

*Interim report*  
1st to 3rd quarter of 2015

## FIRST TO THIRD QUARTER AT A GLANCE

### DEUTZ Group: Overview

	7-9/2015	7-9/2014	1-9/2015	1-9/2014
€ million				
New orders	262.2	330.0	932.9	1,076.8
Unit sales (units)	29,116	56,020	107,236	155,099
Revenue	268.6	424.5	938.8	1,177.9
EBITDA	15.2	27.0	85.6	80.6
EBITDA before one-off items	15.2	27.0	85.6	94.5
EBIT	-9.7	2.7	10.6	8.9
EBIT before one-off items	-9.7	2.7	10.6	22.8
EBIT margin (%)	-3.6	0.6	1.1	0.8
EBIT margin before one-off items (%)	-3.6	0.6	1.1	1.9
Net income	-9.4	0.7	7.3	3.4
Earnings per share (€)	-0.07	0.01	0.07	0.03
Total assets	1,087.2	1,180.3	1,087.2	1,180.3
Non-current assets (before deferred tax assets)	537.2	578.5	537.2	578.5
Equity	500.9	497.6	500.9	497.6
Equity ratio (%)	46.1	42.2	46.1	42.2
Cash flow from operating activities	-10.3	46.0	43.6	86.9
Free cash flow <sup>1)</sup>	-35.7	30.7	-9.5	39.6
Net financial position <sup>2)</sup>	-3.1	1.0	-3.1	1.0
Working capital <sup>3)</sup>	231.1	214.5	231.1	214.5
Working capital ratio (30 Sep, %) <sup>4)</sup>	17.9	13.5	17.9	13.5
Capital expenditure (excluding capitalisation of R&D, after deducting grants)	15.9	9.5	41.2	28.5
Depreciation and amortisation	24.9	24.3	75.0	71.7
R&D expenditure (after deducting grants)	10.0	14.1	29.8	39.8
thereof capitalised	4.4	5.9	9.4	21.7
Employees (number at 30 Sep)	3,755	3,976	3,755	3,976

### DEUTZ Group: Segments

	7-9/2015	7-9/2014	1-9/2015	1-9/2014
€ million				
<b>New orders</b>				
DEUTZ Compact Engines	194.0	270.4	724.0	882.5
DEUTZ Customised Solutions	68.2	59.6	208.9	194.3
<b>Total</b>	<b>262.2</b>	<b>330.0</b>	<b>932.9</b>	<b>1,076.8</b>
<b>Unit sales (units)</b>				
DEUTZ Compact Engines	26,243	53,589	97,596	146,524
DEUTZ Customised Solutions	2,873	2,431	9,640	8,575
<b>Total</b>	<b>29,116</b>	<b>56,020</b>	<b>107,236</b>	<b>155,099</b>
<b>Revenue</b>				
DEUTZ Compact Engines	201.8	368.2	730.1	1,002.8
DEUTZ Customised Solutions	66.8	56.3	208.7	175.1
<b>Total</b>	<b>268.6</b>	<b>424.5</b>	<b>938.8</b>	<b>1,177.9</b>
<b>EBIT before one-off items</b>				
DEUTZ Compact Engines	-23.4	-0.7	-16.9	4.9
DEUTZ Customised Solutions	8.7	4.2	26.0	18.5
Other	5.0	-0.8	1.5	-0.6
<b>Total</b>	<b>-9.7</b>	<b>2.7</b>	<b>10.6</b>	<b>22.8</b>

<sup>1)</sup> Free cash flow: cash flow from operating and investing activities less interest expense.

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

<sup>3)</sup> Working capital: inventories plus trade receivables minus trade payables.

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

## FOREWORD

*Dear shareholders,  
friends and partners of our company,*

The DEUTZ Group's business performance deteriorated in the third quarter of 2015. The new orders we received in the first nine months of 2015 amounted to €932.9 million, a decrease of 13.4 per cent compared with the first three quarters of 2014. Revenue was down by 20.3 per cent year on year to €938.8 million. This was due not only to the expected effects from the advance production of engines but also to the current very subdued level of business resulting from a reluctance to invest on the part of end customers. Operating profit (EBIT before one-off items) decreased from €22.8 million to €10.6 million. By contrast, net income rose from €3.4 million to €7.3 million.

The new orders received in the third quarter of 2015 amounted to €262.2 million, which was 20.5 per cent below the level of orders received in the same quarter of 2014 and 25.0 per cent below the figure for the second quarter of 2015. At €268.6 million, revenue was down by 36.7 per cent year on year and by 23.7 per cent on the previous quarter. EBIT before one-off items declined significantly, falling from €2.7 million in the third quarter of last year to an operating loss of €9.7 million in the quarter under review. This was primarily due to the decrease in business volume.

Our current expectation is that this market weakness will continue throughout the fourth quarter and feature strongly well into the first quarter of 2016. We are responding by putting a stop on spending and by extending short-time working, particularly in Cologne. In addition, the programme to optimise our network of sites in Germany, which we began last year, will be implemented as planned. We expect these measures to substantially increase our efficiency. Furthermore, we believe that we remain well positioned with our products and processes. As soon as the market starts to recover, we will be able to reap the rewards.

As a consequence of business being very muted in the third quarter and the current very low level of new orders, we reduced our forecast for revenue and earnings on 15 September 2015. We now expect revenue to decline by around 20 per cent year on year. In terms of operating profit (EBIT), we will just about break even. Previously, we had anticipated a drop in revenue of approximately 10 per cent and an EBIT margin of roughly 3 per cent.

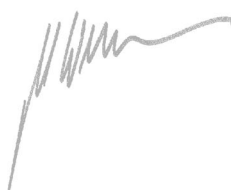
Kind regards from Cologne,



Dr Ing Helmut Leube



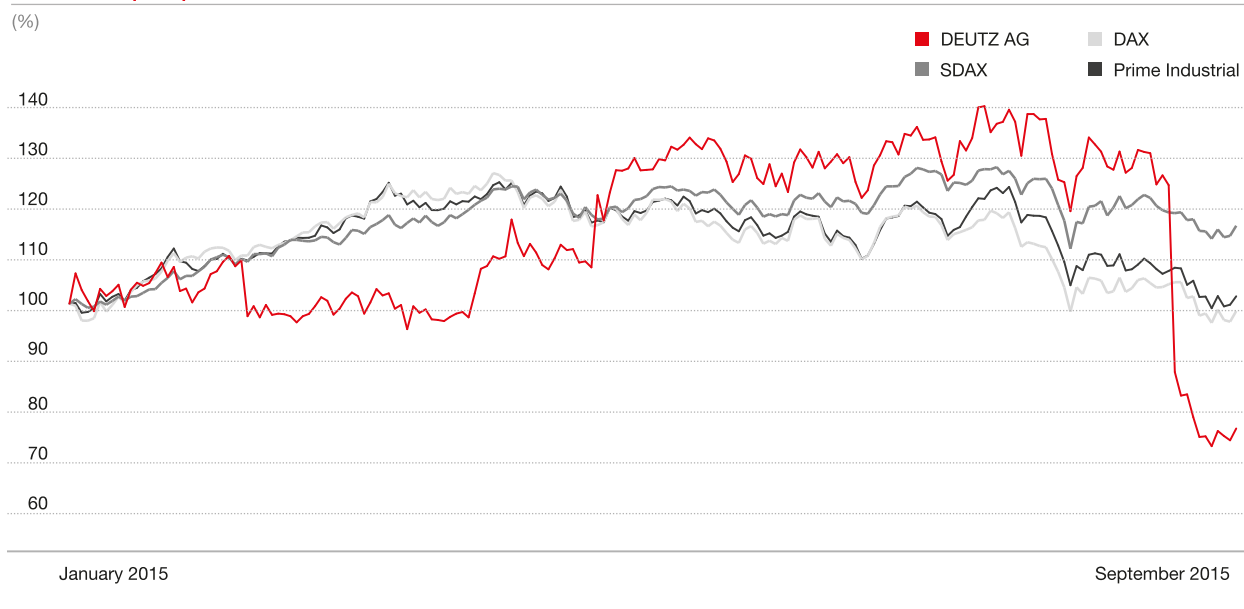
Dr Margarete Haase



Michael Wellenzohn

## DEUTZ SHARES

### DEUTZ share price performance



**Share price falls following announcement of lower forecast** Stock markets have faltered in recent months. The SDAX, the index on which DEUTZ shares are listed, closed at 8,310.02 points on 30 September 2015, up by 15.6 per cent compared with the end of 2014. However, the increase as at 30 June had been higher at 19.4 per cent. The Prime Industrial gained 1.5 per cent over the nine-month period and closed at 4,307.73 points, although it declined significantly in the third quarter.

DEUTZ shares initially maintained their positive trajectory in the third quarter, reaching their peak for the year so far of €5.59 on 4 August 2015. On 15 September 2015, we announced that revenue and earnings for 2015 were likely to be lower than previously expected owing to a reluctance to invest on the part of end customers. The price of DEUTZ shares then fell substantially, reaching the lowest point of the year so far of €2.86 on 24 September 2015. The shares closed at €3.00 on 30 September 2015, down by 25.1 per cent on their 2014 year-end closing price.

The number of DEUTZ shares remains unchanged at 120.9 million. Market capitalisation as at 30 September 2015 therefore came to €362.3 million (31 December 2014: €483.4 million).

Swedish truck and construction equipment manufacturer AB Volvo is the largest individual shareholder in DEUTZ AG with a stake of just over 25 per cent. The free float is held by a broadly diversified range of private and institutional shareholders both in Germany and abroad. As at 30 September 2015,

Old Mutual Plc held 3.1 per cent and Dimensional Holdings Inc. held 3.0 per cent in our Company. These are considered non-controlling shareholdings.

Eight banks and securities houses are currently monitoring the performance of DEUTZ shares: Bankhaus Lampe, Commerzbank, Deutsche Bank, DZ Bank, Equinet, HSBC Trinkaus & Burkhardt, Kepler Cheuvreux and Quirin Bank.

Further information on this subject and all other topics can be found on our website at [www.deutz.com](http://www.deutz.com) under Investor Relations.

### Key figures for DEUTZ shares

	1-9/2015	1-9/2014
Number of shares (30 Sep)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 30 Sep (€)	3.00	5.82
Share price high (€)	5.59	7.94
Share price low (€)	2.86	5.61
Market capitalisation as at 30 Sep (€ million)	362.3	703.4
Earnings per share (€)	0.07	0.02

Based on Xetra closing prices.

# INTERIM MANAGEMENT REPORT OF THE DEUTZ GROUP FOR THE 1ST TO 3RD QUARTER OF 2015

## BUSINESS PERFORMANCE IN THE DEUTZ GROUP

### ECONOMIC ENVIRONMENT

**Reduced growth in the global economy<sup>1)</sup>** The global economy is still not managing to generate strong growth, and there are varying rates of expansion worldwide. Moreover, the threats to growth have increased again in recent months, the main reasons being the economic shift in China, the sharp fall in commodity prices and the possibility of a hike in interest rates in the United States.

Consequently, the International Monetary Fund (IMF) has again lowered its prediction for global economic growth in 2015, from 3.3 per cent to 3.1 per cent. The eurozone's economy is expected to grow by 1.5 per cent in 2015, compared with 0.9 per cent in 2014. The forecast for Germany, where the economy grew by 1.6 per cent last year, has also been lowered slightly, to 1.5 per cent. The prospects for Spain are very encouraging as its economy is predicted to expand by 3.1 per cent. This follows an increase of 1.4 per cent in 2014 that saw the country move out of recession for the first time in several years.

The US economy has regained a little momentum recently. It is likely to grow by 2.6 per cent in 2015, which is a slightly stronger rate than in 2014 (2.4 per cent).

Growth forecasts for China remain at 6.8 per cent, down from the 7.3 per cent growth rate seen in 2014. A further weakening of the Chinese construction machinery market can also be observed.

**German engineering at prior-year level<sup>2)</sup>** In the period January to August 2015, new orders in the German engineering sector were on a par with the corresponding period of 2014. Domestic orders were up by 2 per cent in real terms, but orders from abroad stagnated.

### NEW ORDERS

**Fewer orders than in prior-year period** In the first nine months of 2015, DEUTZ received orders worth €932.9 million, which was 13.4 per cent below the figure achieved a year ago (Q1-Q3 2014: €1,076.8 million). With the exception of the Automotive application segment and the service business, in which new orders rose by 21.3 per cent and 5.2 per cent respectively, all other application segments took fewer orders than in the first nine months of 2014. New orders in the Mobile Machinery application segment declined by a substantial 25.8 per cent compared with the strong prior-year figure. As had been the case in the first six months of the year, new orders were at the same level as revenue in the nine-month period.

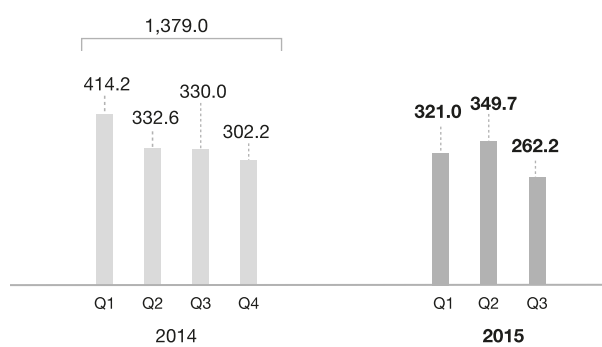
There was a sharp downturn in new orders in the third quarter of 2015. At €262.2 million, new orders were down by 20.5 per cent year on year (Q3 2014: €330.0 million) and by 25.0 per cent com-

pared with the previous quarter (Q2 2015: €349.7 million). The slump in new orders during the quarter under review is due to end customers being very reluctant to invest.

Orders on hand amounted to €217.3 million as at 30 September. This was 15.6 per cent lower than the figure reported a year earlier and 2.9 per cent lower than at 30 June 2015.

### DEUTZ Group: New orders by quarter

€ million



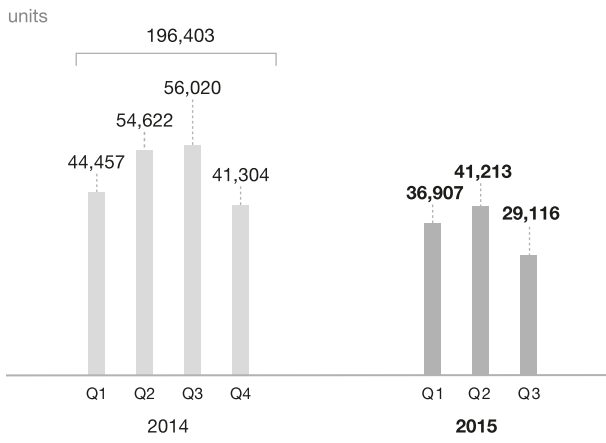
### UNIT SALES

**Unit sales in decline** DEUTZ sold 107,236 engines in the first nine months of this year, 30.9 per cent fewer than in the comparative period of the previous year (Q1-Q3 2014: 155,099 engines). Third-quarter unit sales amounted to 29,116 engines. This was 48.0 per cent fewer than in the same quarter of last year, when we sold 56,020 engines. Unit sales in the second quarter of 2015 had also been much higher at 41,213 engines.

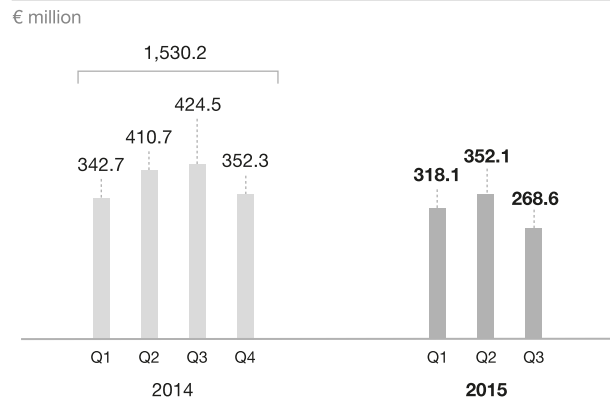
The breakdown by region reveals a very disparate pattern. Unit sales in our biggest market – EMEA (Europe, Middle East and Africa) – dropped by 41.6 per cent to 67,747 engines. In the Americas, we sold 30,197 engines, which was 3.2 per cent fewer than in the prior-year period. By contrast, unit sales in the Asia-Pacific region rose by 19.0 per cent to 9,292 engines.

<sup>1)</sup> Source: IMF World Economic Outlook, October 2015.

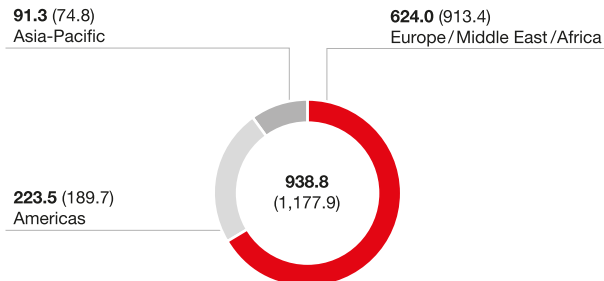
<sup>2)</sup> Source: Konjunkturbulletin of the German Engineering Federation (VDMA), October 2015.

**DEUTZ Group: Consolidated unit sales by quarter**

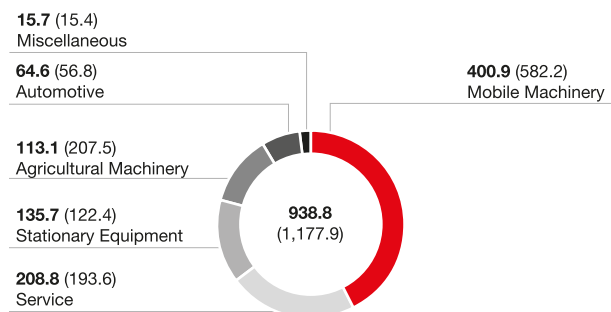
very mixed: Mobile Machinery and Agricultural Machinery registered falls in revenue of 31.1 per cent and 45.5 per cent respectively, whereas Stationary Equipment and Automotive saw their revenue rise by 10.9 per cent and 13.7 per cent respectively. Moreover, revenue from the service business increased by 7.9 per cent.

**DEUTZ Group: Revenue by quarters****RESULTS OF OPERATIONS****REVENUE****DEUTZ Group: Revenue by regions**

€ million (2014 figures)

**DEUTZ Group: Revenue by application segment**

€ million (2014 figures)



**Decrease in revenue** DEUTZ earned revenue of €938.8 million in the first nine months of this year, which was 20.3 per cent less than in the comparative period of last year (Q1-Q3 2014: €1,177.9 million). This decline in revenue is partly attributable to the changes to emissions standards for engines under 130kW that came into force in the European Union on 1 October 2014 and to the resulting effects from the advance production of engines. Furthermore, the current reluctance to invest on the part of end customers means that the inventories of a number of European customers are being used up more slowly. In the third quarter of 2015, revenue amounted to €268.6 million, a reduction of 36.7 per cent year on year (Q3 2014: €424.5 million) and of 23.7 per cent compared with the previous quarter (Q2 2015: €352.1 million).

In our largest region, EMEA, revenue decreased by 31.7 per cent to €624.0 million in the reporting period. By contrast, revenue in the Americas went up by 17.8 per cent to €223.5 million, while that of the Asia-Pacific region advanced by 22.1 per cent to €91.3 million. The situation in the application segments was

**EARNINGS**

Earnings before interest, tax, depreciation and amortisation (EBITDA before one-off items) came to €85.6 million in the first three quarters of the year, a year-on-year decrease of €8.9 million (Q1-Q3 2014: €94.5 million). This trend was mainly attributable to the decline in the volume of business in the DEUTZ Compact Engines segment, higher research and development costs and a smaller contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co. Ltd. on the back of China's current economic slowdown. Earnings were boosted, however, by lower production costs and warranty costs, currency effects and increased revenue in the high-margin DEUTZ Customised Solutions segment.

The numbers for the quarter reveal a similar picture: EBITDA before one-off items amounted to €15.2 million in the third quarter of 2015, a sharp decrease of €21.3 million compared with the previous quarter and of €11.8 million year on year (Q2 2015:

€36.5 million; Q3 2014: €27.0 million). The main factor in this decline was the sharp contraction in the volume of business in the DEUTZ Compact Engines segment.

Operating profit (EBIT before one-off items) after depreciation and amortisation came to €10.6 million in the first nine months of the year. This constituted a year-on-year reduction of €12.2 million (Q1-Q3 2014: €22.8 million). The slightly larger decrease in EBIT compared with the change in EBITDA was due, in particular, to impairment losses totalling €2.0 million that were recognised on intangible assets and on property, plant and equipment in the second quarter of 2015. These impairment losses were recognised because of the market situation and mainly related to capitalised development expenditure. There was also a slight rise in depreciation and amortisation. The EBIT margin decreased to 1.1 per cent in the reporting period, down by 0.8 of a percentage point on the figure of 1.9 per cent in the same period of 2014. In the third quarter of 2015, the operating loss before one-off items amounted to €9.7 million (Q2 2015: operating profit of €10.2 million; Q3 2014: operating profit of €2.7 million). This represents an EBIT margin of minus 3.6 per cent (Q2 2015: 2.9 per cent; Q3 2014: 0.6 per cent).

After one-off items, operating profit (EBIT) for the nine-month period improved by €1.7 million. In the first three quarters of 2014, EBIT had been reduced by one-off items of €13.9 million. There were no one-off items in the period under review. The one-off items in the prior-year period comprised expenses in connection with measures to optimise our network of sites.

The cost of sales for the reporting period amounted to €792.4 million (Q1-Q3 2014: €1,032.5 million). This represented a drop of 23.3 per cent compared with the first nine months of last year. The decline was mainly attributable to lower expenses for materials and contract workers resulting from the decline in the volume of unit sales. There was also a substantial decrease in warranty costs. Accordingly, the ratio of cost of sales to revenue fell from 87.7 per cent in the first three quarters of 2014 to 84.4 per cent in the reporting period.

Research and development costs amounted to €53.4 million in the first nine months of 2015 (Q1-Q3 2014: €49.2 million). This increase of €4.2 million was primarily attributable to the greatly reduced capitalisation rate. Excluding the effects of capitalisation of own work, research and development costs decreased as planned. Now that our new engines have gone into volume production, the focus of research and development activities is shifting from the development of new engines and the refinement of existing models to support for existing engine series and preliminary development. The costs incurred in connection with the support for existing engine series and with preliminary development are not capitalised. Research and development costs largely comprised staff costs, cost of materials and amortisation on completed development projects, from which investment grants received and capitalised development expenditure were deducted.

There was a small rise in selling expenses, which advanced to €52.1 million in the period under review (Q1-Q3 2014: €50.3 million), and in administrative expenses, which went up to €26.8 million (Q1-Q3 2014: €25.5 million). As a proportion of revenue, selling and administrative expenses also increased, to 5.5 per cent (Q1-Q3 2014: 4.3 per cent) and 2.9 per cent (Q1-Q3 2014: 2.2 per cent) respectively, due to the greatly reduced volume of business.

Other operating income was up by €3.6 million to €19.1 million in the first three quarters of 2015 (Q1-Q3 2014: €15.5 million). This rise was primarily attributable to effects arising on the translation of foreign currency positions. However, foreign currency gains were offset by a similar level of foreign currency losses, which are reported in other operating expenses.

Other operating expenses came to €19.2 million in the reporting period. This was €8.0 million lower than in the corresponding period of 2014 (Q1-Q3 2014: €27.2 million). The prior-year figure had included restructuring costs of €13.6 million. Excluding this one-off effect in the prior-year figures, other operating expenses in the reporting period increased by €5.6 million as a result of higher losses arising on the translation of foreign currency positions.

This year's loss on equity-accounted investments of €3.4 million represented a deterioration of €3.6 million compared with the first nine months of last year (Q1-Q3 2014: profit of €0.2 million). This change is primarily attributable to the contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. on the back of China's ongoing and pronounced economic slowdown. Against a backdrop of very challenging market conditions, DEUTZ Dalian generated revenue of €267.8 million, down by just 3 per cent year on year. However, measured in the local currency, revenue decreased by 19 per cent.

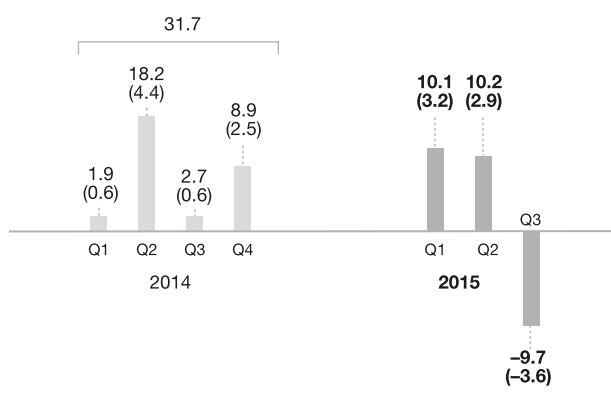
Net interest expense amounted to €3.1 million in the first nine months of 2015. This significant year-on-year improvement of €1.9 million (Q1-Q3 2014: €5.0 million) was attributable to lower utilisation of funding and better finance conditions.

Income taxes for the reporting period came to €0.2 million (Q1-Q3 2014: €0.5 million). This amount included the current tax expense of €4.5 million, which went down by €1.9 million compared with the prior-year period (Q1-Q3 2014: €6.4 million) due, in particular, to the drop in earnings at DEUTZ AG. The current tax expense was partly offset by deferred tax income of €4.3 million, a decrease of €1.6 million year on year (Q1-Q3 2014: €5.9 million). The reason for this reduction was the much lower level of income arising from the recognition of deferred tax assets on loss carryforwards.

Net income improved by €3.9 million to €7.3 million in the reporting period (Q1-Q3 2014: €3.4 million), resulting in earnings per share of €0.07 (Q1-Q3 2014: €0.03).

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

€ million (EBIT margin in %)



## BUSINESS PERFORMANCE IN THE SEGMENTS

### BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

**New orders down year on year** In the first nine months of 2015, the DEUTZ Compact Engines (DCE) segment took new orders worth €724.0 million, which was 18.0 per cent below the figure achieved a year ago (Q1-Q3 2014: €882.5 million). Although there was a particularly noticeable decline in orders in the Mobile Machinery application segment, the Automotive application segment and the service business saw small increases. In the third quarter, new orders totalled €194.0 million, a reduction of 28.3 per cent year on year (Q3 2014: €270.4 million) and of 31.0 per cent compared with the previous quarter (Q2 2015: €281.1 million). Orders on hand stood at €139.0 million as at 30 September 2015, which was 20.1 per cent down on the figure reported a year earlier of €173.9 million and 5.2 per cent lower than the €146.6 million reported at the end of the second quarter of 2015.

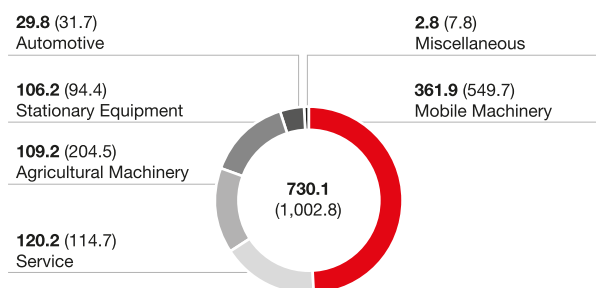
**Reduction in unit sales** The DCE segment sold 97,596 engines in the first nine months. This was a third less than in the comparable prior-year period (Q1-Q3 2014: 146,524 engines). The decrease in our largest market, the EMEA region, was 44.5 per cent, while the Americas region saw a moderate reduction of 1.8 per cent. By contrast, the Asia-Pacific region's unit sales rose by 22.6 per cent. A breakdown by application segment shows that only Stationary Equipment saw a rise in unit sales, albeit only small. In the third quarter of 2015, 26,243 engines were sold. This was 51.0 per cent fewer than in the third quarter of 2014 (53,589 engines) and 30.5 per cent fewer than in the second quarter of 2015 (37,758 engines).

**Smaller decline in revenue than in unit sales** The DCE segment earned revenue of €730.1 million in the first nine months, which was 27.2 per cent less than in the comparative period of last year (Q1-Q3 2014: €1,002.8 million). The revenue of our largest region, EMEA, fell by 37.7 per cent to €502.0 million, whereas that of the Americas and Asia-Pacific regions advanced by 17.4 per cent and 10.9 per cent to €186.3 million and €41.8 million respectively. Revenue decreased by 34.2 per cent in the Mobile Machinery application segment, by 46.6 per cent in the Agricultural Machinery application segment and by 6.0 per cent in the Automotive application segment. In contrast, revenue in the Stationary Equipment application segment was up by 12.5 per cent and in the service business by 4.8 per cent. Revenue in the third quarter of 2015 amounted to €201.8 million, a fall of 45.2 per cent year on year (Q3 2014: €368.2 million) and of 27.2 per cent compared with the previous quarter (Q2 2015: €277.3 million).

**Sharp drop in DCE's Q3 operating profit** The DEUTZ Compact Engines segment reported an operating loss of €16.9 million in the reporting period (Q1-Q3 2014: operating profit of €4.9 million). A greatly reduced volume of business, increased research and development costs and a smaller contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co. Ltd. caused this deterioration of €21.8 million compared with the prior-year period, despite lower production costs and warranty costs as well as positive currency effects. The decrease in volume was particularly pronounced in the third quarter. The loss of economies of scale resulted in an operating loss for the segment of €23.4 million in the third quarter, compared with an operating profit of €2.5 million in the previous quarter and an operating loss of €0.7 million in the third quarter of last year.

### DEUTZ Compact Engines: Revenue by application segment

€ million (2014 figures)



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

**New orders higher year on year** The DEUTZ Customised Solutions (DCS) segment won new orders worth €208.9 million in the reporting period, up by 7.5 per cent compared to the prior-year period (Q1-Q3 2014: €194.3 million). Unlike the DCE segment, this segment was not affected by the advance production of engines in 2014. The orders received in the third



## Results of operations

## Business performance in the segments

## Financial position

quarter of 2015 amounted to €68.2 million, which was up by 14.4 per cent year on year (Q3 2014: €59.6 million) and on a par with the second quarter of 2015. Orders on hand stood at €78.3 million as at 30 September 2015, a fall of 6.3 per cent year on year (30 September 2014: €83.6 million) but an increase of 1.4 per cent compared with the end of the previous quarter (30 June 2015: €77.2 million).

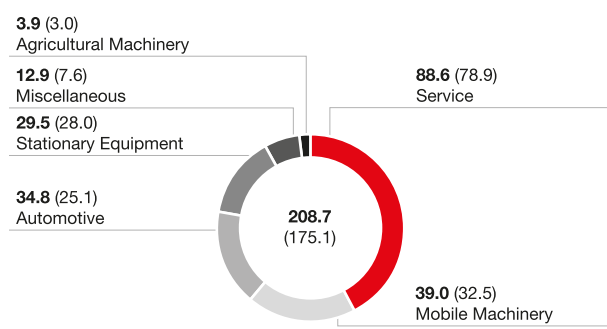
**More engines sold** The DCS segment sold 9,640 engines in the first nine months of 2015, which was 12.4 per cent more than in the corresponding period of last year (Q1-Q3 2014: 8,575 engines). Unit sales were down in the Americas region but rose in EMEA, our largest region, and in the Asia-Pacific region. All application segments saw their unit sales increase. In the third quarter, 2,873 engines were sold, which was 18.2 per cent more than in the prior-year period (Q3 2014: 2,431 engines) but 16.8 per cent fewer than in the previous quarter (Q2 2015: 3,455 engines).

**Stronger growth in revenue than in unit sales** The revenue posted by the DCS segment in the first nine months of 2015 was 19.2 per cent higher than it had been a year earlier, climbing to €208.7 million (Q1-Q3 2014: €175.1 million). All regions generated growth, with revenue rising by 14.0 per cent in the EMEA region, by 20.0 per cent in the Americas and by 33.4 per cent in the Asia-Pacific region. Revenue also increased in all of the application segments, notably Mobile Machinery (up by 20.0 per cent), Automotive (up by 38.6 per cent) and the service business (up by 12.3 per cent). In the third quarter of 2015, revenue advanced by 18.7 per cent to €66.8 million, compared with €56.3 million in the same period of 2014. However, this was 10.7 per cent below the figure of €74.8 million achieved in the previous quarter.

**Sharp rise in DCS's operating profit** The DEUTZ Customised Solutions segment's operating profit was €26.0 million in the first nine months of 2015 (Q1-Q3 2014: €18.5 million). This positive year-on-year trend is due, in particular, to the larger volume of business and to positive currency effects. The segment's operating profit in the third quarter of 2015 amounted to €8.7 million, an increase of €4.5 million on the prior-year period (Q3 2014: €4.2 million) and of €2.4 million on the previous quarter (Q2 2015: €6.3 million).

#### DEUTZ Customised Solutions: Revenue by application segment

€ million (2014 figures)



## OTHER

The Other segment's operating profit for the first nine months of 2015 amounted to €1.5 million (Q1-Q3 2014: operating loss of €0.6 million). In the third quarter, it reached an impressive €5.0 million (Q3 2014: operating loss of €0.8 million). The increase compared with the first and second quarters of this year (Q1 2015: operating loss of €4.9 million; Q2 2015: operating profit of €1.4 million) is due to the considerable adverse impact of unrealised currency effects in connection with the measurement of a liability denominated in a foreign currency in the first half of the year. This liability consisted of an outstanding contribution to the issued capital of DEUTZ Engine (China) Co, Ltd., Linyi, China. The decision to wind up the company cancelled this obligation in the third quarter, thereby eliminating the negative currency effect.

## FINANCIAL POSITION

### FUNDING

DEUTZ has a working capital facility totalling €160 million, which is provided by a syndicate of banks. This revolving facility can be drawn down as and when the Company needs it. The working capital facility was extended in May 2015 and now runs until May 2020. It is an unsecured, floating-rate facility. We can opt to utilise it as a bilateral overdraft facility (up to €60 million) or in the form of drawings under the syndicated line with interest periods of three to six months. The European Investment Bank has also granted us a loan, which had a remaining balance of €75.6 million as at the reporting date. This loan, which is also unsecured, must be repaid by mid-2020. DEUTZ has hedged the interest-rate risk arising from this loan.

As part of the contractual agreements for both loans, DEUTZ is obliged to comply with certain financial covenants. The working capital facility and the loan from the European Investment Bank have enabled us to secure funding for our projects and for further growth over the medium to long term.

### CASH FLOW

Cash flow from operating activities amounted to €43.6 million in the first nine months of 2015 (Q1-Q3 2014: €86.9 million), which equates to a year-on-year decrease of €43.3 million. The main reason for this change was the sharp contraction in the volume of business during the reporting period.

The net cash used for investing activities came to €50.0 million in the first three quarters of 2015, a rise of €7.7 million year on year (Q1-Q3 2014: €42.3 million). This increase was attributable not only to higher cash payments in connection with capital expenditure on property, plant and equipment and on intangible assets but also to the sale of our shareholding in DEUTZ Versicherungsvermittlung GmbH, which had generated a cash inflow in the comparative period of 2014.

Financing activities in the reporting period resulted in a net cash outflow of €22.6 million (Q1-Q3 2014: €17.1 million). This increase of €5.5 million was largely due to higher payments of principal in relation to existing financial liabilities than in the prior-year period. As in the first three quarters of last year, cash flow from financing activities included a dividend payment to shareholders of €8.5 million.

Cash and cash equivalents as at 30 September 2015 had fallen by €27.6 million to €74.1 million (31 December 2014: €101.7 million). The net financial position<sup>1)</sup> as at 30 September 2015 was minus €3.1 million, a reduction of €16.8 million compared with 31 December 2014 (€13.7 million).

Free cash flow<sup>2)</sup> was far worse than in the comparative prior-year period, decreasing by €49.1 million to minus €9.5 million (Q1-Q3 2014: €39.6 million). This was due in large part to the fall in cash flow from operating activities caused by the drop in demand. In the past twelve months, however, free cash flow was just into positive territory at €2.9 million.

## NET ASSETS

**Decrease in non-current assets** Non-current assets stood at €602.2 million as at 30 September 2015, a decrease of €23.6 million compared with the end of last year (31 December 2014: €625.8 million). The main factor here was the decline in intangible assets. Additions were much lower than depreciation and amortisation as a consequence of our new engines having now gone into volume production.

**Current assets also down** Current assets amounted to €484.6 million at the end of the reporting period. The decrease compared with the end of last year was €38.4 million (31 December 2014: €523.0 million) and was primarily caused by the lower level of cash, other receivables and assets, and trade receivables. The change in other receivables and assets resulted from the derecognition of the outstanding contributions from non-controlling interests, which related to the AB Volvo Group's shareholding in DEUTZ Engine (China) Co., Ltd., Linyi (China). The decision to wind up the company cancelled the outstanding obligations. However, the reduction in cash and trade receivables was largely attributable to the smaller volume of business.

**Working capital increased<sup>3)</sup>** Working capital had advanced to €231.1 million as at 30 September 2015 (31 December 2014: €196.2 million). This was due, on the one hand, to higher inventories caused by reduced inventory turnover and by exchange rate movements and, on the other, to lower trade payables. By contrast, the decrease in trade receivables had a positive impact on working capital. The rise in working capital coupled with the significant contraction in the volume of business led to a worsening of the working capital ratio<sup>4)</sup>, which stood at 17.9 per cent as at 30 September 2015 (31 December 2014: 12.8 per cent). The average working capital ratio<sup>5)</sup> also rose, amounting to 17.2 per cent on the reporting date (31 December 2014: 13.3 per cent).

**Unrecognised intangible assets** In addition to the assets recognised on the balance sheet, DEUTZ has further assets that are not recognised. The DEUTZ brand is synonymous with highly sophisticated technology, quality and reliability and the Company has been a firmly established player in the equipment manufacturing and operating industry for more than 150 years. DEUTZ also enjoys long-standing valuable relationships with customers; it has entered into long-term cooperation agreements, particularly with its key customers.

**Equity decreased** As at 30 September 2015, equity had fallen to €500.9 million (31 December 2014: €511.0 million). This reduction of €10.1 million was predominantly caused by the change in non-controlling interests. The decision to wind up DEUTZ Engine (China) Co., Ltd., Linyi (China) cancelled the outstanding obligation of the AB Volvo Group, our joint venture partner, to make a contribution to the joint venture's issued capital. By contrast, there was an increase in the Group equity attributable to the shareholders of DEUTZ AG due, above all, to the level of net income and to the positive effects from the higher discount rates used in the measurement of provisions for pensions and other post-retirement benefits. Despite the decrease in equity, the equity ratio rose from 44.5 per cent as at 31 December 2014 to 46.1 per cent as at 30 September 2015.

**Non-current liabilities reduced by provisions for pensions and other post-retirement benefits** Non-current liabilities as at 30 September 2015 stood at €293.9 million (31 December 2014: €322.7 million). The decrease of €28.8 million was predominantly caused by the change in provisions for pensions and other post-retirement benefits. These provisions fell by €13.4 million compared with 31 December 2014, mainly due to higher discount rates. We also continued to lower our non-current financial debt, which amounted to €62.3 million as at 30 September 2015. This equated to a decrease of €11.0 million compared with the end of last year (31 December 2014: €73.3 million).

<sup>1)</sup> Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.

<sup>2)</sup> Free cash flow: cash flow from operating and investing activities less interest expense.

<sup>3)</sup> Inventories plus trade receivables minus trade payables.

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

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

[Financial position](#)[Net assets](#)[Events after the reporting period](#)[Research and development](#)[Employees](#)

**Current liabilities also fallen** Current liabilities had decreased from €315.5 million as at 31 December 2014 to €292.4 million as at 30 September 2015. This drop of €23.1 million was mainly attributable to the lower level of trade payables.

Total assets amounted to €1,087.2 million as at 30 September 2015 (31 December 2014: €1,149.2 million).

## EVENTS AFTER THE REPORTING PERIOD

No events occurred after the reporting date that had a material impact on the financial position or financial performance of the DEUTZ Group.

## RESEARCH AND DEVELOPMENT

**R&D spending reduced as planned<sup>1)</sup>** Our expenditure on research and development in the first nine months of 2015 totalled €36.3 million, down by 32.3 per cent on the corresponding prior-year period (Q1-Q3 2014: €53.6 million). Over the past few years, we have re-designed substantial parts of our engine range from scratch and implemented the latest exhaust after-treatment technology in anticipation of the EU Stage IV / US EPA Tier 4 exhaust emissions standards (off-highway standards). The last engines for these emissions standards were launched in the market last year. Our diesel engines equipped with diesel particulate filters in the 2.9 to 7.8 litre cubic capacity range already meet the upcoming Stage V emissions standard, which is expected to apply in Europe from 2019. This means we can now significantly reduce our expenditure on R&D and invest a greater proportion in preliminary development activities.

Factoring in reimbursements received from key customers and development partners, spending on research and development came to €29.8 million in the first nine months of the year, which was 25.1 per cent lower than in the prior-year period (Q1-Q3 2014: €39.8 million). The R&D ratio (after deducting grants) – the ratio of net R&D spending to consolidated revenue – fell from 3.4 per cent in the first nine months of last year to 3.2 per cent in the period under review.

R&D spending on the development of our new engines and the refinement of existing ones amounted to €15.7 million, equating to 52.7 per cent of all R&D expenditure after deducting grants (Q1-Q3 2014: 78.4 per cent). Expenditure on ongoing support for existing engine series accounted for 17.4 per cent (Q1-Q3 2014: 13.6 per cent), and expenditure on research and preliminary development work accounted for 29.9 per cent (Q1-Q3 2014: 8.0 per cent).

The DEUTZ Compact Engines segment's spending on research and development (after deduction of grants) came to €27.9 million (Q1-Q3 2014: €36.2 million), and that of the DEUTZ Customised Solutions segment came to €1.9 million (Q1-Q3 2014: €3.6 million).

## EMPLOYEES

**Fewer people working in the DEUTZ Group** As at 30 September 2015, 3,755 people were employed by the DEUTZ Group, 221 people fewer than a year earlier (30 September 2014: 3,976). We had also decreased our headcount by 67 people compared with the middle of the year (30 June 2015: 3,822). There was a considerable decrease in the number of contract workers, which went down by 447 to 178 people as at the balance sheet date. This also represented a further significant reduction in the number of contract workers compared with the end of the previous quarter. Around 6 per cent of all staff at DEUTZ had fixed-term or temporary contracts at the end of September 2015.

At the end of September, DEUTZ employed 2,937 people in Germany, which was 176 fewer than a year previously and 71 fewer than at the end of the previous quarter. The number of people employed at our plants in Cologne had declined by 134 year on year to 2,298. We employed 405 people in Ulm, which was 16 employees more than a year ago and was due to the relocation of our plant in Übersee on Lake Chiemsee to Ulm.

As at the balance sheet date, we employed 818 people outside Germany, which was 45 fewer than a year previously but five more than at the end of the previous quarter. For production-related reasons, the decrease in headcount at our Spanish production company DEUTZ Spain was particularly pronounced, with the workforce contracting by 51 to 431 employees.

Overall, therefore, 78.2 per cent of DEUTZ employees were based in Germany as at 30 September 2015 (30 September 2014: 78.3 per cent) and 21.8 per cent in other countries (30 September 2014: 21.7 per cent).

<sup>1)</sup> R&D expenditure/spending is a metric with relevance to liquidity. The primary difference between R&D costs and R&D expenditure is that own work capitalised is subtracted from, and the amortisation charges on own work previously capitalised is added to, R&D costs.

## OPPORTUNITY AND RISK REPORT

The DEUTZ Group operates on a global basis in various market segments and application segments. Consequently, the Company is exposed to a variety of risks specific to its business and to the regions in which it operates. However, the constantly changing market environment also presents opportunities for the Company. Pages 53 to 57 of our 2014 annual report explain the structure of our risk management system and describe certain material risks and opportunities for our financial position and financial performance in 2015. We did not identify any further material risks or opportunities in the first nine months of 2015. Additional information is provided in the Outlook section of this interim group management report.

## RELATED PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties. These include the business relationships between the DEUTZ Group and entities in which it holds significant investments and the relationship with AB Volvo (publ), Gothenburg, Sweden (group), which is a shareholder in DEUTZ AG and able to exert a significant influence.

Further information on related party disclosures is given on page 26 of the notes to the interim consolidated financial statements.

## OUTLOOK

**Worldwide forecasts lowered again<sup>1)</sup>** The IMF has reduced its forecasts for this year and next year in view of the crises currently faced by major emerging markets such as China and Brazil. The global economy is now predicted to grow at a rate of 3.1 per cent in 2015 and 3.6 per cent in 2016, compared with 3.4 per cent in 2014. The eurozone economy is expected to expand by 1.5 per cent this year and by 1.6 per cent next year. Growth rates of 1.5 per cent in 2015 and 1.6 per cent in 2016 are also anticipated for Germany. The equivalent prospective growth rates for the US are 2.6 per cent and 2.8 per cent; for China, they are 6.8 per cent and 6.3 per cent.

**Focus on improving efficiency** Our focus this year is not only on successfully working on projects with new customers but also on optimising our network of sites, both in Germany and in China. These activities will be accompanied by further measures to boost efficiency and profitability. For example, our modern and fully upgraded product portfolio allows us to now reduce our capacities in research and development by approximately 25 per cent and cut our spending in this area significantly.

In 2015, revenue has been significantly affected by lower demand resulting from the advance production of engines in 2014. Moreover, the agricultural machinery market has been weak worldwide this year. The current reluctance to invest on the part of end customers is also having a negative impact. This means that the inventories of a number of European customers are being used up more slowly than expected.

As announced in our new outlook for 2015, which we published on 15 September 2015, we predict that revenue will be around 20 per cent lower than in 2014. Given the low level of business, DEUTZ is likely to just about break even in EBIT terms.

### Disclaimer

This management report includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performances, developments and results in the Company or those in sectors important to the Company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Board of Management cannot therefore make any guarantees with regard to the forward-looking statements made in this management report.

<sup>1)</sup> IMF World Economic Outlook, October 2015.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1ST TO 3RD QUARTER OF 2015

### INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	7-9/2015	7-9/2014	1-9/2015	1-9/2014
€ million					
<b>Revenue</b>		<b>268.6</b>	<b>424.5</b>	<b>938.8</b>	<b>1,177.9</b>
Cost of sales		-236.8	-380.3	-792.4	-1,032.5
Research and development costs		-17.3	-18.2	-53.4	-49.2
Selling expenses		-17.1	-17.1	-52.1	-50.3
General and administrative expenses		-8.2	-7.9	-26.8	-25.5
Other operating income		5.8	8.6	19.1	15.5
Other operating expenses		-4.3	-6.7	-19.2	-27.2
Profit/loss on equity-accounted investments		-0.4	-0.2	-3.4	0.2
Other financial income		-	-	-	-
<b>EBIT</b>		<b>-9.7</b>	<b>2.7</b>	<b>10.6</b>	<b>8.9</b>
<b>thereof one-off items</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-13.9</b>
<b>thereof operating profit/loss (EBIT before one-off items)</b>		<b>-9.7</b>	<b>2.7</b>	<b>10.6</b>	<b>22.8</b>
Interest expenses, net		-1.0	-1.7	-3.1	-5.0
thereof finance costs		-1.2	-1.7	-3.5	-5.4
<b>Net income before income taxes</b>		<b>-10.7</b>	<b>1.0</b>	<b>7.5</b>	<b>3.9</b>
Income taxes	1	1.3	-0.3	-0.2	-0.5
<b>Net income</b>		<b>-9.4</b>	<b>0.7</b>	<b>7.3</b>	<b>3.4</b>
thereof attributable to shareholders of DEUTZ AG		-8.7	0.0	8.3	2.9
thereof attributable to non-controlling interests		-0.7	-0.5	-1.0	-0.7
<b>Earnings per share (€)</b>		<b>-0.07</b>	<b>0.01</b>	<b>0.07</b>	<b>0.03</b>

### STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	7-9/2015	7-9/2014	1-9/2015	1-9/2014
€ million					
<b>Net income</b>		<b>-9.4</b>	<b>0.7</b>	<b>7.3</b>	<b>3.4</b>
<b>Amounts that will not be reclassified to the income statement in the future</b>		<b>-0.3</b>	<b>-4.6</b>	<b>3.4</b>	<b>-12.1</b>
Remeasurements of defined benefit plans		-0.3	-4.6	3.4	-12.1
<b>Amounts that will be reclassified to the income statement in the future if specific conditions are met</b>		<b>-9.7</b>	<b>11.9</b>	<b>2.5</b>	<b>10.1</b>
Currency translation differences		-10.9	12.7	2.2	11.3
Effective portion of change in fair value from cash flow hedges		1.3	-0.9	0.5	-1.3
Change in fair value of available-for-sale financial instruments		-0.1	0.1	-0.2	0.1
<b>Other comprehensive income, net of tax</b>	2	<b>-10.0</b>	<b>7.3</b>	<b>5.9</b>	<b>-2.0</b>
<b>Comprehensive income</b>		<b>-19.4</b>	<b>8.0</b>	<b>13.2</b>	<b>1.4</b>
thereof attributable to shareholders of DEUTZ AG		-15.8	6.3	15.0	0.2
thereof attributable to non-controlling interests		-3.6	1.7	-1.8	1.2

**BALANCE SHEET FOR THE DEUTZ GROUP**

Assets	Note	30 Sep 2015	31 Dec 2014
€ million			
Property, plant and equipment	3	290.5	291.9
Intangible assets	3	188.9	211.7
Equity-accounted investments		51.5	52.4
Other financial assets		6.3	7.6
<b>Non-current assets (before deferred tax assets)</b>		<b>537.2</b>	<b>563.6</b>
Deferred tax assets		65.0	62.2
<b>Non-current assets</b>		<b>602.2</b>	<b>625.8</b>
Inventories	4	273.4	245.2
Trade receivables		106.3	122.0
Other receivables and assets		30.8	54.1
Cash and cash equivalents		74.1	101.7
<b>Current assets</b>		<b>484.6</b>	<b>523.0</b>
Non-current assets classified as held for sale	5	0.4	0.4
<b>Total assets</b>		<b>1,087.2</b>	<b>1,149.2</b>
<b>Equity and liabilities</b>			
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		17.0	13.7
Retained earnings and accumulated income		137.5	134.3
<b>Equity attributable to shareholders of DEUTZ AG</b>		<b>492.3</b>	<b>485.8</b>
Non-controlling interests		8.6	25.2
<b>Equity</b>		<b>500.9</b>	<b>511.0</b>
Provisions for pensions and other post-retirement benefits		173.7	187.1
Other provisions	6	54.6	58.4
Financial debt	7	62.3	73.3
Other liabilities		3.3	3.9
<b>Non-current liabilities</b>		<b>293.9</b>	<b>322.7</b>
Provisions for pensions and other post-retirement benefits		14.7	14.7
Provision for current income taxes		8.1	7.8
Other provisions	6	58.7	63.0
Financial debt	7	14.9	14.7
Trade payables		148.6	171.0
Other liabilities		47.4	44.3
<b>Current liabilities</b>		<b>292.4</b>	<b>315.5</b>
<b>Total equity and liabilities</b>		<b>1,087.2</b>	<b>1,149.2</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

	Issued capital	Ad- ditional paid-in capital	Retained earnings and accu- mulated income	Fair value reserve <sup>1), 2)</sup>	Currency translation reserve <sup>1)</sup>	Equity attributable to share- holders of DEUTZ AG	Non- controlling interests	Total
€ million								
<b>Balance at 1 Jan 2014</b>	<b>309.0</b>	<b>28.8</b>	<b>139.7</b>	<b>0.2</b>	<b>2.6</b>	<b>480.3</b>	<b>24.4</b>	<b>504.7</b>
Dividend paid	-	-	-8.5	-	-	-8.5	-	-8.5
Net income	-	-	4.1	-	-	4.1	-0.7	3.4
Other comprehensive income	-	-	-12.1	-1.2	9.4	-3.9	1.9	-2.0
Comprehensive income	-	-	-8.0	-1.2	9.4	0.2	1.2	1.4
<b>Balance at 30 Sep 2014</b>	<b>309.0</b>	<b>28.8</b>	<b>123.2</b>	<b>-1.0</b>	<b>12.0</b>	<b>472.0</b>	<b>25.6</b>	<b>497.6</b>
<b>Balance at 1 Jan 2015</b>	<b>309.0</b>	<b>28.8</b>	<b>134.3</b>	<b>-1.5</b>	<b>15.2</b>	<b>485.8</b>	<b>25.2</b>	<b>511.0</b>
Dividend paid	-	-	-8.5	-	-	-8.5	-	-8.5
Outstanding contributions from non-controlling interests	-	-	-	-	-	-	-14.8	-14.8
Net income	-	-	8.3	-	-	8.3	-1.0	7.3
Other comprehensive income	-	-	3.4	0.3	3.0	6.7	-0.8	5.9
Comprehensive income	-	-	11.7	0.3	3.0	15.0	-1.8	13.2
<b>Balance at 30 Sep 2015</b>	<b>309.0</b>	<b>28.8</b>	<b>137.5</b>	<b>-1.2</b>	<b>18.2</b>	<b>492.3</b>	<b>8.6</b>	<b>500.9</b>

<sup>1)</sup> On the balance sheet these items are aggregated under 'Other reserves'.

<sup>2)</sup> Reserves from the measurement of cash flow hedges and reserves from the measurement of available-for-sale financial assets.

## CASH FLOW STATEMENT FOR THE DEUTZ GROUP

	Note	1-9/2015	1-9/2014
€ million			
<b>EBIT</b>		<b>10.6</b>	<b>8.9</b>
Income taxes paid		-5.5	-4.9
Depreciation, amortisation and impairment of non-current assets		75.0	71.7
Gains/losses on the sale of non-current assets		-0.2	0.0
Profit/loss on equity-accounted investments		3.6	-0.2
Other non-cash income and expenses		0.1	-
Change in working capital		-25.9	-34.1
Change in inventories		-22.7	-49.9
Change in trade receivables		18.5	15.8
Change in trade payables		-21.7	-
Change in other receivables and other current assets		8.3	-1.4
Change in provisions and other liabilities (excluding financial liabilities)		-22.4	46.9
<b>Cash flow from operating activities</b>		<b>43.6</b>	<b>86.9</b>
Capital expenditure on intangible assets, property, plant and equipment		-50.8	-47.3
Capital expenditure on investments		-0.1	-0.1
Proceeds from the sale of non-current assets		0.9	5.1
<b>Cash flow from investing activities</b>		<b>-50.0</b>	<b>-42.3</b>
Dividend payments to shareholders		-8.5	-8.5
Interest income		0.3	0.5
Interest expense		-3.4	-5.5
Cash receipts from borrowings		-	15.0
Repayments of loans		-11.0	-18.6
<b>Cash flow from financing activities</b>		<b>-22.6</b>	<b>-17.1</b>
Cash flow from operating activities		43.6	86.9
Cash flow from investing activities		-50.0	-42.3
Cash flow from financing activities		-22.6	-17.1
<b>Change in cash and cash equivalents</b>		<b>-29.0</b>	<b>27.5</b>
<b>Cash and cash equivalents at 1 Jan</b>		<b>101.7</b>	<b>58.9</b>
Change in cash and cash equivalents		-29.0	27.5
Change in cash and cash equivalents related to exchange rates		1.4	1.8
<b>Cash and cash equivalents at 30 Sep</b>		<b>74.1</b>	<b>88.2</b>



# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1ST TO 3RD QUARTER OF 2015

## BASIC PRINCIPLES

### BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended 30 September 2015 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and the relevant interpretations of the International Accounting Standards Board (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim consolidated financial statements do not contain all the information and notes required by IFRS for consolidated financial statements for a full financial year, and should therefore be read in conjunction with the IFRS consolidated financial statements published for the 2014 financial year.

The condensed interim consolidated financial statements for the period ended 30 September 2015 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and selected notes to the interim consolidated financial statements – and the interim group management report for the period from 1 January to 30 September 2015 have not been reviewed by an auditor.

### SIGNIFICANT ACCOUNTING POLICIES

With the exception of the new interpretation and amendments to existing standards described below, the accounting policies used in the preparation of these interim consolidated financial statements are the same as those used in the most recent consolidated financial statements for the year ended 31 December 2014. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2014. If they are material, revenue-related and cyclical items are accrued during the year. The income taxes are calculated on the basis of the effective tax rate currently expected to apply to the DEUTZ Group for the year as a whole.

**IFRIC 21 'Levies'** The IASB published this interpretation in May 2013. IFRIC 21 deals with the question of when to recognise a liability for certain levies imposed by a government, and offers guidance on the matter. Initial application of IFRIC 21 has not had any material impact on the interim consolidated financial statements.

### Collective standard amending various IFRSs (2011-2013)

The amendments published by the IASB in December 2013 are primarily concerned with clarifying ambiguous provisions in standards. Initial application of the amendments has not had any material impact on the interim consolidated financial statements.

**Significant estimates and assumptions** The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires estimates and assumptions to be made that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent assets and liabilities as at the balance sheet date and on the reporting of income and expenses in the period under review.

## EXPLANATORY DISCLOSURES

### 1. INCOME TAXES

	7-9/2015	7-9/2014	1-9/2015	1-9/2014
€ million				
Current tax expense	-2.1	2.4	4.5	6.4
Deferred taxes	0.8	-2.1	-4.3	-5.9
<b>Total</b>	<b>-1.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>

The current tax expense for the first three quarters of this year went down by a total of €1.9 million due, in particular, to the drop in earnings at DEUTZ AG. The decrease in deferred tax income of €1.6 million in total was attributable to the lower level of income arising from the recognition of deferred tax assets on loss carryforwards.

### 2. OTHER COMPREHENSIVE INCOME

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

	1-9/2015			1-9/2014		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
€ million						
<b>Amounts that will not be reclassified to the income statement in the future</b>	<b>5.0</b>	<b>-1.6</b>	<b>3.4</b>	<b>-17.7</b>	<b>5.6</b>	<b>-12.1</b>
Remeasurements of defined benefit plans	5.0	-1.6	3.4	-17.7	5.6	-12.1
<b>Amounts that will be reclassified to the income statement in the future if specific conditions are met</b>	<b>2.7</b>	<b>-0.2</b>	<b>2.5</b>	<b>9.5</b>	<b>0.6</b>	<b>10.1</b>
Currency translation differences	2.2	-	2.2	11.3	-	11.3
Effective portion of change in fair value from cash flow hedges	0.7	-0.2	0.5	-1.9	0.6	-1.3
Change in fair value of available-for-sale financial instruments	-0.2	-	-0.2	0.1	-	0.1
<b>Other comprehensive income</b>	<b>7.7</b>	<b>-1.8</b>	<b>5.9</b>	<b>-8.2</b>	<b>6.2</b>	<b>-2.0</b>

A pre-tax loss of €6.1 million relating to cash flow hedges was reclassified to the income statement in the first nine months of the current financial year (Q1-Q3 2014: pre-tax profit of €0.5 million).

### 3. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €50.6 million in the first nine months of this year (Q1-Q3 2014: €50.3 million). This was broken down into €37.8 million (Q1-Q3 2014: €25.6 million) on property, plant and equipment and €12.8 million (Q1-Q3 2014: €24.7 million) on intangible assets.

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

Capital expenditure was offset by depreciation and amortisation of €73.0 million (Q1-Q3 2014: €71.7 million). Impairment losses totalling €2.0 million were also recognised at the end of the second quarter (Q1-Q3 2014: €0.0 million). Of this amount, €1.9 million related to completed intangible assets and €0.1 million to property, plant and equipment. The impairment losses were recognised in connection with our series of engines with a capacity of more than eight litres and are due to the market situation. The impairment testing of these intangible assets and property, plant and equipment was carried out at the level of a cash-generating unit that represents the engine series in question. The recoverable amount, which was calculated on the basis of the value in use, came to €12.3 million. An interest rate of 7.7 per cent was used in the measurement.

Commitments to purchase property, plant and equipment and intangible assets amounted to €39.9 million as at 30 September 2015 (31 December 2014: €39.4 million).

### 4. INVENTORIES

Inventories at 30 September 2015 amounted to €273.4 million. This rise of €28.2 million on the end of 2014 (31 December 2014: €245.2 million) was mainly caused by the euro/US dollar exchange rate and the drop in the volume of unit sales in the third quarter. The increase primarily related to finished goods and work in progress, but also to raw materials and consumables.

Commitments to purchase inventories as at 30 September 2015 came to €105.1 million (31 December 2014: €72.9 million).

## 5. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Of the non-current assets classified as held for sale as at 30 September 2015, an amount of €0.4 million related to the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, which are situated in Cologne. The land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH are allocated to the DEUTZ Compact Engines segment.

This line item also includes DEUTZ AG's 50 per cent stake in the joint venture WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. in Weifang, China. In June 2015, a written agreement on the sale of the shares was reached with the Chinese joint venture partner, Weichai Power. The agreement will only come into effect if certain conditions precedent are met; we do not expect this to happen until the fourth quarter of this year. The shares in the joint venture were previously consolidated under the equity method; after conclusion of the agreement, they were reclassified as held for sale. The carrying amount calculated using the equity method was recognised at a nominal €1.00 at the time of reclassification. Reclassification therefore did not have any impact on the net income for the period. The cumulative income and expenses recognised in other comprehensive income amounted to income of €0.1 million as at 30 September 2015. The shares in WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. are allocated to the Other segment.

## 6. OTHER PROVISIONS

	30 Sep 2015	31 Dec 2014
€ million		
Non-current	54.6	58.4
Current	58.7	63.0
<b>Total</b>	<b>113.3</b>	<b>121.4</b>

The decrease in other provisions was largely attributable to a reduction in provisions for warranties and restructuring. However, there were higher accruals during the financial year.

## 7. FINANCIAL DEBT

	30 Sep 2015	31 Dec 2014
€ million		
Non-current	62.3	73.3
Current	14.9	14.7
<b>Total</b>	<b>77.2</b>	<b>88.0</b>

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

## OTHER INFORMATION

### STAFF COSTS

	7-9/2015	7-9/2014	1-9/2015	1-9/2014
€ million				
Wages	25.2	28.2	84.6	89.1
Salaries	26.8	27.2	89.2	88.8
Social security contributions	9.8	10.8	30.6	31.5
Net interest cost for provisions for pensions and other post-retirement benefits	0.9	1.1	2.8	4.3
Cost of post-employment benefits and other long-term benefits	0.4	0.9	0.5	0.9
Other staff costs	0.2	4.6	0.8	4.7
<b>Total</b>	<b>63.3</b>	<b>72.8</b>	<b>208.5</b>	<b>219.3</b>

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

	7-9/2015	7-9/2014	1-9/2015	1-9/2014
€ million				
Cost of sales	38.7	45.0	127.6	134.9
Research and development costs	6.9	8.7	23.1	27.3
Selling expenses	11.6	11.4	35.4	33.4
Administrative expenses	5.1	6.2	19.2	19.0
Other operating expenses	1.0	1.5	3.2	4.7
<b>Total</b>	<b>63.3</b>	<b>72.8</b>	<b>208.5</b>	<b>219.3</b>

## FINANCIAL INSTRUMENTS

The following table shows the carrying amounts of the individual financial assets and liabilities for each separate category of financial instrument, reconciled to the corresponding balance sheet item.

	30 Sep 2015						
	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	
	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial assets	Carrying amount	Carrying amount on the balance sheet
<b>Assets</b>							
€ million							
<b>Non-current financial assets</b>	<b>1.3</b>	<b>0.2</b>	<b>2.8</b>	–	–	<b>2.0</b>	<b>6.3</b>
<b>Current financial assets</b>	<b>199.1</b>	–	–	–	–	<b>12.1</b>	<b>211.2</b>
Trade receivables	106.3	–	–	–	–	–	106.3
Other receivables and assets	18.7	–	–	–	–	12.1	30.8
Cash and cash equivalents	74.1	–	–	–	–	–	74.1

	31 Dec 2014						
	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	
	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial assets	Carrying amount	Carrying amount on the balance sheet
<b>Assets</b>							
€ million							
<b>Non-current financial assets</b>	<b>2.5</b>	<b>0.2</b>	<b>2.7</b>	–	–	<b>2.2</b>	<b>7.6</b>
<b>Current financial assets</b>	<b>269.0</b>	–	–	–	–	<b>8.8</b>	<b>277.8</b>
Trade receivables	122.0	–	–	–	–	–	122.0
Other receivables and assets	45.3	–	–	–	–	8.8	54.1
Cash and cash equivalents	101.7	–	–	–	–	–	101.7

	30 Sep 2015				
	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
Liabilities	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
€ million					
<b>Non-current financial liabilities</b>	<b>62.9</b>	<b>0.9</b>	<b>–</b>	<b>1.8</b>	<b>65.6</b>
Financial debt	62.3	–	–	–	62.3
Other liabilities	0.6	0.9	–	1.8	3.3
<b>Current financial liabilities</b>	<b>200.1</b>	<b>1.1</b>	<b>0.6</b>	<b>9.1</b>	<b>210.9</b>
Financial debt	14.9	–	–	–	14.9
Trade payables	148.6	–	–	–	148.6
Other liabilities	36.6	1.1	0.6	9.1	47.4

	31 Dec 2014				
	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
Liabilities	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
€ million					
<b>Non-current financial liabilities</b>	<b>74.1</b>	<b>1.1</b>	<b>–</b>	<b>2.0</b>	<b>77.2</b>
Financial debt	73.3	–	–	–	73.3
Other liabilities	0.8	1.1	–	2.0	3.9
<b>Current financial liabilities</b>	<b>219.2</b>	<b>1.7</b>	<b>0.2</b>	<b>8.9</b>	<b>230.0</b>
Financial debt	14.7	–	–	–	14.7
Trade payables	171.0	–	–	–	171.0
Other liabilities	33.5	1.7	0.2	8.9	44.3

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

	30 Sep 2015		31 Dec 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
€ million				
<b>Financial assets</b>	<b>200.6</b>	<b>200.4</b>	<b>271.7</b>	<b>271.5</b>
Other loans	1.3	1.3	1.3	1.3
Available-for-sale financial assets measured at cost	0.2	–	0.2	–
Trade receivables	106.3	106.3	122.0	122.0
Other receivables and assets	18.7	18.7	46.5	46.5
Cash and cash equivalents	74.1	74.1	101.7	101.7
<b>Financial liabilities</b>	<b>263.0</b>	<b>268.7</b>	<b>293.3</b>	<b>296.7</b>
Financial debt – liabilities to banks	77.2	82.9	88.0	91.4
Trade payables	148.6	148.6	171.0	171.0
Other liabilities	37.2	37.2	34.3	34.3

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

The available-for-sale financial assets with a carrying amount of €0.2 million (31 December 2014: €0.2 million) are investments. They are measured at amortised cost because their fair value cannot be reliably determined due to their not being listed on a market and due to a lack of market data for comparable instruments. There was no intention to dispose of these financial assets as at 30 September 2015.

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

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

30 Sep 2015	Carrying amount	Fair value	Level 1	Level 2	Level 3
€ million					
<b>Financial assets</b>					
Securities	2.8	2.8	2.8	–	–
<b>Financial liabilities</b>					
Currency forwards	1.7	1.7	–	1.7	–
Interest-rate swaps	0.9	0.9	–	0.9	–
Financial debt	77.2	82.9	–	82.9	–

31 Dec 2014	Carrying amount	Fair value	Level 1	Level 2	Level 3
€ million					
<b>Financial assets</b>					
Securities	2.7	2.7	2.7	–	–
<b>Financial liabilities</b>					
Currency forwards	1.9	1.9	–	1.9	–
Commodity derivatives	– <sup>1)</sup>	– <sup>1)</sup>	–	– <sup>1)</sup>	–
Interest-rate swaps	1.1	1.1	–	1.1	–
Financial debt	88.0	91.4	–	91.4	–

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

Level 2: Measurement is based on the price of a similar instrument in active markets/measurement using a method in which all the critical input factors are based on observable market data.

Level 3: Measurement using a method in which critical input factors are not based on observable market data.

<sup>1)</sup> Rounded figures are below €0.1 million.

The fair value of securities is derived from prices in active markets.

The fair value of derivative financial instruments (currency forwards, interest-rate swaps and, in the prior-year period, commodity derivatives) is calculated over the remaining term of the instrument using current exchange rates, market interest rates, yield curves and, in the prior-year period, commodity prices. Our own credit risk and that of our counterparties is also taken into account. The disclosures are based on valuations by banks.

The fair value of financial debt is computed by discounting estimated future cash flows using arm's length discount rates and taking into account our own credit risk based on credit ratings and exchange rates on the balance sheet date.

## SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the first nine months of 2015 and of 2014 is shown in the following table:

7-9/2015	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total for all segments	Reconciliation	DEUTZ Group
€ million						
External revenue	201.8	66.8	-	268.6	-	268.6
Intersegment revenue	-	-	-	-	-	-
<b>Total revenue</b>	<b>201.8</b>	<b>66.8</b>	<b>-</b>	<b>268.6</b>	<b>-</b>	<b>268.6</b>
Operating profit/loss (EBIT before one-off items)	-23.4	8.7	5.0	-9.7	-	-9.7
7-9/2014	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total for all segments	Reconciliation	DEUTZ Group
€ million						
External revenue	368.2	56.3	-	424.5	-	424.5
Intersegment revenue	-	-	-	-	-	-
<b>Total revenue</b>	<b>368.2</b>	<b>56.3</b>	<b>-</b>	<b>424.5</b>	<b>-</b>	<b>424.5</b>
Operating profit/loss (EBIT before one-off items)	-0.7	4.2	-0.8	2.7	-	2.7
1-9/2015	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total for all segments	Reconciliation	DEUTZ Group
€ million						
External revenue	730.1	208.7	-	938.8	-	938.8
Intersegment revenue	-	-	-	-	-	-
<b>Total revenue</b>	<b>730.1</b>	<b>208.7</b>	<b>-</b>	<b>938.8</b>	<b>-</b>	<b>938.8</b>
Operating profit/loss (EBIT before one-off items)	-16.9	26.0	1.5	10.6	-	10.6
1-9/2014	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total for all segments	Reconciliation	DEUTZ Group
€ million						
External revenue	1,002.8	175.1	-	1,177.9	-	1,177.9
Intersegment revenue	-	-	-	-	-	-
<b>Total revenue</b>	<b>1,002.8</b>	<b>175.1</b>	<b>-</b>	<b>1,177.9</b>	<b>-</b>	<b>1,177.9</b>
Operating profit/loss (EBIT before one-off items)	4.9	18.5	-0.6	22.8	-	22.8



**Reconciliation from overall profit of the segments to net income**

	7-9/2015	7-9/2014	1-9/2015	1-9/2014
€ million				
<b>Overall profit of the segments</b>	<b>-9.7</b>	<b>2.7</b>	<b>10.6</b>	<b>22.8</b>
Reconciliation	-	-	-	-
<b>EBIT before one-off items</b>	<b>-9.7</b>	<b>2.7</b>	<b>10.6</b>	<b>22.8</b>
One-off items	-	-	-	-13.9
<b>EBIT</b>	<b>-9.7</b>	<b>2.7</b>	<b>10.6</b>	<b>8.9</b>
Interest expenses, net	-1.0	-1.7	-3.1	-5.0
<b>Net income before income taxes</b>	<b>-10.7</b>	<b>1.0</b>	<b>7.5</b>	<b>3.9</b>
Income taxes	1.3	-0.3	-0.2	-0.5
<b>Net income</b>	<b>-9.4</b>	<b>0.7</b>	<b>7.3</b>	<b>3.4</b>

**RELATED PARTY DISCLOSURES**

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

These include the business relationships between the DEUTZ Group and entities in which it holds significant investments and the relationship with AB Volvo (publ), Gothenburg, Sweden (including its subsidiaries), which is a shareholder in DEUTZ AG and able to exert a significant influence.

Related parties also include the Supervisory Board and the Board of Management.

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

	Goods and services provided		Other expenses in connection with goods and services received		Goods and services provided		Other expenses in connection with goods and services received	
	7-9/2015	7-9/2014	7-9/2015	7-9/2014	1-9/2015	1-9/2015	1-9/2015	1-9/2014
€ million								
Associates	-	-	-	-	-	-	-	-
Joint ventures	1.2	1.6	-	-	3.1	6.3	-	-
Other investments	0.1	0.1	1.1	1.2	0.4	0.4	3.4	3.4
<b>Total</b>	<b>1.3</b>	<b>1.7</b>	<b>1.1</b>	<b>1.2</b>	<b>3.5</b>	<b>6.7</b>	<b>3.4</b>	<b>3.4</b>

	Receivables		Liabilities	
	30 Sep 2015	31 Dec 2014	30 Sep 2015	31 Dec 2014
€ million				
Associates	–	–	–	–
Joint ventures	0.6	0.6	–	–
Other investments	0.8	0.2	3.7	2.9
<b>Total</b>	<b>1.4</b>	<b>0.8</b>	<b>3.7</b>	<b>2.9</b>

The decrease in goods supplied and services rendered to joint ventures compared with the corresponding period of 2014 is primarily the result of the business relationship with our joint venture DEUTZ (Dalian) Engine Co., Ltd. and relates to the decline in this Chinese company's volume of unit sales.

Impairment losses of €29.7 million (31 December 2014: €30.0 million) had been recognised on €30.5 million of the Company's total receivables due from investments as at 30 September 2015 (31 December 2014: €30.2 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 the shareholder AB Volvo (publ), Gothenburg, Sweden (including its subsidiaries):

	2015	2014
€ million		
Engines and spare parts supplied in the third quarter	50.1	71.6
Services rendered in the third quarter	2.1	3.2
Engines and spare parts supplied in the first nine months	188.5	206.3
Services rendered in the first nine months	5.6	13.4
Receivables as at 30 Sep/31 Dec	13.8	18.2

All transactions were concluded at arm's-length market rates. There is an agreement that grants Volvo companies extended credit periods in return for payment of a fee.

## EVENTS AFTER THE BALANCE SHEET DATE (30 SEPTEMBER 2015)

No material events occurred after 30 September 2015.

Cologne, 27 October 2015

DEUTZ Aktiengesellschaft

The Board of Management

Dr Ing Helmut Leube

Dr Margarete Haase

Michael Wellenzohn

## FINANCIAL CALENDAR

2015	
5 November 2015	Interim report for the first to third quarter of 2015 Conference call with analysts and investors
2016	
17 March 2016	Annual Results Press Conference in Cologne Analysts' meeting in Frankfurt
28 April 2016	Annual General Meeting
3 May 2016	Interim report for the first quarter of 2016 Conference call with analysts and investors
4 August 2016	Interim report for the first half of 2016 Conference call with analysts and investors
8 November 2016	Interim report for the first to third quarter of 2016 Conference call with analysts and investors

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