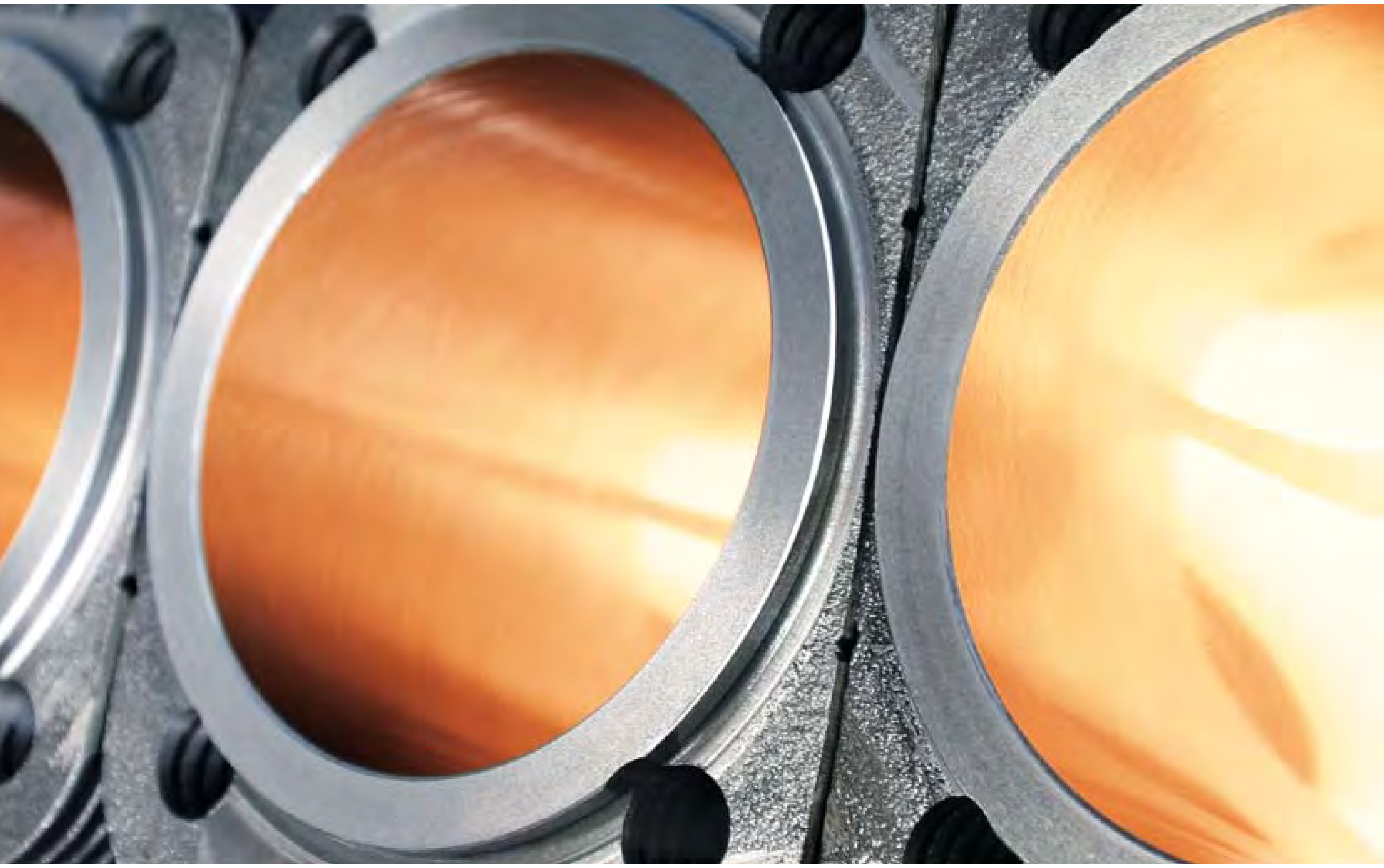
Interim Report 1st to 3rd Quarter 2007



- Operating profit on continuing operations up 48 per cent to €71 million
- €132 million pre-tax gain on disposal of DEUTZ Power Systems
- €58 million invested in Chinese joint venture

The 1st to 3rd Quarter at a Glance

DEUTZ Group: Key figures

	7–9/ 2007	7–9/ 2006	1–9/ 2007	1–9/ 2006
€ million				
New orders				
Continuing operations	381.0	342.1	1.215.4	982.9
Discontinued operations	83.5	75.2	245.0	252.8
Total	**464.5**	**417.3**	**1,460.4**	**1,235.7**
Unit sales				
Continuing operations	71,791	58,269	206,410	166,954
Discontinued operations	150	158	366	405
Total	**71,941**	**58,427**	**206,776**	**167,359**
Sales				
Continuing operations	383.0	292.2	1,100.7	817.5
Discontinued operations	78.0	59.9	199.8	179.6
Total	**461.0**	**352.1**	**1,300.5**	**997.1**
thereof excl. Germany (in %)				
Continuing operations	77.7	76.2	78.8	75.4
Discontinued operations	72.3	54.8	73.0	64.3
Total	**76.7**	**72.6**	**77.9**	**73.4**
EBITDA				
Continuing operations	46.8	29.0	119.6	92.3
Discontinued operations	140.1	3.1	145.3	6.3
Total	**186.9**	**32.1**	**264.9**	**98.6**
EBITDA (before one-off items)				
Continuing operations	46.8	29.0	119.6	92.3
Discontinued operations	8.2	3.1	13.4	6.3
Total	**55.0**	**32.1**	**133.0**	**98.6**
EBIT				
Continuing operations	30.6	14.3	71.0	48.0
Discontinued operations	138.6	1.8	141.0	2.2
Total	**169.2**	**16.1**	**212.0**	**50.2**
Operating profit (EBIT before one-off items)				
Continuing operations	30.6	14.3	71.0	48.0
Discontinued operations	6.7	1.8	9.1	2.2
Total	**37.3**	**16.1**	**80.1**	**50.2**
EBIT margin before one-off items (in %)				
Continuing operations	8.0	4.9	6.5	5.9
Discontinued operations	8.6	3.0	4.6	1.2
Total	**8.1**	**4.6**	**6.2**	**5.0**
Net income				
Continuing operations	9.1	7.9	35.6	26.1
Discontinued operations	107.7	0.8	107.6	–0.1
Total	**116.8**	**8.7**	**143.2**	**26.0**

	7–9/ 2007	7–9/ 2006	1–9/ 2007	1–9/ 2006
€ million				
Earnings per share, basic, in €	**1.00**	**0.08**	**1.23**	**0.25**
thereof from continuing operations	0.08	0.07	0.31	0.25
thereof from discontinued operations	0.92	0.01	0.92	–
Earnings per share, diluted, in €	**0.97**	**0.07**	**1.19**	**0.21**
thereof from continuing operations	0.08	0.06	0.30	0.21
thereof from discontinued operations	0.89	0.01	0.89	–
Total assets (30 September)	1,351.8	1,094.3	1,351.8	1,094.3
Equity (30 September)	516.2	320.5	516.2	320.5
Equity ratio (in %)	38.2	29.3	38.2	29.3
Cash flow from operating activities	**–112.1**	**31.9**	**–120.3**	**23.0**
Net financial debt[1)]	**–235.2**	**42.9**	**–235.2**	**42.9**
Capital expenditure (excl. capitalisation of R&D)				
Continuing operations	78.3	19.9	105.4	41.8
Discontinued operations	0.3	0.5	6.5	1.4
Total	**78.6**	**20.4**	**111.9**	**43.2**
Research and development				
Continuing operations	14.0	12.6	37.3	39.3
Discontinued operations	2.6	2.9	9.1	9.0
Total	**16.6**	**15.5**	**46.4**	**48.3**
Employees as at 30 September (number)				
Continuing operations	4,930	4,477	4,930	4,477
Discontinued operations	40	1,002	40	1,002
Total	**4,970**	**5,479**	**4,970**	**5,479**

[1)] Net financial debt: bank debt minus cash and cash equivalents.

Dear shareholders,

The two most important events in the third quarter were the disposal of DEUTZ Power Systems and the official launch of our Chinese joint venture on 1 August. The sale of DEUTZ Power Systems was completed at the end of September and generated a pre-tax gain of €132 million in the third quarter. In August we spent €58 million to acquire 50 per cent of the shares in the joint venture. These changes to our operating activities have set the course for the strategic development of our Compact Engines business.

We made further progress in our operating activities in the third quarter. The volume of new orders received – including DEUTZ Power Systems – grew by 18 per cent to roughly €1.5 billion, revenue increased by 30 per cent to €1.3 billion and operating profit rose by as much as 60 per cent to approximately €80 million.

The growth rates in our continuing operations – Compact Engines and DEUTZ Customised Solutions – were very encouraging. Our volume of new orders increased by roughly 24 per cent to €1.2 billion, and our revenue grew by almost 35 per cent to €1.1 billion. Operating profit for the first nine months rose by 48 per cent to €71 million. The performance of our earnings shows that the measures we have taken to improve the supply of parts are having an effect and that were are gradually reducing the higher logistics and production costs we reported in the first half of the year.

Net income on continuing operations rose by over 36 per cent to €35.6 million. Including the net income of €107.6 million on discontinued operations (DEUTZ Power Systems), which was largely attributable to the gain on this disposal, the net income for the DEUTZ Group came to €143.2 million.

In the first nine months of this year we sold 206,410 engines in our two continuing core operations – Compact Engines and DEUTZ Customised Solutions. We plan to increase our unit sales to between 280,000 and 290,000 engines by the end of the year. Revenue from the DEUTZ Group's continuing operations will increase by between 25 per cent and 30 per cent on the roughly €1.2 billion reported for 2006. This year's operating profit will improve significantly on the approximately €67 million generated in 2006 to a high double-digit million figure. Including the start-up losses incurred by "DEUTZ Dalian", this will bring the EBIT margin on continuing operations to around 6 per cent. Net income will increase by over €100 million owing to the improvements in our core operations and, in particular, due to the one-off gain on the disposal of DEUTZ Power Systems.

Yours sincerely

Helmut Meyer
Chairman of the Management Board

Interim Management Report 1st to 3rd Quarter 2007

INTRODUCTION

Up to now the DEUTZ Group has consisted of the Compact Engines, DEUTZ Customised Solutions, DEUTZ Power Systems and the Other segments. DEUTZ Power Systems was sold with effect from 30 September 2007 and was consequently reclassified as a discontinued operation in accordance with IFRS 5. This segment's income and expenses are reported separately in the income statement as net income on discontinued operations and are explained in the notes to the consolidated financial statements. The comparative figures for 2006 have been restated accordingly in the income statement.

With the exception of some items that are not due to be transferred to the buyer of DEUTZ Power Systems until 31 December this year, the assets and liabilities attributable to this segment are no longer carried on the balance sheet as at 30 September 2007. Assets due to be sold in the fourth quarter are reported as non-current assets and disposal groups held for sale, and the corresponding liabilities are recognised as liabilities directly associated with non-current assets and disposal groups held for sale. The figures on the balance sheet as at 31 December 2006 have not been restated. A further purchase price of roughly €24 million will be paid in the fourth quarter for assets that are due to be transferred to the buyer of DEUTZ Power Systems until the end of this year.

The operating activities of DEUTZ Power Systems are reported as discontinued operations in the interim management report. Details of the effects of the disposal of this segment can be found in the notes to the consolidated financial statements of this interim report.

2006 saw the creation of the new DEUTZ Customised Solutions business unit, which specifically covers all air-cooled series activities, together with those involving liquid-cooled engines with a capacity greater than eight litres. Previously, these activities formed part of the Compact Engines segment. From the first quarter of 2007 a major change was made to the reporting structure, allowing DEUTZ Customised Solutions to be reported as a separate segment. The prior-year figures affected by this new segment structure have been broken down and assigned to Compact Engines and DEUTZ Customised Solutions accordingly. Also from Q1 2007, revenue in the Marine application segment has been aggregated in the Other application segment because of the low amounts involved. The figures for the corresponding prior-year periods – the third quarter and first nine months of 2006 – have also been restated.

ECONOMIC ENVIRONMENT

Global economy to grow by 5 per cent in 2007

Despite the credit crunch in the United States and Europe, experts are predicting that global gross domestic product (GDP) will grow by just over 5 per cent in 2007. The crisis in the housing market is the main reason for the slowing rate of economic growth in the US, the key issue being the collapse of residential construction investment in the second half of 2007. US GDP is expected to increase by 2 per cent in 2007. The most important driver of growth is still Asia, where experts are forecasting GDP growth of over 9 per cent for this year. Economic growth in the euro-zone countries is being driven by house-building investment and exports. GDP in this region is predicted to grow by 2.6 per cent in 2007. Demand from Germany's export markets has already slackened, and the strong euro has further curbed German exports. Germany's gross domestic product is set to grow by 2.4 per cent this year.

At the beginning of October the German Engineering Federation (VDMA) once again raised its growth forecast for 2007. This sector's output is now predicted to grow by 11 per cent (previously 9 per cent) to €181 billion. This would represent another record year for the German engineering industry.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP'S CONTINUING OPERATIONS

Unless specified otherwise, the consolidated figures for orders on hand, new orders, unit sales, revenue and operating profit as well as the disclosures in the income statement of this interim management report relate to the DEUTZ Group's continuing operations, i.e. the Compact Engines, DEUTZ Customised Solutions and the Other segment. The comparative figures for 2006 have been restated to reflect this new organisational structure and likewise only include continuing operations. Last year's balance sheet figures have not been restated, so that a direct comparison with 30 September 2007 is not meaningful.

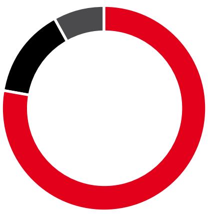
New orders up 24 per cent

The volume of new orders in the first nine months of 2007 grew by 23.7 per cent year on year to €1,215.4 million (Q1–Q3 2006: €982.9 million). The growth rates for both engines and services in the Compact Engines and DEUTZ Customised Solutions segments continued to outperform projections. The orders on hand as at 30 September 2007 had increased by 20.7 per cent to €377.8 million (Q1–Q3 2006: €312.9 million), which was sufficient to cover roughly three months' production.

Strong revenue growth due to commercial vehicle engines

With unit sales of 206,410 engines in the reporting period, DEUTZ exceeded the 166,954 engines sold in the corresponding period of 2006 by 23.6 per cent. On the back of the growth in unit sales, revenue for the first nine months of 2007 increased by 34.6 per cent year on year to €1,100.7 million (Q1–Q3 2006: €817.5 million). This strong growth stemmed to a large extent from the Compact Engines segment. The ramped-up production of the commercial vehicle engine accounted for approximately 41 per cent of revenue growth and impacted on the figures reported for the European countries outside Germany. Consequently, total revenue from Europe, Africa and the Middle East grew by 38.7 per cent, with revenue from Germany advancing by 16 per cent. Growth in the Americas region for the first nine months amounted to only 2 per cent. Revenue from the Asia-Pacific region surged by 88 per cent. This was attributable to the sharp increase in deliveries of parts and engines to China – some of them going to the DEUTZ Dalian joint venture. Part of this increase is only temporary because, as procurement becomes increasingly localised, DEUTZ's supplies of parts to the joint venture will decline.

DEUTZ Group: Revenue by regions
€ million (2006 figures)



- **855.4** (616.8): Europe/Middle East/Africa
- **156.8** (153.7): Americas
- **88.5** (47.0): Asia-Pacific

Operating profit up 48 per cent

Operating profit for the first nine months of 2007 rose by 47.9 per cent year on year to €71.0 million (Q1–Q3 2006: €48.0 million). This strong performance is attributable to the improvement in both core segments (Compact Engines and DEUTZ Customised Solutions), with services making a particularly valuable contribution. Furthermore, logistics costs – above all those for special freight – fell compared with the first and second quarters after additional internal and external capacities had been expanded and ramped up in the third quarter. The EBIT margin rose from 5.9 per cent to 6.5 per cent.

€34.1 million (Q1–Q3 2006: €25.7 million) of the DEUTZ Group's operating profit was generated by the Compact Engines segment, while DEUTZ Customised Solutions contributed €31.3 million (Q1–Q3 2006: €22.7 million). The Other segment's operating profit for the first nine months of 2007 amounted to €5.6 million (Q1–Q3 2006: loss of €0.4 million). This includes €5.0 million that accrued in the second quarter once all warran ties from the sale of the Marine Service business had expired.

Net income includes €132 million pre-tax gain on disposal of DEUTZ Power Systems

Net income before taxes from continuing operations for the first nine months came to €53.6 million, which was a year-on-year improvement of 64.4 per cent (Q1–Q3 2006: €32.6 million). Finance costs rose due to the placement of bonds in the third quarter. DEUTZ AG issued bonds worth US$ 274 million as part of a private placement in the United States. The placement was completed on 16 July. The bonds – which carry maturities of five, seven and ten years – were purchased by US institutional investors.

Net income on continuing operations for the first nine months of 2007 increased by 36.4 per cent year on year from €26.1 million to €35.6 million. Net income on discontinued operations in the reporting period came to €107.6 million and largely resulted from the gain of roughly €132 million on the disposal of DEUTZ Power Systems and the operating profit of €9.1 million generated by the DEUTZ Power Systems segment (net of tax). The DEUTZ Group's net income for the reporting period therefore came to €143.2 million.

Third-quarter revenue grows by 31 per cent

In the third quarter of 2007 the DEUTZ Group's volume of new orders grew by 11.4 per cent to €381.0 million (Q3 2006: €342.1 million). This increase was largely attributable to the new orders received by the Compact Engines segment on the back of persistently strong demand for engines used in construction equipment and commercial vehicles. A total of 71,791 engines were sold between July and September. This was an increase of 23.2 per cent on the third quarter of 2006, when 58,269 engines were sold. This growth in unit sales continued to be primarily due to the fact that production of the commercial vehicle engine had been ramped up.

Consequently, third-quarter revenue advanced by 31.1 per cent to €383.0 million after revenue of €292.2 million had been generated in the third quarter of 2006.

Operating profit more than doubled year on year to €30.6 million (Q3 2006: €14.3 million).

DEUTZ Group: Segments

	7–9/2007	7–9/2006	1–9/2007	1–9/2006
€ million				
New orders				
Compact Engines	281.8	252.2	923.4	717.1
DEUTZ Customised Solutions	99.2	89.9	292.0	265.8
Continuing operations	**381.0**	**342.1**	**1,215.4**	**982.9**
Discontinued operations – DEUTZ Power Systems	83.5	75.2	245.0	252.8
Total	**464.5**	**417.3**	**1,460.4**	**1,235.7**
Unit sales				
Compact Engines	61,785	49,155	181,310	140,335
DEUTZ Customised Solutions	10,006	9,114	25,100	26,619
Continuing operations	**71,791**	**58,269**	**206,410**	**166,954**
Discontinued operations – DEUTZ Power Systems	150	158	366	405
Total	**71,941**	**58,427**	**206,776**	**167,359**
Sales				
Compact Engines	294.4	211.4	862.6	593.8
DEUTZ Customised Solutions	88.6	80.8	238.1	223.7
Continuing operations	**383.0**	**292.2**	**1,100.7**	**817.5**
Discontinued operations – DEUTZ Power Systems	78.0	59.9	199.8	179.6
Total	**461.0**	**352.1**	**1,300.5**	**997.1**
Operating profit (EBIT before one-off items)				
Compact Engines	14.6	7.0	34.1	25.7
DEUTZ Customised Solutions	13.5	9.4	31.3	22.7
Other	2.5	–2.1	5.6	–0.4
Continuing operations	**30.6**	**14.3**	**71.0**	**48.0**
Discontinued operations – DEUTZ Power Systems	6.7	1.8	9.1	2.2
Total	**37.3**	**16.1**	**80.1**	**50.2**

BUSINESS PERFORMANCE IN THE COMPACT ENGINES SEGMENT

Deliveries of commercial vehicle engines boost unit sales

The volume of new orders by the Compact Engines segment in the reporting period amounted to €923.4 million, exceeding projections. This was an increase of 28.8 per cent on the corresponding period of 2006 (Q1–Q3 2006: €717.1 million). In addition to the new orders for commercial vehicle engines, demand from German construction equipment clients was particularly strong. Unit sales of engines rose by 29.2 per cent to 181,310 (Q1–Q3 2006: 140,335 engines). Liquid-cooled engines with a capacity of four to eight litres achieved the strongest growth of some 48 per cent in the first nine months due to the fact that production of the commercial vehicle engine had been ramped up in the fourth quarter of 2006.

Revenue growth of 45 per cent

Revenue in this segment rose significantly by 45.3 per cent to €862.6 million in the first nine months of 2007 on the back of the strong growth in unit sales (Q1–Q3 2006: €593.8 million). As in the first half of the year, the largest rise resulted from the increase in deliveries of the commercial vehicle engine in the Automotive application segment. Of the segment's revenue growth of almost €270 million, some €116 million is attributable to the commercial vehicle engine. Revenue from the Mobile Machinery application segment grew by over 34 per cent, with engines used in construction equipment and materials-handling equipment making a particularly valuable contribution to this sharp increase. In addition, revenue from services achieved an encouraging increase of around 18 per cent. The Stationary Equipment, Agricultural Machinery and Other application segments also contributed to this revenue growth.

Operating profit up 33 per cent

Operating profit for the first nine months improved significantly by 32.7 per cent from €25.7 million to €34.1 million, benefiting from the larger volumes and wider margins generated in services. The bottlenecks in in-house production have now been removed. Suppliers too have mainly completed the measures they were taking to adjust their capacities. The operating profit includes expenses of €2.2 million for the Chinese "DEUTZ Dalian" joint venture, which opened for business on 1 August 2007.

Sharp rise in third-quarter unit sales and revenue due to commercial vehicle engines

In the third quarter of 2007 this segment sold 61,785 engines, an increase of 25.7 per cent on the same quarter of last year (Q3 2006: 49,155), because production of the commercial vehicle engine had been fully ramped up until the end of 2006. Consequently, third-quarter revenue rose by over 39 per cent to €294.4 million (Q3 2006: €211.4 million). The volume of new orders also performed very encouragingly, growing by 11.7 per cent to €281.8 million.

Third-quarter operating profit more than doubled

Operating profit for the third quarter of 2007 more than doubled year on year to €14.6 million (Q3 2006: €7.0 million). This figure includes expenses of €1.2 million for the "DEUTZ Dalian" joint venture. The improved availability of materials achieved as a result of capacity expansions had a positive impact on operating profit.

Compact Engines: Revenue by application segments
€ million (2006 figures)

- **382.0** (284.9): Mobile Machinery
- **139.7** (119.5): Stationary Equipment
- **87.4** (81.6): Agricultural Machinery
- **174.4** (40.5): Automotive
- **12.6** (11.1): Miscellaneous
- **66.5** (56.2): Service

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS SEGMENT

New orders grow by a further 10 per cent

The volume of new orders in the first nine months of 2007 increased by 9.9 per cent to €292.0 million, thereby exceeding forecasts (Q1–Q3 2006: €265.8 million). Strong demand for engines used in construction equipment, mining equipment and commercial vehicles more than compensated for the weaker demand for engines used in stationary applications. As expected, sales of engines continued to decline slightly to 25,100 units (Q1–Q3 2006: 26,619 units) due to the relocation of production of air-cooled engines from Cologne to Ulm. Segment revenue grew by 6.4 per cent year on year in the reporting period to €238.1 million (Q1–Q3 2006: €223.7 million) on the back of larger volumes in the new engines business and stronger service revenue. The Mobile Machinery, Automotive and Agricultural Machinery application segments achieved the highest revenue growth.

Operating profit up 38 per cent

With revenue slightly higher year on year, operating profit for the first three quarters of 2007 rose by 37.9 per cent year on year to €31.3 million (Q1–Q3 2006: €22.7 million). The main reason for this increase was the consistent contribution made by the Xchange business (service business in reconditioned exchange parts and engines).

Third-quarter operating profit up 44 per cent

The volume of new orders in the third quarter grew by 10.3 per cent year on year to €99.2 million (Q3 2006: €89.9 million). With 10,006 engines sold (Q3 2006: 9,114), revenue for the period from July to September rose by 9.7 per cent to €88.6 million owing to the product mix (Q3 2006: €80.8 million). Operating profit for the third quarter advanced by 43.6 per cent year on year to €13.5 million on the back of the high level of service business (Q3 2006: €9.4 million).

DEUTZ Customised Solutions: Revenue by application segments
€ million (2006 figures)

DISCONTINUED OPERATIONS: DEUTZ POWER SYSTEMS

Sharp jump in operating profit

At €245.0 million, the volume of new orders by the DEUTZ Power Systems segment in the first nine months of 2007 was slightly lower year on year (Q1–Q3 2006: €252.8 million). Unit sales fell by 9.6 per cent to 366 engines (Q1–Q3 2006: 405 engines). The main reason for this was the planned decrease in sales of one series with a low kilowattage. Segment revenue rose by 11.2 per cent year on year to €199.8 million (Q1–Q3 2006: €179.6 million). New engines business with gas engines had a positive impact, growing by around 27 per cent, with gas engines accounting for almost 94 per cent of new engines business revenue (Q1–Q3 2006: 85 per cent). Service revenue also achieved an encouraging increase of over 7 per cent. Operating profit in the reporting period amounted to €9.1 million, a more than fourfold increase on the corresponding period of 2006 (Q1–Q3 2006: €2.2 million).

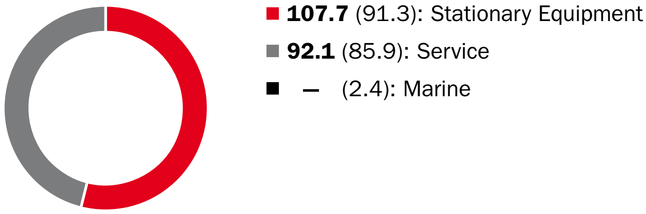
Strong third quarter

The volume of new orders in the third quarter grew by 11.0 per cent year on year to €83.5 million (Q3 2006: €75.2 million). Although third-quarter sales of engines fell by roughly 5 per cent year on year to 150 units (Q3 2006: 158), revenue rose by 30.2 per cent to €78.0 million (Q3 2006: €59.9 million) owing to the different product mix compared with 2006. Operating profit performed very encouragingly in the third quarter of 2007, advancing to €6.7 million (Q3 2006: €1.8 million).

Capital expenditure, R&D, employees

Capital expenditure for the first nine months of 2007 amounted to €6.5 million (Q1–Q3 2006: €1.4 million). The €9.1 million spent on research and development during the reporting period was roughly in line with the corresponding figure for 2006 (Q1–Q3 2006: €9.0 million). DEUTZ Power Systems employed a total of 961 people at the end of the third quarter of 2007 (30 September 2006: 1,002). A further 40 DEUTZ Power Systems employees from DEUTZ subsidiaries will be transferred to the buyer of this segment with effect from 31 December.

DEUTZ Power Systems: Revenue by application segments
€ million (2006 figures)



NET ASSETS AND FINANCIAL POSITION

The assets and liabilities attributable to DEUTZ Power Systems are no longer carried on the balance sheet as at 30 September 2007. The exceptions are the shareholdings in ASIA POWER (PRIVATE) LIMITED, Sri Lanka, and AP OPERATION & MAINTENANCE Ltd., Jersey, as well as assets and liabilities of DEUTZ subsidiaries, which are due to be transferred to the buyer of DEUTZ Power Systems during the fourth quarter. Details can be found in the notes to the consolidated financial statements of this interim report.

Because the comparative figures for 2006 still include the DEUTZ Power Systems segment, the balance sheet as at 30 September 2007 cannot be directly compared with the prior year.

Total assets increased

In the first nine months of 2007, total assets grew by €188.9 million compared with 31 December 2006 to €1,351.8 million, which was an increase of 16.2 per cent. The disposal of DEUTZ Power Systems assets worth €262 million was more than offset by the purchase price received for the sale of DEUTZ Power Systems – which, after debt repayments, increased cash and cash equivalents by €215 million – and by the addition of financial assets worth €58 million for the “DEUTZ Dalian” joint venture. In addition, inventories and receivables attributable to continuing operations increased by a total of roughly €164 million owing to the large order volumes and the growth in revenue.

Working capital in the first nine months of 2007 grew by €28.0 million to €263.1 million compared with 31 December 2006. The reduction of roughly €102 million resulting from the disposal of DEUTZ Power Systems was more than offset by an increase of approximately €130 million in the continuing operations compared with the end of 2006. This figure includes an increase of €61.4 million in inventories to cover the large volume of orders on hand.

Working capital attributable to continuing operations grew by €93.6 million on the seasonally comparable balance sheet date of 30 September 2006. Despite this, these operations’ average working capital ratio (ratio of working capital to revenue based on the average for four quarters) for the first nine months improved year on year from 14 per cent to 13 per cent, due to business volumes growing significantly.

Equity ratio up by 7 percentage points

Equity had increased by €157.7 million to €516.2 million by the balance sheet date of 30 September 2007, primarily as a result of the high level of net income, which included the one-off gain on the disposal of DEUTZ Power Systems. The conversion of bonds and profit-sharing rights also had an increasing effect. Consequently, the equity ratio improved by over 7 percentage points to 38.2 per cent (31 December 2006: 30.8 per cent).

Pension provisions reduced by compensation paid for pensions

Current and non-current pension provisions decreased by €100.3 million compared with 31 December 2006 to €197.4 million. €94.8 million of this change is attributable to the continuing operations; in particular, this change includes the reduction resulting from the €78.8 million paid as compensation for vested company pension rights.

Net financial debt turned into net cash position

The net financial debt reported as at 31 December 2006 became a net cash position of €235.2 million mainly as a result of the significant proceeds received from the sale of DEUTZ Power Systems. Even after allowing for all current and non-current financial liabilities, including the liabilities incurred by the US private placement, the net investment position came to €37.0 million.

Cash flow from operating activities includes €79 million paid as compensation for vested company pension rights

Cash flow from operating activities attributable to continuing operations came to minus €111.2 million, which was €138.3 million below the corresponding figure for 2006 (30 September 2006: €27.1 million). This difference is largely due to the non-operating payment of €78.8 million as compensation for vested company pension rights and to the increase in working capital in the Compact Engines and DEUTZ Customised Solutions segments.

In particular, the increase in working capital in the discontinued operations during the reporting period led to a cash outflow of roughly €9 million.

Capital expenditure includes investment in joint venture

The cash flow from investing activities attributable to continuing operations came to minus €108.4 million (30 September 2006: minus €43.3 million) owing to increased capital spending and the investment of roughly €58 million in the "DEUTZ Dalian" Chinese joint venture. This figure includes cash inflows of €14.2 million arising from the legacy effects of the disposal of the Marine Service business.

The cash flow of €283.0 million from investing activities attributable to discontinued operations includes cash inflows of €292 million from the sale of DEUTZ Power Systems.

Net cash of €203 million received from private placement

The cash flow from financing activities amounted to €165.6 million (30 September 2006: minus €14.9 million) and includes the net cash of €203 million received from the placement of a bond in the United States as well as the repayment of bank debt amounting to €74.3 million.

CAPITAL EXPENDITURE

Capital expenditure on continuing operations in the first nine months of 2007, including capitalised development costs, amounted to €119.3 million (Q1–Q3 2006: €55.1 million). The capitalised development costs of €13.9 million were only slightly higher than those between January and September 2006 (Q1–Q3 2006: €13.3 million).

The Compact Engines segment accounted for €113.0 million of this capital expenditure during the reporting period (Q1–Q3 2006: €54.2 million). This amount includes the investment of approximately €58 million needed to acquire 50 per cent of the shares in the "DEUTZ Dalian" joint venture, which was completed in the third quarter, as well as capital expenditure on property, plant and equipment in order to increase capacities, especially for the manufacture of components at the production sites in Cologne (Germany) and Zafra (Spain). Capital expenditure in the DEUTZ Customised Solutions segment amounted to €6.3 million (Q1–Q3 2006: €0.9 million), most of which related to a new high-bay storage facility in Ulm.

RESEARCH AND DEVELOPMENT

Research and development (R&D) spending on continuing operations in the first nine months of 2007 amounted to €37.3 million (Q1–Q3 2006: €39.3 million). The ratio of R&D expenditure to revenue in the new engines business thus fell in line with planning from 5.7 per cent to 3.9 per cent.

R&D expenditure on the development of engines in the Compact Engines and DEUTZ Customised Solutions segments amounted to €30.9 million (Q1–Q3 2006: €32.8 million) and €6.4 million (Q1–Q3 2006: €6.5 million) respectively in the first nine months of 2007. R&D in the Compact Engines segment was focussed on developing engines for future emissions standards and refining engines for commercial vehicle and construction equipment applications. R&D on air-cooled engines in the DEUTZ Customised Solutions segment centred on improvements in noise levels and design as well as the development of engines for use in generating sets.

EMPLOYEES

DEUTZ employed 4,970 people worldwide as at 30 September 2007, 4,930 of whom worked in its continuing operations. This was 493 people, or 11.0 per cent, more than at the end of September 2006 (Q3 2006: 4,477). The increase is still mainly attributable to the expansion in manufacturing capacity for the significant increase in engine production in the Compact Engines segment. An average of 409 people were employed on temporary contracts in the reporting period, which was 182 more than in the first nine months of 2006.

The number of employees in Germany rose by 294 to 3,723 (Q3 2006: 3,429), and in other countries by 199 to 1,247 (Q3 2006: 1,048). The increase in Germany was mainly attributable to the expansion in capacities in Cologne and to the expansion of the Ulm site into the centre of competence for air-cooled engines. Outside Germany, DEUTZ increased its capacity for the manufacture of components in Zafra, Spain.

At the end of September 2007 the Compact Engines segment employed 4,028 people (Q3 2006: 3,659), while the DEUTZ Customised Solutions segment had 902 employees (Q3 2006: 818).

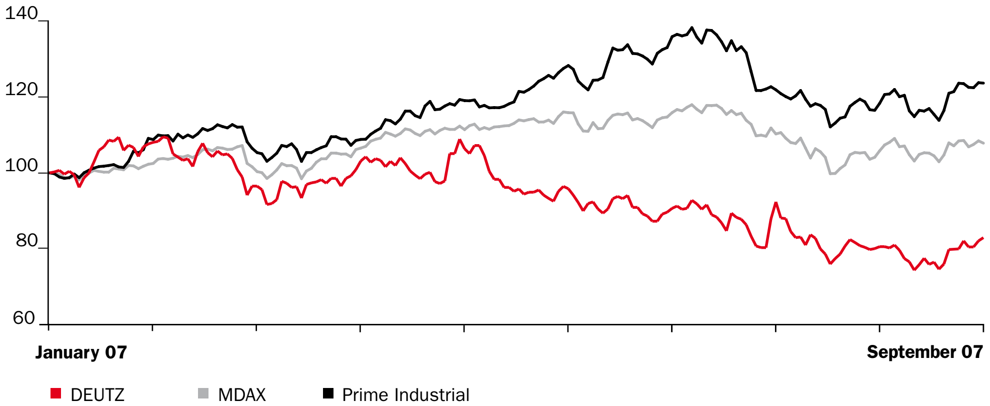
The DEUTZ Group's staff of 4,970 includes 40 people who are employed by DEUTZ subsidiaries and are due to be transferred to the buyer of DEUTZ Power Systems on 31 December 2007.

DEUTZ SHARES

DEUTZ shares underperform indices

DEUTZ's share price remained above €9.00 for much of July, hitting its third-quarter high of €10.05 on 9 July. Following the announcement of the sale of DEUTZ Power Systems and the publication of DEUTZ's first-half figures its share price returned to €10.00 at the beginning of August before falling below €9.00, hitting its third-quarter low of €7.88 on 10 September. It closed the quarter at €8.89 at the end of September. This was a decrease of 11.5 per cent on the end of December 2006. Over the same period the MDAX index rose by 9.9 per cent and the Prime Industrial sectoral index added as much as 27.4 per cent.

Performance of the DEUTZ share
in %



The number of DEUTZ shares as at 30 September 2007 had increased to 120.1 million owing to the conversion of bonds. A total of 5,753,642 convertible bonds and 180 profit-sharing rights were converted into shares during the reporting period from January to September 2007. On this basis, the company's market capitalisation at the end of the first nine months of the year was €1,067.5 million (31 December 2006: €1,148.9 million). However, its market value increased by roughly 13 per cent compared with the end of September 2006. At the end of September 2007, DEUTZ therefore came 60th (December 2006: 52nd) in Deutsche Börse AG's share rankings, which only take the free float into account. In terms of trading volume, DEUTZ was ranked 44th at the end of the first nine months of 2007 (December 2006: 47th).

During the third quarter of 2007, Credit Suisse, Goldman Sachs and Landesbank Baden-Württemberg added DEUTZ to their analysis coverage, with each of them issuing a buy recommendation.

DEUTZ share

	1–9/2007	1–9/2006
Number of shares (30 September)	120,080,238	113,126,696
Number of shares (average)	116,392,993	105,039,138
Share price (30 September) in €	8.89	8.34
Share price (high) in €	10.05	8.50
Share price (low) in €	7.88	6.15
Market capitalisation (30 September) in € million	1,067.5	943.5

Based on Xetra closing prices

RISK REPORT

As a group operating in different application segments at a global level, DEUTZ is exposed to various business and regional risks. These risks are described in detail in the 2006 Annual Report. The main change in this situation to occur in the first nine months of 2007 was that the significant proceeds generated by the sale of DEUTZ Power Systems further improved the DEUTZ Group's financial position and equity ratio considerably. These funds will ensure that the Compact Engines business can continue to develop its strategy.

OUTLOOK

The following statements concerning the DEUTZ Group's outlook have been adjusted to reflect its continuing operations, i.e. the Compact Engines, DEUTZ Customised Solutions and the Other segment.

Outlook for 2007 remains positive

Based on the performance of the DEUTZ Group's business during the year to date and its current order situation, it is expected to sell between 280,000 and 290,000 engines in 2007.

Revenue from the DEUTZ Group's continuing operations will increase by between 25 per cent and 30 per cent on the roughly €1.2 billion reported for 2006. This year's operating profit will improve significantly on the approximately €67 million generated in 2006 to a high double-digit million figure. Including the start-up losses incurred by "DEUTZ Dalian", this will bring the EBIT margin on continuing operations to around 6 per cent. Net income will increase by over €100 million owing to the improvements in our core operations and, in particular, due to the one-off gain on the disposal of DEUTZ Power Systems.

DISCLAIMER

This publication includes certain statements about future events and developments, together with disclosures and estimates provided by the company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performances, developments and results in the company or those in sectors important to the company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Management Board cannot therefore make any warranty with regard to the statements made in this management report. The company gives no undertaking that it will update forward-looking statements to bring them into line with future developments.

Interim consolidated financial statements 1st to 3rd Quarter 2007

INCOME STATEMENT FOR THE DEUTZ GROUP

	7–9/2007	7–9/2006	1–9/2007	1–9/2006
€ million				
Revenue	**383.0**	**292.2**	**1,100.7**	**817.5**
Changes in inventories and other own work capitalised	13.8	16.2	42.9	21.4
Other operating income	17.6	12.0	52.4	44.7
Cost of materials	–264.0	–191.3	–763.0	–518.3
Staff costs	–69.4	–63.3	–205.7	–180.9
Depreciation and amortisation	–16.2	–14.7	–48.6	–44.3
Other operating expenses	–34.2	–36.8	–108.5	–92.1
Gains on financial assets measured at equity	–	–	0.6	–
Reversal of impairment losses on non-current financial assets	–	–	0.2	–
EBIT	**30.6**	**14.3**	**71.0**	**48.0**
thereof one-off items	**–**	**–**	**–**	**–**
thereof operating profit (EBIT before one-off items)	**30.6**	**14.3**	**71.0**	**48.0**
Interest expenses, net	–5.7	–3.6	–16.3	–14.5
thereof financial costs	–8.2	–4.0	–19.8	–15.2
Other taxes	–0.5	–0.2	–1.1	–0.9
Net income before income taxes on continuing operations	**24.4**	**10.5**	**53.6**	**32.6**
Income taxes	–15.3	–2.6	–18.0	–6.5
Net income after income taxes on continuing operations	**9.1**	**7.9**	**35.6**	**26.1**
Net income after income taxes on discontinued operations	**107.7**	**0.8**	**107.6**	**–0.1**
Net income	**116.8**	**8.7**	**143.2**	**26.0**
thereof minority interest	–	0.1	–	–
thereof attributable to the shareholders of the parent enterprise	116.8	8.6	143.2	26.0
Earnings per share				
Earnings per share, basic, in €	**1.00**	**0.08**	**1.23**	**0.25**
thereof from continuing operations	0.08	0.07	0.31	0.25
thereof from discontinued operations	0.92	0.01	0.92	–
Earnings per share, diluted, in €	**0.97**	**0.07**	**1.19**	**0.21**
thereof from continuing operations	0.08	0.06	0.30	0.21
thereof from discontinued operations	0.89	0.01	0.89	–

BALANCE SHEET FOR THE DEUTZ GROUP

Assets

	30/9/2007	31/12/2006
€ million		
Property, plant and equipment	321.0	374.6
Intangible assets	101.7	100.3
Financial assets measured at equity	61.7	12.8
Other financial assets	9.5	11.4
Non-current assets before deferred tax assets	**493.9**	**499.1**
Deferred tax assets	45.7	56.2
Non-current assets	**539.6**	**555.3**
Inventories	230.5	249.6
Trade receivables	213.2	222.0
Other receivables and assets	87.9	84.2
Cash and cash equivalents	264.8	49.4
Current assets	**796.4**	**605.2**
Non-current assets and disposal groups held for sale	15.8	2.4
Total assets	**1,351.8**	**1,162.9**
Equity and liabilities		
Issued capital	307.0	292.3
Additional paid-in capital	28.1	24.1
Other reserves	–5.3	–1.8
Accumulated other comprehensive income/loss attributable to non-current assets and disposal groups held for sale	–0.7	–
Retained earnings	0.4	0.4
Accumulated income	186.7	43.5
Equity attributable to the shareholders of the parent enterprise (DEUTZ Group's interest)	**516.2**	**358.5**
Equity	**516.2**	**358.5**
Provisions for pensions and other post-retirement benefits	179.9	271.2
Deferred tax provisions	0.6	0.5
Other provisions	35.6	52.0
Financial liabilities	220.6	69.5
Other liabilities	9.8	2.8
Non-current liabilities	**446.5**	**396.0**
Provisions for pensions and other post-retirement benefits	17.5	26.5
Provision for current income taxes	30.3	6.5
Other provisions	81.0	44.7
Financial liabilities	7.2	13.9
Trade payables	180.6	236.4
Other liabilities	67.6	80.4
Current liabilities	**384.2**	**408.4**
Liabilities directly associated with non-current assets and disposal groups held for sale	4.9	–
Total equity and liabilities	**1,351.8**	**1,162.9**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

	Issued capital	Additional paid-in capital	Retained earnings	Fair value reserve[1)2)]	Currency translation reserve[1)]
€ million					
Balance at 1 January 2006	**242.9**	**20.1**	**–**	**–1.3**	**2.9**
Increase from exercise of conversion rights on convertible bonds	20.8	4.5			
Increase from exercise of conversion rights on profit-sharing rights	25.5	–2.1			
Accumulated other comprehensive income/loss				1.6	–2.8
(thereof reversal recognised in period income)				(–0.1)	
Net income					
Total of net income and accumulated other comprehensive income/loss in reporting period				1.6	–2.8
Balance at 30 September 2006	**289.2**	**22.5**	**–**	**0.3**	**0.1**
Balance at 1 January 2007	**292.3**	**24.1**	**0.4**	**1.0**	**–2.8**
Increase from exercise of conversion rights on convertible bonds	14.7	4.0			
Accumulated other comprehensive income/loss				–	–3.5
(thereof reversal recognised in period income)				(2.1)	
Net income					
Total of net income and accumulated other comprehensive income/loss in reporting period				–	–3.5
Balance at 30 September 2007	**307.0**	**28.1**	**0.4**	**1.0**	**–6.3**

1) These items are aggregated as “Other reserves” on the face of the balance sheet.

2) Reserves from the measurement of cash flow hedges and reserves from the measurement of available-for-sale financial assets.

Accumulated other comprehensive income/loss attributable to non-current assets and disposal groups held for sale	Accumulated income/loss	Total Group interest	Minority interest	Total
–	**–18.2**	**246.4**	**0.6**	**247.0**
		25.3		25.3
		23.4		23.4
		–1.2		–1.2
		(–0.1)		(–0.1)
	26.0	26.0		26.0
	26.0	24.8	–	24.8
–	**7.8**	**319.9**	**0.6**	**320.5**
–	**43.5**	**358.5**	**–**	**358.5**
		18.7		18.7
–0.7		–4.2		–4.2
		(2.1)		(2.1)
	143.2	143.2		143.2
–0.7	143.2	139.0	–	139.0
–0.7	**186.7**	**516.2**	**–**	**516.2**

CASH FLOW STATEMENT OF THE DEUTZ GROUP

	1–9/2007	1–9/2006
€ million		
EBIT	**71.0**	**48.0**
Interest income	1.6	0.7
Other taxes paid	–1.1	–0.9
Income taxes paid	–15.3	–7.2
Depreciation, amortisation of non-current assets	48.4	44.3
Gains/losses on the sale of non-current assets	–	0.3
Gains/losses on measurement at equity	–0.6	–
Other non-cash income and expenses	–20.7	–10.5
Change in inventories	–64.3	–39.9
Change in receivables and other assets	–82.2	–8.8
Change in current provisions and liabilities (excl. financial liabilities)	39.8	10.5
Change in non-current provisions and liabilities (excl. financial liabilities)	–9.0	–9.4
Cash flow from operating activities before payment of compensation for vested company pension rights	**–32.4**	**27.1**
Payment of compensation for vested company pension rights – continuing operations	–78.8	–
Cash flow from operating activities – continuing operations	**–111.2**	**27.1**
Cash flow from operating activities – discontinued operations	–9.1	–4.1
Cash flow from operating activities – total	**–120.3**	**23.0**
Capital expenditure on intangible assets and property, plant and equipment	–65.5	–43.5
Capital expenditure on investments	–58.2	–
Cash receipts from the sale of businesses	14.2	–
Proceeds from the sale of non-current assets	1.1	0.2
Cash flow from investing activities – continuing operations	**–108.4**	**–43.3**
Cash flow from investing activities – discontinued operations	283.0	–0.7
Cash flow from investing activities – total	**174.6**	**–44.0**
Interest expenses	–7.0	–5.7
Cash receipts from borrowings	246.9	29.8
Repayments of loans	–74.3	–39.0
Cash flow from financing activities[1)]	**165.6**	**–14.9**
Cash flow from operating activities	–120.3	23.0
Cash flow from investing activities	174.6	–44.0
Cash flow from financing activities	165.6	–14.9
Change in cash and cash equivalents	**219.9**	**–35.9**
Cash and cash equivalents at 1 January	**49.4**	**48.4**
Change in cash and cash equivalents	219.9	–35.9
Consolidation- and exchange rate-related change in cash and cash equivalents	–4.5	–0.4
Cash and cash equivalents at 30 September	**264.8**	**12.1**

[1)] Cash receipts and cash payments from financing activities for discontinued operations are not directly allocable. DEUTZ AG finances discontinued operations centrally through clearing accounts.

DEUTZ Group – Notes to the consolidated financial statements, Q1 – Q3 2007

BASIS OF PRESENTATION

The consolidated financial statements of DEUTZ AG for the year ended 31 December 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The standards comprise the IFRS and International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB), together with the interpretations of both the International Financial Reporting Interpretations Committee (IFRIC) and the Standard Interpretations Committee (SIC).

The consolidated financial statements for the year ended 31 December 2006 are consistent with the statutory obligations applicable to publicly traded parent companies subject to disclosure requirements pursuant to section 315a (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 concerning the adoption of current international accounting standards in the version applicable at the time (IAS Regulation). The supplementary provisions of the German Stock Corporation Act (AktG) have been applied.

These interim financial statements for the period ended 30 September 2007 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Board (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim financial statements do not contain all the information and notes required by the IFRS for consolidated financial statements for a full financial year, and should therefore be read in conjunction with the IFRS consolidated financial statements published by the company for the 2006 financial year. The accounting policies used in the preparation of these interim consolidated financial statements are essentially the same as those used in the most recent consolidated financial statements for the year ended 31 December 2006. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for the year ended 31 December 2006.

If material, revenue-related and cyclical items are deferred during the year on the basis of annual business plans.

The condensed interim consolidated financial statements for the period ended 30 September 2007 – consisting of the balance sheet, income statement, cash flow statement, statement of changes in equity and selected notes to the consolidated financial statements – and the interim group management report for the period from 1 January to 30 September 2007 have not been reviewed by an auditor.

BASIS OF CONSOLIDATION

The number of companies included in the consolidation has decreased since 31 December 2006 following the addition and deconsolidation of the following companies:

Added

- DEUTZ Asia-Pacific (Pte) Ltd, Singapore, Singapore
- DEUTZ (Dalian) Engine Co., Ltd., Dalian, China

Deconsolidated due to disposal of DEUTZ Power Systems segment

- DEUTZ Power Systems GmbH & Co. KG, Mannheim, Germany
- DEUTZ Power Systems B.V., Rotterdam, Netherlands
- DEUTZ POWER SYSTEMS IBERIA S.A., Madrid, Spain (formerly DEUTZ IBERIA S.A., Madrid, Spain)
- DEUTZ POWER SYSTEMS ASIA-PACIFIC PTE. LTD, Singapore, Singapore

Reclassified

- Ad. Strüver KG (GmbH & Co.), Hamburg
- ASIA POWER (PRIVATE) LIMITED, Colombo, Sri Lanka

FURTHER INFORMATION ON MATERIAL CHANGES IN THE BALANCE SHEET AND INCOME STATEMENT

Introduction

The sale of the DEUTZ Power Systems segment had a material impact on the figures reported on the consolidated balance sheet as at 30 September 2007.

The table below shows the assets and liabilities sold:

	30 Sept. 2007
€ million	
Non-current assets (before deferred tax assets)	61.5
Inventories	120.9
Trade receivables	62.9
Other assets	16.7
Assets sold	**262.0**
Current and non-current provisions	35.6
Trade payables	46.7
Other liabilities	41.5
Liabilities sold	**123.8**
Total	**138.2**

The income and expenses of the DEUTZ Power Systems segment sold are reported separately in the consolidated income statement as net income after income taxes on discontinued operations.

Balance Sheet

The “DEUTZ Dalian” Chinese joint venture, which is reported as an addition of roughly €58 million to financial assets, has been recognised at cost under the equity method in accordance with IAS 31.38 in conjunction with IAS 28. Capital expenditure of approximately €57 million (including investment grants) on property, plant and equipment and intangible assets was partly offset by depreciation and amortisation of €48.6 million. In addition to the disposal of DEUTZ Power Systems non-current assets (before deferred tax assets) worth roughly €62 million as at 30 September 2007, DEUTZ Power Systems financial assets worth approximately €7.9 million and property, plant and equipment amounting to €0.2 million have been reclassified as non-current assets and disposal groups held for sale in accordance with IFRS 5.

The main reason for the €10.5 million decrease in deferred tax assets is explained below.

The disposal of DEUTZ Power Systems has reduced the recognised losses carried forward by approximately €10.4 million; the corresponding deferred tax expense is reported under continuing operations. The revision of medium-term earnings forecasts following the disposal of DEUTZ Power Systems has resulted in the recognition of an offsetting amount of €9.3 million. The lowering of tax rates from 2008 onwards reduces the recognised losses carried forward by roughly €9.8 million.

The increase of €215.4 million in cash and cash equivalents is attributable to the purchase price of €292.0 million paid for DEUTZ Power Systems.

The non-current assets held for sale as at 30 September 2007 consist of assets not yet transferred from the sale of DEUTZ Power Systems and relate to the following balance sheet items:

€ million	30 Sept. 2007
Non-current assets and disposal groups held for sale, of which	**14.9**
Property, plant and equipment	0.2
Financial assets measured at equity	7.9
Inventories	2.0
Trade receivables	4.8
Liabilities directly associated with non-current assets and disposal groups held for sale, of which	**4.9**
Non-current provisions	2.0
Current provisions	0.6
Trade payables	1.2
Other liabilities	1.1

Assets and liabilities are each reported as a separate item on the balance sheet in accordance with IFRS 5.38.

Equity increased from €358.5 million to €516.9 million primarily owing to the high level of net income (€143.2 million) and the conversion of 5,753,642 bonds and 180 profit-sharing rights. The effect of these conversions totalled €18.7 million. Consequently, the equity ratio as at 30 September 2007 rose to 38.2 per cent.

Current and non-current provisions as at 30 September 2007 had decreased by €56.5 million to €344.9 million. The decrease of €100.3 million in current and non-current pension provisions stems largely from the compensation paid for vested company pension rights. Total compensation of €80.4 million was paid, of which €78.8 million was attributable to continuing operations and €1.6 million to discontinued operations. The €20.0 million increase in other current and non-current provisions resulted from operating activities and from the disposal of DEUTZ Power Systems.

The €23.8 million increase in provisions for income taxes includes the tax expense of €29.7 million for the one-off gain on the disposal of DEUTZ Power Systems.

Non-current financial liabilities rose by €151.1 million. DEUTZ AG issued bonds worth US$ 274 million as part of a private placement in the United States and recognised them at cost in accordance with IAS 39. The placement was completed on 16 July. The bonds – which carry maturities of five, seven and ten years – were purchased by US institutional investors. Corresponding loan repayments and the conversion of bonds and profit-sharing rights had the countervailing effect.

Income Statement

The DEUTZ Group's continuing operations raised their revenue in the first nine months of 2007 by 34.6 per cent year on year to €1,100.7 million. This strong growth stemmed almost exclusively from the Compact Engines segment. In addition to market growth, a key revenue driver was the ramp-up of production of the new commercial vehicle engine until the end of 2006, which accounted for roughly 41 per cent of revenue growth.

The rise in other operating income from continuing operations was attributable to the reversal of pension provisions set aside for the compensation paid for vested company pension rights.

The cost of materials rose in line with revenue. Furthermore, the rectification of temporary capacity bottlenecks incurred significantly higher logistics costs in the form of freight inward.

The table below gives a breakdown of the DEUTZ Group's tax expenses:

€ million	**Continuing operations**	**Discontinued operations**	**Total**
Current tax expense	**9.6**	**30.4**	**40.0**
Deferred taxes	**8.4**	**0.9**	**9.3**
of which deferred tax assets on losses carried forward			
• due to extrapolation of projections and change in tax rates due to German business tax reform	0.5	–	0.5
• due to disposal of DEUTZ Power Systems	10.4	–	10.4
of which other effects	–2.5	0.9	–1.6
Total tax expense	**18.0**	**31.3**	**49.3**

€0.7 million of the current tax expense incurred by discontinued operations is attributable to the operating profit.

DISCONTINUED OPERATIONS (DISPOSAL OF DEUTZ POWER SYSTEMS)

There is relatively little overlap between the Compact Engines business and the medium-sized and large engines business of DEUTZ Power Systems because of their differing business processes, customer profiles and market conditions. The Management Board has therefore sold the segment DEUTZ Power Systems, including its associates and subsidiaries. These are classified as a segment as defined by IAS 14.

After DEUTZ AG's Supervisory Board and the relevant antitrust regulator had given their approval, the disposal of the gas-engines and diesel-engines business for decentralised power generation (DEUTZ Power Systems) was completed with commercial effect from 30 September 2007.

The agreed purchase price amounted to €360.0 million and included the shares in the following consolidated companies:

- DEUTZ Power Systems GmbH & Co. KG, Mannheim, Germany
- DEUTZ Power Systems B.V., Rotterdam, Netherlands
- DEUTZ POWER SYSTEMS IBERIA S.A., Madrid, Spain (formerly DEUTZ IBERIA S.A., Madrid, Spain)
- DEUTZ POWER SYSTEMS ASIA-PACIFIC PTE. LTD., Singapore, Singapore

In addition, material assets that were essential to the business operations of the Power Systems segment, but did not belong to any of the companies being sold, were sold.

Payments of €292.0 million were received from the disposal in the third quarter of 2007 after deduction of tax payments, one-off expenses and purchase price adjustments. A further €24 million or so will be paid to DEUTZ AG in the fourth quarter for shares and assets yet to be transferred.

This transaction is reported as a discontinued operation in accordance with IFRS 5:

€ million	
Gain on disposal (after taxes)	102.2
Current net income (after taxes)	5.4
Total	**107.6**

The table below gives a breakdown of gains on the disposal of discontinued operations:

Gain on disposal

€ million	
Sale price	**360.0**
– assets and liabilities	–138.2
– one-off expenses and purchase price adjustments	–66.1
– purchase price for assets not yet transferred	–23.8
Gain on disposal before income taxes	**131.9**
Income taxes	–29.7
Gain on disposal after income taxes	**102.2**

The table below gives a breakdown of the net income/loss on discontinued operations:

€ million	7–9/2007	7–9/2006
Revenue	**78.0**	**59.9**
Changes in inventories and other own work capitalised	3.6	5.7
Cost of materials	–45.2	–36.3
Staff costs	–15.2	–15.8
Other income and expenses	–14.5	–11.7
EBIT on discontinued operations	**6.7**	**1.8**
Net interest expense/other taxes	–0.9	–0.9
Current net income on discontinued operations	**5.8**	**0.9**
Income taxes	–0.3	–0.1
Current net income after income taxes on discontinued operations	**5.5**	**0.8**
Gain on disposal before income taxes	131.9	–
Income taxes	–29.7	–
Gain on disposal after income taxes on discontinued operations	**102.2**	**–**
Net income on discontinued operations	**107.7**	**0.8**

€ million	1–9/2007	1–9/2006
Revenue	**199.8**	**179.6**
Changes in inventories and other own work capitalised	31.6	26.4
Cost of materials	–135.2	–117.9
Staff costs	–48.1	–47.6
Other income and expenses	–39.0	–38.3
EBIT on discontinued operations	**9.1**	**2.2**
Net interest expense/other taxes	–2.1	–2.1
Current net income on discontinued operations	**7.0**	**0.1**
Income taxes	–1.6	–0.2
Current net income/loss after income taxes on discontinued operations	**5.4**	**–0.1**
Gain on disposal before income taxes	131.9	–
Income taxes	–29.7	–
Gain on disposal after income taxes on discontinued operations	**102.2**	**–**
Net income/loss on discontinued operations	**107.6**	**–0.1**

OPERATIONS REMAINING IN THE DEUTZ GROUP

DEUTZ UK Ltd.'s shareholdings in ASIA POWER (PRIVATE) LIMITED, Sri Lanka, and AP OPERATION & MAINTENANCE Ltd., Jersey, which form part of the DEUTZ Power Systems segment, are due to be transferred to the buyer of DEUTZ Power Systems in the fourth quarter. The same applies to the assets, liabilities and employees of the DEUTZ subsidiaries DEUTZ Corporation (USA), DEUTZ France S.A. (France) and Deutz Australia (Pty) Ltd. (Australia), which also belong to the DEUTZ Power Systems segment and will leave the DEUTZ Group with effect from 31 December 2007.

CONTINGENT LIABILITIES

Contingent liabilities as at 30 September 2007 amounted to €24.0 million, an increase of €6.7 million on the figure reported as at 31 December 2006. The increase is due to guarantees provided by DEUTZ AG to DEUTZ Power Systems, which are reported as part of deconsolidation. The buyer of DEUTZ Power Systems has assumed the liability for these guarantees towards DEUTZ AG.

RELATED-PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties. These include the business relationships between the DEUTZ Group and its associates and subsidiaries as well as the following DEUTZ AG shareholders (including their subsidiaries), which are in a position to exert a significant influence over the DEUTZ Group. These are
- SAME DEUTZ-FAHR Holding & Finance B.V. Amsterdam, Netherlands (Group), and
- AB Volvo Power (publ), Gothenburg, Sweden (Group).

The business relationships between the DEUTZ Group and its shareholders, including their subsidiaries, were as follows:

The DEUTZ Group's revenue from the Volvo Group arising from deliveries of engines and spare parts and from services rendered amounted to €311.2 million in the first nine months of 2007. Revenue from the companies of the SAME DEUTZ-FAHR Group arising from deliveries of engines and spare parts and from services rendered over the same period amounted to €30.0 million.

SEGMENT REPORTING

Continuing operations

	Compact Engines		DEUTZ Customised Solutions		Other		DEUTZ Group	
	1–9/ 2007	1–9/ 2006	1–9/ 2007	1–9/ 2006	1–9/ 2007	1–9/ 2006	1–9/ 2007	1–9/ 2006
€ million								
Revenue	862.6	593.8	238.1	223.7			1,100.7	817.5
Operating profit (EBIT before one-off items)	34.1	25.7	31.3	22.7	5.6	–0.4	71.0	48.0

Other

This segment contains Group and consolidation activities that do not belong in any other segment. In the first nine months of 2007 this essentially comprised the legacy effects of the disposal of the Marine Service business.

Discontinued operations

	DEUTZ Power Systems	
	1–9/ 2007	1–9/ 2006
€ million		
Revenue	199.8	179.6
Operating profit (EBIT before one-off items)	9.1	2.2

EVENTS AFTER THE BALANCE SHEET DATE (30 SEPTEMBER 2007)

There have been no events of particular importance since 30 September.

OTHER DISCLOSURES

New member of the Management Board

Gino Mario Biondi was appointed to the Management Board of DEUTZ AG with effect from 1 September 2007 and is responsible for procurement and logistics.

New Chairman of the Management Board

In the middle of September the Supervisory Board of DEUTZ AG appointed CFO Helmut Meyer as acting Chairman of the Management Board with effect from 1 October. Gordon Riske, the previous Chairman, left the company on 30 September. Helmut Meyer will continue to act as Chairman until a successor is appointed and is in post. The divisions which used to report to the Chairman of the Management Board have been split between the three members of the Management Board for the transitional period.

New member of the Supervisory Board

At the request of the Management Board of DEUTZ AG, the local court in Cologne appointed Egbert Zieher as a member of the Supervisory Board to replace Peter Schwab, who stepped down with effect from 30 September.

Cologne, 8 November 2007

DEUTZ Aktiengesellschaft
The Management Board

Helmut Meyer **Gino Mario Biondi** **Karl Huebser**

Financial Calendar

Dates 2008	Event	Location
27 March	Annual Results Press Conference Publication Annual Report 2007	DEUTZ AG, Cologne
28 March	Analysts' meeting	Frankfurt/Main
30 April	Q1 2008 Interim Report Conference call with analysts and investors	
21 May	Annual General Meeting	Koelnmesse, Cologne
13 August	H1 2008 Interim Report Press conference Conference call with analysts and investors	DEUTZ AG, Cologne
7 November	Q1–Q3 2008 Interim Report Conference call with analysts and investors	

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