DEUTZ AG, Cologne

Dr Helmut Leube
Chairman of the Management Board of DEUTZ AG

Speech
for the Annual General Meeting
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Congress-Centrum Koelnmesse

Check against delivery.

NOT TO BE RELEASED BEFORE
21 May 2008, 11.00 am

Dear
shareholders and shareholder representatives,
guests and friends of our company,
ladies and gentlemen,

It is a great pleasure for me and my colleagues on the Management Board to welcome you to the 2008 Annual General Meeting of DEUTZ AG. I am delighted to see that so many of you have made your way to Cologne to attend today's meeting. For me personally, in particular, this is proof positive of your keen interest in our company because, as you will know, today's Annual General Meeting is my first as chairman of the Company's Management Board. I would like to extend an especially warm welcome to our current and former members of staff and those media representatives who are joining us today.

Ladies and gentlemen,

The main purpose of today's meeting is to review the Company's financial results for 2007. Furthermore, we want to give you our forecasts for the current financial year and explain our strategic objectives and growth targets for the coming years.

Review of 2007

2007 was an outstanding year for DEUTZ and was characterised by exceptionally strong growth and key strategic decisions. Orders, unit sales and revenue all easily exceeded our forecasts and we widened our operating margin for the fourth year running. The volume of new orders received by the DEUTZ Group grew by 22.2 per cent year on year. We are also proud to announce that we sold 286,000 engines, a year-on-year increase of 21 per cent. The high level of our new orders and unit sales was reflected in our revenue, which grew by 29 per cent to €1.5 billion in 2007. We naturally benefited here from the strong performance of the engineering sector and from the resultant sharp rise in demand from our customers, especially in segments such as construction equipment, agricultural machinery and commercial vehicles. Building on the sharp rise in revenue, our operating profit (EBIT) grew by 43 per cent to €95.5 million.

I'd now like to briefly take you through the most important events of 2007.

One key milestone was our strategic decision to focus on our core competence, i.e. the production of compact diesel engines, which we implemented by selling DEUTZ Power Systems on 30 September of last year. As this division lacked synergies with our core business and was subject to different business processes, customer profiles and market conditions, this was the right step to take to secure DEUTZ's future as an independent manufacturer of compact engines. We earned a post-tax gain of €118 million by selling our business in gas engines and diesel engines used for decentralised power generation to the private equity company 3i for a price of €360 million. We will invest the proceeds of this disposal in the ongoing implementation of our growth and internationalisation strategy in our compact-engines business.

A further highlight was the successful launch of our DEUTZ Dalian joint venture in China as scheduled on 1 August last year. I will be looking at this issue in more detail a bit later. By setting up this joint venture in collaboration with our Chinese partner FAW Jiefang, one of China's largest suppliers of commercial vehicles, we have significantly increased our footprint in the Chinese market. This enables us to exploit major growth potential for the future in one of the world's fastest-growing regions.

The first year of series production of our new TCD 2013 4V engine, of which we manufactured over 31,000 units, was also highly successful. Furthermore, we continued to expand our particularly profitable service business in 2007.

As you can see 2007 was an outstanding year and the outcome of the successful strategy that has laid the foundations for this performance over the past few years. We intend to pass on part of this success to you, our shareholders. Given the Company's solid financial position and financial performance in 2007, it is now in a position to distribute a dividend again. We therefore intend to pay a dividend to DEUTZ shareholders for the first time in over 20 years. You will be asked to vote on our proposal to pay a dividend of 40 cents per share, 20 cents of which would be a special dividend from the proceeds of the disposal of DEUTZ Power Systems. This marks a significant milestone in the history of DEUTZ.

Let's now turn our attention to the development of the DEUTZ share price. We have to admit that we were not satisfied with its performance in 2007. Despite receiving a boost from the sale of DEUTZ Power Systems and the Company's good quarterly results, our shares lost a third of their value and underperformed our benchmark MDAX and Prime Industrial indices. However, things looked completely different in the first quarter of 2008, when DEUTZ's shares outperformed the MDAX by roughly 16 per cent and the Prime Industrial by as much as 33 per cent. We are therefore convinced that the capital markets have recognised the fact that DEUTZ is on the right track, and we will continue to do everything we can to convince others of this view.

Business performance in 2007

I'd now like to continue my review of the Company's business in 2007 by looking in more detail at the individual components of last year's consolidated results.

A regional breakdown illustrates the fact that we continue to command a strong position in the European market, where our revenue rose sharply in both absolute and relative terms on the back of the commercial-vehicle engine we produce for Volvo. The commercial-vehicle engine series went into production in 2006, with 2007 being the first full year of production. Consequently, revenue in Europe – including Germany – rose over the year to €1,104.4 million, which equates to 73 per cent of total revenue. A substantial increase in business with new customers in the commercial vehicles, agricultural machinery and construction equipment industries in Eastern Europe also had a positive impact. Long-term infrastructure measures and the constantly growing volume of road transport and traffic in this region should ensure that this trend continues. Business volumes in North America fell slightly during the reporting period owing to exchange rates and accounted for just under 14 per cent of total revenue. I would especially like to highlight the strong growth achieved in the Asia-Pacific region, where we raised our share of market revenue to 8.1 per cent. This was largely a result of our growing supplies of engines to Chinese customers. However, this situation will change over time as the DEUTZ Dalian joint venture steps up its supplies to this region and because we will not consolidate this revenue since we only hold 50 per cent of the shares in this venture.

Let's now look at this joint venture in a little more detail.

As I already mentioned, this joint venture commenced trading on schedule on 1 August last year. The units it produces are supplied to FAW – its largest Chinese customer – and to other Chinese and established DEUTZ customers. We are also keen to acquire further attractive Chinese customers and have already signed our first supply agreements. We have invested a total of €58 million in DEUTZ Dalian, which now employs almost 2,000 people. In its first five months it manufactured 42,000 engines altogether, 3,000 of them featuring DEUTZ's cutting-edge technology. DEUTZ Dalian generated revenue of €80 million in this five-month period already. And, in its first year of operation, the decision was taken to increase crankcase production for four to eight-litre engines from 50,000 to 60,000 units. This additional capacity is scheduled to come on stream in the second half of 2009.

Dear shareholders,

The expansion of our business in terms of revenue growth is only one sign of a successful financial year. Another very important one is, of course, the improvement of our profitability. And here, as well, I'm in the enviable position of being able to announce a significant year-on-year improvement. We increased our operating profit by 43 per cent to €95.5 million, thereby improving our EBIT margin by 0.7 percentage points to 6.3 per cent. We are pleased with this return, even though we did not quite achieve our original target of 7 per cent. This encouraging level of growth – not only at DEUTZ but throughout the engineering sector – meant that our production capacities, as well as those of our suppliers and partners, were fully utilised. This resulted in supply bottlenecks with both internal and external deliveries of components, which in turn caused cost inefficiencies and longer delivery periods. This eventually led to higher logistics costs. By working closely with our suppliers, however, we managed to largely eradicate these capacity bottlenecks over the course of the year. To achieve this we invested some €86 million in property, plant and equipment and intangible assets, established additional sources of supply and continued to make our engine production more flexible by introducing new shift-working patterns.

The DEUTZ Group's cost-of-materials ratio rose from 62.9 per cent to 66.2 per cent in 2007. This was due to the greater use of added-value technology components for the engine series manufactured in accordance with Tier 3 emissions standards and to the increased production of the recently launched engine series that use a higher proportion of materials.

Net income on continuing operations advanced by 54 per cent to €59.4 million compared with €38.5 million in 2006. Because DEUTZ Power Systems was sold with effect from 30 September 2007, we report this segment's income and expenses separately as net income on discontinued operations, which amounted to €123.9 million during the reporting period and comprised income of €147.1 million from the sale of DEUTZ Power Systems plus the segment's operating income of €9.4 million, minus income taxes. DEUTZ therefore increased its total net income to €183.3 million. This equated to basic earnings per share of €1.56, €0.51 of which stemmed from continuing operations and €1.05 from discontinued operations.

Ladies and Gentlemen,

I'd now like to focus briefly on our two segments and mention a few key figures to explain the 2007 financial year.

Our Compact Engines segment performed particularly well in 2007, selling approximately 250,000 engines and raising its revenue by almost 37 per cent to €1.2 billion. Our alliances with strategic partners and major equipment manufacturers have made a valuable contribution to helping us achieve such strong growth in this segment in recent years. In 2007 we demerged DEUTZ Customised Solutions from our Compact Engines business in order to focus this segment on profitable niche applications based on air-cooled engines. The results so far are highly encouraging: the start-up of assembly operations following their relocation from Cologne to Ulm was a great success, as was our customer presentation of a new range of gensets based on air-cooled engines.

The **Compact Engines business** generated strong growth throughout the year under review, which was mainly attributable to the first full year of production for the commercial-vehicle engine manufactured for Volvo. A further reason was the benign economic climate, which stimulated demand for engines for construction equipment, material-handling equipment and tractors. The volume of new orders grew accordingly by 26.7 per cent to €1.2 billion. Sales of engines rose sharply by 25.0 per cent to 248,971 units. Unit sales of four to eight-litre engines performed particularly well, rising by 38.2 per cent.

The strong growth in unit sales caused segment revenue to rise sharply to €1.2 billion, which was a year-on-year growth of 36.6 per cent. The increase was particularly noticeable in the Automotive application segment. Boosted by the high levels of revenue from the sale of commercial-vehicle engines, the revenue of roughly €238 million generated by this segment was almost three times the level achieved in 2006. The main revenue driver in the Compact Engines segment was mobile machinery, which once again generated double-digit revenue growth (34 per cent). In addition, revenue generated by engines in the Stationary Equipment application segment, such as gensets, compressors and pumps, saw an encouraging increase of around 10 per cent. Service revenue also continued to grow significantly, rising by almost 20 per cent. Apart from the contribution from the highly successful spare-parts business, this was the result of numerous activities that we initiated through our service organisation.

The substantial revenue growth in the new-engines business in particular caused the segment operating profit to rise by 19.8 per cent to €45.3 million. The tens of millions of euros in additional logistics costs needed to ensure a sufficient supply of parts and the first-time consolidation of the joint venture under the equity method reduced the EBIT margin by roughly half a percentage point to 3.8 per cent.

The volume of new orders received by **DEUTZ Customised Solutions** in 2007 increased by 9.8 per cent year on year to €380.6 million, thereby exceeding our forecasts. After having sold 37,477 engines in 2006 this segment sold 36,890 units in 2007. Despite this slight fall in unit sales, the high proportion of engines with a capacity greater than eight litres resulted in a revenue growth of 7.3 per cent to €338.2 million.

However, performance varied from one application segment to another. Whereas revenue from Stationary Equipment engines declined by 20.2 per cent owing to a downturn in project-related business and a contraction in the US business caused by exchange rates, revenue in the Automotive application segment rose by 28.3 per cent, while revenue in the Mobile Machinery application segment grew by 16.6 per cent. The Agricultural Machinery application segment delivered an excellent performance, raising its revenue by 81.2 per cent. In the year under review, a significant number of engines were built in advance for several customers, the reason being that the Tier 3 emissions standard for engines with an output between 37 and 75kW was due to come into force on 1 January 2008. Service revenue also rose. The increase of 8.5 per cent was specifically attributable to the Xchange business involving reconditioned exchange parts and engines, which grew by an impressive 9.5 per cent. We also achieved a significant expansion in the spare-parts business.

Ladies and Gentlemen,

DEUTZ continues to grow, and this is reflected in its rising headcount. Overall, the Company employed 4,617 people worldwide in 2007, an increase of 286, or 6.6 per cent, on the figure for 2006. The vast majority of our staff worked in Germany, primarily at our production sites in Cologne and Ulm. An average of 366 people was employed on temporary contracts in 2007, which was an increase of 118 over 2006. Headcount was increased in response to the growing demand for manpower as a result of the sharp expansion in volumes.

In 2007 we continued to invest in our company's future by spending €56 million on research and development (R&D). The ratio of R&D spending to revenue consequently declined by 3.7 per cent. In future we will increase this figure in both absolute and relative terms because we know that technology leadership forms an integral part of DEUTZ's strategy, especially given the more sophisticated technologies needed to comply with the CO_2 emissions legislation passed in recent years.

Let me give you two concrete examples of our innovation in this field:

Although the current debate on reducing carbon emissions as well as the rising price of fuel have already produced alternative drive concepts for cars, the same cannot be said of mobile machinery. To meet this need, we have developed the **DEUTZ HYBRID DRIVE** engine, which combines a diesel engine with an electric motor and an electrical energy storage capability, thereby offering significant benefits for users. Some of the engine's special functionalities are, for example, that it regains energy on braking and is automatically stopped when idle. Customers who use this engine benefit from lower operating costs owing to its reduced fuel consumption and from improved performance due to its greater power. At the same time it emits less CO_2. This engine, which we presented at bauma – the world's largest exhibition of underground and construction equipment – in 2007, is currently at the development stage and is due to go into series production in 2010.

Another innovation that DEUTZ exhibited in 2007 – this time at the Agritechnica trade fair – was the **DEUTZ Natural Fuel Engine**. This made DEUTZ the first company in the world to produce an engine that runs on pure rapeseed oil while complying with the latest Tier 3 limits on carbon emissions. The engine's dual-tank system enables it to switch automatically between diesel fuel and rapeseed oil. Because no energy tax is payable on biofuels used in agriculture, the use of engines powered by rapeseed oil offers clear financial benefits for farmers. What's more, by using DEUTZ's rapeseed-oil engine we are actively helping to cut CO_2 emissions. This engine will go into series production in mid-2008.

You are more than welcome to inspect these two engines, which can be found in the foyer, respectively at the main entrance.

Ladies and Gentlemen,

These examples illustrate that we are unrelenting in our efforts to develop and refine our technologies in order to expand and consolidate our competitive position and our market leadership for the future.

I would like to conclude my comments on the Company's consolidated financial results for 2007 by adding one or two remarks about the balance sheet. The DEUTZ Group's balance sheet at the end of 2007 looked very different from the way it had at the end of the previous year. The main reason for this was the disposal of the DEUTZ Power Systems segment. The consolidated balance sheet no longer shows the assets and liabilities of DEUTZ Power Systems, while most of the sale price received is included under cash and cash equivalents. The realignment of the DEUTZ Group has also significantly altered the structure of the equity and liabilities side of the balance sheet. Equity increased to €557.1 million, primarily owing to the high level of net income, which included the effect of the disposal of DEUTZ Power Systems, and owing to the conversion of bonds and profit-sharing rights. The equity ratio at the end of 2007 was 40.4 per cent, a year-on-year improvement of over 9 percentage points.

By issuing bonds as part of a private placement in the United States in the early summer of 2007, we also obtained long-term, non-bank-based financing with maturities of five, seven and ten years. The bondholders are institutional investors in the US. By placing these securities before the US subprime mortgage crisis hit, we were able to tap a highly receptive capital market: the bond issue, initially worth US$ 150 million, was more than three times oversubscribed and was therefore increased to US$ 274 million. Our US dollar payments of interest and principal are hedged over the bond's entire maturity, which means that we are not exposed to any currency risk resulting from movements in the US dollar exchange rate against the euro. The proceeds have been used for the joint venture in China, the payment of compensation for the surrender of vested company pension rights, and the repayment of long-term bank debt.

Owing to the high level of cash flows received from the disposal of DEUTZ Power Systems, we ended the year under review with a positive net financial position of €89.7 million.

Ladies and Gentlemen,

We believe that sustainability is key to the development and performance of the DEUTZ Group, as evidenced by the major strategic decisions we have taken in recent years. We therefore pursue a policy of value-based management that makes this sustainability transparent for our shareholders. In this connection it is worth noting that in 2007 we raised our return on capital employed (ROCE) from 10.7 per cent to 13.5 per cent.

In 2007 we managed to keep our company on its path of growth while at the same time taking measures to ensure that it continues to be successful and profitable in future.

I'd like to make one more remark of a formal nature at this juncture. As in 2007, this year's group management report contains disclosures concerning arrangements that might significantly influence the success of any public takeover bid for DEUTZ AG. The Management Board considers that these arrangements are common for listed companies similar to DEUTZ AG.

Performance in Q1 2008

I'd now like to outline our company's performance in the first quarter of this year. In a nutshell: we got off to a good start, which has enabled us to continue where we left off last year. The DEUTZ Group raised its revenue by 18.4 per cent to €397.0 million. The corresponding figure for 2007 was €335.4 million (excluding DEUTZ Power Systems). This revenue growth was primarily driven by the success of the new TCD 2013 4V engine, of which we sold 30 per cent more units in the first quarter. Total unit sales amounted to roughly 73,000 engines. Although the volume of new orders remained at the high level of €433.3 million and in line with our forecasts, it was slightly down year on year owing to major one-off project orders in the DEUTZ Customised Solutions segment that had been included in Q1 2007. EBIT rose by 36.8 per cent to €19.7 million on the back of higher revenue and improved margins. The EBIT margin rose by 0.7 percentage points to 5.0 per cent in the first three months. Net income jumped by almost 70 per cent to €13.5 million.

Let's now look at the individual segments:

The **Compact Engines segment** increased its unit sales by 13.4 per cent, selling almost 65,000 engines. Its revenue rose accordingly by 18.2 per cent to €318.1 million on the back of stronger demand for four to eight-litre engines. Revenue in the Automotive application segment advanced by 17.6 per cent owing to the success of the new commercial-vehicle engine. Higher revenue and a wider margin on service business caused EBIT to jump by almost 48 per cent to €13.3 million, excluding the €3.2 million share of the loss attributable to our DEUTZ Dalian joint venture.

The **DEUTZ Customised Solutions** segment, which mainly comprises the business in air-cooled and eight-litre-plus engines, also contributed to the excellent performance in the first quarter. Since the first quarter of 2007 had been affected by the relocation of the production of air-cooled engines from Cologne to Ulm, the number of engines sold in Q1 2008 rose by 22.4 per cent to over 8,000 units. Demand was particularly strong in the Automotive and Mobile Machinery segments. Consequently, revenue grew by 19 per cent year on year to just under €80 million. EBIT surged by 76.9 per cent to €9.2 million owing to the absence of start-up costs incurred by the relocation of production and the consistently high proportion of business generated by services.

All in all we are very pleased with the Company's performance in the first quarter of this year, which demonstrates that we are on the right track. Our order books are healthy and we are looking to the future with some optimism.

Outlook for 2008 and growth prospects

Ladies and gentlemen,

The DEUTZ Group continued to perform well in the first quarter despite the fact that global economic conditions were often challenging. Given the encouraging performance of new orders to date, the sustained growth in our markets and our strong market position, we expect this year to continue successfully, with unit sales growing by around 10 per cent. This means that we aim to manufacture more than 300,000 engines for the first time in 2008. We are forecasting revenue growth between 10 and 15 per cent and an improvement in our operating profit. We hope to achieve an EBIT margin of roughly 7 per cent. We aim to generate double-digit growth in net income in both absolute and percentage terms.

We expect our DEUTZ Dalian joint venture to produce between 100,000 and 120,000 engines this year and to increase its revenue to more than €300 million.

We will continue to invest in research and development, on which we plan to spend roughly €80 million, thereby making further headway towards our goal of technology leadership.

Furthermore, we have set aside more than €100 million for capital expenditure, most of which will be spent on capacity expansion, replacement investment, the development of new products and the refinement of existing ones.

A further priority this year will be to expand our Xchange business, which involves the reconditioning of engines and parts and forms part of the DEUTZ Customised Solutions segment. Customers have recognised that exchange engines offer the benefit of not requiring any modifications to the equipment in which they are installed or the need to buy new equipment. DEUTZ will continue to expand its Xchange business in Germany. In addition, we are currently building another Xchange plant in the United States, where engines and parts from across North America will be reconditioned.

Ladies and gentlemen,

We are convinced that our company is well placed to continue on its course of profitable growth. As the new chairman of DEUTZ AG's Management Board I am standing for continuity in the Company's strategy and development. We aim to continue our approach of positioning ourselves in the market as an independent manufacturer of compact engines. I would therefore like to explain to you briefly the strategy we aim to adopt in our pursuit of new and further growth.

Our strategy is based on three core objectives.

First, we aim to push ahead with the **internationalisation** of our company.

By **internationalisation** we mean that we want to expand our strong position in the fast-growing markets of Europe and North America while at the same time exploiting further growth potential in Asia – primarily China, but possibly India as well.

China is currently our most important market of the future. As I mentioned before, we want to generate further significant growth in this market and benefit from its enormous potential. We will therefore focus our attention and bring to bear our many years of experience and expertise on the challenges and particular features of the Chinese market.

The second plank of our strategy concerns the **optimisation of our internal processes and work flows**. This includes the professionalization of our organisational structure.

We will create a new function below the Board level consisting of three product lines with clearly defined responsibilities. These product lines will be responsible for our engine models. This organisational structure has already proved to be very successful in the automotive and engineering sectors and will also help DEUTZ to optimise its targets in terms of time, cost and quality.

I am certain that this time next year I will be able to report to you on the success of DEUTZ's new, more professional organisational structure.

The third plank of our strategy will be to continue strengthening our **systems expertise** in the field of exhaust-gas aftertreatment in order to transform DEUTZ from a pure engine supplier into a systems provider. This will enable us to extend our technology leadership.

Exhaust-gas aftertreatment is becoming increasingly important because, after 2011, only additional exhaust-gas aftertreatment systems will enable the carbon-emissions limits set by the European Union to be met, for example through the use of particulate filters and special catalytic converters.

Dear shareholders,

By implementing the strategy I have outlined, we are convinced that DEUTZ will remain an attractive company for you and all other stakeholders and that we can achieve our ambitious long-term targets and objectives. These include becoming one of the world's top three suppliers of four to eight-litre engines, doubling our unit sales of engines with a capacity of up to four litres and consolidating our leadership of the international market for air-cooled engines. We have also set ourselves the target of generating 20 per cent of the DEUTZ Group's total revenue from service business.

Although we will undoubtedly have to overcome a few challenges over the next two to three years before we can achieve these goals, the message I would like to convey to you today is that the DEUTZ engine is running smoothly!

Agenda item 6

I'd now like to say a few words about the motion under agenda item 6, which would authorise the Company to purchase and use treasury shares for the purposes stipulated below.

The Company is to be authorised to purchase treasury shares up to a limit of 10 per cent of its share capital by November 2009. The proposed authorisation would enable DEUTZ to purchase treasury shares and to sell them via the stock market by means of a public offering to all shareholders or to offer them to third parties in return for a non-cash payment in connection with the acquisition of companies or investments in companies or as part of business combinations. This authorisation increases the freedom of action that DEUTZ needs to swiftly and flexibly exploit any opportunities for acquisitions that may arise in either the domestic or international markets.

Closing remarks

Ladies and gentlemen, I hope I have been able to demonstrate that your company is in good hands and that it is firmly on course for further growth in 2008 and beyond. The solid foundations that we have laid provide the platform on which it can continue to grow and strengthen its profitability.

On behalf of my colleagues on the Management Board I would like to take this opportunity to thank all our employees for their outstanding contribution over the past twelve months. Thank you for your hard work and commitment!

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