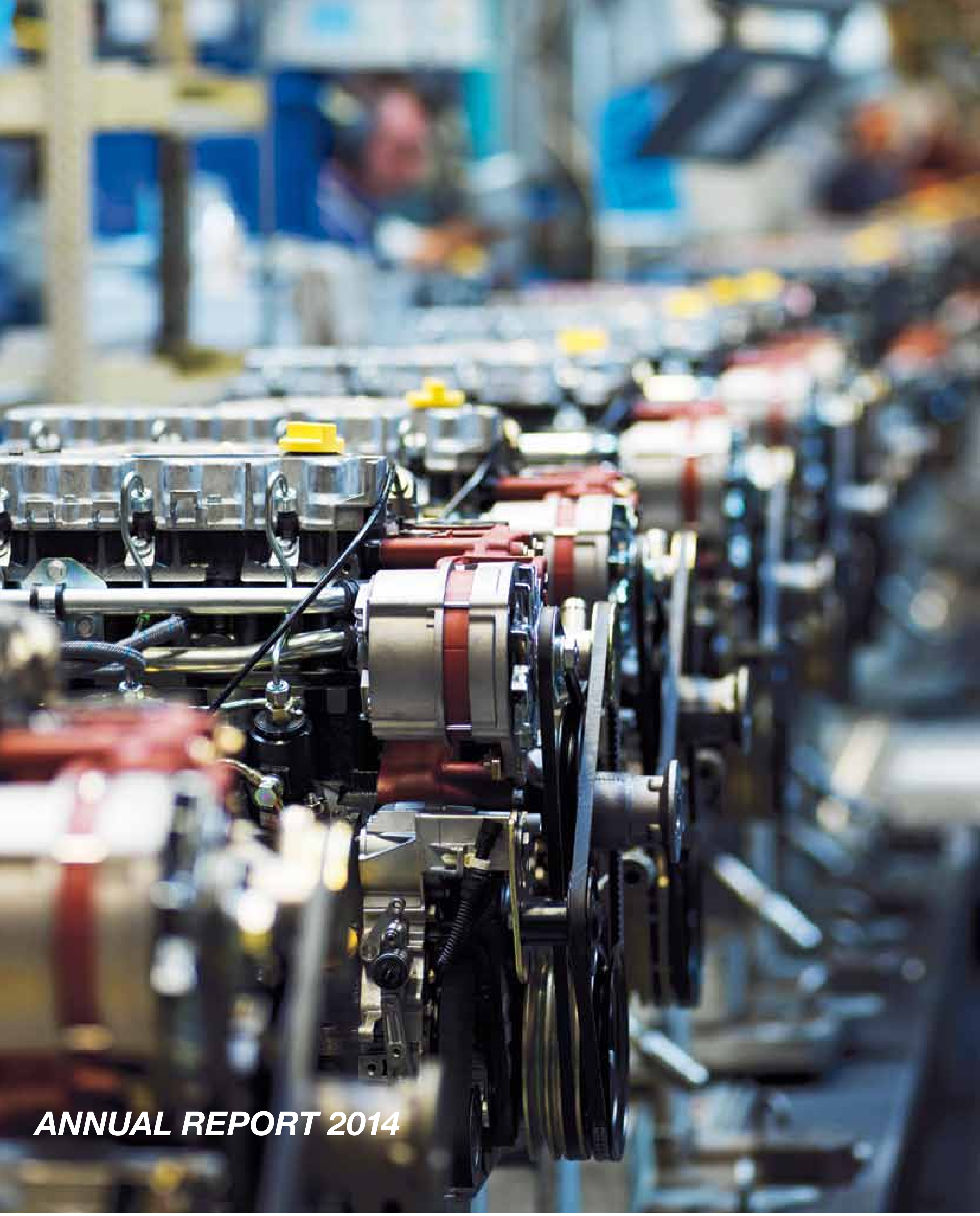


ANNUAL REPORT 2014

The engine company. DEUTZ

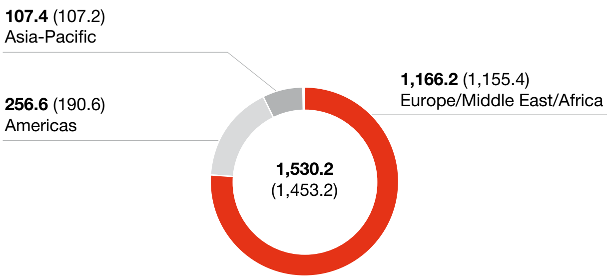
DEUTZ GROUP: KEY FIGURES

	2014	2013	Change (%)
€ million			
New orders	1,379.0	1,649.7	–16.4
Unit sales (units)	196,403	184,028	6.7
Revenue	1,530.2	1,453.2	5.3
EBITDA	120.3	142.0	–15.3
EBITDA before one-off items	137.4	142.0	–3.2
EBIT	12.8	47.5	–73.1
EBIT before one-off items	31.7	47.5	–33.3
EBIT margin (%)	0.8	3.3	–
EBIT margin before one-off items (%)	2.1	3.3	–
Net income	19.5	36.0	–45.8
Earnings per share (€)	0.18	0.30	–40.0
Total assets	1,149.2	1,121.0	2.5
Non-current assets	563.6	596.6	–5.5
Equity	511.0	504.7	1.2
Equity ratio (%)	44.5	45.0	–
Cash flow from operating activities	114.1	105.0	8.7
Free cash flow[1]	52.0	13.8	–
Net financial position[2]	13.7	–31.7	–
Working capital[3]	196.2	172.3	13.9
Working capital as a percentage of revenue (%)[4]	12.8	11.9	–
Capital expenditure (excl. capitalisation of R&D, after deducting grants)	40.3	42.5	–5.2
Depreciation and amortisation	107.5	94.5	13.8
Research and development (after deducting grants)	53.1	52.6	1.0
thereof capitalised	26.3	33.8	–22.2
Employees (31 Dec)	3,916	3,952	–0.9

[1] Free cash flow: cash flow from operating and investing activities less interest expense.
[2] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities.
[3] Working capital: inventories plus trade receivables minus trade payables.
[4] Working capital ratio (percentage as at balance sheet date): working capital as at balance sheet date divided by revenue for the previous twelve months.

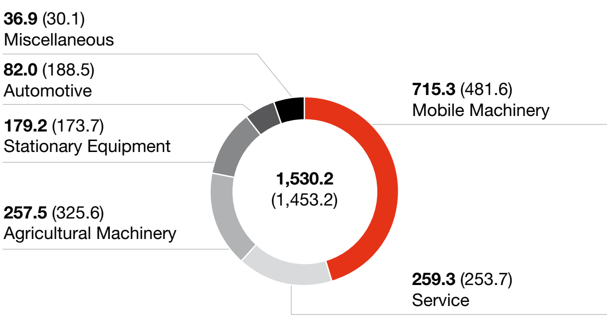
DEUTZ Group: Revenue by regions

€ million (2013 figures)



DEUTZ Group: Revenue by application segment

€ million (2013 figures)



DEUTZ AG

DEUTZ AG is an independent manufacturer of diesel engines with a power output of 25 to 520 kW and is headquartered in Cologne, Germany. For more than 150 years, the name DEUTZ has been synonymous with cutting-edge technology and high-quality products. We currently employ around 4,000 people and have a presence in over 130 countries.

DEUTZ AROUND THE WORLD

Key

- ● Production/assembly/components plant
- ▲ Sales company
- ■ Sales office

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

Americas

Argentina
●▲ Buenos Aires

Brazil
▲ São Paulo

USA
●▲ Atlanta
● Pendergrass

Europe

Germany
● Herschbach
●■ Cologne
● Übersee
●■ Ulm

France
▲ Gennevilliers/ Paris

UK
■ Cannock

Russia
▲■ Moscow

Spain
▲ Madrid
● Zafra

Africa

Algeria
■ Algiers

Morocco
▲ Casablanca

South Africa
▲ Johannesburg

Asia

China
●▲ Dalian
▲■ Beijing
● Weifang

India
▲ Pune

Singapore
▲ Singapore

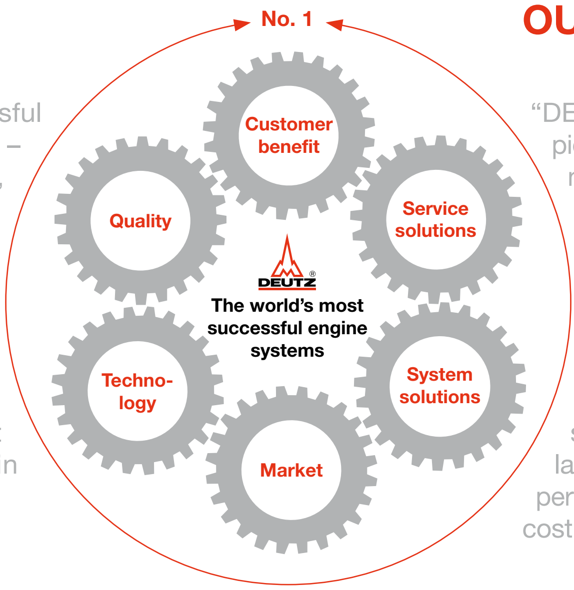
UAE
■ Abu Dhabi

Australia

▲ Braeside/ Melbourne

OUR VISION

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



OUR MISSION

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

DEUTZ SEGMENTS

DEUTZ Compact Engines

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

DEUTZ Compact Engines	2014	2013	Change (%)
€ million			
New orders	1,115.0	1,385.5	–19.5
Unit sales (units)	183,125	167,964	9.0
Revenue	1,279.9	1,188.8	7.7
EBIT (before one-off items)	15.2	8.7	74.7

DEUTZ Customised Solutions

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

DEUTZ Customised Solutions	2014	2013	Change (%)
€ million			
New orders	264.0	264.2	–0.1
Unit sales (units)	13,278	16,064	–17.3
Revenue	250.3	264.4	–5.3
EBIT (before one-off items)	18.8	39.0	–51.8

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FOREWORD

Dear shareholders,
friends and partners of our Company,

DEUTZ AG celebrated its 150th anniversary in 2014, a good reason for various celebrations and a special book to mark the Company's long history, which has been eventful as well as successful. We are proud of what we have achieved and will do our utmost to develop the Company on a sustainable basis.

Last year, one of our successes was the introduction of our new products. All engines that comply with the latest EU Stage IV/ US Tier 4 emissions standards have been approved for series production, if they had not already received their approval. This was the reason for overhauling our entire engine range in recent years. The extremely compact dimensions of the new engines is what really sets them apart from their competitors. DEUTZ engines also feature low fuel consumption, low lifecycle costs and exhaust aftertreatment designs that are tailored to customer needs, further proof of our role as technology leader. Customers also showed their appreciation. As well as receiving numerous orders from existing customers, we are delighted to have won a range of new customers across all regions and applications.

We are even going one step further by ensuring that our TCD engines in the 2.9 to 7.8 litre cubic capacity range with a diesel particulate filter already meet EU Stage V, the next EU emissions standard announced for 2019. We are therefore able to cover two cycles of emissions standards with the same product version, which is providing our customers with long-term planning certainty, flexibility and a stable technology platform. Because they do not have to invest in adapting their equipment, customers make huge savings that they can use to win market share. We benefit in terms of higher sales.

In 2014, we added the 'operational excellence' efficiency and quality programme to the three pillars of our growth strategy – to form the basis for achieving profitable growth. Its main focal points include continuously improving quality, managing the supply chain and reducing complexity. We also reviewed our sites around the world in this context. As already announced, this resulted in our decision to carry out a comprehensive optimisation of our network of sites in Germany, which is under way as planned. It involves consolidating our sites in Cologne and integrating our exchange engine plant in Übersee on Lake Chiemsee into the plant in Ulm. We expect these measures to bring about a sustainable increase in our efficiency.

We are scrutinising our activities in China in light of changes in the market situation. Although we continue to have every faith in the potential of the Chinese market – and have stepped up our sales activities there – we have also decided to focus our production operations in China on our established and successful DEUTZ Dalian joint venture, which has sufficient capacity.

It is clear how a variety of internal and external factors – including the economic downturn at the year end and signs of weakness in some sales markets – affected our business last year. The volume of new orders received in 2014 amounted to €1,379.0 million, which was 16.4 per cent lower than the high volume received in 2013. Nonetheless, we sold 196,403 engines and revenue was up by 5.3 per cent to €1,530.2 million, which was in line with our adjusted forecast. We also benefited from the change to the EU emissions standard for engines under 130 kW in the EU and the associated effects of the advance production of engines. In the first nine months of 2014, European customers purchased more engines than they needed, which will reduce demand in subsequent quarters.

Our operating profit (EBIT before one-off items) fell to €31.7 million from €47.5 million in 2013. The EBIT margin (before one-off items) was 2.1 per cent. This was also in line with our adjusted forecast, which was revised down due to a €20.4 million charge against earnings recognised in the third quarter of 2014. After a rise in the number of warranty claims on engines from the DEUTZ Compact Engines segment, primarily relating to engines manufactured in 2011, we made a substantial increase to the provisions for warranty costs. We immediately ensured that no faulty parts are used in production by changing our processes and implementing quality-assurance measures. Based on the information currently available, the increase in the provisions recognised on the balance sheet covers all future charges that can be anticipated to arise from this matter. Without this charge and other exceptional effects, the EBIT margin (before one-off items) would have stood at 3.4 per cent.

The increase in our free cash flow, which virtually quadrupled compared with 2013 and stood at €52.0 million, was very welcome. Now that all of our new products have been launched on the market, the associated capital expenditure is being depreciated, while the high development costs and capital expenditure of recent years have been scaled back again.

From left to right:
Michael Wellenzohn
Board of Management member
Sales, service and marketing

Dr Margarete Haase
Board of Management member
Finance, human resources, investor and public relations

Dr Ing Helmut Leube
Chairman of the Board of Management
Technical and head-office functions

Last year, the price of DEUTZ shares fell by around 38 per cent and ended the year at €4.00. This trend was undoubtedly connected with our results, some of which were lower than initially forecast. However, we also firmly believe that our share price and our business are increasingly subject to cyclical fluctuations with both positive and negative effects. Consequently, we expect share prices to recover sharply when there is a general upturn in business. We also aim to continue paying a dividend even when business conditions are challenging. Together with the Supervisory Board, we propose that the dividend for 2014 should remain unchanged at €0.07 per share.

Our Company could not succeed without the considerable dedication and high level of commitment of our employees around the world. We would like to take this opportunity to express our thanks to them – particularly at a time when we are focusing so closely on efficiency enhancement. We would also like to extend our sincere thanks to our customers, suppliers and other partners of the Company – both old and new – for putting their trust in us and working with us.

We believe the current year will be a period of transition characterised by a significant reduction in demand resulting from the advance production of engines in 2014 mentioned above. As a result, we believe that the decline in revenue will be in the region of 10 per cent in 2015 but that there will be modest improvement in the EBIT margin before one-off items to around 3 per cent. We are confident that the measures we have initiated will enable DEUTZ to grow profitably in the long term and that earnings will improve significantly.

Kind regards from Cologne,

Dr Ing Helmut Leube | Dr Margarete Haase | Michael Wellenzohn

DEUTZ SHARES

Stock markets revealed a very mixed picture in 2014. After a good start to the year, sentiment deteriorated once more in the autumn as the result of various geopolitical crises, but bounced back towards the year end. On 5 December 2014, the DAX climbed above the 10,000 mark to reach 10,087.12 points, its highest point of the year. It ended the year at 9,805.55 points, 2.7 per cent above its 2013 closing price.

DEUTZ SHARE PRICE DECLINES

The SDAX, in which DEUTZ shares are listed, rose in value by 5.9 per cent in the year under review and closed at 7,186.21 points at the end of 2014 (31 December 2013: 6,788.79 points). By contrast, the Prime Industrial Index, which includes major German industrial companies, lost 5.6 per cent of its value in 2014 to close the year at 4,244.82 points (31 December 2013: 4,495.21 points).

In this environment, DEUTZ shares also fell significantly, closing at €4.00 at the end of 2014, 38.4 per cent down on their closing price of €6.49 at the end of 2013. After reaching its peak for the year of €7.94 on 25 February 2014, the share price then fell steadily, with some investors evidently disappointed by the drop in new orders. The downturn in the market and an unexpected charge against earnings for a transfer to provisions resulted in the earnings forecast being cut on 21 October 2014, the same day on which the share price fell to €3.35, its lowest of the year. Thereafter, however, the shares made a marked recovery up to the year end.

Market capitalisation stood at €483.4 million as at 31 December 2014, compared with €784.4 million at the end of 2013.

Key figures for DEUTZ shares

	2014	2013
Number of shares (31 December)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 31 December (€)	4.00	6.49
Share price high (€)	7.94	7.45
Share price low (€)	3.35	3.71
Market capitalisation as at 31 December (€ million)	483.4	784.4
Earnings per share (€)	0.18	0.30

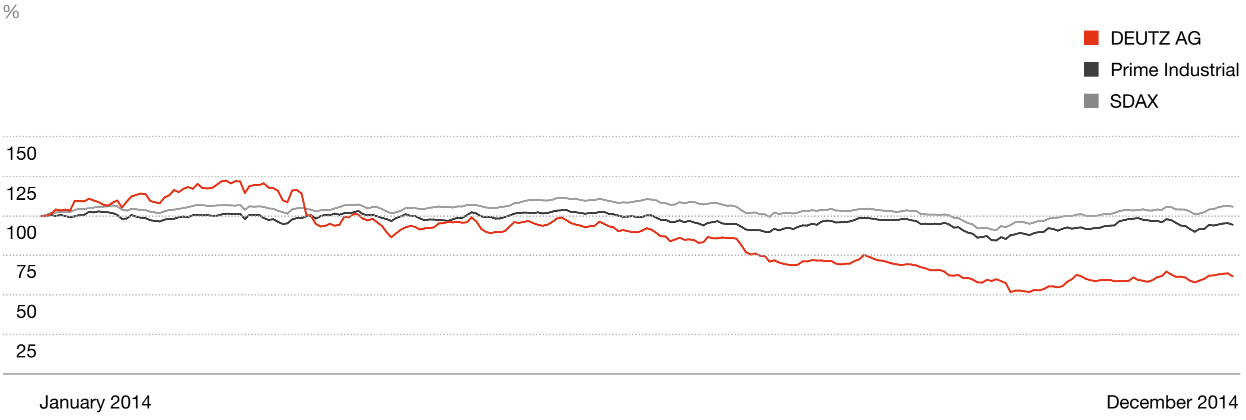
EARNINGS PER SHARE

Earnings per share is calculated by dividing the net income for the year by the weighted average number of shares in issue. In the year under review, the number of DEUTZ shares in issue was 120.9 million. Basic earnings per share was therefore €0.18, compared with €0.30 in 2013.

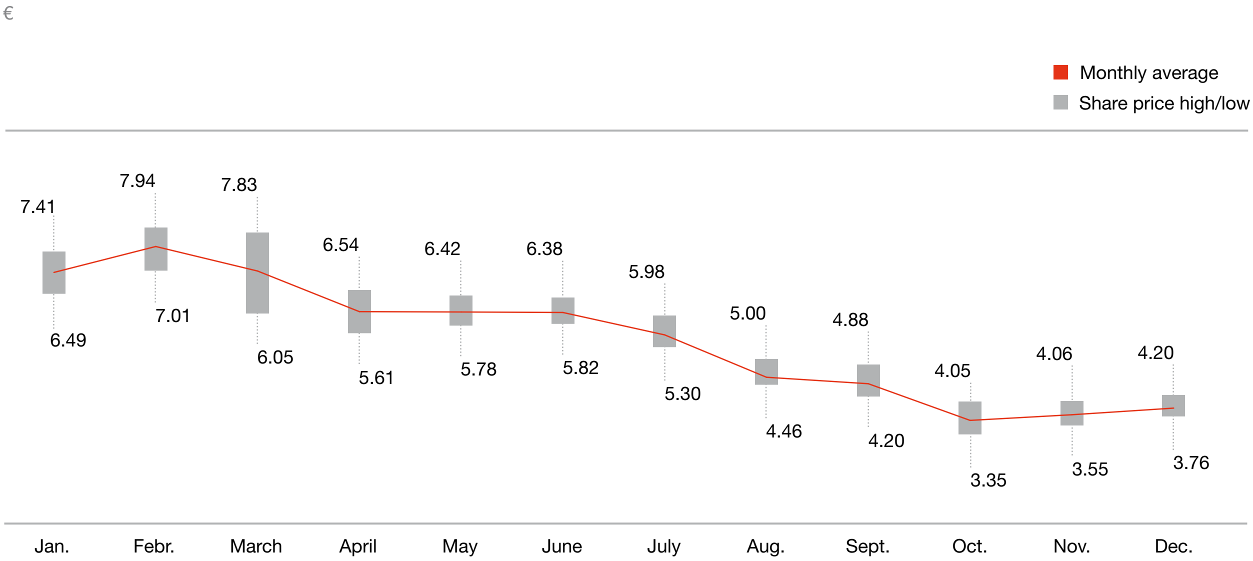
Key data on stock market listing

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

DEUTZ share price performance in 2014



DEUTZ share price high and low for 2014



DIVIDEND GIVES SHAREHOLDERS A SHARE IN PROFITS

DEUTZ AG distributed a dividend of €0.07 per share for 2013. The Board of Management and Supervisory Board propose that the dividend paid for 2014 should remain unchanged at €0.07 per share. We want our shareholders to share in the success of our Company by receiving a regular dividend. At the same time, we plan to continue to fund a significant proportion of our growth ourselves, that is to say from our own capital.

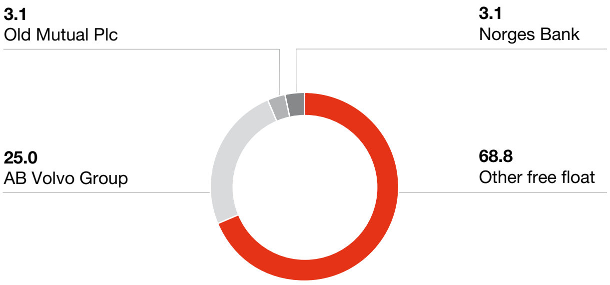
THREE-QUARTERS OF ALL DEUTZ SHARES ARE IN FREE FLOAT

Swedish truck and construction equipment manufacturer AB Volvo is the largest individual shareholder in DEUTZ AG with a stake of just over 25.0 per cent. The proportion of free float shares is almost 75.0 per cent, and it is held by a broadly diversified range of private and institutional shareholders both in Germany and abroad. Most of the private investors are in Germany, but fund management companies based in North America held the largest proportion among the institutional investors. At the end of 2014, FIL Ltd. (Fidelity UK) held 4.7 per cent of our Company, while Old Mutual Plc and Norges Bank held 3.1 per cent each. All three of these are considered non-controlling shareholdings.

After the balance sheet date, FIL Ltd. (Fidelity UK) notified us that it had fallen below the 3 per cent threshold on 2 February 2015.

Shareholder structure as at 2 February 2015

%



INTENSIVE INVESTOR-RELATIONS WORK MAINTAINED

Our aim is for all shareholders to receive prompt, transparent and comprehensive information about all significant events in our Group with the objective of gaining the acceptance and long-term trust of our shareholders. Consequently, we worked as closely with shareholders, analysts and all other interested parties in the capital markets in 2014 as we did in previous years. The latest corporate information, such as presentations, financial reports, press releases and ad-hoc announcements, are always available on our website.

At our annual results press conference and analysts' meeting on 20 March 2014, we presented the DEUTZ consolidated financial statements and our future strategic direction. We also held conference calls when the quarterly results were published.

In 2014, we were involved in a total of 15 roadshows and investor conferences in Germany, the United Kingdom, France, Switzerland and the United States. We also met personally with analysts, institutional investors and private investors on various other occasions throughout the year.

NEW AUDITOR ELECTED AT ANNUAL GENERAL MEETING

The Annual General Meeting of DEUTZ AG was held on 7 May 2014 in the Congress-Centrum Ost at Koelnmesse exhibition centre in Cologne-Deutz. All the items on the agenda were adopted with a large majority. They included the election of Mr Herbert Kauffmann to the Supervisory Board to succeed Dr Lodovico Bussolati, who had stepped down from the Supervisory Board with effect from 31 December 2013. PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was appointed as the new auditor of the single-entity and consolidated annual financial statements for 2014.

TEN ANALYSTS MONITOR DEUTZ SHARES

At the end of 2014, the following ten banks and securities houses were monitoring the performance of DEUTZ shares: Bankhaus Lampe, Berenberg Bank, Commerzbank, Deutsche Bank, DZ Bank, Equinet, HSBC Trinkaus & Burkhardt, Kepler Cheuvreux, Quirin Bank and UBS.

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

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

INVESTOR RELATIONS

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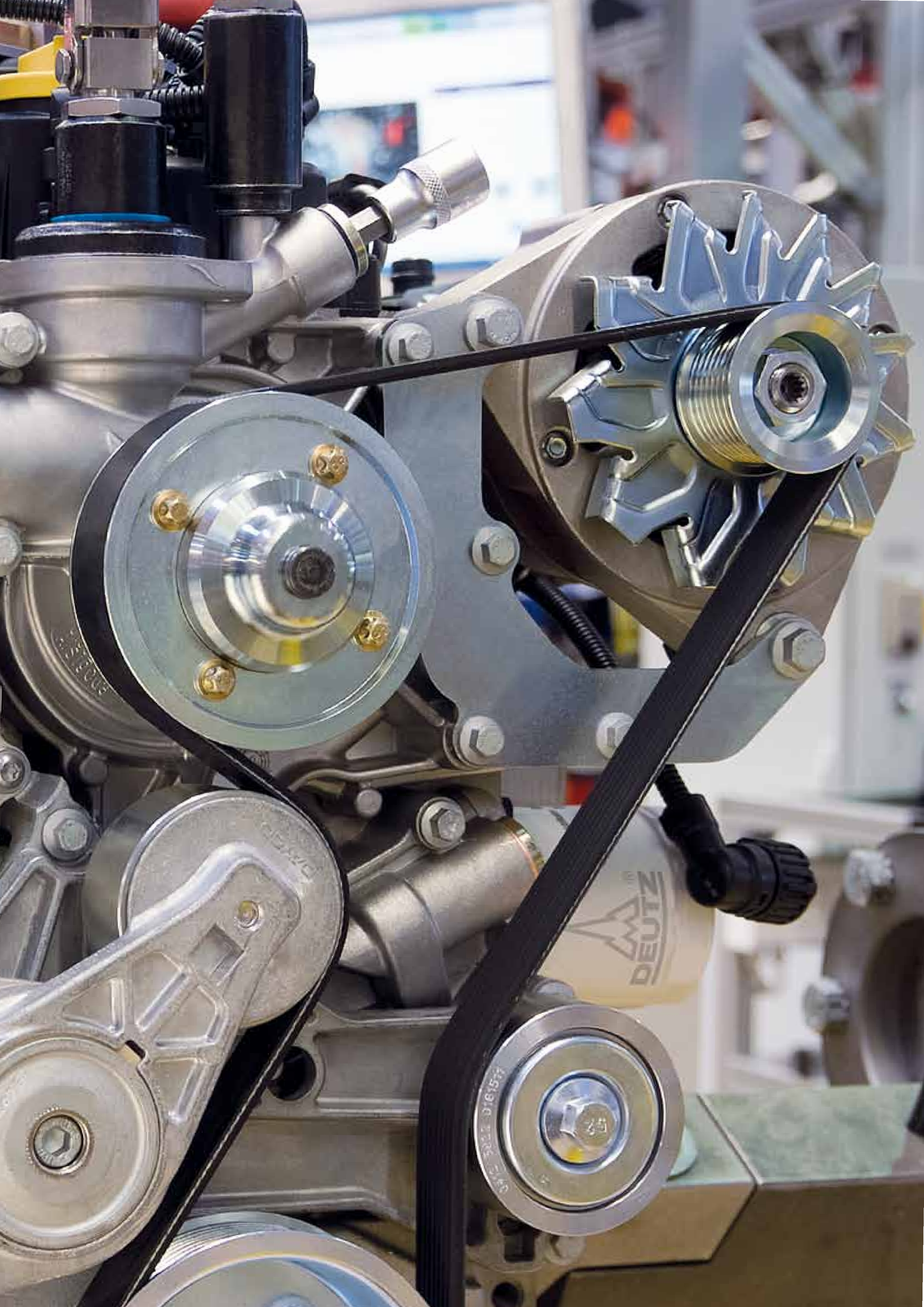

DEUTZ

ONE ENGINE, MANY ADVANTAGES

It is hard to think of an invention that has had a greater impact on the contemporary world than the internal combustion engine. DEUTZ AG was a co-founder of this technology and been has been a driving force for innovation in its continuing success over the past 150 and more years.

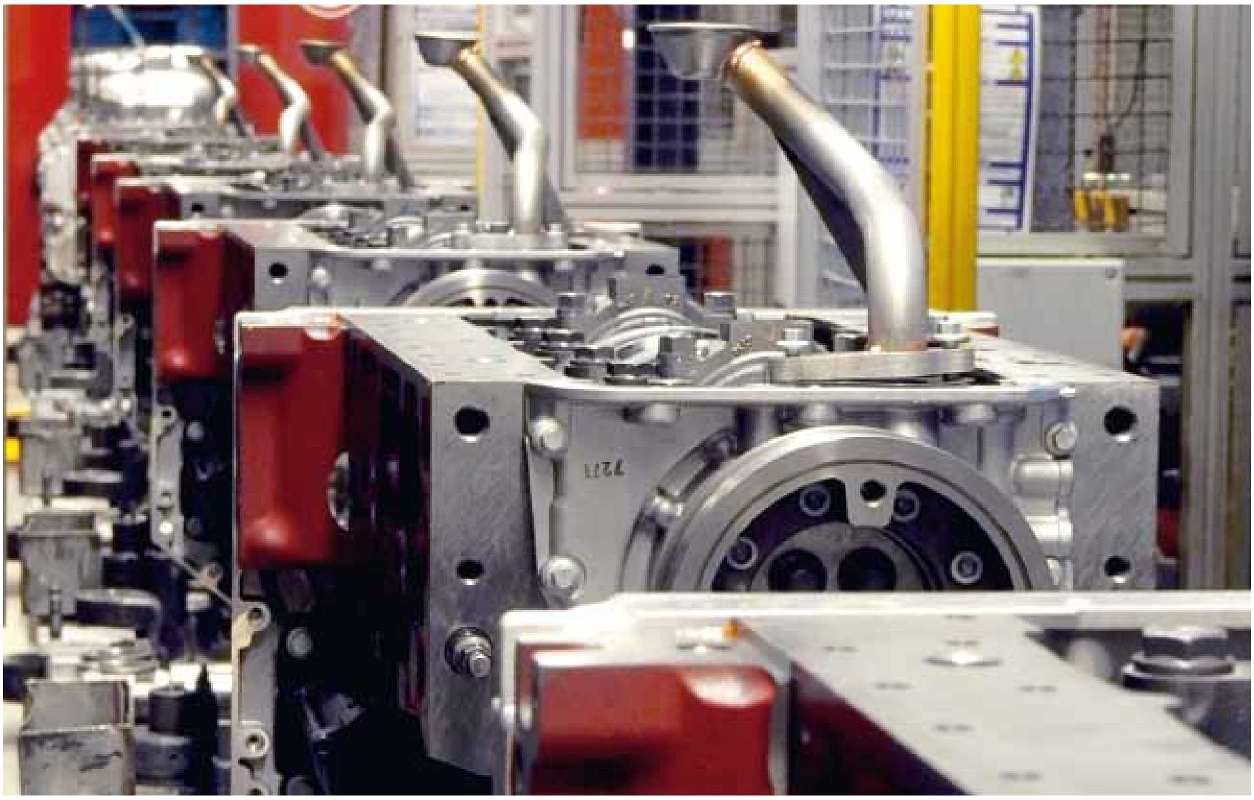
When N.A. Otto & Cie., one of our present company's predecessors, began series production of internal combustion engines almost 150 years ago, DEUTZ was signalling the start of global motorisation. The revolutionary four-stroke engine invented in 1876 by the pioneer and company founder, Nicolaus August Otto, still forms the basis of every combustion engine produced today. We have continued to demonstrate our engine construction skills ever since then. DEUTZ is renowned for the long service life and great reliability of its engines and for its tremendous expertise when advising on the installation of its engines in numerous different applications. Customers throughout the world particularly value the very compact design, the purpose-built exhaust aftertreatment system and the extremely low fuel consumption of our current engine portfolio. DEUTZ demonstrates its great technological expertise through its more than 800 sales and service partners in 130 countries throughout the world.

DEUTZ is renowned for the long service life and great reliability of its engines.

High-tech saves costs

The entire breadth of the latest engine technology is displayed by the TCD 3.6, one of DEUTZ's most recent developments. Like all DEUTZ TCD engines, it meets the current EU Stage IV and the US EPA Tier 4[1)] emissions standards; re-designed, this water-cooled 4-cylinder in-line engine offers top-level performance combined with low fuel consumption, considerably below the market average. It also requires little servicing, thus ensuring high equipment availability. The improved technology is particularly effective in reducing overall running costs in the target application. Exhaust aftertreatment is customer-specific, based on a modular system; maintenance-free operation is possible by using an open system. To meet more stringent local emission requirements, a sealed diesel particulate filter (DPF) is available as an optional extra. DEUTZ always provides its customers with the technology that meets their specific requirements most effectively.

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



“We opted for DEUTZ engines because they meet the high quality standards of our tractors. By taking this step, we aim to strengthen our position in international markets and improve customer satisfaction levels.”

Martin Blaskovic, proprietor of Zetor, Czech Republic

One step ahead

As part of its advanced exhaust aftertreatment development, DEUTZ has taken the bold step of introducing DPF technology early on into series production. By making this leap, we are already in a position to meet the EU Stage V emissions standard, expected to apply from 2019. On the basis of the EU Commission's Stage V proposals,[1] the TCD engines in the 2.9 to 7.8 litre cubic capacity range already meet the limits envisaged for 2019. Certification will be awarded as soon as possible. This offers DEUTZ customers decisive advantages in that the dimensions and design of the Stage V ready engines will remain the same when the changeover to the next emissions standard is made. Our customers will, consequently, enjoy long-term planning certainty; those who already operate DPF-equipped engines or who opt to buy them now will not need to carry out costly modifications to their applications. This gives our customers an assured technology and the option of implementing it at a time when it suits them. So that the market is clearly informed, DEUTZ is already applying a 'Stage V ready' seal to its engines. DEUTZ's forward-looking strategy lays the foundation for continuous growth and, even after 150 years of engine construction, the Company continues to assert its leading role in the market.

So that the market is clearly informed, DEUTZ is already applying a 'Stage V ready' seal to its engines.

[1] The EU Commission's Stage V proposals as published on 25 September 2014.

STAGE V ready

- The DEUTZ TCD diesel-particulate-filter-equipped engines in the 2.9 to 7.8 litre cubic capacity range already meet the EU Stage V emissions standard, expected to apply from 2019.
- This means that no expensive modifications to customers' equipment are needed for them to meet the next emissions standard, because engine dimensions and design remain the same.
- Because the Stage V ready engine systems are already in series production, customers will enjoy an assured technology which can be implemented at a time that suits them, plus long-term planning certainty.

OUR CONTRIBUTION TO ENVIRONMENTAL PROTECTION

At DEUTZ, environmental protection is not an ambitious aspiration but the philosophy by which we live. Using the latest technology, DEUTZ engines reduce pollutant emissions to a significant degree throughout the entire world. At the same time, carefully targeted environmental management ensures efficient processes along the entire value chain.

- *The particulate mass has been reduced by a factor of* ***13***[1)]
- *Carbon monoxide emissions has been reduced by a factor of* ***666***[1)]

[1)] TD 2.9 L4 Tier 4 as against a comparable Tier 3 engine.

Combustion engines produce emissions. Soot particles, nitrogen oxides and other toxic gases harm people and pollute the environment. It is the duty of politicians and industrial concerns to constantly advance the development of low-emission technologies; the framework which underpins this obligation is ever more stringent emission limits.

North America, Europe and Japan have introduced the strictest emissions standards and have largely harmonised them in the industrial engine sector – DEUTZ's core business sector. The BRIC countries (Brazil, Russia, India, and China), of equally huge importance when measured by global sales, are aligning themselves to these standards and will catch up in the medium term.

Chemical fuel analysis is part of DEUTZ's internal quality assurance procedures.

To meet the current EU Stage IV and US Tier 4 in the 56 to 560 kW power output range, the nitrogen oxide limit is now set at 0.4 g/kWh and the maximum for particulate emissions at 0.025 g/kWh.

This means that nitrogen oxide limits have been reduced by 95.7 per cent between 1999 and 2014 in North America, Europe and Japan and by 96.5 per cent for particulate mass (essentially soot particles). DEUTZ engines equipped with particulate filters to meet the most recent emissions standard already reduce particulate mass by more than 99 per cent. Consequently, the exhaust from the latest DEUTZ engines which meet the most stringent emissions standard contain no more nitrogen oxides or particulate mass than the ambient air in many of the world's greatest cities. To this extent, our highest emissions standard sets us on the way towards zero emissions.

In the technological lead

DEUTZ has always assumed a leading technological role. The Company has built up great expertise in the field of emissions reduction and exhaust aftertreatment and has gained a competitive lead through its substantial investment in R&D. Our diesel-particulate-filter-equipped TCD engines in the 2.9 to 7.8 litre cubic capacity range, designed for the EU Stage IV/US EPA Tier 4 emissions standard, already meet the limits of the next EU emissions standard, envisaged for 2019. This tightening of the standard is expected to lower the permitted particulate mass limit still further from 0.025 to 0.015 g/kWh. In addition, it will limit the number of particles as the debate about fine dust continues. This will considerably reduce fine dust pollution, particularly in urban areas.

- *Fuel consumption has been reduced by up to* ***10 per cent***[1)]
- *Our agricultural customer, Fendt, boasts the* ***lowest consumption*** *for its class – with DEUTZ engines*

[1)] TCD 3.6 industrial engine Tier 4 compared with competitors' engines in the 4.5 litre range.

We are constantly working hard to reduce both the resources we consume and the emissions produced by our own commercial operations.

DEUTZ places great importance on low fuel consumption by its engines and is an active supporter of the trend towards downsizing. It is in the lower power output range, in particular, that we have completely re-developed our engine models. These engines exhibit the best power density in their class and can compete with engines with a greater cubic capacity produced by our competitors. DEUTZ engines, with high injection pressures and turbocharged, offer high performance from small cubic capacities, reducing fuel consumption at the same time. Our customers and the environment both benefit from this as less CO_2, the main contributor to global warming, is released into the atmosphere.

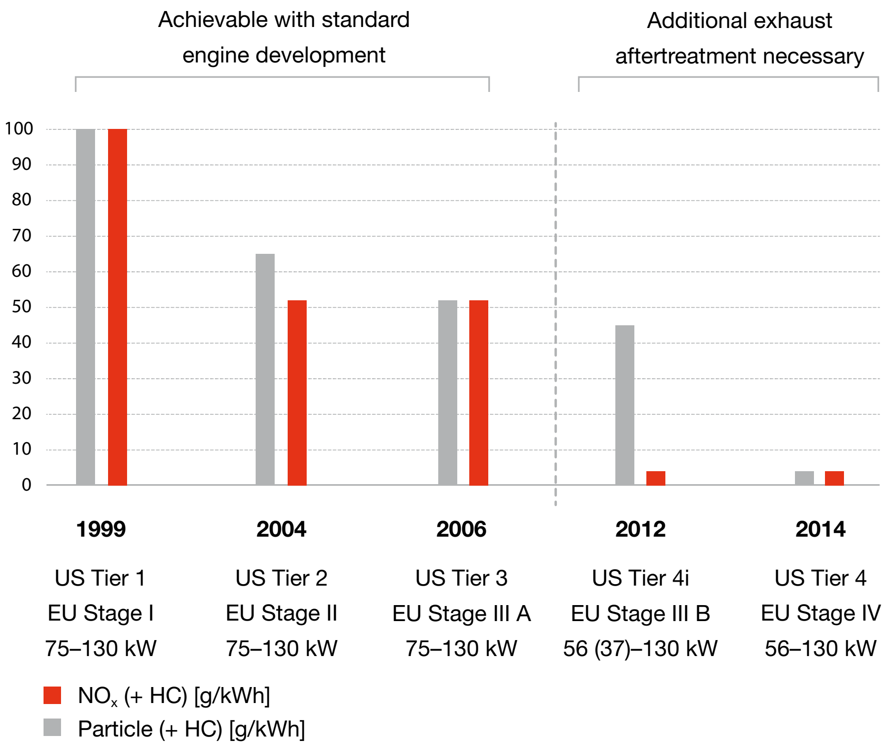
Environmental protection and resource conservation during production

However, DEUTZ does not contribute to environmental protection solely through its advanced products. We are also constantly working hard to reduce both the resources we consume and the emissions produced by our own commercial operations. We are, for example, consistently expanding both our energy and our environmental management systems. The three management systems - quality, environment and energy - have also once again met the requirements for ISO certification. Additional potential has been exploited by implementing an extremely varied range

of technical and organisational measures. For example, the time spent on post-production engine testing has been reduced in order to reduce emissions and save resources. The test stands in the development division are increasingly being fitted with generators in order to feed the energy recovered back into the power grid. Also, as part of our waste management policy, we are continuing to replace disposable packaging with returnable packaging used in a closed-loop system. More details of these arrangements are given in the 'Environment' section on page 43 et seq.

A decision was taken during 2014 on optimising our production sites. In addition to improving economic efficiency, there will also be environmental benefits. For example, the planned construction of a new shaft centre at the Cologne-Porz site using the latest building engineering techniques will allow considerably more efficient operation, consume less energy and produce fewer emissions. At the same time, as part of a scheme to greatly improve land use in an inner city location, we are vacating an area of some 160,000 square metres at the Cologne-Deutz site. The area can in future be used for residential apartments, commercial activity and open green spaces.

Changes over time to emissions standards (%)



From 1999 till 2014 NO_x was reduced by 95.7% and particle emissions by 96.5%

FOR OUR CUSTOMERS ON THE MOVE

Companies throughout the world favour DEUTZ engines for a huge range of applications. As a result, DEUTZ has numerous long-term customer relationships as well as an encouraging level of new customer business.

Sturdy, durable and dependable – these are the distinctive characteristics of our engines. Anyone deciding to buy a DEUTZ engine can be certain that it will cope with whatever the future may hold; longevity is something that we aim to build into every single one of our engines. The development and product planning departments work hand in hand to design engines to meet the individual requirements and needs of each of our customers. The product planners consolidate the market's requirements for the main applications, both today's requirements and those expected in the future, while the developers produce the appropriate technical concepts.

Our engines are tailored to the individual needs of our customers in various application segments, thus fulfilling our commitment to performance and quality over a broad range of applications. We occupy, for example, a strong position in the Mobile Machinery segment; this mainly relates to construction equipment and material handling vehicles but also includes airport ground support equipment and machinery used in mines. DEUTZ also focuses strongly on agricultural machinery, predominantly on tractors. We are, in addition, active in the Stationary Equipment market – generators, compressors and pumps – and in the market for niche applications. The focus of our automotive business, trucks and buses in particular, is increasingly shifting towards Asia.

- *DEUTZ enjoys numerous long-term customer relationships*
- *The introduction of the new emissions standards gives us the opportunity to expand and diversify our customer base*

“We value, in particular, the compact engine design, the purpose-built exhaust aftertreatment system and the engines’ extremely low fuel consumption – in conjunction with their long service life and great reliability.”

Amicarle Merlo, Merlo S.p.A., Italy

“The feature of the water-cooled 4-cylinder in-line engine which particularly impressed us was its excellent cold-start ability even in extreme conditions.”

Kang Young Sun, Head of R&D,
Tong Yang Moolsan Co., LTD, South Korea

Installing our engines and equipment in our customers' equipment is becoming increasingly more complex, just like the engines and machines themselves. However, our experience of providing installation advice over many years has given us the necessary know-how. The essential requirement is very close and detailed collaboration with our customers and this forms the basis for long-term customer relationships. We are also delighted that our latest generation of engines has gained us numerous new customers in all parts of the world by convincing them of the benefits of these products.

For this reason, the DEUTZ service division maintains a stock of spare parts for decades after the discontinuation of series production. And if, after many operating hours in certain applications, the engine at last reaches the end of its service life, DEUTZ's 'Xchange' engine concept gives the equipment what amounts to a second life.

DEUTZ – the engine company. We are happy to keep on the move for our customers.

"The very compact design of these engines and the customer-oriented, modular system of optional add-on parts has lowered installation costs."

Valerio Morra, President of ARGO Tractors, Italy

"We have been working together with DEUTZ for many years now, and it's a relationship that we greatly value. The combination of engine technology and local support that DEUTZ gives us in China is like nothing else on the market."

Ma Yunkun, Chairman and Corporate Representative of
China Railway Large Maintenance Machinery Co., Ltd., People's Republic of China

"We have maintained a close and stable working relationship with DEUTZ for many years. Our customers benefit in particular from the excellent quality, reliability and efficiency of DEUTZ engines."

Helmut Lorch, Managing Director of Atlas Weyhausen GmbH, Germany

STRATEGY

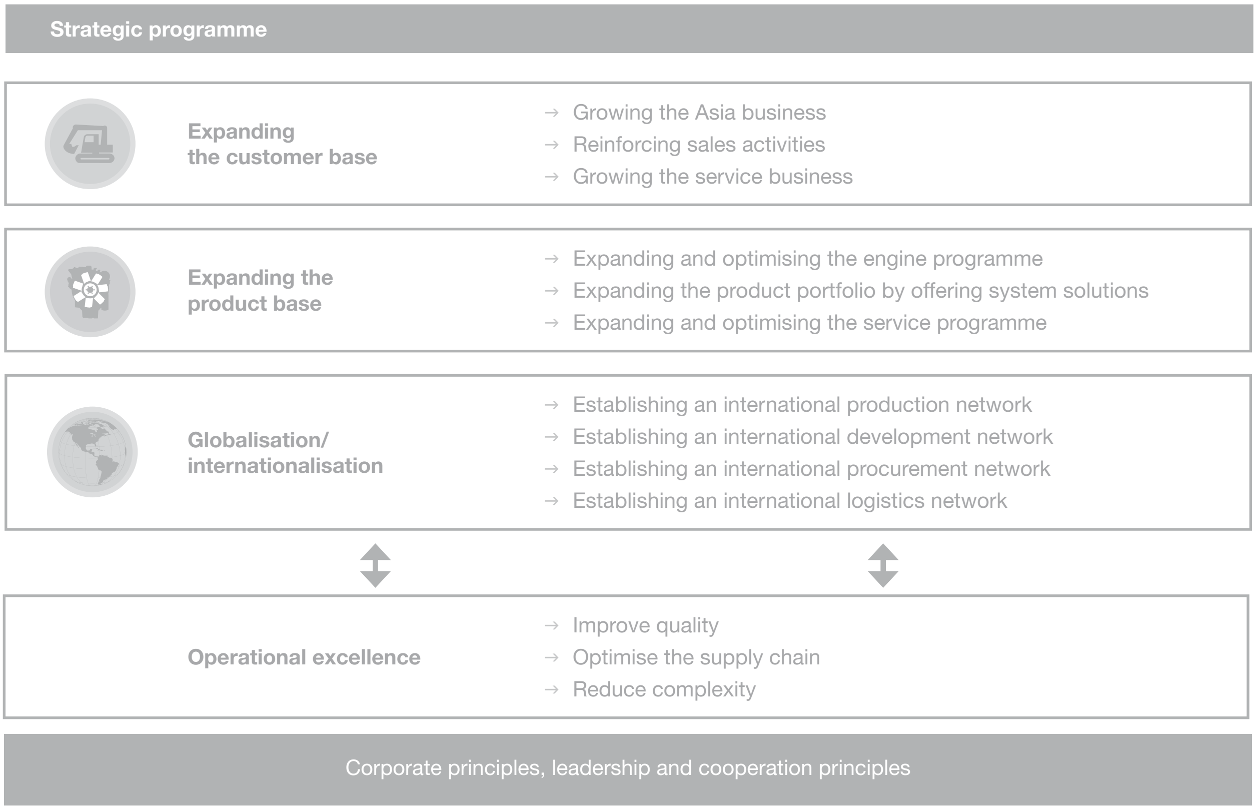
In 2014, we continued to forge ahead with our strategy of expanding our customer and product base with the objective of globalising and internationalising our business. It is particularly encouraging that our product offensive is having a lasting effect and we have succeeded in gaining many new customers in all regions. As well as continuing to focus on the Asian market, we also aim to consolidate our network of sites to enhance our efficiency and enable the DEUTZ Group to continue achieving profitable growth.

Our growth strategy is based on three pillars:

→ The first is the **expansion of our customer base** while achieving profitable growth. Our aim is to increase business in all regions with new and existing customers. The fact that we managed to achieve this once more in 2014 shows that the product offensive we launched a few years ago is taking effect. We have been marketing our new generation of engines very successfully worldwide. This includes highlighting the numerous advantages of these engines, such as very compact installed dimensions, intelligent exhaust aftertreatment designs and lower lifecycle costs than their predecessors. In Asia, we were particularly pleased to have acquired promising new customers in the form of Japan's Hitachi Construction Machinery Co., Ltd., one of the world's biggest producers of construction equipment, and Tong Yang Moolsan (TYM), a South Korean tractor manufacturer. In China, where market conditions remained as challenging as in 2013, our joint venture DEUTZ (Dalian) Engine Co., Ltd. continued to grow and gain market share. This year, we are expecting our joint venture in the automotive sector to benefit from the nationwide introduction of the China IV emissions standard (equivalent to Euro 4) on 1 January 2015. In the reporting year, we opened a new sales office in Shanghai. Sales staff as well as application engineers and service engineers will work there in order to further expand customer support. This office is in addition to our sales and service company in Beijing.

Strategic programme up to 2020

We supply the most successful engine systems in the world



In terms of application segments, our main focus remains on Mobile Machinery and Agricultural Machinery, but we are also active in the market for Stationary Equipment and niche applications. Our automotive business is increasingly shifting to Asia, where we occupy a very strong position in the market by virtue of our DEUTZ Dalian joint venture.

In the service business, we also aim to continue growing sustainably and expanding our market share in terms of the total number of engines in existence. As well as the active management of dealers and ongoing product training for our dealer network because of the growing complexity of our products, we may also invest in our own service support centres in selected locations and increase our use of the internet as a sales channel.

The sales and marketing function stepped up and improved its market analysis in the year under review. This has provided us with excellent information about potential in the market which will enable us to improve the direction and focus of other sales activities.

→ The second pillar is the **expansion of our product base** using products at the leading edge of technology. Due to the introduction of the EU Stage IV/US Tier 4 exhaust emissions standards, we have fundamentally overhauled our range of engines and actively followed the downsizing trend. We have streamlined our engine platforms without cutting back on the 25 to 520 kW power output range they cover. This platform strategy and the possibilities offered by electronic management will considerably reduce the variety of components. In 2014, we completed the introduction of engines that meet the current most stringent emissions standard. In 2015, we will be using our 'Stage V ready' campaign to actively advertise the fact that our TCD engines in the 2.9 to 7.8 litre cubic capacity range already meet the more stringent EU limits announced for 2019[1]. In the future, we will be adding gas engines to our product range.

System solutions complete our product portfolio. In order to meet the latest emissions legislation, engines now have to include exhaust aftertreatment systems. Developing, testing and certifying these engine systems is our responsibility. We will continue to work on developing solutions to improve energy efficiency throughout the system. In addition, we intend to expand our application expertise – an area in which our competitors already acknowledge us as leaders – both at our R&D centre in Cologne and in the regions. Going forward, we will also be actively marketing customised engineering services. The range of services offered will include the optimum system integration of the hardware components and software functions required for each machine, such as a customer-specific range of data sets that goes beyond what is supplied as standard.

A profitable service business makes us less exposed to fluctuations in the economic cycle. We plan to exploit the opportunities presented by the greater complexity of engines that meet new emissions standards and to expand our service business accordingly. For example, we intend to offer additional repair options and to create a wider range of spare parts and add-on components.

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

In April 2014, we decided to carry out a comprehensive optimisation of our network of sites in Germany in order to increase efficiency. We will be consolidating our facilities in Cologne by moving out of our Cologne-Deutz site within two years and building a new shaft centre for the production of camshafts and crankshafts at our largest site in Cologne-Porz. Our exchange engine plant in Übersee on Lake Chiemsee will be closed and integrated into the plant in Ulm in two stages in 2015 and 2017.

[1] EU Commission's proposal for EU Stage V published on 25 September 2014.

We continue to have every faith in the long-term potential of the Chinese market. Nevertheless, China has been a very challenging market for some time, particularly as growth forecasts have been revised down and there is considerable capacity in the engine production sector. After the balance sheet date, we therefore decided to consolidate our Chinese operations and sites and to utilise the capacity available there. Our intention is to focus our production operations in China on our established and successful DEUTZ Dalian joint venture, which has plenty of capacity.

In February 2015, together with our partner AB Volvo, we took a joint decision to wind up our DEUTZ Engine (China) Co., Ltd. joint venture in Linyi, China. We had already reported in November 2014 that the joint venture was undergoing a strategic reassessment by both parties, and the joint venture has not made any substantial investments to date. Going forward, we aim to continue satisfying local demand from our partners and other target customers using local Chinese production operations.

OPERATIONAL EXCELLENCE

In the year under review, we added the **'operational excellence'** efficiency and quality programme to the three pillars of our growth strategy. It supplements the various continuous improvement processes in the DEUTZ Group and forms the basis for achieving profitable growth.

The optimisation of our sites in Germany will significantly enhance our efficiency and create long-lasting added value. Given the challenging market situation, the streamlining of our sites in China is primarily market-driven, but it is also an efficiency programme.

Operational excellence also focuses on continuously improving quality, managing the supply chain and reducing complexity.

GLOBAL MEGATRENDS DRIVE ENGINE GROWTH

Demographic change, increasing urbanisation and ongoing globalisation are the megatrends that shape our business. They are causing global demand to rise continually, which also impacts on demand for agricultural machinery, infrastructure investment and transport. These global megatrends are therefore underpinning growth in the global engine market.

There are only limited natural resources to meet this demand, however. Hence the imposition of increasing numbers of environmental and climate change regulations in practically every industrialised country and emerging market. Consequently, emissions legislation has been the major technology driver in the diesel engine market in recent years. We are, of course, delighted to take up the emissions legislation challenge. As a leading technology company, we regard this legislation as an opportunity. Emissions legislation in the emerging economies is generally at least one step behind.

To this extent, the structural growth drivers at DEUTZ are the engine systems that meet the new emissions standard, which are of considerably higher value and more complex than their respective predecessors. Our investment in the new product portfolio is also delivering results. As a result, we see significant growth potential for the DEUTZ Group over the coming years, despite continuing to face a highly cyclical market environment, and the fact that our European customers will be drawing to a significant extent during 2015 on engines which they purchased ahead of the introduction of the tighter emissions standard in October 2014.

2014 COMBINED MANAGEMENT REPORT FOR DEUTZ AG AND THE DEUTZ GROUP

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OVERVIEW OF 2014

Global growth at previous year's level Despite a good start to the year, the global economic growth rate of 3.3 per cent in 2014 again merely matched that of 2013. Germany's growth rate of 1.5 per cent was the best among the larger countries in the eurozone once more, while the US economy grew strongly at a rate of 2.4 per cent. By contrast, growth in China, another particularly important market for DEUTZ, slowed to 7.4 per cent. Trends in DEUTZ's customer industries varied from region to region and sector to sector.

Year-on-year rise in revenue In 2014, we particularly benefited from customers buying more engines than they needed in anticipation of the change to the emissions standard for engines under 130kW in the EU that came into effect on 1 October 2014. As a result, our revenue was up by 5.3 per cent to €1,530.2 million. Unit sales rose at an even faster rate than revenue, increasing by 6.7 per cent to 196,403 engines sold. However, operating profit (EBIT before one-off items), which had declined to €31.7 million, was significantly affected by exceptional items.

DEUTZ celebrates its 150th anniversary In 2014, DEUTZ AG celebrated 150 years of existence as a company. N.A. Otto & Compagnie, which would go on to become DEUTZ AG, was founded by Nicolaus August Otto and Eugen Langen in 1864. As the world's first engine factory, it ushered in an era of motorisation that endures to this day. As well as other events, we celebrated this special anniversary with our friends and partners at an official celebration in Koelnmesse exhibition centre in Cologne on 9 May 2014.

Decision to optimise sites in Germany Our objective is long-term efficiency enhancement. With this in mind, we took the decision in 2014 to carry out a comprehensive optimisation of our network of sites. Firstly, this includes the consolidation of our facilities in Cologne where we will move out of our Cologne-Deutz site within two years and build a new shaft centre for the production of camshafts and crankshafts at our largest site in Cologne-Porz. This will provide long-term security for at least 140 permanent positions. Secondly, we will close our exchange engine plant in Übersee on Lake Chiemsee and integrate it into the plant in Ulm. We have also initiated further measures as part of our 'operational excellence' efficiency and quality programme.

New products also attract new customers Last year, we completed the introduction of engines that comply with the latest EU Stage IV/US EPA Tier 4[1)] emissions standard. The engines feature an extremely compact design, exhaust gas aftertreatment systems tailored to customers' individual needs and low lifecycle costs, showing that in terms of technology, we remain at the leading edge of the market. It was additionally encouraging that our new products not only impressed our existing customers, but also attracted new customers for us across all regions and sectors.

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

FUNDAMENTAL FEATURES OF THE GROUP

BUSINESS SEGMENTS AND PRODUCT RANGE

For over 150 years, DEUTZ has been supplying reliable drive systems for mobile and standalone static applications – as an independent manufacturer of compact diesel engines in the 25kW to 520kW power range for both on and off-road use. We develop, design, produce and sell diesel engines that are cooled by water, oil or air. The operating activities of the DEUTZ Group are divided between the DEUTZ Compact Engines segment and the DEUTZ Customised Solutions segment: the DEUTZ Compact Engines segment comprises liquid-cooled engines with capacities of up to eight litres, while the DEUTZ Customised Solutions segment specialises in air-cooled engines and large liquid-cooled engines with capacities of more than eight litres. Operating under the name DEUTZ Xchange, the DEUTZ Customised Solutions segment also supplies reconditioned parts and engines as the main element of our service business.

We also offer our customers advice and support on operating the machinery. Our services are closely aligned with each of our customers' individual needs. We actively assist customers with the repair, maintenance and servicing of their vehicles and machines fitted with DEUTZ engines. The global DEUTZ service network, which comprises subsidiaries, service centres and authorised agents, guarantees a reliable and rapid supply of spare parts.

LEGAL STRUCTURE AND PRODUCTION SITES

DEUTZ maintains a comprehensive international presence in a globalised market: with thirteen sales companies, seven sales offices and over 800 sales and service partners in more than 130 countries, we can offer our customers service and support virtually anywhere with very short response times. DEUTZ AG is the executive and operating parent company in the DEUTZ Group; it is headquartered in Cologne, Germany, and has various domestic and foreign subsidiaries. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions.

In addition to DEUTZ AG, six German companies (31 December 2013: six) and 14 foreign companies (31 December 2013: 14) were included in the consolidated financial statements as at 31 December 2014. A complete list of DEUTZ AG shareholdings as at 31 December 2014 is given in the annex to the notes to the consolidated financial statements on page 117.

DEUTZ AG

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

MARKET AND COMPETITIVE ENVIRONMENT

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

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

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

Main competitors

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

INTERNAL CONTROL SYSTEM

RESPONSIBLE CORPORATE MANAGEMENT BASED ON TRANSPARENT PERFORMANCE INDICATORS

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

		2014	2013
Revenue growth	(%)	**5.3**	12.5
EBIT margin before one-off items	(%)	**2.1**	3.3
Working capital ratio[1] (average)	(%)	**13.3**	12.0
ROCE before one-off items[2]	(%)	**3.9**	6.0
R&D ratio	(%)	**3.5**	3.6
Free cash flow[3]	€ million	**52.0**	13.8

[1] Working capital ratio (average): ratio of working capital (inventories plus trade receivables minus trade payables), as an average of the four quarters, to revenue for the preceding twelve months.

[2] Return on capital employed (ROCE): ratio of EBIT to average capital employed. Capital employed: total assets less cash and cash equivalents, trade payables and other current and non-current liabilities, based on average values from two balance sheet dates.

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

Our internal control system focuses, on the one hand, on revenue growth and the EBIT margin before one-off items, while on the other hand, we manage tied-up capital via the average working capital ratio. In conjunction with working capital and EBIT optimisation, this in turn determines the return on capital employed. In managing its liquidity, DEUTZ focuses on free cash flow as a key performance indicator. Also, as a technology-oriented company, we consider the R&D ratio, which represents the ratio of research and development expenditure (less reimbursements) to revenue, to be a key management variable as part of our internal performance indicator system. On the basis of these KPIs, the Group's financial flexibility is subject to constant analysis in the form of a comparison between budget and actual so that we can take swift, appropriate action in the event of significant variances. One-off items are defined as material income and expenses that are exceptional and unlikely to recur.

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/quarterly reporting process enables the Board of Management to track changes in the performance indicators. This approach ensures that we can respond immediately to the latest business developments. At the same time, we operate a sound system of causal analysis to ensure that we minimise risks and make the most of opportunities. Three times a year we produce an annual forecast for all key performance indicators. In this way, we ensure optimum transparency in our business performance, benefiting both the Group and all stakeholders.

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

CONTINUOUS OPTIMISATION OF THE CONTROL SYSTEM

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

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

We are pursuing long-term growth objectives. In order to secure the financial basis for this, we have made the management of capital expenditure a central element in the management of tied-up capital: clearly specified budget figures set out the framework for the level of capital expenditure and development expenditure; actual requirements are derived from the medium-term planning of unit sales and the resulting requirements in terms of capacity and technologies. Annual budget meetings are held to coordinate individual projects, development expenditure and planned capital expenditure with the groupwide financial planning process and to record the outcomes. An additional detailed review is carried out before projects are actually approved. To this end, we use standard investment appraisal methods (internal rate of return, amortisation period, net present value, the impact on the income statement and cost comparisons). A project with an appropriate budget is only approved if there is a clear positive outcome from this investment appraisal.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Global economy growing at previous year's level Following an encouraging start to the year, sentiment regarding future global economic growth deteriorated again in the autumn of 2014. The focus returned more sharply to geopolitical crises, particularly the Russia/Ukraine conflict and the clashes in the Middle East. The International Monetary Fund (IMF) is reporting worldwide growth of 3.3 per cent for 2014[1] as a whole, which is the same level as in 2013.

The economy in the eurozone only grew by around 0.8 per cent in 2014, but this does mean that the eurozone has recovered from the recession of 2013. Growth rates continued to vary greatly among the European countries. Germany remained the eurozone's growth driver with an expansion rate of 1.5 per cent, despite the pace of growth slowing in the second half of the year. Spain has made good progress in overcoming the financial crisis and its economy has picked up, growing by 1.4 per cent. By contrast, Italy remained in recession and even France only managed minimal growth with scarcely any improvement on 2013. The revival of growth in the UK, where the economy grew by 2.6 per cent, is of particular note.

In 2014, the US economy was one of the major drivers of global economic growth. It expanded by 2.4 per cent (2013: 2.2 per cent), a higher rate than recently forecast, confirming hopes of a sustained economic recovery in the US. The US is also expected to provide strong growth stimulus in the year ahead.

The Chinese economy grew by 7.4 per cent, having slowed from growth of 7.8 per cent in the previous year. Conditions remained difficult in the truck and construction equipment sector, which is a core market for DEUTZ. The Russian economy experienced a massive downturn as a result of the crisis and sanctions, even though the IMF is still forecasting slight growth. Nor is the growth engine running smoothly in South America.

[1] Source: IMF World Economic Outlook, January 2015.

Varying trends in DEUTZ customer industries depending on region and sector Demand in DEUTZ's main customer markets varied once again in 2014. According to preliminary figures, demand for construction equipment rose by 7 per cent in Europe and by 8 per cent in North America[1], while it fell by 8 per cent in China[2]. According to DEUTZ's own estimates, the agricultural machinery sector in Europe contracted by 8 per cent in the year under review. The market for medium and heavy-duty trucks shrank by 8 per cent[3] in Europe and by 9 per cent in China[4].

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS PERFORMANCE

DEUTZ just ahead of global trends While the global economy grew by 3.3 per cent in 2014, DEUTZ increased its revenue by 5.3 per cent and its unit sales by 6.7 per cent. Unit sales outstripped revenue because a shift in the product mix towards engines with a low power output had a greater impact on revenue per unit than the rising proportion of higher-value engines. Growth across our key customer sectors has been varied and, in some cases, even negative. DEUTZ has generally been able to insulate itself from the trends in the various sectors. In 2014, DEUTZ achieved the strongest growth by application segment in Mobile Machinery, where unit sales were up by around 40 per cent, significantly outperforming the market. In view of the introduction of the EU Stage IV emissions standard for power categories below 130kW on 1 October 2014, DEUTZ sold a particularly large number of engines with capacities of less than four litres.

The economy in the eurozone experienced slight growth of 0.8 per cent in the year under review. Some of DEUTZ's key customer sectors in this region also performed poorly. Although demand in Europe for construction equipment rose by 7 per cent according to preliminary estimates, volumes in the agricultural machinery sector declined by 8 per cent and registrations of medium and heavy-duty trucks also decreased by 8 per cent. While DEUTZ's revenue in our biggest market – EMEA (Europe, Middle East and Africa) – remained at the same level as the previous year, unit sales were up by 3.8 per cent in 2014. US economic output grew by a relatively strong 2.4 per cent in 2014, and the North American construction equipment market grew by 8 per cent. Our unit sales in the Americas region rose by 15.4 per cent, and revenue actually increased by 34.6 per cent. China, our key international market, experienced another difficult year, with its growth rate of 7.4 per cent below that of 2013. In this environment, the markets for construction equipment and medium and heavy-duty trucks declined by 8 per cent and 9 per cent respectively. By contrast, DEUTZ's revenue remained flat, and unit sales rose by 16.7 per cent in the Asia-Pacific region. The revenue generated by our largest equity investment in China, DEUTZ (Dalian) Engine Co., Ltd., which is not included in consolidated revenue, grew by 12.8 per cent year on year.

[1] Off-Highway Research, October 2014.
[2] China Construction Machinery Association, January 2015 and own estimates.
[3] Source: ACEA – European Automobile Manufacturers' Association, January 2015.
[4] China Automotive Information Net, January 2015.

RESEARCH AND DEVELOPMENT

Research and development expenditure (after deducting grants)[1]
€ million (R&D ratio in %)

2014	**53.1**	**(3.5)**
2013	52.6	(3.6)
2012	62.1	(4.8)
2011	84.6	(5.5)
2010	71.8	(6.0)

[1] Spending on research and development after deducting grants received from major customers and development partners.

R&D expenditure at prior-year level Expenditure on research and development in 2014 amounted to €68.7 million (2013: €71.1 million). After deducting grants received from major customers and development partners, expenditure was €53.1 million (2013: €52.6 million), meaning that development expenditure after deducting grants was on a par with 2013. The R&D ratio (after deducting grants), i.e. the ratio of net development expenditure to consolidated revenue, fell marginally as planned to 3.5 per cent (2013: 3.6 per cent). In the year under review, 50 per cent of development expenditure after deducting grants was capitalised (2013: 64 per cent).

Spending by the DEUTZ Compact Engines segment after deducting grants came to €48.1 million (2013: €48.8 million), that of the DEUTZ Customised Solutions segment came to €5.0 million (2013: €3.8 million).

Successful launch of EU Stage IV/US Tier 4 products In 2014, we gave series production approval to all of our engines that are designed to meet the latest EU Stage IV/US Tier 4 emissions standard and that had still been awaiting approval. During the previous years, DEUTZ carried out a complete revision of its entire engine portfolio in order to meet this emissions standard. This has resulted in very compact engines, featuring low lifecycle costs and exhaust aftertreatment designs tailored to customer needs. To some extent, it was this emissions standard that made it essential for exhaust aftertreatment systems to be installed in the engines. We do not expect to be faced with such a complex challenge again in future; instead, we expect to be able to market these engines well into the next decade.

Stage V ready We aim to continue pursuing technologically leading designs with our engines. Our engines in the 2.9 to 7.8 litre cubic capacity range that are equipped with diesel particulate filters already meet the next European emissions standard, EU Stage V, which is expected in 2019[5]. Certification will follow as soon as possible. There are currently no plans for a further emissions standard in the USA. Going forward, we intend to continue improving engine performance for the same engine size and thus actively accelerate the trend towards downsizing. Our exhaust aftertreatment concept – DVERT or DEUTZ Variable Emissions

[5] EU Commission's proposal for EU Stage V published on 25 September 2014.

Reduction Technology – offers our customers exhaust aftertreatment design modules tailored to their needs. Our portfolio already includes a diesel particulate filter for all the above-mentioned engines.

Preliminary development work expanded Exhaustive research and development will continue to provide the bedrock for DEUTZ's position at the forefront of innovation within the sector. However, following the successful introduction of the latest emissions standard, there is now a possibility that spending on development can be slightly reduced. We will therefore reduce the number of employees in R&D this year. The main focus of attention is also shifting from the development of new engines and the refinement of existing models to support for existing engine series and preliminary development. Development of new engines and the refinement of existing models accounted for some 77 per cent (2013: 86 per cent) of all R&D expenditure (after deducting grants); support for existing engine series including customer applications took up 14 per cent (2013: 10 per cent) and 9 per cent (2013: 4 per cent) was spent on preliminary development work.

Further development of specific functionalities We intend to add further new developments to our product range. For example, the production launch of the TCD 3.6 High Torque with an output of less than 56kW (EU Stage IV/US Tier 4) is planned for this year. This engine, with its torque curve optimised in the low to medium engine speed range, gives customers the same performance (torque) as engines of the same design but with a higher output. This plus point is achieved through a more compact, less complicated exhaust gas aftertreatment system. The considerable practical advantages of this design can be seen in applications with limited installation space, tractors for example.

New technical designs We are constantly developing new, innovative approaches and have recently expanded our activity in this area. Last year, for example, together with TEREX Fuchs and supported by the Federal Ministry for Economic Affairs and Energy, we fitted a hybrid system to a material handler and ran it as a prototype. Whereas hybrid systems are now firm fixtures in the automotive industry's product range, they are still only found as prototypes or potentially as small-scale production runs in the construction equipment sector. The special characteristics of the hybrid system we developed are the dynamic reduction in the diesel engine's engine speed, energy recuperation and a start-stop function. During the testing carried out so far, fuel savings and reductions in CO_2 emissions of over 40 per cent have been achieved; the test driver was also highly enthusiastic about the system's performance.

Continuous process optimisation Because of the constantly growing complexity of the systems under development, we are systematically and continuously improving our processes. These new high-grade systems can, as a result, be developed at an acceptable cost and to the existing high quality standards. The volume of data to be stored in the electronic control system has multiplied greatly, precisely because of the demands imposed by the management and regulation of the combustion engine and the subsequent exhaust aftertreatment system. We have developed and implemented a new dataset development process including integral validation to cope with this increase.

Intellectual property rights safeguard our know-how We protect our know-how from unauthorised outside use by means of patents, patent applications and utility models. In 2014, we submitted 19 new patent applications, seven of which were in Germany. We now hold a total of 168 patents registered in Germany and 261 registered elsewhere.

PROCUREMENT

In 2014, purchasing focused on further improving DEUTZ's competitiveness by reducing material costs. There was also a need to implement the more tightly drawn requirements for security of supply and supplier performance. Our global supplier base was put under the spotlight so as to identify any critical areas in the supply chain, quality or strategic positioning.

Raw material markets present a mixed picture The price of cast-iron scrap – the most significant raw material for us – fell slightly in 2014. In contrast, the price of aluminium and nickel rose substantially while the copper price flatlined. Platinum has fallen slightly in price whereas the price of palladium increased significantly compared with 2013. This meant that, except for aluminium, average annual values lay within the range we had forecast. However, the increased cost of aluminium did not have any significant effect on the Company's material costs.

The product categories of foundry products, fuel injection equipment and measurement & control devices made up the bulk of the overall volume of materials purchased.

Procurement from China stepped up The proportion of procurement from emerging markets continued to increase. This was particularly true of China, where DEUTZ has been buying individual parts and components for many years. Sourcing projects were again implemented successfully, and new potential savings identified.

Security of supply ensured Security of supplies for engines of up to four litres proved a challenge in 2014 because our requirements had increased significantly compared with 2013. However, much closer collaboration between strategic purchasing and logistics managed early on to reduce supply bottlenecks and delivery delays to a minimum.

Supplier management and material group strategies As part of our supplier management, we stepped up the structured support we gave to problematic suppliers in 2014. Our aim is to reduce the negative effects of insolvencies and to achieve a sustained improvement in supplier performance. By the end of the year, we were able, for the first time, to achieve a figure of 94 per cent in the performance of these problematic suppliers. In future, this figure needs to be maintained and improved still further in order, in the long term, to minimise or avoid extra costs caused by short-term under-supply and delays. This is essential in order to further increase customer satisfaction.

Enduring improvement in supplier quality Our parts per million (ppm) rate as a performance indicator for defective parts is at an historical low. For the third time in succession it was better than the strategic objective which, for 2014, had been tightened still further. This success is due to the consistent and sustained support and assistance provided to those suppliers with the poorest supplier quality.

PRODUCTION AND LOGISTICS

The main areas of activity for production and logistics in 2014 were the start of production of the new 2.9 and 3.6 engine models, our productivity enhancement and quality offensive and action to further optimise our logistics chain.

The Cologne plants, Germany In 2014, the main focus at Cologne-Porz, our largest assembly site for production engines, was ensuring quality and delivery reliability for the start of series production of the 2.9 and 3.6 engine models. Customers had also bought significant numbers of advance production engines of these models and this required us to put special measures into effect throughout the entire supply chain. We introduced a new employee information system for these models so that quality-related matters and the precise details of the work involved could be clearly displayed. We are continuing to work at meeting our objectives through strict cost management.

Audit reports are helping us to improve health and safety at work, tidiness, cleanliness and quality. As planned, we have also extended shop floor management to all assembly lines. This comprehensive, overarching management concept is preparing the way for zero-error production. A range of kaizen measures on the assembly lines concentrated on ergonomics and workstation design.

Component manufacture As part of the plan for optimising our sites, the Cologne-Deutz plant will be closed by 2016 and engine component production will be relocated to other plants. Together with the works council, we have agreed a plan for the future of the Cologne sites, including job security; this will result in a lasting increase in flexibility and cost benefits. The central feature of the relocation plan will be the construction of a new shaft centre at our Cologne-Porz site which will be responsible for crankshaft and camshaft manufacture from 2016. The land that is freed up at the old Cologne-Deutz site is to be sold in the next few years. The manufacture of crankcases for engine models up to four litres will be relocated to our Spanish plant in Zafra. The production line in Cologne-Kalk for four to eight-litre crankcases will be further optimised and expanded to meet the increased quality requirements for the Tier 4 engines. The Herschbach component plant has continued to develop into a centre of excellence for complex attached parts.

The Ulm plant, Germany As part of site optimisation, the Ulm plant will be expanded to become the plant for small production runs, focusing on DEUTZ Customised Solutions products, project business, exchange engines and models which are becoming obsolete. Productivity can be increased and fixed costs reduced by relocating the exchange engine work from Übersee to Ulm. Synergies will largely be created from the use of the Ulm plant's infrastructure and from shared overheads. Kaizen activity over recent years has freed up the space needed for integrating exchange engine production.

The Zafra plant, Spain In future, our Spanish plant in Zafra is to produce the crankcases for engines of up to four litres in addition to the main cylinder head, conrod and gearwheels components. In addition to the 2011 crankcase, the 2.9 crankcase will also be produced there. Crankcase production will start in the second half of 2015. The space needed for the new components was generated in this plant, too, by kaizen activity.

The Xchange plant in Übersee am Chiemsee, Germany As part of our site optimisation programme, we have decided to close the Übersee plant by 2017 in two stages and to relocate exchange engine production to Ulm. A reconciliation of interests, as required by German law, and a social plan were drawn up in the fourth quarter of 2014 for the 157 employees affected. They were signed at the start of this year. In addition to offers of compensation and of moving to an interim employment company, the employees were given the alternative option of working in Ulm. For those employees willing to move, working time models tailored to the situation have been worked out and financial compensation for additional costs agreed with the works council.

Plants in Georgia/USA At our site in Norcross, Georgia, USA, we are producing system solutions in increasing quantities to satisfy specific customer or segment needs. These solutions help our customers when it comes to installing our engines in their equipment. Our plant in Pendergrass, Georgia, USA produces exchange engines for the American market. Local production makes for short delivery times.

Logistics During 2014, we concentrated on gradually expanding our demand and capacity management system. Additional capacity-critical suppliers were brought within the scope of this management system which, at the end of 2014, covered some 89 per cent of the total purchasing volume. This has improved the early identification of emerging capacity constraints, allowing us to simulate situations and create various scenarios involving capacity limits. In order to be able to produce a clear logistical picture of the continuously increasing volume of exhaust aftertreatment systems, another external service provider helped us to integrate storage, packaging and dispatch into DEUTZ's IT systems.

Quality is firmly embedded in our corporate principles The DEUTZ name has always stood for high quality standards in engines. We intend to continue to live up to this reputation.

An international benchmarking project undertaken by St. Gallen University placed DEUTZ AG among the five leading industrial concerns, an achievement which was marked by the Award for Global Quality Excellence presented to us on 4 December 2014 in Zurich.

This award proves that DEUTZ AG focuses strongly on quality and employs the correct methods.

In 2014, we again met the ISO 9001 quality management, the ISO 14001 environmental management and the ISO 50001 energy management requirements; our current certificates have been renewed. At present, DEUTZ AG is getting ready to meet the changes to the requirements set out in the ISO updates 9001:2015 and 14001:2015.

Quality management is a continuous process. For example, there was a rise in the number of warranty claims on engines from the DEUTZ Compact Engines segment, primarily relating to engines manufactured in 2011. We ensured that no faulty parts are used in production by changing our processes and implementing quality-assurance measures. Provisions were recognised on the balance sheet to cover all future charges that can be anticipated to arise from this matter.

INTERNATIONAL JOINT VENTURES

China has been a very challenging market for some time. Growth forecasts have been revised down, and there is considerable capacity in the engine production sector. Although we continue to have every faith in the potential of the Chinese market, we made a decision after the balance sheet date to consolidate our Chinese operations and sites. Our intention is to focus our production operations in China on our established and successful joint venture DEUTZ (Dalian) Engine Co., Ltd. in Dalian, China, which has plenty of capacity at present.

DEUTZ has been operating the DEUTZ Dalian joint venture with the First Automotive Works Group, one of China's leading vehicle manufacturers, since 2007. Here, we produce three to eight litre diesel engines, mainly for automotive applications for the Chinese market. The unit sales figure for 2014 was just short of 106,000 engines. An improved product mix brought in revenue equivalent to roughly €360 million, up by 12.8 per cent year on year, as a result of which the business significantly outperformed the market, as it did the previous year. The company, accounted for under the equity method, contributed around €3.5 million to the DEUTZ Group's operating profit (2013: €1.3 million). For the current year, we are assuming that the company will continue to grow strongly in the Chinese market and will benefit from the China IV (similar to Euro 4) automotive emissions standard being introduced across the country from 1 January 2015 and from our continuing initiatives to reduce costs and increase efficiency.

In February 2015, together with our partner AB Volvo, we took a joint decision – because of the significantly downgraded growth forecasts – to wind up our DEUTZ Engine (China) Co., Ltd. joint venture in Linyi, China that had been established at the end of 2013. We have a 65 per cent shareholding in the company. It was originally intended to produce medium-duty diesel engines primarily for mobile machinery in the Asian market and the joint venture has not made any substantial investments to date. Going forward, we aim to continue satisfying local demand from our partners and other target customers using local Chinese production operations.

It was in 2012 that we established the DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China, in order to assemble diesel engines of up to four litres cubic capacity. We have a 70 per cent shareholding in this production company, which has not yet begun to operate commercially. Due to the market situation, we have put on hold any further implementation work and capital expenditure for the time being.

Another joint venture, WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. based in Weifang, China, has been run by DEUTZ for many years in collaboration with Chinese engine manufacturer Weichai Power. It produces 226B series engines under licence. Because the joint venture is no longer considered strategically important, we are in talks with our partner Weichai Power about its future.

DEUTZ AGCO MOTORES S.A. (DAMSA), our Argentinian joint venture with the AGCO Group, produces engines for the local market, with a particular focus on agricultural machinery, buses and industrial applications. In 2014, the company sold around 1,400 engines in very challenging market conditions. It generated revenue of around €16 million, which was about a quarter less than in 2013, and the company made a loss of almost €1 million.

We hold a stake of 30 per cent in D.D. Power Holdings (Pty) Ltd., our South African joint venture. This sales and service company is active in the local market, focusing on sectors such as the local mining business. In the year under review, the company achieved revenue of around €17 million and a profit of approximately €2 million, with both figures at the same level as last year.

NEW ORDERS

DEUTZ Group: New orders

€ million

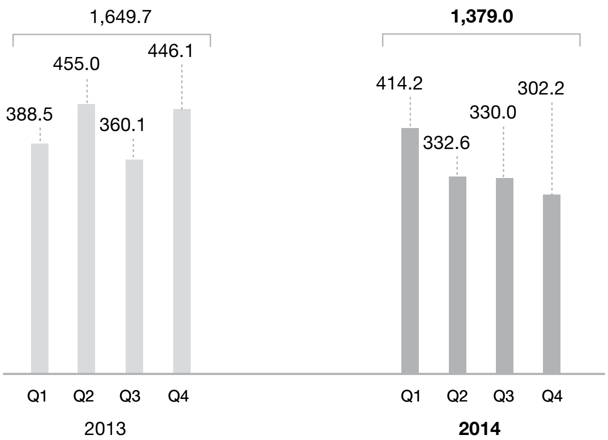
2014	**1,379.0**
2013	1,649.7
2012	1,237.1
2011	1,479.3
2010	1,315.0

Year-on-year decrease in new orders The DEUTZ Group received new orders worth €1,379.0 million in 2014, which was 16.4 per cent below the figure of €1,649.7 million achieved in the previous year. The Mobile Machinery and Stationary Equipment application segments managed to increase their volumes of new orders by 10.5 per cent and 4.5 per cent respectively. The service business achieved a small gain of 2.8 per cent, whereas the volume of new orders received in the Automotive and Agricultural Machinery application segments slumped by 53.3 per cent and 59.2 per cent respectively. The fall in new orders in the Automotive application segment had been anticipated, because the Euro 6 emissions standard was introduced at the start of 2014 and DEUTZ does not offer compliant engines. The decrease in Agricultural Machinery was largely due to the very high level of orders received in 2013 and the current weakness of the market. However, the fact that we acquired new customers across all regions and applications was very encouraging.

While the level of new orders received in the first quarter of 2014 was 6.6 per cent higher than in the same period of 2013 due to the advance production of engines ahead of the introduction of the latest EU exhaust emissions standard, the remaining three quarters failed to match their prior-year level. The first quarter, when orders worth €414.2 million were received, was also the strongest quarter. The volume of new orders received in the fourth quarter was €302.2 million, a year-on-year fall of 32.3 per cent and a quarter-on-quarter fall of 8.4 per cent.

DEUTZ Group: New orders by quarter[1)]

€ million



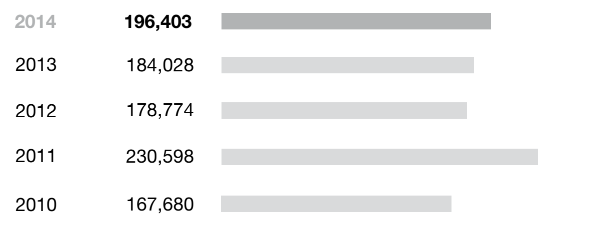
[1)] These and subsequent quarterly figures are based on the published quarterly financial statements and have not been audited.

As at 31 December 2014, orders on hand stood at €219.7 million, 40 per cent lower than the figure of €366.1 million as at 31 December 2013.

UNIT SALES

DEUTZ Group: Unit sales

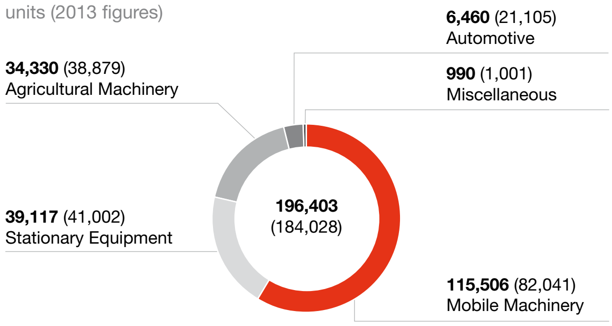
units



Unit sales up on 2013 In 2014, DEUTZ sold 196,403 engines, which was a rise of 6.7 per cent on the number sold the previous year (184,028 engines). This was largely attributable to the Mobile Machinery application segment, where 40.8 per cent more engines were sold than in the previous year. Unit sales decreased in all the other application segments. In view of the introduction of the EU Stage IV emissions standard for power categories below 130kW in the European Union with effect from 1 October 2014, DEUTZ sold a particularly large number of engines with capacities of less than four litres in the first nine months of 2014.

DEUTZ Group: Unit sales by application segments

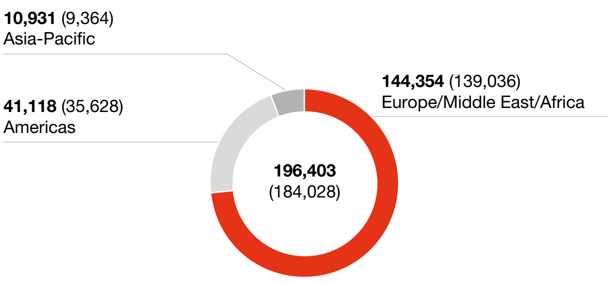
units (2013 figures)



Unit sales increased in all regions. In our largest market – EMEA – we increased our sales figures by 3.8 per cent to 144,354 engines. Within this region, there was a sharp rise in unit sales in Germany, which were up by 31.9 per cent; however, sales were down by 4.6 per cent in the rest of Europe. Sales of engines rose by 15.4 per cent to 41,118 units sold in the Americas and increased by 16.7 per cent to 10,931 engines in the Asia-Pacific region.

DEUTZ Group: Units sales by region

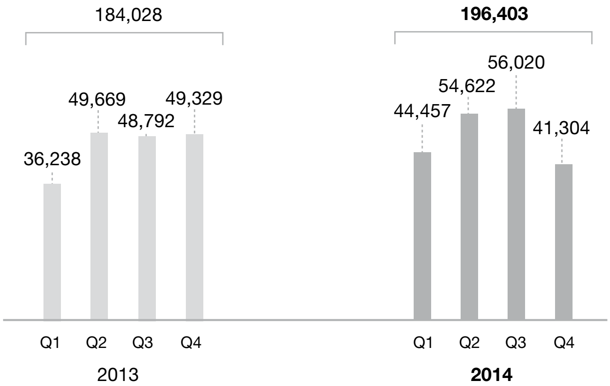
units (2013 figures)



During the year, unit sales were ahead of the comparative period of 2013 in each of the first three quarters, by 22.7 per cent, 10.0 per cent and 14.8 per cent respectively. However, unit sales slowed in the fourth quarter and stood at 41,304 engines, 16.3 per cent below the figure for the fourth quarter of 2013. The strongest quarter in terms of unit sales was the third quarter when 56,020 engines were sold.

DEUTZ Group: Consolidated unit sales by quarter

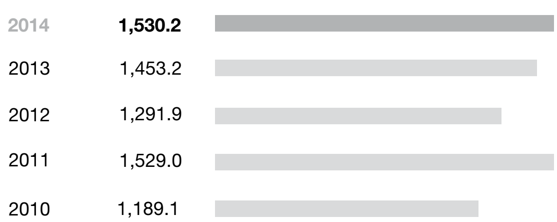
units



RESULTS OF OPERATIONS

DEUTZ Group: Revenue

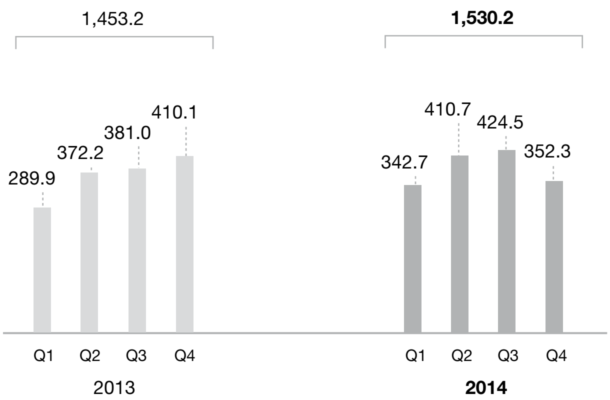
€ million



Revenue also up In 2014, DEUTZ generated revenue of €1,530.2 million, 5.3 per cent more than in the previous year when revenue amounted to €1,453.2 million. Although we did not meet the target of low double-digit revenue growth that we set at the beginning of the year, we did achieve our revised forecast of around €1.5 billion that was set in November 2014. Revenue growth was 1.4 percentage points lower than our growth in unit sales. Although the proportion of higher value engines rose once more in the year under review, this positive effect was more than offset by a shift in the product mix towards engines with a lower power output. The change in the emissions standard for engines under 130kW in the EU resulted in a distortion in demand for this power range. In anticipation of this change, which came into effect on 1 October 2014, European customers purchased more engines than they needed in the first nine months of the year, which reduced demand accordingly in the fourth quarter of 2014 and will continue to do so in the quarters ahead.

DEUTZ Group: Revenue by quarter

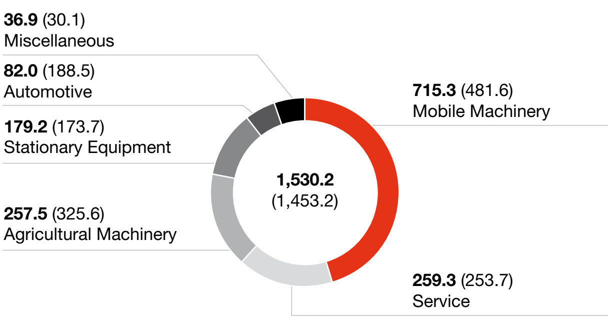
€ million



Consequently, revenue followed an upward trend over the course of the year, with the exception of the fourth quarter. Revenue of €342.7 million in the first quarter was followed by €410.7 million in the second and €424.5 million in the third. The final quarter was ultimately the weakest with revenue of €352.3 million, which represented a year-on-year fall of 14.1 per cent. In addition to the impact of the advance production of engines mentioned above, this was also attributable to an economic downturn towards the end of the year.

DEUTZ Group: Revenue by application segment

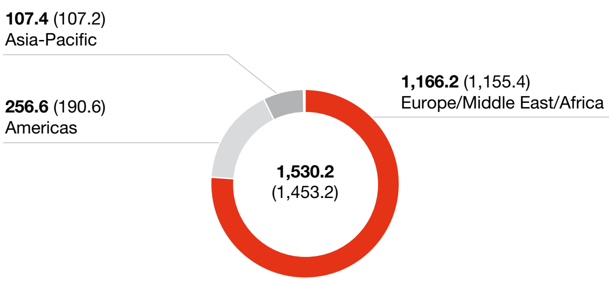
€ million (2013 figures)



Revenue generated by Mobile Machinery, our biggest application segment, increased to €715.3 million, a sharp rise of 48.5 per cent. The service business and the Stationary Equipment application segment also managed modest increases of 2.2 per cent and 3.2 per cent respectively. By contrast, Agricultural Machinery generated 20.9 per cent less revenue. Revenue in the Automotive application segment more than halved because DEUTZ has not introduced the Euro 6 emissions standard, as mentioned above. Our automotive business is shifting strongly towards Asia, particularly to our DEUTZ (Dalian) Engine Co., Ltd. joint venture (DEUTZ Dalian). However, this joint venture, in which we have a 50 per cent stake, is only consolidated under the equity method, so its revenue is not included in our consolidated revenue.

DEUTZ Group: Revenue by regions

€ million (2013 figures)



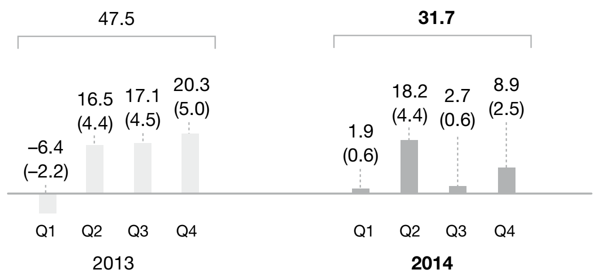
In terms of regions, our revenue in the Americas region was up significantly, rising by 34.6 per cent to €256.6 million. Revenue in the EMEA region (Europe, Middle East and Africa) amounting to €1,166.2 million remained at roughly prior-year level, as did the revenue of €107.4 million generated in the Asia-Pacific region. However, using a pro-forma calculation including revenue from the equity-accounted DEUTZ Dalian joint venture, revenue in the Asia-Pacific region would have gone up to €467.1 million, increasing the proportion of total revenue accounted for by this region to 24.7 per cent.

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

€ million (EBIT margin in %)

DEUTZ Group: Operating profit/EBIT margin by quarter

€ million (EBIT margin in %)



Earnings performance Adjusted for one-off items, operating profit before depreciation and amortisation (EBITDA before one-off items) stood at €137.4 million in 2014 (2013: €142.0 million). Despite the positive trend in the volume of business, EBITDA before one-off items was down by €4.6 million year on year. This decrease was largely due to the increase in warranty costs. As already announced in October 2014, we made an unexpected addition to provisions for warranty costs in the third quarter of the year, which reduced earnings by €20.4 million after deduction of insurance claims.

Operating profit after depreciation and amortisation (EBIT before one-off items) amounted to €31.7 million in 2014 and was therefore €15.8 million lower than earnings for the previous year (2013: €47.5 million). Consequently, the EBIT margin before one-off items had fallen to 2.1 per cent in 2014 (2013: 3.3 per cent), which means that we failed to achieve the target of above 4.0 per cent that we had forecast at the beginning of 2014. This was largely attributable to the unexpected addition to provisions for warranty costs in the third quarter of 2014 and the non-achievement of business-volume targets. However, we did meet the revised target of 2.0 per cent in the revised November forecast. Without the unexpected addition to provisions and other exceptional effects, the EBIT margin before one-off items would have been 3.4 per cent. Depreciation and amortisation on property, plant and equipment and intangible assets before one-off items rose by €11.2 million to €105.7 million in the year under review. Firstly, depreciation and amortisation rose again slightly due to the production launch of all engines that comply with the latest emissions standard and secondly, due to changes in market forecasts, impairment losses of €9.5 million were recognised on property, plant and equipment and intangible assets, primarily capitalised development expenditure, at the end of 2014.

In the fourth quarter of 2014, the EBIT margin before one-off items stood at 2.5 per cent. Operating profit (EBIT before one-off items) was characterised by numerous other effects in this quarter, although they largely offset each other. The positive contribution to earnings from the sale of engine licences to an Algerian company as part of that country's industrialisation programme, amounting to €14.3 million, was offset by the following charges: in addition to the impairment losses of €9.5 million on property, plant and equipment and intangible assets mentioned above, impairment losses on equity-accounted investments of €1.8 million and on other receivables of €2.0 million (€2.5 million for the year as a whole) were recognised in relation to the shareholding in our Argentinian joint venture DEUTZ AGCO Motores S.A.

After one-off items, operating profit (EBIT) for 2014 amounted to €12.8 million (2013: €47.5 million). The one-off items totalling minus €18.9 million mainly related to expenses of €17.1 million in connection with measures to optimise our German sites, impairment losses recognised on the property, plant and equipment of our Chinese subsidiary DEUTZ Engine (Shandong) Co., Ltd. following weaker market forecasts and the associated change in our strategy for the subsidiary (€1.8 million). Overall, the one-off items were attributable to both the DEUTZ Compact Engines (DCE) segment and the DEUTZ Customised Solutions (DCS) segment. Consequently, the EBIT margin narrowed to 0.8 per cent overall (2013: 3.3 per cent).

Owing to the exceptional items in 2014 and the lower than expected volume of business, return on capital employed (ROCE before one-off items)[1], our internal KPI, fell from 6.0 per cent in the previous year to 3.9 per cent. We were thus unable to achieve our target, set at the start of the year, of above 6.0 per cent.

Cost of sales In 2014, the cost of sales totalled €1,327.6 million (2013: €1,257.4 million). This year-on-year increase of 5.6 per cent was mainly due to higher expenses for materials, staff and contract workers associated with the larger business volume and the unexpected addition to provisions for warranty costs. The ratio of cost of sales to revenue was 86.8 per cent, the same level as the previous year (2013: 86.5 per cent).

Overview of the DEUTZ Group's results of operations

	2014	2013
€ million		
Revenue	1,530.2	1,453.2
Cost of sales	–1,327.6	–1,257.4
Research and development costs	–74.3	–58.7
Sales and administrative expenses	–100.0	–96.1
Other operating income	22.9	17.0
Other operating expenses	–41.4	–13.9
Net investment income	3.0	3.4
EBIT	12.8	47.5
thereof one-off items	–18.9	–
EBIT before one-off items	31.7	47.5
Interest expenses, net	–6.1	–6.0
Income taxes	12.8	–5.5
Net income	19.5	36.0

Research and development costs In the year under review, research and development costs amounted to €74.3 million (2013: €58.7 million). They largely comprised amortisation on completed development projects, staff costs and cost of materials, from which investment grants received and capitalised development costs were deducted. The year-on-year increase was primarily attributable to impairment losses of €9.2 million recognised on completed development projects due to changes in predicted demand. Amortisation on completed development projects was also higher following the production start-up of new engines.

Selling and administrative expenses Selling and administrative expenses in 2014 came to €100.0 million, an increase of €3.9 million compared with 2013 (€96.1 million). On the other hand, when measured as a proportion of revenue, selling and administrative expenses actually declined slightly, from 6.6 per cent in 2013 to 6.5 per cent in 2014, owing to the greater volume of business.

Other operating income Other operating income was up by €5.9 million year on year to €22.9 million (2013: €17.0 million). This was mainly attributable to positive effects arising on the translation of foreign currency positions. However, the year-on-year increase in foreign currency gains was offset by a rise in foreign currency losses in the same period. Foreign currency losses are reported in other operating expenses.

Other operating expenses Other operating expenses totalled €41.4 million in the reporting year, an increase of €27.5 million compared with 2013 (€13.9 million). In addition to the rise in foreign exchange losses, this trend was primarily the result of recognising provisions for restructuring following the decision to optimise our network of sites.

Profit/loss on equity-accounted investments The profit on equity-accounted investments rose by €0.3 million on 2013 and amounted to €1.9 million (2013: €1.6 million). This year-on-year change was largely characterised by two countervailing factors. While the contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. rose sharply, by €2.2 million to €3.5 million, as the result of volume and efficiency gains, adverse market conditions in South America prompted us to recognise an impairment loss on the equity-accounted value of our Argentinian joint venture DEUTZ AGCO MOTORES S.A.

Other financial income The decline in other financial income largely resulted from the sale of our shareholding in DEUTZ Versicherungsvermittlung GmbH, Cologne in 2013.

Net interest expense Net interest expense in 2014 remained virtually unchanged on the previous year (2014: €6.1 million; 2013: €6.0 million). Both finance costs and interest income declined to a comparable extent due to the fall in interest rates.

[1] Return on capital employed (ROCE before one-off items): ratio of EBIT before one-off items to average capital employed. Capital employed: total assets less cash and cash equivalents, trade payables and other current and non-current liabilities based on average values from two balance sheet dates.

Income taxes In 2014, there was overall tax income of €12.8 million, whereas income taxes of €5.5 million were incurred in the previous year. The current tax expense of €9.1 million was down slightly year on year, by €1.6 million (2013: €10.7 million). Current tax expenses were offset by deferred tax income of €21.9 million (2013: €5.2 million). This resulted from the reversal of deferred tax liabilities arising in connection with the capitalisation of development expenditure under IFRS and from increased deferred tax assets due to the findings of the tax audit carried out at DEUTZ AG for 2009 to 2011, which led to restatement of the tax accounts for DEUTZ AG as at 31 December 2014.

Earnings per share Based on the decline in the operating profit performance and the one-off charge in connection with site optimisation, net income fell to €19.5 million in 2014, a year-on-year decrease of €16.5 million (2013: €36.0 million). This resulted in earnings per share of €0.18 (2013: €0.30).

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group: Segments

	2014	2013
€ million		
New orders		
DEUTZ Compact Engines	1,115.0	1,385.5
DEUTZ Customised Solutions	264.0	264.2
Total	**1,379.0**	**1,649.7**
Unit sales (units)		
DEUTZ Compact Engines	183,125	167,964
DEUTZ Customised Solutions	13,278	16,064
Total	**196,403**	**184,028**
Revenue		
DEUTZ Compact Engines	1,279.9	1,188.8
DEUTZ Customised Solutions	250.3	264.4
Total	**1,530.2**	**1,453.2**
EBIT before one-off items		
DEUTZ Compact Engines	15.2	8.7
DEUTZ Customised Solutions	18.8	39.0
Other	–2.3	–0.2
Total	**31.7**	**47.5**

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

New orders down on 2013 In 2014, the Compact Engines (DCE) segment received new orders worth €1,115.0 million, 19.5 per cent down on 2013 when orders worth €1,385.5 million were received. As was the case for the Group as a whole, the Mobile Machinery and Stationary Equipment application segments increased their volumes of new orders, by 10.8 per cent and 7.5 per cent respectively. On the other hand, new orders received by the Automotive and Agricultural Equipment application segments were sharply down by 69.1 per cent and 59.9 per cent respectively. Orders on hand at the end of the year stood at €141.5 million, virtually half the figure for the end of 2013.

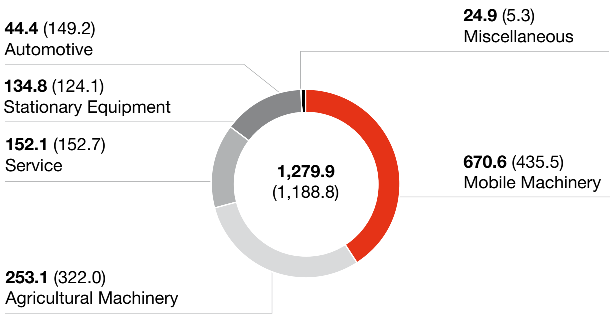
More engines sold A total of 183,125 engines were sold in the DCE segment in 2014, 9.0 per cent more than the 167,964 engines sold in 2013. In the EMEA region, our largest market, the number of engines sold climbed to 137,416 units, an increase of 5.7 per cent. Unit sales were also up in the Americas and Asia-Pacific regions (by 18.7 per cent and 28.5 per cent respectively). The main factor in the uptrend was the successful performance of the Mobile Machinery application segment, where unit sales were up by 43.5 per cent. In contrast, all the other application segments suffered a drop in unit sales.

Revenue also up At €1,279.9 million, revenue in the DCE segment was up by 7.7 per cent year on year (2013: €1,188.8 million). The biggest increase in revenue (42.9 per cent) was in the Americas region – driven by an encouraging expansion in business with our customers and strong economic growth. The Asia-Pacific region also reported significant revenue growth of 18.7 per cent, but revenue generated in the EMEA region was only up by 2.0 per cent. The performance of the Mobile Machinery application segment was encouraging, with a 54.0 per cent rise in revenue. The revenue attributable to the Stationary Equipment application segment rose by 8.6 per cent, service business revenue remained flat but Agricultural Machinery generated 21.4 per cent less revenue. Automotive reported a 70.2 per cent fall in revenue. Like the Group as a whole, the segment was impacted by the introduction of the Euro 6 emissions standard in Europe at the beginning of the year, for which DEUTZ does not offer compliant engines.

Fourth quarter down year on year In the DCE segment, new orders in the fourth quarter of 2014 reached €232.5 million, down by 39.1 per cent on the final quarter of 2013 and by 14.0 per cent on the third quarter of 2014. Unit sales declined by 16.7 per cent year on year to 36,601 engines and were well below the strong previous quarter when 53,589 engines were sold. The revenue of €277.1 million generated in the fourth quarter was 15.4 per cent below that of the same quarter in 2013 and 24.7 per cent down on the strong third quarter of 2014.

DEUTZ Compact Engines: Revenue by application segment

€ million (2013 figures)



Improvement in DCE operating profit In 2014, we generated operating profit (EBIT before one-off items) of €15.2 million for the segment, outstripping the profit of €8.7 million for 2013 by €6.5 million. The rise is due, in particular, to the increase in the volume of business in the reporting year and to the positive contribution to earnings from the sale of engine licences to an Algerian company. Moreover, the increased earnings of our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. also played a part in the rise. There was a negative impact on operating profit for the segment from the aforementioned addition to provisions for warranty costs.

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

New orders in line with 2013 In the year under review, the DEUTZ Customised Solutions (DCS) segment received new orders worth €264.0 million, the same amount as in the previous year. The level of new orders rose in the Mobile Machinery and Agricultural Machinery application segments, as did the service business. At 31 December 2014, the order book stood at €78.2 million, 23.0 per cent higher than at the end of 2013.

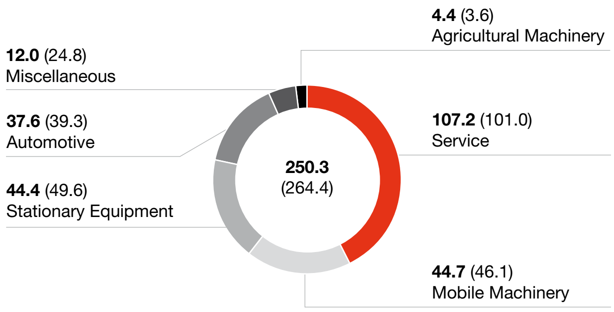
Fewer engines sold Unit sales in the DCS segment fell by 17.3 per cent to 13,278 engines in 2014. All regions and application segments reported lower unit sales.

Revenue down on 2013 In the year under review, the DCS segment generated revenue of €250.3 million, a decline of 5.3 per cent, although the Americas region managed to increase its revenue by 5.7 per cent. By contrast, revenue was down by 5.6 per cent and 11.8 per cent respectively in the EMEA and Asia-Pacific regions. The Agricultural Machinery application segment posted an increase of 22.2 per cent in revenue and service business revenue was also up, by 6.1 per cent. By contrast, the revenue attributable to the Mobile Machinery, Automotive and Stationary Equipment application segments declined by 3.0 per cent, 4.3 per cent and 10.5 per cent respectively.

Healthy level of new orders in the fourth quarter In the fourth quarter of 2014, the DCS segment achieved new orders worth €69.7 million, exceeding the equivalent figure in the fourth quarter of 2013 by 8.6 per cent. New orders were also up by 16.9 per cent compared with the third quarter of 2014. Unit sales in the final quarter of 2014 declined by 12.4 per cent compared with the corresponding quarter of 2013 but rose significantly (by 93.5 per cent) in comparison with the previous quarter, which had been adversely affected by supply shortages relating to one supplier. The revenue attributable to the DCS segment in the final quarter was down by 9.1 per cent year on year and amounted to €75.2 million, but nonetheless was around a third higher than the figure for the third quarter of 2014.

DEUTZ Customised Solutions: Revenue by application segment

€ million (2013 figures)

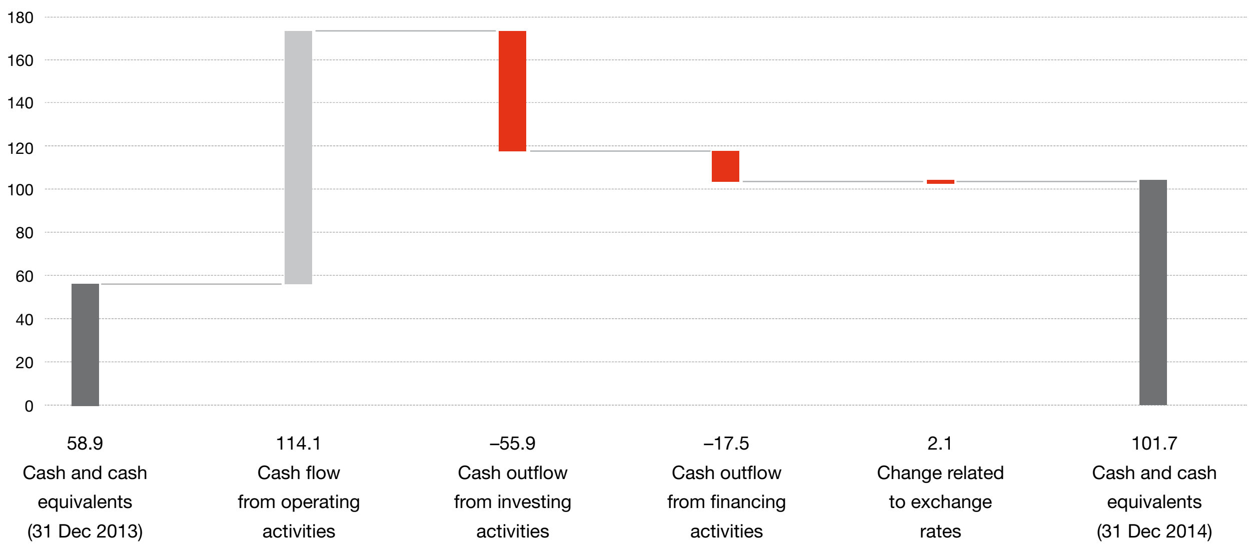


DCS operating profit In the DEUTZ Customised Solutions segment, earnings (EBIT before one-off items) fell by €20.2 million year on year to €18.8 million (2013: €39.0 million). In addition to the fall in the volume of business, this decline largely related to impairment losses totalling €9.5 million recognised on property, plant and equipment and intangible assets and to the adjustment of the equity-accounted value of our Argentinian joint venture DEUTZ AGCO MOTORES S.A., which equated to a decrease of €1.8 million.

Other The operating loss of the Other segment amounted to €2.3 million (2013: loss of €0.2 million) and was particularly affected by the write-off of a loan to our joint venture DEUTZ AGCO MOTORES S.A. Because the segment structure of the DEUTZ Group at the time the loan was granted was not comparable with the current segment structure, the amount receivable for the loan was not assigned to either the DCE or the DCS segment.

DEUTZ Group: Change in cash and cash equivalents

€ million



FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the DEUTZ Group's financial position

	2014	2013
€ million		
Cash flow from operating activities	114.1	105.0
Cash flow from investing activities	–55.9	–84.6
Cash flow from financing activities	–17.5	–13.2
Change in cash and cash equivalents	40.7	7.2
Free cash flow from continuing operations	52.0	13.8
Cash and cash equivalents at 31 December	101.7	58.9
Current and non-current interest-bearing financial liabilities at 31 December	88.0	90.6
Net financial position at 31 December	13.7	–31.7

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

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

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

FUNDING

Syndicated credit line and loan from the European Investment Bank ensure sufficient liquidity In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving working capital facility of €160 million provided by a consortium of banks. It is a floating-rate, unsecured line. In 2014, the term of the facility was extended to May 2019. DEUTZ can elect whether to utilise the cash line as a bilateral overdraft facility (up to €60 million) or to draw down amounts with interest periods of three to six months.

In addition, we have an amortising loan from the European Investment Bank with a remaining balance of €82.8 million at 31 December 2014. This loan, which is also unsecured, is repayable in instalments until July 2020. We have hedged the interest-rate risk arising from this loan.

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

Receivables management optimised by means of factoring The sale of receivables is an important way of optimising receivables management. Because the credit quality of our customer receivables is excellent, factoring is also a cost-effective way of improving working capital, especially as considerable cash resources are required to cover the period from the preliminary financing of production to receipt of payment from the customer. The volume of factoring on the balance sheet date was lower than at the end of 2013 as a result of the business situation, the volume as at 31 December 2014 being around €107 million (31 December 2013: €175 million).

FREE CASH FLOW

At the end of 2014, cash flow from operating activities amounted to €114.1 million, which was €9.1 million higher than at the end of the previous year (31 December 2013: €105.0 million). Due to the level of orders, there was a greater increase in working capital in 2013 than in 2014.

The cash flow from investing activities in the reporting period fell sharply from minus €84.6 million in 2013 to minus €55.9 million. The primary factor accounting for the decline of €28.7 million were the lower payments associated with capital spending on property, plant and equipment and intangible assets. The sale of our shareholding in DEUTZ Versicherungsvermittlung GmbH at the end of 2013 contributed to this decline because the transaction did not affect cash flow until the first quarter of 2014.

Financing activities in 2014 resulted in a net cash outflow of €17.5 million (2013: €13.2 million). This year-on-year change was largely attributable to the 2013 dividend payment amounting to €8.5 million but it was partly offset by lower borrowing costs in terms of payments of interest and principal.

Cash and cash equivalents as at 31 December 2014 had risen by €42.8 million and stood at €101.7 million (31 December 2013: €58.9 million). The net financial position[1] improved significantly, having risen by €45.4 million since the end of 2013 to €13.7 million at 31 December 2014, the first time it had returned to positive territory since 2009.

Primarily due to the lower amount of net cash used for investing activities, the free cash flow[2] was almost four times higher than in 2013 (€13.8 million), having risen by €38.2 million to €52.0 million and significantly exceeded our forecast at the beginning of the year.

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

After deducting investment grants, capital expenditure on property, plant and equipment and intangible assets in 2014 totalled €66.6 million, which was €9.7 million less than in 2013 (€76.3 million). Of this total expenditure, €37.0 million was accounted for by property, plant and equipment (2013: €35.5 million) and €29.6 million (2013: €40.8 million) by intangible assets. The capital expenditure on property, plant and equipment focused on production facilities and tools for engines that meet new emissions standards. Capital expenditure on intangible assets was mainly spent on the refinement of existing engines to meet new exhaust emissions standards. Before the capitalisation of development expenditure, €40.3 million was spent on capital investment, a similar level to the previous year (2013: €42.5 million). Because demand in the Chinese market is not following the anticipated trend, virtually all growth-related capital expenditure in China is now on hold, with the result that capital spending is much lower than envisaged in our forecast at the beginning of the year.

The bulk of the total capital expenditure after deducting investment grants – €57.8 million – was invested in the DEUTZ Compact Engines segment (2013: €69.2 million). Capital expenditure in DEUTZ Customised Solutions was €8.8 million (2013: €7.1 million). As was the case in 2013, investing activities in both segments focused on property, plant and equipment and on development expenditure.

NET ASSETS

Overview of the DEUTZ Group's assets

	31 Dec 2014	31 Dec 2013	Change
€ million			
Non-current assets	625.8	627.4	–1.6
Current assets	523.0	493.2	29.8
Assets classified as held for sale	0.4	0.4	–
Total assets	**1,149.2**	**1,121.0**	**28.2**
Equity	511.0	504.7	6.3
Non-current liabilities	322.7	292.5	30.2
Current liabilities	315.5	323.8	8.3
Total equity and liabilities	**1,149.2**	**1,121.0**	**28.2**
Working capital (€ million)	196.2	172.3	23.9
Working capital ratio at the balance sheet date (%)	12.8	11.9	0.9
Working capital ratio (average, %)	13.3	12.0	1.3
Equity ratio (%)	44.5	45.0	–0.5

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

Non-current assets Non-current assets of the DEUTZ Group totalled €625.8 million as at 31 December 2014 (31 December 2013: €627.4 million). This slight decrease was primarily attributable to the change in property, plant and equipment and intangible assets. Because the production launch of the new engines for the EU Stage IV/US Tier 4 emissions standards had been completed, we reduced our investing activities in this area as planned. The additions to property, plant and equipment amounting to €37.0 million and to intangible assets amounting to €29.6 million were offset by higher depreciation charges of €51.6 million and higher amortisation charges of €55.9 million. In addition to higher depreciation and

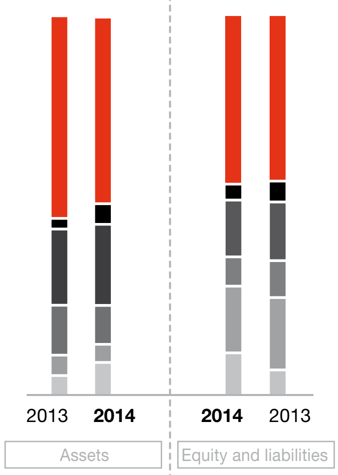
[1] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities.
[2] Free cash flow: cash flow from operating and investing activities minus net interest expense.

DEUTZ Group: Balance sheet structure

in % (2013 figures)

Assets

49.0	(53.2)	Non-current assets
5.4	(2.8)	Deferred taxes
21.3	(20.0)	Inventories
10.6	(13.3)	Trade receivables
4.8	(5.4)	Other receivables and assets
8.9	(5.3)	Cash and cash equivalents



Equity and liabilities

44.5	(45.0)	Equity
4.2	(4.8)	Other liabilities
14.9	(18.0)	Trade payables
7.7	(8.1)	Financial liabilities
17.5	(16.4)	Pension provisions
11.2	(7.7)	Other provisions

amortisation expenses, changes in market forecasts and adverse economic developments in key markets made it necessary to recognise impairment losses on property, plant and equipment (€2.1 million) and intangible assets (€9.2 million).

Current assets Current assets were also higher than at the end of 2013, having risen by €29.8 million to €523.0 million (31 December 2013: €493.2 million). This year-on-year change was mainly attributable to higher cash and cash equivalents at the year end.

Working capital Working capital as at 31 December 2014 amounted to €196.2 million (31 December 2013: €172.3 million). The year-on-year increase of €23.9 million was mainly caused by higher levels of inventories and lower trade payables, while trade receivables were also lower. In association with this change in working capital, there was also an increase in the working capital ratio, i.e. the ratio of working capital (inventories plus trade receivables less trade payables) to revenue. As at the balance sheet date, this ratio was 12.8 per cent compared with 11.9 per cent as at 31 December 2013. The average working capital ratio, i.e. the ratio of average working capital at the four quarterly reporting dates to the revenue for twelve months, had also deteriorated year on year. It was 12.0 per cent in 2013 but 13.3 per cent in 2014, although this was a slight improvement on the 14.0 per cent that we had expected at the beginning of the year. This rise was related to the changes to the emissions standard in Europe and the United States.

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

Equity ratio As at 31 December 2014, equity stood at €511.0 million (31 December 2013: €504.7 million). The main reasons for the increase of €6.3 million were the level of net income in the reporting year and positive effects of translating our subsidiaries' financial statements that are prepared in foreign currencies. However, these effects were partly offset by expenses resulting from lower discount rates used in the measurement of pension liabilities and the payment of the dividend for 2013. At the end of 2014, the equity ratio was 44.5 per cent (31 December 2013: 45.0 per cent) and matched the target specified at the start of the year of above 40.0 per cent).

Non-current liabilities Non-current liabilities at 31 December 2014 had risen to €322.7 million (31 December 2013: €292.5 million). The increase of €30.2 million was largely attributable to higher provisions for pensions and other post-retirement benefits due to the fall in discount rates, the unexpected rise in provisions for warranty costs and the recognition of restructuring provisions relating to our decision to optimise our network of sites. The decline in financial liabilities partly offset this increase. Loan repayments due in the coming months were reclassified from non-current to current.

Current liabilities In contrast, current liabilities declined by €8.3 million to €315.5 million (31 December 2013: €323.8 million). A sharp fall in trade payables was the main reason for this decrease, but it was partly offset by the unexpected increase in provisions for warranty costs.

As at 31 December 2014, total assets amounted to €1,149.2 million, a year-on-year increase of €28.2 million (31 December 2013: €1,121.0 million).

OVERALL ASSESSMENT FOR 2014

The Company's performance in 2014 – a year in which we celebrated our 150th anniversary – was influenced by several exceptional items and the deterioration of market conditions over the course of the year, with the result that we failed to meet all the targets that we had set at the beginning of the year. However, it was encouraging that our new products were very well received by customers across all sectors all over the world. Revenue was up by 5.3 per cent to €1,530.2 million and sales of 196,403 engines represented a year-on-year rise of 6.7 per cent. The planned decline in business in the Automotive segment was fully offset by growth in other areas. The Mobile Machinery application was particularly successful. Our unit sales and revenue benefited from the advance production of engines, but demand from our customers will be lower in 2015. As a result, the level of new orders had already fallen by 16.4 per cent in 2014, compared with the record figure of €1,379.0 million in 2013. Operating profit (EBIT before one-off items) of €31.7 million was down on the previous year. The EBIT margin (before one-off items) stood at 2.1 per cent. Free cash flow amounted to €52.0 million, almost four times higher than at the end of 2013. Firstly, this is because all of our new products have now been launched on the market and the associated capital expenditure is being amortised, and secondly because the development costs and capital expenditure that had been increased in recent years could be scaled back. Our net financial position improved significantly, rising by €45.4 million to €13.7 million and returning to positive territory for the first time since 2009. In the year under review, we added 'operational excellence' to our growth programme in order to further improve the quality and efficiency of our Company. The introduction of a major optimisation of our sites in Germany was a key decision in this context. In view of the challenges currently presented by the market, we also carried out a critical review of our presence in China and we came to a decision after the balance sheet date that our sites in China also need to be consolidated.

The uncertainty prevailing in our markets has prompted us to increase our flexibility still further, which is how we intend to prepare the DEUTZ Group for a successful future.

EVENTS AFTER THE REPORTING PERIOD

In February 2015, we reached agreement with our partner AB Volvo not to set up the planned joint venture DEUTZ Engine (China) Co., Ltd., Linyi, China. Having completed a thorough and comprehensive review, we have now agreed to wind up this production company given the weak prevailing market situation in China.

EMPLOYEES

Overview of the DEUTZ Group's workforce

	31 Dec 2014	31 Dec 2013
Headcount		
DEUTZ Group	**3,916**	**3,952**
Thereof		
In Germany	3,093	3,095
Outside Germany	823	857
Thereof		
Non-salaried employees	2,338	2,356
Salaried employees	1,455	1,460
Trainees	123	136
Thereof		
DEUTZ Compact Engines	3,202	3,207
DEUTZ Customised Solutions	714	745

Slight adjustment in the number of employees At the end of 2014 the DEUTZ Group employed a total of 3,916 people, 36 fewer than at the end of 2013 (a fall of 0.9 per cent). As at 31 December 2014, we also had a further 288 people on temporary employment contracts, compared with 456 a year earlier. By offering fixed-term contracts and employing temporary workers, DEUTZ can respond flexibly to any fluctuations in demand. Around 10 per cent of all staff at DEUTZ had fixed-term or temporary contracts as at 31 December 2014.

79 per cent of our workforce is employed in Germany. Most of these employees are based in Cologne – 2,422 as at 31 December 2014. 387 employees are based at the Ulm facilities. Of the 823 employees outside Germany, 438 of them work at our DEUTZ SPAIN subsidiary.

DEUTZ Group: Breakdown of workforce by location

	31 Dec 2014	31 Dec 2013
Headcount		
Cologne	2,422	2,403
Ulm	387	408
Other	284	284
In Germany	**3,093**	**3,095**
Outside Germany	823	857
Total	**3,916**	**3,952**

Looking at it by segment, DEUTZ Compact Engines employed 3,202 people as at 31 December 2014, which was almost the same number as it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 714, down by 4.2 per cent compared with the end of 2013.

Further awards for DEUTZ training and trainees We offer young people a solid foundation for their future careers through our established training programme. In 2014, we provided training at our plants in Germany for 123 young men and women in various technical and commercial occupations. The Cologne site employed 83 young people, while the DEUTZ plant in Ulm employed nineteen. We employed 13 young people at the Xchange plant in Übersee, Bavaria, and a further seven apprentices are learning their trade at DEUTZ's components plant in Herschbach (Westerwald). We offer apprenticeships in the following technical and engineering occupations: skilled metal worker, mechatronics fitter, industrial electronics technician, milling machine operator, production mechanic, industrial mechanic, materials tester and warehouse operator. Our training centre also provides vocational training, on a part-time and full-time basis, for apprentices from ten other large and medium-sized companies.

In 2014 in Germany, our overall ratio of trainees to other employees was 4.0 per cent (2013: 4.4 per cent). All apprentices and trainees passing the final examination were given a permanent employment contract.

There was a special honour for two of our trainee industrial and production mechanics in Cologne, who were presented with Best Performer awards by the city's Chamber of Industry and Commerce (IHK).

In 2014, North Rhine-Westphalia's best trainee production mechanic also came from Cologne: as in the previous year, a top-performing apprentice from the DEUTZ training centre beat off competition from his peers to receive this coveted accolade from the Chamber of Industry and Commerce in Dortmund.

In 2014, for the fourth year in succession, the DEUTZ training centre received the Best Performer accolade from the Cologne IHK in recognition of its outstanding contribution to introductory vocational training. In an online public vote organised by the IHK, a DEUTZ trainer was named 'vocational trainer of the year', an honour that provides further evidence of the quality of the Company's training.

The dual vocational training initiative being run at our Spanish plant in Zafra entered its third year in 2014 with an intake of ten trainees. As planned, the three best graduates from the previous course visited Cologne for a week and gained valuable insights into the German vocational training system, our plants in Cologne and the city itself.

Initiatives to further the advancement of women continued For a number of years now, we have been pushing to get young women interested in engineering careers before they have even left school by taking part in the nationwide Girls' Day initiative. Local schoolgirls are invited to our training centre, where they do hands-on exercises that give them an insight into technical occupations. The aim is to broaden their career choices. Currently around 7 per cent of apprentices learning technical and commercial trades at DEUTZ are female. In 2014, another young woman started a vocational apprenticeship with us in an engineering occupation.

The cross-mentoring initiative for the advancement of women, launched in 2013 by the city of Cologne, continued last year. The idea of the project, in which we have two mentees and two mentors, is to increase the proportion of women in management positions at the participating companies in the medium term. It once again focused on intensive meetings between mentees and mentors on a wide range of subjects, such as the work situation and careers of the mentees and how the mentors can help them in their daily lives. The programme was accompanied by various events, including a gender seminar and a range of personal coaching courses. Presentations were also given at the participating companies. At a workshop to draw preliminary conclusions, all those involved gave a positive verdict.

In addition, DEUTZ participated in the 'STEM role model' project initiated by the Association of German Engineers (VDI). STEM stands for Science, Technology, Engineering and Mathematics. The project aims to inspire young women to study science and engineering and to pursue careers in those areas. Using female role models, it seeks to dispel false preconceptions of STEM subjects and careers and thereby encourage women graduates to take up careers in industry and in science and research. Female engineers and scientists, and female students on STEM courses give presentations and organise workshops and information events where they talk to younger STEM students about their careers, their motivation and their experiences. One of DEUTZ's heads of department from the R&D division was an enthusiastic STEM role model between 2009 and 2014.

Continuation of recruitment activities In 2014, we again exhibited at two of the most prestigious university fairs in North Rhine-Westphalia, building on our success from previous years with a new stand. At meet@fhköln in Cologne and 'bonding' in Aachen, we made contact with students and graduates and presented our attractive career opportunities in Germany and abroad. These young engineering talents were also given an insight into DEUTZ engine technology. After all, we continue to be an attractive prospect for students: in 2014, our company employed a total of 249 students on work placements, of which 38 wrote their bachelor dissertation with us, 17 wrote their master's dissertation with us and four wrote their thesis with us. The best of these will be made available to all employees via the DEUTZ intranet. We also maintained our links with professors in 2014 so that we could exchange information about the latest research in vehicle technology.

Another of our priorities is to make young people with an interest in technology aware of our company's attractive training programmes while they are still at school. That is why we took part in various training fairs and careers information events again last year. We also offer our employees the opportunity to get involved with DEUTZ training activities in person, for example by taking part in initiatives such as the 'Erlebniswelt Maschinenbau' open day, when we open up our training centre to visitors and are available to answer questions.

Creative ideas are rewarded Through our bonus-based ideas management system we once again gathered creative suggestions for improvement from our employees. Last year, 733 ideas were submitted by DEUTZ employees – creativity that delivers.

Investing in people In 2014, we pressed ahead with our talent programme, the purpose of which is to ensure our company remains an attractive option for young, talented employees and to develop strong candidates internally through structured career planning. In conjunction with the current succession planning, this enables us to fill vacant managerial positions with people from within our own ranks. The numbers validate this approach: eleven managerial positions have been filled by graduates of the talent programme since 2011.

In 2014, we held numerous internal seminars and training courses focused on 'social and methodological skills' and on 'leadership' for employees and managers from various parts of the Company. These include the DEUTZ 'management driving licence', a modular management training course that has now been completed by 39 people. To upgrade the skills of our shopfloor staff, we worked with a training provider specialised in production management and lean management. As part of the Excellence development programme, a number of workshops were held with managers in which measures were devised for optimising the four key areas of structure, processes, employees and leadership.

Health promotion initiatives extended The 'Ergonomics in the workplace' pilot project has been running very successfully since 2013. Our aim is to firmly establish this initiative at DEUTZ because it will only begin to yield positive results after rigorous implementation over a period of years (see section on safety management, page 44 et seq.). Further preventive measures are being discussed in our working group on health and are scheduled for 2015. In Ulm there was a focus on providing training to managers. The aim is for them to be able to identify the first warning signs of various conditions so that they can take appropriate action at an early stage.

For the fourth year in a row, we took part in the HRS Business Run. The number of DEUTZ employees on the starting line rose again, to 294, building on the high turnout of the previous year. Our runners represented all different parts of the Company at all levels of seniority, from apprentices to members of the board. We once again finished in fourth place out of more than 550 companies. In addition to the sporting aspect, the annual HRS Business Run provides a great opportunity for people from across the Company to talk to each other and network.

Minimum-impact site optimisation agreed In June 2014, the social plan/reconciliation of interests required by German law was agreed for the closure of our Cologne-Deutz site. As part of the agreement, a new shaft centre is to be built at Cologne-Porz, giving a boost to the existing DEUTZ site and creating 140 jobs. The employees affected by the closure are being deployed in other functions in Cologne – in Porz or Kalk – and given appropriate training. They have also been given the option of terminating their employment contract with DEUTZ AG by mutual agreement and receiving a severance package. An interim employment company has also been set up to help the former employees find new jobs. In December, the Company and the local works council came to a mutual agreement on a reconciliation of interests and social plan for the planned relocation of all activities at the Übersee site on Lake Chiemsee. The relocation will take place in two phases, in 2015 and 2017. All employees will be offered a position in Ulm as well an attractive relocation package. Alternatively, they can transfer to an interim employment company or reach a severance agreement.

Short-time working in assembly and logistics Last year, because of stricter emissions standards coming into force on 1 October 2014, European customers built up a stock of advance-production engines that has resulted in reduced demand while these inventories are being used up. Because of this situation and a generally weak economic climate, short-time working was introduced in assembly and logistics from December 2014. A three-week shutdown of these two areas was also agreed so that additional short-time working could be avoided. Based on the current level of orders on hand, short-time working is expected to end by no later than the fourth quarter of 2015.

CORPORATE SOCIAL RESPONSIBILITY

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

Engine museum still popular with visitors The number of visitors to our DEUTZ engine museum rose again. More and more people from in and around Cologne, and from other parts of Germany and around the world, are taking the opportunity to discover the origins and history of global motorisation and original machines from the early days of the engine. This all started more than 150 years ago with the founding of N.A. Otto & Cie., the predecessor of today's DEUTZ AG.

Protected as a cultural asset of the Federal Republic of Germany, the engine collection on display at the technology centre in Cologne-Porz was given a fantastic new exhibit last year, dating from the time of Germany's post-war economic miracle: the 'see-through engine', equivalent to the F12L614 model, a twelve-cylinder drive unit producing 184kW (250HP), was unveiled to the world for the first time in 1955 at the Frankfurt International Motor Show as an exhibition piece. This 'see-through engine' was built by our trainees in Ulm. The air-cooled engine powered the Magirus Deutz Uranus, the most powerful German truck of its day.

Getting young people and the unemployed into careers As part of our corporate social responsibility, we have been working closely for more than 23 years with IN VIA – an association under the auspices of the German Caritas organisation – and the German Federal Employment Agency to provide career preparation courses for young people with learning and social difficulties. In 2014, a total of 36 participants underwent basic metalwork training over a ten-month period at the DEUTZ training centre, which equipped them with the skills they will need to take up a career. We also teamed up with the Spanish government to launch a programme at our plant in Zafra which will train people with no formal vocational education as machine operators. Graduates of the programme are given an official certificate that will improve their career prospects.

Integration of disabled and disadvantaged people For more than 25 years, DEUTZ AG has worked with Nostra GmbH, one of the largest and oldest organisations for the integration of disabled and disadvantaged people in Germany. The project finds employment in the regular labour market for 40 people who have severe disabilities or are socially disadvantaged. All participants are accommodated in special integration groups, in which disabled and non-disabled people work together in a spirit of inclusivity. This integration of the skills of disabled, socially disadvantaged and non-disabled people is proving particularly successful in the project at the DEUTZ AG site, and is clearly apparent on a day-to-day basis in the interactions with the staff there. DEUTZ has also worked in partnership with GWK, a not-for-profit organisation based in Cologne promoting the integration of people with disabilities, for more than 40 years. In 2014, more than 100 people at GWK were involved in work for DEUTZ. The goods inward, packaging and component manufacturing services provided by Nostra and GWK are closely integrated with DEUTZ AG's processes. We benefit from the high level of precision demonstrated by their employees, which is backed up by comprehensive investment by both organisations in the training of staff and in their machinery and equipment.

Company choir a highlight at DEUTZ's 150th anniversary celebration The performance given by the DEUTZ choir at the anniversary celebration on 9 May 2014 at the Koelnmesse exhibition centre was the most important and the most enduring in its almost 70-year history. Accompanied by Danish soprano Lisa Tjalve and led by artistic director Heinz Walter Florin, the choir sang themselves into the hearts of the international audience with a multilingual programme. Another highlight last year was the series of summer concerts at Cologne Philharmonic Hall.

DEUTZ has long been committed to diversity management: we value the diversity of our individual employees around the world – in terms of gender, origin, age, religion and disability – and we try to harness this for the success of the Company. For example, we have a clear target to increase the number of management positions within the DEUTZ Group that are occupied by women. We talk about our efforts to support young people, to help women advance in the workplace (cross-mentoring) and other diversity-focused activities in the 'Employees' section on pages 40 et seqq. of this annual report.

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

ENVIRONMENT

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

ENERGY MANAGEMENT SYSTEM

Our energy management system at the Cologne-Deutz site was successfully certified back in November 2013. In April 2014, as part of the annual quality and environmental audit, the certification body DNV GL once again accredited the system without any nonconformities. As planned, the ISO-50001 certificate was then extended to all German sites.

The energy monitoring scheme was also expanded in 2014. The installation of additional energy meters and the centralised recording of the energy data provided by these gives the Company a transparent overview of energy flows. This information can then be analysed to find ways to deliver further efficiency gains or to monitor the performance of completed projects. The initiatives implemented in previous years remain effective. Additional potential was leveraged in 2014 through the implementation of various technological and organisational measures. The resulting annual cost savings amount to 750 MWh of electricity and 515 MWh of heat.

However, the potential for further savings is far from exhausted: additional efficiency measures and the final phase in the expansion of the monitoring system are already being planned for 2015.

DEUTZ Group: Energy consumption in European plants[1]

	2014	2013
MWh		
Electricity	90,611	93,714
Natural gas	33,616	43,681
District heating	22,596	27,270
Heating oil	3,456	4,501
Diesel fuel[2]	32,313	33,062

[1] Deutz, Kalk, Porz, Herschbach, Ulm, Übersee, Zafra (SP).
[2] At 9.85 kWh/litre (mean).

ENVIRONMENTAL MANAGEMENT SYSTEM

In March 2014, the certification body DNV confirmed that the DEUTZ AG environmental management system conforms to the international norm DIN EN ISO 14001. The audit that preceded this verdict was carried out over several days by a team put together by DNV to assess the Company's management systems for quality, environmental aspects and energy.

In 2014, all departments initiated measures to create an 'Integrated DEUTZ Management System' from the aforementioned management systems. This will generate synergies that result from similarities in how the management systems are structured.

DEUTZ Group: Emissions per engine in European plants

	2014	2013
CO_2 emissions (kg)	360	416
Nitrogen oxide (kg)	0.140	0.142
Dust (g)	2.7	2.9
Benzene (mg)	48.6	49.7

Further improved figures for air purity In 2014, we made significant reductions in the main types of emission generated by our production processes, including nitrogen oxide, carbon dioxide and benzene. This is a result of the ongoing improvements to the DEUTZ exhaust aftertreatment systems.[1)]

Reducing the length of time that diesel engines spend in testing has also played a key role in lowering emissions. Leaner test programmes, rigorous standardisation of test rig technology and changes to processes in the preparation of engine tests have cut the testing time for diesel engines with capacities of less than four litres by around four minutes and for diesel engines with capacities of above four litres by around 1.5 minutes compared with 2013. The ongoing reduction of test times is especially important for DEUTZ because the regulated test areas in Cologne account for the highest proportion of emissions in the Company. This approach is also particularly effective from an economic and environmental perspective as it not only lowers emissions but also saves resources.

In 2014, for example, 563,000 litres of fuel were used to test compact engines in the test area at the Cologne-Porz production site (2013: 689,000 litres). This equates to a fuel saving of 18 per cent, even though the number of engines tested rose in comparison with 2013.

By introducing the energy management system and by optimising operating times, which was mainly done in the fourth quarter due to the production programme, we were able to reduce carbon dioxide emissions resulting from product-manufacturing processes by 13.5 per cent on the previous year (2014: 360kg/engine; 2013: 416kg/engine). The significant drop in CO_2 emissions in comparison with 2013 was primarily due to the production sites in Germany and Spain lowering their consumption of district heating, natural gas and electricity.

[1)] Average values from the mix of all products.

Focus on water protection measures In a research and development initiative, the equipment at the testing centre that has to meet water pollution regulations was brought up to date with the latest technology. In the final phase, completed in 2014, the areas subject to the provisions of the German Water Resources Act were upgraded and the pipes used to transport and collect waste materials were replaced. Just under €0.2 million was invested in these measures. In addition, an independent expert conducted an extensive check of all underground pipes of tank facilities at the site in Cologne. No defects were found. On this basis, we do not currently expect any disruptions that would affect the availability of the facilities and which in a worst-case scenario could lead to contamination of the soil and groundwater.

Waste disposal and handling of hazardous waste A successful waste disposal system begins with the avoidance of non-reusable packaging. Because making an engine requires such a large number of components to be supplied by such a large number of providers, we need to conduct regular checks to ensure that reusable packaging is being used in preference to non-reusable packaging in the production cycle. Such packaging can only be used if our high quality standards and transport methods allow it. In 2014, DEUTZ invested €1.1 million in the sourcing of reusable packaging. Hazardous and non-hazardous waste from production and manufacturing is only disposed of by companies that are certified to do so under the requirements set out in the Ordinance on Specialised Waste Management Companies (EfbV). The DEUTZ AG safety department carries out spot checks on the companies contracted by us to remove and transport waste. No cases of non-compliance with the statutory norms have thus far been found.

SAFETY MANAGEMENT

In the area of workplace health and safety, the Board of Management of DEUTZ AG has set itself the most ambitious target imaginable: reducing the number of accidents to zero. In order to achieve this, measures are necessary that go well beyond the requirements imposed by law and by the employers' liability insurance association.

Accident frequency[2)] (AF), the number of notifiable workplace accidents in relation to the number of hours worked, fell again in 2014 to reach 20.8 (2013: 21.3). This highlights the continuing impact of DEUTZ's health and safety at work measures.

In 2014, the number of notifiable accidents per thousand employees[3)] rose slightly on the previous year to reach 26.1 (2013: 24.3). The increase was due to the fact that in 2014 there were, on average, fewer employees dealing with a busier production programme.

To ensure that the safety of our workers is continually being improved, all accidents – regardless of their severity – are reported and evaluated by the team so that action can be taken to prevent a repeat.

[2)] Accident frequency: number of accidents per 1 million hours worked (as defined by the employers' liability insurance association).
[3)] Known as TMQ (Tausend-Mann-Quote) in German.

In 2014, the health management department of DEUTZ AG joined forces with the Pronova health insurance scheme to launch a programme aimed at improving health and safety – and specifically ergonomics – at workstations in manufacturing and production. As part of this initiative, trained physiotherapists were brought in to talk to employees at their workstations and give them tips and advice on ergonomic matters. DEUTZ sees these training sessions as an opportunity to take early preventive action to counteract some of the problems related to demographic change in society. In the year under review, Pronova made a financial contribution to the running of an ergonomics programme. This sort of training can only succeed if it has long-term backing, so we intend to continue our support.

DEUTZ AG

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

BASIC PRINCIPLES AND BUSINESS PERFORMANCE OF DEUTZ AG

DEUTZ AG is the parent company of the DEUTZ Group. At home and abroad, DEUTZ AG has various direct and indirect subsidiaries and equity investments. The subsidiaries include a production facility in Spain, two production companies in China and several companies that perform sales and service functions. DEUTZ AG has a direct or indirect stake in a total of 29 companies. It is also by far the largest production company of the DEUTZ Group and provides the head-office functions for the Group.

Because the business performance and financial situation of DEUTZ AG are essentially the same as for the DEUTZ Group, we make reference here to the ‘Business performance in the DEUTZ Group’ section on pages 26 et seqq. of this combined management report.

Because of the significance of DEUTZ AG within the Group, and its heavy interdependencies with other Group companies, the Group is managed at the level of DEUTZ AG. In addition to the key performance indicators used for management at Group level, the net income of DEUTZ AG, as the relevant variable in the payment of dividends, is also an element of the management system of the Company. The internal management system for the DEUTZ Group is described on pages 25 et seq. of this combined management report. The DEUTZ Group’s net income in accordance with IFRS is reconciled to DEUTZ AG’s net income in accordance with the German Commercial Code:

DEUTZ AG: Reconciliation

€ million	
DEUTZ Group net income (IFRS)	**19.5**
Consolidation of equity investments	–11.5
DEUTZ AG income (IFRS)	**8.0**
Material differences due to different financial reporting standards	
Recognition of development expenditure	21.5
Measurement of provisions for pensions and other post-retirement benefits	–7.6
Other differences relating to the financial reporting standards	2.5
DEUTZ AG net income (HGB)	**24.4**

RESULTS OF OPERATIONS

Overview of DEUTZ AG’s results of operations

	2014	2013
€ million		
Revenue	**1,437.8**	**1,366.6**
Cost of sales	–1,280.6	–1,229.2
Research and development costs	–54.0	–53.9
Selling and administrative expenses	–68.8	–68.6
Other operating income	31.1	22.1
Other operating expenses	–15.9	–9.2
Net investment income	–7.3	21.9
Write-downs of investments	–0.7	–
Operating profit (EBIT)	**41.6**	**49.7**
Interest expenses, net	–11.6	–12.0
Profit from ordinary activities	**30.0**	**37.7**
Net extraordinary expense	–19.4	–2.3
Income taxes	15.0	4.4
Other taxes	–1.2	–0.6
Net income	**24.4**	**39.2**

Revenue In 2014, the revenue generated by DEUTZ AG increased by 5.2 per cent to €1,437.8 million (2013: €1,366.6 million), largely driven by higher demand in our largest application segment, Mobile Machinery. Our revenue in this segment grew substantially to €677.8 million, a rise of 46.7 per cent (2013: €462.0 million). The service business and the Stationary Equipment application segment managed modest increases of 3.1 per cent and 3.4 per cent respectively, but Agricultural Machinery generated 19.0 per cent less revenue. Revenue in the Automotive application segment more than halved because, as already mentioned above, DEUTZ has not introduced the Euro 6 emissions standard. Our automotive business is shifting strongly towards Asia, particularly to our DEUTZ (Dalian) Engine Co., Ltd. joint venture.

In terms of regions, our revenue in the Americas region was up significantly, rising by 42.7 per cent to €209.7 million. In the EMEA region (Europe, Middle East and Africa) revenue amounted to €1,135.9 million, roughly at its prior-year level, while the revenue generated in the Asia-Pacific region declined by 2.0 per cent to €92.2 million.

Earnings performance In 2014, DEUTZ AG generated operating profit (EBIT) of €41.6 million (2013: €49.7 million), a year-on-year fall of €8.1 million that was primarily attributable to the sharp decline in net investment income. Because of declining demand in the Chinese market and a resultant change in our strategy, the carrying amounts for our shareholdings in DEUTZ Engine (Shandong) Co., Ltd. and DEUTZ Engine (China) Co., Ltd. were reduced at the level of our holding companies DEUTZ Asien Verwaltungs GmbH and DEUTZ Engine (China) GmbH. The profits distributed by our subsidiaries DEUTZ Corporation and DEUTZ Spain S.A. were also lower than in 2013. The unexpected addition to provisions for warranty costs also had a negative impact on operating profit.

Earnings before interest, tax, depreciation and amortisation (EBITDA) at DEUTZ AG amounted to €90.0 million in 2014 compared with €96.9 million in 2013.

Cost of sales DEUTZ AG's cost of sales in 2014 amounted to €1,280.6 million (2013: €1,229.2 million). The year-on-year increase of €51.4 million was mainly attributable to the volume-related rise in the costs of materials, staff and contract workers, but an unexpected addition to provisions for warranty costs also played a part. As a percentage of revenue, the cost of sales improved year on year from 89.9 per cent to 89.1 per cent.

Research and development costs Research and development costs remained virtually unchanged on the previous year, rising by €0.1 million to €54.0 million (2013: €53.9 million). Research and development costs largely comprised staff costs and cost of materials. Any investment grants received were deducted from this expenditure. Unlike the development expenditure in the DEUTZ Group, which is recognised in accordance with IFRS requirements, the development expenditure in DEUTZ AG is recognised in accordance with the provisions of the German Commercial Code (HGB) and is not capitalised on the basis that the projects started before the initial application of the requirements of the German Accounting Law Modernisation Act (BilMoG).

Selling and administrative expenses Selling and administrative expenses in 2014 came to €68.8 million, an increase of €0.2 million compared with 2013 (€68.6 million). On the other hand, when measured as a proportion of revenue, selling and administrative expenses declined slightly, from 5.0 per cent in 2013 to 4.8 per cent in 2014, owing to the higher volume of business.

Other operating income There was a sharp rise in other operating income in 2014, which was €9.0 million higher at €31.1 million (2013: €22.1 million). This was primarily attributable to positive effects arising on the translation of foreign currency positions. However, the year-on-year increase in foreign currency gains was offset by a rise in foreign currency losses in the same period. Foreign currency losses are reported in other operating expenses. We also recognised a higher value for our shareholding in our subsidiary DEUTZ Australia (Pty), Ltd. due to its improved earnings prospects.

Other operating expenses Other operating expenses were also up year on year, rising by €6.7 million to €15.9 million (2013: €9.2 million). This rise was mainly the result of an addition to provisions for pensions and other post-retirement benefits because of changes in measurement parameters. It was also attributable to the impairment loss recognised on other receivables due from our DEUTZ AGCO MOTORES S.A. joint venture owing to the company's poorer earnings prospects. Finally, higher expenses resulting from foreign-currency transaction also contributed to the change.

Net investment income Net investment income was significantly down on the previous year, declining by €29.2 million to minus €7.3 million (2013: €21.9 million). This was primarily the result of the transfer of losses from the DEUTZ Asien Verwaltungs GmbH and DEUTZ Engine (China) GmbH holding companies. Because of the revised assessment of the Chinese market, we reviewed our strategy regarding our Chinese equity investments DEUTZ Engine (Shandong) Co., Ltd. and DEUTZ Engine (China) Co., Ltd. As a consequence, the carrying amounts for these two companies were reduced at holding-company level. In the case of DEUTZ Engine (China) GmbH, the negative impact of currency translation also accounted for a large proportion of the loss. Furthermore, the profits distributed by our subsidiaries DEUTZ Corporation and DEUTZ Spain S.A. were lower than in 2013.

Impairment of investments In 2014, we adjusted the carrying amount of our equity investment in our Argentinian joint venture DEUTZ AGCO MOTORES S.A. due to adverse market conditions in South America.

Net interest expense Net interest expense in 2014 amounted to €11.6 million (2013: net expense of €12.0 million) representing a small year-on-year improvement of €0.4 million.

Extraordinary items In 2014, extraordinary items amounting to minus €19.4 million largely comprised expenses in connection with the optimisation of our sites. As in 2013, an addition was also made to the provisions for pensions and other post-retirement benefits of the difference arising under the initial application of BilMoG. This difference came about as a result of the remeasurement of the provisions for pensions and other post-retirement benefits on 1 January 2010.

Income taxes The income tax income of €15.0 million arose from the recognition of higher provisions under HGB compared with the tax accounts and partly from increased deferred tax assets due to the findings of the tax audit carried out for 2009 to 2011. These findings led to restatement of the tax accounts as at 31 December 2014. Furthermore, deferred tax assets related to the possible utilisation of loss carryforwards in the future have been recognised.

Net income Owing to the negative extraordinary item, the net income for the reporting year fell by €14.8 million year on year to €24.4 million (2013: €39.2 million).

At the Annual General Meeting, the Board of Management, in agreement with the Supervisory Board, will propose using €8.5 million of the accumulated income to pay a dividend of €0.07 per share.

FINANCIAL POSITION

Overview of DEUTZ AG's financial position

	2014	2013
€ million		
Cash flow from operating activities	85.2	63.0
Cash flow from investing activities	–23.0	–49.9
Cash flow from financing activities	–19.1	–14.3
Change in cash and cash equivalents	43.1	–1.2
Free cash flow	58.8	8.8
Cash and cash equivalents at 31 December	73.9	30.8

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

Financial management in the DEUTZ Group is one of the core functions of the Group, and DEUTZ AG holds responsibility for this function. The basic principles and objectives of financial management at DEUTZ AG are therefore largely the same as those of the Group, as is the funding of DEUTZ AG. In this regard, please refer to the relevant sections on page 37 of this combined management report.

Liquidity In 2014, cash flow from operating activities amounted to €85.2 million. The year-on-year increase of €22.2 million was attributable, above all, to an encouraging operating performance before the addition to provisions for warranty costs and restructuring.

The cash flow from investing activities in 2014 was minus €23.0 million (2013: minus €49.9 million). The cash outflows were largely in connection with capital expenditure on production facilities and tools for the engines for the new exhaust emissions standards.

Cash flow used for financing activities in 2014 totalled €19.1 million (2013: €14.3 million). This year-on-year increase was largely attributable to the dividend payment for 2013 amounting to €8.5 million.

Free cash flow shot up compared with 2013 and amounted to €58.8 million for the year, an increase of €50.0 million (2013: €8.8 million).

Capital expenditure After deducting investment grants, DEUTZ AG's capital expenditure in 2014 amounted to a total of €32.9 million (2013: €51.0 million). Spending largely related to property, plant and equipment, and the amount of €30.0 million (after deducting grants) spent on these assets was level with that of the previous year (2013: €28.4 million). As was also the case in 2013, the bulk of the expenditure went on production facilities and tools for engines that meet the new exhaust emissions standards. By contrast, the decline of €18.1 million in overall investing activities largely related to investments. While in 2013, capital was injected into DEUTZ Engine China GmbH, Cologne, in connection with the establishment of DEUTZ Engine (China) Co., Ltd., Linyi, China, and a loan was made to our Spanish subsidiary DEUTZ Spain S.A., Zafra, Spain, there was no capital expenditure on investments in 2014.

NET ASSETS

Overview of DEUTZ AG's net assets

	31 Dec 2014	31 Dec 2013
€ million		
Non-current assets	502.0	518.8
Current assets	404.5	382.9
Prepaid expenses	2.0	2.5
Deferred tax assets	85.3	66.6
Total assets	**993.8**	**970.8**
Equity	453.9	438.0
Provisions	284.0	242.6
Liabilities	255.3	289.6
Deferred income	0.6	0.6
Total equity and liabilities	**993.8**	**970.8**
Working capital (€ million)	80.6	73.5
Working capital ratio at the balance sheet date (%)	5.6	5.4
Equity ratio (%)	45.7	45.1

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

Non-current assets Non-current assets at 31 December 2014 amounted to €502.0 million (31 December 2013: €518.8 million). The year-on-year decrease of €16.8 million was mainly due to the lower figure for property, plant and equipment because depreciation charges were higher than new capital expenditure during the year.

Current assets As at 31 December 2014, current assets amounted to €404.5 million. This increase of €21.6 million compared with current assets as at 31 December 2013 (€382.9 million) largely resulted from the higher volume of cash and cash equivalents held on 31 December 2014, although it was partly offset by a decline in trade receivables.

Working capital Working capital as at 31 December 2014 amounted to €80.6 million (31 December 2013: €73.5 million), up by €7.1 million year on year. While inventories remained virtually the same, this increase in working capital was principally attributable to a fall in trade payables. Trade receivables were also down, which counteracted much of the impact. As a consequence, there was also a slight increase in the working capital ratio, i.e. the ratio of working capital (inventories plus trade receivables less trade payables) to revenue. As at the balance sheet date[1], this ratio was 5.6 per cent compared with 5.4 per cent as at 31 December 2013.

Deferred tax assets The rise in deferred tax assets arose from the recognition of higher provisions under HGB compared with the tax accounts and partly from increased deferred tax assets due to the findings of the tax audit carried out for 2009 to 2011. These findings led to restatement of the tax accounts as at 31 December 2014. Furthermore, deferred tax assets related to the possible utilisation of loss carryforwards in the future have been recognised.

Equity ratio Owing to the positive level of net income, equity advanced by €15.9 million to €453.9 million (31 December 2013: €438.0 million). The equity ratio increased slightly to reach 45.7 per cent as at 31 December 2014 (31 December 2013: 45.1 per cent).

Provisions At 31 December 2014, provisions stood at €284.0 million (31 December 2013: €242.6 million). The significant increase of €41.4 million compared with the end of 2013 was largely attributable to higher provisions for potential warranty claims in the future and the recognition of restructuring provisions relating to our decision to optimise our network of sites.

Liabilities As at 31 December 2014, liabilities had fallen by €34.3 million to €255.3 million (31 December 2013: €289.6 million), primarily due to the decline in trade payables, partly resulting from the lower production volume at the end of the year under review.

EVENTS AFTER THE REPORTING PERIOD

In February 2015, we reached agreement with our partner AB Volvo not to set up the planned joint venture DEUTZ Engine (China) Co., Ltd., Linyi, China. Having completed a thorough and comprehensive review, we have now agreed to wind up this production company given the weak prevailing market situation in China.

EMPLOYEES

As at 31 December 2014, 3,125 people were employed by DEUTZ AG[2]. The number of employees was therefore at the same level as the previous year (31 December 2013: 3,126 employees). We also had a further 252 people on temporary employment contracts as at 31 December 2014, compared with 436 a year earlier. Employing temporary workers enables us to respond flexibly to any fluctuations in demand.

Looking at it by segment, DEUTZ Compact Engines employed 2,607 people as at 31 December 2014, which was 21 more than it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 518, down by 22 on the previous year.

RISK REPORT

DEUTZ AG is integrated into the risk management system of the DEUTZ Group. As a head-office function, risk management for the Group is performed by DEUTZ AG. Information about the structuring and mechanics of the risk management system and of risk management with regard to financial instruments can be found in our notes on pages 53 to 54.

Because DEUTZ AG is closely integrated with the other Group companies, its risk situation is essentially the same as that of the Group. Risks arising from subsidiaries may have an effect on DEUTZ AG because of the carrying amount of an equity investment, reduced earnings and dividend payments and the internal business relations. The risks associated with the DEUTZ Group can be found on pages 54 to 56 of this combined management report.

Information about DEUTZ AG's internal accounting-related control system can be found on pages 56 et seq. of this combined management report.

OUTLOOK

DEUTZ AG performs the head-office functions of the DEUTZ Group and is the biggest production company within the Group by some margin. Because of DEUTZ AG's wide-ranging relationships with other Group companies and because of its size within the Group, the expectations presented in the Group outlook for 2015 are essentially the same as those for DEUTZ AG. We therefore anticipate that the revenue of DEUTZ AG will develop largely in line with the statements made for the DEUTZ Group. Overall, we believe that net income for 2015 will be slightly up on 2014.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289A HGB

The corporate governance declaration pursuant to section 289a of the German Commercial Code (HGB) is an integral element of the combined management report. We refer here to our remarks on pages 127 to 130 of the annual report.

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

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

Composition of the issued capital There were no changes to the issued capital (share capital) of DEUTZ AG in 2014. As at 31 December 2014, the issued capital amounted to €308,978,241.98 and was divided into 120,861,783 no-par-value bearer shares.

Direct or indirect shareholdings representing more than 10 per cent of voting rights Since 12 September 2012, AB Volvo of Gothenburg, Sweden, has held 30,246,582 shares in DEUTZ AG, giving it a voting share of 25.026 per cent.

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

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

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

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

According to article 14 of the Statutes of DEUTZ AG:

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

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

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

FURTHER DISCLOSURES

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

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

A consortium of banks has provided DEUTZ AG with a syndicated, revolving cash credit line of €160 million. DEUTZ AG also took out a loan with the European Investment Bank that has a remaining balance of €82.8 million. Under the terms of the loan agreements, the lenders can demand that the outstanding loan be repaid within a specified period in the event of a change of control, i.e. one or more people acting jointly acquire a direct or indirect shareholding of at least 50 per cent of all shares and/or voting rights in DEUTZ AG.

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

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

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

Explanatory statement by the Board of Management in connection with sections 289 (4) and 315 (4) HGB The disclosures contained in the combined management report and 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.

REMUNERATION REPORT

REMUNERATION OF THE BOARD OF MANAGEMENT

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

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

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

Benefits granted	**Dr Ing Helmut Leube Chairman of the Board of Management**			
	2013	**2014**	2014 (min)	2014 (max)
€ thousand				
Fixed remuneration	725	725	725	725
Additional benefits[1]	173	174	174	174
Total	**898**	**899**	**899**	**899**
One-year variable remuneration[2]	583	360	–	540
Multi-year variable remuneration				
2014–2015 deferral[2]	240	–	–	–
2015–2016 deferral[2]	–	240	–	360
2013–2017 LTI[3]	224	–	–	–
2014–2018 LTI[3]	–	196	–	300
Total	**1,047**	**796**	**–**	**1,200**
Total remuneration	**1,945**	**1,695**	**899**	**2,099**

Instead of the target values for one-year variable remuneration and for deferrals from one-year variable remuneration required under the German Corporate Governance Code (DCGK), the figures in the table below for total remuneration indicate the remuneration figures that are required to be disclosed under the applicable accounting standards. For the one-year variable remuneration, these represent the provisions for the annual bonus for 2014, adjusted for any over- or under-allocation in the previous year. With regard to the deferrals from the one-year variable remuneration, the figures represent the amounts vested and recognised in provisions in 2014.

	2013	2014		
One-year variable remuneration	352	7		
2014–2015 deferral	–	51		
2015–2016 deferral	–	–		
Total remuneration	**1,474**	**1,153**		

[1] Includes payment into a life insurance policy.
[2] The figures given for one-year variable remuneration and for deferrals from one-year variable remuneration represent the amount granted for full achievement of targets.
[3] Share-based remuneration represents the fair value of the options on the date of grant. Please refer to Note 29 to the consolidated financial statements for a description of the structure of the share-based remuneration agreements. General contractual conditions are identical for all members of the Board of Management.

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

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

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

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

The table below presents the total remuneration of the Board of Management in accordance with the recommendation in the German Corporate Governance Code dated 25 June 2014. In line with this recommendation, the benefits granted in 2014 and those actually paid are reported separately.

The following table shows the breakdown of the benefits granted to the members of the Board of Management:

Dr Margarete Haase				Michael Wellenzohn Joined 1 March 2013			
2013	**2014**	2014 (min)	2014 (max)	2013	**2014**	2014 (min)	2014 (max)
550	573	573	573	350	420	420	420
147	148	148	148	101	107	107	107
697	**721**	**721**	**721**	**451**	**527**	**527**	**527**
270	270	–	405	175	210	–	315
180	–	–	–	117	–	–	–
–	180	–	270	–	140	–	210
168	–	–	–	144	–	–	–
–	147	–	225	–	127	–	195
618	**597**	**–**	**900**	**436**	**477**	**–**	**720**
1,315	**1,318**	**721**	**1,621**	**887**	**1,004**	**527**	**1,247**
191	1			124	1		
–	38			–	25		
–	–			–	–		
1,056	**907**			**719**	**680**		

The following table shows the breakdown of benefits actually paid to members of the Board of Management:

Benefits paid	Dr Ing Helmut Leube Chairman of the Board of Management		Dr Margarete Haase		Michael Wellenzohn Joined 1 March 2013	
	2014	2013	**2014**	2013	**2014**	2013
€						
Fixed remuneration	725	725	573	550	420	350
Additional benefits	174	173	148	147	107	101
Total	**899**	**898**	**721**	**697**	**527**	**451**
One-year variable remuneration	359	413	192	165	125	–
Multi-year variable remuneration						–
2009–2013 LTI	–	–	–	232	–	–
Total	**359**	**413**	**192**	**397**	**125**	**–**
Total remuneration	**1,258**	**1,311**	**913**	**1,094**	**652**	**451**

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 €22,500. They also receive a fee of €2,500 for each Supervisory Board meeting they attend and are reimbursed for their out-of-pocket expenses. The chairman of the Supervisory Board receives double these amounts, and his deputy one-and-a-half times.

In addition, each member of a Supervisory Board committee receives an attendance fee of €2,500 for each committee meeting attended. The chairman of a committee is entitled to twice this sum, his deputy to one-and-a-half times the amount.

In addition, DEUTZ reimburses the members of the Supervisory Board for any VAT they incur in connection with the performance of their mandate.

The following table shows the breakdown of total remuneration paid to members of the Supervisory Board for their work as Supervisory Board members:

	Fixed remuneration	Attendance fees	**Total**
€			
Lars-Göran Moberg Chairman	45,000	65,000	110,000
Werner Scherer Deputy Chairman	33,750	45,000	78,750
Sabine Beutert	22,500	25,000	47,500
Göran Gummeson	22,500	12,500	35,000
Hans-Georg Härter	22,500	20,000	42,500
Michael Haupt	22,500	52,500	75,000
Herbert Kaufmann (since 7 January 2014)	22,130	12,500	34,630
Dietmar Paust	22,500	12,500	35,000
Eva Persson	22,500	12,500	35,000
Dr Witich Roßmann	22,500	12,500	35,000
Dr Herbert Vossel	22,500	12,500	35,000
Egbert Zieher	22,500	12,500	35,000
Total	**303,380**	**295,000**	**598,380**

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 term in order to develop the Company and secure its future. It is therefore critically important to identify and assess business risks at an early stage and take corrective action where required. DEUTZ has an appropriate risk management system to ensure it can meet this requirement.

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

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

The DEUTZ Group conducts risk inventories four times a year. These risk inventories are carried out in all functions and areas of the Company and in the main affiliated companies to identify whether new risks have arisen compared with the Company's short-term and medium-term planning. The risks are categorised by importance, based on estimated probability of occurrence and potential impact. At the same time, a review is carried out to establish whether and how action that has been agreed and implemented has successfully minimised the known risks or whether there is still a need for further action. The Risk Management Committee then analyses the risks and the progress of the action that is being taken and reports to the Board of Management on the results of the risk inventory. To enable the Company to respond promptly at all times to any possible risks that may arise, risk officers and their employees are under an obligation to submit immediate reports on any new material risks or if there is an increase in the threat from known risks. These reports are to be separate from the regular reporting requirements. The risk management system does not identify opportunities, only risks.

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

RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

We manage the financial risk as follows:

Risk from bad debts We protect ourselves against the risk of bad debts by constantly monitoring our situation, including through electronic means, and by regularly analysing receivables and their breakdown. The Company takes out credit insurance to cover a large proportion of its receivables unless payment is made in advance or by letter of credit.

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

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

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

Further information on financial risk management can be found in Note 24 a on page 95.

RISK ASSESSMENT

The assessment of risks in the DEUTZ Group is based on the estimated probability of occurrence in conjunction with the potential impact of the risk on the business objectives. In the following risk report for the DEUTZ Group the probability of occurrence for the risks is categorised as either 'low', 'moderate' or 'high'. Risks that have been classified as 'low' would be expected to have a low impact of up to €10 million on the financial position or financial performance. Risks classified as 'moderate', however, would have a significant impact (between €10 million and €50 million) and risks classified as 'high' would have a major impact of over €50 million on the financial position or financial performance. Risks to the Company's survival as a going concern are described as such.

DEUTZ Group: Risk assessment

Probability of occurrence (%)	minor	moder-ate	signifi-cant	critical	very critical
80 – 99	low	moderate	moderate	high	high
60 – 79	low	moderate	moderate	high	high
40 – 59	low	moderate	moderate	moderate	high
20 – 39	low	low	moderate	moderate	moderate
1 – 19	low	low	low	moderate	moderate

Impact

RISK

As with the internal risk report, the following presentation of the current risk situation is focused on the risk factors that are important for the DEUTZ Group. Consequently, risks that are referred to were categorised at least as 'low' before measures to counter the risk were taken into account. In contrast to the internal risk management, the risks in the following description are more strongly aggregated and are listed by risk category. Unless otherwise stated, the risks refer to 2015 and relate to both the DCE and DCS segments.

EXTERNAL RISK

Regulatory risk Increasingly stringent emissions standards represent major technological challenges for the DEUTZ Group that could have a negative impact on its financial position and financial performance. Specifically, emissions limits for engines in mobile machinery and agricultural applications have been made significantly tougher since 2011. The EU Stage IV emissions standard came into force in Europe during 2014. In the USA the comparable US Tier 4 emissions standard for engines with power outputs of between 130kW and 560kW has applied since early 2014. Restrictions for smaller engines with power outputs from 56kW to 130kW will follow in 2015. These tougher standards will require additional optimisation of engines, engine management systems and exhaust aftertreatment systems to achieve both lower fuel consumption and increased engine power, with the result that overall systems will become much more complex. Both the complexity of the technology and the tight timescales in which to comply with the new emissions standards represent a challenge for the Group. Delays in the development of our products with regard to the new emissions legislation could, for example, lead to higher than planned start-up costs, which would have a negative impact on earnings.

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

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

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

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

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

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

In the medium and long term, we seek to mitigate regional and application-related sales risks by aligning our development activities with our product strategy and by entering into alliances. Close alliances with key customers such as AB Volvo, AGCO and SAME DEUTZ-FAHR are of considerable importance in enabling us to achieve these sales targets.

We are very well diversified and well positioned for the future in terms of the geographical and sectoral distribution of our customers. We supply the market-leading manufacturers in the various application segments. Despite the countermeasures that are in place, we cannot completely control the external risks. We therefore continue to categorise the market risk as 'moderate'. In particular, the very uncertain economic outlook for 2015 could have a negative impact on the attainment of our financial targets.

STRATEGIC RISK

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

We attempt to mitigate these risks by precisely analysing trends in our markets and by taking into account external market research. We also enter into close alliances with our major customers in the target markets. Finally, we closely monitor our strategic projects so that we are able to respond immediately to changes.

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

OPERATIONAL RISK

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

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

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

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

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

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

OTHER RISKS

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

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

Legal risks As a Group with multinational operations, DEUTZ is subject to a variety of regulations under tax, competition and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognised in the risk provisions in the accounts. The outcome of legal disputes is uncertain, however. This means that there are further risks, not accounted for through provisions on the balance sheet, that could negatively impact on our financial targets.

Groupwide standards such as the general terms and conditions of business, sample contracts for various uses and implementation provisions in the form of organisational guidelines are refined on an ongoing basis and reduce the level of new legal risks at DEUTZ. The Legal Affairs Department and 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. In view of the measures that have been taken either to avoid or minimise risk, we categorise the legal risk as 'low'.

OVERALL ASSESSMENT OF THE RISK SITUATION

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

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

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

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

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

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

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

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

The internal audit department prepares a risk-based audit plan and verifies whether the statutory regulations and the DEUTZ Group's internal guidelines for its entire control and risk management system are being complied with. As part of its monitoring function it reviews whether the defined controls are functioning effectively. The findings of these reviews are reported directly to the Board of Management and allow us to eliminate any deficiencies that have been identified and ensure that the ICS is continually refined.

OPPORTUNITIES REPORT

In the fast-paced, dynamic markets in which the DEUTZ Group operates, there are, in addition to the aforementioned risk factors that can negatively impact on the attainment of the business objectives, also opportunities that can have a positive effect on the business objectives of the Group for 2015. Identifying and harnessing these opportunities is the responsibility of the individual operating segments of the Group. Unlike risks, opportunities are not collated and assessed centrally.

Unless otherwise stated, the opportunities described below refer to 2015 and relate to the DCE and DCS segments.

Economic situation in relevant markets Developments in the global economy have a major effect on the financial position and financial performance of the DEUTZ Group. If our expectations regarding the macroeconomic situation in our most important markets of Europe, the USA and Asia are exceeded, this can lead to us performing better than we predicted.

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

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

OUTLOOK

ECONOMIC FORECASTS CAUTIOUSLY OPTIMISTIC

The International Monetary Fund (IMF)[1] expects the pace of growth in the global economy to increase slightly: following an increase of 3.3 per cent in 2014 it is on course to expand by 3.5 per cent in 2015 and by 3.7 per cent in 2016.

Growth predictions for the eurozone and for key countries such as China, Russia and Japan have recently been revised downwards. In the latest forecasts, only the expectations for the USA have been revised upwards. For the industrialised nations, the IMF predicts growth of 2.4 per cent in 2015 (2014: 1.8 per cent). The eurozone economy is set to continue its recovery with a growth rate of 1.2 per cent in 2015, following 0.8 per cent in 2014. A further slight increase, to 1.4 per cent, is anticipated for 2016. The regional differences will remain, however. The German economy is expected to grow by 1.3 per cent in 2015, down slightly from 1.5 per cent in 2014. For the US, the predictions are for strong growth of 3.6 per cent in the current year and 3.3 per cent next year. In China the pace of growth will slow again, falling to 6.8 per cent in 2015 and to 6.3 per cent in 2016.

The business climate index[2] published by the ifo Institute of Economic Research was up for the third time in succession in January 2015. This index, which covers trade and industry in Germany, stood at 106.7 points compared with 105.5 points in the previous month. The ISM purchasing managers' index in the US stood at 53.50 in January 2015[3], a slight decline but still an indicator of expansion in economy activity.

DIESEL ENGINES MARKET

For construction equipment in 2015, we anticipate a flattening of the market in Europe and China and growth of between 0 and 10 per cent in North America. For agricultural machinery, we predict that the market in Europe will either remain at its current level or contract by up to 10 per cent. We also expect the Chinese automotive sector to remain static.

As a rule, the diesel engines market largely follows the applications and markets of the machinery and equipment in which the engines are installed. In 2014 our European customers bought advance-production engines ahead of the introduction of new emissions standards, so we are expecting demand from them to fall this year.

NEW ORDERS, UNIT SALES, REVENUE

Because of the effects of these advance-production engines, we are expecting a decline in engine sales this year that it will not be possible for our thriving business with new customers to offset. In the service business we are planning for slight growth. From a regional perspective, we forecast growth in North America and Asia but a decline in Europe.

Owing to the increasing proportion of higher-value engines to meet the new emissions standards in Europe and America, the value of the diesel engines market will increase at a faster rate than its unit sales. Furthermore, an especially large number of small engines with an output of less than 130kW were sold in 2014 due to the effect of advance-production engines mentioned above, which will also lead to a higher average unit price in 2015 compared with 2014.

Overall, we expect revenue to fall by around 10 per cent. In terms of segments, we expect a significant decline for DCE and moderate growth for DCS. Given the current environment, our forecasts are of course subject to great uncertainty. The flexibility of our business therefore remains a key factor in our competitiveness. Although we have significantly improved our flexibility over the last few years, we will continue to work hard on increasing it still further.

EARNINGS

The focus this year – in addition to the production start-up of new engines, the successful implementation of new customer projects and the site optimisation process – is primarily on measures designed to increase efficiency and profitability.

We expect the EBIT margin before one-off items to rise to around 3.0 per cent, a moderate improvement on the previous year. Earnings will be boosted by the absence of exceptional items and the measures to reduce costs and raise efficiency in the DEUTZ Group. We believe there is potential to reduce warranty costs, while the first positive effects from site optimisation in Germany will not be seen until 2016. We are likely to benefit from the current movements in the US dollar exchange rate. However, the expected decline in revenue and the subsequent lack of economies of scale will have an adverse effect. We expect both our DCE segment and our DCS segment to achieve earnings growth.

As a result of the anticipated increase in earnings, we believe there will be a small year-on-year increase in return on capital employed (ROCE) in 2015.

[1] IMF World Economic Outlook, January 2015.
[2] ifo Institute of Economic Research, January 2015.
[3] ISM Institute for Supply Management, January 2015.

COMMODITIES, COLLECTIVE PAY AGREEMENTS

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

New collective pay agreement expected The collective pay agreement for Germany expired on 31 December 2014. We expect the negotiating parties to reach an agreement in the first quarter of 2015 that will be appropriate for the current economic climate in the metalworking and electrical engineering industries.

RESEARCH AND DEVELOPMENT EXPENDITURE

We expect expenditure on research and development to be slightly lower than in 2014. We expect the R&D ratio to be slightly lower than in 2014.

CAPITAL EXPENDITURE

We forecast that our capital expenditure in 2015 (excluding capitalisation of research and development expenditure) will be around €50 million. This includes capital expenditure on site optimisation.

JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

We anticipate that the Chinese market will remain challenging and volatile in 2015. For our joint venture DEUTZ (Dalian) Engine Co., Ltd., we are expecting further growth in revenue and a slight increase in operating profit.

WORKING CAPITAL RATIO, FREE CASH FLOW AND EQUITY RATIO

Our objective is to achieve a working capital ratio of around 14 per cent as the quarter-end average. We forecast a positive free cash flow in 2015 in the low to mid-double-digit million euro range.

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

EMPLOYEES

Flexible headcount adjustment We will continue to take on temporary employees and staff on employment contracts with a flexible term so that we can respond quickly and flexibly to future fluctuations in demand. In addition, our site-specific shift patterns and employees' individual working time accounts help us to increase or decrease capacity at short notice, where required.

Collective agreement on pre-retirement part-time employment
As in 2014, we will again use the 'Collective agreement concerning the flexible transition into retirement' in 2015. This gives employees who meet the necessary conditions the opportunity – within the collectively agreed quotas – to retire early by switching to pre-retirement part-time employment.

STATUTORY REGULATIONS, EXHAUST EMISSIONS STANDARDS

The most stringent exhaust emissions standards yet for diesel engines have now been introduced in all power output categories in the European Union, in the form of 97/68 Stage IV, and in the USA, with EPA Tier 4. Our TCD engines in the 2.9 to 7.8 litre cubic capacity range with a diesel particulate filter already meet Stage V, which is scheduled to come into effect in the EU in 2019[1]. No further tightening of exhaust emissions limits in the USA is on the horizon at the time of the writing.

OUTLOOK FOR THE YEARS AHEAD

Following the decline in demand expected in the current year because of advance production of engines in 2014, we expect demand to normalise in 2016. In addition, we are expecting new customer business to provide a boost. We are also likely to experience further benefits from the price/mix ratio.

For 2016 we therefore expect revenue growth of more than 10 per cent as well as a sharp increase in the EBIT margin before one-off items, particularly in the DCE segment.

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

[1] EU Commission's proposal for EU Stage V published on 25 September 2014.

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 guarantees with regard to the forward-looking statements made in this management report.

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INCOME STATEMENT FOR THE DEUTZ GROUP

€ million	Note	2014	2013
Revenue	1	**1,530.2**	**1,453.2**
Cost of sales		–1,327.6	–1,257.4
Research and development costs		–74.3	–58.7
Selling expenses		–65.7	–62.6
General and administrative expenses		–34.3	–33.5
Other operating income	2	22.9	17.0
Other operating expenses	3	–41.4	–13.9
Profit/loss on equity-accounted investments	4	1.9	1.6
Other financial income	4	1.1	1.8
EBIT		**12.8**	**47.5**
thereof one-off items	5	–18.9	–
thereof operating profit (EBIT before one-off items)		31.7	47.5
Interest expenses, net	6	–6.1	–6.0
thereof finance costs		–6.7	–7.5
Net income before income taxes		**6.7**	**41.5**
Income taxes	7	12.8	–5.5
Net income		**19.5**	**36.0**
thereof attributable to shareholders of DEUTZ AG		21.2	36.4
thereof attributable to non-controlling interests		–1.7	–0.4
Earnings per share (€)	**8**	**0.18**	**0.30**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million	Note	2014	2013
Net income		**19.5**	**36.0**
Amounts that will not be reclassified to the income statement in the future	**9**	**–18.1**	**3.2**
Remeasurements of defined benefit plans		–18.1	3.2
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**9**	**13.4**	**–5.5**
Currency translation differences		15.1	–5.8
Effective portion of change in fair value from cash flow hedges		–1.7	0.1
Change in fair value of available-for-sale financial instruments		–	0.2
Other comprehensive income, net of tax	**9**	**–4.7**	**–2.3**
Comprehensive income		**14.8**	**33.7**
thereof attributable to shareholders of DEUTZ AG		14.0	34.2
thereof attributable to non-controlling interests		0.8	–0.5

BALANCE SHEET FOR THE DEUTZ GROUP

Assets	Note	31 Dec 2014	31 Dec 2013
€ million			
Property, plant and equipment	10	291.9	306.4
Intangible assets	11	211.7	237.9
Equity-accounted investments	12	52.4	46.0
Other financial assets	13	7.6	6.3
Non-current assets (before deferred tax assets)		563.6	596.6
Deferred tax assets	14	62.2	30.8
Non-current assets		**625.8**	**627.4**
Inventories	15	245.2	224.6
Trade receivables	16	122.0	149.1
Other receivables and assets	16	54.1	60.6
Cash and cash equivalents	17	101.7	58.9
Current assets		**523.0**	**493.2**
Non-current assets classified as held for sale	18	0.4	0.4
Total assets		**1,149.2**	**1,121.0**

Equity and liabilities	Note	31 Dec 2014	31 Dec 2013
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		13.7	2.8
Retained earnings and accumulated income		134.3	139.7
Equity attributable to shareholders of DEUTZ AG		**485.8**	**480.3**
Non-controlling interests		25.2	24.4
Equity	**19**	**511.0**	**504.7**
Provisions for pensions and other post-retirement benefits	20	187.1	168.6
Other provisions	21	58.4	37.2
Financial liabilities	22	73.3	83.0
Other liabilities	23	3.9	3.7
Non-current liabilities		**322.7**	**292.5**
Provisions for pensions and other post-retirement benefits	20	14.7	14.9
Provision for current income taxes		7.8	4.3
Other provisions	21	63.0	45.2
Financial liabilities	22	14.7	7.6
Trade payables	23	171.0	201.4
Other liabilities	23	44.3	50.4
Current liabilities		**315.5**	**323.8**
Total equity and liabilities		**1,149.2**	**1,121.0**

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)]	Equity attributable to shareholders of DEUTZ AG	Non-controlling interests	**Total**
€ million								
Balance at 1 Jan 2013	**309.0**	**28.8**	**100.1**	**–0.1**	**8.3**	**446.1**	**6.5**	**452.6**
Capital contribution							3.7	3.7
Outstanding contributions from non-controlling interests							14.7	14.7
Net income			36.4			36.4	–0.4	36.0
Other comprehensive income			3.2	0.3	–5.7	–2.2	–0.1	–2.3
Comprehensive income			39.6	0.3	–5.7	34.2	–0.5	33.7
Balance at 31 Dec 2013	**309.0**	**28.8**	**139.7**	**0.2**	**2.6**	**480.3**	**24.4**	**504.7**
Balance at 1 Jan 2014	**309.0**	**28.8**	**139.7**	**0.2**	**2.6**	**480.3**	**24.4**	**504.7**
Dividend payments to shareholders			–8.5			–8.5		–8.5
Net income			21.2			21.2	–1.7	19.5
Other comprehensive income			–18.1	–1.7	12.6	–7.2	2.5	–4.7
Comprehensive income			3.1	–1.7	12.6	14.0	0.8	14.8
Balance at 31 Dec 2014	**309.0**	**28.8**	**134.3**	**–1.5**	**15.2**	**485.8**	**25.2**	**511.0**

1) On 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	2014	2013
€ million			
EBIT		**12.8**	**47.5**
Income taxes paid		–5.8	–8.6
Depreciation, amortisation and impairment of non-current assets		107.5	94.5
Gains/losses on the sale of non-current assets		–0.1	–0.1
Profit/loss on equity-accounted investments		–1.9	–1.1
Other non-cash income and expenses		0.4	–0.6
Change in working capital		–16.4	–28.1
Change in inventories		–13.8	–42.8
Change in trade receivables		30.5	–34.2
Change in trade payables		–33.1	48.9
Change in other receivables and other current assets		–0.8	–4.2
Change in provisions and other liabilities (excluding financial liabilities)		18.4	5.7
Cash flow from operating activities		**114.1**	**105.0**
Capital expenditure on intangible assets, property, plant and equipment		–61.1	–85.2
Capital expenditure on investments		–0.2	–
Proceeds from the sale of non-current assets		5.4	0.6
Cash flow from investing activities		**–55.9**	**–84.6**
Dividend payments to shareholders		–8.5	–
Interest income		0.6	1.0
Interest expense		–6.8	–7.6
Capital contributions by non-controlling interests		–	3.7
Cash receipts from borrowings		19.4	20.0
Repayments of loans		–22.2	–30.3
Cash flow from financing activities		**–17.5**	**–13.2**
Cash flow from operating activities		114.1	105.0
Cash flow from investing activities		–55.9	–84.6
Cash flow from financing activities		–17.5	–13.2
Change in cash and cash equivalents		**40.7**	**7.2**
Cash and cash equivalents at 1 Jan		**58.9**	**52.1**
Change in cash and cash equivalents		40.7	7.2
Change in cash and cash equivalents related to exchange rates		2.1	–0.4
Cash and cash equivalents at 31 Dec	**17**	**101.7**	**58.9**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

PARENT COMPANY

The parent company of the DEUTZ Group is DEUTZ AG. Its registered office is located at Ottostrasse 1, 51149 Cologne, Germany, and the Company is entered under no. HRB 281 in the commercial register at the local court in Cologne. The Board of Management approved these consolidated financial statements for publication by adopting a resolution dated 20 February 2015.

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

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

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1) Amendments to accounting policies
The accounting policies on which the consolidated financial statements are based are fundamentally the same as the policies applied in 2013 with the exceptions set out below.

IAS 27 (amendments) 'Separate Financial Statements' The amendments were issued in May 2011. Following the publication of IFRS 10 and IFRS 12, IAS 27 now only applies to the accounting treatment of subsidiaries, jointly controlled companies and associates in an entity's separate financial statements. DEUTZ AG does not prepare separate IFRS financial statements of this type.

IAS 28 (amendments) 'Investments in Associates and Joint Ventures' The amendments to IAS 28 were published in May 2011. Following the issue of the new IFRS 11 and IFRS 12 standards, IAS 28 was renamed 'Investments in Associates and Joint Ventures' and its scope was extended to the application of the equity method in respect of joint ventures. Initial application of the amendments has not affected the consolidated financial statements.

IAS 32 (amendments) 'Financial Instruments: Presentation' These amendments to IAS 32 were published in December 2011 and are intended to clarify existing provisions regarding the offsetting of financial assets and financial liabilities. As the amendment is for the purpose of clarification only, initial application has not had any impact on the Group's financial position or financial performance.

IAS 39 (amendments) 'Novation of Derivatives and Continuation of Hedge Accounting' The IASB published these amendments in June 2013. They enable hedging transactions to be continued in cases in which derivatives designated as hedging instruments have been transferred from one counterparty to a central counterparty as the result of statutory or regulatory requirements. Initial application of the amendments has not had any impact on the consolidated financial statements.

IFRS 10 'Consolidated Financial Statements' Published in May 2011, IFRS 10 replaces the provisions of the previous IAS 27 'Consolidated and Separate Financial Statements' relating to consolidated accounting. The new standard also governs the consolidation of structured entities, which was previously covered by SIC 12, and thereby defines a single control concept applicable to all entities, including structured entities. Initial application of the amendment has not had any impact on the Group's financial position or financial performance.

IFRS 11 'Joint Arrangements' IFRS 11 was issued in May 2011. It replaces IAS 31 'Interests in Joint Ventures' and SIC 13 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers' as part of a large-scale project to improve financial reporting standards and disclosure requirements related to consolidation and joint arrangements. By taking this step, the IASB has eliminated the option of proportionate consolidation for joint ventures, which means that they may now only be accounted for in the consolidated financial statements using the equity method. The categorisation of joint arrangements has also been amended. Initial application of the amendment has not had any impact on the Group's financial position or financial performance.

IFRS 12 'Disclosure of Interests in Other Entities' IFRS 12 was issued in May 2011 as a single standard for disclosure requirements in respect of relationships between companies in the notes to the consolidated financial statements. It contains the disclosure requirements previously covered by IAS 27, IAS 28 and IAS 31 as well as new disclosure requirements. As the new rules relate exclusively to disclosures in the notes to the consolidated financial statements, initial application of IFRS 12 has not had any impact on the DEUTZ Group's financial position or financial performance.

'Investment Entities' (Amendments to IFRS 10, IFRS 12 and IAS 27) The amendments to IFRS 10, IFRS 12 and IAS 27, which were published in October 2012, exempt qualified investment entities from the requirement to consolidate subsidiaries. Instead, these equity investments can be recognised at fair value. This amendment has not had any impact on the consolidated financial statements.

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

The International Accounting Standards Board (IASB) and the IFRS Reporting Interpretations Committee (IFRS IC) have published the following standards and amendments to standards that have already become part of EU law via the comitology procedure. However, the application of these standards was not yet mandatory in 2014 and DEUTZ has not opted to apply these interpretations or amendments to standards before the mandatory application date.

'Defined Benefit Plans: Employee Contributions' (Amendments to IAS 19) The amendments to IAS 19 were published in November 2013. Under certain circumstances, these amendments by the IASB allow contributions made by employees and third parties during the period in which the benefit was earned to be recognised as a reduction in the current service cost. Adoption of the amendments into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 July 2014 to financial years beginning on or after 1 February 2015. The Company does not expect initial application of the amendments to have any material impact on the Group's financial position or financial performance.

IFRIC 21 'Levies' The IASB published this interpretation in May 2013. IFRIC 21 deals with the question of when to recognise a liability for certain levies imposed by a government, and offers guidance on the matter. Adoption of the interpretation into EU law resulted in the timing for mandatory initial application changing from the original date of 1 January 2014 to financial years beginning on or after 17 June 2014. The Company does not expect initial application of IFRIC 21 to have any material impact on the Group's financial position or financial performance.

Collective standard amending various IFRSs (2010–2012) The amendments were published in December 2013 and are primarily intended to clarify certain ambiguous provisions in the standards. Adoption of the amendments into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 July 2014 to financial years beginning on or after 1 February 2015. The initial application of these amendments is not expected to have a material impact on the Group's consolidated financial statements.

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

The International Accounting Standards Board (IASB) and the IFRS Reporting Interpretations Committee (IFRS IC) have published the following standards and interpretations, the application of which was not yet mandatory in 2014. 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.

'Disclosure Initiative' (Amendments to IAS 1) The IASB published these amendments to IAS 1 in December 2014. The amendments largely consist of clarifications regarding the use of discretion in the presentation of financial statements. The amendments come into force for financial years commencing on or after 1 January 2016.

'Clarification of Acceptable Methods of Depreciation and Amortisation' (Amendments to IAS 16 and IAS 38) The IASB published these amendments in May 2014. These amendments clarify the methods that can be used for the depreciation and amortisation of property, plant and equipment and intangible assets. The amendments come into force for financial years commencing on or after 1 January 2016. The initial application of these rules is not expected to have any impact on the Group's consolidated financial statements.

IFRS 9 'Financial Instruments' Following completion of the final phase of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement', the IASB published the final version of IFRS 9 in July 2014. Among other things, IFRS 9 introduces new requirements for the classification and measurement of financial assets. The standard also includes new requirements for hedge accounting, with the specific aim of linking hedge accounting more closely to the risk management of entities. IFRS 9 also sets out a new impairment model based on expected default. The new standard comes into force for financial years beginning on or after 1 January 2018. The Company is currently examining the potential impact of initial application of this standard on the Group's financial position and financial performance.

'Accounting for Acquisitions of Interests in Joint Operations' (Amendments to IFRS 11) The IASB published these amendments in May 2014. The amendments clarify that the acquirer of an interest in a joint operation that constitutes a business, as defined in IFRS 3 'Business Combinations', is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendments apply to financial years beginning on or after 1 January 2016. They are not expected to have any impact on the DEUTZ Group's consolidated financial statements.

IFRS 15 'Revenue from Contracts with Customers' The IASB published IFRS 15 in May 2104. This new standard replaces IAS 11 'Construction Contracts', IAS 18 Revenue' and the interpretations relating to them. One of the objectives of the new standard was to amalgamate the numerous requirements previously included in several standards and interpretations and to establish consistent underlying principles to be used for all categories of revenue-related transaction across all sectors. According to IFRS 15, the amount recognised as revenue is the amount expected in return for providing goods or services to customers. The point at which control over the goods or services is transferred to the customer determines the point in time at which or the period of time over which revenue is recognised. Full control can be transferred at a certain point in time or gradually over a period. IFRS 15 applies to financial years beginning on or after 1 January 2017. The Company is currently investigating the potential impact of the new standard on the Group's consolidated financial statements.

'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (Amendments to IFRS 10 and IAS 28) The IASB issued these amendments in September 2014. They clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business as defined by IFRS 3 'Business Combinations'. The amendments come into force for reporting periods commencing on or after 1 January 2016. As the amendments are for the purpose of clarification only, initial application is not expected to have any impact on the Group's consolidated financial statements.

'Investment Entities: Applying the Consolidation Exception' (Amendments to IFRS 10, IFRS 12 and IAS 28) The amendments were published in December 2014 and include clarifications relating to the application of the consolidation exception for investment entities. The amendments apply to reporting periods beginning on or after 1 January 2016. As the Company does not apply the exception for investment entities, initial application of the amendments is not expected to have any impact.

Collective standard amending various IFRSs (2012–2014) The amendments published by the IASB in September 2014 primarily contain additional guidance for clarifying ambiguous provisions in standards. The amendments come into force for financial years commencing on or after 1 January 2016. The Company does not expect initial application of these amendments to have any material impact on the Group's financial position or financial performance.

Significant estimates and assumptions

To a certain extent, the preparation of the consolidated financial statements in accordance with IFRS requires estimates and assumptions that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date and the reporting of income and expenses. Estimates and assumptions giving rise to a material risk in the form of adjustments to the carrying amounts of assets or liabilities over the next financial year are explained below. Adjustments to estimates are recognised in income when better knowledge becomes available. In the third quarter of 2014, in light of new information as the result of revised estimates, €23.3 million was unexpectedly added to the provisions for warranties. After deduction of insurance claims, this resulted in a charge against earnings of €20.4 million.

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

Deferred tax assets The DEUTZ Group is obliged to pay income taxes in various countries. It therefore needs to make estimates on the basis of which tax provisions and deferred taxes can be recognised. When determining the amount of deferred tax assets, the management must make judgements – which may involve material uncertainties – regarding the expected timing and amount of future taxable income as well as future tax planning strategies.

DEUTZ mainly recognises deferred tax assets on losses carried forward. 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. Planning forecasts over a period of five years are used to determine the future taxable profit that is likely to be available.

As at 31 December 2014, the carrying amount of deferred tax assets recognised in respect of tax loss carryforwards amounted to €67.5 million (31 December 2013: tax loss carryforwards of €66.4 million). Further details can be found under Note 14 on page 85.

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

Because of changes in economic and market conditions, the costs and liabilities actually incurred may differ significantly from the estimates made on the basis of actuarial assumptions. The rate of pension and salary increases, the longevity of those entitled to pension benefits and the discount rate used can have a material impact on the amount of the defined benefit obligation and, consequently, on future pension costs.

Development expenditure is capitalised in accordance with the accounting policies described below. Management makes assumptions about the amount of future cash flows expected to be generated from the development projects, the discount rates to be applied and the period over which the cash is expected to flow into the Company. As at 31 December 2014, the carrying amount of capitalised development expenditure was €199.4 million (31 December 2013: €221.4 million).

Pending or potential legal disputes DEUTZ AG and other companies in the DEUTZ Group are subject to a variety of regulations under tax, competition and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognised in the risk provisions in the accounts. At present, it is not possible to predict the outcome of pending cases with any degree of certainty beyond the provisions already recognised. We do not expect them to have a significantly adverse impact on the DEUTZ Group's financial position or financial performance. The overall position as regards the legal risks facing the DEUTZ Group is explained in more detail in Note 26 on page 106.

BASIS OF CONSOLIDATION

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are all entities directly or indirectly controlled by DEUTZ AG. Subsidiaries are consolidated from the point at which the parent company acquires control. Consolidation ends when the parent company no longer has control. In addition to DEUTZ AG, the consolidated financial statements include six German subsidiaries (2013: six) and ten foreign subsidiaries (2013: ten).

Joint ventures are companies over which control is exercised jointly by DEUTZ and other entities on the basis of a contractual agreement. Associates are entities over whose business and financial policies DEUTZ AG is able to exert a significant influence but are neither subsidiaries nor joint ventures. Associates and joint ventures are both accounted for in the consolidated financial statements using the equity method. In the year under review, the consolidated financial statements included one (2013: one) foreign entity in accordance with the rules governing associates and three (2013: three) foreign joint ventures.

Page 117 of the annex to the notes to the financial statements lists the shareholdings of DEUTZ AG as at 31 December 2014.

PRINCIPLES OF CONSOLIDATION

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

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

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

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

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

JOINT VENTURES AND ASSOCIATES

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

CURRENCY TRANSLATION

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

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

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

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

		Average rates		Closing rates at 31 Dec	
		2014	2013	**2014**	2013
USA	USD	1.32	1.33	1.21	1.38
UK	GBP	0.80	0.85	0.78	0.83
China	CNY	8.15	8.17	7.54	8.35
Australia	AUD	1.47	1.39	1.48	1.54
Morocco	MAD	11.15	11.17	10.96	11.24
Russia	RUB	51.93	42.62	72.34	45.32

ACCOUNTING POLICIES

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

REVENUE RECOGNITION

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

Revenue and other income is recognised as follows:

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

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

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

BORROWING COSTS

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

ADDITIONAL DISCLOSURES

In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before one-off items, which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur. In 2014, one-off expenses amounting to €18.9 million were incurred (2013: no one-off items).

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

INTANGIBLE ASSETS

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

The following principles are applied:

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

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

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

The material, completed development projects have the following remaining useful lives:

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

GOVERNMENT GRANTS

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

INCOME TAXES

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

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

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

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

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

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

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

INVENTORIES

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

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

Work in progress and finished goods are measured at the cost of conversion, which includes production materials and production wages as well as a proportion of material and production overheads.

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

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

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

FINANCIAL ASSETS

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

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

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

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

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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

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

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

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

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

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

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

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

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

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

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

The market values of derivatives designated as cash flow hedges are stated in Note 24. Changes in the cash flow hedge reserve are reported under a separate item in other comprehensive income (fair value reserve).

PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

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

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

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

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

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

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

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

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

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

OTHER PROVISIONS

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

CONTINGENT LIABILITIES

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

NOTES TO THE INCOME STATEMENT

1. REVENUE

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

	2014	2013
€ million		
Engines	1,270.9	1,199.6
Service	259.3	253.6
Total	**1,530.2**	**1,453.2**

Revenue was up by €77.0 million compared with the previous year, largely due to the higher volume of unit sales. The breakdown of revenue by segment and region is shown in the notes on segment reporting on page 93 et seq.

2. OTHER OPERATING INCOME

	2014	2013
€ million		
Income from recharged costs and services	10.1	7.2
Exchange rate gains	8.2	4.1
Income from the measurement of derivatives	0.8	0.2
Income from the reversal of provisions	0.7	0.6
Income from the derecognition of liabilities	0.4	0.7
Income from the disposal of non-current assets	0.2	0.3
Rentals and leases	0.1	–
Sundry other income	2.4	3.9
Total	**22.9**	**17.0**

The increase in other operating income was primarily the result of positive effects arising from the translation of foreign-currency positions.

3. OTHER OPERATING EXPENSES

	2014	2013
€ million		
Restructuring costs	17.1	–
Net interest cost for provisions for pensions and other post-retirement benefits	5.8	5.9
Exchange rate losses	8.3	2.7
Other cost of fees, contributions and advice	1.6	2.2
Other expenses from the adjustment of provisions	1.5	1.0
Expenses in connection with the measurement of derivatives	0.8	1.1
Rental and lease expenses	0.7	0.4
Sundry other expenses	5.6	0.6
Total	**41.4**	**13.9**

In addition to the rise in foreign exchange losses, the increase in other operating expenses was mainly due to the recognition of provisions for restructuring following the decision to optimise our network of sites.

The restructuring costs largely relate to the fabrication and research and development units.

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

	2014	2013
€ million		
Profit/loss on equity-accounted investments		
Income from equity-accounted investments	4.1	2.0
Expenses relating to equity-accounted investments	–2.2	–0.4
Total	**1.9**	**1.6**
Other investment income	**1.1**	**1.8**
Total	**3.0**	**3.4**

As was the case in 2013, income from equity-accounted investments largely consisted of DEUTZ AG's share in the profits of the DEUTZ (Dalian) Engine Co., Ltd. joint venture in Dalian, China and those of the D.D. Power Holdings joint venture in South Africa. The increase in income was due to the higher contribution to earnings by DEUTZ (Dalian) Engine Co., Ltd.

The expenses relating to equity-accounted investments were attributable to the shareholding in DEUTZ AGCO MOTORES S.A., Haedo, Argentina. The expenses included an impairment loss of €1.8 million recognised on the equity-accounted value due to a downturn in the market in South America. The value in use of the investment was used to determine the recoverable amount.

Other net investment income in the year under review related to profits transferred by DEUTZ Sicherheit GmbH, Cologne.

5. ONE-OFF ITEMS

The one-off expenses totalling €18.9 million incurred in 2014 comprised €17.1 million in connection with measures to optimise our sites and impairment losses of €1.8 million recognised on the property, plant and equipment of our Chinese subsidiary DEUTZ Engine (Shandong) Co., Ltd. following weaker market forecasts and the resulting change in our strategy for the subsidiary. The one-off items were reported in other operating expenses and largely related to the fabrication unit.

6. INTEREST EXPENSES, NET

	2014	2013
€ million		
Interest income on credit balances with banks	0.1	0.2
Other interest income	0.5	1.3
Interest income	**0.6**	**1.5**
Interest paid on liabilities to banks	–3.7	–4.1
Interest paid on debt instruments	–2.3	–2.5
Other interest expense and similar charges	–0.7	–0.9
Interest expense and similar charges (finance costs)	**–6.7**	**–7.5**
Interest expenses, net	**–6.1**	**–6.0**

No borrowing costs were capitalised in either the year under review or the previous year.

7. TAXES

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

	2014	2013
€ million		
Current tax expense	9.1	10.7
thereof unrelated to the reporting period	0.1	–0.6
Deferred taxes	–21.9	–5.2
thereof from temporary differences	–20.8	–2.9
thereof from loss carryforwards	–1.1	–2.3
Total income taxes	**–12.8**	**5.5**

The current income tax expenses of €9.1 million related to additional provisions for anticipated tax payments on current income generated by Group companies in 2014.

The deferred tax income included income of €20.8 million arising from temporary differences (2013: €2.9 million). This resulted from the reversal of anticipated tax expenses arising from the capitalisation of development expenditure under IFRS, which differed from the tax accounts. Other income arising from temporary differences resulted from the findings of the tax audit carried out at DEUTZ AG for the period 2009–2011, which led to a restatement of the tax accounts of DEUTZ AG as at 31 December 2014.

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 in the income statement. Effective income taxes include current and deferred taxes. The applicable tax rate is 31.65 per cent (2013: 31.58 per cent) comprising corporation tax at 15 per cent, the solidarity surcharge (5.50 per cent of the corporation tax) and trade tax at 15.82 per cent based on an average assessment rate.

	2014	2013
€ million		
Net income before income taxes	**6.7**	**41.5**
Anticipated tax	2.1	13.1
Difference in local basis of assessment	0.3	0.4
Tax rates outside Germany	–0.2	0.8
Changes arising from the recognition of deferred taxes on loss carryforwards and on temporary differences and the utilisation of loss carryforwards	–7.0	–11.8
Effect of non-deductible expenses	2.8	3.7
Share of profit (loss) of equity-accounted investments	–0.8	–0.3
Effect of tax-exempt income	–1.0	–0.8
Effects not related to the reporting period		
Prior-year tax payments	0.1	–0.2
Deferred taxes resulting from prior-year adjustments	–9.7	0.6
Profit/loss from partnerships	–	–
Other	0.6	–
Effective tax expense	**–12.8**	**5.5**
Effective tax rate (%)	**–191.0**	**13.3**

In the year under review, the change in deferred taxes recognised in respect of loss carryforwards largely resulted from the use of loss carryforwards in 2014 in addition to the subsequent recognition of deferred taxes on losses carried forward that can be utilised in subsequent years.

8. 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 2014 or 2013.

	2014	2013
€ thousand/shares in thousands		
Net income	21,163	36,404
Weighted average number of shares outstanding	120,862	120,862
Earnings per share (€)	**0.18**	**0.30**

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

9. 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:

	2014			2013		
	Before taxes	**Taxes**	**After taxes**	Before taxes	Taxes	After taxes
€ million						
Amounts that will not be reclassified to the income statement in the future	**–26.6**	**8.5**	**–18.1**	**4.7**	**–1.5**	**3.2**
Remeasurements of defined benefit plans	–26.6	8.5	–18.1	4.7	–1.5	3.2
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**12.6**	**0.8**	**13.4**	**–5.5**	**–**	**–5.5**
Currency translation differences	15.1	–	15.1	–5.8	–	–5.8
Effective portion of change in fair value from cash flow hedges	–2.5	0.8	–1.7	0.1	–	0.1
Change in fair value of available-for-sale financial instruments	–	–	–	0.2	–	0.2
Other comprehensive income	**–14.0**	**9.3**	**–4.7**	**–0.8**	**–1.5**	**–2.3**

In 2014, gains of €1.0 million on cash flow hedges (2013: €0.8 million) recognised in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating income or other operating expenses in the consolidated income statement.

NOTES TO THE BALANCE SHEET

10. PROPERTY, PLANT AND EQUIPMENT

Gross figures Cost of purchase/conversion	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	**Total**
€ million					
Balance at 1 Jan 2014	**198.6**	**527.3**	**222.1**	**7.0**	**955.0**
Currency translation differences	–	0.5	0.5	0.1	1.1
Additions	0.6	10.0	20.8	7.7	39.1
Capital investment grants	–	–0.4	–1.7	–	–2.1
Disposals	–	–4.9	–2.3	–0.1	–7.3
Reclassifications	–	3.9	1.1	–5.0	–
Balance at 31 Dec 2014	**199.2**	**536.4**	**240.5**	**9.7**	**985.8**

Gross figures Depreciation, amortisation and impairment	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	**Total**
€ million					
Balance at 1 Jan 2014	**79.1**	**405.5**	**164.0**	**–**	**648.6**
Currency translation differences	0.1	0.4	0.3	0.1	0.9
Depreciation and amortisation	5.0	24.7	19.8	–	49.5
Impairment	–	0.2	0.4	1.5	2.1
Disposals	–	–4.9	–2.3	–	–7.2
Reclassifications	–	–	–	–	–
Balance at 31 Dec 2014	**84.2**	**425.9**	**182.2**	**1.6**	**693.9**
Net carrying amount at 31 Dec 2014	**115.0**	**110.5**	**58.3**	**8.1**	**291.9**

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

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

Acquisitions of property, plant and equipment related predominantly to production equipment and tools for engines that meet new exhaust emissions standards.

Government grants at our Spanish subsidiary were deducted from the cost of purchasing the property, plant and equipment. Government grants totalling €2.5 million were recognised as at 31 December 2014 (31 December 2013: €2.7 million). In 2014, grants of €0.6 million (2013: €0.6 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 106.

11. INTANGIBLE ASSETS

Gross figures Cost of purchase/conversion	Internally produced intangible assets Completed	Internally produced intangible assets In development	Other intangible assets	**Total**
€ million				
Balance at 1 Jan 2014	**377.6**	**0.4**	**119.1**	**497.1**
Currency translation differences	–	–	0.4	0.4
Additions	30.5	–	3.6	34.1
Capital investment grants	–4.2	–	–0.3	–4.5
Disposals	–	–	–0.1	–0.1
Reclassifications	0.6	–0.4	–0.2	–
Balance at 31 Dec 2014	**404.5**	**–**	**122.5**	**527.0**

Gross figures Depreciation, amortisation and impairment	Internally produced intangible assets Completed	Internally produced intangible assets In development	Other intangible assets	**Total**
€ million				
Balance at 1 Jan 2014	**156.6**	**–**	**102.6**	**259.2**
Currency translation differences	–	–	0.3	0.3
Depreciation and amortisation	39.3	–	7.4	46.7
Impairment	9.2	–	–	9.2
Disposals	–	–	–0.1	–0.1
Reclassifications	–	–	–	–
Balance at 31 Dec 2014	**205.1**	**–**	**110.2**	**315.3**
Net carrying amount at 31 Dec 2014	**199.4**	**–**	**12.3**	**211.7**

Gross figures Cost of purchase/conversion	Internally produced intangible assets Completed	Internally produced intangible assets In development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2013	**283.4**	**60.8**	**115.3**	**459.5**
Currency translation differences	–	–	–0.2	–0.2
Additions	33.6	8.3	7.7	49.6
Capital investment grants	–0.2	–7.9	–0.7	–8.8
Disposals	–	–	–3.0	–3.0
Reclassifications	60.8	–60.8	–	–
Balance at 31 Dec 2013	**377.6**	**0.4**	**119.1**	**497.1**

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

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 the refinement of engines to meet new exhaust emissions standards.

The impairment losses recognised on completed intangible assets in 2014 relate to our engine series with a capacity of over 8 litres and to one special application, and they largely result from changes in market forecasts and adverse economic developments in key markets. The impairment testing of these intangible assets was carried out at the level of the cash-generating units that represent each engine series. The recoverable amounts determined on the basis of their values in use amounted to €14.8 million and €0.0 million respectively. The impairment losses calculated on this basis were €6.8 million and €2.4 million. The discount rate underlying the calculations was 8.0 per cent.

12. EQUITY-ACCOUNTED INVESTMENTS

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

	2014	2013
€ million		
1 January	**46.0**	**47.1**
Additions	–	–
Pro-rata profit/loss on equity-accounted investments	3.7	1.6
Disposals	–	–
Impairment	–1.8	–
Other changes arising from measurement using the equity method	4.5	–2.7
31 December	**52.4**	**46.0**

The impairment loss of €1.8 million relates to our shareholding in DEUTZ AGCO MOTORES S.A., Haedo, Argentina. Other changes arising from measurement using the equity method are due to foreign currency translation.

A summary of further financial information about associates and joint ventures is provided in Note 25 ‘Interests in other entities’.

13. OTHER FINANCIAL ASSETS (NON-CURRENT)

	31 Dec 14	31 Dec 13
€ million		
Equity investments	0.2	0.6
Non-current securities	2.7	2.3
Cost of borrowing	1.4	1.2
Loans	1.3	1.3
Other	2.0	0.9
Total	**7.6**	**6.3**

Equity investments

The lower amount for equity investments is due to the liquidation of our subsidiary DEUTZ-Xiamen Diesel Engine Co., Ltd., Xiamen, China, which was not consolidated for reasons of materiality. The carrying amount of the equity investment was consequently derecognised.

Non-current securities

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

Cost of borrowing

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

Other

In 2014, this item included a non-current receivable of €1.2 million arising from insurance claims in connection with the unexpected addition to provisions for warranty costs.

14. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilised tax losses carried forward of €714.4 million for corporation tax (2013: €734.3 million) and €803.3 million for trade tax (2013: €824.5 million). The figures stated in 2013 for tax loss carryforwards (corporation tax: €778.5 million; trade tax €877.8 million) were restated as a result of information gained during the tax audit for previous years.

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

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

	31 Dec 14	31 Dec 13
€ million		
Non-current		
Deferred tax assets	62.2	30.8
Deferred tax liabilities	–	–
Current		
Current tax assets	0.8	0.6
Provision for income taxes	7.8	4.3
Income tax liabilities	0.5	0.5

In 2014, the deferred tax assets net of deferred tax liabilities amounted to €62.2 million. They were largely the result of capitalising deferred tax assets on tax losses carried forward and of temporary differences, particularly those between the carrying amount of provisions for pensions and other post-retirement benefits in the consolidated balance sheet and their tax base in the financial statements of DEUTZ AG.

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

	31 Dec 2014		31 Dec 2013	
	Assets	**Liabilities**	Assets	Liabilities
€ million				
Intangible assets	–	63.1	–	70.0
Property, plant and equipment	12.1	3.9	10.4	4.5
Equity-accounted investments and financial assets	0.5	–	0.5	–
Inventories	7.4	0.1	3.1	2.1
Receivables and other assets	3.1	–	0.3	0.4
Pensions	27.9	–	20.2	–
Other liabilities	11.2	0.1	12.0	4.5
Tax loss carryforwards	67.5	–	66.4	–
Other	–	0.3	–	0.2
Impairment losses	–	–	–0.4	–
Deferred taxes (gross)	**129.7**	**67.5**	**112.5**	**81.7**
Netting	67.5	67.5	81.7	81.7
Deferred taxes (net)	**62.2**	**–**	**30.8**	**–**

The tax asset in excess of deferred tax liabilities – for which sufficient taxable profit will be available in future based on tax budgets – amounted to €62.2 million (31 December 2013: €30.8 million).

The increase in deferred taxes in respect of temporary differences, which was recognised in other comprehensive income, was €9.5 million at 31 December 2014 (31 December 2013: decrease of €1.5 million) and largely resulted from changes in provisions for pensions.

As at 31 December 2014, the DEUTZ Group had not recognised any deferred tax liabilities on temporary differences of €53.6 million (31 December 2013: €39.2 million) in respect of taxes on untransferred profits from subsidiaries, associates or joint ventures because the timing of the reversal of the differences can be controlled or the sums are mostly tax exempt and no material impact on taxes is expected in the near future.

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

Loss carryforwards on which deferred taxes have not been recognised

	31 Dec 14	31 Dec 13
€ million		
	1,101.9	**1,181.5**

Thereof: expiry periods for German and international loss carryforwards

	31 Dec 14	31 Dec 13
€ million		
Up to 5 years	–	1.2
6 to 9 years	–	0.6
Indefinite	1,101.9	1,179.7

The figure stated in 2013 for loss carryforwards on which deferred taxes had been recognised in full was restated as a result of information gained during the tax audit for previous years.

15. INVENTORIES

	31 Dec 14	31 Dec 13
€ million		
Raw materials, consumables, bought-in parts and spare parts	122.5	115.9
Work in progress	41.7	46.2
Finished goods	81.0	62.5
Total	**245.2**	**224.6**

Write-downs on raw materials, bought-in parts and spare parts totalled €7.6 million in the reporting year (2013: €4.6 million). As at 31 December 2014, the carrying amount of inventories written down to net realisable value was €78.7 million (31 December 2013: €51.5 million).

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

	2014	2013
€ million		
1 January	**29.3**	**30.5**
Changes	–3.2	–1.2
31 December	**26.1**	**29.3**

The amount recognised as an expense relating to inventories in 2014 was €1,327.6 million (2013: €1,257.4 million) and it represents the cost of sales for the year.

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

	31 Dec 14	31 Dec 13
€ million		
Trade receivables	127.0	154.8
Less write-downs	–5.0	–5.7
Trade receivables (net)	**122.0**	**149.1**
Other receivables and assets		
Outstanding contributions from non-controlling interests	16.2	14.7
Receivables due from investments	0.8	4.1
thereof trade receivables	0.8	2.9
thereof other receivables	–	1.2
Advances paid	0.1	0.6
Sundry other receivables	28.3	32.3
Receivables arising from other taxes	6.5	6.9
Prepaid expenses	1.4	1.4
Total	**53.3**	**60.0**

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

As at 31 December 2014, the volume of receivables sold under factoring agreements was €107.1 million (31 December 2013: €175.0 million). Essentially, all the opportunities and risks connected with title to the receivables that were sold were transferred to the factor. While the entire credit risk was transferred, a risk of late payment remains, but it is not material so the receivables were not reported in the consolidated financial statements of DEUTZ AG. The remaining exposure in respect of the receivables that have been assigned is largely limited to the administration and collection of these receivables. As at 31 December 2014, the Group had access to factoring lines totalling €195.0 million (31 December 2013: €235.0 million). They are revolving lines. In 2014, interest expense of €2.3 million (2013: €2.5 million) was recognised in connection with the sale of receivables.

As at 31 December 2014, the receivables sold were offset by receivables amounting to €2.4 million due from one factor (31 December 2013: €4.5 million). The fair value of these receivables was also €2.4 million (31 December 2013: €4.5 million). The risk arising from the factoring transaction was the credit risk of the factor, which was lower than the credit risk of the original debtor. The maximum downside risk as at 31 December 2014 was limited to the amount receivable of €2.4 million.

Trade receivables with a principal amount of €14.2 million were written down as at 31 December 2014 (31 December 2013: €7.2 million). The following table shows the change in the valuation allowance account:

	2014	2013
€ million		
Balance at 1 January	**5.7**	**5.8**
Additions	1.0	0.5
Utilised	–0.8	–0.4
Reversals	–0.9	–0.2
Balance at 31 December	**5.0**	**5.7**

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts. Total impairment losses of €30.0 million were recognised on receivables and other assets as at 31 December 2014 (31 December 2013: €26.8 million).

17. CASH AND CASH EQUIVALENTS

As at 31 December 2014, cash and cash equivalents including cash on hand, short-term deposits and credit balances with banks amounted to €101.7 million (31 December 2013: €58.9 million), There were no access restrictions (31 December 2013: restricted access to €0.7 million).

18. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The non-current assets classified as held for sale as at 31 December 2014 relate to the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, which are situated in Cologne. The land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH are allocated to the DEUTZ Compact Engines segment.

19. EQUITY

	31 Dec 14	31 Dec 13
€ million		
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	13.7	2.8
Retained earnings and accumulated income	134.3	139.7
Equity attributable to the shareholders of the parent	485.8	480.3
Non-controlling interests	25.2	24.4
Total	**511.0**	**504.7**

Issued capital

At the end of 2014, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2013) and was divided into 120,861,783 no-par-value bearer shares (also unchanged).

Additional paid-in capital

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

Other reserves

Currency translation Translation differences allocated to the shareholders of DEUTZ AG arising from the translation of equity at historical rates and the translation of the net income or loss at average rates for the year are reported under accumulated other comprehensive income/loss. In the year under review, this item increased other comprehensive income by €12.6 million (2013: €5.7 million reduction in other comprehensive income). The cumulative gain on translation differences recognised in other reserves amounted to €15.2 million at the end of 2014 (31 December 2013: gain of €2.6 million recognised). Total differences arising from currency translation amounted to a gain of €15.1 million (2013: loss of €5.8 million), of which €2.5 million was attributable to non-controlling interests (2013: €0.1 million).

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

Retained earnings and accumulated income

This item includes DEUTZ AG's legal reserve of €4.5 million (31 December 2013: €4.5 million).

Non-controlling interests

Non-controlling interests relate to the 30 per cent equity investment held by Shandong Changlin Machinery Group Co., Ltd. in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China and the 35 per cent share of AB Volvo in DEUTZ Engine (China) Co., Ltd., Linyi, China. Of the total contribution made by AB Volvo to DEUTZ Engine (China) Co., Ltd., €16.2 million was still outstanding as at 31 December 2014 (31 December 2013: €14.7 million).

Dividend

According to the German Stock Corporation Act (AktG), the dividend is paid from the accumulated income reported in the single-entity financial statements of DEUTZ AG prepared in accordance with the German Commercial Code (HGB). In 2014, DEUTZ AG distributed a dividend of €8.5 million to its shareholders (€0.07 per share) from the accumulated income reported for 2013.

The Board of Management proposes using €8.5 million of the accumulated income reported by DEUTZ AG for the 2014 financial year to pay a dividend of €0.07 per no-par-value share.

20. 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 2014 came to €16.4 million (2013: €15.8 million). In addition, a further €2.6 million (2013: €2.9 million) was paid for pension and direct insurance policies in connection with deferred compensation.

Defined benefit plans

The DEUTZ Group maintains several defined benefit pension plans in Germany and abroad. The largest pension plans are in Germany and the UK. Together, they accounted for more than 95 per cent of defined benefit obligations and 100 per cent of plan assets, as was the case in 2013.

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

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

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

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

Funded status of pension plans

	2014	2013
€ million		
Pension plans in Germany		
Present value of defined benefit obligation	197.3	182.1
Fair value of plan assets	4.7	4.5
Deficit (net liability)	**192.6**	**177.6**
Pension plans in the UK		
Present value of defined benefit obligation	26.1	21.3
Fair value of plan assets	21.8	19.0
Deficit (net liability)	**4.3**	**2.3**
Other pension plans		
Present value of defined benefit obligation	4.9	3.6
Fair value of plan assets	–	–
Deficit (net liability)	**4.9**	**3.6**
Total		
Present value of defined benefit obligation	228.3	207.0
Fair value of plan assets	26.5	23.5
Deficit (net liability)	**201.8**	**183.5**

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

Breakdown of defined benefit obligation by beneficiary

	2014	2013
€ million		
Pension plans in Germany		
Active members	13.2	11.9
Deferred members	16.2	16.4
Pensioners	167.9	153.8
Present value of defined benefit obligation	**197.3**	**182.1**
Pension plans in the UK		
Active members	3.4	2.3
Deferred members	12.8	10.4
Pensioners	9.9	8.6
Present value of defined benefit obligation	**26.1**	**21.3**

Change in the net liability for defined benefit pension plans are shown in the table below:

Change in the net liability for defined benefit pension plans

	2014	2013
€ million		
Net liability as at 1 Jan	**183.5**	**197.2**
Amounts recognised on the income statement	5.9	6.0
Amounts recognised in other comprehensive income	26.7	–4.9
Employer contributions	–0.5	–0.4
Pension benefits paid	–14.4	–14.6
Effects of changes in foreign exchange rates	0.6	–0.4
Reclassifications	–	0.6
Net liability as at 31 Dec	**201.8**	**183.5**

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

Change in present value of defined benefit obligation

	2014	2013
€ million		
Defined benefit obligation as at 1 Jan	**207,0**	**219,5**
Service cost	0.1	0.1
Employee contributions	0.3	0.1
Interest expense	6.7	6.6
Remeasurements	27.8	–4.1
thereof: experience adjustments	–0.8	–0.9
thereof: actuarial (gains)/ losses arising from changes in biometric assumptions	–	0.7
thereof: actuarial (gains)/ losses arising from changes in financial assumptions	28.6	–3.9
Effects of changes in foreign exchange rates	2.0	–0.7
Pension benefits paid	–15.6	–15.1
Reclassifications	–	0.6
Defined benefit obligation as at 31 Dec	**228.3**	**207.0**

At 31 December 2014, the weighted average life of the bulk of the defined benefit obligation was 10.1 years (31 December 2013: 9.5 years).

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

Change in fair value of plan assets

	2014	2013
€ million		
Fair value of plan assets at 1 Jan	**23.5**	**22.3**
Employer contributions	0.5	0.4
Employee contributions	0.3	0.1
Interest income	0.9	0.7
Return on plan assets (excl. interest income)	1.1	0.8
Pensions paid from plan assets	–1.2	–0.5
Currency translation differences	1.4	–0.3
Fair value of plan assets at 31 Dec	**26.5**	**23.5**

Breakdown of plan assets

	31 Dec 14	31 Dec 13
€ million		
Cash and cash equivalents	0.2	0.1
Equity instruments (by region)		
UK	5.0	4.9
Europe (excl. UK)	1.8	1.5
North America	1.3	1.2
Japan	0.6	0.6
Asia-Pacific	0.6	0.5
Other	1.3	1.0
	10.6	**9.7**
Debt instruments		
Government bonds	3.8	3.0
Corporate bonds	7.2	6.2
	11.0	**9.2**
Reinsurance policies	4.7	4.5
Total	**26.5**	**23.5**

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

The breakdown of the portions of the net pension cost recognised in current income and expense for 2014 and 2013 is as follows:

Net pension cost

	2014	2013
€ million		
Current service cost	0.1	0.1
Interest expense	5.8	5.9
	5.9	**6.0**

The actual return on plan assets in 2014 was €2.0 million (2013: €1.5 million).

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

Actuarial assumptions

	2014	2013
%		
Discount rate		
Germany	1.83	3.28
UK	3.60	4.60
Rate of pension increase		
Germany	2.00	2.00
UK	2.00	2.20

Mortality tables

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

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

Sensitivity analysis

2014	**Impact on defined benefit obligation of:**	
	0.50% rise	**0.50% fall**
€ million		
in discount rate		
Germany	–9.3	9.9
UK	–2.3	2.6
in rate of pension increase		
Germany	9.5	–9.1
UK	2.1	–1.8

Sensitivity analysis

2013	Impact on defined benefit obligation of:	
	0.50% rise	0.50% fall
€ million		
in discount rate		
Germany	–7.9	8.4
UK	–1.9	2.9
in rate of pension increase		
Germany	8.2	–7.8
UK	1.4	–2.2

Furthermore, we also believe that it is possible that the life expectancy of eligible DEUTZ employees will change. If the life expectancy of eligible DEUTZ employees had increased by one year, the increases in the defined benefit obligation arising from the pension plans in Germany and the UK as at 31 December 2014 would have been €16.4 million and €0.5 million respectively (31 December 2013: €13.4 million and €0.4 million respectively).

The sensitivity calculations are based on the average life of the pension obligations calculated as at 30 November 2014. In order to highlight the impact on the present value of the defined benefit obligations calculated as at 31 December 2014 separately, the calculations were carried out for each of the actuarial parameters deemed to be material and capable of changing.

Future cash flows

For 2015, the DEUTZ Group forecasts that its payments into pension plans will amount to €0.5 million.

Expected benefit payments

	31 Dec 2014
€ million	
2015	15.3
2016	14.8
2017	14.3
2018	13.6
2019	13.0
2020–2024	58.9

21. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

	31 Dec 2014			31 Dec 2013		
	Total	**Resid. term of up to 1 year**	**Resid. term of more than 1 year**	Total	Resid. term of up to 1 year	Resid. term of more than 1 year
€ million						
Warranties	85.4	44.6	40.8	61.5	32.8	28.7
Restructuring	16.9	6.7	10.2	–	–	–
Obligations to employees	10.1	5.2	4.9	12.7	6.4	6.3
Onerous contracts	2.1	2.1	–	2.3	2.1	0.2
Other	6.9	4.4	2.5	5.9	3.9	2.0
Total	**121.4**	**63.0**	**58.4**	**82.4**	**45.2**	**37.2**

Other provisions are recognised at their settlement value calculated as at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted at a rate of 3.0 per cent (31 December 2013: 3.5 per cent).

Other provisions cover all identifiable risks and other contingent liabilities. The main items are the cost of warranties, provisions for restructuring and provisions for obligations to employees and onerous contracts. In light of new information, an unexpected addition was made to the provisions for warranty costs in 2014. €2.7 million repayments for warranty costs expected from insurance claims were recognised as other receivables. The provisions for restructuring relate to our decision to optimise our network of sites.

The following table shows the changes to other provisions in 2014:

	Warranties	Restructuring	Obligations to employees	Onerous contracts	Other	Total
€ million						
1 Jan 2014	**61.5**	**–**	**12.7**	**2.3**	**5.9**	**82.4**
Additions	23.5	16.9	6.2	0.8	3.1	50.5
Currency translation differences	0.2	–	–	–	0.4	0.6
Amounts utilised	–0.5	–	–8.0	–1.0	–2.2	–11.7
Reversals	–	–	–0.8	–	–0.3	–1.1
Accrued interest/effect of changes in interest rates	0.7	–	–	–	–	0.7
31 Dec 2014	**85.4**	**16.9**	**10.1**	**2.1**	**6.9**	**121.4**

22. FINANCIAL LIABILITIES

	31 Dec 2014				31 Dec 2013			
	Total	**Resid. term up to 1 year**	**Resid. term 1–5 years**	**Resid. term > 5 years**	Total	Resid. term up to 1 year	Resid. term 1–5 years	Resid. term > 5 years
€ million								
Liabilities to banks	86.0	14.7	60.7	10.6	88.7	7.6	56.3	24.8
Other financial liabilities	2.0	–	1.0	1.0	1.9	–	0.8	1.1
Total	**88.0**	**14.7**	**61.7**	**11.6**	**90.6**	**7.6**	**57.1**	**25.9**

Liabilities to banks

Liabilities to banks include a loan from the European Investment Bank with a remaining balance of €82.8 million. This unsecured loan is repayable in instalments until July 2020.

The syndicated working capital facility had not been drawn down as at 31 December 2014. This revolving line of credit for a total of €160 million provided by a consortium of banks is a floating-rate facility and is also unsecured. In 2014, its term was extended to May 2019.

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

In mid-2014, Banco Bilbao Vizcaya Argentaria also granted two loans for a total of €4.4 million via our Spanish subsidiary. They are bullet loans with a term of five years. The interest rate on the loans is 1.78 per cent p.a. Because the loans have been used for capital expenditure in Spain, finance costs up to an interest rate of 3.0 per cent are reimbursed by the Spanish government as part of a subsidy programme.

Other financial liabilities

Other financial liabilities comprise an interest-free government loan.

The fair value of financial liabilities is described in point 24 on page 102 et seq.

The weighted average interest rates (after hedging) of the financial liabilities are:

	31 Dec 14	31 Dec 13
%		
Liabilities to banks	2.89	3.05
Other financial liabilities	–	–

As in 2013, all current and non-current financial liabilities are denominated in euros.

23. TRADE PAYABLES AND OTHER LIABILITIES

	31 Dec 2014	31 Dec 2013
€ million		
Trade payables	**171.0**	**201.4**
Other liabilities		
Price reduction liabilities	11.9	10.4
Personnel-related liabilities	10.4	10.7
Liabilities to investments	2.9	3.1
Liabilities arising from other taxes	2.8	3.9
Advances received	1.2	1.0
Derivative financial instruments	3.0	0.9
Other liabilities and deferred income	16.0	24.1
Total	**48.2**	**54.1**

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

As at 31 December 2014, interest benefits of €1.6 million (31 December 2013: €1.9 million) derived from a loan from the European Investment Bank and of €0.2 million (31 December 2013: €0.3 million) derived from an interest-free government loan were recognised as deferred income. The loans were initially recognised at fair value and are reported as non-current financial liabilities.

NOTES TO THE CASH FLOW STATEMENT

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

Dividend income of €0.1 million was included in cash flow from operating activities (2013: €0.5 million).

The cash flow from financing activities includes the dividend paid to the shareholders of DEUTZ AG for 2013, amounting to €8.5 million.

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2014 and 2013.

2014	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
External revenue	1,279.9	250.3	–	1,530.2	–	1,530.2
Intersegment revenue	–	–	–	–	–	–
Total revenue	**1,279.9**	**250.3**	**–**	**1,530.2**	**–**	**1,530.2**
Depreciation and amortisation	84.8	11.4	–	96.2	–	96.2
Impairment	–	9.5	–	9.5	–	9.5
Profit/loss on equity-accounted investments	3.8	–1.9	–	1.9	–	1.9
Income from the reversal of provisions	0.7	–	–	0.7	–	0.7
Operating profit (EBIT before one-off items)	15.2	18.8	–2.3	31.7	–	31.7

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

Reconciliation from overall profit of the segments to net income

	2014	2013
€ million		
Overall profit of the segments	**31.7**	**47.5**
Reconciliation	–	–
EBIT before one-off items	**31.7**	**47.5**
One-off items	–18.9	–
EBIT	**12.8**	**47.5**
Financial income, net	–6.1	–6.0
Net income before income taxes	**6.7**	**41.5**
Income taxes	12.8	–5.5
Net income	**19.5**	**36.0**

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

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

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

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

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

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

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

Information about products and services

	2014	2013
€ million		
Engines	1,127.8	1,036.1
Service	152.1	152.7
DEUTZ Compact Engines	**1,279.9**	**1,188.8**
Engines	143.1	163.4
Service	107.2	101.0
DEUTZ Customised Solutions	**250.3**	**264.4**
Total	**1,530.2**	**1,453.2**

Geographical information about external revenue

	2014	2013
€ million		
Germany	**336.8**	**260.4**
Outside Germany	**1,193.4**	**1,192.8**
Rest of Europe	744.7	824.6
Middle East	27.7	31.7
Africa	57.0	38.7
Americas	256.6	190.6
Asia-Pacific	107.4	107.2
Total	**1,530.2**	**1,453.2**

Of the European countries outside Germany, Switzerland accounted for €140.0 million in the reporting year (2013: €196.4 million), Italy for €132.7 million (2013: €71.0 million) and Sweden for €111.2 million (2013: €114.1 million).

The above information is presented according to customer location. One customer accounted for at least 10 per cent of our total revenue in 2014 (in 2013, two customers each accounted for at least 10 per cent). The revenue from this customer amounted to €265.9 million (2013: €380.7 million) and was reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

	31 Dec 14	31 Dec 13
€ million		
Germany	461.4	498.9
Outside Germany	94.6	91.4
Total	**556.0**	**590.3**

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

OTHER INFORMATION

24. FINANCIAL RISK MANAGEMENT AND ADDITIONAL INFORMATION ON CAPITAL MANAGEMENT

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. Information about the principles of risk management with regard to financial instruments can be found in the risk report on pages 53 to 54 of the DEUTZ Group's combined management report.

Liquidity risk

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

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

In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving cash credit line amounting to €160 million that runs until May 2019 and two long-term amortising loans with a total remaining balance of €82.8 million repayable in equal instalments from July 2014 to July 2020. As part of the loan agreements, the Company is required to comply with certain covenants.

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

31 Dec 2014	2015 cash payments	2016–2019 cash payments	>2019 cash payments	**Total**
€ million				
Primary financial instruments	**–231.7**	**–70.0**	**–10.9**	**–312.6**
Derivative financial instruments	**–2.5**	**–0.8**	**–**	**–3.3**
Currency derivatives				
thereof settled gross: cash payments	–60.5	–	–	–60.5
thereof settled gross: cash receipts	58.4	–	–	58.4
Interest rate derivatives				
Presentation of net cash flow	–0.4	–0.8	–	–1.2
Commodity derivatives				
Presentation of net cash flow	–	–	–	–

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

Credit risk

The overview of written-down financial assets and of the age structure of past due financial assets that have not been written down does not include: cash and cash equivalents of €101.7 million (31 December 2013: €58.9 million) or available-for-sale financial assets of €2.9 million (31 December 2013: €2.9 million).

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

As regards trade receivables and other receivables and assets that were neither past due nor written down as at the balance sheet date, there were no indications that the customers concerned would be unable to meet their payment obligations. The bulk of the DEUTZ Group's trade receivables are insured with the EULER HERMES Group. There is usually an obligation to the trade credit insurance association (WKV) or, where applicable, the German government's export credit guarantee scheme (APG) to meet defaults on the receivables unless they are secured by letters of credit confirmed by a bank or similar instruments. DEUTZ does not produce any standardised credit rating for its customers itself but usually sets the maximum customer exposure in accordance with the level of cover provided by the credit insurance agency. In addition, we have received guarantees amounting to €0.6 million (31 December 2013: €0.7 million) for foreign trade receivables.

			thereof written down at balance sheet date	
31 Dec 2014	**Carrying amount**	thereof neither past due nor written down at balance sheet date	Gross amount before write down	Write down
€ million				
Non-current financial assets	**2.5**	**2.5**	**–**	**–**
Current financial assets	**167.3**	**133.2**	**45.0**	**–35.0**
Trade receivables	122.0	88.7	14.2	–5.0
Other receivables and assets	45.3	44.5	30.8	–30.0

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

Currency risk

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

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

Currency sensitivity analysis

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

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

thereof past due at the balance sheet date but not written down			
up to 90 days	91 to 180 days	181 to 360 days	over 360 days
–	**–**	**–**	**–**
23.3	**0.4**	**0.4**	**–**
23.3	0.4	0.4	–
–	–	–	–

thereof past due at the balance sheet date but not written down			
up to 90 days	91 to 180 days	181 to 360 days	over 360 days
–	**–**	**–**	**–**
19.8	**1.0**	**0.1**	**0.2**
19.8	1.0	0.1	0.2
–	–	–	–

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

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

Euro rises by 10 per cent

2014	Notional amounts	Impact on net income	Notional amounts	Impact on equity
€ million				
USD	89.8	–7.5	56.4	5.1

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

Euro falls by 10 per cent

2014	Notional amounts	Impact on net income	Notional amounts	Impact on equity
€ million				
USD	89.8	9.1	56.4	–6.2

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

Interest-rate risk and sensitivity analysis

The DEUTZ Group is exposed to risk from interest rate changes, primarily in relation to floating-rate loans and other debt. As at 31 December 2014, there were no loans or other debt exposed to interest-rate risk. The floating-rate loan outstanding on the balance sheet date was hedged using interest-rate swaps that form part of an effective cash flow hedge. Because hedging transactions are measured at fair value, changes in interest rates have an impact on the hedging reserve in other comprehensive income. The following table shows the impact of the interest-rate swaps on other comprehensive income if market interest rates rise or fall by 100 basis points.

Interest rates rise by 100 basis points

2014	Notional amounts	Impact on equity
€ million	41.4	1.1

2013	Notional amounts	Impact on equity
€ million	45.0	1.7

Interest rates fall by 100 basis points

2014	Notional amounts	Impact on equity
€ million	41.4	–1.1

2013	Notional amounts	Impact on equity
€ million	45.0	–1.7

Capital management

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

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

The net financial position (cash and cash equivalents less interest-bearing financial liabilities) was positive during the year under review. As at the balance sheet date, the net financial position was €13.7 million, which equated to a year-on-year improvement of €45.4 million (31 December 2013: minus €31.7 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 2014 was €52.0 million (2013: €13.8 million).

The equity ratio is another indicator used by the DEUTZ Group to monitor its capital. This indicator reflects the ratio of total assets to Group equity as reported on the consolidated balance sheet. As at 31 December 2014, the equity ratio for the DEUTZ Group was 44.5 per cent (31 December 2013: 45.0 per cent) and therefore remained at a high level and met all internal targets.

Financial instruments

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

Financial instruments (assets)

31 Dec 2014	Measured at amortised cost: Loans and receivables	Measured at amortised cost: Available-for-sale financial assets	Measured at fair value: Available-for-sale financial assets	Measured at fair value: Held-for-trading financial assets	Assets not within the scope of IAS 39: Carrying amount	**Carrying amount on the balance sheet**
€ million						
Non-current financial assets	**2.5**	**0.2**	**2.7**	**–**	**2.2**	**7.6**
Current financial assets	**269.0**	**–**	**–**	**–**	**8.8**	**277.8**
Trade receivables	122.0	–	–	–	–	122.0
Other receivables and assets	45.3	–	–	–	8.8	54.1
Cash and cash equivalents	101.7	–	–	–	–	101.7

Financial instruments (assets)

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

Financial instruments (liabilities)

31 Dec 2014	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the balance sheet**
€ million					
Non-current financial liabilities	**74.1**	**1.1**	**–**	**2.0**	**77.2**
Financial liabilities	73.3	–	–	–	73.3
Other liabilities	0.8	1.1	–	2.0	3.9
Current financial liabilities	**219.2**	**1.7**	**0.2**	**8.9**	**230.0**
Financial liabilities	14.7	–	–	–	14.7
Trade payables	171.0	–	–	–	171.0
Other liabilities	33.5	1.7	0.2	8.9	44.3

Financial instruments (liabilities)

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

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 reported at fair value.

	31 Dec 2014		31 Dec 2013	
	Carrying amount	**Fair value**	Carrying amount	Fair value
€ million				
Financial assets	**271.7**	**271.5**	**261.0**	**260.4**
Other loans	1.3	1.3	1.3	1.3
Available-for-sale financial assets measured at cost	0.2	–	0.6	–
Trade receivables	122.0	122.0	149.1	149.1
Other receivables and assets	46.5	46.5	51.1	51.1
Cash and cash equivalents	101.7	101.7	58.9	58.9
Financial liabilities	**293.3**	**296.7**	**332.5**	**335.2**
Liabilities to banks and other financial debt	88.0	91.4	90.6	93.3
Trade payables	171.0	171.0	201.4	201.4
Other liabilities	34.3	34.3	40.5	40.5

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

No disclosure of fair value is made for unquoted available-for-sale financial assets, the carrying amount of which was €0.2 million as at 31 December 2014 (31 December 2013: €0.6 million). The reason is that these financial assets are investments for which no fair value can be determined and are therefore measured at amortised cost.

The fair value of non-current financial assets and liabilities is computed by discounting estimated future cash flows using arm's length discount rates and taking into account our own credit risk and that of our counterparties based on credit ratings and exchange rates on the balance sheet date.

The following table shows the classification in the IFRS 13 measurement hierarchy of the fair values as at the balance sheet date of financial assets and liabilities that were measured at fair value in the consolidated financial statements, or for which a fair value was disclosed in the notes to the financial statements:

31 Dec 2014	**Carrying amount**	**Fair value**	Level 1	Level 2	Level 3
€ million					
Financial assets					
Securities	2.7	2.7	2.7	–	–
Financial liabilities					
Currency forwards	1.9	1.9	–	1.9	–
Commodity derivatives	–[1]	–[1]	–	–[1]	–
Interest-rate swaps	1.1	1.1	–	1.1	–
Liabilities to banks and other financial debt	88.0	91.4	–	91.4	–

31 Dec 2013	**Carrying amount**	**Fair value**	Level 1	Level 2	Level 3
€ million					
Financial assets					
Securities	2.3	2.3	2.3	–	–
Financial liabilities					
Commodity derivatives	0.6	0.6	–	0.6	–
Interest-rate swaps	0.3	0.3	–	0.3	–
Liabilities to banks and other financial debt	90.6	93.3	–	93.3	–

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.

[1] Rounded figures are below €0.1 million.

The fair value of securities is derived from prices in active markets.

The fair value of derivative financial instruments (currency forwards, commodity derivatives and interest-rate swaps) is calculated over the remaining term of the instrument using current commodity prices, market interest rates, yield curves and, in the previous year, exchange rates. Our own credit risk and that of our counterparties is also taken into account. The disclosures are based on valuations by banks.

Net gains and losses on financial instruments

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

2014	Loans and receivables	**Derivatives designated as hedging instruments**	Held-for-trading financial assets	Financial liabilities measured at amortised cost	Held-for-trading financial liabilities
€ million					
Net gains/losses	2.6	–0.4	–	–6.7	–

2013	Loans and receivables	**Derivatives designated as hedging instruments**	Held-for-trading financial assets	Financial liabilities measured at amortised cost	Held-for-trading financial liabilities
€ million					
Net gains/losses	2.8	–0.4	–0.2	–4.0	–0.7

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, no unrealised gains or losses on available-for-sale financial assets were recognised in other comprehensive income (2013: gains of €0.2 million). No realised gains or losses were reclassified from other comprehensive income to the income statement in 2014.

Total interest income and interest expense

In 2014, interest income of €0.6 million (2013: €1.5 million) and interest expense of €3.7 million (2013: €4.1 million) were attributable to financial assets and financial liabilities that were not measured at fair value through profit or loss.

Hedging

Cash flow hedging As at 31 December 2014, there were currency futures and interest-rate swaps which were classified as hedging instruments. Interest-rate swaps are used to hedge the interest-rate risk associated with floating-rate loans. Currency futures are used to hedge the currency risk arising from forecast transactions in foreign currencies.

Unrealised losses of €2.5 million on cash flow hedges were recognised in other comprehensive income in 2014 (2013: gains of €0.1 million), taking into account deferred tax assets of €0.8 million (2013: deferred tax liabilities of €0.0 million). These changes in fair value represent the effective portion of the hedge. In 2014, prior to the inclusion of deferred taxes, gains of €1.0 million (2013: gains of €0.8 million) recognised in other comprehensive income during the year were reclassified to other operating income or expenses in the consolidated income statement. There was no hedging ineffectiveness requiring reclassification from the reserve for cash flow hedges to the income statement in the year under review. Hedges relating to foreign-currency transactions in the operating business are expected to be unwound with the next twelve months and those relating to future interest-rate risks are expected to be unwound after a period of five and a half years. The associated gains that have been recognised in other comprehensive income will be reclassified to the income statement.

Derivative financial instruments

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

	Notional amount 2014	Notional amount 2013	**Fair value 2014**	Fair value 2013
€ million				
Currency forwards				
not used as hedges	4.1	–	–0.2	–
used as cash flow hedges	56.4	–	–1.7	–
Interest-rate swaps				
used as cash flow hedges	41.4	45.0	–1.1	–0.3
Commodities				
not used as hedges	0.4	4.7	–[1]	–0.6

[1] Rounded figures are below €0.1 million.

Netting

Netting agreements with financial institutions covering derivatives exist within the DEUTZ Group. In accordance with these master agreements, amounts in the same currency relating to outstanding transactions owed by each counterparty on a specific settlement date are aggregated into a net amount. The following table shows the financial assets and liabilities that are subject to netting agreements:

31 Dec 2014	Gross amounts	Figures netted on the balance sheet	Net amounts reported on the balance sheet	Related amounts not netted on the balance sheet	Potential net amounts
€ million					
Financial liabilities					
Derivative financial instruments	0.5	0.4	0.1	–	0.1

31 Dec 2013	Gross amounts	Figures netted on the balance sheet	Net amounts reported on the sheet	Related amounts not netted on the balance sheet	Potential net amounts
€ million					
Financial liabilities					
Derivative financial instruments	0.1	–	0.1	–	0.1

25. INTERESTS IN OTHER ENTITIES

As well as the parent company DEUTZ AG, the consolidated financial statements for 2014 included 16 subsidiaries, three joint ventures and one associate.

The Group subsidiary Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf is a structured entity. DEUTZ holds a total of 19.6 per cent of the voting shares in the entity. The purpose of the company is sell real estate that was previously purchased by DEUTZ AG to third parties and to lease it to DEUTZ AG in the interim. The entity's activities are controlled by DEUTZ AG as part of its business operations. For this reason, Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf constitutes a subsidiary and has to be included in the consolidated financial statements of DEUTZ AG.

At the end of 2014, the DEUTZ Group extended the term of its loan to Deutz-Mülheim Grundstücksgesellschaft mbH by a further 15 months, although it has no obligation to provide financial assistance of this kind.

Subsidiaries and non-controlling interests

Within the DEUTZ Group there are material non-controlling interests in the subsidiaries DEUTZ Engine (China) Co., Ltd., Linyi, China and DEUTZ Engine (Shandong) Co., Ltd., Linyi, China. The following table provides a summary of financial information for both companies before elimination of intra-group transactions.

	DEUTZ Engine (Shandong) Co. Ltd., Linyi (China)	DEUTZ Engine (China) Co. Ltd., Linyi (China)
	31 Dec 14	31 Dec 14
€ thousand		
Ownership share to be attributed to non-controlling interests	30.0	35.0
Assets	21,656	55,277
Liabilities	2,122	–
Equity	19,534	55,277
thereof to be attributed to non-controlling interests	5,860	19,347
Revenue	–	–
Profit/loss	–2,666	–2,522
Other comprehensive income	–	–
Net income	–2,666	–2,522
thereof to be attributed to non-controlling interests	–800	–883
Cash flows	–1,530	–2,506
thereof to be attributed to non-controlling interests	–459	–877

Joint ventures

DEUTZ (Dalian) Engine Co., Ltd., Dalian, China is an unlisted joint arrangement in which the Group shares joint control and has an ownership interest of 50 per cent. The company, which is structured as a separate vehicle, was established jointly with the First Automotive Works Group (China), Dalian, China. It is a strategic partnership for the production and distribution of diesel engines with a capacity of between 3 and 8 litres for the Chinese market. The interest is classified as a joint venture and accounted for in the consolidated financial statements using the equity method.

A summary of financial information for DEUTZ (Dalian) Engine Co., Ltd. based on its single-entity financial statements prepared in accordance with IFRS is shown below.

	DEUTZ (Dalian) Engine Co., Ltd.
	2014
€ thousand	
Revenue	359,830
Depreciation and amortisation	–14,652
Interest expenses, net	–9,201
Income taxes	–
Profit (loss) from continuing operations	3,259
Net income	3,259
Current assets	316,728
thereof cash and cash equivalents	15,918
Non-current assets	276,117
Current liabilities	307,194
thereof current financial liabilities	152,315
Non-current liabilities	186,142
thereof non-current financial liabilities	183,831
Net assets	**99,509**
Group's share of net assets at 1 Jan	41,520
Share of net income	1,630
Dividends received in 2014	–
Effect of currency translation	4,766
Group's share of net assets at 31 Dec	47,916
Elimination	1,839
Impairment	–
Carrying amount using the equity method at 31 Dec	**49,755**

Non-material joint ventures

A summary of financial information is shown below for the Group's interests in Weifang Weichai Deutz Diesel Engine Co., Ltd., Weifang, China and DEUTZ AGCO MOTORES S.A., Haedo, Argentina, which are classified as non-material joint ventures.

	2014
€ thousand	
Carrying amount of interests	**–[1]**
Group's share of:	
Profit (loss) from continuing operations	–390
Other comprehensive income	–
Net income	**–390**

[1] As the carrying amount of the interests was zero, total losses of €2.2 million were again not recognised under the equity method.

Non-material associates

A summary of financial information is shown below for the Group's interest in D. D. Power Holdings (Pty) Ltd., Elandsfontein, South Africa, which is classified as a non-material associate. The company has a different financial year (ending on 30 November). Annual financial statements for the year ended 31 December have not been prepared for reasons of materiality.

	2014
€ thousand	
Carrying amount of interests	**2,621**
Group's share of:	
Profit (loss) from continuing operations	588
Other comprehensive income	–
Net income	**588**

26. CONTINGENT LIABILITIES

Contingent liabilities

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

	31 Dec 2014	31 Dec 2013
€ million		
Guarantee liabilities	3.7	3.6
Warranty liabilities	1.5	1.4
Total	**5.2**	**5.0**

Other financial obligations

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

	31 Dec 2014	31 Dec 2013
€ million		
due in less than 1 year	7.4	7.3
due in 1 to 5 years	6.5	10.1
due in more than 5 years	–	–
Total	**13.9**	**17.4**

The above obligations largely relate to rental agreements and leases on real estate and movable assets. Obligations under rental agreements and leases were partly offset by receivables of €39 thousand (2013: €194 thousand) from sub-leases. In 2014, the cost of rentals and leases for real estate and movable assets totalled €11.3 million (2013: €10.4 million).

Commitments to purchase property, plant and equipment and intangible assets amounted to €39.4 million as at 31 December 2014 (31 December 2013: €32.9 million) and commitments to purchase inventories amounted to €72.9 million (31 December 2013: €113.1 million).

Legal disputes

DEUTZ AG and other companies in the DEUTZ Group are involved in a number of legal disputes, claims for damages and arbitration proceedings that could have an impact on the Group's financial position.

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.

Damages in yet unknown amounts have been claimed in connection with individual legal disputes in the USA concerning product liability. Because of the low probability of occurrence, no provisions have been accounted for on the balance sheet. The outcome of these legal disputes cannot be predicted. It is therefore possible that they might have a negative impact on the financial position and financial performance. However, only a minor impact of less than €2 million is expected in case of a possible negative outcome because of the existing insurance coverage.

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

27. 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:

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

Related parties also include the **Supervisory Board** and the **Board of Management.**

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

	Goods and services provided		Other expenses for services received		Receivables 31 Dec		Payables 31 Dec	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
€ million								
Associates	–	–	–	–	–	–	–	–
Joint ventures	7.2	6.0	–	–	0.6	3.8	–	–
Other investments	0.6	0.5	4.5	4.2	0.2	0.3	2.9	3.1
Total	**7.8**	**6.5**	**4.5**	**4.2**	**0.8**	**4.1**	**2.9**	**3.1**

The goods supplied and services rendered to joint ventures are largely attributable to goods supplied to our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd.

As at 31 December 2014, impairment losses of €30.0 million (31 December 2013: €26.9 million) had been recognised on €30.2 million (31 December 2013: €31.0 million) of the Company's total receivables due from investments, which resulted in an expense of €3.1 million in 2014 (2013: €1.7 million). Of these receivables, €6.8 million related to loans granted by DEUTZ (31 December 2013: €6.8 million) on which impairment losses of €6.8 million had been recognised (31 December 2013: €6.3 million). Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

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

	Volvo Group	
	2014	2013
€ million		
Engines & spare parts supplied	265.9	380.7
Services	14.5	22.1
Receivables as at 31 December	18.2	26.6

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

DEUTZ has also issued an undertaking to support another equity investment. According to the undertaking, the Group will provide the entity with finance to ensure that it has sufficient funds at all times to meet its current and future obligations, and to prevent overindebtedness by way of debt subordination. From the present perspective, no claim is expected to be made on the Group.

The following payments were made to the Supervisory Board and the Board of Management as related parties of the DEUTZ Group.

	Supervisory Board		Board of Management	
	2014	2013	**2014**	2013
€ million				
Short-term remuneration[1]	1.1	1.2	2.3	2.7
Share-based remuneration[2]	0.0[3]	0.0[3]	–0.1	0.2

[1] The current remuneration for members of the Supervisory Board includes both remuneration for their work as Supervisory Board members and the regular salaries of the salaried employee representatives.
[2] The disclosure of share-based remuneration corresponds with the expense (+) or income (–) recognised in the operating profit in 2014 from the changes in provisions made for distributed virtual share options.
[3] Rounded figures are below €0.1 million.

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

28. EVENTS AFTER THE REPORTING PERIOD

In February 2015, we reached agreement with our partner AB Volvo not to set up the planned joint venture DEUTZ Engine (China) Co., Ltd., Linyi, China. Having completed a thorough and comprehensive review, we have now agreed to wind up this production company given the weak prevailing market situation in China.

29. SHARE-BASED REMUNERATION PROGRAMMES

Between 2007 and 2014, DEUTZ AG launched Long Term Incentive Plans Nos. I to VIII as long-term components of remuneration. Under these long-term incentive plans, virtual stock options are issued to reward management for its sustained contribution to the Company's success.

General description of the incentive plans of DEUTZ AG

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

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

Incentive plan	Date of grant	Number of options
LTI no. I	1 July 2007	380,000
LTI no. II	1 February 2008 and 1 April 2009	345,000 and 60,000
LTI no. III	1 June 2009	330,000
LTI no. IV	1 July 2010	330,000
LTI no. V	1 June 2011	280,000
LTI no. VI	1 August 2012	270,000
LTI BoM 2013	1 January 2013 and 1 March 2013	104,079 and 32,663
LTI no. VII	1 July 2013	260,000
LTI BoM 2014	1 January 2014	72,389
LTI no. VIII	1 September 2014	320,000

A total of 674,131 of these options had been granted to current and former members of the DEUTZ AG Board of Management.

Information on the exercise of options

One of the fundamental requirements for exercising options is that the option holders themselves invest in the Company at a ratio of one share per ten options, or one share per 20 options in the case of LTI BoM 2013 and LTI BoM 2014. The absolute earliest that options can be exercised is three or four years after the date of grant (vesting period) and then only within four years from the end of the vesting period and only within ten days from the date of publication of quarterly financial statements. However, options under the LTI BoM 2013 and LTI BoM 2014 plans are exercised automatically four years after the date of grant. The Company may delay the start of the exercise window for the options or accelerate the exercise and vesting periods, but the Company cannot change the exercise or vesting periods of the options relating to LTI BoM 2013 and LTI BoM 2014.

Furthermore, options may only be exercised

- if the market price of DEUTZ AG shares has risen by at least 30 per cent relative to the reference price (dividend distributions by DEUTZ AG must be taken into consideration, i.e. for the purposes of calculating the performance target, the total gross dividend distribution up to the exercise date must be added to the DEUTZ AG share price), or
- if in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the Prime Industrial Performance Index – or any future index that replaces the Prime Industrial Performance Index – by at least 30 per cent, or
- in the case of LTI BoM 2013 and LTI BoM 2014, if in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the MDAX – or any future index that replaces the MDAX – by at least 10 percentage points.

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

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

Incentive plan	Earliest or automatic exercise date	Reference price
LTI no. I	1 July 2010	€10.68[1]
LTI no. II	1 February 2011 and 1 April 2012	€6.92 and €1.94
LTI no. III	1 June 2013	€2.68
LTI no. IV	1 July 2014	€4.39
LTI no. V	1 June 2015	€6.10
LTI no. VI	1 August 2016	€3.89
LTI BoM 2013	1 January 2017 and 1 March 2017	€3.36 and €3.98
LTI no. VII	1 July 2017	€4.45
LTI BoM 2014	1 January 2018	€6.63
LTI no. VIII	1 September 2018	€5.37

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

When an option is exercised, the beneficiary receives a cash payment in the amount of the difference between the DEUTZ AG share price on the exercise date and the reference price at the time the option was granted. Contrary to this, beneficiaries of LTI BoM 2013 and LTI BoM 2014 receive a cash payment equivalent to the average closing price of DEUTZ AG shares on the 60 trading days prior to the end of the vesting period up to a maximum of 1.5 times the reference price. No beneficiary receives shares in the Company.

The following table shows the number of options that had been exercised, had expired or remained outstanding as at 31 December 2014:

Incentive plan	**Options granted**	**Options exercised**	**Options expired**	**Options outstanding**
LTI no. I	380,000	–	380,000	–
LTI no. II	405,000	60,000	195,000	150,000
LTI no. III	330,000	240,000	80,000	10,000
LTI no. IV	330,000	–	70,000	260,000
LTI no. V	280,000	–	30,000	250,000
LTI no. VI	270,000	–	–	270,000
LTI BoM 2013	136,742	–	–	136,742
LTI no. VII	260,000	–	–	260,000
LTI BoM 2014	72,389	–	–	72,389
LTI no. VIII	320,000	–	–	320,000

Notes on the fair value of options

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

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

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

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

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

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

LTI 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.

LTI 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.

LTI no. V
The risk-free interest rate (3.25 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2011. The assumed volatility (51.35 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €6.82 on 1 June 2011. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI no. VI
The risk-free interest rate (1.75 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2012. The assumed volatility (57.30 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €3.07 on 1 August 2012. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2013
The risk-free interest rate (0.40 per cent) used in the calculation is based on German Federal notes (Bobl) and German Federal Treasury notes (Schatz) with terms of two to five years issued at the start of 2013. The assumed volatility (61.80 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2013. Fluctuation was assumed to be 0 per cent. These assumptions were also used in the calculation for the options issued on 1 March 2013.

The calculation on the grant date was based on the DEUTZ AG share price of €3.76 on 1 January 2013 and €4.40 on 1 March 2013. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. VII
The risk-free interest rate (1.75 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2013. The assumed volatility (54.18 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €4.77 on 1 July 2013. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2014
The risk-free interest rate (0.625 per cent) used in the calculation is based on German Federal notes (Bobl) and German Federal Treasury notes (Schatz) with terms of two to five years issued at the start of 2014. The assumed volatility (50.44 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2014. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €6.49 on 1 January 2014. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. VIII
The risk-free interest rate (0.63 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in the second half of 2014. The assumed volatility (57.72 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 €4.52 on 1 September 2014. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

In accordance with the requirement for the fair value of options to be recalculated on each balance sheet date, a calculation was carried out on the basis of the DEUTZ AG share price of €4.00 on 31 December 2014 (31 December 2013: €6.48) which resulted in income of €790 thousand as at 31 December 2014 (31 December 2013: expense of €1,024 thousand). A total provision of €1,133 thousand was recognised at the end of 2014 (31 December 2013: €1,923 thousand). The amount is broken down as follows:

LTI no. I: €0 thousand (31 December 2013: €21 thousand)
LTI no. II: €28 thousand (31 December 2013: €277 thousand)
LTI no. III: €21 thousand (31 December 2013: €194 thousand)
LTI no. IV: €365 thousand (31 December 2013: €512 thousand)
LTI no. V: €24 thousand (31 December 2013: €295 thousand)
LTI no. VI: €197 thousand (31 December 2013: €333 thousand)
LTI BoM 2013: €268 thousand (31 December 2013: €181 thousand)
LTI no. VII: €121 thousand (31 December 2013: €110 thousand)
LTI BoM 2014: €72 thousand (31 December 2013: €0.0 thousand)
LTI no. VIII: €37 thousand (31 December 2013: €0.0 thousand)

As at 31 December 2014, the options granted had the following intrinsic values:

Incentive plan	**Intrinsic value per option**
LTI no. I	–
LTI no. II	–
LTI no. III	€1.32
LTI no. IV	–
LTI no. V	–
LTI no. VI	€0.11
LTI BoM 2013	€0.64 and €0.02
LTI no. VII	–
LTI BoM 2014	–
LTI no. VIII	–

30. STAFF COSTS

	2014	2013
€ million		
Wages	115.7	112.8
Salaries	113.1	113.4
Social security contributions	44.0	41.7
Net interest expense for provisions for pensions and other post-retirement benefits	5.8	5.9
Cost of post-employment benefits and other long-term benefits	1.4	1.1
Cost of severance payments/personnel restructuring	0.7	0.6
Other staff costs	3.9	–
Total	**284.6**	**275.5**

The following table shows the breakdown of staff costs by functional area:

	2014	2013
€ million		
Cost of sales	174.9	168.0
Research and development costs	35.6	35.5
Selling expenses	43.8	41.1
Administrative expenses	24.0	24.9
Other operating expenses	6.3	6.0
Total	**284.6**	**275.5**

The average number of employees during the year is given in the section about disclosures under German accounting standards on page 112.

DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

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

	2014	2013
Non-salaried employees	2,409	2,398
Salaried employees	1,461	1,455
	3,870	**3,853**
Trainees	118	129
Total	**3,988**	**3,982**

32. CORPORATE GOVERNANCE

In December 2014, the Board of Management and the Supervisory Board of DEUTZ AG issued a declaration of compliance with the recommendations of the German Corporate Governance Code government commission pursuant to section 161 AktG and made this declaration permanently and publicly available on the Company's website (http://www.deutz.de/investor_relations/corporate_governance.en.html).

33. AUDITORS' FEES

The total fees reported for auditing the consolidated financial statements for 2013 and 2014 are broken down as follows:

	2014	2013
€ thousand		
Auditing	302	251
Other attestation services	154	133
Other services	–	27
Total	**456**	**411**

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

Board of Management

The total remuneration paid to the Board of Management of DEUTZ AG in 2014 was €2,740 thousand (2013: €3,249 thousand). This consisted of short-term employee benefits of €2,270 thousand (2013: €2,713 thousand) and other long-term benefits as part of the long-term incentive plans amounting to €470 thousand (2013: €536 thousand).

Further details about the remuneration system for members of the Board of Management and details of individual remuneration can be found in the remuneration report section of the combined management report for 2014.

Remuneration paid to former members of the Board of Management or their surviving dependants amounted to €1,465 thousand (2013: €1,442 thousand) for DEUTZ AG and the Group; provisions of €16,798 thousand (31 December 2013: €15,565 thousand) have been recognised to cover pension obligations to these persons.

Supervisory Board

The total remuneration paid to the Supervisory Board of DEUTZ AG in 2014 was €598 thousand (2013: €507 thousand). In addition, the employee representatives on the Supervisory Board who are also employees of the DEUTZ Group received normal salaries in line with their employment contracts. The level of their salaries represented appropriate remuneration for corresponding functions and tasks in the Group.

Further details about the Supervisory Board remuneration system and details of individual remuneration can be found in the remuneration report section of the combined management report for 2014.

Advances and loans to members of the Board of Management and the Supervisory Board

As at 31 December 2014 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.

35. DISCLOSURES UNDER THE GERMAN SECURITIES TRADING ACT (WPHG)

The German Securities Trading Act (WpHG) obliges investors whose share of voting rights in listed companies reaches certain thresholds to notify the company accordingly. DEUTZ AG has been notified of the following shareholdings:

On 14 September 2012, pursuant to section 21 (1) WpHG, AB Volvo (publ), Gothenburg, Sweden, notified us that its voting share in DEUTZ AG, Cologne, Germany, ISIN DE 000630500, had exceeded the 10, 15, 20 and 25 per cent thresholds for voting rights on 12 September 2012, and amounted to 25.000001 per cent (equivalent to 30,215,447 voting rights) on that date. The shares are held directly.

On 19 September 2013, pursuant to section 21 (1) WpHG, Fidelity Funds SICAV, Luxembourg, Luxembourg, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 19 September 2013 and amounted to 3.03 per cent (3,656,411 voting rights) on that date.

On 29 November 2013, pursuant to section 21 (1) WpHG, Old Mutual Plc, London, United Kingdom, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 27 November 2013 and amounted to 3.10 per cent (3,742,645 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.10 per cent (3,742,645 voting rights) are attributable to it.

On 13 January 2014, pursuant to section 21 (1) sentence 1 WpHG, Artisan Partners Funds, Inc., Milwaukee, Wisconsin 53202-5408, USA, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 8 January 2014 and amounted to 3.02 per cent (3,645,869 voting rights) on that date.

On 4 March 2014, pursuant to section 21 (1) WpHG, FMR LLC, Boston, USA, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 28 February 2014 and amounted to 3.0063 per cent (3,633,580 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 WpHG.

Mr Eric R. Colson, Mr Charles J. Daley, Mr Gregory K. Ramirez, Mr Andrew A. Ziegler and Ms Carlene M. Ziegler, all c/o Artisan Partners Holdings LP, USA, along with Artisan Investment Corporation and ZFIC, Inc., both of Milwaukee, Wisconsin 53202-5408, USA, submitted the following notifications of voting rights to DEUTZ AG on 13 March 2014 pursuant to sections 21 (1), 22 (1) sentence 1 no. 6, sentences 2 and 3 WpHG:

1. On 12 March 2014 the voting share of Mr Eric R. Colson, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, exceeded the threshold of 3 per cent and on that day amounted to 4.89 per cent of the total number of voting rights of DEUTZ AG (equivalent to 5,911,541 voting rights attaching to ordinary shares). All of these voting rights are attributable to Mr Eric R. Colson pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG. Of these voting rights, more than 3 per cent of the total voting rights of DEUTZ AG were voting rights attaching to shares held by Artisan Partners Funds, Inc.

2. On 12 March 2014 the voting share of Mr Charles J. Daley, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, had exceeded the threshold of 3 per cent and on that day amounted to 4.89 per cent of the total number of voting rights of DEUTZ AG (equivalent to 5,911,541 voting rights attaching to ordinary shares). All of these voting rights are attributable to Mr Charles J. Daley pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG. Of these voting rights, more than 3 per cent of the total voting rights of DEUTZ AG were voting rights attaching to shares held by Artisan Partners Funds, Inc.

3. On 12 March 2014 the voting share of Mr Gregory K. Ramirez, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, had exceeded the threshold of 3 per cent and on that day amounted to 4.89 per cent of the total number of voting rights of DEUTZ AG (equivalent to 5,911,541 voting rights attaching to ordinary shares). All of these voting rights are attributable to Mr Gregory K. Ramirez pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG. Of these voting rights, more than 3 per cent of the total voting rights of DEUTZ AG were voting rights attaching to shares held by Artisan Partners Funds, Inc.

4. On 12 March 2014 the voting share of Artisan Investment Corporation, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 0 per cent of the total number of voting rights of DEUTZ AG (equivalent to 0 voting rights attaching to ordinary shares).

5. On 12 March 2014 the voting share of ZFIC, Inc., Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 0 per cent of the total number of voting rights of DEUTZ AG (equivalent to 0 voting rights attaching to ordinary shares).

6. On 12 March 2014 the voting share of Mr Andrew A. Ziegler, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 0 per cent of the total number of voting rights of DEUTZ AG (equivalent to 0 voting rights attaching to ordinary shares).

7. On 12 March 2014 the voting share of Ms Carlene M. Ziegler, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 0 per cent of the total number of voting rights of DEUTZ AG (equivalent to 0 voting rights attaching to ordinary shares).

On 14 March 2014, pursuant to section 21 (1) WpHG, FMR LLC, Boston, USA, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 13 March 2014 and amounted to 2.97 per cent (3,590,423 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 WpHG.

On 9 April 2014, pursuant to section 21 (1) WpHG, FMR LLC, Boston, USA, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 9 April 2014 and amounted to 3.04 per cent (3,670,435 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 WpHG.

Artisan Partners Funds, Inc., Milwaukee, Wisconsin 53202-5408, USA, submitted the following notification of voting rights to us on 30 May 2014 pursuant to section 21 (1) sentence 1 WpHG:

“On 26 May 2014 the voting share of Artisan Partners Funds, Inc., 875 E. Wisconsin Ave., Suite 800, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 2.92 per cent of the total number of voting rights of DEUTZ AG (equivalent to 3,531,100 voting rights attaching to ordinary shares).”

On 12 June 2014, pursuant to section 21 (1) WpHG, FIL Limited, Hamilton, Bermuda, notified us that its voting share in our Company had exceeded the 5 per cent threshold on 11 June 2014 and amounted to 5.04 per cent (6,093,734 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG. The voting rights attributable to FIL Limited are held by the following shareholder, whose share of voting rights in DEUTZ AG is 3 per cent or more: Fidelity Funds SICAV.

On 12 June 2014, pursuant to section 21 (1) WpHG, FIL Investments International, Hildenborough, United Kingdom, notified us that its voting share in our Company had exceeded the 5 per cent threshold on 11 June 2014 and amounted to 5.04 per cent (6,093,734 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG. The voting rights attributable to FIL Investments International are held by the following shareholder, whose share of voting rights in DEUTZ AG is 3 per cent or more: Fidelity Funds SICAV.

On 12 June 2014, pursuant to section 21 (1) WpHG, FIL Holdings (UK) Limited, Hildenborough, United Kingdom, notified us that its voting share in our Company had exceeded the 5 per cent threshold on 11 June 2014 and amounted to 5.04 per cent (6,093,734 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 WpHG. The voting rights attributable to FIL Holdings (UK) Limited are held by the following shareholder, whose share of voting rights in DEUTZ AG is 3 per cent or more: Fidelity Funds SICAV.

On 23 July 2014, pursuant to section 21 (1) WpHG, FIL Limited, Hamilton, Bermuda, notified us that its voting share in our Company had fallen below the 5 per cent threshold on 23 July 2014 and amounted to 4.70 per cent (5,683,909 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG. The voting rights attributable to FIL Limited are held by the following shareholder, whose share of voting rights in DEUTZ AG is 3 per cent or more: Fidelity Funds SICAV.

On 23 July 2014, pursuant to section 21 (1) WpHG, FIL Investments International, Hildenborough, United Kingdom, notified us that its voting share in our Company had fallen below the 5 per cent threshold on 23 July 2014 and amounted to 4.70 per cent (5,683,909 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG. The voting rights attributable to FIL Investments International are held by the following shareholder, whose share of voting rights in DEUTZ AG is 3 per cent or more: Fidelity Funds SICAV.

On 23 July 2014, pursuant to section 21 (1) WpHG, FIL Holdings (UK) Limited, Hildenborough, United Kingdom, notified us that its voting share in our Company had fallen below the 5 per cent threshold on 23 July 2014 and amounted to 4.70 per cent (5,683,909 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 WpHG. The voting rights attributable to FIL Holdings (UK) Limited are held by the following shareholder, whose share of voting rights in DEUTZ AG is 3 per cent or more: Fidelity Funds SICAV.

On 12 August 2014, Artisan Partners Limited Partnership, Artisan Investments GP LLC, Artisan Partners Holdings LP, Artisan Partners Asset Management Inc., all of Milwaukee, Wisconsin 53202-5408, USA, Mr Eric R. Colson, Mr Charles J. Daley and Mr Gregory K. Ramirez, all c/o Artisan Partners Holdings LP, USA, submitted the following notifications of voting rights to DEUTZ AG pursuant to sections 21 (1), 22 (1) sentence 1 no. 6, sentences 2 and 3 WpHG:

1. On 8 August 2014 the voting share of Artisan Partners Limited Partnership, 875 E. Wisconsin Ave., Suite 800, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 2.91 per cent of the total number of voting rights of DEUTZ AG (equivalent to 3,517,464 voting rights attaching to ordinary shares). All of these voting rights are attributable to Artisan Partners Limited Partnership pursuant to section 22 (1) sentence 1 no. 6 WpHG.

2. On 8 August 2014 the voting share of Artisan Investments GP LLC, 875 E. Wisconsin Ave., Suite 800, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 2.91 per cent of the total number of voting rights of DEUTZ AG (equivalent to 3,517,464 voting rights attaching to ordinary shares). All of these voting rights are attributable to Artisan Investments GP LLC pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

3. On 8 August 2014 the voting share of Artisan Partners Holdings LP, 875 E. Wisconsin Ave., Suite 800, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 2.91 per cent of the total number of voting rights of DEUTZ AG (equivalent to 3,517,464 voting rights attaching to ordinary shares). These voting rights are attributable to Artisan Partners Holdings LP pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

4. On 8 August 2014 the voting share of Artisan Partners Asset Management Inc., 875 E. Wisconsin Ave., Suite 800, Milwaukee, Wisconsin 53202-5408, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 2.91 per cent of the total number of voting rights of DEUTZ AG (equivalent to 3,517,464 voting rights attaching to ordinary shares). All of these voting rights are attributable to Artisan Partners Asset Management Inc. pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

5. On 8 August 2014 the voting share of Mr Eric R. Colson, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 2.91 per cent of the total number of voting rights of DEUTZ AG (equivalent to 3,517,464 voting rights attaching to ordinary shares). All of these voting rights are attributable to Mr Eric R. Colson pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

6. On 8 August 2014 the voting share of Mr Charles J. Daley, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 2.91 per cent of the total number of voting rights of DEUTZ AG (equivalent to 3,517,464 voting rights attaching to ordinary shares). All of these voting rights are attributable to Mr Charles J. Daley pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

7. On 8 August 2014 the voting share of Mr Gregory K. Ramirez, c/o Artisan Partners Holdings LP, USA, in DEUTZ AG, Ottostrasse 1, 51149 Cologne (Porz-Eil), Germany, fell below the threshold of 3 per cent and on that day amounted to 2.91 per cent of the total number of voting rights of DEUTZ AG (equivalent to 3,517,464 voting rights attaching to ordinary shares). All of these voting rights are attributable to Mr Gregory K. Ramirez pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

On 29 August 2014, pursuant to section 21 (1) WpHG, SKAGEN AS, Stavanger, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 28 August 2014 and amounted to 3.03 per cent (3,665,400 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG.

On 7 October 2014, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 6 October 2014 and amounted to 3.13 per cent (3,782,796 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.13 per cent (3,782,796 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3.13 per cent (3,782,796 voting rights): Norges Bank (the Central Bank of Norway).

On 7 October 2014, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 6 October 2014 and amounted to 3.13 per cent (3,782,796 voting rights) on that date.

On 5 November 2014 FMR LLC, Boston, USA, notified us that it had revoked its notification of voting rights dated 9 April 2014. The notification (published by DEUTZ AG on 14 April 2014) had been based on an incorrect calculation; the voting share held by FMR LLC in DEUTZ AG had not in fact exceeded the 3 per cent threshold at that time.

On 21 November 2014, pursuant to section 21 (1) WpHG, SKAGEN AS, Stavanger, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 19 November 2014 and amounted to 2.99 per cent (3,616,276 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 6 WpHG, 2.99 per cent (3,616,276 voting rights) are attributable to it.

On 13 January 2015, pursuant to section 21 (1) WpHG, Fidelity Funds SICAV, Luxembourg, Luxembourg, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 12 January 2015 and amounted to 2.97 per cent (3,588,983 voting rights) on that date.

On 2 February 2015, pursuant to section 21 (1) WpHG, FIL Holdings (UK) Limited, Hildenborough, United Kingdom, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 2 February 2015 and amounted to 2.94 per cent (3,558,971 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 WpHG.

On 2 February 2015, pursuant to section 21 (1) WpHG, FIL Investments International, Hildenborough, United Kingdom, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 2 February 2015 and amounted to 2.94 per cent (3,558,971 voting rights) on that date.

36. 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 pages 118 and 119.

Cologne, 20 February 2015

DEUTZ Aktiengesellschaft
The Board of Management

Dr Ing Helmut Leube

Dr Margarete Haase

Michael Wellenzohn

SHAREHOLDINGS OF DEUTZ AG

As at 31 December 2014

Ref. no.	Name and registered office of the company	Held via	Holding %	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG, Cologne	–	–	453,926	24,368
	Consolidated companies in Germany				
2	DEUTZ Abgastechnik GmbH, Cologne[1), 2)]	1	100.0	25	–
3	DEUTZ Asien Verwaltungs GmbH, Cologne[1), 2)]	1	100.0	16,125	–10,700
4	DEUTZ Beteiligung GmbH, Cologne[1)]	1	100.0	484	–
5	DEUTZ Engine China GmbH, Cologne[1), 2)]	1	100.0	7,224	–5,143
6	Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf[1)]	4	19.6	–20,787	–126
7	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne[1)]	1	100.0	–2,652	59
	Consolidated companies outside Germany				
8	DEUTZ ASIA-PACIFIC (PTE.) LTD., Singapore (Singapore)[1)]	1	100.0	6,890	1,412
9	Deutz Australia (Pty) Ltd., Braeside (Australia)[1)]	1	100.0	6,710	289
10	DEUTZ (Beijing) Engine Co., Ltd., Beijing (China)[1)]	1	100.0	4,389	821
11	Deutz Corporation, Atlanta (USA)[1)]	1	100.0	28,801	4,346
12	Deutz Engine (China) Co. Ltd., Linyi (China)[1)]	5	65.0	55,261	–2,522
13	DEUTZ Engine (Shandong) Co., Ltd., Linyi (China)[1)]	3	70.0	19,534	–2,666
14	DEUTZ FRANCE S.A.S., Gennevilliers (France)[1)]	1	100.0	10,358	1,229
15	DEUTZ Spain S.A., Zafra (Spain)[1)]	1	100.0	28,628	958
16	Nlle Ste MAGIDEUTZ S.A., Casablanca (Morocco)[1)]	14	100.0	2,884	472
17	OOO DEUTZ Vostok, Moscow (Russia)[1)]	1	100.0	733	718
18	D. D. Power Holdings (Pty) Ltd., Elandsfontein (South Africa)[3), 4)]	1	30.0	8,735	1,871
19	DEUTZ AGCO MOTORES S.A., Haedo (Argentina)[3)]	1	50.0	3,585	–780
20	DEUTZ (Dalian) Engine Co., Ltd., Dalian (China)[3)]	1	50.0	99,509	3,259
21	WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD., Weifang (China)[3), 6)]	1	50.0	22,735	–5,282
	Unconsolidated companies in Germany				
22	Ad. Strüver KG (GmbH & Co.), Hamburg	4	94.0	–10,631	–1,018
23	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne[2)]	1	100.0	26	1,127
24	Feld & Hahn GmbH i. L., Cologne[2)]	1	100.0	455	24
	Unconsolidated companies outside Germany				
25	AROTRIOS S.A., Nea Filadelfia (filed for insolvency)	1	100.0	–	–
26	DEUTZ DO BRASIL LTDA., São Paulo (Brazil)	1	100.0	–7,598	–53
27	DEUTZ ENGINEERING druzba za projektiraje, proizvodnjo in trgovino d.o.o., Maribor (Slovenia)	1	100.0	–23	7
28	DEUTZ Engines (India) Private Limited, Pune (India)[5)]	1	100.0	253	16
29	DEUTZ UK LTD, Cannock (UK)	1	100.0	123	–26
30	OOO DEUTZ, Moscow (Russia)	1	100.0	–	–

[1)] Equity and net income in accordance with the annual financial statements prepared for consolidation purposes.
[2)] Profit-and-loss transfer agreement with DEUTZ AG.
[3)] Consolidated using the equity method.
[4)] Figures as at 30 November 2014.
[5)] Figures as at 31 March 2014.
[6)] Previous year's figures.

SUPERVISORY BOARD

Lars-Göran Moberg
Chairman
Management consultant and Supervisory Board member, Stockholm, Sweden

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

Sabine Beutert[1)]
Trade Union Secretary, IG Metall Cologne-Leverkusen Administrative Office, Cologne, Germany

Hans-Peter Finken[1)]
(from 1 February 2015)
Member of DEUTZ AG Works Council Cologne, Germany

Göran Gummeson
Senior Management Consultant
b) European Furniture Group AB, Gothenburg, Sweden
Nimbus Boats AB, Gothenburg, Sweden
Harding AS, Rosendal, Norway
Clean Oil Technology AB, Gothenburg, Sweden

Hans-Georg Härter
Proprietor of HGH-Consulting
a) ZF Friedrichshafen AG, Friedrichshafen, Germany
Kiekert AG, Heiligenhaus, Germany
Knorr-Bremse AG, Munich, Germany
b) Zeppelin University Friedrichshafen, Friedrichshafen, Germany
Überfränkische Überlandzentrale Lülsfeld eG, Lülsfeld, Germany
Klingelnberg AG, Zurich, Switzerland
Faurecia S.A., Paris, France
Altran S.A., Paris, France
Axega GmbH, Zurich, Switzerland

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

Herbert Kauffmann
(from 7 January 2014)
Management Consultant
a) adidas AG, Herzogenaurach, Germany
b) Uniscon universal identity control GmbH, Munich, Germany (chairman of the supervisory board)

Dietmar Paust[1)]
Deputy Chairman of the Cologne Works Council and of the General Works Council of DEUTZ AG, Cologne, Germany

Eva Persson
Lawyer
b) Norsk Hydro ASA, Oslo, Norway
Platzer Fastigheter Holding AB, Gothenburg, Sweden

Dr Witich Roßmann[1)]
Chief Executive of IG Metall Cologne-Leverkusen, Cologne, Germany
a) Ford Werke GmbH, Cologne, Germany
Ford Holding Deutschland GmbH, Cologne, Germany

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

Egbert Zieher[1)]
(until 31 January 2015)
Chairman of the Ulm Works Council of DEUTZ AG, Reichenbach, Germany

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

SUPERVISORY BOARD COMMITTEES

HUMAN RESOURCES COMMITTEE

Lars-Göran Moberg, Chairman
Werner Scherer, Deputy Chairman
Hans-Georg Härter

AUDIT COMMITTEE

(until 11 December 2014)

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

(from 11 December 2014)

Herbert Kauffmann, Chairman
Werner Scherer, Deputy Chairman
Sabine Beutert
Lars-Göran Moberg

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

Lars-Göran Moberg, Chairman
Michael Haupt
Werner Scherer
Egbert Zieher (until 31 January 2015)

NOMINATIONS COMMITTEE

Lars-Göran Moberg, Chairman
Hans-Georg Härter
Michael Haupt

BOARD OF MANAGEMENT

Dr Ing Helmut Leube (61)

Chairman
Technical and head-office functions

b) Deutz Corporation, Atlanta, USA, Chairman
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, Deputy Chairman

Dr Margarete Haase (61)

Finance, human resources and investor and public relations

a) ElringKlinger AG, Dettingen/Erms, Germany
Fraport AG, Frankfurt am Main, Germany
ZF Friedrichshafen AG, Friedrichshafen, Germany

b) DEUTZ (Dalian) Engine Co., Ltd., Dalian, China
Deutz Engine (China) Co. Ltd., Linyi, China, Chairwomen
DEUTZ Engine (Shandong) Co., Ltd., Linyi, China, Chairwomen

Michael Wellenzohn (48)

Sales, service and marketing

b) Deutz Engine (China) Co. Ltd., Linyi, China
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China
Deutz Corporation, Atlanta/USA
DEUTZ Asia Pacific (Pte) Ltd., Singapore/Singapore

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

ANNUAL FINANCIAL STATEMENTS IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

BALANCE SHEET OF DEUTZ AG

Assets	31 Dec 2014	31 Dec 2013
€ million		
Intangible assets	11.0	13.9
Property, plant and equipment	246.5	258.5
Investments	244.5	246.4
Non-current assets	**502.0**	**518.8**
Inventories	153.9	154.2
Receivables and other assets	176.7	197.9
Cash and cash equivalents	73.9	30.8
Current assets	**404.5**	**382.9**
Prepaid expenses	2.0	2.5
Deferred tax assets	85.3	66.6
Total assets	**993.8**	**970.8**

Equity and liabilities	31 Dec 2014	31 Dec 2013
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	105.1	89.2
Accumulated income	8.5	8.5
Equity	**453.9**	**438.0**
Provisions	284.0	242.6
Other liabilities	255.3	289.6
Deferred income	0.6	0.6
Total equity and liabilities	**993.8**	**970.8**

INCOME STATEMENT OF DEUTZ AG

€ million	2014	2013
Revenue	**1,437.8**	**1,366.6**
Cost of sales	–1,280.6	–1,229.2
Gross profit	**157.2**	**137.4**
Research and development costs	–54.0	–53.9
Selling expenses	–44.9	–43.2
General and administrative expenses	–23.9	–25.4
Other operating income	31.1	22.1
Other operating expenses	–15.9	–9.2
Net investment income	–7.3	21.9
Interest expenses, net	–11.6	–12.0
Write-downs of investments	-0.7	–
Profit (loss) from ordinary activities	**30.0**	**37.7**
Net extraordinary expense	–19.4	–2.3
Income taxes	15.0	4.4
Other taxes	–1.2	–0.6
Net income	**24.4**	**39.2**
Loss carried forward	–	–57.6
Withdrawals from other retained earnings	–	26.9
Additions to other retained earnings	–15.9	–
Accumulated income	**8.5**	**8.5**

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, which has been combined with the management report for DEUTZ AG, 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, 20 February 2015

DEUTZ Aktiengesellschaft
The Board of Management

Dr Ing Helmut Leube

Dr Margarete Haase

Michael Wellenzohn

AUDIT OPINION

We have audited the consolidated financial statements prepared by the DEUTZ Aktiengesellschaft, Cologne, comprising the statement of financial position, income statement, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the DEUTZ Aktiengesellschaft, Cologne, for the business year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, 11 March 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki Wirtschaftsprüfer (German Public Auditor)	ppa. Gerd Tolls Wirtschaftsprüfer (German Public Auditor)

REPORT OF THE SUPERVISORY BOARD

CLOSE COOPERATION BETWEEN SUPERVISORY BOARD AND BOARD OF MANAGEMENT

In 2014, the Supervisory Board of DEUTZ AG continued its ongoing monitoring of the management of the business in accordance with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code and provided advice to the Board of Management on key decisions. The Supervisory Board was directly involved in all material decisions taken by the Board of Management. In particular, the Board of Management coordinated closely with the Supervisory Board on the Company's corporate strategy.

Five meetings of the Supervisory Board took place in 2014. Only one member of the Supervisory Board was absent at each of the meetings on 13 March and 12 June, but apologies were sent, and the other meetings in 2014 were attended in person by all the Supervisory Board members.

At each of the meetings of the Supervisory Board, the Board of Management reported on the general economic, market and competitive environment for the DEUTZ Group, presented a business update and sales report that included detailed information on the actual performance of the business over the immediately preceding period, submitted an up-to-date risk report, provided information on key operational issues and offered an overview of the results forecast for the year as a whole. These reports were made on the basis of the key performance indicators that were already familiar to the Supervisory Board members from the Company's written monthly reports. These key performance indicators included new orders, orders on hand, revenue, unit sales, EBIT, research and development expenditure, capital expenditure, working capital and headcount data, in each case compared against the prior-year figures and budget. Reports from the Human Resources and Audit Committees presented by their chairperson were also a regular item on the agenda of the Supervisory Board meetings.

FOCUS OF SUPERVISORY BOARD DELIBERATIONS

The deliberations and discussions of the Supervisory Board in the year under review focused mainly on the current business position and risk situation of the DEUTZ Group as well as on the operational and strategic development of the business. Particular attention was paid to the existing joint ventures, especially those in China, with regular reports on their performance provided by the Board of Management. During the strategy discussion, the Supervisory Board discussed the details of an action plan for achieving the Company's medium and long-term growth targets (profitable growth) and the optimisation of all operational processes ('operational excellence').

Other key decisions concerned the 2015 budget, the medium-term planning up to 2019 and the approval of capital expenditure. As is the case every year, the Supervisory Board also adopted resolutions concerning the achievement of targets by the Board of Management – and consequently its variable remuneration for the previous year – as well as the setting of its targets for the current year. Besides defining the Board of Management's targets for the current financial year, it also set medium-term targets for the Board of Management.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular and timely information at all times. Between meetings, the Board of Management informed the members of the Supervisory Board in writing about all important events. In addition, the chairman of the Supervisory Board and the chairman of the Board of Management remained in close and regular contact to discuss all important transactions, imminent decisions and optimisation measures. All the decisions that the Supervisory Board was required to take in accordance with the law and Statutes were taken on the basis of the reports and draft resolutions submitted by the Board of Management and, where necessary, following preparation by the relevant committees of the Supervisory Board.

COMPOSITION OF THE BOARD OF MANAGEMENT

There were no changes to the Board of Management of DEUTZ AG in 2014.

CORPORATE GOVERNANCE: DECLARATION OF COMPLIANCE WITH TWO EXCEPTIONS/ EFFICIENCY AUDIT

At its meeting on 11 December 2014, the Supervisory Board held an in-depth discussion of the German Corporate Governance Code as amended on 13 May 2013 and 24 June 2014 and, together with the Board of Management, issued a declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG). This declaration includes just two variances from the Code and since 12 December 2014 it has been available in the Investor Relations/Corporate Governance section of the Company's website at www.deutz.com, where it can be downloaded.

As it had in previous years, the Supervisory Board examined the efficiency of its work in 2014 by carrying out a survey. The results of this survey, which all of the Supervisory Board members completed, were presented at its meeting on 25 September 2014 where they were discussed at length. The Supervisory Board's finding was that it fulfilled its legal obligations and operated efficiently; more specifically, it found that all parameters had improved in comparison with the 2013 survey.

MATTERS HANDLED EFFICIENTLY BY FOUR COMMITTEES

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees prepare various topics and resolutions for the full Supervisory Board. Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 118 and 119 of this annual report.

Lars-Göran Moberg
Chairman of the Supervisory Board

The Human Resources Committee makes preparations for all Supervisory Board decisions concerning the appointment of members of the Board of Management and their contracts of employment, including the remuneration specified therein, and all issues arising in this connection. The committee met once in 2014 when it discussed the resolutions to be adopted by the full Supervisory Board on the achievement of the Board of Management's targets for 2013 and the setting of Board of Management targets, including medium-term targets, for 2014.

The work of the Audit Committee in the year under review focused on the assessment of the single-entity and consolidated financial statements for 2013 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2014 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2014 and the discussion of the audit engagement for the year ended 31 December 2014. At the beginning of the reporting year, the Audit Committee again dealt with the invitation to tender for the audit of the consolidated annual financial statements and the review of the interim financial statements. Other important topics discussed by the Audit Committee included risk management, compliance, the internal control system, strategic planning, key performance indicators, the adjustment of the provision for warranties in the third quarter and the performance of the DEUTZ AG plants in Germany in terms of productivity and costs. The Audit Committee met six times in 2014, with the auditors in attendance on three occasions.

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

Following a further amendment to the relevant section of the rules of procedure for the Supervisory Board, the Nominations Committee once more consists of three (previously four) Supervisory Board members elected by the Annual General Meeting. It is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met on four occasions in 2014 when it dealt with the search for potential successors for appointment to the Supervisory Board.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS AUDITED IN DETAIL AND APPROVED

The single-entity annual financial statements of DEUTZ AG prepared by the Board of Management in accordance with the German Commercial Code (HGB), the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the combined management report for DEUTZ AG and the DEUTZ Group (all for the 2014 financial year) were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Cologne, Germany, the auditors appointed by the Annual General Meeting on 7 May 2014. The auditors issued unqualified opinions.

The single-entity annual financial statements of DEUTZ AG, the consolidated annual financial statements, the combined management report, the Board of Management's proposal for the appropriation of profit and the auditors' reports were made available to all members of the Supervisory Board and were examined by the Supervisory Board. The auditors explained their audit findings in detail to the Audit Committee meeting held on 3 March 2015 and to the Supervisory Board meeting held on 12 March 2015 and answered any supplementary questions raised.

The Supervisory Board approved the findings of the auditors' reports on DEUTZ AG and the DEUTZ Group. The conclusive findings of the Supervisory Board's own audit have not led to any reservations about either the single-entity annual financial statements or the consolidated annual financial statements, and the Supervisory Board has therefore approved them. The annual financial statements have thus been adopted.

The Supervisory Board also approved the Board of Management's proposal to use the accumulated income reported for the 2014 financial year to pay a dividend of €0.07 per dividend-bearing share.

COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

As already reported, there was only one new appointment in 2014 following the election of all twelve members of the Supervisory Board in 2013. On 7 January 2014, at the request of the Board of Management and as recommended by the Nominations Committee, the local court in Cologne appointed Mr Herbert Kauffmann to succeed Dr Lodovico Bussolati as a shareholder representative on the Supervisory Board of DEUTZ AG following Dr Bussolati's resignation from his seat at the end of 2013. The Annual General Meeting of DEUTZ AG held on 7 May 2014 confirmed the appointment of Mr Kauffmann and elected him to the Supervisory Board for the remaining term of appointment of the other members of the Supervisory Board, i.e. until the 2018 Annual General Meeting.

After the end of the reporting year, at the request of the Board of Management and as proposed by the General Works Council, the local court in Cologne appointed Mr Hans-Peter Finken as an employee representative on the Supervisory Board with effect from 1 February 2015. The appointment became necessary when Mr Egbert Zieher stepped down from his post with effect from 31 January 2015.

The Supervisory Board would like to thank Mr Zieher for his outstanding work and valuable contribution over the years.

The membership of the Supervisory Board committees changed as follows in the year under review: at its meeting on 11 December 2014, the Supervisory Board elected Mr Kauffmann to succeed Mr Michael Haupt as a member of the Audit Committee and its chairman. Mr Haupt had resigned from both positions with effect from the end of that meeting.

CONFLICTS OF INTEREST/INDEPENDENCE OF SUPERVISORY BOARD MEMBERS/PROPORTION OF WOMEN ON THE SUPERVISORY BOARD

No conflicts of interest between members of the Supervisory Board and DEUTZ AG arose in the year under review.

The current members of the Supervisory Board of DEUTZ AG are all considered independent within the meaning of item 5.4.2 sentence 2 of the German Corporate Governance Code.

The Supervisory Board has had to defer its target of at least two female members (see page 128 of the 2013 annual report) in connection with the forthcoming appointment of a member to replace Ms Persson at the Annual General Meeting on 29 April 2015 because it had to give priority to experts in the areas of agricultural machinery, service and sales.

The Supervisory Board would like to express its thanks and appreciation to all employees of DEUTZ AG in Germany and abroad, to the elected workforce representatives and to the Board of Management for their valuable efforts and the considerable dedication they showed in 2014.

Cologne, March 2015
The Supervisory Board

Lars-Göran Moberg
Chairman

EVENT AFTER THE BALANCE SHEET DATE

At the end of its meeting on 12 March 2015, the Supervisory Board apppointed Mr Hans-Georg Härter as new chairman after the previous chairman, Mr Lars-Göran Moberg, had stepped down from his post; accordingly Mr Härter also becomes chairman of the Arbitration Committee, the Human Resources Committee and the Nominations Committee. As Mr Härter was previously an ordinary member of the Human Resources Committee and the Nominations Committee, the Supervisory appointed Mr Moberg as his successor. At the same time, Mr Paust was appointed successor of Mr Zieher as a new member of the Arbitration Committee.

CORPORATE MANAGEMENT DECLARATION AND CORPORATE GOVERNANCE REPORT

For DEUTZ, a responsible approach to management that meets the standards of good corporate governance forms the basis for enhancing shareholder value over the long term. This is one of the main reasons why we attach great importance to the implementation of the German Corporate Governance Code (DCGK) and ensure quality and transparency in all key decisions and processes in our Company.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289A HGB

Declaration of compliance with some exceptions

In 2014, the Board of Management and the Supervisory Board once again carefully considered to what extent it was proper and consistent with the Company's objectives for DEUTZ to apply all the guidelines and recommendations of the DCGK. As a result, DEUTZ AG complies with the recommendations of the Code, as amended on 13 May 2013 and 24 June 2014, with the following exceptions:

1. The D&O insurance taken out by DEUTZ AG for the members of the Supervisory Board does not provide for any excess, contrary to item 3.8 (2) and (3) DCGK. In the case of Supervisory Board members, an excess of this type is, as before, not considered an appropriate means of control.

2. There is no age limit at DEUTZ AG for members of either the Board of Management or Supervisory Board, contrary to items 5.1.2 (2) sentence 3 and 5.4.1 (2) sentence 1 DCGK. This exception enables DEUTZ AG to retain the option of benefiting from the long years of experience brought to the Company by older members of the Board of Management and Supervisory Board.

The current declaration of compliance in accordance with section 161 German Stock Corporation Act (AktG), which the Board of Management and Supervisory Board submitted on 11 December 2014, can be accessed in the Investor Relations/Corporate Governance section of the Company's website at www.deutz.com. Declarations of compliance from previous years can also be viewed and downloaded there.

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

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

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

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

Five meetings of the Supervisory Board took place in 2014.

As it had in previous years, the Supervisory Board examined the efficiency of its work in 2014 by carrying out a survey. The results of this survey, which all of the Supervisory Board members completed, were presented at its meeting on 25 September 2014 where they were discussed at length. The Supervisory Board's finding was that it fulfilled its legal obligations and operated efficiently; more specifically, it found that all parameters had improved in comparison with the 2013 survey.

No former members of the DEUTZ AG Board of Management are now members of the Supervisory Board.

After the scheduled election in 2013, the Supervisory Board was elected for a period that runs until the Annual General Meeting in 2018.

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

Board of Management meetings generally take place every two weeks.

Composition of the Board of Management and Supervisory Board; composition and operating procedures of Supervisory Board committees

The Company's Board of Management consists of three people: Dr Ing Helmut Leube (chairman, responsible for technical and head-office functions), Dr Margarete Haase (responsible for finance, HR and investor relations) and Mr Michael Wellenzohn (responsible for sales, service and marketing). Dr Leube has been appointed until 31 December 2017, Dr Haase until 30 April 2018 and Mr Wellenzohn until 29 February 2016.

In accordance with the provisions of the German Codetermination Act (MitbestG), the Supervisory Board of DEUTZ AG comprises twelve members, six members being the representatives of the shareholders and six members being the representatives of the employees.

The Supervisory Board has created four committees to enable it to perform its duties effectively. They are the Human Resources Committee, the Audit Committee, the Arbitration Committee and the Nominations Committee. The Human Resources Committee consists of two representatives of the shareholders and one employee representative, the Audit and Arbitration Committees both consist of two shareholder representatives and two employee representatives, and – following a further amendment to the relevant part of the Supervisory Board's rules of procedure – the Nominations Committee now has three members once more (previously four), 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 for all Supervisory Board decisions concerning the appointment of members of the Board of Management and their contracts of employment, including the remuneration specified therein, and all issues arising in this connection. The committee met once in 2014 when it discussed the resolutions to be adopted by the full Supervisory Board on the achievement of the Board of Management's targets for 2013 and the setting of Board of Management targets, including medium-term targets, for 2014.

The work of the Audit Committee in the year under review focused on the single-entity and consolidated financial statements for 2013 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2014 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2014 and the discussion of the audit engagement for the year ended 31 December 2014. At the beginning of the reporting year, the Audit Committee again dealt with the invitation to tender for the audit of the consolidated annual financial statements and the review of the interim financial statements. Other important topics discussed by the Audit Committee included risk management, compliance, the internal control system, strategic planning, key performance indicators, the adjustment of the provision for warranties in the third quarter and the performance of the DEUTZ AG plants in Germany in terms of productivity and costs. The Audit Committee met six times in 2014, with the auditors in attendance on three occasions.

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

The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met on four occasions in 2014 when it dealt with the search for potential successors for appointment to the Supervisory Board.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

The membership of the Supervisory Board committees changed as follows in 2014: at its meeting on 11 December 2014, the Supervisory Board elected Mr Herbert Kauffmann to succeed Mr Michael Haupt as a member of the Audit Committee and its chairman. Mr Haupt had resigned from both positions with effect from the end of that meeting.

Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 118 and 119.

Disclosures relevant to corporate management practices: compliance management system, environmental and quality management, energy management

DEUTZ AG has a compliance management system that is firmly enshrined in the Company's organisational structure. The system is continually enhanced in order to meet changing requirements.

The overriding objective of the compliance management system is to prevent breaches of legislation and other applicable rules anywhere in the Company. It therefore also helps employees to familiarise themselves with the applicable laws and regulations and learn how to apply them correctly. This is supported by a code of conduct, special guidelines, including a zero-tolerance policy, and regular training.

A Compliance Officer appointed by the Board of Management coordinates compliance activities at DEUTZ AG. The individual business units and subsidiaries have their own compliance coordinators, who are responsible for compliance in their organisations and report regularly to the Compliance Officer.

Regular meetings are held to develop, discuss and coordinate compliance initiatives. These activities focus on preventing corruption, tackling money laundering and complying with export regulations (including export controls). They also ensure safety in the workplace, IT & data security, corporate security and product safety. A further aim is to prevent breaches of environmental, antitrust and insider trading laws.

As and when needed, the Board of Management and the Compliance Officer take legal advice on establishing and continuously improving the compliance management system. The internal audit department reviews the activities, and the Audit Committee monitors them on behalf of the Supervisory Board.

Compliance activities during the year under review again centred on the continuation and stepping up of regular staff training (including for staff at affiliated companies abroad), focusing on the code of conduct, money laundering, gifts, commission, export controls and competition law. The organisational guidelines on staff recruitment requests and approvals, capital-expenditure requests and approvals, business trips and entertainment were also revised.

Another essential element of corporate management at DEUTZ AG is rigorous environmental, quality and energy management.

In 2014, DEUTZ AG once more met the ISO 9001 criteria for quality management, the ISO 14001 criteria for environmental management and the ISO 50001 criteria for energy management. Its certificates were renewed by Det Norske Veritas/Germanischer Lloyd and can be found on the DEUTZ website.

All standards set by the Deutsches Institut für Normung e.V., Berlin (DIN) can be inspected free of charge at DIN standards repositories.

CORPORATE GOVERNANCE REPORT

Basic principles and objectives of the composition of the Supervisory Board; particularly, conflicts of interest/independence of Supervisory Board members and the consideration of women

In accordance with item 5.4.1 (2) DCGK, the Supervisory Board set out the principles and objectives of its composition in a resolution adopted at its meeting on 10 December 2013. The key points of the resolution stated below in points a) to d) currently remain valid:

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

a) Internationality

To reflect the international operations of the Company, at least two Supervisory Board members shall have several years' experience of international business – preferably that they have acquired abroad.

b) Potential conflicts of interest

The composition of the Supervisory Board shall also take into account potential conflicts of interest of its members.

All members of the Supervisory Board are obliged to disclose any conflicts of interest, especially those arising from an advisory function or directorship at customers, suppliers, lenders or other third parties.

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

c) Number of independent Supervisory Board members

The Supervisory Board is limiting its target concerning this aspect to the shareholder representatives. It considers this group to have an adequate number of independent members if the number of independent members equals the number of members who are not independent, i.e. at least three.

d) Standard age limit

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

The Supervisory Board had already met these targets in 2012, and since then it has met them at all times and has exceeded them in cases such as the international experience available on the Supervisory Board and the number of independent members. The current members of the Supervisory Board are all considered independent within the meaning of item 5.4.2 sentence 2 DCGK. No conflicts of interest between members of the Supervisory Board and DEUTZ AG arose in the year under review.

As far as the Supervisory Board in the above mentioned resolution dated 10 December 2013 (see page 128 of the 2013 annual report) commented on diversity in the composition of the Supervisory Board it has had to defer its target of at least two female members in connection with the forthcoming appointment of a member to replace Ms Persson at the Annual General Meeting on 29 April 2015 because it had to give priority to experts in the areas of agricultural machinery, service and sales.

Consideration of women when appointing Board of Management members and filling other managerial positions

The Board of Management of DEUTZ AG currently has three members, one of whom is female; this equates to a proportion of 33.3 per cent. To ensure that women are taken into consideration for vacant managerial positions, DEUTZ AG has adopted a staff development programme under which the Board of Management and HR department endeavour to include at least one woman in the short list for all vacancies at the first and second management levels below the Board of Management (item 4.1.5 DCGK).

After the anticipated effective date of the above-mentioned draft law for the equal participation of women and men in managerial positions in the private and public sectors, the Supervisory Board and Board of Management will set the targets required by the law for the proportion of women on the Board of Management and at the two management levels below it, as well as specifying deadlines for achieving these targets. The Supervisory Board will set a target for the proportion of women on the Board of Management, and the Board of Management will set a target for the proportion of women at the two management levels below the Board of Management.

Responsible risk management

A forward-looking, prudent and responsible approach to corporate risks is a core aspect of good corporate governance and forms 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 53 to 57.

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 a company and its value creation process. DEUTZ therefore attaches the greatest importance to ensuring that all relevant target groups are given the same information at the same time and in a timely manner.

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

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

Accounting and auditing

DEUTZ AG's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements are prepared by the Board of Management and reviewed by the auditors.

The auditors have agreed to inform the chairman of the Supervisory Board or the chairman of the Audit Committee without delay if reasons for exemption or disqualification, i.e. any misrepresentations in the declaration of compliance, come to light during the audit. The auditors inform the chairman of the Supervisory Board without delay of any issues or incidents relevant to the role of the Supervisory Board that arise during the audit of financial statements.

Conflicts of interest and consultancy agreements

Information about conflicts of interests in relation to Supervisory Board members can be found under 'Basic principles and objectives of the composition of the Supervisory Board' at the start of this corporate governance report.

The Company does not have any consultancy agreements with members of the Supervisory Board.

The members of the Board of Management must disclose any conflicts of interest to the Supervisory Board. The Supervisory Board then reports these cases, along with any conflicts of interest relating to its own members, to the Annual General Meeting.

Remuneration report

The remuneration paid to the Board of Management complies with the Act on the Appropriateness of Management Board Remuneration (VorstAG) and with DCGK recommendations.

A description of the main features of the remuneration systems for the Board of Management and Supervisory Board, along with details of the remuneration for each member, can be found in the remuneration report on pages 49 to 52 of the combined management report.

Dealings subject to reporting requirements

Section 15a of the German Securities Trading Act (WpHG) states that members of supervisory and management boards of public limited companies (Aktiengesellschaften) and persons authorised to take key operational decisions must notify both the company and the German Financial Supervisory Authority (BaFin) of their own dealings in shares of the company or in financial instruments of the company based on such shares.

Board of Management member Mr Michael Wellenzohn and Supervisory Board member Mr Hans-Georg Härter disclosed their purchase of DEUTZ shares in accordance with this regulation in 2014. No other persons required by section 15a WpHG to make such a disclosure did so before the adoption of the 2014 annual financial statements. Transactions disclosed in previous years are published on the DEUTZ AG website.

There were no shareholdings of Board of Management or Supervisory Board members that were subject to reporting requirements pursuant to item 6.3 DCGK in the year under review or before the 2014 annual financial statements were adopted.

GLOSSARY

Captive market/segment Market segment in which original equipment and commercial vehicle manufacturers have their own engine production facilities to meet their engine needs. Consequently, the captive market is not generally accessible to independent engine manufacturers.

Cash flow statement Shows the Group's inflows and outflows of cash over the financial year. It distinguishes between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. It also shows the change in cash and cash equivalents.

Compliance Denotes the entirety of measures taken by a company to comply with laws, regulations and directives and also to comply with contractual obligations and self-imposed obligations. Compliance is a key element of corporate governance.

Corporate governance Responsible management and control of a company with a view to long-term value creation and increasing shareholder value.

Covenants Ancillary provisions under loan agreements with which the borrower must comply during the term of the loan agreement. The provisions govern financial and other obligations and contain legal consequence clauses in the form of sanctions.

Deferred taxes Differences between the calculation of profit under tax law and under IAS result in differing tax calculations. These differences in the amount of tax are recognised on the balance sheet as deferred tax assets or liabilities.

DIN EN ISO 14001 (Deutsches Institut für Normung – European Norm – International Organization for Standardization – 14001) A German, European and international industrial standard for environmental management.

Diversity Procurement strategy in which one item is procured from two different suppliers in order to minimise the commercial risk.

Downsizing Production of engines with reduced technical parameters (e.g. weight, cubic capacity) but the same or similar engine power – leading to greater efficiency and reduced energy consumption.

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.

DVERT® (DEUTZ Variable Emissions Reduction Technology) A combination of systems, components and procedures that are used as modules to create technically optimised and, at the same time, cost-effective solutions for reducing exhaust and noise emissions.

Earnings per share A key figure calculated by dividing the net income attributable to the shareholders of DEUTZ AG by the average number of shares in issue.

EBIT (earnings before interest and tax) Income from operating activities (before interest and tax).

EU Tier I, II, III A, III B, IV Exhaust standard laid down by the European Union for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

Exhaust aftertreatment Ensures compliance with statutory emissions limits for gaseous pollutants such as nitrogen oxides (NO_x) and soot particles through the cleansing of combustion exhaust gases. In vehicles, exhaust aftertreatment is achieved by the use of catalytic converters and diesel particulate filters.

Factoring Funding instrument whereby a company secures ist short-term liquidity and transfers the default risk associated with receivables by selling trade receivables to a factor (the factor can be a bank or a specialist financial institution).

Forward Individually structured, non-exchange-traded forward transaction.

Free float The proportion of shares in a public limited company (Aktiengesellschaft) not held by a major shareholder. According to the Deutsche Börse definition, shareholdings of less than 5 per cent are classified as free float.

Hedging Hedging interest-rate, currency, price or similar risks through the use of derivative financial instruments that limit the risk associated with the underlying transactions.

Investment grade Credit rating for high-quality bonds.

Kaizen Continuous improvement process (CIP) describes a way of thinking aimed at making a company more competitive through a series of small, progressive steps. It is comparable with the Japanese principle of Kaizen. CIP is applied to products, processes and service quality. Specific CIP teams are set up to implement small improvements (as opposed to major, dramatic changes). CIP is a basic principle of quality management and an essential part of ISO 9001. The method of having specific CIP teams develop suggestions for improvement is usually bracketed under the term 'ideas management' together with the company suggestion scheme.

Long-term incentive plan (LTI) A form of incentive-based remuneration offered to members of the Board of Management and selected senior managers; its purpose is to enable these executives to benefit from the company's long-term success, thereby encouraging them to stay with the company.

Non-captive market/segment Market segment in which original equipment and commercial vehicle manufacturers purchase engines from third-party manufacturers to meet their engine needs. The non-captive market is accessible to independent engine manufacturers.

On-road applications Engine-powered applications that are licensed for use on public roads such as commercial vehicles and buses.

Operative excellence Continuous improvement of the value creation process and of quality.

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.

Parts per million Measurement for defective parts.

Prime Standard The minimum standard set by Deutsche Börse AG for companies looking to raise capital from international investors. These companies have to meet stringent international disclosure requirements. Admission to the Prime Standard is a prerequisite for inclusion in the DAX, MDAX, TecDAX and SDAX indices.

Rating Used to assess the creditworthiness of a company. It gauges the extent to which the company will be able to repay the principal and interest on its outstanding liabilities at the agreed date.

Return on capital employed (ROCE) The ratio of EBIT to average capital employed. Capital employed: total assets minus cash and cash equivalents, trade payables and other current and non-current liabilities based on average values from two balance sheet dates.

SCR (selective catalytic reduction) Catalytic reduction of nitrogen oxides in the exhaust gas of combustion engines whereby the reducing agent – an aqueous urea solution – is injected into the exhaust gas. In the hot exhaust gas, the urea disintegrates to form ammonia, which converts the nitrogen oxide into harmless molecular nitrogen.

Shop-Floor-Management The term shop floor management describes a system used in production planning to fine tune manufacturing operations in a dynamic, flexible and resource-efficient way. This means, for example, scheduling processes down to the
exact minute, ensuring transparency throughout the production process and achieving optimum use of capacities.

Six Sigma A statistical quality target and a method of quality management.

Soot and particulate filters Devices for reducing the particulates contained in the exhaust gases of diesel engines. There are two types of filter, which work in very different ways: wall-flow filters, in which the exhaust gas penetrates a porous wall; and flow filters, in which the exhaust gas flows through the filter itself.

US EPA TIER 1, 2, 3, 4 US emissions standard for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

Working capital Inventories plus trade receivables less trade payables.

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

2015	
29 April 2015	Annual General Meeting
5 May 2015	Interim report 1st quarter 2015 Conference call with Analysts and Investors
6 August 2015	Interim report 1st half-year 2015 Conference call with Analysts and Investors
5 November 2015	Interim report 1st to 3rd quarter 2015 Conference call with Analysts and Investors

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DEUTZ GROUP: MULTI-YEAR OVERVIEW

	Continuing operations 2010	Continuing operations 2011	Continuing operations 2012	Continuing operations 2013	**Continuing operations 2014**
€ million					
New orders	1,315.0	1,479.3	1,237.1	1,649.7	1,379.0
Unit sales (units)	167,680	230,598	178,774	184,028	196,403
Compact Engines	150,179	204,161	161,899	167,964	183,125
DEUTZ Customised Solutions	17,501	26,437	16,875	16,064	13,278
Revenue	1,189.1	1,529.0	1,291.9	1,453.2	1,530.2
Compact Engines	919.0	1,199.1	1,005.0	1,188.8	1,279.9
DEUTZ Customised Solutions	270.1	329.9	286.9	264.4	250.3
EBITDA[1]	91.3	159.0	121.7	142.0	120.3
EBITDA before one-off items[1]	111.2	159.0	121.7	142.0	137.4
EBIT[1]	20.9	89.9	37.1	47.5	12.8
EBIT before one-off items[1]	40.8	89.9	37.1	47.5	31.7
EBIT margin (%)[1]	1.8	5.9	2.9	3.3	0.8
EBIT margin before one-off items (%)[1]	3.4	5.9	2.9	3.3	2.1
Net income	–15.9	75.5	21.0	36.0	19.5
Continuing operations	–15.9	68.7	22.1	36.0	19.5
Discontinued operations	–	6.8	–1.1	–	–
Basic earnings per share (€)	–0.13	0.62	0.17	0.30	0.18
Continuing operations	–0.13	0.57	0.18	0.30	0.18
Discontinued operations	–	0.05	–0.01	–	–
Total assets[2]	1,041.7	1,099.0	1,035.9	1,121.0	1,149.2
Non-current assets	591.5	623.1	621.3	596.6	563.6
Equity[2]	374.3	453.5	452.6	504.7	511.0
Equity ratio (%)[2]	35.9	41.3	43.7	45.0	44.5
Cash flow from operating activities[3]	78.2	120.5	104.9	105.0	114.1
Free cash flow	–55.9	4.8	12.6	13.8	52.0
Net financial position[4]	–73.6	–69.6	–48.6	–31.7	13.7
Working capital[5]	112.5	142.1	141.6	172.3	196.2
Working capital as a percentage of revenue (31 Dec)	9.5	9.3	11.0	11.9	12.8
Capital expenditure (excl. capitalisation of R&D, after deducting grants)[6]	56.9	41.1	66.4	42.5	40.3
Depreciation and amortisation	70.4	69.1	84.6	94.5	107.5
Research and development (after deducting grants)[6]	71.8	84.6	62.1	52.6	53.1
thereof capitalised	58.9	61.5	44.2	33.8	26.3
Employees (31 Dec)	3,839	4,060	3,991	3,952	3,916

[1] Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. The comparative prior-year figures have been restated accordingly to improve comparability.
[2] Since 2013, the accounting of pension provisions has changed (IAS 19R). For comparison, the entry for the financial year 2012 has been changed. The years 2009–2011 have not been adjusted for reasons of practicability.
[3] Since 2012 interest income has been reported as cash flow from financing activities rather than as cash flow from operating activities. The comparative figures of previous years have been restated accordingly to improve comparability.
[4] Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities.
[5] Working capital: inventories plus trade receivables minus trade payables.
[6] Since 2012 the key figures "capital expenditure" and "expenditure for research and development" have been reported after deducting grants. The comparative figures of previous years have been restated accordingly to improve comparability.

	Continuing operations 2010	Continuing operations 2011	Continuing operations 2012	Continuing operations 2013	**Continuing operations 2014**
Revenue by region € million	1,189.1	1,529.0	1,291.9	1,453.2	1,530.2
Europe/Middle East/Africa	983.9	1,225.0	984.2	1,155.4	1,166.2
Americas	116.1	177.2	190.9	190.6	256.6
Asia-Pacific	89.1	126.8	116.8	107.2	107.4
Revenue by application segment € million	1,189.1	1,529.0	1,291.9	1,453.2	1,530.2
Mobile Machinery	369.6	529.4	477.5	481.6	715.3
Stationary Equipment	215.8	241.6	250.3	253.7	259.3
Agricultural Machinery	185.0	240.5	152.5	325.6	257.5
Automotive	175.8	227.9	204.2	173.7	179.2
Service	192.6	213.6	192.1	188.5	82.0
Miscellaneous	50.3	76.0	15.3	30.1	36.9
Key figures DEUTZ shares					
Number of shares (31 Dec)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Number of shares (average)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Share price (31 Dec, €)	6.25	4.11	3.54	6.49	4.00
Share price high (€)	6.38	7.22	5.72	7.45	7.94
Share price low (€)	3.15	3.23	2.96	3.71	3.35
Market capitalisation (31 Dec, € million)	755.4	496.7	427.9	784.4	483.4
Basic earnings per share (€)	–0.13	0.62	0.17	0.30	0.18
Continuing operations	–0.13	0.57	0.18	0.30	0.18
Discontinued operations	–	0.05	–0.01	–	–

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