DEUTZ strategy & positioning

Financials

Outlook
DEUTZ at a glance

Profile
- 150 years DEUTZ – a tradition of achievement
- Independent manufacturer of diesel engines with product range from 25 to 520 kw
- Engineering and manufacturing company with strong expertise as system integrator
- Worldwide sales channels and service network
- Strong brand – synonym for leading technology and high-quality products
- Blue chip customer base

Financials 2013
- Revenue €1.45 billion
- Net income €36.0 million
- Free Cash Flow €13.8 million

Board
- Dr. Helmut Leube (CEO)
- Dr. Margarete Haase (CFO)
- Michael Wellenzohn (CSO)
### Corporate structure

<table>
<thead>
<tr>
<th>DEUTZ Group</th>
<th>Revenue 2013 €1.45 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEUTZ Compact Engines</strong></td>
<td>Revenue 2013 €1.19 billion</td>
</tr>
<tr>
<td>- Liquid-cooled engines of up to 8 litres cubic capacity for on- and off-road applications</td>
<td></td>
</tr>
<tr>
<td>- Large number of modular approaches</td>
<td></td>
</tr>
<tr>
<td>- Major Chinese Joint Ventures</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEUTZ Customised Solutions</th>
<th>Revenue 2013 €0.26 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Air-cooled engines for on-road, off-road and marine applications</td>
<td></td>
</tr>
<tr>
<td>- Liquid-cooled engines over 8 litres for all applications</td>
<td></td>
</tr>
<tr>
<td>- Remanufactured (Xchange) engines for all DEUTZ engine series</td>
<td></td>
</tr>
</tbody>
</table>

**DEUTZ Services (common to both segments)**

- Substantial service business based on existing population of approx. 1.6 million engines in the market
- Product portfolio mainly comprises genuine DEUTZ spare parts, remanufactured engines & parts as well as oils and lubricants
Site optimisation

- Restructuring costs up to €20 million in FY 2014 (thereof €13.9 million booked in Q2)
- Capex (total amount ~€20 million in FY 2014 -16) overcompensated by proceeds from property sales in subsequent years
- Annual cost savings >€10 million (considerable effects already in 2016; full effects from 2017 onwards)

➡ Sustainable efficiency improvement by merging facilities
DEUTZ engines for Tier 4 emission standard

- TCD 2.9
- TCD 3.6
- TCD 4.1
- TCD 6.1
- TCD 7.8
- TCD 12.0
- TCD 16.0

- Competitive product features: compact size, low fuel consumption, smart exhaust after-treatment
- Successful combination of platform strategy with DEUTZ application expertise
- Full range offering with focus on engines for Mobile Machinery and Agricultural Machinery

→ New customers gained
DEUTZ customer base

Long standing customer relationships (not exhaustive)

- VOLVO
- AGCO
- SAME
- DEUTZ FABRIC
- FENDT
- TEREX
- KION GROUP
- WACKER NEUSON
- Atlas Copco
- BOMAG
- Wirtgen

- DEUTZ has a lot of long standing relationships with key customers
- Implementation of new emission standards is a window of opportunity to extend and diversify the customer base
- The compact design and smart exhaust aftertreatment of the Tier 4 engines attract new customers

New clients (not exhaustive)

- Bobcat
- MANITOU
- HITACHI
- ARGOTRACTORS
- Landini
- McCormick
- TYN

⇒ Successful extension of the customer base
Successful business development

Examples of new applications

- New customers gained in all regions, in particular with new engines 2.9 and 3.6
- Greater share of wallet at existing clients
- New business related to different applications, e.g. tractors, fork lifts, telehandler, dumpers, rollers, wheel loaders, trencher, drills and special vehicles
- More business development projects in the pipeline

Product offensive is paying off
### Key applications

<table>
<thead>
<tr>
<th>Mobile Machinery</th>
<th>Typical application</th>
<th>Markets benefit from macro trends</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Construction</td>
<td>![Construction Image]</td>
<td>Cummins</td>
</tr>
<tr>
<td></td>
<td>Material handling</td>
<td>![Material Handling Image]</td>
<td>Kubota</td>
</tr>
<tr>
<td></td>
<td>Ground support</td>
<td>![Ground Support Image]</td>
<td>Perkins</td>
</tr>
<tr>
<td></td>
<td>Mining equipment</td>
<td>![Mining Equipment Image]</td>
<td>Yanmar</td>
</tr>
<tr>
<td>Agricultural Machinery</td>
<td>Tractors</td>
<td>![Tractors Image]</td>
<td>Deere</td>
</tr>
<tr>
<td></td>
<td>Agricultural equipment</td>
<td>![Agricultural Equipment Image]</td>
<td>Kubota</td>
</tr>
<tr>
<td></td>
<td>![Agricultural Equipment Image]</td>
<td>![Agricultural Equipment Image]</td>
<td>Perkins</td>
</tr>
<tr>
<td></td>
<td>![Agricultural Equipment Image]</td>
<td>![Agricultural Equipment Image]</td>
<td>Yanmar</td>
</tr>
<tr>
<td>Stationary Equipment</td>
<td>Gensets</td>
<td>![Gensets Image]</td>
<td>Deere</td>
</tr>
<tr>
<td></td>
<td>Pumps</td>
<td>![Pumps Image]</td>
<td>Kubota</td>
</tr>
<tr>
<td></td>
<td>Compressors</td>
<td>![Compressors Image]</td>
<td>Perkins</td>
</tr>
<tr>
<td></td>
<td>![Compressors Image]</td>
<td>![Compressors Image]</td>
<td>Yanmar</td>
</tr>
<tr>
<td>Automotive</td>
<td>Trucks</td>
<td>![Trucks Image]</td>
<td>Cummins</td>
</tr>
<tr>
<td></td>
<td>Buses</td>
<td>![Buses Image]</td>
<td>Fiat Powertrain</td>
</tr>
<tr>
<td></td>
<td>Rail vehicles</td>
<td>![Rail Vehicles Image]</td>
<td>MAN</td>
</tr>
<tr>
<td></td>
<td>![Rail Vehicles Image]</td>
<td>![Rail Vehicles Image]</td>
<td>Mercedes</td>
</tr>
</tbody>
</table>

➤ **Wide application range for DEUTZ engines**
Revenue split by application

FY 2013

(FY 2012)

Mobile Machinery 33%
€481.6 million
(€477.5 million)

Agricultural Machinery 22%
€325.6 million
(€152.5 million)

Service 18%
€253.7 million
(€250.3 million)

Automotive 13%(1)
€188.5 million
(€192.1 million)

Stationary Equipment 12%
€173.7 million
(€204.2 million)

Other 2%
€30.1 million
(€15.3 million)

(1) In 2013, the pro-forma revenue share of the Automotive business incl. at equity consolidated Joint Ventures was 23%, i.e. 10%-points higher than in the consolidated financial statements (IFRS).
Revenue split by region

**FY 2013**

- **Europe (excl. Germany)**: 57%
  - €824.6 million
  - ($668.3 million)

- **Asia-Pacific**: 7%
  - €107.2 million
  - ($116.8 million)

- **Americas**: 13%
  - €190.6 million
  - ($190.9 million)

- **Africa/Middle East**: 5%
  - €70.4 million
  - ($83.9 million)

- **Germany**: 18%
  - €260.4 million
  - ($232.0 million)

**Pro-forma incl. Joint Ventures, FY 2013**

- **Europe (excl. Germany)**: 43%
  - €824.6 million
  - ($668.3 million)

- **Asia-Pacific**: 28%
  - €526.6 million
  - ($453.5 million)

- **Americas**: 11%
  - €526.6 million
  - ($453.5 million)

- **Africa/Middle East**: 4%
  - €70.4 million
  - ($83.9 million)

- **Germany**: 14%
  - €260.4 million
  - ($232.0 million)

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1. Consolidated financial statements (IFRS); regions assigned by place of business of our customer
2. Pro-forma revenue split including revenue of at-equity consolidated JVs
Emission standards drive DEUTZ revenue growth

Average sales price per engine
(indexed; FY 2011 = 100)

- Tier 4 systems require exhaust aftertreatment devices
- Growing share of new emission engines drives revenue growth
- Positive price mix effects are expected to continue in the next years. Effect diluted by strong demand for smaller engines in 2014

Structural growth due to tighter emission standards
Service business

Strong resilience of profitable service business through different economic cycles

Higher complexity of new emission engines provides opportunity to increase penetration of service business

Active management of service network with improved training and tools

Better exploiting the potential of our service business
DEUTZ activities in China

DEUTZ Dalian (DDE)
- Joint Venture with FAW Group (50-50 JV, at-equity consolidation)
- Production of 3-8 litre diesel engines
- Automotive and other applications
- Strong revenue development in FY 2013 €319 million (+30% yoy) and Q1-Q3 2014 €277 million (+17% yoy) despite very challenging market conditions

Other activities
- Sales and service company in Beijing, new sales office opened in Shanghai
- Dealer network across China
- Strategic reassessment of Joint Venture with AB Volvo and postponement of investments
- Small Joint Venture with Weichai Power and additional Joint Venture with Shandong Changlin (not active)

Implementation of new emission standards will increase demand for high quality engines
Agenda

- DEUTZ strategy & positioning
- Financials
- Outlook
### Key figures

<table>
<thead>
<tr>
<th>€ million</th>
<th>Q1-Q3 2014</th>
<th>yoy</th>
<th>Q3 2014</th>
<th>qoq</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order intake</td>
<td>1,076.8</td>
<td>-10.5%</td>
<td>330.0</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Revenue</td>
<td>1,177.9</td>
<td>+12.9%</td>
<td>424.5</td>
<td>+3.4%</td>
</tr>
<tr>
<td>EBIT (before one-offs)</td>
<td>22.8</td>
<td>-16.2%</td>
<td>2.7</td>
<td>-85.2%</td>
</tr>
<tr>
<td>Adjusted EBIT$^{(1)}$</td>
<td>43.2</td>
<td>+58.8%</td>
<td>23.1</td>
<td>+26.9%</td>
</tr>
<tr>
<td>Net financial position</td>
<td>1.0</td>
<td>+€54.2 million</td>
<td>1.0</td>
<td>+€32.8 million</td>
</tr>
</tbody>
</table>

➤ Result burdened by extraordinary warranty provision (€20.4 million)

$^{(1)}$ EBIT (before one-offs) adjusted by extraordinary provisions for warranty costs (net effect €20.4 million)
Double digit revenue growth due to strong demand for smaller engine series ahead of emission regulation change

Order intake impacted by softer end markets, in particular in agricultural machinery

Operating profit burdened with extraordinary provision for warranty costs in Q3 but good development of underlying operating profit

FY 2014 outlook revised

China: Still very challenging market environment; good operating development of JV DEUTZ Dalian

Strong free cash flow generation and positive net financial position

Site optimisation measures progressing as planned
### Sales figures

<table>
<thead>
<tr>
<th></th>
<th>Order intake</th>
<th>Unit sales</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>Units</td>
<td>€ million</td>
</tr>
<tr>
<td>-10.5%</td>
<td>-10.5%</td>
<td>15.1%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Q1-Q3 2013</td>
<td>1,003.6</td>
<td>124,002</td>
<td>1,177.9</td>
</tr>
<tr>
<td>Q1-Q3 2014</td>
<td>1,203.6</td>
<td>134,699</td>
<td>1,043.1</td>
</tr>
</tbody>
</table>

- **Double-digit growth in unit sales and revenue**
- **Order intake below Q1-Q3 2013 record level reflecting economic environment**
- **Book-to-bill ratio at 0.91x**

**DEUTZ Compact Engines**

**DEUTZ Customised Solutions**
Q3 2014 operating profit burdened with extraordinary provisions for warranty costs (€20.4 million)

Underlying EBIT margin (before one-offs and extraordinary warranty provision) improved to 5.4% in Q3 2014
Operating profit & net income

Q1-Q3 2013

Q1-Q3 2014

Profit impacted by charges for site optimisations (€13.9 million one-off) and extraordinary warranty provision (€20.4 million)

Tax ratio and interest expenses remain at low level

(1) EBITDA (before one-offs) burdened by extraordinary provisions for warranty costs (net effect €20.4 million)
R&D spending & capital expenditure

### R&D

<table>
<thead>
<tr>
<th></th>
<th>Q1-Q3 2013</th>
<th>Q1-Q3 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross expenditure</td>
<td>54.3 €</td>
<td>53.6 €</td>
</tr>
<tr>
<td>Reimbursements</td>
<td>13.8 €</td>
<td>13.8 €</td>
</tr>
<tr>
<td>Net expenditure</td>
<td>40.5 €</td>
<td>39.8 €</td>
</tr>
</tbody>
</table>

- R&D expenditure decreased slightly; R&D ratio declined due to higher revenue
- Proportion of capitalised net R&D expenditure: €21.7 million (Q1-Q3 2013: €25.5 million)

### Capital expenditure (excl. R&D)

<table>
<thead>
<tr>
<th></th>
<th>Q1-Q3 2013</th>
<th>Q1-Q3 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net expenditure</td>
<td>2.1 €</td>
<td>1.9 €</td>
</tr>
<tr>
<td>Reimbursements</td>
<td>29.4 €</td>
<td>30.4 €</td>
</tr>
<tr>
<td>Gross expenditure</td>
<td>30.5 €</td>
<td>32.3 €</td>
</tr>
</tbody>
</table>

- Capital expenditure on previous year’s level

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(1) Ratio of net R&D expenditure to consolidated revenue
Working capital & operating cash flow

**Working capital**

<table>
<thead>
<tr>
<th></th>
<th>Q1-Q3 2013</th>
<th>Q1-Q3 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>189.0</td>
<td>214.5</td>
</tr>
<tr>
<td>Working capital ratio (30 Sep)</td>
<td>13.8%</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

- Working capital increase attributable to higher unit sales
- Working capital ratio decreased slightly and remains at very good level

**Operating cash flow**

<table>
<thead>
<tr>
<th></th>
<th>Q1-Q3 2013</th>
<th>Q1-Q3 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>61.7</td>
<td>86.9</td>
</tr>
</tbody>
</table>

- Substantial cash flow improvement (+40.8%) due to higher operating profit after adjustment for provisions
Free cash flow generation & net financial position

Free cash flow

€ million

<table>
<thead>
<tr>
<th>Year</th>
<th>Free Cash Flow (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>13.8</td>
</tr>
<tr>
<td>Q3 2014 (LTM)</td>
<td>57.5</td>
</tr>
</tbody>
</table>

Net financial position

<table>
<thead>
<tr>
<th>Period</th>
<th>Net Financial Position (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1-Q3 2013</td>
<td>-53.2</td>
</tr>
<tr>
<td>Q1-Q3 2014</td>
<td>1.0</td>
</tr>
</tbody>
</table>

- Strong free cash flow generation on the back of strong operating cash flow
- Cash flow used to pay dividend of €8.5 million and to reduce net debt
- Positive net financial position achieved for the first time since 2009
Equity ratio & funding

Sound balance sheet; equity ratio >40%

Medium- to long-term financing with undrawn facilities available:

- Duration of €160 million credit line was extended during the current year from 2017 to 2019 at more attractive terms
- €90 million loan from European Investment Bank repayable until July 2020
## Segments: DEUTZ Compact Engines

<table>
<thead>
<tr>
<th></th>
<th>Q1-Q3 2014</th>
<th>Q1-Q3 2013</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New orders</strong></td>
<td>882.5</td>
<td>1,003.6</td>
<td>-12.1</td>
</tr>
<tr>
<td><strong>Unit sales</strong></td>
<td>146,524</td>
<td>124,002</td>
<td>18.2</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>1,002.8</td>
<td>861.4</td>
<td>16.4</td>
</tr>
<tr>
<td>EBIT (before one-offs)</td>
<td>4.9</td>
<td>1.7</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Adjusted EBIT(^{(1)})</td>
<td>25.3</td>
<td>1.7</td>
<td>&gt;100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Q3 2014</th>
<th>Q2 2014</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New orders</strong></td>
<td>270.4</td>
<td>267.5</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Unit sales</strong></td>
<td>53,589</td>
<td>51,279</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>368.2</td>
<td>347.8</td>
<td>5.9</td>
</tr>
<tr>
<td>EBIT (before one-offs)</td>
<td>-0.7</td>
<td>10.5</td>
<td>--</td>
</tr>
<tr>
<td>Adjusted EBIT(^{(1)})</td>
<td>19.7</td>
<td>10.5</td>
<td>87.6</td>
</tr>
</tbody>
</table>

- Operating profit burdened with extraordinary provisions for warranty costs in Q3 2014
- Significant improvement of underlying EBIT achieved
- Positive price mix effects of new emission engines more than offset by high demand for smaller engine series ahead of emission level change
- Order intake declined due to soft market environment

\(^{(1)}\) EBIT (before one-offs) adjusted by extraordinary provisions for warranty costs (net effect €20.4 million)
## Segments: DEUTZ Customised Solutions

<table>
<thead>
<tr>
<th>€ million</th>
<th>Q1-Q3 2014</th>
<th>Q1-Q3 2013</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>New orders</td>
<td>194.3</td>
<td>200.0</td>
<td>-2.8</td>
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<tr>
<td>Unit sales</td>
<td>8,575</td>
<td>10,697</td>
<td>-19.8</td>
</tr>
<tr>
<td>Revenue</td>
<td>175.1</td>
<td>181.7</td>
<td>-3.6</td>
</tr>
<tr>
<td>EBIT (before one-offs)</td>
<td>18.5</td>
<td>26.0</td>
<td>-28.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>€ million</th>
<th>Q3 2014</th>
<th>Q2 2014</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>New orders</td>
<td>59.6</td>
<td>65.1</td>
<td>-8.4</td>
</tr>
<tr>
<td>Unit sales</td>
<td>2,431</td>
<td>3,343</td>
<td>-27.3</td>
</tr>
<tr>
<td>Revenue</td>
<td>56.3</td>
<td>62.9</td>
<td>-10.5</td>
</tr>
<tr>
<td>EBIT (before one-offs)</td>
<td>4.2</td>
<td>7.2</td>
<td>-41.7</td>
</tr>
</tbody>
</table>

- Q1-Q3 revenue slightly down yoy
- Operating profit declined due to lower capacity utilisation
- Order backlog of €83.6 million ensures good workload in Q4
### Summary: key financial development

- Double digit growth in revenue and unit sales
- Operating profit burdened by extraordinary charges
- Substantial improvement of underlying operating profit
- Strong free cash flow generation and positive net financial position
- Site optimisation measures well on track
Agenda

- DEUTZ strategy & positioning
- Financials
- Outlook
<table>
<thead>
<tr>
<th>€ million</th>
<th>FY 2013 reported</th>
<th>Previous FY 2014 Guidance</th>
<th>New FY 2014 Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,453.2</td>
<td>low double digit %-growth</td>
<td>~ 1,500</td>
</tr>
<tr>
<td>EBIT margin (before one-offs)</td>
<td>3.3 %</td>
<td>&gt; 4.0 %</td>
<td>~ 2 %</td>
</tr>
<tr>
<td>Net R&amp;D spending ratio(^{(1)})</td>
<td>3.6 %</td>
<td>slight decline</td>
<td>slight decline</td>
</tr>
<tr>
<td>Net capex (excl. R&amp;D)(^{(1)})</td>
<td>42.5</td>
<td>50 - 60</td>
<td>&lt; 50</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Net of reimbursements

- One-off effects (up to €20 million) in FY 2014 related to site optimisations
Financial calendar & contact details

- Annual report 2014
  19 March 2015

- Annual general meeting
  29 April 2015

- Interim report 1st quarter 2015
  5 May 2015

Contact details

Christian Krupp
Ottostrasse 1
51149 Cologne (Porz-Eil)
Germany
Tel:+49 (0) 221 822 5400
Fax:+49 (0) 221 822 15 5400
Email: krupp.c@deutz.com
www.deutz.com
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