

Financial year 2009 – a year of new drive

18/19 March 2010

The engine company.



# Agenda

- **Review of 2009**

Dr Helmut Leube, Chairman of the Board of Management

- **Key financials for 2009**

Dr Margarete Haase, Chief Financial Officer

- **Outlook**

Dr Helmut Leube, Chairman of the Board of Management

- **Annex**

## Review of 2009

### ■ The main feature of 2009 was a significant downturn in demand

- Sharp fall in demand in all regions and application segments caused by the economic situation
- Reductions in inventories across the entire supply chain exacerbated the downward trend
- Keyfigures – from new orders to revenue – well down on 2008
- Significant downturn in H1, slump bottomed out in Q3, turnaround in Q4
- Sound balance sheet: equity ratio 35.4%, liquidity €215 million

### ■ MOVE action programme contributed €136 million to earnings

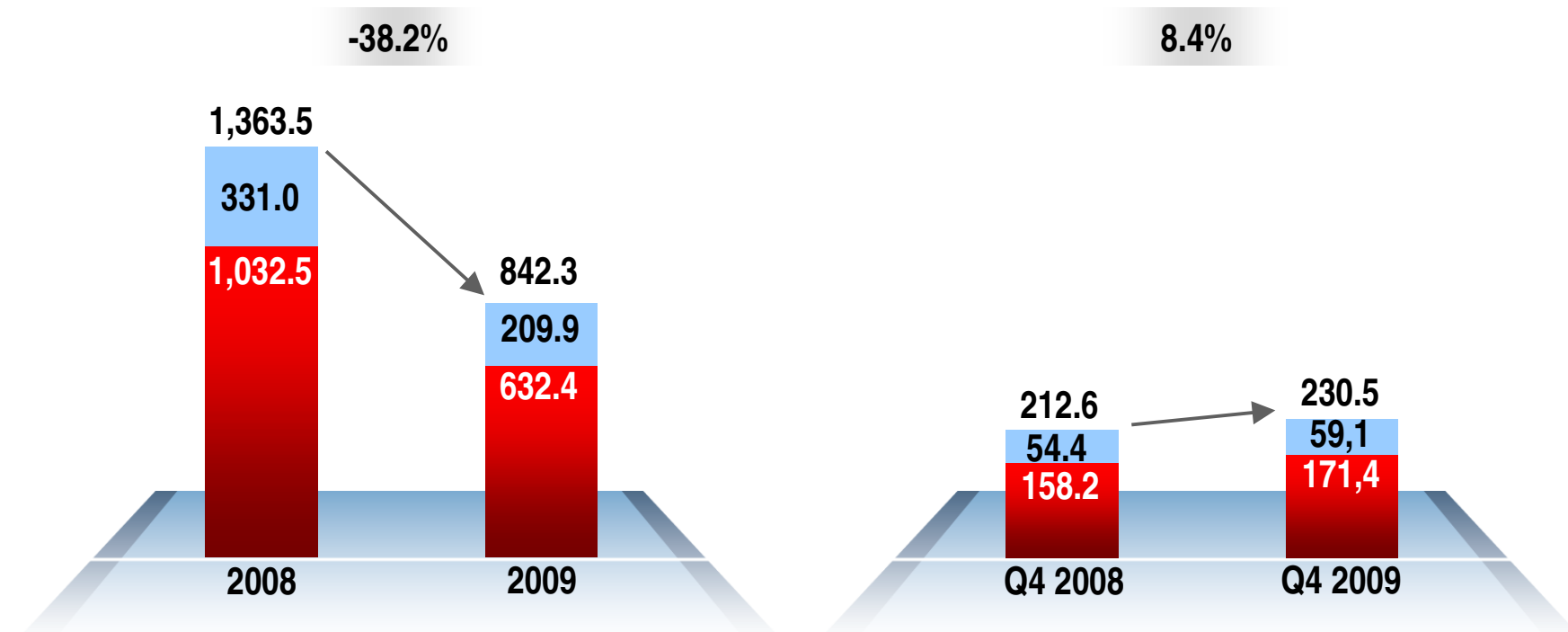
- Positive contribution of €136 million to earnings (2009: €126 million), of which about €85 million permanent
- Primarily achieved through reductions in staff costs and administrative expenses
- Long-term improvement in earnings by streamlining both processes and organisation
- Implementation of MOVE FAST is lowering break-even point to 125,000 engines

### ■ Capital expenditure on future-oriented technologies sustained

- High double-digit million € expenditure on R&D projects maintained
- Preparation for the launch of Tier 4 engines on schedule
- Development initiated for two new engines with capacities of less than four litres
- Joint venture with Bosch and Eberspächer expected to start shortly

# Summary of new orders

€ million

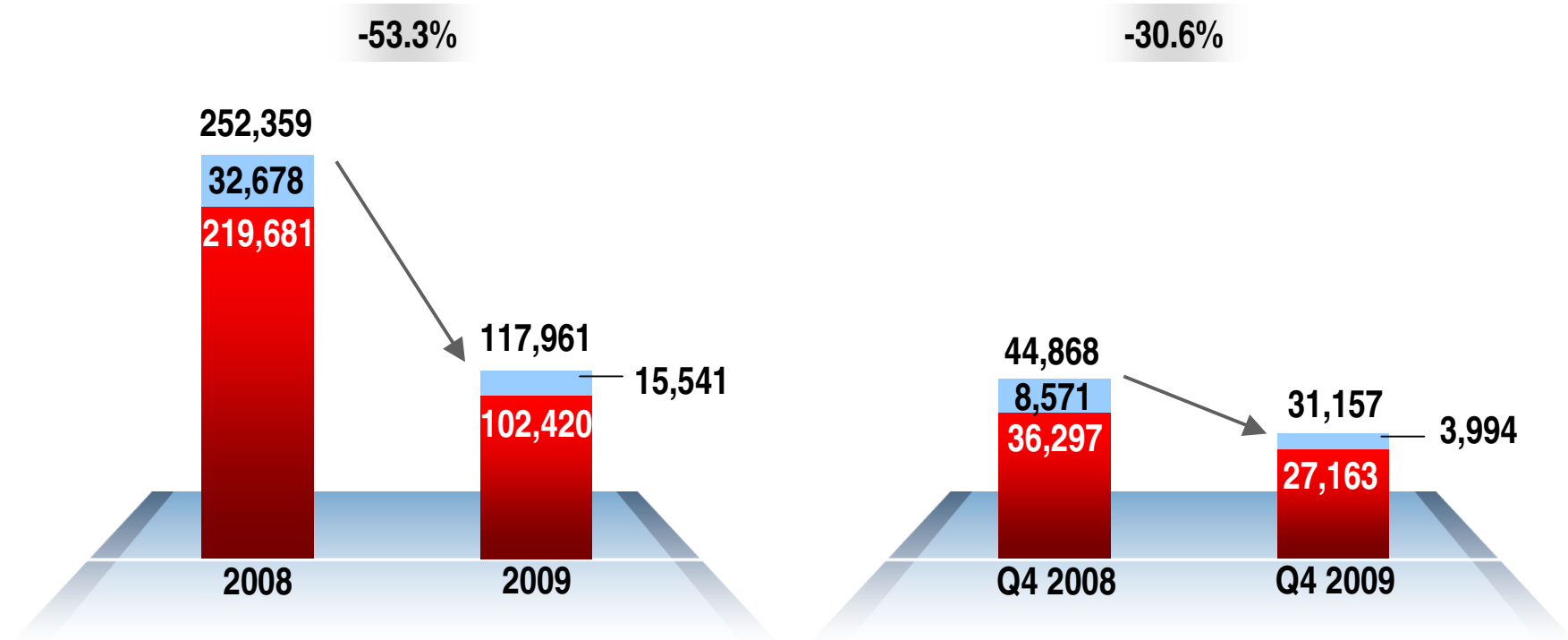


- Drop of 38% compared with 2008; primarily in Mobile Machinery (down 54%)
- Moderate downturn in Service new orders (16% down year on year)
- Noticeable turnaround in Q4 (up 11.9% on Q3 2009; up 8.4% on Q4 2008): significant increase particularly in Mobile Machinery (up 55.3% on Q3 2009; up 176% on Q4 2008)
- H2 2009: new orders > revenue
- Current trend points to a noticeable recovery in 2010 → Based on significant expansion in the production programme, we have suspended short-time working in March 2010

■ Compact Engines ■ DEUTZ Customised Solutions

# Summary of unit sales

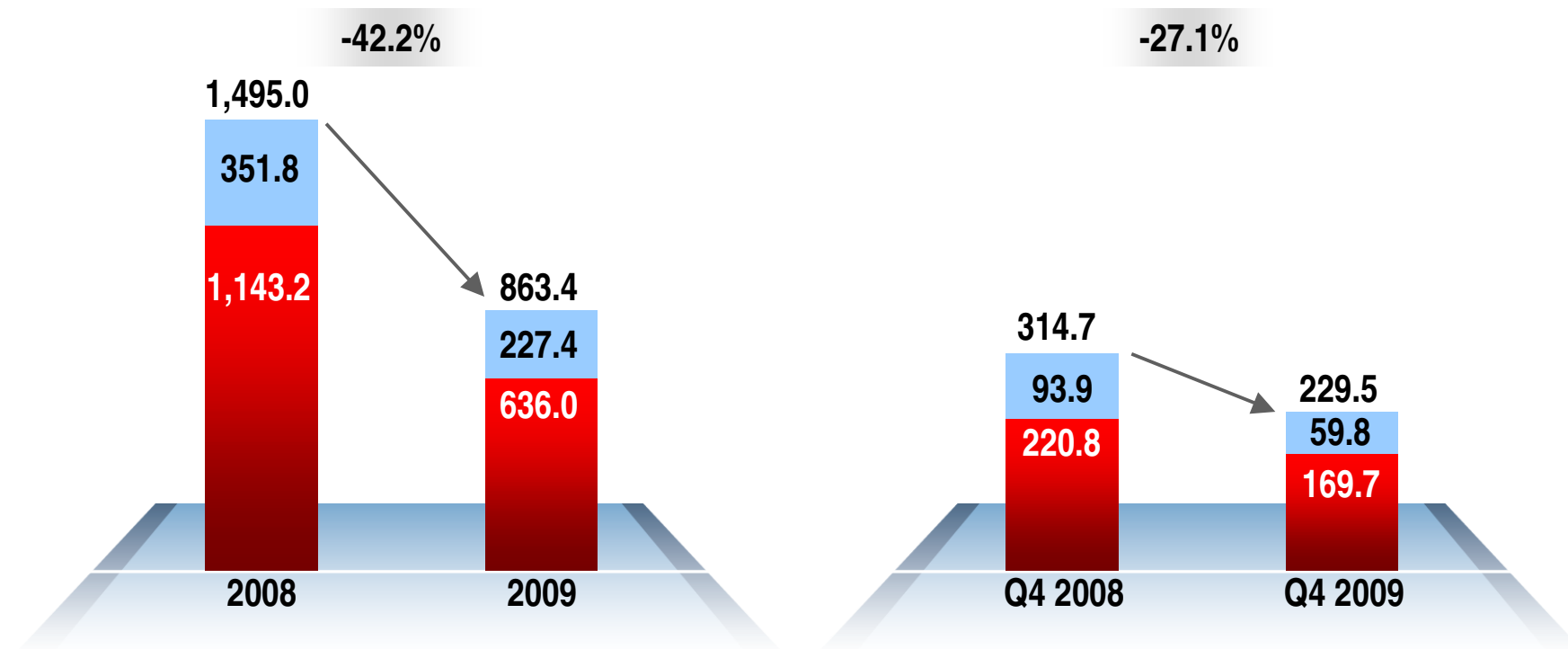
Units



- Decline in unit sales affected all regions and all application segments (primarily Americas (down 74%) and Mobile Machinery (down 70%))
- However, significant increase compared with Q3 (plus 18%) → Q4 had strongest quarterly unit sales in 2009
- Severely affected application segments (Mobile Machinery and Stationary Equipment) are recovering fastest

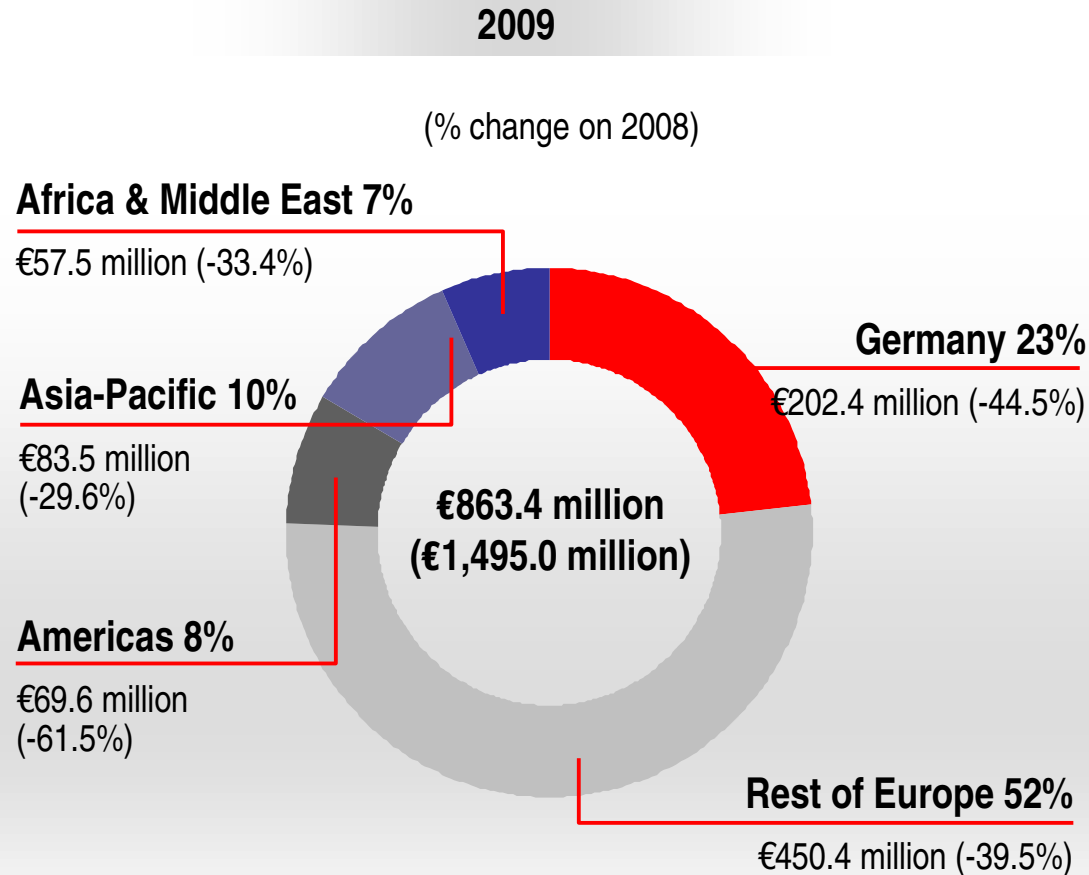
# Summary of revenue

€ million



- Mix effects and slight increase in market prices soften the decline in revenue compared to unit sales
- Q4 substantially up on Q3 (plus 19%); Q4 also had strongest quarterly revenue in 2009
- Despite crisis, service business remained relatively stable; decrease of 'just' 18% year on year

# Revenue by region



- Europe (excluding Germany) continued to be the largest market
- Economic recovery in euro zone continued in Q4;  
Q4 revenue in Europe excluding Germany was up 4% year on year (up 44.7% on Q3 2009)
- Significant drop in revenue in the Americas compared with 2008 (minus 61.5%);  
substantial improvement on Q3 2009 (plus 22.3%), but overall level of revenue still low

## Overview of segments: Compact Engines

€ million	2009	2008	Change (%)
New orders	632.4	1,032.5	-38.8
Unit sales	102,420	219,681	-53.4
Revenue	636.0	1,143.2	-44.4
EBIT (before one-off items)	-55.6	-21.5	--

€ million	Q4 2009	Q4 2008	Change (%)
New orders	171.4	158.2	8.3
Unit sales	27,163	36,297	-25.2
Revenue	169.7	220.8	-23.1
EBIT (before one-off items)	-5.7	-24.1	--

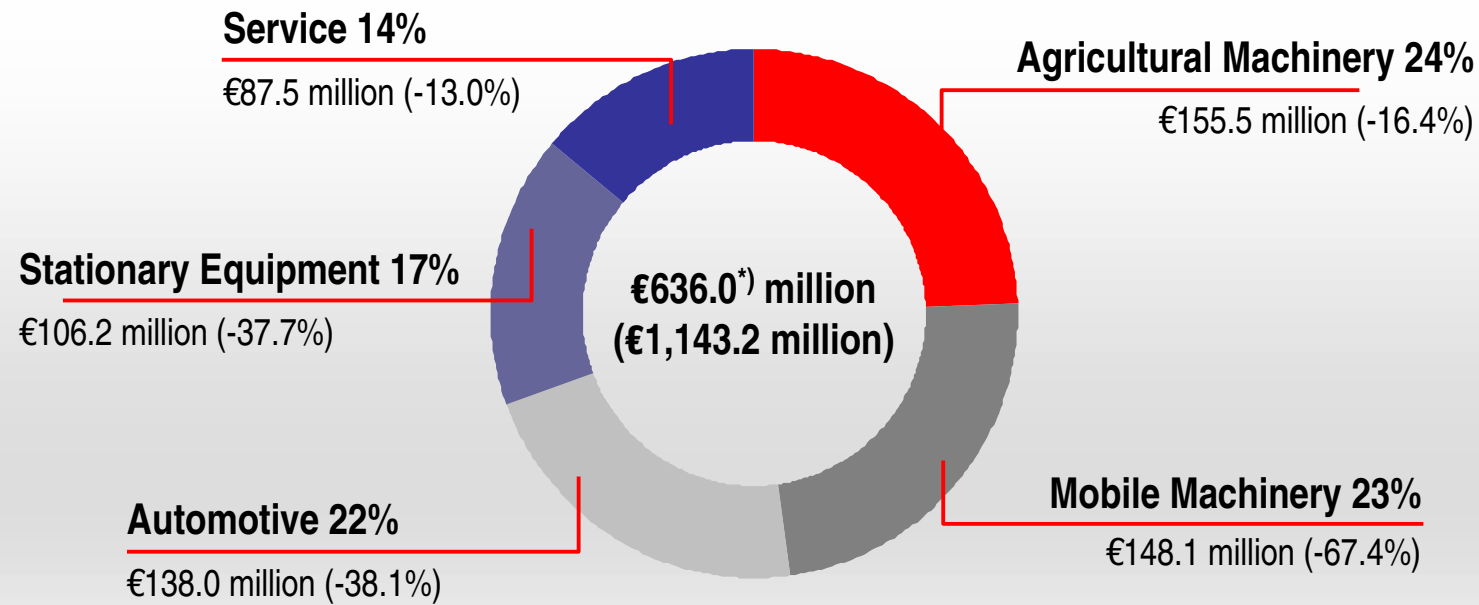
- Unit sales more than halved in 2009; there was a corresponding drop in revenue
- A sharp fall in demand in H1 was followed by a significant recovery, primarily in the important Mobile Machinery application segment (up 97.9% on H1 2009)
- The substantial downturn in revenue had a serious adverse impact on segment operating profit; this impact was only partially compensated by the MOVE action programme
- Losses in DEUTZ Dalian decreased year on year (€8.1 million in 2009 as against €11.1 million in 2008); joint venture remains in start-up phase as a result of the economic crisis in China
- Performance in Q4 means we are confident about 2010
- The trend in new orders in the first few months of 2010 confirms the positive trend seen in Q4



# Compact Engines: Revenue by application segment

2009

(% change on 2008)



<sup>\*)</sup> Other: €0.7 million

## Overview of segments: DEUTZ Customised Solutions

€ million	2009	2008	Change (%)
New orders	209.9	331.0	-36.6
Unit sales	15,541	32,678	-52.4
Revenue	227.4	351.8	-35.4
EBIT (before one-off items)	10.7	45.4	-76.4

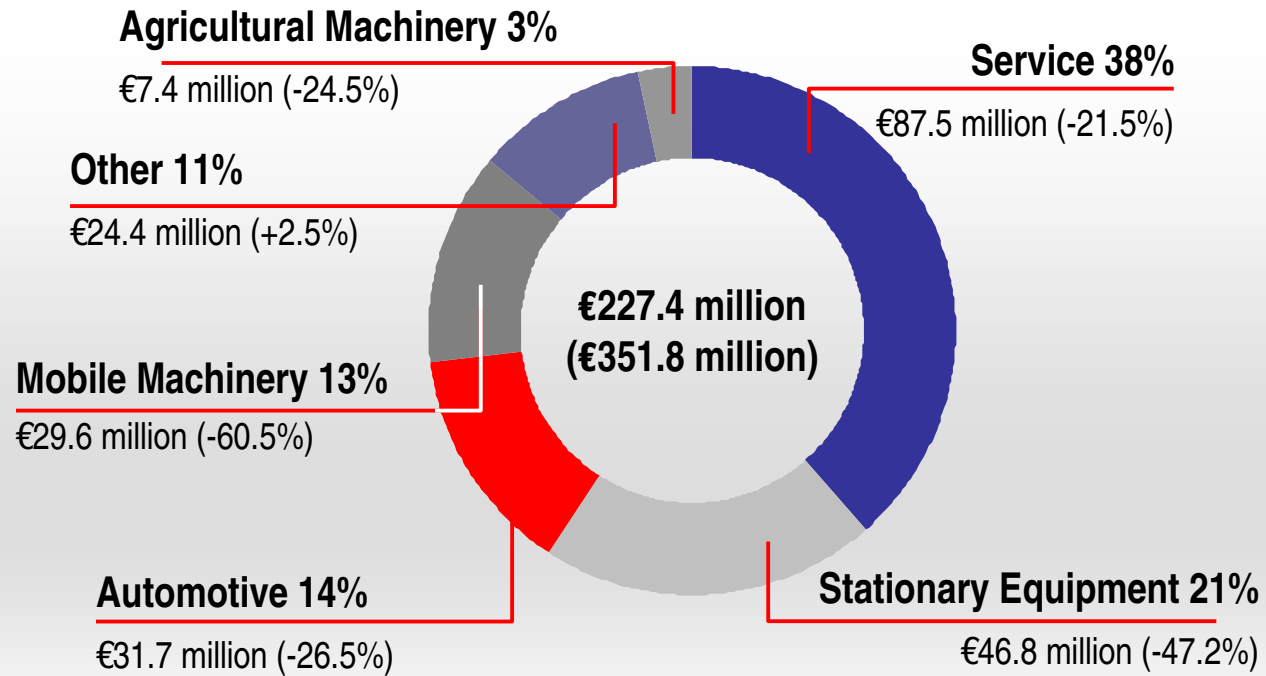
€ million	Q4 2009	Q4 2008	Change (%)
New orders	59.1	54.4	8.6
Unit sales	3,994	8,571	-53.4
Revenue	59.8	93.9	-35.4
EBIT (before one-off items)	1.1	11.6	-90.5

- The DCS segment is slower than DCE to respond to upturns and downturns in the economy
- Q4 new orders were up 8.6% year on year; the trend was concentrated in the Mobile Machinery application segment (up 120% on Q3 2009; 54.0% on Q4 2008)
- Significant downturn in demand in the highly profitable service business had a significant impact on earnings
- EBIT remained positive at €10.7 million, although significantly down year on year (2008: €45.4 million)
- Trend in new orders in Q4 is a positive indicator as far as 2010 is concerned

# DEUTZ Customised Solutions: Revenue by application segment

2009

(% change on 2008)



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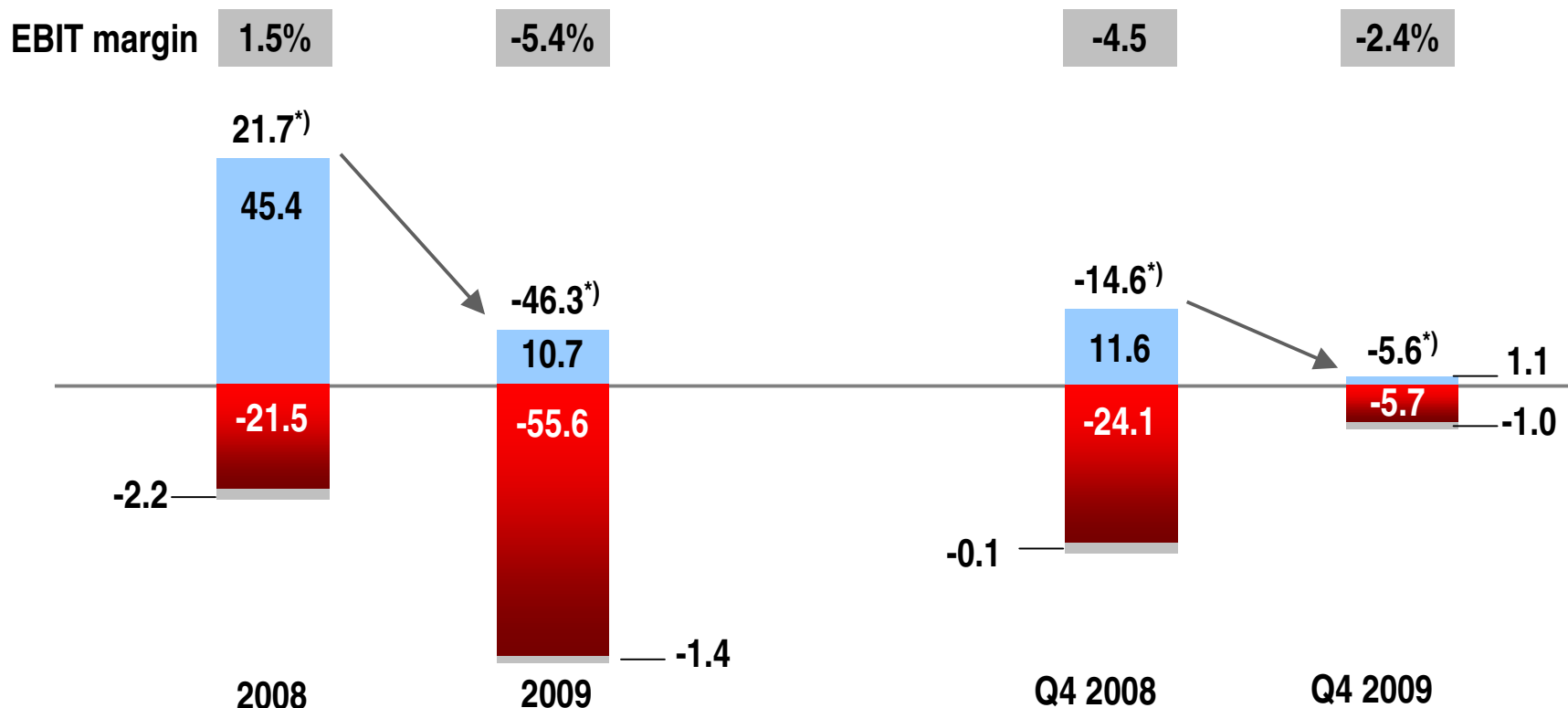
- **Annex**

## Review of key financials for 2009

- Cash flow from operating activities well into positive figures in 2009 (€117.4 million), primarily as a result of the systematic reduction in inventories
- Comfortable liquidity position amounting to **€214.7 million** as at 31 December 2009 and slightly positive net financial position (**€2.9 million**) owing to stringent management of working capital and rigorous programme of savings; equity ratio sustained at a high level (35.4%)
- Significant adverse impact on EBIT from sharp drop in revenue and one-off expense items\* amounting to €42.9 million. EBIT before one-off items: **minus €46.3 million**. EBIT after one-off items: **minus €89.2 million**
- Net loss: **€124.0 million**
- **Agreement in principle with the private placement investors in the USA**
  - As a result of the severe downturn in performance there was a risk the agreed financial covenants would be breached
  - At an early stage, DEUTZ initiated renegotiation of the covenants
  - A number of waivers in place since 29 September 2009
  - Agreement in principle on the key points of the new terms
  - Current coupon increased by 2 percentage points; additional costs will to be capitalised and the amount will vary depending on the timing of the final scheduled repayment or any premature repayment.
  - Agreement documentation is currently being finalised
  - The new covenants will leave us sufficient flexibility to be able to fund the necessary capital expenditure for the future

# Key financials: EBIT before one-off items

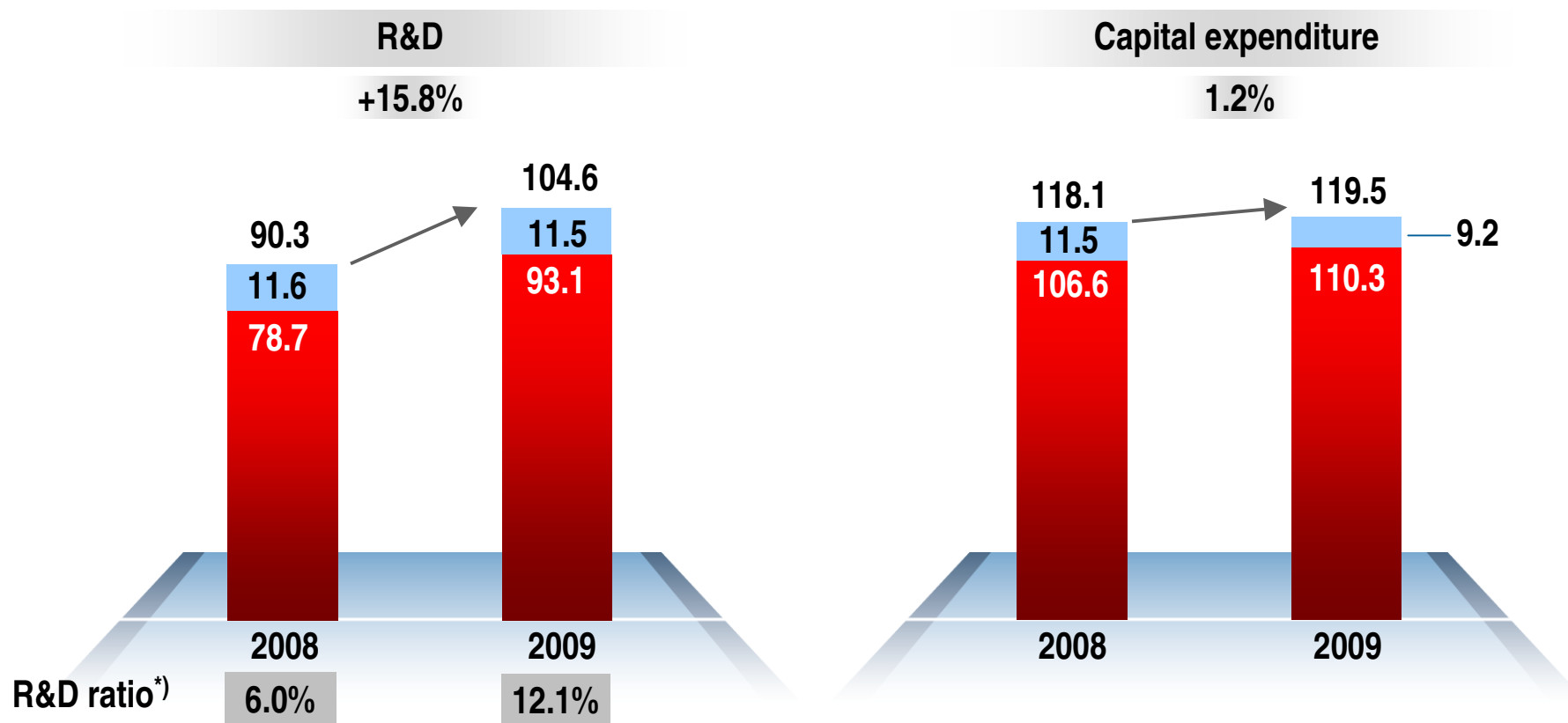
€ million



\*) Change to EBIT calculation from Q1 2009:  
 To improve transparency, the interest expense included in pension expenses is reported under staff costs.  
 In 2009, the interest expense on pension liabilities amounted to €10.0 million (2008: €10.1 million);  
 The comparative figures for 2008 have been restated accordingly.

# Key financials: R&D spending and capital expenditure

€ million

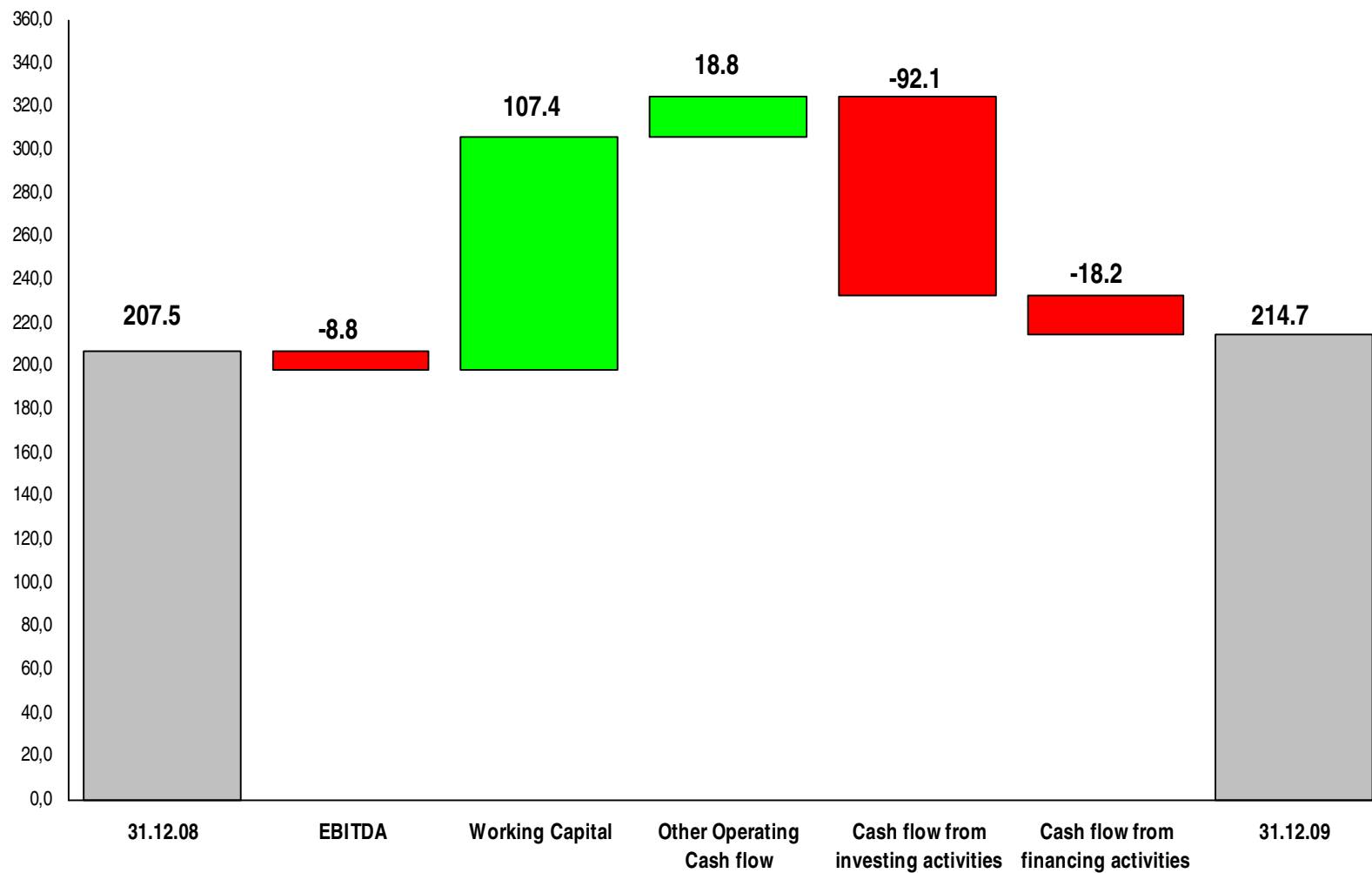


- Continued focus on forthcoming Tier 4 exhaust emissions standards from 2011 and the development of two new engines
- R&D ratio doubled as a result of the exceptional drop in revenue and the further increase in R&D expenditure

- Around two thirds of capital expenditure is in connection with the development of new products
- Capitalised development expenditure: €66.6 million (2008: €48.2 million)

 Compact Engines  DEUTZ Customised Solutions

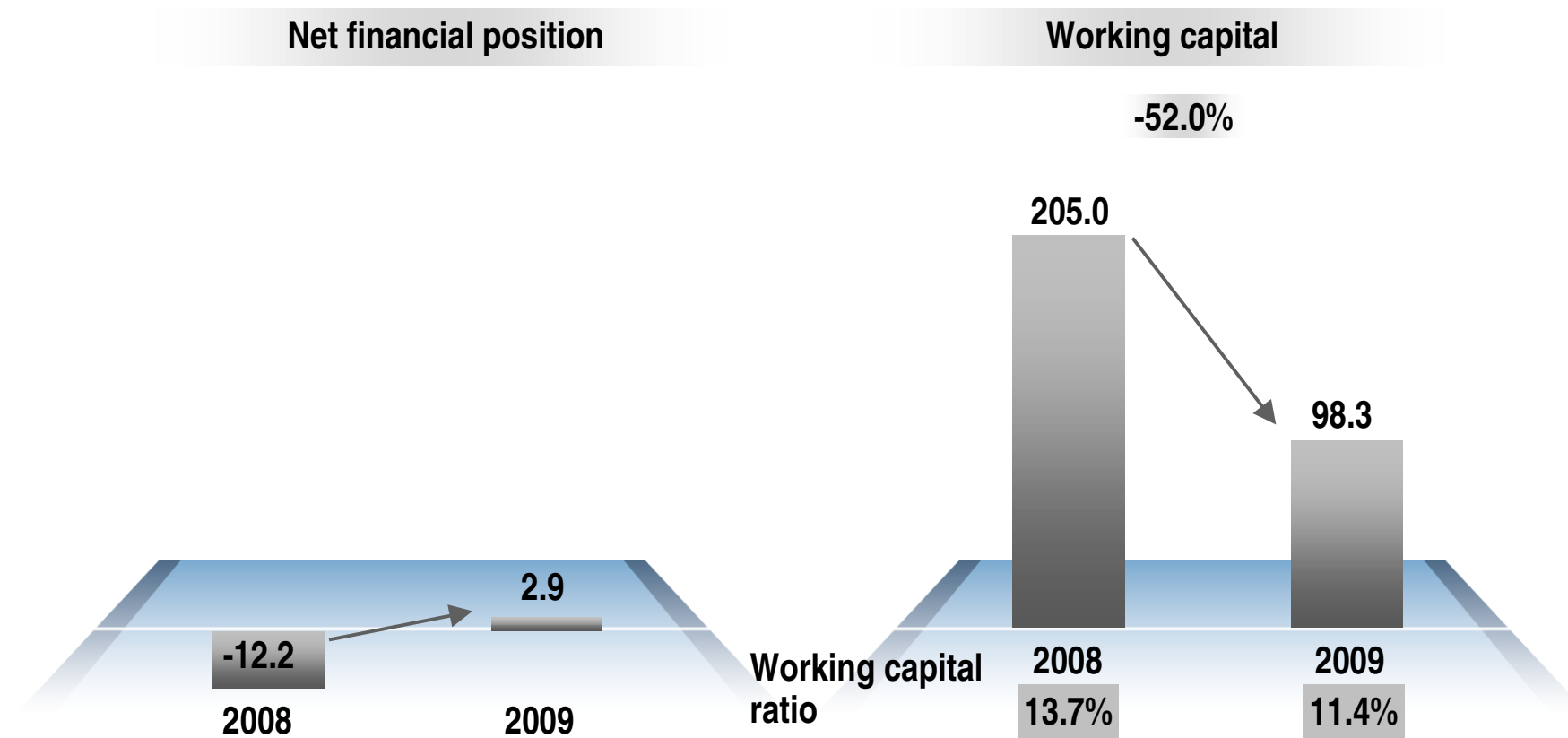
# Key financials: Cash Development 2009





# Key financials: net financial position and working capital

€ million



- Significant cash and cash equivalents as at 31 December 2009: approx. €215 million
- Equity ratio still at a high level (35.4%)

- Substantial decrease in working capital as a result of the reduction in inventories and rigorous receivables management
- WC ratio as at 31 December 2009: 11.4%

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# Clear signs of recovery, but cautious forecasts owing to persistent economic uncertainty



Outlook for 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)	Significantly 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**

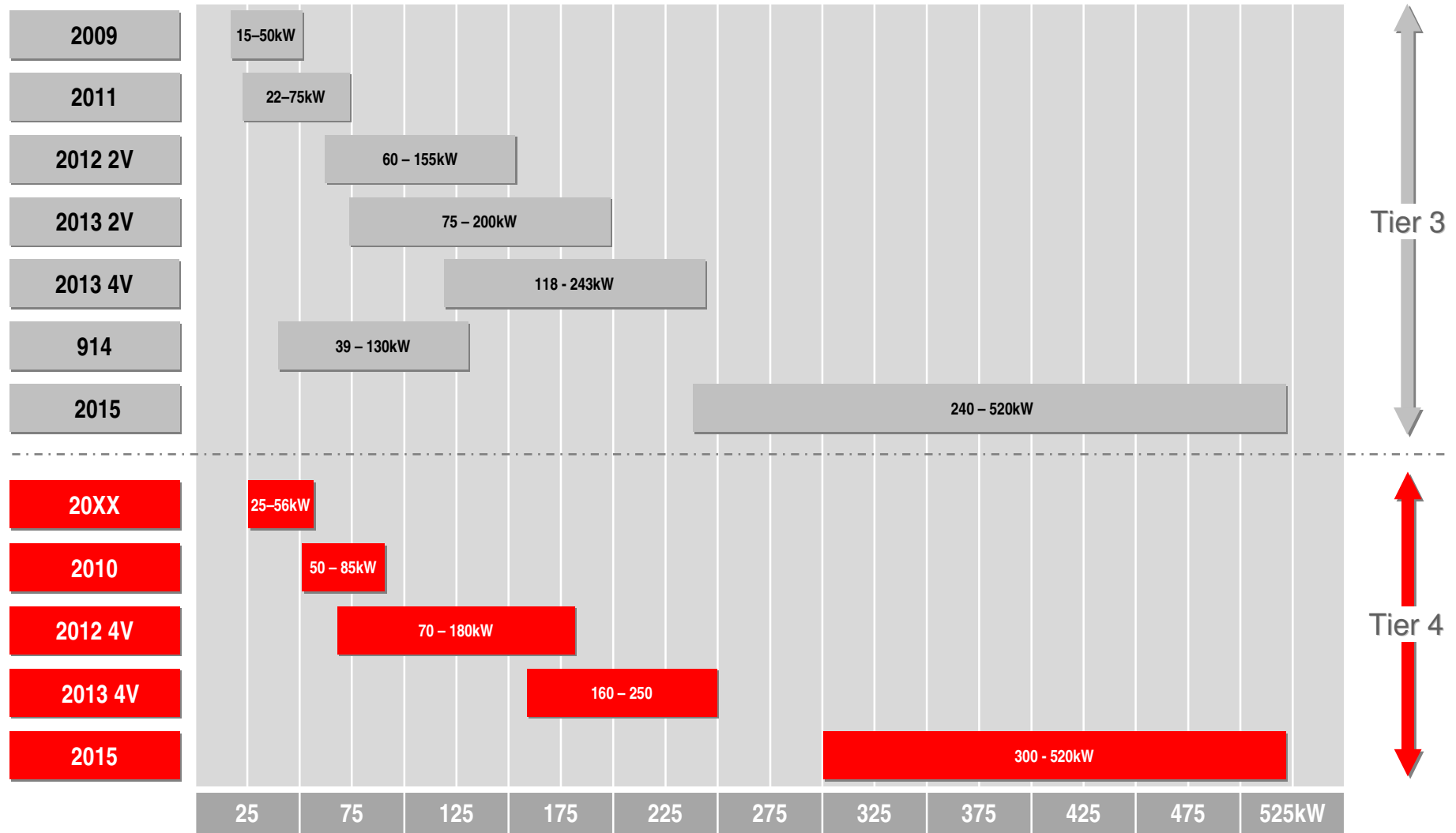
\*) 2009:  
Capital expenditure (excl. R&D): €52.9 million  
Research and development: €104.6 million

# Strategic five-point programme aimed at securing earnings and the future of the business

<p><b>1</b> Consolidation of position as technology leader</p>	<ul style="list-style-type: none"> <li>■ Newly developed 20XX and 2010 engine series</li> <li>■ Further development of 2012, 2013 and 2015 engine series</li> <li>■ Leading exhaust aftertreatment technology</li> </ul>
<p><b>2</b> Consolidation of position as a leader in quality</p>	<ul style="list-style-type: none"> <li>■ Reduced product complexity and fewer variants</li> <li>■ Introduction of a new quality system</li> <li>■ Enhanced certification in accordance with DIN ISO TS 16949*</li> </ul>
<p><b>3</b> Consolidation of position as a leader in the market</p>	<ul style="list-style-type: none"> <li>■ Maintenance of market leading positions in mobile machinery and stationary equipment</li> <li>■ Improvement in position in agricultural machinery market</li> <li>■ Expansion of service business</li> </ul>
<p><b>4</b> Long-term improvement in profitability</p>	<ul style="list-style-type: none"> <li>■ MOVE and MOVE FAST in order to cut costs</li> <li>■ Break-even point to be lowered to 125,000 engines</li> <li>■ Medium-term target: EBIT margin of 10%</li> </ul>
<p><b>5</b> Reduction in cyclicality</p>	<ul style="list-style-type: none"> <li>■ Better risk sharing with suppliers and customers</li> <li>■ Improved distribution of revenue (regions, segments)</li> <li>■ Increased flexibility and cost variability</li> </ul>

\* Strictest standard in the automotive industry

# Development focus on new engines and new exhaust emissions standards



EU Tier 3A / US Tier 3  
 EU Tier 3B / 4 / US Tier 4

## Consolidation of position as technology leader: 2010 - the new engine for industrial and agricultural applications

- Water-cooled four-cylinder in-line engine for the EU Tier 3B / US EPA Tier 4 Interim emissions standards
- Common rail high-pressure direct injection system
- Capacity: 3.62 litres. Power range: 50 – 85kW  
Maximum torque 404Nm @ 1,400 rpm
- Very compact configuration with optional attachment components
- Long servicing intervals ensure short downtimes and low maintenance costs
- Well-suited for cold starting in extreme climatic conditions
- Versions for the following application segments:
  - Mobile Machinery
  - Agricultural Machinery
  - Stationary Equipment (genset engine)

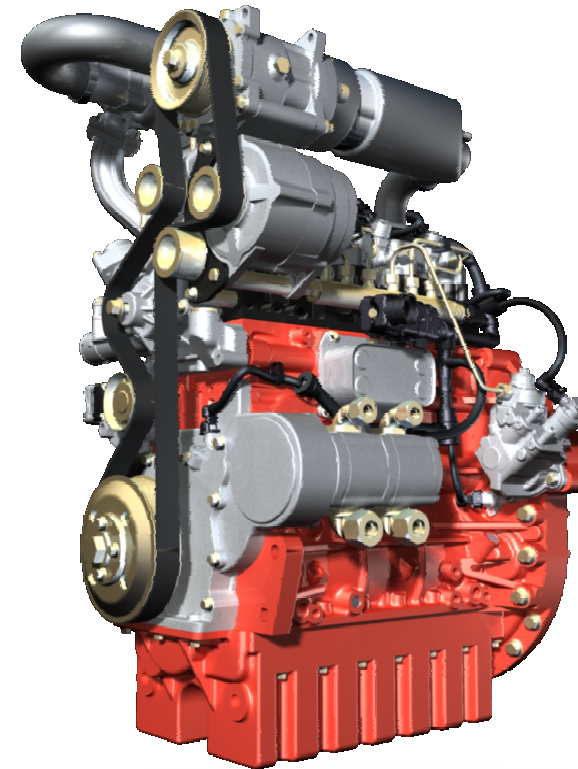


➔ **The 2010 will be our first ever agricultural machinery engine with a capacity of less than four litres**

## Consolidation of position as technology leader: 20XX - setting the new standard in its class

- Water-cooled four-cylinder in-line engine for the EU Tier 4 / US EPA Tier 4 emissions standards
- Very compact dimensions with capacity of 2.9 litres:  
**assembly length just 466mm**
- Power range: 28 – 55.9kW  
Maximum torque: 300Nm @ 1,600 rpm
- Unrivalled low noise level
- Minimal running costs as logical consequence of systematically implemented downsizing strategy
- Long servicing intervals ensure short downtimes and low maintenance costs
- Versions for the following application segments:
  - Mobile Machinery
  - Agricultural Machinery
  - Stationary Equipment (genset engine)
- **Unique selling proposition:  
minimum exhaust aftertreatment**

20XX



→ With the 20XX and 2010 we will maintain and improve on our market-leading position

# MOVE FAST action programme aimed at 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**



***"All in all, DEUTZ is emerging from the crisis stronger than before and, as a long-established company with 'new drive', it can look to the future with optimism."***

Dr Helmut Leube

Chairman of the Board of Management of  
DEUTZ AG

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## Summary of key financials (I)

€ million	2009	2008	Change (%)
Revenue	863.4	1,495.0	-42.2
EBITDA	-8.8	81.8	--
EBITDA before one-off items	20.8	93.5	-77.8
EBIT	-89.2	7.4	--
EBIT before one-off items	-46.3	21.7	--
EBIT margin	-10.3	0.5	--
EBIT margin before one-off items (%)	-5.4	1.5	--
Net loss	-124.0	-8.3	--
<i>of which continuing operations</i>	-119.8	-4.2	--
<i>of which discontinued operations</i>	-4.2	-4.1	--
Basic earnings per share (€)	-1.03	-0.07	--
<i>of which continuing operations</i>	-0.99	-0.04	--
<i>of which discontinued operations</i>	-0.04	-0.03	--
Number of employees (31 December)	4,012	4,701	-14.7

## Summary of key financials (II)

€ million	2009	2008	Change (%)
Total assets	1,071.1	1,206.3	-11.2
Equity	379.2	511.3	-25.8
Equity ratio (%)	35.4	42.4	--
Cash flow from operating activities	117.4	89.7	30.9
Free cash flow	12.6	-23.3	--
Net financial position	2.9	-12.2	--
Working capital (as at 31 December)	98.3	205.0	-52.0

# Income statement

€ million	2009	2008	Change (%)
<b>Revenue</b>	<b>863.4</b>	<b>1,495.0</b>	-42.2
Changes in inventories and other own work capitalised	-9.8	25.4	--
Other operating income	72.8	65.0	12.0
Cost of materials	-567.9	-1,039.7	-45.4
Staff costs	-265.3	-300.1	-11.6
Depreciation and amortisation	-66.3	-71.8	-7.7
Impairment losses	-14.1	-2.6	--
Other operating expenses	-99.3	-159.9	-37.6
Loss on equity-accounted investments	-4.3	-6.3	-31.7
Other investment income	1.6	1.6	0.0
<b>EBIT</b>	<b>-89.2</b>	<b>7.4</b>	--
of which one-off items	-42.9	-14.3	--
<b>of which operating profit/loss (EBIT before one-off items)</b>	<b>-43.6</b>	<b>31.8</b>	--
Net interest expense	-10.0	-3.2	--
Other taxes	-1.9	-1.5	26.7
<b>Net income/loss before taxes on continuing operations</b>	<b>-101.1</b>	<b>2.7</b>	--
Income taxes	-18.7	-6.9	--
<b>Net loss on continuing operations</b>	<b>-119.8</b>	<b>-4.2</b>	--
<b>Net loss on discontinued operations</b>	<b>-4.2</b>	<b>-4.1</b>	2.4
<b>Net loss</b>	<b>-124.0</b>	<b>-8.3</b>	--

## Balance sheet: assets

Assets (€ million)	31 Dec 2009	31 Dec 2008	Change (%)
Non-current assets (excluding deferred tax assets)	539.4	539.7	-0.1
Deferred tax assets	22.4	33.1	-32.3
Inventories	127.5	222.0	-42.6
Trade receivables	112.3	121.1	-7.3
Other receivables and assets	54.3	82.0	-33.8
Cash and cash equivalents	214.7	207.5	3.5
Non-current assets held for sale	0.5	0.9	-44.4
<b>Total assets</b>	<b>1,071.1</b>	<b>1,206.3</b>	<b>-11.2</b>

## Balance sheet: equity and liabilities

Equity and liabilities (€ million)	31 Dec 2009	31 Dec 2008	Change (%)
<b>Equity</b>	<b>379.2</b>	<b>511.3</b>	-25.8
Provisions for pensions and other post-retirement benefits	163.9	169.3	-3.2
Deferred tax liabilities	0.1	0.1	0.0
Other provisions	26.9	45.7	-41.1
Financial liabilities	206.2	214.1	-3.7
Other liabilities	13.4	1.7	--
<b>Non-current liabilities</b>	<b>410.5</b>	<b>430.9</b>	-4.7
Provisions for pensions and other post-retirement benefits	16.1	16.4	-1.8
Other provisions / Provisions for current income taxes	55.8	50.9	9.6
Financial liabilities	5.6	5.6	0.0
Trade payables	141.5	138.1	2.5
Other liabilities	62.4	53.1	17.5
<b>Current liabilities</b>	<b>281.4</b>	<b>264.1</b>	6.6
<b>Total equity and liabilities</b>	<b>1,107.1</b>	<b>1,206.3</b>	-11.2

## Cash flow statement (condensed)

€ million	31 Dec 2009	31 Dec 2008
EBIT	-89.2	17.5
<b>Cash flow from operating activities (continuing operations)</b>	<b>117.4</b>	<b>89.7</b>
Cash flow from operating activities (discontinued operations)	0.0	0.0
<b>Cash flow from operating activities (total)</b>	<b>117.4</b>	<b>89.7</b>
Capital expenditure on intangible assets, property, plant and equipment and investments	-95.8	-97.5
Cash receipts from the sale of businesses and proceeds from the sale of non-current assets	5.0	0.2
<b>Cash flow from investing activities (continuing operations)</b>	<b>-90.8</b>	<b>-97.3</b>
Cash flow from investing activities (discontinued operations)	-1.3	-26.8
<b>Cash flow from investing activities (total)</b>	<b>-92.1</b>	<b>-124.1</b>
<b>Cash flow from financing activities</b>	<b>-18.2</b>	<b>-69.2</b>
<b>Change in cash and cash equivalents</b>	<b>7.1</b>	<b>-103.6</b>



## Overview of segments, 2009

New orders (€ million)	2009	2008	Change (%)
Compact Engines	632.4	1,032.5	-38.8
DEUTZ Customised Solutions	209.9	331.0	-36.6
<b>Total for operating activities</b>	<b>842.3</b>	<b>1,363.5</b>	<b>-38.2</b>

Revenue (€ million)	2009	2008	Change (%)
Compact Engines	636.0	1,143.2	-44.4
DEUTZ Customised Solutions	227.4	351.8	-35.4
<b>Total for operating activities</b>	<b>863.4</b>	<b>1,495.0</b>	<b>-42.2</b>
Germany	23.4%	24.4%	--
Export	76.6%	75.6%	--

Unit sales (units)	2009	2008	Change (%)
Compact Engines	102,420	219,681	-53.4
DEUTZ Customised Solutions	15,541	32,678	-52.4
<b>Total for operating activities</b>	<b>117,961</b>	<b>252,359</b>	<b>-53.3</b>

EBIT before one-off items (€ million)	2009	2008	Change (%)
Compact Engines incl. DDE	-55.6	-21.5	--
<i>DEUTZ Dalian (DDE)</i>	<i>-8.1</i>	<i>-11.1</i>	
<i>Compact engines excl. DDE</i>	<i>-47.5</i>	<i>-10.4</i>	--
DEUTZ Customised Solutions	10.7	45.4	-76.4
Other	-1.4	-2.2	--
<b>Total for operating activities</b>	<b>-46.3</b>	<b>21.7</b>	<b>--</b>

## Overview of segments, Q4 2009

	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>Change (%)</b>
<b>New orders (€ million)</b>			
Compact Engines	171.4	158.2	8.3
DEUTZ Customised Solutions	59.1	54.4	8.6
<b>Total for operating activities</b>	<b>230.5</b>	<b>212.6</b>	<b>8.4</b>

	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>Change (%)</b>
<b>Revenue (€ million)</b>			
Compact Engines	169.7	220.8	-23.1
DEUTZ Customised Solutions	59.8	93.9	-36.3
<b>Total for operating activities</b>	<b>229.5</b>	<b>314.7</b>	<b>-27.1</b>
Germany	12.0%	26.0%	--
Export	88.0%	74.0%	--

	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>Change (%)</b>
<b>Unit sales</b>			
Compact Engines	27,163	36,297	-25.2
DEUTZ Customised Solutions	3,994	8,571	-53.4
<b>Total for operating activities</b>	<b>31,157</b>	<b>44,868</b>	<b>-43.5</b>

	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>Change (%)</b>
<b>EBIT before one-off items (€ million)</b>			
Compact Engines incl. DDE	-5.7	-24.1	--
<i>DEUTZ Dalian (DDE)</i>	-0.1	-4.1	
<i>Compact engines excl. DDE</i>	-5.6	-20.0	--
DEUTZ Customised Solutions	1.1	11.6	
Other	-1.0	-1.6	--
<b>Total for operating activities</b>	<b>-5.6</b>	<b>-14.1</b>	<b>--</b>

## Financial calendar for 2010

- |   |                   |                  |
|---|-------------------|------------------|
| ■ Annual Results Press Conference<br>Publication of annual report for 2009                      | Cologne           | 18 March 2010    |
| ■ Analysts' meeting   | Frankfurt am Main | 19 March 2010    |
| ■ Annual General Meeting  | Cologne           | 6 May 2010       |
| ■ Interim report on first quarter of 2010<br>Conference call with analysts and investors        |                   | 12 May 2010      |
| ■ Interim report on first half of 2010<br>Conference call with analysts and investors           |                   | 5 August 2010    |
| ■ Interim report on first three quarters of 2010<br>Conference call with analysts and investors |                   | 10 November 2010 |

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