

## **CONFERENCE CALL Q1 2009**

**7 May 2009**

The engine company.



# Agenda

- **Overview Q1 2009**

Dr Helmut Leube, Chairman of the Management Board

- **Key performance indicators Q1 2009**

Dr Margarete Haase, CFO

- **Outlook and "MOVE" programme**

Dr Helmut Leube, Chairman of the Management Board

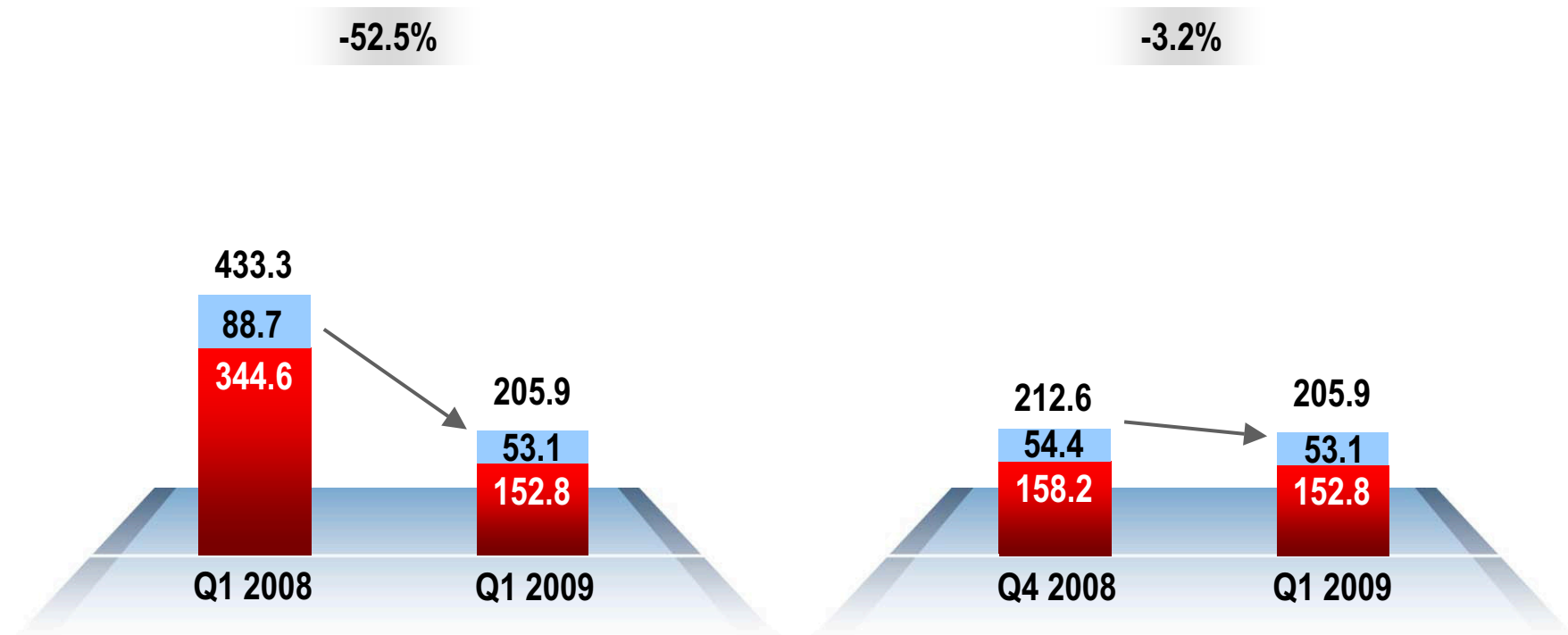
- **Appendix**

## Overview of Q1 2009

- **Negative trend of Q4 2008 continued in Q1 2009**
  - Sharp decline in unit sales and revenue yoy (-58% and -44%)
  - New orders down more than 50% yoy; downturn less pronounced compared with Q4 2008 (-3.2%)
  - Decline in almost all application segments including service business
  - No substantial improvement in market situation until 2010 at the earliest
  
- **"MOVE": decided measures on track, further measures to be defined**
  - Positive earnings contribution of €100 million in FY 2009 targeted
  - Short-term savings: €19 million in Q1 2009; €29 million since start of programme
  - Depending on short-term economic development, further measures will be defined to adapt organizational structures and cost situation
  
- **Positive response of customers after presentation of TIER 4 engines**
  - Successful presentation of TIER 4 engines at INTERMAT exhibition in Paris
  - Intensive discussion and positive response of customers

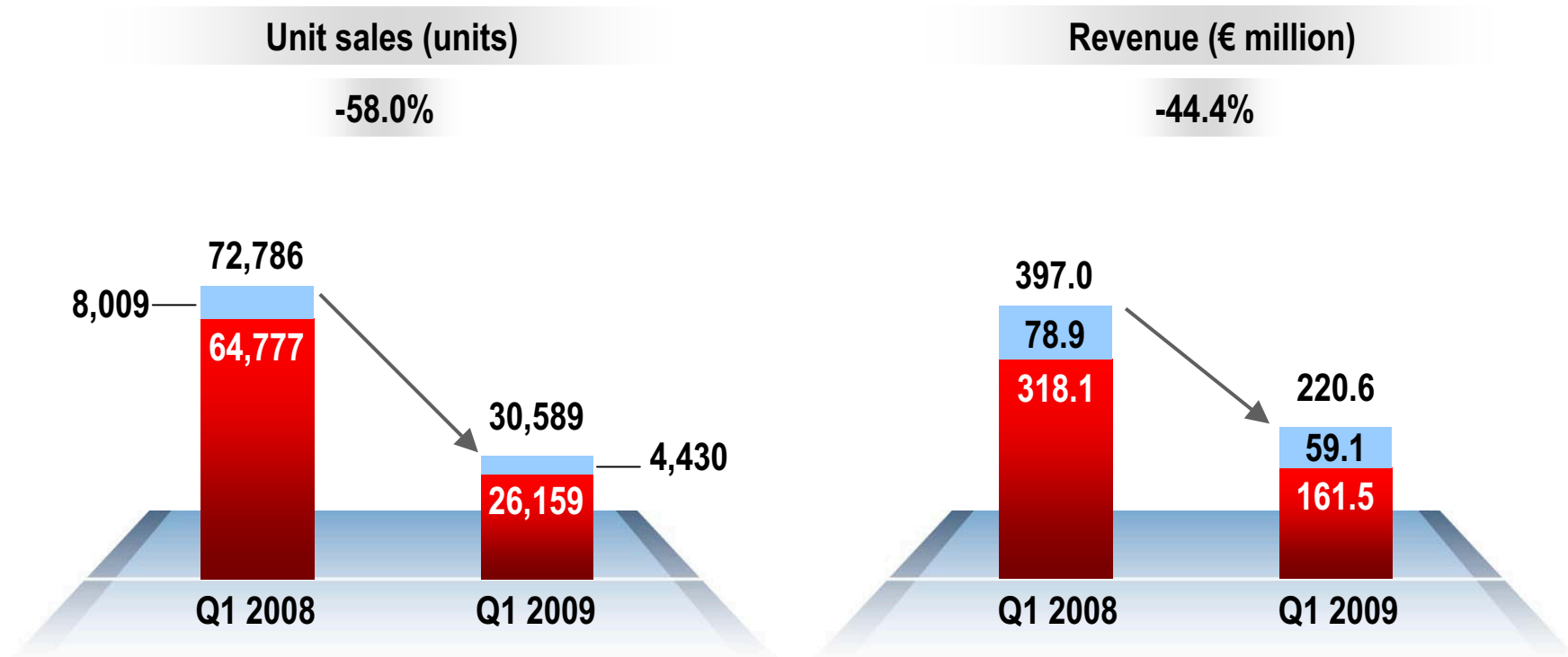
# Development of new orders

€ million



- Weakness of economy led to new orders plummeting by more than half compared to very good Q1 2008; all application segments and regions worldwide impacted
- Compared to Q4 2008, negative order trend has slowed; customer destocking is still ongoing
- No substantial recovery in demand expected until 2010 at the earliest

# Development of unit sales and revenue

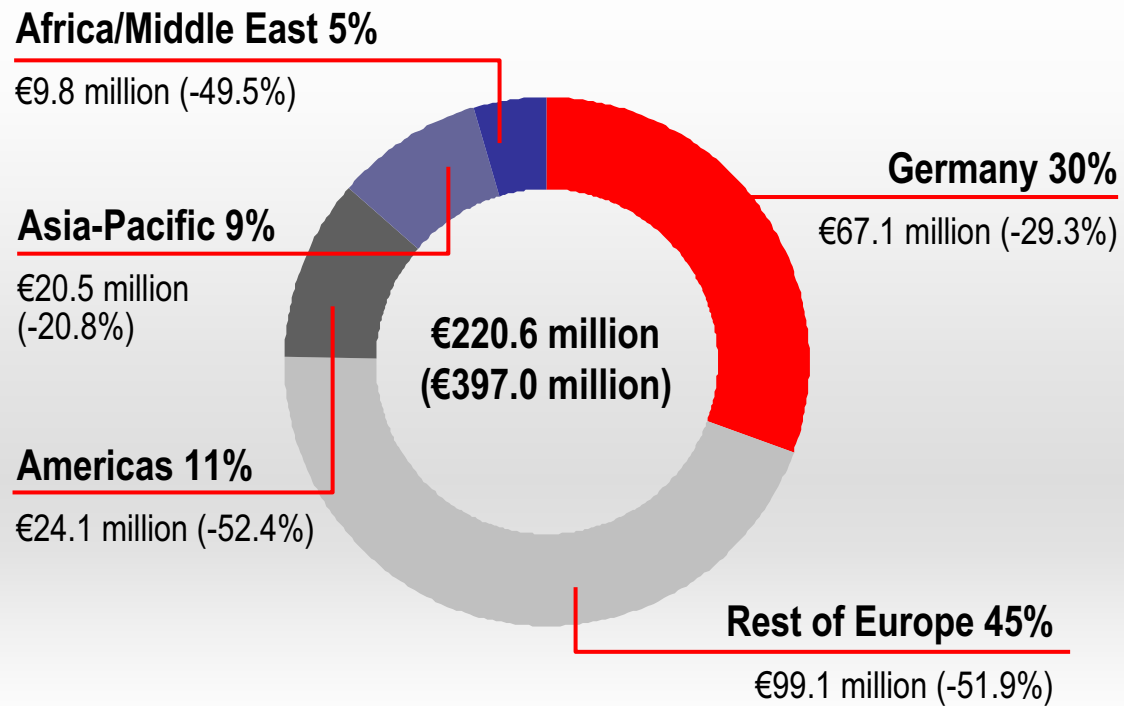


- Following extremely weak order situation in Q3 and Q4 2008 and a continuous decline in orders on hand, unit sales and revenue clearly lower yoy
- Almost all engine series impacted by double-digit percentage drop in unit sales, especially smaller engines (< 4 litres)

# Revenue by region

**Q1 2009**

(change in % vs. Q1 2008)



## Segment overview: Compact Engines

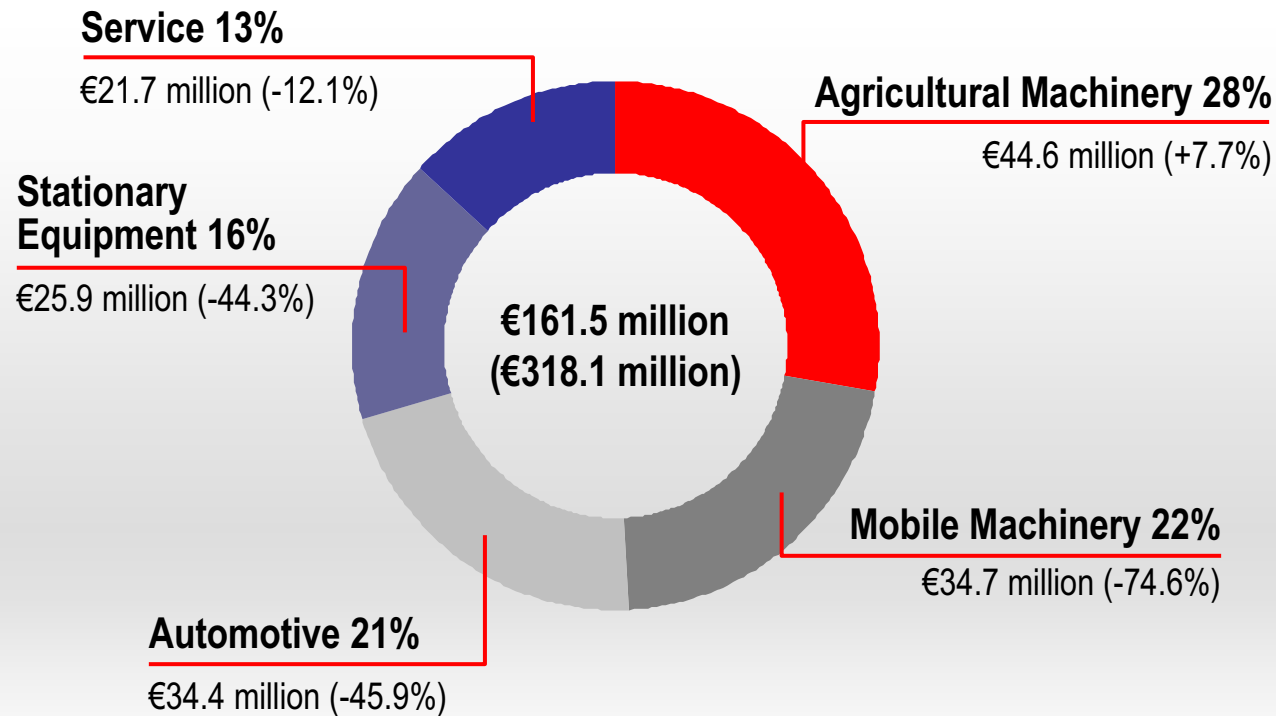
€ million	Q1 2009	Q1 2008	Change in %
New orders	152.8	344.6	-55.7
Unit sales (units)	26,159	64,777	-59.6
Revenue	161.5	318.1	-49.2
EBIT	-22.8	8.0	--

- Compared to Q1 2008, new orders and unit sales more than halved due to ongoing economic slump
- Almost all application segments impacted by decline in revenue, mostly Mobile Machinery (construction and material handling equipment) with -75%; Service business lower due to customer reluctance to spend on maintenance
- Agricultural Machinery with encouraging increase in revenue (+8%), but less dynamic growth in new orders
- Overall rate of decline in demand slowed when comparing Q1 2009 with Q4 2008 (-3.4%)
- EBIT negative due to fall of volume and lower service business as well as continuing start-up losses at DEUTZ Dalian joint venture (€3.5 million in Q1 2009)

# Compact Engines: revenue by application segment

**Q1 2009**

(change in % vs. Q1 2008)





## Segment overview: DEUTZ Customised Solutions

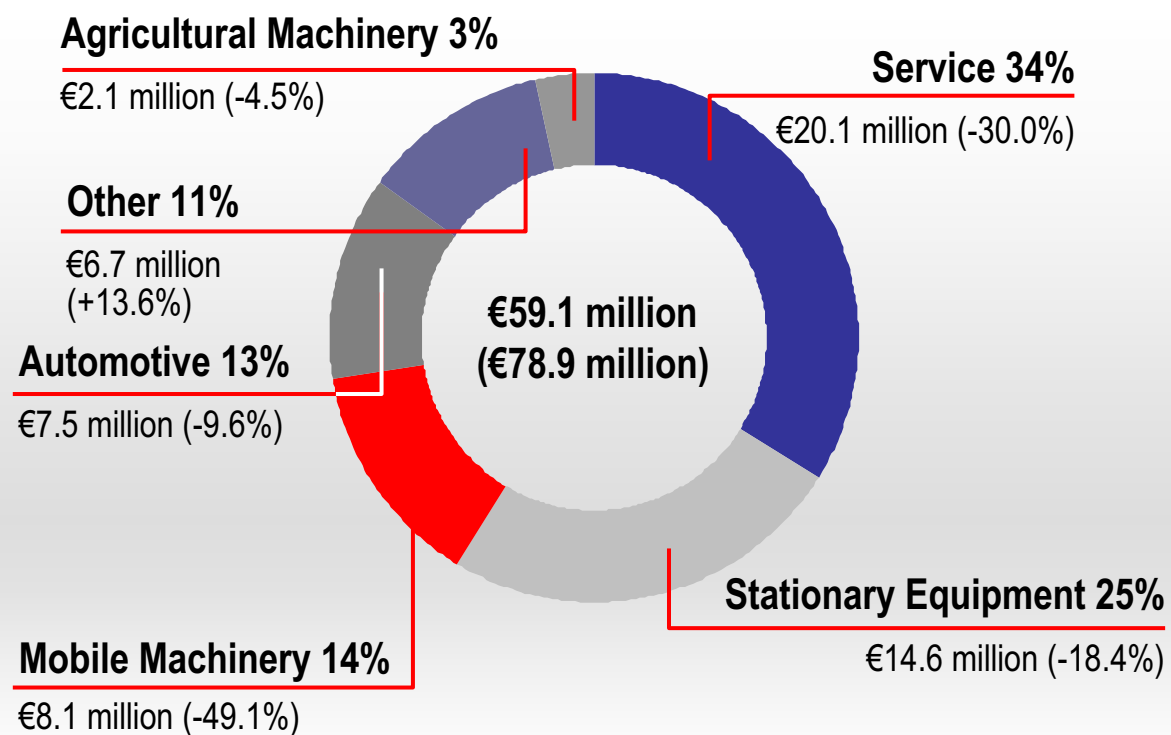
€ million	<b>Q1 2009</b>	<b>Q1 2008</b>	Change in %
New orders	<b>53.1</b>	88.7	-40.1
Unit sales (units)	<b>4,430</b>	8,009	-44.7
Revenue	<b>59.1</b>	78.9	-25.1
EBIT	<b>3.6</b>	8.8	-59.1

- Significant decline in new orders and unit sales, both for new engines and services; contraction in new orders comparing Q1 2009/Q4 2008 was more moderate (-2.4%)
- Sharp fall in overall unit sales of air-cooled engines impacted by discontinuation of production of small air-cooled engines in Spain (~1,000 engines)
- Besides Mobile Machinery (construction and underground equipment), revenue decline at Service most pronounced (-30%) due to lower sales of spare parts and reconditioned engines (Xchange business)
- Slump in EBIT due to strong contraction of business volume and decline of highly profitable service business

## DEUTZ Customised Solutions: revenue by application segment

**Q1 2009**

(change in % vs. Q1 2008)



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- **Appendix**

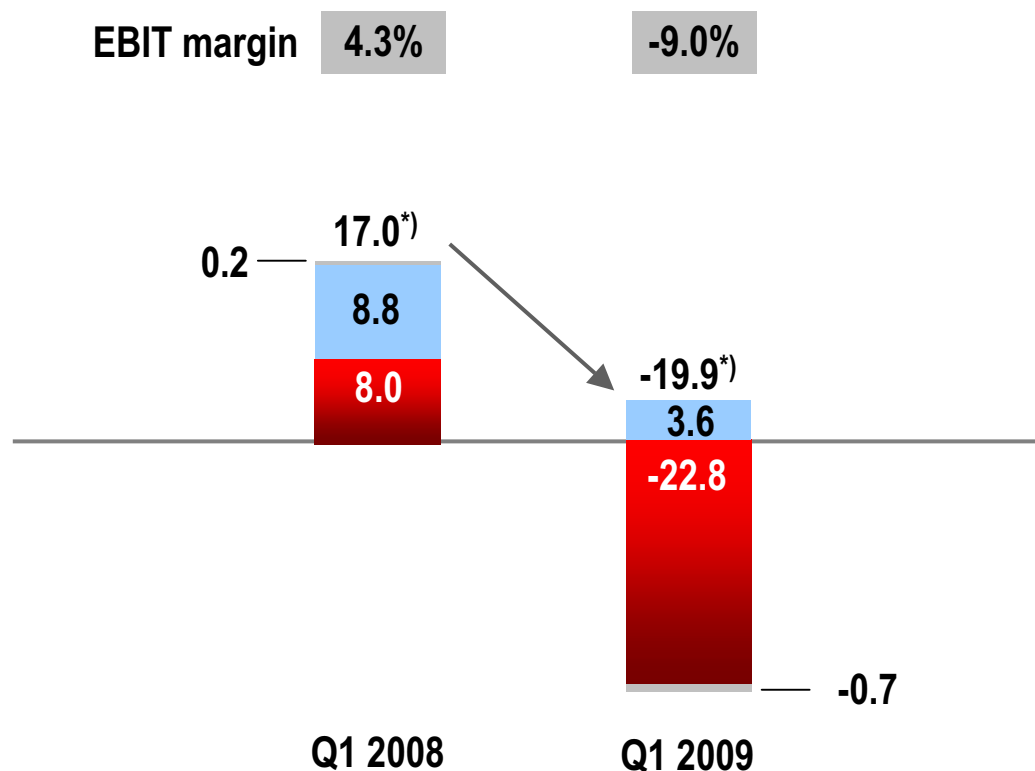
## Overview of key financials Q1 2009

- Decline in EBIT to €-19.9 million (€17.0 million) owing to sharp and rapid decline in business volumes; cost-cutting measures were not sufficient to offset the decline in revenue
- DEUTZ Dalian (DDE) with further start-up losses of €3.5 million (€3.2 million) in more difficult market environment – global economic crisis also hitting the Chinese market
- Change in accounting method: Pension interest of €2.5 million (€2.7 million) shown in EBIT, not in interest expense for more transparency
- Net result negative: €-23.7 million (€+13.5 million)
- Cash flow from operating activities with slight decrease to €-23.0 million (€-20.4 million): decline in earnings partly offset by lower amount of working capital needed compared with same period of prior year
- Net financial position: €-69.2 million (€+50.1 million); equity ratio 41.9% (41.1%)
- As of today, covenants for U.S. private placement not a risk

( ) = Q1 2008

# Key financials: EBIT before one-off items

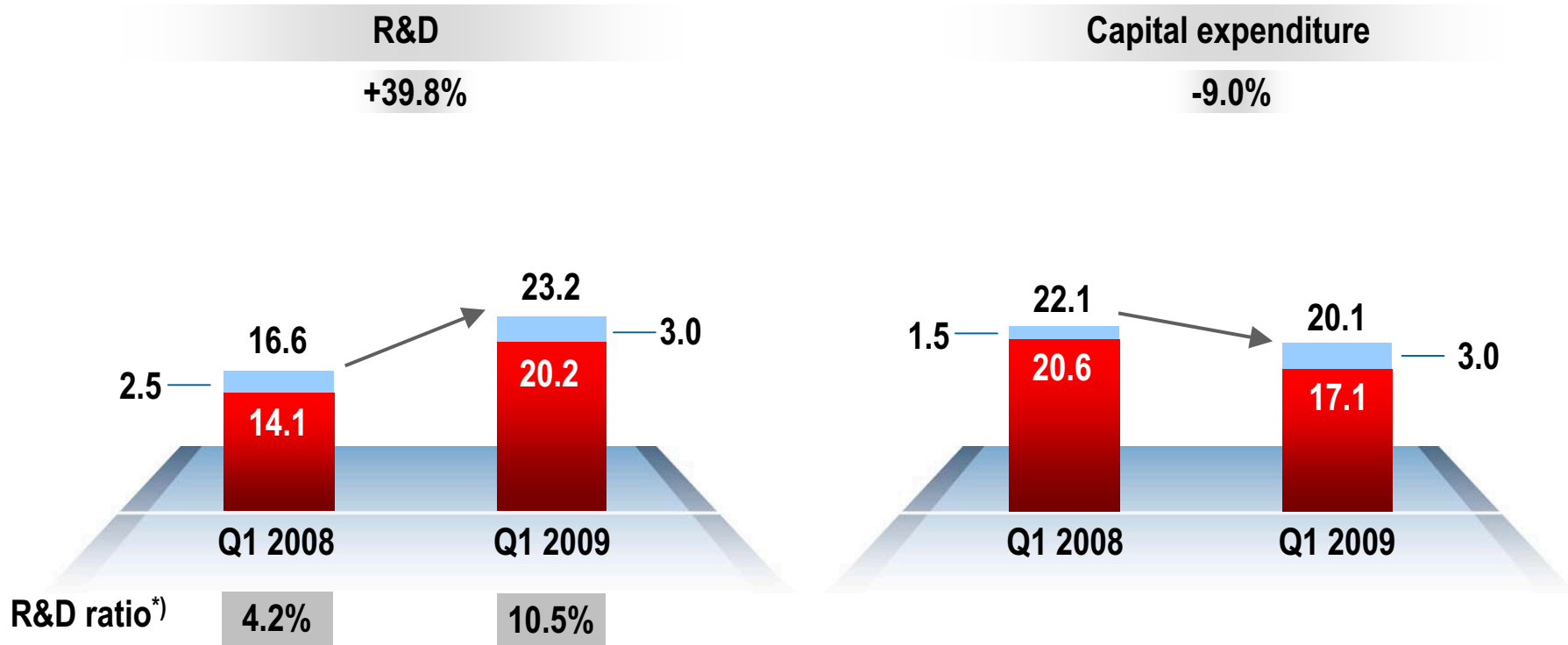
€ million



\*) change in EBIT calculation: interest included in pension costs is now reported as part of staff costs instead of net finance costs for transparency reasons; pension related interest cost in Q1 2009: €2.5 million (Q1 2008: €2.7 million); comparative prior-year figures have been adjusted accordingly

# Key financials: R&D and capital expenditure

€ million



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

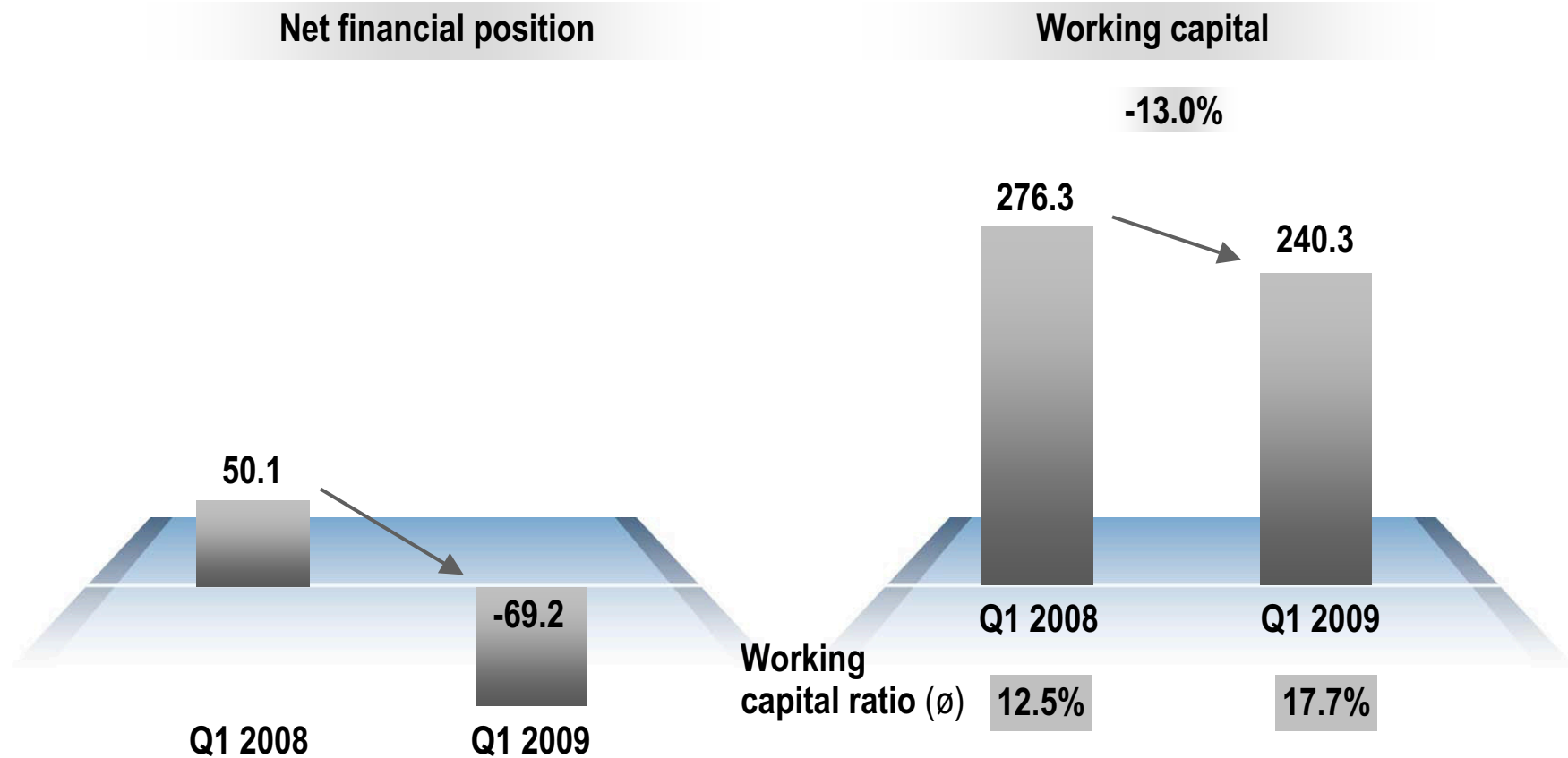
- Except for R&D projects strict management of capital expenditure
- Capitalised development costs account for €11.4 million (Q1 2008: €7.0 million)

<sup>\*)</sup> R&D expense/consolidated revenue

 Compact Engines  DEUTZ Customised Solutions

# Key financials: net financial position and working capital

€ million



- Despite negative net financial position compared with Q1 2008, cash situation still comfortable at €~158 million as at 31 March 2009

- Decline in working capital due to overall lower business volume; increase in WC ratio due to disproportionately high decline in revenue
- Working capital ratio as at 31 March 2009: 18.2%

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## Great economic uncertainty makes it difficult to make reliable forecasts

engine company.



	Outlook FY 2009
New orders/unit sales/revenue/EBIT	significantly below previous year
Successful implementation of "MOVE" programme	positive earnings contribution of approx. €100 million
Capital expenditure (excl. R&D)	at the level of FY 2008*); flexible, depending on market developments
Research and development	continued at the high level of FY 2008*)
Employees	short-time work: continued until further notice; adjustment of workforce and organisational structures

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

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

# 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: €29 million (Q1 2009: €19 million)
- Mainly by reducing personnel and general administrative costs
- Target 2009: positive earnings contribution of €~100 million
- Further measures to be defined to adapt organizational structures and cost situation

### Structural measures for sustained improvement of earnings

 **beyond 2009**

- Successful product launches (TIER 4 interim/final, exhaust gas aftertreatment)
- Continuous increase in productivity by process optimisation
- Improvement in earnings of the joint venture DEUTZ Dalian ("MOVE China")

 **"MOVE" is geared to react flexibly to continuously changing economic developments**

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## Overview of key performance indicators (I)

€ million	Q1 2009	Q1 2008	Change in %
Revenue	220.6	397.0	-44.4
EBITDA	-4.1	34.3	--
EBIT	-19.9	17.0	--
EBIT margin	-9.0	4.3	--
Net result	-23.7	13.5	--
Basic earnings per share (€)	-0.20	0.11	--
Number of employees as at 31 March	4,555	4,909	-7.2

## Overview of key performance indicators (II)

€ million	Q1 2009	Q1 2008	Change in %
Total equity and liabilities	1,159.6	1,387.5	-16.4
Equity	486.4	570.1	-14.7
Equity ratio (%)	41.9	41.1	--
Cash flow from operating activities	-23.0	-20.4	12.7
Free cash flow	-47.8	-51.3	-6.8
Net financial position	-69.2	50.1	--
Working capital at balance sheet date of 31 March	240.3	276.3	-13.0

## Income statement

€ million	Q1 2009	Q1 2008	Change in %
<b>Revenue</b>	<b>220.6</b>	<b>397.0</b>	-44.4
Change in inventories and other own work capitalised	7.3	13.6	-46.3
Other operating income	15.8	16.7	-5.4
Cost of materials	-151.1	-275.3	-45.1
Staff costs	-67.3	-76.1	-11.6
Depreciation and amortisation	-15.8	-17.3	-8.7
Other operating expenses	-26.6	-39.2	-32.1
Net result from equity-accounted investments	-2.8	-2.4	16.7
<b>EBIT</b>	<b>-19.9</b>	<b>17.0</b>	--
Net interest expense	-1.7	-0.9	88.9
Other taxes	-0.3	-0.3	0.0
<b>Net loss/income before taxes on continuing operations</b>	<b>-21.9</b>	<b>15.8</b>	--
Income taxes	-1.8	-2.3	-21.7
<b>Net loss/income after taxes on continuing operations</b>	<b>-23.7</b>	<b>13.5</b>	--
Net loss/income after taxes on discontinued operations	-0.2	0.0	--
<b>Net loss/income</b>	<b>-23.9</b>	<b>13.5</b>	--

## Balance sheet: assets

€ million	31 Mar 2009	31 Mar 2008	Change in %
Non-current assets (before deferred tax assets)	543.8	539.7	0.8
Deferred tax assets	34.4	33.1	3.9
Inventories	215.4	222.0	-3.0
Trade receivables	128.6	121.1	6.2
Other receivables and assets	78.3	82.0	-4.5
Cash and cash equivalents	158.2	207.5	-23.8
Non-current assets and disposal groups held for sale	0.9	0.9	0.0
<b>Total assets</b>	<b>1,159.6</b>	<b>1,206.3</b>	<b>-3.9</b>

## Balance sheet: equity and liabilities

€ million	31 Mar 2009	31 Mar 2008	Change in %
<b>Equity</b>	<b>486.4</b>	<b>511.3</b>	<b>-4.9</b>
Provisions for pensions and other post-retirement benefits	167.5	169.3	-1.1
Deferred tax provisions	0.1	0.1	0.0
Other provisions	44.4	45.7	-2.8
Financial liabilities	222.0	214.1	3.7
Other liabilities	2.4	1.7	41.2
<b>Non-current liabilities</b>	<b>436.4</b>	<b>430.9</b>	<b>1.3</b>
Provisions for pensions and other post-retirement benefits	16.4	16.4	0.0
Other provisions/provisions for current taxes	58.4	50.9	14.7
Financial liabilities	5.4	5.6	-3.6
Trade payables	103.7	138.1	-24.9
Other liabilities	52.9	53.1	-0.4
<b>Current liabilities</b>	<b>236.8</b>	<b>264.1</b>	<b>-10.3</b>
<b>Total equity and liabilities</b>	<b>1,159.6</b>	<b>1,206.3</b>	<b>-3.9</b>



## Cash flow statement (summary)

€ million	Q1 2009	Q1 2008
EBIT	-19.9	17.0
<b>Cash flow from operating activities (total)</b>	<b>-23.0</b>	<b>-20.4</b>
Cash flow from investing activities (continuing operations)	-18.2	-24.3
Cash flow from investing activities (discontinued operations)	-0.4	-0.9
<b>Cash flow from investing activities (total)</b>	<b>-18.6</b>	<b>-25.2</b>
<b>Cash flow from financing activities</b>	<b>-8.0</b>	<b>-7.1</b>
<b>Change in cash and cash equivalents</b>	<b>-49.6</b>	<b>-52.7</b>

## Segment overview Q1 2009

	<b>Q1 2009</b>	<b>Q1 2008</b>	Change in %
<b>New orders (€ million)</b>			
Compact Engines	152.8	344.6	-55.7
DEUTZ Customised Solutions	53.1	88.7	-40.1
<b>Total activities</b>	<b>205.9</b>	433.3	-52.5

	<b>Q1 2009</b>	<b>Q1 2008</b>	Change in %
<b>Revenue (€ million)</b>			
Compact Engines	161.5	318.1	-49.2
DEUTZ Customised Solutions	59.1	78.9	-25.1
<b>Total activities</b>	<b>220.6</b>	397.0	-44.4
Germany	30.4 %	23.9 %	--
Exports	69.6 %	76.1 %	--

	<b>Q1 2009</b>	<b>Q1 2008</b>	Change in %
<b>Unit sales (units)</b>			
Compact Engines	26,159	64,777	-59.6
DEUTZ Customised Solutions	4,430	8,009	-44.7
<b>Total activities</b>	<b>30,589</b>	72,786	-58.0

	<b>Q1 2009</b>	<b>Q1 2008</b>	Change in %
<b>EBIT (€ million)</b>			
Compact Engines incl. DDE	-22.8	8.0	--
<i>DEUTZ Dalian Engines (DDE)</i>	-3.5	-3.2	9.4
<i>Compact Engines excluding DDE</i>	-19.3	11.2	--
DEUTZ Customised Solutions	3.6	8.8	-59.1
Other	-0.7	0.2	--
<b>Total activities</b>	<b>-19.9</b>	17.0	--

## Financial calendar 2009/2010

- |   |                |                  |
|---|----------------|------------------|
| ■ Publication Report 1st Half-year 2009<br>Conference call with analysts and investors      |                | 12 August 2009   |
| ■ 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      |                | 12 August 2010   |
| ■ Publication Report 1st to 3rd Quarter 2010<br>Conference call with analysts and investors |                | 10 November 2010 |

## Contact



DEUTZ AG

Sandra Siegele

Investor Relations

Ottostrasse 1

51149 Cologne (Porz-Eil)

Phone: +49 (0)221 822 2492

Fax: +49 (0)221 822 15 2492

E-mail: [siegele.s@deutz.com](mailto:siegele.s@deutz.com)

[www.deutz.com](http://www.deutz.com)

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