

## **Conference Call H1 2012**

9 August 2012

Dr Helmut Leube, CEO  
Dr Margarete Haase, CFO

The engine company.



# Agenda

- **Review H1 2012**

- **Outlook**

- **Annex**

# Highlights of H1 2012

## ■ Sales figures affected by weaker end markets

- Unit sales declined by 12.4% yoy due to challenging market conditions in Europe and China
- Revenue decreased by 6.0% yoy; higher value of new Tier 4 interim compliant engines partly compensated lower unit sales
- Order intake of €701.0 million 12.1% below previous year

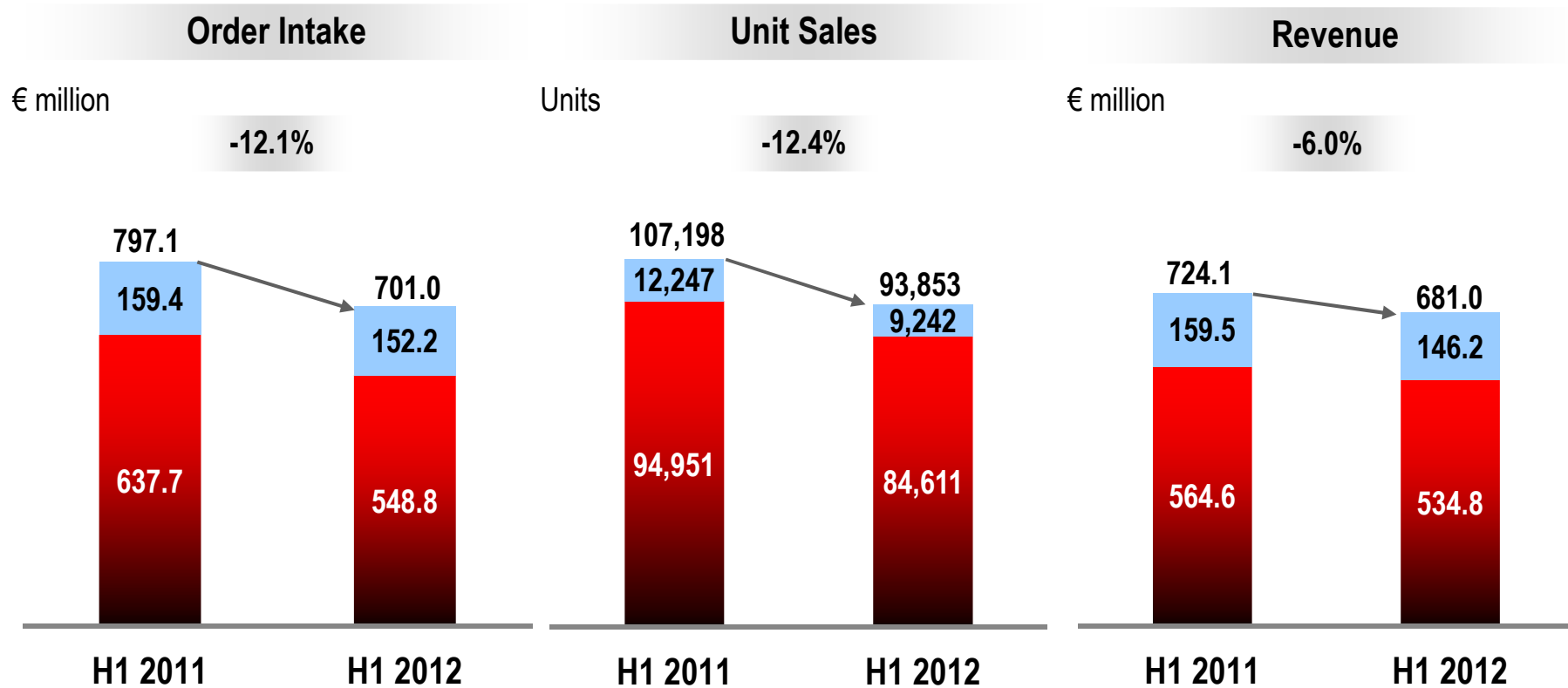
## ■ Strategic growth projects on track

- Production start of JV DEUTZ Engine (Shandong) in 2013 on schedule
- Memorandum of understanding signed with Volvo in April. Aim is to explore DEUTZ majority owned production JV in China and potential joint development of mid-sized off-highway engines for future emission level (Tier 5)
- Good position to make inroads into new customer segments, particularly in the agricultural machinery sector and in Asia

## ■ Improved funding

- End of June, new long-term funding agreed, which secures financing of our strategic projects and further growth
- DEUTZ stronger financial position has allowed us to reduce interest expenses for the next years

# Sales figures

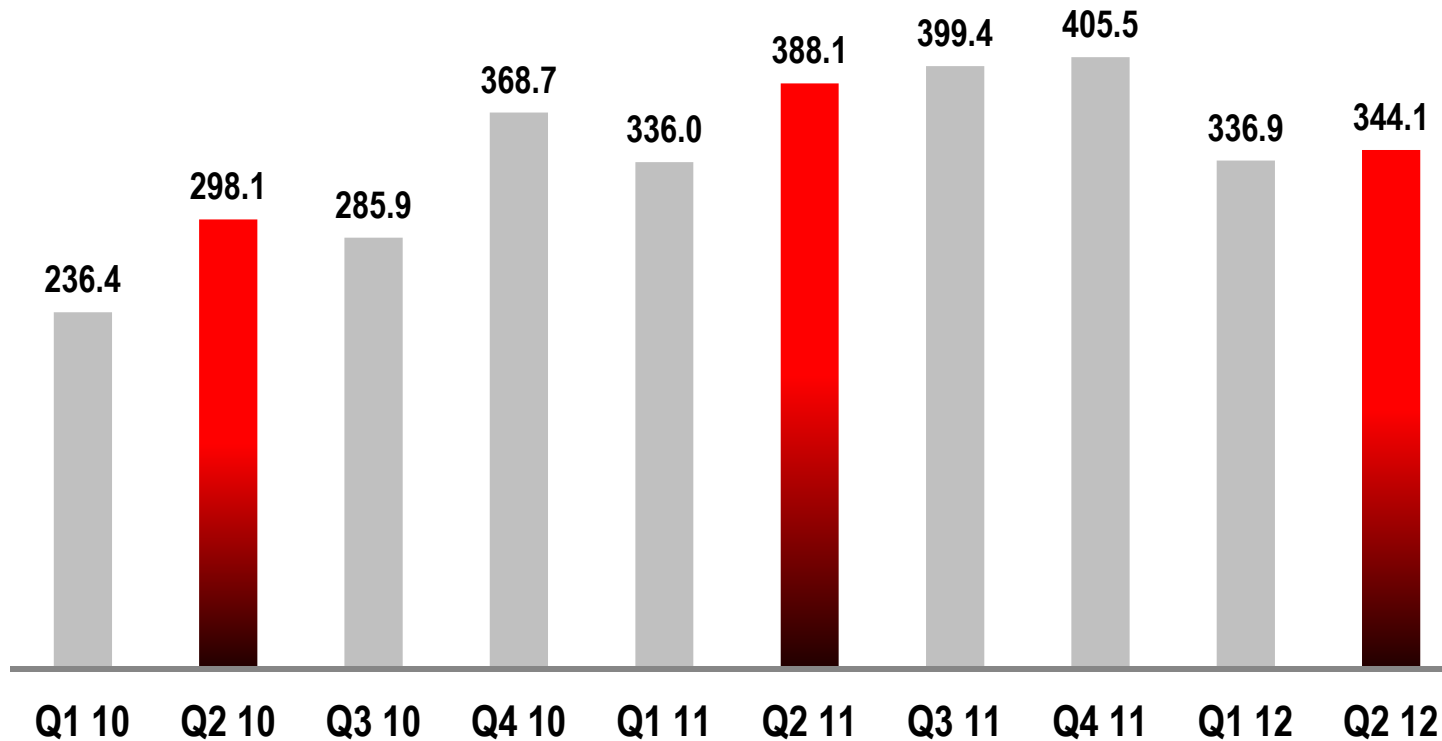


- Revenue decreased less than unit sales due to higher inherent value of new Tier 4 interim compliant engines
- Order intake in Q2 (€311.0 million) declined by 20.3% vs. Q1 2012
- Orders on hand €249.6 million (+8.0% vs. year end 2011)

■ Compact Engines ■ DEUTZ Customised Solutions

# Revenue development

€ million



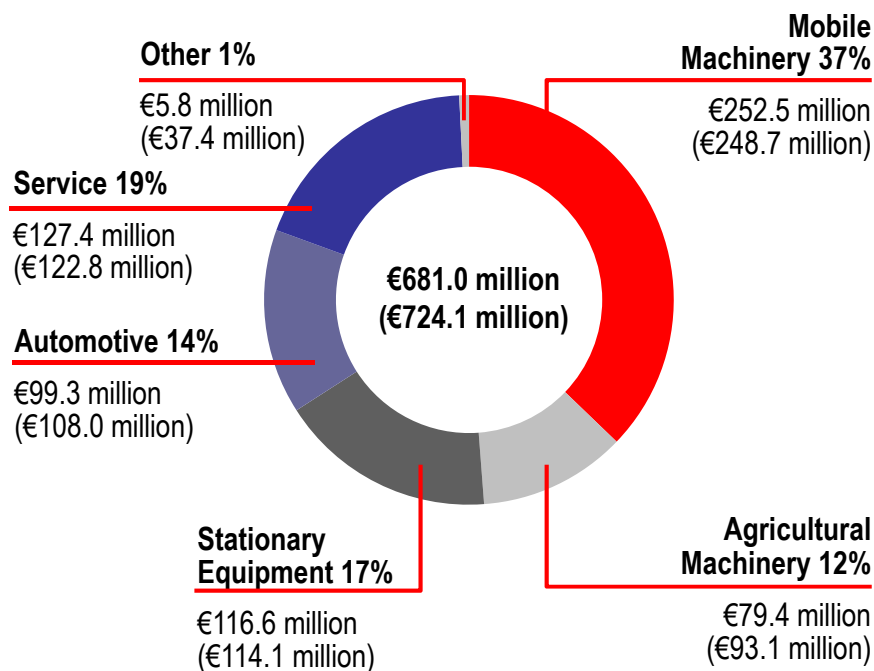
- Very strong revenue growth in 2011
- Uncertainty of customers about European growth prospects had an impact on revenues in Q2 2012

**→ 2011 revenue record level not achievable in 2012 due to weaker end market conditions**

# Revenue split

## Revenue split by application, H1 2012

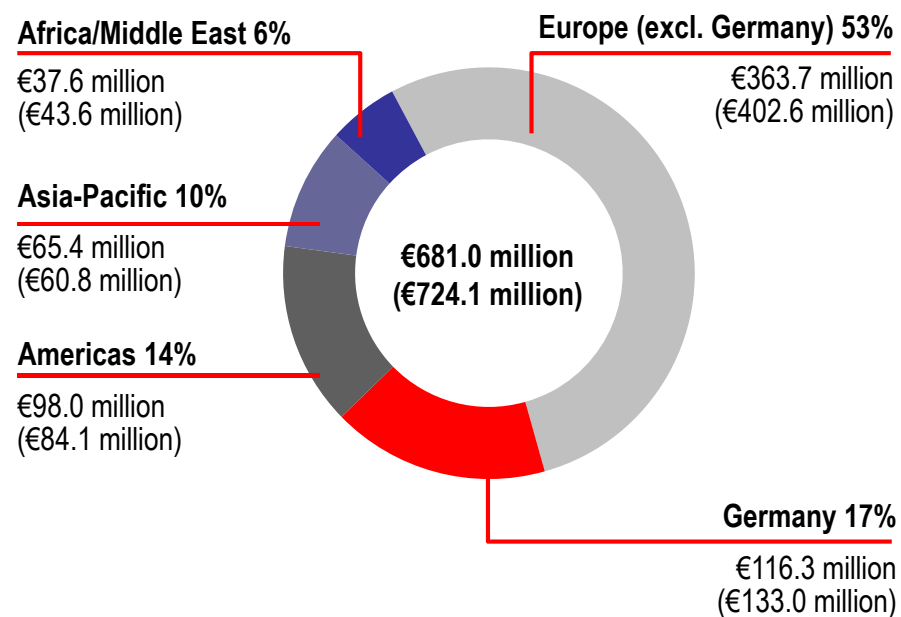
(H1 2011)



- Largest application segment Mobile Machinery with 1.5% growth yoy
- Service business increased by 3.7% yoy

## Revenue split by region, H1 2012<sup>(1)</sup>

(H1 2011)

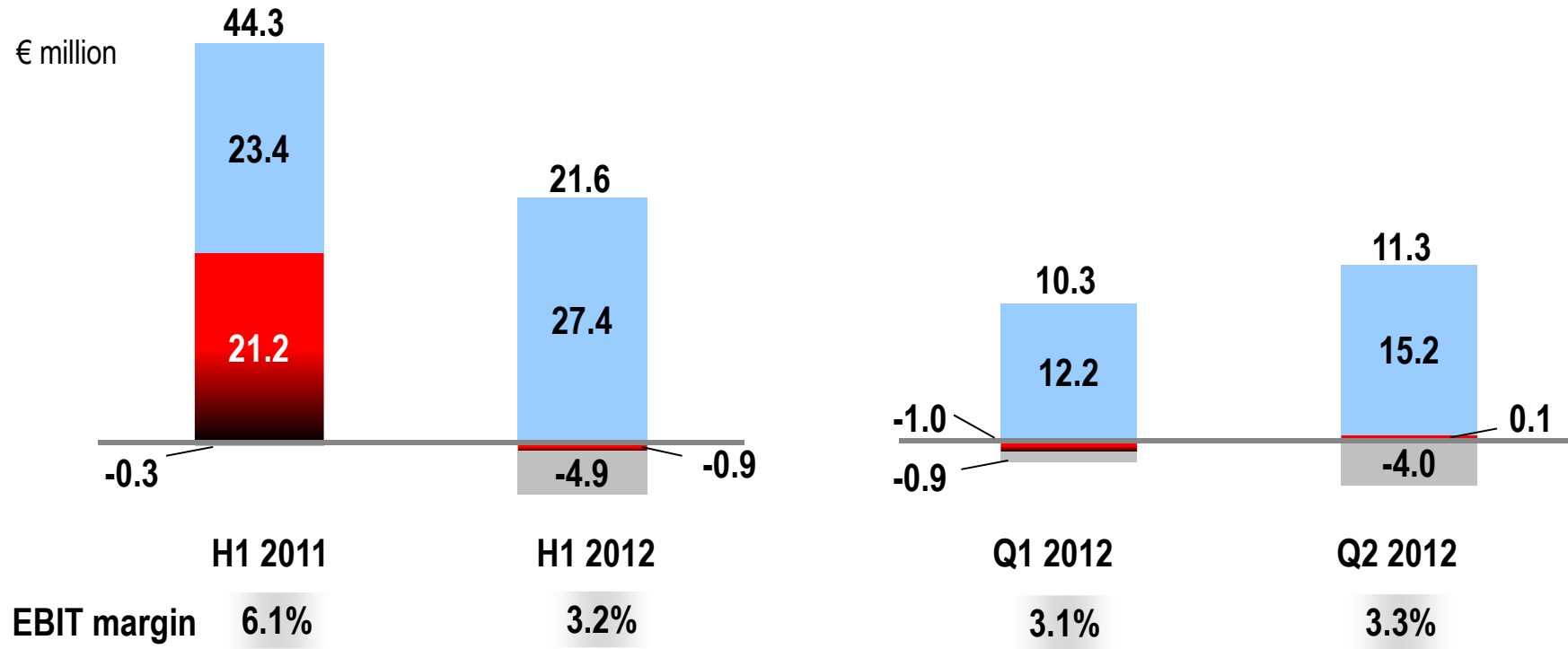


- Higher revenue in Americas (+16.5% yoy) and Asia-Pacific (+7.6% yoy)
- Revenue declined by 10.6% yoy in EMEA
- Exposure to Southern European countries<sup>(2)</sup> amounts to approx. 6% of group revenues in H1 2012

(1) Revenue split by region does not include JVs that are not fully consolidated. Regions assigned by place of business of our OEM customer

(2) Exposure refers mainly to Italy and Spain. Figure also includes Portugal and Greece

# EBIT

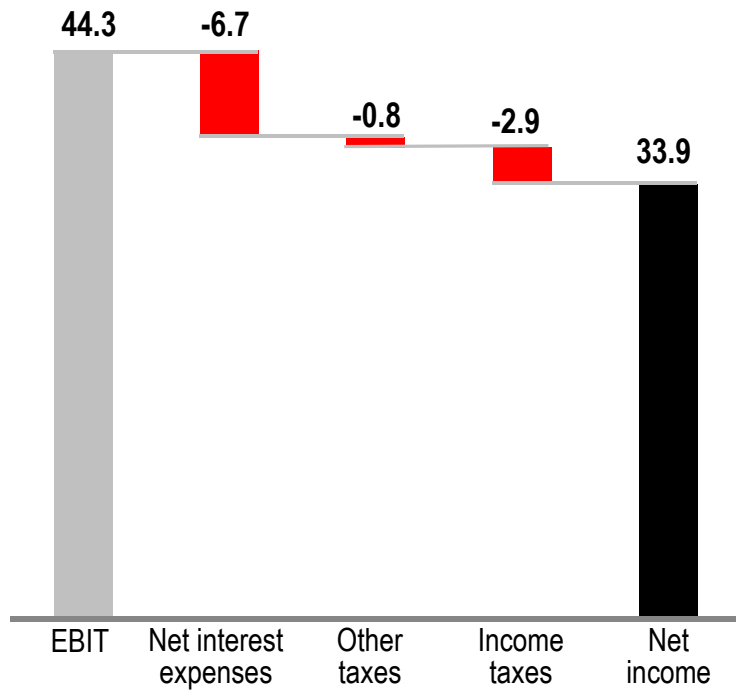


- EBIT decreased by €22.7 million in H1 2012 mainly due to lower production volumes and lower profit contribution of Joint Ventures
- Replacement of funding arrangements burdened EBIT by approx. €2 million. A one-off write-down and higher start up-costs within the JV Bosch Emission Systems affected EBIT by approx. €3 million. Thus, EBIT without these effects would have been about €16 million in Q2 2012

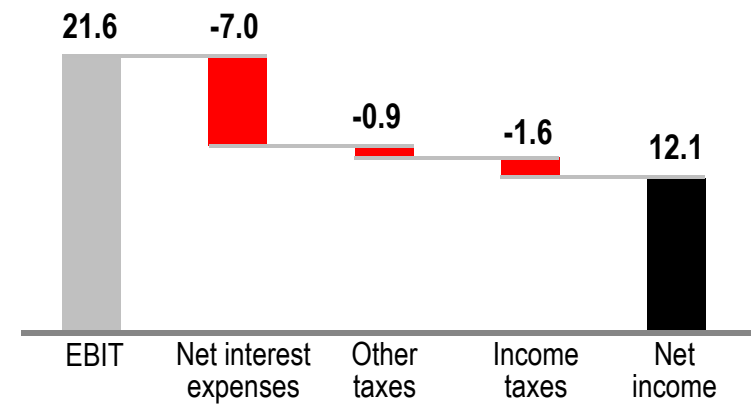
■ Compact Engines ■ DEUTZ Customised Solutions ■ Other

# Net income

€ million **H1 2011**



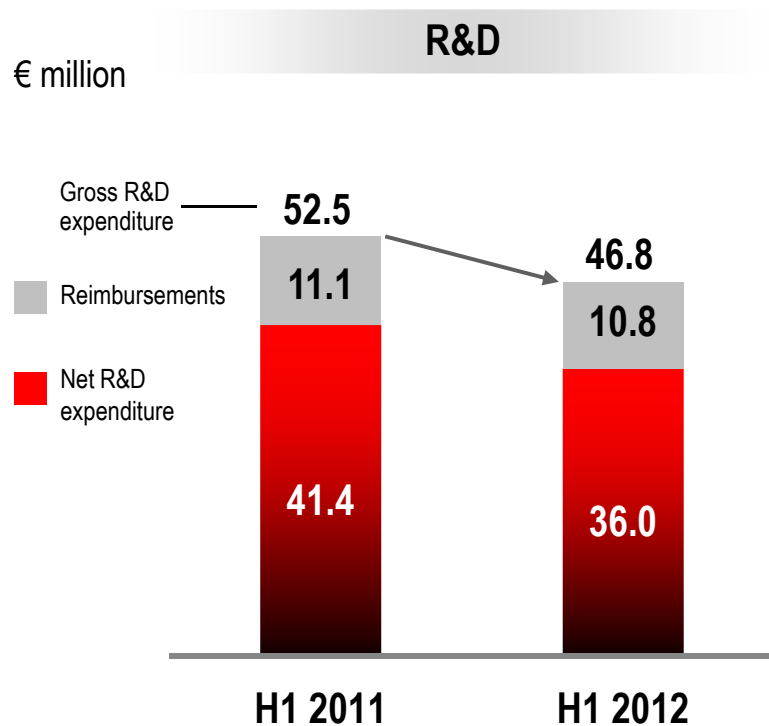
**H1 2012**



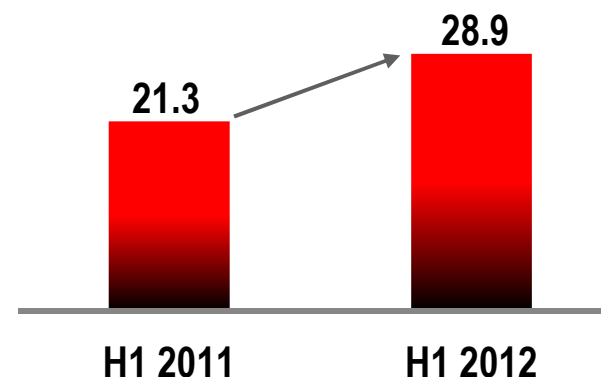
- Net interest expenses in Q2 2012 burdened by €1 million due to replacement of funding arrangements (in addition to about €2 million, which reduced the EBIT)
- Effective tax rate remains at low level due to significant tax loss carry forward



# R&D spending and capital expenditure



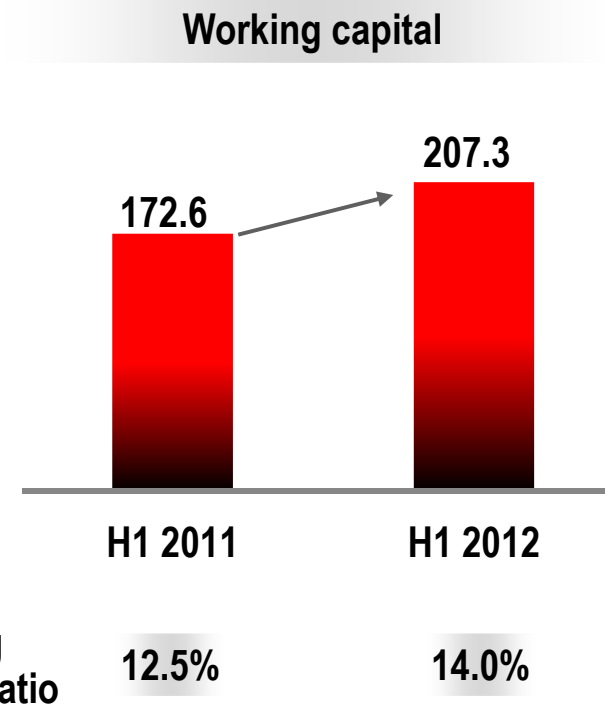
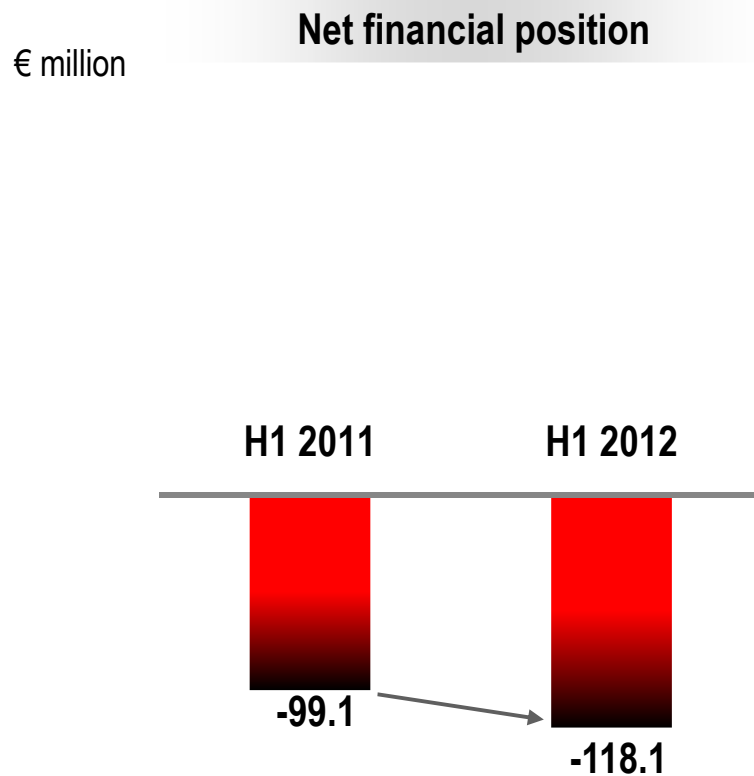
## Capital expenditure (excl. R&D)



**R&D ratio<sup>(1)</sup>**      **7.2%**                      **6.9%**

- Proportion of capitalised development spending: €30.6 million (H1 2011: €39.9 million)
- Given the advanced market introduction of the new products, R&D spending of €20.9 million in Q2 was reduced by €5.0 million qoq
- R&D spending is expected to decline further in the next quarters
- Capex increased by €7.6 million yoy due to series start of new engines
- Capex inline with expectation for FY 2012 (€60 million)

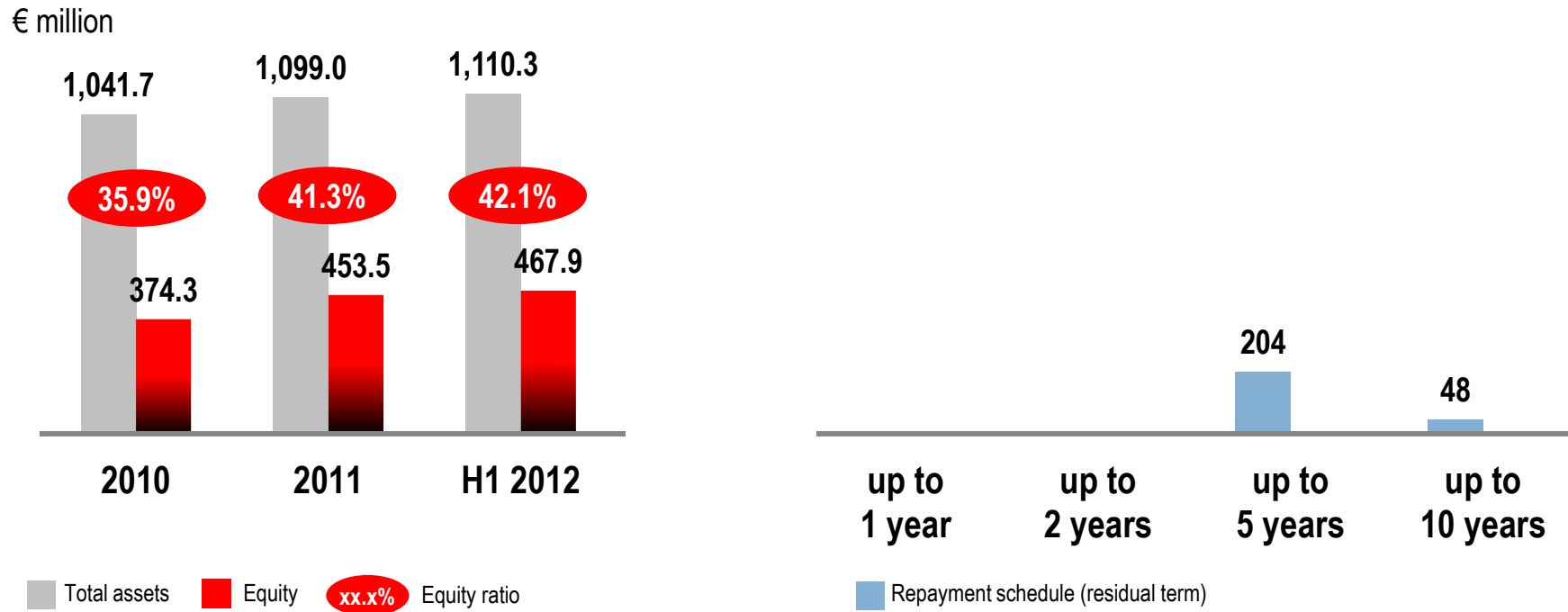
# Net financial position and working capital



- Cash and cash equivalents amount to €36.5 million (H1 2011: €33.4 million)
- Cash flow from operating activities of €16.8 million ytd (H1 2011: € 30.0 million)

- Working capital ratio affected by lower revenue level and slight increase of working capital at 30 June 2012
- Ongoing tight working capital management

# Financial position and new funding



- New unsecured credit line (€160.0 million) provided by a syndicate of German banks runs until June 2017
- Unsecured low-interest loan from European Investment Bank (€90.0 million) repayable over a period of eight years with a grace period of two years
- Former funding arrangements were replaced early July 2012
- Interest expenses will decrease further due to the new funding

**→ Long-term funding of growth projects secured**

## Overview of segments: Compact Engines

€ million	H1 2012	H1 2011	Change in %
New orders	548.8	637.7	-13.9
Unit sales	84,611	94,951	-10.9
Revenue	534.8	564.6	-5.3
EBIT	-0.9	21.2	>-100.0

€ million	Q2 2012	Q1 2012	Change in %
New orders	252.3	296.5	-14.9
Unit sales	43,032	41,579	+3.5
Revenue	271.8	263.0	+3.3
EBIT	0.1	-1.0	>100.0

- Revenue decreased by 5.3% in H1 2012; higher value of new engines partly compensated lower unit sales (-10.9% yoy)
- Decrease in order intake reflects challenging market conditions
- Positive revenue development in Americas (+29.6% yoy) and in Asia/Pacific (+5.5% yoy)
- Service business with 6.4% revenue growth yoy
- EBIT declined by €22.1 million in H1 2012 mainly due to lower production volumes and lower profit contribution of Joint Ventures. In addition, market launch of new engines also impacted negatively on earnings due to the ramp up phase

## Overview of segments: DEUTZ Customised Solutions

€ million	<b>H1 2012</b>	H1 2011	Change in %
New orders	<b>152.2</b>	159.4	-4.5
Unit sales	<b>9,242</b>	12,247	-24.5
Revenue	<b>146.2</b>	159.5	-8.3
EBIT	<b>27.4</b>	23.4	17.1

€ million	<b>Q2 2012</b>	Q1 2012	Change in %
New orders	<b>58.7</b>	93.5	-37.2
Unit sales	<b>4,360</b>	4,882	-10.7
Revenue	<b>72.3</b>	73.9	-2.2
EBIT	<b>15.2</b>	12.2	24.6

- Order intake decreased by 4.5% yoy
- Unit sales declined by 24.5% and revenue by 8.3% yoy. Revenue was benefiting from positive mix effects
- Service business with 0.5% revenue growth yoy
- EBIT increased by €4.0 million in H1 2012

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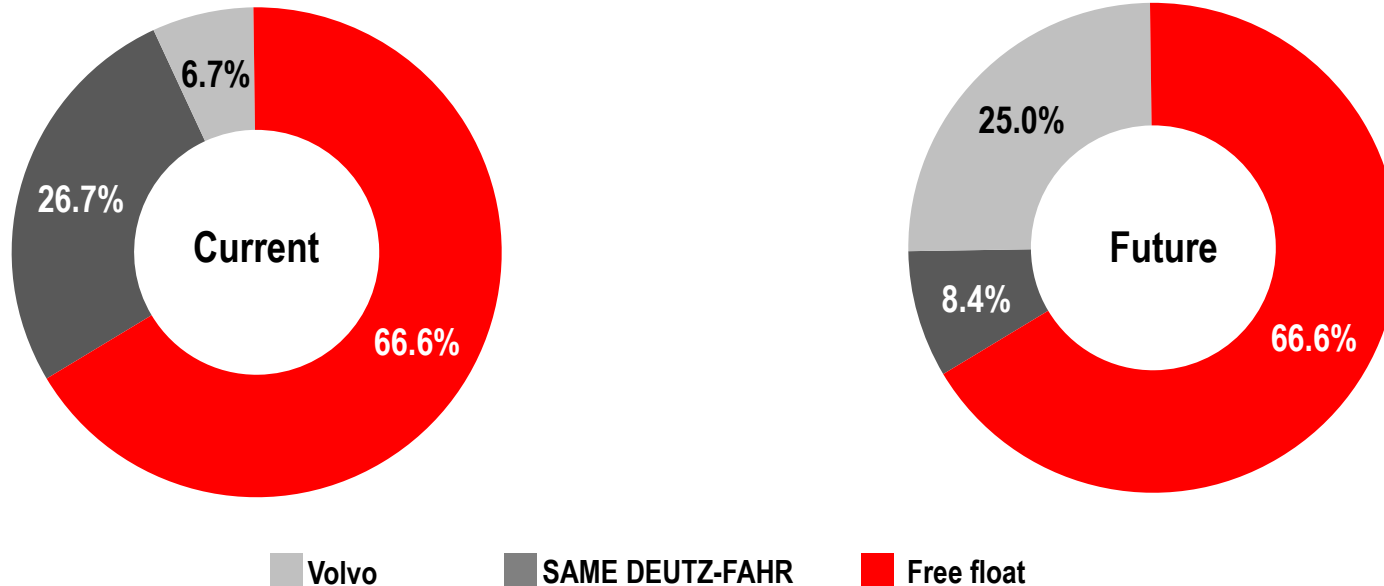
# Financial outlook

## Outlook for 2012

Revenue	€1.3 billion – €1.4 billion
EBIT margin	3.0 % - 4.0 %
Research and Development (R&D)	Decline by about 25 % vs. 2011
Capex (excl. R&D)	Approx. €60 million
Free cash flow	Positive territory
Working capital ratio	Below 13 %
Equity ratio	Above 40 %

**→ New outlook reflects change in market conditions**

# Shareholder structure



- Volvo announced to purchase more than 22 million DEUTZ shares from SAME DEUTZ-FAHR (SDF)
- Subject to antitrust clearance, Volvo will hold 25.0% + 1 share
- SDF will still own approximately 8.4% of DEUTZ shares and will continue the strategic partnership
- Increase of shareholding underlines Volvo interest to deepen its long-standing cooperation with us
- Jointly, we will further develop the successful strategy of the recent years

**→ Plan to expand the cooperation with Volvo backed by higher shareholding**



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## Summary of key financials (I)

€ million	H1 2012	H1 2011	Change (%)
Revenue	681.0	724.1	-6.0
EBITDA	58.3	76.9	-24.2
EBIT	21.6	44.3	-51.2
EBIT margin (%)	3.2	6.1	--
Net income	12.1	33.9	-64.3
Basic earnings per share (€)	0.10	0.28	-64.3
Number of employees (30 June)	4,042	4,253	-5.0

## Summary of key financials (II)

€ million	H1 2012	H1 2011	Change (%)
Total assets	1,110.3	1,077.8	3.0
Equity	467.9	404.2	15.8
Equity ratio (%)	42.1	37.5	--
Cash flow from operating activities	16.8	30.0	-44.0
Free cash flow	-48.4	-25.5	-89.6
Net financial position	-118.1	-99.1	-19.2
Working capital (30 June)	207.3	172.6	20.1

# Income statement

€ million	H1 2012	H1 2011	Change (%)
<b>Revenue</b>	<b>681.0</b>	<b>724.1</b>	<b>-6.0</b>
Changes in inventories and other own work capitalised	37.5	48.8	-23.2
Other operating income	18.2	19.7	-7.6
Cost of materials	-467.3	-494.1	-5.4
Staff costs	-141.0	-141.0	0.0
Depreciation and amortisation	-36.7	-32.6	12.6
Impairment	0.0	0.0	0.0
Other operating expenses	-62.0	-81.5	-23.9
Profit/loss on equity-accounted investments	-8.3	0.9	>-100.0
Other investment income	0.2	0.0	>100.0
<b>EBIT</b>	<b>21.6</b>	<b>44.3</b>	<b>-51.2</b>
Net interest expense	-7.0	-6.7	4.5
Other taxes	-0.9	-0.8	12.5
<b>Net income before taxes on continuing operations</b>	<b>13.7</b>	<b>36.8</b>	<b>-62.8</b>
Income taxes	-1.6	-2.9	-44.8
<b>Net income</b>	<b>12.1</b>	<b>33.9</b>	<b>-64.3</b>

## Balance sheet: assets

Assets (€ million)	30 June 2012	31 Dec 2011	Change (%)
Non-current assets (excluding deferred tax assets)	633.1	623.1	1.6
Deferred tax assets	17.5	17.2	1.7
Inventories	220.7	187.6	17.6
Trade receivables	153.9	163.6	-5.9
Other receivables and assets	48.2	55.5	-13.2
Cash and cash equivalents	36.5	51.6	-29.3
Non-current assets classified as held for sale	0.4	0.4	0.0
<b>Total assets</b>	<b>1,110.3</b>	<b>1,099.0</b>	<b>0.1</b>

## Balance sheet: equity and liabilities

Equity and liabilities (€ million)	30 June 2012	31 Dec 2011	Change (%)
<b>Equity</b>	<b>467.9</b>	<b>453.5</b>	<b>3.2</b>
Provisions for pensions and other post-retirement benefits	144.8	148.5	-2.5
Deferred tax provisions	3.2	2.8	14.3
Other provisions	29.2	29.3	-0.3
Financial liabilities	1.9	119.3	>-100.0
Other liabilities	2.2	4.4	-50.0
<b>Non-current liabilities</b>	<b>181.3</b>	<b>304.3</b>	<b>-40.4</b>
Provisions for pensions and other post-retirement benefits	15.6	15.6	0.0
Other provisions / Provisions for income taxes	52.8	43.2	22.2
Financial liabilities	152.7	1.9	>100.0
Trade payables	167.3	209.1	-20.0
Other liabilities	72.7	71.4	1.8
<b>Current liabilities</b>	<b>461.1</b>	<b>341.2</b>	<b>35.1</b>
<b>Total equity and liabilities</b>	<b>1,110.3</b>	<b>1,099.0</b>	<b>0.1</b>

## Cash flow statement (condensed)

€ million	H1 2012	H1 2011
EBIT	21.6	44.3
<b>Cash flow from operating activities (total)</b>	<b>16.8</b>	<b>30.0</b>
Capital expenditure on intangible assets, property, plant and equipment and investments	-59.2	-50.3
Proceeds from the sale of non-current assets	0.3	0.4
<b>Cash flow from investing activities (total)</b>	<b>-58.9</b>	<b>-49.9</b>
<b>Cash flow from financing activities</b>	<b>26.9</b>	<b>-14.6</b>
<b>Change in cash and cash equivalents</b>	<b>-15.2</b>	<b>-34.3</b>

## Overview of segments, H1 2012

	H1 2012	H1 2011	Change (%)
<b>New orders (€ million)</b>			
Compact Engines	548.8	637.7	-13.9
DEUTZ Customised Solutions	152.2	159.4	-4.5
<b>Total for operating activities</b>	<b>701.0</b>	<b>797.1</b>	<b>-12.1</b>

	H1 2012	H1 2011	Change (%)
<b>Revenue (€ million)</b>			
Compact Engines	534.8	564.6	-5.3
DEUTZ Customised Solutions	146.2	159.5	-8.3
<b>Total for operating activities</b>	<b>681.0</b>	<b>724.1</b>	<b>-6.0</b>
Germany	17.1%	18.4%	--
Export	82.9%	81.6%	--

	H1 2012	H1 2011	Change (%)
<b>Unit sales</b>			
Compact Engines	84,611	94,951	-10.9
DEUTZ Customised Solutions	9,242	12,247	-24.5
<b>Total for operating activities</b>	<b>93,853</b>	<b>107,198</b>	<b>-12.4</b>

	H1 2012	H1 2011	Change (%)
<b>EBIT (€ million)</b>			
Compact Engines	-0.9	21.2	>-100.0
DEUTZ Customised Solutions	27.4	23.4	17.1
Other	-4.9	-0.3	>-100.0
<b>Total for operating activities</b>	<b>21.6</b>	<b>44.3</b>	<b>-51.2</b>



## Overview of segments, Q2 2012

	Q2 2012	Q2 2011	Change (%)
<b>New orders (€ million)</b>			
Compact Engines	252.3	312.6	-19.3
DEUTZ Customised Solutions	58.7	76.0	-22.8
<b>Total for operating activities</b>	<b>311.0</b>	<b>388.6</b>	<b>-20.0</b>

	Q2 2012	Q2 2011	Change (%)
<b>Revenue (€ million)</b>			
Compact Engines	271.8	304.6	-10.8
DEUTZ Customised Solutions	72.3	83.5	-13.4
<b>Total for operating activities</b>	<b>344.1</b>	<b>388.1</b>	<b>-11.3</b>
Germany	19.6%	18.8%	--
Export	80.4%	81.2%	--

	Q2 2012	Q2 2011	Change (%)
<b>Unit sales</b>			
Compact Engines	43,032	52,279	-17.7
DEUTZ Customised Solutions	4,360	6,503	-33.0
<b>Total for operating activities</b>	<b>47,392</b>	<b>58,782</b>	<b>-19.4</b>

	Q2 2012	Q2 2011	Change (%)
<b>EBIT (€ million)</b>			
Compact Engines	0.1	14.5	-99.3
DEUTZ Customised Solutions	15.2	11.5	32.2
Other	-4.0	0.1	>-100.0
<b>Total for operating activities</b>	<b>11.3</b>	<b>26.1</b>	<b>-56.7</b>

# Employees

	<b>30 June 2012</b>	<b>30 June 2011</b>	<b>Change (%)</b>
Cologne	2,498	2,495	0.1
Ulm	424	461	-8.0
Other German operations	290	284	2.1
<b>Germany</b>	<b>3,212</b>	<b>3,240</b>	<b>-0.9</b>
Foreign operations	830	1,013	-18.1
<b>DEUTZ Group</b>	<b>4,042</b>	<b>4,253</b>	<b>-5.0</b>

## Financial calendar

- Interim report on first three quarters of 2012  
Conference call with analysts and investors 8 November 2012
- Publication of annual report for 2012 19 March 2013
- Annual General Meeting Cologne 30 April 2013

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