

**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 seq. 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<sup>1)</sup>

	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 <sup>2)</sup>	32,313	33,062

<sup>1)</sup> Deutz, Kalk, Porz, Herschbach, Ulm, Übersee, Zafra (SP).

<sup>2)</sup> 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 <sub>2</sub> 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.<sup>1)</sup>

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<sub>2</sub> 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.

<sup>1)</sup> 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<sup>2)</sup> (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<sup>3)</sup> 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.

<sup>2)</sup> Accident frequency: number of accidents per 1 million hours worked (as defined by the employers' liability insurance association).

<sup>3)</sup> 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	
<b>DEUTZ Group net income (IFRS)</b>	<b>19.5</b>
Consolidation of equity investments	-11.5
<b>DEUTZ AG income (IFRS)</b>	<b>8.0</b>
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
<b>DEUTZ AG net income (HGB)</b>	<b>24.4</b>

## RESULTS OF OPERATIONS

### Overview of DEUTZ AG's results of operations

	2014	2013
€ million		
<b>Revenue</b>	<b>1,437.8</b>	<b>1,366.6</b>
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	-
<b>Operating profit (EBIT)</b>	<b>41.6</b>	<b>49.7</b>
Interest expenses, net	-11.6	-12.0
<b>Profit from ordinary activities</b>	<b>30.0</b>	<b>37.7</b>
Net extraordinary expense	-19.4	-2.3
Income taxes	15.0	4.4
Other taxes	-1.2	-0.6
<b>Net income</b>	<b>24.4</b>	<b>39.2</b>

**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.