

Financial year 2015

17 March 2016

Dr Helmut Leube, CEO

Dr Margarete Haase, CFO

The engine company.



- **Review FY 2015**

- **Outlook**

- **Annex**

Key figures

€ million	FY 2015	yoy	Q4 2015	qoq
New orders	1,225.9	-11.1%	293.0	+11.7%
Revenue	1,247.4	-18.5%	308.6	+14.9%
EBITDA (before one-off items)	112.2	-18.3%	26.6	+75.0%
EBIT (before one-off items)	4.9	-€26.8 million	-5.7	+€4.0 million
Net income	3.5	-€16.0 million	-3.8	+€5.6 million
Free cash flow	35.0	-€17.0 million	44.5	+€80.2 million

- FY 2015 results in line with financial guidance revised on 15 September 2015
- Positive free cash flow for the 5th year in succession

Highlights

- Challenging capital goods markets
 - Profit margins and free cash flow remain positive despite very low capacity utilisation

- Competitive engine portfolio
 - Stage V Ready: DEUTZ engines already meet the next EU emission standard announced for 2019⁽¹⁾
 - Expanding product offering: KION first anchor customer for the new three-cylinder TCD 2.2 engine⁽²⁾
 - TCD 2.2 and 2.9 engine will be also available in a gas version (LPG)⁽²⁾

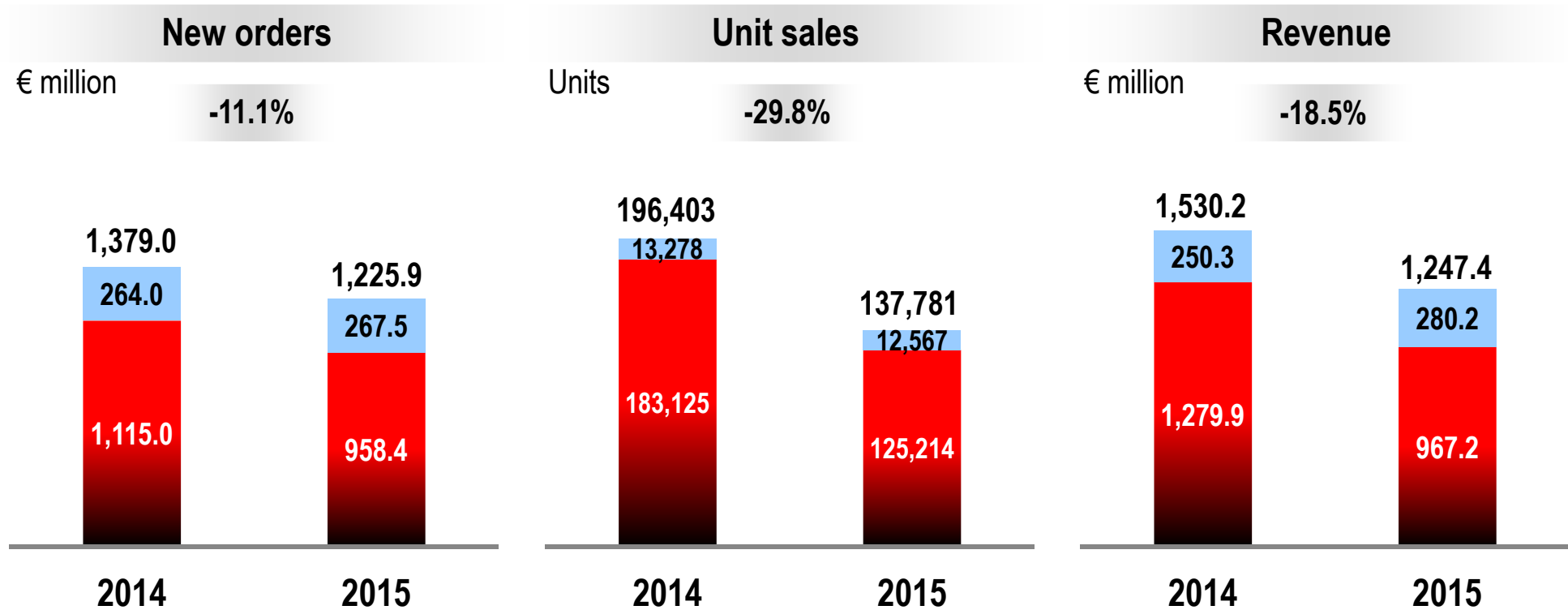
- Site optimisation fully on schedule
 - First stage of relocation of Xchange engine business from Bavaria to Ulm successfully completed
 - Consolidation of sites in Cologne on track: new shaft centre under construction

- Consolidation of Chinese production activities at DEUTZ Dalian
 - Chinese joint venture with AB Volvo wound up – no substantial capital spending made
 - 50% stake in joint venture Weifang sold to Weichai Power

(1) DEUTZ EU Stage IV / Tier 4 engines up to 7.8 liters with diesel particulate filter

(2) Production start planned for 2019

Sales figures

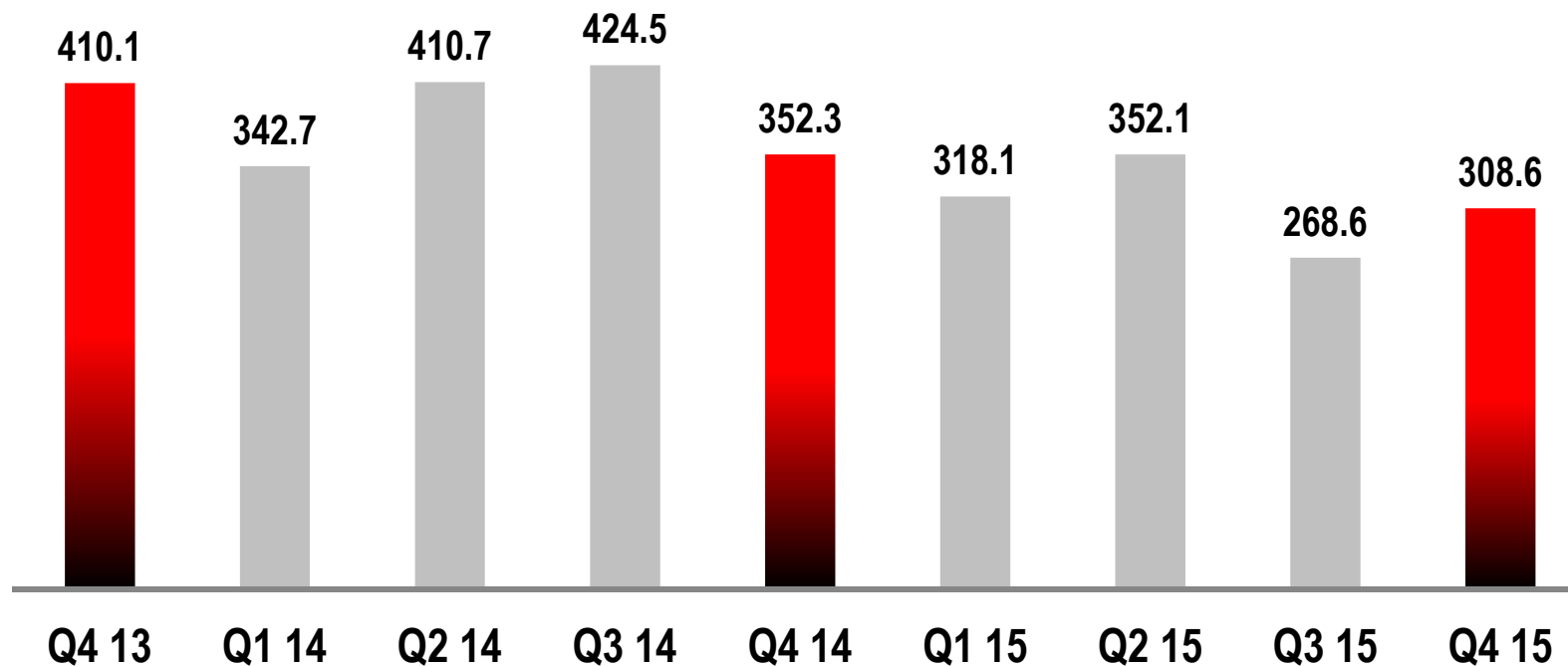


- Sales figures dampened by advance production of engines in FY 2014 and challenging end markets
- Revenue decreased to a lesser extent than unit sales due to positive mix effects and increase in service business

 DEUTZ Compact Engines  DEUTZ Customised Solutions

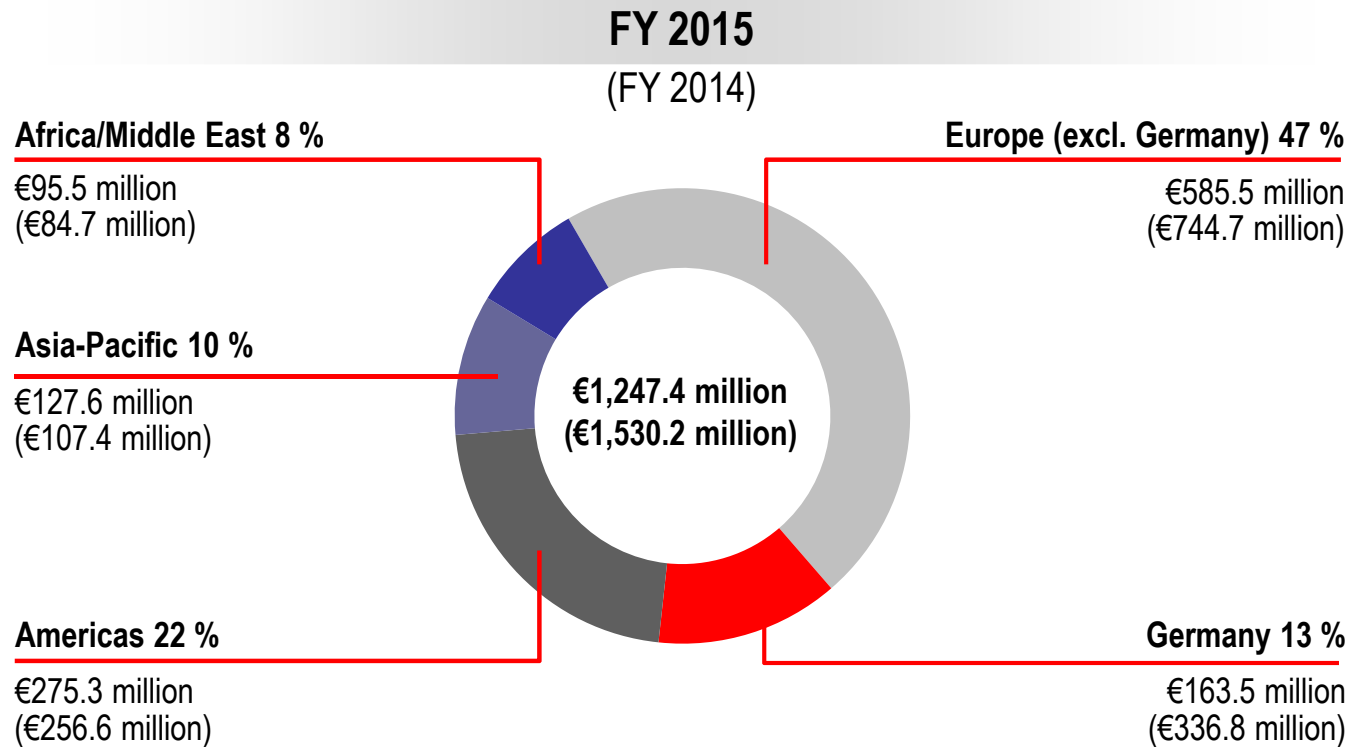
Revenue development

€ million



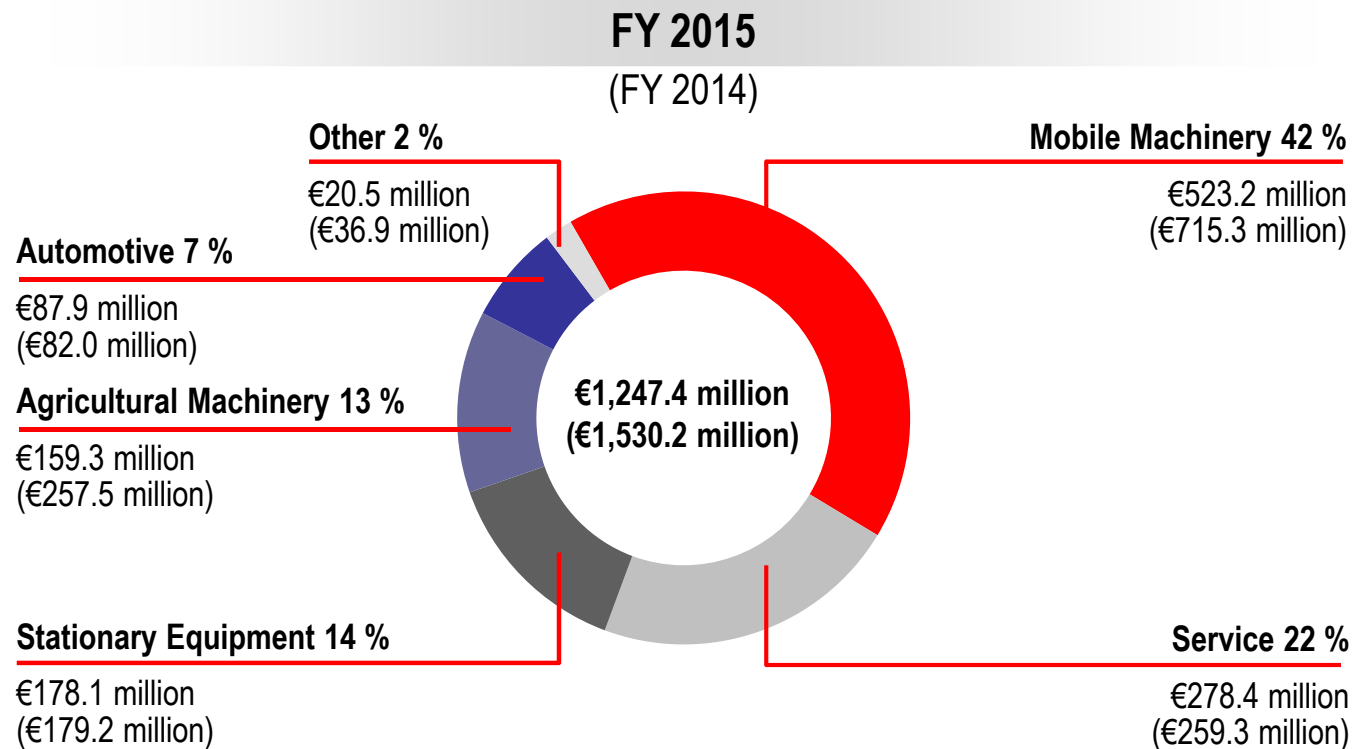
- Advance production of engines ahead of changes to European emissions standards for engines < 130 kW in October 2014 with significant influence on revenue
- Higher customer inventories and market slowdown resulted in lower demand
- Q4 2015 revenue decreased 12.4% yoy and advanced 14.9% compared with Q3 2015

Revenue split by region



- Revenue decline in Europe mainly caused by advance production of engines in FY 2014
- Increase in revenue in Americas (+7.3%), Africa / Middle East (+12.8%) and Asia-Pacific (+18.8%)
- Pro-forma revenue including equity-accounted Chinese JV DEUTZ Dalian: €1,586.9 million (-16.0%); corresponding revenue share of Asia-Pacific amounts to 29%

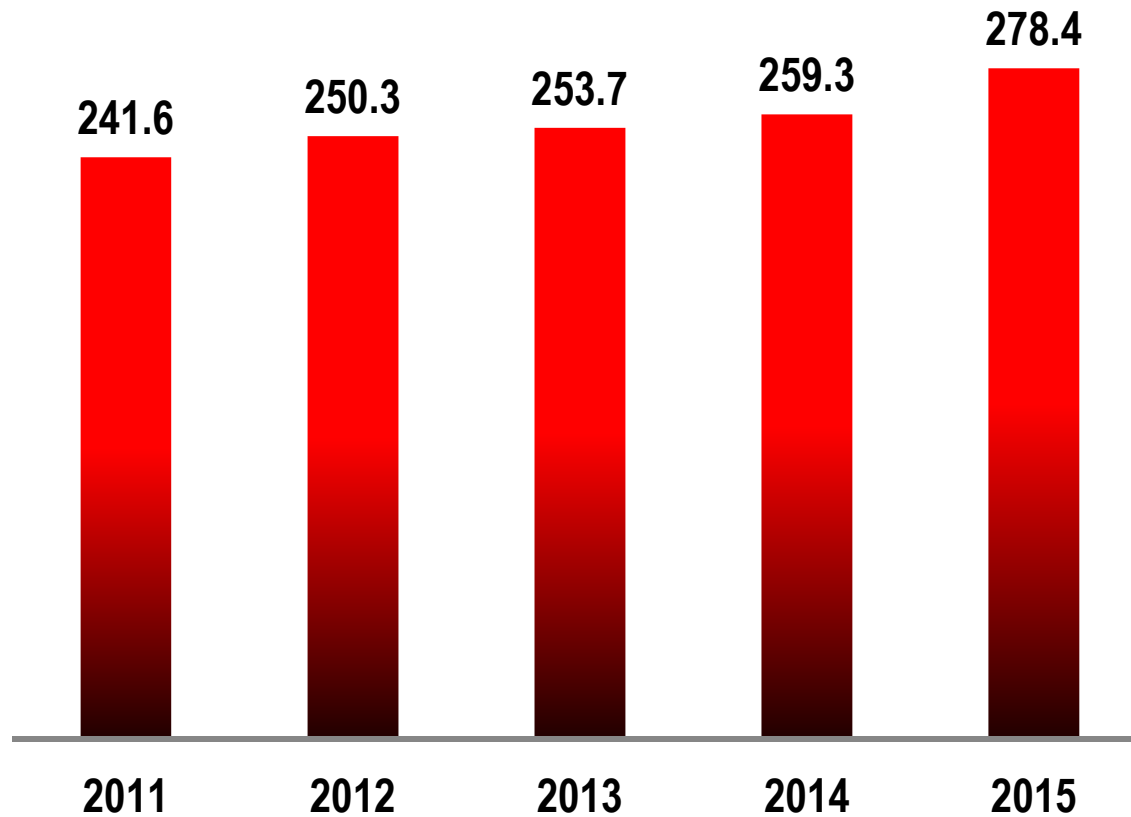
Revenue split by application



- Substantial revenue decrease in Agricultural Machinery (-38.1%) and Mobile Machinery (-26.9%)
- Automotive (+7.2%) and Service (+7.4%) posted a revenue increase
- Pro-forma revenue in Automotive incl. equity-accounted JV DEUTZ Dalian: €383.3 million (corresponding revenue share amounts to 24%)

Service business

€ million

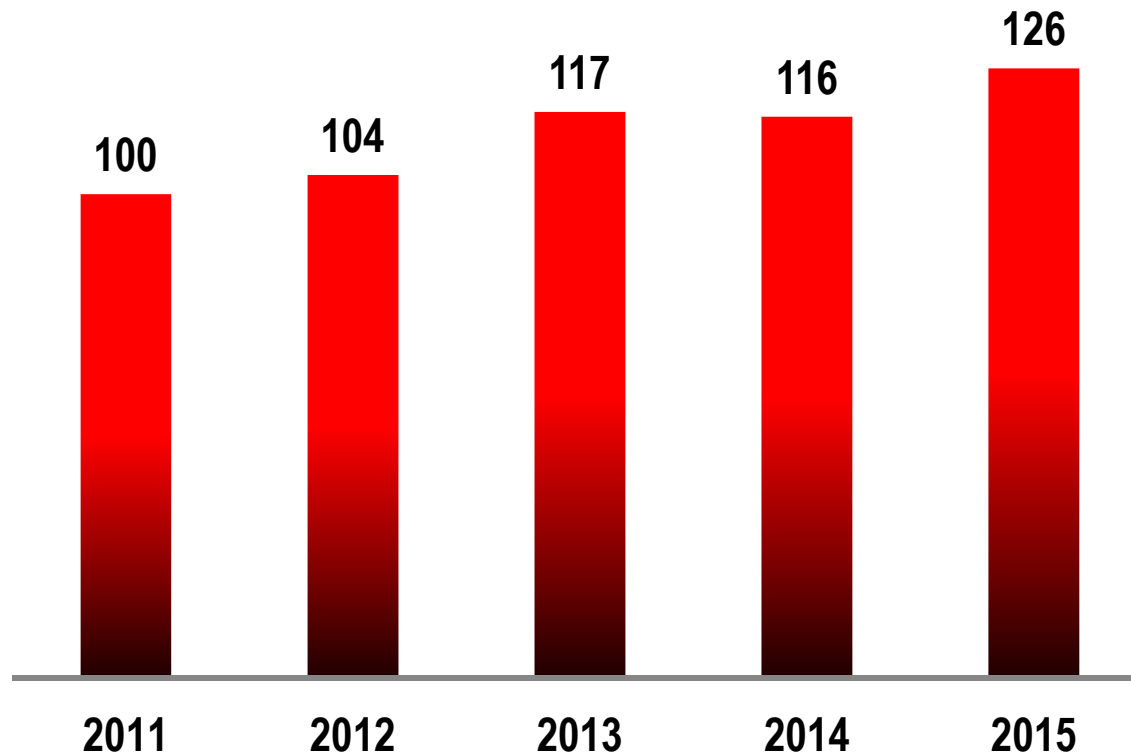


- Further solid service revenue growth
- Strong resilience of profitable service business through different economic cycles

→ Continued growth of service revenue

Emissions standards drive revenue growth

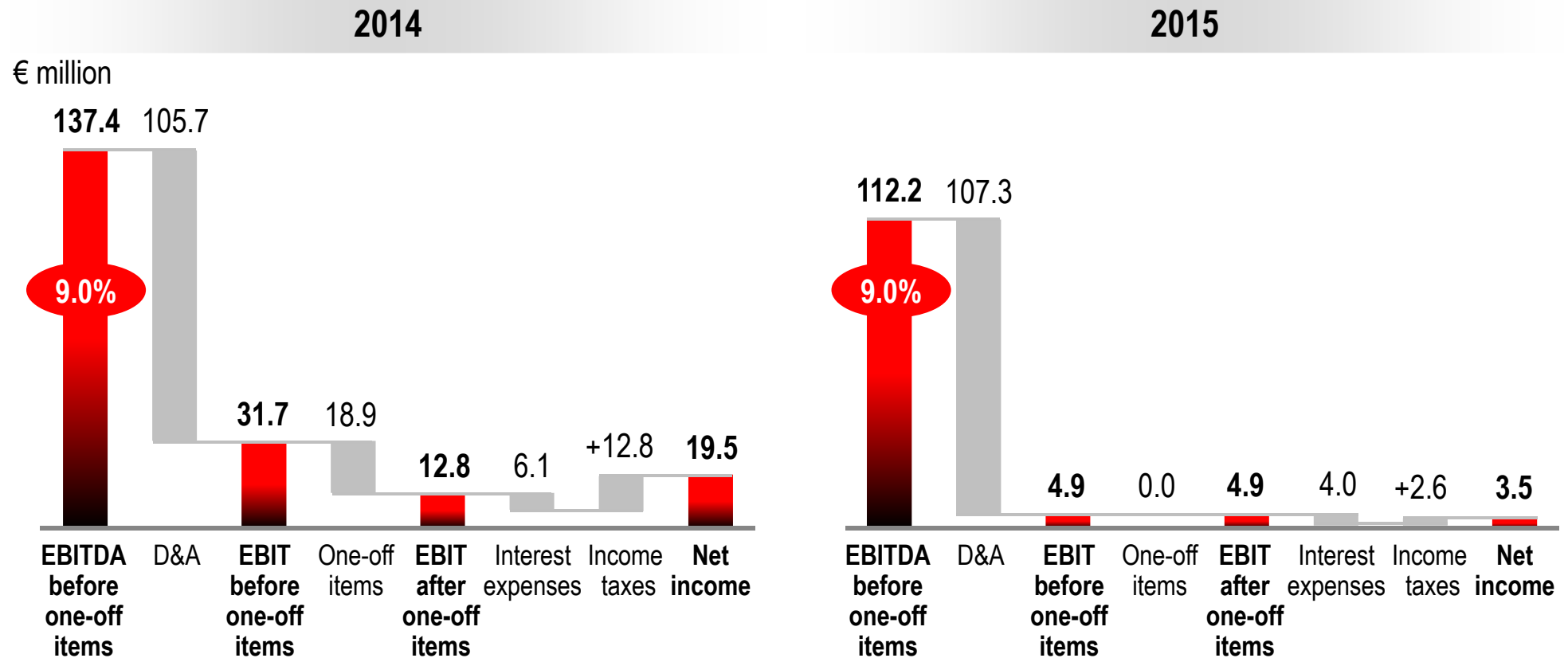
Average sales price per engine
(indexed; FY 2011 = 100)



- EU Stage IV / US Tier 4 engines require exhaust after-treatment devices
- Growing share of new emission engines drives revenue growth
- Positive structural price mix effects are expected to continue in the years to come

→ Structural growth due to tighter emissions standards

Operating profit & net income

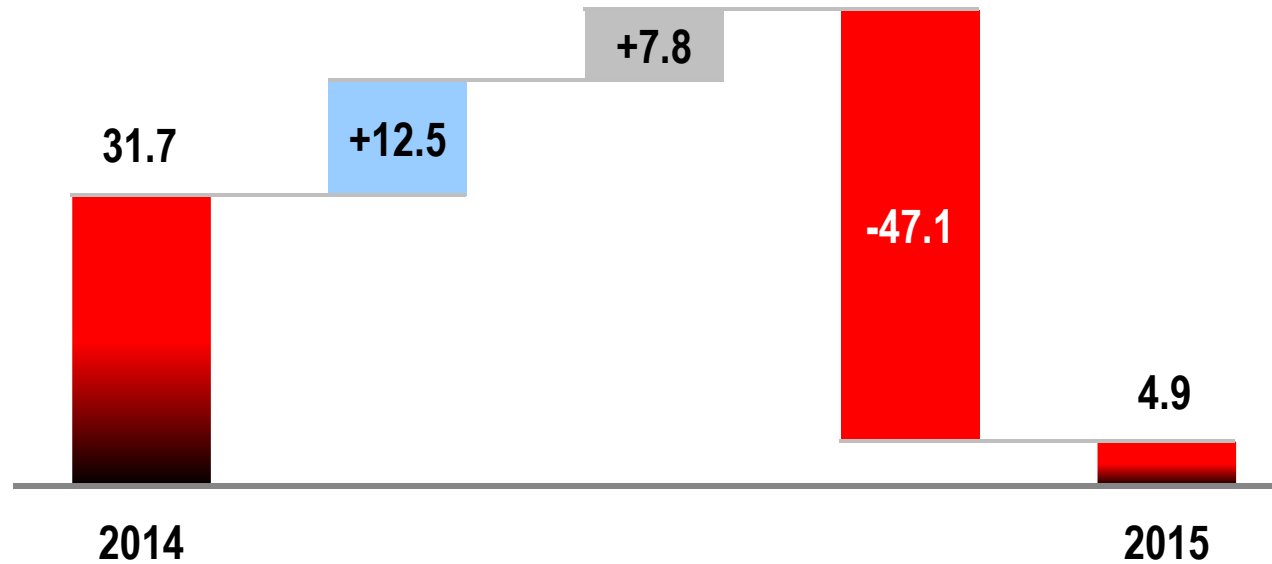


- Lower capacity utilisation partly offset by cost savings and enhanced efficiency
- EBITDA margin remained stable
- Prior year result included restructuring provision for site optimisation
- Current tax expense more than offset by deferred tax income

x.x% EBITDA margin

EBIT (before one-off items)

€ million



EBIT margin

2.1%

0.4%

- Operating profit at DEUTZ Compact Engines adversely affected by lower business volume and low capacity utilisation of Chinese Joint Venture DEUTZ Dalian
- EBIT improvement at DEUTZ Customised Solutions mainly due to higher business volume
- Segment Other benefited from reversal of unrealised FX-effects and sale of joint venture Weifang

 DEUTZ Compact Engines  DEUTZ Customised Solutions  Other

Segment: DEUTZ Compact Engines

€ million	2015	2014	Change in %
New orders	958.4	1,115.0	-14.0
Unit sales	125,214	183,125	-31.6
Revenue	967.2	1,279.9	-24.4
EBIT (before one-off items)	-31.9	15.2	--

€ million	Q4 2015	Q3 2015	Change in %
New orders	234.4	194.0	20.8
Unit sales	27,618	26,243	5.2
Revenue	237.1	201.8	17.5
EBIT (before one-off items)	-15.0	-23.4	35.9

- Mixed growth rates: Significant revenue decline in EMEA (-32.8%), solid growth in Americas (+7.6%) and Asia-Pacific (+10.6%)
- Revenue of equity-accounted Chinese Joint Venture DEUTZ Dalian decreased by 5.6% yoy to €339.5 million (-19.6% yoy in local currency)
- FY 2015 EBIT amounted to a loss as a result of weak business volume and low capacity utilisation of joint venture DEUTZ Dalian
- EBIT improvement in Q4 (+€8.4 million qoq) attributable to positive scale effects

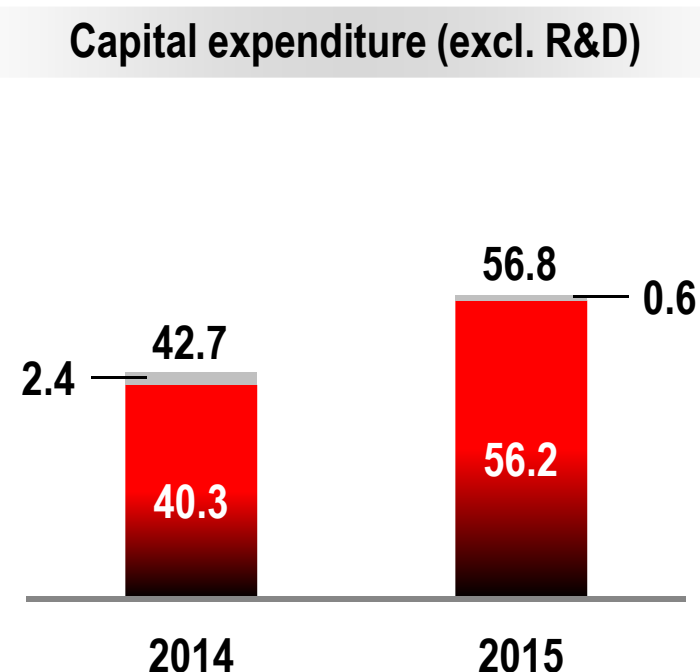
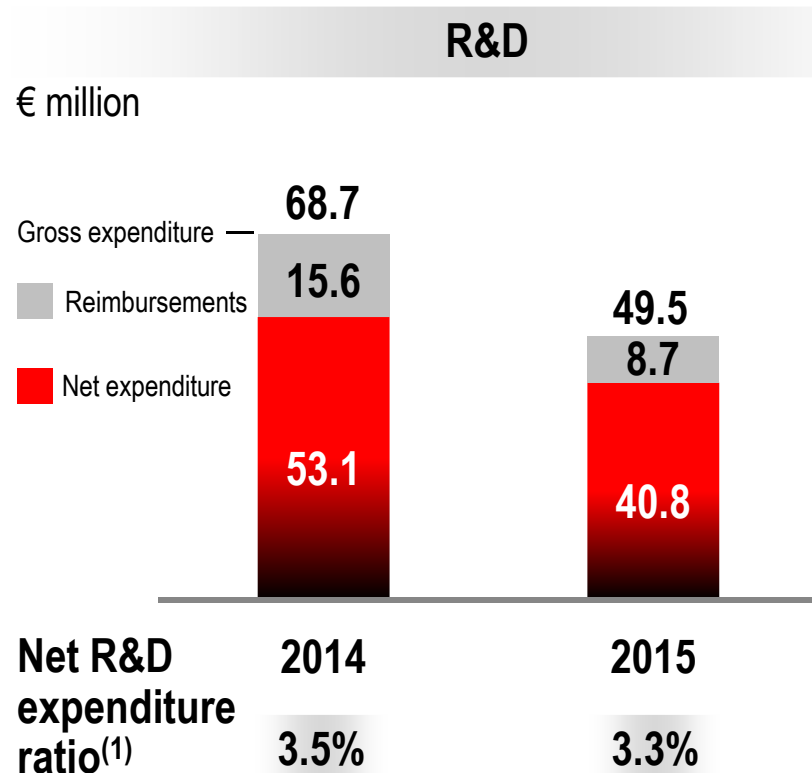
Segment: DEUTZ Customised Solutions

€ million	2015	2014	Change in %
New orders	267.5	264.0	1.3
Unit sales	12,567	13,278	-5.4
Revenue	280.2	250.3	11.9
EBIT (before one-off items)	31.3	18.8	66.5

€ million	Q4 2015	Q3 2015	Change in %
New orders	58.6	68.2	-14.1
Unit sales	2,927	2,873	1.9
Revenue	71.5	66.8	7.0
EBIT (before one-off items)	5.3	8.7	-39.1

- Unlike DEUTZ Compact Engines, segment was not affected by advance production of engines in Europe
- Revenue increase yoy across all regions: Americas (+5.8%), EMEA (+8.4%) and Asia-Pacific (+26.0%)
- Very strong increase in service revenue (+9.9%)
- Robust EBIT growth (+€12.5 million yoy) and margin expansion to 11.2% (+3.7%-points)

R&D & capital expenditure



- R&D decline in line with our guidance after all engines designed for the latest emission standard in the EU and in the US were launched until 2014
- Proportion of capitalised net R&D expenditure: €13.0 million (2014: €26.3 million)

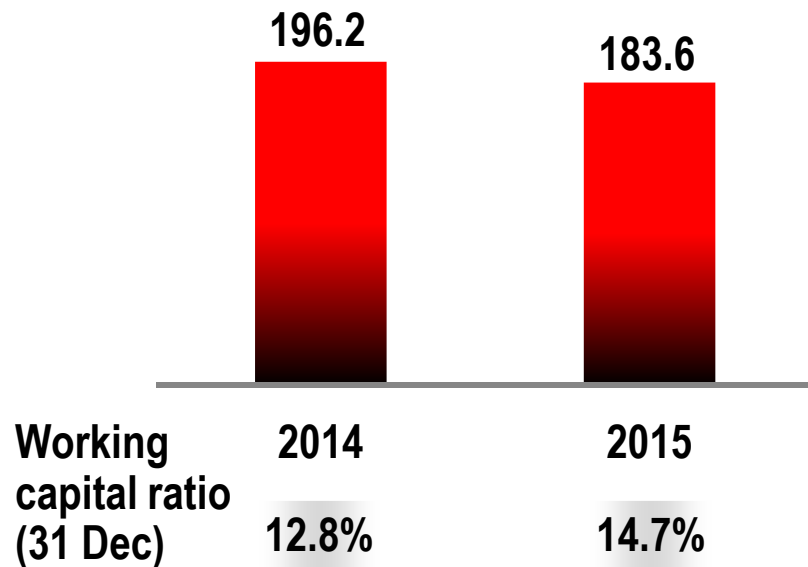
- Net capital expenditure increase largely attributable to new shaft centre, which is an important element of our site optimisation

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

Working capital & operating cash flow

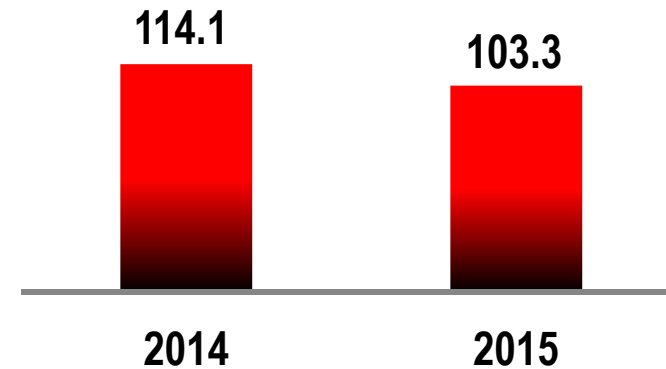
Working capital

€ million

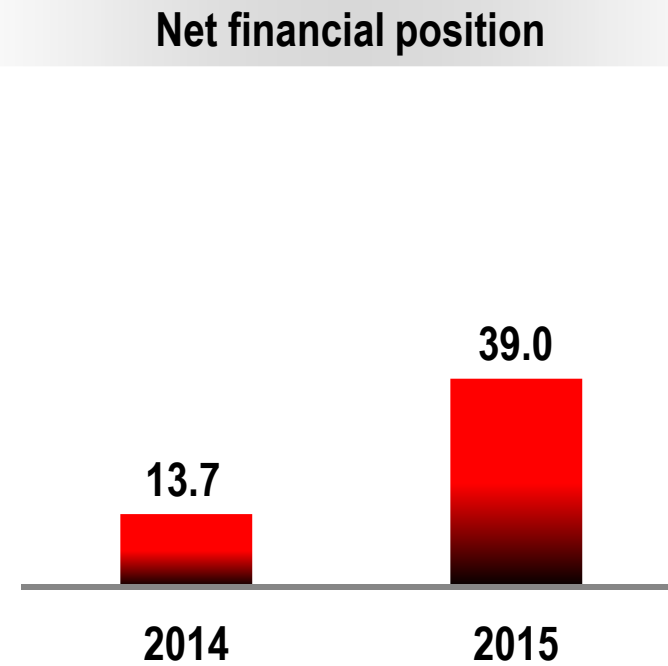
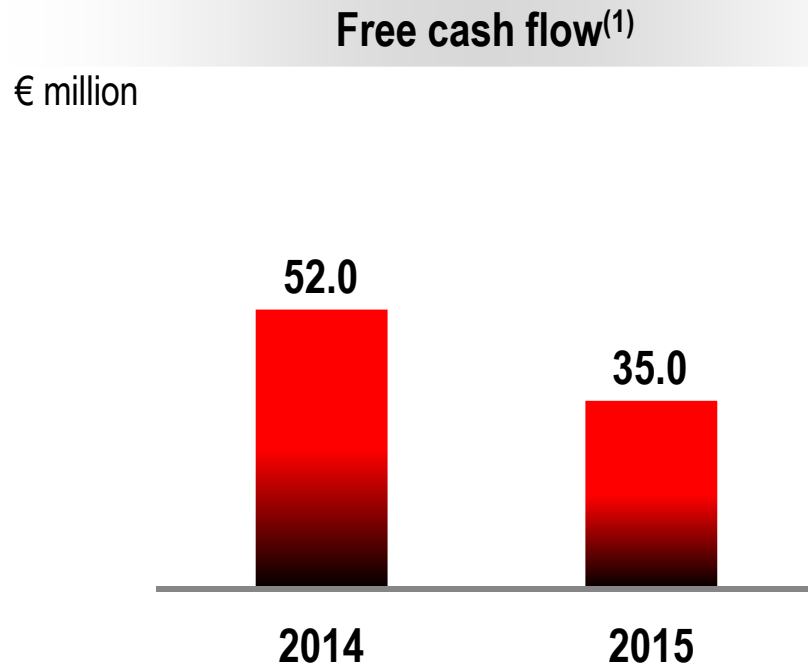


- Increase of working capital ratio related to lower revenue and higher inventories

Operating cash flow



Free cash flow generation & net financial position



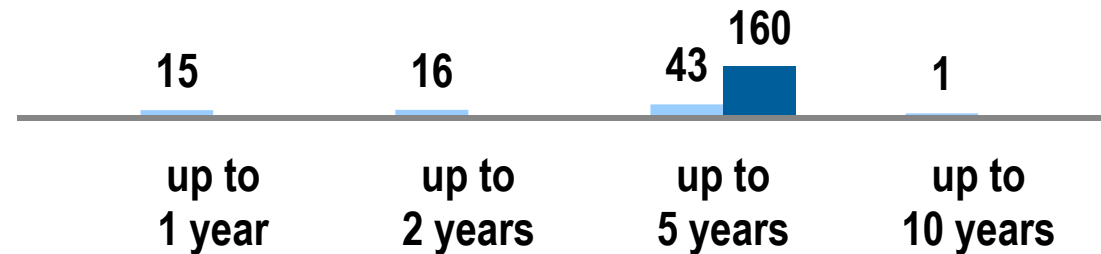
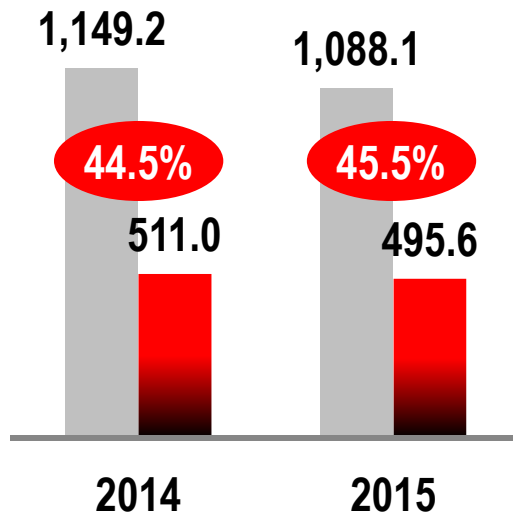
■ Significant positive free cash flow despite lower business volume

■ Positive net financial position (+€25.3 million yoy)

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

Equity ratio & funding

€ million



Total assets
 Equity
 xx.x% Equity ratio
 Repayment schedule
 Duration of credit lines

- Equity ratio improved to 45.5% (+1.0%-points)
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line extended in Q2 2015 by one year until May 2020
 - Loan from European Investment Bank repayable until July 2020

Cash deployment & dividend policy

Financial strength

- Keep equity ratio above 40%
- Robust financial framework in volatile markets

Internal funding

- Invest in profitable organic growth projects
- Continuous product innovation

Shareholder return

- Stable or growing dividend per share
- Dividend payout ~30% of earnings over multi year period

- Proposal to the AGM: stable dividend of €0.07 per share
- Dividend is exempt from tax for domestic investors and without German withholding tax

Summary

Business impacted by pre-buys and challenging end markets

Profit margins remain positive despite low capacity utilisation

Continued growth of service business

Site optimisation in Germany well on track

Consolidation of Chinese production activities at DEUTZ Dalian

Strong balance sheet and free cash flow generation

Stable dividend payment



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Market assessment

	2016
Unit sales (equipment) ⁽¹⁾	
Construction equipment Europe	-5% to +5%
Construction equipment North America	-5% to +5%
Construction equipment China	-20% to -10%
Agricultural Machinery Europe	-5% to 0%
Automotive China	-5% to +5%

- Recovery of key application markets not yet visible
- Chinese construction equipment market expected to remain challenging
- While DEUTZ will still suffer from the effect of advance production of engines in 2016, the burden will be less pronounced than in 2015

(1) Numbers refer to end markets. DEUTZ business may differ due advance production of engines

Financial outlook

€ million	FY 2015 reported	FY 2016 guidance
Revenue	1,247.4	stagnant or slight increase
EBIT margin (before one-off items)	0.4%	moderate increase
R&D expenditure ⁽¹⁾	40.8	slightly above 50
Capex (excl. R&D) ⁽¹⁾	56.2	approx. 55

(1) Net of reimbursements

- EBIT margin uplift supported by cost and site optimisation measures
- For FY 2017 we expect a noticeable improvement in revenue and profitability based on depleted OEM inventories related to advance production of engines and an anticipated market recovery

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Summary of key financials (I)

€ million	2015	2014	Change (%)
Revenue	1,247.4	1,530.2	-18.5
EBITDA (before one-off items)	112.2	137.4	-18.3
EBIT (before one-off items)	4.9	31.7	-84.5
EBIT margin (%)	0.4	2.1	--
Net income	3.5	19.5	-82.1
Basic earnings per share (€)	0.04	0.18	-77.8
Dividend per share (€)	0.07	0.07	--
Number of employees (31 December)	3,730	3,916	-4.7

Summary of key financials (II)

€ million	2015	2014	Change (%)
Total assets	1,088.1	1,149.2	-5.3
Equity	495.6	511.0	-3.0
Equity ratio (%)	45.5	44.5	--
Cash flow from operating activities	103.3	114.1	-9.5
Free cash flow ⁽¹⁾	35.0	52.0	-32.7
Net financial position	39.0	13.7	>100
Working capital	183.6	196.2	-6.4

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

Income statement

€ million	2015	2014	Change (%)
Revenue	1,247.4	1,530.2	-18.5
Cost of sales	-1,054.8	-1,327.6	-20.5
Research and development costs	-76.3	-74.3	2.7
Selling expenses	-68.3	-65.7	4.0
General and administrative expenses	-36.5	-34.3	6.4
Other operating income	29.3	22.9	27.9
Other operating expenses	-30.6	-41.4	-26.1
Profit/loss on equity-accounted investments	-6.3	1.9	--
Other investment income	1.0	1.1	-9.1
EBIT	4.9	12.8	-61.7
Thereof one-off items	0.0	-18.9	--
EBIT (before one-off items)	4.9	31.7	-84.5
Interest expense, net	-4.0	-6.1	-34.4
Net income before income taxes	0.9	6.7	-86.6
Income taxes	2.6	12.8	-79.7
Net income	3.5	19.5	-82.1

Balance sheet: assets

€ million	31 Dec 2015	31 Dec 2014	Change (%)
Non-current assets (before deferred tax assets)	520.5	563.6	-7.6
Deferred tax assets	69.1	62.2	11.1
Inventories	251.9	245.2	2.7
Trade receivables	101.2	122.0	-17.0
Other receivables and assets	32.5	54.1	-39.9
Cash and cash equivalents	112.5	101.7	10.6
Non-current assets classified as held for sale	0.4	0.4	0.0
Total assets	1,088.1	1,149.2	-5.3

Balance sheet: equity and liabilities

€ million	31 Dec 2015	31 Dec 2014	Change (%)
Equity	495.6	511.0	-3.0
Provisions for pensions and other post-retirement benefits	172.3	187.1	-7.9
Other provisions	46.7	58.4	-20.0
Financial liabilities	58.6	73.3	-20.1
Other liabilities	3.2	3.9	-17.9
Non-current liabilities	280.8	322.7	-13.0
Provisions for pensions and other post-retirement benefits	14.3	14.7	-2.7
Other provisions / Provisions for income taxes	67.2	70.8	-5.1
Financial liabilities	14.9	14.7	1.4
Trade payables	169.5	171.0	-0.9
Other liabilities	45.8	44.3	3.4
Current liabilities	311.7	315.5	-1.2
Total equity and liabilities	1,088.1	1,149.2	-5.3

Cash flow statement (condensed)

€ million	2015	2014
EBIT	4.9	12.8
Cash flow from operating activities (total)	103.3	114.1
Capital expenditure on intangible assets, property, plant and equipment and investments	-68.3	-61.3
Proceeds from the sale of non-current assets	3.9	5.4
Cash flow from investing activities (total)	-64.4	-55.9
Cash flow from financing activities	-29.8	-17.5
Change in cash and cash equivalents	9.1	40.7

Overview of segments, 2015

	2015	2014	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	958.4	1,115.0	-14.0
DEUTZ Customised Solutions	267.5	264.0	1.3
Total for operating activities	1,225.9	1,379.0	-11.1

	2015	2014	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	967.2	1,279.9	-24.4
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Total for operating activities	1,247.4	1,530.2	-18.5

	2015	2014	Change (%)
Unit sales			
DEUTZ Compact Engines	125,214	183,125	-31.6
DEUTZ Customised Solutions	12,567	13,278	-5.4
Total for operating activities	137,781	196,403	-29.8

	2015	2014	Change (%)
EBIT before one-off items (€ million)			
DEUTZ Compact Engines	-31.9	15.2	--
DEUTZ Customised Solutions	31.3	18.8	66.5
Other	5.5	-2.3	--
Total for operating activities	4.9	31.7	-84.5

Overview of segments, Q4 2015

	Q4 2015	Q4 2014	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	234.4	232.5	0.8
DEUTZ Customised Solutions	58.6	69.7	-15.9
Total for operating activities	293.0	302.2	-3.0

	Q4 2015	Q4 2014	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	237.1	277.1	-14.4
DEUTZ Customised Solutions	71.5	75.2	-4.9
Total for operating activities	308.6	352.3	-12.4

	Q4 2015	Q4 2014	Change (%)
Unit sales			
DEUTZ Compact Engines	27,618	36,601	-24.5
DEUTZ Customised Solutions	2,927	4,703	-37.8
Total for operating activities	30,545	41,304	-26.0

	Q4 2015	Q4 2014	Change (%)
EBIT before one-off items (€ million)			
DEUTZ Compact Engines	-15.0	10.3	--
DEUTZ Customised Solutions	5.3	0.3	>100
Other	4.0	-1.7	--
Total for operating activities	-5.7	8.9	--

Employees

	31 Dec 2015	31 Dec 2014	Change (%)
Cologne	2,269	2,422	-6.3
Ulm	410	387	5.9
Other German operations	231	284	-18.7
Germany	2,910	3,093	-5.9
Foreign operations	820	823	-0.4
DEUTZ Group	3,730	3,916	-4.7

Financial calendar & contact details

- Annual General Meeting 28 April 2016
- Interim management statement 1st quarter 2016 3 May 2016
- Interim report 1st half 2016 4 August 2016
- Interim management statement 1st to 3rd quarter 2016 8 November 2016

➤ Contact details

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