



## Presentation Interim Report First Half of 2010

05 August 2010

The engine company.



# Agenda

- **Overview H1 2010**

Dr Helmut Leube, Chairman of the Management Board

- **Key financials H1 2010**

Dr Margarete Haase, CFO

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

Dr Helmut Leube, Chairman of the Management Board

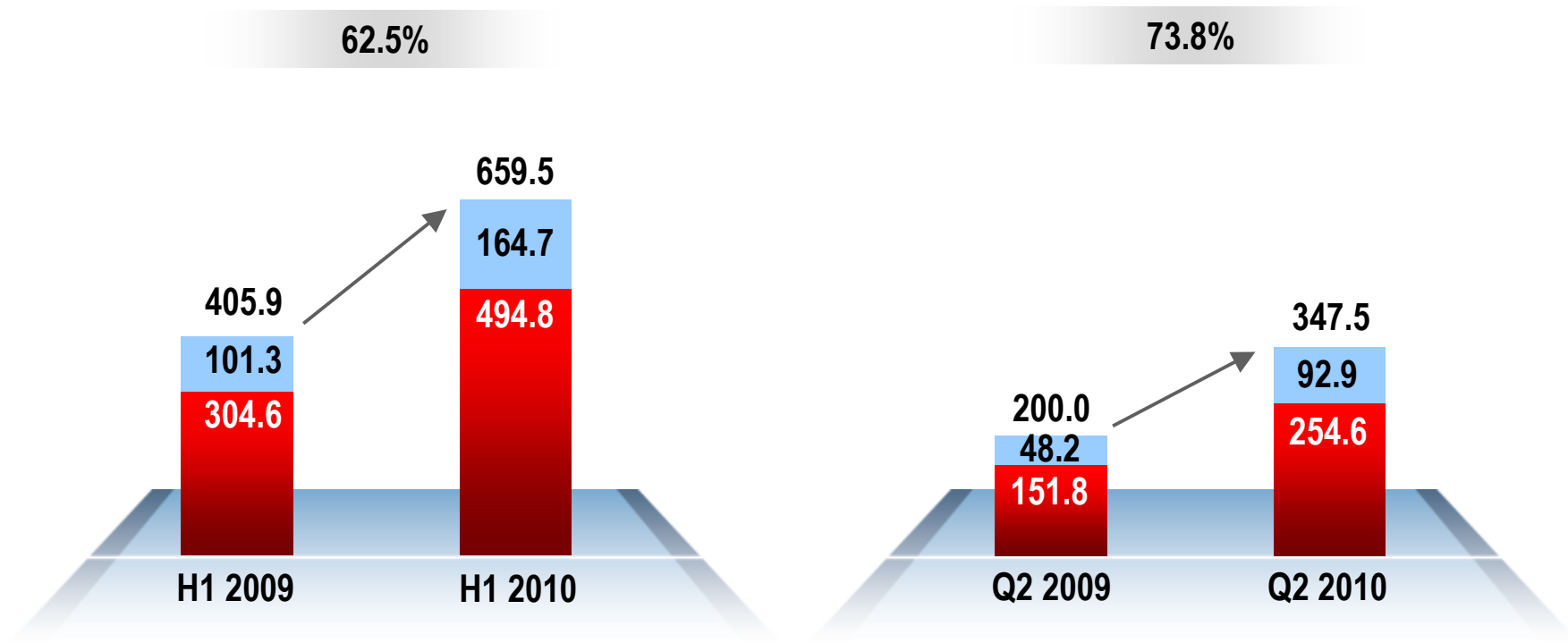
- **Appendix**

## Highlights of H1 2010

- **The worst of the crisis is well behind us – the course of business continues to be very positive**
  - Operating result before one-off items substantially positive again at €13.3 million
  - Revenue and unit sales growth in double figures compared with H1 2009 (21.3% and 24.9%)
  - New orders of €660 million are well above last year's figure of €406 million (+62.5%)
  - Business performance in H1 2010 considerably exceeded our expectations, we are very optimistic about the future
  
- **The MOVE programme, now successfully completed, is bearing fruit**
  - Annual earnings contribution of around €85 million, primarily due to lasting reduction in fixed costs
  - Cost-of-materials and staff cost ratio (expenses in relation to total output) down by 2.9 and 6.3 percentage points respectively
  - Higher income generated with an appropriate pricing policy
  - Implementing the MOVE FAST programme helps to reduce the break-even point even further
  
- **Successful entry into the agricultural machinery sector in the below 4-litre-engine segment**
  - Letter of intent signed with SAME for supplying the new engines TCD 2.9 L4 and TCD 3.6 L4
  - Volume of around 14,000 engines once production is in full flow

# Development of new orders

€ million

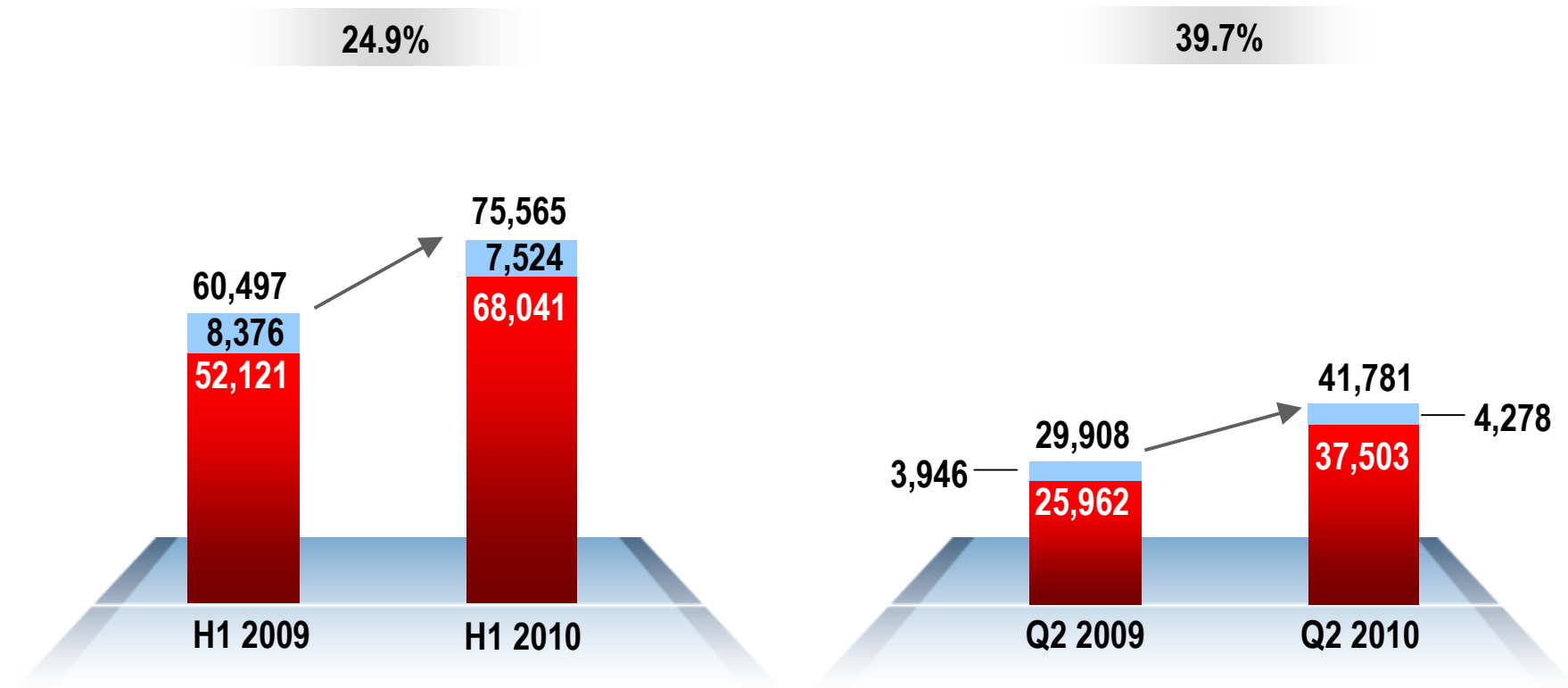


- Impressive recovery on H1 2009, especially in Mobile Machinery with +198%
- Positive trend from the first quarter has continued: Q2 is 11.4% above Q1 2010
- Order book as of 30 June 2010: €282.3 million (+99% year on year: €142.1 million)
- New orders still well above revenue of €534.5 million

 Compact Engines  DEUTZ Customised Solutions

# Development of unit sales

units

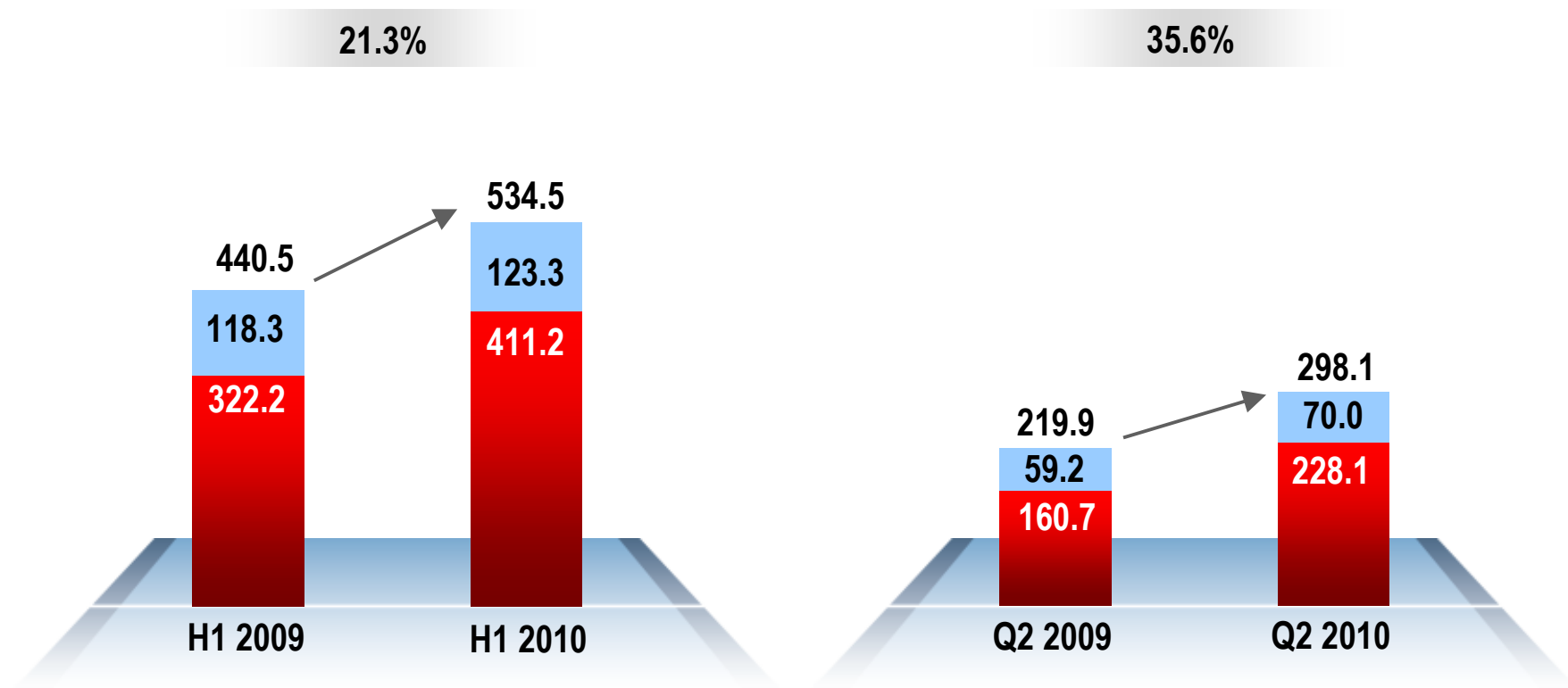


- In H1 2010 a quarter more engines sold than in H1 2009
- Sales of Mobile Machinery almost doubled compared with H1 2009 (+99%)
- Almost 50% more units sold on the American market compared with H1 2009

 Compact Engines  DEUTZ Customised Solutions

# Development of revenue

€ million



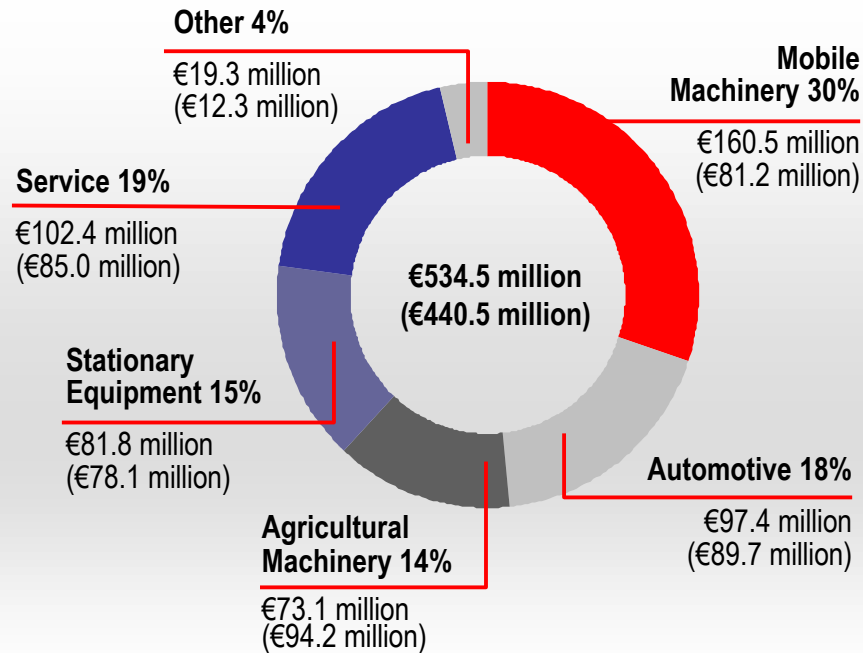
- Revenue increase of 20% compared with H1 2009
- Sales of compact engines for construction machinery rose disproportionately in H1 2010
- Unit sales therefore rose slightly faster than revenue, as the product mix was different

 Compact Engines  DEUTZ Customised Solutions

# Revenue split

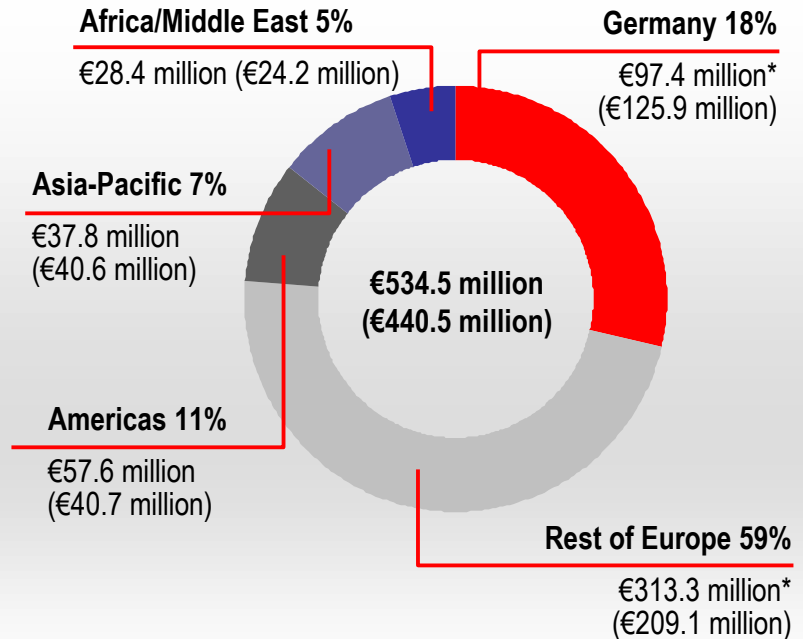
## Revenue Split by Application, H1 2010

(H1 2009)



## Revenue Split by Region, H1 2010

(H1 2009)



- Steep growth rates in all application segments, above all in Mobile Machinery (+98% vs. H1 2009)
- Upswing in lucrative service business (+21% vs. H1 2009)
- Agricultural Machinery: down by 22% year on year in H1 2010, but recovery already visible in Q2

- Strong growth rates in America (42% vs. H1 2009) and Africa/Middle East
- Europe including Germany +23% vs. H1 2009
- Asia-Pacific had minor dip in revenue

## Segment overview: Compact Engines

| € million                   | H1<br>2010 | H1<br>2009 | Change<br>in % |
|-----------------------------|------------|------------|----------------|
| New orders                  | 494.8      | 304.6      | 62.4           |
| Unit sales                  | 68,041     | 52,121     | 30.5           |
| Revenue                     | 411.2      | 322.2      | 27.6           |
| EBIT (before one-off items) | 1.3        | -28.5      | --             |

| € million                   | Q2<br>2010 | Q2<br>2009 | Change<br>in % |
|-----------------------------|------------|------------|----------------|
| New orders                  | 254.6      | 151.8      | 67.7           |
| Unit sales                  | 37,503     | 25,962     | 44.5           |
| Revenue                     | 228.1      | 160.7      | 41.9           |
| EBIT (before one-off items) | 5.4        | -5.7       | --             |

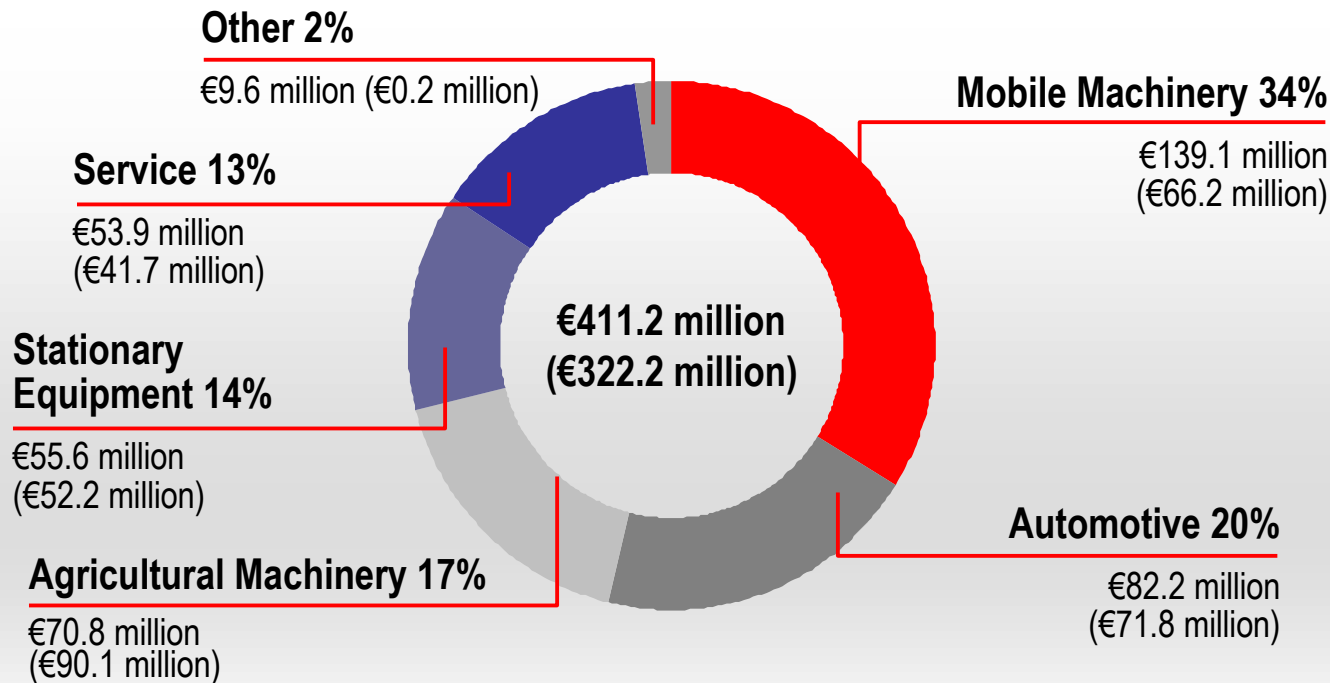
- Segment performance in H1 2010 considerably above expectations
- EBIT before one-off items positive again at €1.3 million
- At the DEUTZ Dalian joint venture, the loss was reduced to €1.5 million in H1 2010 (H1 2009: €-5.3 million), positive EBIT for the first time at JV level in Q2 2010



# Compact Engines: revenue split by application segment

H1 2010

(H1 2009)



- Mobile Machinery puts in an impressive performance: new orders +210%, unit sales +109% and revenue +110% compared with H1 2009
- Agricultural Machinery is a late-cycle segment and the fall in sales of 20% vs. H1 2009 was therefore expected
- Service business remains a vital pillar: around 30% rise in revenue since H1 2009

## Segment overview: DEUTZ Customised Solutions

| € million                   | H1<br>2010 | H1<br>2009 | Change<br>in % |
|-----------------------------|------------|------------|----------------|
| New orders                  | 164.7      | 101.3      | 62.6           |
| Unit sales                  | 7,524      | 8,376      | -10.2          |
| Revenue                     | 123.3      | 118.3      | 4.2            |
| EBIT (before one-off items) | 17.3       | 7.7        | 124.7          |

| € million                   | Q2<br>2010 | Q2<br>2009 | Change<br>in % |
|-----------------------------|------------|------------|----------------|
| New orders                  | 92.9       | 48.2       | 92.7           |
| Unit sales                  | 4,278      | 3,946      | 8.4            |
| Revenue                     | 70.0       | 59.2       | 18.2           |
| EBIT (before one-off items) | 11.1       | 4.1        | 170.7          |

- This segment's unit sales and revenue always react more slowly to economic developments due to the longer lead times in the project business
- By comparison with DCE, revenue is only slightly higher than last year (+4%), unit sales are still down on last year due to longer lead times (-10%)
- New orders are progressing very well (+62.6% compared with H1 2009) and show the upcoming stronger recovery
- Turnaround in business performance is already under way:  
in Q2 2010 DCS reported a rise in sales and revenue of 32% and 31% respectively compared with Q1 2010
- EBIT before one-off items up sharply by €9.6 million to €17.3 million thanks to profitable service business (H1 2009: €7.7 million)

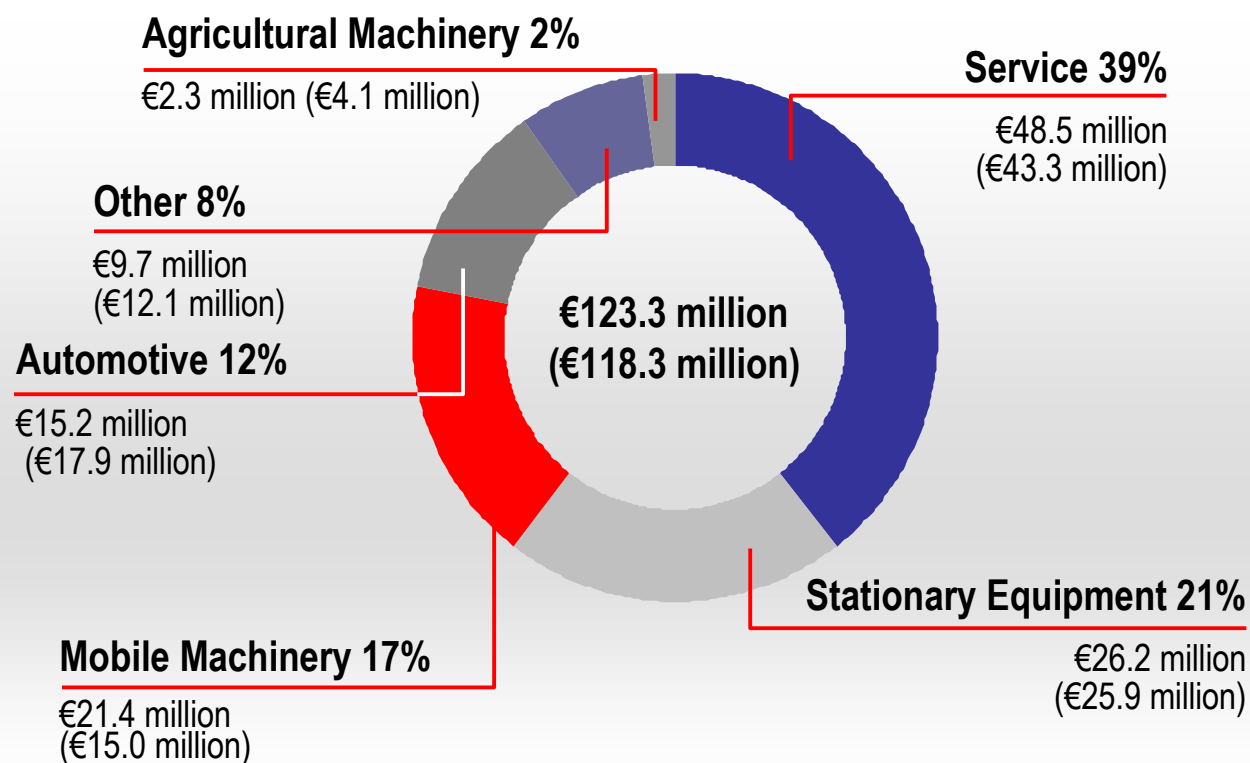
# DEUTZ Customised Solutions: revenue split by application segment

The engine company.



H1 2010

(H1 2009)



# Agenda

- **Overview H1 2010**

Dr Helmut Leube, Chairman of the Management Board

- **Key financials H1 2010**

Dr Margarete Haase, CFO

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

Dr Helmut Leube, Chairman of the Management Board

- **Appendix**

## Overview key financials of H1 2010

- EBIT before one-off items of €13.3 million (H1 2009: €-23.4 million) substantially positive again after just €0.7 million in the first quarter of 2010
- Very positive performance in H1 2010 makes it necessary to increase working capital (working capital as of 30.06.2010: €169.1 million, 31.12.2009: €98.3 million), but still lower than last year (30.06.2009: €194.1 million)
- Cash flow from operating activities is therefore negative (€-18.6 million)
- But liquidity remains comfortable at €150.5 million as of 30 June 2010; equity ratio still high (33.6%)
- One-off items\* amounting to €4.2 million reduce the EBIT to €9.1 million
- Consolidated income: €-9.4 million (H1 2009: €-62.6 million)
- USPP investors grant waivers for the time required to prepare the contract documents
  - Fundamental agreement on adjustments to the financial covenants was reached in mid-March 2010
  - The necessary coordination of the contracts between the banks and the USPP investors is more time-consuming than originally anticipated by all parties
  - The extensive documentation is still being prepared

# Key financials: EBIT before one-off items



€ million

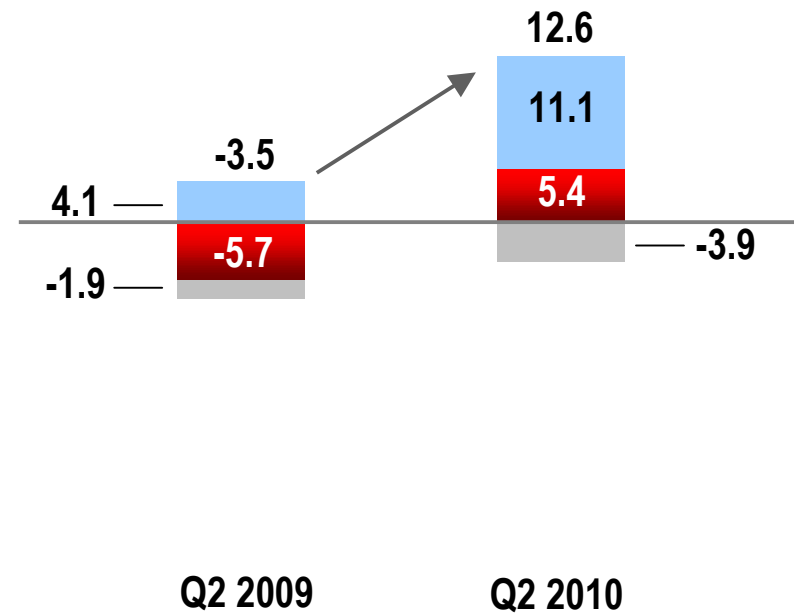
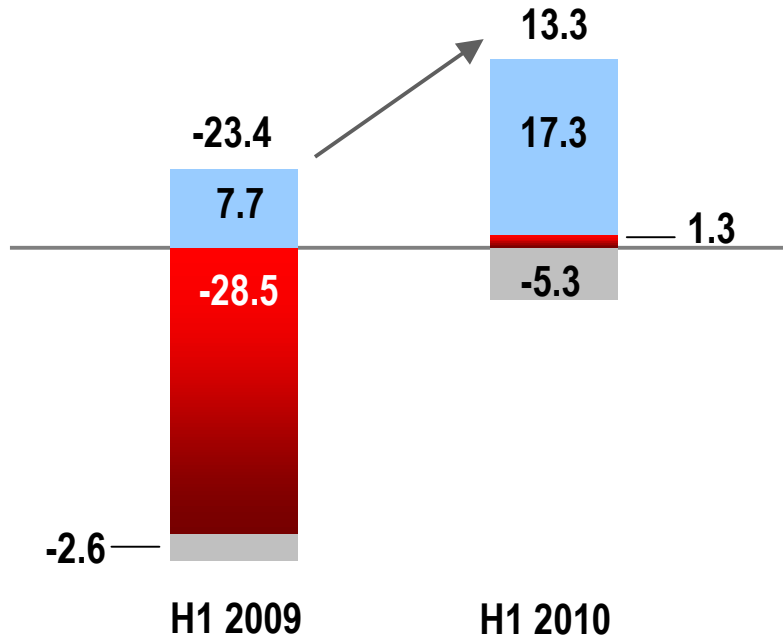
EBIT margin

-5.3%

2.5%

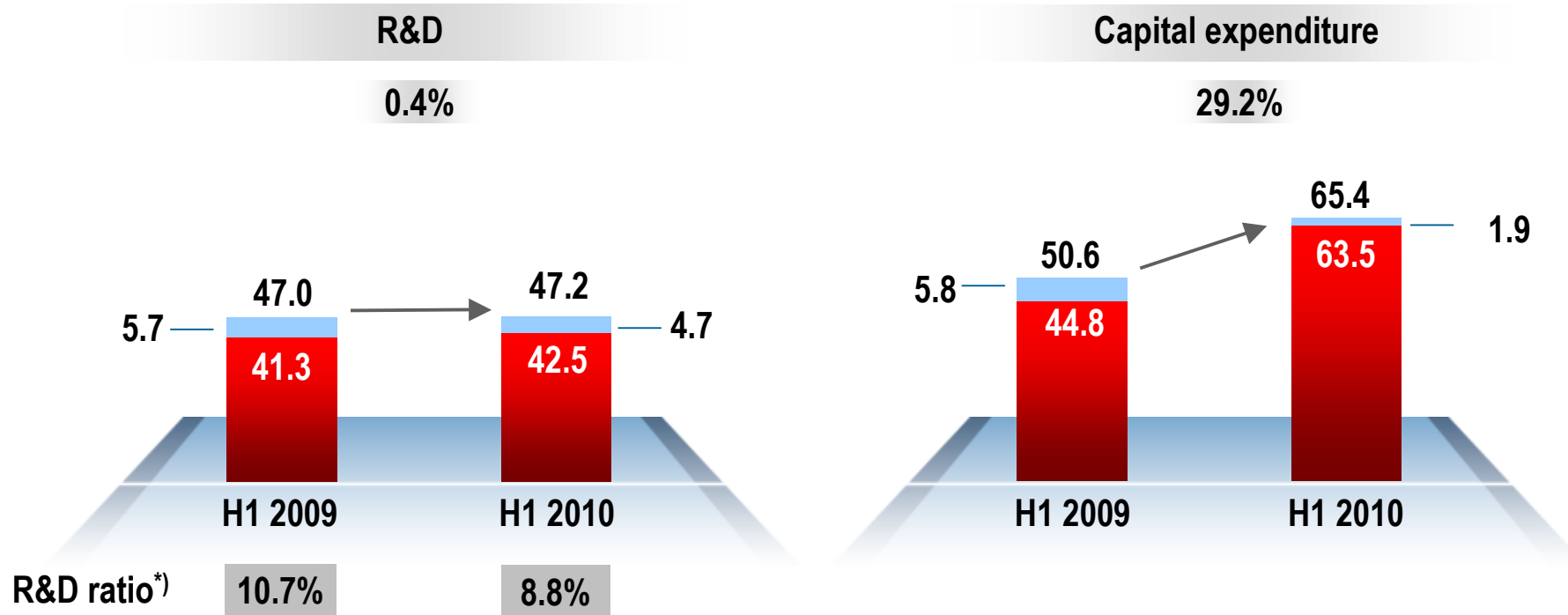
-1.6%

4.2%



# Key financials: R&D and capital expenditure

€ million



- R&D expenses in line with last year's as expected
- Focus remains on forthcoming Tier 4 emissions standard from 2011 and on developing two new engines
- Sharp decline in R&D ratio due to higher revenue in H1 2010

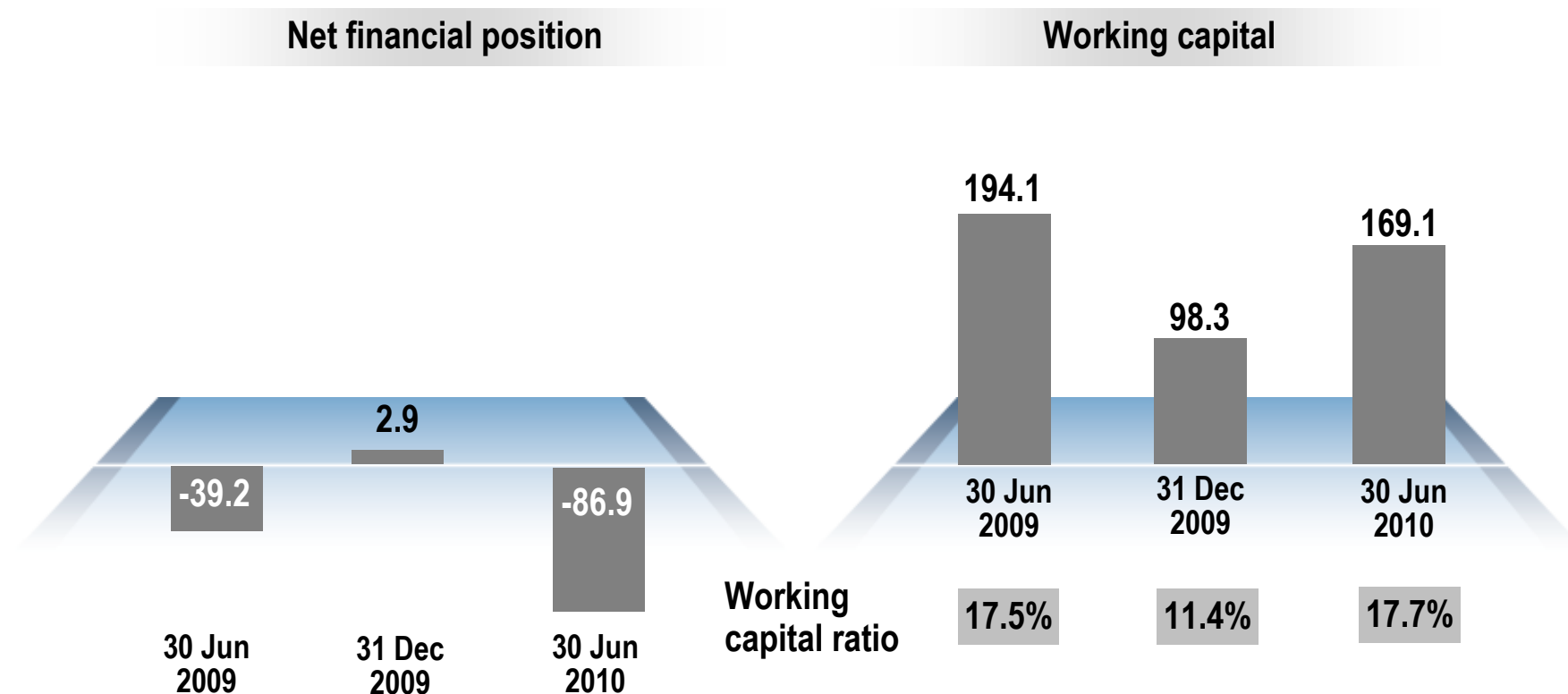
- Includes already total investment in the joint venture Bosch Emission Systems GmbH & Co. KG
- Share of capitalised development expenses: €30.2 million (H1 2009: €27.6 million)

\*) R&D expenses/Group revenue

■ Compact Engines ■ DEUTZ Customised Solutions

# Key financials: net financial position and working capital

€ million



- High cash pile of around €151 million on 30.06.2010
- Equity ratio remains high at 33.6%

- WC still lower than last year
- But increase due to positive business performance in H1 2010
- WC ratio as of 30.06.2010: 17.7%



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

## MOVE FAST

Further Decrease of Break Even Point

### Extension of MOVE Program: MOVE FAST

- Sale of know-how for old engine types through licensing
- Increased focus on profitable new customers with special incentives
- Reduction of locations
- Outsourcing of functions (e.g. R&D, service logistics, payroll-accounting, facility management) to separate DEUTZ entities or external (including low cost countries)
- Shared services: World wide internally and externally
- Decrease of prices for external services, especially some R&D activities
- Higher capacity utilization by insourcing
- Additional personnel actions

**Bottom line improvement target: > €35 million p.a.**

## Stable recovery expected for the 2nd half-year as well

|  | 2010 outlook  |
|--|---|
| New orders   | Well above last year  |
| Unit sales   | More than 150,000 units   |
| Revenue  | Slightly more than €1.1 billion   |
| EBIT (before one-off items)                          | At least in the low double-digit millions   |
| Equity ratio   | Over 30%  |
| Capex on property, plant and equipment (without R&D) | Same level as in financial year 2009*   |
| Research and development                             | Higher than in financial year 2009*)<br>due to ongoing R&D expenses for new emissions standards<br>and developing two new engines |
| Employees  | Personnel measures have been largely completed  |

\*) FY 2009:  
Capex (without R&D): €52.9 million  
Research and development: €104.6 million

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## Overview key financials (I)

| € million                         | H1 2010 | H1 2009 | Change in % |
|-----------------------------------|---------|---------|-------------|
| Revenue                           | 534.5   | 440.5   | 21.3        |
| EBIT                              | 9.1     | -53.8   | --          |
| EBIT before one-off items         | 13.3    | -23.4   | --          |
| EBIT margin                       | 1.7     | -12.2   | --          |
| EBIT margin before one-off items  | 2.5     | -5.3    | --          |
| Net result                        | -9.4    | -62.6   | --          |
| Basic earnings per share (€)      | -0.08   | -0.52   | --          |
| Number of employees as at 30 June | 3,903   | 4,355   | -10.4       |

## Overview key financials (II)

| € million                                     | H1 2010 | H1 2009 | Change in % |
|---|---------|---------|-------------|
| Total equity and liabilities                  | 1,144.0 | 1,121.5 | 2.0         |
| Equity  | 384.3   | 442.8   | -13.2       |
| Equity ratio (%)                              | 33.6    | 39.5    | --          |
| Net financial position                        | -86.9   | -39.2   | --          |
| Working capital                               | 169.1   | 194.1   | -12.9       |
| Working capital ratio (balance sheet date, %) | 17.7    | 17.5    | --          |
| Cash flow from operating activities           | -18.6   | 23.4    | --          |
| Free cash flow on continuing operations       | -63.3   | -27.2   | --          |

# Income statement

| € million   | H1 2010      | H1 2009              | Change in % |
|---|--------------|----------------------|-------------|
| <b>Revenue</b>  | <b>534.5</b> | <b>440.5</b>         | 21.3        |
| Change in inventories and other own work capitalised    | 27.7         | 0.0                  | --          |
| Other operating income                                  | 41.8         | 40.4                 | 3.5         |
| Cost of materials                                       | -354.0       | -290.1               | 22.0        |
| Staff costs   | -126.6       | -157.4 <sup>*)</sup> | -19.6       |
| Depreciation and amortisation                           | -31.2        | -32.4                | -3.7        |
| Other operating expenses                                | -82.7        | -51.0                | 62.2        |
| Net result from equity-accounted investments            | -0.5         | -3.8                 | --          |
| Result from other investments                           | 0.1          | 0.0                  | --          |
| <b>EBIT</b>   | <b>9.1</b>   | <b>-53.8</b>         | --          |
| thereof one-off items                                   | -4.2         | -30.4                | --          |
| thereof operating profit (EBIT before one-off items)    | 13.3         | -23.4                | --          |
| Interest expenses, net                                  | -9.3         | -4.0                 | 132.5       |
| Other taxes   | -0.8         | -0.9                 | -11.1       |
| <b>Net income before taxes on continuing operations</b> | <b>-1.0</b>  | <b>-58.7</b>         | --          |
| Income taxes  | -8.4         | -3.7                 | 127.0       |
| <b>Net income on continuing operations</b>              | <b>-9.4</b>  | <b>-62.4</b>         | --          |
| Net income on discontinued operations                   | --           | -0.2                 | --          |
| <b>Net income</b>                                       | <b>-9.4</b>  | <b>-62.6</b>         | --          |

<sup>\*)</sup> adjusted for one-off charge of €30.4 million in Q2 2009

## Balance sheet: assets

| € million  | 30 June 2010   | 31 Dec 2009    | Change in % |
|--|----------------|----------------|-------------|
| Non-current assets (before deferred tax assets)      | 600.5          | 539.4          | 11.3        |
| Deferred tax assets                                  | 14.4           | 22.4           | -35.7       |
| Inventories  | 163.6          | 127.5          | 28.3        |
| Trade receivables                                    | 161.5          | 112.3          | 43.8        |
| Other receivables and assets                         | 53.0           | 54.3           | -2.4        |
| Cash and cash equivalents                            | 150.5          | 214.7          | -29.9       |
| Non-current assets and disposal groups held for sale | 0.5            | 0.5            | --          |
| <b>Total assets</b>                                  | <b>1,144.0</b> | <b>1,071.1</b> | <b>6.8</b>  |



## Balance sheet: equity and liabilities

| € million  | 30 June 2010   | 31 Dec 2009    | Change in % |
|--|----------------|----------------|-------------|
| <b>Equity</b>  | <b>384.3</b>   | <b>379.2</b>   | <b>1.3</b>  |
| Provisions for pensions and other post-retirement benefits | 160.8          | 163.9          | -1.9        |
| Deferred tax provisions                                    | 0.1            | 0.1            | 0.0         |
| Other provisions   | 32.6           | 26.9           | 21.2        |
| Financial liabilities                                      | 231.8          | 206.2          | 12.4        |
| Other liabilities  | 8.0            | 13.4           | -40,3       |
| <b>Non-current liabilities</b>                             | <b>433.3</b>   | <b>410.5</b>   | <b>5.6</b>  |
| Provisions for pensions and other post-retirement benefits | 16.2           | 16.1           | 0.6         |
| Other provisions/provisions for current taxes              | 64.0           | 55.8           | 14.7        |
| Financial liabilities                                      | 5.6            | 5.6            | 0.0         |
| Trade payables   | 156.0          | 141.5          | 10.2        |
| Other liabilities  | 84.6           | 62.4           | 35.6        |
| <b>Current liabilities</b>                                 | <b>326.4</b>   | <b>281.4</b>   | <b>16.0</b> |
| <b>Total equity and liabilities</b>                        | <b>1,144.0</b> | <b>1,107.1</b> | <b>6.8</b>  |

## Cash flow statement (summary)

| € million   | H1 2010      | H1 2009      |
|---|--------------|--------------|
| EBIT  | 9.1          | -53.8        |
| <b>Cash flow from operating activities (total)</b>            | <b>-18.6</b> | <b>23.4</b>  |
| Cash flow from investing activities (continuing operations)   | -36.3        | -43.4        |
| Cash flow from investing activities (discontinued operations) | -1.0         | -0.4         |
| <b>Cash flow from investing activities (total)</b>            | <b>-37.3</b> | <b>-43.8</b> |
| <b>Cash flow from financing activities</b>                    | <b>-8.7</b>  | <b>-9.2</b>  |
| <b>Change in cash and cash equivalents</b>                    | <b>-64.6</b> | <b>-29.6</b> |

## Segment overview H1 2010

| New orders (€ million)     | H1<br>2010   | H1<br>2009   | Change<br>in % |
|----------------------------|--------------|--------------|----------------|
| Compact Engines            | 494.8        | 304.6        | 62.4           |
| DEUTZ Customised Solutions | 164.7        | 101.3        | 62.6           |
| <b>Total activities</b>    | <b>659.5</b> | <b>405.9</b> | <b>62.5</b>    |

| Revenue (€ million)        | H1<br>2010   | H1<br>2009   | Change<br>in % |
|----------------------------|--------------|--------------|----------------|
| Compact Engines            | 411.2        | 322.2        | 27.6           |
| DEUTZ Customised Solutions | 123.3        | 118.3        | 4.2            |
| <b>Total activities</b>    | <b>534.5</b> | <b>440.5</b> | <b>21.3</b>    |
| Germany                    | 18.2 %       | 28.6 %       | --             |
| Exports                    | 81.8 %       | 71.4 %       | --             |

| Unit sales                 | H1<br>2010    | H1<br>2009    | Change<br>in % |
|----------------------------|---------------|---------------|----------------|
| Compact Engines            | 68,041        | 52,121        | 30.5           |
| DEUTZ Customised Solutions | 7,524         | 8,376         | -10.2          |
| <b>Total activities</b>    | <b>75,565</b> | <b>60,497</b> | <b>24.9</b>    |

| EBIT<br>before one-off items (€ million) | H1<br>2010  | H1<br>2009   | Change<br>in % |
|--|-------------|--------------|----------------|
| Compact Engines incl. DDE                | 1.3         | -28.5        | --             |
| <i>DEUTZ Dalian Engines (DDE)</i>        | -1.5        | -5.3         | --             |
| <i>Compact Engines excluding DDE</i>     | 2.8         | -23.2        | --             |
| DEUTZ Customised Solutions               | 17.3        | 7.7          | 124.7          |
| Other                                    | -5.3        | -2.6         | --             |
| <b>Total activities</b>                  | <b>13.3</b> | <b>-23.4</b> | <b>--</b>      |

## Segment overview Q2 2010

| New orders (€ million)     | Q2<br>2010   | Q2<br>2009   | Change<br>in % |
|----------------------------|--------------|--------------|----------------|
| Compact Engines            | 254.6        | 151.8        | 67.7           |
| DEUTZ Customised Solutions | 92.9         | 48.2         | 92.7           |
| <b>Total activities</b>    | <b>347.5</b> | <b>200.0</b> | <b>73.8</b>    |

| Revenue (€ million)        | Q2<br>2010   | Q2<br>2009   | Change<br>in % |
|----------------------------|--------------|--------------|----------------|
| Compact Engines            | 228.1        | 160.7        | 41.9           |
| DEUTZ Customised Solutions | 70.0         | 59.2         | 18.2           |
| <b>Total activities</b>    | <b>298.1</b> | <b>219.9</b> | <b>35.6</b>    |
| Germany                    | 18.0%        | 26.7%        | --             |
| Exports                    | 82.0%        | 73.3%        | --             |

| Unit sales                 | Q2<br>2010    | Q2<br>2009    | Change<br>in % |
|----------------------------|---------------|---------------|----------------|
| Compact Engines            | 37,503        | 25,962        | 44.5           |
| DEUTZ Customised Solutions | 4,278         | 3,946         | 8.4            |
| <b>Total activities</b>    | <b>41,781</b> | <b>29,908</b> | <b>39.7</b>    |

| EBIT<br>before one-off items (€ million) | Q2<br>2010  | Q2<br>2009  | Change<br>in % |
|--|-------------|-------------|----------------|
| Compact Engines incl. DDE                | 5.4         | -5.7        | --             |
| <i>DEUTZ Dalian Engines (DDE)</i>        | 0.5         | -1.9        | --             |
| <i>Compact Engines excluding DDE</i>     | 4.9         | -3.8        | --             |
| DEUTZ Customised Solutions               | 11.1        | 4.1         | 170.7          |
| Other                                    | -3.9        | -1.9        | --             |
| <b>Total activities</b>                  | <b>12.6</b> | <b>-3.5</b> | <b>--</b>      |

## Financial calendar 2010 / 2011

- Interim report 1<sup>st</sup> to 3<sup>rd</sup> quarters 2010  
Conference call with analysts and investors 10 November 2010
- Annual press conference  
Annual report 2010 17 March 2011
- Analysts' meeting Frankfurt 18 March 2011
- Annual General Meeting 5 May 2011
- Interim report 1<sup>st</sup> quarter 2011  
Conference call with analysts and investors 12 May 2011
- Interim report 1<sup>st</sup> Half-Year 2011  
Conference call with analysts and investors 4 August 2011
- Interim report 1<sup>st</sup> to 3<sup>rd</sup> quarters 2011  
Conference call with analysts and investors 10 November 2011

## DEUTZ AG contact details



Maria Babilas

Corporate Finance and Investor Relations

Ottostrasse 1

51149 Cologne (Porz-Eil) Germany

Tel.: +49 (0)221 822 5400

Fax: +49 (0)221 822 15 5400

Email: [babilas.m@deutz.com](mailto:babilas.m@deutz.com)

[www.deutz.com](http://www.deutz.com)

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