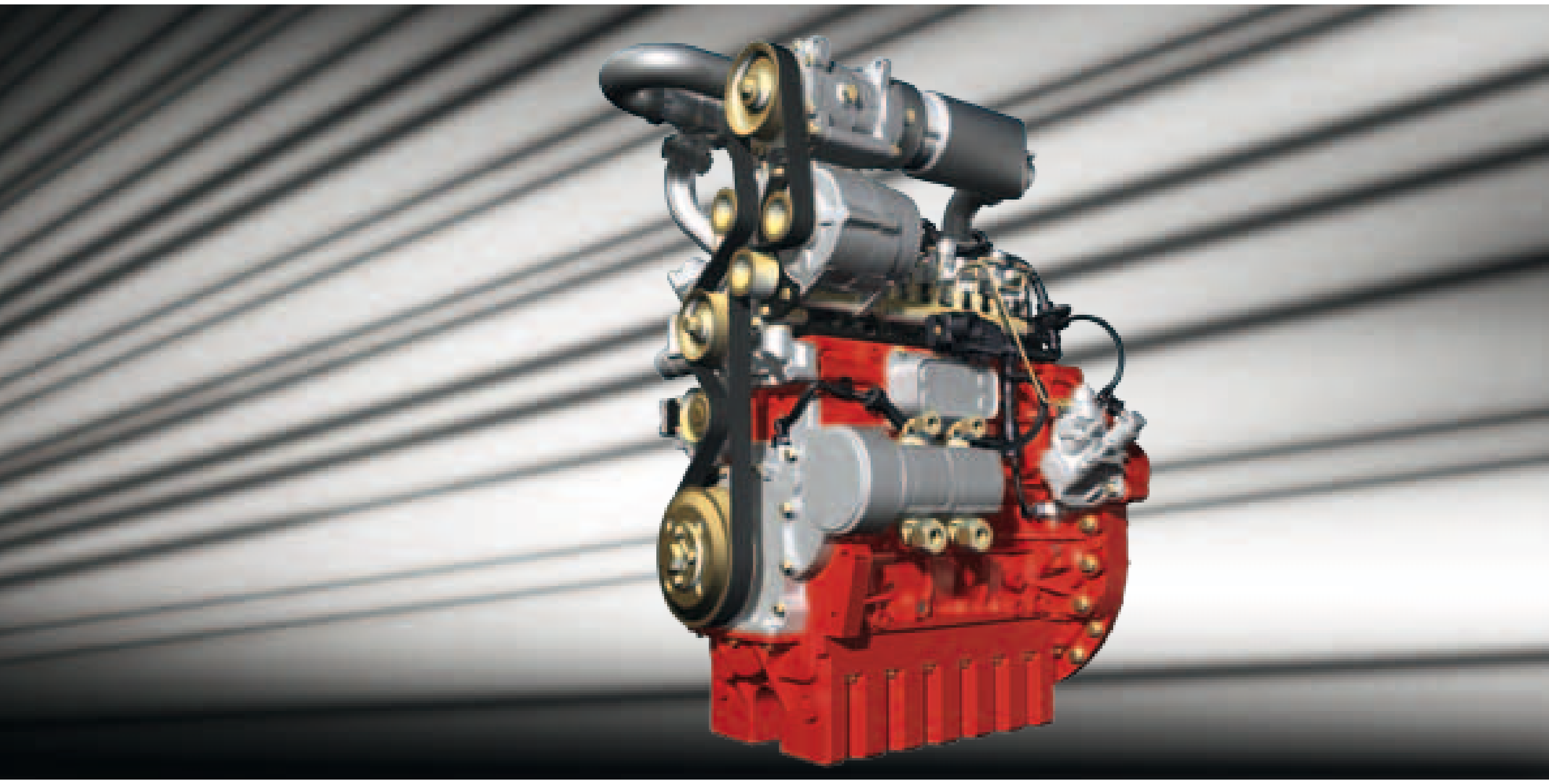
New Drive
Annual Report 2009



DEUTZ Group: Key figures

€ million	Continuing operations 2009	Continuing operations 2008	Change in %
New orders	842.3	1,363.5	–38.2
Unit sales (units)	117,961	252,359	–53.3
Revenue	863.4	1,495.0	–42.2
thereof excluding Germany (%)	76.6	75.6	–
EBITDA[1)]	–8.8	81.8	–
EBITDA (before one-off items)[1)]	20.8	93.5	–77.8
EBIT[1)]	–89.2	7.4	–
EBIT (before one-off items)[1)]	–46.3	21.7	–
EBIT margin (%)	–10.3	0.5	–
EBIT margin (before one-off items, %)	–5.4	1.5	–
Net income	–119.8	–4.2	–
Basic earnings per share (€)	–0.99	–0.04	–
Total assets	1,071.1	1,206.3	–11.2
Non-current assets	539.4	539.7	–0.1
Equity	379.2	511.3	–25.8
Equity ratio (%)	35.4	42.4	–
Cash flow from operating activities	117.4	89.7	30.9
Free cash flow	12.6	–23.3	–
Net financial position[2)]	2.9	–12.2	–
Working capital[3)]	98.3	205.0	–52.0
Working capital as percentage of revenue (%)	11.4	13.7	–
Capital expenditure (excluding capitalisation of R&D)	52.9	69.9	–24.3
Depreciation and amortisation	80.4	74.4	8.1
Research and Development	104.6	90.3	15.8
Employees (31 Dec.)	4,012	4,701	–14.7

1) The interest included in pension costs is reported since 2009 as part of staff costs instead of net interest expense. The comparative figures of previous years have been restated accordingly to improve comparability.
2) Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities
3) Working Capital: Inventories plus trade receivables minus trade payables

Our locations

Europe

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

France
Gennevilliers/
Paris ▲

United Kingdom
Cannock ■

Russia
Moscow ■

Spain
Madrid ▲
Zafra ●

Turkey
Istanbul ■

Asia

China
Dalian ●
Beijing ■
Weifang ●

India
Pune ▲

Iran
Tehran ■

Singapore
Singapore ▲

United Arab Emirates
Abu Dhabi ■

Americas

Argentina
Buenos Aires ●

Brazil
São Paulo ▲

United States
Atlanta ▲
Pendergrass ●

Africa

Algeria
Algiers ■

Morocco
Casablanca ▲

South Africa
Cape Town ▲

Australia
Braeside/
Melbourne ▲

KEY

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

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

Highlights 2009

02|2009

MORE ENGINES FOR SAME DEUTZ-FAHR

DEUTZ AG has become the exclusive engine supplier to the SAME DEUTZ-FAHR Group – one of the world's largest agricultural equipment manufacturers. DEUTZ will deliver 10,000 additional engines to SDF by 2011, which is double the number of units previously delivered. The SDF contract and the projected long-term growth in the agricultural machinery segment will ensure sustained growth at DEUTZ, too.

03|2009

BOARD OF MANAGEMENT CHANGES

The DEUTZ AG Board of Management has increased its efficiency, with three rather than four members now at the helm. The Austrian-born Dr Margarete Haase, an experienced financial expert and human resources executive, is now responsible for Finance. DEUTZ AG would like to thank former Board of Management members Karl Huebser and Helmut Meyer for their work.

12|2009

JOINT VENTURE WITH BOSCH AND EBERSPÄCHER

DEUTZ has formed the joint venture Bosch Emission Systems with Bosch and Eberspächer. The aim of the joint venture is to share knowledge of diesel exhaust aftertreatment in order to offer comprehensive diesel exhaust-gas systems to engine and equipment manufacturers worldwide. Standard components will be used to build comprehensive exhaust aftertreatment systems for non-road equipment and on-road commercial vehicles.

Trade fairs 2009

At the major trade fairs of the year, DEUTZ exhibited its range of engines for the stricter Tier 4 Interim emissions standard, enabling it to give customers the answers today to the questions of tomorrow. DEUTZ deploys DVERT® (DEUTZ variable emissions reduction technology), a high-performance system of flexible modules for reducing emissions, for these engines.

2 to 6 February
World of Concrete, trade fair for the commercial concrete and masonry construction industries, Las Vegas

8 to 10 February
Middle East Electricity, trade fair for the energy industry, Dubai

20 to 25 April
Intermat, trade fair for construction equipment and technologies, Paris

2 to 6 June
CTT, trade fair for construction equipment and technologies, Moscow

15 to 19 November
Agritechnica, the world's largest exhibition of agricultural machinery, Hanover

DEUTZ Group: Revenue by region
€ million (2008 figures)

710.3	(1,195.7)	Europe/Middle East/Africa
83.5	(118.6)	Asia-Pacific
69.6	(180.7)	Americas
863.4	(1,495.0)	**Total**

DEUTZ Group: Revenue by application segment
€ million (2008 figures)

177.7	(529.8)	Mobile Machinery
175.0	(212.0)	Service
169.7	(266.2)	Automotive
162.9	(195.8)	Agricultural Machinery
153.0	(259.3)	Stationary Equipment
25.1	(31.9)	Miscellaneous
863.4	(1,495.0)	**Total**

DEUTZ segments: Key figures

	Continuing operations 2009	**Continuing operations 2008**	**Change in %**
€ million			
New orders			
DEUTZ Compact Engines	632.4	1,032.5	–38.8
DEUTZ Customised Solutions	209.9	331.0	–36.6
Total	**842.3**	**1,363.5**	**–38.2**
Unit sales (units)			
DEUTZ Compact Engines	102,420	219,681	–53.4
DEUTZ Customised Solutions	15,541	32,678	–52.4
Total	**117,961**	**252,359**	**–53.3**
Revenue			
DEUTZ Compact Engines	636.0	1,143.2	–44.4
DEUTZ Customised Solutions	227.4	351.8	–35.4
Total	**863.4**	**1,495.0**	**–42.2**
EBIT (before one-off items)			
DEUTZ Compact Engines	–55.6	–21.5	–
DEUTZ Customised Solutions	10.7	45.4	–76.4
Other	–1.4	–2.2	–36.4
Total	**–46.3**	**21.7**	**–**

Contents

New Drive

The unprecedented scale of the crisis has forced us to make painful concessions – in our planning, our capacities and our strategies. Yet every setback represents an opportunity. We seized this opportunity and steered DEUTZ onto a sustainable economic track – with leaner structures, increased flexibility, and a lower break-even threshold.

Discover the new DEUTZ AG!

Foreword

Dear shareholders, friends and partners of our company,

Last year, the media scarcely covered anything else but the economic crisis, which also held our company in its grip over the last twelve months. By late 2008, what started as a purely financial crisis was spilling ever further into the real economy. Around the world, economies were shaken to the core, and the economic rules and financial systems that previously held sway were called into question. As the crisis ran its course, sweeping parallels were drawn with the global slump in 1929 – both with the intensity and the size of the crisis as well as the general uncertainty as to the right way for governments and companies to react and how to combat it effectively.

For the German economy, the crisis meant slamming on the brakes at top speed. There was a sudden slump in domestic demand and a crash in demand abroad, with an average fall of nearly 60 per cent. The first signs of any stabilisation in demand did not appear until the second half of 2009, following months when one record fall came hot on the heels of another.

2009 was an extremely tough year for DEUTZ. Unit sales more than halved from 252,359 to 117,961, the fall in revenue to €863.4 million was slightly less in percentage terms (42.2 per cent). The Company incurred an operating loss (before one-off items) of €46.3 million. However, in this difficult year we introduced the right measures at an early stage in the form of MOVE, our action programme for cutting costs and improving efficiency that has boosted earnings by around €136 million since its launch. Savings on materials, a reduction in overhead costs and price rises have made the most significant contributions. However, personnel restructuring measures – including short-time working, cutting the number of temporary employees, early retirement schemes and compulsory redundancies – were also necessary to achieve a lasting reduction in our fixed cost base and to safeguard our competitiveness.

In the past twelve months, we have also focussed very strongly on working capital and cash flow. This crisis, which eventually spilled over from the financial sector into the real economy, very soon demonstrated that cash is a commodity in short supply, and that it is even more vital for companies such as DEUTZ to take full advantage of all their internal sources of funding. By doing this, we managed to generate a positive operating cash flow, despite the collapse in unit sales.

DEUTZ shares also performed well, benefiting from the unexpected stock-market euphoria that developed in mid-2009. DEUTZ shares ended the year at €3.39, which was an improvement of more than 40 per cent on the start of the year. Comparisons with the SDAX and Prime Industrial indices bear out the shares' strong performance and also show that our determined action during the crisis impressed investors.

After a number of difficult months, the real economy has also turned the corner and our operating earnings for the fourth quarter were close to positive territory, while the demand curve is also upward sloping once more. We are cautiously optimistic for 2010 when we expect unit sales and revenue to rise. In recent months, we have also made long-lasting improvements to our efficiency and we have significantly reduced our break-even point. As a result, DEUTZ is emerging stronger from the crisis – a competitive advantage that we intend to build on in the coming years. At the same time, we will also continue to invest intensively in research and development to consolidate our position as technology leader. We have a sound financial base for doing so, now that the negotiations for a private placement in the US have concluded.

Innovative, forward looking and passionate about technology. For DEUTZ these are not empty words, they are the foundations on which our company is built. And they are the basis of our technology leadership which we fully intend to drive forward. The development of two new engines in the under four-litre range is a cornerstone in this strategy – and good reason to devote a section of our annual report to this new type of engine. The new 20XX and 2010 engine series are extremely flexible and can be used for a wide range of applications – including industrial and in agricultural machinery, where they complete the smaller end of our model range. These engines represent the latest technology and both series will comply with all future North American and European emissions standards, further evidence of the early development stage at which we work with our customers to create integrated, system solutions. In fact even before the crisis, DEUTZ had taken the decisions that steered the company through the difficulties of 2009. DEUTZ is not only emerging from the crisis with a new series of engines, it has also gained momentum. Last year, our company avoided merely reacting; it became proactive, overcame a tough situation and launched a new technology of the future in the midst of the crisis. This puts us in an excellent position to meet the future challenges we gladly face.

Our joint venture with Bosch and Eberspächer for the shared development, production and distribution of exhaust-gas aftertreatment systems for diesel engines is another mainstay in our strategy. The joint venture company will start operations soon. It combines the skills and know-how of three strong partners: Bosch with its expertise in control units and systems, Eberspächer as a leading expert in exhaust-gas technology and DEUTZ which has long-standing experience in emissions reduction and the necessary applications expertise. This joint venture is set to become established as the leading supplier in the world market for complete systems for diesel exhaust aftertreatment, and it will offer its services to all engine and equipment manufacturers.

What other strategic objectives are we pursuing? Our first priority is to increase the proportion of our revenue generated by engines for agricultural machinery. We see excellent market opportunities and great sales potential in this particular sector. Agricultural machinery is also slightly less cyclical than other customer industries, which provides us with more security of production. In terms of geography, we plan to expand in high-growth Asian countries, particularly China and India. We have laid good foundations for this with the establishment of our joint venture in Dalian, China.

Every day in the past twelve months, we have focussed on steering DEUTZ through the crisis so that it emerges as intact as possible. We even take a certain amount of pride in the fact that we have succeeded, and that we can look forward to the future with optimism again – albeit with the necessary commercial prudence. We would like to thank you, our shareholders, for your loyalty and constructive support in the past twelve months.

We would also like to extend particular thanks to our employees, whose commitment, motivation and most of all whose willingness to remain loyal to the Company even in hard times and under the most difficult circumstances, have been a tremendous support to us, particularly during the past year.

Max Frisch once said, “Crisis is a productive state, you just have to remove the overtones of disaster.” True to this spirit, DEUTZ has emerged stronger from the year of crisis and is now looking ahead with some optimism!

Kind regards from Cologne

Dr Helmut Leube | Dr Margarete Haase | Gino Mario Biondi

Dr Helmut Leube
Chairman
Sales, Service and Head Office Functions

Dr Margarete Haase
Finance, Human Resources and Investor Relations

Gino Mario Biondi
Procurement, Logistic, Production, Research & Development

DEUTZ shares

Although 2009 occasionally resembled a rollercoaster ride for the equity markets, on balance it was one of the most successful years ever on the German stock exchanges. Germany's DAX equity index rocketed from around 4,800 points at the beginning of the year to almost 6,000 at the end of December – a rise of about 25 per cent that almost helped investors forget its low for the year in March of less than 3,700 points. Despite a slightly weaker end to 2009 as a number of prices fell, sentiment was undimmed and indices still remained close to their highs for the year. DEUTZ shares also benefited from the optimistic mood in the markets and posted an impressive rise of more than 40 per cent for the year.

Rally on the world's stock markets

From the middle of 2009, if not before, it was as if the financial crisis had never happened and for the equity markets the only way was up. State bailouts for banks and generous economic stimulus packages provided by a host of governments had prevented the collapse of the international financial system while low interest rates ensured plenty of liquidity for institutional investors. Coupled with the expectation of rising share prices, this all resulted in the stock markets rallying last year.

Indices rebound strongly

Euphoria spread like wildfire as German share prices surged in the year under review. The SDAX rose by around 27 per cent in a twelve-month period to close at 3,549 points at the end of December, compared with just 2,801 a year earlier. The Prime Industrial index was a third higher at the end of December than at the start of the year – 2,427 points on 31 December 2009 compared with 1,868 on 31 December 2008.

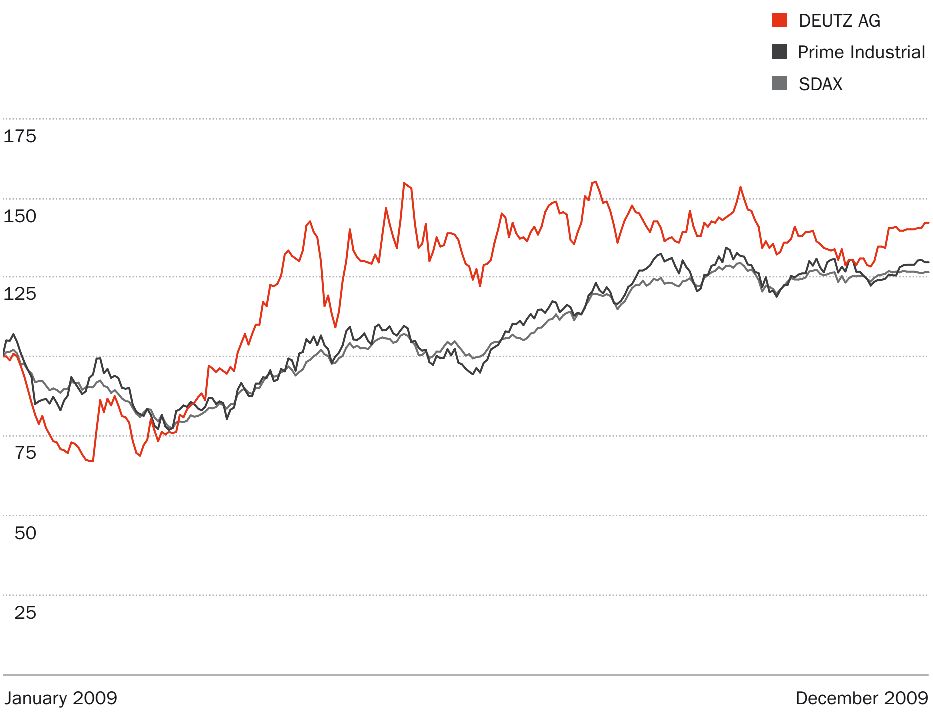
DEUTZ shares benefit from euphoric sentiment and outperform benchmarks

DEUTZ shares are listed in the Official Market and in the Prime Standard segment of Deutsche Börse and are principally traded on the floors of the Frankfurt and Düsseldorf stock exchanges as well as on the Xetra electronic trading system.

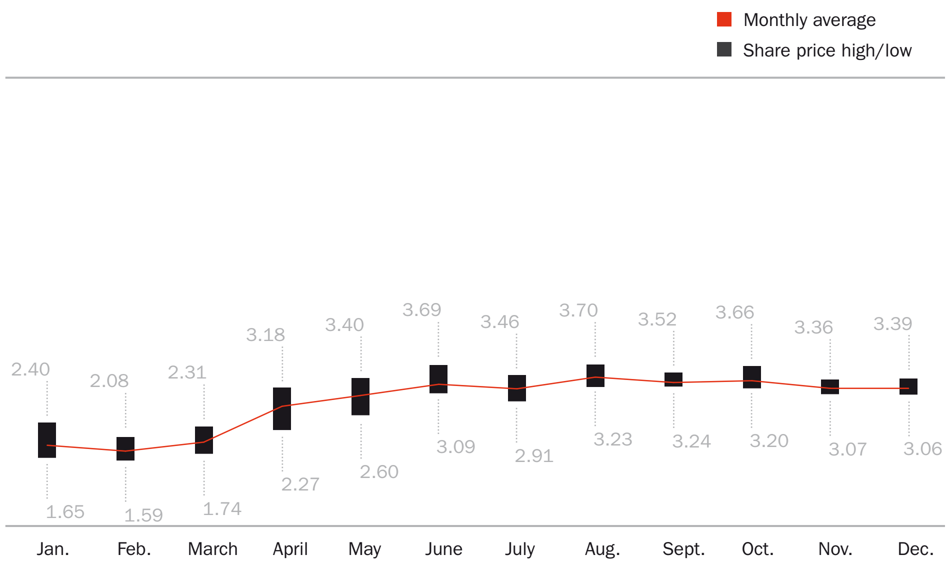
DEUTZ shares opened at €2.38 at the start of the 2009 trading year and from the second quarter they performed significantly better than the general stock-market trend. The only blip was in February, when they fell to €1.59, the lowest point of the year, but by August they had already reached their high for 2009, closing at €3.70 on 25 August 2009. DEUTZ shares ended the year at €3.39, which was an improvement of more than 40 per cent on the start. As a result, the Company's market capitalisation rose to €409.7 million (31 December 2008: €278.7 million).

A glance at the reference indices, such as the SDAX in which DEUTZ shares are listed, bears out their excellent performance. Apart from the first few weeks of the year, DEUTZ shares continuously outperformed the SDAX, particularly at the transition point between the first and second quarters. The same applies to the Prime Industrial index. Throughout the year a strong performance by DEUTZ put it well ahead of the index.

Price performance of DEUTZ share in 2009
in %



DEUTZ share price high and low for 2009
in €



Key figures for DEUTZ shares

	2009	2008
Number of shares (31 December)	120,861.783	120,861.783
Average number of shares	120,861.783	120,793.508
Share price as at 31 December (€)	3.39	2.38
Share price high (€)	3.70	7.60
Share price low (€)	1.59	1.85
Market capitalisation as at 31 December (€ million)	409.7	287.7
Earnings per share (€)	–1.03	–0.07
Continuing operations	–0.99	–0.04
Discontinued operations	–0.04	–0.03

Based on Xetra closing prices

Earnings per share down

Earnings per share is calculated by dividing the net income for the year by the weighted average number of shares in issue. 120.9 million shares were in issue in 2009, resulting in earnings per share for continuing operations of –€0.99. The previous year, this figure was –€0.04 with a weighted average of 120.8 million shares in issue.

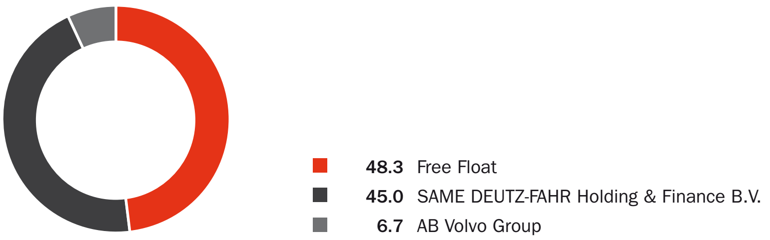
Key data on stock market listing

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

Consistent shareholder structure

DEUTZ's shareholder structure remained unchanged on the previous year, with its principal shareholder, SAME DEUTZ-FAHR Holding & Finance B.V., reducing its shareholdings by 0.1 percentage points to 45.0 per cent in 2009. The second-largest individual shareholder, Sweden's AB Volvo Group, held 6.7 per cent of the total shares at the end of 2009, which was unchanged on 31 December 2008. The percentage of shares in free float therefore slightly increased in 2009 to 48.3 per cent (31 December 2008: 48.2 per cent).

Breakdown of shareholders as at 31 December 2009
in %



Investor relations are a priority at DEUTZ

DEUTZ ensures that it maintains a proactive, intensive dialogue with the capital markets at all times – whether with institutional investors, private investors or analysts. Our aim is to always provide prompt, transparent and reliable information about DEUTZ AG's targets and earnings. The Company carried out the following investor relations activities in 2009:

Following the pattern of previous years, we published the DEUTZ annual financial statements at the analysts' meeting, which was held on 20 March 2009 in Frankfurt. When our interim reports were released we held conference calls to discuss our business performance and strategic issues with the capital markets. We ensured that stakeholders and shareholders were promptly and comprehensively notified about key issues by publishing ad hoc statements and press releases. Once again in 2009, we organised roadshows in Frankfurt am Main, London, Zurich and Vienna, in which the Board of Management and the investor relations team participated.

No fewer than 15 brokerage houses cover DEUTZ AG by tracking and analysing its business performance. They are (in alphabetical order): Bankhaus Lampe, Berenberg Bank, BHF-Bank, Crédit Agricole Cheuvreux, Credit Suisse Securities, Deutsche Bank, DZ Bank, Goldman Sachs, HSBC Trinkaus & Burkhardt, Merck Finck & Co., Oppenheim Research (Sal. Oppenheim), Solventis Wertpapierhandelsbank, UBS, Viscardi Securities and WestLB. A complete overview with current investment recommendations and target prices, together with further information regarding DEUTZ shares and forthcoming dates in the financial calendar, can be found on our website at www.deutz.com.

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

Investor Relations

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Strategy

The global economy suffered a massive setback in 2008. The full extent of the economic downturn made itself felt in 2009, forestalling any hopes of a rapid recovery. It has since become clear that 2010 will also be overshadowed by the repercussions of the crisis. In this difficult situation, operational measures, such as the MOVE and MOVE FAST restructuring programmes, naturally take priority over strategic programmes. Nevertheless, although we are focusing on short-term and medium-term adjustments, we have not lost sight of our long-term objectives. We have therefore designed the MOVE and MOVE FAST programmes to support rather than counteract our long-term objectives, improving the starting point for achieving our strategic objectives and enabling DEUTZ to emerge stronger from the crisis.

"We set standards and shape the future."

This sentence sums up our vision. We have set out the strategic programme with which we intend to turn this vision into reality in five points.

1. Extension of position as technology leader

This has been our destiny since the invention of the four-stroke engine. We continually optimise our products with great innovativeness, concentrating on customer benefits and the environment. We follow a simple maxim: 'as much technology as necessary and as little as possible'. After all, the pioneering technological role that our Company has had for the past 145 years is not an end in itself.

In 2009, we again worked steadfastly to maintain and extend our leading position. While more than 80 per cent of our employees in Germany were put on short-time working, the development departments worked flat-out on new and ongoing developments for the next two exhaust emissions standards, which will come into effect in western Europe and North America between 2011 and 2015.

As a result, our development expenditure, at approximately €104.6 million, was higher than in previous years. This strategy is paying off: In spring 2009, we were able to showcase the entire product range of engines with a capacity of more than four litres for the next two exhaust emissions standards – including the necessary exhaust aftertreatment systems – at Intermat in Paris, the largest trade fair for the construction equipment industry in France. More-

Strategic 5-point programme
Programme to secure the Company's profitability and future

Consolidation of position as technology leader	• Newly developed 20XX and 2010 engine series • Further development of 2012, 2013 and 2015 engine series • Leading exhaust aftertreatment technology
Consolidation of position as a leader in quality	• Reduced product complexity and fewer variants • Introduction of a new quality system • Enhanced certification in accordance with DIN ISO TS 16949*
Consolidation of position as a leader in the market	• Maintenance of market leading positions in mobile machinery and stationary equipment • Improvement in position in agricultural machinery market • Expansion of service business
Long-term improvement in profitability	• MOVE and MOVE FAST in order to cut costs • Breakeven point to be lowered to 125,000 engines • Medium-term target: EBIT margin of 10%
Reduction in cyclicality	• Better risk sharing with suppliers and customers • Improved distribution of revenue (regions, segments) • Increased flexibility and cost variability

* Strictest standard in the automotive industry

over, visitors to Agritechnica, Europe's largest agricultural equipment trade fair, which was held in Hannover in autumn 2009, were able to admire the first tractor with integrated SCR technology – of course fitted with a DEUTZ engine and SCR system. We are therefore several steps ahead of the competition, which also benefits our customers as DEUTZ's clear technology portfolio enables them to plan their development projects with certainty.

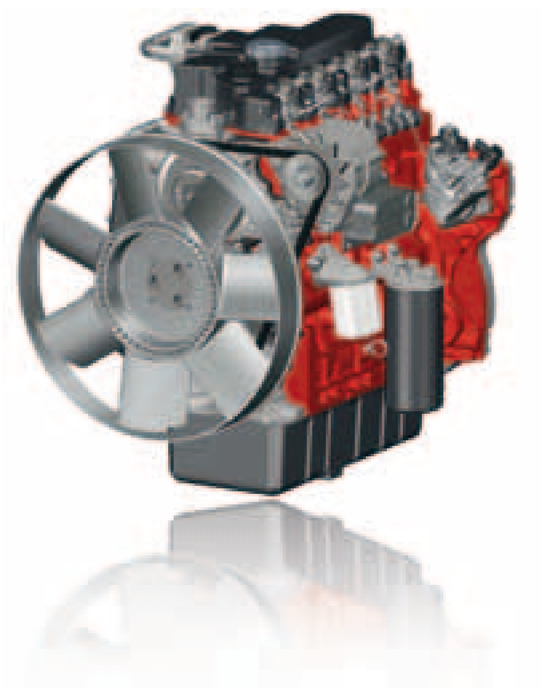
We are currently working on two completely new engines with a capacity of up to four litres, the 20XX and the 2010, with which we will cater to the 25-85 kilowatt power output range from 2012. In the high-volume power output range for engines with less than 56kW, the 20XX engine offers a unique advantage to prospective customers. Thanks to its relatively large capacity of 2.9 litres and very compact dimensions, we are able to meet the particularly stringent limits for soot particles prescribed by the next generation of emissions standards without the need for complex closed particulate filters. The engine's low untreated emissions enable the use of a porous diesel oxidation catalytic converter. In contrast to closed particulate filters, this catalytic converter does not become clogged with soot particles while in operation, so regular cleaning of the particulate filter by burning off the soot particles, as required in closed systems, is not necessary. As a result, it is not necessary to install an expensive burner device in the engine or, alternatively, to interrupt the running of the engine to clean the filter – a significant advantage for equipment operators and thus for equipment manufacturers, our customers, too.

2. Expansion of quality leadership

"Quality is not produced, quality is engineered."

This simple sentence reflects our understanding of quality. We pay attention to quality in all of our subprocesses – starting with our suppliers, which we regularly audit and fully assist with improving quality, to our own production facilities in Germany and abroad and our assembly plants in Cologne and Ulm. However, our engineering department lays the foundations for quality products that have earned the "Made by DEUTZ" label.

Following this principle, we have ensured the highest quality right from the start in developing our new 20XX and 2010 engines: fewer components, integrated subsystems and sophisticated assembly concepts are the cornerstones of tomorrow's quality products. We hand-pick the suppliers of the different components. We also strive constantly to improve the quality of our existing products and processes. This continuous improvement process involves all departments, production facilities and suppliers and is supported by a comprehensive system of key performance indicators. To further optimise this process, we replaced the central quality unit in 2009 with local quality departments in the individual manufacturing and assem-



TD 20XX L04 W with separately mounted fan

From Quality Management (QM) to Total Quality Management (TQM)

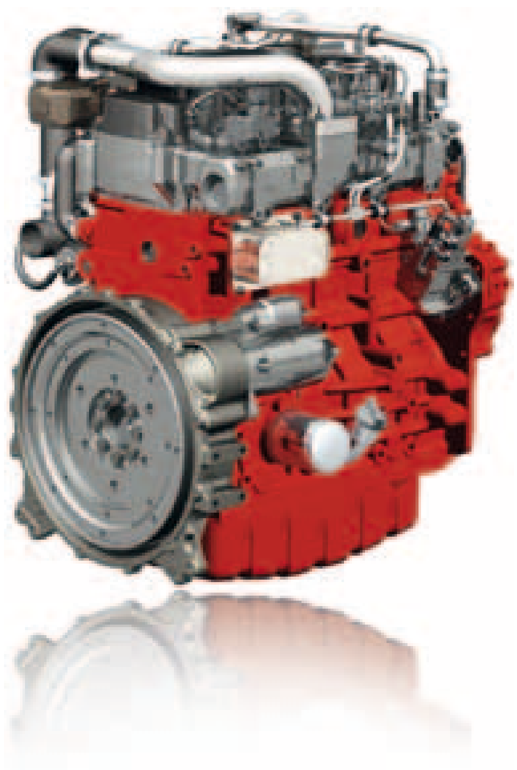
Phase 1	Phase 2	Phase 3	Phase 4
• Monitoring audit in accordance with ISO 9001 • ISO TS 16949 statement	• Introduction of enhanced (process) standards in accordance with TS 16949	• (Qualified) certification upgrade in accordance with TS 16949	• Comprehensive implementation; ISO TS 16949 certification becomes effective
Optimisation of existing QM tools/processes	**Extension of QM tools/processes**	**Establishing new quality systems**	**TQM excellence**

bly, purchasing and development units. These devolved units are physically much closer to and more familiar with the Company's operational processes and therefore play a key role in helping our employees identify even more strongly with DEUTZ AG's quality objectives.

We have retained a small, centralised centre of excellence in the corporate management unit to ensure we have a standardised total quality management system. This system focuses not only on product quality but also on the quality of all other processes in the Company, from goods inward to delivery. We are thereby preparing for the next step in our programme, which is to achieve the more stringent ISO TS 16949 certification, the strictest quality standard in the automotive industry.

3. Expansion of leading market position

The fact that this strategic objective is not listed first is not an indication of its priority. Rather, it shows that our strategic objectives are interlinked and build on each other. Technology leadership and quality leadership are essential to our leading market position because both are hallmarks of the DEUTZ brand. DEUTZ is synonymous with well-founded innovations, which may at first sound like a contradiction in terms but was proved by our Company's founder Nicolaus August Otto: although many people experimented with the internal combustion engine, he was the first to ready it for production and, with the four-stroke principle, laid the foundations for all modern combustion engines, regardless of the fuel on which they run.



TD 2010 L04 2V turbo diesel engine
without charge air cooler

DEUTZ is at the forefront of the relevant market segments all over the world.

However, we are not resting on our laurels. Over the past five years, we have continually expanded our market position: DEUTZ is at the forefront of the relevant market segments[1)] all over the world. In our largest and most important regional markets, Europe and North America, DEUTZ is the number one in engines for mobile machinery and number two in engines for agricultural machinery, stationary equipment and the automotive application segment. Overall, we are the indisputable leaders in these regions due to the size of the mobile machinery application segment[2)]. We have therefore achieved the market objectives that we set ourselves after the successful relaunch programme in 2004.

But we are not stopping there: the new 20XX and 2010 engines will be our first venture into the area of engines with a capacity of up to four litres for agricultural machinery, thereby consolidating our strong position in this segment. We also want to further expand our market position in the fast-growing Asian region. As a result of our joint ventures in Dalian and Weifang, and engine deliveries from Germany, we had some 127,000 engines in Asia in 2009. The phased tightening of exhaust gas legislation in China will boost the demand for top-quality technology in the coming years. The Indian diesel engine market is catching up too, thereby gaining strategic importance for DEUTZ.

In western Europe and North America, the introduction of new exhaust emissions standards will herald a period of change over the next few years. Equipment manufacturers' engine concepts will come under close scrutiny, forcing them to both defend their positions and make up ground. As the next emissions standards are introduced in Europe and the US from January 2011, the engines for these markets in all power output classes will gradually be fitted with exhaust-gas aftertreatment systems. The competition for the best technical concept got underway some time ago, and DEUTZ has taken up an excellent position in this area, too.

Building on our DVERT® technology, we have developed a modular system in this area that enables the complex exhaust-gas aftertreatment systems to be customised for each type of use. The competitive advantage that we have created with customer-specific solutions for our engines can also be extended to exhaust aftertreatment, which will considerably boost our revenue and margins in the medium term. Depending on the engine size, the surcharges for the complex systems are between 50 and 75 per cent of the engine price. However, we will not only benefit from increases in revenue from our own engines: through Bosch Emission Systems GmbH & Co. KG, our joint venture with market leaders Bosch and Eberspächer, we will be investing in the rapidly growing market for exhaust aftertreatment systems. We are contributing our application expertise to a company that, as an independent provider of complete systems for exhaust aftertreatment, will be able to supply all engine, equipment and commercial vehicle manufacturers worldwide.

1) There is a detailed description of the relevant market for DEUTZ in the market and competitive environment section of the group management report.
2) Sources: Power Systems Research (PSR), internal figures

MOVE
Programme to secure the Company's profitability and future

Focus in 2009 Short-term measures to secure profitability

- Improvement in earnings since launch of programme in 2008: €136 million (H1 2009: €62 million)
- Savings primarily in staff and operating costs
- 2010 target: sustained improvement in earnings of approx. €85 million
- Streamlining of organisation structure achieved

Beyond 2009 Structural measures to improve profitability over the long term

- Successfully launch new products (Tier 4 Interim/Final, exhaust aftertreatment)
- Continually improve productivity by optimising processes
- Continue to streamline organisational structures
- Improve the profitability of the DEUTZ Dalian joint venture

The aim of MOVE is to enable us to react flexibly to constantly changing economic circumstances

MOVE FAST
Action programme aimed at further optimising the earnings position in 2011

Streamlining of the business model

- Review of make-or-buy decisions
- Investigation of action to improve utilisation of internal services and production capacity
- Optimisation of segment and regional mix in engine sales
- New service business model to increase exploitation of market potential in service business
- Active development of closed markets by using licensing for older engine types

Process optimisation

- Analyses of organisation, responsibilities and selective processes to ensure indirect processes are aligned with reduced capacity

targets:
- **Improvement in earnings: > €35 million p.a.**
- **Further lowering of break-even point to 125,000 engines**

We will also expand our market position in our service business. In the fourth quarter of 2009, we paved the way for a new service business model with help from a management consultancy. By specifically expanding our range of products and services, adjusting our price system and systematically developing new sales channels such as the internet, we will substantially improve our services and customer focus and thus further increase our market share. In the medium term, the service business will constitute a larger proportion of our overall business – despite the disproportionately strong growth in engine revenue resulting from exhaust aftertreatment.

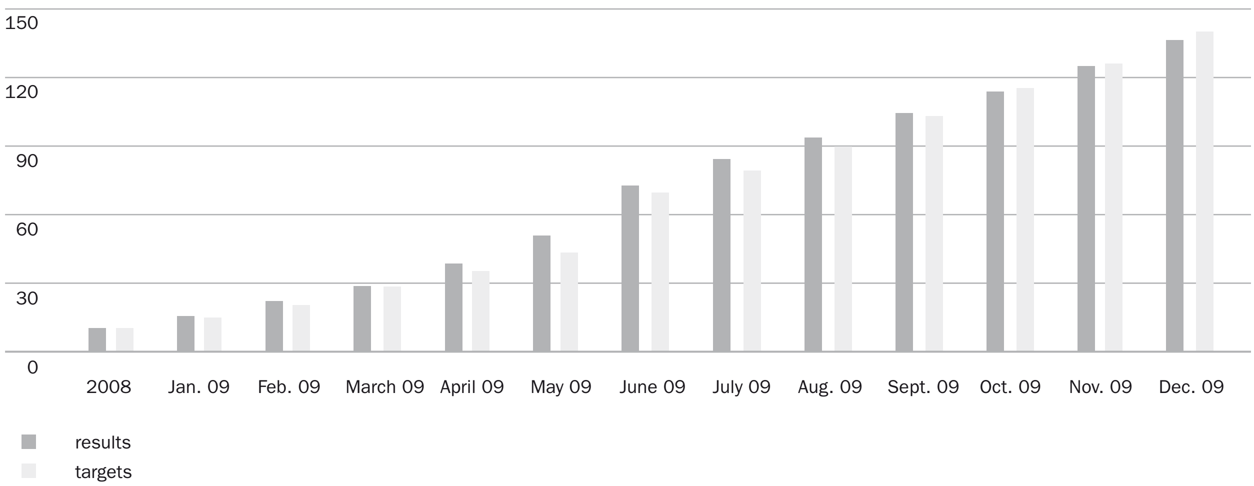
4. Long-term increase in profitability

In light of the global economic crisis, this self-evident objective has taken on a new importance in many companies. DEUTZ too has had to cope with painful losses in the past two years despite having achieved a respectable EBIT margin of approximately 6 per cent in 2007. To return to profit quickly, we responded rapidly and launched the MOVE programme in the fourth quarter of 2008. This comprehensive action programme for improving profitability helped us improve earnings by €136 million by the end of 2009. MOVE naturally centred around reducing operating and personnel overheads and the cost of materials, but we also still achieved slight improvements in our sales prices despite the falloff in demand. This package resulted in long-term improvements of more than €85 million, which will continue to help us further reduce our fixed costs in the years to come.

MOVE improves earnings by €136 million

Our short-term objective is to lower the break-even point even further so that we can operate profitably should there be another extremely severe economic slowdown like the one we experienced last year. To achieve this objective, we launched the follow-on programme MOVE FAST in autumn 2009. The idea behind this programme is to review DEUTZ's business model and processes and align them with the challenges of the future. This includes examining make-or-buy decisions, looking at measures to improve capacity utilisation in our internal manufacturing and service functions, proactively opening up closed markets by means of licensing and improving how we exploit the market potential of our services.

MOVE: Targets and results
€ million



Long-term strategic objective: EBIT margin of 10 per cent

The two programmes lay the foundations for a sustained increase in our profitability: with leaner organisational structures, more efficient processes, an optimised business model and lower fixed costs, DEUTZ will emerge much stronger from the crisis and will benefit disproportionately from the expected upturn. DEUTZ's long-term strategic objective is clear: an EBIT margin of 10 per cent.

We set the right course in 2009 by designing the MOVE and MOVE FAST action programmes to support this strategic objective and by gearing our new and ongoing developments to it. We have systematically optimised the new 20XX and 2010 engines, taking cost aspects into consideration. The enhanced range of engines with four to eight-litre capacity is much more streamlined than its predecessors, yet we have not neglected customer-specific solutions. The key to success here is intelligent combinatorics.

In parallel to the development projects, a team of experts reporting directly to the chief technology officer is working on further cost improvements by means of systematic benchmarking against competitors' engines. Our alliance strategy also supports the profitability objective: we will profit from the new joint venture with Bosch and Eberspächer as a shareholder and, as a purchaser of exhaust-gas aftertreatment systems, we will also benefit from the economies of scale of an independent global company that we would not have achieved by ourselves.

Our steps to increase profitability of course extend to our largest joint venture, DEUTZ (Dalian) Engine Co. Ltd. (DDE) in China. Having had to accept start-up losses in recent years, we focused more closely on China, including in organisational terms. The head of the Asia sales region and DDE's new CEO both report directly to the chairman of the Board of Management of DEUTZ AG. DDE's management has now launched a new product strategy in line with the imminent tightening of Chinese emissions legislation. It is expected that, from 2011, China will have an exhaust emissions limit for commercial vehicles similar to Euro IV, for which we will manufacture engines with cutting-edge four-valve technology and common-rail injection in Dalian. We have thus begun the necessary modernisation of our product range and, as unit sales increase, the joint venture will operate profitably.

5. Reduction in sensitivity to cyclical influences

The economic crisis of the past two years has demonstrated all too clearly that we are operating in a very cyclical market. The worldwide financial crisis emerged in the US before rapidly entangling the globally interlinked financial sector in its web. The first victims of the credit crunch were banks and over-indebted private property developers, followed by private construction activity and thus construction companies' investments in equipment, which had been bolstered by the boom. This effect spread through the entire global supply chain and all its networks and thus took hold in the logistics sector, impacting the commercial vehicles industry as well. The financial crisis had finally reached the real economy, and barely a region or industrial sector was spared. The only sector to remain largely stable was agricultural machinery, and the fast-growing countries of Asia suffered less of an economic downturn too.

The crisis hit DEUTZ disproportionately hard. The main application segments for DEUTZ engines are construction equipment, gensets and commercial vehicles; the principal sales regions – Germany, western Europe and North America – also followed the main flow of the economic downturn. The agricultural machinery segment and the Asia region simply made up too small a proportion of DEUTZ AG's sales and revenue to counteract this downturn. This effect was compounded by the fact that many of DEUTZ's German, western European and North American customers have similar sales structures to ours. Furthermore, there was a considerable reduction of inventories in the supply chain, as a result of which the unit sales of component and system suppliers such as DEUTZ lagged behind actual market requirements – an effect that we can express in figures as approximately 15,000 engines for DEUTZ in 2009.

More stable unit sales thanks to optimisation of geographical and segment distribution

We will not be able to completely free ourselves from these dependencies because they are specific to the industry in which we operate. However, there are two aspects of our strategy: optimising the geographical and segment distribution of our revenue and increasing the flexibility of the Company as a whole. We intend to achieve this flexibility with our MOVE FAST programme. After all, improving capacity utilisation in our internal manufacturing and service functions – by providing services to other companies or using the capacities of other companies for DEUTZ – not only increases profitability but also safeguards us against fluctuations in capacity utilisation. Furthermore, the reduction in fixed costs is enabling us to return to profit and also means that previously fixed costs become variable costs as capacity utilisation increases again.

As well as helping to improve long-term profitability, expansion of the service business is reducing our sensitivity to cyclical influences because the service business has a longer cycle than the original equipment business and is characterised by smaller peaks and troughs. So that we can absorb these strong fluctuations in the engine business in the future, we are specifically targeting the agricultural machinery segment with our 20XX and 2010 engines as it follows a different economic cycle to our engines' other application segments. For the same reason, our sales activities are also focusing on niche business more strongly than before, such as engines for railway, mining and marine applications. In parallel, we are stepping up our sales activities in regions such as Asia, due to its strong growth and because the countries there are less sensitive to cyclical influences.

Another element of our programme is improved sharing of risks with our suppliers and customers. DEUTZ alone bore the risk of under-utilisation of capacities, which we had expanded in response to strong demand between 2005 and 2007. Nobody could have foreseen back then that this risk would materialise so quickly. In the future, our customers and suppliers will take on a bigger share of such risks – after all, they share in the opportunities as well.

DEUTZ will emerge stronger from the crisis of the century

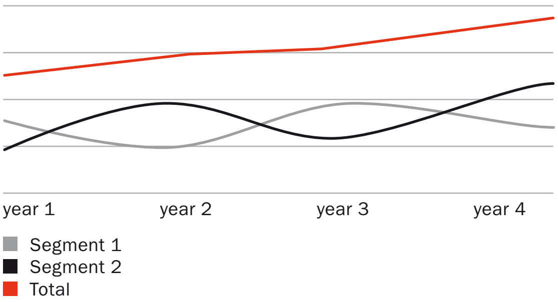
Our five-point strategic programme targets the right places: It builds on DEUTZ's strengths, which lie in technology, quality and excellent market position, and systematically tackles our weaknesses, which lie in profitability and sensitivity to cyclical influences. This approach is underpinned by well thought-out, interlinked action programmes that support both each other and our strategic objectives. In this way, our company will ultimately emerge stronger from the crisis of the century.

DEUTZ cycle management
DEUTZ cycle management follows three basic approaches

1. Reduce cyclicality

- Optimise mix of application segments
- Optimise regional sales mix
- Increase service business

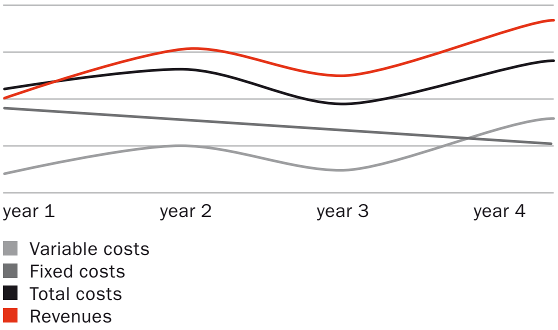
illustrative:



2. Increase flexibility

- Reduce fixed costs
- Share risks with suppliers and customers
- Increase flexibility of workforce and supply chain

illustrative:



3. Increase visibility

- Optimise mid-term planning system
- Work with different economic scenarios and strategic simulation models

2009 Group Management Report

OVERVIEW OF 2009

DEUTZ SUCCESSFULLY OVERCOMES THE CHALLENGES POSED BY THE CRISIS IN 2009

Global economic crisis The collapse of the Lehman Brothers investment bank in September 2008 was the trigger that caused the economic crisis – which began as a banking crisis - to spread to the real economy. In the first quarter of 2009, the German economy contracted by over 13 per cent compared with the previous quarter, the worst crisis since the 1920s and unprecedented in post-war history. It was difficult to carry out planning with any degree of certainty in such conditions. As a result, in place of our normal annual planning, we developed various scenarios depending on future trends.

Dramatic slump in business Business performance fell well short of our original forecasts. Revenue and unit sales more than halved.

Capacity adjustment In response to the extremely sharp downturn, we adjusted production capacity as quickly as possible. At an early stage, we initiated an action plan – in the form of the MOVE restructuring programme – to cut costs and increase efficiency. This also included measures to reduce the workforce. Back in January 2009, we introduced extensive short-time working. We also terminated temporary employment contracts, did not renew fixed-term contracts when they expired and introduced early retirement schemes. Within a short period of time, we were thereby able to make staff savings roughly equivalent to the cost of 25 per cent of our workforce and in a manner that minimised the impact on staff as far as possible. In a second stage, the workforce was reduced by a further 600 employees as part of a redundancy scheme. Again, we were able to achieve most of these job cuts in a socially responsible manner. Nevertheless, we were still unable to compensate in full for the contraction in volume with the result that the DEUTZ Group reported a significant operating loss (EBIT before one-off items) of €46.3 million.

Challenges surmounted Given the economic crisis in 2009, the order of the day was to scale back inventories and ensure the necessary liquidity. We achieved impressive results in this regard:

inventories were almost halved and there was even a slight increase in liquidity without any decrease in capital expenditure. In fact, we managed to further increase research and development expenditure in order to consolidate and build on our position as a technology leader in the market.

Our equity ratio remains at a high level. The economic situation jeopardised our ability to comply with the financial covenants that form part of our funding arrangements. We therefore instigated negotiations as soon as possible with our US investors. We have now taken a significant step towards a long-term restructuring of our funding following the agreements we have now reached with our bankers and the investors. Considerable cash resources continue to be required for research and development, but we have been able to place ourselves in an excellent position to begin the financial year in 2010 with new vigour.

GROUP STRUCTURE AND BUSINESS ACTIVITIES

OPERATING SEGMENTS AND PRODUCT RANGE

As an independent manufacturer of compact diesel engines with outputs of between 19kW and 560kW for both on-road and non-road applications[1)], DEUTZ provides the power that people need for professional and mobility purposes.

The DEUTZ Group's operating activities are divided into two segments: DEUTZ Compact Engines and DEUTZ Customised Solutions. The DEUTZ Compact Engines segment comprises liquid-cooled engines with capacities of less than four litres and engines with capacities of four to eight litres, while the DEUTZ Customised Solutions segment focuses on air-cooled engines and large liquid-cooled engines with capacities of more than eight litres. DEUTZ's field of activity covers development, design, production, sales and services for diesel engines that are cooled by water, oil or air.

DEUTZ AG

DEUTZ Compact Engines	DEUTZ Customised Solutions
• liquid-cooled engines: <4 litres and 4–8 litres	• air-cooled engines: <4 litres, 4–8 litres, >8 litres • liquid-cooled engines: >8 litres

1) On-road applications are defined as engine-powered commercial vehicles licensed for use on public roads, while non-road applications are engine-powered equipment that is not licensed for use on public roads.

Our range of products covers the following application segments:

Mobile Machinery:
construction equipment, material handling equipment, ground support equipment, mining equipment

Stationary Equipment:
gensets, pumps, compressors

Agricultural Machinery:
tractors, agricultural equipment

Automotive:
commercial vehicles (trucks, buses), rail vehicles, special vehicles

Miscellaneous:
includes marine equipment

DEUTZ Group: Unit sales by application segment
units (2008 figures)

35,908	(68,569)	Stationary Equipment
34,991	(115,058)	Mobile Machinery
26,814	(34,008)	Agricultural Machinery
18,870	(32,938)	Automotive
1,378	(1,786)	Miscellaneous
117,961	(252,359)	**Total**

We round off this product range by offering complementary services that are closely aligned with our customers' needs and, to this end, are constantly being expanded. We guarantee a reliable supply of spare parts and help our customers to repair, service and maintain their DEUTZ vehicles and equipment. For this purpose the Company possesses a global service network consisting of its own subsidiaries and service centres, together with authorised agents. A key component of our service business is the supply of reconditioned exchange parts and engines promoted under the name "DEUTZ Xchange" and managed within the DEUTZ Customised Solutions segment.

LEGAL STRUCTURE AND PRODUCTION SITES

DEUTZ maintains a strong international presence in a globalised market. DEUTZ customers are supported by nine distribution companies, nine sales offices and over 800 sales and service partners in more than 130 countries around the world. DEUTZ AG is the executive and operating parent company in the DEUTZ Group; it is headquartered in Cologne, Germany, and has various domestic and foreign subsidiaries. Its subsidiaries include a production facility in Spain and several companies that perform sales and service functions. DEUTZ also runs the DEUTZ AGCO MOTORES S.A. joint venture in Argentina and two further joint ventures in China – DEUTZ (Dalian) Engine Co., Ltd. and Weifang Weichai-Deutz Diesel Engine Co., Ltd. – thereby maintaining a significant presence in the rapidly growing Chinese market.

In addition to DEUTZ AG, three (31 December 2008: three) German companies and ten (31 December 2008: ten) foreign companies were included in the consolidated financial statements as at 31 December 2009. Page 111 of the annex to the notes to the consolidated financial statements lists the companies consolidated as part of the DEUTZ Group as at 31 December 2009.

MARKET AND COMPETITIVE ENVIRONMENT

The global market for diesel engines is divided into several market segments that are defined by both technical and industrial criteria. A large sub-segment consists of diesel engines for passenger cars and small commercial vehicles up to a permissible gross weight of around 3.5 tonnes. Diesel engines for these applications are much lighter, are designed to bear smaller loads and always operate at higher speeds than the engines that DEUTZ manufactures for professional applications such as construction equipment, agricultural machinery, pumps, gensets, and medium-weight and heavy trucks and buses.

The much smaller market segment can itself be broken down into two further segments. First, a technically highly sophisticated segment with engine outputs between 19kW and 560kW in countries with very stringent environmental standards, i.e. ones that prescribe low noise and exhaust emissions. Secondly, a segment based on older technology in countries with less demanding emissions standards that is dominated by very simple and inexpensive engines that are mainly manufactured in Asia and eastern Europe in what are often outdated production facilities.

The technically sophisticated segment comprises the following two markets: the captive market, which is virtually inaccessible to engine suppliers and in which the equipment manufacturers also produce their own engines, and the non-captive market, where the equipment manufacturers buy engines from other suppliers. It is in this technically advanced non-captive market that DEUTZ sells its high-quality engines around the globe. The only market in which DEUTZ does not offer any products is the North American commercial vehicles market, while the South American market is also largely closed, and DEUTZ only operates in the latter with a very restricted product range sold via its joint venture in Argentina.

In addition to DEUTZ, other engine providers from western Europe, North America and Japan are also major players in the non-captive engines market relevant to DEUTZ. Although the product ranges from these competitors are of a comparable technical standard, they are not identical to the range of products manufactured by DEUTZ. They differ significantly in some cases, especially in terms of the power outputs they cover and the products and services they offer for various application segments. Against this background of competition, DEUTZ has attained an outstanding position as one of the biggest suppliers in recent years.

Main competitors

Application segment	Applications	Main competitors in Europe and North America (in alphabetical order)
Mobile Machinery	Construction equipment Ground support equipment Material handling equipment Mining equipment	Caterpillar Cummins Kubota Perkins
Stationary Equipment	Gensets Compressors Pumps	Deere Kubota Perkins Yanmar
Agricultural Machinery	Tractors Harvesters	Cummins Kubota Perkins Yanmar
Automotive	Trucks Buses Rail vehicles	Cummins DAF Fiat Powertrain MAN
Marine	Marine engines Onboard generators	Deere Kubota Otosan Perkins

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). These KPIs are recorded within an internal control system. We are constantly monitoring a range of KPIs to ensure that we return to profitable growth again following the problems caused by the economic crisis in 2009. The primary indicators are unit sales and revenue in conjunction with the EBIT margin; we also manage the capital tied up in the business using the working capital ratio[1)] and the capital expenditure volume. In conjunction with working capital and EBIT optimisation, this in turn determines the return on capital employed[2)]. In managing its liquidity, DEUTZ focuses on free cash flow as a key performance indicator[3)]. 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. With this approach, we ensure that we are able to respond quickly to current 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.

1) Working capital ratio: ratio of average working capital (inventories plus trade receivables minus trade payables) over four quarters to revenue for the last twelve months
2) Return on capital employed (ROCE): ratio of EBIT to average capital employed. Capital employed: total assets 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 interest expense

Our performance indicators shown below – specifically the earnings-related indicators – reflect the dramatic downturn in unit sales that resulted from the tough economic conditions:

		2009	2008
Revenue	€ million	863.4	1,495.0
Unit sales		117,961	252,359
EBIT margin (before one-off items)	(%)	–5.4	1.5
Working capital ratio (as at the balance sheet date)	(%)	11.4	13.7
Working capital ratio (average)	(%)	20.6	16.2
ROCE (before one-off items)	(%)	–6.4	4.0
Free cash flow	€ million	12.6	–23.3

CONTINUOUS OPTIMISATION OF THE CONTROL SYSTEM

The ongoing optimisation of its corporate management and control system is one of the DEUTZ Group's overriding strategic objectives regardless of fluctuations in the economic cycle. The annual planning of all performance indicators highlights available flexibility. This planning is based on both internal estimates of future business and benchmark figures from competitors. Corporate planning at DEUTZ is carried out using a bottom-up approach – each organisational unit prepares detailed plans for its area of responsibility. This means that the key variables are available at the relevant hierarchical levels for use in the operational management of the business. Both the specific unit sales and revenue targets and the customer and product-related targets (EBIT margins) are reviewed with the operating units each year on the basis of Group-wide objectives.

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 individual managers.

We are pursuing long-term growth objectives. For this reason, we have centralised the management of capital expenditure, a key element in the management of capital tie-up: the level of capital expenditure is fixed with clearly specified budget figures; actual requirements are derived from the medium-term planning of unit sales and the resulting requirements in terms of capacity and technologies. The levels of capital expenditure and individual projects are agreed and fixed in conjunction with the financial planning department in the context of annual budget meetings. 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, income statement, cost comparisons). A project with an appropriate budget is only approved if there is a clear positive outcome from this investment appraisal.

The cash-based performance indicator we use for management and control purposes is the free cash flow; this allows us to ensure we commit the capital expenditure necessary for the future of the Company.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

First signs in Q4 of the anticipated upturn The global economic crisis that began in the second half of 2008 continued in the first six months of 2009. The first quarter of 2009, in particular, saw a sharp drop in figures compared with the first quarter of 2008 – a trend reflected in the main economic indicators across almost all regions and sectors of the economy. The downward momentum only began to ease in the second quarter before finally bottoming out in the third quarter both in the euro zone and in the USA – despite the weakness in the western industrialised countries caused by the summer holiday period. This recovery also continued in major markets, with the exception of Japan.

Sharp decline still the main feature of 2009 as a whole Just a glimpse at the economic data[1)] highlights the extent to which the global economy continued to find itself in the grip of recession in 2009: gross domestic product (GDP) throughout the world was down 1.1 per cent year-on-year, capital spending was down 9.3 per cent, and exports down 12.2 per cent. GDP growth in Asia – excluding Japan – slowed to just 5.4 per cent, but the impact on the western industrialised countries was particularly hard: in the USA GDP fell by 2.5 per cent, capital spending by 23.9 per cent, exports by 10.4 per cent and industrial output by 7.0 per cent. The contraction in GDP was even greater in the countries of the European Monetary Union at 3.9 per cent. These countries also saw their capital spending fall by 10.4 per cent and exports by 14.0 per cent. The significant dependency of the euro zone on exports was highlighted by the equally substantial drop in industrial output of 14.5 per cent. Germany, for many years the world's number one exporter, was one of the worst hit: GDP in DEUTZ AG's single largest market shrank by 4.9 per cent, capital spending by 8.3 per cent and exports by 14.8 per cent. This had an enormous impact on industrial output, which plunged by 16.0 per cent.

1) Sources: Deutsche Bank AG, Economic Research Bureau Frankfurt

Varying impact on DEUTZ customer industries The effects of the recession on our principal customer industries varied from sector to sector: EU-wide production of heavy trucks with a permissible gross weight of more than 3.5 tonnes plummeted by 66.4 per cent[1)] in the year under review. The impact on engineering[2)] was similar with global revenue in this sector declining by 19.0 per cent. Regional trends in engineering reflected the general trends in economic performance: whereas China still managed to generate a 10.0 per cent revenue increase, revenue in the USA and in western Europe fell by 25.0 per cent in both cases, and in Germany by 23.1 per cent. Germany's construction equipment industry was worse affected than the global average with revenue declining by 45.0 per cent and new orders by as much as 50.0 per cent. However, the impact was noticeably less severe on the German agricultural machinery sector where revenue was down by 25.0 per cent.

Global downturn in diesel engines market in 2009 The same trends were apparent from research for the global diesel engines sector[3)] carried out by Power Systems Research (PSR), an international market research organisation: unit sales of engines in this market[4)] which is critical as far as Deutz is concerned – declined by approximately 24 per cent compared with 2008. The USA and Europe were hit particularly hard with a decrease in unit sales of 39 per cent and 30 per cent respectively. Even the fast-growing Asian countries had to cope with a contraction of 13 per cent in the market for compact diesel engines used for industrial applications. The decline in unit sales of engines for medium-heavy commercial vehicles was particularly high at 42 per cent, followed by engines for marine applications down approximately 32 per cent and engines for mobile machinery down 25 per cent; the market for agricultural machinery diesel engines shrank by around 16 per cent. Regional differences were also apparent in the individual application segments: the drop in unit sales of engines was particularly severe in mobile machinery – sales were down by almost 41 per cent in the USA and approximately 33 per cent in Europe. In both cases, the contraction was far greater than the global average.

Reductions in inventories compound the negative effects In the year under review, reductions in inventory levels over the entire supply chain also compounded the effects of the sharp fall in demand caused by the economic conditions. Firstly, the trade was selling construction equipment, tractors and commercial vehicles held in stock before placing new orders. Secondly, equipment manufacturers themselves were scaling back their inventories of finished engines and equipment. The same also applied to the engine inventories held by the manufacturers' distribution organisations. All these inventories were reduced to an absolute minimum in order to achieve optimum inventory management from a business performance perspective with the result that only a proportion of actual market demand filtered through to the suppliers.

The longer the supply chain to market, the greater this effect: reductions in inventories over the supply chain in the year under review therefore had a significant impact on component suppliers such as DEUTZ, who are located up to five stages in the chain away from the end customer. The relevant market studies do not really take into account these supply chain effects, just as they do not take into account the compounding or compensating effects arising from the differences in individual company focus between the various regions, application segments and power output categories.

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS PERFORMANCE

Europe (excluding Germany) was once again our most important market in 2009. We sold 66,146 engines in this region in 2009 (2008: 126,190 units), accounting for more than half (56 per cent) of our total unit sales of engines (2008: 50 per cent). Although unit sales in the first nine months were just under half of those in the same period in 2008, we did see a recovery in the fourth quarter of 2009: unit sales figures for Europe (excluding Germany) were up by 8.2 per cent on Q4 2008. This provided proof positive that the economic recovery, which already started to appear around mid-year in the euro zone and boosted economic output, had also reached DEUTZ.

Although our sales in America plunged by three-quarters for 2009 as a whole, they fell by 'only' around 50 per cent in the last three months compared with the same period of 2008 – the first sign that the US economy is stabilising.

As far as unit sales in the individual application segments are concerned, Agricultural Machinery stood out as the exception: unit sales in this segment 'only' fell by approximately 21 per cent in 2009, whereas sales volume in Mobile Machinery, for example, plummeted by almost 70 per cent.

This confirmed our long-standing experience that the effects of economic cycles are felt later in agricultural machinery than in other engineering application segments; the changes, both positive and negative are also less extreme. We see this as a compelling reason to continue expanding our market position in the agricultural sector in future. We will be launching two new engine series with capacities of less than four litres that are due to go into series production in 2011 and 2012. This means that we will continue to offer engines that are designed to be used in tractors as well as in industrial applications.

1) Source: European Automobile Manufacturers' Association (ACEA), Brussels
2) Source: German Engineering Federation (VDMA), Frankfurt
3) Sources: Power Systems Research (PSR), internal figures
4) Global market for diesel engines adjusted for regions, application segments, technology segments and power output classes not relevant to DEUTZ

Uptrend in revenue again at the end of the year The revenue earned by the DEUTZ Group in 2009 fell by over 40 per cent to just over €863 million owing to the global economic crisis. We had generated revenue of €1,495 million in 2008. However, the uptrend in the fourth quarter of 2009 shows that we have overcome the worst: the last three months were the strongest quarter in 2009 in terms of revenue. Revenue was up by almost 19 per cent on the third quarter, even if it was still approximately 27 per cent down year on year.

Revenue in Europe higher towards year-end The sharp fall in the DEUTZ Group's revenue was not equally pronounced everywhere, as illustrated by a breakdown of revenue by region. We were hit hardest by the decrease in our most important market: revenue in Europe (excluding Germany) fell by 39.5 per cent during the reporting year from €744.6 million (2008) to €450.4 million (2009). The good news was that, with the increase in unit sales in the final quarter of 2009, the European revenue generated outside Germany increased again, growing by 3.9 per cent compared with the corresponding period of 2008.

The revenue earned from the German market during the reporting year fell by over 44 per cent to roughly €202 million, while revenue from the American market plunged by more than 60 per cent to just under €70 million. In contrast, the deterioration in the Asia-Pacific market was less severe, with revenue generated from this region declining by just under 30 per cent year-on-year to €83.5 million.

Encouraging trend driven by construction equipment The application segment most severely affected by the low level of construction activity was our Mobile Machinery business – our strongest revenue driver – because construction equipment accounts for the largest component of this segment. The revenue generated in this application segment in 2009 plunged by two-thirds to only €177.7 million (2008: €529.8 million). However, we are turning the corner. There was a significant recovery in the construction equipment business in the fourth quarter of 2009: revenue was 56 per cent up on Q3, although still just under 27 per cent down year-on-year. The German Engineering Federation (VDMA) has confirmed this trend, commenting: "Recent year-on-year comparisons of new order volumes have become increasingly encouraging as each month has passed. […] Construction equipment is the main driver of the positive current trend."

PROCUREMENT

Purchasing managers faced with new challenges In common with all other areas of the organisation, DEUTZ's purchasing managers were faced with new challenges in 2009 as the global economic crisis affected the Company's procurement activities. Despite these tough economic conditions, we were determined to sustain our close relationships with our partners throughout the entire value chain. We achieved our objectives by cutting our costs, ensuring security of supply and – despite the financial instability of some suppliers – maintained our quality standards and averted price increases.

DEUTZ's purchasing department at head office is responsible for the procurement of forged and cast parts, components such as turbochargers and pumps, and exhaust aftertreatment parts. This also includes the procurement of non-production materials. There are around 40 people working in purchasing at the Cologne-Porz site, which is the majority of the department's staff.

Falling commodity prices The international commodity markets for forged and cast parts underwent a significant downward correction in the first two quarters of 2009. Prices fell to the more normal levels they had been at before peaking in 2008. The price of cast-iron scrap, for example, fell by some 33 per cent year-on-year in 2009, which boosted DEUTZ's profitability.

We expect commodity prices to rise slightly in 2010 given that the global economy is recovering and demand for raw materials is growing as a result. The prices of non-ferrous metals, copper and nickel rose at the beginning of 2009, and aluminium followed suit from the middle of the year onwards.

Foundry products remain one of the main items in DEUTZ's cost of materials in 2009, followed by fuel injection equipment and measurement and control devices. A more detailed breakdown reveals that foundry products accounted for roughly 57 per cent of the total cost of materials, while fuel injection equipment accounted for 17 per cent, and measurement and control devices for 5 per cent. The remaining 21 per cent of the cost of materials was spread across generators, starters, exhaust-gas turbochargers, turned parts, sheet metal parts, standard and DIN parts, and forged parts.

Cost savings via technical improvements The idea behind our MOVE cost-cutting programme was to lower the cost of our materials and other purchased items – such as supplies and services – across the DEUTZ Group. We achieved just under half of these total cost savings by making technical improvements, for example by reducing the complexity of components, simplifying processes or using new materials and alloys. We saved roughly the same proportion through our annual negotiations with existing suppliers on the prices of materials, supplies and related services.

PRODUCTION

Component production and engine assembly in the DEUTZ Group are based at the following sites:

Assembly and component production

	Germany (Cologne region)	Spain (Zafra)	Germany (Ulm)	China JV (Dalian)	Argentina JV (Buenos Aires)
Assembly	●		●	● 1)	● 1)
Component production					
Crankcases	●		●	●	
Cylinder heads	●	●		●	
Crankshafts	●		●		
Camshafts	●			●	
Conrods		●			

1) The joint ventures in China and Argentina are consolidated using the equity method.

Alignment of production with unit sales levels In the second half of 2008, and even more so in 2009, the Company was forced to adjust its production levels in line with the dramatic slump in its unit sales caused by the global economic crisis. DEUTZ adjusted its shift pattern back in mid-2008, with most sites switching from three shifts to two shifts and some units even scaling back to one-shift operations. At the same time, the number of temporary staff and contract workers was reduced significantly in all production units. In addition, the Company introduced short-time working at its German plants and at some international sites from December 2008 and throughout 2009 in order to bring its production capacities into line with the continuing contraction in demand without losing highly qualified core staff.

DPS-DEUTZ production system, which we have been pushing ahead with since 2008, was stepped up and expanded in 2009. Manufacturing and assembly processes are being optimised as part of the cross-site DEUTZ production system (DPS). The established tools used include workshops on value stream mapping (VSM), the introduction of kanban processes to simplify logistical procedures and logistics management, workshops on set-up times, and the smoothing of work levels. These measures are designed to significantly improve productivity, throughput times, inventories and delivery quality and are based on the philosophy of lean production with a focus on customers' needs and the constant optimisation of the value creation process.

Cologne plant The plants in Cologne-Porz and Cologne-Deutz assembled a total of 98,747 engines in 2009, which represented a year-on-year decrease of approximately 54.8 per cent (2008: 218,601 engines). Of this total, 71,753 engines were in the four to eight-litre category and 26,994 had capacities of less than four litres. Because this business had been hit particularly hard by the financial and economic crisis, its operations were reduced further to just a single shift in May 2009. The low level of capacity utilisation was used as an opportunity to fundamentally improve logistics processes. The establishment of DEUTZ's external just-in-sequence (JIS) assembly centre in November 2009 laid the foundations for bringing the assembly processes into line with the demands created by the growing range of product varieties on offer. By providing the materials just in time and just in sequence, this system removes logistical problems from the assembly process.

Ulm plant A total of 12,095 engines (2008: 31,444 engines) were assembled at the Ulm plant in 2009, 10,160 of which were air-cooled engines and 1,935 were water-cooled engines with capacities of more than eight litres. Capacity utilisation was some 61 per cent lower than in 2008.

Zafra plant After production of small air-cooled engines for the local Spanish market had been discontinued in 2008, the plant in Zafra was successfully restructured in 2009 so that it now focuses entirely on manufacturing components for cylinder heads, connecting rods and gearwheels. Because this plant is highly competitive, it also supplies external customers. The workforce in Zafra was reduced substantially as a result of the economic crisis. An arrangement similar to the German system of short-time working was introduced in Spain in order to retain highly skilled workers despite the sharp contraction in production volumes.

International joint ventures The DEUTZ (Dalian) Engine Co., Ltd. joint venture in China, which commenced operations in August 2007, manufactured approximately 99,500 engines in 2009 (2008: 97,000 engines) at the joint venture's own production facilities, primarily for the local Chinese commercial vehicle market. Of this total, around 6,700 diesel engines (2008: 7,000 engines) were produced on the basis of licensed DEUTZ technology.

In Weifang, where DEUTZ runs its Weifang Weichai-Deutz Diesel Engine Co., Ltd. joint venture in collaboration with Weichai Power, more than 22,000 engines were manufactured in 2009 (2008: 29,000 engines) for agricultural machinery, gensets, construction equipment, automotives and marine equipment. Some 2,900 of these engines were produced for export, mainly for genset applications.

During the reporting year the Argentinian joint venture, DEUTZ AGCO MOTORES S.A. (DAMSA), produced more than 1,700 engines (2008: 3,400 engines) for the local market, primarily for agricultural machinery and bus applications.

New structures for even better quality The high quality of DEUTZ engines is one of the key factors in the Company's success. This was confirmed when its products were successfully re-certified to ISO 9001:2008 in the first quarter of 2009. We aim to maintain this standard, thereby meeting the increasing demands of the international market in future and taking into account the stricter statutory exhaust emission requirements. Over the past year, DEUTZ has therefore continued to work on expanding the existing quality management system into a total quality management system.

A major step in this direction was the reorganisation of quality management from the middle of 2009 onwards. This involved transferring responsibility for all operational quality assurance functions from the relevant departments at head office to the decentralised manufacturing and assembly units and to the purchasing and development functions, thereby ensuring that the operating units identify more closely with their quality targets and objectives. The quality system is coordinated and monitored by a TQM unit in the corporate management department at head office. Furthermore, DEUTZ AG totally redesigned its quality report (published in the fourth quarter of 2009) to make it more transparent. This will enable further measures aimed at even more quality and customer satisfaction to be identified sooner and implemented more effectively.

Further decline in the number of notifiable workplace accidents Since 2005, there has been a steady decline in the number of notifiable workplace accidents at DEUTZ. In 2009 the key indicator – the number of notifiable accidents per thousand employees[1] – improved by a further 33 per cent on the previous year.

In 2009 there were 21 notifiable accidents per thousand employees compared with 33 in 2008. According to the latest available statistics from the engineering employers' liability insurance association, the number of notifiable accidents per thousand employees at DEUTZ is 56 per cent below the industry average based on figures from insurance companies.

The trend in this indicator shows that the strategies and measures we have in place to reduce workplace accidents are taking effect. These include the security-related approval of new installations, machinery and other resources and the authorisation procedure for hazardous materials.

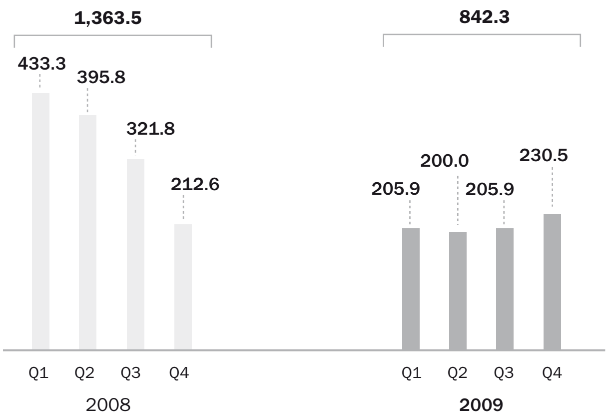
NEW ORDERS

DEUTZ Group: New orders
€ million

1) Includes DEUTZ Power Systems

Business performance impaired by crisis in 2009 The global financial and economic crisis hampered the performance of DEUTZ's business in 2009. Key indicators – such as orders on hand and revenue – were significantly lower year-on-year. Nonetheless, the situation consolidated over the course of the year and even resulted in a significant recovery in the fourth quarter of 2009.

DEUTZ Group: New orders by quarters
€ million



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

More orders received towards year-end New orders are a barometer of future performance: unit sales and revenue follow after some delay. The volume of new orders received by the DEUTZ Group in 2009 contracted by roughly 38 per cent year-on-year to €842.3 million (2008: €1,363.5 million). However, this trend reversed towards the end of the year: the volume of new orders won in the fourth quarter grew by 8.4 per cent on the corresponding period of 2008 which, admittedly, had been fairly disappointing.

The last quarter of 2009 saw an increase in orders, primarily in Mobile Machinery. The renewed growth in orders was most particularly apparent in the construction equipment business.

The decrease of around 16 per cent in the volume of service-related orders received during the reporting year was less pronounced (volume in 2009: €175.2 million) than the contraction in the total volume of new orders. The level of service-related orders won in the fourth quarter of 2009 was virtually unchanged year-on-year.

Even though there was a significant upturn again in new orders in the fourth quarter with orders reaching €230.5 million - which equated to an increase of 8.4 per cent on Q3 (€212.6 million) - new orders at the end of 2009 were still only €154.7 million, 13.8 per cent below the value at the end of 2008 (31 December 2008: €179.5 million).

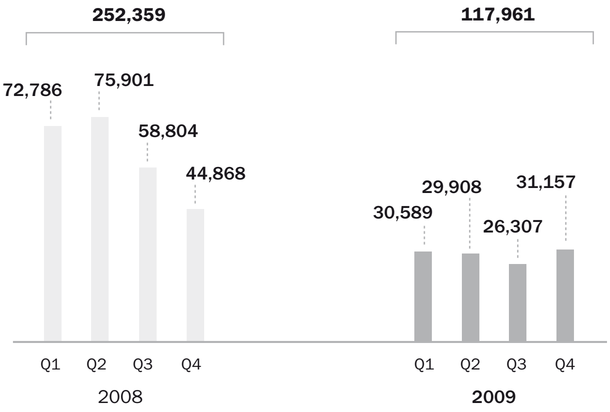
UNIT SALES

DEUTZ Group: Unit sales
units

1) Includes DEUTZ Power Systems

Unit sales: downward trend slows from second half of the year onwards Unit sales during the reporting year fell by over 53 per cent from 252,359 engines in 2008 to 117,961 in 2009. However, in line with the rise in new orders, there were also signs of a slight improvement in unit sales at the end of the year: in Q4 unit sales were up by as much as roughly 18 per cent on the previous quarter. Unit sales in the fourth quarter were therefore still just over 30 per cent down on the same period in 2008, although construction equipment was only down by around 22 per cent and stationary equipment by around 21 per cent compared with Q4 2008. The segments that suffered a particularly early and dramatic downturn appear to be the ones that are recovering the most swiftly.

DEUTZ Group: Unit sales by quarters
units



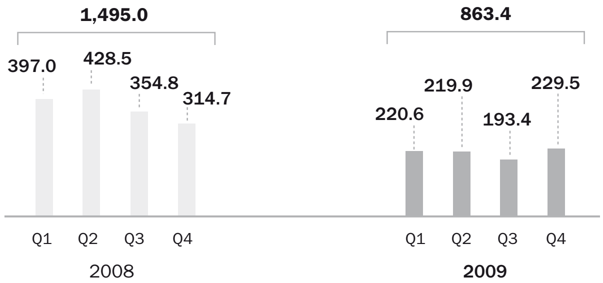
RESULTS OF OPERATIONS

DEUTZ Group: Revenue
€ million

1) Includes DEUTZ Power Systems

Mirroring the dramatic slump in unit sales, revenue fell sharply by €631.6 million, or 42.2 per cent, to €863.4 million in 2009 (2008: €1,495.0 million), which was the worst result of the past five years. Of the total revenue generated, €688.4 million (2008: €1,283.0 million) was attributable to engines and €175.0 million (2008: €212.0 million) to services. In the case of revenue earned from engines, the severe volume-related impact was slightly mitigated by an improved product mix and modest price increases in the market. The decrease in service revenue was a much more moderate 17.5 per cent because, when times are hard, our customers tend to invest in repairs and maintenance rather than in new engines.

DEUTZ Group: Revenue by quarters
€ million



The trend witnessed in the second half of the year gives us cause for optimism, because the fact that the volume of new orders exceeded our revenue in both quarters shows that we have overcome the worst. Even though total revenue for the whole year was still down 42.2 per cent compared with 2008, we did see a Q4 increase of 19 per cent on the third quarter.

DEUTZ Group: Revenue by application segment
€ million (2008 figures)

■	**177.7**	(529.8)	Mobile Machinery
■	**175.0**	(212.0)	Service
■	**169.7**	(266.2)	Automotive
■	**162.9**	(195.8)	Agricultural Machinery
■	**153.0**	(259.3)	Stationary Equipment
■	**25.1**	(31.9)	Miscellaneous
	863.4	(1,495.0)	**Total**

The Mobile Machinery and Stationary Equipment application segments, which are among our key revenue drivers, were hit particularly hard by the slump in revenue, reporting decreases of 66.5 per cent and 41.0 per cent respectively. These declines resulted primarily from the sharp fall in unit sales of engines with capacities of less than four litres, which are mainly used in construction equipment and compressors. In contrast, the fall in the level of revenue generated by Agricultural Machinery was significantly lower at 16.8 per cent. One of the main contributing factors here was the significantly higher revenue generated by a big-ticket customer in eastern Europe, However, this application segment experienced a slowdown in the fourth quarter, whereas in all other application segments – primarily in the most severely affected application segment, Mobile Machinery – we experienced increases in revenue compared with the previous quarter.

DEUTZ Group: Revenue by regions
€ million (2008 figures)

■	**710.3**	(1,195.7)	Europe/Middle East/Africa
■	**83.5**	(118.6)	Asia-Pacific
■	**69.6**	(180.7)	Americas
	863.4	(1,495.0)	**Total**

The impact of the global economic crisis varied from one region to another. Our business suffered most from the downturn in the United States, where our revenue plunged by 61.5 per cent year-on-year in 2009, although the movement in the dollar/euro exchange rate had a slightly positive impact. The strength of the Asian economy is reflected in the 29.6 per cent drop in revenue generated by the Asia-Pacific region, a significantly more modest decrease compared with that in the United States.

DEUTZ Group: Operating profit/EBIT margin before one-off items
€ million (EBIT margin in %)

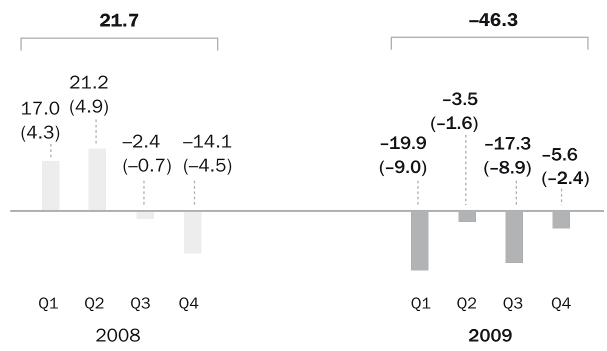
1) Since 2009 the interest cost of defined benefit pension obligations has been reported as part of staff costs. These expenses are no longer shown as part of net interest expense The prior-year figures have been restated accordingly to improve comparability.

2) Includes DEUTZ Power Systems

DEUTZ launched its MOVE action programme in October 2008 which, since then, has boosted income by €136 million. MOVE improved the Company's profitability by some €126 million in 2009, in particular by lowering its operating and staff costs. By implementing structural measures, the programme will help strengthen the Company's earnings over the long term. The programme focuses on cutting overheads and the cost of materials, raising productivity and efficiency in research & development, production and quality, and on pricing products and services appropriately.

DEUTZ Group: Operating profit/EBIT margin before one-off items by quarter[1]

€ million (EBIT margin in %)



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

Nevertheless, MOVE was unable to fully compensate for the persistent and sharp contraction in business volumes caused by the recession. Consequently, the DEUTZ Group incurred an operating loss (EBIT before one-off items) of €46.3 million in the period under review after reporting an operating profit of €21.7 million for 2008; its EBIT margin was negative at minus 5.4 per cent (2008: plus 1.5 per cent). In addition to the sharp contraction in business volumes, the losses of €8.1 million incurred by the DEUTZ Dalian joint venture in China (2008: €11.1 million) adversely affected earnings. The rise in other operating income – especially owing to the reversal of provisions (€14.4 million) – had a positive impact. After one-off items, EBIT for 2009 came to minus €89.2 million (2008: plus €7.4 million). The one-off expensive of €42.9 million (2008: €14.3 million) largely resulted from personnel restructuring costs incurred in connection with the MOVE action programme (€25.4 million) and total impairment losses of €14.3 million on non-current assets. The impairment losses were mainly recognised in respect of capitalised development expenditure including licences for two series of engines: small engines with outputs of up to 27kW and engines with outputs between 15kW and 50kW.

Overview of the financial performance of the DEUTZ Group

	2009	2008
€ million		
Revenue	**863.4**	**1,495.0**
Changes in inventories and other own work capitalised	–9.8	25.4
Total output	**853.6**	**1,520.4**
Other operating income	72.8	65.0
Cost of materials	–567.9	–1,039.7
Staff costs	–265.3	–300.1
Depreciation and amortisation	–66.3	–71.8
Impairment	–14.1	–2.6
Other operating expenses	–99.3	–159.1
Net investment income	–2.7	–4.7
EBIT	**–89.2**	**7.4**
One-off items	–42.9	–14.3
EBIT (before one-off items)	**–46.3**	**21.7**
Net interest expense	–10.0	–3.2
Other taxes	–1.9	–1.5
Income taxes	–18.7	–6.9
Net income on continuing operations	**–119.8**	**–4.2**
(%)		
EBIT margin	–10.3	0.5
EBIT margin (before one-off items)	–5.4	1.5
Cost of materials	66.5	68.4
Staff costs	31.1	19.7
Staff costs (before one-off items)	28.1	19.1

Cost of materials The cost of materials as a proportion of total output fell by 1.9 percentage points year-on-year. Other than the targeted cost-cutting measures as part of the MOVE programme, the main contributing factor was the positive effect from lower commodity prices: the market price of foundry scrap steel – the most important raw material for DEUTZ – fell by 22 per cent on average to around €280 per tonne in 2009. However, these benefits were counteracted to some extent by increased costs – relative to revenue – for energy, maintenance and purchased services.

Staff costs Targeted cuts in staff costs were achieved by reductions to the workforce and the use of short-time working. Staff costs include one-off headcount reduction expenses of €25.4 million (2008: €10.5 million). In the year under review, the staff cost ratio rose by 11.4 percentage points, or by 9.0 percentage points excluding the aforementioned one-off items.

Since the first quarter of 2009 the interest cost of defined benefit pension obligations has been reported as part of staff costs. These expenses are no longer shown as part of net interest expense so that only effective interest is reported under net interest expense. This interest element amounted to €10.0 million in 2009 (2008: €10.1 million). The prior-year figures have been restated accordingly to improve comparability.

Other operating expenses Other operating expenses declined by €59.8 million to €99.3 million (2008: €159.1 million). This decrease was largely accounted for by lower expenses for general services such as logistics (including freight) and IT, the reversal of provisions for warranties (which are linked to revenue) and the reduction in temporary staff, all of which were the consequence of the lower volume of business and of the MOVE action programme.

Net interest expense Net interest expense increased by €6.8 million year-on-year to €10.0 million in 2009 (2008: €3.2 million). This was primarily due to the lower level of interest received on deposits in connection with a decrease in cash and cash equivalents during the course of the year. As far as interest paid on borrowings is concerned, there was also an increase in the last quarter in the interest paid on the US private placement as a result of the suspension agreement with US investors.

Income taxes Income taxes in the year under review amounted to €18.7 million (2008: €6.9 million). The increase was partly attributable to higher deferred taxes resulting from an increase in temporary differences between the consolidated financial statements in accordance with IFRS and the tax base in connection with capitalised development expenditure as well as to write-downs on deferred tax assets in our US subsidiary. Other reasons behind the increase included the current tax expense arising from a tax audit at DEUTZ AG completed in the current year and covering the years 2002 to 2005, the current tax expense arising from the subsequent impact of this tax audit on the financial years 2006 to 2008, and an adjustment to the 2007 tax return in connection with the discontinued DEUTZ Power Systems segment.

Net income The net loss of €119.8 million on continuing operations was significantly higher year-on-year (2008: net loss of €4.2 million). In addition, there was a net loss on discontinued operations of €4.2 million (2008: €4.1 million) resulting from a tax expense in connection with the discontinued Power Systems segment. Overall the DEUTZ Group reported a net loss of €124.0 million for 2009 (2008: net loss of €8.3 million).

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group segments

	Continuing operations 2009	Continuing operations 2008
€ million		
New orders		
DEUTZ Compact Engines	632.4	1,032.5
DEUTZ Customised Solutions	209.9	331.0
Total	**842.3**	**1,363.5**
Unit sales (quantity)		
DEUTZ Compact Engines	102,420	219,681
DEUTZ Customised Solutions	15,541	32,678
Total	**117,961**	**252,359**
Revenue		
DEUTZ Compact Engines	636.0	1,143.2
DEUTZ Customised Solutions	227.4	351.8
Total	**863.4**	**1,495.0**
Operating profit (EBIT before one-off items)		
DEUTZ Compact Engines	–55.6	–21.5
DEUTZ Customised Solutions	10.7	45.4
Miscellaneous	–1.4	–2.2
Total	**–46.3**	**21.7**

DEUTZ COMPACT ENGINES BUSINESS PERFORMANCE

Stabilisation of demand in fourth quarter In the DEUTZ Compact Engines segment, demand fell by just under 39 per cent in the year under review: new orders amounted to €632.4 million whereas in 2008 the figure had been €1,032.5 million. However, the last quarter of 2009 saw a recovery – new orders were 8.3 percent up on the same quarter in 2008. The turnaround was concentrated primarily in the Mobile Machinery and Stationary Equipment application segments. Both of these segments performed well in the fourth quarter.

Unit sales of engines halved The year under review saw a drop of more than 50 per cent in the number of engines sold: the DEUTZ Compact Engines segment sold 102,420 engines in 2009 compared with 219,681 in 2008. The impact was heaviest in the application segment with the greatest unit sales, Mobile Machinery, where unit sales plummeted by just under 70 per cent. DEUTZ only managed to sell 32,203 engines in this application segment (2008: 106,501 engines).

DEUTZ Compact Engines: Revenue by application segment
€ million (2008 figures)

■	**155.5**	(186.0)	Agricultural Machinery
■	**148.1**	(454.8)	Mobile Machinery
■	**138.0**	(223.1)	Automotive
■	**106.2**	(170.6)	Stationary Equipment
■	**87.5**	(100.6)	Service
■	**0.7**	(8.1)	Miscellaneous
	636.0	(1,143.2)	**Total**

Revenue consolidation for DCE The DEUTZ Compact Engines segment (DCE) generated revenue of €636.0 million in the year under review, 44 per cent below the figure achieved in 2008 (2008: €1,143.2 million). The trend in this segment was similar to that in the Group as a whole: a drop in revenue of just under 40 per cent in European countries other than Germany, almost 50 per cent in Germany itself, and more than two thirds in the Americas. However, the fourth quarter of 2009 witnessed a significant recovery in a number of regions: revenue growth of 11.5 per cent in Europe (excluding Germany), as much as 32.4 per cent in the Middle East and even 77.3 per cent in Africa year-on-year. Unfortunately, the Middle East and Africa markets with total annual revenue of €13.2 million and €11 million respectively are too small to help DEUTZ bring about a turnaround overall.

The variation in the impact of the financial crisis on different sectors of the economy is highlighted by the following comparison: whereas construction equipment revenue in the DEUTZ Compact Engines segment was around two thirds lower in 2009 (€98.8 million compared with €300.0 million in 2008), revenue in the Agricultural Machinery application segment with its late cyclical business was down only by around 16 per cent (2009: €155.5 million).

Although we were partly able to offset the downturn in revenue by the savings generated in the MOVE cost-cutting programme, this downturn nevertheless led to a significant drop in earnings in the DEUTZ Compact Engines segment.

EBIT declining In the year under review, the DEUTZ Compact Engines segment incurred an operating loss (EBIT before one-off items) of €55.6 million compared with a loss of €21.5 million in 2008. Further start-up losses in the DEUTZ Dalian joint venture in China amounting to €8.1 million (2008: €11.1 million) continued to be a factor in this operating loss for the segment. It is encouraging that the joint venture was able to generate the 2008 level of unit sales in the year under review despite the tough economic conditions, which were also affecting the Asian market. One-off charges amounting to €42.2 million were recognised in the DEUTZ Compact Engines segment, in particular for expenses incurred by personnel restructuring in connection with the MOVE action programme and for impairment losses recognised on non-current assets. EBIT after one-off items was minus €97.8 million.

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS SEGMENT

New orders: uptrend again in Q4 Lower demand, fewer orders: in the year under review, the DEUTZ Customised Solutions (DCS) segment posted order volumes of almost €210 million, just under 37 per cent down on order volumes in 2008 (2008: €331.0 million). However, orders were up again in the fourth quarter, registering an increase of 8.6 per cent compared with the same period in 2008. As in the DEUTZ Compact Engines segment, most of the impact was in Mobile Machinery. Demand in this application segment was more than halved over the year as a whole, but the final quarter of the year saw a recovery with demand up more by than 50 per cent on the same quarter in 2008.

Unit sales halved In the year under review, DEUTZ Customised Solutions sold 15,541 engines, approximately 50 per cent fewer than in 2008 (2008: 32,678 engines). Of the application segments, only Agricultural Machinery was able to hold the decline in check. In this application segment, unit sales fell by just 0.7 per cent to 1,886 engines in 2009 (2008: 1,899 engines).

DEUTZ Customised Solutions: Revenue by application segment
€ million (2008 figures)

■	**87.5**	(111,4)	Service
■	**46.8**	(88.7)	Stationary Equipment
■	**31.7**	(43.1)	Automotive
■	**29.6**	(75.0)	Mobile Machinery
■	**24.4**	(23.8)	Miscellaneous
■	**7.4**	(9.8)	Agricultural Machinery
	227.4	(351.8)	**Total**

DCS revenue slow to respond The large engines manufactured by DEUTZ Customised Solutions have longer ordering and delivery lead times compared with compact engines. There is therefore a slight delay in the response of this segment's revenue to the economic situation both in a downturn and in an economic recovery.

EBIT takes a hit, but still positive Despite the tough economic conditions and the fall in highly profitable service business, the DEUTZ Customised Solutions segment reported an operating profit (EBIT before one-off items) of €10.7 million for 2009 (2008: €45.4 million).

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the financial position of the DEUTZ Group

	2009	2008
€ million		
Cash flow from operating activities	117.4	89.7
Cash flow from investing activities (continuing operations)	–90.8	–97.3
Cash flow from investing activities (discontinued operations)	–1.3	–26.8
Cash flow from financing activities	–18.2	–69.2
Change in cash and cash equivalents	7.1	–103.6
Free cash flow (continuing operations)	12.6	–23.3
Cash and cash equivalents at 31 December	214.7	207.5
Current and non-current interest-bearing financial liabilities at 31 December	211.8	219.7
Net financial position at 31 December	2.9	–12.2

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

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

Financial management centrally organised Responsibility for financial management in the DEUTZ Group is held by DEUTZ AG as the overall parent company in the Group. Financial management primarily comprises management of the lines of credit required by the Company, cash pooling and any necessary foreign exchange hedging. Centralised cash pooling ensures optimum use of cash within the Group. Foreign currency surpluses in the Group are to a large extent hedged by purchasing agreements in the relevant currency. The risk arising in connection with any remaining or foreseeable currency surpluses or requirements is hedged by the head office finance department in accordance with internal guidelines.

FINANCE

US private placement – compliance with financial covenants suspended By issuing bonds for US$ 274 million as part of a private placement in the United States in 2007, DEUTZ obtained long-term funding over periods of five, seven and ten years independently of banks. Interest payments and the repayment of the principal in US dollars are hedged over the entire maturity of the bonds by cross-currency swaps in euros. In other words, DEUTZ is not faced with any currency risk in connection with the US private placement.

Part of the documentation for the US private placement consists of financial covenants, which oblige DEUTZ to comply with certain key performance indicators. These financial covenants are based on the ratio of net debt to equity, net debt to EBITDA (before one-off items), and EBITDA (before one-off items) to net interest income/expense. Net debt includes all current and non-current interest-bearing financial liabilities (loans, bonds, notes, finance lease liabilities less any existing cash and cash equivalents).

Following the sharp deterioration in revenue and profitability last year the DEUTZ Group was in danger of breaching its earnings-related financial covenants at the end of the third quarter of 2009, which could have caused the creditors of the US private placement to terminate it. We therefore entered into negotiations with the private placement creditors at the earliest opportunity in order to secure our funding on a long-term basis and bring the financial covenants into line with the prevailing situation.

Starting on 29 September 2009 we agreed waivers with our creditors that exempt us from the obligation to comply with the financial covenants and postpone the dates on which our compliance with these covenants is assessed, which has enabled us to avoid breaching our contractual obligations. The interest rate has been increased by 2 percentage points over this period. An agreement (Agreement in Principle and Fourth Waiver and Deferral) that we signed with the private placement creditors on 11 March 2010 finalised the key points of the amendments made to the private placement documentation. In particular, a term sheet stipulated the interest rates payable, the terms to maturity, the financial covenants to be complied with in future as well as other terms and conditions (including credit facility bank finance and the provision of collateral), and the waiver agreement was extended until 30 April 2010. The most significant financial covenants will be the ratio of net financial debt to EBITDA, interest coverage and the ratio of free cash flow to interest and repayments of principal. We believe that we will comply with these financial covenants given the forecasts for our business over the next few years. The current interest rate is being increased by 2 percentage points on the rate in the original agreement. DEUTZ will also incur additional costs that are to be capitalised and will become due on redemption of the private placement, although the actual amount to be paid will vary depending on the timing of the final scheduled repayment or any premature repayment. This will incur a total annual cost in the low double-digit millions. The maturity of the tranche originally due in 2017 has been shortened by three years. The amendments made to the private placement documentation will also incur one-off costs in the low single-digit millions.

In addition, we have negotiated with German banks as part of a syndication process and have received binding funding commitments from the banks concerned for medium-term working capital facilities totalling €76 million.

In future, the banks and the private placement creditors will share pari passu in a comprehensive package of collateral to be lodged by DEUTZ.

The contractual documentation detailing the private placement amendments and the related bank finance will be finalised over the coming weeks.

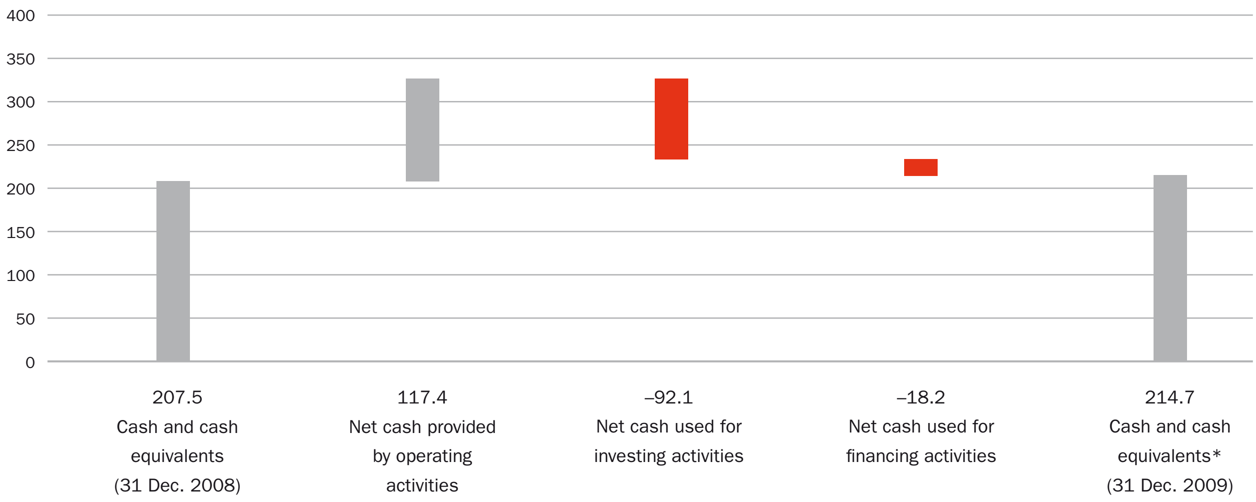
If successful, these arrangements will secure the DEUTZ Group's future funding and, consequently, the consolidated financial statements have been prepared on a going-concern basis.

As at 31 December 2009, we had unused short-term lines of credit of around €28 million.

Optimum receivables management by means of factoring Over the last few years, factoring – the sale of receivables – has steadily become increasingly important. DEUTZ uses these opportunities to sell receivables in order to optimise receivables management. As at 31 December 2009, the volume of receivables sold under factoring agreements was around €76 million (2008: approximately €93 million).

RISE IN LIQUIDITY DESPITE THE CRISIS

Change in cash and cash equivalents
€ million



* incl. exchange-rate-related changes of €0.1 million

Rigorous management of working capital and a systematic programme of cost savings has had a positive impact on liquidity: despite the year of crisis with a slump in revenue of 42.2 per cent, cash and cash equivalents increased to €214.7 million as at 31 December 2009, which represents an increase of €7.1 million on the figure at the end of 2008 (31 December 2008: €207.5 million). The net financial position was even just in positive territory at €2.9 million (31 December 2008: minus €12.2 million).

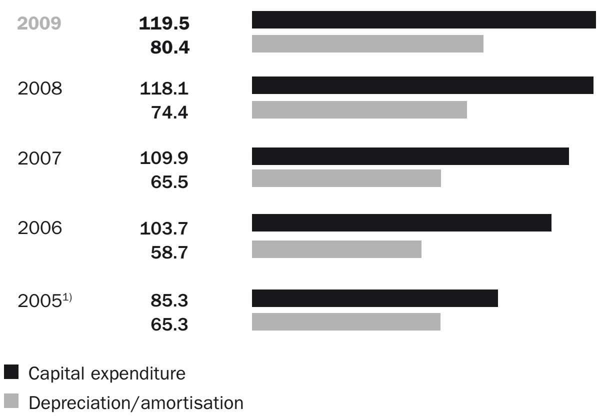
The net cash used for investing activities in continuing operations declined by a total of €6.5 million to €90.8 million (2008: €97.3 million used); while capital expenditure on property, plant and equipment was lower, spending on development rose.

The net cash used for financing activities amounting to €18.2 million (2008: €69.2 million used) arose largely from the payment of interest. The figure for 2008 was significantly influenced by the payment of a dividend of €48 million to shareholders.

CAPITAL EXPENDITURE FOCUSES ON DEVELOPMENT

Capital expenditure amounted to a total of €119.5 million in 2009 compared with €118.1 million in 2008. Capital expenditure was concentrated on the development of new and existing engines to meet current and future exhaust emissions standards. €66.6 million of capital expenditure was accounted for by capitalised development expenditure in the year under review (2008: €48.2 million). Most of this expenditure incurred in the year under review was spent on the forthcoming Tier 4 Interim emissions standard for industrial and agricultural applications and on our completely new engine in the class of engines with capacities of less than four litres. An amount of €43.5 million (2008: €61.6 million) was invested in property, plant and equipment. This expenditure largely related to the replacement of driverless vehicles at the Cologne site and to the expansion of the component plant at Zafra in Spain.

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



1) Includes DEUTZ Power Systems

Capital expenditure on development continued to be significantly in excess of the depreciation and amortisation expense, underlining our commitment to maintaining and improving on our position as a technology leader in the market.

The bulk of the total capital expenditure was invested in the DEUTZ Compact Engines segment (2009: €110.3 million; 2008: €106.6 million). Capital expenditure in DEUTZ Customised Solutions was €9.2 million (2008: €11.5 million). Capital spending in both segments focused mainly on development.

NET ASSETS

Overview of the assets of the DEUTZ Group

	31/12/2009	31/12/2008
€ million		
Non-current assets	561.8	572.8
Current assets	508.8	632.6
Assets classified as held for sale	0.5	0.9
Total assets	**1,071.1**	**1,206.3**
Equity	379.2	511.3
Non-current liabilities	410.5	430.9
Current liabilities	281.4	264.1
Total equity and liabilities	**1,071.1**	**1,206.3**
Working capital	98.3	205.0
Working capital ratio at the balance sheet date (%)	11.4	13.7
Average working capital ratio (%)	20.6	16.2
Equity ratio (%)	35.4	42.4

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

The total assets of the DEUTZ group as at 31 December 2009 were €1,071.1 million, which was a reduction of roughly 11 per cent compared with their volume at the end of 2008 (31 December 2008: €1,206.3 million).

Non-current assets The slight contraction of €11.0 million in non-current assets to €561.8 million (31 December 2008: €572.8 million) was the result of the countervailing effect of certain reductions in assets that exceeded our high level of capitalised development expenditure. First, cross-currency swaps used to hedge the currency risk and interest-rate risk attaching to future anticipated payments of principal and interest arising from the US private placement gave rise to a negative fair value of €10.3 million when marked to market, in particular owing to recent interest-rate trends (31 December 2008: positive fair value of €8.5 million). Secondly, there was a reduction in deferred tax assets. This was the result of higher deferred tax liabilities compared with 31 December 2008 (the consequence of an increase in capitalised development expenditure) and write-downs on deferred tax assets. In addition, there was a €5.8 million decrease in equity-accounted investments to €49.3 million as at 31 December 2009 (31 December 2008: €55.1 million), largely as a result of the transfer of the share of losses incurred by DEUTZ (Dalian) Engine Co., Ltd., the joint venture in China.

Current assets Current assets decreased by €123.8 million to €508.8 million (31 December 2008: €632.6 million); this was attributable to the significant reduction in inventories and the fall in other receivables arising from the charging of costs to other parties.

Working capital Working capital (inventories plus trade receivables minus trade payables) was reduced by approximately 52 per cent to €98.3 million as at 31 December 2009 (31 December 2008: €205.0 million). This was primarily attributable to the systematic reduction in inventories.

The working capital ratio on the balance sheet date was 11.4 per cent, an improvement of 2.3 percentage points over the ratio on 31 December 2008. The average working capital ratio (ratio of average working capital over four quarters to the revenue for twelve months) was 20.6 per cent, which was 4.4 percentage points above the corresponding average for 2008. The reason for this was the higher inventories to revenue ratio in the first half of 2009.

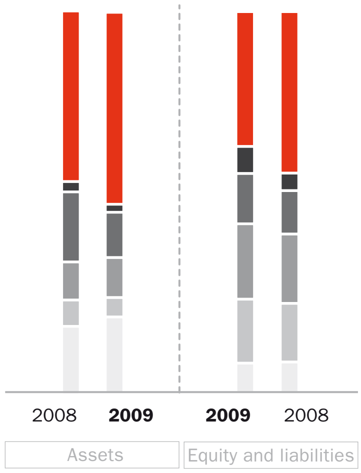
Intangible DEUTZ assets In addition to the assets recognised on the balance sheet, DEUTZ has further assets that are not recognised: the DEUTZ brand is synonymous with highly sophisticated technology, quality and reliability and the Company has been a firmly established player for over 140 years in the equipment manufacturing and operating industry. DEUTZ also enjoys valuable long-standing relationships with customers; it has entered into long-term co-operation agreements, particularly with its key customers.

High equity ratio As at the balance sheet date, equity had decreased by €132.1 million to €379.2 million (31 December 2008: €511.3 million). The main reason for this reduction was the net loss reported for the year. The equity ratio ended the period under review at 35.4 per cent, 7.0 percentage points lower than the ratio as at 31 December 2008 (42.4 per cent); despite its decrease, however, the ratio remained high.

DEUTZ Group: Balance sheet structure
in % (2008 figures)

Assets

■	**50.4**	(44.8)	Non-current assets
■	**2.1**	(2.7)	Deferred taxes
■	**11.9**	(18.4)	Inventories
■	**10.5**	(10.0)	Trade receivables
■	**5.1**	(6.9)	Other receivables and assets
■	**20.0**	(17.2)	Cash and cash equivalents



Equity and liabilities

■	**35.4**	(42.4)	Equity
■	**7.1**	(4.6)	Other liabilities
■	**13.2**	(11.4)	Trade payables
■	**19.8**	(18.2)	Financial liabilities
■	**16.8**	(15.4)	Pension provisions
■	**7.7**	(8.0)	Other provisions

Current and non-current liabilities Non-current liabilities fell by €20.4 million to €410.5 million (31 December 2008: €430.9 million) – mainly as a consequence of the reversal of provisions – whereas current liabilities rose by €17.3 million to €281.4 million (31 December 2008: €264.1 million). This increase was attributable, in particular, to liabilities and provisions in connection with personnel restructuring.

OVERALL ASSESSMENT FOR 2009

The crises of 2009 presented us with particular challenges. Revenue and unit sales plunged by approximately 50 per cent and, correspondingly, earnings fell significantly short of our forecasts. Nonetheless, we have faced up to these challenges and now have a solid equity base, a future-proof funding structure and a permanently lower cost base. Overall, DEUTZ is emerging stronger from the crisis and, as a company with a distinguished track record and a new lease of life, can look to the future with optimism.

EVENTS AFTER THE REPORTING PERIOD

In an agreement signed on 11 March 2010, DEUTZ reached a settlement with US investors on the renegotiation of the funding facility provided by the US private placement, which represents a total volume of US$ 274 million. As explained in our disclosures on this funding in the section on the DEUTZ Group's financial position, this agreement stipulated the interest rates payable, the terms to maturity, the financial covenants to be complied with in future as well as other terms and conditions (including credit facility bank finance and the provision of collateral). For further information on the impact on the DEUTZ Group's financial position and financial performance, please refer to the notes on funding in the section on our financial position.

RESEARCH AND DEVELOPMENT

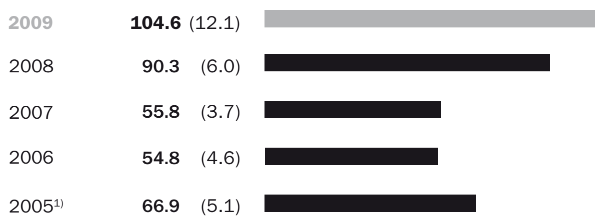
INCREASED EXPENDITURE ON RESEARCH AND DEVELOPMENT

Researching, developing, being that one decisive step ahead: this is what motivates us at DEUTZ, what spurs us on and sets us apart from our competitors. This is why, despite the current difficult economic climate, we have not just maintained our R&D budget but actually increased it.

Expenditure on research and development in 2009 amounted to €104.6 million (2008: €90.3 million). €93.1 million (2008: €78.7 million) of this sum was invested in the DEUTZ Compact Engines segment and €11.5 million (2008: €11.6 million) in the DEUTZ Customised Solutions segment. This increase in research and development expenditure of almost 16 per cent in the year under review is mainly attributable to preparatory work to meet the next exhaust emissions standards. The R&D ratio, i.e. research and development expenditure as a proportion of the DEUTZ Group's revenue, doubled to 12.1 per cent in 2009 (2008: 6.0 per cent). The fall in revenue increased this ratio even more. This emphasises the huge effort that we are putting, now more than ever, into maintaining our market position as a technology leader.

In 2009, 84 per cent (2008: 77 per cent) of all R&D expenditure was accounted for by new engine development and engine refinement, 12 per cent (2008: 17 per cent) by customer applications and support for engine series production, and the remaining 4 per cent (2008: 6 per cent) by research and preliminary development.

Research and development expenditure
€ million (R&D ratio in %)



1) Includes DEUTZ Power Systems

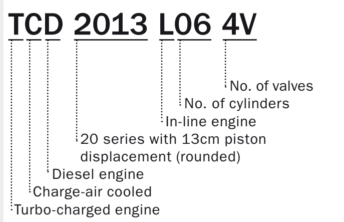
Development of a new engine with a capacity of less than four litres The policy decision to opt for a new engine with a capacity of less than four litres in 2009 signalled the start of the development of a completely new DEUTZ engine. This engine with a cubic capacity of 2.9 litres and a power output range of 25kW to 56kW also completes our new product range intended to meet the next exhaust emissions standards. The new engine is designed for use in both industrial and agricultural applications. This, together with the other completely new 3.6 litre engine model series, which we began developing in 2008, means that we now also supply engines with a capacity of less than four litres for use in tractors with power output ranges of 28 to 85kW.

Concentrating on engine development to meet exhaust emissions standard 4 The new and more stringent emissions regulations, COM Stage III B in Europe and EPA Tier 4 Interim in the USA, come into force on 1 January 2011 for engines in mobile machinery with power outputs of between 130kW and 560kW. Corresponding regulations for the lower engine power categories of 56 to 130kW will follow on 1 January 2012 and on 1 January 2013 for the 37 to 56kW categories (this only applies to Europe; the regulations have already been in force since 1 January 2008 in the USA). As the American term already suggests, Tier 4 Interim is only an intermediate stage which will be gradually followed, between 1 January 2013 and 1 October 2014, by the even stricter EPA Tier 4 Final and COM Stage IV regulations. These statutory requirements demand reductions in nitrogen oxide (NO_X) emissions by 95.7 per cent and in soot particle emissions by 96.5 per cent compared with the first limit levels set in 1999.

Our main R&D focus in the year under review has consequently been directed towards developing new engines and refining existing models which will meet the limits imposed by the next exhaust emissions standards. The key task has been to develop technologies for injection, supercharging, exhaust-gas recirculation and exhaust-gas aftertreatment. In addition to fine-tuning technical engine parameters and adapting designs to suit customer applications, we have carried out field trials of the new engines with power outputs in excess of 130kW. Customer feedback has been consistently positive: Fendt exhibited the first tractor to meet the future emissions standard, powered by an engine which we developed, at Agritechnica, Europe's largest agricultural equipment trade fair, held in Hannover, Germany. With a cubic capacity of six litres and capable of developing 280 hp, high performance is not the only special feature of this innovative power unit; it is also outstandingly efficient and has a low fuel consumption ratio.

Development of engines designed for the future in all application segments With seven new or refined engine types with cubic capacities of between 2.9 and 16 litres and power outputs ranging from 25kW to 520kW, DEUTZ will in future have a complete range of engines that are in line with customer needs and also meet the next exhaust emissions standards.

DEUTZ AG product designation



Engine designations
TCD 20XX L04
TCD 2010 L04
TCD 2012 L04 4V
TCD 2012 L06 4V
TCD 2013 L06 4V
TCD 2015 V06
TCD 2015 V08

Exhaust-gas aftertreatment systems for customer-specific solutions It will no longer be possible to achieve the necessary reductions in nitrogen oxide and diesel particulate emissions required by the next stages in exhaust emissions regulations by making internal engine adjustments alone or by using exhaust gas recirculation. The use of exhaust aftertreatment systems will be required. These systems employ selective catalytic reduction (SCR) to reduce nitrogen oxide emissions, making use of our experience in manufacturing engines for on-road applications (commercial-vehicle engines) and transferring it to so-called non-road applications. Special filter systems are required for the soot particles from diesel fuel combustion. In this regard, we have many years of experience, particularly from our retrofitting business. We have already developed an electronically controlled burner system for on-road and non-road applications which regenerates the filter element whenever this is required. This burner system allows regeneration of the diesel particulate filter (DPF) under all continuous operating conditions. Our objective is to offer customers exhaust-gas aftertreatment solutions optimally designed for their applications. The initial positive reaction from customers shows that we are on the right technological track with this burner system. Development work is on schedule and we will be able to meet the deadlines demanded by our customers for the production launch of these systems.

DVERT®: customised technology Our answer to the challenge of balancing future emissions directives against the needs of our customers is DVERT®, a system of engineering modules, virtually all the elements of which can be combined with each other. “As much technology as necessary but not as much as possible” is the principle which will ensure the desired outcome as regards engine performance, compliance with emissions limits and competitiveness.

Further process optimisation and cost effectiveness The closure of our British research and development site in Dursley and the concentration of research and development activity in Cologne will further improve our cost structure and optimise our processes. In order to be able to respond flexibly to short-notice project requirements, we are also currently working with external engineering firms.

Sustainable and environmentally friendly: the hybrid drive DEUTZ had already presented its hybrid drive at the “bauma” construction equipment trade fair in 2007 as the world’s first hybrid drive for construction equipment; the drive was installed in a wheel loader. In the meantime, our ‘Alternative Drives’ team including experts with specialist skills in different technical areas such as electric motors, power electronics, data storage technology, software & systems development and system applications has continued developing various components, such as the electric motor, which is now significantly more compact and at the same time more powerful. Our engineers have also succeeded in downsizing the combustion engine and reducing fuel consumption. The interest shown by our customers is proof that construction equipment will offer outstanding opportunities for employing hybrid engines.

Patent applications underline innovative strength The number of patents held by DEUTZ rose again during the year under review, reflecting the very strong innovative culture in the DEUTZ Group. In the year under review, patent applications were filed for a total of 33 inventions, of which 10 were in Germany and 23 elsewhere. At the end of 2009, the DEUTZ Group held a total of 376 patent applications, patents and utility models, 197 of which were registered in Germany and 179 elsewhere.

EMPLOYEES

Overview of employees in the DEUTZ Group

	31/12/2009	31/12/2008
Headcount		
DEUTZ Group	**4,012**	**4,701**
Thereof		
In Germany	3,267	3,802
Outside Germany	745	899
Thereof		
Non-salaried employees	2,365	2,876
Salaried employees	1,465	1,637
Trainees	182	188
Thereof		
DEUTZ Compact Engines[1)]	3,252	3,792
DEUTZ Customised Solutions[1)]	760	909

1) To improve comparability, the figure for 2008 has been restated in line with the current allocation of staff to the DEUTZ Compact Engines and DEUTZ Customised Solutions segments.

Headcount falls owing to the economic crisis As at 31 December 2009, the DEUTZ Group employed 4,012 people worldwide (31 December 2008: 4,701). This is 689 fewer employees than at the end of 2008, which equates to a decrease of 14.7 per cent. Given the economic crisis, we had no other choice but to initiate job cuts. However, we have largely been able to achieve this in a manner that minimises the adverse impact on staff by offering early retirement schemes, cutting fixed-term employment contracts, and, not least, by setting up a job-creation company.

Short-time working: 480 jobs saved Over the year under review, short-time working was the primary human resources tool used by the DEUTZ Group to combat the impact of the recession and the sharp drop in demand. Short-time working had been introduced at the end of 2008 and was extended during the course of 2009 to cover almost all units and all German sites. The only exception was our development unit, where we continued to work flat-out to develop our new series of engines with state-of-the-art exhaust gas technology. We cannot afford to ease off in this development work because stricter exhaust emission regulations will be coming into force in Europe and North America in the very near future.

The DEUTZ Group has been authorised by the German Federal Employment Agency to continue short-time working until November 2010 and the Group will continue to benefit from these arrangements for the whole of this period. The arrangements allow DEUTZ to make considerable savings in staff costs – primarily because the German Federal Employment Agency assumes responsibility for all of the social insurance contributions. We managed to retain 480 jobs on average over the year by switching to short-time working, or put another way: the arrangements allowed the Company to save working hours equivalent to the work carried out by 480 employees.

Impact on staff from further job cuts minimised as far as possible The crisis nevertheless also forced us to reduce capacity in line with the fall in orders. Initially, we cut temporary staff and did not renew fixed-term employment contracts. In order to reduce the headcount in our regular workforce as painlessly as possible, we met with the works council to agree a reconciliation of interests (as required by German law) and set up a redundancy scheme for the Cologne site.

By the end of 2009, over 400 regular employees had left the Company. We were concerned to ensure that the solutions minimised the impact on our staff as much as possible. Firstly, we agreed a special early retirement package with many employees. Secondly, we have been working with a company specialising in the transfer of employees: this company supports former employees with a change in their career direction and subsequent job search. The results of these efforts achieved a socially acceptable balance: we only had to make a total of 14 compulsory redundancies.

Most of our employees (3,267) are based at the facilities in Germany (31 December 2008: 3,802). Of these employees, 2,580 worked at our headquarters in Cologne (31 December 2008: 2,897) and 406 at the Ulm plant (31 December 2008: 556). The DEUTZ Group employed a total of 745 people outside Germany at the end of 2009 (31 December 2008: 899), mostly in Spain and the USA. In percentage terms, more jobs were cut at DEUTZ's sites abroad (17.1 per cent) than in Germany (14.1 per cent).

We cut the number of temporary staff very significantly compared with 2008: in 2009 we only employed an average of 38 temporary staff, 268 fewer than in 2008 – a consequence of the sharp drop in orders in the year under review. DEUTZ maintained the short-time working that had been introduced in 2008: a further 348 employees moved to short-time working during the course of 2009 in addition to the 935 employees already on reduced hours at the end of 2008 (employees on short-time working as at 31 December 2009: 1,283).

DEUTZ Group: breakdown of employees by location

	31/12/2009	31/12/2008
Headcount		
Cologne	2,580	2,897
Ulm	406	556
Other	281	349
In Germany	**3,267**	**3,802**
Outside Germany	745	899
Total	**4,012**	**4,701**

Furthermore, in response to the marked change in economic conditions the Supervisory Board of DEUTZ AG decided in March 2009 to reduce the number of people on the Board of Management from four to three. Karl Huebser and Helmut Meyer stepped down from the Board of Management with effect from 31 March 2009. Dr Margarete Haase was appointed to the Board of Management with effect from 1 April 2009 and she is responsible for finance and human resources.

More employees in research and development As at 31 December 2009, 3,252 people were employed in the DEUTZ Compact Engines (DCE) segment (31 December 2008: 3,717[1)]), while the DEUTZ Customised Solutions (DCS) segment employed 760 people (31 December 2008: 984[1)]).

Despite the economic crisis, DEUTZ is investing in the future of the business. A glance at the statistics shows that the number of employees working in future-oriented roles increased in 2009. As at 31 December 2009, 512 people were employed around the world in research and development – 38 more than twelve months previously (31 December 2008 474[2)]), which was an increase of 8.0 per cent.

Trainee ratio increased Despite the tough conditions in 2009, we continued to offer young persons vocational training – thereby continuing to invest in our own future as well. We offered 49 school leavers training and apprenticeship places in technical, trade or commercial vocations, for example in industrial technology, electronics and business administration. Worldwide, DEUTZ employed a total of 182 trainees and apprentices as at 31 December 2009, of which 125 were in Cologne. The trainee ratio, i.e. the ratio of trainees and apprentices to the Group's total workforce in Germany, again increased during the year under review and at 31 December 2009 stood at 5.6 per cent (31 December 2008: 4.9 per cent). But that is not the end of the story: all trainees and apprentices who successfully passed their examinations in 2009 were subsequently taken on by the relevant department for at least one year. In this way, we managed to retain 46 young, motivated employees in the Company.

We also continue to assume the social responsibility of offering young persons with learning and social difficulties the opportunity to obtain skilled vocational training. To this end, we have been working in what is now a 17-year partnership with IN VIA, an association under the auspices of the German Caritas organisation, and the German Federal Employment Agency. We prepare these young people in our training workshop and production facilities for vocational training. There are 38 participants in the current year group; the placement rate is 95 per cent.

1) To improve comparability, the figure for 2008 has been restated in line with the current allocation of staff to the DEUTZ Compact Engines and DEUTZ Customised Solutions segments.

2) To improve comparability, the figure for 2008 has been restated in line with the current allocation of R&D staff.

Demand for graduate recruits to secure the future Despite the crisis DEUTZ is recruiting graduates so that the company can remain competitive in the future. The development department continues to have a need for graduates from technical courses. Even though we had to cut staff in 2009 in line with the fall in demand, we still recruited around 30 trainee engineers from various universities. These recruits undergo on-the-job training to become specialists in engine development and application engineering – primarily in the area of exhaust gas emissions technology, an area that will be so important over the next few years.

There is fierce competition for highly qualified specialists. As a well-known technology enterprise and attractive employer, DEUTZ took part in various recruitment activities over the course of 2009, although this was to a much lesser degree than in 2008. There was brisk business around our stand at university recruitment fairs held in Aachen, Cologne and Ulm. We were also represented at "Nacht der Technik", Cologne's first engineering and technology evening in which companies in Cologne opened their doors for an entire evening under the slogan "Technik sehen und verstehen" (seeing and understanding engineering and technology). The objective was to allow these companies to present and provide information on their various areas of expertise to engineering and technology enthusiasts.

ENVIRONMENT

ENVIRONMENTAL MANAGEMENT SYSTEM

We initially committed to the introduction of the environmental management system on a voluntary basis back in 2003. DNV (Det Norske Veritas), an independent certification company, carried out a scheduled audit in September 2009 and confirmed that the reviewed production processes complied with the stipulations in the environmental management system in accordance with DIN EN ISO 14001.

The DNV auditing team carried out a detailed assessment, for example, of the DEUTZ AG environmental policy, the implementation of environmental objectives, the review of legal and internally imposed obligations, the functioning and effectiveness of our emergency management system and other important aspects such as communications and documentation, and in conclusion issued an unconditional confirmation of certification.

DEUTZ has set itself two important environmental targets in the medium term in order to ensure continuous further improvement in environmental protection: energy savings and a reduction in emissions from production plants. In 2009, additional engine test rigs were equipped with generator brakes with the result that the proportion of electrical energy fed by the Company into its own electricity network was 4 per cent (2008: 2.1 per cent).

At the Ulm plant, the removal of exhaust gas from the engine testing facility was centralised and equipped with a particulate filter. This system meets the criterion of "best available technology" and reduces particulate emissions to a level that satisfies the highest of technical standards.

PROBLEM-FREE OPERATION IN ENGINE PRODUCTION

For many years, the departments in DEUTZ AG responsible for safety management have shared information on a constructive basis with the supervisory department of the statutory accident insurer and with the German government supervisory authorities for health & safety at work and environmental protection. This ensures that any changes in the law can be taken into account and implemented in good time.

Preventive action in the form of regularly scheduled testing, which is generally carried out by certified specialists on potentially environmentally hazardous plants, maintains the availability of machinery capacity. The probability of downtime as a result of hazardous situations is thereby reduced to an acceptable minimum.

RESULTS OF OPERATIONS FOR DEUTZ AG

Income statement for DEUTZ AG

	2009	2008
€ million		
Revenue	795.5	1,417.0
Profit (loss) from ordinary activities	**–97.9**	**7.0**
Net extraordinary expense	–25.8	–17.8
Income taxes	–7.3	4.2
Other taxes	–1.1	–0.8
Net loss	**–132.1**	**–7.4**
Profit carried forward	26.8	34.2
Accumulated income (loss)	**–105.3**	**26.8**

The annual financial statements of DEUTZ AG are prepared in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). In 2009, DEUTZ AG generated revenue of €795.5 million (2008: €1,417.0 million). The loss from ordinary activities was €97.9 million (2008: profit of €7.0 million). Including an extraordinary item of minus €25.8 million (2008: minus €17.8 million) specifically as a result of additional provisions for expenses in connection with restructuring and impairment losses on fixed assets, this produced a net loss for the year of €132.1 million (2008: net loss of €7.4 million).

The Annual General Meeting of DEUTZ AG held on 30 April 2009 approved a resolution to carry forward the accumulated income for 2008 amounting to €26.8 million to the new financial year. Taking into account the carryforward of this accumulated income, DEUTZ AG reported an accumulated loss for 2009 of €105.3 million.

DEPENDENCY REPORT

The Board of Management of DEUTZ AG has submitted a report for the year ended to the Supervisory Board as required under section 312 of the German Stock Corporation Act (AktG). This report covers the relationships between the companies in the DEUTZ Group and the SAME DEUTZ-FAHR Group. The Board of Management issued the following concluding statement:

“For all the legal transactions and activities stated, our company received an appropriate consideration for each legal transaction in accordance with the circumstances known to us at the time the transactions were conducted or the activities carried out and was not disadvantaged as a result of measures that were taken.”

DISCLOSURES PURSUANT TO SECTION 315 (4) HGB

Composition of the issued capital There were no changes to the issued capital (share capital) of DEUTZ AG in 2009. As at 31 December 2009, 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 At the end of 2009, SAME DEUTZ-FAHR Holding & Finance B.V., Amsterdam, Netherlands, held a direct shareholding in DEUTZ AG representing 44.97 per cent of voting rights (31 December 2008: 45.1 per cent). Via SAME DEUTZ-FAHR Holding & Finance B.V., the following companies and individuals held an indirect investment in DEUTZ AG equivalent to the same percentage:

- SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy
- Intractor B.V., Amsterdam, Netherlands,
- Belfort S.A., Luxembourg, Luxembourg, and
- Vittorio, Aldo and Francesco Carozza and Luisella Carozza-Cassani.

Legal provisions and Statute provisions regarding the appointment and removal of members of the Board of Management and regarding changes to the Statutes According to articles 7 (1) and 7 (2) of the Statutes of DEUTZ AG:
“(1) The Board of Management shall comprise at least two members.
(2) The Supervisory Board shall determine the number of members of the Board of Management and the allocation of responsibilities. It may draw up and issue rules of procedure.”
As far as the appointment and removal of members of the Board of Management are concerned, sections 84 and 85 of the German Stock Corporation Act (AktG) and section 31 of the German Codetermination Act (MitbestG) also apply.

According to article 14 of the Statutes of DEUTZ AG:
“The Supervisory Board may change the wording but not the spirit of the Statutes.”

Sections 179, 133 AktG also apply in the case of changes to the Statutes.

Authority of the Board of Management, in particular with regard to share issue or buyback The authority of the Board of Management is derived from the legal provisions and from the rules of procedure laid down by the Supervisory Board. Pursuant to article 4 (5) of the Statutes of DEUTZ AG, the Board of Management is authorised, subject to the consent of the Supervisory Board, on or before 21 June 2011 to increase the issued capital through the issue of new no-par-value shares against cash or non-cash contributions on one or more occasions up to a total amount of €120,000,000. Capital increases against non-cash contributions may not exceed a total of €80,000,000.

In accordance with the resolution approved by the Annual General Meeting on 21 May 2008, the Board of Management had been authorised pursuant to section 71 (1) no. 8 of the German Stock Corporation Act (AktG), on or before 20 November 2009, to purchase treasury shares up to a total of 10 per cent of the existing share capital at the time the resolution was adopted. The shares purchased on the basis of this authorisation, together with other treasury shares or shares attributable to the Company pursuant to sections 71 d and 71 e AktG must at no time account for more than 10 per cent of the Company’s existing share capital. The authorisation must not be used for the purpose of trading in treasury shares. Measures taken by the Board of Management on the basis of this Annual General Meeting resolution must be approved by the Supervisory Board.

FURTHER DISCLOSURES

There are no restrictions affecting voting rights or the transfer of shares.

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

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

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

In July 2007, by means of a private placement with US institutional investors, DEUTZ AG issued notes (bonds) with a total value of approximately US$ 274 million. The notes had various terms of issue and maturities of five, seven and ten years. Under the terms of issue for these notes, holders can demand premature redemption if there is a change of control in the Company and, within a specified period after this change of control, any rating for the notes or other financial liability of the Company or of the controlling person with a residual maturity of at least five years
a) is withdrawn, or
b) is downgraded from investment grade to non-investment grade, or
c) if the notes or the financial liabilities have a non-investment grade rating at the time of the change of control, is not upgraded to investment grade.

A change of control is deemed to have taken place if, at an Annual General Meeting, a third party (or third parties acting jointly) elect(s) new shareholder representatives to all the shareholder positions on the Supervisory Board of DEUTZ AG or, at two successive Annual General Meetings of DEUTZ AG, a third party (or third parties acting jointly) control(s) more than 50 per cent of the votes represented at the meeting or acquire(s) more than 50 per cent of the issued capital in DEUTZ AG. However, this does not apply to control in the sense described if this control is acquired by AB Volvo or by companies controlled by AB Volvo or by the (indirect) shareholders of SAME DEUTZ-FAHR Holding & Finance B.V., providing these shareholders are members of the Carozza family, or by companies controlled by these shareholders. If DEUTZ AG needs to repay a considerable proportion of the notes in the event of a change of control, it needs to raise the necessary funds some other way in the short term.

The other bilateral credit facilities agreed by DEUTZ AG are mostly subject to a change-of-control clause. Under this clause, the banks would be permitted in the event of a change of control and in the event of a resulting deterioration in the risk situation to tighten their lending terms or, if it proved impossible to reach an agreement on new terms, to terminate the loan agreement.

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

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

EXPLANATORY STATEMENT BY THE BOARD OF MANAGEMENT IN CONNECTION WITH SECTIONS 289 (4) AND 315 (4) HGB

The disclosures contained in the management report and group management report pursuant to sections 289 (4) and 315 (4) HGB relate to arrangements that may be significant in the success of any public takeover bid for DEUTZ AG. It is the opinion of the Board of Management that these arrangements are normal for publicly traded companies comparable with DEUTZ AG. Insofar as the terms of the private placement regarding a change of control link the premature repayment of the notes, among other things, to the withdrawal, downgrading or failure to achieve an upgrading in the rating of financial liabilities, the Board of Management hereby draws attention to the fact that DEUTZ AG currently does not hold any financial liabilities that are rated. The Board of Management also draws attention to the fact that the agreement between DEUTZ, Bosch and Eberspächer for the establishment and management of a joint venture to produce fully integrated diesel exhaust aftertreatment systems had not yet been approved by anti-trust authorities on the date the consolidated financial statements for the year ended 31 December 2009 were approved for publication.

BASIC PRINCIPLES OF THE REMUNERATION SYSTEM

REMUNERATION OF THE BOARD OF MANAGEMENT

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

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

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

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

Further information on the remuneration paid to the Board of Management can be found on page 108 of the notes to the consolidated financial statements.

REMUNERATION OF THE SUPERVISORY BOARD

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

The chairmanship and membership of Supervisory Board committees are remunerated separately in accordance with the guidelines set out in the German Corporate Governance Code. DEUTZ also pays each member of a committee a fee of €1,000 for each committee meeting they attend. The chairman of a committee is entitled to twice this sum, 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 from page 108 onwards in the notes to the consolidated financial statements.

RISK REPORT

RISK MANAGEMENT SYSTEM

Conditions in the global economy and in individual markets are in a constant state of rapid change. Companies must act fast and respond even faster if they want to hold their own in the marketplace over the long term. 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 a number of organisational units: the operating segments of the Group's parent company, subsidiaries, sales offices and authorised dealers. This organisational structure presents the Company with a large number of opportunities, but also gives rise to business-specific risks.

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

The benefits of such a system can hardly be overestimated: it raises the awareness of employees with regard to possible or existing risks and strengthens their sense of responsibility. It also supports them in identifying, analysing and communicating risks in good time and in initiating effective corrective action.

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

Risk inventories normally take place four times a year – and this was also the case in 2009. These risk inventories are carried out in all functions and areas of the Company and in the main subsidiaries to identify whether new additional risks have arisen compared with the Company's short-term and medium-term planning. At the same time, a review is carried out to establish whether and how agreed action has successfully minimised risks that have already been identified and whether there is still a need for further action. The Risk Management Committee assesses the risks and makes proposals to the Board of Management, which then decides on appropriate measures to prevent or minimise the risk. To enable the Company to respond promptly at all times to any possible risks arising, risk officers and their employees are under an obligation to make ad hoc reports independently of the regular reporting requirements as soon as any new material risks arise or if there is an increase in the threat from known risks.

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 each year to assess whether the system is functioning efficiently. The findings of the audits carried out in 2009 confirmed that the system for the early identification of risks was functioning efficiently. As in prior years, suggestions for improvements proposed by the internal audit department, the independent auditors or the Risk Management Committee were speedily implemented by DEUTZ.

RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS

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

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

Further information on financial risk management can be found in Note 28 from page 93 onwards.

INTERNAL CONTROL SYSTEM RELATING TO THE ACCOUNTING 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 internal control system relating to the accounting system is integrated into the accounting process with the objective of ensuring that accounting is carried out properly. The accounting process itself includes those operating processes that provide the value flows for financial reporting, the process for preparing the consolidated financial statements, and all information sources and processes from which the significant disclosures in the consolidated financial statements are derived.

In addition to separating functions, issuing work instructions and restricting access to data, DEUTZ AG has issued Group accounting guidelines in order to ensure that the consolidated financial statements are properly prepared in a uniform manner. These guidelines are regularly updated by head office and distributed throughout the Group. Each reporting entity is responsible for compliance with the guidelines and the data reported to DEUTZ AG's Group accounting department is validated on an ongoing basis during the preparation of monthly financial statements. Data is reported to the Group head office using a standard reporting tool that has been implemented throughout the Group.

Additional control mechanisms covering the risks in the main processes, thereby guaranteeing a reliable accounting and reporting system, are normally set up locally at departmental level. Control activities also include systematic reviews carried out by the internal audit department.

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

In addition to discussing the annual financial statements and consolidated financial statements, the Supervisory Board's Audit Committee also regularly discusses interim financial reporting as part of the quarterly financial reporting procedure. In addition, the Audit Committee's monitoring function includes the ICS set up by the Board of Management as well as the accounting process itself.

The ICS is subject to regular reviews by the internal audit department, which reports directly to the Board of Management. The findings allow us to eliminate any deficiencies that have been identified and ensure that the ICS undergoes continuous refinement.

FINANCIAL RISKS

Credit risk Given the tough prevailing economic conditions, there is a risk of increasing levels of delayed payments or even defaults by our customers. We protect ourselves against the risk from bad debts by constant IT-supported monitoring and regular analysis of receivables and their breakdown. The Company takes out credit insurance to cover a large proportion of its receivables unless payment is made in advance or by letter of credit.

Currency risk arising from operating activities Currency risk, which arises as a result of transactions denominated in foreign currency with third parties, is monitored by means of a central currency management system and mitigated by the use of derivative financial instruments. DEUTZ AG's net currency exposure is normally hedged by forwards equivalent to 50 to 70 per cent of open items, or 100 per cent in the case of project-based 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 and currency risk arising from funding arrangements The original interest payments and principal repayments in connection with the US dollar-denominated US private placement are hedged in euros over the entire term of the bonds through cross-currency swaps. Interest rates in euros and US dollars are fixed for the entire term. The agreement with the US investors provides for the early redemption of the last US dollar tranche in 2014 instead of 2017 and the associated hedge with the cross-currency swap will also be terminated early. Please also refer to the notes on funding in the section on our financial position. Depending on changes in interest rates and exchange rates, this could result in a risk or a reward affecting the financial position or financial performance of the DEUTZ Group, but the effect is likely to be slight. Once negotiations on the new agreement have been concluded, it is planned to adapt the hedging of interest rate and currency risks to the new circumstances.

Funding risk Please refer to the notes in the section on our financial position for further information on the renegotiation of the US private placement.

An obligation upon DEUTZ to comply with certain key performance indicators (financial covenants) forms part of the documentation for the US private placement. On the basis of our medium-term balance sheet and income plans, the financial covenants offer sufficient room for manoeuvre and our plans include adequate reserves. The MOVE restructuring programme and its successor MOVE FAST have laid the foundations for a sustained increase in the profitability of the DEUTZ Group and have created the conditions that will enable us to comply with the financial covenants over the long term. We therefore believe that we will comply with the financial covenants based on the forecasts for our business over the next few years. If, however, there is a significant deterioration in the general economic situation, there is a risk of the covenants being breached.

OPERATIONAL AND OTHER RISKS

Market risk The global economy started to emerge from the lowest point of the financial and economic crisis in the third quarter of 2009. The level of new orders stabilised and the value of new orders was higher than revenue in the last two quarters. With the economy expected to continue its recovery, we anticipate continuing sales growth over the coming years. However, there is still a considerable degree of uncertainty about how quickly the global economy will recover from the worldwide recession. As a corporate group operating at a global level, we are therefore exposed to the risks inherent in this recovery, which could impact negatively on the earnings position of the DEUTZ Group.

In the medium and long term, we counter regional and application-related sales risks with development activities and alliances that are aligned with our product strategy.

Close alliances with key customers such as Volvo and SAME DEUTZ-FAHR are of considerable importance in enabling us to achieve these sales targets. Our underlying strategy is to expand these long-term alliances with key customers. In addition, the economic crisis has demonstrated all too clearly that we are operating in a very cyclical market in our main application segments such as Mobile Machinery and in our principal sales regions. From an application segment and regional perspective, we will therefore be focusing on increasing the proportion of revenue accounted for by Agricultural Machinery, our less cyclical segment, and by the fast-growing Asian market where we laid the foundations with the establishment of the DEUTZ (Dalian) Engine Co., Ltd. joint venture in 2007.

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

Procurement risks Procurement risks resulting from bottlenecks in the market and unforeseen price increases cannot be fully ruled out. As a result of the economic crisis, our suppliers were also forced to cut capacity. This results in a risk that our suppliers will not be able to respond flexibly enough if there is an increase in demand and this could lead to further 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 net income and on its capacity utilisation.

We counter these risks by carrying out intensive supplier management based on procurement tools and key performance indicators, and by monitoring the market in way that is increasingly globally oriented. This is supported by the implementation of local purchasing offices in China and India, 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 two 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.

As a result of the global recession, our suppliers also face the risk of financial bottlenecks. On an ongoing basis, we therefore analyse which suppliers could be exposed to financial difficulties and liquidity problems. At the same time, DEUTZ works on backup solutions to minimise the risk from supplier default. These solutions may involve a switch to in-house production or a shift to other suppliers.

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

In order to avoid mistakes in planning and capital expenditure, the necessary production capacity is planned using different timescales: over a number of years as part of the medium-term planning process, which is revised each year, and for the following financial year as part of the budget planning process, which is then updated monthly for the next twelve months on a rolling basis. Production programme meetings are held at least once a month and capacity planning meetings each month to ensure that our capacity is adjusted in line with sales. In addition to the reduction in the workforce, active use is being made of short-term working in order to be able to adjust capacity flexibly to the level of orders on hand.

Technological risks Increasingly stringent emissions standards represent a major technological challenge for the DEUTZ Group. In 2011, exhaust emissions standard EU III B in Europe and Tier 4 Interim in the USA come into force for mobile machinery engines with an output of 130kW or more. In 2014, the Tier 4 Final and EU IV exhaust emissions standards will follow. Engines for these markets are progressively being fitted with exhaust gas aftertreatment systems in all power output categories.

We are meeting these technological risks by expanding our development department and through ongoing research and development activities. Our development processes are subject to continuous optimisation. The product development process that we use includes systematic cooperation with our suppliers and close collaboration with our customers in order to satisfy the various requirements and ensure the outcome is a successful product.

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

Quality assurance in all plants and areas of the Group is based on a centralised quality system. Sources of errors and defects are systematically analysed, production processes optimised and action taken to minimise the risk in series production start-ups. At the same time, central quality management also ensures there is a substantial reduction in warranty risks. 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. We also implement additional quality initiatives to handle the significant technical complexity of engines and to satisfy the steadily increasing quality requirements of our customers.

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

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

We counter these risks with organisational improvements as well as ongoing intensive training and professional development for IT personnel. This enables us to keep up with the ever-increasing demands of our business. These activities are a key area of focus in the IT department.

Strategic business processes are handled using the proven SAP ERP 6.0 software. The IT service provider continues to operate the data processing centre on the basis of the principles in the current version of the de facto ITIL (IT Infrastructure Library) standard. The acquisition of DEUTZ's former outsourcing partner, EDS, by Hewlett-Packard does not pose any identifiable risks. DEUTZ is continuing its strategy of consolidating its information and communication technology systems; in future, this strategy will focus on the exploitation of existing potential within the SAP system.

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

There are risks in this regard in connection with not being able to recruit additional personnel quickly enough to meet the requirements of growth in DEUTZ, and specifically, not being able to appoint suitably qualified managers and specialist employees to relevant posts promptly. This could have a negative impact on the company's development. We counter these human resources risks by systematically analysing the skills and qualifications of our managers and using this analysis to draw up appropriate measures targeting the development of individual managerial and technical capabilities. By combining this targeted personnel development with long-term succession planning, we are also well positioned from a human resources perspective to meet the challenges of demographic change.

Legal risks As a Group with multinational operations, DEUTZ is subject to a variety of regulations under tax, antitrust and patent law. Existing and imminent legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and covered by an appropriate amount added to ongoing risk provisioning. On this basis, the management of the Group can take appropriate action promptly and, where appropriate, recognise any necessary accounting provisions.

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

The claim by the Greek tax authorities against a Greek subsidiary of DEUTZ AG for supplementary tax payments and penalties amounting to a total of €35 million is pending. There are also two legal actions brought by private persons against the American subsidiary of DEUTZ AG alleging damage to health caused by asbestos.

In addition, a US customer is claiming damages of more than US$ 40 million. This action is without substance in the opinion of the Company because the engines were used in a manner contrary to instructions and liability for consequential loss is contractually excluded. A provision has been recognised in the annual financial statements to cover the risk in connection with the litigation.

Planning risks The preparation of the consolidated financial statements in accordance with IFRS requires significant estimates and assumptions to be made, which have an impact, in particular, on the recognition and measurement of assets and liabilities, including the recognition of deferred tax assets on expected future tax reductions from tax loss carryforwards. The estimates and assumptions are based on projections, which by their nature are subject to a degree of uncertainty. Against the background of the crisis in the financial markets, it is difficult to predict how the economic situation will develop and forecasts are subject to a greater level of uncertainty. The possibility of routine adjustments to the estimates and assumptions and any associated negative impact on our financial position and financial performance can therefore not be excluded at present.

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

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

The external tax audit started in 2006, covering the tax assessment periods 2002 to 2005, was completed in 2009. The tax auditor filed a report dated 6 October 2009. An appropriate provision for tax risks has been recognised.

An external audit of employee income tax was started in 2008, covering the tax assessment periods 2004 to 2007, which was also completed in 2009. The external auditor filed a report dated 15 May 2009. The audit findings were sufficiently covered by the provisions recognised for possible risks.

OUTLOOK

THE ECONOMY IN 2010: A YEAR OF RECOVERY

Following the collapse in the global economy in 2009 with a 1.1 per cent decline in global economic output and a 5 per cent decline in Germany, there is generally expected to be a broad recovery in 2010. At a global level, all the private components of demand – consumer spending, capital investment and exports – are likely to contribute to the upturn in 2010, with domestic demand growing at a faster rate in the emerging markets than in the industrialised nations.

With anticipated global economic growth of 3.9 per cent for 2010, Deutsche Bank is forecasting economic growth of 2.6 per cent for the G7 countries. This growth will be driven primarily by the USA, where the economy is expected to growth by 3.6 per cent, while Germany is likely to be in the middle of the range with growth of 2.1 per cent.

In contrast, economic output in Asia is forecast to grow by 7.6 per cent, led by China with expected growth of 9.0 per cent.

ROBUST GROWTH FORECAST TO RESUME IN 2011

The global economy is expected to show robust growth of 4 per cent again in 2011 and the emerging markets, primarily in Asia, are forecast to report significantly higher growth in economic output than the industrialised countries. However, there are some risks to the global economy arising from the end of economic stimulus packages and from tighter monetary and budget policies.

TRADE ASSOCIATIONS CAUTIOUSLY OPTIMISTIC

Industry associations in our principal customer sectors currently remain very cautious in forecasting economic growth. The German Engineering Federation (VDMA) is forecasting global engineering revenue to bounce back in 2010 with an increase of around 5 per cent. However, this very much depends on strong growth of approximately 15 per cent in China; VDMA forecasts that growth in western Europe and the USA will be just 1.0 per cent, with zero growth expected in Germany.

Euroconstruct, the European market research organisation for the construction industry, is forecasting that the sharp drop of 8.4 per cent in 2009 will be followed in 2010 by a further downturn of 2.2 per cent in construction activity in Europe, in particular in house-building, but also in other construction projects. A slight recovery is expected only in 2011.

Nevertheless, as far as construction equipment and building-materials equipment is concerned, VDMA is predicting that there will be a slight recovery in 2010, the downturn having bottomed out in 2009. The world's largest construction equipment trade fair, bauma, which will be held in Munich in April 2010, will be hugely significant as an indicator of sentiment in the industry.

VDMA has a rather more cautious prognosis for the agricultural equipment sector in which the downward trend in revenue intensified in the second half of 2009. Demand in western Europe is not expected to pick up in 2010 because of the fall in agricultural incomes in the European Union. In contrast, VDMA believes there is relatively high pent-up demand in eastern Europe where capital investment in new equipment fell dramatically in 2009.

Initial signs of recovery are also noticeable in the commercial vehicle sector. The German Association of the Automotive Industry (VDA) has seen a gradual stabilisation of new orders in Germany since September 2009, and in export business since January 2010. This is the result of an upturn in transport demand accompanying the general economic recovery in Europe.

DIESEL ENGINE MARKET RECOVERY IN ALL SEGMENTS AND REGIONS

The same upward trends are apparent in the research carried out for the global diesel engines sector[1)] by Power Systems Research (PSR), an international market research organisation. Global demand for engines in the market segments relevant to DEUTZ is forecast to rise by around 4 per cent in 2010 with an even stronger recovery of around 8 per cent in 2011. The same regional trends are also evident in these forecasts: Asia leads the upward trend in 2010 with growth of around 5 per cent. Growth of 3 per cent is forecast for Europe, the Middle East and Africa (EMEA), although North America is only expected to experience growth of 1.4 per cent. In the application segments, the most significant growth is expected to be in construction equipment, industrial trucks and commercial vehicle applications at around 4 per cent, followed by gensets, pumps and compressors at 3.4 per cent. Growth forecasts for agricultural equipment are significantly more cautious at just over 1 per cent.

NEW ORDERS, UNIT SALES, REVENUE

At the macro-economic level, there is still considerable uncertainty about how quickly the economy will recover from the global recession. Consequently, our forecasts do not yet have the same level of reliability as in previous years. Following the downturn in the global economy that started in the second half of 2008, we are expecting a significant increase in new orders, unit sales and revenue in 2010. In addition to the impact from the expected market recovery based on forecasts by the trade associations relevant to DEUTZ, we are predicting that our revenue will be boosted even further because we will also have the benefit of the following two effects in 2010. First, our customers significantly reduced their inventories in 2009 and sold considerably more engines than we produced. The result of this will be that unit sales by our customers in 2010 will translate directly into orders for DEUTZ. Secondly, given the imminent change in emissions standards, we expect to see increased unit sales towards the end of the year of engines built for the current standards (pre-buys) so that the manufacturers will still be allowed to include these engines in equipment built over the following year.

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

In the Compact Engines segment, we consider the application segments with the strongest potential for recovery to be construction equipment and commercial vehicles, i.e. those sectors which suffered the most last year. At DEUTZ Customised Solutions, we assume that both the service business and the new engines business, which contracted unexpectedly sharply in 2009, will deliver strong growth again in 2010.

OPERATING PROFIT (EBIT)

The anticipated increase in new orders, unit sales and revenue will have a correspondingly positive impact on operating profit. In addition, the MOVE action programme will help to permanently lower the break-even threshold. In 2010, the reduction in overhead costs and in the cost of materials, combined with a robust pricing policy, will have a significant impact. On completion of the start-up phase in our DEUTZ Dalian joint venture in China, we expect this company to break even in terms of EBIT and restructuring measures have been initiated to minimise any risk that this may not be achieved. In contrast, we expect start-up losses to lead to an initial negative contribution to earnings from the joint venture with Bosch and Eberspächer, 'Bosch Emission Systems GmbH & Co. KG'. Overall, we expect operating profit to be positive as capacity utilisation increases on the back of rising unit sales and due to the improved cost structure.

WORKING CAPITAL RATIO, EQUITY RATIO

Our objective is to sustain a working capital ratio of less than 13 per cent and to stabilise the equity ratio above 30 per cent at the end of each financial year.

CAPITAL EXPENDITURE, FREE CASH FLOW

Capital expenditure will be substantially higher in 2010 than in 2009, with significantly more than a third of investment being made in connection with the development of new products. To a lesser extent, we will also be investing in our joint venture with Bosch and Eberspächer ('Bosch Emission Systems GmbH & Co. KG'). This joint venture will be producing fully integrated exhaust aftertreatment systems for DEUTZ and the global market in time for the introduction of the Tier 4 Final exhaust emissions standard.

As at 31 December 2009, cash and cash equivalents stood at €214.7 million. In view of our considerable capital expenditure, we are still forecasting a significant negative free cash flow for 2010, although this can be covered by existing liquidity without the need to draw down additional funding.

COMMODITIES, US DOLLAR, COLLECTIVE PAY AGREEMENTS

Changes in the prices of steel scrap, copper and aluminium have a significant impact on DEUTZ's cost of materials. For 2010, we are assuming that prices will rise, particularly for aluminium, on the back of the anticipated economic recovery and the strengthening US dollar. Consequently, we have already hedged around 60 per cent of our anticipated aluminium requirement through derivatives.

DEUTZ hedges sales transactions denominated in US dollars by entering into forwards and by purchasing components in US dollars. Overall, approximately 70 per cent of the US dollar surplus at DEUTZ is hedged.

The current collective pay agreement expires on 30 April 2010. On 18 February, the parties to the collective pay agreement signed a new agreement that runs until 31 March 2012. Very early in 2010, and well before 2011, the Company has therefore achieved some planning certainty as far as staff costs are concerned.

The decision to make a one-off payment to the workforce in 2010 and a 2.7 pay increase in 2011 are appropriate given the general economic situation.

The additional new "Future in work" collective agreement that was also signed offers the Company, if required, the opportunity to restructure jobs in line with orders on hand but is also linked to job security. This new agreement also extends the obligation of the Company to verify whether it is possible to transfer trainees and apprentices to full-time employment on qualification, but without extending the rights of the individuals concerned.

EMPLOYEES

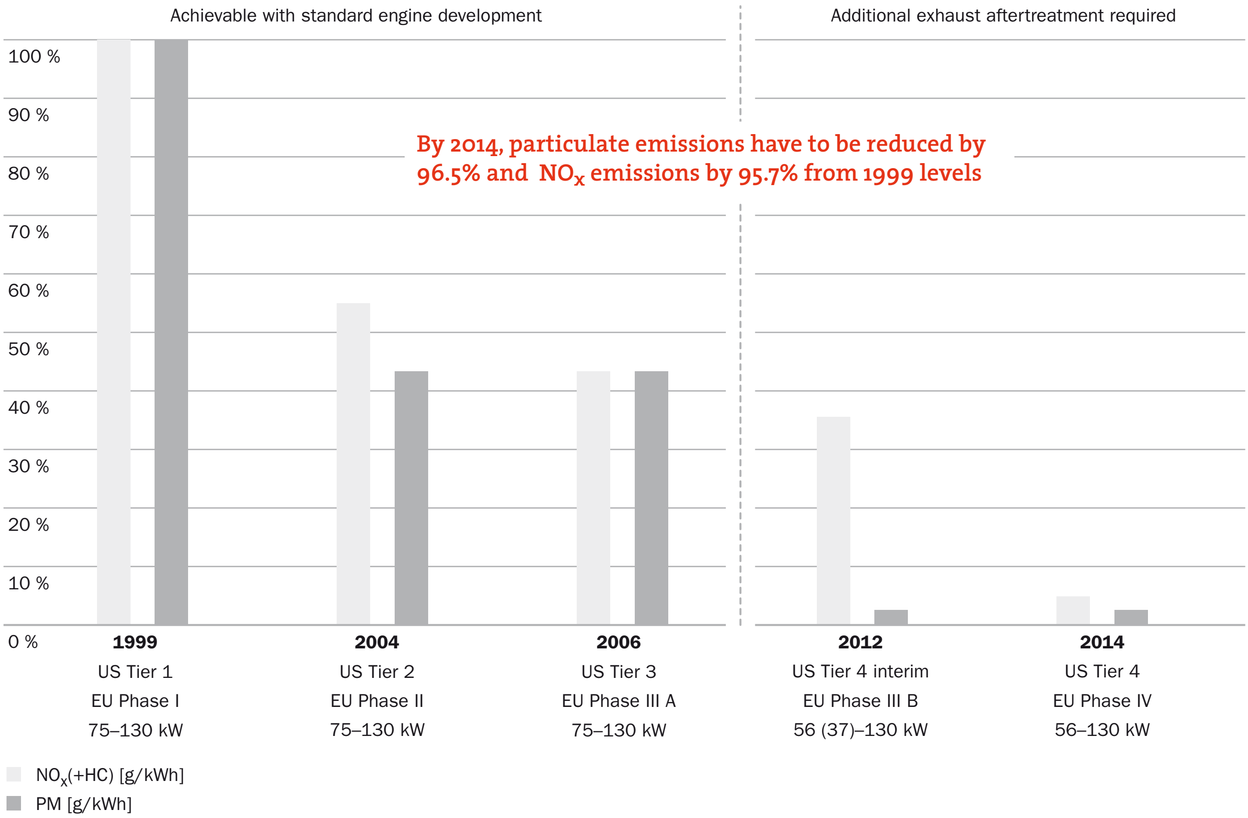
The process of workforce reduction that was started in 2009 will be concluded in 2010. We will continue to use short-time working to a small extent in 2010 as a means of adjusting capacity flexibly to the level of orders on hand. Research and development remain unaffected by these measures. As far as the workforce in production areas is concerned, the need for further restructuring will depend on sales figures during the course of the year.

STATUTORY REGULATIONS: EXHAUST-GAS EMISSION STANDARDS

Sales of diesel engines are strongly influenced by statutory provisions on emissions. These provisions lay down significant requirements to be met by producers. The emissions standard EURO V for diesel engines in road vehicles entered into force in the European Union on 1 October 2009. From 1 January 2011, the exhaust emissions standard COM III B will apply in the European Union and the corresponding EPA Tier 4 Interim will apply in the USA for diesel engines between 130 and 560kW in 'non-road' applications – i.e. in construction equipment, material handling vehicles and agricultural equipment. Analogous regulations for the power output range from 56 to 130kW are being introduced a year later on 1 January 2012, and even more stringent exhaust emissions limits will be introduced in 2013 and 2014. These are the final thresholds currently planned and when they are reached, nitrogen oxide (NO_x) emissions will have been reduced by 95.7 per cent and soot particles by 96.5 per cent relative to the first thresholds that were introduced in 1999.

This enormous improvement in diesel exhaust emissions has only been possible through major technological advances, particularly in the areas of fuel injection and combustion management. It will no longer be possible to satisfy the emissions regulations that are due to come into force between 2011 and 2014 by making internal engine refinements alone; instead, elaborate additional exhaust aftertreatment systems will be necessary.

History of emissions standards
Substantial changes coming into force



RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research and development, i.e. investment in projects for the future such as technology to meet the new exhaust emissions standards from 2011 and 2014 and the development of new engines with a capacity of less than four litres, will be above the levels of 2009.

OUTLOOK FOR 2011

Economic forecasts predict that the global economy will continue to recover in 2011. We expect to see a correspondingly positive trend in new orders, unit sales and revenue. We plan to achieve further improvements in operating profit in both segments, helped by continuing positive effects from the MOVE FAST efficiency enhancement programme, which builds on the previous MOVE action programme. Capital expenditure, focusing on development work, will remain at a high level and will continue to demand significant financial resources.

However, free cash flow will only be slightly negative owing to the positive effects from the MOVE programme, the growth in unit sales and the even greater growth in revenue, the latter being attributable to the additional exhaust aftertreatment systems.

Disclaimer

This management report includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performances, developments and results in the Company or those in sectors important to the Company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Board of Management cannot therefore make any warranty with regard to the statements made in this management report. The Company gives no undertaking that it will update forward-looking statements to bring them into line with future developments.

Consolidated financial statements 2009

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million	Note	2009	2008
Revenue	1	**863.4**	**1,495.0**
Change in inventories and other own work capitalised	2	–9.8	25.4
Other operating income	3	72.8	65.0
Cost of materials	4	–567.9	–1,039.7
Staff costs[1)]	5	–265.3	–300.1
Depreciation and amortisation	6	–66.3	–71.8
Impairment	6	–14.1	–2.6
Other operating expenses	7	–99.3	–159.1
Net income from equity-accounted investments	8	–4.3	–6.3
Other investment income	8	1.6	1.6
EBIT		**–89.2**	**7.4**
thereof one-off items		**–42.9**	**–14.3**
thereof operating profit (EBIT before one-off items)		**–46.3**	**21.7**
Interest expenses, net[1)]	9	–10.0	–3.2
thereof finance costs		–23.8	–24.9
Other taxes	10	–1.9	–1.5
Net income before taxes on continuing operations		**–101.1**	**2.7**
Income taxes	10	–18.7	–6.9
Net income on continuing operations		**–119.8**	**–4.2**
Net income on discontinued operations	11	**–4.2**	**–4.1**
Net income		**–124.0**	**–8.3**
thereof attributable to owners of the parent		–124.0	–8.3
thereof attributable to non-controlling interests		–	–
Basic earnings per share (€)	12	**–1.03**	**–0.07**
thereof from continuing operations		–0.99	–0.04
thereof from discontinued operations		–0.04	–0.03
Diluted earnings per share (€)		**–1.03**	**–0.07**
thereof from continuing operations		–0.99	–0.04
thereof from discontinued operations		–0.04	–0.03

1) The interest included in pension cost amounting to €10.0 million (2008: €10.1 million) is now reported as part of staff costs instead of net interest expense in order to show the effective interest in net interest expense. The comparative prior-year figures have been restated accordingly to improve comparability.

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million	Note	2009	2008
Net income		**–124.0**	**–8.3**
Currency translation differences		1.5	2.4
Effective portion of change in fair value from cash flow hedges		–9.7	5.6
Change in fair value of available-for-sale financial assets		0.1	–0.2
Other comprehensive income, net of tax	13	**–8.1**	**7.8**
Comprehensive income		**–132.1**	**–0.5**
thereof attributable to owners of the parent		–132.1	–0.5
thereof attributable to non-controlling interests		–	–

BALANCE SHEET FOR THE DEUTZ GROUP

ASSETS	Note	31/12/2009	31/12/2008
€ million			
Property, plant and equipment	14	335.5	342.1
Intangible assets	15	145.8	125.7
Equity-accounted investments	16	49.3	55.1
Other financial assets	17	8.8	16.8
Non-current assets (before deferred tax assets)		539.4	539.7
Deferred tax assets	18	22.4	33.1
Non-current assets		**561.8**	**572.8**
Inventories	19	127.5	222.0
Trade receivables	20	112.3	121.1
Other receivables and assets	20	54.3	82.0
Cash and cash equivalents	21	214.7	207.5
Current assets		**508.8**	**632.6**
Non-current assets held for sale	22	0.5	0.9
Total assets		**1,071.1**	**1,206.3**

EQUITY AND LIABILITIES	Note	31/12/2009	31/12/2008
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		–5.6	2.5
Retained earnings		79.1	79.1
Accumulated income		–32.1	91.9
Equity attributable to owners of the parent		379.2	511.3
Equity	23	**379.2**	**511.3**
Provisions for pensions and other post-retirement benefits	24	163.9	169.3
Deferred tax provisions	18	0.1	0.1
Other provisions	25	26.9	45.7
Financial liabilities	26	206.2	214.1
Other liabilities	27	13.4	1.7
Non-current liabilities		**410.5**	**430.9**
Provisions for pensions and other post-retirement benefits	24	16.1	16.4
Provision for current income taxes	18	6.6	2.1
Other provisions	25	49.2	48.8
Financial liabilities	26	5.6	5.6
Trade payables	27	141.5	138.1
Other liabilities	27	62.4	53.1
Current liabilities		**281.4**	**264.1**
Total equity and liabilities		**1,071.1**	**1,206.3**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

	Issued capital	Additional paid-in capital	Retained earnings	Fair value reserve[1), 2)]	Currency translation reserve[1)]	Accumulated income	Total Group interest	Non-controlling interests	Total
€ million									
Balance at 1 Jan. 2008	**307.0**	**28.1**	**79.1**	**4.1**	**–9.4**	**148.2**	**557.1**	**–**	**557.1**
Dividend payments to shareholders						–48.0	–48.0		–48.0
Increase from exercise of conversion rights on convertible bonds/on profit-sharing rights	2.0	0.7					2.7		2.7
Comprehensive income				5.4	2.4	–8.3	–0.5	–	–0.5
Balance at 31 Dec. 2008	**309.0**	**28.8**	**79.1**	**9.5**	**–7.0**	**91.9**	**511.3**	**–**	**511.3**
Balance at 1 Jan. 2009	**309.0**	**28.8**	**79.1**	**9.5**	**–7.0**	**91.9**	**511.3**	**–**	**511.3**
Comprehensive income				–9.6	1.5	–124.0	–132.1	–	–132.1
Balance at 31 Dec. 2009	**309.0**	**28.8**	**79.1**	**–0.1**	**–5.5**	**–32.1**	**379.2**	**–**	**379.2**

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

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

	Note	2009	2008
€ million			
EBIT		**–89.2**	**7.4**
Interest income		6.7	13.2
Other taxes paid		–1.9	–1.5
Income taxes paid		–1.2	–1.8
Depreciation and amortisation		80.4	74.4
Gains/losses on the sale of non-current assets		–2.5	0.6
Net result from equity-accounted investments		5.3	7.3
Change in working capital		107.4	–0.2
Change in inventories		95.0	–7.2
Change in trade receivables		9.2	67.8
Change in trade payables		3.2	–60.8
Change in other receivables and other current assets		24.6	–7.5
Change in provisions and other liabilities (excluding financial liabilities)		–12.2	–1.8
Cash flow from operating activities before payment of compensation for vested company pension rights		**117.4**	**90.1**
Payment of compensation for vested company pension rights		–	–0.4
Cash flow from operating activities		**117.4**	**89.7**
Capital expenditure on intangible assets, property, plant and equipment		–95.2	–97.5
Capital expenditure on investments		–0.6	–
Proceeds from the sale of non-current assets		5.0	0.2
Cash flow from investing activities – continuing operations		**–90.8**	**–97.3**
Cash flow from investing activities – discontinued operations	11	–1.3	–26.8
Cash flow from investing activities – total		**–92.1**	**–124.1**
Dividend payments to shareholders		–	–48.0
Interest expenses		–14.0	–16.1
Cash receipts from borrowings		2.1	0.9
Repayments of loans		–6.3	–6.0
Cash flow from financing activities		**–18.2**	**–69.2**
Cash flow from operating activities		117.4	89.7
Cash flow from investing activities		–92.1	–124.1
Cash flow from financing activities		–18.2	–69.2
Change in cash and cash equivalents		**7.1**	**–103.6**
Change in cash and cash equivalents at 1 January		**207.5**	**311.1**
Change in cash and cash equivalents		7.1	–103.6
Change in cash and cash equivalents related to exchange rates		0.1	–
Change in cash and cash equivalents at 31 December		**214.7**	**207.5**

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 with the adoption of a resolution dated 11 March 2010.

DEUTZ AG shares were listed in the Deutsche Börse MDAX segment from 18 September 2006 to 22 September 2008. Since 22 September 2008 the shares have been listed in the 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, Automotive, Agricultural Machinery and Stationary Equipment. Comprehensive after-sales service rounds off the product range offered.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1) Amendments to accounting policies

The accounting policies on which the consolidated financial statements are based are fundamentally the same as the policies applied in 2008 with the exceptions set out below.

In the year under review, the DEUTZ Group applied the following new and revised standards (IFRSs) and interpretations (IFRICs) as well as modifying the presentation as described below. There was no impact on the consolidated financial statements from the first-time adoption of these revised standards and interpretations, except in the case of IAS 23. However, the revisions did result in changes to the presentation of financial information and, in some cases, to changes in accounting policies.

Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and of IAS 27 "Consolidated and Separate Financial Statements" This amendment relates to the measurement of investments at the time of transition to IFRS and the recognition of dividends from equity investments in the separate financial statements. The amendments to IAS 27 have removed the definition of the cost method. Consequently, dividends from jointly controlled entities, associates and subsidiaries must in future be recognised on the face of the investor's income statement, even if the dividends are derived from profits generated before the date of acquisition. The investments thus recognised must subsequently be tested for impairment in accordance with IAS 36. Since these amendments relate to the recognition and measurement of investments in separate financial statements, initial application has not affected the consolidated financial statements.

Amendments to IFRS 2 "Share-based Payment" The amendments add a clarification that restricts the definition of vesting conditions to include only service conditions and performance conditions. They also widen the scope of the accounting rules on cancellations of share-based arrangements to include cases where these arrangements are cancelled by employees. The transitional provisions require these amendments to be applied retrospectively. Initial application of these amendments has not affected the consolidated financial statements.

Amendments to IFRS 7 "Financial Instruments: Disclosures" The changes require additional disclosures on the determination of fair value and on liquidity risk. Since there are a number of new provisions including a requirement for a quantitative analysis of fair value based on a three-stage approach for each class of financial instrument, the initial application of these changes affects disclosures concerning financial instruments. The changes have no material effect on the DEUTZ Group's disclosures as regards liquidity risk.

IFRS 8 "Operating Segments" IFRS 8 provides for the mandatory application of the "management approach" in segment reporting. Under IFRS, the classification of segments and the presentation of disclosures should be based on the breakdown used internally by an entity's chief operating decision-maker for the purposes of allocating resources to operating segments and evaluating segment performance. Since its initial application of IFRS 8 and in conformity with its ongoing reporting practices under IAS 14 "Segment reporting", the DEUTZ Group has continued to report on its DEUTZ Compact Engines and DEUTZ Customised Solutions operating segments and its Other segment. The methods the Group uses to publish segment financial information have been modified and comparative prior-year figures have been restated accordingly. For further segment-related information please refer to the notes on segment reporting.

IAS 1 (revised) "Presentation of Financial Statements" The revised standard includes significant changes to the way in which financial information is presented and reported in financial statements. In particular, the new requirements include the introduction of a statement of comprehensive income which includes all the income and expense items presented in the income statement together with all other comprehensive income. The information may be presented in a single statement or in two separate but linked statements. Moreover, when an entity applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies any of the items reported in the financial statements, the entity must present a balance sheet as at the beginning of the comparative period rather than only as at the current reporting date and the reporting date for the previous year. On initial application of this standard the DEUTZ Group has modified the way in which it publishes its financial information and has decided to present the statement of comprehensive income in two separate statements.

IAS 23 (revised) "Borrowing Costs" The DEUTZ Group is applying this standard prospectively in accordance with the transitional provisions. Accordingly, borrowing costs relating to qualifying assets have been capitalised from 1 January 2009. This standard has no effect on borrowing costs arising before this date, which were expensed as incurred.

Amendment to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" This amendment concerns the classification of share capital with termination rights as equity or as a liability. Under the previous regulations, entities were forced in some circumstances to report share capital as a financial liability owing to shareholder termination rights granted by law. In future, this share capital with termination rights should be classified as equity provided certain conditions are met. This amendment alters neither the reporting nor the measurement of these financial instruments in the consolidated financial statements.

Improvements to International Financial Reporting Standards (2006–2008) Apart from editorial changes, these amendments concern changes in presentation, recognition and measurement in various standards. Because the DEUTZ Group is only partially affected by these amendments, their initial application has not had a material impact on the consolidated financial statements.

IFRIC 12 "Service Concession Arrangements" This interpretation stipulates how service concession operators should account for the obligations they undertake and the rights they receive under service concession arrangements. Initial application of this interpretation has no impact on the DEUTZ Group because the entities included in the consolidated financial statements are not service concession operators within the meaning of IFRIC 12.

IFRIC 13 "Customer Loyalty Programmes" This interpretation requires award credits granted to customers to be recognised as a revenue component that is separately identifiable from the sales transaction in which they were granted. Part of the fair value of the consideration received is therefore allocated to the award credits granted and recognised as deferred income. This deferred income is recognised as revenue in the period in which the award credits granted are either redeemed or expire. Initial application of this interpretation has no impact on the consolidated financial statements because the DEUTZ Group does not operate any such customer loyalty programmes.

Changes in presentation The interest included in pension costs is now reported as part of staff costs instead of net interest expense in order to show the effective interest in net interest expense. The interest component amounted to €10.0 million in 2009 (2008: €10.1 million). 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 interpretations that have already become part of EU law via the comitology procedure. However, the application of these standards and interpretations was not yet mandatory in 2009 and the DEUTZ Group has not opted to apply them before the mandatory application date.

IFRS 1 (revised structure) "First-time Adoption of International Financial Reporting Standards" IFRS 1 was published in November 2008 with a new structure. This revised version applies to financial years beginning on or after 1 July 2009. Since this standard is not relevant to the DEUTZ Group, initial application will have no impact on the consolidated financial statements.

Amendments to IFRS 3 "Business Combinations" The amended IFRS 3 was published in January 2008 and applies to financial years beginning on or after 1 July 2009. The most significant changes involve the introduction of an option for the measurement of the non-controlling interest (formerly known as minority interest). The non-controlling interest may be measured on the basis of the proportionate share of the acquiree's identifiable net assets (purchased goodwill method) or by using the full goodwill method, i.e. the method based on the entire goodwill in the acquiree including the portion attributable to the non-controlling interest. Other changes involve the requirement in the case of the business combination achieved in stages for an acquirer to remeasure its pre-existing equity interest in an acquired entity at the point at which control is acquired and recognise any resulting gain or loss in profit or loss, the requirement for contingent consideration to be measured at the acquisition date and the requirement to recognise transaction costs in profit or loss. The transitional provisions require these amendments to be applied prospectively. There are no changes affecting assets and liabilities arising from business combinations prior to the initial application of the new standard. Since, from a current perspective, no business combinations are expected to occur in the Group during the financial year of initial application, application of the standard is not expected to have any impact on the consolidated financial statements.

Amendments to IAS 27 "Consolidated and Separate Financial Statements" The amended IAS 27 was published in January 2008. The changes apply to financial years beginning on or after 1 July 2009. The changes arise from a joint project carried out by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to revise the accounting standards for business combinations. The changes primarily relate to the accounting treatment of non-controlling interests (minority interest), to which entities will be required to attribute a full share of group losses in future, and the accounting treatment of transactions in which an entity loses control of a subsidiary, any gain or loss from which must be recognised in profit or loss. However, any gains or losses from a disposal of equity interests that do not result in a loss of control must be recognised in other comprehensive income. The transitional provisions, which generally require retrospective application of amendments, call for prospective application of the aforementioned provisions. For this reason, assets and liabilities arising from such transactions prior to initial application of the new standard are not affected. Since the DEUTZ Group does not anticipate any of the transactions specified to occur or any new losses amongst non-controlling interests, initial application of the standard is not expected to affect the consolidated financial statements.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" The amended IAS 39 was published in July 2008 and applies to financial years beginning on or after 1 July 2009. The amendment resolves the issue as to which sub-risks can be hedged with which instruments in hedge accounting and provides guidance on the designation of a purchased option as a hedging instrument and the hedging of inflation risk. Since the DEUTZ Group does not currently hedge inflation risk or use options as hedging instruments, these changes are not expected to have any impact on the consolidated financial statements on initial application.

Amendment to IAS 32 "Financial Instruments: Presentation" The amended IAS 39 was published in October 2009 and applies to financial years beginning on or after 1 January 2010. The changes in this revision resolve the issue of the accounting treatment for certain subscription rights if the issued instruments are not denominated in the functional currency of the issuer. The changes are not expected to affect the consolidated financial statements on initial application.

Amendment to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" The changes to IFRIC 9 and IAS 39 were published in March 2009 and apply to financial years beginning on or after 1 July 2009. The changes require an entity to reassess whether an embedded derivative should be separated from its host contract if the entity intends to redesignate a structured contract classified as at fair value through profit or loss to another category. Since the DEUTZ Group it is not expecting to carry out any such redesignations during the financial year of initial application, the application of the revised standard is not expected to affect the consolidated financial statements.

IFRIC 15 "Agreements for the Construction of Real Estate" IFRIC 15 was published in July 2008. The adoption regulation specifies that this interpretation applies to financial years beginning after 31 December 2009. IFRIC 15 is concerned with the criteria for the application of IAS 11 and IAS 18 in connection with the construction and sale of real estate or parts of real estate. The interpretation relates to sales agreements entered into prior to completion of the construction or parts of the construction or even before the construction has begun. The accounting treatment of these agreements must be in accordance with either IAS 11 (with gradual recognition of revenue based on the percentage of completion) or IAS 18 (generally with later revenue recognition). The interpretation clarifies when IAS 11 or IAS 18 should be applied and when revenue from the construction and sale of real estate or parts of real estate must be recognised. No impact on the DEUTZ Group is anticipated because interpretation applies to the real-estate industry.

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” IFRIC 16 was published in July 2008. The adoption regulation specifies that this interpretation applies to financial years beginning after 30 June 2009. IFRIC 16 resolves a number of issues. These issues include how to designate risk arising from foreign currency exposure and the maximum amount that may be designated as a hedged risk. They also include clarification of which entity within a group may hold the hedging instrument and clarification of the accounting treatment in connection with the disposal of an investment in a foreign operation. The DEUTZ Group does not currently hedge any net investments in foreign operations. The interpretation is therefore not expected to affect the consolidated financial statements on initial application.

IFRIC 17 “Distributions of Non-cash Assets to Owners” IFRIC 17 was published in November 2008 and applies to financial years beginning on or after 1 July 2009. This interpretation governs the accounting treatment for distributions of non-cash assets to owners. Under IFRIC 17, an entity must measure a liability to distribute non-cash assets as a dividend at the fair value of the assets to be distributed; when the entity settles the dividend payable, it must recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss. Since the DEUTZ Group is not expecting to carry out any distributions of non-cash assets to owners during the financial year of initial application, initial application of this standard is not expected to affect the consolidated financial statements.

IFRIC 18 “Transfers of Assets from Customers” IFRIC 18 was published in January 2009 and applies to financial years beginning on or after 1 July 2009. This interpretation includes guidance that clarifies the recognition and measurement of assets and that resolves revenue recognition issues in connection with the transfer of assets from customers. Since DEUTZ’s operating activities do not currently include any transfers of this kind, initial application of this standard is not expected to affect the consolidated financial statements.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published the following standards and interpretations, the application of which was not yet mandatory in 2009. 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.

Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” The amended standard was published in July 2009 and applies to financial years beginning on or after 1 January 2010. Since this standard is not relevant to the DEUTZ Group, initial application will have no impact on the consolidated financial statements.

Amendments to IFRS 2 “Share-based Payment” The amended standard was published in June 2009 and applies to financial years beginning on or after 1 January 2010. The changes clarify the accounting treatment of share-based payments settled in cash. Since these changes are not currently relevant to the DEUTZ Group, initial application is not expected to have any impact on the consolidated financial statements.

IFRS 9 “Financial instruments” IFRS 9 was published in November 2009 and applies to financial years beginning on or after 1 January 2013. The publication of this standard represents the conclusion of the first stage of a three-stage project to replace IAS 39 “Financial Instruments: Recognition and Measurement” with a new standard. The first stage includes some new provisions governing the classification and measurement of financial instruments. As a consequence, the initial application of this standard is expected to affect the measurement of financial instruments and the classification (and therefore the presentation) of financial information.

IAS 24 (revised) “Related Party Disclosures” The revised standard was published in November 2009 and applies to financial years beginning on or after 1 January 2011. The revision simplifies the reporting obligations of entities in which governments have an equity interest. The definition of a related party has also been revised. Apart from enhancements, the revision primarily comprises changes to make the standard clearer and more understandable. The initial application of this revised standard is therefore not expected to have any material impact on the DEUTZ Group’s disclosures on related parties.

Improvements to International Financial Reporting Standards (2008) The improvements were published in April 2009. Most of the changes apply to financial years beginning on or after 1 January 2010 and are primarily intended to clarify certain provisions. Because the DEUTZ Group is only partially affected by these amendments, their initial application will not have a material impact on the consolidated financial statements. The clarification in respect of IFRS 8 to the effect that the total of cumulative assets for each reportable segment is not a minimum disclosure for segment reporting and that this disclosure only needs to be made if information on total segment assets is regularly included in internal reporting to the chief operating decision-maker in the entity will not affect the presentation of segment reporting because the DEUTZ Group already interpreted this provision accordingly in its initial application of IFRS 8.

Amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" The amendment to IFRIC 14 was published in November 2009 and applies to financial years beginning on or after 1 January 2011. The objective of the changes is to adjust the impact of IFRIC 14, under which entities in certain circumstances are not permitted to recognise as assets some prepayments that are part of minimum funding contributions. Because the DEUTZ Group is not affected by this amendment, initial application will not have any impact on the consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" IFRIC 19 was published in November 2009 and applies to financial years beginning on or after 1 July 2010. This interpretation introduces the rule that equity instruments issued to lenders to extinguish all or part of a financial liability must be considered as 'consideration paid' and the borrower must therefore derecognise all or part of the financial liability accordingly. Other provisions in the interpretation comprise for the most part rules on the measurement of these equity instruments and rules on the accounting treatment for the derecognition of the liability. Any expected impact on the consolidated financial statements depends on whether equity instruments are used to extinguish financial liabilities.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in accordance with IFRS to a certain extent requires estimates and assumptions that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date and the reporting of income and expenses. Estimates and assumptions giving rise to a material risk in the form of adjustments to the carrying amounts of assets or liabilities over the next financial year are explained below. In particular, forecasts of future cash flows are subject to additional uncertainties in view of the financial crisis and the associated risks for further global economic growth. 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.

Impairment losses amounting to €14.1 million (2008: €2.6 million) were recognised for non-financial assets as at 31 December 2009. Further details can be found under Note 6 on page 75.

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

As at 31 December 2009 the carrying amount of deferred tax assets recognised in respect of tax loss carryforwards amounted to €38.4 million (31 December 2008: €37.9 million). Further details can be found under Note 18 on page 82 et seq..

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

Because of changes in economic and market conditions, the costs and liabilities actually incurred may differ significantly from the estimates made on the basis of actuarial assumptions. The rate of pension and salary increases, the longevity of those entitled to pension benefits and the discount rate used can have a material impact on the amount of the defined benefit obligation and, consequently, on future pension costs. A change of 0.5 percentage points in the discount rate used is estimated to cause the majority of pension benefit obligations to be adjusted by between 3.9 per cent and 4.6 per cent. A change of 0.5 percentage points in the projected rate of pension increase would cause the majority of pension benefit obligations to rise by approximately 4 per cent.

As at 31 December 2009, the provision for pensions and other post-retirement benefits amounted to €180.0 million (31 December 2008: €185.7 million). Further details on the assumptions used are described in Note 24 on page 85 et seq..

Development expenditure is capitalised in accordance with the accounting policies described above. The initial capitalisation of this expenditure is based on a management assessment that the technical and economic feasibility of the development has been demonstrated; this is generally the case if the product development project has reached a specific milestone in an existing project management model. Management makes assumptions about the amount of future cash flows expected to be generated from assets, the discount rates to be applied and the period over which the cash generated by the assets is expected to flow into the Company in order to determine the amounts to be capitalised. As at 31 December 2009 the carrying amount of capitalised development expenditure was €125.0 million (31 December 2008: €96.8 million).

Pending or potential legal disputes DEUTZ AG and other companies in the DEUTZ Group are involved in a number of legal disputes and arbitration proceedings. These relate to risks concerning liability for defects of quality, tax law, competition law and antitrust law. Provisions have been recognised to cover the risks arising from this litigation. At present it is not possible to predict the outcome of these pending cases with any degree of certainty beyond the provisions already recognised. We do not expect them to have a significantly adverse impact on the DEUTZ Group's financial position or financial performance. The overall position as regards the legal risks facing the DEUTZ Group is explained in more detail in Note 30 on page 103.

BASIS OF CONSOLIDATION

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are all entities (including special-purpose entities) directly or indirectly controlled by DEUTZ AG. Subsidiaries are consolidated from the point at which DEUTZ AG acquires control. Consolidation ends when the parent company no longer has control. The consolidated financial statements include DEUTZ AG as well as three (2008: three) German entities and seven (2008: seven) foreign entities in which DEUTZ AG holds the majority of voting rights either directly or indirectly or – as in the case of the special-purpose entity Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf – is exposed to a majority of the opportunities and risks.

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 (2008: one) foreign entity in accordance with the rules governing associates and two (2008: two) joint ventures. Page 111 of the annex to the notes to the consolidated financial statements lists the companies included in the DEUTZ Group's consolidated financial statements as at 31 December 2009. Full disclosure of shareholdings is published in the electronic German Federal Gazette.

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.

Since the transition to accounting based on IFRS on 1 January 2005, the acquisition method has been used to account for business combinations. Under this method, the carrying amount of the investment is offset against the DEUTZ Group's proportionate share of equity in the consolidated subsidiary remeasured at fair value on the acquisition date.

The non-controlling interest is the share of net profit/loss and net assets not attributable to the DEUTZ Group. Currently, there is no non-controlling interest in the DEUTZ Group.

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

JOINT VENTURES AND ASSOCIATES

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

CURRENCY TRANSLATION

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

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

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

The main exchange rates used for currency translation purposes are shown in the following table:

		Average rates		Closing rates at 31 Dec.	
		2009	2008	**2009**	2008
USA	1 USD	0.72	0.68	0.69	0.71
UK	1 GBP	1.12	1.25	1.13	1.03
Singapore	1 SGD	0.49	0.48	0.50	0.49
China	1 CNY	0.10	0.10	0.10	0.10
Australia	1 AUD	0.57	0.57	0.62	0.49

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 risk and rewards have passed to the customer. Estimates of costs to be incurred subsequently are covered by provisions and deducted from revenue.

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

Interest income, user fees, dividends and other income Interest income is recognised pro rata temporis using the effective interest method. Revenue from user fees is deferred and recognised pro rata temporis in accordance with the substance of the relevant agreements.

Dividend income is recognised at the time the right to receive the payment arises. Other income is recognised according to contractual agreement on the transfer of risks and rewards.

Borrowing costs Borrowing costs incurred by the construction or manufacture of an asset for which a substantial period is required to bring the asset to its intended usable condition are capitalised as part of the costs of the relevant asset provided that the construction or manufacture began on or after 1 January 2009. The accounting principles applied by the DEUTZ Group specify that a period of twelve months is required to justify such accounting treatment. All the other borrowing costs are expensed as incurred.

Additional disclosures In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before one-off items, which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

	Useful life (years)
Buildings and grounds	15 to 33
Technical equipment and machines	10 to 15
Other equipment, furniture and fixtures	3 to 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 derecognized either on disposal or if no further economic benefit is expected from further use or sale of the asset. Gains or losses arising from the derecognition of the asset are calculated as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the period in which the asset is derecognised.

INTANGIBLE ASSETS

Intangible assets are measured at cost on the acquisition date. The costs of internally generated intangible assets are expensed as incurred, except in the case of development expenditure eligible for capitalisation. The cost of purchase or conversion includes directly attributable costs. The cost of conversion also includes a proportion of overheads. In subsequent periods, intangible assets are reported at cost less amortisation on a straight-line basis and any additional impairment losses. The useful lives of both purchased and internally generated intangible assets are limited. The amortisation expense and impairment losses are reported in the income statement accordingly.

The following principles are applied:

Internally generated intangible assets Development expenditure is capitalised if it can be clearly allocated to a newly developed product or process that is technically feasible and is intended for the Group's own use or marketing activities. Development expenditure is generally amortised on a straight-line basis over the expected production cycle (three to eight years).

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

GOVERNMENT GRANTS

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

INCOME TAXES

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

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

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

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

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

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

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

INVENTORIES

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

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

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

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

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

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

FINANCIAL ASSETS

In the DEUTZ Group, financial assets within the meaning of IAS 39 can be in any of the following categories and are classified accordingly:

- financial assets at fair value through profit or loss,
- loans and receivables, or
- available-for-sale financial assets.

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

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

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

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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

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

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, short-term deposits and credit balances held with banks.

FINANCIAL LIABILITIES

In the DEUTZ Group, financial liabilities within the meaning of IAS 39 can be in either of the following categories:

- financial liabilities at fair value through profit or loss, or
- other financial liabilities.

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

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

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

- financial liabilities (US private placement, 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.

DEUTZ only regularly uses derivative financial instruments to reduce the foreign currency risk in planned transactions involving foreign currencies and to reduce interest-rate risk. Forwards and interest-rate swaps are the primary instruments used.

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

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

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

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

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

PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

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

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

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

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

OTHER PROVISIONS

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

CONTINGENT LIABILITIES

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

DISCONTINUED OPERATIONS PURSUANT TO IFRS 5

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

NOTES TO THE INCOME STATEMENT

1. REVENUE

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

	2009	2008
€ million		
Engines	688.4	1,283.0
Service	175.0	212.0
Total	**863.4**	**1,495.0**

The breakdown of revenue by segment and region is shown in the notes on segment reporting on page 90 et seq..

2. CHANGE IN INVENTORIES AND OTHER OWN WORK CAPITALISED

Change in inventories
Changes in inventories of finished goods and work in progress in 2009 amounted to a decrease of €39.1 million (2008: increase of €5.5 million).

Other own work capitalised
Other own work capitalised amounted to €29.3 million (2008: €19.9 million). This primarily comprised the costs of new engine development and the further development of existing engines to comply with current and future exhaust emissions standards.

3. OTHER OPERATING INCOME

	2009	2008
€ million		
Income from recharged costs and services	43.3	44.1
Income from the reversal of provisions	14.4	–
Exchange rate gains	4.3	13.5
Income from the disposal of non-current assets	2.8	–
Income from charged-off liabilities	2.4	0.5
Income from the measurement of commodities	1.7	1.7
Income from the measurement of currency forwards	0.6	1.2
Rentals and leases	0.6	1.0
Sundry other income	2.7	3.0
Total	**72.8**	**65.0**

4. COST OF MATERIALS

	2009	2008
€ million		
Cost of raw materials and supplies, bought-in and spare parts	518.3	971.1
Cost of services procured	43.8	58.2
Impairment of raw materials, bought-in and spare parts	5.8	10.4
Total	**567.9**	**1,039.7**

As a result of the dramatic fall in unit sales and the deliberate scaling back of inventories, there was a corresponding significant decrease in the cost of materials including write-downs on raw materials, bought-in parts and spare parts.

5. STAFF COSTS

The average number of employees during the year is given in the section "Disclosures under German Accounting Standards".

	2009	2008
€ million		
Wages	103.2	111.0
Salaries	85.3	121.6
Social security contributions	37.9	44.2
Interest cost for pension provisions	10.0	10.1
Cost of staff adjustments	25.4	10.5
Cost of post-employment benefits and other long-term employee benefits	3.5	2.7
Total	**265.3**	**300.1**

Targeted cuts in staff costs were achieved as a result of the reduction in employee numbers and the introduction of short-time working. The tough economic conditions led to further personnel restructuring during 2009; the expenses in this regard increased accordingly.

The interest included in pension costs is now reported as part of staff costs instead of net interest expense in order to show the effective interest included in net interest expense. The interest component amounted to €10.0 million in 2009 (2008: €10.1 million). The comparative prior-year figures have been restated accordingly to improve comparability.

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

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

	2009	2008
€ million		
Property, plant and equipment	43.7	49.5
Intangible assets	22.6	22.3
Total	**66.3**	**71.8**

Total impairment losses of €14.1 million were also recognised on the recoverable amount of intangible assets and property, plant and equipment in 2009. These impairment losses mainly related to capitalised development expenditure, including licences, on a series of engines with outputs of between 15kW and 50kW (€8.0 million) owing to our medium-term plans to discontinue production of these engines, the rapeseed-oil-powered engine owing to a lack of marketing opportunities (€1.5 million) and capitalised licences for a discontinued series of small engines with outputs of up to 27kW (€1.5 million). Due to the market situation for engines in the 15kW to 50kW output range in the DEUTZ Compact Engines segment, impairment losses of €8.0 million were recognised after calculating the recoverable amount for capitalised development expenditure including licences.

7. OTHER OPERATING EXPENSES

	2009	2008
€ million		
Expenses for general services	38.0	52.5
Special selling expenses	15.4	24.7
Cost of fees, contributions and consultancy services	12.5	12.1
Cost of rentals and leases	11.4	12.2
Office, postal, telecommunications, advertising and other administrative expenses	7.4	10.6
Exchange rate losses	5.7	6.1
Temporary staff	3.4	10.6
Expenses in connection with the measurement of currency forwards	1.3	6.3
Sundry other expenses	4.2	24.0
Total	**99.3**	**159.1**

8. RESULT FORM EQUITY-ACCOUNTED INVESTMENTS AND OTHER INVESTMENT INCOME

	2009	2008
€ million		
Net result form equity-accounted investments		
Income from equity-accounted investments	1.1	1.7
Expenses form equity-accounted investments	–5.4	–8.0
Total	**–4.3**	**–6.3**
Other investment income	**1.6**	**1.6**
Total	**–2.7**	**–4.7**

The expenses in respect of equity-accounted investments consist almost exclusively of the pro rata transfer of losses from DEUTZ (Dalian) Engine Co., Ltd., our Chinese joint venture.

9. INTEREST EXPENSES, NET

	2009	2008
€ million		
Interest received on credit balances held with banks	2.7	11.1
Other interest income	11.1	10.6
Interest income	**13.8**	**21.7**
Interest paid on liabilities to banks	–1.3	–2.6
Interest paid on bonds	–12.4	–11.3
Other interest expenses	–10.1	–11.0
Interest expenses (finance costs)	**–23.8**	**–24.9**
Net interest expense	**–10.0**	**–3.2**

In the year under review, interest income of €4.6 million (2008: €12.8 million) and interest expense of €13.3 million (2008: €13.9 million) was attributable to financial instruments measured at amortised cost or recognised at fair value in other comprehensive income. Borrowing costs of €0.4 million (2008: €0.0 million) were capitalised in 2009. The average interest rate of 5.8 per cent on borrowings in the current period was taken into account in determining the borrowing costs to be capitalised for general borrowings during the reporting period.

10. TAXES

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

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

2009	Continuing operations	Dis-continued operations	Total
€ million			
Current tax expense	3.5	4.1	7.6
thereof not related to the reporting period	3.0	4.1	7.1
Deferred taxes	15.2	0.1	15.3
thereof due to temporary differences	15.5	0.1	15.6
thereof from losses carried forward	–0.3	–	–0.3
Total tax expenses	**18.7**	**4.2**	**22.9**

2008	Continuing operations	Dis-continued operations	Total
€ million			
Current tax expense	–1.8	–9.6	–11.4
thereof not related to the reporting period	–1.8	–9.6	–11.4
Deferred taxes	8.7	5.1	13.8
thereof due to temporary differences	3.1	5.1	8.2
thereof from losses carried forward	5.6	–	5.6
Total tax expenses	**6.9**	**–4.5**	**2.4**

The deferred tax expense for the reporting year included expenses of €15.6 million arising from temporary differences (2008: €8.2 million), which were largely attributable to a year-on-year rise in capitalised development expenditure and to write-downs of €4.5 million on capitalised deferred tax assets. The current tax expense of €7.6 million in the reporting year largely resulted from a tax audit at DEUTZ AG completed in the current year and covering the years 2002 to 2005, the subsequent impact of this tax audit on the financial years 2006 to 2008, and an adjustment/amendment to the 2007 tax return in connection with the discontinued DEUTZ Power Systems segment.

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 is 31 per cent (2008: 31 per cent) comprising corporation tax at 15 per cent (2008: 15 per cent), the solidarity surcharge (5.5 per cent of the corporation tax) and trade tax at 15 per cent (2008: 15 per cent) based on an average assessment rate.

	2009	2008
€ million		
Net income before income taxes	**–101.1**	**–5.9**
Anticipated tax	–31.9	–1.9
Difference in local basis of assessment	0,8	1.4
Tax rates outside Germany	–0.3	–0.7
Change in adjustment of deferred tax assets on losses carried forward, change in deferred tax assets capitalised for losses carried forward/ temporary differences	39.3	12.7
Change in tax rates	–	–0.1
Effect on non-deductible expenses	3.6	0.2
Net result from equity-accounted investment	1.3	2.3
Effect of tax-exempt income	–0.2	–3.2
Effects from other periods		
Tax refunds for previous years	7.1	–2.6
Deferred taxes from tax audits	3.6	–
Purchase price adjustment (disposal of DPS KG)	–	–5.4
Other	–0.4	–0.3
Effective tax expenses	**22.9**	**2.4**
Effective tax rate (%)	–22.7	–40.7

The subsequent recognition of, or changes in write-downs on, and the non-recognition of deferred tax assets on loss carryforwards essentially relate to

- the change in deferred tax assets following the utilisation of losses carried forward in the reporting period,
- the recognition of deferred tax assets on losses carried forward that can be utilised in subsequent years and
- deferred tax assets not recognised in the reporting period on losses of consolidated entities.

11. DISCONTINUED OPERATIONS

The DEUTZ Power Systems segment was sold with effect from 30 September 2007.

The transaction was reported in 2007 as a discontinued operation in accordance with IFRS 5. Discontinued operations for the reporting year include the tax expense arising from a tax audit completed during the reporting year and covering the years 2002 to 2005, from the subsequent impact of this tax audit on the financial years 2006 and 2007, and from an adjustment/amendment to the 2007 tax return in connection with the discontinued DEUTZ Power Systems segment. In 2008 there was some impact from restated figures arising from the settlement agreed with the financial investor 3i as well as from other processing costs.

The table below gives a breakdown of the net income/loss from discontinued operations:

	2009	2008
€ million		
Current net income after income taxes from discontinued operations	**–**	**–**
Profit/loss on adjustments before income taxes	–	–8.6
Income taxes	–4.2	4.5
Profit/loss on adjustments after income taxes on dicsontinued operations	**–4.2**	**–4.1**
Net income from discontinued operations	**–4.2**	**–4.1**

Net cash used in investing activities for discontinued operations arising from the effects of the restated figures amounted to €1.3 million in the year under review (2008: €26.8 million).

12. EARNINGS PER SHARE

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

To calculate diluted earnings per share, it factors in dilutive effects such as convertible profit-sharing rights and convertible bonds. In doing so, it assumes that these convertible profit-sharing rights and convertible bonds will be converted into shares. Consequently, net income is increased by the amount of the interest expenses that are then no longer incurred. The resultant tax expense is recognised. In the period under review, there were no dilutive effects.

	2009	2008
€ thousand/ Shares in thousands		
Net income	–124,016	–8,344
Weighted average number of shares outstanding	120,862	120,794
Basic earnings per share (€)	**–1.03**	**–0.07**
thereof from continuing operations	–0.99	–0.04
thereof from discontinued operations	–0.04	–0.03
Dilutive effect		
Increase in net income resulting from the dilutive effect of convertible profit-sharing rights and convertible bonds	–	40
Current and deferred taxes	–	–13
Adjusted net income for the period	–124,016	–8,317
Weighted average number of shares outstanding (diluted)	120,862	120,872
Diluted earnings per share (€)	**–1.03**	**–0.07**
thereof from continuing operations	–0.99	–0.04
thereof from discontinued operations	–0.04	–0.03

NOTES TO THE COMPREHENSIVE INCOME

13. OTHER COMPREHENSIVE INCOME

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

In 2009, losses of €0.9 million on cash flow hedges (2008: gains of €1.0 million) (prior to the inclusion of deferred taxes) recognised in other comprehensive income during the year were reclassified to other operating income or expenses in the consolidated income statement.

	2009			2008		
	before taxes	**taxes**	**after taxes**	before taxes	taxes	after taxes
€ million						
Currency translation differences	1.5	–	1.5	2.4	–	2.4
Effective portion of change in fair value from cash flow hedges	–14.3	4.6	–9.7	8.4	–2.7	5.7
Change in fair value of available-for-sale financial assets	0.1	–	0.1	–0.3	–	–0.3
Other comprehensive income	**–12.7**	**4.6**	**–8.1**	**10.5**	**–2.7**	**7.8**

NOTES TO THE BALANCE SHEET

14. PROPERTY, PLANT AND EQUIPMENT

Gross figures
Acquisition and production costs

	Land, land rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Construction in progress	Total
€ million					
Balance at 1 Jan. 2009	**195.9**	**470.6**	**175.2**	**7.5**	**849.2**
Exchange differences	–	–	0.1	–	0.1
Additions	0.8	14.6	16.0	12.1	43.5
Capital investment grants	–	–	–1.9	–0.1	–2.0
Disposals	–2.3	–6.1	–9.2	–	–17.6
Reclassifications	–	9.6	0.5	–10.6	–0.5
Balance at 31 Dec. 2009	**194.4**	**488.7**	**180.7**	**8.9**	**872.7**

Gross figures
Depreciation and impairment

	Land, land rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Construction in progress	Total
€ million					
Balance at 1 Jan. 2009	**58.0**	**320.6**	**128.5**	**–**	**507.1**
Exchange differences	–	–	0.1	–	0.1
Depreciation	4.8	25.2	13.7	–	43.7
Impairment	–	0.2	1.9	–	2.1
Disposals	–0.6	–6.1	–9.1	–	–15.8
Balance at 31 Dec. 2009	**62.2**	**339.9**	**135.1**	**–**	**537.2**
Net carrying amount at 31 Dec. 2009	**132.2**	**148.8**	**45.6**	**8.9**	**335.5**

Gross figures
Acquisition and production costs

	Land, land rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Construction in progress	Total
€ million					
Balance at 1 Jan. 2008	**187.7**	**428.9**	**166.7**	**18.5**	**801.8**
Exchange differences	–	–0.1	–0.1	–	–0.2
Additions	1.0	23.1	14.3	23.2	61.6
Capital investment grants	–	–2.1	–0.8	–	–2.9
Disposals	–0.3	–4.4	–5.9	–	–10.6
Reclassifications	7.5	25.2	1.0	–34.2	–0.5
Balance at 31 Dec. 2008	**195.9**	**470.6**	**175.2**	**7.5**	**849.2**

Gross figures
Depreciation and impairment

	Land, land rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Construction in progress	Total
€ million					
Balance at 1 Jan. 2008	**53.1**	**294.0**	**120.1**	**–**	**467.2**
Exchange differences	–	–0.1	–0.1	–	–0.2
Depreciation	4.7	31.0	13.8	–	49.5
Impairment	0.2	–	0.5	–	0.7
Disposals	–	–4.3	–5.8	–	–10.1
Balance at 31 Dec. 2008	**58.0**	**320.6**	**128.5**	**–**	**507.1**
Net carrying amount at 31 Dec. 2008	**137.9**	**150.0**	**46.7**	**7.5**	**342.1**

Acquisitions of property, plant and equipment largely related to the replacement of driverless vehicles at the Cologne site and to the expansion of the components plant at Zafra in Spain.

Government grants at a Spanish subsidiary were deducted from the cost of purchasing the property, plant and equipment. No government grants were received in 2009 (2008: €2.0 million). As at 31 December 2009, the balance of recognised government grants was €6.2 million (31 December 2008: €7.3 million). In 2009, grants of €1.1 million (2008: €1.2 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 103.

15. INTANGIBLE ASSETS

Gross figures
Acquisition and production costs

€ million	Internally generated intangible assets	Other intangible assets	Total
Balance at 1 Jan. 2009	**131.9**	**99.9**	**231.8**
Additions	66.6	8.6	75.2
Capital investment grants	–18.8	–1.9	–20.7
Disposals	–	–7.9	–7.9
Reclassifications	–	0.5	0.5
Balance at 31 Dec. 2009	**179.7**	**99.2**	**278.9**

Gross figures
Amortisation and impairment

€ million	Internally generated intangible assets	Other intangible assets	Total
Balance at 1 Jan. 2009	**35.1**	**71.0**	**106.1**
Amortisation	11.3	11.3	22.6
Impairment	8.3	3.7	12.0
Disposals	–	–7.6	–7.6
Balance at 31 Dec. 2009	**54.7**	**78.4**	**133.1**
Net carrying amount at 31 Dec. 2009	**125.0**	**20.8**	**145.8**

Gross figures
Acquisition and production costs

€ million	Internally generated intangible assets	Other intangible assets	Total
Balance at 1 Jan. 2008	**100.8**	**115.2**	**216.0**
Additions	48.2	8.5	56.7
Capital investment grants	–16.9	–0.8	–17.7
Disposals	–0.2	–23.5	–23.7
Reclassifications	–	0.5	0.5
Balance at 31 Dec. 2008	**131.9**	**99.9**	**231.8**

Gross figures
Amortisation and impairment

€ million	Internally generated intangible assets	Other intangible assets	Total
Balance at 1 Jan. 2008	**23.7**	**81.7**	**105.4**
Amortisation	10.3	12.0	22.3
Impairment	1.1	0.8	1.9
Disposals	–	–23.5	–23.5
Balance at 31 Dec. 2008	**35.1**	**71.0**	**106.1**
Net carrying amount at 31 Dec. 2008	**96.8**	**28.9**	**125.7**

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 for new engine development and the further development of existing engines to comply with current and future exhaust emissions standards, particularly for development in connection with the forthcoming US Tier 4 Interim emissions standard for industrial and agricultural applications and on our completely new engine in the class of engines with capacities of less than four litres.

The income statement for the year under review includes research and development expenditure of €38.0 million (2008: €42.1 million).

16. EQUITY-ACCOUNTED INVESTMENTS

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

	2009	2008
€ million		
1 January	**55.1**	**57.6**
Share of profit/loss on equity-accounted investments	–4.3	–6.3
Other changes arising from measurement using the equity method	–1.5	3.8
31 December	**49.3**	**55.1**

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

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

	31/12/2009	31/12/2008
€ million		
Total assets	16.4	17.0
Total liabilities	5.5	8.8
	2009	**2008**
Revenue	21.9	27.1
Net income (after taxes)	3.3	5.1

DEUTZ AG holds a 50 per cent equity interest in DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, and in DEUTZ AGCO MOTORES S.A., Haedo, Argentina. Both of these companies are jointly controlled entities that manufacture engines locally for international DEUTZ customers. The equity method is used to account for these holdings.

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

	31/12/2009	31/12/2008
€ million		
Current assets	82.2	85.6
Non-current assets	59.7	65.2
Total assets	**141.8**	**150.7**
Current liabilities	65.0	73.3
Non-current liabilities	30.4	24.4
Total liabilities	**95.4**	**97.7**
	2009	**2008**
Revenue	116.4	125.2
Net income (after taxes)	–5.4	–7.7

17. OTHER FINANCIAL ASSETS (NON-CURRENT)

	31/12/2009	31/12/2008
€ million		
Investments	5.8	5.8
Non-current securities	1.7	1.2
Loans	1.3	1.3
Derivatives used in cashflow hedges	–	8.5
Total	**8.8**	**16.8**

Equity investments

The equity investments item primarily comprises the amortized cost of DEUTZ Versicherungsvermittlung GmbH, Cologne.

Non-current securities

This balance sheet item comprises securities amounting to €1.7 million (31 December 2008: €1.2 million) in the form of shares and bonds. The securities are used as a form of investment for the pension obligations of a foreign subsidiary (DEUTZ Corporation).

Derivative financial instruments

The marking to market of cross-currency swaps used to hedge the currency risk and interest-rate risk attaching to future payments of principal and interest arising from the US private placement gave rise to a negative fair value of €10.3 million as at 31 December 2009 caused partly by recent interest-rate trends (31 December 2008: positive fair value of €8.5 million), which was consequently reported under other non-current liabilities.

18. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilised tax losses carried forward of €1,024.3 million for corporation tax (2008: €971.7 million) and €1,154.4 million for trade tax (2008: €1,117.7 million). Further tax loss carryforwards were also available to international companies in the Group.

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

	31/12/2009	31/12/2008
€ million		
Non-current		
Deferred tax assets	22.4	33.1
Deferred tax provisions	0.1	0.1
Current		
Current tax assets	1.4	1.4
Provision for income taxes	6.6	2.1
Income tax liabilities	0.3	0.3

The decrease of €10.7 million in deferred taxes to €22.3 million was largely attributable to the year-on-year rise in capitalised development expenditure and the write-down of capitalised deferred tax assets at our US subsidiary as a result of the weaker economy. Of this change, deferred tax income of €4.6 million was recognised in other comprehensive income. The remaining expense of €15.3 million was recognised in the income statement. There are no current taxes on the items recognised in other comprehensive income.

The income tax provisions of €6.6 million reported as at 31 December 2009 primarily include back-payments of corporation tax and trade tax arising from a tax audit at DEUTZ AG completed in the current year and covering the years 2002 to 2005, from the subsequent impact of this tax audit on the financial years 2007 and 2008, and from an adjustment/amendment to the 2007 tax return in connection with the discontinued DEUTZ Power Systems segment.

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

	31/12/2009		31/12/2008	
	Assets	Liabilities	Assets	Liabilities
€ million				
Intangible assets	–	40.4	–	31.6
Property, plant and equipment	9.2	0.4	9.3	0.4
Equity-accounted investments, financial assets	–	–	7.4	10.2
Inventories	1.7	1.4	1.0	0.9
Receivables and other assets	0.2	1.3	0.2	2.4
Liabilities	24.9	5.4	22.6	2.3
Losses carried forward	41.1	–	37.9	–
Consolidation	1.8	–	1.6	–
Other	0.6	–	0.8	–
Impairment losses	–8.3	–	–	–
Deferred taxes (gross)	**71.2**	**48.9**	**80.8**	**47.8**
Netting	48.8	48.8	47.7	47.7
Deferred taxes (net)	**22.4**	**0.1**	**33.1**	**0.1**

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 €22.3 million.

The change in deferred taxes in respect of temporary differences – which is recognised in other comprehensive income – amounted to €5.9 million for financial assets (31 December 2008: €0.3 million) and €1.3 million for liabilities (31 December 2008: €2.3 million).

As at 31 December 2009 and 31 December 2008, the DEUTZ Group had not recognised any deferred tax liabilities for 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.

The temporary differences for which no deferred tax liabilities have been recognised are of no material significance.

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

Loss carry forwards on which deferred taxes have not been recognised

	31/12/2009	31/12/2008
€ million		
Corporation tax	923.3	864.2
Trade tax	1,040.8	999.1
Tax credits/loss carry forwards outside Germany	–	15.2

Thereof: expiry periods for German and international losses carried forward

	Corporation tax		Trade tax	
	31/12/09	31/12/08	31/12/09	31/12/08
€ million				
Less than 5 years	–	9.7	0.3	–
6 to 9 years	–	1.8	–	–
10 years to indefinite	923.3	867.9	1,040.8	999.1

There are also deductible temporary differences of €11.5 million on which deferred taxes have not been recognised.

19. INVENTORIES

	31/12/2009	31/12/2008
€ million		
Raw materials and supplies, bought-in and spare parts	71.8	127.2
Work in progress	24.5	35.6
Finished goods	31.2	59.2
Total	**127.5**	**222.0**

The reduction in the volume of business and targeted action to systematically scale back inventories both contributed to the reduction in inventories.

As at 31 December 2009, the carrying amount of inventories written down to net realisable value was €25.8 million (31 December 2008: €36.1 million).

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

	2009	2008
€ million		
1 January	**18.6**	**18.5**
Changes	7.7	0.1
31 December	**26.3**	**18.6**

20. RECEIVABLES AND OTHER ASSETS (EXCLUDING INCOME TAXES)

	31/12/2009	31/12/2008
€ million		
Trade receivables	117.2	126.7
Less adjustments	–4.9	–5.6
Trade receivables (net)	**112.3**	**121.1**
Other receivables and assets		
Receivables from investments	7.9	12.0
thereof trade receivables	7.5	11.6
thereof other receivables	0.4	0.4
Advances paid on property, plant and equipment and inventories	4.5	8.2
Derivative financial instruments[1]	0.6	0.7
Sundry other receivables	34.6	49.0
Receivables arising form other taxes	4.1	6.4
Prepaid expenses	1.2	4.3
Total	**52.9**	**80.6**

1) The derivative financial instruments essentially consist of foreign-currency derivatives embedded in purchase contracts.

As at 31 December 2009, the volume of receivables sold under factoring agreements was around €76 million (2008: €93 million).

Trade receivables with a principal amount of €5.1 million were written down as at 31 December 2009 (31 December 2008: €5.6 million). The following table shows the change in the valuation allowance account:

	2009	2008
€ million		
Balance at 1 January	**5.6**	**5.3**
Additions	0.2	3.1
Utilisation	–0.4	–1.3
Reversals	–0.5	–1.5
Balance at 31 December	**4.9**	**5.6**

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts. As at 31 December 2009, write-downs of €22.2 million (31 December 2008: €21.2 million) had been recognised on receivables due in respect of equity investments.

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents reported on the face of the balance sheet comprise cash on hand, short-term deposits and credit balances held with banks.

22. NON-CURRENT ASSETS HELD FOR SALE

The non-current assets classified held for sale as at 31 December 2009 and 31 December 2008 relate to the land and buildings in the special-purpose entity Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, at Cologne-Deutz. In the year under review, a partial disposal of these assets generated a gain of €1.0 million, which is recognised under other operating income. The land and buildings of the Deutz-Mülheim special-purpose entity are assigned to the DEUTZ Compact Engines segment.

23. EQUITY

	31/12/2009	31/12/2008
€ million		
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	–5.6	2.5
Retained earnings	79.1	79.1
Accumulated loss/income	–32.1	91.9
Equity attributable to owners of the parent	379.2	511.3
Total	**379.2**	**511.3**

Issued capital

At the end of 2009, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (31 December 2008: €308,978,241.98) and was divided into 120,861,783 no-par-value bearer shares (31 December 2008: 120,861,783).

Authorised capital

The Annual General Meeting held on 22 June 2006 approved a resolution to create new authorised capital. The Board of Management is authorised, subject to the consent of the Supervisory Board, to increase the issued capital on or before 21 June 2011 through the issue of new no-par-value shares against cash and/or non-cash contributions on one or more occasions by up to a total amount of €120,000,000.00. Capital increases against non-cash contributions may not exceed a total of €80,000,000.00.

If the capital is increased against cash contributions, the shareholders must be granted pre-emptive rights. The new shares may be transferred to a bank specified by the Board of Management subject to an undertaking by the bank to offer the shares to shareholders (indirect pre-emptive right). The Board of Management is authorised, subject to the consent of the Supervisory Board, to disapply the pre-emptive rights of shareholders in the following cases:

- for fractional amounts;
- in so far as is necessary to grant holders of bonds with conversion rights, option rights or conversion obligations issued by DEUTZ AG pre-emptive rights to new shares to the extent that would be required if they were to exercise their conversion or option rights or fulfil their conversion obligations;
- if the issue price of the new shares is not significantly below the market price and the shares issued with the disapplication of pre-emptive rights pursuant to section 186 (3) sentence 4 of the German Stock Corporation Act (AktG) in total do not exceed 10 per cent of the issued capital either at the effective date or the exercise date of this authorisation. The aforementioned 10 per cent threshold includes shares that are acquired on the basis of an authorisation granted by the Annual General Meeting and sold during the period of this authorisation pursuant to section 71 (1) no. 8 sentence 5 AktG in conjunction with section 186 (3) sentence 4 AktG. This restriction also includes shares that have been or are to be issued in order to service bonds with conversion rights, option rights or conversion obligations insofar as the bonds were issued during the term of this authorisation with the disapplication of pre-emptive rights in application mutatis mutandis of section 186 (3) sentence 4 AktG.

The Board of Management is also authorised, subject to the consent of the Supervisory Board, to disapply pre-emptive rights in cases where the capital increase is made against non-cash contributions in the context of the acquisition of an entity, parts of an entity or investments in an entity.

Conditional capital

Conditional capital as at 31 December 2009 amounted to €0 thousand (31 December 2008: €174 thousand).

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

Other reserves
Currency translation Currency translation differences arising from the translation of equity at historical rates and the translation of the net income at average rates for the year are reported under a separate item in other comprehensive income. In the year under review, this item increased other comprehensive income by €1.5 million (2008: €2.4 million increase in other comprehensive income). The cumulative loss from translation differences recognised in other reserves amounted to €5.5 million at the end of 2009 (31 December 2008: €7.0 million).

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

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

Accumulated loss
The accumulated loss is the total of as yet unappropriated net income/loss generated in the past by the entities included in the consolidated financial statements.

24. PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

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

The employer's contribution to the German statutory pension insurance scheme in 2009 came to €17.4 million (2008: €17.9 million). In addition, a further €2.9 million (2008: €2.6 million) was paid for pension and direct insurance policies in connection with deferred compensation.

Defined benefit plans

Defined benefit obligation for pensions and other post-retirement benefits

	31/12/2009	31/12/2008
€ million		
Unfunded	186.5	187.3
Funded	15.3	10.7
Total	**201.8**	**198.0**

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

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

Total expenses for pensions and other post-retirement benefits

	2009	2008
€ million		
Service cost	0.1	0.3
Interest cost	10.7	10.8
Anticipated return on plan assets	–0.7	–0.7
Total	**10.1**	**10.4**

Interest cost and estimated return on plan assets are reported under staff costs. In the year under review, there was an actual gain of €1.2 million on plan assets (2008: actual loss of €1.8 million). All other expenses are also reported under staff costs on the face of the consolidated income statement.

Reconciliation of provisions for pensions and other post-retirement benefits

	31/12/2009	31/12/2008
€ million		
Defined benefit obligation for pensions and other post-retirement benefits	201.8	198.0
External plan assets measured at fair value	–12.8	–10.7
Actuarial gain (+)/loss (–)	–9.0	–1.6
Pension provisions reported on the face of the balance sheet	**180.0**	**185.7**

Development of the present value of defined benefit obligation (DBO)

	2009	2008
€ million		
DBO at 1 January	**198.0**	**212.6**
Service cost	0.1	0.3
Employee contributions	0.5	0.5
Interest	10.7	10.8
Gain (–)/loss (+)	7.7	–5.8
Exchange differences	1.2	–3.7
Pensions paid	–16.4	–16.3
Compensation for vested company pension rights	–	–0.4
DBO at 31 December	**201.8**	**198.0**

Development of the fair value of plan assets

	2009	2008
€ million		
Fair value of plan assets at 1 January	**10.7**	**13.7**
Anticipated return on plan assets	0.7	0.7
Gains (+)/losses (–) on plan assets	0.5	–2.6
Exchange differences	1.0	–3.5
Employer contributions	0.2	2.6
Employee contributions	0.4	0.2
Pensions paid from plan assets	–0.7	–0.4
Fair value of plan assets at 31 December	**12.8**	**10.7**

Composition of plan assets

	31/12/2009	31/12/2008
in %		
Equities	50	46
Debt securities	50	53
Other assets	–	1

The external plan assets relate solely to the UK branch of DEUTZ AG and contain neither securities issued by Group entities nor assets used by the DEUTZ Group.

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

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

Actuarial assumptions

	2009	2008
in %		
Discount rate		
Germany	5.25	5.62
USA	6.00	6.00
UK	5.75	6.70
Foreign countries (weighted)	5.78	6.59
Anticipated return on plan assets		
Germany	–	–
USA	–	–
UK	6.00	5.75
Foreign countries (weighted)	6.00	5.75
Rate of pension increase		
Rate of pension increase – pensions of the Essener Verband pension association	2.00	2.00
Rate of pension increase – other pensions	2.00	2.00
USA	3.00	3.00
UK	2.83	2.80
Foreign countries (weighted)	2.85	2.83
Rate of salary increase		
Germany	–	–
USA	4.00	4.00
UK	2.75	2.75
Foreign countries (weighted)	2.91	2.96

Funding status and experience adjustments

	2009	2008	2007	2006	2005
€ million					
Defined benefit obligation for pensions and other post-retirement benefits	201.8	198.0	212.6	337.6	355.6
External plan assets measured at fair value	–12.8	–10.7	–13.7	–14.3	–13.0
Plan funding (surplus)/deficit	189.0	187.3	198.9	323.3	342.6
Gains (+)/losses (–) based on historical experience					
on obligations	1.0	3.0	1.1	6.4	–0.1
on plan assets	0.5	–2.6	–0.1	0.3	1.3

The DEUTZ Group forecasts that its contributions to defined benefit pension plans will amount to €16.5 million in 2010.

25. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

	31/12/2009			31/12/2008		
	Total	With a residual term up to 1 year	With a residual term of more than 1 year	Total	With a residual term up to 1 year	With a residual term of more than 1 year
€ million						
Warranties	24.0	16.2	7.8	27.8	18.5	9.3
Imminent losses on pending transactions	8.4	3.2	5.2	10.2	3.4	6.8
Obligations to employees	18.0	7.0	11.0	31.8	6.2	25.6
Staff adjustments	14.5	14.5	–	10.2	10.2	–
Other	11.2	8.3	2.9	14.5	10.5	4.0
Total	**76.1**	**49.2**	**26.9**	**94.5**	**48.8**	**45.7**

Other provisions are recognised at their settlement value calculated as at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted at a rate of 5.5 per cent.

Other provisions cover all identifiable risks and other contingent liabilities. The main items covered are the cost of warranties and potential risks, contractual risks, onerous contracts and provisions for obligations to employees, such as pre-retirement part-time working and early retirement. Additional provisions amounting to €10.0 million were recognised in 2009 as part of further personnel restructuring that became necessary during the year.

The following table shows the changes to other provisions in 2009:

€ million	Warranties	Imminent losses on pending transactions	Obligations to employees	Staff adjustments	Other	Total
1 January 2009	**27.8**	**10.2**	**31.8**	**10.2**	**14.5**	**94.5**
Additions	3.4	1.1	6.4	10.0	3.2	24.1
Exchange differences	–	0.1	–	–	–0.1	–
Utilisation	–1.5	–1.7	–6.9	–5.7	–5.1	–20.9
Reversals	–5.0	–1.3	–13.3	–	–1.1	–20.7
Accrued interest/effect of changes in interest rates	0.1	–	–	–	–0.2	–0.1
Reclassifications	–0.8	–	–	–	–	–0.8
31 December 2009	**24.0**	**8.4**	**18.0**	**14.5**	**11.2**	**76.1**

26. FINANCIAL LIABILITIES

	31/12/2009				31/12/2008			
€ million	Total	With a residual term up to 1 year	With a residual term of 1-5 years	With a residual term of more than 5 years	Total	With a residual term up to 1 year	With a residual term of 1-5 years	With a residual term of more than 5 years
Bonds (USPP)	192.9	–	97.1	95.8	196.2	–	39.8	156.4
Liabilities to banks and loans from government	18.8	5.6	11.9	1.3	23.4	5.5	16.9	1.0
Liabilities under finance lease	0.1	–	0.1	–	0.1	0.1	–	–
Total	**211.8**	**5.6**	**109.1**	**97.1**	**219.7**	**5.6**	**56.7**	**157.4**

Bonds (US private placement)
DEUTZ AG issued bonds worth US$ 274 million (€203 million) in 2007 as part of a private placement in the United States and recognised them in accordance with IAS 39. The bonds – which carry maturities of five, seven and ten years – were purchased by US institutional investors. Around 20 per cent of the total volume was taken up directly in euros (€43.0 million), with the remainder in US dollars (US$ 216.1 million) hedged in euros. Terms to maturity are 2 ½, 4 ½ and 7 ½ years and the euro tranche has coupons of between 5.22 per cent and 5.27 per cent. Coupons for the US dollar tranche range from 5.89 per cent to 6.12 per cent. DEUTZ is under an obligation to comply with certain covenants. DEUTZ has responded promptly to the changes in economic conditions and has started negotiations with investors about adjusting the key financial indicators. Starting on 29 September 2009 we agreed waivers with our creditors that exempt us from the obligation to comply with the financial covenants and postpone the dates on which our compliance with these covenants is assessed, which has enabled us to avoid breaching our contractual obligations. Over this period the coupon was increased by 2 percentage points. An agreement signed with the private placement creditors after the reporting period finalised the key points. In particular, a term sheet stipulated the interest rates payable, the terms to maturity, the financial covenants to be complied with in future as well as other terms and conditions (including credit facility bank finance and the provision of collateral). The maturity of the tranche originally due in 2017 has been shortened by three years. Please also refer to our disclosures on funding in the 'Financial position' section of the group management report and to the information provided on financial risks arising from the US private placement in the 'Risk report' section.

Liabilities to banks
The following table shows the effective interest rates paid on current floating-rate liabilities to banks:

	2009	2008
in %		
Short-term interest rate	3.00	6.21
Long-term interest rate (up to five years)	3.00	6.22
Long-term interest rate (more than five years)	–	6.13

As at 31 December 2009, the DEUTZ Group had lodged a total sum of €1.2 million as collateral for bank loans (31 December 2008: €1.2 million).

The fair value of financial liabilities is described in Note 28 on page 93 et seq..

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

	31/12/2009	31/12/2008
€ million		
€	61.9	66.5
US-$	149.9	153.2
Total	**211.8**	**219.7**

27. TRADE LIABILITIES AND OTHER LIABILITIES

	31/12/2009	31/12/2008
€ million		
Trade liabilities	**141.5**	**138.1**
Other liabilities		
Sales liabilities	19.9	20.5
Personnel-related liabilities	18.3	8.7
Derivative financial instruments	10.3	1.2
Liabilities to investments	4.7	4.3
Advances received	1.3	1.4
Liabilities arising from other taxes	1.3	1.0
Other liabilities and deferred income	20.0	17.7
Total	**75.8**	**54.8**

The interest benefit with a value of €0.4 million derived from an interest-free government loan had been recognised as deferred income as at 31 December 2009. The loan was recognised at a fair value of €1.3 million and is reported as a non-current financial liability.

NOTES TO THE CASH FLOW STATEMENT

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

Cash flows from operating activities include dividend income of €1.0 million for 2009 (2008: €1.0 million).

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2009 and 2008.

2009	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon-ciliation	DEUTZ Group
€ million						
External revenue	636.1	227.3	–	863.4	–	863.4
Intersegment revenue	–	–	–	–	–	–
Total revenues	**636.1**	**227.3**	**–**	**863.4**	**–**	**863.4**
Depreciation and amortisation	64.7	1.5	0.1	66.3	–	66.3
Impairment	14.1	–	–	14.1	–	14.1
Net income from equity-accounted investments	–4.3	–	–	–4.3	–	–4.3
Income from the reversal of provisions	14.5	–0.1	–	14.4	–	14.4
Income from the sale of grounds	2.8	–	–	2.8	–	2.8
Operating profit	–55.6	10.7	–1.4	–46.3	–	–46.3
(EBIT before one-off items)						

2008	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon-ciliation	DEUTZ Group
€ million						
External revenue	1,143.2	351.8	–	1,495.0	–	1,495.0
Intersegment revenue	–	–	–	–	–	–
Total revenues	**1,143.2**	**351.8**	**–**	**1,495.0**	**–**	**1,495.0**
Depreciation and amortisation	71.3	0.4	0.1	71.8	–	71.8
Impairment	2.6	–	–	2.6	–	2.6
Net income from equity-accounted investments	–6.3	–	–	–6.3	–	–6.3
Operating profit	–21.5	45.4	–2.2	21.7	–	21.7
(EBIT before one-off items)						

31/12/2009	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
Segment assets (Inventories/trade receivables)	152.3	87.5	–	239.8	–	239.8
Segment liabilities (Trade payables)	125.2	16.2	0.1	141.5	–	141.5
Working capital	27.1	71.3	–0.1	98.3	–	98.3

31/12/2008	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
Segment assets (Inventories/trade receivables)	213.0	130.1	–	343.1	–	343.1
Segment liabilities (Trade payables)	118.5	19.6	–	138.1	–	138.1
Working capital	94.5	110.5	–	205.0	–	205.0

Reconciliation from the total result for segments to the result of the DEUTZ Group

	2009	2008
€ million		
Total result for segments	**–46.3**	**21.7**
Reconciliation	–	–
Operating profit (EBIT before one-off items)	**–46.3**	**21.7**
One-off items	–42.9	–14.3
EBIT	**–89.2**	**7.4**
Financial result	–10.0	–3.2
Other Taxes	–1.9	–1.5
Group result before taxes on continuing operations	**–101.1**	**2.7**
Income taxes	–18.7	–6.9
Group result after taxes on continuing operations	**–119.8**	**–4.2**
Group result after taxes on discontinued operations	–4.2	–4.1
Result of the DEUTZ Group	**–124.0**	**–8.3**

Reconciliation of segment assets and segment liabilities

	31/12/2009	31/12/2008
€ million		
Total assets for segments	**239.8**	**343.1**
Reconciliation	–	–
Segment assets for the DEUTZ Group	**239.8**	**343.1**
Non-current assets	561.8	572.8
Other receivables and assets	54.3	82.0
Cash and cash equivalents	214.7	207.5
Non-current assets held for sale	0.5	0.9
Assets according the Group balance sheet	**1,071.1**	**1,206.3**
Total liabilities for segments	**141.5**	**138.1**
Reconciliation	–	–
Segment liabilities for DEUTZ Group	**141.5**	**138.1**
Provisions	262.8	282.4
Financial liabilities	211.8	219.7
Other liabilities	75.8	54.8
Liabilities according to the Group balance sheet	**691.9**	**695.0**

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 of less than four litres as well as four to eight-litre engines.

DEUTZ Customised Solutions This segment focuses on air-cooled engines and large liquid-cooled engines with capacities exceeding eight litres. It also includes customer-specific solutions (gensets) and service.

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

Following a streamlining of the management structure, the designation of a business area as an operating segment it is no longer based on current responsibility for product lines but on internal reporting by segment regularly used by the Board of Management to monitor performance and allocate resources.

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

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

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

Information about products and services

	2009	**2008**
€ million		
Engines	548.5	1,042.6
Service	87.5	100.6
DEUTZ Compact Engines	**636.0**	**1,143.2**
Engines	139.9	240.4
Service	87.5	111.4
DEUTZ Customised Solutions	**227.4**	**351.8**
Total	**863.4**	**1,495.0**

Geographical information about external revenue

	2009	2008
€ million		
Germany	**202.4**	**364.7**
Foreign countries	**661.0**	**1,130.3**
thereof other Europe	450.4	744.6
thereof Middle East	22.3	34.5
thereof Africa	35.2	51.9
thereof America	69.6	180.7
thereof Asia-Pacific	83.5	118.6
Total	**863.4**	**1,495.0**

Of the European countries outside Germany, France accounted for €84.9 million in the reporting year (2008: €145.3 million) and Sweden for €83.6 million (2008: €156.5 million).

The above information is presented according to customer location. Two customers each accounted for more than 10 per cent of our total revenue. The revenue from these customers amounted to €210.7 million (2008: €396.0 million) and €93.4 million (2008: €99.9 million) respectively and is reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

	31/12/2009	31/12/2008
€ million		
Germany	426.8	409.7
Foreign countries	103.8	113.2
Total	**530.6**	**522.9**

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

OTHER INFORMATION

28. FINANCIAL RISK MANAGEMENT AND ADDITIONAL INFORMATION ON CAPITAL MANAGEMENT

Basic principles

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

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

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

The Finance Committee, which meets at least every eight weeks, also provides an additional 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 head office Treasury department and of the Financial Planning & Reporting department.

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 financial directive.

DEUTZ only works with leading banks in this regard.

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

Liquidity risk

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

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

In order to ensure sufficient liquidity, DEUTZ has at its disposal the cash from the bonds issued in the US private placement in 2007 (the bonds having residual maturities of 2 ½, 4 ½ and 7 ½ years) as well as unutilised short-term lines of credit amounting to around €28 million.

The Company is obliged to comply with certain covenants as part of its US private placement. These covenants are defined by key financial performance indicators based on the ratio of net debt to equity, net debt to EBITDA (before one-off items), and EBITDA (before one-off items) to net interest income/expense. DEUTZ has taken prompt action to initiate negotiations with investors regarding an adjustment to the financial performance requirements. Starting on 29 September 2009 we agreed waivers with our creditors that exempt us from the obligation to comply with the financial covenants and postpone the dates on which our compliance with these covenants is assessed, which has enabled us to avoid breaching our contractual obligations. Over this period the coupon was increased by 2 percentage points. An agreement signed with the private placement creditors after the reporting period finalised the key points. In particular, a term sheet stipulated the interest rates payable, the terms to maturity, the financial covenants to be complied with in future as well as other terms and conditions (including credit facility bank finance and the provision of collateral). The maturity of the tranche originally due in 2017 has been shortened by three years. Please also refer to our disclosures on funding in the 'Financial position' section of the group management report and to the information provided on financial risks arising from the US private placement in the 'Risk report' section.

The following liquidity analysis provides information on the contractually agreed undiscounted gross payments in respect of interest and the redemption of financial liabilities as at the balance sheet date on the basis of the exchange rates prevailing on the balance sheet date concerned:

31/12/2009	2010 cash outflow	2011–2014 cash outflow	>2014 cash outflow	Total
€ million				
Primary financial instruments	**–216.8**	**–150.4**	**–110.7**	**–477.9**
Derivative financial instruments	**0.9**	**–2.0**	**–5.9**	**–7.0**
Currency derivatives				
thereof gross settlement: cash outflows	–7.4	–	–	–7.4
thereof gross settlement: cash inflows	7.4	–	–	7.4
Interest rate derivatives				
Presentation of net cash flows	0.4	–2.1	–5.9	–7.6
Commodity derivatives				
Presentation of net cash flows	0.5	0.1	–	0.6

31/12/2008	2009 cash outflow	2010–2013 cash outflow	>2013 cash outflow	Total
€ million				
Primary financial instruments	**–200.0**	**–104.8**	**–182.8**	**–487.6**
Derivative financial instruments	**–2.0**	**1.9**	**–4.6**	**–4.7**
Currency derivatives				
thereof gross settlement: cash outflows	–22.5	–	–	–22.5
thereof gross settlement: cash inflows	20.4	–	–	20.4
Interest rate derivatives				
Presentation of net cash flows	0.6	1.9	–4.6	–2.1
Commodity derivatives				
Presentation of net cash flows	–0.5	–	–	–0.5

Credit risk

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 derivative financial instruments is limited by careful selection of counterparties.

The following table provides an overview of written-down financial assets and of the age structure of overdue financial assets that have not been written down. The table does not include cash and cash equivalents of €214.7 million (31 December 2008: €207.5 million) and available-for-sale financial assets of €7.5 million (31 December 2008: €7.0 million). As at 31 December 2008, derivative financial instruments amounting to €9.2 million had not been included either.

31/12/2009	Carrying amount	thereof neither past due nor impaired at the balance sheet date	thereof impaired at the balance sheet date: Gross amount before impairment	thereof impaired at the balance sheet date: Impairment
€ thousand				
Non-current financial assets	**1,309**	**1,260**	**830**	**–794**
Current financial assets	**159,008**	**131,352**	**30,141**	**–27,050**
Trade receivables	112,305	87,508	5,102	–4,870
Other receivables and assets	46,703	43,844	25,039	–22,180

31/12/2008	Carrying amount	thereof neither past due nor impaired at the balance sheet date	thereof impaired at the balance sheet date: Gross amount before impairment	thereof impaired at the balance sheet date: Impairment
€ thousand				
Non-current financial assets	**1,315**	**1,260**	**837**	**–795**
Current financial assets	**191,038**	**157,552**	**31,496**	**–25,944**
Trade receivables	121,163	93,036	4,927	–4,734
Other receivables and assets	69,875	64,516	26,569	–21,210

As regards trade receivables and other receivables and assets that were neither overdue nor written down as at the balance sheet date, there were no indications that the customers concerned would be unable to meet their payment obligations. Trade receivables relate primarily to DEUTZ AG and are insured with EULER HERMES Kreditversicherungs-AG. DEUTZ AG has an obligation to the trade credit insurance association (WKV) or, where applicable, the German government's export credit guarantee scheme (APG) to meet defaults on the receivables unless they are secured against letters of credit confirmed by a bank or similar instruments. DEUTZ does not produce any standardised credit rating for its customers itself but sets the maximum customer exposure in accordance with the level of cover provided by the credit insurance agency. In addition, the DEUTZ Group has received guarantees amounting to €1.3 million (31 December 2008: €1.9 million) for foreign trade receivables.

Currency risk

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

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

Currency sensitivity analysis

The DEUTZ Group is mainly exposed to exchange-rate risks from the currencies of the USA (USD), Australia (AUD) and the United Kingdom (GBP).

The following table illustrates the sensitivity – from a Group perspective – to a 10 per cent rise or fall in the euro against each of the above currencies. The sensitivity analysis only takes into account outstanding monetary positions denominated in foreign currency and adjusts the translation of those amounts as at the period end in line with a 10 per cent change in the respective exchange

thereof past due on the balance sheet date but not impaired			
up to 90 days	91 to 181 days	181 to 360 days	more than 360 days
–	**–**	**–**	**13**
22,239	**409**	**695**	**1,222**
22,239	409	695	1,222
–	–	–	–

thereof past due on the balance sheet date but not impaired			
up to 90 days	91 to 181 days	181 to 360 days	more than 360 days
–	**–**	**–**	**13**
23,646	**2,722**	**1,471**	**95**
23,646	2,722	1,471	95
–	–	–	–

rates. The positions involved are, first, currency forward contracts that are part of an effective cash flow hedge, the purpose of which is to hedge fluctuations in foreign-currency payments and receipts caused by changes in exchange rates. Changes in the exchange rates for the currencies underlying these transactions lead to a change in the fair value of the hedges concerned, these changes being recognised in the hedging reserve in other comprehensive income. Other positions involved are commodities, embedded derivatives and (2008 only) other currency forward contracts. Changes in the exchange rates for the currencies underlying these financial instruments result in gains or losses from the adjustment of the measurement of these instruments at fair value. Primary instruments (trade receivables and trade payables) denominated in foreign currency and outstanding as at the balance sheet date are also included in the sensitivity analysis. Changes in the exchange rates for the currencies underlying these items result in gains or losses from the measurement of these instruments as at the balance sheet date.

The following table shows the impact on net income and on equity if the euro rises by 10 per cent against the respective currency. A 10 per cent fall in the euro relative to the respective currency would have an approximately equal but opposite impact on net income and equity.

2009	Notional amounts	Effect on net income	Notional amounts	Effect on equity
€ million				
USD	14.47	–1.99	10.41	0.96
AUD	1.12	–0.10	1.19	0.11
GBP	–0.44	0.04	–	–

2008	Notional amounts	Effect on net income	Notional amounts	Effect on equity
€ million				
USD	47.11	–3.74	39.01	3.91
AUD	3.43	–0.31	–	–
GBP	0.06	–0.37	–6.01	–0.63

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

Interest-rate risk and sensitivity analysis
The sensitivity analyses shown below are based on interest-rate risk exposures of derivative and non-derivative instruments as at the balance sheet date. The non-derivative instruments mainly comprise floating-rate deposits and floating-rate loans. As a result of the high level of liquidity at the end of 2009, an interest-rate increase leads to an improvement in net income. As a financial instrument measured at amortised cost with fixed interest over the entire maturity, the US private placement is not subject to interest-rate risk within the meaning of IFRS 7. Changes in the interest rate on the cross-currency swap designated as a hedging instrument as part of a cash flow hedge to hedge fluctuations in payments caused by changes in interest rates have the following effect on the hedging reserve in other comprehensive income.

If interest rates had been 100 basis points higher and all other variables had remained constant

- net income for the year ended 31 December 2009 would have risen by €1.8 million (2008: increase of €1.8 million) and
- Group equity would have risen by €9.6 million (2008: increase of €7.2 million).

A cut in interest rates of 100 basis points would have had an equal but opposite effect on net income and equity.

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 dollars, assuming a constant USD/EUR exchange rate) would have an impact of €0.4 million on the derivative transaction (2008: €0.5 million).

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

DEUTZ it is not subject to capital requirements under its statutes. However, it is under an obligation to maintain its ratio of net financial debt to equity below a certain level in connection with the private placement in the US. 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 €2.9 million (31 December 2008: minus €12.2 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 used as a key figure to show changes in the liquidity situation. The free cash flow from continuing operations as at 31 December 2009 was €12.6 million (31 December 2008: minus €23.3 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 2009, the equity ratio for the DEUTZ Group was 35.4 per cent (31 December 2008: 42.4 per cent) and therefore remained at a high level in line with internal targets.

Financial instruments

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

Financial Assets

	Measured at amortised cost		Measured at fair value		Assets not falling under the scope of IAS 39	
31/12/2009	Loans and receivables	Financial assets available for sale	Financial assets available for sale	Financial assets held for trading	Carrying amount	**Carrying amount in the balance sheet**
€ million						
Non-current financial assets	**1.3**	**5.8**	**1.7**	**–**	**–**	**8.8**
Current financial assets	**373.7**	**–**	**–**	**0.6**	**7.0**	**381.3**
Trade receivables	112.3	–	–	–	–	112.3
Other receivables and assets	46.7	–	–	0.6	7.0	54.3
Cash and cash equivalents	214.7	–	–	–	–	214.7

Financial Assets

	Measured at amortised cost		Measured at fair value		Assets not falling under the scope of IAS 39	
31/12/2008	Loans and receivables	Financial assets available for sale	Financial assets available for sale	Financial assets held for trading	Carrying amount	Carrying amount in the balance sheet
€ million						
Non-current financial assets	**1.3**	**5.8**	**1.2**	**8.5**	**–**	**16.8**
Current financial assets	**398.5**	**–**	**–**	**0.7**	**11.4**	**410.6**
Trade receivables	121.1	–	–	–	–	121.1
Other receivables and assets	69.9	–	–	0.7	11.4	82.0
Cash and cash equivalents	207.5	–	–	–	–	207.5

Financial Liabilities

31/12/2009	Measured at amortised cost Financial liabilities	Measured at fair value Held-for-trading financial liabilities	Liabilities not falling under the scope of IAS 39 Carrying amount	Carrying amount in the balance sheet
€ million				
Non-current financial liabilities	**208.2**	**10.3**	**1.1**	**219.6**
Financial liabilities	206.1	–	0.1	206.2
Other liabilities	2.1	10.3	1.0	13.4
Current financial liabilities	**204.6**	**–**	**4.9**	**209.5**
Financial liabilities	5.6	–	–	5.6
Trade payables	141.5	–	–	141.5
Other liabilities	57.5	–	4.9	62.4

Financial Liabilities

31/12/2008	Measured at amortised cost Financial liabilities	Measured at fair value Held-for-trading financial liabilities	Liabilities not falling under the scope of IAS 39 Carrying amount	Carrying amount in the balance sheet
€ million				
Non-current financial liabilities	**215.7**	**–**	**0.1**	**215.8**
Financial liabilities	214.0	–	0.1	214.1
Other liabilities	1.7	–	–	1.7
Current financial liabilities	**189.1**	**2.3**	**5.4**	**196.8**
Financial liabilities	5.6	–	–	5.6
Trade payables	138.1	–	–	138.1
Other liabilities	45.4	2.3	5.4	53.1

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

	31/12/2009		31/12/2008	
	Carrying amount	**Fair value**	Carrying amount	Fair value
€ million				
Financial assets	**380.8**	**375.0**	**405.6**	**399.8**
Other loans	1.3	1.3	1.3	1.3
Available-for-sale financial assets measured at amortised cost	5.8	–	5.8	–
Trade receivables	112.3	112.3	121.1	121.1
Other receivables and assets	46.7	46.7	69.9	69.9
Cash and cash equivalents	214.7	214.7	207.5	207.5
Financial liabilities	**412.8**	**391.6**	**404.8**	**429.7**
Liabilities to banks and loans of government	18.8	17.2	23.4	23.4
US Private Placement	192.9	173.3	196.2	221.1
Trade payables	141.5	141.5	138.1	138.1
Other liabilities	59.6	59.6	47.1	47.1

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

No disclosure of fair value is made for unquoted available-for-sale financial assets, the carrying amount of which was €5.8 million as at 31 December 2009 (31 December 2008: €5.8 million). The reason is that these financial assets are investments for which no fair value can be determined and are therefore measured at amortised cost.

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

As at 31 December 2009, the DEUTZ Group held the following financial instruments measured at fair value:

31/12/2009	**Carrying amount**	Level 1	Level 2	Level 3
€ million				
Financial assets				
Available-for-sale financial assets	1.7	1.7	–	–
Held-for-trading derivative financial instruments	0.6	–	0.6	–
Financial liabilities				
Held-for-trading derivative financial instruments	10.3	–	10.3	–

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

Net gains and losses on financial instruments

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

2009	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	–0.7	–0.4	1.7

2008	Loans and receivables	Held-for-trading financial assets	Financial liabilities measured at amortised cost	Held-for-trading financial liabilities
€ million				
Net gains/losses	5.0	–5.1	0.5	–0.2

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

In the year under review, unrealised gains of €0.1 million on available-for-sale financial assets (2008: losses of €0.3 million) were recognised in other comprehensive income. No realised gains or losses were reclassified from other comprehensive income to the income statement in 2009.

Hedging

Cash flow hedges As at 31 December 2009 the DEUTZ Group had entered into currency forward contracts in US dollars and Australian dollars (31 December 2008: US dollars and pounds sterling) classified as hedges for the purpose of hedging the currency risk on forecast transactions denominated in foreign currency.

As at 31 December 2009 and 31 December 2008, the DEUTZ Group had also entered into cross-currency swaps classified as hedges. These instruments are intended to hedge the currency risk and interest-rate risk arising on expected future interest payments and redemptions in connection with the US private placement, which has original fixed maturity tranches of five, seven and ten years.

Unrealised losses of €9.1 million on cash flow hedges (2008: gains of €9.3 million) were recognised in other comprehensive income in 2009 taking into account deferred tax assets of €4.3 million (2008: deferred tax liabilities of €2.9 million). These changes in fair value represent the effective portion of the hedge.

In 2009, losses of €0.9 million (2008: gains of €1.0 million) (prior to the inclusion of deferred taxes) recognised in other comprehensive income during the year were reclassified to other operating income or expenses in the consolidated income statement. In 2009, there was no hedging ineffectiveness requiring reclassification from the reserve for cash flow hedges to the income statement. Cash flow hedges related to future transactions in the operating business are expected to be dedesignated within the next twelve months and the associated gains that have been recognised in other comprehensive income reclassified to the income statement. In the case of the hedges related to the interest payments and redemptions in connection with the US private placement, this is expected to occur at the maturity dates of the individual tranches (in 2 ½, 4 ½ and 7 ½ years).

Derivative financial instruments

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

	Nominal amounts 2009	Nominal amounts 2008	Fair values 2009	Fair values 2008
€ million				
Currency forwards				
not used as hedges	–	8.7	–	–
used as cash flow hedges	11.6	45.0	–	–1.2
Cross-currency swaps				
used as cash flow hedges	160.2	160.2	–10.3	8.5
Commodities				
not used as hedges	3.7	4.1	0.6	–1.1
Embedded derivatives	–	–	–	0.7

The embedded derivatives relate to purchasing contracts denominated in foreign currency.

29. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

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

	31/12/2009	31/12/2008
€ million		
Liabilities on endorsed bills of exchange	1.8	2.6
Liabilities on guarantees	2.4	1.8
Warranty liabilities	1.8	2.0
Total	**6.0**	**6.4**

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

	31/12/2009	31/12/2008
€ million		
due in less than 1 year	8.1	7.2
due in 1 to 5 years	13.2	22.3
due in more than 5 years	–	0.1
Total	**21.3**	**29.6**

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

Commitments to purchase property, plant and equipment and intangible assets amounted to €31.3 million as at 31 December 2009 (31 December 2008: €32.6 million) and commitments to purchase inventories amounted to €44.9 million (31 December 2008: €30.5 million).

Obligations under leases were not offset by any receivables in respect of sub-leases (31 December 2008: receivables of €0.4 million).

30. LEGAL DISPUTES

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

The claim by the Greek tax authorities against a Greek subsidiary of DEUTZ AG for supplementary tax payments and penalties totalling about €35 million is still pending, as are the actions brought by private persons – including against one American subsidiary of DEUTZ AG – for alleged damage to health caused by asbestos. In addition, a US customer is claiming damages of more than US$ 40 million. This action is without substance in the opinion of the Company because the engines were used in a manner contrary to instructions and liability for consequential loss is contractually excluded. A provision has been recognised to cover the risk in connection with the litigation.

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

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

31. RELATED-PARTY DISCLOSURES

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

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

- SAME DEUTZ-FAHR Holding & Finance B.V., Amsterdam, Netherlands (group), and
- AB Volvo Power (publ), Gothenburg, Sweden (group).

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

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

	Goods and services provided		Other expenses and services		Receivables at 31 Dec.		Liabilities at 31 Dec.	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
€ million								
Associates	–	–	–	–	0.4	0.3	–	–
Joint ventures	2.0	5.7	–	–	7.4	11.6	–	–
Other investments	0.2	2.5	3.9	3.7	0.1	0.1	4.6	4.3
Total	**2.2**	**8.2**	**3.9**	**3.7**	**7.9**	**12.0**	**4.6**	**4.3**

Impairment losses of €22.2 million (31 December 2008: €21.2 million) had been recognised on €25.2 million of the Company's receivables due from investments as at 31 December 2009 (31 December 2008: €26.5 million); this resulted in an expense of €1.0 million in 2009 (2008: €0.7 million). Some of these receivables and liabilities resulted from loans. Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

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

	SAME DEUTZ-FAHR Group		Volvo Group	
	2009	2008	**2009**	2008
€ million				
Engines and spare parts supplied	58.7	79.3	210.7	396.0
Services	4.3	4.6	47.5	38.6
Receivables at 31 December	2.3	20.5	43.8	15.9

All transactions were concluded at arm's-length market rates.

Existing trade receivables from companies in the SAME DEUTZ-FAHR Group were replaced by a two- or three-month interest-bearing finance facility in 2009. The balance outstanding on this financial receivable, including interest, came to €0.1 million as at 31 December 2009 (31 December 2008: €0.0 million). An amount of €0.7 million (2008: €0.0 million) was recognised as interest income in 2009. DEUTZ has an agreement with the Volvo Group that grants Volvo companies extended credit periods in return for payment of a fee.

The following benefits were provided to the Supervisory Board, the Board of Management and other members of the management team as related parties of the DEUTZ Group:

	Supervisory Board		Management Board		Other members of management	
	2009	2008	**2009**	2008	**2009**	2008
€ million						
Short-term remuneration	0.3	0.4	3.4	3.8	2.6	2.4
Termination benefits	–	–	3.5	–	0.8	–

As at 31 December 2009, a sum of €1.3 million included in termination benefits had been recognised as a provision (31 December 2008: €0.0 million).

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

32. EVENTS AFTER THE REPORTING PERIOD

In an agreement signed on 11 March 2010, DEUTZ reached a settlement with US investors on the renegotiation of the funding facility provided by the US private placement, which represents a total volume of US$ 274 million. As explained in our disclosures on funding in the 'Financial position' section of the group management report, this agreement stipulated the interest rates payable, the terms to maturity, the financial covenants to be complied with in future as well as other terms and conditions (including credit facility bank finance and the provision of collateral). For further information about the impact on the DEUTZ Group's financial position and financial performance, please refer to the information on funding in the 'Financial position' section of the group management report. No further material events occurred after the reporting period.

33. REMUNERATION PROGRAMMES

DEUTZ AG launched Long Term Incentive Plan No. I in 2007, Long Term Incentive Plan No. II in 2008 and Long Term Incentive Plan No. III in 2009 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 plan of DEUTZ AG
Under DEUTZ AG's incentive plan, virtual options are issued on shares in DEUTZ AG. The Company decides at its discretion who is eligible to participate in the plan. However, only members of the DEUTZ Group's senior management and members of the Supervisory Board of DEUTZ AG may be considered for inclusion.

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

As at the balance sheet date, 380,000 options had been granted under Long Term Incentive Plan No. I, 405,000 under Long Term Incentive Plan No. II and 310,000 under Long Term Incentive Plan No. III. A total of 405,000 options had been granted to members of the DEUTZ AG Board of Management.

No options had been exercised at the end of 2009 and 2008. A total of 175,000 options have expired as the relevant employees have left the Company. As a result, 920,000 options remained outstanding as at 31 December 2009 (31 December 2008: 725,000).

Information on the exercise of options
One of the requirements for exercising options is that the option holders themselves invest in the Company at a ratio of one share per ten options.

There is a three-year vesting period from the date on which options are granted, i.e. options under Long Term Incentive Plan No. I may not be exercised before 1 July 2010, options under Long Term Incentive Plan No. II may not be exercised before 1 February 2011 or 1 April 2012, and options under Long Term Incentive Plan No. III may not be exercised before 1 June 2013. Options must be exercised within a period of four years from the end of the vesting period and only within ten days from the date of publication of quarterly financial statements. However, certain tranches launched in 2009 and 2010 have vesting periods of either four or five years. The exercise periods for these options are adjusted accordingly.

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

The reference price for all options issued on 1 July 2007 is €10.68. The reference price for a total of 40,000 options issued at a later date is €8.51. The reference price for all options issued on 1 February 2008 is €6.92. The reference price for a total of 60,000 options issued at a later date is €1.94. The reference price for all options issued on 1 June 2009 is €2.68.

Options may only be exercised if

- the price of DEUTZ AG shares has risen by at least 30 per cent relative to the reference price; dividend distributions by DEUTZ AG have been 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 share price; or
- in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the Prime Industrial Performance Index – or any future index that replaces the Prime Industrial Performance Index – by at least 30 per cent.

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

Long-Term-Incentive-Plan No. I:
No options had been exercised as at 31 December 2008 or 31 December 2009, although a total of 115,000 options had expired when the employees holding the options left the Company. Therefore, a total of 265,000 options were outstanding as at 31 December 2009 (31 December 2008: 355,000).

Long-Term-Incentive-Plan No. II:
No options had been exercised as at 31 December 2008 or 31 December 2009, although a total of 60,000 options had expired when the employees holding the options left the Company. Therefore, a total of 345,000 options were outstanding as at 31 December 2009 (31 December 2008: 345,000).

Long-Term-Incentive-Plan No. III:
No options had been exercised as at 31 December 2009 and no options had expired as a result of employees leaving the Company. Therefore, a total of 310,000 options were outstanding as at 31 December 2009 (31 December 2008: 0).

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

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

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

The calculation on the grant date was based on the DEUTZ AG share price (€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 provision was calculated on the basis of the vesting period. Given the current performance of DEUTZ AG shares, a decision was taken on 30 June 2009 to adjust the assumption that options would be exercised on 1 July 2010 by one year.

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

The calculation on the grant date was based on the DEUTZ AG share price (€6.92) on 1 February 2008. It was also assumed that employees would tend to exercise options at the earliest-possible date. Consequently, the provision was calculated on the basis of the vesting period.

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 (€3.15) on 1 June 2009. It was also assumed that employees would tend to exercise options at the earliest-possible date. Consequently, the provision was calculated on the basis of the vesting period.

In accordance with the requirement for the fair value of options to be recalculated on each balance sheet date, a calculation was carried out on the basis of the DEUTZ AG share price of €3.39 on 31 December 2009 (31 December 2008: €2.38). Consequently, provisions for the following amounts had been recognised at the end of 2009:

Long Term Incentive Plan No. I:
€90,084 (31 December 2008: €76,576)
Long Term Incentive Plan No. II:
€169,263 (31 December 2008: €51,053)
Long Term Incentive Plan No. III:
€85,279 (31 December 2008: €0).

DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

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

	2009	2008
Non-salaried employees	2,568	3,056
Salaried employees	1,546	1,640
Apprentices	173	166
Total	**4,287**	**4,862**

35. CORPORATE GOVERNANCE

In December 2009, 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 publicly available to shareholders on the Company's website (www.deutz.com).

36. AUDITORS' FEES

The following fees were recognised as an expense in 2009 and 2008:

	2009	2008
€ thousand		
Auditing	402	279
Other attestation services	313	525
Other services	10	6
Total	**725**	**810**

The details of the auditing fees for 2009 include an amount of €76 thousand which relates to auditing fees for 2008.

37. TOTAL REMUNERATION PAID TO THE MANAGEMENT BOARD, FORMER MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD (MANAGEMENT BOARD AND SUPERVISORY BOARD REMUNERATION)

Board of Management

The following table shows the breakdown of total remuneration for members of the Board of Management:

		Fixed remuneration	Variable remuneration[1)]	Other[2)]	Total	Number of virtual share options granted	Fair value at grant date	Recognised expense (+)/ income (-) from virtual share options[3)]
€ thousand								
Dr Helmut Leube	2009	624	600	170	1,394	–	–	106
(since 1 February 2008)	2008	619	550	168	1,337	225,000	760	121
Gino Mario Biondi	2009	483	231	157	871	–	–	23
	2008	450	65	155	670	60,000	178	23
Dr Margarete Haase	2009	338	176	138	652	60,000	117	121
(since 1 April 2009)	2008	–	–	–	–	–	–	–
Karl Huebser	2009	113	180	7	300	–	–	–
(until 31 March 2009)	2008	450	270	229	949	–	–	–
Helmut Meyer	2009	113	–	41	154	–	–	–50
(until 31 March 2009)	2008	450	202	154	806	60,000	178	–37
Total	**2009**	**1,671**	**1,187**	**513**	**3,371**	**60,000**	**117**	**200**
Total	**2008**	**1,969**	**1,087**	**706**	**3,762**	**345,000**	**1,116**	**107**

1) The variable remuneration represents the provision for the annual bonus for the year under review including any surplus/shortfall from the previous year.
2) Including payment of life insurance premiums.
3) Please refer to Note 33 for a description of the structure of the share-based remuneration agreements. The general contractual conditions are identical for all members of the Board of Management.

Termination arrangements The employment contracts of the members of the Board of Management provide for a compensation payment in the event of premature termination of the contract without good cause. In accordance with the rules under the German Corporate Governance Code, the amount of this compensation payment is limited to twice the amount of annual remuneration (severance cap) and may not exceed the remuneration due for the remaining term of the contract.

The contracts also provide for a subsequent prohibition of competition. In addition, members of the Board of Management are contractually prohibited from providing services to or for a competitor for a period of one year after leaving the Company. As compensation for this requirement, they receive a payment equivalent of two-thirds of the average remuneration they received in the preceding three years.

The total payments to Helmut Meyer in connection with his retirement from the Board of Management amount to €2.5 million; similar payments to Karl Huebser amount to a total of €1.0 million.

Remuneration paid to former members of the Board of Management and their surviving dependants This remuneration amounted to €1,485 thousand (2008: €1,482 thousand) for DEUTZ AG and the Group; a provision of €12,503 thousand (31 December 2008: €12,799 thousand) has 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:

	Fixed remuneration	Meeting attendance fee	Total
in €			
Lars-Göran Moberg Chairman (since 18 May 2009)	18,278	27,400	45,678
Dr Giuseppe Vita (until 31 July 2009) Chairman (until 18 May 2009)	10,788	19,800	30,588
Werner Scherer Deputy chairman	16,875	32,550	49,425
Ing Massimo Bordi	11,250	9,400	20,650
Dr Francesco Carozza	11,250	8,500	19,750
Michael Haupt	11,250	25,400	36,650
Dr Helmut Lerchner	11,250	8,500	19,750
Dr Michael Lichtenauer (since 10 August 2009)	4,438	1,800	6,238
Helmut Müller (until 30 April 2009)	3,699	4,000	7,699
Karl-Heinz Müller	11,250	12,300	23,550
Dr Witich Roßmann	11,250	8,500	19,750
Susanne Scholtyssek	11,250	8,500	19,750
Dr Herbert Vossel (since 30 April 2009)	7,582	4,500	12,082
Egbert Zieher	11,250	8,500	19,750
Total	**151,660**	**179,650**	**331,310**

The Supervisory Board meeting held on 30 April 2009 decided that the members of the Supervisory Board would forego 10 per cent of both their fixed remuneration and their attendance fees for 2009.

Advances and loans to members of the Board of Management and the Supervisory Board

As at 31 December 2009 there were no outstanding advances or loans to any members of the Board of Management or the Supervisory Board, nor had any guarantees or other warranties been issued in favour of any such persons.

38. DISCLOSURES UNDER THE GERMAN SECURITIES TRADING ACT (WPHG)

The German Securities Trading Act (WpHG) obliges investors whose share of voting rights in listed companies reaches certain thresholds to notify the Company accordingly. DEUTZ AG has been notified of the following shareholdings:

AB Volvo (publ), 40508 Gothenburg, Sweden, notified pursuant to sections 21 (1) and 24 WpHG that its shareholding in DEUTZ AG fell below the 10 per cent threshold on 23 October 2003 and now amounts to 7.09 per cent of the voting rights.

SAME DEUTZ-FAHR Group S.p.A., V. le Cassani 14, 24047 Treviglio (BG), Italy, notified pursuant to sections 21 (1) and 24 WpHG that the shareholding of SAME DEUTZ-FAHR Holding & Finance B.V., Herengracht 548, 1017 CG Amsterdam, Netherlands, in DEUTZ AG exceeded the 25 per cent threshold on 2 July 2004 and now amounts to 29.90 per cent of the voting rights. These voting rights are attributable to SAME DEUTZ-FAHR Group S.p.A. pursuant to section 22 (1) number 1 WpHG.

In a letter dated 6 June 2006, INTAL INTERNATIONAL S.A., Luxembourg, notified the following pursuant to section 21 et seq. WpHG:

"The share of voting rights held by SAME DEUTZ-FAHR Holding & Finance B.V., Rokin 55, 1012 KK Amsterdam, Netherlands, in DEUTZ AG exceeded the threshold of 25 per cent on 2 July 2004; on 2 July 2004 this share amounted to 29.90 per cent and is now 38.88 per cent. Pursuant to section 22 (1) sentence 1 number 1 and section 22 (3) WpHG, the voting rights are fully attributable to SAME DEUTZ-FAHR Group S.p.A., V. le Cassani 14, 24047 Treviglio (BG), Italy. As a result, the share of voting rights held by SAME DEUTZ-FAHR Group S.p.A. in DEUTZ AG on 2 July 2004 also exceeded the threshold of 25 per cent; on 2 July 2004 this share amounted to 29.90 per cent and is now 38.88 per cent.

We, INTAL INTERNATIONAL S.A., 54, Boulevard Napoléon 1er, 2210 Luxembourg, hereby notify you pursuant to section 21 et seq. WpHG in our own name and in the name of, and on the behalf of, the company and individuals specified under (i) and (ii) below that the share of voting rights held in DEUTZ AG by
(i) Intractor B.V., Rokin 55, 1012 KK Amsterdam, Netherlands,
(ii) Messrs Vittorio Carozza, Francesco Carozza and Aldo Carozza and Ms Carozza-Cassani, V. le Cassani 14, 24047 Treviglio (BG), Italy, and
(iii) INTAL INTERNATIONAL S.A., 54, Boulevard Napoléon 1er, 2210 Luxembourg, exceeded the threshold of 25 per cent on 2 July 2004, with the share on 2 July 2004 amounting to 29.90 per cent and now standing at 38.88 per cent. These voting rights are fully attributable to the companies and individuals specified under (i) to (iii) above pursuant to section 22 (1) sentence 1 number 1, and section 22 (3) WpHG."

In a letter dated 15 November 2006, INTAL INTERNATIONAL S.A., Luxembourg, notified the following pursuant to section 21 et seq. WpHG:

"We, INTAL INTERNATIONAL S.A., 54, Boulevard Napoléon 1er, 2210 Luxembourg, hereby notify you pursuant to section 21 et seq. WpHG that the share of the voting rights held by INTAL INTERNATIONAL S.A., 54, Boulevard Napoléon 1er, 2210 Luxembourg, in DEUTZ AG on 8 November 2006 fell below the thresholds of 5 per cent, 10 per cent and 25 per cent and is now 0 per cent."

In a letter dated 15 November 2006, Belfort S.A., Luxembourg, notified the following pursuant to section 21 et seq. WpHG:

"We, Belfort S.A., 54, Boulevard Napoléon 1er, 2210 Luxembourg, hereby notify you pursuant to section 21 et seq. WpHG that the share of the voting rights held by Belfort S.A., 54, Boulevard Napoléon 1er, 2210 Luxembourg, in DEUTZ AG on 8 November 2006 exceeded the thresholds of 5 per cent, 10 per cent and 25 per cent and is now 40.32 per cent. These voting rights are attributable to us pursuant to section 22 (1) sentence 1 number 1 and section 22 (3) WpHG."

DEUTZ AG did not receive any new notifications in 2009 or 2008.

39. SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Information on the members of the Supervisory Board and the Board of Management, including non-executive directorships held at other companies, is given in a separate list on page 112 et seq..

Cologne, 11 March 2010
DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

Gino M. Biondi

SHAREHOLDINGS OF DEUTZ GROUP

As at 31 December 2009				
Ref. No.	Name and registered office of the company	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG	–	309,563	–132,159
Consolidated subsidiaries				
Germany				
2	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne	100.0	–2,505	–34
3	Deutz- Mülheim Grundstücksgesellschaft mbH, Düsseldorf	19.6	–20,720	513
4	DEUTZ Beteiligung GmbH, Cologne	100.0	25	0
Europe/Africa				
5	DEUTZ DITER S.A., Zafra/Spain	100.0	22,828	1,984
6	DEUTZ FRANCE S.A., Gennevilliers/France	100.0	9,639	162
7	DEUTZ UK Ltd., Cannock/UK	100.0	12,860	–1,161
8	Nlle Ste MAGIDEUTZ S.A., Casablanca/Marocco	100.0	1,714	354
Americas				
9	Deutz Corporation, Atlanta/USA	100.0	15,581	–8,272
Asia-Pacific				
10	DEUTZ Asia-Pacific (Pte) Ltd., Singapore/Singapore	100.0	5,034	1,409
11	Deutz Australia (Pty) Ltd., Braeside/Australia	100.0	5,643	358
Associates				
Foreign countries				
12	D. D. Power Holdings (Pty) Ltd., Elandsfontein/South Africa	30.0	10,839	3,323
13	DEUTZ AGCO MOTORES S.A., Haedo/Argentina[1)]	50.0	4,592	–162
14	DEUTZ (Dalian) Engine Co., Ltd., Dalian/China[1)]	50.0	88,336	–10,465

1) Joint Venture measured in accordance with IAS 31.38

SUPERVISORY BOARD

Lars-Göran Moberg
Chairman (since 18 May 2009)
Management consultant and supervisory board member, Stockholm, Sweden

b) Haldex AB, Stockholm, Sweden, Chairman
Volvo Construction Equipment NV, Beesd, Netherlands
Volvo Aero AB, Trollhättan, Sweden
Fourier Transform AB, Stockholm, Sweden
Cross Country System AB, Alfta, Sweden

Dr Giuseppe Vita
(until 31 July 2009)
Chairman (until 18 May 2009)
Chairman of the Supervisory Board of Axel Springer AG, Berlin

a) Axel Springer AG, Berlin, Chairman
Medical Park AG, Bad Wiessee
Dussmann Verwaltungs AG, Berlin

b) Allianz S.p.A., Milan, Italy, Deputy Chairman
Gruppo Banca Leonardo, Milan, Italy, Chairman
Barilla S.p.A., Parma, Italy
Humanitas S.p.A., Milan, Italy

Werner Scherer[1)]
Deputy Chairman
Chairman of the Group Works Council Cologne and of the Joint Works Council of DEUTZ AG, Cologne

Ing Massimo Bordi
CEO of SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy

b) SAME DEUTZ-FAHR ITALIA S.p.A., Treviglio, Italy
SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy

Dr Francesco Carozza
Vice President of SAME DEUTZ-FAHR ITALIA S.p.A., Treviglio, Italy

a) SAME DEUTZ-FAHR DEUTSCHLAND GmbH, Lauingen, Chairman

b) SAME DEUTZ-FAHR INDIA Private Ltd., Ranipet, India, Chairman
SAME DEUTZ-FAHR Trading (Dalian) Co. Ltd., Dalian, China
SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy
SAME DEUTZ-FAHR Agricultural Machinery (Dalian) Co. Ltd., Dalian, China, Deputy Chairman
I.T. International Transmissions S.A., Stabio, Switzerland, Chairman

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

Dr Helmut Lerchner
Management consultant

a) ElringKlinger AG, Dettingen, Erms, Chairman

Dr Michael Lichtenauer
(since 10 August 2009)
Lawyer

a) Verwaltungsgesellschaft Otto mbH, Hamburg
Schwartauer Werke GmbH & Co. KGaA, Bad Schwartau

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

Helmut Müller[1)]
(until 30 April 2009)
Chairman of the Senior Staff Committee of DEUTZ AG, Cologne

Karl-Heinz Müller[1)]
Deputy Chairman of the Joint Works Council of DEUTZ AG, Cologne

Dr Witich Roßmann[1)]
Chief Executive of IG Metall Cologne, Cologne

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

Susanne Scholtyssek[1)]
Head of Personnel Development at IG Metall

Dr Herbert Vossel[1)]
(since 30 April 2009)
Head of Legal and Patents at DEUTZ AG

Egbert Zieher[1)]
Chairman of the Ulm Works Council of DEUTZ AG, Ulm

1) Employee representatives 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 pursuant to section 125 AktG

SUPERVISORY BOARD COMMITTEES

HUMAN RESOURCES COMMITTEE

Lars-Göran Moberg, Chairman (since 28 May 2009)
Dr Giuseppe Vita, Chairman (until 18 May 2009)
Werner Scherer, Deputy Chairman
Michael Haupt

AUDIT COMMITTEE

Michael Haupt, Chairman
Werner Scherer, Deputy Chairman
Karl-Heinz Müller
Lars-Göran Moberg (since 18 May 2009)
Dr Giuseppe Vita (until 18 May 2009)

ARBITRATION COMMITTEE (SECTION 27 (3) GERMAN CODETERMINATION ACT (MITBESTG))

Lars-Göran Moberg, Chairman (since 18 May 2009)
Dr Giuseppe Vita, Chairman (until 18 May 2009)
Michael Haupt
Werner Scherer
Egbert Zieher

NOMINATIONS COMMITTEE

Lars-Göran Moberg, Chairman (since 18 May 2009)
Dr Giuseppe Vita, Chairman (until 18 May 2009)
Michael Haupt
Ing Massimo Bordi

BOARD OF MANAGEMENT

Dr Helmut Leube (56)
Chairman
Sales, Service, and Head Office Functions

a) KUKA AG, Augsburg (until 18 September 2009)

b) Deutz Corporation, Atlanta/USA, Chairman
DEUTZ (Dalian) Engine Co. Ltd., Dalian, China, Deputy Chairman

Gino M. Biondi (50)
Procurement, Logistic, Production and
Research & Development

b) DEUTZ DITER S.A., Zafra, Spain, Chairman
DEUTZ AGCO Motores S.A., Haedo, Argentina (since 30 June 2009)

Dr Margarete Haase (56)
Finance, Human Resources and Investor Relations
(since 1 April 2009)

b) DEUTZ (Dalian) Engine Co. Ltd., Dalian, China (since 2 April 2009)

Karl Huebser (64)
(until 31 March 2009)

b) DEUTZ (Dalian) Engine Co. Ltd., Dalian, China (until 31 March 2009)
Weifang Weichai Deutz Diesel Engine Co. Ltd., Weifang, China, Chairman (until 31 March 2009)

Helmut Meyer (60)
(until 31 March 2009)

b) DEUTZ Asia-Pacific (Pte) Ltd., Singapore, Singapore, Chairman (until 31 March 2009)
DEUTZ (Dalian) Engine Co. Ltd., Dalian, China (until 31 March 2009)
DEUTZ Corporation, Norcross, Georgia, USA (until 31 March 2009)

a) Membership of statutory German supervisory boards within the meaning of section 125 AktG
b) Membership of comparable German or international supervisory bodies pursuant to section 125 AktG

Annual financial statements in accordance with the German Commercial Code (HGB)

BALANCE SHEET OF DEUTZ AG

ASSETS	31/12/2009	31/12/2008
€ million		
Expenses for the expansion of operations	**–**	**10.4**
Intangible assets	18.3	24.9
Property, plant and equipment	276.4	279.4
Investments	187.6	181.9
Fixed assets	**482.3**	**486.2**
Inventories	83.4	155.1
Receivables and other assets	165.0	223.3
Cash and cash equivalents	210.5	200.2
Current assets	**458.9**	**578.6**
Prepaid expenses	0.8	3.7
Total assets	**942.0**	**1,078.9**

EQUITY AND LIABILITIES	31/12/2009	31/12/2008
€ million		
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	74.6	74.6
Accumulated income	–105.3	26.8
Equity	**309.6**	**441.7**
Provisions	257.7	278.6
Other liabilities	374.0	358.6
Deffered income	0.7	–
Total equity and liabilities	**942.0**	**1,078.9**

INCOME STATEMENT OF DEUTZ AG

€ million	2009	2008
Revenue	795.5	1,417.0
Change in inventories	–18.5	–0.1
Other own work capitalised	0.6	0.7
Total output	**777.6**	**1,417.6**
Other operating income	100.7	87.2
Cost of materials	–611.0	–1,063.8
Staff costs	–212.3	–248.2
Depreciation and amortisation	–54.2	–61.8
Other operating expenses	–98.9	–139.5
Net investment income	7.1	14.4
Net interest expense	–6.9	1.1
Profit from ordinary activities	**–97.9**	**7.0**
Net extraordinary result	–25.8	–17.8
Income taxes	–7.3	4.2
Other taxes	–1.1	–0.8
Net losses	–132.1	–7.4
Profit carried forward	26.8	34.2
Accumulated income	**–105.3**	**26.8**

Miscellaneous

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, 11 March 2010
DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

Gino M. Biondi

AUDIT OPINION

We have audited the consolidated financial statements – comprising income statement as well as consolidated statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, prepared by DEUTZ Aktiengesellschaft, Cologne/Germany, as well as the group management report for the business year from 1 January 2009 to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU, and the regulations under German commercial law as complementarily applicable under § 315a (1) German Commercial Code (HGB) is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB German Commercial Code (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 applicable accounting regulations and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the results of our audit, the consolidated financial statements of DEUTZ Aktiengesellschaft, Cologne/Germany, comply with the IFRS, as applicable in the EU, and the regulations under German commercial law as complementarily applicable under § 315a (1) German Commercial Code (HGB) and give a true and fair view of the Group's net assets, financial position and results of operations in accordance with these regulations. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion, we draw attention to the statements given by Management in the Group Management Report. In the Section "Financing" it is stated that DEUTZ Aktiengesellschaft, Cologne, was heavily impacted in the financial year 2009 by the effects of the financial and economic crisis.

Due to the threatening breach at the end of the third quarter of 2009 of the financial covenants agreed as part of the US Private Placement negotiations were entered into with the creditors of the US Private Placement and a bank consortium with the aim of securing new financing and adjusting the credit conditions to the current economic situation. In addition, waiver agreements were concluded with respect to compliance with the Financial Covenants and a deferral of the measuring dates.

Based on the negotiations with the creditors of the US Private Placement and bank consortium and their expected successful completion, Management considers that the financing is adequately assured and that, based on the midterm planning of DEUTZ Aktiengesellschaft, Cologne, the future Financial Covenants will be complied with.

Düsseldorf, 11 March 2010

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

signed: Crampton	signed: Lammers
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

Close cooperation between the Board of Management and the Supervisory Board

In 2009, the Supervisory Board once again constantly monitored the governance of the Company and fulfilled its function as adviser and supervisor to the Board of Management on major decisions. In addition to strategic issues, the key areas of focus in the year under review were the changes in the Board of Management and the reorganisation of the Board of Management's responsibilities and the company's ongoing business performance, particularly in view of the prevailing economic environment. Critical aspects in this respect were the cost-cutting programmes and securing the necessary levels of liquidity.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular and timely information at all times. The Board of Management informed the Supervisory Board, both orally and in writing, about the company's business performance, risk position and risk management, all relevant aspects of strategic planning and any transactions requiring the consent of the Supervisory Board. Outside the meetings, the Board of Management regularly informed the members of the Supervisory Board in writing about important events. Furthermore, the chairman of the Board of Management remained in constant contact with the Supervisory Board chairman and kept him comprehensively informed in a timely manner about all major transactions and decisions that needed to be made. The Supervisory Board adopted all resolutions required by law and by the Company's Statutes based on the reports and draft resolutions submitted by the Board of Management.

Nine Supervisory Board meetings

Seven scheduled and two extraordinary Supervisory Board meetings were held in 2009. No member of the Supervisory Board was absent for more than half of the meetings.

The economic environment as a subject of deliberations

The lengthy discussions and deliberations between the Board of Management and the Supervisory Board focussed on the current operating situation and risk position and, more particularly, the action to be taken as part of the MOVE restructuring project and in other areas in response to the sharp decline in unit sales and earnings caused by the global financial and economic crisis.

A large part of the deliberations was also taken up by the various options regarding the exhaust aftertreatment business and the joint-venture contract signed with Bosch and Eberspächer in December 2009.

In addition to which, extensive discussions took place about the current status of the DEUTZ (Dalian) Engine Co., Ltd. joint venture in China and further strategic options in the Asian business.

The Supervisory Board also examined the company's strategic planning, financing and capital expenditure, etc.

Personnel

The Supervisory Board decided on the following personnel-related issues after the details had been prepared by the Human Resources Committee: Mr Huebser's and Mr Meyer's contracts were terminated with effect from 31 March 2009. Dr Margarete Haase was appointed to the Board of Management and as Human Resources Director with effect from 1 April 2009.

The Supervisory Board would like to thank Mr Huebser and Mr Meyer for their valuable contributions.

Reorganisation of Board of Management responsibilities

At its meeting on 24 July 2009, the Supervisory Board held detailed discussions about the reorganisation of the Board of Management's responsibilities, which it approved. The existing matrix organisation was replaced with a linear organisation. Dr Leube, Chairman of the Board of Management, assumed responsibility for the Asia region and the DEUTZ (Dalian) Engine Co., Ltd joint venture, in addition to Sales and Service, Corporate Management and Internal Audit. Dr Haase is responsible for Finance, Human Resources and Investor Relations, while Mr Biondi heads up Procurement, Logistics, Production and R&D.

Lars-Göran Moberg,
Chairman

Corporate governance: Declaration of compliance with few exceptions; change in rules of procedure

The Supervisory Board gave thorough consideration to the German Corporate Governance Code as amended on 6 June 2008 and 18 June 2009 and, together with the Board of Management, issued a declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG). Since December 2009 the declaration of compliance for the year under review has been available in the 'Investors/Corporate Governance' section of the Company's website at www.deutz.com, where it can be downloaded. In 2009, the members of the Supervisory Board also discussed the efficiency of their own activities. The overall findings were positive.

In addition, the Supervisory Board changed the rules of procedure for the Supervisory Board, the Audit Committee of the Supervisory Board and the Board of Management; the changes mainly relate to the implementation of amendments to the Accounting Law Reform Act (BilMoG) and the Act on the Appropriateness of Management Board Remuneration (VorstAG) and to new recommendations in the German Corporate Governance Code.

Efficient committee work

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees specialise in preparing various topics and resolutions for the full Supervisory Board. The composition of the Supervisory Board and its committees, as well as the further mandates held by its members, are shown separately on pages 112 to 113.

The Human Resources Committee makes preparations to enable the Supervisory Board to decide about the appointment of members of the Board of Management, the content, conclusion and amendment of service contracts signed with members of the Board of Management appointed by the Supervisory Board, including remuneration as specified in their service contracts, and all issues between members of the Board of Management and the Company arising in this connection. The committee met twelve times in the year under review and its meetings focussed primarily on the changes to the Board of Management listed above (under the heading Personnel), the reorganisation of Board of Management responsibilities, Board of Management remuneration issues and long-term incentive plans.

The work of the Audit Committee in the year under review focussed on the single-entity and consolidated financial statements for 2008 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2009 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2009, the discussion of the audit engagement for the year ended 31 December 2009, and risk management. The Audit Committee met on four occasions in 2009. The auditors attended three meetings of this committee.

The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) of the Act. It did not need to be convened during the year under review.

The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholders representatives on the Supervisory Board. The Nominations Committee met on one occasion in 2009. At this meeting on 10 July 2009, the committee discussed a successor for Dr Vita who resigned from the Supervisory Board with effect from 31 July 2009.

The entire Supervisory Board was informed of the outcome of all discussions in the committees.

Single-entity and consolidated financial statements audited in detail

The single-entity annual financial statements of DEUTZ AG prepared by the Board of Management in accordance with the German Commercial Code (HGB), the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the respective management reports (in each case for the year ended 31 December 2009) were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, the auditors appointed by the Annual General Meeting on 30 April 2009. The auditors issued unqualified opinions. They also audited the report on relationships with subsidiaries (dependency report) prepared by the Board of Management pursuant to section 312 of the German Stock Corporation Act (AktG).

The single-entity annual financial statements of DEUTZ AG, the consolidated annual financial statements, the respective management reports, the dependency report, the proposed appropriation of profits, and the auditors' reports were made available to all Supervisory Board members and were examined by the Supervisory Board. The auditors explained their audit findings in detail to the Audit Committee meetings held on 2 March 2010 and on 10 March 2010 and to the Supervisory Board meetings held on 11 March 2010 and on 12 March 2010 and answered any supplementary questions raised.

The Supervisory Board noted with approval the findings of the auditors' reports on DEUTZ AG and the DEUTZ Group. The conclusive findings of the Supervisory Board's own audit have not led to any reservations about either the single-entity annual financial statements or the consolidated annual financial statements, and the Supervisory Board has therefore approved them. The annual financial statements have thus been adopted.

No reservations about the dependency report

The auditors endorsed the dependency report submitted by the Board of Management pursuant to section 312 of the German Stock Corporation Act (AktG) for the 2009 financial year and issued the following opinion:

"Having conducted our audit and assessment in accordance with the terms of our engagement, we hereby confirm that

1. the actual disclosures in the report are accurate
2. in the legal transactions mentioned in the report, payments made by the Company were not unreasonably high,
3. in the activities listed in the report, there is no reason that would give rise to a materially different assessment from that of the Board of Management."

Having conducted its own audit of the dependency report, the Supervisory Board has no reservations. Furthermore, it agrees with the findings of the audit of the dependency report conducted by the auditors. The conclusive findings of the Supervisory Board's audit have not led to any reservations about the statements made by the Board of Management at the end of the dependency report.

Composition of the Supervisory Board

The following changes to the Supervisory Board and its committees took place in the year under review:

At an extraordinary meeting on 18 May 2009, Dr Vita resigned as chairman of the Supervisory Board with immediate effect, and stepped down from the Supervisory Board with effect from 31 July 2009. At the same meeting, the Supervisory Board elected Mr Lars-Göran Moberg to succeed Dr Vita as its chairman. At the request of the Board of Management, and as recommended by the Nominations Committee, the local court in Cologne appointed Dr Michael Lichtenauer to succeed Dr Vita as a member of the Supervisory Board with effect from 10 August 2009 until the 2010 Annual General Meeting.

In view of his planned retirement, Mr Helmut Müller resigned his post as representative of the Senior Staff Committee with effect from the end of the Annual General Meeting on 30 April 2009. Mr Müller was replaced by Dr Herbert Vossel, Head of Legal and Patents at DEUTZ AG, who had been elected as a substitute for Mr Müller on 9 April 2008 when the employee representatives on the Supervisory Board were elected.

The Supervisory Board would like to thank Dr Vita and Mr Müller for their outstanding work and valuable contribution.

After his election as chairman of the Supervisory Board, Mr Moberg replaced Dr Vita as chairman of the Human Resources Committee, chairman of the Arbitration Committee, chairman of the Nominations Committee and member of the audit committee.

Conflicts of interest and consultancy agreements

The Supervisory Board members Massimo Bordi and Dr Francesco Carozza are subject to a conflict of interest because of their functions in companies in the SAME DEUTZ-FAHR Group, which are also major customers of DEUTZ AG. The chairman of the Supervisory Board reviews each individual case to establish whether this conflict of interest restricts the opportunity for the involvement of Massimo Bordi and/or Francesco Carozza in the work of the Supervisory Board. The consultancy agreement between Mr Moberg and DEUTZ AG, under which Mr Moberg advised the company about customer-specific issues, was terminated by mutual agreement with effect from 15 June 2009 because of Mr Moberg's appointment as chairman of the Supervisory Board.

The Supervisory Board would like to express its thanks and appreciation to all employees in Germany and abroad, to the elected employee representatives and to the Board of Management for their valuable efforts and the considerable dedication they have shown in 2009.

Cologne, March 2010

The Supervisory Board

Lars-Göran Moberg
Chairman

Corporate management declaration and corporate governance report

For DEUTZ, a responsible approach to management that meets the standards of good corporate governance forms the basis for enhancing shareholder value over the long term. This is one of the main reasons why we attach great importance to the implementation of the German Corporate Governance Code (DCGK) and ensure quality and transparency in all key decisions and processes in our Company.

Declaration of compliance with few exceptions

In 2009, 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 6 June 2008, with the following exceptions:

1. The D&O insurance policy taken out by DEUTZ AG for members of the Board of Management will provide for the excess required in section 93 (2) sentence 3 German Stock Corporation Act (AktG) until 1 July 2010, the legally required date. In the case of Supervisory Board members, an excess of this type is not currently considered an appropriate means of control (item 3.8 (2) DCGK).

2. There is no age limit at DEUTZ for members of either the Board of Management or Supervisory Board (items 5.1.2 (2) sentence 3 and 5.4.1 sentence 2 DCGK). This deviation from DCGK, means that DEUTZ retains the option of continuing to benefit from the long years of experience brought to the Company by older members of the Board of Management and Supervisory Board.

The current declaration of compliance in accordance with section 161 AktG, which the Board of Management and Supervisory Board submitted on 18 December 2009, can be accessed in the Investors/Corporate Governance' section of the Company's website at www.deutz.com, where declarations of compliance from previous years can also be viewed and downloaded.

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 which 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.

Seven scheduled and two extraordinary Supervisory Board meetings were held in 2009.

In 2009, the members of the Supervisory Board also discussed the efficiency of their own activities. The overall findings were positive.

No former members of the DEUTZ AG Board of Management are now members of the Supervisory Board. The Supervisory Board is elected for a period that runs until the Annual General Meeting in 2013.

The principles by which the Board of Management operates are summarised in rules of procedure issued by the Supervisory Board that can also be downloaded from the DEUTZ AG website.

Board of Management meetings generally take place every two weeks.

Responsible risk management

A forward-looking, prudent and responsible approach to corporate risks forms a core aspect of good corporate governance and the basis for the risk management system at DEUTZ. The Board of Management regularly notifies the Supervisory Board of any existing or anticipated risks. Details of the DEUTZ Group's risk management systems can be found in the risk report on pages 46 to 51.

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 publicly known but that could have a significant impact on DEUTZ's share price were they to become known. The Company's reporting policy therefore complies with both legal requirements and DCGK guidelines.

Accounting and auditing

DEUTZ AG's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements are prepared by the Board of Management and reviewed by the auditors.

The auditors have agreed to inform the chairman of the Supervisory Board or the chairman of the Audit Committee without delay if reasons for exemption or disqualification, i.e. any misrepresentations in the declaration of compliance, come to light during the audit. The auditors inform the chairman of the Supervisory Board without delay of any issues or incidents relevant to the role of the Supervisory Board that arise during the audit of financial statements.

Composition of the Board of Management and Supervisory Board; composition and operating procedures of Supervisory Board committees

The following changes to the membership of the Board of Management took place in 2009: Mr Huebser's and Mr Meyer's contracts were terminated with effect from 31 March 2009 and Dr Haase was appointed to the Board of Management and as Human Resources Director with effect from 1 April 2009. Consequently, the DEUTZ AG Board of Management has consisted of three members instead of four since 1 April 2009.

At its meeting on 24 July 2009, the Supervisory Board held detailed discussions about the reorganisation of the Board of Management's responsibilities, which it approved. The existing matrix organisation was replaced with a linear organisation. Dr Leube, Chairman of the Board of Management, assumed responsibility for the Asia region and the DEUTZ (Dalian) Engine Co., Ltd joint venture, in addition to Sales and Service, Corporate Management and Internal Audit. Dr Haase is responsible for Finance and Human Resources, while Mr Biondi heads up Production, Purchasing and Development.

In accordance with the provisions of the German Codetermination Act (MitbestG), the Supervisory Board of DEUTZ AG comprises twelve members, six members being the representatives of the shareholders and six members being the representatives of the employees.

The Supervisory Board has created four committees to enable it to perform its duties effectively. They are the Human Resources Committee, the Audit Committee, the Arbitration Committee and the Nominations Committee. The Human Resources Committee consists of two representatives of the shareholders and one employee representative, the Audit and Arbitration Committees both consist of two shareholder representatives and two employee representatives, and the Nominations Committee has three members, all of whom represent the shareholders. The Audit Committee follows its own rules of procedure, which can be viewed on the DEUTZ AG website, while the other committees work according to the rules of procedure that apply to the (full) Supervisory Board.

The Human Resources Committee makes preparations to enable the Supervisory Board to decide about the appointment of members of the Board of Management, the content, conclusion and amendment of service contracts signed with members of the Board of Management appointed by the Supervisory Board, including remuneration as specified in their service contracts, and all issues arising between members of the Board of Management and the Company in this connection. The committee met twelve times in the year under review and its meetings focussed primarily on the changes to the Board of Management detailed above, the reorganisation of Board of Management responsibilities, Board of Management remuneration issues and long-term incentive plans.

The work of the Audit Committee in the year under review focussed on the single-entity and consolidated financial statements for 2008 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2009 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2009, the discussion of the audit engagement for the year ended 31 December 2009, and risk management. The Audit Committee met on four occasions in 2009. 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 role of the Nominations Committee is to propose to the full Supervisory Board those candidates who are suitable as shareholder representatives on the Supervisory Board. It met on one occasion during the year under review. At this meeting on 10 July 2009, the committee discussed a successor for Dr Vita who resigned from the Supervisory Board with effect from 31 July 2009.

The entire Supervisory Board was informed of the outcome of all discussions in the committees.

The following changes to Supervisory Board committees took place in 2009: after his election as chairman of the Supervisory Board, Mr Moberg replaced Dr Vita as chairman of the Human Resources Committee, chairman of the Arbitration Committee, chairman of the Nominations Committee and member of the Audit Committee.

Full details of the membership of the Supervisory Board and its committees, as well as other mandates held by its members, are shown separately on pages 112 to 113.

Disclosures relevant to corporate management practices; compliance organisation

In 2008, as part of the systematic development of the compliance system, the Board of Management appointed a Compliance Officer who is responsible for coordinating all activities focussing on the promotion of compliance and who liaises with the member of the Board of Management with responsibility for compliance.

At the proposal of the Compliance Officer, the Board of Management agreed on insider trading guidelines and a code of conduct which were then announced within the DEUTZ Group.

The insider trading guidelines include statements about banned insider transactions, the insider list and directors' dealings. It also makes practical recommendations.

The code of conduct, which applies to all DEUTZ AG employees, managerial staff and members of the Board of Management, describes and explains the objectives and rules that reflect the obligations of everyone to whom it is addressed to behave responsibly, lawfully and ethically impeccably. It focuses on committing to abide by the law at all times, behaving with integrity and the proper treatment of company property, confidential business information, business associates and staff members, as well as responsibility for health and safety and the environment.

DEUTZ has been implementing health and safety management rigorously since 1991 and as early as 2003 we also introduced an initial, voluntary environmental management system. From the outset, our aim has been to obtain certification, which we have achieved. Our company environmental policy also focused on exceeding the minimum legal requirements for mitigating our impact on the environment. In September 2009, the independent certification body DNV again confirmed that the production processes they inspected conform to DIN EN ISO 14001 environmental management specifications. The areas assessed by the team of auditors from DNV also included DEUTZ AG's environmental policy, our achievement of environmental targets, our statutory and self-imposed obligations, the functionality and efficacy of our emergency contingency management, communications and documentation. All standards set by Deutsches Institut für Normung e.V., Berlin (DIN) can be inspected free of charge at DIN standards repositories.

Conflicts of interest and consultancy agreements

All members of the Supervisory Board are obliged to notify the Supervisory Board of any conflicts of interest, especially those arising from an advisory function or directorship at customers, suppliers, lenders or other business partners.

The members of the Board of Management must also disclose any conflicts of interest to the Supervisory Board, which then reports these cases to the Annual General Meeting.

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

The consultancy agreement between Mr Moberg and DEUTZ AG, under which Mr Moberg advised the company about customer-specific issues, was terminated by mutual agreement with effect from 15 June 2009 because of Mr Moberg‘s appointment as chairman of the Supervisory Board.

Remuneration report

The remuneration paid to the Board of Management and Supervisory Board complies with DCGK recommendations. The main features of the remuneration system are outlined on page 44 et seq. of the management report. The remuneration paid to individual members of the Board of Management and the Supervisory Board is stated on page 108 et seq. of the Notes to the consolidated financial statements.

Dealings subject to reporting requirements

Section 15 a 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 disclose to the German Financial Supervisory Authority (BaFin) their own dealings in shares of the company or in financial instruments of the company based on such shares.

In 2009, two members of the Board of Management disclosed the purchase or sale of shares under this provision. Up to the date on which the annual financial statements were formally adopted, no other persons subject to the disclosure requirement acquired shares.

These dealings were disclosed pursuant to section 15a WpHG and published on DEUTZ‘s website.

Together with other members of the Carozza family, Francesco Carozza, a member of the Supervisory Board, has an indirect investment in SAME DEUTZ-FAHR Holding & Finance B.V., which is the largest individual shareholder in DEUTZ AG with 45.0 per cent of the Company. Francesco Carozza therefore indirectly holds 45.0 per cent of DEUTZ shares. As at 31 December 2008, there was no other ownership subject to reporting requirements pursuant to item 6.6 German Corporate Governance Code. This means that the total number of shares in DEUTZ AG held by all members of the Board of Management and other members of the Supervisory Board as at the balance sheet date accounted for less than 1 per cent of the shares issued by the Company.

Where this corporate governance report refers to the Notes to the consolidated financial statements for further details of remuneration, the information disclosed therein forms part of the corporate governance report.

Notification pursuant to section 15a German Securities Trading Act (WpHG)

Trade date	Person subject to reporting requirements	Function	Securities	ISIN	Stock exchange	Type of transaction	Quantity	Price of share	Business volume
24/03/2009	Dr Helmut Leube	Chairman	DEUTZ share	DE0006305006	Frankfurt	Purchase	2,000	€ 2.35	€4,700
31/03/2009	Dr Helmut Leube	Chairman	DEUTZ share	DE0006305006	Frankfurt	Purchase	2,500	€ 2.23	€5,575
11/05/2009	Dr Margarete Haase	Member of Management Board	DEUTZ share	DE0006305006	Stuttgart	Purchase	6,000	€2.80	€16,800
11/05/2009	Dr Helmut Leube	Chairman	DEUTZ share	DE0006305006	Frankfurt	Purchase	1,500	€2.86	€4,290
12/05/2009	Dr Helmut Leube	Chairman	DEUTZ share	DE0006305006	Frankfurt	Purchase	1,500	€2.81	€4,215

Glossary

DEUTZ-SPECIFIC TERMS

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.

Exhaust aftertreatment Ensures compliance with statutory emissions limits for gaseous pollutants such as nitrogen oxides (NO_X) und soot particles through the cleansing of combustion exhaust gases. In vehicles, exhaust aftertreatment is achieved by the use of catalytic converters and diesel particulate filters.

Exhaust gas recirculation (EGR) Process for reducing the level of nitrogen oxides (NO_X) in combustion exhaust gases. The process involves feeding exhaust gases back into the combustion space of the engine for combustion. The exhaust gas content in the fuel-air mixture results in a comparatively low combustion temperature in the combustion space and this, in turn, reduces the proportion of NO_X in the exhaust gas.

Captive market/segment Market segment in which original equipment and commercial vehicle manufacturers have their own engine production facilities to meet their engine needs. Consequently, the captive market is not generally accessible to independent engine manufacturers.

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

Common rail Injection system for diesel engines whereby all cylinders are supplied with fuel at constant pressure via a shared high-pressure fuel line. The advantages of common rail injection include better mixture formation in the cylinders, lower fuel consumption and lower emissions.

DIN EN ISO 14001 (Deutsches Institut für Normung – European Norm – International Organization for Standardization – 14001) A German, European and international industrial standard for environmental management.

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

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.

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

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.

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

Non-captive market/segment Market segment in which original equipment and commercial vehicle manufacturers purchase engines from third-party manufacturers to meet their engine needs. The non-captive market is accessible to independent engine manufacturers.

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

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

On-road applications Engine-powered applications that are licensed for use on public roads such as commercial vehicles and buses.

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.

Selective Catalytic Reduction (SCR) Catalytic reduction of nitrogen oxide in the exhaust gas of combustion engines, whereby a watery urea solution is used as a reducing agent that is injected into the exhaust gas. In the hot exhaust gas, the urea disintegrates to form ammonia which converts the nitrogen oxide into harmless molecular nitrogen.

Support production Production of a certain quantity of a certain component is outsourced due to the full utilisation of inhouse production capacity. The use of support production makes it possible to flexibly adjust the production volume of a certain component as required and without the need to expand inhouse capacity.

Total Quality Management (TQM) Holistic quality management throughout all areas of a company.

US EPA TIER 1, 2, 3, 4 US emissions standard for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

COMMERCIAL TERMS

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

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.

Corporate governance Responsible management and control of a company with a view to long-term value creation and increasing shareholder value.

Covenants Ancillary provisions under loan agreements with which the borrower must comply during the term of the loan agreement. The provisions govern financial and other obligations and contain legal consequence clauses in the form of sanctions.

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

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

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.

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.

Hedging Hedging interest-rate, currency, price or similar risks through the use of derivative financial instruments which limit the risk associated with the underlying transactions.

Investment grade Credit rating for high-quality bonds.

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.

Long-term incentive (LTI) plan 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.

Option Contract which, 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) 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 figures from two balance sheet dates.

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

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.

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

Convertible bond A bond which can be converted into the shares of the issuing company under certain conditions at a fixed conversion ratio and within a specified period.

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

	2005	Continuing operations 2006	Continuing operations 2007	Continuing operations 2008	**Continuing operations 2009**
€ million					
New orders	1,350.5	1,296.9	1,584.5	1,363.5	842.3
Unit sales (units)	195,843	236,679	285,861	252,359	117,961
DEUTZ Compact Engines	195,082	199,202	248,971	219,681	102,420
DEUTZ Customised Solutions	–	37,477	36,890	32,678	15,541
DEUTZ Power Systems	761	–	–	–	–
Revenue	1,322.8	1,183.6	1,524.2	1,495.0	863.4
thereof excluding Germany (%)	73.0	74.6	78.0	75.6	76.6
DEUTZ Compact Engines	999.7	868.3	1,186.0	1,143.2	636.0
DEUTZ Customised Solutions	–	315.3	338.2	351.8	227.4
DEUTZ Power Systems	323.1	–	–	–	–
EBITDA[1)]	164.6	111.9	149.7	81.8	–8.8
EBITDA (before one-off items)[1)]	106.1	111.9	149.7	93.5	20.8
EBIT[1)]	99.3	53.2	84.2	7.4	–89.2
EBIT (before one-off items)[1)]	47.1	53.2	84.2	21.7	–46.3
EBIT margin (%)	7.5	4.5	5.5	0.5	–10.3
EBIT margin (before one-off items, %)	3.6	4.5	5.5	1.5	–5.4
Net income	71.4	61.5	183.3	–8.3	–124.0
Continuing operations	–	38.5	59.4	–4.2	–119.8
Discontinued operations	–	23.0	123.9	–4.1	–4.2
Earnings per share, basic (€)	0.77	0.57	1.56	–0.07	–1.03
Continuing operations	–	0.36	0.51	–0.04	–0.99
Discontinued operations	–	0.21	1.05	–0.03	–0.04
Total assets	1,063.8	1,162.9	1,378.6	1,206.3	1,071.1
Non-current assets	479.2	499.1	511.3	539.7	539.4
Equity	247.0	358.5	557.1	511.3	379.2
Equity ratio (%)	23.2	30.8	40.4	42.4	35.4
Cash flow from operating activities before payment of compensation for vested company pension rights	143.4	84.4	41.1	90.1	117.4
Cash flow from operating activities	143.4	84.4	–38.7	89.7	117.4
Free cash flow	134.0	–14.8	–111.5	–23.3	12.6
Net financial position[2)]	–89.7	–34.0	89.7	–12.2	2.9
Working capital[3)]	238.1	133.1	196.9	205.0	98.3
Working capital as percentage of revenue (31 Dec., %)	18.0	11.2	12.9	13.7	11.4
Capital expenditure (excluding capitalisation of R&D)	67.6	81.9	143.5	69.9	52.9
Depreciation and amortisation	65.3	58.7	65.5	74.4	80.4
Research and development	66.9	54.8	55.8	90.3	104.6
Employees (31 Dec.)	5,058	4,331	4,617	4,701	4,012

1) The interest included in pension costs is reported since 2009 as part of staff costs instead of net interest expense. The comparative figures of previous years have been restated accordingly to improve comparability.
2) Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities
3) Working capital: inventories plus trade receivables minus trade payables

	2005	Continuing operations 2006	Continuing operations 2007	Continuing operations 2008	**Continuing operations 2009**
Revenue by region (€ million)	**1,322.8**	**1,183.6**	**1,524.2**	**1,495.0**	**863.4**
Europe/Middle East/Africa	989.6	896.3	1,193.2	1,195.7	710.3
Americas	193.2	210.2	207.2	180.7	69.6
Asia-Pacific	140.0	77.1	123.8	118.6	83.5
Revenue by application segment (€ million)	**1,322.8**	**1,183.6**	**1,524.2**	**1,495.0**	**863.4**
Mobile Machinery	374.1	440.9	581.3	529.8	177.7
Service	315.5	179.7	203.5	212.0	175.0
Automotive	68.6	119.4	279.8	266.2	169.7
Agricultural Machinery	145.8	146.8	163.7	195.8	162.9
Stationary Equipment	350.8	260.4	258.8	259.3	153.0
Miscellaneous	68.0	36.4	37.1	31.9	25.1
Key figures DEUTZ shares					
Number of shares (31 Dec.)	95,003,621	114,326,416	120,085,030	120,861,783	120,861,783
Number of shares (average)	92,584,625	107,161,106	117,315,867	120,793,508	120,861,783
Share price (31 Dec., €)	4.14	10.05	6.95	2.38	3.39
Share price high (€)	4.68	10.40	12.02	7.60	3.70
Share price low (€)	2.86	4.00	6.82	1.85	1.59
Market capitalisation (31 Dec., € million)	393.3	1,148.9	834.6	287.7	409.7
Basic earnings per share (€)	0.77	0.57	1.56	–0.07	–1.03
Continuing operations	–	0.36	0.51	–0.04	–0.99
Discontinued operations	–	0.21	1.05	–0.03	–0.04
Diluted earnings per share (€)	0.62	0.52	1.52	–0.07	–1.03
Continuing operations	–	0.33	0.50	–0.04	–0.99
Discontinued operations	–	0.19	1.02	–0.03	–0.04

Financial calendar

Date	Event	Location
18 March 2010	Annual press conference Annual report for 2009	Cologne
19 March 2010	Analysts' meeting	Frankfurt/Main
6 May 2010	Annual General Meeting	Cologne
12 May 2010	Interim report 1st quarter 2010 Conference call with Analysts and Investors	
5 August 2010	Interim report 1st Half-Year 2010 Conference call with Analysts and Investors	
10 November 2010	Interim report 1st to 3rd quarter 2010 Conference call with Analysts and Investors	

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Imprint

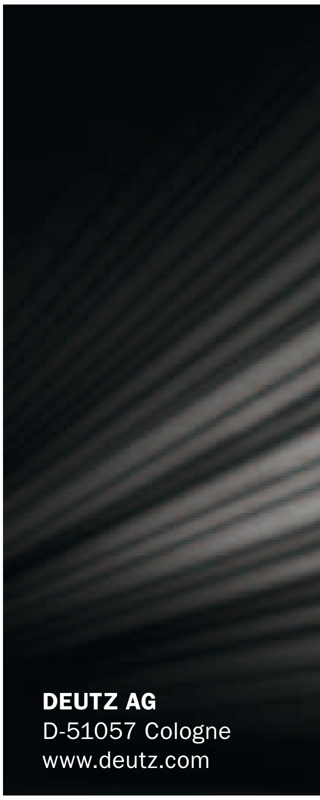
Published by
DEUTZ AG
D–51057 Cologne

Concept and layout
Kirchhoff Consult AG, Hamburg

Photographer
Andreas Fechner, Düsseldorf

Lithography and print
Druckpartner, Essen

This is a complete translation of the original German version of the Annual Report.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