A TRADITION OF ACHIEVEMENT

Interim report
for the first half of 2014

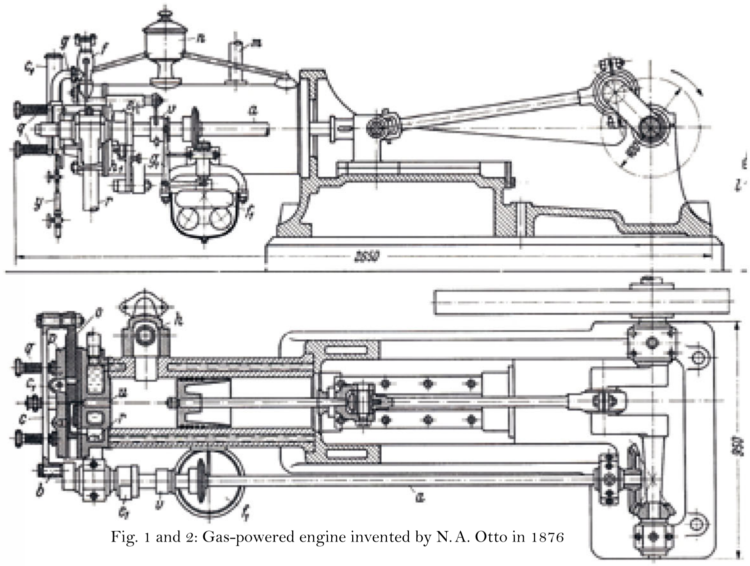


Fig. 1 and 2: Gas-powered engine invented by N. A. Otto in 1876

THE FIRST HALF YEAR AT A GLANCE

DEUTZ Group: Overview

	4–6/2014	4–6/2013	1–6/2014	1–6/2013
€ million				
New orders	332.6	455.0	746.8	843.5
Unit sales (units)	54,622	49,669	99,079	85,907
Revenue	410.7	372.2	753.4	662.1
thereof excluding Germany (%)	75.1	82.7	77.0	83.0
EBITDA	28.2	40.3	53.6	55.8
EBITDA (before one-off items)	42.1	40.3	67.5	55.8
EBIT	4.3	16.5	6.2	10.1
EBIT (before one-off items)	18.2	16.5	20.1	10.1
EBIT margin (%)	1.0	4.4	0.8	1.5
EBIT margin (before one-off items, %)	4.4	4.4	2.7	1.5
Net income	3.3	12.3	2.7	5.4
Earnings per share (€)	0.02	0.10	0.02	0.04
Total assets	1,183.5	1,070.7	1,183.5	1,070.7
Non-current assets	583.4	610.6	583.4	610.6
Equity	489.6	461.8	489.6	461.8
Equity ratio (%)	41.4	43.1	41.4	43.1
Cash flow from operating activities	31.5	48.1	40.9	49.0
Free cash flow[1]	12.1	24.3	8.9	3.4
Net financial position[2]	–31.8	–44.9	–31.8	–44.9
Working capital[3]	204.0	169.3	204.0	169.3
Working capital as percentage of revenue at reporting date (%)	13.2	13.3	13.2	13.3
Capital expenditure (excluding capi-talisation of R&D, after deducting grants)	11.1	11.4	19.0	18.4
Depreciation and amortisation	23.9	23.8	47.4	45.7
Research and development (after deducting grants)	11.3	15.1	25.7	26.7
Employees (30 June)	4,014	4,030	4,014	4,030

[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 minus trade payables.

DEUTZ Group: Segments

	4–6/2014	4–6/2013	1–6/2014	1–6/2013
€ million				
New orders				
DEUTZ Compact Engines	267.5	372.2	612.1	700.5
DEUTZ Customised Solutions	65.1	82.8	134.7	143.0
Total	**332.6**	**455.0**	**746.8**	**843.5**
Unit sales (units)				
DEUTZ Compact Engines	51,279	45,412	92,935	79,132
DEUTZ Customised Solutions	3,343	4,257	6,144	6,775
Total	**54,622**	**49,669**	**99,079**	**85,907**
Revenue				
DEUTZ Compact Engines	347.8	306.6	634.6	546.3
DEUTZ Customised Solutions	62.9	65.6	118.8	115.8
Total	**410.7**	**372.2**	**753.4**	**662.1**
EBIT (before one-off items)				
DEUTZ Compact Engines	10.5	5.7	5.6	–5.5
DEUTZ Customised Solutions	7.2	11.1	14.3	16.2
Other	0.5	–0.3	0.2	–0.6
Total	**18.2**	**16.5**	**20.1**	**10.1**

FOREWORD

Dear Shareholders and Business Associates,

The global economic recovery has continued in recent months, despite the current trouble spots.

In this environment, the DEUTZ Group's results as a whole improved in the first half of 2014. Although the level of new orders amounting to €746.8 million was 11.5 per cent lower than the record level achieved in the first half of 2013, revenue rose by 13.8 per cent to €753.4 million. Greater capacity utilisation resulted in operating profit (EBIT before one-off items) virtually doubling to €20.1 million compared with the first half of 2013. After one-off items – which related to expenses for the site optimisations that have been initiated – it amounted to €6.2 million. The downward trend in net financial debt remained encouraging. It fell to €31.8 million, which was €13.1 million lower than the figure at 30 June 2013.

In the second quarter of 2014, revenue amounted to €410.7 million, which represented an increase of 10.3 per cent on the second quarter of 2013 and an increase of 19.8 per cent on the previous quarter. In this period, EBIT before one-off items was up by €1.7 million year on year and totalled €18.2 million.

After several years in which no dividend was paid, we were extremely pleased that we were able to pay our shareholders a dividend once more in May 2014. The total dividend payout was almost €8.5 million and is not subject to German investment income tax. Going forward, we intend to continue sharing profits with our shareholders through regular dividend payments.

In our last quarterly report, we informed you about the decision we took in April to carry out a comprehensive optimisation of our network of sites. This decision will be implemented in the next few months and will result in long-term efficiency enhancement. We will be consolidating our facilities in Cologne by moving out of our Cologne-Deutz site within two years and building 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.

Our exchange engine plant in Übersee on Lake Chiemsee will be closed and integrated 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 also undertaken not to make any compulsory redundancies in Cologne for a period of four years and to offer all apprentices a permanent position. We expect these measures to result in a significant improvement in earnings from as early as 2016; and from 2017 we predict that this improvement will be in excess of €10 million a year. In total, we will be spending almost €20 million to achieve this, but proceeds from the sale of real estate in subsequent years should significantly exceed this investment. In the second quarter, one-off expenses of €13.9 million were incurred in connection with site optimisation. These measures will result in total, one-off expenses of up to €20 million in the current year. We are confident that we will create long-lasting added value by optimising our network of sites in this way.

The performance of our business in Asia, one of our biggest growth markets, was also encouraging. This year, we succeeded in acquiring new customer projects in Japan and South Korea. We have opened a new sales office in Shanghai, which is an important centre for our European and American customers. Sales staff as well as application engineers and service engineers will work there in order to further expand customer support. This office is in addition to our existing sales and service company in Beijing. In the first half of 2014, our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. made a higher contribution to earnings as a result of improved efficiency and the increased volume of business.

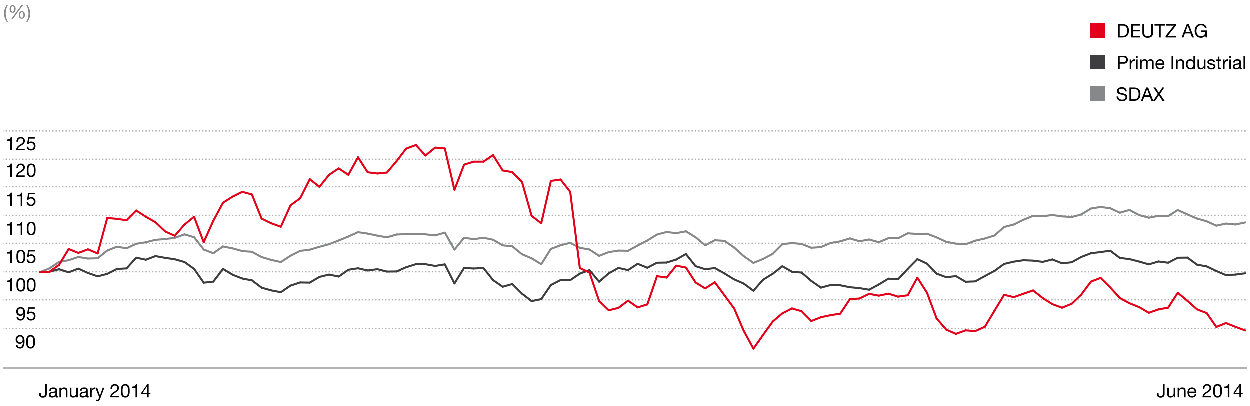
We are also continuing with the systematic, critical examination and optimisation of our costs and structures and we are adhering to our forecast of low double-digit revenue growth for 2014. The EBIT margin before one-off items is predicted to exceed 4.0 per cent and, after one-items, 3.0 per cent.

Kind regards from Cologne,

Dr Helmut Leube | Dr Margarete Haase | Michael Wellenzohn

DEUTZ SHARES

DEUTZ share price performance



The situation in the financial markets has generally become calmer in the last few months, although sentiment in the equity markets has recently deteriorated slightly. At the end of the half year, the SDAX index, in which shares in DEUTZ AG are listed, closed at 7,385.32 points, which was 8.8 per cent higher than its 2013 year-end closing price. Shares in German engineering companies generally underperformed the market, resulting in the Prime Industrial edging down by 0.2 per cent to finish the first half of the year at 4,487.04 points.

Following a strong first quarter, DEUTZ shares fell in value in the subsequent three months. Having reached a peak of €7.94 for the year to date on 25 February 2014, they fell to €5.61 on 15 April 2014, their lowest point in the first half of 2014. DEUTZ shares closed at €5.82 on 30 June 2014, a price that represented a fall of 10.3 per cent on 30 December 2013.

The number of DEUTZ shares remained unchanged at 120.9 million. Market capitalisation as at 30 June 2014 therefore amounted to €703.4 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 free float is held by a broadly diversified range of private and institutional shareholders both in Germany and abroad. FMR LLC (Fidelity USA) has held a 3.0 per cent stake in our Company since April 2014. In June 2014, FIL Ltd. (Fidelity UK) also increased its shareholding from 3.1 per cent to 5.0 per cent, but pared back its stake to 4.7 per cent after the reporting date. Old Mutual Plc has also held a stake of 3.1 per cent since November 2013.

The Annual General Meeting of DEUTZ AG was held on 7 May 2014 in the Congress-Centrum Ost at Koelnmesse exhibition centre in Cologne-Deutz. All the items on the agenda were adopted with a large majority. They included the election of Mr Herbert Kauffmann to the Supervisory Board to succeed Dr Lodovico Bussolati, who stepped down from the Supervisory Board of DEUTZ AG with effect from 31 December 2013. Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft was appointed as the new auditor of the single-entity and consolidated annual financial statements for 2014.

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 Capital Markets, Quirin Bank, Solventis Wertpapierhandelsbank and UBS.

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

	1–6/2014	1–6/2013
Number of shares (30 Jun)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 30 Jun (€)	5.82	4.64
Share price high (€)	7.94	5.04
Share price low (€)	5.61	3.71
Market capitalisation as at 30 Jun (€ million)	703.4	560.8
Earnings per share (€)	0.02	0.04

Based on Xetra closing prices.

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

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Global growth forecast trimmed[1] The global economy has maintained its recovery trend in the last few months. The rebound is primarily being driven by the established industrial countries, while most developing countries were recently hit by a credit squeeze. Risks also remain present, including geopolitical risks in Ukraine and the Middle East and, on the financial side, a rise in long-term interest rates and in credit spreads.

The International Monetary Fund (IMF) is now predicting global economic growth of 3.4 per cent for the year as a whole, compared with 3.2 per cent in 2013. This means that the full-year growth forecast has been revised down slightly compared with April 2014.

The eurozone economy is expected to expand by 1.1 per cent this year after contracting by 0.4 per cent in 2013. Germany, where the growth rate is anticipated to be around 1.9 per cent, remains the growth driver. The ifo Business Climate Index for trade and industry in Germany fell in July 2014 for the third consecutive month. It now stands at 108.0 points[2], but still remains at a high level.

The US economy is anticipated to grow by around 1.7 per cent during 2014 as a whole, following a gain of 1.9 per cent in 2013. Adverse weather conditions and other temporary factors had initially dented US economic growth, but the country's data has now recovered, so it is expected to generate greater growth stimulus.

China's growth prospects of 7.4 per cent for 2014 are somewhat lower than in previous years, although China still has one of the highest growth rates in the global economy. In recent months, a few negative signals regarding the future performance of the construction industry in China have unsettled market participants and the financial markets.

German engineering orders on par with 2013[3] In real terms, the volume of new orders received in the German engineering sector in the first five months of this year was down by 1 per cent on the same period in 2013. An encouragingly high level of domestic orders contrasted with a fall in orders from abroad, which was largely the result of ongoing problems in many developing and emerging markets.

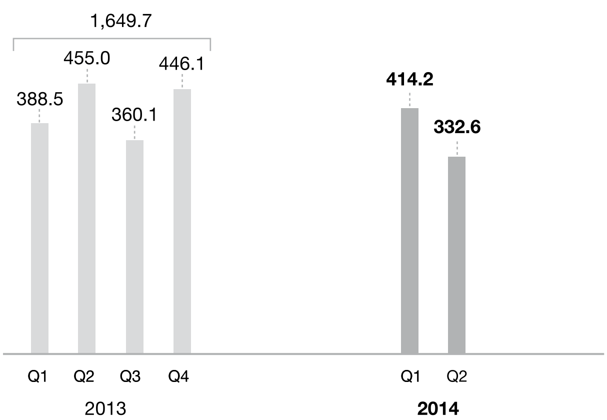
NEW ORDERS

New orders down slightly The first half of 2014 saw the first fall in the new orders received by DEUTZ after several quarters when new orders were at particularly high levels. New orders stood at €746.8 million, which was 11.5 per cent lower than the same period last year (H1 2013: €843.5 million). The Mobile Machinery application segment in particular succeeded in significantly increasing its volume of new orders. The service business also recorded a small gain, while new orders received by the Stationary Equipment application segment fell slightly. New orders were down sharply in the Automotive and Agricultural Machinery application segments, but the decrease in Agricultural Machinery was largely attributable to the very high level of orders in the first half of 2013 and to current market weakness in this sector.

DEUTZ won orders amounting to €332.6 million in the second quarter of 2014, which represented a fall of 26.9 per cent on the same quarter in 2013 (Q2 2013: €455.0 million) and a fall of 19.7 per cent on the previous quarter (Q1 2014: €414.2 million). A decline in new orders had been expected because the level of orders on hand at the end of the first quarter was very high, partly due to the advance production of engines ahead of forthcoming changes in emissions standards. The trend in new orders was particularly pleasing in the US and also in Asia, where we gained new customers in Japan and South Korea. As a result, we are achieving better diversification across customers and regions.

Orders on hand at 30 June 2014 amounted to €346.9 million, which was 1.7 per cent lower than the figure reported a year earlier and 18.4 per cent lower than the figure at 31 March 2014.

DEUTZ Group: New orders by quarter
€ million



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

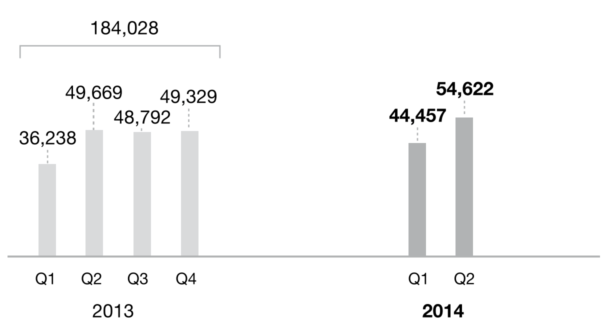
UNIT SALES

More engines sold DEUTZ sold 99,079 engines in the first half of 2014, representing a 15.3 per cent increase in unit sales compared with the first half of 2013 when 85,907 engines were sold. A significant increase was reported in the second quarter of 2014 when we sold 54,622 engines, 10.0 per cent more than in the same prior-year quarter (Q2 2013: 49,669 engines) and 22.9 per cent more than in the previous quarter (Q1 2014: 44,457 engines).

Unit sales rose in all regions. EMEA (Europe, Middle East and Africa), our biggest sales market, saw engine sales rise by 13.6 per cent to 72,723, while unit sales in the Americas rose by 21.2 per cent to 21,307 and in the Asia-Pacific region by 17.7 per cent to 5,049.

DEUTZ Group: Consolidated unit sales by quarter

units

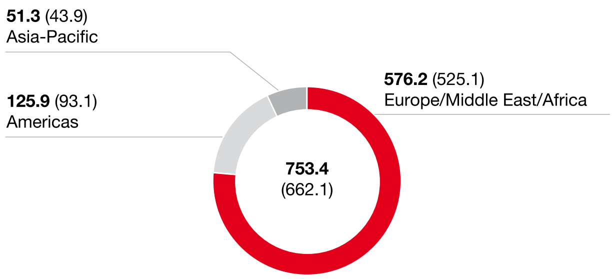


RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by regions

€ million (prior-year figures)

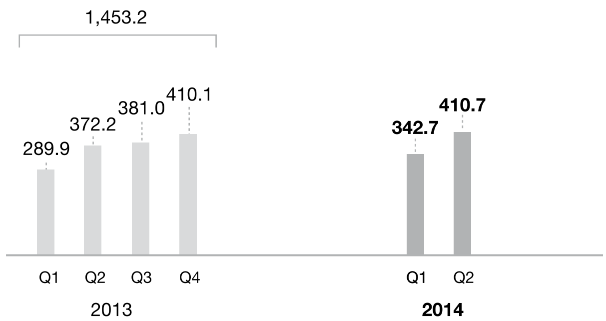


Year-on-year rise in revenue DEUTZ earned revenue of €753.4 million in the first six months of this year, 13.8 per cent more than in the first six months of last year (H1 2013: €662.1 million). In the second quarter of 2014, revenue amounted to €410.7 million, which was 10.3 per cent more than in the second quarter of 2013 (€372.2 million) and 19.8 per cent more than in the first quarter of 2014 (€342.7 million). Consequently, an in-year upward trend can also be discerned for revenue.

In the period under review, revenue was up in all regions. The EMEA region reported an increase of 9.7 per cent to €576.2 million, revenue generated in the Americas amounted to €125.9 million, or a year-on-year rise of 35.2 per cent, and revenue in the Asia-Pacific region was up by 16.9 per cent to €51.3 million. The proportion of revenue generated outside Germany stood at 77.0 per cent, a decline on the proportion of 83.0 per cent in the same period in 2013. However, revenue growth varied from application segment to application segment. It rose sharply in Mobile Machinery and Agricultural Machinery, by 54.6 per cent and 29.1 per cent respectively, and while the service business generated 2.1 per cent more revenue, the Stationary Equipment application segment posted 6.7 per cent less revenue. By contrast, revenue in the Automotive application segment roughly halved to €43.6 million because the Euro 6 emissions standard was introduced at the beginning of 2014 and 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.

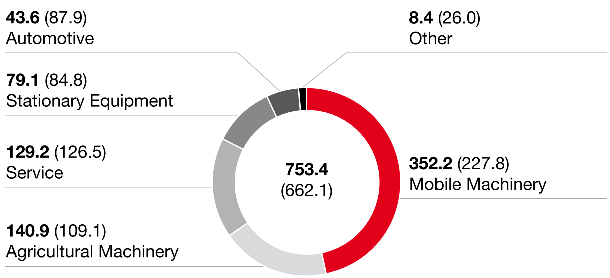
DEUTZ Group: Consolidated revenue by quarters

€ million



DEUTZ Group: Revenue by application segment

€ million (prior-year figures)



EARNINGS

Operating profit before depreciation and amortisation (EBITDA before one-off items) amounted to €67.5 million for the first half of 2014 (H1 2013: €55.8 million). The increase of €11.7 million was largely due to significantly higher business volumes thanks to the persistently high volume of orders on hand. Improved income from investments accounted for using the equity method also had a positive effect. Following the already encouraging trend at the start of the year, business picked up even more in the second quarter of 2014. EBITDA before one-off items amounted to €42.1 million in the second quarter, a rise of €16.7 million on the previous quarter (Q1 2014: €25.4 million). The figure was €1.8 million higher than in the second quarter of 2013 (€40.3 million).

Operating profit after depreciation and amortisation (EBIT before one-off items) for the first six months of 2014 amounted to €20.1 million and was therefore €10.0 million higher than earnings for the same prior-year period (H1 2013: €10.1 million). Of this amount, €18.2 million was generated in the second quarter (Q2 2013: €16.5 million). The EBIT margin before one-off items was 2.7 per cent for the first half of this year (H1 2013: 1.5 per cent), while it was 4.4 per cent in the second quarter (Q2 2013: 4.4 per cent).

After one-off items, the operating profit (EBIT) for the first half of 2014 came to €6.2 million. One-off items of €13.9 million related to expenses connected with the measures for the optimisation of our sites and were attributable to both the DEUTZ Compact Engines (DCE) segment and the DEUTZ Customised Solutions (DCS) segment.

Cost of sales in the first six months of the year amounted to €652.2 million, which was 14.4 per cent above the figure achieved a year earlier (H1 2013: €570.0 million). This rise was largely attributable to the higher expenses for materials and contract workers associated with the larger business volume. The ratio of cost of sales to revenue rose slightly from 86.1 per cent in the first half of 2013 to 86.6 per cent in the first half of 2014.

In the period under review, research and development costs amounted to €31.0 million (H1 2013: €29.8 million). They largely comprise staff costs, cost of materials and amortisation on completed development projects, from which investment grants received and capitalised development costs were deducted. The increase was mainly attributable to higher levels of amortisation on completed development projects because the production start-up of new engines was well advanced.

Selling and administrative expenses in the first half of the current year were up slightly to €33.2 million and €17.6 million respectively (H1 2013: €31.4 million and €17.5 million respectively). However, as a proportion of revenue, they declined to 4.4 per cent and 2.3 per cent respectively (H1 2013: 4.7 per cent and 2.6 per cent respectively) as a result of the higher volume of business.

Income from investments accounted for using the equity method was up by €0.8 million on the comparative period in 2013 and amounted to €0.4 million (H1 2013: loss of €0.4 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.

Compared with the first half of 2013, other operating expenses were up by €10.8 million to €20.5 million (H1 2013: €9.7 million). This was the result of recognising provisions for restructuring as part of the decision to optimise our network of sites in the next two years. Excluding these one-off restructuring costs of €13.6 million, other operating expenses would have fallen by €2.8 million.

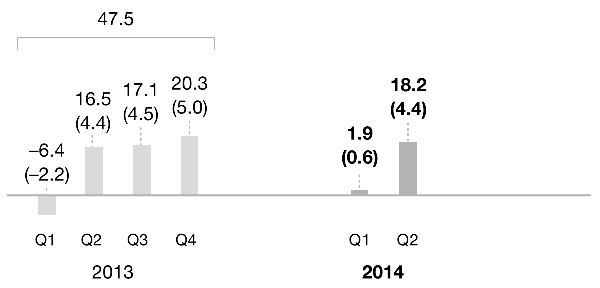
Net interest expense was up slightly, rising by €0.7 million compared with the same period of 2013, and amounted to €3.3 million (H1 €2.6 million). Although finance costs were relatively unchanged, this increase was largely due to lower interest income in the first half of the current year.

Income taxes in the first half of 2014 amounted to €0.2 million (H1 2013: €2.1 million), of which €4.0 million (H1 2013: €3.0 million) related to current tax expenses. This increase of €1.0 million compared to the first half of the previous year was primarily attributable to the improved results of operations of the Group companies. Current tax expenses were offset by deferred tax income of €3.8 million (H1 2013: €0.9 million). The year-on-year increase in deferred tax income was largely attributable to capitalised deferred tax assets arising from temporary differences between the carrying amount of the provisions for restructuring in the consolidated balance sheet and the corresponding tax base. Higher deferred tax income relating to better opportunities to utilise loss carryforwards also contributed to this effect.

Net income for the first six months of 2014 amounted to €2.7 million (H1 2013: €5.4 million), resulting in earnings per share of €0.02 (H1 2013: €0.04).

DEUTZ Group: Operating profit/EBIT margin before one-off items by quarter

€ million (EBIT margin, %)



BUSINESS PERFORMANCE IN THE SEGMENTS

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

Year-on-year decrease in new orders The DEUTZ Compact Engines (DCE) segment won new orders amounting to €612.1 million in the first half of 2014, which was 12.6 per cent below the figure achieved a year earlier (H1 2013: €700.5 million). The new orders received in the second quarter amounted to €267.5 million, which was 28.1 per cent lower than the orders of €372.2 million received in the same quarter in 2013 and 22.4 per cent below the strong first quarter of 2014 when orders amounting to €344.6 million were received. As was the case for the Group as a whole, new orders received by the Mobile Machinery application segment rose sharply, while those received in the Automotive and Agricultural Machinery application segments declined significantly. Orders on hand at 30 June 2014 stood at €267.5 million, 2.1 per cent higher than the previous year's figure of €262.1 million. However, the figure for orders on hand at the end of March 2014 was 30.1 per cent higher, at €347.9 million.

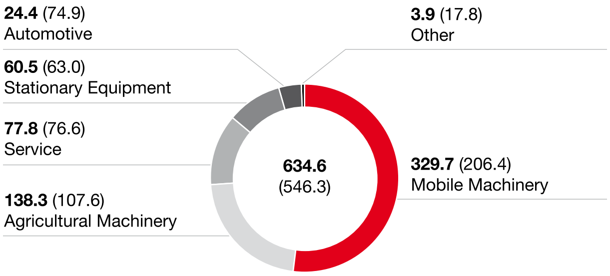
Sharp rise in unit sales The DCE segment sold 92,935 engines in the period under review, which was 17.4 per cent more than in the same period of the previous year (H1 2013: 79,132 engines). Second-quarter sales of 51,279 engines outstripped unit sales of 45,412 engines in the prior-year quarter by 12.9 per cent. Compared with the previous quarter, in which 41,656 engine were sold, the segment achieved an increase of 23.1 per cent. Unit sales were up in all regions in the first half of 2014, but a breakdown by application segment shows significant increases in unit sales in Mobile Machinery and Agricultural Machinery.

Revenue growth in line with unit sales Revenue in the DCE segment rose by 16.2 per cent to €634.6 million (H1 2013: €546.3 million). EMEA, the largest region, achieved revenue growth of 11.0 per cent and generated revenue of €504.5 million. The Americas and Asia-Pacific regions achieved even higher growth rates of 43.3 per cent and 37.1 per cent respectively, and generated revenue of €104.6 million and €25.5 million respectively. Revenue earned by the Mobile Machinery application segment increased by 59.7 per cent and the Agricultural Machinery application segment also achieved encouraging growth of 28.5 per cent. While the service business upped its revenue by 1.6 per cent, the Stationary Equipment application segment generated 4.0 per cent less revenue and the revenue attributable to the Automotive application segment dropped by 67.4 per cent. As was the case for the Group as a whole, this was due to the introduction of the Euro 6 emissions standard in Europe, for which DEUTZ does not offer compliant engines. In the second quarter of 2014, revenue amounted to €347.8 million, which was 13.4 per cent more than in the second quarter of 2013 (€306.6 million) and 21.3 per cent more than in the first quarter of 2014 (€286.8 million).

Significant increase in operating profit Given the sharp rise in the volume of business, there was a significant improvement in operating profit before one-off items in the DEUTZ Compact Engines segment. It totalled €5.6 million in the first six months of 2014, following a loss of €5.5 million in the first half of the previous year. The most pronounced year-on-year rise was in the second quarter of 2014 when earnings of €10.5 million far outstripped the previous quarter and the prior-year quarter (Q1 2014: loss of €4.9 million; Q2 2013: profit of €5.7 million).

DEUTZ Compact Engines: Revenue by application segment

€ million (prior-year figures)



BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

New orders down slightly In the period under review, the DEUTZ Customised Solutions (DCS) segment received new orders for engines worth €134.7 million, a decline of 5.8 per cent on the prior-year figure of €143.0 million. New orders amounted to €65.1 million in the second quarter of 2014. This was 21.4 per cent less than in the prior-year period (Q2 2013: €82.8 million) and 6.5 per cent down on the preceding quarter (Q1 2014: €69.6 million). As at 30 June 2014, orders on hand stood at €79.4 million, down by 12.6 per cent on the figure reported at 30 June 2013 (€90.8 million) but up by 3.1 per cent compared with 31 March 2014 (€77.0 million).

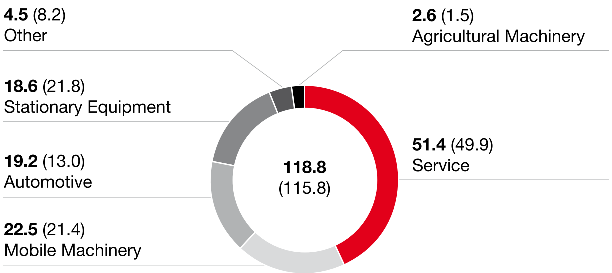
DCS sells fewer engines The DCS segment sold 6,144 engines in the first six months of 2014, which was 9.3 per cent fewer than in the first half of 2013 (H1 2013: 6,775 engines). This reduction applied to all regions and application segments except for Automotive. However, a positive trend could be discerned during the year, with sales of 3,343 engines in the second quarter of 2014 representing an increase of 19.4 per cent on the first quarter of the year when 2,801 engines were sold. This equated to a fall of 21.5 per cent on the 4,257 engines sold in the second quarter of 2013.

Small increase in revenue Despite lower unit sales, the DCS segment generated more revenue, which rose by 2.6 per cent to €118.8 million in the first half of the year (H1 2013: €115.8 million). All regions managed to generate a slight increase in revenue, with the Automotive application segment achieving a significant rise of 47.7 per cent, and Mobile Machinery, Agricultural Machinery and the service business also posting gains. By contrast, Stationary Equipment generated 14.7 per cent less revenue. Revenue advanced by 12.5 per cent to €62.9 million in the second quarter of 2014, compared with €55.9 million in the first quarter of the year. However, the figure for revenue in the second quarter of 2013 was 4.3 per cent higher at €65.6 million.

Year-on-year fall in operating profit The DEUTZ Customised Solutions segment generated operating profit before one-off items of €14.3 million in the first half of 2014 (H1 2013: €16.2 million). The decline of €1.9 million was attributable to negative currency effects among other factors. In the second quarter of 2014, operating profit before one-off items amounted to €7.2 million, a similar level to the previous quarter (Q1 2014: €7.1 million). However, as a result of the business situation, it was €3.9 million lower than the figure for the second quarter of the previous year (Q2 2013: €11.1 million).

DEUTZ Customised Solutions: Revenue by application segment

€ million (prior-year figures)



FINANCIAL POSITION

FUNDING

DEUTZ has a working capital facility totalling €160 million, which is provided by a syndicate of banks. This revolving facility can be drawn down as and when the Company needs it. During the quarter under review we extended its term until May 2019 at improved terms and conditions. It is an unsecured, floating-rate working capital facility that we can opt to utilise as a bilateral overdraft facility (up to €60 million) or in the form of drawings 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

Cash flow from operating activities in the first half of 2014 amounted to €40.9 million, a decline of €8.1 million on the first half of 2013. The main reason for this fall was the higher increase in working capital compared with the prior-year period.

Cash flow from investing activities amounted to minus €28.6 million in the same period, a decrease of €14.2 million compared with the first six months of the previous year (H1 2013: minus €42.8 million). In addition to lower payments in connection with capital expenditure on intangible assets and property, plant and equipment, the sale of our shareholding in DEUTZ Versicherungsvermittlung GmbH at the end of 2013, which did not affect cash flow until the first quarter of this year, was responsible for this decrease.

Financing activities in the first half of 2014 resulted in a net cash inflow of €3.1 million (H1 2013: net cash outflow of €13.1 million). This year-on-year change was mainly a result of the working capital facility being drawn down in the period under review. It was offset by the 2013 dividend payment in the second quarter of 2014 amounting to around €8.5 million.

Cash and cash equivalents rose by €15.1 million to €74.0 million as at 30 June 2014. The net financial position[1)] as at 30 June 2014 remained virtually unchanged at minus €31.8 million compared with minus €31.7 million as at 31 December 2013. However, this constituted a year-on-year improvement of €13.1 million (30 June 2013: minus €44.9 million).

Free cash flow[2)] improved considerably on the comparative prior-year period, increasing by €5.5 million to €8.9 million (H1 2013: €3.4 million). The main driver for this rise was the lower amount of net cash used for investing activities.

NET ASSETS

Year-on-year fall in non-current assets Non-current assets totalled €621.7 million as at 30 June 2014 (31 December 2013: €627.4 million). The decline of €5.7 million compared with the end of 2013 was mainly attributable to changes in property, plant and equipment and intangible assets. Because the production start-up of new engines was well advanced, both property, plant and equipment and intangible assets included depreciation and amortisation that exceeded any additions.

Rise in current assets Current assets amounted to €561.4 million as at 30 June 2014. This equated to a rise of €68.2 million compared with current assets of €493.2 million at 31 December 2013. The decisive factor in this trend was the increase in inventories, which was attributable to the sustained healthy level of orders on hand. The amount of cash and cash equivalents held had also increased.

Further improvement in working capital Owing to the growth of €54.2 million in inventories, working capital (inventories plus trade receivables less trade payables) went up by €31.7 million over the course of the first half of 2014 to reach €204.0 million on 30 June 2014 (31 December 2013: €172.3 million). Trade payables rose by €23.8 million over the same period, partly offsetting the rise in inventories resulting from the order situation. By contrast, trade receivables remained level with the end of 2013. Thanks to the higher volume of business combined with rigorous working capital management, we were able to improve the working capital ratio by 0.1 percentage points to 13.2 per cent as at 30 June 2014, compared with 13.3 per cent a year earlier. The average working capital ratio as at 30 June 2014 was 12.4 per cent (30 June 2013: 13.7 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 minus interest expense.

Unrecognised intangible assets In addition to the assets recognised on the balance sheet, DEUTZ has further unrecognised assets. These include the DEUTZ brand, which 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 reduced due to dividend payment As at 30 June 2014, equity had decreased to €489.6 million (31 December 2013: €504.7 million). The main reasons for this decrease of €15.1 million were the payment of a dividend for 2013 in the second quarter of 2014 and changes in the discount rates used in the measurement of pension liabilities. The equity ratio fell to 41.4 per cent as at 30 June 2014 (31 December 2013: 45.0 per cent).

Non-current liabilities increased by provisions Non-current liabilities totalled €326.9 million as at 30 June 2014 (31 December 2013: €292.5 million). The increase of €34.4 million compared with 31 December 2013 was largely attributable to the recognition of provisions for restructuring relating to our decision to optimise our network of sites. Other factors that contributed were the utilisation of the existing loan facility and higher provisions for pensions and other post-retirement benefits due to lower discount rates.

Current liabilities also up Current liabilities had also risen compared with 31 December 2013, advancing from €323.8 million at the end of last year to €367.0 million at the end of June 2014. The increase of €43.2 million was primarily attributable to a rise in trade payables relating to the higher order volume. There were also increases in other provisions – particularly accruals for staff costs – and current financial liabilities. Loan repayments due in the coming months were reclassified from non-current to current financial liabilities.

Total assets had gone up by €62.5 million to €1,183.5 million as at 30 June 2014 (31 December 2013: €1,121.0 million).

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

Planned year-on-year reduction in R&D ratio Before deducting grants, expenditure on research and development in the first half of 2014 amounted to €36.2 million and was therefore lower than in the previous year (H1 2013: €34.6 million). Factoring in reimbursements received from key customers and development partners, spending on research and development came to €25.7 million, which was almost 4 per cent lower than the figure for the first half of 2013 (€26.7 million). The R&D ratio (after deducting grants) – the ratio of net R&D spending to consolidated revenue – fell from 4.0 per cent in the first half of 2013 to 3.4 per cent in the period under review. Consequently, our expenditure on research and development was reduced as planned.

The development of new engines and the refinement of existing engines accounted for 81.3 per cent of all R&D expenditure after deducting grants (H1 2013: 84.7 per cent). Ongoing support for existing engine series accounted for 13.3 per cent (H1 2013: 10.1 per cent) and spending on research and preliminary development work accounted for 5.4 per cent (H1 2013: 5.2 per cent).

The DEUTZ Compact Engines segment's spending on research and development (after deduction of grants) came to €23.4 million (H1 2013: €24.3 million), and that of the DEUTZ Customised Solutions segment came to €2.3 million (H1 2013: €2.4 million).

EMPLOYEES

Number of employees down slightly As at 30 June 2014, the DEUTZ Group employed 4,014 people, 16 fewer than a year earlier (30 June 2013: 4,030). The number of employees was also down slightly on 31 March 2014 when there were 28 more people employed and the total headcount was 4,042. By contrast, the number of contract staff had increased to 639 at the end of June 2014, up by 185 compared with 30 June 2013 and by 53 compared with the end of the first quarter of 2014. Hiring workers with fixed-term contracts enables us to respond flexibly to possible fluctuations in demand in a fast-moving market environment while continuing to grow profitably. Approximately 19 per cent of all staff at DEUTZ had fixed-term or temporary contracts at the end of June 2014.

At the reporting date, 3,096 people worked for DEUTZ in Germany, 2,417 of whom worked at our sites in Cologne and 394 in Ulm. There were no significant changes in Germany or at these locations compared with 30 June 2013.

As at 30 June 2014, DEUTZ employed 918 people outside Germany, roughly in line with the prior-year figure of 922. The figure at the end of March 2014 was 942. Although the headcount at our Spanish production company, DEUTZ Spain, was down by 41 on 30 June 2013 and amounted to 532, the number of employees at our US company, DEUTZ Corporation, increased by 22 to 166.

As at the reporting date, 77.1 per cent of all DEUTZ staff were employed in Germany, with 22.9 per cent employed outside Germany. These proportions were exactly the same as at 30 June 2013.

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 half 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 (group), which is a shareholder in DEUTZ AG (including its subsidiaries) and able to exert a significant influence.

Further information on related party disclosures is given on page 25 of the notes to the interim consolidated financial statements.

OUTLOOK

Global growth forecast trimmed[1] According to the IMF, the slow recovery in the global economy is set to continue, although growth rates for the current year have recently been trimmed. Consequently, global economic growth of 3.4 per cent is now forecast for 2014 with a rise to 4.0 per cent in 2015. The eurozone economy is expected to expand by 1.1 per cent in 2014 and by 1.5 per cent in 2015. Economic growth rates of 1.9 per cent and 1.7 per cent are predicted for Germany in 2014 and 2015, while the equivalent prospective growth rates for the US are 1.7 per cent and 3.0 per cent, and for China they are 7.4 per cent and 7.1 per cent.

DEUTZ plans further efficiency enhancements We anticipate that the DEUTZ Group's revenue will continue to rise at an encouraging rate in 2014 and the years after that. We are constantly working on the smooth production start-up of our new engines and on improvements to their profitability.

Over the coming months, we will also carry out a comprehensive optimisation of our network of sites. Firstly, this will affect our facilities in Cologne where 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 is to be outsourced.

Secondly, we will close our exchange engine plant in Übersee on Lake Chiemsee and integrate 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 anticipate that these site optimisation measures will substantially improve our operating profit from 2016 onwards, and from 2017 we predict that this improvement will be in excess of €10 million a year. Total 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. The one-off items relating to the optimisation of our sites amounted to €13.9 million in the second quarter. We are anticipating one-off charges for the full year of up to €20 million.

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.

[1] Source: IMF World Economic Outlook, July 2014.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2014

INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	**4–6/2014**	4–6/2013	**1–6/2014**	1–6/2013
€ million					
Revenue		**410.7**	**372.2**	**753.4**	**662.1**
Cost of sales		–352.1	–312.4	–652.2	–570.0
Research and development costs		–14.7	–15.5	–31.0	–29.8
Selling expenses		–16.6	–15.8	–33.2	–31.4
General and administrative expenses		–9.2	–10.1	–17.6	–17.5
Other operating income		3.7	2.7	6.9	6.8
Other operating expenses	1	–17.4	–5.3	–20.5	–9.7
Income from investments accounted for using the equity method		–0.1	0.7	0.4	–0.4
Other financial income		–	–	–	–
EBIT		**4.3**	**16.5**	**6.2**	**10.1**
thereof one-off items		**–13.9**	**–**	**–13.9**	**–**
thereof operating profit (EBIT before one-off items)		**18.2**	**16.5**	**20.1**	**10.1**
Interest expenses, net		–1.6	–1.3	–3.3	–2.6
thereof finance costs		–1.8	–1.9	–3.7	–3.6
Net income before income taxes		**2.7**	**15.2**	**2.9**	**7.5**
Income taxes	2	0.6	–2.9	–0.2	–2.1
Net income		**3.3**	**12.3**	**2.7**	**5.4**
thereof attributable to shareholders of DEUTZ AG		3.4	12.4	2.9	5.5
thereof attributable to non-controlling interests		–0.1	–0.1	–0.2	–0.1
Earnings per share (€)		**0.02**	**0.10**	**0.02**	**0.04**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	**4–6/2014**	4–6/2013	**1–6/2014**	1–6/2013
€ million					
Net income		**3.3**	**12.3**	**2.7**	**5.4**
Amounts that will not be reclassified to the income statement in the future		**–4.1**	**3.6**	**–7.5**	**2.4**
Actuarial gains and losses on the revaluation of pensions and similar obligations		–4.1	3.6	–7.5	2.4
Amounts that will be reclassified to the income statement in the future if specific conditions are met		**1.6**	**–1.0**	**–1.8**	**1.4**
Currency translation differences		1.8	–1.7	–1.4	1.0
Effective portion of change in fair value from cash flow hedges		–0.2	0.7	–0.4	0.3
Change in fair value of available-for-sale financial instruments		–	–	–	0.1
Other comprehensive income, net of tax	3	**–2.5**	**2.6**	**–9.3**	**3.8**
Comprehensive income		**0.8**	**14.9**	**–6.6**	**9.2**
thereof attributable to shareholders of DEUTZ AG		0.6	14.7	–6.1	8.9
thereof attributable to non-controlling interests		0.2	0.2	–0.5	0.3

BALANCE SHEET FOR THE DEUTZ GROUP

Assets	Note	30 Jun 2014	31 Dec 2013
€ million			
Property, plant and equipment	4	299.1	306.4
Intangible assets	4	232.4	237.9
Equity-accounted investments		45.3	46.0
Other financial assets		6.6	6.3
Non-current assets (before deferred tax assets)		583.4	596.6
Deferred tax assets		38.3	30.8
Non-current assets		**621.7**	**627.4**
Inventories	5	278.8	224.6
Trade receivables		150.4	149.1
Other receivables and assets		58.2	60.6
Cash and cash equivalents		74.0	58.9
Current assets		**561.4**	**493.2**
Non-current assets classified as held for sale		0.4	0.4
Total assets		**1,183.5**	**1,121.0**

Equity and liabilities	Note	30 Jun 2014	31 Dec 2013
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		1.3	2.8
Retained earnings and accumulated income		126.6	139.7
Equity attributable to shareholders of DEUTZ AG		**465.7**	**480.3**
Non-controlling interests		23.9	24.4
Equity	6	**489.6**	**504.7**
Provisions for pensions and other post-retirement benefits		175.0	168.6
Other provisions	7	46.8	37.2
Financial liabilities	8	90.9	83.0
Other liabilities		14.2	3.7
Non-current liabilities		**326.9**	**292.5**
Provisions for pensions and other post-retirement benefits		14.9	14.9
Provision for current income taxes		5.6	4.3
Other provisions	7	54.5	45.2
Financial liabilities	8	14.9	7.6
Trade payables		225.2	201.4
Other liabilities		51.9	50.4
Current liabilities		**367.0**	**323.8**
Total equity and liabilities		**1,183.5**	**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	–	–	5.5	–	–	5.5	–0.1	5.4
Other comprehensive income	–	–	2.4	0.4	0.6	3.4	0.4	3.8
Comprehensive income	–	–	7.9	0.4	0.6	8.9	0.3	9.2
Balance at 30 Jun 2013	**309.0**	**28.8**	**108.0**	**0.3**	**8.9**	**455.0**	**6.8**	**461.8**
Balance at 1 Jan 2014	**309.0**	**28.8**	**139.7**	**0.2**	**2.6**	**480.3**	**24.4**	**504.7**
Dividend paid	–	–	–8.5	–	–	–8.5	–	–8.5
Net income	–	–	2.9	–	–	2.9	–0.2	2.7
Other comprehensive income	–	–	–7.5	–0.4	–1.1	–9.0	–0.3	–9.3
Comprehensive income	–	–	–4.6	–0.4	–1.1	–6.1	–0.5	–6.6
Balance at 30 Jun 2014	**309.0**	**28.8**	**126.6**	**–0.2**	**1.5**	**465.7**	**23.9**	**489.6**

[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	1–6/2014	1–6/2013
€ million			
EBIT		**6.2**	**10.1**
Income taxes paid		–3.0	0.8
Depreciation, amortisation and impairment of non-current assets		47.4	45.7
Profit/loss on equity-accounted investments		–0.4	0.4
Other non-cash income and expenses		–	0.2
Change in working capital		–30.5	–21.0
Change in inventories		–53.7	–40.2
Change in trade receivables		–1.0	–10.8
Change in trade payables		24.2	30.0
Change in other receivables and other current assets		–4.3	1.7
Change in provisions and other liabilities (excluding financial liabilities)		25.5	11.1
Cash flow from operating activities		**40.9**	**49.0**
Capital expenditure on intangible assets, property, plant and equipment		–33.6	–43.1
Capital expenditure on investments		–0.1	–
Proceeds from the sale of non-current assets		5.1	0.3
Cash flow from investing activities		**–28.6**	**–42.8**
Dividend payments to shareholders	6	–8.5	–
Interest income		0.4	0.7
Interest expense		–3.8	–3.5
Cash receipts from borrowings		15.0	–
Repayments of loans		–	–10.3
Cash flow from financing activities		**3.1**	**–13.1**
Cash flow from operating activities		40.9	49.0
Cash flow from investing activities		–28.6	–42.8
Cash flow from financing activities		3.1	–13.1
Change in cash and cash equivalents		**15.4**	**–6.9**
Cash and cash equivalents at 1 January		**58.9**	**52.1**
Change in cash and cash equivalents		15.4	–6.9
Change in cash and cash equivalents related to exchange rates		–0.3	0.3
Cash and cash equivalents at 30 June		**74.0**	**45.5**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2014

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended 30 June 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) 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 30 June 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 consolidated financial statements – and the interim group management report for the period from 1 January to 30 June 2014 have been reviewed by an auditor pursuant to section 37w of the German Securities Trading Act (WpHG).

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.

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/expenses that are non-recurring or are incurred/generated outside the scope of the Company’s ordinary business operations.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. OTHER OPERATING EXPENSES

Compared with the first half of 2013, other operating expenses were up by €10.8 million (H1 2014: €20.5 million; H1 2013: €9.7 million). This increase was largely attributable to the recognition of provisions for restructuring in connection with measures for the optimisation of our sites. Within two years, the Cologne-Deutz site will have been vacated and a new shaft centre for the production of camshafts and crankshafts set up at the Company's largest site in Cologne-Porz. Additionally, the exchange engine plant in Übersee on Lake Chiemsee will be closed and integrated into the plant in Ulm. The total expenses in the first half of 2014 for recognising the provisions for restructuring were €13.6 million and they represent one-off items.

2. INCOME TAXES

	4–6/2014	4–6/2013	**1–6/2014**	1–6/2013
€ million				
Current tax expense	2.4	2.1	4.0	3.0
Deferred taxes	–3.0	0.8	–3.8	–0.9
Total	**–0.6**	**2.9**	**0.2**	**2.1**

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 was largely attributable to capitalised deferred tax assets arising from temporary differences between the carrying amount of the provisions for restructuring in the consolidated balance sheet and the corresponding tax base. Higher deferred tax income relating to better opportunities to utilise loss carryforwards also contributed to this increase.

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:

	1–6/2014		
	Before taxes	Taxes	After taxes
€ million			
Amounts that will not be reclassified to the income statement in the future	**–11.0**	**3.5**	**–7.5**
Actuarial gains and losses on the revaluation of pensions and similar obligations	–11.0	3.5	–7.5
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**–2.0**	**0.2**	**–1.8**
Currency translation differences	–1.4	–	–1.4
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	–	–	–
Other comprehensive income	**–13.0**	**3.7**	**–9.3**

	1–6/2013		
	Before taxes	Taxes	After taxes
€ million			
Amounts that will not be reclassified to the income statement in the future	**3.6**	**–1.2**	**2.4**
Actuarial gains and losses on the revaluation of pensions and similar obligations	3.6	–1.2	2.4
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**1.5**	**–0.1**	**1.4**
Currency translation differences	1.0	–	1.0
Effective portion of change in fair value from cash flow hedges	0.4	–0.1	0.3
Change in fair value of available-for-sale financial instruments	0.1	–	0.1
Other comprehensive income	**5.1**	**–1.3**	**3.8**

A pre-tax profit of €0.1 million relating to cash flow hedges was reclassified to the income statement in the first six months of the current financial year (H1 2013: €0.5 million).

4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €34.8 million in the first half of the year (H1 2013: €35.2 million). This was broken down into €17.6 million (H1 2013: €19.8 million) on intangible assets – the lion's share relating to the refinement of engines – and €17.2 million (H1 2013: €15.4 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 €47.4 million (H1 2013: €45.7 million).

Commitments to purchase property, plant and equipment and intangible assets amounted to €32.2 million as at 30 June 2014 (31 December 2013: €32.9 million).

5. INVENTORIES

Inventories at 30 June 2014 amounted to €278.8 million, a rise of €54.2 million on the end of 2013 (31 December 2013: €224.6 million). This increase particularly related to raw materials, consumables and finished goods. It was largely attributable to the still high level of orders on hand.

Commitments to purchase inventories as at 30 June 2014 came to €113.3 million (31 December 2013: €113.1 million).

6. EQUITY

Dividend At the Annual General Meeting on 7 May 2014, it was decided to use the accumulated income of €8.5 million reported by DEUTZ AG for 2013 to pay a dividend of €0.07 per no-par-value share. The dividend was paid on 8 May 2014.

7. OTHER PROVISIONS

	30 Jun 2014	31 Dec 2013
€ million		
Non-current	46.8	37.2
Current	54.5	45.2
Total	**101.3**	**82.4**

The increase in other non-current provisions was largely due to the recognition of provisions for planned restructuring in order to optimise our sites. The current portion of provisions primarily resulted from accruals during the year – mainly for staff costs.

8. FINANCIAL LIABILITIES

	30 Jun 2014	31 Dec 2013
€ million		
Non-current	90.9	83.0
Current	14.9	7.6
Total	**105.8**	**90.6**

The change in non-current financial liabilities was a result of drawing down the existing working capital facility at the end of the first quarter of 2014. Loan repayments that fall due in the coming months were reclassified from non-current to current financial liabilities.

OTHER INFORMATION

STAFF COSTS

	4–6/2014	4–6/2013	**1–6/2014**	1–6/2013
€ million				
Wages	30.0	29.8	60.9	58.8
Salaries	30.7	30.2	61.6	59.4
Social security contributions	10.8	10.5	20.7	19.9
Interest expense for provisions for pensions and other post-retirement benefits	1.6	1.6	3.2	3.2
Cost of severance payments/personnel restructuring	–	–	0.1	0.1
Total	**73.1**	**72.1**	**146.5**	**141.4**

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

	4–6/2014	4–6/2013	**1–6/2014**	1–6/2013
€ million				
Cost of sales	45.4	43.9	89.9	85.0
Research and development costs	8.8	9.1	18.6	18.5
Selling expenses	10.8	10.3	22.0	20.7
Administrative expenses	6.5	7.2	12.8	14.0
Other operating expenses	1.6	1.6	3.2	3.2
Total	**73.1**	**72.1**	**146.5**	**141.4**

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.

	30 Jun 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**	**2.3**	**–**	**–**	**2.4**	**6.6**
Current financial assets	**267.6**	**–**	**–**	**–**	**–**	**15.0**	**282.6**
Trade receivables	150.4	–	–	–	–	–	150.4
Other receivables and assets	43.2	–	–	–	–	15.0	58.2
Cash and cash equivalents	74.0	–	–	–	–	–	74.0

	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	30 Jun 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	**91.7**	**0.9**	**–**	**12.5**	**105.1**
Financial liabilities	90.9	–	–	–	90.9
Other liabilities	0.8	0.9	–	12.5	14.2
Current financial liabilities	**279.8**	**–**	**0.3**	**11.9**	**292.0**
Financial liabilities	14.9	–	–	–	14.9
Trade payables	225.2	–	–	–	225.2
Other liabilities	39.7	–	0.3	11.9	51.9

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 following table shows the carrying amounts and fair values of all financial instruments included in the consolidated interim financial statements that fall within the scope of IFRS 7 'Financial Instruments: Disclosures' that were not recognised at fair value.

	30 Jun 2014		31 Dec 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
€ million				
Financial assets	**269.5**	**268.9**	**261.0**	**260.4**
Other loans	1.3	1.3	1.3	1.3
Available-for-sale financial assets measured at cost	0.6	–	0.6	–
Trade receivables	150.4	150.4	149.1	149.1
Other receivables and assets	43.2	43.2	51.1	51.1
Cash and cash equivalents	74.0	74.0	58.9	58.9
Financial liabilities	**371.5**	**374.5**	**332.5**	**335.2**
Financial liabilities – liabilities to banks	105.8	108.8	90.6	93.3
Trade payables	225.2	225.2	201.4	201.4
Other liabilities	40.5	40.5	40.5	40.5

In the case of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities (due within one year), the carrying amounts are virtually the same as the fair values owing to the short residual maturity.

No disclosure of fair value is made for unquoted available-for-sale financial assets, the carrying amount of which was €0.6 million as at 30 June 2014 (31 December 2013: €0.6 million). The reason is that these financial assets are investments for which no fair value can be determined and are therefore measured at amortised cost.

The fair value was determined for the following financial instruments as at 30 June 2014:

30 Jun 2014	Carrying amount	Fair value	Level 1	Level 2	Level 3
€ million					
Financial assets					
Securities	2.3	2.3	2.3	–	–
Currency forwards	–[1]	–[1]	–	–[1]	–
Financial liabilities					
Commodity derivatives	0.3	0.3	–	0.3	–
Interest-rate swaps	0.9	0.9	–	0.9	–
Financial liabilities	105.8	108.8	–	108.8	–

31 Dec 2013	Carrying amount	Fair value	Level 1	Level 2	Level 3
€ million					
Financial assets					
Securities	2.3	2.3	2.3	–	–
Financial liabilities					
Commodity derivatives	0.6	0.6	–	0.6	–
Interest-rate swaps	0.3	0.3	–	0.3	–
Financial liabilities	90.6	93.3	–	93.3	–

[1] Values are less than €0.1 million after rounding.

Level 1: Measurement is based on the price of identical assets or liabilities in active markets.
Level 2: Measurement is based on the price of a similar instrument in 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.

The fair value of financial liabilities is calculated using the remaining term of the liabilities taking into account the agreed repayment schedule. Current market interest rates are used to measure fair value.

SEGMENT REPORTING

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

4–6/2014	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	347.9	62.8	–	410.7	–	410.7
Intersegment revenue	–	–	–	–	–	–
Total revenue	**347.9**	**62.8**	**–**	**410.7**	**–**	**410.7**
Operating profit (EBIT before one-off items)	10.5	7.2	0.5	18.2	–	18.2

4–6/2013	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	306.6	65.6	–	372.2	–	372.2
Intersegment revenue	–	–	–	–	–	–
Total revenue	**306.6**	**65.6**	**–**	**372.2**	**–**	**372.2**
Operating profit (EBIT before one-off items)	5.7	11.1	–0.3	16.5	–	16.5

1–6/2014	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	634.7	118.7	–	753.4	–	753.4
Intersegment revenue	–	–	–	–	–	–
Total revenue	**634.7**	**118.7**	**–**	**753.4**	**–**	**753.4**
Operating profit (EBIT before one-off items)	5.6	14.3	0.2	20.1	–	20.1

1–6/2013	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconcilia-tion	**DEUTZ Group**
€ million						
External revenue	546.3	115.8	–	662.1	–	662.1
Intersegment revenue	–	–	–	–	–	–
Total revenue	**546.3**	**115.8**	**–**	**662.1**	**–**	**662.1**
Operating profit (EBIT before one-off items)	–5.5	16.2	–0.6	10.1	–	10.1

Reconciliation of overall profit of the segments to net income

	4–6/2014	4–6/2013	**1–6/2014**	1–6/2013
€ million				
Overall profit of the segments	**18.2**	**16.5**	**20.1**	**10.1**
Reconciliation	–	–	–	–
Operating profit (EBIT before one-off items)	**18.2**	**16.5**	**20.1**	**10.1**
One-off items	–13.9	–	–13.9	–
EBIT	**4.3**	**16.5**	**6.2**	**10.1**
Interest expenses, net	–1.6	–1.3	–3.3	–2.6
Net income before income taxes	**2.7**	**15.2**	**2.9**	**7.5**
Income taxes	0.6	–2.9	–0.2	–2.1
Net income	**3.3**	**12.3**	**2.7**	**5.4**

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 tables show 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		Goods and services provided		Other expenses in connection with goods and services received	
	4–6/2014	4–6/2013	**4–6/2014**	4–6/2013	**1–6/2014**	1–6/2013	**1–6/2014**	1–6/2013
€ million								
Associates	–	–	–	–	–	–	–	–
Joint ventures	1.2	1.5	–	–	4.7	2.4	–	–
Other investments	0.2	0.2	1.1	1.1	0.3	0.3	2.2	2.1
Total	**1.4**	**1.7**	**1.1**	**1.1**	**5.0**	**2.7**	**2.2**	**2.1**

	Receivables		Liabilities	
	30 Jun 2014	31 Dec 2013	**30 Jun 2014**	31 Dec 2013
€ million				
Associates	–	–	–	–
Joint ventures	3.2	3.8	–	–
Other investments	1.1	0.3	3.6	3.1
Total	**4.3**	**4.1**	**3.6**	**3.1**

The increase in goods supplied and services rendered to joint ventures in the first half of 2014 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 €26.4 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 30 June 2014 (31 December 2013: €31.0 million). Of these receivables, €6.8 million (31 December 2013: €6.8 million) related to loans granted by DEUTZ on which impairment losses of €6.3 million (31 December 2013: €6.0 million) had been recognised. The total interest and similar income relating to the interest payable on these loans was not 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 second quarter	68.4	108.1
Services rendered in the second quarter	5.2	6.1
Engines and spare parts supplied in the first half-year	134.7	190.2
Services rendered in the first half-year	10.2	9.4
Receivables as at 30 Jun/31 Dec	13.8	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 (30 JUNE 2014)

No material events occurred after 30 June 2014.

Cologne, 1 August 2014

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

Michael Wellenzohn

RESPONSIBILITY STATEMENT

'To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.'

Cologne, 1 August 2014

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube | Dr Margarete Haase | Michael Wellenzohn

REVIEW REPORT

To DEUTZ AG, Cologne

We have reviewed the condensed consolidated interim financial statements – comprising the income statement, statement of comprehensive income, balance sheet, statement of cash flows, condensed statement of changes in equity and selected explanatory notes – and the interim group management report of DEUTZ AG, Cologne, for the period from 1 January to 30 June 2014 which are part of the half-year financial report pursuant to § (Article) 37w WpHG ('Wertpapierhandelsgesetz': German Securities Trading Act).

The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Cologne, 1 August 2014

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Wirtschaftsprüfungsgesellschaft

Bernd Boritzki Wirtschaftsprüfer (German Public Auditor)	ppa. Gerd Tolls Wirtschaftsprüfer (German Public Auditor)

FINANCIAL CALENDAR

2014	
6 November 2014	Interim report for the first to third quarters 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 quarters of 2015 Conference call with analysts and investors

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