

DEUTZ AG, Köln

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Chairman of the Management of DEUTZ AG

Speech

for the Annual General Meeting

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Congress-Centrum Koelnmesse

Check against delivery.

NOT TO BE RELEASED BEFORE

6 May 2010, 11:00 am



Ladies and gentlemen, shareholders and friends,

On behalf of the Board of Management of DEUTZ AG, it gives me great pleasure to welcome you to our 2010 Annual General Meeting. I would also like to extend a warm welcome to the representatives of our shareholder associations, the bank and media representatives, and our current and former members of staff.

I am delighted to see that so many of you have made your way to Cologne to attend today's meeting.

I am especially delighted to welcome Dr Carozza, President of the SAME DEUTZ-FAHR Group, our biggest shareholder, who has travelled from Italy to be with us today.

In my report today, I would like to focus on three areas:

- The most important, of course, is the performance of our business in 2009, which was overshadowed by the effects of the global economic crisis.
- I would then like to talk you through the corrective measures we introduced to successfully steer our way through one of the worst crises we have ever experienced, and thus lay the foundations for a fresh start.
- And finally, I would like to show you where we intend to take the company next. Our new and improved company has emerged from the crisis with renewed strength and with 'New Drive'.

Like many companies, DEUTZ was put to the toughest of tests last year. By the end of 2008 the original financial crisis had already begun to affect the real economy and we were continually forced to revise our figures for 2009 downwards. But even our most cautious plans could not have predicted what we would actually have to face in 2009, and only now do we have a full view of the extent of the economic crisis and its impact on DEUTZ:

- The volume of new orders fell by 38 per cent between 2008 and 2009, to €842 million.
- Unit sales of engines slumped by 53 per cent to around just 118,000 engines. The last time the figures were so low was in 1993. This crisis-induced downturn in demand was further exacerbated by the effects of inventory adjustment along the downstream supply chain. Retailers were able to meet the low level of remaining demand for equipment from inventory before having to place a single order for new machinery, and the position for suppliers of engines and other components was just the same. This reduction of inventory was necessary from a business management perspective in order to reduce working capital and generate cash flow – something which, incidentally, we also worked hard to do – but the overall effect was to make the crisis worse.
- By comparison, revenue fell by 'only' 42 per cent to €863 million for the year. This comparatively low decline is due to the fact that the market segments for compact construction equipment, compressors and gensets were particularly

badly hit by the crisis, while application segments where larger DEUTZ engines are used – such as agricultural machinery – were able to withstand the crisis for longer. Consequently, the share of larger and higher-value engines grew as a proportion of our total unit sales, and the decrease in revenue was somewhat more modest than the decline in unit sales.

Mobile Machinery, which encompasses construction and mining equipment as well as industrial trucks and ground support equipment, is by far our largest application segment and this was the segment worst hit by the crisis. Revenue here fell by more than 66 per cent compared to 2008, bringing the share of revenue down from 35 per cent to 21 per cent. The **Stationary Equipment** application segment which includes engines for gensets, pumps and compressors declined by 41 per cent, closely followed by **Automotive Applications**, i.e. engines for trucks, buses and rail vehicles. Revenue for this segment was down by around 37 per cent on the prior year figure. In contrast, the fall in revenue for engines for **agricultural equipment** and in the **services business** was considerably smaller, at 17 per cent.

The changes in revenue were just as varied in the different regions: in the **USA**, where the global banking and financial crisis began, we lost around 62 per cent of our revenue in 2009, compared to 2008, and in our home market of **Germany**, where our customers are as dependent on exports as we are, revenue fell by almost 45 per cent. In the **rest of Europe**, which traditionally accounts for between 40 and 50 per cent of our business, revenue fell by just under 40 per cent compared to the prior year. In our smallest regional market, the **Middle East and Africa**, where there are few equipment manufacturers, revenue fell by 33 per cent. Only in the **Asia Pacific** region was the decrease in revenue below the 30 per cent mark - albeit only just under.

DEUTZ was not the only company to feel the effects of the recession. Our competitors were also badly hit, and our market positions remained largely unchanged:

- In our largest and most important regional markets, Europe and North America, DEUTZ is the number one in engines for mobile machinery and number two in engines for agricultural machinery, stationary equipment and automotive applications. Overall, we are the indisputable leaders in these regions due to the size of the mobile machinery application segment.
- DEUTZ lost no customers and no projects during the crisis, either to the competition or as a result of the crisis-induced economic difficulties. This says a lot not only about the loyalty and satisfaction of our customers, but also about the stability of our customer industries which are dominated by small and medium-sized enterprises.

What these figures don't reveal is the trend over the course of the past financial year, the trend over time. Whilst the crisis originated in 2008 and increased in severity up to the end of that year, 2009 was the year in which the downward spiral was halted and the first signs of an upturn emerged.

- During the first half of 2009 we were still in the grip of the downturn, but this bottomed out in the third quarter. Although revenue and unit sales were still lower than those of the previous year and of the previous quarter due to it being the holiday season, the level of new orders was 3 per cent up on the second quarter - not a massive increase but still a positive signal that was tremendously important for DEUTZ. In certain areas, we even achieved double-digit percentage increases - primarily in those application segments that had previously experienced the greatest declines.
- In the fourth quarter, this positive trend was surprisingly reinforced as new orders increased by around 12 per cent on the third quarter of 2009. This was the first time that new orders had exceeded the level achieved in the comparable period of the previous year - and significantly so with an increase of 8 per cent. In our largest application segment, Mobile Machinery, which was also the hardest hit by the crisis, new orders were up by as much as 55 per cent on the previous quarter and an astonishing 176 per cent on the fourth quarter of 2008.
- There were similar upward trends for unit sales and revenue, up 18 and 19 per cent respectively on the third quarter of 2009. The fourth quarter of 2009 saw the highest revenue of any quarter in the year, providing a clear indication of an upturn in business.

Despite these encouraging market developments towards the end of the year, 2009 as a whole saw a massive collapse in all of the sales-related performance indicators, which we effectively counteracted through a range of measures to reduce costs. We had to act quickly and decisively in order to address the situation appropriately. This required some tough decisions including a wide-ranging reduction in our workforce.

- In 2008 we cut temporary staff and did not renew fixed-term employment contracts. In order to protect our highly-motivated and skilled core workforce to the greatest extent possible, we introduced short-time working and, during the course of 2009, extended this measure to nearly all areas of our business and nearly all sites in Germany. The only exception to this was Research & Development, where it was full speed ahead with preparations for the next exhaust emissions standard and with work on renewing our product range - but more on that later.
- All in all, the short-time working reduced working hours in 2009 by the equivalent of approximately 480 full-time employees. Or, to put it a different way, short-time working meant that we were able to retain 480 jobs that we would otherwise have had to cut.
- But despite all these measures, we were ultimately forced to cut some jobs amongst our core workforce. In order to carry out these cuts as painlessly as possible, we met with the works council to agree a reconciliation of interests (as required by German law) and set up a redundancy scheme for the joint operation in Cologne. We were especially

concerned to ensure that the solutions minimised the impact on our staff as much as possible. First, we agreed a special early retirement package with many employees. Secondly, we have been working with a company specialising in the transfer of employees: this company supports former employees with a change in their career direction and subsequent job search. Since 30 June 2008, when the number of people employed by DEUTZ including temporary staff but excluding trainees and apprentices reached its peak for recent years at 5,233, a total of 1,371 jobs have been cut. By the end of 2009, we had also reached firm agreements on the loss of a further 200 jobs during the course of 2010.

- Despite these job losses, the social impact has been kept to a minimum with a total of just 14 compulsory redundancies.

However, the level of overhead staff costs was not the only focus of our actions. Of the total contribution to earnings generated by our MOVE action programme, only 20 per cent was attributable to reductions in staff overheads.

I provided you with a detailed report on our MOVE action programme at this point last year. The programme was initiated for two reasons - firstly, because we wanted to mitigate the inevitable consequences of the crisis with an action plan designed to raise earnings in the short term and, secondly - and perhaps more importantly - because we wanted to create a sound foundation for the long-term success of DEUTZ AG by reducing our fixed cost base. Now is the time to take stock of our progress:

- The MOVE action programme which we launched in the autumn of 2008 generated a total contribution to earnings of €136 million up to the end of 2009. Of that total, €126 million was generated in 2009 and €10 million in the fourth quarter of 2008. The main focus was of course on savings in operating and staff overhead costs and in the cost of materials, but we were also able to contribute to earnings through increased sale prices and improved productivity despite the slump in demand.
- But the most important success achieved by MOVE is the fact that of the total package of €136 million, more than €85 million is not just a one-off item but a sustained improvement that will help us in subsequent years to permanently reduce our fixed cost base and thus also our break-even point. This takes us a great step closer towards our goal of leading DEUTZ into a period of profitable growth.
- A glance at our monthly key performance indicators clearly shows that we are on the right track. September of last year was the first time that we managed to achieve a half-way acceptable operating profit.

For 2009 as a whole, however, we suffered a significant loss. Despite all the positive effects of the MOVE programme, we made an operating loss (EBIT) before one-off items of €46 million. Including one-off items, which consisted primarily of restructuring costs in connection with the job losses, the operating loss rose to €89 million. The total loss after interest and tax was €124 million.

Other key performance indicators, however, performed well given the prevailing economic crisis.

- Thanks to particularly rigorous working capital management with a targeted reduction in inventories and receivables, we managed to achieve a positive cash flow from operating activities of more than €117 million.
- Closely related to that is the comfortable level of cash and cash equivalents of €215 million that was available to us as at 31 December 2009. With a positive net financial position of around €3 million, DEUTZ ended the 2009 financial year effectively debt-free.
- And despite the losses incurred in 2009, DEUTZ's equity ratio remains very high at over 35 per cent.

And we haven't focused solely on the day-to-day business over the past year. We have also ensured that our long-term funding is secure.

- In 2007, DEUTZ secured its long-term funding by issuing bonds for US\$ 274 million as part of a private placement in the United States and excluded currency risk by fully hedging the US dollar exposure in euros. Under the terms of this funding, DEUTZ entered into financial covenants which oblige it to comply with certain key performance indicators.
- Following the sharp deterioration in revenue and profitability last year the DEUTZ Group was in danger of breaching its earnings-related financial covenants at the end of the third quarter of 2009, which could have caused the investors in the US private placement to terminate it.
- We therefore entered into negotiations with the private placement investors at the earliest opportunity in order to secure our funding on a long-term basis and bring the financial covenants into line with the prevailing situation. We have now brought these negotiations to a successful conclusion for DEUTZ.
- In return, we now have to pay a higher rate of interest, but the new financial covenants have framed in such a manner that we will be able to comply with them on the basis of the projected business performance.
- Together with credit lines totalling €76 million, which our principal banks have committed to us despite the difficult economic climate, our medium-term financing structure is on a sound footing. This is particularly important for DEUTZ as it operates in a highly cyclical business environment.

The measures we have taken have secured sufficient financial room for manoeuvre to allow DEUTZ to maintain the high level of investment in its future.

And the subject of 'investment in the future' takes me straight to the second theme of my report, which is how we have succeeded in laying the foundations for a new start during the crisis.

As I mentioned before, our Research & Development function was left virtually unscathed by the short-time working and job losses as we continued to work at full speed on developing the technologies of the future. We have gone beyond that which is merely required in the short term and have not lost sight of what we need to do in order to secure the long-term success of our company.

- As a result, our development expenditure, at approximately €105 million, was higher than last year. This strategy is paying off: in spring 2009, we were able to showcase the entire product range of engines with a capacity of more than four litres for the next two exhaust emissions standards – including the necessary exhaust aftertreatment systems – at Intermat in Paris, the largest trade fair for the construction equipment industry in France.
- The new and improved range of engines with a capacity of 4.1 to 16.0 litres will be launched in January 2011 with new names for the forthcoming exhaust emissions standards. The successors to the successful 2012, 2013 and 2015 water-cooled engine series, which we will continue to offer in markets with lower emissions requirements, not only meet the tighter statutory requirements in the European Union and the United States. They also offer a number of additional customer benefits such as increased power density and lower fuel consumption across the entire engine range. And our enhanced DVERT module offers customers the ideal form of exhaust aftertreatment for a wide range of requirements in the various application segments.
- Visitors to Agritechnica, Europe's largest agricultural equipment trade fair, which was held in Hannover in autumn 2009, were able to admire the first tractor with integrated SCR technology – of course fitted with a DEUTZ engine and SCR system. We are therefore several steps ahead of the competition, which also benefits our customers as DEUTZ's clear technology portfolio enables them to plan their development projects with certainty.
- We are currently working on two completely new four-cylinder engines with a capacity of up to four litres, the TCD 2.9 and the TCD 3.6, with which we will cater to the 25 to 85 kilowatt power output range from 2012. In the high-volume power output range for engines with less than 56kW, the TCD 2.9 engine offers a unique advantage to prospective customers. Thanks to its relatively large capacity of 2.9 litres and very compact dimensions, we are able to meet the particularly stringent limits for soot particles prescribed by the next generation of emissions standards without the need for complex closed particulate filters. The engine's low untreated emissions enable the use of a porous diesel oxidation catalytic converter. In contrast to closed particulate filters, this catalytic converter does not become clogged with soot particles while in operation, so regular cleaning of the particulate filter by burning off the soot particles, as required in closed systems, is not necessary. As a result, it is not necessary to install an expensive burner device in the engine or, alternatively, to interrupt

the running of the engine to clean the filter – a significant advantage for equipment operators and thus for equipment manufacturers, our customers, too.

- We commissioned the first prototype on our test rig after a development time of just nine months and a few weeks ago we presented our new engine to the public at the largest trade fair event in the world, the bauma fair in Munich, where it was very well received by visitors. The Italian trade journal *Diesel* even bestowed the title “Diesel engine of the year 2010” on the TCD 2.9. This is awarded each year for particularly outstanding technological innovation.

I'm sure you will have noticed our latest development, the “Diesel of the year” outside in the foyer. I would now like to show you a short film that will give you an insight into this outstanding technological development.

As you can see, the issue of exhaust aftertreatment is the technological challenge of the future for engine and equipment manufacturers. And avoiding complex exhaust aftertreatment by means of intelligent engine technology, as we have done with the TCD 2.9, will not be possible in all application segments and across all power outputs. That is why we have sought out technology partners at the earliest opportunity in order to secure our modular product strategy and to benefit from this new growth market beyond our own customer base.

It did not take us long to find these partners in the shape of the highly respected companies Bosch and Eberspächer and by December 2009 we had already established our joint venture, Bosch-Emission-Systems GmbH, in which DEUTZ has a 25 per cent plus one vote stake.

- Bosch-Emission-Systems GmbH (BESG) pools the complementary strengths of three very different partners.
- Bosch brings SCR metering systems as well as control unit and systems expertise to the joint venture.
- Eberspächer is an exhaust technology specialist and a market leader in the manufacture of exhaust aftertreatment systems.
- DEUTZ has wide-ranging experience in emissions reduction in diesel engines and the relevant applications know-how.

The new joint venture, whose head office is in Stuttgart, draws on the core exhaust-aftertreatment skills of the three companies involved and offers complete systems solutions on a modular basis for construction equipment, agricultural machinery and commercial vehicles. These integrated systems comprise the electronic control unit and, if required, the burner technology for the regeneration of diesel particulate filters. The product range is geared towards both mobile machinery and stationary equipment. An additional area of application is commercial vehicles such as trucks and buses. Series production is scheduled to commence in Neunkirchen in the Saarland region in the third quarter of this year.

We have also taken early action to extend our successful long-term collaboration with Volvo and secured a continuing long-term relationship from the year 2014 onwards. The current cooperation agreement expires at the end of 2013 after a period of 15 years.

The reason for the early start to negotiations was to underpin the development work for the Tier 4 exhaust emissions standard and also the decision by Volvo to develop its own commercial vehicle engine for the Euro 6 exhaust emissions standard.

We have now signed a new supply agreement and look forward to continuing a long-term relationship with one of our most important customers. Under this agreement, DEUTZ remains the sole supplier of engines with a capacity of four to eight litres for Volvo construction equipment. In addition, DEUTZ will continue to supply engines that meet the Euro 3, 4 and 5 emissions standards for existing installations in Volvo commercial vehicles.

Ladies and gentlemen,

As you can see, in the midst of the deepest recession for decades, we have laid the foundations for our success in the coming decades.

- With the implementation of the MOVE programme we have taken courageous and resolute action to permanently lower the fixed cost base of our company.
- Through strict management of working capital, we succeeded in generating the cash flow we needed to fund our development projects.
- We have secured the medium and long-term financing of our company.
- The further developments in the over-four-litre capacity range and the project decisions for the new engines in the under-four-litre capacity range have brought about a renewal of our overall product range.
- By establishing a new joint venture with our partners Bosch and Eberspächer, we have laid the foundations for greater systems integration and for a stronger role in the growing market of exhaust aftertreatment.
- And the new supply agreement with Volvo has secured an ongoing relationship with one of our largest and most important customers far beyond the year 2014.

A great many people have contributed to these successes and I would like to thank all of them, both on behalf of the Board of Management and, above all, personally and very sincerely.

- I would like to thank you, our shareholders, for your trust and loyalty to DEUTZ.
- I would like to thank the members of the Supervisory Board whose advice and assistance has been invaluable.

- I would like to thank our strategic partners who have bound up their future so closely with ours and demonstrated a very special degree of confidence.
- And I would particularly like to thank all the employees of DEUTZ in Germany and abroad who have shown such great dedication and commitment on behalf of DEUTZ.

The success of our countermeasures during the crisis and our anticyclical strategy for the future have also been rewarded by the capital markets.

- DEUTZ shares opened at €2.38 at the start of the 2009 trading year and they performed significantly better than the general stock-market trend from the second quarter onwards. The low for the year of €1.59 in February is now just a blip in the memory as the share price reached a high for the year at the end of trading on 25 August 2009 at €3.70. By the end of the year, DEUTZ's share price had risen by more than 40 per cent since the start of the year to €3.39. The market capitalisation of DEUTZ AG rose accordingly from €279 million on 31 December 2008 to almost €410 million at the end of 2009.
- A glance at the reference indices, such as the SDAX in which DEUTZ shares are listed, bears out their excellent performance. Apart from the first few weeks of the year, DEUTZ shares continuously outperformed the SDAX, particularly at the transition point between the first and second quarters. The same applies to the Prime Industrial index. Throughout the year a strong performance by DEUTZ put it well ahead of the index.

2009 was an extremely challenging and difficult year for us, but it was also an extremely creative and productive time as we used the crisis to restructure DEUTZ and to realign our capacities, organisational structures and processes with the new realities. This has created a stronger foundation on which to build for the future. We intend to head towards this future with 'New Drive' - not only with a new range of engines but also with renewed vigour and motivation.

I would now like to give you an insight into the future of our company in the third part of my speech.

„We set standards and shape the future.“

This sentence sums up our vision. We have set out the strategic programme with which we intend to turn this vision into reality in five points.

- The first point is the extension of our position as technology leader:

This has been our destiny since the invention of the four-stroke engine. We continually optimise our products with great innovativeness, concentrating on customer benefits and the environment. We follow a simple maxim: ‚as much technology

as necessary and as little as possible'. After all, the pioneering technological role that our company has had for the past 146 years is not an end in itself.

We also follow this principle with innovations and in the ongoing development of our products for the next phase of exhaust emissions standards that are due to come into force in western Europe and North America between 2011 and 2015. It is our conviction that the product decisions we have taken during the past year and our joint venture for exhaust aftertreatment systems have created the basis for securing and extending our technology leadership.

- The second point relates to the consolidation of our position as a leader in quality:

„Quality is not produced, quality is engineered.“

This simple sentence reflects our understanding of quality. We pay attention to quality in all of our subprocesses – starting with our suppliers, which we regularly audit and fully assist with improving quality, to our own production facilities in Germany and abroad and our assembly plants in Cologne and Ulm.

However, our engineering department lays the foundations for quality products that have earned the ‚Made by DEUTZ‘ label.

Following this principle, we have ensured the highest quality right from the start in developing our new TCD 2.9 and TCD 3.6 engines: fewer components, integrated subsystems and sophisticated assembly concepts are the cornerstones of tomorrow's quality products.

We also strive constantly to improve the quality of our existing products and processes. This continuous improvement process involves all departments, production facilities and suppliers and is supported by a comprehensive system of key performance indicators.

To further optimise this process, we replaced the central quality unit in 2009 with local quality departments in the individual manufacturing and assembly, purchasing and development units.

These devolved units are physically much closer to and more familiar with the company's operational processes and therefore play a key role in helping our employees identify even more strongly with DEUTZ AG's quality objectives.

- The third pillar of our strategy is to extend our position as market leader:

The fact that this strategic objective is not listed first is not an indication of its priority. Rather, it shows that our strategic objectives are interlinked and build on each other. Technology leadership and quality leadership are essential to our leading market position because both are hallmarks of the DEUTZ brand.

DEUTZ is synonymous with well-founded innovations, which may at first sound like a contradiction in terms but was proved by our company's founder Nicolaus August Otto: although many people experimented with the internal combustion engine, he was the first to ready it for production and, with the four-stroke principle, laid the foundations for all modern combustion engines, regardless of the fuel on which they run.

However, we are not resting on our laurels. Over the past five years, we have continually expanded our market position and DEUTZ is now at the forefront of the relevant market segments all over the world.

But we are not stopping there, either: the new TCD 2.9 and TCD 3.6 engines will be our first venture into the area of engines with a capacity of up to four litres for agricultural machinery, thereby consolidating our strong position in this segment.

We also want to further expand our market position in the fast-growing Asian region: as a result of our joint ventures in Dalian and Weifang, and engine deliveries from Germany, we had some 127,000 engines in Asia in 2009. The phased tightening of exhaust gas legislation in China will boost the demand for top-quality technology in the coming years. The Indian diesel engine market is catching up too, thereby gaining strategic importance for DEUTZ.

In western Europe and North America, the introduction of new exhaust emissions standards will herald a period of change over the next few years. Equipment manufacturers' engine concepts will come under close scrutiny, forcing them to both defend their positions and make up ground. As the next emissions standards are introduced in Europe and the US from January 2011, the engines for these markets in all power output classes will gradually be fitted with exhaust aftertreatment systems.

The competition to develop the best technological concept has long since begun and DEUTZ has positioned itself exceptionally well with its range of new and refined engines with higher power outputs and lower fuel consumption.

We will also continue building up our market position in the service business. This area of business is particularly important to DEUTZ because of its high earnings power. In the fourth quarter of 2009, we paved the way for a new service business model. By specifically expanding our range of products and services, adjusting our price system and systematically developing new sales channels such as the internet, we will substantially improve our services and customer focus and thus further increase our market share.

- The fourth key goal is the long-term increase in profitability:

In light of the global economic crisis, this self-evident objective has taken on a new importance in many companies.

DEUTZ too has had to cope with painful losses in the past two years despite having achieved a respectable EBIT margin of approximately 6 per cent in 2007. We responded quickly and launched the MOVE program to return us to profit.

But the improvements we have achieved as a result of MOVE are not enough, which is why we initiated its successor 'MOVE FAST' in the summer of 2009. This involves even more ambitious targets: in the short term, we intend to lower our break-even point even further so that we are able to operate profitably even during a severe economic downturn such as the one we have just experienced.

The idea behind this programme is to review DEUTZ's business model and processes and align them with the challenges of the future. This includes examining make-or-buy decisions, looking at measures to improve capacity utilisation in our internal manufacturing and service functions, proactively opening up closed markets by means of licensing and improving how we exploit the market potential of our services.

The two programmes - MOVE and MOVE FAST - lay two cornerstones for a sustained increase in our profitability: with leaner organisational structures, more efficient processes, an optimised business model and lower fixed costs, DEUTZ will emerge much stronger from the crisis and will benefit disproportionately from the expected upturn.

DEUTZ's long-term strategic objective is clear: an EBIT margin of 10 per cent.

Our steps to increase profitability of course extend to our largest joint venture, DEUTZ Dalian Engine Co. Ltd. (DDE) in China. Although we have suffered start-up losses in recent years, we are now focusing more strongly on China in organisational terms and have strengthened the management team with a new CEO and a new CFO. DDE's new management has now launched a new product strategy in line with the imminent tightening of Chinese emissions legislation.

It is expected that, from 2011, China will have an exhaust emissions limit for commercial vehicles similar to Euro IV, for which we will manufacture engines with cutting-edge four-valve technology and common-rail injection in Dalian. We have thus begun the necessary modernisation of our product range and, as unit sales increase, the joint venture will operate profitably.

- The fifth and final point on our strategic agenda is the reduction in sensitivity to cyclical influences:

The economic crisis of the past two years has demonstrated all too clearly that we are operating in a very cyclical market. The crisis hit DEUTZ disproportionately hard. The main application segments for DEUTZ engines - construction equipment, gensets and commercial vehicles - and the principal sales regions - Germany, western Europe and North America - also followed the main flow of the economic downturn. The agricultural machinery segment and the Asia region simply made

up too small a proportion of DEUTZ AG's sales and revenue to counteract this downturn. This effect was compounded by the fact that many of DEUTZ's German, western European and North American customers have similar sales structures to ours. Furthermore, there was a considerable reduction of inventories in the supply chain, as a result of which the unit sales of component and system suppliers such as DEUTZ lagged behind actual market requirements.

We will not be able to completely free ourselves from these dependencies because they are specific to the industry in which we operate. However, there are two aspects of our strategy: optimising the geographical and segment distribution of our revenue and increasing the flexibility of the company as a whole. We intend to achieve this flexibility with our MOVE FAST programme. After all, improving capacity utilisation in our internal manufacturing and service functions – by providing services to other companies or using the capacities of other companies for DEUTZ – not only increases profitability but also safeguards us against fluctuations in capacity utilisation. Furthermore, the reduction in fixed costs is enabling us to return to profit and also means that previously fixed costs become variable costs as capacity utilisation increases again.

As well as helping to improve long-term profitability, expansion of the service business is reducing our sensitivity to cyclical influences because the service business has a longer cycle than the original equipment business and is characterised by smaller peaks and troughs.

To help us absorb these strong fluctuations in the original equipment business more easily in the future, we are specifically targeting the agricultural machinery segment with our TCD 2.9 and TCD 3.6 engines, as it follows a different economic cycle to our engines' other application segments. For the same reason, our sales activities are also focusing on niche business more strongly than before, such as engines for railway, mining and marine applications. In parallel, we are stepping up our sales activities in regions such as Asia, due to its strong growth and because the countries there are less sensitive to cyclical influences.

Our five-point strategic programme targets the right places: It builds on DEUTZ's strengths, which lie in technology, quality and excellent market position, and systematically tackles our weaknesses, which lie in profitability and sensitivity to cyclical influences. This approach is underpinned by well thought-out, interlinked action programmes that support our strategic objectives. In this way, our company will ultimately emerge stronger from the worst crisis in living memory.

There have been increasing indications over recent months that this crisis really is nearing its end. The upward trend in new orders in the final quarter of 2009 has continued in the first few months of

this year and what was expressed as “cautious optimism” at the Annual Results Press Conference on 18 March is gradually evolving into what you might call “confidence”. The tangible improvement in capacity utilisation enabled us to suspend short-time working in March 2010 for the first time since December 2008 and, so far, we have not needed to return to this useful but unwelcome arrangement. Our production programme for this year has increased continuously since the start of the year and we can assume that new orders, unit sales and revenue will be significantly higher in 2010 than in 2009. On this basis, we aim to return to operating profitability (before one-off items), although research and development costs will remain at a similarly high level to the previous year.

I would like to thank you, our shareholders, for remaining loyal to DEUTZ during the times of crisis and I hope that you will continue to do so as our - or to be more precise your - company heads into the future with ‘New Drive’.

Thank you very much.

