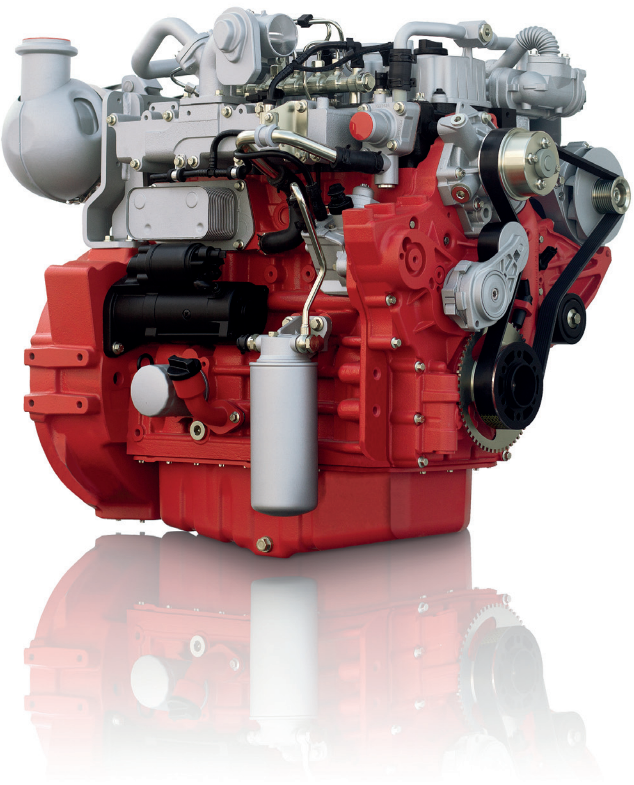
A TRADITION OF ACHIEVEMENT

Annual Report 2013



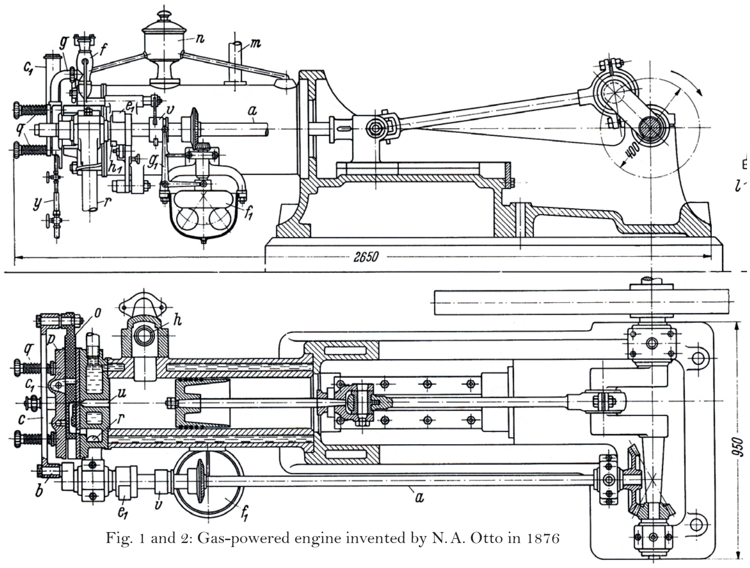
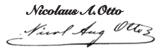


Fig. 1 and 2: Gas-powered engine invented by N. A. Otto in 1876

Nicolaus A. Otto



DEUTZ

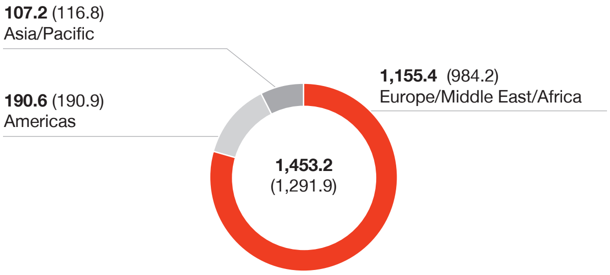
DEUTZ GROUP: KEY FIGURES

	2013	2012	Change in %
€ million			
New orders	1,649.7	1,237.1	33.4
Unit sales (units)	184,028	178,774	2.9
Revenue	1,453.2	1,291.9	12.5
thereof excluding Germany (%)	82.1	82.0	–
EBITDA[1]	142.0	121.7	16.7
EBIT[1]	47.5	37.1	28.0
EBIT margin (%)[1]	3.3	2.9	–
Net income on continuing operations	36.0	22.1	62.9
Net income	36.0	21.0	71.4
Earnings per share for continuing operations	0.30	0.18	66.7
Earnings per share (€)	0.30	0.17	76.5
Total assets[2]	1,121.0	1,035.9	8.2
Non-current assets	596.6	621.3	–4.0
Equity[2]	504.7	452.6	11.5
Equity ratio (%)	45.0	43.7	–
Cash flow from operating activities	105.0	104.9	0.1
Free cash flow[3]	13.8	12.6	9.5
Net financial position[4]	–31.7	–48.6	34.8
Working capital[5]	172.3	141.6	21.7
Working capital as a percentage of revenue (31 Dec, %)[6]	11.9	11.0	–
Capital expenditure (excluding capitalisation of R&D, after deducting grants)	42.5	66.4	–36.0
Depreciation and amortisation	94.5	84.6	11.7
Research and development (after deducting grants)	52.6	62.1	–15.3
Employees (31 Dec)	3,952	3,991	–1.0

[1] Since 2013, the income statement has been structured according to the cost-of-sales method. Other taxes are no longer reported separately after operating profit/loss (EBIT) and are instead allocated to functional costs within operating profit/loss. In 2013 other taxes amounted to €1.2 million (2012: €1.4 million). The comparative prior-year figures have been restated accordingly to improve comparability for details, see page 63 in the notes to the annual report.
[2] Because of a change in the accounting treatment of provisions for pensions and other post-retirement benefits, the prior-year figures were restated (for details, see page 62 et seq. in the notes to the annual report).
[3] Free cash flow: cash flow from operating and investing activities minus interest expense.
[4] Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities.
[5] Working capital: inventories plus trade receivables minus trade payables.
[6] Working capital as percentage of revenue (31 Dec, %): Working Capital at 31 Dec divided by revenue of the past twelve months.

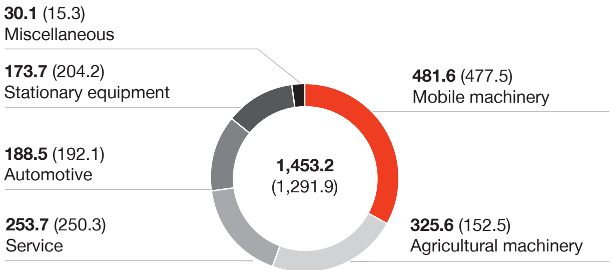
DEUTZ Group: Revenue by regions

€ million (2012 figures)



DEUTZ Group: Revenue by application segment

€ million (2012 figures)



DEUTZ AG

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

WORLD WIDE

Caption

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

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

America

Argentina
●▲ Buenos Aires

Brazil
▲ São Paulo

United States
●▲ Atlanta
● Pendergrass

Europe

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

France
▲ Gennevilliers/ Paris

United Kingdom
■ Cannock

Russia
▲■ Moscow

Spain
▲ Madrid
● Zafra

Turkey
■ Istanbul

Africa

Algeria
■ Algiers

Marocco
▲ Casablanca

South Africa
▲ Cape Town

Asia

China
●▲ Dalian
▲■ Beijing
● Weifang
● Linyi

India
▲ Pune

Singapore
▲ Singapore

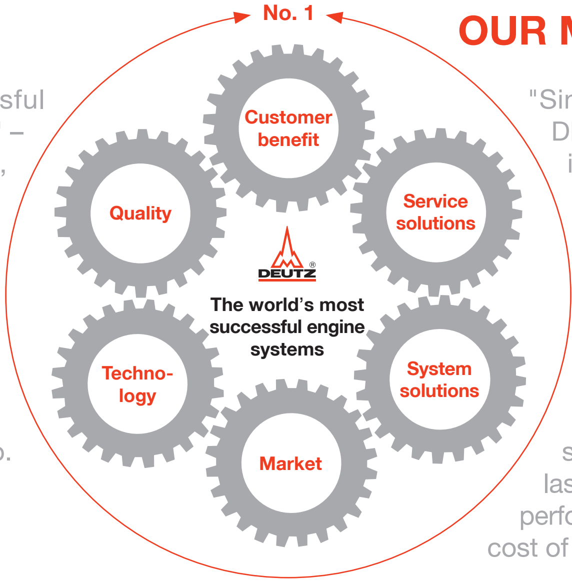
UAE
■ Abu Dhabi

Australia

▲ Braeside/ Melbourne

OUR VISION

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



OUR MISSION

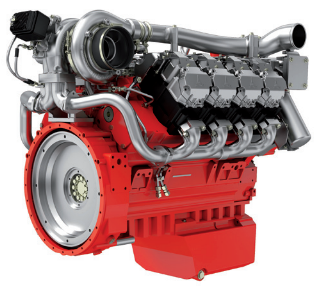
"Since its foundation in 1864, DEUTZ has stood for pioneering spirit, passion and innovative strength. We invented the internal combustion engine and have improved it every day since then. We are leading the way in developing environmentally-friendly and efficient drive technologies. Our customer-specific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

DEUTZ SEGMENTS

DEUTZ Compact Engines

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

DEUTZ Customised Solutions



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

DEUTZ Compact Engines	2013	2012	Change in %
€ million			
New orders	1,385.5	960.6	44.2
Unit sales (units)	167,964	161,899	3.7
Revenue	1,188.8	1,005.0	18.3
EBIT	8.7	–16.5[1)]	–

DEUTZ Customised Solutions	2013	2012	Change in %
€ million			
New orders	264.2	276.5	–4.4
Unit sales (units)	16,064	16,875	–4.8
Revenue	264.4	286.9	–7.8
EBIT	39.0	46.3[1)]	–15.8

[1)] Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. The comparative prior-year figures have been restated accordingly to improve comparability.

A TRADITION OF ACHIEVEMENT

A key moment in our history: In 1876 Nicolaus August Otto developed the world's first four-stroke engine, paving the way for motorised vehicles. His passion, unbridled ambition and vision remain a part of us to this day.

150 years on, DEUTZ, is a globally successful group that is still keeping the world moving with its engine technologies – and a tradition of achievement.

The Origin of HighTech.

150 years DEUTZ

CONTENTS

FOREWORD

Dear shareholders,
friends and partners of our company,

Global economic growth remained muted overall in 2013, despite the sentiment indicators offering a somewhat brighter outlook towards the end of the year.

Taking this into consideration DEUTZ can look back on a fine year. A strong upturn in business led to a record level of new orders for the current corporate structure. These had a total value of €1.65 billion, outstripping the previous year's amount by around one third. Revenue from the 184,028 engines that we sold came to €1.45 billion, a 12.5 per cent increase on 2012. Our operating profit (EBIT) rose from €37.1 million to €47.5 million. The EBIT margin went up from 2.9 per cent to 3.3 per cent. Revenue and earnings were therefore in line with our forecasts.

You will be pleased to hear that these positive figures were reflected in the share price. After ending the year up 83.2 per cent at €6.49, DEUTZ shares outperformed all benchmark indices, demonstrating that the capital markets are also taking note of our successful strategy and prospects for growth. Now that we meet the conditions laid down in the German Commercial Code (HGB) for a distribution of profits, we and the Supervisory Board recommend the payment of a dividend of €0.07 per share for 2013. Going forward, we intend to continue sharing profits with you through regular dividend payments.

All in all, 2013 was a good year for DEUTZ. The high level of new orders, our large number of new customer projects and new applications with existing customers prove that our product offensive is bearing fruit, particularly with regard to our new TCD 2.9 and 3.6 engines. These have been extremely well received in the market and are helping us to win new customers. Overall, we believe we are well placed in the global market thanks to our modern, eco-friendly, high-performance products.

We continue to be fully convinced of China being an important growth market. In the year under review, our Chinese joint venture DEUTZ Dalian was able to grow approx. 30 per cent and to generate a positive result.

Last year, we teamed up with our customer and development partner AB Volvo to establish a production company in China. We have now been granted a business licence for this enterprise, in which DEUTZ is the majority shareholder. By the end of 2015 the intention is for it to be producing medium-duty engines for construction equipment required by the AB Volvo Group and other customers.

From left to right:
Dr Margarete Haase
Member of the Board of Management with responsibility for Finance, Human Resources and Investor Relations

Dr Ing Helmut Leube
Chairman of the Board of Management with responsibility for Technical and Head-office Functions

Michael Wellenzohn
Member of the Board of Management with responsibility for Sales, Service and Marketing

As you can see, the title of our annual report this year is 'A tradition of achievement'. And we do indeed have something very special to celebrate this year: the 150th anniversary of our company. Today, we can look back on an eventful but above all successful history.

N.A. Otto & Compagnie, which would go on to become the present-day DEUTZ AG, was founded in 1864. It was Nicolaus August Otto and Eugen Lagen who opened the world's first engine factory, ushering in an era of motorisation that endures to this day. Further down the line, other famous names such as Daimler, Maybach and Klöckner also played their part in helping the company to grow.

DEUTZ has experienced many highs and lows over the past 150 years, not least because of two world wars and an ever-evolving market. For us, as a technology-driven company, this has not always been easy. However, our performance and that of our engines has always won through in the end, and it is because of this that we are now able to look back with pride on a 150-year story of success.

Our employees continue to perform with distinction each and every day. We would like to take this opportunity to thank them for this. The DEUTZ Group would not be able to excel as it does without their dedication and hard work. We would also like to thank our customers and suppliers – and we hope that these excellent business relationships will continue to thrive.

For 2014 we expect market conditions to improve slightly, a forecast that is supported by the latest sentiment indicators. Taking into account the number of new customers we have gained and the rising proportion of sales accounted for by higher-value products, we anticipate revenue growth in the lower double-digit range. The EBIT margin is predicted to exceed 4.0 per cent. With all this in mind, we will continue to do everything we can to uphold our tradition of achievement.

Kind regards from Cologne,

Dr Ing Helmut Leube | Dr Margarete Haase | Michael Wellenzohn

DEUTZ SHARES

Despite crises around the world, stock markets performed well during 2013 and reached record highs towards the year end. The DAX closed at 9,552.16 points on 30 December 2013 after reaching an all-time high of 9,589.39 points on 27 December 2013. The German share index was up by 25.5 per cent on its 2012 year-end closing price of 7,612.39.

DEUTZ SHARES OUTPERFORM ALL BENCHMARKS

DEUTZ AG also had a very successful year on the stock exchange, with its shares rising by 83.2 per cent over 2013 as a whole to close at €6.49 on 30 December 2013, compared with a year-end closing price of €3.54 in 2012. After falling to its low for the year of €3.71 on 8 January 2013, the share price rose steadily in the following months. This reflected the fact that our quarterly results were encouraging and we were able to affirm our full-year forecast. The Board of Management has also predicted a continuation of this uptrend in 2014. The share price reached its high for the year of €7.45 on 21 October 2013. This strong performance was partly due to the price bouncing back from its weak performance the previous year, but it also showed that the capital markets recognise our successful corporate strategy and growth prospects.

As a result, our shares outperformed all of their benchmark indices. The SDAX, in which DEUTZ shares are listed, rose in value by 29.3 per cent in the year under review and closed at 6,788.79 at the end of 2013 (2012: 5,249.35 points). The year-end closing price of the Prime Industrial Index, which comprises major German industrial companies, was 4,495.21 points, a gain of 37.2 per cent on the previous year (3,276.37 points).

Market capitalisation stood at €784.4 million as at 30 December 2013, compared with €427.9 million at the end of 2012.

Key figures for DEUTZ shares

	2013	2012
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 (€)	6.49	3.54
Share price high (€)	7.45	5.72
Share price low (€)	3.71	2.96
Market capitalisation as at 31 December (€ million)	784.4	427.9
Earnings per share (€)	0.30	0.17
Continuing operations	0.30	0.18
Discontinuing operations	0.00	–0.01

IMPROVEMENT IN EARNINGS PER SHARE

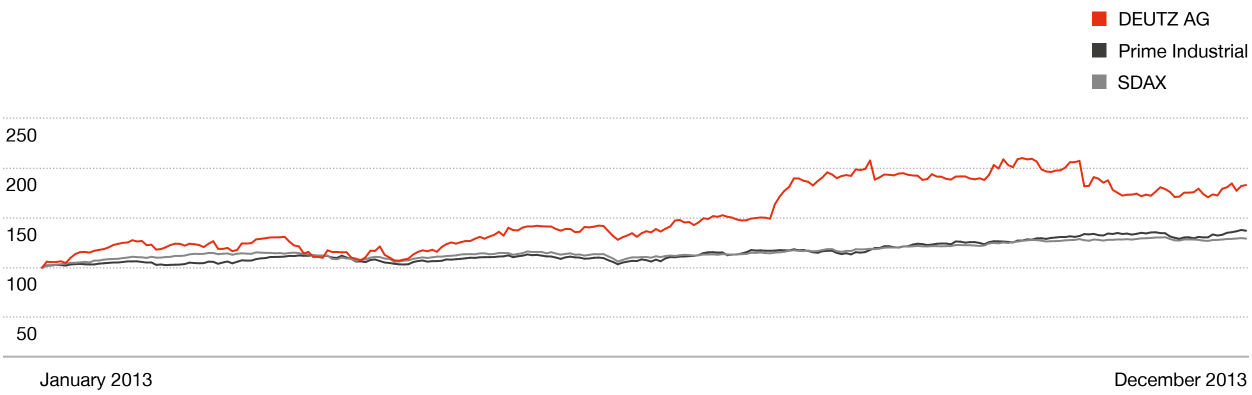
Earnings per share is calculated by dividing the net income for the year by the weighted average number of shares in issue. In the year under review, the number of DEUTZ shares in issue was 120.9 million. Basic earnings per share was therefore €0.30, of which €0.30 was attributable to continuing operations, compared with €0.17 and €0.18 respectively in 2012.

Key data on stock market listing

ISIN	DE0006305006
WKN	630500
Reuters	DEZG.F
Bloomberg	DEZ:GR
Market segment	Official market /Prime Standard

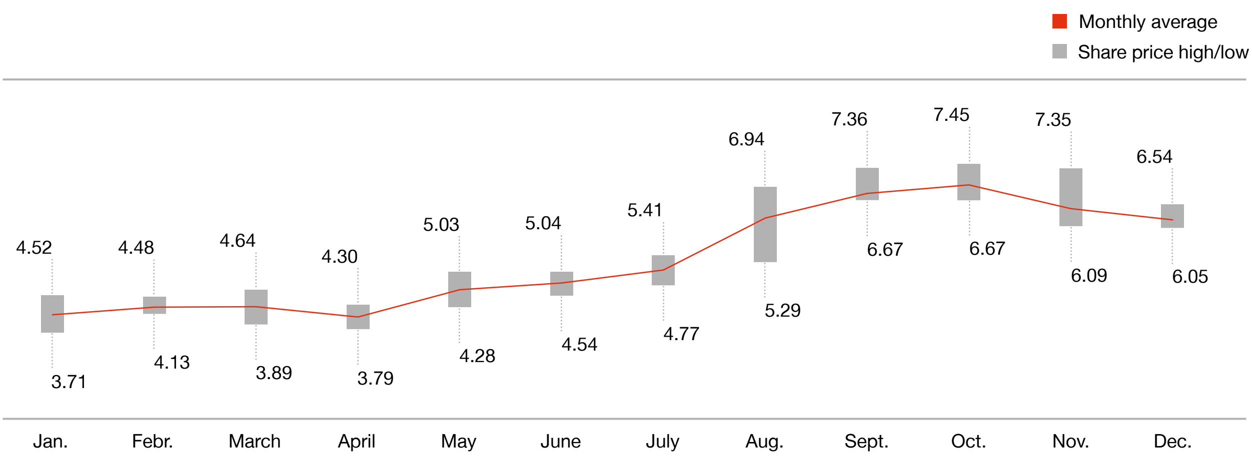
Price performance of DEUTZ share in 2013

in %



DEUTZ share price high and low for 2013

in €



SHAREHOLDERS PARTICIPATE IN THE COMPANY'S SUCCESS

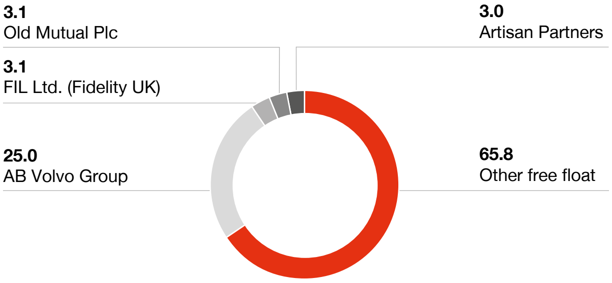
The Board of Management and the Supervisory Board propose payment of a dividend of €0.07 per share for the business year 2013 as the necessary conditions for payment of a dividend under the German Commercial Code (HGB) have been met. In future, we intend to let our shareholders participate in our Company's success on a regular basis. Moreover, we want to continue to fund a significant proportion of our growth ourselves, that is to say from our own capital, and continue to strengthen our balance sheet. In doing so, we create a high level of added value for our shareholders.

THREE-QUARTERS OF ALL DEUTZ SHARES ARE IN FREE FLOAT

Swedish truck and construction equipment manufacturer AB Volvo is the largest individual shareholder in DEUTZ AG with a stake of just over 25.0 per cent. Our long-standing major shareholder SAME DEUTZ-FAHR sold its entire stake of 8.4 per cent to institutional investors in the third quarter of 2013. This does not affect our long-standing relationship or our strategic partnership with this customer, which will continue without change. The proportion of free float shares is now 75.0 per cent, and it is held by a broadly diversified range of private and institutional shareholders both in Germany and abroad. Since mid-May 2013, US-based Artisan Partners has held more than 3.0 per cent of the shares in our Company. Furthermore, FIL Ltd. (Fidelity) notified us in September 2013 that it held a stake of 3.1 per cent in DEUTZ AG. Old Mutual Plc has also held a stake of 3.1 per cent since November 2013. All three of these are considered non-controlling shareholdings. Norway's Norges Bank had also notified us that it held more than 3.0 per cent of our shares, but its shareholding had fallen below this threshold on the reporting date.

Shareholder structure as at 31 December 2013

in %



INTENSIVE INVESTOR-RELATIONS WORK MAINTAINED

Once again in 2013, we worked closely with shareholders, analysts and all other interested parties in the capital markets. Our aim is for all shareholders to receive prompt, transparent and comprehensive information about all significant events in our Company with the objective of gaining the acceptance and long-term trust of our shareholders. That is why the latest corporate information, such as presentations, financial reports, press releases and ad-hoc announcements, can always be accessed on our website and viewed or downloaded.

At our annual results press conference and analysts' meeting held on 19 March 2013 in Frankfurt, we presented the DEUTZ annual financial statements and the Company's future strategic direction in person. We present our quarterly results during conference calls.

In 2013, 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 analysts, institutional investors and private investors on various occasions throughout the year.

NEW SUPERVISORY BOARD ELECTED AT ANNUAL GENERAL MEETING

Our Annual General Meeting for 2013 was held in the Congress-Centrum Ost at Koelnmesse exhibition centre in Cologne-Deutz on 30 April 2013. All items on the agenda were adopted with a large majority, including those concerning the election of Supervisory Board members. The following candidates were elected as shareholder representatives: Lars-Göran Moberg, Dr Lodovico Bussolati, Göran Gummeson, Hans-Georg Härter, Michael Haupt and Eva Persson. Dr Bussolati resigned from the Supervisory Board with effect from 31 December 2013. On 7 January 2014, the local court in Cologne appointed Mr Herbert Kauffmann as his successor on the Supervisory Board.

INVESTMENT RECOMMENDATIONS FOR DEUTZ SHARES OVERWHELMINGLY POSITIVE

At the end of 2013, twelve analysts' reports on DEUTZ shares were available from the following banks and securities houses: Bankhaus Lampe, Berenberg Bank, Commerzbank, Deutsche Bank, DZ Bank, Equinet, Goldman Sachs, HSBC Trinkaus & Burkhardt, Kepler Capital Markets, National-Bank, Solventis Wertpapierhandelsbank and UBS. The analysts overwhelmingly recommended DEUTZ as a 'buy' or 'hold'.

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

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

INVESTOR RELATIONS

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

150 YEARS OF DEUTZ MILESTONES

The story of DEUTZ began in 1864 – at a time in which people were developing a tremendous enthusiasm for technology and transport. Now, in 2014, we look back with pride on 150 years of history that started with the founding of N. A. Otto & Compagnie, the predecessor of today's DEUTZ AG in Cologne.

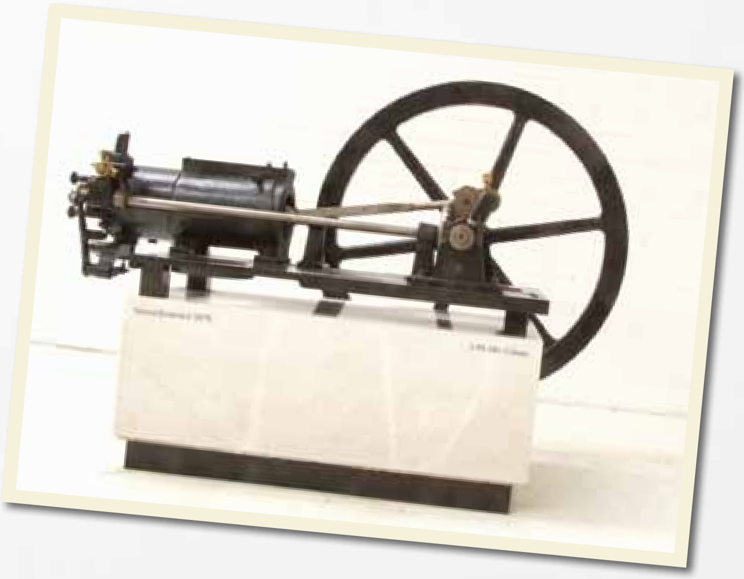
1864 | FOUNDING OF THE COMPANY

On 31 March 1864, Nicolaus August Otto and Eugen Langen founded N. A. Otto & Compagnie, the world's first engine factory.
.

Eugen Langen

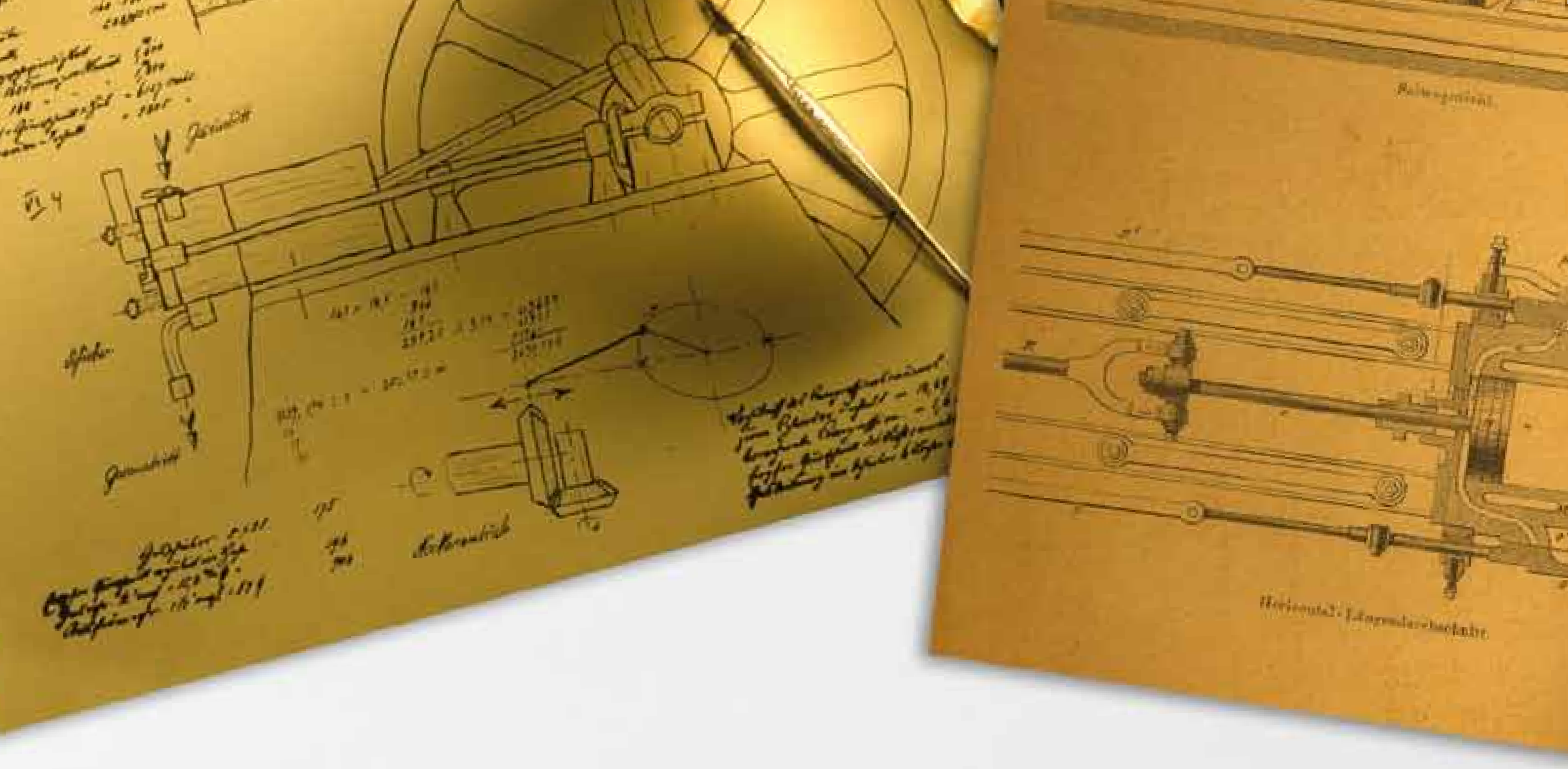
Nicolaus August Otto

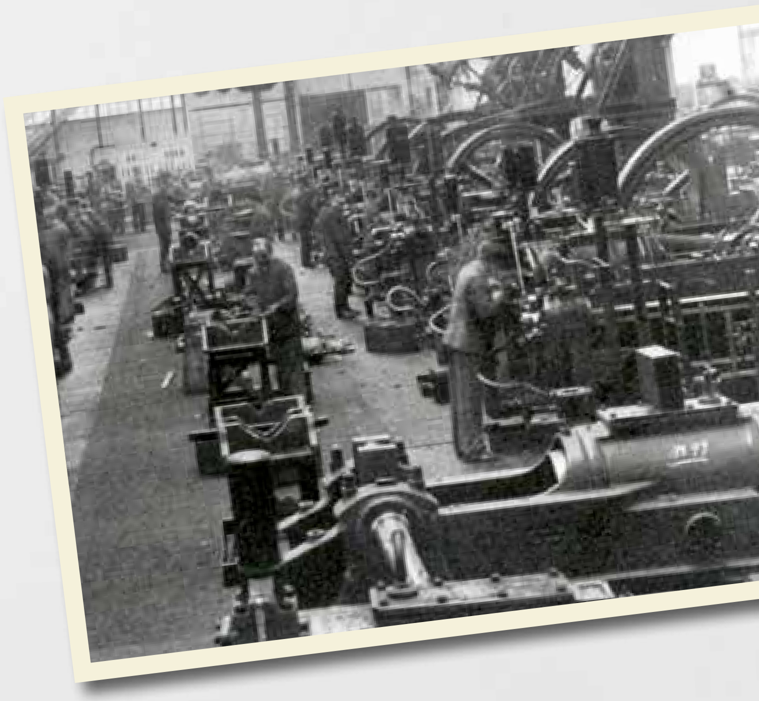
This marked the beginning of what is now a 150-year-old manufacturing success story. The first workshop was opened in 1865 on Servasgasse, close to Cologne railway station. Three years after founding the company, Otto showcased the first atmospheric gas-powered engine, the Flugkolbenmotor, at the Paris Expo. He received the gold medal, the highest possible honour, for his invention. Shortly afterwards the engine went into full production and was sold around the world. In 1869 the company, now called Langen, Otto & Roosen, moved across the Rhine to the town of Deutz – into a brand-new, purpose-built factory. This was the year in which DEUTZ first appeared on the model plates of the gas engines. In 1872 the company was reformed for the third time, under the name Gasmotoren-Fabrik DEUTZ AG.



1876 | FOUR-STROKE ENGINE

Otto worked non-stop to refine his invention, and in 1876 he unveiled the compressed-charge, four-stroke engine that could be used with all fuels and for all applications. With this versatile, coal-gas engine, the town of Deutz became the driving force in the story of global motoring. Suck in, compress, burn and blow out: Otto's four strokes are powering the world to this day. Virtually all internal combustion engines, whether they use petrol, diesel or gas, work according to the principles developed by Nicolaus August Otto.





1907 | DIESEL ENGINES GO INTO SERIES PRODUCTION

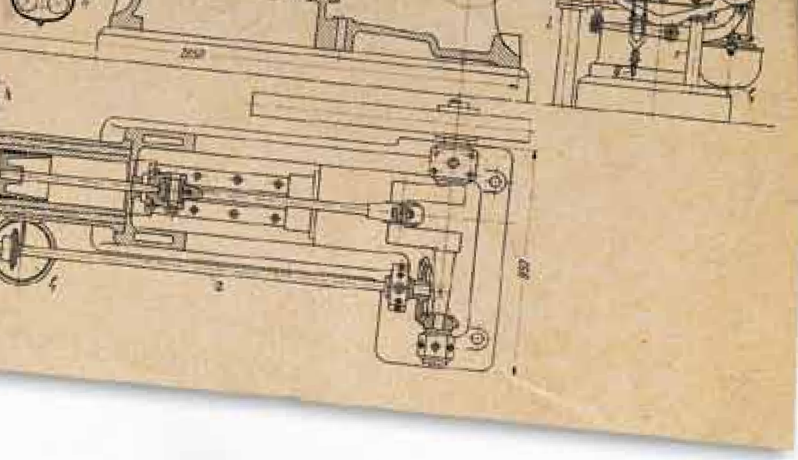
Another brilliant idea followed just a few decades later: The diesel engine. With an efficiency factor of 26 per cent, this newly invented engine was far more efficient than gasoline engines and used far less fuel as a result. Reason enough for Gasmotoren-Fabrik Deutz to enter the market. In 1898 the factory began to develop diesel engines to its own design, working under licence. Deutz finally began series production in 1907 when the diesel patent expired. This wonder of efficiency has been the bedrock of success for today's DEUTZ AG for more than a century. In construction equipment, tractors, trucks, special-purpose vehicles and generator units: More than 1.4 million DEUTZ diesel engines are driving industry around the world.

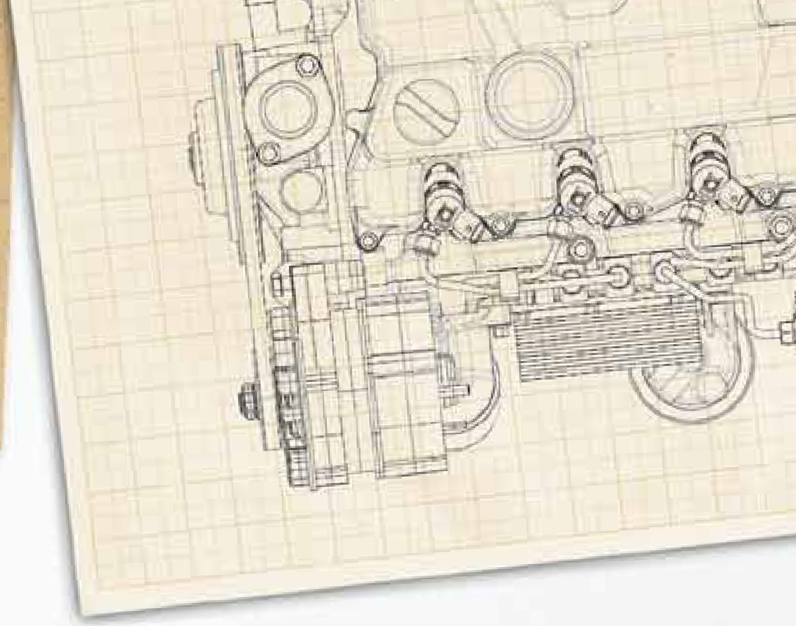
1936 | TAKE-OVER OF ULM-BASED COMPANY C. D. MAGIRUS AG

In 1936 the company got even bigger: With the take-over of C. D. Magirus, a long-established company, Deutz ventured into the production of trucks, omnibuses and special-purpose vehicles for the fire brigade. In the years that followed, Magirus-Deutz became a famous brand for commercial vehicles. Through further mergers and factory expansions, DEUTZ – now under the name Klöckner-Humboldt-Deutz (KHD) AG – became the biggest manufacturer of diesel engines in Germany.

1943 | DEVASTATION DURING THE SECOND WORLD WAR

The start of the Second World War in 1939 heralded a bleak period for Klöckner-Humboldt-DEUTZ AG. On the night of 4 July 1943, devastating air raids laid waste to the factories in Kalk and Deutz and made any future production as good as unthinkable. The situation for the workers was just as bad, with hundreds of company houses almost completely destroyed. At the end of the war, there remained only a skeleton staff of just 50 people, and three quarters of the factories in Deutz and Kalk had been destroyed.





1967 | NEW ENGINE FACTORY IN ULM

In the 1950s, a golden period for the West German economy, the situation at KHD gradually returned to normal. And in its centenary year, the company was able to boast operations around the world as it recorded impressive results. In the 1960s, huge investments were made in the Ulm site. Another major investment came in 1967 with the research and development centre in Cologne-Porz, which aimed to yield further breakthroughs in engine design in the tradition of Nicolaus Otto.

1968 | EXPANSION OF THE AGRICULTURE DIVISION DEUTZ-FAHR

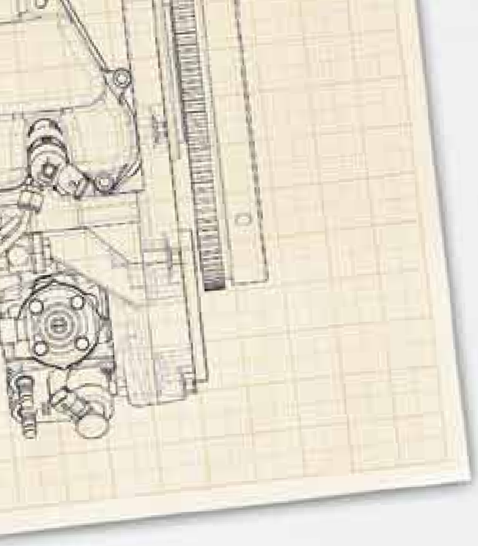
In 1968 the company strengthened its presence in the agricultural machinery sector by becoming the principal shareholder of Fahr AG. A full take-over followed in 1975, with the new agricultural machinery division operating under the name DEUTZ-FAHR.

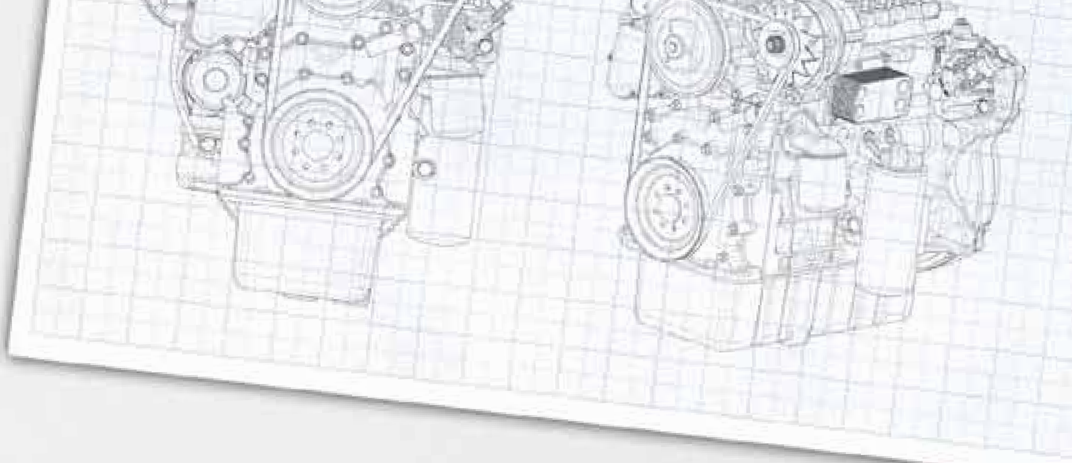
1975 | TURBULENT TIMES BEGIN

In the later decades of the 20th century, DEUTZ's high growth rates declined and its market position got noticeably worse. The group was restructured as a result. On 1 January 1975 Magirus-Deutz was separated out from KHD AG and became part of the newly formed IVECO company, with FIAT as the major shareholder. In 1982 KHD sold the remaining 20 per cent of the company's shares to FIAT. In 1995 KHD sold its DEUTZ-FAHR agricultural machinery division to the SAME Group of Italy, but to this day remains their supplier of diesel engines. The low point in the company's history came in 1996 when accounting irregularities emerged at the industrial plant subsidiary KHD Wedag. Insolvency was only narrowly avoided after losses amounting to nearly 1 billion deutschmarks were discovered. Several years later, the industrial plant division was also sold off. Since that time, the company has traded simply as DEUTZ AG and focused on its original core business – engines.

1988 | ENGINES WITH INTEGRATED COOLING SYSTEMS

In the mid-1980s engineers at KHD started work on an engine that would meet the new requirements of the construction machinery sector. It arrived in 1988 in the form of the B/FL 1011 air/oil-cooled engine series. With full production beginning in the same year, DEUTZ's new air- and oil-cooled engine models went on to become an unqualified success. Today the 1011 series and their 2011 update are among the world's best-selling industrial engines.





1993 | NEW ENGINE FACTORY IN COLOGNE-PORZ GOES LIVE

In 1991 in Cologne-Porz, the go-ahead was given for the biggest single investment in our company's illustrious history: 600 million deutschmarks were invested in new engine production facilities at the Porz, Deutz and Kalk sites in Cologne. Just-in-time logistics, a blend of assembly-lines and stationary production, and streamlined manufacturing processes made these diesel engine factories in Cologne among the most modern in the world. On 2 June 1993 the new engine factory was officially opened at its location just 20 minutes or so from Servasgasse, where the original company was formed. It was to be a production site for the engines of the 21st century.

2007 | DEUTZ DALIAN FOUNDED

DEUTZ has been investing heavily in Asia since the late 1990s. In 1998 it founded a joint venture with China's WEICHAI Holding in Weifang. Later, in 2007, DEUTZ teamed up with the biggest Chinese manufacturer of commercial vehicles and diesel engines, First Automotive Works (FAW), to open a diesel engine factory in Dalian. With a workforce of 2,000 people making 100,000 engines a year, this is the company's second biggest production site after Cologne. Since the factory opened, the Chinese market has been supplied by local plants. In 2013 the Chinese joint ventures generated revenues amounting to more than €420 million. China therefore remains the market of the future.

2013 | EXPANSION OF THE COOPERATION WITH VOLVO

Since 1998 DEUTZ has worked in alliance with the Swedish truck and construction equipment manufacturer AB Volvo, which is also its biggest customer and development partner. In September 2012 Volvo increased its shareholding in DEUTZ AG to just over 25 per cent. The AB Volvo Group is very well positioned in the Chinese market with the two brands Volvo and SDLG and has strong ambitions for growth there. In 2013, to capitalise on this, DEUTZ and the AB Volvo Group founded a Chinese production company for medium-duty engines, in which DEUTZ has a majority holding. Manufacturing is scheduled to begin in late 2015. The aim is to satisfy the demand in Asia from the AB Volvo Group, and from other customers, for construction machinery engines in this engine-power class.

2014 | 150TH ANNIVERSARY

In 2014, 150 years after it was founded, DEUTZ AG is known around the world as an independent manufacturer of diesel engines. From the very beginning, the name DEUTZ has been a marker for cutting-edge technology and high-quality products. We currently employ around 4,000 people and have a presence in over 130 countries. Based on our solid foundation, on the excellent customer response to our new engine series, and on the increasing presence in the Asian growth markets, our Company is well prepared for the future.

The Origin of HighTech.

150 years DEUTZ

FROM THE FIRST ENGINE TO THE BEST SYSTEM

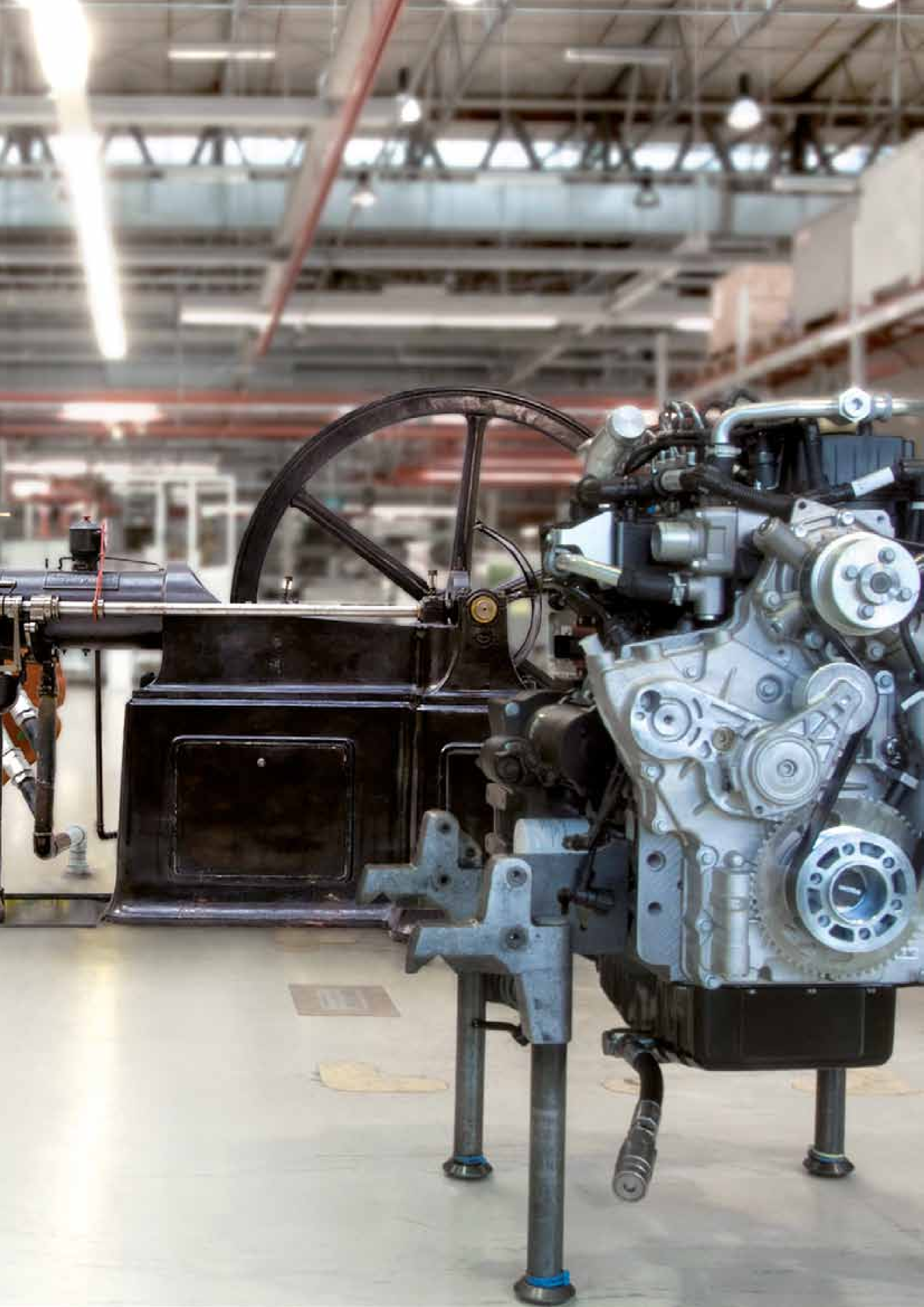
We wrote history by pioneering the internal combustion engine. But that's no reason to rest on our laurels. We aim to continually live up to our pioneering role and to be at the leading edge in the development of clean, efficient drive technologies.

The phased expansion of our product range to encompass complete engine systems is an increasingly important part of this. According to the latest US Tier 4/EU Stage IV emissions standard, an engine system comprises an internal combustion engine, exhaust aftertreatment system and electronic engine management unit.

How the technology has evolved the last 150 years

From the gas engine to complete engine systems: continuous innovation for optimum performance

1867	Engine no. 1 goes on sale – the atmospheric gas-powered engine
1876	Four-stroke engine developed – paving the way for motorisation of the world
1884	Low-voltage magneto ignition developed
1898	DEUTZ launches its first proprietary diesel engine
1911	Pre-combustion chamber developed
1944	Air-cooled diesel engines go into series production
1946	Ottomotor ("Otto engine") becomes a standardised term (DIN)
1988	Air/oil-cooled engine series 1011 launched
1998	New liquid-cooled engines go into series production
2012	New compact engine series TCD 2.9/3.6 released



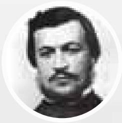
ENGINE PIONEERS – SINCE 1864

Boundless enthusiasm and scientific curiosity are the fuel that powers our dynamic business. And these are the very same qualities demonstrated by the automotive pioneers at DEUTZ all those years ago. Today this tradition is upheld by a strong team of motivated employees.

And one of the most important tasks for our managers and experienced engineers is to help these employees to develop both personally and professionally in accordance with their skills and capabilities. This is achieved by giving them responsibility and by providing suitable personal development programmes.

History makers

Uniting the traditional and the modern



Nicolaus August Otto

- founder of N. A. Otto & Cie. 1864 in Cologne
- in 1876 Otto, with his four-stroke system, created the most viable internal combustion engine in the world
- in 1996 he and Wilhelm Maybach were entered into the Automotive Hall of Fame in Detroit/USA

Eugen Langen

- co-founder of N. A. Otto & Cie with Nicolaus August Otto
- it was thanks to Langen that Nicolaus August Otto was able to focus on developing the first four-stroke engine
- in 1870 he founded the company Pfeifer & Langen and rose to worldwide fame for revolutionising the global sugar industry

Gottlieb Daimler

- in 1872 took up a position as technical director in overall charge of workshops and draughtsmen's offices
- was also responsible for appointing Wilhelm Maybach as head of the draughtsmen's offices
- brought Otto's engines to production readiness during a ten-year spell working for DEUTZ

Prosper L'Orange

- began his career in 1904 working as a research engineer for large gas-powered machines at DEUTZ AG
- pioneered the first diesel engines that did not require an air compressor, and in doing so invented the precombustion chamber
- founded the company L'Orange


DEUTZ

ROOTED IN COLOGNE, SUCCESSFUL AROUND THE WORLD

Outstanding technologies are in demand everywhere. This is something we realised at a very early stage and used to our benefit. Whether under a burning desert sun or in an Arctic snow storm – right from the very beginning our engines have been performing sterling service in the most distant corners of the globe. The DEUTZ name is known internationally as a mark of quality and reliability.

And now we want to grow even more around the world. In addition to our key European market, we see the greatest potential for growth in Asia. In 2013 DEUTZ once again benefited from the continued strong growth of the Chinese economy.

Pillars of internationalisation

At home around the world, right from day one

Internationalisation of DEUTZ

Experience

The internationalisation of DEUTZ began almost as soon as the company was founded:

- 1868: DEUTZ is already selling atmospheric gas-powered engines to the USA
- 1869: Crossley Brothers in Manchester begin to manufacture DEUTZ engines under license, marking the beginning of combustion engine production in England

Export

DEUTZ has traditionally been a strong exporter:

- DEUTZ has a global sales and service network with eleven distribution companies, nine sales offices and more than 800 sales and service partners in over 130 countries
- Currently more than 80 percent of its products are exported

Production network

This internationalisation is increasingly being reflected in production:

- 2007: joint venture with the First Automotive Works group, a leading Chinese manufacturer
- 2013: DEUTZ teams up with the AB Volvo Group to set up a production company for medium-duty engines
- Further joint ventures in China and Argentina

STRATEGY

In 2013 we pressed ahead with our strategy, expanding our customer and product base and continuing to globalise and internationalise our business. It is particularly encouraging to see that our product offensive is having a distinctly positive impact on our business performance. Our growth projects in China are performing satisfactorily as well. The Asian market remains a key focus of ours, and this will enable DEUTZ AG to continue to achieve profitable growth.

Our growth strategy is based on three pillars:

→ First, by **expanding our customer base** and profitable growth: as before, we expect the greatest market growth and business potential to come from Asia, and especially China. This is why we have expanded our activities in these markets in recent years. In Europe and America we are investing a major effort in the marketing of our new generation of engines. This includes stressing the numerous advantages of these engines, such as very compact installed dimensions, intelligent exhaust aftertreatment designs and lower lifecycle costs than their predecessors. In 2013, in all regions, we were very successful in securing new customers as well as new applications for existing customers. This is reflected in our healthy volume of orders, and shows that our product offensives launched in previous years are bearing fruit.

In terms of application segments, our focus is still on Mobile Machinery and Agricultural Machinery. By strengthening our activities in agricultural machinery, we are able to position our business where it is more resilient to cyclical economic instability. In the service business as well, we aim to continue growing sustainably and expanding our market share in terms of the total number of engines in existence. In addition to the active management of dealers and the ongoing skills upgrading of our dealer network to meet the growing complexity of our products, we may also need to invest in service support centres in selected locations and operate them ourselves.

→ Second, by **expanding our product base** with products at the leading edge of technology: Our range of engines has undergone a fundamental overhaul due to the introduction of the Tier 4 (Interim and Final)[1] exhaust emissions standard.

Strategic programme until 2020

We supply the most successful engine systems in the world

Strategic programme

Expanding the customer base
- → Growing the Asia business
- → Reinforcing sales activities
- → Growing the service business

Expanding the product base
- → Expanding and optimising the engine programme
- → Expanding the product portfolio by offering system solutions
- → Expanding and optimising the service programme

Globalisation/ internationalisation
- → Establishing an international production network
- → Establishing an international development network
- → Establishing an international procurement network
- → Establishing an international logistics network

Corporate principles, leadership and cooperation principles

[1] The annual report mentions the Tier 4 Interim and Tier 4 Final emissions standards in various places. This refers to the US-regulations EPA Tier 4 Interim or EPA Tier 4 for diesel engines and the EU 97/68 III B or IV emission standards. The latter are not always mentioned for reasons of simplification.

We have reduced the number of our engine platforms from the previous seven to five without cutting back on the 25 to 520kW power output range they cover. The platform strategy and the possibilities offered by electronic management will considerably reduce the variety of components. In 2014 we will be bringing further Tier 4 Final engines to market.

In order to meet the latest emissions legislation, engines now have to include exhaust aftertreatment systems. Developing, testing and certifying these engine systems is our responsibility. We will continue to work on developing solutions to improve energy efficiency throughout the system. In addition, we intend to expand our application expertise, an area in which we already have a leading market position.

We are also continuously expanding our range of services. For example, we significantly expanded our range of reconditioned exchange engines, marketed under the DEUTZ Xchange brand name, and introduced them into the appropriate markets.

→ Third, by **globalising and internationalising** of the DEUTZ Group: The main market focuses are shifting and the trend is increasingly towards basing assembly nearer to the customer. Against this background, we want to create structures in the three major economic areas of Europe, America and Asia, which in addition to their sales, marketing and service activities, also encompass local assembly, purchasing, logistics and application development activities. These activities will need to be closely interlinked and centrally coordinated.

In 2013 we expanded our activities in China by setting up a production company in which we are the majority shareholder. Together with AB Volvo, which is both our customer and our development partner, we intend to produce medium-duty engines in the country from late 2015. The aim is to satisfy the demand from the AB Volvo Group in Asia for construction machinery engines in this engine-power class. The AB Volvo Group is well-placed in the Chinese market with its Volvo and SDLG brands. We are also looking to win third-party customers for our products. In 2013 we made excellent progress in our efforts to establish a regional procurement network, particularly in China.

The new assembly sites will predominantly source components either from the production network or from existing suppliers. We do not intend to expand our own parts and components production capacity. Instead, we will be undertaking a further critical review of the extent of our vertical integration.

GLOBAL MEGATRENDS DRIVE ENGINE GROWTH

Demographic change, increasing urbanisation and ongoing globalisation remain the megatrends that shape our business. They are causing global demand to rise continually, including demand for agricultural machinery, infrastructure investment and transport. These global megatrends are therefore underpinning growth in the global engine market, particularly in the emerging markets. There are only limited natural resources to meet this demand, however.

Hence the imposition of increasing numbers of environmental and climate change regulations in practically every industrialised country and in the emerging markets. Emissions legislation is becoming a major technology driver in the diesel engine market. We are, of course, delighted to take up the emissions legislation challenge. As a leading technology company, we actually regard this legislation as an opportunity rather than a threat. Emissions legislation in the emerging economies is generally at least one step behind.

To this extent, the structural growth drivers at DEUTZ are the engine systems that meet the new emissions standard, which are of considerably higher value and more complex than their respective predecessors. Our investment in the new product portfolio and in the emerging markets is also delivering results. Consequently, we see significant growth potential for DEUTZ AG over the coming years, but we will continue to position ourselves to withstand a highly cyclical market environment.

COMBINED MANAGEMENT REPORT 2013 FOR DEUTZ GROUP AND DEUTZ AG

OVERVIEW OF 2013

WE WILL CONTINUE TO COMBINE PERFORMANCE WITH TRADITION

Global economic growth at last year's level Overall, the global economy continued to experience only moderate growth in 2013 although growth accelerated a little in the second half of the year. Global GDP grew by 3.0 per cent in 2013 compared with 3.1 per cent in 2012. However, there are numerous indications of an improving trend in 2014 and subsequent years. At +0.5 per cent, the pace of growth in Germany has weakened. Nonetheless, this was once more the best performance among the larger countries in the euro zone. China, an important international market for DEUTZ, grew by 7.7 per cent, confirming the previous year's figures.

Revenue and earnings performance matches the forecasts The positive business performance by DEUTZ in 2013 bucks the general trend both in the sector and in the wider global economy. The increased demand for our products as a result of our product offensive has led to a 12.5 per cent increase in revenue to €1,453.2 million. This corresponds to the forecast in our 2012 annual report where we predicted revenue of at least €1.4 billion. Sales of engines increased by 2.9 per cent to 184,028. Operating profit (EBIT) has improved considerably to €47.5 million, resulting in an EBIT margin of 3.3 per cent. This, too, corresponds to our forecast for an improved EBIT margin of over 3.0 per cent.

New production company established in China China is one of the biggest growth markets in our sector. Against this background, we set up the DEUTZ Engine (China) Co., Ltd. production company in Linyi in China in 2013 in conjunction with the AB Volvo Group, our longstanding customer and development partner, and we have already been granted a business licence. From the end of 2015, the company, in which we have a 65 per cent shareholding, will assemble four to eight-litre diesel engines, in particular for mobile machinery in the Asian market. We plan to invest some €40 million in this company, mostly in 2014 and 2015.

Excellent reception for our new products During 2013, we continued introducing engines to meet the new emissions standards in the European Union and in North America. Our new engines illustrate the dominant trends in innovative engine construction: design configurations consistent with the latest emissions standards, downsizing, great economic efficiency, and all benefiting from proven DEUTZ quality. Our outstanding new product, shown at Agritechnica 2013, is the new TCD 2.9 designed for agricultural machinery applications in the power range up to 55.4kW. Other star exhibits were our hybrid applications, displayed at bauma 2013, offering a preview of future system solutions. The positive customer response has been reflected in the increase in new orders.

Production increased to meet higher demand In order to be able to meet the increased demand for our engines, we have ramped up production. In addition, we have worked hard to optimise our logistics chain and to implement our productivity enhancement and quality offensive. At our Cologne site, a new assembly line for our engine families of up to four litres has been taken into regular operation. This assembly line's modular design allows for maximum flexibility and the ability to react to changing market conditions. Plans also exist to consolidate the current two assembly lines for the four to eight-litre diesel engines into a single highly innovative assembly line.

FUNDAMENTAL FEATURES OF THE GROUP

BUSINESS SEGMENTS AND PRODUCT RANGE

For 150 years, DEUTZ has been supplying the reliable source of power for mobile and standalone static applications – as an independent manufacturer of compact diesel engines in the 25kW to 520kW power range for both on and off-road use. 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. Operating under the name "DEUTZ Xchange", the DEUTZ Customised Solutions segment also supplies reconditioned parts and engines as the main element of our service business.

We are also able to assist our customers with advice and practical help when it comes to operating their machines; our state-of-the-art product range is supplemented by attractive service packages, carefully designed to meet the needs of our customers worldwide. We actively assist customers with the repair, maintenance and servicing of their vehicles and machines fitted with DEUTZ engines. Our global service network, which comprises subsidiaries, service centres and authorised agents, ensures a reliable and speedy supply of spare parts. As early as 2012, we set up a new service centre in Madrid in Spain and a new service company in Moscow in Russia in order to achieve better and more rapid market access.

DEUTZ AG

DEUTZ Compact Engines	DEUTZ Customised Solutions
· Liquid-cooled engines of up to 8 litres cubic capacity	· Air-cooled engines · Liquid-cooled engines of more than 8 litres cubic capacity

LEGAL STRUCTURE AND PRODUCTION SITES

DEUTZ maintains a strong international presence in a globalised market: with eleven distribution companies, nine sales offices and over 800 sales and service partners in more than 130 countries, we can offer our customers service and support virtually anywhere with very short reaction times. Our executive and operating parent company is DEUTZ AG, headquartered in Cologne, Germany which also has various other domestic and foreign subsidiaries. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions. During 2013, we expanded our presence still further in the Chinese growth market. In addition to our existing activities (two joint ventures, consolidated using the equity method, a production company in which we hold a majority stake but which has not yet begun to operate commercially, and a distribution company), at the end of 2013 we also established another production company, DEUTZ Engine (China) Co., Ltd. with registered offices in Linyi, China, jointly with the AB Volvo Group. Our 65 per cent shareholding gives DEUTZ majority voting rights in this company. Detailed information about the joint ventures can be found in the relevant section on Page 28.

In addition to DEUTZ AG, six German companies (31 December 2012: six) and 14 foreign companies (31 December 2012: 13) were included in the consolidated financial statements as at 31 December 2013. A complete list of DEUTZ AG shareholdings as at 31 December 2013 is given in the annex to the notes to the consolidated accounts on Page 113.

MARKET AND COMPETITIVE ENVIRONMENT

DEUTZ manufactures diesel engines for professional applications used in countries with stringent emissions standards, in particular Stages II, III and IV. These technically sophisticated applications include construction equipment, agricultural machinery, lifting and material-handling equipment, pumps, gensets, medium and heavy-duty 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. Engines that rely on outdated technology and that are intended for use in applications in countries or application segments with only very low requirements in terms of product quality, emissions and fuel consumption do not feature in our target market.

The market for technically sophisticated diesel engines divides into what are known as the captive and non-captive areas. The captive area comprises equipment manufacturers who produce their own engines, some of whom are also active as engine suppliers in the non-captive area; the non-captive area is made up of equipment manufacturers who very largely do not produce their own engines and who, therefore, buy in engines from other suppliers. It is in this non-captive market around the globe that DEUTZ sells its high-quality engines with outputs between 25kW and 520kW.

We have attained an outstanding position in recent years as one of the biggest suppliers in this non-captive market. We face competition from other engine suppliers in western Europe, North America and Asia but none of these competitors can offer an identical product range to DEUTZ in terms of the power outputs and application segments that they cover.

Main competitors

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

INTERNAL CONTROL SYSTEM

RESPONSIBLE CORPORATE MANAGEMENT BASED ON TRANSPARENT PERFORMANCE INDICATORS

The DEUTZ Group defines its budget targets and its medium-term corporate targets using selected key performance indicators (KPIs). In order to increase profitability and achieve sustained growth, we manage the Group using the following financial performance indicators:

		2013	2012
Revenue growth	(%)	**12.5**	–15.5
EBIT margin	(%)	**3.3**	2.9[1]
Working capital ratio[2] (average)	(%)	**12.0**	14.7
ROCE	(%)	**6.0**	4.8[1]
R&D ratio	(%)	**3.6**	4.8
Free cash flow[3]	€ million	**13.8**	12.6

[1] Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. The comparative prior-year figures have been restated accordingly to improve comparability.
[2] Working capital ratio: ratio of working capital (inventories plus trade receivables minus trade payables), either at the end of the reporting period or as an average of the four quarters, to revenue for the preceding twelve months.
[3] Free cash flow: cash flow from operating and investing activities minus net interest expense.

Our internal control system focuses, on the one hand, on revenue growth and the EBIT margin, while on the other hand, we manage tied-up capital via the average working capital ratio[1]. In conjunction with working capital and EBIT optimisation, this in turn determines the return on capital employed[2]. In managing its liquidity, DEUTZ focuses on free cash flow[3] as a key performance indicator. Also, as a technology-oriented company, we consider the R&D ratio, which represents the ratio of research and development expenditure (less reimbursements) to revenue, to be a key management variable as part of our internal performance indicator system. 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.

In addition to the financial performance indicators which form part of the management system described above, we also employ a range of other parameters to measure our economic performance. These include, but are not limited to, new orders received, revenue and unit sales on the income side and the working capital as at the reporting date with regard to tied-up capital. Moreover, the Group net income and the DEUTZ AG statutory income in accordance with the German Commercial Code are significant factors for us as regards dividend payments.

CONTINUOUS OPTIMISATION OF THE CONTROL SYSTEM

Regardless of fluctuations in the economic cycle, one of the DEUTZ Group's overriding aims is the continuous optimisation of its management systems. 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 then coordinated with the management strategy. Both the specific unit sales and revenue targets and the customer and product-related targets (EBIT margins) are aligned with the operating units each year, taking Group-wide objectives into consideration. This means that they are available at the relevant hierarchical level for use by the operational management.

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 this, we have made the management of capital expenditure a central element in the management of tied-up capital: clearly specified budget figures set out the framework for 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. Annual budget meetings are held to coordinate individual projects, development expenditure and planned capital expenditure with the Group-wide financial planning process and to record the outcomes. 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, the impact on the income statement and cost comparisons). A project with an appropriate budget is only approved if there is a clear positive outcome from this investment appraisal.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

The global economy is growing at a moderate pace Overall, in 2013, the global economy experienced moderate growth but strengthened in the second half of the year. Following a 3.1 per cent improvement in the global economy in 2012, growth in 2013 was slightly lower at 3.0 per cent, according to the International Monetary Fund (IMF)[4]. However, numerous indicators suggested an acceleration in 2014 and subsequent years. These indicators include the end of the recession in the euro zone, stabilisation of economic growth in China and an improving situation in the labour market in den USA.

The situation in the euro zone improved towards the end of 2013. However, its economy contracted by 0.4 per cent and has still not emerged from last year's recession. Regional trends within the euro zone displayed very considerable variation. Once again, the German economy performed best, growing by 0.5 per cent, although here, too, the pace of growth slowed. On the positive side, the prospects for Spain and other southern European countries have recently improved considerably.

[1] Working capital ratio: ratio of working capital (inventories plus trade receivables minus trade payables), either at the end of the reporting period or as an average of the four quarters, to revenue for the preceding twelve months.
[2] Return on capital employed (ROCE): ratio of EBIT to average capital employed. Capital employed: total assets less 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 net interest expense.

[4] Source: IMF World Economic Outlook, January 2014.

The US economy grew by 1.9 per cent in 2013, with growth accelerating towards the end of the year. We expect the American market to provide stimulus for growth in the current year. The recovery in the property sector, the improvement in the labour market situation and the comparatively smooth raising of the debt ceiling in the current year are having a positive effect. In 2013, the Fed began to scale back their policy of quantitative easing in the money market. It remains to be seen what the Fed will do next and how the capital markets will react.

China grew by 7.7 per cent in 2013, repeating the previous year's figures. Although growth forecasts are now somewhat lower, we still believe that China will remain a high-growth market. In future years, China will continue to drive growth in the global economy.

Varying trends in DEUTZ customer industries depending on region and sector Demand in DEUTZ's main customer markets varied once again in 2013. The demand for construction equipment in Europe and China fell by between 3 per cent and 6 per cent in 2013 whereas it rose slightly by 2 per cent in the USA.[1] According to its own estimates, the agricultural machinery sector in Europe was stagnant in 2013. The market for medium-duty and heavy-duty trucks rose by 6 per cent[2] in Europe and by 12 per cent in China.[3]

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS PERFORMANCE

DEUTZ bucks the global trend Whereas the global economy grew by 3.0 per cent in 2013, DEUTZ increased its revenue by 12.5 per cent. The greater increase in revenue compared with the 2.9 per cent growth in unit sales is attributable to the effects of the business mix and to sales of higher value engines for the new emissions standards. We have also benefited from the fact that our new engine range has appealed to from new customers. Growth across our key customer sectors has been varied and, in some cases, even negative. DEUTZ has largely been able to insulate itself from the figures for the rest of the sector. The strongest growth by application segment was achieved by DEUTZ in agricultural machinery where unit sales grew by 75.2 per cent despite the agricultural machinery sector in Europe stagnating. This growth can be attributed to low unit sales in the previous year, to new customer projects and to the production of engines which customers have ordered in advance in anticipation of the introduction of the new Stage IV exhaust emissions standard in the EU.

GDP in the eurozone suffered a further 0.4 per cent decline in 2013. Similarly, some of DEUTZ's key customer sectors also experienced a downturn; the demand in Europe for construction equipment declined by 3 per cent, with volumes in the agricultural machinery sector remaining at the previous year's level. In contrast, EU-wide production of medium-duty and heavy-duty trucks rose by 6 per cent. However, DEUTZ's revenue in our biggest market - EMEA (Europe, Middle East and Africa) - rose by 17.4 per cent and unit sales by 6.7 per cent. American economic output grew by 1.9 per cent in 2013 and the North American construction equipment market also grew by 2 per cent. In contrast, our unit sales in the Americas region fell by 8.7 per cent. This decline will not be long-lived – based on the current order situation and ongoing projects, we expect to experience growth in excess of the sector average in the American market this year. This generally moderate economic growth was also a feature in China, our most important overseas market, where GDP growth remained at the previous year's level of 7.7 per cent - albeit still a very high figure by any international measure. The markets for medium-duty and heavy-duty trucks managed an increase of some 12 per cent. However, the demand for construction equipment in China fell once again in 2013 by around 6 per cent. Against this backdrop, DEUTZ's revenue fell by 8.2 per cent and unit sales by 1.0 per cent in the Asia/Pacific region. In contrast, the revenue achieved by our biggest involvement in China, the DEUTZ (Dalian) Engine Co., Ltd., which is not reported under consolidated revenue, rose disproportionately by more than 30 per cent.

RESEARCH AND DEVELOPMENT

Research and development expenditure (after deducting grants)

€ million (R&D ratio in %)

2013	**52.6**	**(3.6)**
2012	62.1	(4.8)
2011	84.6	(5.5)
2010	71.8	(6.0)
2009	64.1	(7.4)

Research and development expenditure DEUTZ AG's position at the forefront of innovation within the industry is based on extensive research and development.

Expenditure on research and development in 2013 including grants amounted to €71.1 million (2012: €82.7 million). After deducting grants received from major customers and development partners, expenditure was €52.6 million (2012: €62.1 million) and thus in line with expectations. Development expenditure excluding grants has thus reduced as planned by 15.3 per cent. The R&D ratio (excluding grants), i.e. the ratio of net development expenditure to consolidated revenue, has fallen to 3.6 per cent (2012: 4.8 per cent). This reduction is attributable to the fact that development work

[1] Source: Off-Highway Research, November 2013.
[2] Source: ACEA – European Automobile Manufacturers' Association, January 2014.
[3] Source: China Automobile Industry Newsletter of Production and Sales, December 2013.

for the new emissions standard has reached an advanced stage. It is also the result of our continuous optimization of development processes. Sixty-four per cent of development expenditure excluding grants was capitalised in 2013 (2012: 71 per cent). In 2013, development of new engines and the refinement of existing models accounted for some 86 per cent (2012: 88 per cent) of all R&D expenditure (excluding grants); support for existing engine series including customer applications took up 10 per cent (2012: 10 per cent) and 4 per cent (2012: 2 per cent) was spent on research and preliminary development work.

Spending by the DEUTZ Compact Engines segment excluding grants came to €48.8 million (2012: €55.3 million); and that of the DEUTZ Customised Solutions segment came to €3.8 million (2012: €6.8 million).

New and ongoing development of our engines underlines proven DEUTZ quality The development of new engines to satisfy the EU Stage IV/US EPA Tier 4 Final emissions standards continued throughout 2013. 2013 also featured a number of product launches. For example, engines with a power rating of up to 130 kW (model series TCD 6.1 and TCD 7.8) and complying with the latest European and American emissions standards were launched on the market. DEUTZ can supply the new Tier 4 Final engines with two different exhaust gas aftertreatment systems, with or without a particulate filter. This option gives DEUTZ a considerable competitive advantage, allowing our engines to be sold in markets, such as Switzerland, where special requirements apply. As a result, the new engines once again reflect the dominant trends in innovative engine construction: design configurations consistent with the latest emissions standards, downsizing, great economic efficiency, and all benefiting from proven DEUTZ quality.

Ruggedness and low running costs are the impressive features of the TCD 12.0/16.0 V-engines. To meet the US EPA Tier 4 emissions standard, the engine is being developed to production readiness with an attractive special design, known as “SCR only”. This compact system solution consists of two SCR systems, connected in series, in order to make them particularly efficient. This innovative exhaust gas aftertreatment system does away with the need to apply a complex exhaust gas recirculation arrangement. As a result, the customer’s own connections and the engine’s heat balance remain virtually unchanged.

In total, to meet the EU Stage IV/US EPA Tier 4 Final emissions standards, DEUTZ offers five engine platforms which have either been launched already or which will be introduced this year.

New engines introduced for agricultural applications Our outstanding new product, shown at Agritechnica 2013, is the new TCD 2.9 – designed for agricultural machinery applications in the power range up to 55.4kW. This compact engine satisfies the latest European and American emissions standards with its DVERT® oxidising catalytic converter and has been developed to include a turbocharger and, optionally, either with or without charge air cooling. In future, a high power version of the TCD 2.9 will be produced with a power rating of 62.5 to 77kW at 2,200 rpm specifically for use in narrow gauge tractors.

Hybrid applications as an indication of future system solutions Another star exhibit at bauma 2013 were the hybrid applications, offering a preview of future system solutions for DEUTZ engines. These allow further improvements in fuel consumption with enhanced functionality for selected applications by taking a hydraulic and an electrical approach.

Research for the future The innovations and design concepts for our next engine generation emerge from our advanced development work. In addition to the government sponsored study into a gas engine powered by methane-based fuels for agricultural applications, work has continued on the preliminary designs for the expected future exhaust emissions standards. The focus of this work and the principle on which it is based is aimed at designing modular engines with compact dimensions and high power density. In order to achieve optimum interaction within the integrated system – customer’s equipment and engine – the machine’s intended applications are taken into account right from the start as the system concepts are drawn up during preliminary development work.

Intellectual property rights safeguard our know-how We protect our know-how from unauthorised outside use by means of patents, patent applications and utility models. In 2013, we submitted 21 new patent applications, nine of which were in Germany. We now hold a total of 182 patents registered in Germany and 267 registered elsewhere.

PROCUREMENT

In 2013, our purchasing department concentrated on a range of different activities. These included reducing costs, ensuring continuity of supplies, optimising quality, expanding deliveries from China and implementing material group strategies.

The introduction of new engine models in 2013 led to start-up costs including higher material costs. However, by working closely with our suppliers in 2013, we were able to reduce material costs for each of the engine platforms. In addition to a slight fall in commodity prices, a significant role was played by technical adjustments and the use of alternative materials and manufacturing processes. As for non-productive materials and services, the main focus in 2013 was energy procurement. We were able to significantly reduce the prices we paid for electricity and gas.

Commodity markets weakened slightly The price of cast iron, aluminium, copper and nickel fell slightly in 2013. Average annual values lay within the range we had forecast.

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

Ensuring security of supply Purchase volumes were adjusted throughout the course of the year to match our greatly increased requirements. By adopting a well-structured and strict approach to risk management, we were able to minimise the effect of isolated instances of insolvency of some suppliers on our supply chain and our purchasing conditions.

Procurement in China stepped up Based on the new Chinese joint ventures, we have stepped up our procurement and localisation activities in China still further. This has further expanded our global delivery partnerships, allowing us to increasingly cover our material requirements from global suppliers while, at the same time, being able to exploit regional locational advantages as regards quality and cost. With the assistance of our purchasing office in Beijing, potential suppliers have been identified, qualified, their commercial viability assessed and, in some cases, already nominated. This year, we will largely be able to complete the localisation of the material requirements of our new Chinese joint ventures.

Supplier management and material group strategies in the spotlight In 2013, the supplier management system implemented by the purchasing organisation concentrated on three main topics: ensuring quality standards during the production ramp-up of the new 2.9 and 3.6 engine models, supporting purchasing activity on the Asian continent by means of pre-audit activities and lowering the ppm rate (parts per million as a performance indicator for defective parts).

As part of our material group strategies, we are permanently working to establish long-term delivery partnerships, to exploit common know-how to the best effect and thus to sustainably strengthen our capacity for innovation. One of the most important tools we use to achieve this is our supplier management evaluation system which contains data affecting every department and organisational unit. We use this as the basis for discussions with our suppliers and, in particular, for developing supplier relationships.

PRODUCTION AND LOGISTICS

The main areas of activity for production and logistics in 2013 were the start of production of the new 2.9 and 3.6 engine models, our productivity enhancement and quality offensive and action to further optimise our logistics chain.

The Cologne plants At our Cologne site, testing of the assembly line for our families of up to 4 litre engines was completed successfully and the new line was taken into regular operation. At the same time, work to migrate the existing 2011 engine series onto this assembly line was stepped up. The plan for the future is also to consolidate assembly of the four to eight-litre engines from the present two assembly lines onto a single assembly line. This means that, in future, production at the Cologne site will be concentrated onto two highly innovative assembly lines.

As part of a continuous improvement process, we have introduced shop floor management in two pilot areas. The aim is for the methodology underlying this fully integrated, cross-hierarchical management concept to make still smoother the path towards zero-error production. In 2014, this concept is to be extended to all production areas.

The Ulm plant Preparations were made in 2013 for the launch of the Tier 4 emissions standard 12.0 and 16.0 engine series. Production of the TCG 2015 gas engine and of the 2015 marine engine also started up. During 2013, we once again rigorously pursued our kaizen activities with the aim of improving our competitiveness. This has resulted in significant improvements in quality, productivity and throughput times and further optimisation of inventories.

The Zafra plant in Spain We have brought together responsibility for machining cylinder heads, connecting rods and gearwheels within the DEUTZ Group and concentrated it at our plant in Zafra in Spain. As a result, this plant is one of the major suppliers to the assembly plants in Cologne and Ulm. Preparations were made in 2013 for manufacturing the components for the launch of engines to meet the Tier 4 exhaust emissions standard. Thanks to ongoing target-oriented cost management and to close integration with the existing kaizen approach at DEUTZ, further improvement has been seen in every significant key performance indicator.

Xchange plants in Übersee am Chiemsee and in Pendergrass, Georgia, USA At our Übersee am Chiemsee site, used engines are dismantled, refurbished and either re-assembled for sale as reconditioned engines in as good as new condition or distributed as reconditioned exchange parts via the service centres. In 2013, we started refurbishing Tier 4 interim emissions standard engines.

Our site in Pendergrass, Georgia, USA produces reconditioned engines for the American market. Local production makes for short delivery times.

Logistics implements demand capacity management In 2013, demand capacity management (DCM) was successfully implemented in our logistics operations. The aim of DCM is to ensure we are able to meet the global requirements of our customers by proactive and predictive identification of capacity constraints both at our suppliers' sites and in our own inhouse production and assembly plants and the instigation of corrective action. By the end of 2013, all our capacity-critical suppliers with purchase volumes of over 60 per cent of the total volume had been linked in to our capacity database. An aggregated overview of our critical suppliers and an option for simulating a variety of market scenarios allow reliable conclusions to be drawn about the flexibility of the supply chain as a whole.

Quality is firmly embedded in our corporate principles The DEUTZ name has always stood for high quality standards in the engine market. Our aspiration is not merely to fulfil our customers' requirements but also to instil in our customers a passion for our products and services.

In 2013 we have once again demonstrated compliance with the requirements of ISO 9001 in respect of quality management and of ISO 14001 in respect of environmental management. In addition, DEUTZ's energy management system was successfully certified in accordance with ISO 50001 on initial application.

DEUTZ keeps customer satisfaction constantly in mind. For this reason we conducted a global customer satisfaction survey in 2013. The results of the survey and any suggestions for improvement it throws up will be analysed by the member of the Board of Management with responsibility for sales and then implemented throughout the Group. Another survey is planned for 2014.

A multi-year comparison of the key performance indicators for delivery quality indicates a positive trend. It spurs us on to do even better; which is why regular quality circles are held with the Board of Management and other senior managers. In this way, we are able to put new solutions rapidly into effect and increase customer satisfaction still further.

INTERNATIONAL JOINT VENTURES

Since 2007, DEUTZ, together with the First Automotive Works Group, one of China's leading vehicle manufacturers, has been operating the DEUTZ (Dalian) Engine Co., Ltd. joint venture in Dalian in China. Here, we produce three to eight litre diesel engines, mainly for automotive applications for the Chinese market. Unit sales in 2013 ran to more than 107,000 engines. Expressed in euros, revenue amounted to €319 million, an increase of some 30.3 per cent on the figure for the previous year and thus considerably in excess of market growth. In 2012, the pro rata loss of DEUTZ Dalian, accounted for under the equity method, had impacted negatively on DEUTZ's operating profit by some €11 million, but in 2013 it contributed a good €1 million to earnings. As regards the current year, we are assuming that the company will benefit from the continuing market recovery, from new engine models for more stringent emissions standards and from our constant action to reduce costs and increase efficiency.

At the end of 2013, jointly with the AB Volvo Group, we established the DEUTZ Engine (China) Co., Ltd. production company based in Linyi in China and were granted a business licence.From the end of 2015, the plan is for the company to assemble four to eight-litre diesel engines, aimed in particular at the Asian market for mobile machinery. We have a 65 per cent shareholding in the company. It is fully consolidated and will be completely incorporated into the DEUTZ Group's organisation and processes. We plan to invest some €40 million in this company, mostly in the current year and the year after. We consider the company's sales potential to be of the same order of magnitude as that of DEUTZ Dalian.

It was in 2012 that we established the DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China, in order to assemble diesel engines of up to four litres cubic capacity. We have a 70 per cent shareholding in this production company. The company has not yet begun to operate commercially. In future, the company is to produce engines of up to four litres cubic capacity, designed for use in industrial, construction equipment and agricultural applications.

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. 226B series engines are produced here under licence for agricultural machinery, gensets, construction equipment, marine equipment and automotive applications. In 2013, unit sales amounted to more than 37,000 engines and revenue rose to €101 million (2012: €92 million). Although the company posted a loss in 2013, the effect on net income for the Group was only slight.

DEUTZ AGCO MOTORES S.A. (DAMSA), our Argentinian joint venture with the AGCO Group, produces engines for the South American market, with a particular focus on agricultural machinery, bus and industrial applications. In 2013, the company sold almost 1,900 engines against a backdrop of challenging market conditions, generating revenue of almost €22 million, a fall of some 7.3 per cent from the previous year. Nonetheless, DAMSA was able to post a small profit.

NEW ORDERS

DEUTZ Group: New orders

€ million

2013	**1,649.7**
2012	1,237.1
2011	1,479.3
2010	1,315.0
2009	842.3

Orders up by a third compared with the previous year In 2013, the DEUTZ Group received orders worth €1,649.7 million. This exceeded the previous year's figure of €1,237.1 million by 33.4 per cent, a record for the company in its present structure.

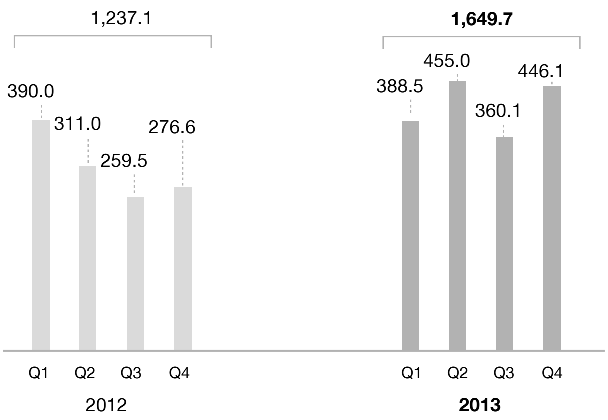
The individual application segments varied in their performance. Agricultural Machinery and Mobile Machinery, with increases of €261.0 million and €118.5 million or 170.5 per cent and 25.8 per cent respectively, made the greatest contribution to the rise in order volume. The service business also experienced a slight increase of 2.8 per cent, whereas orders for the Stationary Equipment and Automotive application segments fell back by 5.5 per cent and 7.3 per cent respectively.

The growth in new orders, particularly in the Agricultural Machinery and Mobile Machinery application segments, is attributable to our success in acquiring new customer projects and to new applications for existing customers, to the increasing proportion of higher value products and to the production of engines which customers have ordered in advance in anticipation of the introduction of the Stage IV exhaust emissions standard in the EU. An additional factor in the case of Agricultural Machinery is that the previous year's figure was very low.

With the exception of the first quarter which was similar to the previous year's level, new orders received considerably exceeded the previous year's figure in every quarter. The greatest volume of new orders, worth €455.0 million, was received in the second quarter. In the fourth quarter of 2013, new orders were worth €446.1 million, which was 61.3 per cent up on the previous year.

DEUTZ Group: New orders by quarter[1)]

€ million



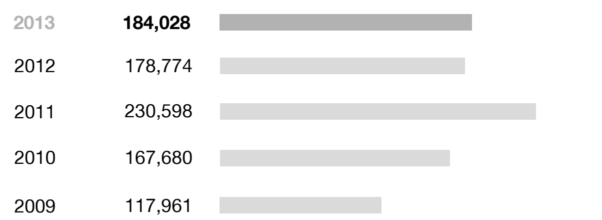
[1)] These and subsequent quarterly figures are based on published quarterly financial statements and have not been audited.

Orders on hand at 31 December 2013 stood at €366.1 million, more than double the previous year's figure of €173.0 million.

UNIT SALES

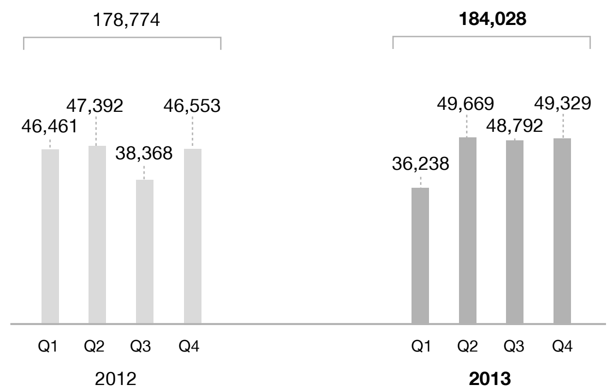
DEUTZ Group: Unit sales

units



DEUTZ Group: Consolidated unit sales by quarter

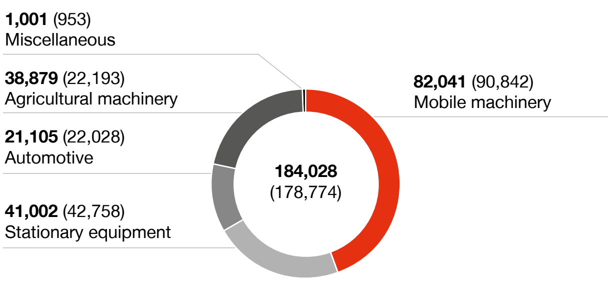
units



More engines sold In 2013, DEUTZ sold 184,028 engines. This exceeded the 178,774 engines sold in 2012 by 2.9 per cent. This can be attributed to the major success in the Agricultural Machinery application segment where 75.2 per cent more engines were sold than in the previous year. Unit sales fell off slightly in every other application segment.

DEUTZ Group: Unit sales by application segments

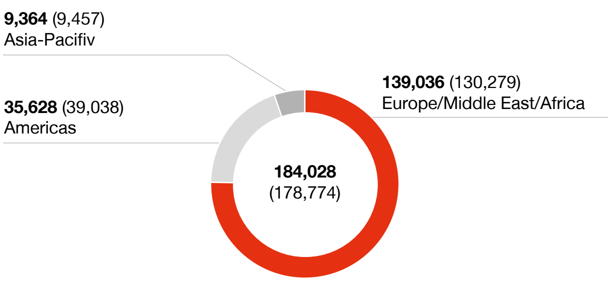
€ million (2012 figures)



The breakdown by region also reveals a lack of any uniform pattern. Unit sales in our biggest market - EMEA (Europe, Middle East and Africa) - rose by 6.7 per cent to 139,036 engines. On the other hand, 35,628 engines were sold in America, down 8.7 per cent on the previous year, and the Asia-Pacific region reported sales of 9,364 engines, 1.0 per cent below the previous year's figure.

DEUTZ Group: Units sales by region

€ million (2012 figures)



The quarterly figures indicate that a turning point was reached during the year. After a weak first quarter, in which 22 per cent fewer engines were sold than in the same period of the previous year, sales rose in the second quarter to 49,669 engines, an increase of 4.8 per cent compared with the same quarter in the previous year. In the third quarter, the figure for the previous year was actually exceeded by 27.2 per cent. DEUTZ ended the 2013 on a good fourth quarter, selling 49,329 engines or 6.0 per cent more than in the previous year.

RESULTS OF OPERATIONS

DEUTZ Group: Revenue

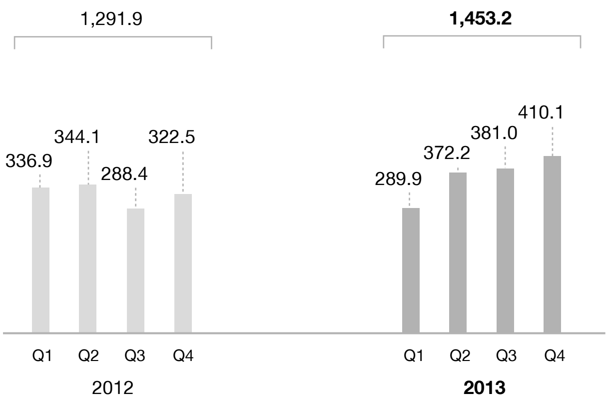
€ million

2013	**1,453.2**
2012	1,291.9
2011	1,529.0
2010	1,189.1
2009	863.4

Revenue up significantly In 2013, DEUTZ generated an increase in revenue of 12.5 per cent to €1,453.2 million. This means that revenue once again rose at a stronger rate than unit sales thanks to the business mix and to sales of higher-value engines that meet the new emissions standards.

DEUTZ Group: Revenue by quarter

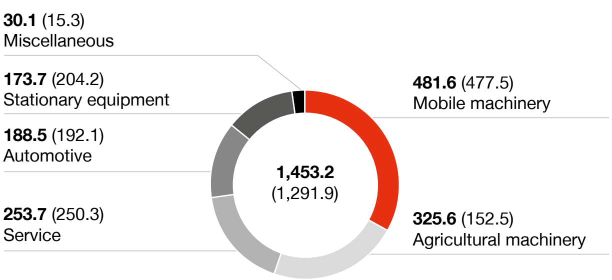
€ million



The uptrend in revenue was also evident during the course of the year. Revenue of €289.9 million in the first quarter was followed by €372.2 million in the second, €381.0 million in the third and then €410.1 million in the fourth quarter of the reporting year. In the final three months, we therefore exceeded the revenue of €322.5 million in the corresponding period in 2012 by more than a quarter.

DEUTZ Compact Engines: Revenue by application segment

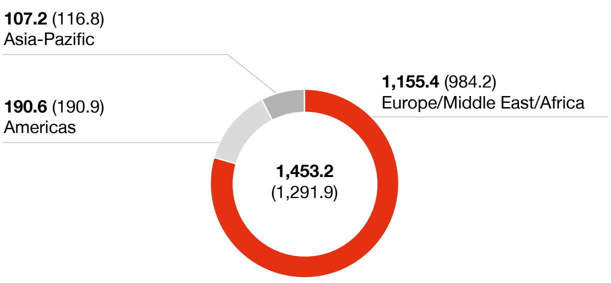
€ million (2012 figures)



In Mobile Machinery, the largest application segment, revenue of €481.6 million was just under 1 per cent more than 2012. The Agricultural Machinery application segment more than doubled the level achieved in 2012 with revenue of €325.6 million. The high-margin service business was also up slightly year on year, registering an increase in revenue of 1.4 per cent. On the other hand, the Automotive and Stationary Equipment application segments reported decreases in revenue of 1.9 per cent and 14.9 per cent respectively.

DEUTZ Group: Revenue by regions

€ million (2012 figures)



Revenue in the EMEA region (Europe, Middle East and Africa) grew by 17.4 per cent to €1,155.4 million. In the Americas, revenue was on a par with last year at €190.6 million, while the Asia-Pacific region's revenue declined by 8.2 per cent to €107.2 million. However, using a pro-forma calculation including revenue from the equity-accounted joint ventures in which we hold a stake of 50 per cent, revenue in the Asia-Pacific region would have gone up to €526.6 million, increasing the proportion of total revenue accounted for by this region to 27.8 per cent.

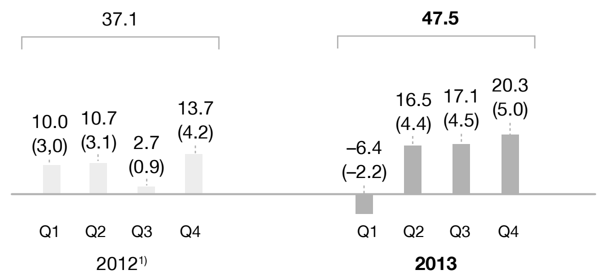
DEUTZ Group: Operating profit/EBIT margin before one-off items

€ million (EBIT margin in %)

2013	**47.5**	**(3.3)**
2012[1)]	37.1	(2.9)
2011	91.2	(6.0)
2010	42.2	(3.5)
2009	–46.3	(–5.4)

DEUTZ Group: Operating profit/EBIT margin by quarter

€ million (EBIT margin in %)



[1)] Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. The comparative prior-year figures have been restated accordingly to improve comparability.

Earnings performance Operating profit (EBIT) for 2013 amounted to €47.5 million, an increase of €10.4 million year on year (2012: €37.1 million[1]). Consequently, the EBIT margin rose from 2.9 per cent to 3.3 per cent, which means that we reached our forecast for 2013. This positive trend was the result of the significant increase in business volume and also, in particular, the improvement in the profit/loss on equity-accounted investments. On the other hand, some of the gains in operating profit were offset by higher amortisation expenses related to capitalised development expenditure and increased warranty costs associated with the launch of products from the new generation of engines.

Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to €142.0 million (2012: €121.7 million[1]). The increase in EBITDA of €20.3 million was therefore greater than that in EBIT. The main reason for the rise in the depreciation and amortisation expense was the start-up of production for engines that meet the new emissions standards. EBITDA is an indicator of the company's operating performance excluding investing activities.

The excellent earnings performance in 2013 led to an improvement in return on capital employed (ROCE)[2], our internal KPI, to 6.0 per cent. The corresponding figure 1 based on a comparable average level of capital employed was just 4.8 per cent[1].

Cost of sales In 2013, the cost of sales amounted to €1,257.4 million (2012: €1,117.7 million). This equated to a year-on-year increase of €139.7 million mainly caused by a business-volume-related rise in the cost of materials (€898.6 million in 2013 as against €804.3 million in 2012). By contrast, staff costs and depreciation on property, plant and equipment remained at the same level as in 2012. As a percentage of revenue, the cost of sales was unchanged year on year at 86.5 per cent.

Overview of the DEUTZ Group's results of operations

	2013	2012
€ million		
Revenue	1,453.2	1,291.9
Cost of sales	–1,257.4	–1,117.7
Research and development costs	–58.7	–44.1
Sales and administrative expenses	–96.1	–91.0
Other operating income	17.0	37.0
Other operating expenses	–13.9	–25.1
Net investment income	3.4	–13.9
Operating profit (EBIT)	47.5	37.1
Interest expenses, net	–6.0	–10.6
Income taxes	–5.5	–4.4
Net income on continuing operations	36.0	22.1
Net income	36.0	21.0

[1] Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. The comparative prior-year figures have been restated accordingly to improve comparability.
[2] Return on capital employed (ROCE): ratio of EBIT to average capital employed. Capital employed: total assets less cash and cash equivalents, trade payables and other current and non-current liabilities, based on average values from two balance sheet dates.

Research and development costs Research and development costs rose by €14.6 million year on year to €58.7 million (2012: €44.1 million). The key factor in this trend was higher amortisation on completed development projects due to several product launches in the second half of 2012 and at the beginning of 2013. In addition, a lower level of development costs was capitalised in the reporting year compared with 2012 because of the progress on projects. Research and development costs largely comprised staff costs, cost of materials and amortisation on completed development projects from which investment grants received and capitalised development costs were deducted.

Selling and administrative expenses Selling and administrative expenses in 2013 came to €96.1 million, a year-on-year increase of €5.1 million (2012: €91.0 million). On the other hand, when measured as a proportion of revenue, selling and administrative expenses declined from 7.0 per cent in 2012 to 6.6 per cent in 2013 owing to the greater volume of business.

Other operating income The reporting year saw a substantial fall of €20.0 million in other operating income to €17.0 million (2012: €37.0 million). This decrease was primarily attributable to the disposal of our shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) at the end of 2012 and adjustments to provisions also in 2012.

Other operating expenses Other operating expenses also fell significantly year on year by €11.2 million to €13.9 million (2012: €25.1 million). A significant factor in this decrease was the lower level of charges in connection with foreign-currency transactions.

Net investment income A considerable year-on-year improvement was registered in net investment income, which increased by €17.3 million to €3.4 million (2012: net expense of €13.9 million). Crucial to this positive trend was the encouraging earnings performance by our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. resulting from an increased volume of business and greater efficiency. Following a loss in 2012, DEUTZ Dalian reported a small operating profit for 2013. Moreover, the figure for 2012 had also been negatively affected by the loss incurred by Bosch Emission Systems GmbH & Co. KG. We sold our 25 per cent stake in this joint venture at the end of 2012.

Net interest expense Net interest expense in 2013 amounted to €6.0 million (2012: net expense of €10.6 million), representing a year-on-year improvement of €4.6 million. This change was primarily attributable to lower finance costs, although there was also a small increase in interest income. Key factors in the lower finance costs were lower utilisation of the new funding facility that had been in place since mid-2012 and the more favourable interest rates in this arrangement.

Income taxes The income taxes incurred in 2013 were €5.5 million, equating to a year-on-year increase of €1.1 million (2012: €4.4 million). The current tax expense amounted to €10.7 million, up by €5.4 million compared with the previous twelve months (2012: €5.3 million) as a consequence of the improvement in results of operations at DEUTZ AG and its subsidiaries. The current tax expense was partly offset by deferred tax income of €5.2 million (2012: €0.9 million), attributable to a number of factors including an increase in deferred tax assets in respect of loss carryforwards and higher deferred tax assets at our Spanish subsidiary resulting from the remeasurement of non-current assets in the tax accounts.

Earnings per share Based on the excellent operating profit performance, net income climbed to €36.0 million in 2013, a year-on-year increase of €15.0 million (2012: €21.0 million). This meant that the earnings per share figure of €0.30 was practically double the 2012 level (2012: €0.17).

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group segments

	2013	2012
€ million		
New orders		
DEUTZ Compact Engines	1,385.5	960.6
DEUTZ Customised Solutions	264.2	276.5
Total	**1,649.7**	**1,237.1**
Unit sales (quantity)		
DEUTZ Compact Engines	167,964	161,899
DEUTZ Customised Solutions	16,064	16,875
Total	**184,028**	**178,774**
Revenue		
DEUTZ Compact Engines	1,188.8	1,005.0
DEUTZ Customised Solutions	264.4	286.9
Total	**1,453.2**	**1,291.9**
(EBIT)[1]		
DEUTZ Compact Engines	8.7	–16.5
DEUTZ Customised Solutions	39.0	46.3
Other	–0.2	7.3
Total	**47.5**	**37.1**

[1] Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. The comparative prior-year figures have been restated accordingly to improve comparability.

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

Big year-on-year increase in new orders In 2013, the DEUTZ Compact Engines (DCE) segment received new orders with a value of €1,385.5 million, up by 44.2 per cent on the 2012 figure of €960.6 million. As in the DEUTZ Group as a whole, this growth was primarily derived from the very strong performance in the two application segments Agricultural Machinery (up by 178.1 per cent to €410.5 million) and Mobile Machinery (up by 33.1 per cent to €535.0 million). The improvement was attributable to the successful implementation of new customer projects and new applications with existing customers, the increasing proportion of business accounted for by higher-quality products and also engines ordered by customers in advance in anticipation of the EU's Euro 4 emissions standard. Orders on hand as at 31 December 2013 stood at €302.5 million, up by 178.0 per cent compared with 31 December 2012.

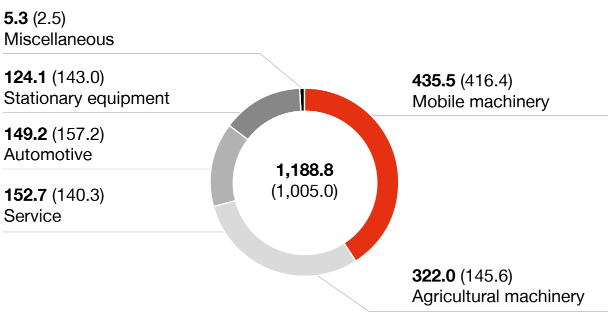
Unit sales of engines rise A total of 167,964 engines were sold in the DCE segment in 2013, 3.7 per cent more than the 161,899 engines sold in 2012. In the EMEA region, our largest market, the number of engines sold climbed to 129,979 units, an increase of 6.8 per cent. Unit sales were also up by 2.7 per cent in the Asia-Pacific region, although the Americas experienced a contraction of 7.1 per cent. The main factor in the uptrend was the successful performance of the Agricultural Machinery application segment, where unit sales were up by 78.2 per cent. In contrast, all the other application segments suffered a drop in unit sales.

Revenue growing faster than unit sales The DCE segment generated revenue of €1,188.8 million, which equated to a year-on-year increase of 18.3 per cent (2012: €1,005.0 million). This means that revenue rose at a stronger rate than unit sales thanks to the business mix and to sales of higher-value engines that meet the new emissions standards. Revenue in the EMEA region grew by a substantial 23.5 per cent, with revenue in the Americas also up by 3.2 per cent. In contrast, revenue in the Asia-Pacific region was down by 20.2 per cent year on year. An encouraging trend in the DCE segment was the performance of the Agricultural Machinery application segment, where revenue more than doubled to €322.0 million. There were also small increases for the service business and the Mobile Machinery application segment of 8.8 per cent and 4.6 per cent respectively. On the other hand, the Automotive and Stationary Equipment application segments reported decreases in revenue of 5.1 per cent and 13.2 per cent respectively.

Fourth quarter up year on year In the DCE segment, new orders in the fourth quarter of 2013 reached €381.9 million, 78.5 per cent more than the figure a year earlier. The figure for the three months to the end of September 2013 was also up by more than a quarter. In the last quarter, unit sales rose by 2.5 per cent year on year to 43,962 engines but fell short of the strong performance in the third quarter when 44,870 engines were sold. Revenue increased in the final quarter of the year by 29.7 per cent year on year to €327.4 million, even exceeding the significant level achieved in the previous quarter by 3.9 per cent.

DEUTZ Compact Engines: Revenue by application segment

€ million (2012 figures)



DCE operating profit significantly improved In 2013, the rise in the volume of business meant that DCE could generate a segment operating profit of €8.7 million. This contrasts with the operating loss of €16.5 million incurred by the segment in 2012. The overall improvement of €25.2 million was not just down to the substantial increase in the volume of business, it was also attributable to the positive trend in the performance of our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd.

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

New orders slightly down on 2012 In 2013, the DEUTZ Customised Solutions (DCS) segment received new orders with a value of €264.2 million, which equated to a 4.4 per cent fall compared with 2012. The contraction affected all the application segments. At the start of 2013, we launched a sales initiative in the DCS segment and the efforts continue to date. On 31 December 2013, orders on hand stood at the same level as twelve months previously at €63.6 million.

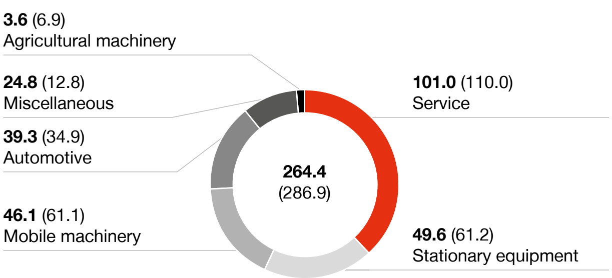
Fewer engines sold Unit sales in the DCS segment fell by 4.8 per cent to 16,064 engines in 2013. From a regional perspective, only the EMEA region managed to push up unit sales, achieving an increase of 5.0 per cent, whereas unit sales in the Americas and Asia-Pacific regions were down by 20.2 per cent and 7.7 per cent respectively.

Fall in revenue year on year Revenue in the DCS segment contracted by 7.8 per cent to €264.4 million in 2013, although the Asia-Pacific region managed to generate a slight revenue gain of 1.7 per cent. However, revenue in the EMEA and Americas regions fell by 10.6 per cent and 10.4 per cent respectively. With the exception of revenue in the Automotive application segment, where the figure was up by 12.6 per cent year on year, revenue in all the other application segments was down. For example, revenue in the Mobile Machinery and Stationary Equipment application segments as well as in the service business fell by 24.5 per cent, 19.0 per cent and 8.2 per cent respectively compared with 2012.

All fourth-quarter figures up year on year In the fourth quarter of 2013, the DCS segment achieved new orders worth €64.2 million, exceeding the equivalent figure in the fourth quarter of 2012 by 2.6 per cent. New orders were also up by 12.6 per cent compared with the third quarter of 2013. Unit sales in the final quarter of 2013 were up by almost a half compared with the same quarter in 2012 to 5,367 engines, which also represented an increase of 36.8 per cent on the previous quarter. The trend in revenue was equally encouraging with this figure reaching €82.7 million, exceeding the figure in the corresponding quarter of 2012 by 18.1 per cent and up by well over a quarter on the revenue achieved in the three months to 30 September 2013. In the DEUTZ Customised Solutions segment, the fourth quarter was therefore the best performing period within 2013.

DEUTZ Customised Solutions: Revenue by application segment

€ million (2012 figures)



DCS operating profit The operating profit (EBIT) of the DEUTZ Customised Solutions segment was particularly affected by the lower volume of business. The operating profit for the segment was therefore less than that achieved in 2012 and amounted to €39.0 million, down by €7.3 million year on year (2012: €46.3 million).

BUSINESS PERFORMANCE IN THE OTHER SEGMENT

In 2013, the Other segment generated an operating loss of €0.2 million, a deterioration of €7.5 million compared with the previous year (2012: operating profit of €7.3 million). Operating profit in 2012 had been boosted significantly by the disposal of the shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) in the fourth quarter of that year.

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the DEUTZ Group's financial position

	2013	2012
€ million		
Cash flow from operating activities	105.0	104.9
Cash flow from investing activities	–84.6	–81.4
Cash flow from financing activities	–13.2	–22.2
Change in cash and cash equivalents	7.2	1.3
Free cash flow from continuing operations	13.8	12.6
Cash and cash equivalents at 31 December	58.9	52.1
Current and non-current interest-bearing financial liabilities at 31 December	90.6	100.7
Net financial position at 31 December	–31.7	–48.6

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

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

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

FUNDING

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

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

As part of the contractual agreements for both loans, DEUTZ is obliged to comply with certain financial covenants. They do not limit our leeway for growth projects, however. The working capital facility and the loan from the European Investment Bank have enabled us to secure funding for our projects and for further growth over the medium to long term.

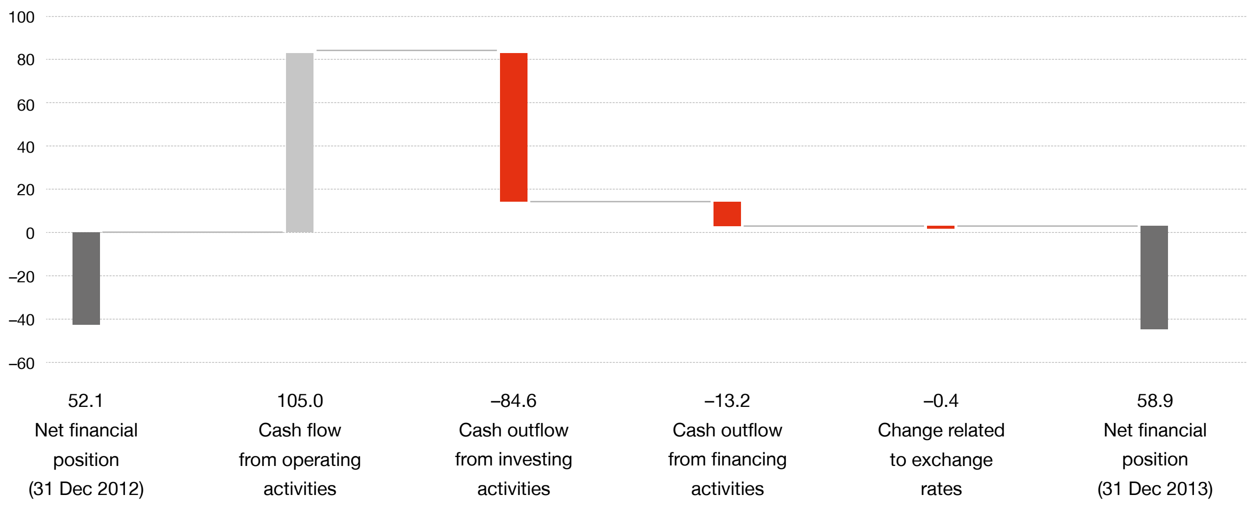
Receivables management optimised by means of factoring The sale of receivables is an important way of optimising receivables management. Because the credit quality of our customer receivables is excellent, factoring is also a cost-effective way of improving working capital, especially as considerable cash resources are required to cover the period from the preliminary financing of production to receipt of payment from the customer. The volume of factoring was higher in 2013 than in the previous year as a result of the business situation, the volume as at 31 December 2013 being around €175 million (31 December 2012: €125 million).

FREE CASH FLOW POSITIVE AGAIN

In 2013, cash flow from operating activities amounted to €105.0 million, roughly the same level as the previous year (2012: €104.9 million). While operating profit increased, working capital increased to an even greater extent.

Cash flow from investing activities in the reporting year amounted to minus €84.6 million. We were therefore able to fund all of our capital expenditure from current business. In 2012 cash flow from investing activities had amounted to minus €81.4 million. The primary factors accounting for the year-on-year change were the lower investment in development projects and property, plant and equipment on the one hand and the disposal of the shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) at the end of 2012 on the other. The sale of the 25 per cent holding in BESG had had a highly favourable impact on the cash flow from investing activities in 2012.

DEUTZ Group: Change in net financial position



The net cash remaining after capital expenditure was predominantly used to repay financial liabilities. Cash flow from financing activities in 2013 amounted to minus €13.2 million (2012: minus €22.2 million). The lower net cash outflow compared with that in 2012 was attributable to a number of factors including lower finance costs.

Free cash flow[1] for the period under review amounted to €13.8 million, a slight year-on-year improvement of €1.2 million (2012: €12.6 million). This was in line with our forecasts.

Cash and cash equivalents as at 31 December 2013 were €6.8 million higher than the equivalent figure as at 31 December 2012 and stood at €58.9 million. The net financial position[2] at the end of 2013 was minus €31.7 million. compared with minus €48.6 million at the end of 2012, equating to an improvement of €16.9 million.

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

Capital expenditure on intangible assets and on property, plant and equipment (after deduction of investment grants) in 2013 totalled €76.3 million, which equates to a year-on-year reduction of €34.3 million (2012: €110.6 million). Of this total expenditure, €35.5 million was accounted for by property, plant and equipment (2012: €56.1 million) and €40.8 million (2012: €54.5 million) by intangible assets. The capital expenditure on property, plant and equipment was concentrated on production facilities and tools for the new TCD 2.9 and TCD 3.6 engines, whereas the capital expenditure on intangible assets focused on new development and refinement of engines to meet the new exhaust emissions standards.

As in 2012, the bulk of the total capital expenditure (after deduction of investment grants) was invested in the DEUTZ Compact Engines segment (€69.2 million in 2013 and €95.0 million in 2012). Capital expenditure in DEUTZ Customised Solutions was €7.1 million (2012: €15.6 million). Investing activities in both segments focused on property, plant and equipment and on development expenditure.

[1] Free cash flow: cash flow from operating and investing activities minus net interest expense.
[2] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities.

NET ASSETS

Overview of the DEUTZ Group's assets

	31 Dec 2013	31 Dec 2012	Change
€ million			
Non-current assets	627.4	648.7[1]	–21.3
Current assets	493.2	385.4	107.8
Assets classified as held for sale	0.4	1.8	–1.4
Total assets	**1,121.0**	**1,035.9[1]**	**85.1**
Equity	504.7	452.6[1]	52.1
Non-current liabilities	292.5	311.8[1]	–19.3
Current liabilities	323.8	271.5	52.3
Total equity and liabilities	**1,121.0**	**1,035.9[1]**	**85.1**
Working capital (€ million)	172.3	141.6	30.7
Working capital ratio at the balance sheet date (%)	11.9	11.0	0.9
Working capital ratio (average, %)	12.0	14.7	–2.7
Equity ratio (%)	45.0	43.7	1.3

Working capital: inventories plus trade receivables minus trade payables

Equity ratio: equity/total equity and liabilities

Non-current assets As at 31 December 2013, non-current assets of the Group had decreased by €21.3 million to €627.4 million (31 December 2012: €648.7 million[1]). This decrease was primarily attributable to the change in property, plant and equipment and intangible assets, in which the additions amounting to €35.5 million and €40.7 million respectively were offset by higher depreciation charges of €47.5 million and higher amortisation charges of €47.0 million respectively. There was also a decrease in the other financial assets because the shareholding in DEUTZ Versicherungsvermittlung GmbH was sold during the course of 2013.

Current assets In contrast, current assets at the end of December 31 had risen by €107.8 million year on year to €493.2 million (31 December 2012: €385.4 million). The change compared with the position as at 31 December 2012 was particularly attributable to higher inventories and trade receivables resulting from the greater volume of business.

Working capital Working capital as at 31 December 2013 amounted to €172.3 million (31 December 2012: €141.6 million). The year-on-year increase of €30.7 million was mainly caused by the higher level of inventories and trade receivables. Some of the increase on the assets side was offset by a rise in trade payables. As a consequence, there was also a slight increase in the working capital ratio, i.e. the ratio of working capital (inventories plus trade receivables less trade payables) to revenue. As at the balance sheet date[2], this ratio was 11.9 per cent compared with 11.0 per cent as at 31 December 2012. If the working capital ratio is viewed from the perspective of an average, i.e. ratio of average working capital over four quarters to the revenue for twelve months, the picture is somewhat different. The average ratio shows a significant decrease from 14.7 per cent for 2012 to 12.0 per cent for the year under review. This is largely attributable to the higher revenue and the higher trade payables in 2013. The actual working capital ratio was therefore better than our forecast of 14.0 per cent.

[1] Because of a change in the accounting treatment of provisions for pensions and other post-retirement benefits, the prior-year figures have been restated (see page 62 et seq. in the notes).

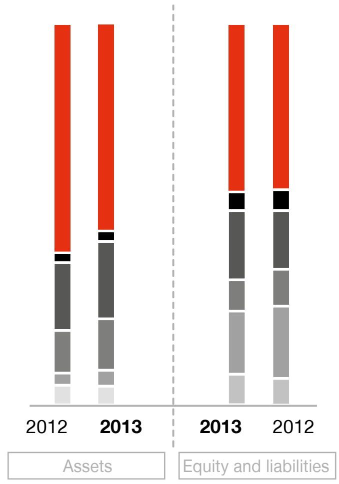
[2] Working capital ratio as at the balance sheet date: ratio of working capital (inventories plus trade receivables minus trade payables) at the end of the reporting period to revenue for the preceding twelve months

DEUTZ Group: Balance sheet structure

in % (2012 figures)

Assets

53.5	(60.0)	Non-current assets
2.7	(2.6)[1]	Deferred taxes
20.0	(17.8)	Inventories
13.3	(11.2)	Trade receivables
5.4	(3.2)	Other receivables and assets
5.3	(5.0)	Cash and cash equivalents
–	(0.2)	Non-current assets classified as held for sale



Equity and liabilities

45.0	(43.7)[1]	Equity
4.8	(5.5)	Other liabilities
18.0	(15.4)	Trade payables
8.1	(9.7)	Financial liabilities
16.4	(19.0)[1]	Pension provisions
7.7	(6.7)	Other provisions

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 more than 150 years. DEUTZ also enjoys long-standing valuable relationships with customers; it has entered into long-term cooperation agreements, particularly with its key customers.

Equity ratio continues to increase As at 31 December 2013, equity had increased to €504.7 million (31 December 2012: €452.6 million[1]), primarily as a result of the net income generated in 2013. However, the increase was also attributable to the capital injection from the AB Volvo Group into DEUTZ Engine (China) Co., Ltd. which is part of the DEUTZ Group. The shares that AB Volvo Group holds in the joint venture are reported as non-controlling interests under Group equity. The rise in equity also led to a further improvement in the equity ratio, which was 45.0 per cent as at the balance sheet date (31 December 2012: 43.7 per cent[1]).

Non-current liabilities Non-current liabilities as at 31 December 2013 amounted to €292.5 million (31 December 2012: €311.8 million[1]). The decrease was primarily attributable to two factors: lower provisions for pensions and other post-retirement benefits resulting from higher discount rates and a drop in financial liabilities because a lower amount had been drawn down under the loan facility. Some of this decrease was offset by an increase in other provisions, caused for the most part by the recognition of greater warranty provisions associated with the rise in the volume of business.

Current liabilities In contrast, current liabilities increased by €52.3 million to €323.8 million (31 December 2012: €271.5 million). The key factors behind this increase were the higher level of trade payables resulting from the order volume and the rise in current financial liabilities.

As at 31 December 2013, total assets amounted to €1,121.0 million, a year-on-year increase of €85.1 million (31 December 2012: €1,035.9 million).

[1] Because of a change in the accounting treatment of provisions for pensions and other post-retirement benefits, the prior-year figures have been restated (see page 62 et seq. in the notes).

OVERALL ASSESSMENT FOR 2013

Growth for DEUTZ was very encouraging in 2013. Despite ongoing sluggishness in the global market, we registered an improvement in all key figures. Our successful product offensive led to a sharp increase in demand. The volume of new orders went up by around a third in comparison with 2012, reaching a total value of €1.65 billion. This is a record amount for the Company in its current structure. Revenue rose by 12.5 per cent to €1.45 billion. Our total unit sales of 184,028 engines was up by 2.9 per cent on the previous year. Much of this is down to the strong performance in the Agricultural Machinery application segment. There was a big increase in operating profit (EBIT) from €37.1 million to €47.5 million, with the EBIT margin rising accordingly from 2.9 per cent to 3.3 per cent. This positive earnings performance is attributable to the sharp rise in the volume of business and the improved profit/loss reported on equity-accounted investments. On the downside, there were higher amortisation charges on own work capitalised and higher warranty costs. We are pressing ahead with our measures to cut costs, increase flexibility and improve earnings in order to increase our resilience to economic fluctuations. As a result of this strong business performance, free cash flow rose to €13.8 million and net financial debt fell from €48.6 million in 2012 to €31.7 million. The results for 2013 show that the measures initiated in previous years as part of our strategic repositioning have been successful. Our product offensive had a particularly positive impact in 2013, and we are well positioned for the future with our activities in the growth market of China. On this basis we are confident that the DEUTZ Group will continue to grow successfully.

EVENTS AFTER THE REPORTING PERIOD

No events occurred after 31 December 2013 that had a material impact on the financial position or financial performance of the DEUTZ Group.

EMPLOYEES

Overview of the DEUTZ Group's workforce

	31 Dec 2013	31 Dec 2012
Headcount		
DEUTZ Group	**3,952**	**3,991**
Thereof		
In Germany	3,095	3,189
Outside Germany	857	802
Thereof		
Non-salaried employees	2,356	2,377
Salaried employees	1,460	1,460
Trainees	136	154
Thereof		
DEUTZ Compact Engines	3,207	3,223
DEUTZ Customised Solutions	745	768

Slight adjustment in the number of employees At the end of 2013 the DEUTZ Group employed a total of 3,952 people, 39 fewer than at the end of 2012 (a fall of 1.0 per cent). As at 31 December 2013, we also had a further 456 people on temporary employment contracts, compared with 152 a year earlier. By offering fixed-term contracts and employing temporary workers, DEUTZ can respond flexibly to any fluctuations in demand. Around 14 per cent of all staff at DEUTZ had fixed-term or temporary contracts as at 31 December 2013.

78 per cent of our workforce is employed in Germany. Most of these employees are based in Cologne – 2,403 as at 31 December 2013. 408 employees are based at the Ulm facilities. Of the 857 employees outside Germany, 488 of them work at our DEUTZ Spain subsidiary.

DEUTZ Group: breakdown of workforce by location

	31 Dec 2013	31 Dec 2012
Headcount		
Cologne	2,403	2,489
Ulm	408	413
Other	284	287
In Germany	**3,095**	**3,189**
Outside Germany	857	802
Total	**3,952**	**3,991**

Looking at it by segment, DEUTZ Compact Engines employed 3,207 people as at 31 December 2013, which was almost the same number as it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 745, down by 3.0 per cent compared with the end of 2012.

In order to boost our sales operations, the Supervisory Board of DEUTZ AG appointed Mr Michael Wellenzohn as an additional member of the Board of Management with effect from 1 March 2013. He is responsible for the newly created sales, service and marketing division.

DEUTZ provides award-winning training DEUTZ aims to give young people the best possible start to their professional career through its award-winning apprenticeship scheme. In the year under review, we provided training at our various plants in Germany for 136 young men and women in eight different technical and commercial occupations. Ninety-five of them are employed at the Cologne site, while 23 are based at the DEUTZ plant in Ulm. Eleven young people are receiving their vocational training from DEUTZ at the Xchange plant in Übersee, Bavaria. A further seven apprentices are learning their trade at DEUTZ's components plant in Herschbach im Westerwald. At the end of 2013, as part of the Porz 2014 realignment, our apprenticeship scheme was changed so that in future we will focus on four technical and commercial occupations: metal engineering, mechatronics, industrial electronics and warehouse management. These are more closely aligned with our core areas of business and therefore better suited to future staffing requirements. In 2013, the overall ratio of trainees to other employees was around 4.4 per cent (2012: 4.8 per cent). All apprentices and trainees passing their final examinations were then taken on as qualified employees for at least one year.

Several awards presented towards the end of the year show how highly external experts regard our vocational apprenticeships. In September the Chamber of Industry and Commerce (IHK) in Cologne recognised two DEUTZ apprentices for their outstanding exam results. There was also a special honour for our training centre: for the third year in succession it received the "Best performer" certificate from the IHK in Cologne in recognition of its outstanding contribution to introductory vocational training. In November the exceptional quality of our vocational training was also acknowledged at regional level. In Lemgo, the Chamber of Industry and Commerce for North Rhine-Westphalia (IHK NRW) named a DEUTZ trainee the federal state's best apprentice in 2013 in the production mechanic examination. The IHK NRW also recognised the DEUTZ training centre for its high quality and the excellent performance of its vocational training, naming it among the best in the state.

The dual vocational training initiative that was launched last year at our Spanish plant in Zafra is going very well. Plans are in place for the best graduates of the training course to be invited to Cologne in summer 2014 to get a close-hand experience of the DEUTZ apprenticeships in Germany. Twenty-six young men are women were enrolled on apprenticeships in Zafra at the end of 2013, of which 14 were first-year trainees.

Further success in recruitment activities in 2013 Getting young people who are still in education to take an interest in engineering and making them aware of possible career paths in this field are important concerns for us. We regularly take part in training fairs and careers information events and invite young people to visit our company in person. This opportunity is also open to them on special careers days, such as Erlebnis Maschinenbau, where we present our apprenticeship programme and answer any questions they might have.

DEUTZ once again exhibited at the main university fairs in the North Rhine-Westphalia region in 2013. At meet@fh in Cologne, "bonding in Aachen" and SinoJobs Career Days in Düsseldorf, we met with bright young prospects in the fields of engineering, electrical engineering, IT and chemicals. At November's SinoJobs Career Days in Düsseldorf – the leading training and recruitment fair with a focus on China – students, graduates and young professionals showed great interest in career opportunities at DEUTZ. These visitors, most of whom were from China, were particularly interested in careers at one of our joint ventures in China.

The internationalisation of our company is also being reflected in our intake of young talent. Students from eastern European, China and the Arab countries have found their way to DEUTZ, joining the many western Europeans. In 2013, around 175 students on work placements in a variety of departments made the most of the opportunity to gain their first practical experience and to get an insight into day-to-day working life. We also provided the opportunity for 46 students to complete their bachelor's or master's degree by preparing a practically relevant dissertation in cooperation with DEUTZ. As part of its recruitment strategy, DEUTZ teamed up with the German Academic Exchange Service (DAAD) in 2013 to offer two internships for foreign students for the first time through the DAAD's RISE programme.

For a number of years, we have been committed to helping women advance in the workplace, and through campaign days such as Girls' Day we try to get young women interested in engineering careers. The latest statistics show that our efforts are paying dividends: currently around 11 per cent of apprentices learning technical and commercial trades at DEUTZ are female. And once again last year, three women decided to take up an engineering apprenticeship at DEUTZ.

Continued talent management and succession planning In 2013, we continued the collaboration with Steinbeis University in Berlin. The aim is to enable selected young employees to gain a master of science degree in international management based on studies combined with practical experience. The purpose of this degree course is specifically to train the engineers and managers of tomorrow who will support and contribute to DEUTZ's increasing focus on activities at an international level. In addition, we began a cooperation with Cologne University of Applied Sciences, giving one student the chance to take a master's degree in automotive/engineering.

We also pressed ahead with our talent management activities in 2013. This made it possible for key engineering and managerial positions to be filled by internal candidates from the talent pool. This is proof positive of the priority given to our own talented employees in terms of opportunities for career development in Germany and abroad. Once again in 2013 these employees were given personalised training aimed at building their individual skillset. Modular management training was incorporated into our programme in the form of the DEUTZ "management driving licence".

Cross-mentoring with other companies DEUTZ AG is taking part in a project initiated by the city of Cologne to promote the advancement of women. To facilitate an idea known as cross-mentoring, 17 women will be given guidance and support by 17 mentors from seven companies over a period of 18 months. The chosen mentor must work for a different company than his or her mentee, which is where the programme comes into its own. DEUTZ AG is contributing two mentees and two mentors to the project. The core objective for all the participating companies is to increase the proportion of women at management level in the medium term. The idea of the programme is to cement the notion of pursuing a career, to improve the visibility of women who are already successful and to push further career development.

Introduction of the ERA collective pay agreement at the Übersee site in Bavaria In 2013, the Übersee site was busy making intensive preparations for the introduction of the ERA collective pay agreement, which came into force there on 1 January 2014. This marks the end of the traditional distinction, going back more than 100 years, between salaried and non-salaried employees at DEUTZ AG. In addition to an across-the-board reappraisal of workplaces and employees' workloads, employee and company representatives in Übersee were also able to agree on a new system of remuneration that includes an element of performance-based pay and meets the needs of the future. As part of a broad-based communication strategy, all managerial employees and members of the works council at the Übersee plant were given intensive training and preparation for their role in the introduction of ERA.

Strategic HR activities continued The alignment of HR work to the strategic objectives of DEUTZ AG led to two key outcomes: firstly, we restructured the training activities at the Cologne site so that we are able to respond to internal requirements even more flexibly in future. Secondly, the development unit's excellence programme was given intensive support with the aim of changing structures and processes so that development services could be made even more efficient and effective.

Ideas management delivers results DEUTZ uses its bonus-based ideas management system to gather creative suggestions for improvement from its employees. Last year 871 of their ideas helped us to top the million euro mark in terms of cost savings for the very first time with this system.

Health management activities stepped up In 2013, we again focused on important health issues in cooperation with the health insurance provider, the company medical service and the works council. The health insurance provider's health report shows that skeletal disorders are the most frequent cause of illness among employees. To help remedy this, we launched two projects in 2013. One of these projects involved measuring people's shoes. It has been shown that around 10 to 12 per cent of employees wear work shoes that are either too big or too small for them. This can lead to posture problems and, in the worst cases, to chronic spinal conditions. The other project launched in 2013 was a pilot initiative entitled "Ergonomics in the workplace". Through this project, employees are first of all learning the theory of how the spine works and then being taught about movements and behaviours that are bad from an ergonomic perspective, what consequences these can have and how to counteract them. Afterwards, the employees are given individual advice at their own workplaces and trained on how to make their work processes more ergonomic. These measures have already proved very effective at our site in Ulm.

DEUTZ AG took part in the HRS Business Run for the third year in a row. The number of entrants trebled in 2013, giving us the fourth largest corporate contingent with 270 runners. This increase in participants reflects how much our employees enjoy this event. In addition to the aspect of preventive health management, participation in the HRS Business Run in Cologne provides an excellent means of making new contacts and fostering a more sociable working atmosphere. And because everyone wears the same kit, it is a good way of advertising DEUTZ AG as an employer in Cologne.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility has a long tradition at DEUTZ. As a corporate citizen with operations around the world, we are aware of our duties and obligations. We assume responsibility for our decisions and our actions, for our products and services, for our customers and lenders, for the environment and for the society in which we live. We have been involved in corporate citizenship activities for many years, not only in our home region in the area around Cologne but also throughout Germany and beyond.

Engine museum a big success 2013 proved to be another good year for DEUTZ's engine museum. At the technology centre, which covers over 600 square metres, more than 50 exhibits offer a fascinating insight into the world of engine technology and highlight the ingenuity of the company's founder Nicolaus August Otto, who developed the world's first fully functioning four-stroke engine in 1876. This engine can be seen at the technology centre alongside engine no. 1, the first atmospheric gas-powered engine, which dates from 1867 and is also still in working order. On 14 June 2013 we once again participated in the "Nacht der Technik" engineering and technology evening. During the evening, visitors were given the opportunity to go on guided tours of the technology centre and our production facilities.

Getting young people into careers As part of our corporate social responsibility, we have been working closely for more than 21 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 people with learning and social difficulties. A total of 38 participants undergo basic metalwork training over a ten-month period at the DEUTZ training centre, equipping them with a comprehensive range of skills that they will need to take up a career. Our efforts are paying dividends: last year, the placement rate for an apprenticeship in industry or the trades was 96 per cent (2012: 98 per cent).

Integration of disabled and disadvantaged people For more than 25 years, DEUTZ AG has worked with Nostra GmbH, one of the largest and oldest organisations for the integration of disabled and disadvantaged people in Germany. The project creates employment in the regular labour market for 40 people who have severe disabilities or are socially disadvantaged. All participants are employed in special integration groups, in which disabled and non-disabled people work together in a spirit of inclusivity. This integration of the skills of disabled, socially disadvantaged and non-disabled people is proving particularly successful in the project at the DEUTZ AG site, and is clearly apparent on a day-to-day basis in the interactions with the staff there. DEUTZ has also worked in partnership with GWK, a not-for-profit organisation based in Cologne promoting the integration of people with disabilities, for more than 40 years. The goods inward, packing and component manufacturing services provided by the two organisations are tightly integrated with DEUTZ AG's processes. We benefit from the high level of precision demonstrated by their employees.

DEUTZ choir performs world premiere For many years, cultural activities at DEUTZ have included a company choir. Based in Cologne, the DEUTZ choir has added a musical dimension to DEUTZ AG's outstanding international reputation for more than 65 years. The choir is a musical ambassador for the Company and the city of Cologne, bringing people and cultures together with highly respected concerts and tours throughout the world. One of the highlights of last year was the world premiere of symphony no. 6 THE RHINE for soprano, choir and orchestra by Enjott Schneider. Just under 4,000 people attended the two concerts at Cologne Philharmonic Hall. Critics praised the performance and the bravery of the choir in meeting this musical challenge under the guidance of their artistic director, Heinz Walter Florin. A further 3,300 people came to see the choir perform their three Alpine Christmas concerts at the Gürzenich events centre in Cologne.

Through diversity management DEUTZ looks to recognise and harness the abilities of a wide range of people for the benefit of the Company. We talk about our efforts to support young people, to help women to advance in the workplace (cross-mentoring) and other diversity-focused activities in the "Employees" section on pages 38 et seqq. of this annual report.

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

ENVIRONMENT

Climate protection is a key corporate goal of the DEUTZ Group. We manufacture environmentally responsible products that meet the latest emissions standards and therefore make a key contribution to protecting the environment. Our production processes are also resource-efficient. Just over ten years ago, DEUTZ decided to implement an environmental management system as a way of contributing effectively to environmental protection. The system keeps track of aspects that are highly relevant to the environment, such as keeping the air clean, the avoidance and correct disposal of waste, protecting against soil and water pollution and sustainably reducing energy consumption.

ENERGY MANAGEMENT SYSTEM

In November 2013 the certification body DNV accredited our energy management system on initial application under ISO 50001, finding no major or minor nonconformities. ISO 50001 is an international norm for energy management systems that enables companies to make long-term improvements to energy efficiency and thereby to reduce costs and consumption. The plant in Deutz that is now certified under this standard is the DEUTZ AG site with the highest power consumption. Certification of other German sites will follow in spring 2014.

By 2012 we had fitted engine test rigs with generator brakes, which enabled us to make energy savings of around 4,300 MWh in 2013. Energy efficiency was also an assessment criteria in the procurement of new machinery. When the energy management system was introduced, we also implemented energy-efficiency measures for our existing facilities and machinery, making it possible to achieve an annual saving of 2,000 MWh of heat and 57.5 MWh of electricity.

DEUTZ Group: energy consumption in European plants

	2013	2012
in MWh		
Electricity	93,714	87,301
Natural gas	43,681	37,656
District heating	27,270	25,628
Heating oil	4,501	3,996
Diesel fuel	33,062	31,798

ENVIRONMENTAL MANAGEMENT SYSTEM

In the period under review, we once again voluntarily had our environmental management system audited by the accredited certification body DQS. The DQS auditors looked at criteria such as the performance of our environmental management system, which was introduced on the basis of the international ISO 14001 standard, the compliance of processes with legal requirements and the effectiveness of our safety department and processes. After an inspection lasting several days, DQS once again confirmed that our system conforms to the ISO standard. This also satisfies a key requirement of our customers.

DEUTZ also has its own safety management department that regularly reviews compliance with applicable laws and regulations. Its tasks include assessing new legal requirements and, if necessary, amending our processes accordingly.

DEUTZ Group: emissions per engine in European plants

	2013	2012
CO_2 emissions (kg)	416	402
Nitrogen oxide (kg)	0.1	0.2
Dust (g)	2.9	5.1
Benzene (mg)	49.7	62.8

Further improved figures for air purity in Cologne-Porz Our production sites have facilities for testing diesel engines. These facilities are subject to Germany's Federal Emissions Control Act (BImSchG) and Water Resources Act (WHG). DEUTZ does not operate any facilities that have the potential to cause significant damage to the environment. To ensure as high a degree of safety as possible for our employees and neighbours and for nature, we have our emissions continually monitored by external experts and carry out our own rigorous inspections of our operating facilities. The external emissions measurements show that the main emission sources reach only a fraction of the permissible limits.

In terms of engine development, we are also easily within the legal limits according to our latest measurements. This is because engine emissions have been continually falling thanks to the ongoing development of our products. Matching major components to engines, the permanent reduction in test times through improvements to the test programmes and the associated reduction in fuel consumption are leading to a decline in total emissions in all test areas.

Water protection measures extended In 2013, we re-coated the floor of the paint storeroom for hazardous materials in order to prevent any paints from seeping into the ground in the event of an accident. The tanks and underground pipes in the Cologne-Porz plant are checked by authorised personnel at regular intervals to ensure that the facilities for storing diesel fuels and engine oils are in faultless condition. In a further step, the testing centre cellars for research and development were renovated, bringing them in line with the latest technology. More catchment areas located beneath the engine test rigs were sealed to ensure that hazardous materials do not seep into the ground. The accompanying waste material ducts were completely renovated. The total amount invested was €160,000.

Waste disposal and handling of hazardous waste We are aware of our responsibility when it comes to handling hazardous waste, which is why we set up a sealed collection point for such waste a number of decades ago. Hazardous waste includes scrap parts still contaminated with oil, waste oil, paint residues, solvents and (special) fuels. DEUTZ only uses companies to dispose of its hazardous waste that are certified to do so under the requirements set out in the Ordinance on Specialised Waste Management Companies (EfbV). We also conduct our own regular audits of the companies disposing of our hazardous waste and we review their performance. In the areas of mechanical fabrication and engine production, liquid-tight containers are proving effective in preventing drip leakage from components. This has significantly reduced contamination of work areas and transit routes and prevented rain water from seeping into the waste collection systems and spreading hazardous waste. Metal waste with oil attached to it is transported in covered, tightly sealed containers and handled internally.

SAFETY MANAGEMENT

In the area of workplace health and safety, the Board of Management of DEUTZ AG has set itself the most ambitious target imaginable: reducing the number of accidents to zero. In order to achieve this, measures are necessary that go well beyond the requirements imposed by law and by the employers' liability insurance association. An analysis of accidents revealed that on-site transportation and traffic was a risk that was particularly worthy of attention. Based on the findings of this analysis, the traffic routes at the Porz plant were completely rearranged and clearly structured so that pedestrians are now better protected from vehicles. And in the area of mechanical fabrication, the first forklift trucks were fitted with an application that limits their speed in enclosed buildings. If the technology proves its worth, we will use it throughout the site in a test phase. There is no legal requirement to implement the technology.

Our measures to improve workplace health and safety are also reflected in the key figures that DEUTZ AG rigorously monitors: in 2013: an optimisation of the safety-relevant factors of technology, organisation and human resources led to a reduction in notifiable accidents per thousand employees[1)] to 24.3 (2012: 29.8). Accident frequency[2)], which is based on the total number of hours worked, also improved, falling to 21.3 (2012: 23.1). A comparison over a three-year period shows the long-term impact of our measures: notifiable accidents per thousand employees have fallen by 26 per cent compared with 2011 and accident frequency has gone down by around 19 per cent.

DEUTZ AG

The following remarks refer to the annual financial statements of DEUTZ AG. The annual financial statements of DEUTZ AG are prepared in accordance with the requirements of the German Commercial Code (HGB).

BASIC PRINCIPLES AND BUSINESS PERFORMANCE OF DEUTZ AG

DEUTZ AG is the parent company of the DEUTZ Group. At home and abroad, DEUTZ AG has various direct and indirect subsidiaries and equity investments. The subsidiaries include a production facility in Spain, two new production companies in China and several companies that perform sales and service functions. DEUTZ AG has a direct or indirect stake in a total of 30 companies. It is also by far the largest production company of the DEUTZ Group and provides the head-office functions for the Group.

Because the business performance and financial situation of DEUTZ AG are essentially the same as for the DEUTZ Group, we make reference here to section 24 et seqq.

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

Because of the significance of DEUTZ AG within the Group, and its heavy interdependencies with other Group companies, DEUTZ AG is managed at Group level. In addition to the key performance indicators used to manage the Company at Group level, the net income of DEUTZ AG, as the relevant variable in the payment of dividends, is also an element of the management system of the company. The internal management system for the DEUTZ Group is described on pages 23 et seq. of this combined management report.

RESULTS OF OPERATIONS

Overview of DEUTZ AG's results of operations

	2013	2012
€ million		
Revenue	**1,366.6**	**1,214.4**
Cost of sales	–1,229.2	–1,083.9
Research and development expenditure	–53.9	–56.7
Sales and administrative expenses	–68.6	–63.7
Other operating income	22.1	84.9
Other operating expenses	–9.2	–18.9
Net investment income	21.9	8.5
Write-downs of investments	–	–9.2
Operating profit (EBIT)	**49.7**	**75.4**
Net interest expenses	–12.0	–17.4
Profit (loss) from ordinary activities	**37.7**	**58.0**
Net extraordinary expense	–2.3	–2.3
Income taxes	4.4	2.9
Other taxes	–0.6	–0.4
Net income	**39.2**	**58.2**

Revenue In 2013, the revenue generated by DEUTZ AG increased by 12.5 per cent to €1,366.6 million (2012: €1,214.4 million). Much of this is due to the increase in demand in the Agricultural Machinery application segment and the higher value of the engines sold in 2013.

Our largest application segment, Mobile Machinery, generated revenue of €462.0 million in 2013, which was just under 0.8 per cent more than in 2012. In the Agricultural Machinery application segment, revenue more than doubled to €317.9 million, attributable in part to engines ordered in advance in anticipation of new emissions standards. On the other hand, the revenue generated by the Stationary Equipment and Automotive application segments was down by 13.9 per cent and 0.9 per cent respectively year on year. Even the highly profitable service business suffered a slight drop in revenue to €209.7 million, a decrease of 1.5 per cent compared with the record level achieved in 2012.

In a regional analysis, revenue in the EMEA region, our strongest revenue driver in terms of geographical breakdown, rose to €1,125.5 million, a disproportionately high increase of 17.5 per cent. Germany (up 12.3 per cent) and the rest of Europe (up 23.3 per cent) saw particularly strong revenue growth. In contrast, revenue fell in the Americas by 4.6 per cent to €147.0 million and in the Asia-Pacific region by 8.2 per cent to €94.1 million.

Earnings performance In 2013, DEUTZ AG generated operating profit (EBIT) of €49.7 million (2012: €75.4 million), a decrease of €25.7 million compared with 2012. The principal reason was the reversal of an impairment loss in 2012 relating to the carrying amount of the equity investment in our US subsidiary. If the effect of this item is disregarded, the results of operations at DEUTZ AG show a year-on-year improvement similar to that for the DEUTZ Group as a whole.

Earnings before interest, tax, depreciation and amortisation (EBITDA) at DEUTZ AG amounted to €96.9 million in 2013 compared with €119.6 million in 2012.

Cost of sales DEUTZ AG's cost of sales in 2013 amounted to €1,229.2 million (2012: €1,083.9 million). The year-on-year increase of €145.3 million was mainly attributable to the volume-related rise in the cost of materials. By contrast, staff costs and depreciation on property, plant and equipment remained at the same level as in 2012. As a percentage of revenue, the cost of sales rose by a negligible amount year on year from 89.3 per cent to 89.9 per cent.

Research and development expenditure Research and development expenditure fell by €2.8 million year on year to €53.9 million (2012: €56.7 million). As development work in connection with the new emissions standards was well advanced, we were able to continue the process of cutting our research and development expenditure as planned. Research and development expenditure largely comprised staff costs and cost of materials. Any investment grants received were deducted from this expenditure. Unlike the development expenditure in the DEUTZ Group, which is recognised in accordance with IFRS requirements, the development expenditure in DEUTZ AG is recognised in accordance with the provisions of the German Commercial Code (HGB) and is not capitalised on the basis that the projects started before the initial application of the requirements of the German Accounting Law Modernisation Act (BilMoG).

Selling and administrative expenses Selling and administrative expenses in 2013 came to €68.6 million, a year-on-year increase of €4.9 million (2012: €63.7 million). On the other hand, when measured as a proportion of revenue, selling and administrative expenses declined slightly from 5.2 per cent in 2012 to 5.0 per cent in 2013 owing to the greater volume of business.

Other operating income The reporting year saw a substantial fall of €62.8 million in other operating income to €22.1 million (2012: €84.9 million[1]) largely on account of the reversal of an impairment loss in 2012 on the carrying amount of the equity invested in our US subsidiary.

Other operating expenses Other operating expenses also fell significantly year on year by €9.7 million to €9.2 million (2012: 18.9 million[1]). A significant factor in this decrease was the lower level of charges in connection with foreign-currency transactions.

[1] Since 2013, the income statement has been structured according to the function-of-expense method. The comparative prior-year figures have been restated accordingly to improve comparability.

Net investment income A considerable year-on-year improvement was registered in net investment income, which increased by €13.4 million to €21.9 million (2012: €8.5 million). The main factors in this improvement were transfers of profits from our subsidiaries DEUTZ Spain S.A., Zafra (Spain) and Deutz Corporation, Atlanta (USA) during 2013.

Impairment of investments Whereas we had adjusted the carrying amounts of our investments by €9.2 million in 2012, there was no need to recognise any impairment losses of this nature in 2013.

Net interest expense Net interest expense in 2013 amounted to €12.0 million (2012: net expense of €17.4 million) representing a year-on-year improvement of €5.4 million. The main reasons were lower finance costs which in turn resulted from lower utilisation of the new funding facility that had been in place since mid-2012 and the more favourable interest rates in this arrangement.

Extraordinary items As in 2012, extraordinary items comprised the annual addition to the provisions for pensions and other post-retirement benefits of the difference arising under the initial application of BilMoG. This difference came about as a result of the remeasurement of the provisions for pensions and other post-retirement benefits on 1 January 2010.

Income taxes The income tax income of €4.4 million largely arose from the recognition of deferred tax assets related to the possible utilisation of loss carryforwards in the future.

Net income As a consequence of the decrease in operating profit (EBIT), net income fell by €19.0 million year on year to €39.2 million, although there was an improvement in the performance of operating activities as in the DEUTZ Group as a whole. The net income for 2012 had included a one-off item comprising the reversal of an impairment loss on the carrying amount of the equity invested in our US subsidiary.

Now that we meet the conditions laid down in the German Commercial Code (HGB) for a payment of dividends, the Board of Management and the Supervisory Board recommend using the accumulated income of €8.5 million to pay a dividend of €0.07 per share.

FINANCIAL POSITION

Overview of DEUTZ AG's financial position

	2013	2012
€ million		
Cash flow from operating activities	63.0	61.4
Cash flow from investing activities	–49.9	–51.5
Cash flow from financing activities	–14.3	–23.5
Change in cash and cash equivalents	–1.2	–13.6
Free cash flow	8.8	2.8
Cash and cash equivalents at 31 December	30.8	32.0

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

Financial management in the DEUTZ Group is one of the core functions of the Group, and DEUTZ AG holds responsibility for this function. The basic principles and objectives of financial management at DEUTZ AG are therefore largely the same as those of the Group, as is the funding of DEUTZ AG. In this regard, please refer to section 34 of the combined management report.

Liquidity In 2013, cash flow from operating activities amounted to €63.0 million, slightly higher than the prior-year level (2012: €61.4 million) as a consequence of the excellent operating performance.

The cash flow from investing activities in 2013 was minus €49.9 million (2012: minus €51.5 million). The cash outflows were largely in connection with capital expenditure on production facilities and tools related to the market launch of the two new TCD 2.9 and TCD 3.6 engines.

The net cash remaining after capital expenditure was predominantly used to repay financial liabilities. Cash flow from financing activities in 2013 totalled minus €14.3 million (2012: minus €23.5 million). The lower net cash outflow compared with that in 2012 was attributable to a number of factors including lower finance costs.

In 2013, there was a significant improvement in free cash flow compared with 2012. Free cash flow amounted to €8.8 million for the year, an increase of €6.0 million (2012: €2.8 million).

Capital expenditure In 2013, DEUTZ AG's total capital expenditure (after investment grants) came to €51.0 million, down by €17.6 million year on year (2012: €68.6 million). Capital expenditure in 2013 was largely concentrated on investments and property, plant and equipment. After adjusting for investment grants, an amount of €28.4 million was invested in property, plant and equipment (2012: €46.7 million), predominantly in production facilities and tools in connection with the launch of the two new TCD 2.9 and TCD 3.6 engines. The corresponding sum for investments was €15.7 million (2012: €16.4 million), principally comprising the capital injection into DEUTZ Engine China GmbH, Cologne, in connection with establishing DEUTZ Engine (China) Co., Ltd., Linyi (China), in which DEUTZ AG indirectly – through DEUTZ Engine China GmbH, Cologne – has a 65 per cent stake, and a loan to our Spanish subsidiary DEUTZ Spain S.A., Zafra.

NET ASSETS

Overview of DEUTZ AG's net assets

	31 Dec 2013	31 Dec 2012
€ million		
Non-current assets	518.8	521.5
Current assets	382.9	309.5
Prepaid expenses	2.5	1.5
Deferred tax assets	66.6	58.0
Total assets	**970.8**	**890.5**
Equity	438.0	398.8
Provisions	242.6	232.4
Liabilities	289.6	258.6
Deferred income	0.6	0.7
Total equity and liabilities	**970.8**	**890.5**
Working capital (€ million)	73.5	61.9
Working capital ratio at the balance sheet date (%)	5.4	5.1
Equity ratio (%)	45.1	44.8

Working capital: inventories plus trade receivables minus trade payables
Equity ratio: equity/total equity and liabilities

As at 31 December 2013, total assets amounted to €970.8 million, €80.3 million higher than the equivalent figure at the end of 2012 (31 December 2012: €890.5 million).

Non-current assets Non-current assets fell slightly by €2.7 million to €518.8 million but were generally at the same level as at the end of 2012 (31 December 2012: €521.5 million). Two countervailing factors affected non-current assets in 2013: on the one hand, a decrease in property, plant and equipment resulting from depreciation charges that were higher than the additions for the year, and on the other hand, an increase in investments resulting from the capital injection into DEUTZ Engine China GmbH, Cologne, and the loan to our Spanish subsidiary DEUTZ Spain S.A., Zafra. The shareholding in DEUTZ Versicherungsvermittlung GmbH was sold during the course of 2013.

Current assets As at 31 December 2013, current assets amounted to €382.9 million (31 December 2012: €309.5 million). The year-on-year increase of €73.4 million was mainly accounted for by a rise in inventories and trade receivables as a result of the growth in the volume of business during the year.

Working capital Working capital as at 31 December 2013 amounted to €73.5 million (31 December 2012: €61.9 million). up by €11.6 million year on year. This was primarily attributable to the higher inventories and trade receivables. The increase on the assets side was only partially offset by a rise in trade payables. As a consequence, there was also a slight increase in the working capital ratio, i.e. the ratio of working capital (inventories plus trade receivables less trade payables) to revenue. As at the balance sheet date[1], this ratio was 5.4 per cent compared with 5.1 per cent as at 31 December 2012.

Deferred tax assets The increase in deferred tax assets largely resulted from the recognition of deferred tax assets in respect of tax loss carryforwards that have not yet been utilised.

Equity ratio As a consequence of the excellent level of net income, there was a rise in equity of €39.2 million to €438.0 million (31 December 2012: €398.8 million). The equity ratio as at 31 December 2013 increased slightly to reach 45.1 per cent (31 December 2012: 44.8 per cent).

Provisions Provisions increased by €10.2 million year on year to €242.6 million (31 December 2012: €232.4 million). A key factor in this increase was a higher provision for possible warranty claims in the future, particularly as a result of the higher volume of business in the year under review.

Liabilities As at 31 December 2013, liabilities had also risen by €31.0 million to €289.6 million (31 December 2012: €258.6 million). This was mainly attributable to the volume-related increase in trade payables.

EVENTS AFTER THE REPORTING PERIOD

No events occurred after 31 December 2013 that had a material impact on the financial position or financial performance of DEUTZ AG.

EMPLOYEES

DEUTZ AG had 3,126 employees[2] in total at the end of 2013, which was 93 fewer than at the end of 2012. This equates to a decline of 2.9 per cent in the workforce. As at 31 December 2013, we also had a further 436 people on temporary employment contracts, compared with 142 a year earlier. Employing temporary workers enables us to respond flexibly to any fluctuations in demand.

Looking at it by segment, DEUTZ Compact Engines employed 2,586 people as at 31 December 2013, 82 fewer than it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 540, which was eleven fewer than at the end of 2012.

[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 reporting period to revenue for the preceding twelve months
[2] Number of employees incl. apprentices

RISK REPORT

DEUTZ AG is integrated into the risk management system of the DEUTZ Group. As a head-office function, risk management for the Group is performed by DEUTZ AG. Information about the structuring and mechanics of the risk management system and of risk management with regard to financial instruments can be found in our notes on pages 48 to 50.

Because DEUTZ AG is closely integrated with the other Group companies, its risk situation is essentially the same as the Group's. Risks arising from subsidiaries may have an effect on DEUTZ AG because of the carrying amount of an equity investment, reduced dividend payments and the internal business relations. The risks associated with the DEUTZ Group can be found on pages 50 to 52 of this combined management report.

Information about DEUTZ AG's internal accounting-related control system and about risk management with regard to the use of financial instruments at DEUTZ AG can be found on pages 52 et seq. of this combined management report.

OUTLOOK

DEUTZ AG performs the head-office functions of the DEUTZ Group and is the biggest production company within the Group by some margin. Because of DEUTZ AG's wide-ranging relationships with other Group companies and because of its size within the Group, the expectations presented in the Group outlook for 2014 are essentially the same as those for DEUTZ AG. We therefore anticipate that the revenue of DEUTZ AG will develop largely in line with the statements made for the DEUTZ Group. For 2014 we expect to record a slight increase in net income compared with 2013. For further information please refer to the DEUTZ Group Outlook on pages 54 to 55.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289A HGB

The corporate governance declaration pursuant to section 289a of the German Commercial Code (HGB) is an integral element of the combined management report. We refer here to our remarks on pages 124 to 126 of the annual report.

DISCLOSURES PURSUANT TO SECTIONS 289 (4) AND 315 (4) HGB

Composition of the issued capital There were no changes to the issued capital (share capital) of DEUTZ AG in 2013. As at 31 December 2013, the issued capital amounted to €308,978,241.98 and was divided into 120,861,783 no-par-value bearer shares.

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

Restrictions affecting voting rights or the transfer of shares According to the information available to us, the transferability of DEUTZ shares held by AB Volvo is restricted by a pre-emption right of the Same Deutz-Fahr Group S.p.A. of Treviglio, Italy.

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, 85 German Stock Corporation Act (AktG) and section 31 German Codetermination Act (MitbestG) also apply.

According to article 14 of the Statutes of DEUTZ AG:

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

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

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

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.

In mid-2012, DEUTZ AG took up a syndicated loan for €160 million from a syndicate of German banks and a loan for €90 million from the European Investment Bank. Under the terms of the loan agreements, the lenders can demand that the outstanding loan be repaid within a specified period in the event of a change of control, i.e. one or more people acting jointly acquire a direct or indirect shareholding of at least 50 per cent of all shares and/or voting rights in DEUTZ AG.

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

The agreement between DEUTZ AG and a Volvo company regarding the joint venture to produce four to eight-litre engines in China grants each party termination, stock-purchasing and withdrawal rights in the case of a change of control. These rights may only be exercised if the other party to the agreement comes under the control of a third party that is a competitor (or a company affiliated to this competitor) of the party that wishes to exercise the termination, stock-purchasing or withdrawal rights. A third party is deemed to have control if it holds more than 50 per cent of voting rights or shares in the other party to the agreement (or 30 per cent if the third party is a publicly traded company), if it holds more than 50 per cent of voting rights on the management board or board of directors of the other party to the agreement, or if it has the power to appoint or remove the majority of members of the management board or board of directors of the other party to the agreement.

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

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

Explanatory statement by the Board of Management in connection with sections 289 (4) and 315 (4) HGB The disclosures contained in the combined 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 annual remuneration paid to the members of DEUTZ AG's Board of Management consists of fixed and variable components as well as a pension benefit contribution. The fixed component is paid monthly as basic salary. The variable component is performance-related and consists of two parts: the first is a bonus that is based on attainment of specific targets; the other comes in the form of virtual performance shares that offer a long-term incentive. For the pension contribution, an amount is paid into a benevolent fund; there is no other entitlement to a pension or surviving dependants' pension.

The calculation of the annual bonus is based on the degree of attainment of annual performance targets (short-term targets). The number, content and weighting of the short-term targets are set annually by the Supervisory Board at its due discretion after consulting with the respective Board of Management member. The minimum level of target attainment for the payment of a bonus is 75 per cent; the maximum level of target attainment relevant to the payment of the bonus is 150 per cent. The highest amount that can be paid as a bonus in the case of maximum target attainment is determined by the respective service contract. Only 60 per cent of the annual bonus is paid out at the end of the year. The remaining 40 per cent of the bonus is paid out in two equal instalments, subject to the attainment of further medium-term financial targets (medium-term targets), at the end of a further one year and two years, whereby the amount that is paid out is based on the level of attainment of these medium-term targets, to a maximum of 150 per cent. The highest permissible amounts for these further payments are also contractually agreed. The targets for all payments are set at the beginning of the year for which the bonus is to be paid.

Details regarding the virtual performance shares are set forth in a long-term incentive plan for the Board of Management (LTI plan BoM), which forms part of the contractual agreements with the Board of Management members. The number of virtual performance shares allocated to a Board of Management member is calculated each year on the basis of the contractually specified euro amount divided by a reference price. The reference price is the average closing price of DEUTZ AG shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 60 trading days preceding the grant date. Virtual performance shares represent an entitlement to payment of a cash amount in accordance with the provisions of the LTI plan BoM. The cash amount per virtual performance share corresponds to the average closing price of DEUTZ shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last 60 trading days prior to the expiry of a vesting period of four years after the grant date, and is limited to a maximum of 1.5 times the reference price. Entitlement to the cash payment only arises, however, if either the market price of DEUTZ shares has increased by at least 30 per cent relative to the reference price or the market price of DEUTZ shares has outperformed the MDAX (or a future index replacing the MDAX) by at least 10 percentage points during the vesting period. A further requirement is that the Board of Management member makes a personal investment by holding one DEUTZ share for every 20 virtual performance shares received.

The variable remuneration is designed in a way that the majority of it is measured against performance over several years. The overall remuneration structure is designed to support the sustainable growth of the company.

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.

If the employment contract of a member of the Board of Management is terminated prematurely without good cause, the member of the Board of Management receives severance payment equivalent to the total remuneration for the period until the original termination date of his or her contract of employment up to a maximum of two years. For the purpose of this severance pay, the amount of total remuneration is determined by the total remuneration paid for the last full financial year, or the anticipated total remuneration for the then current financial year, if appropriate (cap on severance pay in accordance with clause 4.2.3 of the German Corporate Governance Code).

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

Further information on the remuneration paid to the Board of Management can be found on page 107 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, which was amended at the 2013 Annual General Meeting. This stipulates that the members of the Supervisory Board of DEUTZ AG receive a fixed annual remuneration of €22,500 (€12,500 prior to 6 May 2013). They also receive a fee of €2,500 (€1,000 prior to 6 May 2013) for each Supervisory Board meeting they attend and are reimbursed for their out-of-pocket expenses. The chairman of the Supervisory Board receives double these amounts, and his deputy one-and-a-half times.

In addition, each member of a Supervisory Board committee receives an attendance fee of €2,500 (€1,000 prior to 6 May 2013) for each committee meeting attended. 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 109 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 has an appropriate risk management system to ensure it can meet this requirement.

Such a system heightens employees' sense of responsibility and raises their awareness of 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 provides the basis for the work of the Risk Management Committee and 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 2013. 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. The risks are categorised by importance, based on estimated probability of occurrence and potential impact. 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, comprising risk management officers from the selected divisions, then analyses the risks and the progress of the action that is being taken and reports to the Board of Management on the results of the risk inventory. Depending on what the risk is, the committee will decide upon a strategy for the management of this risk (risk acceptance, risk avoidance, risk minimization or risk transfer). To enable the Company to respond promptly at all times to any possible risks that may arise, 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. These reports are to be separate from the regular reporting requirements. The risk management system does not identify opportunities, only risks.

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

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

RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

We are managing the financial risk as follows:

Risk from bad debts We protect ourselves against the risk from bad debts by constantly monitoring our situation, including through electronic means, and by regularly analysing 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, primarily in US dollars, which arises as a result of transactions with third parties denominated in foreign currency, is monitored by means of a central currency management system and mitigated by the use of derivative financial instruments. The DEUTZ Group's net currency exposure is normally hedged by forwards equivalent to 50 to 70 per cent of open items, or 100 per cent in the case of selected project-based firm commitments. DEUTZ is also taking specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract exchange-rate risks from sales invoiced in US dollars by way of natural hedging.

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

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

Further information on financial risk management can be found in Note 23 on page 92.

RISK ASSESSMENT

The assessment of risks in the DEUTZ Group is based on the estimated probability of occurrence in conjunction with the potential impact of the risk on the business objectives. In the following risk report for the DEUTZ Group the risks are categorised as either "low", "moderate" or "high".

DEUTZ Group: risk report

Probability of occurrence (%)	minor	moderate	significant	critical	very critical
80 – 99	low	moderate	moderate	high	high
60 – 79	low	moderate	moderate	high	high
40 – 59	low	moderate	moderate	moderate	high
20 – 39	low	low	moderate	moderate	moderate
1 – 19	low	low	low	moderate	moderate

Impact

RISK

As with the internal risk report, the following presentation of the current risk situation is focused on the risk factors that are important for the DEUTZ Group. Consequently, risks that are referred to were categorised at least as "low" before measures to counter the risk were taken into account. In contrast to the internal risk management, the risks in the following description are more strongly aggregated and are listed by risk category. Unless otherwise stated, the risks refer to 2014 and relate to both the DCE and DCS segments.

FINANCIAL RISKS

Currency risk The DEUTZ Group operates internationally and, consequently, is exposed to currency risk arising from fluctuating exchange rates – in particular for the US dollar – which could have a negative impact on the attainment of our financial targets.

Exchange-rate risks are monitored under a centralised currency management system and mitigated by the use of hedging transactions. The Treasury department uses hedges, primarily currency forwards, to hedge currency risk emanating from the net position of estimated future cash flows in foreign currency. Between 50 per cent and 70 per cent of the net positions budgeted for the following year are usually hedged. DEUTZ also takes specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract currency risk arising from sales invoiced in US dollars by creating a "natural hedge".

In view of the measures that are in place, we categorise the currency risk at this present time for the attainment of our financial targets as "low".

EXTERNAL RISK

Regulatory risk Increasingly stringent emissions standards represent major technological challenges for the DEUTZ Group that could have a negative impact on its financial position and financial performance. In 2011, exhaust emissions standard III B in Europe and Tier 4 Interim in the USA came into force for mobile machinery engines with an output of 130kW or more. From 2012, the standards have also applied to smaller engines with outputs of 56kW to 130kW. Emissions limits will be lowered again from 2014 when the EU Stage IV and US EPA Tier 4 Final 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. Both the complexity of the technology and the tight timescales in which to comply with the new emissions standards represent a challenge for the Group. Delays in the launch of our products under the new emissions legislation could, for example, lead to higher than planned start-up costs, which would have a negative impact on earnings.

To mitigate these regulatory 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.

In view of the measures that have been implemented, we categorise the regulatory risks with regard to the financial position and financial performance of the Group as "low".

Political and social risk Because of our global presence we are exposed to dangers that may result from the political and social situation in our target markets – particularly in the emerging markets. Certain events could, for example, lead to us not being able to continue business activities at our sites or use our established sales channels. Conceivably this could also have a negative impact on relations with our partners and their willingness to make capital investments.

We have taken precautions within the Group to minimise these risks as far as possible. As well as reviewing alternative business strategies we also believe it is essential to maintain contact with the appropriate authorities.

In view of the precautionary measures that are in place, we categorise the political and social risks for the attainment of our financial targets as "low".

Market risk We operate in sales markets that are characterised by particular sensitivity to cyclical influences. This can have a negative impact on the financial position and financial performance of the DEUTZ Group. As well as having a direct effect on unit sales and revenue, this may also impact negatively on the value of the assets on our balance sheet. We operate in very cyclical markets in our main application segment, Mobile Machinery, and in our principal sales regions of Germany, western Europe and North America. Our objective is to continue to reduce this cyclicality from a regional and application segment perspective. One of the ways in which we are doing so is by continuing to focus further efforts on expanding our Agricultural Machinery application segment, as it follows a different economic cycle to the other application segments. From a regional perspective, we will further 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 AB Volvo and SAME DEUTZ-FAHR are of considerable importance in enabling us to achieve these sales targets.

We are very well diversified and well positioned for the future in terms of the geographical and sectoral distribution of our customers. We supply the market-leading manufacturers in the various application segments. Despite the countermeasures that are in place, we cannot completely control these external risks. We currently categorise the market risk as "moderate". This is because an economic slowdown in 2014 cannot be ruled out and this may have a negative impact on the attainment of our financial targets.

STRATEGIC RISK

Our business strategy is focused on expanding our customer and product base and on further globalisation and internationalisation. This strategy presents the DEUTZ Group with numerous opportunities but is, of course, also associated with risks. For example, our expectations for the Asian market, which we see as critical to the attainment of our strategic goals, may not be fully realised (or may not be realised in the time we anticipated) as a result of political intervention in the markets or periods of general economic weakness.

We attempt to mitigate these risks by precisely analysing trends in our markets and by taking into account external market research. We also enter into close alliances with our major customers in the target markets.

In view of the measures in place, we categorise the strategic risks with regard to the attainment of our financial targets in the coming year as "moderate".

OPERATIONAL RISK

Procurement risks Procurement risks resulting from bottlenecks in the market and unforeseen price increases cannot be fully ruled out. In particular, there is a risk that our suppliers will not respond flexibly enough to demand, which could lead to supply shortages 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 capacity utilisation and thus on its financial position and financial performance.

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.

We also continually analyse which suppliers could be exposed 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.

Procurement risk can never be ruled out completely, despite the numerous measures taken to avoid and minimise risk. After taking these measures into consideration, we classify procurement risk as “low”.

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 our financial position or financial performance.

We have set up local quality departments to ensure quality in all plants and relevant areas of the Group. These departments systematically analyse sources of errors and defects, optimise 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.

Sufficient provisions are recognised on the balance sheet to account for warranty risks. In view of the precautionary measures that have been taken, we categorise any further quality risks that could negatively impact on our financial position or financial performance as “low”.

Production risk Fluctuations in capacity utilisation in production that result from our level of dependency on the general economic situation can, just like breakdown-related production delays, have a negative impact on profitability.

In order to avoid mistakes in planning and capital expenditure, the necessary production capacity is regularly reviewed and 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.

In view of the measures in place to avoid or minimise these risks, we categorise the level of production risk with regard to our financial targets as “low”.

OTHER RISKS

Data security We are a technology-driven company that is heavily focused on research and development. Being an innovation leader gives us a competitive advantage that forms the basis of our long-term success. The risk associated with this is that strictly confidential information, particularly concerning new technologies or partnerships in research and development, could find its way to our competitors through illegitimate means. This could have a negative impact on our market position.

We have put a series of measures in place to protect confidential information. As well as IT security training, these include security measures for computer hardware and IT security guidelines that have been laid down by management. In view of the precautions that have been taken, we categorise the data security risk as “low”.

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 potential legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognised in the risk provisions in the accounts. The outcome of legal disputes is uncertain, however. This means that there are further risks, not accounted for through provisions on the balance sheet, that could negatively impact on our financial targets.

Risk also arises from the winding up of subsidiaries, which can have a negative impact on the Group’s financial position and financial performance.

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 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. Furthermore, existing risks are monitored on an ongoing basis with the support of external consultants.

In view of the measures that have been taken either to avoid or minimise risk, we categorise the overall legal risk as “moderate”.

OVERALL ASSESSMENT OF THE RISK SITUATION

Material risks were identified and evaluated using our risk management system. Appropriate action is taken to manage these risks and, as far as possible, bring them under control. Changes in material risks are monitored regularly at Group level. Currently, the DEUTZ Group has not identified any risks that either individually or in their totality could jeopardise the continued existence of the enterprise as a going concern. Although individual risk factors have changed as a result of internal and external influences, the risk situation as a whole is largely the same as in 2012. Because of the precautions that have been taken and our position in the market, we are confident in our ability to successfully manage the existing risks and the resulting challenges.

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 order to ensure that the consolidated financial statements are properly and consistently prepared, the Group adheres to the fundamental principles of separation of functions, having work checked by a second member of staff and IT access restrictions to prevent unauthorised access to relevant data. There are written procedural instructions and, in particular, Group accounting guidelines that are regularly updated at head office and communicated throughout the Group. Each reporting entity is responsible for compliance with the guidelines, and the data reported to DEUTZ's Group accounting department is validated on an ongoing basis during the preparation of monthly financial statements. Data is reported to the Group head office using a standard reporting tool that has been implemented throughout the Group. Additional control mechanisms covering the risks in the main processes, thereby guaranteeing a reliable accounting and reporting system, are normally set up locally at departmental level. Where necessary, we also use external service providers, such as independent assessors of pension liabilities. The Group accounting department ensures that these requirements are adhered to across the Group.

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

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

The 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. As part of its monitoring function it reviews whether the defined controls are functioning effectively. The findings of these reviews are reported directly to the Board of Management and allow us to eliminate any deficiencies that have been identified and ensure that the ICS is continually refined.

OPPORTUNITIES REPORT

In the fast-paced, dynamic markets in which the DEUTZ Group operates, there are, in addition to the aforementioned risk factors that can negatively impact on the attainment of the business objectives, also opportunities that can have a positive effect on the business objectives of the Group for 2014. Identifying and harnessing these opportunities is the responsibility of the individual operating segments of the Group. As with risk management, there is no central recording and assessment of opportunities.

Unless otherwise stated, the opportunities described below refer to 2014 and relate to the DCE and DCS segments.

Economic situation in relevant markets Developments in the global economy have a major effect on the financial position and financial performance of the DEUTZ Group. If our expectations regarding the macroeconomic situation in our most important markets of Europe, the USA and Asia are exceeded, this can lead to us performing better than we predicted. Possible state investment programmes and capital investment backlogs in the crisis-hit southern European nations, as well as urgently needed projects to maintain the infrastructure in the USA, are just a few concrete examples of opportunities that may arise for us in the affected regions.

Research and development Increasingly stringent emissions standards and general technological progress are placing huge demands on our entire industry. We are one of the innovation leaders and have a very strong competitive position thanks to our proven expertise, our many years of experience and our efficient processes in the research and development of diesel engines and other drive systems. This competitive advantage can have a positive impact on our financial targets, for example through an increase in our market share.

Optimisation of the sales organisation The realignment of the sales organisation towards customer segments is aimed at improving focus and sales performance. This should also lead to an improvement in how market and sales activities are coordinated internationally.

OUTLOOK

FORECASTS PREDICT AN UPTURN IN ECONOMIC GROWTH[1)]

The International Monetary Fund (IMF) anticipates an acceleration in global growth to 3.7 per cent in 2014 and to 3.9 per cent in 2015 (2013: 3.0 per cent), moving back towards the long-term trend growth rate.

In particular, the established industrial nations are expected to see a recovery in their economies. For the industrialised nations, the IMF predicts a growth rate of 2.2 per cent in 2014 (2013: 1.3 per cent). After being in crisis-management mode in the last few years, the eurozone should finally move out of recession and grow again in 2014, by 1.0 per cent, although of course there will continue to be regional differences. More promising still, a plus of 1.4 per cent is expected in 2015. The German economy is expected to grow again this year, by 1.6 per cent. The experts reckon on strong growth of 2.8 per cent in the USA. China remains a pillar of growth for the global economy. The Chinese economy is expected to grow by 7.5 per cent in 2014.

There are still threats to growth this year. Problems in the eurozone or in relation to the US budget deficit have not gone away, although they are currently proving less prominent than last year. The financial markets are still strongly influenced by the actions of the central banks. There is currently a degree of nervousness regarding the further development of individual emerging markets.

The sentiment indicators at the start of 2014 bear out the mainly positive picture: the ifo business climate index for trade and industry in Germany went up again in January 2014, with companies feeling much more optimistic about prospects for growth. The ISM purchasing managers' index in the USA signalled further expansion in the manufacturing sector in January, but only moderate growth, which is presumably attributable to the country's harsh winter.

DIESEL ENGINES MARKET[2)]

The diesel engines market essentially follows the applications and markets in which the engines are installed. We anticipate that the market for mobile machinery and agricultural machinery applications in Europe will remain flat in 2014. However, in view of the introduction of the EU Stage IV emissions standard for 56 to 130kW engines on 1 October 2014, we expect to see the effects of the advance production of engines, which should generate further growth in unit sales in the European diesel engines market. In the USA, we predict slight growth in construction equipment this year. In China we are expecting the construction equipment and truck markets to either remain flat or grow slightly.

Owing to the increasing proportion of higher-value engines to meet the new emissions standards in Europe and America, the value of the diesel engines market will increase at a faster rate than its unit sales.

NEW ORDERS, UNIT SALES, REVENUE

We anticipate a slight increase in demand for our engines and positive growth for our service business. From a regional perspective, we forecast that the strongest growth will be in Europe and North America followed by Asia.

Overall, we are reckoning on a modest rise in unit sales and an increase in revenue in the lower double-digit range. Revenue will be supported by structural growth from the new customer projects with our new engine portfolio and an approx. 50 per cent increase in the proportion of our engines that meet the new Tier 4 Interim and Tier 4 emissions standards, the sale prices of which are higher owing to their significantly greater value. In terms of segments, we expect growth to be somewhat stronger for DCE than for DCS.

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

EARNINGS

Growth projects and the production ramp-up of new engines will continue to depress earnings in 2014. The priorities this year will be the smooth production start-up for new engines, the successful implementation of new customer projects, efforts to meet the much-increased customer requirements in the power categories below 130kW, ongoing measures to cut costs and boost efficiency across the Company and further improvement of the profitability of our DEUTZ Dalian joint venture. In addition, we are reviewing the extent of our vertical integration in mechanical fabrication.

We expect the EBIT margin excluding one-off items to rise to more than 4.0 per cent, a moderate improvement on the previous year. Earnings will be boosted by growth in revenue combined with economies of scale and measures to cut costs and boost efficiency at DEUTZ AG and at the Chinese joint venture DEUTZ Dalian. Product start-ups and the set-up costs for growth projects in China will have a negative impact on earnings in 2014. We expect our DCE and DCS segments to achieve similar levels of earnings growth.

Because of the higher earnings expectation, we anticipate a significant year-on-year increase in return on capital employed (ROCE) for 2014.

COMMODITIES, COLLECTIVE PAY AGREEMENTS

Commodity prices We expect to see primary markets remain flat during the year ahead, although there may be some slight upward movements in prices.

[1)] Sources: IMF, World Economic Outlook, January 2014
Deutsche Bank, Global Economic Outlook, December 2013
ifo business climate index, January 2014.
[2)] Source: Off-Highway Research, November 2013

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

Moderate rise in collectively agreed pay As of 1 May 2014 collectively agreed pay will rise by 2.2 per cent. The collective pay agreement that is currently in force expires on 31 December 2014.

RESEARCH AND DEVELOPMENT EXPENDITURE

We are anticipating a slightly lower R&D ratio than in 2013. This is the ratio of research and development expenditure (after reimbursements) to revenue.

CAPITAL EXPENDITURE

We forecast capital expenditure of 60 to 70 million in 2014 (before capitalisation of research and development expenditure and after reimbursements). This includes growth-related capital expenditure in China of up to €20 million.

JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

In China we are anticipating an improved but still volatile market for 2014. For our joint venture DEUTZ (Dalian) Engine Co., Ltd., we are expecting further growth in revenue and a slight increase in operating profit.

WORKING CAPITAL RATIO, FREE CASH FLOW AND EQUITY RATIO

Our objective is to achieve a working capital ratio of around 14 per cent as the quarter-end average. We forecast a modest increase in free cash flow for 2014.

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

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 fluctuations in demand. 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 2013, we will again use the "Collective agreement concerning the flexible transition into retirement" in 2014. This will give employees who meet the necessary conditions 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 2014, the exhaust emissions standard 97/68 Stage IV came into force in the European Union and the corresponding EPA Tier 4 Final standard came into force in the USA. Both standards apply to diesel engines above 130kW used in non-road applications. For engines from 56 to 130kW, the emissions standard Stage IV comes into force in the European Union on 1 October 2014, and the EPA Tier 4 Final is effective in the USA from 1 January 2015. The provisions of this latest set of regulations require nitrogen oxide (NO_x) emissions to be reduced by 95.7 per cent and soot particles by 96.5 per cent relative to the first limits, which were introduced in 1999.

OUTLOOK FOR THE YEARS AHEAD

By the end of this year, the new EU Stage IV and Tier 4 Final emissions standards will have been introduced in Europe and North America in all power categories. Because of this, we expect to see a final boost from advance engine production in 2014 as customers order engines ahead of the new regulations, followed by a flattening of revenue in 2015, before demand in the established industrialised nations normalises again from 2016, by which time the new fully consolidated growth projects in China will be contributing significant amounts of revenue.

For 2015 we therefore expect revenue to stagnate and the EBIT margin excluding one-off items to grow moderately at best. For 2016 we expect a return to the trend growth rate of more than 10 per cent per annum and a sharp increase in the EBIT margin excluding one-off items.

In the DCE segment we expect the EBIT margin excluding one-off items to either stagnate or increase only modestly in 2015, and then for earnings to noticeably improve in the years that follow.

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

Disclaimer

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

CONSOLIDATED FINANCIAL STATEMENTS 2013

INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	2013	adjusted[1) 2012
€ million			
Revenue	1	**1,453.2**	**1,291.9**
Cost of goods sold		–1,257.4	–1,117.7
Research and development costs		–58.7	–44.1
Selling expenses		–62.6	–60.2
General administrative expenses		–33.5	–30.8
Other operating income[2)]	2	17.0	37.0
Other operating expenses[2)]	3	–13.9	–25.1
Income from investments accounted for using the equity method	4	1.6	–15.9
Other financial income	4	1.8	2.0
EBIT[2)]		**47.5**	**37.1**
Interest expenses, net	5	–6.0	–10.6
thereof finance costs		–7.5	–11.6
Net income before taxes on continuing operations		**41.5**	**26.5**
Income taxes	6	–5.5	–4.4
Net income on continuing operations		**36.0**	**22.1**
Net income on discontinued operations		**–**	**–1.1**
Net income		**36.0**	**21.0**
thereof attributable to owners of DEUTZ AG		36.4	21.0
thereof attributable to non-controlling interests		–0.4	–
Earnings per share (€)	7	**0.30**	**0.17**
therof from continuing operations		0.30	0.18
therof from discontinued operations		–	–0.01

[1)] Owing to restatements following initial application of the new provisions of IAS 19 ‘Employee Benefits’, some of the amounts shown deviate from the amounts shown in the 2012 consolidated financial statements (for details, see page 62 et seq. in the notes).
[2)] Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. Other taxes in the year under review amounted to €1.2 million (2012: €1.4 million). There are also changes to the composition of other operating income and other operating expenses. The comparative prior-year figures have been restated accordingly to improve comparability (for details, see page 63 in the notes).

GROSS INCOME DEUTZ GROUP

	Note	2013	adjusted[1)] 2012
€ million			
Net income		**36.0**	**21.0**
Amounts that will not be reclassified subsequently to profit or loss		**3.2**	**–16.7**
Actuarial gains / losses arising from the revaluation of pensions and similar obligations		3.2	–16.7
Amounts that will be reclassified subsequently to profit or loss when specific conditions are met		**–5.5**	**–1.3**
Currency translation differences		–5.8	–2.6
Effective portion of change in fair value from cash flow hedges		0.1	1.2
Change in fair value of available-for-sale financial assets		0.2	0.1
Other comprehensive income, net of tax	8	**–2.3**	**–18.0**
Comprehensive income		**33.7**	**3.0**
thereof attributable to owners of the parent		34.2	3.4
thereof attributable to non-controlling interests		–0.5	–0.4

BALANCE SHEET FOR THE DEUTZ GROUP

Assets	Note	31 Dec 2013	adjusted[1] 31 Dec 2012	adjusted[1] 1 Jan 2012
€ million				
Property, plant and equipment	9	306.4	318.9	311.5
Intangible assets	10	237.9	244.3	227.8
Equity-accounted investments	11	46.0	47.1	71.8
Other financial assets	12	6.3	11.0	12.0
Non-current assets (before deferred tax assets)		596.6	621.3	623.1
Deferred tax assets	13	30.8	27.4	19.4
Non-current assets		**627.4**	**648.7**	**642.5**
Inventories	14	224.6	184.4	187.6
Trade receivables	15	149.1	116.1	163.6
Other receivables and assets	15	60.6	32.8	55.5
Cash and cash equivalents	16	58.9	52.1	51.6
Current assets		**493.2**	**385.4**	**458.3**
Non-current assets held for sale	17	0.4	1.8	0.4
Total assets		**1,121.0**	**1,035.9**	**1,101.2**

Equity and liabilities	Note	31 Dec 2013	adjusted[1] 31 Dec 2012	adjusted[1] 1 Jan 2012
Issued capital		309.0	309.0	309.0
Additional paid-in capital		28.8	28.8	28.8
Other reserves		2.8	8.2	9.1
Retained earnings and accumulated income		139.7	100.1	95.8
Equity attributable to owners of the parent		**480.3**	**446.1**	**442.7**
Non-controlling interests		24.4	6.5	–
Equity	18	**504.7**	**452.6**	**442.7**
Provisions for pensions and other post-retirement benefits	19	168.6	181.8	164.3
Other provisions	20	37.2	25.4	29.3
Financial liabilities	21	83.0	99.6	119.3
Other liabilities	22	3.7	5.0	4.4
Non-current liabilities		**292.5**	**311.8**	**317.3**
Provisions for pensions and other post-retirement benefits	19	14.9	15.4	15.6
Provision for current income taxes		4.3	2.2	0.2
Other provisions	20	45.2	41.6	43.0
Financial liabilities	21	7.6	1.1	1.9
Trade payables	22	201.4	158.9	209.1
Other liabilities	22	50.4	52.3	71.4
Current liabilities		**323.8**	**271.5**	**341.2**
Total equity and liabilities		**1,121.0**	**1,035.9**	**1,101.2**

[1] Owing to restatements following initial application of the new provisions of IAS 19 'Employee Benefits', some of the amounts shown deviate from the amounts shown in the 2012 consolidated financial statements (for details, see page 62 et seq. in the notes).

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

	Issued capital	Additional paid-in capital	Retained earnings / accu-mulated income	Fair value reserve[1),2)]	Currency translation reserve[1)]	Equity at-tributable to share-holders of DEUTZ AG	Non-con-trolling interests	**Total**
€ million								
Balance at 1 Jan. 2012	**309.0**	**28.8**	**106.6**	**–1.4**	**10.5**	**453.5**	**–**	**453.5**
Changes in accounting policies[3)]	–	–	–10.8			–10.8	–	–10.8
Balance at 1 Jan. 2012 (adjusted)	**309.0**	**28.8**	**95.8**	**–1.4**	**10.5**	**442.7**	**–**	**442.7**
Capital contribution	–	–	–	–	–	–	6.9	6.9
Net income	–	–	21.0	–	–	21.0	–	21.0
Other comprehensive income	–	–	–16.7	1.3	–2.2	–17.6	–0.4	–18.0
Comprehensive income	–	–	4.3	1.3	–2.2	3.4	–0.4	3.0
Balance at 31 December 2012	**309.0**	**28.8**	**100.1**	**–0.1**	**8.3**	**446.1**	**6.5**	**452.6**
Balance at 1 Jan. 2013	**309.0**	**28.8**	**100.1**	**–0.1**	**8.3**	**446.1**	**6.5**	**452.6**
Capital contribution	–	–	–	–	–	–	3.7	3.7
Outstanding contributions from non-controlling interests	–	–	–	–	–	–	14.7	14.7
Net income	–	–	36.4	–	–	36.4	–0.4	36.0
Other comprehensive income	–	–	3.2	0.3	–5.7	–2.2	–0.1	–2.3
Comprehensive income	–	–	39.6	0.3	–5.7	34.2	–0.5	33.7
Balance at 31 December 2013	**309.0**	**28.8**	**139.7**	**0.2**	**2.6**	**480.3**	**24.4**	**504.7**

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.
3) The restatement relates to the revised accounting treatment of pension liabilities (see page 62 et seq. of the notes to the financial statements).

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

	Note	2013	2012
€ million			
EBIT[1)]		**47.5**	**37.1**
Income taxes paid		–8.6	–4.2
Depreciation and amortisation		94.5	84.6
Gain/loss on disposals of fixed assets		–0.1	–14.9
Net result from equity-accounted investments		–1.1	16.8
Other non-cash expenses/income		–0.6	1.4
Change in working capital		–28.1	–5.3
Change in inventories		–42.8	2.5
Change in trade receivables		–34.2	47.1
Change in trade payables		48.9	–54.9
Change in other receivables and other current assets		–4.2	12.9
Change in provisions and other liabilities (excluding financial liabilities)		5.7	–23.5
Cash flow from operating activities		**105.0**	**104.9**
Capital expenditure on intangible assets, property, plant and equipment		–85.2	–96.4
Capital expenditure on investments		–	–7.6
Proceeds from the sale of non-current assets		0.6	22.6
Cash flow from investing activities		**–84.6**	**–81.4**
Interest income		1.0	0.9
Interest expenses		–7.6	–11.8
Capital contribution by minorities		3.7	6.9
Cash receipts from borrowings		20.0	185.0
Repayments of loans		–30.3	–203.2
Cash flow from financing activities		**–13.2**	**–22.2**
Cash flow from operating activities		105.0	104.9
Cash flow from investing activities		–84.6	–81.4
Cash flow from financing activities		–13.2	–22.2
Change in cash and cash equivalents		**7.2**	**1.3**
Change in cash and cash equivalents at 1 January		**52.1**	**51.6**
Change in cash and cash equivalents		7.2	1.3
Change in cash and cash equivalents related to exchange rates		–0.4	–0.8
Change in cash and cash equivalents at 31 December		**58.9**	**52.1**

[1)] Since 2013, the income statement has been structured according to the cost-of-sales method. Other taxes are no longer reported separately after operating profit/loss (EBIT) and are instead allocated to functional costs within operating profit/loss. In 2013, other taxes amounted to €1.2 million (2012: €1.4 million). The comparative prior-year figures have been restated accordingly to improve comparability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

PARENT COMPANY

The parent company of the DEUTZ Group is DEUTZ AG. Its registered office is located at Ottostrasse 1, 51149 Cologne, Germany, and the Company is entered under no. HRB 281 in the commercial register at the local court in Cologne. The Board of Management approved these consolidated financial statements for publication by adopting a resolution dated 24 February 2014.

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

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

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1) Amendments to accounting policies

The accounting policies on which the consolidated financial statements are based are fundamentally the same as the policies applied in 2012 with the exceptions set out below.

IAS 1 (revised) "Presentation of Financial Statements" The revisions to IAS 1 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. As this amendment relates exclusively to presentation of the financial statements, it has had no impact on the DEUTZ Group's financial position or financial performance.

IAS 12 (revised) "Income Taxes" 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 has not affected the consolidated financial statements.

IAS 19 (revised) "Employee Benefits" One of the material changes to IAS 19 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 must now be recognised in full in other comprehensive income when they occur. Furthermore, the expected return on the plan assets and the interest costs on the defined benefit obligation have been replaced with a single net interest component. The net interest income/expense is then recognised in the income statement. Finally, the IASB has amended the rules on termination benefits and introduced additional disclosure requirements in the revised IAS 19.

In accordance with IAS 8, the amendments to IAS 19 apply retrospectively. The DEUTZ Group previously recognised actuarial gains and losses using the corridor method. As a result, a substantial proportion of actuarial gains and losses were not shown on the face of the balance sheet. Initial application of the new provisions of IAS 19 has therefore led to financial information being restated as follows:

As at 1 January 2012:
- Increase of €15.8 million in provisions for pensions and other post-retirement benefits
- Rise of €5.0 million in deferred tax assets
- Net decrease of €10.8 million in retained earnings

For the period 1 January to 31 December 2012:

- Increase of €24.4 million in provisions for pensions and other post-retirement benefits
- Rise of €7.7 million in deferred tax assets
- Decrease of €16.7 million in other comprehensive income

IAS 36 (revised) "Recoverable Amount Disclosures for Non-financial Assets" This amendment to IAS 36 published in May 2013 clarifies that disclosure of the recoverable amount – which is equal to the fair value less costs to sell – of an individual asset or cash-generating unit is only required when an impairment loss has been recognised. The IASB has therefore once again corrected the notes to financial statements, which were adjusted during the consequential amendment arising from IFRS 13 'Fair Value Measurement'. The amendment applies to financial years beginning on or after 1 January 2014. The Company has made use of the option of earlier application and, as with IFRS 13, has already applied this amendment from 2013. As the amendment only refers to the notes to the consolidated financial statements, there has been no impact on the Group's financial position or financial performance.

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

Collective standard amending various IFRSs (2009-2011) The changes were published in May 2012 and are primarily intended to clarify certain ambiguous provisions in the standards. The amendments come into force for financial years commencing on or after 1 January 2013. Application of these amendments has not had any impact on the consolidated financial statements.

Amended presentation of the income statement In 2013, the DEUTZ Group began to use the function-of-expense method to present its income statement. By contrast with the nature-of-expense method used previously, the expense for the period is now broken down into the different functional areas of the DEUTZ Group rather than into the different types of expense. The individual functional areas specify how the types of expense are allocated to the different functions in the Company on the basis of a defined cost centre structure. Expenses incurred in connection with cross-functional projects are allocated to the relevant functional costs using an appropriate formula. This new presentation structure is closer to common practice in the sector. As the amendment relates only to presentation of the income statement, it has no impact on the DEUTZ Group's financial position or financial performance. However, the transition to the function-of-expense method requires other taxes to be disclosed differently. Instead of being reported separately after operating profit/loss (EBIT), other taxes are now allocated to functional costs within operating profit/loss. Other taxes in the year under review amounted to €1.2 million (2012: €1.4 million). There are also changes to the composition of other operating income and other operating expenses. Significant components of other operating expenses and other operating income are allocated to the functional areas under the function-of-expense method. The comparative prior-year figures have been restated accordingly to improve comparability.

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

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published the following standards and revisions to standards that have already become part of EU law via the comitology procedure. However, the application of these standards was not yet mandatory in 2013 and DEUTZ has not opted to apply these standards or amendments to standards before the mandatory application date.

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

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

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

IAS 39 (revised) "Novation of Derivatives and Continuation of Hedge Accounting" The IASB published this amendment in June 2013. It enables hedging transactions to be continued in cases in which derivatives designated as hedging instruments have been transferred from one counterparty to a central counterparty as the result of statutory or regulatory requirements. The amendment applies to financial years beginning on or after 1 January 2014. The Company does not expect initial adoption of this amendment to have an impact on the consolidated financial statements.

IFRS 10 "Consolidated Financial Statements" Published in May 2011, IFRS 10 replaces the provisions of the previous IAS 27 'Consolidated and Separate Financial Statements' relating to consolidated accounting. The new standard also governs the consolidation of special-purpose entities, which was previously covered by SIC 12, and thereby defines a single control concept applicable to all companies, including special-purpose entities. Adoption of the standard into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2013 to financial years beginning on or after 1 January 2014. The Company does not expect initial application of this amendment to have any impact on the Group's financial position or financial performance.

IFRS 11 "Joint Arrangements" IFRS 11 was issued in May 2011. It replaces IAS 31 'Interests in Joint Ventures' and SIC 13 'Jointly Controlled Entities' as part of a large-scale project to improve financial reporting standards and disclosure requirements related to consolidation and joint arrangements. By taking this step, the IASB has eliminated the option of proportionate consolidation for joint ventures, which means that they may now only be accounted for in the consolidated financial statements using the equity method. The categorisation of joint arrangements has also been amended. Adoption of the standard into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2013 to financial years beginning on or after 1 January 2014. The Company does not expect initial application of this amendment to 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. Adoption of the standard into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 January 2013 to financial years beginning on or after 1 January 2014. As the new rules relate exclusively to the notes to the consolidated financial statements, initial application of IFRS 12 will not impact on the DEUTZ Group's financial position or financial performance.

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

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 2013. 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 19 (revised) "Defined Benefit Plans: Employee Contributions" The amendment to IAS 19 was published in November 2013. Under certain circumstances, this amendment by the IASB allows contributions made by employees and third parties during the period in which the benefit was earned to be recognised as a reduction in the current service cost. The amendment applies to financial years beginning on or after 1 January 2014.

IFRS 9 "Financial Instruments" IFRS 9 comprises a total of three project phases and is intended to replace IAS 39 Financial Instruments: Recognition and Measurement'. The standard was first published in November 2009 following the amendment for the classification and measurement of financial assets. Additions regarding the accounting treatment of financial liabilities were published in October 2010. These two publications completed the first phase of the project: 'Financial Instruments: Classification and Measurement'. A further amendment was published in December 2011 relating to rules for initial application and additional reporting requirements as well as the mandatory effective date of IFRS 9, which was changed from 1 January 2013 to financial years beginning on or after 1 January 2015. However, this was rescinded in June 2013, which means that there is currently no mandatory initial application date for IFRS 9. A further phase for replacing IAS 39 was completed in November 2013 and a new version of IFRS 9 'Financial Instruments' was published. During this phase the IASB focused on the provisions concerning hedge accounting. The purpose of the new provisions is to integrate hedge accounting more closely into an entity's risk management. However, entities retain the option of applying the previous IAS 39 hedge accounting provisions. To present a comprehensive picture of the possible effects of this standard on the Group's financial performance and financial position, the Group will only quantify its impact in connection with the other stages once they have been completed.

Collective standard amending various IFRSs (2010-2012) The changes were published in December 2013 and are primarily intended to clarify certain ambiguous provisions in the standards. The amendments come into force for financial years commencing on or after 1 July 2014. The initial application of these amendments is not expected to have a material impact on the Group's consolidated financial statements.

Collective standard amending various IFRSs (2011-2013) The amendments published by the IASB in December 2013 are primarily concerned with clarifying ambiguous provisions in standards. The amendments come into force for financial years commencing on or after 1 July 2014. The Company does not expect initial application of this standard to have any material impact on the Group's financial position or financial performance.

IFRIC 21 "Levies" The IASB published this interpretation in May 2013. IFRIC 21 deals with the question of when to recognise a liability for certain levies imposed by a government, and offers guidance on the matter. The interpretation comes into force for financial years commencing on or after 1 January 2014. The Company does not expect initial application of IFRIC 21 to have any material impact on the Group's financial position or financial performance.

Significant estimates and assumptions

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

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

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

As at 31 December 2013, the carrying amount of deferred tax assets recognised in respect of tax loss carryforwards amounted to €66.4 million (31 December 2012: tax loss carryforwards of €63.5 million). Further details can be found under Note 13 on page 81.

Pension benefits The expense for defined benefit plans is determined using actuarial calculations. These actuarial calculations are based on assumptions regarding discount rates, 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.

Development expenditure is capitalised in accordance with the accounting policies described below. In order to test the capitalised amounts for impairment, 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 2013, the carrying amount of capitalised development expenditure was €221.8 million (31 December 2012: €226.2 million).

Pending or potential legal disputes DEUTZ AG and other companies in the DEUTZ Group are subject to a variety of regulations under tax, competition and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognised in the risk provisions in the accounts. At present, it is not possible to predict the outcome of pending cases with any degree of certainty beyond the provisions already recognised. We do not expect them to have a significantly adverse impact on the DEUTZ Group's financial position or financial performance. The overall position as regards the legal risks facing the DEUTZ Group is explained in more detail in Note 24 on page 101.

BASIS OF CONSOLIDATION

Material subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are all entities (including special-purpose entities) directly or indirectly controlled by DEUTZ AG. Subsidiaries are consolidated from the point at which the parent company acquires control. Consolidation ends when the parent company no longer has control. The consolidated financial statements include DEUTZ AG as well as six (2012: six) German entities and ten (2012: nine) 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 2013, DEUTZ Engine (China) Co. Ltd. which has its registered office in Linyi, was included in the consolidated financial statements for the first time. On the basis of a joint-venture agreement signed on 8 May 2013, DEUTZ and AB Volvo Group, Gothenburg, Sweden paid their capital contributions into the newly established production company in the fourth quarter of 2013. DEUTZ holds 65 per cent of voting shares in the joint venture via DEUTZ Engine China GmbH. The joint venture has been fully included in the consolidated financial statements of DEUTZ AG using the acquisition method. AB Volvo's holding of 35 per cent of the voting shares is reported as a non-controlling interest under Group equity. Inclusion of DEUTZ Engine (China) Co., Ltd. in the consolidated financial statements for the first time had no material impact on the financial position or financial performance of the DEUTZ Group because the company is only at the development phase. The material effects on net assets were as follows:

- Other receivables and assets +14.7
- Cash and cash equivalents +3.7
- Non-controlling interests +18.4

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 (2012: one) foreign entity in accordance with the rules governing associates and three (2012: three) joint ventures.

Page 113 of the annex to the notes to the financial statements lists the shareholdings of DEUTZ AG as at 31 December 2013.

PRINCIPLES OF CONSOLIDATION

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

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

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

The non-controlling interest is the share of net profit/loss and net assets not attributable to the DEUTZ Group. The Shandong Changlin Machinery Group's holding of 30 per cent of the voting shares in DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China, and the 35 per cent share of the voting shares held by AB Volvo Group, Gothenburg, Sweden in DEUTZ Engine (China) Co. Ltd., Linyi, China are currently reported as non-controlling interests.

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 or 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 or 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 or joint venture. Changes recognised directly in the equity of the associate or joint venture are recognised by the DEUTZ Group in the amount of its investment and, as such, are appropriately presented in the statement of changes in equity. With one exception, the financial statements of the associates and joint ventures are prepared to the same balance sheet date as the financial statements for the parent. Interim financial statements have not been prepared for reasons of materiality. Where required, figures are restated in line with the uniform accounting policies throughout the DEUTZ Group.

CURRENCY TRANSLATION

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

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

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

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

		Average rates		Closing rates at 31 December	
		2013	2012	**2013**	2012
USA	USD	1.33	1.29	1.38	1.32
UK	GBP	0.85	0.81	0.83	0.82
China	CNY	8.17	8.15	8.35	8.22
Australia	AUD	1.39	1.24	1.54	1.27
Morocco	MAD	11.17	11.10	11.24	11.16
Russia	RUB	42.62	40.10	45.32	40.33

ACCOUNTING POLICIES

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

REVENUE RECOGNITION

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

Revenue and other income is recognised as follows:

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

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

Interest income, licence income, dividends and other income Interest income is recognised pro rata temporis using the effective interest method. Licence income is either deferred and recognised pro rata temporis in accordance with the substance of the relevant agreements or recognised when risks and rewards have been transferred. Dividend income is recognised at the time the right to receive the payment arises. Other income is recognised according to contractual agreement on the transfer of risks and rewards.

BORROWING COSTS

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

ADDITIONAL DISCLOSURES

In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before one-off items, which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities. There were no one-off items in 2012 or 2013.

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

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

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

INTANGIBLE ASSETS

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

The following principles are applied:

Internally generated intangible assets The accounting treatment of internally generated intangible assets is based on an implemented development process with defined milestones. During this process, the development costs for the products are capitalised provided that

- they are technically and commercially feasible,
- a future economic benefit is likely,
- there is the intention to complete their development and sufficient resources are available to do so, and
- the costs of development can be reliably determined.

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

As at 31 December 2013, the material, completed development projects had the following remaining useful lives:

Engine series TCD 12.0/16.0	6 years
Engine series TCD 7.8	6 years
Engine series TCD 6.1	6 years
Engine series TCD 4.1	7 years
Engine series TCD 3.6	7 years
Engine series TCD 2.9	8,5 years

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

GOVERNMENT GRANTS

The DEUTZ Group deducts government grants relating to purchases of non-current assets from the cost of the respective asset. The amount of depreciation and amortisation is based on the cost of purchase after deduction of such grants. In the case of an interest-free government loan that has been received, the value of the interest benefit has been quantified in accordance with the provisions in IAS 39. It is subsequently measured at amortised cost. 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 or countervailing deferred tax liabilities exist, against which the deductible temporary differences and the as yet unused tax loss carryforwards can be offset.

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

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

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

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

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

INVENTORIES

Inventories are measured at the lower of cost and net realisable value and raw materials and consumables as well as bought-in and spare parts are measured at the lower of cost of acquisition or replacement. 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 designated at fair value through profit or loss,
- loans and receivables, or
- available-for-sale financial assets.

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

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

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

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

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

Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. This category comprises trade receivables as well as other receivables and assets. They arise when the DEUTZ Group provides money, goods or services directly to a customer or other debtor. They are classified as current assets, except for those that do not fall due until 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. Financial 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).

Financial assets accounted for at amortised cost If there are objective indications that a financial 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.) an impairment loss is recognised on a valuation allowance account. Receivables classified as uncollectible are then derecognised.

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

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

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

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

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

Other financial liabilities in the DEUTZ Group for the most part comprise the following:
- financial liabilities (to banks),
- trade payables and
- other liabilities.

Other financial liabilities are classified as current unless the DEUTZ Group does not have to settle the liability until at least twelve months after the balance sheet date.

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 and interest rate risk are hedged using cash flow hedges. The effective portion of the changes in the fair value of derivatives designated as cash flow hedges is recognised in other comprehensive income. The ineffective portion of the changes in fair value is reported on the face of the income statement under other expenses.

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

The market values of derivatives designated as cash flow hedges are stated in note 23. Changes in the cash flow hedge reserve are reported under a separate item in other comprehensive income (fair value reserve).

PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

Occupational pensions take the form of **defined benefit pension plans,** which are funded by the recognition of pension provisions. Since pension plans in Germany were closed to new members in 1996, employees in Germany can essentially no longer acquire any further employer-funded pension entitlements. Currently, therefore, existing pension entitlements are simply increased each year by unwinding the discount applied to calculate the present value of the obligation, or they are paid out. Besides entitlements to an employer-funded pension, employees in Germany can build up an employee-funded pension by participating in a deferred compensation plan. There is one fund-linked pension plan in the UK (branch of DEUTZ AG), and the subsidiaries in the US and France have pension liabilities. The pension plans outside Germany are employer-funded entitlements.

The Group's liabilities arising from employer-funded defined benefit pension plans are calculated separately for each plan using actuarial principles. First, the pension benefits vested in earlier periods and in the current period are estimated. The next step is to discount these benefits using the projected unit credit method. The resulting present value represents the defined benefit obligation. The fair value of the plan asset is then deducted from the defined benefit obligation to determine the net liability to be reported on the face of the balance sheet.

The interest rate used to discount the estimated pension benefits is determined using the yields available in the market on each valuation date for investment-grade, fixed-income corporate paper. The currency and terms to maturity of the underlying corporate paper match the currency and predicted duration of the post-retirement pension liabilities to be met.

The net interest cost is calculated by multiplying the net liability at the beginning of the reporting period by the interest rate used to discount the pension obligations at the beginning of the period.

The effects of the revaluation include the actuarial gains and losses on the valuation of the gross defined benefit obligation and the difference between the actual return on plan assets and the typical return on plan assets assumed at the beginning of the period when calculating the net interest cost.

While the revaluation effects are recognised in other comprehensive income, the net interest cost and the current service cost are reported as gains or losses in the reporting period. Net interest cost is reported in operating profit.

The calculation of the individual cost components in the net liability to be reported on the face of the balance sheet on each reporting date is based on a report by a qualified actuary.

In the case of the employee-funded deferred compensation plan, the Company has taken out a reinsurance policy with a life insurance company based on the amount of salary contribution and undertakes to pay a pension based on the guaranteed capital that has been underwritten. The present value of the benefit obligation corresponds to the fair value of the entitlements to reinsurance cover on the basis of the active values calculated by the insurer. For the purposes of recognition on the balance sheet, the present value of the benefit obligation is offset against the fair value of the entitlements to reinsurance cover in an equal amount.

Apart from defined benefit pension plans 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.

NOTES TO THE INCOME STATEMENT

1. REVENUE

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

	2013	2012
€ million		
Engines	1,199.6	1,041.6
Service	253.6	250.3
Total	**1,453.2**	**1,291.9**

Revenue was up by €161.3 million compared with the previous year. This increase was largely attributable to higher unit sales and relatively higher prices for engines that comply with the new exhaust emissions standard. The breakdown of revenue by segment and region is shown in the notes on segment reporting on page 90.

2. OTHER OPERATING INCOME

	2013	2012
€ million		
Income from recharged costs and services	7.2	7.0
Exchange rate gains	4.1	4.8
Income from the derecognition of liabilities	0.7	0.9
Income from the reversal of provisions	0.6	6.5
Income from the disposal of non-current assets	0.3	15.0
Income from the measurement of derivatives	0.2	0.8
Rentals and leases	–	0.3
Sundry other income	3.9	1.7
Total	**17.0**	**37.0**[1]

[1] Since 2013, the income statement has been structured according to the function-of-expense method. The comparative prior-year figures have been restated accordingly to improve comparability. Of the total other operating income of €52.5 million for 2012, income of €15.5 million was allocated to the individual functional areas.

The fall in other operating income was largely due to the deconsolidation of Bosch Emission Systems GmbH & Co. KG, Stuttgart, Germany (BESG) at the end of the previous year following the sale of our shares, and to adjustment of provisions. In 2012, both effects had a favourable effect on other operating income.

3. OTHER OPERATING EXPENSES

	2013	2012
€ million		
Interest expense for provisions for pensions and other post-retirement benefits	5.9	7.9
Exchange rate losses	2.7	7.2
Other cost of fees, contributions and advice	2.2	0.6
Expenses in connection with the measurement of derivatives financial instruments	1.1	1.3
Lease expenses	0.4	0.3
Sundry other expenses	1.6	7.8
Total	**13.9**	**25.1**[1]

[1] Since 2013, the income statement has been structured according to the function-of-expense method. The comparative prior-year figures have been restated accordingly to improve comparability. Of the total other operating expenses of €113.5 million for 2012, expenses of €88.4 million were allocated to the individual functional areas.

One of the main factors in the decrease in other operating expenses was lower expenses from foreign-currency transactions as well as effects from restructuring of the Group's funding in 2012.

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

	2013	2012
€ million		
Profit/loss on equity-accounted investments		
Income from equity-accounted investments	2.0	1.4
Expenses relating to equity-accounted investments	–0.4	–17.3
Total	**1.6**	**–15.9**
Other investment income	**1.8**	**2.0**
Total	**3.4**	**–13.9**

Profit on equity-accounted investments in the reporting year largely consisted of DEUTZ AG's share in the profits of the DEUTZ (Dalian) Engine Co., Ltd. joint venture in Dalian, China and of the D.D. Power Holdings joint venture in South Africa. The expenses were attributable to investments in WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. in Weifang, China.

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

5. INTEREST EXPENSES, NET

	2013	2012
€ million		
Interest income on credit balances with banks	0,2	–
Other interest income	1,3	1,0
Interest income	**1,5**	**1,0**
Interest paid on liabilities to banks	–4,1	–5,4
Interest paid on debt instruments	–	–1,9
Other interest expense and similar charges	–3,4	–4,3
Interest expense and similar charges (finance costs)	**–7,5**	**–11,6**
Interest expenses, net	**–6,0**	**–10,6**

Net interest expenses declined year on year, mainly as a result of lower utilisation of the new funding facility that had been in place since mid-2012, and its more favourable interest rates.

No borrowing costs were capitalised in 2013 (2012: €1.2 million).

6. TAXES

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

2013	Continuing operations	Discontinued operations	Total
€ million			
Current tax expense	10.7	–	10.7
thereof unrelated to the reporting period	–0.6	–	–0.6
Deferred taxes	–5.2	–	–5.2
thereof from temporary differences	–2.9	–	–2.9
thereof from loss carryforwards	–2.3	–	–2.3
Total tax expense	**5.5**	**–**	**5.5**

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

The current income tax expenses of €10.7 million largely related to additional provisions for anticipated tax payments on current income generated by Group companies in 2013.

The deferred tax income included income of €2.9 million arising from temporary differences (2012: expenses of €–3.8 million), which was largely attributable to anticipated future tax rebates relating to the stepping up of the tax value of assets held by affiliated company DEUTZ Spain.

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 2012 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.

€ million	2013	2012
Net income before taxes	**41.5**	**26.5**
Anticipated tax	13.1	8.4
Difference in local basis of assessment	0.4	–0.3
Tax rates outside Germany	0.8	0.1
Changes arising from the application of deferred taxes to tax loss and interest carryforwards and from temporary differences and the use of loss carryforwards	–11.8	–7.7
Effect of non-deductible expenses	3.7	7.3
Gains/Losses on equity-accounted investments	-0.3	5.3
Effect of tax-exempt income	–0.8	–4.1
Effects not related to the reporting period		
- Prior-year tax payments	–0.2	1.5
- Deferred taxes resulting from prior-year adjustments	0.6	–1.1
Profit/loss from partnerships	–	–3.9
Other	–	–
Effective tax expense	**5.5**	**5.5**
Effective tax rate (%)	**13.3**	**20.8**

The change in deferred taxes recognised in respect of loss carryforwards was due in 2013 to the subsequent recognition of deferred taxes on losses carried forward that can be utilised in subsequent years.

7. EARNINGS PER SHARE

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

There were no dilutive effects in 2012 or 2013.

€ thousand/shares in thousands	2013	2012
Net income	36,404	21,033
Weighted average number of shares outstanding	120,862	120,862
Earnings per share (€)	**0.30**	**0.17**
continuing operations	0.30	0.18
discontinued operations	–	–0.01

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

8. 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.

	2013			2012[1]		
	Before taxes	**Taxes**	**After taxes**	Before taxes	Taxes	After taxes
€ million						
Amounts that will not be reclassified to the income statement in future	**4.7**	**–1.5**	**3.2**	**–24.4**	**7.7**	**–16.7**
Actuarial gains and losses on the revaluation of pensions and similar obligations	4.7	–1.5	3.2	–24.4	7.7	–16.7
Amounts that will be reclassified to the income statement in future, provided that certain conditions are met	**–5.5**	**–**	**–5.5**	**–0.7**	**–0.6**	**–1.3**
Currency translation differences	–5.8	–	–5.8	–2.6	–	–2.6
Effective portion of change in fair value from cash flow hedges	0.1	–	0.1	1.7	–0.5	1.2
Change in fair value of available-for-sale financial instruments	0.2	–	0.2	0.2	–0.1	0.1
Other comprehensive income	**–0.8**	**–1.5**	**–2.3**	**–25.1**	**7.1**	**–18.0**

[1] Because of a change in the accounting treatment of provisions for pensions and other post-retirement benefits, the prior-year figures have been restated (see page 62 et seq. in the notes)

In 2013, gains of €0.8 million on cash flow hedges (2012: losses of €2.2 million) recognised in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating income or other operating expenses in the consolidated income statement.

NOTES TO THE BALANCE SHEET

9. PROPERTY, PLANT AND EQUIPMENT

Gross figures Cost of purchase/conversion	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	**Total**
€ million					
Balance at 1 Jan 2013	**198.1**	**524.6**	**220.8**	**13.3**	**956.8**
Currency translation differences	–	–0.3	–0.3	–	–0.6
Additions	0.3	15.1	20.2	1.7	37.3
Capital investment grants	–	–	–1.8	–	–1.8
Disposals	–0.1	–18.9	–17.7	–	–36.7
Reclassifications	0.3	6.8	0.9	–8.0	–
Balance at 31 Dec 2013	**198.6**	**527.3**	**222.1**	**7.0**	**955.0**

Gross figures Depreciation, amortisation and impairment	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	**Total**
€ million					
Balance at 1 Jan 2013	**74.1**	**398.9**	**165.0**	**–**	**638.0**
Currency translation differences	–	–0.2	–0.3	–	–0.5
Depreciation and amortisation	5.0	25.5	17.0	–	47.5
Impairment	–	–	–	–	–
Disposals	–	–18.7	–17.7	–	–36.4
Balance at 31 Dec 2013	**79.1**	**405.5**	**164.0**	**–**	**648.6**
Net carrying amount at 31 Dec 2013	**119.5**	**121.8**	**58.1**	**7.0**	**306.4**

Gross figures Cost of purchase/conversion	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
€ million					
Balance at 1 Jan 2012	**194.7**	**512.2**	**201.5**	**7.3**	**915.7**
Currency translation differences	–	–0.1	–	–	–0.1
Additions	6.1	13.8	24.3	14.2	58.4
Capital investment grants	–	–	–2.3	–	–2.3
Disposals	–2.8	–6.4	–4.3	–	–13.5
Disposals of non-current assets classified as held for sale	–	–1.3	–0.1	–	–1.4
Reclassifications	0.1	6.4	1.7	–8.2	–
Balance at 31 Dec 2012	**198.1**	**524.6**	**220.8**	**13.3**	**956.8**

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

Acquisitions of property, plant and equipment related predominantly to production equipment and tools for two new TCD 2.9 and TCD 3.6 engines and to replacement procurement of various kinds.

Government grants at a Spanish subsidiary were deducted from the cost of purchasing the property, plant and equipment. Government grants totalling €2.7 million were recognised as at 31 December 2013 (31 December 2012: €3.3 million). In 2013, grants of €0.6 million (2012: €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 101.

10. INTANGIBLE ASSETS

Gross figures Cost of purchase/conversion	Internally produced intangible assets Completed	Internally produced intangible assets In development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2013	**283.4**	**60.8**	**115.3**	**459.5**
Currency translation differences	–	–	–0.2	–0.2
Additions	33.6	8.3	7.7	49.6
Capital investment grants	–0.2	–7.9	–0.7	–8.8
Disposals	–	–	–3.0	–3.0
Reclassifications	60.8	–60.8	–	–
Balance at 31 Dec 2013	**377.6**	**0.4**	**119.5**	**497.1**

Gross figures Depreciation, amortisation and impairment	Internally produced intangible assets Completed	Internally produced intangible assets In development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2013	**118.0**	**–**	**97.2**	**215.2**
Currency translation differences	–	–	–0.1	–0.1
Depreciation and amortisation	38.6		8.4	47.0
Impairment	–	–	–	–
Disposals	–	–	–2.9	–2.9
Balance at 31 Dec 2013	**156.6**	**–**	**102.6**	**259.2**
Net carrying amount at 31 Dec 2013	**221.0**	**0.4**	**16.5**	**237.9**

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

Gross figures Depreciation, amortisation and impairment	Internally produced intangible assets Completed	Internally produced intangible assets In development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2012	**87.6**	**–**	**92.1**	**179.7**
Depreciation and amortisation	24.7	–	7.7	32.4
Impariment	5.7	–	–	5.7
Disposals	–	–	–2.6	–2.6
Balance at 31 Dec 2012	**118.0**	**–**	**97.2**	**215.2**
Net carrying amount at 31 Dec 2012	**165.4**	**60.8**	**18.1**	**244.3**

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

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

11. EQUITY-ACCOUNTED INVESTMENTS

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

	2013	2012
€ million		
1 January	**47.1**	**71.8**
Additions	–	–
Pro-rata profit/loss on equity-accounted investments	1.6	–15.9
Disposals	–	–6.8
Other changes arising from measurement using the equity method	–2.7	–2.0
31 December	**46.0**	**47.1**

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

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

	31 Dec 2013	31 Dec 2012
€ million		
Total assets	15.0	17.4
Total liabilities	8.2	6.0
	2013	2012
Revenue	19.6	28.7
Net income	2.0	3.5

DEUTZ AG holds a 50 per cent equity interest in each of DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO. LTD., Weifang, China, and DEUTZ AGCO MOTORES S.A., Haedo, Argentina. Each of these three companies manufactures engines locally, predominantly for the local market. The investments in these 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 jointly controlled entities is as follows:

	31 Dec 2013	31 Dec 2012
€ million		
Current assets	203.9	149.1
Non-current assets	124.8	89.2
Total assets	**328.7**	**238.3**
Current liabilities	171.5	151.4
Non-current liabilities	102.7	29.8
Total liabilities	**274.2**	**181.2**
	2013	2012
Revenue	220.5	176.4
Net income	–1.3	–11.8

12. OTHER FINANCIAL ASSETS (NON-CURRENT)

	31 Dec 2013	31 Dec 2012
€ million		
Equity investments	0.6	5.8
Non-current securities	2.3	2.1
Cost of borrowing	1.2	1.5
Loans	1.3	1.3
Other	0.9	0.3
Total	**6.3**	**11.0**

Equity investments

The lower amount for equity investments is due to the sale of our shares in DEUTZ Versicherungsvermittlung GmbH, Cologne at the end of 2013.

Non-current securities

This line item on the balance sheet includes securities in the form of equities and bonds. The securities are used as a form of investment for the pension obligations of the Group company DEUTZ Corporation, Atlanta, USA.

Cost of borrowing

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

13. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilised tax losses carried forward of €778.5 million for corporation tax (2012: €795.6 million) and €877.8 million for trade tax (2012: €896.3 million). The figures stated in 2012 for tax loss carryforwards (corporation tax: €771.0 million; trade tax €866.9 million) were restated as a result of information gained during tax audits for previous years.

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 Dec 2013	31 Dec 2012[1]
€ million		
Non-current		
Deferred tax assets	30.8	27.4
Deferred tax provisions	–	–
Current		
Current tax assets	0.6	0.6
Provision for income taxes	4.3	2.2
Income tax liabilities	0.5	0.7

Deferred taxes came to €30.8 million in 2013, largely as a result of the capitalisation of deferred tax assets arising from loss carryforwards and due to temporary differences between the carrying amount of the provisions for pensions and other post-retirement benefits in the consolidated balance sheet and the corresponding tax base.

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

	31 Dec 2013		31 Dec 2012[1]	
	Assets	**Liabilities**	Assets	Liabilities
€ million				
Intangible assets	–	70.0	–	71.8
Property, plant and equipment	10.4	4.5	7.8	4.7
Equity-accounted investments and financial assets	0.5	–	0.5	–
Inventories	3.1	2.1	4.2	1.4
Receivables and other assets	0.3	0.4	0.2	0.4
Pensions	11.2	–	13.2	–
Other liabilities	21.0	4.5	23.1	6.5
Tax loss and interest carryforwards	66.4	–	63.5	–
Other	–	0.2	–	0.1
Impairment losses	–0.4	–	–0.2	–
Deferred taxes (gross)	**112.5**	**81.7**	**112.3**	**84.9**
Netting	81.7	81.7	84.9	84.9
Deferred taxes (net)	**30.8**	**–**	**27.4**	**–**

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 €30.8 million (31 December 2012: €27.4 million)[1].

The increase of €-1.5 million (31 December 2012: €7,1 million) in deferred taxes in respect of temporary differences, which was recognised in other comprehensive income, was based on changes in provisions for pensions and financial assets.

As at 31 December 2013, the DEUTZ Group had not recognised any deferred tax liabilities on temporary differences of €39.2 million (31 December 2012: €25.7 million) in respect of taxes on untransferred profits from subsidiaries, associates or joint ventures because the timing of the reversal of the differences can be controlled or the sums are mostly tax exempt and no material impact on taxes is expected in the near future.

[1] Because of a change in the accounting treatment of provisions for pensions and other post-retirement benefits, the prior-year figure was restated (see page 62 et seq. in the notes).

Deferred tax assets are only recognised to the extent that sufficient future taxable income is likely to be generated over a certain planning period or countervailing deferred tax liability exist, against which the as yet unused tax loss carryforwards can be offset. Consequently, as well as tax loss carryforwards on which deferred taxes have been recognised, there are loss carryforwards for which deferred taxes have not been recognised because the losses cannot be utilised. The following table shows the amounts and expiry dates of the tax loss carryforwards:

Loss carryforwards on which deferred taxes have not been recognised

	31 Dec 2013	31 Dec 2012
€ million		
	1,278.9	**1,312.4**

Thereof: expiry periods for German and international losses carried forward

	31 Dec 2013	31 Dec 2012
€ million		
Up to 5 years	1.2	–
6 to 9 years	0.6	1.9
Indefinite	1,277.1	1,310.5

14. INVENTORIES

	31 Dec 2013	31 Dec 2012
€ million		
Raw materials, consumables, bought-in parts and spare parts	115.9	104.5
Work in progress	46.2	36.3
Finished goods	62.5	43.6
Total	**224.6**	**184.4**

Write-downs on raw materials, bought-in parts and spare parts totalled €4.6 million in the reporting year (2012: €2.2 million). As at 31 December 2013, the carrying amount of inventories written down to net realisable value was €51.5 million (31 December 2012: €44.9 million).

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

	2013	2012
€ million		
1 January	**30.5**	**27.9**
Changes	–1.2	2.6
31 December	**29.3**	**30.5**

Expenditure on raw materials, consumables, bought-in parts and spare parts in 2013 came to €893.5 million (2012: €816.5 million).

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

	31 Dec 2013	31 Dec 2012
€ million		
Trade receivables	154.8	121.9
Less write-downs	–5.7	–5.8
Trade receivables (net)	**149.1**	**116.1**
Other receivables and assets		
Outstanding contributions from non-controlling interests	14.7	–
Receivables due from investments	4.1	5.0
thereof trade receivables	2.9	2.7
thereof other receivables	1.2	2.3
Advances paid	0.6	0.4
Derivative financial instruments	–	0.6
Sundry other receivables	32.3	20.4
Receivables arising from other taxes	6.9	4.7
Prepaid expenses	1.4	1.1
Total	**60.0**	**32.2**

The outstanding contributions from non-controlling interests relate to the stake of 35 per cent held in DEUTZ Engine (China) Co., Ltd., Linyi, China, by the AB Volvo Group.

As at 31 December 2012, the volume of receivables sold under factoring agreements was €175.0 million (31 December 2012: €125.3 million). Virtually all the opportunities and risks connected with title to the receivables that were sold were transferred to the factor so the receivables were not reported in the consolidated financial statements of DEUTZ AG. The remaining exposure in respect of the receivables that have been assigned is limited to the administration and collection of these receivables.

As at 31 December 2013, the receivables sold were offset by receivables amounting to €4.5 million due from one factor (31 December 2012: €2.8 million). The fair value of these receivables was also €4.5 million (31 December 2012: €2.8 million). The risk arising from the factoring transaction was the credit risk of the factor, which was lower than the credit risk of the original debtor. The maximum downside risk as at 31 December 2013 was limited to the amount receivable of €4.5 million.

Trade receivables with a principal amount of €7.2 million were written down as at 31 December 2013 (31 December 2012: €8.1 million). The following table shows the change in the valuation allowance account:

	2013	2012
€ million		
Balance at 1 January	**5.8**	**6.2**
Additions	0.5	1.0
Utilised	–0.4	–0.5
Reversals	–0.2	–0.9
Balance at 31 December	**5.7**	**5.8**

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 2013, total write-downs of €26.8 million (31 December 2012: €25.2 million) had been recognised on other receivables and other current assets.

16. CASH AND CASH EQUIVALENTS

As at 31 December 2013, cash and cash equivalents including cash on hand, short-term deposits and credit balances with banks amounted to €58.9 million (31 December 2012: €52.1 million), access to €0.7 million of which is restricted (31 December 2012: €0.0 million).

No credit balances with banks were pledged to the factor in connection with factoring agreements as at 31 December 2013 (31 December 2012: €1.9 million).

17. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The non-current assets classified as held for sale as at 31 December 2013 relate to the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, which are situated in Cologne. The land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH are allocated to the DEUTZ Compact Engines segment.

18. EQUITY

	31 Dec 2013	31 Dec 2012[1)]
€ million		
Issued capital	309,0	309,0
Additional paid-in capital	28,8	28,8
Other reserves	2,8	8,2
Retained earnings	139,7	100,1
Equity attributable to the shareholders of the parent	**480,3**	**446,1**
Non-controlling interests	24,4	6,5
Total	**504,7**	**452,6**

[1)] Because of a change in the accounting treatment of provisions for pensions and other post-retirement benefits, the prior-year figures have been restated (see page 62 et seq. in the notes)

Issued capital

At the end of 2013, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2012) and was divided into 120,861,783 no-par-value bearer shares (also unchanged).

Additional paid-in capital

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

Other reserves

Currency translation Translation differences allocated to the shareholders of DEUTZ AG arising from the translation of equity at historical rates and the translation of the net income or loss at average rates for the year are reported under accumulated other comprehensive income/loss. In the year under review, this item reduced other comprehensive income by €5.7 million (2012: €2.2 million reduction in other comprehensive income). The cumulative gain on translation differences recognised in other reserves amounted to €2.6 million at the end of 2013 (31 December 2012: gain of €8.3 million recognised). Total differences arising from currency translation amounted to a loss of €–5.8 million (2012: loss of €–2.6 million), of which €–0.1 million was attributable to non-controlling interests (2012: €–0.4 million).

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

Retained earnings

This item includes DEUTZ AG's legal reserve of €4.5 million.

Non-controlling interests

Non-controlling interests relate to the 30 per cent equity investment held by Shandong Changlin Machinery Group Co., Ltd. in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China and the 35 per cent share of AB Volvo Group in DEUTZ Engine (China) Co., Ltd., Linyi, China. Of the total contribution made by the AB Volvo Group to DEUTZ Engine (China) Co., Ltd., €14.7 million was still outstanding as at 31 December 2013.

Dividend

According to the German Stock Corporation Act (AktG), the dividend is paid from the accumulated income reported in the single-entity financial statements of DEUTZ AG prepared in accordance with the German Commercial Code (HGB). The Board of Management proposes using the accumulated income of €8.5 million reported by DEUTZ AG for the 2013 financial year to pay a dividend of €0.07 per no-par-value share.

19. 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 2013 came to €15.8 million (2012: €16.2 million). In addition, a further €2.9 million (2012: €3.5 million) was paid for pension and direct insurance policies in connection with deferred compensation.

Defined benefit plans

The DEUTZ Group maintains several defined benefit pension plans in Germany and abroad. The largest pension plans are in Germany and the UK. Together, they account for more than 95 per cent of defined benefit obligations and 100 per cent of plan assets, as was the case in 2012.

In all, there are three defined benefit pension plans in Germany. While two of the plans are employer funded, the third is a deferred compensation plan. As a rule, the employer-funded pension plans comprise a general employee retirement pension for life, a disability pension and a surviving dependants' pension. The level of the monthly pension paid under the employer-funded pension plans is based on earned income and years of service in the DEUTZ Group. No employer-funded pension entitlements have been granted to new employees joining the DEUTZ Group since 1995. In the case of the deferred compensation plan, the Company has taken out a reinsurance policy with a life insurance company based on the amount of salary contribution and undertakes to pay a pension based on the guaranteed capital that has been underwritten. In Germany, occupational pension schemes are governed by the Occupational Pensions Act (BetrAVG), according to which the DEUTZ Group has sole responsibility for meeting the requirements of defined benefit pension plans. The normal retirement age is 67.

The existing defined benefit plan in the UK entitles pension beneficiaries to a pension which depends on the level of their basic salary and the number of eligible years of service. The retirement age is 62. The pension scheme is closed to new members. The annual pension paid is generally 1/55 of the highest basic salary received in the final five years of service for each eligible year of service. The pension plan is primarily funded by converting 5 per cent of the pension beneficiaries' basic salary to create plan assets. The DEUTZ Group undertakes to compensate for any shortfall in the scheme. Every year, the amount for which the Company is liable is determined with reference to a report by an independent pensions actuary.

According to legislation in the UK, the pension plan, including the plan assets, must be administered by independent trustees. The investment policy for the pension plan specifies that 50 per cent of the accumulated plan assets must be invested in equity instruments and 50 per cent in debt instruments. This investment strategy is specifically intended to counteract capital markets risk and the associated risk of mismatches between the Company's payment obligations arising from the pension plan on the one hand and the plan assets on the other.

In connection with the defined benefit pension plan, the Group is exposed to capital market risk arising from its investment of the plan's assets in addition to general actuarial risks such as interest-rate risk and the risk of rising annuity rates.

Funded status of pension plans

	2013	2012
€ million		
Pension plans in Germany		
Present value of defined benefit obligation	182.1	195.5
Fair value of plan assets	4.5	4.4
Deficit (net liability)	**177.6**	**191.1**
Pension plans in the UK		
Present value of defined benefit obligation	21.3	20.6
Fair value of plan assets	19.0	17.9
Deficit (net liability)	**2.3**	**2.7**
Other pension plans		
Present value of defined benefit obligation	3.6	3.4
Fair value of plan assets	–	–
Deficit (net liability)	**3.6**	**3.4**
Total		
Present value of defined benefit obligation	207.0	219.5
Fair value of plan assets	23.5	22.3
Deficit (net liability)	**183.5**	**197.2**

The following table shows the breakdown of separate groups to which the pension plans in Germany and the UK have an obligation to pay benefits:

Breakdown of defined benefit obligation by beneficiary

	2013	2012
€ million		
Pension plans in Germany		
Active members	11.9	12.8
Deferred members	16.4	20.4
Pensioners	153.8	162.3
Present value of defined benefit obligation	**182.1**	**195.5**
Pension plans in the UK		
Active members	2.3	2.4
Deferred members	10.4	10.5
Pensioners	8.6	7.7
Present value of defined benefit obligation	**21.3**	**20.6**

The following table shows the changes in the present value of the defined benefit obligation:

Change in present value of defined benefit obligation

	2013	2012
€ million		
Defined benefit obligation as at January 1	**219.5**	**200.5**
Service cost	0.1	0.1
Employee contributions	0.1	0.2
Interest expense	6.6	8.7
Remeasurements	–4.1	25.7
thereof: experience adjustments	–0.9	–0.5
thereof: actuarial (gains)/ losses arising from changes in biometric assumptions	0.7	–
thereof: actuarial (gains)/ losses arising from changes in financial assumptions	–3.9	26.2
Effects of changes in foreign exchange rates	–0.7	0.5
Pension benefits paid	–15.1	–16.2
Reclassifications	0.6	–
Defined benefit obligation as at 31 December	**207.0**	**219.5**

At 31 December 2013, the weighted average life of the bulk of the defined benefit obligation was 9.5 years.

The following two tables show changes in the fair value of the plan assets and the composition of the plan assets:

Change in fair value of plan assets

	2013	2012
€ million		
Fair value of plan assets at 1 January	**22.3**	**20.6**
Employer contributions	0.4	0.4
Employee contributions	0.1	0.2
Interest income	0.7	0.8
Return on plan assets (excl. interest income)	0.8	1.1
Pensions paid from plan assets	–0.5	–1.2
Currency translation differences	–0.3	0.4
Fair value of plan assets at 31 December	**23.5**	**22.3**

Breakdown of plan assets

	2013	2012
€ million		
Cash and cash equivalents	0.1	0.1
Equity instruments (by region)		
UK	4.9	4.3
Europe (excl. UK)	1.5	1.5
North America	1.2	1.0
Japan	0.6	0.6
Asia-Pacific	0.5	0.5
Other	1.0	1.1
	9.7	**9.0**
Debt instruments		
Government bonds	3.0	3.0
Corporate bonds	6.2	5.8
	9.2	**8.8**
Reinsurance policies	4.5	4.4
Total	**23.5**	**22.3**

Market prices were available for all the equity and debt instruments because they are traded in active markets.

The DEUTZ Group forecasts that its payments into pension plans will amount to €0.5 million in 2014.

The breakdown of the portion of the net pension cost recognised in current income and expense for 2013 is as follows:

Net pension cost

	2013	2012
€ million		
Current service cost	0.1	0.1
Interest expense	5.9	7.9
	6.0	**8.0**

The actual return on plan assets in 2013 was €1.5 million (2012: €1.9 million).

The measurement of pension obligations is based on actuaries' reports The tables below show the main actuarial assumptions underlying the calculations for the defined benefit obligation as at the balance sheet date. The discount rates and pension increases are reported in the form of weighted averages.

Actuarial assumptions

	2013	2012
%		
Discount rate		
Germany	3.28	3.09
UK	4.60	4.25
Rate of pension increase		
Germany	2.00	2.00
UK	2.20	2.00

Mortality tables

Germany	Heubeck 2005G mortality tables
UK	S1 YoB (standard mortality tables for self-administered plans taking into account future changes in mortality)

The following sensitivity analysis for each material actuarial assumption as at the balance sheet date shows the impact potential changes in the assumptions at the relevant balance sheet date would have on the defined benefit obligations in Germany and the UK.

Sensitivity analysis

	Impact on defined benefit obligation of:	
	0.5 per cent rise	0.5 per cent fall
€ million		
in discount rate		
Germany	–7.9	8.4
UK	–1.9	2.9
in rate of pension increase		
Germany	8.2	–7.8
UK	1.4	–2.2

Furthermore, we also believe that it is possible that the life expectancy of eligible DEUTZ employees will change. If the life expectancy of eligible DEUTZ employees had increased by one year, the increases in the defined benefit obligation arising from the pension plans in Germany and the UK as at 31 December 2013 would have been €13.4 million and €0.4 million respectively.

The sensitivity calculations are based on the average life of the pension obligations calculated as at 30 November 2013. In order to highlight the impact on the present value of the defined benefit obligations calculated as at 31 December 2013 separately, the calculations were carried out for each of the actuarial parameters deemed to be material and capable of changing.

20. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

	31 Dec 2013			31 Dec 2012		
	Total	Resid. term of up to 1 year	Resid. term of more than 1 year	Total	Resid. term of up to 1 year	Residual term of more than 1 year
€ million						
Warranties	61.5	32.8	28.7	45.0	28.5	16.5
Obligations to employees	12.7	6.4	6.3	10.8	5.5	5.3
Onerous contracts	2.3	2.1	0.2	4.4	3.1	1.3
Other	5.3	3.9	2.0	6.8	4.5	2.3
Total	**82.4**	**45.2**	**37.2**	**67.0**	**41.6**	**25.4**

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 3.5 per cent.

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

The following table shows the changes to other provisions in 2013:

	Warranties	Onerous contracts	Obligations to employees	Other	Total
€ million					
1 Jan 2013	**45.0**	**4.4**	**10.8**	**6.8**	**67.0**
Additions	17.6	–	10.1	1.7	29.4
Currency translation differences	–0.1	–	–	–0.1	–0.2
Amounts utilised	–1.6	–1.8	–7.9	–2.0	–13.3
Reversals	–	–0.4	–0.3	–0.5	–1.2
Accrued interest/effect of changes in interest rates	0.6	0.1	–	–	0.7
31 Dec 2013	**61.5**	**2.3**	**12.7**	**5.9**	**82.4**

21. FINANCIAL LIABILITIES

	31 Dec 2013				31 Dec 2012			
	Total	Resid. term up to 1 year	Resid. term 1-5 years	Resid. term >5 years	Total	Resid. term up to 1 year	Resid. term 1-5 years	Resid. term >5 years
€ million								
Liabilities to banks	88.7	7.6	56.3	24.8	98.8	1.1	58.9	38.8
Other financial liabilities	1.9	–	0.8	1.1	1.9	–	0.6	1.3
Total	**90.6**	**7.6**	**57.1**	**25.9**	**100.7**	**1.1**	**59.5**	**40.1**

Liabilities to banks

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

By contrast, the working capital facility, which has also been in place since the middle of 2012, was not drawn down. This floating-rate revolving line of credit for €160 million was provided by a syndicate of banks and runs until June 2017.

As part of the contractual agreements for both loans, DEUTZ is obliged to comply with certain financial covenants (ratio of financial liabilities to equity and ratio of financial liabilities to EBITDA).

Other financial liabilities

Other financial liabilities comprise an interest-free government loan.

The fair value of financial liabilities is described in point 23 on page 99.

The weighted average interest rates of the financial liabilities are:

	31 Dec 2013	31 Dec 2012
(%)		
Liabilities to banks	3.05	3.01
Other financial liabilities	–	–

As in 2012, all current and non-current financial liabilities are denominated in euros.

22. TRADE PAYABLES AND OTHER LIABILITIES

	31 Dec 2013	31 Dec 2012
€ million		
Trade payables	**201.4**	**158.9**
Other liabilities		
Price reduction liabilities	10.4	18.8
Personnel-related liabilities	10.7	9.1
Liabilities to investments	3.1	5.0
Liabilities arising from other taxes	3.9	3.0
Advances received	1.0	1.3
Derivative financial instruments	0.9	0.9
Other liabilities and deferred income	24.1	19.2
Total	**54.1**	**57.3**

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

As at 31 December 2013, interest benefits of €1.6 million (31 December 2012: €2.1 million) derived from a loan from the European Investment Bank and of €0.3 million (31 December 2012: €0.4 million) derived from an interest-free government loan were recognised as deferred income. The loans were initially recognised at fair value and are reported as non-current financial liabilities.

NOTES TO THE CASH FLOW STATEMENT

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

Cash flows from operating activities included dividend income of €0.5 million for 2013 (2012: €1.1 million).

Capital contributions by non-controlling interests relate to the partial payment by AB Volvo Group for a 35 per cent interest in DEUTZ Engine (China) Co., Ltd., Linyi, China.

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2013 and 2012.

2013	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
External revenue	1,188.8	264.4	–	1,453.2	–	1,453.2
Intersegment revenue	–	–	–	–	–	–
Total revenue	**1,188.8**	**264.4**	**–**	**1,453.2**	**–**	**1,453.2**
Depreciation and amortisation	83.1	11.4	–	94.5	–	94.5
Impairment	–	–	–	–	–	–
Profit/loss on equity-accounted investments	1.9	0.1	–0.4	1.6	–	1.6
Income from the reversal of provisions	0.1	–	0.5	0.6	–	0.6
Operating profit (EBIT)	8.7	39.0	–0.2	47.5	–	47.5

2012	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
External revenue	1,005.0	286.9	–	1,291.9	–	1,291.9
Intersegment revenue	–	–	–	–	–	–
Total revenue	**1,005.0**	**286.9**	**–**	**1,291.9**	**–**	**1,291.9**
Depreciation and amortisation	70.5	8.3	0.1	78.9	–	78.9
Profit/loss on equity-accounted investments	–10.2	0.4	–6.1	–15.9	–	–15.9
Income from the reversal of provisions	0.3	2.7	3.5	6.5	–	6.5[1]
Operating profit (EBIT)	–16.5	46.3	7.3	37.1	–	37.1[1]

[1] Since 2013, the income statement has been structured according to the function-of-expense method. The comparative prior-year figures have been restated accordingly to improve comparability.

Reconciliation from overall profit of the segments to net income

	2013	2012
€ million		
Overall profit of the segments	**47.5**	**37.1**
Reconciliation	–	–
EBIT	**47.5**	**37.1**
Financial income, net	–6.0	–10.6
Net income before taxes on continuing operations	**41.5**	**26.5**
Income taxes	–5.5	–4.4
Net income on continuing operations	**36.0**	**22.1**
Net income on discontinued operations	–	–1.1
Net income	**36.0**	**21.0**

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 as well as the related service business. In this segment, we have reported the sale of exchange engines and parts within the service business for all engine series.

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

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

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

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

Information about products and services

	2013	2012
€ million		
Engines	1,036.1	864.7
Service	152.7	140.3
DEUTZ Compact Engines	**1,188.8**	**1,005.0**
Engines	163.4	176.9
Service	101.0	110.0
DEUTZ Customised Solutions	**264.4**	**286.9**
Total	**1,453.2**	**1,291.9**

Geographical information about external revenue

	2013	2012
€ million		
Germany	**260.4**	**232.0**
Outside Germany	**1,192.8**	**1,059.9**
Rest of Europe	824.6	668.3
Middle East	31.7	28.4
Africa	38.7	55.5
Americas	190.6	190.9
Asia-Pacific	107.2	116.8
Total	**1,453.2**	**1,291.9**

Of the European countries outside Germany, Switzerland accounted for €196.4 million in the reporting year (2012: €104.4 million), France for €121.2 million (2012: €126.8 million) and Sweden for €114.1 million (2012: €112.2 million).

The above information is presented according to customer location. Two customers each accounted for at least 10 per cent of our total revenue in 2013 (in 2012, one customer accounted for at least 10 per cent). The revenue from these customers amounted to €380.7 million (2012: €361.6 million) and €190.9 million (2012: €97.9 million) respectively and is reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

	31 Dec 2013	31 Dec 2012
€ million		
Germany	498.9	516.0
Outside Germany	91.4	94.3
Total	**590.3**	**610.3**

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

23. FINANCIAL RISK MANAGEMENT AND ADDITIONAL INFORMATION ON CAPITAL MANAGEMENT

Basic principles

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

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

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

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

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

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

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

Liquidity risk

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

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

In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving cash credit line amounting to €160 million that runs until July 2017 and two long-term amortising loans for a total of €90.0 million that are repayable in fixed, equal instalments over the period July 2014 to July 2020. As part of the loan agreements, the Company is required to comply with certain covenants.

The liquidity analysis also provides information about contractually agreed interest payments and capital repayments in connection with financial liabilities as at the balance sheet date. As far as the utilisation of revolving credit facilities was concerned, it was assumed that the amounts already drawn down by the balance sheet date would continue to apply until the facilities expire.

31 Dec 2013	2014 cash payments	2015–2018 cash payments	> 2018 cash payments	**Total**
€ million				
Primary financial instruments	**–261.3**	**–66.8**	**–25.7**	**–353.8**
Derivative financial instruments	**–1.1**	**–1.0**	**–0.1**	**–2.2**
Interest rate derivatives				
Presentation of cashflow	–0.4	–0.9	–0.1	–1.4
Commodity derivatives				
Presentation of cashflow	–0.7	–0.1	–	–0.8

31 Dec 2012	2013 cash payments	2014–2017 cash payments	> 2017 cash payments	**Total**
€ million				
Primary financial instruments	**–213.8**	**–72.7**	**–40.9**	**–327.4**
Derivative financial instruments	**–0.5**	**–1.2**	**–0.2**	**–1.9**
Currency derivatives				
thereof settled gross: cash payments	–2.3	–	–	–2.3
thereof settled gross: cash receipts	2.3	–	–	2.3
Interest rate derivatives				
Presentation of cashflow	–0.4	–1.2	–0.2	–1.8
Commodity derivatives				
Presentation of cashflow	–0.1	–	–	–0.1

Credit risk

The overview of written-down financial assets and of the age structure of past due financial assets that have not been written down does not include: cash and cash equivalents of €58.9 million (31 December 2012: €52.1 million) or available-for-sale financial assets of €2.9 million (31 December 2012: €7.9 million). In 2012, this overview also excluded held-for-trading financial assets of €0.6 million. As at 31 December 2013, there were no held-for-trading financial assets.

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 past due nor written down as at the balance sheet date, there were no indications that the customers concerned would be unable to meet their payment obligations. Trade receivables relate primarily to DEUTZ AG and are insured with EULER HERMES Deutschland AG. DEUTZ AG usually has an obligation to the trade credit insurance association (WKV) or, where applicable, the German government's export credit guarantee scheme (APG) to meet defaults on the receivables unless they are secured by letters of credit confirmed by a bank or similar instruments. DEUTZ AG does not produce any standardised credit rating for its customers itself but usually 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 €0.7 million (31 December 2012: €1.5 million) for foreign trade receivables.

			thereof written down at balance sheet date	
31 Dec 2013	**Carrying amount**	thereof neither past due nor written down at balance sheet date down	Gross amount before write down	write down
€ million				
Non-current financial assets	**1.3**	**1.3**	**0.6**	**–0.6**
Current financial assets	**200.2**	**173.4**	**38.2**	**–32.5**
Trade receivables	149.1	126.5	7.2	–5.7
Other loans and advances	51.1	46.9	31.0	–26.8

			thereof written down at balance sheet date	
31 Dec 2012	**Carrying amount**	thereof neither past due nor written down at balance sheet date down	Gross amount before write down	write down
€ million				
Non-current financial assets	**1.3**	**1.3**	**0.7**	**–0.7**
Current financial assets	**146.3**	**121.7**	**38.3**	**–31.0**
Trade receivables	**116.1**	96.5	8.1	–5.8
Other loans and advances	30.2	25.2	30.2	–25.2

Currency risk

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

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

Currency sensitivity analysis

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

The following table illustrates the sensitivity – from a Group perspective – to a 10 per cent rise or fall in the euro against that currency. The sensitivity analysis only takes into account outstanding monetary positions denominated in foreign currency and adjusts the period-end translation of those amounts to reflect a 10 per cent change in the exchange rate. 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. Because hedging transactions are measured at fair value, changes in the exchange rates for the currencies underlying these transaction have an impact on the hedging reserve in other comprehensive income. Other positions involved are currency forward contracts not related to hedging transactions. Changes in the exchange rates for the currencies underlying these financial instruments result in gains or losses due to restating these instruments at their fair value. Primary instruments (trade receivables and trade payables) denominated in foreign currency and outstanding as at the balance sheet date are also included in the sensitivity analysis. Changes in the exchange rates for the currencies underlying these items result in gains or losses when they are marked to market.

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’.

thereof written down past due but not written down			
to 90 days	91 to 180 days	181 to 360 days	over 360 days
–	**–**	**–**	**–**
19.8	**1.0**	**0.1**	**0.2**
19.8	1.0	0.1	0.2
–	–	–	–

thereof written down past due but not written down			
to 90 days	91 to 180 days	181 to 360 days	over 360 days
–	**–**	**–**	**–**
16.4	**0.8**	**0.1**	**–**
16.4	0.8	0.1	–
–	–	–	–

Euro rises by 10 per cent

2013	Notional amounts	Impact on net income	Notional amounts	Impact on equity
€ million				
USD	35.1	–4.0	–	–

2012	Notional amounts	Impact on net income	Notional amounts	Impact on equity
€ million				
USD	50.2	–3.3	9.1	0.1

Euro falls by 10 per cent

2013	Notional amounts	Impact on net income	Notional amounts	Impact on equity
€ million				
USD	35.1	4.8	–	–

2012	Notional amounts	Impact on net income	Notional amounts	Impact on equity
€ million				
USD	50.2	4.1	9.1	–1.0

Interest-rate risk and sensitivity analysis

The DEUTZ Group is exposed to risk from interest rate changes, primarily in relation to floating-rate loans and other debt. As at 31 December 2013, there were no loans or other debt that incur interest-rate risk. The floating-rate loan outstanding on the balance sheet date was hedged using interest-rate swaps.

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 an aluminium swap agreement. A 10 per cent change in the price of aluminium (expressed in US$, assuming a constant US$/EUR exchange rate), would have an impact of €0.4 million on the derivative transaction.

Capital management

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

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

The net financial position (cash and cash equivalents less interest-bearing financial liabilities) was negative for the most part during the year under review. As at the balance sheet date, the net financial position was minus €31.7 million, which equated to a year-on-year improvement of €16.9 million (31 December 2012: minus €48.6 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 2013 was €13.8 million (31 December 2012: €12.6 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 2013, the equity ratio for the DEUTZ Group was 45 per cent (31 December 2012: 43.7 per cent[1]) and therefore remained at a high level and met all 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.

[1] Because of a change in the accounting treatment of provisions for pensions and other post-retirement benefits, the prior-year figure was restated (see page 62 et seq.).

Financial instruments assets

	Measured at amortised cost		Measured at fair value		Assets not within the scope of IAS 39	
31 Dec 2013	Loans and receivables	Held-for-sale financial assets	Held-for-sale financial assets	Held-for-trading financial assets	Carrying amount	**Carrying amount on the face of the balance sheet**
€ million						
Non-current financial assets	**1.3**	**0.6**	**2.3**	**–**	**2.1**	**6.3**
Current financial assets	**259.1**	**–**	**–**	**–**	**9.5**	**268.6**
Trade receivables	149.1	–	–	–	–	149.1
Other receivables and assets	51.1	–	–	–	9.5	60.6
Cash and cash equivalents	58.9	–	–	–	–	58.9

Financial instruments assets

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

Financial instruments Liabilities

	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
31 Dec 2013	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the face of the balance sheet**
€ million					
Non-current financial liabilities	**83.9**	**–**	**0.3**	**2.5**	**86.7**
Financial liabilities	83.0	–	–	–	83.0
Other liabilities	0.9	–	0.3	2.5	3.7
Current financial liabilities	**248.6**	**–**	**0.6**	**10.2**	**259.4**
Financial liabilities	7.6	–	–	–	7.6
Trade payables	201.4	–	–	–	201.4
Other liabilities	39.6	–	0.6	10.2	50.4

Financial instruments Liabilities

	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
31 Dec 2012	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the face of the balance sheet**
€ million					
Non-current financial liabilities	**100.6**	**–**	**0.9**	**3.1**	**104.6**
Financial liabilities	99.6	–	–	–	99.6
Other liabilities	1.0	–	0.9	3.1	5.0
Current financial liabilities	**204.4**	**–**	**–**	**7.9**	**212.3**
Financial liabilities	1.1	–	–	–	1.1
Trade payables	158.9	–	–	–	158.9
Other liabilities	44.4	–	–	7.9	52.3

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 Dec 2013		31 Dec 2012	
	Carrying amount	**Fair value**	Carrying amount	Fair value
€ million				
Financial assets	**261.0**	**260.4**	**205.5**	**199.7**
Other loans	1.3	1.3	1.3	1.3
Available-for-sale financial assets measured at cost	0.6	–	5.8	–
Trade receivables	149.1	149.1	116.1	116.1
Other receivables and assets	51.1	51.1	30.2	30.2
Cash and cash equivalents	58.9	58.9	52.1	52.1
Financial liabilities	**331.6**	**334.3**	**305.0**	**308.3**
Liabilities to banks and other financial liabilities	90.6	93.3	100.7	104.0
Trade payables	201.4	201.4	158.9	158.9
Other liabilities	40.5	40.5	45.4	45.4

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 €0.6 million as at 31 December 2013 (31 December 2012: €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 arm's length discount rates based on credit ratings and exchange rates on the balance sheet date.

As at 31 December 2013, the DEUTZ Group held the following financial instruments measured at fair value:

31 Dec 2013	**Carrying amount**	Level 1	Level 2	Level 3
€ million				
Financial assets				
Securities	2.3	2.3	–	–
Financial liabilities				
Commodity derivatives	0.6	–	0.6	–
Interest-rate swaps	0.3	–	0.3	–

31 Dec 2012	**Carrying amount**	Level 1	Level 2	Level 3
€ million				
Financial assets				
Securities	2.1	2.1	–	–
Interest-rate swaps	0.6	–	0.6	–
Financial liabilities				
Currency forwards	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 (commodities, interest-rate swaps and, in 2012, currency forward contracts) is calculated over the remaining term of the instrument using current commodity prices, market interest rates, yield curves and, in 2012, exchange rates. The disclosures are based on valuations by banks.

Net gains and losses on financial instruments

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

31 Dec 2013	Loans and receivables	Held-for-trading financial assets	Financial liabilities measured at amortised cost	Held-for-trading financial liabilities
€ million				
Net gains/losses	1.3	–0.2	0.1	–0.7

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

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

In the year under review, unrealised gains of €0.2 million on available-for-sale financial assets were recognised in other comprehensive income (2012: €0.1 million). No realised gains or losses were reclassified from other comprehensive income to the income statement in 2013.

Total interest income and interest expense

In 2013, interest income of €1.5 million (2012: €1.0 million) and interest expense of €4.1 million (2012: €7.3 million) were attributable to financial assets and financial liabilities that were not measured at fair value through profit or loss.

Hedging

Cashflow hedging As at the end of 2012, there were interest-rate swaps as at 31 December 2013 which were classified as hedging instruments. Interest-rate swaps are used to hedge the interest-rate risk associated with floating-rate loans.

Unrealised gains of €0.1 million on cash flow hedges were recognised in other comprehensive income in 2013 (2012: gains of €1.2 million), taking into account deferred tax liabilities of €0.0 million (2012: deferred tax assets of €0.5 million). These changes in fair value represent the effective portion of the hedge. In 2013, prior to the inclusion of deferred taxes, gains of €0.8 million (2012: losses of €2.2 million) recognised in other comprehensive income during the year were reclassified to other operating income or expenses in the consolidated income statement. There was no hedging ineffectiveness requiring reclassification from the reserve for cash flow hedges to the income statement in the year under review. Hedges related to future interest-rate risks are expected to be unwound after a period of six and a half years 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 amount 2013	Notional amount 2012	**Fair value 2013**	Fair value 2012
€ million				
Currency forwards				
not used as hedges	–	6.8	–	0.2
used as cash flow hedges	–	9.1	–	0.4
Interest-rate swaps				
used as cash flow hedges	45.0	45.0	–0.3	–0.9
Commodities				
not used as hedges	4.7	–	–0.6	–

24. CONTINGENT LIABILITIES

Contingent liabilities

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

	31 Dec 2013	31 Dec 2012
€ million		
Guarantee liabilities	3.6	3.0
Warranty liabilities	1.4	1.3
Total	**5.0**	**4.3**

Other financial obligations

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

	31 Dec 2013	31 Dec 2012
€ million		
due in less than 1 year	7.3	7.5
due in 1 to 5 years	10.1	14.4
due in more than 5 years	–	0.3
Total	**17.4**	**22.2**

The above obligations relate to leases on real estate and movable assets, and other legal obligations. Obligations under leases were partly offset by receivables in respect of sub-leases of €0.2 million (31 December 2012: no receivables).

In 2013, the cost of rentals and leases for real estate and movable assets totalled €10.4 million (2012: €10.5 million).

Commitments to purchase property, plant and equipment and intangible assets amounted to €32.9. million as at 31 December 2013 (31 December 2012: €37.6 million) and commitments to purchase inventories amounted to €113.1 million (31 December 2012: €93.1 million).

Legal disputes

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

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

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

25. 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. This is:

- AB Volvo (publ), Gothenburg, Sweden (group)

SAME DEUTZ-Fahr Group S.p.A. (including its subsidiaries) is no longer a related party because it disposed of its shares in DEUTZ AG on 10 September 2013. Accordingly, receivables due from SAME DEUTZ-Fahr Group S.p.A. (including its subsidiaries) as at 31 December 2013 have not been reported as receivables due from related parties.

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 significant investments:

	Goods and services provided		Other expenses for services received		Receivables at 31 Dec		Payables at 31 Dec	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
€ million								
Associates	–	–	–	–	–	0.8	–	–
Joint ventures	6.0	20.8	–	14.7	3.8	3.7	–	–
Other investments	0.5	0.5	4.2	4.3	0.3	0.4	3.1	5.0
Total	**6.5**	**21.3**	**4.2**	**19.0**	**4.1**	**4.9**	**3.1**	**5.0**

The decrease in goods supplied and services rendered to joint ventures is largely attributable to the reduction in goods supplied to our joint venture DEUTZ (Dalian) Engine Co., Ltd.

The decline in other expenses incurred in connection with services received from joint ventures was caused by the disposal of the 25 per cent shareholding in Bosch Emission Systems GmbH & Co. KG (BESG) at the end of 2012. Following the disposal, BESG ceased to be a related party.

Impairment losses of €26.9 million (31 December 2012: €25.2 million) had been recognised on €31.0 million (31 December 2012: €29.3 million) of the Company's total receivables as at 31 December 2013, which resulted in an expense of €1.7 million in 2013 (2012: €1.4 million). Some of these receivables and liabilities consist of loans granted. Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

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

	Volvo Group		SAME DEUTZ-FAHR Group	
	2013	2012	**2013**	2012
€ million				
Engines & spare parts supplied	380.7	361.6	118.7	46.5
Services	22.1	25.6	0.7	1.0
Receivables as at 31 December	26.6	31.6	–	6.0

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

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

	Supervisory Board		Board of Management		Other management	
	2013	2012	**2013**	2012	**2013**	2012
€ million						
Short-term remuneration[1]	1.2	0.9	2.7	2.1	2.9	3.1
Share-based remuneration	–	–	0.2	–	0.3	–

[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.

26. EVENTS AFTER THE REPORTING PERIOD

No events with a material impact on the consolidated financial statements occurred after 31 December 2013.

27. SHARE-BASED REMUNERATION ROGRAMMES

Between 2007 and 2013, DEUTZ AG launched Long Term Incentive Plans Nos. I to VII as long-term components of remuneration. Under these long-term incentive plans, virtual stock options are issued to reward management for its sustained contribution to the Company's success.

General description of the incentive plans of DEUTZ AG

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

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

Incentive plan	Date of grant	Number of options
Long Term Incentive Plan No. I	1 July 2007	380,000
Long Term Incentive Plan No. II	1 February 2008 and 1 April 2009	345,000 and 60,000
Long Term Incentive Plan No. III	1 June 2009	330,000
Long Term Incentive Plan No. IV:	1 July 2010	330,000
Long Term Incentive Plan No. V:	1 June 2011	280,000
Long Term Incentive Plan No. VI:	1 August 2012	270,000
Board of Management Long Term Incentive Plan	1 January 2013 and 1 March 2013	104,079 and 32,663
Long Term Incentive Plan No. VII	1 July 2013	260,000

A total of 541,742 of these options had been granted to current and former members of the DEUTZ AG Board of Management.

At the end of 2013, 267,000 options had been exercised (31 December 2012: 0). A total of 615,000 options expired as a result of employees and Board of Management members leaving the Company. As a result, 1,509,742 options remained outstanding as at 31 December 2013 (31 December 2012: 1,420,000).

Information on the exercise of options

One of the fundamental requirements for exercising options is that the option holders themselves invest in the Company at a ratio of one share per ten options or one share per 20 options for options in the Board of Management Long Term Incentive Plan granted on 1 January 2013 and 1 March 2013. The absolute earliest that options can be exercised is three or four years after the date of grant (vesting period) and then only within four years from the end of the vesting period and only within ten days from the date of publication of quarterly financial statements. However, options in the Board of Management Long Term Incentive Plan granted on 1 January 2013 and 1 March 2013 are automatically exercised four years after the grant date. The Company may delay the start of the exercise window for the options or accelerate the exercise and vesting periods, although the Company cannot change the exercise or vesting periods for options in the Board of Management Long Term Incentive Plan granted on 1 January 2013 and 1 March 2013.

Furthermore, options may only be exercised

- if the market price of DEUTZ AG shares has risen by at least 30 per cent relative to the reference price (dividend distributions by DEUTZ AG must be taken into consideration, i.e. for the purposes of calculating the performance target, the total gross dividend distribution up to the exercise date must be added to the DEUTZ AG share price), or

- if in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the Prime Industrial Performance Index – or any future index that replaces the Prime Industrial Performance Index – by at least 30 per cent.

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

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

Incentive plan	Earliest exercise date	Reference price
Long Term Incentive Plan No. I	1 July 2010	€10.68[1]
Long Term Incentive Plan No. II	1 February 2011 and 1 April 2012	€6.92 and €1.94
Long Term Incentive Plan No. III	1 June 2013	€2.68
Long Term Incentive Plan No. IV	1 July 2014	€4.39
Long Term Incentive Plan No. V	1 June 2015	€6.10
Long Term Incentive Plan No. VI	1 August 2016	€3.89
Long Term Incentive Plan Board of Management	1 January 2017 and 1 March 2017	€3.36 and €3.98
Long Term Incentive Plan No. VII	1 July 2013	€4.45

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

When an option is exercised, the beneficiary receives a cash payment in the amount of the difference between the DEUTZ AG share price on the exercise date and the reference price at the time the option was granted. Contrary to this, beneficiaries of the Board of Management Long Term Incentive Plan who hold options granted on 1 January 2013 and 1 March 2013 receive a cash payment equivalent to the average closing price of DEUTZ AG shares on the 60 trading days prior to the end of the vesting period up to a maximum of 1.5 times the reference price. No beneficiary receives shares in the Company.

Long Term Incentive Plan No. I:
No options had been exercised as at 31 December 2012 or 31 December 2013, although a total of 240,000 options had expired as a result of employees and Board of Management members leaving the Company. Therefore, a total of 140,000 options were outstanding as at 31 December 2013 (31 December 2012: 140,000).

Long Term Incentive Plan No. II:
As at 31 December 2013, 60,000 options had been exercised (31 December 2012: 0), and a total of 195,000 options had expired as a result of Board of Management members leaving the Company or not having met the condition of investing in the Company themselves. Consequently, a total of 150,000 options were outstanding as at 31 December 2013 (31 December 2012: 210,000).

Long Term Incentive Plan No. III:
As at 31 December 2013, 207,000 options had been exercised, and a total of 80,000 options had expired as a result of employees leaving the Company or not having met the condition of investing in the Company themselves. Consequently, a total of 43,000 options were outstanding as at 31 December 2013 (31 December 2012: 280,000).

Long Term Incentive Plan No. IV:
No options had been exercised as at 31 December 2012 or 31 December 2013, although a total of 70,000 options had expired as a result of employees leaving the Company. Consequently, a total of 260,000 options were outstanding as at 31 December 2013 (31 December 2012: 270,000).

Long Term Incentive Plan No. V:
No options had been exercised as at 31 December 2012 or 31 December 2013, although a total of 30,000 options had expired as a result of employees leaving the Company. Consequently, a total of 250,000 options were outstanding as at 31 December 2013 (31 December 2012: 250,000).

Long Term Incentive Plan No. VI:
No options had been exercised as at 31 December 2013 or 31 December 2012, and no options had expired as a result of employees leaving the Company. Consequently, a total of 270,000 options were outstanding as at 31 December 2013 (31 December 2012: 270,000).

Board of Management Long Term Incentive Plan:
No options had been exercised as at 31 December 2013. Consequently, a total of 136,742 options were outstanding as at 31 December 2013.

Long Term Incentive Plan No. VII:
No options had been exercised as at 31 December 2013, and no options had expired as a result of employees leaving the Company. Consequently, a total of 260,000 options were outstanding as at 31 December 2013.

Notes on the fair value of options

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

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

Long Term Incentive Plan No. I:
The risk-free interest rate (4.25 per cent) used in the calculation is based on German federal government bonds with terms of four to ten years issued in mid-2007. The assumed volatility (50.88 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €9.68 on 2 July 2007 (the first trading day after the options were granted). It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period. As the vesting period of the options ended on 1 July 2010, the calculation is now based on the assumption that the options might be exercised at any time, taking into account the maximum term of the options.

Long Term Incentive Plan No. II:
The risk-free interest rate (4.00 per cent) used in the calculation is based on German federal government bonds with terms of four to ten years issued at the start of 2008. The assumed volatility (59.28 per cent) is based on the average value for call options on DEUTZ AG shares available on the market on 1 February 2008. Fluctuation was assumed to be 0 per cent. These assumptions were also used in the calculation for the options issued on 1 April 2009 under the rules for LTIP No. II.

The calculation on the grant date was based on the DEUTZ AG share price of €6.92 (€1.94) on 1 February 2008 (1 April 2009). It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period. As the vesting period for some of the options ended on 1 February 2011, the calculation is now based on the assumption that these options might be exercised at any time, taking into account the maximum term of the options.

Long Term Incentive Plan No. III:
The risk-free interest rate (3.50 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2009. The assumed volatility (60.56 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €3.15 on 1 June 2009. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

Long Term Incentive Plan No. IV:
The risk-free interest rate (2.50 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2010. The assumed volatility (48.87 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €4.10 on 1 July 2010. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

Long Term Incentive Plan No. V:
The risk-free interest rate (3.25 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2011. The assumed volatility (51.35 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €6.10 on 1 June 2011. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

Long Term Incentive Plan No. VI:
The risk-free interest rate (1.75 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2012. The assumed volatility (57.30 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €3.07 on 1 August 2012. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

Board of Management Long Term Incentive Plan
The risk-free interest rate (0.4 per cent) used in the calculation is based on German Federal notes (Bobl) and German Federal Treasury notes (Schatz) with terms of two to five years issued at the start of 2013. The assumed volatility (61.80 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2013. Fluctuation was assumed to be 0 per cent. These assumptions were also used in the calculation for the options issued on 1 March 2013.

The calculation on the grant date was based on the DEUTZ AG share price of €3.76 on 1 January 2013 and €4.40 on 1 March 2013. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

Long Term Incentive Plan No. VII:
The risk-free interest rate (1.75 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2013. The assumed volatility (54.18 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 €4.77 on 1 July 2013. 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 €6.48 on 31 December 2013 (31 December 2012: €3.54) which resulted in an expense of €1.0 million as at 31 December 2013. A total provision of €1.9 million was recognised at the end of 2013 (31 December 2012: €0.9 million). The amount is broken down as follows:

Long Term Incentive Plan No. I:
€0.0 (31 December 2012: €0.0 million)
Long Term Incentive Plan No. II:
€0.3 million (31 December 2012: €0.2 million)
Long Term Incentive Plan No. III:
€0.2 million (31 December 2012: €0.5 million)
Long Term Incentive Plan No. IV:
€0.5 million (31 December 2012: €0.1 million)
Long Term Incentive Plan No. V:
€0.3 million (31 December 2012: €0.1 million)
Long Term Incentive Plan No. VI:
€0.3 million (31 December 2012: €0.0 million)
Board of Management Long Term Incentive Plan:
€0.1 million (31 December 2012: €0.0 million)
Long Term Incentive Plan No. VII:
€0.2 million (31 December 2012: €0.0 million)

The following table shows the intrinsic value of the options granted as at 31 December 2013:

Incentive plans	**Intrinsic value per option**
Long Term Incentive Plan No. I	€0.00
Long Term Incentive Plan No. II	€0.00
Long Term Incentive Plan No. III	€3.80
Long Term Incentive Plan No. IV	€2.10
Long Term Incentive Plan No. V	€0.39
Long Term Incentive Plan No. VI	€2.60
Board of Management Long Term Incentive Plan	€3.13 bzw. €2.51
Long Term Incentive Plan No. VII	€2.04

28. STAFF COSTS

	2013	2012
€ million		
Wages	112.8	109.2
Salaries	113.4	106.6
Social security contributions	41.7	41.9
Interest expense for provisions for pensions and other post-retirement benefits	5.9	7.9
Cost of post-employment enefits and other long-term benefits	1.1	2.0
Cost of severance payments/ personnel restructuring	0.6	0.4
Total	**275.5**	**268.0**

The average number of employees during the year is given in the section about disclosures under German accounting standards on page 107.

The following table shows the breakdown of staff costs by functional area:

	2013	2012
€ million		
Cost of sales	168.0	161.7
Research and development expenditure	35.5	33.6
Selling expenses	41.1	40.2
Administrative expenses	24.9	23.8
Other operating expenses	6.0	8.7
Total	**275.5**	**268.0**

DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

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

	2013	2012
Non-salaried employees	2,398	2,454
Salaried employees	1,455	1,450
	3,853	**3,904**
Trainees	129	140
Total	**3,982**	**4,044**

30. CORPORATE GOVERNANCE

In December 2013, 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.de/investor_relations/corporate_governance.en.html).

31. AUDITORS' FEES

The total fees reported for auditing the consolidated financial statements for 2012 and 2013 can be broken down as follows:

	2013	2012
€ thousand		
Auditing	251	236
Other attestation services	133	130
Other services	27	93
Total	**411**	**459**

32. TOTAL REMUNERATION PAID TO THE BOARD OF MANAGEMENT, FORMER BOARD OF MANAGEMENT MEMBERS AND THE SUPERVISORY BOARD)

Board of Management

From 2013 onwards, the total remuneration paid to the Board of Management will be presented in accordance with the recommendation in the German Corporate Governance Codex dated 13 May 2013. In line with this recommendation, the benefits granted in 2013 and those actually paid are reported separately.

The following table shows the breakdown of benefits granted to members of the Board of Management:

Benefits granted	Dr Ing Helmut Leube Chairman			
	2012	**2013**	2013 (min)	2013 (max)
€ thousand				
Fixed remuneration	675	725	725	725
Additional benefits[1]	173	173	173	173
Total	**848**	**898**	**898**	**898**
One-year variable remuneration[2]	550	582	–	874
Multi-year variable remuneration				
2014-2015 deferral	–	134	–	255
2013-2017 LTI[3]	–	224	–	300
Total	**550**	**940**	**–**	**1.429**
Total remuneration	**1,398**	**1,838**	**898**	**2.327**

Instead of the target value for one-year variable remuneration required under the German Corporate Governance Code (DCGK), the figure for total remuneration in the table below includes the remuneration figure that is required to be disclosed under the applicable accounting standards. This represents the provision for the annual bonus for 2013, adjusted for any over- or under-allocation in the previous year.

	2012	2013	2013 (min)	2013 (max)
One-year variable remuneration	416	352		
Total remuneration	**1,264**	**1,608**		

[1] Includes payment into a life insurance policy
[2] The figures given for one-year variable remuneration and deferred variable remuneration represent the amount granted for full achievement of targets
[3] Share-based remuneration represents the fair value of the options on the date of grant.
Please refer to note 27 for a description of share-based remuneration arrangements. General contractual conditions are identical for all members of the Board of Management.

The following table shows the breakdown of benefits actually paid to members of the Board of Management:

Benefits paid	Dr Ing Helmut Leube Chairman		Dr Margarete Haase		Michael Wellenzohn Joined 1 March 2013	
	2013	2012	**2013**	2012	**2013**	2012
€ thousand						
Fixed remuneration	725	675	550	550	350	–
Additional benefits	173	173	147	147	101	–
Total	**898**	**848**	**697**	**697**	**451**	**–**
One-year variable remuneration	413	698	165	279	–	–
Multi-year variable remuneration						
2009-2013 LTI	–	–	232	–	–	–
Total	**413**	**698**	**397**	**279**	**–**	**–**
Total remuneration	**1,311**	**1,546**	**1,094**	**976**	**451**	**–**

Dr Margarete Haase				Michael Wellenzohn Joined 1 March 2013			
2012	**2013**	2013 (min)	2013 (max)	2012	**2013**	2013 (min)	2013 (max)
550	550	550	550	–	350	350	350
147	147	147	147	–	101	101	101
697	**697**	**697**	**697**	**–**	**451**	**451**	**451**
220	270	–	405	–	175	–	262
–	101	–	191	–	65	–	124
–	168	–	225	–	144	–	163
220	**539**	**–**	**821**	**–**	**384**	**–**	**549**
917	**1,236**	**697**	**1,518**	**–**	**835**	**451**	**1,000**
166	191			–	124		
863	**1,157**			**–**	**784**		

Termination arrangements If the employment contract of a member of the Board of Management is terminated prematurely without good cause, the member of the Board of Management receives severance payment equivalent to the total remuneration for the period until the original termination date of his or her contract of employment up to a maximum of two years. For the purpose of this severance pay, the amount of total remuneration is determined by the total remuneration paid for the last full financial year, or the anticipated total remuneration for the then current financial year, if appropriate (cap on severance pay in accordance with clause 4.2.3 of the German Corporate Governance Code).

If their Board of Management employment contracts are terminated prematurely as the result of a change of control, Board of Management members Dr Ing Helmut Leube and Dr Margarete Haase receive severance pay equivalent to 150 per cent of the cap on severance pay in accordance with clause 4.2.3 of the German Corporate Governance Code. Further information can be found in the disclosures pursuant to section 315 (4) HGB on page 47 of the combined management report.

Remuneration paid to former members of the Board of Management or their surviving dependants This remuneration amounted to €1,442 thousand (2012: €1,448 thousand) for DEUTZ AG and the Group; provisions of €15,565 thousand (31 December 2012: €14,214 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 fees	**Total**
€			
Lars-Göran Moberg Chairman	38,096	62,500	100,596
Werner Scherer Deputy Chairman	28,572	38,250	66,822
Sabine Beutert (since 30 Apr 2013)	14,938	13,500	28,438
Dr Lodovico Bussolati	19,048	11,000	30,048
Sofia Frändberg (until 30 Apr 2013)	4,110	1,000	5,110
Göran Gummeson (since 30 Apr 2013)	14,938	8,500	23,438
Hans-Georg Härter (since 30 Apr 2013)	14,938	16,000	30,938
Michael Haupt	19,048	45,500	64,548
Torbjörn Holmström (until 30 Apr 2013)	4,110	–	4,110
Dr Helmut Lerchner (until 30 Apr 2013)	4,110	2,000	6,110
Caterina Messina (until 30 Apr 2013)	4,110	2,000	6,110
Karl-Heinz Müller (until 30 Apr 2013)	4,110	4,000	8,110
Dietmar Paust (since 30 Apr 2013)	14,938	8,500	23,438
Eva Persson (since 30 Apr 2013)	14,938	6,000	20,938
Dr Witich Roßmann	19,048	10,500	29,548
Dr Herbert Vossel	19,048	10,500	29,548
Egbert Zieher	19,048	10,500	29,548
Total	**257,148**	**250,250**	**507,398**

Advances and loans to members of the Board of Management and the Supervisory Board

As at 31 December 2013 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.

33. DISCLOSURES UNDER THE GERMAN SECURITIES TRADING ACT (WPHG)

The German Securities Trading Act (WpHG) obliges investors whose share of voting rights in listed companies reaches certain thresholds to notify the company accordingly. DEUTZ AG has been notified of the following shareholdings:

On 14 September 2012, pursuant to section 21 (1) WpHG, AB Volvo (publ), Gothenburg, Sweden notified us that its shareholding in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had exceeded the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 25.000001 per cent (equivalent to 30,215,447 voting rights) on that date. The shares were held directly.

Artisan Partners Limited Partnership, Artisan Investments GP LLC, Artisan Partners Holdings LP, Artisan Partners Asset Management Inc., Artisan Investment Corporation and ZFIC, Inc., all of 875 E. Wisconsin Ave., Suite 800, Milwaukee, Wisconsin 53202-5408, USA, and Mr Andrew A. Ziegler and Ms Carlene M. Ziegler, both c/o Artisan Partners Holdings LP, 875 E. Wisconsin Ave., Suite 800, Milwaukee, Wisconsin 53202-5408, USA, submitted the following notifications of voting rights to DEUTZ AG on 15 May 2013 pursuant to sections 21 (1) and section 22 (1) sentence 1 no. 6 and sentences 2 and 3 German Securities Trading Act (WpHG):

1. On 13 May 2013 the voting share of Artisan Partners Limited Partnership, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the disclosure threshold of 3 per cent. On this date Artisan Partners Limited Partnership held a voting share of 3.03 per cent relative to the total number of voting rights of DEUTZ AG (equivalent to voting rights attaching to 3,663,716 ordinary shares). These voting rights are attributable to Artisan Partners Limited Partnership pursuant to section 22 (1) sentence 1 no. 6 WpHG.

2. On 13 May 2013 the voting share of Artisan Investment GP LLC, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the disclosure threshold of 3 per cent. On this day Artisan Investment GP LLC held a voting share of 3.03 per cent relative to the total number of voting rights of DEUTZ AG (equivalent to voting rights attaching to 3,663,716 ordinary shares). These voting rights are attributable to Artisan Investment GP LLC pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

3. On 13 May 2013 the voting share of Artisan Partners Holdings LP, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the disclosure threshold of 3 per cent. On this day Artisan Partners Holdings LP held a voting share of 3.03 per cent relative to the total number of voting rights of DEUTZ AG (equivalent to voting rights attaching to 3,663,716 ordinary shares). These voting rights are attributable to Artisan Partners Holdings LP pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

4. On 13 May 2013 the voting share of Artisan Partners Asset Management Inc., Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the disclosure threshold of 3 per cent. On this date Artisan Partners Asset Management Inc. held a voting share of 3.03 per cent relative to the total number of voting rights of DEUTZ AG (equivalent to voting rights attaching to 3,663,716 ordinary shares). These voting rights are attributable to Artisan Partners Asset Management Inc. pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

5. On 13 May 2013 the voting share of Artisan Investment Corporation, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the disclosure threshold of 3 per cent. On this date Artisan Investment Corporation held a voting share of 3.03 per cent relative to the total number of voting rights of DEUTZ AG (equivalent to voting rights attaching to 3,663,716 ordinary shares). These voting rights are attributable to Artisan Investment Corporation pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

6. On 13 May 2013 the voting share of ZFIC, Inc., Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the disclosure threshold of 3 per cent. On this date ZFIC, Inc. held a voting share of 3.03 per cent relative to the total number of voting rights of DEUTZ AG (equivalent to voting rights attaching to 3,663,716 ordinary shares). These voting rights are attributable to ZFIC, Inc. pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

7. On 13 May 2013 the voting share of Mr Andrew A. Ziegler, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the disclosure threshold of 3 per cent. On this date Mr Andrew A. Ziegler held a voting share of 3.03 per cent relative to the total number of voting rights of DEUTZ AG (equivalent to voting rights attaching to 3,663,716 ordinary shares). These voting rights are attributable to Mr Andrew A. Ziegler pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

8. On 13 May 2013 the voting share of Ms Carlene M. Ziegler, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the disclosure threshold of 3 per cent. On this date Ms Carlene M. Ziegler held a voting share of 3.03 per cent relative to the total number of voting rights of DEUTZ AG (equivalent to voting rights attaching to 3,663,716 ordinary shares). These voting rights are attributable to Ms Carlene M. Ziegler pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

On 22 July 2013, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway notified us that its voting share in our Company had exceeded the 3 per cent threshold on 18 July 2013 and amounted to 3.0013 per cent (3,627,468 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.0013 per cent (3,627,468 voting rights) are attributable to it. The voting rights attributable to it will be held by the following company under its control whose voting share in DEUTZ AG is 3.0013 per cent (3,627,468 voting rights): Norges Bank (the Central Bank of Norway).

On 22 July 2013, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway notified us that its voting share in our Company had exceeded the 3 per cent threshold on 18 July 2013 and amounted to 3.0013 per cent (3,627,468 voting rights) on that date.

On 26 July 2013, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway notified us that its voting share in our Company had fallen below the 3 per cent threshold on 25 July 2013 and amounted to 2.99 per cent (3,608,347 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 2.99 per cent (3,608,347 voting rights) are attributable to it.

On 26 July 2013, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway notified us that its voting share in our Company had fallen below the 3 per cent threshold on 25 July 2013 and amounted to 2.99 per cent (3,608,347 voting rights) on that date.

On 30 July 2013, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway notified us that its voting share in our Company had exceeded the 3 per cent threshold on 29 July 2013 and amounted to 3.001 per cent (3,627,644 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.001 per cent (3,627,644 voting rights) are attributable to it. The voting rights attributable to it will be held by the following company under its control, whose voting share in DEUTZ AG is 3.001 per cent (3,627,644 voting rights): Norges Bank (the Central Bank of Norway).

On 30 July 2013, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway notified us that its voting share in our Company had exceeded the 3 per cent threshold on 29 July 2013 and amounted to 3.001 per cent (3,627,644 voting rights) on that date.

On 10 September 2013, pursuant to section 21 (1) WpHG, FIL Holdings Limited, Hildenborough, United Kingdom notified us that its voting share in our Company had exceeded the 3 per cent threshold on 10 September 2013 and amounted to 3.13 per cent (3,786,181 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 WpHG.

On 10 September 2013, pursuant to section 21 (1) WpHG, FIL Investments International, Hildenborough, United Kingdom notified us that its voting share in our Company had exceeded the 3 per cent threshold on 10 September 2013 and amounted to 3.13 per cent (3,786,181 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG.

On 10 September 2013, pursuant to section 21 (1) WpHG, FIL Limited, Hamilton, Bermuda notified us that its voting share in our Company had exceeded the 3 per cent threshold on 10 September 2013 and amounted to 3.13 per cent (3,786,181 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG.

On 10 September 2013, pursuant to section 21 (1) WpHG, Same Deutz-Fahr-Group S.p.A., Treviglio, Italy notified us that its voting share in our Company had fallen below the 5 per cent and 3 per cent thresholds on 10 September 2013 and amounted to zero on that date.

On 10 September 2013, pursuant to section 21 (1) WpHG, Belfort S.A., Luxembourg, Luxembourg notified us that its voting share in our Company had fallen below the 5 per cent and 3 per cent thresholds on 10 September 2013 and amounted to zero on that date.

On 10 September 2013, pursuant to section 21 (1) WpHG, Intractor B.V, VM Amsterdam, Netherlands notified us that its voting share in our Company had fallen below the 5 per cent and 3 per cent thresholds on 10 September 2013 and amounted to zero on that date.

On 10 September 2013, pursuant to section 21 (1) WpHG, Mr Vittorio Carozza of Switzerland notified us that his voting share in our Company had fallen below the 5 per cent and 3 per cent thresholds on 10 September 2013 and amounted to zero on that date.

On 10 September 2013, pursuant to section 21 (1) WpHG, Ms Luisella Carozza-Cassani of Switzerland notified us that her voting share in our Company had fallen below the 5 per cent and 3 per cent thresholds on 10 September 2013 and amounted to zero on that date.

On 10 September 2013, pursuant to section 21 (1) WpHG, Mr Aldo Carozza of Italy notified us that his voting share in our Company had fallen below the 5 per cent and 3 per cent thresholds on 10 September 2013 and amounted to zero on that date.

On 10 September 2013, pursuant to section 21 (1) WpHG, Mr Francesco Carozza of Italy notified us that his voting share in our Company had fallen below the 5 per cent and 3 per cent thresholds on 10 September 2013 and amounted to zero on that date.

On 13 September 2013, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway notified us that its voting share in our Company had fallen below the 3 per cent threshold on 12 September 2013 and amounted to 2.38 per cent (2,876,789 voting rights) on that date. Pursuant to section 22 (1) sentence 1 number 1 WpHG, 2.38 per cent (2,876,789 voting rights) are attributable to it.

On 13 September 2013, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway notified us that its voting share in our Company had fallen below the 3 per cent threshold on 12 September 2013 and amounted to 2.38 per cent (2,876,789 voting rights) on that date.

On 19 September 2013, pursuant to section 21 (1) WpHG, Fidelity Funds SICAV, Luxembourg, Luxembourg notified us that its voting share in our Company had exceeded the 3 per cent threshold on 19 September 2013 and amounted to 3.03 per cent (3,656,411 voting rights) on that date.

On 29 November 2013, pursuant to section 21 (1) WpHG, Old Mutual Plc, London, United Kingdom notified us that its voting share in our Company had exceeded the 3 per cent threshold on 27 November 2013 and amounted to 3.10 per cent (3,742,645 voting rights) on that date. Pursuant to section 22 (1) sentence 1 number 1 WpHG, 3.10 per cent (3,742,645 voting rights) are attributable to it.

On 13 January 2014, pursuant to section 21 (1) WpHG, Artisan Partners Funds, Inc., Milwaukee, Wisconsin 53202-5408, USA, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 8 January 2014 and amounted to 3.02 per cent (3,645,869 voting rights) on that date.

34. 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 pag 114 et seq..

Cologne, 24 February 2014

DEUTZ Aktiengesellschaft
The Board of Management

Dr Ing Helmut Leube

Dr Margarete Haase

Michael Wellenzohn

SHAREHOLDINGS OF DEUTZ AG

As at 31 December 2013

Ref no.	Name and registered office of the company	Held via	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG, Cologne	–	–	438,018	39,244
	Consolidated companies in Germany				
2	DEUTZ Abgastechnik GmbH, Cologne[2]	1	100.0	25	–
3	DEUTZ Asien Verwaltungs GmbH, Cologne[1, 2]	1	100.0	16,125	–
4	DEUTZ Beteiligung GmbH, Cologne[1]	1	100.0	484	–
5	DEUTZ Engine China GmbH, Cologne[1, 2]	1	100,0	7,224	–
6	Deutz-Mülheim Grundstücksgesellschaft mbH, Dusseldorf[1]	4	19.6	–20,661	–37
7	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne[1]	1	100.0	–2,284	44
	Consolidated companies outside Germany				
8	DEUTZ ASIA-PACIFIC (PTE.) LTD., Singapore (Singapore)[1]	1	100.0	7,478	1,826
9	DEUTZ Australia (Pty) Ltd., Braeside (Australien)[1]	1	100.0	6,243	95
10	DEUTZ (Beijing) Engine Co., Ltd., Beijing (China)[1]	1	100.0	3,159	1,067
11	DEUTZ Corporation, Atlanta (USA)[1]	1	100.0	25,126	5,470
12	DEUTZ Engine (China) Co. Ltd., Linyi (China)[1]	5	65.0	52,341	–
13	DEUTZ Engine (Shandong) Co., Ltd., Linyi (China)[1]	3	70.0	18,951	–2,159
14	DEUTZ FRANCE S.A.S., Gennevilliers (France)[1]	1	100.0	10,542	1,303
15	DEUTZ Spain S.A., Zafra (Spain)[1]	1	100.0	27,670	6,080
16	Nlle Ste MAGIDEUTZ S.A., Casablanca (Marocco)[1]	14	100.0	2,566	569
17	OOO DEUTZ Vostok, Moskau (Russland)[1]	1	100.0	347	215
18	D. D. Power Holdings (Pty) Ltd., Elandsfontein (South Africa)[3, 4]	1	30.0	6,729	2,031
19	DEUTZ AGCO MOTORES S.A., Haedo (Argentinia)[3]	1	50.0	5,043	111
20	DEUTZ (Dalian) Engine Co., Ltd., Dalian (China)[3]	1	50.0	83,040	2,644
21	WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD., Weifang (China)[3]	1	50.0	20,521	–5,269
	Not consolidated companies in Germany				
22	Ad. Strüver KG (GmbH & Co.), Hamburg	4	94.0	–9,552	–1,086
23	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne[2]	1	100.0	26	816
24	Feld & Hahn GmbH i. L., Cologne[2]	1	100.0	455	–
	Not consolidated companies outside Germany				
25	AROTRIOS S.A., Nea Filadelfia (filed for insolvency)	1	100.0	–	–
26	DEUTZ DO BRASIL LTDA., São Paulo (Brasil)	1	100.0	–7,574	–127
27	DEUTZ ENGINEERING druzba za projektiraje, proizvodnjo in trgovino d.o.o., Maribor (Slovenia)	1	100.0	–30	7
28	DEUTZ Engines (India) Private Limited, Pune (India)[5]	1	100.0	227	16
29	DEUTZ UK LTD, Cannock (UK)	1	100.0	149	8
30	DEUTZ-Xiamen Diesel Engine Co., Ltd., Xiamen (China)	1	100.0	365	–36
31	OOO DEUTZ, Moskau (Russland)	1	100.0	–	–

[1] Equity and net income in accordance with the annual financial statements prepared for consolidation purposes
[2] Profit pooling contract with DEUTZ AG
[3] Consolidated at-equity
[4] Figures as at 30 November 2013
[5] Figures as at 31 March 2013

SUPERVISORY BOARD

Lars-Göran Moberg
Chairman
Management consultant and supervisory board member, Stockholm, Sweden
b) Fourier Transform AB, Stockholm, Sweden

Werner Scherer[1)]
Deputy Chairman
Chairman of the Cologne Works Council and of the General Works Council of DEUTZ AG, Cologne, Germany

Sabine Beutert[1)]
(since 30 April 2013)
Trade Union Secretary, IG Metall Cologne-Leverkusen Administrative Office, Cologne, Germany

Dr Lodovico Bussolati
(until 31 December 2013)
CEO of SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy, and of SAME DEUTZ-FAHR Italia S.p.A., Treviglio, Italy

a) SAME DEUTZ-FAHR DEUTSCHLAND GmbH, Lauingen, Germany, Chairman
b) SAME DEUTZ-FAHR ITALIA S.p.A., Treviglio, Italy
SAME DEUTZ-FAHR GROUP S.p.A., Treviglio, Italy

Sofia Frändberg
(until 30 April 2013)
Executive Vice President Corporate Legal & Compliance and General Counsel, AB Volvo, Gothenburg, Sweden

b) AB Agrodus, Töreboda, Sweden
Volvo Trademark Holding, Gothenburg, Sweden
Volvo Lastvagnar AB, Gothenburg, Sweden

Göran Gummeson
(since 30 April 2013)
Senior Management Consultant

b) European Furniture Group AB, Gothenburg, Sweden
Nimbus Boats AB, Gothenburg, Sweden
Harding AS, Rosendal, Norway
Clean Oil Technology AB, Gothenburg, Sweden

Hans-Georg Härter
(since 30 April 2013)
Owner of HGH-Consulting

a) ZF Friedrichshafen AG, Friedrichshafen, Germany
Kiekert AG, Heiligenhaus, Germany
Knorr-Bremse AG, Munich, Germany
b) Zeppelin University Friedrichshafen, Friedrichshafen, Germany
Unterfränkische Überlandzentrale Lülsfeld eG, Lülsfeld, Germany
Klingelnberg AG, Zurich, Switzerland
Faurecia S.A., Paris, France
Altran S.A., Paris, France
Axega GmbH, Zurich, Switzerland

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

Torbjörn Holmström
(until 30 April 2013)
Executive Vice President Volvo Group Trucks Technology, AB Volvo, Gothenburg, Sweden

Herbert Kauffmann
(since 7 January 2014)
Management consultant
a) adidas AG, Herzogenaurach
b) Uniscon universal identity control GmbH, Munich, Chairman

Dr Helmut Lerchner
(until 30 April 2013)
Management consultant

Caterina Messina[1)]
(until 30 April 2013)
Legal adviser at BMW AG, Munich, Germany

Karl-Heinz Müller[1)]
(until 30 April 2013)
Deputy Chairman of the General Works Council of DEUTZ AG, Cologne, Germany

Dietmar Paust[1)]
(since 30 April 2013)
Member of DEUTZ AG Works Council

Eva Persson
(since 30 April 2013)
Lawyer
b) Norsk Hydro ASA, Oslo, Norway
Platzer Fastigheter Holding AB, Gothenburg, Sweden

Dr Witich Roßmann[1)]
Chief Executive of IG Metall Cologne, Cologne, Germany
a) Ford Werke GmbH, Cologne, Germany
Ford Holding Deutschland GmbH, Cologne, Germany

Dr Herbert Vossel
Head of Legal and Patents at DEUTZ AG, Cologne, Germany

Egbert Zieher[1)]
Chairman of the Ulm Works Council of DEUTZ AG, Reichenbach, 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
Sabine Beutert
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
Dr. Lodovico Bussolati (until 31 December 2013)
Hans-Georg Härter
Michael Haupt

BOARD OF MANAGEMENT

Dr Ing Helmut Leube (60)
Chairman of the Board of Management with responsibility for Technical and Head-office Functions

b) DEUTZ Corporation, Atlanta, USA, Chairman
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, Deputy Chairman

Dr Margarete Haase (60)
Member of the Board of Management with responsibility for Finance, Human Resources and Investor Relations

a) Fraport AG, Frankfurt am Main, Germany
ElringKlinger AG, Dettingen/Erms, Germany
ZF Friedrichshafen AG, Friedrichshafen, Germany

b) DEUTZ (Dalian) Engine Co., Ltd., Dalian, China
DEUTZ Engine (China) Co., Ltd., Linyi, China, Chairwoman
DEUTZ Engine (Shandong) Co., Ltd., Linyi, China, Chairwoman

Michael Wellenzohn (47)
Member of the Board of Management with responsibility for Sales, Service and Marketing

b) DEUTZ Engine (China) Co., Ltd., Linyi, 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 Dec 2013	31 Dec 2012
€ million		
Intangible assets	13.9	13.9
Property, plant and equipment	258.5	271.7
Investments	246.4	235.9
Fixed assets	**518.8**	**521.5**
Inventories	154.2	125.7
Receivables and other assets	197.9	151.8
Cash and cash equivalents	30.8	32.0
Current assets	**382.9**	**309.5**
Prepaid expenses	2.5	1.5
Deferred tax assets	66.6	58.0
Total assets	**970.8**	**890.5**

Equity and liabilities	31 Dec 2013	31 Dec 2012
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	89.2	116.1
Accumulated loss	8.5	–57.6
Equity	**438.0**	**398.8**
Provisions	242.6	232.4
Other liabilities	289.6	258.6
Deferred income	0.6	0.7
Total equity and liabilities	**970.8**	**890.5**

INCOME STATEMENT OF DEUTZ AG

	2013	2012[1]
€ million		
Revenue	**1,366.6**	**1,214.4**
Cost of goods sold	–1,229.2	–1,083.9
Gross profit	**137.4**	**130.5**
Research and development costs	–53.9	–56.7
Selling expenses	–43.2	–42.4
General administrative expenses	–25.4	–21.3
Other operating income	22.1	84.9
Other operating expense	–9.2	–18.9
Net investment income	21.9	8.5
Net interes expense	–12.0	–17.4
Write-downs of investments	–	–9.2
Profit from ordinary activities	**37.7**	**58.0**
Net extraordinary expense	–2.3	–2.3
Income taxes	4.4	2.9
Other taxes	–0.6	–0.4
Net loss	**39.2**	**58.2**
Loss/profit carried forward	–57.6	–115.8
Withdrawals from other retained earnings	26.9	–
Accumulated income/loss (–)	**8.5**	**–57.6**

[1] Since 2013, the income statement has been structured according to the function-of-expense method. The comparative prior-year figures have been restated accordingly to improve comparability.

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, 24 February 2014
DEUTZ Aktiengesellschaft
The Board of Management

Dr Ing Helmut Leube

Dr Margarete Haase

Michael Wellenzohn

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 combined management report for the business year from January 1, 2013 to December 31, 2013. The preparation of the consolidated financial statements and the combined 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 combined 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 combined 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 combined 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 combined 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 combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Duesseldorf, 12 March 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

signed: (Lammers)	signed: (Witt)
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD

CLOSE COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE BOARD OF MANAGEMENT

In 2013, the Supervisory Board of DEUTZ AG continued its ongoing monitoring of the management of the business in accordance with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code and provided advice to the Board of Management on key decisions. The Supervisory Board was directly involved in all material decisions taken by the Board of Management. In particular the Board of Management cooperated closely with the Supervisory Board on the Company's corporate strategy.

Four regular Supervisory Board meetings, as well as one extraordinary meeting, were held in 2013. A constitutive meeting of the Supervisory Board was also held following the election of the shareholder representatives to the Supervisory Board by the Annual General Meeting on 30 April 2013. There was one member of the Supervisory Board absent at each of the regular meetings on 14 March, 13 June and 10 December 2013, and two members were absent from the extraordinary meeting on 14 February 2013, but all had sent their apologies. At all other meetings during 2013, all the members of the Supervisory Board were present in person.

At each of the meetings of the Supervisory Board, the Board of Management reported on the general economic, market and competitive environment for DEUTZ AG, presented a business update and sales report including detailed information on the actual performance of the business over the immediately preceding period, submitted an up-to-date risk report, provided information on key operational issues and offered an overview of the results forecast for the year as a whole. These reports were made on the basis of the key performance indicators already submitted in the Company's written monthly reports. These key performance indicators included new orders, orders on hand, revenue, unit sales, EBIT, research and development expenditure, capital expenditure, working capital and headcount data, in each case compared against the prior-year figures and budget. Reports from the Human Resources and Audit Committees presented by their chairperson were also a regular item on the agenda of the ordinary meetings of the Supervisory Board.

FOCUS OF SUPERVISORY BOARD DELIBERATIONS

Our deliberations and discussions in the year under review focused mainly on the current business position and risk situation of DEUTZ AG as well as on the operational and strategic development of the business. Particular attention was paid to our existing joint ventures, especially those in China, and the plan to establish a further Chinese joint venture together with Volvo, which would be for the production of four to eight-litre engines and would be majority owned by DEUTZ. The Board of Management reported on these matters on a regular basis. At our meetings on 14 March and 26 September 2013, we authorized the Board of Management to sign the joint venture agreement and apply for the business licence for the new Chinese joint venture with Volvo; this business licence was granted on 21 November 2013. The Supervisory Board received and discussed reports from the Board of Management about optimising the structure of our global operations at two meetings in 2013. During the course of the strategy discussion it was agreed that the strategic and operational goals of the Company should be more closely integrated.

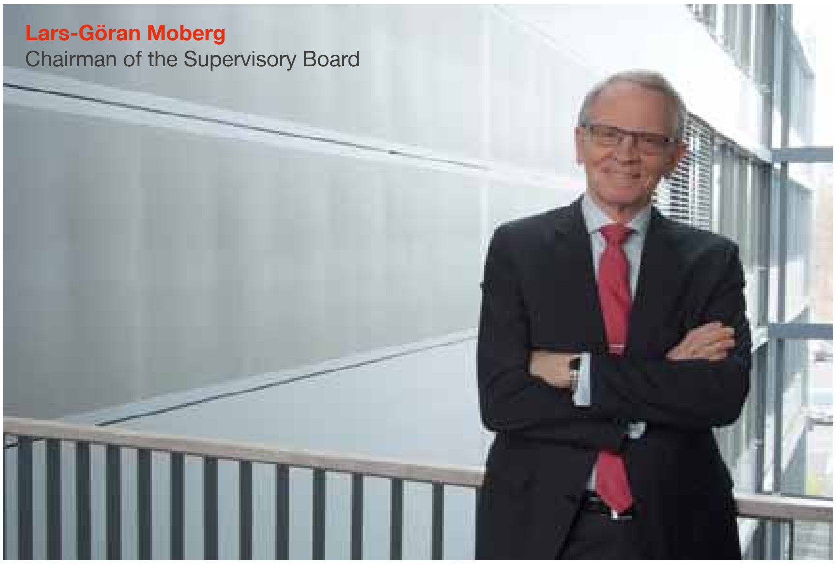
Other key decisions concerned the 2014 budget, the medium-term planning up to 2018 and the approval of capital expenditure. As is the case every year, we also adopted resolutions concerning the achievement of targets by the Board of Management – and consequently its variable remuneration for the previous year – as well as the setting of its targets for the current year. Besides defining the Board of Management's targets for the current financial year, we also set medium-term targets for the Board of Management for the first time.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular and timely information at all times. Between meetings, the Board of Management informed the members of the Supervisory Board in writing about all important events. In addition, the chairman of the Supervisory Board and the chairman of the Board of Management remained in close and regular contact to discuss all important transactions, imminent decisions and optimisation measures. All the decisions that the Supervisory Board was required to take in accordance with the law and Statutes were taken on the basis of the reports and draft resolutions submitted by the Board of Management and, where necessary, following preparation by the relevant committees of the Supervisory Board.

PERSONNEL

The Supervisory Board had appointed Mr Michael Wellenzohn as an additional member of the Board of Management on 12 December 2012, a post that he took up on 1 March 2013. Since then, the Company's Board of Management has comprised three people: Dr Helmut Leube, Dr Margarete Haase and Mr Michael Wellenzohn.

Following preparatory work by the Human Resources Committee, the Supervisory Board reappointed Dr Margarete Haase as a member of the Board of Management and as Human Resources Director for the period 1 April 2014 to 30 April 2018.



Lars-Göran Moberg
Chairman of the Supervisory Board

CORPORATE GOVERNANCE: DECLARATION OF CONFORMITY WITH TWO EXCEPTIONS; SUPERVISORY BOARD REMUNERATION; EFFICIENCY AUDIT

The Supervisory Board held an in-depth discussion of the German Corporate Governance Code as amended on 15 May 2012 and 13 May 2013 and, together with the Board of Management, issued a declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG). This declaration includes just a two variances from the code and since 11 December 2013 has been available in the "Investors/Corporate Governance" section of the Company's website at www.deutz.com, where it can be downloaded.

The 2013 Annual General Meeting of DEUTZ AG increased the fixed annual remuneration and attendance fees for Supervisory Board members. The previous dividend dependent component of the remuneration was abolished. As a result, it was possible to eliminate the deviation from the recommendation in the German Corporate Governance Code that any performance-based remuneration for Supervisory Board members be oriented towards the sustainable growth of the company. By deciding to abolish variable remuneration for members of the Supervisory Board, DEUTZ AG is also following a general trend in German business.

As it had in previous years, the Supervisory Board examined the efficiency of its work in 2013 by carrying out a survey. The results of this survey, which nine of the twelve Supervisory Board members completed, were presented at the Supervisory Board meeting on 26 September 2013 where they were discussed at length. The Supervisory Board's overall finding was that it fulfilled its legal obligations and generally operated efficiently.

MATTERS HANDLED EFFICIENTLY BY FOUR COMMITTEES

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees prepare various topics and resolutions for the full Supervisory Board. Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 114 et seq. of this annual report.

The Human Resources Committee makes preparations to enable the Supervisory Board to decide about the following matters: the appointment of members of the Board of Management; the content, conclusion and amendment of employment contracts for members of the Board of Management appointed by the Supervisory Board, including the remuneration specified in the employment contracts; all issues arising between members of the Board of Management and the Company in this connection. The committee met four times in the year under review when it focused on preparations for the reappointment of Dr Haase as mentioned above (under the heading Personnel) and on resolutions related to the achievement of the Board of Management's targets for 2012 and to the setting of Board of Management targets, including medium-term targets, for 2013.

The work of the Audit Committee in the year under review focused on assessment of the single-entity and consolidated financial statements for 2012 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2013 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2013 and the discussion of the audit engagement for the year ended 31 December 2013. Other important topics discussed by the Audit Committee included risk management, compliance, the internal control system, strategic planning, key performance indicators and the development of equity investment structures. The committee also dealt with the invitation to tender for the audit of the consolidated annual financial statements and the review of the interim financial statements. The Audit Committee met on five occasions in 2013. 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.

Following an amendment to the relevant section of the rules of procedure for the Supervisory Board, the Nominations Committee now consists of four (previously three) Supervisory Board members elected by the Annual General Meeting. It is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met seven times in 2013 when it primarily dealt with the proposal of candidates for the election of shareholder representatives on the Supervisory Board at the Annual General Meeting on 30 April 2013, the remuneration of the Company's Supervisory Board members and a successor for Dr Bussolati, who stepped down from the Supervisory Board with effect from 31 December 2013.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS AUDITED IN DETAIL AND APPROVED

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 combined management report for DEUTZ AG and the DEUTZ Group were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, the auditors appointed by the Annual General Meeting on 30 April 2013. The auditors issued unqualified opinions.

The single-entity annual financial statements of DEUTZ AG, the consolidated annual financial statements, the combined management report, the Board of Management's proposal for the appropriation of profit and the auditors' reports were made available to all members of the Supervisory Board and were examined by the Supervisory Board. The auditors explained their audit findings in detail to the Audit Committee meeting held on 28 February 2014 and to the Supervisory Board meeting held on 13 March 2014 and answered any supplementary questions raised.

The Supervisory Board approved 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.

The Supervisory Board also approved the Board of Management's proposal to use the accumulated income reported for the 2013 financial year to pay a dividend of €0.07 per dividend-bearing share.

COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

New elections for the shareholder representatives on the Supervisory Board were held at the Annual General Meeting on 30 April 2013 as scheduled. Three members were re-elected: Dr Lodovico Bussolati, Michael Haupt and Lars-Göran Moberg. Three new members were also elected: Ms Eva Persson, Mr Göran Gummeson and Mr Hans-Georg Härter.

The employee representatives on the Supervisory Board had already been elected by the DEUTZ AG workforce on 19 March 2013. Four members were re-elected: Dr Witich Roßmann, Werner Scherer, Dr Herbert Vossel and Egbert Zieher. Two new members were also elected: Ms Sabine Beutert and Mr Dietmar Paust.

At the end of the Annual General Meeting of DEUTZ AG on 30 April 2013, the shareholder representatives Ms Sofia Frändberg, Mr Torbjörn Holmström and Dr Helmut Lerchner and the employee representatives Ms Caterina Messina and Mr Karl-Heinz Müller stood down from the Supervisory Board.

At its constitutive meeting on 30 April 2013, the Supervisory Board re-elected Mr Lars-Göran Moberg as its chairman and Mr Werner Scherer as its deputy chairman.

Only minor changes were made to the composition of the Supervisory Board committees at the constitutive Supervisory Board meeting. Mr Härter joined the Human Resources Committee in place of Mr Haupt and was elected as the fourth member of the Nominations Committee. On the Audit Committee, Ms Beutert replaced Mr Müller, who had stood down from the Supervisory Board.

Following Dr Bussolati's resignation from the Supervisory Board of DEUTZ AG with effect from 31 December 2013, the local court in Cologne appointed Mr Herbert Kauffmann to the Supervisory Board with effect from 7 January 2014 at the request of the Board of Management and as recommended by the Nominations Committee.

The Supervisory Board would like to thank all of the people who stood down from the Supervisory Board in 2013, some of whom had been members for many years, for their outstanding work and valuable contribution.

CONFLICTS OF INTEREST; INDEPENDENCE OF SUPERVISORY BOARD MEMBERS

Because of their functions in the Volvo Group, the Supervisory Board members Sofia Frändberg and Torbjörn Holmström were subject to a conflict of interest until 30 April 2013, when they stood down from the Supervisory Board of DEUTZ AG. The same applied to Dr Lodovico Bussolati until he stepped down from the Supervisory Board with effect from 31 December 2013 because of his functions in companies in the SAME DEUTZ-FAHR Group, which are also major customers of DEUTZ AG. The chairman of the Supervisory Board reviewed each individual case to establish whether this conflict of interest restricted/restricts the opportunity for the involvement of Ms Frändberg, Mr Holmström and/or Dr Bussolati in the work of the Supervisory Board. Ms Frändberg and Mr Holmström did not participate in the Supervisory Board's discussion and adoption of a resolution concerning the new Chinese joint venture with Volvo on 14 March 2013.

The current members of the Supervisory Board of DEUTZ AG are all considered independent within the meaning of item 5.4.2 sentence 2 of the German Corporate Governance Code.

The Supervisory Board would like to express its thanks and appreciation to all employees of DEUTZ AG in Germany and abroad, to the elected employee representatives and to the Board of Management for their valuable efforts and the considerable dedication they showed in 2013

Cologne, March 2014

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.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289A HGB

Declaration of compliance with some exceptions

In 2013, the Board of Management and the Supervisory Board once again carefully considered to what extent it was proper and consistent with the Company's objectives for DEUTZ to apply all the guidelines and recommendations of the DCGK. As a result, DEUTZ AG complies with the recommendations of the Code, as amended on 15 May 2012 and 13 May 2013, with the following exceptions:

1. The D&O insurance taken out by DEUTZ AG for the members of the Supervisory Board does not provide for any excess, contrary to item 3.8 (2) and (3) DCGK. In the case of Supervisory Board members, an excess of this type is, as before, not considered an appropriate means of control.

2. There is no age limit at DEUTZ AG for members of either the Board of Management or Supervisory Board, contrary to item 5.1.2 (2) sentence 3 and item 5.4.1 (2) sentence 1 DCGK. This exception enables DEUTZ AG to retain the option of benefiting from the long years of experience brought to the Company by older members of the Board of Management and Supervisory Board.

The current declaration of compliance in accordance with section 161 German Stock Corporation Act (AktG), which the Board of Management and Supervisory Board submitted on 10 December 2013, 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.

Description of the operating procedures of the Board of Management and Supervisory Board

At DEUTZ, responsibility for the executive function lies with the Board of Management; the Supervisory Board monitors and advises the Board of Management in its activities.

With the long-term development of the Company in mind, the Board of Management and Supervisory Board maintain an open, ongoing dialogue on all strategic decisions in the Company – a process that continued in the year under review. The primary aim of the close cooperation between the two bodies is to enhance the value of the Company over the long term for the benefit of shareholders, employees and business partners. Accordingly, the Board of Management provides the Supervisory Board with regular, comprehensive and timely reports on all relevant issues relating to planning, business performance, risk position and risk management.

The Supervisory Board's work is based on rules of procedure, which can be downloaded from the DEUTZ AG website at www.deutz.com.

Four regular Supervisory Board meetings, as well as one extraordinary meeting, were held in 2013. A constitutive meeting of the Supervisory Board was also held following the election of the shareholder representatives to the Supervisory Board by the Annual General Meeting on 30 April 2013.

As it had in previous years, the Supervisory Board examined the efficiency of its work in 2013 by carrying out a survey. The results of this survey, which nine of the twelve Supervisory Board members completed, were presented at the Supervisory Board meeting on 26 September 2013 where they were discussed at length. The Supervisory Board's finding was that it fulfilled its legal obligations and generally operated efficiently.

No former members of the DEUTZ AG Board of Management are now members of the Supervisory Board.

New elections for all Supervisory Board members were held in 2013 as scheduled, when the Supervisory Board was elected for a period that runs until the Annual General Meeting in 2018.

The principles by which the Board of Management operates are summarised in rules of procedure issued by the Supervisory Board, which can also be downloaded from the DEUTZ AG website.

Board of Management meetings generally take place every two weeks.

Composition of the Board of Management and Supervisory Board; composition and operating procedures of Supervisory Board committees

The Supervisory Board had appointed Mr Michael Wellenzohn as an additional member of the Board of Management on 12 December 2012, a post that he took up on 1 March 2013. Since then, the Company's Board of Management has comprised three people: Dr Helmut Leube, Dr Margarete Haase and Mr Michael Wellenzohn.

Following preparatory work by the Human Resources Committee, the Supervisory Board reappointed Dr Margarete Haase as a member of the Board of Management and as Human Resources Director for the period 1 April 2014 to 30 April 2018.

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 – following an amendment to the relevant part of the Supervisory Board's rules of procedure – the Nominations Committee has four members (previously three), 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 for members of the Board of Management appointed by the Supervisory Board, including the remuneration specified in their service contracts, and all issues arising in this connection. The committee met four times in the year under review when it focused on preparations for the reappointment of Dr Haase as mentioned above and on resolutions related to the achievement of the Board of Management's targets for 2012 and to the setting of Board of Management targets, including medium-term targets, for 2013.

The work of the Audit Committee in the year under review focused on the single-entity and consolidated financial statements for 2012 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2013 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2013 and the discussion of the audit engagement for the year ended 31 December 2013. Other important topics discussed by the Audit Committee included risk management, compliance, the internal control system, strategic planning, key performance indicators and the development of equity investment structures. The committee also dealt with the invitation to tender for the audit of the consolidated annual financial statements and the review of the interim financial statements. The Audit Committee met on five occasions in 2013. 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. The Nominations Committee met on seven occasions in 2013 when it primarily dealt with the proposal of candidates for the election of shareholder representatives on the Supervisory Board at the Annual General Meeting on 30 April 2013, the remuneration of the Company's Supervisory Board members and a successor for Dr Bussolati, who stepped down from the Supervisory Board with effect from 31 December 2013.

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.

Only minor changes were made to the composition of the Supervisory Board committees at the constitutive Supervisory Board meeting in 2013. Mr Härter joined the Human Resources Committee in place of Mr Haupt and was elected as the fourth member of the Nominations Committee. On the Audit Committee, Ms Beutert replaced Mr Müller, who had stood down from the Supervisory Board.

Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 114 et seq..

Disclosures relevant to corporate management practices: compliance management system, environmental and quality management, energy management

DEUTZ AG has a compliance management system that is firmly enshrined in the Company's organisational structure. The system is continually enhanced in order to meet changing requirements.

The overriding objective of the compliance management system is to prevent breaches of legislation and other applicable rules anywhere in the Company. It therefore also helps employees to familiarise themselves with the applicable laws and regulations and learn how to apply them correctly. This is supported by a code of conduct, special guidelines, including a zero-tolerance policy, and regular training.

A Compliance Officer appointed by the Board of Management coordinates compliance activities at DEUTZ AG. The individual business units and subsidiaries have their own compliance coordinators, who are responsible for compliance in their organisations and report regularly to the Compliance Officer.

Regular meetings are held to develop, discuss and coordinate compliance initiatives. These activities focus on preventing corruption, tackling money laundering and complying with export regulations. They also ensure safety in the workplace, IT & data security, corporate security and product safety. Another aim is to prevent breaches of environmental, antitrust and insider trading laws.

As and when needed, the Board of Management and the Compliance Officer take legal advice on establishing and continuously improving the compliance management system. The internal audit department reviews the activities, and the Audit Committee monitors them on behalf of the Supervisory Board.

Compliance activities during the year under review centred on the continuation of regular staff training (including for staff at affiliated companies abroad), focusing on the code of conduct, money laundering, gifts, commission and competition law.

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 2013, 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 quality requirements of ISO 9001. DQS again confirmed and certified our compliance with this standard in the year under review.

The current ISO 14001 and ISO 9001 certificates from DQS are published on the DEUTZ website.

In December 2013, DEUTZ AG provided proof for the first time that it complied with the requirements for energy management laid down in ISO 50001. Certification was carried out by Det Norske Veritas-Germanischer Lloyd (DNV-GL), and this certificate is also available on the DEUTZ website.

All standards set by the Deutsches Institut für Normung e.V., Berlin (DIN) can be inspected free of charge at DIN standards repositories.

CORPORATE GOVERNANCE REPORT

Basic principles and objectives of the composition of the Supervisory Board, in particular conflicts of interest/the number of independent Supervisory Board members and the consideration of women

The Supervisory Board meeting on 10 December 2013 confirmed the resolution that it had adopted a year earlier about its composition, in particular with regard to the number of independent Supervisory Board members and the consideration of women. Following the departure from the Supervisory Board of Ms Sofia Frändberg and Mr Torbjörn Holmström, who had both been subject to a conflict of interest because of their functions in the Volvo Group, the Supervisory Board set out the objectives for its composition as follows in accordance with item 5.4.1 (2) DCGK:

"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:

a) Internationality

DEUTZ AG maintains a strong international presence in a globalised market. DEUTZ customers are supported by eleven distribution companies, two Xchange centres, nine sales offices, eight service centres and over 800 sales and service partners in more than 130 countries around the world. DEUTZ AG has various domestic and foreign subsidiaries. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions. DEUTZ AG has also invested in four joint ventures in China – DEUTZ (Dalian) Engine Co., Ltd., Weifang Weichai-Deutz Diesel Engine Co., Ltd., DEUTZ Engine (Shandong) Co., Ltd. and DEUTZ Engine (China) 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.

b) Potential conflicts of interest

The composition of the Supervisory Board shall also take account of potential conflicts of interest of its members.

All members of the Supervisory Board are obliged to disclose any conflicts of interest, especially those arising from an advisory function or directorship at customers, suppliers, lenders or other third parties.

Dr Lodovico Bussolati is subject to a potential conflict of interest because of his 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 a conflict of interest restricts the opportunity for the involvement of Dr Bussolati in the work of the Supervisory Board.

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

c) Number of independent Supervisory Board members

The Supervisory Board is limiting its target concerning this aspect to the shareholder representatives. It considers this group to have an adequate number of independent members if the number of independent members equals the number of members who are not independent, i.e. at least three.

d) 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.

e) Diversity

The composition of the Supervisory Board shall primarily take the appropriate skills and diversity of its members into consideration, while aiming for an appropriate proportion of women. Currently there are two female members of the Supervisory Board, equating to 16.6 per cent. In view of the proportion of female employees at DEUTZ AG (7.5 per cent in 2013), the proportion of other female managers and the proportion of women in other companies in the industry, the Supervisory Board is not aiming to increase its number of female members at present. However, it will choose any nominations with the aim of continuing to have at least two female members."

In 2012, the Supervisory Board had already met the targets laid out in this resolution concerning the international experience available on the Supervisory Board, the number of independent members and the criteria relating to its composition (qualifications, diversity and the proportion of women).

As Dr Bussolati stepped down from the Supervisory Board at the end of 2013, the conflict of interest relating to him is no longer relevant to the work of the Supervisory Board. The current members of the Supervisory Board are all considered independent within the meaning of item 5.4.2 sentence 2 DCGK.

Consideration of women when appointing Board of Management members and filling other managerial positions

Since Mr Wellenzohn took up his duties on 1 March 2013, the Board of Management of DEUTZ AG has had three members, one of whom is female; this equates to a proportion of 33.3 per cent. To ensure that women are taken into consideration for vacant managerial positions, DEUTZ AG has adopted a staff development programme under which the Board of Management and HR department endeavour to include at least one woman in the short list for all vacancies at the first and second management levels below the Board of Management (item 4.1.5 DCGK).

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 48–53.

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.

Conflicts of interest and consultancy agreements

Information about conflicts of interests in relation to Supervisory Board members can be found under 'Basic principles and objectives of the composition of the Supervisory Board' at the start of this corporate governance report.

The Company does not have any consultancy agreements with members of the Supervisory Board.

The members of the Board of Management must disclose any conflicts of interest to the Supervisory Board. The Supervisory Board then reports these cases, along with any conflicts of interest relating to its own members, to the Annual General Meeting.

Remuneration report

The remuneration paid to the Board of Management and Supervisory Board complies with the Act on the Appropriateness of Management Board Remuneration (VorstAG) and with DCGK recommendations.

Because the 2013 Annual General Meeting of DEUTZ AG eliminated the previous dividend-dependent component of the Supervisory Board's remuneration, the remuneration paid to the Supervisory Board now only comprises fixed components: annual remuneration and attendance fees. By deciding to abolish variable remuneration for members of the Supervisory Board, DEUTZ AG is following a general trend in German business.

A description of the main features of the remuneration systems for the Board of Management and Supervisory Board can be found on pages 47 and 48 of the management report. The remuneration paid to each member of the Board of Management and Supervisory Board is stated on page 107 of the Notes to the consolidated financial statements. Details of Board of Management remuneration are also disclosed there using the templates that are recommended for use from 2014 onwards in item 4.2.5 sentence 2 DCGK.

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.

Board of Management member Mr Michael Wellenzohn and Supervisory Board member Mr Hans-Georg Härter disclosed their purchase of DEUTZ shares in accordance with this regulation in 2013. No other persons required by section 15 WpHG to make such a disclosure did so before the adoption of the 2013 annual financial statements. Transactions disclosed in previous years are published on the DEUTZ AG website.

There were no shareholdings of Board of Management or Supervisory Board members that were subject to reporting requirements pursuant to item 6.3 DCGK in the year under review or before the 2013 annual financial statements were adopted.

Where this corporate governance report refers to the Notes to the consolidated financial statements for further details of remuneration, the information disclosed therein forms part of the corporate governance report.

GLOSSARY

Captive market/segment Market segment in which original equipment and commercial vehicle manufacturers have their own engine production facilities to meet their engine needs. Consequently, the captive market is not generally accessible to independent engine manufacturers.

Cash flow statement Shows the Group's inflows and outflows of cash over the financial year. It distinguishes between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. It also shows the change in cash and cash equivalents.

Common rail Injection system for diesel engines whereby all cylinders are supplied with fuel at constant pressure via a shared high-pressure fuel line. The advantages of common rail injection include better mixture formation in the cylinders, lower fuel consumption and lower emissions.

Compliance Denotes the entirety of measures taken by a company to comply with laws, regulations and directives and also to comply with contractual obligations and self-imposed obligations. Compliance is a key element of corporate governance

Convertible bond A bond that can be converted into the shares of the issuing company under certain conditions at a fixed conversion ratio and within a specified period.

Corporate governance Responsible management and control of a company with a view to long-term value creation and increasing shareholder value.

Covenants Ancillary provisions under loan agreements with which the borrower must comply during the term of the loan agreement. The provisions govern financial and other obligations and contain legal consequence clauses in the form of sanctions.

C parts Concept taken from supply chain management in which components are categorised as A, B or C parts depending on their value. A parts have a high financial value, B parts are of medium value, while C parts are small parts with a low value.

Deferred taxes Differences between the calculation of profit under tax law and under IAS result in differing tax calculations. These differences in the amount of tax are recognised on the balance sheet as deferred tax assets or liabilities.

DIN EN ISO 14001 (Deutsches Institut für Normung – European Norm – International Organization for Standardization – 14001) A German, European and international industrial standard for environmental management.

Diversity Procurement strategy in which one item is procured from two different suppliers in order to minimise the commercial risk.

Dual sourcing Procurement strategy in which one item is procured from two different suppliers in order to minimise the commercial risk.

DVERT® (DEUTZ Variable Emissions Reduction Technology) A combination of systems, components and procedures that are used as modules to create technically optimised and, at the same time, cost-effective solutions for reducing exhaust and noise emissions.

D&O insurance (directors and officers insurance) A liability insurance policy against financial loss taken out by a company to indemnify its directors and senior managers.

EAT component A component of an exhaust aftertreatment (EAT) system. An EAT system is made up of various system components such as DOC, DPF and SCR catalytic converters, supply modules, flexible elements, pipes and cables, which we refer to collectively as EAT components.

Earnings per share A key figure calculated by dividing the net income attributable to the shareholders of DEUTZ AG by the average number of shares in issue.

EBIT (earnings before interest and tax) Income from operating activities (before interest and tax).

EGR module A type of exhaust gas recirculation (EGR) system. EGR systems help to ensure compliance with strict emissions standards. In external, cooled EGR systems, all of the individual components (EGR valve, EGR cooler, EGR pipes and other small parts) are put together like building blocks to form a compact module, the EGR module.

Emissions legislation Sets limits for certain exhaust gas constituents in engine-powered vehicles and equipment. Also specifies test procedures, implementation schedules and, in certain cases, transitional periods.

EU Tier I, II, III A, III B, IV Exhaust standard laid down by the European Union for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

Exhaust aftertreatment Ensures compliance with statutory emissions limits for gaseous pollutants such as nitrogen oxides (NOx) and soot particles through the cleansing of combustion exhaust gases. In vehicles, exhaust aftertreatment is achieved by the use of catalytic converters and diesel particulate filters.

Exhaust gas recirculation (EGR) Process for reducing the level of nitrogen oxides (NOx) in combustion exhaust gases. The process involves feeding exhaust gases back into the combustion space of the engine for combustion. The exhaust gas content in the fuel-air mixture results in a comparatively low combustion temperature in the combustion space and this, in turn, reduces the proportion of NOx in the exhaust gas.

Factoring Funding instrument whereby a company secures its short-term liquidity and transfers the default risk associated with receivables by selling trade receivables to a factor (the factor can be a bank or a specialist financial institution).

Forward Individually structured, non-exchange-traded forward transaction.

Free float The proportion of shares in a public limited company (Aktiengesellschaft) not held by a major shareholder. According to the Deutsche Börse definition, shareholdings of less than 5 per cent are classified as free float.

Hedging Hedging interest-rate, currency, price or similar risks through the use of derivative financial instruments that limit the risk associated with the underlying transactions.

Investment grade Credit rating for high-quality bonds.

Kaizen Continuous improvement process (CIP) describes a way of thinking aimed at making a company more competitive through a series of small, progressive steps. It is comparable with the Japanese principle of Kaizen. CIP is applied to products, processes and service quality. Specific CIP teams are set up to implement small improvements (as opposed to major, dramatic changes). CIP is a basic principle of quality management and an essential part of ISO 9001. The method of having specific CIP teams develop suggestions for improvement is usually bracketed under the term ‘ideas management’ together with the company suggestion scheme.

Long-term incentive plan (LTI) A form of incentive-based remuneration offered to members of the Board of Management and selected senior managers; its purpose is to enable these executives to benefit from the company’s long-term success, thereby encouraging them to stay with the company.

Non-captive market/segment Market segment in which original equipment and commercial vehicle manufacturers purchase engines from third-party manufacturers to meet their engine needs. The non-captive market is accessible to independent engine manufacturers.

On-road applications Engine-powered applications that are licensed for use on public roads such as commercial vehicles and buses.

Option Contract that, until the expiry date, gives the holder the right to buy – and the writer the obligation to sell – an underlying instrument (a security or a product/commodity) at an exercise price that has been fixed in advance.

Prime Standard The minimum standard set by Deutsche Börse AG for companies looking to raise capital from international investors. These companies have to meet stringent international disclosure requirements. Admission to the Prime Standard is a prerequisite for inclusion in the DAX, MDAX, TecDAX and SDAX indices.

Rating Used to assess the creditworthiness of a company. It gauges the extent to which the company will be able to repay the principal and interest on its outstanding liabilities at the agreed date.

Return on capital employed (ROCE) The ratio of EBIT to average capital employed. Capital employed: total assets minus cash and cash equivalents, trade payables and other current and non-current liabilities based on average values from two balance sheet dates.

SCR (selective catalytic reduction) Catalytic reduction of nitrogen oxides in the exhaust gas of combustion engines whereby the reducing agent – an aqueous urea solution – is injected into the exhaust gas. In the hot exhaust gas, the urea disintegrates to form ammonia, which converts the nitrogen oxide into harmless molecular nitrogen.

Shop-Floor-Management The term shop floor management describes a system used in production planning to fine tune manufacturing operations in a dynamic, flexible and resource-efficient way. This means, for example, scheduling processes down to the exact minute, ensuring transparency throughout the production process and achieving optimum use of capacities.

Six Sigma A statistical quality target and a method of quality management.

Soot and particulate filters Devices for reducing the particulates contained in the exhaust gases of diesel engines. There are two types of filter, which work in very different ways: wall-flow filters, in which the exhaust gas penetrates a porous wall; and flow filters, in which the exhaust gas flows through the filter itself.

Support production Outsourcing of the production of a certain quantity of a certain component due to the full utilisation of inhouse production capacity. The use of support production makes it possible to flexibly adjust the production volume of a certain component as required and without the need to expand inhouse capacity.

US EPA TIER 1, 2, 3, 4 US emissions standard for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

Working capital ratio Ratio of average working capital (inventories plus trade receivables minus trade payables) over four quarters to revenue for the last twelve months.

XETRA Stands for “Exchange Electronic Trading” and is the name given to the electronic dealing system run by Deutsche Börse AG (also known as screen-based trading).

DEUTZ GROUP: MULTI-YEAR OVERVIEW

	Continuing operations 2009	Continuing operations 2010	Continuing operations 2011	Continuing operations 2012	**Continuing operations 2013**
€ million					
New orders	842.3	1,315.0	1,479.3	1,237.1	1,649.7
Unit sales (quantity)	117,961	167,680	230,598	178,774	184,028
Compact Engines	102,420	150,179	204,161	161,899	167,964
DEUTZ Customised Solutions	15,541	17,501	26,437	16,875	16,064
Revenue	863.4	1,189.1	1,529.0	1,291.9	1,453.2
thereof excluding Germany (%)	76.6	80.8	81.9	82.0	82.1
Compact Engines	636.0	919.0	1,199.1	1,005.0	1,188.8
DEUTZ Customised Solutions	227.4	270.1	329.9	286.9	264.4
EBITDA [1]	–10.7	91.3	159.0	121.7	142.0
EBITDA (before one-off items) [1]	18.9	111.2	159.0	121.7	142.0
EBIT [1]	–91.1	20.9	89.9	37.1	47.5
EBIT (before one-off items) [1]	–48.2	40.8	89.9	37.1	47.5
EBIT margin (%) [1]	–10.6	1.8	5.9	2.9	3.3
EBIT margin (before one-off items, %) [1]	–5.6	3.4	5.9	2.9	3.3
Net income	–124.0	–15.9	75.5	21.0	36.0
Continuing operations	–119.8	–15.9	68.7	22.1	36.0
Discontinued operations	–4.2	–	6.8	–1.1	–
Basic earnings per share (€)	–1.03	–0.13	0.62	0.17	0.30
Continuing operations	–0.99	–0.13	0.57	0.18	0.30
Discontinued operations	–0.04	–	0.05	–0.01	–
Total assets [2]	1,071.1	1,041.7	1,099.0	1,035.9	1,121.0
Non-current assets	539.4	591.5	623.1	621.3	596.6
Equity [2]	379.2	374.3	453.5	452.6	504.7
Equity ratio (%) [2]	35.4	35.9	41.3	43.7	45.0
Cash flow from operating activities [3]	117.4	78.2	120.5	104.9	105.0
Free cash flow	12.6	–55.9	4.8	12.6	13.8
Net financial position [4]	2.9	–73.6	–69.6	–48.6	–31.7
Working capital [5]	98.3	112.5	142.1	141.6	172.3
Working capital as a percentage of revenue (31 Dec., %)	11.4	9.5	9.3	11.0	11.9
Capital expenditure (excluding capitalisation of R&D, after deducting grants) [6]	48.8	56.9	41.1	66.4	42.5
Depreciation and amortisation	80.4	70.4	69.1	84.6	94.5
Research and development (after deducting grants) [6]	64.1	71.8	84.6	62.1	52.6
Employees (31 Dec.)	4,012	3,839	4,060	3,991	3,952

[1] Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. The comparative prior-year figures have been restated accordingly to improve comparability.
[2] Since 2013, the accounting of pension provisions has changed (IAS 19R). For comparison, the entry for the financial year 2012 has been changed. The years 2009–2011 have not been adjusted for reasons of practicability.
[3] Since 2012 interest income has been reported as cash flow from financing activities rather than as cash flow from operating activities The comparative figures of previous years have been restated accordingly to improve comparability.
[4] Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities.
[5] Working capital: inventories plus trade receivables minus trade payables
[6] Since 2012 the key figures "capital expenditure" and "expenditure for research and development" have been reported after deducting grants. The comparative figures of previous years have been restated accordingly to improve comparability.

	Continuing operations 2009	Continuing operations 2010	Continuing operations 2011	Continuing operations 2012	**Continuing operations 2013**
Revenue by region (€ million)	863.4	1,189.1	1,529.0	1,291.9	1,453.2
Europe/Middle East/Africa	710.3	983.9	1,225.0	984.2	1,155.4
Americas	69.6	116.1	177.2	190.9	190.6
Asia-Pacific	83.5	89.1	126.8	116.8	107.2
Revenue by application segment (€ million)	863.4	1,189.1	1,529.0	1,291.9	1,453.2
Mobile Machinery	177.7	369.6	529.4	477.5	481.6
Stationary Equipment	153.0	175.8	227.9	204.2	173.7
Agricultural Machinery	162.9	185.0	240.5	152.5	325.6
Automotive	169.7	192.6	213.6	192.1	188.5
Service	175.0	215.8	241.6	250.3	253.7
Miscellaneous	25.1	50.3	76.0	15.3	30.1
Key figures DEUTZ shares					
Number of shares (31 Dec.)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Number of shares (average)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Share price (31 Dec., €)	3.39	6.25	4.11	3.54	6.49
Share price high (€)	3.70	6.38	7.22	5.72	7.45
Share price low (€)	1.59	3.15	3.23	2.96	3.71
Market capitalisation (31 Dec., € million)	409.7	755.4	496.7	427.9	784.4
Basic earnings per share (€)	–1.03	–0.13	0.62	0.17	0.30
Continuing operations	–0.99	–0.13	0.57	0.18	0.30
Discontinued operations	–0.04	–	0.05	–0.01	–

FINANCIAL CALENDAR

2014	
5 May 2014	Interim report 1st quartal 2014 Conference call with Analysts and Investors
7 May 2014	Annual General Meeting
7 August 2014	Interim report 1st Half-Year 2014 Conference call with Analysts and Investors
19 November 2014	Interim report 1st to 3rd Quarter 2014 Conference call with Analysts and Investors

2015	
19 March 2015	Annual Results press conference Publication Annual Report 2014
29 April 2015	Annual General Meeting
5 May 2015	Interim report 1st quartal 2015 Conference call with Analysts and Investors
6 August 2015	Interim report 1st Half-Year 2015 Conference call with Analysts and Investors
5 November 2015	Interim report 1st to 3rd Quarter 2015 Conference call with Analysts and Investors

CONTACT

DEUTZ AG
Ottostraße 1
51149 Cologne (Porz-Eil)

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

Public Relations
Telephone + 49 221 822 24 93
Fax + 49 221 822 15 24 93
Email presse@deutz.com
Website www.deutz.com

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DEUTZ AG
D-51057 Cologne
www.deutz.com