigation. There are also still four legal actions brought by private persons against the American subsidiary of DEUTZ AG alleging damage to health caused by asbestos.

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 net assets, financial position and results of operations 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 2009, covering the tax assessment periods 2006 to 2008, is not yet complete.

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 which 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 117.

OVERALL ASSESSMENT OF THE RISK SITUATION

The DEUTZ Group identifies material risks. As far as possible, appropriate action is taken on the basis of our risk management system to bring these risks under control. Changes in material risks are monitored at Group level. Currently, the DEUTZ Group has not identified any risks that could jeopardise the continued existence of the enterprise as a going concern.

OUTLOOK

2012: MODEST GROWTH IN GLOBAL ECONOMY¹⁾

In 2012, growth in the global economy is expected to be subdued with some variances from region to region. The International Monetary Fund (IMF) is forecasting expansion of 3.3 per cent (2011: 3.8 per cent), although the growth figure for the industrialised countries is expected to be just 1.2 per cent. The euro zone remains weighed down by the sovereign debt and banking crisis as well as significant balance of payments imbalances. It is predicted that the euro zone will experience a brief mild recession with contraction of 0.5 per cent. Even if Germany continues to perform better than the euro zone as a whole, the forecast growth rate is still only 0.3 per cent. The IMF predicts that the US economy will see moderate growth of 1.8 per cent; however, in view of some good indicators recently, we take a more positive view of the situation, as does Deutsche Bank for example, which is forecasting growth of 2.5 per cent.

Global economic growth will continue to be driven by developing countries and the emerging markets. China and India remain the upcoming economic powerhouses, with forecast growth of 8.2 per cent and 7.0 per cent respectively. However, these growth rates are no longer quite at the levels achieved in previous years. In contrast, growth in South America has slowed considerably, with a figure of only 3.0 per cent being forecast for Brazil, the largest country in the region.

The issues that exercised the minds of economists during 2011 largely remain the main threats to growth in 2012: the unresolved structural problems in the euro zone, worries about a bank credit squeeze, the huge budget deficit in the USA and Japan, and concerns that the tiger economies could be in for a hard landing. The situation requires decisive, concerted political action. However, there is no expectation of simple, quick answers to the structural problems. All the market players need to learn to live with the risks and deal with them professionally without panic or overreaction.

It is all the more encouraging then that there has been a recent further improvement in sentiment. The business climate index published by the Ifo Institute of Economic Research in January 2012, an index that covers trade and industry in Germany, was up for the third time in succession. According to the German Engineering Federation (VDMA), even though capacity utilisation of industrial equipment and machinery in Germany in the same month had fallen slightly to 86.4 per cent, this was still in line with the long-term average. In January, the ISM purchasing managers' index in the USA reached its highest level since June 2011, indicating a moderate level of expansion. In addition, many equipment customers were reporting that they had plenty of orders on their books.

¹⁾ Sources: IMF, World Economic Outlook, January 2012
Deutsche Bank, Research Briefing Konjunktur, January 2012
Ifo, Institute of Economic Research, Business Climate Germany, January 2012
VDMA, Konjunkturbulletin, February 2012
ISM, Purchasing Managers' Index, January 2012

DIESEL ENGINES MARKET

Forecasts from the international market research organisation Power Systems Research (PSR)¹⁾ continue to point to growth in the global diesel engines sector, although at a lower level than in 2011. In 2012, global unit sales of engines in the market segments relevant to DEUTZ are predicted to grow by around 4 per cent, the strongest growth being in Asia at approximately 6 per cent, with rates in Europe and the Americas being between 3 and 4 per cent. The global market is also forecast to expand by 4 per cent in the subsequent year.

HIGH LEVEL OF CONSOLIDATION

In 2012, between the last two years of very high growth and the next few years of structural growth within the scope of our formulated strategy, the DEUTZ Group will be focusing on consolidating its business. The priorities will be achieving further productivity and efficiency gains in our workflows and processes, continuing the implementation of the MOVE FAST project and improving the profitability of our DEUTZ (Dalian) joint venture. We will also be concentrating efforts on a smooth production start-up for our new engines, successful implementation of various new customer projects and the establishment of our new production company in China (DEUTZ Engine (Shandong) Co., Ltd.) together with the preparations for the start of production in this new production company.

NEW ORDERS, UNIT SALES, REVENUE

In view of the continuing macroeconomic risk and the forecast of a brief, mild recession in Europe we expect our customers to adopt a shorter planning horizon when placing orders. We believe that demand will either be stable or contract slightly in both segments, but that we will continue to see encouraging growth in our service business. From a regional perspective, we forecast that the strongest growth will be in North America followed by Asia, whereas the level of business in Europe is likely to be below that of 2011. At the beginning of 2012, the European business is feeling the impact from advance purchases of engines made by customers in 2011, particularly in the Agricultural Machinery application segment.

Overall, we forecast that unit sales will be around 210,000 engines and revenue approximately €1.5 billion in 2012. Revenue will be supported by excellent service business and the higher proportion of engines meeting new emissions standards, the sale prices of which are significantly higher.

Given the current environment, our forecasts are of course subject to even greater uncertainty than usual. The flexibility in our business model, which we have been able to enhance significantly over the last few years, therefore continues to be especially important. We are, and will remain, well prepared if business turns out to be better or worse than forecast.

OPERATING PROFIT (EBIT)

We expect the EBIT margin to remain at the level of 2011. The impact from the MOVE FAST project, the higher proportion of service business and the focus on further gains in efficiency and productivity will have the effect of increasing operating profit. Conversely, the new joint venture in China (DEUTZ Engine (Shandong) Co., Ltd.) will reduce operating profit in 2012 by a euro amount in the mid-single-digit millions. Forthcoming product start-ups will also have an initial downward impact on operating profit before contributing to improved profitability in subsequent years as a result of higher prices and the higher proportion of common parts used in the products concerned.

COMMODITIES, EXCHANGE RATES, COLLECTIVE PAY AGREEMENTS

Further rises in 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.

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

Modest rise in collectively agreed pay The current collective pay agreement will remain in force until 31 March 2012. The parties have already held initial exploratory talks. The trade unions are only expected to formulate specific proposals at the first quarter 2012 when there will be a better picture of the likely macroeconomic trends in Germany over the rest of 2012. We expect a noticeable increase in collectively agreed pay.

RESEARCH AND DEVELOPMENT EXPENDITURE

The development of our engines for the new emissions standards is already well advanced, so we expect to be able to reduce research and development expenditure by approximately 25 per cent in 2012.

¹⁾ Power Systems Research (PSR), internal figures

CAPITAL EXPENDITURE

We forecast that our capital expenditure in 2012 (excluding capitalisation of research and development expenditure) will be around €60 million. Almost €10 million relates to spending on property, land and equipment in our new majority-held subsidiary DEUTZ Engine (Shandong) Co. Ltd. in China.

JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

In the case of DEUTZ (Dalian) Engine Co., Ltd., we expect the tough market conditions to continue in 2012, especially in the Automotive application segment. Nevertheless, we are still forecasting a rise in the contribution to earnings as a result of measures introduced to increase profitability.

Bosch Emission Systems GmbH & Co. KG is currently in the scheduled start-up phase, to be followed by a steep ramp-up in production volume. In 2012, we are expecting planned start-up losses in the mid-single-digit million euros with the final net expense being incurred in the subsequent year.

WORKING CAPITAL RATIO, FREE CASH FLOW AND EQUITY RATIO

Our objective is to achieve a permanent working capital ratio of under 13 per cent as at 31 December 2012 and as the quarter-end average.

We forecast that free cash flow will be positive in 2012.

We intend to maintain our equity ratio above 40 per cent. This high equity ratio means that we are more independent from capital markets.

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 2011, we will again use the "Collective agreement concerning the flexible transition into retirement" in 2012. 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, will apply from 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.

It will no longer be possible to satisfy the emissions regulations that are due to come into force in stages from 2011 by making internal engine refinements alone; instead, sophisticated additional exhaust aftertreatment systems will be necessary. We are very well prepared for these changes, with our investment in relevant research and development activities over the last few years and our activities as part of the joint venture Bosch Emission Systems GmbH & Co. KG.

OUTLOOK FOR 2013

We are expecting significant double-digit revenue growth in 2013. This is based on a return to somewhat more favourable forecasts for the global economy and on structural growth from the significantly more sophisticated engines for the new emissions standards and from our commitment to business in China. We are forecasting an EBIT margin of between 6 and 7 per cent.

Global megatrends such as a growing world population, progressing industrialisation in the agricultural sector and urbanisation along with the accompanying investments in infrastructure support further growth in the worldwide engine market, in particular in emerging markets. This will provide the DEUTZ Group with great opportunities for further development in the coming years.

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 statements made in this management report. The Company gives no undertaking that it will update forward-looking statements to bring them into line with future developments.

INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	2011	2010
€ million			
Revenue	1	1,529.0	1,189.10
Changes in inventories and other own work capitalised	2	44.7	46.4
Other operating income	3	37.5	55.3
Cost of materials	4	-1,021.1	-781.1
Staff costs	5	-276.8	-253.0
Depreciation and amortisation	6	-69.1	-63.3
Impairment	6	-	-7.1
Other operating expenses	7	-154.5	-163.1
Profit/loss on equity-accounted investments	8	-0.2	-2.8
Other investment income	8	1.7	1.9
EBIT		91.2	22.3
thereof one-off items		-	-19.9
thereof operating profit (EBIT before one-off items)		91.2	42.2
Interest expenses, net	9	-13.4	-26.2
thereof finance costs		-14.4	-35.8
Other taxes	10	-1.3	-1.4
Net income before taxes on continuing operations		76.5	-5.3
Income taxes	10	-7.8	-10.6
Net income on continuing operations		68.7	-15.9
Net income on discontinued operations	11	6.8	-
Net income		75.5	-15.9
thereof attributable to the shareholders of the parent		75.5	-15.9
thereof attributable to non-controlling interests		-	-
Earnings per share (€)	12	0.62	-0.13
thereof from continuing operations		0.57	-0.13
thereof from discontinued operations		0.05	-

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	2011	2010
€ million			
Net income		75.5	-15.9
Currency translation differences		5.2	10.8
Effective portion of change in fair value from cash flow hedges		-1.5	-
Change in fair value of available-for-sale financial instruments		-	0.2
Other comprehensive income, net of tax	13	3.7	11.0
Comprehensive income		79.2	-4.9
thereof attributable to the shareholders of the parent		79.2	-4.9
thereof attributable to non-controlling interests		-	-

BALANCE SHEET FOR THE DEUTZ GROUP

Assets	Note	31/12/2011	31/12/2010
€ million			
Property, plant and equipment	14	311.5	320.5
Intangible assets	15	227.8	185.6
Equity-accounted investments	16	71.8	69.7
Other financial assets	17	12.0	15.7
Non-current assets (before deferred tax assets)		623.1	591.5
Deferred tax assets	18	17.2	16.4
Non-current assets		640.3	607.9
Inventories	19	187.6	157.6
Trade receivables	20	163.6	160.1
Other receivables and assets	20	55.5	47.7
Cash and cash equivalents	21	51.6	67.9
Current assets		458.3	433.3
Non-current assets classified as held for sale	22	0.4	0.5
Total assets		1,099.0	1,041.7

Equity and liabilities	Note	31/12/2011	31/12/2010
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		9.1	5.4
Retained earnings		79.1	79.1
Accumulated income/loss (-)		27.5	-48.0
Equity attributable to the shareholders of the parent		453.5	374.3
Equity	23	453.5	374.3
Provisions for pensions and other post-retirement benefits	24	148.5	154.7
Deferred tax provisions	18	2.8	-
Other provisions	25	29.3	29.8
Financial liabilities	26	119.3	138.5
Other liabilities	27	4.4	7.4
Non-current liabilities		304.3	330.4
Provisions for pensions and other post-retirement benefits	24	15.6	15.9
Provision for current income taxes	18	0.2	4.0
Other provisions	25	43.0	42.7
Financial liabilities	26	1.9	3.0
Trade payables	27	209.1	205.1
Other liabilities	27	71.4	66.3
Current liabilities		341.2	337.0
Total equity and liabilities		1,099.0	1,041.7

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

	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
€ million									
Balance at 1 Jan 2010	309.0	28.8	79.1	-0.1	-5.5	-32.1	379.2	-	379.2
Comprehensive income				0.2	10.8	-15.9	-4.9	-	-4.9
Balance at 31 Dec 2010	309.0	28.8	79.1	0.1	5.3	-48.0	374.3	-	374.3
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

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	2011	2010
€ million			
EBIT		91.2	22.3
Interest income		0.5	1.3
Other taxes paid		-1.3	-1.4
Income taxes paid		-2.1	-3.2
Depreciation, amortisation and impairment of non-current assets		69.1	70.4
Gains/losses on the sale of non-current assets		-0.2	1.5
Profit/loss on equity-accounted investments		1.7	4.4
Other non-cash income and expenses		2.6	13.4
Change in working capital		-26.9	-9.3
Change in inventories		-28.8	-27.6
Change in trade receivables		-2.5	-46.7
Change in trade payables		4.4	65.0
Change in other receivables and other current assets		-10.7	-4.6
Change in provisions and other liabilities (excluding financial liabilities)		-3.4	-16.6
Cash flow from operating activities		120.5	78.2
Capital expenditure on intangible assets, property, plant and equipment		-97.8	-89.8
Capital expenditure on investments		-5.2	-6.6
Proceeds from the sale of non-current assets		0.7	0.1
Cash flow from investing activities – continuing operations		-102.3	-96.3
Cash flow from investing activities – discontinued operations		-	-3.3
Cash flow from investing activities – total		-102.3	-99.6
Interest expenses		-13.4	-37.8
Cash receipts from borrowings		20.3	115.9
Repayments of loans		-41.5	-203.7
Cash flow from financing activities		-34.6	-125.6
Cash flow from operating activities		120.5	78.2
Cash flow from investing activities		-102.3	-99.6
Cash flow from financing activities		-34.6	-125.6
Change in cash and cash equivalents		-16.4	-147.0
Cash and cash equivalents at 1 January		67.9	214.7
Change in cash and cash equivalents		-16.4	-147.0
Change in cash and cash equivalents related to exchange rates		0.1	0.2
Cash and cash equivalents at 31 December		51.6	67.9

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 27 February 2012.

DEUTZ AG shares are listed in the Deutsche Börse MDAX 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 current 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 2010 with the exceptions set out below.

IAS 24 (revised) "Related Party Disclosures" The revision simplifies the reporting obligations of entities in which governments have an equity interest. It also defines a related party more clearly. Apart from enhancements, the revision primarily comprises changes to make the standard clearer and more understandable. The initial application of this revision therefore did not have any impact on the consolidated financial statements.

IAS 32 (revised) "Financial Instruments: Presentation" The changes in this revision resolve the issue of the accounting treatment for certain subscription rights if the issued instruments are not denominated in the functional currency of the issuer. This amendment did not impact on the consolidated financial statements.

IFRIC 14 (revised) "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" Under the amended IFRIC 14, if there is a minimum funding requirement for a defined benefit plan, the prepayment must now be treated as an asset. Because the DEUTZ Group is not affected by this amendment, its initial application did not have any impact on the consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" The interpretation introduces the rule that equity instruments issued to lenders to extinguish all or part of a financial liability must be considered as "consideration paid" and the borrower must therefore derecognise all or part of the financial liability accordingly. Other provisions in the interpretation comprise rules on the measurement of these equity instruments and on the derecognition of the liability. The interpretation did not affect the consolidated financial statements on initial application.

Collective standard amending various IFRSs (2010) The amendments are primarily intended to eliminate inconsistencies between the individual standards and clarify certain unclear provisions in the standards. Because the DEUTZ Group is only partially affected by these amendments, their application did not have a material impact on the consolidated financial statements.

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

The following revision to IFRS 7, published by the International Accounting Standards Board (IASB), has already become part of EU law via the comitology procedure. However, the application of this standard was not yet mandatory in 2011, and the DEUTZ Group has not opted to apply it before the mandatory application date.

IFRS 7 (revised) “Financial Instruments: Disclosures” The amended standard was published in October 2010 and applies to financial years beginning on or after 1 July 2011. The 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. Initial application of these amendments is not expected to materially affect the consolidated financial statements.

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 2011. 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.

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 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.

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 standard applies to financial years beginning on or after 1 January 2013.

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. Initial application of the new rules of IAS 19 will therefore impact on the Group’s financial position. It is expected to lead to higher provisions for pensions and other post-retirement benefits on the one hand and lower equity on the other. The Group is currently examining the other effects of the revised IAS 19.

IAS 27 (revised) “Separate Financial Statements” The Amendment was issued in May 2011. Because of the publication of IFRS 10 and IFRS 12, the scope of IAS 27 now only includes the accounting treatment of subsidiaries, jointly controlled entities and associates. DEUTZ AG does not prepare such separate financial statements pursuant to IFRS. The standard applies to financial years beginning on or after 1 January 2013.

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. The amendment applies to financial years beginning on or after 1 January 2013. Initial application of the change does not have any impact on the Group’s financial position or financial performance.

IAS 32 (revised) “Financial Instruments: Presentation” This amendment to IAS 32 was published in December 2011 and is intended to clarify existing provisions on the offsetting of financial assets and financial liabilities. The amendment applies to financial years beginning on or after 1 January 2014. Initial application of the change does not have any impact on the Group’s financial position or financial performance, as it only concerns clarifications.

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 does not have any impact on the Group’s financial position or financial performance.

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 position and financial performance, the Group will only quantify its impact in connection with the other stages once they have been completed.

IFRS 10 "Consolidated Financial Statements" IFRS 10, published in May 2011, 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. IFRS 10 applies to financial years beginning on or after 1 January 2013. 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. IFRS 11 applies to financial years beginning on or after 1 January 2013. Initial application of this standard does not have any impact on the Group's financial position or 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. The standard applies to financial years beginning on or after 1 January 2013. 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 or 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.

Significant estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRS to a certain extent 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 loss carryforwards. 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 2011, the carrying amount of deferred tax assets recognised in respect of tax loss and interest carryforwards amounted to €58.7 million (31 December 2010: €46.1 million). Further details can be found under Note 18 on page 80.

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 4.2 per cent or increase of 4.6 per cent 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 4.5 per cent or decline by 4.2 per cent.

As at 31 December 2011, the provisions for pensions and other post-retirement benefits amounted to €164.1 million (31 December 2010: €170.6 million). Further details on the assumptions used are described in Note 24 on page 83.

Development expenditure is capitalised in accordance with the accounting policies described above. The initial capitalisation of this expenditure is based on a management assessment that the technical and economic feasibility of the development has been demonstrated; this is generally the case if the development project has reached a specific milestone in an existing project management model. 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 2011, the carrying amount of capitalised development expenditure was €212.3 million (31 December 2010: €166.7 million).

Pending or potential legal disputes DEUTZ AG and other companies in the DEUTZ Group are involved in a number of legal disputes and arbitration proceedings. These relate to risks concerning liability for defects of quality, tax law, competition law and antitrust law. Provisions have been recognised to cover the risks arising from this litigation. At present it is not possible to predict the outcome of these 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 30 on page 99.

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 DEUTZ AG acquires control. Consolidation ends when the parent company no longer has control. The consolidated financial statements include DEUTZ AG as well as five (2010: four) German entities and seven (2010: six) 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 2011, one German and one foreign subsidiary were included in the consolidated financial statements for the first time. On 27 January 2011, DEUTZ AG made a capital contribution of €0.1 million to the newly established company DEUTZ (Beijing) Engine Co., Ltd., which has its registered office in Beijing, China. In the fourth quarter, it also founded DEUTZ Asien Verwaltungs GmbH, which has its registered office in Cologne. DEUTZ AG holds 100 per cent of voting shares in both companies. They were included in the consolidated financial statements using the acquisition method.

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 (2010: one) foreign entity in accordance with the rules governing associates and five (2010: four) joint ventures.

Since the first quarter of 2011, the Chinese joint venture WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO. LTD. has been accounted for in the consolidated financial statements using the equity method due to reasons of materiality. DEUTZ AG holds 50 per cent of voting shares in this company.

Page 107 of the annex to the notes to the financial statements lists the shareholdings of DEUTZ AG as at 31 December 2011.

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 is used to account for business combinations. 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. Measurement of non-controlling interests is based either on the fair value (full goodwill method) or on the proportionate fair value of the assets acquired and of 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. Currently, there is no non-controlling interest in the DEUTZ Group.

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/joint ventures are prepared to the same balance sheet date as the financial statements for the parent. 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 Dec	
		2011	2010	2011	2010
USA	USD	1.40	1.32	1.29	1.34
UK	GBP	0.87	0.86	0.84	0.86
Singapore	SGD	1.75	1.79	1.68	1.71
China	CNY	9.03	8.93	8.16	8.82
Australia	AUD	1.34	1.44	1.27	1.31

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 costs to be incurred subsequently 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, license and user fees, 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 incurred by 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. The accounting principles applied by the DEUTZ Group specify that a period of twelve months is required to justify such accounting treatment. All the other borrowing costs are expensed as incurred.

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.

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 on the acquisition date. The costs of internally generated intangible assets are expensed as incurred, except in the case of development expenditure eligible for capitalisation. The cost of purchase or conversion includes directly attributable costs. The cost of conversion also includes a proportion of overheads. In subsequent periods, intangible assets are reported at cost less amortisation on a straight-line basis and any additional impairment losses. 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 Development expenditure is capitalised if it can be clearly allocated to a newly developed product or process that is technically feasible and is intended for the Group's own use or marketing activities. Development expenditure is generally amortised on a straight-line basis over the expected production cycle (three to nine years).

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 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.

Financial assets are classified as held for trading if they are purchased for the purposes of selling them in the near term. Derivatives, including separately recognised embedded derivatives, are also 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 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.

Financial liabilities are classified as held for trading if they are purchased for the purposes of selling them in the near term. Derivatives, including separately recognised embedded derivatives, are also 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 (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 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 (currency translation differences).

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 fair 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, the existing pension provisions are simply increased each year by unwinding the discount applied to calculate the present value of the obligation. 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. With respect to the parameters applied we refer to our disclosures under 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:

	2011	2010
€ million		
Engines	1,287.4	973.6
Service	241.6	215.5
Total	1,529.0	1,189.1

The sharp increase in revenue was essentially attributable to the general economic recovery. The breakdown of revenue by segment and region is shown in the notes on segment reporting on page 88.

2. CHANGES IN INVENTORIES AND OTHER OWN WORK CAPITALISED

Change in inventories

Changes in inventories of finished goods and work in progress in 2011 amounted to an increase of €8.8 million (2010: increase of €11.6 million).

Other own work capitalised

Other own work capitalised amounted to €35.9 million (2010: €34.8 million). As it had in 2010, 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

	2011	2010
€ million		
Income from recharged costs and services	25.2	31.7
Exchange rate gains	4.9	7.9
Income from the reversal of provisions	1.0	1.6
Income from the measurement of commodities	0.9	8.7
Income from charged-off liabilities	0.8	1.4
Income from the measurement of derivative financial instruments	0.5	1.5
Rentals and leases	0.4	0.3
Income from the disposal of non-current assets	0.3	–
Sundry other income	3.5	2.2
Total	37.5	55.3

The decline in other operating income was primarily attributable to lower onward charging to key customers of costs connected to new engine development and the further development of existing engines and to the absence of income from the reversal of provisions for personnel restructuring.

4. COST OF MATERIALS

	2011	2010
€ million		
Cost of raw materials and supplies, bought-in parts and spare parts	958.2	722.7
Cost of services procured	59.0	54.1
Impairment of raw materials, bought-in parts and spare parts	3.9	4.3
Total	1,021.1	781.1

Unit sales and, therefore, the cost of materials increased in absolute terms year on year owing to the significant increase in demand.

5. STAFF COSTS

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

	2011	2010
€ million		
Salaries	116.8	100.9
Wages	106.3	102.4
Social security contributions	42.1	37.4
Interest cost for pension provisions	8.6	9.3
Cost of post-employment benefits and other long-term employee benefits	1.5	1.7
Cost of severance payments/ personnel restructuring	1.5	1.3
Total	276.8	253.0

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.

	2011	2010
€ million		
Property, plant and equipment	45.0	44.1
Intangible assets	24.1	19.2
Total	69.1	63.3

Impairment tests in accordance with IAS 36 did not reveal any impairment losses in the year under review (2010: €7.1 million).

7. OTHER OPERATING EXPENSES

	2011	2010
€ million		
Expenses for general services	46.5	38.6
Temporary staff	25.3	9.4
Special selling expenses	23.3	19.2
Cost of fees, contributions and consultancy services	16.1	28.7
Cost of rentals and leases	10.3	10.0
Office, postal, telecommunications, advertising and other administrative expenses	7.3	7.2
Exchange rate losses	5.7	4.7
Exchange rate losses	3.1	5.7
Costs of disposal of non-current assets and costs of deconsolidation effects	0.1	3.4
Expenses in connection with the measurement of currency forwards	–	0.4
Sundry other expenses	16.8	35.8
Total	154.5	163.1

The main factor affecting other operating expenses was the increase in costs for temporary staff and general services – in particular, freight forwarding – resulting from the rise in demand.

This was offset, above all, by the absence of costs related to the funding negotiations and the early repayment of the US private placement in 2010. These costs had been recognised under cost of fees, contributions and consultancy services and under sundry other expenses respectively.

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

	2011	2010
€ million		
Profit/loss on equity-accounted investments		
Income from equity-accounted investments	4.0	2.1
Expenses from equity-accounted investments	-4.2	-4.9
Total	-0.2	-2.8
Other investment income	1.7	1.9
Total	1.5	-0.9

In 2011, the expenses in respect of equity-accounted investments consisted of the proportion of the budgeted start-up losses attributable to DEUTZ AG from Bosch Emission Systems GmbH & Co. KG, Stuttgart. Income from equity-accounted investments is primarily attributable to investments in D.D.Power Holdings, South Africa and Weifang Weichai, China.

9. INTEREST EXPENSES, NET

	2011	2010
€ million		
Interest received on credit balances held with banks	0.1	0.8
Other interest income	0.9	8.8
Interest and similar income	1.0	9.6
Interest paid on liabilities to banks	-6.2	-1.0
Interest paid on bonds	-1.2	-28.8
Other interest expenses and similar charges	-7.0	-6.0
Interest expenses and similar charges (finance costs)	-14.4	-35.8
Interest expenses, net	-13.4	-26.2

The key factor in the significantly improved net interest expense was the replacement of the US private placement by new funding in December 2010. The resulting sharp decline in interest expense and similar charges was partly offset by the absence of interest and similar income from hedging the interest-rate risk.

Borrowing costs of €2.4 million (2010: €3.1 million) were capitalised in 2011. The average interest rate of 6.9 per cent (2010: 12.9 per cent) on borrowings in the current 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:

	Continuing operations	Discontinued operations	Total
2011			
€ 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

	Continuing operations	Discontinued operations	Total
2010			
€ million			
Current tax expense	4.6	-	4.6
thereof unrelated to the reporting period	3.7	-	3.7
Deferred taxes	6.0	-	6.0
thereof due to temporary differences	13.6	-	13.6
thereof from losses carried forward	-7.6	-	-7.6
Total tax expense	10.6	-	10.6

Current income tax in an amount of €5.0 million is related to additional provisions for anticipated back-payments of tax resulting from the ongoing tax audit at DEUTZ AG for the years 2006 to 2008. The deferred tax expense for the reporting year included expenses of €15.2 million arising from temporary differences (2010: €13.6 million), which were largely attributable to a year-on-year rise in capitalised development expenditure.

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 2010 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.

	2011	2010
€ million		
Net income before income taxes	76.5	-5.3
Anticipated tax	24.2	-1.7
Difference in local basis of assessment	1.9	1.1
Tax rates outside Germany	-0.1	-0.1
Change in deferred taxes recognised in respect of loss carryforwards	-17.0	-5.1
Effect of non-deductible expenses	0.8	11.9
Gains/losses on equity-accounted investment	1.0	-0.5
Effect of tax-exempt income	-3.3	2.0
Effects from other periods		
- Tax payments for previous years	-4.8	3.7
- Deferred taxes from tax audits	-	0.4
Loss from partnerships	-1.7	-1.2
Other	-0.1	0.1
Effective tax expense	1.0	10.6
Effective tax rate (%)	0.0	-2.0

The change in deferred taxes recognised in respect of loss carryforwards was due in 2011 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 a refund of income tax of €6.8 million. The tax asset resulted from the ongoing tax audit in connection with the DEUTZ Power Systems segment. DEUTZ AG sold the DEUTZ Power Systems segment, including its associates and subsidiaries, in 2007. 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 2011 or 2010.

	2011	2010
€ thousand/shares in thousands		
Net income	75,515	-15,936
Weighted average of shares outstanding	120,862	120,862
Earnings per share (€)	0.62	-0.13
thereof from continuing operations	0.57	-0.13
thereof from discontinued operations	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:

	2011			2010		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
€ million						
Currency translation differences	5.2	–	5.2	10.8	–	10.8
Effective portion of change in fair value from cash flow hedges	–2.2	0.7	–1.5	–	–	–
Change in fair value of available-for-sale financial instruments	–	–	–	0.2	–	0.2
Other comprehensive income	3.0	0.7	3.7	11.0	–	11.0

In 2011, gains of €0.8 million on cash flow hedges (2010: losses of €1.3 million) recognised in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating income or 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	Construction in progress	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	Construction in progress	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 31 Dec 2011	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

Gross figures Cost of purchase/conversion	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Construction in progress	Total
€ million					
Balance at 1 Jan 2010	194.4	488.7	180.7	8.9	872.7
Exchange rate differences	0.1	0.3	0.4	–	0.8
Additions	0.4	10.1	16.2	6.3	33.0
Capital investment grants	–	–	–2.4	–	–2.4
Disposals	–	–6.4	–8.5	–	–14.9
Reclassifications	–	6.1	3.7	–10.3	–0.5
Balance at 31 Dec 2010	194.9	498.8	190.1	4.9	888.7

Gross figures Depreciation and impairment	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Construction in progress	Total
€ million					
Balance at 1 Jan 2010	62.2	339.9	135.1	–	537.2
Exchange rate differences	0.1	0.1	0.3	–	0.5
Depreciation	4.8	24.8	14.5	–	44.1
Impairment	–	–	–	–	–
Disposals	–	–6.1	–7.5	–	–13.6
Balance at 31 Dec 2010	67.1	358.7	142.4	–	568.2
Net carrying amount at 31 Dec 2010	127.8	140.1	47.7	4.9	320.5

Acquisitions of property, plant and equipment related, among other things, to capital expenditure on machinery and assembly equipment for developing new engines and refining existing models as well as to replacement procurement of various kinds.

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 €4.3 million were recognised as at 31 December 2011 (31 December 2010: €5.2 million). In 2011, grants of €1.0 million (2010: €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 99.

The carrying amounts of property, plant and equipment pledged as collateral for financial liabilities amounted to €249.9 million as at 31 December 2011 (31 December 2010: €256.9 million). The loan collateralisation comprises prior charges on DEUTZ AG's real estate and the pledging as collateral of property, plant and equipment of the Group.

15. INTANGIBLE ASSETS

Gross figures Cost of purchase/conversion	Internally generated intangible assets	Other intangible assets	Total
€ million			
Balance at 1 Jan 2011	238.6	106.3	344.9
Additions	74.1	5.3	79.4
Capital investment grants	-12.5	-1.1	-13.6
Disposals	-0.2	-3.7	-3.9
Reclassifications	-	0.8	0.8
Balance at 31 Dec 2011	300.0	107.6	407.6

Gross figures Amortisation and impairment	Internally generated intangible assets	Other intangible assets	Total
€ million			
Balance at 1 Jan 2011	71.9	87.4	159.3
Amortisation	15.7	8.4	24.1
Impairment	-	-	-
Disposals	-	-3.7	-3.7
Balance at 31 Dec 2011	87.6	92.1	179.7
Net carrying amount at 31 Dec 2011	212.3	15.5	227.8

Gross figures Cost of purchase/conversion	Internally generated intangible assets	Other intangible assets	Total
€ million			
Balance at 1 Jan 2010	179.7	99.2	278.9
Exchange rate differences	-	0.1	0.1
Additions	73.5	8.5	82.0
Capital investment grants	-14.5	-1.9	-16.4
Disposals	-0.1	-0.1	-0.2
Reclassifications	-	0.5	0.5
Balance at 31 Dec 2010	238.6	106.3	344.9

Gross figures Amortisation and impairment	Internally generated intangible assets	Other intangible assets	Total
€ million			
Balance at 1 Jan 2010	54.7	78.4	133.1
Exchange rate differences	-	0.1	0.1
Amortisation	10.1	9.1	19.2
Impairment	7.1	-	7.1
Disposals	-	-0.2	-0.2
Balance at 31 Dec 2010	71.9	87.4	159.3
Net carrying amount at 31 Dec 2010	166.7	18.9	185.6

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 particularly on the market launch of engines complying with the Tier 4 Interim emissions standard, the forthcoming implementation of the Tier 4 Final emissions standard for industrial and agricultural applications, and on the development of the new TCD 2.9 and TCD 3.6 engines.

The income statement for the year under review includes research and development expenditure of €35.7 million (2010: €28.3 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:

	2011	2010
€ million		
1 January	69.7	49.3
Additions	0.3	19.3
Share of profit/loss on equity-accounted investments	-0.2	-2.8
Other changes arising from measurement using the equity method	2.0	3.9
31 December	71.8	69.7

One associate has a different financial year (ending on 30 November). In this case, 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. The disclosures show total figures for the associates and not the pro rata figures attributable to the proportion of equity in the associates held by the DEUTZ Group.

	31/12/2011	31/12/2010
€ million		
Total assets	18.5	23.3
Total liabilities	4.9	9.4
	2011	2010
Revenue	30.7	29.2
Net income	4.8	4.3

DEUTZ AG holds a 50 per cent equity interest in DEUTZ (Dalian) Engine Co., Ltd., Dalian/China, in WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO. LTD., Weifang/China, and in DEUTZ AGCO MOTORES S.A., Haedo/Argentina. Each of these three companies manufactures engines locally for international DEUTZ customers. In addition, DEUTZ AG indirectly holds an equity interest of 25.004 per cent in Bosch Emission Systems Verwaltungs-GmbH, Stuttgart, and holds an indirect investment of 25.002 per cent as a limited partner in Bosch Emission Systems GmbH & Co. KG; material strategic decisions regarding financial and operating policy must be made unanimously by the advisory board of Bosch Emission Systems Verwaltungs-GmbH. The investments in the four jointly controlled entities are accounted for using the equity method.

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

	31/12/2011	31/12/2010
€ million		
Current assets	167.7	115.7
Non-current assets	87.4	66.8
Total assets	255.1	182.5
Current liabilities	164.0	81.3
Non-current liabilities	9.4	34.8
Total liabilities	173.4	116.1
	2011	2010
Revenue	204.3	156.7
Net income	-1.7	-4.1

17. OTHER FINANCIAL ASSETS (NON-CURRENT)

	2011	2010
€ million		
Equity investments	5.8	5.8
Cost of borrowing	2.9	6.7
Non-current securities	2.0	1.9
Loans	1.3	1.3
Total	12.0	15.7

Equity investments

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

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.

Non-current securities

This balance sheet item comprises securities amounting to €2.0 million (31 December 2010: €1.9 million) in the form of shares and bonds. The securities are used as a form of investment for the pension obligations of a foreign subsidiary (DEUTZ Corporation).

18. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilised tax losses carried forward of €793.9 million for corporation tax (2010: €1,059.5 million) and €888.5 million for trade tax (2010: €1,193.5 million). The tax loss carryforwards for 2010 have been restated in connection with tax returns. The tax loss carryforwards were also reduced at the balance sheet date owing to the restructuring of DEUTZ AG's shareholders.

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:

	31/12/2011	31/12/2010
€ million		
Non-current		
Deferred tax assets	17.2	16.4
Deferred tax provisions	2.8	–
Current		
Current tax assets	0.9	0.5
Provision for income taxes	0.2	4.0
Income tax liabilities	0.6	0.4

The total decrease of €2.0 million in deferred taxes to €14.4 million was largely attributable to the year-on-year rise in capitalised development expenditure; higher deferred tax assets resulting from loss carryforwards had a countervailing effect but, due to minimum taxation regulations, they could not be capitalised at the full amount of the deferred tax liabilities. The change was essentially recognised in the income statement.

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

	31/12/2011		31/12/2010	
	Assets	Liabilities	Assets	Liabilities
€ million				
Intangible assets	–	67.1	–	53.1
Property, plant and equipment	7.9	3.4	8.7	1.4
Equity-accounted investments and financial assets	–	1.0	–	2.1
Inventories	0.9	2.0	1.1	1.3
Receivables and other assets	2.8	–	2.1	–
Liabilities	28.9	13.6	28.7	11.4
Losses carried forward	58.7	–	47.2	–
Consolidation	2.6	–	2.3	–
Other	0.2	0.3	0.7	–
Impairment losses	–0.2	–	–5.1	–
Deferred taxes (gross)	101.8	87.4	85.7	69.3
Netting	84.6	84.6	69.3	69.3
Deferred taxes (net)	17.2	2.8	16.4	–

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 €14.4 million (31 December 2010: €16.4 million).

The change in deferred taxes in respect of temporary differences – which were recognised in other comprehensive income – amounted to €1.4 million for financial assets (31 December 2010: €0.0 million) and €2.1 million for liabilities (31 December 2010: €0.0 million).

As at 31 December 2011, no deferred tax liabilities in respect of taxes on untransferred profits from subsidiaries, associates or joint ventures for temporary differences in the amount of €18.7 million (31 December 2010: €13.9 million) were recognised 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 taxes have not been recognised

	31/12/2011	31/12/2010
€ million		
Corporation tax	674.8	931.7
Trade tax	766.5	1,047.2

Thereof: expiry periods for German and international losses carried forward

	Corporation tax 31 Dec		Trade tax 31 Dec	
	2011	2010	2011	2010
€ million				
Less than 5 years	–	–	–	–
6 to 9 years	–	–	1.9	2.2
Indefinite	674.8	931.7	764.6	1,045.0

19. INVENTORIES

	31/12/2011	31/12/2010
€ million		
Raw materials and supplies, bought-in parts and spare parts	111.4	90.2
Work in progress	34.4	32.2
Finished goods	41.8	35.2
Total	187.6	157.6

As at 31 December 2011, the carrying amount of inventories written down to net realisable value was €37.8 million (31 December 2010: €31.1 million).

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

	2011	2010
€ million		
1 January	27.7	26.3
Changes	0.2	1.4
31 December	27.9	27.7

The carrying amounts of inventories pledged as collateral for financial liabilities amounted to €159.5 million as at 31 December 2011 (31 December 2010: €135.5 million). The loan collateralisation comprises the pledging as collateral of inventories of the Group.

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

	31/12/2011	31/12/2010
€ million		
Trade receivables	169.8	165.7
Less adjustments	-6.2	-5.6
Trade receivables (net)	163.6	160.1
Other receivables and assets		
Receivables from investments	16.0	4.9
thereof trade receivables	13.6	3.2
thereof other receivables	2.4	1.7
Advances paid on property, plant and equipment and inventories	6.7	3.0
Derivative financial instruments	0.7	0.9
Sundry other receivables	21.1	31.1
Receivables arising from other taxes	6.7	3.8
Prepaid expenses	3.4	3.5
Total	54.6	47.2

As at 31 December 2011, the volume of receivables sold under factoring agreements was around €138 million (31 December 2010: €139 million).

Trade receivables with a principal amount of €7.2 million were written down as at 31 December 2011 (31 December 2010: €7.3 million). The following table shows the change in the valuation allowance account:

	2011	2010
€ million		
Balance at 1 January	5.6	4.9
Additions	1.9	1.9
Utilisation	-0.6	-1.1
Reversals	-0.7	-0.1
Balance at 31 December	6.2	5.6

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 2011, write-downs of €23.8 million (31 December 2010: €23.3 million) had been recognised on receivables due in respect of equity investments.

The carrying amounts of financial assets pledged as collateral for financial liabilities amounted to €125.8 million as at 31 December 2011 (31 December 2010: €107.8 million). The loan collateralisation comprises the blanket assignment of receivables and claims of DEUTZ AG and DEUTZ Corporation, Atlanta/USA, with the exception of trade receivables offered for purchase under a non-recourse factoring arrangement, and the pledging of receivables and claims of DEUTZ DITER S.A., Zafra/Spain.

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, short-term deposits and credit balances held with banks. Cash and cash equivalents pledged as collateral for financial liabilities amounted to €47.4 million as at 31 December 2011 (31 December 2010: €64.1 million).

22. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The non-current assets classified as held for sale as at 31 December 2011 and 31 December 2010 relate to the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, which are situated in Cologne. In 2011, a partial disposal of these assets generated a gain of €0.2 million, which is recognised under other operating income. The land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH are allocated to the DEUTZ Compact Engines segment.

23. EQUITY

	31/12/2011	31/12/2010
€ million		
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	9.1	5.4
Retained earnings	79.1	79.1
Accumulated loss	27.5	-48.0
Equity attributable to the shareholders of the parent	453.5	374.3
Total	453.5	374.3

Issued capital

At the end of 2011, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2010) 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 Currency translation differences arising from the translation of equity at historical rates and the translation of the net income at average rates for the year are reported under a separate item in other comprehensive income. In the year under review, this item increased other comprehensive income by €5.2 million (2010: €10.8 million increase in other comprehensive income). The cumulative gain on translation differences recognised in other reserves amounted to €10.5 million at the end of 2011 (31 December 2010: gain of €5.4 million recognised).

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.

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 2011 came to €16.5 million (2010: €15.6 million). In addition, a further €3.0 million (2010: €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

	31/12/2011	31/12/2010
€ million		
Unfunded	177.4	178.7
Funded	23.1	20.2
Total	200.5	198.9

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

	31/12/2011	31/12/2010
€ million		
Service cost	0.1	0.1
Interest cost	9.5	10.1
Anticipated return on plan assets	-0.8	-0.8
Total	8.8	9.4

Interest cost and estimated return on plan assets are reported under staff costs. In the year under review, there was an actual gain of €0.6 million on plan assets (2010: recognised gain of €2.0 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

	31/12/2011	31/12/2010
€ million		
Defined benefit obligation for pensions and other post-retirement benefits	200.5	198.9
External plan assets measured at fair value	-20.6	-18.8
Actuarial gain (+)/loss (-)	-15.8	-9.5
Pension provisions reported on the face of the balance sheet	164.1	170.6

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

	2011	2010
€ million		
DBO at 1 January	198.9	201.8
Service cost	0.1	0.1
Employee contributions	0.6	0.4
Interest	9.5	10.1
Gain (-)/loss (+)	6.4	2.1
Exchange rate differences	0.7	0.5
Pensions paid	-15.7	-16.1
DBO at 31 December	200.5	198.9

Change in the fair value of plan assets

	2011	2010
€ million		
Fair value of plan assets at 1 January	18.8	16.2
Anticipated return on plan assets	0.8	0.8
Gains (+)/losses (-) on plan assets	-0.3	1.2
Exchange rate differences	0.5	0.4
Employer contributions	0.6	0.4
Employer contributions	0.7	0.4
Pensions paid from plan assets	-0.5	-0.6
Fair value of plan assets at 31 December	20.6	18.8

Composition of plan assets

	31/12/2011	31/12/2010
in%		
Equities	40	40
Debt securities	40	40
Other assets	20	20

The external plan assets relate to 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

	2011	2010
(%)		
Discount rate		
Germany	4.61	5.04
USA	4.50	5.50
UK	4.75	5.50
Foreign countries (weighted)	4.71	5.50
Anticipated return on plan assets		
Germany	-	-
USA	-	-
UK	4.75	5.70
Foreign countries (weighted)	4.75	5.70
Rate of pension increase		
Germany	2.00	2.00
USA	3.00	3.00
UK	2.50	2.75
Foreign countries (weighted)	2.56	2.78
Rate of salary increase		
Inland	-	-
USA	4.00	4.00
UK	2.75	2.75
Foreign countries (weighted)	2.93	2.91

	2011	2010	2009	2008	2007
€ million					
Defined benefit obligation for pensions and other post-retirement benefits	200.5	198.9	201.8	198.0	212.6
External plan assets measured at fair value	-20.6	-18.8	-12.8	-10.7	-13.7
Plan funding (surplus)/deficit	179.9	180.1	189.0	187.3	198.9
Gains (+)/losses (-) based on historical experience					
on obligations	2.2	1.9	1.0	3.0	1.1
on plan assets	0.3	1.5	0.5	-2.6	-0.1

The DEUTZ Group forecasts that its contributions to defined benefit pension plans will amount to €16.0 million in 2012.

25. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

	31/12/2011			31/12/2010		
	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	46.4	26.9	19.5	38.4	21.2	17.2
Imminent losses on pending transactions	5.9	2.2	3.7	8.5	3.7	4.8
Obligations to employees	11.9	8.1	3.8	12.1	7.4	4.7
Personnel restructuring	-	-	-	0.9	0.9	-
Other	8.1	5.8	2.3	12.6	9.5	3.1
Total	72.3	43.0	29.3	72.5	42.7	29.8

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 5.5 per cent.

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

The following table shows the changes to other provisions in 2011:

	Warranties	Imminent losses on pending transactions	Obligations to employees	Personnel restructuring	Other	Total
€ million						
1/1/2011	38.4	8.5	12.1	0.9	12.6	72.5
Additions	9.1	–	7.7	–	0.6	17.4
Exchange differences	–	–	–	–	0.1	0.1
Utilisation	–1.6	–1.2	–7.4	–0.9	–3.8	–14.9
Reversals	–	–1.6	–0.5	–	–1.4	–3.5
Accrued interest/effect of changes in interest rates	0.5	0.2	–	–	–	0.7
31/12/2011	46.4	5.9	11.9	–	8.1	72.3

26. FINANCIAL LIABILITIES

	31/12/2011				31/12/2010			
	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	102.9	1.9	101.0	–	123.3	3.0	120.3	–
Other financial liabilities	18.3	–	17.0	1.3	18.2	–	16.9	1.3
Total	121.2	1.9	118.0	1.3	141.5	3.0	137.2	1.3

Liabilities to banks

Liabilities to banks are predominantly a result of the revolving working capital facility being drawn down. A syndicate of banks has made a number of credit lines available to DEUTZ AG since the end of 2010: a revolving credit line of €265.0 million (working capital facility) as well as further credit lines of €12.0 million (margin credit line), €6.6 million (guarantee facility) and €3.6 million. The revolving credit line will reduce in stages and must be repaid in full by 31 December 2014. 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, ratio of EBITDA to net interest cost and ratio of financial liabilities to EBITDA).

Other financial liabilities

Other financial liabilities consist of interest-bearing liabilities to former institutional investors as part of the overall restructuring of funding as well as government loans.

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

	31/12/2011	31/12/2010
(%)		
Liabilities to banks	3.72	3.27
Other financial liabilities	7.46	7.54

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

	31/12/2011	31/12/2010
€ million		
€	108.0	128.7
US-\$	13.2	12.8
Total	121.2	141.5

The fair value of financial liabilities is described in Note 28 on page 90.

27. TRADE PAYABLES AND OTHER LIABILITIES

	31/12/2011	31/12/2010
€ million		
Trade payables	209.1	205.2
Other liabilities		
Sales liabilities	22.6	30.2
Liabilities to investments	13.7	13.3
Personnel-related liabilities	12.3	12.4
Derivative financial instruments	4.7	–
Advances received	3.1	2.5
Liabilities arising from other taxes	2.3	1.4
Other liabilities and deferred income	17.1	13.9
Total	75.8	73.7

The liabilities from derivative financial instruments resulted from the marking to market of derivatives that serve to hedge the interest-rate risk and cash flows in foreign currency.

The interest benefit with a value of €0.4 million derived from an interest-free government loan was recognised as deferred income as at 31 December 2011 (31 December 2010: €0.5 million). The loan was initially recognised at fair value and is reported as a non-current financial liability.

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 include dividend income of €1.5 million for 2011 (2010: €1.9 million).

The capital expenditure on investments includes payments for shares in Bosch Emission Systems GmbH & Co. KG, Stuttgart.

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2011 and 2010.

	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
2011						
€ 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 before one-off items)	47.2	46.5	–2.5	91.2	–	91.2

	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
2010						
€ million						
External revenue	919.0	270.1	–	1,189.1	–	1,189.1
Intersegment revenue	–	–	–	–	–	–
Total revenue	919.0	270.1	–	1,189.1	–	1,189.1
Depreciation and amortisation	61.4	1.8	0.1	63.3	–	63.3
Impairment	7.1	–	–	7.1	–	7.1
Profit/loss on equity-accounted investments	0.7	–	–3.5	–2.8	–	–2.8
Income from the reversal of provisions	7.3	–	–	7.3	–	7.3
Operating profit (EBIT before one-off items)	17.3	33.5	–8.6	42.2	–	42.2

31/12/2011	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
€ million						
Segment assets (inventories/trade receivables)	253.9	97.3	–	351.2	–	351.2
Segment liabilities (trade payables)	188.9	20.2	–	209.1	–	209.1
Working capital	65.0	77.1	–	142.1	–	142.1

31/12/2010	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
€ million						
Segment assets (inventories/trade receivables)	228.6	89.1	–	317.7	–	317.7
Segment liabilities (trade payables)	181.0	24.1	–	205.1	–	205.1
Working capital	47.6	65.0	–	112.6	–	112.6

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

	2011	2010
€ million		
Overall profit or loss of the segments	91.2	42.2
Reconciliation	–	–
Operating profit (EBIT before one-off items)	91.2	42.2
One-off items	–	–19.9
EBIT	91.2	22.3
Net finance costs	–13.4	–26.2
Other taxes	–1.3	–1.4
Net income before taxes on continuing operations	76.5	–5.3
Income taxes	–7.8	–10.6
Net income on continuing operations	68.7	–15.9
Net income on discontinued operations	6.8	–
Net income	75.5	–15.9

Reconciliation of segment assets and segment liabilities

	31/12/2011	31/12/2010
€ million		
Total assets for segments	351.2	317.7
Reconciliation	–	–
Segment assets for the DEUTZ Group	351.2	317.7
Non-current assets	640.3	607.9
Other receivables and assets	55.5	47.7
Cash and cash equivalents	51.6	67.9
Non-current assets classified as held for sale	0.4	0.5
Assets according to the consolidated balance sheet	1.099.0	1.041.7
Total liabilities of the segments	209.1	205.1
Reconciliation	–	–
Segment liabilities for the DEUTZ Group	209.1	205.1
Provisions	239.4	247.1
Financial liabilities	121.2	141.5
Other liabilities	75.8	73.7
Liabilities according to the consolidated balance sheet	645.5	667.4

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.

Internal financial reporting on assets and liabilities comprises working capital as well as its individual components of inventories, trade receivables and trade payables.

Information about products and services

	2011	2010
€ million		
Engines	1,069.2	804.6
Service	129.9	114.4
DEUTZ Compact Engines	1,199.1	919.0
Engines	218.2	169.0
Service	111.7	101.1
DEUTZ Customised Solutions	329.9	270.1
Total	1,529.0	1,189.1

Geographical information about external revenue

	2011	2010
€ million		
Germany	276.6	228.8
Outside Germany	1,252.4	960.3
thereof rest of Europe	860.6	682.1
thereof Middle East	29.8	23.4
thereof Africa	58.0	49.6
thereof Americas	177.2	116.1
thereof Asia-Pacific	126.8	89.1
Total	1,529.0	1,189.1

Of the European countries outside Germany, Switzerland accounted for €137.8 million in the reporting year (2010: €106.2 million), Sweden for €137.7 million (2010: €88.0 million) and France for €133.0 million (2010: €125.2 million).

The above information is presented according to customer location. One customer accounted for at least 10 per cent of our total revenue in 2011 and 2010. The revenue from this customer amounted to €374.2 million (2010: €326.7 million) and is reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

	2011	2010
€ million		
Germany	503.4	472.1
Outside Germany	107.8	103.7
Total	611.2	575.8

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 written 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.

In order to minimise counterparty risk, DEUTZ only works with leading banks.

The Treasury department manages the lines of credit in accordance with the Group's financing principles. Subsidiaries are funded primarily by DEUTZ Group loans, but in some cases DEUTZ AG's lines of credit with banks are made available to subsidiaries and secured by guarantees.

Liquidity risk

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

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 €265 million that runs until the end of 2014. The Company is obliged to comply with certain covenants as part of the loan agreement. These covenants are defined by key financials based on the ratio of net debt to equity, net debt to EBITDA (before one-off items) and EBITDA (before one-off items) to net interest income/expense. The covenant ratios to be complied with are based on the medium-term planning and allow sufficient leeway. Please also refer to the notes on funding in the "Financial position" section of the group management report.

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 net cash flows	-0.5	-0.1	-	-0.6
Commodity derivatives				
Presentation of cash flows	-1.5	-0.2	-	-1.7

31/12/2010	2011 cash outflow	2012–2015 cash outflow	> 2015 cash outflow	Total
€ million				
Primary financial instruments	-272.6	-155.2	-	-427.8
Derivative financial instruments	0.6	0.1	-	0.7
Currency derivatives				
thereof gross settlement: cash outflows	-2.8	-	-	-2.8
thereof gross settlement: cash inflows	2.6	-	-	2.6
Commodity derivatives				
Presentation of cash flows	0.8	0.1	-	0.9

			thereof impaired at the balance sheet date	
	Carrying amount	thereof neither past due nor impaired at the balance sheet date	Gross amount before impairment	Impairment
31/12/2011				
€ 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

			thereof impaired at the balance sheet date	
	Carrying amount	thereof neither past due nor impaired at the balance sheet date	Gross amount before impairment	Impairment
31/12/2010				
€ million				
Non-current financial assets	1.3	1.3	0.8	-0.8
Current financial assets	200.2	170.3	34.5	-29.0
Trade receivables	160.1	134.0	7.3	-5.6
Other receivables and assets	40.1	36.3	27.2	-23.4

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 avilment of revolving credit facilities was concerned, it was assumed that the amounts already drawn down by the balance sheet date, taking the contractual reduction amounts into consideration, would continue to apply until the end of the term of the loan agreement.

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 €51.6 million (31 December 2010: €67.9 million), available-for-sale financial assets of €7.8 million (31 December 2010: €7.7 million) and held-for-trading financial assets of €0.7 million (31 December 2010: €0.9 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 Kreditversicherungs-AG. DEUTZ AG 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 against letters of credit confirmed by a bank or against 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 €2.1 million (31 December 2010: €1.8 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
–	–	–	–
26.4	1.6	1.0	–
26.4	1.6	1.0	–
–	–	–	–

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
–	–	–	–
22.2	1.6	0.6	–
22.2	1.6	0.6	–
–	–	–	–

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 reduced by the use of hedging transactions. The Treasury department uses hedges, primarily currency forwards, to hedge currency risk emanating from the net position on 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 way of “natural hedging”. 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 that 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 commodities and other currency forward contracts. Changes in the exchange rates for the currencies underlying these financial instruments result in gains or losses from 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%

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

2010	Notional amounts	Effect on net income	Notional amounts	Effect on net income
€ million				
US-\$	15.2	-2.8	21.3	2.0

Decrease of the Euro by 10%

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

2010	Notional amounts	Effect on net income	Notional amounts	Effect on net income
€ million				
US-\$	15.2	3.2	21.3	-2.4

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 below are based on interest-rate risk exposures at the balance sheet date. As far as the availment 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 €1.2 million (2010: €1.2 million). A cut in interest rates of 100 basis points would have an equal but opposite effect.

Commodity-price risk and raw materials sensitivity analysis

The DEUTZ Group is exposed to risk arising from changes in prices for metal raw materials, particularly steel and aluminium. DEUTZ hedges part of its commodities risk by way of aluminium swap agreements. A 10 per cent change in the price of aluminium (expressed in US dollars, assuming a constant USD/EUR exchange rate) would have an impact of €0.8 million on the derivative transaction (2010: €1.0 million).

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 balance sheet figures that the DEUTZ Group is striving to re-establish for the future should meet 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 during the year under review. As at the balance sheet date, the net financial position was minus €69.6 million, which equated to a year-on-year increase of €4.0 million (31 December 2010: minus €73.6 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 2011 was €4.8 million (31 December 2010: minus €55.9 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 2011, the equity ratio for the DEUTZ Group was 41.3 per cent (31 December 2010: 35.9 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	Carrying amount on the face of the balance sheet
	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Held-for-trading financial assets	Carrying amount	
31/12/2011						
in € 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 assets

	Measured at amortised cost		Measured at fair value		Assets not falling under the scope of IAS 39	Carrying amount on the face of the balance sheet
	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Held-for-trading financial assets	Carrying amount	
31/12/2010						
in € million						
Non-current financial assets	1.3	5.8	1.9	–	6.7	15.7
Current financial assets	268.1	–	–	0.9	6.7	275.7
Trade receivables	160.1	–	–	–	–	160.1
Other receivables and assets	40.1	–	–	0.9	6.7	47.7
Cash and cash equivalents	67.9	–	–	–	–	67.9

Financial liabilities

	Measured at amortised cost	Measured at fair value		Liabilities not falling under the scope of IAS 39	Carrying amount on the face of the balance sheet
	Financial liabilities	Derivates desi- gned as hedging instruments (without affec- ting profit/loss)	Held-for- trading financial liabilities	Carrying amount	
31/12/2011					
€ 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

Financial liabilities

	Measured at amortised cost	Measured at fair value		Liabilities not falling under the scope of IAS 39	Carrying amount on the face of the balance sheet
	Financial liabilities	Derivates desi- gned as hedging instruments (without affec- ting profit/loss)	Held-for- trading financial liabilities	Carrying amount	
31/12/2010					
€ million					
Non-current financial liabilities	144.7	-	-	1.2	145.9
Financial liabilities	138.5	-	-	-	138.5
Other liabilities	6.2	-	-	1.2	7.4
Current financial liabilities	267.7	-	-	6.7	274.4
Financial liabilities	3.0	-	-	-	3.0
Trade payables	205.1	-	-	-	205.1
Other liabilities	59.6	-	-	6.7	66.3

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.

	31/12/2011		31/12/2010	
	Carrying amount	Fair value	Carrying amount	Fair value
€ million				
Financial assets	266.4	260.6	275.2	269.4
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	163.6	163.6	160.1	160.1
Other receivables and assets	44.1	44.1	40.1	40.1
Cash and cash equivalents	51.6	51.6	67.9	67.9
Financial liabilities	391.4	391.3	412.4	412.1
Liabilities to banks and other financial liabilities	121.2	121.1	141.5	141.2
Trade payables	209.1	209.1	205.1	205.1
Other liabilities	61.1	61.1	65.8	65.8

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 2011 (31 December 2010: €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 2011, the DEUTZ Group held the following financial instruments measured at fair value:

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	–

31/12/2010	Carrying amount	Level 1	Level 2	Level 3
€ million				
Financial assets				
Available-for-sale financial assets	1.9	1.9	–	–
Held-for-trading derivatives	0.9	–	0.9	–

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, commodities and currency forward contracts) is calculated over the residual maturity of the instrument on the basis of current exchange rates, commodity prices, market interest rates and yield curves. The data is based on bank valuations.

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:

	Loans and receivables	Held-for- trading financial assets	Financial liabilities measured at amortised cost	Held-for- trading financial liabilities
31/12/2011				
€ million				
Net gains/losses	2.2	-2.0	0.2	-
31/12/2010				
€ million				
Net gains/losses	-3.2	0.9	5.4	1.0

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, no unrealised gains or losses on available-for-sale financial assets were recognised in other comprehensive income (2010: gains of €0.2 million). No realised gains or losses were reclassified from other comprehensive income to the income statement in 2011.

Total interest income and interest expense

In 2011, interest income of €1.0 million (2010: €1.4 million) and interest expense of €7.4 million (2010: €29.8 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 31 December 2011, the DEUTZ Group had entered into currency forward contracts in US dollars (31 December 2010: US dollars and Australian dollars) classified as hedges for the purpose of hedging the currency risk on forecast transactions denominated in foreign currency.

Unrealised losses of €1.5 million on cash flow hedges (2010: gains of €0.9 million) were recognised in other comprehensive income in 2011, taking into account deferred tax assets of €0.7 million (2010: deferred tax liabilities of €0.4 million). These changes in fair value represent the effective portion of the hedge. In 2011, gains of €0.8 million (2010: losses of €1.3 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 2011, 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 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.

Derivative financial instruments

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

	Notional amounts 2011	Notional amounts 2010	Fair values 2011	Fair values 2010
€ million				
Currency forwards				
not used as hedges	8.5	3.2	0.7	–
used as cash flow hedges	64.9	23.5	–2.1	–
Cross-currency swaps				
used as cash flow hedges	100.0	–	–1.1	–
Commodities				
not used as hedges	8.6	9.5	–1.5	0.9

29. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities

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

	31/12/2011	31/12/2010
€ million		
Liabilities on endorsed bills of exchange	2.2	2.7
Liabilities on guarantees	1.1	1.2
Warranty liabilities	1.3	1.5
Total	4.6	5.4

Other financial obligations

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

	31/12/2011	31/12/2010
€ million		
Due in less than 1 year	7.3	6.5
Due in 1 to 5 years	19.5	15.2
Due in more than 5 years	0.6	0.7
Total	27.4	22.4

The above obligations relate to leases on real estate and movable assets and obligations under public law.

Obligations under leases were not offset by any receivables in respect of sub-leases (31 December 2010: receivables of €0.0 million).

Commitments to purchase property, plant and equipment and intangible assets amounted to €50.2 million as at 31 December 2011 (31 December 2010: €31.1 million) and commitments to purchase inventories amounted to €88.3 million (31 December 2010: €64.8 million).

30. 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.

A claim brought by an American customer for damages of US\$ 25 million is pending. This action is without substance in the opinion of the Company because the engines were used in a manner contrary to instructions and liability for consequential loss is contractually excluded. A provision has been recognised to cover the risk in connection with the litigation.

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.

31. 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:

- SAME DEUTZ-FAHR Group S.p.A., Treviglio/Italy (group) and
- AB Volvo Power (publ), Gothenburg, Sweden (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	
	2011	2010	2011	2010	2011	2010	2011	2010
€ million								
Associates	–	–	–	–	0.9	1.1	–	–
Joint ventures	33.4	6.7	6.4	0.6	15.1	3.7	8.8	13.1
Other investments	0.4	0.3	4.2	4.0	–	0.1	4.9	4.8
Total	33.8	7.0	10.6	4.6	16.0	4.9	13.7	17.9

The increase in goods supplied and services rendered to joint ventures as well as in receivables due from joint ventures is predominantly due to the stepping up of business relations with our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. as a result of its increasingly strong business performance.

Impairment losses of €23.8 million (31 December 2010: €23.3 million) had been recognised on €38.9 million of the Company's receivables due from investments as at 31 December 2011 (31 December 2010: €27.1 million); this resulted in an expense of €0.5 million in 2011 (2010: €1.1 million). Some of these receivables and liabilities resulted from loans. 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:

	SAME DEUTZ-FAHR Group		Volvo Group	
	2011	2010	2011	2010
€ million				
Engines and spare parts supplied	101.1	71.6	374.2	326.6
Services	2.2	1.8	27.3	37.4
Receivables as at 31 December	19.5	17.9	42.4	56.1

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 benefits 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	
	2011	2010	2011	2010	2011	2010
€ million						
Current remuneration ¹⁾	0,9	0,8	2,5	2,8	4,1	3,4
Termination benefits	–	–	–	1,6	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.

32. EVENTS AFTER THE REPORTING PERIOD

On 12 January 2012, DEUTZ AG signed an agreement with the Chinese construction and agricultural equipment manufacturer Shandong Changlin Machinery Group to establish a company for the production of engines. The production company, called DEUTZ Engine (Shandong) Co., Ltd., which has its registered office in Linyi/China, will be managed from an industrial perspective by DEUTZ and will start producing 2011 series engines with capacities of up to four litres at the start of 2013. DEUTZ AG indirectly holds 70 per cent of the shares in the company, with Shandong Changlin Machinery Group holding the remaining 30 per cent.

33. REMUNERATION PROGRAMMES

Between 2007 and 2011, DEUTZ AG launched Long Term Incentive Plans Nos. I to V 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.

The options were granted on 1 July 2007 (Long Term Incentive Plan No. I), 1 February 2008 and 1 April 2009 (Long Term Incentive Plan No. II), 1 June 2009 (Long Term Incentive Plan No. III), 1 July 2010 (Long Term Incentive Plan No. IV) and 1 June 2011 (Long Term Incentive Plan No. V) without payment. It is at the discretion of the Company to decide how many options are granted.

As at the balance sheet date, 380,000 options had been granted under Long Term Incentive Plan No. I, 405,000 under Long Term Incentive Plan No. II, 330,000 under Long Term Incentive Plan No. III, 330,000 under Long Term Incentive Plan No. IV and 280,000

under Long Term Incentive Plan No. V. 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 2010. A total of 305,000 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 2011 (31 December 2010: 1,170,000).

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.

There is a three- or four-year vesting period from the date on which options are granted, i.e. options under Long Term Incentive Plan No. I were not exercisable before 1 July 2010, options under Long Term Incentive Plan No. II were/are not exercisable before 1 February 2011 or 1 April 2012, options under Long Term Incentive Plan No. III may not be exercised before 1 June 2013, options under Long Term Incentive Plan No. IV may not be exercised before 1 July 2014, and options under Long Term Incentive Plan No. V may not be exercised before 1 June 2015. Options can only be exercised within a period of four years from the end of the vesting period and only within ten days from the date of publication of quarterly financial statements. However, certain tranches of Long Term Incentive Plan No. II have vesting periods of either four or five years. The exercise periods for these options are adjusted accordingly.

The Company is entitled to change the start of an exercise window and may also accelerate the exercise and vesting periods of the options. A request to exercise options must be submitted to the Company in writing.

The reference price for all options issued on 1 July 2007 is €10.68. The reference price for a total of 40,000 options issued at a later date is €8.51. The reference price for all options issued on 1 February 2008 (1 April 2009) is €6.92 (€1.94). The reference price for all options issued on 1 June 2009 is €2.68. The reference price for all options issued on 1 July 2010 is €4.39. The reference price for all options issued on 1 June 2011 is €6.10.

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.

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 2010, although a total of 185,000 options had expired as a result of employees and Board of Management members leaving the Company. Therefore, a total of 195,000 options were outstanding as at 31 December 2011 (31 December 2010: 225,000).

Long Term Incentive Plan No. II:

No options had been exercised as at 31 December 2011 or 31 December 2010, although a total of 120,000 options had expired as a result of employees leaving the Company. Therefore, a total of 285,000 options were outstanding as at 31 December 2011 (31 December 2010: 285,000).

Long Term Incentive Plan No. III:

No options had been exercised as at 31 December 2011 or 31 December 2010, and no options had expired as a result of employees leaving the Company. Therefore, a total of 330,000 options were outstanding as at 31 December 2011 (31 December 2010: 330,000).

Long Term Incentive Plan No. IV:

No options had been exercised as at 31 December 2011, and no options had expired as a result of employees leaving the Company. Therefore, a total of 330,000 options were outstanding as at 31 December 2011 (31 December 2010: 330,000).

Long Term Incentive Plan No. V:

No options had been exercised as at 31 December 2011, and no options had expired as a result of employees leaving the Company. Therefore, a total of 280,000 options were outstanding as at 31 December 2011.

Notes on the fair value of options

Because 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 LTI Plan No. I.

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.

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 €4.11 on 31 December 2011 (31 December 2010: €6.25). Consequently, provisions in amount of €1.1 million (31 December 2010: €1.7 million) had been recognised at the end of 2011 and break down as follows:

Long Term Incentive Plan No. I:
€87,504 (31 December 2010: €361,863)
Long Term Incentive Plan No. II:
€451,506 (31 December 2010: €621,994)
Long Term Incentive Plan No. III:
€397,134 (31 December 2010: €556,335)
Long Term Incentive Plan No. IV:
€152,423 (31 December 2010: €133,603)
Long Term Incentive Plan No. V:
€46,722 (31 December 2010: €0)

DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

34. AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR (PURSUANT TO SECTION 314 (1) NO. 4 OF THE HGB)

	2011	2010
Non-salaried employees	2,600	2,318
Salaried employees	1,415	1,380
	4,015	3,698
Trainees	153	170
Total	4,168	3,868

35. CORPORATE GOVERNANCE

In December 2011, 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 (www.deutz.com).

36. AUDITORS' FEES

The total fees charged by the auditors of the consolidated financial statements for 2011 and 2010 can be broken down as follows:

	2011	2010
€ thousand		
Auditing	285	403
Other attestation services	140	283
Other services	223	105
Total	648	791

37. 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⁾
€ thousand								
Dr Ing Helmut Leube	2011	675	708	167	1.550	–	–	–163
	2010	675	541	164	1.380	–	–	349
Dr Margarete Haase	2011	550	283	141	974	–	–	–7
	2010	550	265	141	956	–	–	134
Gino Mario Biondi	2011	–	–	–	–	–	–	–
(until 15 July 2010)	2010	298	117	81	496	–	–	–30
Total	2011	1.225	991	307	2.523	–	–	–170
Total	2010	1.523	923	387	2.833	–	–	453

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 The employment contracts of the members of the Board of Management provide for a compensation payment in the event of premature termination of the 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.

The contracts also provide for a subsequent prohibition of competition. In addition, members of the Board of Management are 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, they receive a payment equivalent of two-thirds of the average remuneration they received in the preceding three years. The present value of the benefit entitlement was €917 thousand for Dr Leube as at 31 December 2011 (31 December 2010: €839 thousand) and €499 thousand for Dr Haase (31 December 2010: €446 thousand).

Remuneration paid to former members of the Board of Management or their surviving dependants This remuneration amounted to €1,448 thousand (2010: €1,475 thousand) for DEUTZ AG and the Group; provisions of €14,613 thousand (31 December 2010: €15,086 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	30,000	55,000
Werner Scherer Deputy Chairman	18,750	25,500	44,250
Dr Lodovico Bussolati	12,500	7,000	19,500
Dr Francesco Carozza	12,500	7,000	19,500
Michael Haupt	12,500	21,000	33,500
Dr Helmut Lerchner	12,500	6,000	18,500
Dr Michael Lichtenauer	12,500	7,000	19,500
Caterina Messina	12,500	7,000	19,500
Karl-Heinz Müller	12,500	11,000	23,500
Dr Witich Roßmann	12,500	7,000	19,500
Dr Herbert Vossel	12,500	7,000	19,500
Egbert Zieher	12,500	7,000	19,500
Total	168,750	142,500	311,250

Advances and loans to members of the Board of Management and the Supervisory Board As at 31 December 2011 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.

38. 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:

AB Volvo (publ), SE-40508 Gothenborg, Sweden notifies you pursuant to section 21 (1) WpHG, section 24 WpHG that the share of voting rights held in DEUTZ AG fell below the threshold of 10 per cent on 3 October 2003 and that the share now amounts to 7.09 per cent of voting rights.

In a letter dated 6 November 2010, Belfort S.A., Luxembourg, notified the following pursuant to section 21 et seq. WpHG:

"The share of voting rights held by SAME DEUTZ-FAHR Holding & Finance B.V., De Drieslag, 30, 8251 JZ DRONTEN, Netherlands, in DEUTZ AG fell below the threshold of 30 per cent on 3 December 2010; before 3 December it had been 44.97 per cent and it is now 25.11 per cent (a total of 30,352,781 bearer shares). The share of voting rights previously disclosed on 13 June 2006 pursuant to section 21 (1) WpHG amounted to 38.88 per cent.

We, Belfort S.A., 65, Boulevard Grande-Duchesse Charlotte, 1331 Luxembourg, hereby notify you pursuant to sections 21 and 22 WpHG in our own name and in the name of, and on behalf of, the companies and individuals specified under (i) and (iv) below that the share of voting rights held in DEUTZ AG by

- (i) SAME DEUTZ-FAHR Holding & Finance B.V., De Drieslag, 30, 8251 JZ DRONTEN, Netherlands,
- (ii) SAME DEUTZ-FAHR Group S.p.A., V. le Cassani, 14, 24047 Treviglio (BG), Italy,
- (iii) Intractor B.V., Rokin 55, 1012 KK Amsterdam, Netherlands,
- (iv) Messrs Vittorio Carozza, Francesco Carozza and Aldo Carozza and Ms Carozza-Cassani, V. le Cassani 14, 24047 Treviglio (BG), Italy, and
- (v) Belfort S.A., 65, Boulevard Grande-Duchesse Charlotte, 1331 Luxembourg,

has fallen below the threshold of 30 per cent.

The company specified under (i) above holds these voting rights itself. These voting rights are fully attributable to the companies and individuals specified under (ii) to (v) above pursuant to section 22 (1) sentence 1 number 1 and section 22 (3) WpHG."

In a letter dated 7 December 2010, pursuant to section 21 et seq. WpHG, Belfort S.A., Luxembourg, corrected the notifications dated 6 December 2010 and issued the following notifications:

"In our own name and in the name of, and on behalf of, SAME DEUTZ-Fahr Group S.p.A., V. le Cassani, 14, 24047 Treviglio (BG), Italy, we hereby notify you pursuant to section 21 (1) WpHG in conjunction with section 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by SAME DEUTZ-FAHR Group S.p.A. fell below the threshold of 30 per cent on 3 December 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares

representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to SAME DEUTZ-FAHR Group S.p.A. pursuant to section 22 (1) sentence 1 number 1 WpHG.

The voting rights attributable to SAME DEUTZ-FAHR Group S.p.A. are held via the following company, which is under the control of SAME DEUTZ-FAHR Group S.p.A. and whose share of voting rights in DEUTZ AG is 3 per cent or more:
SAME DEUTZ-FAHR Holding & Finance B.V."

"In our own name and in the name of, and on behalf of, Intractor B.V., Rokin 55, 1012 KK Amsterdam, Netherlands, we hereby notify you pursuant to section 21 (1) WpHG in conjunction with section 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by Intractor B.V. fell below the threshold of 30 per cent on 3 December 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to Intractor B.V. pursuant to section 22 (1) sentence 1 number 1 WpHG.

The voting rights attributable to Intractor B.V. are held via the following companies, which are under the control of Intractor B.V. and whose share of voting rights in DEUTZ AG is 3 per cent or more respectively:
SAME DEUTZ FAHR Group S.p.A.
SAME DEUTZ-FAHR Holding & Finance B.V."

"We hereby notify you pursuant to section 21 (1) WpHG in conjunction with section 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by us, Belfort S.A., 65, Boulevard Grande-Duchesse Charlotte, 1331 Luxembourg, fell below the threshold of 30 per cent on 3 December 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to us pursuant to section 22 (1) sentence 1 number 1 WpHG.

The voting rights attributable to us are held via the following companies, which are under our control and whose share of voting rights in DEUTZ AG is 3 per cent or more respectively:
Intractor B.V.
SAME DEUTZ FAHR Group S.p.A.
SAME DEUTZ-FAHR Holding & Finance B.V."

"In our own name and in the name of, and on behalf of, Vittorio Carozza, V. le Cassani, 14, 24047 Treviglio (BG), Italy, we hereby notify you pursuant to section 21 (1) WpHG in conjunction with section 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by Vittorio Carozza fell below the threshold of 30 per cent on 3 December 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to Vittorio Carozza pursuant to section 22 (1) sentence 1 number 1 WpHG.

The voting rights attributable to Vittorio Carozza are held via the following companies, which are under the control of Vittorio Carozza together with Francesco Carozza, Aldo Carozza and Luisella Carozza-Cassani and whose share of voting rights in DEUTZ AG is 3 per cent or more respectively:

Belfort S.A.

Intractor B.V.

SAME DEUTZ FAHR Group S.p.A.

SAME DEUTZ-FAHR Holding & Finance B.V."

"In our own name and in the name of, and on behalf of, Francesco Carozza, V. le Cassani, 14, 24047 Treviglio (BG), Italy, we hereby notify you pursuant to section 21 (1) WpHG in conjunction with section 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by Francesco Carozza fell below the threshold of 30 per cent on 3 December 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to Francesco Carozza pursuant to section 22 (1) sentence 1 number 1 WpHG.

The voting rights attributable to Francesco Carozza are held via the following companies, which are under the control of Francesco Carozza together with Vittorio Carozza, Aldo Carozza and Luisella Carozza-Cassani and whose share of voting rights in DEUTZ AG is 3 per cent or more respectively:

Belfort S.A.

Intractor B.V.

SAME DEUTZ FAHR Group S.p.A.

SAME DEUTZ-FAHR Holding & Finance B.V."

"In our own name and in the name of, and on behalf of, Aldo Carozza, V. le Cassani, 14, 24047 Treviglio (BG), Italy, we hereby notify you pursuant to section 21 (1) WpHG in conjunction with section 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by Aldo Carozza fell below the threshold of 30 per cent on 3 December 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to Aldo Carozza pursuant to section 22 (1) sentence 1 number 1 WpHG.

The voting rights attributable to Aldo Carozza are held via the following companies, which are under the control of Aldo Carozza together with Vittorio Carozza, Francesco Carozza and Luisella Carozza-Cassani and whose share of voting rights in DEUTZ AG is 3 per cent or more respectively:

Belfort S.A.

Intractor B.V.

SAME DEUTZ FAHR Group S.p.A.

SAME DEUTZ-FAHR Holding & Finance B.V."

"In our own name and in the name of, and on behalf of, Luisella Carozza-Cassani, V. le Cassani, 14, 24047 Treviglio (BG), Italy, we hereby notify you pursuant to section 21 (1) WpHG in conjunction with section 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by Luisella Carozza-Cassani fell below the threshold of 30 per cent on 3 December 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to Luisella Carozza-Cassani pursuant to section 22 (1) sentence 1 number 1 WpHG.

The voting rights attributable to Luisella Carozza-Cassani are held via the following companies, which are under the control of Luisella Carozza-Cassani together with Vittorio Carozza, Francesco Carozza and Aldo Carozza and whose share of voting rights in DEUTZ AG is 3 per cent or more respectively:

Belfort S.A.

Intractor B.V.

SAME DEUTZ FAHR Group S.p.A.

SAME DEUTZ-FAHR Holding & Finance B.V."

39. 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 109.

Cologne, 27 February 2011

DEUTZ Aktiengesellschaft

The Board of Management



Dr Ing Helmut Leube



Dr Margarete Haase

SHAREHOLDINGS OF DEUTZ AG

As at 31 December 2011

Ref no.	Name and registered office of the company	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG, Cologne	–	340,625	24,966
In Germany				
2	DEUTZ Beteiligung GmbH, Cologne ¹⁾	100.0	25	–
3	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne ²⁾	100.0	26	865
4	DEUTZ Versicherungsvermittlung GmbH, Cologne ²⁾	100.0	1,534	863
5	Feld & Hahn GmbH i. L., Cologne ²⁾	100.0	455	–65
6	DEUTZ Abgastechnik GmbH, Cologne ²⁾	100.0	25	–388
7	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne ¹⁾	100.0	–2,490	34
8	DEUTZ Asien Verwaltungs GmbH, Cologne ¹⁾	100.0	25	–
9	Ad. Strüver KG (GmbH & Co.), Hamburg ³⁾	94.0	–7,313	–818
10	Bosch Emission Systems Verwaltungs-GmbH, Stuttgart ^{4), 5)}	25.0	19	–6
11	Bosch Emission Systems GmbH & Co. KG, Stuttgart ^{1), 4)}	25.0	44,212	–16,687
12	Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf ^{1), 3)}	19.6	–20,800	–50
Outside Germany				
13	DEUTZ DITER S.A.U., Zafra, Spain ¹⁾	100.0	29,748	3,823
14	DEUTZ FRANCE S.A.S., Gennevilliers, France ¹⁾	100.0	10,840	1,578
15	DEUTZ UK LTD, Cannock, United Kingdom	100.0	150	–9
16	AROTRIOS S.A., Nea Filadelfia, Greece (in insolvency)	100.0	–	–
17	DEUTZ ENGINEERING družba za projektiranje, proizvodnjo in trgovino d.o.o., Maribor, Slovenia	100.0	39	0
18	DEUTZ GmbH, Moscow, Russia ⁵⁾	100.0	20	–
19	Nlle Ste MAGIDEUTZ S.A., Casablanca, Morocco ¹⁾	100.0	1,821	254
20	Deutz Corporation, Atlanta, United States ¹⁾	100.0	27,212	8,411
21	DEUTZ DO BRASIL LTDA., Sao Paulo, Brazil	100.0	–10,096	214
22	DEUTZ ASIA-PACIFIC (PTE.) LTD., Singapore, Singapore ¹⁾	100.0	6,278	1,726
23	Deutz Australia (Pty) Ltd., Braeside, Australia ¹⁾	100.0	7,862	492
24	DEUTZ (Beijing) Engine Co., Ltd., Peking, China ¹⁾	100.0	1,011	794
25	DEUTZ Engines (India) Private Limited, Pune, India	100.0	246	15
26	DEUTZ-Xiamen Diesel Engine Co., Ltd., Xiamen, China	100.0	792	–21
27	D. D. Power Holdings (Pty) Ltd., Elandsfontein, South Africa	30.0	13,582	4,849
28	DEUTZ AGCO MOTORES S.A., Haedo, Argentina	50.0	7,195	1,594
29	DEUTZ (Dalian) Engine Co., Ltd., Dalian, China	50.0	104,695	617
30	WEIFANG WEICHA DEUTZ DIESEL ENGINE CO., LTD., Weifang, China	50.0	27,895	2,826

¹⁾ Equity and net income in accordance with the annual financial statements prepared for consolidation purposes

²⁾ Equity and net income for the previous year

³⁾ Indirect shareholding via no. (2)

⁴⁾ Indirect shareholding via no. (6)

⁵⁾ Previous year's figures

SUPERVISORY BOARD

Lars-Göran Moberg

Chairman

Management consultant and supervisory board member, Stockholm, Sweden

- b) Fourier Transform AB, Stockholm, Sweden
- Cross Country System AB, Alfta, Sweden

Werner Scherer¹⁾

Chairman of the Cologne Works Council and of the General Works Council of DEUTZ AG, Cologne

Dr Lodovico Bussolati

CEO of SAME DEUTZ-FAHR Group

S.p.A., Treviso, Italy, and of SAME DEUTZ-FAHR Italia

S.p.A., Treviso, Italy

Dr Francesco Carozza

Vice Chairman of SAME DEUTZ-FAHR Group S.p.A., Treviso, Italy

Michael Haupt

Former member of the Group Board of SKF AB, Gothenburg, Sweden

Dr Helmut Lerchner

Management consultant

- a) ElringKlinger AG, Dettingen/Erms, Germany, Chairman

Dr Michael Lichtenauer

Lawyer

- a) Schwartauer Werke GmbH & Co. KGaA, Bad Schwartau, Germany

- b) ELAFLEX-Hiby Tanktechnik GmbH & Co., Hamburg, Germany, Chairman
- MPC Münchmeyer Petersen & Co. GmbH, Hamburg, Germany
- Newport CPI GmbH & Co. KG, Hamburg

Caterina Messina¹⁾

Legal advisor to the National Executive of IG Metall, Frankfurt am Main, Germany

- a) Adam Opel AG, Rüsselsheim, Germany

Karl-Heinz Müller¹⁾

Deputy Chairman of the General Works Council of DEUTZ AG, Cologne, Germany

Dr Witich Roßmann¹⁾

Chief Executive of IG Metall Cologne, Cologne, Germany

- a) Ford Werke GmbH, Cologne, Germany
- Ford Holding Deutschland GmbH, Cologne, Germany

Dr Herbert Vossel¹⁾

Head of Legal and Patents at DEUTZ AG

Egbert Zieher¹⁾

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 Ing Helmut Leube (58)

Chairman

Market, technical and head-office functions

b) Bosch Emission Systems GmbH & Co. KG,
Stuttgart, Germany
DEUTZ Corporation, Atlanta, USA, Chairman
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China,
Deputy Chairman

Dr Margarete Haase (58)

Finance, human resources and investor relations

a) Fraport AG, Frankfurt am Main, Germany
ElringKlinger AG, Dettingen/Erms, Germany
(since 31 May 2011)
ZF Friedrichshafen AG, Friedrichshafen, Germany
(since 1 January 2012)

b) DEUTZ (Dalian) Engine Co., Ltd., Dalian, China

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	31/12/2011	31/12/2010
€ million		
Intangible assets	14.9	21.2
Property, plant and equipment	263.4	267.1
Investments	184.6	184.3
Fixed assets	462.9	472.6
Inventories	125.8	104.9
Receivables and other assets	225.3	207.1
Cash and cash equivalents	45.6	62.8
Current assets	396.7	374.8
Prepaid expenses	3.3	4.9
Deferred tax assets	52.6	50.2
Total assets	915.5	902.5
Equity and liabilities	31/12/2011	31/12/2010
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	-115.8	-140.7
Equity	340.6	315.7
Provisions	254.4	263.6
Other liabilities	319.8	322.5
Deferred income	0.7	0.7
Total equity and liabilities	915.5	902.5

INCOME STATEMENT OF DEUTZ AG

	2011	2010
€ million		
Revenue	1,452.4	1,128.0
Increase or decrease in inventories of finished goods and work in progress	4.9	6.3
Other own work capitalised	0.6	5.1
Total output	1,457.9	1,139.4
Other operating income	58.5	66.0
Cost of materials	-1,069.1	-824.7
Staff costs	-225.1	-208.9
Depreciation and amortisation	-43.3	-41.7
Other operating expenses	-145.3	-139.6
Net investment income	9.8	14.4
Net interest expense	-21.5	-36.2
Write-downs of investments	-0.7	-0.7
Profit from ordinary activities	21.2	-32.0
Net extraordinary expense	-2.3	-7.5
Income taxes	6.6	4.7
Other taxes	-0.6	-0.6
Net loss	24.9	-35.4
Loss/profit carried forward	-140.7	-105.3
Accumulated loss	-115.8	-140.7

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, 27 February 2012
DEUTZ Aktiengesellschaft
The Board of Management



Dr Ing 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, 2011 to December 31, 2011. 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.

Düsseldorf, 7 March 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

signed: Crampton
Wirtschaftsprüfer
(German Public Auditor)

signed: Lammers
Wirtschaftsprüferin
(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD

CLOSE COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Once again in 2011, the Supervisory Board monitored the governance of the Company on an ongoing basis and advised the Board of Management on major decisions in accordance with the requirements of the German Stock Corporation Act and the German Corporate Governance Code. The Supervisory Board's monitoring and advisory activities were based on monthly reports supplied in writing by the Board of Management and including the current state of all relevant key performance indicators of the Company. This includes new orders, orders on hand, revenue, unit sales, EBIT, expenses for research and development, capital expenditure, working capital as well as the number of employees, each presented year-on-year and compared to plan.

Five scheduled and two extraordinary Supervisory Board meetings were held in business year 2011. In each of the meetings held on 24 March and on 19 May 2011 one member of the Supervisory Board participated over the telephone; all other meetings held in business year 2011 were attended by all Supervisory Board members in person.

During each of the scheduled Supervisory Board meetings, the Board of Management reported on the general economic, market and competitive environment of DEUTZ AG, presented the actual development of the Company's business in the past part of the year in a business update and a sales report, provided a current monthly report including a risk report, informed on important operating issues and presented an outlook on the expected annual figures. The presented information related to the key figures known from the written monthly reports and year-on-year and projected figures were taken into account. The reports of the Human Resources Committee and the Audit Committee presented by the respective chairman were also a regular item on the agenda.

KEY AREAS OF FOCUS IN THE DELIBERATIONS OF THE SUPERVISORY BOARD

In the year under review, our deliberations and discussions focussed mainly on the current operating situation and risk position of DEUTZ AG and the operational and strategic development of the Company. In three meetings the strategy of the Company was discussed in detail and adopted. The development on the Asian market and in particular the preparation of the joint venture with the Shandong Changlin Machinery Group announced in January 2012 played a major role in this context. We approved this joint venture at our meeting on 6 December 2011.

In addition, we concentrated on the status of the projects on implementation of the exhaust emission standards level Tier 4 final. Furthermore, resolutions were made on the variable remuneration of the Board of Management for business year 2010, on the budget 2012 and on the medium-term planning and the targets of the Board of Management for business year 2011 were finalised.

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 Supervisory Board in writing about important events. In addition, 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. The Supervisory Board adopted all resolutions required by law and by the Company's statutes based on the reports and draft resolutions submitted by the Board of Management, as well as, if necessary, after they were prepared by the committees responsible.



Lars-Göran Moberg

Chairman of the Supervisory Board

PERSONNEL

There were no changes in the Board of Management in business year 2011.

CORPORATE GOVERNANCE: DECLARATION OF COMPLIANCE WITH FEW EXCEPTIONS

The Supervisory Board gave thorough consideration to the German Corporate Governance Code as amended on 26 May 2010 and, together with the Board of Management, issued a declaration pursuant to section 161 of the German Stock Corporation Act (AktG). It only contains few exceptions, and has been available for download from the "Investors/Corporate Governance" section of the Company's website (www.deutz.com) since 7 December 2011.

The Supervisory Board assessed the efficiency of its activities in 2011, as in previous years, by having each member fill out an extensive questionnaire. The analyses of these questionnaires were presented to the Supervisory Board and discussed in detail at its meeting on 6 October 2011. The overall findings were positive.

EFFICIENT COMMITTEE WORK

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees specialise in preparing various topics and resolutions for the full Supervisory Board. The composition of the Supervisory Board and its committees, as well as the future mandates held by its members, is shown separately on pages 108 through 109 of this report.

The Human Resources Committee makes preparations to enable the Supervisory Board to decide about the following items: appointment of the 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 remuneration as specified in their service contracts, and all issues arising in this connection. The committee met six times in the year under review and its meetings dealt primarily with the attainment of targets for business year 2010, the determination of targets for business year 2011, succession planning and development of new employment contracts and remuneration specifications for the Board of Management. The new legal provisions of the German Act on the Appropriateness of the Management Board remuneration in effect since August 2009 were given special consideration.

The work of the Audit Committee in the year under review focussed on the single-entity and consolidated financial statements for 2010 and the corresponding auditors' reports, the condensed consolidated financial statements for the first six months to 30 June 2011 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2011 and the discussion of the audit engagement for the year ended 31 December 2011. Apart from this, the Audit Committee dealt in particular with topics such as risk management, compliance, and internal control system, presentation of the income statement, key performance indicators and with issues concerning the syndicated bank loan of December 2010. The Audit Committee met on four occasions in the year under review. 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.

It is the task of the Nominations Committee to propose suitable candidates as shareholder representatives to the full Supervisory Board and it consists of three Supervisory Board members appointed by the Annual General Meeting. It was not convened during business year 2011.

The entire Supervisory Board was informed of the outcome of all discussions in the committees; insofar as the committees made decision recommendations, they were approved by the Supervisory Board.

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 2011) were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, the auditors appointed by the Annual General Meeting on 5 May 2011. The auditors issued unqualified opinions.

The single-entity annual financial statements of DEUTZ AG and the consolidated annual financial statements, the respective management reports and the auditors' reports were made available to all Supervisory Board members and were examined by the Supervisory Board. The auditors explained their findings to the Audit Committee in detail during its meeting on 7 March 2012 as well as to the Supervisory Board during its meeting on 8 March 2012 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

No changes occurred in the composition of the Supervisory Board and its committees during the year under review.

CONFLICTS OF INTEREST AND CONSULTANCY AGREEMENTS

The Supervisory Board members Dr Francesco Carozza and Dr Lodovico Bussolati are subject to a conflict of interest because of their functions in the SAME DEUTZ-FAHR Group, which are also major customers of DEUTZ AG. The chairman of the Supervisory Board reviews each individual case to establish whether this conflict of interest restricts the opportunity for the involvement of Dr Carozza and/or Dr Bussolati in the work of the Supervisory Board.

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 have shown in 2011.

Cologne, March 2012

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 2011, 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 DCGK, as amended on 26 May 2010, 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 items 5.1.2 (2) sentence 3 and 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.

The current declaration of compliance in accordance with section 161 AktG, which the Board of Management and Supervisory Board submitted on 6 December 2011, 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 PROPORTION OF WOMEN

In accordance with item 5.4.1 (1 and 2) DCGK, the Supervisory Board meeting on 10 December 2010 adopted the following resolution about its composition, in particular with regard to the proportion 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 nine distribution companies, nine sales offices and over 800 sales and service partners in more than 130 countries around the world. DEUTZ AG has various domestic and foreign subsidiaries. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions. DEUTZ AG also has two joint ventures in China – DEUTZ (Dalian) Engine Co., Ltd. and Weifang Weichai-Deutz Diesel Engine Co., Ltd. – and one in Argentina, DEUTZ AGCO MOTORES S.A. To reflect the international operations of the Company, at least two Supervisory Board members shall have several years' experience of international business – preferably that they have 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 business partners.

The Supervisory Board members Dr Francesco Carozza and Dr Lodovico Bussolati 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 chairman of the Supervisory Board reviews each individual case to establish whether this conflict of interest restricts the opportunity for the involvement of Dr Carozza and/or Dr Bussolati in the work of the Supervisory Board.

Supervisory Board members shall not be directors of major competitors of DEUTZ AG.

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 is one female member of the Supervisory Board. The next election of shareholder and employee representatives to the Supervisory Board of DEUTZ AG is scheduled to take place in 2013. The objective is for at least two women to be elected to the DEUTZ AG Supervisory Board, which would double the proportion of women currently on the Supervisory Board. The Supervisory Board considers such a proportion of women to be appropriate in light of the ratio of female to male staff at other levels of management and in other companies in our industry. The Supervisory Board shall take account of this objective in its proposals to the competent election bodies."

The Supervisory Board's composition already reflects the objectives of this resolution as far as internationality, potential conflicts of interest and a standard age limit are concerned. The objective in respect of diversity will be achieved at the next scheduled Supervisory Board election in 2013.

CONSIDERATION OF WOMEN WHEN FILLING MANAGERIAL POSITIONS

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.

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.

Five regular and two extraordinary Supervisory Board meetings were held in 2011.

As it had in previous years, the Supervisory Board reviewed the efficiency of its activities in 2011 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 6 October 2011 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 down-loaded 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 49 to 53.

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

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 the Board of Management members appointed by the Supervisory Board, including remuneration as specified in their service contracts; all issues arising between members of the Board of Management and the Company in this connection. The committee met six times in the year under review, the meetings focusing primarily on achievement of the targets for 2010, definition of the targets for 2011, succession planning and the preparation of new employment contracts and remuneration arrangements for the Board of Management. These arrangements reflect, in particular, the new legal provisions in the German Act on the Appropriateness of Management Board Remuneration (VorstAG), which came into effect in August 2009.

The work of the Audit Committee in the year under review focused on the single-entity and consolidated financial statements for 2010 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2011 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2011 and the discussion of the audit engagement for the year ended 31 December 2011. Other important topics discussed by the Audit Committee included risk management, compliance, the internal control system, presentation of the income statement, key performance indicators and matters related to the syndicated bank loan taken out in December 2010. The Audit Committee met on four occasions in 2011. The auditors attended three meetings of this committee.

The Arbitration Committee set up pursuant to section 27 (3) 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. It did not meet in 2011.

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.

Full details of the membership of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 108 to 109.

DISCLOSURES RELEVANT TO CORPORATE MANAGEMENT PRACTICES: COMPLIANCE MANAGEMENT SYSTEM, CORPORATE PRINCIPLES, ENVIRONMENTAL AND QUALITY MANAGEMENT

DEUTZ AG has a compliance management system that is firmly anchored 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.

The Board of Management and the Compliance Officer have engaged a law firm specialising in compliance matters to obtain 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.

In 2011, the Board of Management and top-level executives intensively discussed and revised DEUTZ AG's corporate philosophy, which had remained unchanged since 2004. The cornerstones of the new philosophy are the vision and mission statement as well as binding principles of management and cooperation that apply to all employees, from the Board of Management downwards. The corporate philosophy is published on the Company's website.

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 2011, 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 2011.

The current ISO 14001 and ISO 9001 certificates from DQS are published on the DEUTZ website. All standards set by 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 10 December 2010 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 DCGK recommendations. The main features of the remuneration system are outlined on page 48 of the management report. The remuneration paid to individual members of the Board of Management and the Supervisory Board is stated on page 104 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.

On 30 September 2011, Dr Haase purchased 2,400 shares in DEUTZ AG for a total price of €10,058.40, which she disclosed in accordance with section 15a WpHG. This transaction is published on the DEUTZ AG website along with similar transactions in previous years. Up to the date on which the annual financial statements were formally adopted, nobody else subject to the disclosure requirement pursuant to section 15a WpHG had acquired shares in DEUTZ AG.

Together with other members of the Carozza family, Dr Francesco Carozza, a member of the Supervisory Board, has an indirect investment in SAME DEUTZ-FAHR Group S.p.A., which is the largest individual shareholder in DEUTZ AG with 25.11 per cent of the Company. Dr Carozza therefore indirectly holds 25.11 per cent of DEUTZ shares. As at 31 December 2011, there was no other ownership subject to reporting requirements pursuant to item 6.6 DCGK. This means that 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 the balance sheet date 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

Buy-or-make decision Decision as to whether to buy in components and services or to produce/provide them inhouse.

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 pooling Centralised system of cash management with the aim of pooling liquidity amongst companies within the Group. The system of cash pooling manages liquidity shortfalls and surpluses of all companies throughout the Group in order to maximise interest income and minimise interest expense.

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.

Coverage Describes regular reporting on a company by bank analysts. Coverage comprises the observation, analysis and evaluation of a company with the aim of calculating a fair share price and thereby deriving the potential upside gain or downside risk, which is then translated into a recommendation to investors.

Cross-currency swap A cross-currency swap is an agreement between two parties to exchange various specified interest payments in different currencies within a period stipulated in the agreement.

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.

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.

DNV certification Det Norske Veritas (DNV) is an independent foundation that was set up to safeguard life, property and the environment. Its DNV Certification division certifies management systems, conducts audits and assessments and provides services in the fields of environmental protection, business excellence and corporate social responsibility.

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.

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.

Earnings per share The key figure 'earnings per share' compares earnings after taxes, attributable to shareholders of DEUTZ AG, to the average number of shares outstanding.

EBIT Earnings before interest and taxes.

EBT Earnings before taxes.

Euro 1, 2, 3, 4, 5 Motor vehicle exhaust standard laid down by the European Union. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

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 (NO_x) 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 (NO_x) 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 NO_x 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.

Hybrid drive Drive system in which two different methods of power generation and energy storage are combined (generally an internal combustion engine and an electric motor).

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.

Non-road applications Engine-powered applications not licensed for use on public roads such as mobile machinery.

NPV (net present value) The sum of discounted future cash inflows and outflows less initial purchase costs for an investment. When deciding whether to make an investment, the NPV is used to assess whether the investment offers a net benefit.

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.

One Piece Flow is a term referring to the Toyota production system, where an employee does not just carry out one individual operation but stays with the component for all the different operations.

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.

Risk sharing The sharing of risk, for example, between a supplier and a customer.

Selective Catalytic Reduction (SCR) Catalytic reduction of nitrogen oxide in the exhaust gas of combustion engines, whereby a watery urea solution is used as a reducing agent that 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 Production of a certain quantity of a certain component is outsourced 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.

TMQ (Tausend-Mann-Quote) Number of notifiable accidents per thousand employees.

Tier-1 Development partners are suppliers developing and manufacturing components and sub-systems. Generally, these are suppliers in the automotive industry.

Total quality management (TMQ) Holistic quality management throughout all areas of a company.

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.

US private placement Private, restricted sale of a bond in the United States.

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 2007	Continuing operations 2008	Continuing operations 2009	Continuing operations 2010	Continuing operations 2011
€ million					
New orders	1,584.5	1,363.5	842.3	1,315.0	1,479.3
Unit sales (quantity)	285,861	252,359	117,961	167,680	230,598
DEUTZ Compact Engines	248,971	219,681	102,420	150,179	204,161
DEUTZ Customised Solutions	36,890	32,678	15,541	17,501	26,437
Revenue	1,524.2	1,495.0	863.4	1,189.1	1,529.0
thereof excluding Germany (%)	78.0	75.6	76.6	80.8	81.9
DEUTZ Compact Engines	1,186.0	1,143.2	636.0	919.0	1,199.1
DEUTZ Customised Solutions	338.2	351.8	227.4	270.1	329.9
EBITDA ¹⁾	149.7	81.8	-8.8	92.7	160.3
EBITDA (before one-off items) ¹⁾	149.7	93.5	20.8	112.6	160.3
EBIT ¹⁾	84.2	7.4	-89.2	22.3	91.2
EBIT (before one-off items) ¹⁾	84.2	21.7	-46.3	42.2	91.2
EBIT margin (%)	5.5	0.5	-10.3	1.9	6.0
EBIT margin (before one-off items, %)	5.5	1.5	-5.4	3.5	6.0
Net income	183.3	-8.3	-124.0	-15.9	75.5
Continuing operations	59.4	-4.2	-119.8	-15.9	68.7
Discontinued operations	123.9	-4.1	-4.2	-	6.8
Basic earnings per share (€)	1.56	-0.07	-1.03	-0.13	0.62
Continuing operations	0.51	-0.04	-0.99	-0.13	0.57
Discontinued operations	1.05	-0.03	-0.04	-	0.05
Total assets	1,378.6	1,206.3	1,071.1	1,041.7	1,099.0
Non-current assets	511.3	539.7	539.4	591.5	623.1
Equity	557.1	511.3	379.2	374.3	453.5
Equity ratio (%)	40.4	42.4	35.4	35.9	41.3
Cash flow from operating activities before payment of compensation for vested company pension rights	41.1	90.1	117.4	78.2	120.5
Cash flow from operating activities	-38.7	89.7	117.4	78.2	120.5
Free cash flow	-111.5	-23.3	12.6	-55.9	4.8
Net financial position ²⁾	89.7	-12.2	2.9	-73.6	-69.6
Working capital ³⁾	196.9	205.0	98.3	112.5	142.1
Working capital as a percentage of revenue (31 Dec., %)	12.9	13.7	11.4	9.5	9.3
Capital expenditure (excluding capitalisation of R&D)	143.5	69.9	52.9	61.1	45.0
Depreciation and amortisation	65.5	74.4	80.4	70.4	69.1
Research and development	55.8	90.3	104.6	101.8	109.8
Employees (31 Dec.)	4,617	4,701	4,012	3,839	4,060

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

³⁾ Working capital: inventories plus trade receivables minus trade payables

	Continuing operations 2007	Continuing operations 2008	Continuing operations 2009	Continuing operations 2010	Continuing operations 2011
Revenue by region					
(€ million)	1,524.2	1,495.0	863.4	1,189.1	1,529.0
Europe/Middle East/Africa	1,193.2	1,195.7	710.3	983.9	1,225.0
Americas	207.2	180.7	69.6	116.1	177.2
Asia-Pacific	123.8	118.6	83.5	89.1	126.8
Revenue by application segment					
(€ million)	1,524.2	1,495.0	863.4	1,189.1	1,529.0
Mobile Machinery	581.3	529.8	177.7	369.6	529.4
Stationary Equipment	258.8	259.3	153.0	175.8	227.9
Agricultural Machinery	163.7	195.8	162.9	185.0	240.5
Automotive	279.8	266.2	169.7	192.6	213.6
Service	203.5	212.0	175.0	215.8	241.6
Miscellaneous	37.1	31.9	25.1	50.3	76.0
Key figures DEUTZ shares					
Number of shares (31 Dec.)	120,085,030	120,861,783	120,861,783	120,861,783	120,861,783
Number of shares (average)	117,315,867	120,793,508	120,861,783	120,861,783	120,861,783
Share price (31 Dec., €)	6.95	2.38	3.39	6.25	4.11
Share price high (€)	12.02	7.60	3.70	6.38	7.22
Share price low (€)	6.82	1.85	1.59	3.15	3.23
Market capitalisation (31 Dec., € million)	834.6	287.7	409.7	755.4	496.7
Basic earnings per share (€)	1.56	-0.07	-1.03	-0.13	0.62
Continuing operations	0.51	-0.04	-0.99	-0.13	0.57
Discontinued operations	1.05	-0.03	-0.04	-	0.05
Diluted earnings per share (€)	1.52	-0.07	-1.03	-0.13	0.62
Continuing operations	0.50	-0.04	-0.99	-0.13	0.57
Discontinued operations	1.02	-0.03	-0.04	-	0.05

FINANCIAL CALENDAR

Date	Event	Location
15 March 2012	Annual press conference Annual report for 2011	Cologne
16 March 2012	Analysts' meeting	Frankfurt/Main
26 April 2012	Annual General Meeting	Cologne
10 May 2012	Interim report 1st quartal 2012 Conference call with Analysts and Investors	
9 August 2012	Interim report 1st Half-Year 2012 Conference call with Analysts and Investors	
8 November 2012	Interim report 1st to 3rd quartal 2012 Conference call with Analysts and Investors	

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