# 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 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. Suggestions for improvements proposed by the internal audit department, the Risk Management Committee or the auditors are 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 quarter, or on an ad-hoc basis as required, 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 through electronic and other means and by regularly analysing receivables and their breakdown. The Company takes out credit insurance to cover a large proportion of its receivables where payment for goods has not been received in advance or is not covered by a 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 80 per cent of open items. 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 debt to equity and 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 26 on page 100 et seq.

## 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 risks are 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 financial position and 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 financial position and financial performance. Risks to the Company's survival as a going concern are described as such.

**DEUTZ Group: Risk assessment**

| Probability of occurrence (%) | Impact: minor | moderate | significant | 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 |

## 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 2017 and relate to both the DCE and DCS segments.

## EXTERNAL RISK

**Market risk** We operate in sales markets that are characterised by particular sensitivity to cyclical influences. Currently, they are also showing increasing protectionist tendencies. 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 segments, Construction Equipment and Material Handling, 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 our key customers are of considerable importance in enabling us to achieve these sales targets, although there is a risk of becoming dependent on them in the long term. We therefore pursue a strategy of signing up new customers and progressively expanding our business with them. These business development activities are particularly focused on Asia.

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. In view of the measures in place, we continue to categorise the market risk as ‘moderate’ in respect of the achievement of our corporate targets for 2017 because the economic situation in our sales markets remains volatile.

By contrast, the United Kingdom's upcoming departure from the European Union does not constitute a material external risk because our volume of business in the country is comparatively low.

## 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. Target markets might not grow as anticipated, while new product developments may not be as well received by customers as predicted or may not be able to compete with rival products.

We attempt to mitigate these risks by precisely analysing trends in our markets and by taking into account external market research. For example, our analysis of the future viability of diesel technology confirms that it will continue to play a major role in our application segments over the long term. 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 as ‘low' in 2017 and as 'moderate’ in the medium term.

## 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 and 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 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 also enable us to handle the significant technical complexity of engines and to satisfy the steadily increasing quality requirements of our customers. In 2016, for example, we introduced the zero-error strategy. The idea of this quality assurance programme is to detect errors before they actually occur. And where errors do occur, we have to learn from them quickly in order to not repeat them.

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 targets as ‘low’ for 2017.

**Production risk** Fluctuations in capacity utilisation in production that result from our level of dependency on the general economic situation can, just 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 continue to categorise the level of production risk with regard to our financial targets as 'low'.

## OTHER RISKS

**Cyber risk** 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.

As well as the loss of confidential information, it is conceivable that forged documents could be used to siphon off capital without authorisation. Cyber risks such as these could have a negative impact on our market position and limit our financial flexibility. This might ultimately harm our reputation.

We have put a series of measures in place to protect against cyber risks. As well as regular security training for employees, 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 continue to categorise these risks 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. Given the positive overall progress in ongoing cases and in view of the measures that have been taken either to avoid or minimise risk, we now categorise the legal risk as only 'low'.

## OVERALL ASSESSMENT OF THE RISK SITUATION

We identify and evaluate material risks on an ongoing basis 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. Legal and short-term strategic risks decreased in comparison with 2015. Other risk factors changed only marginally year on year. Consequently, the overall risk level fell slightly compared with 2015. 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 overcome the resulting challenges – despite conditions remaining difficult.

## 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 2017 and beyond. 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 2017 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, and in view of the measures we have already taken to boost efficiency (particularly the optimisation of our network of sites in Germany), we may perform significantly 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. The development of gas engines with a capacity of up to 4 litres and the expansion of our portfolio of products with a capacity of over 4 litres will enable us to reinforce this strong competitive position.

**Production and quality** The digital transformation of manufacturing, referred to as Industry 4.0, is exploring new approaches to production. The first projects in the service business are due to start soon. In combination with projects to improve quality and the introduction of the zero-error strategy, this may lead to substantial efficiency increases and greater customer satisfaction in the short to medium term.

## OUTLOOK

### ECONOMIC FORECASTS REMAIN UNCERTAIN

The International Monetary Fund (IMF)[1] has confirmed its forecasts for the next few years, anticipating a stronger rate of growth in industrialised countries as well as in developing countries and emerging markets. Following growth of 3.1 per cent in 2016, the IMF predicts that the global economy will expand by 3.4 per cent in 2017 and by 3.6 per cent in 2018.

The economy of the eurozone is likely to generate growth of 1.6 per cent, compared with 1.7 per cent last year. Germany's growth rate will probably be slightly lower, remaining unchanged at 1.5 per cent. The US economy is expected to receive further stimulus, growing at a rate of 2.3 per cent in 2017 and 2.5 per cent in 2018, compared with 1.6 per cent in 2016. The IMF also anticipates slower growth rates for China: having risen by 6.7 per cent last year, GDP is predicted to rise by 6.5 per cent in 2017 and 6.0 per cent in 2018.

[1] IMF World Economic Outlook Update, January 2017.

The business climate index[1] published by the ifo Institute of Economic Research, which covers trade and industry in Germany, dropped from 111.0 points to 109.8 points in January 2017. Although companies were more satisfied with their current business position, they were feeling slightly less optimistic about the coming months. The ISM purchasing managers' index[2] in the USA made a surprising jump to 56.0 points as at 1 February 2017 – its highest level since November 2014.

## DIESEL ENGINES MARKET

For construction equipment in 2017, we anticipate that unit sales in North America will move within a range of –5 per cent to +5 per cent while the European market will expand by between 0 per cent and 5 per cent and the Chinese market by between 5 per cent and 10 per cent. We expect growth in the material handling market to be between 0 per cent and 10 per cent in Europe, whereas the North American and Chinese markets are likely to remain within a bandwidth of –5 per cent to +5 per cent. We also predict that the agricultural machinery market in Europe will remain fairly static within a range of –5 per cent to +5 per cent. In China, we expect the light and medium-duty truck sector to generate slight growth of between 0 per cent and 5 per cent.

As a rule, the diesel engines market largely follows the applications and markets of the machinery and equipment in which the engines are installed.

## UNIT SALES, REVENUE

Although, as already said, we anticipate that the market will stagnate, or perhaps grow slightly, we can already see early signs of a potential improvement in the market. Last year, many of our European customers largely used up the inventories that they had built up in 2014 in anticipation of the new emissions standard. This provides a very strong base effect for us. Production for a number of projects with new customers is still being ramped up, which should also have a beneficial impact. We believe the service business's revenue will continue to go up.

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 continue to increase at a faster rate than its unit sales.

We therefore anticipate a marked rise in revenue overall. The increase in revenue will be fuelled by the DCE segment, whereas we expect the DCS segment's revenue to decrease slightly. This is because the effects of the advance production of engines for the new emissions standard and the projects with new customers are predominantly in the DCE segment. 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.

[1] ifo Institute of Economic Research, January 2017.
[2] ISM purchasing managers' index, February 2017.

## EARNINGS

We expect the EBIT margin before exceptional items to increase moderately. The margin will be boosted, above all, by better capacity utilisation and the positive effects of optimising our network of sites. However, unlike in 2016, we do not anticipate any licensing income this year. From this year, we reckon on annual efficiency gains of around €10 million from the optimisation of our network of sites, primarily in connection with the new shaft centre, the relocation of Xchange assembly activities to Ulm and the absence of costs from the Cologne-Deutz site. We already realised about half of this gain in 2016. We expect earnings to rise in both the DCE and the DCS segment.

Furthermore, we anticipate positive exceptional items from property transactions in the near future. Firstly, in 2016 we disposed of a building lease for a plot of land of our equity investment Ad. Strüver KG (GmbH & Co.), Hamburg, that was no longer being used for production purposes; this will result in a positive exceptional item of around €10 million this year. Secondly, DEUTZ AG's Board of Management decided in February 2017 to examine whether the Cologne-Deutz site, which covers an area of around 160,000 square metres and is no longer required for operational purposes following the successful optimisation of our site network, can be sold quickly on attractive terms. The Board of Management has authorised the initiation of negotiations on selling the site. If the outcome of these negotiations is positive, DEUTZ may be able to generate a substantial one-off gain within a short period of time, depending on the specific contractual arrangements. It may be possible to recognise some of this gain as early as 2017.

As a result of the anticipated slight increase in earnings – before positive exceptional items – we believe there will be a small year-on-year rise in return on capital employed (ROCE) before exceptional items in 2017.

## COMMODITIES, COLLECTIVE PAY AGREEMENTS

**Commodity prices** We expect a further small rise in price levels in the primary markets this year, driven by slightly higher growth of the global economy.

**No collective pay bargaining in 2017** The collective payment agreement from 2016 expires on 31 December 2017, and one of its key points is a 2 per cent pay increase with effect from 1 April 2017.

## RESEARCH AND DEVELOPMENT EXPENDITURE

We predict that research and development spending will rise to between approximately €60 million and €70 million, of which up to €15 million will be capitalised. This is because of new engine projects in relation to the upcoming EU Stage V that will lead to the expansion of our engine portfolio.

## CAPITAL EXPENDITURE

We forecast that our capital expenditure in 2017 (excluding capitalisation of research and development expenditure) will be around €70 million, of which up to €15 million for the planned project with Liebherr.

## JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

The market environment in China is likely to remain challenging in 2017. We expect the revenue and earnings of our joint venture DEUTZ (Dalian) Engine Co., Ltd. to improve slightly. Its performance will depend heavily on its capacity utilisation and thus on market conditions.

## WORKING CAPITAL RATIO, FREE CASH FLOW AND EQUITY RATIO

Our prediction for the working capital ratio, measured as the quarter-end average, is for a slight improvement on the figure of 17.9 per cent as at 31 December 2016. In addition, we expect positive free cash flow to be at the same level as 2016. If negotiations on the sale of the Cologne-Deutz site are successful, we forecast that free cash flow will be in the mid- to high-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

**Optimisation of site network** The measures to optimise our network of sites remain on schedule. Following the completion of the first stage of the relocation from Übersee to Ulm in 2015, the reconditioned exchange engine business went through a process of continuous improvement during 2016. The final stage of the relocation should be completed as scheduled on June 30, 2017.

**Flexible employment** So that we can respond appropriately to cyclical fluctuation in our industry, we will continue to make use of fixed-term and temporary contracts, even though the terms and conditions will change significantly as a result of the new German Labour Leasing Act (AÜG).

## STATUTORY REGULATIONS, EXHAUST EMISSIONS STANDARDS

Regulation (EU) 2016/1628 on the introduction of Stage V from 2019 came into force on 6 October 2016. This will largely harmonise EU and US limits on gaseous emissions in all power categories. There will also be a limit on the number of particulates emitted by diesel engines for mobile machinery in the 19 to 560 kW power output range. Our TCD engines equipped with a diesel particulate filter in the 2.9 to 7.8 litre cubic capacity range already meet this new limit. Furthermore, our 'Stage V ready' label guarantees that the entire DEUTZ TCD engine range from 2.2 to 16 litres cubic capacity will meet EU Stage V without the need for modifications to customers' equipment. No further tightening of exhaust emissions limits in the USA is currently on the horizon.

**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.**