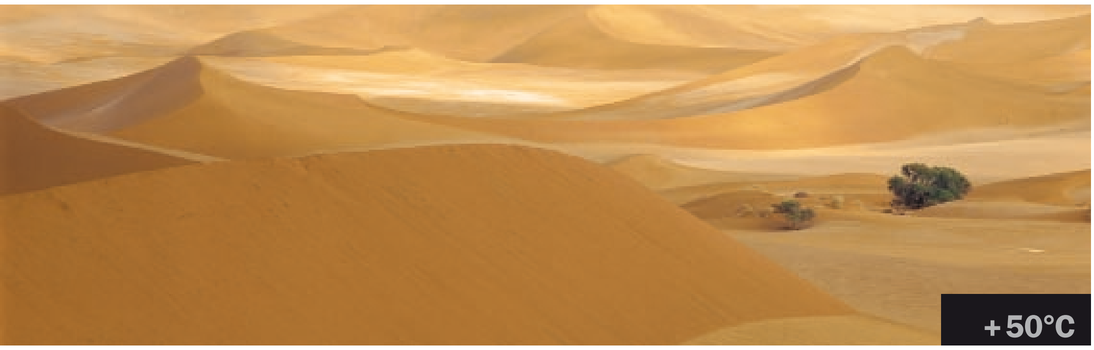
Interim Report
1st Quarter 2008



DEUTZ

The 1st Quarter at a Glance

DEUTZ Group: Key figures

Continuing operations	**1–3/ 2008**	**1–3/ 2007**
€ million		
New orders	433.3	437.7
Unit sales (No.)	72,786	63,672
Revenue	397.0	335.4
thereof excl. Germany (in %)	76.1	79.9
EBITDA	37.0	31.1
EBIT	19.7	14.4
Operating profit (EBIT before one-off items)	19.7	14.4
EBIT margin before one-off items (in %)	5.0	4.3
Net income	13.5	5.8
thereof from continuing operations	13.5	8.0
thereof from discontinued operations	–	–2.2
Earnings per share, basic, in €	0.11	0.05
thereof from continuing operations	0.11	0.07
thereof from discontinued operations	–	–0.02
Earnings per share, diluted, in €	0.11	0.05
thereof from continuing operations	0.11	0.07
thereof from discontinued operations	–	–
Total assets (31 March)[1)]	1,387.5	1,177.1
Equity (31 March)	570.1	364.9
Equity ratio (in %)	41.1	31.0
Cash flow from operating activities	–20.4	3.0
Net financial position[2)]	50.1	–69.1
Capital expenditure (excl. capitalisation of R&D)	15.1	18.3
Research and development	16.6	11.7
Employees as at 31 March (No.)	4,909	4,629

[1)] 31 March 2007 with DEUTZ Power Systems.
[2)] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities.

DEUTZ Group: Segments

	1–3/ 2008	**1–3/ 2007**
€ million		
New orders		
Compact engines	344.6	340.5
DEUTZ Customised Solutions	88.7	97.2
Continuing operations	**433.3**	**437.7**
Unit sales (No.)		
Compact engines	64,777	57,129
DEUTZ Customised Solutions	8,009	6,543
Continuing operations	**72,786**	**63,672**
Revenue		
Compact engines	318.1	269.2
DEUTZ Customised Solutions	78.9	66.2
Continuing operations	**397.0**	**335.4**
Operating profit (EBIT before one-off items)		
Compact engines	10.1	9.0
DEUTZ Customised Solutions	9.2	5.2
Other	0.4	0.2
Continuing operations	**19.7**	**14.4**

Dear shareholders,

DEUTZ achieved a great deal in 2007: we were able to generate growth in unit sales, revenue and net income. In 2008, we will be distributing a dividend to you for the first time in over 20 years. However, we will not be resting on our laurels. We have set ourselves ambitious targets for 2008, and taken on new challenges: our aim is to increase consolidated revenue and unit sales by at least 10 per cent, at the same time achieving an EBIT margin of around 7 per cent. To strengthen our position as an innovative engine manufacturer over the long term, we intend to increase our research and development expenditure in support of forward-looking projects to around €80 million.

The results for the first quarter demonstrate that we are well on the way to achieving our targets: in the first three months of 2008, unit sales of 72,786 engines were up 14.3 per cent on the first quarter of 2007; consequently, revenue grew significantly by 18.4 per cent to €397.0 million. Operating profit amounted to €19.7 million, an increase of 36.8 per cent on the equivalent period in 2007. As a result, we were able to increase the EBIT margin from 4.3 to 5.0 per cent.

In the current year, we will be driving forward the development of our relatively new joint venture in China in its first “full” year, with production having commenced on 1 August 2007. The main priorities are to set up the localised supply of materials and ensure a smooth start-up to the production of DEUTZ engines at the new plant, in order to achieve the production volume of approximately 15,000 engines. In addition, we are planning sales of between 80,000 and 100,000 engines with local technology.

DEUTZ will also be focusing on the further expansion of production capacity and optimisation of its production, and the further refinement of its facilities strategy. In particular, we aim to achieve further growth in the profitable service business based on exchange engines: in the US, a new plant for exchange engines with a projected annual capacity, in the medium term, of 3,000 engines will come on stream from mid-2008. In Germany, we are planning to spend €14 million on the redevelopment of an existing plant, which will increase annual capacity to 7,000 engines.

All our activities are geared, primarily, to the pursuit of one objective: to achieve further improvements in profitability, reinforce the sustainability of the business and thereby deliver a continuous increase in shareholder value.

Yours sincerely,

Dr Helmut Leube
Chairman of the Management Board

Interim Management Report 1st Quarter 2008

INTRODUCTION

In the first quarter of 2007, the DEUTZ Group consisted of the Compact Engines, DEUTZ Customised Solutions, DEUTZ Power Systems and Other segments. The DEUTZ Power Systems segment was sold on 30 September 2007, and the income statement for the period ended 31 March 2007 has been restated accordingly; the figures for the quarter under review can, therefore, be compared on a like-for-like basis.

The information in this interim management report relates to the continuing operations of the Group, i.e. the Compact Engines, DEUTZ Customised Solutions and Other segments.

ECONOMIC ENVIRONMENT

Slowing growth in the global economy

The ongoing financial crisis means that the prospects for the global economy have become gloomy. Some of the forecasts for 2008 have been scaled back significantly; the current prediction for global growth in 2008 is 3.5 per cent. Economic growth in the USA and Japan is forecast at just 1.1 per cent in 2008, compared with growth rates of 2.2 per cent and 2.0 per cent, respectively, achieved in 2007. There has also been a significant slowdown in the pace of growth in the euro zone, where the growth forecast for the current year is just 1.3 per cent compared with 2.6 per cent in 2007. The picture in Germany is similar: economic experts are only expecting growth of 1.8 per cent (2007: 2.5 per cent). Nevertheless, a global recession is unlikely because of the corrective action taken by the industrialised countries in monetary and fiscal policy, and because of the robust economies in the newly industrialising countries.

German engineering industry continues to be strong

As far as the German engineering industry is concerned, all the indicators continue to point towards growth. New orders in the first two months of the year were up around 10 per cent on the equivalent period in 2007. This increase was driven by a 12 per cent rise in export orders, with domestic orders increasing by 9 per cent.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

High level of new orders sustained

Customer order behaviour returned to normal in the first quarter of 2008. The reasons included the increase in capacity during 2007, which resulted in a return to shorter lead times. As a consequence, new orders of €433.3 million were slightly below the figure of €437.7 million achieved in Q1 2007, but remained at a high level in terms of our overall expectations. The increase in new orders in the service business of both segments (together around 11 per cent) was particularly encouraging.

Whereas demand for compact engines was slightly up on Q1 2007 (1.2 per cent), new orders in DEUTZ Customised Solutions were down 8.7 per cent compared with the equivalent period in 2007, owing to the effect of special projects in 2007: one-off project orders with China and Algeria had a significant impact on performance in the first quarter of 2007.

As at 31 March 2008, orders on hand amounted to €343.4 million, 5.4 per cent lower than the figure as at 31 March 2007, but 8.7 per cent higher than the figure as at 31 December 2007. This order volume is sufficient to cover roughly three months' production.

Unit sales up 14.3 per cent throughout the Group

Unit sales again rose sharply across all segments, the total for the Group amounting to 72,786 units (Q1 2007: 63,672), which equates to an increase of 14.3 per cent compared with Q1 2007. The increase was even more marked in the DEUTZ Customised Solutions segment where unit sales rose by 22.4 per cent, primarily due to a significant rise in unit sales of air-cooled engines. However, even in the Compact Engines segment, unit sales in the quarter under review were up by 13.4 per cent, first and foremost owing to an increase in the demand for engines with capacities of four to eight litres.

Particularly strong growth in domestic revenue

The increase in consolidated unit sales led to a sharp rise in revenue. Whereas revenue in the first three months of 2007 amounted to €335.4 million, the figure in the equivalent period one year later had risen by 18.4 per cent to €397.0 million. Part of the reason behind this surge in revenue is that we were able to sell 30 per cent more units of the new TCD 2013 4V engine.

The growth in revenue was particularly strong in Germany, where the first quarter of 2008 saw an increase of 40.6 per cent to €94.9 million (Q1 2007: €67.5 million). The additional revenue was generated, primarily, from customers in the agricultural equipment and construction equipment industries.

International revenue up by 12.8 per cent

International revenue amounted to €302.1 million, 12.8 per cent higher than in the corresponding period in 2007 (Q1 2007: €267.9 million). The proportion of total revenue accounted for by international revenue was, therefore, 76.1 per cent (Q1 2007: 79.9 per cent). DEUTZ again generated the major part of this revenue from European customers outside Germany. These customers accounted for revenue of €206.2 million in the first quarter of 2008, as against €182.2 million in Q1 2007, an increase of 13.2 per cent. Growth was even stronger in the Asia-Pacific region, where revenue grew by 23.3 per cent from €21.0 million to €25.9 million. The Chinese market was the particular growth driver in this region, with further increases in deliveries of engines to Chinese customers. However, in the medium term, it is planned that supply to these customers will be taken over by the DEUTZ Dalian joint venture.

In the Americas, revenue of €50.6 million was roughly at the same level as in the first quarter of 2007, as a result of exchange-rate movements (Q1 2007: €50.9 million). However, after adjusting for these exchange-rate movements, there was an increase in revenue of around 15 per cent.

DEUTZ Group: Revenue by region
€ million (2007 figures)

- **320.5** (263.5): Europe/Middle East/Africa
- **50.6** (50.9): Americas
- **25.9** (21.0): Asia-Pacific

Significant increase in operating profit

The higher revenue volume and further improvements in margins had a positive impact on operating profit. EBIT climbed to €19.7 million (Q1 2007: €14.4 million), a rise of 36.8 per cent. At the same time, the EBIT margin improved to 5.0 per cent, 0.7 percentage points higher than the figure for Q1 2007.

Performance in the DEUTZ Customised Solutions segment was particularly impressive: operating profit in the segment rose by 76.9 per cent to €9.2 million (Q1 2007: €5.2 million). There was also an increase in operating profit in the Compact Engines segment, where the figure rose by 12.2 per cent to €10.1 million (Q1 2007: €9.0 million).

Net income up by 69 per cent

Based on an increase in interest income and a reduced interest expense in respect of provisions for pensions and other post-employment benefits, net interest income/expense improved by €1.6 million compared with the equivalent period in 2007. Correspondingly, net income (from continuing operations) rose to €13.5 million, an increase of 68.8 per cent on the corresponding period in 2007 (Q1 2007: €8.0 million). In the period under review, income taxes amounted to €2.3 million (Q1 2007: €1.0 million).

BUSINESS PERFORMANCE IN THE COMPACT ENGINES SEGMENT

New orders: strong demand for service business

In the first three months of 2008, new orders with a value of €344.6 million were received by Compact Engines, up 1.2 per cent on the corresponding period in 2007 (Q1 2007: €340.5 million). The sole reason for this increase was the strong level of demand for service business. As far as the new engines business was concerned, the high level of new orders achieved in 2007 was sustained.

Compact Engines: Revenue by application segment
€ million (2007 figures)

- **136.6** (121.4): Mobile Machinery
- **63.6** (54.1): Automotive
- **46.5** (41.5): Stationary Equipment
- **41.4** (22.2): Agricultural Machinery
- **24.7** (21.1): Service
- **5.3** (8.9): Miscellaneous

High revenue in all application segments

In the same period, unit sales of engines grew significantly: 64,777 units (Q1 2007: 57,129) were sold, 13.4 per cent more than in the equivalent period in 2007. There was particularly high demand for engines with capacities of four to eight litres, unit sales of which increased by 20.3 per cent. Unit sales of the TCD 2013 4V engine alone rose by 30.4 per cent.

Overall, the Compact Engines segment generated revenue of €318.1 million in the period under review, which equates to an increase of 18.2 per cent over the corresponding period in 2007 (Q1 2007: €269.2 million). Growth was particularly strong in Agricultural Machinery. However, the other application segments also registered double-digit growth: in the Automotive application segment, revenue was up by 17.6 per cent, primarily as a result of increasing interest in the commercial vehicle engine; in Mobile Machinery, further growth in the demand for engines (mainly for construction equipment) led to revenue growth of 12.5 per cent; at 12.0 per cent, revenue growth was almost as strong in Stationary Equipment. Service business saw revenue rise significantly by 17.1 per cent, thus sustaining the excellent level of performance achieved in 2007.

Operating profit up again

In the period under review, there was a substantial improvement in segment operating profit to €10.1 million as at 31 March 2008, an increase of 12.2 per cent on the corresponding period in 2007 (Q1 2007: €9.0 million). Particular factors behind this increase were the higher volumes and improved margins in the service business. Taking into account the start-up expenses of €3.2 million, in connection with the DEUTZ Dalian joint venture in China included in the segment earnings, the growth in Compact Engines earnings was better than expected.

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS SEGMENT

Drop in new orders owing to one-off items in 2007

In the first quarter of 2008, there was a fall in new orders in the DEUTZ Customised Solutions segment: whereas the first quarter of 2007 saw orders for products and services with a value of €97.2 million, new orders at the end of March 2008 were €88.7 million, a drop of 8.7 per cent. The reason is that there had been major new orders for projects in China in Algeria in the first quarter of 2007.

Revenue up 19.2 per cent

DEUTZ Customised Solutions was able to increase unit sales by 22.4 per cent and sell 8,009 units (Q1 2007: 6,543). Following completion of the relocation of the production of air-cooled engines from Cologne to Ulm, there was a further improvement in results from new engine business. In the first three months of 2008, there was a sharp increase in unit sales of these engines of around 27 per cent.

Excellent unit sales led to a corresponding further increase in revenue: in the quarter under review, revenue amounted to €78.9 million, 19.2 per cent higher than in the corresponding period in 2007 (Q1 2007: €66.2 million). Almost all application segments registered high rates of revenue growth: out in front was Automotive, with an increase of 56.6 per cent, followed by Mobile Machinery, up 43.2 per cent, and Stationary Equipment, up 27.0 per cent. The only application segment to register a drop was Agricultural Machinery.

Operating profit up 76.9 per cent

The growth in segment operating profit was even greater than that in revenue: in the first three months, the segment generated EBIT of €9.2 million, an increase of 76.9 per cent compared with the corresponding quarter in 2007 (Q1 2007: €5.2 million). The contributing factors were the higher volumes of new engine business, the absence of set-up costs in connection with the relocation of production that had been incurred in 2007, and the continuation in the significant proportion of business accounted for by the service business. In order to generate a further increase in the proportion of business accounted for by these high-margin activities in the future, DEUTZ will be strengthening its Xchange business with a new plant in the USA and the expansion of production in southern Germany.

DEUTZ Customised Solutions: Revenue by application segment
€ million (2007 figures)

- **28.7** (26.6): Service
- **17.9** (14.1): Stationary Equipment
- **15.9** (11.1): Mobile Machinery
- **8.3** (5.3): Automotive
- **5.9** (5.0): Miscellaneous
- **2.2** (4.1): Agricultural Machinery

NET ASSETS AND FINANCIAL POSITION

Total assets of €1.4 billion stable at the level of 2007

As at 31 March 2008, total assets amounted to €1,387.5 million, practically unchanged on the total assets of €1,378.6 million as at 31 December 2007. There was just a slight increase in current assets resulting from a rise in inventories and receivables.

Working capital increased by 40 per cent

As at 31 March 2008, working capital – the total of inventories and trade receivables less trade payables – had risen by 40.3 per cent to €276.3 million (31 December 2007: €196.9 million). This figure is €108 million higher than at the end of the first quarter of 2007. The reason was that inventories were increased by €15.1 million to €229.3 million during the quarter under review, in order to process the large volume of orders on hand. At the same time, there was an increase in trade receivables owing to the significant business volume and a reduction in the sale of receivables.

As at 31 March 2008, equity had risen by 2.3 per cent to €570.1 million (31 December 2007: €557.1 million), the increase being largely attributable to the net income generated during the quarter under review. There was just a slight change in the equity ratio, which ended the quarter under review at 41.1 per cent, 0.7 percentage points higher than the ratio as at 31 December 2007.

Positive net financial position following the disposal of DEUTZ Power Systems

As at 31 March 2008, DEUTZ enjoyed a positive net financial position of €50.1 million (31 December 2007: €89.7 million). At the end of the corresponding period in 2007, the equivalent figure was still negative at –€69.1 million (at that time, prior to the disposal of DEUTZ Power Systems). The substantial improvement was generated, primarily, by the disposal of the DEUTZ Power Systems segment.

The cash flow from operating activities for the period under review amounted to –€20.4 million (31 March 2007: €3.0 million); the decrease was largely due to the increase in working capital. At –€24.3 million, cash flow from investing activities was at the same level as in the corresponding period in 2007. The cash flow from financing activities of –€7.1 million (31 March 2007: –€0.5 million) was mainly due to interest payments and repayments of loans.

CAPITAL EXPENDITURE

Volume of capital expenditure at 2007 level

In the first quarter of 2008, capital expenditure amounted to €22.1 million and was, therefore, at the same level as in the corresponding period in 2007 (Q1 2007: €22.0 million). A total of €7.0 million of this expenditure was accounted for by capitalised development costs (Q1 2007: €3.7 million).

By far the greatest proportion of the capital expenditure, amounting to €20.6 million, was allocated to the Compact Engines segment (Q1 2007: €19.2 million). The capital expenditure was concentrated in the expansion of capacity at the Cologne site and in component production at Zafra in Spain. DEUTZ Customised Solutions accounted for capital expenditure of €1.5 million (Q1 2007: €2.8 million), of which €1.0 million was used for the expansion of the Xchange business.

RESEARCH AND DEVELOPMENT

Focus on new engine development and further refinement

Research and development expenditure in the DEUTZ Group amounted to €16.6 million, 41.9 per cent more than in the first quarter of 2007 (Q1 2007: €11.7 million). More than half of this sum (54 per cent) was attributable to new engine development and the further refinement of existing engines, and a further 25 per cent was allocated to research and preliminary development; 21.1 per cent of the total expenditure was invested in support for existing engine series.

Research and development was concentrated particularly in the Compact Engines segment, which consumed €14.1 million of the total budget (Q1 2007: €9.7 million). In DEUTZ Customised Solutions, R&D expenditure amounted to €2.5 million compared with €2.0 million in the corresponding period in 2007. In the period under review, a total of 395 people (Q1 2007: 380) were employed in research and development at the Cologne facilities and at Dursley in the United Kingdom. Currently, a key area of development activities in DEUTZ is the further development of products for the Stage III B emissions standard in Europe, and Interim TIER 4 standard in the US, both due to come into force from 2011.

EMPLOYEES

Expansion of production capacity increases the number of jobs

At the end of March, the DEUTZ Group employed 4,909 people across the globe, 280 (6.0 per cent) more than the number as at 31 March 2007. The number of employees in Germany at the end of the period under review was 3,773 (31 March 2007: 3,555), with a further 1,136 people (31 March 2007: 1,074) being employed in other countries.

The increase of 5.3 per cent in the number of employees in the Compact Engines segment to 4,021 (31 March 2007: 3,818) was largely the result of the expansion of production capacity, mainly in Cologne. Following expansion of the Ulm plant, to become the Group’s competence centre for air-cooled engines, the number of employees in the DEUTZ Customised Solutions segment increased to 888 (31 March 2007: 811), a rise of 9.5 per cent. In the quarter under review, an average of 354 persons (Q1 2007: 376) were employed under temporary employment agreements with agencies.

DEUTZ SHARES

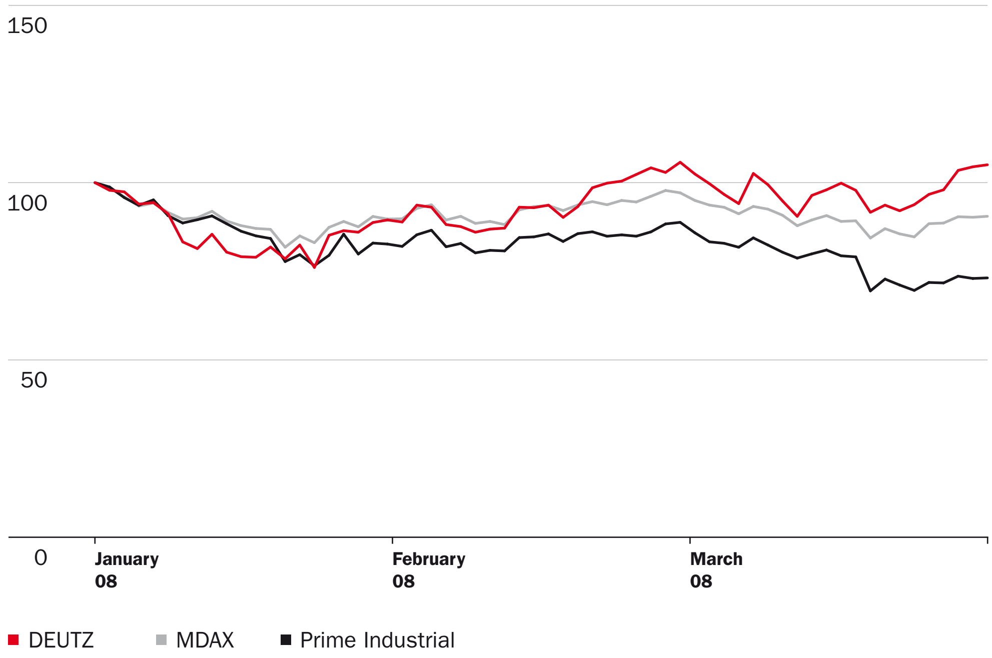
DEUTZ shares: volatile first quarter

The trend in the DEUTZ share price during the first quarter of 2008 was very encouraging. Our shares outperformed the MDAX by 15.8 per cent. At €7.29, the closing price was 4.9 per cent up on the closing price of €6.95 as at 31 December 2007. Although the share price hit a low for the quarter of €5.28 on 23 January 2008, the shares rallied on the news of our excellent results. Following the announcement of our 2007 net income, the share price hit a high for the quarter of €7.34 on 27 February 2008.

Following the exercise of 776,483 bond and profit-sharing conversion rights, the number of DEUTZ shares increased to 120,861,513 (31 December 2007: 120,085,030). Since the outstanding volume of convertible bonds at the end of 2007 represented less than 10 per cent of the original 19,792,998 convertible bonds issued, DEUTZ made use of the option to call the bond. The effective date of this call was 8 March 2008; until 3 March, bondholders still had the option of converting each bond into one DEUTZ share. The 68,070 bonds that were not exchanged by 3 March were redeemed at a price of €3.40 per bond by way of a total cash payment to bondholders of €0.2 million.

As at 31 March 2008, market capitalisation stood at €881.1 million (31 December 2007: €834.6 million), with DEUTZ ranked 56th in the list of 60 MDAX companies (31 December 2007: 60th). In terms of trading volume, the company was ranked 46th, having moved up three places.

Price performance of DEUTZ share
in %



DEUTZ share

	1–3/2008	1–3/2007
Number of shares (31 March)	120,861,513	114,742,151
Number of shares (average)	120,588,711	114,633,214
Share price (31 March) in €	7.29	11.27
Share price (high) in €	7.34	12.02
Share price (low) in €	5.28	9.92
Market capitalisation (31 March) in € million	881.1	1,293.1

Based on Xetra closing prices

RISK REPORT

The DEUTZ Group operates on a global basis in various market segments and in various application segments. As a result, the company is exposed to a wide range of risks specific to its business and to the regions in which it operates. These risks were described in detail in the 2007 Annual Report. There were no subsequent changes to these risks during the first quarter of 2008.

OUTLOOK 2008

Prospects continue to be excellent

Given the excellent quarterly net income and the sustained high level of orders on hand, DEUTZ remains optimistic and determined to achieve the targets it has set for 2008. The company is predicting an increase of 10 to 15 per cent for both new orders and consolidated revenue, with double-digit growth forecast for Compact Engines and single-digit growth for DEUTZ Customised Solutions. The number of employees is expected to increase accordingly, with the total workforce predicted to exceed 5,000 by the end of 2008.

DEUTZ aims to push up unit sales by a further 10 per cent in 2008, thereby exceeding the 300,000 engines. Growth in operating profit is also targeted, with the company striving for an EBIT margin of around 7 per cent. DEUTZ is also forecasting double-digit growth in net income, both in absolute and relative terms.

The growth is linked to extensive capital expenditure amounting to over €100 million. In addition, approximately €80 million will be invested in research and development related to future-oriented technologies.

DISCLAIMER

This publication includes certain statements about future events and developments, together with disclosures and estimates provided by the company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performance, 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 Management Board cannot, therefore, make any warranty with regard to the statements made in this management report. The company gives no undertaking that it will update forward-looking statements to bring them into line with future developments.

Interim consolidated financial statements 1st Quarter 2008

INCOME STATEMENT FOR THE DEUTZ GROUP

	1–3/2008	1–3/2007
€ million		
Revenue	397.0	335.4
Changes in inventories and other own work capitalised	13.6	18.2
Other operating income	16.7	11.8
Cost of materials	– 275.3	–232.3
Staff costs	–73.4	–65.9
Depreciation and amortisation	–17.3	–16.7
Other operating expenses	–39.2	–36.4
Profit/loss on equity-accounted investments	–2.4	0.3
EBIT	**19.7**	**14.4**
thereof operating profit (EBIT before one-off items)	**19.7**	**14.4**
Interest expenses, net	–3.6	–5.2
thereof financial costs	–8.6	–5.8
Other taxes	–0.3	–0.2
Net income before income taxes on continuing operations	**15.8**	**9.0**
Income taxes	–2.3	–1.0
Net income after income taxes on continuing operations	**13.5**	**8.0**
Net income after income taxes on discontinued operations	**–**	**–2.2**
Net income	**13.5**	**5.8**
thereof minority interest	–	–
thereof attributable to the shareholders of the parent enterprise	–	5.8
Earnings per share		
Earnings per share, basic, in €	**0.11**	**0.05**
thereof from continuing operations	0.11	0.07
thereof from discontinued operations	–	–0.02
Earnings per share, diluted, in €	**0.11**	**0.05**
thereof from continuing operations	0.11	0.07
thereof from discontinued operations	–	–

BALANCE SHEET FOR THE DEUTZ GROUP

Assets

	31/3/2008	31/12/2007
€ million		
Property, plant and equipment	335.5	334.6
Intangible assets	112.3	110.6
Equity-accounted investments	53.5	57.6
Other financial assets	8.4	8.5
Non-current assets (before deferred tax assets)	**509.7**	**511.3**
Deferred tax assets	47.6	49.4
Non-current assets	**557.3**	**560.7**
Inventories	229.3	214.2
Trade receivables	241.9	188.8
Other receivables and assets	100.1	102.9
Cash and cash equivalents	258.0	311.1
Current assets	**829.3**	**817.0**
Non-current assets and disposal groups held for sale	0.9	0.9
Total assets	**1,387.5**	**1,378.6**
Equity and liabilities		
Issued capital	309.0	307.0
Additional paid-in capital	28.8	28.1
Other reserves	–8.5	–5.3
Retained earnings	79.1	79.1
Accumulated income	161.7	148.2
Equity attributable to the shareholders of the parent enterprise (DEUTZ Group's interest)	**570.1**	**557.1**
Equity	**570.1**	**557.1**
Provisions for pensions and other post-retirement benefits	173.0	176.7
Other provisions	46.8	46.5
Financial liabilities	202.2	216.0
Other liabilities	17.9	10.0
Non-current liabilities	**439.9**	**449.2**
Provisions for pensions and other post-retirement benefits	16.7	16.7
Provision for current income taxes	10.3	11.3
Other provisions	77.3	63.7
Financial liabilities	5.7	5.4
Trade payables	194.9	206.1
Other liabilities	72.6	69.1
Current liabilities	**377.5**	**372.3**
Total equity and liabilities	**1,387.5**	**1,378.6**

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)]
Balance at 1 January 2007	**292.3**	**24.1**	**0.4**	**1.0**	**–2.8**
Increase from exercise of conversion rights on convertible bonds/ profit-sharing rights	1.0	0.3			
Accumulated other comprehensive income/loss (thereof reversal recognised in period income)				–0.2 (–0.5)	–0.5
Net income					
Total of net income and accumulated other comprehensive income/loss in reporting period				–0.2	–0.5
Balance at 31 March 2007	**293.3**	**24.4**	**0.4**	**0.8**	**–3.3**
Balance at 1 January 2008	**307.0**	**28.1**	**79.1**	**4.1**	**–9.4**
Increase from exercise of conversion rights on convertible bonds/ profit-sharing rights	2.0	0.7			
Accumulated other comprehensive income/loss (thereof reversal recognised in period income)				1.6 (–0.7)	–4.8
Net income					
Total of net income and accumulated other comprehensive income/loss in reporting period				1.6	–4.8
Balance at 31 March 2008	**309.0**	**28.8**	**79.1**	**5.7**	**–14.2**

1) These items are aggregated as “Other reserves” on the face of the balance sheet.
2) Reserves from the measurement of cash flow hedges and reserves from the measurement of available-for-sale financial assets.

Accumulated income	Total Group interest	Minority interest	Total
43.5	**358.5**	**–**	**358.5**
	1.3		1.3
	–0.7		–0.7
	(–0.5)		(–0.5)
5.8	5.8		5.8
5.8	5.1	–	5.1
49.3	**364.9**	**–**	**364.9**
148.2	**557.1**	**–**	**557.1**
	2.7		2.7
	–3.2		–3.2
	(–0.7)		(–0.7)
13.5	13.5		13.5
13.5	10.3	–	10.3
161.7	**570.1**	**–**	**570.1**

CASH FLOW STATEMENT OF THE DEUTZ GROUP

	1–3/2008	1–3/2007
€ million		
EBIT	**19.7**	**14.4**
Interest income	3.2	0.4
Other taxes paid	–0.3	–0.2
Income taxes paid	–3.2	–5.1
Depreciation and amortisation of non-current assets	17.3	16.7
Gains/losses on measurement at equity	2.4	–0.2
Other non-cash income and expenses	–2.9	–3.5
Change in working capital	–74.1	–29.6
Change in inventories	–17.8	–33.6
Change in trade receivables	–54.7	–7.0
Change in trade payables	–1.6	11.0
Change in other receivables and other current assets	–2.2	–2.8
Cash flow from operating activities before payment of compensation for vested company pension rights (continuing operations)	19.7	12.9
Cash flow from operating activities (continuing operations)	**–20.4**	**3.0**
Cash flow from operating activities (discontinued operations)	–	–13.7
Cash flow from operating activities (total)	**–20.4**	**–10.7**
Capital expenditure on intangible assets and property, plant and equipment	–24.3	–24.7
Capital expenditure on investments	–	–0.2
Cash receipts from the sale of businesses	–	–0.4
Proceeds from the sale of non-current assets	–	0.5
Cash flow from investing activities (continuing operations)	**–24.3**	**–24.8**
Cash flow from investing activities (discontinued operations)	–0.9	–0.5
Cash flow from investing activities (total)	**–25.2**	**–25.3**
Interest expenses	–6.6	–2.5
Cash receipts from borrowings	0.5	7.2
Repayments of loans	–1.0	–5.2
Cash flow from financing activities[1)]	**–7.1**	**–0.5**
Cash flow from operating activities	–20.4	–10.7
Cash flow from investing activities	–25.2	–25.3
Cash flow from financing activities	–7.1	–0.5
Change in cash and cash equivalents	**–52.7**	**–36.5**
Cash and cash equivalents at 1 January	**311.1**	**49.4**
Change in cash and cash equivalents	–52.7	–36.5
Consolidation- and exchange rate-related change in cash and cash equivalents	–0.4	–0.1
Cash and cash equivalents at 31 March	**258.0**	**12.8**

[1)] 1–3/2007 including cashflow from financing activities for discontinued operations.

DEUTZ Group – Notes to the consolidated financial statements, 1st Quarter 2008

BASIS OF PRESENTATION

The consolidated financial statements of DEUTZ AG for the year ended 31 December 2007 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The standards comprise the IFRSs and International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB), together with the interpretations of both the International Financial Reporting Interpretations Committee (IFRIC) and the Standard Interpretations Committee (SIC).

The consolidated financial statements for the year ended 31 December 2007 are consistent with the statutory obligations applicable to publicly traded parent companies, subject to disclosure requirements pursuant to section 315a (1) of the German Commercial Code (HGB), in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002, concerning the adoption of current international accounting standards in the version applicable at the time (IAS Regulation). The supplementary provisions of the German Stock Corporation Act (AktG) have also been applied.

These interim financial statements for the period ended 31 March 2008 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 financial statements do not contain all the information and notes required by the IFRSs for consolidated financial statements for a full financial year, and should, therefore, be read in conjunction with the IFRS consolidated financial statements published by the company for the 2007 financial year. The accounting policies used in the preparation of these interim consolidated financial statements are essentially the same as those used in the most recent consolidated financial statements for the year ended 31 December 2007. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for the year ended 31 December 2007.

Material revenue-related and cyclical items are apportioned over the course of the year on the basis of annual business plans.

The condensed interim consolidated financial statements for the period ended 31 March 2008 – consisting of the balance sheet, income statement, cash flow statement, statement of changes in equity and selected notes to the consolidated financial statements – and the interim Group management report for the period from 1 January to 31 March 2008, have not been reviewed by an auditor.

BASIS OF CONSOLIDATION

Compared with 31 December 2007, the number of consolidated companies has been reduced by one company following the merger of the two Spanish companies DEUTZ DITER COMPONENTES S.A., Zafra, and DEUTZ DITER S.A., Zafra.

FURTHER INFORMATION ON MATERIAL CHANGES IN THE BALANCE SHEET AND INCOME STATEMENT

Introduction

In 2007, the DEUTZ Power Systems segment was sold, with effect from 30 September 2007, and was consequently reclassified as a discontinued operation in accordance with IFRS 5. This segment's income and expenses are reported separately on the consolidated income statement as net income after income taxes attributable to discontinued operations, and are explained in a separate note to the consolidated financial statements. The following notes relate to the continuing operations of the DEUTZ Group. Prior-year comparative figures have been restated accordingly in the income statement.

Balance sheet

Capital expenditure of approximately €20.0 million (including investment grants) on property, plant and equipment and intangible assets was partly offset by depreciation and amortisation of €17.3 million.

Financial assets decreased by €4.2 million, in particular, as a result of the pro rata loss and the currency adjustments in DEUTZ Dalian/China.

The level of inventories increased by €15.1 million since the beginning of the year to €229.3 million, in order to process the large volume of orders on hand. At the same time, there was an increase in trade receivables in line with the high business volumes, but also largely as a result of the significant reduction in factoring.

As at 31 March 2008, equity was showing an increase of €13.0 million at €570.1 million (31 December 2007: €557.1 million), mainly as a result of positive net income for the period. The effect of the bond conversions amounted to €2.7 million. The equity ratio of 41.1 per cent (before dividend distributions) was almost unchanged on the equity ratio at the end of 2007 (31 December 2007: 40.4 per cent).

Current and non-current provisions as at 31 March 2008 had risen by €9.2 million to €324.1 million. The most notable increase was in current provisions, which rose by €12.6 million, primarily as a result of cost accruals during the period.

Current and non-current financial liabilities decreased by €13.5 million, mainly as a result of exchange-rate movements related to the US private placement.

Income statement

The DEUTZ Group's revenue in the first quarter of 2008 rose by 18.4 per cent year on year to €397.0 million. Both segments – Compact Engines and DEUTZ Customised Solutions – achieved double-digit growth rates.

The increase in other operating income was primarily due to an increase in services charged to key account customers.

The cost of materials rose by €43.0 million to €275.3 million (Q1 2007: €232.3 million).

Other operating expenses rose slightly by €2.8 million. Outward freight costs fell by €2.7 million.

The income and expenses of the DEUTZ Power Systems segment are reported separately in the consolidated income statement as net income on discontinued operations. The breakdown on the first quarter of 2007 is as follows:

	1–3/2007
€ million	
Revenue	55.5
Changes in inventories and other own work capitalised	13.5
Cost of materials	–42.6
Staff costs	–16.3
Other income and expenses	–11.4
EBIT on discontinued operations	**–1.3**
Net interest expense/other taxes	–0.5
Net loss on discontinued operations	**–1.8**
Income taxes	–0.4
Net loss after income taxes on discontinued operations	**–2.2**

At the time of preparation of the 2007 consolidated financial statements, the sale of DEUTZ Power Systems, including the price adjustment mechanisms stipulated in the sale and purchase agreement, had not yet been completed. Any resulting changes could have either a positive or negative impact on the gain on the disposal.

CONTINGENT LIABILITIES

As at 31 March 2008, contingent liabilities had decreased by €8.6 million on the figure reported as at 31 December 2007. This reduction arose, primarily, in connection with guarantees given by DEUTZ AG in respect of DEUTZ Power Systems.

RELATED-PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with other related parties. These include the business relationships between the DEUTZ Group and its associates and subsidiaries, as well as the following DEUTZ AG shareholders (including their subsidiaries), which are in a position to exert a significant influence over the DEUTZ Group.
These shareholders are
- SAME DEUTZ-FAHR Holding & Finance B.V., Amsterdam/Netherlands (Group), and
- AB Volvo Power (publ), Gothenburg/Sweden (Group).

The business relationships between the DEUTZ Group and its shareholders, including their subsidiaries, were as follows: The DEUTZ Group's revenue from the Volvo Group arising from deliveries of engines and spare parts, and from services rendered, amounted to €124.4 million in the first three months of 2008. Revenue from the companies of the SAME DEUTZ-FAHR Group arising from deliveries of engines and spare parts, and from services rendered over the same period, amounted to €14.9 million.

SEGMENT REPORTING

Continuing operations

	Compact Engines		DEUTZ Customised Solutions		Other		DEUTZ Group	
€ million	1–3/2008	1–3/2007	1–3/2008	1–3/2007	1–3/2008	1–3/2007	1–3/2008	1–3/2007
Revenue	318.1	269.2	78.9	66.2			397.0	335.4
Operating profit (EBIT before one-off items)	10.1	9.0	9.2	5.2	0.4	0.2	19.7	14.4

Other

This segment contains Group activities and consolidation effects that do not belong in any other segment.

EVENTS AFTER THE BALANCE SHEET DATE (31 MARCH 2008)

There have been no events of particular importance since 31 March.

OTHER DISCLOSURES

Dividend proposal

The Management Board and Supervisory Board propose to the Annual General Meeting the distribution of a dividend of €0.20 per dividend-bearing share for 2007, from the accumulated income of DEUTZ AG, calculated in accordance with the principles of the German Commercial Code, plus a special dividend of €0.20 per dividend-bearing share. The total dividend payout amounts to €48.0 million. Payment of the dividend requires the consent of the Annual General Meeting on 21 May 2008.

Personnel

Dr Helmut Leube has been appointed Chairman of the Management Board of DEUTZ AG for a period of five years. He took up this post on 1 February 2008.

Cologne, 30 April 2008

DEUTZ Aktiengesellschaft
The Management Board

Dr Helmut Leube **Karl Huebser**

Gino Mario Biondi **Helmut Meyer**

Financial Calendar

Dates 2008	Event	Location
21 May	Annual General Meeting	Koelnmesse, Cologne
13 August	Interim Report H1 2008 Press conference Conference call with analysts and investors	DEUTZ AG, Cologne
7 November	Interim Report Q1–Q3 2008 Conference call with analysts and investors	DEUTZ AG, Cologne

Dates 2009		
30 April	Annual General Meeting	Koelnmesse, Cologne

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Published by
DEUTZ AG
51057 Cologne
Germany
Investor & Public Relations
T +49 (0)221 822 2491
F +49 (0)221 822 5985
info@deutz.com
www.deutz.com

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DEUTZ AG
51057 Cologne
Germany

www.deutz.com