Taking advantage of the opportunities of the future

» Interim Report
1st to 3rd quarter 2009

DEUTZ

The 1st to 3rd quarter at a glance

DEUTZ Group: Key figures

	7–9/ 2009	7–9/ 2008	1–9/ 2009	1–9/ 2008
Continuing operations				
€ million				
New orders	205.9	321.8	611.8	1,150.9
Unit sales (units)	26,307	58,804	86,804	207,491
Revenue	193.4	354.8	633.9	1,180.3
thereof excluding Germany (%)	74.7	76.6	72.4	76.0
EBITDA	0.5	15.7	–20.9	89.8
EBITDA (before one-off items)	0.5	15.7	9.5	89.8
EBIT	–17.3	–2.4	–71.1	35.8
EBIT (before one-off items)	–17.3	–2.4	–40.7	35.8
EBIT margin (%)	–8.9	–0.7	–11.2	3.0
EBIT margin (before one-off items, %)	–8.9	–0.7	–6.4	3.0
Net income	–25.3	–2.3	–87.7	28.0
Basic earnings per share (€)	–0.21	–0.02	–0.73	0.23
Total assets	1,072.9	1,333.8	1,072.9	1,333.8
Non-current assets	535.1	535.8	535.1	535.8
Equity	414.4	546.5	414.4	546.5
Equity ratio (%)	38.6	41.0	38.6	41.0
Cash flow from operating activities	25.5	26.5	48.9	77.2
Free cash flow	0.6	–7.2	–26.6	–12.7
Net financial position[1]	–33.4	25.6	–33.4	25.6
Working capital[2]	178.8	242.9	178.8	242.9
Working capital as percentage of revenue	18.9	15.2	18.9	15.2
Capital expenditure (excluding capitalisation of R&D)	7.1	16.6	30.1	56.1
Depreciation and amortisation	17.8	18.1	50.2	54.0
Research and development	26.8	21.5	73.8	60.6
Employees (30 September)	4,223	4,907	4,223	4,907

1) Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities
2) Working capital: inventories plus trade receivables minus trade payables

DEUTZ Group: Segments

	7–9/ 2009	7–9/ 2008	1–9/ 2009	1–9/ 2008
Continuing operations				
€ million				
New orders				
Compact Engines	156.4	238.3	461.0	874.3
DEUTZ Customised Solutions	49.5	83.5	150.8	276.6
Total	**205.9**	**321.8**	**611.8**	**1,150.9**
Unit sales (units)				
Compact Engines	23,136	51,261	75,257	183,384
DEUTZ Customised Solutions	3,171	7,543	11,547	24,107
Total	**26,307**	**58,804**	**86,804**	**207,491**
Revenue				
Compact Engines	144.1	269.9	466.3	922.4
DEUTZ Customised Solutions	49.3	84.9	167.6	257.9
Total	**193.4**	**354.8**	**633.9**	**1,180.3**
EBIT before one-off items				
Compact Engines	–21.4	–14.1	–49.9	2.6
DEUTZ Customised Solutions	1.9	12.5	9.6	33.8
Other	2.2	–0.8	–0.4	–0.6
Total	**–17.3**	**–2.4**	**–40.7**	**35.8**

Foreword

DEAR SHAREHOLDERS

Global trade is slowly but surely moving along the road to recovery. The global economic crisis may not be over yet, but there are signs that things are stabilising. In its Economic Barometer, the German Institute for Economic Research (DIW) forecasts quarter-on-quarter growth of 0.7 per cent for the German economy in the third quarter of this year. After the unprecedented slump in German industrial output in the past twelve months, the first signs of a turnaround are in sight. Although the Hamburg Institute of International Economics (HWWI) still expects a decline of 5 per cent in real GDP for 2009 as a whole, it believes that economic growth will return to positive territory next year. These forecasts already sound much better than the doom and gloom that was prophesied just a few months ago.

We are rigorously pursuing our internal optimisation programme known as MOVE, so that we are prepared for the economic recovery that is being forecast. In the last twelve months we have gradually started cutting costs, enhancing productivity and streamlining organisational structures: all actions that we had previously planned. Forecast cost savings, and those that have already been made, will enable us to cut our fixed costs in the long term, which will bring down our break-even point, and we will still be profitable in the medium term even if unit sales are low.

As part of MOVE, we have cut around 1,000 jobs worldwide in a way that minimises any adverse impact on staff. Another 800 are to follow. It is important to us that redundancies are made in a socially responsible fashion, and we are focussing on solutions such as voluntary redundancy and early retirement that do not entail compulsory job cuts. As required by German law, we have agreed a redundancy scheme with the works council for our biggest site, which is in Cologne. We have also established a job creation and re-skilling company, so that staff can train for a new job while being paid a short-time working allowance. Incidentally, short-time working has also reduced DEUTZ’s total workforce by an additional 500 positions this year.

Whether by streamlining structures or shortening decision-making channels, MOVE will have saved well over €100 million by the year end, and it will help to secure the future of our company across the board. DEUTZ will undoubtedly emerge from the crisis as a strong, competitive company.

A detailed look at DEUTZ’s performance shows that, although the volume of new orders in the third quarter of 2009 was 36.0 per cent down on the same quarter in 2008, its growth was 3 percentage points ahead of the second quarter of this year. The volume of new orders received between June and September 2009 was €205.9 million, higher even than the revenue figure of €193.4 million despite the traditionally weak summer months of July and August. This means that DEUTZ has turned the corner!

Although we reported an operating loss (EBIT before one-off items) of €40.7 million for the first nine months of the year, we reached operating break-even in September. We are confident that our MOVE action programme will increasingly provide a boost to earnings in the remainder of the year, so our operating performance in the fourth quarter will be considerably better than in the first nine months. Given the circumstances, DEUTZ will bring this year to a satisfactory close, and we will then focus our full attention on next year. The DIW in Berlin is forecasting GDP growth of 1.3 per cent in Germany, but whatever our market opportunities, we will make the best of them!

Kind regards from Cologne

Dr Helmut Leube
Chairman of the Board of Management

Interim group management report 1st to 3rd quarter 2009

ECONOMIC ENVIRONMENT

Global trade on the road to recovery[1)]

The bankruptcy of investment bank Lehman Brothers a year ago plunged the financial markets and the global economy into a state of turmoil. The signs now are that things are starting to stabilise: governments' economic stimulus packages around the world are taking effect, global demand is on the rise and the recession is over. Whereas companies had responded to the crisis by destocking and putting their capital expenditure plans on hold, they are now replenishing their inventories and starting to invest again. Experts are forecasting that the level of new industrial orders will continue to rise in the second half of the year. A key indicator of this trend, for example, is the global manufacturing purchasing managers' index, which rose by three points in both July and August.

The drivers of Asia's growth are still China and India, which are forecast to achieve GDP growth rates of 8.3 per cent and 6.5 per cent respectively for this year. The economy in the United States will also expand in the second half of 2009. Experts expect the US economy to grow by between 3.5 per cent and 4.0 per cent in the third quarter of this year compared with the previous quarter – partly because car production is on the increase again.

Although demand in the euro zone is also recovering, the speed at which its various member countries are pulling out of recession varies. Germany and France were the best placed of all the euro-zone countries in the second quarter of the year, having each posted quarter-on-quarter growth of 0.3 per cent. The recovery in both countries has been driven by exports and consumer spending. German industry is now winning more orders overall, and gross domestic product is forecast to grow by 0.8 per cent in both the third and fourth quarters of 2009.

Engineering sector stabilising at a low level[2)]

Nonetheless, the German engineering sector has yet to benefit from these macroeconomic trends. The volume of new orders received by this industry in July 2009 had contracted by 43 per cent in real terms year on year.

Although exports of capital equipment in the first half of 2009 were down by a nominal 22.7 per cent year on year, exports to Asia fell by a relatively modest 7.2 per cent. Economists are forecasting that an export boom will shortly be triggered by Asia. It is therefore highly convenient that the German engineering sector's largest foreign customer is now China, which has pushed the United States into second place. What's more, the industry has only moderately downsized its core workforce because most firms want to hang on to their skilled workers for the next upturn.

1) Sources: Commerzbank Research: Konjunktur und Finanzmärkte, September/October 2009, and Deutsche Bank: Konjunktur und Märkte, 18 and 25 September 2009 and Globale Trends Q4 2009

2) Source: German Engineering Federation (VDMA)

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

Turnaround in demand

Economic activity in Germany is picking up again and, with it, demand for DEUTZ products. At the end of the first nine months of 2009, demand was 46.8 per cent down on the corresponding period last year, but the pace of the downturn had slowed significantly. The level of new orders in the third quarter had actually risen again and was 3.0 per cent higher than in the second quarter. The total value of new orders received by the DEUTZ Group in the nine months to the end of September 2009 was €611.8 million compared with €1,150.9 million for the same period in 2008. For the first time in a long period, the level of new orders in the third quarter exceeded revenue, which is usually seen as an early indicator of recovery.

The Compact Engines segment won new orders totalling €461.0 million in the period January to September 2009 (Q1-Q3 2008: €874.3 million), which was a year-on-year decline of 47.3 per cent, whereas DEUTZ Customised Solutions recorded a 45.5 per cent fall-off in demand to €150.8 million in the same period (Q1-Q3 2008: €276.6 million).

However, the recovery in new orders is much stronger in the Compact Engines segment than in the DEUTZ Customised Solutions segment. Demand for compact engines was 3 per cent higher in the third quarter than in the second quarter, compared with the DEUTZ Customised Solutions segment, where new orders rose by 2.7 per cent in the same period.

Total orders on hand as at 30 September 2009 amounted to €153.7 million, which was 45.5 per cent less than twelve months previously (30 September 2008: €282.0 million).

Unit sales recover

Group sales figures are also now recovering – albeit only slightly – as the impact of the low volume of new orders seen in previous quarters and in the summer months of July and August continues to work its way through. Unit sales for the three quarters to 30 September 2009 were 86,804, compared with 207,491 units a year ago. This represents a decrease of 58.2 per cent, but the fall recorded at the end of the first half of 2009 was 59.3 per cent. Unit sales in Agricultural Machinery, which were only 11.5 per cent down year on year, helped to stabilise overall unit sales.

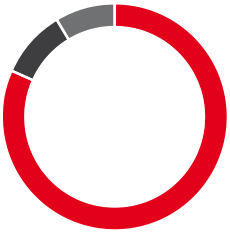
Revenue levels off

Revenue continued to deteriorate in line with unit sales in the third quarter, which largely reflects the fact that we and our customers use some of July and August for our summer shutdown. However, the first ray of hope can be seen on the horizon: the fall recorded in the first nine months of the year was 46.3 per cent, which is the same as the drop during the first half of 2009. The fact that new orders exceed revenue for the first time in a long period indicates that the Company has turned the corner. The DEUTZ Group as a whole generated revenue of €633.9 million compared with €1,180.3 million in the first three quarters of 2008.

The impact of the global economic crisis has varied across different geographic regions. We are experiencing the sharpest decline in the US, where revenue plummeted by around 63 per cent year on year in the first nine months of 2009, whereas revenue in Germany fell by a relatively modest 38.1 per cent to €174.9 million (Q1-Q3 2008: €282.7 million), indicating the comparative strength of the German economy. As a result, the proportion of revenue generated by the DEUTZ Group outside Germany was 3.6 percentage points lower than a year ago, although it still accounted for 72.4 per cent of the total (Q1-Q3 2008: 76.0 per cent).

The strength of the Asian economy is reflected in the relatively moderate 29.8 per cent drop in revenue generated by the Asia-Pacific region, where we anticipate a further boost for DEUTZ relatively soon as the Chinese economy bounces back (7.9 per cent year-on-year economic growth in the second quarter).

DEUTZ Group: Revenue by region
€ million (2008 figures)



519.2	(948.1)	Europe/Middle East/Africa
61.0	(86.9)	Asia-Pacific
53.7	(145.3)	Americas
633.9	(1,180.3)	**Total**

MOVE action programme improves profitability

DEUTZ launched the MOVE action programme in October 2008 and, since then, it has boosted income by €103 million. In the first three quarters of 2009, MOVE improved the Company's profitability by some €93 million. The programme secures DEUTZ's profitability in 2009 and in the long term it will use structural measures to improve earnings on a sustainable basis. The programme focusses on cutting overheads and the cost of materials, raising productivity and efficiency in research & development, production and quality, and on pricing products and services appropriately. We have already achieved impressive results in operating overheads and staff costs.

In percentage terms, the cost of materials fell further than total output, principally on the back of targeted measures taken as part of the MOVE programme. Within a year, staff costs (before one-off items) have been cut from €227.5 million to €184.8 million, mainly by reducing our headcount and bringing in short-time working.

Nevertheless, MOVE was not able to compensate in full for the persistently sharp contraction in business volumes owing to the recession. Consequently, the DEUTZ Group incurred an operating loss (EBIT before one-off items) of €40.7 million in the reporting period after reporting an operating profit of €35.8 million for the first nine months of 2008; its EBIT margin was therefore negative at minus 6.4 per cent (Q1-Q3 2008: plus 3.0 per cent).

The Compact Engines segment incurred an operating loss (before one-off items) of €49.9 million (Q1-Q3 2008: profit of €2.6 million), while the Other segment posted a small loss of €0.4 million (Q1-Q3 2008: loss of €0.6 million). Despite the tough economic conditions, the DEUTZ Customised Solutions segment generated an operating profit (EBIT before one-off items) of €9.6 million, compared with €33.8 million in the first three quarters of 2008.

Since the first quarter of 2009, the interest cost of defined benefit pension obligations has been reported as part of staff costs. These expenses are no longer shown as part of net finance costs, so that only effective interest is reported under net finance costs. This interest amounted to €7.6 million (Q1-Q3 2008: €8.1 million) in the reporting period from January to September 2009. The comparative prior-year figures have been restated accordingly to improve comparability.

Net loss for the first three quarters exacerbated by one-off charges

Net interest expenses for the reporting period increased by €4.5 million year on year, from €2.2 million in 2008 to €6.7 million in 2009. This was due to the lower level of interest paid on deposits combined with a fall in cash and cash equivalents, while the interest rate payable on the US private placement remained the same.

The DEUTZ Group reported a net loss before taxes of €79.2 million after reporting a net profit of €32.3 million for the corresponding period in 2008. In addition to the operating loss incurred, net income was primarily impacted by one-off charges of €30.4 million for expenses incurred for personnel restructuring in connection with the MOVE action programme.

Income taxes rose in the reporting period to €8.5 million (Q1-Q3 2008: €4.3 million), largely as a result of deferred tax expenses relating to higher capitalised development costs.

After tax, the DEUTZ Group posted a net loss of €87.9 million (Q1-Q3 2008: net income of €28.0 million). This includes a small loss of €0.2 million on discontinued operations arising from the restatement of tax provisions recognised in connection with the sale of the DEUTZ Power Systems segment in 2007.

Upward trend commences in the third quarter

All of the DEUTZ Group's key performance indicators were up in the third quarter of 2009. The level of new orders exceeded revenue for the first time in a long period and, overall, earnings in September were satisfactory following a number of loss-making months. It appears that the downturn has bottomed out and the Company has turned the corner.

In the third quarter of 2009 it won orders totalling €205.9 million, which was 36.0 per cent below the amount DEUTZ received a year ago (Q3 2008: €321.8 million) but still 3.0 per cent above the second quarter. A total of 26,307 engines were sold in the period July to September 2009 (Q3 2008: 58,804), 55.3 per cent fewer than in the same quarter in 2008, but the decline was not as sharp as in the second quarter of 2009. Consolidated revenue amounted to €193.4 million, a fall of 45.5 per cent compared with €354.8 million in the third quarter of 2008. Here, too, the pace of decline has slowed. The Group incurred a further operating loss (EBIT before one-off items) of €17.3 million (Q3 2008: loss of €2.4 million) due to the typically weak months of July and August.

BUSINESS PERFORMANCE IN THE COMPACT ENGINES SEGMENT

Level of new orders stabilises

The Compact Engines segment received new orders totalling €461.0 million in the reporting period, 47.3 per cent lower than in the first three quarters of 2008 (Q1-Q3 2008: €874.3 million). However, with the level of new orders rising on a quarterly basis again, there are also initial signs of a turnaround in this segment.

Unit sales bumping along the bottom

Unit sales were down again on the back of the weak order figures seen in recent months. 75,257 compact engines were sold, compared with 183,384 in the corresponding prior-year period, which was a decrease of 59.0 per cent. Demand for mobile machinery, primarily construction equipment and materials handling equipment, was sharply down, by 76.3 per cent. The Automotive and Stationary Equipment segments reported falls in unit sales of 46.8 per cent and 53.8 per cent respectively, although the very moderate fall of 12.4 per cent in unit sales in the Agricultural Machinery application segment was a stabilising factor.

Revenue bottoms out in third quarter

Despite its falling revenue figures in the reporting period, the Compact Engines segment turned the corner in the third quarter. It generated revenue of €466.3 million for the period January to September 2009, which represented a year-on-year decline of 49.4 per cent (Q1-Q3 2008: €922.4 million).

Encouragingly, Agricultural Machinery performed well, with only a single-figure year-on-year contraction in revenue of 7.1 per cent for the first nine months of 2009. However, there are signs of a downturn in revenue from Agricultural Machinery. Revenue from all the other application segments followed an upward trend in the third quarter. Mobile Machinery and the Company's highly profitable Service business actually recorded a rise in revenue in the third quarter compared with the second.

Compact Engines: Revenue by application segment
€ million (2008 figures)

123.4	(132.8)	Agricultural Machinery
99.8	(177.8)	Automotive
99.9	(380.9)	Mobile Machinery
78.5	(141.1)	Stationary Equipment
64.2	(76.9)	Service
0.5	(12.9)	Miscellaneous
466.3	(922.4)	Total

MOVE stabilises profitability

The segment incurred an operating loss (EBIT before one-off items) of €49.9 million for the period after reporting an operating profit of €2.6 million for the first three quarters of 2008, owing to the economic downturn and the corresponding slump in sales of compact engines. The measures implemented as part of the MOVE programme were unable to compensate fully for this trend. The slowdown in the local economy and start-up losses also impaired profitability at the DEUTZ Dalian joint venture in China, which posted a loss of €8.0 million (Q1-Q3 2008: loss of €7.0 million).

Order book improves in the third quarter

The volume of new orders received in the third quarter was down again year on year – €156.4 million compared with €238.3 million in the third quarter of 2008, which was a fall of 34.4 per cent. Nonetheless, the pace of the fall-off slowed down and the volume of new orders actually increased by 3.0 per cent on the previous quarter.

Unit sales, which tend to lag new orders, amounted to 23,136 in the period July until September 2009 (Q3 2008: 51,261), which was a year-on-year decrease of 54.9 per cent. Revenue figures followed a similar trend, with €144.1 million generated in the third quarter compared with €269.9 million in the same quarter of 2008 (a fall of 46.6 per cent). However, a comparison of the third to the second quarters of 2009 shows a sharp slowdown in the decline in revenue and a distinct change for the better. The segment's earnings remained negative in the third quarter, with an operating loss (before one-off items) of €21.4 million (Q3 2008: loss of €14.1 million).

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS SEGMENT

Downturn in demand halted

The order situation at DEUTZ Customised Solutions has also improved slightly since July, although the volume of orders received in the reporting period (€150.8 million) was still 45.5 per cent lower than in 2008 (Q1-Q3 2008: €276.6 million). Despite the generally weak holiday months of July and August, the level of new orders in the third quarter was up on the second quarter and it exceeded revenue for the first time in a long period.

Unit sales in the segment were impacted by the economic situation, with 11,547 units sold in the first three quarters of 2009 compared with 24,107 in the same period last year (down by 52.1 per cent). Some of the fall-off in unit sales – approximately 1,000 engines – is attributable to the fact that production of small air-cooled engines was discontinued in 2008; this series is now no longer available. As was the case for the Compact Engines segment, engines for a agricultural machinery accounted for the highest number of units sold, in which a rise of 3.8 per cent was recorded.

Revenue: bumping along the bottom

The DEUTZ Customised Solutions segment generated revenue of €167.6 million in the first nine months of 2009, which was 35.0 per cent less than in the first three quarters of 2008 (Q1-Q3 2008: €257.9 million).

With the exception of the Stationary Equipment application segment, the year-on-year fall in revenue generated by the application segments in the first nine months of the year was comparable with that of the first half of the year. This is a clear indication that these segments have also bottomed out. The Company's service business – the most consistent factor and the mainstay of its segment revenue – earned revenue of €64.1 million, which was 24.2 per cent less than the previous year (Q1-Q3 2008: €84.6 million).

DEUTZ Customised Solutions: Revenue by application segment
€ million (2008 figures)

64.1	(84.6)	Service
36.1	(61.7)	Stationary Equipment
25.6	(35.8)	Automotive
20.6	(55.0)	Mobile Machinery
16.1	(13.2)	Miscellaneous
5.1	(7.6)	Agricultural Machinery
167.6	(257.6)	**Total**

Positive operating profit for the segment

The DEUTZ Customised Solutions segment reported operating profit (EBIT before one-off items) of €9.6 million for the first three quarters of 2009. However, this was well below the earnings for the corresponding period in 2008 (Q1-Q3 2008: €33.8 million) owing to the tough economic conditions. Demand was down, particularly in the highly profitable after-sales market and the Company's business in reconditioned exchange engines. Business in new engines – especially air-cooled engines – was also hit as trading slowed down during the first three quarters of 2009, and consequently it contributed less to the segment's profitability.

The MOVE programme also exerted a positive influence in this segment, where cost savings have been successfully implemented.

Business performance consolidates in the third quarter

There were initial signs that demand was recovering in the DEUTZ Customised Solutions segment in the third quarter of 2009. Although the level of new orders fell by 40.7 per cent, at €49.5 million (Q3 2008: €83.5 million), it was still 2.7 per cent, higher than in the previous quarter. The number of engines sold – 3,171 units – was significantly lower year on year (Q3 2008: 7,543, a fall of 58.0 per cent), and revenue dropped accordingly by 41.9 per cent to €49.3 million (Q3 2008: €84.9 million). Despite the contraction in revenue, the segment generated an operating profit (EBIT before one-off items) of €1.9 million, compared with €12.5 million in the third quarter of 2008.

FINANCIAL POSITION

The MOVE programme is proving an ongoing success, but the deterioration in the DEUTZ Group's operating performance in the reporting period was reflected in the key figures on its balance sheet.

Total assets down by 11 per cent

As at 30 September 2009, total assets had reduced by 11.1 per cent and came to €1,072.9 million compared with €1,206.3 million at the end of 2008. This is because the increase in non-current intangible assets, which grew by €20.5 million owing to the capitalisation of development costs, was more than offset by a sharp decrease in inventories, in other receivables from recharged costs and, in particular, in cash and cash equivalents.

Systematic reduction in inventories improves working capital

Working capital (inventories plus trade receivables minus trade payables) continued to improve. As at 30 September 2009 it totalled €178.8 million, around 13 per cent lower than at the end of the previous year (31 December 2008: €205.0 million). Targeted action for the systematic reduction of inventories is behind this decrease. Inventories were €58.2 million lower than on 31 December 2008, having declined from €222,0 million to €163.8 million.

Equity ratio remains high

Equity had decreased by €96.9 million to €414.4 million as at the balance sheet date on 30 September 2009 (31 December 2008: €511.3 million), mainly as a result of the net loss. The equity ratio of 38.6 per cent was 3.8 percentage points lower than it was at the end of 2008 (42.4 per cent), but it remains at a high level.

Other provisions rise due to personnel restructuring

Current and non-current provisions were €18.1 million higher than at the end of December 2008. This increase was largely attributable to the recognition of new provisions for personnel restructuring in connection with the MOVE action programme.

Deterioration in net financial position due to high level of capital expenditure

The net financial position (cash and cash equivalents minus current and non-current interest-bearing financial liabilities) amounted to minus €33.4 million as at 30 September 2009, which was €21.2 million lower than at 31 December 2008 (minus €12.2 million), because cash and cash equivalents had fallen, mainly due to the high level of investment in research and development, which could not be fully financed from the Company's operating cash flow.

Operating cash flow in positive territory

Despite the very difficult market, cash flow from operating activities after the first nine months of 2009 amounted to €48.9 million – partly the result of our stringent cost-cutting measures as part of MOVE, but mainly due to systematic inventory management. Inventories have been cut by more than a quarter, from €222.0 million as at 31 December 2008 to €163.8 million.

Tightly controlled receivables management has enabled us to reduce the level of overdue receivables at DEUTZ AG to well below 10 per cent. We also make use of targeted factoring to further reduce receivables.

Although revenue had virtually halved, cash flow from operating activities after the first nine months of 2009 amounted to €48.9 million, which was only €28.3 million less than the cash flow of €77.2 million generated in the corresponding period of 2008. The deterioration in earnings before interest and tax (EBIT), from a profit of €35.8 million for the first three quarters of 2008 to a loss of €71.1 million in the first nine months of 2009, was partially offset by a decrease in working capital.

The net cash used for investing activities in continuing operations declined by a total of €13.6 million to €62.0 million (Q1-Q3 2008: €75.6 million used); while capital expenditure on property, plant and equipment was lower, spending on development rose. This investment in research and development enables us to secure the future of the Company.

Cash flow of minus €14.1 million from financing activities (Q1-Q3 2008: minus €63.8 million) arose largely from the payment of interest. The figure for the corresponding period of 2008 was significantly influenced by the payment of a dividend of €48 million to shareholders.

Free cash flow from continuing operations (cash flow from operating and investing activities minus interest expense) amounted to minus €26.6 million in the reporting period compared with minus €12.7 million in the corresponding period of 2008.

CAPITAL EXPENDITURE

Capital expenditure focusses on development

Capital expenditure on property, plant and equipment and on financial and intangible assets totalled €75.6 million in the period January to September 2009 (Q1-Q3 2008: €86.7 million). €45.5 million of this total (Q1-Q3 2008: €30.6 million) was attributable to capitalised development costs in connection with the development of new and existing engines in line with current and future exhaust emissions standards.

Most of these costs incurred during the past nine months were spent on the forthcoming Tier 4 Interim emissions standard for industrial and agricultural applications and on the introduction of the Euro 5 emissions standard for the 2013 4V automotive engine. The €25.1 million spent on property, plant and equipment was almost 50 per cent lower than the €49.3 million invested in the first three quarters of 2008. This expenditure largely related to manufacturing and assembly capacities at the Cologne site and to component production at Zafra in Spain.

The bulk of the total capital expenditure was invested in the Compact Engines segment (Q1-Q3 2009: €67.6 million, Q1-Q3 2008: €75.8 million), while €8.0 million was invested in DEUTZ Customised Solutions (Q1-Q3 2008: €10.9 million). Capital spending in both segments focussed mainly on development.

RESEARCH AND DEVELOPMENT

Research and development: investing in the future

Research and development remain indispensable for innovative companies, especially in times of crisis. Moreover, they are clearly an investment in future success. Consequently, DEUTZ continued to increase its spending on research and development in the period under review, taking the total amount to €73.8 million, which was 21.8 per cent above the amount spent in the corresponding period last year (Q1-Q3 2008: €60.6 million). The ratio of research and development spending to the DEUTZ Group's revenue also increased. The fall in revenue increased this ratio even more to 11.6 per cent (Q1-Q3 2008: 5.1 per cent).

DEUTZ quick to capitalise on opportunity offered by more stringent emission standards in 2011 and 2014

The main reason why R&D spending has been increased is because more stringent emission standards come into force in 2011 and 2014. Consequently development focussed on exhaust aftertreatment systems and engines that meet Europe's IIIB emissions standards and the US Tier 4 Interim standards, which will apply as from 2011. At the same time, work was under way on a hybrid drive system and in preparation for the Euro 5 emissions standard for the 2013 4V automotive engine.

The development of new and existing engines accounted for more than three-quarters (81.2 per cent) of the total R&D budget and a further 5.8 per cent was allocated to research and preliminary development, while 13.0 per cent was spent on support for existing engine series.

€65.5 million was allocated to the Compact Engines segment for research and development (Q1-Q3 2008: €52.8 million), while €8.3 million was invested in R&D in the DEUTZ Customised Solutions segment (Q1-Q3 2008: €7.8 million).

EMPLOYEES

Socially responsible personnel restructuring continues

DEUTZ is pushing ahead with its scheduled restructuring. In the past twelve months, around 1,000 jobs have been cut worldwide with minimal impact on staff – and another 800 are now to follow, with the focus on minimising adverse social consequences. We have agreed a redundancy scheme with the works council at our Cologne site under which approximately 650 jobs are to go in two phases, most of them at DEUTZ AG's site in Cologne.

We are in favour of solutions such as voluntary redundancy and early retirement that do not entail compulsory job losses. DEUTZ is also working with a job creation and re-skilling company which enables staff to train for a new job while being paid a short-time working allowance, and also helps them to find new employment.

Furthermore, in response to the marked change in economic conditions the Supervisory Board of DEUTZ AG decided in March 2009 to reduce the number of people on the Board of Management from four to three. Karl Huebser and Helmut Meyer stepped down from the Board of Management with effect from 31 March 2009. Dr Margarete Haase was appointed to the Board of Management with effect from 1 April 2009 and she is responsible for finance and human resources.

Short-time working helps reduce overcapacity

This year, short-time working in production and administration was one of the mainstays for reducing overcapacity at our German sites. Some 85 per cent of the 3,500 or so people employed in Germany have been put on short-time working. The cost savings realised by this measure are equivalent to those that would be achieved by reducing the average headcount by roughly 500.

Perhaps the most important statistic concerning personnel is the fact that 494 people were working in research and development worldwide on 30 September 2009 – 27 more than a year ago (30 September 2008: 467[1)]), which is equivalent to an increase of 5.8 per cent. Investment in R&D staff is essential for the strategic positioning of the entire Group.

Otherwise, DEUTZ's global workforce as at 30 September 2009 (excluding temporary workers) numbered 4,233, or 684 fewer than the same date in 2008, which equates to a reduction of 13.9 per cent. In addition, the number of temporary workers was reduced by around 300. The Compact Engines segment employed 3,443 people (30 September 2008[2)]: 3,900), while the DEUTZ Customised Solutions segment had 780 staff members (30 September 2008: 1,007). In percentage terms, more jobs were cut at DEUTZ's sites abroad (26.5 per cent) than in Germany (10.4 per cent). The German sites benefited from the use of short-time working. As at 30 September 2009, DEUTZ employed 798 people abroad, 288 fewer than on 30 September 2008, and 3,425 people in Germany, 396 fewer than in 2008.

DEUTZ SHARES

Stock market indices hit record highs

Although the year started on a gloomy note, the spring brought a turnaround in fortunes: share prices around the world rose month after month, with stock markets hitting new record highs in the autumn. The SDAX index gained almost 25 per cent over the first nine months of 2009, closing at 3,496 points on 30 September (31 December 2008: 2,801 points). The Prime Industrial index added roughly 27 per cent, closing at 2,372 points at the end of September 2009 (31 December 2008: 1,868 points).

DEUTZ shares outperformed their benchmarks

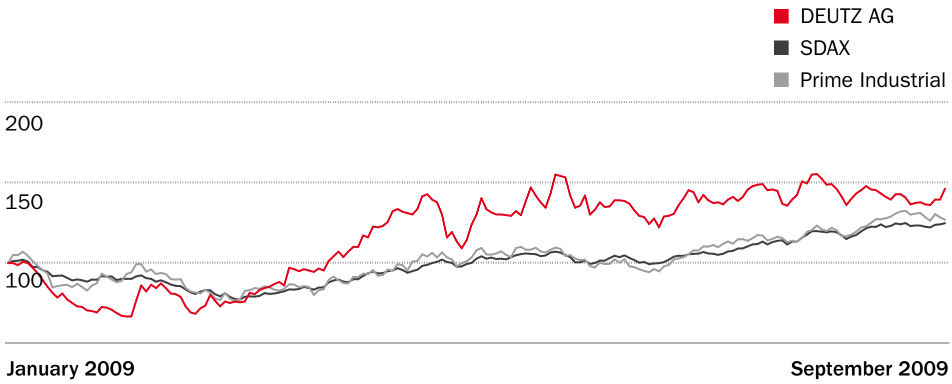
DEUTZ's shares – which have been listed in the SDAX for roughly a year now – tended to outperform this index in the first few weeks of 2009, although from March onwards they underperformed the SDAX. The opposite was often the case compared with the Prime Industrial index, with DEUTZ's shares underperforming in January and February only to perform better than the index on most trading days in the following months. Viewed over the entire first nine months of the year, however, DEUTZ's shares always comfortably outperformed their benchmarks.

Buoyed by the global upward trend, DEUTZ's share price rose almost constantly. It hit a low of €1.55 for the year on 5 February 2009, although by the end of the same day it was trading at €1.59. The share price reached a year-to-date high of €3.80 on 12 June. It closed the third quarter on 30 September 2009 at €3.48, which was 46.2 per cent higher than its closing price of €2.38 on 31 December 2008. The Company's market capitalisation had risen accordingly to €420.6 million on 30 September 2009 (31 December 2008: €278.7 million).

1) To improve comparability, the figure for 2008 has been adjusted in line with the current allocation of R&D staff.

2) To improve comparability, the figure for 2008 has been adjusted in line with the current allocation of staff to the Compact Engines and DEUTZ Customised Solutions segments.

Price performance of DEUTZ shares
%



DEUTZ shares

	1–9/2009	1–9/2008
Number of shares (30 September)	120,861,783	120,861,783
Number of shares (average)	120,861,783	120,770,750
Share price (30 September, €)	3.48	3.97
Share price high (€)	3.70	7.60
Share price low (€)	1.59	3.81
Market capitalisation (30 September, € million)	420.6	479.8
Basic earnings per share (€)	–0.73	0.23
Diluted earnings per share (€)	–0.73	0.23

Based on XETRA closing price

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. Certain material risks were described in detail in the 2008 annual report. Selected topics are explained below.

In view of the tough prevailing economic conditions, it is possible that we may experience increasing levels of delayed payments or even defaults by our customers. The solvency of key customers is more robustly analysed and financially weak clients are more closely monitored, with the result that DEUTZ has not suffered any adverse effects. Similar procedures are applied to suppliers so that DEUTZ has continued to receive the deliveries it needs without any major disruptions.

The Company is obliged to comply with certain covenants as part of its US private placement. These covenants are defined by key performance indicators based on the ratio of net debt to equity, net debt to EBITDA (before one-off items), and EBITDA (before one-off items) to net interest income/expense. In the event of non-compliance with the defined key performance indicators, the creditors (providing they constitute a relative majority) are entitled to call the bond prior to its maturity date or to demand that the terms of the agreement be amended. DEUTZ had responded to the changes in economic conditions by entering into negotiations with investors about the possibility of amending the key performance indicators. These negotiations are now at an advanced stage and DEUTZ is confident that they will soon be concluded and yield a positive outcome. The review of the key performance indicators to be renegotiated is being postponed until a final new agreement has been reached, which is scheduled to be no later than 31 January 2010. The original interest rate payable on the bond totalling €203 million has been raised by 2 per cent p.a. for this period. Once the agreement has been finalised, DEUTZ will incur additional one-off costs that may be substantial and, for a limited period, higher interest charges; the amounts of these costs and charges are currently the subject of negotiations.

For further information on other significant developments with respect to the impact of the global economic crisis on the DEUTZ Group's financial position and financial performance please refer to our comments on the Company's business performance and financial position. We would also refer you to the Outlook at the end of this interim group management report.

EVENTS AFTER THE BALANCE SHEET DATE

No events occured after the balance sheet date that had a material impact on the financial position or financail performance of the DEUTZ Group.

RELATED-PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties. These include the business relationships between the DEUTZ Group and its associates and subsidiaries as well as the following DEUTZ AG shareholders (including their subsidiaries), which are in a position to exert a significant influence over the DEUTZ Group. These shareholders are

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

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

OUTLOOK

In their autumn reports, Germany's leading economic research institutes revised their forecast for the sharp decline in the German economy in 2009 from a contraction of 6 per cent to a contraction of 5 per cent, and they are even predicting growth next year, albeit at the low rate of 1.2 per cent. The German Engineering Federation (VDMA) now believes that output in the engineering sector will have fallen by 20 per cent in 2009 and that it will remain at this level during the whole of 2010, with the possibility of a small increase. These forecasts have been revised downwards several times in recent months, and DEUTZ has also adjusted its outlook for 2009.

This year, DEUTZ has been hit by a drastic slump in unit sales and revenue, which we have partially offset by means of stringent cost management as part of the MOVE programme. MOVE, which was launched in October last year, will have boosted earnings by around €130 million by the end of 2009. As a result of our efforts, we therefore expect further improvements in earnings in the fourth quarter of 2009. For this year as a whole we expect our new orders, unit sales, revenue and profitability to be significantly below the levels achieved in 2008 against the backdrop of the cross-sectoral global recession. We are forecasting a year-on-year decline in unit sales of around 50 per cent. The decline in our revenue will be slightly more moderate. The MOVE action programme will be unable to offset the effects of the forecast fall in unit sales in full, so we expect EBIT before one-off items to be a negative mid double-digit million euro amount.

We will continue to use short-time working as an appropriate tool for adjusting capacity in line with requirements. At the same time, however, we will reduce our core workforce in production and administration (excluding research and development) in such a way that any adverse impact on staff is minimised and we achieve a lasting reduction in our fixed costs.

Our capital expenditure (excluding spending on research and development) will be well below the level it was at in 2008, but investment in research and development will be higher than in 2008. This forward-looking capital-expenditure policy will safeguard our technological lead and our competitive edge.

The joint venture with Robert Bosch GmbH and Eberspächer GmbH & Co. KG will be a further major step in this direction. The planned joint venture company will supply the world's engine and equipment manufacturers with overall systems for diesel exhaust-gas systems made up of standard modules. Intensive negotiations regarding further details of the structure of the new company have taken place since the memorandum of understanding was signed in August, so we expect to be able to sign the final agreement in the fourth quarter of 2009.

DISCLAIMER

This publication includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual future 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 warranty with regard to the statements made in this management report. The Company gives no undertaking that it will update forward-looking statements to bring them into line with future developments.

Interim consolidated financial statements 1st to 3rd quarter 2009

INCOME STATEMENT FOR THE DEUTZ GROUP

	7–9/2009	7–9/2008	1–9/2009	1–9/2008
€ million				
Revenue	**193.4**	**354.8**	**633.9**	**1,180.3**
Change in inventories and other own work capitalised	1.8	13.7	1.8	38.4
Other operating income	13.4	15.7	53.8	46.6
Cost of materials	–124.3	–254.6	–414.4	–828.3
Staff costs	–57.8	–71.6	–215.2	–227.5
Depreciation and amortisation	–16.8	–18.1	–49.2	–54.0
Impairment loss	–1.0	–	–1.0	–
Other operating expenses	–24.1	–40.9	–75.1	–115.5
Net result from equity-accounted investments	–1.9	–1.4	–5.7	–4.2
EBIT	**–17.3**	**–2.4**	**–71.1**	**35.8**
thereof one-off items	–	–	–30.4	–
thereof operating profit (EBIT before one-off items)	–17.3	–2.4	–40.7	35.8
Interest expenses, net	–2.7	–0.9	–6.7	–2.2
thereof finance costs	–6.0	–6.2	–17.5	–18.2
Other taxes	–0.5	–0.3	–1.4	–1.3
Net income before taxes on continuing operations	**–20.5**	**–3.6**	**–79.2**	**32.3**
Income taxes	–4.8	1.3	–8.5	–4.3
Net income on continuing operations	**–25.3**	**–2.3**	**–87.7**	**28.0**
Net income on discontinued operations	–	–	–0.2	–
Net income	**–25.3**	**–2.3**	**–87.9**	**28.0**
thereof attributable to owners of the parent	–25.3	–2.3	–87.9	28.0
thereof attributable to non-controlling interests	–	–	–	–
Basic earnings per share (€)	**–0.21**	**–0.02**	**–0.73**	**0.23**
thereof from continuing operations	–0.21	–0.02	–0.73	0.23
thereof from discontinued operations	–	–	–	–
Diluted earnings per share (€)	**–0.21**	**–0.02**	**–0.73**	**0.23**
thereof from continuing operations	–0.21	–0.02	–0.73	0.23
thereof from discontinued operations	–	–	–	–

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million	7–9/2009	7–9/2008	1–9/2009	1–9/2008
Net income	**–25.3**	**–2.3**	**–87.9**	**28.0**
Currency translation differences	–3.0	8.0	–0.7	5.0
Effective portion of change in fair value from cash flow hedges	–0.3	0.3	–8.5	1.9
Change in fair value of available-for-sale financial assets	0.2	–0.1	0.2	–0.2
Other comprehensive income, net of tax	**–3.1**	**8.2**	**–9.0**	**6.7**
Comprehensive income	**–28.4**	**5.9**	**–96.9**	**34.7**
thereof attributable to owners of the parent	–28.4	5.9	–96.9	34.7
thereof attributable to non-controlling interests	–	–	–	–

BALANCE SHEET FOR THE DEUTZ GROUP

Assets

€ million	30/9/2009	31/12/2008
Property, plant and equipment	332.6	342.1
Intangible assets	146.2	125.7
Equity-accounted investments	47.6	55.1
Other financial assets	8.7	16.8
Non-current assets (before deferred tax assets)	535.1	539.7
Deferred tax assets	29.8	33.1
Non-current assets	**564.9**	**572.8**
Inventories	163.8	222.0
Trade receivables	106.7	121.1
Other receivables and assets	57.0	82.0
Cash and cash equivalents	180.0	207.5
Current assets	**507.5**	**632.6**
Non-current assets and disposal groups held for sale	0.5	0.9
Total assets	**1,072.9**	**1,206.3**

Equity and liabilities

Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	–6.5	2.5
Retained earnings	79.1	79.1
Accumulated income	4.0	91.9
Equity attributable to owners of the parent	414.4	511.3
Equity	**414.4**	**511.3**
Provisions for pensions and other post-retirement benefits	164.6	169.3
Deferred tax provisions	0.1	0.1
Other provisions	27.9	45.7
Financial liabilities	208.8	214.1
Other liabilities	13.1	1.7
Non-current liabilities	**414.5**	**430.9**
Provisions for pensions and other post-retirement benefits	16.4	16.4
Provisions for current income taxes	0.8	2.1
Other provisions	84.7	48.8
Financial liabilities	4.6	5.6
Trade payables	91.7	138.1
Other liabilities	45.8	53.1
Current liabilities	**244.0**	**264.1**
Total equity and liabilities	**1,072.9**	**1,206.3**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million	Issued capital	Additional paid-in capital	Retained earnings	Fair value reserves 1), 2)	Currency translation reserves 1)	Accumulated income	Total Group interest	Non-controlling interests	Total
Balance at 1 January 2008	**307.0**	**28.1**	**79.1**	**4.1**	**–9.4**	**148.2**	**557.1**	**–**	**557.1**
Dividend payments to shareholders						–48.0	–48.0		–48.0
Increase from exercise of conversion rights on convertible bonds/on profit-sharing rights	2.0	0.7					2.7		2.7
Comprehensive income				1.7	5.0	28.0	34.7	–	34.7
Balance at 30 September 2008	**309.0**	**28.8**	**79.1**	**5.8**	**–4.4**	**128.2**	**546.5**	**–**	**546.5**
Balance at 1 January 2009	**309.0**	**28.8**	**79.1**	**9.5**	**–7.0**	**91.9**	**511.3**	**–**	**511.3**
Comprehensive income				–8.3	–0.7	–87.9	–96.9	–	–96.9
Balance at 30 September 2009	**309.0**	**28.8**	**79.1**	**1.2**	**–7.7**	**4.0**	**414.4**	**–**	**414.4**

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

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million	1–9/2009	1–9/2008
EBIT	**–71.1**	**35.8**
Interest income	5.5	11.8
Other taxes paid	–1.4	–1.3
Income taxes paid	–1.2	–0.5
Depreciation and amortisation	50.2	54.0
Gains/losses on the sale of non-current assets	–2.7	0.2
Net result from equity-accounted investments	5.7	4.2
Change in working capital	30.8	–36.1
Change in inventories	58.2	–32.7
Change in trade receivables	14.8	29.1
Change in trade payables	–42.2	–32.5
Change in other receivables and other current assets	21.4	–7.4
Change in provisions and other liabilities (excluding financial liabilities)	11.7	16.5
Cash flow from operating activities	**48.9**	**77.2**
Capital expenditure on intangible assets, property, plant and equipment	–66.4	–75.6
Capital expenditure on investments	–0.4	–
Proceeds from the sale of non-current assets	4.8	–
Cash flow from investing activities – continuing operations	**–62.0**	**–75.6**
Cash flow from investing activities – discontinued operations	–0.4	–2.1
Cash flow from investing activities – total	**–62.4**	**–77.7**
Dividend payments to shareholders	–	–48.0
Interest expenses	–13.5	–14.3
Cash receipts from borrowings	2.1	0.7
Repayments of loans	–2.7	–2.2
Cash flow from financing activities	**–14.1**	**–63.8**
Cash flow from operating activities	48.9	77.2
Cash flow from investing activities	–62.4	–77.7
Cash flow from financing activities	–14.1	–63.8
Change in cash and cash equivalents	**–27.6**	**–64.3**
Cash and cash equivalents at 1 January	**207.5**	**311.1**
Change in cash and cash equivalents	–27.6	–64.3
Change in cash and cash equivalents related to exchange rates	0.1	–0.1
Cash and cash equivalents at 30 September	**180.0**	**246.7**

DEUTZ Group – Notes to the consolidated financial statements 1st to 3rd quarter 2009

BASIC PRINCIPLES

Basis of presentation

The consolidated financial statements of DEUTZ AG for the year ended 31 December 2008 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The standards comprise the IFRSs and International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB), together with the interpretations of both the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

The consolidated financial statements for the year ended 31 December 2008 are consistent with the statutory obligations applicable to capital-market-oriented parent entities subject to disclosure requirements pursuant to section 315 a (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 concerning the adoption of current international accounting standards in the version applicable at the time (IAS Regulation).

These interim financial statements for the period ended 30 September 2009 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Board (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim financial statements do not contain all the information and notes required by the IFRSs for consolidated financial statements for a full financial year, and should therefore be read in conjunction with the IFRS consolidated financial statements published by the Company for the 2008 financial year.

The condensed interim consolidated financial statements for the period ended 30 September 2009 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and selected notes to the consolidated financial statements – and the interim group management report for the period from 1 January to 30 September 2009 have not been reviewed by an auditor.

Significant accounting policies

With the exception of the new IFRS standards and interpretations as well as changes in presentation 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 2008. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for the year ended 31 December 2008. If they are material, revenue-related and cyclical items are deferred during the year on the basis of annual business plans.

Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards" and of IAS 27 "Consolidated and separate financial statements": This amendment relates to the measurement of investments at the time of transition to IFRS and the recognition of dividends from investments in single-entity financial statements. The amendments to IAS 27 have abolished the definition of the cost method. Consequently, dividends from jointly controlled entities, associates and subsidiaries must in future be recognised on the face of the income statement, regardless of whether or not the dividends are being paid out of profits earned before the date of acquisition. The investments thus recognised are subsequently tested for impairment in accordance with IAS 36. Since these amendments relate to the recognition and measurement of investments in single-entity financial statements, their first-time adoption has not impacted on these condensed interim consolidated financial statements.

Amendments to IFRS 2 "Share-based payment": One amendment adds a clarification by restricting the definition of vesting conditions to include only service conditions and performance conditions. Another amendment widens the scope of the accounting rules on cancellations of share-based arrangements to include cases where these arrangements are cancelled by employees. The transitional provisions require these amendments to be applied retrospectively. The first-time adoption of these amendments does not affect these condensed interim consolidated financial statements.

IFRS 8 "Operating segments": IFRS 8 requires the management approach to be applied in segment reporting. Under this approach, the classification of segments and the presentation of disclosures are based on the breakdown used internally by the most senior level of management for the purposes of allocating resources and assessing segment performance. Since its first-time adoption of IFRS 8 and in conformity with its ongoing reporting practices under IAS 14 Segment reporting, the DEUTZ Group has continued to report on its Compact Engines and DEUTZ Customised Solutions operating segments and its Other segment. The methods it uses to publish financial information on its business units have been modified and its comparative prior-year figures restated accordingly. For further segment-related information please refer to the notes on segment reporting.

IAS 1 (revised) "Presentation of financial statements": The amendments to this standard include material changes to the way in which financial information is presented and reported in financial statements. In particular they include the introduction of a statement of comprehensive income, which comprises both the profit or loss earned during the reporting period as well as the unrealised gains and losses previously reported in the statement of changes in equity. In addition to the balance sheet shown as at the reporting date and the balance sheet as at the previous year's reporting date, entities must now also prepare a balance sheet at the beginning of the comparative prior-year period if they are retrospectively adopting accounting policies, correcting misstatements or reclassifying items shown in financial statements. On adopting this standard the DEUTZ Group has modified accordingly the way in which it publishes its financial information.

IAS 23 (revised) "Borrowing costs": The DEUTZ Group is applying this standard prospectively in accordance with its transitional provisions. These require borrowing costs incurred on or after 1 January 2009 on qualifying assets to be capitalised. This standard has no effect on borrowing costs arising before this date, which were expensed as incurred.

Amendment to IAS 32 "Financial instruments: presentation" and IAS 1 "Presentation of financial statements": This amendment concerns the classification of puttable financial instruments as either debt or equity. In the past, entities have often been forced to report their share capital as financial liabilities owing to shareholders' legally enshrined termination rights. In future these financial instruments are generally to be classified as equity providing that certain conditions are met. This amendment alters neither the reporting nor the measurement of financial instruments in these condensed interim consolidated financial statements.

Improvements to the International Financial Reporting Standards (2006-2008): Apart from editorial changes, these amendments concern changes in presentation, recognition and measurement in various standards. Because the DEUTZ Group is only partially affected by these amendments, their first-time adoption has not had a material impact on these condensed interim consolidated financial statements.

IFRIC 12 "Service concession arrangements": This interpretation stipulates how service concession operators should account for the obligations they undertake and the rights they receive under service concession arrangements. The first-time adoption of this interpretation has no impact on these condensed interim consolidated financial statements because the entities consolidated are not service concession operators within the meaning of IFRIC 12.

IFRIC 13 "Customer loyalty programmes": This interpretation requires award credits granted to customers to be recognised as a revenue component that is separately identifiable from the sales transaction in which they were granted. Part of the fair value of the consideration received is therefore allocated to the award credits granted and recognised as deferred revenue. This revenue is recognised in the period in which the award credits granted are either redeemed or expire. The first-time adoption of this interpretation has no impact on these condensed interim consolidated financial statements because the DEUTZ Group does not operate any customer loyalty programmes.

Changes in presentation: The interest included in pension costs is now reported as part of staff costs instead of net finance costs in order to show the effective interest included in net finance costs. This interest amounted to €7.6 million in the first three quarters of 2009 (Q1-Q3 2008: €8.1 million). The comparative prior-year figures have been restated accordingly to improve comparability.

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 and on the reporting of income and expenses. In particular, forecasts of future cash flows – which are used, among other things, for the impairment testing of non-financial assets and in the recognition of deferred tax assets – involve additional uncertainties as a result of the financial crisis.

The provision recognised as at 30 September 2009 for the German Pension Security Association is based on a reassessment of the losses expected to occur in the second half of the year and on the resultant estimate of the premium payable for 2009.

Additional disclosures: In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before one-off items, which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities.

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

Balance sheet

Capital expenditure of approximately €63.2 million (including investment grants) on property, plant and equipment and intangible assets was partly offset by depreciation, amortisation and impairment of €50.2 million. The figure for depreciation, amortisation and impairment includes impairment losses of €1.0 million on capitalised development costs owing to the lack of marketing potential for the Company's rapeseed oil engine. Of this total capital expenditure (including investment grants), €24.9 million related to property, plant and equipment and €38.3 million to intangible assets. Capital spending during the reporting period primarily consisted of capitalised development costs for the exhaust emissions standards due to be introduced from 2011. Part of the capital expenditure on property, plant and equipment related to manufacturing and assembly operations at the Cologne plant and the production of components at Zafra in Spain.

The €7.5 million decrease in equity-accounted investments to €47.6 million as at 30 September 2009 (31 December 2008: €55.1 million) was largely attributable to the transfer of losses incurred by the DEUTZ Dalian joint venture in China.

The marking to market of cross-currency swaps used to hedge the currency risk and interest-rate risk attaching to future anticipated payments of principal and interest arising from the US private placement incurred an unrealised loss of €10.8 million, which was primarily caused by recent interest-rate trends and was exacerbated by the US dollar exchange rate (31 December 2008: an unrealised gain of €8.5 million). These instruments were therefore reclassified as other non-current liabilities as at 30 September 2009 after previously having been reported as non-current financial assets.

Inventories were reduced by €58.2 million to €163.8 million (31 December 2008: €222.0 million) as a result of the persistently low volume of business in the first three quarters of 2009 and the introduction of specific measures to optimise working capital. By contrast, trade receivables decreased only slightly by €14.4 million to €106.7 million (31 December 2008: €121.1 million) mainly owing to lower sales of receivables.

Other receivables and assets contracted by €25.0 million to €57.0 million, mainly owing to the decrease in receivables from recharged costs (31 December 2008: €82.0 million).

The reduction of €27.5 million in cash and cash equivalents to €180.0 million (31 December 2008: €207.5 million) was largely attributable to the high level of capital spending on development costs that could not be fully financed from the Company's operating cash flow.

Equity at the balance sheet date of 30 September 2009 had decreased by €96.9 million to €414.4 million (31 December 2008: €511.3 million), primarily as a result of the net loss reported for the period. Consequently, the equity ratio fell from 42.4 per cent as at 31 December 2008 to 38.6 per cent at the balance sheet date.

Current and non-current provisions had grown by €12.1 million to €294.5 million as at 30 September 2009 (31 December 2008: €282.4 million). Personnel restructuring plans relating to the MOVE action programme gave rise to the recognition of a provision that was partly offset by the reversal of provisions amounting to €14.3 million.

The fall of €46.4 million in trade payables to €91.7 million as at 30 September 2009 (31 December 2008: €138.1 million) was attributable to the ongoing downturn in new orders in the first three quarters of 2009.

Income statement

The low level of economic activity severely impaired the performance of the DEUTZ Group's business in the first nine months of 2009.

Total revenue for the first three quarters of 2009 fell sharply year on year to €633.9 million owing to a decline in unit sales (Q1-Q3 2008: €1,180.3 million), which was a decrease of 46.3 per cent. Revenue in the Compact Engines segment fell by 49.4 per cent, while in the DEUTZ Customised Solutions segment it contracted by 35.0 per cent.

Other operating income for the first nine months of 2009 includes income of €14.3 million from the reversal of provisions.

The cost of materials was reduced in absolute terms by €413.9 million to €414.4 million (Q1-Q3 2008: €828.3 million), falling by a slightly larger proportion than total output mainly on the back of the better sales mix and also due to cost savings resulting from the MOVE action programme.

Targeted cuts in staff costs were achieved as a result of the reduction in employee numbers and the introduction of short-time working. However, total staff costs were virtually unchanged on the first nine months of 2008 due to personnel restructuring costs of €30.4 million in connection with the MOVE action programme.

The decrease of €40.4 million in other operating expenses to €75.1 million (Q1-Q3 2008: €115.5 million) was essentially attributable to the lower cost of general services such as logistics, IT and freight owing to cost savings arising from the MOVE action programme and the lower volume of business and to the cost reduction resulting from the use of fewer temporary staff.

The legacy expenses incurred in connection with the closure of the DEUTZ Power Systems segment, which was sold in 2007, are reported separately in the consolidated income statement as net income/loss on discontinued operations.

RELATED-PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties. These include the business relationships between DEUTZ AG and its associates and subsidiaries as well as the following DEUTZ AG shareholders (including their subsidiaries), which are in a position to exert a significant influence over the DEUTZ Group. These shareholders are

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

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

The business relationships between DEUTZ AG and its shareholders, including their subsidiaries, were as follows:

DEUTZ AG's revenue from the Volvo Group arising from deliveries of engines and spare parts and from services rendered amounted to €165.7 million in the first nine months of 2009 (Q1-Q3 2008: €348.3 million). Revenue from the companies of the SAME DEUTZ-FAHR Group arising from deliveries of engines and spare parts and from services rendered over the same period amounted to €47.5 million (Q1-Q3 2008: €56.2 million). At 30 September 2009 the DEUTZ Group's receivables from companies in the Volvo Group totalled €20.4 million (31 December 2008: €15.9 million), while its accounts receivable from companies in the SAME DEUTZ-FAHR Group amounted to €13.6 million (31 December 2008: €20.5 million). Existing trade receivables from companies in the SAME DEUTZ-FAHR Group were replaced by a two- or three-month interest-bearing finance facility in the first three quarters of 2009. The balance outstanding on this financial receivable, including interest, came to €0.9 million as at 30 September 2009 (31 December 2008: €0.0 million). Interest income of €0.7 million was recognised in the first nine months of 2009 (Q1-Q3 2008: €0.0 million). DEUTZ has an agreement with the Volvo Group that grants Volvo companies extended credit periods in return for payment of a fee.

The business relationships between DEUTZ AG and its joint ventures, associates and non-consolidated subsidiaries were as follows:

The total value of goods delivered and services rendered in the first nine months of 2009 amounted to €1.7 million (Q1-Q3 2008: €6.5 million). Other expenses incurred in connection with services came to €2.8 million (Q1-Q3 2008: €2.8 million). Receivables and liabilities as at 30 September 2009 totalled €11.3 million (31 December 2008: €12.0 million) and €6.0 million (31 December 2008: €4.3 million) respectively. Impairment losses of €21.2 million (31 December 2008: €21.2 million) had been recognised on €25.6 million of the Company's receivables as at 30 September 2009 (31 December 2008: €26.5 million). Some of these receivables and liabilities resulted from loans that had been provided. 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.

During the first nine months of 2009 there were no significant transactions between the Company and members of the Board of Management, the Supervisory Board or other members of the management team.

SEGMENT REPORTING

The table below gives a breakdown of the operating segments in the DEUTZ Group for the first three quarters of 2009 and 2008. The segment reporting also reconciles the overall profit or loss generated by the segments to the DEUTZ Group's net income or loss for the period.

1–9/2009

€ million	Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon-ciliation	DEUTZ Group
External revenue	466.3	167.6	–	**633.9**	–	**633.9**
Intersegment revenue	–	–	–	**–**	–	**–**
Total revenue	466.3	167.6	–	**633.9**	–	**633.9**
Operating profit (EBIT before one-off items)	–49.9	9.6	–0.4	**–40.7**	–	**–40.7**

1–9/2008

€ million	Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon-ciliation	DEUTZ Group
External revenue	922.4	257.9	–	**1,180.3**	–	**1,180.3**
Intersegment revenue	–	–	–	**–**	–	**–**
Total revenue	922.4	257.9	–	**1,180.3**	–	**1,180.3**
Operating profit (EBIT before one-off items)	2.6	33.8	–0.6	**35.8**	–	**35.8**

30/9/2009

€ million	Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon-ciliation	DEUTZ Group
Segment assets (Inventories/Trade receivables)	172.6	97.9	–	**270.5**	–	**270.5**
Segment liabilities (Trade payables)	78.8	12.9	–	**91.7**	–	**91.7**
Working capital	93.8	85.0	–	**178.8**	–	**178.8**

31/12/2008

€ million	Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon-ciliation	DEUTZ Group
Segment assets (Inventories/Trade receivables)	213.0	130.1	–	**343.1**	–	**343.1**
Segment liabilities (Trade payables)	118.5	19.6	–	**138.1**	–	**138.1**
Working capital	94.5	110.5	–	**205.0**	–	**205.0**

Reconciliation from overall profit or loss for the segments to net income for the Group

	1–9/2009	1–9/2008
€ million		
Overall profit or loss for segments	–40.7	35.8
Reconciliation	–	–
Operating profit (EBIT before one-off items)	**–40.7**	**35.8**
One-off items	–30.4	–
EBIT	**–71.1**	**35.8**
Financial result	–6.7	–2.2
Other taxes	–1.4	–1.3
Net income before taxes on continuing operations	**–79.2**	**32.3**
Income taxes	–8.5	–4.3
Net income on continuing operations	**–87.7**	**28.0**
Net income on discontinued operations	–0.2	–
Net income	**–87.9**	**28.0**

External segment reporting is based on intra-group corporate management and internal financial reporting and, in line with the nature of the products and services offered, covers the following reportable operating segments:

Compact Engines
This segment comprises new business and the servicing of water- and oil-cooled diesel engines of less than four litres as well as four to eight-litre engines.

DEUTZ Customised Solutions
This segment focusses on air-cooled engines and large liquid-cooled engines with capacities exceeding eight litres. It also includes customer-specific solutions (gensets) and service.

Other
This segment contains operations that do not belong in any other segment.

The classification of a business line as an operating segment is based in particular on the product line responsibility specified in the DEUTZ Group's organisational structure. The Compact Engines operating segment combines the product lines for diesel engines of less than four litres as well as four to eight-litre engines.

The reconciliation table shows the elimination of all intercompany relationships – where relevant – between the segments.

The measurement principles applied to the DEUTZ Group's segment reporting are based on the IFRS principles applied in the consolidated financial statements. The Board of Management, in its capacity as the senior decision-making body, assesses the segments' performance in terms of their operating profit (EBIT before one-off items). If entities consolidated under the equity method are directly attributable to a particular segment, their share of the net income or loss for the period is reported there. Finance costs, financial income and income taxes are reported for the DEUTZ Group as a whole and are not allocated to individual operating segments. External revenue constitutes the revenue that the segments generate from their customers. Revenue generated between segments – where relevant – is reported as intersegment revenue. Transfers between segments are reported at fair value.

Internal financial reporting on assets and liabilities comprises working capital as well as its individual components of inventories, trade receivables and trade payables.

OTHER INFORMATION

Karl Huebser stepped down from the Board of Management by mutual consent with effect from 31 March 2009. Once the process of strengthening the DEUTZ Group's operations in Asia had been completed by Mr Huebser, the Supervisory Board decided that this Board of Management position was no longer required. Helmut Meyer also stepped down from the Board of Management by mutual consent with effect from 31 March 2009. The Supervisory Board appointed Dr Margarete Haase to the Board of Management, where she has been responsible for finance and human resources since 1 April 2009.

Lars-Göran Moberg became chairman of the Supervisory Board of DEUTZ AG in May 2009 after Dr Giuseppe Vita had stepped down from this post. Dr Vita left the Supervisory Board with effect from 31 July 2009 after a successful term of office during which he had overseen a period of dramatic change for the Company (new major shareholder, new members of the Board of Management, including the chairman) and the recent restructuring of the Board of Management (reduction from four to three members, new CFO). Dr Michael Lichtenauer was appointed as Dr Vita's replacement on the Supervisory Board of DEUTZ AG in August 2009.

The notes to the consolidated financial statements for 2008 provide information on how the remuneration paid to the Board of Management and the Supervisory Board is broken down. Termination benefits paid to the Board of Management and other senior executives in the first three quarters of 2009 amounted to €4.8 million. €1.7 million of this total was recognised as a provision as at 30 September 2009. The Board of Management and other senior executives will forego 10 per cent of their remuneration for 2009. The Supervisory Board meeting held on 30 April 2009 decided that the members of the Supervisory Board would also forego 10 per cent of both their fixed remuneration and their attendance fees for 2009.

EVENTS AFTER THE BALANCE SHEET DATE (30 SEPTEMBER 2009)

There have been no events of particular importance since 30 September 2009.

Cologne, 4 November 2009

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube | Gino Mario Biondi | Dr Margarete Haase

Financial calendar 2010

Date	Event	Location
18 March 2010	Annual results press conference Publication of annual report for 2009	Cologne
19 March 2010	Analysts' meeting	Frankfurt/Main
6 May 2010	Annual general meeting	Cologne
12 May 2010	Interim report on first quarter of 2010 Conference call with analysts and investors	
12 August 2010	Interim report on first half of 2010 Conference call with analysts and investors	
10 November 2010	Interim report on first three quarters of 2010 Conference call with analysts and investors	

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