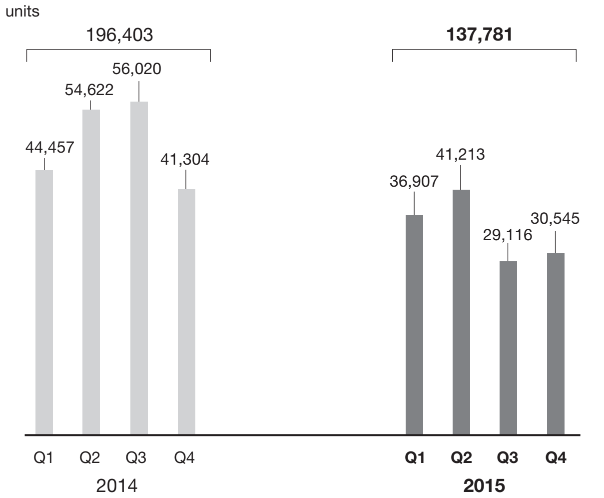
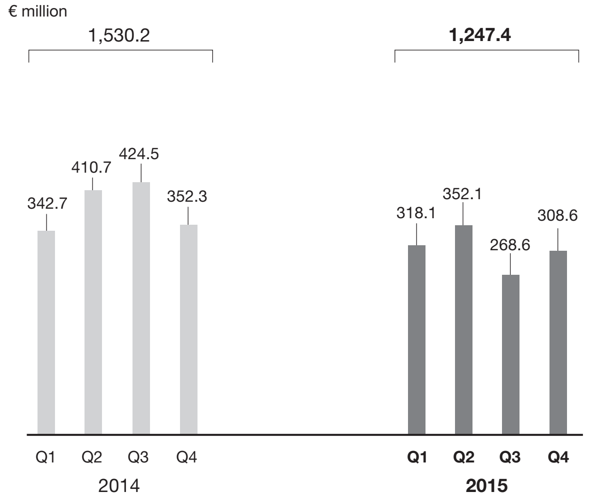
DEUTZ Group: Consolidated unit sales by quarter

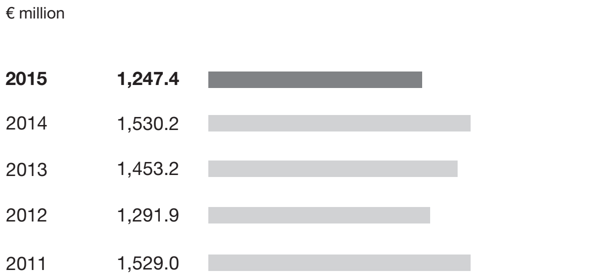


DEUTZ Group: Revenue by quarter



RESULTS OF OPERATIONS

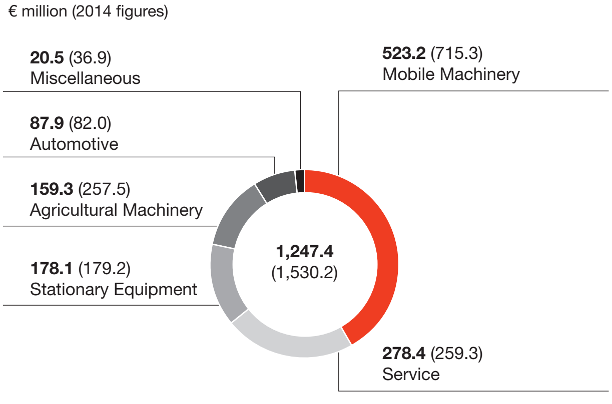
DEUTZ Group: Revenue



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.

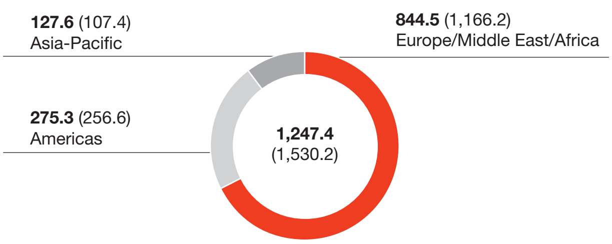
DEUTZ Group: Revenue by application segment



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.

DEUTZ Group: Revenue by region

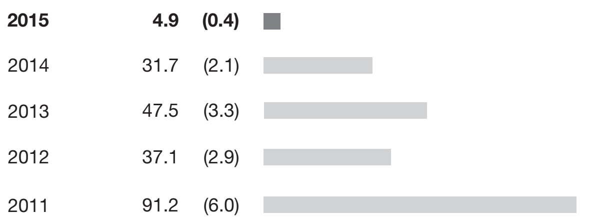
€ million (2014 figures)



Broken down by region, revenue in EMEA (Europe, Middle East and Africa) dropped by 27.6 per cent to €844.5 million. By contrast, revenue in the Americas region increased by 7.3 per cent to €275.3 million although, taken in isolation, the second half of 2015 was considerably worse than both the first half of 2015 and the second half of 2014. Moreover, revenue in the Asia-Pacific region climbed by an impressive 18.8 per cent to €127.6 million.

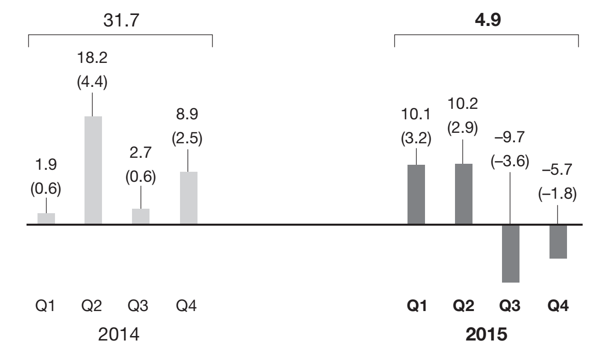
DEUTZ Group: Operating profit/EBIT margin before one-off items

€ million (EBIT margin in %)



DEUTZ Group: Operating profit (before one-off items)/EBIT margin by quarter

€ million (EBIT margin in %)



Earnings performance Operating profit before depreciation and amortisation (EBITDA before one-off items) amounted to €112.2 million in 2015, a year-on-year decrease of €25.2 million (2014: €137.4 million). This trend was mainly attributable to the decline in the volume of business in the DEUTZ Compact Engines segment and a smaller contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. caused by China's current economic slowdown. Earnings were boosted, however, by lower production costs and warranty costs, currency effects and increased revenue in the high-margin DEUTZ Customised Solutions segment. Despite low capacity utilisation, the EBITDA margin (before one-off-items) held steady at 9.0 per cent.

EBITDA before one-off items amounted to €26.6 million in the fourth quarter of 2015, a decrease of €16.3 million year on year (Q4 2014: €42.9 million) but an increase of €11.4 million compared with the previous quarter (Q3 2015: €15.2 million). This was due, in particular, to the change in the volume of business.

Operating profit after depreciation and amortisation (EBIT before one-off items) came to €4.9 million in 2015, a year on year reduction of €26.8 million (2014: €31.7 million). Before one-off items, the EBIT margin for the reporting year was 0.4 per cent (2014: 2.1 per cent). We were thus unable to match the forecast for 2015 of around 3 per cent that we had published at the start of the year. This was mainly due to the very sharp fall in the volume of business during the second half of the year. However, we did fully meet the revised forecast, issued in September 2015, for operating profit at around break-even level. Depreciation and amortisation included impairment losses totalling €9.7 million on intangible assets and on property, plant and equipment. In 2014, there had been impairment losses before one-off items of €9.5 million. The impairment losses were recognised in the year under review because of the market situation and mainly related to capitalised development expenditure. In the fourth quarter of 2015, the operating loss before one-off items amounted to €5.7 million (Q3 2015: loss of €9.7 million; Q4 2014: profit of €8.9 million), giving an EBIT margin of minus 1.8 per cent (Q3 2015: minus 3.6 per cent; Q4 2014: 2.5 per cent).

After one-off items, operating profit (EBIT) deteriorated by €7.9 million (2014: €12.8 million). In the previous year, EBIT had been reduced by one-off items of €18.9 million relating mainly to expenses connected with the measures to optimise the network of sites. There were no one-off items in the year under review.

There was a deterioration in return on capital employed (ROCE)[1], our internal KPI, from 3.9 per cent in 2014 to 0.6 per cent in 2015. This was due to the unexpectedly strong contraction in the volume of orders and to the impairment losses recognised on intangible assets and on property, plant and equipment. At the start of the year, we expected ROCE to rise slightly compared with 2014. However, we were unable to achieve this forecast due to the reasons outlined above.

[1] Return on capital employed (ROCE before one-off items): ratio of EBIT before one-off items to average capital employed. Capital employed: total assets less cash and cash equivalents, trade payables and other current and non-current liabilities, based on average values from two balance sheet dates.

Cost of sales In 2015, the cost of sales amounted to €1,054.8 million (2014: €1,327.6 million). This year-on-year decrease of 20.5 per cent was mainly attributable to lower costs for materials, staff and contract workers resulting from the decline in the volume of unit sales. There was also a substantial decrease in warranty costs. Accordingly, the ratio of cost of sales to revenue fell from 86.8 per cent in 2014 to 84.6 per cent in 2015. The gross margin therefore improved markedly – despite the smaller volume of business.

Overview of the DEUTZ Group's results of operations

€ million

	2015	2014
Revenue	1,247.4	1,530.2
Cost of sales	–1,054.8	–1,327.6
Research and development costs	–76.3	–74.3
Selling and administrative expenses	–104.8	–100.0
Other operating income	29.3	22.9
Other operating expenses	–30.6	–41.4
Profit/loss on equity-accounted investments	–6.3	1.9
Other financial income	1.0	1.1
Operating profit (EBIT)	4.9	12.8
One-off items	–	–18.9
EBIT (before one-off items)	4.9	31.7
Interest expenses, net	–4.0	–6.1
Income taxes	2.6	12.8
Net income	3.5	19.5

Research and development costs In the year under review, research and development costs totalled €76.3 million (2014: €74.3 million). Although R&D expenditure, which is a metric relevant to liquidity, was reduced as planned, R&D costs increased slightly (by €2.0 million) because of the far lower capitalisation rate. Research and development costs largely comprised staff costs, cost of materials and amortisation on completed development projects, from which investment grants received and capitalised development expenditure were deducted.

Selling and administrative expenses There was a small rise in selling expenses, which advanced to €68.3 million in 2015 (2014: €65.7 million), and in administrative expenses, which went up to €36.5 million (2014: €34.3 million). Administrative expenses included transition costs in connection with the switch of IT service provider at the end of the year under review. Without this one-off cost item, there would have been a moderate decline in administrative expenses. As a proportion of revenue, selling and administrative expenses rose to 5.5 per cent (2014: 4.3 per cent) and 2.9 per cent (2014: 2.2 per cent) respectively, due to the greatly reduced volume of business.

Other operating income The reporting year saw an increase of €6.4 million in other operating income to €29.3 million (2014: €22.9 million). This rise was primarily attributable to effects arising on the translation of foreign currency positions. However, foreign currency gains were offset by a similar level of foreign currency losses, which are reported in other operating expenses. Furthermore, a gain on disposal of €2.9 million was recognised following the disposal of the shares in WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD., Weifang, China, in 2015. Other operating income also included a gain of €1.0 million arising from the deconsolidation of DEUTZ Engine (China) Co. Ltd., Linyi, China.

Other operating expenses Other operating expenses totalled €30.6 million in the reporting year, a year-on-year decrease of €10.8 million (2014: €41.4 million). The prior-year figure had included restructuring costs of €17.1 million. Excluding this one-off effect in the prior-year figure, other operating expenses increased by €6.3 million in 2015 as a result of higher losses arising on the translation of foreign currency positions.

Profit/loss on equity-accounted investments In 2015, there was a loss on equity-accounted investments of €6.3 million, a deterioration of €8.2 million compared with the profit on equity-accounted investments reported for 2014 of €1.9 million. This change is primarily attributable to the contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. on the back of China's pronounced economic slowdown. Further information can be found in the 'International joint ventures' section on page 36.

Net interest expense Net interest expense amounted to €4.0 million (2014: €6.1 million). This significant year-on-year improvement of €2.1 million was attributable to lower utilisation of credit lines.

Income taxes In 2015, there was overall tax income of €2.6 million (2014: €12.8 million). This amount included the current tax expense of €5.7 million, which was €3.4 million lower than in the previous year (2014: €9.1 million). The main factors in this decrease were the drop in earnings at DEUTZ Corporation, Atlanta, USA, and the reversal of provisions for income taxes relating to the tax audit conducted at DEUTZ AG for the years 2009 to 2011. The current tax expense was offset by deferred tax income of €8.3 million. This mainly resulted from the reversal of deferred tax liabilities arising in connection with the capitalisation of development expenditure under IFRS. The year-on-year decrease was €13.6 million (2014: €21.9 million). The deferred tax income reported in 2014 was largely influenced by effects from the tax audit carried out at DEUTZ AG for the years 2009 to 2011.

Earnings per share As a result of weaker operating profit and lower deferred tax income, net income dropped to €3.5 million in 2015, a year-on-year decrease of €16.0 million (2014: €19.5 million). This resulted in earnings per share of €0.04 (2014: €0.18).

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group: Segments

€ million	2015	2014
New orders		
DEUTZ Compact Engines	958.4	1,115.0
DEUTZ Customised Solutions	267.5	264.0
Total	**1,225.9**	**1,379.0**
Unit sales (units)		
DEUTZ Compact Engines	125,214	183,125
DEUTZ Customised Solutions	12,567	13,278
Total	**137,781**	**196,403**
Revenue		
DEUTZ Compact Engines	967.2	1,279.9
DEUTZ Customised Solutions	280.2	250.3
Total	**1,247.4**	**1,530.2**
EBIT before one-off items		
DEUTZ Compact Engines	–31.9	15.2
DEUTZ Customised Solutions	31.3	18.8
Other	5.5	–2.3
Total	**4.9**	**31.7**

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

New orders down on prior year In 2015, the DEUTZ Compact Engines (DCE) segment received new orders worth €958.4 million, 14.0 per cent down on 2014 when orders worth €1,115.0 million were received. As was the case at Group level, only the service business grew, increasing by 3.5 per cent to €160.7 million. In the Mobile Machinery application segment, new orders were down by 21.9 per cent to €463.2 million. The Automotive, Agricultural Machinery and Stationary Equipment application segments also reported decreases of 10.8 per cent, 4.8 per cent and 3.6 per cent respectively. Orders on hand amounted to €137.2 million at the end of the year, down by 3.0 per cent compared with the end of 2014.

Fewer engines sold Unit sales in the DCE segment fell by almost a third to 125,214 engines. The number sold in the prior year was 183,125 engines. In EMEA, our largest market, 81,428 engines were sold, which was 40.7 per cent fewer than in 2014. Unit sales went down by 8.3 per cent in the Americas region but rose by 15.2 per cent in the Asia-Pacific region. There were decreases across all application segments, with particularly pronounced drops for Agricultural Machinery and Mobile Machinery of 53.9 per cent and 32.8 per cent respectively.

Revenue also down year on year At €967.2 million, revenue in the DCE segment declined by 24.4 per cent (2014: €1,279.9 million). The fall in revenue was therefore not as substantial as the drop in unit sales – as was also the case at Group level. The EMEA region's revenue decreased by 32.8 per cent to €683.7 million. By contrast, the Americas region rose by 7.6 per cent to €228.1 million and the Asia-Pacific region by 10.6 per cent to €55.4 million. Revenue decreased by 29.5 per cent in the Mobile Machinery application segment, by 39.2 per cent in the Agricultural Machinery application segment and by 12.8 per cent in the Automotive application segment. However, revenue in the service business was up by 5.6 per cent year on year and in the Stationary Equipment application segment it increased by 1.7 per cent.

Q4 better than Q3 in 2015 In the DCE segment, new orders reached €234.4 million in the fourth quarter of 2015, which was on a par with the prior-year figure of €232.5 million and represented a significant increase of 20.8 per cent on the third quarter of 2015. Unit sales fell by 24.5 per cent to 27,618 engines year on year but rose by 5.2 per cent compared with the previous quarter. Revenue in the final quarter of 2015 amounted to €237.1 million, which was 14.4 per cent less than the fourth quarter of 2014 but 17.5 per cent more than in the third quarter of 2015.