A TRADITION OF ACHIEVEMENT

Interim report
1st quarter of 2014

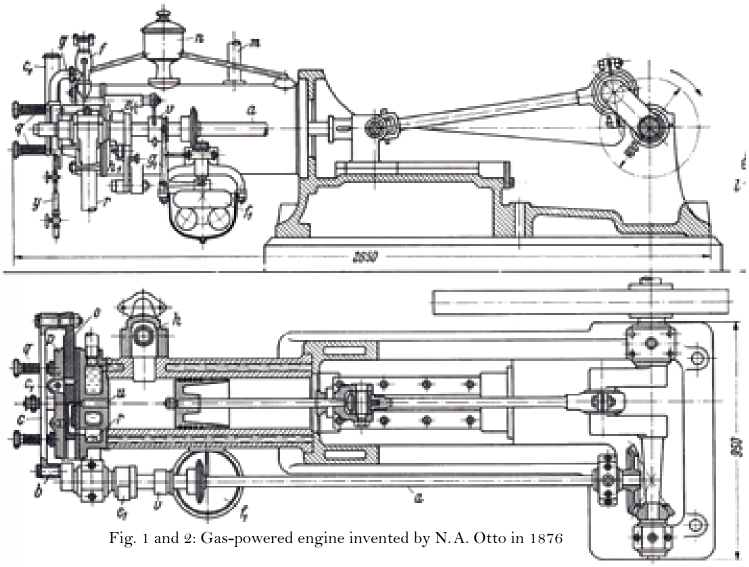


Fig. 1 and 2: Gas-powered engine invented by N. A. Otto in 1876

DEUTZ

FIRST QUARTER AT A GLANCE

DEUTZ Group: Overview

	1–3/2014	1–3/2013
€ million		
New orders	414.2	388.5
Unit sales (units)	44,457	36,238
Revenue	342.7	289.9
thereof excluding Germany (%)	79.2	83.4
EBITDA	25.4	15.5
EBIT	1.9	–6.4
EBIT margin (%)	0.6	–2.2
Net income	–0.6	–6.9
Earnings per share (€)	–	–0.06
Total assets	1,154.2	1,043.2
Non-current assets	588.5	615.4
Equity	497.3	446.9
Equity ratio (%)	43.1	42.8
Cash flow from operating activities	9.4	0.9
Free cash flow[1]	–3.2	–20.9
Net financial position[2]	–35.5	–69.3
Working capital[3]	202.2	168.8
Working capital as a percentage of revenue (31 Mar, %)	13.4	13.6
Capital expenditure (excluding capitalisation of R&D, after deducting grants)	7.9	7.0
Depreciation and amortisation	23.5	21.9
Research and development (after deducting grants)	14.4	11.6
Employees (31 Mar)	**4,042**	3,935

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

DEUTZ Group: Segments

	1–3/2014	1–3/2013
€ million		
New orders		
DEUTZ Compact Engines	344.6	328.3
DEUTZ Customised Solutions	69.6	60.2
Total	**414.2**	**388.5**
Unit sales (units)		
DEUTZ Compact Engines	41,656	33,720
DEUTZ Customised Solutions	2,801	2,518
Total	**44,457**	**36,238**
Revenue		
DEUTZ Compact Engines	286.8	239.7
DEUTZ Customised Solutions	55.9	50.2
Total	**342.7**	**289.9**
EBIT (before one-off items)		
DEUTZ Compact Engines	–4.9	–11.2
DEUTZ Customised Solutions	7.1	5.1
Other	–0.3	–0.3
Total	**1.9**	**–6.4**

FOREWORD

Dear Shareholders and Business Associates,

There was a slight recovery of the global economy in the first few months of the year. Despite lingering and new crises to overcome, this trend is set to continue over the coming months.

In the first quarter of 2014, DEUTZ maintained its good operating performance of the previous year. The volume of new orders was €414.2 million, up by 6.6 per cent compared with the corresponding period of 2013. Revenue rose by 18.2 per cent to €342.7 million. Operating income (EBIT) improved by €8.3 million to €1.9 million in the first quarter, traditionally a weaker quarter due to seasonal effects. We were particularly encouraged by the improvement in net financial debt, which totalled €35.5 million at the end of the quarter – down by €33.8 million compared with 31 March 2013.

We celebrated our 150th anniversary on 31 March 2014. It is with pride that we can look back on the establishment of the world's first engine factory by engineer Nicolaus August Otto and businessman Eugen Langen and on the development of the four-stroke engine. Cologne was the birthplace of many technological innovations devised by influential figures.

In April, we decided to carry out a comprehensive optimisation of our network of sites. This involves consolidating our facilities in Cologne. We will move out of our Cologne-Deutz site within two years and build a new shaft centre for the production of camshafts and crankshafts at our largest site in Cologne-Porz. This will provide long-term security for at least 140 permanent positions. Production of crankcases for the 2011 engine series will be outsourced.

We are also examining the possibility of closing our exchange engine plant in Übersee on Lake Chiemsee and integrating it into the plant in Ulm. All employees will be offered a job in Ulm. For anyone not wishing to move, the sites will be closed with the minimum possible social impact.

We have undertaken not to make any compulsory redundancies in Cologne without the works council's consent for a period of four years and to offer all apprentices a permanent position. We expect these steps to significantly improve our earnings starting in 2016; from 2017 onwards we estimate an annual improvement of more than €10 million. We will spend almost €20 million in total to achieve this. Proceeds from the sale of real estate in subsequent years should significantly exceed this investment. These measures will result in a one-off expense of between €15 million and €20 million in the current year. We are confident that we will create long-lasting added value for DEUTZ by optimising our network of sites in this way.

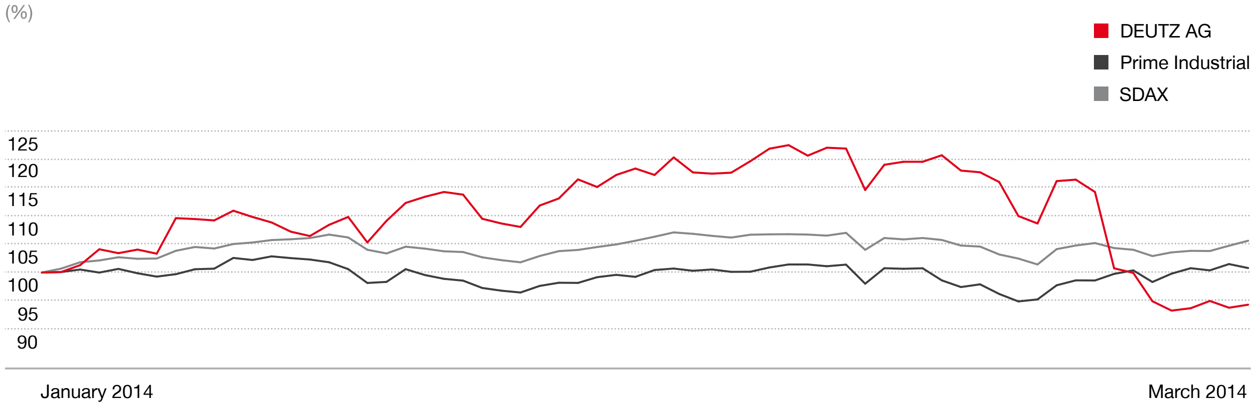
All in all, you can see that, also in our anniversary year, we are making a concerted effort to regularly critically examine and optimise our costs and structures. As stated in our 2013 annual report, we expect revenue growth in the lower double-digit range in 2014. The EBIT margin before one-off items is predicted to exceed 4.0 per cent and, after one-items, 3.0 per cent.

Kind regards from Cologne,

Dr Helmut Leube   Dr Margarete Haase   Michael Wellenzohn

DEUTZ SHARES

DEUTZ share price performance



DEUTZ share price dips at end of first quarter While stock markets registered gains at the start of 2014, most prices fell again over the course of the first quarter. Investment demand remains high, but companies were unable to fulfil all profit expectations. New areas of crisis have emerged, particularly the escalation of the situation in Ukraine. The performance of the benchmark indices relevant to DEUTZ reflected these conditions in the first quarter. The SDAX closed at 7,168.97 points on 31 March 2014, which was at least an improvement of 5.6 per cent compared with the end of 2013. By contrast, the Prime Industrial recorded a gain of just 0.8 per cent and ended the quarter at 4,530.85 points.

The price of DEUTZ shares also rose at the start of the year, reaching €7.94 – its highest level for the year so far – on 25 February 2014. It then fell, reaching its lowest level for the year so far of €6.05 on 25 March 2014. Overall, the DEUTZ share price declined by 5.7 per cent over the course of the quarter. On 20 March 2014, we announced our results for 2013, including substantial gains for all our key financials, the intention to distribute a dividend and a more specific outlook.

The number of DEUTZ shares remains unchanged at 120.9 million units. Market capitalisation as at 31 March 2014 came to €739.7 million (30 December 2013: €784.4 million).

Swedish truck and construction equipment manufacturer AB Volvo is the largest individual shareholder in DEUTZ AG with a stake of just over 25 per cent. The proportion of free float shares is now 75.0 per cent, which is held by a broadly diversified range of private and institutional shareholders both in Germany and abroad. In March 2014, US-based Artisan Partners increased its stake in our Company from around 3.0 per cent to almost 4.9 per cent. Furthermore, FIL Ltd. (Fidelity UK) notified us in September 2013 that it held a stake of 3.1 per cent in DEUTZ AG. Old Mutual Plc has also held a stake of 3.1 per cent since November 2013. After the balance sheet date, FMR LLC (Fidelity USA) notified us that it held 3.0 per cent of the shares in DEUTZ AG. All four of these are considered non-controlling shareholdings.

The following twelve banks and securities houses currently monitor the performance of DEUTZ shares: Bankhaus Lampe, Berenberg Bank, Commerzbank, Deutsche Bank, DZ Bank, Equinet, Goldman Sachs, HSBC Trinkaus & Burkhardt, Kepler Cheuvreux, National-Bank, Solventis Wertpapierhandelsbank and UBS. The analysts overwhelmingly recommended DEUTZ as a “buy” or “hold”.

Further information on this subject and all other topics can be found on our website at www.deutz.com under Investor Relations.

Key figures for DEUTZ shares

	1–3/2014	1–3/2013
Number of shares (31 Mar)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 31 Mar (€)	6.12	4.10
Share price high (€)	7.94	4.64
Share price low (€)	6.05	3.71
Market capitalisation as at 31 Mar (€ million)	739.7	495.5
Earnings per share (€)	–	–0.06

Based on Xetra closing prices

INTERIM MANAGEMENT REPORT OF THE DEUTZ GROUP FOR THE FIRST QUARTER OF 2014

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Global economy continues to recover[1] The global economy has continued to recover in recent months. Acute risks have dwindled, despite the fact that many of the underlying problems remain unresolved. The rebound is primarily being driven by the established industrial countries. The risk of a renewed global economic crisis continues to subside, but the conflict between Russia and Ukraine has recently unsettled the markets.

The IMF is now predicting global economic growth of 3.6 per cent for 2014 as a whole, compared with 3.0 per cent in 2013.

In 2014, the eurozone economy will also manage to emerge from the recession of recent years. It is expected to grow by 1.2 per cent this year compared with a contraction of 0.5 per cent in 2013. Encouragingly, Italy and Spain are also expected to return to growth this year, with expansion rates of 0.6 per cent and 0.9 per cent respectively. Germany, where the growth rate is anticipated to edge up to 1.7 per cent, remains the growth driver. The ifo business climate index for the German economy rose slightly in April to 111.2 points[2], showing a moderate further improvement of the healthy business climate.

The US economy is anticipated to grow by 2.8 per cent during 2014 as a whole, following a rise of 1.9 per cent in 2013. The US is expected to generate greater growth stimulus this year.

The Chinese economy is forecast to grow by 7.5 per cent in 2014. Although this rate is slightly lower than in previous years, China will still have one of the highest growth rates in the global economy.

German engineering sector on par with 2013[3] In the first two months of 2014, new orders in the German engineering sector rose by just 1 per cent in real terms when compared with the same period in 2013. Domestic demand was down by 2 per cent, while international orders rose by 2 per cent, so the sector is still waiting for a noticeable upturn.

NEW ORDERS

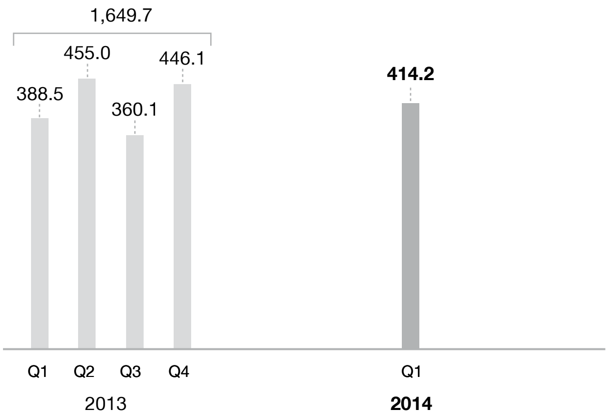
Level of new orders remains high The upward trend in new orders continued at the beginning of 2014, with DEUTZ receiving orders worth €414.2 million in the first quarter of the year. This was 6.6 per cent above the figure achieved a year earlier (Q1 2013: €388.5 million), but failed to match the high level of €446.1 million achieved in the fourth quarter of 2013. Broken down by application segment, new orders in the Mobile Machinery application segment rose particularly strongly compared with the first quarter of last year. Stationary Equipment and the service business also reported a higher volume of new orders, while Automotive and Agricultural Machinery received significantly fewer orders. The decrease in Agricultural Machinery was largely attributable to the high level of orders in the first quarter of 2013.

The business trend developed favourably across all regions, particularly in the United States and Asia, where new clients were won in Japan and Korea. This trend improves diversification of our client portfolio and our regional footprint.

Consequently, new orders exceeded revenue by almost 21 per cent in the quarter under review. Orders on hand stood at €424.9 million on 31 March 2014, which was 56.2 per cent higher than the figure reported a year earlier and 16.1 per cent more than at 31 December 2013.

DEUTZ Group: New orders by quarter

€ million



[1] Source: IMF World Economic Outlook, April 2014
[2] Source: ifo Institute of Economic Research, Business Climate Germany, March 2014
[3] Source: Konjunkturbulletin of the German Engineering Federation (VDMA), April 2014

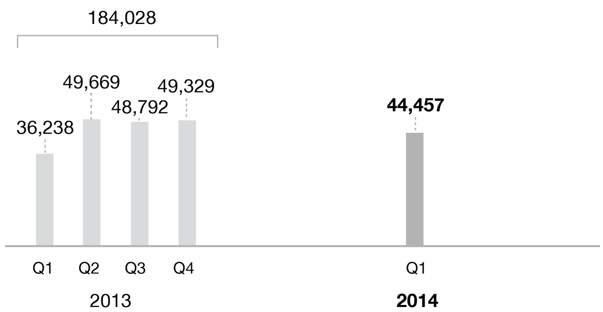
UNIT SALES

More engines sold In the first quarter of 2014, DEUTZ sold 44,457 engines, which was 22.7 per cent more than in the first quarter of 2013 (Q1 2013: 36,238 engines). However, unit sales were down by 9.9 per cent on the strong final quarter of 2013, when 49,329 engines were sold. This was due to the usual seasonal fluctuations.

Growth in orders was reported in all regions, with unit sales in our largest market EMEA (Europe, Middle East and Africa) up by 19.9 per cent to 31,785 engines, and by 26.1 per cent to 10,097 engines in the Americas, while sales of engines in the Asia-Pacific region advanced by 50.5 per cent to 2,575.

DEUTZ Group: Unit sales by quarter

units

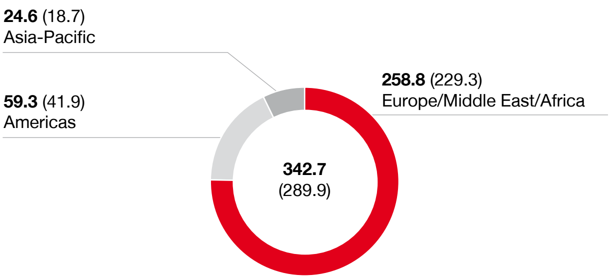


RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by regions

€ million (2013 figures)

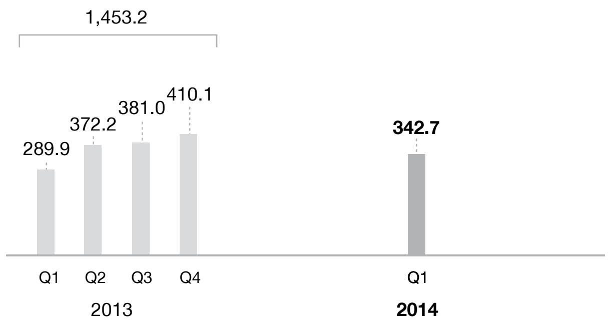


Sharp year-on-year rise in revenue In the first quarter of 2014, revenue increased by 18.2 per cent year on year to €342.7 million (Q1 2013: €289.9 million). It had been even higher in the fourth quarter of 2013 (€410.1 million), which reflected seasonal effects.

In our largest region, EMEA, revenue advanced by 12.9 per cent to €258.8 million for the first three months of the year. Revenue generated in the Americas amounted to €59.3 million, an impressive increase of 41.5 per cent on the same period in 2013, and the Asia-Pacific region generated revenue of €24.6 million, which was a rise of 31.6 per cent. The proportion of revenue generated outside Germany stood at 79.2 per cent, a decline on the proportion of 83.4 per cent in the same period in 2013. Revenue growth varied considerably according to application segment, rising by 53.9 per cent and 37.9 per cent in Mobile Machinery and Agricultural Machinery respectively, but edging up by 2.6 per cent in the service business and remaining approximately level with the previous year in the Stationary Equipment application segment. By contrast, revenue in the Automotive segment fell by almost 47 per cent to €20.8 million. The Euro 6 emissions standard has applied to this segment in Europe since the beginning of the year, but DEUTZ does not offer engines that comply with this standard. Our automotive business is shifting strongly towards Asia, particularly to the DEUTZ (Dalian) Engine Co., Ltd., joint venture, which is only consolidated using the equity method.

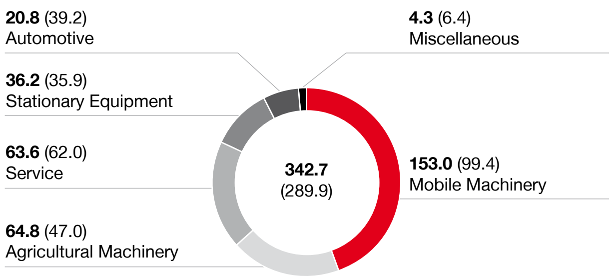
DEUTZ Group: Revenue by quarters

€ million



DEUTZ Group: Revenue by application segment

€ million (2013 figures)



EARNINGS PERFORMANCE

In the first quarter of 2014, earnings before interest, tax, depreciation and amortisation (EBITDA) rose by €9.9 million year on year, thanks to a significant increase in the volume of business. Total EBITDA for the period January to March 2014 amounted to €25.4 million compared with €15.5 million in the first quarter of 2013. As well as the higher business volume, improved earnings from equity-accounted investments also contributed towards this positive trend.

Operating profit after depreciation and amortisation (EBIT) for the first quarter of 2014 amounted to €1.9 million, which represented a year-on-year increase of €8.3 million compared with an operating loss of €6.4 million in the same prior-year quarter. In the first three months of 2014, the EBIT margin was 0.6 per cent (Q1 2013: minus 2.2 per cent). The first quarter is traditionally relatively weak due to seasonal effects.

Cost of sales in the quarter under review totalled €300.1 million (Q1 2013: €257.6 million), representing a year-on-year change of 16.5 per cent. This rise was largely attributable to the higher expenses for materials, staff and contract workers resulting from the higher business volume. The higher volume of business also resulted in a decrease in the ratio of cost of sales to revenue from 88.9 per cent in the first quarter of 2013 to 87.6 per cent in the first quarter of 2014.

In the period under review, research and development costs amounted to €16.3 million (Q1 2013: €14.3 million). Research and development costs largely comprised staff costs, cost of materials and amortisation on completed development projects, from which investment grants received and capitalised development expenditure were deducted. The increase was mainly attributable to higher levels of depreciation and amortisation and lower amounts capitalised.

Selling and administrative expenses in the first three months of the current year were up slightly to €16.6 million and €8.4 million respectively (Q1 2013: €15.6 million and €7.4 million respectively). However, as a proportion of revenue, they declined to 4.8 per cent and 2.5 per cent respectively (Q1 2013: 5.4 per cent and 2.6 per cent respectively), as a result of the higher volume of business.

The previous year's loss on equity-accounted investments (Q1 2013: loss of €1.1 million) was transformed into a profit of €0.5 million in the period under review, an improvement of €1.6 million. This was due in large part to the significantly higher contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. as a result of higher business volumes and increased efficiency.

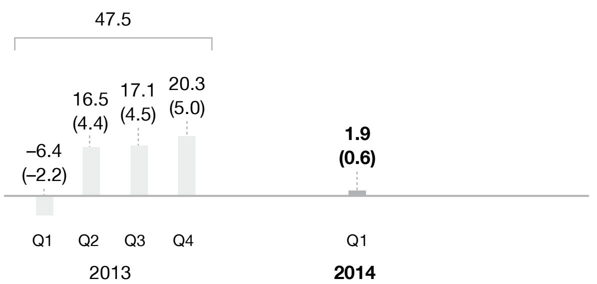
Net interest expense deteriorated slightly on the first quarter of the previous year, rising by €0.4 million from €1.3 million in the first quarter of 2013 to €1.7 million. This was attributable to a combination of a slight increase in interest expense and similar charges and a reduction in interest and similar income in the first quarter of the current year.

Income taxes in the first quarter of the current year amounted to €0.8 million, compared with tax income of €0.8 million in the same period of the previous year. Current tax expenses amounted to €1.6 million in the period under review (Q1 2013: €0.9 million). This increase of €0.7 million compared to the first quarter of the previous year is primarily attributable to the improved results of operations of the Group companies. The current tax expense was partly offset by deferred tax income of €0.8 million.

The net loss incurred in the first three months of 2014 amounted to €0.6 million (Q1 2013: net loss of €6.9 million), resulting in earnings per share of €0.00 (Q1 2013: loss per share of €0.06).

DEUTZ Group: Operating profit/EBIT margin by quarter

€ million (EBIT margin in %)



BUSINESS PERFORMANCE IN THE SEGMENTS

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

Further increase in orders The DEUTZ Compact Engines (DCE) segment took new orders worth €344.6 million in the first three months of 2014, up by 5.0 per cent on the figure for the first quarter of 2013 at €328.3 million. However, new orders had been 10.8 per cent higher in the fourth quarter of 2013 at €381.9 million. In the period under review, new orders therefore exceeded revenue in the DCE segment by more than 20 per cent. As was the case at Group level, much of the increase was down to the strong performance of the Mobile Machinery application segment. Orders on hand at the end of March amounted to €347.9 million, which was 76.7 per cent higher than the figure reported a year earlier and 15.0 per cent more than at 31 December 2013.

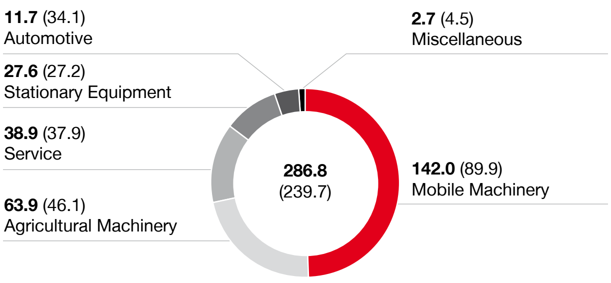
DCE boosts unit sales In the DCE segment, DEUTZ sold 41,656 engines in the first quarter of 2014, which was 23.5 per cent up on the corresponding quarter of last year (Q1 2013: 33,720 engines; Q4 2013: 43,962 engines). All regions reported substantial gains. The Mobile Machinery and Agricultural Machinery application segments both saw their unit sales climb significantly.

Sharp rise in revenue The revenue earned in the DCE segment increased by 19.6 per cent to €286.8 million (Q1 2013: €239.7 million). This represented a decline of 12.4 per cent compared with the revenue of €327.4 million generated in the previous quarter, reflecting normal seasonal fluctuations. We achieved year-on-year gains in all regions, with revenue up by 13.0 per cent in EMEA, by 46.4 per cent in the Americas and by 74.4 per cent in Asia-Pacific. The Mobile Machinery application segment posted a strong increase of 58.0 per cent in its revenue, while Agricultural Machinery revenue jumped by 38.6 per cent. There were also small rises in revenue, of 1.5 per cent and 2.6 per cent respectively, for Stationary Equipment and the service business. By contrast, the revenue generated in the Automotive application segment dropped by 65.7 per cent. As was the case for the Group as a whole, this was attributable to the introduction of the Euro 6 emissions standard in Europe, for which DEUTZ does not offer engines.

DCE operating profit Thanks to the substantial growth in business volume, the operating profit of the Compact Engines segment improved by €6.3 million despite higher amortisation on completed development projects. The segment therefore made an operating loss of €4.9 million in the first quarter of 2014 (Q1 2013: loss of €11.2 million).

DEUTZ Compact Engines: Revenue by application segment

€ million (2013 figures)



BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

Further rise in new orders In the period under review, the DEUTZ Customised Solutions (DCS) segment received orders worth €69.6 million. This was 15.6 per cent more than in the prior-year period (Q1 2013: €60.2 million) and 8.4 per cent up on the preceding quarter (Q4 2013: €64.2 million). As a result, the level of new orders also exceeded revenue in this segment. As at 31 March 2014, orders on hand stood at €77.0 million, up by 2.4 per cent on the figure reported at 31 March 2013 (€75.2 million) and up by 21.1 per cent compared with 31 December 2013 (€63.6 million).

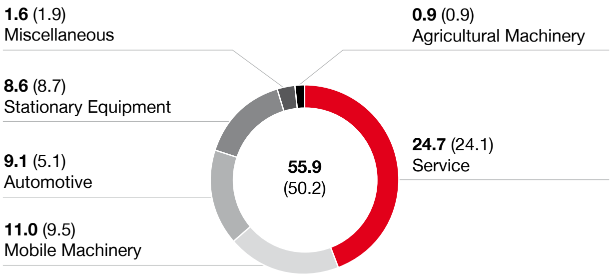
Year-on-year growth in unit sales In the DCS segment, we sold 2,801 engines in the first three months of 2014. Although this was a year-on-year improvement of 11.2 per cent (Q1 2013: 2,518 engines), we were unable to achieve the same high number sold in the fourth quarter of 2013 (Q4 2013: 5,367 engines). All regions reported increases in unit sales compared with the first quarter of 2013.

Revenue growth compared with Q1 2013 The revenue posted by the DCS segment in the first quarter of 2014 was 11.4 per cent higher than it had been a year earlier, climbing to €55.9 million (Q1 2013: €50.2 million). However, revenue was down by almost a third on the strong fourth quarter of 2013, when we had generated revenue of €82.7 million. The EMEA and Americas regions reported substantial revenue growth of 11.8 per cent and 23.0 per cent respectively. Revenue in the Asia-Pacific region remained at roughly the same level as in the first quarter of 2013. The Automotive application segment achieved a highly encouraging rise in revenue of 78.4 per cent, while the revenue from Mobile Machinery advanced by 15.6 per cent year on year. Revenue from the service business went up by 2.5 per cent, whereas revenue from Agricultural Machinery and Stationary Equipment was largely unchanged on the corresponding quarter of 2013.

DCS operating profit Operating profit in the Customised Solutions segment reached €7.1 million in the first three months of this year (Q1 2013: €5.1 million). This year-on-year gain of €2.0 million was predominantly the result of the increased business volume.

DEUTZ Customised Solutions: Revenue by application segment

€ million (2013 figures)



FINANCIAL POSITION

FUNDING

DEUTZ has a working capital facility totalling €160 million, which is provided by a syndicate of banks. It is a floating-rate, unsecured line and, as a revolving facility, can be drawn down as and when we need it until June 2017. DEUTZ can elect whether to utilise the cash line as a bilateral overdraft facility (up to €60 million) or to draw down amounts under the syndicated line with interest periods of three to six months. The European Investment Bank has also granted us a €90 million loan. This loan, which is also unsecured, must be repaid by mid-2020. DEUTZ has hedged the interest-rate risk arising from this loan.

As part of the contractual agreements for both loans, DEUTZ is obliged to comply with certain financial covenants. The working capital facility and the loan from the European Investment Bank have enabled us to secure funding for our projects and for further growth over the medium to long term.

CASH FLOW

In the first quarter of 2014, we generated cash flow from operating activities of €9.4 million. The year-on-year rise of €8.5 million is primarily attributable to the much improved operating profit in the reporting period.

During the period under review, cash flow from investing activities amounted to a net outflow of €11.1 million, a decrease of €9.6 million compared with the first three months of the previous year (Q1 2013: net outflow of €20.7 million). The main influencing factors here were lower payments in connection with capital expenditure on intangible assets and on property, plant and equipment and, in particular, the sale of our shareholding in DEUTZ Versicherungsvermittlung GmbH at the end of 2013. Payment for the sale was received in the first quarter of this year.

Financing activities in the first quarter of 2014 resulted in a net cash inflow of €13.5 million (Q1 2013: net cash outflow of €1.3 million). This year-on-year change was mainly a result of the working capital facility being drawn down in the period under review.

Cash and cash equivalents as at 31 March 2014 were €11.3 million higher than the equivalent figure as at 31 December 2013 and stood at €70.2 million. The net financial position[1] as at 31 March 2014 came to minus €35.5 million (31 December 2013: minus €31.7 million). This constituted a year-on-year improvement of €33.8 million (31 March 2013: minus €69.3 million).

Thanks to a far better level of operating profit and the reduction in net cash used for investing activities, free cash flow[2] improved by €17.7 million to minus €3.2 million (Q1 2013: minus €20.9 million).

NET ASSETS

Non-current assets Non-current assets totalled €621.7 million as at 31 March 2014 (31 December 2013: €627.4 million). The decrease of €5.7 million compared to the end of December 2013 was primarily due to the change in property, plant and equipment, with depreciation exceeding additions. As far as intangible assets were concerned, additions and amortisation almost offset each other.

Current assets Current assets amounted to €532.1 million as at 31 March 2014. This equated to a rise of €38.9 million compared with current assets as at 31 December 2013 (€493.2 million). The decisive factor in this trend was the increase in inventories, which was primarily attributable to seasonal effects and the good level of orders on hand.

Working capital Owing to the growth in inventories, working capital (inventories plus trade receivables less trade payables) went up by €29.9 million over the course of the first quarter to reach €202.2 million on 31 March 2014 (31 December 2013: €172.3 million). Trade receivables fell by €10.7 million over the same period, partly offsetting the rise in inventories resulting from the order situation and from seasonal factors. The €6.3 million increase in trade payables also had a positive impact on working capital. Thanks to rigorous working capital management, we were nevertheless able to improve the working capital ratio by 0.2 percentage points to 13.4 per cent as at 31 March 2014 (31 March 2013: 13.6 per cent). The average working capital ratio[3] was even better, amounting to 12.2 per cent as at 31 March 2014 (31 March 2013: 14.7 per cent).

[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 less net interest expense
[3] Working capital ratio: ratio of working capital (inventories plus trade receivables less trade payables), either at the end of the reporting period or as an average of the four quarters, to revenue for the preceding twelve months

Unrecognised intangible 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. The Company has been a firmly established player in the equipment manufacturing and operating industry for 150 years. DEUTZ also enjoys valuable long-standing relationships with customers; it has entered into long-term cooperation agreements, particularly with its key customers.

Equity As at 31 March 2013, equity had decreased to €497.3 million (31 December 2013: €504.7 million). The main reasons for this decline of €7.4 million were changes to the discount rates used in the measurement of pension liabilities and the effects of translating the financial statements of our international subsidiaries prepared in foreign currencies. The equity ratio fell to 43.1 per cent as at 31 March 2014 (31 December 2013: 45.0 per cent).

Non-current and current liabilities Non-current liabilities totalled €318.2 million as at 31 March 2014 (31 December 2013: €292.5 million), up by €25.7 million compared with 31 December 2013. The main reason for this was the amount drawn down from the existing working capital facility as at the reporting date. Current liabilities had also risen compared with 31 December 2013, advancing from €323.8 million at the end of last year to €338.7 million at the end of March 2014. This increase of €14.9 million was predominantly attributable to an increase in other provisions – particularly accruals for staff costs – and higher trade payables.

Total assets had gone up by €33.2 million to €1,154.2 million as at 31 March 2014 (31 December 2013: €1,121.0 million).

EVENTS AFTER THE REPORTING PERIOD

In April, we decided to carry out a comprehensive optimisation of our network of sites. This involves consolidating our facilities in Cologne. We will move out of our Cologne-Deutz site within two years and build a new shaft centre for the production of camshafts and crankshafts at our largest site in Cologne-Porz. Production of crankcases for the 2011 engine series will be outsourced.

We have undertaken not to make any compulsory redundancies in Cologne without the works council's consent for a period of four years and to offer all apprentices a permanent position.

We are also examining the possibility of integrating our exchange engine plant in Übersee on Lake Chiemsee into the plant in Ulm. All employees will be offered a job in Ulm. For anyone not wishing to move, the sites will be closed with the minimum possible social impact. We are confident that we will create long-lasting added value for DEUTZ by optimising our network of sites in this way.

These measures will result in a one-off expense of between €15 million and €20 million in the current year (of which up to around €10 million relates to the Cologne sites). By merging sites and implementing the other measures, we hope to generate a sustained increase in efficiency. We expect a significant improvement in operating profit starting in 2016; from 2017 onwards we estimate an annual improvement of more than €10 million. We will spend almost €20 million in total to achieve this, primarily for the shaft centre in Cologne-Porz. However, proceeds from the sale of real estate in subsequent years should significantly exceed this investment.

RESEARCH AND DEVELOPMENT

Small increase in R&D expenditure Before deducting grants, expenditure on research and development in the first quarter of 2014 amounted to €19.1 million, which was up on the corresponding prior-year period (Q1 2013: €15.2 million). Factoring in reimbursements from key customers and development partners, spending on research and development came to €14.4 million (Q1 2013: €11.6 million). The R&D ratio (after deducting grants) – the ratio of net R&D spending to consolidated revenue – went up slightly, from 4.0 per cent to 4.2 per cent year on year. As before, we expect the R&D ratio to fall slightly over the course of the year.

R&D spending on the development of our new engines and the refinement of existing ones amounted to €11.8 million, equating to 81.9 per cent of all R&D expenditure after deducting grants (Q1 2013: 82.8 per cent). Expenditure on ongoing support for existing engine series accounted for 12.6 per cent (Q1 2013: 10.3 per cent) and expenditure on research and preliminary development work accounted for 5.5 per cent (Q1 2013: 6.9 per cent).

The DEUTZ Compact Engines segment's spending on research and development (after deducting grants) came to €13.2 million (Q1 2013: €10.4 million), and that of the DEUTZ Customised Solutions segment came to €1.2 million (Q1 2013: €1.2 million).

EMPLOYEES

More employees hired due to increased production On 31 March 2014, the DEUTZ Group had 4,042 employees, 107 people – or 2.7 per cent – more than a year earlier (31 March 2013: 3,935). We had also increased our headcount by 90 people – or 2.3 per cent – compared with the end of 2013 (31 December 2013: 3,952). This is in response to increased customer demand and allows us to make adjustments to production. We also increased the number of contract staff to 586 at the end of the reporting period, up by 390 compared with 31 March 2013 and by 130 compared with the end of 2013. Hiring workers with fixed-term contracts enables DEUTZ to respond flexibly to possible fluctuations in demand in a fast-moving market environment while continuing to grow profitably. Approximately 18 per cent of all staff at DEUTZ had fixed-term or temporary contracts at the end of March.

The number of employees in Germany at the reporting date was 3,100, of whom 2,426 worked in Cologne and 393 in Ulm. Headcount in Germany and at these locations was largely unchanged compared with 31 March 2013.

At the end of the first quarter of 2014, 942 people worked for DEUTZ outside Germany, an increase of 117 compared with 31 March 2013 and 85 more than at the end of December 2013. Hiring was concentrated at our Spanish production company DEUTZ Spain, where headcount rose by 77 to 557 employees, and at our US company DEUTZ Corporation, where the number of employees grew by 21 year on year to 165.

Overall, therefore, 76.7 per cent of DEUTZ employees were based in Germany as at 31 March 2014 (31 March 2013: 79.0 per cent) and 23.3 per cent in other countries (31 March 2013: 21.0 per cent).

OPPORTUNITY AND 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. However, the constantly changing market environment also presents opportunities for the Company. Pages 48 to 53 of our 2013 annual report explain the structure of our risk management system and describe certain material risks and opportunities for our financial position and financial performance in 2014. We did not identify any further material risks or opportunities in the first quarter of 2014. Additional information is provided in the Outlook section 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 entities in which it holds significant investments and the relationship with AB Volvo (publ), Gothenburg, Sweden (including its subsidiaries), which is a shareholder in DEUTZ AG and able to exert a significant influence.

Further information on related party disclosures is given on page 24 of the notes to the interim consolidated financial statements.

OUTLOOK

Global economic growth to accelerate[1] According to the IMF, the strengthening recovery of the global economy will manifest itself in higher growth rates. As a result, the pace of growth in the global economy is forecast to rise from 3.6 per cent in 2014 to 3.9 per cent in 2015. The eurozone economy is expected to expand by 1.2 per cent this year and by as much as 1.5 per cent next year. Growth rates of 1.7 per cent for 2014 and 1.6 per cent for 2015 are predicted for Germany, while the prospective growth rates for the US are 2.8 per cent and 3.0 per cent respectively. The strongest growth is again anticipated for China with a gain of 7.5 per cent this year and 7.3 per cent in 2015.

[1] IMF World Economic Outlook, April 2014

DEUTZ takes further steps to boost efficiency We anticipate that the DEUTZ Group's revenue will continue to rise at an encouraging rate in 2014 and the years after that. These assumptions are based on structural growth resulting from various growth projects and the increasing proportion of unit sales accounted for by higher value engines for the new emissions standards.

However, higher depreciation and amortisation, the production ramp-up of new engines and the growth projects will depress earnings again in 2014. We are continuing to work on the smooth production start-up of our new engines and improvements to their profitability, plus the successful implementation of our growth projects.

Over the coming months, we will particularly focus on the comprehensive optimisation of our network of sites. This will affect our sites in Cologne, but we are also examining the possibility of closing our exchange engine plant in Übersee on Lake Chiemsee and integrating it into the plant in Ulm. Further information can be found in the Events after the balance sheet date section on page 10.

We expect a significant improvement in operating profit starting in 2016; from 2017 onwards we estimate an annual improvement of more than €10 million. We will spend almost €20 million in total to achieve this, primarily for the shaft centre in Cologne-Porz. However, proceeds from the sale of real estate in subsequent years should significantly exceed this investment. These measures will result in a one-off expense of between €15 million and €20 million in 2014.

On this basis, we continue to expect low double-digit revenue growth in 2014. The EBIT margin before one-off items is predicted to exceed 4.0 per cent and, after one-items, 3.0 per cent.

Disclaimer

This management report includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performances, developments and results in the Company or those in sectors important to the Company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Board of Management cannot therefore make any warranty with regard to the forward-looking statements made in this management report.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1ST QUARTER OF 2014

INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	1–3/2014	1–3/2013
€ million			
Revenue		**342.7**	**289.9**
Cost of sales		–300.1	–257.6
Research and development costs		–16.3	–14.3
Selling expenses		–16.6	–15.6
General and administrative expenses		–8.4	–7.4
Other operating income		3.2	4.1
Other operating expenses		–3.1	–4.4
Income from investments accounted for using the equity method		0.5	–1.1
Other financial income		–	–
EBIT		**1.9**	**–6.4**
Interest expenses, net		–1.7	–1.3
thereof finance costs		–1.9	–1.7
Net income before taxes		**0.2**	**–7.7**
Income taxes	1	–0.8	0.8
Net income		**–0.6**	**–6.9**
thereof attributable to shareholders of DEUTZ AG		–0.5	–6.9
thereof attributable to non-controlling interests		–0.1	–
Earnings per share (€)		**–**	**–0.06**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	1–3/2014	1–3/2013
€ million			
Net income		**–0.6**	**–6.9**
Amounts that will not be reclassified to the income statement in the future		**–3.4**	**–1.2**
Actuarial gains and losses on the revaluation of pensions and similar obligations		–3.4	–1.2
Amounts that will be reclassified to the income statement in the future if specific conditions are met		**–3.4**	**2.4**
Currency translation differences		–3.2	2.7
Effective portion of change in fair value from cash flow hedges		–0.2	–0.4
Change in fair value of available-for-sale financial instruments		–	0.1
Other comprehensive income, net of tax	2	**–6.8**	**1.2**
Comprehensive income		**–7.4**	**–5.7**
thereof attributable to shareholders of DEUTZ AG		–6.7	–5.8
thereof attributable to non-controlling interests		**–0.7**	**0.1**

BALANCE SHEET FOR THE DEUTZ GROUP

Assets	Note	31 Mar 2014	31 Dec 2013
€ million			
Property, plant and equipment	3	301.2	306.4
Intangible assets	3	236.3	237.9
Equity-accounted investments		44.9	46.0
Other financial assets		6.1	6.3
Non-current assets		588.5	596.6
Deferred tax assets		33.2	30.8
Non-current assets		**621.7**	**627.4**
Inventories	4	271.5	224.6
Trade receivables		138.4	149.1
Other receivables and assets		52.0	60.6
Cash and cash equivalents		70.2	58.9
Current assets		**532.1**	**493.2**
Non-current assets classified as held for sale		0.4	0.4
Total assets		**1,154.2**	**1,121.0**

Equity and liabilities	Note	31 Mar 2014	31 Dec 2013
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		–	2.8
Retained earnings and accumulated income		135.8	139.7
Equity attributable to shareholders of DEUTZ AG		**473.6**	**480.3**
Non-controlling interests		23.7	24.4
Equity		**497.3**	**504.7**
Provisions for pensions and other post-retirement benefits		171.3	168.6
Other provisions	5	34.9	37.2
Financial liabilities	6	98.0	83.0
Other liabilities		14.0	3.7
Non-current liabilities		**318.2**	**292.5**
Provisions for pensions and other post-retirement benefits		14.9	14.9
Provision for current income taxes		4.9	4.3
Other provisions	5	53.4	45.2
Financial liabilities	6	7.7	7.6
Trade payables		207.7	201.4
Other liabilities		50.1	50.4
Current liabilities		**338.7**	**323.8**
Total equity and liabilities		**1,154.2**	**1,121.0**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

	Issued capital	Additional paid-in capital	Retained earnings and accumulated income	Fair value reserve[1), 2)]	Currency translation reserve[1)]	Equity attributable to shareholders of DEUTZ AG	Non-controlling interests	**Total**
€ million								
Balance at 1 Jan 2013	**309.0**	**28.8**	**100.1**	**–0.1**	**8.3**	**446.1**	**6.5**	**452.6**
Net income	–	–	–6.9	–	–	–6.9	–	–6.9
Other comprehensive income	–	–	–1.2	–0.3	2.6	1.1	0.1	1.2
Comprehensive income	–	–	–8.1	–0.3	2.6	–5.8	0.1	–5.7
Balance at 31 Mar 2013	**309.0**	**28.8**	**92.0**	**–0.4**	**10.9**	**440.3**	**6.6**	**446.9**
Balance at 1 Jan 2014	**309.0**	**28.8**	**139.7**	**0.2**	**2.6**	**480.3**	**24.4**	**504.7**
Net income	–	–	–0.5	–	–	–0.5	–0.1	–0.6
Other comprehensive income	–	–	–3.4	–0.2	–2.6	–6.2	–0.6	–6.8
Comprehensive income	–	–	–3.9	–0.2	–2.6	–6.7	–0.7	–7.4
Balance at 31 Mar 2014	**309.0**	**28.8**	**135.8**	**–**	**–**	**473.6**	**23.7**	**497.3**

1) On 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	**1–3/2014**	1–3/2013
€ million			
EBIT		**1.9**	**–6.4**
Income taxes paid		–0.7	–0.5
Depreciation, amortisation and impairment of non-current assets		23.5	21.9
Profit/loss on equity-accounted investments		–0.5	1.1
Other non-cash income and expenses		–	0.3
Change in working capital		–29.0	–21.2
Change in inventories		–47.0	–25.6
Change in trade receivables		10.6	–2.1
Change in trade payables		7.4	6.5
Change in other receivables and other current assets		1.1	–1.2
Change in provisions and other liabilities (excluding financial liabilities)		13.1	6.9
Cash flow from operating activities		**9.4**	**0.9**
Capital expenditure on intangible assets, property, plant and equipment		–16.2	–20.8
Proceeds from the sale of non-current assets		5.1	0.1
Cash flow from investing activities		**–11.1**	**–20.7**
Interest income		0.2	0.4
Interest expenses		–1.7	–1.5
Cash receipts from borrowings		15.0	–
Repayments of loans		–	–0.2
Cash flow from financing activities		**13.5**	**–1.3**
Cash flow from operating activities		9.4	0.9
Cash flow from investing activities		–11.1	–20.7
Cash flow from financing activities		13.5	–1.3
Change in cash and cash equivalents		**11.8**	**–21.1**
Cash and cash equivalents at 1 January		**58.9**	**52.1**
Change in cash and cash equivalents		11.8	–21.1
Change in cash and cash equivalents related to exchange rates		–0.5	0.5
Cash and cash equivalents at 31 March		**70.2**	**31.5**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1ST QUARTER OF 2014

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim consolidated financial statements for the period ended 31 March 2014 have been prepared in accordance with 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 consolidated financial statements do not contain all the information and notes required by 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 2013 financial year.

The condensed interim consolidated financial statements for the period ended 31 March 2014 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and selected notes to the interim consolidated financial statements – and the interim group management report for the period from 1 January to 31 March 2014 have not been reviewed by an auditor.

SIGNIFICANT ACCOUNTING POLICIES

With the exception of the new IFRSs and the amendments to existing standards 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 2013. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2013. If they are material, revenue-related and cyclical items are accrued during the year. The income taxes are calculated on the basis of the effective tax rate currently expected to apply to the DEUTZ Group for the year as a whole.

IAS 27 (revised) “Separate Financial Statements” The revised standard was issued in May 2011. Following the publication of IFRS 10 and IFRS 12, IAS 27 now only applies to the accounting treatment of subsidiaries, jointly controlled companies and associates in an entity’s separate financial statements. DEUTZ AG does not prepare separate IFRS financial statements of this type.

IAS 28 (revised) “Investments in Associates and Joint Ventures” The amendment to IAS 28 was published in May 2011. Following the issue of the new IFRS 11 and IFRS 12 standards, IAS 28 was renamed “Investments in Associates and Joint Ventures” and its scope was extended to the application of the equity method in respect of joint ventures. Initial application of this amendment has not had any impact on the interim consolidated financial statements.

IAS 32 (revised) “Financial Instruments: Presentation” This amendment to IAS 32 was published in December 2011 and is intended to clarify existing provisions regarding the offsetting of financial assets and financial liabilities. As the amendment is for the purpose of clarification only, initial application has not had any impact on the Group’s financial position or financial performance.

IAS 39 (revised) “Novation of Derivatives and Continuation of Hedge Accounting” The IASB published this amendment in June 2013. It enables hedging transactions to be continued in cases in which derivatives designated as hedging instruments have been transferred from one counterparty to a central counterparty as the result of statutory or regulatory requirements. Initial application of the amendment has not had any impact on the interim consolidated financial statements.

IFRS 10 “Consolidated Financial Statements” IFRS 10, published in May 2011, replaces the provisions of the previous IAS 27 “Consolidated and Separate Financial Statements” relating to consolidated accounting. The new standard also governs the consolidation of special-purpose entities, which was previously covered by SIC 12, and thereby defines a single control concept applicable to all companies, including special-purpose entities. Initial application of the amendment has not had any impact on the Group’s financial position or financial performance.

IFRS 11 "Joint Arrangements" IFRS 11 was issued in May 2011. It replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities" as part of a large-scale project to improve financial reporting standards and disclosure requirements related to consolidation and joint arrangements. By taking this step, the IASB has eliminated the option of proportionate consolidation for joint ventures, which means that they may now only be accounted for in the consolidated financial statements using the equity method. The categorisation of joint arrangements has also been amended. Initial application of the amendment has not had any impact on the Group's financial position or financial performance.

IFRS 12 "Disclosure of Interests in Other Entities" IFRS 12 was issued in May 2011 as a single standard for disclosure requirements in respect of relationships between companies in the notes to the consolidated financial statements. It contains the disclosure requirements previously covered by IAS 27, IAS 28 and IAS 31 as well as new disclosure requirements. As the new rules relate exclusively to disclosures in the notes to the consolidated financial statements, initial application of IFRS 12 has not had any impact on the DEUTZ Group's financial position or financial performance.

Investment Entities (amendment to IFRS 10, IFRS 11 and IFRS 12) The amendment to IFRS 10, IFRS 11 and IFRS 12, which was published in October 2012, exempts qualified investment entities from the requirement to consolidate subsidiaries. Instead, these assets can be recognised at fair value. This amendment has not had any impact on the interim consolidated financial statements.

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 as at the balance sheet date and on the reporting of income and expenses in the period under review.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. INCOME TAXES

	1–3/2014	1–3/2013
€ million		
Current tax expense	1.6	0.9
Deferred taxes	–0.8	–1.7
Total	**0.8**	**–0.8**

The increase in the current tax expense was largely attributable to the improved results of operations of the Group companies. The change in deferred taxes resulted, in particular, from lower deferred tax income related to future tax assets in respect of loss carryforwards.

2. 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:

	1–3/2014		
	Before taxes	Taxes	After taxes
€ million			
Amounts that will not be reclassified to the income statement in the future	**–5.0**	**1.6**	**–3.4**
Actuarial gains and losses on the revaluation of pensions and similar obligations	–5.0	1.6	–3.4
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**–3.5**	**0.1**	**–3.4**
Currency translation differences	–3.2	–	–3.2
Effective portion of change in fair value from cash flow hedges	–0.3	0.1	–0.2
Change in fair value of available-for-sale financial instruments	–	–	–
Other comprehensive income	**–8.5**	**1.7**	**–6.8**

	1–3/2013		
	Before taxes	Taxes	After taxes
€ million			
Amounts that will not be reclassified to the income statement in the future	**–1.8**	**0.6**	**–1.2**
Actuarial gains and losses on the revaluation of pensions and similar obligations	–1.8	0.6	–1.2
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**2.2**	**0.2**	**2.4**
Currency translation differences	2.7	–	2.7
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	**0.4**	**0.8**	**1.2**

A pre-tax profit of €0.1 million relating to cash flow hedges was reclassified to the income statement in the first three months of the current financial year (Q1 2013: €0.3 million).

3. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €16.9 million in the first quarter of the year (Q1 2013: €15.7 million). This was broken down into €9.8 million (Q1 2013: €9.7 million) on intangible assets – the majority relating to the refinement of engines – and €7.1 million (Q1 2013: €6.0 million) on property, plant and equipment. Additions to property, plant and equipment essentially related to the production start-up of new engines. Capital expenditure was offset by depreciation and amortisation of €23.5 million (Q1 2013: €21.9 million).

Commitments to purchase property, plant and equipment and intangible assets amounted to €29.7 million as at 31 March 2014 (31 December 2013: €32.9 million).

4. INVENTORIES

Inventories had grown by €46.9 million to €271.5 million as at 31 March 2014 (31 December 2013: €224.6 million). This increase particularly related to raw materials, consumables and finished goods. The main factors behind this growth were not only the far higher level of orders on hand but also seasonal effects.

Commitments to purchase inventories as at 31 March 2014 came to €115.3 million (31 December 2013: €113.1 million).

5. OTHER PROVISIONS

	31 Mar 2014	31 Dec 2013
€ million		
Non-current	34.9	37.2
Current	53.4	45.2
Total	**88.3**	**82.4**

The increase in other provisions is attributable, in particular, to accruals during the financial year.

6. FINANCIAL LIABILITIES

	31 Mar 2014	31 Dec 2013
€ million		
Non-current	98.0	83.0
Current	7.7	7.6
Total	**105.7**	**90.6**

The change in non-current financial liabilities was a result of the amount drawn down from the existing working capital facility as at 31 March 2014.

OTHER INFORMATION

STAFF COSTS

	1–3/2014	1–3/2013
€ million		
Wages	30.9	29.0
Salaries	30.9	29.2
Social security contributions	9.9	9.4
Interest expense for provisions for pensions and other post-retirement benefits	1.6	1.6
Cost of severance payments/personnel restructuring	0.1	0.1
Total	**73.4**	**69.3**

The following table shows the breakdown of staff costs by functional area:

	1–3/2014	1–3/2013
€ million		
Cost of sales	44.5	41.1
Research and development costs	9.8	9.4
Selling expenses	11.2	10.4
Administrative expenses	6.3	6.8
Other operating expenses	1.6	1.6
Total	**73.4**	**69.3**

FINANCIAL INSTRUMENTS

The following table shows the carrying amounts of the individual financial assets and liabilities for each separate category of financial instrument, reconciled to the corresponding balance sheet item.

	31 Mar 2014						
	Measured at amortised cost		**Measured at fair value**			**Assets not within the scope of IAS 39**	
Assets	Loans and receivables	Held-for-sale financial assets	Held-for-sale financial assets	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial assets	Carrying amount	Carrying amount on the balance sheet
€ million							
Non-current financial assets	**1.3**	**0.6**	**2.2**	**–**	**–**	**2.0**	**6.1**
Current financial assets	**250.0**	**–**	**–**	**–**	**–**	**10.6**	**260.6**
Trade receivables	138.4	–	–	–	–	–	138.4
Other receivables and assets	41.4	–	–	–	–	10.6	52.0
Cash and cash equivalents	70.2	–	–	–	–	–	70.2

	31 Dec 2013						
	Measured at amortised cost		**Measured at fair value**			**Assets not within the scope of IAS 39**	
Assets	Loans and receivables	Held-for-sale financial assets	Held-for-sale financial assets	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial assets	Carrying amount	Carrying amount on the balance sheet
€ million							
Non-current financial assets	**1.3**	**0.6**	**2.3**	**–**	**–**	**2.1**	**6.3**
Current financial assets	**259.1**	**–**	**–**	**–**	**–**	**9.5**	**268.6**
Trade receivables	149.1	–	–	–	–	–	149.1
Other receivables and assets	51.1	–	–	–	–	9.5	60.6
Cash and cash equivalents	58.9	–	–	–	–	–	58.9

Liabilities	31 Mar 2014				
	Measured at amortised cost	**Measured at fair value**		**Assets not within the scope of IAS 39**	
	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
€ million					
Non-current financial liabilities	**98.7**	**0.6**	**–**	**12.7**	**112.0**
Financial liabilities	98.0	–	–	–	98.0
Other liabilities	0.7	0.6	–	12.7	14.0
Current financial liabilities	**253.3**	**–**	**0.6**	**11.6**	**265.5**
Financial liabilities	7.7	–	–	–	7.7
Trade payables	207.7	–	–	–	207.7
Other liabilities	37.9	–	0.6	11.6	50.1

Liabilities	31 Dec 2013				
	Measured at amortised cost	**Measured at fair value**		**Assets not within the scope of IAS 39**	
	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
€ million					
Non-current financial liabilities	**83.9**	**–**	**0.3**	**2.5**	**86.7**
Financial liabilities	83.0	–	–	–	83.0
Other liabilities	0.9	–	0.3	2.5	3.7
Current financial liabilities	**248.6**	**–**	**0.6**	**10.2**	**259.4**
Financial liabilities	7.6	–	–	–	7.6
Trade payables	201.4	–	–	–	201.4
Other liabilities	39.6	–	0.6	10.2	50.4

The market values and carrying amounts of financial assets and liabilities held in the DEUTZ Group that are not measured at fair value are essentially identical, with the exception of the following financial instruments:

	31 Mar 2014		31 Dec 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
€ million				
Financial liabilities – liabilities to banks	105.7	108.2	90.6	93.3

As at 31 March 2014, the DEUTZ Group held the following financial instruments measured at fair value:

31 Mar 2014	Carrying amount	Level 1	Level 2	Level 3
€ million				
Financial assets				
Securities	2.2	2.2	–	–
Financial liabilities				
Commodity derivatives	0.6	–	0.6	–
Interest-rate swaps	0.6	–	0.6	–

31 Dec 2013	Carrying amount	Level 1	Level 2	Level 3
€ million				
Financial assets				
Securities	2.3	2.3	–	–
Financial liabilities				
Commodity derivatives	0.6	–	0.6	–
Interest-rate swaps	0.3	–	0.3	–

Level 1: Measurement is based on the price of identical assets or liabilities on active markets
Level 2: Measurement is based on the price of a similar instrument on an active market/ measurement using a method in which all the critical input factors are based on observable market data
Level 3: Measurement using a method in which critical input factors are not based on observable market data

The fair value of securities is derived from prices in active markets.

The fair value of derivative financial instruments (commodities and interest-rate swaps) is calculated over the remaining term of the instrument using current commodity prices, market interest rates and yield curves. The disclosures are based on valuations by banks.

SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the first quarter of 2014 and of 2013 is shown in the following table:

1–3/2014	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	286.8	55.9	–	342.7	–	342.7
Intersegment revenue	–	–	–	–	–	–
Total revenue	**286.8**	**55.9**	**–**	**342.7**	**–**	**342.7**
Operating profit (EBIT)	–4.9	7.1	–0.3	1.9	–	1.9

1–3/2013	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	239.7	50.2	–	289.9	–	289.9
Intersegment revenue	–	–	–	–	–	–
Total revenue	**239.7**	**50.2**	**–**	**289.9**	**–**	**289.9**
Operating profit (EBIT)	–11.2	5.1	–0.3	–6.4	–	–6.4

Reconciliation from overall profit of the segments to net income

	1–3/2014	1–3/2013
€ million		
Overall profit of the segments	**1.9**	**–6.4**
Reconciliation	–	–
Operating profit (EBIT)	**1.9**	**–6.4**
Interest expenses, net	–1.7	–1.3
Net income before taxes	**0.2**	**–7.7**
Income taxes	–0.8	0.8
Net income	**–0.6**	**–6.9**

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** and the relationship with AB Volvo (publ), Gothenburg, Sweden (including its subsidiaries), which is a **shareholder** in DEUTZ AG and able to exert a significant influence.

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 significant investments** and the outstanding balances:

	Goods and services provided		Other expenses in connection with goods and services received	
	1–3/ 2014	1–3/ 2013	**1–3/ 2014**	1–3/ 2013
€ million				
Associates	–	–	–	–
Joint ventures	3.5	0.9	–	–
Other investments	0.1	0.1	1.1	1.0
Total	**3.6**	**1.0**	**1.1**	**1.0**

	Receivables		Liabilities	
	31 Mar 2014	31 Dec 2013	**31 Mar 2014**	31 Dec 2013
€ million				
Associates	–	–	–	–
Joint ventures	3.9	3.8	–	–
Other investments	0.6	0.3	3.4	3.1
Total	**4.5**	**4.1**	**3.4**	**3.1**

The increase in goods supplied and services rendered to joint ventures compared with the corresponding period of 2013 is primarily the result of the business relationship with our joint venture DEUTZ (Dalian) Engine Co., Ltd.

Impairment losses of €26.2 million (31 December 2013: €26.9 million) had been recognised on €30.7 million of the Company's total receivables due from investments as at 31 March 2014 (31 December 2013: €31.0 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 the shareholder AB Volvo (publ), Gothenburg, Sweden (including its subsidiaries):

	2014	2013
€ million		
Engines and spare parts supplied in the first quarter	66.3	82.1
Services rendered in the first quarter	5.0	3.3
Receivables as at 31 Mar/31 Dec	24.6	26.6

All transactions were concluded at arm's-length market rates. There is an agreement that grants Volvo companies extended credit periods in return for payment of a fee.

EVENTS AFTER THE BALANCE SHEET DATE (31 MARCH 2014)

In April, a decision was taken to carry out a comprehensive optimisation of the Company's network of sites in Germany. This involves consolidation of the Cologne sites: over a period of two years, the site in Cologne-Deutz is to be vacated and a new shaft centre for the production of camshafts and crankshafts is to be set up at the Company's largest site in Cologne-Porz. Production of crankcases for the 2011 engine series will be outsourced to an external supplier.

The Company has undertaken not to make any compulsory redundancies in Cologne without the works council's consent for a period of four years and to offer all apprentices a permanent position.

The Company is also examining the possibility of integrating the exchange engine plant in Übersee on Lake Chiemsee into the plant in Ulm. All employees will be offered a job in Ulm. For anyone not wishing to move, the sites will be closed with the minimum possible social impact.

These measures will result in a one-off expense of between €15 million and €20 million in the current year (of which up to around €10 million relates to the Cologne sites). Capital expenditure will amount to almost €20 million, primarily for the shaft centre in Cologne-Porz. However, proceeds from the sale of real estate in subsequent years should significantly exceed this investment.

Cologne, 30 April 2014

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

Michael Wellenzohn

FINANCIAL CALENDAR

2014	
5 May 2014	Interim report for the first quarter of 2014 Conference call with analysts and investors
7 May 2014	Annual General Meeting
7 August 2014	Interim report for the first half of 2014 Conference call with analysts and investors
6 November 2014	Interim report for the first to third quarter of 2014 Conference call with analysts and investors

2015	
19 March 2015	Annual Results Press Conference Analysts' meeting Publication of annual report for 2014
29 April 2015	Annual General Meeting
5 May 2015	Interim report for the first quarter of 2015 Conference call with analysts and investors
6 August 2015	Interim report for the first half of 2015 Conference call with analysts and investors
5 November 2015	Interim report for the first to third quarter of 2015 Conference call with analysts and investors

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