One step ahead

Interim Report

First half of 2011

DEUTZ

FIRST HALF AT A GLANCE

DEUTZ Group: Key figures

	4–6/2011	4–6/2010	1–6/2011	1–6/2010
€ million				
New orders	388.6	347.5	797.1	659.5
Unit sales (units)	58,782	41,781	107,198	75,565
Revenue	388.1	298.1	724.1	534.5
thereof excluding Germany (%)	81.2	82.0	81.6	81.8
EBITDA	42.6	25.7	76.9	40.3
EBIDTA (before one-off items)	42.6	28.2	76.9	44.5
EBIT	26.1	10.1	44.3	9.1
EBIT (before one-off items)	26.1	12.6	44.3	13.3
EBIT margin (%)	6.7	3.4	6.1	1.7
EBIT margin (before one-off items, %)	6.7	4.2	6.1	2.5
Net income	20.2	–0.7	33.9	–9.4
Earnings per share (€)	0.17	–0.01	0.28	–0.08
Total assets	1,077.8	1,144.0	1,077.8	1,144.0
Non-current assets	605.2	600.5	605.2	600.5
Equity	404.2	384.3	404.2	384.3
Equity ratio (%)	37.5	33.6	37.5	33.6
Cash flow from operating activities	39.8	10.0	30.2	–18.6
Free cash flow – continuing operations[1]	12.0	–9.7	–25.5	–63.3
Net financial position[2]	–99.1	–86.9	–99.1	–86.9
Working capital[3]	172.6	169.1	172.6	169.1
Working capital as percentage of revenue (%)[4]	12.5	17.7	12.5	17.7
Capital expenditure (excluding capitalisation of R&D)	11.3	27.0	21.3	35.2
Depreciation and amortisation	16.5	15.6	32.6	31.2
Research and development	27.3	23.3	52.5	47.2
Employees (30 June)	4,253	3,903	4,253	3,903

[1] Free cash flow: cash flow from operating and investing activities minus interest expense
[2] Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities
[3] Working capital: inventories plus trade receivables minus trade payables
[4] Working Capital Ratio (as percentage at balance sheet date): Working Capital at balance sheet date divided by revenue in the past twelve months

DEUTZ Group: segments

	4–6/2011	4–6/2010	1–6/2011	1–6/2010
€ million				
New orders				
DEUTZ Compact Engines	312.6	254.6	637.7	494.8
DEUTZ Customised Solutions	76.0	92.9	159.4	164.7
Total	**388.6**	**347.5**	**797.1**	**659.5**
Unit sales (units)				
DEUTZ Compact Engines	52,279	37,503	94,951	68,041
DEUTZ Customised Solutions	6,503	4,278	12,247	7,524
Total	**58,782**	**41,781**	**107,198**	**75,565**
Revenue				
DEUTZ Compact Engines	304.6	228.1	564.6	411.2
DEUTZ Customised Solutions	83.5	70.0	159.5	123.3
Total	**388.1**	**298.1**	**724.1**	**534.5**
EBIT (before one-off items)				
DEUTZ Compact Engines	14.5	5.4	21.2	1.3
DEUTZ Customised Solutions	11.5	11.1	23.4	17.3
Other	0.1	–3.9	–0.3	–5.3
Total	**26.1**	**12.6**	**44.3**	**13.3**

FOREWORD

Dear Shareholders and Business Associates,

In the second quarter of 2011, broad sections of the global economy again put on a convincing display of growth. Germany's economic motor was also running at full speed. As before, German companies continue to benefit from their outstanding competitiveness. No end to the upturn is in sight, although it is now starting to look less buoyant than before and the pace of growth has dropped off slightly in recent months.

DEUTZ can look back on the first half of 2011 with satisfaction: demand for our engines remains strong, our capacity utilisation in production is high and our profitability has improved significantly as a result of measures taken to cut costs and boost efficiency. Compared to the first half of 2010, our unit sales increased by 42 per cent to around 107,000 engines, revenue grew by about a third to €724 million and we significantly improved our EBIT margin, which stood at 6.1 per cent – and was as high as 6.7 per cent in the second quarter.

Shareholders will be pleased that this positive trend also benefited their shares: the price has climbed in recent months while the trading volume has also risen sharply. In a nutshell, DEUTZ shares have become more attractive!

Despite the boom, the global economy is exposed to a multitude of risks. There are growing economic imbalances in the euro zone. Several European countries and the USA face fiscal policy challenges. The Japanese economy is contracting. But we are also increasingly seeing signs of overheating in some economies, first and foremost China.

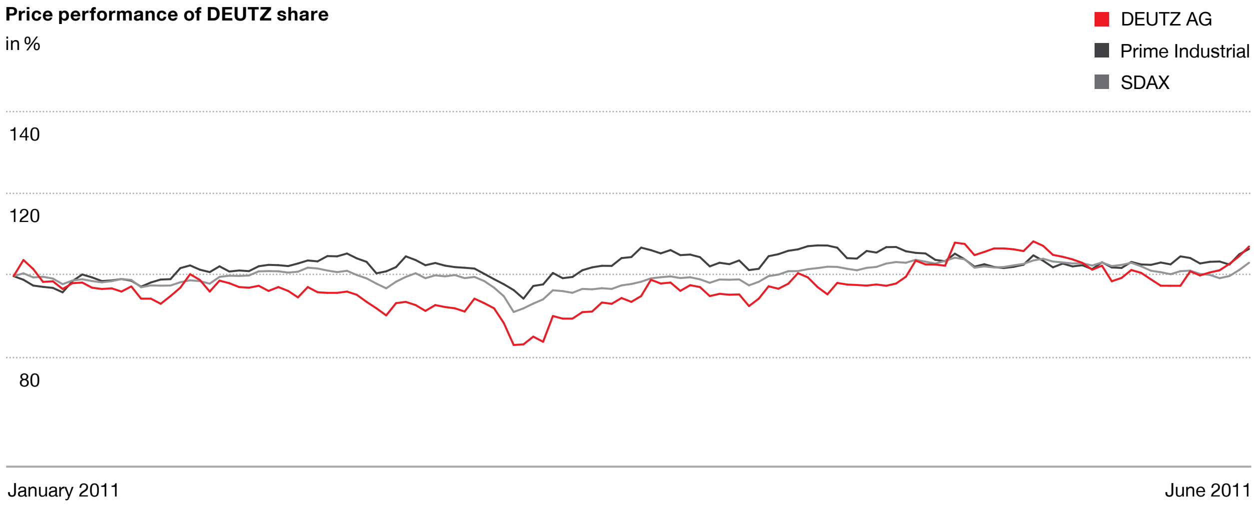
DEUTZ believes it is well prepared for these challenges. Our MOVE and MOVE FAST programmes of the last few years have put us in an ideal position from which to tackle them. We believe that there are still good prospects for profitable growth and we are very confident that we will exceed our targets in 2011.

Kind regards from Cologne

Dr Helmut Leube
Chairman of the Board of Management

DEUTZ SHARES

Price performance of DEUTZ share
in %



DEUTZ shares significantly outperform stock markets The German stock markets recovered well from the slump in share prices after the earthquake and nuclear disaster in Japan. In the first six months of 2011, the DAX rose by 6.7 per cent to 7,376 points. The SDAX and Prime Industrial, on which DEUTZ shares are listed, also made gains. The SDAX increased by 4.7 per cent to 5,417 points and the Prime Industrial by 7.9 per cent to 3,645 points.

The performance of DEUTZ's shares was highly encouraging and, as in 2010, they did better than their benchmarks. On 30 June 2011, they closed at €6.81, a rise of 9.0 per cent or €0.56 compared to their 2010 closing price. The highest price so far this year was slightly higher at €6.89, which the shares reached on 31 May 2011. The lowest price of €5.28 was attained on 15 March 2011. Overall, there has been increased interest in the shares and trading volumes have risen.

DEUTZ had a total of 120,861,783 shares in issue as at 30 June 2011 – a number that had not changed year on year – and a market capitalisation of €823.1 million (31 December 2010: €755.4 million).

Eleven banks and securities houses currently analyse DEUTZ shares: Bankhaus Lampe, Berenberg Bank, BHF-Bank, Commerzbank, Deutsche Bank, Goldman Sachs, HSBC Trinkaus & Burkhardt, Solventis Wertpapierhandelsbank, UBS, Unicredit and WestLB. A number of analysts raised the target price during the period under review; analysts predominantly recommend buying our shares.

We have stepped up our investor relations activities this year. Besides attending five investor conferences and roadshows in Germany, the United Kingdom and the USA, we regularly meet with analysts, institutional investors and private investors.

Key figures for DEUTZ shares

	1–6/2011	1–6/2010
Number of shares (30 June)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 30 June (€)	6.81	4.11
Share price high (€)	6.89	4.89
Share price low (€)	5.28	3.15
Market capitalisation as at 30 June (€ million)	823.1	496.7
Earnings per share (€)	0.28	–0.08

Based on Xetra closing prices

INTERIM MANAGEMENT REPORT ON FIRST HALF OF 2011

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Global economy: sustained upturn[1)] The global economy continues to grow significantly, although rates vary from region to region. The driving forces behind this growth are still the emerging markets, first and foremost China. However, the country's ongoing rapid growth is increasingly fuelling inflation. In contrast, economic growth in a number of industrialised nations is being hampered by higher commodity costs and, in Japan's case, disruptions to the supply chain as a result of the earthquake and tsunami. Overall, Deutsche Bank forecasts global growth of 4.0 per cent this year and 4.5 per cent in 2012.

The economies of the G7 countries are expected to expand by just 1.8 per cent this year due, above all, to the adverse impact of negative growth in Japan (2011F: contraction of 1.5 per cent). The US economy, which is the world's largest, is recovering at only a very slow rate, causing the growth forecast to be lowered to 2.6 per cent. US consumers are suffering from stagnant incomes and persistently high unemployment. Discussion about the USA's debt ceiling and the long-term challenges of fiscal policy remain a risk for the global economy. The euro zone's economy has performed better than expected, although the situation varies from country to country. Growth of 1.9 per cent is anticipated for 2011. The main threats to growth are the high levels of government debt in Portugal, Ireland and, in particular, Greece.

Germany, however, continues to grow rapidly – especially compared to other euro-zone countries – although the pace dropped off slightly in the second quarter. As before, the German economy's advantage lies in its outstanding competitiveness, as a result of which there is no end to the upturn in sight despite weaker leading indicators. Economic experts forecast growth of around 3.3 per cent for 2011.

Engineering remains on growth trajectory[2)] The engineering sector performed well worldwide during the first half of 2011, although demand for capital goods is expected to slacken as the year progresses.

The German engineering sector also continues to display signs of growth; according to the VDMA, orders up to May 2011 were up 30 per cent compared to 2010. Capacity utilisation remained high at 88.6 per cent (April 2011).

NEW ORDERS

Orders up by a fifth on 2010 Demand for DEUTZ engines and services remains very strong. In the first six months of 2011, the Group took new orders with a value of €797.1 million, almost 21 per cent more than in the first half of 2010 (H1 2010: €659.5 million). Encouragingly, almost all application segments benefited from the market's good performance, in particular Mobile Machinery, which posted an increase of 30.5 per cent. Orders for services also continued to exhibit a very positive trend, rising by 16.5 per cent. Seasonal factors meant that new orders in the second quarter were down about 5 per cent compared to the very strong first quarter (Q2 2011: €388.6 million; Q1 2011: €408.5 million).

Orders on hand amounted to €349.8 million as at 30 June 2011, a year-on-year increase of approximately 24 per cent (30 June 2010: €282.3 million). This figure was virtually unchanged on the previous quarter (31 March 2011: €350.9 million).

UNIT SALES

Engine sales still buoyant DEUTZ sold 107,198 engines between January and June 2011, almost 32,000 or 42 per cent more than in the first six months of the previous year (H1 2010: 75,565 engines). The positive trend is set to continue. Unit sales in the second quarter were up 21.4 per cent compared to the first quarter (Q2 2011: 58,782 engines; Q1 2011: 48,416 engines).

Encouragingly, we achieved considerable growth in all regions. The markets with the strongest increases in the first half of 2011 were the Americas and Asia-Pacific. In the Americas we sold 16,602 engines, 59.6 per cent more than in the first half of 2010 (H1 2010: 10,402 engines). In Asia-Pacific, we sold 5,676 engines, up 47.7 per cent (H1 2010: 3,842 engines). In the Europe, Middle East and Africa region, which is our largest market, unit sales rose by 38.5 per cent year on year to 84,920 engines (H1 2010: 61,321 engines). Germany's increase in unit sales was above average, climbing by 53.6 per cent to 22,047 engines (H1 2010: 14,352 engines).

[1)] Sources: Deutsche Bank Economic Research Bureau Frankfurt, 5 July 2011
[2)] Source: VDMA Konjunkturbulletin of July 2011

RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by region
€ million (2010 figures)

■	**579.2**	(439.1)	Europe/Middle East/Africa
■	**84.1**	(57.6)	Americas
■	**60.8**	(37.8)	Asia/Pacific
	724.1	(534.5)	Total

Revenue up by a third Strong demand also pushed up our revenue. For the first six months of 2011, it came to €724.1 million, 35.5 per cent more than in the first half of 2010 (H1 2010: €534.5 million). Revenue growth was strongest in the Americas (increase of 46.0 per cent) and Asia-Pacific (increase of 60.8 per cent). Our total revenue in Europe, the Middle East and Africa climbed by 31.9 per cent. DEUTZ posted revenue of €388.1 million in the second quarter of 2011, 15.5 per cent above the figure achieved in the previous quarter (Q1 2011: €336.0 million).

DEUTZ Group: Revenue by application segment
€ million (2010 figures)

■	**248.7**	(160.5)	Mobile Machinery
■	**122.8**	(102.4)	Service
■	**114.1**	(81.8)	Stationary Equipment
■	**108.0**	(97.4)	Automotive
■	**93.1**	(73.1)	Agricultural Machinery
■	**37.4**	(19.3)	Miscellaneous
	724.1	(534.5)	Total

All application segments boosted their revenues, above all Mobile Machinery with a rise of 55.0 per cent and Stationary Equipment with 39.5 per cent. The Agricultural Machinery and Service application segments also recorded gains of 27.4 per cent and 19.9 per cent respectively. Overall, unit sales growth was slightly better than revenue growth because sales of smaller engines in the Mobile Machinery segment increased disproportionately strongly.

EBIT

More than threefold increase in EBIT In the first half of 2011, our operating profit (EBIT before one-off items) amounted to €44.3 million. This represents a more than threefold increase in EBIT compared to the same period last year (H1 2010: €13.3 million). Our operating income also rose by a significant €7.9 million compared to the very strong first quarter (Q1 2011: €18.2 million). The EBIT margin (before one-off items) reached 6.1 per cent in the first half of 2011 – an increase of 3.6 percentage points. And in the second quarter of 2011, the EBIT margin was even higher at 6.7 per cent. Unlike in 2010, there were no one-off items in the reporting period.

The key factors in this extremely positive trend were strong revenue growth and the steps taken to boost profitability and efficiency, above all the successful reduction of fixed costs as a result of the MOVE project.

As a percentage of total output, the cost of materials rose slightly by 0.9 percentage points to 63.9 per cent in the first half of 2011 (H1 2010: 63.0 per cent). The main reasons for this were the increase in services bought in from third parties in order to meet the strong rise in demand and the production start-up of our engines for the COM III B exhaust emissions standard in the European Union and the corresponding US standard, EPA Tier 4 Interim, which are more material-intensive.

The increase in headcount – above all in production and assembly – caused staff costs to rise by €14.4 million to €141.0 million in the first half of 2011 (H1 2010: €126.6 million). As a percentage of total output, the staff costs ratio declined to 18.2 per cent – an improvement of 4.3 percentage points (H1 2010: 22.5 per cent) – despite the considerably larger volume of business.

The larger volume of business also meant that we increased the number of contract workers deployed, which is reported under other operating expenses. The rise in expenses was offset by the absence of foreign-currency losses from the measurement of the share of the US private placement issued in US dollars. In 2010, these losses had been offset by income – reported under other operating income – from the marking to market of derivatives used to hedge the currency risk and interest-rate risk. For a more detailed explanation of other operating income and other operating expenses, please refer to the information on page 15 in the notes to the interim financial statements.

The profit on equity-accounted investments went up by €1.4 million to €0.9 million in the first half of 2011. This improvement was a result of the greater contributions to profits made by our engines joint ventures, and was achieved despite the budgeted start-up losses of Bosch Emission Systems GmbH & Co. KG, which is our joint venture with Robert Bosch GmbH and Eberspächer GmbH & Co. KG in the area of diesel exhaust aftertreatment.

In the first half of 2011, net interest expense amounted to €6.7 million, a year-on-year decrease of €2.6 million (H1 2010: €9.3 million). Above all, this trend can be attributed to the sharp fall in finance costs, which itself resulted from the changes made to the funding structure at the end of 2010.

Income tax expenses declined from €8.4 million in the first half of 2010 to €2.9 million in the reporting period as a result of higher deferred tax income in connection with the measurement of existing loss carryforwards.

The increase in operating profit led to a significant improvement in net income, which rose by €43.3 million to €33.9 million (H1 2010: net loss of €9.4 million). Accordingly, earnings per share increased to €0.28 (H1 2010: minus €0.08).

BUSINESS PERFORMANCE IN THE SEGMENTS

BUSINESS PERFORMANCE DEUTZ COMPACT ENGINES (DCE)

New orders at high level The DEUTZ Compact Engines (DCE) segment took new orders amounting to €637.7 million in the first half of 2011, almost 29 per cent more than in the corresponding period in 2010 (H1 2010: €494.8 million). However, the volume of new orders was down 3.8 per cent on the previous quarter, which had been very strong (Q2 2011: €312.6 million; Q1 2011: €325.1 million). Orders on hand stood at €250.2 million as at the end of June, representing growth of some 30 per cent compared to mid-2010 (30 June 2010: €192.9 million) and of around 3 per cent compared to the first quarter (31 March 2011: €243.6 million).

Unit sales at DEUTZ Compact Engines up almost 40 per cent DEUTZ sold 94,951 compact engines between January and June 2011, almost 40 per cent more than in the first half of 2010. The sharpest rises in unit sales were seen in the Asia-Pacific region at 51 per cent and in the Americas at 50.9 per cent. Total unit sales in Europe, the Middle East and Africa grew by 37.3 per cent. Sales in the DCE segment rose by 22.5 per cent quarter on quarter (Q2 2011: 52,279 engines; Q1 2011: 42,672 engines).

Strong revenue growth for DCE Revenue rose almost as sharply as unit sales and amounted to €564.6 million, which was 37.3 per cent higher than it had been a year earlier (H1 2010: €411.2 million). At 57.0 per cent, Mobile Machinery recorded the highest growth among the application segments. DEUTZ Compact Engines generated most of its revenue – €474.2 million – in the Europe, Middle East and Africa region. Of that amount, €108.9 million stemmed from Germany. The quarter-on-quarter gain came to 17.2 per cent (Q2 2011: €304.6 million; Q1 2011: €260.0 million).

Greatly improved profitability in the DCE segment The rise in the volume of business and the sustained improvements to profitability were reflected in the DCE segment's operating profit (EBIT before one-off items). It rose by a significant €19.9 million to €21.2 million in the first half of 2011 compared to the corresponding period last year (H1 2010: €1.3 million). Our DEUTZ (Dalian) Engine Co. Ltd. joint venture also performed encouragingly and its profits contributed to our success.

DEUTZ Compact Engines: Revenue by application segment
€ million (2010 figures)

218.4	(139.1)	Mobile Machinery
90.1	(70.8)	Agricultural Machinery
88.5	(82.2)	Automotive
79.6	(55.6)	Stationary Equipment
67.2	(53.9)	Service
20.8	(9.6)	Miscellaneous
564.6	(411.2)	Total

BUSINESS PERFORMANCE DEUTZ CUSTOMISED SOLUTIONS (DCS)

Slight fall in demand at DCS DEUTZ Customised Solutions took new orders with a value of €159.4 million in the first half of 2011, 3.2 per cent less than it had in the first six months of the previous year (H1 2010: €164.7 million). Compared to the previous quarter, DCS recorded a decline of 8.9 per cent (Q1 2011: €83.4 million), which was largely project-related. Orders on hand remained at a high level and amounted to €99.6 million as at 30 June 2011 – up 11.4 per cent on the same period a year earlier (H1 2010: €89.4 million). However, orders on hand were down 7.2 per cent on the first quarter (Q1 2011: €107.3 million).

Significant rise in unit sales The DCS segment sold 12,247 engines between January and June 2011, 4,723 more than in the first half of 2010 (H1 2010: 7,524 engines) – an impressive gain of almost 63 per cent. All application segments reported considerable growth. Second-quarter unit sales were more than 13 per cent higher than they had been in the first three months.

DCS revenue up by about a third Revenue totalled €159.5 million in the first half of 2011, corresponding to an increase of 29.4 per cent (H1 2010: €123.3 million). Quarter on quarter, revenue rose by a moderate 9.9 per cent (Q2 2011: €83.5 million; Q1 2011: €76.0 million). The business mix caused revenue to increase at a lower rate than unit sales. At more than 56 per cent, revenue growth was disproportionately strong in the Americas region.

Further increase in EBIT We were able to build on the encouraging operating profit achieved in the first half of 2010, increasing it by €6.1 million to €23.4 million.

DEUTZ Customised Solutions: Revenue by application segment
€ million (2010 figures)

55.6	(48.5)	Service
34.5	(26.2)	Stationary Equipment
30.3	(21.4)	Mobile Machinery
19.5	(15.2)	Automotive
16.6	(9.7)	Miscellaneous
3.0	(2.3)	Agricultural Machinery
159.5	(123.3)	Total

FINANCIAL POSITION

FUNDING

We were able to replace the existing US private placement funding with a secured syndicated bank loan at the end of 2010. The syndicate comprises nine German banks and, besides a guarantee facility and sufficient lines for derivatives transactions with which we can hedge interest-rate risk, currency risk and commodities risk, it is providing us with a working capital facility of €265 million – thereby securing the financial basis for our planned growth, including in the medium term. The lines will expire on 31 December 2014 and will be successively reduced in accordance with our medium-term liquidity planning.

The loan is available to us in the form of a revolving facility, which enables us to draw it down to suit the Company's requirements. The lines are floating-rate. We carry out interest-rate hedging to avoid interest-rate risks. As part of the contractual agreements, DEUTZ is obliged to comply with certain financial covenants. Please refer to the comments on funding provided in our group management report for 2010.

CASH FLOW

Cash flow from operating activities rose by €48.8 million to €30.2 million in the first half of 2011 (H1 2010: minus €18.6 million). This improvement was due to the sharp rise in operating profit coupled with continued stringent management of working capital.

However, net cash used for investing activities amounted to €49.9 million (H1 2010: €36.3 million). As in the first quarter of 2011, the main area of investment was development work for the upcoming exhaust emissions standards.

Cash flow from financing activities amounted to minus €14.6 million in the first six months of 2011. This was a €5.9 million larger cash outflow than in the first half of 2010 (H1 2010: minus €8.7 million), primarily due to the repayment of financial liabilities as less of the revolving working capital facility had been drawn down. Lower interest expense had a positive impact on cash flow.

Holdings of cash and cash equivalents declined by €34.5 million as a result of high capital expenditure and, above all, the partial repayment of financial liabilities. The net financial position[1] as at 30 June 2011 came to minus €99.1 million (31 December 2010: minus €73.6 million). Our debt was therefore lower than budgeted, despite strong growth.

Free cash flow[2] from continuing operations is an indicator of the Company's financial strength. In the first half of 2011, it stood at minus €25.5 million, a considerable improvement on the corresponding period of last year (H1 2010: minus €63.3 million).

NET ASSETS

Our strong business performance over the first six months of 2011 led to a rise in total assets. As at 30 June 2011, they stood at €1,077.8 million, which was €36.1 million higher than they had been at 31 December 2010 (€1,041.7 million).

Non-current assets Non-current assets had grown by €11.5 million to €619.4 million as at 30 June 2011 (31 December 2010: €607.9 million). The rise resulted from our continued high level of investing activities in connection with the development of new engines and refinement of existing ones.

[1] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities
[2] Free cash flow: cash flow from operating and investing activities minus interest expense.

Current assets The growth in our business caused current assets to increase by €24.7 million to €458.0 million as at 30 June 2011 (31 December 2010: €433.3 million).

Working capital (inventories plus trade receivables minus trade payables) had risen by 53.3 per cent to €172.6 million as at 30 June 2011 (31 December 2010: €112.6 million). This was primarily due to the high level of orders on hand and the associated €50.8 million increase in inventories since the start of the year to €208.4 million (31 December 2010: €157.6 million). Thanks to rigorous working capital management, we were able to reduce the working capital ratio by 5.2 percentage points to 12.5 per cent as at the balance sheet date (30 June 2010: 17.7 per cent) despite the larger volume of business. As at 30 June 2011, the average working capital ratio[1] was 11.6 per cent, a year-on-year improvement of 4.0 percentage points.

Unrecognised intangible assets In addition to the assets recognised on the balance sheet, DEUTZ has further assets that are not recognised: the DEUTZ brand is synonymous with highly sophisticated technology, quality and reliability and the Company has been a firmly established player in the equipment manufacturing and operating industry for over 140 years. DEUTZ also enjoys valuable long-standing relationships with customers; it has entered into long-term cooperation agreements, particularly with its key customers.

Equity ratio Equity had increased by €29.9 million to €404.2 million as at 30 June 2011 (31 December 2010: €374.3 million) thanks to the Group's very good half-year results. With only a slight increase in total assets, the equity ratio therefore stood at 37.5 per cent (31 December 2010: 35.9 per cent).

Current and non-current liabilities As at 30 June 2011, non-current liabilities totalled €320.6 million (31 December 2010: €330.4 million). The decline of €9.8 million is essentially because we had drawn down less of the revolving working capital facility in the form of euro-denominated loans. In contrast, current liabilities rose by €16.0 million to €353.0 million (31 December 2010: €337.0 million) as a consequence of the sustained high volume of business.

EVENTS AFTER THE BALANCE SHEET DATE

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

[1] Average working capital ratio: average working capital at the end of the last four quarters divided by revenue for the last twelve months.

RESEARCH AND DEVELOPMENT

Development costs slightly higher than H1 2010 level Research and development expenditure came to €52.5 million in the first half of 2011, an increase of 11.2 per cent compared to the corresponding period last year (H1 2010: €47.2 million). R&D activities centred on development of the two new engines TCD 2.9 L4 and TCD 3.6 L4 as well as on the introduction of engines for the Tier 4 Interim emissions standard. DEUTZ has already successfully launched the TCD 6.1 and TCD 7.8 engines on the market; four more will follow this year. The basic engine development work for the next emissions standard – Tier 4 Final – is largely covered by the development program for Tier 4 Interim. Consequently, 87.8 per cent (€46.1 million) of development expenditure in the first half of 2011 went on the development of new engines and the refinement of existing models – 4.8 percentage points or €6.9 million more than in the first half of 2010. Expenditure on support for existing engine series accounted for 8.6 per cent (€4.5 million) of the total budget, while fundamental research and preliminary development accounted for 3.6 per cent (€1.9 million).

Of the total R&D budget, €45.7 million was spent on DEUTZ Compact Engines (H1 2010: €42.5 million) and €6.8 million on DEUTZ Customised Solutions (H1 2010: €4.7 million). The budgeted increase in both segments is essentially attributable to the upcoming market launches.

The ratio of development expenditure to the DEUTZ Group's revenue fell from 8.8 per cent (H1 2010) to 7.3 per cent (H1 2011) due to the sharp rise in revenue.

EMPLOYEES

Headcount adjusted flexibly to increase in production In view of the increased demand and higher capacity utilisation in production, DEUTZ again hired new employees in the second quarter. The number of employees in the DEUTZ Group had risen to 4,253 by 30 June 2011. This is 350 employees – or 9.0 per cent – more than on the same date last year and 172 employees – or 4.2 per cent – more than at the end of the first quarter of 2011. DEUTZ also employed 549 temporary workers, an increase of 378 compared to 30 June 2010.

We predominantly expanded the workforce in the production and assembly units so that we can satisfy the high level of demand on schedule. The increase in headcount was, however, lower than the increase in revenue. Temporary and fixed-term contracts enable us to respond flexibly to possible fluctuations in demand in a market environment that is subject to rapid change.

In Germany, we employed 3,240 employees, 5.0 per cent more than we had a year earlier (30 June 2010: 3,085 employees). Most of them work at our sites in Cologne (2,495 employees; increase of 3.6 per cent) and Ulm (461 employees; increase of 14.4 per cent).

The Group employed 1,013 people outside Germany, almost a quarter more than at 30 June 2010 (increase of 23.8 per cent). New staff were taken on, especially at the DEUTZ Diter production site in Zafra, Spain, because of the strong growth: 719 people were employed there as at 30 June 2011, compared to 543 a year earlier (increase of 32.4 per cent).

Fewer employees were again taken on in R&D, an area that we had consciously expanded despite the economic crisis. As at the balance sheet date, 535 people worked in R&D – a year-on-year rise of 2.1 per cent.

RISK REPORT

The DEUTZ Group operates on a global basis in various market segments and application segments. Consequently, the Company is exposed to a variety of risks specific to its business and to the regions in which it operates. Our 2010 annual report describes certain material risks for our financial position and financial performance and explains the structure of our risk management system. During the first six months of 2011, we did not identify other material risks beyond those described in the 2010 annual report. We would also refer you to the Outlook at the end of this interim group management report.

RELATED-PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties. These include the business relationships between the DEUTZ Group and 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 19 of the notes to the condensed interim financial statements.

OUTLOOK

The economy continues to grow significantly, driven mainly by the emerging markets. An end to the upturn is not in sight, despite various risks for the global economy and a number of weaker leading indicators. Economic experts forecast global growth of 4.0 per cent this year and 4.5 per cent in 2012.

The high level of orders on hand, a sustained strong inflow of new orders and feedback from our customers all enable us to look to the second half of 2011 with optimism, and we are raising the forecast that we made at the start of the year:

We now anticipate unit sales of more than 225,000 engines, which corresponds to revenue of over €1.5 billion. Given the growth in revenue and our increased profitability, we also expect operating profit to be better than previously expected at approximately €90 million (EBIT).

Having significantly reduced our fixed costs and thus the break-even threshold thanks to our MOVE cost-cutting project, we are now taking further steps to boost our profitability and efficiency as part of the MOVE FAST programme.

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 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 FINANCIAL STATEMENTS OF THE DEUTZ GROUP FOR THE FIRST HALF OF 2011

INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	**4–6/2011**	4–6/2010	**1–6/2011**	1–6/2010
€ million					
Revenue		**388.1**	**298.1**	**724.1**	**534.5**
Change in inventories and other own work capitalised		17.1	11.7	48.8	27.7
Other operating income	1	9.4	30.6	19.7	41.8
Cost of materials		–260.6	–196.0	–494.1	–354.0
Staff costs		–70.3	–64.3	–141.0	–126.6
Depreciation and amortisation		–16.5	–15.6	–32.6	–31.2
Other operating expenses	2	–41.2	–54.6	–81.5	–82.7
Net income from equity-accounted investments		0.1	0.1	0.9	–0.5
Other investment income		–	0.1	–	0.1
EBIT		**26.1**	**10.1**	**44.3**	**9.1**
thereof one-off items		**–**	**–2.5**	**–**	**–4.2**
thereof operating profit (EBIT before one-off items)		**26.1**	**12.6**	**44.3**	**13.3**
Interest expenses, net		–3.4	–5.8	–6.7	–9.3
thereof finance costs		–3.6	–9.0	–7.0	–15.4
Other taxes		–0.5	–0.5	–0.8	–0.8
Net income before taxes		**22.2**	**3.8**	**36.8**	**–1.0**
Income taxes	3	–2.0	–4.5	–2.9	–8.4
Net income		**20.2**	**–0.7**	**33.9**	**–9.4**
thereof attributable to owners of the parent		20.2	–0.7	33.9	–9.4
thereof attributable to non-controlling interests		–	–	–	–
Earnings per share (€)		**0.17**	**–0.01**	**0.28**	**–0.08**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	**4–6/2011**	4–6/2010	**1–6/2011**	1–6/2010
€ million					
Net income		**20.2**	**–0.7**	**33.9**	**–9.4**
Currency translation differences		–0.6	9.5	–4.6	14.3
Effective portion of change in fair value from cash flow hedges		0.1	1.5	0.5	0.2
Change in fair value of available-for-sale financial assets		–	–0.1	0.1	–
Other comprehensive income, net of tax	4	**–0.5**	**10.9**	**–4.0**	**14.5**
Comprehensive income		**19.7**	**10.2**	**29.9**	**5.1**
thereof attributable to owners of the parent		19.7	10.2	29.9	5.1
thereof attributable to non-controlling interests		–	–	–	–

BALANCE SHEET FOR THE DEUTZ GROUP

ASSETS	Note	30/06/2011	31/12/2010
€ million			
Property, plant and equipment	5	314.4	320.5
Intangible assets	5	209.3	185.6
Equity-accounted investments		67.7	69.7
Other financial assets		13.8	15.7
Non-current assets (before deferred tax assets)		605.2	591.5
Deferred tax assets		14.2	16.4
Non-current assets		**619.4**	**607.9**
Inventories	6	208.4	157.6
Trade receivables		161.2	160.1
Other receivables and assets		55.0	47.7
Cash and cash equivalents		33.4	67.9
Current assets		**458.0**	**433.3**
Non-current assets held for sale		0.4	0.5
Total assets		**1,077.8**	**1,041.7**

EQUITY AND LIABILITIES	Note	30/06/2011	31/12/2010
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		1.4	5.4
Retained earnings		79.1	79.1
Accumulated income		–14.1	–48.0
Equity attributable to owners of the parent		404.2	374.3
Equity		**404.2**	**374.3**
Provisions for pensions and other post-retirement benefits		150.9	154.7
Deferred tax provisions		0.3	–
Other provisions	7	31.7	29.8
Financial liabilities	8	130.3	138.5
Other liabilities		7.4	7.4
Non-current liabilities		**320.6**	**330.4**
Provisions for pensions and other post-retirement benefits		15.9	15.9
Provision for current income taxes		4.0	4.0
Other provisions	7	60.6	42.7
Financial liabilities	8	2.2	3.0
Trade payables		197.0	205.1
Other liabilities		73.3	66.3
Current liabilities		**353.0**	**337.0**
Total equity and liabilities		**1,077.8**	**1,041.7**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

	Issued capital	Additional paid-in capital	Retained earnings	Fair value reserve[1), 2)]	Currency translation reserve[1)]	Accumulated income	Total Group interest	Non-controlling interests	**Total**
€ million									
Balance at 1 Jan. 2010	**309.0**	**28.8**	**79.1**	**–0.1**	**–5.5**	**–32.1**	**379.2**	**–**	**379.2**
Comprehensive income				0.2	14.3	–9.4	5.1	–	5.1
Balance at 30 June 2010	**309.0**	**28.8**	**79.1**	**0.1**	**8.8**	**–41.5**	**384.3**	**–**	**384.3**
Balance at 1 Jan. 2011	**309.0**	**28.8**	**79.1**	**0.1**	**5.3**	**–48.0**	**374.3**	**–**	**374.3**
Comprehensive income				0.6	–4.6	33.9	29.9	–	29.9
Balance at 30 June 2011	**309.0**	**28.8**	**79.1**	**0.7**	**0.7**	**–14.1**	**404.2**	**–**	**404.2**

[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	Note	1–6/2011	1–6/2010
EBIT		**44.3**	**9.1**
Interest income		0.2	0.6
Other taxes paid		–0.8	–0.8
Income taxes paid		–0.5	–3.5
Depreciation and amortisation		32.6	31.2
Gain/loss on disposals of fixed assets		–0.1	0.4
Net result from equity-accounted investments		–0.9	0.5
Other non-cash expenses/income		0.3	–3.1
Change in working capital		–61.3	–61.4
Change in inventories		–53.2	–31.7
Change in trade receivables		–2.3	–47.2
Change in trade payables		–5.8	17.5
Change in other receivables and other current assets		–10.4	–8.9
Change in provisions and other liabilities (excluding financial liabilities)		26.8	17.3
Cash flow from operating activities		**30.2**	**–18.6**
Capital expenditure on intangible assets, property, plant and equipment		–47.8	–33.4
Capital expenditure on investments		–2.5	–3.0
Proceeds from the sale of non-current assets		0.4	0.1
Cash flow from investing activities – continuing operations		**–49.9**	**–36.3**
Cash flow from investing activities – discontinued operations		–	–1.0
Cash flow from investing activities – total		**–49.9**	**–37.3**
Interest expenses		–5.8	–8.4
Cash receipts from borrowings		–	0.6
Repayments of loans	8	–8.8	–0.9
Cash flow from financing activities		**–14.6**	**–8.7**
Cash flow from operating activities		30.2	–18.6
Cash flow from investing activities		–49.9	–37.3
Cash flow from financing activities		–14.6	–8.7
Change in cash and cash equivalents		**–34.3**	**–64.6**
Change in cash and cash equivalents at 1 January		**67.9**	**214.7**
Change in cash and cash equivalents		–34.3	–64.6
Change in cash and cash equivalents related to exchange rates		–0.2	0.4
Change in cash and cash equivalents at 30 June		**33.4**	**150.5**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2011

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These condensed interim financial statements prepared for Deutz AG as the ultimate parent company for the period ended 30 June 2011 have been prepared according to consistent accounting and valuation methods. The interim financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Boards (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim financial statements do not contain all the information and notes required by the IFRSs for consolidated financial statements for a full financial year, and should therefore be read in conjunction with the IFRS consolidated financial statements published for the 2010 financial year.

The condensed interim consolidated financial statements for the period ended 30 June 2011 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity, and selected notes to the consolidated financial statements – and the interim group management report for the period from 1 January to 30 June 2011 have been reviewed by an auditor pursuant to section 37w of the German Securities Trading Act (WpHG).

SIGNIFICANT ACCOUNTING POLICIES

With the exception of the new IFRSs and interpretations described below, the accounting policies used in the preparation of these interim consolidated financial statements are the same as those used in the most recent consolidated financial statements for the year ended 31 December 2010. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2010. If material, revenue-related and cyclical items are deferred during the year on the basis of annual business plans.

IAS 24 (revised) "Related Party Disclosures" The revision simplifies the reporting obligations of entities in which governments have an equity interest. The definition of a related party has also been revised. Apart from enhancements, the revision primarily comprises changes to make the standard clearer and more understandable. The initial application of this revised standard therefore did not have any impact on the disclosures on related parties in the interim consolidated financial statements.

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

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" Under the amended IFRIC 14, if there is a minimum funding requirement for a defined benefit plan, the prepayment must now be treated as an asset. Because the DEUTZ Group is not affected by this amendment, its initial application did not have any impact on the interim consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" The interpretation introduces the rule that equity instruments issued to lenders to extinguish all or part of a financial liability must be considered as "consideration paid"and the borrower must therefore derecognise all or part of the financial liability accordingly. Other provisions in the interpretation comprise rules on the measurement of these equity instruments and on the derecognition of the liability. Initial application of the interpretation did not impact on the interim consolidated financial statements.

Collective standard amending various IFRSs (2010) The amendments, which come into effect for financial years beginning on or after 1 January 2011, are primarily intended to clarify certain unclear provisions in the standards. Because the DEUTZ Group is only partially affected by these amendments, their initial application did not have a material impact on the interim consolidated financial statements.

Changes in basis of consolidation On 27 January 2011, DEUTZ AG made a capital contribution of €0.1 million to the newly established company DEUTZ (Beijing) Engine Co., Ltd., which has its registered office in China. The company was established as a distribution company for the DEUTZ Group in the Chinese market. DEUTZ AG holds 100 per cent of voting shares in the company. It was accounted for under the acquisition method. In the first quarter, the Chinese joint venture WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO. LTD. was accounted for in the consolidated financial statements using the equity method for the first time due to reasons of materiality.

Significant estimates and assumptions The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires estimates and assumptions to be made that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent assets and liabilities at 30 June 2011 and on the reporting of income and expenses in the reporting period. Please refer to the corresponding information detailed in our consolidated financial statements for 2010.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. OTHER OPERATING INCOME

The reduction in other operating income in the first half of 2011 was largely attributable to the replacement of the funding by the US private placement in December 2010. As a result of this, the cross-currency swaps used to hedge the currency risk and interest-rate risk were ended at the same time. In the first half of 2010, unrealised profits of €15.2 million from the marking to market of these derivatives had been reported. These unrealised profits had been offset by unrealised losses, reported under other operating expenses, from the measurement in foreign currency of the share of the US private placement issued in US dollars. The absence of income from the reversal of part of the provision recognised in 2009 for personnel restructuring also contributed to this trend (H1 2010: €3.4 million).

2. OTHER OPERATING EXPENSES

The trend in other operating expenses in the first half of 2011 compared to the same period of the previous year primarily reflects two effects that largely offset each other. Whereas the sharp rise in demand caused expenses for temporary workers to rise by €8.1 million to €10.9 million (H1 2010: €2.8 million), replacement of the funding by the US private placement meant that there were no more losses resulting from measurement in a foreign currency. In the first half of 2010, losses of €10.1 million had been reported from measurement in a foreign currency of the share of the US private placement issued in US dollars.

3. INCOME TAXES

€ million	**4–6/2011**	4–6/2010	**1–6/2011**	1–6/2010
Current tax expense	0.5	0.4	0.7	0.5
Deferred tax expense	1.5	4.1	2.2	7.9
Total	**2.0**	**4.5**	**2.9**	**8.4**

As in the first half of 2010, income tax expenses primarily consisted of the effects of deferred taxes. The reduction in the first six months of 2011 was attributable in particular to higher deferred income from income tax, which in turn resulted from the deferred tax assets recognised on future tax assets arising from loss carryforwards.

4. OTHER COMPREHENSIVE INCOME

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

	1–6/2011		
€ million	before taxes	taxes	after taxes
Currency translation differences	–4.6	–	–4.6
Effective portion of change in fair value from cash flow hedges	0.7	–0.2	0.5
Change in fair value of available-for-sale financial instruments	0.1	–	0.1
Other comprehensive income	**–3.8**	**–0.2**	**–4.0**

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

In the first half of 2011, a profit of €1.1 million before taxes (H1 2010: loss of €3.0 million) related to cash flow hedges was reclassified to the income statement.

5. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure of €50.5 million including investment grants on property, plant and equipment and intangible assets was partly offset by depreciation, amortisation expense and impairment losses of €32.6 million. Of this total capital expenditure (including investment grants), €16.5 million related to property, plant and equipment and €34.0 million to intangible assets. Capital spending during the reporting period primarily consisted of capitalised development costs for the upcoming exhaust emissions standards.

The carrying amounts of property, plant and equipment pledged as collateral for financial liabilities amounted to €253.9 million as at 30 June 2011 (31 December 2010: €256.9 million). The loan collateralisation comprises prior charges on DEUTZ AG's real estate and the pledging as collateral of property, plant and equipment of the Group.

Commitments to purchase property, plant and equipment and intangible assets amounted to €47.1 million as at 30 June 2011 (31 December 2010: €31.1 million).

6. INVENTORIES

Inventories grew by €50.8 million to €208.4 million compared with 31 December 2010. This rise, which applied in equal measure to work in progress, finished goods and raw materials & consumables, was accompanied by a continued increase in new orders.

The carrying amounts of inventories pledged as collateral for financial liabilities amounted to €177.1 million as at 30 June 2011 (31 December 2010: €135.5 million). The loan collateralisation comprises the pledging as collateral of inventories of the Group.

As at 30 June 2011, commitments to purchase inventories amounted to €98.2 million (31 December 2010: €64.8 million).

7. OTHER PROVISIONS

€ million	**30/06/2011**	31/12/2010
Non-current	31.7	29.8
Current	60.6	42.7
Total	**92.3**	**72.5**

The rise in other provisions is mainly attributable to accruals during the year, for example for staff costs.

8. FINANCIAL LIABILITIES

€ million	**30/06/2011**	31/12/2010
Non-current	130.3	138.5
Current	2.2	3.0
Total	**132.5**	**141.5**

Financial liabilities declined in particular because we had drawn down less of the revolving working capital facility in the form of euro-denominated loans.

9. FINANCIAL INSTRUMENTS

The DEUTZ Group began using interest-rate swaps to hedge interest-rate risk in the first quarter of 2011. As at 30 June 2011, these derivatives, which are classified as held for trading, had a market value of €0.1 million and are recognised to the income statement accordingly.

NOTES ON SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the second quarter and the first half of 2011 and of 2010 is shown in the following table:

4–6/2011	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconcili-ation	**DEUTZ Group**
€ million						
External revenue	304.6	83.5	–	388.1	–	388.1
Intersegment revenue	–	–	–	–	–	–
Total revenue	**304.6**	**83.5**	**–**	**388.1**	**–**	**388.1**
Operating profit (EBIT before one-off items)	14.5	11.5	0.1	26.1	–	26.1

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

1–6/2011	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconcili-ation	**DEUTZ Group**
€ million						
External revenue	564.6	159.5	–	724.1	–	724.1
Intersegment revenue	–	–	–	–	–	–
Total revenue	**564.6**	**159.5**	**–**	**724.1**	**–**	**724.1**
Operating profit (EBIT before one-off items)	21.2	23.4	–0.3	44.3	–	44.3

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

30/06/2011	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconcili-ation	**DEUTZ Group**
€ million						
Segment assets (Inventories/trade receivables)	260.0	109.6	–	369.6	–	369.6
Segment liabilities (Trade payables)	172.8	24.2	–	197.0	–	197.0
Working Capital	**87.2**	**85.4**	**–**	**172.6**	**–**	**172.6**

31/12/2010	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	**Total segments**	Reconcili-ation	**DEUTZ Group**
€ million						
Segment assets (Inventories/trade receivables)	228.6	89.1	–	317.7	–	317.7
Segment liabilities (Trade payables)	181.0	24.1	–	205.1	–	205.1
Working Capital	**47.6**	**65.0**	**–**	**112.6**	**–**	**112.6**

Reconciliation from overall profit of the segments to net income

	4–6/2011	4–6/2010	**1–6/2011**	1–6/2010
€ million				
Overall profit of the segments	**26.1**	**12.6**	**44.3**	**13.3**
Reconciliation	–	–	–	–
Operating profit (EBIT before one-off items)	**26.1**	**12.6**	**44.3**	**13.3**
One-off items	–	–2.5	–	–4.2
EBIT	**26.1**	**10.1**	**44.3**	**9.1**
Interest expenses, net	–3.4	–5.8	–6.7	–9.3
Other taxes	–0.5	–0.5	–0.8	–0.8
Net income before income taxes	**22.2**	**3.8**	**36.8**	**–1.0**
Income taxes	–0.3	–4.5	–2.9	–8.4
Net income	**21.9**	**–0.7**	**33.9**	**–9.4**

RELATED-PARTY DISCLOSURES

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

These include the business relationships between the DEUTZ Group and entities in which it holds significant investments as well as the following DEUTZ AG shareholders (including their subsidiaries) that are in a position to exert a significant influence over the DEUTZ Group. They are:

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

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

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

	Goods and services provided		Other expenses incurred in connection with services received		Goods and services provided		Other expenses incurred in connection with services received	
	4–6/2011	4–6/2010	**4–6/2011**	4–6/2010	**1–6/2011**	1–6/2010	**1–6/2011**	1–6/2010
€ million								
Associates	–	–	–	–	–	–	–	–
Joint ventures	9.0	1.7	0.9	–	15.0	2.5	1.6	–
Other investments	0.1	0.1	1.0	0.9	0.2	0.2	2.0	1.9
Total	**9.1**	**1.8**	**1.9**	**0.9**	**15.2**	**2.7**	**3.6**	**1.9**

	Receivables		Liabilities	
	30/06/2011	31/12/2010	**30/06/2011**	31/12/2010
€ million				
Associates	–	1.1	–	–
Joint ventures	13.1	3.7	10.1	13.1
Other investments	0.4	0.1	5.6	4.8
Total	**13.5**	**4.9**	**15.7**	**17.9**

The increase in goods supplied and services rendered to joint ventures is mainly due to the stepping up of business relations with our joint venture DEUTZ (Dalian) Engine Co. Ltd. as a result of its strong business performance.

Liabilities to joint ventures of €10.1 million predominantly contain capital contributions of originally €18 million. Impairment losses of €23.3 million (31 December 2010: €23.3 million) had been recognised on €28.3 million of the Company's receivables due from investments as at 30 June 2011 (31 December 2010: €27.1 million). Some of these receivables and liabilities resulted from loans. Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

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

	SAME DEUTZ-FAHR Group		Volvo Group	
	2011	2010	**2011**	2010
€ million				
Engines and spare parts supplied in the second quarter	21.9	19.2	104.3	87.8
Services in the second quarter	1.6	0.5	6.6	3.3
Engines and spare parts supplied in the first quarter	34.7	31.1	198.8	155.2
Services in the first quarter	2.1	0.7	12.5	11.5
Receivables as at 30 June/31 Dec.	5.4	17.9	51.0	56.1

EVENTS AFTER THE BALANCE SHEET DATE (30 JUNE 2011)

No material events occurred after 30 June 2011.

Cologne, 3 August 2011

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

RESPONSIBILITY STATEMENT

“To the best of our knowledge, and in accordance with the applicable accounting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the interim management report presents a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.”

Cologne, 3 August 2011

DEUTZ Aktiengesellschaft
The Board of Management

Dr Helmut Leube

Dr Margarete Haase

CERTIFICATE ISSUED AFTER REVIEW BY THE AUDITORS

We have reviewed the condensed interim consolidated financial statements of DEUTZ AG, Cologne, comprising the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and selected explanatory notes, together with the interim group management report of DEUTZ AG, Cologne, for the period from 1 January to 30 June 2011, that are part of the semi-annual financial reporting pursuant to § 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act).

The preparation of the condensed interim consolidated financial statements in accordance with those International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the condensed interim consolidated financial statements and of the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Düsseldorf, 3 August 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Crampton)	(Lammers)
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

FINANCIAL CALENDAR

Date	Event	Location
10 November 2011	Interim report on first three quarters of 2011 Conference call with analysts and investors	
15 March 2012	Annual report press conference Publication of annual report 2011	Cologne
16 March 2012	Analysts' meeting	Frankfurt/Main
26 April 2012	Annual general meeting	Cologne
10 May 2012	Interim report on first quarter of 2012 Conference call with analysts and investors	
9 August 2012	Interim report on first half of 2012 Conference call with analysts and investors	
8 November 2012	Interim report on first three quarters of 2012 Conference call with analysts and investors	

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