In managing its liquidity, DEUTZ focuses on free cash flow as a key performance indicator. Also, as a technology-oriented company, we consider the R&D ratio, which represents the ratio of research and development expenditure (less reimbursements) to revenue, to be a key management variable as part of our internal performance indicator system. On the basis of these KPIs, the Group's financial flexibility is subject to constant analysis in the form of a comparison between budget and actual so that we can take swift, appropriate action in the event of significant variances. One-off items are defined as material income and expenses that are exceptional and unlikely to recur.

In order to enable us to be proactive and respond promptly, DEUTZ has set up an early warning system based on the performance indicators. A monthly/quarterly reporting process enables the Board of Management to track changes in the performance indicators. This approach ensures that we can respond immediately to the latest business developments. At the same time, we operate a sound system of causal analysis to ensure that we minimise risks and make the most of opportunities. Three times a year we produce an annual forecast for all key performance indicators. In this way, we ensure optimum transparency in our business performance, benefiting both the Group and all stakeholders.

In addition to the financial performance indicators which form part of the management system described above, we also employ a range of other parameters to measure our economic performance. These include, but are not limited to, new orders received, revenue and unit sales on the income side, the working capital as at the reporting date with regard to tied-up capital, and earnings before interest, taxes, depreciation and amortisation (EBITDA). Moreover, the Group net income and the DEUTZ AG statutory income in accordance with the German Commercial Code are significant factors for us as regards dividend payments.

CONTINUOUS OPTIMISATION OF THE CONTROL SYSTEM

Regardless of fluctuations in the economic cycle, one of the DEUTZ Group's overriding aims is the continuous optimisation of its management systems. This essentially involves the annual planning of all specified performance indicators. This planning is based on both internal estimates of future business and benchmark figures from competitors. Each organisational unit prepares detailed plans for its area of responsibility, which are then coordinated with the management strategy. Both the specific unit sales and revenue targets and the customer and product-related targets (EBIT margins) are aligned with the operating units each year, taking groupwide objectives into consideration. This means that they are available at the relevant hierarchical level for use by the operational management.

We specify working capital targets for the individual companies in the DEUTZ Group in order to optimise the capital tied up in the business. These overall figures are then broken down and specific targets for inventories, trade receivables and trade payables are allocated to the relevant individual employees.

We are pursuing long-term growth objectives. In order to secure the financial basis for this, we have made the management of capital expenditure a central element in the management of tied-up capital: clearly specified budget figures set out the framework for the level of capital expenditure and development expenditure; actual requirements are derived from the medium-term planning of unit sales and the resulting requirements in terms of capacity and technologies. Annual budget meetings are held to coordinate individual projects, development expenditure and planned capital expenditure with the groupwide financial planning process and to record the outcomes. An additional detailed review is carried out before projects are actually approved. To this end, we use standard investment appraisal methods (internal rate of return, amortisation period, net present value, the impact on the income statement and cost comparisons). A project with an appropriate budget is only approved if there is a clear positive outcome from this investment appraisal.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

ECONOMIC ENVIRONMENT

Global economic growth remained weak in 2015 As in previous years, the economy did not live up to expectations in 2015. Forecasts were successively lowered as the year progressed. The reporting year was shaped by various factors, including geopolitical crises, weak growth in emerging markets, lower prices for commodities, oil, gas and agricultural goods, quantitative easing (particularly by the European Central Bank [ECB]), the first interest rate hike carried out by the US Federal Reserve at the end of the year, strong exchange rate movements and waves of migration to Europe. These factors resulted in palpable uncertainty and a reluctance to invest, although European exports received a small boost from the weak euro exchange rate.

The International Monetary Fund (IMF)[1] is expecting worldwide growth of 3.1 per cent for 2015 as a whole, which is below the 2014 level of 3.4 per cent. The eurozone economy expanded by 1.5 per cent in 2015, which is considerably stronger than the 2014 rate of 0.9 per cent. The German economy's growth was on a par with 2014 at 1.5 per cent. Spain's economic performance was very encouraging – despite the country only having emerged from recession in the previous year – with growth of

[1] IMF World Economic Outlook, January 2016.

3.2 per cent. Italy also moved out of recession, expanding by 0.8 per cent. There was also positive news from France, where the economy grew by 1.1 per cent.

As in 2014, the US economy was one of the major drivers of global economic growth. It expanded by 2.5 per cent (2014: 2.4 per cent) thanks, in particular, to favourable conditions in the labour market.

At 6.9 per cent, the pace of growth in the Chinese economy continued to slow. This trend is set to continue in the years ahead. Conditions remained difficult in the truck and construction equipment sector, which is a core market for DEUTZ. The Russian economy slipped into recession due to the crisis and sanctions; the growth engine was still not running smoothly in South America either.

Weakness in DEUTZ's customer industries Demand in our main customer markets fell in 2015. According to DEUTZ's own estimates, demand for construction equipment – excluding the effect of the advance production of engines – was down by around 10 per cent in Europe and was unchanged year on year in North America. In China, however, demand fell by around 44 per cent[1]. According to the VDMA[2], the agricultural machinery sector in Europe contracted by 8 per cent in the year under review. The market for medium and heavy-duty trucks contracted by 29 per cent in China[3].

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS PERFORMANCE

DEUTZ suffering from customers' reluctance to invest Whereas the global economy grew by 3.1 per cent in 2015, DEUTZ's revenue fell by 18.5 per cent and its unit sales by 29.8 per cent. The even greater decrease in unit sales was due to the growing proportion of unit sales accounted for by higher-value engines. Overall, most of our key customer sectors experienced significant negative growth. DEUTZ's performance was therefore similar to that of its customer sectors.

The economy in the eurozone expanded by 1.5 per cent in the year under review. DEUTZ's key customer sectors in this region did poorly, however: volumes in the agricultural machinery sector were down by roughly 8 per cent, for example, and demand for construction equipment declined by around 10 per cent. Furthermore, European customers drew on their inventories of the engines that they had purchased on a large scale in 2014 in anticipation of the new emissions standard. DEUTZ's revenue in our biggest market, EMEA (Europe, Middle East and Africa), went down by 27.6 per cent in 2015; the decrease in unit sales was 38.6 per cent. US economic output grew by a relatively strong 2.5 per cent in 2015, and demand for construction equipment in North America was at the same level as in 2014. Our unit sales in the Americas region fell by 11.0 per cent, but we were able to increase our revenue by 7.3 per cent. Momentum in China, our key international market, continued to slow, with economic growth of 6.9 per cent year on year. In this environment, the markets for construction equipment and medium and heavy-duty trucks declined by approximately 44 per cent and 29 per cent respectively. By contrast, DEUTZ's revenue rose by 18.8 per cent and its unit sales by 14.4 per cent in the Asia-Pacific region. However, the revenue generated by our DEUTZ (Dalian) Engine Co., Ltd. joint venture, which is not included in consolidated revenue, dropped by 5.6 per cent year on year; its unit sales were down by a substantial 29.5 per cent.

RESEARCH AND DEVELOPMENT

Research and development expenditure (after deducting grants)[1]

€ million (R&D ratio in %)

2015	**40.8**	**(3.3)**
2014	53.1	(3.5)
2013	52.6	(3.6)
2012	62.1	(4.8)
2011	84.6	(5.5)

[1] Spending on research and development after deducting grants received from major customers and development partners.

R&D spending scaled back as planned Expenditure on research and development in 2015 amounted to €49.5 million (2014: €68.7 million). After deducting grants received from major customers and development partners, expenditure was €40.8 million (2014: €53.1 million). The R&D ratio (after deducting grants), i.e. the ratio of net development expenditure to consolidated revenue, fell marginally as planned to 3.3 per cent (2014: 3.5 per cent). This decrease in R&D expenditure was largely due to all engines for the latest emissions standards, EU Stage IV/US Tier 4, having being launched in the market in 2014. In the year under review, 31.9 per cent of development expenditure after deducting grants was capitalised (2014: 49.5 per cent).

Spending by the DEUTZ Compact Engines segment after deducting grants came to €38.2 million (2014: €48.1 million) and that of the DEUTZ Customised Solutions segment came to €2.6 million (2014: €5.0 million).

Stage V ready During previous years, we had completely overhauled our engine portfolio for the EU Stage IV/US Tier 4 emissions standards. This has resulted in very compact engines, featuring low lifecycle costs and exhaust aftertreatment designs tailored to customer needs. Our engines in the 2.9 to 7.8 litre cubic capacity range that are equipped with diesel particulate filters already meet the next European emissions standard, EU Stage V, which is expected in 2019[4]. There are currently no plans for a further emissions standard in the USA.

[1] China Construction Machinery Association, January 2016; own estimates.
[2] Konjunkturbulletin of the German Engineering Federation (VDMA), November 2015.
[3] China Automotive Information Net, January 2016.

[4] The EU Commission's Stage V proposals as published on 25 September 2014.

We do not anticipate being faced again with such a complex challenge as that presented by the EU Stage IV/US Tier 4 emissions standards in future; rather, we expect to be able to market these engines well into the next decade. Going forward, developments will be influenced to a lesser extent by emissions legislation and, instead, will be driven by business decisions to a greater degree. We will continue to strive for technologically leading designs and to further improve the performance of our engines without increasing their size in future.

Expansion of the product portfolio We intend to enhance our product range with further developments. One of these is the TCD2.2, a three-cylinder engine that we are developing on the basis of the existing four-cylinder engine with a 2.9 litre capacity. In addition, we will offer smaller engines not only in a diesel variant but also in a liquefied petroleum gas (LPG) variant. The latter is a particularly interesting option for forklift trucks and other material handling applications.

Preliminary development work at a high level Exhaustive research and development will continue to provide the bedrock for DEUTZ's position at the forefront of innovation within the sector. Following the successful completion of work on the latest emissions standard, we can now turn our attention to other matters. The focus will be on electronics and software development as well as the enhancement of our exhaust aftertreatment technology in order to further reduce the space required for its installation.

New technical designs We are constantly developing new, innovative approaches and have recently expanded our activity in the field of alternative fuels. For example, we have developed the prototype for an engine powered by compressed natural gas (CNG), based on the TCD 3.6, and fitted it in a tractor. We carried out this project, which was supported by the German Foundation for the Environment, in cooperation with the University of Rostock and the SAME DEUTZ-FAHR Group. The tractor was showcased at Agritechnica in Hannover in November 2015.

Intellectual property rights safeguard our know-how We protect our know-how from unauthorised outside use by means of patents, patent applications and utility models. In 2015, we submitted 19 new patent applications, seven of which were in Germany. We now hold a total of 153 patents registered in Germany and 262 registered elsewhere.

PROCUREMENT

In 2015, purchasing continued to focus on improving the competitiveness of the engine portfolio by reducing material costs. We took decisive action as part of our defined material group strategies, primarily in relation to the model series in the segment for engines with capacities of up to four litres. Requirements for security of supply and supplier performance were further tightened, too.

Fall in commodity prices The price of cast-iron scrap continued to fall sharply in the year under review. The decrease in aluminium and copper prices was less pronounced. Platinum prices were significantly lower compared with previous years. The price of palladium followed a similar trajectory in 2015, although this element is far less important to DEUTZ than platinum. All average annual values lay below the range we had forecast. Overall, commodity prices have only a limited influence on the procurement prices for parts from suppliers because there is a very high element of value added.

Since the introduction of Tier 4, the proportion of product categories accounted for by EAT components has been rising. Nonetheless, foundry products (particularly cylinder heads and engine blocks), fuel injection equipment (predominantly pumps and valves) and measurement & control devices (for example mechanical and electronic regulators and sensors) make up the bulk of the overall volume of materials purchased.

Last year, we particularly focused on the procurement strategies for fuel injection, ECU, EAT and AGR. The more technology-intensive components have developed rapidly in recent years. Price structures have therefore changed over the past five years, and what were once new market players are becoming established suppliers. A structured process for selecting suppliers, conducting negotiations and awarding contracts has enabled us to avoid competitive disadvantages and ensure we have chosen the right strategic partners.

We have stepped up our level of procurement from emerging markets because prices in the manufacturing sector are coming under slight pressure as a result of the Chinese economic slowdown. We took advantage of this situation and were thus able to further reduce costs.

Supplier performance stabilised at a high level with further improvements Close collaboration between logistics and purchasing enabled us to improve average supplier performance over the year, with this metric rising by three percentage points compared with the previous year to over 97 per cent. This meant we largely avoided extra costs caused by short-term under-supply or delays.

Enduring improvement in supplier quality Our parts per million (ppm) rate as a performance indicator for defective parts was below 1,000 ppm for the fourth year in succession and thus remained at a historical low. This success is due to the rigorous and ongoing monthly evaluation of suppliers as well as the implementation of measures to improve supplier quality.

PRODUCTION AND LOGISTICS

In production and logistics, we quickly made changes to the number of employees and the provision of materials in response to the changing demand situation in 2015. Numerous measures were implemented as planned, following the decision made in 2014 to optimise the network of sites. Other areas of focus were workplace safety and ergonomics, product and process quality, and efficiency.

The Cologne plants, Germany Last year, we began various activities aimed at improving workplace safety and ergonomics at Cologne-Porz, our largest assembly site for production engines. We optimised the provision of materials and redesigned the picking zones. To optimise productivity, we replaced our driverless transport vehicles in the test bay. We expanded the employee information system that we had implemented in 2014. In addition, we stepped up both responsive and preventive measures aimed at improving quality.

Component manufacture Relocation of the components produced in the Cologne-Deutz plant has begun – one of the measures to optimise the network of sites. The main activity is the construction of a new 13,500m² shaft centre at our Cologne-Porz site, where crankshaft and camshaft manufacture will be located from mid-2016. As part of the detailed planning process, we optimised the layout of machines and the organisation of work using kaizen techniques and also improved their ergonomics.

The Herschbach component plant saw its largest individual capital expenditure project in recent years come on stream in 2015. It involves an ultra-modern processing centre with a pallet storage system in which all kinds of complex engine add-on components can be manufactured very cost-effectively in any batch size.

The plants in Ulm and Übersee on Lake Chiemsee, Germany As part of the site optimisation strategy, the Ulm plant is being expanded to become the plant for small production runs, focusing on DEUTZ Customised Solutions products, project business, exchange engines and models which are becoming obsolete. Assembly and order management were relocated to Ulm from Übersee on Lake Chiemsee in 2015. Despite the move, there was an increase in revenue from the reconditioned exchange engine business. Throughput times, which are critical in the Xchange process, were shortened and synergies were leveraged. All other functions will move from Übersee to Ulm in 2017.

The Zafra plant, Spain In future, our plant in Zafra (Spain) is to produce the crankcases for engines of up to four litres in addition to the other major engine components already manufactured there, namely cylinder heads, conrods and gearwheels. In addition to the crankcase for the 2011 engine series, which is now being produced in Zafra rather than inhouse in Cologne, the 2.9 crankcase will also be manufactured in Spain in future.

The plants in Georgia, USA In 2015, production of ready-to-install system solutions tailored to customer-specific or segment-specific needs was transferred from Norcross, Georgia to Pendergrass, Georgia. As a result, all activities in the value creation process for the US market are now consolidated at one site. This enables us to leverage synergies between the existing exchange engine production operations in Pendergrass and the relocated assembly line. Processes throughout the logistics chain and in production were optimised at the same time.

Logistics Last year, we brought additional suppliers within the scope of our demand and capacity management system which, at the end of 2015, covered some 95 per cent of the total purchasing volume. We extended the relevant procedures and processes in order to improve the stability of supply from critical suppliers. In connection with the closure of the Cologne-Deutz site, we transferred the empties centre back to the inhouse operation in the Cologne area. This secured an additional 35 permanent positions. We worked with a logistics service provider to set up and implement distribution centre structures for deliveries of engines to North America. This is saving both time and costs.

QUALITY

Quality is anchored in our corporate principles The DEUTZ name has always stood for high quality standards in engines. We intend to continue to live up to this reputation.

For this reason, we decided to introduce a zero-error strategy in 2015. Our main aim in pursuing this quality assurance programme is to ensure we always meet our customers' expectations. The idea is to detect errors before they actually occur. And where errors do occur, we have to learn from them quickly in order not to make the same mistakes again. One of the challenges in this context is that we offer a large number of variants and our products are now highly complex.

Last year, we also restructured the product development process in order to greatly improve the methods used and to ensure the quality department is involved from an early stage. Optimised processes for drawing up specifications should help to ensure that customers' wishes are reflected even more accurately in product development.

In 2015, our external certification body carried out a monitoring audit in order to review our adherence to the ISO 9001 (quality management), 14001 (environmental management) and 50001 (energy management) standards. All criteria were again met.

This enabled the certificates to be renewed. The more wide-ranging requirements resulting from the revised ISO 9001:2015 and 14001:2015 standards are currently being integrated into the existing DEUTZ management system.

INTERNATIONAL JOINT VENTURES

China has been a very challenging market for some time. Growth forecasts have been revised down, and there is considerable capacity in the engine production sector. At the start of 2015, we decided to consolidate our Chinese production operations in our established DEUTZ (Dalian) Engine Co., Ltd. joint venture in Dalian, China, which has adequate capacity.

We have been operating the DEUTZ Dalian joint venture with the First Automotive Works Group, one of China's leading vehicle manufacturers, since 2007. Here, we produce three to eight litre diesel engines, mainly for automotive applications for the Chinese market. The unit sales figure for 2015 was just short of 75,000 engines, a year on year decrease of 29.5 per cent. DEUTZ Dalian's business performance was severely affected by market conditions in China, especially in the truck and construction machinery segments. An improved product mix brought in revenue equivalent to roughly €340 million, down by 5.6 per cent year on year. Measured in the local currency, the fall in revenue was 19.6 per cent compared with 2014. The company, accounted for under the equity method, had a negative impact of €7.0 million on the DEUTZ Group's operating profit, having contributed €3.5 million to operating profit in 2014. We expect the market situation to remain challenging but predict a smaller negative impact on operating profit. Nevertheless, capacity utilisation will continue to have a strong influence on earnings.

We made significant progress in consolidating our other Chinese production activities in the year under review. The DEUTZ Engine (China) Co., Ltd. joint venture in Linyi, China, was wound up at the end of 2015. We had originally founded the company, which never made any substantial investments, with AB Volvo.

At the end of 2015, we sold our WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. joint venture in Weifang, China, to our previous co-shareholder, Weichai Power. The company only produces the 226B engine series under licence and we no longer considered it to be strategically important.

We have also begun the process of closing the DEUTZ Engine (Shandong) Co., Ltd. joint venture in Linyi, China, in which we have a 70 per cent shareholding. It is expected to be fully wound up during 2016. Implementation work in connection with this company was suspended and terminated at an early stage.

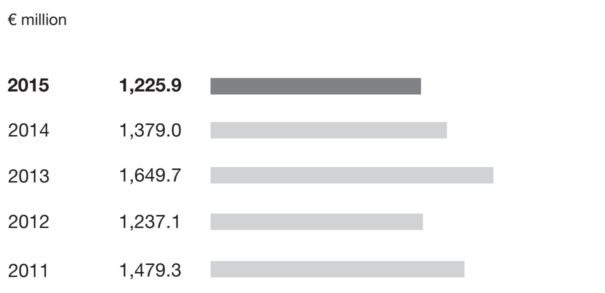
Overall, the winding-up and sale of the aforementioned companies – i.e. DEUTZ Engine China, WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. and DEUTZ Engine (Shandong) Co., Ltd. – resulted in a small contribution to earnings in the reporting year.

DEUTZ AGCO MOTORES S.A. (DAMSA), our Argentinian joint venture with the AGCO Group, produces engines for the local market, with a particular focus on agricultural machinery, buses and industrial applications. In 2015, the company sold around 1,150 engines in very challenging market conditions. It generated revenue of around €19 million, which was about a fifth more than in 2014 owing to price increases. The company made a loss of €0.1 million.

We hold a stake of 30 per cent in D.D. Power Holdings (Pty) Ltd., our South African joint venture. This sales and service company is active in the local market, focusing on sectors such as the local mining business. In the year under review, the company achieved revenue of around €20 million and a profit of approximately €2.5 million, with both figures increasing year on year.

NEW ORDERS

DEUTZ Group: New orders

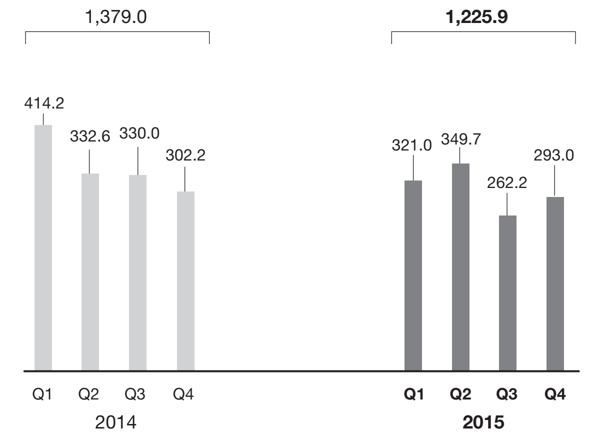


Decline in new orders compared with 2014 In 2015, the DEUTZ Group received orders worth €1,225.9 million, which was 11.1 per cent below the figure of €1,379.0 million achieved in the previous year. With the exception of the service business, where new orders rose by 7.2 per cent, all other application segments reported a decrease in new orders compared with 2014. New orders were down by 20.0 per cent in the Mobile Machinery application segment, by 8.9 per cent in the Stationary Equipment application segment and by 4.1 per cent in the Agricultural Machinery application segment. There was also a small decrease in the Automotive application segment of 1.3 per cent.

The level of new orders varied considerably over the course of the year. The second quarter was the only one with a year-on-year increase and, at €349.7 million, was also the strongest quarter. Year-on-year decreases were registered in all other quarters. As a consequence of the advance production of engines, European customers drew on their inventories of the engines that they had purchased on a large scale in 2014 in anticipation of the changing emissions standard, although this trend had been expected. From the third quarter onwards, end customers were very reluctant to invest, which had a huge negative impact on new orders in the second half of the year. At €262.2 million, the lowest level of new orders was registered in the third quarter. In the fourth quarter, orders amounted to €293.0 million, up by 11.7 per cent on the very weak previous quarter and down by 3.0 per cent on the fourth quarter of 2014.

DEUTZ Group: New orders by quarter

€ million

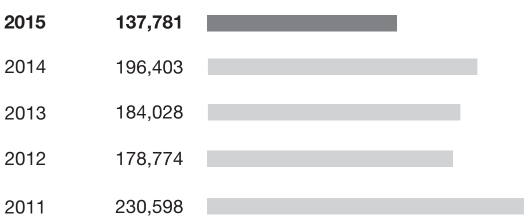


Orders on hand totalled €201.0 million as at 31 December 2015, a decline of 8.5 per cent compared with €219.7 million at the end of 2014.

UNIT SALES

DEUTZ Group: Unit sales

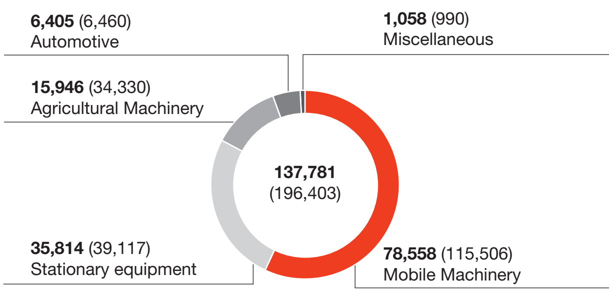
units



Year-on-year fall in unit sales DEUTZ sold 137,781 engines in the year under review, 29.8 per cent fewer than the 196,403 engines sold in 2014. The decreases in the Agricultural Machinery and Mobile Machinery application segments were particularly substantial at 53.6 per cent and 32.0 per cent respectively.

DEUTZ Group: Unit sales by application segment

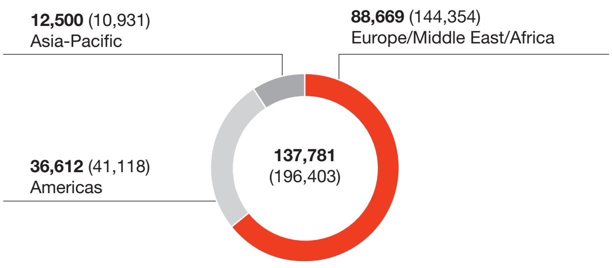
units (2014 figures)



The breakdown by region reveals a very disparate pattern. Unit sales in our biggest market – EMEA (Europe, Middle East and Africa) – dropped by 38.6 per cent to 88,669 engines. They were down by 11.0 per cent to 36,612 engines in the Americas. By contrast, unit sales in the Asia-Pacific region rose by 14.4 per cent to 12,500 engines.

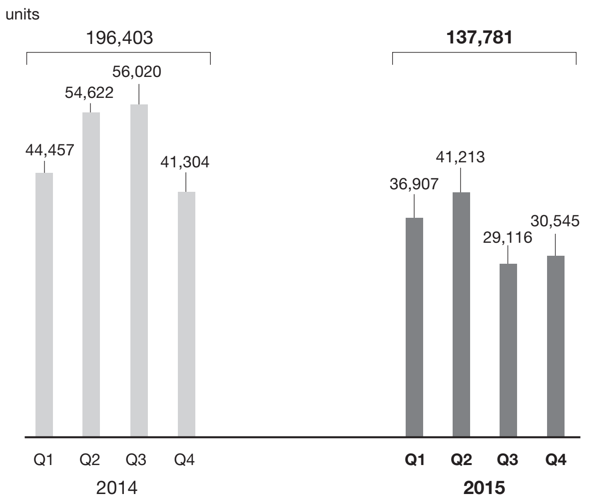
DEUTZ Group: Units sales by region

units (2014 figures)

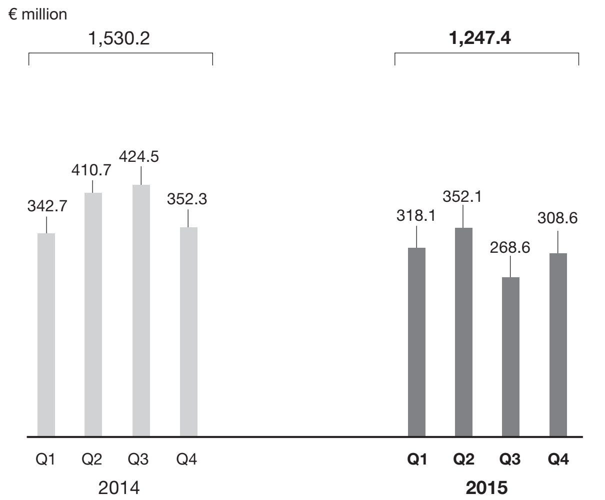


Significant year-on-year decreases were registered in all four quarters of the year. The highest unit sales figure was achieved in the second quarter with 41,213 engines. In the fourth quarter, 30,545 engines were sold, representing a slight increase of 4.9 per cent on the very weak previous quarter and a decline of 26.0 per cent compared with the fourth quarter of 2014.

DEUTZ Group: Consolidated unit sales by quarter

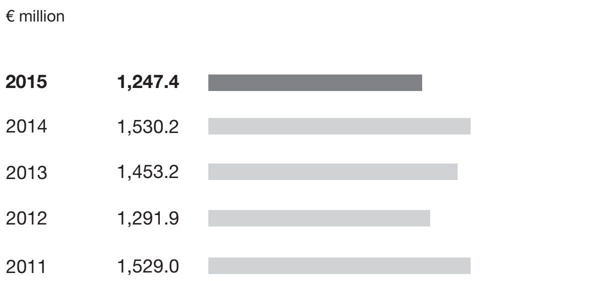


DEUTZ Group: Revenue by quarter



RESULTS OF OPERATIONS

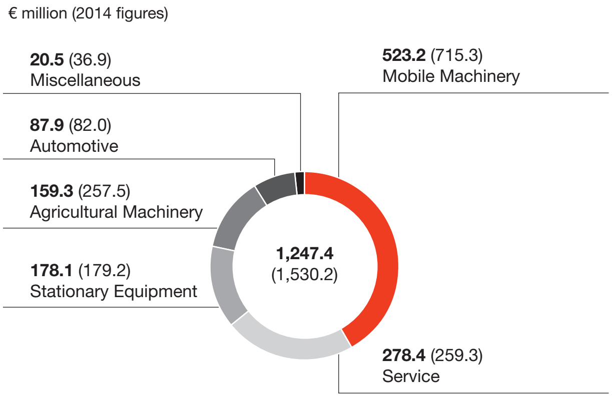
DEUTZ Group: Revenue



Revenue decline low relative to fall in unit sales In 2015, DEUTZ generated revenue of €1,247.4 million, 18.5 per cent less than in the previous year when revenue amounted to €1,530.2 million. This meant that we did not achieve the forecast published in the 2014 annual report, in which we predicted a decline in revenue of around 10 per cent. In September 2015, we revised our forecast to an approximately 20 per cent decrease in revenue, and we surpassed the revised revenue target. The decline in revenue is 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 showed a pronounced reluctance to invest in the second half of 2015, which is why we updated our forecast. The fall in revenue was, in percentage terms, not as substantial as the drop in unit sales.

Revenue levels were very uneven over the course of the year. After €318.1 million in the first quarter, revenue increased to €352.1 million in the second quarter before falling again to €268.6 million in the third. In the fourth quarter, we generated revenue of €308.6 million, which was 14.9 per cent more than in the previous quarter but 12.4 per cent less than in the fourth quarter of 2014. The second quarter was thus the strongest of the year, but all four quarters registered year-on-year falls.

DEUTZ Group: Revenue by application segment



Our largest application segment, Mobile Machinery, fell short of the significantly increased revenue figure reported in 2014. Its revenue was down by 26.9 per cent to €523.2 million in the reporting year. Revenue also decreased significantly in the Agricultural Machinery application segment, falling by 38.1 per cent to €159.3 million. However, revenue in the Stationary Equipment application segment was on a par with 2014 at €178.1 million, while the Automotive application segment's revenue was up by 7.2 per cent to €87.9 million and that of the service business rose by 7.4 per cent to €278.4 million.