One step ahead

Annual Report 2010

DEUTZ

DEUTZ Group: Key figures

	Continuing operations 2010	Continuing operations 2009	Change in %
€ million			
New orders	1,315.0	842.3	56.1
Unit sales (quantity)	167,680	117,961	42.1
Revenue	1,189.1	863.4	37.7
thereof excluding Germany (%)	80.8	76.6	–
EBITDA	92.7	–8.8	–
EBITDA (before one-off items)	112.6	20.8	–
EBIT	22.3	–89.2	–
EBIT (before one-off items)	42.2	–46.3	–
EBIT margin (%)	1.9	–10.3	–
EBIT margin (before one-off items, %)	3.5	–5.4	–
Net income	–15.9	–119.8	86.7
Basic earnings per share (€)	–0.13	–0.99	–
Total assets	1,041.7	1,071.1	–2.7
Non-current assets	591.5	539.4	9.7
Equity	374.3	379.2	–1.3
Equity ratio (%)	35.9	35.4	–
Cash flow from operating activities	78.2	117.4	–33.4
Free cash flow[1]	–55.9	12.6	–
Net financial position[2]	–73.6	2.9	–
Working capital[3]	112.6	98.3	14.4
Working capital as a percentage of revenue (31 Dec., %)	9.5	11.4	–
Capital expenditure (excluding capitalisation of R&D)	61.1	52.9	15.5
Depreciation and amortisation	70.4	80.4	–12.4
Research and development	101.8	104.6	–2.7
Employees (31 Dec.)	3,839	4,012	–4.3

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

Our locations

Europe

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

Frankreich
Gennevilliers/
Paris ▲

Großbritannien
Cannock ■

Russia
Moscow ■

Spain
Madrid ▲
Zafra ●

Turkey
Istanbul ■

Asia

China
Dalian ●
Peking ■
Weifang ●

India
Pune ▲

Iran
Tehran ■

Singapore
Singapore ▲

United Arab Emirates
Abu Dhabi ■

America

Argentina
Buenos Aires ●

Brazil
São Paulo ▲

United States
Atlanta ▲
Pendergrass ●

Africa

Algeria
Algiers ■

Marocco
Casablanca ▲

South Africa
Cape Town ▲

Australia
Braeside/
Melbourne ▲

Key

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

In addition: more than 800 independet DEUTZ distribution and service partners in more than 120 countries

Highlights

02|2010

DEUTZ OPENS JIS ASSEMBLY CENTRE

DEUTZ has invested €2.5 million in optimising assembly processes and logistics materials management at its Cologne site. In the new 12,000 m² JIS centre, a wide range of individual components are picked just-in-time and in the correct sequence before being delivered to the assembly line, resulting in more efficient workflows within the engine production process.

03|2010

DEUTZ UNVEILS NEW ENGINES

At bauma 2010 we introduced a new product range to the public. Our two new TCD 2.9 L4 and TCD 3.6 L4 engines have been designed for the next generation of emissions standards, building on the legendary DEUTZ 2011 series, which remains in production for the current emissions standard. These two engines also represent a significant downward extension of our power output range for agricultural machinery.

05|2010

MILESTONE: 2 MILLION DEUTZ ENGINES FROM COLOGNE-PORZ

DEUTZ has been producing engines in Cologne-Porz, its most important assembly plant, since 1993, and the 2 millionth engine left the plant in May. Porz is where we build our compact engines with capacities of less than four litres.

07|2010

SAME DEUTZ-FAHR AND DEUTZ EXPAND THEIR COLLABORATION

In 2010 we successfully entered the strategically important market for agricultural machinery engines in the under four-litre capacity range. Our two new engines – the TCD 2.9 and the TCD 3.6 – represent a significant downward extension of our power output range for agricultural equipment. In the middle of the year we signed a memorandum of understanding with our partner SAME to supply these newly-developed engines for SAME tractors. In the medium term, this key customer will be purchasing an additional 14,000 or so engines from us per year.

Trade fairs

02|2010

DEUTZ AT WORLD OF CONCRETE 2010

At World of Concrete 2010 in Las Vegas, one of the most important trade fairs for the US construction industry, DEUTZ presented innovative engine solutions for the stricter US EPA Tier 3/Tier 4 Interim emissions standard. Another highlight was the launch of the new engine series TCD 2.9 L4, which does not require a diesel particulate filter.

03|2010

NEW NAMES FOR A NEW TECHNOLOGY

At bauma 2010, the world's largest trade fair for construction and mining machinery, DEUTZ presented a comprehensive portfolio of products from a new technology generation that complies with the future emissions standard EU Stage III B / US EPA Tier 4 Interim. The new engines cover a wide range of power output, from 25kW to 520kW, combining increased power density with a high level of efficiency and proven DEUTZ quality.

11|2010

DEUTZ AT BAUMA CHINA 2010

At bauma China in Shanghai, DEUTZ and its Chinese joint venture DEUTZ (Dalian) Engine presented new engines for construction equipment. In the power output range up to 520kW, DEUTZ introduced the newly-developed TCD 4.1 L4 engine for the future Tier 4 emissions standard.

DEUTZ Group: Revenue by regions
€ million (2009 figures)

■	**983.9**	(710.3)	Europe/Middle East/Africa
■	**89.1**	(83.5)	Asia-Pacific
■	**116.1**	(69.6)	Americas
	1,189.1	(863.4)	Total

DEUTZ Group: Revenue by application segment
€ million (2009 figures)

■	**369.6**	(177.7)	Mobile machinery
■	**215.8**	(175.0)	Service
■	**192.6**	(169.7)	Automotive
■	**185.0**	(162.9)	Agricultural machinery
■	**175.8**	(153.0)	Stationary equipment
■	**50.3**	(25.1)	Miscellaneous
	1,189.1	(863.4)	Total

DEUTZ segments: Key figures

€ million	**Continuing operations 2010**	Continuing operations 2009	Change in %
New orders			
DEUTZ Compact Engines	990.7	632.4	56.7
DEUTZ Customised Solutions	324.3	209.9	54.5
Total	**1,315.0**	**842.3**	**56.1**
Unit sales (units)			
DEUTZ Compact Engines	150,179	102,420	46.6
DEUTZ Customised Solutions	17,501	15,541	12.6
Total	**167,680**	**117,961**	**42.1**
Revenue			
DEUTZ Compact Engines	919.0	636.0	44.5
DEUTZ Customised Solutions	270.1	227.4	18.8
Total	**1,189.1**	**863.4**	**37.7**
EBIT (before one-off items)			
DEUTZ Compact Engines	17.3	–55.6	–
DEUTZ Customised Solutions	33.5	10.7	–
Sonstiges	–8.6	–1.4	–
Total	**42.2**	**–46.3**	**–**

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One step ahead

Our future rests on very firm foundations. We used 2010 as an opportunity to make DEUTZ even better and more efficient. Our new generation of engines has been very well received in the market and has already won awards. Our product range meets the most stringent emissions standards and our quality campaign is already bearing fruit. We have more stable structures, optimised processes and restructured funding. The success of our business over the last year demonstrates that we are pursuing the right strategy and that DEUTZ, with its leading quality and technology, is one step ahead.

FOREWORD

**Dear shareholders,
friends and partners of our company,**

We can look back over the past twelve months with pride. Not only did DEUTZ turn the corner, it emerged from the economic crisis stronger and with impressive growth figures. While the German economy grew by 3.6 per cent in 2010, our revenue growth of 37.7 per cent was many times higher.

In terms of actual figures, we produced around 168,000 engines last year, generating revenue of about €1.2 billion – around 50,000 engines and over €300 million more than in 2009. We returned to profitability with an operating profit (EBIT before one-off items) of €42.2 million, after incurring an operating loss of €46.3 million in 2009. Our return on revenue for 2010 was 3.5 per cent, putting us on the right track for our target EBIT margin of 10 per cent in the medium term. These figures indicate that we not only met the targets we had set ourselves at the start of the year but actually exceeded them! We were also able to expand production from short-time working to multi-shift operation within a very short period of time without increasing our fixed cost base.

Our excellent business performance was reflected in the performance of DEUTZ shares, which rose to €6.25, up 84 per cent, by the end of 2010. This means they outperformed the market trend, doing roughly twice as well as the benchmark SDAX and Prime Industrial Standard – definitive proof of the stock market's confidence in DEUTZ.

Further evidence of this faith in the future of our company came in December, when SAME, our largest shareholder (as well as one of our most important customers), reduced its stake in DEUTZ from 45.0 per cent to 25.11 per cent and sold 24 million no-par-value shares in the capital markets. All of them were taken up by institutional investors in a matter of hours – without any significant repercussions for our share price. The quick and smooth sale of these shares not only confirmed the considerable appeal of DEUTZ shares, it also increased the company's free float – paving the way for DEUTZ's return to the MDAX index.

Another success at the end of last year was the restructuring of our funding, which secures it in the medium term. In December 2010 we were able to replace the US private placement with a bank loan, a variable facility that gives us far greater flexibility and is much better suited to our liquidity requirements. This has secured the financial basis for our planned growth over the next few years. The confidence in DEUTZ shown by the nine syndicate banks is yet more proof of the high regard in which we are held by the financial markets generally.

DEUTZ's operating activities returned to profitability after the massive collapse of 2009. We faced up to the crisis and were able to return to our previous growth trajectory very quickly. This was due in no small part to the comprehensive restructuring measures that we implemented over the last 15 months – and which we intend to continue during the recovery. Although the position of the Company has been secured, there is still room for optimisation, so MOVE has become MOVE FAST, a programme aimed at achieving further cost savings and efficiency improvements. We are expecting an annual net benefit of €35 million from this programme. MOVE FAST will primarily strengthen our top-line revenue growth, i.e. sales and service, and optimise our process efficiency across all sites, thus improving our margins.

Dr Helmut Leube
Chairman,
responsible for Market,
Technical and
Central Functions

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

We are optimistic for 2011. We will be producing more than 200,000 engines and increasing our revenue to €1.4 billion. However, we are looking even further ahead and took key strategic decisions in 2010: profitable growth, technology leading products and operational excellence are the three strategic pillars on which we will build our future, with MOVE and MOVE FAST as the foundation. The strategic focus will be on expanding our Asian business, improving our sales organisation, redesigning our value chain, extending our range of integrated system solutions, strengthening process orientation throughout the business and – last but not least – creating a high-performance organisation. You can find more details about our plans in the strategy section of this annual report.

During 2011 we will be building on our previous successes and positioning DEUTZ "one step ahead" once again. The improvements in 2010 were only possible due to the energy and commitment of our employees, the loyalty of our shareholders, the confidence of our customers and the reliability of our suppliers and partners. Our special thanks go to all of you!

Kind regards from Cologne

Dr Helmut Leube Dr Margarete Haase

DEUTZ SHARES

The global stock markets followed an upward trajectory in 2010. Although share prices fluctuated wildly at times, particularly due to recurrent fears about the high national debt of the euro countries Greece and Ireland, the general mood in the international financial markets was characterised by optimism and rising prices. The Dow Jones, the leading US share index, rose by around 11 per cent in 2010 and closed the year at 11,577.51 points. The DAX had reached 6,914.19 points by 31 December 2010, equating to an increase of 16 per cent (31 December 2009: 5,957.43 points).

DEUTZ shares outperform the relevant indices DEUTZ shares are listed 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.

The SDAX, in which DEUTZ shares are listed, climbed by around 45 per cent in the twelve-month reporting period to close at 5,173.79 points at the end of December 2010, compared with just 3,549 points a year earlier. The Prime Industrial index was 39 per cent higher at the end of December than at the start of the year – 3,377.74 points on 31 December 2010 compared with 2,427 points on 31 December 2009.

DEUTZ shares comfortably outperformed their benchmarks throughout the year – especially in September and October. Gaining 84 per cent over the year, they did roughly twice as well as the SDAX and Prime Industrial.

The DEUTZ share price was €3.39 at the start of 2010. It remained largely flat during the first few weeks of the year, before dropping to €3.15 on 10 February – its lowest point in 2010. The share price then recovered sharply, rising above €4 in early March. The shares subsequently outperformed the generally optimistic mood in the markets: volatile but, with hindsight, always on an upward trajectory. The share price repeatedly reached new highs from the end of August and finally peaked at €6.45 on 9 November. During the last two months of 2010, DEUTZ shares moved within a narrow range below €6. Our major shareholder SAME seized the opportunity presented by our good share price performance in early December and placed 24 million shares in the secondary market. The market responded very positively and, after a brief dip, DEUTZ shares closed at €6.25 at the end of December 2010, which was more than 84 per cent up on the price at the start of the year. The Company's market capitalisation rose to €755.4 million (31 December 2009: €409.7 million).

Key figures for DEUTZ shares

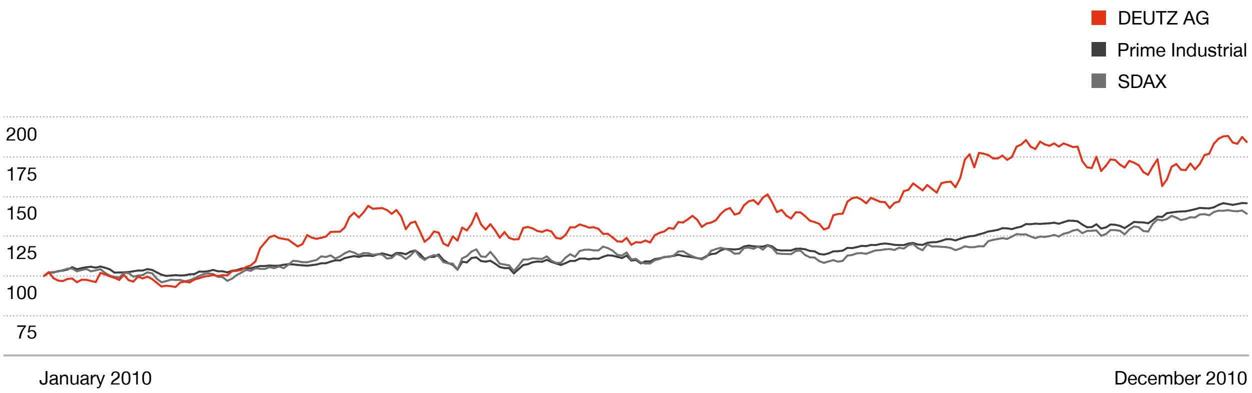
	2010	2009
Number of shares (31 December)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 31 December (€)	6.25	3.39
Share price high (€)	6.38	3.70
Share price low (€)	3.15	1.59
Market capitalisation as at 31 December (€ million)	755.4	409.7
Earnings per share (€)	–0.13	–1.03
Continuing operations	–	–0.99
Discontinuing operations	–	–0.04

Earnings per share Earnings per share is calculated by dividing the net income for the year by the weighted average number of shares in issue. An average of 120.9 million shares were in issue in 2010, resulting in basic earnings per share for continuing operations of minus €0.13. The previous year's figure was a loss of €0.99 per share.

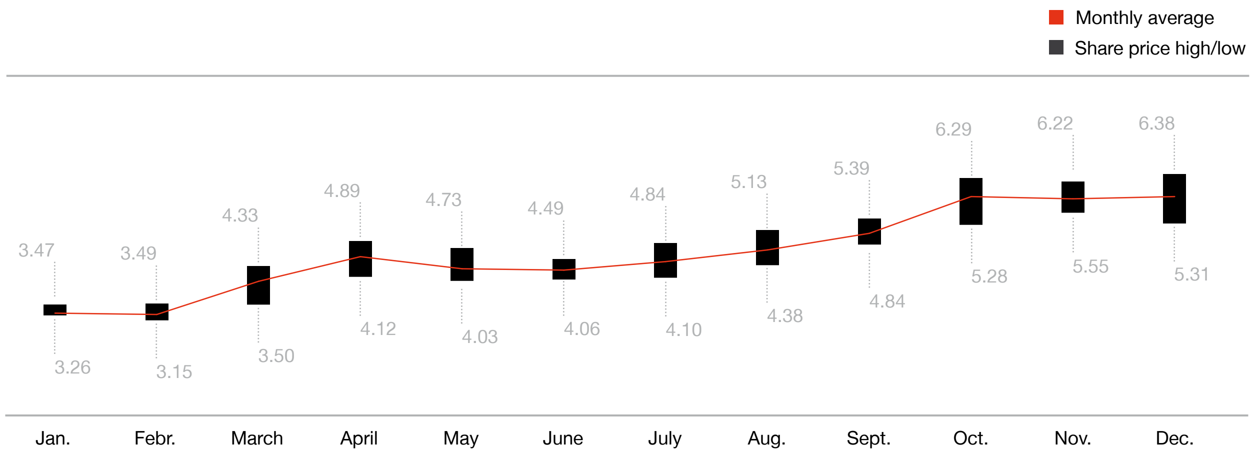
Key data on stock market listing

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

Price performance of DEUTZ share in 2010
in %



DEUTZ share price high and low for 2010
in €



DEUTZ's major shareholder sells block of shares SAME DEUTZ-FAHR, which manufactures agricultural equipment and is DEUTZ's major shareholder, sold a block of 24 million DEUTZ shares at the end of 2010, thereby reducing its stake in the Company from 44.97 per cent to 25.11 per cent. The industrial cooperation and close customer/supplier relationship between SAME DEUTZ-FAHR and DEUTZ was unaffected. Moreover, SAME DEUTZ-FAHR remains our largest individual shareholder. The shares were placed with institutional investors at a price of €5.30 per share as part of an accelerated bookbuilding process. The total value of this transaction was €127 million. UBS and Banca IMI acted as joint lead managers. Institutional investors bought up the block of shares within a few hours without any long-term impact on the share price. This indicates that the capital markets have confidence in DEUTZ shares. The sale caused the percentage of shares in free float to increase, taking the figure to 68.2 per cent at the end of 2010, compared with only 48.2 per cent as at 31 December 2009. The larger free float made our shares more attractive to investors and boosted our chances of joining the MDAX again.

The second-largest individual shareholder, Sweden's AB Volvo Group, held 6.7 per cent of the total shares at the end of 2010, which was unchanged on 31 December 2009.

Breakdown of shareholders as at 31 December 2010
in %

- **68.2** Free Float
- **25.1** SAME DEUTZ-FAHR Holding & Finance B.V.
- **6.7** AB Volvo Group

Large number of investor relations activities ensures proximity to capital markets We presented and explained DEUTZ's annual financial statements at our annual analysts' meeting, which was held in Frankfurt on 19 March 2010. When our interim reports were released we held conference calls to discuss our business performance and strategic matters 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. DEUTZ's Board of Management and the investor relations team also provided information to small groups of interested investors and analysts at roadshows and investor conferences in New York, London, Paris, Zurich, Vienna and Frankfurt am Main.

In 2010, 13 (2009: 15) brokerage houses covered DEUTZ AG by tracking and analysing its business performance and making buy or sell recommendations. They were (in alphabetical order): Bankhaus Lampe, Berenberg Bank, BHF-Bank, Commerzbank, Credit Suisse Securities, Deutsche Bank, DZ Bank, Goldman Sachs, HSBC Trinkaus & Burkhardt, Solventis Wertpapierhandelsbank, UBS, Viscardi Securities and WestLB. Further information on DEUTZ shares and forthcoming events in the financial calendar can be found on our website at www.deutz.com.

If you need more information,
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STRATEGY

DEUTZ emerged from the economic crisis with renewed strength. Our new strategy is equipping us for the future in three ways. Firstly, with profitable growth: we are expanding our agricultural machinery business, consolidating our market position in Asia – especially in China – thereby making our business less susceptible to economic fluctuations. We are also optimising our service and sales operations. Secondly, with products based on leading technologies: we are updating and improving our diesel engines, developing low-emission drive systems and redesigning our value chain. Thirdly, with operational excellence: we are making DEUTZ even faster and more efficient by optimising and streamlining processes.

"Fit for the future"

Profitable growth, technology leadership and operational excellence are the three pillars of our new corporate strategy. In spring 2010, we launched a new strategy process with the slogan "fit for the future", as part of which we enhanced and adjusted our strategic objectives and programmes. Our strategic path towards further expanding DEUTZ's leading position is guided by medium-term and long-term trends in the global market. Thanks to our MOVE programme, we are starting from a stronger foundation.

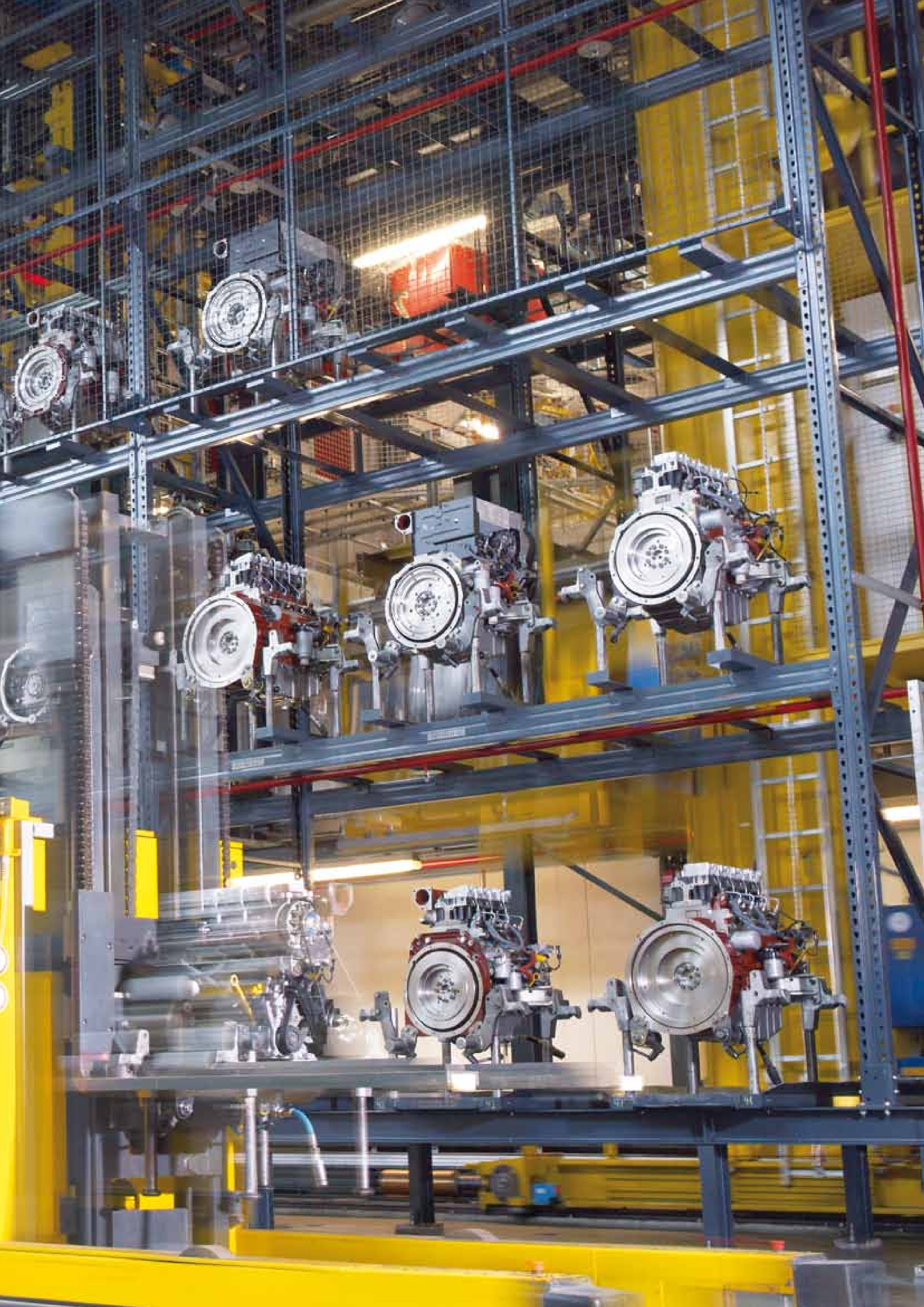
Strategic programme for 2010–2020

Profitable growth	Technology leadership	Operational excellence
2015–2020	**2015–2020**	**2015–2020**
▪ Expansion of market position in the BRIC countries ▪ Top-class sales organisation	▪ Supply of integrated system solutions ▪ Redesign of the value chain	▪ Process company ▪ High-performance organisation
2010–2014	**2010–2014**	**2010–2014**
▪ Maintenance of strong positions in mobile machinery and stationary equipment ▪ Improvement of position in agricultural machinery ▪ Expansion of the Asian business ▪ Strengthening of the service business	▪ New TCD 2.9 and TCD 3.6 series ▪ Refinement of existing series ▪ Reduction of built-in complexity and fewer variants ▪ Platform strategy	▪ Implementation of a new quality system ▪ 50% reduction in quality costs compared to 2008 ▪ Higher-level certification according to ISO TS 16949

Basis: personnel & organisational development, corporate culture, principles of management and cooperation

Profitable growth

We have defined five areas of focus that will enable us to grow with even more profitability in the years to come: expanding our agricultural machinery business, consolidating our market position in Asia, boosting our presence in China, training our sales & distribution staff and strengthening our service business. We are devoting special attention to these areas – by setting up project teams, regularly reporting to the DEUTZ AG management committees and regularly consulting with the Supervisory Board.



“We shall seize every opportunity for growth”

Expanding our agricultural machinery business We have set ourselves a clear objective: we want to make our business more stable and less dependent on the economic situation while driving growth. To do so, we need to sustain our strong market position in our two strongest application segments in terms of revenue – mobile Machinery and stationary Equipment – and to expand our Agricultural Machinery application segment. The agricultural Machinery segment with its late-cyclical business does not respond to economic fluctuations as quickly and thereby stabilises our business performance. Moreover, it is a key technology driver in engine development because of its very high requirements in terms of engine power and fuel consumption.

In 2010 we successfully entered the strategically important market for agricultural machinery engines in the under four-litre capacity range. Our two new engines – the TCD 2.9 and the TCD 3.6 – represent a significant downward extension of our power output range for agricultural equipment. In the middle of the year we signed a memorandum of understanding with our partner SAME to supply these newly-developed engines for SAME tractors. In the medium term, this key customer will be purchasing an additional 14,000 or so engines from us per year.

Consolidating our market position in Asia DEUTZ is also optimising its geographical distribution in order to become less sensitive to cyclical influences. We are already well placed with our engines in the major economic areas of North America and western Europe, but we would like to expand our market position in Asia and the BRIC countries (Brazil, Russia, India and China). The crisis only caused a slight slowdown in the Asian economies, thanks primarily to strong economic growth in India and China, whereas North America and western Europe went into recession. In the long term, the BRIC countries will have significant pent-up

Profitable growth

Buffer inventory of engines at the assembly plant in Cologne-Porz
Several hundred engines leave our assembly plant in Cologne-Porz every day. We harmonise numerous subprocesses, from the supply of parts to the completion of engines. We continually review and optimise these processes, which enables us to boost our productivity from year to year. In this way, we are laying the foundations for profitable growth.

demand for new infrastructure and house building. Ultimately, this will generate additional orders for construction equipment, gensets and commercial vehicles – and therefore growth potential for our diesel engines. The burgeoning populations of China and India are also increasing demand for agricultural products and thus boosting the need for agricultural machinery, for which DEUTZ supplies engines. At the same time, these countries are catching up in terms of pollution control by introducing new emissions standards that are increasingly oriented to European and North American regulations. This will also create more demand for the advanced technologies of our engines in the medium term.

Boosting our presence in China We want to maintain a local presence in the emerging markets in order to benefit from Asia's economic growth. China is our number-one priority, and we are already in an excellent position here as a result of our joint ventures in Dalian and Weifang and our longstanding licensing partnerships. Our joint ventures manufactured a total of 155,000 engines in 2010; the proportion of engines in the Chinese market that are based on our technology is growing steadily. We also further expanded our operations in China last year by establishing a sales and service company in Beijing that replaced our old office and brings together DEUTZ's local sales and service activities. In December, we signed new technology transfer agreements with our joint venture partner FAW. Together, we will be transferring new engine technologies for the next exhaust emissions standards to our joint venture DEUTZ (Dalian) Engine Co., Ltd. (DDE). As a result, DDE can now meet market requirements over the next decade with a comprehensive product portfolio of engines with capacities of between three and seven litres for use in commercial vehicles and industrial applications. It is also encouraging that, as expected, DDE broke even in 2010 and posted EBIT of €1.25 million.

Training our sales & distribution staff Growing technical requirements resulting from new emissions standards and technologies – such as exhaust gas aftertreatment – call for highly skilled staff in sales and distribution. That is why we are restructuring our sales organisation, providing skills training for our employees and launching new incentive programmes, such as for signing up new customers, to support our growth strategy.

More service for our customers We are also extending our service business by developing new sales channels, making better use of existing ones and expanding the range of products and services that we offer. We work closely with the dealers in our global service network. We closely analyse the services provided by the different service outlets and agree individual targets for them that are linked to our discount system.

We began to set up production facilities for reconditioning exchange turbochargers at our XChange centre in Übersee on Lake Chiemsee, Germany, in 2010. This enables us to offer customers reconditioned replacement parts that are significantly cheaper than new replacement parts. Our XChange product range already includes injection nozzles and pumps, cylinder heads and entire exchange engines.

Technology leadership

We have always strived to develop and manufacture products based on leading technologies, and this is therefore a cornerstone of our new corporate strategy. In doing so, we are focusing on the following aspects: updating and refining our diesel engines, developing new low-emission drive systems and redesigning our value chain.

“Updating and refining our diesel engines”

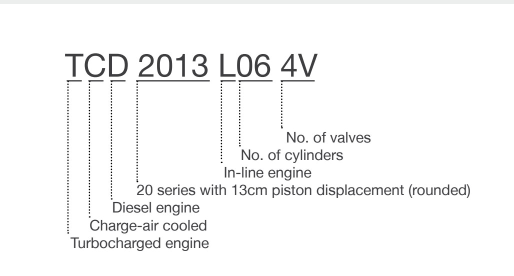
Updating and refining our diesel engines We completely updated and refined our engine range despite the crisis. We showcased these new engines at the world's largest and most important trade fair for construction machinery – bauma 2010 in Munich. The engines fulfil the new exhaust emissions standards COM III B and EPA Tier 4 Interim, which came into force on 1 January 2011 in the European Union and the USA respectively, for diesel engines with outputs of between 130kW and 560kW. Our new product naming conventions also reflect this innovation: the engines' names now clearly indicate their key characteristics, such as the capacity or number of cylinders. We presented a total of eleven new engine types at bauma with capacities ranging from 2.9 litres to 16.0 litres.

We are particularly proud of the award bestowed upon us at bauma by the Italian trade journal Diesel, which crowned our latest engine, the TCD 2.9 L4, “diesel of the year 2010” due to its innovative technology. This title is confirmation of our strategy of developing an engine that meets exhaust emissions standards without the need for an elaborate diesel particulate filter in the hard-fought market sector for engines with an output range of under 56kW.

Developing new low-emission drive systems By 2014 we want to have launched on the market the products that we featured at bauma. At the same time, we are preparing for the next generation of DEUTZ engines. Politicians are already discussing a fifth exhaust emissions standard that would take effect at the end of the current decade, as well as a decrease in CO_2 emissions from construction and agricultural equipment. From a technological perspective, this will require a further reduction in fuel consumption that will not be possible by means of engine refinement alone. Instead, interaction between all system components will be needed – from the engine as the drive system, to the mechanical, hydraulic and electronic components, which translate the torque generated by the engine into operating performance for a complex machine.

DEUTZ is the first independent engine manufacturer to develop a hybrid system for construction equipment. Having spent a long time researching and intensively developing this technology, we have now installed it in a wheel loader and road roller in cooperation with two important customers. The test results are very promising, with fuel savings of between 20 and 30 per cent compared to traditional systems. But that is not the only opportunity offered by this technology. Besides simply charging batteries, the space-saving flywheel generator fitted in our system enables deployment of the start-stop systems that are becoming common in the latest generation of cars and it can drive ancillary components such as pumps, fans and air conditioning compressors by means of electricity. These can be switched on as needed and it is easier to control their output than with traditional mechanical drive systems.

DEUTZ AG product naming



Old engine names	New engine names
TCD 20XX L04	TCD 2.9 L4
TCD 2010 L04	TCD 3.6 L4
TCD 2012 L04	TCD 4.1 L4
TCD 2012 L06	TCD 6.1 L6
TCD 2013 L06	TCD 7.8 L6
TCD 2015 V06	TCD 12.0 V6
TCD 2015 V08	TCD 16.0 V8

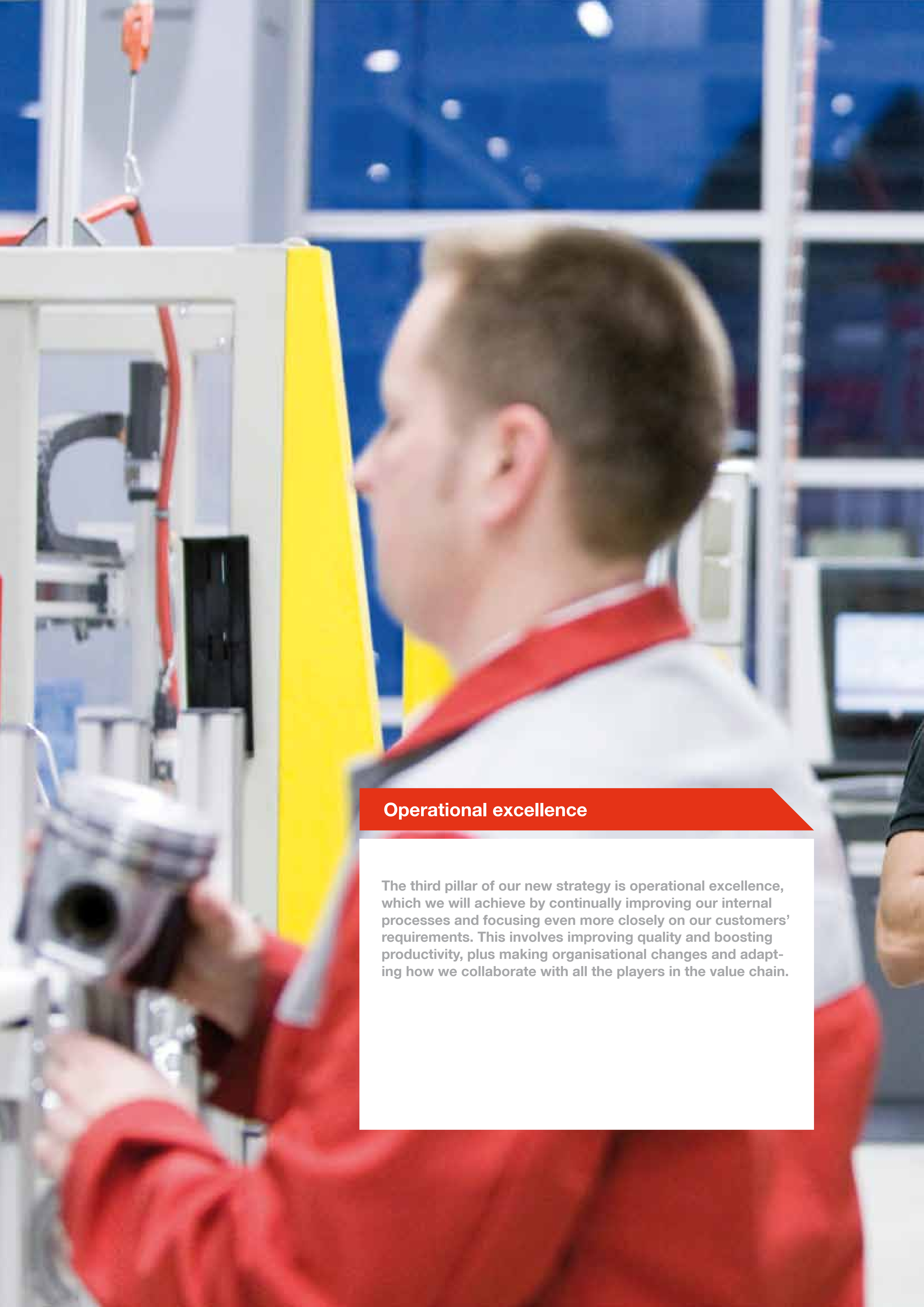
Technology leadership

Valve springs – small but essential
If we are to offer leading products and fulfil our customers' various requirements with a high level of quality, we have to work with the greatest degree of precision – both when developing engines and when planning and executing our manufacturing, assembly and logistics processes. Each individual part, however small, must work reliably and flawlessly, because that is what we stake our reputation upon.

Redesigning our value chain The long-term redesign of our value chain requires us to overcome a number of challenges simultaneously. The global focus of the market is shifting from west to east, fossil fuels are finite, resulting in higher transport costs in the medium to long term, and development expenditure is rising because of the new emissions standards, which in turn is raising the break-even point for individual product variants. This creates conflicting objectives. To reduce logistics costs, we have to be geographically close to our customers. However, decentralised production facilities mean fewer economies of scale because they manufacture in smaller quantities. Moreover, the optimal solution for balancing these objectives varies from product to product.

Nevertheless, DEUTZ is starting from a strong position. Our joint ventures in China allow us to pursue new options for purchasing, manufacturing and assembly. The cooperation with Bosch and Eberspächer also opens up opportunities along the value chain that we would not be able to seize by ourselves.

Our common parts and platform strategy is generating further huge advantages in terms of processes and production. The strategy enables us to use many common parts in new and existing engines without reducing the range of variants that we offer to customers. Thanks to our modular engine concept, we can fit application-specific components to the various base engines without a lot of additional effort. This allows us to create optimum engine variants for the wide range of applications in which our customers use their machines, equipment and vehicles.



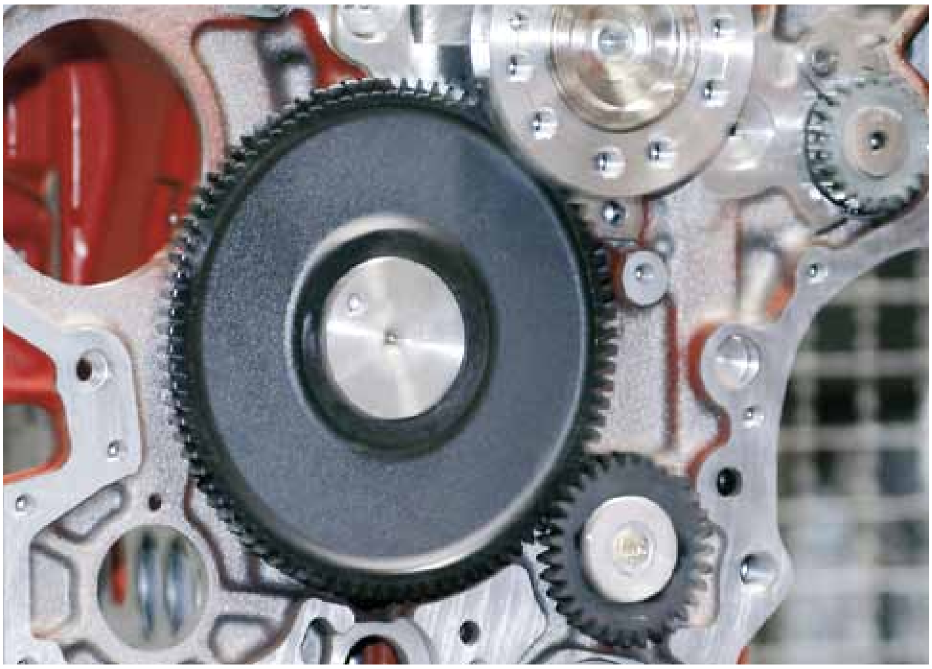
Operational excellence

The third pillar of our new strategy is operational excellence, which we will achieve by continually improving our internal processes and focusing even more closely on our customers' requirements. This involves improving quality and boosting productivity, plus making organisational changes and adapting how we collaborate with all the players in the value chain.

Process optimisation One of the priorities of our MOVE FAST programme is process optimisation. Moreover, MOVE FAST initiated the adaptation of our administrative processes to the flatter hierarchies in our Company. As part of our Process Company project, we are analysing and optimising our core processes with the clear aim of improving our customer service, increasing employee motivation and, at the same time, increasing our flexibility and efficiency in the long term. This will not be to the detriment of the quality of our processes. After all, high-quality processes and products have always been key factors in DEUTZ's success. To ensure that this remains the case in the future, we strive to continually maintain and improve the quality for which we are known, without making any compromises. That is why we launched a quality campaign in autumn 2009 that aims to heighten each and every DEUTZ employee's quality awareness. We have also extended our internal KPI system to create a Company-wide balanced scorecard system that shows us where and how we can improve our quality.

Another aim of process optimisation is to retain and extend our quality leadership relative to our competitors. We have already taken the first steps in this direction. Following intense discussions last year, we decided on the general definition and structure of the new DEUTZ process model. We are now working at full speed on the design and harmonisation of our core processes.

Process optimisation



"The strategic programmes seamlessly interact with each other"

“Quality is a state of mind”

High-performance organisation

High-performance organisation We are also focusing on enhancing our Company so that the different parts of the organisation cooperate with each other even faster and more efficiently. This includes elements such as team-building, personnel development and new management principles. A new personnel development programme was successfully launched in mid-2010, and we have also begun a team-development programme at the top two levels of management. Following a top-down approach, managers will put the principles of a high-performance organisation into practice, thereby setting an example for their employees.

Even while still in the grip of the crisis, we laid the foundations for achieving our objectives with our MOVE and MOVE FAST restructuring programmes. We are now working on consolidating these foundations and exploiting them to the full. Our financial results for 2010 are a sign that we have succeeded, and our strategic programmes ensure that we will continue to do so. The new strategy process, which encompasses an annual review and realignment of our strategic programmes as well as regular reporting, will make sure that we maintain a steady course. DEUTZ emerged from the crisis with renewed strength and, with its developments for the future, is already one step ahead.

Group Management Report 2010

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Highlights of 2010

- Unit sales of engines increase by 42 per cent
- DEUTZ Group generates revenue growth of around 38 per cent
- Packed order books: new orders up by 56.1 per cent on 2009
- Business performance at DEUTZ much better than forecast: EBIT of €42.2 million before one-off items
- Development of new engines of less than four litres cubic capacity: TCD 2.9 L4 awarded the title “Engine of the Year”

OVERVIEW OF 2010

LOOKING AHEAD WITH RENEWED STRENGTH

Impressive recovery of global economy The first signs that the world economy would rapidly start to bounce back had emerged at the end of 2009. However, everyone involved was nevertheless taken aback by the strength and sustainability of the upturn. Germany's economy grew by 3.6 per cent on average in 2010 and it even recorded a year-on-year increase of 9.5 per cent in the second quarter. Global growth of an estimated 4.8 per cent was driven by the BRIC countries (Brazil, Russia, India and China) in particular.

Business performance at DEUTZ much better than forecast We also considerably exceeded our conservative projections for 2010. We sold approximately 168,000 engines, which was 42 per cent or 50,000 engines more than in 2009. The success of the measures we took to cut costs and boost efficiency was reflected in our operating profit (EBIT before one-off items) of €42.2 million.

Assembly and production flexibly adapted to high demand The economic crisis had meant that our suppliers' capacities had also been significantly reduced. It was therefore a particular challenge for us to adapt both their capacities and our own production and assembly units to the sharp rise in demand. We ended all short-time working at the end of the first quarter and introduced additional shifts, including a 20-shift model per week in some production units. By planning the production programme in very close cooperation with our suppliers and by finding additional support suppliers, we ensured that the supply of materials was as seamless as possible. Moreover, despite good capacity utilisation we managed to achieve a working capital ratio of 9.5 per cent of revenue as at the balance sheet date[1)], the first time that this figure has fallen below 10 per cent.

Funding restructured The replacement of the creditors from the US private placement with a syndicated bank loan in mid-December 2010 marked the successful completion of the negotiations to restructure our funding.

New engine development and adaptations for future emissions standards well under way and on schedule In 2010, research and development was very much focused on the new exhaust emissions standards that come into effect in 2011 and beyond and on the development of two new engine types that are due to go into series production in the next two years. The projects are well on course as a result of our hard work in this area. With its leading quality and technology, DEUTZ is now 'one step ahead'!

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

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, DEUTZ has been providing the power that people need for professional and mobility purposes for almost 150 years. We develop, design, produce and sell diesel engines that are cooled by water, oil or air. 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 up 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. 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.

DEUTZ AG

DEUTZ Compact Engines

- liquid-cooled engines: up to 8 litres

DEUTZ Customised Solutions

- air-cooled engines
- liquid-cooled engines: > 8 litres

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 the reliable and speedy supply of spare parts and help our customers to repair, service and maintain their DEUTZ vehicles and equipment. For this purpose the Company possesses a global service network consisting of its own subsidiaries and service centres, together with authorised agents.

LEGAL STRUCTURE AND PRODUCTION SITES

DEUTZ maintains a strong international presence in a globalised market. DEUTZ customers are supported by nine distribution companies, nine sales offices and over 800 sales and service partners in more than 130 countries. DEUTZ AG is the executive and operating parent company in the DEUTZ Group; it is headquartered in Cologne, Germany, and has various domestic and foreign subsidiaries. Its subsidiaries include a production facility in Spain and several companies that perform sales and service functions. We established a joint venture – Bosch Emission Systems GmbH & Co. KG – with Bosch and Eberspächer in April 2010. 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. 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. (DDE) and Weifang Weichai-Deutz Diesel Engine Co., Ltd. – thereby maintaining a significant presence in the rapidly growing Chinese market.

In addition to DEUTZ AG, six (31 December 2009: three) German companies and nine (31 December 2009: ten) foreign companies were included in the consolidated financial statements as at 31 December 2010. Page 103 of the annex to the notes to the consolidated financial statements lists all the shareholdings of DEUTZ AG as at 31 December 2010.

MARKET AND COMPETITIVE ENVIRONMENT

DEUTZ manufactures diesel engines for professional applications used in countries with stringent emissions standards. These technically sophisticated applications include construction equipment, agricultural machinery, pumps, gensets and medium-weight and heavy trucks and buses. The market for DEUTZ engines is therefore separate from the market segments for diesel engines used in passenger cars and small commercial vehicles up to a permissible gross weight of around 3.5 tonnes. In addition, our relevant market does not encompass lower-quality diesel engines based on older technology that are designed for applications used in countries with lower emissions standards.

The market for technically sophisticated diesel engines comprises the captive market, in which the equipment manufacturers also produce their own engines, and the non-captive market, where equipment manufacturers predominantly do not produce their own engines and therefore obtain them from other suppliers. It is in this non-captive market that DEUTZ sells its high-quality engines with outputs between 19kW and 560kW around the globe.

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

Main competitors

Application segment	Applications	Main competitors in Europe and North America (in alphabetical order)
Mobile Machinery	Construction equipment Ground support equipment Material handling equipment Mining equipment	Cummins Kubota Perkins Yanmar
Stationary Equipment	Gensets Compressors Pumps	Deere Kubota Perkins Yanmar
Agricultural Machinery	Tractors Harvesters	Cummins Kubota Perkins Yanmar
Automotive	Trucks Buses Rail vehicles	Caterpillar Cummins Fiat Powertrain PACCAR
Marine equipment	Onboard generators	Deere Isuzu Motors Kubota 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). We manage the Group using this internal system of KPIs in order to boost profitability and achieve sustained growth. The primary KPIs are unit sales and revenue in conjunction with the EBIT margin; we also manage the capital tied up in the business using the working capital 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. This approach ensures that we can respond immediately to the latest business developments. At the same time, we operate a sound system of causal analysis to ensure that we minimise risks and make the most of opportunities. Three times a year we produce an annual forecast for all key performance indicators. In this way, we ensure optimum transparency in our business performance, benefiting both the Group and all stakeholders.

Our KPIs for 2010 shown below – specifically the earnings-related indicators – reflect the sharp rise in unit sales that resulted from the recovery of the global economy following the crisis in 2009:

		2010	2009	2008
Revenue	€ million	1,189.1	863.4	1,495.0
Unit sales	Units	167,680	117,961	252,359
EBIT margin before one-off items[4]	(%)	3.5	–5.4	1.5
Working capital ratio (as at the balance sheet date)	(%)	9.5	11.4	13.7
Working capital ratio (average)	(%)	12.9	20.6	16.2
ROCE before one-off items	(%)	6.3	–6.4	4.0
Free cash flow	€ million	–55.9	12.6	–23.3

CONTINUOUS OPTIMISATION OF THE CONTROL SYSTEM

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

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

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

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

We are pursuing long-term growth objectives. In order to secure the financial basis for these, we have centralised the management of capital expenditure, the main element in the management of capital tie-up. Clearly defined budgetary targets determine the level of capital expenditure; actual requirements are derived from the medium-term planning of unit sales and the resulting requirements in terms of capacity and technologies. Those responsible hold annual budget meetings with the DEUTZ Group's financial planning function at which they agree and stipulate the levels and outcomes of planned capital expenditures and individual projects. 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 liquidity-based performance indicator we use 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

Economies grow more strongly than anticipated The unexpectedly sharp upturn and the pace of global economic recovery in 2010 took everyone by surprise, above all the economic experts who had forecast weak growth at best twelve months earlier.

Deutsche Bank is estimating growth of 4.8 per cent[1] for the global economy in 2010. Growth of approximately 2.9 per cent was generated by the G7 group of leading industrialised nations. The growth drivers were the emerging markets, in particular the BRIC countries of Brazil, Russia, India and China. With growth of 10.0 per cent, China's economy is already threatening to overheat which is why the Chinese government has taken action accordingly.

In contrast, the US economy expanded by only 2.9 per cent in 2010, which means that it grew at less than its long-term average rate of 3.3 per cent since 1947[2]. The reason for this was unusually low levels of personal consumption in the USA in 2010, as a result of which consumer spending was just 1.7 per cent up on 2009.

In Asia (excluding Japan), gross domestic product rose by 9.4 per cent in 2010, with China recording 10 per cent growth and India roughly 9.8 per cent. In the fourth quarter of 2010, the Japanese economy slipped into a slight recession that is likely to carry over into 2011. Overall, however, the Japanese economy expanded by 4.2 per cent.

Economic output in the euro zone increased by 1.7 per cent year on year. Germany was the biggest source of growth at 3.6 per cent. Initially driven by exports in particular, the upturn in Germany became more broad-based over the course of 2010.

Diesel engine market on course for worldwide recovery The market for diesel engines also benefited from the rallying of the global economy, as shown by data from the international market research institute Power Systems Research[3]: Unit sales of engines in DEUTZ's target market[4] rose by a significant 11 per cent compared to 2009, although this figure is still below the pre-crisis level. Whereas Europe and the USA recorded moderate growth of more than 6 per cent each, the Asian market for compact diesel engines boomed with an increase of 27 per cent. The application segments did not benefit equally from the economic upturn either. The higher global demand for construction equipment contributed to the Mobile Machinery application segment's growth of 8 per cent,

[1] Source: Deutsche Bank AG, Economic Research Bureau, Frankfurt; forecasts as at 20 January 2011
[2] Sources: Trading Economics, New York
[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

with the US and European regions growing at an above-average rate of 11 per cent and 9 per cent respectively. Having been hit particularly hard worldwide by the crisis (a year-on-year slump of 42 per cent in 2009), the Automotive application segment expanded by 52 per cent in 2010, although it did not reach its pre-crisis level. However, there was also an encouraging trend in the Agricultural Machinery application segment with its late-cyclical business: data from Power Systems Research shows that this fairly stable segment increased by 2 per cent worldwide, having declined far less sharply than the other application segments in 2009 (year-on-year decrease of 16 per cent compared to 2008).

Disproportionately high gains for DEUTZ's customer industries Over the course of 2010, our main customer industries saw a sharp and sustained rise in demand. EU-wide production of heavy trucks with a permissible gross weight of more than 3.5 tonnes increased by 36 per cent[1] within the first nine months of the year. The engineering sector, which is our most important customer industry, also made a strong recovery from its low 2009 level, with revenue rising by 17 per cent[2] worldwide. This increase was spread evenly across the different regions, although China stood out by a long way with revenue growth of 30 per cent[2]. Revenue in the USA rose by 8 per cent[2], while western Europe and Germany each recorded revenue growth of 6 per cent[2]. Buoyed by high foreign demand, the German construction equipment segment posted above-average revenue growth of 18 per cent and raised its new orders by 57 per cent. Even the fairly stable agricultural machinery sector, with its late-cyclical business, achieved a rise in revenue of 3 per cent worldwide.

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS PERFORMANCE

DEUTZ engines again in great demand worldwide Europe (including Germany) remained our most important market in 2010. We sold 131,221 engines in this region, which equates to some 78 per cent of our unit sales worldwide and an increase of 41 per cent compared to 2009. This rise was a result of the general economic recovery and the positive trend in our customer industries. Optimism in the industry meant that companies replenished their inventories and implemented capital expenditures that they had put on hold during the months of crisis.

The US economy also continued to bounce back. Despite rather moderate growth figures, demand for DEUTZ engines boomed in this market with unit sales of 21,002 – a gain of more than 74 per cent compared to 2009. This was primarily due to the recovery in the construction sector and the accompanying growth in demand for construction equipment and mobile machinery. As a result, we sold twice as many engines for this application segment as in 2009 and performed significantly better than the industry in general.

In Asia, the economy continued to expand at consistently high, sometimes double-digit, growth rates. This benefited both our DDE joint venture in Dalian, China, which sold approximately 116,000 engines in 2010 (2009: 99,500 engines) and DEUTZ itself, which generated revenue growth of around 7 per cent.

A look at the application segments for our engines shows that unit sales in the Mobile Machinery segment were particularly encouraging. This segment tends to respond quickly to economic fluctuations, which meant that it reflected the upturn in the economy during 2010. Last year, we sold 72,178 engines for use in mobile machinery – almost double the unit sales figure for 2009.

Revenue above the industry trend The revenue earned by the DEUTZ Group in 2010 amounted to €1,189 million. This represents an increase of over a third compared to 2009, which is far more than would have been expected as a result of the economic recovery alone. It is especially encouraging that revenue rose from quarter to quarter throughout the year.

Demand for DEUTZ engines in all parts of the world was better than the overall trend in the industry. Our strongest individual market in terms of revenue was still Germany, where we benefited from the economic recovery and generated year-on-year revenue growth of 13 per cent. The region with the highest revenue in absolute terms was western Europe. However, the most significant growth rates were in the USA, where revenue rocketed by almost 67 per cent as a result of the recovery – above all in the construction sector.

Demand picked up across our customer industries worldwide. Construction equipment was in particularly high demand, and was one of the main reasons why DEUTZ almost doubled the revenue it earned from mobile-machinery engines to €370 million.

PROCUREMENT

Besides the procurement of forged and cast parts, pumps, exhaust aftertreatment parts and components such as turbochargers, DEUTZ AG's purchasing department at head office is responsible for supplier development and for improving the quality of suppliers. We attach great importance to establishing long-term business relationships with the right technology partners.

The strong and rapid recovery of the economy in 2010 also eliminated the overcapacity situations at many of our suppliers. Nevertheless, they were able to keep pace with the increase in demand. There were also no irregularities in the supply chain caused by the insolvency of individual suppliers.

[1] Source: European Automobile Manufacturers' Association (ACEA), Brussels
[2] Source: German Engineering Federation (VDMA), Frankfurt; VDMA forecast as at October 2010

Rising commodity prices The rallying of the global economy was accompanied by a surge in commodity prices. Whereas the prices for forged and cast parts, aluminium, nickel and copper had been very low during the economic crisis in 2008 and 2009, they rose sharply in 2010. For example, the price of cast-iron scrap increased by some 45 per cent from its 2009 level. Prices for non-ferrous metals, copper and nickel had begun to rise in early 2009 and this increase accelerated in 2010. Copper prices soared by up to 140 per cent. We had expected price increases of this magnitude and had factored them into our planning and price negotiations with customers and suppliers. This meant that they did not impact negatively on our budget.

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

Costs reduced We also significantly reduced the cost of materials as part of our successful MOVE cost-cutting programme. We achieved these cost savings by agreeing annual price reductions with our suppliers and, above all, by making technical improvements, for example by reducing the complexity of components and simplifying processes.

Improvements to supplier quality We work with our suppliers to constantly enhance the quality of the materials and parts that we buy in. PPM (parts per million – used as a key indicator of defective parts) is calculated continually using the Group-wide enterprise resource planning (ERP) system and communicated to suppliers via a web-based portal solution. We reduced PPM in 2010 by taking a number of steps.

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	Argentinien JV Buenos Aires
Assembly	●		●	● [1]	● [1]
Component production					
Crankcases	●		●	●	
Cylinder heads	●	●		●	
Crankshafts	●		●		
Camshafts	●			●	
Conrods and gearwheels		●			

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

Cologne plant Production capacities kept step with demand although the economy's rapid recovery posed many challenges for production in 2010. We were able to discontinue all short-time working in the first quarter. By the end of 2010, component production had reached full capacity utilisation – three shifts per working day. We met demand in bottleneck areas by arranging extra shifts (up to 20 production shifts per week) and expanding external support production. At the same time, we cope with spikes in demand by using synergies in the production network, which involves obtaining some components from our DDE joint venture in China.

The deployment of temporary staff and contract workers in all production units enables us to continue to flexibly adapt our personnel capacities to demand.

As a consequence of the small volume of orders on hand, capacity and inventories in the global supply chains were at a very low level and had to be expanded within a very short space of time. The processes, tools and mechanisms that we had developed with our suppliers in previous years helped us respond to the changed economic conditions very quickly and accommodate the massive increase in volume.

The plant in Cologne assembled a total of 150,681 engines in 2010 (2009: 98,747 engines), which was a year-on-year increase of roughly 53 per cent.

Ulm plant The plant in Ulm assembled a total of 17,221 engines in 2010 (2009: 12,095 engines), which represented a year-on-year increase in capacity utilisation of 42.4 per cent. Of this total, 14,472 were air-cooled engines and 2,749 were water-cooled engines with capacities of more than eight litres. We are supporting the continuous improvement process with intensive kaizen workshops in order to minimise waste in individual work processes, such as superfluous material handling and unnecessary transportation. To provide employees with clear training on the methods of the DEUTZ production system, we have created and successfully launched a "lean learning path" in Ulm.

Zafra plant (DEUTZ DITER) We manufacture cylinder heads, connecting rods and gearwheels at our plant in Zafra. Because this plant is highly competitive, it also delivers to external customers: it supplies BMW-Service and SAME with cylinder heads and MTU with gearwheels, for example. The workforce in Zafra had to be reduced substantially as a result of the economic crisis. An arrangement similar to the German system of short-time working was also introduced in Spain in order to retain highly skilled workers despite the sharp contraction in production volumes.

Due to the good capacity utilisation, we were able to discontinue the agreed short-time working in March and, starting in the summer, we began to take on contract workers again.

In 2010, DEUTZ DITER focused on using stringent financial control systems to ensure the long-term application of the cost-cutting measures that had been successfully initiated as part of the MOVE programme in 2009.

Another emphasis was the launch of "Lean Manufacturing" at the component plant. This intercompany quality campaign aims to secure the site's medium-term competitiveness on a par with the automotive industry by consistently and firmly focusing on four key performance indicators (KPIs): safety, quality, delivery reliability and costs. Our plant in Zafra is the DEUTZ Group's centre of excellence for the manufacturing of cylinder heads, connecting rods and gearwheels. Because cost containment starts as early as the development stage, the Zafra plant is working with the research department in Cologne on developing more cost-effective variants of these products for future engine series.

International joint ventures DEUTZ (Dalian) Engine Co., Ltd, which is based in Dalian, China, enjoyed its most successful year since the joint venture was set up in 2007. In 2010, revenue increased by almost a quarter year on year and unit sales reached approximately 116,000 engines (2009: 99,500). The operating profit (EBIT) generated by the joint venture comfortably exceeded forecasts. This impressive performance is likely to continue for some time because in 2010 we took the appropriate action to secure the joint venture's future by signing new technology transfer agreements with our joint venture partner FAW. As a result, DDE can now meet market requirements over the next decade with a comprehensive product portfolio of engines with capacities of between three and seven litres for use in commercial vehicles and industrial applications. This means that we will be able to take greater advantage of the growth in the Asian market.

In Weifang, where DEUTZ runs its Weifang Weichai-Deutz Diesel Engine Co., Ltd. joint venture in collaboration with Weichai Power, more than 38,000 engines were manufactured in 2010 (2009: 22,253 engines) for agricultural machinery, gensets, construction equipment, automotives and marine equipment. Some 4,700 of these engines were produced for export, mainly for genset applications. This joint venture is now achieving consistently good results.

During the reporting year, the Argentinian joint venture DEUTZ AGCO MOTORES S.A. (DAMSA) produced more than 2,700 engines for the local market, primarily for agricultural machinery and bus applications, having produced only 1,700 engines in 2009.

Quality: an ongoing challenge The high quality of DEUTZ engines is one of the key factors in the Group's success. This was underpinned when its products were successfully re-certified to ISO 9001:2008 in the first quarter of 2010. In order to maintain this standard and ensure that it meets the growing future demands of the international market and the more stringent emissions standards required by law, DEUTZ continued to work to expand its existing quality management system into a total quality management system[1] in 2010.

In doing so, we laid the foundations for a Six Sigma organisation. A number of training blocks were provided to train employees at all levels of the hierarchy – from divisional heads to administrative staff – in the Six Sigma methodology. The projects that have already begun are expected to generate improvements as early as 2011. Other projects are being added to the central project pool on an ongoing basis.

It also launched a Group-wide quality campaign with the aim of literally putting a face to DEUTZ's high quality expectations and emphasising the role of each individual employee.

The introduction of the “NEW quality report” throughout the Group and the resulting visibility into DEUTZ AG's KPIs show that the reorganisation of quality assurance to create a decentralised quality system with centralised management and monitoring by the centre of excellence has had the intended effect. As a result, DEUTZ has become even faster, more efficient and more customer-focused.

Number of notifiable workplace accidents The number of notifiable accidents per thousand employees[2], which is used as a measure of accidents in the workplace, rose from the record low achieved in 2009 (21 notifiable accidents per thousand employees) to 37 in 2010, mirroring the significant expansion of the engine production programme. This increase in the number of accidents is largely a matter of statistics: as short-time working ended, the amount of work increased – despite the reduction in the workforce – while the level of risk remained unchanged.

DEUTZ keeps a record of all workplace accidents and investigates them thoroughly, giving priority to improving safety for the organisation, technology and people.

[1] Total Quality Management (TQM): holistic quality management throughout all areas of a company

[2] Known as TMQ (Tausend-Mann-Quote) in German

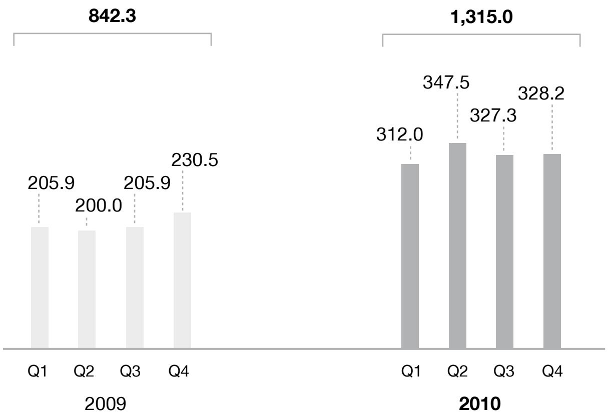
NEW ORDERS

DEUTZ Group: New orders
€ million

[1] Includes DEUTZ Power Systems

Packed order books There were plenty of orders on the DEUTZ Group's books in 2010, with the number of new orders up by 56.1 per cent on 2009. Moreover, the value of orders for 2010 exceeded annual revenue, which amounted to €1,189.1 million. This suggests that business will remain strong: after all, today's orders translate into tomorrow's revenues. The encouraging trend was confirmed in the fourth quarter, which was better than the third quarter.

DEUTZ Group: New orders by quarters[1]
€ million



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

The rise in new orders can primarily be attributed to the increased demand for engines for mobile machinery, which more than doubled year on year. There was a boom among all applications in the Mobile Machinery segment – whether construction equipment, ground support equipment or materials handling equipment. The recovery of the Agricultural Machinery segment, which had initially slightly lagged behind in terms of revenue, can be seen in the volume of new orders, which was up by more than a third on 2009.

Orders on hand secure jobs for the coming months Orders on hand amounted to €280.8 million as at 31 December 2010, which was more than 80 per cent higher than at 31 December 2009 (€154.7 million). Some orders will continue into the second quarter of 2011, thereby ensuring high capacity utilisation.

UNIT SALES

DEUTZ Group: Unit sales
units

[1] Includes DEUTZ Power Systems

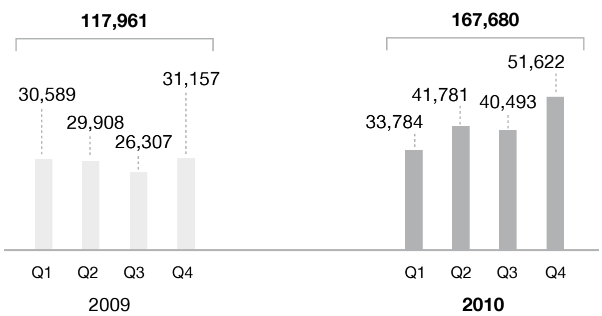
Unit sales of engines up 40 per cent The rise in unit sales was driven by engines for mobile machinery – our largest application segment. We sold 72,000 engines in this segment in 2010, which was twice as many as in 2009 (35,000 units).

Unit sales across all applications and regions amounted to 167,680 engines, a year-on-year increase of around 42 per cent (2009: 117,961). We sold the bulk of them in Europe (including Germany). As our major customer AGCO Fendt relocated its head office from Germany to Switzerland at the end of 2009, it is not possible to compare our 2010 data for the distribution of unit sales and revenue between Germany and the rest of Europe with the data for 2009. We have therefore aggregated this data into one item. Unit sales for Europe as a whole amounted to 131,221 engines, which was a year-on-year increase of more than 40 per cent (2009: 93,077 engines).

There was especially strong growth in demand from the Americas, where we profited above all from the recovery in the construction equipment sector: the number of engines sold rocketed by more than 74 per cent to 21,002 (2009: 12,044 engines).

Uninterrupted upward trend in the fourth quarter The positive trend seen throughout 2010 was reiterated in the last three months of the year – compared with both the third quarter of 2010 (up by 28 per cent) and the fourth quarter of 2009 (up by 65 per cent).

DEUTZ Group: Unit sales by quarters
units



RESULTS OF OPERATIONS

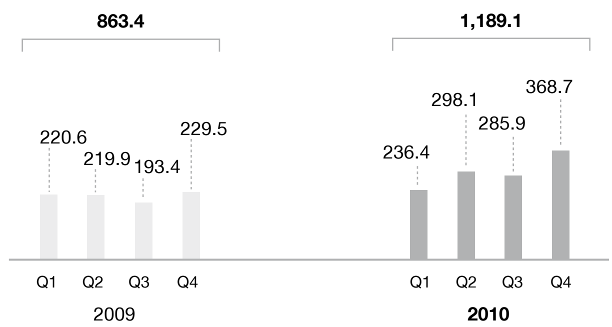
DEUTZ Group: Revenue
€ million

[1] Includes DEUTZ Power Systems

Revenue up by a third on 2009 Revenue for the DEUTZ Group rose by approximately 38 per cent to €1,189.1 million in 2010, a slightly lower growth rate than that of unit sales. The reason for this was a slight shift in the engine mix towards smaller engines – in particular as a result of demand in the USA.

Service revenue was especially encouraging at €215.8 million. This year-on-year increase of 23 per cent was in fact the highest figure ever achieved in relation to continuing operations. The fact that our highly profitable service business now accounts for 18.1 per cent of total revenue indicates that we are pursuing the right strategy with our measures to improve the efficiency of our service partners.

DEUTZ Group: Revenue by quarters
€ million



A comparison of the third and fourth quarters of 2010 shows the strength and sustainability of the recovery. Revenue for the fourth quarter increased by 29 per cent compared to the third quarter of 2010 and by more than 60 per cent compared to the fourth quarter of 2009 (Q4 2009: €229.5 million).

DEUTZ Group: Revenue by application segment
€ million (2009 figures)

369.6	(177.7)	Mobile machinery
215.8	(175.0)	Service
192.6	(169.7)	Automotive
185.0	(162.9)	Agricultural machinery
175.8	(153.0)	Stationary equipment
50.3	(25.1)	Miscellaneous
1,189.1	(863.4)	Total

The largest of our application segments, mobile machinery, was the most significant for the DEUTZ Group in terms of revenue growth. Revenue from engines in this segment doubled to roughly €370 million in 2010, primarily due to the boom in engines for construction equipment, where we recorded growth rates of over 122 per cent. This growth was not only generated by our key customer Volvo but also by the strong demand from all customers in all regions – but above all the USA. Engines for the stationary equipment segment, which are traditionally among our key revenue drivers, reported a rise in revenue of almost 15 per cent. This segment had seen a much smaller slump in revenue than the mobile Machinery segment in 2009, which means that it now has less pent-up demand. Having been down on 2009 during the first nine months of 2010, the agricultural machinery segment eventually picked up and revenue rose by 13.6 per cent year on year. To a certain extent, this was due to the advance production of engines that customers had ordered to avoid the new emissions standards for 2011.

DEUTZ Group: Revenue by regions
€ million (2009 figures)

983.9	(710.3)	Europe/Middle East/Africa
89.1	(83.5)	Asia-Pacific
116.1	(69.6)	Americas
1,189.1	(863.4)	Total

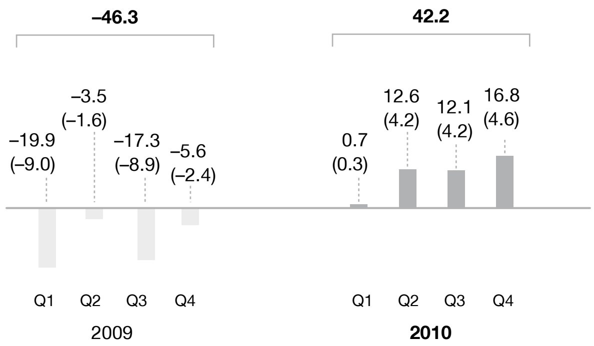
After Germany, the second-biggest source of revenue was the rest of western Europe at €630.6 million, which equates to more than half of our consolidated revenue. We generated especially strong revenue growth in the United States, where we primarily benefited from the buoyant construction sector, achieving revenue growth of around 67 per cent. Revenue in the EMEA (Europe, Middle East and Africa) region grew by 38.5 per cent. This geographical distribution is only limited in terms of the information it provides about the final destinations and exports of our engines because it does not indicate where our customers – most of which are export-oriented engineering companies – deliver their machinery containing our engines.

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.

Operating profit The benign business conditions were also reflected in our operating profit (EBIT before one-off items) of €42.2 million, which was far higher than we had forecast and a vast improvement on the operating loss of €46.3 million that we had incurred in 2009.The critical factor in this extremely positive trend was firstly the almost 38 per cent increase in revenue. Secondly, there was a continued effect from the programmes initiated in 2009 to improve DEUTZ's profitability and safeguard it for the future. The core elements of these action programmes are an appropriate pricing policy and a permanent reduction in fixed costs. Their success can also be seen in the staff costs ratio of approximately 20 per cent, which has returned to its 2008 level despite the fact that revenue is still down by around a fifth on 2008. The EBIT margin was also encouraging at plus 3.5 per cent, having been minus 5.4 per cent in 2009.

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.

After one-off items, DEUTZ's EBIT for 2010 came to €22.3 million (2009: loss of €89.2 million). The one-off items, which primarily consisted of consultancy costs, fees and other expenses related to the funding negotiations and the early repayment of the US private placement, amounted to €19.9 million (2009: €42.9 million).

Overview of the DEUTZ Group's results of operations

	2010	2009
€ million		
Revenue	**1,189.1**	**863.4**
Changes in inventories and other own work capitalised	46.4	–9.8
Total output	**1,235.5**	**853.6**
Other operating income	55.3	72.8
Cost of materials	–781.1	–567.9
Staff costs	–253.0	–265.3
Depreciation and amortisation	–63.3	–66.3
Impairment	–7.1	–14.1
Other operating expenses	–163.1	–99.3
Net investment income	–0.9	–2.7
EBIT	**22.3**	**–89.2**
One-off items	–19.9	–42.9
EBIT (before one-off items)	**42.2**	**–46.3**
Interest expenses, net	–26.2	–10.0
Other taxes	–1.4	–1.9
Income taxes	–10.6	–18.7
Net income on continuing operations	**–15.9**	**–119.8**
%		
EBIT margin	1.9	–10.3
EBIT margin (before one-off items)	3.5	–5.4
Cost of materials	63.2	66.5
Staff costs	20.5	31.1
Staff costs (before one-off items)	20.5	28.1

Cost of materials The cost-of-materials ratio fell by 3.3 percentage points to 63.2 per cent largely as a result of the cost-cutting programmes and a shift in the product mix towards engines that are less material-intensive. Increases in the price of foundry scrap steel, which is the most important raw material for DEUTZ, impact with a certain time lag and so had only a slightly adverse effect on the cost of materials in 2010.

Staff costs Although the volume of business increased and short-time working was discontinued, staff costs remained stable at €253.0 million in 2010. They had amounted to €265.3 million in 2009, when they had been adversely impacted by headcount reduction expenses of €25.4 million. However, staff costs as a proportion of total output declined. In the year under review, the staff costs ratio decreased by 10.6 percentage points to 20.5 per cent, or by 7.6 percentage points excluding the aforementioned one-off items.

Other operating expenses The rise in other operating expenses is largely a result of the growth in revenue and the associated higher variable costs, such as expenditure on services, freight and temporary staff as well as warranty costs, which are dependent on unit sales. There were also expenses related to the funding negotiations and the early repayment of the US private placement.

Interest expenses, net Two factors negatively impacted on net interest expense: on the one hand, the rise in interest charges arose from the funding negotiations for the US private placement and, on the other, the decline in interest and similar income resulted from the smaller volume of investments and lower level of interest earned on investments.

Income taxes Income taxes fell sharply to €10.6 million in 2010 (2009: €18.7 million). Although deferred tax liabilities rose due to higher temporary differences between the IFRS consolidated financial statements and the tax accounts in connection with the capitalisation of development expenditure, this rise was more than compensated for by the higher deferred tax assets recognised on future tax assets arising from loss and interest carryforwards.

Net income Despite its operating profit, DEUTZ still posted a net loss of €15.9 million on continuing operations – above all due to its net interest expense – although this was significantly smaller than the net loss of €119.8 million in 2009. In that year, there had also been a net loss on discontinued operations of €4.2 million resulting from a tax expense in connection with the discontinued DEUTZ Power Systems segment.

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group segments

	Continuing operations in 2010	Continuing operations in 2009
€ million		
New orders		
DEUTZ Compact Engines	990.7	632.4
DEUTZ Customised Solutions	324.3	209.9
Total	**1,315.0**	**842.3**
Unit sales (quantity)		
DEUTZ Compact Engines	150,179	102,420
DEUTZ Customised Solutions	17,501	15,541
Total	**167,680**	**117,961**
Revenue		
DEUTZ Compact Engines	919.0	636.0
DEUTZ Customised Solutions	270.1	227.4
Total	**1,189.1**	**863.4**
Operating profit (EBIT before one-off items)		
DEUTZ Compact Engines	17.3	–55.6
DEUTZ Customised Solutions	33.5	10.7
Miscellaneous	–8.6	–1.4
Total	**42.2**	**–46.3**

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

With revenue of €771.5 million, our most important market was Europe (including Germany), which accounted for over 84 per cent of DCE's total revenue. A large proportion of our customers are European engineering companies that export their finished machinery worldwide, which means that our distribution of revenue provides little information about the final destinations of our engines. We recorded revenue growth of more than 84 per cent in the Americas (2010: €78.3 million; 2009: €42.5 million), with the construction equipment sector making the most significant contribution. Revenue from the Asia-Pacific region jumped by roughly 45 per cent (2010: €46.6 million; 2009: €32.2 million).

High demand for mobile machinery The market for compact diesel engines profited from the global economic recovery, and demand for DEUTZ's compact engines surged in 2010. The segment received orders worth a total of €990.7 million – a year-on-year increase of almost 57 per cent (2009: €632.4 million). Traditionally our strongest application segment, mobile machinery saw a boom in demand during 2010 and generated new orders totalling €354.9 million, which was more than twice as high as in 2009 (up 117 per cent).The agricultural machinery segment with its late-cyclical business – which still lagged far behind its 2009 level in the third quarter of 2010 – also did very well over the year as a whole and received orders with a total value of €189.7 million, an increase of 34.5 per cent.

Unit sales of mobile machinery doubled In 2010, we sold 150,179 compact engines, which was almost 47 per cent more than in the previous year (2009: 102,420). This success was driven by the mobile machinery segment, which saw unit sales more than double to 67,765 engines and account for almost half of DCE's total unit sales for 2010. Sales of engines in our second-strongest application segment, stationary equipment, rose by almost 17 per cent year on year to 32,144 units. Although unit sales in the late-cyclical agricultural machinery segment in the first nine months were lower than they had been a year earlier, unit sales for 2010 as a whole were up by 14.4 per cent on 2009 with 28,527 engines sold. Current orders continue to give us cause for optimism: new orders in the DEUTZ Compact Engines segment amounted to €990.7 million, which was higher than the revenue earned of €919.0 million. This means that the positive trend is set to continue.

DEUTZ Compact Engines: Revenue by application segment
€ million (2009 figures)

■	**315.2**	(148.1)	Mobile machinery
■	**180.3**	(155.5)	Agricultural machinery
■	**157.4**	(138.0)	Automotive
■	**120.2**	(106.2)	Stationary equipment
■	**114.7**	(87.5)	Service
■	**31.2**	(0.7)	Miscellaneous
	919.0	(636.0)	Total

Most revenue generated in Europe Revenue for DEUTZ Compact Engines grew by 44.5 per cent year on year and amounted to €919.0 million in 2010 (2009: €636.0 million), of which €728.8 million or 79.3 per cent was earned in western Europe including Germany.The rise in revenue was driven above all by engines for mobile machinery, revenue from which more than doubled. The agricultural machinery segment with its late-cyclical business also recovered with revenue gains of around 16 per cent, which translated into a higher volume of new orders from mid-2010.

Operating result improved The upturn in demand had a positive impact on the operating result for the segment: DEUTZ Compact Engines generated an operating profit (EBIT before one-off items) of €17.3 million in 2010 (2009: operating loss of €55.6 million). The good progress of our Chinese joint venture DEUTZ (Dalian) Engine Co. Ltd. supported this trend: although DCE's EBIT was still depressed by a loss – including DEUTZ's internal project costs – of €4.3 million (2009: loss of €8.1 million), the joint venture itself reported an operating profit (EBIT before one-off items) of €1.25 million.

Q4 2010 better than Q4 2009 With new orders totalling €237.4 million, demand for compact engines in the fourth quarter of 2010 was approximately 8 per cent lower than in the third quarter of 2010. This is in line with the traditional seasonal fluctuations at DEUTZ, which results in lower revenue levels in the first quarter of the subsequent year. In contrast, the volume of new orders was significantly higher than in the fourth quarter of 2009, gaining more than 38 per cent. DEUTZ Compact Engines generated unit sales of 46,178 engines in the fourth quarter of 2010 – up by 70 per cent on the fourth quarter of 2009 and by approximately 28 per cent on the third quarter of 2010. Segment revenue was 70 per cent higher than in the fourth quarter of 2009 (€289.9 million) and 33 per cent higher than in the third quarter of 2010.

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

Value of new orders much higher than revenue In 2010, DEUTZ Customised Solutions received new orders worth €324.3 million, approximately 54 per cent more than in the previous year (2009: €209.9 million). Broken down by application segment, demand for engines for automotive applications was extremely encouraging, with the volume of new orders almost doubling year on year. Orders for engines used in stationary equipment rose by almost 77 per cent, for mobile machinery by just under 71 per cent. There was an increase of around 20 per cent in orders for the high-margin service business. The volume of orders in 2010 was far above the revenue achieved of €270.1 million, which is a promising sign for continued revenue growth in 2011.

Engine sales up by almost 13 per cent Unit sales in DEUTZ Customised Solutions responded more slowly to the global economic recovery due to the project-related business in large engines. Having recorded a decline in unit sales in the first quarter of 2010, the segment turned the corner in the second quarter. We sold 17,501 DCS units in 2010 as a whole, representing year-on-year growth of 12.6 per cent (2009: 15,541). Unit sales of large engines increased by more than 58 per cent in both the automotive and mobile machinery applications. We raised unit sales by 88 per cent in the German market.

DEUTZ Customised Solutions: Revenue by application segment
€ million (2009 figures)

■	**101.1**	(87.5)	Service
■	**55.6**	(46.8)	Stationary equipment
■	**54.4**	(29.6)	Mobile machinery
■	**35.2**	(31.7)	Automotive
■	**19.1**	(24.4)	Miscellaneous
■	**4.7**	(7.4)	Agricultural machinery
	270.1	(227.4)	Total

Almost 20 per cent revenue growth We generated revenue of €270.1 million in the DEUTZ Customised Solutions segment in 2010, almost 19 per cent more than in the previous year (2009: €227.4 million). The segment boosted revenues in almost all regions worldwide, for example a rise of almost 40 per cent in the Americas and just under 38 per cent in Germany. Only the Asia-Pacific region earned less revenue than in 2009, recording a decline of 17 per cent.

Whereas engines for mobile machinery, which are a very important source of revenue, achieved a year-on-year revenue increase of almost 84 per cent, revenue from air-cooled engines for use in agricultural machinery continued to slide and now accounts for less than 2 per cent of revenue.

Significant gains in the fourth quarter With a volume of orders worth €90.8 million in the fourth quarter,demand was up by 32 per cent compared to the third quarter of 2010 and by more than 53 per cent compared to the fourth quarter of 2009. Unit sales were also encouraging in the fourth quarter of 2010, during which we sold 5,444 engines – a rise of some 20 per cent compared to the third quarter and an increase of 36 per cent year on year. Revenue for October to December 2010 amounted to €78.8 million, which was almost 16 per cent more than in the third quarter of 2010 and almost 23 per cent higher than in the fourth quarter of 2009.

Boost for operating profit The economic recovery and the long-term measures to improve profitability had a very positive impact on operating profit in the DEUTZ Customised Solutions segment. In 2010, operating profit for the segment (EBIT before one-off items) came to €33.5 million, contrasting with just €10.7 million in 2009.

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the DEUTZ Group's financial position

€ million	**2010**	2009
Cash flow from operating activities	78.2	117.4
Cash flow from investing activities (continuing operations)	–96.3	–90.8
Cash flow from investing activities (discontinued operations)	–3.3	–1.3
Cash flow from financing activities	–125.6	–18.2
Change in cash and cash equivalents	–147.0	7.1
Free cash flow (continuing operations)	–55.9	12.6
Cash and cash equivalents at 31 December	67.9	214.7
Current and non-current interest-bearing financial liabilities at 31 December	141.5	211.8
Net financial position at 31 December	–73.6	2.9

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

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

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

FUNDING

US private placement replaced by syndicated bank loan Under an agreement signed on 11 March 2010, we reached a settlement with US creditors on the renegotiation of the funding facility provided by the US private placement of US$ 274 million. In particular, fundamental agreement was reached on a term sheet stipulating the interest rates payable, the terms to maturity, the financial covenants to be complied with in future as well as other terms and conditions (working capital facility and provision of collateral). We had funding commitments for the medium-term working capital facility from the banks involved.

We were able to replace the existing funding from the US private placement with a secured syndicated bank loan at the end of 2010. The syndicate comprises nine German banks and, besides a guarantee facility and sufficient lines for derivatives transactions with which we can hedge interest-rate risk, currency risk and commodities risk, it is providing us with a working capital facility of €265 million – thereby securing the financial basis for our planned growth, including in the medium term. The floating-rate lines will expire on 31 December 2014, although the cash line will be reduced in six instalments from 30 September 2012 in accordance with our medium-term liquidity planning. The loan is available to us in the form of a revolving facility, which enables us to draw it down flexibly to suit the Company's requirements. DEUTZ can elect whether to utilise the cash line as a bilateral overdraft facility (up to €60 million) or to draw down amounts under the syndicated line with interest periods of three to twelve months.

As part of these contractual agreements, DEUTZ is obliged to comply with certain financial covenants. The financial covenants, which are measured quarterly, are based on the ratio of financial liabilities to equity, financial liabilities to EBITDA (before certain one-off items) and EBITDA (before certain one-off items) to net interest cost. The covenant ratios to be complied with vary over time and are based on our medium-term planning for the years 2011–2015 allowing sufficient leeway. In addition, the credit agreement further covenants of a diverse nature.

As part of the overall restructuring of funding, it was also agreed with the former noteholders that they would receive €14.9 million, on which interest would be paid at an average rate of 8.39 per cent, by no later than 31 March 2015.

Receivables management optimised by means of factoring The sale of receivables is an important way of optimising receivables management, which is why it is becoming increasingly significant at DEUTZ. Because the credit quality of our customer receivables is excellent, factoring is also a cost-effective way of improving working capital. This is particularly relevant during the current phase of economic growth, in which considerable cash resources are required between the preliminary financing of production and receipt of payment from the customer. That – plus the higher underlying volume of receivables – meant that the total amount of receivables sold rose from €79 million as at the end of 2009 to €139 million as at the end of 2010.

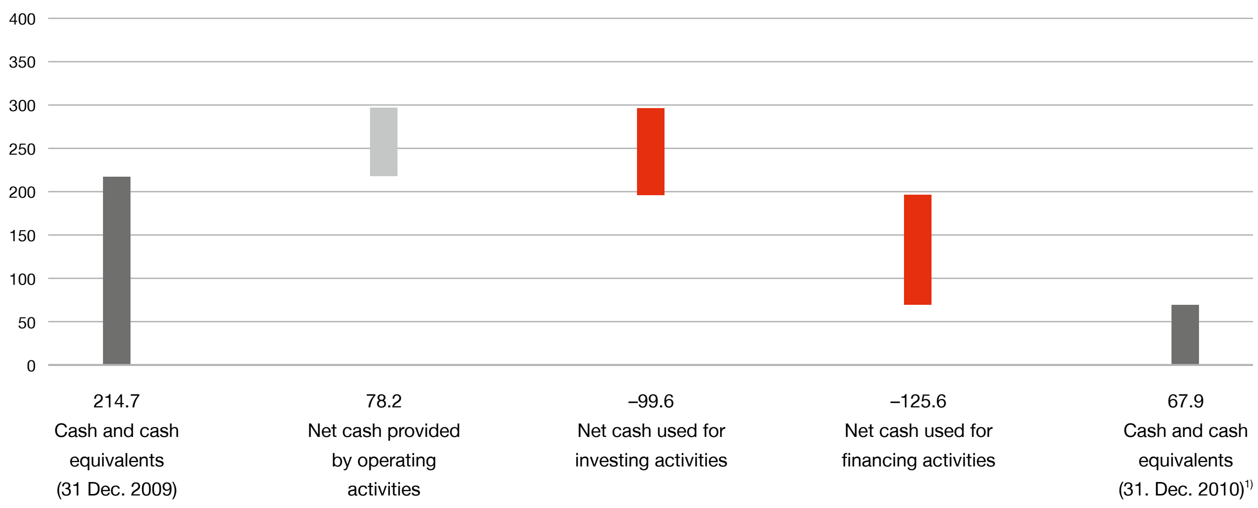
FREE CASH FLOW STILL NEGATIVE In 2010

Net cash provided by operating activities amounted to €78.2 million in 2010 (2009: €117.4 million). Due to the strong growth in revenue, it was not possible to generate net cash by improving working capital as it had been in 2009, although the ratio of working capital to revenue actually declined. As a result, cash flow from operating activities was below the 2009 figure.

Because our capital expenditure remained high, net cash used for investing activities in continuing operations came to €96.4 million in 2010, which was almost unchanged on the previous year (2009: €95.8 million).

The net cash of €125.6 million (2009: €18.2 million) used for financing activities reflects the repayment of the US private placement and the only partial utilisation of the new credit lines, which can be drawn down flexibly.

DEUTZ Group: Change in cash and cash equivalents
€ million

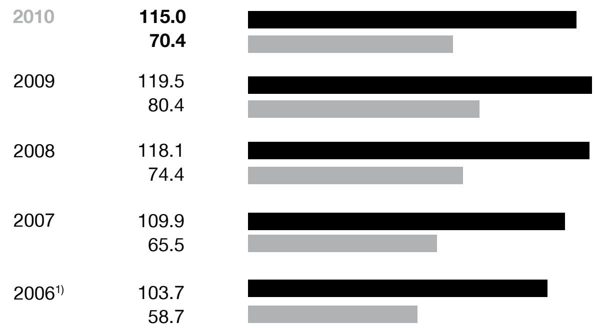


1) incl. exchange-rate-related changes of €0.2 million

CAPITAL EXPENDITURE ON NEW ENGINES AND EXHAUST AFTERTREATMENT

In 2010, capital expenditure amounted to a total of €134.6 million, compared with €119.5 million in 2009. Capital expenditure was concentrated on the development of new and existing engines to meet current and future exhaust emissions standards. €73.5 million of capital expenditure was accounted for by capitalised development expenditure in the year under review (2009: €66.6 million). As in 2009, most of this expenditure was spent on the forthcoming Tier 4 Interim emissions standard for industrial and agricultural applications and on the development of our two completely new engines with capacities of 2.9 and 3.6 litres. An amount of €33.0 million (2009: €43.5 million) was invested in property, plant and equipment, including production facilities and tools for the development of new and existing products. Further expenditure went on the start-up of Bosch Emission Systems GmbH & Co. KG, our joint venture with Robert Bosch GmbH and Eberspächer GmbH & Co. KG in the area of diesel exhaust aftertreatment. As at the balance sheet date, €6.7 million of the planned total capital expenditure of almost €19.3 million had been spent.

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



■ Capital expenditure
■ Depreciation/amortisation

[1)] Includes DEUTZ Power Systems

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

The bulk of the total capital expenditure was invested in the DEUTZ Compact Engines segment (2010: €110.2 million; 2009: €110.3 million). Capital expenditure on DEUTZ Customised Solutions was €5.1 million (2009: €9.2 million). Capital spending in both segments focused mainly on development.

NET ASSETS

Overview of the DEUTZ Group's assets

	31/12/2010	31/12/2009
€ million		
Non-current assets	607.9	561.8
Current assets	433.3	508.8
Assets classified as held for sale	0.5	0.5
Total assets	**1,041.7**	**1,071.1**
Equity	374.3	379.2
Non-current liabilities	330.4	410.5
Current liabilities	337.0	281.4
Total equity and liabilities	**1,041.7**	**1,071.1**
Working capital	112.5	98.3
Working capital ratio at the balance sheet date (%)	9.5	11.4
Average working capital ratio (%)	12.9	20.6
Equity ratio (%)	35.9	35.4

Working capital: inventories plus trade receivables minus trade payables

Equity ratio:ratio of equity to total equity and liabilities

Total assets as at 31 December 2010 amounted to €1,041.7 million, which was a reduction of €29.4 million compared with their volume at the end of 2009 (31 December 2009: €1,071.1 million).

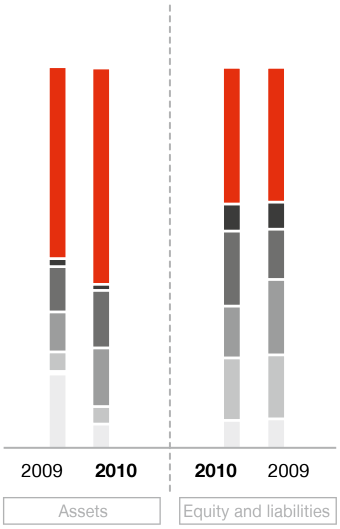
Non-current assets Non-current assets increased by €46.1 million to €607.9 million (31 December 2009: €561.8 million). The main reasons for this rise were capitalised development expenditure and the start-up in April 2010 of Bosch Emission Systems GmbH & Co. KG, our joint venture with Robert Bosch GmbH and Eberspächer GmbH & Co. KG in the area of diesel exhaust aftertreatment.

Deferred tax assets decreased largely because the addition of further deferred tax liabilities as a result of the capitalisation of development expenditure and the accompanying temporary differences between the tax accounts and the IFRS consolidated financial statements was higher than the additional deferred tax assets recognised on tax assets for which sufficient taxable profit will be available in future.

DEUTZ Group: Balance sheet structure
in % (2009 figures)

Assets

56.8	(50.4)	Non-current assets
1.6	(2.1)	Deferred taxes
15.1	(11.9)	Inventories
15.4	(10.5)	Trade receivables
4.6	(5.1)	Other receivables and assets
6.5	(20.0)	Cash and cash equivalents



Equity and liabilities

35.9	(35.4)	Equity
7.1	(7.1)	Other liabilities
19.7	(13.2)	Trade payables
13.6	(19.8)	Financial liabilities
16.4	(16.8)	Pension provisions
7.3	(7.7)	Other provisions

Current assets Current assets decreased by €75.5 million to €433.3 million (31 December 2009: €508.8 million) due to the sharp decline in cash and cash equivalents. The refinancing of our credit lines means that it is no longer necessary to utilise the full loan amount at all times and invest any funds that are not required in the money markets. Instead, we can draw down the amount of funds that we need, thereby enabling us to reduce our investments in the money markets.

Working capital Working capital (inventories plus trade receivables minus trade payables) had only risen by approximately 14.4 per cent to €112.6 million as at 31 December 2010 (31 December 2009: €98.3 million), even though revenue for the year under review was 37.7 per cent higher than in 2009. By stringently managing working capital, we succeeded in further reducing the ratio of working capital to revenue during this critical phase of economic growth without significantly hampering our delivery performance. The ratio as at the balance sheet date[1] improved from 11.4 per cent to an excellent 9.5 per cent on 31 December 2010, while the average working capital ratio (ratio of average working capital over four quarters to the revenue for the previous twelve months) improved by 7.7 percentage points to 12.9 per cent.

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

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

High equity ratio As at the balance sheet date, equity had decreased only slightly by €4.9 million to €374.3 million (31 December 2009: €379.2 million). The main reason for this reduction was the net loss reported for the year, some of which was offset by the positive effects of translating foreign financial statements into the currency of the DEUTZ Group. These effects are recognised in other comprehensive income. The equity ratio remained high at 35.9 per cent (31 December 2009: 35.4 per cent).

Current and non-current liabilities Non-current liabilities amounted to €330.4 million as at 31 December 2010 (31 December 2009: €410.5 million). We significantly reduced our non-current financial liabilities by repaying the US private placement and taking out a syndicated loan. We can use the working capital line of credit as a revolving facility, which provides us with a long-term, more cost-effective and more flexible source of funding. Current liabilities as at 31 December 2010 had grown by €55.6 million to €337.0 million (31 December 2009: €281.4 million). The main factor here was the rise in trade payables resulting from the increased business volume. As far as the other current and non-current provisions were concerned, provisions relating to personnel restructuring declined while provisions for warranty obligations increased.

OVERALL ASSESSMENT OF 2010

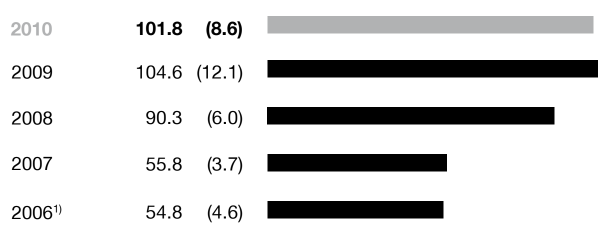
Following the crisis in 2009, we turned the corner in 2010 and recovered at a much stronger and faster rate than expected. Revenue and unit sales were up by approximately 40 per cent on 2009, although they have not yet returned to their pre-crisis levels. Due to the one-off expense of restructuring our funding, the accompanying increase in interest expense and similar charges as well as deferred tax liabilities, we still have to report a net loss for the year. Thanks to the lasting improvements to our cost structure, we nevertheless achieved an operating profit (EBIT before one-off items) that was almost twice as high as in 2008, when the first signs of the crisis had appeared. With a stronger financial base, a sound funding structure and a product portfolio that offers customers cutting-edge technology of the highest quality, DEUTZ is again “one step ahead”.

EVENTS AFTER THE REPORTING PERIOD

No events occurred after the balance sheet date that had a material impact on the financial position or financial performance of the DEUTZ Group.

RESEARCH AND DEVELOPMENT

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



[1] Includes DEUTZ Power Systems

RESEARCH AND DEVELOPMENT EXPENDITURE

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. In order to maintain our market position as a technology leader, research and development will remain the focus of our capital spending.

Expenditure on research and development in 2010 amounted to €101.8 million (2009: €104.6 million). €90.8 million of this sum was invested in the DEUTZ Compact Engines segment (2009: €93.1 million). Research and development expenditure therefore remained high in the year under review mainly because of the preparatory work needed to meet the next exhaust emissions standards. The R&D ratio – the ratio of R&D expenditure to consolidated revenue – fell in the year under review to 8.6 per cent due to revenue growth (2009: 12.1 per cent).

In 2010, some 87 per cent (2009: 84 per cent) of all R&D expenditure was accounted for by new engine development and engine refinement, 9 per cent (2009: 12 per cent) by customer applications and support for engine series production, and the remaining 4 per cent (2009: 4 per cent) by research and preliminary development.

Development of engines of less than four litres cubic capacity The policy decision to develop two new engine series of less than four litres cubic capacity represented an important step, which is reflected by the great interest expressed by our existing and potential customers.

The TCD 2.9 engine, first shown publicly at BAUMA 2010, was awarded the title of “Engine of the Year” because of its compact size and impressive power density. In response to customer requests, its external or “package” dimensions were deliberately designed to be even smaller than those of our “smaller” TCD 2009 engine, its predecessor with a cubic capacity of only 2.3 litres, and smaller than those of our competitors’ engines with comparable cubic capacities. As a result, the engine is particularly attractive for use in a wide variety of applications, both in industrial machinery and tractors. The 2.9 litre engine benefits from the latest DEUTZ combustion process, including common-rail injection and exhaust gas recirculation systems, and, even without an exhaust-gas aftertreatment process, it exhibits extremely low exhaust-gas emissions combined with very low fuel consumption figures. Taken together with DVERT®, DEUTZ’s modular exhaust gas aftertreatment system, tailored to the application for which the engine will subsequently be used, already complies with every known future emissions standard. The fundamental design of the engine architecture makes it inherently suitable for upgrading to hybrid technology and we are pursuing this research project in parallel with series development.

Development work on the TCD 3.6 engine is also on schedule for this engine series to go into series production at the end of 2011. Our customers have also shown huge interest in this engine for both agricultural and industrial applications. Like the TCD 2.9, every aspect of the 3.6 litre engine has been designed with small package dimensions in mind. The number of components and sealing points has been reduced by integrating numerous functions in the form of modules. This has considerably improved its ruggedness in practical application compared with a conventional design. Like the smaller engine, the TCD 3.6 benefits from the latest DEUTZ combustion process, including common-rail injection and exhaust gas recirculation. The 3.6 litre engine is similarly fitted with the appropriate DVERT® exhaust gas aftertreatment system.

New exhaust emissions standards As last year, the main focus of our development activity in 2010 lay in meeting the future Tier 4 Interim and Tier 4 Final emission standards. For one thing, in order to reduce untreated emissions, we carried out internal modifications to our engines by specifically fine-tuning the combustion process and by optimising the design of the gas exchange cycle and the exhaust gas recirculation system. For another, these measures were supplemented by external exhaust gas aftertreatment systems, optimised for different customers and various uses.

DVERT® (DEUTZ Variable Emissions Reduction Technology) is a modular exhaust gas aftertreatment system, consisting of technological elements providing solutions for the broadest range of applications. Our experience of various sub-modules goes back many years; we employ Selective Catalytic Reduction (SCR) systems to reduce nitrogen oxide emissions, and, as regards non-road applications, we are able to make use of our series production experience of commercial vehicle engines for the on-road sector. Special filter systems are required for the soot particles from diesel fuel combustion. We have many years of experience in this area too, particularly from our retrofitting business. We have already developed an electronically controlled burner system for on-road and non-road applications that 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.

Research for the future In addition to series development projects, we are carrying out research projects, some of them in collaboration with well-known universities, which will provide the stimulus for the future shape of our product range. In particular, we are concentrating on solutions for enhancing basic engine efficiency and for optimising the effectiveness of complete systems.

One suitable concept is the DEUTZ hybrid system, which is capable of significantly lowering the total cost of ownership of a machine over its service life. The system is a combination of a diesel engine including an electric motor and a traction battery. The electric motor is integrated into the flywheel housing and reinforces the torque of the combustion engine when needed. Whenever the machine is braked, the electric motor acts as a generator, converting the braking energy into electric energy and feeding it to the traction battery. Significant fuel savings can be achieved with this system. Prototype applications using wheel loaders and road rollers consumed up to 30 per cent less diesel than conventionally powered machines.

In addition to hybrid applications, our preliminary development work is also looking at combustion systems for alternative fuels, which will assume an increasingly important role in meeting future energy needs.

Process improvements Following the successful implementation of our product development process, we continue to constantly refine it. Now, with almost constant development resources, we are in a position to exercise control over the continuously growing complexity of future engine technologies. With the aid of virtual product creation techniques in particular, we have been able to frontload development work to a very early point in the overall development process. This has allowed us to reach a high degree of product maturity early on and to incorporate at an early stage important lessons learned from developments in closely-related sectors, a technique known as simultaneous engineering.

Protecting our intellectual property We use patents, patent applications and utility models to safeguard our expertise against unauthorised use by third parties. We submitted 28 new patent applications in 2010, ten of which were in Germany. As a result, we now hold a total of 201 patent applications, patents and utility models registered in Germany and 208 registered elsewhere.

EMPLOYEES

Overview of the DEUTZ Group's workforce

	31/12/2010	31/12/2009
Headcount		
DEUTZ Group	**3,839**	**4,012**
Thereof		
In Germany	3,126	3,267
Outside Germany	713	745
Thereof		
Non-salaried employees	2,289	2,365
Salaried employees	1,373	1,465
Trainees	177	182
Thereof		
DEUTZ Compact Engines	3,081	3,252
DEUTZ Customised Solutions	758	760

Fewer staff due to leaner administration The order books are full and production is running at full tilt. Whereas 1,283 employees had still been on short-time working at the end of 2009, this measure had been fully discontinued by the end of the reporting year. However, the number of employees declined again in 2010, decreasing by 173 people or 4.3 per cent compared with the number at the end of 2009. This reduction was predominantly a consequence of the restructuring that had been agreed in 2009 but did not take effect until 2010.

Furthermore, the Supervisory Board of DEUTZ AG decided to further reduce the number of people on the Board of Management from three to two in order to reflect the Company's leaner structures and processes. Gino Mario Biondi stepped down from the Board of Management on 15 July 2010.

Nevertheless, DEUTZ remains committed to its German production sites.Over 80 per cent of our employees work in Germany, most of them in Cologne. Headcount here amounted to 2,419 employees as at 31 December 2010. Since the Group's administrative functions are based in Cologne, the reduction in personnel of 6.2 per cent was somewhat higher than the average for the Group as a whole. It was a different story in Ulm, where we actually hired an additional 23 members of staff, bringing the total number to 429 as at 31 December 2010.

Of the 713 employees outside Germany, 439 of them work for our DEUTZ Diter subsidiary in Zafra, Spain.

In the year under review, an average of 189 persons were employed under temporary employment agreements, compared to 38 in 2009.

DEUTZ Group: breakdown of workforce by location

	31/12/2010	31/12/2009
Headcount		
Cologne	2,419	2,580
Ulm	429	406
Other	278	281
In Germany	**3,126**	**3,267**
Outside Germany	713	745
Total	**3,839**	**4,012**

As far as the segments were concerned,DEUTZ Compact Engines had 3,081 employees as at the balance sheet date, which was 5.3 per cent down on the number at the end of 2009 (3,252 employees), while the headcount of 758 employees at DEUTZ Customised Solutions remained at almost the same level as the previous year (31 December 2009: 760).

Number of employees in R&D remains constant The job losses affected all parts of the Company except for research and development (R&D). This unit is extremely important to us as a technology company driven by innovation and it determines how we perform in the long term. At the end of December 2010, 533 (31 December 2009: 532) R&D employees were busy laying our Company's technological foundations for the years to come.

Training for the future DEUTZ attaches great importance to providing training and apprenticeships for the employees of tomorrow. That is why we trained 175 young people, of whom 123 were based in Cologne, in seven different commercial, technical or trade vocations, for example in business administration, electronics or industrial technology. We took on nine young women as trainees in technical or trade vocations in, bringing the total proportion of female trainees and apprentices to 11 per cent. The trainee ratio was therefore 5.9 per cent (2009: 5.6 per cent). All trainees and apprentices who passed their examinations in 2010 were subsequently taken on by the relevant department for at least one year.

Working closely with IN VIA – an association under the auspices of the German Caritas organisation – and the German Federal Employment Agency, DEUTZ has assumed corporate social responsibility towards young persons with learning and social difficulties for more than 18 years now. To this end, it offers a ten-month career preparation course to 38 participants. Participants thoroughly prepare for a vocational apprenticeship by undergoing basic metalwork training at our training centre, combined with placements in a wide range of departments in the DEUTZ Group. The placement rate for an apprenticeship in industry or the trades was 97 per cent in 2010 (2009: 100 per cent).

We organise a variety of activities in order to interest young people in training or an apprenticeship at DEUTZ. In particular, we seize opportunities to showcase DEUTZ as an attractive employer at various training fairs. We also regularly give visitors the chance to experience DEUTZ first hand: for example as part of “Erlebniswelt Maschinenbau – Technik, die fasziniert”, an initiative to awaken enthusiasm for engineering as a career choice, and the lange Nacht der Technik event, during which the public can visit our engine museum and technology centre. Finally, on Girls' Day we show young women how exciting a technological career can be.

Enhanced image as an employer among university students
As in previous years, DEUTZ worked intensively on its university-related initiatives so that students see us as an attractive and innovative employer at an early stage. Our activities focus on our preferred universities in Cologne, Aachen and Bonn/Sieg-burg, where we talk to students at university fairs and awaken their interest in DEUTZ AG before they have even graduated. Students can get to know DEUTZ during work placements, and we also offer them the opportunity to write their dissertations in cooperation with us.

Identifying and retaining potential We are equipping ourselves for the technological challenges of the years to come and for demographic change by using structured personnel development processes and tools to identify, appraise and encourage employees with high potential.

We use staff appraisal interviews and potential-assessment committees to discuss individual employees' opportunities for development and to offer them targeted continuing professional development.

These activities help us retain highly skilled employees and managerial staff, which enables us to fill vacancies even at senior executive level from among the workforce.

New collective pay agreement implemented DEUTZ AG implemented the ERA collective pay agreement with effect from 1 December 2010 at its sites in Cologne and Herschbach (Rhineland-Palatinate).

ERA, the new collective pay agreement, has replaced the previous collective agreements on wage structures (LRA) and salary structures (GRA), which had been in force for over 30 years.

As a result of the implementation of ERA at the Cologne and Herschbach sites, some 2,300 employees with a total monthly pay volume of approximately €8 million moved over to the new collective pay agreement for the metalworking and electrical engineering industries in the German federal state of North Rhine-Westphalia. This means that previously salaried and non-salaried employees will be paid on the basis of a single pay agreement in future. The aims of ERA are twofold: to use a standard and uncomplicated appraisal system to determine basic pay and to apply the principle of equal pay for equal work.

ENVIRONMENT

ENVIRONMENTAL MANAGEMENT SYSTEM

Besides developing innovative products that meet the highest emissions and environmental standards and therefore play a key role in improving the environment, we have defined three important environmental objectives for our production and manufacturing operations:

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

As well as complying with legislation and other official requirements, we voluntarily undergo in-house environment audits in which our processes are evaluated.

As part of a monitoring contract with DNV (Det Norske Veritas), an external expert regularly carries out objective appraisals of the environmental management system implemented by DEUTZ:

In October 2010, DNV again found that the processes set up by DEUTZ to sustainably improve environmental protection comply with DIN EN ISO 14001, the international standard for management systems. In this context, the DNV auditors also looked at how DEUTZ fulfils its customers' requirements related to the environment, most of which are aimed at avoiding the use of components containing heavy metals in production.

All departments are involved in the internal audits in order to ensure their success.

Energy savings in the engine test shop Generator brakes enable electrical energy generated by running diesel engines in the test shop to be fed into the Company's own electricity supply. The research and development unit installed further generator brakes in 2010 and now uses 31 of them. As a result of acquiring these new generator brakes, the proportion of electrical energy reclaimed in 2010 was 13 per cent higher than in 2009.

Air pollution prevention in production Measurement of emissions in engine production repeatedly shows that pollution levels are continually falling as a consequence of using effective emissions control equipment. This positive impact is reinforced by the constant emissions optimisation of our products. In addition, continuous improvement of test shop processes has further reduced engine running times, thereby cutting emissions levels.

PROBLEM-FREE OPERATION IN ENGINE PRODUCTION PROMOTES OCCUPATIONAL SAFETY

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

Certified specialists regularly test plants that are potentially environmentally hazardous. This also has a financial benefit because testing and preventive measures reduce the probability of downtime as a result of hazardous situations to an acceptable minimum. The availability of machinery capacity is increasing.

RESULTS OF OPERATIONS FOR DEUTZ AG

Income statement for DEUTZ AG

	2010	2009
€ million		
Revenue	1,128.0	795.5
Loss from ordinary activities	**–32.0**	**–97.9**
Net extraordinary expense	–7.5	–25.8
Income taxes	4.7	–7.3
Other taxes	–0.6	–1.1
Net loss	**–35.4**	**–132.1**
Loss/profit carried forward	–105.3	26.8
Accumulated loss	**–140.7**	**–105.3**

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). DEUTZ AG generated revenue of €1,128.0 million in 2010 (2009: €795.5 million). The loss from ordinary activities came to €32.0 million (2009: loss of €97.9 million). Including the net extraordinary expense of €7.5 million (2009: net expense of €25.8 million), specifically in connection with the early repayment of the US private placement and as a result of the personnel restructuring, this produced a net loss for the year of €35.4 million (2009: net loss of €132.1 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 2010. As at 31 December 2010, the issued capital amounted to €308,978,241.98 and was divided into 120,861,783 no-par-value bearer shares.

Restrictions affecting voting rights or the transfer of shares In connection with the secured syndicated bank loan with which DEUTZ AG replaced the existing funding from the US private placement at the end of 2010, SAME DEUTZ-FAHR Holding & Finance B.V., Amsterdam, Netherlands, has undertaken – in the event that it sells, encumbers or otherwise disposes over the shares that it holds in DEUTZ AG, as a result of which it holds less than the minimum shareholding of 25 per cent of DEUTZ AG shares plus one vote – to obtain prior consent for the way in which the shares are sold and, where known, for the buyers of the shares. It has also undertaken not to sell its shares in DEUTZ AG to private equity funds or to their acquisition companies set up specifically for this purpose. Finally, if it sells, encumbers or otherwise disposes over the shares that it holds in DEUTZ AG, and such transactions do not result in the shareholding falling below the minimum or such transactions are not subject to the aforementioned requirement of consent, it has undertaken to disclose such transactions without delay once they have taken place. Consent is not required if the shareholding of SAME DEUTZ-FAHR Holding & Finance B.V. in DEUTZ AG decreases because of an increase in DEUTZ AG's capital.

Direct or indirect shareholdings representing more than 10 per cent of voting rights At the end of 2010, SAME DEUTZ-FAHR Holding & Finance B.V. held a direct shareholding in DEUTZ AG representing 25.11 per cent of voting rights (31 December 2009: 44.97 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
- Messrs Vittorio, Aldo and Francesco Carozza and Ms Luisella Carozza-Cassani.

Legal provisions and Statute provisions regarding the appointment and removal of members of the Board of Management and regarding changes to the Statutes
According to articles 7 (1) and 7 (2) of the Statutes of DEUTZ AG:
"(1) The Board of Management shall comprise at least two members.
(2) The Supervisory Board shall determine the number of members of the Board of Management and the allocation of responsibilities. It May draw up and issue rules of procedure."

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

According to article 14 of the Statutes of DEUTZ AG:
"The Supervisory Board May change the wording but not the spirit of the Statutes."

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

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

Pursuant to article 4 (2) 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 and/or non-cash contributions on one or more occasions by up to a total amount of €120,000,000. Capital increases against non-cash contributions May not exceed a total of €80,000,000.

FURTHER DISCLOSURES

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

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

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

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

In the event of a demand for repayment as a result of a change of control, the holders of bonds of US$ 16.2 million and €2.1 million also have the right to demand repayment of these bonds.

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

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

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

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

BASIC PRINCIPLES OF THE REMUNERATION SYSTEM

REMUNERATION OF THE BOARD OF MANAGEMENT

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

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

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

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

Further information on the remuneration paid to the Board of Management can be found on page 100 of the Notes to the consolidated financial statements.

REMUNERATION OF THE SUPERVISORY BOARD

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

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

Further information on the remuneration paid to the Supervisory Board can be found on page 101 of the Notes to the consolidated financial statements.

RISK REPORT

RISK MANAGEMENT SYSTEM

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

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

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

The benefits of such a system can hardly be overestimated: it raises the awareness of employees and strengthens their sense of responsibility with regard to potential or existing risks. It also helps everyone involved to identify, analyse and communicate risks in good time and to initiate effective corrective action.

The basic principles, monitoring standards, personnel responsibilities, functions and procedures in the risk management system have been defined by the Board of Management of DEUTZ AG and 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 2010. These risk inventories are carried out in all functions and areas of the Company and in the main affiliated companies to identify whether new risks have arisen compared with the Company's short-term and medium-term planning. At the same time, a review is carried out to establish whether and how action that has been agreed and implemented has successfully minimised the risks that have already been identified and whether there is still a need for further action. The Risk Management Committee assesses the risks and makes proposals to the Board of Management, which then decides on appropriate measures to prevent or minimise the risk. To enable the Company to respond promptly at all times to any possible risks arising, risk officers and their employees are under an obligation to 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. As in prior years, suggestions for improvements proposed by the internal audit department, the independent auditors or the Risk Management Committee were speedily implemented by DEUTZ.

RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS

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

We 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 Company's overarching risk management strategy as well as guidelines for certain areas, such as how to manage currency risk, interest-rate risk and credit risk and how to use derivative and non-derivative financial instruments. Derivative financial instruments are only used for hedging purposes, i.e. only in conjunction with corresponding hedged items from the company's ordinary business activities or financial transactions that have a countervailing risk profile to that of the hedging transaction. The nature and scope of the hedged items are specified in a binding financial directive.

Further information on financial risk management can be found in Note 28 from page 86 onwards.

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

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

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

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

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

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

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

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

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

FINANCIAL RISKS

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

Currency risk arising from operating activities Currency risk, which arises as a result of transactions denominated in foreign currency with third parties, 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 risk arising from funding arrangements The new funding in the form of a syndicated bank loan, which was arranged in December 2010, is based on a floating interest rate. We check at regular intervals whether using derivatives to hedge this interest-rate risk would be financially beneficial given forecasts about interest rates and the way in which the loan is expected to be utilised.

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

OPERATIONAL AND OTHER RISKS

Market risk The industry in which we work is characterised by particular sensitivity to cyclical influences that can negatively impact on the financial position and financial performance of the DEUTZ Group. The economic crisis from which we have now emerged served to remind us all of this fact. We operate in a very cyclical market in our main application segments – above all mobile machinery – and in our principal sales regions of Germany, western Europe and North America. Our objective is to reduce this cyclicality from a regional and application segment perspective. One of the ways in which we are doing so is by focusing on expanding our agricultural machinery application segment, as it follows a different economic cycle from the other application segments. From a regional perspective, we will increase the proportion of revenue accounted for by the fast-growing Asian market, where we took a crucial step in this regard by establishing the DEUTZ (Dalian) Engine Co., Ltd. joint venture in 2007.

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

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

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

Procurement risk Procurement risks resulting from bottlenecks in the market and unforeseen price increases cannot be fully ruled out. As a result of the economic crisis, our suppliers were also forced to cut capacity. This results in a risk that our suppliers will not be able to respond flexibly enough to the increase in demand, which 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 seek to mitigate these risks by carrying out intensive supplier management and ongoing, increasingly global monitoring of the market. This is supported by the implementation of local purchasing offices in China 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: firstly, 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 still 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 inhouse production or a shift to other suppliers.

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

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

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

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

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

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

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

IT risks Risks can arise, in 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.

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

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

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

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 approximately €35 million is pending. There are also six 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. The possibility of routine adjustments to the estimates and assumptions and any associated negative impact on our net assets, financial position and results of operations can therefore not be 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 Company faces tax risks if it fails to observe these laws and other regulations. In particular, tax audits and the findings from these audits can lead to additional expenses for the Group in the form of interest, penalties and retrospective tax payments. The Company recognises appropriate provisions when it becomes aware of such tax risks. The external tax audit started in 2009, covering the tax assessment periods 2006 to 2008, is not yet complete.

OUTLOOK

2011: GLOBAL ECONOMY REMAINS ON A GROWTH TRAJECTORY[1)]

The global economy is likely to continue to grow in nearly all regions of the world in 2011, albeit at a slightly more moderate rate than in 2010. Economic experts at Deutsche Bank are forecasting expansion of 4.0 per cent (2010: 4.8 per cent).

Growth of 2.3 per cent is expected for the G7 group of industrialised nations in 2011. The forecast for the US economy is 3.2 per cent, which is significantly higher than the 1.2 per cent anticipated for the euro zone. Germany will be the main engine of growth in Europe: Deutsche Bank expects the economy there to grow by 2 per cent, while the German government has in fact raised its latest estimates from 1.8 per cent to 2.3 per cent. Japan's GDP will continue to contract during the first quarter of 2011 and will increase by only 0.8 per cent over the year as a whole.

The emerging markets will drive the global economy. GDP will increase by 7.6 per cent in Asia (excluding Japan), with China and India seeing very similar levels of growth at 8.7 per cent and 8.2 per cent respectively. The growth engine in South America will continue to be Brazil at 4.5 per cent.

Although economic experts still believe there are threats to growth, the future is looking more and more optimistic and positive signs are increasingly emerging from the economy. US consumers are starting to spend more, while the manufacturing sector is steering a course of stable growth. The potential insolvency of euro-zone countries with high debt levels continues to pose a problem, and tensions remain in the financial markets. Decisive action from politicians is required here. Central banks in the emerging markets have begun to tighten their monetary policy in order to prevent the economy from overheating.

In Germany, exports remain the main driving force behind the recovery, which is now increasingly being supported by domestic demand as well. Interest rates remain low, providing favourable conditions for capital expenditure on equipment and construction, while rising employment and higher wages are boosting personal consumption.

Diesel engine market continues its strong recovery The forecasts of Power Systems Research (PSR), an international market research organisation, suggest that the global diesel engine market[2)] will continue to recover significantly,with demand for engines in the market segments relevant to DEUTZ anticipated to rise by more than 9 per cent in 2011. Stringent emissions standards in Europe and the USA, coupled with worldwide economic recovery, will generate strong growth in these markets, which are critical to DEUTZ: the 2011 growth forecast is 11 per cent for the European market and 10 per cent for the North American market.The Asian market, in which DEUTZ occupies a strong position, will continue its upward trend with growth of 7 per cent. Starting from a low level, the Automotive application segment will achieve the strongest growth of around 15 per cent, followed by Marine Equipment at 10 per cent and Mobile Machinery at over 9 per cent. The Stationary Equipment segment will also expand by a significant 9 per cent. With growth of more than 5 per cent forecast, the less volatile Agricultural Machinery segment, which holds out promising growth opportunities for DEUTZ, should continue to perform well. The positive trend across all regions and segments will extend into 2012; PSR is forecasting growth of approximately 17 per cent for 2012.

[1)] Sources: Deutsche Bank, Deutsche Bundesbank, Kiel Institute for World Economics (IfW), German Engineering Federation (VDMA)

[2)] Source: Power Systems Research (PSR), internal figures

MANAGING GROWTH AND SECURING SUPPLY

In 2011, our activities will focus above all on helping suppliers to adjust to the increase in demand as we step up our production programme. However, we do not anticipate any bottlenecks because we identified critical areas in terms of demand and secured additional suppliers in 2010.

NEW ORDERS, UNIT SALES, REVENUE

Although the continued recovery of the global economy is still threatened by a number of risks, our customers' demand for our engines is stable and very encouraging across all segments. We therefore expect unit sales of significantly more than 200,000 engines and year-on-year revenue growth of 25 per cent for 2011.

OPERATING PROFIT (EBIT)

The excellent growth in unit sales and revenue, combined with the cost savings that we have achieved, will continue to boost our profitability. Moreover, DEUTZ (Dalian) Engine Co. Ltd., our Chinese joint venture, will make a significant contribution to earnings for the first time.

Overall, therefore, we expect to generate an operating profit (EBIT before one-off items) in the high double-digit millions of at least €80 million.

WORKING CAPITAL RATIO, EQUITY RATIO

Despite the higher demands placed on working capital during an economic upturn, we still aim to sustain a working capital ratio of less than 13 per cent at the end of the financial year. We intend to permanently maintain our equity ratio above 30 per cent.

CAPITAL EXPENDITURE, FREE CASH FLOW

Capital spending will be slightly higher in 2011 than in 2010, with almost half of investment being made in connection with the development of new products. We will be investing to a similar extent in our joint venture with Bosch and Eberspächer – "Bosch Emission Systems GmbH & Co. KG" – in 2011. 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.

COMMODITIES, EXCHANGE RATES, COLLECTIVE PAY AGREEMENTS

Continued increase in commodity prices As in 2010, we expect commodity prices to rise further in 2011 because the global economy is continuing to grow rapidly, particularly in commodity-intensive sectors. We have factored this into our planning.

Moderate rise in collectively agreed pay The current collective pay agreement, which does not expire until 31 March 2012, provides for a rise in collectively agreed pay of 2.7 per cent with effect from 1 April 2011. This creates planning certainty as far as staff costs are concerned. The parties to the collective pay agreement are expected to hold initial exploratory talks about future pay adjustments and other collective bargaining issues in late 2011.

EMPLOYEES

Flexible headcount adjustment Where we take on new staff because of rising unit sales, we will conclude employment contracts with a flexible term so that we can quickly respond to future employment fluctuations. We will also introduce site-specific shift models in this context.

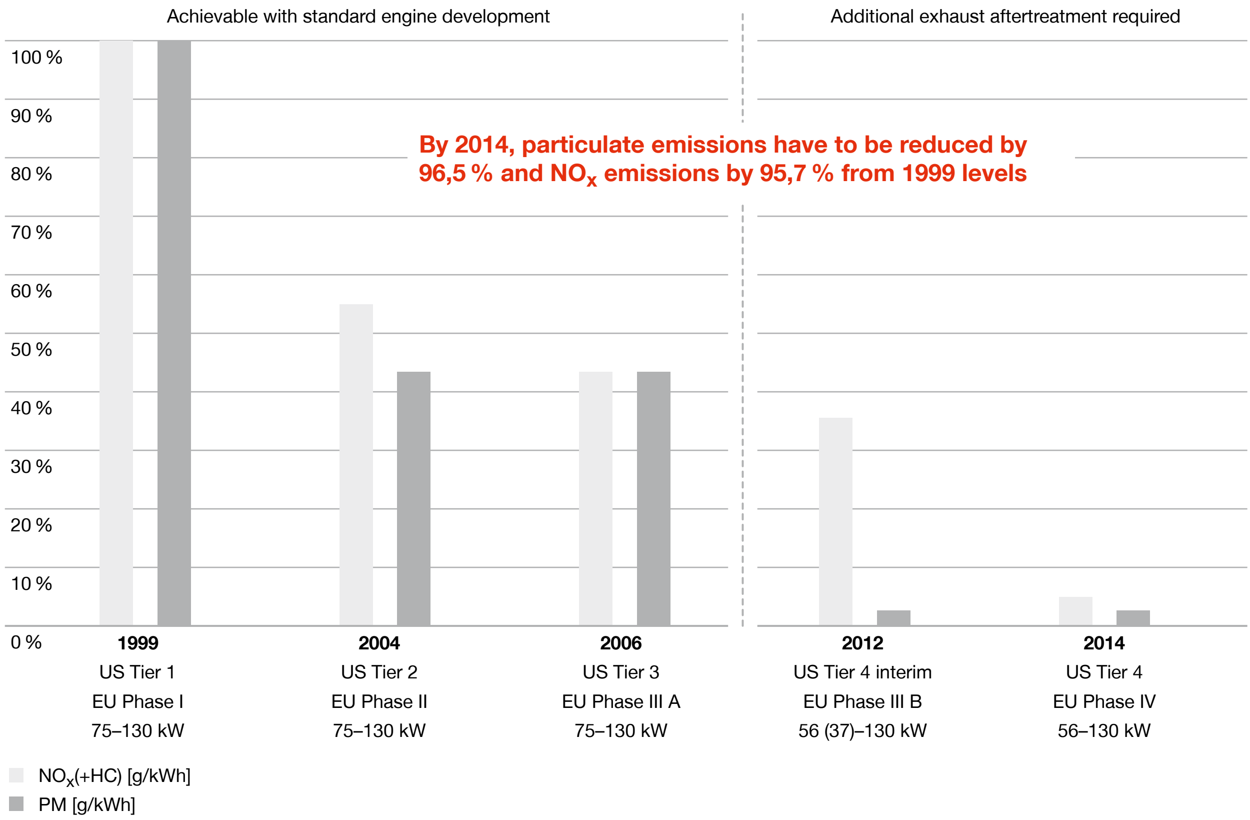
We will maintain a high level of staffing in research and development in order to launch new series of engines on the market as scheduled.

Collective agreement on preretirement part-time employment As in 2010, we will again use the "Collective agreement concerning the flexible transition into retirement" in 2011, which will give employees who meet the necessary requirements the opportunity – within the collectively agreed quotas – to retire early by switching to preretirement part-time employment.

STATUTORY REGULATIONS, EXHAUST EMISSIONS STANDARDS

On 1 January 2011 the exhaust emissions standard COM III B came into force in the European Union and the corresponding EPA Tier 4 Interim standard came into force in the USA. Both standards apply to diesel engines of between 130kW and 560kW used in non-road applications. Similar standards for smaller engines in the power output range of 56kW to 130kW will be introduced on 1 January 2012, and even more stringent exhaust emissions limits will be introduced in 2013 and 2014. The regulations for these limits, which are the final ones currently planned, require nitrogen oxide (NOx) emissions to be reduced by 95.7 per cent and soot particles by 96.5 per cent relative to the first limits, which were introduced in 1999.

History of emissions standards
Substantial changes coming into force



It will no longer be possible to satisfy the emissions regulations that are due to come into force in stages from 2011 by making internal engine refinements alone; instead, sophisticated additional exhaust aftertreatment systems will be necessary.

RESEARCH AND DEVELOPMENT EXPENDITURE

Because development of the two new engines with capacities of less than four litres and the adjustment of engines to the new emissions standards are at an advanced stage, research and development expenditure will fall from 2011 onwards.

OUTLOOK FOR 2012

Although the 2012 economic forecasts for the euro zone, especially Germany, are somewhat more cautious, buoyant growth is expected to continue worldwide in 2012.

This will also have a positive impact on DEUTZ's revenue and operating profit. The EBIT margin will climb to approximately 7 per cent as a result of the cost savings generated by the MOVE programme as well as other improvements achieved by the MOVE FAST programme, especially as far as our top-line growth is concerned.

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.

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INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	2010	2009
€ million			
Revenue	1	**1,189.1**	**863.4**
Changes in inventories and other own work capitalised	2	46.4	–9.8
Other operating income	3	55.3	72.8
Cost of materials	4	–781.1	–567.9
Staff costs	5	–253.0	–265.3
Depreciation and amortisation	6	–63.3	–66.3
Impairment	6	–7.1	–14.1
Other operating expenses	7	–163.1	–99.3
Profit/loss on equity-accounted investments	8	–2.8	–4.3
Other investment income	8	1.9	1.6
EBIT		**22.3**	**–89.2**
thereof one-off items		**–19.9**	**–42.9**
thereof operating profit (EBIT before one-off items)		**42.2**	**–46.3**
Interest expenses, net	9	–26.2	–10.0
thereof finance costs		–35.8	–23.8
Other taxes	10	–1.4	–1.9
Net income before taxes on continuing operations		**–5.3**	**–101.1**
Income taxes	10	–10.6	–18.7
Net income on continuing operations		**–15.9**	**–119.8**
Net income on discontinued operations	11	**–**	**–4.2**
Net income		**–15.9**	**–124.0**
thereof attributable to the shareholders of the parent		–15.9	–124.0
thereof attributable to non-controlling interests		–	–
Earnings per share (€)	12	**–0.13**	**–1.03**
thereof from continuing operations		–0.13	–0.99
thereof from discontinued operations		–	–0.04

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	2010	2009
€ million			
Net income		**–15.9**	**–124.0**
Currency translation differences		10.8	1.5
Effective portion of change in fair value from cash flow hedges		–	–9.7
Change in fair value of available-for-sale financial instruments		0.2	0.1
Other comprehensive income, net of tax	13	**11.0**	**–8.1**
Comprehensive income		**–4.9**	**–132.1**
thereof attributable to the shareholders of the parent		–4.9	–132.1
thereof attributable to non-controlling interests		–	–

BALANCE SHEET FOR THE DEUTZ GROUP

Assets	Note	31/12/2010	31/12/2009
€ million			
Property, plant and equipment	14	320.5	335.5
Intangible assets	15	185.6	145.8
Equity-accounted investments	16	69.7	49.3
Other financial assets	17	15.7	8.8
Non-current assets (before deferred tax assets)		591.5	539.4
Deferred tax assets	18	16.4	22.4
Non-current assets		**607.9**	**561.8**
Inventories	19	157.6	127.5
Trade receivables	20	160.1	112.3
Other receivables and assets	20	47.7	54.3
Cash and cash equivalents	21	67.9	214.7
Current assets		**433.3**	**508.8**
Non-current assets classified as held for sale	22	0.5	0.5
Total assets		**1,041.7**	**1,071.1**

Equity and liabilities	Note	31/12/2010	31/12/2009
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		5.4	–5.6
Retained earnings		79.1	79.1
Accumulated loss		–48.0	–32.1
Equity attributable to the shareholders of the parent		374.3	379.2
Equity	23	**374.3**	**379.2**
Provisions for pensions and other post-retirement benefits	24	154.7	163.9
Deferred tax provisions	18	–	0.1
Other provisions	25	29.8	26.9
Financial liabilities	26	138.5	206.2
Other liabilities	27	7.4	13.4
Non-current liabilities		**330.4**	**410.5**
Provisions for pensions and other post-retirement benefits	24	15.9	16.1
Provision for current income taxes	18	4.0	6.6
Other provisions	25	42.7	49.2
Financial liabilities	26	3.0	5.6
Trade payables	27	205.1	141.5
Other liabilities	27	66.3	62.4
Current liabilities		**337.0**	**281.4**
Total equity and liabilities		**1,041.7**	**1,071.1**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

	Issued capital	Additional paid-in capital	Retained earnings	Fair value reserve[1),2)]	Currency translation reserve[1)]	Accumulated income/loss	Total Group interest	Non-controlling interests	**Total**
€ million									
Balance at 1 Jan 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**
Balance at 1 Jan 2010	**309.0**	**28.8**	**79.1**	**–0.1**	**–5.5**	**–32.1**	**379.2**	**–**	**379.2**
Comprehensive income				0.2	10.8	–15.9	–4.9	–	–4.9
Balance at 31 Dec 2010	**309.0**	**28.8**	**79.1**	**0.1**	**5.3**	**–48.0**	**374.3**	**–**	**374.3**

[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	2010	2009
€ million			
EBIT		**22.3**	**–89.2**
Interest income		1.3	6.7
Other taxes paid		–1.4	–1.9
Income taxes paid		–3.2	–1.2
Depreciation, amortisation and impairment of non-current assets		70.4	80.4
Gains/losses on the sale of non-current assets		1.5	–2.5
Profit/loss on equity-accounted investments		4.4	5.3
Other non-cash income and expenses		13.4	–
Change in working capital		–9.3	107.4
Change in inventories		–27.6	95.0
Change in trade receivables		–46.7	9.2
Change in trade payables		65.0	3.2
Change in other receivables and other current assets		–4.6	24.6
Change in provisions and other liabilities (excluding financial liabilities)		–16.6	–12.2
Cash flow from operating activities		**78.2**	**117.4**
Capital expenditure on intangible assets, property, plant and equipment		–89.8	–95.2
Capital expenditure on investments		–6.6	–0.6
Proceeds from the sale of non-current assets		0.1	5.0
Cash flow from investing activities – continuing operations		**–96.3**	**–90.8**
Cash flow from investing activities – discontinued operations	11	–3.3	–1.3
Cash flow from investing activities – total		**–99.6**	**–92.1**
Interest expenses		–37.8	–14.0
Cash receipts from borrowings		115.9	2.1
Repayments of loans		–203.7	–6.3
Cash flow from financing activities		**–125.6**	**–18.2**
Cash flow from operating activities		78.2	117.4
Cash flow from investing activities		–99.6	–92.1
Cash flow from financing activities		–125.6	–18.2
Change in cash and cash equivalents		**–147.0**	**7.1**
Cash and cash equivalents at 1 January		**214.7**	**207.5**
Change in cash and cash equivalents		–147.0	7.1
Change in cash and cash equivalents related to exchange rates		0.2	0.1
Cash and cash equivalents at 31 December		**67.9**	**214.7**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

PARENT COMPANY

The parent company of the DEUTZ Group is DEUTZ AG. Its registered office is located at Ottostrasse 1, 51149 Cologne, Germany, and the Company is entered under no. HRB 281 in the commercial register at the local court in Cologne. The Board of Management approved these consolidated financial statements for publication by adopting a resolution dated 28 February 2011.

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

DEUTZ is an independent manufacturer of compact diesel engines. The Group's activities are divided into two operating segments – DEUTZ Compact Engines and DEUTZ Customised Solutions – and the other segment. In its two operating segments, DEUTZ focuses on value creation processes involving the development, design, production and sales of liquid-cooled and air-cooled engines. The business is broken down into the main application segments of mobile machinery, 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 2009 with the exceptions set out below.

In the year under review, the DEUTZ Group applied the following new and revised standards and interpretations. Although the application of these revised standards and interpretations resulted in a change to the accounting policies, there was no impact on the DEUTZ Group's net assets, financial position or results of operations.

Amendment to IFRS2 "Share-based Payment" The changes clarify the accounting treatment of group cash-settled share-based payments. Since these changes are not currently relevant to the DEUTZ Group, initial application did not have any impact on the consolidated financial statements.

IFRS 3 (revised) "Business Combinations" 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. The new rules will particularly affect the amount of goodwill recognised as well as the profit or loss in the reporting period during which a business combination takes place. Since no business combination took place in the DEUTZ Group during 2010, initial application of this standard did not have an impact on the consolidated financial statements.

IAS 27 (revised) "Consolidated and Separate Financial Statements" 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 on disposals 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 none of the transactions specified occurred and there were no new losses amongst non-controlling interests in the period under review, initial application of the standard did not affect the consolidated financial statements.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" 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 did not have any impact on the consolidated financial statements on initial application.

IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" 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 did not carry out any such redesignations during 2010, initial application of this standard did not affect the consolidated financial statements.

IFRIC 15 "Agreements for the Construction of Real Estate" 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. This interpretation applies to the real-estate industry; there was no impact on the DEUTZ Group as a result of the initial application of this interpretation.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" The interpretation stipulates, among other things, how to designate risk arising from foreign currency exposure, the maximum amount that may be designated as a hedged risk, which entity within a group may hold the hedging instrument and the accounting treatment in connection with the disposal of an investment in a foreign operation. Since the DEUTZ Group does not currently hedge any net investments in foreign operations, the interpretation did not affect the consolidated financial statements on initial application.

IFRIC 17 "Distributions of Non-cash Assets to Owners" This interpretation governs the accounting treatment for distributions of non-cash assets. 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 did not carry out any distributions of non-cash assets to owners during 2010, initial application of this standard did not affect the consolidated financial statements.

IFRIC 18 "Transfers of Assets from Customers" The 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 did not include any transfers of this kind in 2010 either, initial application of this interpretation did not affect the consolidated financial statements.

Collective standard amending various IFRSs (2009) The changes are primarily intended to clarify certain unclear provisions in the standards. 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 did not affect the presentation of segment reporting because the DEUTZ Group had already interpreted this provision accordingly in its initial application of IFRS 8.

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, as well as amendments to 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 2010 and the DEUTZ Group has not opted to apply them before the mandatory application date.

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.

Amendment to IAS 32 "Financial Instruments: Presentation" The amendment was published in October 2009 and applies to financial years beginning on or after 1 February 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. This amendment did not impact on the consolidated financial statements.

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. Under the amended IFRIC 14, if there is a minimum funding requirement for a defined benefit plan, the prepayment must now be treated as an asset. Because the DEUTZ Group is not affected by this amendment, its initial application 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. The interpretation introduces the rule that equity instruments issued to lenders to extinguish all or part of a financial liability must be considered as "consideration paid" and the borrower must therefore derecognise all or part of the financial liability accordingly. Other provisions in the interpretation comprise rules on the measurement of these equity instruments and on the derecognition of the liability. Any expected impact on the consolidated financial statements depends on whether equity instruments are to be used to extinguish financial liabilities.

Amendment to IAS 12 "Income Taxes" The amended standard was published in December 2010. Measurement of deferred taxes depends on whether the carrying amount of an asset is recovered through use or sale. The amendment introduces a rebuttable presumption that the carrying amount is normally recovered through sale. Initial application of these amendments is not expected to materially affect the consolidated financial statements.

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 2010. These standards and interpretations have not yet been adopted by the EU and are not applied by the DEUTZ Group in its consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures" The amended standard was published in October 2010 and applies to financial years beginning on or after 1 July 2011. The amendments specify enhanced disclosure requirements regarding the relationships between transferred financial assets and the corresponding financial liabilities. They are also intended to make it possible to assess the type and, in particular, the risks of a continuing involvement in the case of derecognised financial assets. Initial application of these amendments is not expected to materially affect the consolidated financial statements.

IFRS 9 "Financial Instruments" IFRS 9 was published in November 2009; additions regarding the accounting treatment of financial liabilities were published in October 2010. IFRS 9 applies to financial years beginning on or after 1 January 2013. The two publications represent the conclusion of the first stage of a three-stage project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with a new standard. The first stage includes some new provisions governing the classification and measurement of financial instruments. As a consequence, the initial application of this standard is expected to affect the measurement of financial instruments and the classification (and therefore the presentation) of financial information.

Collective standard amending various IFRSs (2010) The amended standard was published in May 2010. The amendments, which predominantly come into effect for financial years beginning on or after 1 January 2011, are primarily intended to clarify certain unclear provisions in the standards. Because the DEUTZ Group was only partially affected by these amendments, their initial application will not have a material impact on the consolidated financial statements.

Significant estimates and assumptions

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

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

Impairment losses amounting to €7.1 million (2009: €14.1 million) were recognised for non-financial assets as at 31 December 2010. Further details can be found under Note six on page 69.

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 2010, the carrying amount of deferred tax assets recognised in respect of tax loss carryforwards amounted to €46.1 million (31 December 2009: €38.4 million). Further details can be found under Note 18 on page 76 onwards.

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 4.2 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 4.4 per cent or decline by 4.1 per cent.

As at 31 December 2010, the provisions for pensions and other post-retirement benefits amounted to €170.6 million (31 December 2009: €180.0 million). Further details on the assumptions used are described in Note 24 on page 79 onwards.

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 2010, the carrying amount of capitalised development expenditure was €166.7 million (31 December 2009: €125.0 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 net assets, financial position or results of operations. The overall position as regards the legal risks facing the DEUTZ Group is explained in more detail in Note 30 on page 95.

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 four (2009: three) German entities and six (2009: seven) foreign entities in which DEUTZ AG holds the majority of voting rights either directly or indirectly or – as in the case of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf – is exposed to a majority of the opportunities and risks.

A foreign subsidiary was deconsolidated in 2010 for reasons of materiality. A loss on disposal of €1.9 million was recognised.

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 (2009: one) foreign entity in accordance with the rules governing associates and four (2009: two) joint ventures.

In 2010, the DEUTZ Group invested in the start-up of Bosch Emission Systems GmbH & Co. KG by acquiring a stake of 25 per cent. The acquisition cost amounted to €19.3 million, of which €6.7 million had been paid as at 31 December 2010. The stake is held indirectly through DEUTZ Abgastechnik GmbH, Cologne (formerly gatus 250. GmbH, Berlin), which was included in the consolidated financial statements for the first time in 2010.

Page 103 of the annex to the notes to the financial statements lists the shareholdings of DEUTZ AG as at 31 December 2010.

PRINCIPLES OF CONSOLIDATION

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

The acquisition method is used to account for business combinations. The acquisition cost is measured at the fair value of the assets transferred and of the liabilities incurred or assumed (including conditional liabilities) at the acquisition date, irrespective of the amount of any non-controlling interests. Measurement of non-controlling interests is based either on the fair value (full goodwill method) or on the proportionate fair value of the assets acquired and of the liabilities assumed. Acquisition-related costs are expensed as incurred. The acquisition method was used to account for acquisitions between the transition to accounting based on IFRS on 1 January 2005 and 31 December 2009. Under this method, the carrying amount of the investment was offset against the DEUTZ Group's proportionate share of equity in the consolidated subsidiary remeasured at fair value on the acquisition date. Transaction costs directly attributable to the acquisition constituted some of the acquisition-related costs.

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

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

JOINT VENTURES AND ASSOCIATES

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

CURRENCY TRANSLATION

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

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

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

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

		Average rates		Closing rates at 31 Dec	
		2010	2009	**2010**	2009
USA	USD	1.32	1.40	1.34	1.43
UK	GBP	0.86	0.89	0.86	0.90
Singapore	SGD	1.79	2.02	1.71	2.01
China	CNY	8.93	9.53	8.82	9.79
Australia	AUD	1.44	1.77	1.31	1.60

ACCOUNTING POLICIES

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

REVENUE RECOGNITION

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

Revenue and other income is recognised as follows:

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

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

Interest income, 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 additional impairment losses. Cost comprises the purchase price and any directly attributable costs incurred to bring the asset to the required location and working condition.

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

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

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

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

	Useful life (years)
Buildings and grounds	15 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 that an asset accounted for at amortised cost is impaired, the amount of the impairment loss is determined as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (with the exception of estimated future loan defaults that have not yet occurred), the discount rate being the original effective interest rate for the financial asset, i.e. the effective interest rate determined on initial recognition. The impairment loss is recognised in the income statement.

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

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

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

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

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

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

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

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

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

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

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

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

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

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

PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

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

The obligation reported on the face of the balance sheet equates to the present value of the defined benefit obligation less the fair value of plan assets adjusted for cumulative as yet unrecognised actuarial gains and losses. The amount of the obligation under the defined benefit plans is calculated separately for each plan using the projected unit credit method. In addition to the pensions and accrued benefits known to exist as at the balance sheet date, this method also takes into account estimated future increases in wages, salaries and pensions. The calculation of the present value of the defined benefit obligation taking into account future increases in wages and salaries uses a discount rate that is based on an index of high-quality fixed-income investments at the plans' valuation dates, the maturity of which matches the maturity of the defined benefit obligation. Actuarial gains and losses are recognised in the income statement if the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the prior reporting period exceed the greater of 10 per cent of the defined benefit obligation 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 that, however, are beyond the control of the DEUTZ Group. Furthermore, present obligations may constitute contingent liabilities if it is not probable that an outflow of resources will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made.

DISCONTINUED OPERATIONS PURSUANT TO IFRS 5

IFRS 5 stipulates that any material discontinued segment or business that is deconsolidated must be reported separately. The consolidated financial statements include 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:

	2010	2009
€ million		
Engines	973.6	688.4
Service	215.5	175.0
Total	**1,189.1**	**863.4**

The breakdown of revenue by segment and region is shown in the notes on segment reporting on page 84 onwards.

2. CHANGE IN INVENTORIES AND OTHER OWN WORK CAPITALISED

Change in inventories

Changes in inventories of finished goods and work in progress in 2010 amounted to an increase of €11.6 million (2009: decrease of €39.1 million).

Other own work capitalised

Other own work capitalised amounted to €34.8 million (2009: €29.3 million). This primarily comprised expenditure on new engine development and the further development of existing engines to comply with current and future exhaust emissions standards.

3. OTHER OPERATING INCOME

	2010	2009
€ million		
Income from recharged costs and services	31.7	43.3
Exchange rate gains	7.9	4.3
Income from the reversal of provisions	8.7	14.4
Income from the measurement of commodities	1.6	1.7
Income from charged-off liabilities	1.5	2.4
Income from the measurement of derivative financial instruments	1.4	0.6
Rentals and leases	0.3	0.6
Income from the disposal of non-current assets	–	2.8
Sundry other income	2.2	2.7
Total	**55.3**	**72.8**

Income from the reversal of provisions in 2010 relates to provisions for personnel restructuring; it amounted to €7.3 million.

4. COST OF MATERIALS

€ million	2010	2009
Cost of raw materials and supplies, bought-in parts and spare parts	722.7	518.3
Cost of services procured	54.1	43.8
Impairment of raw materials, bought-in parts and spare parts	4.3	5.8
Total	**781.1**	**567.9**

As a result of the economic recovery, unit sales and, therefore, the cost of materials increased in absolute terms year on year.

5. STAFF COSTS

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

€ million	2010	2009
Salaries	102.4	103.2
Wages	100.9	85.3
Social security contributions	37.4	37.9
Interest cost for pension provisions	9.3	10.0
Cost of post-employment benefits and other long-term employee benefits	1.7	3.5
Cost of severance payments/ personnel restructuring	1.3	25.4
Total	**253.0**	**265.3**

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.

€ million	2010	2009
Property, plant and equipment	44.1	43.7
Intangible assets	19.2	22.6
Total	**63.3**	**66.3**

Total impairment losses of €7.1 million (2009: €14.1 million) were also recognised on the recoverable amount of intangible assets in 2010. During the reporting period these impairment losses mainly related to capitalised development expenditure on individual projects that are not going to be completed for use or sale because they are not profitable or there is no relevant market for them.

7. OTHER OPERATING EXPENSES

€ million	2010	2009
Expenses for general services	38.6	38.0
Cost of fees, contributions and consultancy services	28.7	12.5
Special selling expenses	19.2	15.4
Cost of rentals and leases	10.0	11.4
Temporary staff	9.4	3.4
Office, postal, telecommunications, advertising and other administrative expenses	7.2	7.4
Exchange rate losses	5.7	5.7
Costs of disposal of non-current assets and costs of deconsolidation effects	3.4	0.3
Expenses in connection with the measurement of currency forwards	0.4	1.3
Sundry other expenses	40.5	3.9
Total	**163.1**	**99.3**

The rise in other operating expenses is largely a result of the growth in unit sales and the associated higher costs for temporary staff and warranty costs. Expenses related to the funding negotiations and the early repayment of the US private placement during the period under review also contributed to the rise in other operating expenses.

During the period under review, our greater experience enabled us to improve our estimates of provisions for warranties compared to 2009. The sundry other expenses in 2010 include expenses of €17.5 million from additional provisions for warranties. This includes an amount of €9.8 million deriving from a one-off effect resulting from our revised estimates that will not materially affect future periods.

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

	2010	2009
€ million		
Profit/loss on equity-accounted investments		
Income from equity-accounted investments	2.1	1.1
Expenses from equity-accounted investments	–4.9	–5.4
Total	**–2.8**	**–4.3**
Other investment income	**1.9**	**1.6**
Total	**–0.9**	**–2.7**

The expenses in respect of equity-accounted investments largely consist of the proportion of the losses attributable to DEUTZ AG from DEUTZ (Dalian) Engine Co., Ltd., and Bosch Emission Systems GmbH & Co. KG, Stuttgart.

9. INTEREST EXPENSES, NET

	2010	2009
€ million		
Interest received on credit balances held with banks	0.8	2.7
Other interest income	8.8	11.1
Interest and similar income	**9.6**	**13.8**
Interest paid on liabilities to banks	–1.0	–1.3
Interest paid on bonds	–28.8	–12.4
Other interest expenses and similar charges	–6.0	–10.1
Interest expenses and similar charges (finance costs)	**–35.8**	**–23.8**
Interest expenses, net	**–26.2**	**–10.0**

There was a negative impact on net interest expense due to the increase in interest charges that arose from the funding negotiations for the US private placement and due to the decline in interest and similar income resulting from the smaller volume of investments. Borrowing costs of €3.1 million (2009: €0.4 million) were capitalised in 2010. The average interest rate of 12.9 per cent (2009: 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:

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

2009	Continuing operations	Discon-tinued operations	**Total**
€ million			
Current tax expense	3.5	4.1	7.6
thereof unrelated 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 expense	**18.7**	**4.2**	**22.9**

The deferred tax expense for the reporting year included expenses of €13.6 million arising from temporary differences (2009: €15.6 million), which were largely attributable to a year-on-year rise in capitalised development expenditure. The current tax expense of €4.6 million primarily resulted from anticipated backpayments of corporation tax and trade tax arising from a tax audit at DEUTZ AG begun in the current year and covering the years 2006 to 2008. Up to completion of the tax audit, there is a certain risk of further backpayments.

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

The tax reconciliation table shows the reconciliation from anticipated income taxes to effective taxes as shown on the face of the income statement. Effective income taxes include current and deferred taxes. The applicable tax rate remained unchanged on 2009 at 31 per cent and continued to comprise corporation tax at 15 per cent, the solidarity surcharge (5.5 per cent of corporation tax) and trade tax at 15 per cent based on an average assessment rate.

	2010	2009
€ million		
Net income before income taxes	**–5.3**	**–101.1**
Anticipated tax	–1.7	–31.9
Difference in local basis of assessment	1.1	0.8
Tax rates outside Germany	–0.1	–0.3
Change in deferred taxes recognised in respect of loss carryforwards	–5.1	39.3
Effect of non-deductible expenses	10.7	3.6
Gains/losses on equity-accounted investment	–0.5	1.3
Effect of tax-exempt income	2.0	–0.2
Effects from other periods		
- Tax payments for previous years	3.7	7.1
- Deferred taxes from tax audits	0.4	3.6
Other	0.1	–0.4
Effective tax expense	**10.6**	**22.9**
Effective tax rate (%)	–2.0	–22.7

The change in deferred taxes recognised in respect of loss carryforwards was due in 2010 to the subsequent recognition of deferred taxes on losses carried forward that can be utilised in subsequent years. The effect of non-deductible expenses essentially relates to interest expense and similar charges in Germany.

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 2009 included 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 relating to the disposal of the DEUTZ Power Systems segment.

The table below gives a breakdown of the net income on discontinued operations:

	2010	2009
€ million		
Current net income after income taxes from discontinued operations	**–**	**–**
Profit/loss on adjustments before income taxes	–	–
Income taxes	–	–4.2
Profit/loss on adjustments after income taxes on discontinued operations	**–**	**–4.2**
Net income on discontinued operations	**–**	**–4.2**

Net cash used in investing activities for discontinued operations arising from the effects of restated figures amounted to €3.3 million in the year under review (2009: €1.3 million) and included income tax payments.

12. EARNINGS PER SHARE

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

There were no dilutive effects in 2010 or 2009.

	2010	2009
€ thousand / shares in thousands		
Net income	–15,936	–124,016
Weighted average of shares outstanding	120,862	120,862
Earnings per share (€)	**–0.13**	**–1.03**
thereof from continuing operations	–0.13	–0.99
thereof from discontinued operations	–	–0.04

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

13. OTHER COMPREHENSIVE INCOME

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

	2010			2009		
	Before taxes	**Taxes**	**After taxes**	Before taxes	Taxes	After taxes
€ million						
Currency translation differences	10.8	–	10.8	1.5	–	1.5
Effective portion of change in fair value from cash flow hedges	–	–	–	–14.3	4.6	–9.7
Change in fair value of available-for-sale financial instruments	0.2	–	0.2	0.1	–	0.1
Other comprehensive income	**11.0**	**–**	**11.0**	**–12.7**	**4.6**	**–8.1**

In 2010, losses of €1.3 million on cash flow hedges (2009: €0.9 million) recognised in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating expenses in the consolidated income statement.

NOTES TO THE BALANCE SHEET

14. PROPERTY, PLANT AND EQUIPMENT

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

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

Gross figures Cost of purchase/conversion	Land, lease-hold rights and buildings	Technical equipment and machines	Other equip-ment, furniture and fixtures	Construction in progress	Total
€ million					
Balance at 1 Jan 2009	**195.9**	**470.6**	**175.2**	**7.5**	**849.2**
Exchange rate 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, lease-hold rights and buildings	Technical equipment and machines	Other equip-ment, furniture and fixtures	Construction in progress	Total
€ million					
Balance at 1 Jan 2009	**58.0**	**320.6**	**128.5**	**–**	**507.1**
Exchange rate 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**

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

Government grants at a Spanish subsidiary were deducted from the cost of purchasing the property, plant and equipment. No government grants were received in 2010, nor had any been received in 2009. Government grants totalling €5.2 million were recognised as at 31 December 2010 (31 December 2009: €6.2 million). In 2010, grants of €1.0 million (2009: €1.1 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 95.

The carrying amounts of property, plant and equipment pledged as collateral for financial liabilities amounted to €256.9 million as at 31 December 2010 (31 December 2009: €0.0 million). The loan collateralisation comprises prior charges on DEUTZ AG's real estate and the pledging as collateral of property, plant and equipment in consumption.

15. INTANGIBLE ASSETS

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

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

Gross figures Cost of purchase/conversion	Internally generated intangible assets	Other intangible assets	Total
€ million			
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	Internally generated intangible assets	Other intangible assets	Total
€ million			
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**

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

Under internally generated intangible assets, the additions largely relate to the capitalisation of development expenditure on new engine development and the refinement of existing engines to comply with current and future exhaust emissions standards, particularly for development in connection with the 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 €28.3 million (2009: €38.0 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:

	2010	2009
€ million		
1 January	**49.3**	**55.1**
Additions	19.3	–
Share of profit/loss on equity-accounted investments	–2.8	–4.3
Other changes arising from measurement using the equity method	3.9	–1.5
31 December	**69.7**	**49.3**

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

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

	31/12/2010	31/12/2009
€ million		
Total assets	23.3	16.4
Total liabilities	9.4	5.5
	2010	2009
Revenue	29.2	21.9
Net income	4.3	3.3

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 manufacture engines locally for international DEUTZ customers. In addition, DEUTZ AG indirectly holds an equity interest of 25.004 per cent in Bosch Emission Systems Verwaltungs-GmbH, Stuttgart, and holds an indirect investment of 25.002 per cent as a limited partner in this company; material strategic decisions regarding financial and operating policy must be made unanimously by this company's advisory board. The investments in the four jointly controlled entities are accounted for using the equity method.

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

	2010	2009
€ million		
Current assets	115.7	82.2
Non-current assets	66.8	59.7
Total assets	**182.5**	**141.8**
Current liabilities	81.3	65.0
Non-current liabilities	34.8	30.4
Total liabilities	**116.1**	**95.4**
Revenue	156.7	116.4
Net income	–4.1	–5.4

17.OTHER FINANCIAL ASSETS (NON-CURRENT)

	2010	2009
€ million		
Cost of borrowing	6.7	–
Equity investments	5.8	5.8
Non-current securities	1.9	1.7
Loans	1.3	1.3
Total	**15.7**	**8.8**

Cost of borrowing

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

Equity investments

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

Non-current securities

This balance sheet item comprises securities amounting to €1.9 million (31 December 2009: €1.7 million) in the form of shares and bonds. The securities are used as a form of investment for the pension obligations of a foreign subsidiary (DEUTZ Corporation).

18. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilised tax losses carried forward of €1,054.8 million for corporation tax (2009: €1,035.1 million) and €1,186.2 million for trade tax (2009: €1,174.1 million); the tax loss carryforwards for 2009 have been restated as a result of the tax audit covering the years 2002 to 2005. 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:

	31/12/2010	31/12/2009
€ million		
Non-current		
Deferred tax assets	16.4	22.4
Deferred tax provisions	–	0.1
Current		
Current tax assets	0.5	1.4
Provision for income taxes	4.0	6.6
Income tax liabilities	0.4	0.3

The decrease of €5.9 million in deferred taxes to €16.4 million was largely attributable to the year-on-year rise in capitalised development expenditure; higher capitalised deferred tax assets resulting from loss carryforwards had a countervailing effect. The change was fully recognised in the income statement.

The income tax provisions of €4.0 million reported as at 31 December 2010 primarily include anticipated back-payments of corporation tax and trade tax arising from a tax audit at DEUTZ AG begun in the current year and covering the years 2006 to 2008.

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

	31/12/2010		31/12/2009	
	Assets	**Liabilities**	Assets	Liabilities
€ million				
Intangible assets	–	53.1	–	40.4
Property, plant and equipment	8.7	1.4	9.2	0.4
Equity-accounted investments and financial assets	–	2.1	–	–
Inventories	1.1	1.3	1.7	1.4
Receivables and other assets	2.1	–	0.2	1.3
Liabilities	28.7	11.4	24.9	5.4
Losses carried forward	47.2	–	41.1	–
Consolidation	2.3	–	1.8	–
Other	0.7	–	0.6	–
Impairment losses	-5.1	–	-8.3	–
Deferred taxes (gross)	**85.7**	**69.3**	**71.2**	**48.9**
Netting	69.3	69.3	48.8	48.8
Deferred taxes (net)	**16.4**	**–**	**22.4**	**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 €16.4 million (31 December 2009: €22.3 million).

The change in deferred taxes in respect of temporary differences – which were recognised in other comprehensive income – amounted to €0.0 million for financial assets (31 December 2009: €5.9 million) and €0.0 million for liabilities (31 December 2009: €1.3 million).

As at 31 December 2010 and 31 December 2009, the DEUTZ Group had not recognised any deferred tax liabilities in respect of taxes on untransferred profits from subsidiaries, associates or joint ventures because the timing of the reversal of the differences can be controlled or the sums are mostly tax exempt and no material impact on taxes is expected in the near future.

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 carryforwards on which deferred taxes have not been recognised

	31/12/2010	31/12/2009
€ million		
Corporation tax	931.7	923.3
Trade tax	1,047.2	1,040.8

Thereof: expiry periods for German and international losses carried forward

	Corporation tax 31 Dec		Trade tax 31 Dec	
	2010	2009	2010	2009
€ million				
Less than 5 years	–	–	–	–
6 to 9 years	–	–	2.2	–
Indefinite	931.7	923.3	1,045.0	1,040.8

There are also deductible temporary differences of €10.7 million on which deferred taxes have not been recognised.

19. INVENTORIES

	31/12/2010	31/12/2009
€ million		
Raw materials and supplies, bought-in parts and spare parts	90.2	71.8
Work in progress	32.2	24.5
Finished goods	35.2	31.2
Total	**157.6**	**127.5**

As at 31 December 2010, the carrying amount of inventories written down to net realisable value was €31.1 million (31 December 2009: €25.8 million).

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

	2010	2009
€ million		
1 January	**26.3**	**18.6**
Changes	1.4	7.7
31 December	**27.7**	**26.3**

The carrying amounts of inventories pledged as collateral for financial liabilities amounted to €135.5 million as at 31 December 2010 (31 December 2009: €0.0 million). The loan collateralisation comprises the pledging as collateral of inventories in the Group.

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

	31/12/2010	31/12/2009
€ million		
Trade receivables	165.7	117.2
Less adjustments	–5.6	–4.9
Trade receivables (net)	**160.1**	**112.3**
Other receivables and assets		
Receivables from investments	4.9	7.9
thereof trade receivables	3.2	7.5
thereof other receivables	1.7	0.4
Advances paid on property, plant and equipment and inventories	3.0	4.5
Derivative financial instruments	0.9	0.6
Sundry other receivables	31.1	34.6
Receivables arising from other taxes	3.8	4.1
Prepaid expenses	3.5	1.2
Total	**47.2**	**52.9**

As at 31 December 2010, the volume of receivables sold under factoring agreements was around €139 million (31 December 2009: €76 million).

Trade receivables with a principal amount of €7.3 million were written down as at 31 December 2010 (31 December 2009: €5.1 million). The following table shows the change in the valuation allowance account:

	2010	2009
€ million		
Balance at 1 January	**4.9**	**5.6**
Additions	1.9	0.2
Utilisation	–1.1	–0.4
Reversals	–0.1	–0.5
Balance at 31 December	**5.6**	**4.9**

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 2010, write-downs of €23.3 million (31 December 2009: €22.2 million) had been recognised on receivables due in respect of equity investments.

The carrying amounts of financial assets pledged as collateral for financial liabilities amounted to €107.8 million as at 31 December 2010 (31 December 2009: €0.0 million). The loan collateralisation comprises the blanket assignment receivables of DEUTZ AG, DEUTZ Corporation, Atlanta, USA, except for trade receivables offered for sale using real factoring, and the pledging of trade receivables and claims of DEUTZ Diter S.A., Zafra/Spain.

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, short-term deposits and credit balances held with banks. Cash and cash equivalents pledged as collateral for financial liabilities amounted to €64.1 million as at 31 December 2010 (31 December 2009: €0.0 million).

22. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The non-current assets classified as held for sale as at 31 December 2010 and 31 December 2009 relate to the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, which are situated in Cologne-Deutz. In 2009, a partial disposal of these assets had generated a gain of €1.0 million, which was recognised under other operating income. The land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH are allocated to the DEUTZ Compact Engines segment.

23. EQUITY

	31/12/2010	31/12/2009
€ million		
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	5.4	–5.6
Retained earnings	79.1	79.1
Accumulated loss	–48.0	–32.1
Equity attributable to the shareholders of the parent	374.3	379.2
Total	**374.3**	**379.2**

Issued capital
At the end of 2010, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2009) and was divided into 120,861,783 no-par-value bearer shares (also unchanged).

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.

Contingent Capital
As at 31 December 2010 contingent capital amounts to €0.0 million (31 December 2009: €0.0 million).

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 €10.8 million (2009: €1.5 million increase in other comprehensive income). The cumulative gain on translation differences recognised in other reserves amounted to €5.4 million at the end of 2010 (31 December 2009: loss of €5.5 million recognised).

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

Retained earnings

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

Accumulated loss

The accumulated loss results from the retained earnings and the losses of 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 2010 came to €15.6 million (2009: €17.4 million). In addition, a further €3.0 million (2009: €2.9 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

	31/12/2010	31/12/2009
€ million		
Unfunded	178.7	186.5
Funded	20.2	15.3
Total	**198.9**	**201.8**

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

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

Total expenses for pensions and other post-retirement benefits

	31/12/2010	31/12/2009
€ million		
Service cost	0.1	0.1
Interest cost	10.1	10.7
Anticipated return on plan assets	–0.8	–0.7
Total	**9.4**	**10.1**

Interest cost and estimated return on plan assets are reported under staff costs. In the year under review, there was an actual gain of €2.0 million on plan assets (2009: actual gain of €1.2 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

	31/12/2010	31/12/2009
€ million		
Defined benefit obligation for pensions and other post-retirement benefits	198.9	201.8
External plan assets measured at fair value	–18.8	–12.8
Actuarial gain (+)/loss (–)	–9.5	–9.0
Pension provisions reported on the face of the balance sheet	**170.6**	**180.0**

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

	2010	2009
€ million		
DBO at 1 January	**201.8**	**198.0**
Service cost	0.1	0.1
Employee contributions	0.4	0.5
Interest	10.1	10.7
Gain (–)/loss (+)	2.1	7.7
Exchange rate differences	0.5	1.2
Pensions paid	–16.1	–16.4
DBO at 31 December	**198.9**	**201.8**

Change in the fair value of plan assets

	2010	2009
€ million		
Fair value of plan assets at 1 January	**12.8**	**10.7**
Fair value of reinsurance policies at 1 January	3.4	–
Anticipated return on plan assets	0.8	0.7
Gains (+)/losses (–) on plan assets	1.2	0.5
Exchange rate differences	0.4	1.0
Employer contributions	0.4	0.2
Employee contributions	0.4	0.4
Pensions paid from plan assets	–0.6	–0.7
Fair value of plan assets at 31 December	**18.8**	**12.8**

Composition of plan assets

	31/12/2010	31/12/2009
(%)		
Equities	40	50
Debt securities	40	50
Other assets	20	–

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

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

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

Actuarial assumptions

	2010	2009
(%)		
Discount rate		
Germany	5.04	5.25
USA	5.50	6.00
UK	5.50	5.75
Foreign countries (weighted)	5.50	5.78
Anticipated return on plan assets		
Germany	–	–
USA	–	–
UK	5.70	6.00
Foreign countries (weighted)	5.70	6.00
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	2.75	2.83
Foreign countries (weighted)	2.78	2.85
Rate of salary increase		
Germany	–	–
USA	4.00	4.00
UK	2.75	2.75
Foreign countries (weighted)	2.91	2.91

The DEUTZ Group forecasts that its contributions to defined benefit pension plans will amount to €16.3 million in 2011.

	2010	2009	2008	2007	2006
€ million					
Defined benefit obligation for pensions and other post-retirement benefits	198.9	201.8	198.0	212.6	337.6
External plan assets measured at fair value	–18.8	–12.8	–10.7	–13.7	–14.3
Plan funding (surplus)/deficit	180.1	189.0	187.3	198.9	323.3
Gains (+)/losses (–) based on historical experience					
on obligations	1.9	1.0	3.0	1.1	6.4
on plan assets	1.5	0.5	–2.6	–0.1	0.3

25. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

	31/12/2010			31/12/2009		
	Total	With a residual term of up to one year	With a residual term of more than one year	Total	With a residual term of up to one year	With a residual term of more than one year
€ million						
Warranties	38.4	21.2	17.2	24.0	16.2	7.8
Imminent losses on pending transactions	8.5	3.7	4.8	8.4	3.2	5.2
Obligations to employees	12.1	7.4	4.7	18.0	7.0	11.0
Personnel restructuring	0.9	0.9	–	14.5	14.5	–
Other	12.6	9.5	3.1	11.2	8.3	2.9
Total	**72.5**	**42.7**	**29.8**	**76.1**	**49.2**	**26.9**

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

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

The following table shows the changes to other provisions in 2010:

	Warranties	Imminent losses on pending transactions	Obligations to employees	Personnel restructuring	Other	**Total**
€ million						
1/1/2010	**24.0**	**8.4**	**18.0**	**14.5**	**11.2**	**76.1**
Additions	17.5	0.8	1.5	–	5.0	24.8
Exchange differences	0.1	–	–	–	0.2	0.3
Utilisation	–3.4	–1.0	–7.4	–6.3	–2.5	–20.6
Reversals	–0.1	–	–	–7.3	–1.3	–8.7
Accrued interest/effect of changes in interest rates	0.3	0.3	–	–	–	0.6
31/12/2010	**38.4**	**8.5**	**12.1**	**0.9**	**12.6**	**72.5**

26. FINANCIAL LIABILITIES

	31/12/2010				31/12/2009			
	Total	With a residual term of up to one year	With a residual term of one to five years	With a residual term of more than five years	Total	With a residual term of up to one year	With a residual term of one to five years	With a residual term of more than five years
€ million								
Liabilities to banks	123.3	3.0	120.3	–	17.5	5.6	11.9	–
Other financial liabilities	18.2	–	16.9	1.3	1.3	–	–	1.3
Liabilities under finance leases	–	–	–	–	0.1	–	0.1	–
Bonds (USPP)	–	–	–	–	192.9	–	97.1	95.8
Total	**141.5**	**3.0**	**137.2**	**1.3**	**211.8**	**5.6**	**109.1**	**97.1**

Liabilities to banks

Under an agreement dated 2 December 2010, a syndicate of banks made available to DEUTZ AG a revolving credit line of €265.0 million (working capital facility) as well as further credit lines of €12.0 million (margin credit line), €6.6 million (guarantee facility) and €3.6 million. The secured credit lines are availed in the form of euro-denominated loans and bilateral credit lines. The revolving credit line will reduce in stages and must be repaid in full by 31 December 2014. During the term of the agreement, DEUTZ AG must ensure that the DEUTZ Group complies with certain financial covenants (ratio of financial liabilities to equity, ratio of EBITDA to net interest cost and ratio of financial liabilities to EBITDA).

Other financial liabilities

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

Bonds (US private placement)

In 2007, DEUTZ AG issued bonds worth US$ 274 million (€203 million) as part of a private placement in the United States. The bonds – which originally carried maturities of five, seven and ten years – were purchased by US institutional investors. We were able to replace the existing funding from the US private placement with the secured syndicated bank loan at the end of 2010. Please also refer to the notes on funding in the “Financial position” section of the group management report.

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

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

	31/12/2010	31/12/2009
(%)		
Liabilities to banks	3.27	3.00
Other financial liabilities	7.54	–
Bonds (USPP)	–	5.89

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

	31/12/2010	31/12/2009
€ million		
€	128.7	61.9
US$	12.8	149.9
Total	**141.5**	**211.8**

27. TRADE PAYABLES AND OTHER LIABILITIES

	31/12/2010	31/12/2009
€ million		
Trade payables	**205.2**	**141.5**
Other liabilities		
Sales liabilities	30.2	19.9
Liabilities to investments	13.3	4.7
Personnel-related liabilities	12.4	18.3
Advances received	2.5	1.3
Liabilities arising from other taxes	1.4	1.3
Derivative financial instruments	–	10.3
Other liabilities and deferred income	13.9	20.0
Total	**73.7**	**75.8**

The liabilities from derivative financial instruments reported in 2009 resulted from the marking to market of cross-currency swaps that served to hedge the currency risk and interest-rate risk arising on expected future payments of principal and interest in connection with the US private placement. The market value of these liabilities amounted to €10.3 million as at 31 December 2009.

The interest benefit with a value of €0.5 million derived from an interest-free government loan was recognised as deferred income as at 31 December 2010 (31 December 2009: €0.4 million). The loan was initially recognised at fair value and is reported as a non-current financial liability.

NOTES TO THE CASH FLOW STATEMENT

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

Cash flows from operating activities include dividend income of €1.9 million for 2010 (2009: €1.0 million).

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

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2010 and 2009.

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

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 revenue	**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
Profit/loss on 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 land	2.8	–	–	2.8	–	2.8
Operating profit (EBIT before one-off items)	–55.6	10.7	–1.4	–46.3	–	–46.3

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

2009	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**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**

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

	2010	2009
€ million		
Overall profit or loss of the segments	**42.2**	**–46.3**
Reconciliation	–	–
Operating profit (EBIT before one-off items)	**42.2**	**–46.3**
One-off items	–19.9	–42.9
EBIT	**22.3**	**–89.2**
Net finance costs	–26.2	–10.0
Other taxes	–1.4	–1.9
Net income before taxes on continuing operations	**–5.3**	**–101.1**
Income taxes	–10.6	–18.7
Net income on continuing operations	**–15.9**	**–119.8**
Net income on discontinued operations	–	–4.2
Net income	**–15.9**	**–124.0**

Reconciliation of segment assets and segment liabilities

	31/12/2010	31/12/2009
€ million		
Total assets for segments	**317.7**	**239.8**
Reconciliation	–	–
Segment assets for the DEUTZ Group	**317.7**	**239.8**
Non-current assets	607.9	561.8
Other receivables and assets	47.7	54.3
Cash and cash equivalents	67.9	214.7
Non-current assets classified as held for sale	0.5	0.5
Assets according to the consolidated balance sheet	**1,041.7**	**1,071.1**
Total liabilities of the segments	**205.1**	**141.5**
Reconciliation	–	–
Segment liabilities for the DEUTZ Group	**205.1**	**141.5**
Provisions	247.1	262.8
Financial liabilities	141.5	211.8
Other liabilities	73.7	75.8
Liabilities according to the consolidated balance sheet	**667.4**	**691.9**

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

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

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

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

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

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

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

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

Information about products and services

	2010	2009
€ million		
Engines	804.6	548.5
Service	114.4	87.5
DEUTZ Compact Engines	**919.0**	**636.0**
Engines	169.0	139.9
Service	101.1	87.5
DEUTZ Customised Solutions	**270.1**	**227.4**
Total	**1,189.1**	**863.4**

Geographical information about external revenue

	2010	2009
€ million		
Germany	**228.8**	**202.4**
Outside Germany	**960.3**	**661.0**
thereof rest of Europe	682.1	450.4
thereof Middle East	23.4	22.3
thereof Africa	49.6	35.2
thereof Americas	116.1	69.6
thereof Asia-Pacific	89.1	83.5
Total	**1,189.1**	**863.4**

Of the European countries outside Germany, France accounted for €125.2 million in the reporting year (2009: €84.9 million) and Sweden for €88.0 million (2009: €83.6 million).

The above information is presented according to customer location. One customer accounted for at least 10 per cent of our total revenue in 2010 (in 2009, two customers each accounted for at least 10 per cent). The revenue from these customers amounted to €326.7 million (2009: €210.7 million) and €91.2 million (2009: €93.4 million) respectively and is reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

	2010	2009
€ million		
Germany	472.1	426.8
Outside Germany	103.7	103.8
Total	**575.8**	**530.6**

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

OTHER INFORMATION

28. FINANCIAL RISK MANAGEMENT AND ADDITIONAL INFORMATION ON CAPITAL MANAGEMENT

Basic principles

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

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
€ million				
Non-current financial assets	**1.3**	**1.3**	**0.8**	**–0.8**
Current financial assets	**159.0**	**131.4**	**30.1**	**–27.1**
Trade receivables	112.3	87.5	5.1	–4.9
Other receivables and assets	46.7	43.9	25.0	–22.2

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 and the most recently set interest rates. As far as the availment of revolving credit facilities was concerned, it was assumed that the amounts already drawn down by the balance sheet date, taking the contractual reduction amounts into consideration, would continue to apply until the end of the term of the loan agreement.

Credit risk

The overview of written-down financial assets and of the age structure of overdue financial assets that have not been written down does not include cash and cash equivalents of €67.9 million (31 December 2009: €214.7 million) and available-for-sale financial asset of €7.7 million (31 December 2009: €7.5 million).

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

As regards trade receivables and other receivables and assets that were neither overdue nor written down as at the balance sheet date, there were no indications that the customers concerned would be unable to meet their payment obligations. Trade receivables relate primarily to DEUTZ AG and are insured with EULER HERMES Kreditversicherungs-AG. DEUTZ AG has an obligation to the trade credit insurance association (WKV) or, where applicable, the German government's export credit guarantee scheme (APG) to meet defaults on the receivables unless they are secured against letters of credit confirmed by a bank or against similar instruments. DEUTZ 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 €1.8 million (31 December 2009: €1.3 million) for foreign trade receivables.

thereof past due on the balance sheet date but not impaired			
up to 90 days	91 to 180 days	181 to 360 days	more than 360 days
–	**–**	**–**	**–**
22.2	**1.6**	**0.6**	**–**
22.2	1.6	0.6	–
–	–	–	–

thereof past due on the balance sheet date but not impaired			
up to 90 days	91 to 180 days	181 to 360 days	more than 360 days
–	**–**	**–**	**–**
22.3	**0.4**	**0.7**	**1.2**
22.3	0.4	0.7	1.2
–	–	–	–

Currency risk

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

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

Currency sensitivity analysis

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

The following 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.

2010	Notional amounts	Effect on net income	Notional amounts	Effect on net income
€ million				
USD	15.2	–2.8	21.3	2.0
AUD	1.2	–	2.2	0.2
GBP	0.6	–0.1	–	–

2009	Notional amounts	Effect on net income	Notional amounts	Effect on net income
€ million				
USD	14.5	–2.0	10.4	1.0
AUD	1.1	–0.1	1.2	0.1
GBP	–0.4	–	–	–

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

Interest-rate risk and sensitivity analysis

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

If interest rates for floating-rate financial liabilities rose by 100 basis points, net income after tax would decrease by €1.2 million (2009: €0.2 million). A cut in interest rates of 100 basis points would have an equal but opposite effect.

Commodity-price risk and raw materials sensitivity analysis

The DEUTZ Group is exposed to risk arising from changes in prices for metal raw materials, particularly steel and aluminium. DEUTZ hedges part of its commodities risk by way of 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 €1.0 million on the derivative transaction (2009: €0.4 million).

Capital management

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

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

The net financial position (cash and cash equivalents less interest-bearing financial liabilities) was negative for the most part during the year under review. As at the balance sheet date, the net financial position was minus €73.6 million (31 December 2009: plus €2.9 million). In addition to the net financial position, free cash flow (defined as cash flow from operating activities and investing activities less interest payments) is an essential part of active capital management and is used as a key figure to show changes in the liquidity situation. The free cash flow from continuing operations as at 31 December 2010 was minus €55.9 million (31 December 2009: plus €12.6 million).

The equity ratio is another indicator used by the DEUTZ Group to monitor its capital. This indicator reflects the ratio of total assets to Group equity as reported on the face of the consolidated balance sheet. As at 31 December 2010, the equity ratio for the DEUTZ Group was 35.9 per cent (31 December 2009: 35.4 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	
31/12/2010	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Held-for-trading financial assets	Carrying amount	**Carrying amount on the face of the balance sheet**
€ million						
Non-current financial assets	**1.3**	**5.8**	**1.9**	**–**	**6.7**	**15.7**
Current financial assets	**268.1**	**–**	**–**	**0.9**	**6.7**	**275.7**
Trade receivables	160.1	–	–	–	–	160.1
Other receivables and assets	40.1	–	–	0.9	6.7	47.7
Cash and cash equivalents	67.9	–	–	–	–	67.9

Financial assets

	Measured at amortised cost		Measured at fair value		Assets not falling under the scope of IAS 39	
31/12/2009	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Held-for-trading financial assets	Carrying amount	**Carrying amount on the face of the balance sheet**
€ million						
Non-current financial assets	**1.3**	**5.8**	**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 liabilities

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

Financial liabilities

	Measured at amortised cost	Measured at fair value	Liabilities not falling under the scope of IAS 39	
31/12/2009	Financial liabilities	Derivates designated as heding instruments (without affecting profit/loss)	Carrying amount	**Carrying amount on the face of 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

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

	31/12/2010		31/12/2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
€ million				
Financial assets	**275.2**	**269.4**	**380.8**	**375.0**
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	160.1	160.1	112.3	112.3
Other receivables and assets	40.1	40.1	46.7	46.7
Cash and cash equivalents	67.9	67.9	214.7	214.7
Financial liabilities	**412.4**	**412.1**	**412.8**	**391.6**
Liabilities to banks and other financial liabilities	141.5	141.2	18.8	17.2
US private placement	–	–	192.9	173.3
Trade payables	205.1	205.1	141.5	141.5
Other liabilities	65.8	65.8	59.6	59.6

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 2010 (31 December 2009: €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 2010, the DEUTZ Group held the following financial instruments measured at fair value:

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

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 derivatives	0.6	–	0.6	–
Financial liabilities				
Held-for-trading derivatives	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 (2009 only) 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:

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

31/12/2009	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

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

In the year under review, unrealised gains of €0.2 million on available-for-sale financial assets (2009: gains of €0.1 million) were recognised in other comprehensive income. No realised gains or losses were reclassified from other comprehensive income to the income statement in 2010.

Total interest income and interest expense

In 2010, interest income of €1.4 million (2009: €4.6 million) and interest expense of €29.8 million (2009: €13.3 million) were attributable to financial assets and financial liabilities that were not measured at fair value through profit or loss.

Hedging

Cash flow hedges As at 31 December 2010, the DEUTZ Group had entered into currency forward contracts in US dollars and Australian dollars (31 December 2009: US dollars and Australian dollars) classified as hedges for the purpose of hedging the currency risk on forecast transactions denominated in foreign currency.

As at 31 December 2009, the DEUTZ Group had also entered into cross-currency swaps classified as hedges. These instruments served to hedge the currency risk and interest-rate risk arising on expected future payments of principal and interest in connection with the US private placement, which was ended in December 2010.

Unrealised gains of €0.9 million on cash flow hedges (2009: losses of €9.1 million) were recognised in other comprehensive income in 2010, taking into account deferred tax liabilities of €0.4 million (2009: deferred tax assets of €4.3 million). These changes in fair value represent the effective portion of the hedge. In 2010, losses of €1.3 million (2009: losses of €0.9 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. The loss in 2010 includes a loss of €2.0 million from the termination of the hedge for some of the future payments of principal and interest in connection with the US private placement, as the transactions were no longer expected to take place due to the change in maturities. It also includes a gain of €1.6 million from the termination of the hedge for all other future payments of principal and interest in connection with the US private placement, as the transactions were no longer expected to take place at all during the year. In 2010, 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.

Derivative financial instruments

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

	Notional amounts 2010	Notional amounts 2009	**Fair values 2010**	Fair values 2009
€ million				
Currency forwards				
not used as hedges	3.2	–	–[1]	–
used as cash flow hedges	23.5	11.6	–[1]	–[1]
Cross-currency swaps				
used as cash flow hedges	–	160.2	–	–10.3
Commodities				
not used as hedges	9.5	3.7	0.9	0.6

[1] Amounts are less than €0.1 million after rounding.

29. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities

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

	31/12/2010	31/12/2009
€ million		
Liabilities on endorsed bills of exchange	2.7	1.8
Liabilities on guarantees	1.2	2.4
Warranty liabilities	1.5	1.8
Total	**5.4**	**6.0**

Other financial obligations

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

	31/12/2010	31/12/2009
€ million		
Due in less than 1 year	6.5	8.1
Due in 1 to 5 years	15.2	13.2
Due in more than 5 years	0.7	–
Total	**22.4**	**21.3**

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

Commitments to purchase property, plant and equipment and intangible assets amounted to €31.1 million as at 31 December 2010 (31 December 2009: €31.3 million) and commitments to purchase inventories amounted to €64.8 million (31 December 2009: €44.9 million).

Obligations under leases were not offset by any receivables in respect of sub-leases (31 December 2009: receivables of €0.0 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 individuals – including one against the 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 net assets, financial position and results of operations 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		Other expenses incurred in connection with services		Receivables as at 31 Dec		Liabilities as at 31 Dec	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
€ million								
Associates	–	–	–	–	1.1	0.4	–	–
Joint ventures	6.7	2.0	0.6	–	3.7	7.4	13.1	–
Other investments	0.3	0.2	4.0	3.9	0.1	0.1	4.8	4.6
Total	**7.0**	**2.2**	**4.6**	**3.9**	**4.9**	**7.9**	**17.9**	**4.6**

Liabilities due to joint ventures in an amount of €13.1 million include deposits in an amount of €12.4 million whose payment is planned to be spread out over the years up to 2014.

Impairment losses of €23.3 million (31 December 2009: €22.2 million) had been recognised on €27.1 million of the Company's receivables due from investments as at 31 December 2010 (31 December 2009: €25.2 million); this resulted in an expense of €1.1 million in 2010 (2009: €1.0 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	
	2010	2009	**2010**	2009
€ million				
Engines and spare parts supplied	71.6	58.7	326.6	210.7
Services	1.8	4.3	37.4	47.5
Receivables as at 31 December	17.9	2.3	56.1	43.8

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

Existing in-year 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 came to €0.1 million as at 31 December 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 for the Supervisory Board, the Board of Management and other members of the management team as related parties of the DEUTZ Group.

	Supervisory Board		Board of Management		Other members of management	
	2010	2009	**2010**	2009	**2010**	2009
€ million						
Current remuneration	0.3	0.3	2.8	3.4	3.4	2.6
Termination benefits	–	–	1.6	3.5	–	0.8

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

32. EVENTS AFTER THE REPORTING PERIOD

No material events occurred after the reporting period.

33. REMUNERATION PROGRAMMES

Between 2007 and 2010, DEUTZ AG launched Long Term Incentive Plans Nos. I to IV as long-term components of remuneration. Under these long-term incentive plans, virtual stock options are issued to reward management for its sustained contribution to the Company's success.

General description of the incentive plans of DEUTZ AG

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

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

As at the balance sheet date, 380,000 options had been granted under Long Term Incentive Plan No. I, 405,000 under Long Term Incentive Plan No. II, 330,000 under Long Term Incentive Plan No. III and 330,000 under Long Term Incentive Plan No. IV. A total of 465,000 options had been granted to members of the DEUTZ AG Board of Management.

No options had been exercised at the end of either 2010 or 2009. A total of 180,000 options expired as a result of employees and Board of Management members leaving the Company. As a result, 1,170,000 options remained outstanding as at 31 December 2010 (31 December 2009: 920,000).

Information on the exercise of options

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

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

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

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

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

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

Long Term Incentive Plan No. I:
No options had been exercised as at 31 December 2010 or 31 December 2009, although a total of 155,000 options had expired as a result of employees and Board of Management members leaving the Company. Therefore, a total of 225,000 options were outstanding as at 31 December 2010 (31 December 2009: 265,000).

Long Term Incentive Plan No. II:
No options had been exercised as at 31 December 2010 or 31 December 2009, although a total of 120,000 options had expired as a result of employees leaving the Company. Therefore, a total of 285,000 options were outstanding as at 31 December 2010 (31 December 2009: 345,000).

Long Term Incentive Plan No. III:
No options had been exercised as at 31 December 2010 or 31 December 2009, and no options had expired as a result of employees leaving the Company. Therefore, a total of 330,000 options were outstanding as at 31 December 2010 (31 December 2009: 310,000).

Long Term Incentive Plan No. IV:
No options had been exercised as at 31 December 2010, and no options had expired as a result of employees leaving the Company. Therefore, a total of 330,000 options were outstanding as at 31 December 2010.

Notes on the fair value of options

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

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

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

The calculation on the grant date was based on the DEUTZ AG share price of €9.68 on 2 July 2007 (the first trading day after the options were granted). It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period. 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, i.e. on 1 July 2011 instead.

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

The calculation on the grant date was based on the DEUTZ AG share price of €6.92 (€1.92) on 1 February 2008 (1 April 2009). It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

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

The calculation on the grant date was based on the DEUTZ AG share price of €3.15 on 1 June 2009. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

Long Term Incentive Plan No. IV:
The risk-free interest rate (2.50 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2010. The assumed volatility (48.87 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €4.10 on 1 July 2010. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

In accordance with the requirement for the fair value of options to be recalculated on each balance sheet date, a calculation was carried out on the basis of the DEUTZ AG share price of €6.25 on 31 December 2010 (31 December 2009: €3.39). Consequently, provisions for the following amounts had been recognised at the end of 2010:

Long Term Incentive Plan No. I:
€361,863 (31 December 2009: €90,084)
Long Term Incentive Plan No. II:
€621,994 (31 December 2009: €169,263)
Long Term Incentive Plan No. III:
€556,335 (31 December 2009: €85,279)
Long Term Incentive Plan No. IV:
€133,603 (31 December 2009: €0)

DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

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

	2010	2009
Non-salaried employees	2,318	2,568
Salaried employees	1,380	1,546
	3,698	**4,114**
Trainees	170	173
Total	**3,868**	**4,287**

35. CORPORATE GOVERNANCE

In December 2010, 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 of the German Stock Corporation Act (AktG) and made this declaration publicly and permanently available on the Company's website (www.deutz.com).

36. AUDITORS' FEES

The following fees were recognised as an expense in 2010 and 2009:

	2010	2009
€ thousand		
Auditing	403	402
Other attestation services	283	313
Other services	105	10
Total	**791**	**725**

The details of the auditing fees for 2010 include an amount of €74 thousand that relates to auditing fees for 2009.

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

Board of Management

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

		Fixed remunera-tion	Variable remunera-tion[1]	Other[2]	Total	Number of virtual share options granted	Fair value at grant date	Income (–) or expense (+) recognised for virtual share options[3]
€ thousand								
Dr Helmut Leube	2010	675	541	164	1,380	–	–	349
	2009	624	600	170	1,394	–	–	106
Dr Margarete Haase	2010	550	265	141	956	–	–	134
(since 1 April 2009)	2009	338	176	138	652	60,000	117	121
Gino Mario Biondi	2010	298	117	81	496	–	–	–30
(until 15 July 2010)	2009	483	231	157	871	–	–	23
Karl Huebser (until 31 March 2009)	2009	113	180	7	300	–	–	–
Helmut Meyer (until 31 March 2009)	2009	113	–	41	154	–	–	–50
Total	**2010**	**1,523**	**923**	**387**	**2,833**	**–**	**–**	**453**
Total	**2009**	**1,671**	**1,187**	**513**	**3,371**	**60,000**	**117**	**200**

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

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

The contracts also provide for a subsequent prohibition of competition. In addition, members of the Board of Management are contractually prohibited from providing services to or for a competitor for a period of one year after leaving the Company. As compensation for this requirement, they receive a payment equivalent of two-thirds of the average remuneration they received in the preceding three years. The present value of the benefit entitlement was €839 thousand for Dr Leube and €446 thousand for Dr Haase as at 31 December 2010.

On leaving the Company, Mr Biondi was granted a compensation payment in settlement of his entitlements for the remaining term of his employment contract. In connection with his departure, he received non-performance-related payments of €1,648 thousand in 2010.

Remuneration paid to former members of the Board of Management or their surviving dependants This remuneration amounted to €1,475 thousand (2009: €1,485 thousand) for DEUTZ AG and the Group; provisions of €15,086 thousand (31 December 2009: €12,503 thousand) have been recognised to cover pension obligations to these persons.

Supervisory Board

The following table shows the breakdown of total remuneration paid to members of the Supervisory Board:

	Fixed remuneration	Meeting attendance fee	Total
in €			
Lars-Göran Moberg Chairman	25,000	34,000	59,000
Werner Scherer Deputy Chairman	18,750	24,000	42,750
Massimo Bordi (until 30 September 2010)	9,349	9,000	18,349
Dr Lodovico Bussolati (since 1 October 2010)	3,151	2,000	5,151
Dr Francesco Carozza	12,500	7,000	19,500
Michael Haupt	12,500	23,000	35,500
Dr Helmut Lerchner	12,500	8,000	20,500
Dr Michael Lichtenauer	12,500	8,000	20,500
Caterina Messina (since 6 May 2010)	8,219	4,000	12,219
Karl-Heinz Müller	12,500	12,000	24,500
Dr Witich Roßmann	12,500	8,000	20,500
Susanne Scholtyssek (until 6 May 2010)	4,315	3,000	7,315
Dr Herbert Vossel	12,500	8,000	20,500
Egbert Zieher	12,500	8,000	20,500
Total	**168,784**	**158,000**	**326,784**

Advances and loans to members of the Board of Management and the Supervisory Board As at 31 December 2010 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 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."

In a letter dated 6 December 2010, Belfort S.A., Luxembourg, notified the following pursuant to section 21 et seq. WpHG:[1)]
"The share of voting rights held by SAME DEUTZ-FAHR Holding & Finance B.V., De Drieslag, 30, 8251 JZ DRONTEN, Netherlands, in DEUTZ AG fell below the threshold of 30 per cent on 3 December 2010; before 3 December it had been 44.97 per cent and it is now 25.11 per cent (a total of 30,352,781 bearer shares). The share of voting rights previously disclosed on 13 June 2006 pursuant to section 21 (1) WpHG amounted to 38.88 per cent.

We, Belfort S.A., 65, Boulevard Grande-Duchesse Charlotte, 1331 Luxembourg, hereby notify you pursuant to sections 21 and 22 WpHG in our own name and in the name of, and on behalf of, the companies and individuals specified under (i) and (v) below that the share of voting rights held in DEUTZ AG by
(i) SAME DEUTZ-FAHR Holding & Finance B.V., De Drieslag, 30, 8251 JZ DRONTEN, Netherlands,
(ii) SAME DEUTZ-FAHR Group S.p.A., V. le Cassani 14, 24047 Treviglio (BG), Italy,
(iii) Intractor B.V., Rokin 55, 1012 KK Amsterdam, Netherlands,
(iv) Messrs Vittorio Carozza, Francesco Carozza and Aldo Carozza and Ms Carozza-Cassani, V. le Cassani 14, 24047 Treviglio (BG), Italy, and
(v) Belfort S.A., 65, Boulevard Grande-Duchesse Charlotte, 1331 Luxembourg,

has fallen below the threshold of 30 per cent; this share had previously amounted to 44.97 per cent and is now 25.11 per cent. The company specified under (i) above holds these voting rights itself. These voting rights are fully attributable to the companies and individuals specified under (ii) to (v) above pursuant to section 22 (1) sentence 1 number 1 and section 22 (3) WpHG."

In a letter dated 7 December 2010, pursuant to section 21 et seq. WpHG, Belfort S.A., Luxembourg, corrected the notifications dated 6 December 2010 and issued the following notifications:[1)]
"In our own name and in the name of, and on behalf of, SAME DEUTZ-Fahr Group S.p.A., V. le Cassani, 14, 24047 Treviglio (BG), Italy, we hereby notify you pursuant to section 21 (1) WpHG in conjunction with § 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by SAME DEUTZ-FAHR Group S.p.A. fell below the threshold of 30 per cent on 3 December 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to SAME DEUTZ-FAHR Group S.p.A. pursuant to section 22 (1) sentence 1 number 1 WpHG.

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

"In our own name and in the name of, and on behalf of, Interactor B.V., Rokin 55, 1012 KK Amsterdam, Netherlands, we hereby notify you pursuant to section 21 (1) WpHG in conjunction with § 22 (1) sentence 1 number 1 WpHG that the share of voting rights held in DEUTZ AG, Ottostr. 1, 51149 Cologne-Porz (Eil), Germany, by Intractor B.V. fell below the threshold of 30 per cent on 3 De-

[1)] The disclosure of voting rights is inaccurate because parts of some sentences are missing. The only date specified was 7 December 2010 (and not 6 December 2010).

cember 2010 and that the share amounted to 25.11 per cent on this date (30,352,781 bearer shares representing 25.11 per cent of voting rights). The aforementioned voting rights are attributable to Interactor B.V. pursuant to section 22 (1) sentence 1 number 1 WpHG.

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

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

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

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

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

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

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

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

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

39. SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Information on the members of the Supervisory Board and the Board of Management, including non-executive directorships held at other companies, is given in a separate list on page 104 onwards.

Cologne, 28 February 2011
DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

SHAREHOLDINGS OF DEUTZ AG

As at 31 December 2010

Ref. no.	Name and registered office of the company	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG	–	315,659	–35,368
In Germany				
2	DEUTZ Beteiligung GmbH, Cologne[1]	100.0	25	–
3	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne[2]	100.0	26	787
4	DEUTZ Versicherungsvermittlung GmbH, Cologne[2]	100.0	1,534	811
5	Feld & Hahn GmbH i. L., Cologne[2]	100.0	455	25
6	DEUTZ Abgastechnik GmbH, Cologne[2]	100.0	25	–59
7	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne[1]	100.0	–2,525	–20
8	Ad. Strüver KG (GmbH & Co.), Hamburg[3]	94.0	–6,453	–819
9	Bosch Emission Systems Verwaltungs-GmbH, Stuttgart[4]	25.0	19	–6
10	Bosch Emission Systems GmbH & Co. KG, Stuttgart[1,4]	25.0	61,755	–13,901
11	Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf[1,3]	19.6	–20,570	–30
Outside Germany				
12	DEUTZ DITER S.A.U., Zafra, Spain[1]	100.0	30,425	8,598
13	DEUTZ FRANCE S.A.S., Gennevilliers, France[1]	100.0	10,544	906
14	DEUTZ UK LTD, Cannock, United Kingdom	100.0	168	4,126
15	AROTRIOS S.A., Nea Filadelfia, Greece (in insolvency)	100.0	–	–
16	DEUTZ ENGINEERING druzba za projektiraje, proizvodnjo in trgovino d.o.o., Maribor, Slovenia	100.0	39	3
17	DEUTZ GmbH, Moscow, Russia	100.0	20	–
18	Nlle Ste MAGIDEUTZ S.A., Casablanca, Morocco[1]	100.0	1,951	535
19	Deutz Corporation, Atlanta, United States[1]	100.0	17,547	553
20	DEUTZ DO BRASIL LTDA., São Paulo, Brazil	100.0	–11,226	276
21	DEUTZ ASIA-PACIFIC (PTE.) LTD., Singapore, Singapore[1]	100.0	5,552	1,518
22	Deutz Australia (Pty) Ltd., Braeside, Australia[1]	100.0	7,335	704
23	DEUTZ Engines (India) Private Limited, Pune, India	100.0	267	1
24	DEUTZ-Xiamen Diesel Engine Co., Ltd., Xiamen, China	100.0	754	–30
25	D. D. Power Holdings (Pty) Ltd., Elandsfontein, South Africa	30.0	13,900	4,263
26	DEUTZ AGCO MOTORES S.A., Haedo, Argentina	50.0	5,818	1,104
27	DEUTZ (Dalian) Engine Co., Ltd., Dalian, China	50.0	96,193	–2,259
28	WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO., LTD., Weifang, China	50.0	23,129	5,535

[1] Equity and net income in accordance with the annual financial statements prepared for consolidation purposes
[2] Equity and net income for the previous year
[3] Indirect shareholding via no. (2)
[4] Indirect shareholding via no. (6)

SUPERVISORY BOARD

Lars-Göran Moberg
Chairman
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

Werner Scherer[1]
Deputy Chairman
Chairman of the Cologne Works Council and of the General Works Council of DEUTZ AG, Cologne

Massimo Bordi
(until 30 September 2010)
Deputy CEO of MV Augusta S.p.A., Varese, Italy
CEO of SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy (until 31 May 2010)

b) SAME DEUTZ-FAHR ITALIA S.p.A., Treviglio, Italy (until 31 May 2010)

Dr Lodovico Bussolati
(since 1 October 2010)
CEO of SAME DEUTZ-FAHR Group S.p.A., Treviglio/Italien

b) SAME DEUTZ-FAHR ITALIA S.p.A., Treviglio, Italy

Dr Francesco Carozza
Deputy CEO of SAME DEUTZ-FAHR Group S.p.A., Treviglio, Italy

a) SAME DEUTZ-FAHR DEUTSCHLAND GmbH, Lauingen, Germany, Chairman

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

Dr Helmut Lerchner
Management consultant

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

Dr Michael Lichtenauer
Lawyer
a) Verwaltungsgesellschaft Otto mbH, Hamburg, Germany
Schwartauer Werke GmbH & Co. KGaA, Bad Schwartau, Germany
b) ELAFLEX-Hiby Tanktechnik GmbH & Co., Hamburg, Germany,
Chairman
MPC Münchmeyer Petersen & Co. GmbH, Hamburg, Germany

Caterina Messina[1]
(since 6 May 2010)
Legal advisor, trade union secretary
a) Harman Becker Automotive Systems GmbH, Karlsbad-Ittersbach, Germany

Karl-Heinz Müller[1]
Deputy Chairman of the General Works Council of DEUTZ AG, Cologne, Germany

Dr Witich Roßmann[1]
Chief Executive of IG Metall Cologne, Cologne, Germany

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

Susanne Scholtyssek[1]
(until 6 May 2010)
Head of Personnel Development at IG Metall, Frankfurt am Main, Germany
(until 31 March 2010)
Head of Pension Fund Department, Volkswagen AG
(from 1 April 2010)

Dr Herbert Vossel[1]
Head of Legal and Patents at DEUTZ AG, Cologne, Germany

Egbert Zieher[1]
Chairman of the Ulm Works Council of DEUTZ AG, Ulm, Germany

[1] Employee representative on the Supervisory Board
a) Membership of statutory German supervisory boards within the meaning of section 125 AktG
b) Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG

SUPERVISORY BOARD COMMITTEES

HUMAN RESOURCES COMMITTEE

Lars-Göran Moberg, Chairman
Werner Scherer, Deputy Chairman
Michael Haupt

AUDIT COMMITTEE

Michael Haupt, Chairman
Werner Scherer, Deputy Chairman
Karl-Heinz Müller
Lars-Göran Moberg

ARBITRATION COMMITTEE (SECTION 27 (3) GERMAN CODETERMINATION ACT (MITBESTG))

Lars-Göran Moberg, Chairman
Michael Haupt
Werner Scherer
Egbert Zieher

NOMINATIONS COMMITTEE

Lars-Göran Moberg, Chairman
Michael Haupt
Massimo Bordi (until 30 September 2010)
Dr Lodovico Bussolati (since 7 October 2010)

BOARD OF MANAGEMENT

Dr Helmut Leube (57)
Chairman
Market, technical and head-office functions

b) Bosch Emission Systems GmbH & Co. KG (since 27 September 2010)
Deutz Corporation, Atlanta/USA, Chairman
DEUTZ (Dalian) Engine Co. Ltd., Dalian, China, Deputy Chairman

Gino M. Biondi (51)
(until 15 July 2010)
Procurement, logistics, production and research & development

b) Bosch Emission Systems GmbH & Co. KG (27 April to 15 July 2010)
DEUTZ DITER S.A., Zafra, Spain, Chairman (until 15 July 2010)
DEUTZ AGCO Motores S.A., Haedo, Argentina (until 15 July 2010)

Dr Margarete Haase (57)
Finance, human resources and investor relations

a) Fraport AG, Frankfurt am Main (since 1 January 2011)
b) DEUTZ (Dalian) Engine Co., Ltd., Dalian, China

a) Membership of statutory German supervisory boards within the meaning of section 125 AktG
b) Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG

Annual financial statements in accordance with the German Commercial Code (HGB)

BALANCE SHEET OF DEUTZ AG

Assets	31/12/2010	31/12/2009
€ million		
Intangible assets	21.2	18.3
Property, plant and equipment	267.1	276.4
Investments	184.3	187.6
Fixed assets	**472.6**	**482.3**
Inventories	104.9	83.4
Receivables and other assets	207.1	165.0
Cash and cash equivalents	62.8	210.5
Current assets	**374.8**	**458.9**
Prepaid expenses	4.9	0.8
Deferred tax assets	50.2	–
Total assets	**902.5**	**942.0**

Equity and liabilities	31/12/2010	31/12/2009
Issued capital	309.0	309.0
Additional paid-in capital	26.8	26.8
Retained earnings		
Legal reserve	4.5	4.5
Other retained earnings	116.1	74.6
Accumulated loss	–140.7	–105.3
Equity	**315.7**	**309.6**
Provisions	263.6	257.7
Other liabilities	322.5	374.0
Deferred income	0.7	0.7
Total equity and liabilities	**902.5**	**942.0**

INCOME STATEMENT OF DEUTZ AG

	2010	2009
€ million		
Revenue	1,128.0	795.5
Increase or decrease in inventories of finished goods and work in progress	6.3	–18.5
Other own work capitalised	5.1	0.6
Total output	**1,139.4**	**777.6**
Other operating income	66.0	100.7
Cost of materials	–824.7	–611.0
Staff costs	–208.9	–212.3
Depreciation and amortisation	–41.7	–54.2
Other operating expenses	–139.6	–98.9
Net investment income	14.4	7.1
Net interest expense	–36.2	–6.9
Write-downs of investments	–0.7	–
Profit from ordinary activities	**–32.0**	**–97.9**
Net extraordinary expense	–7.5	–25.8
Income taxes	4.7	–7.3
Other taxes	–0.6	–1.1
Net loss	**–35.4**	**–132.1**
Loss/profit carried forward	–105.3	26.8
Accumulated loss	**–140.7**	**–105.3**

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, 28 February 2011
DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

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 Management. 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 Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the 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.

Düsseldorf, 9 March 2011

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

Once again in 2010, the Supervisory Board monitored the governance of the Company on an ongoing basis and advised the Board of Management on major decisions. In addition to strategic issues such as overall strategic development and future strategy in the Asian markets, the key areas of focus in the year under review were the restructuring of financing, changes to the Board of Management, remuneration of the Board of Management (taking special account of the Act on the Appropriateness of Management Board Remuneration (VorstAG), in effect since August 2009), and the Company's ongoing business performance – particularly with regard to the high requirements placed on the supply chain in the context of the exceedingly favourable acceleration in demand.

Furthermore the discussions focussed on measures concerning strict cost control and enhancement of engines with regard to the upcoming new exhaust emission standards.

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, as well as, if necessary, after they were prepared by the committees responsible.

Nine Supervisory Board meetings

Eight scheduled and one extraordinary Supervisory Board meeting were held in 2010. No Supervisory Board member was absent for more than half of the meetings.

Overall business performance, financing and DEUTZ strategy as key areas of deliberation

The lengthy discussions and deliberations between the Board of Management and Supervisory Board focussed on the current operating situation and risk position, the restructuring of financing, the Company's operational and strategic development on the Asian market in general, as well as concerning its joint venture in Dalian, China.

The strategic development process redefined by the Board of Management also played a major role in the deliberations of the Supervisory Board.

In the year under review, the Supervisory Board once again thoroughly examined the Company's strategic planning and capital expenditure.

Personnel

After the details had been prepared by the Human Resources Committee, during its meeting held 14 July 2010 the Supervisory Board approved the conclusion of a severance agreement between DEUTZ AG and Mr Biondi, as well as the resignation of Mr Biondi as a member of the Company's Board of Management with effect from the end of 15 July 2010. The Supervisory Board would like to thank Mr Biondi for his valuable contribution.

Reorganisation of Board of Management responsibilities

At its meeting on 14 July 2010, the Supervisory Board held detailed discussions about the reorganisation of the Board of Management's responsibilities following the resignation of Mr Biondi, which it then approved. As from 15 July 2010, Dr Leube will also assume the areas of research and development, mechanical assembly, production and sales, which were formerly managed by Mr Biondi. In addition to her former duties, Dr Haase is now also responsible for the areas of internal audit and DEUTZ Dalian Engines, which were formerly assigned to Dr Leube.

Corporate Governance: Declaration of compliance with few exceptions, Supervisory Board efficiency audit

The Supervisory Board gave thorough consideration to the German Corporate Governance Code as amended on 18 June 2009 and 26 May 2010 and, together with the Board of Management, issued a declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG), which only contains few exceptions, and has been available for download from the "Investors/Corporate Governance" section of the Company's website (www.deutz.com) since 14 December 2010.

The Supervisory Board assessed the efficiency of its activities in 2010 by having each member fill out an extensive questionnaire, both at the beginning as well as at the end of the year. The analyses of these questionnaires were presented to the Supervisory Board and discussed in detail at its March and December meetings. The overall findings were positive.

Lars-Göran Moberg
Chairman of the Supervisory Board

Efficient committee work

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees specialise in preparing various topics and resolutions for the full Supervisory Board. The composition of the Supervisory Board and its committees, as well as the future mandates held by its members, are shown separately on pages 104 to 105.

The Human Resources Committee makes preparations to enable the Supervisory Board to decide about the appointment of the members of the Board of Management, the content, conclusion and amendment of service contracts signed with members of the Board of Management appointed by the Supervisory Board, including remuneration as specified in their service contracts, and all issues between members of the Board of Management and the Company arising in this connection. The committee met five 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, as well as with Board of Management remuneration issues. A key area of focus with respect to the latter topic was the assessment of the appropriateness of remuneration pursuant to the new legal provisions of the VorstAG, in effect since August 2009.

The work of the Audit Committee in the year under review focussed on the single-entity and consolidated financial statements for 2009 and the corresponding auditors' reports, the condensed consolidated financial statements for the first six months to 30 June 2010 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2010, the discussion of the audit engagement for the year ended 31 December 2010, and risk management. The Audit Committee met on four occasions in 2010. The auditors attended three meetings of this committee.

The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) of the Act. It did not need to be convened during the year under review.

The Nominations Committee consists of three Supervisory Board members appointed by the Annual General Meeting. In 2010, the Nominations Committee discussed two appointments of shareholder representatives to the members of the Supervisory Board of DEUTZ AG, namely the appointment of Dr Lichtenauer by the Annual General Meeting on 6 May 2010, as well as the appointment of Dr Bussolati by the District Court of Cologne.

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

Single-entity and consolidated financial statements audited in detail

The single-entity annual financial statements of DEUTZ AG prepared by the Board of Management in accordance with the German Commercial Code (HGB), the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the respective management reports (in each case for the year ended 31 December 2010) were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, the auditors appointed by the Annual General Meeting on 6 May 2010. 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 and 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 findings to the Audit Committee in detail during its meeting on 28 February, as well as to the Supervisory Board during its meeting on 9 March 2011 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 2010 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 and its committees

The following changes to the Supervisory Board and its committees took place in the year under review:

Ms. Susanne Scholtyssek resigned as representative of IG Metall on the Supervisory Board of DEUTZ AG at the end of the Annual General Meeting on 6 May 2010. With effect from the same date, the District Court of Cologne appointed Ms. Caterina Messina as a member of the Supervisory Board in its ruling of 22 April 2010.

Mr Massimo Bordi resigned as shareholder representative on the Supervisory Board of DEUTZ AG as at 30 September 2010. In its ruling of 23 September 2010, the District Court of Cologne, at the request of the Board of Management and upon the recommendation of the Nominations Committee, appointed Dr Lodovico Bussolati as a member of the Supervisory Board with effect from 1 October 2010. The Supervisory Board would like to thank Ms. Scholtyssek and Mr Bordi for their outstanding work and valuable contributions.

At the Supervisory Board meeting on 7 October 2010, the shareholder representatives in the Supervisory Board of DEUTZ AG appointed Dr Bussolati as successor to Mr Bordi as a member of the Nominations Committee.

Conflicts of interest and consultancy agreements

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

The Supervisory Board would like to express its thanks and appreciation to all employees 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 2010.

Cologne, March 2011

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 2010, the Board of Management and the Supervisory Board once again carefully considered to what extent it was proper and consistent with the Company's objectives for DEUTZ to apply all the guidelines and recommendations of the DCGK. As a result, DEUTZ AG complies with the recommendations of the DCGK, as amended on 18 June 2009 and 26 May 2010, with the following exceptions:

1. The D&O insurance policy taken out by DEUTZ AG for members of the Board of Management has provided for the excess required in section 93 (2) sentence 3 German Stock Corporation Act (AktG) since the statutory deadline of 1 July 2010. In the case of Supervisory Board members, an excess of this type is, as before, not considered an appropriate means of control (item 3.8 (2 and3) DCGK).

2. There is no age limit at DEUTZ AG for members of either the Board of Management or the Supervisory Board (items 5.1.2 (2) sentence 3 and 5.4.1 (2) sentence 1 DCGK). This deviation enables DEUTZ AG to retain the option of benefiting from the long years of experience brought to the Company by older members of the Board of Management and Supervisory Board. The Supervisory Board of DEUTZ AG has only complied with the DCGK's recommendation that the supervisory board specify concrete objectives regarding its composition (item 5.4.1 (2) sentence1), which came into effect on 26 May 2010, since its meeting on 10 December 2010. The reason for this is that the submission of DEUTZ AG's declaration of compliance is always scheduled for the last Supervisory Board meeting of the year.

The current declaration of compliance in accordance with section 161 AktG, which the Board of Management and Supervisory Board submitted on 10 December 2010, can be accessed in the Investors / Corporate Governance section of the Company's website at www.deutz.com. Declarations of compliance from previous years can also be viewed and downloaded there.

Composition of the Supervisory Board; in particular the proportion of women

In accordance with item 5.4.1 (1 and2) DCGK, the Supervisory Board meeting on 10 December 2010 adopted the following resolution about its composition, in particular with regard to the proportion of women:

"The Supervisory Board must be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. In particular, the following applies:

Internationality

DEUTZ AG maintains a strong international presence in a globalised market. DEUTZ customers are supported by nine distribution companies, nine sales offices and over 800 sales and service partners in more than 130 countries around the world. DEUTZ AG has various domestic and foreign subsidiaries. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions. DEUTZ AG also has two joint ventures in China – DEUTZ (Dalian) Engine Co., Ltd. and Weifang Weichai-Deutz Diesel Engine Co., Ltd. – and one in Argentina, DEUTZ AGCO MOTORES S.A. To reflect the international operations of the Company, at least two Supervisory Board members shall have several years' experience of international business – preferably that they have acquired abroad.

Potential conflicts of interest

The composition of the Supervisory Board shall also take account of potential conflicts of interest of its members. All members of the Supervisory Board are obliged to disclose any conflicts of interest, especially those arising from an advisory function or directorship at customers, suppliers, lenders or other business partners.

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

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

Standard age limit

At DEUTZ AG, there is no age limit for Supervisory Board members (or for Board of Management members). This is because DEUTZ AG wants to retain the option of benefiting from the long years of experience brought to the Company by older members of the Board of Management and Supervisory Board.

Diversity

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

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

Consideration of women when filling managerial positions

To ensure that women are taken into consideration for vacant managerial positions, DEUTZ AG has adopted a staff development programme under which the Board of Management and HR department endeavour to include at least one woman in the short list for all vacancies at the first and second management levels below the Board of Management.

Description of the operating procedures of the Board of Management and Supervisory Board

At DEUTZ, responsibility for the executive function lies with the Board of Management; the Supervisory Board monitors and advises the Board of Management in its activities.

With the long-term development of the Company in mind, the Board of Management and Supervisory Board maintain an open, ongoing dialogue on all strategic decisions in the Company – a process that continued in the year under review. The primary aim of the close cooperation between the two bodies is to enhance the value of the Company over the long term for the benefit of shareholders, employees and business partners. Accordingly, the Board of Management provides the Supervisory Board with regular, comprehensive and timely reports on all relevant issues relating to planning, business performance, risk position and risk management.

The Supervisory Board's work is based on rules of procedure, which can be downloaded from the DEUTZ AG website at www.deutz.com.

Eight scheduled Supervisory Board meetings, as well as one extraordinary meeting, were held in 2010.

The Supervisory Board reviewed the efficiency of its activities in 2010 by means of a detailed questionnaire that was completed by all members at the beginning and the end of the year. The results of these surveys were presented at the Supervisory Board meetings in March and December where they were discussed at length. The overall findings were positive.

No former members of the DEUTZ AG Board of Management are now members of the Supervisory Board. The Supervisory Board is elected for a period that runs until the Annual General Meeting in 2013.

The principles by which the Board of Management operates are summarised in rules of procedure issued by the Supervisory Board, which can also be downloaded from the DEUTZ AG website.

Board of Management meetings generally take place every two weeks.

Responsible risk management

A forward-looking, prudent and responsible approach to corporate risks forms a core aspect of good corporate governance and the basis for the risk management system at DEUTZ. The Board of Management regularly notifies the Supervisory Board of any existing or anticipated risks. Details of the DEUTZ Group's risk management systems can be found in the risk report on pages 45 to 49.

Comprehensive transparency and active investor relations

The transparent presentation of developments and decisions in a company forms the core of any model system of corporate governance. Continuous, open dialogue with all stakeholders ensures trust in the company and its value creation process. DEUTZ therefore attaches the greatest importance to ensuring that all relevant target groups are given the same information at the same time and in a timely manner.

We achieve this objective by using various media. DEUTZ AG reports on the performance and development of its business and on significant changes and events four times a year, in its interim reports and the annual report. Interim reports are published within 45 days of the end of a reporting period; the annual report is published within 90 days of the end of the financial year. The Company maintains constant contact with investors and analysts through its regular investor relations activities. In addition to the annual analysts' meeting held when the Company's consolidated annual financial statements are published, conference calls for analysts and institutional investors take place with the publication of interim reports. The Annual General Meeting is usually held in the first five months of the year; shareholders who do not attend the AGM in person can instruct proxies to vote on their behalf.

Our website also offers comprehensive information on the Company: DEUTZ AG annual and interim reports, press releases and ad hoc announcements, analyst recommendations and investor relations presentations as well as key dates in the financial calendar can all be found at www.deutz.com. The Company's Statutes are also available online. Almost all the pages on our website are provided in both German and English to ensure that important company news and information is as accessible as possible, including to an international audience. Apart from the regularly published information, DEUTZ AG also provides details of circumstances that are not in the public domain but that could have a significant impact on DEUTZ's share price were they to become known. The Company's reporting policy therefore complies 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

Following intensive preparations by the Human Resources Committee, the Supervisory Board meeting on 14 July 2010 approved the conclusion of a severance agreement between DEUTZ AG and Mr Biondi and Mr Biondi's resignation from the Company's Board of Management with effect from the end of 15 July 2010.

At its meeting on 14 July 2010, the Supervisory Board held detailed discussions about, and approved, the reorganisation of the Board of Management's responsibilities after Mr Biondi's departure. Dr Leube took on Mr Biondi's previous responsibilities – which were research and development, mechanical fabrication, purchasing and the plants in Porz and Ulm – with effect from 15 July 2010. Besides her existing tasks, Dr Haase took over responsibility for Internal Audit and DEUTZ Dalian Engines from Dr Leube.

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 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 focused primarily on the change to the Board of Management detailed above, the reorganisation of Board of Management responsibilities and Board of Management remuneration issues. One of the main remuneration issues was the examination of the appropriateness of remuneration pursuant to the new German Act on the Appropriateness of Management Board Remuneration (VorstAG), which came into effect in August 2009.

The work of the Audit Committee in the year under review focussed on the single-entity and consolidated financial statements for 2009 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2010 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2010, the discussion of the audit engagement for the year ended 31 December 2010, and risk management. The Audit Committee met on four occasions in 2010. The auditors attended three meetings of this committee.

The Arbitration Committee set up pursuant to section 27 (3) MitbestG is responsible for the activities described in section 31 (3) of the act. It did not need to be convened during the year under review.

The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. In 2010, the Nominations Committee dealt with the appointment of two shareholder representatives as members of the DEUTZ AG Supervisory Board: the appointment of Dr Lichtenauer by the Annual General Meeting of DEUTZ AG on 6 May 2010 and the appointment of Dr Bussolati by the local court in Cologne.

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 the year under review: the shareholder representatives on the DEUTZ AG Supervisory Board appointed Dr Bussolati to succeed Mr Bordi as a member of the Nominations Committee at the Supervisory Board meeting on 7 October 2010.

Full details of the membership of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 104 to 105.

Disclosures relevant to corporate management practices; compliance organisation

In 2008, as part of the systematic establishment of a compliance system, the Board of Management appointed a Compliance Officer who is responsible for coordinating all activities focusing on the promotion of compliance and who liaises with the member of the Board of Management with responsibility for compliance.

In 2009, the Board of Management had agreed on insider trading guidelines and a code of conduct based on proposals by the Compliance Officer. These guidelines and code of conduct 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, safety and the environment.

DEUTZ AG also took the following steps to improve its compliance organisation in 2010:

To firmly embed compliance in the Company, the Board of Management decided to expand the compliance organisation by appointing compliance coordinators within the Company's main functions. It is intended that these compliance coordinators initiate action steps to ensure and optimise compliance in their functions, support the implementation of these steps and report regularly to the Compliance Officer.

In addition, guidelines on how to deal with suspected cases of money laundering and with distribution service providers were approved and have since come into effect.

Contract management software was implemented, thereby enabling a full record of all relevant contracts to be kept. These records will be used, among other things, to identify operational, accounting-related and compliance risks and to manage such risks professionally.

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 October 2010, 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 business contingency planning, 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, Dr Francesco Carozza and Dr Lodovico Bussolati were or are subject to a conflict of interest because of their functions in companies in the SAME DEUTZ-FAHR Group, which are also major customers of DEUTZ AG. The chairman of the Supervisory Board reviewed or reviews each individual case to establish whether this conflict of interest restricted or restricts the opportunity for the involvement of Mr Bordi, Dr Carozza and/or Dr Bussolati in the work 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 onwards of the management report. The remuneration paid to individual members of the Board of Management and the Supervisory Board is stated on pages 99 and 100 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 2010, no members of the Board of Management, nor any other individuals subject to this disclosure requirement, disclosed the purchase or sale of shares under this provision. Up to the date on which the annual financial statements were formally adopted, nobody subject to the disclosure requirement had acquired or sold shares.

Together with other members of the Carozza family, Dr Francesco Carozza, a member of the Supervisory Board, has an indirect investment in SAME DEUTZ-FAHR Holding & Finance B.V., which is the largest individual shareholder in DEUTZ AG with 25.11 per cent of the Company. Dr Carozza therefore indirectly holds 25.11 per cent of DEUTZ shares. As at 31 December 2010, there was no other ownership subject to reporting requirements pursuant to item 6.6 DCGK. This means that the total number of shares in DEUTZ AG held by all members of the Board of Management and other members of the Supervisory Board as at the balance sheet date accounted for less than 1 per cent of the shares issued by the Company.

Where this corporate governance report refers to the Notes to the consolidated financial statements for further details of remuneration, the information disclosed therein forms part of the corporate governance report.

Glossary

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

Captive market / segment Market segment in which original equipment and commercial vehicle manufacturers have their own engine production facilities to meet their engine needs. Consequently, the captive market is not generally accessible to independent engine manufacturers.

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

Common rail Injection system for diesel engines whereby all cylinders are supplied with fuel at constant pressure via a shared high-pressure fuel line. The advantages of common rail injection include better mixture formation in the cylinders, lower fuel consumption and lower emissions.

Compliance Denotes the entirety of measures taken by a company to comply with laws, regulations and directives and also to comply with contractual obligations and self-imposed obligations. Compliance is a key element of corporate governance.

Convertible bond A bond that can be converted into the shares of the issuing company under certain conditions at a fixed conversion ratio and within a specified period.

Corporate governance Responsible management and control of a company with a view to long-term value creation and increasing shareholder value.

Covenants Ancillary provisions under loan agreements with which the borrower must comply during the term of the loan agreement. The provisions govern financial and other obligations and contain legal consequence clauses in the form of sanctions.

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

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

Deferred taxes Differences between the calculation of profit under tax law and under IAS result in differing tax calculations. These differences in the amount of tax are recognised on the balance sheet as deferred tax assets or liabilities.

DIN EN ISO 14001 (Deutsches Institut für Normung – European Norm – International Organization for Standardization – 14001) A German, European and international industrial standard for environmental management.

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

D&O insurance (directors and officers insurance) A liability insurance policy against financial loss taken out by a company to indemnify its directors and senior managers.

Dual sourcing Procurement strategy in which one item is procured from two different suppliers in order to minimise the commercial risk.

DVERT® (DEUTZ Variable Emissions Reduction Technology) A combination of systems, components and procedures that are used as modules to create technically optimised and, at the same time, cost-effective solutions for reducing exhaust and noise emissions.

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

Emissions legislation Sets limits for certain exhaust gas constituents in engine-powered vehicles and equipment. Also specifies test procedures, implementation schedules and, in certain cases, transitional periods.

EU Tier I, II, III A, III B, IV Exhaust standard laid down by the European Union for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

Exhaust aftertreatment Ensures compliance with statutory emissions limits for gaseous pollutants such as nitrogen oxides (NO_X) 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.

Factoring Funding instrument whereby a company secures its short-term liquidity and transfers the default risk associated with receivables by selling trade receivables to a factor (the factor can be a bank or a specialist financial institution).

Forward Individually structured, non-exchange-traded forward transaction.

Free float The proportion of shares in a public limited company (Aktiengesellschaft) not held by a major shareholder. According to the Deutsche Börse definition, shareholdings of less than 5 per cent are classified as free float.

Hedging Hedging interest-rate, currency, price or similar risks through the use of derivative financial instruments that limit the risk associated with the underlying transactions.

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

Investment grade Credit rating for high-quality bonds.

Long-term incentive plan (LTI) A form of incentive-based remuneration offered to members of the Board of Management and selected senior managers; its purpose is to enable these executives to benefit from the company's long-term success, thereby encouraging them to stay with the company.

Non-captive market / segment Market segment in which original equipment and commercial vehicle manufacturers purchase engines from third-party manufacturers to meet their engine needs. The non-captive market is accessible to independent engine manufacturers.

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

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

On-road applications Engine-powered applications that are licensed for use on public roads such as commercial vehicles and buses.

Option Contract that, until the expiry date, gives the holder the right to buy – and the writer the obligation to sell – an underlying instrument (a security or a product/commodity) at an exercise price that has been fixed in advance.

Prime Standard The minimum standard set by Deutsche Börse AG for companies looking to raise capital from international investors. These companies have to meet stringent international disclosure requirements. Admission to the Prime Standard is a prerequisite for inclusion in the DAX, MDAX, TecDAX and SDAX indices.

Rating Used to assess the creditworthiness of a company. It gauges the extent to which the company will be able to repay the principal and interest on its outstanding liabilities at the agreed date.

Return on capital employed (ROCE) The ratio of EBIT to average capital employed. Capital employed: total assets minus cash and cash equivalents, trade payables and other current and non-current liabilities based on average values from two balance sheet dates.

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

Selective Catalytic Reduction (SCR) Catalytic reduction of nitrogen oxide in the exhaust gas of combustion engines, whereby a watery urea solution is used as a reducing agent that is injected into the exhaust gas. In the hot exhaust gas, the urea disintegrates to form ammonia, which converts the nitrogen oxide into harmless molecular nitrogen.

Six Sigma A statistical quality target and a method of quality management.

Soot and particulate filters Devices for reducing the particulates contained in the exhaust gases of diesel engines. There are two types of filter, which work in very different ways: wall-flow filters, in which the exhaust gas penetrates a porous wall; and flow filters, in which the exhaust gas flows through the filter itself.

Support production Production of a certain quantity of a certain component is outsourced due to the full utilisation of inhouse production capacity. The use of support production makes it possible to flexibly adjust the production volume of a certain component as required and without the need to expand inhouse capacity.

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

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

US EPA TIER 1, 2, 3, 4 US emissions standard for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

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

Working capital ratio Ratio of average working capital (inventories plus trade receivables minus trade payables) over four quarters to revenue for the last twelve months.

XETRA Stands for "Exchange Electronic Trading" and is the name given to the electronic dealing system run by Deutsche Börse AG (also known as screen-based trading).

FINANCIAL CALENDAR

Date	Event	Location
17 March 2011	Annual press conference Annual report for 2009	Cologne
18 March 2011	Analysts' meeting	Frankfurt/Main
5 May 2011	Annual General Meeting	Cologne
12 May 2011	Interim report 1st quartal 2011 Conference call with Analysts and Investors	
4 August 2011	Interim report 1st Half-Year 2011 Conference call with Analysts and Investors	
10 November 2011	Interim report 1st to 3rd quartal 2011 Conference call with Analysts and Investors	

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DEUTZ GROUP: MULTI-YEAR OVERVIEW

	Continuing operations 2006	Continuing operations 2007	Continuing operations 2008	Continuing operations 2009	**Continuing operations 2010**
€ million					
New orders	1,296.9	1,584.5	1,363.5	842.3	1,315.0
Unit sales (quantity)	236,679	285,861	252,359	117,961	167,680
DEUTZ Compact Engines	199,202	248,971	219,681	102,420	150,179
DEUTZ Customised Solutions	37,477	36,890	32,678	15,541	17,501
Revenue	1,183.6	1,524.2	1,495.0	863.4	1,189.1
thereof excluding Germany (%)	74.6	78.0	75.6	76.6	80.8
DEUTZ Compact Engines	868.3	1,186.0	1,143.2	636.0	919.0
DEUTZ Customised Solutions	315.3	338.2	351.8	227.4	270.1
EBITDA [1]	111.9	149.7	81.8	–8.8	92.7
EBITDA (before one-off items) [1]	111.9	149.7	93.5	20.8	112.6
EBIT [1]	53.2	84.2	7.4	–89.2	22.3
EBIT (before one-off items) [1]	53.2	84.2	21.7	–46.3	42.2
EBIT margin (%)	4.5	5.5	0.5	–10.3	1.9
EBIT margin (before one-off items, %)	4.5	5.5	1.5	–5.4	3.5
Net income	61.5	183.3	–8.3	–124.0	–15.9
Continuing operations	38.5	59.4	–4.2	–119.8	–15.9
Discontinued operations	23.0	123.9	–4.1	–4.2	–
Basic earnings per share (€)	0.57	1.56	–0.07	–1.03	–0.13
Continuing operations	0.36	0.51	–0.04	–0.99	–0.13
Discontinued operations	0.21	1.05	–0.03	–0.04	–
Total assets	1,162.9	1,378.6	1,206.3	1,071.1	1,041.7
Non-current assets	499.1	511.3	539.7	539.4	591.5
Equity	358.5	557.1	511.3	379.2	374.3
Equity ratio (%)	30.8	40.4	42.4	35.4	35.9
Cash flow from operating activities before payment of compensation for vested company pension rights	84.4	41.1	90.1	117.4	78.2
Cash flow from operating activities	84.4	–38.7	89.7	117.4	78.2
Free cash flow	–14.8	–111.5	–23.3	12.6	–55.9
Net financial position [2]	–34.0	89.7	–12.2	2.9	–73.6
Working capital [3]	133.1	196.9	205.0	98.3	112.6
Working capital as a percentage of revenue (31 Dec., %)	11.2	12.9	13.7	11.4	9.5
Capital expenditure (excluding capitalisation of R&D)	81.9	143.5	69.9	52.9	61.1
Depreciation and amortisation	58.7	65.5	74.4	80.4	70.4
Research and development	54.8	55.8	90.3	104.6	101.8
Employees (31 Dec.)	4,331	4,617	4,701	4,012	3,839

[1] Since 2009 the interest included in pension costs has been reported as part of staff costs rather than as net interest expense. The comparative figures of previous years have been restated accordingly to improve comparability.
[2] Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities
[3] Working capital: inventories plus trade receivables minus trade payables

	Continuing operations 2006	Continuing operations 2007	Continuing operations 2008	Continuing operations 2009	**Continuing operations 2010**
Revenue by region (€ million)	1,183.6	1,524.2	1,495.0	863.4	1,189.1
Europe/Middle East/Africa	896.3	1,193.2	1,195.7	710.3	983.9
Americas	210.2	207.2	180.7	69.6	116.1
Asia-Pacific	77.1	123.8	118.6	83.5	89.1
Revenue by application segment (€ million)	1,183.6	1,524.2	1,495.0	863.4	1,189.1
Mobile Machinery	440.9	581.3	529.8	177.7	369.6
Stationary Equipment	260.4	258.8	259.3	153.0	175.8
Agricultural Machinery	146.8	163.7	195.8	162.9	185.0
Automotive	119.4	279.8	266.2	169.7	192.6
Service	179.7	203.5	212.0	175.0	215.8
Miscellaneous	36.4	37.1	31.9	25.1	50.3
Key figures DEUTZ shares					
Number of shares (31 Dec.)	114,326,416	120,085,030	120,861,783	120,861,783	120,861,783
Number of shares (average)	107,161,106	117,315,867	120,793,508	120,861,783	120,861,783
Share price (31 Dec., €)	10.05	6.95	2.38	3.39	6.25
Share price high (€)	10.40	12.02	7.60	3.70	6.38
Share price low (€)	4.00	6.82	1.85	1.59	3.15
Market capitalisation (31 Dec., € million)	1,148.9	834.6	287.7	409.7	755.4
Basic earnings per share (€)	0.57	1.56	–0.07	–1.03	–0.13
Continuing operations	0.36	0.51	–0.04	–0.99	–0.13
Discontinued operations	0.21	1.05	–0.03	–0.04	–
Diluted earnings per share (€)	0.52	1.52	–0.07	–1.03	–0.13
Continuing operations	0.33	0.50	–0.04	–0.99	–0.13
Discontinued operations	0.19	1.02	–0.03	–0.04	–

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