

H1 2015 results

6 August 2015

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The engine company.



- **Review H1 2015**

- **Outlook**

- **Annex**

Key figures

€ million	H1 2015	yoy	Q2 2015	qoq
Order intake	670.7	-10.2%	349.7	+8.9%
Revenue	670.2	-11.0%	352.1	+10.7%
EBITDA (before one-offs)	70.4	+4.3%	36.5	+7.7%
EBIT (before one-offs)	20.3	+1.0%	10.2	+1.0%
Net income	16.7	> 100%	9.0	+16.9%
Free cash flow	26.2	+€17.3 million	27.3	+€28.4 million

➔ Profitability and cash generation improved despite lower capacity utilisation in H1

End markets remain challenging

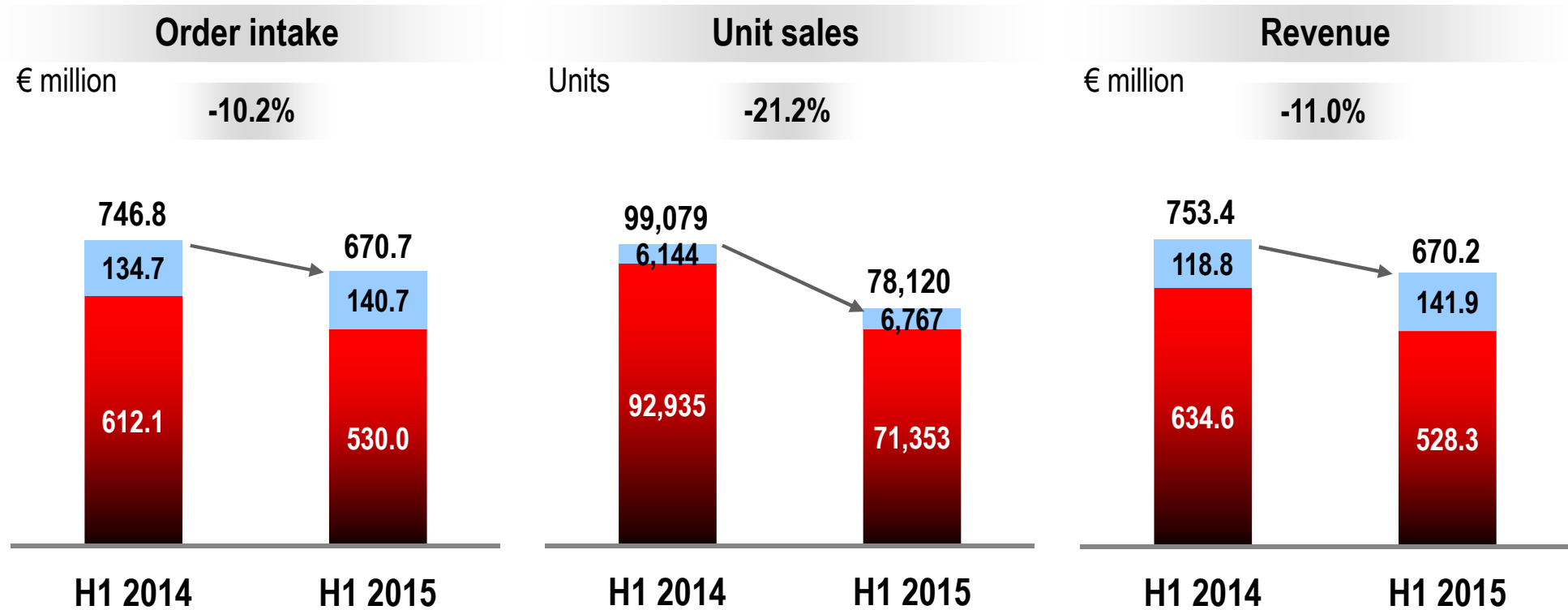
Unit sales assumptions	FY 2015
Construction equipment	
Europe	sideways
North America	sideways
China	more than -30%
Agricultural Machinery	
Europe	-5% to -10%
Automotive	
China	more than -10%

- Pre-buys in 2014 will lead to lower demand of European customers in the current year
- New clients partly compensate challenging market environment

Highlights

- Revenue decrease in H1 in line with financial outlook
- Negative scale effects in H1 fully compensated
- New service marketing approach takes effect
- Implementation of site optimisation measures in Germany on schedule
- Focus of our Chinese production activities on JV DEUTZ Dalian
- Agreement to sell our stake in JV Weifang to Weichai Power subject to regulatory approval

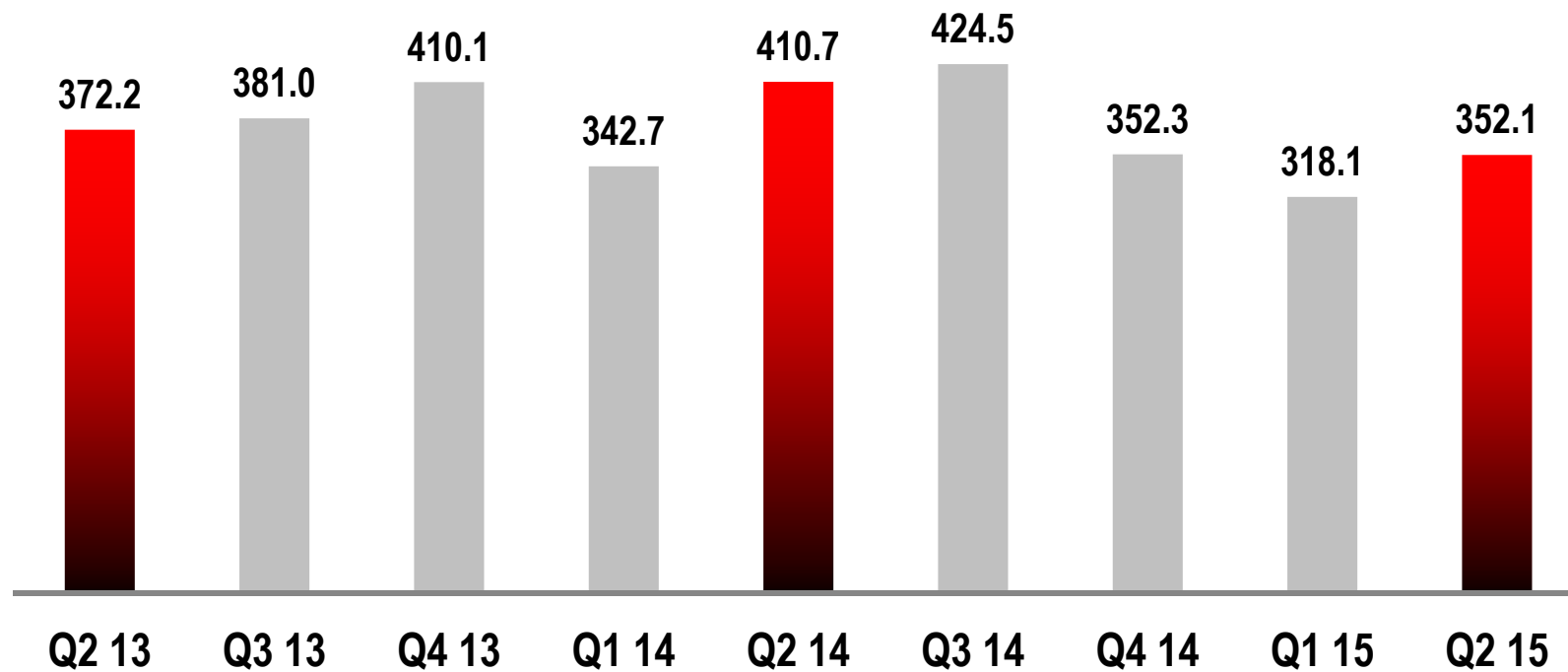
Sales figures



- Sales figures decline due to previous year's pre-buys and soft agricultural market is in line with expectations
- Revenue better than unit sales development attributable to service business and positive mix effects
- Orders on hands increased by 1.9% versus year-end 2014 to €223.8 million; book-to-bill ratio at 1.0x

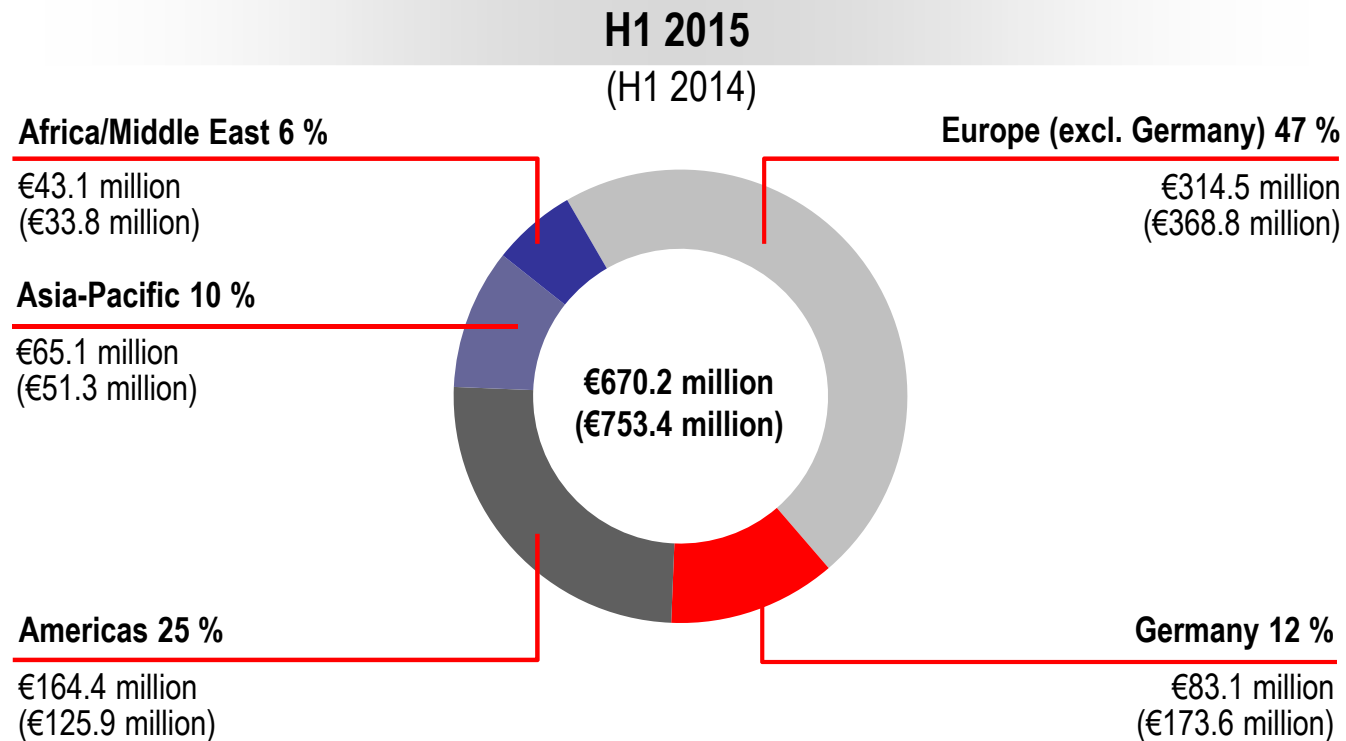
Revenue development

€ million



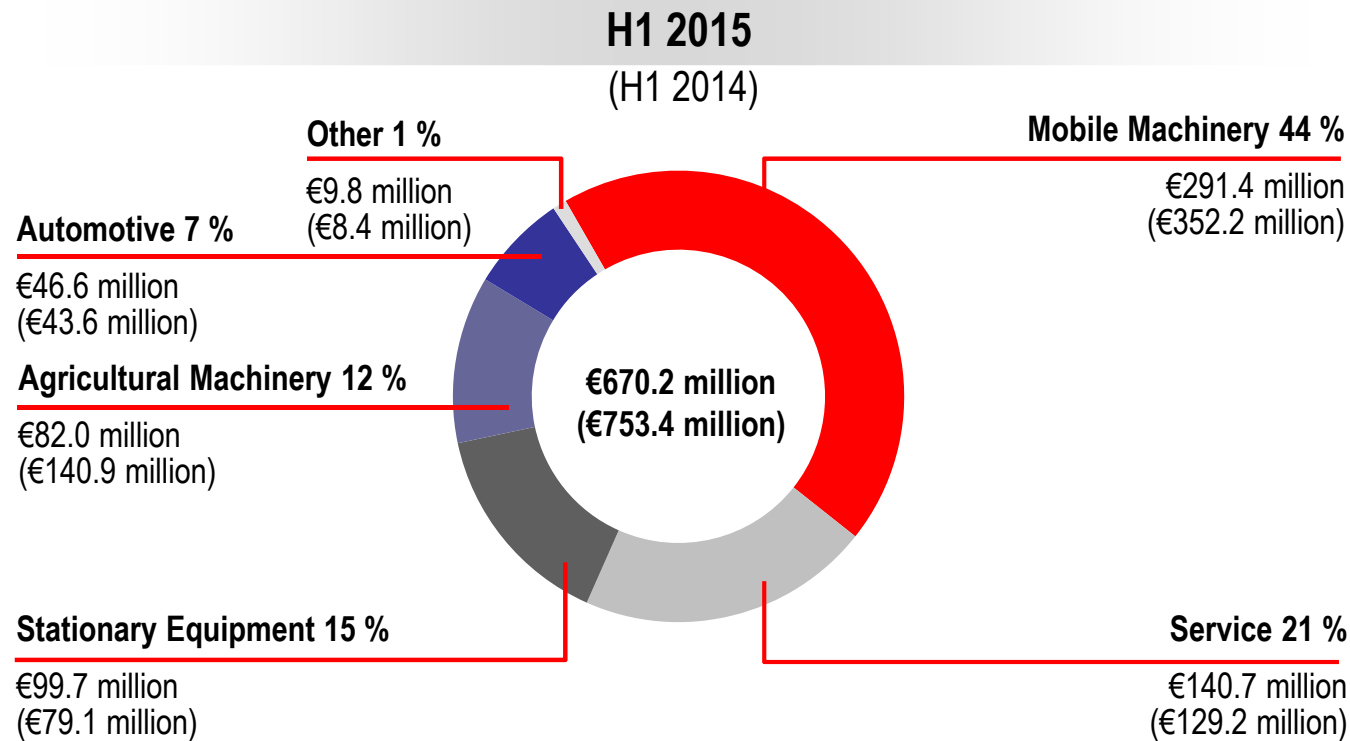
- Current business impacted by emission level change on 1 October 2014 in Europe
- Sequential revenue increase in Q2 but 3 weeks plant holidays in Cologne in Q3

Revenue split by region



- Revenue generated in Europe affected by emission level change and related pre-buy effects in FY 2014
- Strong revenue growth in Americas (+30.6%) and Asia-Pacific (+26.9%)
- Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €863.8 million (-8.8%); corresponding revenue share of Asia-Pacific amounts to 29.9%

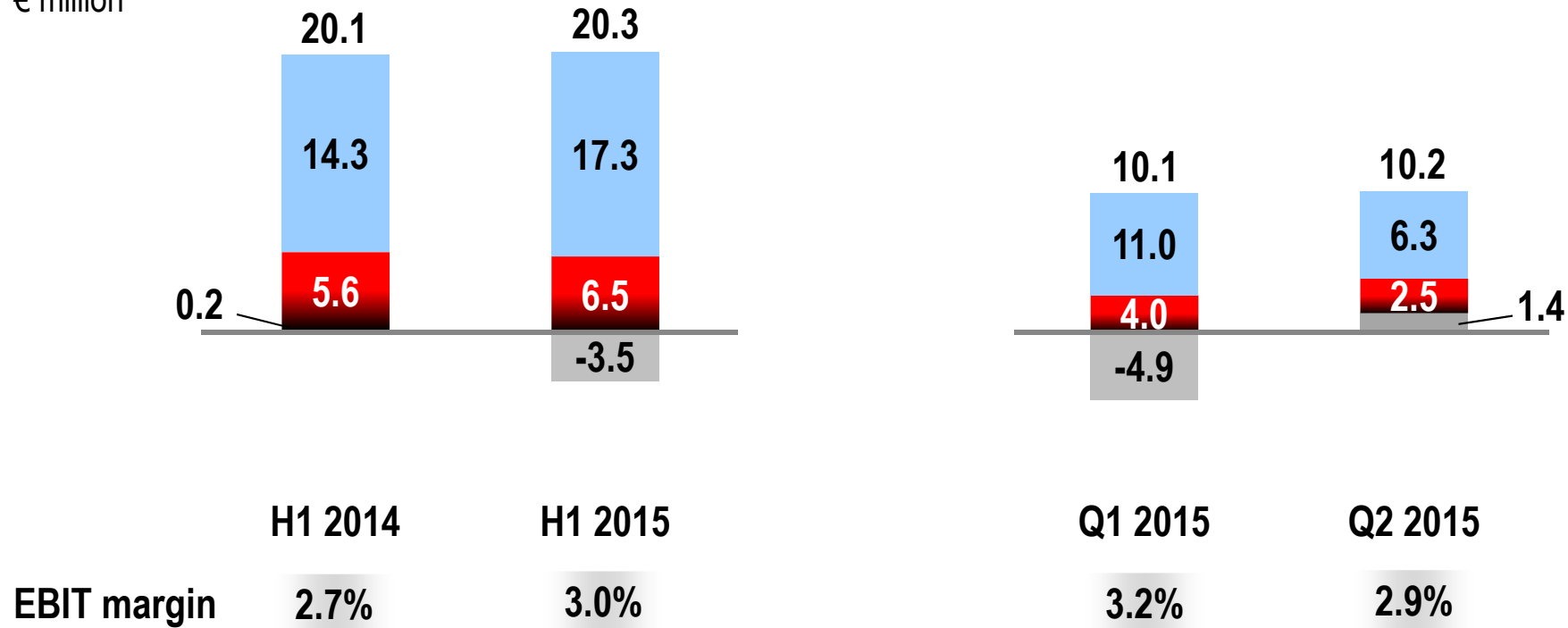
Revenue split by application



- Revenue declined in Mobile Machinery (-17.3%) and Agricultural Machinery (-41.8%) due to pre-buys and weak underlying business in agriculture
- Positive revenue development in Stationary Equipment (+26.0%), Service (+8.9%) and Automotive (+6.9%)
- Pro-forma revenue in Automotive incl. at-equity consolidated JV DEUTZ Dalian: €213.9 million (corresponding revenue share amounts to 24.8%)

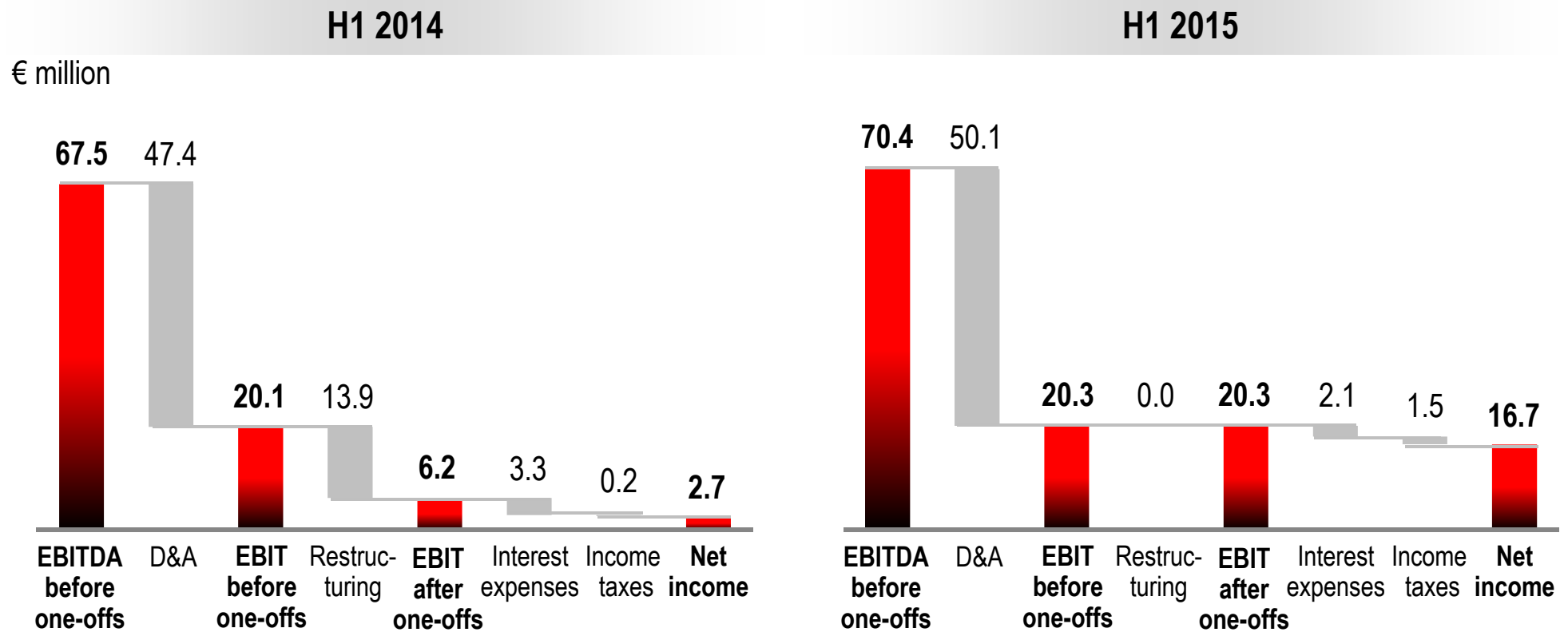
EBIT (before one-offs)

€ million



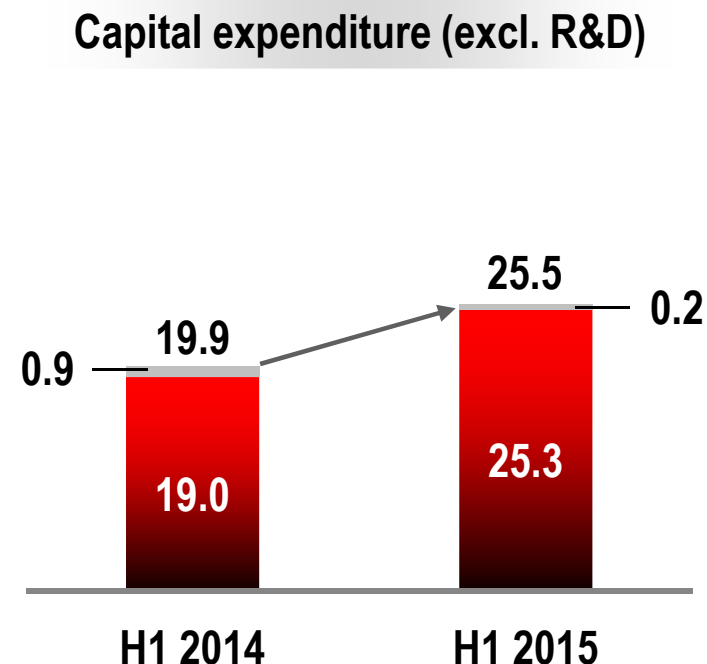
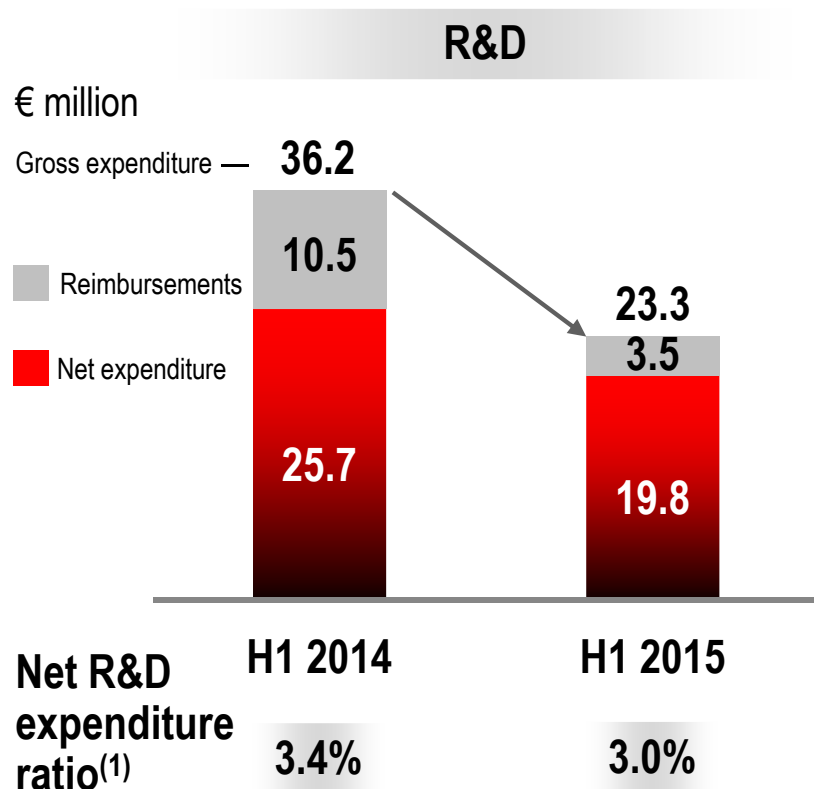
- EBIT in H1 on the previous year's level; margin in-line with full year outlook
- EBIT improved at both operating segments in H1
- Segment "Other" impacted by unrealised FX effects; offset expected in H2

Operating profit & net income



- EBITDA (before-one-offs) increased by €2.9 million despite lower revenue
- Sustainably low interest expenses and income taxes
- Net income improved by €14.0 million. Prior year affected by restructuring cost related to site optimisation

R&D & capital expenditure



- R&D scaled back significantly after all engines designed for the latest emission standard in the EU and in the US were launched in 2014
- Proportion of capitalised net R&D expenditure decreased to €5.0 million (H1 2014: €15.8 million)

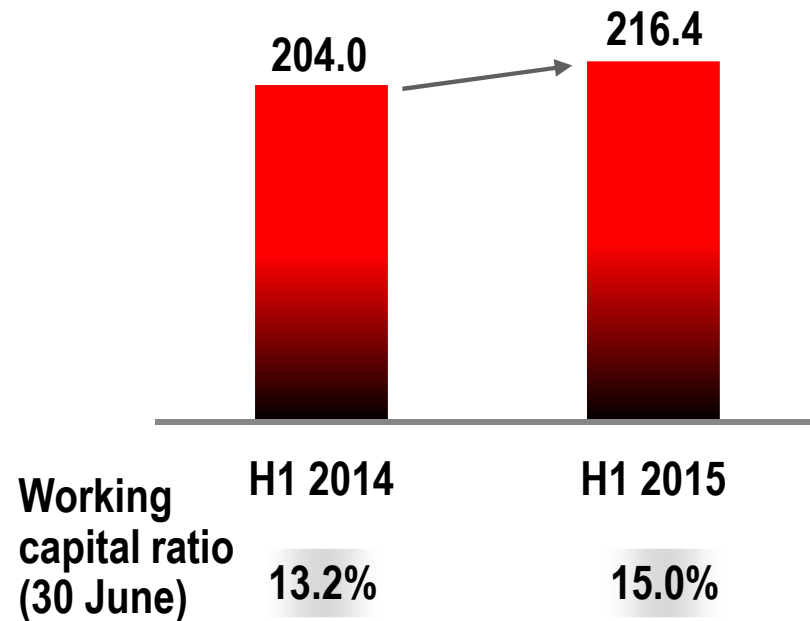
- Capital expenditure increase in line with full year guidance (~€50 million)
- Foundation laid for new shaft centre which is an important component of our site optimisation

(1) Ratio of net R&D expenditure to consolidated revenue

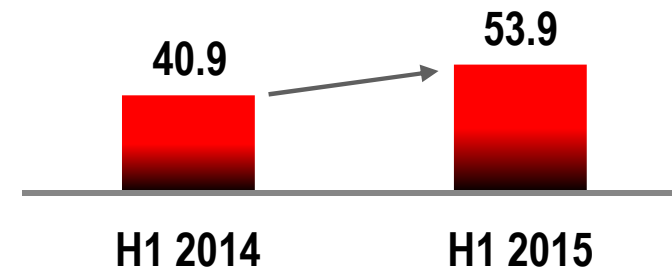
Working capital & operating cash flow

Working capital

€ million



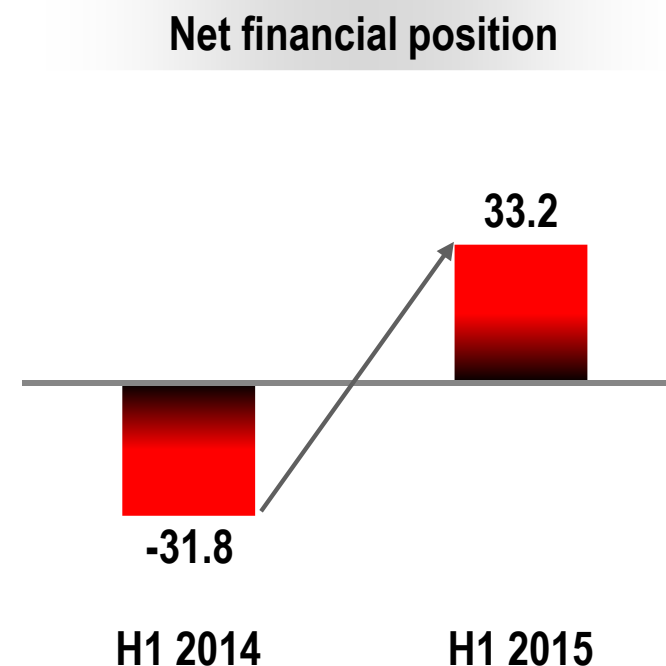
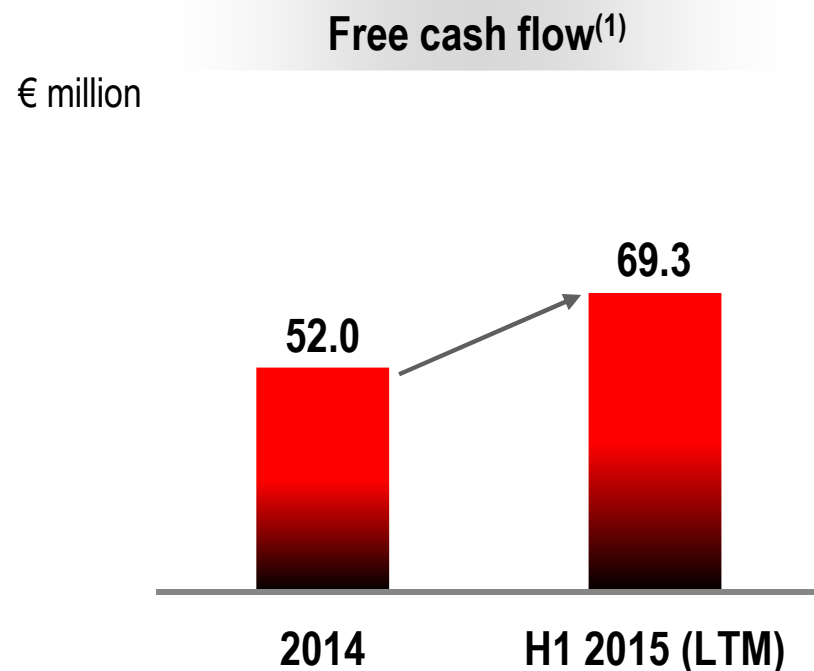
Operating cash flow



- Working capital increase (+6.1%) related to temporarily higher inventories and FX effects

- Significant increase of operating cash flow (+€13.0 million)

Free cash flow generation & net financial position

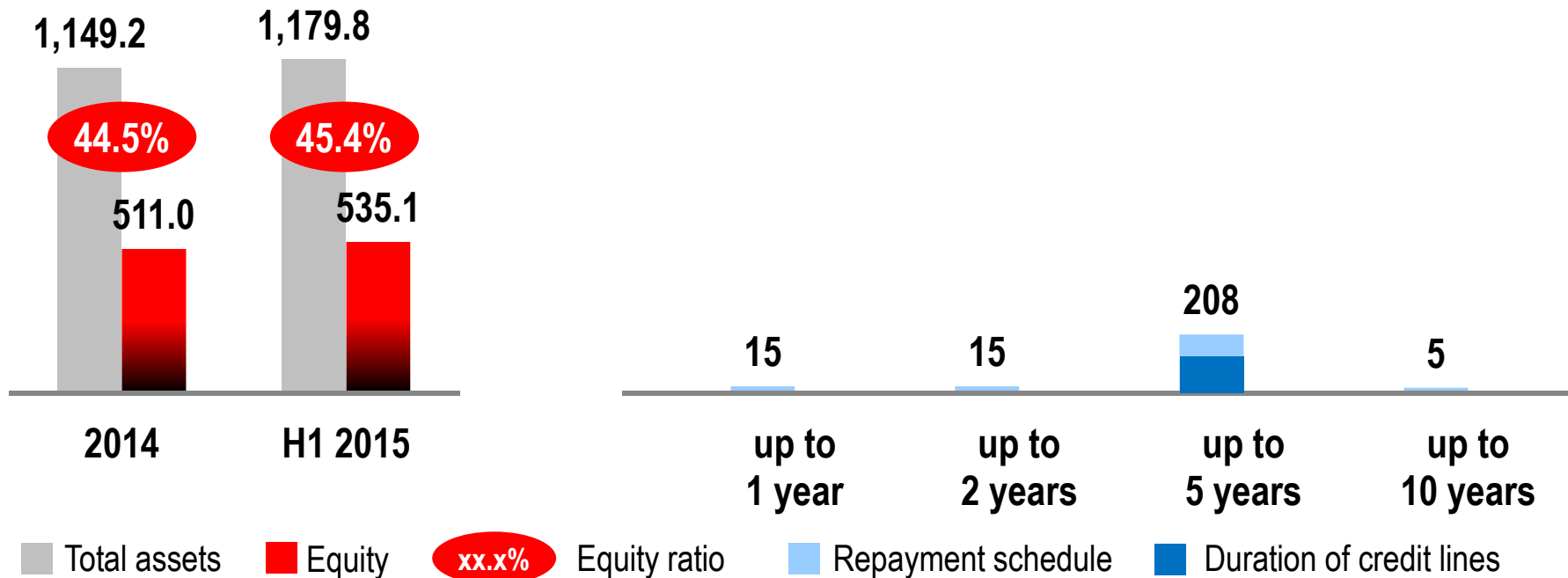


- Strong free cash flow performance continued
- Free cash flow in H1 2015 amounted to €26.2 million (H1 2014: €8.9 million)
- Marked improvement of net financial position (+€65.0 million) on the back of strong cash generation

(1) Free cash flow: cash flow from operating and investing activities minus interest expense

Equity ratio & funding

€ million



- Sound balance sheet; equity ratio increased to 45.4%
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line extended by one year until May 2020
 - Loan from European Investment Bank repayable until July 2020

Segments: DEUTZ Compact Engines

€ million	H1 2015	H1 2014	Change in %
New orders	530.0	612.1	-13.4
Unit sales	71,353	92,935	-23.2
Revenue	528.3	634.6	-16.8
EBIT (before one-offs)	6.5	5.6	16.1

€ million	Q2 2015	Q1 2015	Change in %
New orders	281.1	248.9	12.9
Unit sales	37,758	33,595	12.4
Revenue	277.3	251.0	10.5
EBIT (before one-offs)	2.5	4.0	-37.5

- H1 revenue decrease mainly attributable to Mobile Machinery (-19.6%) and Agricultural Machinery (-42.5%)
- Service business revenues increased by 5.3% yoy
- At-equity consolidated DEUTZ Dalian (China) generated revenue of €193.6 million (-0.3% yoy) in a very challenging market environment
- Operating profit improved (+16.1% yoy). Negative scale effects and lower profit contribution from DEUTZ Dalian overcompensated by productivity enhancements, FX tailwind and higher share of service business

Segments: DEUTZ Customised Solutions

€ million	H1 2015	H1 2014	Change in %
New orders	140.7	134.7	4.5
Unit sales	6,767	6,144	10.1
Revenue	141.9	118.8	19.4
EBIT (before one-offs)	17.3	14.3	21.0

€ million	Q2 2015	Q1 2015	Change in %
New orders	68.6	72.1	-4.9
Unit sales	3,455	3,312	4.3
Revenue	74.8	67.1	11.5
EBIT (before one-offs)	6.3	11.0	-42.7

- Unlike DEUTZ Compact Engines, segment not affected by European pre-buys in the last year
- Revenue increased at all major applications: Automotive (+28.1%), Mobile Machinery (+16.4%) and Stationary Equipment (+14.0%)
- Service business revenues increased by 14.4%
- Operating profit improvement in H1 (+21.0% yoy) mainly driven by higher volume; Q2 affected by an impairment (€2.0 million)

Summary

Sales figures impacted by prior year's pre-buys

EBIT improvement despite negative scale effects

Focus Chinese production activities on DEUTZ Dalian

Site optimisation in Germany on schedule

Strong cash flow generation



The engine company.

Agenda

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Financial outlook

€ million	FY 2014 reported	Guidance FY 2015
Revenue	1,530.2	approx. -10 %
EBIT margin (before one-offs)	2.1 %	approx. 3 %
Net R&D expenditure⁽¹⁾	53.1	significant decline
Capex (excl. R&D)⁽¹⁾	40.3	~ 50

(1) Net of reimbursements

- Group revenue expected to decline in FY 2015; slight revenue growth at DEUTZ Customised Solutions
- Expectation for FY 2016: Group revenue growth >10% and significant EBIT margin improvement (anticipating slight market recovery)

→ Guidance confirmed

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Summary of key financials (I)

€ million	H1 2015	H1 2014	Change (%)
Revenue	670.2	753.4	-11.0
EBITDA (before one-offs)	70.4	67.5	4.3
EBIT (before one-offs)	20.3	20.1	1.0
EBIT margin (%)	3.0	2.7	--
Net income	16.7	2.7	>100
Basic earnings per share (€)	0.14	0.02	>100
Number of employees (30 June)	3,822	4,014	-4.8

Summary of key financials (II)

€ million	H1 2015	H1 2014	Change (%)
Total assets	1,179.8	1,183.5	-0.3
Equity	535.1	489.6	9.3
Equity ratio (%)	45.4	41.4	--
Cash flow from operating activities	53.9	40.9	31.8
Free cash flow ⁽¹⁾	26.2	8.9	>100
Net financial position	33.2	-31.8	>100
Working capital	216.4	204.0	6.1

(1) Free cash flow: cash flow from operating and investing activities minus interest expense

Income statement

€ million	H1 2015	H1 2014	Change (%)
Revenue	670.2	753.4	-11.0
Cost of goods sold	-555.6	-652.2	-14.8
Research and development costs	-36.1	-31.0	16.5
Selling expenses	-35.0	-33.2	5.4
Administrative expenses	-18.6	-17.6	5.7
Other operating income	13.3	6.9	92.8
Other operating expenses	-14.9	-20.5	-27.3
Income from investments accounted for using the equity method	-3.0	0.4	--
Other investment income	0.0	0.0	--
EBIT	20.3	6.2	>100
Thereof restructuring costs	0.0	-13.9	--
EBIT (before one-offs)	20.3	20.1	1.0
Net interest expense	-2.1	-3.3	-36.4
Net income before taxes	18.2	2.9	>100
Income taxes	-1.5	-0.2	>100
Net income	16.7	2.7	>100

Balance sheet: assets

€ million	30 June 2015	31 Dec 2014	Change (%)
Non-current assets (excluding deferred tax assets)	554.5	563.6	-1.6
Deferred tax assets	66.3	62.2	6.6
Inventories	275.7	245.2	12.4
Trade receivables	130.2	122.0	6.7
Other receivables and assets	48.6	54.1	-10.2
Cash and cash equivalents	114.1	101.7	12.2
Non-current assets classified as held for sale	0.4	0.4	0.0
Total assets	1,179.8	1,149.2	2.7

Balance sheet: equity and liabilities

€ million	30 June 2015	31 Dec 2014	Change (%)
Equity	535.1	511.0	4.7
Provisions for pensions and other post-retirement benefits	176.6	187.1	-5.6
Other provisions	57.6	58.4	-1.4
Financial liabilities	66.0	73.3	-10.0
Other liabilities	3.4	3.9	-12.8
Non-current liabilities	303.6	322.7	-5.9
Provisions for pensions and other post-retirement benefits	14.7	14.7	0.0
Other provisions / Provisions for income taxes	70.5	70.8	-0.4
Financial liabilities	14.9	14.7	1.4
Trade payables	189.5	171.0	10.8
Other liabilities	51.5	44.3	16.3
Current liabilities	341.1	315.5	8.1
Total equity and liabilities	1,179.8	1,149.2	2.7

Cash flow statement (condensed)

€ million	H1 2015	H1 2014
EBIT	20.3	6.2
Cash flow from operating activities (total)	53.9	40.9
Capital expenditure on intangible assets, property, plant and equipment and investments	-26.3	-33.7
Proceeds from the sale of non-current assets	0.7	5.1
Cash flow from investing activities (total)	-25.6	-28.6
Cash flow from financing activities	-17.8	3.1
Change in cash and cash equivalents	10.5	15.4

Overview of segments, H1 2015

	H1 2015	H1 2014	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	530.0	612.1	-13.4
DEUTZ Customised Solutions	140.7	134.7	4.5
Total for operating activities	670.7	746.8	-10.2

	H1 2015	H1 2014	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	528.3	634.6	-16.8
DEUTZ Customised Solutions	141.9	118.8	19.4
Total for operating activities	670.2	753.4	-11.0

	H1 2015	H1 2014	Change (%)
Unit sales			
DEUTZ Compact Engines	71,353	92,935	-23.2
DEUTZ Customised Solutions	6,767	6,144	10.1
Total for operating activities	78,120	99,079	-21.2

	H1 2015	H1 2014	Change (%)
EBIT (€ million)			
DEUTZ Compact Engines	6.5	5.6	16.1
DEUTZ Customised Solutions	17.3	14.3	21.0
Other	-3.5	0.2	<-100
Total for operating activities	20.3	20.1	1.0

Overview of segments, Q2 2015

	Q2 2015	Q2 2014	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	281.1	267.5	5.1
DEUTZ Customised Solutions	68.6	65.1	5.4
Total for operating activities	349.7	332.6	5.1

	Q2 2015	Q2 2014	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	277.3	347.8	-20.3
DEUTZ Customised Solutions	74.8	62.9	18.9
Total for operating activities	352.1	410.7	-14.3

	Q2 2015	Q2 2014	Change (%)
Unit sales			
DEUTZ Compact Engines	37,758	51,279	-26.4
DEUTZ Customised Solutions	3,455	3,343	3.4
Total for operating activities	41,213	54,622	-24.5

	Q2 2015	Q2 2014	Change (%)
EBIT (€ million)			
DEUTZ Compact Engines	2.5	10.5	-76.2
DEUTZ Customised Solutions	6.3	7.2	-12.5
Other	1.4	0.5	>100
Total for operating activities	10.2	18.2	-44.0

Employees

	30 June 2015	30 June 2014	Change (%)
Cologne	2,348	2,417	-2.9
Ulm	384	394	-2.5
Other German operations	276	285	-3.2
Germany	3,008	3,096	-2.8
Foreign operations	814	918	-11.3
DEUTZ Group	3,822	4,014	-4.8

Financial calendar & contact details

- Interim report 1st to 3rd quarter 2015 5 November 2015

- Annual Report 2015 17 March 2016

- Annual General Meeting 28 April 2016

- Interim report 1st quarter 2016 3 May 2016

➤ Contact details

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