

# DEUTZ AG

CONFERENCE CALL H1 2008

13 August 2008

The engine company.





## Agenda

- **Highlights in H1 & Q2 2008**

Dr Helmut Leube, Chairman of the Management Board

- **Key financials in H1 & Q2 2008**

Helmut Meyer, Chief Financial Officer

- **Outlook for 2008**

Dr Helmut Leube, Chairman of the Management Board

- **Annex**



## Highlights for DEUTZ in H1 2008

### ■ DEUTZ continued to grow

Unit sales	148,687 engines	up 11%	(134,619)
Revenue	€825.5 million	up 15%	(€717.7 million)

### ■ Earnings improved despite start-up costs incurred by DEUTZ Dalian

EBIT	€43.6 million	up 8%	(€40.4 million)
Net income	€30.3 million	up 14%	(€26.5 million)

### ■ Growth in Xchange business required capacity expansion

- new plant being built in Bergen, southern Germany
- launch of exchange engines business in USA proceeding according to plan; production commenced in July 2008

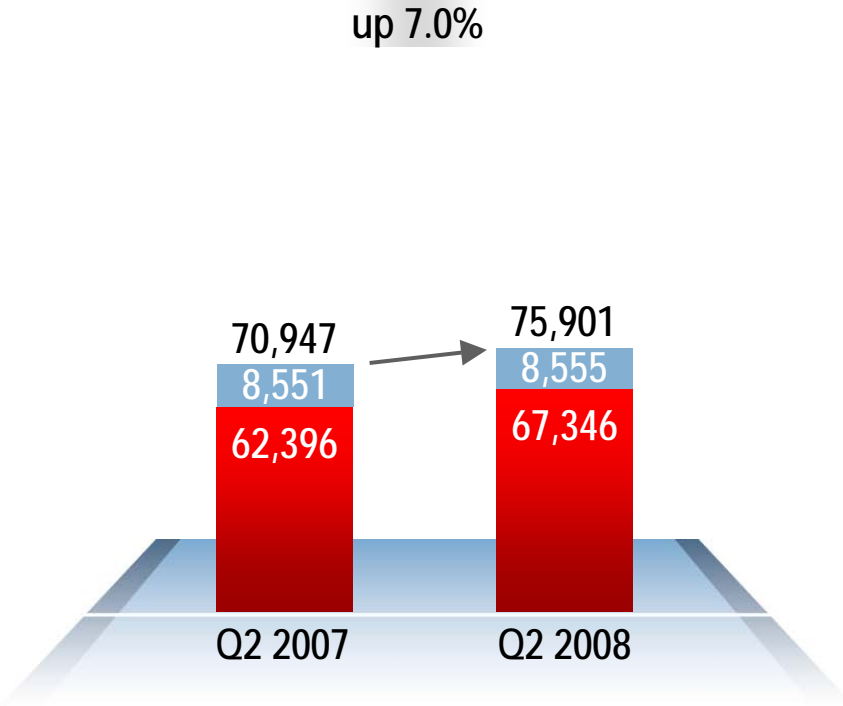
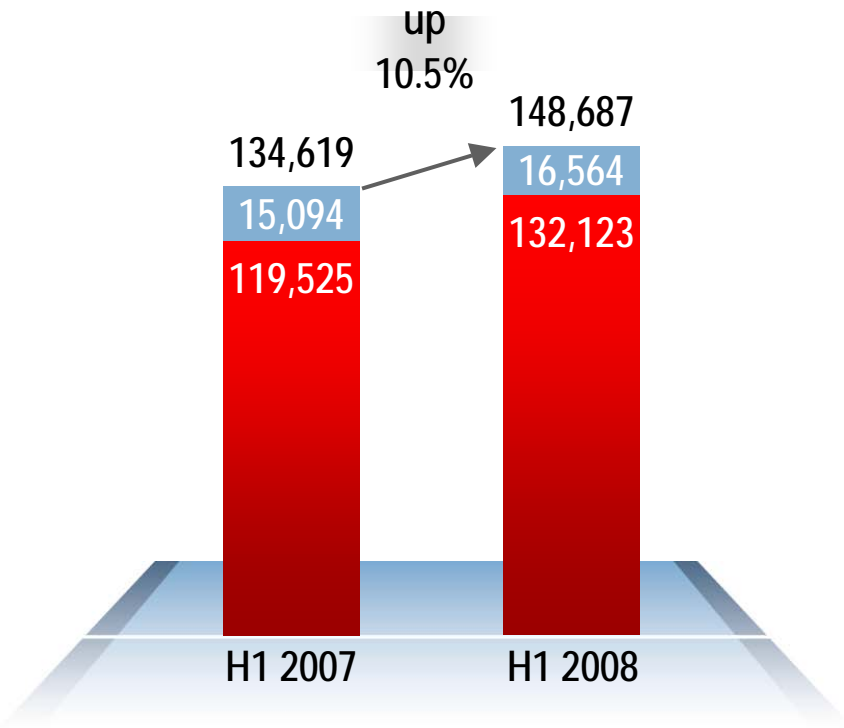
( ) = H1 2007



# Encouraging growth in unit sales

H1 unit sales

Q2 unit sales



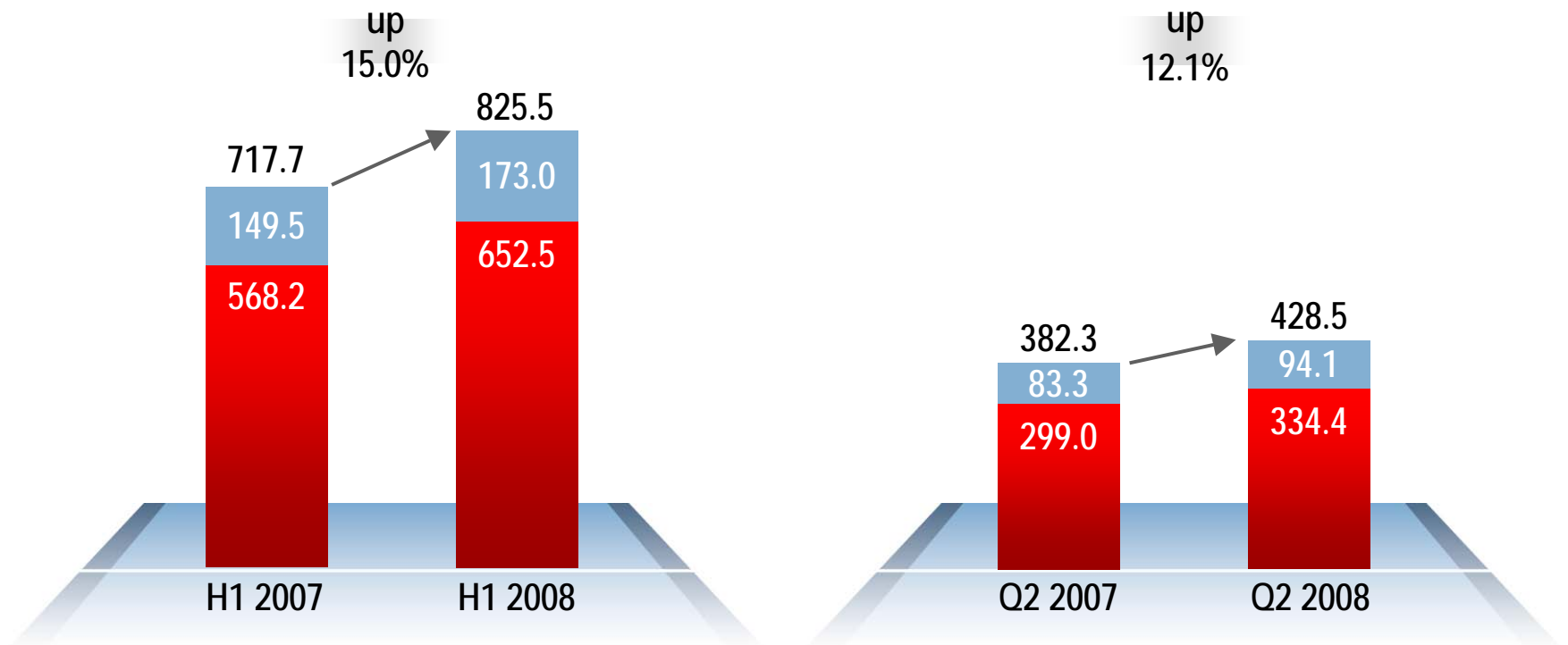
■ Compact Engines    ■ DEUTZ Customised Solutions



## Double-digit growth in revenue

H1 revenue (€ million)

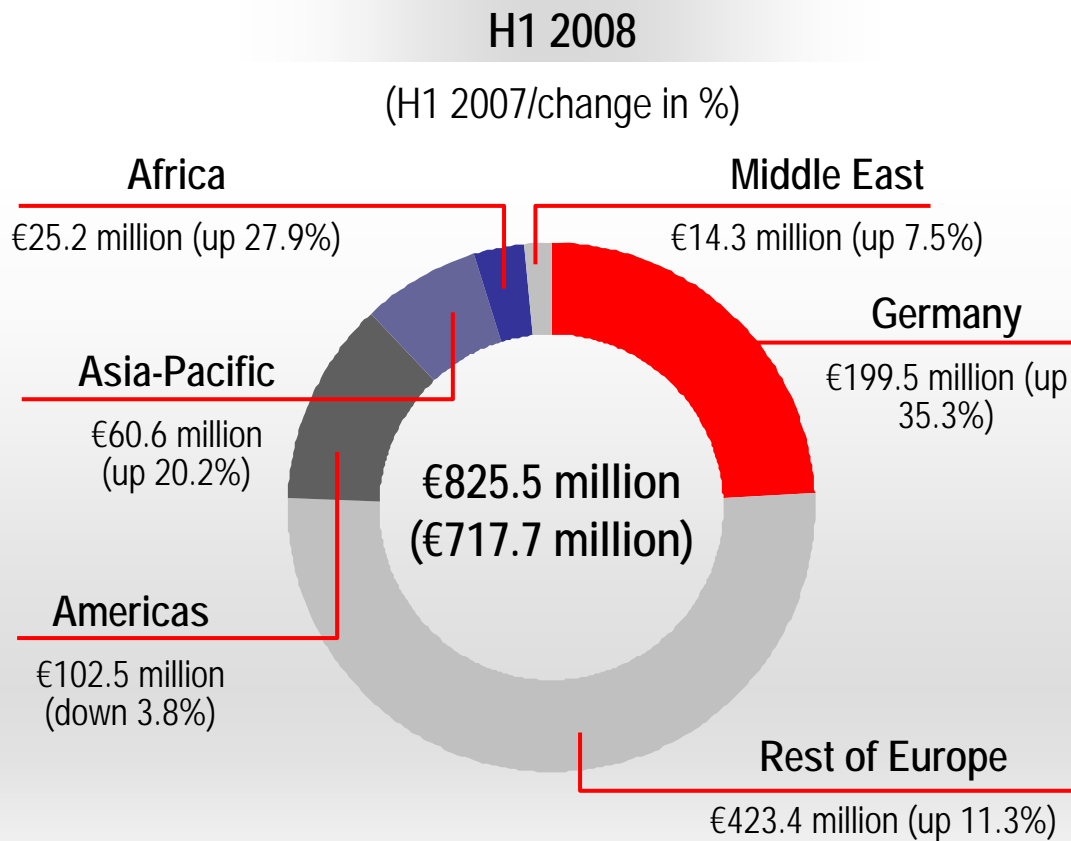
Q2 revenue (€ million)



■ Compact Engines    ■ DEUTZ Customised Solutions



## Revenue by region



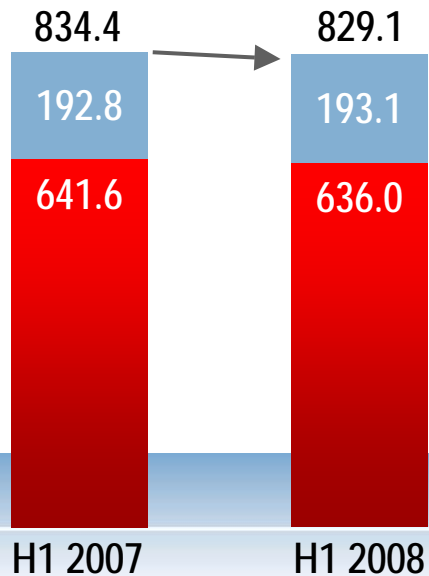
- Sharp rise in Germany largely driven by revenue from customers in agricultural machinery and construction equipment sectors
- Currency-adjusted increase in Americas (revenue up 11%; unit sales up 8%)
- Revenue growth in Asia-Pacific region: China as main growth driver



## High level of new orders sustained

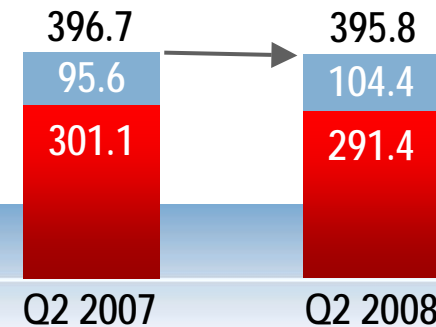
H1 new orders (€ million)

down  
0.6%



Q2 new orders (€ million)

down  
0.2%



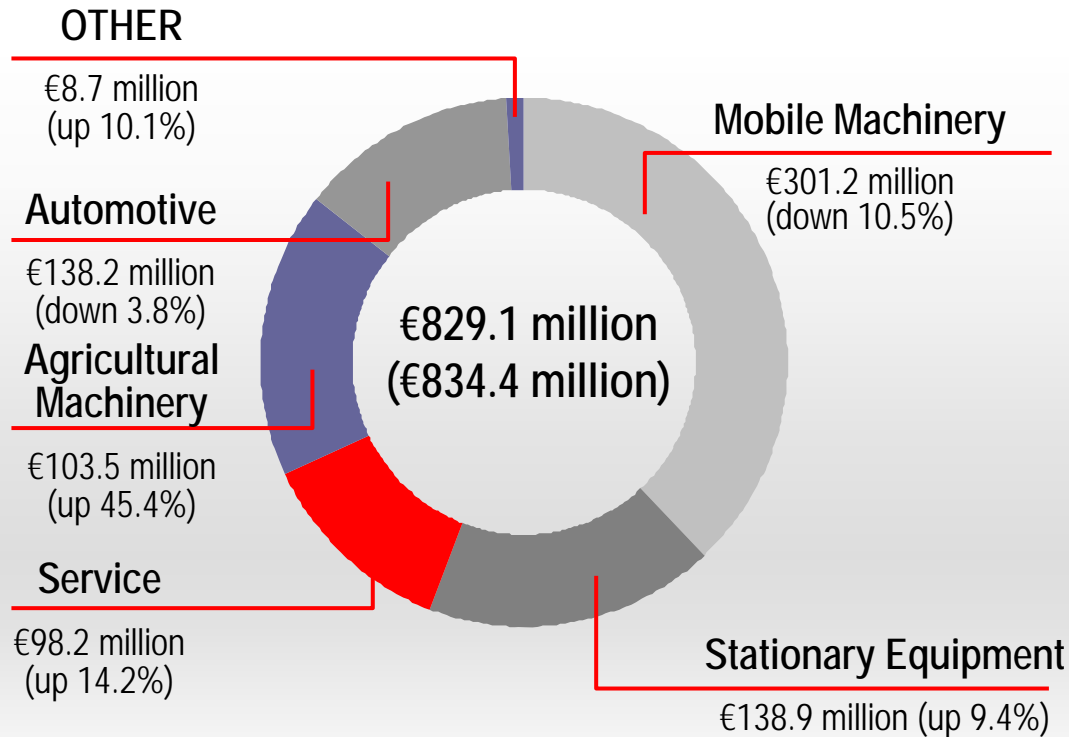
■ Compact Engines    ■ DEUTZ Customised Solutions



# Strong demand in Agricultural Machinery segment; weaker demand in Mobile Machinery segment

## New orders by application segment

H1 2008 (H1 2007/ change in %)



New orders by application segment not consolidated





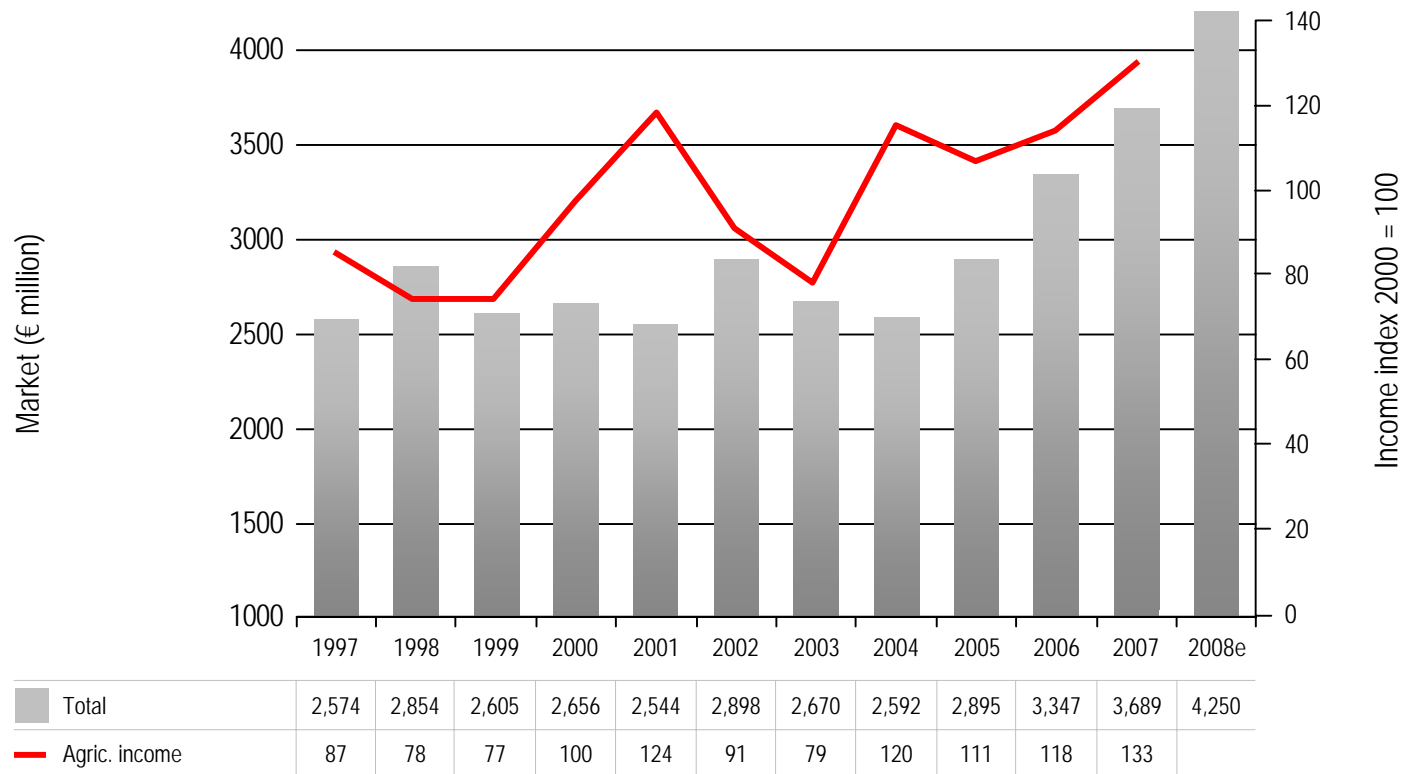
## Global conditions for agricultural machinery sector

- **Growing demand for, and shortage of, agricultural produce owing to**
  - continuous growth in world population
  - higher living standards in major emerging markets with changing consumption patterns
  - recent use of agricultural commodities to produce biofuels
  - harvests at greater risk (droughts, floods)
  
- **...are creating greater pressure to mechanise agricultural production to**
  - increase yields per hectare
  - use more land for agriculture
  - produce high-value foodstuffs
  
- **Result**
  - global investment in agricultural machinery has been rising steadily in recent years
  - demand for the latest equipment remains strong
  - as does demand for new technology (depending on availability of finance)

Source:  
German Engineering  
Federation (VDMA)



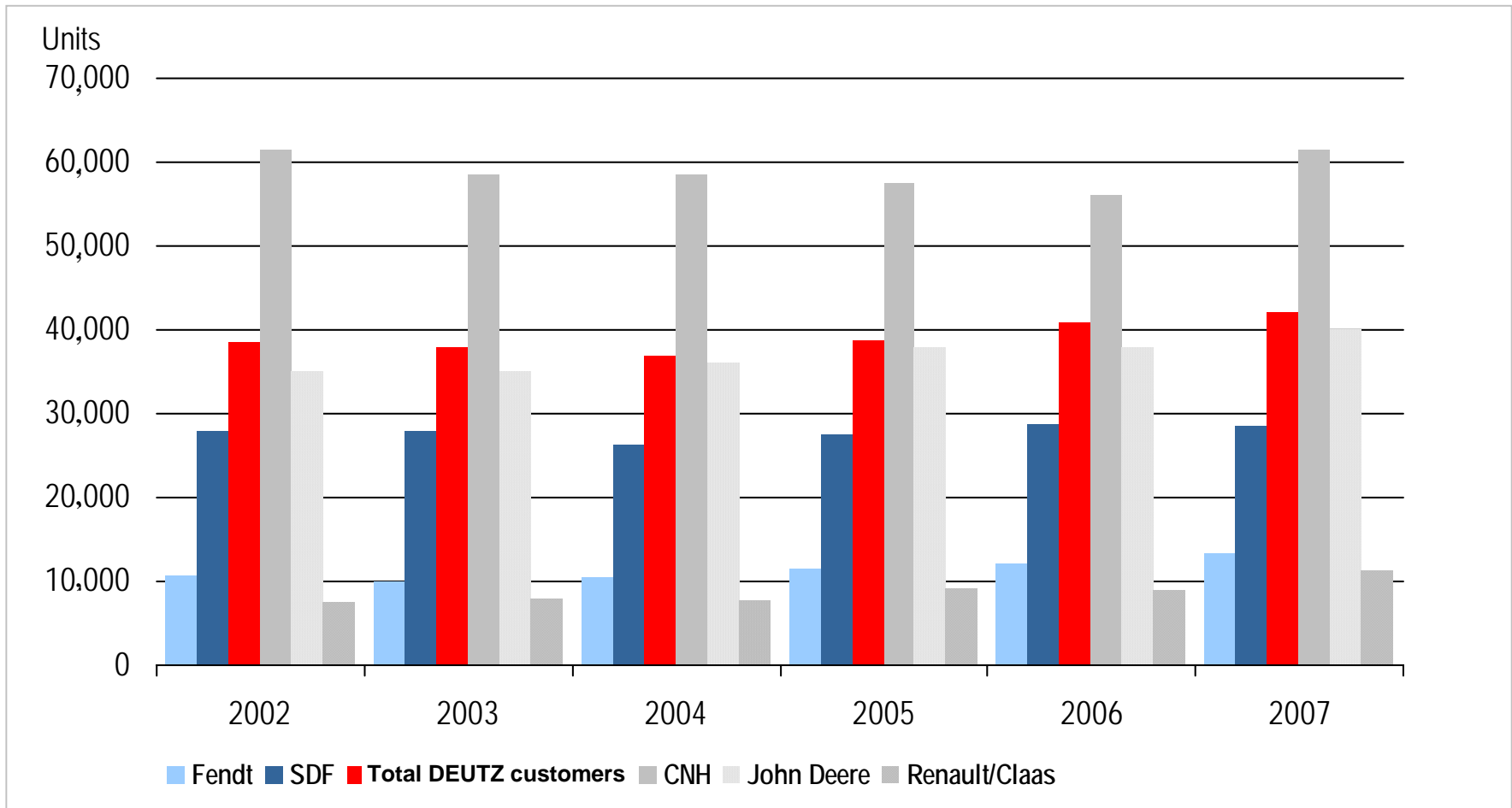
# Germany's agricultural machinery market has sustained its growth in 2008, generating record revenue of over €4 billion



Sources: German Engineering Federation (VDMA), Federal Statistical Office



# With Fendt and SAME as customers, DEUTZ supplies two of the largest tractor manufacturers in the EU



Sources: OHR, own data



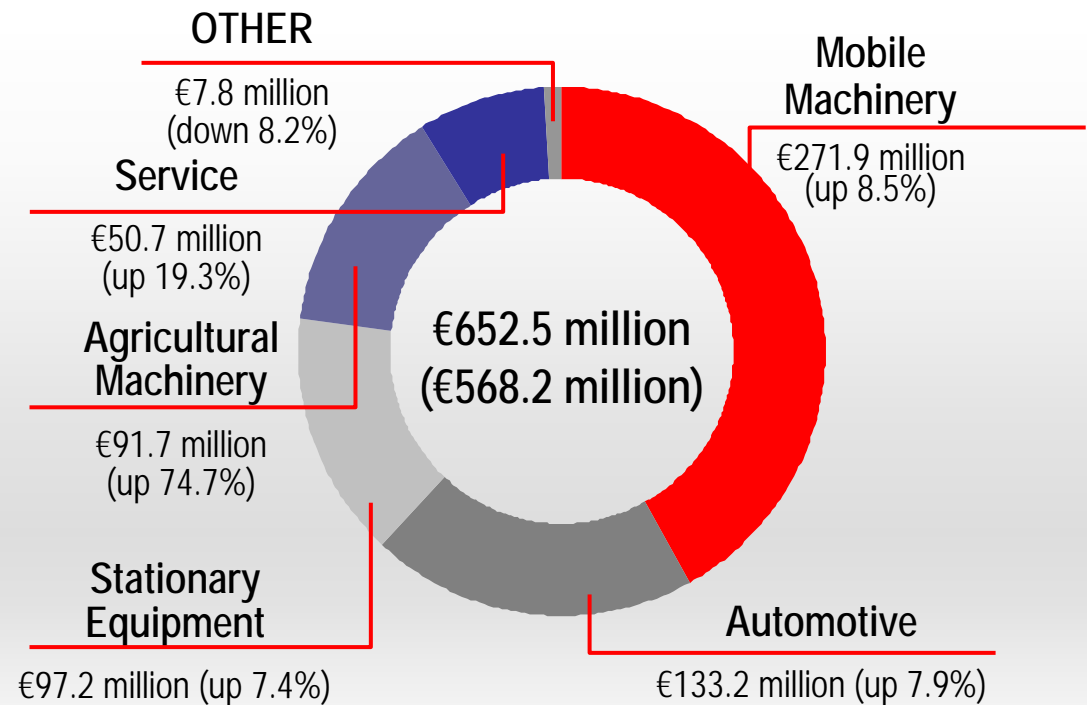
## Compact Engines segment

### Highlights

- Unit sales up 10.5% to 132,123 engines; four to eight-litre engines up 17%
- Strong growth in TCD 2013 4V commercial-vehicle engine (up 25.7%)
- Significant growth in new orders and revenue in Agricultural Machinery segment, with most revenue growth being generated in Germany
- Revenue from services increased by 19.3% to €50.7 million
- EBIT raised by 6.7% to €20.8 million (including start-up costs of €4.7 million for DEUTZ Dalian)

### Revenue by application segment

H1 2008 (H1 2007/change in %)





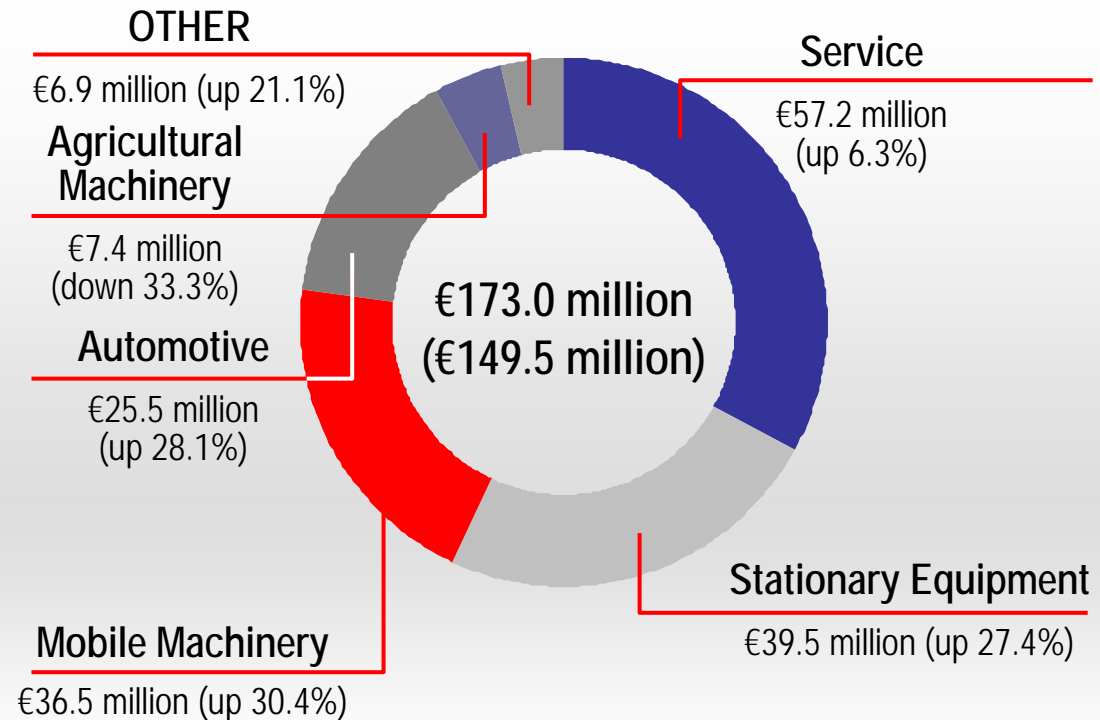
# DEUTZ Customised Solutions segment

## Highlights

- Consistent level of new orders in first half of 2008; up 9.2% year on year in second quarter
- Unit sales up 9.7% to 16,564 engines; unit sales rose sharply after production of air-cooled engines had been fully relocated from Cologne to Ulm
- Agricultural Machinery segment: one key customer's air-cooled engines replaced with water-cooled engines
- 6.3% increase in service revenue mainly due to Xchange business
- EBIT rose sharply by 25.3% to €22.3 million

## Revenue by application segment

H1 2008 (H1 2007/change in %)





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## Financial highlights in H1 2008

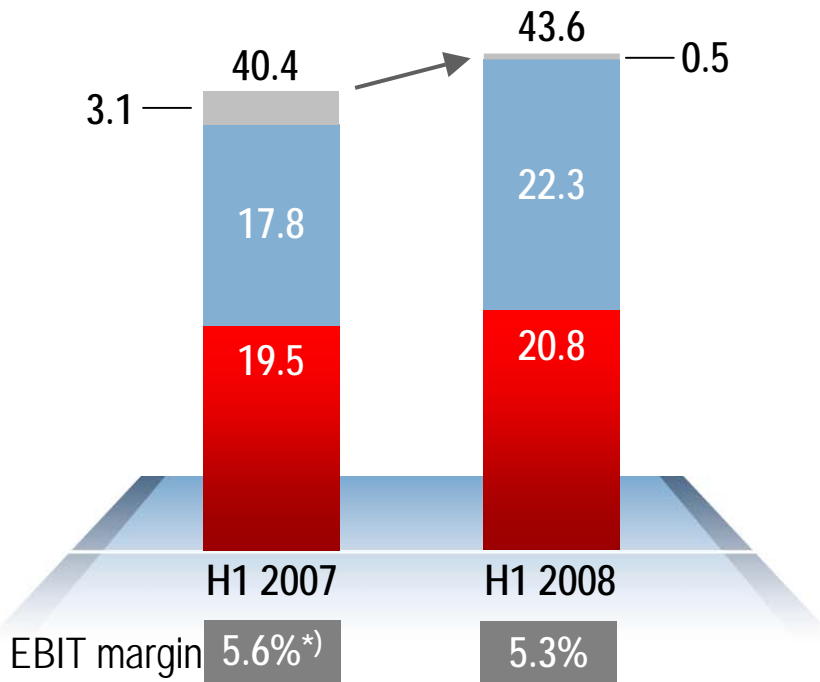
- Encouraging increase in EBIT
  - DEUTZ Group €43.6 million up 8%
  - Compact Engines incl. DDE €20.8 million up 7%
  - Start-up losses of €4.7 million for DDE were in line with forecasts
  - DEUTZ Customised Solutions €22.3 million up 25%
- Further improvement in net interest expense; net income on continuing operations rose by 14% to €30.3 million (H1 2007: €26.5 million)
- Net financial position remained positive at €47.2 million (30 June 2007: minus €74.1 million)
- Cash flow from operating activities grew by €35.7 million to €50.7 million; cash flow from financing activities affected by dividend payment of €48.0 million
- Increase in working capital reflects larger business volumes and lower sales of receivables



# EBIT boosted by higher revenue

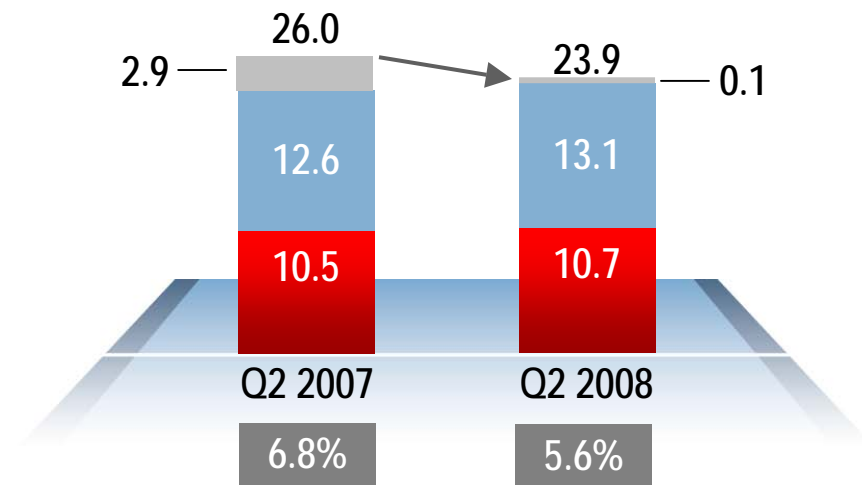
EBIT (€ million)

up 7.9%



EBIT (€ million)

down 8.0%



■ Compact Engines   
 ■ DEUTZ Customised Solutions   
 ■ Other

\*) Excl. one-off income, the EBIT margin for H1 2007 was 4.6%





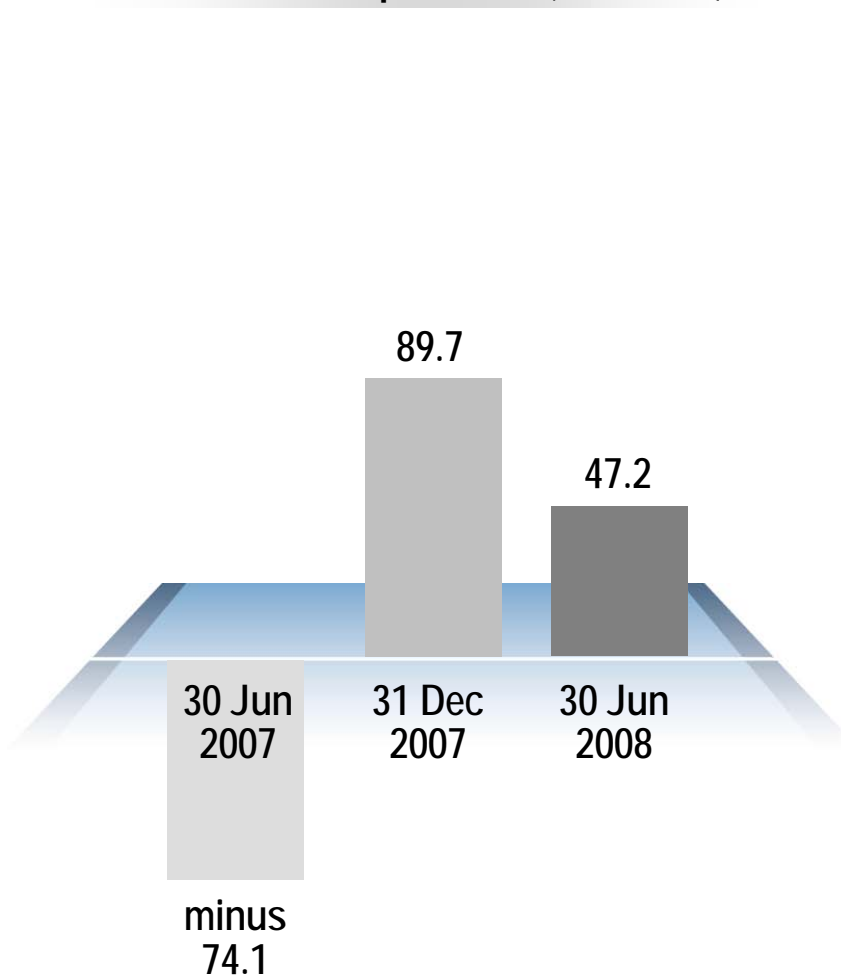
## Start-up costs incurred by DEUTZ Dalian joint venture impacted earnings in Compact Engines segment

EBIT (€ million)	H1 2008	H1 2007	Change (%)	Q2 2008	Q2 2007	Change (%)
Compact Engines incl. DDE	20.8	19.5	6.7	10.7	10.5	1.9
<i>DEUTZ Dalian Engines (DDE)</i>	-4.7	-1.0	-	-1.5	-1.0	-
<i>Compact Engines excl. DDE</i>	25.5	20.5	24.4	12.2	11.5	6.1

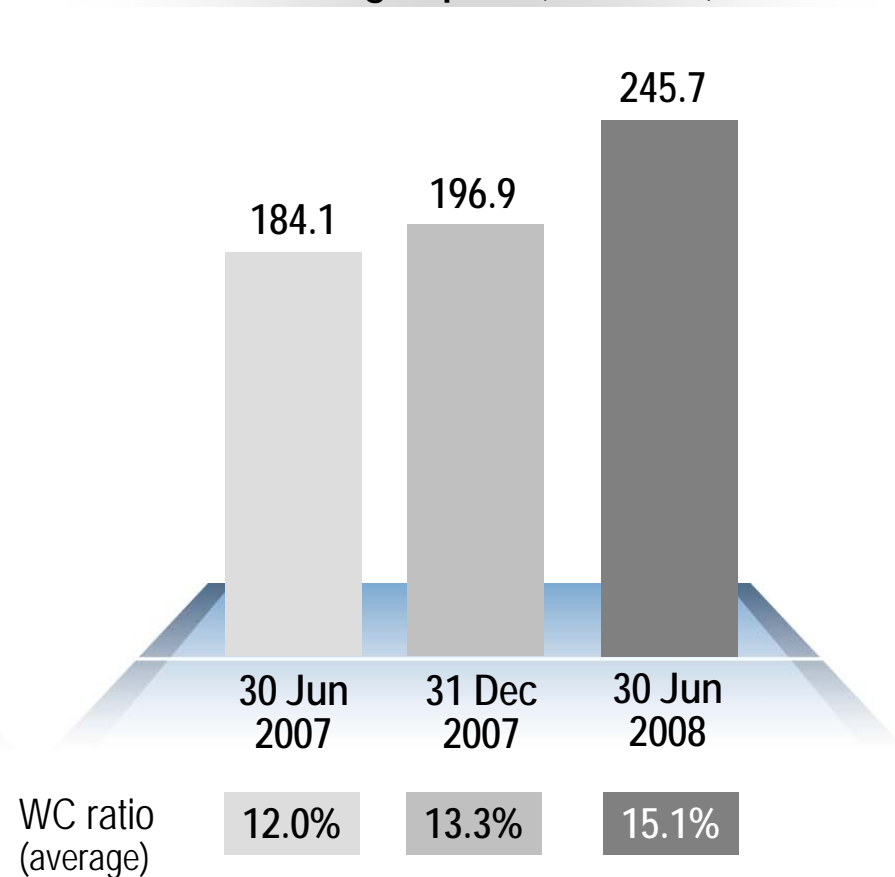


Net financial position remains positive;  
working capital reflects growing volume of business

Net financial position (€ million)



Working capital (€ million)

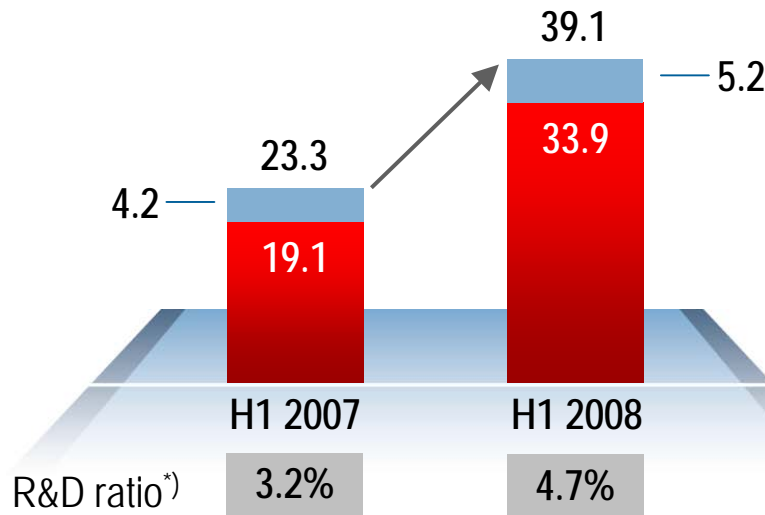




# Sharp rise in R&D spending and capital expenditure

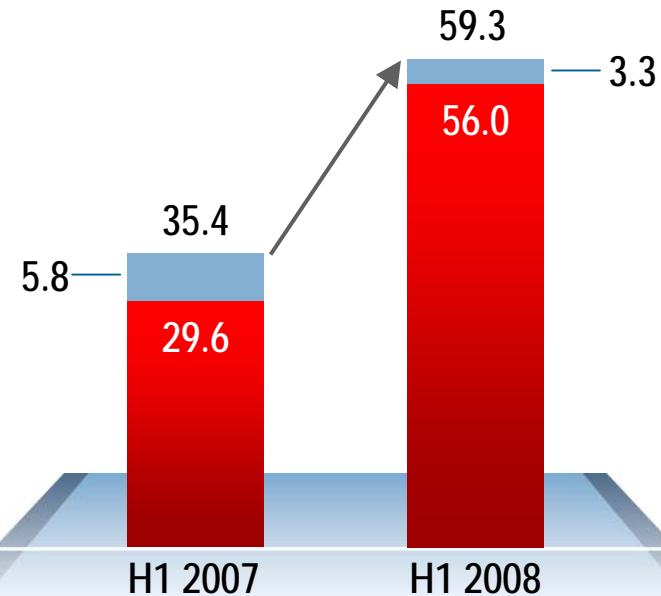
R&D (€ million)

up  
67.8%



Capital expenditure (€ million)

up  
67.5%



<sup>\*)</sup> Ratio of R&D spending to revenue

■ Compact Engines    ■ DEUTZ Customised Solutions



## Key balance sheet figures

€ million	30 Jun 2008	31 Dec 2007	Change (%)
Total assets	1,372.9	1,378.6	-0.4
Equity	540.6	557.1	-3.0
Equity ratio (%)	39.4	40.4	-
Cash flow from operating activities (continuing operations)	50.7	15.0	-
Net financial position	47.2	89.7	-47.4
Working capital	245.7	196.9	24.8



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## Latest economic data indicate slower market growth in 2008

### ■ GDP growth is slowing

Annual growth (%)	2007	2008
Germany	2.5	2.6
Eurozone	2.7	1.7
USA	2.0	1.5
World	4.7	3.7

### ■ German Engineering Federation (VDMA) reports decline in new orders

Change in % year on year

May: down 12% (Germany: down 12%, outside Germany: down 12%)

June: down 5% (Germany: up 1%, outside Germany: down 7%)

### ■ ifo Business Climate Index suffers sharpest fall since October 2001

- down 3.7 points to 97.5 points in July 2008

- ifo index in July 2007: 106.6 points

Sources: Deutsche Bank (August 08), VDMA (July 08), CES ifo Group (July 08)



## Outlook for 2008

Outlook	2008
Unit sales (DEUTZ Group)	~ unchanged year on year
Revenue (€ million)	up ~ 5%
EBIT margin (%)	~ 6%
Research and development (€ million)	80
Unit sales for DEUTZ Dalian	100,000 - 120,000
Revenue for DEUTZ Dalian (€ million)	~ 300



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## Key performance indicators for H1 2008

€ million	H1 2008	H1 2007	Change (%)
Revenue	825.5	717.7	15.0
EBITDA	79.5	72.8	9.2
EBIT	43.6	40.4	7.9
EBIT margin before one-off items (%)	5.3	5.6	-
Net income on continuing operations	30.3	26.5	14.3
Basic earnings per share (€)	0.25	0.23	8.7
Number of employees as at 30 June	4,930	4,835	2.0



## Income statement

DEUTZ Group: Income statement	(€ million)	H1 2008	H1 2007	Change (%)
Revenue		825.5	717.7	15.0
Changes in inventories and other own work capitalised		24.7	29.1	-15.1
Other operating income		30.9	34.8	-11.2
Cost of materials		-573.7	-499.0	15.0
Staff costs		-150.5	-136.3	10.4
Depreciation and amortisation		-35.9	-32.4	10.8
Other operating expenses		-74.6	-74.3	0.4
Profit/loss on equity-accounted investments		-2.8	0.6	-
Reversal of impairment losses on non-current financial assets		-	0.2	-
<b>EBIT / operating profit</b>		<b>43.6</b>	<b>40.4</b>	<b>7.9</b>
Net interest expense		-6.7	-10.6	36.8
thereof finance costs		-17.4	-11.6	50.0
Other taxes		-1.0	-0.6	66.7
<b>Net income before taxes on continuing operations</b>		<b>35.9</b>	<b>29.2</b>	<b>22.9</b>
Income taxes		-5.6	-2.7	-
<b>Net income on continuing operations</b>		<b>30.3</b>	<b>26.5</b>	<b>14.3</b>
<b>Net income on discontinued operations</b>		<b>-</b>	<b>-0.1</b>	<b>-</b>
<b>Net income</b>		<b>30.3</b>	<b>26.4</b>	<b>14.8</b>



## Overview of segments in H1 2008

Unit sales (quantity)	H1 2008	H1 2007	Change (%)
Compact Engines	132,123	119,525	10.5
DEUTZ Customised Solutions	16,564	15,094	9.7
<b>Total</b>	<b>148,687</b>	<b>134,619</b>	<b>10.5</b>

Revenue (€ million)	H1 2008	H1 2007	Change (%)
Compact Engines	652.5	568.2	14.8
DEUTZ Customised Solutions	173.0	149.5	15.7
<b>Total</b>	<b>825.5</b>	<b>717.7</b>	<b>18.4</b>
Germany	24.2%	20.5%	-
Export	75.8%	79.5%	-

New orders (€ million)	H1 2008	H1 2007	Change (%)
Compact Engines	636.0	641.6	-0.9
DEUTZ Customised Solutions	193.1	192.8	0.2
<b>Total</b>	<b>829.1</b>	<b>834.4</b>	<b>-0.6</b>

EBIT (€ million)	H1 2008	H1 2007	Change (%)
Compact Engines incl. DDE	20.8	19.5	6.7
<i>DEUTZ Dalian Engines (DDE)</i>	<i>-4.7</i>	<i>-1.0</i>	<i>-</i>
<i>Compact Engines excl. DDE</i>	<i>25.5</i>	<i>20.5</i>	<i>24.4</i>
DEUTZ Customised Solutions	22.3	17.8	25.3
Other	0.5	3.1	-
<b>Total</b>	<b>43.6</b>	<b>40.4</b>	<b>7.9</b>



## Overview of segments in Q2 2008

Unit sales (quantity)	Q2 2008	Q2 2007	Change (%)
Compact Engines	67,346	62,396	7.9
DEUTZ Customised Solutions	8,555	8,551	-
<b>Total</b>	<b>75,901</b>	<b>70,947</b>	<b>7.0</b>

Revenue (€ million)	Q2 2008	Q2 2007	Change (%)
Compact Engines	334.4	299.0	11.8
DEUTZ Customised Solutions	94.1	83.3	13.0
<b>Total</b>	<b>428.5</b>	<b>382.3</b>	<b>12.1</b>
Germany	24.4%	20.9%	-
Export	75.6%	79.1%	-

New orders (€ million)	Q2 2008	Q2 2007	Change (%)
Compact Engines	291.4	301.1	-3.2
DEUTZ Customised Solutions	104.4	95.6	9.2
<b>Total</b>	<b>395.8</b>	<b>396.7</b>	<b>-0.2</b>

EBIT (€ million)	Q2 2008	Q2 2007	Change (%)
Compact Engines incl. DDE	10.7	10.5	1.9
<i>DEUTZ Dalian Engines (DDE)</i>	<i>-1.5</i>	<i>-1.0</i>	-
<i>Compact Engines excl. DDE</i>	<i>12.2</i>	<i>11.5</i>	<i>6.1</i>
DEUTZ Customised Solutions	13.1	12.6	4.0
Other	0.1	2.9	-
<b>Total</b>	<b>23.9</b>	<b>26.0</b>	<b>-8.0</b>



## Balance sheet: assets

DEUTZ Group:		30 Jun	31 Dec	Change
Assets	(€ million)	2008	2007	(%)
Non-current assets (before deferred tax assets)		523.3	511.3	2.3
Deferred tax assets		46.0	49.4	-6.9
Inventories		234.8	214.2	9.6
Trade receivables		212.8	188.8	12.7
Other receivables and assets		100.4	102.9	-2.4
Cash and cash equivalents		254.7	311.1	-18.1
Non-current assets held for resale		0.9	0.9	-
<b>Total assets</b>		<b>1,372.9</b>	<b>1,378.6</b>	<b>-0.4</b>



## Balance sheet: equity and liabilities

DEUTZ Group:		30 Jun	31 Dec	Change
Equity and liabilities	(€ million)	2008	2007	(%)
<b>Equity</b>		540.6	557.1	-3.0
Provisions for pensions and other post-retirement benefits		171.4	176.7	-3.0
Other provisions		48.8	46.5	4.9
Financial liabilities		202.2	216.0	-6.4
Other liabilities		16.6	10.0	66.0
<b>Non-current liabilities</b>		439.0	449.2	-2.3
Provisions for pensions and other post-retirement benefits		16.7	16.7	-
Other provisions / Provisions for current income taxes		87.1	75.0	16.1
Financial liabilities		5.3	5.4	-1.9
Trade payables		201.9	206.1	-2.0
Other liabilities		82.3	69.1	19.1
<b>Current liabilities</b>		393.3	372.3	5.6
<b>Total equity and liabilities</b>		<b>1,372.9</b>	<b>1,378.6</b>	<b>-0.4</b>



## Cash flow statement (condensed)

DEUTZ Group	€ million	H1 2008	H1 2007
EBIT		43.6	40.4
<b>Cash flow from operating activities (continuing operations)</b>		<b>50.7</b>	<b>15.0</b>
Cash flow from operating activities (discontinued operations)		-	-23.2
<b>Cash flow from operating activities (total)</b>		<b>50.7</b>	<b>-8.2</b>
Capital expenditure on intangible assets, property, plant and equipment and investments		-48.7	-38.0
Cash receipts from the sale of businesses		-	3.6
Proceeds from the sale of non-current assets		0.1	0.5
<b>Cash flow from investing activities (continuing operations)</b>		<b>-48.6</b>	<b>-33.9</b>
Cash flow from investing activities (discontinued operations)		-1.4	-4.9
<b>Cash flow from investing activities (total)</b>		<b>-50.0</b>	<b>-38.8</b>
Cash flow from financing activities		-56.8	11.6
<b>Change in cash and cash equivalents</b>		<b>-56.1</b>	<b>-35.4</b>



## Financial calendar for 2008/2009

- |   |                   |                 |
|---|-------------------|-----------------|
| ■ Interim report Q1 to Q3 2008<br>Conference call with analysts and investors |                   | 7 November 2008 |
| ■ Annual Results Press Conference<br>Publication of annual report for 2008    | Cologne           | 19 March 2009   |
| ■ Analysts' meeting   | Frankfurt am Main | 20 March 2009   |
| ■ Annual General Meeting  | Cologne           | 30 April 2009   |
| ■ Interim report Q1 2009<br>Conference call with analysts and investors       |                   | 7 May 2009      |
| ■ Interim report H1 2009<br>Conference call with analysts and investors       |                   | 12 August 2009  |
| ■ Interim report Q1 to Q3 2009<br>Conference call with analysts and investors |                   | 5 November 2009 |





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