# One step ahead

Interim Report

First quarter 2011

DEUTZ

# FIRST QUARTER AT A GLANCE

**DEUTZ Group: Key figures**

| | 1–3/2011 | 1–3/2010 |
|---|---|---|
| € million | | |
| New orders | 408.5 | 312.0 |
| Unit sales (units) | 48,416 | 33,784 |
| Revenue | 336.0 | 236.4 |
| thereof excluding Germany (%) | 82.1 | 81.5 |
| EBITDA | 34.3 | 14.6 |
| EBIDTA (before one-off items) | 34.3 | 16.3 |
| EBIT | 18.2 | –1.0 |
| EBIT (before one-off items) | 18.2 | 0.7 |
| EBIT margin (%) | 5.4 | –0.4 |
| EBIT margin (before one-off items, %) | 5.4 | 0.3 |
| Net income | 13.7 | –8.7 |
| Earnings per share (€) | 0.11 | –0.07 |
| Total assets | 1,048.4 | 1,080.9 |
| Non-current assets | 613.8 | 546.9 |
| Equity | 384.5 | 374.1 |
| Equity ratio (%) | 36.7 | 34.6 |
| Cash flow from operating activities | –9.6 | –28.6 |
| Free cash flow – continuing operations[1] | –37.5 | –53.6 |
| Net financial position[2] | –110.8 | –61.9 |
| Working capital[3] | 168.9 | 150.6 |
| Working capital as percentage of revenue (%) | 13.1 | 17.1 |
| Capital expenditure (excluding capitalisation of R&D) | 10.0 | 8.2 |
| Depreciation and amortisation | 16.1 | 15.6 |
| Research and development | 25.2 | 23.9 |
| Employees (31 March) | 4,081 | 3,850 |

[1] Free cash flow: cash flow from operating and investing activities minus interest expense
[2] Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities
[3] Working capital: inventories plus trade receivables minus trade payables

**DEUTZ Group: segments**

| | 1–3/2011 | 1–3/2010 |
|---|---|---|
| € million | | |
| **New orders** | | |
| DEUTZ Compact Engines | 325.1 | 240.2 |
| DEUTZ Customised Solutions | 83.4 | 71.8 |
| **Total** | **408.5** | **312.0** |
| **Unit sales (units)** | | |
| DEUTZ Compact Engines | 42,672 | 30,538 |
| DEUTZ Customised Solutions | 5,744 | 3,246 |
| **Total** | **48,416** | **33,784** |
| **Revenue** | | |
| DEUTZ Compact Engines | 260.0 | 183.1 |
| DEUTZ Customised Solutions | 76.0 | 53.3 |
| **Total** | **336.0** | **236.4** |
| **EBIT (before one-off items)** | | |
| DEUTZ Compact Engines | 6.7 | –4.1 |
| DEUTZ Customised Solutions | 11.9 | 6.2 |
| Other | –0.4 | –1.4 |
| **Total** | **18.2** | **0.7** |

# FOREWORD

**Dear shareholders,**

At the end of the first quarter of 2011, the economy in many parts of the world was in excellent shape, characterised by recovery, plenty of orders and buoyant growth. Germany's engineering industry started the new year with full order books and high capacity utilisation in production.

However, the full economic consequences of the catastrophic earthquake and tsunami in Japan are still uncertain. We do not yet know what negative impact this disaster may have on the global economy, although Japan accounts for only a relatively small proportion of Germany's foreign trade.

DEUTZ can look back on an outstanding first quarter: all of the key financials are again on a steep upwards trajectory and have made significant year-on-year gains. Our orders were up 30.9 per cent, while revenue rose by 42.1 per cent.

Most notably, we reported positive net income in the first three months of 2011 – the first time that we have made a profit in the first quarter since 2008. As a result, the DEUTZ share price recovered very rapidly from the sharp fall on the stock markets following the catastrophes in Japan and, by the start of April, had climbed back to where it had been at the end of 2010.

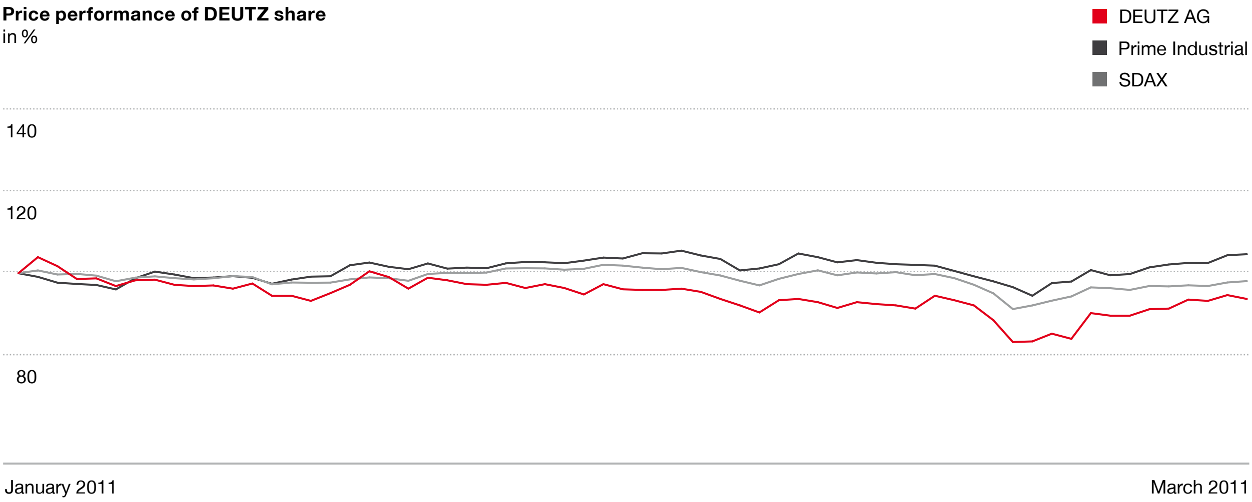
Despite the uncertainties and economic risks caused by the situation in Japan, we are confident that we will continue to drive DEUTZ forward over the course of the year. Our large volume of orders on hand lends weight to this assessment. Thanks to the rigorous action programmes that we have implemented to reduce costs and boost efficiency, we will make an operating profit of more than €80 million and achieve net income in the mid-double-digit million euros.

Kind regards from Cologne

Dr Helmut Leube
Chairman of the Board of Management

# DEUTZ SHARES

**Price performance of DEUTZ share**
in %




**DEUTZ shares hit particularly hard by the slump on the stock markets in March** The German stock markets started 2011 full of optimism. Initially, this confidence was reflected in rising prices, but the natural and nuclear disasters in Japan put an end to the positive trend. All of the indices slumped, although they subsequently recovered again to some extent. The SDAX – on which DEUTZ shares are listed – fell slightly, having started well. It began the year at 5,174 points and stood at 5,144 points on 31 March 2011. The Prime Industrial, which indicates the share prices of the major German industrial companies, only made a slight gain, climbing from 2,106 points to 2,190 points in the first three months – a rise of 4.0 per cent.

Despite the company's strong performance, DEUTZ shares did not perform as well as the benchmark indices in the first quarter of 2011. Having closed at €6.25 on 30 December 2010, the shares quickly climbed to their highest level so far on 4 January when they reached €6.63. They fell to their year-to-date low of €5.29 on 16 March 2011. On 31 March 2011, they ended the quarter at €5.95, a decline of 4.8 per cent. But just a few days later, on 4 April 2011, the shares had climbed back to €6.29, making up for the losses of the first quarter.

DEUTZ had a total of 120,861,783 shares in issue as at 31 March 2011 – a number that had not changed year on year. Market capitalisation consequently amounted to €719.0 million (31 December 2010: €755.4 million).

DEUTZ shares are currently covered by eleven banks and securities houses: Bankhaus Lampe, Berenberg Bank, BHF-Bank, Commerzbank, Deutsche Bank, Goldman Sachs, HSBC Trinkaus & Burkhardt, Solventis Wertpapierhandelsbank, UBS, Unicredit and WestLB. The majority of analysts currently recommend buying our shares.

**Key figures for DEUTZ shares**

| | **1–3/2011** | 1–3/2010 |
|---|---|---|
| Number of shares (31 March) | 120,861,783 | 120,861,783 |
| Average number of shares | 120,861,783 | 120,861,783 |
| Share price as at 31 March (€) | 5.95 | 4.33 |
| Share price high (€) | 6.60 | 4.33 |
| Share price low (€) | 5.28 | 3.15 |
| Market capitalisation as at 31 March (€ million) | 719.1 | 523.3 |
| Earnings per share (€) | 0.11 | –0.07 |

Based on Xetra closing prices

# INTERIM MANAGEMENT REPORT ON FIRST QUARTER OF 2011

## BUSINESS PERFORMANCE IN THE DEUTZ GROUP

### ECONOMIC ENVIRONMENT

**Global economy starts strongly** Whereas the global economy had slowed slightly to a more moderate rate of growth during the summer of 2010, the pace picked up again in early 2011. There are many signs that worldwide production will continue to rise over the course of the year, although the picture remains mixed. Developing and emerging markets have long returned to – or even exceeded – the level of growth seen before the crisis and there is a risk that these economies will overheat. In contrast, the advanced economies are still struggling to sustain the upturn.

This means that the emerging markets will continue to drive the global economy's growth, which is expected to be around 4.3 per cent in 2011. Experts forecast that China will again expand by around 9.4 per cent, India by 8.2 per cent and Latin America by about 4.1 per cent. The economies of the G7 countries will grow by a comparatively low 2.5 per cent, with the strongest growth anticipated in the USA, Canada and Germany. Although growth in the euro zone as a whole will remain weak at just 1.5 per cent, Germany's economy[1)] will again see a highly positive trend.

In fact, Deutsche Bank has raised its forecast for the current year from 2.0 per cent to 2.5 per cent. Firstly, last year's dip in global economic growth proved to be shorter and less severe than expected and, secondly, the weather-related slump in construction investment in Germany during the fourth quarter of 2010 is having a highly positive knock-on effect in 2011. Moreover, the upbeat mood in the German economy is in itself stimulating growth. However, the rising price of oil – which is also driving inflation – is putting a brake on growth.[2)]

The impact of the natural and nuclear disasters in Japan on the global economy is not yet clear, but it is currently thought to be relatively small. The Japanese economy recovered very quickly after the major earthquake in Kobe in 1995. Moreover, although Japan has the third largest economy worldwide, it only accounts for 5 per cent of global trade.[3)]

**Engineering: excellent start to 2011** The high volume of orders at the end of 2010 was followed by fast-paced growth in the engineering sector in early 2011. Domestic demand was particularly encouraging and, in January 2011, was 53 per cent higher than it had been a year earlier. Orders from outside Germany were up 42 per cent compared to the same period last year. Orders for industrial plants particularly boomed. The high volume of orders was matched by a rise in capacity utilisation, which stood at 86.4 per cent in January 2011. As a comparison, this figure had been 69.2 per cent at the height of the economic crisis in July 2009.

The German Engineering Federation (VDMA) is forecasting growth of 11 per cent for 2011. However, this forecast does not take account of the impact of the natural and nuclear disasters in Japan.[4)]

### NEW ORDERS

**Plenty of orders on the books** In the first three months of 2011, DEUTZ received new orders with a value of €408.5 million, almost a third more than in the first quarter of 2010 (Q1 2010: €312.0 million). This was also up significantly – slightly under 25 per cent – on the previous quarter (Q4 2010: €328.2 million). The fact that new orders were higher than revenue in the first quarter of 2011 confirms our positive outlook for 2011 as a whole.

Orders on hand amounted to €350.9 million as at 31 March 2011, which was more than 50 per cent higher than they had been a year earlier (31 March 2010: €231.3 million) and up a quarter on the end of 2010 (31 December 2010: €280.8 million).

### UNIT SALES

**Encouraging growth in engine sales** In the first three months of 2011, DEUTZ sold a total of 48,416 engines, over 43 per cent more than it had a year earlier (Q1 2010: 33,784 engines). The small decline in unit sales of some 3,200 engines compared to the very strong fourth quarter of 2010 simply reflects the normal seasonal variations at DEUTZ, which generally result in a weaker first quarter.

The Americas region saw one of the sharpest rises in unit sales, where we sold 7,721 engines – outstripping the first quarter of 2010 by approximately 90 per cent (Q1 2010: 4,050 engines). Europe including Germany, which remains our largest market, expanded by over 36 per cent in the first three months of 2011 and DEUTZ sold 36,323 engines there (Q1 2010: 26,643 engines).

[1)] Source: Deutsche Bank, Globale Trends of 31 March 2011
[2)] Source: Deutsche Bank, economic research of 10 March 2011; Kiel Institute for World Economics (IfW), media information of 10 March 2011
[3)] Source: Deutsche Bank, Globale Trends of 31 March 2011; HBSC webinar of 18 March 2011; Commerzbank economic research of 18 March 2011

[4)] Source: VDMA Konjunkturbulletin of March 2011

# RESULTS OF OPERATIONS

## REVENUE

**DEUTZ Group: Revenue by region**
€ million (2010 figures)

| | | | |
|---|---|---|---|
| ■ | **267.6** | (198.1) | Europe/Middle East/Africa |
| ■ | **39.8** | (22.4) | Americas |
| ■ | **28.6** | (15.9) | Asia/Pacific |
| | **336.0** | (236.4) | Total |

**Revenue continues to rise.** Consolidated revenue rose to €336.0 million, a year-on-year increase of over 42 per cent (Q1 2010: €236.4 million). There was an encouraging upward trend in revenue from the Americas and Asia-Pacific regions, where we recorded gains of almost 78 per cent and 80 per cent respectively. Both in Germany and the rest of Europe, revenue was up by about a third on the previous year's figures.

**DEUTZ Group: Revenue by application segment**
€ million (2010 figures)

| | | | |
|---|---|---|---|
| ■ | **114.4** | (70.4) | Mobile Machinery |
| ■ | **59.3** | (46.4) | Service |
| ■ | **54.3** | (36.5) | Stationary Equipment |
| ■ | **53.8** | (46.7) | Automotive |
| ■ | **37.7** | (30.0) | Agricultural Machinery |
| ■ | **16.5** | (6.4) | Miscellaneous |
| | **336.0** | (236.4) | Total |

## EBIT

**EBIT in the double-digit millions** During the first three months of 2011, we generated an operating profit (EBIT before one-off items) of €18.2 million, up significantly on the amount earned a year earlier (Q1 2010: €0.7 million). Operating income was also up 8.3 per cent on the previous quarter (Q4 2010: €16.8 million).

The main factors in this sustained upward trend were the strong level of orders on hand and, above all, the profitable organisational structure that we have created by achieving a lasting reduction in our fixed costs. This positive result is all the more significant because seasonal variations mean the first three months of the year are traditionally our most difficult.

As a percentage of total output, the cost of materials rose by only 0.9 percentage points to 63.5 per cent in the first quarter of 2011 (Q1 2010: 62.6 per cent). This was because of a shift in the product mix towards comparatively more material-intensive engines, including the production start-up of our engines for the exhaust emissions standards COM III B in the European Union and EPA Tier 4 Interim in the USA. Another reason for this rise was the higher price of foundry scrap steel compared to the first quarter of 2010.

Due to the larger volume of business, staff costs (up €8.4 million) and other operating expenses (up €12.2 million) were higher in the first quarter of 2011 than they had been in the same period a year earlier. For the first time since the crisis, there was a year-on-year rise in the number of employees – above all in manufacturing and assembly. The main cause of the growth in other operating expenses was – besides other variable expenses such as freight outwards and services – the deployment of temporary workers, with whose assistance we were able to meet the increase in demand.

Net interest expense amounted to €3.3 million in the first quarter of 2011, a similar level to the first three months of 2010 (Q1 2010: €3.5 million).

Income taxes declined from €3.9 million in the first quarter of 2010 to €0.9 million in the first quarter of 2011. This reduction during the period under review was above all due to higher deferred income from tax resulting from the deferred tax assets recognised on future tax assets arising from loss carryforwards.

Our strong operating performance enabled us to report net income of €13.7 million for the first quarter of 2011 (Q1 2010: loss of €8.7 million), representing a return to the pre-crisis level of net income (Q1 2008: €13.5 million) with significantly lower unit sales.

# BUSINESS PERFORMANCE IN THE SEGMENTS

## BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

**New orders up by a third** The DEUTZ Compact Engines (DCE) segment took new orders worth €325.1 million in the first three months of 2011, a year-on-year increase of more than 35 per cent (Q1 2010: €240.2 million). With revenue amounting to €260.0 million, the 'book-to-bill ratio' stood at 125 per cent, which means new orders were 25 per cent higher than revenue – a very good indicator of continued growth.

**Largest gain in unit sales in the Americas** In the first quarter of 2011, DEUTZ Compact Engines sold 42,672 engines, almost 40 per cent more than in the comparative period (Q1 2010: 30,538 engines). The Americas region recorded the largest gain in unit sales, which were up 75 per cent. Germany increased its unit sales by around 50 per cent, while the rest of Europe – DEUTZ's most important market – generated a rise of over 30 per cent.

**Engines for mobile machinery boost unit sales growth** Compared to the first quarter of 2010, engine sales were at least a third higher in all application segments – except engines for automotive applications. In this application segment, unit sales rose by slightly less than 5 per cent to approximately 5,500 engines, an increase of a little over 200 engines. The positive overall trend was driven above all by sales of engines for mobile machinery, which accounted for almost half of DCE's unit sales (Q1 2011: 21,234 engines) and were around 58 per cent higher than they had been in the first quarter of 2010. At 6,140 units, sales of engines for agricultural machinery were up by a third year on year. Sales of engines for stationary equipment of 9,663 units represented an increase of more than 37 per cent.

**Revenue up 42 per cent year on year** DEUTZ Compact Engines generated first-quarter revenue of €260.0 million, which was 42 per cent more than in the corresponding quarter of 2010 (Q1 2010: €183.1 million).

In line with unit sales, mobile machinery was the application segment with the strongest growth at 58.1 per cent. The second most significant segment was stationary equipment, which recorded a year-on-year revenue gain of just below 50 per cent.

Most of our compact engine customers are located in Europe, where (excluding Germany) we earned revenue of €162.3 million, a third more than in the first quarter of 2010. In Germany (€47.3 million) and the Americas (€27.1 million), we posted revenue gains of 44 per cent and 70 per cent respectively compared to the first quarter of 2010 (Q1 2010: €32.9 million and €15.9 million respectively).

**Return to operating profit** Our encouraging business performance was reflected in the DCE segment's operating profit (EBIT before one-off items) of €6.7 million in the period under review, compared to an operating loss of €4.1 million in the first quarter of 2010. Both the engine and the service businesses contributed in almost equal measure to this positive result. Our DEUTZ (Dalian) Engine Co. Ltd. joint venture also continued to perform well and played its part, reporting a profit.

**DEUTZ Compact Engines: Revenue by application segment**
€ million (2010 figures)

| | | | |
|---|---|---|---|
| ■ | **99.1** | (62.7) | Mobile Machinery |
| ■ | **43.5** | (40.2) | Automotive |
| ■ | **38.1** | (25.5) | Stationary Equipment |
| ■ | **36.6** | (29.0) | Agricultural Machinery |
| ■ | **32.4** | (24.1) | Service |
| ■ | **10.3** | (1.6) | Miscellaneous |
| | **260.0** | (466.3) | Total |

## BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

**Demand higher than in first quarter of 2010** The DEUTZ Customised Solutions (DCS) segment received new orders worth €83.4 million in the first three months of 2011, a year-on-year increase of some 16 per cent (Q1 2010: €71.8 million). This growth in new orders was largely driven by engines for mobile machinery, agricultural machinery and stationary equipment as well as by the high-margin service business. New orders at DCS were above its revenue of €76.0 million for the first quarter of 2011, which means the outlook remains favourable.

**Upturn drives unit sales** Due to the longer delivery times in DCS's project-based business, the segment responds more slowly to economic stimulus than DEUTZ Compact Engines. The full extent of the economic recovery did not impact on DCS until the first quarter of 2011, as a result of which unit sales shot up by 77 per cent year on year. DCS generated total sales of 5,744 engines (Q1 2010: 3,246 engines).

More than half of these unit sales are attributable to the stationary equipment application segment, where unit sales came to 3,029 engines – around 85 per cent more than in the first quarter of 2010. The mobile machinery application segment also benefited significantly from the upturn, with unit sales rocketing by over 99 per cent.

From a regional perspective, the market with the strongest unit sales growth was the Americas, where DCS sold 1,731 engines – 176 per cent more than it had a year earlier (Q1 2010: 627 engines).

**Revenue up by more than 40 per cent** The DCS segment earned revenue of €76.0 million, a year-on-year rise of 42.6 per cent (Q1 2010: €53.3 million). Mobile machinery was the application segment with the biggest growth at just under 100 per cent. In the EMEA (Europe, Middle East and Africa) region, which accounted for around two-thirds of revenue, the rise was more than 30 per cent. The remaining revenue came in equal part from the Americas and Asia, which generated year-on-year gains of 95 per cent and 53 per cent respectively in the first quarter.

**Operating profit almost doubled** As with DCE, the operating profit (EBIT before one-off items) generated in the DEUTZ Customised Solutions segment was significantly higher than in the first quarter of 2010. DCS earned €11.9 million in the first quarter of 2011, compared to €6.2 million a year earlier. Both the highly profitable service business and the engine business contributed to the sharp rise in operating profit as a result of the increase in business volume.

**DEUTZ Customised Solutions: Revenue by application segment**
€ million (2010 figures)

| | | |
|---|---|---|
| **26.9** | (22.3) | Service |
| **16.2** | (11.0) | Stationary Equipment |
| **15.3** | (7.7) | Mobile Machinery |
| **10.3** | (6.5) | Automotive |
| **6.2** | (4.8) | Miscellaneous |
| **1.1** | (1.0) | Agricultural Machinery |
| **76.0** | (53.3) | Total |

## FINANCIAL POSITION

### FUNDING

We were able to replace the existing funding from the US private placement with a secured syndicated bank loan at the end of 2010. The syndicate comprises nine German banks and, besides a guarantee facility and sufficient credit lines for derivatives transactions with which we can hedge interest-rate risk, currency risk and commodities risk, it is providing us with a working capital facility of €265 million – thereby securing the financial basis for our planned growth, including in the medium term. The loan is available to us in the form of a revolving facility, which enables us to draw it down to suit the Company's requirements. We carry out interest-rate hedging to avoid interest-rate risks. As part of the contractual agreements, DEUTZ is obliged to comply with certain financial covenants.

### CASH FLOW

Cash flow from operating activities in the first quarter of 2011 amounted to minus €9.6 million (Q1 2010: minus €28.6 million). The reasons for this improvement were twofold: firstly the earnings before interest and tax resulting from our encouraging business performance and, secondly, our strict management of working capital during the upturn.

Investing activities continued at a high level, leading to net cash used for continuing operations in the first quarter of 2011 of €25.6 million (Q1 2010: €17.0 million). The bulk of capital expenditure went on developments for the upcoming exhaust emissions standards.

Cash flow from financing activities in the first quarter of 2011 was largely unchanged year on year at minus €8.0 million (Q1 2010: minus €8.6 million). Whilst interest expense was lower, there was an increase in cash outflows through the repayment of financial liabilities as less of the revolving working capital facility had been drawn down at 31 March 2011 compared with 31 December 2010.

Primarily due to the high investment volume, the reduction of €43.4 million in holdings of cash and cash equivalents led to a decline in the net financial position[1] to minus €110.8 million as at 31 March 2011 (31 December 2010: minus €73.6 million).

Free cash flow[2] from continuing operations, which is an indicator of the Company's financial strength, amounted to minus €37.5 million compared with minus €53.6 million in the first quarter of 2010.

## NET ASSETS

Total assets amounted to €1,048.4 million as at 31 March 2011 (31 December 2010: €1,041.7 million), a small increase of €6.7 million.

**Non-current assets** Non-current assets increased by €5.9 million to €613.8 million (31 December 2010: €607.9 million). This rise resulted from our continued high level of investing activities related to the development of new engines and refinement of existing ones.

**Current assets** Current assets climbed slightly, in total by €0.9 million, to €434.2 million (31 December 2010: €433.3 million).

Working capital (inventories plus trade receivables minus trade payables) had risen by 50.0 per cent to €168.9 million as at 31 March 2011 (31 December 2010: €112.6 million). Due to the high volume of orders on hand since the start of 2011, we increased our inventories by €37.8 million to €195.4 million (31 December 2010: €157.6 million). A year-on-year comparison of the working capital ratio[3] indicates how successfully we are managing our working capital: despite the increase in the volume of business, we were able to reduce the working capital ratio by 4.0 percentage points to 13.1 per cent as at the balance sheet date (31 March 2010: 17.1 per cent).

The increase in inventories and the level of capital expenditure was reflected in a decline in cash and cash equivalents.

**Unrecognised intangible DEUTZ assets** In addition to the assets recognised on the balance sheet, DEUTZ has further assets that are not recognised: the DEUTZ brand is synonymous with highly sophisticated technology, quality and reliability and the Company has been a firmly established player for over 140 years in the engineering industry. Furthermore, DEUTZ enjoys long-term relationships with its customers and, particularly in the case of some of its major customers, has entered into long-term cooperation agreements.

[1] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities
[2] Free cash flow: cash flow from operating and investing activities minus interest expense

[3] Working capital ratio as at the balance sheet date: ratio of working capital (inventories plus trade receivables minus trade payables) at the end of the reporting period to revenue for the last twelve months

**High equity ratio** Equity had increased by €10.2 million to €384.5 million as at 31 March 2011 (31 December 2010: €374.3 million), above all thanks to the Group's positive quarterly results. With only a slight increase in total assets, the equity ratio therefore stood at 36.7 per cent (31 December 2010: 35.9 per cent).

**Current and non-current liabilities** As at 31 March 2011, non-current liabilities had declined by €8.2 million to €322.2 million (31 December 2010: €330.4 million), predominantly because we had drawn down less of the revolving working capital facility in the form of euro-denominated loans. Current liabilities had again risen slightly, by €4.7 million, to €341.7 million as at 31 March 2011 (31 December 2010: €337.0 million), in particular due to the sustained large volume of business.

## EVENTS AFTER THE REPORTING PERIOD

No events occurred after the reporting date that had a material impact on the financial position or financial performance of the DEUTZ Group.

## RESEARCH AND DEVELOPMENT

**R&D ratio declines** Research and development expenditure in the first three months of 2011 was only slightly higher than in the first quarter of 2010 in absolute terms, rising by 5.4 per cent from €23.9 million as at 31 March 2010 to €25.2 million as at 31 March 2011. The focus of our capital spending, accounting for €21.9 million or 86.9 per cent, was again the development of new engines and the refinement of existing ones – in particular to adapt them to the new statutory emissions standards that will be introduced progressively between now and 2014. More than €2.3 million or 9.1 per cent of our spending went on support for existing engine series. Fundamental research and preliminary development accounted for €1.0 million or 4.0 per cent of total R&D expenditure.

However, R&D expenditure declined significantly as a proportion of consolidated revenue, from 10.1 per cent as at 31 March 2010 to 7.5 per cent as at 31 March 2011. This was due to the strong growth in revenue, which rose by 42.1 per cent year on year from €236.4 million to €336.0 million – a far sharper rise than that of R&D expenditure.

With regard to the segments, the bulk of R&D expenditure in the first quarter of 2011 was accounted for by DEUTZ Compact Engines with €21.6 million. This equates to a rise of €0.5 million, a slight percentage gain on the first quarter of 2010. R&D expenditure in the DEUTZ Customised Solutions segment climbed from €2.8 million to €3.6 million, an increase of €0.8 million or 28.6 per cent.

## EMPLOYEES

**Headcount adjusted flexibly to increase in production** There was a year-on-year increase in the number of employees for the first time since the crisis, due to the strong demand for DEUTZ engines and the sustained high level of capacity utilisation in production. As at 31 March 2011, the DEUTZ Group employed 4,081 people, 6.0 per cent more than on the same date a year earlier (31 March 2010: 3,850) and 6.3 per cent more than at the end of 2010 (31 December 2010: 3,839). Permanent DEUTZ employees were supported by 513 temporary workers (31 March 2010: 62; 31 December 2010: 390).

The increase in headcount to meet growing demand was primarily in production and assembly where staff were taken on in order to meet delivery deadlines with the sustained level of strong demand. By taking on temporary staff and workers on fixed-term contracts, we have ensured that we retain the necessary flexibility in a market environment that is subject to rapid change.

As at 31 March 2011, the number of employees in Germany stood at 3,204, 3.1 per cent more than a year earlier (31 March 2010: 3,109; 31 December 2010: 3,126). The largest increase in new staff was at our production site in Ulm, where the workforce grew by 11.1 per cent to 450 employees in order to satisfy the rise in demand. At our Cologne site, the largest in Germany, the number of employees stood at 2,476 as at 31 March 2011, 1.6 per cent more than at the end of March 2010.

DEUTZ had 877 employees outside Germany at the end of the first quarter of 2011, 18.4 per cent more than it had a year earlier (31 March 2010: 741; 31 December 2010: 713). Here too, staff were only taken on in manufacturing roles: DEUTZ Diter in Zafra, Spain, significantly increased its staff numbers by 152 employees (rise of 33.3 per cent), resulting in a headcount of 608 people at the end of the first quarter of 2011 (31 March 2010: 456). In contrast, eleven jobs were lost at our UK branch, largely as a result of the development department in Dursley being relocated to Cologne.

Research and development as a whole was not affected by personnel restructuring during the economic crisis. After all, this business unit lays the foundations for the Company's future success. In fact, we continued to take on R&D staff. We have continued to pursue this strategy in recent months, albeit to a slightly lesser extent. At the end of March 2011, a total of 527 employees were working in R&D, 26 more than a year earlier (rise of 5.2 per cent). Most of them (504) were employed in DEUTZ Compact Engines, with a further 23 R&D staff in DEUTZ Customized Solutions.

## RISK REPORT

The DEUTZ Group operates on a global basis in various market segments and application segments. Consequently, the Company is exposed to a variety of risks specific to its business and to the regions in which it operates. Our 2010 annual report describes certain material risks for our financial position and financial performance and explains the structure of our risk management system. During the first three months of 2011, we did not identify other material risks beyond those described in the 2010 annual report. We would also refer you to the Outlook at the end of this interim group management report.

## 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 shareholders are

- SAME DEUTZ-FAHR Holding & Finance B.V., Amsterdam, Netherlands (group), and
- AB Volvo Power (publ), Gothenburg, Sweden (group).

Further information on related-party disclosures is given on page 21.

## OUTLOOK

**Global economy continues to grow** The prospects for the global economy continued to improve in the first quarter of 2011. Nevertheless, economic experts at Deutsche Bank believe the upturn will be slower in 2011 than it was last year, forecasting that the global economy will have expanded by a further 4.3 per cent by the end of 2011. This compares with growth of 4.9 per cent in 2010 and a forecast of 4.4 per cent for 2012. Deutsche Bank does not expect the natural disaster in Japan to have any lasting negative impact on the global economy. However, the world's economy is being subdued by political events in North Africa and their influence on the oil price. These events represent a significant economic risk. There is also continued inflationary pressure worldwide.

The Economic Research Bureau Frankfurt anticipates that the GDP of the G7 countries will grow by 2.5 per cent in 2011, compared to 2.8 per cent in 2010. The economy is then expected to make significant gains again in 2012, rising by 2.8 per cent. However, the euro zone will not see a sustained turnaround: in fact, its GDP is forecast to rise by a very moderate 1.5 per cent in both 2011 and 2012, compared with 1.7 per cent in 2010. Led by China and India, the emerging markets will remain the engines of growth with a rise in GDP of 8.0 per cent (2010: 9.5 per cent) but this also marks a slight decline for these countries in 2011 that will continue into 2012 (2012: 7.6 per cent).[1]

The German Engineering Federation (VDMA) is also confident about 2011 and expects both revenue and production to continue to increase in 2011 (by 11 per cent and 10 per cent respectively). This will then boost employment, which will rise by 1.5 per cent according to the VDMA and thereby make up for some of the decline experienced during the crisis.[2]

DEUTZ will again benefit disproportionately from the economic upturn in 2011. We can confirm the forecast that we made at the end of 2010 and we remain optimistic for 2011. We expect to sell significantly more than 200,000 engines this year. Revenue will rise by 25 per cent compared to 2010, enabling us to achieve an operating profit of over €80 million and net income after tax and interest of approximately €50 million.

We are aiming for an EBIT margin of 7 per cent for 2012.

### 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 Board of Management 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.**

[1] Source: Deutsche Bank, Globale Trends of 31 March 2011
[2] Source: VDMA Konjunkturbulletin of March 2011

# INTERIM FINANCIAL STATEMENTS OF THE DEUTZ GROUP FIRST QUARTER 2011

## INCOME STATEMENT FOR THE DEUTZ GROUP

| | Note | **1–3/2011** | 1–3/2010 |
|---|---|---|---|
| € million | | | |
| **Revenue** | | **336.0** | **236.4** |
| Changes in inventories and other own work capitalised | | 31.7 | 16.0 |
| Other operating income | | 10.3 | 11.2 |
| Cost of materials | | –233.5 | –158.0 |
| Staff costs | | –70.7 | –62.3 |
| Depreciation and amortisation | | –16.1 | –15.6 |
| Other operating expenses | 1 | –40.3 | –28.1 |
| Profit/loss on equity-accounted investments | | 0.8 | –0.6 |
| **EBIT** | | **18.2** | **–1.0** |
| **thereof one-off items** | | **–** | **–1.7** |
| **thereof operating profit (EBIT before one-off items)** | | **18.2** | **0.7** |
| Interest expenses, net | | –3.3 | –3.5 |
| thereof finance costs | | –3.4 | –6.4 |
| Other taxes | | –0.3 | –0.3 |
| **Net income before income taxes** | | **14.6** | **–4.8** |
| Income taxes | 2 | –0.9 | –3.9 |
| **Net income** | | **13.7** | **–8.7** |
| thereof attributable to the shareholders of the parent | | 13.7 | –8.7 |
| thereof attributable to non-controlling interests | | – | – |
| **Earnings per share (€)** | | **0.11** | **–0.07** |

## STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

| | Note | 1–3/2011 | 1–3/2010 |
|---|---|---|---|
| € million | | | |
| **Net income** | | **13.7** | **–8.7** |
| Currency translation differences | | –4.0 | 4.8 |
| Effective portion of change in fair value from cash flow hedges | | 0.4 | –1.3 |
| Change in fair value of available-for-sale financial instruments | | 0.1 | 0.1 |
| **Other comprehensive income, net of tax** | 3 | **–3.5** | **3.6** |
| **Comprehensive income** | | **10.2** | **–5.1** |
| thereof attributable to the shareholders of the parent | | 10.2 | –5.1 |
| thereof attributable to non-controlling interests | | – | – |

## BALANCE SHEET FOR THE DEUTZ GROUP

| ASSETS | Note | 31/03/2011 | 31/12/2010 |
|---|---|---|---|
| € million | | | |
| Property, plant and equipment | 4 | 317.8 | 320.5 |
| Intangible assets | 4 | 197.6 | 185.6 |
| Equity-accounted investments | | 67.9 | 69.7 |
| Other financial assets | | 15.0 | 15.7 |
| Non-current assets | | 598.3 | 591.5 |
| Deferred tax assets | | 15.5 | 16.4 |
| **Non-current assets** | | **613.8** | **607.9** |
| Inventories | | 195.4 | 157.6 |
| Trade receivables | | 166.7 | 160.1 |
| Other receivables and assets | | 47.6 | 47.7 |
| Cash and cash equivalents | | 24.5 | 67.9 |
| **Current assets** | | **434.2** | **433.3** |
| Non-current assets classified as held for sale | | 0.4 | 0.5 |
| **Total assets** | | **1,048.4** | **1,041.7** |

| EQUITY AND LIABILITIES | Note | 31/03/2011 | 31/12/2010 |
|---|---|---|---|
| Issued capital | | 309.0 | 309.0 |
| Additional paid-in capital | | 28.8 | 28.8 |
| Other reserves | | 1.9 | 5.4 |
| Retained earnings | | 79.1 | 79.1 |
| Accumulated loss | | –34.3 | –48.0 |
| Equity attributable to the shareholders of the parent | | 384.5 | 374.3 |
| **Equity** | | **384.5** | **374.3** |
| Provisions for pensions and other post-retirement benefits | | 152.5 | 154.7 |
| Other provisions | 5 | 29.8 | 29.8 |
| Financial liabilities | 6 | 132.6 | 138.5 |
| Other liabilities | | 7.3 | 7.4 |
| **Non-current liabilities** | | **322.2** | **330.4** |
| Provisions for pensions and other post-retirement benefits | | 15.9 | 15.9 |
| Provision for current income taxes | | 4.0 | 4.0 |
| Other provisions | 5 | 58.3 | 42.7 |
| Financial liabilities | 6 | 2.7 | 3.0 |
| Trade payables | | 193.2 | 205.1 |
| Other liabilities | | 67.6 | 66.3 |
| **Current liabilities** | | **341.7** | **337.0** |
| **Total equity and liabilities** | | **1,048.4** | **1,041.7** |

## STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

| € million | Issued capital | Additional paid-in capital | Retained earnings | Fair value reserve[1), 2)] | Currency translation reserve[1)] | Accumulated income/loss | Total Group interest | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 Jan 2010** | **309.0** | **28.8** | **79.1** | **–0.1** | **–5.5** | **–32.1** | **379.2** | **–** | **379.2** |
| Comprehensive income | | | | –1.2 | 4.8 | –8.7 | –5.1 | – | –5.1 |
| **Balance at 31 March 2010** | **309.0** | **28.8** | **79.1** | **–1.3** | **–0.7** | **–40.8** | **374.1** | **–** | **374.1** |
| **Balance at 1 Jan 2011** | **309.0** | **28.8** | **79.1** | **0.1** | **5.3** | **–48.0** | **374.3** | **–** | **374.3** |
| Comprehensive income | | | | 0.5 | –4.0 | 13.7 | 10.2 | – | 10.2 |
| **Balance at 31 March 2011** | **309.0** | **28.8** | **79.1** | **0.6** | **1.3** | **–34.3** | **384.5** | **–** | **384.5** |

[1)] On the face of the balance sheet these items are aggregated under “Other reserves”.
[2)] Reserves from the measurement of cash flow hedges and reserves from the measurement of available-for-sale financial assets.

## CASH FLOW STATEMENT FOR THE DEUTZ GROUP

| | Note | 1–3/2011 | 1–3/2010 |
|---|---|---|---|
| € million | | | |
| **EBIT** | | **18.2** | **–1.0** |
| Interest income | | 0.1 | 0.4 |
| Other taxes paid | | –0.3 | –0.3 |
| Income taxes paid | | –0.1 | –2.2 |
| Depreciation, amortisation and impairment of non-current assets | | 16.1 | 15.6 |
| Gains/losses on the sale of non-current assets | | –0.2 | – |
| Profit/loss on equity-accounted investments | | –0.8 | 0.6 |
| Other non-cash income and expenses | | –0.4 | – |
| Change in working capital | | –57.9 | –45.8 |
| Change in inventories | | –39.7 | –20.1 |
| Change in trade receivables | | –7.6 | –36.4 |
| Change in trade payables | | –10.6 | 10.7 |
| Change in other receivables and other current assets | | –3.0 | –8.0 |
| Change in provisions and other liabilities (excluding financial liabilities) | | 18.7 | 12.1 |
| **Cash flow from operating activities** | | **–9.6** | **–28.6** |
| Capital expenditure on intangible assets, property, plant and equipment | | –23.4 | –17.1 |
| Capital expenditure on investments | | –2.5 | – |
| Proceeds from the sale of non-current assets | | 0.3 | 0.1 |
| **Cash flow from investing activities – continuing operations** | | **–25.6** | **–17.0** |
| Cash flow from investing activities – discontinued operations | | – | –1.0 |
| **Cash flow from investing activities – total** | | **–25.6** | **–18.0** |
| Interest expenses | | –2.3 | –8.0 |
| Repayments of loans | 6 | –5.7 | –0.6 |
| **Cash flow from financing activities** | | **–8.0** | **–8.6** |
| Cash flow from operating activities | | –9.6 | –28.6 |
| Cash flow from investing activities | | –25.6 | –18.0 |
| Cash flow from financing activities | | –8.0 | –8.6 |
| **Change in cash and cash equivalents** | | **–43.2** | **–55.2** |
| **Cash and cash equivalents at 1 Jan** | | **67.9** | **214.7** |
| Change in cash and cash equivalents | | –43.2 | –55.2 |
| Change in cash and cash equivalents related to exchange rates | | –0.2 | 0.1 |
| **Cash and cash equivalents at 31 March** | | **24.5** | **159.6** |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS OF THE DEUTZ GROUP FIRST QUARTER 2011

## BASIC PRINCIPLES

### BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended 31 March 2011 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 for the 2010 financial year.

The condensed interim consolidated financial statements for the period ended 31 March 2011 – consisting of the balance sheet, income statement, statement of comprehensive income, 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 31 March 2011 have not been audited.

### SIGNIFICANT ACCOUNTING POLICIES

With the exception of the new IFRS standards and interpretations described below, the accounting policies used in the preparation of these interim consolidated financial statements are the same as those used in the most recent consolidated financial statements for the year ended 31 December 2010. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2010. If they are material, revenue-related and cyclical items are deferred during the year on the basis of annual business plans.

**IAS 24 (revised) "Related Party Disclosures"** The revision simplifies the reporting obligations of entities in which governments have an equity interest. The definition of a related party has also been revised. Apart from enhancements, the revision primarily comprises changes to make the standard clearer and more understandable. The initial application of this revised standard therefore did not have any impact on the disclosures on related parties in the interim consolidated financial statements.

**Amendment to IAS 32 "Financial Instruments: Presentation"** The changes in this revision resolve the issue of the accounting treatment for certain subscription rights if the issued instruments are not denominated in the functional currency of the issuer. This amendment did not impact on the interim consolidated financial statements.

**IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"** Under the amended IFRIC 14, if there is a minimum funding requirement for a defined benefit plan, the prepayment must now be treated as an asset. Because the DEUTZ Group is not affected by this amendment, its initial application did not have any impact on the interim consolidated financial statements.

**IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"** The interpretation introduces the rule that equity instruments issued to lenders to extinguish all or part of a financial liability must be considered as "consideration paid" and the borrower must therefore derecognise all or part of the financial liability accordingly. Other provisions in the interpretation comprise rules on the measurement of these equity instruments and on the derecognition of the liability. Initial application of the interpretation did not impact on the interim consolidated financial statements.

**Collective standard amending various IFRSs (2010)** The amendments, which come into effect for financial years beginning on or after 1 January 2011, are primarily intended to clarify certain unclear provisions in the standards. Because the DEUTZ Group is only partially affected by these amendments, their initial application did not have a material impact on the interim consolidated financial statements.

**Changes in basis of consolidation** On 27 January 2011, DEUTZ AG made a capital contribution of €0.1 million to the newly established company DEUTZ (Beijing) Engine Co., Ltd., which has its registered office in China. The company was established as a distribution company for the DEUTZ Group in the Chinese market. DEUTZ AG holds 100 per cent of voting shares in the company. It was accounted for under the acquisition method. In the first quarter, the Chinese joint venture WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO. LTD. was accounted for in the consolidated financial statements using the equity method for the first time due to reasons of materiality.

**Significant estimates and assumptions** The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires estimates and assumptions to be made that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the reporting date and on the reporting of income and expenses in the reporting period.

**Additional disclosures** In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before one-off items, which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities as defined by DEUTZ.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 1. OTHER OPERATING EXPENSES

The growth of €12.2 million in other operating expenses to €40.3 million in the first three months of 2011 (Q1 2010: €28.1 million) essentially related to – besides other volume-dependent expenses such as freight outwards and services – the increased deployment of temporary staff in order to meet the rise in demand.

## 2. INCOME TAXES

| € million | 1–3/2011 | 1–3/2010 |
|---|---|---|
| Current tax expense | 0.2 | 0.1 |
| Deferred tax expense | 0.7 | 3.8 |
| **Total** | **0.9** | **3.9** |

The income tax expenses included almost exclusively the effects of deferred taxes. The reduction was above all due to higher deferred income from income tax during the period under review that resulted from the deferred tax assets recognised on future tax assets arising from loss carryforwards.

## 3. OTHER COMPREHENSIVE INCOME

Other comprehensive income comprises the elements of the statement of comprehensive income not reported in the income statement. The taxes resulting from other comprehensive income are also shown in the following table:

| | 1–3/2011 | | |
|---|---|---|---|
| € million | before taxes | taxes | after taxes |
| Currency translation differences | –4.0 | – | –4.0 |
| Effective portion of change in fair value from cash flow hedges | 0.6 | –0.2 | 0.4 |
| Change in fair value of available-for-sale financial instruments | 0.1 | – | 0.1 |
| **Other comprehensive income** | **–3.3** | **–0.2** | **–3.5** |

| | 1–3/2010 | | |
|---|---|---|---|
| € million | before taxes | taxes | after taxes |
| Currency translation differences | 4.8 | – | 4.8 |
| Effective portion of change in fair value from cash flow hedges | –1.9 | 0.6 | –1.3 |
| Change in fair value of available-for-sale financial instruments | 0.1 | – | 0.1 |
| **Other comprehensive income** | **3.0** | **0.6** | **3.6** |

In the first quarter of 2011, a profit of €0.4 million before taxes (Q1 2010: €0.0 million) related to cash flow hedges was reclassified to the income statement.

## 4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure of €25.6 million including investment grants on property, plant and equipment and intangible assets was partly offset by depreciation, amortisation expense and impairment losses of €16.1 million. Of this total capital expenditure (including investment grants), €8.7 million related to property, plant and equipment and €16.9 million to intangible assets. Capital spending during the reporting period primarily consisted of capitalised development costs for the upcoming exhaust emissions standards.

Commitments to purchase property, plant and equipment and intangible assets amounted to €45.5 million as at 31 March 2011 (31 December 2010: €31.1 million).

## 5. OTHER PROVISIONS

| € million | **31/03/2011** | 31/12/2010 |
|---|---|---|
| Non-current | 29.8 | 29.8 |
| Current | 58.3 | 42.7 |
| **Total** | **88.1** | **72.5** |

The increase in other provisions was above all a result of volume-dependent provisions in connection with the sustained large volume of business as well as accruals during the year, for example for staff costs.

## 6. FINANCIAL LIABILITIES

| € million | **31/03/2011** | 31/12/2010 |
|---|---|---|
| Non-current | 132.6 | 138.5 |
| Current | 2.7 | 3.0 |
| **Total** | **135.3** | **141.5** |

Financial liabilities declined predominantly because we had drawn down less of the revolving working capital facility in the form of euro-denominated loans.

## 7. FINANCIAL INSTRUMENTS

We began using interest-rate swaps to hedge interest-rate risk in the first quarter of 2011. As at 31 March 2011, these derivatives, which are classified as held for trading, had a market value of €0.3 million.

## NOTES ON SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the first quarter of 2011 and of 2010 is shown in the following table:

| **1–3/2011** | DEUTZ Compact Engines | DEUTZ Customised Solutions | Other | **Total segments** | Reconcili-ation | **DEUTZ Group** |
|---|---|---|---|---|---|---|
| € million | | | | | | |
| External revenue | 260.0 | 76.0 | – | 336.0 | – | 336.0 |
| Intersegment revenue | – | – | – | – | – | – |
| **Total revenue** | **260.0** | **76.0** | **–** | **336.0** | **–** | **336.0** |
| | | | | | | |
| Operating profit | 6.7 | 11.9 | –0.4 | 18.2 | – | 18.2 |

| 1–3/2010 | DEUTZ Compact Engines | DEUTZ Customised Solutions | Other | **Total segments** | Reconcili-ation | **DEUTZ Group** |
|---|---|---|---|---|---|---|
| € million | | | | | | |
| External revenue | 183.1 | 53.3 | – | 236.4 | – | 236.4 |
| Intersegment revenue | – | – | – | – | – | – |
| **Total revenue** | **183.1** | **53.3** | **–** | **236.4** | **–** | **236.4** |
| | | | | | | |
| Operating profit (EBIT before one-off items) | –4.1 | 6.2 | –1.4 | 0.7 | – | 0.7 |

| 31/03/2011 | DEUTZ Compact Engines | DEUTZ Customised Solutions | Other | Total segments | Reconcili-ation | DEUTZ Group |
|---|---|---|---|---|---|---|
| € million | | | | | | |
| Segment assets (Inventories/trade receivables) | 251.4 | 110.7 | – | 362.1 | – | 362.1 |
| Segment liabilities (Trade payables) | 167.4 | 25.8 | – | 193.2 | – | 193.2 |
| **Working capital** | **84.0** | **84.9** | **–** | **168.9** | **–** | **168.9** |

| 31/12/2010 | DEUTZ Compact Engines | DEUTZ Customised Solutions | Other | Total segments | Reconcili-ation | DEUTZ Group |
|---|---|---|---|---|---|---|
| € million | | | | | | |
| Segment assets (Inventories/trade receivables) | 228.6 | 89.1 | – | 317.7 | – | 317.7 |
| Segment liabilities (Trade payables) | 181.0 | 24.1 | – | 205.1 | – | 205.1 |
| **Working capital** | **47.6** | **65.0** | **–** | **112.6** | **–** | **112.6** |

**Reconciliation from overall profit of the segments to net income**

| | 1–3/2011 | 1–3/2010 |
|---|---|---|
| € million | | |
| **Overall profit of the segments** | **18.2** | **0.7** |
| Reconciliation | – | – |
| **Operating profit (EBIT before one-off items)** | **18.2** | **0.7** |
| One-off items | – | –1.7 |
| **EBIT** | **18.2** | **–1.0** |
| Interest expenses, net | –3.3 | –3.5 |
| Other taxes | –0.3 | –0.3 |
| **Net income before income taxes** | **14.6** | **–4.8** |
| Income taxes | –0.9 | –3.9 |
| **Net income** | **13.7** | **–8.7** |

## 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 **entities in which it holds significant investments** as well as the following DEUTZ AG **shareholders** (including their subsidiaries) that are in a position to exert a significant influence over the DEUTZ Group. They are:

- SAME DEUTZ-FAHR Holding & Finance B.V., Amsterdam, Netherlands (group), and
- AB Volvo Power (publ), Gothenburg, Sweden (group).

Related parties also include the **Supervisory Board**, the **Board of Management** and **other members of the management team.**

The following table shows the volume of material goods and services either provided for or received from **entities in which the DEUTZ Group holds investments:**

| | Goods and services provided | | Other expenses incurred in connection with services | | Receivables | | Liabilities | |
|---|---|---|---|---|---|---|---|---|
| | **1–3/2011** | 1–3/2010 | **1–3/2011** | 1–3/2010 | **31/03/2011** | 31/12/2010 | **31/03/2011** | 31/12/2010 |
| € million | | | | | | | | |
| Associates | – | – | – | – | – | 1.1 | – | – |
| Joint ventures | 6.0 | 0.8 | 0.7 | – | 6.9 | 3.7 | 10.1 | 13.1 |
| Other investments | 0.1 | 0.1 | 1.0 | 1.0 | 0.3 | 0.1 | 5.4 | 4.8 |
| **Total** | **6.1** | **0.9** | **1.7** | **1.0** | **7.2** | **4.9** | **15.5** | **17.9** |

Liabilities to joint ventures of €10.1 million predominantly contain capital contributions of originally €18 million. In the first quarter of 2011 €2.5 million (Q1 2010: €0.0 million) had been paid. Impairment losses of €23.5 million (31 December 2010: €23.3 million) had been recognised on €27.5 million of the Company's receivables due from investments as at 31 March 2011 (31 December 2010: €27.1 million). Some of these receivables and liabilities resulted from loans. Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

The following table gives a breakdown of the significant business relationships between the DEUTZ Group and its shareholders, including their subsidiaries:

| | SAME DEUTZ-FAHR Group | | Volvo Group | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| € million | | | | |
| Engines and spare parts supplied in the first quarter | 13.6 | 11.9 | 94.5 | 71.0 |
| Services in the first quarter | 0.5 | 0.2 | 5.9 | 8.2 |
| Receivables as at 31 Mar/31 Dec | 2.8 | 17.9 | 51.3 | 56.1 |

## EVENTS AFTER THE BALANCE SHEET DATE (31 MARCH 2011)

No material events occurred after 31 March 2011.

Cologne, 4 May 2011

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube Dr Margarete Haase

# FINANCIAL CALENDAR

| Date | Event | Location |
| --- | --- | --- |
| 4 August 2011 | Interim report 1st Half-Year 2011<br>Conference call with Analysts and Investors | |
| 10 November 2011 | Interim report 1st to 3rd quarter 2011<br>Conference call with Analysts and Investors | |
| 26 April 2012 | Ordinary Annual General Meeting | Cologne |

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