A TRADITION OF ACHIEVEMENT

Interim report
1st to 3rd quarter 2014

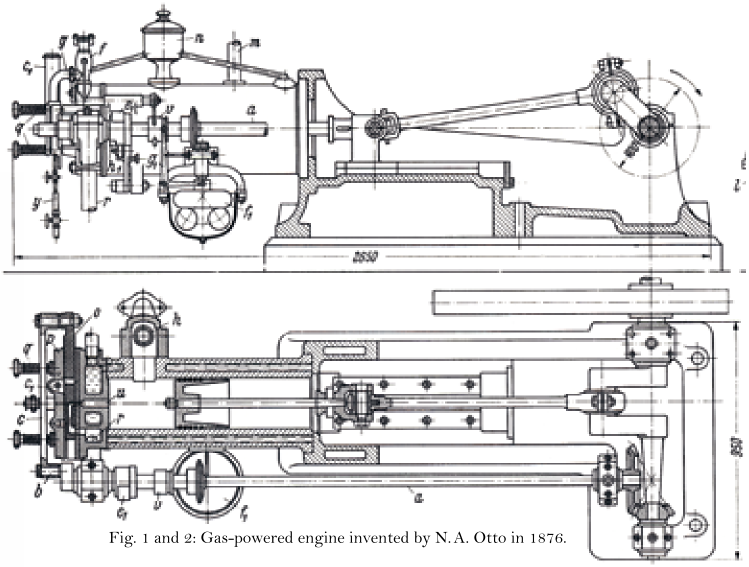


Fig. 1 and 2: Gas-powered engine invented by N. A. Otto in 1876.

Nicolaus A. Otto

DEUTZ

FIRST TO THIRD QUARTER AT A GLANCE

DEUTZ Group: Overview

	7–9/2014	7–9/2013	1–9/2014	1–9/2013
€ million				
New orders	330.0	360.1	1,076.8	1,203.6
Unit sales (units)	56,020	48,792	155,099	134,699
Revenue	424.5	381.0	1,177.9	1,043.1
thereof excluding Germany (%)	74.5	81.8	76.1	82.6
EBITDA	27.0	41.0	80.6	96.8
EBITDA (before one-off items)	27.0	41.0	94.5	96.8
EBIT	2.7	17.1	8.9	27.2
EBIT (before one-off items)	2.7	17.1	22.8	27.2
EBIT margin (%)	0.6	4.5	0.8	2.6
EBIT margin (before one-off items, %)	0.6	4.5	1.9	2.6
Net income	0.7	15.5	3.4	20.9
Earnings per share (€)	0.01	0.13	0.03	0.17
Total assets	1,180.3	1,105.8	1,180.3	1,105.8
Equity	497.6	473.0	497.6	473.0
Equity ratio (%)	42.2	42.8	42.2	42.8
Cash flow from operating activities	46.0	12.7	86.9	61.7
Free cash flow[1]	30.7	–7.5	39.6	–4.1
Net financial position[2]	1.0	–53.2	1.0	–53.2
Working capital[3]	214.5	189.0	214.5	189.0
Working capital as percentage of revenue at reporting date (%)	13.5	13.8	13.5	13.8
Capital expenditure (excl. capitalisation of research and development, after deducting grants)	9.5	8.9	28.5	27.3
Depreciation and amortisation	24.3	23.9	71.7	69.6
Research and development (after deducting grants)	14.1	13.8	39.8	40.5
Employees (30 Sep)	3,976	4,012	3,976	4,012

[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

	7–9/2014	7–9/2013	1–9/2014	1–9/2013
€ million				
New orders				
DEUTZ Compact Engines	270.4	303.1	882.5	1,003.6
DEUTZ Customised Solutions	59.6	57.0	194.3	200.0
Total	**330.0**	**360.1**	**1,076.8**	**1,203.6**
Unit sales (units)				
DEUTZ Compact Engines	53,589	44,870	146,524	124,002
DEUTZ Customised Solutions	2,431	3,922	8,575	10,697
Total	**56,020**	**48,792**	**155,099**	**134,699**
Revenue				
DEUTZ Compact Engines	368.2	315.1	1,002.8	861.4
DEUTZ Customised Solutions	56.3	65.9	175.1	181.7
Total	**424.5**	**381.0**	**1,177.9**	**1,043.1**
EBIT (before one-off items)				
DEUTZ Compact Engines	–0.7	7.2	4.9	1.7
DEUTZ Customised Solutions	4.2	9.8	18.5	26.0
Other	–0.8	0.1	–0.6	–0.5
Total	**2.7**	**17.1**	**22.8**	**27.2**

FOREWORD

Dear Shareholders and Business Associates,

Sentiment regarding future trends in the global economy has deteriorated again in recent months.

Against this backdrop, we received fewer new orders than expected in the third quarter of 2014 and the hoped-for upturn in business after the summer period has so far failed to materialise. New orders received in the third quarter of 2014 amounted to €330.0 million, 8.4 per cent less than in the third quarter of 2013. However, revenue totalled €424.5 million, an increase of 11.4 per cent compared with the corresponding quarter of last year. Among other factors, revenue was boosted by the changes to the emissions standards for engines under 130kW that came into force in Europe on 1 October. 2014 and by the resulting effects of the advance production of engines. These effects will result in reduced demand from our customers in the coming quarters. The volume of new orders in the first nine months of 2014 stood at €1,076.8 million, down by 10.5 per cent on the record level achieved in the same period of the previous year. By contrast, revenue rose by 12.9 per cent to €1,177.9 million.

New information and analysis show that there will be a significant negative impact on earnings in the years to come from warranties and goodwill for engines from the DEUTZ Compact Engines segment, primarily relating to engines manufactured in 2011. Provisions for warranty costs were increased substantially in the third quarter of 2014 to take prompt account of this. This meant an unexpected charge against earnings of €20.4 million after deduction of limited insurance claims. We are currently examining whether we have any further insurance claims.

Excluding the unexpected charge against earnings, operating profit (EBIT) improved to €23.1 million in the third quarter of 2014 thanks to the increase in the volume of business. This equates to an EBIT margin of 5.4 per cent and clearly shows that there is potential to achieve higher margins as unit sales of new engine series increase. After taking the recognition of provisions into account, operating profit (EBIT) was €2.7 million and the EBIT margin was 0.6 per cent. For the nine-month period, operating profit before one-off items (EBIT before one-off items) amounted to €22.8 million and the EBIT margin (before one-off items) was 1.9 per cent, in both cases taking the recognition of provisions into account. Without the unexpected charge, the EBIT margin (before one-off items) would have been 3.7 per cent.

Our free cash flow was very encouraging, reaching €39.6 million in the first nine months and thereby rising by €43.7 million year on year. We mainly used the free cash flow to improve our net financial position, but also to pay a dividend. Our net financial position as at 30 September 2014 stood at €1.0 million – the first time it has been in positive figures since 2009.

As the market environment in China remains difficult – particularly in the construction equipment sector – we and our partner AB Volvo have decided to conduct a strategic reassessment of our joint venture DEUTZ Engine (China) Co., Ltd. Until this assessment is complete, we will put on hold the implementation work and thus the bulk of the capital expenditure. Nevertheless, we continue to have full confidence in the Chinese market's long-term potential and remain interested in satisfying the local demands from our partner and from other target customers using local Chinese production operations.

The programme of structural optimisation that was decided upon in recent months will be implemented as planned. This involves consolidating our sites in Cologne and integrating our exchange engine plant in Übersee on Lake Chiemsee into the plant in Ulm. We expect these measures to bring about a long-term increase in our efficiency.

Given the general economic slowdown and the aforementioned impact on our new order volume, we can no longer meet our original revenue forecast for 2014 as a whole. We now anticipate revenue of approximately €1.5 billion. Our previous forecast for operating profit (EBIT) is no longer achievable due to the unexpected charge against earnings and the lower volume of business. As things stand, we predict that the operating profit margin (EBIT margin before one-off items) will be around 2 per cent. We still expect one-off items in connection with the optimisation of our site network of up to €20 million for the year as whole; in the first three quarters of 2014 one-off items of €13.9 million were incurred in this respect.

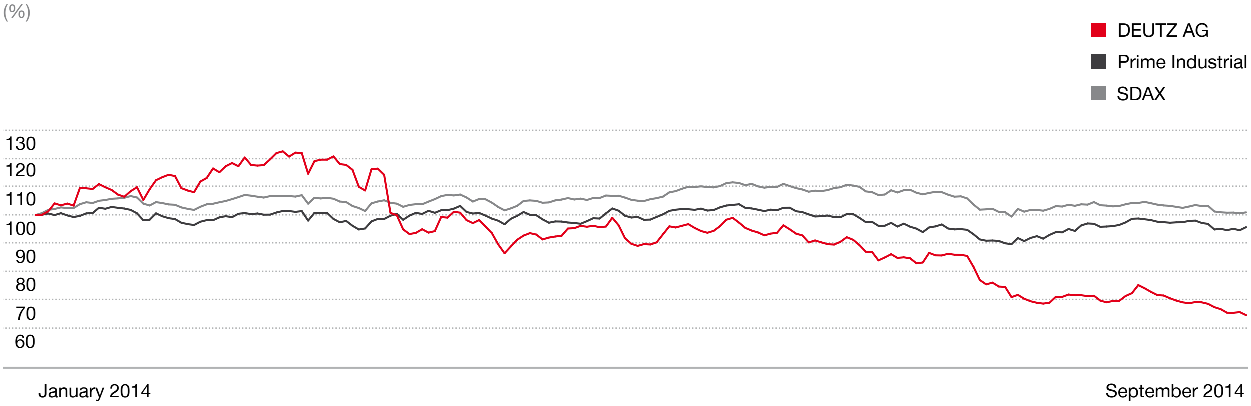
Kind regards from Cologne,

Dr Helmut Leube   Dr Margarete Haase   Michael Wellenzohn

DEUTZ SHARES

DEUTZ share price performance

(%)



DEUTZ shares slip by more than a third Stock markets did not escape unscathed from growing concerns about a sharp downturn in the global economy. As a result, the benchmark indices relevant to DEUTZ registered losses in the third quarter. The SDAX had made gains in the first half of the year but closed at 6,852.82 points on 30 September 2014, which was on a par with the end of 2013. Shares in German engineering companies generally fared even worse than the market. The Prime Industrial declined by 4.3 per cent compared with the end of 2013 and stood at 4,302.68 points at the end of September.

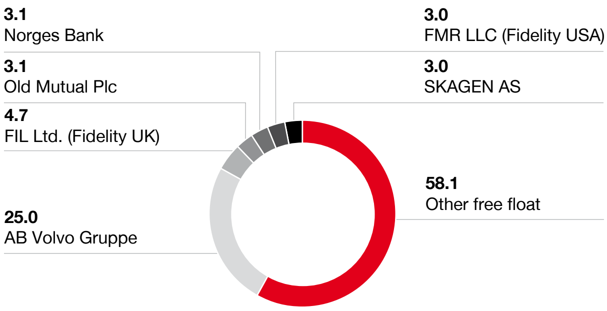
Against this background, the price of DEUTZ shares fell by more than a third during the reporting period. After reaching its peak for the year so far of €7.94 on 25 February 2014, the share price then fell steadily. Publication of the half-year results on 7 August put the shares under further pressure, with some investors evidently disappointed by the drop in new orders. The share price was €4.20 on 30 September 2014, which was 35.3 per cent below the 2013 closing price.

The number of DEUTZ shares remains unchanged at 120.9 million. Market capitalisation as at 30 September 2014 came to €507.6 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.

Shareholder structure as at 7 October 2014

in %



The following eleven 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 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

	1–9/2014	1–9/2013
Number of shares (30 Sep)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 30 Sep (€)	4.20	6.68
Share price high (€)	7.94	7.36
Share price low (€)	4.20	3.71
Market capitalisation as at 30 Sep (€ million)	507.6	807.4
Earnings per share (€)	0.03	0.17

Based on Xetra closing prices

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

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Macroeconomic forecasts lowered[1] Sentiment regarding future trends in the global economy has deteriorated again recently. There are concerns surrounding the geopolitical crises in Ukraine and the Middle East as well as the bumpy economic recovery in many parts of the world. The risk of a downturn has been increasing again since the spring of this year.

Accordingly, the International Monetary Fund (IMF) has again lowered its forecasts for 2014 as a whole and is now predicting global economic growth of 3.3 per cent. This is 0.1 per cent less than its forecast in July and 0.4 per cent below the forecast from April of this year.

The economy of the eurozone is anticipated to grow by 0.8 per cent in 2014, compared with a contraction of 0.4 per cent in 2013. Germany – whose forecast has been reduced by a significant 0.5 percentage points – remains the growth driver in the euro area, however, with predicted growth of 1.4 per cent. The ifo Business Climate Index for trade and industry in Germany slipped down to 103.2 points in October 2014, following 104.7 points in the previous month. This is its lowest level since April 2013.[2]

The US economy is anticipated to grow by 2.2 per cent over the year as a whole, which would put it on a par with 2013. Despite early setbacks, the data coming out of the United States has improved again recently so the country is expected to provide growth stimulus.

China's growth prospects remain unchanged at 7.4 per cent for 2014. The country therefore still has one of the highest growth rates in the global economy. Nonetheless, conditions continue to be difficult in the truck and construction equipment sector, which is our core market.

Engineering orders in Germany remain at prior-year level[3] The volume of new orders at German engineering companies between January and August 2014 was at the same level as in the corresponding period of 2013. A rise in domestic orders offset the decline in orders from outside Germany. The sector therefore continues to do well by international comparison, but increased political and economic risks could hinder future business.

NEW ORDERS

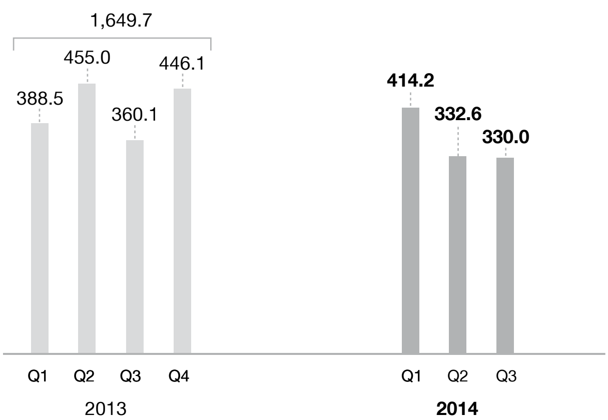
New orders down year on year In the first nine months of 2014, DEUTZ received new orders worth €1,076.8 million, a decline of 10.5 per cent on the prior-year figure of €1,203.6 million. The Mobile Machinery application segment, in particular, achieved a significant rise in new orders. The Stationary Equipment application segment and the service business also generated small gains. By contrast, new orders were down sharply in the Automotive and Agricultural Machinery application segments. The decrease in Agricultural Machinery was largely due to the very high level of orders in the first nine months of 2013 and to the current weakness of the market. The acquisition of new customers remained at a very encouraging level in all regions.

In the third quarter of 2014, we took orders totalling €330.0 million, which represented a fall of 8.4 per cent on the same quarter in 2013 (Q3 2013: €360.1 million) but was roughly the same level as in the previous quarter (Q2 2014: €332.6 million). Besides the consequences of the advance production of engines – our orders on hand were boosted at the start of the year ahead of the changes to emissions standards – another negative factor for new orders in the second and third quarters was the slowdown in economic growth.

Orders on hand at 30 September 2014 amounted to €257.5 million, a year-on-year decline of 21.9 per cent and 25.8 per cent below the figure at 30 June 2014.

DEUTZ Group: New orders by quarter

€ million



UNIT SALES

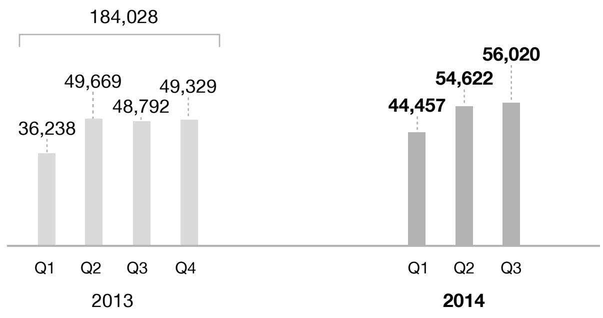
Year-on-year rise in unit sales DEUTZ sold a total of 155,099 engines in the first nine months of this year, representing a 15.1 per cent rise in unit sales compared with the first nine months of 2013 when 134,699 engines were sold. An increase was also reported in the third quarter of 2014 when we sold 56,020 engines, 14.8 per cent more than in the same prior-year quarter (Q3 2013: 48,792 engines) and 2.6 per cent more than in the previous quarter (Q2 2014: 54,622 engines).

We registered gains in all regions: unit sales advanced by 14.7 per cent to 116,103 engines in our largest market, EMEA (Europe, Middle East and Africa), by 16.8 per cent to 31,190 engines in the Americas and by 15.7 per cent to 7,806 engines in the Asia-Pacific region.

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

DEUTZ Group: Consolidated unit sales by quarter

units

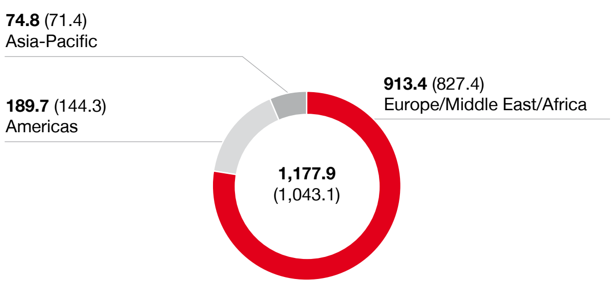


RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by regions

€ million (prior-year figures)

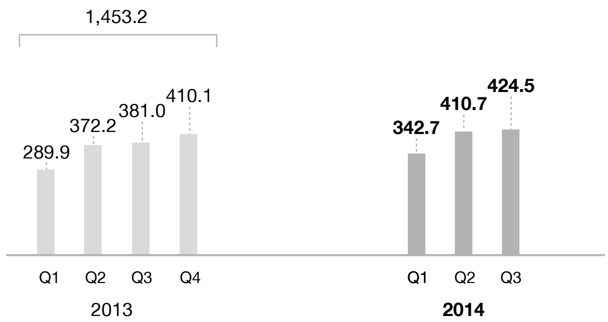


Revenue also up compared with prior-year period DEUTZ earned revenue of €1,177.9 million in the nine months under review, up by 12.9 per cent on the same period of last year (Q1–Q3 2013: €1,043.1 million). Revenue came to €424.5 million in the third quarter of 2014. This was 11.4 per cent more than in the prior-year period (Q3 2013: €381.0 million) and 3.4 per cent higher than in the preceding quarter (Q2 2014: €410.7 million). The rise in revenue during the quarter under review, which was achieved despite the economic slowdown, is primarily attributable to the changes to emissions standards for engines under 130kW that came into force in the European Union on 1 October 2014 and to the resulting effects from the advance production of engines.

We boosted our revenue in all regions during the nine-month period. Our largest region, EMEA, reported an increase of 10.4 per cent to €913.4 million, revenue earned in the Americas rose by 31.5 per cent to €189.7 million, and revenue in the Asia-Pacific region was up by 4.8 per cent to €74.8 million. The proportion of revenue generated outside Germany stood at 76.1 per cent, a decline on the proportion of 82.6 per cent in the same period of 2013. However, revenue growth varied from application segment to application segment. It climbed by a substantial 64.8 per cent in Mobile Machinery, while the service business remained at approximately the same level as last year. Agricultural Machinery and Stationary Equipment reported decreases of 4.4 per cent and 7.3 per cent respectively. Revenue in the Automotive application segment more than halved 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 our joint venture DEUTZ (Dalian) Engine Co., Ltd. This joint venture is only consolidated using the equity method, so its revenue is not included in consolidated revenue.

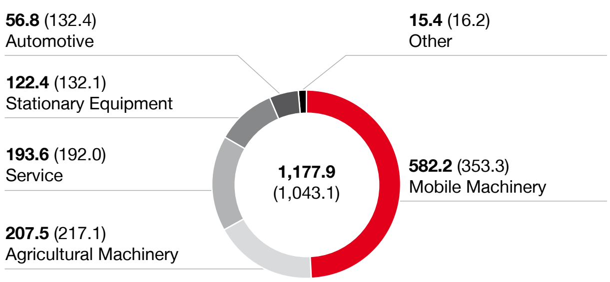
DEUTZ Group: Consolidated revenue by quarters

€ million



DEUTZ Group: Revenue by application segment

€ million (prior-year figures)



EARNINGS

Excluding one-off items, operating profit before depreciation and amortisation (EBITDA before one-off items) totalled €94.5 million in the first nine months of the year (Q1–Q3 2013: €96.8 million). The year-on-year decrease of €2.3 million is primarily due to an unexpected addition to provisions for warranty costs in light of new information. This resulted in a charge against earnings of €20.4 million after deduction of limited insurance claims. Excluding this unexpected impact on earnings, EBITDA before one-off items amounted to €114.9 million thanks to the increased volume of business and achieved a year-on-year gain of €18.1 million. This picture was reflected in the quarterly figures: excluding the recognition of provisions, EBITDA before one-off items of €47.4 million in the quarter under review represented an improvement on both the prior-year quarter (Q3 2013: €41.0 million) and the previous quarter (Q2 2014: €42.1 million). After taking the unexpected charge against earnings into account, EBITDA before one-off items totalled €27.0 million in the third quarter of this year and was therefore down by €14.0 million compared with the third quarter of 2013 and by €15.1 million compared with the second quarter of 2014. The unexpected addition to provisions for warranty costs relates solely to the DEUTZ Compact Engines (DCE) segment.

Excluding the unexpected recognition of provisions, operating profit after depreciation and amortisation (EBIT before one-off items) for the first nine months of 2014 amounted to €43.2 million and was therefore €16.0 million higher than earnings for the same prior-year period (Q1–Q3 2013: €27.2 million). Of this amount, €23.1 million was attributable to the quarter under review (Q3 2013: €17.1 million; Q2 2014: €18.2 million). Before one-off items and excluding the unexpected recognition of provisions, the EBIT margin rose to 3.7 per cent in the first nine months of this year (Q1–Q3 2013: 2.6 per cent). In the third quarter of 2014, it reached as high as 5.4 per cent (Q3 2013: 4.5 per cent; Q2 2014: 4.4 per cent). After taking the recognition of provisions into account, EBIT before one-off items amounted to €22.8 million in the first nine months of 2014, of which €2.7 million was earned in the third quarter. The EBIT margin before one-off items was 1.9 per cent for the nine-month period and 0.6 per cent for the third quarter.

After taking account of one-off items, operating profit (EBIT) totalled €8.9 million over the nine-month period (Q1–Q3 2013: €27.2 million). The one-off items of €13.9 million related to expenses in connection with the measures to optimise our sites and had been recognised in the second quarter. They were attributable to both the DEUTZ Compact Engines (DCE) segment and the DEUTZ Customised Solutions (DCS) segment. Consequently, the EBIT margin narrowed to 0.8 per cent overall (Q1–Q3 2013: 2.6 per cent).

The cost of sales for the first nine months of 2014 amounted to €1,032.5 million (Q1–Q3 2013: €892.8 million). This year-on-year increase of 15.6 per cent was mainly due to higher expenses for materials and contract workers associated with the larger business volume and to the unexpected addition to provisions for warranty costs. The ratio of cost of sales to revenue rose from 85.6 per cent in the first nine months of 2013 to 87.7 per cent in the reporting period as a result of the unexpected charge.

In the period under review, research and development costs amounted to €49.2 million (Q1–Q3 2013: €45.8 million). They largely comprised amortisation on completed development projects, staff costs and cost of materials, 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.

There was a small rise in selling expenses, which advanced to €50.3 million in the reporting period, while administrative expenses were down slightly at €25.5 million (Q1–Q3 2013: €46.8 million and €26.0 million respectively). As a proportion of revenue, selling and administrative expenses declined to 4.3 per cent and 2.2 per cent respectively (Q1–Q3 2013: 4.5 per cent and 2.5 per cent respectively) as a result of the higher volume of business.

Income from investments accounted for using the equity method was up by €1.3 million on the comparative period of 2013 and amounted to €0.2 million (Q1–Q3 2013: loss of €1.1 million). This was due in large part to the 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 nine months of 2013, other operating income was up by €5.7 million to €15.5 million (Q1–Q3 2013: €9.8 million). This was mainly attributable to positive effects arising on the translation of foreign currency positions.

Other operating expenses came to €27.2 million in the period under review, an increase of €14.0 million compared with the same period of 2013 (Q1–Q3 2013: €13.2 million). This trend was primarily the result of recognising provisions for restructuring following the decision to optimise our network of sites. Higher foreign currency losses were also incurred, although these were offset by the higher foreign currency gains recognised under other operating income.

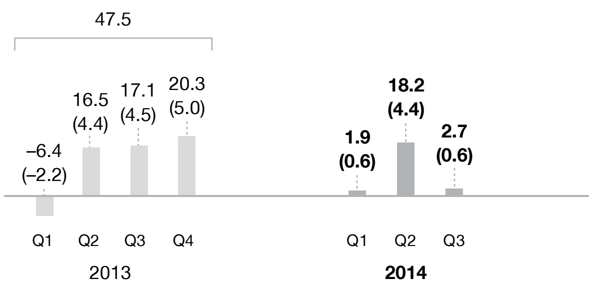
Net interest expense deteriorated slightly on the first three quarters of the previous year, rising by €0.6 million to €5.0 million (Q1–Q3 2013: €4.4 million). The main reason for this was the decline in interest and similar income, outweighing the slight fall in finance costs.

Income taxes for the first three quarters of 2014 totalled €0.5 million (Q1–Q3 2013: €1.9 million). The current tax expense of €6.4 million remained close to its prior-year level (Q1–Q3 2013: €6.7 million). This was partly offset by deferred tax income of €5.9 million (Q1–Q3 2013: €4.8 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 nine months of 2014 amounted to €3.4 million (Q1–Q3 2013: €20.9 million), resulting in earnings per share of €0.03 (Q1–Q3 2013: €0.17).

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

New orders down year on year In the first nine months of 2014, the DEUTZ Compact Engines (DCE) segment took new orders worth €882.5 million, which was down by 12.1 per cent on the comparative period of last year (Q1–Q3 2013: €1,003.6 million). The new orders received in the third quarter amounted to €270.4 million, a fall of 10.8 per cent on the €303.1 million in orders received in the same quarter in 2013, but 1.1 per cent above the second quarter of 2014 when new orders amounted to €267.5 million. 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. As at the end of September, orders on hand stood at €173.9 million, down by 29.5 per cent on the figure reported at 30 September 2013 (€246.8 million) and 35.0 per cent down on 30 June 2014 (€267.5 million).

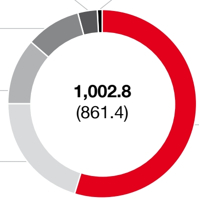
Sharp rise in unit sales The DCE segment sold 146,524 engines in the nine months under review, which represented an increase of 18.2 per cent on the corresponding period last year (Q1–Q3 2013: 124,002 engines). Third-quarter unit sales amounted to 53,589 engines, which was 19.4 per cent more than in the third quarter of 2013 when 44,870 engines were sold, and also 4.5 per cent more than in the previous quarter when 51,279 engines were sold. All regions succeeded in increasing their unit sales in the first nine months of the year under review, but a breakdown by application segment shows a significant rise in unit sales in Mobile Machinery.

Revenue growth in line with strong unit sales In the period under review, the revenue earned in the DCE segment increased by 16.4 per cent to €1,002.8 million (Q1–Q3 2013: €861.4 million). Revenue generated in EMEA, our largest region, grew by 12.0 per cent to €806.4 million. Revenue in the Americas and Asia-Pacific regions rose even more sharply, advancing by 41.1 per cent to €158.7 million and by 29.6 per cent to €37.7 million respectively. The Mobile Machinery application segment achieved revenue growth of 71.7 per cent in the first nine months of the year, while Agricultural Machinery reported a 4.7 per cent decrease in revenue and there were falls of 2.6 per cent in Stationary Equipment and 1.3 per cent in the service business. The revenue attributable to the Automotive application segment was down by 71.2 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 third quarter of 2014, revenue totalled €368.2 million, which was 16.9 per cent more than in the same quarter of 2013 (€315.1 million) and 5.9 per cent more than in the second quarter of 2014 (€347.8 million).

Significant rise in operating profit Given the sharp rise in the volume of business, operating profit before one-off items was up in the DEUTZ Compact Engines segment, despite the unexpected charge against earnings of €20.4 million arising from the addition to provisions for warranty costs. In the first nine months of 2014, operating profit amounted to €4.9 million, which was €3.2 million higher than the figure achieved a year earlier (Q1–Q3 2013: €1.7 million). Excluding the unexpected addition to provisions, the operating profit for the segment stood at €25.3 million. Due to the unexpected charge, earnings in the quarter under review were down on the third quarter of 2013 by €7.9 million, resulting in a loss of €0.7 million (Q3 2013: profit of €7.2 million). Earnings had also fallen by €11.2 million when compared with the second quarter of 2014 (Q2 2014: €10.5 million). Excluding the effect of the unexpected charge against earnings, operating profit for the third quarter of 2014 amounted to €19.7 million and the EBIT margin (before one-off items) was 5.4 per cent. This margin was significantly higher than in the same prior-year quarter (Q3 2013: 2.3 per cent) or the previous quarter Q2 2014: 3.0 per cent).

DEUTZ Compact Engines: Revenue by application segment

€ million (prior-year figures)



BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

Small year-on-year decrease in new orders In the period under review, the DEUTZ Customised Solutions (DCS) segment received orders worth €194.3 million, a decline of 2.8 per cent on the prior-year figure of €200.0 million. New orders in the third quarter totalled €59.6 million, a rise of 4.6 per cent on the orders worth €57.0 million that were received in the same quarter of 2013. However, orders received in the second quarter of 2014 amounted to €65.1 million and therefore outstripped the quarter under review by 9.2 per cent. As at the end of September 2014, orders on hand stood at €83.6 million, up by 1.1 per cent on the figure reported at 30 September 2013 (€82.7 million) and up by 5.3 per cent when compared with 30 June 2014 (€79.4 million).

Fewer engines sold In the first nine months of the year, 8,575 engines were sold in the DCS segment, which was 19.8 per cent fewer than in the same period of the previous year (Q1–Q3 2013: 10,697 engines). All regions and application segments except Automotive reported lower unit sales. In the third quarter of 2014, 2,431 engines were sold, representing 38.0 per cent fewer than in the third quarter of 2013 and a fall of 27.3 per cent on the previous quarter (Q2 2014: 3,343 engines).

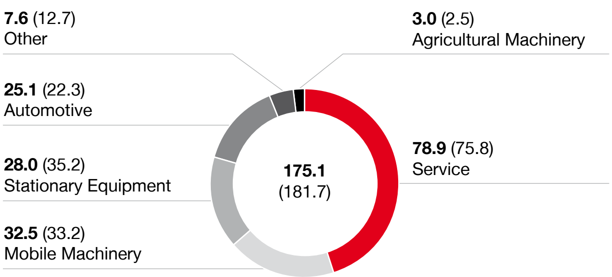
Revenue slightly lower The revenue generated by the DCS segment in the first nine months of the year was down by 3.6 per cent to €175.1 million (Q1–Q3 2013: €181.7 million). While revenue in EMEA, the largest region, was level with that of the same period in 2013, the Americas and Asia-Pacific regions reported falls of

2.5 per cent and 12.3 per cent respectively. There were sharp rises in the revenue generated by the Automotive and Agricultural Machinery application segments and a small increase in revenue in the service business. By contrast, Stationary Equipment generated 20.5 per cent less revenue, while the revenue attributable to Mobile Machinery was only slightly below that of the prior-year period. Revenue for the third quarter of 2014 amounted to €56.3 million, which was 14.6 per cent lower than in the same period of 2013 and 10.5 per cent behind the previous quarter.

Year-on-year fall in operating profit In the first three quarters of 2014, the DEUTZ Customised Solutions segment generated operating profit before one-off items of €18.5 million (Q1–Q3 2013: €26.0 million). The decline of €7.5 million was largely attributable to the lower business volume. Operating profit before one-off items for the third quarter of 2014 amounted to €4.2 million, a decrease of €5.6 million on the same period last year (Q3 2013: €9.8 million) and €3.0 million down on the previous quarter (Q2 2014: €7.2 million). The volume of business and the operating profit in the quarter under review were adversely affected by supply shortages relating to one supplier that have now largely been rectified.

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 second quarter of 2014, 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

In the first nine months of 2014, the cash flow from our operating activities totalled €86.9 million, which was 25.2 per cent above the figure achieved a year earlier (Q1–Q3 2013: €61.7 million). The sharp increase was due in part to the smaller amount of net cash used for working capital but was mainly attributable to the rise in earnings in the period under review after adjustment for the effect of provisions.

The cash flow from investing activities in the first nine months of the year fell by €18.9 million to minus €42.3 million, compared with minus €61.2 million in the same period of 2013. This was largely due to lower payments in connection with capital expenditure on property, plant and equipment and intangible assets.

Net cash used by financing activities amounted to €17.1 million in the period under review (Q1–Q3 2013: net cash inflow of €5.1 million). The cash flow from operating activities that remained after investing activities was used to pay dividends for 2013 of around €8.5 million, to pay current interest and to repay existing financial liabilities. By contrast, the cash flow from financing activities in the same period of 2013 had been characterised by the drawdown of the working capital facility.

Cash and cash equivalents rose by €29.3 million to €88.2 million as at 30 September 2014. The net financial position[1)] improved significantly, having risen by €32.7 million since the end of 2013 to €1.0 million as at 30 September 2014, the first time it had returned to positive territory since 2009 (31 December 2013: minus €31.7 million).

As a result of the strong cash flow from operating activities and the lower amount of net cash used for investing activities, the free cash flow[2)] improved considerably on the comparative prior-year period, increasing by €43.7 million to €39.6 million (Q1–Q3 2013: minus €4.1 million).

NET ASSETS

Year-on-year fall in non-current assets Non-current assets totalled €622.8 million as at 30 September 2014 (31 December 2013: €627.4 million). The decline of €4.6 million compared with the end of 2013 was largely attributable to the change 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 in the first nine months of 2014 included depreciation and amortisation that exceeded any additions.

Rise in current assets Current assets amounted to €557.1 million as at 30 September 2014, which equated to a rise of €63.9 million compared with current assets of €493.2 million at 31 December 2013. The decisive factor in this trend was the €54.5 million increase in inventories held, although the amount of cash and cash equivalents held had also increased.

[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 interest expense.

Further improvement to working capital ratio Working capital (inventories plus trade receivables minus trade payables) rose by €42.2 million in the period under review owing to the growth in inventories and amounted to €214.5 million at the reporting date (31 December 2013: €172.3 million). Trade receivables fell by €13.4million in the first nine months of 2014, partly offsetting the rise in inventories. By contrast, trade payables had scarcely changed, declining by €1.1 million. Thanks to the higher business volume and our effective management of working capital, we were able to make a small year-on-year improvement of 0.3 percentage points in the working capital ratio, taking it to 13.5 per cent as at 30 September 2014 (30 September 2013: 13.8 per cent). The average working capital ratio as at 30 September 2014 was 12.5 per cent (30 September 2013: 12.2 per cent).

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 down slightly As at 30 September 2014, equity had decreased to €497.6 million (31 December 2013: €504.7 million). The main reasons for this reduction of €7.1 million were changes in the discount rates used in the measurement of pension liabilities and the payment of a dividend for 2013, which were partly offset by the positive effects of translating our subsidiaries' financial statements that are prepared in foreign currencies. The equity ratio fell to 42.2 per cent as at 30 September 2014 (31 December 2013: 45.0 per cent).

Non-current liabilities increased by provisions Non-current liabilities at 30 September 2014 stood at €327.7 million (31 December 2013: €292.5 million). The increase of €35.2 million compared with the end of December 2013 was largely attributable to the unexpected rise in provisions for warranty costs, the recognition of restructuring provisions relating to our decision to optimise our network of sites and to higher provisions for pensions and other post-retirement benefits due to the fall in discount rates.

Current liabilities also up Current liabilities were also higher than at 31 December 2013 and amounted to €355.0 million at the reporting date. This was a rise of €31.2 million on the total of €323.8 million at the end of 2013. The main reasons for the increase were the higher level of other provisions due to the unexpected rise in provisions for warranty costs and to accruals for staff costs. Current financial liabilities were also higher. Loan repayments due in the coming months were reclassified from non-current to current financial liabilities.

Total assets had gone up by €59.3 million to €1,180.3 million as at 30 September 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 dip in R&D ratio Expenses for research and development in the first nine months of 2014 stood at €53.6 million and were therefore 1.3 per cent below the amount of €54.3 million spent in the same period of 2013. Factoring in reimbursements from key customers and development partners, spending on research and development came to €39.8 million, which was 1.7 per cent below spending a year ago (Q1–Q3 2013: €40.5 million). The R&D ratio (after deducting grants) – the ratio of net R&D spending to consolidated revenue – fell from 3.9 per cent to 3.4 per cent in the period under review. This means that we had reduced our R&D ratio as planned.

We used 78.4 per cent of all R&D expenditure after deducting grants for the development of new engines and the refinement of existing engines (Q1–Q3 2013: 86.2 per cent). Ongoing support for existing engine series accounted for 13.6 per cent of the expenditure (Q1–Q3 2013: 9.4 per cent) and spending on research and preliminary development work accounted for 8.0 per cent (Q1–Q3 2013: 4.4 per cent).

The DEUTZ Compact Engines segment's spending on research and development (after deduction of grants) came to €36.2 million (Q1–Q3 2013: €37.2 million), and that of the DEUTZ Customised Solutions segment came to €3.6 million (Q1–Q3 2013: €3.3 million).

EMPLOYEES

Slight fall in headcount As at 30 September 2014, 3,976 people were employed by the DEUTZ Group, 36 people fewer than a year earlier (30 September 2013: 4,012) and 38 fewer than three months previously (30 June 2014: 4,014). A total of 625 contract workers were employed at the reporting date, 143 more than on the same date in 2013 but 14 fewer than at the end of the previous quarter. Hiring temporary workers enables us to respond flexibly to possible fluctuations in demand in a fast-moving market environment while continuing to grow profitably. Around 17 per cent of all staff at DEUTZ had fixed-term or temporary contracts at the end of September 2014.

At the end of September, 3,113 people worked for DEUTZ in Germany, 17 more than both at the end of June 2014 and at the end of 2013. The number of people employed at our plants in Cologne had risen by 34 year on year to 2,432, while we employed 389 people in Ulm, which was 25 per cent fewer than a year ago.

The number of people employed outside Germany was 863 at the end of September 2014, which was 53 fewer than a year previously and 54 fewer than at the end of the previous quarter. Although the headcount at our Spanish production company, DEUTZ Spain, was down by 73 on 30 September 2013 and amounted to 482, the number of employees at our US company, DEUTZ Corporation, had increased by 25 to 172.

Overall, therefore, 78.3 per cent of DEUTZ employees were based in Germany as at 30 September 2014 (30 September 2013: 77.2 per cent) and 21.7 per cent in other countries (30 September 2013: 22.8 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 three quarters 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

Economic forecasts revised down

The economic environment has deteriorated once more in recent months. Geopolitical crises and economic risks have again come sharply to the fore. As a result, the IMF has cut its global outlook yet again,[1] now predicting that the pace of growth in the global economy will be 3.3 per cent in 2014 before rising to 3.8 per cent in 2015. The eurozone economy is expected to expand by 0.8 per cent this year and by 1.3 per cent next year, with economic growth in Germany of 1.4 per cent in 2014 and 1.5 per cent in 2015. In the same periods, growth rates of 2.2 per cent and 3.1 per cent are forecast for the US and 7.4 per cent and 7.1 per cent are predicted for China.

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

DEUTZ cuts its forecast for 2014 as a whole

As a result of the general economic slowdown, new orders in the third quarter of 2014 fell short of our expectations and the hoped-for upturn after the summer period has so far failed to materialise. In this environment, we now anticipate that revenue for 2014 as a whole will only total around €1.5 billion. This equates to an increase of about 3 per cent on 2013 as a whole compared with our previous forecast of revenue growth in excess of 10 per cent, i.e. revenue of more than €1.6 billion.

After deduction of limited insurance claims, an unexpected charge of €20.4 million arising from additional provisions for warranty costs was made against earnings in the third quarter of 2014. As a result of this extraordinary charge and the lower volume of business, we will no longer be able to achieve our earnings forecast for 2014. We now anticipate an operating profit margin (EBIT margin before one-off items) of around 2 per cent. We still expect one-off items in connection with the optimisation of our site network of up to €20 million for the year as whole; in the first three quarters of 2014 one-off items of €13.9 million were incurred in this respect.

The programme of site optimisations that has been decided upon and instigated – the consolidation of our sites in Cologne and the integration of the exchange engine plant in Übersee on Lake Chiemsee into the plant in Ulm – will be implemented as planned. These site optimisation measures are expected to 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.

We will provide a forecast for 2015 when our annual report for 2014 is published. In addition to the fact that the advance production of engines this year will result in reduced demand from our installation customers next year, the business volume in 2015 will largely depend on the future performance of the economy.

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 TO 3RD QUARTER OF 2014

INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	**7–9/2014**	7–9/2013	**1–9/2014**	1–9/2013
€ million					
Revenue		**424.5**	**381.0**	**1,177.9**	**1,043.1**
Cost of sales		–380.3	–322.8	–1,032.5	–892.8
Research and development costs		–18.2	–16.0	–49.2	–45.8
Selling expenses		–17.1	–15.4	–50.3	–46.8
General and administrative expenses		–7.9	–8.5	–25.5	–26.0
Other operating income	1	8.6	3.0	15.5	9.8
Other operating expenses	2	–6.7	–3.5	–27.2	–13.2
Income from investments accounted for using the equity method		–0.2	–0.7	0.2	–1.1
Other financial income		–	–	–	–
EBIT		**2.7**	**17.1**	**8.9**	**27.2**
thereof one-off items		**–**	**–**	**–13.9**	**–**
thereof operating profit (EBIT before one-off items)		**2.7**	**17.1**	**22.8**	**27.2**
Interest expenses, net		–1.7	–1.8	–5.0	–4.4
thereof finance costs		–1.7	–2.0	–5.4	–5.6
Net income before income taxes		**1.0**	**15.3**	**3.9**	**22.8**
Income taxes	3	–0.3	0.2	–0.5	–1.9
Net income		**0.7**	**15.5**	**3.4**	**20.9**
thereof attributable to shareholders of DEUTZ AG		1.2	15.5	4.1	21.0
thereof attributable to non-controlling interests		–0.5	–	–0.7	–0.1
Earnings per share (€)		**0.01**	**0.13**	**0.03**	**0.17**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	**7–9/2014**	7–9/2013	**1–9/2014**	1–9/2013
€ million					
Net income		**0.7**	**15.5**	**3.4**	**20.9**
Amounts that will not be reclassified to the income statement in the future		**–4.6**	**–0.6**	**–12.1**	**1.8**
Actuarial gains and losses on the revaluation of pensions and similar obligations		–4.6	–0.6	–12.1	1.8
Amounts that will be reclassified to the income statement in the future if specific conditions are met		**11.9**	**–3.7**	**10.1**	**–2.3**
Currency translation differences		12.7	–3.6	11.3	–2.6
Effective portion of change in fair value from cash flow hedges		–0.9	–0.1	–1.3	0.2
Change in fair value of available-for-sale financial instruments		0.1	–	0.1	0.1
Other comprehensive income, net of tax	4	**7.3**	**–4.3**	**–2.0**	**–0.5**
Comprehensive income		**8.0**	**11.2**	**1.4**	**20.4**
thereof attributable to shareholders of DEUTZ AG		6.3	11.6	0.2	20.5
thereof attributable to non-controlling interests		1.7	–0.4	1.2	–0.1

BALANCE SHEET FOR THE DEUTZ GROUP

Assets	Note	30 Sep 2014	31 Dec 2013
€ million			
Property, plant and equipment	5	295.4	306.4
Intangible assets	5	227.2	237.9
Equity-accounted investments		49.2	46.0
Sundry financial and other assets		7.9	6.3
Deferred tax assets		43.1	30.8
Non-current assets		**622.8**	**627.4**
Inventories	6	279.1	224.6
Trade receivables		135.7	149.1
Other receivables and assets		54.1	60.6
Cash and cash equivalents		88.2	58.9
Current assets		**557.1**	**493.2**
Non-current assets classified as held for sale		0.4	0.4
Total assets		**1,180.3**	**1,121.0**

Equity and liabilities	Note	30 Sep 2014	31 Dec 2013
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		11.0	2.8
Retained earnings and accumulated income		123.2	139.7
Equity attributable to shareholders of DEUTZ AG		**472.0**	**480.3**
Non-controlling interests		25.6	24.4
Equity	7	**497.6**	**504.7**
Provisions for pensions and other post-retirement benefits		179.9	168.6
Other provisions	8	61.3	37.2
Financial liabilities	9	72.4	83.0
Other liabilities		14.1	3.7
Non-current liabilities		**327.7**	**292.5**
Provisions for pensions and other post-retirement benefits		14.9	14.9
Provision for current income taxes		6.6	4.3
Other provisions	8	70.2	45.2
Financial liabilities	9	14.8	7.6
Trade payables		200.3	201.4
Other liabilities		48.2	50.4
Current liabilities		**355.0**	**323.8**
Total equity and liabilities		**1,180.3**	**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	–	–	21.0	–	–	21.0	–0.1	20.9
Other comprehensive income	–	–	1.8	0.3	–2.6	–0.5	–	–0.5
Comprehensive income	–	–	22.8	0.3	–2.6	20.5	–0.1	20.4
Balance at 30 Sep 2013	**309.0**	**28.8**	**122.9**	**0.2**	**5.7**	**466.6**	**6.4**	**473.0**
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	–	–	4.1	–	–	4.1	–0.7	3.4
Other comprehensive income	–	–	–12.1	–1.2	9.4	–3.9	1.9	–2.0
Comprehensive income	–	–	–8.0	–1.2	9.4	0.2	1.2	1.4
Balance at 30 Sep 2014	**309.0**	**28.8**	**123.2**	**–1.0**	**12.0**	**472.0**	**25.6**	**497.6**

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	1–9/2014	1–9/2013
€ million			
EBIT		**8.9**	**27.2**
Income taxes paid		–4.9	–4.8
Depreciation, amortisation and impairment of non-current assets		71.7	69.6
Profit/loss on equity-accounted investments		–0.2	1.6
Other non-cash income and expenses		–	0.2
Change in working capital		–34.1	–43.2
Change in inventories		–49.9	–62.2
Change in trade receivables		15.8	–16.3
Change in trade payables		–	35.3
Change in other receivables and other current assets		–1.4	–2.6
Change in provisions and other liabilities (excluding financial liabilities)		46.9	13.7
Cash flow from operating activities		**86.9**	**61.7**
Capital expenditure on intangible assets, property, plant and equipment		–47.3	–61.6
Capital expenditure on investments		–0.1	–
Proceeds from the sale of non-current assets		5.1	0.4
Cash flow from investing activities		**–42.3**	**–61.2**
Dividend payments to shareholders		–8.5	–
Interest income		0.5	0.8
Interest expense		–5.5	–5.4
Cash receipts from borrowings		15.0	20.0
Repayments of loans		–18.6	–10.3
Cash flow from financing activities		**–17.1**	**5.1**
Cash flow from operating activities		86.9	61.7
Cash flow from investing activities		–42.3	–61.2
Cash flow from financing activities		–17.1	5.1
Change in cash and cash equivalents		**27.5**	**5.6**
Cash and cash equivalents at 1 January		**58.9**	**52.1**
Change in cash and cash equivalents		27.5	5.6
Change in cash and cash equivalents related to exchange rates		1.8	–0.2
Cash and cash equivalents at 30 September		**88.2**	**57.5**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS THE 1ST TO 3RD QUARTER OF 2014

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended 30 September 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Board (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim 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 September 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 September 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. In light of new information as the result of revised estimates, €23.3 million was unexpectedly added to the provisions for warranties in the quarter under review. After deduction of insurance claims in an amount of €2.9 million this resulted in a charge against earnings of €20.4 million.

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 INCOME

Other operating income amounted to €15.5 million in the first three quarters of 2014, a year-on-year rise of €5.7 million (Q1–Q3 2013: €9.8 million). This was mainly attributable to positive effects arising on the translation of foreign currency positions. However, the year-on-year increase in foreign currency gains was offset by a rise in foreign currency losses in the same period. Foreign currency losses are reported in other operating expenses.

2. OTHER OPERATING EXPENSES

Other operating expenses were up by €14.0 million on the comparative prior-year period to €27.2 million (Q1–Q3 2013: €13.2 million). This change largely resulted from the recognition of provisions for restructuring in connection with the decision to optimise our network of sites. The total expenses for recognising the restructuring provisions were €13.6 million and represent one-off items.

3. INCOME TAXES

	7–9/2014	7–9/2013	**1–9/2014**	1–9/2013
€ million				
Current tax expense	2.4	3.7	6.4	6.7
Deferred taxes	–2.1	–3.9	–5.9	–4.8
Total	**0.3**	**–0.2**	**0.5**	**1.9**

The increase in deferred taxes in the first nine months of 2014 compared with the corresponding period of 2013 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.

4. 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:

	1–9/2014		
	Before taxes	Taxes	After taxes
€ million			
Amounts that will not be reclassified to the income statement in the future	**–17.7**	**5.6**	**–12.1**
Actuarial gains and losses on the revaluation of pensions and similar obligations	–17.7	5.6	–12.1
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**9.5**	**0.6**	**10.1**
Currency translation differences	11.3	–	11.3
Effective portion of change in fair value from cash flow hedges	–1.9	0.6	–1.3
Change in fair value of available-for-sale financial instruments	0.1	–	0.1
Other comprehensive income	**–8.2**	**6.2**	**–2.0**

	1–9/2013		
	Before taxes	Taxes	After taxes
€ million			
Amounts that will not be reclassified to the income statement in the future	**2.6**	**–0.8**	**1.8**
Actuarial gains and losses on the revaluation of pensions and similar obligations	2.6	–0.8	1.8
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**–2.2**	**–0.1**	**–2.3**
Currency translation differences	–2.6	–	–2.6
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	0.1	–	0.1
Other comprehensive income	**0.4**	**–0.9**	**–0.5**

A pre-tax profit of €0.8 million relating to cash flow hedges was reclassified to the income statement in the first nine months of the current financial year (Q1–Q3 2013: €0.8 million).

5. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €50.3 million in the first three quarters of 2014 (Q1–Q3 2013: €53.4 million). The majority (€25.6 million) was attributable to property, plant and equipment (Q1–Q3 2013: €23.8 million). Another €24.7 million was invested in intangible assets, the bulk of which was spent on the refinement of engines (Q1–Q3 2013: €29.6 million). Additions to property, plant and equipment essentially related to the production of new engines. Capital expenditure was offset by depreciation and amortisation of €71.7 million (Q1–Q3 2013: €69.6 million).

Commitments to purchase property, plant and equipment and intangible assets amounted to €33.8 million as at 30 September 2014 (31 December 2013: €32.9 million).

6. INVENTORIES

Inventories at 30 September 2014 amounted to €279.1 million, a rise of €54.5 million on the end of 2013 (31 December 2013: €224.6 million). This increase related to finished goods, work in progress, raw materials, consumables and bought-in parts.

Commitments to purchase inventories as at 30 September 2014 came to €81.7 million (31 December 2013: €113.1 million).

7. 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.

8. OTHER PROVISIONS

€ million	**30 Sep 2014**	31 Dec 2013
Non-current	61.3	37.2
Current	70.2	45.2
Total	**131.5**	**82.4**

The increase in other non-current and current provisions was largely due to the unexpected rise in provisions for warranty costs in light of new information. It was also attributable to the provisions for restructuring in connection with the decision to optimise our sites recognised in non-current provisions and to in-year accruals for staff costs recognised in current provisions.

9. FINANCIAL LIABILITIES

€ million	**30 Sep 2014**	31 Dec 2013
Non-current	72.4	83.0
Current	14.8	7.6
Total	**87.2**	**90.6**

The principal reason for the changes in financial liabilities was the reclassification of loan repayments due in the coming months from non-current to current financial liabilities.

OTHER INFORMATION

STAFF COSTS

€ million	**7–9/2014**	7–9/2013	**1–9/2014**	1–9/2013
Wages	28.2	28.5	89.1	87.3
Salaries	27.2	28.8	88.8	88.2
Social security contributions	10.8	10.0	31.5	29.9
Net interest expense for provisions for pensions and other post-retirement benefits	1.1	1.1	4.3	4.3
Expense for payments after termination of employment and other long-term payments	0.9	0.7	0.9	0.7
Other staff costs	4.6	–	4.7	0.1
Total	**72.8**	**69.1**	**219.3**	**210.5**

The increase in other staff costs is attributable to the payments made to employees to mark the 150th anniversary of DEUTZ AG in the third quarter of 2014.

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

€ million	**7–9/2014**	7–9/2013	**1–9/2014**	1–9/2013
Cost of sales	45.0	41.6	134.9	126.6
Research and development costs	8.7	8.1	27.3	26.6
Selling expenses	11.4	10.3	33.4	31.0
Administrative expenses	6.2	7.5	19.0	21.5
Other operating expenses	1.5	1.6	4.7	4.8
Total	**72.8**	**69.1**	**219.3**	**210.5**

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 Sep 2014						
	Measured at amortised cost			Measured at fair value		Assets not within the scope of IAS 39	
Assets	Loans and receivables	Available-for-sale financial assets	Available-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	**2.5**	**0.6**	**2.5**	**–**	**–**	**2.3**	**7.9**
Current financial assets	**269.7**	**–**	**–**	**–**	**–**	**8.3**	**278.0**
Trade receivables	135.7	–	–	–	–	–	135.7
Other receivables and assets	45.8	–	–	–	–	8.3	54.1
Cash and cash equivalents	88.2	–	–	–	–	–	88.2

	31 Dec 2013						
	Measured at amortised cost			Measured at fair value		Assets not within the scope of IAS 39	
Assets	Loans and receivables	Available-for-sale financial assets	Available-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

	30 Sep 2014				
	Measured at amortised cost	**Measured at fair value**		**Assets not within the scope of IAS 39**	
Liabilities	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	**73.2**	**1.1**	**–**	**12.2**	**86.5**
Financial liabilities	72.4	–	–	–	72.4
Other liabilities	0.8	1.1	–	12.2	14.1
Current financial liabilities	**250.1**	**1.1**	**0.4**	**11.7**	**263.3**
Financial liabilities	14.8	–	–	–	14.8
Trade payables	200.3	–	–	–	200.3
Other liabilities	35.0	1.1	0.4	11.7	48.2

	31 Dec 2013				
	Measured at amortised cost	**Measured at fair value**		**Assets not within the scope of IAS 39**	
Liabilities	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 Sep 2014		31 Dec 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
€ million				
Financial assets	**272.8**	**272.2**	**261.0**	**260.4**
Other loans and assets	2.5	2.5	1.3	1.3
Available-for-sale financial assets measured at cost	0.6	–	0.6	–
Trade receivables	135.7	135.7	149.1	149.1
Other receivables and assets	45.8	45.8	51.1	51.1
Cash and cash equivalents	88.2	88.2	58.9	58.9
Financial liabilities	**322.5**	**326.1**	**332.5**	**335.2**
Financial liabilities – liabilities to banks	87.2	90.8	90.6	93.3
Trade payables	200.3	200.3	201.4	201.4
Other liabilities	35.0	35.0	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 the investments classified as available-for-sale financial assets, which have a carrying amount of €0.6 million (31 December 2013: €0.6 million). These are shares in limited companies for which no active market exists. Because future cash flows cannot be reliably determined, it is not possible to calculate the fair value using a measurement method. The shares are recognised at amortised cost. The financial assets reported as available for sale at 30 September 2014 are not intended for sale in the near future.

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

30 Sep 2014	Carrying amount	Fair value	Level 1	Level 2	Level 3
€ million					
Financial assets					
Securities	2.5	2.5	2.5	–	–
Financial liabilities					
Currency forwards	1.5	1.5	–	–	–
Commodity derivatives	–[1]	–[1]	–	–[1]	–
Interest-rate swaps	1.1	1.1	–	1.1	–
Financial liabilities	87.2	90.8	–	90.8	–

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 (currency forward contracts, commodities and interest-rate swaps) is calculated over the residual maturity of the instrument on the basis of current exchange rates, 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 third quarter and first nine months of 2014 and of 2013 is shown in the following table:

7–9/2014	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
External revenue	368.2	56.3	–	424.5	–	424.5
Intersegment revenue	–	–	–	–	–	–
Total revenue	**368.2**	**56.3**	**–**	**424.5**	**–**	**424.5**
Operating profit (EBIT before one-off items)	–0.7	4.2	–0.8	2.7	–	2.7

7–9/2013	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
External revenue	315.1	65.9	–	381.0	–	381.0
Intersegment revenue	–	–	–	–	–	–
Total revenue	**315.1**	**65.9**	**–**	**381.0**	**–**	**381.0**
Operating profit (EBIT before one-off items)	7.2	9.8	0.1	17.1	–	17.1

1–9/2014	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
External revenue	1,002.8	175.1	–	1,177.9	–	1,177.9
Intersegment revenue	–	–	–	–	–	–
Total revenue	**1,002.8**	**175.1**	**–**	**1,177.9**	**–**	**1,177.9**
Operating profit (EBIT before one-off items)	4.9	18.5	–0.6	22.8	–	22.8

1–9/2013	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
External revenue	861.4	181.7	–	1,043.1	–	1,043.1
Intersegment revenue	–	–	–	–	–	–
Total revenue	**861.4**	**181.7**	**–**	**1,043.1**	**–**	**1,043.1**
Operating profit (EBIT before one-off items)	1.7	26.0	–0.5	27.2	–	27.2

Reconciliation from overall profit of the segments to net income

	7–9/2014	7–9/2013	**1–9/2014**	1–9/2013
€ million				
Overall profit of the segments	**2.7**	**17.1**	**22.8**	**27.2**
Reconciliation	–	–	–	–
Operating profit (EBIT before one-off items)	**2.7**	**17.1**	**22.8**	**27.2**
One-off items	–	–	–13.9	–
EBIT	**2.7**	**17.1**	**8.9**	**27.2**
Interest expenses, net	–1.7	–1.8	–5.0	–4.4
Net income before income taxes	**1.0**	**15.3**	**3.9**	**22.8**
Income taxes	–0.3	0.2	–0.5	–1.9
Net income	**0.7**	**15.5**	**3.4**	**20.9**

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		Goods and services provided		Other expenses in connection with goods and services received	
	7–9/2014	7–9/2013	**7–9/2014**	7–9/2013	**1–9/2014**	1–9/2013	**1–9/2014**	1–9/2013
€ million								
Associates	–	–	–	–	–	–	–	–
Joint ventures	1.6	1.2	–	–	6.3	3.6	–	–
Other investments	0.1	0.1	1.2	1.0	0.4	0.4	3.4	3.1
Total	**1.7**	**1.3**	**1.2**	**1.0**	**6.7**	**4.0**	**3.4**	**3.1**

	Receivables		Liabilities	
	30 Sep 2014	31 Dec 2013	**30 Sep 2014**	31 Dec 2013
€ million				
Associates	–	–	–	–
Joint ventures	3.6	3.8	–	–
Other investments	1.4	0.3	3.9	3.1
Total	**5.0**	**4.1**	**3.9**	**3.1**

The increase in goods supplied and services rendered to joint ventures in the first nine months 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 €30.2 million of the Company's total receivables due from investments as at 30 September 2014 (31 December 2013: €31.0 million). Of these receivables, €6.8 million related to loans granted by DEUTZ (31 December 2013: €6.8 million) on which impairment losses of €6.3 million had been recognised. (31 December 2013: €6.3 million). 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 third quarter	71.6	97.5
Services rendered in the third quarter	3.2	9.6
Engines and spare parts supplied in the first nine months	206.3	287.7
Services rendered in the first nine months	13.4	19.1
Receivables as at 30 Sep/31 Dec	23.2	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 SEPTEMBER 2014)

No material events occurred after 30 September 2014.

Cologne, 29 October 2014

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

Michael Wellenzohn

FINANCIAL CALENDAR

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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