

New Drive

Interim Report

1st to 3rd Quarter 2010



The 1st to 3rd Quarter at a Glance

DEUTZ Group: Key figures

	7-9/2010	7-9/2009	1-9/2010	1-9/2009
Continuing operations				
€ million				
New orders	327.3	205.9	986.8	611.8
Unit sales (units)	40,493	26,307	116,058	86,804
Revenue	285.9	193.4	820.4	633.9
thereof excluding Germany (%)	80.3	74.7	81.3	72.4
EBITDA	17.9	0.5	58.2	-20.9
EBITDA (before one-off items)	27.8	0.5	72.3	9.5
EBIT	2.2	-17.3	11.3	-71.1
EBIT (before one-off items)	12.1	-17.3	25.4	-40.7
EBIT margin (%)	0.8	-8.9	1.4	-11.2
EBIT margin (before one-off items, %)	4.2	-8.9	3.1	-6.4
Net income	-13.1	-25.3	-22.5	-87.7
Earnings per share (€)	-0.11	-0.21	-0.19	-0.73
Total assets (30 September)	1,127.1	1,072.9	1,127.1	1,072.9
Non-current assets	582.4	535.1	582.4	535.1
Equity	364.5	414.4	364.5	414.4
Equity ratio (%)	32.3	38.6	32.3	38.6
Cash flow from operating activities	21.5	25.5	2.9	48.9
Free cash flow ¹⁾	-11.1	0.6	-74.4	-26.6
Net financial position ²⁾	-82.8	-33.4	-82.8	-33.4
Working capital ³⁾	180.7	178.8	180.7	178.8
Working capital as percentage of revenue (%)	17.2	18.9	17.2	18.9
Capital expenditure (excluding capitalisation of R&D)	7.6	7.1	42.8	30.1
Depreciation and amortisation	15.7	17.8	46.9	50.2
Research and development	24.7	26.8	71.9	73.8
Employees (30 September)	3,877	4,223	3,877	4,223

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

DEUTZ Group: Segments

	7-9/2010	7-9/2009	1-9/2010	1-9/2009
Continuing operations				
€ million				
New orders				
DEUTZ Compact Engines	258.5	156.4	753.3	461.0
DEUTZ Customised Solutions	68.8	49.5	233.5	150.8
Total	327.3	205.9	986.8	611.8
Unit sales (units)				
DEUTZ Compact Engines	35,960	23,136	104,001	75,257
DEUTZ Customised Solutions	4,533	3,171	12,057	11,547
Total	40,493	26,307	116,058	86,804
Revenue				
DEUTZ Compact Engines	217.9	144.1	629.1	466.3
DEUTZ Customised Solutions	68.0	49.3	191.3	167.6
Total	285.9	193.4	820.4	633.9
EBIT (before one-off items)				
DEUTZ Compact Engines	2.6	-21.4	3.9	-49.9
DEUTZ Customised Solutions	11.4	1.9	28.7	9.6
Other	-1.9	2.2	-7.2	-0.4
Total	12.1	-17.3	25.4	-40.7

Foreword

Dear Shareholders,

In the past third quarter, DEUTZ once again performed exceptionally well even though the economic situation weakened slightly in major foreign markets in the same period. In fact, due to the very good order situation, our production is running at peak levels and our current orders on hand will not only keep us busy until year-end, but will also last into the new year.

As shareholders, you will be particularly interested in the fact that the strong positive dynamics DEUTZ has been exhibiting are reflected in your shares. Between July and September, the shares gained more than thirty per cent and substantially outperformed major indexes.

How has our business developed since the last quarterly report?

Let's take a look at the most important indicators: New orders, unit sales, and revenue continued to rise robustly since mid-year. In the first nine months of 2010, we received orders worth €987 million, or 61 per cent more than in 2009. We sold well over 116,000 engines, nearly 34 per cent more than in the prior year. Our revenue rose significantly by 29 per cent to €820 million. And at €25.4 million, EBIT was in the double-digit millions in the first nine months.

At this time we anticipate that this trend will continue in the coming year. We expect demand to continue to rise briskly, and due to MOVE, our programme for sustainable cost reduction, we will be able to profit from the situation particularly effectively.

We have every reason to be proud of the development of our Company. Within a short time, DEUTZ not only managed to overcome the loss phase resulting from the worldwide financial and economic crisis, but also took advantage of this difficult time and its challenges to improve the Company's future. We have emerged from the crisis with renewed strength.

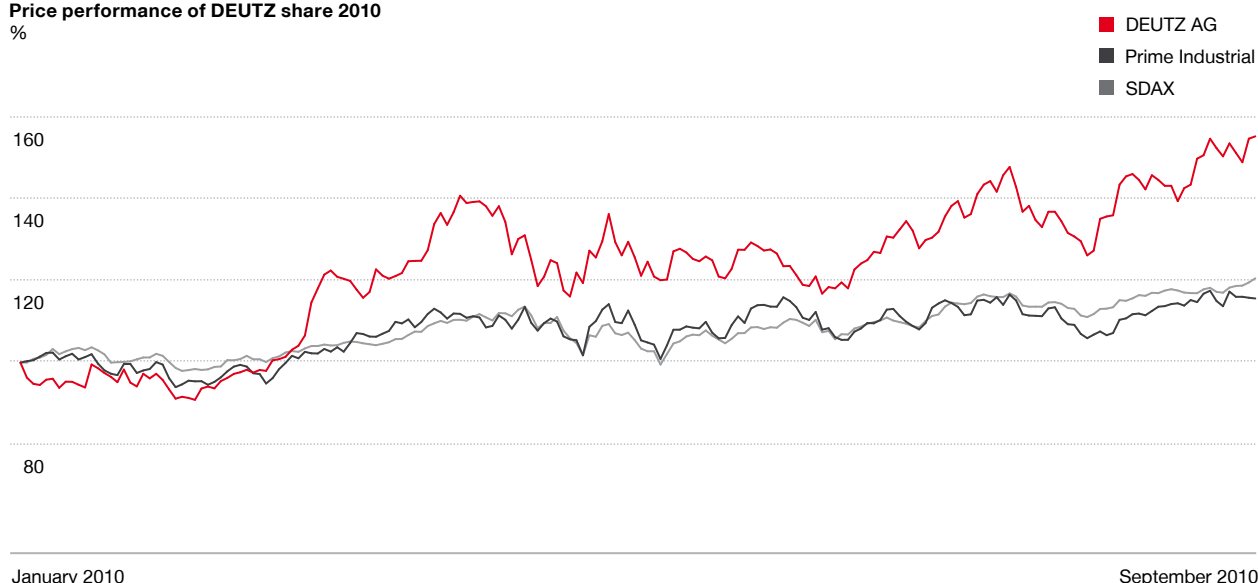
Kind regards from Cologne,



Dr Helmut Leube
Chairman of the Board of Management

DEUTZ shares

Price performance of DEUTZ share 2010
%



DEUTZ shares moving upward The German stock exchanges had a buoyant start to the second half of the year and trended favourably despite periods of volatility. From 30 June to the end of September 2010, the DAX rose by 4.4 per cent from 5,965 to 6,229 points. The SDAX performed even better, rising 11.9 per cent to 4,370 points. The Prime Industrial, an index tracking the stocks of important German industrial enterprises, exhibited strong growth as well. It closed the quarter at 2,867 points, a 6.7 per cent improvement from 2,687 points on 30 June 2010.

But DEUTZ shares significantly outperformed them all, closing the second quarter at €4.11 per share, the lowest point since then, and from then on improved dynamically throughout the third quarter. The share closed at €5.39 on 30 September 2010, representing an impressive 31.1 per cent gain, about three times as strong as the increase of the SDAX and more than 4.6 times stronger than the increase of the German industrial stocks tracked by the Prime Industrial. Since the reporting date, DEUTZ shares continued to reach new highs for the year over €6.20. 10 February 2010, remained the low for the year at €3.15.

On 30 September 2010, the Company still had 120,861,783 shares in issue, the same number as in the prior year. The market capitalization reached €651.9 million (31 December 2009: €409.7 million).

Key figures for DEUTZ shares

	1-9/2010	1-9/2009
Number of shares (30 September)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price (30 September, €)	5.39	3.48
Share price high (€)	5.39	3.70
Share price low (€)	3.15	1.59
Market capitalisation (30 September, € million)	651.4	420.6
Earnings per share (€)	-0.19	-0.73

Basis: Xetra closing prices

Interim management report of the DEUTZ Group for 1st to 3rd quarter 2010

Business performance in the DEUTZ Group

Economic situation¹⁾

Moderate growth of world economy to continue in 2011 The world economy continued to grow in the third quarter of 2010, although at a somewhat slower rate than in the preceding months. After the rapid recovery from the 2008/2009 crisis, the world economy now appears to be settling at a moderate, less volatile growth rate. Despite the deceleration, the Economic Research Bureau of Deutsche Bank predicts global economic growth of approx. 4.5 per cent in 2010 and 3.8 per cent in 2011, after a 0.9 per cent decline in the prior year.

While the economy is stabilizing or continuing to recover in the emerging markets, the growth in macroeconomic production in the G7 industrial nations has decreased slightly. But the degree varies from nation to nation. In the USA, China, and Japan, for instance, the economic recovery has slowed down significantly, while in Europe it gained momentum. On the whole, economic researchers predict growth of 2.8 per cent for the United States, 9.6 per cent for China, and 2.7 per cent for Japan, in all three instances representing a decline from the rate three months earlier, while the GDP projection for the eurozone is set to increase to 1.5 per cent for 2010.

Germany is the economic locomotive in Europe. In their fall reports, the leading economic research institutions predict 3.5 per cent growth for the year 2010, a substantial increase from their spring predictions of 1.5 per cent. By comparison, in 2009 the German economy declined by 4.7 per cent.

Dynamic growth of engineering sector continues The economic recovery is benefiting the capital goods industry in particular. Demand has been persistently strong in the engineering sector. In real terms, 45 per cent more orders were received in the first eight months of 2010 than in 2009. Demand for German machinery and equipment increased by 55 per cent outside of Germany. The growth was especially strong in the growing economies of China and Brazil.

Domestic demand was 30 per cent higher than in the prior year and continued to trend upward.

The German Engineering Federation (VDMA) is predicting growth of 8 per cent for the year 2011 as a whole.

New orders

Robust rise in orders continues The order books of the DEUTZ Group are still well filled. In the first nine months of the year, orders worth €986.8 million were received. This represents no less than a 61.3 per cent increase year-on-year (Q1–Q3 2009: €611.8 million). Additionally, orders are still significantly higher than revenue (Q1–Q3 2010: €820.4 million), indicating a continuous upward trend for the future.

Seasonal decline in „vacation“ quarter lower than usual Viewed separately, new orders in the third quarter amounted to €327.3 million and were 59.0 per cent higher than in the prior year (Q3 2009: €205.9 million). In comparison to the second quarter, new orders declined slightly by 5.8 per cent, but this reflected the traditional reluctance on the part of our customers to make purchases and place orders in the months of July and August. In comparison to the usual seasonal fluctuations, however, the decline was hardly noticeable this year. At €285.9 million, revenue was only 4.1 per cent lower than in the second quarter (€298.1 million).

Orders on hand ensure capacity utilization through year-end Group-wide orders on hand amounted to €320.6 million on the reporting date 30 September 2010, more than twice as high as a year earlier (30 September 2009: €153.7 million). Business with new engines was especially brisk after being hit particularly hard by the crisis in the previous year. At €309.6 million, engine orders on hand were 115.4 per cent higher than twelve months earlier (30 September 2009: €143.7 million). The orders will easily keep us busy until year-end.

Unit sales

Unit sales increase by a third In the first three quarters of 2010, we sold 116,058 engines, a 33.7 per cent increase year-on-year (Q1–Q3 2009: 86,804 engines). As our customer Fendt relocated its head office to Switzerland from Marktoberdorf in Germany in the late summer, it is not possible to compare our data for the distribution of unit sales and revenue between Germany and the rest of Europe. In Europe on the whole (incl. Germany) we sold 90,061 engines, a good 30 per cent more than in the prior year (Q1–Q3 2009: 68,932 engines). Unit sales in the Americas increased by nearly 75 per cent to 16,013 engines (Q1–Q3 2009: 9,160 engines).

In the third quarter we sold 40,493 engines, 53.9 per cent more than in the same quarter in 2009 (Q3 2009: 26,307 engines). In comparison to the second quarter, this represented a slight seasonal decline by 3.1 per cent.

¹⁾ Current projections and studies of the Economic Research Bureau Frankfurt (Deutsche Bank), the Institute for World Economy (IfW), and the VDMA

Financial performance

Revenue

DEUTZ Group: Revenue by region
€ million (2009 figures)



■	673.6	(519.2)	Europe/Middle East/Africa
■	88.4	(53.7)	Americas
■	58.4	(61.0)	Asia/Pacific
	820.4	(633.9)	Total

Dynamic growth in revenue continues The DEUTZ Group's revenue continued its year-on-year increase in the third quarter. While a 21.3 per cent rise from the prior year was recorded at the end of the first six months of 2010, at the end of the first nine months revenue increased by 29.4 per cent from the same period in 2009. Worldwide revenue amounted to €820.4 million in the reporting period (Q1–Q3 2009: €633.9 million). The currency-adjusted 50.1 per cent increase in revenue in the USA reflected the fact that we once again profited from the strong construction sector in that market. But the total increase in revenue in Europe, the Middle East, and Africa was also robust at a total of 29.7 per cent.

DEUTZ Group: Revenue by application segment
€ million (2009 figures)



■	253.9	(120.5)	Mobile Machinery
■	160.5	(128.3)	Service
■	139.5	(125.4)	Automotive
■	124.8	(114.6)	Stationary Equipment
■	112.4	(128.5)	Agricultural Machinery
■	29.3	(16.6)	Miscellaneous
	820.4	(633.9)	Total

EBIT

EBIT once again in the double-digit millions For the second quarter in succession, the DEUTZ Group generated positive EBIT (before one-off items) in the double-digit millions. EBIT before one-off items amounted to €25.4 million at the end of September 2010; in the prior year the Company had reported a €40.7 million loss.

In addition to the nearly 30 per cent rise in revenue, this favourable earnings trend still reflected the effects of the cost reduction programmes initiated in 2009 to improve the Company's profitability and secure it over the long term. Core elements of these packages of measures include the long-term reduction of fixed costs and an appropriate pricing policy.

The reduction in the cost of materials as a consequence of these packages of measures and a shift towards comparatively less material-intensive engines led to a significant improvement in the cost-of-materials ratio (the ratio of the cost of materials to total output). At the end of September 2010 it was 62.4 per cent, representing an improvement by 2.8 percentage points from the prior year and by another 0.6 percentage points from the first six months. In absolute terms, the cost of materials amounted to €539.6 million in the reporting period (Q1–Q3 2009: €414.4 million).

The cost reduction measures have had a sustainable effect on staff costs as well. Despite the rise in business volume and the elimination of short-time working, staff costs remained stable. In the reporting period, staff costs totaled €187.6 million, up from €184.8 million before one-off items year-on-year. In the prior year, staff costs had also included expenses of €30.4 million related to personnel restructuring.

In the period under review, the operating result was above all impacted by revenue-dependent transfers to provisions for warranty claims and, to a minor extent, by higher expenses for temporary staff as a result of the rise in business volume.

After one-off items, EBIT at the end of September 2010 was €11.3 million (Q1–Q3 2009: €71.1 million EBIT loss). One-off charges of €14.1 million in the reporting period (Q1–Q3 2009: €30.4 million) predominantly concerned expenses related to financing negotiations and the now anticipated early repayment of the US private placement as well as the development of personnel restructuring.

Net interest expense amounted to €18.7 million and was thus €12.0 million higher than in the same period in 2009 (Q1–Q3 2009: –€6.7 million). The change was a result of the rise in interest on the US private placement in connection with the financing negotiations and a decline in interest income due to a reduction in cash deposits and investment interest. Income taxes increased to €13.9 million in the reporting period (Q1–Q3 2009: €8.5 million). The rise resulted in particular from higher deferred tax liabilities, which were the consequence of an increase in capitalized development expenditure.

The DEUTZ Group reported a total net loss of €22.5 million in the reporting period (Q1–Q3 2009: €87.9 million net loss).

Third quarter very successful Demand for DEUTZ products and services remained high in the third quarter. In the period from July to September, revenue amounted to €285.9 million, which was 47.8 per cent higher than in 2009. EBIT before one-off items for the quarter also increased significantly from a €17.3 million loss in the prior year to an EBIT gain of €12.1 million in the third quarter, after gains of €12.6 million and €0.7 million in the second and first quarters of 2010, respectively.

Business performance in the segments

Business performance DEUTZ Compact Engines (DCE)

Boom in demand for mobile machinery In the first three quarters of 2010, demand for DEUTZ Compact Engines (DCE) was 63.4 per cent higher than in the prior-year period. From January to the end of September, we received orders worth €753.3 million (Q1–Q3 2009: €461.0 million). Our segment with the strongest revenue, mobile machinery, experienced a real boom in demand. We received orders worth €267.0 million in the reporting period, 170.5 per cent more than in the prior year (Q1–Q3 2009: €98.7 million).

Largest increase in sales in the Americas In the first nine months of the year, we sold 104,001 DEUTZ Compact Engines, 38.2 per cent more than in the same period in 2009 (Q1–Q3 2009: 75,257 engines).

The rise in unit sales was above all supported by engines for mobile machinery, representing just under half of total DCE sales at 47,515 units. Unit sales more than doubled year-on-year, increasing by 116.5 per cent (Q1–Q3 2009: 21,950 engines).

Engines for the second strongest segment, stationary equipment, also performed well, rising by 17.5 per cent with 22,980 units sold (Q1–Q3 2009: 19,565 engines). Only agricultural engineering, which is characterized by late-cyclical business, exhibited a decline in sales (by 12.8 per cent) in the first nine months of 2010. Viewed separately, however, unit sales in the third quarter were 6.8 per cent higher year-on-year. In addition, new orders in this segment were satisfactory and higher than revenue. A recovery in the near future therefore appears likely here.

From a regional perspective, the strongest growth impetus came from the Americas, where a 112.3 per cent rise was recorded. We sold 12,781 engines in this market (Q1–Q3

2009: 6,019 engines). A large proportion of unit sales came from engines for construction equipment for private home construction. In absolute terms, we deliver the majority of compact engines to customers in Europe (incl. Germany). We supplied a total of 85,594 engines in this region in the reporting period, a third more than in the prior-year period (Q1–Q3 2009: 64,397 engines).

Europe as a revenue driver At €629.1 million, our revenue in the Compact Engines segment was 34.9 per cent higher than in the first nine months of 2009 (Q1–Q3 2009: €466.3 million).

Most of DEUTZ Compact Engines customers are based in Europe (incl. Germany), a fact that reflects the strength of the German and European engineering sector. We generated 80 per cent of revenue, or €527.4 million, in Europe (Q1–Q3 2009: €396.6 million), without taking into consideration that our customers export the majority of the final products worldwide.

Increase in new orders in Q3; summer slump only minimal Orders increased by 65.3 per cent year-on-year in the third quarter to €258.5 million (Q3 2009: €156.4 million). At the same time, despite the fact that the third quarter is traditionally weak due to the vacation period, new orders were 1.5 per cent higher than in the second quarter of 2010. Unit sales rose by 55.4 per cent from the same quarter in 2009, with 35,960 DEUTZ Compact Engines sold. The summer slump was only minimal. Some 4.1 per cent fewer engines were sold than in the second quarter of 2010. Revenue amounted to €217.9 million in the third quarter, more than 50 per cent higher than it had been in the same period in 2009 (Q3 2009: €144.1 million). Here, too, the decline from the preceding quarter was only slight at 4.5 per cent.

DEUTZ Compact Engines: Revenue by application segment
€ million (2009 figures)



■	218.4	(99.9)	Mobile Machinery
■	116.7	(99.8)	Automotive
■	108.9	(123.4)	Agricultural Machinery
■	85.4	(64.2)	Service
■	84.6	(78.5)	Stationary Equipment
■	15.1	(0.5)	Miscellaneous
	629.1	(466.3)	Total

Positive operating result continues The recovery of the operating business had a corresponding effect on earnings. DEUTZ Compact Engines posted an operating income (EBIT before one-off items) of €3.9 million in the first nine months of 2010, a year-on-year increase of €53.8 million (Q1–Q3 2009: operating loss of €49.9 million). Our Chinese joint venture DEUTZ (Dalian) Engine Co. Ltd. contributed to this favourable development since its loss including project costs continued to decline significantly, improving by €5.9 million to a €2.1 million loss (Q1–Q3 2009: €8.0 million loss). On the level of the joint venture, EBIT before one-off items is already positive.

Business performance DEUTZ Customised Solutions (DCS)

Demand increases by more than 50 per cent In the past nine months, DEUTZ Customised Solutions recorded new orders worth €233.5 million, a 54.8 per cent increase year-on-year (Q1–Q3 2009: €150.8 million). Here, too, the most significant growth was achieved with engines for mobile machinery (up 148.6 per cent), followed by engines for use in stationary equipment (up 80.2 per cent). Encouragingly, orders for the high-margin service business continue to rise quarter after quarter. New orders are still significantly higher than revenue; so the outlook remains optimistic.

Sales curve moving upward Unit sales in this segment responded with some delay to the economic recovery due to the longer delivery times for large engines. While in the first quarter sales still declined by 26.7 per cent, the turnaround came in the second quarter, with a rise by 8.4 per cent. In the third quarter, we sold as much as 43.0 per cent more engines year-on-year. A total of 12,057 engines were sold in the reporting period (Q1–Q3 2009: 11,547 engines), a 4.4 per cent rise for the first nine months.

About half of the engines sold, or 6,525 units, were meant for stationary equipment, representing an 11.0 per cent rise year-on-year. In this segment, too, the most significant growth in relative terms was generated with engines for mobile machinery, which increased by 48.5 per cent.

From a regional perspective the strongest boost in unit sales came from Africa, where we sold 2,031 engines in the first nine months, 85.5 per cent more than in the same period in 2009. But in absolute terms, the Americas were the largest market. In this region we delivered 3,232 engines, up 2.9 per cent from the prior year.

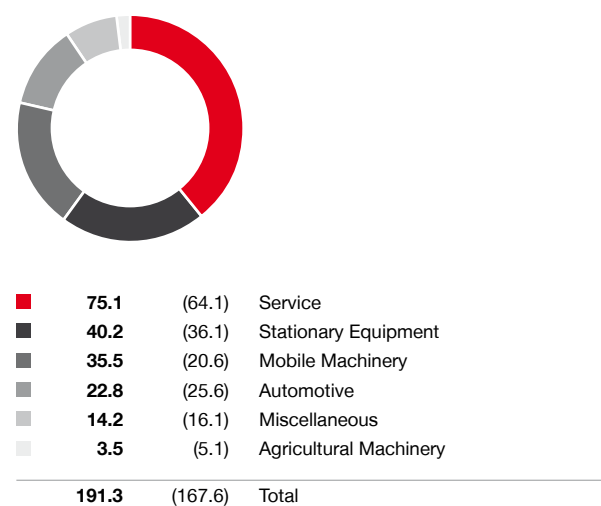
Increase in revenue in nearly every region for DCS Along with the increase in unit sales, revenue also increased from quarter to quarter. In the first nine months we generated €191.3 million in revenue, 14.1 per cent more than in the prior-year period

(Q1–Q3 2009: €167.6 million). In nearly every region of the world, DCS recorded an increase in revenue. In Germany, for example, revenue rose 28.4 per cent, and in the rest of Europe it improved by 9.1 per cent. Although we posted a 22.1 per cent decline in large engines in the Asia/Pacific region, revenue from compact engines rose by 27.1 per cent in the same market.

New orders, unit sales, and revenue significantly higher than in prior year In the third quarter, DCS recorded new orders of €68.8 million, an increase by 39.0 per cent from the prior-year quarter (Q3 2009: €49.5 million). In comparison to the outstanding second quarter of 2010, however, this represented a 25.9 per cent decline. Due to the higher volume of individual orders in the project business, the fluctuations in new orders are higher here than in mass production at DCE. New orders totaled €233.5 million in the nine-month period, nearly 55 per cent higher than demand in the prior year.

With 4,533 engines sold in the third quarter (Q3 2009: 3,171 engines), unit sales were 43.0 per cent higher year-on-year. Unit sales also increased from the second to the third quarter of 2010, rising by 6.0 per cent. Revenue improved by 37.9 per cent to €68.0 million (Q3 2009: €49.3 million), but declined slightly from the second quarter by 2.9 per cent.

DEUTZ Customised Solutions: Revenue by application segment
€ million (2009 figures)



Operating income improved The economic recovery had a significant positive effect on earnings in the Customised Solutions segment. DEUTZ Customised Solutions posted an operating income (EBIT before one-off items) of €28.7 million in the reporting period, up from €9.6 million in the prior-year period.

Financial position

Funding

In an agreement signed on 11 March 2010, we reached a settlement with our US creditors on the restructuring of the funding facility as part of the US private placement of US\$ 274 million. In particular, fundamental agreement was reached on a term sheet stipulating the interest rates payable, the terms to maturity, the financial covenants to be complied with in future as well as other terms and conditions (working capital facility, provision of collateral). We received funding commitments for the medium-term working capital facility from the banks involved. Please also refer to the information provided in the section on funding in our 2009 group management report. In addition to the completion of the final and detailed contractual documentation and the related bank financing, we have since then also worked on an alternative financing facility which will be more sustainable for the Company in the long term. We have received basic funding commitments for a secured syndicated bank loan. The participating banks will make an adequate line of credit available to us which will obviate the need for financing via US private placements. The related contractual negotiations are in the concluding phase. The US creditors therefore granted us the necessary time via a waiver running until 15 December 2010. Taking these considerations in mind, the Board of Management still assumes that DEUTZ's future funding has been secured and, consequently, the interim financial statements for the period ended 30 September 2010 have been prepared on a going-concern basis.

Cash flow

Throughout the third quarter of 2010, the cash flow from operating activities exhibited positive growth compared to the first half of 2010. However, at €2.9 million (Q1–Q3 2009: €48.9 million) it was considerably lower year-on-year. An important factor influencing this development was the increase in working capital²⁾ in the first nine months of 2010, which was not entirely offset by the significant improvement of earnings before interest and tax. The very pleasing business performance was accompanied by an increase since the beginning of the year in inventories and receivables in particular. Compared with 30 September 2009, however, working capital increased by just under €2 million to €180.7 million (30 September 2009: €178.8 million).

Cash outflows from investing activities attributable to continuing operations amounted to €60.2 million (Q1–Q3 2010: outflow of €62.0 million), primarily as a result of the expenditures for capitalised development costs in connection with the

upcoming exhaust emissions standards and the development of the two new engines in the under four-litre range.

This figure includes payments of €4.5 million for the joint venture Bosch Emission Systems GmbH & Co. KG.

As in the previous year, the cash outflow from financing activities of €17.7 million was mainly due to interest payments (Q1–Q3 2009: outflow of €14.1 million).

Capital expenditure and the increase in working capital were funded from the existing high liquidity as planned. Accordingly, the net financial position³⁾ as at 30 September 2010 was negative €82.8 million (31 December 2009: positive €2.9 million).

Overall, free cash flow⁴⁾ from continuing operations amounted to negative €74.4 million, compared with negative €26.6 million in the first nine months of 2009.

Net assets

In the course of the sustained recovery of business activities, total assets continued to increase, reaching €1,127.1 million as at 30 September 2010 (31 December 2009: €1,071.1 million).

Non-current assets Non-current assets increased by €34.4 million to €596.2 million (31 December 2009: €561.8 million). The rise predominantly resulted from the capitalisation of development expenditure and the April 2010 start-up of Bosch Emission Systems GmbH & Co. KG, a joint venture between Robert Bosch GmbH, DEUTZ AG and Eberspächer GmbH & Co. KG in the area of diesel exhaust after-treatment.

Current assets Current assets also increased, in total by €21.6 million to €530.4 million (31 December 2009: €508.8 million).

Working capital increased by approximately 84 per cent to €180.7 million as at 30 September 2010 (31 December 2009: €98.3 million). This gain reflects the growth in unit sales and revenue. Due to the high volume of orders on hand since the start of 2010, inventories increased by €53.3 million to €180.8 million. At the same time, the growth in business volume resulted in increased trade receivables. A year-on-year comparison confirms that we were effective in managing our working capital: Although revenue in the reporting period was 29.4 per cent higher year-on-year, working capital, at €180.7 million, was only about 1 per cent higher than on 30 September 2009 (€178.8 million). Working capital as a percentage of revenue also trended favourably: As at 30 September 2010, the ratio had improved by 1.7 percentage points to 17.2 per cent, and the average ratio from four quarters improved from 21.6 per cent to 14.3 per cent.

²⁾ Working capital: inventories and trade receivables less trade payables

³⁾ Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities

⁴⁾ Free cash flow: cash flow from operating and investing activities minus interest expense

Equity at a sustained high level Equity decreased slightly by €14.7 million to €364.5 million as at 30 September 2010 (31 December 2009: €379.2 million). At 32.3 per cent, 3.1 percentage points lower than on 31 December 2009 (35.4 per cent), the equity ratio changed only slightly; however, it is still at a sustained high level despite the decrease.

Current and non-current liabilities As at 30 September 2010, non-current liabilities amounted to €224.6 million (31 December 2009: €410.5 million). The expected short-term repayment of the US private placement and the raising of a syndicated loan caused the bond to be reported in current financial liabilities as at 30 September 2010. This results in a more sustainable and flexible financing facility for the Company. As a result, current liabilities increased by €256.6 million to €538.0 million as at 30 September 2010 (31 December 2009: €281.4 million). In addition to the reclassification from non-current financial liabilities, other main factors accounting for this trend included higher accruals for outstanding purchase invoices and higher warranty provisions, an obligation to pay into the reserves of the new joint venture with Robert Bosch GmbH and Eberspächer GmbH & Co. KG and increased trade payables.

Events after the balance sheet date

For the period of finalising the contractual negotiations and completing the contractual documentation for the planned replacement of the US private placement and refinancing with a secured syndicated loan, a waiver was concluded with the US creditors which grants us the necessary time for this. The current agreement dated 1 October 2010 will expire on 15 December 2010.

Research and development

R&D expenditure slightly lower Our expenditure for research and development continued to decline slightly year-on-year. The R&D expenditure in the DEUTZ Group in the reporting period amounted to €71.9 million, a 2.6 per cent decrease year-on-year (Q1–Q3 2009: €73.8 million). Once again, our investments focused on the development of new and existing engines, primarily in connection with the upcoming new emissions standards, and on our two new TCD 2.9 L4 and TCD 3.6 L4 engines. We invested 84.9 per cent of this total or €61.0 million in the latter segment, 3.7 percentage points or €1.1 million more than in the prior year. We invested 9.7 per cent (€7.0 million) in existing engine series and 5.4 per cent (€3.9 million) of the total development expenditure in research and preliminary development.

As a percentage of the Group's revenue, the R&D expenditure decreased considerably from 11.6 per cent (Q1–Q3 2009) to 8.8 per cent (Q1–Q3 2010) due to the 29.4 per cent gain in revenue year-on-year from €633.9 million to €820.4 million.

In the DEUTZ Compact Engines segment, research and development expenditure decreased by 1.7 per cent to €64.4 million year-on-year (Q1–Q3 2009: €65.5 million). Expenditure declined in the DEUTZ Customised Solutions segment as well, specifically by 9.6 per cent to €7.5 million (Q1–Q3 2009: €8.3 million).

Employees

Headcount continues to decline despite high capacity utilisation Although we sold approximately one third more engines in the first three quarters than in the same period in the previous year, we have reduced our headcount since 2009. As at 30 September 2010, the DEUTZ Group employed 3,877 persons⁹⁾, 8.2 per cent fewer than in the prior year.

On an annual basis, however, we significantly reduced the workforce, above all in Germany. As a consequence of streamlining and simplifying administrative processes, we have been able to reduce the headcount in administrative positions by up to one third. As at 30 September, we employed a total of 3,113 persons at our German locations, 9.1 per cent fewer than on 30 September 2009.

Outside Germany, DEUTZ employed 764 employees as at 30 September 2010, 4.3 per cent fewer than at the end of September 2009. The reduction in the workforce was particularly pronounced in the United Kingdom, where a 25.0 per cent decline reflected the relocation of a development department from Dursley to Cologne.

These were the only personnel restructuring measures that had an impact on our research and development. We had a total of 538 employees in this area, 44 more than in 2009 (plus 8.9 per cent).

While short-time working was phased out entirely in the reporting period (as at 30 June 2010, 36 DEUTZ employees had still been affected by short-time working), the number of fixed-term working contracts increased. Due to the very high production capacity utilisation, DEUTZ employed 261 temporary workers, up from 32 one year earlier.

Changes in the Board of Management In the meeting of the Supervisory Board held on 14 July 2010, Mr. Gino M. Biondi submitted his resignation from membership in the Board of Management of DEUTZ AG. Mr. Biondi was responsible for Production, Research & Development, Logistics, Materials Management and Purchasing. The areas of responsibility of Mr. Biondi will be taken over by Dr Ing. Helmut Leube (CEO) and Dr Margarete Haase (CFO).

⁹⁾ incl. trainees and apprentices

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 2009 annual report describes certain material risks for our financial position and financial performance and explains the structure of our risk management system. The risks described in the report still apply. However, please also refer to the notes in the section on our financial position with respect to financing risks. During the first nine months of 2010, we did not identify other material risks beyond those described in the 2009 annual report. Please also refer to the Outlook section 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 (incl. 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.

Outlook⁶⁾

Basic trend still upward in 2011 Economists expect the growth of the global economy to slow to 3.6 per cent next year (2010: 4.7 per cent). Global trade will also lose momentum: While the global trading volume grew by 16.0 per cent in 2010, it is expected to expand by only 7.5 per cent in 2011.

Economic growth is also softening in the industrial nations, where a rise of only 1.6 per cent is expected for 2011, down from 2.2 per cent in 2010. Additionally, growth is slowing in the emerging markets that are accustomed to high growth rates, with an expected decline from 11.0 per cent (2010) to 8.5 per cent (2011) in China and from 9.2 per cent to 7.0 per cent in India.

Despite this economic slowdown, the basic trend continues to be upward. The decreased economic momentum is more a result of the phase-out of economic stimulus policies than the sign of a relapse into a new recession.

We confirm our positive projection for 2010 and now expect to sell more than 165,000 engines this year. Accordingly, revenue is anticipated to reach nearly €1.2 billion and the operating profit (before one-off items) is expected to exceed €30 million.

We continue to be optimistic about 2011, with engine sales anticipated to surpass 200,000 units and generate nearly €1.4 billion in revenue. We expect that our operating profit will improve at a higher rate and reach the high double-digit millions.

Disclaimer

This publication includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual future performance, developments and results of the Company or those of the sectors important to the Company could be significantly different (especially in a negative respect) 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 guarantee that it will update forward-looking statements to bring them in line with future developments.

⁶⁾ Sources: current forecasts and studies of the Kiel Institute for the World Economy (IfW)

Interim consolidated financial statements

1st to 3rd quarter 2010

INCOME STATEMENT FOR THE DEUTZ GROUP

	Note	7-9/2010	7-9/2009	1-9/2010	1-9/2009
€ million					
Revenue		285.9	193.4	820.4	633.9
Change in inventories and other own work capitalised		16.4	1.8	44.1	1.8
Other operating income	1	14.6	13.4	56.4	53.8
Cost of materials		-185.6	-124.3	-539.6	-414.4
Staff costs		-61.0	-57.8	-187.6	-215.2
Depreciation and amortisation		-15.7	-16.8	-46.9	-49.2
Impairment		-	-1.0	-	-1.0
Other operating expenses	2	-50.5	-24.1	-133.2	-75.1
Net income from equity-accounted investments		-1.9	-1.9	-2.4	-5.7
Other investment income		-	-	0.1	-
EBIT		2.2	-17.3	11.3	-71.1
thereof one-off items		-9.9	-	-14.1	-30.4
thereof operating profit (EBIT before one-off items)		12.1	-17.3	25.4	-40.7
Interest expenses, net	3	-9.4	-2.7	-18.7	-6.7
thereof finance costs		-11.9	-6.0	-27.3	-17.5
Other taxes		-0.4	-0.5	-1.2	-1.4
Net income before taxes on continuing operations		-7.6	-20.5	-8.6	-79.2
Income taxes	4	-5.5	-4.8	-13.9	-8.5
Net income on continuing operations		-13.1	-25.3	-22.5	-87.7
Net income on discontinued operations		-	-	-	-0.2
Net income		-13.1	-25.3	-22.5	-87.9
thereof attributable to owners of the parent		-13.1	-25.3	-22.5	-87.9
thereof attributable to non-controlling interests		-	-	-	-
Earnings per share (€)		-0.11	-0.21	-0.19	-0.73
thereof from continuing operations		-0.11	-0.21	-0.19	-0.73
thereof from discontinued operations		-	-	-	-

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

	Note	7-9/2010	7-9/2009	1-9/2010	1-9/2009
€ million					
Net income		-13.1	-25.3	-22.5	-87.9
Currency translation differences		-6.7	-3.0	7.6	-0.7
Effective portion of change in fair value from cash flow hedges		-0.1	-0.3	0.1	-8.5
Change in fair value of available-for-sale financial assets		0.1	0.2	0.1	0.2
Other comprehensive income, net of tax	5	-6.7	-3.1	7.8	-9.0
Comprehensive income		-19.8	-28.4	-14.7	-96.9
thereof attributable to owners of the parent		-19.8	-28.4	-14.7	-96.9
thereof attributable to non-controlling interests		-	-	-	-

BALANCE SHEET FOR THE DEUTZ GROUP

ASSETS	Note	30/09/2010	31/12/2009
€ million			
Property, plant and equipment	6	320.5	335.5
Intangible assets	6	175.6	145.8
Equity-accounted investments	7	69.7	49.3
Other financial assets		16.6	8.8
Non-current assets (before deferred tax assets)		582.4	539.4
Deferred tax assets		13.8	22.4
Non-current assets		596.2	561.8
Inventories		180.8	127.5
Trade receivables		158.5	112.3
Other receivables and assets		54.5	54.3
Cash and cash equivalents		136.6	214.7
Current assets		530.4	508.8
Non-current assets held for sale		0.5	0.5
Total assets		1,127.1	1,071.1
EQUITY AND LIABILITIES	Note	30/09/2010	31/12/2009
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		2.2	-5.6
Retained earnings		79.1	79.1
Accumulated loss		-54.6	-32.1
Equity attributable to owners of the parent		364.5	379.2
Equity		364.5	379.2
Provisions for pensions and other post-retirement benefits		159.1	163.9
Deferred tax provisions		4.7	0.1
Other provisions	8	40.4	26.9
Financial liabilities	9	12.4	206.2
Other liabilities		8.0	13.4
Non-current liabilities		224.6	410.5
Provisions for pensions and other post-retirement benefits		16.1	16.1
Provision for current income taxes		-	6.6
Other provisions	8	81.5	49.2
Financial liabilities	9	207.0	5.6
Trade payables		158.6	141.5
Other liabilities		74.8	62.4
Current liabilities		538.0	281.4
Total equity and liabilities		1,127.1	1,071.1

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. 2009	309.0	28.8	79.1	9.5	-7.0	91.9	511.3	-	511.3
Comprehensive income				-8.3	-0.7	-87.9	-96.9	-	-96.9
Balance at 30 September 2009	309.0	28.8	79.1	1.2	-7.7	4.0	414.4	-	414.4
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	7.6	-22.5	-14.7	-	-14.7
Balance at 30 September 2010	309.0	28.8	79.1	0.1	2.1	-54.6	364.5	-	364.5

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

	1-9/2010	1-9/2009
€ million		
EBIT	11.3	-71.1
Interest income	0.9	5.5
Other taxes paid	-1.2	-1.4
Income taxes paid	-3.2	-1.2
Depreciation and amortisation	46.9	50.2
Gain/loss on disposals of fixed assets	0.4	-2.7
Net result from equity-accounted investments	2.4	5.7
Other non-cash expenses/income	-2.0	-
Change in working capital	-75.5	30.8
Change in inventories	-51.6	58.2
Change in trade receivables	-45.6	14.8
Change in trade payables	21.7	-42.2
Change in other receivables and other current assets	-13.2	21.4
Change in provisions and other liabilities (excluding financial liabilities)	36.1	11.7
Cash flow from operating activities	2.9	48.9
Capital expenditure on intangible assets, property, plant and equipment	-55.8	-66.4
Capital expenditure on investments	-4.5	-0.4
Proceeds from the sale of non-current assets	0.1	4.8
Cash flow from investing activities – continuing operations	-60.2	-62.0
Cash flow from investing activities – discontinued operations	-3.2	-0.4
Cash flow from investing activities – total	-63.4	-62.4
Interest expenses	-17.1	-13.5
Cash receipts from borrowings	0.6	2.1
Repayments of loans	-1.2	-2.7
Cash flow from financing activities	-17.7	-14.1
Cash flow from operating activities	2.9	48.9
Cash flow from investing activities	-63.4	-62.4
Cash flow from financing activities	-17.7	-14.1
Change in cash and cash equivalents	-78.2	-27.6
Cash and chash equivalents at 1 January	214.7	207.5
Change in cash and cash equivalents	-78.2	-27.6
Change in cash and cash equivalents related to exchange rates	0.1	0.1
Cash and chash equivalents at 30 September	136.6	180.0

Notes to the interim financial statements of the DEUTZ Group, 1st to 3rd quarter 2010

Basic principles

Basis of preparation of the financial statements

These interim financial statements for the period ended 30 September 2010 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 for the 2009 financial year.

The condensed interim consolidated financial statements for the period ended 30 September 2010 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity, and selected notes to the consolidated financial statements – and the interim group management report for the period from 1 January to 30 September 2010 have not been audited.

Significant accounting policies

With the exception of the new IFRS standards 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 2009. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2009. If they are material, revenue-related and cyclical items are deferred during the year on the basis of annual business plans.

Amendments to IFRS 3 “Business Combinations” The most significant changes involve the introduction of an option for the measurement of the non-controlling interest (formerly known as minority interest). The non-controlling interest may be measured on the basis of the proportionate share of the acquiree’s identifiable net assets (purchased goodwill method) or by using the full goodwill method, i.e. the method based on the entire goodwill in the acquiree including the portion attributable to the non-controlling interest. Other changes involve the requirement in the case of the business combination achieved in stages for an acquirer to remeasure its pre-existing equity interest in an acquired entity at the point at which control is acquired and recognise any resulting gain or loss in profit or loss, the requirement for contingent consideration to be measured at the acquisition date and the requirement to recognise transaction costs in profit or loss. The transitional provisions require these amendments to be

applied prospectively. There are no changes affecting assets and liabilities arising from business combinations prior to the initial application of the new standard. Since no business combination took place in the DEUTZ Group during the period under review, the application of this standard has not had an impact on the interim consolidated financial statements so far.

Amendments to IAS 27 “Consolidated and Separate Financial Statements” The changes primarily relate to the accounting treatment of non-controlling interests (minority interest), to which entities will be required to attribute a full share of group losses in future, and the accounting treatment of transactions in which an entity loses control of a subsidiary, any gain or loss from which must be recognised in profit or loss. However, any gains or losses from a disposal of equity interests that do not result in a loss of control must be recognised in other comprehensive income. The transitional provisions, which generally require retrospective application of amendments, call for prospective application of the aforementioned provisions. For this reason, assets and liabilities arising from such transactions prior to initial application of the new standard are not affected. Since none of the transactions specified occurred and there were no new losses amongst non-controlling interests during the period under review, initial application of the standard did not affect the interim consolidated financial statements.

Amendment to IAS 39 “Financial Instruments: Recognition and Measurement” The amendment resolves the issue as to which sub-risks can be hedged with which instruments in hedge accounting and essentially provides guidance on the designation of a purchased option as a hedging instrument as well as on the hedging of inflation risk. Since the DEUTZ Group does not currently hedge inflation risk or use options as hedging instruments, these changes did not have any impact on the interim consolidated financial statements on initial application.

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.

Amendment to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” The changes require an entity to reassess whether an embedded derivative should be separated from its host contract if the entity intends to redesignate a structured contract classified as at fair value through profit or loss to another category. Since the DEUTZ Group did not carry out any such redesignations during the period under review, the initial application of this standard did not affect the interim consolidated financial statements.

IFRIC 15 “Agreements for the Construction of Real Estate”

IFRIC 15 is concerned with the criteria for the application of IAS 11 and IAS 18 in connection with the construction and sale of real estate or parts of real estate. There was no impact on the DEUTZ Group because interpretation applies to the real estate industry.

IFRIC 16 “Hedges of Net Investment in a Foreign Operation”

IFRIC 16 resolves a number of issues. These issues include how to designate risk arising from foreign currency exposure and the maximum amount that may be designated as a hedged risk. They also include clarification of which entity within a group may hold the hedging instrument and clarification of the accounting treatment in connection with the disposal of an investment in a foreign operation. The DEUTZ Group does not currently hedge any net investments in foreign operations. The interpretation therefore did not affect the interim consolidated financial statements on initial application.

IFRIC 17 “Distributions of Non-cash Assets to Owners” This interpretation governs the accounting treatment for distributions of non-cash assets to owners. Under IFRIC 17, an entity must measure a liability to distribute non-cash assets as a dividend at the fair value of the assets to be distributed; when the entity settles the dividend payable, it must recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss. The interpretation did not affect the interim consolidated financial statements on initial application.

IFRIC 18 “Transfers of Assets from Customers” This interpretation includes guidance that clarifies the recognition and measurement of assets and that resolves revenue recognition issues in connection with the transfer of assets from customers. Since DEUTZ's operating activities do not currently include any transfers of this kind, initial application of this standard did not affect the interim consolidated financial statements.

Amendments to IFRS 2 “Share-based Payment” The changes clarify the accounting treatment of share-based payments settled in cash. Since these changes are not currently relevant to the DEUTZ Group, initial application did not have any impact on the interim consolidated financial statements.

Improvements to International Financial Reporting Standards (2009)

The changes are primarily intended to clarify certain provisions. The clarification in respect of IFRS 8 to the effect that the total of cumulative assets for each reportable segment is not a minimum disclosure for segment reporting and that this disclosure only needs to be made if information on total segment assets is regularly included in internal reporting to the chief operating decision-maker in the entity did not affect the presentation of segment reporting because the DEUTZ Group already interpreted this provision accordingly in its initial application of IFRS 8.

Changes in basis of consolidation A foreign subsidiary was deconsolidated on 30 June 2010 for 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 as at 30 September 2010 and on the reporting of income and expenses in the reporting period.

Additional disclosures In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before on-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. Unrealised gains and losses from commercially related hedged items and hedging transactions for which no hedges have been formally designated are also reported as one-off items in order to provide a better picture of DEUTZ's business operations.

Notes to the interim consolidated financial statements

1. Other operating income

The rise in other operating income primarily caused by unrealised profits of €16.5 million (Q1–Q3 2009: €0.4 million) from the marking to market of derivatives was offset by the decline in income from the reversal of provisions and lower income from charges passed on in the first nine months of 2010. During this period, income from the reversal of provisions amounting to €7.3 million (Q1–Q3 2009: €14.3 million) resulted from the partial reversal of the provision recognised in 2009 for personnel restructuring. With regard to income from the marking to market of derivatives, please refer to the explanations concerning other operating expenses.

2. Other operating expenses

The rise in other operating expenses during the first nine months of 2010 was mainly a result of higher allocations to provisions for warranty cases as a result of the increased business volume, higher expense accruals for outstanding purchase invoices and from charges in connection with the financing negotiations for the initially intended restructuring of existing financing and the now anticipated early repayment of the US private placement and borrowing of a syndicated loan.

Furthermore, other operating expenses during the reporting period comprise unrealised losses of €13.5 million (Q1–Q3 2009: €1.2 million) from the marking-to-market of derivatives. Due to the ending of the hedge for future interest payments and principal repayments in connection with the US private placement in the second and third quarters of 2010, both the development of the marking-to-market for derivatives and the measurement in foreign currency of part of the share of the US private placement

issued in US dollars are recognised in income. During the reporting period, a net unrealised profit of €4.9 million resulted from the measurement of economically-related hedged items and hedging transactions, for which no formal hedging relationship has been designated.

In addition, the deconsolidation of a foreign subsidiary resulted in a loss on disposal of €1.9 million in the first half of 2010.

3. Net interest expense

The increase in net interest expense during the first nine months of 2010 by €12.0 million to €18.7 million (Q1–Q3 2009: expense of €6.7 million) is a result of the increase in debit interest for the US private placement in connection with financing negotiations, as well as the decrease in interest income due to the fall in cash deposits and fall in deposit interest.

4. Income taxes

€ million	7–9/2010	7–9/2009	1–9/2010	1–9/2009
Current tax expense	0.2	1.3	0.7	1.3
Deferred taxes	5.3	3.5	13.2	7.2
Total	5.5	4.8	13.9	8.5

The income tax expenses included almost exclusively the effects of deferred taxes. The rise resulted in particular from higher deferred tax liabilities, which were the consequence of an increase in capitalised development expenditure.

5. 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:

7-9/2010			
€ million	before taxes	taxes	after taxes
Currency translation differences	-6.7	-	-6.7
Effective portion of change in fair value from cash flow hedges	-0.2	0.1	-0.1
Change in fair value of available-for-sale financial assets	0.1	-	0.1
Other comprehensive income	-6.8	0.1	-6.7

7-9/2009			
€ million	before taxes	taxes	after taxes
Currency translation differences	-3.0	-	-3.0
Effective portion of change in fair value from cash flow hedges	-0.4	0.1	-0.3
Change in fair value of available-for-sale financial assets	0.1	0.1	0.2
Other comprehensive income	-3.3	-	-3.1

In the third quarter of 2010, a profit of €1.4 million (Q3 2009: €0.0 million) related to cash flow hedges was reclassified to the income statement.

1-9/2010			
€ million	before taxes	taxes	after taxes
Currency translation differences	7.6	-	7.6
Effective portion of change in fair value from cash flow hedges	0.1	-	0.1
Change in fair value of available-for-sale financial assets	0.1	-	0.1
Other comprehensive income	7.8	-	7.8

1-9/2009			
€ million	before taxes	taxes	after taxes
Currency translation differences	-0.7	-	-0.7
Effective portion of change in fair value from cash flow hedges	-12.5	4.0	-8.5
Change in fair value of available-for-sale financial assets	0.2	-	0.2
Other comprehensive income	-13.0	4.0	-9.0

During the first nine months of 2010, a loss of €1.6 million before taxes (Q1-Q3 2009: €0.8 million) related to cash flow hedges was reclassified to the income statement. The loss during the reporting period comprises a loss of €2.0 million as a result of the termination of the hedge for some of the future interest payments and principal repayments in connection with the US private placement, as the transactions are no longer expected to take place due to the change in maturities, as well as a profit of €1.6 million from the termination of the hedges for all additional future interest payments and principal repayments from the US private placement, as none of those transactions are expected to take place any longer either.

6. Property, plant and equipment and intangible assets

In property, plant and equipment and intangible assets, the addition of investments after investment grants of €61.8 million are offset against amortisation and depreciation of €46.9 million. The investments (after investment grants) concern property, plant and equipment in the amount of €18.2 million, and intangible assets in the amount of €43.6 million. The investments during the reporting period are focused on capitalised development expenditure for the upcoming exhaust emissions standards.

As at 30 September 2010 there were purchase commitments for capital projects in the amount of €36.0 million (31 December 2009: €31.3 million).

7. Equity-accounted investments

The increase as at 30 September 2010 was primarily caused by capital expenditure related to the start-up of a joint venture in the area of diesel exhaust aftertreatment in April 2010, which is accounted for using the equity method. The investment mainly comprises required deposits totalling €18 million, payment of which is planned to be spread over the next few years through to 2014. Deposits not yet made are shown under other liabilities as at 30 September 2010.

8. Other provisions

€ million	30/09/2010	31/12/2009
Long-term	40.4	26.9
Short-term	81.5	49.2
Total	121.9	76.1

The increase in other provisions is primarily the result of additions to provisions for warranty cases following the increase in sales and for outstanding purchase invoices, as well as from provisions in connection with the anticipated early repayment of the US private placement.

9. Financial liabilities

€ million	30/09/2010	31/12/2009
Long-term	12.4	206.2
Short-term	207.0	5.6
Total	219.4	211.8

As at 30 September 2010, the US private placement is shown as being current, as the Group anticipates making an early repayment to U.S. investors and borrowing a secured syndicated loan. For additional information, please refer to our statements concerning funding in the group interim management report under the section "Financial position".

Notes on segment reporting

Information about the segments of the DEUTZ Group for the third quarter of 2010 and of 2009 is shown in the following table:

7-9/2010	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
€ million						
External revenue	217.9	68.0	–	285.9	–	285.9
Intersegment revenue	–	–	–	–	–	–
Total revenue	217.9	68.0	–	285.9	–	285.9
Operating profit (EBIT before one-off items)	2.6	11.4	–1.9	12.1	–	12.1

7-9/2009	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
€ million						
External revenue	144.1	49.3	–	193.4	–	193.4
Intersegment revenue	–	–	–	–	–	–
Total revenue	144.1	49.3	–	193.4	–	193.4
Operating profit (EBIT before one-off items)	–21.4	1.9	2.2	–17.3	–	–17.3

Information about the segments of the DEUTZ Group for the first nine months of 2010 and of 2009 is shown in the following table:

1-9/2010	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
€ million						
External revenue	629.1	191.3	–	820.4	–	820.4
Intersegment revenue	–	–	–	–	–	–
Total revenue	629.1	191.3	–	820.4	–	820.4
Operating profit (EBIT before one-off items)	3.9	28.7	–7.2	25.4	–	25.4

1-9/2009	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
€ million						
External revenue	466.3	167.6	–	633.9	–	633.9
Intersegment revenue	–	–	–	–	–	–
Total revenue	466.3	167.6	–	633.9	–	633.9
Operating profit (EBIT before one-off items)	–49.9	9.6	–0.4	–40.7	–	–40.7

	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
30/09/2010						
€ million						
Segment assets (Inventories / trade receivables)	238.6	100.7	–	339.3	–	339.3
Segment liabilities (Trade payables)	137.0	21.6	–	158.6	–	158.6
Working capital	101.6	79.1	–	180.7	–	180.7

	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
31/12/2009						
€ million						
Segment assets (Inventories / trade receivables)	152.3	87.5	–	239.8	–	239.8
Segment liabilities (Trade payables)	125.2	16.2	0.1	141.5	–	141.5
Working capital	27.1	71.3	–0.1	98.3	–	98.3

**Reconciliation from the total result for segments
to the result of the DEUTZ Group**

	7–9/2010	7–9/2009	1–9/2010	1–9/2009
€ million				
Total result for segments	12.1	–17.3	25.4	–40.7
Reconciliation	–	–	–	–
Operating profit (EBIT before one-off items)	12.1	–17.3	25.4	–40.7
One-off items	–9.9	–	–14.1	–30.4
EBIT	2.2	–17.3	11.3	–71.1
Interest expenses, net	–9.4	–2.7	–18.7	–6.7
Other taxes	–0.4	–0.5	–1.2	–1.4
Group result before taxes on continuing operations	–7.6	–20.5	–8.6	–79.2
Income taxes	–5.5	–4.8	–13.9	–8.5
Group result after taxes on continuing operations	–13.1	–25.3	–22.5	–87.7
Group result after taxes on discontinued operations	–	–	–	–0.2
Result of the DEUTZ Group	–13.1	–25.3	–22.5	–87.9

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 (incl. 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 and services		Goods and services provided		Other expenses and services	
	7-9/2010	7-9/2009	7-9/2010	7-9/2009	1-9/2010	1-9/2009	1-9/2010	1-9/2009
€ million								
Joint ventures	3.0	1.1	–	–	3.8	1.6	–	–
Other investments	0.1	0.1	1.8	1.8	0.2	0.1	2.8	2.7
Total	3.1	1.2	1.8	1.8	4.0	1.7	2.8	2.7

	Receivables		Liabilities	
	30/09/2010	31/12/2009	30/09/2010	31/12/2009
€ million				
Associates	–	0.4	–	–
Joint ventures	4.0	7.5	15.1	–
Other investments	0.3	0.1	10.1	4.6
Total	4.3	8.0	25.2	4.6

Liabilities to joint ventures of €15.1 million predominantly contain total capital contributions of €18 million, payment of which is planned to be spread over the next few years through to 2014. Impairment losses of €22.9 million (31 December 2009: €22.2 million) were recognised on €27.2 million of the Company's receivables due from investments as at 30 September 2010 (31 December 2009: €25.2 million). Some of these receivables and liabilities resulted from loans. Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

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

	SAME DEUTZ-FAHR Group		Volvo Group	
	2010	2009	2010	2009
€ million				
Engines and spare parts supplied in the 3rd quarter	13.3	14.0	77.2	48.2
Services in the 3rd quarter	0.4	0.7	–	6.0
Engines and spare parts supplied in the first nine months	44.4	45.3	232.4	147.1
Services in the first nine months	1.1	2.2	11.5	18.6
Receivables at 30 Sept./31 Dec.	5.0	2.3	42.8	43.8

Existing in-year trade receivables from companies in the SAME DEUTZ-FAHR Group were replaced by a two- or three-month interest-bearing finance facility in 2009. The balance outstanding on this financial receivable came to €0.1 million as at 31 December 2009. DEUTZ has an agreement with the Volvo Group that grants Volvo companies extended credit periods in return for payment of a fee.

Other information

Mr Gino M. Biondi stepped down from the Board of Management of DEUTZ AG at the Supervisory Board meeting on 14 July 2010. Mr Biondi was responsible for production, research & development, logistics, materials management and purchasing. Dr Helmut Leube (Chairman of the Board of Management) and Dr Margarete Haase (Chief Financial Officer) took on Mr Biondi's areas of responsibility.

For information concerning the integral parts of the remuneration paid to members of the Board of Management and Supervisory Board, please refer to the Notes to the 2009 consolidated financial statements. Termination benefits owed to the Board of Management and other members of the management team amounted to €1.7 million during the first nine months of 2010.

Events after the balance sheet date (30 September 2010)

For the period during which the contract negotiations are being finalised and contractual documentation is being prepared for the intended repayment of the US private placement and borrowing of a secured syndicated loan, a further waiver has been agreed with our US creditors, granting us the necessary time to accomplish this. The term of the current agreement, dated 1 October 2010, ends on 15 December 2010. No further material events occurred after the reporting period.

Cologne, 3 November 2010

DEUTZ Aktiengesellschaft
The Board of Management



Dr Helmut Leube



Dr Margarete Haase

Financial calendar

Date	Event	Location
17 March 2011	Annual results press conference Publication Annual Report 2010	Cologne
18 March 2011	Analysts' meeting	Frankfurt/Main
5 May 2011	Annual General Meeting	Cologne
12 May 2011	Interim Report 1st quarter 2011 Conference call with analysts and investors	
4 August 2011	Interim Report 1st half-year 2011 Conference call with analysts and investors	
10 November 2011	Interim Report 1st to 3rd quarter 2011 Conference call with analysts and investors	

Contact

DEUTZ AG

Ottostrasse 1
51149 Cologne (Porz-Eil)
Germany

Public Relations

Telephone + 49 221 822 22 00
Fax + 49 221 822 15 22 00
Email presse@deutz.com
Website www.deutz.com

Investor Relations

Telephone + 49 221 822 24 91
Fax + 49 221 822 15 24 91
Email ir@deutz.com
Website www.deutz.com

Imprint

Published by

DEUTZ AG
51057 Cologne
Germany

Concept and layout

Kirchhoff Consult AG, Hamburg, Germany

**This is a complete translation of the original German version of the interim report.
The interim report is only available in electronic form.**