New Drive
Interim Report
First Half of 2010

The first half-year at a Glance

DEUTZ Group: Key figures

	4–6/2010	4–6/2009	**1–6/2010**	1–6/2009
Continuing operations				
€ million				
New orders	347.5	200.0	659.5	405.9
Unit sales (units)	41,781	29,908	75,565	60,497
Revenue	298.1	219.9	534.5	440.5
thereof excluding Germany (%)	82.0	73.3	81.8	71.4
EBITDA	25.7	–17.3	40.3	–21.4
EBIDTA (before one-off items)	28.2	13.1	44.5	9.0
EBIT	10.1	–33.9	9.1	–53.8
EBIT (before one-off items)	12.6	–3.5	13.3	–23.4
EBIT margin (%)	3.4	–15.4	1.7	–12.2
EBIT margin (before one-off items, %)	4.2	–1.6	2.5	–5.3
Net income	–0.7	–38.7	–9.4	–62.4
Earnings per share (€)	–0.01	–0.32	–0.08	–0.52
Total assets (30 June)	1,144.0	1,121.5	1,144.0	1,121.5
Non-current assets	600.5	534.7	600.5	534.7
Equity	384.3	442.8	384.3	442.8
Equity ratio (%)	33.6	39.5	33.6	39.5
Cash flow from operating activities	10.0	46.4	–18.6	23.4
Free cash flow[1]	–9.7	20.6	–63.3	–27.2
Net financial position[2]	–86.9	–39.2	–86.9	–39.2
Working capital[3]	169.1	194.1	169.1	194.1
Working capital as percentage of revenue (%)	17.7	17.5	17.7	17.5
Capital expenditure (excluding capitalisation of R&D)	27.0	14.3	35.2	23.0
Depreciation and amortisation	15.6	16.6	31.2	32.4
Research and development	23.3	23.8	47.2	47.0
Employees (30 June)	3,903	4,355	3,903	4,355

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

DEUTZ Group: Segments

	4–6/2010	4–6/2009	**1–6/2010**	1–6/2009
Continuing operations				
€ million				
New orders				
DEUTZ Compact Engines	254.6	151.8	494.8	304.6
DEUTZ Customised Solutions	92.9	48.2	164.7	101.3
Total	**347.5**	**200.0**	**659.5**	**405.9**
Unit sales (units)				
DEUTZ Compact Engines	37,503	25,962	68,041	52,121
DEUTZ Customised Solutions	4,278	3,946	7,524	8,376
Total	**41,781**	**29,908**	**75,565**	**60,497**
Revenue				
DEUTZ Compact Engines	228.1	160.7	411.2	322.2
DEUTZ Customised Solutions	70.0	59.2	123.3	118.3
Total	**298.1**	**219.9**	**534.5**	**440.5**
EBIT (before one-off items)				
DEUTZ Compact Engines	5.4	–5.7	1.3	–28.5
DEUTZ Customised Solutions	11.1	4.1	17.3	7.7
Other	–3.9	–1.9	–5.3	–2.6
Total	**12.6**	**–3.5**	**13.3**	**–23.4**

Foreword

Dear shareholders,

Just a few months ago, when the economic systems were on the brink of collapse, who would have thought that the global economy would recover so quickly? Although experts are warning against excess optimism and euphoria as there is still the risk of a downturn, a sustained economic recovery does seem highly likely.

DEUTZ has also managed to turn the corner, with dynamic growth in demand for four consecutive quarters and production continuing to pick up. At the Annual General Meeting in May, when we presented our results for the second half of 2009, we were able to show you that DEUTZ has emerged stronger from the crisis – true to its motto “New Drive”. Our performance in the first half of 2010 confirms this uptrend in impressive fashion:

The volume of new orders rose to €660 million, a year-on-year increase of 62.5 per cent. Revenue grew by 21.3 per cent to €535 million. We returned to making a clear operating profit of €13.3 million. We are especially optimistic because our results for the second quarter of 2010 represent a year-on-year improvement and are better than those of the first quarter of 2010 as well.

In light of these positive business trends, we are even more delighted to celebrate a special milestone: the assembly plant in Cologne-Porz produced the two millionth engine at the start of June, earlier than had been expected. This demonstrates not only the strong level of orders on hand but also the technology leadership and innovativeness that have always been the hallmarks of DEUTZ and that have characterised the Cologne-Porz assembly plant for the past 17 years.

Another highlight during the first six months of 2010 was our successful entry into the market for agricultural machinery engines in the under four-litre range. We have signed a memorandum of understanding with our partner SAME to supply the newly developed TCD 2.9 L4 and TCD 3.6 L4 engines. We expect to eventually supply a total of around 14,000 engines per year.

As you can see, we have left the depths of the crisis far behind us and our financial results, which significantly exceeded our expectations, enable us to look to the future with a great deal of optimism!

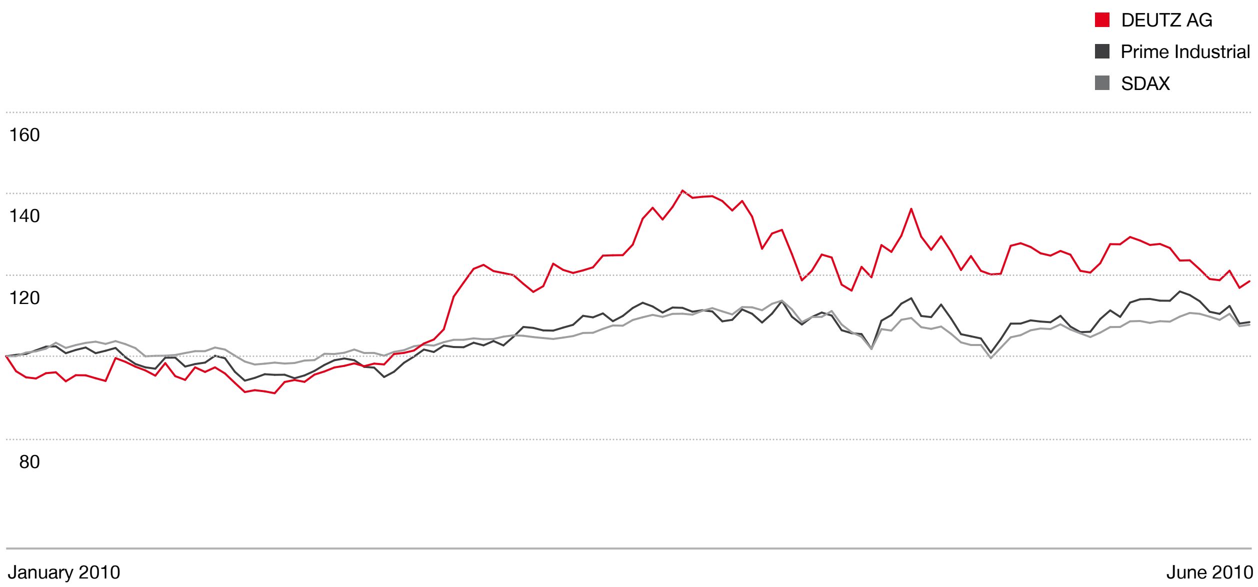
We thank you for remaining loyal to us during a very difficult period.

Kind regards from Cologne

Dr Helmut Leube
Chairman of the Board of Management

DEUTZ Shares

Price performance of DEUTZ share 2010
%



DEUTZ shares significantly outperform stock markets Despite starting the year poorly, the stock markets started to climb again in early March. Although the DAX had risen as high as 6,341 points, by 30 June 2010 the DAX had dropped back to 5,966 points, which was around the level it had reached at the end of 2009 (30 December 2009: 5,957 points). In contrast, the Prime Industrial and SDAX recorded sustained increases, with the Prime Industrial rising by 10.7 per cent to 2,686 points and the SDAX by 10 per cent to 3,904 points.

DEUTZ shares did more than just replicate this trend; they actually performed twice as well. The share price started 2010 at €3.39 (2009 closing price) and reached €4.11 on 30 June 2010, an increase of 21.2 per cent. On 12 April 2010, the share price reached €4.89, the highest it has been this year so far. This peak was 55.2 per cent above the lowest price of €3.15 attained on 10 February.

DEUTZ had a total of 120,861,783 shares in issue as at 30 June 2010 – a number that had not changed year on year – and a market capitalisation of €496.7 million (31 December 2009: €409.7 million).

Key figures for DEUTZ shares

	1–6/2010	1–6/2009
Number of shares (30 June)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price (30 June, €)	4.11	3.31
Share price high (€)	4.89	3.69
Share price low (€)	3.15	1.59
Market capitalisation (30 June, € million)	496.7	400.1
Earnings per share (€)	–0.08	–0.52

Based on: Xetra closing prices

Interim management report of the DEUTZ Group for the first half of 2010

Business performance in the DEUTZ Group

Economic situation

Global economic recovery is not uniform[1] Midway through the year, optimism is growing around the world and economic recovery is buoyant overall – although there is still a risk of a downturn. While the global economy had contracted by 1.1 per cent in crisis-hit 2009, Deutsche Bank Research is forecasting growth for 2010 of around 4.5 per cent. Following two weak years, the global economy will therefore return to its growth trajectory very quickly. The economies of the industrialised nations are expected to grow by 2.5 per cent, having declined by 3.4 per cent in 2009. Of these, the US economy is growing surprisingly strongly (2010: 3.4 per cent), and Japan (2010: 3.4 per cent) and other Asian economies are also recovering faster than initially predicted. The emerging markets of China (2010: 9.8 per cent) and India (2010: 9.0 per cent) are leading the way in driving growth. In contrast, Europe is hampered by partly restrictive fiscal policies and banks' continuing reluctance to extend loans. The 2010 GDP growth forecast for the euro zone of 1.0 per cent is low by international comparison.

Among the European countries, Germany's economic growth is relatively sound. It is primarily driven by exports, which are expected to rise by around 10 per cent in 2010. Following a decline of 16.9 per cent in 2009, industrial output is forecast to increase by 6 per cent in 2010. The inclination to invest is returning and, in the second quarter of 2010, capacity utilisation improved to just one percentage point below its long-term average. Despite rising employment levels, consumer spending will continue to fall this year. Overall, Deutsche Bank Research predicts economic growth of approximately 2.0 per cent.

Engineering in Germany continues to rally[2] The engineering sector continues to grow, with new orders increasing by 61 per cent up to May. However, it should be noted that May 2009 saw the lowest number of orders ever, so year-on-year growth figures somewhat overstate the sector's current recovery. But even on an adjusted basis, the volume of new orders has been rising steadily for months, as a result of which orders on hand are returning to normal. There is particularly strong growth in orders from outside Europe, whereas European countries are still showing comparative reticence. Despite these good numbers, the German Engineering Federation (VDMA) warns against euphoria, citing ongoing funding problems, high levels of government debt and considerable imbalances in the global economy.

New orders

Full order books The DEUTZ Group's order books clearly reflect the economic recovery. In the first six months of 2010, we took orders worth a total of €659.5 million, representing a year-on-year increase of 62.5 per cent (H1 2009: €405.9 million) in demand for our engines, services and spare parts. The value of new orders was also much higher than our revenue, which amounted to €534.5 million in the first half of 2010. This means that we remain on an upward trend because today's orders translate into tomorrow's revenues.

The DEUTZ Group's total orders on hand as at 30 June 2010 amounted to €282.3 million, which was twice as high as the year before (30 June 2009: €142.1 million). Our new engine business, which had fared worse than our service business in 2009, is now rallying especially strongly. It had orders on hand amounting to €269.6 million at the end of the first half of 2010. A year-on-year increase of more than 100 per cent (30 June 2009: €133.0 million).

Unit sales

Engine sales up by 25 per cent In the first half of 2010, DEUTZ sold approximately 25 per cent more engines than in the same period of the previous year. Our unit sales for the first six months of 2010 amounted to 75,565 engines (H1 2009: 60,497 engines). As our customer Fendt has relocated its head office to Switzerland from Marktoberdorf in Germany, it is not possible to compare our data for the distribution of unit sales and revenue between Germany and the rest of Europe. In the Europe, Middle East and Africa region, our unit sales rose by 21.5 per cent year on year to 61,321 engines (H1 2009: 50,457 engines). In contrast, we sold almost twice as many engines in America as we had in the same period last year – 10,402 engines in the first half of 2010 compared to 6,985 in the first half of 2009.

[1] Source: Deutsche Bank Economic Research Bureau Frankfurt, 9 July 2010
[2] Source: VDMA, Maschinenbau Konjunktur International, June 2010

Financial performance

Revenue

DEUTZ Group: Revenue by region
€ million (2009 figures)

■	**439.1**	(359.2)	Europe/Middle East/Africa
■	**57.6**	(40.7)	Americas
■	**37.8**	(40.6)	Asia-Pacific
	534.5	(440.5)	Total

Strong revenue gains Revenue is increasing significantly quarter by quarter, and we recorded a gain of 21.3 per cent in the first half of 2010. As unit sales of smaller engines for construction equipment grew disproportionately strongly, unit sales actually increased somewhat more than revenue. Revenue for the DEUTZ Group rose to €534.5 million in the first six months of 2010 (H1 2009: €440.5 million). Total revenue from Europe, Africa and the Middle East grew by just over 22 per cent. Above all, we benefited from the strong bounce-back of the US construction sector, increasing our revenue in the Americas (mainly the USA) by 41.5%.

DEUTZ Group: Revenue by application segment
€ million (2009 figures)

■	**160.5**	(81.2)	Mobile Machinery
■	**102.4**	(85.0)	Service
■	**97.4**	(89.7)	Automotive
■	**81.8**	(78.1)	Stationary Equipment
■	**73.1**	(94.2)	Agricultural Machinery
■	**19.3**	(12.3)	Miscellaneous
	534.5	(440.5)	Total

EBIT

DEUTZ returns to profitability with EBIT in the double-digit millions In the first half of 2010, we reported an operating profit (EBIT before one-off items) of €13.3 million despite achieving only €0.7 million in the first quarter of this year and making an operating loss of €23.4 million in the first half of 2009. The main reasons for this extremely encouraging improvement were a rise in revenue of more than 20 per cent and, above all, the effects of our MOVE action programme, with which we took steps to secure our profitability last year. These action steps impacted on costs by permanently lowering fixed costs and on income by ensuring a robust pricing policy.

The success of the cost-saving measures and a decrease in the price of foundry scrap steel – DEUTZ's most important raw material – had the greatest effect on the cost-of-materials ratio. The cost of materials as a proportion of total output fell significantly by 2.9 percentage points in the first half of 2010, with total output increasing by €121.7 million to €562.2 million (H1 2009: €440.5 million).

Staff costs for the first half of 2009 had included one-off headcount reduction expenses of €30.4 million. For the first half of 2010, staff costs amounted to €126.6 million – about the same level as for the comparative prior-year period excluding the aforementioned one-off items (H1 2009: €127.0 million). Lower staff costs resulting from personnel restructuring were partly offset in the first half of 2010 by the reduction in short-time working. However, because staff costs remained stable while the volume of business rose sharply, the ratio of staff costs to total output improved by 6.3 percentage points.

There were one-off charges of €4.2 million largely related to funding and the ongoing personnel restructuring, which led to EBIT of €9.1 million for the first half of 2010 (H1 2009: loss of €53.8 million).

In the first six months of 2010, net interest expense increased by €5.3 million year on year to €9.3 million (H1 2009: €4.0 million). This was caused by the rise in interest for the US private placement related to renegotiating the funding and by the decline in interest and similar income resulting from the fall in cash deposits. Income tax expenses amounted to €8.4 million in the first half of 2010 (H1 2009: €3.7 million), primarily owing to the effect of deferred taxes. The rise resulted in particular from higher deferred tax liabilities, which were the consequence of an increase in capitalised development expenditure. The total net loss for the first half of 2010 was €9.4 million (H1 2009: loss of €62.6 million).

Encouraging second-quarter trend The early indications that had emerged in the first quarter continued with even more momentum in the second quarter, with new orders, unit sales and revenue all continuing to pick up. The volume of new orders in the second quarter was €347.5 million, up by almost three-quarters on the corresponding period last year (Q2 2009: €200.0 million). Year on year, engine sales rose by 39.7 per cent to 41,781 (Q2 2009: 29,908 engines), while revenue climbed from €219.9 million to €298.1 million.

The second quarter of 2010 was the first one in which we made a comfortable profit again and we recorded an operating profit (EBIT before one-off items) of €12.6 million, having made an operating loss of €3.5 million in the second quarter of 2009.

Business performance in the segments

Business performance in the DEUTZ Compact Engines (DCE) segment

Mobile Machinery boosts new orders The DEUTZ Compact Engines (DCE) segment generated new orders with a total value of €494.8 million, a year-on-year increase of 62.4 per cent (H1 2009: €304.6 million). The main growth driver were engines for mobile machinery, where demand soared by 210.3 per cent compared to the first half of 2009.

Unit sales for DEUTZ Compact Engines rise by a third Recovery was particularly quick and very noticeable in the DEUTZ Compact Engines (DCE) segment. In the first half of 2010, the number of engines sold rose by 30.5 per cent year on year to 68,041 (H1 2009: 52,121).

DCE sold more engines in almost all application segments. Unit sales of engines for mobile machinery saw the strongest growth (year-on-year gain of 108.5 per cent), which was predominantly generated by engines for construction equipment (gain of 132.6 per cent). The recovery of our largest customer, Volvo, played a key role. As expected, Agricultural Equipment, with its late cyclical business, recorded a decline and unit sales fell by 20.4 per cent compared to the first half of 2009.

DCE raises revenue by almost 30 per cent The DEUTZ Group's revenue gains were generated above all by the DEUTZ Compact Engines segment, which increased its revenues by 27.6 per cent to €411.2 million (H1 2009: €322.2 million). While revenue in Europe (including Germany) revenue grew by 25 per cent, in America it grew by 68.9 per cent, primarily on the back of recovery in the US construction sector.

DEUTZ Compact Engines: Revenue by application segment
€ million (2009 figures)

■	**139.1**	(66.2)	Mobile Machinery
■	**82.2**	(71.8)	Automotive
■	**70.8**	(90.1)	Agricultural Machinery
■	**55.6**	(52.2)	Stationary Equipment
■	**53.9**	(41.7)	Service
■	**9.6**	(0.2)	Miscellaneous
	411.2	(322.2)	Total

Return to operating profit The recovery of the operating business and the reduction in staff costs and raw material costs both had a positive impact on profitability. DEUTZ Compact Engines posted an operating income (EBIT before one-off items) of €1.3 million in the first half of 2010, a year-on-year increase of €29.8 million (H1 2009: operating loss of €28.5 million). Encouragingly, the Chinese joint venture DEUTZ (Dalian) Engine Co. Ltd. significantly reduced its loss by €3.8 million to €1.5 million (H1 2009: loss of €5.3 million) and, in the second quarter, it achieved a positive EBIT for the first time.

Business performance in the DEUTZ Customised Solutions (DCS) segment

Breakthrough in new orders With a total volume of €164.7 million, DEUTZ Customised Solutions (DCS) recorded a year-on-year increase in new orders of 62.6 per cent (H1 2009: €101.3 million). We have therefore achieved a breakthrough in this segment as well, because increased unit sales and revenue will follow on the heels of these new orders.

Unit sales recover rapidly Due to the longer delivery times for the larger engines in its project business, the DCS segment always responds more slowly than DEUTZ Compact Engines and we will not see economic recovery here until later on. Accordingly, DCS sold 7,524 engines in the first half of 2010, which was 10.2 per cent fewer than a year earlier (H1 2009: 8,376 engines). However, a quarter-by-quarter comparison shows the fast pace at which this segment is recovering. In the second quarter of 2010, DCS's unit sales were up by 8.4 per cent on the second quarter of 2009 (Q2 2010: 4,278 engines, Q2 2009: 3,946 engines). The comparison with the first quarter of 2010 is even more striking because DCS sold 3,246 engines, which is equivalent to around 25 per cent fewer unit sales.

The sale of engines for stationary equipment – DCS's most important application segment in terms of units – was the main driver of unit sales growth. Although unit sales in the first quarter of 2010 had plummeted by 34.9 per cent year on year, we recorded a rise of 57.1 per cent three months later.

DEUTZ Customised Solutions: Revenue by application segment
€ million (2009 figures)

■	**48.5**	(43.3)	Service
■	**26.2**	(25.9)	Stationary Equipment
■	**21.4**	(15.0)	Mobile Machinery
■	**15.2**	(17.9)	Automotive
■	**9.7**	(12.1)	Miscellaneous
■	**2.3**	(4.1)	Agricultural Machinery
	48.6	(49.1)	Total

DCS revenues begin to climb again Despite the later appearance of the economic upturn at DEUTZ Customised Solutions, the segment did turn the corner in the second quarter of 2010. With revenue of €123.3 million in the first half of 2010, it achieved a year-on-year increase of 4.2 per cent (H1 2009: €118.3 million). We boosted revenues in almost all regions worldwide during the first six months, for example a rise of 14.7 per cent in Germany and 9.6 per cent in the rest of Europe. The Asia/Pacific region was the only one still waiting for revenues to recover, recording a fall of 26.3 per cent.

EBIT continues to grow The change can also be seen in our earnings. Operating profit (EBIT before one-off items) for the DEUTZ Customised Solutions segment rose by €9.6 million to €17.3 million in the first half of 2010 (H1 2009: €7.7 million). Second-quarter operating profit for the segment amounted to €11.1 million in 2010, following €4.1 million in 2009.

Financial position

Funding

In an agreement signed on 11 March 2010, DEUTZ reached a settlement with its US creditors on the restructuring of the funding facility as part of the US private placement of US$ 274 million. In particular, fundamental agreement was reached on a term sheet stipulating the interest rates payable, the terms to maturity, the financial covenants to be complied with in future as well as other terms and conditions (working capital facility, provision of collateral). We have funding commitments for the medium-term working capital facility from the banks involved. Please also refer to the information provided in the section on funding in our 2009 group management report. It is taking more time than any of the parties had originally expected to complete the final and detailed contractual documentation and the related bank finance, particularly because of the necessary consultation between the banks and the US creditors. However, the US creditors have granted us enough time by means of waivers, with the current waiver due to expire on 31 August 2010. The Board of Management therefore still assumes that DEUTZ's future funding has been secured and, consequently, the interim financial statements for the period ended 30 June 2010 have been prepared on a going-concern basis.

Cash flow

At minus €18.6 million, cash flow from operating activities fell considerably year on year (H1 2009: €23.4 million). This is predominantly because working capital has increased since the start of the year as a consequence of our encouraging business performance in the first half of 2010.

In particular, capitalised development expenditure related to upcoming exhaust emissions standards and the development of the two new engines in the under four-litre range resulted in cash outflow from investing activities attributable to continuing operations of €36.3 million (H1 2009: outflow of €43.4 million). This also includes €3 million paid for the joint venture Bosch Emission Systems GmbH & Co. KG.

The cash outflow from financing activities of €8.7 million (H1 2009: outflow of €9.2 million) was, as in the previous year, mainly due to interest payments.

Capital expenditure and the increase in working capital[3] were funded from liquidity as planned. The net financial position[4] as at 30 June 2010 had therefore reduced to minus €86.9 million (31 December 2009: plus €2.9 million).

Overall, free cash flow[5] from continuing operations amounted to minus €63.3 million, compared with minus €27.2 million in the first half of 2009.

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

Net assets

The improvement in business performance seen over the past few months was also reflected in the individual balance sheet items. Consequently, total assets amounted to €1,144.0 million as at 30 June 2010, which was a rise of roughly 7 per cent compared with their volume at the end of 2009 (31 December 2009: €1,071.1 million).

Non-current assets Non-current assets increased by €53.1 million to €614.9 million (31 December 2009: €561.8 million). Besides the capitalisation of development expenditure, one of the main reasons for the rise in non-current assets was the start-up in April 2010 of Bosch Emission Systems GmbH & Co. KG, a joint venture between Robert Bosch GmbH, DEUTZ AG and Eberspächer GmbH & Co. KG in the area of diesel exhaust aftertreatment.

The rise in the market value of the cross-currency swaps used to hedge the currency risk and interest-rate risk attaching to future payments of principal and interest arising from the US private placement caused the other non-current financial assets – and thereby the non-current assets – to increase.

Current assets Current assets also increased, in total by €19.8 million to €528.6 million (31 December 2009: €508.8 million).

Working capital had increased by approximately 72 per cent to €169.1 million as at 30 June 2010 (31 December 2009: €98.3 million). This gain reflects the growth in unit sales and revenue. Due to the high volume of orders on hand since the start of 2010, inventories increased from €36.1 million to €163.6 million. At the same time, there was an increase in trade receivables owing to the growth in business volume and a reduction in the sale of receivables. A year-on-year comparison shows that we successfully managed our working capital: although revenue was 21.3 per cent higher than in the corresponding period last year, working capital declined by around 13 per cent to €169.1 million (30 June 2009: €194.1 million).

High equity ratio Equity had increased by €5.1 million to €384.3 million as at 30 June 2010 (31 December 2009: €379.2 million). The equity ratio of 33.6 per cent therefore remained at a high level (31 December 2009: 35.4 per cent).

Current and non-current liabilities As at 30 June 2010, non-current liabilities amounted to €433.3 million (31 December 2009: €410.5 million). The rise was mainly a result of the stronger dollar, which impacted on the measurement in foreign currency of the share of the US private placement issued in US dollars as at 30 June 2010. Current liabilities rose by €45.0 million to €326.4 million (31 December 2009: €281.4 million). The main factors in this trend were higher accruals for outstanding purchase invoices, an obligation to pay into the reserves of the new joint venture with Robert Bosch GmbH and Eberspächer GmbH & Co. KG and increased trade payables.

Events after the balance sheet date

Until the lengthy contractual negotiations regarding the restructuring of the funding facility have been finalised, we have agreed further waivers with our creditors that exempt us from the obligation to comply with the financial covenants and postpone the dates on which our compliance with these covenants is assessed. The term of the current agreement, dated 16 July 2010, ends on 31 August 2010. Please also refer to the notes on funding in the section on our financial position.

Mr Gino M. Biondi stepped down from the Board of Management of DEUTZ AG at the Supervisory Board meeting on 14 July 2010. Mr Biondi was responsible for production, research & development, logistics, materials management and purchasing. Dr Helmut Leube (Chairman of the Board of Management) and Dr Margarete Haase (Chief Financial Officer) took on Mr Biondi’s areas of responsibility.

Research and development

R&D expenditure remains at H1 2009 level as planned In the first half of 2010, we invested €47.2 million in research and development, which was the same level as in the first half of 2009 (H1 2009: €47.0 million). This continued level of expenditure is necessitated by development work for Tier 4 Interim and Tier 4 Final as well as the launch of the two new engines TCD 2.9 L4 and TCD 3.6 L4.

Nevertheless, R&D spending as a percentage of consolidated revenue fell to 8.8 per cent (H1 2009: 10.7 per cent) due to the increase in revenue, which climbed by more than 20 per cent year on year. Revenue amounted to €534.5 million in the first half of this year (H1 2009: €440.5 million).

In 2010, we invested even more heavily in the development of new engines and refinement of existing models than we had in 2009, accounting for 83 per cent of R&D expenditure or €39.2 million. Another 10.4 per cent (€4.9 million) went on support for existing engine series and 6.6 per cent (€3.1 million) on research and preliminary development.

In the DEUTZ Compact Engines segment, €42.5 million was spent on research and development expenditure. This increase of 2.9 per cent on the first half of 2009 (H1 2009: €41.3 million) was due to the development of new engines with a capacity of under four litres. In contrast, expenditure in the DEUTZ Customised Solutions segment related to the new emissions standards has now begun to decrease, falling by 17.5 per cent to €4.7 million (H1 2009: €5.7 million).

Employees

Further adjustment of headcount In recent months, both demand and production have risen significantly. Nonetheless, DEUTZ reduced its number of employees[6] again as a result of the personnel restructuring measures implemented in 2009. As a result, headcount fell to 3,903 employees, which was 10.4 per cent fewer than at the end of June 2009.

The reduction in the number of employees was particularly significant in Germany, where headcount decreased by 426 to 3,085 employees – a fall of 12.1 per cent.

Outside Germany, DEUTZ employed 818 employees, 3.1 per cent fewer than at the end of June 2009. There were headcount reductions at all locations. In order to optimize processes, the development department in Dursley, United Kingdom, was relocated to Cologne. As a result, the number of employees in the UK more than halved from 70 to 31 (decline of 55.7 per cent).

Overall however, our Research & Development function was unaffected by the personnel restructuring. To meet our programme requirements, we employed 28 more employees (5.6 per cent) than in the first half of 2009.

Owing to the very good capacity utilization in production, the number of temporary staff increased. At the end of June 2009, this figure had amounted to 32 people but, by the end of June 2010 was more than five times higher, reaching 171 staff. There was also a significant quarter-on-quarter rise (31 March 2010: 62 temporary staff).

Accordingly, short-time working was almost completely suspended. The number of employees affected by short-time working fell by 97.9 per cent year on year. By 30 June 2010, there were only 36 employees in short-time working, whereas there had been 1,729 in the corresponding period last year. This was also fewer than the 187 employees affected by short-time working in the first quarter of 2010.

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. Our 2009 annual report describes certain material risks for our financial position and financial performance and explains the structure of our risk management system. The risks described in the report still apply. During the first six months of 2010, we did not identify other material risks beyond those described in the 2009 annual report. We would also refer you to the Outlook at the end of this interim group management report.

[6] including trainees and apprentices

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 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).

Further information on related-party disclosures is given on page 20 of the notes to the consolidated financial statements.

Outlook

Having begun to emerge in the first quarter of 2010, the economic recovery is continuing to gather pace.

The global economy is expanding thanks to strong growth in the emerging markets. The recovery of the US and Japanese economies is also ongoing. However, fears persist regarding government bond risk and the susceptibility of the European and US banking sectors. Although there is still a risk of a double-dip recession, it is now regarded as relatively low.

We are also softening the cautious outlook we gave at the start of the year because our orders on hand and the reactions of our customers give us sufficient grounds to look to the second half of the year with greater optimism.

We now anticipate unit sales of more than 150,000 engines, which corresponds to revenue of sligthly more than €1.1 billion.

As our cost-saving and efficiency-enhancing projects increasingly take effect, we have been able to considerably lower our fixed costs and thereby the break-even threshold. Overall, we therefore believe that our earnings will be better than we had previously expected and, for the full year, anticipate that we will make an operating profit (before one-off items) that reaches at least the low double-digit millions.

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 future performance, developments and results of the Company or those of the sectors important to the Company could be significantly different (especially in a negative respect) from those expressly or implicitly assumed in these statements. The Board of Management 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 in line with future developments.

Interim consolidated financial statements for the first half of 2010

INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	4–6/2010	4–6/2009	1–6/2010	1–6/2009
€ million					
Revenue		**298.1**	**219.9**	**534.5**	**440.5**
Change in inventories and other own work capitalised		11.7	–7.3	27.7	–
Other operating income	1	30.6	24.6	41.8	40.4
Cost of materials		–196.0	–139.0	–354.0	–290.1
Staff costs		–64.3	–90.1	–126.6	–157.4
Depreciation and amortisation		–15.6	–16.6	–31.2	–32.4
Other operating expenses	2	–54.6	–24.4	–82.7	–51.0
Net income from equity-accounted investments		0.1	–1.0	–0.5	–3.8
Other investment income		0.1	–	0.1	–
EBIT		**10.1**	**–33.9**	**9.1**	**–53.8**
thereof one-off items		**–2.5**	**–30.4**	**–4.2**	**–30.4**
thereof operating profit (EBIT before one-off items)		**12.6**	**–3.5**	**13.3**	**–23.4**
Interest expenses, net		–5.8	–2.3	–9.3	–4.0
thereof finance costs		–9.0	–5.6	–15.4	–11.5
Other taxes		–0.5	–0.6	–0.8	–0.9
Net income before taxes on continuing operations		**3.8**	**–36.8**	**–1.0**	**–58.7**
Income taxes	3	–4.5	–1.9	–8.4	–3.7
Net income on continuing operations		**–0.7**	**–38.7**	**–9.4**	**–62.4**
Net income on discontinued operations		**–**	**–**	**–**	**–0.2**
Net income		**–0.7**	**–38.7**	**–9.4**	**–62.6**
thereof attributable to owners of the parent		–0.7	–38.7	–9.4	–62.6
thereof attributable to non-controlling interests		–	–	–	–
Earnings per share (€)		**–0.01**	**–0.32**	–0.08	**–0.52**
thereof from continuing operations		–0.01	–0.32	–0.08	–0.52
thereof from discontinued operations		–	–	–	–

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	4–6/2010	4–6/2009	1–6/2010	1–6/2009
€ million					
Net income		**–0.7**	**–38.7**	**–9.4**	**–62.6**
Currency translation differences		9.5	–3.0	14.3	2.3
Effective portion of change in fair value from cash flow hedges		1.5	–2.0	0.2	–8.2
Change in fair value of available-for-sale financial assets		–0.1	0.1	–	–
Other comprehensive income, net of tax	4	**10.9**	**–4.9**	**14.5**	**–5.9**
Comprehensive income		**10.2**	**–43.6**	**5.1**	**–68.5**
thereof attributable to owners of the parent		10.2	–43.6	5.1	–68.5
thereof attributable to non-controlling interests		–	–	–	–

BALANCE SHEET FOR THE DEUTZ GROUP

ASSETS	Note	30/6/2010	31/12/2009
€ million			
Property, plant and equipment		326.2	335.5
Intangible assets		162.4	145.8
Equity-accounted investments	5	76.5	49.3
Other financial assets		35.4	8.8
Non-current assets (before deferred tax assets)		600.5	539.4
Deferred tax assets		14.4	22.4
Non-current assets		**614.9**	**561.8**
Inventories		163.6	127.5
Trade receivables		161.5	112.3
Other receivables and assets		53.0	54.3
Cash and cash equivalents		150.5	214.7
Current assets		**528.6**	**508.8**
Non-current assets held for sale		0.5	0.5
Total assets		**1,144.0**	**1,071.1**

EQUITY AND LIABILITIES	Note	30/6/2010	31/12/2009
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		8.9	–5.6
Retained earnings		79.1	79.1
Accumulated income		–41.5	–32.1
Equity attributable to owners of the parent		384.3	379.2
Equity		**384.3**	**379.2**
Provisions for pensions and other post-retirement benefits		160.8	163.9
Deferred tax provisions		0.1	0.1
Other provisions	6	32.6	26.9
Financial liabilities		231.8	206.2
Other liabilities		8.0	13.4
Non-current liabilities		**433.3**	**410.5**
Provisions for pensions and other post-retirement benefits		16.2	16.1
Provision for current income taxes		1.7	6.6
Other provisions	6	62.3	49.2
Financial liabilities		5.6	5.6
Trade payables		156.0	141.5
Other liabilities		84.6	62.4
Current liabilities		**326.4**	**281.4**
Total equity and liabilities		**1,144.0**	**1,071.1**

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)]	Accumulated income	Total Group interest	Non-controlling interests	**Total**
Balance at 1 Jan. 2009	**309.0**	**28.8**	**79.1**	**9.5**	**–7.0**	**91.9**	**511.3**	**–**	**511.3**
Comprehensive income				–8.2	2.3	–62.6	–68.5	–	–68.5
Balance at 30 June 2009	**309.0**	**28.8**	**79.1**	**1.3**	**–4.7**	**29.3**	**442.8**	**–**	**442.8**
Balance at 1 Jan. 2010	**309.0**	**28.8**	**79.1**	**–0.1**	**–5.5**	**–32.1**	**379.2**	**–**	**379.2**
Comprehensive income				0.2	14.3	–9.4	5.1	–	5.1
Balance at 30 June 2010	**309.0**	**28.8**	**79.1**	**0.1**	**8.8**	**–41.5**	**384.3**	**–**	**384.3**

1) On the face of 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	**1–6/2010**	1–6/2009
EBIT	**9.1**	**–53.8**
Interest income	0.6	4.2
Other taxes paid	–0.8	–0.9
Income taxes paid	–3.5	3.3
Depreciation and amortisation	31.2	32.4
Gain/loss on disposals of fixed assets	0.4	–
Net result from equity-accounted investments	0.5	3.8
Other non-cash expenses/income	–3.1	–
Change in working capital	–61.4	–16.0
Change in inventories	–31.7	41.9
Change in trade receivables	–47.2	8.8
Change in trade payables	17.5	–34.7
Change in other receivables and other current assets	–8.9	–2.0
Change in provisions and other liabilities (excluding financial liabilities)	17.3	20.4
Cash flow from operating activities	**–18.6**	**23.4**
Capital expenditure on intangible assets, property, plant and equipment	–33.4	–43.2
Capital expenditure on investments	–3.0	–0.4
Proceeds from the sale of non-current assets	0.1	0.2
Cash flow from investing activities – continuing operations	**–36.3**	**–43.4**
Cash flow from investing activities – discontinued operations	–1.0	–0.4
Cash flow from investing activities – total	**–37.3**	**–43.8**
Interest expenses	–8.4	–7.2
Cash receipts from borrowings	0.6	0.4
Repayments of loans	–0.9	–2.4
Cash flow from financing activities	**–8.7**	**–9.2**
Cash flow from operating activities	–18.6	23.4
Cash flow from investing activities	–37.3	–43.8
Cash flow from financing activities	–8.7	–9.2
Change in cash and cash equivalents	**–64.6**	**–29.6**
Change in cash and cash equivalents at 1 January	**214.7**	**207.5**
Change in cash and cash equivalents	–64.6	–29.6
Change in cash and cash equivalents related to exchange rates	0.4	0.2
Change in cash and cash equivalents at 30 June	**150.5**	**178.1**

Notes to the interim financial statements of the DEUTZ Group for the first half of 2010

Basic principles

Basis of preparation of the financial statements

These interim financial statements for the period ended 30 June 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Board (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim 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 for the 2009 financial year.

The condensed interim consolidated financial statements for the period ended 30 June 2010 – 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 2010 have been reviewed by an auditor pursuant to section 37w of the German Securities Trading Act (WpHG).

Significant accounting policies

With the exception of the new IFRS standards and interpretations 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 2009. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2009. If they are material, revenue-related and cyclical items are deferred during the year on the basis of annual business plans.

Amendments to IFRS 3 "Business Combinations" The most significant changes involve the introduction of an option for the measurement of the non-controlling interest (formerly known as minority interest). The non-controlling interest may be measured on the basis of the proportionate share of the acquiree's identifiable net assets (purchased goodwill method) or by using the full goodwill method, i.e. the method based on the entire goodwill in the acquiree including the portion attributable to the non-controlling interest. Other changes involve the requirement in the case of the business combination achieved in stages for an acquirer to remeasure its pre-existing equity interest in an acquired entity at the point at which control is acquired and recognise any resulting gain or loss in profit or loss, the requirement for contingent consideration to be measured at the acquisition date and the requirement to recognise transaction costs in profit or loss. The transitional provisions require these amendments to be applied prospectively. There are no changes affecting assets and liabilities arising from business combinations prior to the initial application of the new standard. Since no business combination took place in the DEUTZ Group during the first half of this year, the application of this standard has not had an impact on the interim consolidated financial statements so far.

Amendments to IAS 27 "Consolidated and Separate Financial Statements" The changes primarily relate to the accounting treatment of non-controlling interests (minority interest), to which entities will be required to attribute a full share of group losses in future, and the accounting treatment of transactions in which an entity loses control of a subsidiary, any gain or loss from which must be recognised in profit or loss. However, any gains or losses from a disposal of equity interests that do not result in a loss of control must be recognised in other comprehensive income. The transitional provisions, which generally require retrospective application of amendments, call for prospective application of the aforementioned provisions. For this reason, assets and liabilities arising from such transactions prior to initial application of the new standard are not affected. Since none of the transactions specified occurred and there were no new losses amongst non-controlling interests in the first half of 2010, initial application of the standard did not affect the interim consolidated financial statements.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" The amendment resolves the issue as to which sub-risks can be hedged with which instruments in hedge accounting and essentially provides guidance on the designation of a purchased option as a hedging instrument as well as on the hedging of inflation risk. Since the DEUTZ Group does not currently hedge inflation risk or use options as hedging instruments, these changes did not have any impact on the interim consolidated financial statements on initial application.

Amendment to IAS 32 "Financial Instruments: Presentation" The changes in this revision resolve the issue of the accounting treatment for certain subscription rights if the issued instruments are not denominated in the functional currency of the issuer. This amendment did not impact on the interim consolidated financial statements.

Amendment to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" The changes require an entity to reassess whether an embedded derivative should be separated from its host contract if the entity intends to redesignate a structured contract classified as at fair value through profit or loss to another category. Since the DEUTZ Group did not carry out any such redesignations during the first half of 2010, the initial application of this standard did not affect the interim consolidated financial statements.

IFRIC 15 "Agreements for the Construction of Real Estate" IFRIC 15 is concerned with the criteria for the application of IAS 11 and IAS 18 in connection with the construction and sale of real estate or parts of real estate. There was no impact on the DEUTZ Group because interpretation applies to the real-estate industry.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" IFRIC 16 resolves a number of issues. These issues include how to designate risk arising from foreign currency exposure and the maximum amount that may be designated as a hedged risk. They also include clarification of which entity within a group may hold the hedging instrument and clarification of the accounting treatment in connection with the disposal of an investment in a foreign operation. The DEUTZ Group does not currently hedge any net investments in foreign operations. The interpretation therefore did not affect the interim consolidated financial statements on initial application.

IFRIC 17 "Distributions of Non-cash Assets to Owners" This interpretation governs the accounting treatment for distributions of non-cash assets to owners. Under IFRIC 17, an entity must measure a liability to distribute non-cash assets as a dividend at the fair value of the assets to be distributed; when the entity settles the dividend payable, it must recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss. The interpretation did not affect the interim consolidated financial statements on initial application.

IFRIC 18 "Transfers of Assets from Customers" This interpretation includes guidance that clarifies the recognition and measurement of assets and that resolves revenue recognition issues in connection with the transfer of assets from customers. Since DEUTZ's operating activities do not currently include any transfers of this kind, initial application of this standard did not affect the interim consolidated financial statements.

Amendments to IFRS 2 "Share-based Payment" The changes clarify the accounting treatment of share-based payments settled in cash. Since these changes are not currently relevant to the DEUTZ Group, initial application did not have any impact on the interim consolidated financial statements.

Improvements to International Financial Reporting Standards (2009) The changes are primarily intended to clarify certain provisions. The clarification in respect of IFRS 8 to the effect that the total of cumulative assets for each reportable segment is not a minimum disclosure for segment reporting and that this disclosure only needs to be made if information on total segment assets is regularly included in internal reporting to the chief operating decision-maker in the entity did not affect the presentation of segment reporting because the DEUTZ Group already interpreted this provision accordingly in its initial application of IFRS 8.

Changes in basis of consolidation A foreign subsidiary was deconsolidated on 30 June 2010 for reasons of materiality.

Significant estimates and assumptions The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires estimates and assumptions to be made that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent assets and liabilities at 30 June 2010 and on the reporting of income and expenses in the reporting period.

Additional disclosures In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before one-off items, which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities as defined by DEUTZ. Unrealised gains and losses from commercially related hedged items and hedging transactions for which no hedges have been formally designated are also reported as one-off items in order to provide a better picture of DEUTZ's business operations.

Notes to the interim consolidated financial statements

1. Other operating income

The rise in other operating income primarily caused by unrealised profits of €15.2 million (H1 2009: €0.3 million) from the marking to market of derivatives was offset by the decline in income from the reversal of provisions in the first six months of 2010. During this period, income from the reversal of provisions amounting to €3.4 million (H1 2009: €14.3 million) resulted from the partial reversal of the provision recognised in 2009 for personnel restructuring. With regard to income from the marking to market of derivatives, please refer to the explanations concerning other operating expenses.

2. Other operating expenses

The rise in other operating expenses during the first half of 2010 was mainly a result of unrealised losses of €10.1 million (H1 2009: €0.0 million) from the measurement in foreign currency of part of the share of the US private placement issued in US dollars on 30 June 2010 due to the ending of the hedge for some of the future interest payments and principal repayments in connection with the US private placement. The unrealised losses were offset by unrealised income from the increase in the market value of the cross-currency swaps, which were reported under other operating income. Besides higher expense accruals for outstanding purchase invoices and other provisions, expenses related to the restructuring of funding arrangements were a significant factor in the rise in other operating expenses in the first half of 2010. In addition, the deconsolidation of a foreign subsidiary resulted in a loss on disposal of €1.9 million in the first half of 2010.

3. Income taxes

€ million	**4–6/2010**	4–6/2009	**1–6/2010**	1–6/2009
Current tax expense	0.4	0.2	0.5	–
Deferred taxes	4.1	1.7	7.9	3.7
Total	**4.5**	**1.9**	**8.4**	**3.7**

The income tax expenses included almost exclusively the effects of deferred taxes. The rise resulted in particular from higher deferred tax liabilities, which were the consequence of an increase in capitalised development expenditure.

4. Other comprehensive income

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

	4–6/2010		
€ million	before taxes	taxes	after taxes
Currency translation differences	9.5	–	9.5
Effective portion of change in fair value from cash flow hedges	2.2	–0.7	1.5
Change in fair value of available-for-sale financial assets	–0.1	–	–0.1
Other comprehensive income	**11.6**	**–0.7**	**10.9**

	4–6/2009		
€ million	before taxes	taxes	after taxes
Currency translation differences	–3.0	–	–3.0
Effective portion of change in fair value from cash flow hedges	–3.0	1.0	–2.0
Change in fair value of available-for-sale financial assets	0.2	–0.1	0.1
Other comprehensive income	**–5.8**	**0.9**	**–4.9**

In the second quarter of 2010, a loss of €3.0 million before taxes (Q2 2009: €0.2 million) related to cash flow hedges was reclassified to the income statement.

	1–6/2010		
€ million	before taxes	taxes	after taxes
Currency translation differences	14.3	–	14.3
Effective portion of change in fair value from cash flow hedges	0.3	–0.1	0.2
Change in fair value of available-for-sale financial assets	–	–	–
Other comprehensive income	**14.6**	**–0.1**	**14.5**

	1–6/2009		
€ million	before taxes	taxes	after taxes
Currency translation differences	2.3	–	2.3
Effective portion of change in fair value from cash flow hedges	–12.1	3.9	–8.2
Change in fair value of available-for-sale financial assets	0.1	–0,1	–
Other comprehensive income	**–9.7**	**3.8**	**–5.9**

In the first half of 2010, a loss of €3.0 million before taxes (H1 2009: €0.8 million) related to cash flow hedges was reclassified to the income statement. The loss in the first six months of 2010 in the amount of €2.0 million is a result of the termination of the hedge for some of the future interest payments and principal repayments in connection with the US private placement, as the transactions are no longer expected to take place due to the change in maturities.

5. Equity-accounting investments

The increase as at 30 June 2010 was caused by capital expenditure related to the start-up of a joint venture in the area of diesel exhaust aftertreatment in April 2010, which is accounted for using the equity method.

6. Other provisions

€ million	30/6/2010	31/12/2009
Longterm	32.6	26.9
Shortterm	62.3	49.2
Total	**94.9**	**76.1**

The increase in other provisions was primarily a result of provisions during the period for costs incurred and provisions related to the restructuring of funding.

Notes on segment reporting

Information about the segments of the DEUTZ Group for the second quarter of 2010 and of 2009 is shown in the following table:

4–6/2010	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon- ciliation	**DEUTZ Group**
€ million						
External revenue	228.1	70.0	–	298.1	–	298.1
Intersegment revenue	–	–	–	–	–	–
Total revenue	**228.1**	**70.0**	**–**	**298.1**	**–**	**298.1**
Operating profit (EBIT before one-off items)	5.4	11.1	–3.9	12.6	–	12.6

4–6/2009	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon- ciliation	**DEUTZ Group**
€ million						
External revenue	160.7	59.2	–	219.9	–	219.9
Intersegment revenue	–	–	–	–	–	–
Total revenue	**160.7**	**59.2**	**–**	**219.9**	**–**	**219.9**
Operating profit (EBIT before one-off items)	–5.7	4.1	–1.9	–3.5	–	–3.5

Information about the segments of the DEUTZ Group for the first half of 2010 and of 2009 is shown in the following table:

1–6/2010	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon- ciliation	**DEUTZ Group**
€ million						
External revenue	411.2	123.3	–	534.5	–	534.5
Intersegment revenue	–	–	–	–	–	–
Total revenue	**411.2**	**123.3**	**–**	**534.5**	**–**	**534.5**
Operating profit (EBIT before one-off items)	1.3	17.3	–5.3	13.3	–	13.3

1–6/2009	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon- ciliation	**DEUTZ Group**
€ million						
External revenue	322.2	118.3	–	440.5	–	440.5
Intersegment revenue	–	–	–	–	–	–
Total revenue	**322.2**	**118.3**	**–**	**440.5**	**–**	**440.5**
Operating profit (EBIT before one-off items)	–28.5	7.7	–2.6	–23.4	–	–23.4

30/6/2010	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
Segment assets (Inventories/trade receivables)	225.6	99.5	–	325.1	–	325.1
Segment liabilities (Trade payables)	134.8	21.2	–	156.0	–	156.0
Working Capital	**90.8**	**78.3**	**–**	**169.1**	**–**	**169.1**

31/12/2009	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Recon-ciliation	**DEUTZ Group**
€ million						
Segment assets (Inventories/trade receivables)	152.3	87.5	–	239.8	–	239.8
Segment liabilities (Trade payables)	125.2	16.2	0.1	141.5	–	141.5
Working Capital	**27.1**	**71.3**	**–0.1**	**98.3**	**–**	**98.3**

Reconciliation from the total result for segments to the result of the DEUTZ Group

	4–6/2010	4–6/2009	**1–6/2010**	1–6/2009
€ million				
Total result for segments	**12.6**	**–3.5**	**13.3**	**–23.4**
Reconciliation	–	–	–	–
Operating profit (EBIT before one-off items)	**12.6**	**–3.5**	**13.3**	**–23.4**
One-off items	–2.5	–30.4	–4.2	–30.4
EBIT	**10.1**	**–33.9**	**9.1**	**–53.8**
Interest expenses, net	–5.8	–2.3	–9.3	–4.0
Other taxes	–0.5	–0.6	–0.8	–0.9
Group result before taxes on continuing operations	**3.8**	**–36.8**	**–1.0**	**–58.7**
Income taxes	–4.5	–1.9	–8.4	–3.7
Group result after taxes on continuing operations	**–0.7**	**–38.7**	**–9.4**	**–62.4**
Group result after taxes on discontinued operations	–	–	–	–0.2
Result of the DEUTZ Group	**–0.7**	**–38.7**	**–9.4**	**–62.6**

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** as well as the following DEUTZ AG **shareholders** (including their subsidiaries) that are in a position to exert a significant influence over the DEUTZ Group. They are:

- SAME DEUTZ-FAHR Holding & Finance B.V., Amsterdam, Netherlands (group), and
- AB Volvo Power (publ), Gothenburg, Sweden (group).

Related parties also include the **Supervisory Board,** the **Board of Management** and **other members of the management team.**

The following table shows the volume of material goods and services either provided for or received from **entities in which the DEUTZ Group holds investments:**

	Goods and services provided		Other expenses and services		Goods and services provided		Other expenses and services	
	4–6/2010	4–6/2009	**4–6/2010**	4–6/2009	**1–6/2010**	1–6/2009	**1–6/2010**	1–6/2009
€ million								
Joint ventures	1.7	0.5	–	–	2.5	1.0	–	–
Other investments	0.1	0.1	0.9	0.9	0.2	0.1	1.9	1.8
Total	**1.8**	**0.6**	**0.9**	**0.9**	**2.7**	**1.1**	**1.9**	**1.8**

	Receivables		Liabilities	
	30/6/2010	31/12/2009	**30/6/2010**	31/12/2009
€ million				
Associates	–	0.4	–	–
Joint ventures	5.2	7.5	16.2	–
Other investments	–	0.1	9.9	4.6
Total	**5.2**	**8.0**	**26.1**	**4.6**

Liabilities to joint ventures of €16.2 million contain total capital contributions of €18 million, payment of which is planned to be spread over the next few years through to 2014. Impairment losses of €22.5 million (31 December 2009: €22.2 million) had been recognised on €26.9 million of the Company's receivables due from investments as at 30 June 2010 (31 December 2009: €25.2 million). Some of these receivables and liabilities resulted from loans. Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

The following table gives a breakdown of the significant business relationships between the DEUTZ Group and its shareholders, including their subsidiaries:

	SAME DEUTZ-FAHR Group		Volvo Group	
	2010	2009	**2010**	2009
€ million				
Engines and spare parts supplied in the 2nd quarter	19.2	15.9	87.8	57.2
Services in the 2nd quarter	0.5	0.7	3.3	6.3
Engines and spare parts supplied in the 1st half year	31.1	31.3	155.2	98.9
Services in the 1st half year	0.7	1.5	11.5	12.6
Receivables at 30 June/31 Dec.	14.1	2.3	45.1	43.8

Existing in-year trade receivables from companies in the SAME DEUTZ-FAHR Group were replaced by a two- or three-month interest-bearing finance facility in 2009. The balance outstanding on this financial receivable came to €0.1 million as at 31 December 2009. DEUTZ has an agreement with the Volvo Group that grants Volvo companies extended credit periods in return for payment of a fee.

Events after the balance sheet date (30 June 2010)

For the period during which the very extensive contractual documentation for restructuring the funding facility provided by the US private placement is being finalised, we have agreed further waivers with our creditors that exempt us from the obligation to comply with the financial covenants and postpone the dates on which our compliance with these covenants is assessed. The term of the current agreement, dated 16 July 2010, ends on 31 August 2010.

Mr Gino M. Biondi stepped down from the Board of Management of DEUTZ AG at the Supervisory Board meeting on 14 July 2010. Mr Biondi was responsible for production, research & development, logistics, materials management and purchasing. Dr Helmut Leube (Chairman of the Board of Management) and Dr Margarete Haase (Chief Financial Officer) took on Mr Biondi's areas of responsibility. No further material events occurred after the reporting period.

Cologne, 4 August 2010

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

Responsibility statement

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

Cologne, 4 August 2010

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

Certificate ussued after review by the auditors

We have reviewed the condensed interim consolidated financial statements of DEUTZ AG, Cologne, comprising the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and selected explanatory notes, together with the interim group management report of DEUTZ AG, Cologne, for the period from 1 January to 30 June 2010, that are part of the semi-annual financial reporting pursuant to § 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act).

The preparation of the condensed interim consolidated financial statements in accordance with those International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the company's management. Our responsibility is to issue a 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 of the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). 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 those 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 requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments 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 issue an auditor's report.

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 those 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 requirements of the WpHG applicable to interim group management reports.

Without qualilfying this assessment, we refer to the comments of the Board of Management in the interim group management report. In the section on Funding, details are provided about the status of negotiations with the US creditors from the US private placement and a banking consortium. On the basis of these negotiations - and their anticipated successful conclusion - the Board of Management remains confident that the funding is sufficiently secure.

Düsseldorf, 4 August 2010

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Crampton)
Wirtschaftsprüfer
(German Public Auditor)

(Lammers)
Wirtschaftsprüferin
(German Public Auditor)

Financial calendar

Date	Event	Location
10 November 2010	Interim Report 1st to 3rd quarter 2010 Conference call with analysts and investors	
17 March 2011	Annual results press conference Publication Annual Report 2010	Cologne
18 March 2011	Analysts' meeting	Frankfurt/Main
5 May 2011	Annual General Meeting	Cologne
12 May 2011	Interim Report 1st quarter 2011 Conference call with analysts and investors	
4 August 2011	Interim Report 1st half-year 2011 Conference call with analysts and investors	
10 November 2011	Interim Report 1st to 3rd quarter 2011 Conference call with analysts and investors	

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Imprint

Published by
DEUTZ AG
51057 Cologne
Germany

Concept and layout
Kirchhoff Consult AG, Hamburg, Germany

**This is a complete translation of the original German version of the interim report.
The interim report is only available in electronic form.**