DEUTZ Investor Presentation
September 2015

The engine company.
Agenda

- DEUTZ strategy & positioning
- Financials
- Outlook
DEUTZ at a glance

Profile

- More than 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 2014

- Revenue €1,530.2 million
- Net income €19.5 million
- Free Cash Flow €52.0 million

Board

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

#### DEUTZ Group

Revenue 2014 €1,530.2 million

<table>
<thead>
<tr>
<th>DEUTZ Compact Engines</th>
<th>DEUTZ Customised Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue 2014 €1,279.9 million</td>
<td>Revenue 2014 €250.3 million</td>
</tr>
<tr>
<td>- Liquid-cooled engines of up to 8 litres cubic capacity for on- and off-road applications</td>
<td>- Air-cooled engines for on-road, off-road and marine applications</td>
</tr>
<tr>
<td>- Large number of modular approaches</td>
<td>- Liquid-cooled engines over 8 litres for all applications</td>
</tr>
<tr>
<td>- Joint Venture DEUTZ Dalian (China)</td>
<td>- Remanufactured (Xchange) engines for all DEUTZ engine series</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

- Annual cost savings > €10 million (considerable effects already in 2016; full effects from 2017 onwards)
- Restructuring costs for site optimisation (€17.1 million) digested in FY 2014 result
- Capex overcompensated by proceeds from property sales in subsequent years

➤ Sustainable efficiency improvement by merging facilities
DEUTZ activities in China

Revenue JV DEUTZ Dalian\(^{(1)}\)

<table>
<thead>
<tr>
<th>€ million</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>319.1</td>
<td>359.8</td>
</tr>
</tbody>
</table>

- Challenging capital goods market conditions in China
- Countrywide dealer network
- Strategic decision to focus our production in China on our successful JV DEUTZ Dalian (DDE) which has sufficient capacities
- Joint decision with our partners AB Volvo and Shandong Changlin to unwind Joint Ventures before start of production
- Agreement to sell our stake in JV Weifang to Weichai Power subject to regulatory approval

\(^{(1)}\) At-equity consolidated; not reflected in the revenue of DEUTZ Group

**Focus production activities on DEUTZ Dalian**
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
- Effect was diluted by strong demand for smaller engine series in 2014
- Positive structural price mix effects are expected to continue in the next years

Structural growth due to tighter emission standards
DEUTZ engines for Tier 4 emission standard

- 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 with Tier 4 engines
### Stage V ready

<table>
<thead>
<tr>
<th>Engine Size</th>
<th>Stage</th>
<th>Power Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCD 12.0 / 16.0</td>
<td></td>
<td>240 – 520 kW</td>
</tr>
<tr>
<td>TCD 7.8</td>
<td>Stage V</td>
<td>160 – 291 kW</td>
</tr>
<tr>
<td>TCD 6.1</td>
<td>Stage V</td>
<td>130 – 206 kW</td>
</tr>
<tr>
<td>TCD 4.1</td>
<td>Stage V</td>
<td>85 – 115 kW</td>
</tr>
<tr>
<td>TCD 3.6</td>
<td>Stage V</td>
<td>56 – 100 kW</td>
</tr>
<tr>
<td>TCD 2.9</td>
<td>Stage V</td>
<td>37 – 56 kW</td>
</tr>
</tbody>
</table>

- TCD 2.9 to 7.8 litre engines with DPF already meet the next EU emission standard announced for 2019
- DEUTZ technology platform offers our customers long-term planning certainty as they do not have to invest in adapting their equipment to upcoming emission change

⇒ **DEUTZ compact engines compliant to next emission standard**
DEUTZ customer base

**Long standing customer relationships** (not exhaustive)

- VOLVO
- AGCO
- SAME
- DEUTZ FAEIC
- JLG
- FENDT
- TEREX CORPORATION
- KION GROUP
- Atlas Copco
- Wirtgen
- WACKER NEUSON

**New clients** (not exhaustive)

- MANITOU
- HITACHI
- ARGO TRACTORS
- TYM
- Zetor

- DEUTZ has a lot of long standing relationships with key customers
- Customer base extended and diversified with new emission engines
- New customers attracted by the compact design and smart exhaust aftertreatment of the Tier 4 engines
- “Stage V Ready”-campaign will stimulate the continued marketing activities

**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

**Typical application**

<table>
<thead>
<tr>
<th>Mobile Machinery</th>
<th>Construction Material handling Ground support Mining equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Machinery</td>
<td>Tractors Agricultural equipment</td>
</tr>
<tr>
<td>Stationary Equipment</td>
<td>Gensets Pumps Compressors</td>
</tr>
<tr>
<td>Automotive</td>
<td>Trucks Buses Rail vehicles</td>
</tr>
</tbody>
</table>

**Markets benefit from macro trends**

- Construction
- Material handling
- Ground support
- Mining equipment
- Tractors
- Agricultural equipment
- Gensets
- Pumps
- Compressors
- Trucks
- Buses
- Rail vehicles

**Wide application range for DEUTZ engines**
Automotive business moving towards Asia; fully consolidated Automotive sales decreased as expected due to decision not to develop Euro 6 (on-highway emission); pro-forma revenue incl. at-equity consolidated JV DEUTZ Dalian in Automotive: €380.1 million (corresponding revenue share amounts to 20.1%)
Revenue split by region

FY 2014
(FY 2013)

Africa/Middle East 5%
€84.7 million
(€70.4 million)

Asia-Pacific 7%
€107.4 million
(€107.2 million)

Americas 17%
€256.6 million
(€190.6 million)

Europe (excl. Germany) 49%
€744.7 million
(€824.6 million)

Germany 22%
€336.8 million
(€260.4 million)

Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €1,890.0 million (+6.6%); corresponding revenue share of Asia-Pacific amounts to 24.7%
Service business

€ million

- 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 training and tools

→ Continued growth of service revenues
Agenda

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

<table>
<thead>
<tr>
<th>€ million</th>
<th>H1 2015</th>
<th>yoy</th>
<th>Q2 2015</th>
<th>qoq</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order intake</td>
<td>670.7</td>
<td>-10.2%</td>
<td>349.7</td>
<td>+8.9%</td>
</tr>
<tr>
<td>Revenue</td>
<td>670.2</td>
<td>-11.0%</td>
<td>352.1</td>
<td>+10.7%</td>
</tr>
<tr>
<td>EBITDA (before one-offs)</td>
<td>70.4</td>
<td>+4.3%</td>
<td>36.5</td>
<td>+7.7%</td>
</tr>
<tr>
<td>EBIT (before one-offs)</td>
<td>20.3</td>
<td>+1.0%</td>
<td>10.2</td>
<td>+1.0%</td>
</tr>
<tr>
<td>Net income</td>
<td>16.7</td>
<td>&gt; 100%</td>
<td>9.0</td>
<td>+16.9%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>26.2</td>
<td>+€17.3 million</td>
<td>27.3</td>
<td>+€28.4 million</td>
</tr>
</tbody>
</table>

⇒ Profitability and cash generation improved despite lower capacity utilisation in H1
### 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>H1 2014</td>
<td>746.8</td>
<td>99,079</td>
<td>753.4</td>
</tr>
<tr>
<td>H1 2015</td>
<td>670.7</td>
<td>78,120</td>
<td>670.2</td>
</tr>
</tbody>
</table>

- Sales figures decline due to previous year’s pre-buys and soft agricultural market is in line with expectations
- Revenue better than unit sales development attributable to service business and positive mix effects
- Orders on hands increased by 1.9% versus year-end 2014 to €223.8 million; book-to-bill ratio at 1.0x
Revenue development

€ million

- Current business impacted by emission level change on 1 October 2014 in Europe
- Sequential revenue increase in Q2 but 3 weeks plant holidays in Cologne in Q3
Revenue declined in Mobile Machinery (-17.3%) and Agricultural Machinery (-41.8%) due to pre-buys and weak underlying business in agriculture.

Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €863.8 million (-8.8%); corresponding revenue share of Asia-Pacific amounts to 29.9%
EBIT (before one-offs)

€ million

<table>
<thead>
<tr>
<th></th>
<th>H1 2014</th>
<th>H1 2015</th>
<th>Q1 2015</th>
<th>Q2 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>20.1</td>
<td>20.3</td>
<td>10.1</td>
<td>10.2</td>
</tr>
<tr>
<td>margin</td>
<td>2.7%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

- EBIT on the previous year level; margin in-line with full year outlook
- EBIT improved at both operating segments in H1
- Segment “Other” impacted by unrealised FX effects; offset expected in H2
EBITDA (before-one-offs) increased by €2.9 million despite lower revenue

Sustainably low interest expenses and income taxes

Net income improved by €14.0 million. Prior year affected by restructuring cost related to site optimisation
R&D spending & capital expenditure

- R&D scaled back significantly after all engines designed for the latest emission standard in the EU and in the US were launched in 2014.
- Proportion of capitalised net R&D expenditure decreased to €5.0 million (H1 2014: €15.8 million).

Capital expenditure increase in line with full year guidance (~€50 million).
- Foundation laid for new shaft centre which is an important component of our site optimisation.

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

**Working capital**

<table>
<thead>
<tr>
<th>Working capital ratio (30 June)</th>
<th>H1 2014</th>
<th>H1 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13.2%</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

- Working capital increase (+6.1%) related to temporarily higher inventories and FX effects

**Operating cash flow**

<table>
<thead>
<tr>
<th>Operating cash flow</th>
<th>H1 2014</th>
<th>H1 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40.9</td>
<td>53.9</td>
</tr>
</tbody>
</table>

- Significant increase of operating cash flow (+€13.0 million)
Marked improvement of net financial position (+€65.0 million) on the back of strong cash generation.

Strong free cash flow performance continued.

Free cash flow in H1 2015 amounted to €26.2 million (H1 2014: €8.9 million).

(1) Free cash flow: cash flow from operating and investing activities minus interest expense.
Sound balance sheet; equity ratio increased to 45.4%

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

- Duration of €160 million credit line extended by one year until May 2020
- Loan from European Investment Bank repayable until July 2020
### Segments: DEUTZ Compact Engines

<table>
<thead>
<tr>
<th></th>
<th>€ million</th>
<th>H1 2015</th>
<th>H1 2014</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>New orders</td>
<td>530.0</td>
<td>612.1</td>
<td>-13.4</td>
<td></td>
</tr>
<tr>
<td>Unit sales</td>
<td>71,353</td>
<td>92,935</td>
<td>-23.2</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>528.3</td>
<td>634.6</td>
<td>-16.8</td>
<td></td>
</tr>
<tr>
<td>EBIT (before one-offs)</td>
<td>6.5</td>
<td>5.6</td>
<td>16.1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>€ million</th>
<th>Q2 2015</th>
<th>Q1 2015</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>New orders</td>
<td>281.1</td>
<td>248.9</td>
<td>12.9</td>
<td></td>
</tr>
<tr>
<td>Unit sales</td>
<td>37,758</td>
<td>33,595</td>
<td>12.4</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>277.3</td>
<td>251.0</td>
<td>10.5</td>
<td></td>
</tr>
<tr>
<td>EBIT (before one-offs)</td>
<td>2.5</td>
<td>4.0</td>
<td>-37.5</td>
<td></td>
</tr>
</tbody>
</table>

- **H1 revenue decrease mainly attributable to Mobile Machinery (-19.6%) and Agricultural Machinery (-42.5%)**
- **Service business revenues increased by 5.3% yoy**
- **At-equity consolidated DEUTZ Dalian (China) generated revenue of €193.6 million (-0.3% yoy) in a very challenging market environment**
- **Operating profit improved (+16.1% yoy). Negative scale effects and lower profit contribution from DEUTZ Dalian overcompensated by productivity enhancements, FX tailwind and higher share of service business**
Unlike DEUTZ Compact Engines, segment not affected by European pre-buys in the last year

Revenue increased at all major applications: Automotive (+28.1%), Mobile Machinery (+16.4%) and Stationary Equipment (+14.0%)

Service business revenues increased by 14.4%

Operating profit improvement in H1 (+21.0% yoy) mainly driven by higher volume; Q2 affected by an impairment (€2.0 million)
Summary: key development

- Sales figures impacted by prior year's pre-buys
- EBIT improvement despite negative scale effects
- Focus Chinese production activities on DEUTZ Dalian
- Site optimisation in Germany on schedule
- Strong cash flow generation
Agenda

- DEUTZ strategy & positioning
- Financials
- Outlook
## Financial outlook

<table>
<thead>
<tr>
<th></th>
<th>FY 2014 reported</th>
<th>Previous Guidance FY 2015</th>
<th>New Guidance FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,530.2</td>
<td>approx. -10 %</td>
<td>approx. -20 %</td>
</tr>
<tr>
<td><strong>EBIT margin (before one-offs)</strong></td>
<td>2.1 %</td>
<td>approx. 3 %</td>
<td>approx. 0 %</td>
</tr>
<tr>
<td><strong>Net R&amp;D expenditure(^1)</strong></td>
<td>53.1</td>
<td>significant decline</td>
<td>significant decline</td>
</tr>
<tr>
<td><strong>Capex (excl. R&amp;D)(^1)</strong></td>
<td>40.3</td>
<td>~ 50</td>
<td>~ 50</td>
</tr>
</tbody>
</table>

\(^1\) Net of reimbursements
Financial calendar & contact details

- Interim report 1st to 3rd quarter 2015  
  5 November 2015

- Annual Report 2015  
  17 March 2016

- Annual General Meeting  
  28 April 2016

- Interim report 1st quarter 2016  
  3 May 2016

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