



**INTERIM MANAGEMENT
STATEMENT**

1st quarter of 2018

DEUTZ AT A GLANCE

DEUTZ Group: Overview

€ million

	1-3/2018	1-3/2017
New orders	574.9	403.2
Unit sales (units)	48,458	37,153
Revenue	414.5	352.5
EBITDA	40.9	38.7
EBITDA before exceptional items	40.9	28.7
EBIT	21.7	17.6
EBIT before exceptional items	21.7	7.6
EBIT margin (%)	5.2	5.0
EBIT margin before exceptional items (%)	5.2	2.2
Net income	18.2	15.4
Earnings per share (€)	0.15	0.13
Total assets	1,258.0	1,101.0
Non-current assets	533.6	469.5
Equity	616.4	507.2
Equity ratio (%)	49.0	46.1
Cash flow from operating activities	10.1	56.2
Free cash flow ¹⁾	-9.1	39.7
Net financial position ²⁾	88.9	70.0
Working capital ³⁾	260.0	197.1
Working capital ratio (average, %) ⁴⁾	13.9	16.5
Capital expenditure (excl. capitalisation of R&D, after deducting grants)	13.7	8.6
Depreciation and amortisation	19.2	21.1
Research and development expenditure (after deducting grants)	18.7	16.5
thereof capitalised	4.3	3.6
Employees (number at 31 Mar)	4,245	3,675

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 (average, %): average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.

DEUTZ Group: Segments

€ million

	1-3/2018	1-3/2017
New orders		
DEUTZ Compact Engines	492.9	326.3
DEUTZ Customised Solutions	76.7	76.9
Other	5.3	-
Total	574.9	403.2
Unit sales (units)		
DEUTZ Compact Engines	44,563	35,321
DEUTZ Customised Solutions	1,762	1,832
Other	2,133	-
Total	48,458	37,153
Revenue		
DEUTZ Compact Engines	352.0	294.1
DEUTZ Customised Solutions	57.7	58.4
Other	4.8	-
Total	414.5	352.5
EBIT before exceptional items		
DEUTZ Compact Engines	17.0	1.5
DEUTZ Customised Solutions	7.7	6.4
Other	-3.0	-0.3
Total	21.7	7.6

SUMMARY

“2018 has got off to a very good start from an operational perspective,” says Dr Frank Hiller, Chairman of the DEUTZ Board of Management. “And DEUTZ has made successful progress from a strategic standpoint too. The recent presentation of our first off-highway hybrid concept at the Intermat trade fair in Paris was a milestone in this regard. Our E-DEUTZ strategy launched in 2017 is really beginning to take off now.”

- New orders rise by 42.6 per cent compared with the first quarter of 2017, reaching €574.9 million
- Revenue, at €414.5 million, is 17.6 per cent higher than in the prior-year period
- Operating profit (EBIT before exceptional items) advances by €14.1 million to €21.7 million
- Earnings per share improves from €0.13 to €0.15
- The carrying amounts for the DEUTZ Dalian joint venture are under review, which could lead to write-downs in DEUTZ's consolidated financial statements in the order of €16 million to €32 million
- Forecast confirmed: marked rise in revenue and, subject to the outcome of the aforementioned review of carrying amounts for DEUTZ Dalian, moderate increase in the EBIT margin before exceptional items expected for 2018 as a whole
- DEUTZ TCD 9.0 named diesel of the year by the DIESEL trade magazine

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

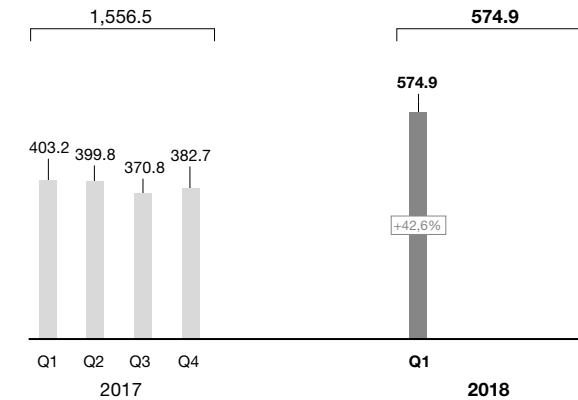
NEW ORDERS

Exceptionally high volume of new orders DEUTZ received significantly more orders in the first quarter of 2018 than in the equivalent period of the prior year. This was attributable not only to the favourable business environment but also, in particular, to a change in customers' ordering patterns. In the 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.

As at 31 March 2018, orders on hand stood at €427.5 million, which was 79.0 per cent higher than a year earlier (31 March 2017: €238.8 million).

DEUTZ Group: New orders by quarter

€ million

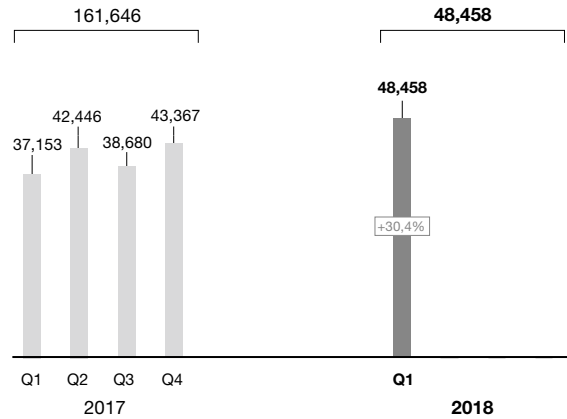


UNIT SALES

Unit sales up by nearly one third Unit sales at DEUTZ rose by 30.4 per cent year on year in the first three months of 2018. The total included 2,133 electric motors sold by the Torqueado brand in the reporting quarter. Unit sales in our largest market, EMEA (Europe, Middle East and Africa), climbed by 26.5 per cent year on year to 33,035 engines. Sales of engines rose by 44.6 per cent to 11,252 units sold in the Americas and increased by 28.5 per cent to 4,171 engines in the Asia-Pacific region.

DEUTZ Group: Consolidated unit sales by quarter

units

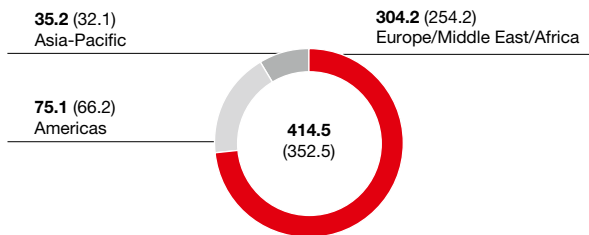


RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by region

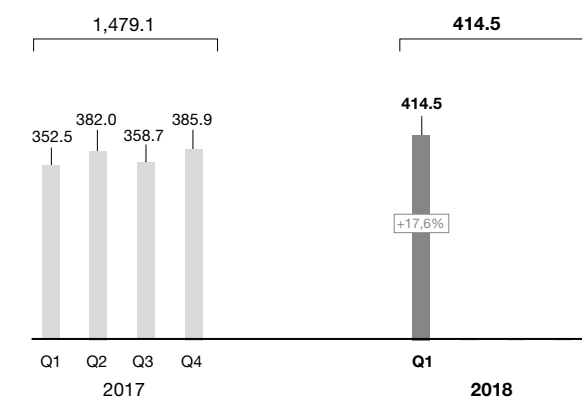
€ million (2017 figures)



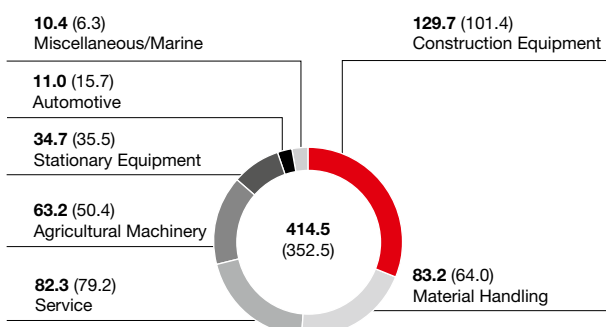
Sharp rise in revenue All regions contributed to the strong increase in revenue in the first quarter of 2018. However, the breakdown by application segment presented a mixed picture: whereas revenue rose in most application segments, as well as in the service business, there was a significant decline in the Automotive application segment. This is because we did not develop engines for the on-highway emissions standard Euro 6 in Europe and because business is increasingly shifting to China as planned. Revenue in the Stationary Equipment application segment fell just short of the prior-year level.

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

Assets	1-3/2018	1-3/2017	Change (%)
Revenue	414.5	352.5	17.6
Cost of sales	-335.5	-290.9	15.3
Research and development costs	-22.9	-23.2	-1.3
Selling and administrative expenses	-34.4	-28.7	19.9
Other operating income	4.9	13.5	-63.7
Other operating expenses	-5.4	-4.9	10.2
Profit/loss on equity-accounted investments	0.5	-0.7	-171.4
EBIT	21.7	17.6	23.3
Exceptional items	-	10.0	-100.0
Operating profit (EBIT before exceptional items)	21.7	7.6	185.5
Interest expenses, net	-0.6	-0.8	-25.0
Income taxes	-2.9	-1.4	107.1
Net income	18.2	15.4	18.2

Operating profit before depreciation and amortisation (EBITDA before exceptional items) advanced by €12.2 million to €40.9 million in the first quarter of 2018 (Q1 2017: €28.7 million) on the back of the much higher volume of business. The EBITDA margin (before exceptional items) improved from 8.1 per cent in the prior-year quarter to 9.9 per cent. Operating profit after depreciation and amortisation (EBIT before exceptional items) came to €21.7 million (Q1 2017: €7.6 million). This steep increase of €14.1 million was attributable to economies of scale resulting from the encouraging growth in the volume of business. Consequently, there was a sharp rise in the EBIT margin (before exceptional items) to 5.2 per cent in the first quarter of 2018 (Q1 2017: 2.2 per cent).

No exceptional items were recorded in the reporting quarter. This stood in contrast to the first quarter of 2017, when the disposal of the building lease of our subsidiary Ad. Strüver KG for a plot of land that was no longer being used for production purposes resulted in an exceptional item that added €10.0 million to income.

The increase in the cost of sales to €335.5 million was primarily attributable to the higher production volume and the associated rise in the cost of materials and in staff costs. The economies of scale resulted in a substantial improvement in the gross margin¹⁾ from 17.5 per cent in the first quarter of 2017 to 19.1 per cent in the reporting quarter.

¹⁾ Gross margin: ratio of revenue less cost of sales to revenue (excluding amortisation relating to capitalised development expenditure).

Other operating income declined by €8.6 million year on year to €4.9 million. This decrease was attributable to the positive impact in the first quarter of 2017 of the exceptional item relating to the sale of the building lease of our subsidiary Ad. Strüver KG.

Net income was up by €2.8 million on the prior-year period to €18.2 million due to the increase in operating profit (EBIT). This resulted in earnings per share of €0.15 (Q1 2017: €0.13).

BUSINESS PERFORMANCE IN THE SEGMENTS

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

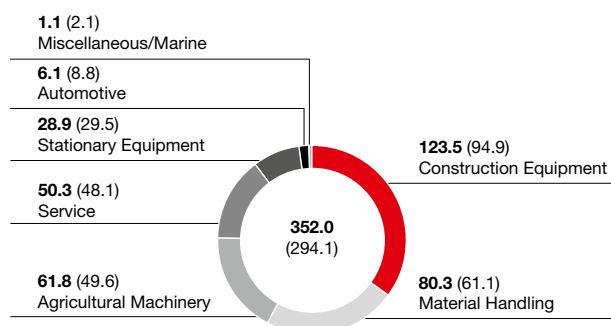
Significant expansion of business in the DCE segment New orders, unit sales and revenue all rose significantly on the prior-year period in the DEUTZ Compact Engines (DCE) segment. Operating profit in the segment increased to €17.0 million (Q1 2017: €1.5 million) in the first quarter of 2018, primarily because of the much higher volume of business.

DEUTZ Compact Engines

	1-3/2018	1-3/2017	Change (%)
New orders (€ million)	492.9	326.3	51.1
Unit sales (units)	44,563	35,321	26.2
Revenue (€ million)	352.0	294.1	19.7
EBIT (€ million)	17.0	1.5	> 100.0

DEUTZ Compact Engines: Revenue by application segment

€ million (2017 figures)



BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

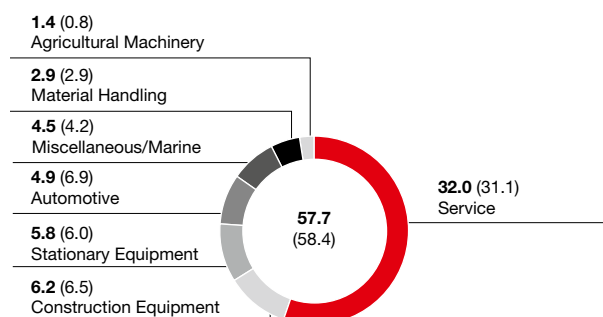
Business performance largely on a par with Q1 2017 In the DEUTZ Customised Solutions (DCS) segment, new orders, unit sales and revenue in the reporting period either matched or fell just short of the prior-year level. Operating profit for the segment came to €7.7 million in the first quarter of 2018, up by €1.3 million on the first quarter of the previous year. The biggest factor in this improved performance was the increase in the proportion of earnings generated by the high-margin service business.

DEUTZ Customised Solutions

	1-3/2018	1-3/2017	Change (%)
New orders (€ million)	76.7	76.9	-0.3
Unit sales (units)	1,762	1,832	-3.8
Revenue (€ million)	57.7	58.4	-1.2
EBIT (€ million)	7.7	6.4	20.3

DEUTZ Customised Solutions: Revenue by application segment

€ million (2017 figures)



OTHER

In the period under review, the Other segment reported an operating loss of €3.0 million, a deterioration of €2.7 million compared with the first quarter of 2017. This decline was mainly due to the negative impact on earnings of the €3.5 million loss reported by Torqeedo. Torqeedo has been included in the consolidated financial statements of DEUTZ AG since the fourth quarter of 2017.

Other

	1-3/2018	1-3/2017	Change (%)
New orders (€ million)	5.3	-	-
Unit sales (units)	2,133	-	-
Revenue (€ million)	4.8	-	-
EBIT (€ million)	-3.0	-0.3	-

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

€ million	1-3/2018	1-3/2017	Change (%)
Cash flow from operating activities	10.1	56.2	-82.0
Cash flow from investing activities	-18.6	-15.6	-19.2
Cash flow from financing activities	-5.9	-6.2	4.8
Change in cash and cash equivalents	-14.4	34.4	-141.9
Free cash flow ¹⁾ from continuing operations	-9.1	39.7	-122.9
Net financial position ²⁾ at 31 Mar/31 Dec	88.9	98.2	-9.5

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.

Despite the higher volume of business, cash flow from operating activities decreased significantly in comparison with the first quarter of 2017. This was primarily due to the sharp increase in working capital in the first quarter of 2018. By contrast, net cash used for investing activities was slightly above the level reported in the first quarter of the prior year because of the increase in capital spending on property, plant and equipment and intangible assets. Free cash flow decreased due to 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 €33.7 million.

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

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

NET ASSETS**Overview of the DEUTZ Group's assets**

€ million	1-3/2018	1-3/2017	Change (%)
Non-current assets	603.9	603.4	-
Current assets	653.7	609.3	7.0
Assets classified as held for sale	0.4	0.4	-
Total assets	1,258.0	1,213.1	4.0
Equity	616.4	599.2	3.0
Non-current liabilities	236.5	240.4	-1.6
Current liabilities	405.1	373.5	9.0
Total equity and liabilities	1,258.0	1,213.1	4.0
Working capital ¹⁾ at 31 Mar/31 Dec (€ million)	260.0	222.2	17.0
Working capital ratio at 31 Mar/31 Dec (balance sheet date, %)	16.9	15.0	-
Working capital ratio at 31 Mar/31 Dec (average, %)	13.9	13.4	-
Equity ratio ²⁾ at 31 Mar/31 Dec (%)	49.0	49.4	-

¹⁾ Working capital: inventories plus trade receivables less trade payables.

²⁾ Equity ratio: equity/total equity and liabilities.

The higher volumes of production and revenue resulted in a sharp increase in inventories and trade receivables. Consequently, working capital²⁾ rose by €62.9 million to €260.0 million as at 31 March 2018 despite the increase in trade payables, which was also attributable to the greater volume of business.

RESEARCH AND DEVELOPMENT

R&D spending higher than in the prior year Research and development expenditure after reimbursements totalled €18.7 million in the first three months of 2018, up by 13.3 per cent on the first quarter of 2017. The expansion of our product range was the main reason for this planned increase.

²⁾ Inventories plus trade receivables less trade payables.

Research and development

	1-3/2018	1-3/2017	Change (%)
R&D expenditure (after deducting grants, € million)	18.7	16.5	13.3
thereof DCE (€ million)	16.3	16.0	1.9
thereof DCS (€ million)	1.0	0.5	100.0
thereof Other (€ million)	1.4	-	-
R&D ratio (as a percentage of revenue)	4.5	4.7	-

EMPLOYEES

More employees in the DEUTZ Group The number of employees working for the DEUTZ Group increased by 570, or 15.5 per cent, compared with 31 March 2017. 211 of these new employees resulted from the acquisition of Torqeedo and DEUTZ Italy (formerly IML Motori S.r.l.). The growth in the volume of business was also a factor. The number of contract workers stood at 491, an increase of 173 on the figure for 31 March 2017.

Employees

Headcount	31 Mar 2018	31 Mar 2017	Change (%)
Cologne	2,428	2,193	10.7
Ulm	451	414	8.9
Other	258	215	20.0
In Germany	3,137	2,822	11.2
Outside Germany	1,108	853	29.9
Total	4,245	3,675	15.5

REVIEW OF CARRYING AMOUNTS AT THE DEUTZ DALIAN JOINT VENTURE

In the course of the review, initiated by the DEUTZ AG Board of Management, of the strategic options for the joint venture DEUTZ (Dalian) Engine Co., Ltd., headquartered in Dalian, China, the audit firm engaged to conduct the review notified DEUTZ AG after the balance sheet date of the suspicion that various carrying amounts on the joint venture's balance sheet needed to be adjusted downward. Preliminary estimates reveal the need for an adjustment that could lead to possible write-downs in the DEUTZ Group's consolidated financial statements in the order of €16 million to €32 million. The carrying amounts in question predominantly relate to transactions carried out in 2011 to 2013. DEUTZ Dalian is accounted for under the equity method in the DEUTZ Group's consolidated financial statements. The final results of this review are not yet available.

DEUTZ Dalian's operational revenue grew by 22 per cent in the first quarter of 2018 to reach €91.6 million (up by 29 per cent in local currency), while profits rose by €2.7 million to €1.0 million.

OUTLOOK

Forecast confirmed In 2018, DEUTZ's engine business will benefit from the robust global economy and positive unit sales trends 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.

We anticipate a marked rise in revenue for 2018 overall. This increase will be fuelled by the DCE segment, whereas we expect the DCS segment's revenue to hold steady. Subject to the final outcome of the review of our joint venture DEUTZ Dalian, we are retaining our forecast of a moderate increase in the EBIT margin (before exceptional items) in comparison with 2017.

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.

FINANCIAL INFORMATION 1ST QUARTER OF 2018

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million	1-3/2018	1-3/2017
Revenue	414.5	352.5
Cost of sales	-335.5	-290.9
Research and development costs	-22.9	-23.2
Selling expenses	-23.3	-18.5
General and administrative expenses	-11.1	-10.2
Other operating income	4.9	13.5
Other operating expenses	-5.4	-4.9
Profit/loss on equity-accounted investments	0.5	-0.7
EBIT	21.7	17.6
thereof exceptional items	-	10.0
thereof operating profit (EBIT before exceptional items)	21.7	7.6
Interest expenses, net	-0.6	-0.8
thereof finance costs	-0.7	-0.9
Net income before income taxes	21.1	16.8
Income taxes	-2.9	-1.4
Net income	18.2	15.4
thereof attributable to shareholders of DEUTZ AG	18.2	15.4
thereof attributable to non-controlling interests	-	-
Earnings per share (basic/diluted, €)	0.15	0.13

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million	1-3/2018	1-3/2017
Net income	18.2	15.4
Amounts that will not be reclassified to the income statement in the future	-0.5	1.3
Remeasurements of defined benefit plans	-0.5	1.3
Amounts that will be reclassified to the income statement in the future if specific conditions are met	-0.5	0.7
Currency translation differences	-0.5	-0.3
<i>thereof profit/loss on equity-accounted investments</i>	0.2	-0.2
Effective portion of change in fair value from cash flow hedges	-	0.9
Change in fair value of available-for-sale financial instruments	-	0.1
Other comprehensive income, net of tax	-1.0	2.0
Comprehensive income	17.2	17.4
thereof attributable to shareholders of DEUTZ AG	17.2	17.4
thereof attributable to non-controlling interests	-	-

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

	31 Mar 2018	31 Dec 2017
Assets		
Property, plant and equipment	275.0	273.4
Intangible assets	210.3	213.2
Equity-accounted investments	41.6	40.8
Other financial assets	6.7	6.8
Non-current assets (before deferred tax assets)	533.6	534.2
Deferred tax assets	70.3	69.2
Non-current assets	603.9	603.4
Inventories	317.4	287.0
Trade receivables	165.6	142.7
Other receivables and assets	41.4	35.8
Cash and cash equivalents	129.3	143.8
Current assets	653.7	609.3
Non-current assets classified as held for sale	0.4	0.4
Total assets	1,258.0	1,213.1
Equity and liabilities		
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	11.3	11.8
Retained earnings and accumulated income	267.1	249.4
Equity attributable to shareholders of DEUTZ AG	616.2	599.0
Non-controlling interests	0.2	0.2
Equity	616.4	599.2
Provisions for pensions and other post-retirement benefits	160.4	162.9
Deferred tax liabilities	0.2	0.2
Other provisions	38.8	36.2
Financial debt	24.3	28.1
Other liabilities	12.8	13.0
Non-current liabilities	236.5	240.4
Provisions for pensions and other post-retirement benefits	13.5	13.5
Provision for current income taxes	17.7	18.3
Other provisions	65.5	58.4
Financial debt	16.1	17.5
Trade payables	223.0	207.5
Other liabilities	69.3	58.3
Current liabilities	405.1	373.5
Total equity and liabilities	1,258.0	1,213.1

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million

	1-3/2018	1-3/2017
EBIT	21.7	17.6
Income taxes paid	-3.5	-2.0
Depreciation, amortisation and impairment of non-current assets	19.2	21.1
Profit/loss on equity-accounted investments	-0.5	0.7
Other non-cash income and expenses	-	0.1
Change in working capital	-39.9	9.7
Change in inventories	-32.4	-1.9
Change in trade receivables	-23.8	-22.7
Change in trade payables	16.3	34.3
Change in other receivables and other current assets	-6.7	6.3
Change in provisions and other liabilities (excluding financial liabilities)	19.8	2.7
Cash flow from operating activities	10.1	56.2
Capital expenditure on intangible assets, property, plant and equipment	-18.6	-16.0
Proceeds from the sale of non-current assets	-	0.4
Cash flow from investing activities	-18.6	-15.6
Interest income	0.1	-
Interest expense	-0.7	-0.9
Repayment of capital contributions to non-controlling interests	-	-1.3
Repayments of loans	-5.3	-4.0
Cash flow from financing activities	-5.9	-6.2
Cash flow from operating activities	10.1	56.2
Cash flow from investing activities	-18.6	-15.6
Cash flow from financing activities	-5.9	-6.2
Change in cash and cash equivalents	-14.4	34.4
Cash and cash equivalents at 1 Jan	143.8	91.8
Change in cash and cash equivalents	-14.4	34.4
Change in cash and cash equivalents related to exchange rates	-0.1	0.1
Cash and cash equivalents at 31 Mar	129.3	126.3

FINANCIAL CALENDAR

2018

2 August 2018	Interim report for the first half of 2018 Conference call with analysts and investors
8 November 2018	Interim management statement for the first to third quarter of 2018 Conference call with analysts and investors

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