



INTERIM REPORT

for the first half of 2018

THE FIRST HALF YEAR AT A GLANCE

DEUTZ Group: Overview

€ million	4-6/2018	4-6/2017 ⁵⁾	1-6/2018	1-6/2017 ⁵⁾
New orders	521.6	399.8	1,096.5	803.0
Unit sales (units)	56,743	42,446	105,201	79,599
Revenue	463.1	382.0	877.6	734.5
EBITDA	32.8	29.0	73.7	67.7
EBITDA before exceptional items	32.8	34.9	73.7	63.6
EBIT	11.7	8.2	33.4	25.8
EBIT before exceptional items	11.7	14.1	33.4	21.7
EBIT margin (%)	2.5	2.1	3.8	3.5
EBIT margin before exceptional items (%)	2.5	3.7	3.8	3.0
Net income	7.1	3.3	25.3	18.7
Earnings per share (€)	0.06	0.02	0.21	0.15
Total assets	1,222.4	1,101.6	1,222.4	1,101.6
Non-current assets	487.9	461.0	487.9	461.0
Equity	590.1	500.4	590.1	500.4
Equity ratio (%)	48.3	45.4	48.3	45.4
Cash flow from operating activities	13.1	29.0	23.2	85.2
Free cash flow ¹⁾	-3.0	14.1	-12.1	53.8
Net financial position ²⁾	68.0	74.8	68.0	74.8
Working capital ³⁾	294.9	185.2	294.9	185.2
Working capital ratio (30 June, %) ⁴⁾	18.2	13.7	18.2	13.7
Capital expenditure (excl. capitalisation of R&D, after deducting grants)	10.5	9.7	24.2	18.3
Depreciation and amortisation	21.1	20.8	40.3	41.9
Research and development expenditure (after deducting grants)	19.0	14.5	37.7	31.0
thereof capitalised	3.9	3.5	8.2	7.1
Employees (number at 30 Jun)	4,432	3,774	4,432	3,774

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

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

³⁾ Working capital: inventories plus trade receivables less trade payables.

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

⁵⁾ Adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

DEUTZ Group: Segments

€ million	4-6/2018	4-6/2017	1-6/2018	1-6/2017
New orders				
DEUTZ Compact Engines	437.5	335.3	930.4	661.6
DEUTZ Customised Solutions	74.4	64.5	151.1	141.4
Other	9.7	-	15.0	-
Total	521.6	399.8	1,096.5	803.0
Unit sales (units)				
DEUTZ Compact Engines	49,900	40,161	94,463	75,482
DEUTZ Customised Solutions	2,631	2,285	4,393	4,117
Other	4,212	-	6,345	-
Total	56,743	42,446	105,201	79,599
Revenue				
DEUTZ Compact Engines	385.7	319.5	737.7	613.6
DEUTZ Customised Solutions	67.8	62.5	125.5	120.9
Other	9.6	-	14.4	-
Total	463.1	382.0	877.6	734.5
EBIT before one-off items				
DEUTZ Compact Engines	3.7	8.8 ¹⁾	20.7	10.3 ¹⁾
DEUTZ Customised Solutions	10.2	5.2	17.9	11.6
Other	-2.2	0.1	-5.2	-0.2
Total	11.7	14.1¹⁾	33.4	21.7¹⁾

¹⁾ Adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

SUMMARY

“The sharp increase in the EBIT margin shows that the steps that have been taken to improve earnings are having an impact. We are now reorganising our presence in China in order to generate stronger growth and be even more successful there,” says Chairman of the DEUTZ Board of Management, Dr Ing Frank Hiller.

- New orders for the first half of 2018 increase by 36.6 per cent to €1,096.5 million
- Revenue advances by 19.5 per cent to €877.6 million
- The EBIT margin (before exceptional items) for the first half of 2018 improved to 5.4 per cent before adjusting for the temporary drag on earnings resulting from the DEUTZ Dalian joint venture and to 3.8 per cent after adjustment for these effects (H1 2017: 3.0 per cent)
- DEUTZ is reorganising its presence in China, the world’s largest engine market, in order to make better use of opportunities there in future. The 50 per cent stake in the DEUTZ Dalian joint venture is to be sold to the joint venture partner, FAW
- Talks with new Chinese partners in the construction equipment and agricultural machinery industries are at an advanced stage
- Strike at the supplier Neue Halberg-Guss GmbH will disrupt production at DEUTZ and further down the supply chain in the third quarter of 2018

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Economic growth remains buoyant¹⁾ The International Monetary Fund (IMF), in line with its previous update, is forecasting global economic growth of 3.9 per cent for 2018 as a whole, compared with 3.7 per cent in 2017. Growth of 2.2 per cent is expected both in the eurozone economy and in Germany. This would be slightly below the level seen in 2017. The mood in the US remains positive, hence the prediction for growth of 2.9 per cent in 2018, compared with 2.3 per cent in the prior year. China's economy is projected to grow by 6.6 per cent, having expanded by 6.9 per cent in 2017.

According to our own estimates, the off-highway diesel engine market has performed very encouragingly so far this year. The construction equipment and material handling segments grew by up to 10 per cent in Europe and North America and by up to 20 per cent in China. The agricultural machinery segment in Europe and North America expanded by up to 5 per cent. We expect demand in the market to remain at a high level for the remainder of the year.

NEW ORDERS

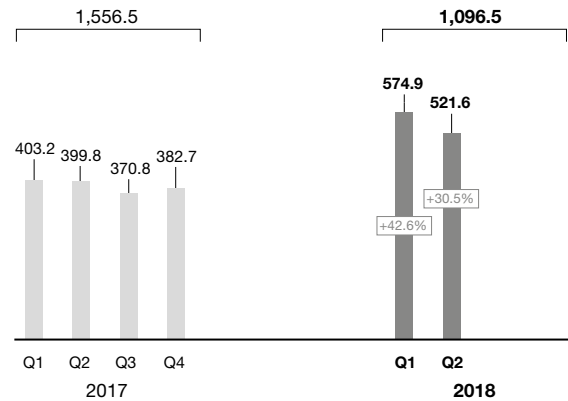
Significant rise in new orders DEUTZ received orders worth €1,096.5 million in the first half of 2018, a year-on-year rise of 36.6 per cent (H1 2017: €803.0 million). This excellent result was attributable not only to the favourable business environment but also, in particular, to a change in customers' ordering patterns. In light of the strong demand and the introduction of emissions standard EU Stage V in the coming year, customers have been placing their orders early to be sure of securing delivery.

At €521.6 million, the level of new orders remained very high in the second quarter of 2018 and was up by a significant 30.5 per cent on the figure for the prior-year period.

Orders on hand stood at €488.1 million as at 30 June 2018, which was 92.2 per cent higher than on the same date the previous year.

DEUTZ Group: New orders by quarter

€ million

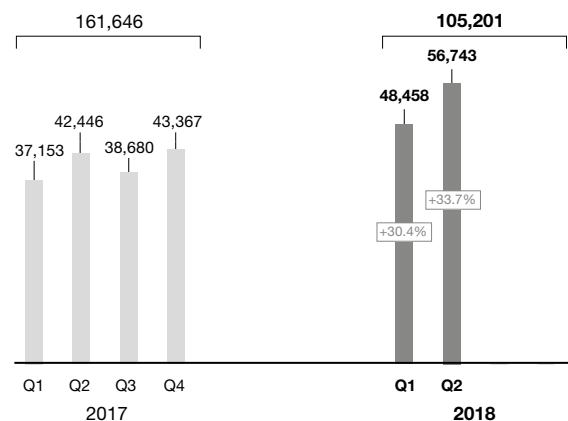


UNIT SALES

Significantly more engines sold DEUTZ sold 105,201 engines in the first half of 2018, which was 32.2 per cent more than in the equivalent period last year (H1 2017: 79,599 engines). The total included 6,345 electric motors sold by the Torqeedo brand. In EMEA (Europe, Middle East and Africa), our largest market, we sold 70,452 engines, a year-on-year increase of 29.2 per cent. Unit sales increased by 41.1 per cent and 32.5 per cent respectively in the Americas and Asia-Pacific regions.

DEUTZ Group: Consolidated unit sales by quarter

units



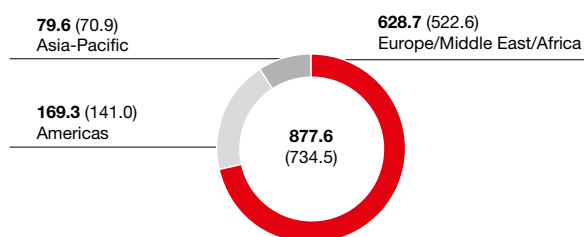
¹⁾ Source: IMF, World Economic Outlook, July 2018.

RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by region

€ million (2017 figures)

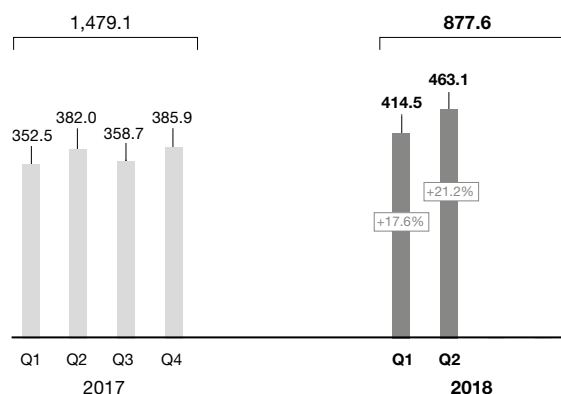


Sharp increase in revenue Revenue generated in the first half of 2018 amounted to €877.6 million, which was 19.5 per cent higher than the figure for the prior-year period (H1 2017: €734.5 million). All regions contributed to this positive result, and every off-highway application segment saw a rise in revenue. The strongest increases were recorded by the Material Handling application segment (up by 30.2 per cent) and the Construction Equipment application segment (up by 28.0 per cent). Revenue in the high-margin service business grew by 6.9 per cent.

DEUTZ also saw a further double-digit percentage increase in revenue in the second quarter of 2018, relative to both the first quarter of the current year and the second quarter of 2017.

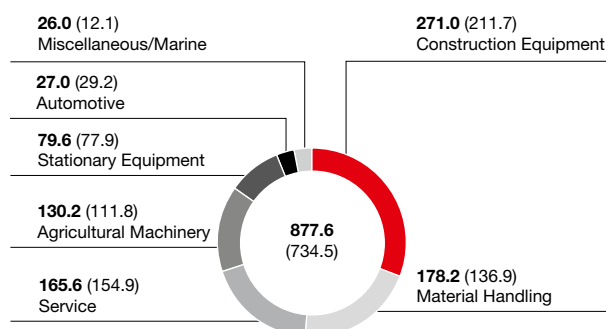
DEUTZ Group: Revenue by quarter

€ million



DEUTZ Group: Revenue by application segment

€ million (2017 figures)



EARNINGS

Overview of the DEUTZ Group's results of operations

€ million

	1-6/2018	1-6/2017 ¹⁾	Change (%)
Revenue	877.6	734.5	19.5
Cost of sales	-714.5	-604.7	18.2
Research and development costs	-47.8	-45.1	6.0
Selling and administrative expenses	-71.1	-57.5	23.7
Other operating income	13.3	17.2	-22.7
Other operating expenses	-10.2	-17.8	-42.7
Profit/loss on equity-accounted investments	-2.6	-0.8	225.0
Write-down on equity-accounted investments	-11.3	-	-
Operating profit (EBIT)	33.4	25.8	29.5
Exceptional items	0.0	4.1	-100.0
EBIT (before exceptional items)	33.4	21.7	53.9
Interest expenses, net	-1.0	-1.4	-28.6
Income taxes	-7.1	-5.7	24.6
Net income	25.3	18.7	35.3

¹⁾ Figures for the period 1-6/2017 adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

Significant margin improvement Operating profit (EBIT before exceptional items) amounted to €33.4 million in the first half of 2018. Excluding the reduction in earnings resulting from the write-downs on the DEUTZ Dalian (DDE) joint venture, which are likely to be fully offset this year as a result of the planned disposal of the joint venture, operating profit stood at €47.5 million (H1 2017: €21.7 million). The figure for the prior-year period was revised downward by €1.1 million due to the write-down on this joint venture that was allocated to the first half of 2017. Operating profit thus improved at a significantly faster rate than revenue, thanks in part to economies of scale resulting from the strong increase in volume and to operational improvements. Consequently, the EBIT margin (before exceptional items) for the first half of 2018 rose to 5.4 per cent before adjusting for the temporary drag on earnings related to DEUTZ Dalian and to 3.8 per cent after adjusting for these effects (H1 2017: 3.0 per cent¹⁾). The EBIT margin for the second quarter (before DDE effects) was 5.7 per cent.

Whereas exceptional items had a positive impact of €4.1 million in the first half of 2017, no exceptional items were reported in the period under review. Operating profit after exceptional items (EBIT) amounted to €25.8 million in the first half of 2017¹⁾.

The cost of sales rose to €714.5 million in the first half of 2018 (H1 2017: €604.7 million). This change was primarily attributable to the increase in the cost of materials and in staff costs resulting from the larger volume of production. The gross margin²⁾ improved from 17.7 per cent in the first half of 2017 to 18.6 per cent in the first half of 2018.

The increase in operating profit (EBIT) resulted in a €6.6 million year-on-year increase in net income to €25.3 million (H1 2017: 18.7 million¹⁾), generating earnings per share of €0.21 (H1 2017: €0.15¹⁾).

BUSINESS PERFORMANCE IN THE SEGMENTS

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

Very strong operating performance in the first half of 2018 The DEUTZ Compact Engines (DCE) segment saw significant year-on-year increases in new orders, unit sales and revenue in the first half of 2018. Despite effects related to the DEUTZ Dalian joint venture reducing earnings by a total of €14.1 million, operating profit in the DEUTZ Compact Engines segment increased in the first half of 2018, thanks largely to the much higher volume of business.

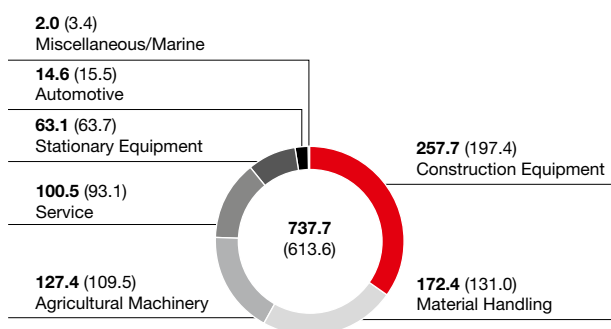
DEUTZ Compact Engines

	1-6/2018	1-6/2017 ¹⁾	Change (%)
New orders (€ million)	930.4	661.6	40.6
Unit sales (units)	94,463	75,482	25.1
Revenue (€ million)	737.7	613.6	20.2
EBIT (€ million)	20.7	10.3	101.0

¹⁾ Adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

DEUTZ Compact Engines: Revenue by application segment

€ million (2017 figures)



BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

Increase in revenue The DEUTZ Customised Solutions (DCS) segment also saw year-on-year increases in new orders, unit sales and revenue in the first half of 2018. And in this segment too, operating profit was higher than in the first half of 2017. The biggest factors in this improved performance were the higher volume of business, the enhanced product mix and the increase in the proportion of earnings generated by the high-margin service business.

DEUTZ Customised Solutions

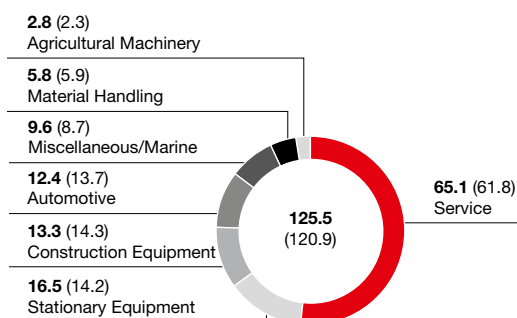
	1-6/2018	1-6/2017	Change (%)
New orders (€ million)	151.1	141.4	6.9
Unit sales (units)	4,393	4,117	6.7
Revenue (€ million)	125.5	120.9	3.8
EBIT (€ million)	17.9	11.6	54.3

¹⁾ Adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

²⁾ Gross margin: ratio of revenue less cost of sales to revenue (excluding amortisation relating to capitalised development expenditure).

DEUTZ Customised Solutions: Revenue by application segment

€ million (2017 figures)

**OTHER**

The Other segment registered an operating loss of €5.2 million for the six months of 2017, a year-on-year deterioration of €5.0 million (H1 2017: operating loss of €0.2 million). This decline was mainly due to the negative impact on earnings of the €5.5 million loss reported by Torqeedo. Torqeedo has been included in the consolidated financial statements of DEUTZ AG since the fourth quarter of 2017.

Other

	1-6/2018	1-6/2017	Change (%)
New orders (€ million)	15.0	-	-
Unit sales (units)	6,345	-	-
Revenue (€ million)	14.4	-	-
EBIT (€ million)	-5.2	-0.2	-

FINANCIAL POSITION**Overview of the DEUTZ Group's financial position**

€ million

	1-6/2018	1-6/2017	Change (%)
Cash flow from operating activities	23.2	85.2	-72.8
Cash flow from investing activities	-34.1	-29.7	14.8
Cash flow from financing activities	-17.5	-19.5	-10.3
Change in cash and cash equivalents	-28.4	36.0	-178.9
Free cash flow ¹⁾ from continuing operations	-12.1	53.8	-122.5
Cash and cash equivalents at 30 Jun/31 Dec	115.6	127.1	-9.0
Current and non-current interest-bearing financial debt at 30 Jun/31 Dec	47.6	52.3	-9.0
Net financial position ²⁾ at 30 Jun/31 Dec	68.0	74.8	-9.1

¹⁾ Free cash flow: cash flow from operating activities, before payment of compensation for vested company pension rights, and from investing activities less interest expense (continuing operations).

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

FUNDING

In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving credit facility of €160 million provided by a consortium of banks. On 31 May 2018, its term was extended until June 2023.

In the second half of 2018, DEUTZ Spain took out a subsidised investment loan of €11.2 million, which is repayable by April 2021.

In addition, we have a loan from the European Investment Bank with a remaining balance of €32.4 million at 30 June 2018. The loan is repayable by July 2020.

CASH FLOW

Despite the higher volume of business, cash flow from operating activities decreased significantly in comparison with the first half of 2017. This was primarily due to the volume-related increase in working capital in the first half of 2018. By contrast, net cash used for investing activities was slightly above the level reported in the first half of 2017. This was attributable to the increase in capital spending on property, plant and equipment and intangible assets. The dividend payment of €18.1 million for the prior year, which was much higher than the amount paid out in the first half of 2017, and the subsidised loan of €11.2 million taken out by our Spanish subsidiary were the main factors affecting

cash flow from financing activities. Free cash flow decreased as a result of the steep decline in net cash provided by operating activities. Looking at the past twelve months, however, free cash flow remained in positive territory at €16.6 million.

The change in cash flow described above caused cash and cash equivalents and the net financial position¹⁾ to contract in the first six months of 2018.

NET ASSETS

Overview of the DEUTZ Group's assets

€ million	30 Jun 2018	31 Dec 2017	Change (%)
Non-current assets ¹⁾	559.4	588.5	-4.9
Current assets	652.9	609.3	7.2
Assets classified as held for sale	10.1	0.4	2,425.0
Total assets ¹⁾	1,222.4	1,198.2	2.0
Equity ¹⁾	590.1	584.3	1.0
Non-current liabilities	236.6	240.4	-1.6
Current liabilities	395.7	373.5	5.9
Total equity and liabilities ¹⁾	1,222.4	1,198.2	2.0
Working capital ²⁾ (€ million)	294.9	222.2	32.7
Working capital ratio (31 Dec, %)	18.2	15.0	-
Working capital ratio (average, %)	14.9	13.4	-
Equity ratio ³⁾ (%)	48.3	48.8	-

¹⁾ Figures for 31 December 2017 adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

²⁾ Working capital: inventories plus trade receivables less trade payables.

³⁾ Equity ratio: equity/total equity and liabilities.

The rise in current assets is primarily attributable to the increase in inventories and trade receivables. Both inventories and trade receivables rose sharply due to the higher volumes of production and revenue. Working capital therefore advanced by €72.7 million to €294.9 million as at 30 June 2018 (31 December 2017: €222.2 million). As a result, the working capital ratio increased from 15.0 per cent as at 31 December 2017 to 18.2 per cent as at 30 June 2018. At 14.9 per cent, the average working capital ratio was also higher than at the end of last year (31 December 2017: 13.4 per cent).

RESEARCH AND DEVELOPMENT

Higher R&D expenditure than in the prior-year period Research and development expenditure after reimbursements went up from €31.0 million to €37.7 million in the first half of 2018, an increase of 21.6 per cent. The expansion of our product range was the main reason for this budgeted increase.

Research and development

	1-6/2018	1-6/2017	Change (%)
R&D expenditure (after deducting grants, € million)	37.7	31.0	21.6
thereof DCE (€ million)	32.4	29.8	8.7
thereof DCS (€ million)	2.2	1.2	83.3
thereof Other (€ million)	3.1	-	-
R&D ratio (as a percentage of revenue)	4.3	4.2	2.4

EMPLOYEES

DEUTZ Group increases headcount The number of employees working for the DEUTZ Group increased by 658, or 17.4 per cent, compared with 30 June 2017. The acquisitions of Torqeedo and DEUTZ Italy (formerly IML Motori S.r.l.) accounted for 219 of these new employees. The growth in the volume of business was also a factor. The number of contract workers stood at 436, an increase of 34 on the figure for 30 June 2017.

Employees

Headcount	1-6/2018	1-6/2017	Change (%)
Cologne	2,528	2,210	14.4
Ulm	452	424	6.6
Other	274	213	28.6
In Germany	3,254	2,847	14.3
Outside Germany	1,178	927	27.1
Total	4,432	3,774	17.4

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

DEUTZ DALIAN JOINT VENTURE

As announced in April 2018, the carrying amounts for the DEUTZ (Dalian) Engine Co., Ltd. joint venture based in Dalian, China, were reviewed by an auditor as part of an overall review into strategic options in China. The audit firm engaged to conduct the review informed us on 17 April 2018 that it suspected that some items on the DEUTZ Dalian balance sheet had been overstated and that the carrying amount calculated using the equity method in DEUTZ AG's consolidated financial statements may have to be adjusted as a result.

The subsequent thorough review of the carrying amounts for DEUTZ Dalian revealed that the carrying amount calculated using the equity method would have to be written down by €23.1 million. Of this figure, €14.9 million relates to financial years prior to 2018 and, in line with the applicable IFRSs, is to be applied retrospectively by adjusting the carrying amount calculated using the equity method for DEUTZ Dalian and by adjusting Group equity as at 31 December 2017 and earlier. The remaining €8.2 million relates to the current financial year and thus reduces the share of profit/loss under the equity method attributable to DEUTZ Dalian in the first half of 2018, which amounted to a total loss of €2.8 million. The carrying amounts that are to be corrected for DEUTZ Dalian related mainly to inventories, property, plant and equipment, own development projects and provisions for warranty costs.

Because of the write-downs carried out and the current intention to dispose of our stake in DEUTZ Dalian, which we announced on 3 July 2018, the updated carrying amount of the DEUTZ Dalian shares as at 30 June 2018, calculated using the equity method, was tested for impairment in accordance with IAS 36 and written down to the total proceeds of €9.7 million that are expected to be obtained from the disposal. The following table shows the aforementioned changes in the carrying amount of the DEUTZ Dalian investment calculated using the equity method as at the reporting dates 31 December 2017 and 30 June 2018.

€ million	
Carrying amount as at 31 Dec 2017	38.4
Correction for prior years	-14.9
Corrected opening balance at 1 Jan 2018	23.5
Share of loss on equity-accounted investment, H1 2018	-2.8
Currency translation differences	0.3
Carrying amount as at 30 June 2018 (before impairment test)	21.0
Impairment	-11.3
Carrying amount as at 30 Jun 2018	9.7

Following the disposal of the shares in DEUTZ Dalian, which we expect to be completed in the second half of 2018, positive currency translation differences of €15.8 million recognised in the currency translation reserve as at 30 June 2018 will be reclassified to the income statement for the current year. This would slightly outweigh the total reduction in earnings for the first half of 2018 of €14.1 million resulting from the share of the loss reported by the equity-accounted investment and from the write-down on its carrying amount as at 30 June 2018.

OPPORTUNITY AND 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. However, the constantly changing market environment also presents opportunities for the Company. Pages 59 to 64 of our 2017 annual report explain the structure of our risk management system and describe certain material risks and opportunities for our financial position and financial performance in 2018.

The procurement risks described in the 2017 annual report greatly increased in the second quarter of 2018 because of the strike at our supplier Neue Halberg-Guss GmbH and the supply shortages that resulted from this. Initially, we were able to largely contain the impact on DEUTZ by adapting our production plans. However, the strike will disrupt production both at DEUTZ and further down the supply chain in the current quarter. We are engaged in ongoing talks with the supplier and our customers and we are also taking further action in order to minimise the extent of damage to DEUTZ. Given that talks between Neue Halberg-Guss GmbH and the union are still ongoing, we are raising the level of procurement risk with regard to the attainment of our financial targets for 2018 from 'low' to 'medium'. We did not identify any new material risks or opportunities in the first half of 2018.

OUTLOOK

Global economic outlook remains positive¹⁾ For this year and next, the IMF is forecasting strong economic growth in the key countries and regions. It expects the global economy to expand at a rate of 3.9 per cent both in 2018 and 2019. Growth rates of 2.2 per cent in 2018 and 1.9 per cent in 2019 are anticipated for the eurozone. The equivalent rates of growth for Germany are predicted to be 2.2 per cent and 2.1 per cent. The prospective growth rates for the US are much higher, at 2.9 per cent and 2.7 per cent. Increases of 6.6 per cent and 6.4 per cent are the predictions for China.

Forecast increased In 2018, DEUTZ's engine business will benefit from the robust global economy and positive trends in unit sales in key application segments. Our European customers are bringing forward their spending this year ahead of the switch to the new emissions standard in the European Union on 1 January 2019 (EU Stage V). This is likely to have a positive impact on our unit sales in the current year, which we predict will rise by a low five-digit number of engines.

Overall, we predict a significant increase in revenue to more than €1.6 billion in 2018. This will be driven mainly by the DCE segment. Previously, we had not quantified how significant we expected the rise in revenue to be.

In addition, we expect a moderate increase in the EBIT margin (before exceptional items) to at least 4.5 per cent. We had previously forecast a moderate improvement in the EBIT margin (before exceptional items), but had not provided any specific figures for this either.

This guidance is based on the assumption that the strike at Neue Halberg-Guss GmbH, which is currently suspended, will not be resumed.

The withdrawal from the DEUTZ Dalian joint venture is not expected to significantly impact on earnings this year.

Disclaimer

This management report includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performances, developments and results in the Company or those in sectors important to the Company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Board of Management cannot therefore make any guarantees with regard to the forward-looking statements made in this management report.

¹⁾ Source: IMF, World Economic Outlook, July 2018.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2018

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	4-6/2018	4-6/2017 ¹⁾	1-6/2018	1-6/2017 ¹⁾
Revenue	1	463.1	382.0	877.6	734.5
Cost of sales		-379.0	-313.8	-714.5	-604.7
Research and development costs		-24.9	-21.9	-47.8	-45.1
Selling expenses		-24.6	-18.5	-47.9	-37.0
General and administrative expenses		-12.1	-10.3	-23.2	-20.5
Other operating income		8.4	3.7	13.3	17.2
Other operating expenses		-4.8	-12.9	-10.2	-17.8
Profit/loss on equity-accounted investments		-3.1	-0.1	-2.6	-0.8
Write-down on equity-accounted investments	2	-11.3	-	-11.3	-
EBIT		11.7	8.2	33.4	25.8
thereof exceptional items		-	-5.9	-	4.1
thereof operating profit (EBIT before exceptional items)		11.7	14.1	33.4	21.7
Interest expenses, net		-0.4	-0.6	-1.0	-1.4
thereof finance costs		-0.5	-0.7	-1.2	-1.6
Net income before income taxes		11.3	7.6	32.4	24.4
Income taxes	3	-4.2	-4.3	-7.1	-5.7
Net income		7.1	3.3	25.3	18.7
thereof attributable to shareholders of DEUTZ AG		7.1	3.3	25.3	18.7
thereof attributable to non-controlling interests		-	-	-	-
Earnings per share (basic/diluted, €)		0.06	0.02	0.21	0.15

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million

	Note	4-6/2018	4-6/2017 ¹⁾	1-6/2018	1-6/2017 ¹⁾
Net income		7.1	3.3	25.3	18.7
Amounts that will not be reclassified to the income statement in the future		-	0.9	-0.5	2.2
Remeasurements of defined benefit plans		-	0.9	-0.5	2.2
Amounts that will be reclassified to the income statement in the future if specific conditions are met		0.1	-2.9	-0.4	-2.2
Currency translation differences		1.3	-4.4	0.8	-4.7
thereof profit/loss on equity-accounted investments		0.1	-1.1	0.3	-1.3
Effective portion of change in fair value from cash flow hedges		-1.3	1.8	-1.3	2.7
Fair value of financial instruments		0.1	-0.3	0.1	-0.2
Other comprehensive income, net of tax	4	0.1	-2.0	-0.9	-
Comprehensive income		7.2	1.3	24.4	18.7
thereof attributable to shareholders of DEUTZ AG		7.2	1.3	24.4	18.7
thereof attributable to non-controlling interests		-	-	-	-

¹⁾ Adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

	Note	30 Jun 2018	31 Dec 2017 ¹⁾	1 Jan 2017 ¹⁾
Assets				
Property, plant and equipment	5	273.8	273.4	286.0
Intangible assets	5	205.0	213.2	148.5
Equity-accounted investments		2.4	25.9	28.6
Other financial assets		6.7	6.8	7.5
Non-current assets (before deferred tax assets)		487.9	519.3	470.6
Deferred tax assets		71.5	69.2	79.9
Non-current assets		559.4	588.5	550.5
Inventories		332.0	287.0	253.1
Trade receivables		173.6	142.7	113.5
Other receivables and assets		31.7	35.8	37.3
Cash and cash equivalents		115.6	143.8	91.8
Current assets		652.9	609.3	495.7
Non-current assets classified as held for sale	6	10.1	0.4	0.4
Total assets		1,222.4	1,198.2	1,046.6
Equity and liabilities				
	Note	30 Jun 2018	31 Dec 2017 ¹⁾	1 Jan 2017 ¹⁾
Issued capital		309.0	309.0	309.0
Additional paid-in capital		28.8	28.8	28.8
Currency translation reserve in connection with non-current assets classified as held for sale		15.8	–	–
Other reserves		–4.5	12.1	16.5
Retained earnings and accumulated income		240.8	234.2	123.7
Equity attributable to shareholders of DEUTZ AG		589.9	584.1	478.0
Non-controlling interests		0.2	0.2	–
Equity		590.1	584.3	478.0
Provisions for pensions and other post-retirement benefits		157.8	162.9	175.9
Deferred tax liabilities		0.2	0.2	0.4
Other provisions		38.1	36.2	38.4
Financial debt	7	27.9	28.1	44.0
Other liabilities		12.6	13.0	6.3
Non-current liabilities		236.6	240.4	265.0
Provisions for pensions and other post-retirement benefits		13.5	13.5	14.1
Provision for current income taxes		19.5	18.3	4.1
Other provisions		61.4	58.4	55.9
Financial debt	7	19.7	17.5	16.2
Trade payables		210.7	207.5	162.3
Other liabilities		70.9	58.3	51.0
Current liabilities		395.7	373.5	303.6
Total equity and liabilities		1,222.4	1,198.2	1,046.6

¹⁾ Adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million

	Issued capital	Additional paid-in capital	Retained earnings and accumulated income	Currency translation reserve in connection with non-current assets classified as held for sale	Fair value reserve ¹⁾²⁾	Currency translation adjustment ¹⁾	Equity attributable to shareholders of DEUTZ AG	Non-controlling interests	Total
Balance at 31 Dec 2016	309.0	28.8	136.2	-	-2.0	19.1	491.1	-	491.1
Adjustment due to correction of errors			-12.5			-0.6	-13.1		-13.1
Adjusted balance at 1 Jan 2017	309.0	28.8	123.7	-	-2.0	18.5	478.0	-	478.0
Dividend payments			-8.5				-8.5		-8.5
Net income			18.7				18.7		18.7
Other comprehensive income			2.2		2.5	-4.7	-		0.0
Comprehensive income			20.9	-	2.5	-4.7	18.7	-	18.7
Other changes			-1.3				-1.3		-1.3
Balance at 30 Jun 2017	309.0	28.8	134.8	-	0.5	13.8	486.9	-	486.9
Balance at 31 Dec 2017	309.0	28.8	249.4	-	0.7	11.1	599.0	0.2	599.2
Adjustment due to correction of errors			-15.2			0.3	-14.9		-14.9
Adjusted balance at 31 Dec 2017	309.0	28.8	234.2	-	0.7	11.4	584.1	0.2	584.3
Change in accounting policies ³⁾			-0.1		-0.4		-0.5		-0.5
Adjusted balance at 1 Jan 2018	309.0	28.8	234.1	-	0.3	11.4	583.6	0.2	583.8
Dividend payments			-18.1				-18.1		-18.1
Net income			25.3				25.3	-	25.3
Other comprehensive income			-0.5		-1.2	0.8	-0.9	-	-0.9
Comprehensive income			24.8	-	-1.2	0.8	24.4	-	24.4
Other changes				15.8		-15.8	-		-
As at 30 June 2018	309.0	28.8	240.8	15.8	-0.9	-3.6	589.9	0.2	590.1

¹⁾ On 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 financial instruments at fair value.

³⁾ The adjustment of the figures relates to the change in the recognition of financial instruments stipulated by IFRS 9.

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	1-6/2018	1-6/2017 ¹⁾
EBIT		33.4	25.8
Income taxes paid		-6.3	-4.5
Depreciation, amortisation and impairment of non-current assets		40.3	41.9
Gains/losses on the sale of non-current assets		-	-0.1
Profit/loss and impairment on equity-accounted investments		13.9	1.1
Other non-cash income and expenses		-	-
Change in working capital		-68.1	15.3
Change in inventories		-42.9	-18.3
Change in trade receivables		-30.0	-26.4
Change in trade payables		4.8	60.0
Change in other receivables and other current assets		2.3	4.8
Change in provisions and other liabilities (excluding financial liabilities)		7.7	0.9
Cash flow from operating activities		23.2	85.2
Capital expenditure on intangible assets, property, plant and equipment		-34.1	-29.8
Capital expenditure on investments		-	-0.3
Proceeds from the sale of non-current assets		-	0.4
Cash flow from investing activities		-34.1	-29.7
Dividend payments to shareholders		-18.1	-8.5
Interest income		0.1	0.1
Interest expense		-1.3	-1.8
Repayment of capital contributions to non-controlling interests		-	-1.3
Cash receipts from borrowings	7	11.2	-
Repayments of loans	7	-9.4	-8.0
Cash flow from financing activities		-17.5	-19.5
Cash flow from operating activities		23.2	85.2
Cash flow from investing activities		-34.1	-29.7
Cash flow from financing activities		-17.5	-19.5
Change in cash and cash equivalents		-28.4	36.0
Cash and cash equivalents at 1 Jan		143.8	91.8
Change in cash and cash equivalents		-28.4	36.0
Change in cash and cash equivalents related to exchange rates		0.2	-0.7
Cash and cash equivalents at 30 Jun		115.6	127.1

¹⁾ Adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2018

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended 30 June 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) 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 consolidated financial statements do not contain all the information and notes required by IFRS 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 2017 financial year.

The condensed interim consolidated financial statements for the period ended 30 June 2018 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity, and selected notes to the consolidated financial statements – and the interim group management report for the period from 1 January to 30 June 2018 have been reviewed by an auditor pursuant to section 115 of the German Securities Trading Act (WpHG).

CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8

As announced in April 2018, the carrying amounts for the DEUTZ (Dalian) Engine Co., Ltd. joint venture based in Dalian, China, were reviewed by an auditor as part of an overall review into strategic options in China. The audit firm engaged to conduct the review informed us on 17 April 2018 that it suspected that some items on the DEUTZ Dalian balance sheet had been overstated and that the carrying amount calculated using the equity method in DEUTZ AG's consolidated financial statements may have to be adjusted as a result.

The subsequent review of the carrying amounts for DEUTZ Dalian revealed that the carrying amount calculated using the equity method would have to be written down by €23.1 million. The carrying amounts that are to be corrected for DEUTZ Dalian related mainly to inventories, property, plant and equipment, own development projects and provisions for warranty costs. Of this €23.1 million, a total of €14.9 million relates to financial years prior to 2018 and, as a material error according to the definition in IAS 8, is to be applied retrospectively by adjusting the carrying amount calculated using the equity method for DEUTZ Dalian and by adjusting Group equity as at 31 December 2017 and 1 January 2017.

The following tables show the effects of the correction of errors:

Affected line items on the balance sheet

€ million	1 Jan 2017	Correction of errors under IAS 8	1 Jan 2017 (adjusted)
Equity-accounted investments	41.7	-13.1	28.6
Issued capital	309.0	–	309.0
Additional paid-in capital	28.8	–	28.8
Other reserves	17.1	-0.6	16.5
Retained earnings and accumulated income	136.2	-12.5	123.7
Non-controlling interests	–	–	–
Equity	491.1	-13.1	478.0

€ million	31 Dec 2017	Correction of errors under IAS 8	31 Dec 2017 (adjusted)
Equity-accounted investments	40.8	-14.9	25.9
Issued capital	309.0	–	309.0
Additional paid-in capital	28.8	–	28.8
Other reserves	11.8	0.3	12.1 ¹⁾
Retained earnings and accumulated income	249.4	-15.2	234.2 ¹⁾
Non-controlling interests	0.2	–	0.2
Equity	599.2	-14.9	584.3¹⁾

¹⁾ Before adjustment under IFRS 9.

Affected line items in the income statement

€ million	1–6/2017	Correction of errors under IAS 8	1–6/2017 (adjusted)
Profit/loss on equity-accounted investments	0.3	-1.1	-0.8
EBIT (before exceptional items)	22.8	-1.1	21.7
Net income	19.8	-1.1	18.7
Earnings per share (€)	0.16	-0.01	0.15

Affected line items in the statement of comprehensive income

€ million	1-6/2017	Correction of errors under IAS 8	1-6/2017 (adjusted)
Currency translation differences	-5.4	0.7	-4.7
thereof profit/loss on equity-accounted investments	-2.0	0.7	-1.3

SIGNIFICANT ACCOUNTING POLICIES

With the exception of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', which have been applied since 1 January 2018, 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 2017. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2017.

If they are material, revenue-related and cyclical items are accrued during the year. Income taxes are calculated on the basis of the effective tax rate currently expected to apply to the DEUTZ Group for the year as a whole.

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, on the disclosure of contingent assets and liabilities as at the balance sheet date and on the reporting of income and expenses in the period under review.

IFRS 9 'Financial Instruments' IFRS 9 introduces new requirements for the classification and measurement of financial assets. The standard defines the basis for this as the contractual cash flow characteristics and the objective of the business model under which the assets are being managed. These changes result in a new system for categorising financial instruments. Essentially, a distinction is made between financial assets recognised at amortised cost and financial assets measured at fair value. Depending on the subcategory, measurement at fair value is through profit or loss for the current period or in other comprehensive income.

IFRS 9 also sets out a new three-level impairment model based on expected losses, in which financial assets are assigned to one of three risk levels depending on their credit risk. Upon acquisition, and if the credit risk is not expected to rise significantly

from the risk at the time of initial recognition, all financial instruments are assigned to level 1. With reference to a portfolio of instruments of a similar type, an impairment loss resulting from expected default events in the next twelve months is recognised on the financial instruments. If the credit risk increases significantly, the financial instruments are assigned to level 2 and an impairment loss resulting from default events over the life of the financial instruments has to be recognised. If there is additional objective evidence of impairment, individual financial instruments are transferred to level 3 and a specific impairment loss is recognised. A simplified impairment loss approach is applied to trade receivables. Expected defaults are calculated on the basis of the current credit ratings of the relevant debtors and on the creditor's own experience.

The standard also includes new requirements for hedge accounting, with the specific aim of linking hedge accounting more closely to the risk management of entities and thus improving the transparency of the accounting treatment of hedges. For the time being, the DEUTZ Group will continue to make use of the option pursuant to IFRS 9.7.2.21, thereby continuing to account for hedges in accordance with the rules in IAS 39.

Initial application of IFRS 9 led to financial information being restated as follows:

As at 1 January 2018:

- Decrease of €0.5 million in trade receivables and retained earnings
- Decrease in other reserves and increase in retained earnings of €0.4 million

The adoption of the new impairment model caused trade receivables and retained earnings to decrease by €0.5 million.

The €0.4 million decrease in other reserves is the result of the change in the accounting treatment of the units in equity funds held by DEUTZ Corporation, Atlanta (USA). Under the new IFRS 9, these are measured at fair value through profit or loss. Under IAS 39, however, they are also recognised at fair value. Despite this, the effects from changes in measurement are recognised in other comprehensive income under other reserves. The initial application of IFRS 9 resulted in cumulative effects from changes in measurement being reclassified from other reserves to retained earnings. As a result, retained earnings decreased by a total of €0.1 million.

For the period 1 January 2018 to 30 June 2018:

- Decrease of €0.3 million in trade receivables
- Decrease of €0.4 million in net income
- Rise of €0.1 million in other comprehensive income

The following table provides a breakdown of the reconciliation of categories and carrying amounts:

1 Jan 2018	IAS 39		Reclassification		Impairment	IFRS 9
€ million	Measured at amortised cost		to	to	Change in retained earnings	Measured at amortised cost
			Measured at fair value	Assets not within the scope of application		
	Loans and receivables	Available-for-sale financial assets				
Assets						
Non-current financial assets	-	0.3		-0.3		-
Current financial assets	304.5	-				297.4
Trade receivables	142.7	-	-6.6		-0.5	135.6
Other receivables and assets	18.0	-				18.0
Cash and cash equivalents	143.8	-				143.8

1 Jan 2018	IAS 39			Reclassification		IFRS 9	
€ million	Measured at fair value			from	to	Measured at fair value	
				Measured at amortised cost	Assets not within the scope of application		
	Available-for-sale financial assets	Derivatives designated as hedging instruments	Held-for-trading financial assets				
	Recognised as other comprehensive income/loss	Recognised as other comprehensive income/loss	Measured at fair value through profit or loss			Recognised as other comprehensive income/loss	Measured at fair value through profit or loss
Assets							
Non-current financial assets	4.8	-	-		-1.7	1.1	2.0
Current financial assets	-	1.2	0.1			-	6.7
Trade receivables	-	-	-	6.6		-	6.6
Other receivables and assets	-	1.2 ¹⁾	0.1			-	0.1
Cash and cash equivalents	-	-	-			-	-

¹⁾ For the time being, the DEUTZ Group will continue to make use of the option pursuant to IFRS 9.7.2.21, thereby continuing to account for hedges in accordance with the rules in IAS 39.

1 Jan 2018	IAS 39	Reclassification		IFRS 9
€ million	Assets not within the scope of application	from Measured at amortised cost	from Measured at fair value	Assets not within the scope of application
Assets				
Non-current financial assets	1.7	0.3	1.7	3.7
Current financial assets	16.5			16.5
Trade receivables	–			–
Other receivables and assets	16.5			16.5
Cash and cash equivalents	–			–

The following table shows the changes in the valuation allowance account as a result of the initial application of IFRS 9:

€ million	Non-current financial assets	Trade receivables	Other receivables and assets	Total
As at 31 December 2017	–	3.7	18.0	21.7
Adjustment	–	0.5	–	0.5
As at 1 January 2018	–	4.2	18.0	22.2
Change in the first half of 2018	–	0.3	–	0.3
As at 30 June 2018	–	4.5	18.0	22.5

IFRS 15 'Revenue from Contracts with Customers' The DEUTZ Group adopted IFRS 15 on 1 January 2018. This new standard replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and the interpretations relating to them. According to IFRS 15, the amount recognised as revenue is the amount expected in return for providing goods or services to customers. The point at which control over the goods or services is transferred to the customer determines the point in time at which or the period of time over which revenue is recognised. Full control can be transferred at a certain point in time or gradually over a period.

A groupwide project to implement IFRS 15 examined customer contracts to ascertain whether they would be affected. Services

such as the Xchange business and the granting of extended warranties were also specifically analysed. Finally, the delivery terms and conditions in use were examined with regard to their time of realisation and whether they contained multiple performance obligations. As had been expected in view of the business model, the analysis of existing customer contracts and the examination of the Xchange services and the granting of extended warranties did not result in transition effects. With regard to the point of recognition, the initial application of IFRS 15 in the first half of 2018 resulted in a decrease in revenue of less than 0.5 per cent. As a consequence of this, minor changes were made to trade receivables, inventories and cost of sales. The resulting effect on net income and earnings per share was not material.

CHANGES IN THE BASIS OF CONSOLIDATION

DEUTZ Abgastechnik GmbH i.L., Cologne was wound up in February 2018. As the company was already in the process of being liquidated and had already ceased operations, this had no material effect on the financial position or financial performance of the Group.

SELECTED EXPLANATORY DISCLOSURES

Selected explanatory disclosures relating to the interim consolidated financial statements are provided below. Further disclosures relating to the balance sheet, income statement and cash flow statement as well as the segment reporting can be found in the interim group management report.

1. REVENUE

Breakdown of revenue by application segment in the first half of 2018

€ million				
	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total
Construction Equipment	257.7	13.3		271.0
Material Handling	172.4	5.8		178.2
Automotive	14.6	12.4		27.0
Agricultural Machinery	127.4	2.8		130.2
Stationary Equipment	63.1	16.5		79.6
Service	100.5	65.1		165.6
Miscellaneous/Marine	2.0	9.6	14.4	26.0
Total	737.7	125.5	14.4	877.6

Breakdown of revenue by application segment in the first half of 2018

€ million				
	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total
Construction Equipment	197.4	14.3		211.7
Material Handling	131.0	5.9		136.9
Automotive	15.5	13.7		29.2
Agricultural Machinery	109.5	2.3		111.8
Stationary Equipment	63.7	14.2		77.9
Service	93.1	61.8		154.9
Miscellaneous/Marine	3.4	8.7	-	12.1
Total	613.6	120.9	-	734.5

Breakdown of revenue by region

€ million		
	1-6/2018	1-6/2017
Europe/Middle East/Africa	628.7	522.6
Americas	169.3	141.0
Asia-Pacific	79.6	70.9
Total	877.6	734.5

2. WRITE-DOWN OF EQUITY-ACCOUNTED INVESTMENTS

Because of the write-downs carried out and the current intention to dispose of our stake in DEUTZ Dalian, the carrying amount of €21.0 million for the DEUTZ Dalian shares as at 30 June 2018, calculated using the equity method, was tested for impairment in accordance with IAS 36 and written down by €11.3 million to the recoverable amount of €9.7 million. Given the current intention to dispose of the shares, the recoverable amount was based on the proceeds that are expected to be generated from the sale. The recoverable amount was calculated in accordance with the third of the three levels of the IFRS 13 measurement hierarchy. The shares in DEUTZ Dalian are assigned to the DEUTZ Compact Engines segment.

3. INCOME TAXES

There was an income tax expense of €7.1 million in the first half of 2018 compared with a tax expense of €5.7 million in the comparable period of last year. This change is primarily due to the higher current tax expenses in the reporting period resulting from the significant improvement in net income.

4. OTHER COMPREHENSIVE INCOME

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

€ million	1-6/2018			1-6/2017 (adjusted)		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After Taxes
Amounts that will not be reclassified to the income statement in the future	-0.7	0.2	-0.5	3.2	-1.0	2.2
Remeasurements of defined benefit plans	-0.7	0.2	-0.5	3.2	-1.0	2.2
Amounts that will be reclassified to the income statement in the future if specific conditions are met	-1.0	0.6	-0.4	-1.0	-1.2	-2.2
Currency translation differences	0.8	-	0.8	-4.7	-	-4.7
thereof profit/loss on equity-accounted investments	0.3	-	0.3	-1.3	-	-1.3
Effective portion of change in fair value from cash flow hedges	-1.9	0.6	-1.3	3.9	-1.2	2.7
Fair value of financial instruments	0.1	-	0.1	-0.2	-	-0.2
Other comprehensive income	-1.7	0.8	-0.9	2.2	-2.2	-

The change in the comparative disclosures presented here from those presented in the interim report for 2017 is a result of the write-down on the DEUTZ (Dalian) Engine Co., Ltd., Dalian, China joint venture. See page 15 et seq. for further information.

A pre-tax gain of €0.7 million relating to cash flow hedges was reclassified to the income statement in the first six months of 2018 (H1 2017: pre-tax loss of €0.8 million).

5. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €32.4 million in the first half of the year (H1 2017: €25.4 million). This was broken down into €22.3 million (H1 2017: €16.6 million) on property, plant and equipment and €10.1 million (H1 2017: €8.8 million) on intangible assets.

Additions to property, plant and equipment were mainly in connection with replacement investment in machinery and tools. The additions also related to the manufacture of new engine series such as the TCD 2.2 model. The bulk of capital expenditure on intangible assets was channelled into the development of new engines.

Depreciation and amortisation amounted to €37.9 million (H1 2017: €41.9 million) while write-downs totalled €2.4 million (H1 2017: none). €1.9 million of the write-downs relate to capitalised development expenditure and €0.5 million to technical equipment and machines for an engine series that is already in production, and they are largely the result of changes in market forecasts. The impairment testing of these assets was carried out at the level of the cash-generating unit with which the engine series is associated. As at 30 June 2018, the recoverable amount of the engine series (corresponding to the value in use) amounted to €28.5 million. The pre-tax discount rate underlying the calculation was 9.2 per cent. The cash-generating unit affected by the impairment is assigned to the DEUTZ Compact Engines segment.

6. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

After a common understanding on the key commercial parameters of the sale of the equity investment in DEUTZ (Dalian) Engine Co., Ltd., Dalian, China had been reached with the joint venture partner, FAW, management decided that the 50 per cent stake would be sold to FAW. DEUTZ AG's management expects the deal to be completed in the second half of 2018. As the relevant criteria according to IFRS 5 were already fulfilled before the end of the reporting period, the previous carrying amount of €9.7 million for the shares in DEUTZ Dalian as at 30 June 2018, calculated using the equity method and impairment tested pursuant to IAS 36, was classified as held for sale. The impairment loss following an impairment test prior to reclassification amounted to €11.3 million. The cumulative currency translation differences recorded in other comprehensive income in connection with the equity investment in DEUTZ Dalian stood at €15.8 million as at 30 June 2018. These positive currency translation differences recorded in Group equity under other reserves will be reclassified to the income statement following the disposal of the shares in DEUTZ Dalian. As the shares are now classified as held for sale, the equity method will not be applied in the coming reporting periods. The equity investment in DEUTZ Dalian is assigned to the DEUTZ Compact Engines segment.

7. FINANCIAL DEBT

€ million	30 Jun 2018	31 Dec 2017
Non-current	27.9	28.1
Current	19.7	17.5
Total	47.6	45.6

Under non-current and current financial debt, the scheduled repayment of the loan from the European Investment Bank was offset by a new loan of €11.2 million taken out by our subsidiary DEUTZ Spain. This loan has an interest rate of 0.65 per cent and is repayable by April 2021. As the loan is being used for capital expenditure in Spain, the finance costs are being reimbursed by the Spanish government under a subsidy programme covering interest rates up to a maximum of 1.0 per cent.

OTHER INFORMATION

FINANCIAL INSTRUMENTS

The following table shows the carrying amounts of the individual financial assets and liabilities for each separate category of financial instrument, reconciled to the corresponding balance sheet item.

Financial instruments (assets)

30 Jun 2018	Measured at amortised cost	Measured at fair value		Assets not within the scope of IFRS 9	Carrying amount on the balance sheet
		Recognised as other com- prehensive income/loss	Measured at fair value through profit or loss	Carrying amount	
€ million					
Non-current financial assets	–	1.1	2.0	3.6	6.7
Current financial assets	275.2	–	26.2	19.5	320.9
Trade receivables	147.4	–	26.2	–	173.6
Other receivables and assets	12.2	–	–	19.5	31.7
Cash and cash equivalents	115.6	–	–	–	115.6

Financial instruments (assets)

31 Dec 2017	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	Carrying amount on the balance sheet
	Loans and receivables	Available- for-sale financial assets	Available- for-sale financial assets	Derivatives designated as hedging instruments (recog- nised as other com- prehensive income/ loss)	Held- for-trading financial assets	Carrying amount	
€ million							
Non-current financial assets	–	0.3	4.8	–	–	1.7	6.8
Current financial assets	304.5	–	–	1.2	0.1	16.5	322.3
Trade receivables	142.7	–	–	–	–	–	142.7
Other receivables and assets	18.0	–	–	1.2	0.1	16.5	35.8
Cash and cash equivalents	143.8	–	–	–	–	–	143.8

Financial instruments (liabilities)

30 Jun 2018	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IFRS 9	
€ million	Financial liabilities	Derivatives desig- nated as hedging instruments (rec- ognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
Non-current financial liabilities	38.4	0.2	–	1.9	40.5
Financial debt	26.8	–	–	1.1	27.9
Other liabilities	11.6	0.2	–	0.8	12.6
Current financial liabilities	285.7	0.9	0.2	14.5	301.3
Financial debt	19.7	–	–	–	19.7
Trade payables	210.7	–	–	–	210.7
Other liabilities	55.3	0.9	0.2	14.5	70.9

Financial instruments (liabilities)

31 Dec 2017	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
€ million	Financial liabilities	Derivatives desig- nated as hedging instruments (rec- ognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
Non-current financial liabilities	38.8	0.3	–	2.0	41.1
Financial debt	27.1	–	–	1.0	28.1
Other liabilities	11.7	0.3	–	1.0	13.0
Current financial liabilities	268.6	–	–	14.7	283.3
Financial debt	17.5	–	–	–	17.5
Trade payables	207.5	–	–	–	207.5
Other liabilities	43.6	–	–	14.7	58.3

The following table shows the carrying amounts and fair values of all financial instruments included in the consolidated financial statements that fall within the scope of IFRS 7 'Financial Instruments: Disclosures' and that are not reported at fair value.

€ million	30 Jun 2018		31 Dec 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	275.2	275.2	304.5	304.5
Trade receivables	147.4	147.4	142.7	142.7
Other receivables and assets	12.2	12.2	18.0	18.0
Cash and cash equivalents	115.6	115.6	143.8	143.8
Financial liabilities	324.1	325.7	308.4	310.4
Financial debt – liabilities to banks	47.6	49.2	45.6	47.6
Trade payables	210.7	210.7	207.5	207.5
Other liabilities	66.9	66.9	55.3	55.3

In the case of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities (due within one year), the carrying amounts are virtually the same as the fair values owing to the short residual maturity.

The fair value of non-current financial assets and liabilities is computed by discounting estimated future cash flows using arm's length discount rates and taking into account our own credit risk and that of our counterparties based on credit ratings and exchange rates on the balance sheet date.

The following table shows the assignment to the three levels of the IFRS 13 measurement hierarchy of the fair values as at the balance sheet date of financial assets and liabilities that were measured at fair value in the consolidated financial statements, or for which a fair value was calculated in the notes to the financial statements:

30 Jun 2018

€ million

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	3.1	3.1	3.1	–	–
Financial liabilities					
Currency forwards	1.1	1.1	–	1.1	–
Interest-rate swaps	0.2	0.2	–	0.2	–
Financial debt	46.5	48.1	–	–	48.1

31 Dec 2017

€ million

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	3.1	3.1	3.1	–	–
Available-for-sale financial assets measured at fair value	1.7	1.7	–	–	1.7
Financial liabilities					
Currency forwards	2.9	2.9	–	2.9	–
Interest-rate swaps	0.3	0.3	–	0.3	–
Financial debt	45.6	47.6	–	–	47.6

Level 1: Measurement is based on the price of identical assets or liabilities in active markets.

Level 2: Measurement is based on the price of a similar instrument in active markets/measurement using a method in which all the critical input factors are based on observable market data.

Level 3: Measurement using a method in which critical input factors are not based on observable market data.

The fair value of securities is derived from prices in active markets.

The fair value of derivative financial instruments (currency forwards and interest-rate swaps) is calculated over the remaining term of the instrument using current exchange rates, market interest rates and yield curves and taking into account our own credit risk and that of our counterparties. The disclosures are based on valuations by banks.

The available-for-sale financial assets measured at fair value as at 31 December 2017 relate to the equity investment in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China. As this company has ceased operations and is currently being wound up, the fair value of the equity investment was determined on the basis of the company's net asset value as at 31 December 2017. Following the initial application of IFRS 9 on 1 January 2018, the equity investment is classified as not falling under the scope of IFRS 9.

SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the first half of 2018 and the first half of 2017 is shown in the following table:

1-6/2018	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Reconciliation	DEUTZ Group
€ million						
External revenue	737.7	125.5	14.4	877.6	-	877.6
Intersegment revenue	-	0.3	-	0.3	-0.3	-
Total revenue	737.7	125.8	14.4	877.9	-0.3	877.6
Operating profit/loss (EBIT before exceptional items)	20.7	17.9	-5.2	33.4	-	33.4

1-6/2017¹⁾	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Reconciliation	DEUTZ Group
€ million						
External revenue	613.6	120.9	-	734.5	-	734.5
Intersegment revenue	-	-	-	-	-	-
Total revenue	613.6	120.9	-	734.5	-	734.5
Operating profit/loss (EBIT before exceptional items)	10.3	11.6	-0.2	21.7	-	21.7

Reconciliation from overall profit of the segments to net income

€ million	1-6/2018	1-6/2017 ¹⁾
Overall profit of the segments	33.4	21.7
Reconciliation	-	-
EBIT before exceptional items	33.4	21.7
Exceptional items	-	4.1
EBIT	33.4	25.8
Interest expenses, net	-1.0	-1.4
Net income before income taxes	32.4	24.4
Income taxes	-7.1	-5.7
Net income	25.3	18.7

¹⁾ Adjusted as a result of the write-downs on the DEUTZ Dalian joint venture. See page 15 et seq. in the notes to the interim consolidated financial statements for further details.

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.

The following table shows the volume of material business relationships with entities in which the DEUTZ Group holds significant investments:

€ million	Goods and services provided		Other expenses in connection with goods and services received		Receivables		Payables	
	1-6/2018	1-6/2017	1-6/2018	1-6/2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Associates	-	-	-	-	-	-	-	-
Joint ventures	2.9	4.4	-	-	1.5	1.4	-	-
Other investments	0.4	0.3	2.4	2.4	0.2	0.1	3.7	3.1
Total	3.3	4.7	2.4	2.4	1.7	1.5	3.7	3.1

The decrease in goods supplied and services rendered to joint ventures compared with the corresponding period of 2017 is primarily the result of the business relationship with our joint venture DEUTZ (Dalian) Engine Co., Ltd.

Impairment losses of €4.1 million were recognised on receivables due from joint ventures as at 30 June 2018 (31 December 2017: €3.8 million). As at 30 June 2018, impairment losses of €14.2 million (31 December 2017: €14.3 million) had been recognised on €14.5 million (31 December 2017: €14.4 million) of the Company's receivables due from other equity investments. The resulting expense related to impaired receivables due from other investments came to €0.2 million in the period under review (H1 2017: €0.1 million).

Some of these receivables and liabilities resulted from loans. Neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

Related parties also include the Supervisory Board and the Board of Management. No significant business relationships exist between members of these boards and the DEUTZ Group.

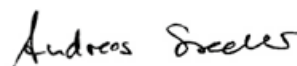
Further disclosures relating to the balance sheet, income statement and cash flow statement as well as the segment reporting can be found in the group management report.

Cologne, 27 July 2018

DEUTZ Aktiengesellschaft
The Board of Management



Dr Ing Frank Hiller



Dr Andreas Strecker



Michael Wellenzohn

RESPONSIBILITY STATEMENT

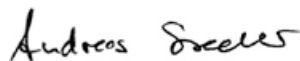
“To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the interim management report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

Cologne, 27 July 2018

DEUTZ Aktiengesellschaft
The Board of Management



Dr Ing Frank Hiller



Dr Andreas Strecker



Michael Wellenzohn

BESCHEINIGUNG NACH PRÜFERISCHER DURCHSICHT

An die DEUTZ Aktiengesellschaft, Köln,

Wir haben den verkürzten Konzernzwischenabschluss – bestehend aus Konzern-Gewinn- und Verlustrechnung, Konzern-Gesamtergebnisrechnung, Konzern-Bilanz, Konzern-Kapitalflussrechnung, Konzern-Eigenkapitalveränderungsrechnung, sowie ausgewählten erläuternden Anhangangaben – und den Konzern-Zwischenlagebericht der DEUTZ Aktiengesellschaft, Köln, für den Zeitraum vom 1. Januar 2018 bis 30. Juni 2018, die Bestandteile des Halbjahresfinanzberichts nach § 115 WpHG sind, einer prüferischen Durchsicht unterzogen. Die Aufstellung des verkürzten Konzernzwischenabschlusses nach den IFRS für Zwischenberichterstattung, wie sie in der EU anzuwenden sind, und des Konzernzwischenlageberichts nach den für Konzernzwischenlageberichte anwendbaren Vorschriften des WpHG liegt in der Verantwortung des Vorstands der Gesellschaft. Unsere Aufgabe ist es, eine Bescheinigung zu dem verkürzten Konzernzwischenabschluss und dem Konzernzwischenlagebericht auf der Grundlage unserer prüferischen Durchsicht abzugeben.

Wir haben die prüferische Durchsicht des verkürzten Konzernzwischenabschlusses und des Konzernzwischenlageberichts unter Beachtung der vom Institut der Wirtschaftsprüfer (IDW) festgestellten deutschen Grundsätze für die prüferische Durchsicht von Abschlüssen vorgenommen. Danach ist die prüferische Durchsicht so zu planen und durchzuführen, dass wir bei kritischer Würdigung mit einer gewissen Sicherheit ausschließen können, dass der verkürzte Konzernzwischenabschluss in wesentlichen Belangen nicht in Übereinstimmung mit den IFRS für Zwischenberichterstattung, wie sie in der EU anzuwenden sind,

und der Konzernzwischenlagebericht in wesentlichen Belangen nicht in Übereinstimmung mit den für Konzernzwischenlageberichte anwendbaren Vorschriften des WpHG aufgestellt worden sind. Eine prüferische Durchsicht beschränkt sich in erster Linie auf Befragungen von Mitarbeitern der Gesellschaft und auf analytische Beurteilungen und bietet deshalb nicht die durch eine Abschlussprüfung erreichbare Sicherheit. Da wir auftragsgemäß keine Abschlussprüfung vorgenommen haben, können wir einen Bestätigungsvermerk nicht erteilen.

Auf der Grundlage unserer prüferischen Durchsicht sind uns keine Sachverhalte bekannt geworden, die uns zu der Annahme veranlassen, dass der verkürzte Konzernzwischenabschluss in wesentlichen Belangen nicht in Übereinstimmung mit den IFRS für Zwischenberichterstattung, wie sie in der EU anzuwenden sind, oder dass der Konzernzwischenlagebericht in wesentlichen Belangen nicht in Übereinstimmung mit den für Konzernzwischenlageberichte anwendbaren Vorschriften des WpHG aufgestellt worden sind.

Köln, den 30. Juli 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki ppa. Gerd Tolls
Wirtschaftsprüfer Wirtschaftsprüfer

FINANCIAL CALENDAR

2018

8 November	Interim management statement for the first to third quarter of 2018 Conference call with analysts and investors
------------	--

2019

14 March	Annual Results Press Conference Analysts' meeting 2018 annual financial statements
30 April	Annual General Meeting in Cologne
7 May	Interim management statement for the first quarter of 2019 Conference call with analysts and investors
1 August	Interim report for the first half of 2019 Conference call with analysts and investors
7 November	Interim management statement for the first to third quarter of 2019 Conference call with analysts and investors

CONTACT

DEUTZ AG

Ottostrasse 1
51149 Cologne (Porz-Eil), Germany

Investor Relations

Tel: +49 (0)221 822 2491
Fax: +49 (0)221 822 152 491
Email: ir@deutz.com
Website: www.deutz.com

Public Relations

Tel: +49 (0)221 822 2493
Fax: +49 (0)221 822 152 493
Email: presse@deutz.com
Website: www.deutz.com

CREDITS

Published by

DEUTZ AG
51057 Cologne, Germany

Concept and layout

Kirchhoff Consult AG Hamburg, Germany

This interim report is also available in German.
It is only available in digital form. This interim report
was published on 2 August 2018.

DEUTZ AG

51057 Cologne, Germany
www.deutz.com