

Risk report

Opportunities report

Outlook

Information relevant to accounting is shared on an ongoing basis with the Head of Finance, Accounting and Compliance and passed on to the Chief Financial Officer in regular meetings.

Besides discussing the single-entity and consolidated financial statements, the Audit Committee set up by the Supervisory Board regularly discusses the quarterly financial reporting. In addition, the Audit Committee's monitoring function includes the ICS set up by the Board of Management as well as the accounting process itself.

The internal audit department prepares a risk-based audit plan and verifies whether the statutory regulations and the DEUTZ Group's internal guidelines for its entire control and risk management system are being complied with. As part of its monitoring function it reviews whether the defined controls are functioning effectively. The findings of these reviews are reported directly to the Board of Management and allow us to eliminate any deficiencies that have been identified and ensure that the ICS is continually refined.

OPPORTUNITIES REPORT

In the fast-paced, dynamic markets in which the DEUTZ Group operates, there are, in addition to the aforementioned risk factors that can negatively impact on the attainment of the business objectives, also opportunities that can have a positive effect on the business objectives of the Group for 2016. Identifying and harnessing these opportunities is the responsibility of the individual operating segments of the Group. Unlike risks, opportunities are not collated and assessed centrally.

Unless otherwise stated, the opportunities described below refer to 2016 and relate to the DCE and DCS segments.

Economic situation in relevant markets Developments in the global economy have a major effect on the financial position and financial performance of the DEUTZ Group. If our expectations regarding the macroeconomic situation in our most important markets of Europe, the USA and Asia are exceeded, this can lead to us performing better than we predicted.

Research and development Increasingly stringent emissions standards and general technological progress are placing huge demands on our entire industry. We are one of the innovation leaders and have a very strong competitive position thanks to our proven expertise, our many years of experience and our efficient processes in the research and development of diesel engines and other drive systems.

The stricter emissions standards for construction equipment and agricultural machinery that were introduced in China with effect from 1 October 2015 present us with the opportunity to capitalise on this competitive edge and increase our share of the Chinese market in the short to medium term.

Production and quality The digital transformation of manufacturing, referred to as Industry 4.0, is exploring new approaches to production. In combination with projects to improve quality, this may lead to substantial efficiency increases and greater customer satisfaction in the short to medium term.

OUTLOOK

GLOBAL ECONOMIC FORECASTS LOWERED

The International Monetary Fund (IMF)¹⁾ has lowered its forecast for global economic growth once again. Nonetheless, at 3.4 per cent for 2016 and 3.6 per cent for 2017, this forecast is still higher than the 2015 figure of 3.1 per cent.

In particular, the predictions for developing countries and emerging markets have been revised slightly downward. For the industrialised nations, the IMF anticipates an overall growth rate of 2.1 per cent in 2016 and 2017 (2015: 1.9 per cent). The eurozone economy is expected to expand again, by 1.7 per cent both this year and next year, following 1.5 per cent in 2015. The growth forecasts for Germany are the same. In Spain, the buoyancy seen recently will taper off slightly. The US economy is expected to grow at a rate of 2.6 per cent in both 2016 and 2017, compared with 2.5 per cent in 2015. In China, the pace of growth will probably slow again, falling from 6.9 per cent in 2015 to 6.3 per cent this year and 6.2 per cent next year.

The business climate index²⁾ published by the ifo Institute of Economic Research dropped slightly in January 2016. This index, which covers trade and industry in Germany, stood at 107.3 points most recently, compared with 108.6 points (seasonally adjusted) in December 2015. Expectations have particularly deteriorated. The ISM purchasing managers' index³⁾ in the USA stood at 48.2 points on 1 February 2016. This indicates that economic activity is currently contracting.

DIESEL ENGINES MARKET

For construction equipment in 2016, we anticipate that the market in both Europe and North America will move within a narrow range of -5 per cent to +5 per cent and that the Chinese market will see a further decline of around 10 per cent to 20 per cent. For agricultural machinery, we predict that the market in Europe will either remain at its current level or contract by up to 5 per cent. We also expect the medium and heavy-duty truck sector in China to remain within a narrow range of -5 per cent to +5 per cent.

¹⁾ IMF World Economic Outlook Update, January 2016.

²⁾ ifo Institute of Economic Research, January 2016.

³⁾ ISM Institute for Supply Management, February 2016.