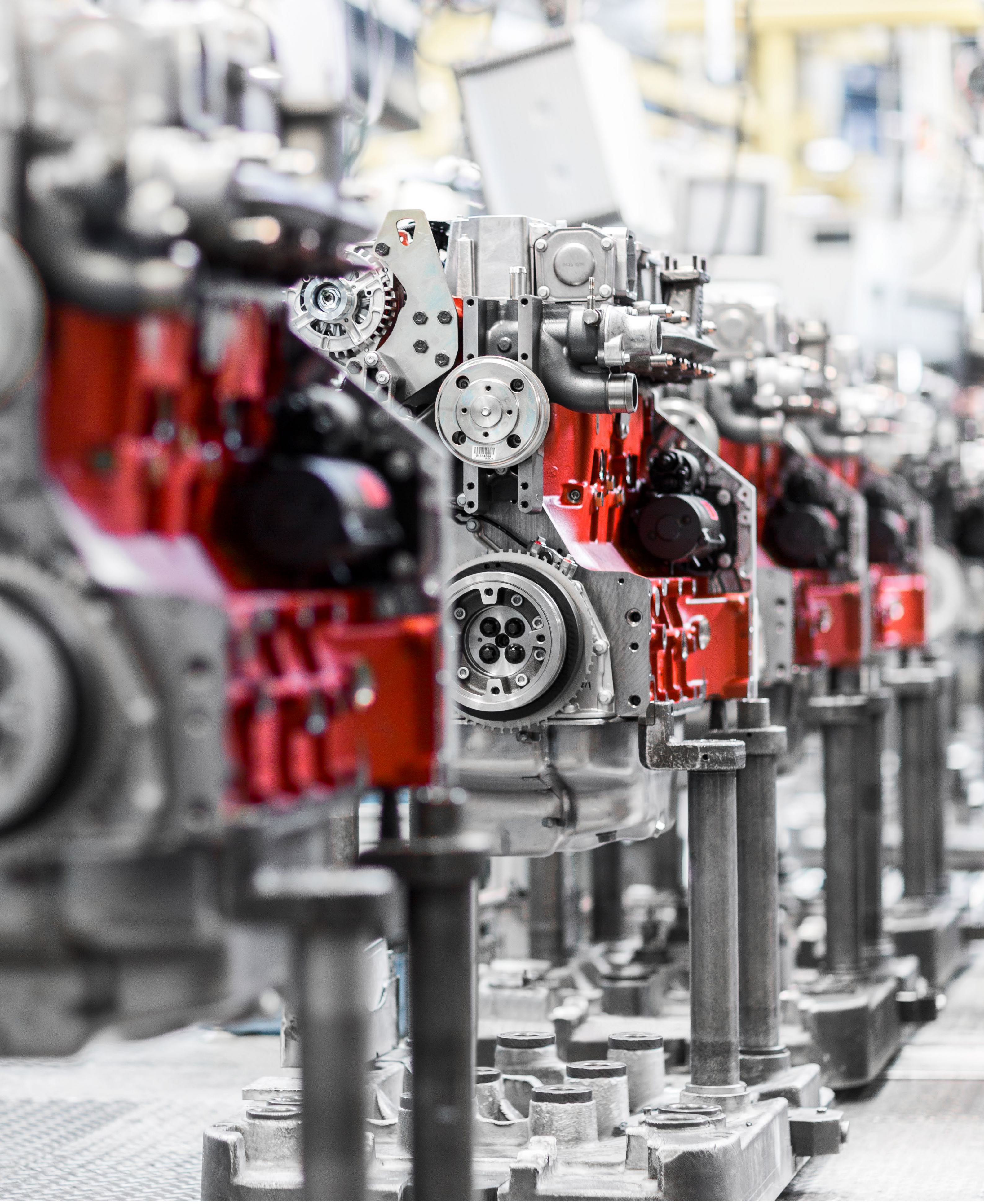


Interim management statement

1st to 3rd quarter of 2017

The engine company. DEUTZ

FIRST TO THIRD QUARTER AT A GLANCE

DEUTZ Group: Overview

€ million

	7–9/2017	7–9/2016	**1–9/2017**	1–9/2016
New orders	370.8	258.1	1,173.8	935.3
Unit sales (units)	38,680	30,733	118,279	100,439
Revenue	358.7	301.1	1,093.2	945.5
EBITDA	21.8	21.0	90.6	87.9
EBITDA before exceptional items	25.8	21.0	90.5	87.9
EBIT	1.0	–1.0	27.9	19.7
EBIT before exceptional items	5.0	–1.0	27.8	19.7
EBIT margin (%)	0.3	–0.3	2.6	2.1
EBIT margin before exceptional items (%)	1.4	–0.3	2.5	2.1
Net income	1.5	–1.2	21.3	18.8
Earnings per share (€)	0.02	–0.01	0.18	0.16
Total assets	1,113.6	1,063.8	1,113.6	1,063.8
Non-current assets	464.4	490.0	464.4	490.0
Equity	499.1	491.5	499.1	491.5
Equity ratio (%)	44.8	46.2	44.8	46.2
Cash flow from operating activities	11.2	6.9	96.4	22.3
Free cash flow[1]	20.6	–10.8	74.4	–28.0
Net financial position[2]	95.0	2.1	95.0	2.1
Working capital[3]	190.7	239.4	190.7	239.4
Working capital ratio (30 Sep, %)[4]	13.5	19.1	13.5	19.1
Capital expenditure (excl. capitalisation of R&D, after deducting grants)	23.2	10.4	41.5	40.4
Depreciation and amortisation	20.8	22.0	62.7	68.2
Research and development expenditure (after deducting grants)	15.3	13.8	46.3	36.5
thereof capitalised	2.9	2.8	10.0	5.3
Employees (number at 30 Sep)	3,835	3,695	3,835	3,695

[1] Free cash flow: cash flow from operating and investing activities less interest expense.

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

[3] Working capital: inventories plus trade receivables minus trade payables.

[4] Working capital ratio (percentage as at balance sheet date): working capital as at the balance sheet date divided by revenue for the previous twelve months.

DEUTZ Group: Segments

€ million

	7–9/2017	7–9/2016	**1–9/2017**	1–9/2016
New orders				
DEUTZ Compact Engines	307.7	199.2	969.3	743.7
DEUTZ Customised Solutions	63.1	58.9	204.5	191.6
Total	**370.8**	**258.1**	**1,173.8**	**935.3**
Unit sales (units)				
DEUTZ Compact Engines	36,465	28,503	111,947	93,310
DEUTZ Customised Solutions	2,215	2,230	6,332	7,129
Total	**38,680**	**30,733**	**118,279**	**100,439**
Revenue				
DEUTZ Compact Engines	294.0	237.2	907.6	749.7
DEUTZ Customised Solutions	64.7	63.9	185.6	195.8
Total	**358.7**	**301.1**	**1,093.2**	**945.5**
EBIT before one-off items				
DEUTZ Compact Engines	–4.7	–7.8	6.7	–5.9
DEUTZ Customised Solutions	10.3	6.2	21.9	27.6
Other	–0.6	0.6	–0.8	–2.0
Total	**5.0**	**–1.0**	**27.8**	**19.7**

SUMMARY

"The E-DEUTZ strategy is putting us on the right path to becoming the leading provider of innovative drive systems," says Dr Frank Hiller, Chairman of the DEUTZ Board of Management. "The acquisition of Torqeedo represents a major milestone in the electrification of our products. It gives us an extensive portfolio of expertise and technology in all relevant areas of drive electrification. We will use this significant technological edge to stand out from the competition."

- Market environment has brightened on a broad and prolonged basis this year
- New orders climb by 25.5 per cent to €1,173.8 million over the nine-month period
- Revenue rises by 15.6 per cent to €1,093.2 million
- Operating profit (EBIT before exceptional items) advances by 41.1 per cent to €27.8 million
- Significant increase in free cash flow: up by €102.4 million to €74.4 million
- E-DEUTZ strategy launched, under which DEUTZ is focusing on the development of hybrid and electrified drive systems for off-highway applications. The takeover of Torqeedo, completed in the third quarter of 2017, plays a key role in this. The company has significant expertise in components, software and system integration for electric drives
- DEUTZ is the world's first engine manufacturer to be given an EU Stage V emissions certificate. The DEUTZ TTCD 6.1 was officially certified for Stage V on 6 September 2017 and was followed by the TCD 3.6 and TCD 4.1 as well as the other models in the TCD 6.1 engine series. DEUTZ has therefore kept its promise as 'Stage V ready' becomes 'Stage V certified'
- Expansion of the existing successful alliance with Liebherr. At the end of August 2017, DEUTZ AG and Liebherr Machines Bulle S.A. signed a cooperation agreement, which will see DEUTZ expand its product portfolio in the upper power range of 200 to 620 kW. Production start-up is planned for 2019
- DEUTZ AG has taken over its Italian sales and service partner IML Motori, which will operate in the market under the name DEUTZ Italy. The acquisition represents a further landmark in DEUTZ's strategy as it looks to drive growth in its already profitable service business
- All DEUTZ AG shares are now in free float after AB Volvo sold its approx. 25 per cent shareholding in the Company
- Forecast for 2017 as a whole confirmed

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

NEW ORDERS

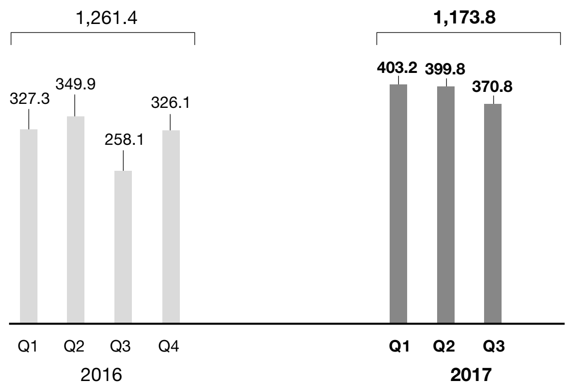
Significant increase in orders In the first nine months of 2017, DEUTZ took new orders worth €1,173.8 million, just over a quarter more than in the equivalent period of last year (Q1–Q3 2016: €935.3 million). All application segments except Automotive saw rises. The highest increases were in Material Handling (up by 56.6 per cent), Agricultural Machinery (up by 38.4 per cent) and Construction Equipment (up by 32.5 per cent). In the Automotive application segment, however, new orders declined by 14.7 per cent. The level of new orders exceeded revenue in the nine-month period.

Despite the production shutdown in August, there was a very encouraging increase in new orders in the traditionally somewhat weaker third quarter: DEUTZ received orders amounting to €370.8 million in the third quarter, a year-on-year increase of 43.7 per cent (Q3 2016: €258.1 million). Customers adjusted their ordering patterns in light of the buoyant market and in some cases put their orders in early.

As at 30 September 2017, orders on hand stood at €265.1 million, which was 48.4 per cent higher than at 30 September 2016 and 4.4 per cent more than at 30 June 2017.

DEUTZ Group: New orders by quarter

€ million



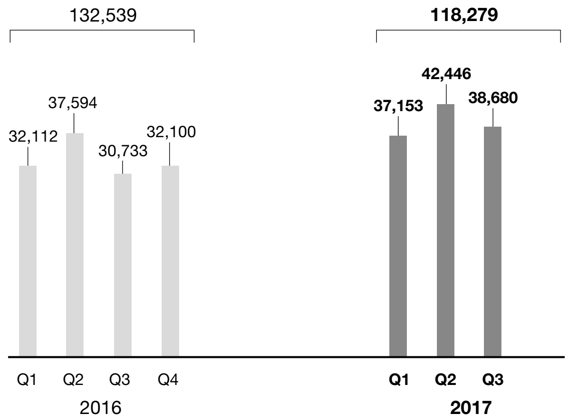
UNIT SALES

More engines sold In the first three quarters of 2017, DEUTZ sold 118,279 engines, an increase of 17.8 per cent on the equivalent period of the previous year (Q1–Q3 2016: 100,439 engines). Unit sales for the third quarter of 2017 stood at 38,680 engines, which was 25.9 per cent higher than in the third quarter of 2016 but 8.9 per cent lower than in the second quarter of 2017.

In EMEA (Europe, Middle East and Africa), our largest market, we sold 80,577 engines in the first nine months of 2017, a year-on-year increase of 19.5 per cent. In the Asia-Pacific and Americas regions, unit sales were up by 18.6 per cent and 12.6 per cent respectively.

DEUTZ Group: Consolidated unit sales by quarter

units

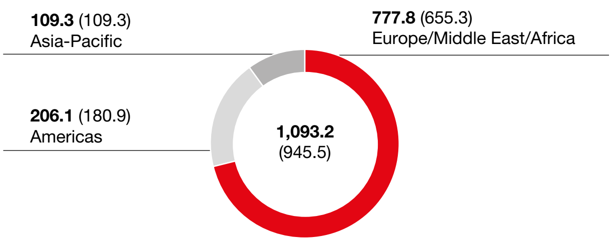


RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by region

€ million (2016 figures)

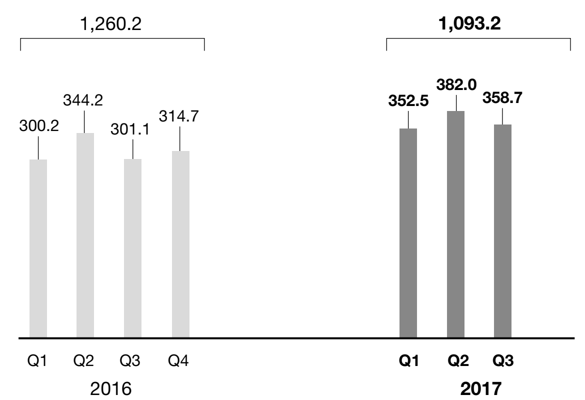


Significant increase in revenue DEUTZ generated €1,093.2 million in revenue in the first nine months of 2017, a 15.6 per cent increase on the prior-year period (Q1–Q3 2016: €945.5 million). This positive trend was due mainly to the improved market environment and to European customers having largely used up their inventories. Revenue in the third quarter of 2017 amounted to €358.7 million, which was up by 19.1 per cent on the prior-year period (Q3 2016: €301.1 million) but down by 6.1 per cent on the second quarter of 2017 (Q2 2017: €382.0 million).

Our largest region, EMEA, generated revenue of €777.8 million, which was 18.7 per cent more than in the first nine months of last year. Revenue rose in the Americas too, by 13.9 per cent to €206.1 million. At €109.3 million, revenue in the Asia-Pacific region was on a par with the first nine months of 2016, although the figure for the prior-year period had been boosted by licensing income. The breakdown by application segment also reveals a largely very positive picture. There were significant increases in revenue in the Material Handling application segment (up by 39.6 per cent), the Construction Equipment application segment (up by 25.2 per cent) and the Agricultural Machinery application segment (up by 24.4 per cent). Revenue from the service business rose by 9.9 per cent, whereas revenue in the Stationary Equipment application segment stayed at the prior-year level and declined by 30.9 per cent in the Automotive application segment. Our automotive business is increasingly shifting to our China-based DEUTZ Dalian joint venture, which is accounted for under the equity method and is therefore not included in consolidated revenue.

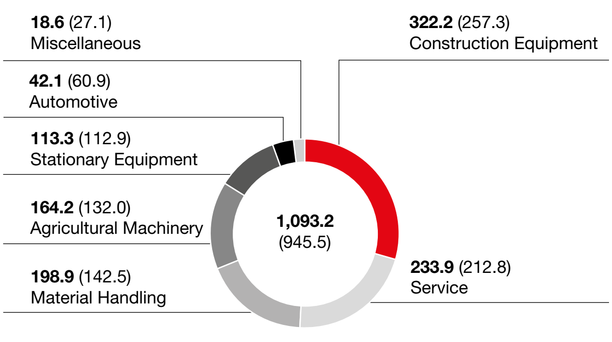
DEUTZ Group: Revenue by quarter

€ million



DEUTZ Group: Revenue by application segment

€ million (2016 figures)



EARNINGS

Operating profit (EBITDA before exceptional items) came to €90.5 million in the first nine months of 2017, a year-on-year rise of €2.6 million (Q1–Q3 2016: €87.9 million). The EBITDA margin (before exceptional items) narrowed from 9.3 per cent to 8.3 per cent. This is mainly because the figure for the prior-year period had been significantly boosted by a contribution to profits of €5.5 million from a licensing transaction.

Operating profit after depreciation and amortisation (EBIT before exceptional items) amounted to €27.8 million in the first nine months of 2017 (Q1–Q3 2016: €19.7 million). This significant increase of 41.1 per cent, or €8.1 million, is attributable to the larger volume of business, the reduction in the depreciation recognised on property, plant and equipment and in the amortisation recognised on intangible assets, and the improvement in the share of profit (loss) of equity-accounted investments. Countervailing effects to these positive factors were the budgeted higher level of research and development expenditure, negative currency effects and a temporary increase in costs caused by the rapid ramping up of capacities due to the surge in demand this year, especially in logistics. The EBIT margin improved to 2.5 per cent in the reporting period, compared with 2.1 per cent in the first three quarters of 2016.

Operating profit amounted to €5.0 million in the third quarter of 2017. This significant year-on-year increase of €6.0 million (Q3 2016: operating loss of €1.0 million) was due to the larger volume of business. However, operating profit was much higher in the second quarter of 2017, at €15.2 million. This is primarily the result of seasonal factors and, in particular, the comparatively lower volume of business in the third quarter. Production shutdowns for the summer break at our Cologne-Porz site and at many customer sites had an impact in the reporting quarter. The EBIT margin (before exceptional items) for the third quarter of 2017 was 1.4 per cent (Q3 2016: minus 0.3 per cent; Q2 2017: 4.0 per cent).

Unlike in the comparable period of 2016, exceptional items totalling €0.1 million arose in the first three quarters of 2017. Operating profit (EBIT) after these exceptional items came to €27.9 million. The exceptional items include income of €10.0 million relating to the disposal, in the first quarter of 2017, of the building lease of our subsidiary Ad. Strüver KG for a plot of land that was no longer being used for production purposes, and transaction costs amounting to €5.9 million, which were recognised in the second quarter of 2017 after the sale contract was signed for the disposal of the land occupied by our former Cologne-Deutz site. The proceeds from the sale of the Cologne-Deutz land are expected in December 2017 and will also be recognised as an exceptional item. Legal and consultancy costs of €4.0 million also arose in the reporting quarter and were incurred in connection with the acquisition of Torqeedo GmbH, completed at the beginning of October 2017.

The cost of sales in the period under review totalled €909.9 million (Q1–Q3 2016: €775.6 million). This sharp increase of €134.3 million was largely attributable to the higher volume of business and the resultant increase in the cost of materials. The gross margin[1] narrowed from 18.0 per cent in the first three quarters of 2016 to 16.8 per cent in the reporting period. The decline in gross margin was attributable not only to the increase in freight costs in the reporting period and the contribution to profits from a licensing transaction in the corresponding prior-year period but also to the product mix. Although the high-margin service business has expanded substantially this year, it has not performed as well as the new engine business.

Research and development costs were up by €8.3 million to €67.1 million compared with the first nine months of 2016 (Q1–Q3 2016: €58.8 million). The expansion of our engine portfolio was the primary reason for this budgeted increase.

Other operating income was up by €12.3 million to €22.9 million compared with the first nine months of last year (Q1–Q3 2016: €10.6 million). This rise was mainly caused by the disposal of the building lease for a plot of land in Hamburg that was no longer being used for production purposes.

Other operating expenses amounted to €26.9 million in the first nine months of 2017 (Q1–Q3 2016: €20.8 million). This increase of €6.1 million compared with the first three quarters of 2016 is mainly attributable to two exceptional items in the reporting period: the €5.9 million in transaction costs incurred in the second quarter in connection with the sale of our former Cologne-Deutz site and the legal and consultancy costs of €4.0 million that arose in the third quarter in connection with the acquisition of Torqeedo GmbH completed at the beginning of October 2017. Both other operating income and other operating expenses are affected by exceptional items this year.

Income taxes amounted to €4.6 million in the first nine months of this year (Q1–Q3 2016: tax income of €1.9 million). This change is primarily due to the much higher level of deferred tax income that was recognised in the corresponding period of 2016.

The rise in operating profit caused net income to improve by €2.5 million to €21.3 million in the reporting period (Q1–Q3 2016: €18.8 million). This resulted in earnings per share of €0.18 (Q1–Q3 2016: €0.16).

BUSINESS PERFORMANCE IN THE SEGMENTS

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

All key figures up on prior-year period The DEUTZ Compact Engines (DCE) segment took new orders worth €969.3 million in the first nine months of 2017, which was almost a third higher than the corresponding prior-year figure of €743.7 million. In the third quarter of the year, which is traditionally weaker due to seasonal effects, new orders totalled €307.7 million, which was 54.5 per cent higher than a year before (Q3 2016: €199.2 million) but 8.2 per cent lower than in the previous quarter (Q2 2017: €335.3 million). Customers adjusted their ordering patterns in light of the buoyant market and in some cases put their orders in early. At the end of the third quarter of 2017, orders on hand stood at €201.7 million, which was 57.3 per cent more than a year earlier (30 June 2016: €128.2 million) and 6.8 per cent more than at the end of the second quarter of 2017 (30 June 2017: €188.8 million). Unit sales in the DCE segment were up by 20.0 per cent to 111,947 engines in the first three quarters of 2017 (Q1–Q3 2016: 93,310 engines). In the third quarter of 2017, 36,465 engines were sold, which was 27.9 per cent more than a year earlier but 9.2 per cent fewer than in the previous quarter. Revenue amounted to €907.6 million in the first nine months of 2017, which equates to a year-on-year increase of 21.1 per cent (Q1–Q3 2016: €749.7 million). Revenue for the third quarter of 2017 amounted to €294.0 million, which was 23.9 per cent more than in the third quarter of 2016 but 8.0 per cent less than in the second quarter of 2017. The DCE segment's operating profit for the first nine months of 2017 amounted to €6.7 million (Q1–Q3 2016: operating loss of €5.9 million). This substantial increase of €12.6 million compared with the first three quarters of 2016 was primarily driven by the rise in the volume of business. The main countervailing effect came from the higher level

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

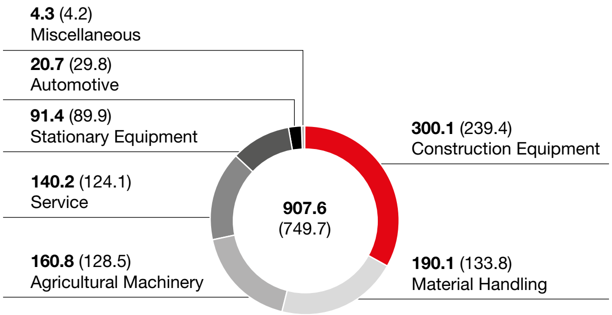
of research and development expenditure and the increase in freight costs. The DCE segment incurred an operating loss of €4.7 million in the third quarter of 2017, which represents a year-on-year improvement of €3.1 million resulting from the volume of business (Q3 2016: loss of €7.8 million). Compared with the previous quarter, however, which was stronger due to seasonal effects, operating profit fell by €14.6 million (Q2 2017: profit of €9.9 million).

DEUTZ Compact Engines

	7–9/2017	7–9/2016	**1–9/2017**	1–9/2016
New orders (€ million)	307.7	199.2	969.3	743.7
Unit sales (units)	36,465	28,503	111,947	93,310
Revenue (€ million)	294.0	237.2	907.6	749.7
EBIT (€ million)	–4.7	–7.8	6.7	–5.9

DEUTZ Compact Engines: Revenue by application segment

€ million (2016 figures)



BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

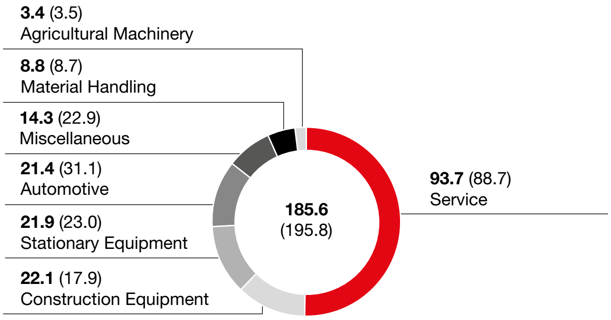
Year-on-year increase in new orders The DEUTZ Customised Solutions (DCS) segment took new orders worth €204.5 million in the period under review, a year-on-year increase of 6.7 per cent (Q1–Q3 2016: €191.6 million). New orders in the third quarter of 2017 amounted to €63.1 million, which was up by 7.1 per cent on the prior-year period (Q3 2016: €58.9 million) but down by 2.2 per cent on the second quarter (Q2 2017: €64.5 million). Orders on hand came to €63.4 million as at 30 September 2017, a year-on-year increase of 25.8 per cent (30 September 2016: €50.4 million). Unit sales for this segment totalled 6,332 engines over the nine-month period, which was 11.2 per cent down on the equivalent period of last year. The 2,215 engines sold in the third quarter of 2017 were on a par with the third quarter of 2016 and slightly below the level achieved in the second quarter of 2017. Revenue generated by the DCS segment fell by only 5.2 per cent to €185.6 million. This was due to the strong performance of the service business compared with the corresponding period of 2016. Revenue for the third quarter of 2017, which amounted to €64.7 million, was up by 1.3 per cent on the third quarter of 2016 and up by 3.5 per cent on the second quarter of 2017. In the first nine months of 2017, operating profit came to €21.9 million (Q1–Q3 2016: €27.6 million). This fall of €5.7 million primarily resulted from the prior-year period having been boosted by a contribution to profits of €5.5 million from a licensing transaction but also because of a contraction in the volume of business in the period under review. Operating profit in the third quarter of 2017 totalled €10.3 million, which was €4.1 million higher than in the third quarter of 2016 and €5.1 million above the figure for the second quarter of 2017. The increase derived mainly from the exceptionally strong growth in the service business in the third quarter of 2017 but also the larger overall volume of business.

DEUTZ Customised Solutions

	7–9/2017	7–9/2016	**1–9/2017**	1–9/2016
New orders (€ million)	63.1	58.9	204.5	191.6
Unit sales (units)	2,215	2,230	6,332	7,129
Revenue (€ million)	64.7	63.9	185.6	195.8
EBIT (€ million)	10.3	6.2	21.9	27.6

DEUTZ Customised Solutions: Revenue by application segment

€ million (2016 figures)



OTHER

The Other segment reported an operating loss of €0.8 million at the end of the third quarter of 2017 (Q1–Q3 2016: loss of €2.0 million).

FINANCIAL POSITION

CASH FLOW

Cash flow from operating activities amounted to €96.4 million in the first nine months of 2017. This represented a significant €74.1 million increase on the corresponding period of 2016 (Q1–Q3 2016: €22.3 million). The main reasons for this improvement were the disposal of the building lease, the overall increase in the volume of business and, in particular, the reduction in working capital. Although working capital decreased slightly in the period under review, it had increased substantially in the corresponding period of last year.

The net cash used for investing activities amounted to €19.7 million in the first nine months of 2017 (Q1–Q3 2016: €47.5 million). This decline of €27.8 million compared with the first nine months of 2016 was mainly attributable to the advance payment received from the property developer GERCHGROUP in connection with the sale of the land and buildings at our former Cologne-Deutz site but also to a reduction in the net cash used for capital expenditure on property, plant and equipment and on intangible assets.

Financing activities resulted in a net cash outflow of €24.1 million in the first three quarters of the year (Q1–Q3 2016: €22.2 million). As in the prior-year period, the outflow was predominantly due to the payment of the dividend for 2016 and the scheduled repayment of loans.

Cash and cash equivalents as at 30 September had risen by €51.6 million to €143.4 million (31 December 2016: €91.8 million), mainly due to the very large increase in cash flow from operating activities. There was an even more impressive increase in the net financial position[1], which went up by €63.4 million to €95.0 million over the same period (31 December 2016: €31.6 million).

As a result of the substantial increase in cash flow from operating activities, free cash flow[2] rose by a significant €102.4 million to €74.4 million (Q1–Q3 2016: minus €28.0 million). Looking at the past twelve months, free cash flow was in fact €107.1 million.

NET ASSETS

Non-current assets totalled €541.6 million as at 30 September 2017 (31 December 2016: €563.6 million). This decline of €22.0 million was largely attributable to the lower level of property, plant and equipment due to the depreciation amounts not being offset by the additions. Intangible assets, however, were at the same level as at 31 December 2016. The amortisation expenses for these were identical to the additions and included capitalised development expenditure and, in particular, the purchase of rights to distribute and service Liebherr diesel engines transferred as part of a cooperation agreement with Liebherr Machines Bulle S.A.

Current assets amounted to €567.5 million as at 30 September 2017. This increase of €71.8 million compared with the end of last year (31 December 2016: €495.7 million) was caused by the far higher level of cash and cash equivalents and by the reporting date-related and volume-related increase in trade receivables. There was also a slight increase in inventories due to the rise in orders on hand.

Despite higher trade receivables and inventories, working capital[3] was down by €13.6 million to €190.7 million as at 30 September 2017 (31 December 2016: €204.3 million) as a result of the growth in trade payables. Consequently, the working capital ratio[4] had improved to 13.5 per cent as at 30 September 2017 (31 December 2016: 16.2 per cent). The average working capital ratio[5] was also lower than at the end of 2016 at 13.8 per cent (31 December 2016: 17.9 per cent).

Non-current liabilities fell to €246.8 million (31 December 2016: €265.0 million) due, in particular, to lower provisions for pensions and other post-retirement benefits and a reduction in financial debt. The decline in provisions for pensions and other post-retirement benefits is mainly due to ongoing pension payments and higher discount rates, while the lower level of financial debt is attributable to scheduled loan payments. However, there was a rise in other liabilities. This increase mainly resulted from the purchase of rights to distribute and service Liebherr diesel engines.

Current liabilities had advanced by €64.1 million to €367.7 million as at 30 September 2017 (31 December 2016: €303.6 million). The primary reason for this was the increase in trade payables and in other liabilities. The growth in trade payables is mainly attributable to the higher volume of raw materials and consumables ordered as a result of the rise in manufacturing output in the reporting period. The increase in liabilities is due to the advance payments received in the third quarter from the property developer GERCHGROUP for the former Cologne-Deutz site sold in May 2017.

Total assets had grown to €1,113.6 million as at 30 September 2017 (31 December 2016: €1,059.7 million).

[1] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.

[2] Free cash flow: cash flow from operating and investing activities less interest expense.

[3] Inventories plus trade receivables minus trade payables.

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

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

E-DEUTZ STRATEGY COMPLEMENTS THE EXISTING TECHNOLOGY PORTFOLIO

Entry into the field of electrification and acquisition of Torqeedo DEUTZ has become the first engine manufacturer in the world to have its diesel engines certified for the EU Stage V (Stage V) emissions directive, which will apply from 2019. Innovative diesel engines will remain the instrument of choice in off-highway applications, where the requirement is for high power and high torque. However, the development of alternative drive systems will also play an important role in DEUTZ's core segments in future – especially for low and mid-range power requirements.

We are therefore focusing our E-DEUTZ strategy on the development of hybrid and electrified drive systems for off-highway applications. The acquisition of Torqeedo GmbH in September 2017 plays a key role in this new strategy and gives us an extensive portfolio of expertise and technology in all relevant areas of drive electrification. DEUTZ is thereby expanding its range of technology solutions aimed at reducing CO_2 and other emissions and becoming a provider of innovative, next-generation drive systems.

We are also investing more heavily in our service business and in internationalisation. The takeover of our Italian sales and service partner IML Motori, which will operate in the market under the name DEUTZ Italy, is an important step in this regard. And as part of the alliance with Liebherr, we are extending our product portfolio in the upper power range of 200 to 620 kW.

RESEARCH AND DEVELOPMENT

R&D spending increased as planned Research and development expenditure in the first nine months of 2017 amounted to €47.7 million, around a quarter higher than in the prior-year period. Minus reimbursements from key customers and development partners, spending on research and development came to €46.3 million in the reporting period, which was 26.8 per cent more than in the corresponding period of 2016. This increase was due to the planned expansion of our engine portfolio. The R&D ratio (after deducting grants) – the ratio of net research and development expenditure to consolidated revenue – stood at 4.2 per cent compared with 3.9 per cent in the equivalent period of last year.

Research and development

	7–9/2017	7–9/2016	**1–9/2017**	1–9/2016
R&D expenditure (after deducting grants, € million)	15.3	13.8	46.3	36.5
thereof DCE (€ million)	14.8	13.2	44.6	34.6
thereof DCS (€ million)	0.5	0.6	1.7	1.9
R&D ratio (as a percentage of revenue)	4.3	4.6	4.2	3.9

EMPLOYEES

DEUTZ increases its headcount As at 30 September 2017, the DEUTZ Group had 3,835 employees, which was 140 people or 3.8 per cent more than one year previously. The number of employees increased by 62, or 1.6 per cent, compared with 30 June 2017. The number of contract workers also went up year on year, by 174 to 401, which was the same level as at 30 June 2017. Hiring temporary workers enables us to respond flexibly to possible fluctuations in demand in a fast-moving market environment while continuing to grow profitably. Overall, 74.2 per cent of all employees were based in Germany as at the reporting date (30 September 2016: 77.0 per cent) and 25.8 per cent in other countries (30 September 2016: 23.0 per cent).

Employees

Headcount	30 Sep 2017	30 Sep 2016
Cologne	2,257	2,212
Ulm	449	414
Other	138	219
In Germany	**2,844**	**2,845**
Outside Germany	991	850
Total	**3,835**	**3,695**

OUTLOOK

Forecast for DEUTZ confirmed The market is experiencing a broad recovery. Originally, we anticipated that business conditions would largely stagnate in 2017, or perhaps be slightly better. Many European customers used up much of their inventories last year, resulting in a noticeable year-on-year increase in our business. Moreover, production for a number of projects with new customers is still being ramped up, which should have a beneficial impact on revenue growth.

We therefore continue to anticipate a marked rise in revenue for 2017 overall. We anticipate a moderate year-on-year increase in the EBIT margin before exceptional items.

Exceptional items with a positive effect In the first quarter of 2017, DEUTZ AG realised gains of €10 million from the disposal of a building lease. This was recognised as an exceptional item on the earnings side.

We expect to receive a sum of around €125 million as purchase consideration for the sale of the Cologne-Deutz site this year. The biggest instalment of the purchase consideration is scheduled to be received in December 2017. DEUTZ expects this transaction to deliver a positive contribution to earnings this year in the high double-digit million euros (after taxes), which will be recognised as an exceptional item. Depending on completion of the ongoing planning process, DEUTZ anticipates a further, final instalment of the purchase consideration in the coming years. The exact amount is not yet known and, provided the planning application is successful, will be in the mid double-digit million euros. The proceeds of the sale are giving us new opportunities to invest in innovation, service and internationalisation.

E-DEUTZ strategy In order to implement the E-DEUTZ strategy, DEUTZ is investing around €100 million in the period 2017 to 2019. This includes the acquisition of Torqeedo, which has already been completed.

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.

FINANCIAL INFORMATION 1ST TO 3RD QUARTER OF 2017

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million

	7–9/2017	7–9/2016	1–9/2017	1–9/2016
Revenue	**358.7**	**301.1**	**1,093.2**	**945.5**
Cost of sales	–305.2	–253.1	–909.9	–775.6
Research and development costs	–22.0	–20.0	–67.1	–58.8
Selling expenses	–19.1	–16.9	–56.1	–51.9
General and administrative expenses	–7.9	–8.8	–28.4	–26.2
Other operating income	5.7	3.4	22.9	10.6
Other operating expenses	–9.1	–6.6	–26.9	–20.8
Profit/loss on equity-accounted investments	–0.1	–0.1	0.2	–3.1
EBIT	**1.0**	**–1.0**	**27.9**	**19.7**
thereof exceptional items	**–4.0**	**–**	**0.1**	**–**
thereof operating profit (EBIT before exceptional items)	**5.0**	**–1.0**	**27.8**	**19.7**
Interest expenses, net	–0.6	–0.8	–2.0	–2.8
thereof finance costs	–0.7	–0.9	–2.3	–3.0
Net income before income taxes	**0.4**	**–1.8**	**25.9**	**16.9**
Income taxes	1.1	0.6	–4.6	1.9
Net income	**1.5**	**–1.2**	**21.3**	**18.8**
thereof attributable to shareholders of DEUTZ AG	1.5	–1.2	21.3	19.3
thereof attributable to non-controlling interests	–	–	–	–0.5
Earnings per share (€)	**0.02**	**–0.01**	**0.18**	**0.16**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million

	7–9/2017	7–9/2016	1–9/2017	1–9/2016
Net income	**1.5**	**–1.2**	**21.3**	**18.8**
Amounts that will not be reclassified to the income statement in the future	**–0.5**	**–1.5**	**1.7**	**–11.7**
Remeasurements of defined benefit plans	–0.5	–1.5	1.7	–11.7
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**–2.3**	**–0.3**	**–5.2**	**–2.7**
Currency translation differences	–1.5	–0.1	–4.9	–1.0
Profit/loss on equity-accounted investments	–1.0	–0.3	–3.0	–2.1
Effective portion of change in fair value from cash flow hedges	0.1	0.1	2.8	0.3
Change in fair value of available-for-sale financial instruments	0.1	–	–0.1	0.1
Other comprehensive income, net of tax	**–2.8**	**–1.8**	**–3.5**	**–14.4**
Comprehensive income	**–1.3**	**–3.0**	**17.8**	**4.4**
thereof attributable to shareholders of DEUTZ AG	–1.3	–2.9	17.8	5.2
thereof attributable to non-controlling interests	–	–0.1	–	–0.8

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

Assets	30 Sep 2017	31 Dec 2016
Property, plant and equipment	271.4	286.0
Intangible assets	147.2	148.5
Equity-accounted investments	38.6	41.7
Other financial assets	7.2	7.5
Non-current assets (before deferred tax assets)	464.4	483.7
Deferred tax assets	77.2	79.9
Non-current assets	**541.6**	**563.6**
Inventories	257.8	253.1
Trade receivables	131.0	113.5
Other receivables and assets	35.3	37.3
Cash and cash equivalents	143.4	91.8
Current assets	**567.5**	**495.7**
Non-current assets classified as held for sale	4.5	0.4
Total assets	**1,113.6**	**1,059.7**

Equity and liabilities	30 Sep 2017	31 Dec 2016
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	11.9	17.1
Retained earnings and accumulated income	149.4	136.2
Equity attributable to shareholders of DEUTZ AG	**499.1**	**491.1**
Non-controlling interests	–	–
Equity	**499.1**	**491.1**
Provisions for pensions and other post-retirement benefits	164.6	175.9
Deferred tax liabilities	0.1	0.4
Other provisions	36.5	38.4
Financial debt	32.3	44.0
Other liabilities	13.3	6.3
Non-current liabilities	**246.8**	**265.0**
Provisions for pensions and other post-retirement benefits	14.1	14.1
Provision for current income taxes	1.1	4.1
Other provisions	61.7	55.9
Financial debt	16.1	16.2
Trade payables	198.1	162.3
Other liabilities	76.6	51.0
Current liabilities	**367.7**	**303.6**
Total equity and liabilities	**1,113.6**	**1,059.7**

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million

	1–9/2017	1–9/2016
EBIT	**27.9**	**19.7**
Income taxes paid	–7.6	–6.6
Depreciation, amortisation and impairment of non-current assets	62.7	68.2
Gains/losses on the sale of non-current assets	–0.1	0.3
Profit/loss on equity-accounted investments	0.1	3.4
Other non-cash income and expenses	–	0.3
Change in working capital	4.2	–54.9
Change in inventories	–12.6	–28.0
Change in trade receivables	–21.6	–12.4
Change in trade payables	38.4	–14.5
Change in other receivables and other current assets	2.5	–2.5
Change in provisions and other liabilities (excluding financial liabilities)	6.7	–5.6
Cash flow from operating activities	**96.4**	**22.3**
Capital expenditure on intangible assets, property, plant and equipment	–40.6	–47.5
Capital expenditure on investments	–0.3	–0.1
Proceeds from the sale of non-current assets	21.2	0.1
Cash flow from investing activities	**–19.7**	**–47.5**
Dividend payments to shareholders	–8.5	–8.5
Interest income	0.2	0.2
Interest expense	–2.5	–3.0
Repayment of capital contributions to non-controlling interests	–1.3	–
Repayments of loans	–12.0	–10.9
Cash flow from financing activities	**–24.1**	**–22.2**
Cash flow from operating activities	96.4	22.3
Cash flow from investing activities	–19.7	–47.5
Cash flow from financing activities	–24.1	–22.2
Change in cash and cash equivalents	**52.6**	**–47.4**
Cash and cash equivalents at 1 Jan	**91.8**	**112.5**
Change in cash and cash equivalents	52.6	–47.4
Change in cash and cash equivalents related to exchange rates	–1.0	–0.1
Cash and cash equivalents at 30 Sep	**143.4**	**65.0**

FINANCIAL CALENDAR

2018	
14 March 2018	Annual results press conference Analysts' meeting 2017 annual financial statements
26 April 2018	Annual General Meeting in Cologne
3 May 2018	Interim report for the first quarter of 2018 Conference call with analysts and investors
2 August 2018	Interim report for the first half of 2018 Conference call with analysts and investors
8 November 2018	Interim report for the first to third quarter of 2018 Conference call with analysts and investors

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