

Press release

Cologne, 3 July 2018

DEUTZ sets a course for further growth in China

- DEUTZ intends to withdraw from the joint venture with FAW
- DEUTZ Dalian and its sale in 2018 are not expected to significantly impact on earnings
- Talks with new local partners are at an advanced stage

DEUTZ AG is reorganising its presence in China, the world's largest engine market, in order to make better use of opportunities there in future. The Board of Management decided today to fully withdraw from the DEUTZ Dalian joint venture and to sell its 50 per cent stake in the company to the joint venture partner FAW, after DEUTZ AG and FAW reached a common understanding of the commercial key aspects. The planned transaction is subject to the approval of the Supervisory Board of DEUTZ AG and should be completed in the second half of 2018. DEUTZ will still be able to obtain engines for off-highway applications from DEUTZ Dalian. FAW and DEUTZ will continue to cooperate in a spirit of partnership going forward.

This year, DEUTZ expects proceeds of almost €10 million from the disposal of the DEUTZ Dalian joint venture and from related licensing income. In the first half of 2018, earnings are likely to be reduced by a sum in the high single-digit or low double-digit millions of euros. However, the proceeds from the disposal are expected to largely offset, if not exceed, this sum over the course of 2018. As a result, the DEUTZ Dalian joint venture and its sale are not expected to significantly impact on earnings this year.

As at 31 December 2017, DEUTZ Dalian (DDE) was included in the consolidated financial statements at a carrying amount of €38.4 million. Of this total, €15.5 million was attributable to positive exchange differences, which are recognised in other comprehensive income and, in the event of disposal, are reclassified to profit or loss. From a financial perspective, the remaining carrying amount on the consolidated balance sheet – after reclassification of the exchange differences to profit or loss – will thus be just under €23 million.

Back in April 2018, DEUTZ had announced that it was reviewing the joint venture's carrying amounts as part of the review of strategic options. The resulting valuation adjustments, which had been calculated in April to be in the range of €16 million to €32 million, would – from a financial perspective – now be limited to around €23 million following the implementation of the planned sale of the DDE shares. Based on the information currently available, this will be the size of the write-down of the joint venture's carrying amount in the DEUTZ

consolidated financial statements. It is currently anticipated that the adjustments will relate to prior periods to a significant extent. DEUTZ will provide details of the finalised valuation adjustments when they are disclosed in the interim report for the first half of 2018, which will be published on 2 August 2018.

A few months ago, DEUTZ appointed Christian Zürnstein as the new CEO for the Asia-Pacific region. He has an extensive track record in the Chinese market and is based in Shanghai, China. Under Zürnstein's leadership, DEUTZ AG will step up its sales activities in China and significantly expand its network of dealers.

“By making changes to our market presence, we want to generate stronger growth and be more successful in China going forward,” explains Dr Frank Hiller, Chairman of the DEUTZ Board of Management. “We believe that the Chinese market offers very good opportunities for us and our innovative technology, including interesting potential for alliances. At the same time, we are withdrawing from activities that have not lived up to our expectations in the past. This clears the way for a strategic realignment of our operations in China.” Talks on new alliances with major local partners in the construction equipment and agricultural machinery industries have already reached an advanced stage.

Future opportunities will arise for DEUTZ in the Chinese market as a result of implementation of the China 4 emissions standard for off-highway applications, which has been brought forward to 2020. China 4 is similar to European emissions requirements, making it one of the strictest emissions standards in the world. DEUTZ already has the technology needed for this standard in the off-highway market, something that represents a huge challenge for many local market players – particularly in light of the short implementation period. This will create new market opportunities for DEUTZ and open up promising possibilities for alliances that are currently being negotiated with leading Chinese equipment manufacturers. Consequently, DEUTZ will continue not only with its sales activities but also its own production operations in China.

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