

Interim report
for the first half of 2016

THE FIRST HALF YEAR AT A GLANCE

DEUTZ Group: Overview

€ million	4-6/2016	4-6/2015	1-6/2016	1-6/2015
New orders	349.9	349.7	677.2	670.7
Unit sales (units)	37,594	41,213	69,706	78,120
Revenue	344.2	352.1	644.4	670.2
EBITDA	35.6	36.5	66.9	70.4
EBIT	13.4	10.2	20.7	20.3
EBIT margin (%)	3.9	2.9	3.2	3.0
Net income	11.3	9.0	20.0	16.7
Earnings per share (€)	0.09	0.07	0.17	0.14
Total assets	1,103.8	1,179.8	1,103.8	1,179.8
Non-current assets (before deferred tax assets)	499.6	554.5	499.6	554.5
Equity	494.5	535.1	494.5	535.1
Equity ratio (%)	44.8	45.4	44.8	45.4
Cash flow from operating activities	23.4	41.5	15.4	53.9
Free cash flow ¹⁾	11.7	27.3	-17.2	26.2
Net financial position ²⁾	13.1	33.2	13.1	33.2
Working capital ³⁾	227.1	216.4	227.1	216.4
Working capital ratio (30 Jun, %) ⁴⁾	18.6	15.0	18.6	15.0
Capital expenditure (excl. capitalisation of R&D, after deducting grants)	14.0	16.9	30.0	25.3
Depreciation and amortisation	22.2	26.3	46.2	50.1
R&D expenditure (after deducting grants)	12.6	8.9	22.7	19.8
thereof capitalised	1.6	3.2	2.5	5.0
Employees (number at 30 Jun)	3,708	3,822	3,708	3,822

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 debt.

³⁾ Working capital: inventories plus trade receivables minus trade payables.

⁴⁾ Working capital ratio (30 Jun, %): working capital as at the balance sheet date divided by revenue for the previous twelve months.

DEUTZ Group: Segments

€ million	4-6/2016	4-6/2015	1-6/2016	1-6/2015
New orders				
DEUTZ Compact Engines	285.1	281.1	544.5	530.0
DEUTZ Customised Solutions	64.8	68.6	132.7	140.7
Total	349.9	349.7	677.2	670.7
Unit sales (units)				
DEUTZ Compact Engines	35,037	37,758	64,807	71,353
DEUTZ Customised Solutions	2,557	3,455	4,899	6,767
Total	37,594	41,213	69,706	78,120
Revenue				
DEUTZ Compact Engines	277.0	277.3	512.5	528.3
DEUTZ Customised Solutions	67.2	74.8	131.9	141.9
Total	344.2	352.1	644.4	670.2
EBIT before one-off items				
DEUTZ Compact Engines	4.2	2.5	1.9	6.5
DEUTZ Customised Solutions	11.2	6.3	21.4	17.3
Other	-2.0	1.4	-2.6	-3.5
Total	13.4	10.2	20.7	20.3

SUMMARY

“The first half of 2016 progressed as we had expected. We are well on our way to achieving our forecast for the year as a whole. Our efficiency measures aimed at optimising our network of sites are on schedule,” said Dr Helmut Leube, Chairman of the DEUTZ Board of Management.

- New orders rise by 1.0 per cent to €677.2 million in the first half of 2016
- Revenue falls by 3.8 per cent year on year to reach €644.4 million
- Operating profit (EBIT) grows by 2.0 per cent to €20.7 million
- New shaft centre in Cologne-Porz comes on stream as planned; gradual transfer and ramp-up in the coming months
- Japanese construction machinery manufacturer Takeuchi signed up as a partner in the construction machinery segment
- Unchanged forecast for 2016 as a whole: revenue to stagnate or, at best, rise slightly and the EBIT margin to increase moderately. However, the second half of 2016 will be weaker than the first six months of the year due to seasonal factors.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Global economic growth held back by new sources of uncertainty¹⁾ The performance of the global economy was modest in the first half of 2016. Most industrialised companies registered a moderate pace of growth, while developing countries continued to present a very disparate picture. However, the global economy faces new risks as a result of the Brexit vote, and their impact is not yet fully known.

The International Monetary Fund (IMF) recently lowered its prediction for global economic growth for 2016 slightly, from 3.2 per cent to 3.1 per cent, due to the new uncertainties that have emerged. For the economy of the eurozone, the IMF is now forecasting growth of 1.6 per cent, compared with 1.7 per cent last year. The German economy is also expected to grow by 1.6 per cent, slightly better than the increase of 1.5 per cent in 2015. In the United States, the first quarter was weaker than had been anticipated. However, expectations for the year as a whole are positive with predicted growth of 2.2 per cent, following 2.4 per cent in 2015. The IMF has slightly raised its 2016 growth forecast for China, where the economy is expected to expand by 6.6 per cent (2015: 6.9 per cent).

Business at DEUTZ depends heavily on the investment behaviour of customers in the end markets in which DEUTZ engines are deployed. Low prices for agricultural goods, commodities, oil and gas are currently making our customers reluctant to invest. The construction equipment business in China is suffering from huge overcapacity in the market. DEUTZ's North American business is closely tied to the investment behaviour of rental companies, which currently have reduced demand for replacement purchases.

NEW ORDERS

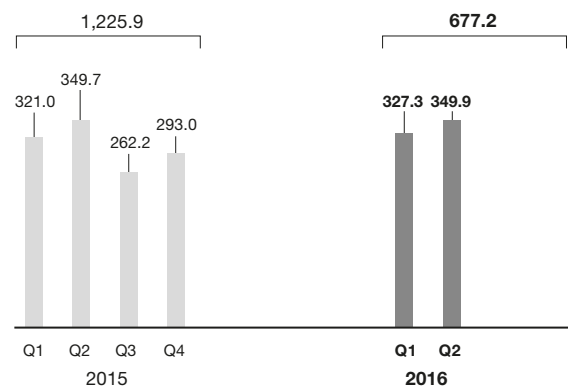
New orders up slightly year on year In the first half of 2016, DEUTZ received orders worth €677.2 million, 1.0 per cent more than in the first six months of last year (H1 2015: €670.7 million). The situation in the individual application segments was very mixed. While Agricultural Machinery, Mobile Machinery and the service business saw an increase compared with the prior-year period, the Automotive and Stationary Equipment application segments took fewer orders. Consequently, new orders exceeded revenue in the first half of 2016.

The quarterly breakdown for the reporting period was in line with expectations. New orders amounted to €349.9 million in the second quarter of 2016, which was 6.9 per cent more than the figure for the first quarter of €327.3 million. In the second quarter of 2015, new orders had been at the same level at €349.7 million.

As at 30 June 2016, the order book stood at €222.0 million, which was 3.1 per cent higher than at 31 March 2016 and 0.8 per cent lower than at 30 June 2015.

DEUTZ Group: New orders by quarter

€ million



UNIT SALES

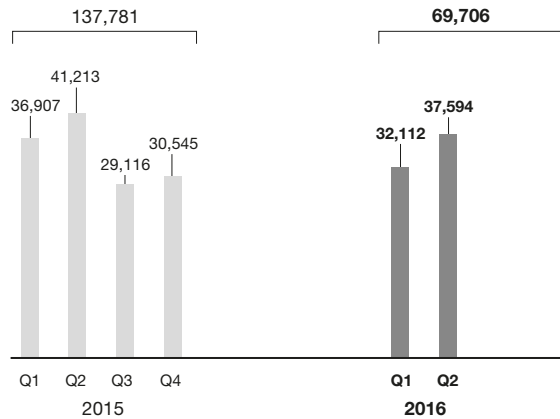
Fewer engines sold DEUTZ sold 69,706 engines in the first six months of 2016, 10.8 per cent fewer than in the corresponding period of last year (H1 2015: 78,120 engines). In the second quarter of 2016, 37,594 engines were sold, which was 17.1 per cent more than in the previous quarter. However, this represented a decrease of 8.8 per cent compared with the second quarter of 2015.

EMEA (Europe, Middle East and Africa), our largest market, registered unit sales of 46,611 engines in the first half of 2016, down by 4.6 per cent year on year. In the Americas and Asia-Pacific regions, unit sales fell by 23.0 per cent and 14.8 per cent respectively.

¹⁾ Source: IMF World Economic Outlook, July 2016.

DEUTZ Group: Consolidated unit sales by quarter

units

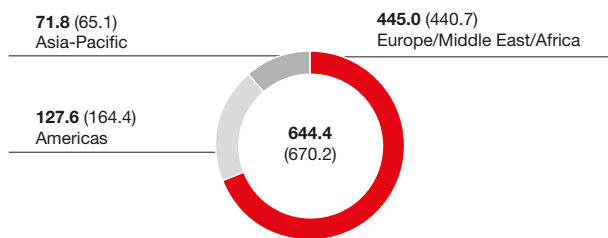


RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by region

€ million (2015 figures)



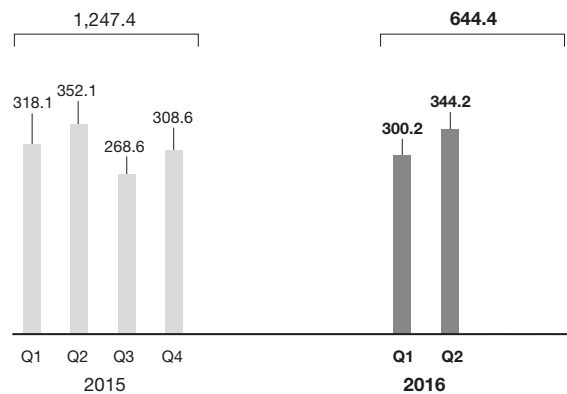
Slight year-on-year fall in revenue Revenue in the first half of the year amounted to €644.4 million, which was 3.8 per cent below the figure for the same period last year of €670.2 million. This moderate decline in revenue resulted from end customers' continued reluctance to invest, which first became apparent last autumn. Our revenue for the second quarter of 2016, which amounted to €344.2 million, was down by 2.2 per cent on the second quarter of 2015 but up by 14.7 per cent on the first quarter of 2016.

In our largest region, EMEA, we earned revenue of €445.0 million, which was 1.0 per cent more than in the first six months of last year. Revenue also rose in the Asia-Pacific region, by 10.3 per cent to

€71.8 million, whereas it declined by 22.4 per cent to €127.6 million in the Americas region. This marked decrease in the Americas is attributable to a significant reluctance to invest on the part of North American rental companies, whereas there had been strong demand in the first half of 2015. The revenue breakdown by application segment also reveals a mixed picture. Revenue in the Agricultural Machinery application segment increased by 9.5 per cent, mainly because – unlike in the prior-year period – customers in Europe are now coming to the end of their inventories of engines purchased ahead of new emissions standards. The service business also saw its revenue go up by 1.5 per cent. By contrast, the Stationary Equipment, Automotive and Mobile Machinery application segments recorded revenue decreases of 22.1 per cent, 10.7 per cent and 6.4 per cent respectively.

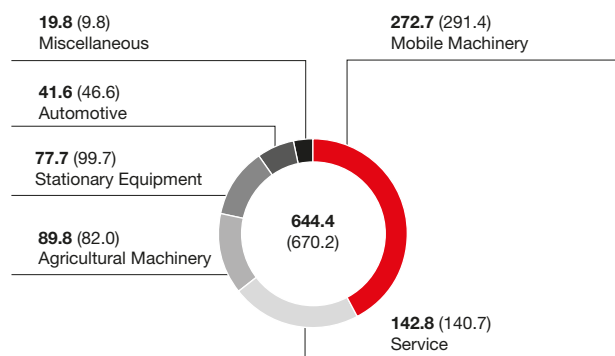
DEUTZ Group: Revenue by quarter

€ million



DEUTZ Group: Revenue by application segment

€ million (2015 figures)



EARNINGS

Earnings before interest, tax, depreciation and amortisation (EBITDA) came to €66.9 million in the first six months of 2016, a year-on-year decrease of €3.5 million (H1 2015: €70.4 million). This was primarily due to the smaller volume of business. However, there was a countervailing effect from reduced production costs and a contribution to profits from a licensing transaction of €5.5 million in the first quarter of 2016. As a result, the EBITDA margin was on a par with the prior-year period at 10.4 per cent (H1 2015: 10.5 per cent) despite the lower level of employment. There was a small year-on-year decline of €0.9 million to €35.6 million in the second quarter (Q2 2015: €36.5 million). Compared with the previous quarter (Q1 2016: €31.3 million), however, EBITDA improved by €4.3 million due to the growth in business volume.

Operating profit after depreciation and amortisation (EBIT) for the first six months of 2016 amounted to €20.7 million, which was slightly higher than in the comparative period due to lower depreciation and amortisation (H1 2015: €20.3 million). Consequently, the EBIT margin rose to 3.2 per cent in the first half of this year (H1 2015: 3.0 per cent). In the second quarter of 2016, EBIT stood at €13.4 million (Q2 2015: €10.2 million; Q1 2016: €7.3 million) and the EBIT margin at 3.9 per cent (Q2 2015: 2.9 per cent; Q1 2016: 2.4 per cent).

The cost of sales fell by 6.0 per cent to €522.5 million in the first half of this year (H1 2015: €555.6 million). This reduction was mainly attributable to the reduced cost of materials resulting from the smaller volume of business. Additional savings on the cost of materials meant that the gross margin¹⁾ advanced from 17.1 per cent in the first half of 2015 to 18.9 per cent in the reporting period.

Compared with the prior-year period, other operating income and other operating expenses fell by €6.1 million and €0.7 million respectively to €7.2 million (H1 2015: €13.3 million) and €14.2 million (H1 2015: €14.9 million). Both for income and expenses, effects arising on the translation of foreign currency positions were significantly lower. However, the reduction in foreign currency losses relating to other operating expenses was largely offset by additions to other provisions and by specific value adjustments on trade receivables.

There was tax income of €1.3 million in the first half of 2016, compared with a tax expense of €1.5 million in the prior-year period. Current income tax expenses of €6.6 million (H1 2015: €6.6 million) were more than offset by deferred tax income of €7.9 million (H1 2015: €5.1 million). This was mainly the result of the reversal of deferred tax liabilities in connection with development expenditure. In the period under review, amortisation charges relating to capitalised development expenditure were higher than the

additions, which led to a decrease in capitalised development expenditure. Whereas development expenditure is capitalised under IFRS, this is not the case for tax purposes.

Net income for the first six months of 2016 amounted to €20.0 million (H1 2015: €16.7 million), of which €20.5 million was attributable to the shareholders of DEUTZ AG and a loss of €0.5 million to non-controlling interests. Earnings per share increased to €0.17 (H1 2015: €0.14).

BUSINESS PERFORMANCE IN THE SEGMENTS

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

Second quarter of 2016 stronger than the first The DEUTZ Compact Engines (DCE) segment won new orders of €544.5 million in the first half of 2016, up by 2.7 per cent year on year (H1 2015: €530.0 million). In the second quarter of 2016, new orders totalled €285.1 million, which was 1.4 per cent higher than a year before (Q2 2015: €281.1 million) and 9.9 per cent more than in the previous quarter (Q1 2016: €259.4 million). Orders on hand amounted to €166.8 million as at the balance sheet date, a year-on-year increase of 13.8 per cent (30 June 2015: €146.6 million) and 5.8 per cent more than at the end of the first quarter of 2016. Unit sales in the DCE segment fell by 9.2 per cent to 64,807 engines in the six-month period (H1 2015: 71,353 engines). In the second quarter of 2016, 35,037 engines were sold, which was 7.2 per cent fewer than a year earlier but 17.7 per cent more than in the previous quarter. Revenue amounted to €512.5 million in the first half of 2016, which equates to a year-on-year decrease of 3.0 per cent (H1 2015: €528.3 million). In the second quarter of 2016, revenue was on a par with the prior-year period at €277.0 million (Q2 2015: €277.3 million) but 17.6 per cent higher than in the first three months of 2016. Operating profit amounted to €1.9 million in the first half of 2016 (H1 2015: €6.5 million). This decline of €4.6 million was largely attributable to the lower volume of business and to increased research and development costs. Savings on production costs partly offset the negative effects. Second-quarter operating profit totalled €4.2 million (Q2 2015: €2.5 million; Q1 2016: loss of €2.3 million).

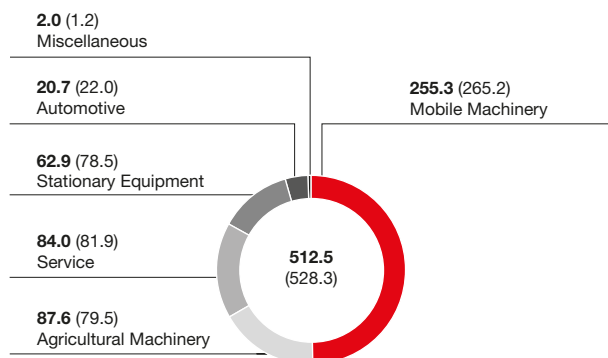
DEUTZ Compact Engines

	4-6/2016	4-6/2015	1-6/2016	1-6/2015
New orders (€ million)	285.1	281.1	544.5	530.0
Unit sales (units)	35,037	37,758	64,807	71,353
Revenue (€ million)	277.0	277.3	512.5	528.3
EBIT (€ million)	4.2	2.5	1.9	6.5

¹⁾ Gross margin: ratio of revenue less cost of sales to revenue (excluding amortisation relating to development expenditure).

DEUTZ Compact Engines: Revenue by application segment

€ million (2015 figures)

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

Year-on-year deterioration in the first six months In the period under review, the DEUTZ Customised Solutions (DCS) segment received new orders worth €132.7 million, which was 5.7 per cent lower than in the prior-year period. New orders amounted to €64.8 million in the second quarter of 2016, down by 5.5 per cent year on year (Q2 2015: €68.6 million) and down by 4.6 per cent on the previous quarter (Q1 2016: €67.9 million). Orders on hand amounted to €55.2 million as at 30 June 2016, a year-on-year decrease of 28.5 per cent (30 June 2015: €77.2 million) and a decline of 4.2 per cent on the end of the previous quarter (31 March 2016: €57.6 million). During the six-month period, 4,899 engines were sold, which was 27.6 per cent fewer than in the first half of last year. Second-quarter unit sales amounted to 2,557 engines, 26.0 per cent below the figure in the second quarter of 2015 when 3,455 engines were sold, but 9.2 per cent more than in the first quarter (Q1 2016: 2,342 engines). The decrease in the DCS segment's revenue was far less substantial than that of its unit sales owing to licensing income. At €131.9 million, revenue was down by 7.0 per cent in the first half of the year (H1 2015: €141.9 million). Revenue for the second quarter of 2016, which amounted to €67.2 million, was down by 10.2 per cent on the second quarter of 2015 but up by

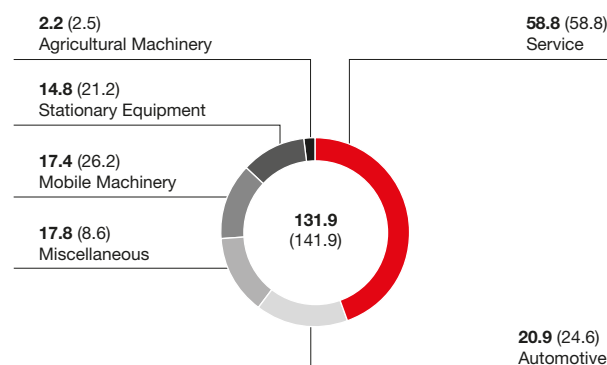
3.9 per cent on the first quarter of 2016. Operating profit stood at €21.4 million in the first half of 2016 (H1 2015: €17.3 million). The increase of €4.1 million is mainly attributable to a contribution to profits from a licensing transaction of €5.5 million in the first quarter of this year. Second-quarter operating profit totalled €11.2 million (Q2 2015: €6.3 million; Q1 2016: €10.2 million).

DEUTZ Customised Solutions

	4-6/2016	4-6/2015	1-6/2016	1-6/2015
New orders (€ million)	64.8	68.6	132.7	140.7
Unit sales (units)	2,557	3,455	4,899	6,767
Revenue (€ million)	67.2	74.8	131.9	141.9
EBIT (€ million)	11.2	6.3	21.4	17.3

DEUTZ Customised Solutions: Revenue by application segment

€ million (2015 figures)

**OTHER**

In the period under review, the Other segment reported an operating loss of €2.6 million, a year-on-year improvement of €0.9 million (H1 2015: loss of €3.5 million). Other comprehensive income for the reporting period predominantly consisted of additions to other provisions as well as the current income and expense of the subsidiary Ad. Strüver KG, which was consolidated for the first time.

FINANCIAL POSITION

CASH FLOW

Cash flow from operating activities deteriorated significantly compared with the first half of 2015, declining by €38.5 million to €15.4 million in the first six months of this year (H1 2015: €53.9 million). This was mainly due to a comparatively high year-on-year increase in working capital¹⁾ in the period under review and to the generally lower volume of business.

The net cash used for investing activities in the first half of 2016 came to €30.6 million, an increase of €5.0 million on the first six months of last year (H1 2015: €25.6 million). The increase is primarily attributable to capital expenditure on the shaft centre in Cologne-Porz in connection with optimisation of the network of sites.

Financing activities resulted in a net cash outflow of €17.8 million in the first half of 2016 (H1 2015: €17.8 million). As in the prior-year period, the outflow was predominantly due to the repayment of loans and the payment of a dividend.

Cash and cash equivalents as at 30 June 2016 had fallen by €33.1 million to €79.4 million (31 December 2015: €112.5 million). Although the net financial position²⁾ of €13.1 million as at the balance sheet date had deteriorated by €25.9 million compared with the end of 2015 (31 December 2015: €39.0 million), it had improved on the figure as at 31 March 2016 of €9.7 million.

The lower level of cash flow from operating activities and the increase in investing activities caused free cash flow³⁾ to decline by €43.4 million year on year to minus €17.2 million (H1 2015: €26.2 million).

NET ASSETS

Non-current assets totalled €581.6 million as at 30 June 2016 (31 December 2015: €589.6 million). This decrease was largely due to a reduction in intangible assets, with additions more than offset by amortisation charges. By contrast, deferred tax assets increased because of lower deferred tax liabilities relating to reduced capitalised development expenditure. Deferred tax assets and liabilities are shown, as far as possible, as a net figure on the balance sheet.

Current assets stood at €520.0 million as at the reporting date. This equated to an increase of €21.9 million compared with the end of last year (31 December 2015: €498.1 million). This was primarily due to higher inventories. As a result of plant shutdowns for the holidays in the third quarter of 2016 and the relocation of shaft production to Cologne-Porz, some production was brought forward to the first half of the year. Trade receivables also rose sharply due to seasonal factors. However, there was a reduction in cash and cash equivalents.

The increase in non-current assets classified as held for sale was attributable to the reclassification of the carrying amount of a plot of land that is not used for production purposes and which we expect to be sold in the second half of the current financial year.

Working capital went up by €43.5 million to €227.1 million (31 December 2015: €183.6 million) as a consequence of the growth in inventories and trade receivables in the first half of 2016. The working capital ratio⁴⁾ also rose as a result of the reduced volume of business, amounting to 18.6 per cent as at 30 June 2016 (31 December 2015: 14.7 per cent). The average working capital ratio⁵⁾ was on a par with the end of 2015 at 17.8 per cent (31 December 2015: 17.6 per cent).

Non-current liabilities decreased slightly to €279.4 million (31 December 2015: €280.8 million) due, in particular, to lower financial debt and other provisions. By contrast, non-current provisions for pensions and other post-retirement benefits increased as a result of lower discount rates.

Current liabilities totalled €329.9 million, a rise of €18.2 million compared with the end of 2015 (31 December 2015: €311.7 million). This was attributable, above all, to the growth in trade payables and an increase in other liabilities. The higher level of other liabilities primarily related to accruals for annual leave entitlement.

Total assets amounted to €1,103.8 million as at 30 June 2016 (31 December 2015: €1,088.1 million).

¹⁾ Inventories plus trade receivables minus trade payables.

²⁾ Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.

³⁾ Free cash flow: cash flow from operating and investing activities less interest expense.

⁴⁾ Working capital as at the balance sheet date divided by revenue for the previous twelve months.

⁵⁾ Average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.

EVENTS AFTER THE REPORTING PERIOD

Ad. Strüver KG (GmbH & Co.), Hamburg, in which DEUTZ AG has an interest, has concluded a contract for the disposal of a building lease for a plot of land that is no longer used for production purposes. The contract took legal effect on 4 July 2016. Transfer of the use and encumbrances will take place on 1 February 2017. The sale price agreed is €10.5 million. The contract of sale is subject to the usual approvals and contains rescission rights for both parties that expire no later than the end of January 2017. DEUTZ AG indirectly holds a stake of 94 per cent in Ad. Strüver KG via DEUTZ Beteiligung GmbH and is general partner in Ad. Strüver KG. As a result of concluding the contract for the disposal of the building lease, the subsidiary was included in the consolidated financial statements of DEUTZ AG, having previously not been consolidated for reasons of materiality. The Group expects this sale, after deduction of transaction costs and taxes, to make a contribution in the high single-digit millions that will improve its financial position and financial performance.

RESEARCH AND DEVELOPMENT

A slight increase in R&D spending again Research and development expenditure in the first half of 2016 was up by 3.4 per cent compared with the first six months of 2015, rising from €23.3 million to €24.1 million. Factoring in reimbursements from key customers and development partners, spending on research and development came to €22.7 million, which was 14.6 per cent more than in the first half of 2015. The increase was in line with the planning and is attributable to the low level of spending in the prior-year period and to reduced reimbursements. The R&D ratio (after deducting grants) – the ratio of net research and development expenditure to consolidated revenue – stood at 3.5 per cent compared with 3.0 per cent a year earlier.

Research and development

	4-6/2016	4-6/2015	1-6/2016	1-6/2015
R&D expenditure (after deducting grants, € million)	12.6	8.9	22.7	19.8
thereof DCE (€ million)	11.8	8.4	21.4	18.5
thereof DCS (€ million)	0.8	0.5	1.3	1.3
R&D ratio (as a percentage of revenue)	3.7	2.5	3.5	3.0

EMPLOYEES

Number of employees down slightly The DEUTZ Group had 3,708 employees as at 30 June 2016, a reduction of 114 people or 3.0 per cent compared with the middle of last year. The number of employees increased slightly, by 0.2 per cent, compared with 31 March 2016. There was a small year-on-year decrease in the number of contract workers, which went down from 288 to 284 people. However, compared with the end of the first quarter (31 March 2016: 229 contract workers), the number increased by 55 people. Hiring temporary workers enables us to respond flexibly to possible fluctuations in demand in a fast-moving market environment while continuing to grow profitably. Overall, 76.3 per cent of all employees were based in Germany as at the reporting date (30 June 2015: 78.7 per cent) and 23.7 per cent in other countries (30 June 2015: 21.3 per cent).

Employees

Headcount	30 Jun 2016	30 Jun 2015
Cologne	2,203	2,348
Ulm	407	384
Other	218	276
In Germany	2,828	3,008
Outside Germany	880	814
Total	3,708	3,822

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 61 to 65 of our 2015 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 2016. We did not identify any further material risks or opportunities in the first half of 2016.

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

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

OUTLOOK

Increased political and economic risk¹⁾ The IMF recently lowered its forecasts for future economic growth in most countries and regions. Nevertheless, the pace of global economic expansion is expected to pick up in 2017 with growth of 3.4 per cent, compared with 3.1 per cent in 2016. The euro-zone's economy is predicted to increase by 1.6 per cent this year and by 1.4 per cent next year. Growth rates of 1.6 per cent in 2016 and 1.2 per cent in 2017 are anticipated for Germany. The equivalent prospective growth rates for the United States are 2.2 per cent and 2.5 per cent; for China, they are 6.6 per cent and 6.2 per cent.

However, there has been a marked increase in political and economic risk recently, primarily as a consequence of the vote for Brexit. Further revisions to economic forecasts and a negative impact on the investment climate cannot be ruled out.

Forecast for DEUTZ confirmed Business conditions continue to be difficult for our Company this year. There are still no signs of a sustained market recovery, and end customers continue to be reluctant to invest. Moreover, our customers still hold inventories of engines purchased before new emissions standards came into force. We are focused on improving efficiency, continuing to lower the break-even point and increasing our flexibility.

Based on our business performance in the first half of the year, we are on course to achieve our forecast for 2016 as a whole that revenue will stagnate or, at best, rise slightly and that the EBIT margin will increase moderately.

Looking at the seasonal patterns, we believe that the second quarter will have been the strongest quarter in 2016. We anticipate that capacity utilisation and revenue will be lower in the third quarter than in the second quarter of 2016 due to holiday shutdowns at our customers and at our plant in Cologne-Porz. We assume that the bulk of operating profit (EBIT) will have been generated in the first half of 2016 because capacity utilisation will be lower in the second half of the year due to seasonal market demand, plant shutdowns for the holidays and the relocation of the shaft centre.

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 guarantees with regard to the forward-looking statements made in this management report.

¹⁾ Source: IMF World Economic Outlook, July 2016.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2016

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million					
	Note	4-6/2016	4-6/2015	1-6/2016	1-6/2015
Revenue		344.2	352.1	644.4	670.2
Cost of sales		-281.0	-291.5	-522.5	-555.6
Research and development costs		-19.6	-17.6	-38.8	-36.1
Selling expenses		-17.7	-17.6	-35.0	-35.0
General and administrative expenses		-8.6	-10.0	-17.4	-18.6
Other operating income		3.6	0.7	7.2	13.3
Other operating expenses		-5.4	-3.3	-14.2	-14.9
Profit/loss on equity-accounted investments		-2.1	-2.6	-3.0	-3.0
Other financial income		-	-	-	-
EBIT		13.4	10.2	20.7	20.3
Interest expenses, net		-1.1	-1.0	-2.0	-2.1
thereof finance costs		-1.1	-1.1	-2.1	-2.3
Net income before income taxes		12.3	9.2	18.7	18.2
Income taxes	1	-1.0	-0.2	1.3	-1.5
Net income		11.3	9.0	20.0	16.7
thereof attributable to shareholders of DEUTZ AG		11.3	9.0	20.5	17.0
thereof attributable to non-controlling interests		-	-	-0.5	-0.3
Earnings per share (€)		0.09	0.07	0.17	0.14

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million					
	Note	4-6/2016	4-6/2015	1-6/2016	1-6/2015
Net income		11.3	9.0	20.0	16.7
Amounts that will not be reclassified to the income statement in the future		-3.4	12.1	-10.2	3.7
Remeasurements of defined benefit plans		-3.4	12.1	-10.2	3.7
Amounts that will be reclassified to the income statement in the future if specific conditions are met		-0.3	-4.0	-2.4	12.2
Currency translation differences		0.8	-6.8	-2.7	13.1
<i>thereof profit/loss on equity-accounted investments</i>		-0.1	-2.3	-1.8	4.4
Effective portion of change in fair value from cash flow hedges		-1.2	2.9	0.2	-0.8
Change in fair value of available-for-sale financial instruments		0.1	-0.1	0.1	-0.1
Other comprehensive income, net of tax	2	-3.7	8.1	-12.6	15.9
Comprehensive income		7.6	17.1	7.4	32.6
thereof attributable to shareholders of DEUTZ AG		7.6	18.3	8.1	30.8
thereof attributable to non-controlling interests		-	-1.2	-0.7	1.8

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

	Note	30 Jun 2016	31 Dec 2015
Assets			
Property, plant and equipment	3	289.2	289.0
Intangible assets	3	160.4	176.6
Equity-accounted investments		43.7	48.5
Other financial assets		6.3	6.4
Non-current assets (before deferred tax assets)		499.6	520.5
Deferred tax assets		82.0	69.1
Non-current assets		581.6	589.6
Inventories	4	286.6	251.9
Trade receivables		121.1	101.2
Other receivables and assets		32.9	32.5
Cash and cash equivalents		79.4	112.5
Current assets		520.0	498.1
Non-current assets classified as held for sale	5	2.2	0.4
Total assets		1,103.8	1,088.1
Equity and liabilities			
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		16.1	18.3
Retained earnings and accumulated income		136.1	134.3
Equity attributable to shareholders of DEUTZ AG		490.0	490.4
Non-controlling interests		4.5	5.2
Equity		494.5	495.6
Provisions for pensions and other post-retirement benefits		182.5	172.3
Deferred tax provisions		0.6	0.0
Other provisions		42.4	46.7
Financial debt	6	50.8	58.6
Other liabilities		3.1	3.2
Non-current liabilities		279.4	280.8
Provisions for pensions and other post-retirement benefits		14.2	14.3
Provision for current income taxes		5.2	7.5
Other provisions		63.2	59.7
Financial debt	6	15.5	14.9
Trade payables		180.6	169.5
Other liabilities		51.2	45.8
Current liabilities		329.9	311.7
Total equity and liabilities		1,103.8	1,088.1

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million

	Issued capital	Additional paid-in capital	Retained earnings	Fair value reserve ^{1),2)}	Currency translation reserve ¹⁾	Equity attributable to shareholders of DEUTZ AG	Non-controlling interests	Total
Balance at 1 Jan 2015	309.0	28.8	134.3	-1.5	15.2	485.8	25.2	511.0
Dividend payments			-8.5			-8.5		-8.5
Net income			17.0			17.0	-0.3	16.7
Other comprehensive income			3.7	-0.9	11.0	13.8	2.1	15.9
Comprehensive income			20.7	-0.9	11.0	30.8	1.8	32.6
Balance at 30 Jun 2015	309.0	28.8	146.5	-2.4	26.2	508.1	27.0	535.1
Balance at 1 Jan 2016	309.0	28.8	134.3	-0.4	18.7	490.4	5.2	495.6
Dividend payments			-8.5			-8.5		-8.5
Net income			20.5			20.5	-0.5	20.0
Other comprehensive income			-10.2	0.3	-2.5	-12.4	-0.2	-12.6
Comprehensive income			10.3	0.3	-2.5	8.1	-0.7	7.4
Balance at 30 Jun 2016	309.0	28.8	136.1	-0.1	16.2	490.0	4.5	494.5

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

€ million

	Note	1-6/2016	1-6/2015
EBIT		20.7	20.3
Income taxes paid		-5.1	-2.8
Depreciation, amortisation and impairment of non-current assets		46.2	50.1
Gains/losses on the sale of non-current assets		0.3	-0.1
Profit/loss on equity-accounted investments		3.0	3.2
Other non-cash income and expenses		0.1	-
Change in working capital		-45.9	-14.7
Change in inventories		-35.8	-24.4
Change in trade receivables		-20.4	-5.2
Change in trade payables		10.3	14.9
Change in other receivables and other current assets		-4.4	6.4
Change in provisions and other liabilities (excluding financial liabilities)		0.5	-8.5
Cash flow from operating activities		15.4	53.9
Capital expenditure on intangible assets, property, plant and equipment		-30.6	-26.2
Capital expenditure on investments		-0.1	-0.1
Proceeds from the sale of non-current assets		0.1	0.7
Cash flow from investing activities		-30.6	-25.6
Dividend payments to shareholders		-8.5	-8.5
Interest income		0.1	0.2
Interest expense		-2.1	-2.3
Repayments of loans		-7.3	-7.2
Cash flow from financing activities		-17.8	-17.8
Cash flow from operating activities		15.4	53.9
Cash flow from investing activities		-30.6	-25.6
Cash flow from financing activities		-17.8	-17.8
Change in cash and cash equivalents		-33.0	10.5
Cash and cash equivalents at 1 Jan		112.5	101.7
Change in cash and cash equivalents		-33.0	10.5
Change in cash and cash equivalents related to exchange rates		-0.1	1.9
Cash and cash equivalents at 30 Jun		79.4	114.1

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2016

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended 30 June 2016 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 2015 financial year.

The condensed interim consolidated financial statements for the period ended 30 June 2016 – 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 2016 have been reviewed by an auditor pursuant to section 37w of the German Securities Trading Act (WpHG).

CHANGES IN THE BASIS OF CONSOLIDATION

Having previously not been consolidated for reasons of materiality, the subsidiary Ad. Strüver KG (GmbH & Co.), Hamburg, was included in the consolidated financial statements of DEUTZ AG with effect from 1 January 2016. The company was included in the consolidated entities of DEUTZ AG in view of a significant event after the reporting date for the period ended 30 June 2016. Ad. Strüver KG, Hamburg, in which DEUTZ AG has an interest, concluded a contract for the disposal of a building lease for a plot of land that is no longer used for production purposes. The contract came into force on 4 July 2016. Please refer to the notes on events after the reporting period on page 25 of these notes. The consolidation has not had a material effect on the Group's financial position or financial performance because the company has not been operational for approximately ten years. The company's losses, which were largely

accrued as a result of ceasing production, had already been reported in the consolidated financial statements via DEUTZ AG or DEUTZ Beteiligung GmbH by recognising impairment losses on the carrying amount of the equity investment and on receivables due from the company.

The impact of the change in the basis of consolidation on the Group's financial performance in the first half of 2016 was a reduction of €0.7 million, which largely resulted from the current income and expenses of Ad. Strüver KG. There was no material impact on the Group's financial position in the first half of 2016.

SIGNIFICANT ACCOUNTING POLICIES

With the exception of 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 2015. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2015. If they are material, revenue-related and cyclical items are accrued during the year. 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.

'Disclosure Initiative' (Amendments to IAS 1) The IASB published these amendments to IAS 1 in December 2014. The amendments largely consist of clarifications regarding the use of discretion in the presentation of financial statements. Initial application of the amendments has not had any material impact on the interim consolidated financial statements.

'Clarification of Acceptable Methods of Depreciation and Amortisation' (Amendments to IAS 16 and IAS 38) The IASB published these amendments in May 2014. These amendments clarify the methods that can be used for the depreciation and amortisation of property, plant and equipment and intangible assets. The amendments come into force for financial years commencing on or after 1 January 2016. Application of these rules has not had any impact on the consolidated financial statements.

‘Defined Benefit Plans: Employee Contributions’ (Amendments to IAS 19) The amendments to IAS 19 were published in November 2013. Under certain circumstances, these amendments by the IASB allow contributions made by employees and third parties during the period in which the benefit was earned to be recognised as a reduction in the current service cost. Adoption of the amendments into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 July 2014 to financial years beginning on or after 1 February 2015. Initial application of the amendments has not had any material impact on the Group’s financial position or financial performance.

‘Accounting for Acquisitions of Interests in Joint Operations’ (Amendments to IFRS 11) The IASB published these amendments in May 2014. The amendments clarify that the acquirer of an interest in a joint operation that constitutes a business, as defined in IFRS 3 ‘Business Combinations’, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendments apply to financial years beginning on or after 1 January 2016. They have not had any impact on the DEUTZ Group’s consolidated financial statements.

Collective standard amending various IFRSs (2010–2012) The amendments were published in December 2013 and are primarily intended to clarify certain ambiguous provisions in the standards. Adoption of the amendments into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 July 2014 to financial years beginning on or after 1 February 2015. Initial application of these amendments does not have a material impact on the consolidated financial statements.

Collective standard amending various IFRSs (2012–2014) The amendments published by the IASB in September 2014 primarily contain additional guidance for clarifying ambiguous provisions in standards. The amendments come into force

for financial years commencing on or after 1 January 2016. Initial application of these amendments does not have a material impact on the 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, on 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.

SELECTED EXPLANATORY DISCLOSURES

1. INCOME TAXES

€ million	1–6/2016	1–6/2015
Current tax expense	6.6	6.6
Deferred taxes	-7.9	-5.1
Total	-1.3	1.5

The increase in deferred tax income was mainly the result of the reversal of deferred tax liabilities in connection with development expenditure. In the period under review, amortisation charges relating to capitalised development expenditure were higher than the additions, which led to a decrease in capitalised development expenditure. Whereas development expenditure is capitalised under IFRS, this is not the case for tax purposes.

2. OTHER COMPREHENSIVE INCOME

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

€ million	1-6/2016			1-6/2015		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Amounts that will not be reclassified to the income statement in the future	-14.9	4.7	-10.2	5.4	-1.7	3.7
Remeasurements of defined benefit plans	-14.9	4.7	-10.2	5.4	-1.7	3.7
Amounts that will be reclassified to the income statement in the future if specific conditions are met	-2.3	-0.1	-2.4	11.9	0.3	12.2
Currency translation differences	-2.7	-	-2.7	13.1	-	13.1
Effective portion of change in fair value from cash flow hedges	0.3	-0.1	0.2	-1.1	0.3	-0.8
Change in fair value of available-for-sale financial instruments	0.1	-	0.1	-0.1	-	-0.1
Other comprehensive income	-17.2	4.6	-12.6	17.3	-1.4	15.9

A pre-tax profit of €0.7 million relating to cash flow hedges was reclassified to the income statement in the first six months of the current financial year (H1 2015: pre-tax loss of €4.1 million).

3. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €32.4 million in the first half of the year (H1 2015: €30.3 million). This was broken down into €27.9 million (H1 2015: €22.5 million) on property, plant and equipment and €4.5 million (H1 2015: €7.8 million) on intangible assets.

Additions to property, plant and equipment again mainly related to measures aimed at optimising our network of sites, such as the construction of a shaft centre in Cologne-Porz. There were also additions in connection with replacement investments in machinery and tools. The bulk of capital expenditure on intangible assets was channelled into the development of engines. The fall in capital expenditure on intangible assets is essentially explained by the fact that the focus of development activities is shifting from development and refinement to support for existing engine series now that our new engines have gone into volume production. The costs incurred in connection with the support for existing engine series are not capitalised.

Capital expenditure was offset by depreciation and amortisation of €44.7 million (H1 2015: €48.1 million). Impairment losses totalling €1.5 million were also recognised during the reporting period (H1 2015: €2.0 million). They related to the write-off of the remaining property, plant and equipment of our Chinese subsidiary DEUTZ Engine (Shandong) Co., Ltd. in Linyi, because there are no longer any alternative uses for them in the DEUTZ Group or any likelihood of selling them to third parties. The process of closing the company, in which the Group has a 70 per cent interest, was started in late 2015.

Commitments to purchase property, plant and equipment and intangible assets amounted to €21.3 million as at 30 June 2016 (31 December 2015: €34.8 million).

4. INVENTORIES

Inventories had grown by €34.7 million to €286.6 million as at 30 June 2016 (31 December 2015: €251.9 million). This increase was mainly due to some production work being brought forward to the first half of the year because of the holiday shutdown planned for the start of the second half of the year and the relocation of shaft production to Cologne-Porz.

Commitments to purchase inventories as at 30 June 2016 came to €47.6 million (31 December 2015: €63.9 million).

5. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The increase in non-current assets classified as held for sale was attributable to the reclassification of the carrying amount of a plot of land located in Bergen am Chiemsee, Bavaria that is not used for production purposes. Given that an estate agent has been appointed and there are specific enquiries about the land, a sale is expected in the second half of the current year. In view of the enquiries from buyers and the current prices for comparable plots of land, we expect the sale to make a positive contribution to earnings after deduction of transaction costs. Reclassification therefore did not have any impact on the net income for the period.

6. FINANCIAL DEBT

€ million	30 Jun 2016	31 Dec 2015
Non-current	50.8	58.6
Current	15.5	14.9
Total	66.3	73.5

The decline in non-current financial debt was the result, above all, of the scheduled repayment of the loans from the European Investment Bank.

OTHER INFORMATION

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.

Financial instruments (assets)

30 Jun 2016	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	Carrying amount on the balance sheet
	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	
€ million							
Non-current financial assets	1.3	0.3	2.9	–	–	1.8	6.3
Current financial assets	223.0	–	–	0.4	–	10.0	233.4
Trade receivables	121.1	–	–	–	–	–	121.1
Other receivables and assets	22.5	–	–	0.4	–	10.0	32.9
Cash and cash equivalents	79.4	–	–	–	–	–	79.4

Financial instruments (assets)

31 Dec 2015	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	Carrying amount on the balance sheet
	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	
€ million							
Non-current financial assets	1.3	0.2	2.9	–	–	2.0	6.4
Current financial assets	235.3	–	–	–	–	10.9	246.2
Trade receivables	101.2	–	–	–	–	–	101.2
Other receivables and assets	21.6	–	–	–	–	10.9	32.5
Cash and cash equivalents	112.5	–	–	–	–	–	112.5

Financial instruments (liabilities)

30 Jun 2016	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
€ million	Financial liabilities	Derivatives designated as hedging instru- ments (recog- nised as other comprehensive income/loss)	Held- for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
Non-current financial liabilities	51.6	0.9	–	1.4	53.9
Financial debt	50.8	–	–	–	50.8
Other liabilities	0.8	0.9	–	1.4	3.1
Current financial liabilities	239.6	–	–	7.7	247.3
Financial debt	15.5	–	–	–	15.5
Trade payables	180.6	–	–	–	180.6
Other liabilities	43.5	–	–	7.7	51.2

Financial instruments (liabilities)

31 Dec 2015	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
€ million	Financial liabilities	Derivatives designated as hedging instru- ments (recog- nised as other comprehensive income/loss)	Held- for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
Non-current financial liabilities	59.3	0.9	–	1.6	61.8
Financial debt	58.6	–	–	–	58.6
Other liabilities	0.7	0.9	–	1.6	3.2
Current financial liabilities	219.6	0.1	–	10.5	230.2
Financial debt	14.9	–	–	–	14.9
Trade payables	169.5	–	–	–	169.5
Other liabilities	35.2	0.1	–	10.5	45.8

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

€ million	30 Jun 2016		31 Dec 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	224.6	224.3	236.8	236.6
Other loans	1.3	1.3	1.3	1.3
Available-for-sale financial assets measured at cost	0.3	–	0.2	–
Trade receivables	121.1	121.1	101.2	101.2
Other receivables and assets	22.5	22.5	21.6	21.6
Cash and cash equivalents	79.4	79.4	112.5	112.5
Financial liabilities	291.2	293.4	278.9	281.7
Financial debt – liabilities to banks	66.3	68.5	73.5	76.3
Trade payables	180.6	180.6	169.5	169.5
Other liabilities	44.3	44.3	35.9	35.9

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.

The available-for-sale financial assets with a carrying amount of €0.3 million (31 December 2015: €0.2 million) are investments. They are measured at amortised cost because their fair value cannot be reliably determined due to their not being listed on a market and due to a lack of market data for comparable instruments. There was no intention to dispose of these financial assets as at 30 June 2016.

The fair value of non-current financial assets and liabilities is computed by discounting estimated future cash flows using arm's-length discount rates and taking into account our own credit risk and that of our counterparties based on credit ratings and exchange rates on the reporting date.

The following table shows the assignment to the three levels of the IFRS 13 measurement hierarchy of the fair values as at the balance sheet date of financial assets and liabilities that were measured at fair value in the consolidated financial statements, or for which a fair value was disclosed in the notes to the financial statements:

30 Jun 2016

€ million

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	2.9	2.9	2.9	–	–
Currency forwards	0.4	0.4	–	0.4	–
Financial liabilities					
Interest-rate swaps	0.9	0.9	–	0.9	–
Financial debt	66.3	68.5	–	–	68.5

31 Dec 2015

€ million

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	2.9	2.9	2.9	–	–
Financial liabilities					
Currency forwards	0.1	0.1	–	0.1	–
Interest-rate swaps	0.9	0.9	–	0.9	–
Financial debt	73.5	76.3	–	–	76.3

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 active markets/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 forwards and interest-rate swaps) is calculated over the remaining term of the instrument using current exchange rates, market interest rates and yield curves and taking into account our own credit risk and that of our counterparties. The disclosures are based on valuations by banks.

SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the first half of 2015 and the first half of 2016 is shown in the following table:

1-6/2016	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total for all segments	Reconciliation	DEUTZ Group
€ million						
External revenue	512.5	131.9	-	644.4	-	644.4
Intersegment revenue	-	-	-	-	-	-
Total revenue	512.5	131.9	-	644.4	-	644.4
Operating profit/loss (EBIT before one-off items)	1.9	21.4	-2.6	20.7	-	20.7

1-6/2015	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total for all segments	Reconciliation	DEUTZ Group
€ million						
External revenue	528.3	141.9	-	670.2	-	670.2
Intersegment revenue	-	-	-	-	-	-
Total revenue	528.3	141.9	-	670.2	-	670.2
Operating profit/loss (EBIT before one-off items)	6.5	17.3	-3.5	20.3	-	20.3

Reconciliation from overall profit of the segments to net income

€ million	1-6/2016	1-6/2015
Overall profit of the segments	20.7	20.3
Reconciliation	-	-
EBIT before one-off items	20.7	20.3
One-off items	-	-
EBIT	20.7	20.3
Interest expenses, net	-2.0	-2.1
Net income before income taxes	18.7	18.2
Income taxes	1.3	-1.5
Net income	20.0	16.7

RELATED PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties.

These include the business relationships between the DEUTZ Group and entities in which it holds significant investments 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 and the Board of Management.

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:

€ million	Goods and services provided		Other expenses for services received		Receivables		Payables	
	1-6/2016	1-6/2015	1-6/2016	1-6/2015	30 Jun 2016	31 Dec 2015	30 Jun 2016	31 Dec 2015
Associates	-	-	-	-	-	-	-	-
Joint ventures	3.1	1.9	-	-	1.3	-	-	0.5
Other investments	0.2	0.3	2.3	2.3	0.1	0.9	3.5	2.9
Total	3.3	2.2	2.3	2.3	1.4	0.9	3.5	3.4

The increases in goods supplied and services rendered to joint ventures and in receivables due from joint ventures compared with the corresponding period of 2015 and with 31 December 2015 are primarily the result of the business relationship with our joint venture DEUTZ (Dalian) Engine Co., Ltd.

As at 30 June 2016, impairment losses of €3.5 million (31 December 2015: €3.4 million) had been recognised on €3.5 million (31 December 2015: €3.4 million) of the Company's total receivables due from joint ventures. As at 30 June 2016, impairment losses of €13.9 million (31 December 2015: €24.7 million) had been recognised on €14.0 million (31 December 2015: €25.6 million) of the Company's receivables due from other investments. The sharp decline in impaired receivables due from other investments and the corresponding impairment losses resulted from the inclusion of the subsidiary Ad. Strüver KG in the basis of consolidation of DEUTZ AG as at 1 January 2016.

Some of these receivables and liabilities resulted from loans. Neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

The following table gives a breakdown of the significant business relationships between the DEUTZ Group and the shareholder AB Volvo (publ), Gothenburg, Sweden (including its subsidiaries):

€ million	2016	2015
Engines and spare parts supplied	126.4	138.5
Services rendered	1.0	3.6

Receivables due from AB Volvo (including its subsidiaries) amounted to €17.4 million as at 30 June 2016 (31 December 2015: €13.6 million).

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 REPORTING DATE (30 JUNE 2016)

The equity investment Ad. Strüver KG (GmbH & Co.), Hamburg, has concluded a contract for the disposal of a building lease for a plot of land that is no longer used for production purposes. The contract took legal effect on 4 July 2016. Transfer of the use and encumbrances will take place on 1 February 2017. The sale price agreed is €10.5 million. The contract of sale is subject to the usual approvals and contains rescission rights for both parties that expire no later than the end of January 2017.

DEUTZ AG indirectly holds a stake of 94 per cent in Ad. Strüver KG via DEUTZ Beteiligung GmbH and is general partner in Ad. Strüver KG. As a result of concluding the contract for the disposal of the building lease, the subsidiary was included in the consolidated financial statements of DEUTZ AG, having previously not been consolidated for reasons of materiality. The Group expects this sale, after deduction of transaction costs and taxes, to make a contribution in the high single-digit millions that will improve its financial position and financial performance.

Cologne, 27 July 2016

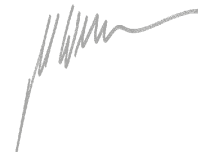
DEUTZ Aktiengesellschaft
The Board of Management



Dr Ing 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 net assets, financial position and results of operations 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, 27 July 2016

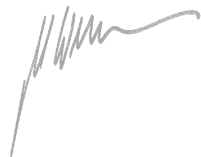
DEUTZ Aktiengesellschaft
The Board of Management



Dr Ing Helmut Leube



Dr Margarete Haase



Michael Wellenzohn

REVIEW REPORT

To DEUTZ AG, Cologne

We have reviewed the condensed interim consolidated financial statements – comprising the income statement, statement of comprehensive income, balance sheet, cash flow statement, 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 2016, which are part of the half-year financial reporting pursuant to section 37w Wertpapierhandelsgesetz (WpHG, German Securities Trading Act).

The preparation of the condensed interim consolidated 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 WpHG applicable to interim group management reports is the responsibility of the Company's Board of Management. Our responsibility is to issue a review report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the condensed interim consolidated 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 (IDW, Institute of Public Auditors in Germany). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in 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 material respects, in accordance with the provisions of the WpHG 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 interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim group management report has not been prepared, in material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Cologne, 29 July 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki
Wirtschaftsprüfer
(German Public Auditor)

Gerd Tolls
Wirtschaftsprüfer
(German Public Auditor)

FINANCIAL CALENDAR

2016	
8 November 2016	Interim management statement for the first to third quarter of 2016 Conference call with analysts and investors
2017	
16 March 2017	2016 annual financial statements
4 May 2017	Annual General Meeting
9 May 2017	Interim management statement for the first quarter of 2017 Conference call with analysts and investors
3 August 2017	Interim report for the first half of 2017 Conference call with analysts and investors
7 November 2017	Interim management statement for the first to third quarter of 2017 Conference call with analysts and investors

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DEUTZ AG

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