

DEUTZ AG

P R E S S C O N F E R E N C E – 1st HALF-YEAR 2007

Cologne, 1 August 2007

The engine company.





- **Highlights 1st Half-year 2007**

Gordon Riske, Chairman of the Management Board

- **Key financials 1st Half-year 2007**

Helmut Meyer, Chief Financial Officer

- **2007 Outlook**

Gordon Riske, Chairman of the Management Board

- **Annex**



Group highlights 1st Half-year 2007

- DEUTZ Power Systems sold to 3i for €360 million
- Further double-digit growth rates in unit sales, revenue and operating profit
- Net income up 53 per cent to €26 million
- Bottlenecks in in-house production and with major suppliers result in temporary increases in production and logistics costs
- Joint venture in China proceeding according to plan
- Long-term financing secured by means of a private placement in the USA
- Balance sheet strengthened by payment of compensation for vested pension rights
- Outlook remains positive



Key financials 1st Half-year 2007

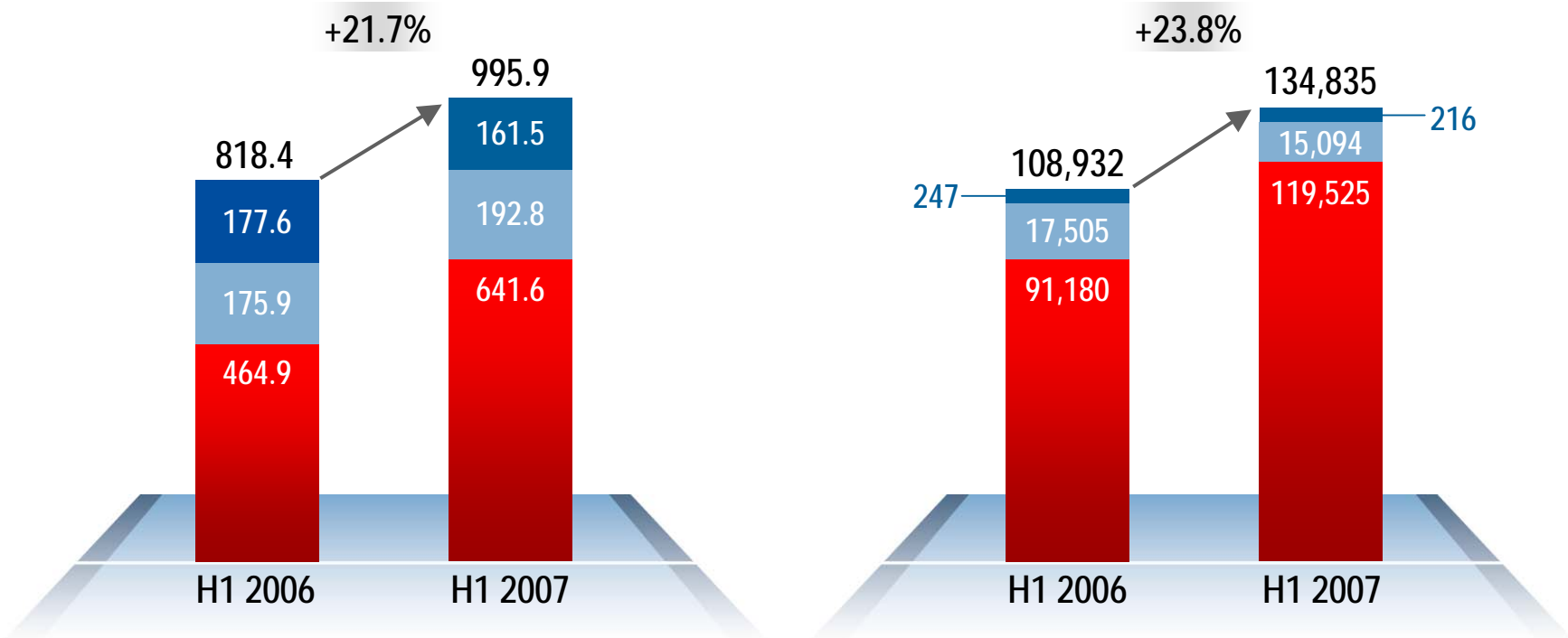
€ million	H1 2007	H1 2006	Change (%)
New orders	995.9	818.4	21.7
Unit sales	134,835	108,932	23.8
Revenue	839.5	645.0	30.2
EBITDA	78.0	66.5	17.3
Operating profit	42.8	34.1	25.5
Net income	26.4	17.3	52.6
Basic earnings per share (€)	0.23	0.17	35.3



New orders and unit sales grow by more than 20%

New orders (€ million)

Unit sales



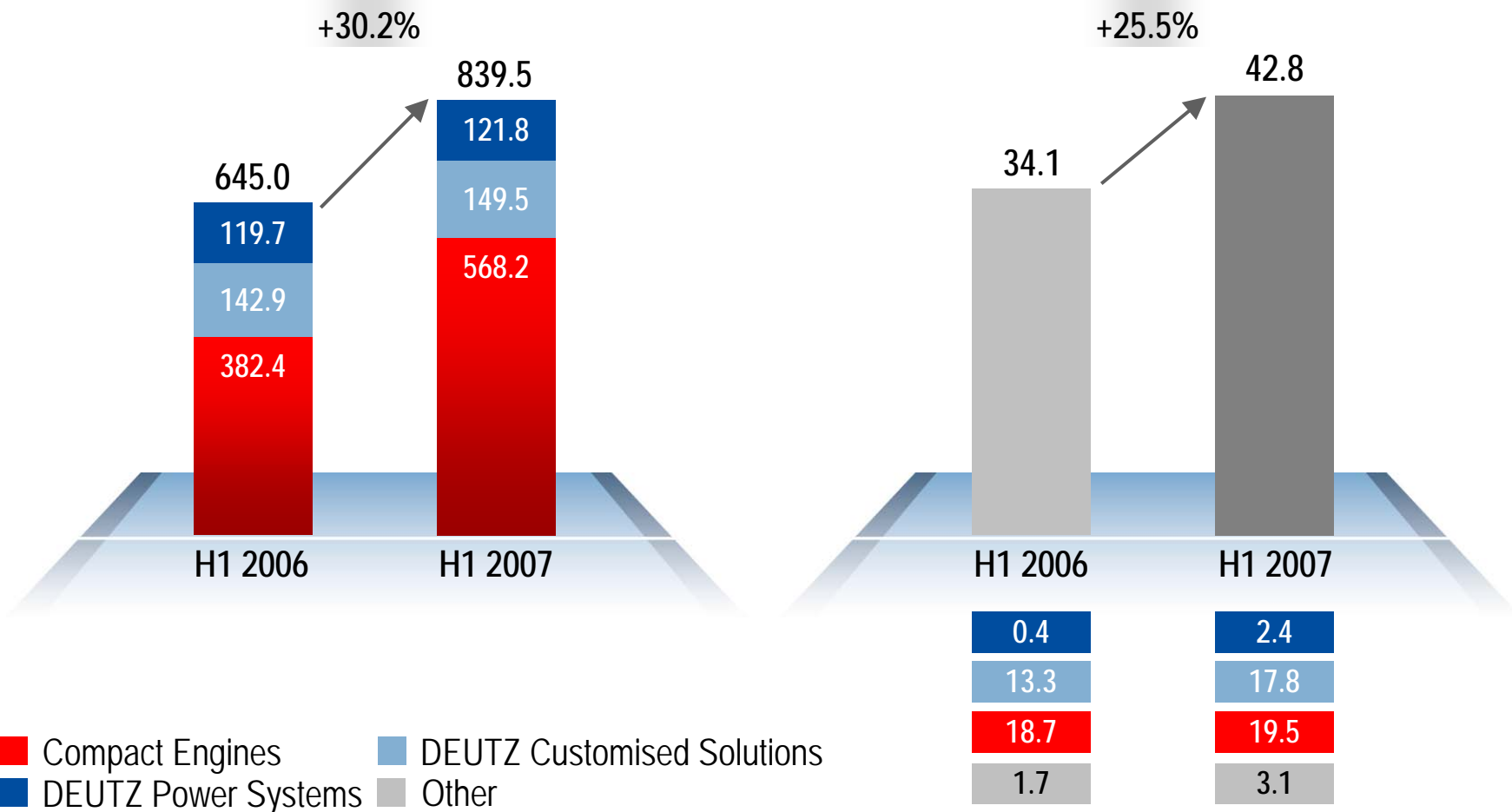
■ Compact Engines
 ■ DEUTZ Customised Solutions
 ■ DEUTZ Power Systems



Increased revenue primarily from commercial vehicle engines

Revenue (€ million)

Operating profit (€ million)

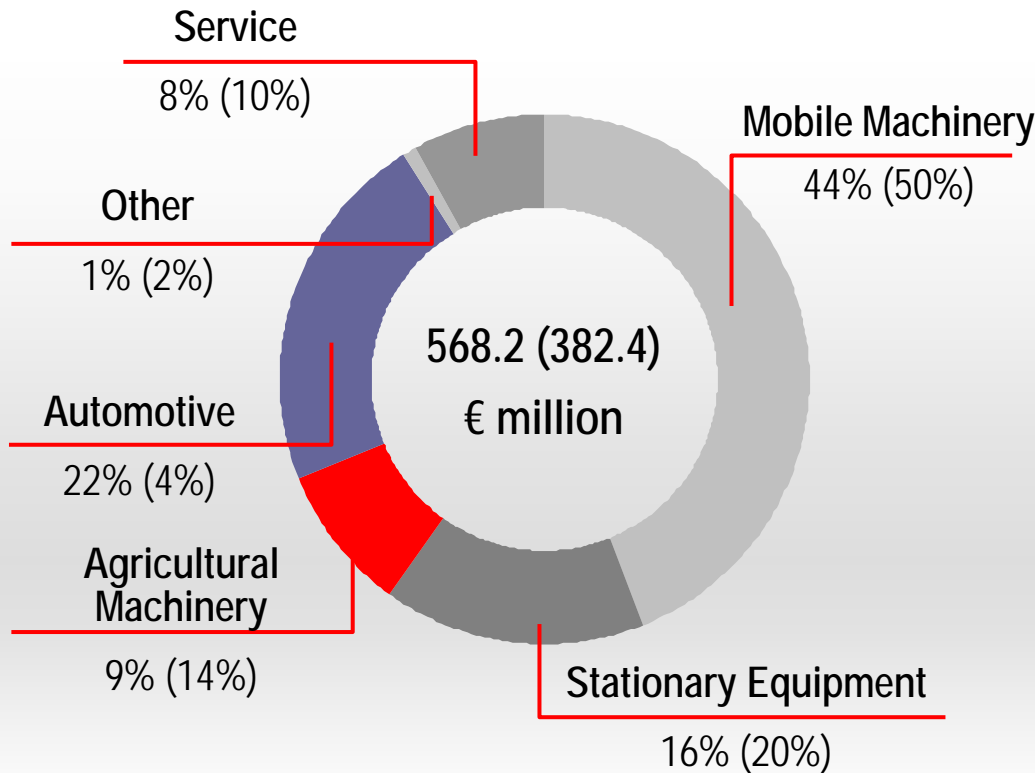




Compact engines: highlights

Revenue by application segment

H1 2007 (H1 2006)



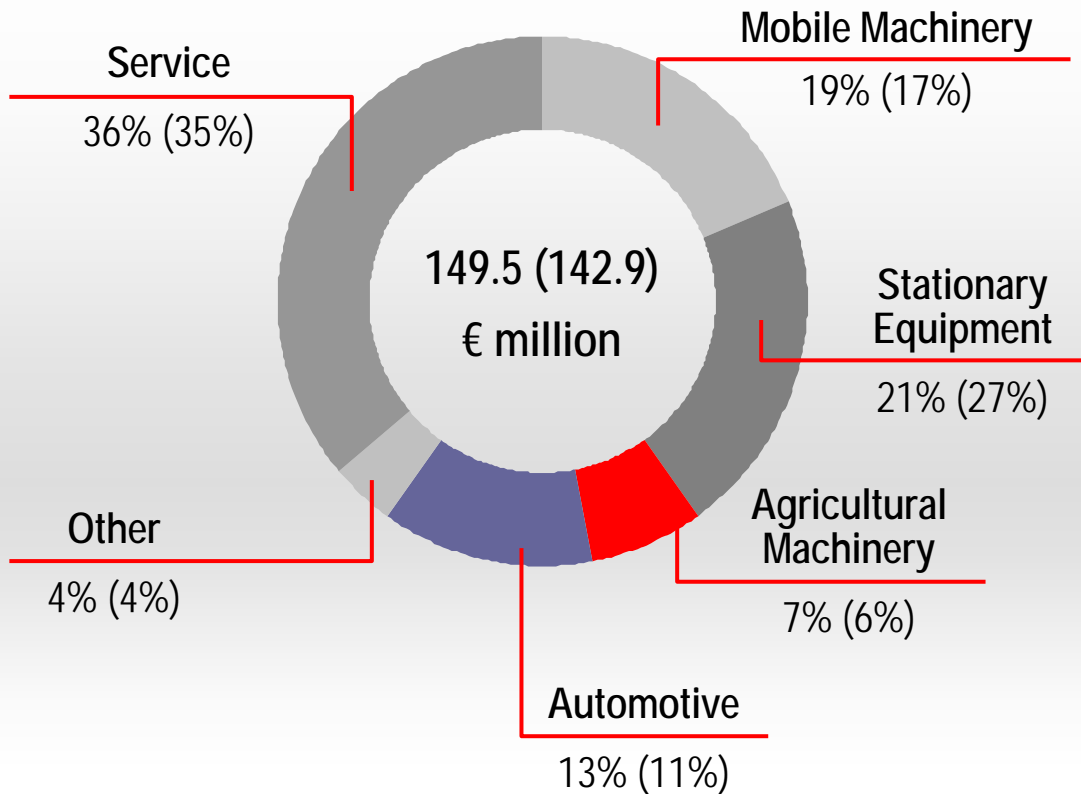
- Commercial-vehicle engines boost new orders, revenue and unit sales of engines
- Unit sales of 4–8 litre engines up 52%
- Higher production and logistics costs temporarily depress operating profit
- €1 million costs of DEUTZ Dalian joint venture included under Compact Engines



DEUTZ Customised Solutions: highlights

Revenue by application segment

H1 2007 (H1 2006)



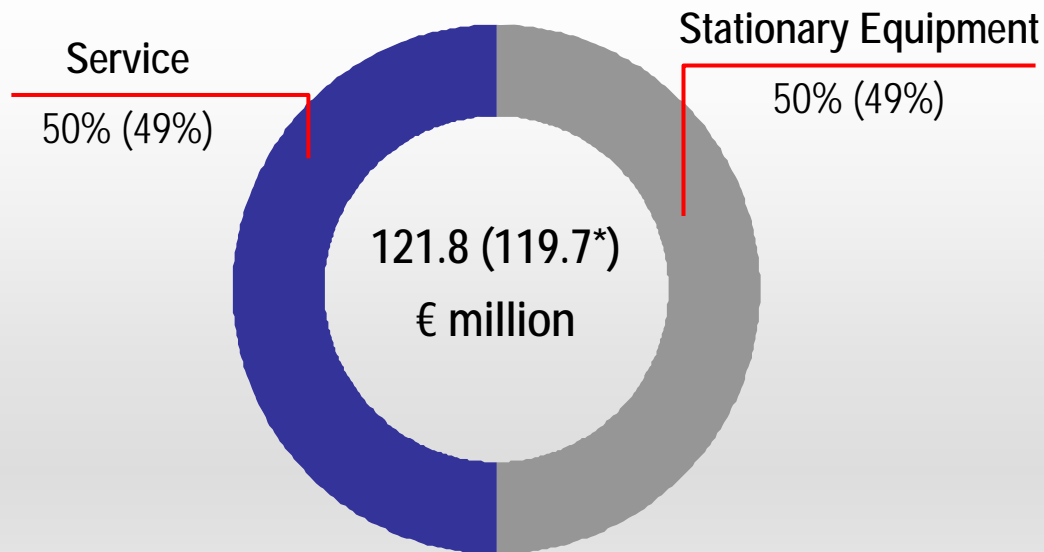
- Operating profit up 34%
- New orders up 10%
- Service revenue up 8.5%



DEUTZ Power Systems: highlights

Revenue by application segment

H1 2007 (H1 2006*)

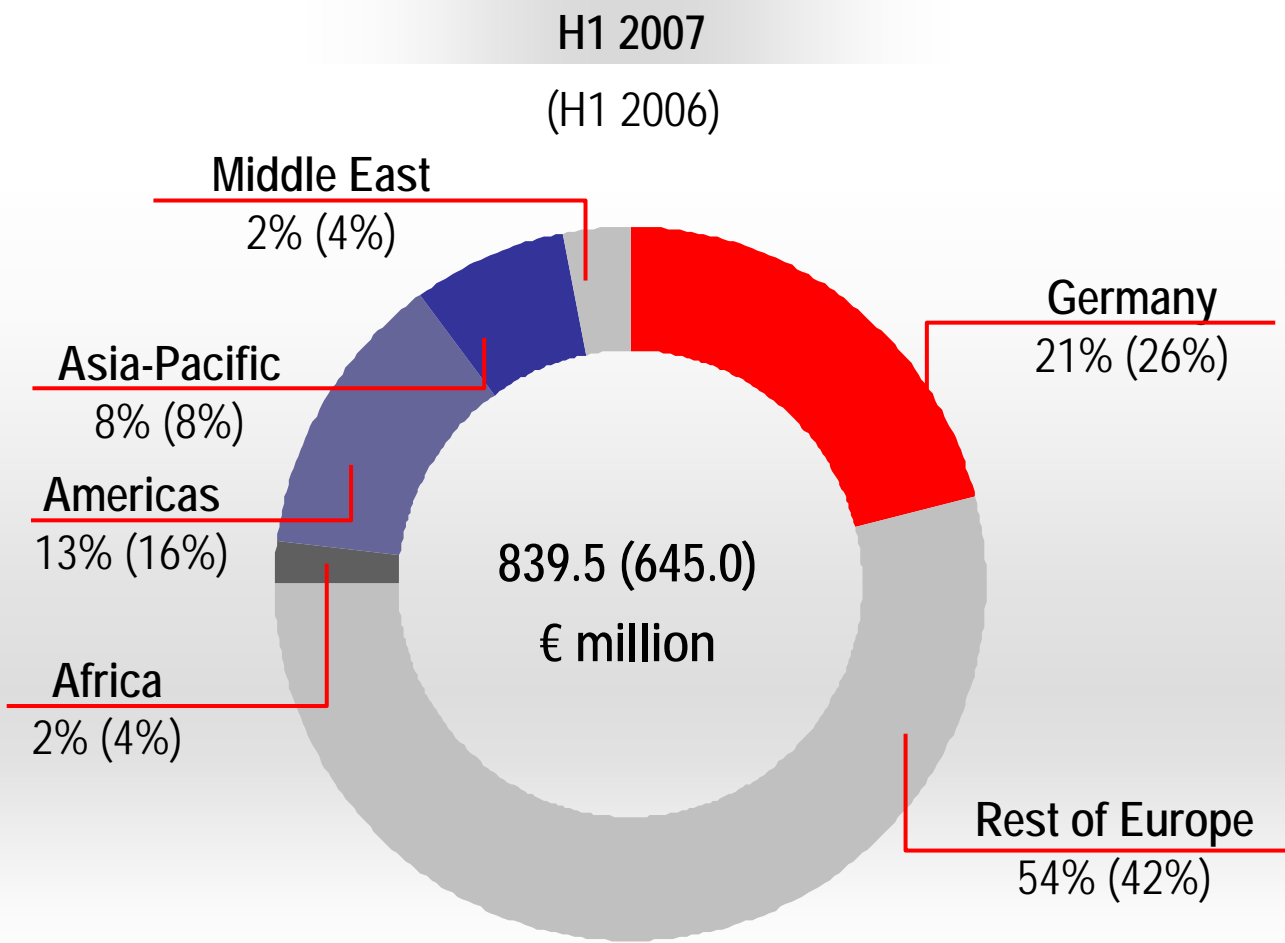


- Operating profit performed encouragingly
- New orders and revenue down on prior year due to project delays
- Gas engines revenue up 12%

* of which Marine 2%



Revenue by region





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US private placement

- Debt securities with a value of US\$ 274 million (€203 million) sold to US institutional investors as part of a private placement
- Of which around 20% was raised directly in euros and the remainder swapped from US dollars to euros at a fixed rate
- The issues have maturities of 5, 7 and 10 years
- Proceeds to be used, amongst other things, as follows:
 - €60 million for DEUTZ Dalian joint venture
 - €77 million compensation for vested company pension rights



Compensation for vested company pension rights

- Offer of a one-off lump sum payment to pensioners and those with vested pension entitlements in lieu of their vested company pension rights
- Approximately 60% of 13,800 people affected had agreed to accept the offer by the deadline on 20 July
- Total compensation payout: €77 million
- 29% reduction in pension provisions compared with 31 December 2006
- Any agreements to the payment of compensation in lieu of pension rights are reflected in the interim financial statements for the period ended 30 June 2007:
 - Reclassification of around €31 million in pension provisions to other liabilities



Income statement

DEUTZ Group:				Change
Income statement	(€ million)	H1 2007	H1 2006	(%)
Revenue		839.5	645.0	30.2
Changes in inventories and other own work capitalised		57.1	25.9	-
Other operating income		27.7	26.7	3.7
Cost of materials		-589.0	-408.6	44.2
Staff costs		-169.2	-149.4	13.3
Depreciation and amortisation		-35.2	-32.4	8.6
Other operating expenses		-89.3	-74.0	20.7
Gains from financial assets measured at equity		1.0	0.9	11.1
Reversal of impairment losses on non-current financial assets		0.2	0.0	-
EBIT / operating profit		42.8	34.1	25.5
Net interest expense		-11.7	-12.0	-2.5
thereof financial expenses		-12.7	-12.4	2.4
Other taxes		-0.7	-0.8	-
Net income before income taxes		30.4	21.3	42.7
Income taxes		-4.0	-4.0	-
Net income		26.4	17.3	52.6



Cash flow statement

DEUTZ Group:

Summary cash flow statement

(€ million)

**H1
2007**

**H1
2006**

EBIT

42.8

34.1

Cash flow from operating activities

-8.2

-8.9

Capital expenditure on intangible assets, property, plant and equipment and investments

-42.9

-25.0

Cash receipts from the sale of businesses /
Proceeds from the sale of non-current assets

4.1

0.1

Cash flow from investing activities

-38.8

-24.9

Cash flow from financing activities

11.6

-3.5

Change in cash and cash equivalents

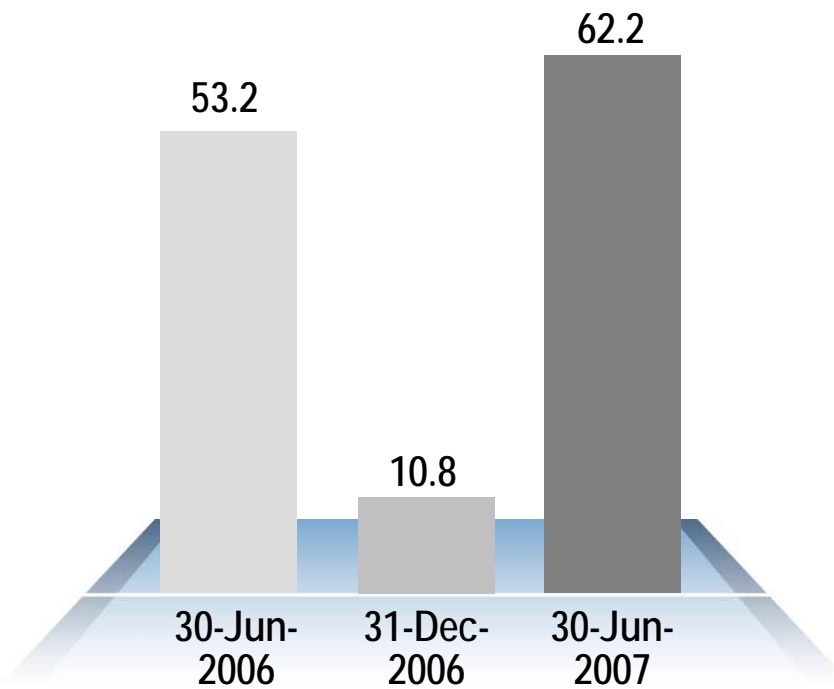
-35.4

-37.3

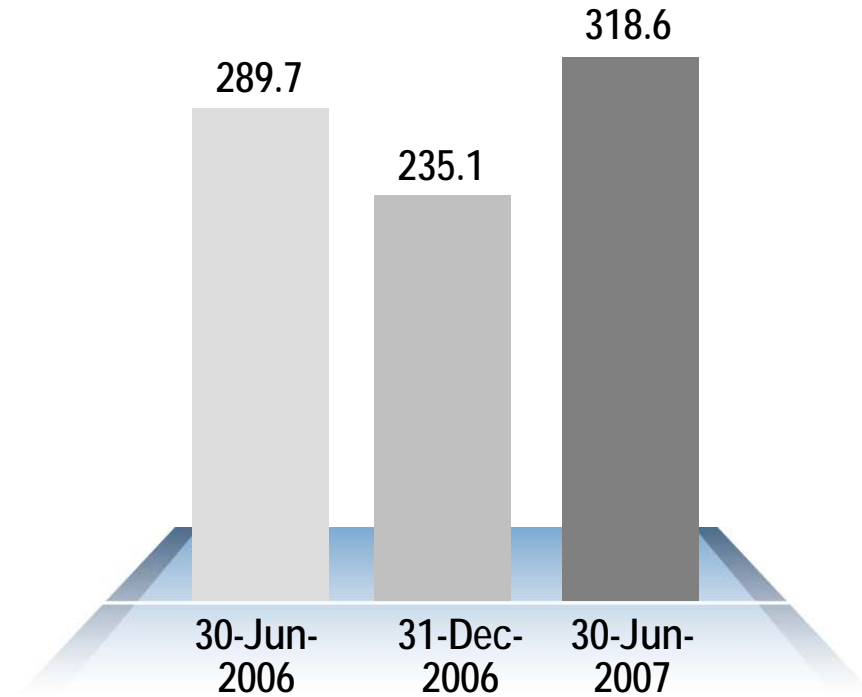


Net financial debt increases by 17% over the half-year period on the back of strong growth in business; further improvement in working capital ratio

Net financial debt (€ million)



Working capital (€ million)



WC ratio
Average

20.8%

18.5%

17.0%



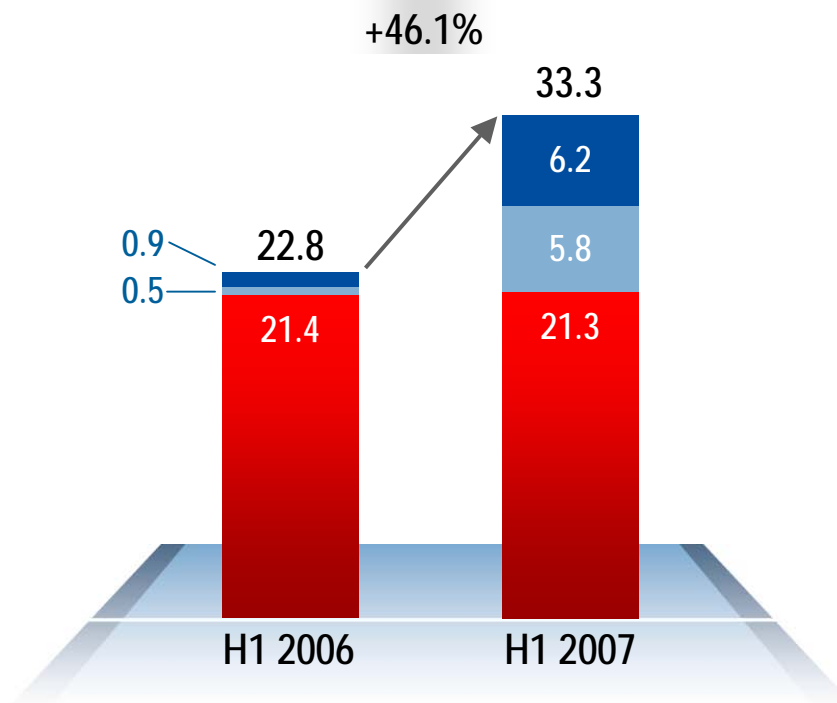
Key balance sheet statistics

€ million	30-Jun-2007	31-Dec-2006	Change (%)
Total assets	1,217.2	1,162.9	4.7
Equity	391.6	358.5	9.2
Equity ratio (%)	32.2	30.8	-
Cash flow from operating activities	-8.2	110.2	-
Net financial debt	62.2	10.8	-
Working capital	318.6	235.1	35.5

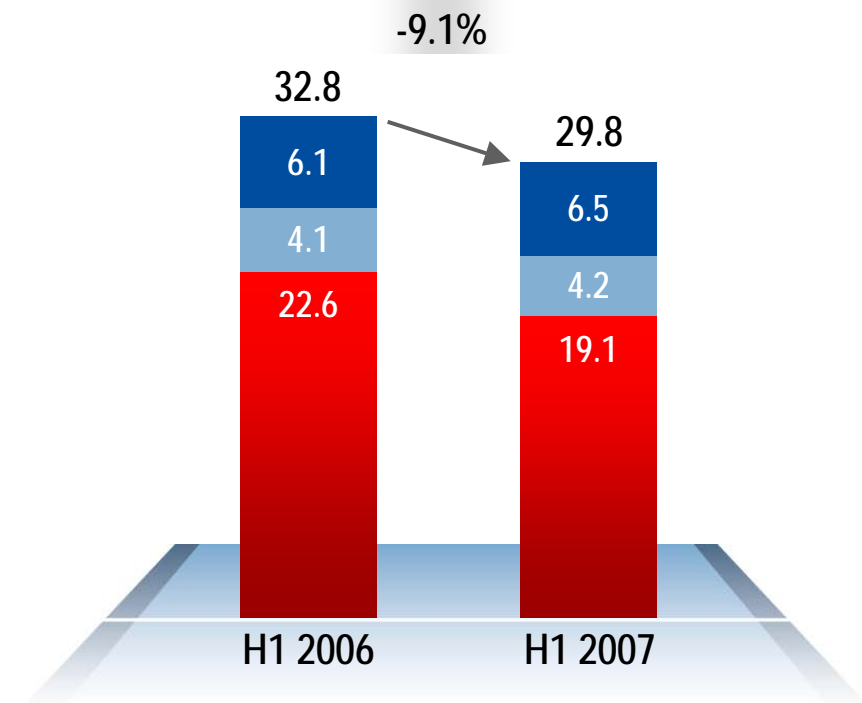


Substantial increase in capital expenditure for capacity expansion, R&D expenditure in line with plans

Capital expenditure* (€ million)



R&D (€ million)



* excl. capitalised development costs

■ Compact Engines
 ■ DEUTZ Customised Solutions
 ■ DEUTZ Power Systems



1st Half-year 2007: Segments

Unit sales	H1 2007	H1 2006	Change (%)
Compact Engines	119,525	91,180	31.1
DEUTZ Customised Solutions	15,094	17,505	-13.8
DEUTZ Power Systems	216	247	-12.6
Total	134,835	108,932	23.8

Revenue (€ million)	H1 2007	H1 2006	Change (%)
Compact Engines	568.2	382.4	48.6
DEUTZ Customised Solutions	149.5	142.9	4.6
DEUTZ Power Systems	121.8	119.7	1.8
Total	839.5	645.0	30.2
Germany	20.5%	26.1%	
Export	79.5%	73.9%	

New orders (€ million)	H1 2007	H1 2006	Change (%)
Compact Engines	641.6	464.9	38.0
DEUTZ Customised Solutions	192.8	175.9	9.6
DEUTZ Power Systems	161.5	177.6	-9.1
Total	995.9	818.4	21.7

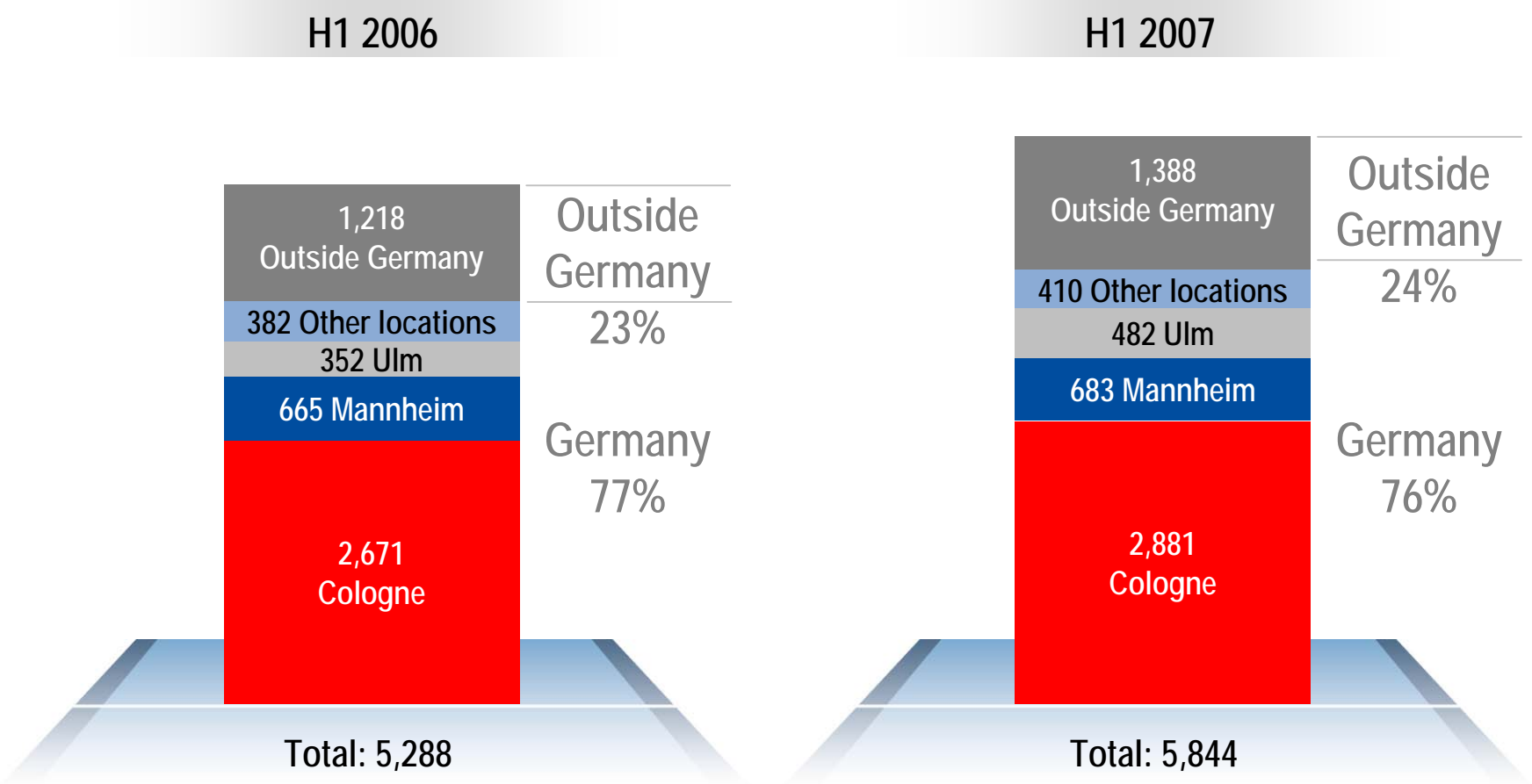
Operating profit (€ million)	H1 2007	H1 2006	Change (%)
Compact Engines	19.5	18.7	4.3
DEUTZ Customised Solutions	17.8	13.3	33.8
DEUTZ Power Systems	2.4	0.4	-
Other	3.1	1.7	82.4
Total	42.8	34.1	25.5



Number of employees* up more than 10%

H1 2006

H1 2007



* At the balance sheet date



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DEUTZ Dalian joint venture starts on schedule

- All necessary approvals obtained from authorities
- Business operations commenced on 1 August 2007
- €60 million of funds transferred in August
- Opening ceremony on 22 August 2007 in Dalian
- Joint venture expected to sell between 80,000 and 90,000 engines in 2007 (not included in in figure for consolidated revenue)



Sale of DEUTZ Power Systems

- Gas and diesel engines business for decentralised power generation (DEUTZ Power Systems) sold to 3i
- Selling price of €360 million
- Objective: economic transfer of business by the end of Q3 2007
- Background:
 - Differing business processes, customer structures and market conditions for compact engines business, with the large gas engines business being dominated by project work; consequently little scope for synergies
 - Very difficult to develop both business areas to their full potential at the same time
- Proceeds to be used to implement growth strategy in compact engines business



2007 outlook remains positive

- Unit sales rising to between 280,000 and 290,000 engines (excl. Chinese joint venture)
- Revenue growth of between 20 and 25%
- Further growth in operating profit to well in excess of €100 million
- Further increase in EBIT margin to over 6%
- Net income rising by a double-digit million euro amount

Impact of the sale of DEUTZ Power Systems on future outlook

- In absolute terms, the operating profit will decline due to the loss of the contribution from DEUTZ Power Systems
- Operating margin target remains unchanged
- Net income for the year significantly higher due to proceeds of sale



The engine company.



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Q2 2007: Segments

Unit sales	Q2 2007	Q2 2006	Change (%)
Compact Engines	62,396	47,976	30.1
DEUTZ Customised Solutions	8,551	8,804	-2.9
DEUTZ Power Systems	118	156	-24.4
Total	71,065	56,936	24.8

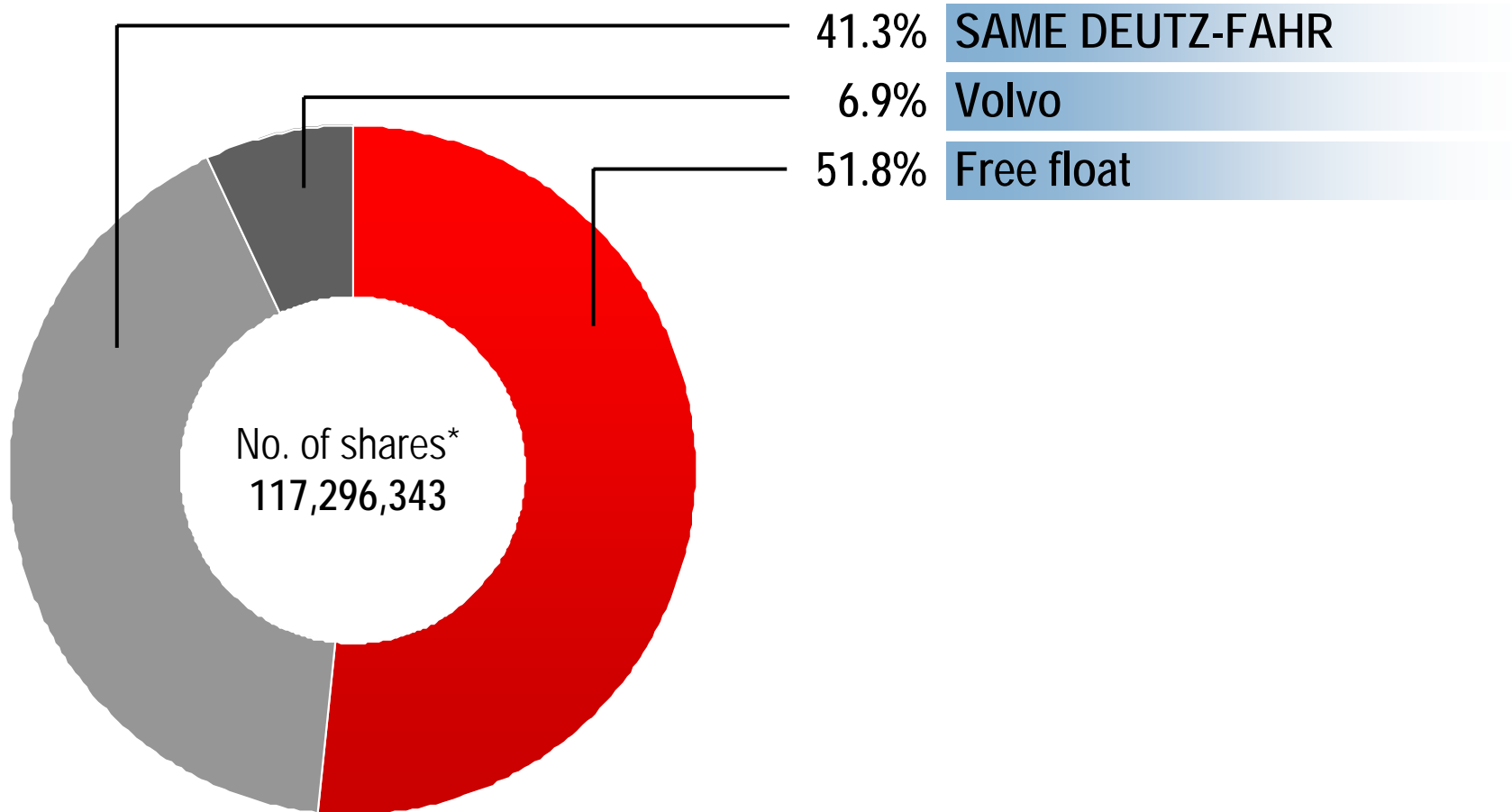
Revenue (€ million)	Q2 2007	Q2 2006	Change (%)
Compact Engines	299.0	197.9	51.1
DEUTZ Customised Solutions	83.3	72.0	15.7
DEUTZ Power Systems	66.3	65.6	1.1
Total	448.6	335.5	33.7
Germany	20.3%	26.8%	
Export	79.7%	73.2%	

New orders (€ million)	Q2 2007	Q2 2006	Change (%)
Compact Engines	301.1	238.9	26.0
DEUTZ Customised Solutions	95.6	88.2	8.4
DEUTZ Power Systems	83.5	94.2	-11.4
Total	480.2	421.3	14.0

Operating profit (€ million)	Q2 2007	Q2 2006	Change (%)
Compact Engines	10.5	10.2	2.9
DEUTZ Customised Solutions	12.6	8.1	55.6
DEUTZ Power Systems	3.7	2.6	42.3
Other	2.9	0.2	-
Total	29.7	21.1	40.8



Shareholder structure



*As at 30 June 2007, including 16,165,048 converted bonds



Balance sheet: assets

DEUTZ Group:		30-Jun	31-Dec	Change
Assets	(€ million)	2007	2006	(%)
Non-current assets before deferred tax assets		501.8	499.1	0.5
Deferred tax assets		59.1	56.2	5.2
Inventories		329.6	249.6	32.1
Trade receivables		227.0	222.0	2.3
Other receivables and assets		83.4	84.2	-1.0
Cash and cash equivalents		13.9	49.4	-71.9
Non-current assets held for resale		2.4	2.4	0.0
Total assets		1,217.2	1,162.9	4.7



Balance sheet: equity and liabilities

DEUTZ Group:		30-Jun	31-Dec	Change
Equity and liabilities	(€ million)	2007	2006	(%)
Equity		391.6	358.5	9.2
Provisions for pensions and other post-employment benefits		236.8	271.2	-12.7
Other provisions / deferred tax provisions		50.7	52.5	-3.4
Financial liabilities		34.6	69.5	-50.2
Other liabilities		4.7	2.8	67.9
Non-current liabilities		326.8	396.0	-17.5
Provisions for pensions and other post-employment benefits		23.4	26.5	-11.7
Other provisions / Provisions for current income taxes		65.1	51.2	27.1
Financial liabilities		53.4	13.9	-
Trade payables		238.1	236.4	0.7
Other liabilities		118.8	80.4	47.8
Current liabilities		498.8	408.4	22.1
Total equity and liabilities		1,217.2	1,162.9	4.7



Financial calendar for 2007

- Interim report for Q1-Q3 2007
Conference call with analysts and investors 8 November 2007
- Annual General Meeting 2008 Cologne 21 May 2008



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