Interim Report
1st to 3rd Quarter 2008

DEUTZ

The 1st to 3rd Quarter at a Glance

DEUTZ Group: Key figures

Continuing operations	**7–9/ 2008**	**7–9/ 2007**	**1–9/ 2008**	**1–9/ 2007**
€ million				
New orders	321.8	381.0	1,150.9	1,215.4
Unit sales (no.)	58,804	71,791	207,491	206,410
Revenue	354.8	383.0	1,180.3	1,100.7
thereof excl. Germany (in %)	76.6	77.7	76.0	78.8
EBITDA	18.4	46.8	97.9	119.6
EBIT	0.3	30.6	43.9	71.0
Operating profit (EBIT before one-off items)	0.3	30.6	43.9	71.0
EBIT margin before one-off items (in %)	0.1	8.0	3.7	6.5
Net income	–2.3	116.8	28.0	143.2
thereof from continuing operations	–2.3	9.1	28.0	35.6
thereof from discontinued operations	–	107.7	–	107.6
Earnings per share, basic, in €	–0.02	1.00	0.23	1.23
thereof from continuing operations	–0.02	0.08	0.23	0.31
thereof from discontinued operations	–	0.92	–	0.92
Earnings per share, diluted, in €	–0.02	0.97	0.23	1.19
thereof from continuing operations	–0.02	0.08	0.23	0.30
thereof from discontinued operations	–	0.89	–	0.89
Total assets (30 September)	1,333.8	1,351.8	1,333.8	1,351.8
Equity (30 September)	546.5	516.2	546.5	516.2
Equity ratio (in %)	41.0	38.2	41.0	38.2
Cash flow from operating activities	26.5	–126.2	77.2	–111.2
Net financial position [1]	25.6	37.0	25.6	37.0
Capital expenditure (excl. capitalisation of R&D)	10.1	78.3	49.6	105.4
Research and development	21.5	14.0	60.6	37.3
Employees as at 30 September (no.)	4,907	4,930	4,907	4,930

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

DEUTZ Group: Segments

	7–9/ 2008	**7–9/ 2007**	**1–9/ 2008**	**1–9/ 2007**
€ million				
New orders				
Compact Engines	238.3	281.8	874.3	923.4
DEUTZ Customised Solutions	83.5	99.2	276.6	292.0
Continuing operations	**321.8**	**381.0**	**1,150.9**	**1,215.4**
Unit sales (no.)				
Compact Engines	51,261	61,785	183,384	181,310
DEUTZ Customised Solutions	7,543	10,006	24,107	25,100
Continuing operations	**58,804**	**71,791**	**207,491**	**206,410**
Revenue				
Compact Engines	269.9	294.4	922.4	862.6
DEUTZ Customised Solutions	84.9	88.6	257.9	238.1
Continuing operations	**354.8**	**383.0**	**1,180.3**	**1,100.7**
Operating profit (EBIT before one-off items)				
Compact Engines	–11.8	14.6	9.0	34.1
DEUTZ Customised Solutions	12.9	13.5	35.2	31.3
Other	–0.8	2.5	–0.3	5.6
Continuing operations	**0.3**	**30.6**	**43.9**	**71.0**

Dear shareholders,

Demand started to weaken in the first half of this year, a trend that has continued to strengthen in recent weeks as the international financial crisis has intensified. Whilst this had very little effect on our operating activities in the first six months of the year and our business continued to perform well on the whole, we are now feeling the full impact of the accelerating deterioration in economic conditions. DEUTZ is not the only company to be affected in this way: the general trend throughout our sector reveals a similar picture, and comments made by competitors and customers alike demonstrate that no one had predicted such a rapid turnaround in fortunes. The current economic climate is having a particularly unsettling effect on our customers. There is now no denying the fact that the financial crisis is hitting the real economy.

The market downturn that started in the United States is now being felt in Europe as well. We are also beginning to see signs that China's economy is slowing. The consequences had a noticeable impact on our business in the third quarter: our key performance indicators now fall well short of what was still a strong performance in the corresponding quarter of 2007. These rapidly changing market conditions forced us to issue a revised outlook for the current financial year in mid-October, which means that we will be able to sell far fewer engines than we had previously forecast. And even if we manage to increase our revenue slightly year on year, our earnings will be hit by the consequences of the sharp, rapid fall in our unit sales and the rise in our cost of materials.

Nonetheless, your company DEUTZ occupies a strong market position that we intend to consolidate and expand. This is because DEUTZ's name continues to stand for cutting-edge technology, quality and reliability well beyond its national borders. We will therefore continue to pursue our strategy of internationalisation and transfer this competitive advantage to future markets as well. We will do our utmost to ensure that our research and development capabilities live up to our claim to be a technology leader. These efforts will focus on complying with future legislation on exhaust emissions and on our innovativeness in the field of exhaust-gas aftertreatment. What's more, the strong performance of DEUTZ Customised Solutions and our service business provides proof positive that our policy of strengthening our customer focus and expanding these business lines is the right one.

Given current market conditions, we need to ensure that we continue to act responsibly and remain fully focused on the task ahead. You can rest assured that I regard this as my main priority. In the present climate it is essential that we identify further ways of strengthening our organisation and respond to the latest developments by cutting costs and improving our processes. Our aim is not just to take the right action to deal with these challenging and volatile market conditions, but also to ensure that we emerge stronger from this global economic downturn, thereby laying the foundations for the DEUTZ Group's long-term profitability.

Yours sincerely,

Dr Helmut Leube
Chairman of the Management Board

Interim Management Report 1st to 3rd Quarter 2008

INTRODUCTION

In the first nine months of 2007 the DEUTZ Group consisted of the Compact Engines, DEUTZ Customised Solutions, DEUTZ Power Systems, and Other segments. The DEUTZ Power Systems segment was sold on 30 September 2007, and the income statement for the period ended 30 September 2007 has been restated accordingly; the figures for the reporting period can therefore be compared on a like-for-like basis.

The information in this interim management report relates to the DEUTZ Group's continuing operations, i.e. the Compact Engines, DEUTZ Customised Solutions, and Other segments.

ECONOMIC ENVIRONMENT

Global economic slowdown [1]

The effects of the global banking crisis are being acutely felt. Contrary to initial hopes, no economic region has remained unscathed by this adverse trend. The outlook for the global economy has, therefore, deteriorated sharply in recent months, with a number of industrialised nations facing recession and many emerging markets about to enter a period of slowing economic growth. Global output of products and services is now forecast to grow by only 1.2 per cent in 2009 compared with 3.2 per cent this year. In the United States, gross domestic product (GDP) is expected to rise by 1.1 per cent in 2008 and then to contract next year. Even growth in Asia is forecast to be much lower in 2009 (5.7 per cent) than it will be this year (2008: 7.6 per cent).

The global economic downturn is also affecting the euro zone and is being exacerbated by tough lending conditions, tight monetary policy and unfavourable exchange rates. GDP for this region is forecast to grow by only 0.9 per cent this year, and experts are expecting it to contract by 1.4 per cent in 2009.

The pace of growth in Germany has slowed significantly. Although the level of domestic orders has hardly fallen at all, demand from abroad – especially in the euro zone – has plummeted in recent months. This has translated into a lower volume of new orders, with output likely to contract over the coming months.

Trend of weaker foreign demand for engineering continues [2]

The level of new orders won by Germany's engineering sector in July and August of 2008 fell year on year, with new orders in July down by 8 per cent in real terms and those received in August down by 10 per cent in real terms on the corresponding months of 2007. Although the sector managed to raise its volume of orders slightly by 2 per cent in real terms in September, this increase was largely attributable to plant engineering activities. The level of new orders received by Germany's engineering industry in the three months from July to September 2008 fell by 5 per cent year on year, with a particularly pronounced decrease of 9 per cent in orders from abroad.

[1] Global economic data from Deutsche Bank Research
[2] Sectoral economic data from the German Engineering Federation (VDMA)

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

Against the background of an increasingly rapid deterioration in economic conditions and in line with the general trends in its sector, DEUTZ reported a downturn in its new orders, unit sales and revenue, especially in the third quarter of 2008. Over the full reporting period from January to September of 2008, however, revenue rose year on year and unit sales were in line with 2007's figure, although this was primarily attributable to the DEUTZ Group's relatively encouraging performance in the first six months of 2008.

Lower level of new orders

The volume of new orders received by the DEUTZ Group from January to September 2008 amounted to €1,150.9 million (Q1 – Q3 2007: €1,215.4 million). This means that demand fell by 5.3 per cent compared with the corresponding period of 2007. The reason for this trend was the sharp year-on-year decrease in the third quarter of 2008. Whereas the level of new orders won in the first half of 2008 was in line with the first six months of 2007, it fell by 15.5 per cent year on year in the period from July to September 2008.

This decrease affected the Compact Engines segment and the DEUTZ Customised Solutions segment equally, with the volume of new orders falling by 5.3 per cent in both. The Compact Engines segment received new orders worth €874.3 million (Q1 – Q3 2007: €923.4 million), while the DEUTZ Customised Solutions segment won orders totalling €276.6 million (Q1 – Q3 2007: €292.0 million).

Unit sales for first nine months virtually unchanged year on year

DEUTZ's unit sales for the year to date matched the level achieved in first three quarters of 2007. The Company sold a total of 207,491 engines during the reporting period after having sold 206,410 in the corresponding period of 2007 (an increase of 0.5 per cent). Here too, however, there was a sharp downturn in the third quarter of 2008. Having risen by 10.5 per cent year on year in the first half of 2008, the number of engines sold fell sharply by 18.1 per cent in the third quarter. Over the full nine-month period the Compact Engines segment raised its unit sales slightly by 1.1 per cent to 183,384 engines (Q1 – Q3 2007: 181,310), while the number of engines sold by the DEUTZ Customised Solutions segment fell by 4.0 per cent to 24,107 (Q1 – Q3 2007: 25,100).

Revenue growth bolstered by good first half

The DEUTZ Group generated revenue of €1,180.3 million in the first nine months of 2008, which was a year-on-year rise of 7.2 per cent (Q1 – Q3 2007: €1,100.7 million). Revenue in the Compact Engines segment advanced by 6.9 per cent to €922.4 million (Q1 – Q3 2007: €862.6 million), while the DEUTZ Customised Solutions segment's revenue rose by 8.3 per cent to €257.9 million (Q1 – Q3 2007: €238.1 million). These nine-month increases were attributable to the revenue growth generated in the first half of 2008. Whereas DEUTZ raised its revenue by 15.0 per cent year on year in the first six months of 2008, its third-quarter revenue fell sharply by 7.4 per cent compared with the corresponding period of 2007.

Although DEUTZ's business in Germany performed well during the reporting period, it suffered a pronounced downturn in the third quarter of 2008. Domestic revenue for the first nine months of 2008 amounted to €282.7 million (Q1 – Q3 2007: €233.0 million), which was an increase of 21.3 per cent on the corresponding period of 2007. This encouraging trend was largely driven by the Agricultural Machinery and Construction Equipment application segments, although the performance of the Construction Equipment segment, in particular, deteriorated significantly in the third quarter of 2008.

During the reporting period from January to September of 2008, DEUTZ achieved a modest year-on-year increase in the revenue it earned outside Germany, raising its revenue by 3.4 per cent from €867.7 million to €897.6 million. The proportion of revenue generated outside Germany fell slightly to 76.0 per cent at the end of the reporting period after it had been 78.8 per cent at the end of September 2007. DEUTZ earned most of its non-German revenue from customers in other European countries, which accounted for €607.3 million (Q1 – Q3 2007: €563.2 million), followed by the Americas, which generated €145.3 million (Q1 – Q3 2007: €156.8 million), and the Asia-Pacific region, which accounted for €86.9 million (Q1 – Q3 2007: €88.5 million). More than half the revenue generated in the Asia-Pacific region came from Chinese customers. The markets in virtually all regions outside Germany also showed increasing signs of weakening in the third quarter of 2008.

DEUTZ Group: Revenue by regions
€ million (2007 figures)

- **948.1** (855.4): Europe/Middle East/Africa
- **145.3** (156.8): Americas
- **86.9** (88.5): Asia-Pacific

Operating profit significantly lower year on year

From January to September 2008, DEUTZ reported an operating profit (EBIT) of €43.9 million, which was €27.1 million – or 38.2 per cent – less than in the corresponding period of 2007 (Q1 – Q3 2007: €71.0 million). This figure includes start-up losses of €7.0 million incurred by the DEUTZ Dalian Engines joint venture in China (Q1 – Q3 2007: €2.2 million), whereas the EBIT figure for the first three quarters of 2007 was boosted by one-off income totalling €13.0 million from the disposal of the Marine Service business and the settlement of pension claims. Excluding these one-off items, the decrease in operating profit is largely attributable to deteriorating market conditions in the third quarter of 2008, which was hit by a sharp fall in unit sales and by the rising cost of materials.

The EBIT margin fell from 6.5 per cent (Q1 – Q3 2007) to 3.7 per cent (Q1 – Q3 2008). Excluding the aforementioned one-off items – start-up losses for the Chinese joint venture in 2008 as well as the one-off income from the disposal of the Marine Service business and the settlement of pension claims in 2007 – the EBIT margin comes to 4.3 per cent for the period from January to September 2008 compared with 5.5 per cent in the corresponding period of 2007.

The DEUTZ Customised Solutions segment increased its operating profit for the first three quarters of 2008 by 12.5 per cent to €35.2 million (Q1 – Q3 2007: €31.3 million). By contrast, EBIT in the Compact Engines segment fell to €9.0 million during the reporting period (Q1 – Q3 2007: €34.1 million; a decrease of 73.6 per cent), which was primarily attributable to the deterioration in operating profit in the third quarter of 2008 and to the start-up losses incurred by the DEUTZ Dalian Engines joint venture in China.

The Other segment reported an operating loss of €0.3 million for the reporting period compared with a profit of €5.6 million in the corresponding period of 2007. However, it should be noted that this segment's operating profit for the first three quarters of 2007 included one-off income of €5.0 million from the disposal of the Marine Service business.

Net income declined

Owing to the higher interest income from credit balances held with banks, which more than offset the rise in interest expense, net interest income/expense improved by €6.0 million compared with the corresponding period of 2007. Because operating profit declined year on year, however, the net income of €28.0 million also fell well short of the prior-year figure (Q1–Q3 2007: €35.6 million). Income taxes for the first nine months of 2008 totalled €4.3 million (Q1–Q3 2007: €18.0 million), which equates to a tax rate of 13.3 per cent (Q1–Q3 2007: 33.6 per cent). The income tax bill for the corresponding period of 2007 was increased by factors such as deferred tax expense in connection with the disposal of Deutz Power Systems.

Sharp deterioration in third quarter

The DEUTZ Group's financial performance deteriorated in the third quarter of 2008, in line with the general trends in its sector. The volume of new orders received fell by 15.5 per cent year on year to €321.8 million (Q3 2007: €381.0 million), unit sales declined by 18.1 per cent to 58,804 engines (Q3 2007: 71,791) and revenue decreased by 7.4 per cent to €354.8 million (Q3 2007: €383.0 million).

Operating profit fell by €30.3 million year on year in the third quarter of 2008 to €0.3 million. Consequently, the EBIT margin narrowed to 0.1 per cent (Q3 2007: 8.0 per cent). These figures reflected the start-up losses of €2.3 million incurred by the DEUTZ Dalian Engines joint venture (Q3 2007: €1.2 million), the higher cost of materials and the sharp contraction in business volumes as a result of weaker demand.

BUSINESS PERFORMANCE IN THE COMPACT ENGINES SEGMENT

New orders with cancellations

The Compact Engines segment won new orders worth €874.3 million in the first three quarters of 2008 (Q1–Q3 2007: €923.4 million); this represented a year-on-year decrease of 5.3 per cent, which was partly attributable to the cancellation of existing orders. This segment was particularly adversely affected by falling demand for compact engines with capacities of less than four litres, which are mainly used in mobile machinery and compressors. By contrast, the volume of new orders received in the Agricultural Machinery application segment and the Service business was especially encouraging.

Unit sales for first nine months virtually unchanged

The Compact Engines segment sold 183,384 units in the first nine months of 2008, which was 1.1 per cent more than in the corresponding period of 2007 (Q1–Q3 2007: 181,310 engines). Whereas DEUTZ sold 8.7 per cent more four to eight-litre engines, its unit sales of engines with capacities of less than four litres fell by 8.1 per cent. Total unit sales in the Compact Engines segment fell sharply by 17.0 per cent in the third quarter of 2008.

Revenue growth buoyed by strong first-half performance

The revenue generated by the Compact Engines segment in the first nine months of 2008 rose by 6.9 per cent year on year to €922.4 million (Q1–Q3 2007: €862.6 million). The Agricultural Machinery application segment delivered particularly strong growth, raising its revenue by 51.9 per cent to €132.8 million (Q1–Q3 2007: €87.4 million). The Service business also performed well, growing by 15.6 per cent to €76.9 million (Q1–Q3 2007: €66.5 million). Modest year-on-year revenue growth was achieved by the Automotive (Q1–Q3 2008: €177.8 million; up 1.9 per cent) and Stationary Equipment application segments (Q1–Q3 2008: €141.1 million; up 1.0 per cent). Buoyed by its strong performance in the first half of 2008, the revenue generated by the Mobile Machinery application segment was only marginally lower year on year (Q1–Q3 2008: €380.9 million; a decrease of 0.3 per cent).

Compact Engines: Revenue by application segments
€ million (2007 figures)

Operating profit down year on year

The reporting period was adversely affected by the higher cost of materials, partly as a result of the sharp rise in commodity prices, while the decline in new orders and unit sales accelerated in the third quarter of 2008. Consequently, EBIT for the first three quarters fell to €9.0 million from €34.1 million in the corresponding period of 2007 (down 73.6 per cent). It should be noted here that the operating profit earned in the reporting period was depressed by the start-up losses of €7.0 million incurred by the DEUTZ Dalian Engines joint venture (Q1–Q3 2007: €2.2 million), whereas the operating profit reported for the first nine months of 2007 was boosted by €6.9 million as a result of the settlement of pension claims.

Demand falls sharply in third quarter

The economic downturn in the third quarter of 2008 caused demand for compact engines to fall sharply. The volume of new orders contracted by 15.4 per cent to €238.3 million (Q3 2007: €281.8 million), unit sales declined by 17.0 per cent to 51,261 engines (Q3 2007: 61,785) and revenue fell by 8.3 per cent year on year to €269.9 million (Q3 2007: €294.4 million). The operating result reported by the Compact Engines segment for the third quarter of 2008 was also considerably worse year on year: the segment reported an operating loss of €11.8 million compared with a profit of €14.6 million in the corresponding quarter of 2007. This was attributable to the higher cost of materials and the sharp contraction in business volumes on the back of weakening demand. Operating profit continued to be depressed by start-up losses of €2.3 million for the DEUTZ Dalian Engines joint venture in China (Q3 2007: €1.2 million), whereas the figure reported for the corresponding period of 2007 included one-off income of €4.7 million from the settlement of pension claims.

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS SEGMENT

New orders slightly down from strong 2007 level

The DEUTZ Customised Solutions segment won new orders worth €276.6 million in the first three quarters of 2008 (Q1–Q3 2007: €292.0 million). This represented a year-on-year decrease of 5.3 per cent, owing to the fact the level of new orders received in the corresponding period of 2007 was unusually high. The Stationary Equipment application segment experienced particularly strong demand during the reporting period on the back of higher numbers of orders of gensets. Demand fell in the Agricultural Machinery application segment, where a major customer switched from air-cooled to water-cooled DEUTZ engines.

Unit sales slightly lower due to change in structure

The number of engines sold by the DEUTZ Customised Solutions segment fell slightly year on year to 24,107 (Q1–Q3 2007: 25,100; a decrease of 4.0 per cent). Whereas the Mobile Machinery and Automotive application segments achieved double-digit growth, unit sales in the Agricultural Machinery application segment decreased because of a customer that switched from air-cooled to water-cooled DEUTZ engines. Furthermore, the assembly of small air-cooled engines in Spain was discontinued, which caused unit sales in the Stationary Equipment application segment to fall.

Encouraging revenue growth

By contrast, revenue growth was strong. The DEUTZ Customised Solutions segment increased its revenue by 8.3 per cent year on year to €257.9 million in the first nine months of 2008 (Q1–Q3 2007: €238.1 million). Almost all application segments achieved encouraging growth rates: Stationary Equipment raised its revenue by 22.4 per cent to €61.7 million (Q1–Q3 2007: €50.4 million), Automotive grew by 18.5 per cent to €35.8 million (Q1–Q3 2007: €30.2 million) and revenue from Mobile Machinery advanced by 15.8 per cent to €55.0 million (Q1–Q3 2007: €47.5 million). Only the Agricultural Machinery application segment's revenue, which came to €7.6 million, fell year on year for the aforementioned reasons (Q1–Q3 2007: €15.0 million). The Service business once again accounted for the largest share of the segment's revenue (€84.6 million) and generated further modest growth (Q1–Q3 2007: €82.6 million).

DEUTZ Customised Solutions: Revenue by application segments
€ million (2007 figures)

- **84.6** (82.6): Service
- **61.7** (50.4): Stationary Equipment
- **55.0** (47.5): Mobile Machinery
- **35.8** (30.2): Automotive
- **13.2** (12.4): Miscellaneous
- **7.6** (15.0): Agricultural Machinery

Segment raises operating profit

The DEUTZ Customised Solutions segment reported an operating profit of €35.2 million for the first nine months of 2008, which represented a year-on-year rise of €3.9 million or 12.5 per cent. This increase was attributable to the higher level of revenue and to the absence of the start-up costs that had been incurred in 2007 by the relocation of production from Cologne to Ulm.

EBIT close to prior-year level in third quarter

The DEUTZ Customised Solutions segment continued to deliver an encouraging performance in the third quarter of 2008. Although the volume of new orders contracted by 15.8 per cent year on year to €83.5 million (Q3 2007: €99.2 million), this was primarily attributable to the very high level of orders received in the corresponding quarter of 2007. Unit sales declined by 24.6 per cent to 7,543 engines (Q3 2007: 10,006), primarily because production of air-cooled engines in Spain was discontinued. Revenue fell by a more modest 4.2 per cent – owing to changes in the product mix – to €84.9 million (Q3 2007: €88.6 million). EBIT was only slightly lower year on year at €12.9 million (Q3 2007: €13.5 million).

FINANCIAL POSITION

Total assets amounted to €1,333.8 million as at 30 September 2008, which was €44.8 million less than the €1,378.6 million reported as at 31 December 2007. Although non-current assets (before deferred tax assets) increased (largely because property, plant and equipment grew by €11.3 million owing to higher capital expenditure, while intangible assets expanded by €11.6 million due to the capitalisation of R&D costs), this growth and the increase in inventories were more than offset by the decrease in trade receivables and in cash and cash equivalents.

Working capital increases over first nine months

Trade receivables decreased by €28.9 million compared with 31 December 2007, largely because revenue fell in the third quarter of 2008. The €41.3 million decrease in trade payables and the €33.6 million increase in inventories caused working capital to grow by €46.0 million to €242.9 million in the first nine months of 2008.

However, working capital decreased by around €20 million compared with its level at 30 September 2007, owing to a reduction in trade receivables.

Equity ratio over 40 per cent despite dividend payment

Equity had decreased by €10.6 million to €546.5 million as at the balance sheet date on 30 September 2008 (31 December 2007: €557.1 million). This was because the dividend payment of €48.0 million was not fully covered by the net income of €28.0 million reported as at 30 September 2008. The equity ratio of 41.0 per cent was 0.6 percentage points higher than it had been on 31 December 2007, owing to the decrease in total assets.

Net financial position remains positive

DEUTZ maintained a positive net financial position of €25.6 million as at 30 September 2008 (31 December 2007: €89.7 million). This figure had amounted to €37.0 million as at 30 September 2007.

Further improvement in cash flow

Cash flow from operating activities amounted to €77.2 million in the first nine months of 2008. It increased by roughly €188 million compared with the corresponding prior-year figure for continuing operations (Q1 – Q3 2007: minus €111.2 million); this was largely due to the smaller increase in working capital of €96.7 million in 2008, and to the discontinuation of the payment of compensation for vested company pension rights totalling €78.8 million in the corresponding period of 2007.

Cash flow from investing activities for continuing operations fell to minus €75.6 million owing to lower capital expenditure on financial assets (Q1 – Q3 2007: minus €108.4 million). Approximately €58 million was invested in the DEUTZ Dalian Engines joint venture in China in the corresponding period of 2007.

Cash flow from financing activities came to minus €63.8 million (Q1 – Q3 2007: plus €165.6 million). It includes interest paid, the payment of €48.0 million in dividends to shareholders and the repayment of bank debt amounting to €2.2 million.

CAPITAL EXPENDITURE

Targeted use of capital spending

Capital expenditure – including capitalised development costs – in the first nine months of 2008 amounted to €86.7 million (Q1 – Q3 2007: €119.3 million). Approximately €58 million of the relatively high prior-year figure was spent on the 50 per cent stake in the DEUTZ Dalian Engines joint venture in China. Capitalised development costs – which were largely incurred by development projects relating to the future Tier 4 interim emissions standards for industrial and agricultural applications – amounted to €37.1 million (Q1 – Q3 2007: €13.9 million).

A significant proportion of capital investment was spent on the Compact Engines segment, in which DEUTZ invested €75.8 million (Q1 – Q3 2007: €113.0 million), primarily in the expansion of capacities at the Cologne plant and in the production of components at Zafra in Spain. The DEUTZ Customised Solutions segment accounted for €10.9 million of this capital expenditure (Q1 – Q3 2007: €6.3 million); some of this was spent on taking steps to ensure compliance with environmental legislation at the Ulm site.

RESEARCH AND DEVELOPMENT

Focus on exhaust-gas reduction and aftertreatment

Spending on research and development (R&D) in the first nine months of 2008 totalled €60.6 million, which was 62.5 per cent higher than in the corresponding period of 2007 (Q1 – Q3 2007: €37.3 million). R&D also increased as a proportion of the DEUTZ Group's revenue; this ratio now amounts to 5.1 per cent (Q1 – Q3 2007: 3.4 per cent). Roughly 68 per cent of total R&D investment was spent on new engine development and the refinement of existing products, while approximately 13 per cent was allocated to research and preliminary development. DEUTZ invested around 19 per cent of the total budget on support for existing engine series.

A total of €52.8 million (Q1 – Q3 2007: €30.9 million) was spent on research and development in the Compact Engines segment, while €7.8 million was invested in the DEUTZ Customised Solutions segment (Q1 – Q3 2007: €6.4 million).

DEUTZ employed a total of 423 people in research and development as at 30 September 2008 (30 September 2007: 385). They are mainly working to develop products that meet Europe's III B emissions standards – which will apply as from 2011 – and the US Tier 4 interim standards, and are also focusing on the development of exhaust-gas aftertreatment systems. At the same time, they are working on the introduction of the Euro 5 emissions standard for the 2013 4V Automotive engine. The hybrid drive is a further focus of research and development activities. The world's first construction-equipment hybrid drive – a genset that DEUTZ exhibited at last year's bauma trade fair – reached now the development stage as a production model.

EMPLOYEES

Slightly lower headcount

DEUTZ employed a total of 4,907 people worldwide as at 30 September 2008. This was slightly lower than its headcount at the corresponding date in 2007, when its workforce totalled 4,930 people.

The Company raised its headcount in Germany by 2.6 per cent from 3,723 to 3,821 people. This ongoing increase again primarily related to the Company's production sites in Cologne and Ulm: in Cologne its R&D capabilities were strengthened, while the plant in Ulm is being developed into the centre of competence for air-cooled engines.

By contrast, the number of people employed outside Germany fell from 1,207 as at 30 September 2007 to 1,086 a year later. The largest headcount reduction came in Spain, where the total workforce was cut by a further 156; this was because the assembly of air-cooled engines at this site was discontinued and because the reduction of the workforce was a response to the overall contraction in market volumes.

The Compact Engines segment employed 3,988 people as at 30 September 2008 (30 September 2007: 4,028), while the DEUTZ Customised Solutions segment had 919 staff members (30 September 2007: 902).

The number of temporary employees fell as a result of the decrease in new orders and unit sales. DEUTZ employed 299 people on temporary contracts as at 30 September 2008 (30 September 2007: 415).

DEUTZ SHARES

Stock indices plummet

The financial crisis rippled out from the United States, causing share prices on the world's stock markets to plummet further, particularly towards the end of the reporting period. The MDAX fell by 29.5 per cent in the first nine months of 2008, closing at 6,957 points on 30 September 2008 (31 December 2007: 9,865 points). The Prime Industrial index performed even worse in relative terms, shedding 39.6 per cent of its value to close at 2,374 points at the end of September 2008 (31 December 2007: 3,930 points).

DEUTZ share price significantly lower

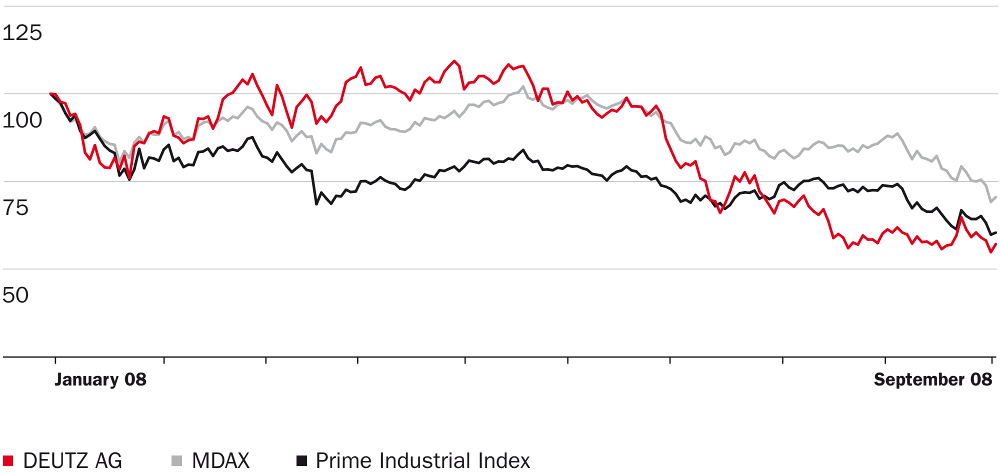
Whereas DEUTZ's share price at least matched or even outperformed the MDAX in the first half of 2008, it underperformed its benchmarks in relative terms in the third quarter. The Company's share price closed at €3.81 on 29 September 2008, down 42.9 per cent on its closing price of €6.95 on 31 December 2007.

Although DEUTZ's share price had hit a fairly modest first-half low of €5.28 on 23 January 2008, it tumbled to a third-quarter low of €3.81 on 29 September 2008, in the wake of the turmoil in global financial markets. The Company's market capitalisation fell accordingly to €479.8 million on 30 September 2008, after having been €834.6 million on 31 December 2007.

When Deutsche Börse conducted one of its regular reviews of its stock indices at the end of August, DEUTZ AG was ranked 48th in terms of order-book turnover and 64th in terms of market capitalisation (taking account of its free float). Because DEUTZ was ranked lower than 60th according to one criterion, its shares were transferred to the SDAX as of 22 September 2008, and since then, have been listed in this Deutsche Börse index.

Following the exercise of 776,753 bond and profit-sharing conversion rights, the number of DEUTZ shares increased to 120,861,783 (31 December 2007: 120,085,030). Since the outstanding volume of convertible bonds at the end of 2007 represented less than 10 per cent of the original 19,792,998 convertible bonds issued, DEUTZ made use of the option to call the bond. The effective date of this call was 8 March 2008; until 3 March 2008, bondholders still had the option of converting each bond into one DEUTZ share. The 68,070 bonds that had not been exchanged by that date were redeemed at a price of €3.40 per bond by way of a total cash payment to bondholders of €0.2 million.

Performance of the DEUTZ share
in %



Key share data of the DEUTZ share

	1–9/2008	1–9/2007
Number of shares as at 30 September	120,861,783	120,080,238
Average number of shares	120,770,750	116,392,993
Share price as at 30 September (€)	3.97	8.89
Share price high (€)	7.60	10.05
Share price low (€)	3.81	7.88
Market capitalisation as at 30 September	479.8	1,067.5

Based on Xetra closing prices.

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. These risks were described in detail in the 2007 Annual Report. Since the Company published its interim report on the first half of 2008, the sales and procurement risks to which it is exposed have increased owing to the continually deteriorating economic outlook in key regions in which it operates, and the recent sharp rise in commodity prices. There are no risks that, in themselves or in conjunction with other risks, have jeopardised or could jeopardise the DEUTZ Group as a going concern during the reporting period or thereafter.

EVENTS AFTER THE BALANCE SHEET DATE

DEUTZ AG announced in an ad-hoc statement on 16 October 2008 that financial investor 3i, to which the Company transferred its gas engines and diesel engines business for decentralised power generation (DEUTZ Power Systems) in September 2007, had announced to the Company that it would assert a claim for reduction of the purchase price by way of arbitration action. The action, if successful, would presumably have a significant impact on the relevant annual results. 3i bases its claim on an alleged violation of disclosure obligations in connection with the acquisition of DEUTZ Power Systems. The Management Board has rejected the raised claims as being without merit.

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 22 of the notes to the consolidated financial statements.

OUTLOOK FOR 2008

The decline in DEUTZ's unit sales has accelerated in recent weeks as the crisis in the financial markets continues to hit the real economy. The Company's targets for 2008 are to sell approximately 260,000 engines, generate revenue growth of up to 2 per cent and achieve an EBIT margin of around 2 per cent. Due to the continuing high level of uncertainty among our customers, it is very difficult to make any forecasts at present. Consequently, we cannot rule out the possibility that we might fail to meet these targets in full.

The capital expenditure planned for 2008 to increase production capacities will be scaled back to take account of the evolving situation. The amount spent on future-oriented research and development projects will remain at €90 million.

In view of current market conditions, DEUTZ has also decided to implement a comprehensive action programme to shore up its profitability. This package of measures includes cutting its costs, bringing its staffing levels into line with its revised growth forecasts and improving the efficiency of all its business processes. The action programme should boost the Company's earnings by a high double-digit million euro amount.

Given the anticipated decrease in operating profit and any possible restructuring charges incurred by the action programme, DEUTZ's net income for 2008 will be lower than last year's.

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 Management Board 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 2008

INCOME STATEMENT FOR THE DEUTZ GROUP

	7–9/2008	7–9/2007	1–9/2008	1–9/2007
€ million				
Revenue	354.8	383.0	1,180.3	1,100.7
Changes in inventories and other own work capitalised	13.7	13.8	38.4	42.9
Other operating income	15.7	17.6	46.6	52.4
Cost of materials	–254.6	–264.0	–828.3	–763.0
Staff costs	–68.9	–69.4	–219.4	–205.7
Depreciation and amortisation	–18.1	–16.2	–54.0	–48.6
Other operating expenses	–40.9	–34.2	–115.5	–108.5
Profit/loss on equity-accounted investments	–1.4	–	–4.2	0.6
Reversal of impairment losses on non-current financial assets	–	–	–	0.2
EBIT	**0.3**	**30.6**	**43.9**	**71.0**
thereof operating profit (EBIT before one-off items)	0.3	30.6	43.9	71.0
Interest expenses, net	–3.6	–5.7	–10.3	–16.3
thereof financial costs	–8.9	–8.2	–26.3	–19.8
Other taxes	–0.3	–0.5	–1.3	–1.1
Net income before income taxes on continuing operations	**–3.6**	**24.4**	**32.3**	**53.6**
Income taxes	1.3	–15.3	–4.3	–18.0
Net income after income taxes on continuing operations	**–2.3**	**9.1**	**28.0**	**35.6**
Net income after income taxes on discontinued operations	**–**	**107.7**	**–**	**107.6**
Net income	**–2.3**	**116.8**	**28.0**	**143.2**
thereof minority interest	–	–	–	–
thereof attributable to the shareholders of the parent enterprise	–2.3	116.8	28.0	143.2
Earnings per share				
Earnings per share, basic, in €	**–0.02**	**1.00**	**0.23**	**1.23**
thereof from continuing operations	–0.02	0.08	0.23	0.31
thereof from discontinued operations	–	0.92	–	0.92
Earnings per share, diluted, in €	**–0.02**	**0.97**	**0.23**	**1.19**
thereof from continuing operations	–0.02	0.08	0.23	0.30
thereof from discontinued operations	–	0.89	–	0.89

BALANCE SHEET FOR THE DEUTZ GROUP

Assets

	30/9/2008	31/12/2007
€ million		
Property, plant and equipment	345.9	334.6
Intangible assets	122.2	110.6
Equity-accounted investments	58.2	57.6
Other financial assets	9.5	8.5
Non-current assets (before deferred tax assets)	**535.8**	**511.3**
Deferred tax assets	45.7	49.4
Non-current assets	**581.5**	**560.7**
Inventories	247.8	214.2
Trade receivables	159.9	188.8
Other receivables and assets	97.0	102.9
Cash and cash equivalents	246.7	311.1
Current assets	**751.4**	**817.0**
Non-current assets and disposal groups held for sale	0.9	0.9
Total assets	**1,333.8**	**1,378.6**

Equity and liabilities

Issued capital	309.0	307.0
Additional paid-in capital	28.8	28.1
Other reserves	1.4	–5.3
Retained earnings	79.1	79.1
Accumulated income	128.2	148.2
Equity attributable to the shareholders of the parent enterprise (DEUTZ Group’s interest)	**546.5**	**557.1**
Equity	**546.5**	**557.1**
Provisions for pensions and other post-retirement benefits	170.4	176.7
Other provisions	49.0	46.5
Financial liabilities	215.7	216.0
Other liabilities	2.0	10.0
Non-current liabilities	**437.1**	**449.2**
Provisions for pensions and other post-retirement benefits	16.7	16.7
Provision for current income taxes	13.1	11.3
Other provisions	83.4	63.7
Financial liabilities	5.4	5.4
Trade payables	164.8	206.1
Other liabilities	66.8	69.1
Current liabilities	**350.2**	**372.3**
Total equity and liabilities	**1,333.8**	**1,378.6**

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)]
€ million					
Balance at 1 January 2007	**292.3**	**24.1**	**0.4**	**1.0**	**–2.8**
Increase from exercise of conversion rights on convertible bonds/ profit-sharing rights	14.7	4.0			
Accumulated other comprehensive income/loss (thereof reversal recognised in period income)				– (2.1)	–3.5
Net income					
Total of net income and accumulated other comprehensive income/loss in reporting period				–	–3.5
Balance at 30 September 2007	**307.0**	**28.1**	**0.4**	**1.0**	**–6.3**
Balance at 1 January 2008	**307.0**	**28.1**	**79.1**	**4.1**	**–9.4**
Dividend payment to shareholders					
Increase from exercise of conversion rights on convertible bonds/ profit-sharing rights	2.0	0.7			
Accumulated other comprehensive income/loss (thereof reversal recognised in period income)				1.7 (–2.1)	5.0
Net income					
Total of net income and accumulated other comprehensive income/loss in reporting period				1.7	5.0
Balance at 30 September 2008	**309.0**	**28.8**	**79.1**	**5.8**	**–4.4**

1) These items are aggregated as "Other reserves" on the face of the balance sheet.

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

Accumulated other comprehensive income/loss attributable to non-current assets and disposal groups held for sale	Accumulated income	Total Group interest	Minority interest	Total
–	**43.5**	**358.5**	**–**	**358.5**
		18.7		18.7
–0.7		–4.2		–4.2
		(2.1)		(2.1)
	143.2	143.2		143.2
–0.7	143.2	139.0	–	139.0
–0.7	**186.7**	**516.2**	**–**	**516.2**
–	**148.2**	**557.1**	**–**	**557.1**
	–48.0	–48.0		–48.0
		2.7		2.7
		6.7		6.7
		(–2.1)		(–2.1)
	28.0	28.0		28.0
–	28.0	34.7	–	34.7
–	**128.2**	**546.5**	**–**	**546.5**

CASH FLOW STATEMENT OF THE DEUTZ GROUP

€ million	1–9/2008	1–9/2007
EBIT	**43.9**	**71.0**
Interest income	11.8	1.6
Other taxes paid	–1.3	–1.1
Income taxes paid	–0.5	–15.3
Depreciation, amortisation of non-current assets	54.0	48.4
Gains/losses of non-current assets	0.2	–
Gains/losses on measurement at equity	4.2	–0.6
Other non-cash income and expenses	–8.3	–20.7
Change	–36.1	–132.8
Change in inventories	–32.7	–64.3
Change in trade receivables	29.1	–75.2
Change in trade payables	–32.5	6.7
Change in other receivables and other current assets	–7.4	–7.0
Change in provisions and other liabilities (excl. financial liabilities)	16.7	24.1
Cash flow from operating activities before payment of compensation for vested company pension rights (continuing operations)	**77.2**	**–32.4**
Payment of compensation for vested company pension rights – continuing operations	–	–78.8
Cash flow from operating activities (continuing operations)	**77.2**	**–111.2**
Cash flow from operating activities (discontinued operations)	–	–9.1
Cash flow from operating activities (total)	**77.2**	**–120.3**
Capital expenditure on intangible assets and property, plant and equipment	–75.6	–65.5
Capital expenditure on investments	–	–58.2
Cash receipts from the sale of businesses	–	14.2
Proceeds from the sale of non-current assets	–	1.1
Cash flow from investing activities (continuing operations)	**–75.6**	**–108.4**
Cash flow from investing activities (discontinued operations)	–2.1	283.0
Cash flow from investing activities (total)	**–77.7**	**174.6**
Dividend payment to shareholders	–48.0	–
Interest expenses	–14.3	–7.0
Cash receipts from borrowings	0.7	246.9
Repayments of loans	–2.2	–74.3
Cash flow from financing activities[1]	**–63.8**	**165.6**
Cash flow from operating activities	77.2	–120.3
Cash flow from investing activities	–77.7	174.6
Cash flow from financing activities	–63.8	165.6
Change in cash and cash equivalents	**–64.3**	**219.9**
Cash and cash equivalents at 1 January	**311.1**	**49.4**
Change in cash and cash equivalents	–64.3	219.9
Consolidation- and exchange rate-related change in cash and cash equivalents	–0.1	–4.5
Cash and cash equivalents at 30 September	**246.7**	**264.8**

[1] 1–9/2007 including cash flow from financing activities for discontinued operations.

DEUTZ Group – Notes to the consolidated financial statements, 1st to 3rd Quarter 2008

BASIS OF PRESENTATION

The consolidated financial statements of DEUTZ AG for the year ended 31 December 2007 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 2007 are consistent with the statutory obligations applicable to publicly traded parent companies, subject to disclosure requirements pursuant to section 315a (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). The supplementary provisions of the German Stock Corporation Act (AktG) have been applied.

These interim financial statements for the period ended 30 September 2008 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 2007 financial year. The accounting policies used in the preparation of these interim consolidated financial statements are essentially the same as those used in the most recent consolidated financial statements for the year ended 31 December 2007. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for the year ended 31 December 2007.

If material, revenue-related and cyclical items are deferred during the year on the basis of annual business plans.

The condensed interim consolidated financial statements for the period ended 30 September 2008 – consisting of the balance sheet, income statement, 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 2008 have not been reviewed by an auditor.

BASIS OF CONSOLIDATION

Compared with 31 December 2007, the number of consolidated companies has been reduced by one company following the merger of the two Spanish companies DEUTZ DITER COMPONENTES S.A., Zafra and DEUTZ DITER S.A., Zafra.

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

Introduction

In 2007, the DEUTZ Power Systems segment was sold, with effect from 30 September 2007, and was consequently reclassified as a discontinued operation in accordance with IFRS 5. This segment's income and expenses are reported separately in the consolidated income statement as net income attributable to discontinued operations, and are explained in a separate note to the consolidated financial statements. The following notes relate to the continuing operations of the DEUTZ Group. Prior-year comparative figures have been restated accordingly in the income statement.

Balance sheet

Capital expenditure of €76.9 million (including investment grants) on property, plant and equipment and intangible assets was partly offset by depreciation, amortisation and impairment of €54.0 million. Of this total capital expenditure (including investment grants), €49.0 million related to property, plant and equipment and €27.9 million to intangible assets. During the reporting period most of this investment was spent on the expansion of capacities at the Cologne plant and on the production of components at Zafra in Spain.

Inventories were increased by €33.6 million to €247.8 million in the first nine months of 2008. By contrast, the total amount of trade receivables decreased significantly as a result of the lower volume of business in the third quarter of 2008.

Equity had decreased by €10.6 million to €546.5 million at the balance sheet date on 30 September 2008 (31 December 2007: €557.1 million), primarily as a result of the dividend payment of €48.0 million, which exceeded DEUTZ's net income of €28.0 million for the first nine months of 2008. The effect of the exercise of convertible bonds and profit-sharing rights amounted to €2.7 million. The equity ratio of 41.0 per cent was marginally higher year on year (31 December 2007: 40.4 per cent) owing to the simultaneous decrease in total assets.

Current and non-current provisions as at 30 September 2008 had risen by €17.7 million to €332.6 million. The most notable increase was in current provisions, which rose by €21.5 million, primarily as a result of cost accruals during the period. Provisions for pensions and other post-retirement benefits fell by €6.3 million owing to drawdowns.

The €41.3 million decrease in trade payables to €164.8 million as at 30 September 2008 is attributable to the decline in the level of orders received in the third quarter of 2008.

Income statement

Having performed well in the first six months of 2008, the Company's business in the third quarter – and, consequently, the reporting period as a whole – was seriously affected by the deterioration in economic conditions.

The DEUTZ Group's revenue in the first three quarters of 2008 rose by 7.2 per cent year on year to €1,180.3 million. Both segments – Compact Engines and DEUTZ Customised Solutions – made an almost equal contribution to this increase, which on the whole, was attributable to the encouraging figures reported for the first six months. Whereas DEUTZ raised its revenue by 15.0 per cent year on year in the first half of 2008, its third-quarter revenue fell by 7.4 per cent.

Other operating income fell by €5.8 million year on year, largely owing to the recognition of one-off income in 2007 from the disposal of the Marine Service business and the settlement of pension claims. The decrease in these one-off effects was partially compensated for by higher exchange-rate gains during the reporting period. These were partly offset by higher exchange-rate losses reported as other operating expenses.

The cost of materials rose by €65.3 million to €828.3 million slightly disproportionate to revenue growth. In particular, the revenue growth generated by newly launched engine models increased the cost of materials owing to the higher-value technological components they contain.

The €13.7 million rise in staff costs to €219.4 million stemmed largely from the recruitment of additional staff to generate revenue growth in the first half of 2008. The collectively agreed wage and salary increases from April 2007 also impacted fully during the reporting period.

The profit/loss on equity-accounted investments for the reporting period includes the start-up losses incurred by the DEUTZ Dalian Engines joint venture launched in China in August 2007.

The income and expenses of the DEUTZ Power Systems segment are reported separately in the consolidated income statement as net income on discontinued operations. This had no impact on net income in the first nine months of 2008.

	7–9/2008	7–9/2007	1–9/2008	1–9/2007
€ million				
Revenue	–	78.0	–	199.8
Changes in inventories and other own work capitalised	–	3.6	–	31.6
Cost of materials	–	–45.2	–	–135.2
Staff costs	–	–15.2	–	–48.1
Other income and expenses	–	–14.5	–	–39.0
EBIT on discontinued operations	**–**	**6.7**	**–**	**9.1**
Net interest expenses/other taxes	–	–0.9	–	–2.1
Current net income on discontinued operations	**–**	**5.8**	**–**	**7.0**
Income taxes	–	–0.3	–	–1.6
Current net income after income taxes on discontinued operations	**–**	**5.5**	**–**	**5.4**
Gain on disposal before income taxes	–	131.9	–	131.9
Income taxes	–	–29.7	–	–29.7
Gain on disposal after income taxes on discontinued operations	**–**	**102.2**	**–**	**102.2**
Net income on discontinued operations	**–**	**107.7**	**–**	**107.6**

At the time the consolidated financial statements for the nine months to 30 September 2008 were being prepared, the disposal of DEUTZ Power Systems, including the price-adjustment mechanisms stipulated in the sale and purchase agreement, had not been completed. Any resulting changes could have either a positive or negative impact on the gain on the disposal. Furthermore, we refer to our statement under events after the balance shut date (30 September 2008).

CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

The contingent liabilities shown as at 30 September 2008 had decreased by €15.3 million on the figure reported as at 31 December 2007. This reduction stemmed from the expiry of guarantees given by DEUTZ AG in respect of DEUTZ Power Systems.

Commitments to purchase property, plant and equipment and intangible assets amounted to €36.1 million as at 30 September 2008 (31 December 2007: €39.8 million).

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).

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

The DEUTZ Group's revenue from the Volvo Group arising from deliveries of engines and spare parts and from services rendered amounted to €348.3 million in the first nine months of 2008. 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 €56.2 million.

SEGMENT REPORTING

Continuing operations

	Compact Engines		DEUTZ Customised Solutions		Other		DEUTZ Group	
€ million	1–9/ 2008	1–9/ 2007	1–9/ 2008	1–9/ 2007	1–9/ 2008	1–9/ 2007	1–9/ 2008	1–9/ 2007
Revenue	922.4	862.6	257.9	238.1	–	–	1,180.3	1,100.7
Operating profit (EBIT before one-off items)	9.0	34.1	35.2	31.3	–0.3	5.6	43.9	71.0

Other

This segment contains Group activities and consolidation adjustments that do not belong in any other segment. In the first nine months of 2007, this essentially comprised the legacy effects of the disposal of the Marine Service business.

EVENTS AFTER THE BALANCE SHEET DATE (30 SEPTEMBER 2008)

DEUTZ AG announced in an ad-hoc statement on 16 October 2008 that financial investor 3i, to which the Company transferred its gas engines and diesel engines business for decentralised power generation (DEUTZ Power Systems) in September 2007, had announced to the Company that it would assert a claim for reduction of the purchase price by way of arbitration action. The action, if successful, would presumably have a significant impact on the relevant annual results. 3i bases its claim on an alleged violation of disclosure obligations in connection with the acquisition of DEUTZ Power Systems. The Management Board has rejected the raised claims as being without merit.

Cologne, November 4, 2008

DEUTZ Aktiengesellschaft
The Management Board

Dr Helmut Leube **Karl Huebser**

Gino Mario Biondi **Helmut Meyer**

Financial Calendar

Dates 2009

19 March	Annual Results press conference Publication Annual Report 2008	Cologne
20 March	Analysts' meeting	Frankfurt/Main
30 April	Annual General Meeting	Koelnmesse, Cologne
7 May	Interim Report 1st Quarter 2009 Conference call with analysts and investors	
12 August	Interim Report 1st Half-year 2009 Conference call with analysts and investors	
5 November	Interim Report 1st to 3rd Quarter 2009 Conference call with analysts and investors	

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