

## CONFERENCE CALL Q1 2010

12 May 2010

The engine company.



# Agenda

- **Overview Q1 2010**

Dr Helmut Leube, Chairman of the Management Board

- **Key performance indicators Q1 2010**

Dr Margarete Haase, CFO

- **Outlook and "MOVE FAST" programme**

Dr Helmut Leube, Chairman of the Management Board

- **Appendix**

# Overview of Q1 2010

## ■ Powerful start in 2010 – trend reversal achieved

- EBIT before one-offs positive (€ 0.7 million)
- Fixed costs permanently reduced and break even level significantly lowered
- Key figures – from new orders to revenue – well above Q1 2009 and our expectations
- Unit sales and revenue up 10.4% and 7.2% yoy
- Order intake up 51.5% yoy; compared to Q4 2009 an increase of 35.4%
- The positive development in Q1 will continue in the coming months

## ■ MOVE FAST action programme progressing to further optimize our cost base

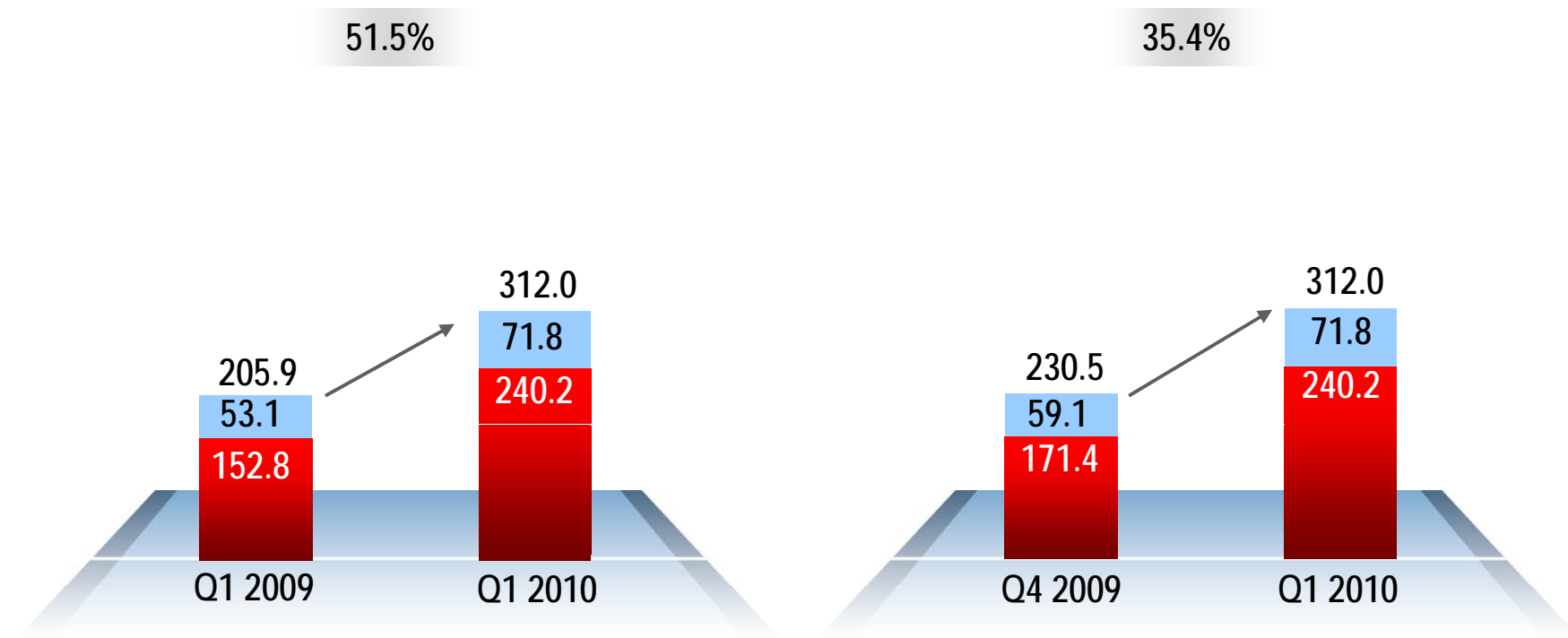
- Despite the improved business situation, ongoing efforts to further reduce break-even point
- Predetermined measures are currently being implemented, further measures to be defined
- Target improvement in earnings: >€35 million p.a.

## ■ Positive response of customers after presentation of TIER 4 engines

- Successful presentation of our 2 new engines TCD 2.9 L4 and the TCD 3.6 L4 at bauma 2010 in Munich
- TCD 2.9 L4 awarded "Diesel of the year 2010" in the technical journal "DIESEL"

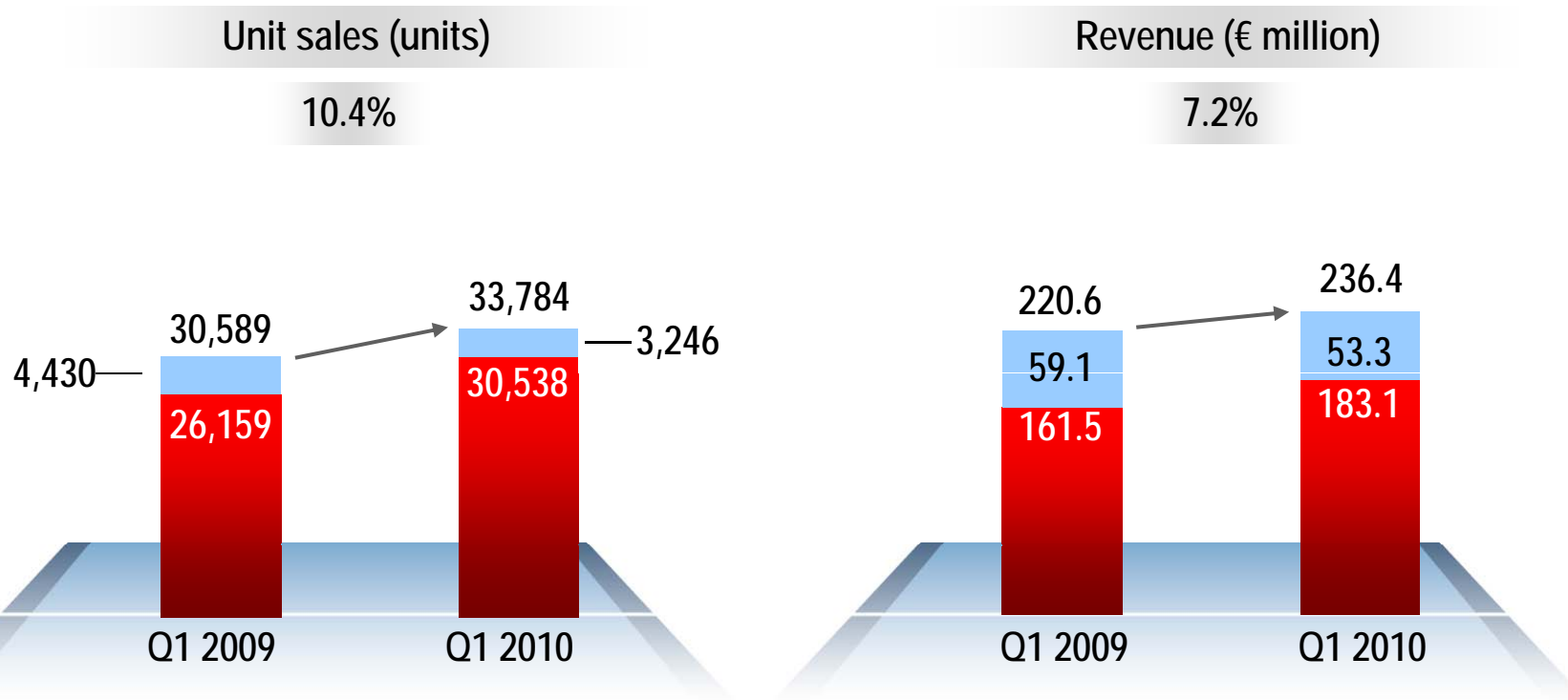
# Development of new orders

€ million



- Strong development of order intake in all segments, in particular Mobile Machinery increased by 153% compared to Q1 2009
- Compared to Q4 2009, the recovery of order intake has proceeded faster than expected
- Order intake is above revenue for the third quarter in a row  
 ➔ This is an excellent indicator for a stable trend

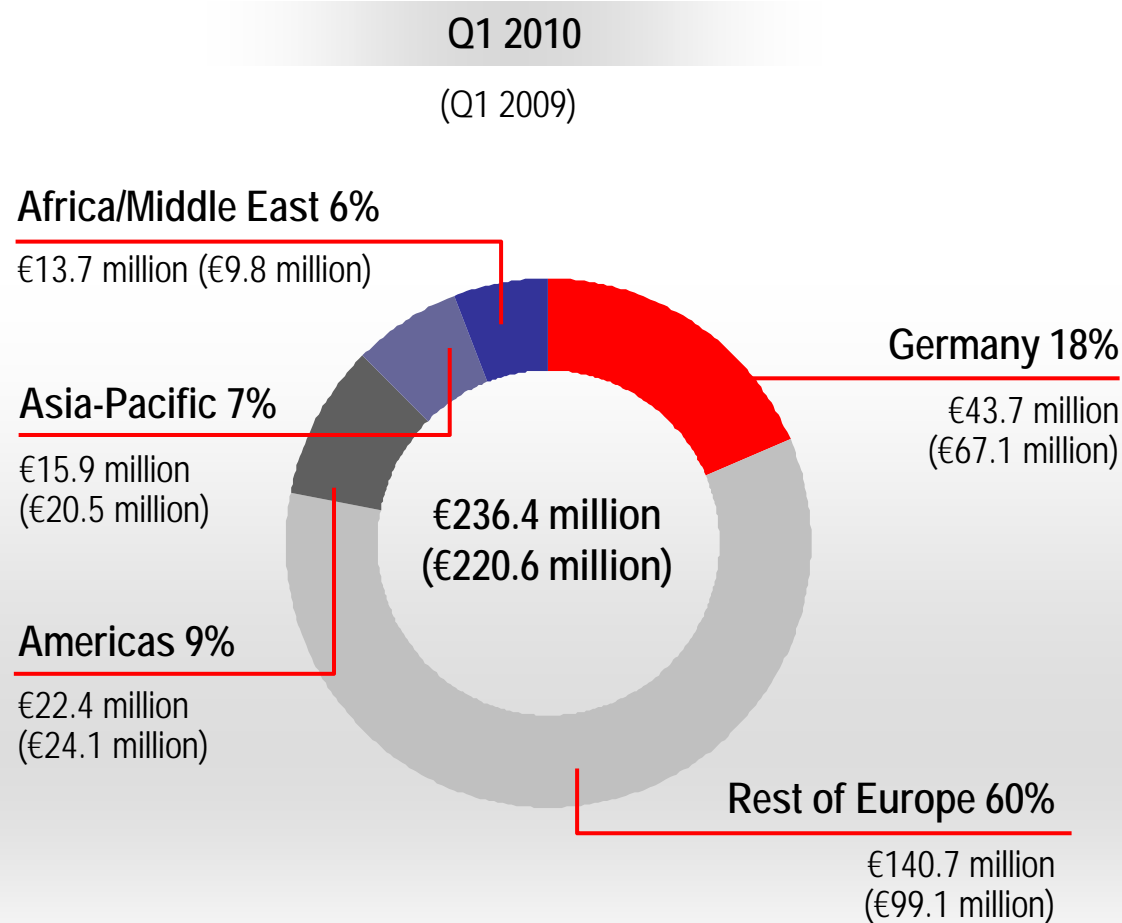
# Development of unit sales and revenue



- Following the improving order situation in Q3 and Q4 2009 and a continuous increase in orders on hand, unit sales and revenue clearly higher yoy
- Almost all liquid-cooled engine series experienced a double-digit percentage increase in unit sales
- Unit sales of air-cooled engines below Q1 2009, due to a slower response of DCS to upturns and downturns in the economy, but order intake in Q1 shows recovery in 2010

 Compact Engines  DEUTZ Customised Solutions

# Revenue by region



- Revenues in Germany und Americas reached their low in the second half of 2009. Compared to Q4 2009 revenues in Q1 2010 are about 59 % and 41 % higher, mainly driven by Compact Engines segment.

## Segment overview: Compact Engines

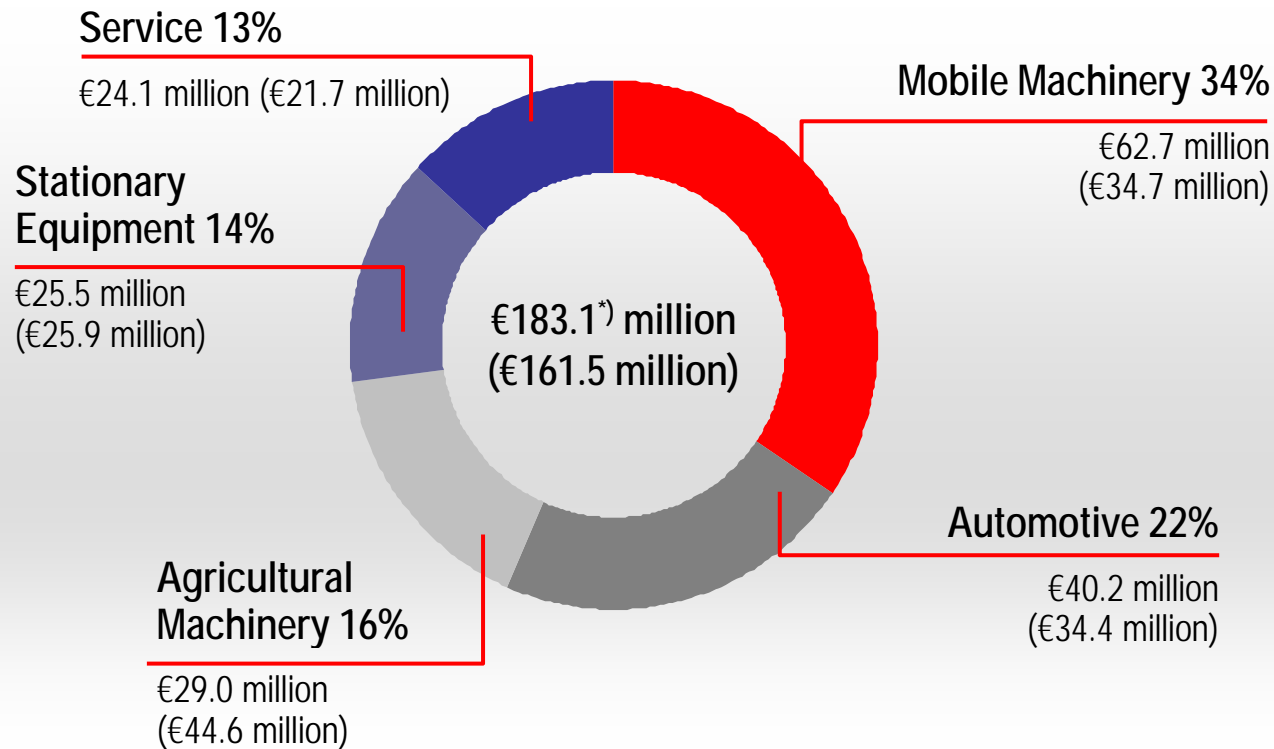
€ million	Q1 2010	Q1 2009	Change in %
New orders	240.2	152.8	57.2
Unit sales (units)	30,538	26,159	16.7
Revenue	183.1	161.5	13.4
EBIT (before one-off items)	-4.1	-22.8	--

- Compared to Q1 2009, all application segments experienced a double-digit percentage increase in order intake, especially Mobile Machinery (+162% yoy) and Agricultural Machinery (66% yoy)
- The increase in unit sales (17%) and revenue (13%) is mainly supported by the significant and rapid recovery of the application segment Mobile Machinery (unit sales up 79% yoy, revenue up 81% yoy)
- The recovery of the North-American Compact Engine business continued in Q1 2010; compared to Q1 2009, unit sales and revenue increased by 35% and 18%, compared to Q4 2009 unit sales were +58% and revenues +49%
- Significant improvement of EBIT due to higher demand for DEUTZ engines, reduced personnel costs, reduced material costs and ongoing improvement of DEUTZ Dalian joint venture
- The start-up losses of DEUTZ Dalian joint venture decreased by €2.1 million to €1.4 million compared to Q1 2009 (€3.5 million)

# Compact Engines: revenue by application segment

Q1 2010

(Q1 2009)



<sup>\*)</sup> Other: €1.6 million (€0.2 million)

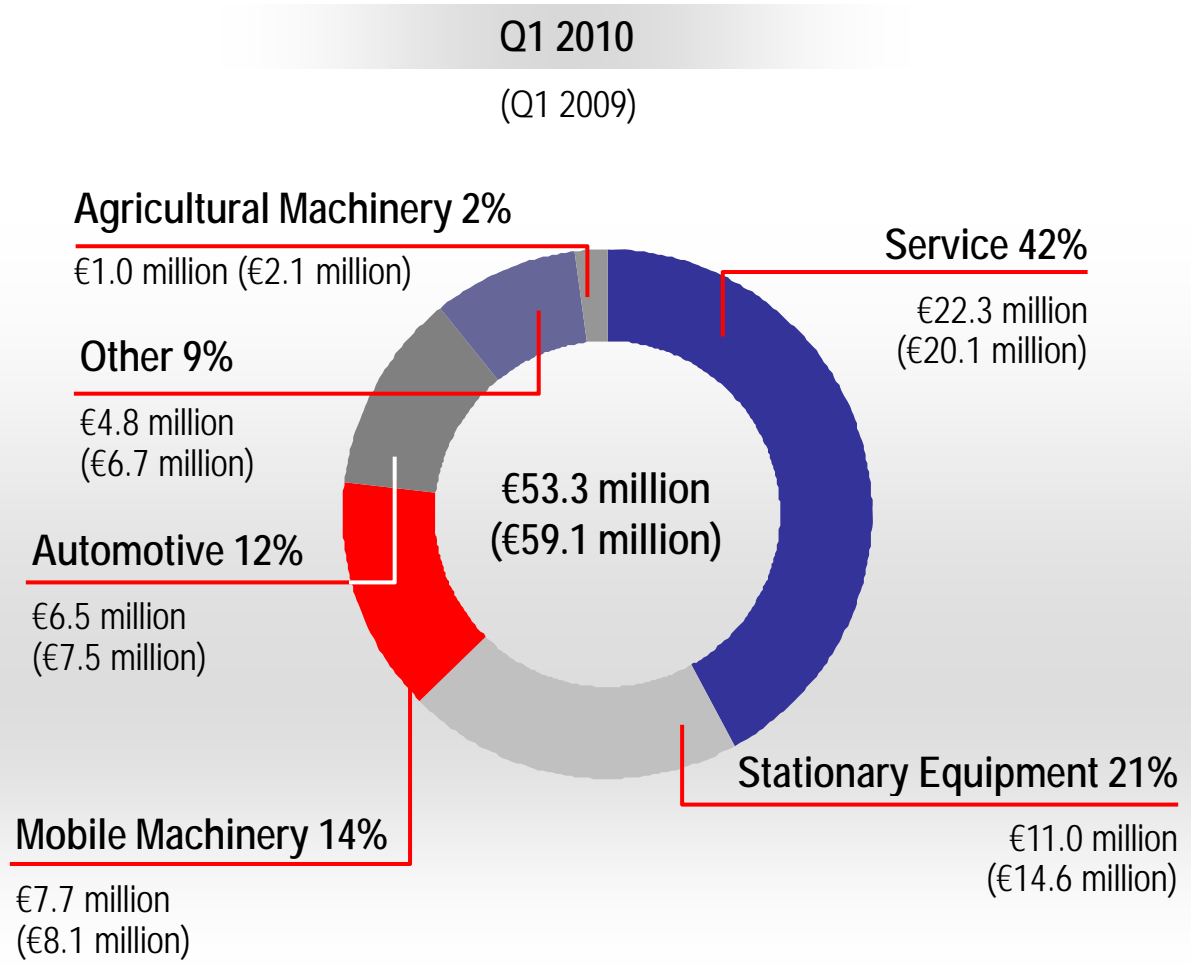


## Segment overview: DEUTZ Customised Solutions

€ million	Q1 2010	Q1 2009	Change in %
New orders	71.8	53.1	35.2
Unit sales (units)	3,246	4,430	-26.7
Revenue	53.3	59.1	-9.8
EBIT (before one-off items)	6.2	3.6	72.2

- The DCS segment is slower than DCE to respond to upturns and downturns in the economy
- Therefore compared to Q1 2009, unit sales and revenue down by approx. 27% and 10%
- Engine business still suffered a decline in revenue by 21%, but
- The service segment already shows a significant recovery with an increase of revenue by 11%,
- And the development of order intake in the last months indicates an upward trend, which is yet to manifest in unit sales and revenue
- EBIT increased by 2.6 million to 6.2 million due to rise of highly profitable service business as well as reduction of fixed costs

# DEUTZ Customised Solutions: revenue by application segment



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- Appendix

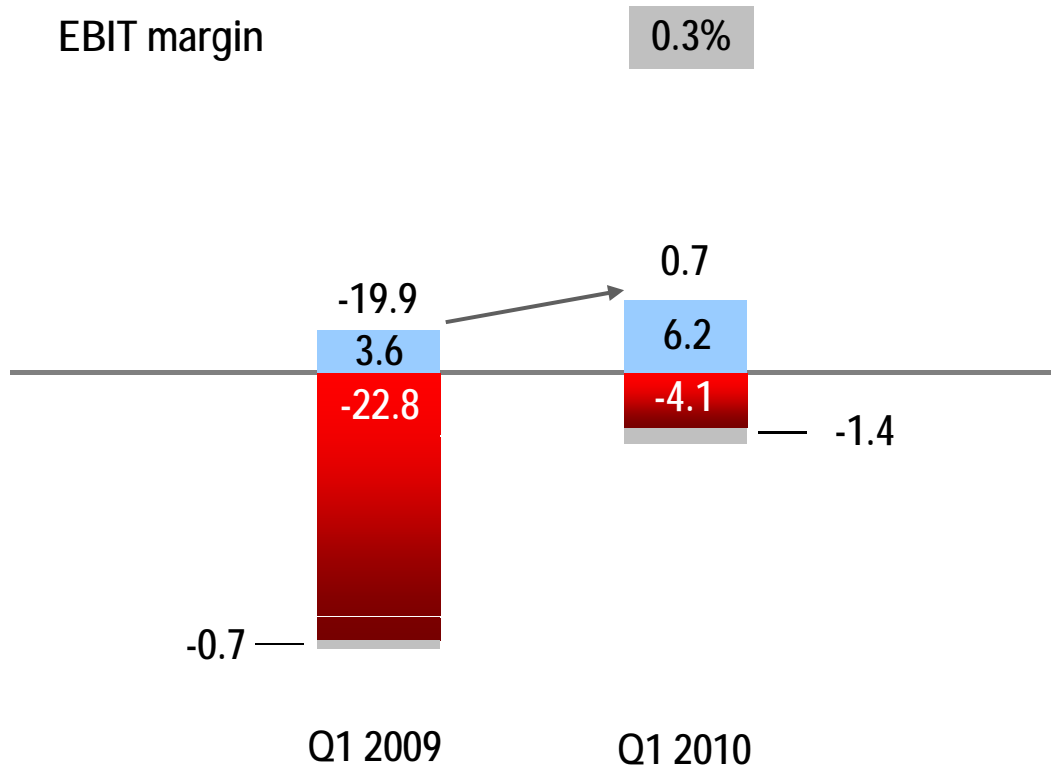
## Overview of key financials Q1 2010

- EBIT before one-off items €0.7 million (€-19.9 million) – the first positive quarterly earnings since the beginning of the crisis in the second half of 2008
- The start-up losses of DEUTZ Dalian joint venture decreased yoy (€1.4 million in Q1 2010 compared to €3.5 million in Q1 2009)
- Net loss: €8.7 million (23.7 million)
- The recovery of business led to higher trade receivables and a moderate increase in inventories; Cash flow from operating activities decreased to €-28.6 million (€-23.0 million) due to higher Working Capital
- Comfortable liquidity position: €159.6 million
- Net financial position: €-61.9 million (€-69.2 million ); equity ratio still high with 34.6% (41.9%)
- Agreement in principle with the private placement investors in the USA
  - Finalisation of the agreement documentation is ongoing and waiver agreement has been extended
  - The new covenants will leave us sufficient flexibility to be able to fund the necessary capital expenditure for the future

( ) = Q1 2009

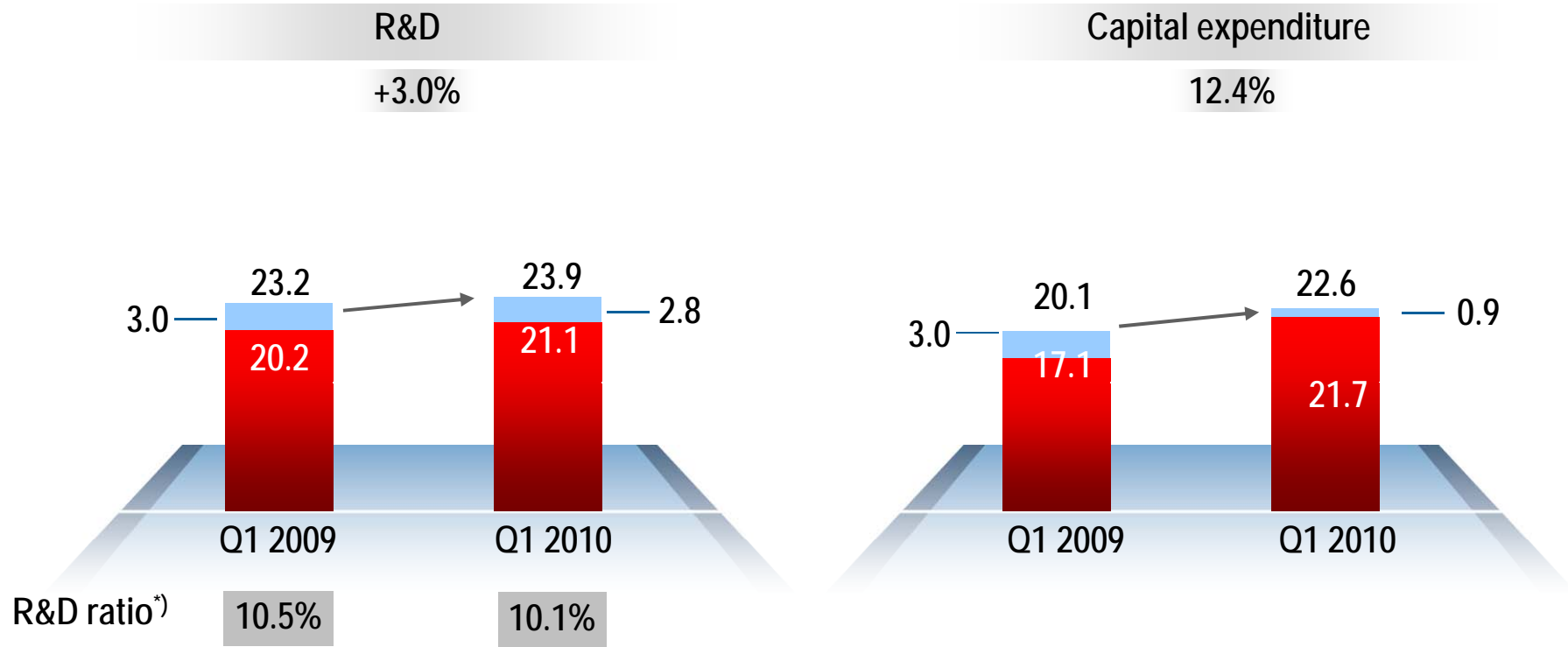
# Key financials: EBIT before one-off items

€ million



# Key financials: R&D and capital expenditure

€ million



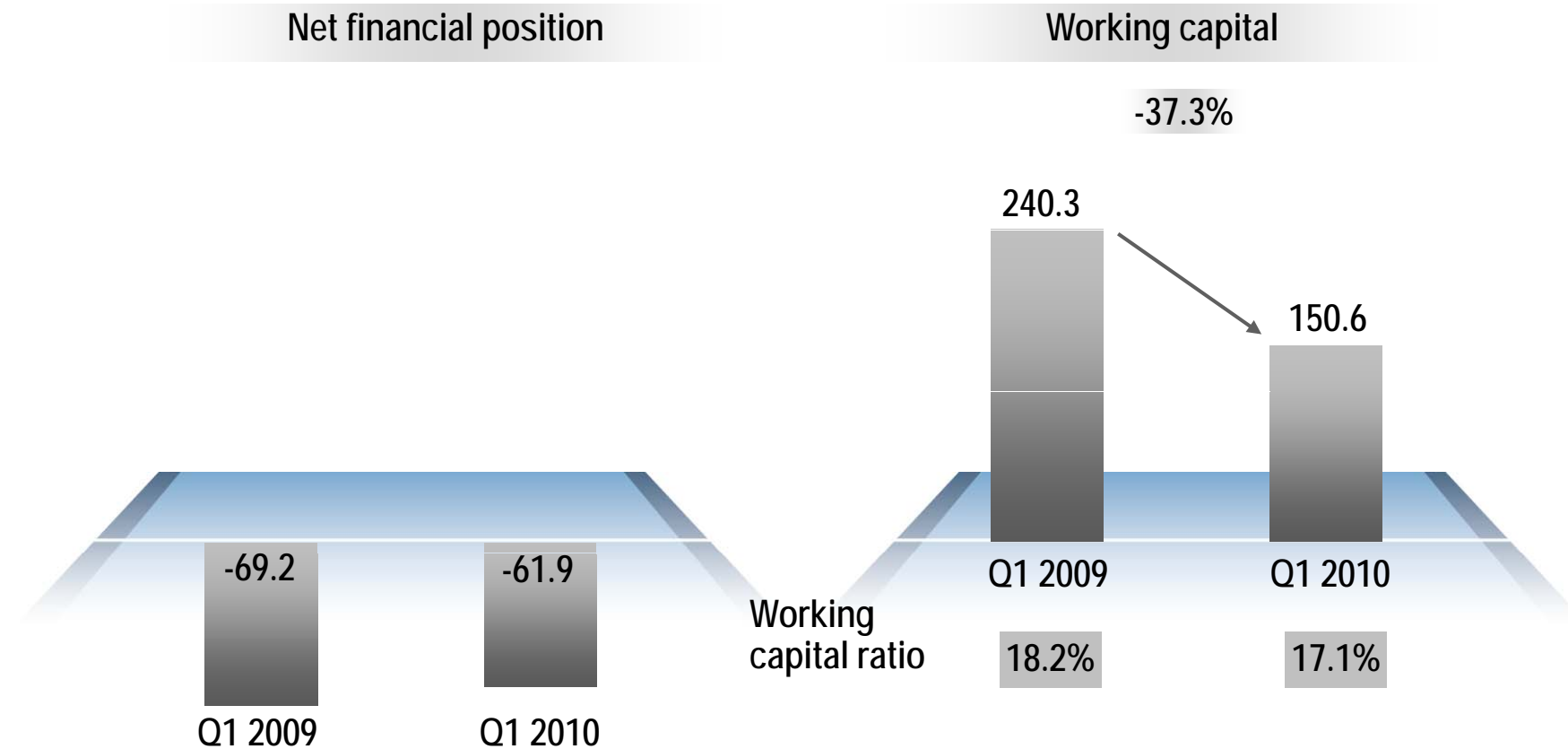
- Slightly increased expenditures for R&D in light of pending exhaust gas emissions standards

- Strict management of capital expenditure for property, plant and equipment
- Capitalised development costs account for €14.6 million (Q1 2009: €11.4 million)

\*) R&D expense/consolidated revenue

# Key financials: net financial position and working capital

€ million



- Still significant cash and cash equivalents as at 31 March 2010: approx. €160 million
- Equity ratio still at a high level (34.6%)

- Substantial decrease in working capital as a result of stringent management
- Working capital ratio as at 31 March 2010: 17.1%

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# Great economic uncertainty makes it difficult to give reliable forecasts

an engine company.



	Outlook FY 2010
New orders, unit sales, revenue	Significantly up on 2009
EBIT (before one-off items)	Positive
Equity ratio	Above 30%
Capital expenditure (excluding R&D)	Slightly above the level of 2009
Research and development	On the level of 2009 owing to ongoing R&D expenditure for new emissions standards and development of a new engine
Employees	Short-time working: depending on level of orders on hand; personnel restructuring will be completed in 2010

**→ There will be a noticeable improvement in business conditions in H1 2010**

# MOVE FAST action programme: further cost base optimisation in 2011

## MOVE FAST

Break-even point to be lowered again

### Extension of the MOVE action programme: MOVE FAST

- Streamlining of DEUTZ business model
  - Review of make-or-buy decisions
  - Investigation of action to improve utilisation of internal services and production capacity
  - Optimisation of segment and regional mix in engine sales
  - New service business model to increase exploitation of market potential in service business
  - Active development of closed markets by using licensing for older engine types
- Process optimisation
  - Analyses of organisation, responsibilities and selective processes to ensure indirect processes are aligned with reduced capacity

Target improvement in earnings: > €35 million p.a.

Break-even point  
to be lowered to  
125,000 units

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# Overview of key performance indicators (I)

€ million	Q1 2010	Q1 2009	Change in %
Revenue	236.4	220.6	7.2
EBITDA	14.6	-4.1	--
EBITDA before one-off items	16.3	-4.1	--
EBIT	-1.0	-19.9	--
EBIT before one-off items	0.7	-19.9	--
EBIT margin	0.3	-9.0	--
Net loss	-8.7	-23.7	--
Basic earnings per share (€)	-0.07	-0.20	--
Number of employees as at 31 March	3,850	4,555	-15.5

## Overview of key performance indicators (II)

€ million	Q1 2010	Q1 2009	Change in %
Total equity and liabilities	1,080.9	1,159.6	-6.8
Equity	374.1	486.4	-23.1
Equity ratio (%)	34.6	41.9	--
Cash flow from operating activities	-28.6	-23.0	--
Free cash flow	-53.6	-47.8	--
Net financial position	-61.9	-69.2	--
Working capital at balance sheet date of 31 March	150.6	240.3	-37.3

# Income statement

€ million	Q1 2010	Q1 2009	Change in %
<b>Revenue</b>	236.4	220.6	7.2
Changes in inventories and other own work capitalised	16.0	7.3	119.2
Other operating income	11.2	15.8	-29.1
Cost of materials	-158.0	-151.1	4.6
Staff costs	-62.3	-67.3	-7.4
Depreciation and amortisation	-15.6	-15.8	-1.3
Other operating expenses	-28.1	-26.6	5.6
Loss on equity-accounted investments	-0.6	-2.8	-78.6
<b>EBIT</b>	<b>-1.0</b>	<b>-19.9</b>	--
of which one-off items	-1.7	--	--
<b>of which operating profit/loss (EBIT before one-off items)</b>	<b>0.7</b>	<b>-19.9</b>	--
Net interest expense	-3.5	-1.7	105.9
Other taxes	-0.3	-0.3	0.0
<b>Net income/loss before taxes on continuing operations</b>	<b>-4.8</b>	<b>-21.9</b>	--
Income taxes	-3.9	-1.8	116.7
<b>Net loss on continuing operations</b>	<b>-8.7</b>	<b>-23.7</b>	--
<b>Net loss on discontinued operations</b>	<b>--</b>	<b>-0.2</b>	--
<b>Net loss</b>	<b>-8.7</b>	<b>-23.9</b>	--

## Balance sheet: assets

€ million	31 Mar 2010	31 Dec 2009	Change in %
Non-current assets (before deferred tax assets)	546.9	539.4	1.4
Deferred tax assets	19.1	22.4	-14.7
Inventories	149.5	127.5	17.3
Trade receivables	149.5	112.3	33.1
Other receivables and assets	55.8	54.3	2.8
Cash and cash equivalents	159.6	214.7	-25.7
Non-current assets and disposal groups held for sale	0.5	0.5	--
<b>Total assets</b>	<b>1,080.9</b>	<b>1,071.1</b>	<b>0.9</b>

## Balance sheet: equity and liabilities

€ million	31 Mar 2010	31 Dec 2009	Change in %
<b>Equity</b>	<b>374.1</b>	<b>379.2</b>	<b>-1.3</b>
Provisions for pensions and other post-retirement benefits	162.4	163.9	-0.9
Deferred tax provisions	0.1	0.1	0.0
Other provisions	26.4	26.9	-1.9
Financial liabilities	216.0	206.2	4.8
Other liabilities	4.5	13.4	-66.4
<b>Non-current liabilities</b>	<b>409.4</b>	<b>410.5</b>	<b>-0.3</b>
Provisions for pensions and other post-retirement benefits	16.1	16.1	0.0
Other provisions/provisions for current taxes	66.4	55.8	19.0
Financial liabilities	5.5	5.6	-1.8
Trade payables	148.4	141.5	4.9
Other liabilities	61.0	62.4	-2.2
<b>Current liabilities</b>	<b>297.4</b>	<b>281.4</b>	<b>5.7</b>
<b>Total equity and liabilities</b>	<b>1,080.9</b>	<b>1,107.1</b>	<b>0.9</b>



# Cash flow statement (summary)



€ million	Q1 2010	Q1 2009
EBIT	-1.0	-19.9
<b>Cash flow from operating activities (total)</b>	<b>-28.6</b>	<b>-23.0</b>
Cash flow from investing activities (continuing operations)	-17.0	-18.2
Cash flow from investing activities (discontinued operations)	-1.0	-0.4
<b>Cash flow from investing activities (total)</b>	<b>-18.0</b>	<b>-18.6</b>
Cash flow from financing activities	-8.6	-8.0
<b>Change in cash and cash equivalents</b>	<b>-55.2</b>	<b>-49.6</b>

## Segment overview Q1 2010 vs. Q1 2009

	Q1 2010	Q1 2009	Change in %
<b>New orders (€ million)</b>			
Compact Engines	240.2	152.8	57.2
DEUTZ Customised Solutions	71.8	53.1	35.2
<b>Total activities</b>	<b>312.0</b>	<b>205.9</b>	<b>51.5</b>

	Q1 2010	Q1 2009	Change in %
<b>Revenue (€ million)</b>			
Compact Engines	183.1	161.5	13.4
DEUTZ Customised Solutions	53.3	59.1	-9.8
<b>Total activities</b>	<b>236.4</b>	<b>220.6</b>	<b>7.2</b>
Germany	18.5%	30.4%	--
Exports	81.5%	69.6%	--

	Q1 2010	Q1 2009	Change in %
<b>Unit sales (units)</b>			
Compact Engines	30,538	26,159	16.7
DEUTZ Customised Solutions	3,246	4,430	-26.7
<b>Total activities</b>	<b>33,784</b>	<b>30,589</b>	<b>10.4</b>

	Q1 2010	Q1 2009	Change in %
<b>EBIT before one-off items (€ million)</b>			
Compact Engines incl. DDE	-4.1	-22.8	--
<i>DEUTZ Dalian Engines (DDE)</i>	-1.4	-3.5	--
<i>Compact Engines excluding DDE</i>	-2.7	-19.3	--
DEUTZ Customised Solutions	6.2	3.6	72.2
Other	-1.4	-0.7	--
<b>Total activities</b>	<b>0.7</b>	<b>-19.9</b>	<b>--</b>

# Financial calendar 2010



- Interim report on first quarter of 2010  
Conference call with analysts and investors 12 May 2010
  
- Interim report on first half of 2010  
Conference call with analysts and investors 5 August 2010
  
- Interim report on first three quarters of 2010  
Conference call with analysts and investors 10 November 2010

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