

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 as 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.