

FOREWORD

*Dear shareholders,
friends and partners of our company,*

In 2015, the year after we celebrated our 150th anniversary, we produced our nine millionth engine – another milestone in our long and illustrious history and yet another major contribution to the motorisation of the world.

But we also have plenty to offer our customers now and in the future: for example, our TCD engines equipped with a diesel particulate filter in the 2.9 to 7.8 litre cubic capacity range already meet EU Stage V, the next EU emissions standard announced for 2019. This gives our customers long-term planning certainty, flexibility and a stable technology.

These are some of the compelling arguments that we used to persuade the KION Group, among others, to expand the existing partnership. Under our new long-term cooperation, large forklift trucks from KION's premium brand Linde will be progressively fitted with newly developed 2.2 litre DEUTZ engines from 2019. The new three-cylinder variant of the successful TCD 2.9 four-cylinder engine expands our product portfolio, particularly for material handling and compact construction machinery applications. What is special about the engine is that it will be available in both a diesel and an LPG variant. This demonstrates that we want to retain our leading technological position in future. We will be able to achieve this aim with considerably lower development expenditure thanks to 'Stage V ready'.

Now let us take a look back at the past year: The global economy once again failed to live up to expectations in 2015, which had a negative impact on our business. This meant we suffered a difficult second half of the year, having made a solid start in the first six months.

New orders amounted to €1,225.9 million over 2015 as a whole, which represented a year-on-year fall of 11.1 per cent. We sold 137,781 engines and revenue was down by 18.5 per cent to €1,247.4 million, which was in line with our adjusted forecast. The decline was due partly to the changes to emissions standards for engines under 130kW that came into force in the European Union on 1 October 2014 and the resulting effects from the advance production of engines. Furthermore, the end customers for our engines have shown a strong reluctance to invest since the third quarter of 2015. This meant we had to lower our original forecast for the reporting year.

Our EBIT before one-off items declined from €31.7 million to €4.9 million in the year under review, primarily due to the decrease in business volume. EBIT was therefore marginally better than in our adjusted forecast in which we predicted EBIT at around break-even level. Our net income dropped from €19.5 million to €3.5 million. Nonetheless, we managed to again generate a profit despite the large decrease in business volume and the extremely low capacity utilisation compared to previous years. This is consistent with our strategic objective of operating profitably even during downturns in the business cycle and underlines the effectiveness of the steps that we have taken. It is also encouraging that, even in this situation, our EBITDA margin (before one-off-items) of 9.0 per cent was unchanged compared with the previous year and our free cash flow was in positive territory at €35.0 million.



Dr Ing Helmut Leube

Chairman of the Board of Management, responsible for technical and head-office functions



Dr Margarete Haase

Board of Management member, responsible for finance, human resources and investor and public relations



Michael Wellenzohn

Board of Management member, responsible for sales, service and marketing

We also continued as planned with the optimisation of our network of sites in 2015. This is bringing about a lasting increase in efficiency. We are consolidating our Chinese manufacturing operations in our DEUTZ Dalian joint venture due to lower growth forecasts. As part of this consolidation, we wound up our DEUTZ Engine China joint venture, sold the WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. joint venture to our previous co-shareholder and initiated the closure of the DEUTZ Engine (Shandong) Co., Ltd. joint venture. In future, our established DEUTZ Dalian joint venture, which has adequate capacity, will satisfy local demand.

The DEUTZ share price has also been buffeted by the volatile course of business and the stock market turbulence seen in 2015. Our shares finished 2015 at €3.69, almost 8 per cent lower than their 2014 closing price. Although DEUTZ shares have recorded further significant falls since the balance sheet date against a backdrop of very weak market conditions, we believe that they will benefit substantially in the event of a general recovery of business. Moreover, we want to fulfil our stated aim of paying a consistent dividend, even in a challenging environment. Together with the Supervisory Board, we therefore propose that the dividend paid for 2015 should remain unchanged at €0.07 per share.

Given that there are no signs of a market recovery so far, we anticipate that business conditions will remain challenging in 2016 and are preparing accordingly. We will therefore continue to focus our energies on reducing costs and lowering the break-even point. Overall, we assume that revenue will stagnate or, at best, rise slightly. This will result in a modest increase in the EBIT margin.

We would like to take this opportunity to express our thanks to our employees for their hard work and for their great dedication to our Company. Our sincere thanks also go to our business partners – our customers, suppliers and all others – for the trust that they place in us. We will do everything we can to continue to justify your faith in us in future.

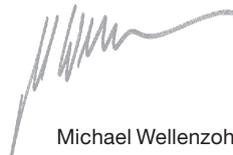
Kind regards from Cologne,



Dr Ing Helmut Leube



Dr Margarete Haase



Michael Wellenzohn