

Conference Call Q1 2012

10 May 2012

The engine company.



Agenda

- **Review Q1 2012**

Dr Helmut Leube, Chairman of the Board of Management

- **Key financials Q1 2012**

Dr Margarete Haase, Chief Financial Officer

- **Outlook**

Dr Helmut Leube, Chairman of the Board of Management

- **Annex**

Highlights of Q1 2012

■ Robust sales figures

- Revenue up by 0.3% yoy to €336.9 million
- Higher value of new Tier 4 interim compliant engines compensated lower unit sales
- Order intake of €390.0 million just below the level of Q1 2011 (€408.5 million) and 26% higher than Q4 2011

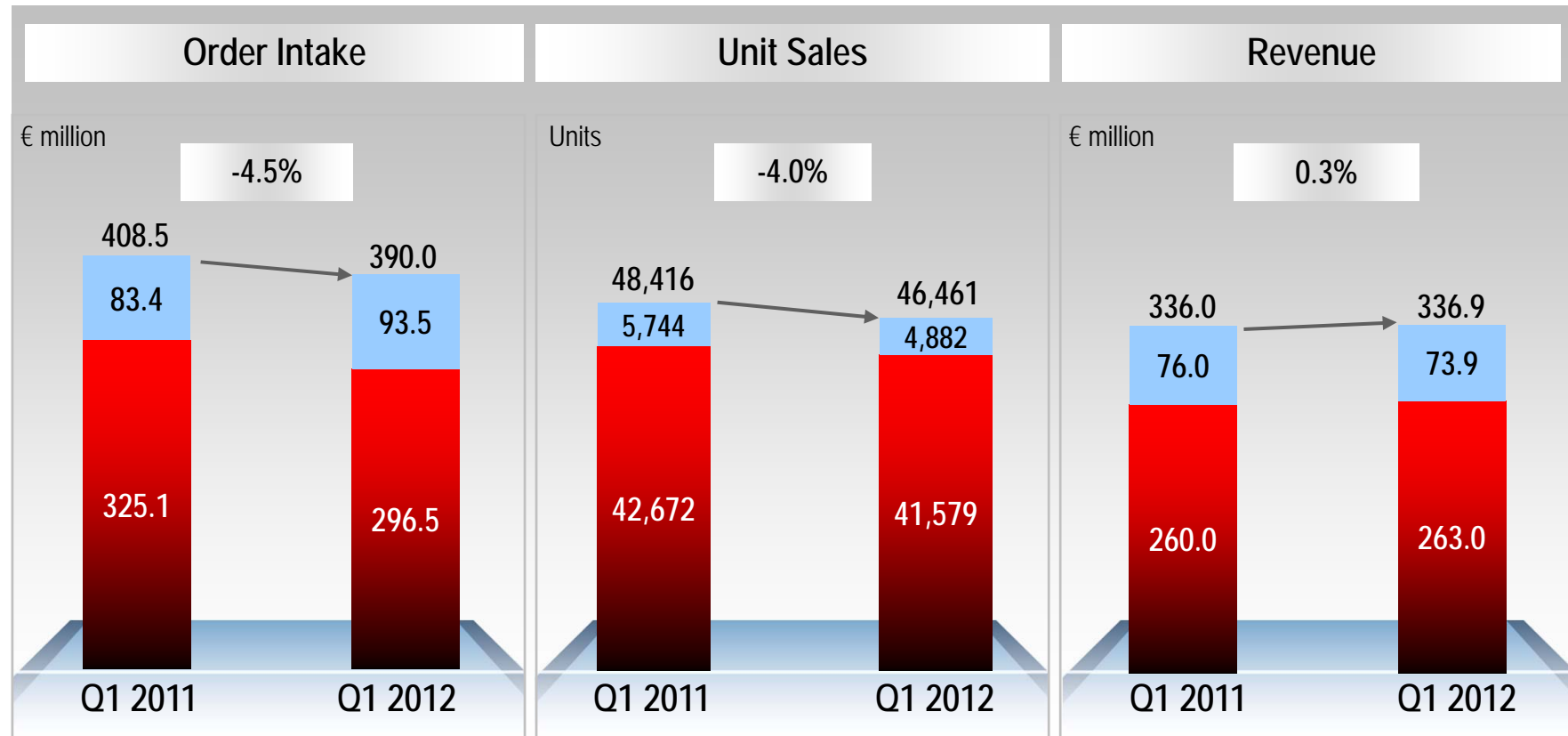
■ Operating profit affected by several one-offs

- EBIT declined by €7.9 million yoy to €10.3 million
- Extensive maintenance work at a production line
- Weaker business in China in Q1
- Series start of new engines typically accompanied by lower efficiency
- Costs related to strategic projects
- Profitability in Q1 is no indication for FY 2012

■ Strategic projects exploiting growth opportunities

- Founding documents of Chinese JV DEUTZ Engine (Shandong) Co. signed in January; production starts at the beginning of 2013
- Memorandum of understanding with Volvo to explore the extension of our long-term cooperation

Sales figures, Q1 2012



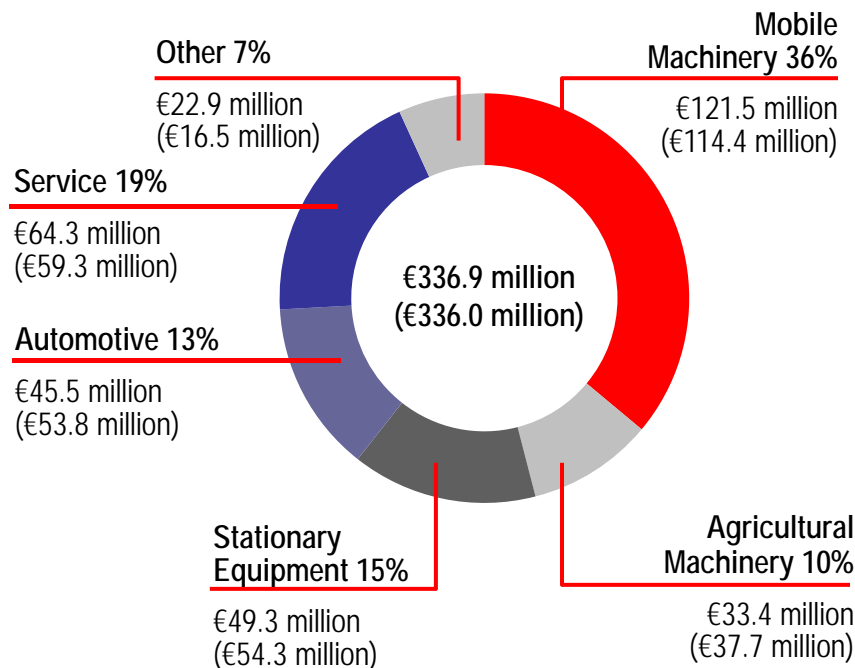
- Order intake rose 26.0% vs. Q4 2011
- New Tier 4 interim compliant engines with higher inherent value compensated lower unit sales
- Revenue up by 0.3% yoy
- Orders on hand €280.5 million (+21.4% vs. year end 2011)

 Compact Engines  DEUTZ Customised Solutions

Revenue split

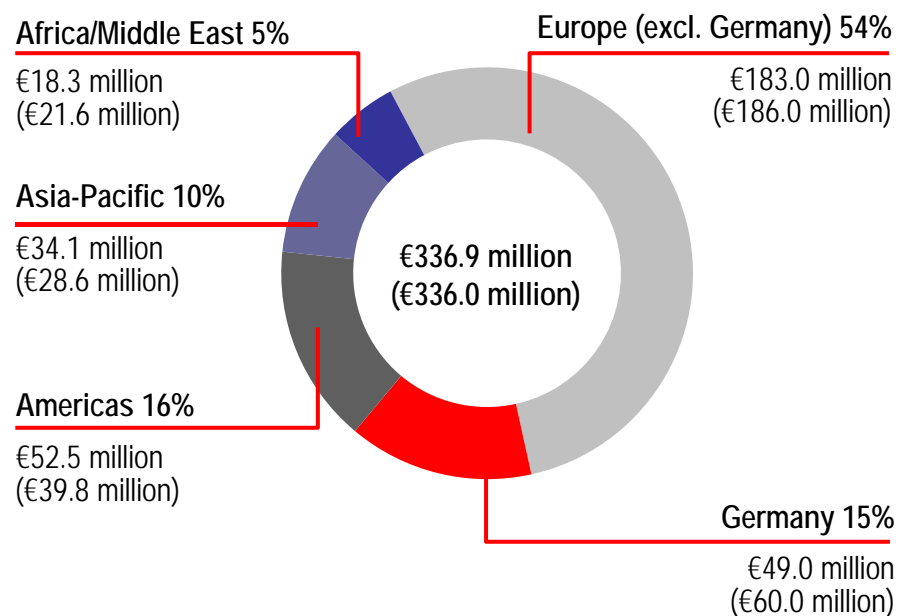
Revenue Split by Application, Q1 2012

(Q1 2011)



Revenue Split by Region, Q1 2012⁽¹⁾

(Q1 2011)



- Largest application segment Mobile Machinery with 6.2% growth yoy
- Service business increased by 8.4% yoy
- Strong revenue growth in Americas (+31.9% yoy) and Asia-Pacific (+19.2% yoy)

(1) Revenue split by region does not include JVs that are not fully consolidated. Regions assigned by place of business of our OEM customer, which may differ from location of end-customer

Overview of segments: Compact Engines

€ million	Q1 2012	Q1 2011	Change (%)
New orders	296.5	325.1	-8.8
Unit sales	41,579	42,672	-2.6
Revenue	263.0	260.0	1.2
EBIT	-1.0	6.7	>-100.0

- Order intake 25.2% higher than Q4 2011
- Revenue increased by 1.2%; higher value of new engines compensated lower unit sales (-2.6%)
- Strong revenue growth rate in Americas (+41.0%)
- Service business with 6.5% revenue growth
- EBIT declined by €7.7 million yoy mainly caused by maintenance-induced production line outage, slow start of Chinese market, series start of new engines and costs related to strategic projects
- Efficiency is expected to improve in the next quarters

Overview of segments: DEUTZ Customised Solutions

€ million	Q1 2012	Q1 2011	Change (%)
New orders	93.5	83.4	12.1
Unit sales	4,882	5,744	-15.0
Revenue	73.9	76.0	-2.8
EBIT	12.2	11.9	2.5

- Order intake well ahead of Q1 2011 and Q4 2011 (€72.6 million)
- Unit sales declined by 15.0% yoy due to market conditions in Europe
- Revenue 2.8% below Q1 2011 level
- Very pleasing development of our service business (revenue up by 10.8% yoy)
- EBIT increased by 2.5% yoy to €12.2 million

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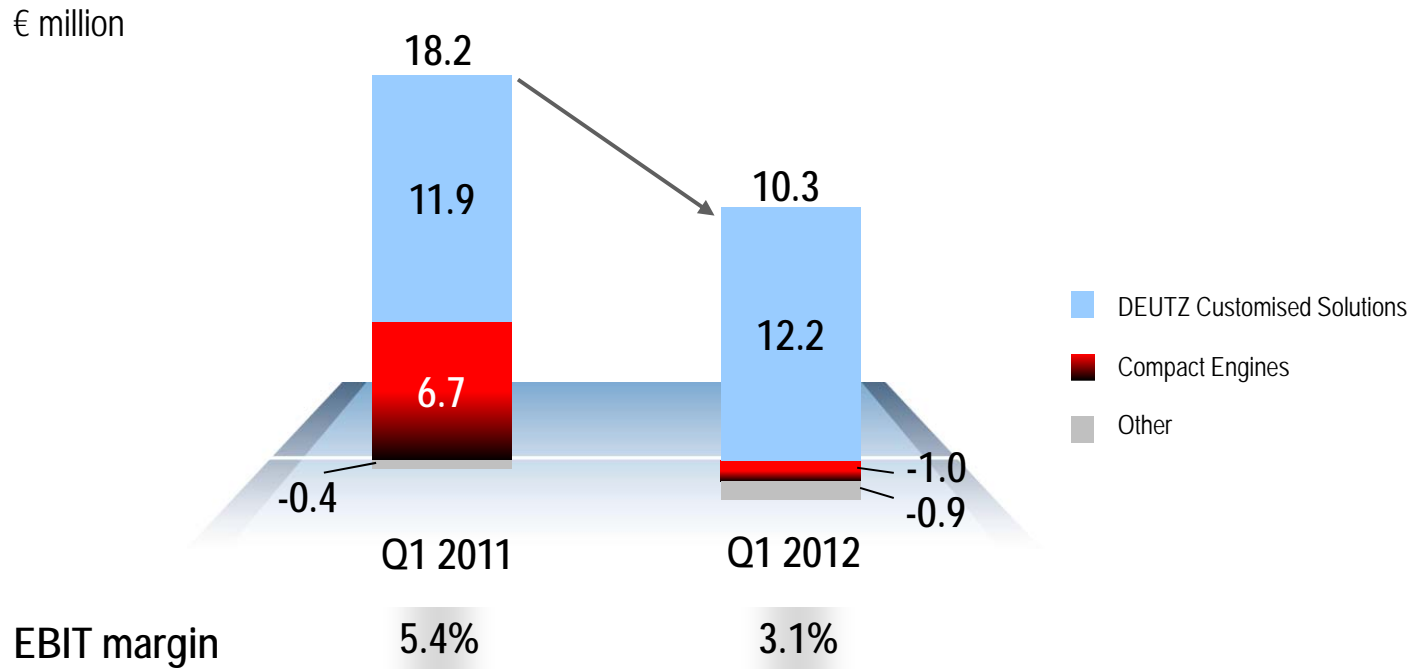
Dr Margarete Haase, Chief Financial Officer

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Dr Helmut Leube, Chairman of the Board of Management

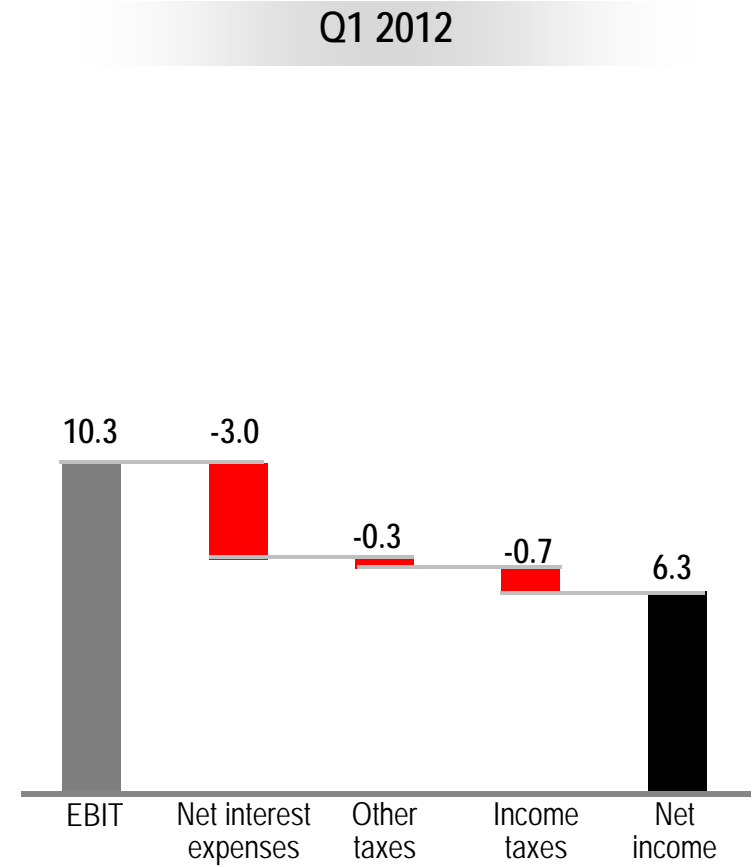
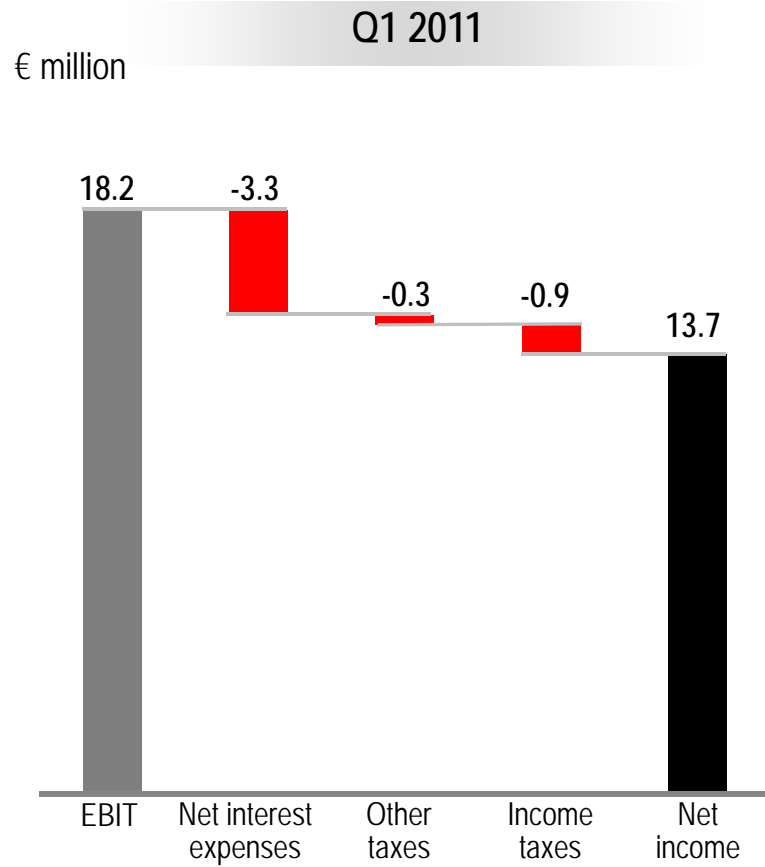
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EBIT



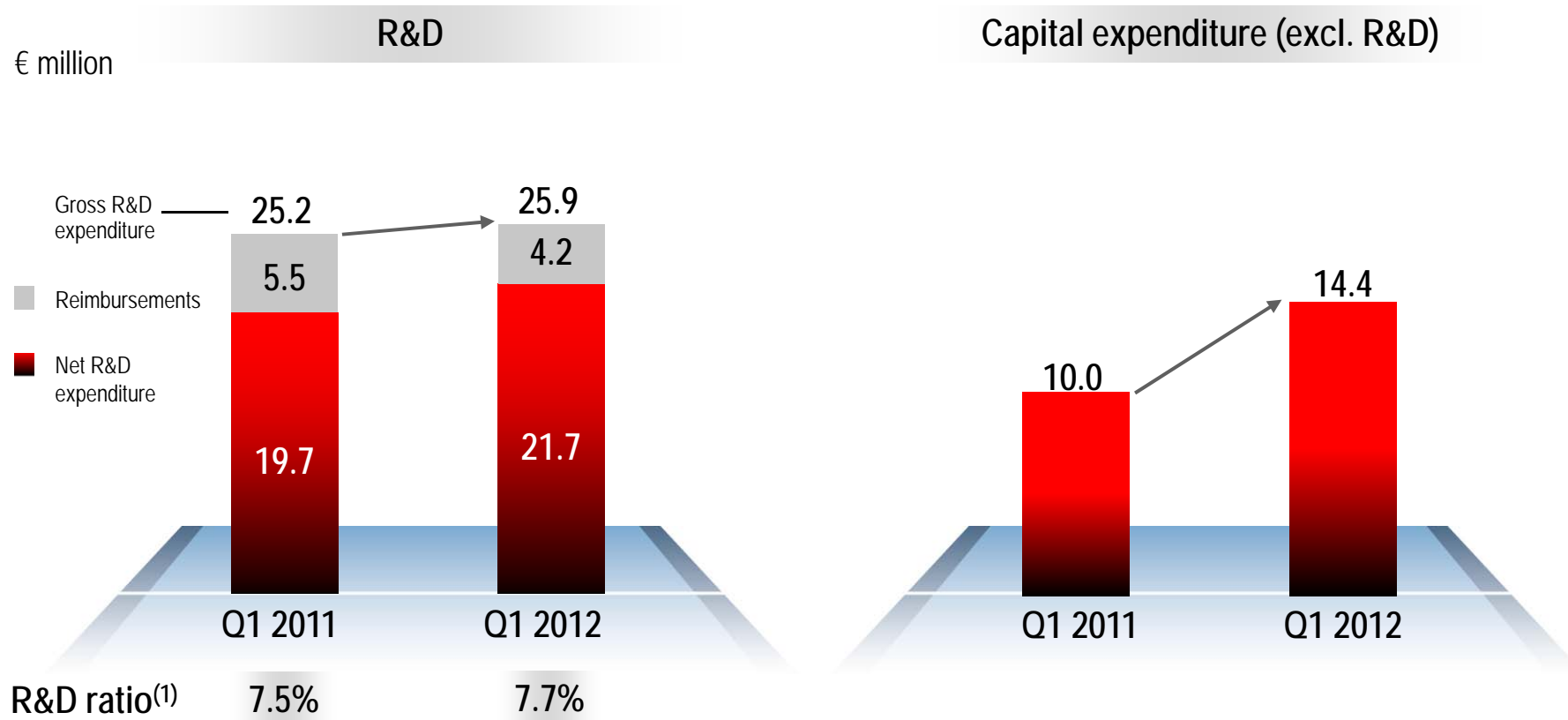
- EBIT margin declined
- Improving EBIT month by month in Q1
- Profitability in Q1 is not an indication for FY 2012
- Improvement expected from efficiency gains and strong orders

Net income



- Net interest expense lower due to strict cash management and higher equity
- Low effective tax rate of 10% due to significant tax loss carry forward

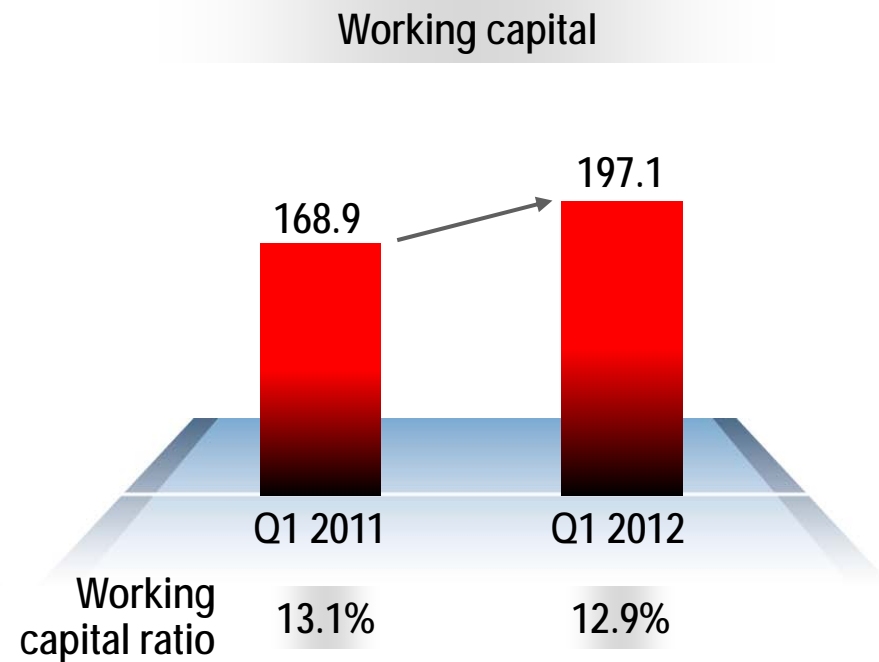
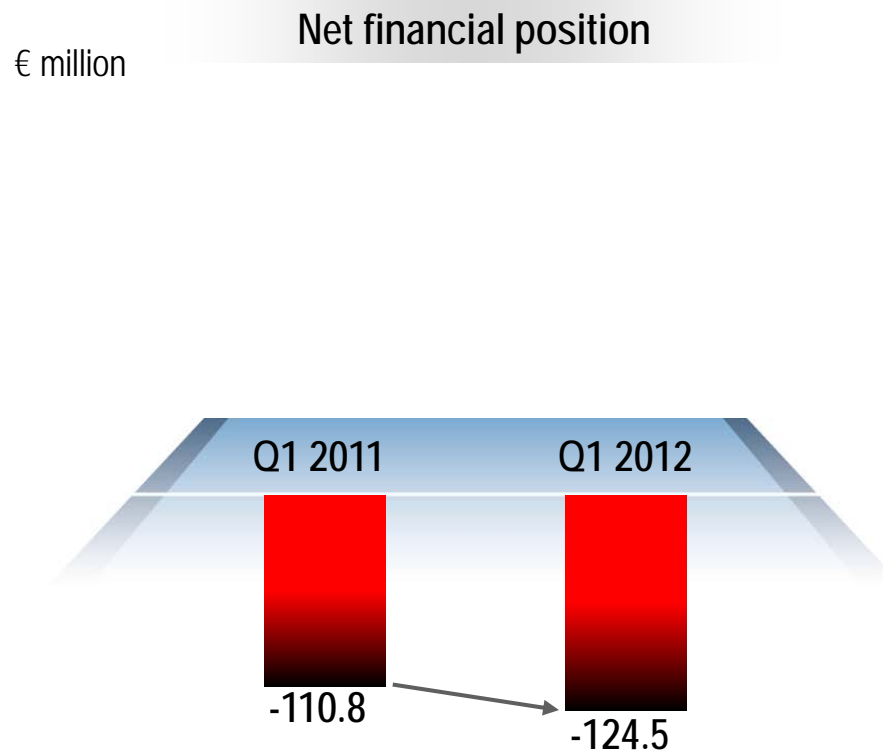
R&D spending and capital expenditure



- R&D expenditure influenced by launch of new products and exhaust after-treatment technique
- Proportion of capitalised development spending: €18.1 million (Q1 2011: €18.6 million)
- R&D spending is expected to decline in the next quarters

- Capex increased by €4.4 million yoy due to series start of new engines

Net financial position and working capital



- Cash credit line of €240 million provides financial flexibility
- Cash and cash equivalents amount to €15.8 million (Q1 2011: €24.5 million)
- Equity ratio improved to 41.6% (Q1 2011: 36.7%)

- Ongoing tight working capital management
- Working capital ratio as at 31 March 2012: 12.9% (improvement of 0.2%-points yoy)

Summing up

- Revenue increased by €0.9 million (+0.3%) yoy
- Positive trend stabilizing due to higher value of engines and implementation of Asian projects
- High demand from construction and agriculture in Asia in the next years
- EBIT declined by €7.9 million yoy; profitability is expected to improve again in upcoming quarters
- Low interest expenses and robust cash flow
- Working capital ratio at 12.9% (Q1 2011: 13.1%)
- Equity ratio advanced to 41.6% (Q1 2011: 36.7%)

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Financial outlook

Outlook for 2012

Revenue	Approx. €1.5 billion
EBIT margin	Approx. 6.0 %
Research and Development (R&D)	Decline by about 25 % vs. 2011
Capex (excl. R&D)	Approx. €60 million
Free cash flow	Positive territory
Working capital ratio	Sustainable below 13 %
Equity ratio	Above 40 %

Outlook for 2013

Revenue	Double digit growth
EBIT margin	6.0 – 7.0 %

➔ Outlook for FY 2012 and 2013 confirmed

DEUTZ Engine (Shangdong) Co., Ltd.

	Partner	DEUTZ participation	Product range	Start of operations	Status
DEUTZ Engine (Shandong) Co., Ltd.	Shandong Changlin Machinery Group (China)	70 %	Engines < 4 litre for mobile machinery and agricultural applications	2013	<ul style="list-style-type: none"> ▪ Founding documents signed January 2012 ▪ Break even expected in 2014

- New production company in Linyi (China) complementary to existing JVs which build larger engines
- Our partner and new customer is a dynamic and fast growing producer of construction equipment and tractors in China
- Full consolidation of the 70% participation
- Capacity of around 65,000 engines

→ DEUTZ is well positioned to take advantage of the huge growth opportunities in China

Long-term cooperation with Volvo

	Partner	DEUTZ participation	Product range	Start of operations	Status
Production JV in China	AB Volvo	>50 %	Medium-duty engines for non-road applications	[end of 2013 / early 2014]	<ul style="list-style-type: none"> Memorandum of understanding Any implementation requires agreement of both partners

- Analysis for DEUTZ majority-owned production joint-venture in China
- Production company is intended to provide support for Volvo's anticipated growth in non-road applications in the Asian market
- Details expected to be published in 2012
- In addition, the joint development of non-road application medium-duty engines for the emission level Tier 5 is under study

→ We are currently exploring the extension of our cooperation with Volvo

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Summary of key financials (I)

€ million	Q1 2012	Q1 2011	Change (%)
Revenue	336.9	336.0	0.3
EBITDA	27.7	34.3	-19.2
EBIT	10.3	18.2	-43.4
EBIT margin (%)	3.1	5.4	--
Net income	6.3	13.7	-54.0
Basic earnings per share (€)	0.05	0.11	-54.0
Number of employees (31 March)	4,104	4,081	0.6

Summary of key financials (II)

€ million	Q1 2012	Q1 2011	Change (%)
Total assets	1,102.5	1,048.4	5.2
Equity	458.6	384.5	19.3
Equity ratio (%)	41.6	36.7	--
Cash flow from operating activities	-16.5	-9.6	71.9
Free cash flow	-55.3	-37.5	47.5
Net financial position	-124.5	-110.8	12.4
Working capital (as at 31 March)	197.1	168.9	16.7

Income statement

€ million	Q1 2012	Q1 2011	Change (%)
Revenue	336.9	336.0	0.3
Changes in inventories and other own work capitalised	23.6	31.7	-25.6
Other operating income	8.6	10.3	-16.5
Cost of materials	-233.2	-233.5	-0.1
Staff costs	-70.9	-70.7	0.3
Depreciation and amortisation	-17.4	-16.1	8.1
Impairment	0.0	0.0	0.0
Other operating expenses	-34.2	-40.3	-15.1
Profit/loss on equity-accounted investments	-3.1	0.8	>-100.0
Other investment income	0.0	0.0	0.0
EBIT	10.3	18.2	-43.4
Net interest expense	-3.0	-3.3	-9.1
Other taxes	-0.3	-0.3	0.0
Net income before taxes on continuing operations	7.0	14.6	-52.1
Income taxes	-0.7	-0.9	-22.2
Net income	6.3	13.7	-54.0

Balance sheet: assets

Assets (€ million)	31 Mar 2012	31 Dec 2011	Change (%)
Non-current assets (excluding deferred tax assets)	630.8	623.1	1.2
Deferred tax assets	17.0	17.2	-1.2
Inventories	217.1	187.6	15.7
Trade receivables	161.0	163.6	-1.6
Other receivables and assets	60.4	55.5	8.8
Cash and cash equivalents	15.8	51.6	-69.4
Non-current assets classified as held for sale	0.4	0.4	0.0
Total assets	1,102.5	1,099.0	0.3

Balance sheet: equity and liabilities

Equity and liabilities (€ million)	31 Mar 2012	31 Dec 2011	Change (%)
Equity	458.6	453.5	1.1
Provisions for pensions and other post-retirement benefits	146.5	148.5	-1.3
Deferred tax provisions	3.1	2.8	10.7
Other provisions	30.0	29.3	2.4
Financial liabilities	138.6	119.3	16.2
Other liabilities	4.5	4.4	2.3
Non-current liabilities	322.7	304.3	6.0
Provisions for pensions and other post-retirement benefits	15.6	15.6	0.0
Other provisions / Provisions for income taxes	58.0	43.2	34.3
Financial liabilities	1.7	1.9	-10.5
Trade payables	181.0	209.1	-13.4
Other liabilities	64.9	71.4	-9.1
Current liabilities	321.2	341.2	-5.9
Total equity and liabilities	1,102.5	1,099.0	0.3

Cash flow statement (condensed)

€ million	Q1 2012	Q1 2011
EBIT	10.3	18.2
Cash flow from operating activities (total)	-16.5	-9.6
Capital expenditure on intangible assets, property, plant and equipment and investments	-36.1	-25.9
Proceeds from the sale of non-current assets	0.1	0.3
Cash flow from investing activities (total)	-36.0	-25.6
Cash flow from financing activities	16.8	-8.0
Change in cash and cash equivalents	-35.7	-43.2

Overview of segments, Q1 2012

	Q1 2012	Q1 2011	Change (%)
New orders (€ million)			
Compact Engines	296.5	325.1	-8.8
DEUTZ Customised Solutions	93.5	83.4	12.1
Total for operating activities	390.0	408.5	-4.5

	Q1 2012	Q1 2011	Change (%)
Revenue (€ million)			
Compact Engines	263.0	260.0	1.2
DEUTZ Customised Solutions	73.9	76.0	-2.8
Total for operating activities	336.9	336.0	0.3
Germany	14.5%	17.9%	--
Export	85.5%	82.1%	--

	Q1 2012	Q1 2011	Change (%)
Unit sales			
Compact Engines	41,579	42,672	-2.6
DEUTZ Customised Solutions	4,882	5,744	-15.0
Total for operating activities	46,461	48,416	-4.0

	Q1 2012	Q1 2011	Change (%)
EBIT (€ million)			
Compact Engines	-1.0	6.7	>-100.0
DEUTZ Customised Solutions	12.2	11.9	2.5
Other	-0.9	-0.4	>-100.0
Total for operating activities	10.3	18.2	-43.4

Employees

	31 Mar 2012	31 Mar 2011	Change (%)
Cologne	2,526	2,476	2.0
Ulm	428	450	-4.9
Other German operations	292	278	5.0
Germany	3,246	3,204	1.3
Foreign operations	858	877	-2.2
DEUTZ Group	4,104	4,081	0.6

Financial calendar



- Interim report on first half of 2012
Conference call with analysts and investors 9 August 2012

- Interim report on first three quarters of 2012
Conference call with analysts and investors 8 November 2012

- Annual Results Press Conference
Publication of annual report for 2012 Cologne 19 March 2013

- Analyst meeting Frankfurt am Main 20 March 2013

- Annual General Meeting Cologne 30 April 2013

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