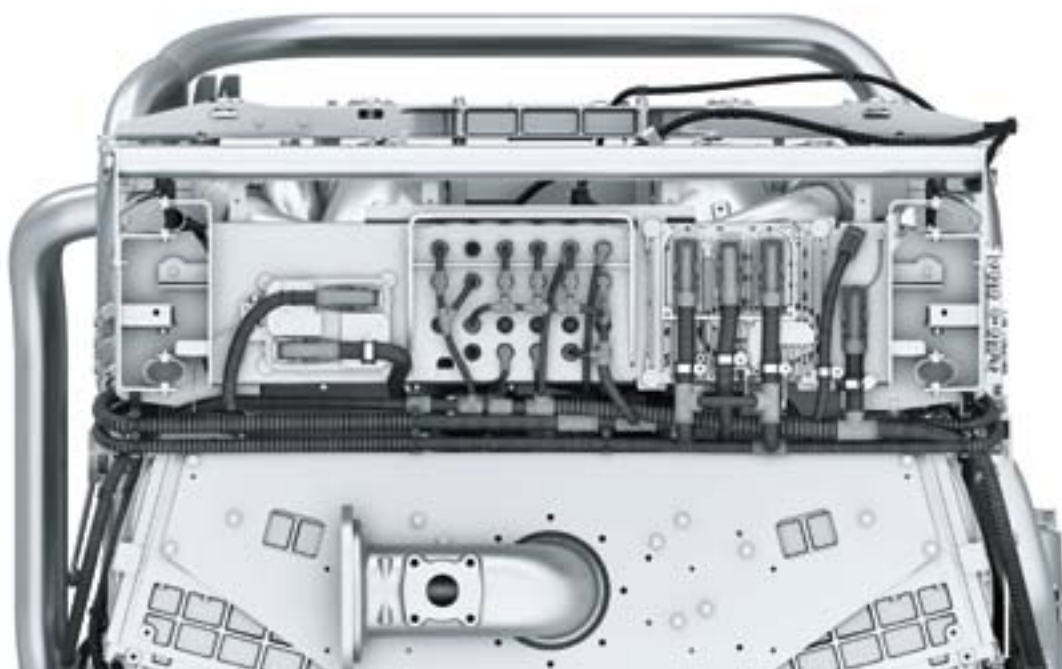


Tognum

HOME OF POWER BRANDS



Annual Report 2012

People are our driving force





People are our driving force

With its two business units, *Engines* and *Onsite Energy & Components*, the Tognum Group is one of the world's leading suppliers of engines and propulsion systems for off-highway applications and of distributed energy systems. Our goal to remain the technology leader is what drives us to be an innovative and reliable partner for our customers, end users and our entire workforce – in our domestic and global markets and in a wide variety of different sectors.

The cover photo shows a 20V Series 1163 M94 MTU diesel engine used, for example, in patrol craft. This engine is setting new standards: it offers maximum power-weight ratio and power density and excellent acceleration performance. Complete with IMO II certification, it features reduced fuel consumption and already complies with the more stringent emission guidelines of the future.

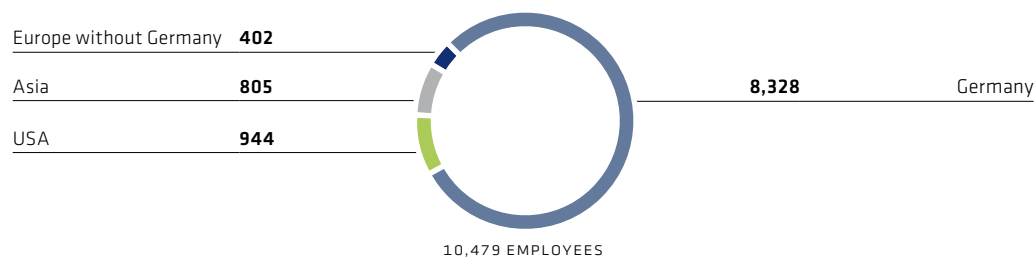
» As the technology leader for propulsion systems and energy systems, we offer tailor-made products and services along the entire value-added chain. We have an exceptional team dedicated to providing our customers with the best possible solutions, but we never forget that it is the individual who is the driving force and source of inspiration in everything we do. This is something we demonstrate each and every day. All over the world.«

Joachim Coers | Chairman of the Executive Board of Tognum AG

Key Figures of the Tognum Group

IN EUR MILLION	2011	2012	2011/2012 Changes
Order intake	3,199.7	3,079.7	- 3.8%
Revenues	2,972.1	3,014.5	1.4%
Adjusted EBIT	345.2	295.5	- 14.4%
as % of revenues	11.6%	9.8%	
Adjusted EBITDA	434.3	397.2	- 8.5%
as % of revenues	14.6%	13.2%	
Adjusted consolidated net income	241.6	190.8	- 21.0%
Adjusted earnings per share in euro ¹	1.84	1.45	- 21.2%
Dividend payout	98.5	0.0	- 100.0%
Dividend in euro	0.75	0.0	- 100.0%
Profit transfer to Engine Holding GmbH ²	0.0	168.5	
Total assets	3,117.3	2,929.5	- 6.0%
Equity ratio ³	28.1%	28.2%	
Net financial debt (+)/Net financial position (-)	5.0	- 40.1	
Investments in property, plant and equipment and intangible assets ⁴	165.8	183.5	10.7%
R&D expenses ⁵	215.3	241.4	12.1%
Free cash flow ⁶	126.3	179.4	42.0%
Employees (end of year)	9,821	10,479	6.7%

EMPLOYEES BY REGIONS



¹ Earnings per share are determined on the basis of the weighted average number of shares outstanding; 131,375,000 in 2011 and 2012

² Based on the domination and profit transfer agreement with Engine Holding GmbH

³ Ratio of shareholders' equity to total assets

⁴ Excluding additions to the group of consolidated companies resulting from acquisition of companies

⁵ Development expenditure, capitalised development costs and development activities paid for by third parties

⁶ Free cash flow is comprised of the cash flow from operating activities and the cash flow from investment activities

The Tognum Group

The Tognum Group is a combination of powerful brands. With the MTU brand in the *Engines* division and the MTU Onsite Energy and L'Orange brands in the *Onsite Energy & Components* division, as well as Mercedes Benz and Detroit Diesel, Tognum covers a broad range of applications.

BUSINESS UNIT ENGINES



MARINE

Our engines and propulsion systems are used in ships operated by coast guards and other government bodies as well as in workboats and luxury yachts. With its innovation power, reliability and system engineering capabilities, MTU has unique propulsion system expertise.



INDUSTRIAL

The development and production of diesel traction systems for railway trains is one of the core skills of MTU. Other application sectors: mining, harbour equipment, mobile cranes and construction and agricultural machinery. Distribution of Mercedes Benz and Detroit Diesel engines in the power range up to 500 kilowatts.



OIL & GAS

Our range of engines and power generation systems developed specifically for the oil and gas industry for pumps, compressors and fire extinguishing equipment on oil and gas rigs prove their qualities day in and day out in the toughest conditions anywhere in the world.



DEFENSE

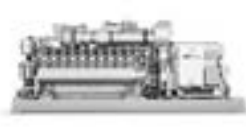
High-torque and exceptionally reliable MTU powertrains for armoured personnel carriers, self-propelled howitzers, transporters and specialised military vehicles. Detroit Diesel two-stroke engines for heavy military trucks.

BUSINESS UNIT ONSITE ENERGY & COMPONENTS



DIESEL SYSTEMS & ENGINES

MTU Onsite Energy diesel engines and systems for generating backup power in an emergency, covering power demand peaks and providing decentralised continuous power. The diesel gensets are distinguished in particular by their outstanding reliability and efficiency and their low emissions.



GAS SYSTEMS

Modular combined heat and power (CHP) plants based on gas engines. They save primary energy resources and run by natural gas as well as climate-neutral regenerative fuels such as biogas, sewage gas and landfill gas.



INJECTION SYSTEMS

Electronically controlled high-pressure fuel injection systems made by L'Orange (common-rail fuel injection) designed specifically for large-scale diesel engines in order to achieve low exhaust emissions, efficient fuel consumption and long engine life.

ACROSS SEGMENTS



AFTER SALES

MTU sees itself as a reliable global partner for the after sales service needs of its clients in all application areas, offering rapid and expert onsite assistance: during normal operation, for preventive maintenance, for corrective repairs, for changes in deployment conditions and the supply of spare parts.

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*» We provide solutions for energy and propulsion.
The power behind Tognum is the people who
drive us – everywhere and every day.«*

Joachim Coers | Chairman of the Executive Board of Tognum AG



*Dear Shareholders,
dear Customers and Business Partners,
dear Colleagues,*

What do the CEO of a large yacht building facility in the Netherlands, the President of a college in North America and a member of MTU Onsite Energy's sales team in India have in common? It is their desire to create an excellent product, their vision of the future for young people, and what they expect from an employer. This is our driving force, every single day, all over the world. And this is why we would like to introduce these and other people to you in our current Annual Report. We asked them what was important to them – speaking on behalf of the many thousands of people around the world we worked with in 2012.

Business in the year just ended was characterised primarily by a cooling global economic environment. Our order intake as a result did not remain at the excellent level of the previous year. Despite a successful start to the year, this subsequently led to revenues declining significantly in the third quarter. We benefited from an unusually strong fourth quarter, however, so that revenues for the year ultimately exceeded three billion euros, which enabled us to achieve slight growth.

What becomes evident on closer examination is that our business structure has changed significantly. In 2011, we processed numerous orders for Series 4000 engines for the industrial and rail sectors, since our customers were still purchasing engines to cover their needs in anticipation of the new emission standards. Our project business in distributed power generation systems also benefited from the positive economic environment in 2011, which resulted in an excellent performance. In 2012, we no longer had the benefit of these effects. In addition, as a result of the dramatic decline in the price for gas in the USA, the order intake in our onshore oil and gas segment suffered. This inevitably led to a significantly reduced utilisation of capacity in our manufacturing facilities in Friedrichshafen/Germany, Aiken/USA and at our subsidiary L'Orange.

The revenue distribution within our product portfolio, and subsequently the utilisation of our production capacity, has thus changed considerably in a very short space of time – temporarily at least. This kind of rapid development requires a highly flexible response. For this reason, we have decided to postpone the planned construction of our plant in Poland for a year. In the second half of 2012, we also developed and launched an action package to stabilise profits: the Robust Action Plan (RAP) 2. This package is a modified version of the first Robust Action Plan, which we used in 2008 and 2009 to bring us safely through the financial and economic crisis. Clearly, the current economic situation cannot be compared with the circumstances that prevailed at that time. We nevertheless expect that our modified RAP will enable us to cope with the cost pressure that has arisen due to the reduced capacity utilisation in our production facilities. It is also imperative that we continue to implement the growth strategy we have in place while keeping a close eye on our costs for materials and personnel at the same time.

Despite the noticeable headwind, we managed last year to achieve the revenue and profit targets for 2012, which we had revised in August. This meant that we were able to slightly increase our revenues by around 1.4% to 3,015 million euros as expected. A good 82% of this amount was generated outside Germany. However, we were unable to realise last year's adjusted earnings before interest and taxes (EBIT). At 296 million euros, they represent an adjusted return on sales of 9.8% (previous year: 345.2 million euros and 11.6% respectively). So despite the difficulties just mentioned, we were still able to achieve the expected return on sales, which had been slightly revised downwards in the course of 2012. The credit for this must ultimately go to the flexibility, the commitment and the motivation of our workforce of more than 10,000 people worldwide. On behalf of the entire Tognum Executive Board, I would like to thank all our employees most sincerely for their tremendous dedication.

Together, we have successfully faced the weak market performance. We have also worked hard to lay the foundations for our future working relationship with our new majority shareholders Daimler and Rolls-Royce. A key focus of this work has been on the close future collaboration with both the Rolls-Royce and the Daimler organisation. Cross-company teams have developed a large number of ways in which this can be achieved. The first fruits of the projects that were jointly defined and set up in 2012 have motivated us to develop this collaboration further. Another focus has been on the preparations for the integration of Bergen's business operations into the Tognum Group. With its medium-speed diesel and gas engines used for marine propulsion and power generation systems, Bergen Engines in Norway complements our own product portfolio. Rolls-Royce had spun off this business from the group at the beginning of 2012 and integrated it into Engine Holding, the joint venture company set up by Daimler and Rolls-Royce. The integration of Bergen Engines into Tognum is scheduled for completion in the course of 2013. In the financial year just ended, we had already taken steps to expand our competence in the field of distributed energy systems with the acquisition of the German systems provider Aggretech, today MTU Onsite Energy Systems.

In order to be geared up for the challenges ahead on the off-highway market, we have invested heavily in research and development in the year just ended. The emissions limits for combustion engines have been toughened up dramatically in the course of the last ten years. As always, the key criteria for engines are high output, low consumption, favourable life-cycle costs and a high level of reliability. Beyond that, exhaust emissions have to be as low as possible. The most stringent limits to date are the US EPA Tier 4 standards, which will come into force as of 2014. Just how successful we are in this area can be seen in the award we received last year from Mining Magazine for our Series 4000 for mining applications. Because our engines meet the Tier 4 final emissions regulations without the need for exhaust aftertreatment, we received recognition in the »Environmental Excellence« category, which had been included for the first time.

We not only take our ecological responsibility seriously but are also committed to our social responsibility. The aim of our corporate and personnel policy is to promote the health and social security of our employees and to make it easy for them to reconcile career and family life. For this reason, we will be opening a company child-care centre this year at our Friedrichshafen location. Our health management programme »LIFE« combines activities such as health days, presentations and special events for high-risk groups, e.g. quit smoking seminars, nutritional advice and a wide range of sporting activities. It is not surprising that our corporate health management programme received the »Corporate Health Award« last year.

It goes without saying that services of this kind enable us to position ourselves as an attractive employer. In view of the growing lack of specialists, it is becoming more and more important to acquire and keep well qualified staff. Last year, for our commitment in this field, we received the »Top Employers for Engineers« award for the fourth time in succession and for the third time in succession the »Top Employers in Germany« award. Our cooperative education programme, which is modelled on the

German system and which we are now introducing at our international locations, also received considerable recognition in the USA in 2012. Representatives from our plant in Aiken were invited to the White House to present the education and training concept. Following the expansion of the engine plant in Aiken, we are now moving ahead with the construction of a new development test center. This will involve a planned investment of around 40 million dollars and the creation of new jobs at the Aiken location. The expansion project was made possible in part with support provided by Aiken County and the State of South Carolina.

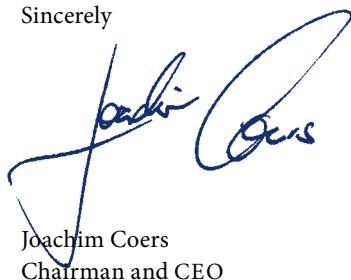
Responsibility, for us, ultimately means ethical corporate management. At the turn of the year, we had our compliance management system audited for the first time in accordance with the auditing standard of the German Institute of Public Auditors (IDWPS980). Our new Executive Board member, Jörg Schwitalla, will be advancing such matters in future. As of 1 January 2013, his task in the newly created »Personnel & Integrity« Division is to link up the areas of personnel, legal affairs and compliance more closely and take into account the growing importance of ethical corporate management. We are delighted to have acquired Jörg Schwitalla for Tognum as a man with considerable experience at board level, particularly as he has many years of experience and expertise in this area.

In July 2012, Dr. Michael Haidinger joined us on the Executive Board as the new Chief Sales Officer. He assumes responsibility for the Engines and Onsite Energy business units and for the global service and distribution business. With Dr. Haidinger, we are fortunate to have acquired an extremely experienced manager with many years of success on an international level who was previously responsible at Rolls-Royce for 3,500 employees at six plants in Germany, the UK and both North and South America. With his help, we will be able to systematically implement our growth strategy at Tognum.

The year 2013 is still suffering from uncertainty in many areas. As we did in the previous year, we have developed various scenarios in order to respond effectively to whatever economic developments and specific market trends we encounter. Assuming that the key national economies are able to generate slight growth compared with 2012 as is generally expected, we believe that revenues will also remain stable for the Tognum Group. In view of the less favourable business mix that is now anticipated and the volatility during the year, however, considerable effort will be needed to maintain the profit level of 2012. In the medium term, as in the past, we see ourselves on track for growth. We are convinced that our strategic investments in the future will pay off.

We are working together in a strong team that is determined to expand our technology leadership in our core business. In doing so, we ensure that people remain the focus of our corporate activities at all times, true to the motto of our annual report – »people are our driving force«: You, whether as an investor, a customer or an employee, drive us forward so that we can move the world – with our propulsion and energy systems.

Sincerely



Joachim Coers
Chairman and CEO



Tognum AG's Executive Board



Detailed biographies of the Executive Board members: www.tognum.com/company/board-of-management

Resigned from the Executive Board by 29 February 2012: Peter Kneipp

Dr.-Ing. Ulrich Dohle

Member of Tognum AG's Executive Board, Deputy Chairman of the Executive Board, responsible for the Technology & Operations division, Member of the Management Board of MTU Friedrichshafen GmbH. Appointed until 30 April 2014.

Joachim Coers

Chairman of Tognum AG's Executive Board, CEO and responsible for Human Resources, Member of the Management Board of MTU Friedrichshafen GmbH. Appointed until 30 September 2013.



Dieter Royal

Member of Tognum AG's Executive Board, CFO, responsible for Corporate Services, Member of the Management Board of MTU Friedrichshafen GmbH. Appointed until 30 September 2014.

Jörg Schwitalla

In the Executive Board since 1 January 2013. Responsible for Personnel & Integrity at Tognum AG, Member of the Management Board of MTU Friedrichshafen GmbH. Appointed until 31 Dezember 2017.

Dr. Michael Haidinger

In the Executive Board since 1 July 2012. Responsible for Sales at Tognum AG, head of the Engines & Onsite Energy business units with the company's worldwide global distribution and service business, Member of the Management Board of MTU Friedrichshafen GmbH. Appointed until 30 June 2015.

Report of the Supervisory Board

In the following report, the Supervisory Board of Tognum AG provides information on the performance of its duties and the focus of its activities in the 2012 financial year.

SUPERVISING AND ADVISING THE EXECUTIVE BOARD. In the year under review, the Supervisory Board again regularly advised the Executive Board in matters concerning the management of the company and continuously supervised the conduct of its affairs, while assuring itself of the legality, appropriateness and propriety of the manner in which it conducted its business. The Executive Board complied with its obligations to provide information and regularly advised the Supervisory Board promptly and comprehensively in both verbal and written form on all events and actions of relevance to the company. The Supervisory Board also received written monthly reports on the development of the income, assets and financial position. In particular, all business transactions of significance to the company were discussed in depth in the committees and Supervisory Board meetings on the basis of written and verbal reports submitted by the Executive Board. To the extent required by law, the Articles of Association or bylaws, the Supervisory Board passed the appropriate resolutions.

The Chairman of the Supervisory Board and the Chairman of the Audit Committee also maintained regular and close contact with the Executive Board outside their respective meetings and were informed of significant developments within the company. The shareholder and employee representatives held separate preliminary meetings to deliberate on items on the agenda that were to be discussed later in the plenary sessions.

KEY FOCUS OF DELIBERATIONS IN PLENARY SESSIONS. In the 2012 financial year, a total of seven ordinary and four extraordinary meetings were held. All members of the Supervisory Board were either present at the meetings or had been excused. Votes were submitted to the Chairman of the Supervisory Board in absentia for members who were not present at the meetings. Topics addressed at the Supervisory Board meetings, apart from the key items mentioned below, primarily included in-depth reports on the work carried out in the committees from each of the committee chairmen, the half-year financial report, the assessment of the market, the business development and the risk management system. The Supervisory Board also examined the efficiency of its activities and implemented the knowledge that had subsequently been gained.

The Supervisory Board also focused on Group strategy, while the growth strategies for Drive Systems, Onsite Energy and Service & Distribution were dealt with in separate meetings. The Supervisory Board also deliberated on growth synergies that would result from closer collaboration with Daimler and Rolls-Royce and from integrating the medium-speed diesel and gas engines business of Bergen Engines A.S.

The Supervisory Board also dealt in depth with the Domination and Profit and Loss Transfer Agreement concluded with Engine Holding GmbH, including the appropriateness of the corporate valuation. In its meeting on 25 September 2012, the Supervisory Board approved the conclusion of the Domination and Profit and Loss Transfer Agreement. Prior to the meeting, the documents that were necessary to carry out an examination of the said agreement had been submitted to the Supervisory Board. Both the valuation experts and the legal experts were available during the meeting to provide information.

The Supervisory Board also dealt in depth with the improvement of the current compliance management system and examined the results of the investigations into possible compliance violations extensively.



Andreas Renschler

Chairman of the Supervisory Board of Tognum AG

Investigations into specific payment transactions that were launched in 2011 following an external enquiry regarding payment transactions concluded by the previous MTU Asia Pte. Ltd., Singapore (today: Tognum Asia Pte. Ltd.) have now been closed concerning the Korean issue. According to the results of the investigations, which covered the last ten years, conspicuous payments totalling around 160,000 euros made by a sales partner relating to training courses had been identified. Other suspicions of corruption had not been confirmed.

Further cases of conspicuous behaviour in other countries within the Asian sales region are currently being investigated. These investigations, which are being conducted by special experts appointed by the Supervisory Board in accordance with Section 111(2) sentence 2 of the German Stock Corporation Act, are being closely monitored by independent experts and have not yet been completed. The Supervisory Board is informed at regular intervals on the findings.

WORK IN THE COMMITTEES. To ensure that its duties are performed effectively, the Supervisory Board has set up four Supervisory Board committees (the Nominations Committee, the Executive Committee, the Audit Committee and the Mediation Committee). The committees prepare specific topics for discussion in the plenum and for approval by the Supervisory Board. Within the limits determined by the law, in appropriate cases, the Supervisory Board transferred its authority to pass resolutions to individual committees. A presentation of the individual committees and their members begins on page 180 of this annual report.

NOMINATIONS COMMITTEE. The Nominations Committee held two meetings in 2012 and dealt with suitable candidates for election to the Supervisory Board. In the course of its meetings, the Nominations Committee focused on the one hand – without reference to a specific vacancy – on possible suitable candidates for the Supervisory Board and on the other hand on the nomination of a successor to the Supervisory Board member Dr Michael Haidinger, who had been appointed to the Executive Board.

EXECUTIVE COMMITTEE. The Executive Committee held a total of eight meetings in 2012. It dealt in depth with the appointment of a Chief Sales Officer, which had become necessary at short notice in March 2012. Another subject addressed was the appointment of a new Executive Board member for the newly created »Personnel and Integrity« Division. The Executive Committee also dealt with the continuation of the LTIC programme, the Transition Bonus Bank Model, the Supervisory Board efficiency review and the examination of the requirements of the German Corporate Governance Code, in addition to preparing the Supervisory Board's decision on the wording of the Declaration of Compliance in accordance with Article 161 AktG (German Stock Corporation Act).

AUDIT COMMITTEE. The Audit Committee held 15 meetings in 2012. It dealt primarily with the examination of the annual and group financial statements, the combined management report, the audit review of the half-year financial report and the quarterly financial reports for the 2012 financial year. Accounting and risk management, plus cooperation with the auditors were also discussed in detail. The Audit Committee also dealt with the preparation of the Supervisory Board's proposal to the Annual General Meeting for the choice of auditors (KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart) for the 2012 financial year and obtained their independence declaration. The Chairman of the Supervisory Board subsequently issued them a mandate to conduct the audit for the 2012 financial year. In addition, the Audit Committee reviewed the fees for KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, and, together with the auditors, specified the key auditing focus for the examination of the annual and group financial statements for the 2012 financial year. The Audit Committee monitored the accounting process and the effectiveness of the internal control system, of the risk management system and of the internal auditing system in accordance with the legal requirements. In addition, the medium-term corporate planning, corporate financing, and business valuation in connection with the Domination and Profit and Loss Transfer Agreement were discussed intensively. Other key topics dealt with in the meetings of the Audit Committee were the handling of possible compliance violations within the Tognum Group, the quality assurance of the Group's internal auditing department, and the review, continuing development and implementation of the current compliance management system by the Executive Board of Tognum AG.

MEDIATION COMMITTEE. Meetings of the Mediation Committee in accordance with Article 27 (3) MitbestG (Co-Determination Act) were not necessary in the 2012 financial year just ended.

CORPORATE GOVERNANCE. In November 2012, the Supervisory Board and the Executive Board issued their latest updated joint Declaration of Compliance in accordance with Article 161 AktG, which is published on the company's website. We report on corporate governance together with the Executive Board in the corporate governance report on pages 58–60.

CONFLICTS OF INTEREST. In the year under review, no conflicts of interest occurred in connection with Executive Board or Supervisory Board members to be disclosed immediately to the Supervisory Board and for which the Annual General Meeting is to be informed.

ANNUAL AND GROUP FINANCIAL STATEMENTS 2012. KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, who were appointed as auditors by the Annual General Meeting, audited the annual and group financial statements as at 31 December 2012, including the combined management report of Tognum AG and of the Group for the 2012 financial year, and subsequently issued an unqualified audit certificate.

The Supervisory Board dealt in detail with the annual statements, the consolidated financial statements and the combined management report for the 2012 financial year. Preliminary versions of the audit reports prepared by the auditors and the financial statements to be examined were presented to each member of the Supervisory Board and were discussed in depth in the accounts meeting on 13 February 2013. The Chairman of the Audit Committee provided the Supervisory Board with a full report. The auditors were present at the meeting of the Audit Committee that was held on 12 February 2013 and

at the Supervisory Board accounts meeting on 13 February 2013 and reported on the key results of their audit. The Supervisory Board examined the annual statements, the consolidated financial statements, the combined management report and the reports presented by the auditors and raised no objections. In its decision of 13 February 2013, the Supervisory Board accepted the annual financial statements prepared by the company on 13 February 2013 and the consolidated financial statements also prepared by the company on 13 February 2013 for the 2012 financial year. The annual financial statements are thus approved. When the Domination and Profit and Loss Transfer Agreement comes into effect on 1 January 2012, the proposed appropriation of retained earnings will no longer apply.

CHANGES ON THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD. The Supervisory Board members Stefan Buchner, Andrew Heath and John Paterson appointed in 2011 as a result of the decision taken by the Regional Court of Ulm were elected to the Supervisory Board of Tognum AG as shareholder representatives in the Annual General Meeting on 5 June 2012. Axel Arendt was also elected as an additional member of the Supervisory Board in the Annual General Meeting on 5 June 2012.

In the 2012 financial year, the following change took place on the Executive Board of Tognum AG: Peter Kneipp left the Executive Board of Tognum AG as at 29 February 2012 by mutual agreement. Dr. Michael Haidinger was appointed to the Executive Board as the new Chief Sales Officer with responsibility for »Engines and Onsite Energy business units, global distribution and service business« for the period from 1 July 2012 until 30 June 2015. Effective 1 January 2013, Jörg Schwitalla was appointed the new Executive Board member for »Personnel and Integrity« for the period until 31 December 2017.

The Supervisory Board would like to thank all members of the company's workforce in Germany and abroad, as well as the members of the Executive Board for their unbounded commitment and dedication in the 2012 financial year.

Friedrichshafen, 13 February 2013

For the Supervisory Board



Andreas Renschler
Chairman of the Supervisory Board

Highlights 2012



JANUARY | FLAGSHIP (PICTURE)

The second littoral combat ship for the US Navy is christened »Coronado«. Two Series 8000 MTU engines will give the trimaran a speed of 28 knots, while two additional gas turbines will enable it to reach speeds of up to 45 knots.

JANUARY | NEW SISTER

On 2 January 2012, engine manufacturer Bergen Engines AS is transferred to Engine Holding GmbH, the Daimler and Rolls-Royce joint venture. As a result, Bergen becomes a sister company of Tognum AG, which is also owned by Engine Holding.

FEBRUARY | CONSEQUENCES

Following compliance allegations against the former sales subsidiary MTU Asia Pte. Ltd., Tognum restructures its sales organisation. The former Chief Sales Officer and Managing Director of MTU Asia, Peter Kneipp, leaves the Tognum Group.

MARCH | NEW PLANT

Tognum intends to erect a new plant in Poland and invest over 90 million euros in the new site close to the city of Stargard Szczeciński, and to expand its MTU engine plant in Aiken / USA at a cost of around 40 million dollars.

MARCH | SUCCESSFUL

Tognum presents its business figures for 2011. Revenues are up 16% to 2.97 billion euros. The adjusted EBIT is up 42.6% to 345.2 million euros. The company expects continued profitable growth for 2012.

APRIL | NEW SUBSIDIARY

Tognum acquires 75.1% of the shares in generator set manufacturer Aggretech. The company produces diesel and gas-based generators and also supplies customer-specific solutions.

APRIL | HEAT AND POWER (PICTURE)

Tognum is awarded a contract to deliver an LM 2500 gas turbine to Daimler for its plant in Sindelfingen. The value of the contract for the gas turbine plant and a long-term maintenance contract together amount to over 30 million euros.

MAY | RESPECTED

Representatives of Tognum America visit the White House in Washington to present the educational programme planned by Tognum for high school students in Aiken County, South Carolina. The programme is based on the German cooperative education model and will be introduced as of September.

JUNE | FIFTH

The fifth Annual General Meeting of Tognum AG is dominated by the new majority shareholders Daimler and Rolls-Royce. When the meeting is held, their joint venture company Engine Holding already holds 99% of the shares in Tognum.

JUNE | INVITATION

Engine Holding GmbH invites the Executive Board of Tognum AG to begin talks on a Domination and Profit and Loss Transfer Agreement with Tognum AG.

JUNE | INAUGURATION (PICTURE)

The new MTU Materials Management Center in Friedrichshafen-Klufftern is inaugurated. It replaces several external warehouses that were previously used to supply parts. Around 50 million euros were invested in the Materials Management Center.

JULY | NEW EXECUTIVE BOARD MEMBER

Dr. Michael Haidinger is appointed as the new Chief Sales Officer of Tognum AG, effective 1 July 2012. Haidinger, formerly President of Rolls-Royce Deutschland and a member of the Supervisory Board of Tognum AG, assumes responsibility for the Engines and Onsite Energy business units in addition to the global distribution and service business.

JULY | HEAVYWEIGHTS (PICTURE)

MTU has a new customer for industrial engines: Bomag (Bopparder Maschinenbau-gesellschaft). The company is equipping all of its new 32, 37, 47 and 55 ton waste compressors with MTU Series 400 and 500 engines.



JULY | TEAM WORK

Tognum and Rolls-Royce receive two orders for the delivery of marine engines and thrusters. Tognum is to deliver 16 MTU engines for port tugs and Rolls-Royce the associated thrusters. The value of the orders placed with Tognum is estimated at 5.8 million euros.

AUGUST | HAPPY BIRTHDAY (PICTURE)

The Mankato location in the US state of Minnesota, where MTU Onsite Energy Corporation produces gensets for emergency and continuous power generation, celebrates its 60th anniversary.

AUGUST | INTERIM REPORT

Tognum adjusts its forecast for the full year 2012 at the end of the first half-year. The company now anticipates growth in revenues in the lower two-digit range and thus remains within the previously forecast corridor. The adjusted return on sales is expected to be around 10% by the end of the year.

AUGUST | NEW TRAINING CENTRE

MTU Ibérica and the shipbuilder Navantia inaugurate a training centre in Cartagena / Spain, where customers, erection staff and service partners receive training in the maintenance and operation of diesel engines and electronic control and monitoring systems for marine applications and energy systems.

SEPTEMBER | RAIL SPECIALIST (PICTURE)

MTU presents its Hybrid PowerPack to the general public for the first time at the Innotrans International Trade Fair for Transport Technology, installed in a Class 642 railcar. At a press conference with Hitachi, Chief Sales Officer Haidinger announces that Hitachi Rail Europe has selected MTU as the preferred supplier of 250 PowerPacks equipped with Series 1600 rail engines. A comprehensive maintenance contract for the drive system is also included for the service life of the trains. The total value is in excess of 200 million euros.

SEPTEMBER | NEW NAME

Tognum has geared its subsidiary SKL Motor in Magdeburg to the standardised remanufacturing of MTU engines and components and, therefore, changes its name to MTU Reman Technologies.

SEPTEMBER | POSTPONED

As a result of the current economic downturn worldwide, the Tognum Executive Board decides to postpone the start of construction of the new production facility in Poland by a year.

OCTOBER | RECOGNITION

The diesel-powered generator set from MTU Onsite Energy, which is based on the MTU 8V Series 1600 engine, receives the Bronze Award in the »Product of the Year« competition.

OCTOBER | PREPARED

Tognum prepares for fluctuations in capacity utilisation and develops a plan to determine what specific steps are to be taken – with overall stable revenues – to respond to reduced utilisation of production capacity in the plants. Short-time working is not intended for 2012.

NOVEMBER | EXTRAORDINARY

In an extraordinary General Meeting, 99.9% of the Tognum shareholders are in favour of the Domination and Profit and Loss Transfer Agreement to be concluded by Tognum AG and Engine Holding GmbH.

NOVEMBER | A FIRST IN THE USA

At Tognum America's headquarters in Novi, Michigan / USA, the first combined heat and power (CHP) plant manufactured by MTU Onsite Energy for the North American market is placed in service.

DECEMBER | NEW EXECUTIVE BOARD MEMBER

Jörg Schwitalla is appointed the new Executive Board member for Personnel and Integrity at Tognum as of 1 January 2013. In addition to Personnel, Legal Affairs, Patent Management, Data Protection and Information Security, Business Practice & Compliance, Jörg Schwitalla also assumes board responsibility for the North American hub.





PROPULSION

»We build our superyachts to the highest standards. We are also driven by the desire to incorporate new and efficient technologies. With its all-round propulsion and system competence, Tognum satisfies our high expectations – and those of our clients.«

Marcel Onkenhout | CEO of Oceanco, Alblasterdam, Netherlands

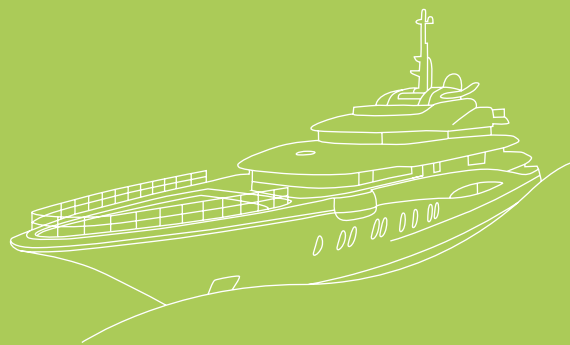


MTU 20V 4000M 73L DIESEL ENGINE

MTU propulsion systems for yachts feature long service life, reliability and high safety standards.



PROPULSION



ALBLASSERDAM /// NETHERLANDS

Marcel Onkenhout is CEO of Oceanco. With its yacht building facility located in Alblasserdam in the Netherlands, the company is a world leader in the construction of large luxury superyachts. Oceanco is dedicated to building yachts that reflect the client's personal vision. »The challenge is to get it right every time. All of our yachts are extraordinary« says Onkenhout, whose team is committed to innovative thinking and action. With its continuing drive to employ the latest technologies and provide complete

solutions for its clients, Oceanco incorporates MTU engines from Tognum. »Our aim is to find the ultimate right solution« he adds, »which is why we are partnered with Tognum.« Oceanco is one of the world's leading yacht builders and many of its yachts have received the coveted World Superyacht Award. Most of these award winners have one thing in common: their MTU engine ensures that the yacht glides smoothly and powerfully through the waves with low impact on the environment.



Group Management Report and Management Report of Tognum AG

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Company Profile

History of the Tognum Group

The Tognum Group as we know it today looks back on a century of corporate history. Known originally as Luftfahrzeug Motorenbau GmbH, the company was founded by Karl Maybach and Graf Ferdinand von Zeppelin on 23 March 1909 and began by developing and building engines for the rigid airships produced in the local Zeppelin factory. The name was subsequently changed to Maybach Motorenbau GmbH in 1918. At the end of the First World War, the company was involved for a brief period in motor car manufacture and the production of high-performance diesel engines – since 1969, it has operated under the name of MTU Friedrichshafen GmbH (MTU stands for Motoren- und Turbinen-Union). Prior to 2006, the MTU Friedrichshafen Group had developed to become an integral part of the off-highway operations of the former DaimlerChrysler Group and was subsequently sold to a financial investor. What emerged was the Tognum Group, which went public in 2007. In 2011, a majority shareholding in Tognum was acquired by Rolls-Royce and Daimler.

Group Structure and Business Activities

Annual revenues of 3,014.5 million euros and 10,479 employees worldwide

Today, Tognum is one of the world's leading providers of high-speed diesel engines and complete propulsion systems for ships, drive systems for heavy agricultural and rail vehicles, and industrial drives (off-highway applications); Tognum's product portfolio also includes onsite energy systems. The Group generated revenues of 3,014.5 million euros in the 2012 financial year. As at 31 December 2012, the workforce of the Tognum group of companies worldwide totalled 10,479 employees.

Extensive product portfolio

PRODUCT PORTFOLIO. Tognum has one of the most diversified and balanced product portfolios in the industry. Apart from diesel engines marketed under the MTU, Detroit Diesel and Mercedes-Benz (industrial engines via distribution license) brands, it also includes diesel and gas engine systems in addition to stationary energy systems, which it markets under the MTU Onsite Energy brand and high-performance engine components such as high-pressure fuel injection systems (marketed under the L'Orange brand). The Tognum Group also develops and produces tailor-made electronic systems for the control and monitoring of its engines, propulsion and energy systems. In addition to fuel injection as a key technology, it develops and produces exhaust gas turbochargers for large diesel engines. In conjunction with the continuing development of in-engine technologies, exhaust aftertreatment ensures that engines purchased by our customers will comply with future emission standards.

APPLICATION AREAS OF THE TOGNUM GROUP

BUSINESS UNIT *ENGINES*



MARINE

- Yachts
- Commercial vessels
- Vessels for public authorities
- Submarine



INDUSTRIAL

- Railcars
- Agricultural equipment
- Construction equipment, industrial applications
- Mining



OIL & GAS

- Onshore
- Offshore
- Mechanical drives, e.g. pumps, fire extinguishing systems and drilling units



DEFENSE SYSTEMS

- Light and medium-weight military vehicles
- Heavy military vehicles

BUSINESS UNIT *ONSITE ENERGY & COMPONENTS*



DIESEL SYSTEMS & ENGINES

- Emergency standby systems
- Base-load plants
- Peak-load plants



GAS SYSTEMS

- Base-load plants
- Peak-load plants

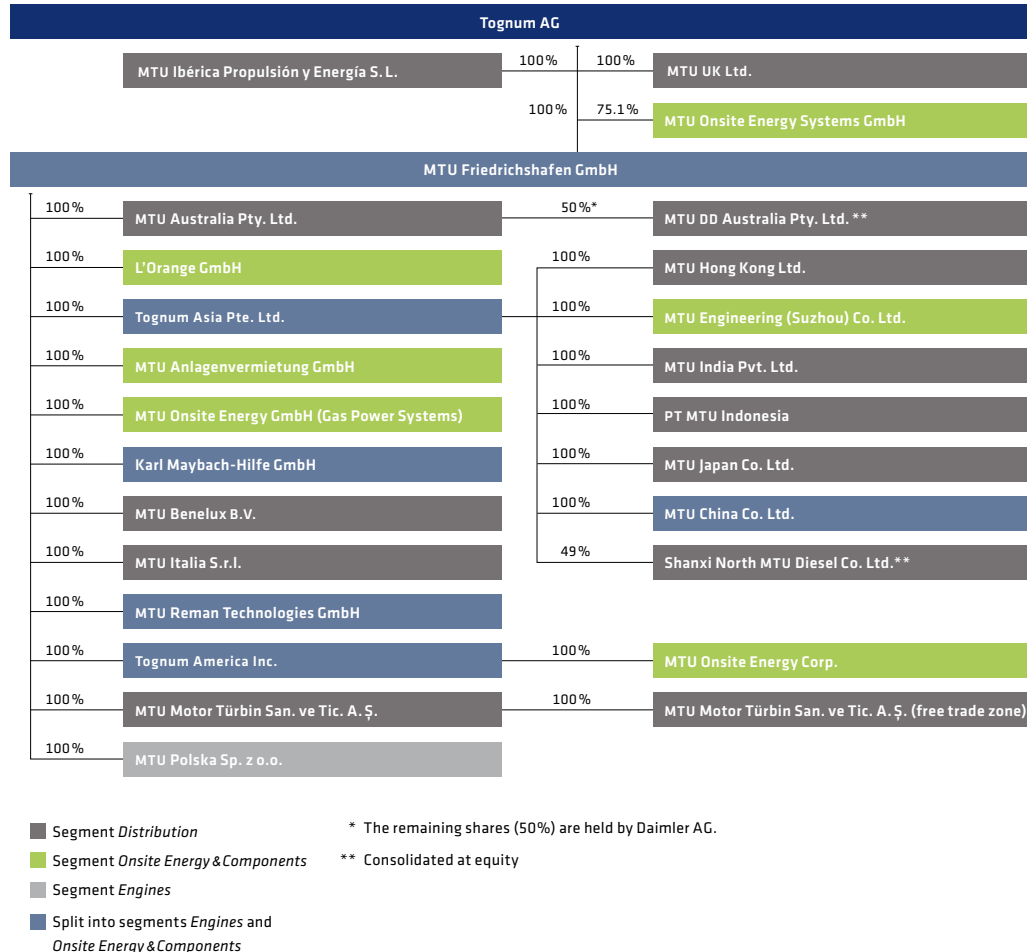


INJECTION SYSTEMS

- High-speed engines
- Medium-speed engines

GROUP STRUCTURE. Tognum continues to develop its corporate and brand strategy. Under the corporate umbrella of the Tognum AG strategic holding company, the business activities are broken down into the three reporting segments *Engines*, *Onsite Energy & Components (OE&C)* and *Distribution*. Internal control and measurement of the performance of the individual segments by the Executive Board of Tognum AG as the chief operating decision maker is carried out primarily with the aid of the adjusted EBIT (Earnings Before Interest and Taxes). External reporting in accordance with IFRS 8 »Operating Segments« is based on this segment structure. The allocation of the legal entities to the three reporting segments is shown in the diagram below:

Continuous development of the corporate and brand strategy

**OVERVIEW OF THE GROUP STRUCTURE SHOWING
CONSOLIDATED COMPANIES AS AT 31 DECEMBER 2012**


ENGINES. The *Engines* segment is involved in the development, manufacture and sale of diesel engines in the power range from 75 to 10,000 kilowatts, in addition to the associated services and after sales business. In the Marine application area, the power range is supplemented by gas turbine systems from around 3,000 to 35,000 kilowatts.

Diverse application
areas

The engines are used in a variety of application areas with different operational requirements. These are primarily Marine (marine propulsion systems and on-board units in a wide variety of categories, such as naval and coast guard vessels, large ferries, yachts and work boats), Oil & Gas (primarily drive systems for the generation of mechanical power for oil and gas exploration), Industrial (engines for rail, agricultural and construction vehicles, industrial applications and engines for mining vehicles) Defense (military land vehicles) and the activities in After Sales (spare parts, servicing, repair and remanufacturing).

ONSITE ENERGY & COMPONENTS. The business activities of the *Onsite Energy & Components (OE&C)* segment include onsite energy systems (Onsite Energy) based on diesel engines (OE Diesel Systems & Engines) and gas engines (OE Gas Power Systems), including After Sales activities, in addition to components (Components) for engines (Injection Systems). Diesel engines with power outputs ranging from 200 to 6,250 kilowatts and gas engines from around 130 to 2,200 kilowatts are used in the onsite energy sector. The portfolio is supplemented by OEM products in the power range below 500 kilowatts. Gas turbines with outputs ranging from 25,000 to 50,000 kilowatts are used in power ranges above those of diesel engines.

DISTRIBUTION. The *Distribution* reporting segment comprises the group-owned sales companies in the Europe and Asia/Pacific regions.

GROUP OF CONSOLIDATED COMPANIES. With around 99% of the subscribed capital, Engine Holding GmbH, Friedrichshafen is the majority shareholder and ultimate parent company of Tognum AG. A Domination and Profit and Loss Transfer Agreement exists between Engine Holding GmbH and Tognum AG.

The Tognum Group, in addition to Tognum AG as the parent company with its registered office in Friedrichshafen/Germany, has a global production, sales and services structure. It includes 24 fully consolidated subsidiaries (31 December 2011: 22), more than 140 sales partners and around 500 authorised dealers at around 1,400 locations. The largest single company within the Tognum Group is MTU Friedrichshafen GmbH with its registered office in Friedrichshafen/Germany. Other group companies that make a major contribution to the business volume are Tognum America Inc., Detroit/USA and Tognum Asia Pte. Ltd., Singapore/Singapore as the lead company of the sub-group MTU Asia Group, which includes the Asian subsidiary companies. Central production facilities of the Tognum Group are located in Germany, the USA and China.

Besides Tognum AG, the Group includes 24 fully consolidated subsidiaries

Compared with the situation as at 31 December 2011, two companies have been added to the group of consolidated companies. MTU Polska Sp. z o.o., Warsaw/Poland, which was acquired on 3 October 2011, was included in the group of consolidated companies of Tognum AG for the first time as at 1 January 2012. The planned manufacturing facility will enable the Tognum Group to increase its production and development capacity in Europe and in future will manufacture and develop components for MTU engines. The company has been allocated to the *Engines* segment. As at 31 December 2012, the inclusion of this company has had no substantial impact on the income, asset and financial position of the Tognum Group.

Change in the group of consolidated companies

On 4 April 2012, following the approval of the competition authority, the Tognum Group acquired 75.1% of the shares in the Bavarian manufacturer of power generator sets Aggretech AG, Ruhstorf. With its entry into Aggretech AG, Ruhstorf, the Tognum Group is systematically moving ahead with the expansion of its business in onsite energy systems. Effective as at 21 June 2012, Aggretech AG, Ruhstorf was renamed to MTU Onsite Energy Systems GmbH, Ruhstorf.

Takeover of Aggretech AG

Effective 22 September 2012, SKL Motor GmbH, Magdeburg was renamed to MTU Reman Technologies GmbH, Magdeburg.

MTU Marubeni Co. Ltd., Tokyo/Japan was renamed to MTU Japan Co. Ltd., Tokyo/Japan. Effective 28 September 2012, Tognum Asia Pte. Ltd., Singapore/Singapore increased its shareholding in MTU Japan Co. Ltd., Tokyo/Japan to 100% (previously: 51%).

CHANGES TO THE BUSINESS ORGANISATION AND CORPORATE STRUCTURE. In the 2012 financial year, there were no significant changes to the business organisation or the corporate structure.

Partnership with Rolls-Royce and Daimler

On 9 March 2011, Rolls-Royce plc and Daimler AG announced their decision to launch a joint offer via Engine Holding GmbH, Friedrichshafen for the acquisition of the entire share capital of Tognum AG. The transaction was finally completed in September 2011. As at 31 December 2012, Engine Holding GmbH held around 99% of the shares in Tognum AG. A Domination and Profit and Loss Transfer Agreement was concluded with Engine Holding GmbH on 25 September 2012, which was approved by an extraordinary General Meeting held on 15 November 2012 and the shareholders' meeting held on 25/27 September 2012. This agreement came into effect with its entry in the Commercial Register on 19 December 2012 and subsequently as of 1 January 2012. In accordance with Section 312 of the German Stock Corporation Act (AktG), therefore, the preparation of a report on the relations with affiliated companies is not required. Working groups comprising representatives of Rolls Royce, Daimler and Tognum have been set

Strong market position for future growth

up to analyse the potential for closer collaboration and synergies. The partnership with Rolls-Royce and Daimler will strengthen Tognum's position for future growth in the markets for propulsion systems and onsite energy systems.

Composition of the Executive Board and Supervisory Board

Changes on the
Executive Board and
Supervisory Board

Peter Kneipp left the Board of Directors as at 29 February 2012 by mutual agreement to pursue a new professional challenge. Dr. Michael Haidinger has been a member of the Executive Board since 1 July 2012 as Chief Sales Officer with responsibility for the »Business Units Engines & Onsite Energy, in addition to the global distribution and service business«. Jörg Schwitalla has been a member of the Executive Board since 1 January 2013 with responsibility for the »Personnel & Integrity« business unit.

During the Annual General Meeting of Tognum AG held on 5 June 2012, Axel Arendt, Stefan Buchner, Andrew Heath and John Paterson were elected as members of the Supervisory Board.

Reporting Period and Comparable Periods

In this combined group management report, we present details of the 2012 financial year compared with the 2011 financial year. In accordance with Section 315(3) of the German Commercial Code (HGB), the management report of Tognum AG is included with that of the Tognum Group. The risks and opportunities of Tognum AG as the parent company are inseparably connected with those of the Tognum Group. Information contained in the present management report, unless otherwise specified, relates to the Tognum Group. Information on the state of affairs of the parent company, Tognum AG, is included in a separate section.

We present details of the asset situation compared with the situation as at 31 December 2011. Both the financial statements for the reporting period and those for the comparable period have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the regulations to be complied with under commercial law as specified in Section 315a of the German Commercial Code (HGB).

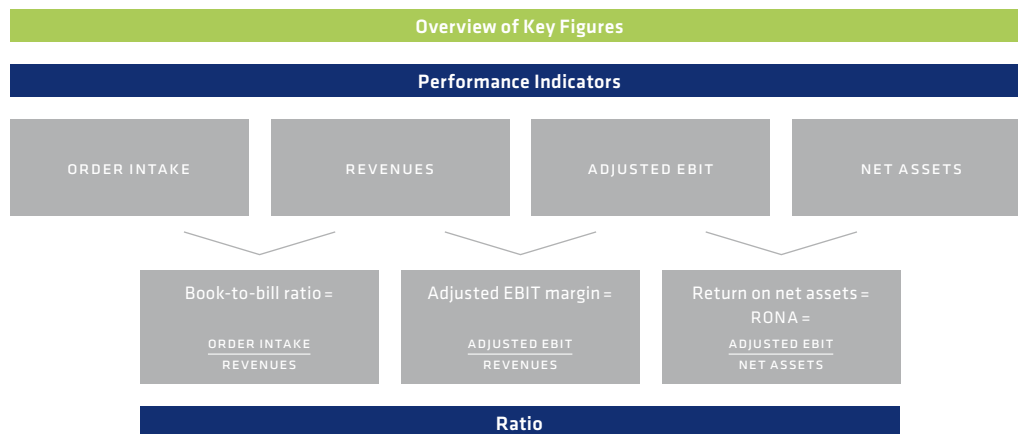
Corporate Management and Goals

Our strategy is focused on achieving profitable growth. This includes both organic growth that results from increasing our market share and expanding our market position as a provider of propulsion and energy systems, and external growth through additional targeted acquisitions. Our prime goal is the sustained and long-term increase in shareholder value.

Monitoring of all
factors that enable us
to achieve our goals

KEY PERFORMANCE INDICATORS. Using an extensive performance management and key performance indicator system, we monitor all the factors that will enable us to achieve our goals. These include our market position, order intake and revenue performance, adjusted earnings before interest and taxes, in addition to adjusted earnings per share. We use a variety of indicators to manage our financial situation, including net working capital, net asset and cash flow figures. For the assessment of investments and projects, we specifically apply the discounted cash flow model.

OVERVIEW OF KEY PERFORMANCE INDICATORS



KEY BUDGET/TARGET FIGURES OF THE PERFORMANCE INDICATORS. As part of the annual operational planning process, we develop target and budget figures that are subsequently prepared and analysed in monthly comparisons of actual versus projected values. The results of these analyses in each case provide us with an excellent overview of the current financial situation of the Tognum Group and the various segments. The data obtained are also used as a basis for making decisions on the appropriate action to be taken and as a basis for regular discussions with the Supervisory Board and the Audit Committee. Target figures for selected performance indicators for 2013 are included in the report on expected developments at the end of the group management report beginning on page 96.

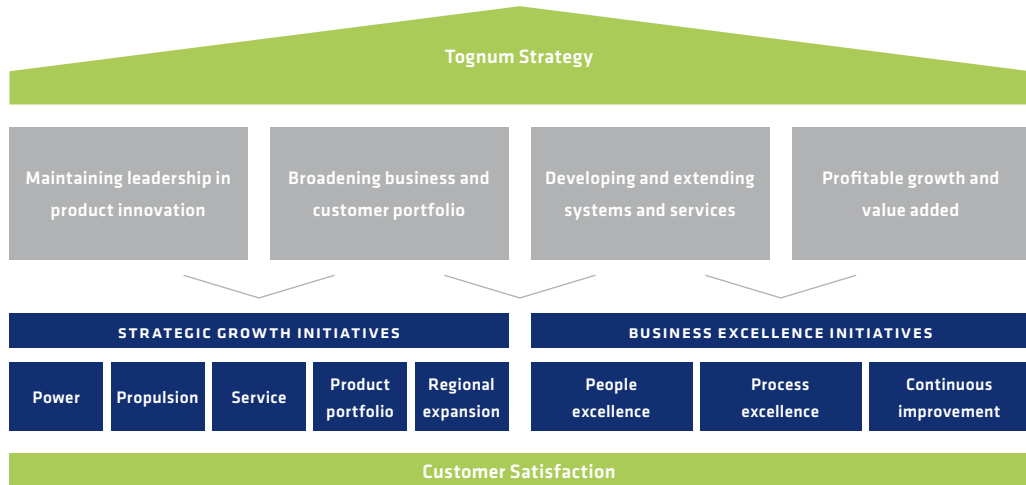
EARLY COMPANY-SPECIFIC PERFORMANCE INDICATORS. A rolling forecast of sales/revenues at product level, a rolling liquidity plan and a complete financial forecast to the end of the year, which is prepared several times in the course of the year, are decisive indicators of the progress being made towards achieving our goals. Another key indicator for forecasting coming developments is the change in order intake, which enables us to draw conclusions as to the future revenue and income situation. »Order intake for the previous financial years and quarters«, therefore, is included as a key indicator in the tables beginning on page 196. An early performance indicator we use in addition is »order coverage«, which is a key internal figure. Based on the information this gives us on the extent to which the planned sales volume is covered by firm delivery contracts, we can finalise our sales forecasts and predictions as to the anticipated capacity utilisation.

CUSTOMER SATISFACTION. Beyond the purely monetary aspects of corporate management and the associated key performance figures that are used, customer satisfaction is crucial to all our company's activities. To obtain a realistic picture of the level of satisfaction of our customers worldwide, we conduct customer surveys on a global scale at regular intervals. The results of these surveys provide us with important information as to how we can better meet the needs and requirements of our customers.

EMPLOYEE SATISFACTION. Satisfied and motivated employees are vital to the company and are of prime importance for achieving our corporate goals. We therefore attach great importance to the continuous dialogue between employees and senior management. To this end, we conduct regular in-depth employee satisfaction surveys. Management and the specialist departments involved take the findings of such surveys very seriously and implement whatever action is necessary to further increase employee satisfaction and subsequently maintain the loyalty of our employees.

Increase in employee satisfaction

Corporate Strategy



Tognum strategy

In the course of this past financial year, the principles on which our corporate strategy is based have once again withstood the test of time and remain a solid foundation for future growth.

Our corporate strategy consists of the following four core elements:

- **MAINTAINING LEADERSHIP IN PRODUCT INNOVATION.** We set the standard in our defined key technologies (e.g. fuel injection, exhaust gas aftertreatment and turbocharging) and this subsequently applies to our end products as well.
- **BROADENING OUR BUSINESS AND CUSTOMER PORTFOLIO.** To ensure that our market share continues to increase, we continuously search for new applications and new customers based on our current product portfolio.
- **DEVELOPING AND EXTENDING SYSTEMS AND SERVICES.** We offer the best solutions and are the preferred partner for our customers. Our aim is to provide our customers with solutions that will make them more successful throughout the entire life cycle.
- **PROFITABLE GROWTH AND CONTINUOUS INCREASE IN CORPORATE VALUE.** To us, profitable growth means an adjusted EBIT margin exceeding 10% throughout an entire economic cycle, return on net assets (RONA) of over 20% and a continuous improvement in economic value added (EVA).

To enable us to achieve these core elements in the long term, we have established initiatives in the course of the last few years designed to bring about planned growth and to secure business excellence at the same time. Customer satisfaction is an integral part of our strategy and the basis for all our business activities.

Strategic growth initiatives

Our long-term growth strategy continues to rest on five pillars:

- **POWER.** Expansion of activities relating to distributed power generation (Onsite Energy), with new and more advanced engines based on diesel and gas, and strong focus on our system business
- **PROPULSION.** Further expansion of the strong market position we already occupy in propulsion and drive systems, with a particular focus on new technologies of the future and all-inclusive customer solutions

- **SERVICE.** Expansion of our service/after sales business beyond our business in spare parts, primarily in remanufacturing and maintenance contracts, in addition to expanding our service network
- **PRODUCT PORTFOLIO.** Extension of our product portfolio to include new power ranges (e.g. Series 1000 to 1600) and continuing development of existing engine series in order to comply with future emission standards in addition to achieving improvements in fuel efficiency; additional focus on improving our competitiveness in stationary gas engines and, in the long term, on entering the market for mobile gas applications
- **REGIONAL EXPANSION.** Development of each of the relevant growth markets in all of our core regions, and expansion of our global distribution, production and procurement network

Business excellence initiatives

In addition to our strategic growth initiatives, we focus on the continuous improvement of business excellence, which rests on three pillars:

- **STAFF EXCELLENCE.** Recruitment of employees worldwide who have the skills to help Tognum achieve its goals, the development and retention of employees within the Tognum Group, and continuous increase in employee satisfaction and motivation
- **PROCESS EXCELLENCE.** Continuous improvement in the efficiency, effectiveness and quality of our processes, the achievement of defined goals as regards costs, time and quality in all the projects we launch, and the achievement of business excellence, based for example on the EFQM model for Total Quality Management
- **CONTINUOUS IMPROVEMENT.** Continuous improvement of our cost position using our in-house »TOP« programme (Total Operations Performance), the implementation of the MTU production system (Lean@mtu) at all production sites, and transferring the concept to administration departments and capital productivity by, for example, improving the efficiency of capital employed

Customer satisfaction

We place the highest value on the satisfaction of our customers. This is why we regard customer satisfaction as the basis for a successful long-term strategy at Tognum. Our aim is to align our business operations and services to meet customer needs, to listen carefully to what our customers are saying, to be a reliable partner for our customers, and to continually improve our sales and after sales service (e.g. warranty, standard services, non-conforming products, spare parts and delivery reliability). Both the objective product quality and the customer's subjective positive business experience are extremely important to us. This is also the reason why we carry out customer satisfaction surveys on a regular basis and why we are able to stand behind our promise: We look after our customers!

Focus on customer satisfaction

Takeover by Rolls-Royce and Daimler

The close working relationship with Rolls-Royce and Daimler bore first fruits in the year just ended and demonstrated that leveraging the combined strengths that we and our partners possess will enable us to implement the strategy we have pursued to date even faster and more effectively. A key milestone will be the integration of Bergen Engines AS into Tognum AG, since this will enable us to supplement Tognum's current portfolio of high-speed diesel engines with medium-speed diesel and gas engines. This will create a product portfolio that will again significantly improve our competitive situation. Furthermore, our global sales and service network and the excellent knowledge our partners possess in a variety of fields (e.g. hybrid and gas engines) offer enormous potential.

Business and General Background Conditions

Global economic growth was subdued in 2012. The key factors include the debt crisis in Europe, the slow recovery in the USA and the sluggish pace of growth in the BRIC countries.

Global Economic Trends

The second half of 2011 saw the beginning of a decline in global economic growth, which was again at a moderate 2.3% in 2012. The BRIC countries had to cope with high inflation rates, while the eurozone groaned as some members struggled with their national debts, which was also the case in the USA and Japan.

GROWTH OF GLOBAL ECONOMY

Source: Global Insight



Eurozone in mild recession since 2012

Consolidation of the national debt in the peripheral countries of the eurozone and the reestablishment of competitiveness with job cuts and wage restraints have reduced demand. The eurozone overall has been going through a mild recession since 2012. The enormous efforts by the ECB to stabilise the eurozone have fuelled inflation concerns, but have also boosted investors' confidence in the continued existence of the eurozone. The uncertainties following the developments in the eurozone have also spread to Germany, resulting in a decline in plant and equipment expenditure in 2012. Exports also increased overall in 2012, however, despite the decline in demand from the peripheral countries of the eurozone. GDP growth in 2012 at 1% was far below the level of the previous years.

GROSS DOMESTIC PRODUCT IN GERMANY

Source: Global Insight



Economic growth in the emerging economies (BRIC countries) was significantly weaker in 2012 than in the previous years. The decline in global demand resulted in a slowing down of economic growth in all export-driven emerging economies. Efforts to cool down the property market slowed economic growth in China. In spite of this, the growth target of 7.5% was slightly exceeded in 2012. In India, political uncertainty and high inflation rates had a negative impact on investments and domestic demand.

The US economy had been recovering slowly but surely since the financial crisis. However, at the beginning of 2013, the country was in danger of tumbling over the »fiscal cliff«. Cuts in government spending and tax increases would have choked consumer spending and presumably led the country into recession. This scenario was temporarily averted as a result of a political agreement. A long-term solution to the problem, however, is absent. The country is still heavily in debt and government spending significantly outweighs revenues.

Japan's growth received a boost in 2012 from reconstruction activities following the earthquake in 2011. There was a negative impact from the strong yen, the decline in demand for exports as a result of the cooling global economy, and the islands row with China which led to the boycotting of Japanese goods in China. In the second half of 2012, Japan slid into mild recession.

In the countries of the Middle East and North Africa (MENA), geopolitical tensions, political uncertainties and a weaker global demand for exports undermined the recovery of the economy, which subsequently affected Tognum AG's business.

As a result of the Tognum Group's strong focus on exports, currency exchange rates have a major impact on its business. The high level of uncertainty on the financial markets regarding the future of the eurozone could be seen in a continuous devaluation of the euro, which lasted until July 2012. In the second half of the year, the trend reversed. The efforts undertaken to stabilise the eurozone began to take effect, investors' confidence in the continuing existence of the eurozone was given a boost, and the euro has now strengthened again against other major currencies such as the US dollar, the Japanese yen and the pound sterling.

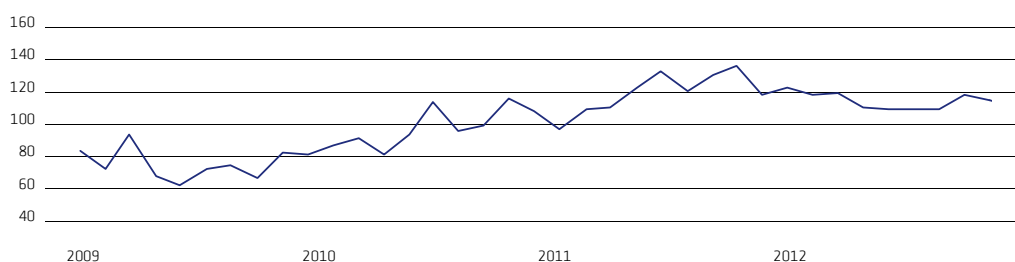
Sector Performance

Mechanical engineering companies worldwide were affected in 2012 by a declining demand for capital goods, albeit with strong regional and sectoral differences. According to estimates published by the German Engineering Federation (VDMA), revenues were up 3% in real terms, following double-digit growth rates in 2010 and 2011. The performance was surprisingly positive in the USA, where revenues in the mechanical engineering sector in 2012 were up 8% in real terms. The VDMA estimates a growth increase of 7% in real terms for China in 2012; it is the first time that growth has been in the single-digit range for many years.

For Germany, the VDMA has announced revenue growth of 2% in real terms for the entire mechanical engineering sector in 2012. This means that a better result was achieved than had been expected at the beginning of the year. The order intake from non-European countries saw a moderate increase again in 2012, while the order intake from eurozone countries remained unexpectedly robust. There was a decline in revenues, however, in the special field of engines and systems.

ORDER INTAKE IN GERMAN MACHINERY AND PLANT MANUFACTURING

(in % compared with the previous year; real)



Market Position

The market of relevance to Tognum is that of high-speed diesel engines for off-highway applications in the 150 kilowatts to 10 megawatts power range. Tognum's main established competitors are Caterpillar, Cummins, MAN Diesel, and Wärtsilä.

Engines

The situation in the marine applications business has changed little compared with the previous year. A somewhat subdued mood prevailed on the market for small, series-produced yachts as a result of the un-

certainty and lack of confidence on the part of end customers. A slight recovery was noticeable in 2012 in our megayacht business.

In 2012, the commercial applications segment had to battle with overcapacity in the shipbuilding industry in some areas and a subdued newbuilding market. As a result of the increase in activities in offshore business, higher demand for special-purpose ship construction was identified.

The market for military shipping performed positively in 2012. The impact of global economic developments and the resulting tight budget situation in some countries is offset by the long project times specified in our procurement programmes, while budget cuts will be achieved to a large extent by means of internal restructuring measures (personnel and locations). Equipment needs are determined by the changes in the tasks and the additional duties of militaries, and by new additions to their fleets.

Tognum is one of the leading suppliers

Tognum is among the world's leading providers of engines for marine applications in the 500 to 10,000 kilowatt range, with a market share in some cases of over 30% in specific segments and particularly in the segment for custom-manufactured megayachts, high-speed ferries, frigates and patrol boats.

Business in agricultural equipment in 2012 was partly affected by the severe weather conditions farmers had to cope with, with extended dry periods primarily on the world's largest market for agricultural equipment – the USA. Crop failures, however, were covered to a large extent by insurance companies. The continuing high demand for agricultural products led to high prices and excellent revenues for farmers worldwide. The resultant demand for agricultural equipment even exceeded the high level of the previous year quite significantly.

The situation on the market for construction and industrial equipment was dominated by a severe decline in demand in China – the largest single market. The reasons for this development are to be found in restrictions on building activities and expenditure for infrastructure projects by the Chinese government. Other regions were able to compensate for the decline, which is why a stable result was achieved overall. The major markets in Western and Northern Europe, for example, managed to successfully overcome the fears of a crisis, and North America, driven by equipment fleet replacements, performed positively.

In 2012, in the market for mining equipment the record sales figures of the previous year were repeated. Manufacturers were able to survive on a high order backlog, particularly in the first half of the year. In the middle of the year, however, the economic slowdown in China (the main customer for raw materials) resulted in a significantly reduced demand for raw materials and falling prices. This led to investment projects in the mining sector being scrutinised and the timeframe in some cases extended. This ultimately resulted in a decline in order intake for heavy mining equipment. By the end of the year, however, a general increase in raw material prices was reported.

Following a European rail market that in 2011 had been characterised by an economic boom – as a result of tougher emission standards coming into force, Tognum in particular had benefited from the related effects of purchases made in anticipation of the new standards –, the rail market in 2012 returned once again to a stable level. The moderate growth in this market segment is driven primarily by a demand for the movement of goods, which remains strong, and the need to replace aging fleets.

Despite weak global economic growth, the demand for oil remains positive, increasing slightly from 89 million barrels per day to just under 90 million barrels per day on average in 2012 (growth in consumption was thus 0.9%). At the same time, the consumption of natural gas is going through a boom period, with global trade, primarily in the form of liquid natural gas, increasing significantly.

The high price for oil, which remains stable, and the trend towards the development of shale gas and oil reserves resulted in record investments being made once again, following on from 2011. The record growth in the specialised market for frac pump drive units – engines designed for deep drilling – from which Tognum benefited in particular in 2012, was not repeated due to the reduced gas prices. As a result of purchase commitments by OEMs, sales of engines stabilised initially at the historical high level.

Environmental constraints and the increase in safety considerations continue to have an extremely high priority in exploration projects and support the market for drive solutions that are certified to the most stringent standards. In the challenging offshore oil basin of Brazil in particular and off the coast of Africa, this is decisive. At the same time, investments are increasing significantly in the North Sea, a traditionally strong safety-conscious market.

Onsite Energy & Components

The global market for engines and system products in the field of distributed heat and power generation faced a difficult market environment in 2012. On the one hand, this was due to weaker growth, primarily in southern European countries, of which the main supplier countries in Eastern and Northern Europe were negatively affected. On the other hand, growth in Southeast Asia and in India and China in particular was severely weakened, resulting in a negative impact on the demand for power generation plants. Overall, the market remained stable, since the prime drivers of growth were still intact. These include the electrification rate that continues to be very low in many parts of the world and strong growth in the demand for electricity in many developing countries and emerging economies, combined with delays in the construction of new power plants.

In 2012, the increase in power generation capacity for the use of renewable energies and the high demand for investment in power distribution networks again led to a high demand for distributed power generation plants, from which the market for gas-fired energy systems benefited. There was a negative impact from the reduction in government funding in Germany, which had resulted in record growth in biogas CHP plants in the course of the last few years. The change to the subsidies under the German Renewable Energies Act (EEG), for example, has also contributed to a significant weakening of the market. The German Biogas Association (Fachverband Biogas) assumes that fewer than 300 new biogas plants were installed in 2012 whereas there had been over 1,000 new plants in the previous year. Since the market for natural gas-fired plants is much higher and the subsidy regulations for biogas systems have only been amended in individual countries, the overall market could nevertheless remain stable.

High demand for distributed power generation plants

Following several years of very high growth rates, the market for diesel-fired power generation plants declined slightly in 2012. The reason for this development was the weaker global economy overall and in particular the weak demand in EU countries and in Southeast Asia. The demand for diesel-fired power generation systems will continue to be driven by the aging of the power generation and power distribution infrastructure and by the increasing demand for a safe, reliable and uninterrupted power supply, which is why the entire demand in 2012 declined only marginally.

The market for fuel injection systems, in which our subsidiary L'Orange GmbH, Stuttgart is involved, performed positively in 2012. While business in high-speed engines was positive, although weaker than it had been in 2011, the high demand for dual fuel technology, which enables different fuels to be used, had a positive impact on performance.

Economic and legal factors affecting business

Tognum less susceptible to developments on individual markets due to application and regional diversification

With its product portfolio, the Tognum Group covers numerous application areas and is represented in a large number of markets worldwide. For this reason, primarily in its key sales regions of Europe, America and Asia, it cannot be completely decoupled from economic developments on the individual markets. However, since we maintain a broadly diversified product portfolio and our business is spread evenly worldwide, our group of companies is comparatively less vulnerable to developments that only affect individual economic regions or application areas.

The market demands engines and onsite energy systems that are increasingly more efficient, generate more power, and at the same time have a lower environmental impact. This trend requires that all competitors continuously develop and technically optimise the products they offer. With the high level of technological expertise we possess, we are setting standards and driving innovations, primarily in the independent development and manufacture of key components used in the production of diesel engines (fuel injection, electronics, turbocharging and exhaust aftertreatment).

The prices for raw materials and other materials have an effect on our business performance. Our main primary materials are high-grade steel, cast products, semi-finished products, aluminium alloys in addition to other metals and alloys. Mineral oil (diesel) and electricity are also important. From the start of the second half of the year, there was a slight decrease in price for primary materials with the greatest relevance for our costs (primarily steels and other metals) compared with the previous year. On average for the year 2012, the prices for crude oil and electricity were below the previous year's level. We counter risks associated with price increases by means of long-term supply contracts and raw material hedges.

Supplier risk management enables responses to change to be made in good time

The euro crisis shaped the overall economic situation in 2012 as a result of mild uncertainties. This led to a slight increase in insolvency and liquidity risks associated with suppliers. Nevertheless, the number of insolvencies in Germany was down compared with the previous year (source: Creditreform). Due to the expansion of the entire supplier risk management system to other locations, monitoring the risk situation of the main suppliers is being continuously improved to enable us to continue to respond to changes in good time.

In addition, the increase in labour costs had an impact on the financial situation of the Tognum Group. The increase is due to a number of factors, including the increased size of the workforce. There were offsetting effects resulting primarily from the decline in overtime accounts and the lower variable wages and salaries in 2012.

Currency exchange rates, in particular the US dollar to the euro, also have an influence on the financial situation of the Tognum Group. The drop in the US dollar exchange rate compared with 2011 tended to have a positive impact on German exports and this subsequently benefited Tognum as well. The year's high for the exchange rate was reached at the end of February at 1.35 US dollars and dropped in the middle of 2012 to 1.21 US dollars against the euro. By the end of the year, the rate had risen again to 1.32 US dollars. We are involved in hedging transactions to provide a safeguard against exchange rate fluctuations.

In the countries in which we do business, we are required to observe a wide variety of laws and regulations. Export control regimes, legal environmental provisions (relating to production methods, locations and products) and regulations covering military procurement procedures, for example, are of special importance for Tognum's business activities.

Business Performance

Despite the economic headwind in the second half of the year, Tognum reported satisfactory growth in the 2012 financial year. While the order intake declined, revenues increased slightly. Capacity utilisation, however, was down in the reporting period. With an adjusted EBIT margin of 9.8%, we achieved the earnings target of around 10% which we had forecast in our interim report as at 30 June 2012, by consistently implementing our strategy and despite higher selling, administration and development costs.

Forecast met

The key factor for Tognum's continuous success has primarily been the high performance and technology standard of our products. We regard our ability to design and offer customer-specific propulsion and energy systems, our widely diversified product portfolio, and a professional sales organisation of high repute operating on an international scale as our strengths. With this balanced business model, our vulnerability to the economic cycles of individual application areas and regions is limited. The focus of our regional sales effort in the reporting period was again on Europe, followed by North America and Asia. Group-wide revenues were up 1.4%.

KEY EVENTS AFFECTING OUR BUSINESS PERFORMANCE. Despite the strained economic situation in the second half of 2012, we reported an increase in sales revenues (additional information on revenue performance is provided in the section entitled »Segments« beginning on page 46). A key influence on our business performance, in addition to the overall economic environment on the market, was the performance of the US dollar. With an average exchange rate of 1.28 US dollars against the euro for the year 2012 compared with an average exchange rate of 1.39 US dollars in the previous year, this ultimately had a positive impact on our business, since the revenues generated in US dollars were actually equivalent to an increase in value in euros.

Increase in revenues, despite strained economic situation

COMPARISON OF ACTUAL AND PREDICTED BUSINESS PERFORMANCE. The following product and market-driven strategic objectives were successfully implemented in 2012:

- high revenues in propulsion systems for vessels operated by public authorities,
- a strategically important order for the delivery of 16 marine generator sets for four Rolls-Royce UT 771 CDL offshore supply vessels,
- Series 8000 engines with a power output of 10 megawatts available since 2012,
- expansion of high-margin after sales business, in particular remanufacturing and improved spare parts logistics, and
- growth in gas systems.

Overall, sales revenues were slightly above the previous year's level at 3,014.5 million euros. In the interim report as at 30 June 2012, we had predicted a growth rate in the lower single-digit percentage range; additional information is provided in the section entitled »Income, assets and financial position of the Tognum Group« beginning on page 36.

Product and market-driven targets achieved

With an adjusted EBIT margin of 9.8%, we were on target with the figure of around 10% we had predicted in our interim report as at 30 June 2012. We achieved this excellent result despite reduced capacity utilisation, an increase in R&D expenditure and the increase in sales activities.

It had been our intention to increase the adjusted R&D expenditure compared with the previous year, and we accomplished this with an adjusted R&D expenditure of 203.6 million euros (previous year: 191.6 million euros). We will secure our continuing technology leadership by investing in future technologies.

Investments secure technology leadership





POWER

»Six power generator sets produce in excess of 18,000 PS at the Formula 1 circuit. That's more horse power than all the racing cars taking part in the Grand Prix put together. MTU engines ensure that everything runs smoothly.«

Balasubramanian Sethuraman | Senior Manager Sales MTU Onsite Energy India

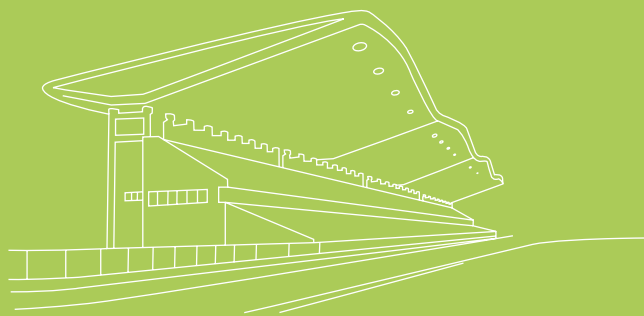


DIESEL GENSET BASED ON AN MTU 20V 4000 G63L ENGINE

Distributed energy systems from MTU Onsite Energy provide a reliable supply of electric power – e.g. in data centres, hospitals and manufacturing facilities.



POWER



BUDDH INTERNATIONAL CIRCUIT /// INDIA

In October 2012, India experienced the second Formula 1 Grand-Prix in its history. The racing cars covered the 5.14-kilometre Buddh International Circuit near Delhi at top speeds approaching 250 km/h. Ranged alongside the track, gensets equipped with MTU engines ensured there was a reliable supply of electric power. Tognum also delivers complete distributed power supply systems – e.g. for hospitals and data centres – and continually develops its systems and engines based on

diesel and gas further. »Our systems are low in fuel consumption, technically state of the art and absolutely reliable,« says Balasubramanian Sethuraman, Senior Manager Sales for MTU Onsite Energy India. The gensets installed at the Formula 1 circuit are also reliable: when things start getting hot in the kitchen facilities and in the racing team workshops on the morning of the race, they ensure there is enough power for everyone.

Income, Assets and Financial Position of the Tognum Group

In 2012, we reported a solid order intake at 3,079.7 million euros (previous year: 3,199.7 million euros). Group revenues were up 1.4% to 3,014.5 million euros (previous year: 2,972.1 million euros). The adjusted EBIT at 295.5 million euros (previous year: 345.2 million euros) was below the level of the previous year.

Income

TOGNUM GROUP

IN EUR MILLION	2011	2012	Change
Order intake	3,199.7	3,079.7	- 3.8%
Revenues	2,972.1	3,014.5	1.4%
EBIT	287.5	282.7	- 1.7%
Adjusted EBIT	345.2	295.5	- 14.4%
Return on sales (adjusted EBIT/revenues)	11.6%	9.8%	

Solid order intake

ORDER INTAKE. In 2012, we reported a solid order intake at 3,079.7 million euros (previous year: 3,199.7 million euros). Information on the order intake of the segments is presented in detail beginning on page 46.

ORDER INTAKE

in EUR million



Group revenues
up 1.4%

REVENUES. Group revenues in the reporting period were up 1.4% to 3,014.5 million euros (previous year: 2,972.1 million euros). Revenues in the *Engines* segment increased by 0.6% to 2,006.7 million euros (previous year: 1,995.1 million euros) and in the *Onsite Energy & Components (OE&C)* segment by 1.0% to 1,000.8 million euros (previous year: 990.5 million euros). In the *Distribution* segment, revenues improved by 9.9% to 554.0 million euros (previous year: 504.0 million euros). Due to the increasing integration of services, the segment figures include intersegment revenues amounting to 546.9 million euros (previous year: 517.5 million euros).

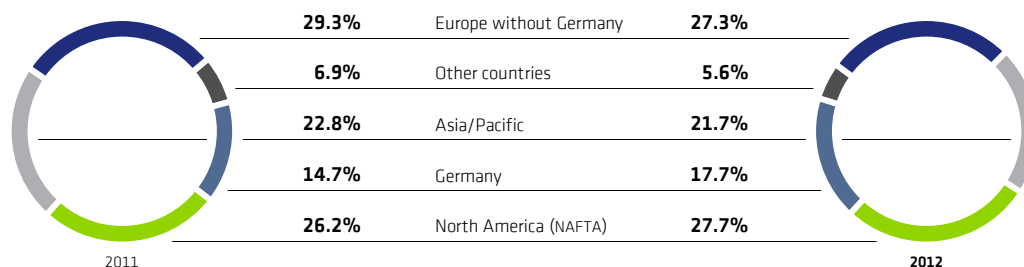
REVENUES

in EUR million



Due to our strong regional diversification, we generated 82.3% of our revenues outside Germany in 2012 (previous year: 85.3%), while the North American and the German markets accounted for a larger share of our revenues than in the previous year. Information on the revenues of the segments is presented in detail beginning on page 46.

REVENUES BY REGION



EARNINGS PERFORMANCE. In the reporting period, EBIT amounted to 282.7 million euros (previous year: 287.5 million euros). A direct comparison of this figure with that of the previous year is of limited benefit only, however, since the data include a large number of one-time effects and non-operating issues. After taking these effects into account, the result is an adjusted EBIT amounting to 295.5 million euros (previous year: 345.2 million euros) for the reporting period.

The following one-time effects and non-operating issues were included in the calculation of the adjusted EBIT:

TOGNUM GROUP: EBIT ADJUSTMENT

IN EUR MILLION	2011	2012
EBIT	287.5	282.7
Increased depreciation in connection with acquisitions (PPA)	34.4	20.1
Exchange rate factors resulting from valuation of loans/currencies at the reporting date and hedging activities	18.1	0.2
Effects from the exit from the business activities of Onsite Energy Fuel Cell Systems	5.3	-7.4
Adjusted EBIT	345.2	295.5

The adjusted EBIT margin was 9.8% (previous year: 11.6%). The adjusted EBIT was down 14.4% to 295.5 million euros (previous year: 345.2 million euros). This unfavourable margin compared with the previous year resulted in particular from the reduced capacity utilisation due to the product mix, a scheduled increase in R&D expenditure, and the increase in sales activities.

Compared with the previous year, selling costs were up 12.0% to 245.4 million euros (previous year: 219.2 million euros). This increase results primarily from the increased sales activities. General administration costs, above all due to the increase in third-party services, amounted to 130.5 million euros (previous year: 117.2 million euros), which is 11.3% above the previous year's level. Our expenditure for research and development increased as scheduled to 203.6 million euros (previous year: 192.2 million euros). As in previous years, we consciously invest in the future in order to further increase our technological edge and thus secure the Tognum Group's future growth.

R&D: long-term investments in the future

Our other key earnings figures, which are included in the tables at the end of the annual report, are as follows:

28.8% adjusted gross
profit margin

GROSS PROFIT. Gross profit in the reporting period amounted to 866.1 million euros (previous year: 822.5 million euros). Deducting the relevant one-time and non-operating effects for gross profit in the reporting period resulted in an adjusted gross profit of 868.0 million euros (previous year: 873.3 million euros) and thus an adjusted gross profit margin of 28.8% (previous year: 29.4%). There was a negative impact resulting from the reduced capacity utilisation.

ADJUSTED GROSS PROFIT

in EUR million



INTEREST RESULT. The increase in interest expense of 8.5 million euros results primarily from reduced interest income following the repayment of loans by IFA Rotorion Holding GmbH, Haldensleben and higher interest expenses from pension obligations. This results in a negative interest result amounting to 24.6 million euros (previous year: 16.1 million euros).

Adjusted earnings per
share amounting to
1.45 euros

ADJUSTED EARNINGS PER SHARE. Consolidated net income after taxes amounted to 181.7 million euros in the reporting period (previous year: 199.3 million euros). Taking into account the above-mentioned one-time and non-operating effects, and applying a group tax rate of 29.6% (previous year: 26.6%), this resulted in an adjusted consolidated net income of 190.8 million euros (previous year: 241.6 million euros). The increase in the group tax rate is to a large extent due to aperiodic tax effects and a structural shift of the tax expense to countries with tax rates above the group tax rate. Adjusted earnings per share¹ for the reporting period thus amounted to 1.45 euros (previous year: 1.84 euros).

RETURN ON CAPITAL. We use the key performance indicator »RONA« (return on net assets) to present the total return on capital. Net assets include the bound and interest-bearing capital in the Tognum Group. At group level, net assets are calculated on the liabilities side and include equity, provisions for pensions and interest-bearing debt capital, less cash and cash equivalents. We use the capital employed calculated in this way as the average value² in relation to our operating earnings indicator – the adjusted EBIT. The resulting RONA is subsequently set against the Group's cost of capital rate.

In the year under review, a standard internal rate of return before taxes of around 12% p.a. was used for the internal management of the Tognum Group. This value has been fixed as the long-term average and thus ensures that brief fluctuations of the determinants of the internal rate of return do not on their own influence long-term investment decisions. The internal rate of return is fixed independently of the WACC (weighted average cost of capital), which is calculated on the basis of IAS 36.

At 23.6%, ROC is
clearly above the cost
of capital rate

Applying the average net assets amounting to 1,254.5 million euros and the adjusted EBIT of 295.5 million euros for the 2012 financial year resulted in an adjusted RONA of 23.6% (previous year: 27.7%). This means that our return on capital was significantly above our cost of capital rate and our target value of over 20%.

¹ Earnings per share are determined by dividing the group earnings to which the shareholders of Tognum AG are entitled by the number of shares amounting to 131,375,000.

² (Level at the beginning of the year + level at the end of the year)/2

CHANGES IN COSTS AND PRICES. The changes in our costs, particularly for sales, administration and research and development, are described above in this section under »Earnings performance«. We increased our prices in 2012 by an average of around 2%. Compared with the previous year, primary materials with the greatest cost relevance (above all steel and other metals) have remained stable with a slight tendency to decline. The average price levels for crude oil and electricity in 2012 were above those of the previous year. We offset the risks arising from price increases with long-term supply contracts and commodity hedges.

Assets

Deviating from the balance sheet structure in accordance with IFRS, a consolidated statement of financial position is presented here that has been reduced to the key items for reasons of comprehensibility. This also forms the basis for further commentary.

TOGNUM GROUP: CONSOLIDATED STATEMENT OF FINANCIAL POSITION ASSETS

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Non-current assets	1,205.7	1,189.4
Inventories	879.7	820.1
Trade receivables	514.7	520.3
Cash and cash equivalents	420.9	290.9
Other assets	96.2	108.9
Total assets	3,117.3	2,929.5

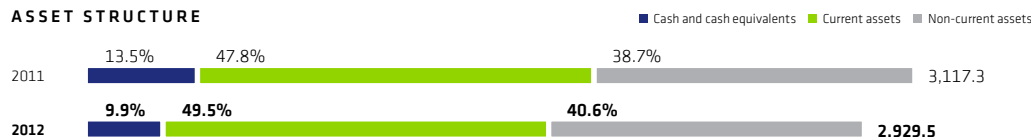
LIABILITIES

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Equity	876.9	824.9
Provisions	958.0	915.8
Financial liabilities	517.8	470.1
Trade payables	363.6	352.6
Advance payments received	289.6	255.2
Other types of liabilities	111.3	110.9
Total equity and liabilities	3,117.3	2,929.5

Total assets were down 6.0% on the balance sheet date compared with the previous year. The most significant changes are presented below.

ASSETS. Due to the repayment of a loan by IFA Rotorion Holding GmbH, Haldensleben and the sale of our shareholding in this company, non-current assets were down 1.4% to 1,189.4 million euros (31 December 2011: 1,205.7 million euros). Details of the process relating to IFA Rotorion Holding GmbH are included in the notes to the consolidated financial statements on page 153. There was an offsetting effect from the increase in tangible and intangible assets. Due to our successful net working capital management, inventories were down 6.8% to 820.1 million euros (31 December 2011: 879.7 million euros). Trade receivables increased by 1.1% to 520.3 million euros (31 December 2011: 514.7 million euros). Cash and cash equivalents were down 30.9% to 290.9 million euros (31 December 2011: 420.9 million euros), primarily as a result of redeeming the previous consortium financing.

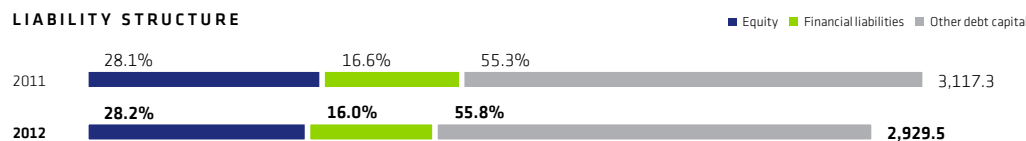
ASSET STRUCTURE



Net working capital³, primarily as a result of the reduced inventories, was down 1.2% to 732.6 million euros (31 December 2011: 741.2 million euros).

LIABILITIES. Compared with the previous year, equity was down 5.9% to 824.9 million euros (31 December 2011: 876.9 million euros), primarily as a result of the profit transfer to Engine Holding GmbH for the 2012 financial year amounting to 168.5 million euros and the dividend payout for the 2011 financial year. There was an offsetting tax effect amounting to 41.5 million euros. The equity ratio of 28.2% (31 December 2011: 28.1%) nevertheless remained virtually unchanged compared with the previous year. Provisions were down 4.4% to 915.8 million euros (31 December 2011: 958.0 million euros) due to reduced short-term provisions. Financial liabilities were down 9.2% to 470.1 million euros (31 December 2011: 517.8 million euros) following the refinancing. There was an offsetting effect due to the recognition of the profit transfer to Engine Holding GmbH in the accounts as a financial liability. Trade payables were down 3.0% to 352.6 million euros (31 December 2011: 363.6 million euros). Owing to the project situation, advance payments received decreased by 11.9% to 255.2 million euros (31 December 2011: 289.6 million euros).

LIABILITY STRUCTURE



OTHER INTANGIBLE ASSETS. In addition to its book value, Tognum also has organisational and process-based advantages. We have a global organisational structure, customer contacts of many years standing and a high average long-term employment rate; 26.7% of the active Tognum Group workforce has been with the company for more than 20 years. We have also accumulated over 100 years of experience and expertise, in addition to specific process and system competence in engine design and manufacture.

EFFECTS OF ACCOUNTING DISCLOSURES ON THE FINANCIAL SITUATION. In accordance with IAS 19.92, Tognum used the so-called corridor approach for the last time in 2012 to calculate the actuarial gains/losses from outstanding pension obligations. The cumulative amount of actuarial gains not included in the annual statements amounted to -62.7 million euros as at the 2012 balance sheet date (previous year: 45.0 million euros). If Tognum AG had applied the so-called SORIE approach (IAS 19.93A), a corresponding decrease in equity, taking deferred taxes into account, would have been reported as at 31 December 2012. Further information is provided in the section entitled »Accounting and valuation methods« in the notes to the consolidated financial statements beginning on page 121.

NON-DISCLOSED FINANCIAL INSTRUMENTS. We use leasing agreements for property, our vehicle fleet and IT systems to limit the investment of capital and investment risks. Leasing payments amounting to 56.9 million euros (previous year: 46.3 million euros) relating to rental and leasing agreements in the 2012 financial year were recognised with effect on income. Further information on future obligations arising from rental and leasing agreements is provided in the section entitled »Leases« in the notes to the consolidated financial statements beginning on page 172.

Use of leasing agreements for property, the vehicle fleet and IT systems

³ Net working capital = Inventories + Trade receivables ./ Trade payables ./ Advance payments received

EXPLANATORY NOTE ON CORPORATE ACQUISITIONS. Our M&A strategy is based on our corporate strategy. Further information is provided in the section entitled »Corporate strategy« beginning on page 26. On 4 April 2012, following the approval of the competition authority, the Tognum Group acquired 75.1% of the shares in the Bavarian manufacturer of power generator sets Aggretech AG, Ruhstorf. With its entry into Aggretech AG, Ruhstorf, the Tognum Group is systematically moving ahead with the expansion of its business in onsite energy systems. Effective as at 21 June 2012, Aggretech AG, Ruhstorf was renamed to MTU Onsite Energy Systems GmbH, Ruhstorf.

PRESENTATION OF THE INFLUENCE OF THE ACCOUNTING POLICY ON THE FINANCIAL SITUATION OF THE TOGNUM GROUP. We pursue a permanent accounting policy. Compared with the previous year 2011, the exercise of voting rights remained unchanged.

Financial Management and Financial Position

FINANCIAL MANAGEMENT. Our financial management system is focused primarily on supporting the sustained growth of the Tognum Group by means of an adequate financing structure and guaranteeing our ability to pay at all times. To this end, we have sufficient funds available from the cash flow from operating activities, the liquidity position and existing loan agreements. The consortium financing arranged in the course of the IPO in 2007 was redeemed in the third quarter of 2012.

Sufficient funds

As part of a long-term refinancing arrangement, Tognum AG concluded an agreement with a consortium of eight international banks for a revolving credit line for 300 million euros. The credit line runs until 2017. In December 2011, Tognum also received a loan of 125 million euros from the European Investment Bank running until 2016 to finance research and development projects. In July 2012, it was increased by 75 million euros. This part of the loan runs until 2017. In addition, the KfW Ipex-Bank is financing R&D activities for 50 million euros, maturing in 2020.

The agreements for the above-mentioned revolving credit line and the loan contain certain limiting framework conditions, relating, among other things, to the ratio of net financial debt to EBITDA, the sale of assets and M&A activities. Together with the cash flow from current operating activities, they provide the funds for day-to-day business operations and for financing organic and external growth.

TOGNUM GROUP: CASH FLOW

IN EUR MILLION	2011	2012	Change
Cash flow from operating activities	292.7	278.9	- 4.7%
Cash flow from investing activities	-166.3	- 99.5	40.2%
Cash flow from financing activities	56.1	- 308.8	- 650.4%

Cash flow from operating activities amounted to 278.9 million euros (previous year: 292.7 million euros); the decline was primarily a result of the low group profit and the reduction in liabilities and provisions. There was a positive impact due to the reduction in inventories. In the current reporting period, the cash flow from investing activities amounted to -99.5 million euros (previous year: -166.3 million euros). The 66.8 million euros difference results primarily from the repayment of a loan by IFA Rotorion Holding GmbH, Haldensleben and the sale of our shareholding in this company. The cash flow from financing activities amounting to -308.8 million euros (previous year: 56.1 million euros) changed primarily as a result of the repayment of financial liabilities as part of the refinancing arrangement.

GROUP MANAGEMENT REPORT

Income, Assets and Financial Position of the Tognum Group | Management Report on the Individual Financial Statement of Tognum AG in accordance with the German Commercial Code (HGB)

CONSOLIDATED FINANCIAL STATEMENTS

SERVICE

INVESTMENTS⁴. We made investments totalling 183.5 million euros in the reporting period (previous year: 165.8 million euros), which included 136.6 million euros for investments in property, plant and equipment (previous year: 123.4 million euros). In the period under review, we mainly acquired production and production-related plant. Investments in special equipment increased significantly as a result of the continuing development of existing engine series and optimisation of the manufacturing process.

Investments also include additions in intangible assets amounting to 47.0 million euros (previous year: 42.4 million euros), which to a large extent relate to the development of the future Series 1000, 1100, 1300 and 1500 engines.

INVESTMENTS

in EUR million



NET FINANCIAL DEBT. In the year just ended, net financial debt was completely eliminated as a result of the positive free cash flow, and a surplus of cash and cash equivalents compared with interest-bearing financial liabilities amounting to 40.1 million euros was established as at the reporting date (31 December 2011: – 5.0 million euros). The ratio of net financial debt to adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets) increased to –0.1 (previous year: 0.0).

Credit line until 2017

CREDIT FACILITIES. As part of a long-term refinancing arrangement, we concluded an agreement for a revolving credit line for 300 million euros. The credit line runs until 2017. In December 2011, Tognum also received a loan of 125 million euros from the European Investment Bank running until 2016 to finance research and development projects. This was increased by 75 million euros in July 2012. In addition, the KfW IpeX-Bank is financing R&D activities for 50 million euros.

Overall Statement on the Business Situation by the Executive Board

Strong financially

In virtually all application areas and sales markets, we were able to benefit from the pleasing development of the off-highway markets with all our products. The Tognum Group has sufficient financial flexibility to systematically implement the future investment requirements to meet our growth and product strategy targets. We still continue to invest substantially in research and development in order to further expand our technological edge. Our product portfolio is ideally prepared for the tougher emission requirements to come – and we also constantly improve our products in terms of the features that are important for our customers, such as fuel consumption and life cycle costs. Overall, at the end of the reporting period, the Tognum Group is strong financially and is on course for more profitable growth.

⁴ Investments in intangible assets and in property, plant and equipment, excluding financial investments and also excluding new additions to the group of consolidated companies

Management Report on the Individual Financial Statement of Tognum AG in accordance with the German Commercial Code (HGB)

The management report of Tognum AG is presented below. The single entity financial statement is included in a separate report.

Income of Tognum AG

TOGNUM AG (SINGLE ENTITY): INCOME STATEMENT AS AT 31 DECEMBER 2012

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Financial result	282.7	228.3
General administrative costs	-102.6	-108.4
Other operating income	81.7	94.3
Other operating expenses	-27.3	-25.9
Result from operating activities	234.5	188.4
Extraordinary expense	-0.4	-0.4
Extraordinary result	-0.4	-0.4
Income taxes	-48.0	-19.5
Surplus before profit and loss transfer	186.1	168.5
Expenses resulting from a profit and loss transfer agreement	0.0	-168.5
Net profit/loss	186.1	0.0
Profit carried forward from the previous year	99.2	93.7
Allocation to profit reserves	-93.0	0.0
Accumulated profits	192.2	93.7

Tognum AG's result from operating activities in the 2012 financial year amounted to 188.4 million euros (previous year: 234.5 million euros). Compared with the previous year, this represents a decline of 19.7%. This result is primarily due to the income from the profit transfer by MTU Friedrichshafen GmbH, Friedrichshafen amounting to 257.7 million euros (previous year: 291.0 million euros). There was also a positive impact on Tognum AG's performance from other operating income totalling 94.3 million euros (previous year: 81.7 million euros). This item mainly includes income from internal Group contributions amounting to 76.9 million euros (previous year: 76.5 million euros).

Significant Income from shareholding in MTU Friedrichshafen GmbH

There was a negative impact on the result due to general administration costs amounting to 108.4 million euros (previous year: 102.6 million euros) and other operating expenses totalling 25.9 million euros (previous year: 27.3 million euros). This increase in administration costs resulted primarily from higher costs for consultancy services.

A Domination and Profit and Loss Transfer Agreement was concluded between Tognum AG and Engine Holding GmbH on 25 September 2012. As a result of the entry of this agreement in the relevant Commercial Register on 19 December 2012, an integrated tax group was established in accordance with German tax

regulations between Engine Holding GmbH (controlling company) and Tognum AG (dependent company) for corporation and trade tax purposes retroactively to 1 January 2012. The taxable income of Tognum AG including all German dependent companies has subsequently been assigned to Engine Holding GmbH since 2012, where it is subject to German corporation and trade tax.

As a result of this tax situation, the tax expense of Tognum AG fell to 19.5 million euros in 2012 (previous year: 48.0 million euros). This is made up of deferred income taxes amounting to 24.2 million euros (previous year: –0.3 million euros) and current income taxes amounting to –4.7 million euros (previous year: 48.3 million euros). The deferred tax expense results from the derecognition of deferred tax assets that had previously been reported by Tognum AG as the former controlling company. The reporting of deferred taxes will now be the responsibility of Engine Holding GmbH. As a result of the integrated tax group effects and aperiodic tax effects, the tax rate of 10.37% (previous year: 20.51%) deviates from the expected tax rate of 28.07%.

OUTLOOK FOR TOGNUM AG. The expected business performance of the Tognum Group will be reflected accordingly in the financial situation of Tognum AG in 2013 and 2014. In particular, we expect significant contributions to earnings from the shareholding in MTU Friedrichshafen GmbH. More information on the outlook for the Tognum Group can be found in the report on expected developments beginning on page 96.

Assets of Tognum AG

TOGNUM AG (SINGLE ENTITY): STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

ASSETS

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Non-current assets		
Intangible assets	0.0	0.0
Property, plant and equipment	1.0	0.9
Financial investments	988.3	925.0
	989.3	925.9
Current assets		
Receivables and other current assets	224.1	368.4
Cash and cash equivalents	373.2	252.1
	597.4	620.5
Prepaid expenses	0.0	1.5
Deferred taxes	24.2	0.0
Total assets	1,610.9	1,547.9

LIABILITIES

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Equity		
Share capital (Conditional capital: EUR 13,000 thousand)	131.4	131.4
Capital reserves	262.6	262.6
Profit reserves	335.1	335.1
Accumulated profits	192.2	93.7
	921.3	822.8
Provisions	74.5	67.5
Liabilities	615.1	657.6
Total equity and liabilities	1,610.9	1,547.9

ASSETS. As at 31 December 2012, the total assets of Tognum AG amounted to 1,547.9 million euros (previous year: 1,610.9 million euros). This was attributable on the asset side in particular to the financial assets of Tognum AG, which basically consist of the shareholding in MTU Friedrichshafen GmbH, Friedrichshafen.

The majority of the current assets consist of receivables from associated undertakings resulting from financial transactions within the Tognum Group.

LIABILITIES. The equity of Tognum AG was down 98.5 million euros compared with the previous year to 822.8 million euros (previous year: 921.3 million euros). At the end of the period under review, the equity ratio stood at 53.2% (previous year: 57.2%).

Equity ratio of
53.2%

The provisions are made up primarily of provisions for pensions, taxes and other provisions. Provisions for taxes mainly relate to taxes that have not yet been finally assessed. As in the previous year, other provisions relate principally to personnel provisions.

The liabilities of Tognum AG consist basically of two elements: firstly, amounts owed to banks totalling 250.6 million euros (previous year: 426.1 million euros), which principally relate to the financing of the shareholding in MTU Friedrichshafen GmbH, Friedrichshafen and secondly, amounts owed to associated undertakings totalling 388.6 million euros (previous year: 172.5 million euros), which result from financial transactions within the Tognum Group and the Domination and Profit and Loss Transfer Agreement.

Financial Management and Financial Position of Tognum AG

FINANCIAL MANAGEMENT. As the holding company of the Tognum Group, Tognum AG is responsible for the Group's financial management. The goal of our financial management system, therefore, includes providing support for the growth of the Tognum Group by means of an adequate financing structure and guaranteeing its ability to pay at all times. To this end, we have sufficient funds available from the operating activities of the subsidiary companies and existing credit facilities.

CURRENT FINANCING. As part of a long-term refinancing arrangement, we concluded an agreement for a revolving credit line for 300 million euros. The credit line runs until 2017. In December 2011, Tognum also received a loan of 125 million euros from the European Investment Bank running until 2016 to finance research and development projects. This was increased by 75 million euros in July 2012. In addition, the KfW IpeX-Bank is financing R&D activities for 50 million euros.

Conclusion of
agreement for a
revolving credit line

The agreements for the loans contain certain limiting framework conditions, relating, among other things, to the ratio of net financial debt to EBITDA, the sale of assets and M&A activities. Together with the cash flow from current operating activities, they provide the funds for day-to-day business operations and for financing organic and external growth.

Segments⁵

Our business activities include the *Engines, Onsite Energy & Components (OE&C)* and *Distribution* segments.

Engines

OVERVIEW OF THE ENGINES SEGMENT

IN EUR MILLION	2011	2012	Change
Order intake	2,186.0	2,171.5	-0.7%
Revenues, thereof:	1,995.1	2,006.7	0.6%
Marine	555.3	543.3	-2.2%
Industrial	469.8	403.6	-14.1%
Oil & Gas	197.3	245.1	24.2%
Defense	95.0	103.4	8.8%
After Sales/Other (Engines)	677.7	711.3	5.0%
Adjusted EBIT	298.4	250.0	-16.2%
Return on sales (adjusted EBIT/revenues)	15.0%	12.5%	

Growth in Marine and
After Sales

ORDER INTAKE. At 2,171.5 million euros (previous year: 2,186.0 million euros), the order intake in 2012 was on last year's level. In the Marine application area, we saw growth primarily in governmental business, whereas the yacht sector declined, mainly in the segment for small, series-produced yachts. The commercial sector benefited from an order for the delivery of 16 marine generator sets for four Rolls-Royce UT 771 CDL offshore supply vessels. Following the economic boom in 2011, in conjunction with tougher emission standards coming into force, the order intake for rail engines in the Industrial application area was down as expected. In our business in drive systems for the mining industry and for Oil & Gas, we reported declines compared with the same period in the previous year, which had benefited from the strong increase in prices for raw materials and subsequently reported a high order intake. After Sales business saw continued growth at a high level.

⁵ All data include intersegment relations, i.e. transactions between the segments

REVENUES. The segment's revenues in the reporting period amounted to 2,006.7 million euros and were thus 0.6% above the level of the previous year (1,995.1 million euros). While business in commercial vessels performed positively, our yacht business declined. In the Industrial application area, due to the economic boom in 2011 mentioned above, business in rail engines was weaker, as expected. As a result of higher investments due to the earlier increase in raw material prices, there was a strong increase in revenues in the Oil & Gas application area. In our Defense business, revenues were up owing to an increase in project activities. After Sales business increased again slightly at a high level.

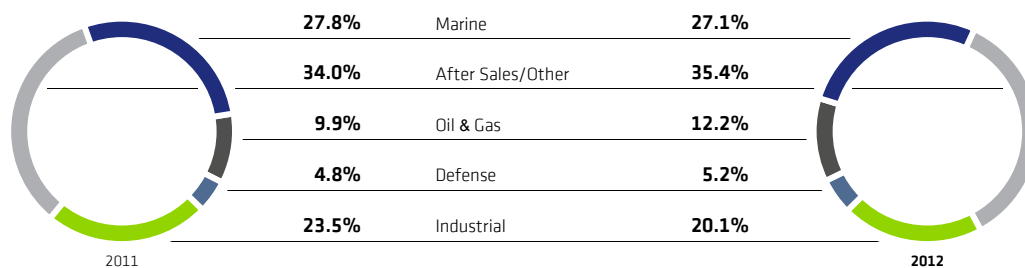
Revenues up 0.6%

REVENUES ENGINES

in EUR million



REVENUE DISTRIBUTION ENGINES



EARNINGS PERFORMANCE. In the reporting period, the return on sales was at 12.5% (previous year: 15.0%), with the adjusted EBIT accordingly at 250.0 million euros (previous year: 298.4 million euros). This development resulted primarily from the reduced capacity utilisation, the increase in sales activities and the scheduled increase in R&D expenditure.

Onsite Energy & Components

OVERVIEW OF THE ONSITE ENERGY & COMPONENTS SEGMENT

IN EUR MILLION	2011	2012	Change
Order intake	1,046.6	877.4	-16.2%
Revenues, thereof:	990.5	1,000.8	1.0%
OE Diesel Systems & Engines	604.9	594.3	-1.8%
OE Gas Power Systems	64.7	86.9	34.3%
After Sales/Other (Onsite Energy)	126.1	139.3	10.5%
Injection Systems	194.8	180.3	-7.4%
Adjusted EBIT	76.4	73.7	-3.5%
Return on sales (adjusted EBIT/revenues)	7.7%	7.4%	

Major order for delivery of a gas turbine

ORDER INTAKE. The order intake in 2012 amounted to 877.4 million euros (previous year: 1,046.6 million euros). In the OE Diesel Systems & Engines application area, business both in diesel systems and in the supply business to our OEM customers was down compared with the same period in the previous year, when the demand in both areas was extremely high due to the nuclear disaster in Fukushima and large orders from major customers. There was a positive impact in the reporting period as a result of a large order for the delivery of a gas turbine. The OE Gas Power Systems application area reported a satisfactory order intake, following unusually strong business in the previous year. After Sales also performed positively. The order intake in our injection systems business, due to a high level of orders at the beginning of 2012, was below the level of the previous year.

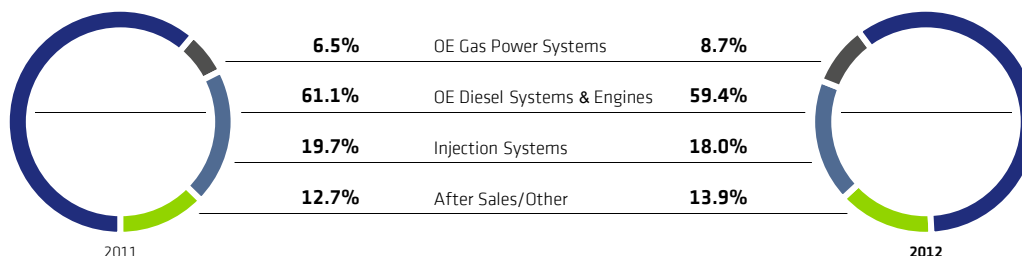
REVENUES ONSITE ENERGY & COMPONENTS

in EUR million

2011	990.5
2012	1,000.8

REVENUES. The segment's revenues were up 1.0% to 1,000.8 million euros in the reporting period (previous year: 990.5 million euros). In the OE Diesel Systems & Engines application area, revenues generated in diesel systems were down slightly. The supply business to our OEM customers, as a result of their high stock levels, was down at the beginning of the year. Sales revenues in our OE Gas Power Systems business were up 34.3 million euros to 86.9 million euros (previous year: 64.7 million euros) due to the growing demand for gas systems. Business in the After Sales/Other application area was positive. In this case, due to the relocation of the IFA Rotorion production in Friedrichshafen being completed in 2011, there were no longer any revenues for services as had been included in the previous year amounting to 9.9 million euros. In the case of Injection Systems, we reported a decline of 7.4% to 180.3 million euros (previous year: 194.8 million euros).

REVENUE DISTRIBUTION ONSITE ENERGY & COMPONENTS



EARNINGS PERFORMANCE. In the reporting period, the adjusted segment EBIT amounted to 73.7 million euros (previous year: 76.4 million euros). This resulted primarily from the scheduled increase in R&D expenditure and the increase in sales activities. The adjusted return on sales dropped accordingly to 7.4% (previous year: 7.7%).

Distribution

OVERVIEW OF THE DISTRIBUTION SEGMENT

IN EUR MILLION	2011	2012	Change
Order intake	552.6	513.3	-7.1%
Revenues, thereof:	504.0	554.0	9.9%
Products	381.0	420.5	10.4%
After Sales (Distribution)	123.0	133.5	8.5%
Adjusted EBIT	28.9	29.9	3.5%
Return on sales (adjusted EBIT/revenues)	5.7%	5.4%	

ORDER INTAKE. The order volume at 513.3 million euros (previous year: 552.6 million euros) was below that of the previous year. Whereas the order intake in Europe declined, it remained at the level of the previous year in the Asia/Pacific region.

REVENUES. The segment's revenue volume at 554.0 million euros (previous year: 504.0 million euros) was above that of the previous year. Both the European and Asia/Pacific regions contributed to this growth.

REVENUES DISTRIBUTION

in EUR million



EARNINGS PERFORMANCE. The return on sales amounted to 5.4% (previous year: 5.7%), while the adjusted EBIT was at 29.9 million euros (previous year: 28.9 million euros). There was a positive impact from the strong growth in revenues.





REGIONAL EXPANSION

»The Tognum educational program is unique in the region and will give us a highly skilled workforce. It is making a major contribution to revitalizing the local manufacturing industry.«

Dr. Susan Winsor | President of Aiken Technical College, South Carolina



MTU 12V 4000 T94 DIESEL ENGINE

A large number of engines of this type generate energy for the North American oil and gas industry.



REGIONAL EXPANSION



AIKEN /// USA

High school students get a head start on a career with in-depth training provided by Tognum's cooperative education program in Aiken County, South Carolina / USA. The program developed jointly by the schools and local authorities combines technical training in high school with hands-on learning in the MTU plant. »A big advantage for our students,« says Brooks Smith, Director of the Aiken County Career & Technology Center in South Carolina, where the program has now started. The model is

designed to assist high school graduates who start work immediately after leaving high school. It thus fills a gap in the American education system and has already captured the attention of the White House, where MTU representatives and their partners recently presented their plans. The group included Dr. Susan Winsor, President of Aiken Technical College. She is convinced: »Our students and the region will benefit from this program.«

Research and Development

To ensure that we achieve the ambitious goals we have set, we made substantial investments in research and development again in the 2012 financial year. In total, our adjusted R&D activities amounted to 241.4 million euros (previous year: 215.3 million euros).

R&D Activities

At the end of 2012, almost 10% of the entire Tognum Group workforce (1,035 employees) were dedicated to research and development. They not only perform basic research in the field of internal combustion and the control of engine and propulsion systems, but also design, calculate and test them. A key focus is on the development of sustainable, future-proof solutions that take the increasingly tougher emission regulations into account. To this end, we not only test low-emission combustion processes, but also components and systems for exhaust aftertreatment.

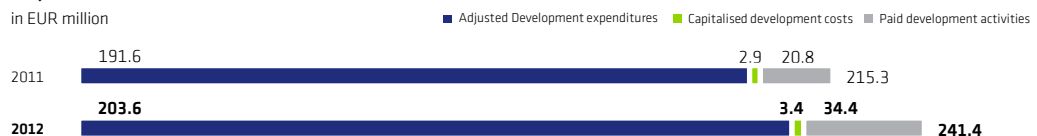
Innovative solutions

Advanced technological and innovative solutions and a clear focus on benefits for the customer are the key goals of development work at Tognum. To achieve our objectives, we completed adjusted R&D activities amounting to 241.4 million euros in the reporting period (previous year: 215.3 million euros). Adjusted development expenditure was up 6.3% to 203.6 million euros (previous year: 191.6 million euros), as scheduled.

We intend to invest more in R&D in order to maintain our technology leadership for the successors to the Series 2000 and 4000 engines. For this reason, we see the more stringent emission regulations to come as a tremendous opportunity for us. The successful Series 1163 engine for marine applications is being continually developed to comply with the new emission regulations. Capitalised development costs at 3.4 million euros (previous year: 2.9 million euros) remained at a low level. Paid development activities saw a project-related increase to 34.4 million euros (previous year: 20.8 million euros).

ADJUSTED R&D ACTIVITIES

in EUR million



The adjusted R&D ratio (ratio of the adjusted R&D activities to revenues) increased to 8.0% in the reporting period (previous year: 7.2%). This will enable us to maintain our technology leadership in the future.

In 2012, we applied for 98 patents (previous year: 110), 66 of which (previous year: 48) originated from Germany and 32 (previous year: 62) from abroad. At the balance sheet date, Tognum thus held 1,016 industrial property rights (previous year: 1,164), consisting of patent applications, patents and industrial designs. These are broken down into 389 domestic (previous year: 432) and 627 foreign property rights (previous year: 732). The number of first-time applications amounted to 66 (previous year: 50). As a result of our exit from our activities in Onsite Energy Fuel Cell Systems, 192 property rights were transferred to the Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e. V.

98 patents applied for

Key Technologies and Innovations

Following the pioneering achievements in engine development that had been made in the first decades of the company's existence, the main performance features of the engines manufactured today are based on the three key technologies of turbocharging, electronics and fuel injection, all of which are still developed in-house. Even in Karl Maybach's day, increasing the power output of the engine was one of the key challenges and ultimately led to the development of the high-speed diesel engine with turbocharger aspiration. Today, turbochargers and turbocharging systems are an important element in efforts being made to minimise emissions in the finely tuned combination of electronics control and fuel injection.

Turbocharging, electronics and fuel injection

In the last ten years, the legal emission limits for internal combustion engines have toughened up dramatically. In addition to the traditional criteria that the market still demands – high performance, low fuel consumption, low costs and high reliability – low emission levels now determine Tognum AG's goals and challenges. The focus today is on soot particles and nitrogen oxides. The most stringent limits to date are set by the US EPA »Tier 4« emission regulations and will come into force as of 2014. These compulsory standards make the development of competitive high-speed high-performance engines extremely complex. These are areas where we are coming closer and closer to the limits of the materials we use, the design, the mechanical and thermal stress, and are being forced to reconcile opposing factors. This is because the output of the engine cannot be increased at will while reducing fuel consumption and emissions at the same time. Challenges of this kind are common problems faced in the field of research and development, which has always produced product developments that have ultimately shaped Tognum's corporate profile and brand image.

The focus is on emissions

Mobile gas engines will gain in importance; we are already developing the technologies they will need today.

Mobile gas engines

Working closely with our partners, we are currently developing innovative components for future drive systems that will enable us to exploit both the potential for reducing fuel consumption and the potential for extending the performance range to meet the needs in many applications from the MTU portfolio. In addition to the combustion engine and mechanical power transmission, these primarily include components for the electrification of the drive train and the auxiliary equipment. In conjunction with the development of energy storage systems, this will enable us to produce hybrid drive concepts. The infrastructure we have set up specifically supports this development.

Drive systems

Products

SERIES 1600. The Series 1600 engines designed for gensets exhibit excellent load switching capabilities and equally good frequency settling characteristics during load acceptance. The durability and reliability of the Series 1600 engine has been demonstrated in field tests.

Engines currently being developed include engines for C&I and agricultural applications (10- and 12-cylinder engine versions) designed to meet the EPA Tier 4 emission regulations, in addition to 12-cylinder versions for rail applications such as underfloor units for railcars and drive systems for locomotives that meet EU Stage IIIB emission standards. Work that had already started in 2011 on the development of a 6-cylinder engine for use as an on-board genset for marine applications continued in 2012.



10V 1600 Genset



12V 1600 CI04

Reduced fuel consumption despite lower emission levels

SERIES 2000. MTU's Series 2000 yacht engines are being further developed to comply with US EPA Tier 3 emission regulations (leisure craft) and international IMO Tier II emission limits. The new 2000 M96 engine generation covers a power range from 1,340 to 1,940 kilowatts and meets IMO Tier II and EPA Tier 3 using internal engine technology only. IMO Tier III will require the integration of an SCR exhaust aftertreatment system. Despite the low exhaust emission levels, it has been possible to reduce the fuel consumption of the engines. The acceleration capabilities, which had already been optimised for the current engine, will be further improved. The engines will be available in 2014 (EPA Tier 3 for leisure craft) and from the beginning of 2016 (IMO Tier III).

SERIES 4000. In September 2011, MTU successfully launched its new generation of Series 4000 engines in the power range from 1,680 to 1,865 kilowatts for use in mobile hydraulic fracturing systems. The engines have been demonstrating their capabilities in day-to-day drilling operations since then. Frac units are used to recover the liquid and gaseous reserves trapped under rock. The emission stability of the engine has been verified in a DF run lasting 2,800 hours. On the basis of this run, the certificate for the EPA Tier 4 Interim emission standard was issued. The engines comply with the current US EPA Tier 4 Interim emissions standards with no exhaust gas aftertreatment. They consume up to 5% less fuel than their predecessor models and provide an extended torque range at low speeds with an optimum power-to-weight ratio. The drive units form the basis for the engines that MTU is currently developing for the even more stringent US EPA Tier 4 Final emission regulations that will not come into force until 2015. These emission regulations will also be met without the need for exhaust gas aftertreatment. This results in significant benefits for the customer in terms of installation requirements, operating costs and robust design concept. Furthermore, no additional consumables are required.

Engines are also currently being developed for use in mining applications that will comply with US EPA Tier 4 Final. Here again, no exhaust aftertreatment will be needed to meet the emission regulations. The first field trials unit has been providing trouble-free operation for several months now in a large mining haul truck. The response from the customer with regard to fuel consumption and acceleration capabilities and has been extremely positive.

For the EU Stage III B emission standards that have been in force in Europe since 2012, we have drive solutions based on the new Series 4000 engines that feature exhaust gas recirculation and diesel particulate filters. They cover a power range from 1,000 to 2,700 kilowatts and as from 2012 will be launched on the market in stages as 8-, 12-, 16- and 20-cylinder versions. In the case of the 16V4000R84 rail engine, certification in accordance with UIC standards has been successfully completed. The 8V version as the smallest engine for this application has been running on the test bench since October.

Series 4000 engines feature exhaust gas recirculation and diesel particulate filters

Very stringent limits based on US EPA Tier 4 Final apply to NO_x emissions in particular for power generation applications. These limits can only be met with exhaust gas aftertreatment. The first systems designed for Gendrive applications have already successfully completed extensive in-house testing.

A key focus in future in the continuing development of the Series 4000 engine will be to ensure compliance with the US EPA Tier 4 and IMO 3 standards to come in marine applications. This will not only affect high-performance engines, but also continuous output engines, on-board power units and offshore engines.



16V 2000 M96



16V 4000 R84

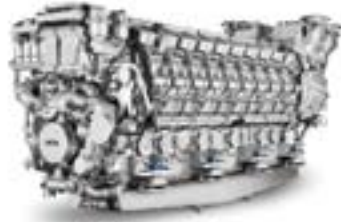
Ready for US EPA Tier 4i emission regulations

SERIES 8000. Series 8000 engines are designed specifically for fast commercial ships with a high payload and for defence vessels. Since they were launched on the market in the year 2000, they have set the benchmark for modern diesel propulsion units in this power range. Over 130 Series 8000 engines are now in service with a large number of international customers, making them the best-selling engines in their class. The Series 8000 engines are now available with a power output of 10 megawatts – the maximum power output of the 20-cylinder engine was previously 9,100 kilowatts. This means that the engine now covers the power range from 7,200 to 10,000 kilowatts, enabling MTU to offer economic propulsion solutions based on diesel engines with a power output per vessel of 40 megawatts. Series 8000 engines are certified for either the EPA Tier 2 emission standards or the tough standards of the International Maritime Organisation IMO and also comply with the IMO Tier II emission limits that are now even more stringent, and have been valid since 1 January 2011. Versions designed to meet IMO Tier III and EPA Tier 4 standards are being developed.

Best selling engines in their power range

SERIES 1163. Series 1163 engines with a power output of 4,440 to 7,400 kilowatts are incorporated in the propulsion systems of both civil and government vessels, such as catamaran ferries and coast guard ships. Tognum also continues to develop these engines to meet future emission standards. None of the key engine features that are of importance to the customer have been changed, such as the best power-to-weight ratio and acceleration capabilities in its class and the compact installation dimensions, and neither have the engine interfaces to the vessel. New features include a common rail injection system, the ADEC electronic engine management system, the combustion process and optimised turbocharger. The engine also meets the military requirements with respect to noise emissions and electromagnetic compatibility (EMC). Compared with the previous version, the 16V and 20V reference engines exhibit an 8% improvement in fuel consumption. The requirements of IMO Tier III are met by means of an SCR catalytic converter to reduce NO_x emissions. This means that the engines can in future be used in so-called emission control areas.

Advanced version of the Series 1163 engine for IMO 2 and IMO 3



20V 8000 M71



20V 1163 M94

GAS ENGINES. Gas engines are used to generate electricity and in the field of heat and power generation. This is an area in which Tognum offers optimum figures: the uprated version of the Series 4000 gas engine delivers an electrical output of 120 to 420 kilowatts and an electrical efficiency of up to 40%. We completed the trials phase for all engine types in the middle of 2010.

With the 20V Series 4000 gas engine, Tognum has entered a new power class for natural gas operation: in the L63 version, the engine delivers 2,200 kilowatts of power. A version was developed specifically for the Asian market that operates in tropical ambient conditions such as high humidity combined with high temperatures. Our gas engine systems also get attention as a result of the extended spark plug and oil change intervals. The interval for the general overhaul has been raised to 63,000 hours for both the natural gas and the biogas versions.

Production start of
first Series 4000
biogas engine

Spring 2011 saw the series production of the first Series 4000 biogas engine starting off with the 12-cylinder engine, followed by the 8, 16 and 20-cylinder versions, which were launched on the market in stages. The biogas engines will run on gas obtained from renewable resources, sewage and landfill gases, and later special gases. The power range extends from 800 to 2,200 kilowatts. Two years of field experience have demonstrated that the biogas engines operate extremely reliably. The availability level for our customers is well over 95%.

As a result of the sharp decline in the price for gas, particularly in the USA, there is currently an increase in the demand for engines in which diesel fuel is replaced by natural gas. To make this possible, MTU has completed field trials with stationary gensets, for example, and will be offering a retrofit solution from 2013 that will enable up to 70% of the diesel fuel to be replaced by gas.

Suppliers and Service Providers

Our innovative power ultimately results from our global development network, which we continued to expand in 2012. The proximity to our customers is important to us and helps us determine how we can better satisfy their wishes and their needs. At the same time, we exploit the cost benefits that such a global network offers us at various locations.

Internationalisation of Development Activities

We have tested our engines on test stands in the USA for years, as they supplement the capacity in Germany. We also benefit from the lower costs for diesel fuel in the USA. At our plant in Aiken, a new R&D centre is currently being erected with several state-of-the-art development and transient test stands for engines with an output of up to 4.500 kilowatts. The first two test stands will be going into operation at the beginning of 2013, so that we will also be able to have engines for all future EPA emission levels developed and certified there.

We increased our engineering activities in India again in 2012. Our R&D centre in Pune/India works closely with the R&D department in Germany. The Indian engineers are directly involved in the development of commercial MTU engines of various sizes, which includes the design and development of different components and systems, in addition to the use of mechanical and thermodynamic analyses. The centre provides jobs for around 10% of the employees working for Tognum worldwide in the field of R&D.

R&D centre in India

Lean Production

Inherent in our corporate vision is our commitment to examine all processes in order to give our customers a competitive edge in the global marketplace. To enable us to improve in the production areas, we have the Lean@mtu project. This is a project designed to rigorously implement lean production principles in production. For us it means going through a cultural change in which the production system takes on the role of a frame of reference. The core idea is to optimise the value stream and to reduce waste of any kind in order to continuously reduce the time between receiving the order and final delivery.

Corporate Governance Report

Corporate governance at Tognum is based on the German Corporate Governance Code (GCGC), which has become established in Germany as a guideline and benchmark for good corporate management. At Tognum, we regard good corporate governance as a commitment that extends to all areas of the company. It promotes trust and confidence in the management and supervision of the company, and is a prerequisite for long-term corporate success.

SHAREHOLDERS AND ANNUAL GENERAL MEETING. The shareholders of Tognum AG exercise their co-determination and control rights at the General Meeting of the Company's shareholders. An Ordinary General Meeting (Annual General Meeting) is held once a year and is chaired by the Chairman of the Supervisory Board. Its purpose is to decide on all matters determined by the law with binding effect for all shareholders and the company. The Annual General Meeting primarily decides on the discharge of the Executive Board and Supervisory Board, elects the shareholder representatives to the Supervisory Board and the external auditors and approves changes to the Articles of Association. Each share carries one vote. All documents and information relating to the Annual General Meeting, in accordance with the provisions of the German Stock Corporation Act, are made available to the shareholders for download from the Tognum AG website well ahead of the meeting.

EXECUTIVE BOARD. The Executive Board is the managing and representative body of the Group and as such is committed to acting in the best interests of the company. Taking into consideration the interests of the shareholders, the company's employees and the other groups associated with the company (stakeholders), it is committed to increasing corporate value in the long term. The members of the Executive Board bear joint responsibility for the overall management of the company. In consultation with the Supervisory Board, the Executive Board develops the corporate strategy, in addition to the annual and multi-year budgets. It ensures that the provisions of the law and internal company policies and guidelines are adhered to (compliance) and that the company has an appropriate risk management and risk control system in place. Since 19 December 2012, an inter-company agreement concluded with the majority shareholder Engine Holding GmbH has been in effect, on the basis of which Tognum AG submits the control of its company to the majority shareholder. Engine Holding GmbH is thus entitled to issue general or specific instructions to the Executive Board of Tognum AG with regard to the management of the company.

The Executive Board of Tognum AG currently consists of five members. It works closely with the Supervisory Board. When making key management appointments in the company, the Executive Board pays attention to diversity and strives in particular to include an appropriate number of women.

The bylaws of the Executive Board regulate the detailed work it performs in the Executive Board committee, the areas of responsibility of the individual Executive Board members, matters reserved for the Executive Board as a whole, and decision-making procedures. The Executive Board informs the Supervisory Board regularly, promptly and comprehensively on all matters of relevance to the company as a whole relating to strategy and its implementation, planning, business development, the financial and earnings position and compliance, in addition to corporate risks. More details on how the Executive Board and Supervisory Board co-operate are included in the declaration on corporate management in the management report on page 86.

Further information on the Executive Board is included in the report of the Supervisory Board on pages 10 to 13. The assignment of board divisions is shown on pages 8 to 9 of the annual report and in detail in the notes on page 179.

The remuneration of the Executive Board members and their holdings of shares and financial instruments are described in detail on pages 61 to 65 of the remuneration report.

SUPERVISORY BOARD. The Supervisory Board of Tognum AG has twelve members and, in accordance with the legal provisions, consists of an equal number of shareholder and employee representatives. The Supervisory Board members Stefan Buchner, Andrew Heath and John Paterson appointed in 2011 as a result of the decision taken by the Regional Court of Ulm were elected to the Supervisory Board of Tognum AG as shareholder representatives in the Annual General Meeting on 5 June 2012. Axel Arendt was also elected as an additional member of the Supervisory Board in the Annual General Meeting on 5 June 2012.

The Supervisory Board of Tognum AG has provided itself with bylaws. All members of the Supervisory Board perform their duties with due diligence. The Supervisory Board of Tognum AG currently has four committees. Detailed information on the duties and composition of the Supervisory Board and its committees is included on pages 10 to 13 of the report of the Supervisory Board.

The Supervisory Board advises and supervises the Executive Board in managing the company's business operations and is directly involved in the strategy, planning and all matters of prime significance to the company. The Supervisory Board appoints and dismisses the members of the Executive Board. When filling vacant positions on the Executive Board, the Supervisory Board pays attention diversity and appoints the members on the basis of their personal and professional qualifications, international experience and leadership qualities. Together with the Executive Board, the Supervisory Board is responsible for long-term succession planning.

In its election proposals to the Annual General Meeting, the Supervisory Board discloses the personal and business relations of each candidate with the Group, the executive bodies of the company and with any shareholder holding a material interest in the company. Members of the Supervisory Board at their own initiative attend whatever training and continuing education courses are required to perform their duties and are given appropriate support by Tognum AG.

AVOIDANCE OF CONFLICTS OF INTEREST. Potential conflicts of interest with respect to Executive Board or Supervisory Board members are to be disclosed to the Supervisory Board without delay. The Supervisory Board reports to the Annual General Meeting on any such conflicts and their treatment. In the year under review, there were no conflicts of interest either for Executive Board members or Supervisory Board members.

APPROPRIATE CONTROL AND RISK MANAGEMENT. Continuous and systematic management of business opportunities and risks is for us of fundamental importance for professional corporate governance. It ensures that risks are identified, assessed and appropriately managed at an early stage. The Executive Board reports regularly to the Supervisory Board on the current development of operational and financial risks and on project risks. The Audit Committee of the Supervisory Board is concerned with monitoring the financial reporting process, the effectiveness of the internal control, risk management and auditing system, and with monitoring the statutory audit of the annual and consolidated accounts on a regular basis. The systems in place are continually developed by Tognum and adapted to the changing situation. Further details are included beginning on page 87 of the opportunities and risk report.

FINANCIAL REPORTING AND AUDITING. The Executive Board of Tognum AG prepares its consolidated financial statements in accordance with the principles of the International Financial Reporting Standards (IFRS) and the individual financial statement in accordance with the requirements of the German Commercial Code (HGB). For the year under review, we again arranged with the external auditors KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, that the Chairman of the Audit Committee was to be notified immediately of any circumstances occurring during the audit that might constitute grounds for disqualification or partiality, unless they were eliminated immediately. The external auditors are also to report immediately on any findings or events arising during the performance of the audit which are of importance to the duties of the Supervisory Board. The external auditors are also required to inform the Supervisory Board and/or note in the Auditor's Report if, during the performance of the audit, they had identified any facts that were inconsistent with the Declaration of Compliance issued by the company. No such notification was necessary, however. The annual financial statements and the consolidated financial statements were issued an unqualified audit certificate.

COMPLIANCE. Compliance is an indispensable element of the corporate culture. Wherever Tognum conducts its business, not only are the statutory regulations and regulatory standards observed, but, in addition, our own self-imposed ethical standards and requirements are complied with. Tognum AG is doing its utmost to prevent corruption and violations of competition law and to investigate and eliminate all forms of misconduct. Tognum has a compliance management system (CMS) in place that is continually updated. The aim and purpose of the CMS is to support the Executive Board in the performance of its duties relating to compliance issues.

In order to make compliance more effective in the sales area, a change was made to the assignment of staff responsibilities in the sensitive government business as preventative measures. In the Engines business unit, the previous land-based defence business and marine business with public sector customers was placed under a common management. As a result of this measure, our business with members of the armed forces and procurement agencies can now be effectively reviewed on compliance relevant facts.

A Business Practice Office & Compliance Advice unit has been created to deal with key compliance issues. This has subsequently resulted in a group-wide compliance helpdesk being set up as a central contact point for employees and company executives who have questions or seek guidance on specific compliance issues. In addition, a variety of group-wide training courses dealing with Tognum's Integrity Code and other key areas of compliance were organised once again in 2012. Guidelines relating to compliance have been continually reviewed and updated. Within the limits of the auditing tasks assigned to it, the Group auditing department also examined the effectiveness of various compliance processes in Group units. The Compliance Council met regularly to perform cross-functional tasks. The Executive Board and the Supervisory Board were frequently informed of any relevant compliance issues within the Group through written and verbal reports.

The Executive Board also commissioned KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, to conduct an audit of key areas of Tognum AG's CMS. These key areas relate to anti-corruption (including the UK Bribery Act and the US Foreign Corrupt Practices Act), competition and antitrust laws, foreign trade laws and export controls, product liability and product tracking. The concept of the CMS, in the opinion of the Executive Board, addresses all the key elements of a Compliance Management System in an appropriate manner. KPMG has examined this concept and prepared a corresponding report. The audit was conducted in accordance with the auditing standards of the German Institute of Public Auditors for Compliance Management Systems (IDW AuS 980) that have been effective since March.

In 2013, in the course of creating the new Personnel & Integrity Board division, central and regional compliance were combined into a new Integrity & Compliance division headed by the Chief Integrity & Compliance Officer.

Remuneration Report

In accordance with Item 4.2.5 and Item 5.4.6 of the German Corporate Governance Code, the remuneration system for members of the Executive Board and Supervisory Board is to be disclosed in a remuneration report. The remuneration report also includes a description of the basic principles on which the amount of remuneration for the individual members is calculated.

Remuneration of the Executive Board

The Supervisory Board specifies the total remuneration of the individual members of the Executive Board and reviews the remuneration system at regular intervals. The remuneration for the members of the Executive Board is based on the size and the global activities of the company, its business and financial situation, and on the amount and structure of the Executive Board's remuneration in comparable publicly traded companies both inside and outside Germany. In addition, the duties, the personal performance and the achievement of individually agreed financial targets/economic performance indicators, the success and the future prospects of the company are taken into account.

The Executive Committee advises the Supervisory Board plenary session on the remuneration system for the Executive Board, submits proposals and prepares the regular review of the remuneration structure.

REMUNERATION STRUCTURE. The total remuneration for the members of the Executive Board is specified by the entire Supervisory Board, taking into account any payment by companies within the Group based on a performance assessment. In 2012, the total remuneration for all members of the Executive Board excluding pension commitments amounted to 3,857,484 euros (previous year: 6,267,115 euros). As a matter of principle, the remuneration for the members of the executive bodies is composed of fixed and success-related components. The actual composition in the reporting period was agreed between the Supervisory Board and individual Executive Board member. The corresponding amounts paid to a specific Executive Board member can be seen in the remuneration tables on page 63.

In terms of sustainable corporate governance, the market-based target remuneration structure introduced in 2010 is composed of a 40% basic remuneration (paid in twelve identical amounts by means of a cash-less money transfer at the end of each month, »monthly salary«), a 30% success-based remuneration (broken down into corporate goals and individual goals, »variable remuneration«) and a 30% long-term remuneration (Long-Term Incentive Concept – »LTIC programme« respectively »Transition Bonus Bank Model«). Dr. Michael Haidinger, the Executive Board member appointed on 1 July 2012, also receives his remuneration in accordance with the market-based remuneration structure.

For the reporting period, the following applies:

- **FIXED COMPONENT.** The basic remuneration consists of the fixed annual salary (monthly salary), plus fringe benefits. The fringe benefits primarily relate to the use of a company car, insurance premiums, subsidies for pension, healthcare and long-term-care insurance benefits, plus costs for security systems.

- **SUCCESS-RELATED COMPONENT.** The amount of the success-related component (variable remuneration) is based on the performance of the respective member of the Executive Board and on the company's success. The individual performance is based on the degree to which the Executive Board member has achieved the goals that the Executive Committee had agreed at the beginning of the year with each Executive Board member and that had been confirmed by the Supervisory Board. The success-related remuneration is paid at the end of the respective financial year as soon as the degree to which the goals have been achieved has been determined and confirmed by the Supervisory Board.

Specifically, for all members of the Executive Board, 50% of the success-related component for the 2012 financial year is determined by the Group's business performance. This is calculated on a 50/50 basis, with one half based on the adjusted earnings before interest and taxes (adjusted EBIT) and the other half based on the weighted average value of the relevant adjusted return on sales 2012 for comparable activities of competitors (peer group comparison). A further 30% is the success-related component determined by the Group cash flow achieved compared with cash flow from operating activities before interest and income taxes. The remaining 20% are related to the achievement of personal goals.

- **LONG-TERM REMUNERATION.** Since 2007, Tognum AG has pursued the goal of basing the remuneration structure on sustainable corporate governance. The long-term remuneration of the Executive Board is based on the Long-Term Incentive Concept, a share-based remuneration concept (LTIC programme). This is a remuneration concept that includes incentives and achievement levels based on the company's long-term business performance and applies to all members of the Executive Board and for level 2 and 3 executives. The Supervisory Board approved this concept, which enables decision-makers to share in the company's long-term business performance. The last tranche of the share-based LTIC programme was launched in 2011 and runs until 2015.

In its meeting on 16 March 2012, the Supervisory Board gave its approval for the LTIC programme to be continued in 2012 based on the new Transition Bonus Bank Model. Details of the LTIC programme and the Transition Bonus Bank Model are provided in the notes to the consolidated financial statements beginning on page 141 of this annual report under »Share-based payments«.

No loans were granted to members of the Executive Board in the year under review.

EXECUTIVE BOARD REMUNERATION (INDIVIDUALISED) FOR 2012:

IN EUR	Non-share-based remuneration				Share-based remuneration		
	Fixed remuneration		Success-related remuneration		Long-term remuneration		
	Basic remuneration	Fringe benefits	Variable remuneration	TOTAL ¹	Dividend equivalent 2012 (cash payment from all allocated LTIC)	Fair Value Transition Bonus Bank Model 2012	Acquired share from LTIC: 2009-2013, 2010-2014, 2011-2015 and from Bonus Bank Model 2012-2016
Joachim Coers	660,000	51,472	408,700	1,120,172	52,494	118,905	359,772
Dr. Ulrich Dohle	500,000	41,409	325,400	866,809	34,892	90,079	282,512
Dr. Michael Haidinger (Executive Board member from 1 July 2012)	225,000	16,869	136,500	378,369	0	81,123	21,291
Dieter Royal	331,200	35,794	214,000	580,994	7,910	59,669	98,142
Peter Kneipp (Executive Board member until 29 Feb. 2012)	48,000	6,127	0	54,127	0	0	0
Total	1,764,200	151,671	1,084,600	3,000,471	95,296	349,776	761,717

¹ without share-based remuneration

In accordance with the German Accounting Standard No. 17 (GAS 17), the total remuneration is calculated as the sum of the non-share-based salaries (Total) and the share-based salaries that result from the dividend equivalent 2012 and the fair value of the reassigned Transition Bonus Bank Model 2012 for the financial year 2012.

EXECUTIVE BOARD REMUNERATION (INDIVIDUALISED) FOR 2011:

IN EUR	Non-share-based remuneration				Share-based remuneration		
	Fixed remuneration		Success-related remuneration		Long-term remuneration		
	Basic remuneration	Fringe remuneration	Variable remuneration	TOTAL ¹	Dividend equivalent 2012 (cash payment from all allocated LTIC)	Acquired share from LTIC: 2008-2012, 2009-2013, 2010-2014, 2011-2015	
Volker Heuer (Executive Board member until 30 Sep. 2011)	562,500	46,253	481,000	1,089,753	56,103	428,941	
Christof von Branconi (Executive Board member until 30 Sep. 2011, service contract until 31 Dec. 2011)	300,000	40,566	300,000	640,566	22,767	320,169	
Joachim Coers	560,000	47,602	493,500	1,101,102	32,530	543,480	
Dr. Ulrich Dohle	401,556	40,484	484,000	926,040	15,327	304,850	
Peter Kneipp (Executive Board member from 1 Jan. 2011)	288,000	36,736	245,200	569,936	5,238	35,048	
Dieter Royal (Executive Board member from 1 Oct. 2011)	72,000	6,917	61,300	140,217	0	35,048	
Total	2,184,056	218,558	2,065,000	4,467,614	131,965	1,667,536	

¹ without share-based remuneration

ALLOTMENTS UNDER LTIC PROGRAMME FOR 2012:

	Allotted values of the previous programmes until 2011 as at 31 Dec. 2012 in EUR	Allotted number of the previous programmes until 2011 as at 31 Dec. 2012 number	New allotment Transition Bonus Bank Model in 2012 ¹ in EUR	Total allotted values as at 31 Dec. 2012 in EUR	Cash value of the allotted values as at 31 Dec. 2012 in EUR
Joachim Coers	924,000	69,992	495,000	1,419,000	1,220,330
Dr. Ulrich Dohle	640,315	46,522	375,000	1,015,315	820,012
Dr. Michael Haidinger (Executive Board member from 1 July 2012)	0	0	169,000	169,000	81,123
Dieter Royal	216,000	10,547	248,400	464,400	178,124
LTIC Total	1,780,315	127,061	1,287,400	3,067,715	2,299,589

¹ The LTIC programme 2012 (Transition Bonus Bank Model) runs for a performance period of one year and has a vesting period of a further three years. At balance sheet date the fair value of this model is considered as final.

ALLOTMENTS UNDER LTIC PROGRAMME FOR 2011:

	Allotted values as at 31 Dec. 2010 in EUR	Allotted number of phantom shares as at 31 Dec. 2010 number	Allotted values in 2011 in EUR	Allotted number of phantom shares in 2011 number	Allotted values as at 31 Dec. 2011 in EUR	Allotted number of phantom shares as at 31 Dec. 2011 number	Cash value as at 31 Dec. 2011 in EUR
Volker Heuer (Executive Board member until 30 Sep. 2011)	1,289,000	112,206	560,000	27,344	1,849,000	139,550	1,482,177
Christof von Brancioni (Executive Board member until 30 Sep. 2011, service contract until 31 Dec. 2011)	540,200	45,534	225,000	10,986	765,200	56,520	592,787
Joachim Coers	754,000	65,060	420,000	20,508	1,174,000	85,568	927,401
Dr. Ulrich Dohle	315,315	30,653	325,000	15,869	640,315	46,522	471,062
Peter Kneipp (Executive Board member from 1 Jan. 2011)	-	-	216,000	10,547	216,000	10,547	35,048
Dieter Royal (Executive Board member from 1 Oct. 2011)	-	-	216,000	10,547	216,000	10,547	35,048
LTIC Total	2,898,515	253,453	1,962,000	95,801	4,860,515	349,254	3,543,523

As a result of his position on the Supervisory Board coming to a premature end on 29 February 2012 following the termination of his service contract, Peter Kneipp received a one-time payment of 600,000 euros (gross), which, among other things, resulted in any entitlement to remuneration based on the service contract (with the exception of pension entitlements) being cancelled. Since the variable remuneration for the 2011 financial year amounting to 245,200 euros and the entitlement allocated from the LTIC programme up to and including 2011 amounted to 35,048 euros (not including LTIC allocations from his employment prior to his appointment to the Executive Board), this results in a net severance payment of 319,752 euros. This complies with all the requirements of the German Corporate Governance Code.

PENSION COMMITMENTS TO MEMBERS OF THE EXECUTIVE BOARD. The members of the Executive Board are entitled to a company retirement pension if they retire from the company on or after reaching 60 years of age (in one case 63 years of age). Provision for dependants is also planned.

In the past, Tognum AG has granted pension commitments to members of the Executive Board. In these cases, the member is also entitled to a company pension if the member's service contract is not renewed, is terminated prematurely by mutual agreement or is terminated by the company with the appropriate notice, without premature termination being for good cause attributable to the person concerned. The amount of the annual retirement pay depends on the member's length of service on the Executive Board.

Volker Heuer and Joachim Coers (while preserving their vested pension entitlement) were granted a defined contributions pension commitment which is based on the pension commitments for senior executives of Tognum AG and classified in accordance with IAS 19 as a defined benefit plan. The amount of the annual pension contributions was determined by the individual circumstances and is based on the inherent value of the previously granted pension commitments dependent on the salary at retirement. The Chairman of the Executive Board, Volker Heuer, who left the company in 2011, was granted a bridging salary amounting to 9,850 euros a month for the period from 1 October 2011 to 28 February 2013 (totalling 167,450 euros) that had previously been agreed on. A bridging salary of 7,875 euros a month for the period from 1 March 2013 until 31 May 2020 (totalling 685,125 euros) was granted to the member of the Executive Board, Christof von Branconi, who left the company in 2011. As a matter of principle, however, a bridging salary is not provided for in the drafting of contracts.

Peter Kneipp and Dieter Royal were granted a comparable defined contributions pension commitment which is classified in accordance with IAS 19 as a defined benefit plan.

For Dr. Michael Haidinger, the Executive Board member appointed in the 2012 reporting year, the pension commitments dependent on the salary at retirement and length of service granted by his previous employer will also continue during his period of employment at Tognum under terms and conditions that will remain unchanged. Tognum AG has agreed to reimburse the costs incurred by Dr. Michael Haidinger's former employer as a result of the continuation of the pension commitment; in 2012, (pro rata) expenses amounting to 54,226 euros resulted for this commitment, which is classified in accordance with IAS 19 as a defined contribution plan.

PENSION COMMITMENTS FOR EXECUTIVE BOARD MEMBERS:

IN EUR	Retirement pay arrangement	Service cost 2011	Service cost 2012	Cash value as at 31 Dec. 2011	Cash value as at 31 Dec. 2012
Joachim Coers	Defined contributions pension commitment	246,436	217,498	773,570	1,445,866
Dr. Ulrich Dohle	Fixed amount commitment; in the event of early retirement, between 30% and 77% of fixed amount	450,221	395,131	1,182,689	2,180,862
Dieter Royal	Defined contributions pension commitment	11,259	116,980	90,266	304,637
Peter Kneipp (Executive Board member until 29 Feb. 2012)	Defined contributions pension commitment	88,693	111,021	346,686	703,772
Total		796,609	840,630	2,393,211	4,635,137

In the year under review, Tognum AG transferred 840,630 euros (previous year: 796,609 euros) into pension reserves (current service cost) for members of the Executive Board who were active until 31 December 2012.

The pension obligations to former members of the Executive Board of Tognum AG who terminated their service contracts prior to 2012 amounted to 1,008,188 euros (previous year: 507,016 euros) in the 2012 financial year. Provisions for pension commitments to these Executive Board members as at 31 December 2012 totalled 11,136,939 euros (previous year: 4,093,485 euros), while provisions for the LTIC programmes as at 31 December 2012 amounted to 2,190,219 euros (previous year: 630,064 euros).

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting. The remuneration is composed principally of the following components of the remuneration system approved at the last Annual General Meeting of Tognum AG on 18 May 2010:

- fixed salary;
- variable remuneration, based principally on long-term corporate success;
- remuneration for committee activities;
- attendance fee.

The amount of the remuneration is based on the responsibility and the scope of activity of the respective members. The financial situation and the success of Tognum are also determining factors.

For the 2012 financial year just ended, the total remuneration for the Supervisory Board members amounted to 927,062 euros (previous year: 1,230,065 euros).

FIXED REMUNERATION COMPONENT. Each member of the Supervisory Board is entitled to receive a basic annual remuneration of 40,000 euros. The Chairman of the Supervisory Board receives twice the amount of this basic remuneration, the Deputy Chairman 1.5 times the amount.

Each member of the Supervisory Board who is also a member of a committee receives an additional fixed remuneration per year and committee as follows: An ordinary member of a committee receives 2,000 euros, the chairman of a committee 5,000 euros and the deputy chairman of a committee 2,500 euros. The members of the Supervisory Boards also receive an attendance fee for meetings of the Supervisory Board and its committees. The attendance fee amounts to 1,500 euros for each meeting, but not exceeding 2,000 euros for each calendar day.

VARIABLE REMUNERATION COMPONENT. The variable remuneration consists of a basic annual amount of 20,000 euros and is granted for the current financial year. This will however involve a change in the overall performance in terms of the following regulation with either an increase or decrease in the basic amount. The overall performance is calculated as the mean value of the

- percentage by which the adjusted annual net income as at 31 December of a financial year is below or above the adjusted annual net profit as at 31 December of the respective previous year (absolute performance – in 2012, this was 78,974%) and
- percentage by which the price of the company's share as at 31 December of a financial year is below or above the MSCI World (Morgan Stanley Capital International World) benchmark index (relative performance – in 2012, this was 91,715%).

The overall performance (85,344%) is used as a multiplier for the basic amount (basic amount x overall performance).

Following the Supervisory Board's acceptance of its mandate, the amount calculated in this way and to be paid at the end of the first financial year comes to 0%, at the end of the second financial year it is 25%, at the end of the third financial year 50%, at the end of the fourth financial year 75% and at the end of the fifth financial year 100%. Any amounts that exceed each payout percentage will be deposited into a virtual, interest-free bonus bank account (virtual credit). This means that an account balance will be calculated every year that takes the performance (negative or positive) into account. The basic amount and virtual credit result in the amount in euros with which the overall performance is to be multiplied in order to calculate the annual overall performance amount in euros that is valid for the current financial year. If a member leaves the Supervisory Board prematurely, his virtual credit will no longer be available.

Payment is made unless twice the value of the basic amounts for four financial years – i.e. 160,000 euros (4 x 20,000 euros x 2) – has already been paid to the relevant member of the Supervisory Board in accordance with the above statements in this section. Amounts that have already been paid will not be returned.

For Supervisory Board members appointed for several terms of office (one full term of office, in accordance with Article 9.2 of the Articles of Association of Tognum AG, is five years), the payout percentage begins after completion of a full term of office, in each case at the next higher level, i.e. the payout percentage for the second term of office in the first financial year already amounts to 25%, in the second financial year 50%, in the third financial year 75%, and in both the fourth and fifth financial year 100%.

Supervisory Board and committee members who have been members of the Supervisory Board or a committee for part of the financial year only receive remuneration on a pro rata basis.

The company reimburses Supervisory Board members for any reasonable expenses on presentation of proof of payment, but not exceeding 750 euros for each day of a meeting. Sales tax is reimbursed by the company if the members of the Supervisory Board have been authorised to provide the company with a separate invoice for sales tax, and exercise this right.

The individual members of the Supervisory Board were allocated the following amounts in 2011 and in 2012 for purposes of comparison:

SUPERVISORY BOARD REMUNERATION (INDIVIDUALISED) FOR 2012:

IN EUR	Fixed remuneration component		Attendance fees for meetings	Variable remuneration component		TOTAL
	Fixed remuneration	Remuneration for committee activities		Overall performance for 2012	Virtual credit ¹ (bonus bank)	
Axel Arendt (Supervisory Board member from 5 June 2012)	22,889	1,144	14,000	12,800	12,800	50,833
Andreas Bemerl	40,000	0	16,500	27,851	0	84,351
Franz Benz	40,000	0	16,500	27,851	0	84,351
Heinz Brechtel	40,000	2,500	38,000	17,069	0	97,569
Stefan Buchner	40,000	0	10,500	4,267	12,802	54,767
Michael Haidinger ² (Supervisory Board member until 4 June 2012)	0	0	0	0	0	0
Andrew Heath ²	0	0	0	0	0	0
Dr. Edgar Krökel	40,000	5,000	36,500	27,851	0	109,351
Patrick Müller	60,000	7,000	45,500	17,069	0	129,569
Dr. Jutta Nübel	40,000	0	16,500	27,851	0	84,351
John Paterson ²	0	0	0	0	0	0
Lilo Rademacher	40,000	4,000	24,500	17,069	0	85,569
Andreas Renschler	80,000	12,000	26,500	27,851	0	146,351
Total	442,889	31,644	245,000	207,529	25,602	927,062

¹ The virtual credit amount (bonus bank) serves as the basis for calculation in the following year; there is no payment therefore and the amount is not included in the TOTAL column.

² Voluntary remuneration waiver declaration

SUPERVISORY BOARD REMUNERATION (INDIVIDUALISED) FOR 2011:

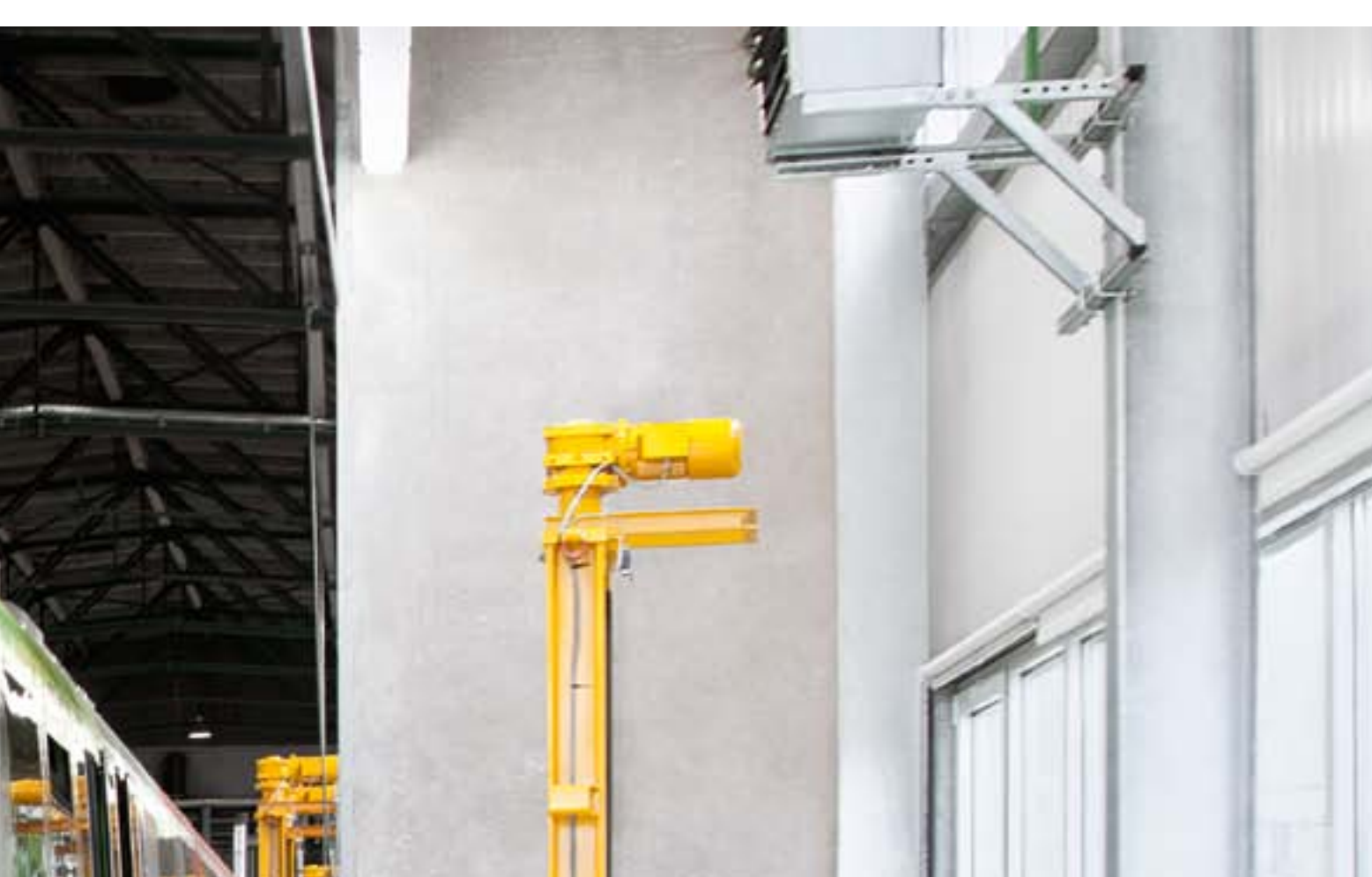
IN EUR	Fixed remuneration component				Variable remuneration component			TOTAL
	Fixed remuneration	Remuneration for committee activities	Attendance fees for meetings	Other (with-holding tax)	Overall performance amount paid for 2011	Virtual credit ¹ (bonus bank)	Other (with-Holding tax)	
Axel Arendt (Supervisory Board member until 30 Sep. 2011)	30,000	2,544	16,000	0	10,807	0	0	59,351
Andreas Bemerl	40,000	1,194	23,500	0	37,902	12,634	0	102,596
Franz Benz	40,000	0	18,000	0	37,902	12,634	0	95,902
Heinz Brechtel	40,000	3,694	39,000	0	29,445	0	0	112,139
Stefan Buchner	8,111	0	7,500	0	0	5,971	0	15,611
Rolf Eckrodt (Supervisory Board member until 30 Sep. 2011)	60,000	13,861	22,000	0	22,084	0	0	117,945
Dr. Michael Haidinger ²	0	0	0	0	0	0	0	0
Andrew Heath ²	0	0	0	0	0	0	0	0
Sune Karlsson (Supervisory Board member until 30 Sep. 2011)	30,000	7,044	23,500	0	22,084	0	0	82,628
Dr. Edgar Krökel	40,000	5,000	30,500	0	37,902	12,634	0	113,402
Patrick Müller	60,000	8,194	43,000	0	29,445	0	0	140,639
Dr. Jutta Nübel	40,000	1,650	18,000	0	37,902	12,634	0	97,552
John Paterson ²	0	0	0	0	0	0	0	0
Lilo Rademacher	40,000	6,844	29,500	0	29,445	0	0	105,789
Andreas Renschler	47,111	3,778	20,000	0	37,902	12,634	0	108,791
Dr. Cletus von Pichler (Supervisory Board member until 30 Sep. 2011)	30,000	4,794	14,500	0	28,426	0	0	77,720
Total	505,222	58,597	305,000	0	361,246	69,141	0	1,230,065

¹ The virtual credit amount (bonus bank) serves as the basis for calculation in the following year; there is no payment therefore and the amount is not included in the TOTAL column.

² Voluntary remuneration waiver declaration



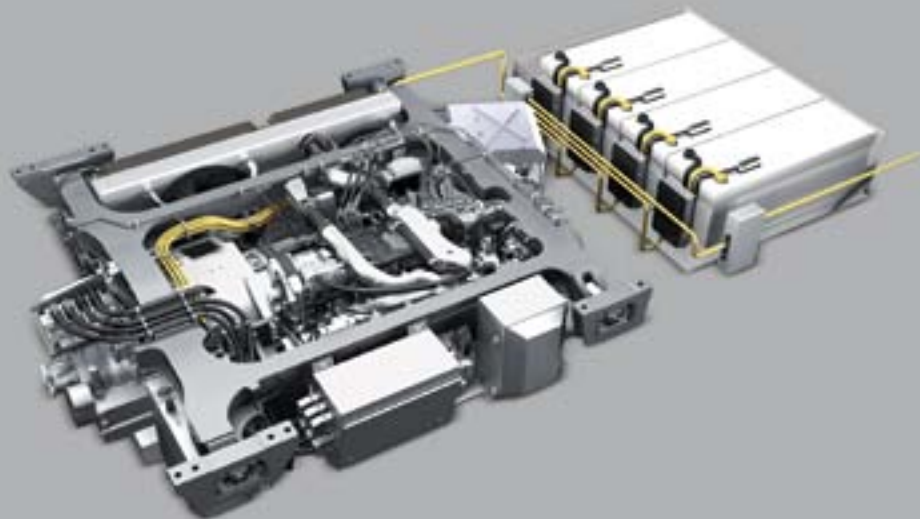
Der neue
Hybrid



PRODUCT PORTFOLIO

»Hybrid technology enables us to advance energy efficient and ecologically sustainable rail transport. As the leading provider of drive systems for rail vehicles, Tognum is the right partner in this field.«

Wolfgang Leibiger | Head of Operations, DB RegioNetz Verkehrs GmbH, Chemnitz, Germany



MTU HYBRID POWERPACK BASED ON A 6H 1800 R75 DIESEL ENGINE

The drive system uses the energy generated in braking mode to support the diesel engine or to drive the vehicle solely with the electric motor.



PRODUCT PORTFOLIO



CHEMNITZ /// GERMANY

Wolfgang Leibiger would like to satisfy his customers' expectations. And he wants to be competitive. For the Head of Operations at DB RegioNetz Verkehrs GmbH, therefore, innovation and technological progress are fundamental to success. His company has developed such a forward-looking project in collaboration with MTU Friedrichshafen GmbH: the hybrid train is a VT 642 DMU equipped with a diesel-electric drive system – an advanced version of MTU's underfloor diesel-mechanical drive system.

The aim is to reduce CO₂ emissions, lower fuel consumption by as much as 25 %, and provide virtually silent running even on sections of track with no overhead power supply. The touch of a button is all that is required to switch the Hybrid PowerPack from diesel to electric mode. The railcar is to enter commercial service initially on the local transport network operated by DB's subsidiary Westfrankenbahn. Wolfgang Leibiger is convinced: »We need marketable innovations of this kind.«

Employees

Our corporate success largely depends on having a workforce of qualified employees who value our products and customers and are committed to moving our business forward. They provide the valuable suggestions that enable us to develop our ideas, products and processes. It is not surprising, therefore, that Tognum AG's workforce of over 10,000 people worldwide is always at the centre of our attention – and has been for over 100 years. Our employees are our greatest resource. Only by continually encouraging our employees to develop their potential, to improve their qualifications and to remain loyal to the company is it possible for us to achieve our most important goal – to be a reliable partner for our customers. And we do this by creating an environment of mutual respect, trust and confidence worldwide.

Employee Development

TOGNUM GROUP (CONSOLIDATED COMPANIES): EMPLOYEES BY REGION

	31 Dec. 2011	31 Dec. 2012	Change
Germany	7,845	8,328	6.2%
Europe without Germany	374	402	7.5%
USA	861	944	9.6%
Asia	741	805	8.6%
Total employees	9,821	10,479	6.7%

As at 31 December 2012, the workforce of the Tognum group of companies totalled 10,479 (previous year: 9,821 employees). In 2012, we took on staff chiefly at our international locations in the areas of development, sales and service. The 6.2% increase in Germany compared with 2011 results primarily from the acquisition of Aggretech AG, now MTU Onsite Energy Systems GmbH in Ruhstorf.

Tradition and Future

Tradition is taken very seriously at Tognum – as is the future. The 247 employees who celebrated their 25th, 40th or even 50th anniversary in 2012 collectively represent over 7,000 years of employment with the company, and by the end of the year no less than 409 trainees had completed an apprenticeship or a cooperative education programme within the Tognum Group. Learning in the working environment is a continuous process that allows young people to acquire skills and knowledge from experienced adult colleagues. We significantly increased the number of trainees participating in our training programme in 2012 in order to offer young people prospects for the future and to ensure there is no lack of specialists in the years to come. We also experienced particularly strong growth in the number of school leavers entering a cooperative education programme at Tognum and the Baden-Wuerttemberg Cooperative State University. In September, a total of 134 young people began an apprenticeship or entered a cooperative education programme at Tognum – at our Friedrichshafen location, 38 young men and women were accepted for nine study courses and 70 trainees started on eight different career paths, while the remaining 26 trainees began their training at other locations in Germany.

247 employees
celebrating
anniversaries and
409 trainees

In addition to diversity, internationality is an important feature of the workforce, since Tognum not only trains and develops its younger employees in cooperative education programmes in Germany, it has also exported the German cooperative education model to the USA and in 2012, the first six entry-level employees participated in the cooperative education programme at Tognum America's Aiken plant. The programme, which was developed jointly by the local schools and authorities, has even captured the attention of the White House (more details are available in the sustainability report on page 80). A period spent abroad is an integral part of the practical training phases for students enrolled at the Cooperative State University. It enables us to equip our young people with key qualifications such as intercultural understanding, independence and the ability to work in a team at an early stage. Trainees were also able to complete a stay abroad for the first time in 2012. The constant internationalisation of our training is an important goal, which we intend to pursue with even greater vigour in the years ahead.

Export of German education models to the USA

Employer of First Choice

The process of contacting, recruiting and retaining highly qualified specialists is an important factor for ensuring the long-term success of an international company. In 2012, for the fourth time in succession, Tognum received the CRF Institute's »Top Employers for Engineers 2012« seal of approval and for the third time the »Top Employers in Germany 2012« award. With excellent ratings for financial benefits and the promotion of work-life balance, we position ourselves as an attractive employer for both potential and current employees.

In 2012, for the fourth time in succession, Top Employers for Engineers

In 2012, we visited twenty events throughout Germany, such as university fairs and VDI recruitment fairs. We also maintain close contact with schoolchildren, students and universities. In partnership with Reutlingen University, for example, students developed and designed a special-purpose machine for Tognum and nine teams of students participating in the TANNER University Competition were invited to Tognum. During the Youth Forum for the Future, 125 enthusiastic young leaders were given fascinating glimpses into the company's operations and had the chance to discuss Tognum's strategies for the future and development opportunities with company executives. Such partnerships enable us to meet schoolchildren and students at an early stage and to promote the company as the employer of first choice in a genuine workplace environment. Our permanent commitment as one of the main sponsors in the »Formula Student Germany« racing car construction competition is a very promising way of getting to know qualified young people and to fuel their interest and enthusiasm for our company. With over 3,000 students from all over the world participating, this is the largest competition of its kind for aspiring engineers in Germany. In 2012, we sponsored eight teams and once again sponsored the special »Most Innovative Powertrain Award«.

We use new and innovative formats to approach sought-after target groups. Our recruiting film, »The Battle«, stands out from the competition and has won two awards at prestigious film festivals. The international jury of experts at the corporate film festival in Cannes and experts at the Intermedia WorldMediaFestival each awarded Silver to »The Battle«. The prize-winning film is not only available for download on the Tognum website, but can also be downloaded from popular social media platforms such as Facebook and Xing. With our staff recommendation programme »comeAboard«, we include our employees in an active search for specialists. Acting as ambassadors for the company, they recruit on our behalf and are rewarded with attractive cash prizes for their efforts.

Award-winning recruiting film »The Battle«

We maintain partnerships and close contact with schools and educational institutions in the surrounding region and each year frequently extend invitations to the general public to attend a variety of different events. It is important to us that we are able to offer young people fascinating glimpses into our corporate world at an early stage and that we are fully committed to the development of young professionals (more details are available in the sustainability report on page 81).

Staff Development and Training

Motivated and qualified employees are absolutely essential for long-term corporate success. The strategic focus in staff development led to an organisational change in the Human Resources division in 2012, which enabled us to develop a joint strategic approach to training, further education and staff development. This means that in future we will be able to provide more effective training worldwide and consistent staff development programmes.

Global access to talent management system

We offer our employees a wide range of career opportunities: in addition to traditional career paths, high-potential employees have the possibility of pursuing a career as a specialist or in project management in order to achieve their full career potential. In 2012, the focus of staff development was on establishing a consistent global approach to succession planning and talent management. When assessing talent in employees, their performance, potential and deployment possibilities are evaluated and validated. The process is supported by a standardised global talent management system which links up all Tognum locations.

In addition to this, the Tognum Group offers the members of its workforce a wide range of training courses, which includes staff development programmes and courses designed to develop specific skills, language and business courses, introductory seminars on law and engineering, plus special training courses designed to meet the specific needs of individual specialist departments. The aim is to offer individual employees the possibility of tailored, task-based further development and at the same time provide systematic training for the workforce in accordance with the corporate goals and those of the specialist departments. The training programmes are continually updated and modified to meet changes in demand. In Friedrichshafen alone, the company's largest location, a total of 10,961 employees received training last year in 1,558 classroom courses. In addition to classroom courses, our employees regularly access our online platform »Training@Tognum«, which offers a continuously updated selection of e-learning courses.

Health Management

It is becoming increasingly important today, also with regard to demographic change, to ensure that our employees remain fit and healthy. We have consistently expanded our health management system over the years and continually improved it because a person can only be motivated and work effectively when he or she is happy and healthy. The key elements of our holistic approach include sport and exercise, a healthy diet, preventive medicine and medical treatment, plus a healthy work-life balance (additional details are available in the sustainability report on page 80).

Since 2012, we have combined all the services we provide with regard to fitness, sports activities and exercise in our health management programme »LIFE aktiv«. Taster courses in a variety of sporting activities are designed to enable beginners to (re)discover the fun of exercising without coercion under the guidance of experts and to find possible new talent. The wide-ranging choice extends from mountain-biking and climbing to sailing, diving and tennis, and also includes golf and cross-country skiing. Since its launch in January 2012, over 1,000 employees have already participated in sports activities and a variety of events. An active recreational activity designed to prevent injury and illness is followed by a programme of exercise integrated into the normal working day. The »LIFE aktiv@work« pilot programme also includes individualised strength training exercises directly at the workplace, consisting of 3 x 10 minute workouts a week designed to prevent musculoskeletal disorders, to improve vitality and concentration, and increase motivation and stress tolerance – and to be fun.

Excellent health management

During a Corporate Health Audit, we were able to demonstrate in an exemplary and above-average manner that we are committed to maintaining the health and performance of our employees and have established a high standard of corporate health management. We received the Excellence Seal of the Corporate Health Award in 2012, a joint initiative of Handelsblatt, TÜV SÜD Life Service and EuPD Research under the patronage of the Federal Ministry of Labour and Social Affairs.

Family-Friendly Workplace

We would like to provide our employees with an attractive and motivating work environment. In addition to a performance-based salary, we also pay for a wide range of additional services. These primarily include all services associated with the reconciliation of career and family life. As an employer, we assume responsibility for our employees and offer them a work environment in which they feel comfortable and well looked after. In the last few years, we have created the optimum conditions to achieve these goals – verified and certified since 2007 on the basis of the »berufundfamilie« audit. We also offer flexible, family-friendly working time models, teleworking jobs or various holiday care programmes for children. And we constantly strive to extend our range of services: in 2012, for example, we began with the construction of our own company child care centre. In future, as many as 40 children will be cared for at the largest company location in Germany close to the plant (more details are available in the sustainability report on page 79). Creating a family-friendly environment enables us to acquire new specialist employees and ensures they remain loyal to the company in the long term.

Construction of a
child care centre

Company Pension Scheme

To enjoy the quality of life in retirement that an employee deserves at the end of a full working life, it is important to have adequate financial security beyond the benefits offered by the statutory pension system. The Tognum Group began contributing to its employees' retirement pension many years ago by making country-specific pension commitments and similar benefits in line with the prevailing market conditions. For most employees in Germany, the company pension scheme has already become an attractive element of our remuneration policy. Employees receive employer contributions linked to their salary and additionally have the possibility of saving for their retirement by means of deferred compensation. As a result of the employer and employee contributions, employees can build up retirement capital during their working life that will be paid out in retirement – to enjoy peace of mind and life after work to the full.

Sustainability Report

As a provider of innovative solutions for drive and propulsion systems and for onsite energy systems, we are concerned with issues that affect our lives and those of future generations. These include mobility, efficient energy and fuel consumption, the effective use of raw materials and reducing emissions to a minimum. Our goal is to ensure that we act at all times with a sense of responsibility and that our actions in the long term take into account the impact on the economy, society and the environment. The management principles we adhere to are based on a quality concept that focuses on customer satisfaction and continuous improvement.

STAKEHOLDER DIALOGUE. To meet their differing expectations adequately, we maintain a constructive dialogue with our customers, business partners, employees, the media, politicians and local authorities, and with other groups in our society.

In the course of the year just ended, we underlined the importance of face-to-face contact with our customers and visitors interested in learning more about our range of products and services by participating in leading trade fairs. These included the International Yacht Show in Dubai in March, Eurosatory, the international defence and security exhibition, in Paris in June, the SMM international maritime trade fair in Hamburg in September and in the same month InnoTrans, the international trade fair for transport technology, in Berlin, which was followed in October by the Euronaval international naval defence and maritime exhibition in Paris and MINExpo International, the world's largest mining trade show, in Las Vegas and finally Bauma China in November, an international trade fair for the construction industry.

We use a variety of media for in-house communications, including the magazine »Insight« and the group-wide Intranet. We also conduct employee surveys on a regular basis to obtain the feedback we need to assess the current situation and to determine what improvements need to be made to the working environment.

We maintain contact with local residents and authorities at our company locations, for example as regards the test bench emissions in MTU's Plant 2 in Friedrichshafen-Manzell. Our aim is to assure residents and neighbours that we take their worries and concerns seriously. As part of our continuous environmental activities, we had commissioned a TÜV expert report, which was completed in October 2010 and verified that there were no harmful effects on the environment – or on human health. In close coordination with the authorities responsible and the city of Friedrichshafen, we endeavour to find appropriate ways of preventing problems using state-of-the-art technologies. The design and planning work for the modernisation of the plant is now underway. As part of our brief, TÜV also examined the status of the flue gas cleaning system used for the test bench facilities. The findings will be used to determine what steps need to be taken.

Ideas and suggestions as a result of our close collaboration with the European Center for Sustainability Research at Zeppelin University

»**SUSTAINABILITY**« **PROJECT CENTRE**. We receive valuable ideas and suggestions as a result of our close collaboration with the European Center for Sustainability Research (ECS) at Zeppelin University in Friedrichshafen. The centre, which is sponsored by Tognum, is now fully operational: in addition to publications, a variety of presentations, discussion events and specialist conferences provide opportunities for lively discussion between representatives of research institutes, industry and the general public. Tognum participated in an international conference organised by ECS in November 2012 entitled »Sustainability of Innovation, Innovation of Sustainability« with a presentation of the remanufacturing process as a sustainable business model. In October 2012, representatives of several Tognum business units met with scientists from ECS, with the result that the company now intends to professionalise the future focus of sustainability by developing an application-based sustainability strategy for Tognum. Beginning in spring 2013, a recently created project centre will coordinate and bundle all current activities relating to sustainability.

Design of a balanced scorecard

Valuable information will be provided by the findings of a Master's thesis which we sponsored in the financial year just ended. It includes the design of a balanced scorecard for environmental protection, occupational health and safety, which is designed to enable strategic goals and action to be developed for the Group.

Anchored in guidelines and management systems

CERTIFICATIONS. All three pillars of sustainability – economy, environment and social commitment – are today firmly anchored in our corporate guidelines. In the course of the year just ended, we revised the guideline on environmental protection and added guiding principles on health and occupational safety – a key step on the way to integrating the management systems and standards Tognum complies with, which include ISO 14001 (environmental protection), ISO 9001, BS OHSAS 18001 and OHRIS (Occupational Health and Risk Management System). At our largest location in Friedrichshafen, we also comply with other special standards, such as KTA 1401, IAEA 50-C-Q and IRIS. In the year just ended, we again reviewed the progress we have achieved: our manufacturing and assembly location in Aiken in the US State of South Carolina received recognition for its quality and environmental management system: it achieved ISO 9001 and ISO 14001 certification by an independent external auditor for the first time in 2012. The sales and service location in Madrid (Spain) also achieved ISO 9001 certification in October. We are now making preparations for ISO 50001 certification, a voluntary standard for systematic energy management, which was released in June 2011. With the aid of a new procedural guide, we are now beginning to specify soil and water conservation practices group-wide.

Corporate Environmental Protection

Our environmental policy is based on six guiding principles. They apply both to our corporate environmental protection practices and to the responsibility we assume for our products.

Guiding principles of our environmental policy

- We address the environmental protection standards of the future.
- We develop products that are extremely environmentally friendly in their respective market segments.
- We ensure that all production stages are designed to be as environmentally friendly as possible.
- We offer our customers consultancy services with an environmental focus.
- We aim to achieve excellence in environmental performance worldwide.
- We inform our employees and the general public on all aspects of environmental protection.

WATER CONSERVATION. In 2012, we cleaned up the rainwater retention pond in Plant 2 at the Friedrichshafen location, part of which is located on the shore of Lake Constance, an important source of drinking water. The rainwater in the pond runs through a forebay where heavy materials and dirt particles settle out. Light materials that float on the surface are held back. The runoff discharged from the forebay then passes through a reed bed, in which the roots of the reeds provide natural purification. Only then is the water allowed to flow into Lake Constance. Another retention pond has gone into operation at the new Materials Management Centre in Kluffern.

Retention pool cleaned up

ENERGY MANAGEMENT. With a CHP plant from MTU Onsite Energy connected to a refrigerating plant, it is not only possible to heat the offices in Plant 1 in Friedrichshafen in winter, but also to keep them cool in summer. We are also testing LED luminaires in the offices in Plant 1 in view of their energy efficiency and cost effectiveness.

Energy supplied from CHP plant

VEHICLE FLEET. Our fleet is composed of vehicles that meet the latest requirements in terms of fuel consumption, CO₂ emissions and costs. At our main location in Friedrichshafen, we have been using passenger cars for some years now that run on natural gas. In the current year 2013, we intend to gain more experience with alternative drive systems and to this end will have electric cars and bikes in use for running between our various locations in Friedrichshafen.

Gaining experience with electric vehicles

MATERIALS MANAGEMENT CENTRE. In 2012, the recently erected Materials Management Centre in Kluffern close to our main location Friedrichshafen went into operation. All the parts and components required for production and final assembly that are not delivered directly to our plants are stored here temporarily and made ready for dispatch. Storing parts at a central supply depot – materials were previously spread over more than ten storage and logistics depots in the Lake Constance region – eliminates inefficient movement of materials between depots and unnecessary journeys. Vehicle capacity is used effectively, which in the long term reduces the impact on the environment.

Optimised logistics

SPARE PARTS SUPPLY. The efficiency of global spare parts logistics from our three logistics centres in Überlingen (Germany), Brownstown (USA) and Singapore in Asia has increased significantly. Where we previously had three island solutions, since 2012 we have had a standardised IT system providing increased transparency of stock levels and availability. This enables us to plan ahead to ensure that frequently needed parts are stored close to the market and can thus be supplied quickly. Parts needed less frequently are stored in the central supply depot. This makes it possible to reduce overstocking. It also means that spare parts arrive at the right place quickly and at low cost using resources effectively – with a subsequent increase in customer satisfaction. Überlingen and Brownstown are already included in the system, with Singapore scheduled to follow in the current year 2013.

Product Responsibility

For the drive and energy systems of the future, solutions are needed that are compatible with the growing demand for mobility, the limited resources of raw materials and increasingly stringent emission standards. Our customers' requirements in terms of fuel efficiency and cost effectiveness are becoming more exacting, and the demand for innovative drive concepts and environmentally friendly technologies is growing. Achieving the balance needed to meet these requirements is no mean feat, since the goals tend to run counter to each other: fewer emissions combined with greater performance, despite the demand for lower fuel consumption. Fuel consumption actually has the greatest influence on the key decision-making criterion when purchasing a drive system – the operating costs over what is normally a service life of many years.

Global responsibility

At Tognum, we assume responsibility for our actions along our value added chain and also throughout the product life cycle. In each of the individual steps in the process, we pay close attention to quality, reliability, safety, cost effectiveness, the sustainable use of resources and the protection of our environment. Important aspects of sustainability are also included in the assessment of our suppliers, who we select on the basis of very strict criteria. The reason is simple – taking global responsibility seriously also means going beyond the corporate boundaries we have set for ourselves.

DIESEL ENGINES. For decades we have developed and designed fuel-efficient and durable diesel engines for our customers. Our engineers work continuously to reduce fuel consumption even further and to cut down emissions to a minimum. At the same time, we employ a wide range of modular components that meet the widely differing requirements of a multitude of applications. Volume effects enable the costs of development work and production to be kept within limits. We have developed a module to provide exhaust gas recirculation inside the engine, which is designed for flexibility of use in a variety of engine series and cylinder configurations. Much the same applies to other key technologies, such as turbocharging, fuel injection and electronic engine management.

Tognum received
award

We are currently upgrading the Series 4000 Ironmen workboat engines to enable them to meet US EPA Tier 3 emissions regulations as of summer 2013, using internal engine enhancements only. No exhaust aftertreatment will be needed. In the case of our Series 2000 yacht engines, our development path is to meet EPA Tier 3 requirements for recreational vessels, IMO Tier II using internal engine enhancements only, and IMO Tier III with SCR exhaust aftertreatment. The engines will be available in 2014 and 2016 respectively. The power range of the Series 8000 engines for ships based on IMO Tier II compliance has been extended to 10 megawatts. For applications in haul trucks used in mining operations, the Series 4000 engine received the Mining Magazine Award 2011 from the trade magazine of the same name at the beginning of 2012. Since the engines comply with Tier 4 final emissions regulations without the need for exhaust aftertreatment, we were rated No. 1 in the »Environmental Excellence« category, which had been included for the first time.

GAS ENGINES. There are signs that in future gas engines will gain in importance. Natural gas reserves are more plentiful than oil reserves and the price for gas is comparatively low. Gas engines also produce fewer emissions compared with diesel engines. Tognum already has systems available for stationary applications. However, we expect the demand for gas engines in mobile applications to increase and are now focusing on this in our development activities.

BIOFUEL AND ALTERNATIVE DRIVE SYSTEMS. Onsite energy systems with Series 400 and 4000 gas engines can be operated on a climate neutral basis using biogas that is produced in farming, for example, in sewage plants or landfills.

A promising approach to achieve low-emission combustion is a new technology known as Homogeneous Charge Compression Ignition (HCCI), for which MTU presented a prototype for the first time at the International Vienna Motor Symposium. The innovation combines the benefits of both diesel and petrol engines and uses a combination of diesel and petrol fuels or ethanol, which can be produced from plant material and is largely carbon neutral.

HYBRID DRIVE SYSTEM. A diesel-mechanical railcar fitted with an MTU Hybrid PowerPack that was unveiled in September 2012 at InnoTrans, the rail industry trade fair, attracted a lot of attention. The new drive system offers economic and ecological benefits for rail transport services in both the medium and long term, since it enables fuel consumption to be reduced by as much as 25% and provides emissions-free operation, for example, in stations. At the same time, the kinetic energy released by the rail vehicle in braking mode is not dissipated as heat, which is normally the case, but is converted into electrical energy. This is stored in batteries and is available for use in rail operations when needed. As part of a project financed by the German Ministry for Transport, Construction and Urban Development, the railcar is to be tested on the line between Aschaffenburg and Miltenberg in collaboration with a subsidiary of Deutsche Bahn.

Conversion of kinetic energy into electrical energy

DISTRIBUTED ENERGY PRODUCTION. When economies, populations and infrastructures grow, there is a corresponding increase in the demand for energy. What is required are distributed systems that offer flexible use and can generate power and heat where they are needed. We serve this future market with a range of MTU Onsite Energy brand products that extend from reliable emergency backup, peak and base load power generation to the continuous supply of power, heat and cooling energy.

Application areas for emergency backup, peak and base load power generation include hospitals, power plants and airports, for example, for which a stable supply of power is absolutely essential. In developing countries and emerging economies with a weak power grid infrastructure, small power generation plants ensure that electricity supply gaps can be temporarily or permanently bridged. Areas of application for our combined heat and power plants include farming and public buildings with a high demand for heat, such as swimming baths, and for heating and cooling purposes in commercial property and offices. The plants are based on biogas or natural gas. Our natural gas-fired turbine plants are normally used to generate heat and power with high efficiency. These include district heating supply systems operated by municipal authorities or energy-intensive industrial plants.

REMANUFACTURING. With our remanufacturing process, we extend the life cycle of our products. We take back engines and components that have reached the end of their useful lives and breathe new life into them in one of our »Reman Centres«. We have them completely overhauled in an industrial process and then sell them again as a 100% quality product. Our industrial recycling process includes an exchange service, whereby the customer immediately receives a remanufactured engine or component. This results in significant reductions in downtime for the customer. A deposit system is intended to serve as an additional incentive to ensure that customers return their used spare parts. This enables us to maintain the remanufacturing cycle.

Remanufacturing extends product life cycle

Social Responsibility towards our Employees

The aim of our corporate and HR policy is to create conditions that promote the health and safety of our employees in the workplace and take into account their family commitments.

CHILD CARE. We have achieved a significant milestone with the establishment of a children's day-care centre in Friedrichshafen. Corporate child care enables us to keep hold of our employees, including the experience they have gained, and enables parents to return to work soon following the birth of a child. In the year just ended, we acquired a building for this purpose in the immediate vicinity of MTU Plant 1 and are now converting it for its intended use. The centre, which is designed for as many 40 children, will offer all-day child care commencing in spring 2013 with flexible opening hours and will only be closed for ten days a year. The concept, which provides child care in English and includes creative adventures, is tailored to the needs and interests of an international, technology-based workforce. Tognum already provides places at children's day-care centres in Friedrichshafen and child care during the holidays in cooperation with various partners in the region.

New children's day-care centre at Friedrichshafen location

Corporate Health
Award 2012

EXCELLENT HEALTH MANAGEMENT. Our corporate health management system received the Corporate Health Award in the »Excellence« category in 2012. In the assessment performed by an external auditor, we were able to demonstrate in an exemplary manner that we are committed to maintaining the health and performance of our employees and pursue a forward-looking and long-term HR and health strategy. For the first time, a comprehensive health report is being prepared for 2012, which documents the activities being undertaken, provides an assessment of their effectiveness, and includes goals based on key performance indicators. One of the key focuses of our work in 2012 was on the evaluation of health studies conducted in the previous year by MTU Reman Technologies in Magdeburg and L'Orange at our Glatten and Stuttgart locations and, from the findings, to determine and implement improvements considered necessary to optimise the system.

LIFE: Premiere for
FUN Sports³

A key element is our health management programme »LIFE«, which is designed to promote long-term individual development of personal responsibility and in which we provide a wide range of activities extending from health days, presentations and events for high risk groups, such as non-smoker seminars, nutritional advice, back-strengthening exercises, a diabetes check and bowel cancer screening, down to a wide variety of sports activities in our LIFE *aktiv* programme, which are described on page 74. In October 2012, together with Astrium, Cassidian and the Mercedes-Benz Ravensburg office, Tognum organised the FUNSports³ sports event in which over 650 employees and their families took part.

Cooperative education
programme as
export hit

INVITATION TO THE WHITE HOUSE IN WASHINGTON. In the year just ended, our cooperative education programme, which is based on the German model and which we will introduce in stages at our international locations, captured the attention of the White House and received recognition for the benefits it offers. Representatives from our plant in Aiken, South Carolina/USA were invited to the White House in Washington to present their training and education concepts. Close cooperation between companies, vocational colleges and chambers of commerce has been standard practice in occupational training in Germany for decades, but is still widely unknown abroad. By working closely with local high schools, technical colleges and authorities in Aiken, we are filling a gap in the American education system. The programme, which was launched in autumn 2012, combines high school education with technical instruction in the classroom and hands-on learning in the MTU plant in Aiken. We are also training mechatronics specialists at a number of locations in Asia.

CHARACTER BUILDING. In addition to instruction in technical fields, a character building course is always included on the curriculum during the training period. In Friedrichshafen, trainees spend time in social facilities, actively participating in them. Tognum continually promotes social competence and values even after trainees have completed formal training. Employees were invited to a presentation given by the well-known Benedictine friar Anselm Grün in October, for example, on the subject of »Adding value by valuing others«.

Aid fund Karl
Maybach-Hilfe and
foundation Jean-
Raebel-Stiftung

FINANCIAL SUPPORT. Two organisations with a sustainable social focus are closely related to our company. The foundation set up by Jean Raebel in 1982 and bearing his name is administered by the Tognum subsidiary MTU Friedrichshafen. It provides financial support to full-time employees who wish to pursue a course of study or take a Master's degree or technical education. In addition to employees, their dependants and persons who express their close ties to diesel engine manufacture in Friedrichshafen may also enjoy the benefit of a scholarship by their intention of pursuing a career in this field. In 2012, 136 scholarships were granted. Since 1958, the Karl Maybach-Hilfe aid fund has documented the social commitment of our company's founder. To date, employees and their dependents benefit from financial support.

Social Commitment

We assume social responsibility as a promoter, sponsor and reliable partner. We are involved in the fields of education and training, science, sport, environment and social affairs, and in cultural activities. The purpose of our involvement is not simply to maintain contact to our target groups. We are motivated by a variety of factors: we would like to promote young people with ambitions, to contribute to the exchange of scientific knowledge, to drive innovation and to expand our network. The support we provide ranges from financial benefits and non-cash benefits to the communication of know-how and expert knowledge.

As a training centre, we have a strong interest in young engineers and technicians. For this reason, we support regional educational initiatives, such as the German young scientists competition »Jugend forscht«, which arouse the interest and enthusiasm of young girls and boys for a technical career. We also collaborate with schools and colleges, regularly invite young people to visit our plants, organise taster afternoons in our apprentice workshops and participate in events such as »Girls' Day«, »Bring your Child to Work Day« and the »Wissen was geht« event designed to help young people choose a career.

Educational initiatives

As one of the main sponsors of Formula Student Germany at the Hockenheimring in Germany, we support aspiring engineers. The actual sponsor and organiser of the international racing car construction competition, in which students from all over the world compete against each other in racing cars they have designed and built themselves, is Formula Student Germany e. V., while the conceptual sponsor is the Association of German Engineers (VDI). Tognum also sponsors an award for the most innovative powertrain and supports eight teams taking part in the competition. We not only provide financial support for the teams, but also provide them with knowledge and expertise. Staff members from various areas within the company are in close contact with the students throughout the year, offer specialist advice and act as on-site judges. We also support a student team at our Mankato location in the USA, the Formula SAE race team from the Minnesota State University. In this way we sponsor motivated young team players who acquire specialist knowledge while they are still studying and are thus of interest to us as future employees.

Formula Student

We supported the MTU Indoor Football Cup as the title sponsor for the tenth time this year. The international U15 football tournament that takes place in Friedrichshafen is one of the leading competitions of its kind in Europe. Talented young players from successful clubs such as FC Bayern Munich, FC Barcelona and Manchester United take part and play against local teams for the cup. We also sponsor gifted young football players from the region via the MTU Centre of Excellence.

Sponsoring young football talent: MTU indoor football cup

In Magdeburg, where our subsidiary MTU Reman Technologies is located, we sponsor the Magdeburg YoungsterS, the trainee team and reserve team of the German Bundesliga handball players of the long-standing SC Magdeburg.

Sponsoring of young handball talent: Magdeburg YoungsterS

As it lies directly on Lake Constance, MTU assumes special responsibility and has a long-term interest in protecting the ecological diversity of the lake. In 2004, therefore, we created the MTU Environmental Foundation in order to become involved in environmental and nature conservation projects on Lake Constance.

MTU environmental foundation

A report on the support we provide for the European Center for Sustainability Research at Zeppelin University in Friedrichshafen since mid-May 2011 is included on page 76.

Takeover-Related Disclosures and Explanatory Notes

(Report prepared in accordance with Sections 315(4) and 289(4) of the German Commercial Code)

Based on the above provisions relating to the Takeover Directive Implementation Act of July 2006, the following compulsory disclosures result for the Tognum Group:

COMPOSITION OF SUBSCRIBED CAPITAL. The subscribed capital of Tognum AG amounts to 131,375,000.00 euros and is divided into 131,375,000 bearer shares with a portion of the share capital amounting to 1.00 euro per share.

All shares involve the same rights and obligations. Excluded from this are any shares the company may hold for which the company is not entitled to any rights. Each share carries one vote in the Annual General Meeting. The rights and obligations of the shareholders are outlined in detail in the provisions of the German Stock Corporation Act (AktG), in particular in Sections 12, 53a et seq., 118 et seq. and 186 of the German Stock Corporation Act. Different share categories do not exist.

A Domination and Profit and Loss Transfer Agreement exists between Tognum AG and Engine Holding GmbH as the controlling company. On the basis of this agreement, Tognum AG is required to transfer its entire profits to Engine Holding GmbH, while Engine Holding GmbH is required to accept any losses incurred by Tognum AG. This means that, as a matter of principle, a balance sheet profit will no longer be reported at Tognum AG. The associated loss of any entitlement to a dividend will be compensated for by the commitment to pay an appropriate compensation. Engine Holding GmbH guarantees outside shareholders of Tognum AG a gross compensation payment for the term of the Domination and Profit and Loss Transfer Agreement amounting to 1.85 euros for each Tognum share.

No limitations of
voting rights or
transfer of shares

LIMITATIONS THAT AFFECT VOTING RIGHTS OR TRANSFER OF SHARES. There are no limitations with respect to voting rights or the transfer of shares. The underwriting agreement and lock-up agreement concluded on the same day between the consortium banks, Tognum AG and the issuing shareholder in preparation for the IPO have expired.

INVESTMENTS IN CAPITAL EXCEEDING 10% OF THE VOTING RIGHTS. In accordance with the German Securities Trading Act (WpHG), any investor obtaining, exceeding or falling below a certain threshold of voting rights in the company by acquisition, divestiture or otherwise is required to notify the company and the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) immediately. The notification will then be published as provided by the Securities Trading Act.

Engine Holding GmbH, Stuttgart recently informed us in accordance with Section 21(1) of the German Securities Trading Act that on 7 September 2011 it exceeded the 75% threshold of the voting rights in our company and as at that date held 97.71% of the voting rights (128,361,297 voting rights) in our company. Of this amount, an 0.95% share of the voting rights (representing 1,250,000 voting rights) had been obtained in accordance with Section 25(1)(1) of the German Securities Trading Act by exercising a right granted as a result of a financial instrument to acquire shares. Daimler AG, Stuttgart and Vinters International Ltd., Derby/Great Britain, Vinters Engineering plc, Derby/Great Britain, Vinters plc, Derby/Great Britain, Rolls-Royce plc, London/Great Britain, Rolls-Royce-Group plc, London/Great Britain and

Rolls-Royce Holdings plc, London/Great Britain informed us at the same time that the aforementioned voting rights of Engine Holding GmbH, which is controlled on a fifty-fifty basis by Daimler AG and Vinters International Ltd., Derby/Great Britain, will be assigned to them in accordance with Section 22(1) and (2) of the German Securities Trading Act.

SHARES WITH SPECIAL RIGHTS THAT GIVE CONTROL AUTHORITY. There are no shares with special rights that give control authority.

TYPE OF VOTING RIGHT CONTROL WHEN EMPLOYEES INVEST IN CAPITAL AND THEIR CONTROL RIGHTS ARE NOT EXERCISED DIRECTLY. There are no employees who have invested in the capital of the company and are subject to voting right controls.

LEGAL REQUIREMENTS AND PROVISIONS IN THE ARTICLES OF ASSOCIATION RELATING TO THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE EXECUTIVE BOARD, AND RELATING TO CHANGES TO THE ARTICLES OF ASSOCIATION. The appointment and dismissal of members of the Executive Board are governed by Sections 84 and 85 of the German Stock Corporation Law (AktG) and by Section 31 of the German Co-Determination Act (MitbestG), which specify that members of the executive board are appointed by the supervisory board for no more than five years. The Supervisory Board, however, intends to appoint members of the Executive Board for a period of three years. Reappointment or the extension of the term for no more than another five years is also permitted.

Supervisory Board members appointed for no more than five years

In accordance with Section 31 of the German Co-Determination Act, a majority of at least two thirds of the members of the Supervisory Board is required for the appointment of the members of the Executive Board. If no appointment is made, the Mediation Committee of the Supervisory Board is to make a recommendation for the appointment within a month after the vote. The Supervisory Board then appoints the members of the Executive Board with the majority of the votes of its members. If an appointment still fails to be made, the chairman of the Supervisory Board has two votes in the next vote.

The Executive Board consists of at least two people in accordance with Article 7.1 of the Articles of Association; the number of members of the Executive Board is determined by the Supervisory Board. The Supervisory Board can appoint a chairman of the Executive Board and a deputy chairman pursuant to Section 84 of the German Stock Corporation Act and Article 7.1 of the Articles of Association. If a required member of the Executive Board is absent, then a member is appointed by the court in accordance with Section 85 of the German Stock Corporation Act in urgent cases at the request of the person involved. The Supervisory Board can revoke a person's appointment to the Executive Board and appointment to the position of Chairman of the Executive Board if there is good cause in accordance with Section 84(3) of the German Stock Corporation Act.

Amendments to the Articles of Association require a resolution of the Annual General Meeting pursuant to Section 179 of the German Stock Corporation Act. Authorisation to make changes that affect the wording of the amendment only is transferred to the Supervisory Board in accordance with Article 23 of the Articles of Association. The Supervisory Board, in accordance with Article 5.4 of the Articles of Association, is also authorised to amend the wording of the Articles of Association in keeping with the respective use of Authorised Capital 2010/I and after the authorisation term has expired.

Amendments to Articles of Association require resolution of Annual General Meeting

Tognum AG's Articles of Association were last revised by means of a resolution passed by the Annual General Meeting held on 18 May 2010, whereby the provisions regarding Authorised Capital 2010/I were included, the regulation relating to the remuneration for members of the Supervisory Board modified, and the Articles of Association brought in line with the Shareholders' Rights Directive (ARUG).

AUTHORISATION FOR THE EXECUTIVE BOARD TO ISSUE OR BUY BACK SHARES. The Executive Board is authorised by the Articles of Association to increase the share capital with the approval of the Supervisory Board by issuing new shares once or on more than one occasion, but for no more than 48,662,500.00 euros until 17 May 2015 (Authorised Capital 2010/I).

The extraordinary Annual General Meeting held on 5 June 2007, with the approval of the Supervisory Board, authorised the Executive Board to issue once or on more than one occasion bearer warrant bonds and/or convertible bonds for up to 500,000,000.00 euros and to grant warrant rights to the owners of the warrant bonds or note rights to the owners of the convertible bonds for the bearer shares of the company with a proportional amount of the share capital for a total of up to 13,000,000.00 euros in accordance with the conditions of the warrant bonds or the convertible bonds. This authorisation is valid until 31 May 2012.

Tognum authorised to
acquire own shares

At the ordinary Annual General Meeting held on 18 May 2010, the company was authorised to acquire own shares and the Executive Board to make use of them. The authorisation to acquire own shares is valid until 17 May 2015 and is limited to 10% of the share capital, including own shares and the shares to be added in accordance with Sections 71a et seq. of the German Stock Corporation Act.

The Executive Board did not exercise the aforementioned authorisation to issue option and/or convertible bonds and to acquire its own shares in the year under review. Accordingly, as at 31 December 2011, the company does not own any company shares.

SIGNIFICANT AGREEMENTS OF THE PARENT COMPANY THAT ARE SUBJECT TO A CHANGE IN CONTROL AS A RESULT OF AN ACQUISITION OFFER. There is a credit agreement with a bank for a revolving guarantee credit facility not exceeding 70 million euros. An increase to 50.90 million US dollars at the end of the year was agreed by implication, the preparation of the formal documents and the signing of them, however, had not yet taken place. In this credit agreement, it is agreed that the bank has an extraordinary right to terminate the agreement in the event of a change of control at Tognum AG should the parties be unable to come to an agreement regarding a continuation of the credit agreement.

In a credit agreement with another bank regarding a guarantee credit line not exceeding 90 million euros, it has been agreed that the bank may terminate the agreement in the event of a change of control at Tognum AG relating to a subsequently reduced creditworthiness.

In a credit agreement with a consortium consisting of eight international banks for 300 million euros, it has been agreed that each of the consortium banks has the possibility of terminating its obligations under the credit agreement in the event of a change of control at Tognum AG.

In the loan agreements with the European Investment Bank for 125 million euros and for 75 million euros, it has been agreed that, in the event of a change of control at Tognum AG, the bank has a right to terminate its obligations under the credit agreement.

In the loan agreement with the KfW IPEX-Bank for 50 million euros, it has been agreed that, in the event of a change of control at Tognum AG, the bank has a right to terminate its obligations under the credit agreement.

The above regulations relating to the contracting parties' rights in the event of a change of control constitute customary conditions as part of such agreements. They will not lead to an automatic termination of the agreed arrangements, but merely entitle the contractual parties to terminate them in the event of a change of control.

No compensation
agreement in the
event of a takeover
offer

COMPENSATION AGREEMENTS OF THE PARENT COMPANY WITH MEMBERS OF THE EXECUTIVE BOARD OR THE EMPLOYEES IN THE EVENT OF A TAKEOVER OFFER. There are no compensation agreements with the members of the Executive Board or employees in the event of a takeover offer.

Declaration on Corporate Governance

The Declaration on Corporate Governance pursuant to Section 289a of the German Commercial Code (HGB) includes the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (AktG), relevant disclosures relating to corporate governance practices, and a description of the workings of the Executive Board and Supervisory Board, including the composition and workings of their committees.

Contents

- Declaration of Compliance in accordance with Article 161 of the German Stock Corporation Act
- Relevant disclosures relating to corporate governance practices
- Workings of the Executive Board and Supervisory Board, including the composition and workings of their committees
- Work in the committees

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT. The complete text of the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act is available from our website at www.tognum.com.

RELEVANT DISCLOSURES RELATING TO CORPORATE GOVERNANCE PRACTICES. Tognum AG recognises its responsibility to society and is convinced that social responsibility is an important factor for the company's long-term success. Tognum AG therefore supports the principles of the Global Compact, an initiative of the United Nations for businesses in areas such as environment, human rights and labour standards.

Tognum AG's commitment in the areas of environment, human rights and labour standards is based on its support for personal initiative and personal responsibility. Only internationally competitive and financially sound companies can contribute to solving society's problems. For us, acting in a financially, ecologically and socially responsible way means securing the future competence and innovative ability on the basis of financial success.

Personal initiative and personal responsibility

Guidelines summarised in the Integrity Code

Tognum AG has also summarised key guidelines in a code of conduct called the Integrity Code, which is valid for each individual employee within the Group and includes the following core statements:

- In all dealings with business partners, competitors, governments and authorities, Tognum AG specifies clear rules and modes of behaviour.
- Tognum AG respects internationally recognised human rights, the occupational health and safety of the people it employs, and respects the principle of partnership-based cooperation and equal opportunity in the workplace.
- Tognum AG employs internal control systems for the protection of the company and to guarantee compliance with the law and internal regulations.
- Tognum AG strives to bring about a continuous improvement in the quality of its products and services and supports the sustainable protection of the environment.
- Tognum AG is opposed to discrimination, exploitative working conditions and corruption.
- Company executives and departments set up specifically for this purpose are responsible for clarifying questions and pointing out the possible consequences of not complying with this code of conduct.

More detailed information relating to the above-mentioned corporate governance practices is available to the general public on the following websites:



Global Compact: www.unglobalcompact.org

- Global Compact: www.unglobalcompact.org
- Tognum Integrity Code: <http://investors.tognum.com> under Innovation & Sustainability

WORKINGS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD, INCLUDING THE COMPOSITION AND WORKINGS OF THEIR COMMITTEES. The Executive Board and Supervisory Board work closely with each other in a spirit of mutual trust and confidence to further the interests of Tognum AG. The Executive Board runs the company and manages its business. As a result of the Domination and Profit and Loss Transfer Agreement that exists between Tognum AG and Engine Holding GmbH as the controlling company, Engine Holding GmbH has the right to issue instructions to the Executive Board of Tognum AG relating to the company's performance. The Supervisory Board monitors and advises the Executive Board on a regular basis. The Executive Board informs the Supervisory Board regularly, promptly and in full on all issues of relevance to the company relating to corporate planning, including financial, investment and personnel planning, the business situation of the company and the Group, the risk situation, risk management and compliance, and thus complies fully with its reporting obligations. In the event that deviations occur between targets and forecasts in the course of the company's business, the Executive Board notifies the Supervisory Board immediately. This also applies when changes are made to the strategy and development of the Group. The Executive Board also reports regularly, both verbally and in writing, promptly and comprehensively on all transactions of significance to the company. Significant business transactions require the approval of the Supervisory Board. The Supervisory Board is involved in all decisions at an early stage. Outside meetings, the Executive Board and Supervisory Board regularly discuss matters relating to strategy and planning, in addition to current business developments.

Executive Board and Supervisory Board cooperation based on mutual trust and confidence

WORK IN THE COMMITTEES. To be in a position to perform its duties effectively, the Supervisory Board has set up a total of four committees (the Executive Committee, the Mediation Committee, the Audit Committee and the Nominations Committee). The committees prepare specific topics for discussion in the plenary sessions and Supervisory Board resolutions. For specific issues, the Supervisory Board has delegated decision-making authority to the committees. A presentation of the individual committees and their members is included on page 181 of this Annual Report.

Events after the Balance Sheet Date

Jörg Schwitalla has been the new member of the Executive Board of Tognum AG for the »Personnel & Integrity« business unit since 1 January 2013.

Opportunities and Risk Report

Opportunities Report

Apart from the possible risks to which the Tognum Group is exposed, the global markets also offer numerous opportunities. As is the case with risks, they can also have an impact on the asset situation of Tognum shareholders.

Systematically identifying and exploiting opportunities

At Tognum AG, opportunities are identified, analysed, managed and monitored on a decentralised basis. At the operational level, we assess market and sales opportunities. For this purpose, order lists and customer project lists are prepared, prioritised and subsequently processed together with the heads of the divisions in the various regions. We also identify operational costs and potential for increasing efficiency in our Tognum TOP specialist steering committees. We use a variety of tools to do this, including benchmarking, a continuous improvement process, Kaizen and lean management. Any potential that is identified as a result is developed further using the same systematic approach. The entire Executive Board is informed on a quarterly basis of the progress that has been achieved in all the Tognum TOP work packages.

Opportunities are identified, managed and monitored on a decentralised basis

At the strategic level, opportunities are identified as part of annual strategic planning: in strategy meetings that include scenario workshops, potential that has been identified in the markets, in applications, in addition to production, IT and administration is presented and prioritised accordingly. In our long-term product planning, we also identify concrete opportunities resulting from the development of new products or from existing products that have been modified to meet additional customer needs and then prioritises them. Beyond that, we also use SWOT analyses.

Trends as opportunities

The following trends will offer us major opportunities for the sustainable development of the Tognum Group in the years ahead:

Major opportunities for sustainable development

DYNAMIC EMERGING ECONOMIES. As a result of the increasingly dynamic growth of many emerging economies in the medium term – in terms of both production and consumption – favourable economic and legal conditions are being created in regions in which we are already doing business or in which we would like to do more business.

GLOBALISATION. Unaffected by short-term trends, the constantly increasing globalisation of production sites and trade flows will result in more energy being generated, more raw material extracted, and even more goods and more people being moved around the world.

DECENTRALISED ENERGY DEMAND. An asymmetric development of decentralised energy demand and supply can be seen in many countries. In the industrialised countries, this trend is accompanied by in-

creasing structural problems in terms of network capacity. Furthermore, climate change (severe winters, hot summers, storms and natural disasters) is leading to an increased vulnerability of the networks and subsequently to an increasing demand for emergency power and peak load plants.

SHORTAGE OF RAW MATERIALS. There will be an increasing shortage of raw materials and energy in the long term. Associated statutory and other regulations will lead to a further increase in demand for even more efficient production and transport systems.

SECURITY. Globalisation ultimately increases the demand for products and systems that can be used to protect national and regional borders or coastlines and public buildings.

We can use these megatrends, which are relevant for our business, for the benefit of our stakeholders, at the same time positioning our engines, systems and services even more effectively in the respective markets.

Risk Report

Risk management system (Report and explanatory notes in accordance with Sections 315(2) No. 5 and 289(5) of the German Commercial Code)

As an international group of companies, the Tognum Group is exposed to many potential risks. They result, on the one hand, from significant changes in the relevant markets in which the company operates and on the other hand, from a potential shift in Tognum's competitive position. As a result – depending on the importance of the risks concerned – their consequences can have a greater or lesser impact on the assets of Tognum's shareholders.

The Executive Board of Tognum AG, on the basis of its corporate strategy, has specified a risk management strategy that is implemented in the risk management system. Risk management takes place in a control environment that is vital for its effectiveness: the key factors are our corporate culture, our awareness of high-risk trends and events, and our ability to deal with the risks and to employ the risk management system effectively.

Effective risk
management system

In order to reduce the effects of such risks to a minimum, Tognum has introduced an effective risk management system designed to identify and analyse developments unfavourable to the company as early as possible, as well as to ensure the rapid introduction of countermeasures. Within the risk management system, various roles with clearly described tasks, competencies and responsibilities are defined. Persons responsible for the respective risk are named, and they identify risks on the basis of a company-wide listing by taking a systematic look at events and developments in the company or its environment that could lead to a divergence from the planned commercial success. The listing of risks takes place on the basis of defined fields of risk, which are updated as necessary, and covers all relevant areas throughout the Group.

The risks are evaluated based on the likelihood of their occurrence on the one hand, and on the other hand, on the amount of loss on occurrence. They are then included in a matrix. Those responsible for dealing with the risks have computer programmes available to identify, document and evaluate risks and, in addition, through the recording of indicators, to provide an early indication of high-risk trends. Adjusted threshold values have been defined for the individual divisions and companies. During the reporting process, we specify the committees to which the risks – based on their classification – have to be reported, either regularly or on an ad-hoc basis. The Executive Board and the Supervisory Board of Tognum AG are informed of the Group's risk portfolio several times a year.

Central Risk
Management

Identified group-wide risks are collected, consolidated, analysed and evaluated by Central Risk Management, with special attention given to the singular, cumulative or additive features of the risks, without offsetting them against opportunities. Central Risk Management is supported during the analysis and evaluation of individual risks and the overall risks of the Tognum Group by a Risk Review Team.

Persons responsible for risks at locations outside head office are responsible for handling and managing individual risks and are supported in this process by the central risk management department. The overall risk position is managed by the Executive Board of Tognum AG.

We have recorded the processes of risk identification from regular recording, analysis and management to the reporting of individual risks and the overall risk situation in a guideline that is valid and binding throughout the Group. In addition, every employee has access to a manual that contains detailed information of the risks.

Guideline valid throughout Group

The risk management system is also analysed and managed on a monthly basis for liquidity, currency and interest risks. Detailed information on individual risks is provided under »Financial risks« and in the notes to the consolidated financial statements under the item »Financial risk management« in the section entitled »Accounting and valuation methods«.

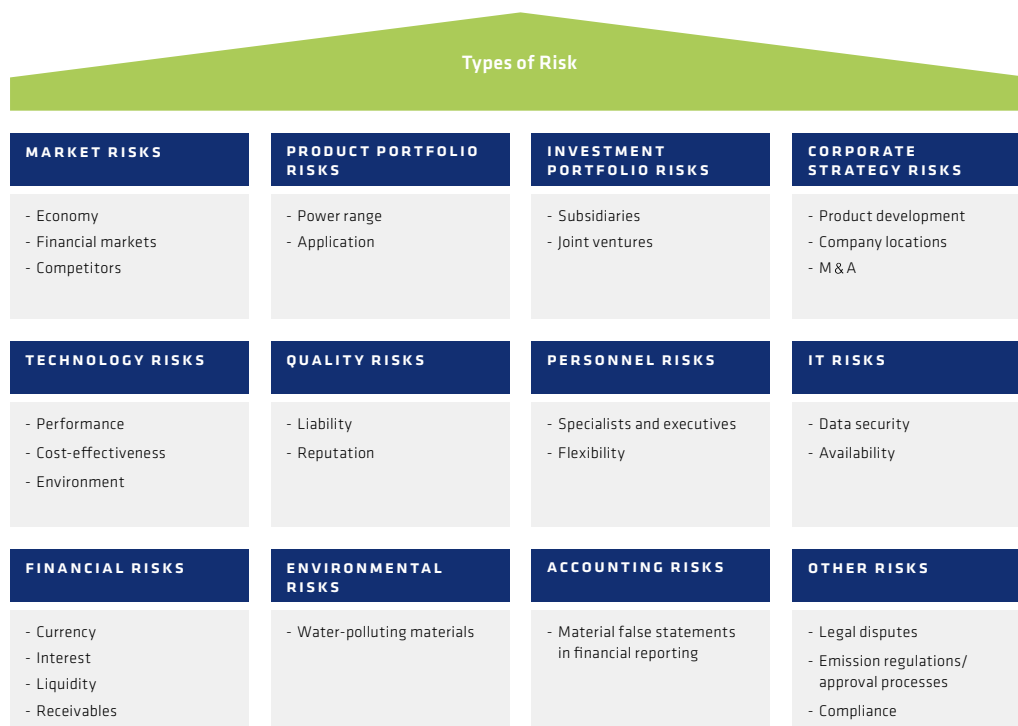
Compliance with the risk management processes is examined regularly by the internal Group Auditing department. The examination of the risk management system is also part of the annual audit performed by the independent auditor. The Supervisory Board's Audit Committee is also required to examine the effectiveness of the risk management system.

Internal Group Auditing examines compliance with risk management processes

Risks

Risks are broken down into market, product portfolio, investment portfolio and corporate strategy risks in addition to technology, quality, personnel, IT, financial, environmental, accounting and other risks.

TYPES OF RISK



MARKET RISKS

As a general principle, the sale of Tognum's products is dependent on our customers' demand, which fluctuates with the economic cycle. In a period characterised to a certain extent by a weak demand for investment goods, the Tognum Group is still exposed to a volatile risk situation due to the uncertain situation on the financial markets. On the other hand, the economic situation does not affect all market

subsections and application areas equally. As a result of Tognum's global presence and the wide range of application areas of Tognum's products, we can reduce the effects of individual declines in demand on our overall performance. In addition to the economic situation, there are other drivers that also have an influence on the success of the Tognum Group, such as budgets for public spending. These above-mentioned factors tend to offset each other. For this reason, we regularly conduct market analyses that look primarily at the economic situation, any additional macro-economic factors of importance and the competitive environment. We also reduce possible risks resulting from fluctuations in productivity and sales by means of flexible production capacity and measures designed to reduce overheads. As a matter of principle, when production capacity utilisation is pushed to its limits, unforeseen events can result in supply risks and subsequently lead to contractual penalties.

Globally coordinated purchasing activities to reduce price and buying risks

As a result of the strong competition in the marketplace for engines, we cannot automatically pass on price increases for raw materials, energy and primary products in full to our customers. To reduce these price and buying risks on the procurement side, we therefore focus on globally coordinated purchasing activities, long-term supply contracts and the continued optimisation of the supplier portfolio. We use additional hedging instruments as regards commodity price risks.

In some cases, component suppliers and customers are affected by a very difficult borrowing situation. In the event of increased call-offs by the Tognum Group, suppliers can also experience supply bottlenecks.

PRODUCT PORTFOLIO RISKS

We are expanding our presence in the power range below the Series 2000 engine with Series 1000, 1100, 1300, 1500 and 1600 engines and adjusting our product portfolio to comply with the coming emission regulations. The production and marketing of the Series 1600 engine for distributed energy supply applications (business unit *Onsite Energy*) began as early as 2009. As of 2013, we will provide the Rail application area with a 12-cylinder version of the Series 1600 engine, which will comply with EU Stage IIIB emission standards. The Series 1000, 1100, 1300 and 1500 C&I engines, which are currently being developed for the emission regulations that come into force in 2014, will cover the power range from 100 to 480 kilowatts. These engines are based on Daimler technology and will be configured specifically for the C&I requirement profile. Series 1600 C&I engines for outputs from 570 to 730 kilowatts will be launched in 2014. While these developments will increase the appeal of our product portfolio, they are also associated with market entry risks.

INVESTMENT PORTFOLIO RISKS

Tognum's investments are largely restricted to companies that are fully owned by Tognum AG or its subsidiary companies. This means that there are no significant investment portfolio risks, such as risks arising from foreseeable conflicts with minority shareholders. There are also joint ventures and minority holdings in which we usually have extensive voting rights and rights to information. Otherwise, no substantial risks have been identified in the investment portfolio.

CORPORATE STRATEGY RISKS

As at 31 December 2012, Engine Holding GmbH held around 99% of the shares in Tognum AG. A Domination and Profit and Loss Transfer Agreement was concluded between Tognum AG and Engine Holding GmbH as the controlling company. On the basis of this agreement, Tognum AG is required to transfer its entire profits to Engine Holding GmbH, while Engine Holding GmbH is required to accept any losses incurred by Tognum AG. The aim of the cooperation is to make optimum use of Tognum's market potential and to achieve profitable growth more quickly. The Group structure and corporate processes are appropriately geared to the Tognum corporate strategy.

Tognum's activities are broken down into two business units: *Engines* and *Onsite Energy & Components*. The product portfolio of the *Engines* business unit includes MTU engines and MTU drive or propulsion systems for ships, agricultural and rail vehicles, military vehicles and the oil and gas industry. The portfolio of the *Onsite Energy & Components* business unit consists of the onsite energy systems of the MTU Onsite Energy brand and fuel injection systems of the L'Orange brand. The energy systems include diesel gensets for emergency standby, base and peak load applications, in addition to CHP plants for combined heat and power generation based on gas engines and gas turbines.

Strategic decisions by nature include the risk of making the wrong decisions. Strategic risks can arise in particular due to decisions relating to all aspects of product development, due to investment decisions such as the choice of location, or in association with M&A activities. Strategic decisions at Tognum are related to economic appraisals.

New products are generally associated with the risk that they may be unprofitable because they are either too expensive in terms of development or will not be accepted by the market. New product development is carried out on the basis of projects. To eliminate or counter the risks, we perform risk analyses during the project assignment, and the projects go through defined quality gates at the project milestones. In the case of new product developments, we examine analyses of the market and the competition. In the case of M&A activities, we perform due diligence to identify possible risks at an early stage and take the appropriate action.

If necessary, Tognum's organisation will be brought in line with changes in strategy. We anticipate that our corporate strategy will prove to be viable, even in a difficult market environment.

To implement its global growth strategy, Tognum also enters into joint venture agreements. They support our activities in Asia in particular, counter high-risk exposure and are seen as opportunities.

Joint ventures seen as opportunities for our company

Public contracts regularly assume that local value added is included. We counter the risk of not being able to accept such contracts or of being unable to meet contractual obligations with measures that include the continuing internationalisation of our value added. Our international production strategy also includes the new US production facility in Aiken, South Carolina which, in addition to assembling engines, has now started manufacturing parts and will be developed into a broad production base in the USA, with the ultimate aim of gaining more market share in the USA and the US dollar zone. The implementation of an international production strategy is supported by a production site-related procurement strategy aimed at reducing our dependence on western European supplier markets.

TECHNOLOGY RISKS

Technology risks are fundamental risks for the Tognum Group. Growing requirements with respect to the performance and cost effectiveness of our products and the more stringent exhaust emission regulations are key challenges in the continuing technological development of our products. Tognum counters these risks by constantly optimising the development processes.

QUALITY RISKS

Not least as a result of the recognised quality of its products and its global service presence, the Tognum Group also considers itself to be well positioned. The technical specification of the products requires constantly high supplier quality. To secure this quality, we select suppliers carefully and monitor them on a regular basis.

Suppliers carefully selected

Product defects have a negative effect on the company's reputation and entail liability risks. We prevent such risks by means of careful product development and an effective quality management system. Nevertheless, we take active measures to eliminate any fault that does occur and offer our customers a reliable service network that is available worldwide. In order to limit the possible financial effects of any risks, insurance contracts have also been concluded.

PERSONNEL RISKS

Greater focus on personnel marketing activities

We counter the risks associated with staff recruitment by qualifying and presenting ourselves as the employer of first choice. Greater focus is placed on our personnel marketing activities ahead of the actual recruitment stage, which means that we now contact future engineers while they are still studying. We have been sponsors of the annual Formula Student Germany programme at the Hockenheim Ring for five years now, for example, and currently provide support to an additional eight student racing teams. Aspiring engineers make use of technical know-how and compete with each other in various international contests. Tognum approaches interested students also at an early stage – in school: for the third year in succession, Tognum invited 125 young men and women from all over Germany to Friedrichshafen this year to attend a weekend forum. The »young leaders« were given the opportunity to discover how the company is gearing up to meet the future challenges of globalisation and what development opportunities an international company like Tognum has to offer. We approach a variety of target groups ranging from students to young professionals through social media platforms such as Facebook, Xing and YouTube.

We have taken numerous steps to cover any future lack of specialists and company executives. An international trainee programme for university graduates in a variety of specialist fields has been established. We counter a possible lack of specialists proactively by offering numerous traineeships in over 15 career programmes. Tognum also organises various events to promote itself to young people as an interesting employer such as »Girls' Day« or »Take Off«, an open day with tours of the apprentices' workshops.

A training and development programme that includes internal or external events is designed to motivate employees and improve their qualifications. The low employee fluctuation rate and a long average period of employment with the company demonstrate that these established measures are successful. We are currently preparing to inaugurate a company day-care centre at our Friedrichshafen location, which is intended to further enhance Tognum's reputation in the region as an attractive employer. Overall, we pursue a preventive risk strategy in the field of personnel.

Flexible employment strategy

In the event of an extended period of low demand for our products, we counter any possible impact on personnel with a flexible employment strategy. This includes measures such as the use of agency workers and temporary contracts – this allows us to adapt capacity to the demand in production at relatively short notice. We also use flexible working time accounts to adjust manning levels in sales and production, in addition to indirect areas.

IT RISKS

Group-wide standardisation of IT infrastructure

The central business processes of the Tognum Group and its individual companies are dependent to a considerable extent on its IT processes and activities. The security of the computer systems and the security of the data are exposed to both external risks, such as attempts to infiltrate the system and malware, plus technical risks, such as a server failure or faulty software. In order to minimise these risks, we have upgraded the IT organisation as part of our global strategy and optimised it continually to meet the requirements. The reliability of the IT system is guaranteed by means of a consistent standardisation of the IT infrastructure throughout the entire Group and constantly ensuring that it is state of the art. A special focus is placed on the security of the IT systems and the data on file. Security is provided and optimised by means of redundant hardware systems and the use of the latest software solutions. An information security officer is also responsible for identifying worldwide risks to information security, for taking counter-measures and controlling their implementation.

FINANCIAL RISKS

As a global group of companies, Tognum is generally exposed to financial market risks within the framework of its operative business activities and financing. These risks are minimised as much as possible by appropriate countermeasures (»natural hedge«, e.g. by purchasing primary products in the currency of revenue recognition). The remaining net risks are limited or eliminated by means of derivative financial instruments. As a matter of principle, all the necessary hedging business is handled by the central Group Treasury.

The use of derivative financial instruments is governed by an internal group-wide guideline, which also specifies the conceptual framework for identifying and determining the individual net risk exposure for all companies in the Group. Derivative financial instruments are used solely for hedging items but not for purposes of trading speculation. The effectiveness of risk hedging is monitored and controlled in the course of internal reporting procedures. Further information on financing and financial market risks is included in the notes to the consolidated financial statements in the section entitled »Financial risk management« beginning on page 129.

CURRENCY AND INTEREST RATE CHANGE RISKS. Currency risks can result from assets, liabilities and expected cash flows which are expressed in currencies other than the euro. In order to limit such risks or eliminate them completely, Tognum primarily employs forward exchange transactions and, if required, options. Such measures apply above all to currency risks resulting from investments in US dollars.

As at the balance sheet date, Tognum had no bank loans with variable interest rates, which entail interest rate change risks. With regard to the management of interest change risks, the group-wide guideline includes interest swaps, caps and floors as possible hedging instruments to limit risks.

Limitation of interest rate change risks through interest swaps

For hedging transactions in currency rates, there is a counterparty credit risk with respect to banks who are contracting partners.

LIQUIDITY RISKS. Tognum pursues a conservative financing strategy. The company has a low level of net financial debt and a sufficiently high equity ratio. Apart from the stable earning power, this contributes to a credit rating by the refinancing banks that corresponds to investment grade. This credit rating has a direct impact on financing conditions. Supported by our long-term credit line, we are therefore in a good position as far as financing is concerned. The loan contracts we have concluded contain agreements on the observance of covenants that are common on the market. By non-observance of the covenants, banks have the right to terminate the financing agreements. We secure the company's liquidity by means of long-term and sufficient credit lines and guarantees with a large number of mainly European banks. Our excellent cash flow and active cash management also ensure that financial resources are available as required.

Conservative financing strategy

DEFAULT RISKS. We hedge default risks to which Tognum is exposed to the usual extent with conventional means of securing receivables and active receivables management. We minimise the risk in advance by examining and assessing the financial situation of our customers. We grant credit lines to a limited extent only. In addition, in cases of recognisable default risks, we respond by implementing appropriate value adjustments.

ENVIRONMENTAL RISKS

The Tognum Group is also exposed to environmental risks in the course of its operating activities when dealing with water-polluting substances such as diesel fuel, for example, and crude oil. We counter such risks by means of regular eco audits, which ensure that both national environmental regulations and the tough environmental protection standards that apply within the Group are complied with.

ACCOUNTING RISKS

In addition to the individual financial statement of Tognum AG, 24 individual financial statements prepared by German and foreign subsidiaries were included in the consolidated financial statements of Tognum AG as at 31 December 2012. Most of the individual financial statements of the subsidiary companies are prepared in a decentralised manner. The consolidation of the Tognum Group is largely done at the Group head office. The country-specific accounting standards of the subsidiary companies are transferred to the International Financial Reporting Standards (IFRS), unless the individual financial statements of the subsidiaries have already been prepared in accordance with IFRS. Uniform accounting across the Group as a whole with regard to assessment, evaluation and reporting is ensured by means of a reporting and accounting handbook, which is continually brought up to date. The process of preparing the consolidated financial statements is supported by a financial statements calendar and a consolidation software solution developed to meet Tognum's specific requirements. Subjects such as financing and taxes are bundled by the central area functions of »Group Treasury« and »Group Taxes« in the Group's head office.

Manual and automatic controls in the accounting software

As a result of the number of companies and differing regional distribution of subsidiaries, there are risks with regard to the goal of achieving reliable accounting that could be reflected in delayed publication, incorrect information in the annual/consolidated financial statements or fraudulent manipulation. In order to limit and manage such risks as far as possible, Tognum AG has put in place a variety of measures and controls. Manual as well as automatic controls to avoid and expose mistakes in the working processes were included in the accounting software in order to correctly record transactions in the accounts. Furthermore, subsidiaries are supported at Group headquarters by »corporate mentors« who operate a form of quality control for the data received, and assist subsidiaries when complex questions arise.

Impairment test

There is an intrinsic value risk when carrying out general evaluations, e.g. to ascertain goodwill or immaterial assets with an indeterminate useful life. In order to examine this and in the event of any sign of impairment, an annual impairment test is carried out. Basic assumptions included are objectified by reference to recognised rating agencies and peer groups, or by using external experts, in order to ensure reliability of assessments and valuations.

As a result of the Tognum Group's production activities, stocks must be available in sufficient quantities, while the stocks themselves are kept as low as possible in order to reduce costs and risks. For this reason, there are intrinsic value and stock keeping risks that are limited by means of regular stocktaking and an objective evaluation of the analyses of future market and sales possibilities.

There are actuarial evaluation risks in Tognum AG's consolidated financial statements resulting from pension benefit commitments. In order to limit these risks, independent experts are commissioned to prepare actuarial reports.

In general, the so-called four eyes principle and functional separation of procedures in accounting apply throughout the Group so that an adequate quality assurance and approval process can be ensured.

OTHER RISKS

Tognum took decisive action as a result of the investigations into possible irregular payments by its subsidiary MTU Asia and commissioned an independent investigation in February 2011 after the company had received information to this effect from an external source. The final report on the complex matter of Korea was completed in October 2011 and presented to the state prosecutor's office in Ravensburg. The Executive Board also commissioned an in-depth investigation to be conducted. The subsequent follow-up report was submitted in September 2012 and made available to the public prosecutor's office in Stuttgart. The risk analysis that had been commissioned for other regions was completed in 2011. In addition, specific investigations were authorised in selected countries. The knowledge gained from these investigation activities are being used to make targeted improvements to the company's organisation. As early as November 2011, to ensure that the highest standards of conduct were in place and were being observed throughout the entire organisation, the Executive Board, with the approval of the Supervisory Board, authorised an immediate, comprehensive and independent examination of the compliance system and in 2012 launched a project with outside support to extend the examination in order to certify its compliance management system in accordance with the IDW PS 980 audit standard.

Court proceedings against Tognum are pending and others could become pending. In our view, however, these are not uncommon occurrences relating to our business. Important risks arising from litigation are not expected from today's point of view but are possible on principle. If necessary, we would make provisions to the usual extent. We naturally counter such risks with our contract management system and high product quality.

As far as certifications by the authorities are concerned, we are exposed to a large degree of regulations. Despite our technological edge, this may lead to risks. Changing emission regulations can lead to an increased development requirement in the event of tougher regulations, whereas a softening of the increased requirements, e.g. by implementing flexible measures in the launch phase, can lead to reassessments of developments. Due primarily to the diversity of applications and our global market presence, numerous emission regulations apply to our products, whose compliance is subject to uncertainties – also due to highly complex approval procedures.

OVERALL STATEMENT ON THE RISK SITUATION

The company's total risk exposure is assessed using the risk portfolio for all the significant individual risks, taking into account the interdependencies that exist between the risks themselves. Setting off risks against opportunities does not take place. There are no special purpose entities, either consolidated or non-consolidated.

No significant impairment of the company's situation by risks can be identified at the moment, either by individual risks or by a combination of more than one risk. The Executive Board of Tognum AG considers the risk situation to be limited and controllable. As in 2011, senior management has found that there are currently no risks envisaged that could endanger the company's continued existence. Negative trends on the markets and a further worsening of the overall economic performance, however, cannot be completely excluded and could have a corresponding effect on the risk situation.

Report on Expected Developments

Many indicators point to a stabilisation of the global economy in 2013. Besides geopolitical tensions, the key risks include excessive national debt, which affects virtually all industrial nations. Expectations are that the emerging economies will generate over 50% of the global value added in 2013 for the first time and as a result will have an impact on the global economy that will exceed the pace of growth they are themselves currently enjoying.

The risk of the eurozone collapsing is estimated as being significantly lower for 2013 than was the case in 2012. Enormous efforts by the ECB to ease the crisis have had a calming effect for the time being at least. Many economists are afraid, however, that the risk of higher inflation rates has increased as a result. The situation in Greece remains fragile. In the other debt-ridden countries, however, consolidation efforts appear to be taking effect, suggesting that a return to growth is possible. In the core countries of the eurozone, the decline in uncertainty should lead to an increase in investments. Generally speaking, a gradual stabilisation of the eurozone is expected for 2013.

Increasing willingness
to invest in the course
of the year

In Germany, favourable financing conditions and a return of confidence as a result of the easing crisis in the eurozone are likely to prepare the way for an increasing willingness to invest in the course of the year. In view of the ability of German companies to compete successfully on the global market, a recovery in global demand can quickly affect export business. The key economic indicators in Germany (ifo, Purchasing Managers Index) predict an end to the recessionary development.

In the USA, the national debt continues to increase. With a deficit of 7% of GDP in 2012, the country is far from balancing its budget. Sudden cuts in spending and tax increases at the beginning of 2013 (»fiscal cliff«) were temporarily prevented following a compromise reached by the Democrats and Republicans. An increase in the existing debt ceiling and budget consolidation are necessary, however, and include potential for further tensions. The energy revolution with shale gas exploration on a large scale has become a strong driver of growth in the USA.

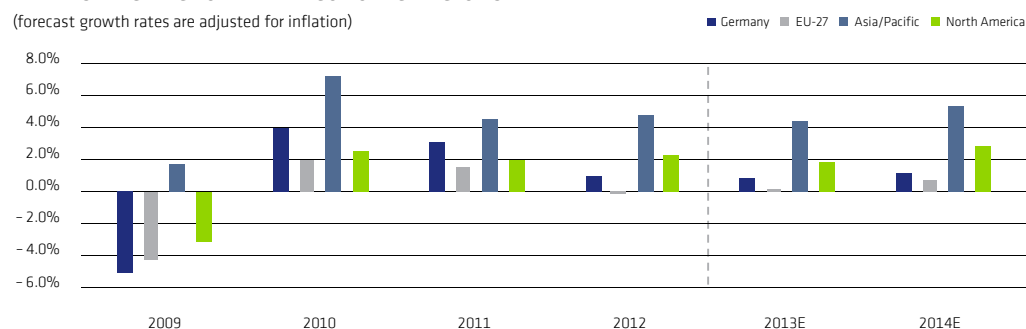
Japan slid into a recession in the second half of 2012; the strong Yen, the weakness of the country's major export markets and the islands row with China had a strong dampening effect on exports. It had been assumed that the gradual recovery of the global economy that had been expected in 2013 would act as a stimulus for Japanese exports. Another driver of growth will be the huge economic stimulus package, which was announced in December 2012 by the newly elected Prime Minister. This package includes considerable potential risks in view of Japan's government debt-to-GDP ratio of well over 200%.

The emerging economies will be the drivers of global economic growth again in 2013. The Chinese government in 2012 accepted weaker GNP growth in its efforts to curb the housing bubble. Economic recovery in industrialised nations, however, is expected to stimulate the export sector. It is likely that India's high level of inflation and the political uncertainty will discourage investments in 2013. A rapid return to higher growth rates, therefore, is not expected. Brazil's growth since 2010 has slowed down significantly. Since the second half of 2012, however, there have been signs of recovery. Special factors, such as investments in the 2014 FIFA World Cup, for example, and the Rio Olympic Games 2016, in addition to the »Brasil Maior« programme launched by the government to increase productivity, are expected to stimulate growth. Robust development is anticipated in the medium term.

In 2012, according to figures published by Global Insight, global economic growth of 2.3% was achieved. Growth forecasts for 2013 at 2.2% remain at the same level.

TRENDS IN GDP GROWTH IN ECONOMIC REGIONS

(forecast growth rates are adjusted for inflation)



VDMA's outlook for the industry (engines and systems) is nevertheless reserved, and a slight decline in revenues worldwide is expected for 2013.

The growth possibilities we expect in the long term are closely linked to our corporate strategy, which we have described in detail beginning on page 26. Our long-term growth strategy rests on five strategic pillars: power, propulsion, services, the product portfolio and regional expansion.

We are always on the look-out for qualified employees to support us in the implementation of our corporate strategy and have a variety of personnel management tools and procedures at our disposal that enable us to adapt our employment situation flexibly to current demand.

Variety of personnel management tools

Further increase in technological lead	In 2013, in order to increase our technological lead even further, our adjusted expenditure for research and development will remain at the high level we have maintained to date. We continue to work on the development of the Series 1600 engine for future railway applications, for example, in addition to construction, agricultural and industrial equipment. At the moment, we are configuring the Series 2000, 4000 and 1163 engines to meet tougher emission standards, and we continue to develop gas engines for mobile applications in addition to stationary applications. A key focus of our development activities is also on hybrid drive systems for rail applications.
Continuing increase in investments	In 2013, our investments will increase once again: in addition to investments at our European locations, we will be launching major investment projects in the USA and Asia. These are designed to ensure that we have the prerequisites in place to cope with the expected growth in revenues.
Sound financing	The Tognum Group has sufficient liquid funds available from its expected cash flow from operating activities both for the investments it has planned and for possible acquisitions in the future. If necessary, we also have secured access to existing credit facilities. We intend to maintain our sound financing structure.
Revenue forecast	The year 2013 is still suffering from uncertainty in many areas. As we did in the previous year, we have developed various scenarios in order to respond effectively to whatever economic developments and specific market trends we encounter. Should the present forecasts of growth in markets of relevance to Tognum turn out to be accurate, then from today's standpoint we expect revenues for the 2013 financial year to remain on last year's level. However, due to the varying performance of the markets in the course of the year, high revenue volatility is to be expected. We expect to see a positive performance primarily in industrial and defence applications. Business in Oil & Gas and power generation systems, i.e. engines for engines for power generation systems, tend to be susceptible to changes in the local price for gas and fluctuations in the general economic situation. In the medium term, as a result of a positive overall economic situation and steady growth in the off-highway markets, we expect to see above-average growth in revenues.
Results forecast	On the basis of our planned sales revenues and taking into account the high outlay for future projects, we are aiming for an adjusted return on sales for the 2013 financial year on the level of 2012. The high revenue volatility expected during the year as described above will also have a corresponding impact on the development of profits in 2013. Regardless of the profit performance, however, Engine Holding GmbH guarantees outside minority shareholders of Tognum AG an annual gross compensation payment for the term of the Domination and Profit and Loss Transfer Agreement amounting currently to 1.85 euros for each Tognum share.

Assuming that the global economy continues to recover on a long-term basis, we expect the trends in the various applications to continue to stabilise. The market trends of relevance to Tognum are described in the opportunities report beginning on page 87. On this basis, we assume that in 2014 we will grow at a faster pace than the market and achieve an adjusted return on sales of over 10%. In the medium term, under these conditions, we continue to expect a return on capital of more than 20% based on the adjusted RONA. All three reporting segments will support the development we are predicting.

Outlook for 2014

Whether we achieve our goals will largely depend on global developments and in particular on industry specific trends. An economic downturn and/or a significant weakening of the US dollar could result in us not meeting our expectations. Should there be an increase in the pace of economic growth, however, we see additional opportunities to increase both our revenues and earnings.

Friedrichshafen, 13 February 2013

Tognum AG

The Executive Board

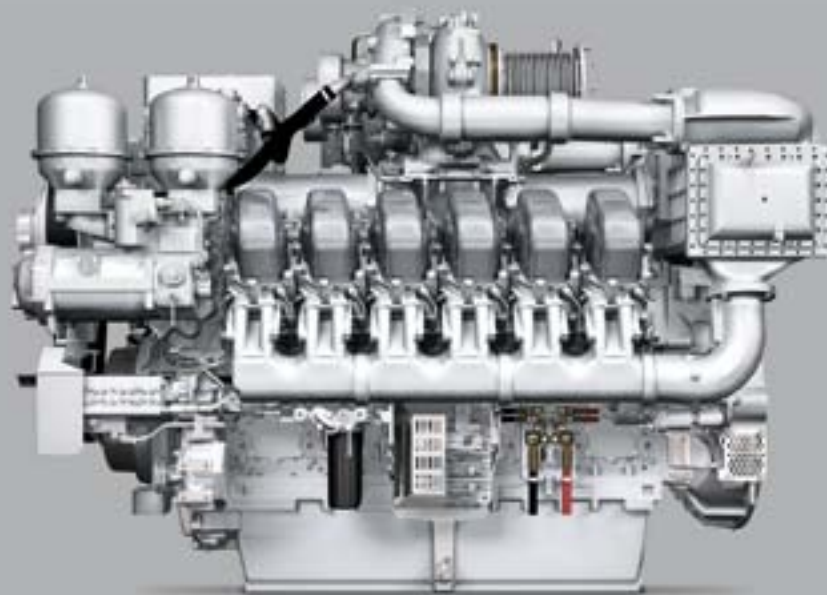




AFTER SALES / SERVICE

»Our drive systems have to deliver maximum performance under extremely severe conditions – in mining excavators, for example. We offer high-quality service around the clock to ensure this happens.«

Paul Weeks | Key Account Manager Mining, MTU Detroit Diesel Australia, Perth



MTU 12V 4000 C13 DIESEL ENGINE

Whether at temperatures of minus 30°C in Russian mines, in the scorching heat and dust of Australia's outback or in Chile at over 3,000 metres above sea level – the MTU 12V 4000 C13 engine is tough enough to handle all these challenges.



AFTER SALES / SERVICE



WEST ANGELAS MINE /// AUSTRALIA

The West Angelas mine, which is located in the middle of Australia's rugged Pilbara region, is involved in iron ore operations. Under extremely hot and dry conditions, the excavation of iron ore is a challenge for the men and women who work there and the technology they employ. MTU Detroit Diesel Australia recently equipped an Hitachi EX 5500 excavator with an MTU engine, enabling it to handle the extremely tough work required at the mine on a daily basis. »We provide technical support around the clock,« says

Paul Weeks, MTU Detroit Diesel Australia's Key Account Manager Mining, who goes on to describe regular maintenance programs of the service concept MTU ValueCare. »Our solutions create long-term value added benefits for our customers as they are tailor-made to our customers' requirements and offer a very good price/performance ratio,« says Weeks. To improve the availability, reliability and operating costs of the engines even further, Tognum constantly invests in the latest technologies for its service business.



Consolidated Financial Statements

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Consolidated Statement of Comprehensive Income

of Tognum AG, Friedrichshafen for the period 1 January to 31 December 2012

IN EUR MILLION	Note	1 Jan. – 31 Dec. 2011	1 Jan. – 31 Dec. 2012
Revenues	4	2,972.1	3,014.5
Cost of sales	5	-2,149.6	-2,148.4
Gross profit		822.5	866.1
Other operating income	6	5.3	13.9
Selling costs	7	-219.2	-245.4
General administrative costs	8	-117.2	-130.5
Research and development costs	9	-192.2	-203.6
Other operating expenses	10	-3.9	-4.5
Results from operating activities		295.3	296.1
Share of profit from investments accounted for using the equity method		-5.7	7.2
Other financial income	11	24.4	17.6
Other financial expenses	11	-26.5	-38.2
Earnings before interest and taxes		287.5	282.7
Interest income	12	7.4	2.0
Interest expenses	12	-23.5	-26.5
Earnings before taxes		271.4	258.1
Income taxes	13	-72.1	-76.4
Net profit or loss		199.3	181.7
Other comprehensive income¹			
Foreign currency translation differences for foreign operations		6.5	-2.3
Other comprehensive income		6.5	-2.3
Total comprehensive income		205.7	179.5
Net profit or loss		199.3	181.7
thereof attributable to the shareholders of Tognum AG		198.8	181.7
thereof attributable to non-controlling interests	14	0.5	
Total comprehensive income		205.7	179.5
thereof attributable to the shareholders of Tognum AG		205.0	179.5
thereof attributable to non-controlling interests	14	0.7	
Earnings per share (in EUR)	15	1.51	1.38
Diluted earnings per share (in EUR)	15	1.51	1.38

¹ Without taxes

The following explanatory notes are an integral part of the audited consolidated financial statements.

Consolidated Statements of Cash Flows¹

of Tognum AG, Friedrichshafen as at 31 December 2012

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Net profit or loss	199.3	181.7
Depreciation and amortisation/reversals for non-current assets	115.4	121.8
Elimination of changes of deferred taxes	-18.9	2.0
Change of derivative financial instruments	12.5	-17.9
Change in inventories	-107.8	69.8
Change in receivables	-3.2	-3.3
Change in liabilities	68.9	-53.8
Increase/decrease in provisions including pensions	10.7	-53.3
Change in other assets	1.4	18.2
Non-cash generating exchange rate changes of loans	5.9	9.2
Other non-cash expenses/income	8.7	4.5
Cash flow from operating activities	292.7	278.9
thereof interests received	3.5	1.8
thereof interests paid	-3.6	-6.3
thereof income taxes paid ²	-121.4	-96.6
Purchase of property, plant and equipment	-123.4	-136.6
Proceeds from the sale of property, plant and equipment	1.3	4.0
Purchase of intangible assets	-42.4	-47.0
Increase in cash and cash equivalents resulting from the changes in the group of consolidated companies	4.0	
Proceeds from the sale of intangible assets		0.2
Payments for the acquisition of consolidated companies (net of cash and cash equivalents acquired)		-3.5
Payments for the acquisition of investments available for sale	-6.8	
Proceeds from investments available for sale		29.4
Proceeds/payments from other cash investments	0.9	54.0
Cash flow from investing activities	-166.3	-99.5
Borrowings	125.0	125.0
Repayments of financial liabilities	-3.0	-329.4
Dividends paid	-65.9	-98.9
Capital transactions with non-controlling interests		-5.6
Cash flow from financing activities	56.1	-308.8
Change in cash and cash equivalents	182.4	-129.4
Cash and cash equivalents at the beginning of the period	240.5	420.9
Effect of foreign exchange rates on cash and cash equivalents	-2.0	-0.7
Cash and cash equivalents at the end of the period	420.9	290.9

¹ Explanatory notes in the consolidated financial statements in section 39 »Supplementary information to the statement of cash flows«
² Including advance tax payments of Tognum AG for the 2012 financial year amounting to 46.8 million euros. These will be transferred as a result of the integrated tax group established with Engine Holding GmbH, Friedrichshafen and refunded by them in 2013.

The following explanatory notes are an integral part of the audited consolidated financial statements.

Consolidated Statement of Financial Position

of Tognum AG, Friedrichshafen as at 31 December 2012

ASSETS			
IN EUR MILLION	Note	31 Dec. 2011	31 Dec. 2012
Intangible assets	19	431.9	451.6
Property, plant and equipment	20	535.8	598.4
Investments accounted for using the equity method	21	32.0	36.6
Deferred tax assets	22	83.1	75.4
Other non-current financial assets	23	122.1	26.8
Other non-current assets		0.8	0.5
Non-current assets		1,205.7	1,189.4
Inventories	24	879.7	820.1
Trade receivables	25	514.7	520.3
Tax claims		12.3	30.5
Cash and cash equivalents	26	420.9	290.9
Other current financial assets	27	23.3	8.9
Other current assets	25	60.6	69.6
Current assets		1,911.6	1,740.1
Total assets		3,117.3	2,929.5

The following explanatory notes are an integral part of the audited consolidated financial statements.

LIABILITIES

IN EUR MILLION	Note	31 Dec. 2011	31 Dec. 2012
Share capital		131.4	131.4
Capital reserves		257.7	257.7
Retained earnings and other reserves		484.6	435.8
Equity attributable to the shareholders of Tognum AG		873.7	824.9
Non-controlling interests		3.2	
Equity	28	876.9	824.9
Provision for pensions	29	415.4	427.3
Other long-term provisions	30	194.3	187.1
Deferred tax liabilities	22	56.9	51.1
Long-term financial liabilities ¹	31	427.5	255.0
Advance payments received		42.8	44.5
Other long-term liabilities		6.0	8.9
Non-current liabilities		1,142.8	973.9
Trade payables	32	363.6	352.6
Tax payables		28.2	26.8
Other short-term provisions	30	348.3	301.5
Short-term financial and other liabilities ¹	31	90.3	215.1
Advance payments received		246.8	210.7
Other current liabilities	33	20.2	24.1
Current liabilities		1,097.5	1,130.7
Total equity and liabilities		3,117.3	2,929.5

¹ Net financial debt = interest-bearing financial liabilities less liquid funds; thereof interest-bearing long-term financial liabilities of 250.5 million euros (previous year: 425.6 million euros) and short-term financial liabilities of 0.3 million euros (previous year: 0.3 million euros)

The following explanatory notes are an integral part of the audited consolidated financial statements.

Consolidated Statement of Changes in Equity¹

of Tognum AG, Friedrichshafen as at 31 December 2012

IN EUR MILLION	Share capital	Capital reserves
Balance as at 1 Jan. 2011	131.4	257.7
Net profit or loss		
Other comprehensive income		
Total comprehensive income		
Changes in the group of consolidated companies		
Dividends paid to shareholders		
Balance as at 31 Dec. 2011	131.4	257.7
Balance as at 1 Jan. 2012	131.4	257.7
Net profit or loss		
Other comprehensive income		
Total comprehensive income		
Capital transactions with non-controlling interests		
Dividends paid to shareholders		
Profit transfer to Engine Holding GmbH		
Hypothetical current tax ²		
Balance as at 31 Dec. 2012	131.4	257.7

¹ Explanatory notes in the consolidated financial statements in section 28 | »Equity«

² Amount which Tognum AG, without the fiscal unity with Engine Holding GmbH, would have had to expend as national income tax for the fiscal year 2012

Retained earnings and other reserves						
Accumulated net income	Change in fair values of available-for-sale financial assets	Currency translation reserves	Total retained earnings and other reserves	Total equity attributable to the shareholders of Tognum AG	Non-controlling interests	Total
353.0		-8.9	344.1	733.2	2.6	735.8
198.8			198.8	198.8	0.5	199.3
		6.2	6.2	6.2	0.3	6.5
198.8		6.2	205.0	205.0	0.7	205.7
1.3			1.3	1.3		1.3
-65.7			-65.7	-65.7	-0.2	-65.9
487.4		-2.7	484.6	873.7	3.2	876.9
487.4		-2.7	484.6	873.7	3.2	876.9
181.7			181.7	181.7		181.7
		-2.3	-2.3	-2.3		-2.3
181.7		-2.3	179.5	179.5		179.5
-2.4			-2.4	-2.4	-3.2	-5.6
-98.8			-98.8	-98.8		-98.8
-168.5			-168.5	-168.5		-168.5
41.5			41.5	41.5		41.5
440.9		-5.0	435.8	824.9		824.9

The following explanatory notes are an integral part of the audited consolidated financial statements.

Group Segment Reporting¹

of Tognum AG, Friedrichshafen as at 31 December 2012

IN EUR MILLION	<i>Engines</i>	<i>OE&C</i>	<i>Distribution</i>	Sum segments	Consolidation/ corporate service Tognum AG	<u>Tognum Group</u>
1 Jan. – 31 Dec. 2012						
External revenues	1,692.0	797.9	524.6	3,014.5		<u>3,014.5</u>
Intersegment revenues	314.7	202.9	29.4	546.9	-546.9	<u></u>
Total revenues	2,006.7	1,000.8	554.0	3,561.5	-546.9	<u>3,014.5</u>
Segment results (adjusted EBIT)	250.0	73.7	29.9	353.5	-58.0	<u>295.5</u>
thereof profit from investments accounted for using the equity method	2.5	1.5	3.2	7.2		<u>7.2</u>
Segment assets	1,824.5	570.5	248.6	2,643.7	285.8	<u>2,929.5</u>
thereof investments accounted for using the equity method		10.4	26.2	36.6		<u>36.6</u>
Segment liabilities	956.3	170.7	136.5	1,263.6	841.0	<u>2,104.6</u>
Net assets ²	868.2	399.8	112.0	1,380.1	-168.6	<u>1,211.5</u>
Capital expenditure ³	141.6	38.8	3.2	183.5		<u>183.5</u>
thereof intangible assets	42.6	4.3	0.1	47.0		<u>47.0</u>
thereof property, plant and equipment	99.0	34.5	3.1	136.6		<u>136.6</u>
Amortisation	-69.7	-46.8	-5.2	-121.7	-0.1	<u>-121.8</u>
1 Jan. – 31 Dec. 2011						
External revenues	1,727.2	769.2	475.7	2,972.1		<u>2,972.1</u>
Intersegment revenues	267.9	221.3	28.3	517.5	-517.5	<u></u>
Total revenues	1,995.1	990.5	504.0	3,489.6	-517.5	<u>2,972.1</u>
Segment results (adjusted EBIT)	298.4	76.4	28.9	403.7	-58.5	<u>345.2</u>
thereof profit from investments accounted for using the equity method		-2.9	-2.8	-5.7		<u>-5.7</u>
Segment assets	1,792.5	669.4	232.8	2,694.8	422.5	<u>3,117.3</u>
thereof investments accounted for using the equity method		8.9	23.1	32.0		<u>32.0</u>
Segment liabilities	970.4	266.0	120.0	1,356.5	883.9	<u>2,240.4</u>
Net assets ²	822.1	403.4	112.8	1,338.3	-40.8	<u>1,297.5</u>
Capital expenditure ³	137.7	25.1	3.0	165.8		<u>165.8</u>
thereof intangible assets	38.8	3.6		42.4		<u>42.4</u>
thereof property, plant and equipment	98.9	21.5	3.0	123.4		<u>123.4</u>
Amortisation	-67.8	-42.4	-5.0	-115.2	-0.2	<u>-115.4</u>

¹ Part of the notes, explanatory notes in the consolidated financial statements in section 38 | »Segment reporting«

² Net assets reflect the use of capital for returns in the Group. Assets can be determined on the assets or liabilities side. For internal control purposes, they are calculated as total assets (excluding liquid funds), less any non-interest-bearing debt capital that is available. At Group level, net assets are derived from disclosures on the liabilities side and include the following items: equity, provisions for pensions and interest-bearing borrowed capital.

³ Excluding new additions to the group of consolidated companies from corporate acquisitions

Offsetting and Reconciliation

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Total segment results (adjusted EBIT)	403.7	353.5
Corporate items	- 46.7	- 55.5
Eliminations	- 11.8	- 2.5
Adjusted EBIT, Group	345.2	295.5
Adjustments	- 57.7	- 12.9
Interest result	- 16.1	- 24.6
Earnings before taxes	271.4	258.1
Total assets, segments	2,694.8	2,643.7
Assets from income taxes	95.4	105.9
Cash	420.9	290.9
Corporate items	49.3	32.8
Eliminations	- 143.0	- 144.9
Group assets	3,117.3	2,929.5
Total debt, segments	1,356.5	1,263.6
Liabilities from income taxes	85.1	77.9
Financial liabilities	425.9	250.8
Non-allocated financial instruments	2.1	2.6
Liabilities for pensions	415.4	427.3
Corporate items	70.7	198.5
Eliminations	- 115.4	- 116.0
Group debt	2,240.4	2,104.6

Segment Information by Region

The table below includes information by region for the 2011 and 2012 financial years:

IN EUR MILLION	Germany		Europe without Germany		North America (NAFTA)	
	2011	2012	2011	2012	2011	2012
External revenues	437.6	534.9	869.5	822.5	780.1	833.9
Non-current assets ¹	823.5	898.1	31.7	36.3	98.1	102.9
Capital expenditure ²	130.4	153.5	1.3	8.2	30.9	19.2

IN MIO. EURO	Asia/Pacific		Others		Group	
	2011	2012	2011	2012	2011	2012
External revenues	678.6	653.0	206.3	170.3	2,972.1	3,014.5
Non-current assets ¹	15.2	13.4			968.4	1,050.6
Capital expenditure ²	3.2	2.6			165.8	183.5

¹ Non-current assets consist of property, plant and equipment, intangible assets and other non-current assets.

² Excluding new additions to the group of consolidated companies from corporate acquisitions

Notes

Explanatory Notes

1 | General information

Tognum AG is a public limited company incorporated under the law of the Federal Republic of Germany and has its registered office at Maybachplatz 1, 88045 Friedrichshafen/Germany. The company is entered in the Commercial Register of the Local District Court in Ulm/Germany. Around 99% of the subscribed capital of Tognum AG is owned by Engine Holding GmbH, Friedrichshafen. The financial year corresponds to the calendar year. The parent company that prepares consolidated financial statements for the largest group of companies is Engine Holding GmbH, Friedrichshafen. Engine Holding GmbH, Friedrichshafen is a joint venture company of Daimler AG, Stuttgart and Vinters International Ltd. (subsidiary company of Rolls-Royce Group plc.). Tognum AG prepares the consolidated financial statements for the smallest group of companies. The consolidated financial statements prepared by Engine Holding GmbH are published in the Federal Gazette.

The consolidated financial statements consist of the financial statements of Tognum AG and its subsidiaries. The consolidated financial statements as at 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union and the additional requirements of German commercial law in accordance with Section 315a(1) of the German Commercial Code (HGB).

The Executive Board of Tognum AG approved the release of the financial statements to the Supervisory Board as a preliminary version on 8 February 2013. The final version was submitted for the Supervisory Board Meeting on 13 February 2013. The Supervisory Board is required to examine the consolidated financial statements and to state whether it approves the consolidated financial statements.

Tognum prepares and publishes the consolidated financial statements in euros. To make the figures easier to understand, the individual items in the consolidated financial statements are presented in millions of euros (EUR million), rounded to one decimal place. The consolidated financial statements are prepared on the basis of historical acquisition and manufacturing costs except for derivative financial instruments.

The consolidated statement of comprehensive income is prepared in accordance with the internationally accepted cost of sales method. The preparation of the consolidated financial statements in compliance with the above-mentioned standards requires that, for certain items, assumptions be made that have an impact on the items recognised in the consolidated statement of financial position or the consolidated statement of comprehensive income as well as on the disclosure of contingent assets and liabilities.

The following explanatory notes include disclosures and remarks that, in accordance with IFRS requirements, are to be incorporated as notes in the consolidated financial statements in addition to the consolidated statement of comprehensive income for the reporting period, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flows.

2 | Accounting and valuation methods

BASIS OF CONSOLIDATION

In addition to Tognum AG, 24 domestic and foreign subsidiaries (previous year: 22), which are directly or indirectly controlled by Tognum AG, are included in the consolidated financial statements. Control in accordance with International Accounting Standard (IAS) 27 is presumed when a controlling entity has the ability to determine the financial and operating policies of an entity so as to obtain benefits from its activities. Inclusion in the consolidated financial statements takes place at the time the parent company acquires control. Subsidiaries are removed from the group of consolidated companies when the parent no longer controls them. Moreover, subsidiaries are not included in the group of consolidated companies if they are of minor importance for the income, asset and financial position of the Group.

In accordance with IFRS 3 »Business Combinations«, business combinations are accounted for using the acquisition method. The acquisition costs correspond to the fair value of the assets given, the issued equity instruments and the incurred or assumed debt at the time of the transaction, plus the costs directly attributable to the acquisition. Assets, debts and contingent liabilities identified during a business combination are recognised for the first-time consolidation at their fair value at the time of acquisition, regardless of the extent of minority interests. The excess of the cost of acquisition over the Group's share of the fair value of the net assets is disclosed as goodwill. If the acquisition costs are less than the Group's interest in the fair value of the net assets of the acquired subsidiary, the difference in the amount is disclosed directly in the consolidated statement of comprehensive income.

Goodwill, in accordance with IFRS 3, is no longer amortised systematically over its useful life but instead is subject to an impairment test at least once a year in accordance with IAS 36 »Impairment of Assets«. Reversals of impairment loss for goodwill are prohibited. Intangible assets that are anticipated to supply the company with incoming cash for an unlimited period of time are to be disclosed with an indefinite useful life. The systematic amortisation of such intangible assets is prohibited.

Intergroup profits and losses, expenses and income as well as receivables and liabilities existing between consolidated companies are eliminated.

Joint ventures are disclosed using the equity method and initially stated at their acquisition cost. The acquisition costs increase or decrease by the change in equity that corresponds to the capital interest of Tognum AG. Differences in amounts from the first-time consolidation are dealt with under the principles of full consolidation for the initial inclusion of investments in accordance with the equity method. Changes in the share of equity that effect profits or losses, including extraordinary amortisation of goodwill, are shown in the financial results of the consolidated statement of comprehensive income.

Associated companies are companies over which the Tognum Group exercises significant influence. Shareholdings in associated companies are accounted for using the equity method.

GROUP OF CONSOLIDATED COMPANIES

The following companies and/or subgroups were consolidated in full as at 31 December 2012:

SHAREHOLDING IN %	31 Dec. 2011	31 Dec. 2012
MTU Friedrichshafen GmbH, Friedrichshafen	100.0	100.0
MTU Ibérica Propulsión y Energía S.L., Coslada/Spain	100.0	100.0
Karl Maybach-Hilfe GmbH, Friedrichshafen	100.0	100.0
L'Orange GmbH, Stuttgart	100.0	100.0
MTU Anlagenvermietung GmbH, Friedrichshafen	100.0	100.0
Tognum Asia Pte. Ltd., Singapore/Singapore	100.0	100.0
MTU Australia Pty. Ltd., Kings Park/Australia	100.0	100.0
MTU Benelux B.V., Dordrecht/Netherlands	100.0	100.0
Tognum America Inc., Detroit/USA	100.0	100.0
MTU Italia S.r.l., Arcola/Italy	100.0	100.0
MTU Onsite Energy Corporation, Mankato/USA	100.0	100.0
MTU Onsite Energy GmbH, Augsburg	100.0	100.0
MTU Onsite Energy Systems GmbH, Ruhstorf	0.0	75.1
MTU Polska Sp. z o.o., Warsaw/Poland	0.0	100.0
MTU Motor Türbin Sanayi ve Ticaret A.Ş., Hadımköy/Turkey	100.0	100.0
MTU Motor Türbin Sanayi ve Ticaret A.Ş. Avrupa Serbest Bölge Şubesi, Çorlu/Turkey	100.0	100.0
MTU UK Ltd., East Grinstead/Great Britain	100.0	100.0
MTU Reman Technologies GmbH, Magdeburg	100.0	100.0

Tognum Asia Pte. Ltd., Singapore/Singapore is included in the consolidated financial statements of MTU Friedrichshafen GmbH, Friedrichshafen as a preconsolidated subgroup. This subgroup comprises the following companies, which are consolidated in full: Tognum Asia Pte. Ltd., Singapore/Singapore (parent company of the subgroup), MTU Hong Kong Ltd., Hong Kong/China, MTU Engineering Co. Ltd., Suzhou/China, MTU India Pvt. Ltd., Bangalore/India, MTU Indonesia, Jakarta/Indonesia, MTU China Co. Ltd., Shanghai/China as well as MTU Japan Co. Ltd., Tokyo/Japan. MTU Friedrichshafen GmbH, Friedrichshafen has a 100% shareholding in Tognum Asia Pte. Ltd., Singapore/Singapore, while Tognum Asia Pte. Ltd., Singapore/Singapore itself held 100% of the shares in each of the fully consolidated companies as at 31 December 2012. In the previous year, Tognum Asia Pte. Ltd., Singapore/Singapore held 51% of the shares in MTU Japan Co. Ltd., Tokyo/Japan (formerly MTU Marubeni Co. Ltd., Tokyo/Japan).

MTU Motor Türbin Sanayi ve Ticaret A.Ş., Hadımköy/Turkey and its subsidiary company MTU Motor Türbin Sanayi ve Ticaret A.Ş. Avrupa Serbest Bölge Subesi, Çorlu/Turkey are included in the consolidated financial statements of MTU Friedrichshafen GmbH, Friedrichshafen as a preconsolidated subgroup.

Additional information is included in section 3 | »Change in scope of consolidated companies«.

The following companies, which are registered in Germany, have exercised the option in Section 264(3) of the German Commercial Code (HGB) not to publish financial statements for 2012 or prepare a management report:

- MTU Friedrichshafen GmbH, Friedrichshafen,
- MTU Anlagenvermietung GmbH, Friedrichshafen,
- MTU Onsite Energy GmbH, Augsburg,
- L'Orange GmbH, Stuttgart,
- MTU Reman Technologies GmbH, Magdeburg.

As at 31 December 2011 and 31 December 2012, the following companies were recognised at equity as associated companies or joint ventures:

SHAREHOLDING IN %	31 Dec. 2011	31 Dec. 2012
MTU Detroit Diesel Australia Pty. Ltd., Chipping Norton/Australia	50.0	50.0
Shanxi North MTU Diesel Co. Ltd., Datong/China	49.0	49.0

RECENT ACCOUNTING DEVELOPMENTS

In preparing the consolidated financial statements, the company has adopted all the new and amended standards and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) that are required within the European Union for financial years beginning on or after 1 January 2012.

STANDARD/INTERPRETATION	Effective date ¹	Endorsement ²
Amendment IFRS 7	1 July 2011	22 Nov. 2011
Notes to the Financial Statements: Transfer of Financial Assets		

¹ Applicable from the first reporting period of a financial year beginning on or after this date

² Adoption of IFRS standards or interpretations by the EU Commission

- On 7 October 2010, the IASB published amendments to IFRS 7 »Financial Instruments: Disclosures«. The amendments relate to additional disclosure requirements for the derecognition of financial assets. This is intended to enable recipients of financial statements to better understand transactions performed for the purpose of transferring assets (e.g. securitisation or factoring). The amendments are compulsory for financial years beginning on or after 1 July 2011. Comparative disclosures are not required in the first year of adoption. There has been no impact on the Tognum Group as a result of the amendments to the standard.

The IASB has also published the following standards, interpretations and amendments to existing standards that have already been endorsed by the European Union. Their application, however, was not compulsory for the 2012 financial year, and they were not applied at an earlier date in the consolidated financial statements of Tognum AG.

STANDARD/INTERPRETATION	Effective date ¹	Endorsement ²
Amendment IAS 1	1 July 2012	5 June 2012
Amendment IAS 19	1 Jan. 2013	5 June 2012
Amendment IFRS 1	1 Jan. 2013	11 Dec. 2012
Amendment IAS 32/IFRS 7	1 Jan. 2013/1 Jan. 2014/	13 Dec. 2012
New IFRS 10	1 Jan. 2014	11 Dec. 2012
New IFRS 11	1 Jan. 2014	11 Dec. 2012
New IFRS 12	1 Jan. 2014	11 Dec. 2012
New IFRS 13	1 Jan. 2013	11 Dec. 2012
Amendment IAS 12/SIC-21	1 Jan. 2013	11 Dec. 2012
Income Taxes – Recovery of Revalued Non-Depreciable Assets		

¹ Applicable from the first reporting period of a financial year beginning on or after this date

² Adoption of IFRS standards or interpretations by the EU Commission

- In June 2011, the IASB published an amendment to IAS 1 »Presentation of Financial Statements«, in accordance with which the disclosure of the items reported under other comprehensive income in the consolidated statement of comprehensive income is changed. The IASB had originally proposed that all entities be required to report all components of comprehensive income (profit/loss and other comprehensive income) in a single statement of comprehensive income. This proposal was later withdrawn. Entities therefore continue to have the choice of presenting profit or loss for the reporting period and other comprehensive income together in a single, continuous statement or in two separate, consecutive statements. The amendments are intended to provide a clearer distinction between the individual items of other comprehensive income and greater clarity in the presentation of these items. The amendment is compulsory for the first time for financial years beginning on or after 1 July 2012. In the first year of adoption, comparative disclosures are required (retroactive application). The new disclosure requirements of IAS 1 will have no impact on the presentation of items in other comprehensive income in the consolidated statement of comprehensive income of Tognum AG.
- On 16 June 2011, the IASB published the final version of the amendments to IAS 19. They will have a significant impact on the recognition and measurement of expenses for defined benefit pension plans and termination benefits. The main changes are summarised as follows:
 - Actuarial gains and losses resulting from remeasurements are to be recognised immediately in other comprehensive income. The distinction based on the corridor approach and immediate recognition in the income statement is now no longer permitted.
 - Defined benefit cost in the income statement will in future be broken down into current and past service cost, and net financial expense. This breakdown can be included in the income statement or in the explanatory notes to the consolidated incomes statement.
 - In accordance with the new standard, past service cost is recognised in the period in which the plan amendment on which it is based occurs. Based on present standards, such a change in the defined benefit obligation continues to be spread over the period until the benefits become vested. Any unvested past service cost will therefore no longer be spread over a future period.
 - Extended explanatory notes to the consolidated financial statements will be required with respect to the characteristics of the defined benefit pension plans and the amounts recognised in the consolidated financial statements, in addition to any possible impact and risks of defined benefit plans on the entity's cash flow.

The amendments to IAS 19 are compulsory for financial years beginning on or after 1 January 2013; the option of early application was not exercised. The impact they will have on the measurement, reporting and disclosure requirements of benefits to employees within the Tognum Group of significance to the consolidated financial statements of Tognum AG is described on page 123.

- In December 2010, the IASB published amendments to IFRS 1 »First-time Adoption of International Financial Reporting Standards«. For an entity that prepares an IFRS financial statement for the first time following a period of »severe hyperinflation«, IFRS 1 provides further exemption from the requirement to retroactively comply with all IFRSs that would otherwise apply. In accordance with this amendment, the assets and liabilities in the opening IFRS balance sheet that are held on or after the date on which severe hyperinflation ceases to exist are measured at their fair value on the balance sheet date. This is then recognised as their deemed acquisition or manufacturing cost. The draft also includes disclosure requirements regarding the fact that a previous period of severe hyperinflation has ceased to exist. The amendments to IFRS 1 are compulsory for financial years beginning on or after 1 January 2013. The revision of this standard is not expected to have an impact on the Tognum Group.
- On 16 December 2011, the IASB published an amendment to IAS 32 »Financial Instruments: Presentation«, clarifying the requirements for offsetting financial instruments. In it, the standard-setting body expressly points out that an unconditional, legally enforceable right of set-off must also be available in the event of insolvency of a counterparty. On the other hand, examples of criteria are also included under which a gross settlement of financial assets and financial liabilities will still result in offsetting. The amendment is to be applied retroactively for financial years that begin on or after 1 January 2014. In this respect, an amendment to IFRS 7 »Financial Instruments: Disclosures« was also issued relating to the offsetting of financial instruments. This states that an obligation to make disclosures exists regardless of whether the offsetting agreement has in fact led to an offsetting of the financial assets and financial debts or not. The amendment is effective for financial years that begin on or after 1 January 2013. The new standards will not have any significant impact on the Tognum Group.
- On 12 May 2011, the IASB published IFRS 10 »Consolidated Financial Statements«, which supersedes the consolidation guidelines in the previous IAS 27 »Consolidated and Separate Financial Statements« and SIC-12 »Consolidation – Special Purpose Entities«. Since IAS 27 now only contains the requirements to be applied for separate financial statements, the standard has been renamed IAS 27 »Separate Financial Statements«. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. Control of an entity that, in addition to holding a majority of the voting rights, can be established as a result of other contractual arrangements is the basis for consolidation. The concept of control as defined in IFRS 10 includes the following three elements, which must all be met:
 - power over the investee,
 - variable returns, and
 - the ability to affect the variable returns by exercising power over the investee.

The new standard is applicable for financial years beginning on or after 1 January 2014. This is not expected to have any significant impact on the consolidated financial statements of Tognum AG.

- On 12 May 2011, the IASB published IFRS 11 »Joint Arrangements«, which treats the recognition of joint arrangements. These come about when two or more contracting parties agree to have joint control on the basis of contractual arrangements. A distinction is made between a joint operation, in which the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement, and a joint venture, in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The new standard supersedes IAS 31 »Interests in Joint Ventures« and eliminates the previous option of using proportionate consolidation. The compulsory application of the equity method for joint ventures will take place in future in accordance with the requirements of IAS 28 »Investments in Associates and Joint Ventures«, which to date has dealt solely with associates. Both the extension of the scope of IAS 28 with the addition of joint ventures and the new IFRS 11 are compulsory for financial years beginning on or after 1 January 2014. This is not expected to have any significant impact on the consolidated financial statements of Tognum AG.
- On 12 May 2011, the IASB published IFRS 12 »Disclosure of Interests in Other Entities«, which combines the revised disclosure requirements for IAS 27, IFRS 10, IAS 31, IFRS 11 and IAS 28 into one standard. The objective of the new standard is to harmonise and expand the disclosures contained in the notes to the consolidated financial statements for all investments in subsidiaries, joint arrangements, associates and unconsolidated special-purpose entities. In accordance with the requirements specified in IFRS 12, entities must make quantitative and qualitative disclosures that enable recipients of financial statements to better assess any judgments and assumptions to be made when analysing the companies included in the group of consolidated companies and the risks associated with the investment. IFRS 12 is to be applied for the first time for financial years beginning on or after 1 January 2014. The new standards will have an impact on the extent of the disclosure requirements for interests in other entities in the consolidated financial statements of Tognum AG.
- On 12 May 2011, the IASB published IFRS 13 »Fair Value Measurement«. IFRS 13 establishes a single framework that can be applied to all standards when measuring fair value, by redefining and presenting the methods to be used for determining fair value. The standard defines fair value (for a specific asset or a specific liability) as the selling price at which an actual or hypothetical transaction would take place between any independent market participants under current market conditions. The standard is not to be used, however, for measurements in conjunction with IAS 36, IAS 17 and in share-based payment transactions within the scope of IFRS 2. In addition to new definitions, the required disclosures in the notes to the consolidated financial statements have also been extended to include a fair value measurement. In future, for example, this means disclosing the methods used to measure the fair value of assets and liabilities, including the initial values used and the impact on the consolidated financial statements. The new standard is to be applied for the first time for financial years beginning on or after 1 January 2013. The requirements of IFRS 13 will have an impact on the disclosure requirements for measuring fair value in the consolidated financial statements of Tognum AG.

- On 20 December 2010, the IASB published amendments to IAS 12 »Income Taxes« and SIC-21 »Income Taxes – Recovery of Revalued Non-Depreciable Assets«. In the case of investment property that, in accordance with IAS 40, is recognised using the fair value model, it is necessary to determine whether temporary tax differences are reversed by use or by sale. This is often difficult to determine. The amendment therefore includes a refutable presumption in IAS 12 that the recovery of the carrying amount of the property normally takes place through sale. In countries in which no tax arises from the sale of investment property, or only the amortisation is taxed, this would mean that no or only a small amount of deferred taxes would have to be accounted for. The remaining interpretations in SIC-21 have been integrated into IAS 12, and SIC-21 has now been withdrawn. The amendment to IAS 12 is to be applied retroactively for reporting periods beginning on or after 1 January 2013. The amendment to the standard will have no impact on the Tognum Group.

New standards and interpretations or amendments to existing standards and interpretations are normally not applied by the Group before the date on which they enter into force. The first-time application of the respective standards or interpretation is intended to take place from the date of its compulsory application in the European Union (following endorsement).

CURRENCY TRANSLATION

The financial statements of the foreign companies in the Group whose functional currency is not the euro are translated into the euro, the currency of the consolidated financial statements, in accordance with the concept of the functional currency. The functional currency of the foreign subsidiaries of the Group is normally the currency of the country in which it operates. An exception to this is the subgroup of Tognum Asia Pte. Ltd., Singapore/Singapore, whose functional currency is the euro.

Assets and liabilities are translated into euros at the exchange rate as at the balance sheet date, income and expenses are translated at the weighted average exchange rate for the respective periods. Any differences resulting from the translation are recorded in equity with no effect on profits or losses. A translation difference recorded in equity with no effect on results is only reported as profit or loss if the corporate entity concerned is removed from the group of consolidated companies.

Foreign currency transactions are translated into the functional currency at the exchange rate applicable at the time of the transaction. Gains and losses resulting from the fulfilment of such transactions, and from translating monetary assets and liabilities held in a foreign currency at the exchange rate on the balance sheet date, are reported with an effect on profits or losses.

Since Tognum AG has no subsidiary company with registered office in a hyperinflationary country, the preparation of financial statements in accordance with the rules of IAS 29 »Financial Reporting in Hyperinflationary Economies« was not necessary.

The following currency exchange rates apply for the Tognum Group's key foreign currencies:

COUNTRY	Currency	Rate at closing date		Average exchange rate	
		31 Dec. 2011	31 Dec. 2012	1 Jan. - 31 Dec. 2011	1 Jan - 31 Dec. 2012
USA	USD	1.2939	1.3194	1.3920	1.2848
Singapore	SGD	1.6819	1.6111	1.7489	1.6055
Great Britain	GBP	0.8353	0.8161	0.8679	0.8109
Japan	JPY	100.2000	113.6100	110.9500	102.4900
Australia	AUD	1.2723	1.2712	1.3484	1.2407
Switzerland	CHF	1.2156	1.2072	1.2326	1.2053

USE OF ASSUMPTIONS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that to a certain extent affect the reported amounts of assets and liabilities, income and expenses, as well as contingent liabilities.

The assumptions and estimates relate primarily to

- the accounting representation of business combinations,
- the assessment of the value of intangible assets (particularly goodwill),
- the capitalisation of assets manufactured in-house (development costs),
- the uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group,
- the collectability of receivables,
- the valuation of inventories,
- the calculation of the overall costs of long-term service contracts,
- the assessment of economic risks and opportunities of leasing contracts, and
- the accounting and measurement of pension provisions and other provisions.

In the course of business combinations, estimates are generally made to determine the fair value of an acquired asset. As a basic principle, the fair value is determined by using a suitable valuation method that is generally based on the prospects for future incoming cash and cash equivalents. External experts are consulted in exceptional cases.

To test goodwill for impairment, the value in use for cash-generating units (CGUs) to which goodwill has been allocated is determined by means of the discounted cash flow method (cf. section 19 »Intangible assets«). Assumptions regarding future business developments and general underlying data (e.g. interest rate level, exchange rate development) are to be made for this purpose. If there are any changes in these influencing factors, the value in use of the CGUs can change, possibly necessitating a need for impairment.

Self-produced intangible assets are capitalised in accordance with the accounting and measurement method (cf. page 122). In order to determine the amounts to be capitalised, Tognum AG has to make assumptions regarding the expected future cash flow arising from these assets, the interest rate to be applied, and the period of the inflow of the expected future cash flows which the assets are expected to generate.

The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group is subject to the estimations made by the company management.

For receivables, solvency and default risks may arise to the extent that customers are unable to meet their payment obligations, thus producing losses. The calculation of the required impairments takes into account such things as the solvency of customers, existing securities as well as experience based on historical default rates. The actual payment defaults by customers may differ from the anticipated payment default due to the underlying influencing factors.

Inventories are valued at the lower value of acquisition and manufacturing cost and net realisable value. The net realisable value is determined by subtracting the costs incurred up to completion from the expected sales price of the end product. If assumptions regarding future share prices or end product market potentials are not appropriate, this may lead to a further need for depreciating inventories.

Revenues from long-term service contracts (primarily maintenance contracts) are reported in accordance with the respective state of completion. A determination of expected overall cost is required when applying the cost-to-cost method, which is based on empirical values from prior contracts. However, should deviations from estimated values arise due to unforeseen special effects, a too far advanced state of completion could have been determined as at the balance sheet date, resulting in a reporting of sales revenues that would be too high (for total sales revenues from service contracts, please refer to section 4 | »Sales revenues« of the notes to the consolidated financial statements).

For the commercial allocation of lease objects, it is of utmost importance to determine who carries the significant commercial risks and opportunities associated with the ownership of the object. To this end, assumptions must be made regarding the market price of the lease object at the end of the lease period and the cash value of the minimum lease payments.

For accounting of provisions, management must make assumptions regarding the probability of certain business transactions resulting in an impending loss of commercial benefit for Tognum AG. Estimates as to the amount and timing of possible economic outflows form the basis for the measurement of provisions. If the actual amount and the timing differ from the estimates made, then this may affect the results of Tognum AG.

The assumptions and estimates are based on premises based on the knowledge at hand at the respective time. Unforeseeable developments and developments beyond management's control may cause a difference between the originally estimated values and the actual amounts arising at a later date. In this case, the premises and, if necessary, the carrying amounts of the affected assets and liabilities will be adjusted accordingly. Other instances of the exercise of discretion by management in the application of accounting and measurement methods which have a significant effect on the consolidated financial statements are as follows:

The Tognum Group calculates actuarial gains and losses from pension obligations using the corridor method. The corridor method was chosen due to the lower volatility and its impact on equity. As of the 2013 financial year, the Tognum Group will change over to the »Statement of recognised income and expenses« approach (SORIE approach). If the Tognum Group had changed over to the SORIE approach in the 2012 financial year, there would have been negative effects in other comprehensive income amounting to 62.7 million euros (no effect on profit or loss in the consolidated income statement), not including deferred taxes, which would have led to a reduction in equity. In addition, pension provisions would have increased by the same amount. Deferred tax assets may be recognised only to the extent, as is probably the case, that sufficient taxable profits will be available in future. Discretion needs to be exercised to determine whether these tax assets can be recognised.

RECOGNITION OF INCOME AND EXPENSES

Revenues and other operating income from the sale of goods are disclosed at the time that the relevant risks and opportunities associated with the ownership of the sold goods and products are transferred to the customer, and when it is sufficiently likely that the commercial benefit from the sale will flow to the Tognum Group.

Income received from the provision of services is recognised in accordance with the state of completion of the respective transactions. In long-term service and maintenance contracts and extended, separately billed guarantees, the revenues are as a rule recognised systematically over the term of the contract or, if the services are not provided systematically, in accordance with the ratio of the already incurred costs to the expected overall cost (cost-to-cost method). The expected overall costs are determined on the basis of prior empirical values.

As a manufacturer of engines and of propulsion and energy generation systems, the Tognum Group is also involved in the remanufacturing of engines and the associated spare parts business. This is broken down into general business activities and sales of new replacement parts (cf. »Revenue recognition principles in the sale of goods«) in addition to as new, but reconditioned spare parts. The deposit received in the sale of these remanufactured engines or reconditioned parts – similar to the accounting system used in traditional deposit systems – is reported in the balance sheet as a provision, with an estimated return rate applied when the item is released for sale.

Revenue reductions such as sales returns, rebates, discounts and incentives are set off against gross revenue. Manufacturing costs for sales include the costs for sold products manufactured in-house as well as delivery costs for the sold merchandise. Manufacturing costs for products manufactured in-house include the directly allocable individual material and production costs, the allocable parts of the overhead costs for production including depreciation of production equipment, other intangible assets and reductions in inventories. Rental charges and licence fees are accrued and recognised in accordance with the commercial situation of the transactions.

Borrowing costs directly related to the sale, construction or manufacture of qualified assets (i.e. assets for which a substantial amount of time is required to return them to the condition required for use or sale) are to be added to the manufacturing costs of these assets until the time the assets are available for their intended use or sale. Interest that has not been capitalised in accordance with IAS 23 is reported in the reporting period as an expense or as earnings using the effective interest method.

Dividends are recognised when the legal entitlement for payment arises.

INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED AGAINST PAYMENT. Intangible assets that are acquired against payment are recognised at acquisition cost. They are amortised systematically in accordance with their respective useful life. Intangible assets are amortised according to the straight-line method.

Intangible assets with an indefinite useful life are subject to at least one impairment test a year and are not amortised systematically. With the exception of goodwill and brand names, no intangible assets with an indefinite useful life were capitalised in the Tognum Group.

SELF-PRODUCED INTANGIBLE ASSETS. Costs for the development of new or significantly improved products and processes are capitalised if the development costs can be reliably determined, the product or the process can be realised technically and commercially, and when future commercial benefits are likely. Moreover, the Tognum Group must have the intention and possess sufficient resources to complete the development and to use or sell the asset. The capitalised costs include material costs, production wages and the directly allocable general overhead costs. Capitalised development costs are recognised at manufacturing cost less accumulated amortisation and impairments.

These may include the following costs:

DIRECT COSTS	OVERHEAD COSTS (DIRECTLY ALLOCABLE)
Direct material costs	Material overheads
Direct manufacturing costs	Manufacturing overheads
Special direct manufacturing costs	Fixed asset depreciation
	Development-related administration costs

Development costs that do not meet the disclosure criteria of IAS 38 are recognised with an effect on profit or loss in the period in which they are incurred.

Within the self-produced intangible assets at the balance sheet date, there was one qualifying asset as defined under IAS 23, which meant that borrowing costs amounting to 2.4 million euros were capitalised for the first time (previous year: 0.9 million euros). The interest rate as at the balance sheet date amounted to 2.39% (previous year: 2.35%).

GOODWILL. Goodwill corresponds to the difference between the purchase price and the proportional fair value of the net asset at the time of acquisition. Capitalised goodwill is not amortised systematically. It is subject to an annual impairment test. If there are indications of impairment, the impairment test is also conducted during the year. Please refer to section 19 | »Intangible assets« for more information about the impairment test.

The following useful lives are taken as the basis for the systematic amortisation of intangible asset:

	Useful life in years
Concessions, industrial property rights	2 - 9
Brands	3 - 5
Technology	5 - 8
Customer relationships	5 - 20
Development costs in the production phase	5 - 10

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at amortised cost less accumulated, systematic depreciation for wear and tear, as well as accumulated expenses for impairments.

Acquisition costs include the acquisition price, directly attributable costs of the acquisition, and subsequent acquisition costs less price reductions received for the acquisition. Manufacturing costs for equipment manufactured in-house include both the individual costs and the allocable overhead costs for materials and production. These consist of production-related depreciation plus the proportional costs for the company's retirement provisions and the voluntary retirement benefits. At the balance sheet date, there were no qualifying assets as defined under IAS 23, which meant that no borrowing costs for property, plant and equipment were capitalised.

Property, plant and equipment are depreciated over their useful economic life in a systematic, straight-line method. Property is not depreciated systematically.

The following useful lives are taken as the basis for systematic depreciation:

	Useful life in years
Buildings	8 - 50
Plant and machinery	5 - 20
Other facilities, including factory and office equipment	3 - 14

IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 36, property, plant and equipment as well as intangible assets with a limited useful life are reviewed at least at the balance sheet date to determine whether there is reason for possible impairment. If there is reason for impairment, the recoverable amount of the asset is determined. The recoverable amount is defined as the higher amount from the fair value less costs to sell and the value in use. If the carrying amount is greater than the recoverable amount of the asset, then an impairment loss for the sum that the carrying amount exceeds the recoverable amount is reported with an effect on profit or loss. For the impairment test, assets are summarised at the lowest level for which a separate cash flow can be identified. If the cash flow for an asset cannot be identified separately, the impairment test is performed on the basis of the cash-generating unit (CGU) to which the asset belongs.

The asset is appreciated to a new recoverable amount if the reasons for the impairment from previous years no longer apply. The upper limit for appreciations are the amortised costs that would have resulted if no impairment had been reported in the previous years.

To carry out the annual impairment test for goodwill, an allocation to the CGUs has to be done. The recoverable amount of these CGUs is then checked at least once a year or when there are indications that the carrying amounts of these CGUs exceed the recoverable amount. If the recoverable amount of the CGU falls below the carrying amount of its net asset, then the impairments are reported with an effect on profit or loss in accordance with the requirements of IAS 36. Reversing an impairment loss for goodwill in later periods is prohibited. The impairment of intangible assets with an unspecified useful life is determined in accordance with the same principles.

INVENTORIES

Raw materials, consumables and supplies, unfinished goods and services, finished goods and merchandise, and advance payments made are disclosed under inventories. They are recognised at acquisition or manufacturing cost, which is allocated to certain inventories by means of an individual allocation process. The acquisition and manufacturing costs are calculated by using the standard cost method where the normal amount for materials used and wages paid as well as the normal performance and capacity utilisation are taken into account.

Inventories are recognised at the lower value of either the acquisition/manufacturing costs or the net realisable value. Appropriate appreciation to a new net realisable value is determined if the reasons for an impairment cease to apply. The upper limit for such a reinstatement is the historical (i.e. amortised) acquisition or manufacturing cost.

DEFERRED TAXES

In accordance with IAS 12, deferred taxes are recognised for temporary differences between the carrying amounts in the IFRS balance sheet and the tax balance sheet. In addition, deferred tax assets are also to be recognised for tax losses carried forward, provided that tax credits result in the following years from the anticipated use of existing tax losses carried forward. The calculation of the deferred taxes is based on the tax rates that apply or, with a reasonable degree of probability, are expected to apply in the individual countries on the reporting date.

At the balance sheet date, the value of the deferred tax assets is reviewed and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the relevant planning period. Deferred tax assets that were not previously recognised are reviewed once again at the balance sheet date and recognised to the extent that it is now probable that any future taxable profit will enable the deferred tax asset to be realised.

Since 2012, Tognum AG and its German dependent companies, as a result of the Domination and Profit and Loss Transfer Agreement, have been members of the integrated tax group established by Engine Holding GmbH as the controlling company. In order to provide comparability of the independent consolidated financial statements of Tognum AG with the previous year in accordance with IFRS, Tognum AG reports deferred taxes that correspond to the amounts Tognum AG would have had to recognise if no integrated tax group had been established with Engine Holding GmbH (hypothetical deferred taxes).

Deferred taxes arising from the initial recognition of goodwill, from an asset or a liability in the course of a business transaction other than a business combination, whereby the initial recognition affects neither the accounting profit nor the taxable profit, are not recognised.

Deferred tax assets and liabilities are set off against each other when the Group has a legally enforceable right to offset the actual tax refund claims against the actual tax liabilities, and when these relate to income tax levied on the same taxable entity by the same tax authority.

ORIGINAL FINANCIAL INSTRUMENTS

Financial instruments are contracts that lead to a financial asset at one company and a financial liability or equity instrument at the other.

Financial assets and liabilities are disclosed on the balance sheet when the Tognum Group becomes a contractual party to a financial instrument. The financial assets are recognised at their fair value in the initial disclosure. Subsequent valuation depends on the classification.

IAS 39 classifies financial assets into the following categories:

- financial assets at fair value through profit or loss,
- financial assets held to maturity,
- loans and receivables, and
- available-for-sale financial assets.

Financial instruments in the »Loans and receivables« category are recognised upon delivery or settlement of the service, i.e. at the time the claim to payment arises (settlement date). Derivatives are booked on the day of the transaction, and all other financial assets are booked on the settlement date. The transaction day is the day on which the Tognum Group enters into the obligation to purchase or sell an asset. The settlement date is the day on which an asset is delivered to or by the company.

Derecognition of a financial asset takes place on the selling date (trading day) or when the claim has been settled. Derecognition also takes place when a receivable has become irrecoverable. Any effects arising from derecognition are recognised through profit or loss.

Financial instruments are impaired when there are objective indications for this. Such indications for a financial instrument could include:

- severe financial difficulties on the part of the issuer,
- breach of contract by the debtor, e.g. defaulting on interest or debt repayments,
- concessions made to a debtor that would not have been made under normal circumstances,
- a high probability of insolvency proceedings or other financial restructuring by the debtor, as well as
- observable information from which a reduction in the expected future cash flows can be deduced (e.g. adverse changes in the conduct of debtor payments, national or local commercial circumstances).

The impairment is determined by taking into account collateral held, or other credit enhancements, with recourse to the objective indications. The carrying amount of the trade receivables is reduced by using an adjustment account and recognising the impairment loss with an effect on profit or loss. Receivables, together with the relevant amortisation, are derecognised when they are classified as irrecoverable and when all collateral has been accessed and utilised. If the amount of an estimated amortisation expense increases or decreases in a later reporting period due to an event occurring after the amortisation expense was reported, then the previously reported amortisation expense is increased or decreased with an effect on profit or loss by adjusting the amortisation account. If a derecognised receivable is again classified as recoverable due to an event occurring after derecognition, then the relevant amount is immediately reported as recoverable with an effect on profit or loss. The cash value of the expected future cash flow is reduced by the original effective interest rate of the financial asset.

Expended loans, receivables and liabilities as well as financial investments held to maturity are recognised at amortised cost in accordance with the effective interest method. These include other receivables, financial assets and liabilities as well as financial debt.

The »Available-for-sale financial assets« category includes all financial assets that are not allocated to another measurement category. Since there is no active market for shareholdings that are categorised as available-for-sale financial assets in companies that are not traded publicly (this only includes shares in a GmbH, i.e. a German limited liability company, or a comparable foreign legal entity) with the aid of which fair value could be reliably determined, and as there is no other method that can determine fair value reliably, valuation is at amortised cost. As at the balance sheet date, there is no intention to dispose of these shares.

Shareholdings are also allocated to available-for-sale financial assets as long as the option provided under IAS 39 of measuring them at fair value through profit or loss is not exercised.

Shareholdings for which the option provided under IAS 39 (fair value option) is exercised are measured at fair value through profit or loss. Fair value is determined using standard financial valuation models (valuation methods) based on instrument-specific market parameters.

Financial liabilities include trade payables and other liabilities including financial debts. They are to be recognised when the Group becomes a contractual party to the provisions of a financial instrument. Liabilities incurred due to an obligation to purchase goods or services are recognised on the settlement date for the respective delivery or service. For financial liabilities, the appropriate liabilities are to be recognised on the settlement date, i.e. the value date. Derivatives are recognised on the day of the transaction. Financial liabilities are derecognised when they have been settled, i.e. when the obligations stated in the contract have been met, lifted or expired. Initial disclosure is made at fair value. Where there is a financial liability that is valued at fair value without an effect on profit or loss, valuation occurs after deducting transaction costs from the consideration received. The subsequent valuation is dependent on the categorisation.

IAS 39 classifies financial liabilities into the following categories:

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

In the subsequent periods, other liabilities are recognised at amortised costs. For current liabilities, this means that they are recognised at the redemption or settlement amount. Non-current liabilities and financial debts are accounted for using the effective interest method.

In the interests of more transparent corporate reporting and in compliance with IFRS 7.6, Tognum AG allocates financial instruments to different classes in accordance with the underlying characteristics of these instruments. The following classes of financial assets and liabilities existed as at the balance sheet date:

- trade receivables,
- cash and cash equivalents,
- available-for-sale financial assets,
- financial assets measured at fair value through profit or loss (e.g. fair value of derivatives without hedge accounting),
- other receivables and assets,
- financial liabilities,
- trade payables,
- financial liabilities measured at fair value through profit or loss (e.g. fair value of derivatives without hedge accounting), and
- other financial liabilities.

For details of the allocation of individual classes to the relevant measurement categories in accordance with IAS 39, please refer to the table in section 35 | »Additional disclosures on financial instruments«. The »Financial instruments held to maturity« measurement category is not applied within the Tognum Group.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used within the Tognum Group to reduce currency and interest risks. For their initial valuation, derivatives are recognised at their fair value on the day the contract is signed.

Derivative financial instruments belong to the category of »Financial assets and financial liabilities measured at fair value through profit or loss«. Changes in the fair value are recognised with an effect on profit or loss. Hedge accounting is not applied in the Tognum Group.

The category of »Financial assets and financial liabilities measured at fair value through profit or loss« also includes options in which fair value is determined using standard financial valuation models (valuation methods) based on instrument-specific market parameters.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and deposits that are only subject to insignificant risks in the fluctuation of value and that have a maximum term of no more than three months.

EMPLOYEE BENEFITS

Employee benefits include short-term benefits and post-employment benefits, other non-current benefits owed and termination benefits. The Tognum Group currently guarantees pension benefits to almost all employees in Germany and also to some employees abroad.

Post-employment benefit plans are classified on the basis of their financial content, which results from the underlying benefit conditions and benefit prerequisites of the plan, either as defined benefit (DB) or as defined contribution (DC).

Retirement benefit plans that cannot be clearly classified as DC are considered as DB contributions. The provision recognised on the balance sheet for benefit contributions corresponds to the balance from the cash value of the defined benefit obligation (DBO) as at the balance sheet date and the fair value of the possibly existing plan asset, adjusted for subsequent, offsettable accumulated service costs that have not had an effect on results to date, as well as the actuarial gains or losses that have not had an effect on results to date. The calculation of the DBO is based on the projected unit credit method under IAS 19. For the calculation of the DBO, the actuarial interest rate at the respective balance sheet date is determined from the current capital market information and under consideration of the term of the existing obligations. Furthermore, long-term assumptions are made on future developments with regard to anticipated increases in salaries and pensions. They are made in accordance with the principle of the best possible estimates and considered in the valuation. The obligations are assessed once a year by independent qualified actuaries.

Actuarial gains or losses are recognised in expenses in accordance with the corridor approach. The proportion of the actuarial gains or losses that exceeds 10% of the higher amount of the DBO or the plan asset as at the balance sheet date is distributed over the rest of the average service period of the employees starting the following year with an effect on profit or loss.

Settlements are paid when an employee is laid off before the regular age for retirement or terminates his or her employment contract voluntarily for a settlement, and are recognised when the Tognum Group has entered into an irreversible obligation. Services due more than twelve months after the balance sheet date are discounted to their cash value.

FORMS OF SHARE-BASED PAYMENT

In the event of a share-based payment transaction in which a cash payment is made, the acquired goods or services and the resultant liability will be recognised at the fair value of the liability. Until the liability is settled, the fair value of the liability will be revised at each balance sheet date and any amendments to the fair value recognised as profit or loss.

OTHER PROVISIONS

Other provisions are created for obligations resulting from events in the past that are likely to lead to a financial burden, the amount of which can be estimated reliably.

Provisions with a remaining term of more than one year are recognised at their discounted amount to be paid. Increases in a provision resulting from accrued interest are recognised in other financial results.

LEASING

In accordance with IAS 17 »Leases«, the commercial ownership of leased assets is to be allocated to the lessee if this party assumes all the significant opportunities and risks connected to the asset (finance leases). Leases where a significant portion of the opportunities and risks remain with the lessor are classified as operating leases. The payments made in this context are recognised systematically for the length of the lease with an effect on profit or loss.

SUMMARY OF SELECTED ACCOUNTING PRINCIPLES

ITEM	ACCOUNTING PRINCIPLE
Assets	
Goodwill	Acquisition costs (subsequent measurement: impairment test)
Other intangible assets	
Intangible assets acquired against payment	(Amortised) acquisition costs
Self-produced intangible assets	Manufacturing costs of development (direct costs and directly allocable overhead costs)
Property, plant and equipment	(Amortised) acquisition costs
Financial assets	
Loans and receivables	(Amortised) acquisition costs
Held-to-maturity	(Amortised) acquisition costs
Fair value through profit or loss	Fair value through profit or loss
Available-for-sale	Fair value recognised in equity without an effect on profit or loss
Inventories	Lower value of acquisition/manufacturing cost and net realisable value
Trade receivables	(Amortised) acquisition costs
Cash and cash equivalents	Nominal value
Liabilities	
Provisions	
Pension provisions	Projected unit credit method
Other provisions	Settlement value (with best estimate)
Financial debt	
(Amortised) acquisition costs	(Amortised) acquisition costs
Fair value through profit or loss	Fair value through profit or loss
Other liabilities	Settlement value
Trade payables	Settlement value

FINANCIAL RISK MANAGEMENT

As a group of companies operating on a global scale, the Tognum Group is exposed to currency and interest risks as part of its operating activities, and in some degree also to commodity price risks. These risks are reduced or eliminated by derivative financial instruments. All necessary hedging measures are fundamentally taken by the central Group Treasury of the Tognum Group.

For further information regarding risk management, please refer to the risk report, which is an integral part of the group management report.

FOREIGN CURRENCY RISK. The currency risks to which the Tognum Group is exposed result primarily from business transactions with international contractual partners that lead to payment flows in a currency other than the functional currency of the respective subsidiary. The Tognum Group reduces this risk by preferably settling these business transactions (sales and purchases of products and services, as well as investment and financing activities) in the respective functional currency. Some of the foreign currency risk associated with revenue recognition is also offset through the acquisition of goods, raw materials and services in the relevant foreign currency.

Any foreign currency risk that remains for the Tognum Group is actively managed for all group companies by the Group's central Group Treasury. The use of derivative financial instruments is regulated by means of internal guidelines that are binding throughout the Group and also specify the conceptual framework for the identification and determination of individual net currency positions for all group companies. Providing this is not prohibited by statutory exchange control regulations, all hedging business is carried out via the Group Treasury of the Tognum Group, which in turn concludes identical financial instruments with external partners.

Foreign currency risks arise in particular where receivables, liabilities and planned transactions exist in a currency other than the local one. Within the Tognum Group, this primarily involves the US dollar, but also the Singapore dollar, the British pound sterling and the Swiss franc.

On both the revenue and the cost side, the Tognum Group has considerable currency exposure in the key currencies. This offsetting currency exposure will be calculated for the next twelve months and, taking the currency holdings into account, will be recognised in transaction-related net foreign currency exposure. This net foreign currency exposure has been actively secured by concluding currency hedges. As at the balance sheet date, the transaction-related net foreign currency exposure following hedging amounted to 200.4 million euros (previous year: 218.2 million euros).

The currency losses from the realisation of currency receivables/liabilities as well as their valuation and the valuation of currency holdings at year-end recognised in the consolidated statement of comprehensive income amounted to –13.2 million euros in 2012 (previous year: currency loss of –2.5 million euros).

INTEREST RISK. Changes in market interest rates have an effect on future interest payments for liabilities with variable interest rates. Significant increases in interest rates can thus have a negative effect on the profitability, liquidity and financial position of the Tognum Group.

The interest risk positions of the Tognum Group are centrally managed for all group companies. The aim of interest risk management within the Group is to limit the risk of financial losses due to unfavourable changes in the overall interest rate level. Prior to the refinancing arrangement entered into by the Tognum Group in the third quarter of 2012, interest swaps were used to hedge the interest rate risk due to bank loans with variable interest rates. Repayment of these interest swaps resulted in a positive effect on earnings of 0.3 million euros (in the previous year: unrealised valuation gains amounting to 0.8 million euros). Long-term bank loans existing as at the balance sheet date carry fixed interest rates.

COMMODITY PRICE RISK. As a consequence of the purchase and supply of parts and raw materials, in addition to energy supply costs, the Tognum Group is exposed to market price risks that result from price variations on the energy and commodity markets. Significant price increases can therefore have an additional adverse effect on the profitability, liquidity and financial position of the Tognum Group. The Tognum Group counters such risks by concluding fixed price agreements when entering into long-term supply contracts and by using commodity hedging.

Provided there are no legal or tax provisions to the contrary, hedging transactions are undertaken by the central Group Treasury of the Tognum Group, which in turn concludes identical derivative financial instruments with external partners.

Commodity price risks primarily arise where prices for raw materials are tied to price movements on the commodity markets. In this respect, in addition to changes in energy costs, price trends of industrial metals and steel are of particular significance. These risks are mitigated by using commodity swaps. The valuation of commodity swaps as at the balance sheet date resulted in an impact on earnings of 0.9 million euros (previous year: 0.5 million euros).

DEFAULT RISK. The customer structure of the Tognum Group entails no significant concentration of default risks with respect to trade accounts receivable. In terms of the fair value of financial receivables at the reporting date, there were no indications of any reduction in value. The maximum default risk from financial assets is the risk of losing a contractual partner and, thus, the sum of the carrying amount of the respective contracting party.

An overview of the carrying amounts and the resultant maximum default risk is shown in section 35 | »Additional disclosures on financial instruments« in the notes to the consolidated financial statements. The Tognum Group also pursues business policies that limit this risk to a specific amount for individual contracting parties. The default risk for receivables is accounted for by the impairment of receivables.

LIQUIDITY RISK. Liquidity risk is regarded as being the risk that the Tognum Group does not have sufficient funds to meet its payment obligations. This risk is countered by means of a systematic liquidity management system. A liquidity preview focussing on a fixed planning period as well as unused credit lines available in the Group ensure that liquidity is consistent with the planned business development. As at the balance sheet date, Tognum AG had credit lines available totalling 550.0 million euros (previous year: 750.9 million euros), of which 250.0 million euros (previous year: 425.9 million euros) were utilised.

The following overview shows the contractually arranged maturity dates for financial liabilities, including contractual interest payments:

IN EUR MILLION	Carrying amount as at 31 Dec. 2012	Cash flows 2013		Cash flows 2014		Cash flows 2015		Cash flows ≥2016	
		In- terests	Repay- ments	In- terests	Repay- ments	In- terests	Repay- ments	In- terests	Repay- ments
Financial liabilities ¹	250.8	6.0	0.4	5.5	4.0	5.8	7.8	8.7	238.5
Derivative financial liabilities	5.5		1.9		0.7		0.1		2.8
Trade liabilities	352.6		331.6	0.1	4.1	0.1	4.6		12.3
Other financial liabilities	213.9		213.0		0.5		0.5	0.3	
	822.8	6.0	546.9	5.6	9.3	6.0	13.0	9.0	253.6

¹ The relevant bullet repayments are taken into account for non-current financial liabilities.

IN EUR MILLION	Carrying amount as at 31 Dec. 2011	Cash flows 2012		Cash flows 2013		Cash flows 2014		Cash flows ≥2015	
		In- terests	Repay- ments	In- terests	Repay- ments	In- terests	Repay- ments	In- terests	Repay- ments
Financial liabilities ¹	425.9	6.8	0.6	5.0	300.4	3.3		6.4	125.0
Derivative financial liabilities ²	22.2	3.7	18.1	4.5	2.8	2.3	1.1		0.2
Trade liabilities	363.6		363.6						
Other financial liabilities	69.7		67.8		0.9		0.9		
	881.4	10.5	450.2	9.5	304.1	5.6	2.0	6.4	125.2

¹ The relevant bullet repayments are taken into account for non-current financial liabilities. For interest on non-current financial liabilities under the syndicated loan (facility A1 and A2), the variable interest rates applicable on the balance sheet date are taken as the basis.

² Cash flows from derivative financial instruments include the anticipated compensation payments from existing interest rate swaps. The carrying amounts of the interest rate swaps were spread linearly over the entire lifetime. Other derivative financial instruments were spread according to their maturity. The variable interest payments from the financial instruments were determined on the basis of their most recently fixed interest rates.

All instruments that were on hand and for which payments had already been contractually agreed as at 31 December 2012 were included. Planned figures for new future liabilities were not included. Foreign currency amounts were translated at the exchange rate on the balance sheet date (as at 31 December).

SENSITIVITY ANALYSES

For every type of market risk, sensitivity analyses determine the effects that hypothetical changes in the respective risk variables would have on the consolidated net profit or loss and consolidated equity, in each case before taxes, as at the balance sheet date.

INTEREST RATE SENSITIVITY. In accordance with the requirements of IFRS 7, the effects of the main interest rate changes on the consolidated net profit or loss and consolidated equity were analysed, in each case before taxes. The effect of changes in interest rates on future cash flows was not included in this analysis. There were no liabilities with a variable interest rate at the balance sheet date (cf. information included in section 31 |»Financial liabilities« in the notes to the consolidated financial statements). Therefore, the changes in the market interest rates had an impact on short-term financial investments only.

The interest rate sensitivity analysis assumes a shift in the yield curve of 100 basis points (one percentage point) upward and downward, all other conditions remaining the same. Deviations from the interests or fair values actually recognised and the potential effects on the consolidated net profit or loss and consolidated equity as at the balance sheet date, in each case before taxes, are presented in the following overview. In the 2012 financial year, the presentation is based on a determination of the effects on consolidated net profit or loss and consolidated equity, in each case before taxes, taking into account the effects on the interest result in the event of a recalculation using hypothetical market interest rates for liabilities and financial investments with a variable interest rate.

IN EUR MILLION	Profit or loss		Equity effect	
	BP 100+	BP 100-	BP 100+	BP 100-
31 DEC. 2012				
Effects in the area of original financial instruments (change in interest expenses)	1.0	-0.2	1.0	-0.2
Effects in the area of derivative financial instruments (fair-value changes)				
Total	1.0	-0.2	1.0	-0.2

IN EUR MILLION 31 DEC. 2011	Profit or loss		Equity effect	
	BP 100+	BP 100-	BP 100+	BP 100-
Effects in the area of original financial instruments (change in interest expenses)	-1.5	0.9	-1.5	0.9
Effects in the area of derivative financial instruments (fair-value changes)	4.3	-4.3	4.3	-4.3
Total	2.8	-3.4	2.8	-3.4

CURRENCY SENSITIVITY. For sensitivity analysis purposes, currency risks from monetary financial instruments are included in the analysis where these financial instruments were not contracted in the functional currency of the individual companies of the Tognum Group. In accordance with IFRS 7, the effects resulting from translating the foreign currency financial statements of foreign subsidiaries into the currency of the consolidated financial statements (euro) are not to be included in the sensitivity analysis.

An increase or decrease of 10% in the euro against the US dollar as at 31 December 2012 in original financial instruments (recognised assets and liabilities) would increase or reduce the consolidated net profit or loss before taxes by 6.0 million euros (previous year: 18.9 million euros) and consolidated equity before taxes by 6.0 million euros (previous year: 18.9 million euros). An increase or decrease of 10% in the euro against all other currencies in original financial instruments would increase or reduce the consolidated net profit or loss and consolidated equity, in each case before taxes, by 0.6 million euros (previous year: 0.6 million euros). This analysis was conducted on the assumption that all other variables such as interest rates, prices and costs in the respective foreign currency, etc. remain unchanged.

The following statements on the effects on derivative financial instruments are thus based on the hedges in operations. The derivative financial instruments also contain currency hedges for future transactions that have not yet been recognised, but in all probability will take place.

An increase of 10% in the euro against the US dollar as at 31 December 2012 in derivative financial instruments (forward exchange transactions) would increase the consolidated net profit or loss and consolidated equity, in each case before taxes, by 23.1 million euros (previous year: 28.7 million euros). A decrease of 10% in the euro against the US dollar in derivative financial instruments would reduce the consolidated net profit or loss and consolidated equity in each case before taxes by 23.1 million euros (previous year: 28.7 million euros).

An increase of 10% in the euro against all other currencies as at 31 December 2012 in derivative financial instruments (forward exchange transactions) would reduce the consolidated net profit or loss and consolidated equity, in each case before taxes, by 1.5 million euros (previous year: 1.8 million euros). A decrease of 10% in the euro against all other currencies in derivative financial instruments would increase the consolidated net profit or loss and consolidated equity, in each case before taxes, by 1.5 million euros (previous year: 1.8 million euros).

COMMODITY PRICE RISK. As part of the sensitivity analysis of commodities, the effects of changes in commodity prices on commodity derivatives held on the balance sheet date were examined. The effects of market price fluctuations in the underlying commodities on the consolidated net income and group equity were analysed, in each case before taxes. The impact of commodity price fluctuations on future cash flows was not included in this analysis. The underlying transactions on which the derivatives are based were not included in the sensitivity analysis.

In the case of derivative commodity hedges held at the end of the financial year (cf. section 34 | »Derivative financial instruments to hedge business operations« in the notes to the consolidated financial statements), the fair values were recalculated on the basis of the hypothetical market prices and the resultant impact on the consolidated net income and group equity included in the sensitivity analysis, in each case before taxes.

In the commodity sensitivity analysis, an upward and downward shift in market prices of 10% is assumed with otherwise no change in the prevailing conditions. A 10% increase in commodity prices as at 31 December 2012 would increase the consolidated net income and group equity, in each case before taxes, by 1.5 million euros (previous year: 1.8 million euros). A 10% lower commodity price level would reduce the consolidated net income and group equity, in each case before taxes, by 1.5 million euros (previous year: 1.8 million euros).

CAPITAL MANAGEMENT

The objective of capital management is to provide a sound financial profile. In particular, the ability to meet our current payment obligations, our debt service for external creditors and the profit transfer to Engine Holding GmbH are to be ensured at all times. Furthermore, Tognum Group intends to retain sufficient financial leeway to continue on its course of growth.

The Tognum Group does not currently have an official external rating. The group-wide risk profile is actively controlled and monitored centrally by the Group Treasury of the Tognum Group. As a result of the stable equity ratio and the significant reduction in net financial debt, we were given a credit rating by the refinancing banks that corresponds to investment grade.

Consolidated equity was down 52.0 million euros to 824.9 million euros compared with the previous year, on the one hand as a result of the dividend payment of 98.5 million euros for the 2011 financial year and on the other hand due to the profit transfer to Engine Holding GmbH for the 2012 financial year amounting to 168.5 million euros. This was offset by a tax effect amounting 41.5 million euros. The improvement in free cash flow resulted in a positive disclosed net financial debt (interest-bearing financial liabilities less liquid funds) of 40.1 million euros.

The ratio of net financial debt to EBITDA thus remains unchanged at less than 1:1, which means that it is well below the ratio of 3.25:1 agreed with the refinancing banks. It was also agreed with the banks that the consolidated equity ratio would not be allowed to fall below 20%. As a result of the new shareholder and capital structure and the medium-term cash flow plan of the Tognum Group, we see a violation of the above-mentioned covenant as unlikely.

	31 Dec. 2011	31 Dec. 2012
Equity in EUR million	876.9	824.9
in % of total balance sheet	28.1	28.2
Net financial debt in EUR million	5.0	-40.1

With an equity ratio of 28.2% for the 2012 financial year, in which the profit transfer to Engine Holding GmbH has already been taken into account, the Tognum Group boasts a sound and appropriate financial structure.

As part of the capital management strategy of the Tognum Group, it is always ensured that the companies in the Group as well as its subsidiaries have sufficient equity to meet the local requirements. Besides

adequate financing, a required liquidity tolerance is made available to the subsidiaries. In the year under review, all externally imposed minimum capital requirements were met. In order to guarantee the externally imposed minimum capital requirements, prior to carrying out measures which could have a significant impact on the capital structure of the Group, a test is always carried out to determine whether the ability of Tognum AG to maintain the external minimum capital requirements could be negatively affected by the transaction.

3 | Change in scope of consolidated companies

In addition to Tognum AG, the consolidated financial statements include all relevant companies in which Tognum AG has the power to govern the financial and operating policies according to the so-called control concept, which is regularly based on the majority of the voting rights. As at 31 December 2012, in addition to Tognum AG itself, 24 subsidiary companies (31 December 2011: 22) were consolidated in full.

Compared with the situation as at 31 December 2011, two companies have been added to the group of consolidated companies. MTU Polska Sp. z o.o., Warsaw/Poland, which was acquired on 3 October 2011, was included in the group of consolidated companies of Tognum AG for the first time as at 1 January 2012. The planned manufacturing facility will enable the Tognum Group to increase its production and development capacity in Europe and in future will manufacture and develop components for MTU engines. The company has been allocated to the *Engines* segment. As at 31 December 2012, the inclusion of this company has had no substantial impact on the income, asset and financial position of the Tognum Group.

On 4 April 2012, following the approval of the competition authority, the Tognum Group acquired 75.1% of the shares in the Bavarian manufacturer of power generator sets Aggretech AG, Ruhstorf. With its entry into Aggretech AG, Ruhstorf, the Tognum Group is systematically moving ahead with the expansion of its business in onsite energy systems. Effective as at 21 June 2012, Aggretech AG, Ruhstorf was renamed to MTU Onsite Energy Systems GmbH, Ruhstorf.

The first-time consolidation of MTU Onsite Energy Systems GmbH, Ruhstorf took place in accordance with IFRS 3 »Business Combinations« by applying the purchase method. The earnings of the newly acquired company were included in the consolidated financial statements of Tognum AG for the first time on 1 April 2012. The earnings contribution of MTU Onsite Energy Systems GmbH, Ruhstorf for the 9-month period from the inclusion in the consolidated financial statements until 31 December 2012 amounts to –4.8 million euros (for the 12-month period since the beginning of the current financial year until 31 December 2012: –6.5 million euros). The sales revenues generated by MTU Onsite Energy Systems GmbH, Ruhstorf in the same period amount to 24.6 million euros (for the 12-month period since the beginning of the current financial year until 31 December 2012: 33.4 million euros).

The total purchase price includes the 75.1% of the equity interest in MTU Onsite Energy Systems GmbH, Ruhstorf. The remaining shares in MTU Onsite Energy Systems GmbH, Ruhstorf will continue to be held by the previous owner. For the remaining 24.9% of the equity interest, a put and a call option have been agreed between Tognum AG and the previous owner. As a result of the agreed options, the transaction is presented as if 100% of the acquisition had already been completed on 4 April 2012. The liability arising from the put option has been valued at 2.8 million euros and is included in non-current financial liabilities. The liability amount represents the estimated discounted payout anticipated on exercise of the option (presumably in 2016). The call option is recognised as a pending transaction.

Property associated with the business activities of the company that is also included in the acquisition of MTU Onsite Energy Systems GmbH, Ruhstorf consists primarily of developed and undeveloped land, which is used by MTU Onsite Energy Systems GmbH, Ruhstorf.

The acquired net assets and goodwill resulting from the acquisition of MTU Onsite Energy Systems GmbH, Ruhstorf, in addition to property associated with the business activities of the company, are calculated as follows:

IN EUR MILLION	1 Apr. 2012
Acquisition price of equity interest (75.1%)	3.7
Option on outstanding shares	2.8
Acquisition costs of the property	14.6
Preliminary total purchase price	21.1
Current market value of the acquired net assets	7.4
Goodwill	13.7

The costs directly attributable to the acquisition costs amount to 0.3 million euros and will be recognised as an income expense within the general administration costs.

The total purchase price, consisting of MTU Onsite Energy Systems GmbH, Ruhstorf including the property, was assigned to the acquired assets and liabilities as at the date of acquisition as follows:

IN EUR MILLION	Carrying amount after acquisition
Intangible assets	0.2
Property, plant and equipment	27.8
thereof from the purchase of the property	14.6
Inventories	14.2
Other assets and receivables	15.3
Cash and cash equivalents	0.2
Deferred tax assets	3.0
Provisions	-15.4
Liabilities	-36.5
Deferred tax liabilities	-1.4
Net assets	7.4

As at 31 December 2012, the determination of the fair values in property, plant and equipment as at the acquisition date of 4 April 2012, in accordance with IFRS 3.45, is to be regarded as provisional. The reason for this is that the analysis of the information on the market values of property, plant and equipment is not yet completed.

The disclosure of the purchase price for the acquisition of 75.1% of the equity interest in MTU Onsite Energy Systems GmbH is also to be regarded as provisional as at the reporting date.

There were no contingent assets as at the reporting date of 31 December 2012, nor were there any contingent liabilities.

Goodwill amounting to 13.7 million euros, which is not tax-deductible, primarily reflects the synergies to be expected as a result of future customer relations in the Onsite Energy segment, in addition to the consolidation and expansion of the sales market for MTU engines. Goodwill was assigned to the »Onsite Energy Systems« CGU. No significant intangible assets were acquired as a result of the purchase of MTU Onsite Energy Systems GmbH, Ruhstorf.

The undisclosed reserves identified as a result of the acquisition of non-current tangible assets have the following useful life:

	Undisclosed reserves EUR million	Useful life in years
Machinery and other plants	4.0	18

Effective 22 September 2012, SKL Motor GmbH, Magdeburg was renamed to MTU Reman Technologies GmbH, Magdeburg.

Effective 28 September 2012, Tognum Asia Pte. Ltd., Singapore/Singapore increased its shareholding in MTU Japan Co. Ltd., Tokyo/Japan to 100% (previously: 51%). In addition, MTU Marubeni Co. Ltd., Tokyo/Japan was renamed to MTU Japan Co. Ltd., Tokyo/Japan. Details of the impact of the change in equity interest are included in »Consolidated Statement of Changes in Equity« on page 108 and in »Consolidated Statement of Changes in Equity« on page 105.

Notes to the Consolidated Statement of Comprehensive Income

4 | Sales revenues

Sales revenues result primarily from the sale of goods, while the product portfolio, besides diesel engines, also includes diesel and gas engine systems, high-quality engine and drive components, such as high-pressure fuel injection systems, in addition to the spare parts business. The company also supplies gas turbines and tailor-made electronic systems for the monitoring and control of engines and propulsion systems, in addition to services such as maintenance and development contracts.

The external revenues of the Tognum Group are as follows:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
<i>Engines</i>	1,727.2	1,692.0
<i>Onsite Energy Systems & Components</i>	769.2	797.9
<i>Distribution</i>	475.7	524.6
	2,972.1	3,014.5

Group revenues were up 42.4 million euros in the 2012 financial year to 3,014.5 million euros. Explanatory notes on changes to group revenues are included in the group management report in the chapter entitled »Income, Assets and Financial Position« beginning on page 36. A further breakdown of sales revenues based on revenues with third parties, intersegment revenues and revenues by region (based on the location of the customers' registered offices) is included in section 38 | »Segment reporting« in the notes to the consolidated financial statements.

In accordance with IAS 18.35 (b), the revenues of the Tognum Group can be broken down into the following categories:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Sales of goods	2,750.2	2,752.0
Sales of services	221.9	262.5
	2,972.1	3,014.5

5 | Cost of sales

Cost of sales includes the total acquisition and manufacturing costs incurred for products, goods and services that are sold. Depreciation on capitalised development costs are an integral part of manufacturing costs and are allocated to the series/components through which they are incurred. In the 2012 financial year, scheduled depreciation on capitalised development costs amounted to 13.1 million euros (previous year: 12.2 million euros) and are included in cost of sales. Cost of sales also include income related to our exit from the business activities of Onsite Energy Fuel Cell Systems amounting to 7.1 million euros, resulting primarily from a reversal of restructuring provisions. In the previous year, costs for restructuring activities amounting to 4.4 million euros had been included in the cost of sales.

6 | Other operating income

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Gain on disposal of non-current assets	0.2	0.5
Miscellaneous other operating income	5.1	13.4
	5.3	13.9

Miscellaneous other operating income includes income in the year under review from insurance recoveries amounting to 7.1 million euros (previous year: 1.8 million euros). In addition, miscellaneous other operating income includes a large number of income items which, taken individually, are of little significance.

7 | Selling costs

Selling costs include all direct sales and overhead sales costs. They include all expenses for personnel, materials and depreciation, in addition to other sales expenditure.

The increase in selling costs to 245.4 million euros (previous year: 219.2 million euros) results primarily from an increase in selling activities.

8 | General administrative costs

General administrative costs include the personnel and material costs of the central administrative areas (e.g. controlling, finance and accounting, as well as the tax and legal department, corporate communications, personnel and strategy) which are not related to production, sales or research and development. General administrative costs increased to 130.5 million euros (previous year: 117.2 million euros), primarily due to the project-related increase in third-party services and the global expansion of our business activities. Relating to our exit from the business activities of Onsite Energy Fuel Cell Systems, general administrative costs also include expenditure amounting to 0.9 million euros (previous year: 0.3 million euros).

In the 2012 financial year, the fees and expenses included for the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart and its associated companies within the meaning of section 271(2) of the German Commercial Code (HGB) amounted to 0.4 million euros and covered auditing services for the consolidated financial statements and the statutory audit of the financial statements of Tognum AG and its German subsidiaries. An additional 1.9 million euros was included for miscellaneous certification or valuation services, 0.5 million euros for tax consultancy services, and 1.4 million euros for other services.

In the previous year, the fees and expenses included for the auditor of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart and its associated companies within the meaning of section 271(2) of the German Commercial Code (HGB) had amounted to 0.4 million euros and covered auditing services for the consolidated financial statements and the statutory audit of the financial statements of Tognum AG and its German subsidiaries. An addi-

tional 0.1 million euros had been included in the previous year for miscellaneous services and 0.1 million euros for other certification services.

9 | Research and development costs

Research and development costs amounting to 203.6 million euros (previous year: 192.2 million euros), in addition to research costs and development costs not eligible for capitalisation, also include depreciation of intangible assets, property, plant and equipment (excluding capitalised development costs) of 6.2 million euros (previous year: 5.8 million euros).

10 | Other operating expenses

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Loss on disposal of non-current assets	- 2.1	- 1.0
Other operating expense	- 1.7	- 3.5
	- 3.9	- 4.5

Other operating expenses include a large number of expenses which, taken individually, are of little significance.

11 | Other financial results

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Income from foreign exchange differences	9.0	7.8
Income from disposal of financial assets available for sale	3.1	0.2
Income from valuation of derivatives	8.2	8.2
Miscellaneous financial income	4.1	1.4
Other financial income	24.4	17.6
Expenses from foreign exchange differences	- 12.9	- 20.4
Expenses from compounding interests on provisions	- 5.0	- 4.4
Expenses from valuation of derivatives	- 8.7	- 10.5
Miscellaneous financial expenses	0.0	- 3.0
Other financial expenses	- 26.5	- 38.2
Other financial results	- 2.1	- 20.7

Other financial results were down 18.6 million euros to -20.7 million euros (previous year: -2.1 million euros). This decline was due primarily to higher costs amounting to -12.6 million euros (previous year: -3.9 million euros) arising from the valuation of the US dollar loan, which was repaid in the third quarter of 2012, and of foreign exchange balances. In addition, increased expenses from the valuation of derivatives amounting to 2.3 million euros (previous year: -0.5 million euros) had a negative impact on the financial results.

Income from the disposal of available-for-sale financial assets relates to dividend payments received.

Miscellaneous financial income and miscellaneous financial expenses also include the valuation of the shareholding in IFA-Rotorion Holding GmbH, Haldensleben, which was recognised at fair value through profit or loss prior to the sale of the shareholding in the 2012 financial year.

Other financial income and expenses include a negative effect on profit or loss in the valuation of derivatives. The amount of -3.9 million euros resulted from the put and call option being exercised following the sale of the remaining IFA shares to IFA-Rotorion Holding GmbH, Haldensleben.

12 | Interest result

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Interest income from loans and receivables	4.2	0.3
Other interest income	3.3	1.7
Total interest income	7.4	2.0
Interest expenses from financial liabilities	-6.8	-8.1
Interest expenses from pension obligations	-16.7	-18.4
Total interest expenses	-23.5	-26.5
Interest result	-16.1	-24.6

The interest result of –24.6 million euros was down 8.5 million euros (previous year: –16.1 million euros). This decline was due primarily to higher interest expenses from pension obligations amounting to –18.4 million euros (previous year: –16.7 million euros) and reduced interest income as a result of the repayment of the loan by IFA-Rotorion Holding GmbH, Haldensleben.

For financial assets and liabilities not valued at fair value through profit or loss, a total interest income of 2.0 million euros (previous year: 7.4 million euros) and a total interest expense of 8.0 million euros (previous year: 4.2 million euros) was recognised in the reporting period in accordance with IFRS 7.20 (b).

13 | Taxes on income and earnings

Details of taxes on income and earnings are presented in section 22 | »Income taxes« in the notes to the consolidated financial statements.

14 | Profit attributable to non-controlling interests

From consolidated net income, a total of 0.0 million euros is attributable to non-controlling interests (previous year: 0.5 million euros). Further information on non-controlling interests in group equity is presented in the table under »Consolidated Statement of Changes in Equity« beginning on page 108.

15 | Earnings per share

In accordance with IAS 33, the basic earnings per share are calculated by dividing the Group earnings that the shareholders of Tognum AG (excluding non-controlling interests) are entitled to by the weighted number of outstanding shares in the period (1 January to 31 December 2012: 131,375,000 shares).

	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Net profit or loss in EUR million	198.8	181.7
Number of ordinary shares issued (weighted average)	131,375,000	131,375,000
Earnings per share in EUR	1.51	1.38

Neither as at 31 December 2012 nor as at 31 December 2011 were there options on shares outstanding that diluted the earnings per share. As a result, neither in the 2012 financial year nor in the previous year were there any diluted earnings per share that deviated from this.

16 | Personnel expenses

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Wages and salaries	- 547.9	- 582.4
Social security, post-employment and welfare costs	- 107.4	- 118.0
thereof pension costs for defined benefit plans	- 13.8	- 9.2
thereof pension costs for defined contribution plans	- 46.5	- 51.4
Total personnel expenses	- 655.2	- 700.3

Expenses for pension plans include the expense for new pension claims acquired in the 2012 financial year. The anticipated return on the plan asset and the interest expense are disclosed under the interest result.

Pension costs for defined contribution plans include the employer's contributions to the statutory pension insurance scheme.

	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Workers/Employees	9,042	9,757
Apprentices/Interns	516	558
	9,557	10,315

The Tognum Group had an average of 10,315 employees on its payroll in the 2012 financial year (previous year: 9,557). This results in an average expenditure per employee of 67.9 thousand euros (previous year: 68.6 thousand euros).

A direct comparison also reveals that the comparability of these headcount-related figures is influenced by having employees on the payroll with different working time models.

17 | Cost of materials

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Costs of raw materials, consumables and supplies, purchased goods	- 1,185.0	- 1,188.7
Costs of services received	- 390.0	- 423.3
	- 1,575.0	- 1,612.0

18 | Share-based payments

LONG-TERM INCENTIVE CONCEPT (LTIC) 2008: An LTIC programme for members of management was introduced in May 2008. On the basis of this programme, the Tognum Group grants employee beneficiaries phantom shares, which entitle employees to receive a cash payment after a period of four years.

The initial number of phantom shares granted to each employee beneficiary was calculated by dividing the individual amount allocated to the person in question by the average price of the Tognum AG share in the period from 1 January to 31 March 2008. An overall performance factor over the performance period of three years was determined on the basis of the performance of the earnings per share and the performance of Tognum AG's share price relative to the performance of the MDAX in the financial years from 2008 to 2010. This overall performance factor was then multiplied by the original number of phantom shares granted to each employee beneficiary to determine the final number of phantom shares accrued. The LTIC payment amount is calculated by multiplying the final number of phantom shares

accrued by the employee beneficiary by the average price of the Tognum AG share in the period from 1 January to 31 March 2011. Payment will take place after the expiry of a holding period of one year. The amount of this share-based payment also depends on the annual income and the salary-based classification of the employee beneficiaries. There is a lower limit (10% or 13% of annual income) as well as an upper limit (25% or 30% of annual income) for the amount of remuneration available with the LTIC scheme. For members of the Executive Board, the payment limits were fixed by the Executive Committee of the Supervisory Board at a minimum of 10% and a maximum of 50% of the target value in each case.

For the year in which the shares are granted and for the following two years (2008 to 2011 financial years), the members of management entitled to this benefit will also receive an equivalent to the dividend payment for each phantom share granted to them.

The LTIC programme is recognised in accordance with IFRS 2 under the regulations for share-based compensation transactions by cash settlement. Accordingly, the total value of the phantom shares or share options granted to members of management is determined on the payment date with the aid of an option price valuation model. The total calculated value of the special remuneration scheme is distributed as a personnel expense over the period in which the beneficiary provides services to the company. The value of the phantom share multiplied by the number of outstanding phantom shares results in the maximum liability from the share option plan as at the date of valuation. The proportional time weighting multiplied by the portion of the vesting period accrued until then results in the accrued liability and thus the provisioning requirement.

Payments under the 2008 LTIC programme were made in the 2012 financial year following the Annual General Meeting, which was held on 5 June 2012.

LONG-TERM INCENTIVE CONCEPT (LTIC) 2009: In May 2009, another LTIC programme was introduced for members of management with the same parameters and conditions as the programme described above for 2008. Employee beneficiaries again received phantom shares which entitled them to a cash payment after a period of four years.

LONG-TERM INCENTIVE CONCEPT (LTIC) 2010: In May 2010, an LTIC programme was introduced once again for members of management with the same parameters and conditions as the programme described above for 2008 and 2009. Employee beneficiaries again received phantom shares which entitled them to a cash payment after a period of four years.

LONG-TERM INCENTIVE CONCEPT (LTIC) 2011: In May 2011, an additional LTIC programme was introduced for members of management with the same parameters and conditions as the programme described above for 2008, 2009 and 2010. In order to standardise administrative procedures for all LTIC programmes introduced prior to this date, the implementation guidelines of LTIC 2011 were made applicable retroactively for all current LTIC programmes for beneficiaries employed by the company at that time.

On the basis of the implementation guidelines of LTIC 2011, no changes were made to the basic programme system described above inasmuch as employee beneficiaries again continued to receive phantom shares that entitled them to receive a cash payment after a period of four years. In addition, an overall performance factor over the performance period of three years continued to be determined on the basis of the performance of earnings per share and the performance of Tognum AG's share price relative to the performance of the MDAX in the financial years from 2011 to 2013.

Following the announcement of the takeover of Tognum AG by Engine Holding GmbH, it became necessary for the implementation guidelines of LTIC 2011 to be revised and adapted to the new situation. As a result, the paragraph in accordance with which all beneficiaries would have been required to purchase and hold shares of Tognum AG was deleted in its entirety, with no replacement. This has not resulted in any changes.

In addition, in case Tognum AG's share were delisted from the stock exchange following the complete takeover of Tognum AG by Engine Holding GmbH, the basis for calculating the relative performance factor will be changed. As the share will no longer be traded on the stock exchange as a result of the delisting of Tognum AG's share from the stock exchange, the average external share price component for each first quarter will be replaced by a performance factor calculated on the basis of internal performance indicators. This performance factor will be based on the company's own key performance factors EBIT-N, net financial debt and the number of shares of Tognum AG existing at the time of the takeover.

This means that the calculation of the overall performance factor over the performance period of three years will include any change in the performance factor calculated in this way relative to the performance of the MDAX and the performance of the earnings per share. The average share price of relevance to the payment will also be replaced by the performance factor calculated using internal performance figures.

LONG-TERM INCENTIVE CONCEPT (LTIC) 2012 («TRANSITION BONUS BANK MODEL»): With the introduction of the most recent LTIC programme for members of management, a conceptual change was made in 2012 from a share-based programme to a non-share-based cash plan. The programme runs for a performance period of one year and has a vesting period of a further three years. The calculation of the programme performance is based on the attainment of a defined EBIT-N target value. As an incentive to bring about an effective merger of the individual entities under the corporate umbrella of Engine Holding GmbH and to develop joint synergy potential, an additional integration bonus was offered. This additional bonus is calculated as a percentage of the amount granted to each individual beneficiary.

ACCOUNTING OF THE LONG-TERM INCENTIVE CONCEPTS 2009/2010/2011/2012: As at 31 December 2012, a total of 6.0 million euros was recognised as expenses and 19.3 million euros as liabilities (previous year: 8.6 million euros expenses and 15.8 million euros liabilities, respectively) for the above-mentioned special remuneration programme in accordance with IFRS 2. As at the balance sheet date on 31 December 2012, the LTIC programmes held a total of 1,021,396 phantom shares (previous year: 1,247,407). These were allocated to the individual programmes as follows:

- LTIC 2008: 0 phantom shares (previous year: 199,387 phantom shares),
- LTIC 2009: 446,790 phantom shares (previous year: 439,288 phantom shares),
- LTIC 2010: 317,907 phantom shares (previous year: 332,296 phantom shares), and
- LTIC 2011: 256,699 phantom shares (previous year: 276,436 phantom shares).

The Monte Carlo method is used to determine the fair value of a phantom share from the LTIC programme. To this end, the performance of the »earnings per share (EPS)«, of the Tognum share and of the MDAX is stochastically simulated over the term of the plan in order to determine the number of shares to be paid out at the end of each three-year performance period and the payout value for the beneficiary at the end of the subsequent one-year holding period. The payout limits for representatives of the management levels are taken into account.

Notes to the Consolidated Statement of Financial Position

19 | Intangible assets

IN EUR MILLION	Concessions, industrial property rights	Development cost	Goodwill	Advance pay- ments made on intangible assets	Total
Historical costs					
Balance at 1 Jan. 2011	387.4	133.6	185.1	20.8	726.9
Additions	9.9	2.9		29.6	42.4
Transfers	3.4			-3.3	
Disposals	-2.7				-2.7
Exchange differences	0.8		0.3		1.1
Balance at 31 Dec. 2011	398.7	136.5	185.4	47.1	767.7
Balance at 1 Jan. 2012	398.7	136.5	185.4	47.1	767.7
Change in consolidated companies	0.2		13.6		13.8
Additions	10.6	3.4		32.9	47.0
Transfers	1.4			-1.3	0.2
Disposals	-0.6				-0.6
Exchange differences	-0.5		-0.2		-0.7
Balance at 31 Dec. 2012	409.8	139.9	198.8	78.7	827.3
Amortisation and impairment					
Balance at 1 Jan. 2011	-246.6	-46.9			-293.5
Amortisation	-32.1	-12.2			-44.3
Disposals	2.7				2.7
Exchange differences	-0.8				-0.8
Balance at 31 Dec. 2011	-276.7	-59.1			-335.9
Balance at 1 Jan. 2012	-276.7	-59.1			-335.9
Amortisation	-27.5	-13.1			-40.6
Disposals	0.4				0.4
Exchange differences	0.5				0.5
Balance at 31 Dec. 2012	-303.4	-72.3			-375.6
Carrying amount					
Balance at 31 Dec. 2011	122.0	77.4	185.4	47.1	431.9
Balance at 31 Dec. 2012	106.4	67.6	198.8	78.7	451.6

Amortisation of intangible assets is included under the following items of the consolidated statement of comprehensive income in accordance with the use of the asset: cost of sales, research and development costs, selling costs, and general administrative costs.

The item in the consolidated statement of financial position entitled »Concessions and industrial property rights« is made up of the following groups:

- brands,
- technology,
- customer relationships, and
- other intangibles (e.g. software).

The changes in these groups are as follows:

IN EUR MILLION	Brands	Technology	Customer relationships	Other intangibles	Total
Historical costs					
Balance at 1 Jan. 2011	56.1	151.5	81.4	98.3	387.4
Additions	0.0	0.0	0.0	9.9	9.9
Transfers	0.0	0.0	0.0	3.4	3.4
Disposals	0.0	0.0	0.0	-2.7	-2.7
Exchange differences	0.4	0.0	0.1	0.3	0.8
Balance at 31 Dec. 2011	56.5	151.5	81.5	109.2	398.7
Balance at 1 Jan. 2012	56.5	151.5	81.5	109.2	398.7
Change in consolidated companies	0.0	0.0	0.0	0.2	0.2
Additions	0.0	0.0	0.0	10.6	10.6
Transfers	0.0	0.0	0.0	1.4	1.4
Disposals	0.0	0.0	0.0	-0.6	-0.6
Exchange differences	-0.2	0.0	-0.1	-0.2	-0.5
Balance at 31 Dec. 2012	56.3	151.5	81.4	120.6	409.8
Amortisation and impairment					
Balance at 1 Jan. 2011	-5.2	-131.2	-35.2	-75.0	-246.6
Amortisation	-1.7	-11.7	-8.2	-10.5	-32.1
Disposals	0.0	0.0	0.0	2.7	2.7
Exchange differences	-0.2	0.0	-0.1	-0.5	-0.8
Balance at 31 Dec. 2011	-7.1	-142.9	-43.5	-83.3	-276.7
Balance at 1 Jan. 2012	-7.1	-142.9	-43.5	-83.3	-276.7
Amortisation	-1.8	-6.6	-8.0	-11.2	-27.5
Disposals	0.0	0.0	0.0	0.4	0.4
Exchange differences	0.2	0.0	0.1	0.2	0.5
Balance at 31 Dec. 2012	-8.7	-149.5	-51.4	-93.9	-303.4
Carrying amount					
Balance at 31 Dec. 2011	49.4	8.6	38.0	25.9	122.0
Balance at 31 Dec. 2012	47.6	2.0	30.0	26.7	106.4

The »MTU« brand was recognised as an intangible asset with an indefinite useful life and a carrying amount of 46.5 million euros (previous year: 46.5 million euros). Since its launch on the market in 1969, MTU Friedrichshafen GmbH, Friedrichshafen has protected the value of the »MTU« brand through its corporate policies and by not granting the right to use the brand to third parties who are not part of the Tognum AG sales network. Furthermore, in the financial year from 1 January to 31 December 2012, 203.6 million euros (previous year: 192.2 million euros) were recorded in expenses for research and development. As in the previous year, there were no assignments for security of intangible assets, patents, industrial property rights and brands as at the balance sheet date.

For the impairment test, goodwill and the brand are allocated to CGUs that are expected to achieve benefits from the synergies of their combination. CGUs are based on the lowest level within the Tognum Group at which the goodwill is monitored for internal management purposes.

Four CGUs (previous year: four) have been identified in the Tognum Group. Goodwill is distributed among the CGUs as follows:

IN EUR MILLION	31 Dec. 2011	Transfer	Additions/disposals	31 Dec. 2012
Engines	138.8			138.8
Injection Systems	12.5			12.5
Onsite Energy Systems	34.1	13.6	-0.2	47.5
Distribution				
	185.4	13.6	-0.2	198.8

The criterion for identifying a CGU is that it generates cash inflows largely independently of other assets. Within the Engines CGU, for example, there are no CGUs allocated to applications, since only a group of assets that generate cash inflows, which are largely independent of the cash inflows of other assets or other groups of assets, can be allocated on a higher level. Applications are differentiated according to the specifications inherent in the engines, all of which are based on the same basic engine, however. The applications do not generate cash flows that are to a large extent independent, since these always require basic engines. The production of engines for the various applications is characterised by a high degree of commonality in terms of the production facilities used. Related information (revenues and order intake) is used on the application level for sales management purposes and for developing sales markets. Furthermore, basic engines going through the production process cannot be marketed on their own and do not represent marketable semi-finished products.

At the balance sheet date, intangible assets with an indefinite useful life were entered in the Engines CGU at 34.9 million euros as trademark rights and in the Onsite Energy Systems CGU at 11.6 million euros (the carrying amount of the MTU brand at 46.5 million euros thus remained unchanged compared with the previous year).

During the impairment test, the carrying amount of the CGUs was compared with the recoverable amount, which is the higher of both amounts of the fair value less cost to sell and the value in use. Using the discounted cash flow method, the recoverable amount for the CGUs as at 31 December 2012 was based in each case on the value in use.

The following assumptions were taken as the basis for determining these amounts for all four CGUs:

- the determination of future cash flows (incoming and outgoing payments without taking into account financing activities and taxes);
- assumptions on possible changes in these planned cash flows that could result from a different amount or from receiving an amount at a different time;
- the determination of the weighted average cost of capital (WACC) after taxes, taking into account the following:
 - the risk-free basic interest rate,
 - the entrepreneurial risk (market risk premium multiplied by the calculated beta factor on the basis of a peer group analysis),
 - the borrowing costs, and
 - the capital structure of the peer group companies;
- the iterative determination of the weighted average cost of capital (WACC before taxes).

In addition, the following key assumptions were taken as the starting point in determining the value in use of each CGU:

- The detailed planning period for all CGUs is three years. The WACC before taxes based on these above criteria for the Engines CGU amounted to 10.4% (previous year: 11.0%), for the Injection Systems CGU 10.3% (previous year: 11.0%), for the Onsite Energy Systems CGU 10.3% (previous year: 11.0%) and for the Distribution CGU 10.3% (previous year: 10.9%).
- For the period of perpetuity following on from the detailed planning, long-term obtainable cash flows are specified as values to be discounted, taking a long-term reinvestment rate as the basis. In determining the period of perpetuity, a growth rate of 1.0% (previous year: 1.0%) was applied.
- The separate cash flows of the individual CGUs are calculated by Tognum for the individual planned values by referring to external sources of information (e.g. market/industry studies), in which items characteristic of the individual businesses are taken into account on the basis of past empirical values. For the planning of sales revenues and market prices in particular, the general market and industry trends are adjusted for group-specific items. By contrast, the development of material and personnel costs is in the first instance determined by means of general market and industry trends. General macroeconomic data are also taken into account in the corporate planning.

As in the previous year, taking the above-mentioned assumptions as the basis, there is no need to impair either the goodwill allocated to the CGUs or the »MTU« brand.

20 | Property, plant and equipment

IN EUR MILLION	Land and buildings	Plant and machinery	Other equipment, operating and office equipment	Payments made in advance and plant under construction	Total
Historical costs					
Balance at 1 Jan. 2011	246.5	280.4	235.0	50.2	812.1
Change in consolidated companies		1.0	0.6		1.7
Additions	21.5	28.9	30.9	42.1	123.4
Transfers	20.2	31.1	1.9	-53.3	0.1
Disposals	-8.9	-2.6	-1.2	-1.2	-13.9
Exchange differences	0.6	1.4	0.7	0.7	3.4
Balance at 31 Dec. 2011	280.0	340.3	267.9	38.5	926.6
Balance at 1 Jan. 2012	280.0	340.3	267.9	38.5	926.6
Change in consolidated companies	0.9	10.9	1.4		13.2
Additions	23.8	33.2	39.8	39.8	136.6
Transfers	4.3	14.0	2.0	-20.4	-0.1
Disposals	-4.3	-9.6	-2.4	-3.6	-19.9
Exchange differences	-0.4	-0.9	-0.5	-0.5	-2.3
Balance at 31 Dec. 2012	304.3	387.9	308.1	53.7	1,054.1
Amortisation and impairment					
Balance at 1 Jan. 2011	-38.9	-154.6	-125.6	-1.9	-321.0
Amortisation	-9.7	-22.1	-39.3		-71.1
Disposals	0.6	1.3	0.7		2.6
Exchange differences	-0.3	-0.5	-0.6		-1.4
Balance at 31 Dec. 2011	-48.2	-176.0	-164.8	-1.9	-390.8
Balance at 1 Jan. 2012	-48.2	-176.0	-164.8	-1.9	-390.8
Amortisation	-10.9	-29.0	-41.3		-81.2
Disposals	4.2	7.4	2.1	1.9	15.5
Exchange differences	0.1	0.3	0.4		0.8
Balance at 31 Dec. 2012	-54.8	-197.2	-203.7		-455.7
Carrying amount					
Balance at 31 Dec. 2011	231.8	164.3	103.1	36.6	535.8
Balance at 31 Dec. 2012	249.5	190.8	104.4	53.7	598.4

As in the previous year, there were no disposal restrictions such as mortgages or assignments for security purposes.

Amortisation of intangible assets is included under the following items of the consolidated statement of comprehensive income in accordance with the use of the asset: cost of sales, research and development costs, selling costs, and general administrative costs.

21 | Financial investments accounted for using the equity method

ASSOCIATED COMPANIES

The key financial figures of the associated company Shanxi North MTU Diesel Co. Ltd., Datong/China, in which the Tognum Group has a 49% shareholding, are as follows:

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Assets	61.3	65.4
Liabilities	39.1	41.6
Shareholders' equity	22.2	23.9
Net profit	-1.9	1.8
Revenues	4.8	46.3
Net profit attributable to shareholders	-0.9	0.9

The carrying amount of shares in associated companies included in the item in the consolidated statement of financial position entitled »Financial investments accounted for using the equity method« amounted to 10.4 million euros (previous year: 8.9 million euros).

JOINT VENTURES

The key financial figures of the MTU Detroit Diesel Australia Pty. Ltd. joint venture in Chipping Norton/Australia, which is reported at equity, are summarised as follows in relation to the shares of the Tognum Group:

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Current assets	52.2	52.2
Non-current assets	14.7	12.6
Short-term liabilities	22.6	18.1
Long-term liabilities	18.2	18.6
Revenues	110.1	109.8
Expenses	-111.3	-107.8

22 | Income taxes

TAXES ON INCOME AND EARNINGS

A Domination and Profit and Loss Transfer Agreement was concluded between Tognum AG and Engine Holding GmbH on 25 September 2012. As a result of the entry of this agreement in the relevant commercial register on 19 December 2012, an integrated tax group was established pursuant to German tax regulations between Engine Holding GmbH (controlling company) and Tognum AG (dependent company) for corporation and trade tax purposes retroactively to 1 January 2012. In accordance with this, the taxable income of Tognum AG including all German companies within the integrated tax group is assigned to Engine Holding GmbH as of 2012, where it is subject to German corporation and trade tax. No tax sharing agreement has been concluded.

As a result of this tax situation, disclosure of the actual income tax expense is required at the level of the controlling company, Engine Holding GmbH.

In order to provide comparability of the independent consolidated financial statements of Tognum AG with the previous year in accordance with IFRS, »hypothetical taxes« are reported at Tognum AG level that correspond to the amounts Tognum AG would have had to recognise in Germany if no integrated tax group had been established with Engine Holding GmbH.

The previous year's values that are compared with the hypothetical values are therefore actual values from the previous year. This hypothetical current tax amounts to 41.5 million euros (previous year: 48.3 million euros) and was recognised directly in equity. Deferred tax expenses include corresponding hypothetical deferred tax income amounting to 6.3 million euros (previous year: 7.6 million euros). The hypothetical deferred tax liabilities of the integrated tax group of Tognum AG included in deferred tax as at the balance sheet date amounted to 45.8 million euros (actual deferred tax liabilities in the previous year: 52.1 million euros).

In addition to the current taxes for foreign countries and the deferred taxes, the following details accordingly relate to this hypothetical tax of Tognum AG for the 2012 financial year.

German companies are subject to an average trade tax burden of 12.25%. The corporate tax rate for the assessment period amounted to 15.0%, plus a solidarity surcharge of 5.5% on corporate tax. By comparison with the previous year, this resulted in an unchanged income tax rate for German-based companies of 28.1%. For foreign companies, the calculation is based on the nominal income tax rates applicable in the individual countries. These were between 17% and 46% (previous year: between 17% and 46%). For the Tognum Group, this resulted in a nominal group tax rate of 29.5% (previous year: 29.5%).

Taxes on income and earnings are broken down as follows:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Current tax		
thereof Germany	- 54.0	- 36.9
thereof other countries	- 37.0	- 37.5
	- 91.0	- 74.4
Deferred tax		
thereof Germany	17.5	- 10.0
thereof other countries	1.4	8.0
	18.9	- 2.0
	- 72.1	- 76.4

DEFERRED TAXES

Deferred tax assets and liabilities from temporary differences and tax losses carried forward are broken down as follows:

IN EUR MILLION	Deferred tax assets		Deferred tax liabilities	
	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012
Non-current assets				
Intangible assets	10.2	8.8	48.2	41.4
Property, plant and equipment	0.2	0.3	48.4	47.8
Assets, accounted for using the equity method			0.7	1.6
Other long-term financial assets			2.9	
Current assets				
Inventories	49.5	43.6	0.2	0.1
Trade receivables	2.8	1.7		
Cash				0.1
Other short-term financial assets		0.1	4.1	3.8
Other short-term assets			0.4	0.4
Non-current liabilities				
Provisions for pensions	29.4	29.5	1.2	1.0
Other long-term provisions	6.6	11.0	36.9	10.0
Long-term financial liabilities	2.4	1.6		
Other long-term liabilities	0.1			
Current liabilities				
Trade payables	0.2	0.1		
Other short-term provisions	54.2	26.8		0.9
Short-term financial and other liabilities	12.0	5.7	0.1	0.2
Advance payments received	1.5	0.2		
Other short-term liabilities		0.1		
Tax loss carry forwards/tax credits	0.2	2.1		
	169.3	131.7	143.1	107.3
Set-off	-86.2	-56.2	-86.2	-56.2
Total deferred taxes	83.1	75.4	56.9	51.1

Consolidation-related deferred tax assets amounted to 16.3 million euros (previous year: 22.0 million euros).

The calculation of deferred taxes is based on the tax rates expected on the reporting date in the respective countries. These were between 17% and 46% for the 2012 financial year and so remained unchanged compared to the previous year.

IN MIO. EURO	31.12.2011	31.12.2012
Balance sheet carrying amount (net) at the beginning of the reporting period	5.1	26.2
Deferred tax income/expenses	18.9	-2.0
Change in consolidated companies	0.4	1.2
Exchange differences	1.8	-1.1
Balance sheet carrying amount (net) at the end of the year	26.2	24.3

Of the deferred tax expenses amounting to 2.0 million euros recognised in the consolidated statement of comprehensive income, 3.5 million euros (previous year: 2.2 million euros) are attributable to the creation or reversal of temporary differences.

TAX LOSSES CARRIED FORWARD

The future business performance which, based on the corporate planning for the following five years, was expected when the consolidated financial statements were being prepared, was taken as the basis for the valuation of deferred tax assets.

As at the balance sheet date, the Tognum Group had unused tax losses carried forward and tax credits of around 24.9 million euros (previous year: 15.4 million euros). The total amount of deferred tax assets includes 2.1 million euros deferred taxes from losses carried forward or tax reduction claims (previous year: 0.1 million euros). Unused tax losses, for which no deferred tax assets were reported in the consolidated statement of financial position, amounted to 17.0 million euros (previous year: 15.2 million euros). The attributable, unrecognised deferred tax assets amounted to 5.0 million euros (previous year: 4.6 million euros).

CURRENT INCOME TAXES

Income tax claims and obligations include the as yet not fully assessed profits of domestic and foreign companies.

TAX RECONCILIATION STATEMENT

The reported tax expenditure for the financial year amounting to 76.4 million euros (previous year: 72.1 million euros) was 0.2 million euros higher (previous year: 8.0 million euros lower) than the actual tax expenses expected on the pre-tax result of 76.2 million euros (previous year: 80.1 million euros).

The difference between the current and the expected income tax expenditure is due to the following:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Income before taxes	271.4	258.1
Group tax rate in %	29.5	29.5
Expected tax expenses	- 80.1	- 76.2
Effects of differing tax rates	3.6	-1.8
Effects of tax-exempt income/trade tax deductions	3.7	6.4
Effects of expenses non-deductible for tax purposes/trade tax additions	-1.9	-5.4
Trade tax adjustments according to Section 8 (1) of the Trade Tax Act (GewStG)	-0.5	-0.7
Effects of income taxes relating to other periods	2.5	5.4
Effects of changes in tax rates	0.9	0.1
Effects of non-valuation of deferred taxes	0.8	-0.6
Change of permanent differences on the balance sheet	-1.5	-3.3
Other effects	0.4	-0.3
Current income tax expenses	- 72.1	- 76.4
Effective tax rate in %	26.58	29.59

23 | Non-current financial assets

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Other investments	55.6	25.1
Other loans and receivables	66.6	1.7
	122.1	26.8

Other investments include financial instruments classified as available for sale that were valued at their acquisition cost since a reliable determination of fair value was not possible. These financial instruments comprise shares in limited companies as well as shares in comparable foreign legal entities. The carrying amount of the shares at the balance sheet date was 25.1 million euros (previous year: 25.0 million euros). These shares are not listed and there is no active market. A reliable determination of fair value would only be possible if there were concrete sales negotiations. A disposal of these shares is not currently anticipated. The decline in other investments results from the sale of the remaining shares in IFA-Rotorion Holding GmbH, Haldensleben, which Tognum AG had acquired as part of the sale of the propeller shaft unit in 2009. Prior to their sale in the 2012 financial year, the shares in IFA Rotorion Holding GmbH, Haldensleben were recognised at fair value through profit or loss and as at 31 December 2011 amounted to 30.5 million euros. This transaction had a negative impact on profit or loss amounting to –0.7 million euros.

The decline of 64.9 million euros to 1.7 million euros (previous year: 66.6 million euros) in other loans and receivables is due to the repayment of outstanding loans by IFA-Rotorion Holding GmbH, Haldensleben, which had been acquired as a result of the sale of the propeller shaft unit in 2009. The repayment of the loans amounting to 54.0 million euros is included in the »Consolidated Statements of Cash Flows« on page 105 under »Proceeds/payments from other cash investments«.

In addition, Tognum AG exercised the right it had acquired as part of the sale of the propeller shaft unit to resell the shares acquired in IFA-Rotorion Holding GmbH, Haldensleben to the previous shareholders (put option). The value of this put option, which is classified as a financial instrument in accordance with IAS 39.9, amounted to 10.3 million euros on exercise of the option (31 December 2011: 10.3 million euros).

There was an offsetting effect from claims by MTU Italia S.r.l. against the Italian tax authorities, which, in the course of national restructuring measures, had been converted into an Italian government bond maturing in 2016. The initial recognition as a financial instrument, in accordance with IAS 39.43, was at fair value and amounted to 1.2 million euros as at the balance sheet date.

In the 2012 financial year, as in the previous year, no non-current financial assets were pledged as security for liabilities.

24 | Inventories

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Raw materials, consumables and supplies	309.0	292.4
Unfinished goods	322.0	268.4
Finished goods, parts for resale	210.7	200.2
Advance payments made	38.0	59.1
	879.7	820.1

In the 2012 financial year, the manufacturing costs of the inventories reported in the consolidated statement of comprehensive income as expenses included in cost of sales amounted to 1,445.8 million euros (previous year: 1,510.8 million euros). Raw materials, consumables and supplies, unfinished and finished goods are measured at acquisition/manufacturing cost or at the lowest net selling price. In the year under review, the associated impairment amounted to 5.8 million euros (previous year: 3.0 million euros).

Of the total inventories, 214.5 million euros (previous year: 171.7 million euros) were capitalised at the net selling price. As in the previous year, no inventories were pledged as security for own liabilities.

25 | Trade receivables and other current assets

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Trade receivables, gross	541.5	549.9
Valuation allowances on trade receivables	- 26.8	- 29.6
Total trade receivables	514.7	520.3

The carrying amounts of trade receivables that are recognised at carried-over acquisition cost in most cases correspond to their fair value. A portion of trade receivables amounting to 515.7 million euros matures within a year. The term of payment for the remaining 4.6 million euros is greater than a year.

The impairments for what are presumably irrecoverable trade receivables of - 29.6 million euros (previous year: - 26.8 million euros) were calculated taking into account individual risks and on the basis of past experience with payment defaults. The impairment of trade receivables changed as follows:

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Allowances at the beginning of the reporting period	- 30.5	- 26.8
Additions	- 8.0	- 7.5
Reversal	9.8	3.3
Utilisation	2.3	1.4
Exchange rate adjustments and others	- 0.4	
Allowance at the end of the year	- 26.8	- 29.6

Trade receivables were impaired individually as well as generalised due to a portfolio approach. The generalised individual impairments were distributed by percentage across the age structure of the receivables. As a matter of principle, all receivables with a maturity exceeding 180 days are taken into account in the individual impairment and as a rule are impaired at 100%. After taking into account these impairments, the carrying amount of these receivables at the balance sheet date was 520.3 million euros (previous year: 514.7 million euros). The calculation of impairments of doubtful receivables rests to a large extent on estimations and judgements of individual receivables which, besides the credit rating and payment defaults of the respective customers, also take into account current economic developments as well as past experience regarding default. All expenses and income from value adjustments and derecognition of trade receivables are reported under selling costs.

The following table shows the carrying amounts of the overdue receivables that have not yet been individually impaired:

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Total trade receivables	514.7	520.3
thereof receivables neither impaired nor past due on the reporting date	384.5	351.1
thereof receivables not impaired on the reporting date and past due in the following periods		
less than 30 days	81.3	71.1
between 30 and 59 days	15.7	28.1
between 60 and 89 days	4.8	4.2
between 90 and 119 days	2.4	12.4
more than 120 days	25.8	44.6

Regarding the stock of trade receivables where no impairment was determined as at the reporting date but where payment was past the due date, there was no indication that the debtors would not fulfil their payment obligations. The credit rating is based on an actively driven receivables management which takes into account the credit history of our clients as well as a continuous monitoring of their credit-worthiness on the basis of internally and externally generated information.

The Tognum Group implements industry-standard instruments such as guarantees, letters of credit or commercial credit insurance to hedge its receivables. As at 31 December 2012, trade receivables amounting to approximately 153.1 million euros (previous year: 129.4 million euros) were hedged by means of such instruments. In the case of trade receivables that are hedged by means of trade credit insurance policies, a 10% to 15% deductible is applied in the event of default. To a large extent, the fair value of these hedging instruments corresponds to the nominal value of the hedged receivables.

As in the previous year, trade receivables and other assets were not pledged as securities for liabilities.

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Tax reduction benefits from other taxes	23.9	22.4
Other non-financial assets	33.4	41.2
Deferred expenses	3.4	5.9
Total other assets	60.6	69.6

Tax reduction benefits from other taxes include all receivables of the Tognum Group from the tax authorities (e.g. input tax).

Other non-financial assets primarily include advance payments for services to be rendered, creditors with debit balances, commission advances to sales representatives, and advance payments to employees for travel costs and similar expenses. Deposit receivables from reman business (refurbishment of used parts) amounting to 11.6 million euros (previous year: 12.3 million euros) are also reported under »Other non-financial assets«.

26 | Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Checks	0.4	0.1
Cash and deposits at banks	415.4	288.0
Cash in transit	5.1	2.7
	420.9	290.9

As in the previous year, there were no disposal restrictions of cash and cash equivalents as at the balance sheet date.

27 | Current financial assets

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Positive market values of derivative instruments	1.3	5.9
Other	22.0	2.9
	23.3	8.9

The decline of 19.1 million euros under »Other« in current financial assets to 2.9 million euros (previous year: 22.0 million euros) results primarily from the settlement of a short-term loan amounting to 7.8 million euros from Onsite Energy Systems GmbH, Ruhstorf, which was consolidated for the first time in April 2012. The remaining 11.2 million euros of the decline is essentially due to the repayment of outstanding claims against non-consolidated subsidiaries and associated companies. The remaining 2.9 million euros mainly include claims against related parties, the carrying amounts of which were recognised at amortised acquisition cost. Additional notes on related party disclosures can be found in section 40 | »Related party disclosures« in the notes to the consolidated financial statements.

Explanatory notes on derivative financial instruments can be found in section 34 | »Derivative financial instruments to hedge business operations« in the notes to the consolidated financial statements.

28 | Equity

SHARE CAPITAL

The share capital of Tognum AG amounts to 131,375,000 no-par-value bearer shares, with a proportional amount of the share capital of 1.00 euro for each individual share. All shares have been issued and fully paid in. Each share guarantees the owner a voting right at the Annual General Meeting of Tognum AG.

CHANGES IN EQUITY AND SHAREHOLDER STRUCTURE

Capital reserves include the premium from the share issue less the directly attributable transaction costs at the time of capital acquisition. Capital reserves also include the amounts to be created as a statutory reserve in accordance with Section 150(1) of the German Stock Corporation Act (AktG). The provisions of Section 150(3) and (4) of the German Stock Corporation Act apply to the utilisation of the capital reserves. Capital reserves amounted to 257.7 million euros and remained unchanged from the previous year.

Profit reserves and other reserves include past, undistributed profits earned by subsidiaries included in the consolidated financial statements insofar as they have not been distributed. Equity also includes the foreign currency translation of the financial statements of foreign subsidiaries that is recognised directly in equity. A detailed overview of the composition and the changes in profit reserves and other reserves in the 2012 financial year and in the previous year is presented in the table »Consolidated Statement of Changes in Equity« on page 108.

AUTHORISED CAPITAL

The Annual General Meeting held on 18 May 2010 authorised the Executive Board to increase the share capital with the approval of the Supervisory Board on one or several occasions to a maximum of 48,662,500 euros until 17 May 2015 by issuing new bearer shares for cash or compensation in kind.

PROPOSED APPROPRIATION OF PROFIT

In accordance with the German Stock Corporation Act, the dividends for distribution are determined by the net profit recognised by Tognum AG in the annual financial statements (individual financial statements), which are prepared in accordance with the regulations of the German Commercial Code. In the 2012 financial year, Tognum AG distributed to the shareholders dividends amounting to 98.5 million euros (0.75 euros per share) from the net retained profit of the 2011 financial year.

Based on the Domination and Profit and Loss Transfer Agreement with Engine Holding GmbH, a profit of 168.5 million euros for the 2012 financial year will be transferred to Engine Holding GmbH.

NON-CONTROLLING INTERESTS IN EQUITY

Effective 28 September 2012, Tognum Asia Pte. Ltd., Singapore/Singapore increased its shareholding in MTU Japan Co. Ltd., Tokyo/Japan to 100% (previously: 51%). For this reason, the non-controlling interests as at the balance sheet date amounted to 0.0 million euros (previous year: 3.2 million euros).

29 | Provisions for pensions

The Tognum Group has obligations from defined contribution schemes (cf. section 16 | »Personnel expenses« in the notes to the consolidated financial statements) as well as defined benefit pension schemes.

DEFINED CONTRIBUTION SCHEMES

Expenses for defined contribution pension schemes at Tognum AG relate primarily to the amounts of the statutory pension scheme. In 2012, the expense for defined contribution schemes amounted to 51.4 million euros (previous year: 46.5 million euros).

Dr. Michael Haidinger, who was appointed to the Executive Board in the 2012 year under review, will continue to receive the salary and service-based pension commitment he had previously received from his former employer at terms and conditions that would remain unchanged during his employment with Tognum. Tognum AG promised to reimburse any costs arising for Dr. Michael Haidinger's former employer as a result of the continuation of the previous pension commitment. In 2012, (pro rata) expenses amounting to 0.05 million euros arose for this commitment, which is classified as a defined contribution scheme.

DEFINED BENEFIT SCHEMES

Defined benefits in Germany differ according to the position of the employee in the company and correspond to industry-standard defined benefits. Special regulations are in place for members of the Executive Board.

Employees covered by collective agreements and members of management are entitled to retirement and early retirement benefits, disability benefits, as well as benefits for dependants from the employer's pension commitments.

For some of the employees covered by collective agreements, a defined sum that is converted into a retirement capital module and paid into a fictitious retirement account is made available every year. When pension payments begin, the modules are converted into cash and paid out as a life annuity. As part of the pension commitment, these employees also have the possibility of increasing their retirement accounts by converting their wages into retirement capital modules.

Commitments for company executives based on a retirement module scheme and certain regulations covering the conversion of salaries remain unchanged.

For all those entitled to receive retirement benefits, the widow's/widower's pension amounts to 60% of the retirement or disability pension, as the case may be. Some employees also receive benefits from the Karl Maybach-Hilfe GmbH, Friedrichshafen in the form of an annual supplementary grant.

Defined benefits abroad include mainly pension benefits in the US. The plans are structured according to circumstances in the respective country.

The amounts of the pension provisions developed as follows in the 2012 financial year:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Balance sheet value at the beginning of the year	399.9	415.4
Transactions	0.6	
Pension expense	30.4	27.6
Contributions to plan assets	-0.3	-0.4
Direct payment of benefits by the company	-16.6	-17.1
Transfer/(acquisition) of capital	1.2	2.0
Foreign exchange differences	0.2	-0.1
Balance sheet value at the end of the year	415.4	427.3

The experience-based adjustments of the cash value to the earned pension benefits in the 2012 financial year amounted to -0.5 million euros (previous year: 3.0 million euros). For the 2013 financial year, the anticipated retirement payout amounts to 26.3 million euros.

The cash value of defined benefit obligations can be transferred to the figures in the consolidated statement of financial position as follows:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Present value of defined benefit obligations (DBO)	375.9	496.5
Market value of plan assets	-5.6	-6.6
Funded status at the end of the period	370.3	489.9
Unrecognised past service cost	0.1	
Unrecognised actuarial gains/(losses)	45.0	-62.7
Balance sheet value at the end of the year	415.4	427.3

The financing status shows the coverage for pension obligations through the plan asset as at valuation date. The defined benefits existing at the Tognum Group are financed almost exclusively internally. For the last time in 2012, Tognum AG applied the so-called corridor approach in accordance with IAS 19.92 for taking into account actuarial gains/losses from existing pension obligations.

The effects that would have resulted if the SORIE approach had been applied are presented in »Use of assumptions and estimates« on page 121.

CHANGES IN THE SCOPE OF OBLIGATIONS (DBO)

The cash value of pension benefit commitments changed as follows:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Present value of pension benefit commitments at the beginning of the year	358.5	375.9
Transactions	1.0	
Current service cost	13.8	9.3
Interest expense	18.3	19.5
Actuarial (gains)/losses	-0.4	107.5
Transfer/(acquisition) of capital	1.1	2.0
Payment of benefits	-16.9	-17.2
Foreign exchange differences	0.5	-0.3
Present value of pension benefit commitments at the end of the year	375.9	496.5
thereof internally financed (without plan assets)	367.2	486.9
thereof paid from plan assets	8.7	9.6

CHANGES IN PLAN ASSETS

The plan assets available for financing benefit commitments changed as follows:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Market value of plan assets at the beginning of the period	5.3	5.6
Transactions	0.3	
Expected expense	0.3	0.3
Employer contributions	0.3	0.4
Actuarial (gains)/losses	-0.5	0.5
Payment of benefits	-0.3	-0.2
Foreign exchange differences	0.2	-0.1
Market value of plan assets at the end of the period	5.6	6.6
Actual income from plan assets	-0.2	0.8

The experience-based adjustments to the plan asset amounted to –0.5 million euros in the 2012 financial year (previous year: 0.5 million euros; 2010: –0.3 million euros; 2009: –0.4 million euros; 2008: 0.4 million euros).

DISTRIBUTION OF PLAN ASSETS

The distribution of the existing assets into asset classes was as follows as at the balance sheet date:

IN %	31 Dec. 2011	31 Dec. 2012
Equity investments	49.41	39.67
Fixed income securities	38.46	52.06
Cash and cash equivalents	12.13	8.27
Total	100.00	100.00

COMPONENTS OF THE PERIOD-RELATED NET PENSION EXPENSE FOR DEFINED BENEFITS

The total expense recognised for defined benefit pension schemes is broken down as follows:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Current service cost	-13.8	-9.3
Interest expense	-18.3	-19.5
Expected income from assets	0.3	0.3
Reduction of		
actuarial (gains)/losses	1.3	0.8
past service cost	0.1	0.1
Total	-30.4	-27.6

The service cost and the cost for plan adjustments are recognised according to the allocation of personnel expenses for employees to the following items of the consolidated statement of comprehensive income: cost of sales, selling costs, general administrative costs, and research and development costs.

The interest cost and the anticipated income from the plan asset are recorded in the interest result.

HISTORICAL DEVELOPMENT

IN EUR MILLION	1 Jan. - 31 Dec. 2008	1 Jan. - 31 Dec. 2009	1 Jan. - 31 Dec. 2010	1 Jan. - 31 Dec. 2011	1 Jan. - 31 Dec. 2012
Present value of pension benefit commitments	322.1	336.0	358.5	375.9	496.5
Present value of plan assets	2.2	4.6	5.3	5.6	6.6
Balance	319.9	331.5	353.2	370.3	489.9

PREMISES

The underlying assumptions on interest rates, changes in salaries and retirement benefits as well as the long-term returns of the plan asset for calculating the extent of the obligations and the net pension expense vary depending, amongst others, on the economic circumstances of the currency in which the defined benefits exist or the investment has been made, and on capital market expectations.

The actuarial calculation of the extent of the obligations at the respective valuation date is based on the following assumptions (weighted average):

IN %	31 Dec. 2011	31 Dec. 2012
Actuarial interest rate	5.30	3.57
Trends in salaries and pension entitlements	2.76	2.76
Expected rate of return on plan assets	5.90	6.04
Trend in pensions	2.00	2.00

The premises used for the calculation of the obligations at the respective balance sheet date also apply for the calculation of the ongoing service cost and the interest expense in the following financial year.

The assumed discount factors reflect the current yields that are measured on the valuation day of the respective pension scheme for fixed-interest first-class company loans with terms that correspond to the obligations. The assumptions on the anticipated returns of the plan asset are selected on the basis of long-term expectations. The actuarial assumptions not mentioned in the previous tables such as fluctuation, mortality, invalidity, etc. are determined according to the expectations in the respective country under consideration of the circumstances and expectations of the concerned companies.

30 | Other provisions

PROVISION FOR WARRANTY AND ACCOMMODATION OBLIGATIONS

Tognum AG grants various product guarantees that generally warrant the performance of a product for a specified period. The provision for these guarantees includes anticipated expenses from statutory and contractual guarantee claims as well as anticipated expenses for accommodation or fair dealing. These obligations could have several causes such as litigation or measures for ensuring customer satisfaction. The time of accessing depends on when the guarantee claim occurs and can continue over the entire guarantee and accommodation period. Based on past empirical values from within the Tognum Group, the uncertainties regarding the amount or timing of the outflows are low.

PROVISION FOR PERSONNEL OBLIGATIONS AND PARTIAL RETIREMENT

The provisions for personnel and social security benefits are created for employee anniversaries, special compensation and obligations from partial retirement. Based on past empirical values from within the Tognum Group, the uncertainties regarding the amount or timing of the outflows are low.

OTHER PROVISIONS

Other provisions include provisions for deposits paid by customers when purchasing refurbishable replacement parts, for follow-up expenses or unrealised costs for previously invoiced orders, for checking the prices of public authorities awarding contracts, for sales expenses and for obligations from service and maintenance agreements. Based on past empirical values from within the Tognum Group, the uncertainties regarding the amount or timing of the outflows are low. Provisions for restructuring activities as at 31 December 2012 amounted to 4.8 million euros (previous year: 20.7 million euros). They include commitments from restructuring activities relating to our exit from the business activities of Onsite Energy Fuel Cell Systems, which had been approved by the Supervisory Board on 28 December 2010.

IN EUR MILLION	Balance at 1 Jan. 2012	Change in consolidated companies	Usage	Additions	Reversals	Reclassi- fications	Interest expense	Currency conversion	Balance at 31 Dec. 2012
Warranty and voluntary concessions obligation	255.8	0.2	-74.7	67.0	-1.8		3.6	-1.4	248.6
Personnel/social benefit obligations and partial retirement	90.0	0.5	-43.1	43.0	-8.4		0.7	-0.1	82.6
Restructuring activities	20.7		-7.2		-8.7				4.8
Other provisions	176.1	14.9	-77.7	69.8	-29.9		0.1	-0.8	152.5
	542.6	15.6	-202.7	179.8	-48.8		4.4	-2.3	488.6

Breakdown of current and non-current provisions:

IN EUR MILLION	31 Dec. 2011		31 Dec. 2012	
	short-term	long-term	short-term	long-term
Warranty and voluntary concessions obligation	111.9	143.9	107.6	141.0
Personnel and social benefit obligations	49.7	40.3	44.1	38.5
Restructuring activities	20.7		4.8	
Other provisions	166.1	10.0	145.0	7.5
	348.3	194.3	301.5	187.1

It is assumed that non-current provisions will be claimed in no more than five years, provisions for partial retirement possibly later.

31 | Financial liabilities

NON-CURRENT FINANCIAL LIABILITIES

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Financial liabilities	425.7	250.5
Other liabilities	1.9	4.6
	427.5	255.0

Tognum AG has a long-term loan from the European Investment Bank and the KfW IPEX-Bank for corporate financing purposes. The loan from the European Investment Bank is to be used for financing research and development projects. In the fourth quarter of 2011, 125.0 million euros was accessed. The loan from the European Investment Bank was increased by 75.0 million euros to 200.0 million euros in the third quarter of 2012. In the third quarter of 2012, there was also a payment by the KfW IPEX-Bank for the financing of R&D activities amounting to 50.0 million euros. Bullet facilities under the syndicated loan agreement amounting to 260.0 million US dollars and 100.0 million euros were repaid in the third quarter of the financial year just ended. The interest rate derivatives that had been concluded in this connection were terminated with the repayment of these loans.

The financial liabilities are broken down as follows:

	Currency	Nominal value (nominal currency in millions)		Weighted maturity in years	Nominal interest rate in %	Fair value in EUR million	
		31 Dec. 2011	31 Dec. 2012			31 Dec. 2011	31 Dec. 2012
Facility A							
Facility A1	USD	260.0			USD-LIBOR + 30BP	200.6	
Facility A2	EUR	100.0			EURIBOR + 30BP	99.8	
EIB loan	EUR	125.0	200.0	4.2	2.4	125.0	200.0
KFW loan	EUR		50.0	4.6	2.4		50.0
Other	EUR	0.3			5.3	0.3	
Other	EUR		0.5	1.5	5.0		0.5
						425.7	250.5

The Tognum Group has no liabilities with a weighted term of more than five years. As in the previous year, there were no mortgages or assignments of assets, inventories and receivables for security purposes as at the balance sheet date.

CURRENT FINANCIAL AND OTHER LIABILITIES

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Liabilities to banks	0.3	0.3
Liabilities from derivatives (negative market values)	22.2	1.9
Other liabilities	67.8	213.0
	90.3	215.1

Liabilities from derivatives include negative market values from the valuation of foreign exchange forward transactions and commodity derivatives. The market values of current financial liabilities correspond approximately to the carrying amounts. Explanatory notes to derivative financial instruments are included in section 34 | »Derivative financial instruments to hedge business operations« in the notes to the consolidated financial statements.

As part of the sale of the propeller shaft unit, the previous shareholders acquired the right to buy back the shares that Tognum AG holds in IFA-Rotorion Holding GmbH, Haldensleben. This call option, which was classified as a financial instrument in accordance with IAS 39.9, was reported under »Liabilities from derivatives« prior to the exercise of the option. This option expired with the winding up of the operations and the sale of the shares in IFA-Rotorion Holding GmbH, Haldensleben in 2012. As at 31 December 2011, it was reported at fair value in the balance sheet and amounted to 6.5 million euros.

The increase of other liabilities results primarily from the profit transfer to Engine Holding GmbH amounting to 168.5 million euros. Other liabilities also include commitments arising from wages and salaries, in addition to outstanding leave and overtime payments.

As in the previous year, there were no mortgages or assignments of securities for assets, inventories and receivables as at the balance sheet date.

32 | Trade payables and other liabilities

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Trade payables	363.6	352.6
	363.6	352.6

Trade payables include 21.0 million euros with a term of payment greater than a year. The remaining trade payables amounting to 331.6 million euros are due for payment within a year. The carrying amounts of trade payables correspond to their fair value.

33 | Other current liabilities

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Other taxes	13.3	17.5
Others	6.9	6.5
	20.2	24.1

Other Disclosures

34 | Derivative financial instruments to hedge business operations

As at the balance sheet date, the Tognum Group held derivative financial instruments to hedge risks arising from currency and commodity price changes. Foreign exchange forwards and commodity swaps were used to hedge against market price risks. Foreign exchange forwards exist in US dollars, Singapore dollars and pounds sterling. Commodity swaps were concluded solely in euros.

Foreign exchange forwards and commodity swaps were concluded with contract partners outside the Group.

All derivative financial instruments are treated as stand-alone derivatives.

The following tables show the type and extent of the currency and commodity hedges held (interest rate hedges were also included in the previous year), including the recognised fair value as at the balance sheet date:

31 DEC. 2012	Nominal amount in million foreign currency	Fair value		Maturity
		Financial assets in EUR million	Financial liabilities in EUR million	
Currency hedge				
USD	236.5	5.4	0.5	2013
USD	58.6		0.5	2014
USD	10.6		0.1	2015
SGD	30.0	0.2	0.3	2013
GBP	5.5		0.1	2013
		5.6	1.5	

31 DEC. 2012	Total amount in metric tons	Fair value		Maturity
		Financial assets in EUR million	Financial liabilities in EUR million	
Commodity hedge				
Commodity swap aluminium	660			2013
Commodity swap aluminium	660			2014
Commodity swap diesel	4,263	0.1		2013
Commodity swap diesel	2,834		0.1	2014
Commodity swap copper	360	0.1		2013
Commodity swap copper	270			2014
Commodity swap nickel	36			2013
Commodity swap nickel	36			2014
Commodity swap steel	6,190		0.9	2013
		0.2	1.0	

31 DEC. 2011	Nominal amount in million foreign currency	Fair value		Maturity
		Financial assets in EUR million	Financial liabilities in EUR million	
Currency hedge				
USD	294.6		7.0	2012
USD	35.0		0.8	2013
USD	56.6		1.1	2014
USD	10.6		0.2	2015
SGD	36.0	0.7		2012
GBP	5.3	0.1		2012
CNY	81.0		0.6	2012
		0.8	9.7	
Interest rate hedge				
EUR interest rate swap	100.0		1.6	2013
USD interest rate swap	260.0		4.4	2013
			6.0	
		0.8	15.7	

31 DEC. 2011	Total amount in metric tons	Fair value		Maturity
		Financial assets in EUR million	Financial liabilities in EUR million	
Commodity hedge				
Commodity swap aluminium	660			2012
Commodity swap aluminium	660			2013
Commodity swap diesel	2,808	0.1		2012
Commodity swap diesel	2,808	0.1		2013
Commodity swap copper	360	0.1		2012
Commodity swap copper	360	0.1		2013
Commodity swap nickel	36			2012
Commodity swap nickel	36			2013
Commodity swap steel	13,618			2012
		0.5		

The fair value of the derivative financial instruments is determined on the basis of market information as at the balance sheet date. The fair value of foreign exchange derivatives is subject to the price of the forward exchange rates. The fair value of commodity derivatives is determined primarily by the commodity forward curve.

35 | Additional disclosures on financial instruments

The following table, which is classified according to the measurement categories of IAS 39, presents the net gains and losses (before taxes) from financial instruments reported in the consolidated statement of comprehensive income:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	<u>1 Jan. - 31 Dec. 2012</u>
Financial assets and liabilities recognised at fair value through profit or loss	1.4	<u>6.2</u>
thereof financial assets recognised at fair value option	5.4	<u>-4.6</u>
Financial assets available for sale		
recognised directly on the income statement	3.1	<u>0.2</u>
Loans and receivables	1.6	<u>-4.1</u>
Financial liabilities recognised at acquisition cost	-5.9	<u>-9.2</u>
	0.2	<u>-7.0</u>

Net gains or losses from financial assets or liabilities recognised at fair value through profit or loss include the recognised gain or loss of foreign exchange forwards and commodity derivatives. This item also includes the effects of the sale of the shares in IFA-Rotorion Holding GmbH, Haldensleben, which were recognised at fair value through profit or loss prior to their sale in the 2012 financial year. This item additionally includes the effect of exercising the put and call option following the sale of the remaining shares in IFA-Rotorion Holding GmbH, Haldensleben to IFA-Rotorion Holding GmbH, Haldensleben.

Net gains or losses from available-for-sale financial assets include received dividend payments.

Net gains or losses from loans and receivables include gains or losses from impairments, appreciation and the effects of translating currency.

Net gains or losses from financial liabilities recognised at acquisition cost include gains or losses from the effects of translating currency.

The following table represents the carrying amount and the fair value of the financial instruments included in the individual items of the consolidated statement of financial position according to classes and to the IAS 39 measurement categories. In addition, the definitions of the individual categories are presented on page 169.

IN EUR MILLION	Categories of IAS 39	Carrying amount as at 31 Dec. 2012	Amortised cost	Fair value recognised in equity	Fair value recognised in profit or loss	Fair value as at 31 Dec. 2012
Assets						
Trade receivables	LaR	520.3	520.3			520.3
Cash and cash equivalents		290.9	290.9			290.9
Other financial assets						
Investments at amortised acquisition cost ¹	AFS	26.3				
Financial assets at fair value through profit or loss	FAHFT/FVO	6.0			6.0	6.0
Other account receivables and assets	LaR	3.3	3.3			3.3
Sum financial assets		846.8	814.5		6.0	820.5
Equity and liabilities						
Financial liabilities	FLAC	250.8	250.8			250.8
Trade liabilities	FLAC	352.6	352.6			352.6
Miscellaneous financial liabilities						
Financial liabilities at fair value through profit or loss	FLHFT	5.5			5.5	5.5
Other financial liabilities	FLAC	213.9	213.9			213.9
Sum financial liabilities		822.8	817.3		5.5	822.8

¹ For available-for-sale financial assets measured at carried-forward acquisition cost, the fair value of the instruments cannot be reliably determined.

IN MID. EURO	Categories of IAS 39	Carrying amount as at 31 Dec. 2011	Amortised cost	Fair value recognised in equity	Fair value recognised in profit or loss	Fair value as at 31 Dec. 2011
Assets						
Trade receivables	LaR	514.7	514.7			514.7
Cash and cash equivalents		420.9	420.9			420.9
Other financial assets						
Investments at amortised acquisition cost ¹	AFS	25.0				
Financial assets at fair value through profit or loss	FAHFT/FVO	42.2			42.2	42.2
Other account receivables and assets	LaR	78.3	78.3			78.3
Sum financial assets		1,081.1	1,013.9		42.2	1,056.1
Equity and liabilities						
Financial liabilities	FLAC	425.9	425.9			425.9
Trade liabilities	FLAC	363.6	363.6			363.6
Miscellaneous financial liabilities						
Financial liabilities at fair value through profit or loss	FLHFT	22.2			22.2	22.2
Other financial liabilities	FLAC	69.7	69.7			69.7
Sum financial liabilities		881.4	859.2		22.2	881.4

¹ The fair value of the instruments cannot be reliably determined for available-for-sale financial assets measured at carried-forward acquisition cost.

In accordance with IAS 39, the following were aggregated into categories:

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Financial assets at fair value through profit or loss		
thereof fair value option	30.5	
thereof financial assets held for trading, FAHFT	11.7	6.0
Loans and Receivables, LaR	593.0	523.6
Available-for-sale financial assets, AfS	25.0	26.3
thereof measured at amortised cost	25.0	26.3
Financial liabilities measured at amortised cost, FLAC	859.2	817.3
Financial liabilities held for trading, FLHFT	22.2	5.5

Due to the short terms of cash and cash equivalents, trade receivables and trade payables and other current receivables and assets, the fair values correspond to the carrying amounts.

The non-current other receivables and assets, financial liabilities and non-current other liabilities are determined as cash values of future, anticipated cash flows. Standard market rates are used for discounting based on the respective terms.

Available-for-sale financial assets that are valued at the carried-forward acquisition cost are non-listed shares for which the fair value could not be reliably determined.

Provided that no market prices (e.g. stock market prices) are available for assets and liabilities to be recognised at fair value through profit or loss, the market values are calculated using approved financial valuation models (valuation methods) based on instrument-specific market parameters. As the basis for valuation, the foreign exchange rate is used in the case of foreign exchange forward transactions, the market interest rates in the case of interest derivatives, and the market price in the case of commodity derivatives, – in each case at the respective balance sheet date.

The following table shows the allocation of our financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy:

IN EUR MILLION	31 Dec. 2012		
	Level 1	Level 2	Level 3
Financial assets measured at fair value			
Financial assets at fair value through profit or loss			
Derivative financial instruments		6.0	
Total		6.0	
Financial liabilities measured at fair value			
Derivative financial instruments		2.6	2.8
Total		2.6	2.8

IN EUR MILLION	31 Dec. 2011		
	Level 1	Level 2	Level 3
Financial assets measured at fair value			
Financial assets at fair value through profit or loss			30.5
Derivative financial instruments		1.3	10.3
Total		1.3	40.8
Financial liabilities measured at fair value			
Derivative financial instruments		15.7	6.5
Total		15.7	6.5

The levels of the fair value hierarchy and its application to the financial assets and liabilities of Tognum AG are described below:

LEVEL 1: There are quoted market prices for identical assets or liabilities in active markets.

LEVEL 2: There is other information available besides quoted market prices that is observable either directly (e.g. as prices) or indirectly (e.g. derived from prices). In the Tognum Group, foreign exchange forwards and commodity derivatives are allocated to level 2.

LEVEL 3: Information on assets and liabilities is available that is not based on observable market data. The fair values are calculated using approved financial valuation models (valuation methods) based on instrument-specific market parameters. In the Tognum Group, the shareholding acquired in IFA-Rotorion Holding GmbH, Haldensleben, which was recognised at fair value through profit or loss, was allocated to level 3 in the previous year. The put and call option, which was recognised at fair value through profit or loss following the sale of the propeller shaft unit, was also allocated to level 3 in the previous year. In the year under review, the option for the remaining shares in MTU Onsite Energy Systems GmbH, Ruhstorf was allocated to level 3.

As a result of selling the shares in IFA-Rotorion Holding GmbH, Haldensleben to IFA-Rotorion Holding GmbH, Haldensleben, the carrying amount of the investment in the financial year is 0.0 million euros (previous year: 30.5 million euros). In the year under review, as a result of selling the shares, 0.8 million euros losses were recognised through profit or loss.

The carrying amount of the put option in the previous year was 10.3 million euros. As a result of exercising the put option following the sale of the shares in IFA-Rotorion Holding GmbH, Haldensleben, losses amounting to 10.3 million euros were recognised through profit or loss in the year under review. The carrying amount of the put option as at the balance sheet date was thus 0.0 million euros.

In the previous year, the carrying amount of the call option was 6.5 million euros. As a result of exercising the call option following the sale of the shares in IFA-Rotorion Holding GmbH, Haldensleben, profits amounting to 6.5 million euros were recognised through profit or loss in the year under review. As at the balance sheet date, the carrying amount of the call option was thus 0.0 million euros.

The valuation of the option on the remaining shares in MTU Onsite Energy Systems GmbH, Ruhstorf, in the course of the first-time consolidation, was recognised as a liability amounting to 2.8 million euros with no effect on profit or loss. Any subsequent valuation of the option for future periods will be recognised through profit or loss.

36 | Leases

The Tognum Group is the lessee in various operating lease agreements. The lease agreements concern leases for off-premise warehouses, fixtures, PCs, printers and copying machines.

The minimum future lease payments on account of non-terminable operating leases are broken down as follows for the different periods:

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Future minimum lease payments		
due within one year	31.0	35.4
due between 1 and 5 years	68.9	74.5
due later than 5 years	50.5	56.1
	150.4	166.0

As part of lease agreements in the 2012 financial year, expenditure amounting to 56.9 million euros (previous year: 46.3 million euros) was recognised through profit or loss.

37 | Contingent liabilities and other financial obligations

CONTINGENT LIABILITIES

As at 31 December 2012, there were contingent liabilities from contingencies amounting to 78.9 million euros (previous year: 111.4 million euros). These also include guarantees provided to banks for financing in favour of affiliated companies.

Contingent liabilities also include guarantees provided to creditors of joint ventures amounting to 33.8 million euros.

OTHER FINANCIAL OBLIGATIONS

IN EUR MILLION	31 Dec. 2011	31 Dec. 2012
Other financial obligations	1,407.4	1,309.5

Other financial obligations primarily include obligations arising from purchasing agreements for raw materials, consumables and supplies, components and spare parts amounting to 1,090.9 million euros (previous year: 1,172.1 million euros). Other financial obligations also include obligations for the purchase of property, plant and equipment to the amount of 17.2 million euros (previous year: 19.5 million euros) and for the purchase of intangible assets of 23.2 million euros (previous year: 35.4 million euros). Other financial obligations from order commitments for investments, maintenance agreements and general operating expenses fell within the scope of normal business activities.

The sum of 1,203.6 million euros (previous year: 1,267.5 million euros) for other financial obligations is due for payment within one year. Other current financial obligations were consistent with normal business practice. The amounts involved are nominal.

38 | Segment reporting

ORGANISATIONAL STRUCTURE AND SEGMENTATION

The company has organised its business activities under the corporate umbrella of the strategic holding company Tognum AG into three reporting segments, *Engines*, *Onsite Energy & Components (OE&C)* and *Distribution*. Internal control and performance measurement of the individual segments is carried out by the Executive Board of Tognum AG as the chief operating decision maker, primarily with the aid of the adjusted EBIT. External reporting in accordance with IFRS 8 »Operating Segments« is based on this segment structure. The segment reporting of the Tognum Group is presented in the overview »Group Segment Reporting« on page 110.

ENGINES. The development, production and sales of diesel engines, including the associated services and the after sales business, are included in the *Engines* segment. In addition to parts of MTU Friedrichshafen GmbH, Friedrichshafen and parts of Tognum America Inc., Novi/USA, the segment also includes parts of MTU Reman Technologies GmbH, Magdeburg. Parts of Tognum Asia Pte. Ltd., Singapore/Singapore and MTU China Co. Ltd., Shanghai/China are also assigned to the *Engines* segment. A new addition to the segment is MTU Polska Sp. z o.o., Warsaw/Poland, which was included in the consolidated financial statements of Tognum AG for the first time as at 1 January 2012 (cf. section »Change in scope of consolidated companies« on page 135).

ONSITE ENERGY & COMPONENTS. The *Onsite Energy & Components (OE&C)* segment includes on the one hand business activities in onsite energy systems (Onsite Energy) based on diesel engines (OE Diesel Systems & Engines) and gas engines (OE Gas Power Systems), including the related after sales activities, and on the other hand components (Components) for engines (Injection Systems). In addition to parts of MTU Friedrichshafen GmbH, Friedrichshafen and parts of Tognum America Inc., Novi/USA, the segment also includes parts of MTU Reman Technologies GmbH, Magdeburg, parts of Tognum Asia Pte. Ltd., Singapore/Singapore and parts of MTU China Co. Ltd., Shanghai/China. MTU Engineering (Suzhou) Co. Ltd., Suzhou/China, is also assigned to this segment. The subsidiary companies MTU Onsite Energy Corp., Mankato/USA (distributed onsite energy systems based on diesel engines), MTU Onsite Energy GmbH, Augsburg (distributed onsite energy systems based on gas engines) and L'Orange GmbH, Stuttgart are also included in the *OE&C* segment. A new addition to the segment is MTU Onsite Energy Systems GmbH, Ruhstorf, which was included in the consolidated financial statements of Tognum AG for the first time as at 1 April 2012 (cf. section »Change in scope of consolidated companies« on page 135).

DISTRIBUTION. The third reporting segment of *Distribution* includes the sales companies represented in the regions of Europe and Asia/Pacific which are owned by the Group. These include MTU Australia Pty. Ltd., Kings Park/Australia, MTU Hong Kong Ltd., Hong Kong/China, MTU India Pvt. Ltd., Pune/India, PT MTU Indonesia, Jakarta/Indonesia, MTU Japan Co. Ltd., Tokyo/Japan, MTU Italia S.r.l., Arcola/Italy, MTU Benelux B.V., Dordrecht/Netherlands, MTU Ibérica Propulsión y Energía S.L., Coslada/Spain and MTU UK Ltd., East Grinstead/UK. MTU Motor Türbin Sanayi ve Ticaret A.Ş., Hadımköy/Turkey and MTU Motor Türbin Sanayi ve Ticaret A.Ş. Avrupa Serbest Bölge Şubesi, Çorlu/Turkey are also included in the *Distribution* segment.

INTERNAL CONTROL AND CALCULATION OF SEGMENT INFORMATION

The internal control and measurement of the performance of the individual segments takes place with the adjusted EBIT by the Executive Board of Tognum AG as the chief operating decision maker within the meaning of IFRS 8. In the view of the Executive Board of Tognum AG, the adjusted EBIT provides the most appropriate information for assessing the performance of the various segments.

The adjusted EBIT is calculated from the gross profit on sales, selling costs, general administrative costs, R&D costs, other operating profit, earnings on shares valued for at equity, other financial results, and from the adjustment effects on these profit or loss components.

The disclosures of segment investments and segment amortisation always result from allocating intangible assets and property, plant and equipment to the relevant segments. In the event that, in the production process of the *OE&C* segment, it becomes necessary to resort to assets originally allocated to the *Engines* segment, any amortisation attributable to this production will be included in the adjusted EBIT of the *OE&C* segment. In the 2012 financial year, amortisation amounting to 21.9 million euros (previous year: 20.9 million euros) was allocated to the *OE&C* segment.

The calculation of transfer prices for transactions within and between segments is based on market prices.

RECONCILIATION OF CONSOLIDATED FINANCIAL STATEMENTS

In the reconciliation statement, business activities and issues are presented that are not directly related to the reportable segments of the Tognum Group. The item »Corporate items« includes issues that are dealt with at the Group head offices. The consolidation of business relations between the segments is presented under »Reconciliation«. Adjustment effects amounting to 12.9 million euros (previous year: 57.8 million euros) relate to increased depreciation from acquisitions at 20.1 million euros (previous year: 34.4 million euros), exchange rate effects from the valuation of loan/currency holdings and hedging transactions amounting to 0.2 million euros (previous year: 18.1 million euros), in addition to effects resulting from the exit from the Onsite Energy Fuel Cell Systems business, which amount to –7.4 million euros (previous year: 5.3 million euros). The reconciliation statement also includes interest income and interest expenses that are not allocated to the segments of the Tognum Group and subsequently do not affect the control of the segments.

Income tax is also not included as an integral part of net income, since tax expenditure is only allocated to legal entities. In general, legal entities do not correspond to the structure of the segments.

INFORMATION ON GEOGRAPHIC SEGMENTS

Segment control is carried out by the Executive Board of Tognum AG on a global basis, with production facilities and customer relations on different continents. The allocation of revenues with external third parties in addition to non-current assets and investments in non-current assets can be shown according to the main regions of »Germany«, »Europe without Germany«, »North America«, »Asia/Pacific« and »Other countries«, as illustrated below. Not included in non-current assets are long-term financial instruments and deferred tax assets. The allocation of revenues takes place on the basis of the geographic location of our end customers (the physical place where our product will be used can deviate, however, from our customers' premises), the allocation of the asset and the investment is based on the geographic location of the assets.

INFORMATION ON VARIOUS PRODUCT GROUPS/KEY CUSTOMER RELATIONS

Of the external revenues of the *Distribution* segment, 382.2 million euros (previous year: 329.0 million euros) were attributable to products from the *Engines* segment and 142.4 million euros (previous year: 146.7 million euros) to products from the *Onsite Energy Systems & Components* segment.

In the 2012 financial year just ended, there were no sales revenues of at least 10% of the total sales revenues generated with any of our customers.

In the USA, revenues totalling 752.7 million euros (previous year: 692.0 million euros) were generated in the 2012 financial year, which represents around one quarter of Group revenues.

39 | Supplementary information to the statement of cash flows

In the statement of cash flows in accordance with IAS 7 »Statement of Cash Flows«, payment flows of a financial year are reported in order to present information on the movements of the company's cash and cash equivalents. A distinction is made between payment flows from operational activities and from investing and financing activities.

The cash funds considered in the statement of cash flows include all the cash and cash equivalents reported in the consolidated statement of financial position, such as cash funds, demand deposits and short-term (residual term of no more than approximately three months), extremely liquid financial investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Cash flow from operating activities is determined indirectly by correcting consolidated net profit or loss for changes in the balance of derivative financial instruments, stocks, accounts payable, trade liabilities and non-cash items, with all other items reporting the cash flows in areas of investment or financing. The calculation of cash flows from investing and financing activities is based on payments, with adjustments made for effects of currency translations and changes to the group of consolidated companies.

40 | Related party disclosures

RELATED PARTIES: BUSINESS UNDERTAKINGS

In accordance with IAS 24, Tognum AG is required to make disclosures relating to its business relations with subsidiaries, associated companies, joint ventures, companies with significant influence, members of the Executive Board and the Supervisory Board. Related parties controlled by the Tognum Group or on which the Tognum Group is able to exert a significant influence are listed in the list of shareholdings. The complete list of shareholdings of the Tognum Group as at 31 December 2012 is included in section 44 | »List of shareholdings of Tognum AG, Friedrichshafen«.

Subsidiaries included in the consolidated financial statement of Tognum AG in the course of full consolidation are included in section 2 | »Accounting and valuation methods« in the notes to the consolidated financial statements. Tognum AG maintains normal business relations with non-consolidated subsidiary companies resulting from transactions that take place in the ordinary course of business. The non-consolidated subsidiary companies are of no significance for the income, asset and financial position of the Tognum Group. Transactions conducted by group companies with joint ventures, associated companies and companies with significant influence are to be included without exception in the normal business activities of the company concerned in each case, and they took place under arm's length conditions.

Business transactions between companies included in the consolidated financial statements were eliminated in the course of consolidation and are therefore not included in this disclosure.

IN EUR MILLION	Transaction volume (1 Jan. – 31 Dec. 2011)		Transaction volume (1 Jan. – 31 Dec. 2012)	
	Volume of work performed	Volume of work received	Volume of work performed	Volume of work received
Subsidiaries	53.2	6.1	33.8	10.4
Associates and entities with joint control	73.3	1.9	69.9	1.3
Companies with significant influence	57.7	390.3	73.1	376.8
	184.2	398.3	176.8	388.5

IN EUR MILLION	Outstanding balances as at 31 Dec. 2011		Outstanding balances as at 31 Dec. 2012	
	Receivables	Payables	Receivables	Payables
Subsidiaries	16.9	0.2	9.7	0.1
Associates and entities with joint control	13.1	0.3	9.7	0.2
Companies with significant influence	11.9	91.3	12.0	69.7
	41.9	91.8	31.4	70.0

Business relations of the companies within the Tognum Group with miscellaneous related parties, both business undertakings and persons, in addition to joint venture and associated companies, result primarily from general business and trading carried on between the various parties. Related parties, in particular business undertakings that are controlled by the Tognum Group or on which a significant influence can be exerted by the Tognum Group, are presented in the list of shareholdings in section 44 | »List of shareholdings of Tognum AG, Friedrichshafen«.

Following the majority takeover of Tognum AG by Engine Holding GmbH, in addition to the companies of the Daimler Group, the companies of the Rolls-Royce Group have also been included as »Companies with significant influence«. The transaction volume arising from the business relations with the above companies and the resulting liabilities and receivables as at the balance sheet date are shown above under »Companies with significant influence«.

As part of its takeover offer that was published on 5 April 2011, Engine Holding GmbH announced that, if it made economic sense, it intended to conclude a Domination and Profit and Loss Transfer Agreement with Tognum AG. An extraordinary General Meeting of Tognum AG to approve such an agreement was held on 15 November 2012. The Domination and Profit and Loss Transfer Agreement came into effect with its entry in the Commercial Register on 19 December 2012. On the basis of the Domination and Profit and Loss Transfer Agreement, Tognum AG has a profit transfer obligation with respect to Engine Holding GmbH for the 2012 financial year amounting to 168.5 million euros. Tognum AG also made advance tax payments amounting to 46.8 million euros, which will be transferred as a result of the integrated tax group established with Engine Holding GmbH, Friedrichshafen and refunded by them in 2013.

RELATED PARTIES: PERSONS

Group companies have not concluded any reportable transactions with members of the Executive Board or the Supervisory Board of the Tognum Group, members of management in key positions or with companies in which these persons hold positions on the executive or supervisory boards. This also applies to close family members of this group of persons. For information relating to the acquisition or sale of shares by members of the Executive Board or Supervisory Board of Tognum AG, please refer to the corporate governance report which is part of the group management report.

Remuneration for members of management of the Tognum Group in key positions, which is subject to disclosure in accordance with IAS 24, includes remuneration for active members of the Executive Board and Supervisory Board. The composition of the Executive Board and Supervisory Board is included in section 41 | »Executive Bodies« in the notes to the consolidated financial statements.

Any remuneration paid to the employee representatives on the Supervisory Board for work performed outside the scope of their Supervisory Board activities was at the usual market rate.

The remuneration for members of the Executive Board of Tognum AG was as follows:

IN EUR MILLION	1 Jan. - 31 Dec. 2011	1 Jan - 31 Dec. 2012
Short-term benefits	4.5	3.0
thereof fixed remuneration	2.4	1.9
thereof success-related remuneration	2.1	1.1
Long-term benefits (share-based remuneration)	1.8	0.9
Post-employment benefits	0.8	0.8
thereof current service costs resulting from the increase in provisions for pensions	0.8	0.8
	7.1	4.7

Short-term benefits primarily include salaries and performance-related remuneration. Post-employment benefits include the service cost for pension obligations considered in the financial year.

The total remuneration paid to former members of the Executive Board of Tognum AG who terminated their service contracts prior to 2012 amounted to 1,008,188 euros in the 2012 financial year (previous year: 507,016 euros). Provisions for retirement pension commitments to these former members of the Executive Board as at 31 December 2012 amounted to 11,136,939 euros (previous year: 4,093,485 euros), while provisions for the LTIC programme as at 31 December 2012 amounted to 2,190,219 euros (previous year: 630,064 euros).

As a result of his position on the Executive Board coming to a premature end on 29 February 2012 following the termination of his service contract, Peter Kneipp received a one-time payment of 600,000 euros (gross). With the exception of pension entitlements, this resulted in any entitlement to remuneration based on the service contract being cancelled. Since the variable remuneration for the 2011 financial year amounting to 245,200 euros and the entitlement allocated from the LTIC programme up to and including 2011 amounted to 35,048 euros (not including LTIC allocations from his employment prior to his appointment to the Executive Board), this results in a net severance payment of 319,752 euros.

In the 2012 financial year just ended, the Supervisory Board members received a total remuneration of 0.9 million euros (previous year: 1.2 million euros).

The remuneration report, which is an integral part of the group management report, summarises the basic principles that apply in determining the remuneration of the Executive Board of Tognum AG, and explains the amount and structure of the earnings of the Executive Board members. The basic principles and amount of remuneration for the Supervisory Board are also described. The remuneration report is guided by the recommendations of the German Corporate Governance Code and includes disclosures that, in accordance with the requirements of German commercial law, form part of the group management report in accordance with Section 315(2)(4) of the German Commercial Code (HGB).

41 | Executive Bodies

MEMBERS OF THE EXECUTIVE BOARD

Effective 29 February 2012, by mutual agreement Peter Kneipp resigned his position on the Executive Board of Tognum AG. Effective 1 July 2012, Dr. Michael Haidinger, as the new member of the Executive Board of Tognum AG, has taken on responsibility for the »Business Units Engines & Onsite Energy, in addition to the global distribution and service business«. Jörg Schwitalla has been a member of the Executive Board since 1 January 2013 with responsibility for the »Personnel & Integrity« division.

The composition of the Executive Board of Tognum AG is thus as follows:

JOACHIM COERS

Chairman of the Executive Board – Chief Executive Officer (CEO)
 Chairman of the Board of MTU Friedrichshafen GmbH, Friedrichshafen
 Member of the Supervisory Board of Tognum America Inc., Detroit/USA
 Member of the Supervisory Board of MTU Detroit Diesel Australia Pty. Ltd., Chipping Norton/Australia (until 31 December 2012)
 Member of the Advisory Board of IFA-Rotorion Holding GmbH, Haldensleben (until 18 December 2012)

DR.-ING. ULRICH DOHLE

Deputy Chairman of the Executive Board
 »Technology & Operations« Division
 Deputy Chairman of the Board of MTU Friedrichshafen GmbH, Friedrichshafen
 Member of the Supervisory Board of Tognum America Inc., Detroit/USA
 Member of the Supervisory Board of Chassis Brakes International, Drancy/France

DR. MICHAEL HAIDINGER

»Engines & Onsite Energy, Global Distribution and Service Business« Division
 Member of the Board of MTU Friedrichshafen GmbH, Friedrichshafen
 Director of Rolls-Royce General Partner Ltd., Derby/Great Britain

DIETER ROYAL

»Corporate Services« Division – Chief Financial Officer (CFO)
 Member of the Board of MTU Friedrichshafen GmbH, Friedrichshafen
 Member of the Supervisory Board of MTU Australia Pty. Ltd., Kings Park/Australia
 Member of the Supervisory Board of MTU Detroit Diesel Australia Pty. Ltd., Chipping Norton/Australia
 Member of the Supervisory Board of Tognum Asia Pte. Ltd., Singapore/Singapore
 Member of the Supervisory Board of MTU China Co. Ltd., Shanghai/China
 Member of the Supervisory Board of MTU Engineering (Suzhou) Co. Ltd., Suzhou/China
 Member of the Supervisory Board of MTU Onsite Energy Corp., Mankato/USA
 Member of the Advisory Board of IFA-Rotorion Holding GmbH, Haldensleben (until 18 December 2012)

JÖRG SCHWITALLA

»Personnel & Integrity« Division
 Member of the Advisory Board of MTU Friedrichshafen GmbH, Friedrichshafen

MEMBERS OF THE SUPERVISORY BOARD

During the Annual General Meeting of Tognum AG held on 5 June 2012, Axel Arendt, Stefan Buchner, Andrew Heath and John Paterson were elected as members of the Supervisory Board.

The Supervisory Board of Tognum AG is thus composed of the following members:

ANDREAS RENSCHLER (Chairman)

Member of the Management Board of Daimler AG, Stuttgart
Chairman of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen
Chairman of the Supervisory Board of EvoBus GmbH, Kirchheim unter Teck
Member of the Supervisory Board of Daimler Financial Services AG, Stuttgart
Member of the Supervisory Board of Mitsubishi Fuso Truck and Bus Corporation, Kawasaki/Japan
Member of the Supervisory Board of Deutsche Messe AG, Hanover
Member of the Economic Advisory Board of the Bayerische Landesbank, Munich

AXEL ARENDT

Dipl.-Ing./Graduate industrial engineer (FH)
Self-employed business consultant
Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen
Member of the Supervisory Board of Demag Cranes AG, Düsseldorf
Member of the Advisory Board of Aerotech Peissenberg GmbH & Co. KG, Peissenberg
Member of the Advisory Board of Bilfinger Berger Industrial Services GmbH, Munich
Member of the Advisory Board of Tital GmbH, Bestwig

ANDREAS BEMERL*

Economist (VWA)
Commercial clerk (Corporate Controlling Engines), Tognum AG, Friedrichshafen
Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen
Member of the Regional Board of Christliche Gewerkschaft Metall (CGM)
Chairman of the Advisory Board of Jean-Raebel-Stiftung, Friedrichshafen

FRANZ BENZ*

Full-time member of the works council, MTU Friedrichshafen GmbH, Friedrichshafen
Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen
Chairman of the Regional Board of Christliche Gewerkschaft Metall (CGM)

HEINZ BRECHTEL*

Dipl.-Ing./graduate engineer (FH)
Commercial clerk (Specialist for Health & Social Services), Tognum AG, Friedrichshafen
Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen

STEFAN BUCHNER

Dipl.-Wirtschaftsingenieur/graduate industrial engineer (FH)
Head of Mercedes-Benz Trucks, Daimler AG, Stuttgart
Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen
Member of the Supervisory Board of EvoBus GmbH, Kirchheim unter Teck
Member of the Supervisory Board of Axle Alliance Company LLC, Detroit/USA
Member of the Supervisory Board of Daimler India Commercial Vehicles Private Ltd., Chennai/India
Member of the Supervisory Board of Daimler Trucks North America LLC, Portland/USA
Member of the Supervisory Board of Mitsubishi Fuso Truck and Bus Corporation, Kawasaki/Japan

ANDREW HEATH

BSC & MBA

President, Energy Business Rolls-Royce UK

Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen

Non-Executive Director of Rolls Wood Group Ltd., Aberdeen/Great Britain

Member of the Board of Rolls-Royce Fuel Cell Systems Ltd., Loughborough/Great Britain

DR. EDGAR KRÖKEL

Dipl.-Kaufmann/degree in Business Administration

Vice President Mergers & Acquisitions and Corporate Real Estate of Daimler AG, Stuttgart

Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen

Chairman of the Executive Board of Daimler Luft- und Raumfahrt Holding AG, Ottobrunn

Member of the Supervisory Board of Daimler North East Asia Ltd., Beijing/China

Member of the Supervisory Board of National Automobile Industry Company Ltd., Jeddah/Saudi Arabia

Chairman of the Advisory Board of Daimler Verwaltungsgesellschaft für Grundbesitz mbH, Schönefeld

Member of the Advisory Board of Toll Collect GmbH, Berlin

PATRICK MÜLLER* (Deputy Chairman)

Head of Health & Social Services/HR Organisation, Tognum AG, Friedrichshafen

Deputy Chairman of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen

Managing Director of Karl Maybach-Hilfe GmbH, Friedrichshafen

DR. JUTTA NÜBEL*

PhD with specialisation in Linguistics and Computer Science

Head of Technical Information Department, MTU Friedrichshafen GmbH, Friedrichshafen

Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen

JOHN PATERSON

BA (Hons) in Engineering Science

President – Marine & Industrial Power Systems at Rolls-Royce

Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen

Chairman of the Board of Rolls-Royce Singapore Pte. Ltd., Singapore/Singapore

LILO RADEMACHER*

Executive Secretary and Second Delegate of German Metalworkers Union (IG Metall) Friedrichshafen-Oberschwaben

Member of the Supervisory Board of ZF Friedrichshafen AG, Friedrichshafen

Member of the Supervisory Board of EADS Astrium GmbH, Friedrichshafen

* Employee representative

An Executive Committee, a Mediation Committee, an Audit Committee and a Nominations Committee were set up within the Supervisory Board.

The Executive and Mediation Committees are composed of Patrick Müller, John Paterson, Lilo Rademacher and Andreas Renschler. The chairman in each case is Andreas Renschler and deputy chairman Patrick Müller.

The Audit Committee is composed of Dr. Edgar Krökel (chairman), Heinz Brechtel (deputy chairman), Axel Arendt and Patrick Müller.

The Nominations Committee consists of John Paterson (chairman) and Andreas Renschler.

42 | Declaration of Compliance

The declaration, which is required in accordance with Section 161 of the German Stock Corporation Act, has been issued and is available for download on the company's website at www.tognum.com.

43 | Notification of voting rights in accordance with the German Securities Trading Act (WpHG)

In a letter dated 14 November 2007, ING Groep N.V., with registered offices in 1081 KL Amsterdam/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 5% on 24 October 2007 and on this date amounted to 5.02% (this corresponds to 6,590,983 voting rights). Of these votes, its share of 5.02% (6,590,983 voting rights) was to be attributed in accordance with Section 22(1)(1)(1) and Section 22(2) of the German Securities Trading Act. Attributed voting rights were held by the following companies controlled by it, whose share of voting rights in Tognum AG in each case amounted to 3% or more:

- Nationale Nederlanden Levensverzekering Maatschappij N.V.
- Nationale-Nederlanden Nederland B.V.
- ING SFE B.V.
- ING Verzekeringen Nederland N.V.
- ING Verzekeringen N.V.

On 25 July 2008, Daimler AG, Stuttgart/Germany notified us in accordance with Section 21(1) of the German Securities Trading Act that the share of voting rights of Daimler Vermögens- und Beteiligungsgesellschaft mbH, Stuttgart/Germany in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 25% on 23 July 2008 and now amounted to 25.00000076% (this corresponds to 32843751 voting rights). On 25 July 2008, Daimler AG, Stuttgart/Germany also notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 25% on 23 July 2008 and now amounted to 25.00000076% (this corresponds to 32,843,751 voting rights). All voting rights in Tognum AG from shares that were held by Daimler Vermögens- und Beteiligungsgesellschaft mbH, Stuttgart/Germany, which is controlled by Daimler AG, were attributed to Daimler AG, Stuttgart/Germany in accordance with Section 22(1)(1)(1) of the German Securities Trading Act.

The following voting rights announcement was published in English:

On 25 February 2009, Arnhold and S. Bleichroeder Holdings, Inc., New York/USA informed us according to Section 21 (1) of the WpHG that, via shares, its voting rights on Tognum AG, Friedrichshafen/Deutschland, ISIN: DE000A0N4P43, WKN: A0N4P4 have exceeded the 3% limit of the voting rights on 24 February 2009 and amount to 3.08% (this corresponds to 4,045,130 voting rights) on this date. All of these voting rights (this corresponds to 4,045,130 voting rights) are attributed to Arnhold and S. Bleichroeder Holdings, Inc. according to Section 22 (1) (1) (6) in connection with Section 22 (2) WpHG.

The following voting rights announcement was published in English:

BlackRock, Inc., New York, USA has notified us pursuant to section 21 (1) WpHG that its percentage of voting rights in our company exceeded the threshold of 3% on October 5, 2010 and amounts to 3.006% (3949203 voting rights) as per this date. Of these voting rights, 3.006% (3949203 voting rights) are to be attributed to BlackRock, Inc. pursuant to section 22 (1) sentence 1 no. 6 WpHG in connection with sentence 2 WpHG.

The following voting rights announcement was published in English:

On March 8, 2011 ING SFE B.V., Rotterdam, Nederland has notified us pursuant to section 21 (1) WpHG that its percentage of voting rights in our company falling below the thresholds of 5% and 3% on December 31, 2007 and amounts to 0,00% (0,00 voting rights) as per this date.

The following voting rights announcement was published in English:

On March 22, 2011 BlackRock, Inc., New York, U.S.A. has notified us pursuant to section 21 (1) WpHG that its percentage of voting rights in our company fell below the threshold of 3% on March 11, 2011 and amounts to 2.87% (3774159 voting rights) as per this date. Of these voting rights, 2.87% (3774159 voting rights) are to be attributed to BlackRock, Inc. pursuant to section 22 (1) sentence 1 no. 6 WpHG in connection with sentence 2 WpHG.

On 11 July 2011, Daimler AG, Stuttgart/Germany notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 30% on 11 July 2011 and on this date amounted to 30.05% (this corresponds to 39,484,376 voting rights).

Of these votes, 29.95% (39,343,751 voting rights) were to be attributed to Daimler AG, Stuttgart/Germany in accordance with Section 22(1)(1)(1) of the German Securities Trading Act and 0.11% (140,625 voting rights) in accordance with Section 22(1)(1)(2) in conjunction with Section 22(1)(2) of the German Securities Trading Act. Voting rights attributed to Daimler AG, Stuttgart/Germany in accordance with Section 22(1)(1)(1) of the German Securities Trading Act were held among others by Daimler Vermögens- und Beteiligungsgesellschaft mbH, Stuttgart/Germany which is controlled by Daimler AG and whose share of voting rights in Tognum AG amounted to 3% or more.

1. On 11 August 2011, Engine Holding GmbH, Stuttgart/Germany notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 3% on 11 August 2011 and on this date amounted to 4.10% (this corresponds to 5,390,821 voting rights).

2. On 11 August 2011, Vinters International Ltd., Derby/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 3% on 11 August 2011 and on this date amounted to 4.10% (this corresponds to 5,390,821 voting rights).

Of this amount, its share of 4.10% (5390821 voting rights) was to be attributed in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

3. On 11 August 2011, Vinters Engineering plc, Derby/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 3% on 11 August 2011 and on this date amounted to 4.10% (this corresponds to 5,390,821 voting rights).

Of this amount, its share of 4.10% (5390821 voting rights) was to be attributed in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Vinters International Ltd., Engine Holding GmbH.

4. On 11 August 2011, Vinters plc, Derby/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 3% on 11 August 2011 and on this date amounted to 4.10% (this corresponds to 5,390,821 voting rights).

Of this amount, its share of 4.10% (5,390,821 voting rights) was to be attributed in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

5. On 11 August 2011, Rolls-Royce plc, London/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 3% on 11 August 2011 and on this date amounted to 4.10% (this corresponds to 5,390,821 voting rights).

Of this amount, its share of 4.10% (5,390,821 voting rights) was to be attributed in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following companies controlled by it, whose share of voting rights in Tognum AG in each case amounted to 3% or more: Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

6. On 11 August 2011, Rolls-Royce Group plc, London/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/ Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 3% on 11 August 2011 and on this date amounted to 4.10% (this corresponds to 5,390,821 voting rights).

Of this amount, its share of 4.10% (5,390,821 voting rights) was to be attributed in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following companies controlled by it, whose share of voting rights in Tognum AG in each case amounted to 3% or more: Rolls-Royce plc, Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

7. On 11 August 2011, Rolls-Royce Holdings plc, London/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the threshold of 3% on 11 August 2011 and on this date amounted to 4.10% (this corresponds to 5,390,821 voting rights).

Of this amount, its share of 4.10% (5,390,821 voting rights) was to be attributed in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following companies controlled by it, whose share of voting rights in Tognum AG in each case amounted to 3% or more: Rolls-Royce Group plc, Rolls-Royce plc, Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

1. On 7 September 2011, Engine Holding GmbH, Stuttgart/Germany notified us in accordance with Section 25(1) of the German Securities Trading Act that its share of the voting rights, by the addition of its voting rights in accordance with Section 21 of the German Securities Trading Act and of voting rights that could be acquired unilaterally based on a directly held financial instrument on 7 September 2011, had exceeded the threshold of 5% on 2 September 2011 and on this date amounted to a total of 5.05% (6,640,821 voting rights).

Of this amount, the share of the voting rights that had been acquired based on the financial instrument amounted to 0.95% (1,250,000 voting rights), and the share of the voting rights in accordance with Section 21 of the German Securities Trading Act amounted to 4.10% (5,390,821 voting rights).

2. On 7 September 2011, Vinters International Ltd., Derby/Great Britain notified us in accordance with Section 25(1) of the German Securities Trading Act that its share of the voting rights, by the addition of its

voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act and of voting rights that could be acquired unilaterally based on a directly held financial instrument on 7 September 2011, had exceeded the threshold of 5% on 2 September 2011 and on this date amounted to a total of 5.05% (6,640,821 voting rights).

Of this amount, the share of the voting rights that had been acquired based on the financial instrument amounted to 0.95% (1,250,000 voting rights), and the share of the voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act amounted to 4.10% (5,390,821 voting rights).

Its indirectly held financial instrument is held by the following company controlled by it: Engine Holding GmbH.

3. On 7 September 2011, Vinters Engineering plc, Derby/Great Britain notified us in accordance with Section 25(1) of the German Securities Trading Act that its share of the voting rights, by the addition of its voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act and of voting rights that could be acquired unilaterally based on a directly held financial instrument on 7 September 2011, had exceeded the threshold of 5% on 2 September 2011 and on this date amounted to a total of 5.05% (6,640,821 voting rights).

Of this amount, the share of the voting rights that had been acquired based on the financial instrument amounted to 0.95% (1,250,000 voting rights), and the share of the voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act amounted to 4.10% (5,390,821 voting rights).

Its indirectly held financial instrument is held by the following companies controlled by it: Vinters International Ltd., Engine Holding GmbH.

4. On 7 September 2011, Vinters plc, Derby/Great Britain notified us in accordance with Section 25(1) of the German Securities Trading Act that its share of the voting rights, by the addition of its voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act and of voting rights that could be acquired unilaterally based on a directly held financial instrument on 7 September 2011, had exceeded the threshold of 5% on 2 September 2011 and on this date amounted to a total of 5.05% (6,640,821 voting rights).

Of this amount, the share of the voting rights that had been acquired based on the financial instrument amounted to 0.95% (1,250,000 voting rights), and the share of the voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act amounted to 4.10% (5,390,821 voting rights).

Its indirectly held financial instrument is held by the following companies controlled by it: Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

5. On 7 September 2011, Rolls-Royce plc, London/Great Britain notified us in accordance with Section 25(1) of the German Securities Trading Act that its share of the voting rights, by the addition of its voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act and of voting rights that could be acquired unilaterally based on a directly held financial instrument on 7 September 2011, had exceeded the threshold of 5% on 2 September 2011 and on this date amounted to a total of 5.05% (6,640,821 voting rights).

Of this amount, the share of the voting rights that had been acquired based on the financial instrument amounted to 0.95% (1,250,000 voting rights), and the share of the voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act amounted to 4.10% (5,390,821 voting rights).

Its indirectly held financial instrument is held by the following companies controlled by it: Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

6. On 7 September 2011, Rolls-Royce Group plc, London/Great Britain notified us in accordance with Section 25(1) of the German Securities Trading Act that its share of the voting rights, by the addition of its voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act and of voting rights that could be acquired unilaterally based on a directly held financial instrument on 7 September 2011, had exceeded the threshold of 5% on 2 September 2011 and on this date amounted to a total of 5.05% (6,640,821 voting rights).

Of this amount, the share of the voting rights that had been acquired based on the financial instrument amounted to 0.95% (1,250,000 voting rights), and the share of the voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act amounted to 4.10% (5,390,821 voting rights).

Its indirectly held financial instrument is held by the following companies controlled by it: Rolls-Royce plc, Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

7. On 7 September 2011, Rolls-Royce Holdings plc, London/Great Britain notified us in accordance with Section 25(1) of the German Securities Trading Act that its share of the voting rights, by the addition of its voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act and of voting rights that had been acquired unilaterally based on a directly held financial instrument on 7 September 2011, had exceeded the threshold of 5% on 2 September 2011 and on this date amounted to a total of 5.05% (6,640,821 voting rights).

Of this amount, the share of the voting rights that had been acquired based on the financial instrument amounted to 0.95% (1,250,000 voting rights), and the share of the voting rights in accordance with Sections 21 and 22 of the German Securities Trading Act amounted to 4.10% (5,390,821 voting rights).

Its indirectly held financial instrument is held by the following companies controlled by it: Rolls-Royce Group plc, Rolls-Royce plc, Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

1. Engine Holding GmbH, Stuttgart/Germany notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 7 September 2011 and on this date amounted to 97.71% (this corresponds to 128,361,297 voting rights).

Of this amount, a share of the voting rights amounting to 0.95% (corresponding to 1,250,000 voting rights) had been acquired by exercising a right granted by a financial instrument to acquire shares in accordance with Section 25(1)(1) of the German Securities Trading Act.

2. Daimler AG, Stuttgart/Germany notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the thresholds of 50% and 75% on 7 September 2011 and on this date amounted to 97.71% (this corresponds to 128,361,297 voting rights).

Of this amount, a share of the voting rights amounting to 0.95% (corresponding to 1,250,000 voting rights) had been acquired by exercising a right granted by a financial instrument to acquire shares in accordance with Section 25(1)(1) of the German Securities Trading Act.

All voting rights were attributed to Daimler AG in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

All voting rights were additionally attributed to Daimler AG in accordance with Section 22(2) of the German Securities Trading Act. In this case, voting rights were attributed to Daimler AG by the following

shareholders, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

3. Daimler AG, Stuttgart/Germany as the parent company of Daimler Vermögens- und Beteiligungsgesellschaft mbH, Stuttgart/Germany notified us in accordance with Section 21(1) of the German Securities Trading Act in conjunction with Section 24 of the German Securities Trading Act that the share of voting rights of Daimler Vermögens- und Beteiligungsgesellschaft mbH in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 25%, 20%, 15%, 10%, 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

4. Vinters International Ltd., Derby/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 7 September 2011 and on this date amounted to 97.71% (this corresponds to 128,361,297 voting rights).

Of this amount, a share of the voting rights amounting to 0.95% (corresponding to 1,250,000 voting rights) had been acquired by exercising a right granted by a financial instrument to acquire shares in accordance with Section 25(1)(1) of the German Securities Trading Act.

All voting rights were attributed to Vinters International Ltd. in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

All voting rights were additionally attributed to Vinters International Ltd. in accordance with Section 22(2) of the German Securities Trading Act. In this case, voting rights were attributed to Vinters International Ltd. by the following shareholders, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

5. Vinters Engineering plc, Derby/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 7 September 2011 and on this date amounted to 97.71% (this corresponds to 128,361,297 voting rights).

Of this amount, a share of the voting rights amounting to 0.95% (corresponding to 1,250,000 voting rights) had been acquired by exercising a right granted by a financial instrument to acquire shares in accordance with Section 25(1)(1) of the German Securities Trading Act.

All voting rights were attributed to Vinters Engineering plc in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Vinters International Ltd., Engine Holding GmbH.

All voting rights were additionally attributed to Vinters Engineering plc in accordance with Section 22(2) of the German Securities Trading Act. In this case, voting rights were attributed to Vinters Engineering plc by the following shareholders, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

6. Vinters plc, Derby/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 7 September 2011 and on this date amounted to 97.71% (this corresponds to 128,361,297 voting rights).

Of this amount, a share of the voting rights amounting to 0.95% (corresponding to 1,250,000 voting rights) had been acquired by exercising a right granted by a financial instrument to acquire shares in accordance with Section 25(1)(1) of the German Securities Trading Act.

All voting rights were attributed to Vinters plc in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

All voting rights were additionally attributed to Vinters plc in accordance with Section 22(2) of the German Securities Trading Act. In this case, voting rights were attributed to Vinters plc by the following shareholders, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

7. Rolls-Royce plc, London/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 7 September 2011 and on this date amounted to 97.71% (this corresponds to 128,361,297 voting rights).

Of this amount, a share of the voting rights amounting to 0.95% (corresponding to 1,250,000 voting rights) had been acquired by exercising a right granted by a financial instrument to acquire shares in accordance with Section 25(1)(1) of the German Securities Trading Act.

All voting rights were attributed to Rolls-Royce plc in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

All voting rights were additionally attributed to Rolls-Royce plc in accordance with Section 22(2)(1)(1) of the German Securities Trading Act. In this case, voting rights were attributed to Rolls-Royce plc by the following shareholders, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

8. Rolls-Royce Group plc, London/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 7 September 2011 and on this date amounted to 97.71% (this corresponds to 128,361,297 voting rights).

Of this amount, a share of the voting rights amounting to 0.95% (corresponding to 1,250,000 voting rights) had been acquired by exercising a right granted by a financial instrument to acquire shares in accordance with Section 25(1)(1) of the German Securities Trading Act.

All voting rights were attributed to Rolls-Royce Group plc in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Rolls-Royce plc, Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

All voting rights were additionally attributed to Rolls-Royce Group plc in accordance with Section 22(2) of the German Securities Trading Act. In this case, voting rights were attributed to Rolls-Royce Group plc by the following shareholders, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

9. Rolls-Royce Holdings plc, London/Great Britain notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 7 September 2011 and on this date amounted to 97.71% (this corresponds to 128,361,297 voting rights).

Of this amount, a share of the voting rights amounting to 0.95% (corresponding to 1,250,000 voting rights) had been acquired by exercising a right granted by a financial instrument to acquire shares in accordance with Section 25(1)(1) of the German Securities Trading Act.

All voting rights were attributed to Rolls-Royce Holdings plc in accordance with Section 22(1)(1)(1) of the German Securities Trading Act. Attributed voting rights were held by the following company controlled by it, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Rolls-Royce Group plc, Rolls-Royce plc, Vinters plc, Vinters Engineering plc, Vinters International Ltd., Engine Holding GmbH.

All voting rights were additionally attributed to Rolls-Royce Holdings plc in accordance with Section 22(2) of the German Securities Trading Act. In this case, voting rights were attributed to Rolls-Royce Holdings plc by the following shareholders, whose share of the voting rights in Tognum AG in each case amounted to 3% or more: Engine Holding GmbH.

1. ING Groep N.V., with registered offices in Amsterdam/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

2. ING Verzekeringen N.V., with registered offices in Amsterdam/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

3. Nationale-Nederlanden Nederland B.V., with registered offices in 'S-Gravenhage (Den Haag)/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

4. RVS Levensverzekering N.V., with registered offices in Ede/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

5. RVS Schadeverzekering N.V., with registered offices in Ede/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

6. ING Schadeverzekering Retail N.V. (formerly Postbank Schadeverzekering N.V.), with registered offices in Amsterdam/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

7. Nationale-Nederlanden Levensverzekering Maatschappij N.V., with registered offices in Rotterdam/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

8. Nationale-Nederlanden Schadeverzekering Maatschappij N.V., with registered offices in Den Haag/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

9. ING Levensverzekering Retail N.V. (formerly Postbank Levensverzekering N.V.), with registered offices in Amsterdam/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

10. Movir N.V., with registered offices in Nieuwegein/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

11. ING Re Holding (Netherlands) B.V., with registered offices in Amsterdam/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

12. ING Re (Netherlands) N.V., with registered offices in Den Haag/Netherlands, notified us in accordance with Section 21(1) of the German Securities Trading Act that its share of voting rights in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the thresholds of 5% and 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

1. Arnhold and S. Bleichroeder Holdings Inc., New York/USA notified us in accordance with Section 21(1) of the German Securities Trading Act that its voting right in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the threshold of 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

2. First Eagle Investment Management LLC, New York/USA notified us in accordance with Section 21(1) of the German Securities Trading Act that its voting right in Tognum AG, Friedrichshafen/Germany, ISIN: DE000A0N4P43, WKN: A0N4P4 had fallen below the threshold of 3% on 7 September 2011 and on this date amounted to 0.00% (this corresponds to 0 voting rights).

The following voting rights announcement was published in English:

BlackRock Financial Management, Inc., New York, NY, U.S.A. has notified us pursuant to section 21 (1) WpHG that its percentage of voting rights in our company exceeding the threshold of 3% on October 19, 2010 and amounts to 3.03% (3977502 voting rights) as per this date. Of these voting rights, 3.03% (3977502 voting rights) are to be attributed to BlackRock Financial Management, Inc. pursuant to section 22 (1) sentence 1 no. 6 WpHG in connection with sentence 2 WpHG.

BlackRock Holdco 2, Inc., Wilmington, DE, U.S.A. has notified us pursuant to section 21 (1) WpHG that its percentage of voting rights in our company exceeding the threshold of 3% on October 19, 2010 and amounts to 3.03% (3977502 voting rights) as per this date. Of these voting rights, 3.03% (3977502 voting rights) are to be attributed to BlackRock Holdco 2, Inc. pursuant to section 22 (1) sentence 1 no. 6 WpHG in connection with sentence 2 WpHG.

BlackRock Financial Management, Inc., New York, NY, U.S.A. has notified us pursuant to section 21 (1) WpHG that its percentage of voting rights in our company fell below the threshold of 3% on March 11, 2011 and amounts to 2.85% (3739474 voting rights) as per this date. Of these voting rights, 2.85% (3739474 voting rights) are to be attributed to BlackRock Financial Management, Inc. pursuant to section 22 (1) sentence 1 no. 6 WpHG in connection with sentence 2 WpHG.

BlackRock Holdco 2, Inc., Wilmington, DE, U.S.A. has notified us pursuant to section 21 (1) WpHG that its percentage of voting rights in our company fell below the threshold of 3% on March 11, 2011 and amounts to 2.85% (3739474 voting rights) as per this date. Of these voting rights, 2.85% (3739474 voting rights) are to be attributed to BlackRock Holdco 2, Inc. pursuant to section 22 (1) sentence 1 no. 6 WpHG in connection with sentence 2 WpHG.

44 | List of shareholdings of Tognum AG, Friedrichshafen

NAME AND DOMICILE OF COMPANY DIRECT/INDIRECT SHAREHOLDING:	Holding in %	Note	Shareholders'	Note 1)	Result in	Note 1)
			equity in EUR thousand		EUR thousand	
MTU Friedrichshafen GmbH, Friedrichshafen	100		205,174		0	3)
MTU Australia Pty. Ltd., Kings Park/Australia	100		26,850		3,155	
MTU Detroit Diesel Australia Pty. Ltd., Chipping Norton/Australia	50		52,216	2)	-2,367	2)
Tognum Asia Pte. Ltd., Singapore/Singapore	100		126,483		23,321	
MTU Hong Kong Ltd., Hong Kong/China	100		23,422		7,087	
MTU Engineering (Suzhou) Co. Ltd., Suzhou/China	100		20,553		3,165	
MTU India Pvt. Ltd., Pune/India	100		2,963		287	
PT MTU Indonesia, Jakarta/Indonesia	100		10,437		2,159	
MTU Japan Co. Ltd., Tokyo/Japan	100		6,182		1,199	
MTU China Co. Ltd., Shanghai/China	100		1,022		263	
Shanxi North MTU Diesel Co. Ltd., Datong/China	49		23,869		1,833	
L'Orange GmbH, Stuttgart	100		9,799		0	4)
L'Orange Fuel Injection Trading (Suzhou) Co. Ltd., Suzhou/China	100		682	2)	134	2)
MTU Anlagenvermietung GmbH, Friedrichshafen	100		7,822		0	4)
MTU Onsite Energy GmbH, Augsburg	100		5,080		0	4)
MTU Italia S.r.l., Arcola/Italy	100		19,872		1,938	
MTU Benelux B.V., Dordrecht/Netherlands	100		15,177		4,008	
MTU do Brasil Ltda., São Paulo/Brazil	100		13,777	2)	-4,088	2)
Tognum America Inc., Detroit/USA	100		272,221		45,597	
MTU Onsite Energy Corp., Mankato/USA	100		48,966		1,949	
Karl Maybach-Hilfe GmbH (aid fund), Friedrichshafen	100		7,225		0	
MTU France SAS, Beauchamp/France	100		4,043	2)	88	2)
MTU Israel Ltd., Nathanya/Israel	100		583	2)	44	2)
MTU Motor Türbin Sanayi ve Ticaret A.Ş., Hadımköy/Turkey	100		28,956		1,260	
MTU Motor Türbin Sanayi ve Ticaret A.Ş. Avrupa Serbest Bölge Şubesi, Çorlu/Turkey	100		7,667		5,593	
MTU Reman Technologies GmbH, Magdeburg	100		11,783		1,177	5)
Envirovent AG, Tägerwilen/Switzerland	100		393	2)	0	2)
MTU Polska Sp. z o.o., Warsaw/Poland	100		31,507		-1,585	
MTU South Africa Pty. Ltd., Cape Town/South Africa	100		9,519	2)	2,332	2)
Prokura Diesel Services Pty. Ltd., Cape Town/South Africa	49		31	2)	1	2)
MTU UK Ltd., East Grinstead/Great Britain	100		4,157		-1,384	
MTU Ibérica Propulsión y Energía S.L., Coslada/Spain	100		-8,217		-648	
MTU Onsite Energy Systems GmbH, Ruhstorf	75		5,575	2)	-1,141	2)

1) 2012 figures

2) 2011 figures

3) PTA with Tognum AG

4) PTA with MTU Friedrichshafen GmbH

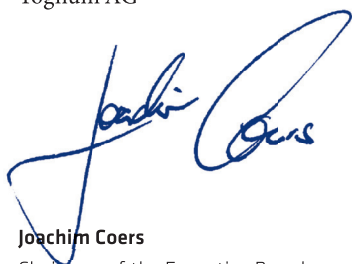
5) PTA with MTU Friedrichshafen GmbH, but offsetting of pre-consolidation losses in accordance with Section 301 of the German Stock Corporation Act (AktG)

45 | Events after the balance sheet date

Jörg Schwitalla has been the new member of the Executive Board since 1 January 2013 with responsibility for the »Personnel & Integrity« division at Tognum AG.

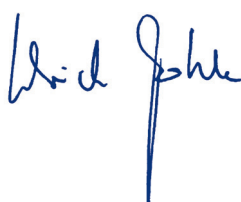
Friedrichshafen, 13 February 2013

Tognum AG



Joachim Coers

Chairman of the Executive Board
Chief Executive Officer (CEO)



Dr.-Ing. Ulrich Dohle

Member of the Executive Board
»Technology & Operations« Division



Dr. Michael Haidinger

Member of the Executive Board
»Business Units Engines & Onsite Energy,
Global Distribution and Service Business« Division



Dieter Royal

Member of the Executive Board
»Corporate Services« Division (CFO)



Jörg Schwitalla

Member of the Executive Board
»Personnel & Integrity« Division

Responsibility Statement

»To the best of our knowledge, and in accordance with the applicable accounting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the company, and the combined management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.«

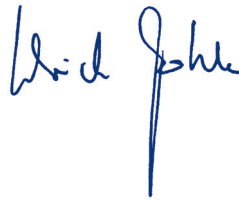
Friedrichshafen, 13 February 2013

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Dieter Royal

Member of the Executive Board
»Corporate Services« Division (CFO)



Jörg Schwitalla

Member of the Executive Board
»Personnel & Integrity« Division

Auditor's Report

»We have audited the consolidated financial statements prepared by Tognum AG, Friedrichshafen, comprising of the consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of financial position, consolidated statement of changes in equity, the notes, together with its report on the position of the company and the Group for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and group management report in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch »German Commercial Code«) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch »German Commercial Code«) 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 group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, 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 requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.«

Stuttgart, 13 February 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Dauner
Wirtschaftsprüfer
(German Public Auditor)

Mokler
Wirtschaftsprüfer
(German Public Auditor)

Figures at a glance 2011 – 2012¹

IN EUR MILLION ²	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1-Q4 2011
Tognum Group					
Order intake	817.9	833.1	731.3	817.5	3,199.7
Revenues	661.4	677.5	718.8	914.4	2,972.1
Cost of Sales	-468.2	-462.7	-536.8	-681.9	-2,149.6
= Gross Profit	193.2	214.9	182.0	232.5	822.5
Selling and general administrative costs	-85.0	-91.9	-74.1	-85.5	-336.4
Research and development costs	-43.1	-44.6	-45.9	-58.7	-192.2
Other operating expenses	0.9	0.0	0.5	0.1	1.5
= Results from operating activities	66.0	78.4	62.6	88.4	295.3
Financial result	13.6	2.3	-9.5	-14.2	-7.8
= EBIT	79.6	80.7	53.1	74.2	287.5
Interest result	-1.8	-5.7	-5.7	-2.8	-16.1
Income taxes	-21.3	-21.6	-11.8	-17.5	-72.1
= Net profit/loss	56.5	53.4	35.5	53.9	199.3
Gross profit (adjusted)	197.5	223.0	196.5	256.3	873.3
in % of revenues	29.9%	32.9%	27.3%	28.0%	29.4%
EBIT (adjusted)	71.9	86.3	78.9	108.1	345.2
in % of revenues	10.9%	12.7%	11.0%	11.8%	11.6%
Adjusted depreciation	24.8	25.2	25.6	13.5	89.1
EBITDA (adjusted)	96.7	111.5	104.5	121.6	434.3
in % of revenues	14.6%	16.5%	14.5%	13.3%	14.6%
Net profit/loss (adjusted)	50.8	57.5	54.3	78.9	241.6
adjusted earnings per share (EUR)	0.39	0.44	0.41	0.60	1.84
Net Working Capital ³	670.0	740.5	807.5	741.2	741.2
Cashflow from operating activities	92.7	-2.8	29.3	173.5	292.7
Cashflow from investing activities	-26.3	-38.2	-34.0	-67.8	-166.3
Net financial debt ⁴	-21.6	82.2	101.0	5.0	5.0
Provision for pensions	403.2	408.9	412.2	415.4	415.4
Equity	777.7	760.5	809.0	876.9	876.9
Equity ratio	28.0%	27.6%	28.4%	28.1%	28.1%

¹ A multiple periodical overview beyond the year 2009 is not possible.

² Differences between the individual values and the sums derived from these may result from rounding off in some columns and lines of this table.

³ Net Working Capital = Inventories + Trade receivables / Trade payables / Payments on account

⁴ Net financial debt = Interest-bearing financial liabilities / liquid funds

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1-Q4 2012	2011 vs. 2012	
						Change absolute	Change in %
	771.5	752.6	772.2	783.4	3,079.7	-120.0	-3.8%
	685.3	730.1	677.3	921.8	3,014.5	42.4	1.4%
	-477.3	-532.3	-482.2	-656.6	-2,148.4	1.2	0.1%
	208.0	197.8	195.2	265.2	866.1	43.6	5.3%
	-85.0	-95.9	-89.2	-105.8	-375.8	-39.4	-11.7%
	-48.0	-50.6	-52.7	-52.3	-203.6	-11.4	-5.9%
	3.8	0.8	1.3	3.5	9.4	7.9	526.7%
	78.8	52.2	54.5	110.6	296.1	0.8	0.3%
	-0.9	-10.3	-2.5	0.2	-13.5	-5.7	-73.1%
	77.9	41.9	52.0	110.8	282.7	-4.8	-1.7%
	-6.2	-5.8	-6.4	-6.1	-24.6	-8.5	-52.8%
	-20.0	-9.9	-12.3	-34.2	-76.4	-4.3	-6.0%
	51.8	26.2	33.3	70.5	181.7	-17.6	-8.8%
	203.0	212.4	187.4	265.2	868.0	-5.3	-0.6%
	29.6%	29.1%	27.7%	28.8%	28.8%		
	67.7	67.7	48.9	111.2	295.5	-49.7	-14.4%
	9.9%	9.3%	7.2%	12.1%	9.8%		
	24.0	25.2	26.1	26.4	101.7	12.6	14.1%
	91.7	92.9	75.0	137.6	397.2	-37.1	-8.5%
	13.4%	12.7%	11.1%	14.9%	13.2%	-1.4%	
	44.3	44.8	31.1	70.5	190.8	-50.8	-21.0%
	0.33	0.34	0.24	0.54	1.45	-0.39	-21.2%
	792.0	848.3	848.0	732.6	732.6	-8.6	-1.2%
	18.3	36.5	3.0	221.1	278.9	-13.8	-4.7%
	-26.8	18.1	-29.2	-61.6	-99.5	66.8	40.2%
	6.9	82.6	118.1	-40.1	-40.1	-45.1	-902.0%
	419.0	422.4	424.3	427.3	427.3	11.9	2.9%
	923.0	867.3	889.1	824.9	824.9	-52.0	-5.9%
	30.0%	28.2%	31.4%	28.2%	28.2%	0.1%	

IN EUR MILLION ¹	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1-Q4 2011
Engines					
Order intake	545.7	485.2	520.4	634.6	2,186.0
Segment revenues	454.7	469.6	471.1	599.6	1,995.1
Marine	113.3	140.0	122.0	180.0	555.3
Industrial	103.5	101.5	106.6	158.1	469.8
Oil & Gas	41.4	49.5	50.9	55.5	197.3
Defense	24.8	16.0	28.9	25.3	95.0
After Sales/Other (Engines)	171.8	162.4	162.8	180.7	677.7
thereof external revenues	395.6	389.1	412.7	529.8	1,727.2
EBIT (adjusted)	58.3	74.9	66.9	98.2	298.4
in % of revenues	12.8%	15.9%	14.2%	16.4%	15.0%
Onsite Energy & Components					
Order intake	278.4	362.2	212.6	193.3	1,046.6
Segment revenues	210.9	219.6	252.6	307.4	990.5
OE Diesel Systems & Engines	116.8	135.2	152.2	200.8	604.9
OE Gas Power Systems	10.2	8.9	18.6	27.0	64.7
After Sales / Other (Onsite Energy)	33.5	29.4	30.7	32.5	126.1
Injection Systems	50.4	46.1	51.2	47.2	194.8
thereof external revenues	161.5	165.4	195.7	246.7	769.2
EBIT (adjusted)	24.8	15.7	22.5	13.4	76.4
in % of revenues	11.8%	7.1%	8.9%	4.4%	7.7%
Distribution					
Order intake	146.1	144.8	102.1	159.6	552.6
Segment revenues	110.2	130.7	116.8	146.2	504.0
Products	82.5	102.8	87.0	108.6	381.0
After Sales (Distribution)	27.8	28.1	29.5	37.6	123.0
thereof external revenues	104.3	123.0	110.4	137.9	475.7
EBIT (adjusted)	7.3	6.6	6.6	8.4	28.9
in % of revenues	6.6%	5.0%	5.7%	5.7%	5.7%
Central Effects/Eliminations					
Segment order intake	-152.4	-159.1	-103.9	-170.1	-585.5
Segment revenues	-114.5	-142.4	-121.7	-138.9	-517.5
EBIT (adjusted)	-18.5	-10.9	-17.2	-11.9	-58.5

¹ Differences between the individual values and the sums derived from these may result from rounding off in some columns and lines of this table.

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1-Q4 2012	2011 vs. 2012	
						Change absolute	Change in %
	532.0	532.5	527.2	579.9	2,171.5	-14.5	-0.7%
	471.8	470.5	467.3	597.1	2,006.7	11.6	0.6%
	90.4	112.2	128.7	212.0	543.3	-12.0	-2.2%
	114.0	94.6	86.5	108.5	403.6	-66.2	-14.1%
	69.9	64.7	54.7	55.8	245.1	47.8	24.2%
	21.1	28.6	22.2	31.5	103.4	8.4	8.8%
	176.4	170.4	175.2	189.2	711.3	33.6	5.0%
	408.9	391.0	387.8	504.3	1,692.0	-35.2	-2.0%
	50.8	61.7	49.4	88.0	250.0	-48.4	-16.2%
	10.8%	13.1%	10.6%	14.7%	12.5%	-2.5%	
	250.3	199.8	217.8	209.5	877.4	-169.2	-16.2%
	231.9	261.5	214.2	293.3	1,000.8	10.3	1.0%
	129.0	160.4	121.1	183.8	594.3	-10.6	-1.8%
	18.7	15.6	15.8	36.8	86.9	22.2	34.3%
	31.6	34.9	34.5	38.3	139.3	13.2	10.5%
	52.6	50.5	42.7	34.5	180.3	-14.5	-7.4%
	177.1	207.8	163.9	249.2	797.9	28.7	3.7%
	24.6	16.4	4.3	28.4	73.7	-2.7	-3.5%
	10.6%	6.3%	2.0%	9.7%	7.4%	-0.3%	
	144.7	125.2	102.6	140.8	513.3	-39.3	-7.1%
	108.0	137.1	131.3	177.6	554.0	50.0	9.9%
	77.9	105.1	98.4	139.1	420.5	39.5	10.4%
	30.1	32.1	32.8	38.5	133.5	10.5	8.5%
	99.3	131.3	125.6	168.4	524.6	48.9	10.3%
	5.2	6.6	7.9	10.3	29.9	1.0	3.5%
	4.8%	4.8%	6.0%	5.8%	5.4%	-0.3%	
	-155.5	-104.9	-75.3	-146.8	-482.5	103.0	17.6%
	-126.4	-139.0	-135.4	-146.2	-546.9	-29.4	-5.7%
	-12.9	-17.0	-12.6	-15.5	-58.0	0.5	0.9%

Glossary

Business & Technical Terms

A ADEC (Advanced Diesel Engine Control) = electronic engine control, monitoring and safety system.

AUTOMATION. MTU uses the term to describe the electronic control and monitoring of the performance of diesel engines, propulsion and drive systems, and their incorporation in the automation systems of vehicles or ships.

C COMMON RAIL INJECTION. Common rail injection is a fuel injection system designed to inject fuel under high pressure into the cylinders from a common distribution line (common rail). This enables common rail technology to deliver multiple injections, plus injection quantities and pressures regardless of the engine speed. Common rail injection is used primarily in diesel engines. The main purpose of using this technology is to optimise the combustion process to achieve further improvements in engine running characteristics and a further reduction in emissions, while reducing fuel consumption.

CONTROL CONCEPT. The inclusion of companies in the consolidated financial statements takes place in accordance with IAS 27 based on the control concept. Control exists when Tognum AG holds more than half of the voting rights of a company either directly or indirectly via subsidiaries. Control also exists when Tognum AG is able to determine the financial and business policy or has the power to appoint or remove a majority of the members of the executive and/or supervisory boards.

D DEFERRED TAXES. In accordance with IAS 12, deferred taxes are recognised for temporary differences between the carrying amounts of an asset or liability in the tax base and in the IFRS balance sheet. In addition, deferred tax assets are also to be recognised for tax losses carried forward, provided that tax credits result in the following years from the anticipated use of existing tax losses carried forward.

E EARNINGS PER SHARE. The earnings per share are calculated by dividing the consolidated net income to which the shareholders of Tognum AG are entitled by the weighted number of outstanding shares in the period under review (1 January 2008 to 31 December 2012: 131,375,000 shares; 1 January to 31 December 2007: 125,902,123 shares). The weighted number of outstanding shares was affected by the change from the former Tognum Group Holding GmbH to Tognum AG. In accordance with IAS 33.64, the no-par-value shares resulting from the change to Tognum AG were considered retrospectively for the purpose of calculating the earnings per share for all the previous periods, i.e. under consideration of no-par-value shares from 2007.

EPA TIER 1, 2, 3A, 4I AND 4. Emission guidelines specified by the United States Environmental Protection Agency (EPA).

EQUITY METHOD. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

EU STAGE III A AND III B. European emission guidelines to reduce pollutants in exhaust emissions from off-highway applications. See > EPA Tier 1, 2, 3a, 4i and 4.

EXHAUST AFTERTREATMENT. Exhaust aftertreatment covers all the methods used to remove pollutants from combustion gases. These primarily include > diesel particulate filters, > SCR catalytic converters and oxidation catalysts.

EXHAUST GAS RECIRCULATION. In exhaust gas recirculation, some of the exhaust gases are returned to the fresh air intake in the part-load range. The resultant mixture of fresh air and exhaust gas has a lower calorific value in terms of the volume and is thus unable to reach the temperature required in the combustion chamber to produce nitrogen oxide (NO_x).

F FAIR VALUE. Fair value is the amount for which knowledgeable, willing parties are prepared to exchange or settle a liability in an arm's length transaction. Generally speaking, the fair value of an asset can be regarded as its market value, if such a value exists for the asset under consideration.

G GENDRIVE ENGINES. Diesel engines and gas engines used to drive a generator for the generation of electric power are known within MTU as gendrive engines.

GENSET. Engine-generator set to provide power generation independent of a power grid. Gensets are available as stationary and mobile units and can be used as emergency power, continuous power and peak demand units.

GOODWILL. The value of the company after deducting the value of the assets, i.e. this primarily covers all the relationships to other companies and customers in the case of a commercial business. See > PPA and > Impairment Test.

I IMPAIRMENT TEST. The > goodwill disclosed in the balance sheet is subject to an impairment test at least once a year. See > PPA.

L LIFE CYCLE COSTS. The term refers to all costs for the acquisition and throughout the entire service life.

M **MILLER PROCESS.** The Miller cycle is used to achieve low NO_x emissions during the combustion process. In the Miller cycle, the inlet valves are closed earlier than is usually the case in the combustion process, which results in lower combustion temperatures and subsequently leads to lower NO_x emissions from the engine.

MONTE CARLO METHOD. A stochastic method used to determine the fair value of a phantom share from the LTIC scheme. This is done by stochastically simulating the performance of the earnings per share (EPS) of the Tognum share and that of the MDAX over the term of the plan. The calculated value is then used to determine the number of shares to be paid out at the end of each three-year performance period or the payout value for the beneficiary at the end of the subsequent one-year holding period.

N **NET WORKING CAPITAL.**
See > Working Capital.

P **PEER GROUP COMPARISON.**
To determine the remuneration of Executive Board members, the adjusted return on sales was compared with that of our competitors CAT Engines, Cummins, Wärtsilä, MAN Diesel, Deutz und Volvo-Penta in similar activities.

POWERPACK®. Compact solution for the drive system. In addition to an internal combustion engine, it contains a transmission system, a generator, a hydraulic, cooling and filter system, as well as other components, all of which are integrated into a single drive unit mounted on a common frame. It provides a lot of power with a very small footprint. MTU produces PowerPacks® for railcars and military vehicles.

POWER SHIFT. An engine's response to changing loads.

PUMP-LINE-NOZZLE INJECTION SYSTEM. The pump-line-nozzle injection system is a fuel injection system used for internal combustion engines. Unlike the common rail system, the injection pressure in the pump-line-nozzle injection system is generated separately for each cylinder. The unique feature of the system is the provision of a fuel injection pump for each cylinder with a very short pressure line to the fuel injection nozzle.

PURCHASE PRICE ALLOCATION (PPA). The purchase price allocation describes the distribution of the acquisition costs of a business combination to the identifiable assets, liabilities and contingent liabilities of the (acquired) subsidiary company. It involves the initial disclosure of the lowest possible goodwill of a newly acquired company less the company's assets (remeasured at fair value) in the current balance sheet. The basis for this is the acquisition method pursuant to IFRS.

Any other company assets or their purchase prices (after the deduction of goodwill) are depreciated on the balance sheet as higher valued assets. To eliminate the effect of the appreciation in the value of goodwill to date (of the newly acquired companies) in the calculation of profits and losses, the actual company profits or losses generated are determined on the basis of the original, i.e. likewise actual value basis. The goodwill that is recognised on the balance sheet as part of the first consolidation but not subsequently amortised systematically is subject to an > impairment test at least once a year. If this reveals that the net present value from the discounted annual > cash flows is lower than the assets disclosed in the balance sheet, the goodwill is impaired first.

R **RONA (RETURN ON NET ASSETS).**
When presenting the total return on capital, we use RONA as the performance indicator, with net assets reflecting the tied up interest-bearing capital in the Tognum Group. At group level, net assets are derived from disclosures on the liabilities side and include the following items: equity, provisions for pensions and interest-bearing borrowed capital less cash and cash equivalents. This gives us the amount of capital employed, which we then place as an average value¹ in relation to our key performance indicator of operating profit – the adjusted EBIT. The resulting RONA is offset against the Group's cost of capital.

S **SCR CATALYTIC CONVERTER.**
See > Selective Catalytic Reduction.

SELECTIVE CATALYTIC REDUCTION (SCR). Refers to a method used to minimise NO_x particulates in exhaust emissions. An aqueous urea solution is injected into the exhaust gas upstream of the SCR catalytic converter, resulting in the production of ammonia and carbon dioxide. In the SCR catalytic converter, the ammonia produced in this way reacts with the NO_x particulates in the exhaust gas to produce water and nitrogen.

SEMI-AMERICAN CALL OPTION OF A BERMUDA TYPE. Tognum AG has introduced a special share-based remuneration programme for members of management that represents an actuarial, semi-American call option (to be exercised within a fixed period of time) of the Bermuda type (to be exercised on several predetermined dates).

W **WORKING CAPITAL.** This ratio is calculated by deducting the current liabilities from the current assets. Tognum also calculates the net working capital (= inventories plus trade receivables, less trade payables and payments on account).

¹ (Level at the beginning of the year + Level at the end of the year)/2

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FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION. This annual report contains forward-looking statements that are based on management's current estimates of future developments. Such statements are subject to risks and uncertainties that Tognum cannot control or precisely estimate. These include e. g. future market conditions and the economic environment, the behaviour of other market participants, the successful integration of new acquisitions and the realisation of anticipated synergy effects as well as measures taken by government bodies. If one of these or other uncertainties or factors emerge or if the assumptions on which these statements are based prove to be incorrect, the actual results could materially deviate from the results explicitly stated or implicitly contained in these statements. Tognum is neither expected, nor shall Tognum accept special responsibility for updating forward-looking statements to adjust them to the events or developments after the date of this report. For technical reasons (e. g. conversion of electronic formats) there can be differences between the accounting documents contained in this annual report and those published in the electronic Federal Gazette. In this case, the edition submitted to the electronic Federal Gazette is considered the authoritative edition. The annual report is a translation of the original German-language document; in the event of deviations, the German version takes precedence over the English translation. The annual report is available in both languages online under <http://www.tognum.com> for download.

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Financial Calendar 2013

7 May Publication of the first quarter report

4 June Annual General Meeting 2013, Friedrichshafen

6 August Publication of the second quarter report

5 November Publication of the third quarter report

All data is preliminary and subject to change.

Global presence

Our customers are to be found in the off-highway business. They operate all over the world, and frequently in extremely remote regions. They open up new frontiers. They strike out in new directions. Whenever, wherever and for whatever they need us – we are close at hand and that decisive step ahead for them. With 24 fully consolidated subsidiaries and around 1,200 service centres and dealers, we are present in 130 countries and on every continent.



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Beauchamp | France
Dordrecht | Netherlands
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Istanbul | Turkey
Madrid | Spain

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Magdeburg
Stuttgart
Ruhstorf

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Hong Kong | China
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Shanghai | China
Singapore | Singapore
Suzhou | China
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