

## **CONFERENCE CALL H1 2009**

**12 August 2009**

The engine company.



# Agenda

Dr Margarete Haase, CFO

## ■ Overview H1 2009

### ■ Key financials H1 2009

### ■ "MOVE" programme and outlook

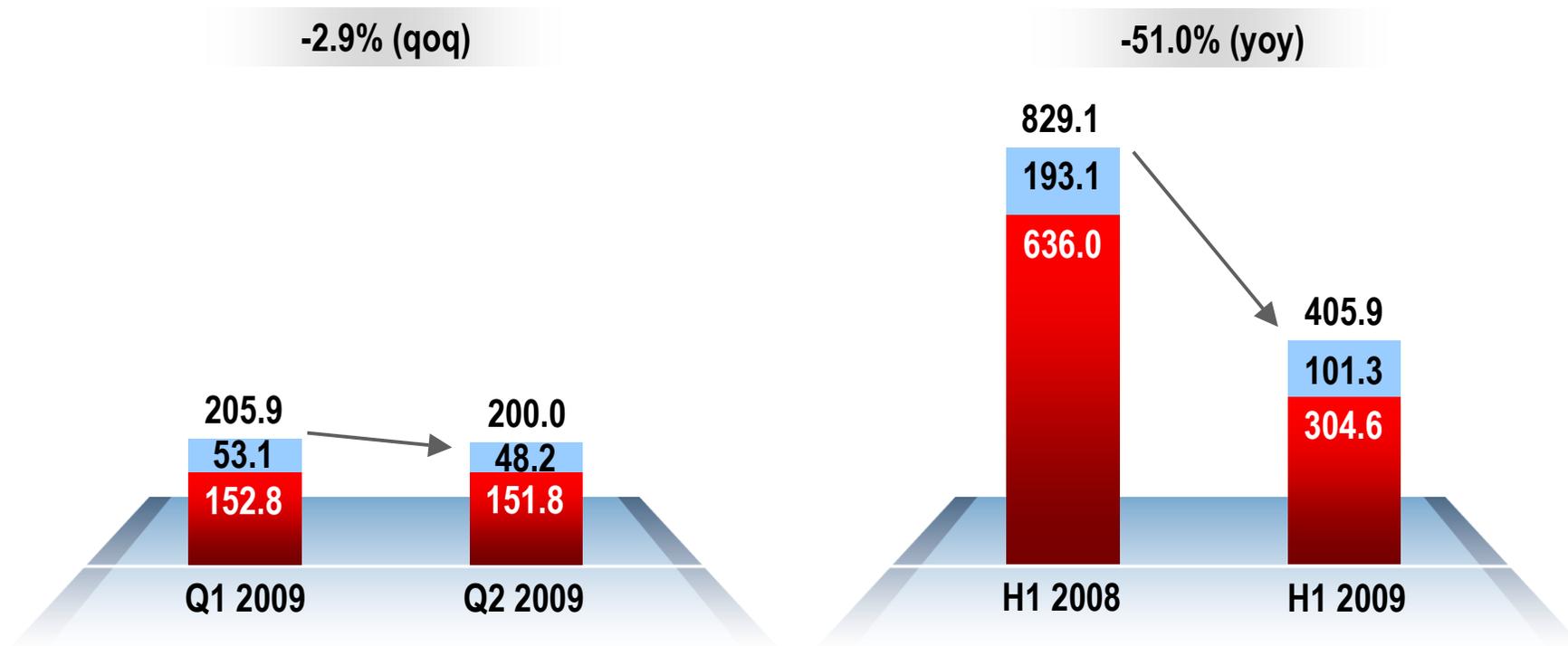
### ■ Appendix

## Highlights of H1 2009

- **"MOVE" programme with very good progress**
  - Savings of €72 million since start of programme; €43 million in Q2 alone
  - Well on track to achieve targeted contribution of €100 million in FY 2009
  
- **Stabilisation of demand situation**
  - In Q2 2009, new orders, unit sales and revenue at Q1 2009 level
  - Negative trend seems to have come to an end, but no major improvement until 2010 at the earliest
  
- **Successful management of working capital**
  - Positive operating cash flow of €23 million in H1 2009 mainly due to reduction of inventories
  - As a result of continuing high investments in R&D, free cash flow to remain negative
  
- **Exhaust aftertreatment: joint venture planned with Bosch and Eberspächer**
  - MoU signed to form a joint venture
  - Focus on modules for exhaust aftertreatment for non-road applications

# Development of new orders

€ million

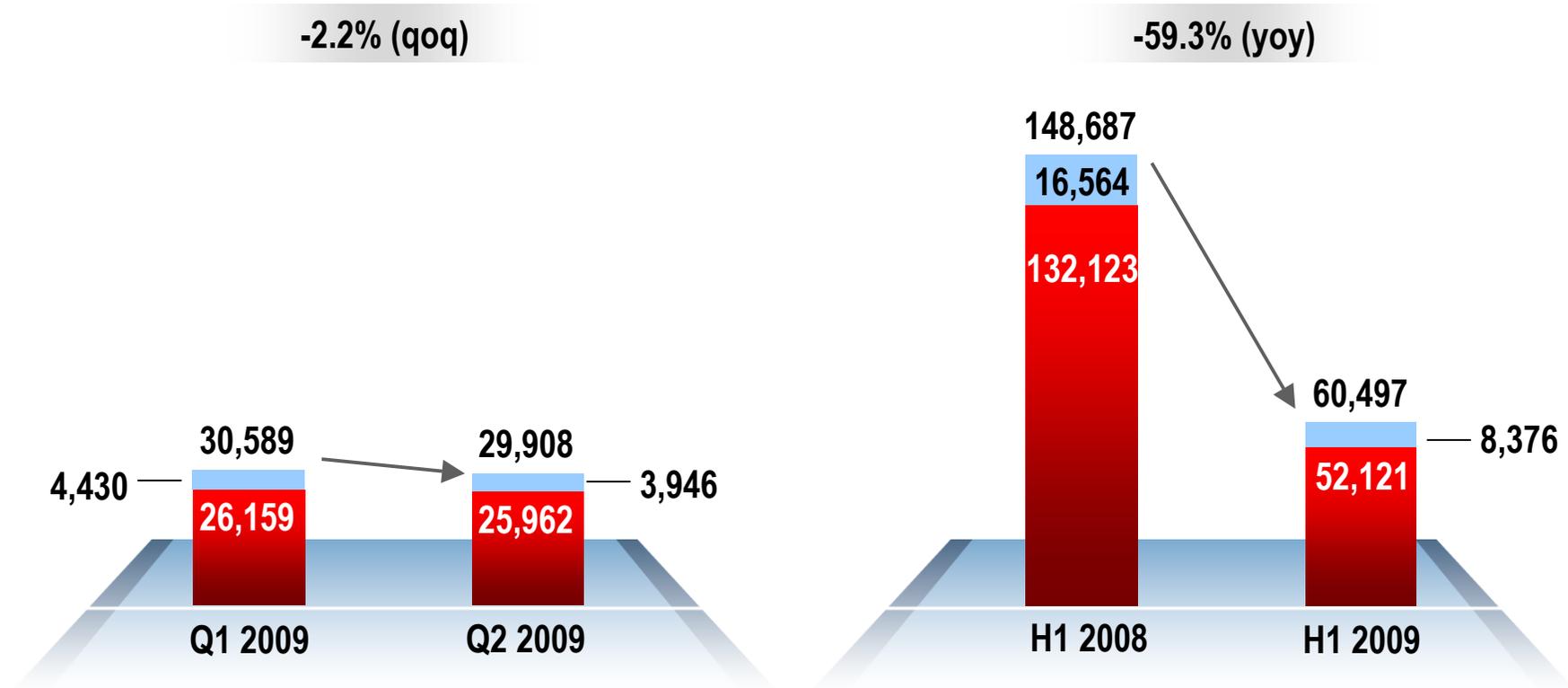


- Downturn in demand bottoming out in Q2 2009, especially at Compact Engines; customer destocking is coming to an end
- Compared with record H1 2008, new orders plummet by more than half as a result of global economic crisis
- No substantial recovery in demand expected until 2010 at the earliest

 Compact Engines  DEUTZ Customised Solutions

# Development of unit sales

units

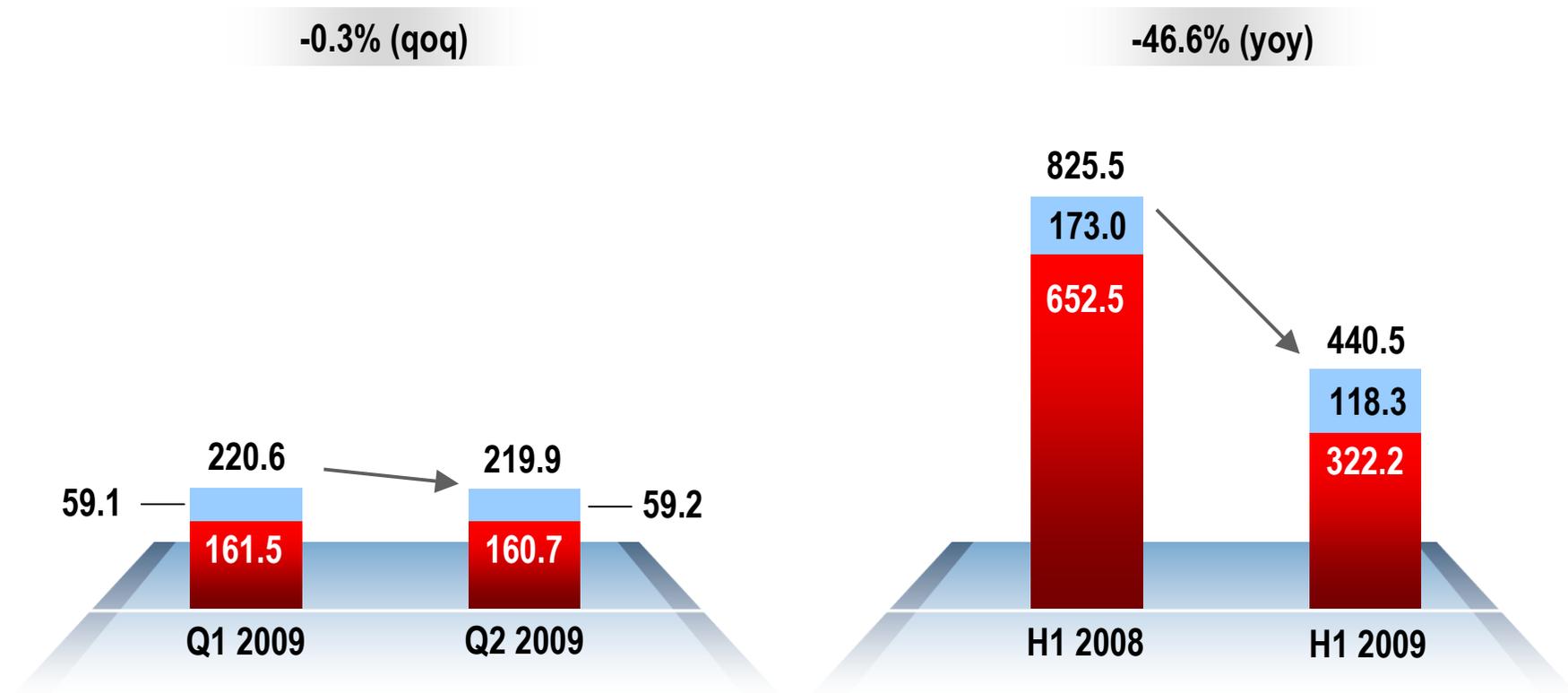


- In Q2 2009, business is stabilising with decline in unit sales clearly slowing
- Yoy, all engine series impacted by drop in unit sales, especially smaller engines (< 4 litres) related to construction equipment for Europe and the US market

■ Compact Engines ■ DEUTZ Customised Solutions

# Development of revenue

€ million



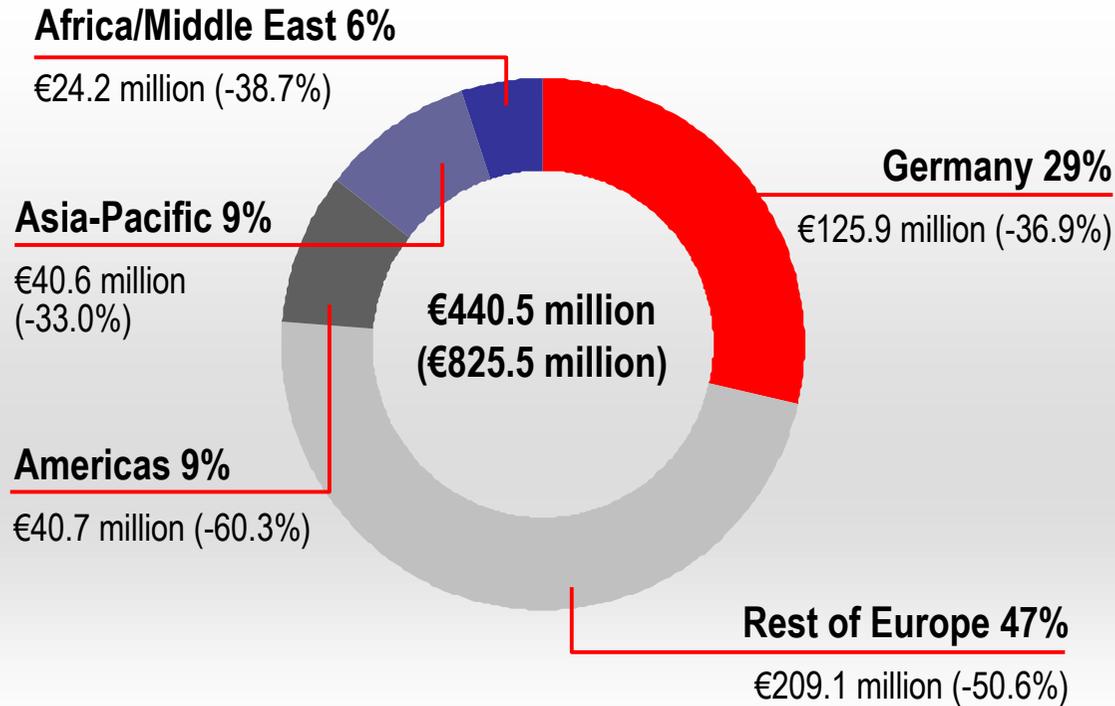
- Stabilisation of business also reflected in development of revenue, which is almost at Q1 2009 level
- Following the yoy drop in unit sales, revenue is lower in H1 2009 but decline is less pronounced
- In terms of application segments, Mobile Machinery suffers major drop of 74% yoy; Agricultural Machinery still close to last year's revenue level (-5% yoy)

 Compact Engines  DEUTZ Customised Solutions

## Revenue split by region

**H1 2009**

(change in % vs. H1 2008)



- Significant revenue decline in all regions yoy
- Proportion of domestic revenue rises to 28.6% (H1 2008: 24.2%)
- First signs of market improvement in Asia, especially China

## Segment overview: Compact Engines

Quarter-on-quarter comparison:

€ million	<b>Q2 2009</b>	<b>Q1 2009</b>	Change in %
New orders	151.8	152.8	-0.7
Unit sales	25,962	26,159	-0.8
Revenue	160.7	161.5	-0.5
EBIT (before one-off items)	-5.7	-22.8	-75.0

- Downward trend for new orders, unit sales and revenue has slowed significantly
- Demand at Mobile Machinery still weak, slight improvement of order situation at Automotive and Agricultural Machinery
- Clear reduction of loss due to successful cost savings under MOVE programme

Year-on-year comparison:

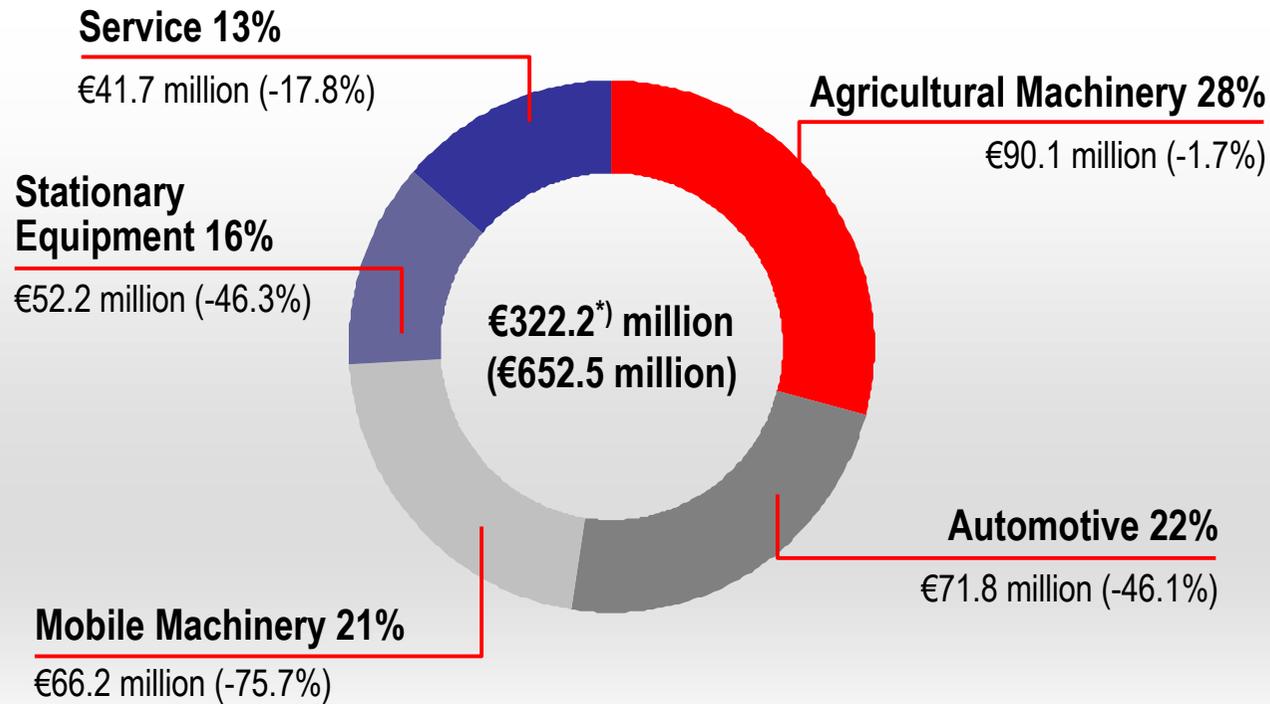
€ million	<b>H1 2009</b>	<b>H1 2008</b>	Change in %
New orders	304.6	636.0	-52.1
Unit sales	52,121	132,123	-60.6
Revenue	322.2	652.5	-50.6
EBIT (before one-off items)	-28.5	16.7	--

- Almost all application segments – including Service – substantially down yoy, especially Mobile Machinery
- Agricultural Machinery almost at prior year level in terms of revenue
- EBIT mainly impacted by significant decline in volume and lower service activity due to the economic downturn

# Compact Engines: revenue split by application segment

**H1 2009**

(change in % vs. H1 2008)



<sup>\*)</sup> Other: €0.2 million

## Segment overview: DEUTZ Customised Solutions

Quarter-on-quarter comparison:

€ million	<b>Q2 2009</b>	<b>Q1 2009</b>	Change in %
New orders	48.2	53.1	-9.2
Unit sales	3,946	4,430	-10.9
Revenue	59.2	59.1	0.2
EBIT (before one-off items)	4.1	3.6	13.9

- Continuing decline in new orders and unit sales, especially for new engines; service business shows slight improvement
- Despite almost unchanged revenue, EBIT improvement due to successful cost savings under MOVE programme

Year-on-year comparison:

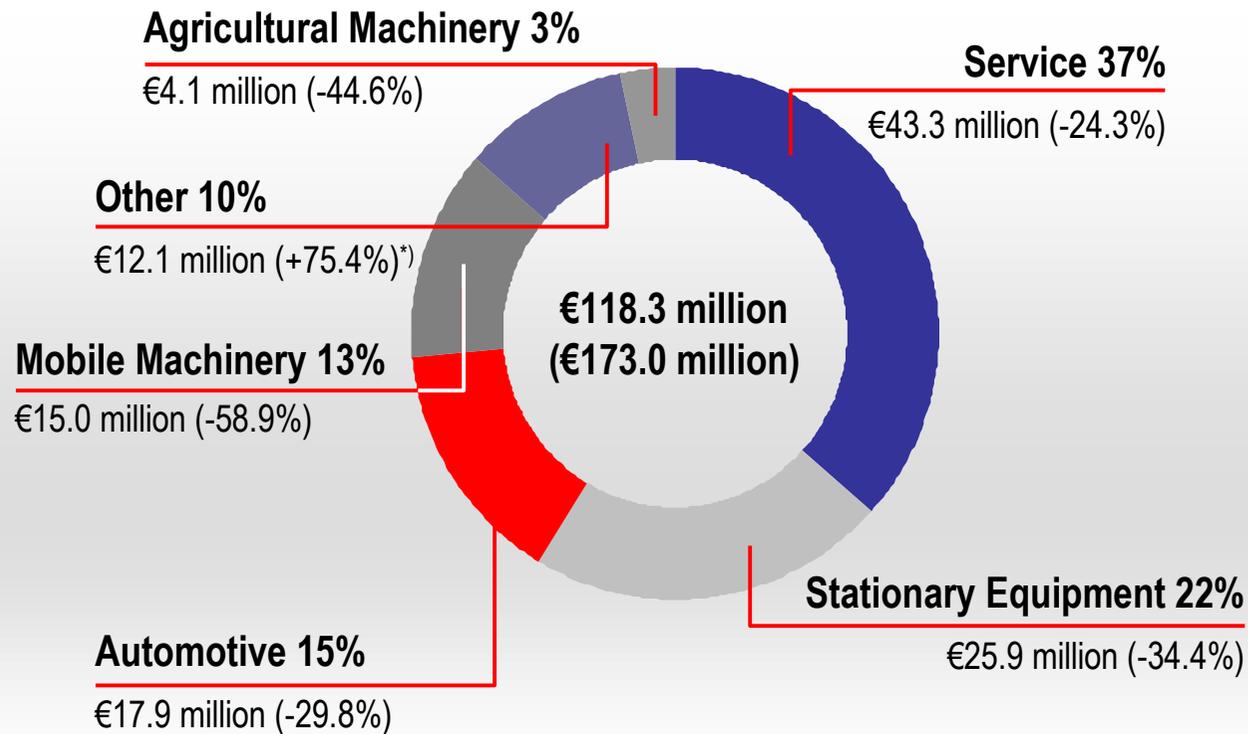
€ million	<b>H1 2009</b>	<b>H1 2008</b>	Change in %
New orders	101.3	193.1	-47.5
Unit sales	8,376	16,564	-49.4
Revenue	118.3	173.0	-31.6
EBIT (before one-off items)	7.7	21.3	-63.8

- Decline in almost all applications segments, especially Mobile Machinery
- Discontinuation of production of small air-cooled engines in Spain (~1,000 engines) has impact on unit sales
- Slump in EBIT due to strong contraction of business volume and decline of highly profitable service business

# DEUTZ Customised Solutions: revenue split by application segment

**H1 2009**

(change in % vs. H1 2008)



\*) due to change in structural allocation

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■ **Key financials H1 2009**

■ **"MOVE" programme and outlook**

■ **Appendix**

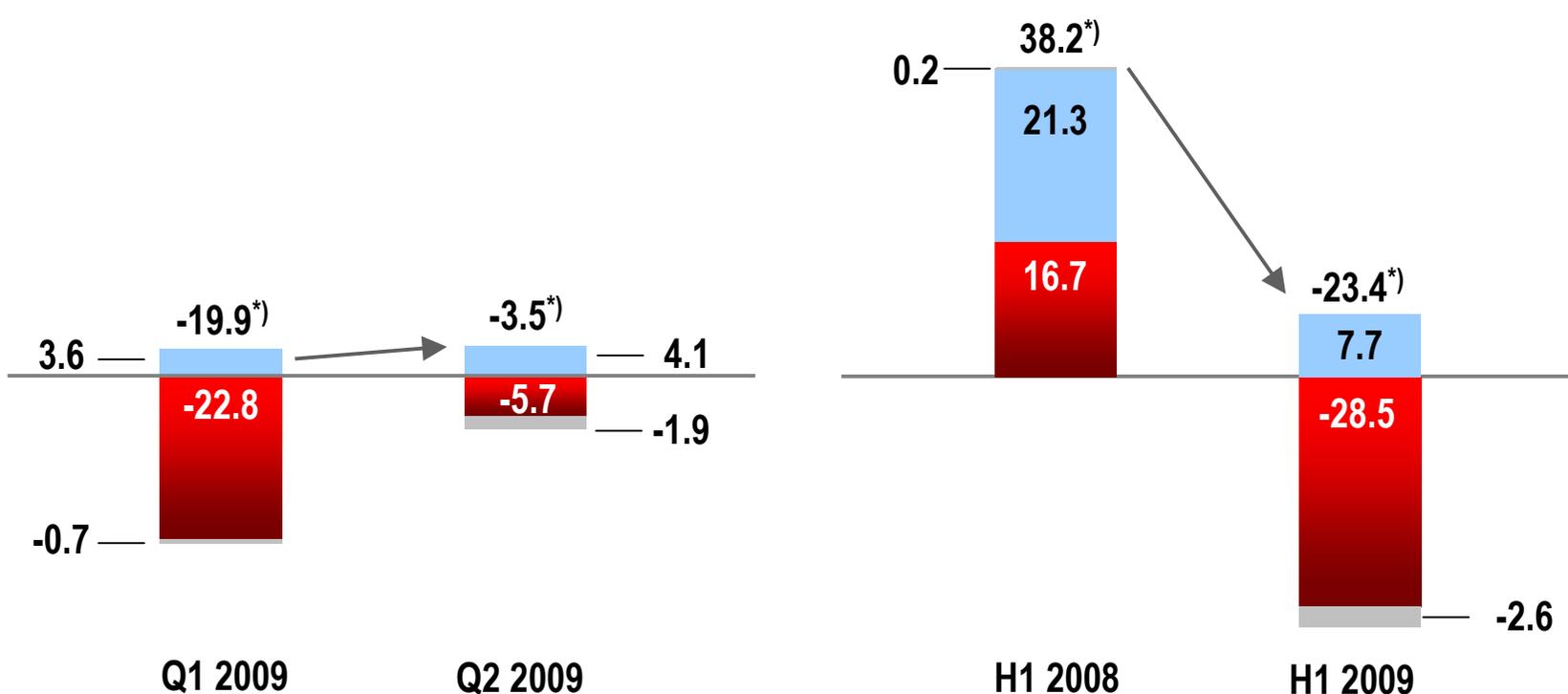
## Overview key financials of H1 2009

- Cost savings under MOVE programme starting to pay off:  
Significant reduction of loss (EBIT before one-off items) in Q2 2009 (€-3.5 million) compared to Q1 2009 (€-19.9 million)
- One-off charges of €30.4 million booked in Q2 2009 for future personnel restructuring
- Cash flow from operating activities significantly positive in H1 2009 (€23.4 million), mainly due to consequent reduction of inventories
- Comfortable liquidity of €~180 million (30 June 2009); net financial position slightly negative (€-39.2 million) due to continued high level of R&D capex; equity ratio remains high (39.5%)
- As a precautionary measure, DEUTZ is in advanced discussions with USPP investors to agree changed terms for covenants for a period of one year with the aim of creating more scope for future investment – especially R&D – and avoiding any non-compliance
  - DEUTZ is confident of positive outcome of negotiations
  - Relevant interest rates might be adjusted accordingly

# Key financials: EBIT before one-off items

€ million

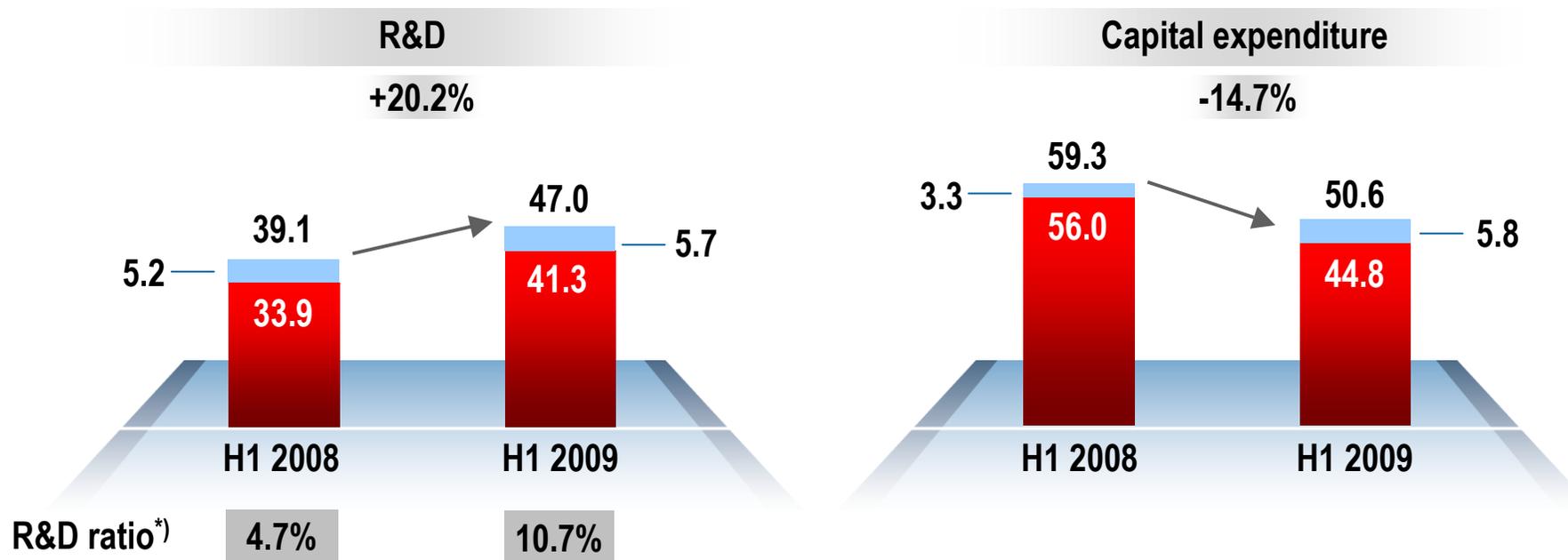
EBIT margin **-9.0%** **-1.6%** **4.6%** **-5.3%**



\*) change in EBIT calculation since Q1 2009:  
 interest included in pension costs is now reported under staff costs instead of net finance costs for transparency reasons;  
 pension-related interest cost in H1 2009: €5.1 million (H1 2008: €5.4 million);  
 comparative prior-year figures have been adjusted accordingly

# Key financials: R&D and capital expenditure

€ million



- Increased expenditure for R&D in light of pending exhaust gas emissions standards
- Jump in R&D ratio due to disproportionately strong decline in revenue

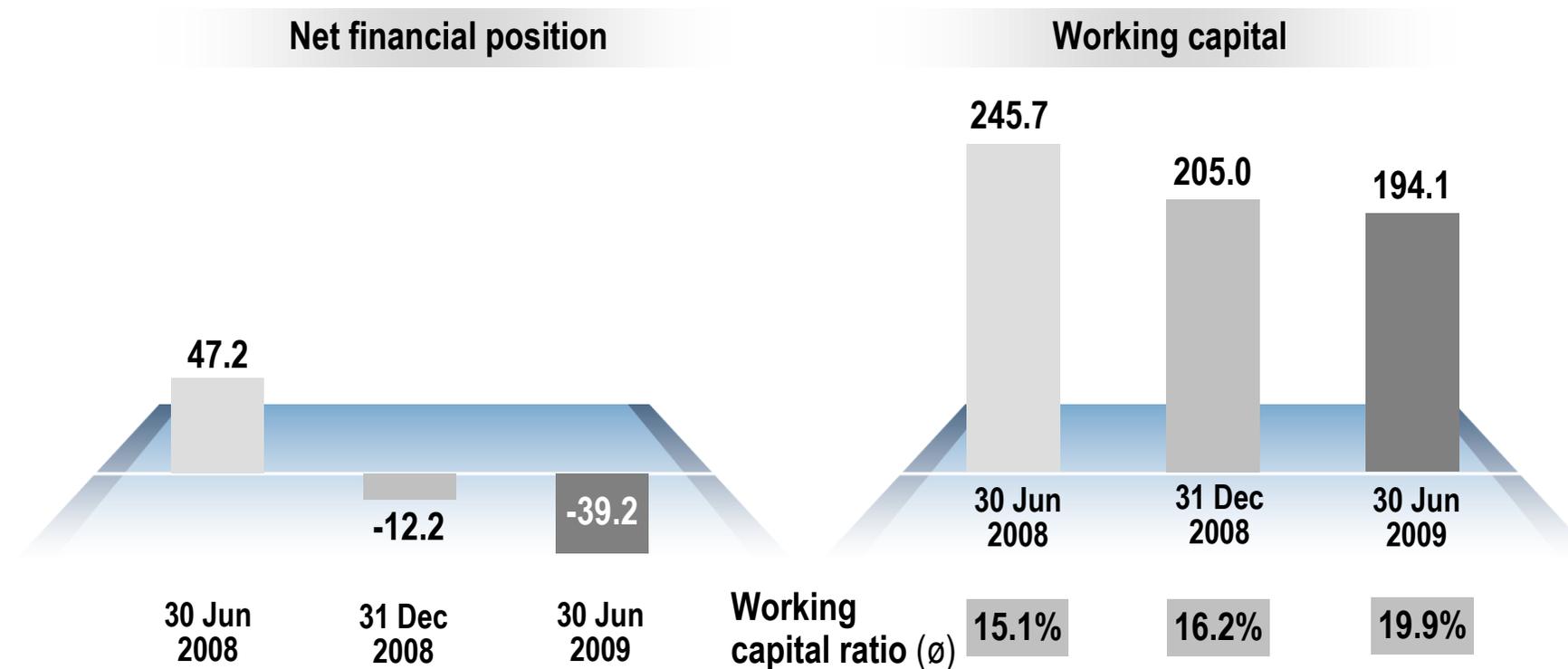
- Strict management of capital expenditure, except for R&D projects
- Capitalised development costs account for €27.6 million (H1 2008: €19.8 million)

\*) R&D expense/consolidated revenue

■ Compact Engines ■ DEUTZ Customised Solutions

# Key financials: net financial position and working capital

€ million



- Despite negative net financial position, cash situation still comfortable at €~180 million as at 30 June 2009
- Equity ratio remains high at 39.5%

- Decline in working capital due to consequent reduction of inventories; increase in WC ratio due to disproportionately strong decline in revenue
- Working capital ratio as at 30 June 2009: 17.5%

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# DEUTZ "MOVE" programme: status report

## MOVE

Programme to safeguard earnings and future viability

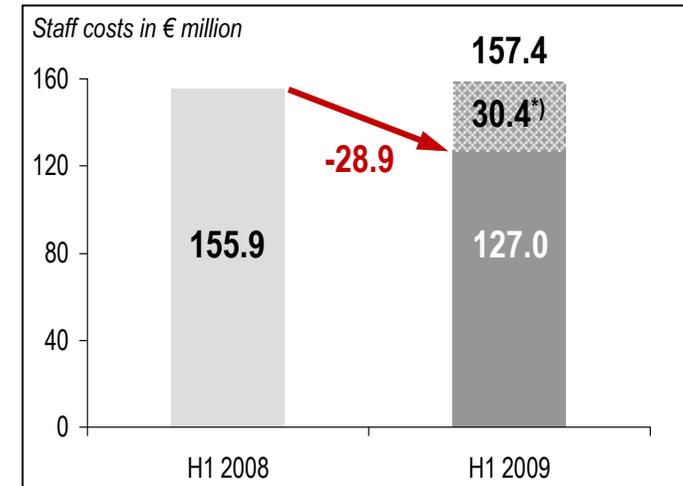
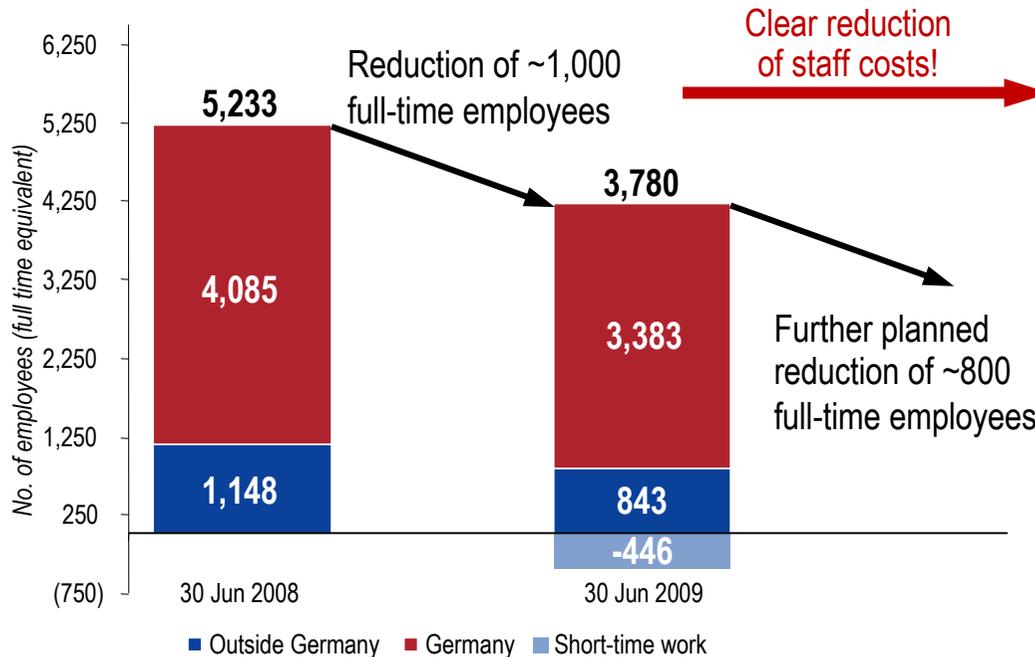
### Short-term measures for safeguarding profitability

 focus in 2009

- Savings since programme start in 2008: €72 million  
(Q2 2009: €43 million, H1 2009: €62 million)
- Mainly by reducing personnel and general administrative costs
- Target 2009: positive contribution of €~100 million
- Streamlining of organisational structures well under way;  
further reduction of headcount announced

### Structural measures for sustained improvement of earnings beyond 2009

# Development of workforce and staff costs



\*) one-off charge for personnel restructuring

- In addition to reduction of approx. 1,000 full-time employees, DEUTZ has introduced short-time working, which has reduced the full-time equivalent number of workers by 446
- Further headcount adjustment of up to 800 full-time employees worldwide is planned; negotiations with Company's works council are in progress
- Additional measures already implemented: Board of Management reduced from four to three people, number of functions at senior management level cut by more than 30%

## Continuing economic uncertainty still limits visibility

	Outlook FY 2009
New orders/unit sales/revenue	significantly below previous year; different scenarios for unit sales: decline of up to ~50%
EBIT (before one-off items)	negative
"MOVE" programme	positive contribution of €~100 million
Capital expenditure (excl. R&D)	almost at the level of FY 2008*); flexible depending on market development
Research and development	continued at the high level of FY 2008*)
Employees	short-time work: continued until further notice; headcount number clearly below previous year

**→ No substantial improvement in demand situation expected until 2010 at the earliest**

\*) FY 2008:  
capital expenditure (excluding R&D): €69.9 million  
Research and development: €90.3 million

## Joint venture with Bosch and Eberspächer on exhaust gas-technology

- MoU signed: objective is to establish a joint venture in non-road exhaust-gas technology
- Joint development, production and sale of diesel exhaust-gas treatment systems for non-road applications with regard to emissions regulations from 2011
- Planned joint venture to supply complete diesel exhaust systems to all engine and machinery manufacturers worldwide
- Bundling of know-how:
  - Bosch: expertise in SCR metering systems as well as electronic control units and systems
  - DEUTZ: experience in reducing diesel engine emissions, necessary application know-how
  - Eberspächer: specialist in exhaust technology and leader in exhaust-gas aftertreatment
- Objective is to launch joint venture and start series production as soon as possible

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## Overview key financials (I)

€ million	H1 2009	H1 2008	Change in %
Revenue	440.5	825.5	-46.6
EBIT	-53.8	38.2	--
EBIT before one-off items	-23.4	38.2	--
EBIT margin	-12.2	4.6	--
EBIT margin before one-off items	-5.3	4.6	--
Net result	-62.6	30.3	--
Basic earnings per share (€)	-0.52	0.25	--
Number of employees as at 30 June	4,355	4,930	-11.7

## Overview key financials (II)

€ million	H1 2009	H1 2008	Change in %
Total equity and liabilities	1,121.5	1,206.3	-7.0
Equity	442.8	511.3	-13.4
Equity ratio (%)	39.5	42.4	--
Net financial position	-39.2	-12.2	--
Working capital	194.1	205.0	-5.3
Working capital ratio (balance sheet date, %)	17.5	13.7	--
Cash flow from operating activities	23.4	50.7	-53.8
Free cash flow	-27.2	-5.5	--

# Income statement

€ million	H1 2009	H1 2008	Change in %
<b>Revenue</b>	<b>440.5</b>	<b>825.5</b>	-46.6
Change in inventories and other own work capitalised	0.0	24.7	-100.0
Other operating income	40.4	30.9	30.7
Cost of materials	-290.1	-573.7	-49.4
Staff costs	-157.4 <sup>*)</sup>	-155.9	1.0
Depreciation and amortisation	-32.4	-35.9	-9.7
Other operating expenses	-51.0	-74.6	-31.6
Net result from equity-accounted investments	-3.8	-2.8	35.7
<b>EBIT</b>	<b>-53.8</b>	<b>38.2</b>	--
thereof one-off items	-30.4	--	--
thereof operating profit (EBIT before one-off items)	-23.4	38.2	--
Interest expenses, net	-4.0	-1.3	--
Other taxes	-0.9	-1.0	-10.0
<b>Net income before taxes on continuing operations</b>	<b>-58.7</b>	<b>35.9</b>	--
Income taxes	-3.7	-5.6	-33.9
<b>Net income on continuing operations</b>	<b>-62.4</b>	<b>30.3</b>	--
Net income on discontinued operations	-0.2	0.0	--
<b>Net income</b>	<b>-62.6</b>	<b>30.3</b>	--

<sup>\*)</sup> adjusted for one-off charge of €30.4 million in Q2 2009

## Balance sheet: assets

€ million	30 June 2009	31 Dec 2008	Change in %
Non-current assets (before deferred tax assets)	534.7	539.7	-0.9
Deferred tax assets	33.5	33.1	1.2
Inventories	180.9	222.0	-18.5
Trade receivables	113.0	121.1	-6.7
Other receivables and assets	78.9	82.0	-3.8
Cash and cash equivalents	178.1	207.5	-14.2
Non-current assets and disposal groups held for sale	2.4	0.9	--
<b>Total assets</b>	<b>1,121.5</b>	<b>1,206.3</b>	<b>-7.0</b>

## Balance sheet: equity and liabilities

€ million	30 June 2009	31 Dec 2008	Change in %
<b>Equity</b>	<b>442.8</b>	<b>511.3</b>	<b>-13.4</b>
Provisions for pensions and other post-retirement benefits	166.0	169.3	-1.9
Deferred tax provisions	0.1	0.1	0.0
Other provisions	28.8	45.7	-37.0
Financial liabilities	212.8	214.1	-0.6
Other liabilities	7.0	1.7	--
<b>Non-current liabilities</b>	<b>414.7</b>	<b>430.9</b>	<b>-3.8</b>
Provisions for pensions and other post-retirement benefits	16.4	16.4	0.0
Other provisions/provisions for current taxes	81.9	50.9	60.9
Financial liabilities	4.5	5.6	-19.6
Trade payables	99.8	138.1	-27.7
Other liabilities	61.4	53.1	15.6
<b>Current liabilities</b>	<b>264.0</b>	<b>264.1</b>	<b>0.0</b>
<b>Total equity and liabilities</b>	<b>1,121.5</b>	<b>1,206.3</b>	<b>-7.0</b>

## Cash flow statement (summary)

€ million	H1 2009	H1 2008
EBIT	-53.8	38.2
<b>Cash flow from operating activities (total)</b>	<b>23.4</b>	<b>50.7</b>
Cash flow from investing activities (continuing operations)	-43.4	-48.6
Cash flow from investing activities (discontinued operations)	-0.4	-1.4
<b>Cash flow from investing activities (total)</b>	<b>-43.8</b>	<b>-50.0</b>
<b>Cash flow from financing activities</b>	<b>-9.2</b>	<b>-56.8</b>
<b>Change in cash and cash equivalents</b>	<b>-29.6</b>	<b>-56.1</b>

## Segment overview H1 2009

	H1 2009	H1 2008	Change in %
<b>New orders (€ million)</b>			
Compact Engines	304.6	636.0	-52.1
DEUTZ Customised Solutions	101.3	193.1	-47.5
<b>Total activities</b>	<b>405.9</b>	<b>829.1</b>	<b>-51.0</b>

	H1 2009	H1 2008	Change in %
<b>Revenue (€ million)</b>			
Compact Engines	322.2	652.5	-50.6
DEUTZ Customised Solutions	118.3	173.0	-31.6
<b>Total activities</b>	<b>440.5</b>	<b>825.5</b>	<b>-46.6</b>
Germany	28.6 %	24.2 %	--
Exports	71.4 %	75.8 %	--

	H1 2009	H1 2008	Change in %
<b>Unit sales</b>			
Compact Engines	52,121	132,123	-60.6
DEUTZ Customised Solutions	8,376	16,564	-49.4
<b>Total activities</b>	<b>60,497</b>	<b>148,687</b>	<b>-59.3</b>

	H1 2009	H1 2008	Change in %
<b>EBIT before one-off items (€ million)</b>			
Compact Engines incl. DDE	-28.5	16.7	--
<i>DEUTZ Dalian Engines (DDE)</i>	-5.3	-4.7	12.8
<i>Compact Engines excluding DDE</i>	-23.2	21.4	--
DEUTZ Customised Solutions	7.7	21.3	-63.8
Other	-2.6	0.2	--
<b>Total activities</b>	<b>-23.4</b>	<b>38.2</b>	<b>--</b>

## Segment overview Q2 2009

	<b>Q2 2009</b>	<b>Q2 2008</b>	Change in %
<b>New orders (€ million)</b>			
Compact Engines	151.8	291.4	-47.9
DEUTZ Customised Solutions	48.2	104.4	-53.8
<b>Total activities</b>	<b>200.0</b>	<b>395.8</b>	<b>-49.5</b>

	<b>Q2 2009</b>	<b>Q2 2008</b>	Change in %
<b>Revenue (€ million)</b>			
Compact Engines	160.7	334.4	-51.9
DEUTZ Customised Solutions	59.2	94.1	-37.1
<b>Total activities</b>	<b>219.9</b>	<b>428.5</b>	<b>-48.7</b>
Germany	26.7%	24.4%	--
Exports	73.3%	75.6%	--

	<b>Q2 2009</b>	<b>Q2 2008</b>	Change in %
<b>Unit sales</b>			
Compact Engines	26,962	67,346	-61.4
DEUTZ Customised Solutions	3,946	8,555	-53.9
<b>Total activities</b>	<b>29,908</b>	<b>75,901</b>	<b>-60.6</b>

	<b>Q2 2009</b>	<b>Q2 2008</b>	Change in %
<b>EBIT before one-off items (€ million)</b>			
Compact Engines incl. DDE	-5.7	8.7	--
<i>DEUTZ Dalian Engines (DDE)</i>	-1.9	-1.5	26.7
<i>Compact Engines excluding DDE</i>	-3.8	10.2	--
DEUTZ Customised Solutions	4.1	12.5	-67.2
Other	-1.9	0.0	--
<b>Total activities</b>	<b>-3.5</b>	<b>21.2</b>	<b>--</b>

## Financial calendar 2009/2010

- |   |                |                  |
|---|----------------|------------------|
| ■ Publication Report 1st to 3rd Quarter 2009<br>Conference call with analysts and investors |                | 5 November 2009  |
| ■ Annual results Press Conference<br>Publication Annual Report 2009                         | Cologne        | 18 March 2010    |
| ■ Analysts' Meeting   | Frankfurt/Main | 19 March 2010    |
| ■ Annual General Meeting  | Cologne        | 6 May 2010       |
| ■ Publication Report 1st Quarter 2010<br>Conference call with analysts and investors        |                | 12 May 2010      |
| ■ Publication Report 1st Half-year 2010<br>Conference call with analysts and investors      |                | 5 August 2010    |
| ■ Publication Report 1st to 3rd Quarter 2010<br>Conference call with analysts and investors |                | 10 November 2010 |

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