

**ANNUAL REPORT 2015**

## DEUTZ GROUP: KEY FIGURES

€ million

	2015	2014	Change %
New orders	1,225.9	1,379.0	-11.1
Unit sales (units)	137,781	196,403	-29.8
Revenue	1,247.4	1,530.2	-18.5
EBITDA	112.2	120.3	-6.7
EBITDA before one-off items	112.2	137.4	-18.3
EBIT	4.9	12.8	-61.7
EBIT before one-off items	4.9	31.7	-84.5
EBIT margin (%)	0.4	0.8	-
EBIT margin before one-off items (%)	0.4	2.1	-
Net income	3.5	19.5	-82.1
Earnings per share (€)	0.04	0.18	-77.8
Dividend per share (€)	0.07	0.07	-
Total assets	1,088.1	1,149.2	-5.3
Non-current assets	520.5	563.6	-7.6
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 <sup>1)</sup>	35.0	52.0	-32.7
Net financial position <sup>2)</sup>	39.0	13.7	-
Working capital <sup>3)</sup>	183.6	196.2	-6.4
Working capital ratio (31 Dec, %) <sup>4)</sup>	14.7	12.8	-
Capital expenditure (excl. capitalisation of R&D, after deducting grants)	56.2	40.3	39.5
Depreciation and amortisation	107.3	107.5	-0.2
Research and development (after deducting grants)	40.8	53.1	-23.2
thereof capitalised	13.0	26.3	-50.6
Employees (31 Dec)	3,730	3,916	-4.7

<sup>1)</sup> Free cash flow: cash flow from operating and investing activities less net interest expense.

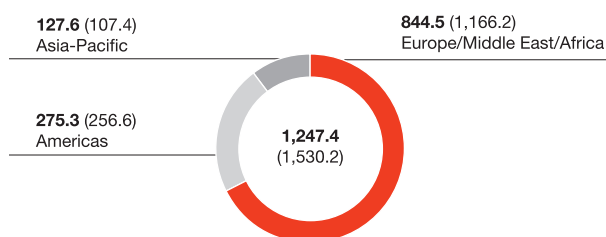
<sup>2)</sup> Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.

<sup>3)</sup> Working capital: inventories plus trade receivables minus trade payables.

<sup>4)</sup> Working capital ratio (percentage as at balance sheet date): working capital as at balance sheet date divided by revenue for the previous twelve months.

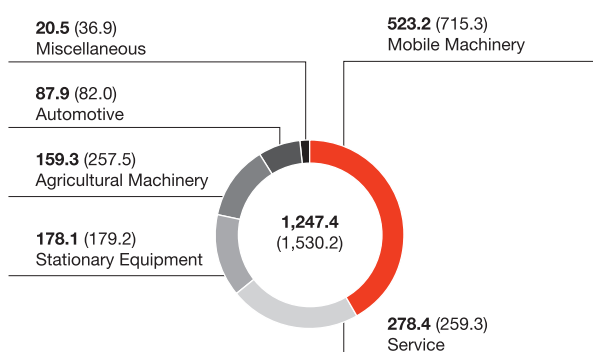
### DEUTZ Group: Revenue by region

€ million (2014 figures)



### DEUTZ Group: Revenue by application segment

€ million (2014 figures)



## DEUTZ AG

DEUTZ AG is an independent manufacturer of diesel engines with a power output of 25 to 520 kW and is headquartered in Cologne, Germany. For more than 150 years, the name DEUTZ has been synonymous with cutting-edge technology and high-quality products. We currently employ 3,730 people and have a presence in over 130 countries.

## DEUTZ AROUND THE WORLD



### Key

- Production/assembly/components plant
- ▲ Sales company
- Sales office

In addition: over 800 independent DEUTZ sales and service partners in more than 130 countries

### Americas

- Argentina**  
 ●▲ Buenos Aires
- Brazil**  
 ▲ São Paulo
- USA**  
 ▲ Atlanta  
 ● Pendergrass

### Europe

- Germany**  
 ● Herschbach  
 ● Cologne  
 ● Übersee  
 ● Ulm
- France**  
 ▲ Gennevilliers/  
 Paris
- UK**  
 ■ Cannock

- Russia**  
 ▲■ Moscow
- Spain**  
 ▲ Madrid  
 ● Zafra

### Africa

- Algeria**  
 ■ Algiers
- Morocco**  
 ▲ Casablanca
- South Africa**  
 ▲ Johannesburg

### Asia

- China**  
 ●▲ Dalian  
 ▲ Beijing  
 ■ Shanghai
- India**  
 ▲ Pune

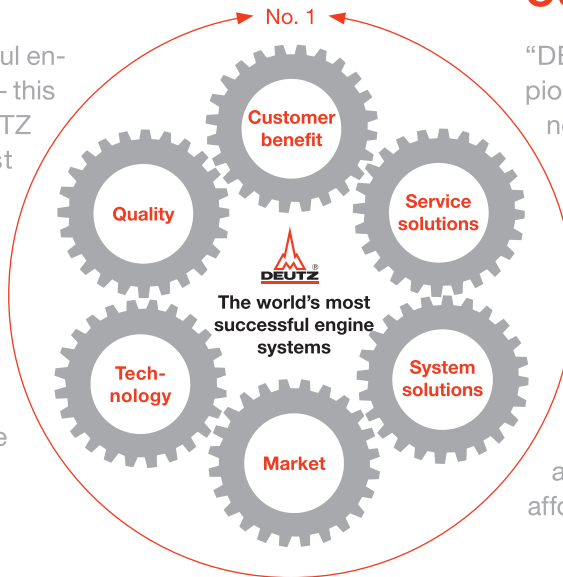
### Australia

- ▲ Melbourne

- Singapore**  
 ▲ Singapore
- UAE**  
 ■ Abu Dhabi

## OUR VISION

“To offer the most successful engine systems in the world” – this is our vision. In 1864, DEUTZ became the world’s first engine manufacturer ever. We intend to remain ‘No. 1’ when it comes to customer benefit, quality, technology and everything to do with engine system and service solutions; not least, we intend to remain No. 1 in the market.



## OUR MISSION

“DEUTZ has been a byword for pioneering spirit, passion and innovation since its foundation in 1864. We invented the internal combustion engine and have improved it every day since then. We are leading the way in developing environmentally-friendly and efficient drive technologies. Our customer-specific solutions offer long-lasting high quality and reliable performance at an affordable total cost of ownership.”

## DEUTZ SEGMENTS

### DEUTZ Compact Engines



- Liquid-cooled engines of up to 8 litres cubic capacity for on-road and off-road applications
- Large number of modular approaches to design
- Major joint ventures in China

### DEUTZ Customised Solutions



- Air-cooled engines for on-road, off-road and marine applications
- Liquid-cooled engines of over 8 litres for on-road, off-road and marine applications
- Reconditioned (Xchange) engines for all DEUTZ engine series

### DEUTZ Compact Engines

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

### DEUTZ Customised Solutions

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



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## 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



## DEUTZ SHARES

The stock markets were characterised by very strong price volatility in 2015. On 10 April 2015, the DAX reached an all-time high of 12,374.73 points on the back of the European Central Bank's expansionary monetary policy. Shares subsequently came under severe pressure as the economic climate deteriorated. The DAX closed the year at 10,743.01 points and was thus 9.6 per cent higher than it had been twelve months earlier.

### DEUTZ SHARES FALL COMPARED WITH PREVIOUS YEAR

The SDAX, in which DEUTZ shares are listed, rose in value by 26.6 per cent in 2015 and closed at 9,098.57 points (end of 2014: 7,186.21 points). The DAXsector Industrial, which includes major German industrial companies, gained 14.3 per cent in the reporting year to close at 4,853.88 points (end of 2014: 4,244.82 points).

By contrast, DEUTZ shares fell during 2015. They closed at €3.69 on 30 December 2015, down by 7.8 per cent on their 2014 closing price of €4.00. Having begun the year positively, the DEUTZ share price reached its high for the year of €5.59 on 4 August 2015. On 15 September 2015, we announced that revenue and earnings for the year as a whole would be lower than previously expected owing to a reluctance to invest on the part of end customers. The price of DEUTZ shares then fell substantially, reaching the low for the year of €2.86 on 24 September 2015. By the end of the year, the shares had recovered again.

Market capitalisation stood at €446.0 million as at 30 December 2015, compared with €483.4 million at the end of 2014.

#### Key figures for DEUTZ shares

	2015	2014
Number of shares (31 Dec)	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price as at 31 Dec (€)	3.69	4.00
Share price high (€)	5.59	7.94
Share price low (€)	2.86	3.35
Market capitalisation as at 31 Dec (€ million)	446.0	483.4
Earnings per share (€)	0.04	0.18

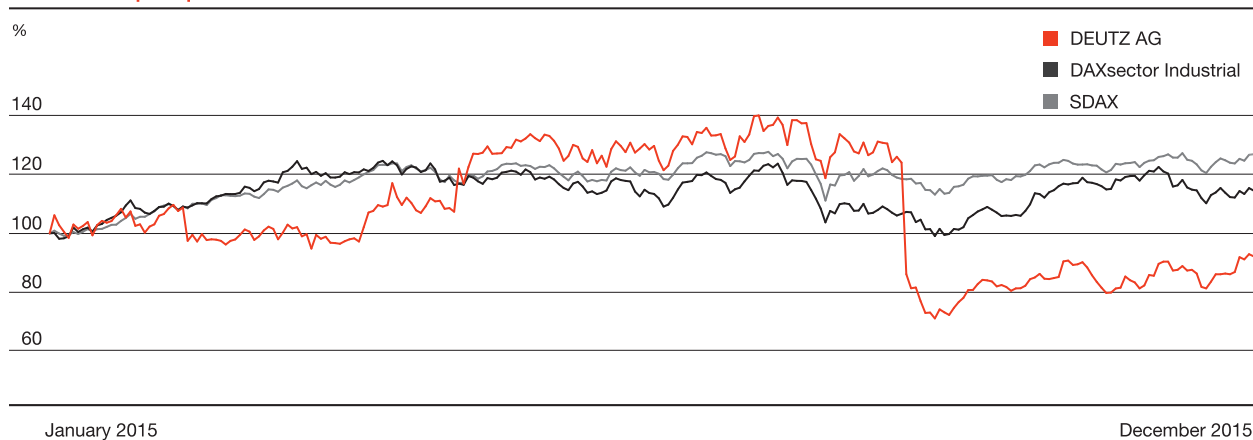
### EARNINGS PER SHARE

Earnings per share is calculated by dividing the net income for the year attributable to the shareholders of DEUTZ AG by the weighted average number of shares in issue. In the year under review, the number of DEUTZ shares in issue was 120.9 million. Basic earnings per share was therefore €0.04 compared with €0.18 in 2014.

#### Key data on stock market listing

ISIN	DE0006305006
WKN	630500
Reuters	DEZG.DE
Bloomberg	DEZ:GR
Market segment	Regulated Market/Prime Standard
Trading platforms	Xetra, Frankfurt/Main, Düsseldorf

### DEUTZ share price performance in 2015



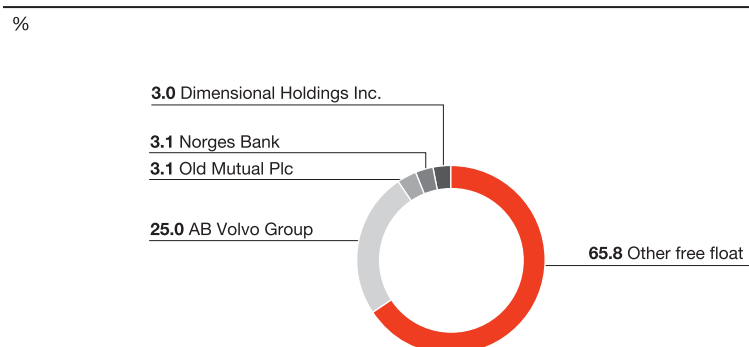
### DIVIDEND ENABLES SHAREHOLDERS TO SHARE IN PROFITS

The Board of Management and Supervisory Board propose that the dividend paid for 2015 should remain unchanged at €0.07. This enables us to fulfil our aim of paying a consistent dividend, despite a difficult financial year. We plan to carry on enabling our shareholders to participate in the success of our Company in the form of a regular dividend. At the same time, we intend to continue funding a significant proportion of our growth ourselves, that is to say from our own capital.

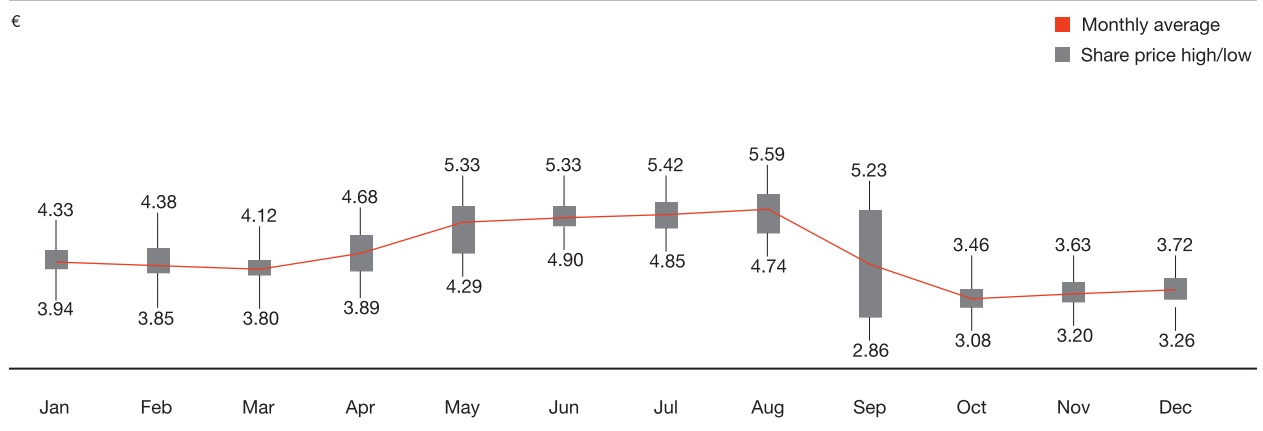
### THREE-QUARTERS OF ALL DEUTZ SHARES IN FREE FLOAT

Swedish truck and construction equipment manufacturer AB Volvo is the largest individual shareholder in DEUTZ AG with a stake of just over 25 per cent. The proportion of free float shares is almost 75 per cent, and it is held by a broadly diversified range of private and institutional shareholders both in Germany and abroad. Most of the private investors are in Germany, although fund management companies based in North America held the largest proportion among the institutional investors. At the end of 2015, Old Mutual Plc and Norges Bank each held 3.1 per cent of our Company, while Dimensional Holdings Inc. held 3.0 per cent. These are considered non-controlling shareholdings.

### Shareholder structure as at 31 December 2015



### DEUTZ share price high and low for 2015



### INTENSIVE INVESTOR-RELATIONS WORK

We provide all shareholders with prompt, transparent and comprehensive information about all significant events in our Company with the objective of gaining the strong acceptance and long-term trust of our shareholders. Last year, we worked closely with our shareholders, analysts and all other interested parties in the capital markets. The latest corporate information, such as presentations, financial reports, press releases and ad-hoc announcements, is always available on our website.

At our annual results press conference and analysts' meeting in Frankfurt am Main on 19 March 2015, we presented the DEUTZ annual financial statements and our future strategic direction. We also held conference calls when we published our quarterly results.

In 2015, we participated in a total of 15 roadshows and investor conferences in Germany, the United Kingdom, France, Switzerland and the United States. We met personally with analysts, institutional investors and private investors on various other occasions throughout the year.

### NINE ANALYSTS MONITOR DEUTZ SHARES

Nine banks and securities houses currently monitor the performance of DEUTZ shares: Bankhaus Lampe, Commerzbank, Credit Suisse, Deutsche Bank, DZ Bank, Equinet, HSBC Trinkaus & Burkhardt, Kepler Cheuvreux and Quirin Bank.

Further information can be found on our website at [www.deutz.com](http://www.deutz.com) under Investor Relations.

If you need more information, visit our website or give us a call:

### INVESTOR RELATIONS

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# OUR DRIVING FORCE

DEUTZ engines are always at the cutting edge and, with their many patents and innovations, have had a crucial influence on the development of the modern diesel engine. One of the key factors in this success has been our diverse range of services.





# OUR ENGINES

With power outputs from 25 to 520kW, DEUTZ engines are ideally suited to a variety of applications in a wide range of equipment classes. Our ambition is always to precisely meet the requirements of our customers with individual system solutions, high quality and advanced technology. To achieve this, we constantly provide future-proof solutions at an early stage. The best illustration of this is that the DEUTZ 'Stage V ready' TCD engines already meet the EU Stage V emissions standard which will apply from 2019<sup>1)</sup>. The technology underpinning this is delivered by our highly-developed exhaust aftertreatment system, in particular the diesel particulate filter (DPF), an indispensable element if Stage V is to be met. This is where DEUTZ customers benefit from our wealth of expertise, since our DPF is already available while the current Stage IV applies. This gives us detailed know-how of practical equipment-specific use, and it provides our customers with an assured and series-tested technology.

Particularly significant features of the entire DEUTZ engine portfolio are the compact engine dimensions and a customer-oriented, modular system of optional add-on parts. This considerably reduces installation costs. The modular exhaust aftertreatment system DVERT<sup>®</sup>, standing for DEUTZ Variable Emission Reduction Technology, always ensures the desired outcome as regards engine performance, adherence to emissions limits and competitiveness.

<sup>1)</sup>The EU Commission's Stage V proposals as published on 25 September 2014.









## DEUTZ SERVICE: LIFETIME SUPPORT

# TAKING THE NEXT STEP

Our business has changed significantly over the past few years, not least because of the introduction of the new emissions standards. The new generation of engines, for example, relies on hardware and software which is becoming increasingly complex; at the same time, the requirements of our major customers and equipment operators for service quality and speed of reaction are also constantly growing. To satisfy all these needs, DEUTZ has also continued to develop the service side of its business in recent years.

### Lifetime Support for every stage in the collaborative relationship

As far as DEUTZ is concerned, a commercial relationship does not end with the sale of an engine. Quite the opposite: a successful, collaborative working relationship includes great mutual understanding and the ability to come up with solutions – rapidly, competently and without bureaucracy at every stage of the relationship.



**DEUTZ  
SERVICE  
NETWORK**



**DEUTZ  
XCHANGE**



**DEUTZ  
MAINTENANCE**

For us, service means 'Lifetime Support'. DEUTZ provides a comprehensive range of products and services for the entire service life of engines and equipment, consisting of the following seven product areas:

- DEUTZ SPARE PARTS
- DEUTZ MAINTENANCE
- DEUTZ XCHANGE
- DEUTZ SERVICE NETWORK
- DEUTZ EMISSION MANAGEMENT
- DEUTZ ENGINE PLUS
- DEUTZ E-SERVICES





## DEUTZ EMISSION MANAGEMENT

### Service plays a particularly important role within the over-all package

In addition to the product itself, today's engine manufacturers are expected to provide a whole range of services. This starts with application engineering, i.e. integrating the engine into the equipment manufacturer's machinery, and it ends years or even decades later when the engine is reconditioned. Consequently, offering a comprehensive range of services is a significant competitive factor for DEUTZ.

The increasing technical complexity of engines is an important factor when it comes to servicing. Due to ever more stringent emissions legislation, today's diesel engines are fitted with a whole range of additional systems. From a technological perspective, there is a world of difference between an older generation, air-cooled DEUTZ engine and the latest, electronically controlled engines.

This poses major challenges for the entire DEUTZ service network when it comes to service provision across the world and running essential training courses for our service partners in the maintenance, diagnosis and repair of the current generation of engines.



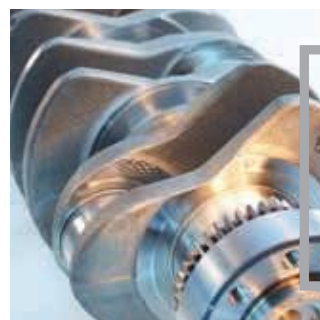
## DEUTZ E-SERVICES

## DEUTZ ENGINE PLUS



### Our service network and our products are continually developed

In order to meet these challenges, we will continue to develop the DEUTZ service network and adapt it to changing requirements. Similarly, we will also continue to expand our range of services. In the new Engine Plus product segment, in particular, products and services covering every aspect of the engine will become increasingly important in the future.



## DEUTZ SPARE PARTS



## DEUTZ SERVICE NETWORK

### **WORLDWIDE AT YOUR SIDE**

DEUTZ's global service network is the cornerstone of the comprehensive field support that we offer our customers. 13 sales companies, eight sales offices, 17 service centres and over 800 sales and service partners in more than 130 countries around the world are available day and night. Highly trained and motivated service staff provide expert advice and assistance, whatever the problem.





# WORLDWIDE AT YOUR SIDE

**N**o matter whether a customer calls some agricultural machinery or a tractor his own or whether he runs a fleet of construction equipment with the latest engine technology – as an operator of a DEUTZ engine, he is part of the global DEUTZ community, a community characterised by strong loyalty to the DEUTZ brand.

Owning a DEUTZ was always something special, and one of the most important and fundamental pillars of this community is the smoothly functioning global service network.

#### Comprehensive global range of services

- 13 sales companies, eight sales offices, 17 service centres and more than 800 distribution and service partners are ready to assist our customers day and night in more than 130 countries throughout the world. Our well-trained and highly-motivated service staff can provide expert advice and support whatever the problem.
- We make special demands of our service partners. Intensive, regular training sessions ensure that all of them are always up-to-date with the latest DEUTZ engine technology – particularly in view of the ever more stringent emissions regulations.
- Both we and our service partners are happy to undertake the tasks of commissioning, servicing and maintaining an engine. We can offer services which are specially tailored to each particular application.
- Comprehensive parts documentation, updated daily, allows our cutting-edge software to rapidly and accurately identify parts for all 1.5 million DEUTZ engines currently in use throughout the world.







*An important cornerstone:  
a well-functioning global  
service network*



A man with short, curly brown hair, wearing a brown jacket, is shown in profile, looking towards the right. He is holding a dark object, possibly a phone or a small device, near his face. The background is a blurred office environment with computer monitors and desks.

DEUTZ ENGINE PLUS

## **SERVICES FOR YOUR ENGINE**

DEUTZ Engine Plus refers to our broad range of products and services for your engine. From bespoke application engineering to retrofitting of all kinds of add-on components, DEUTZ offers comprehensive support both before and after you buy an engine.







# THE PLUS POINT FOR OUR ENGINES

**D** EUTZ doesn't just sell engines. It has brought together a whole range of services under the Engine Plus programme, designed to give customers the best possible support both before and after buying an engine. Our tailor-made Engineering Services are one of our core areas of expertise.

## Individually tailored to customer needs

Engineering Services – this range of services is attracting increasing numbers of DEUTZ customers. With DEUTZ as their partner, small and medium-size equipment manufacturers, in particular, are easily able to integrate engines into their equipment which satisfy the latest emissions standards and which, as regards performance and efficiency, represent perfectly coordinated overall systems.

Larger customers are increasingly integrating us into interface functions within their own development departments in order to benefit from our experience and support. We are, therefore, consciously expanding the value we are able to add through targeted vertical integration, taking upon ourselves the complex challenges faced by our partners and creating invaluable customer benefit. Engineering Services thus reinforces our central aims of combining tailor-made solutions with maximum customer focus. We are taking a fully integrated approach, supporting our customers from technical project management and system design all the way to segment-specific application engineering and field trials. This gives customers a turnkey solution and the option of reducing their inhouse development costs. This is supplemented by our testing support services, an area in which DEUTZ has far-reaching expertise and state-of-the-art test and measuring facilities.

## More than just an engine

In addition to these services, DEUTZ also provides a wide range of add-on components and compact system solutions. These extend from engine accessories and separate cooling packages to complete power packs in which the radiator and the EAT system are already factory-fitted. We are thus providing product features which further simplify the work our customers have to undertake and this results in even greater customer loyalty. Our customers can also access a large selection of standard components, such as an equipment-specific SCR tank or even the latest technologies, such as a hydraulic start-stop system.





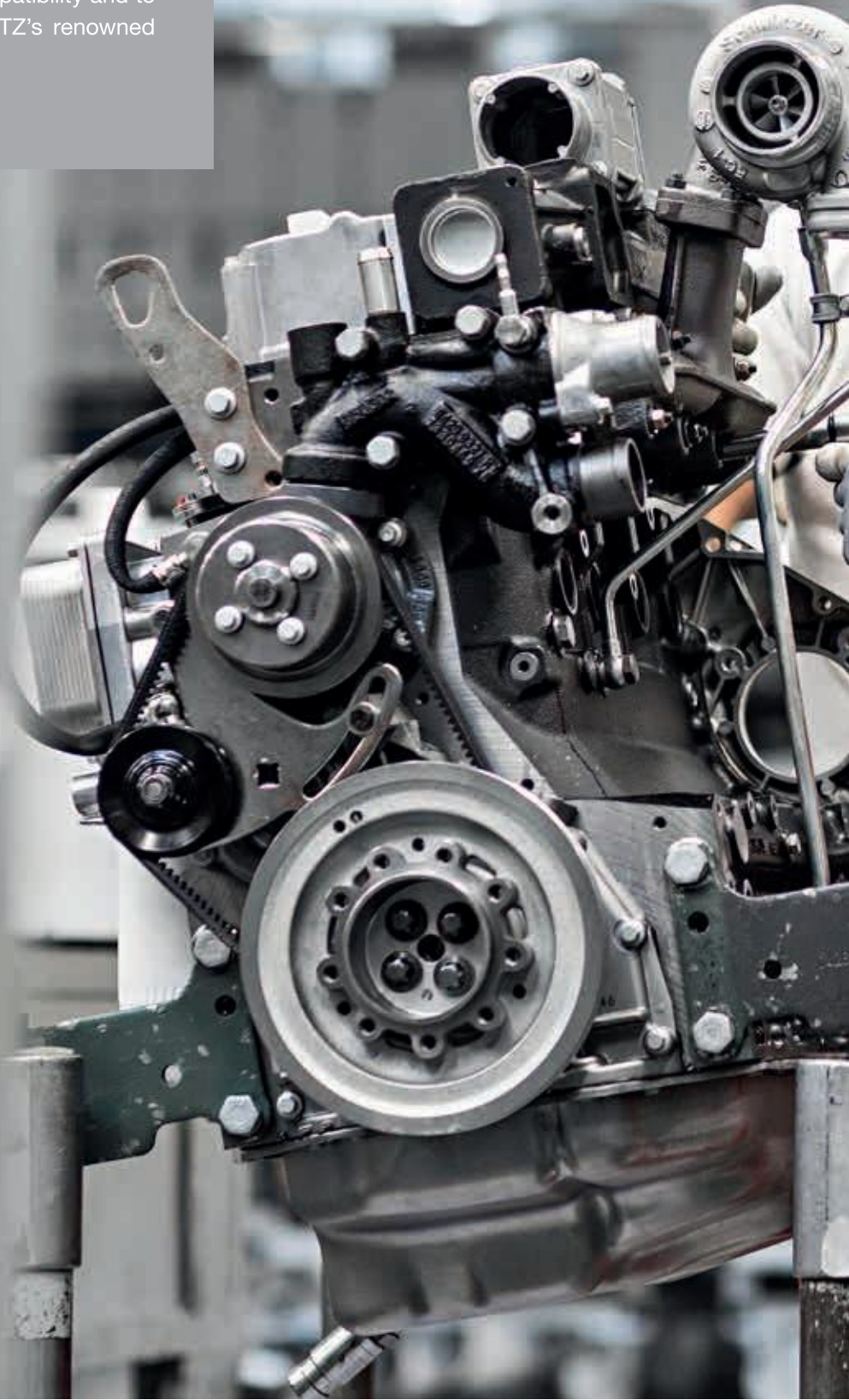
*Our customers get a  
turnkey solution.*



DEUTZ XCHANGE

## THE FAST AND ECONOMICAL ALTERNATIVE

New life for old engines – professionally reconditioned engines and parts are a fast, economical and environmentally friendly alternative to buying new ones. All Xchange components are checked carefully for compatibility and to ensure they come with DEUTZ's renowned quality.







# MAKING A FRESH START

**N**ew life for old engines – professionally reconditioned engines and parts represent a quick, economic and environmentally-responsible alternative to buying a new one. DEUTZ Xchange engines and parts are like the originals in every respect. This also applies to engines and parts which have been out of series production for years. Compatibility and the high quality for which DEUTZ is renowned are also the main features of all Xchange components. They ensure that performance and reliability are fully achieved even after reconditioning. We are proud of the fact that the DEUTZ warranty on Xchange products equates to the warranty on a new part or new engine.

## Xchange engines

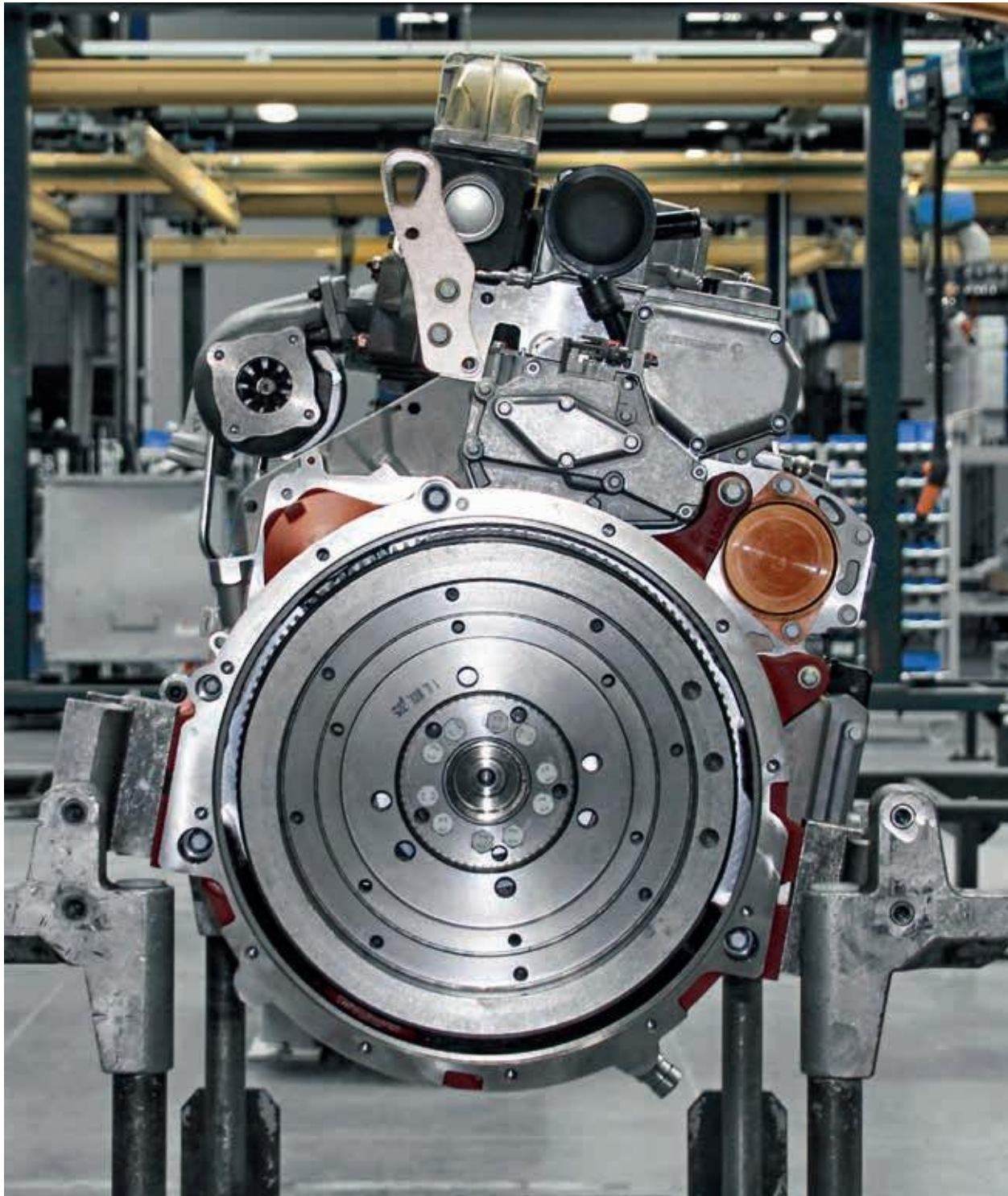
Every one of our Xchange engines benefits from the latest technical advances:

- All wearing parts are replaced.
- Every engine is brought up to the latest technical standard.
- Every engine is as reliable as a new engine, has the same service life and is given the same warranty as a new engine.
- Every engine comes with a worldwide warranty.

Customers opting for an Xchange engine can expect short downtimes, cost-effectiveness and no compromises as regards product quality.







## STRATEGY

We have been pursuing a clear strategy for many years. It includes expansion of our customer and product base along with globalisation and internationalisation. Our new products have particularly helped us to win many new customers recently. A new quality programme should further strengthen customer loyalty. We also aim to consolidate our network of sites to enhance our efficiency and enable the DEUTZ Group to continue achieving profitable growth.

Our growth strategy is based on three pillars:

→ The first is the **expansion of our customer base** while achieving profitable growth. Our aim is to increase business in all regions with new and existing customers. We have been very successful in signing up new customers in every region over the past few years. In the year under review, we launched many new products for our customers, demonstrating the success of our current generation of engines. At the end of 2015, we entered into an agreement with the KION Group, one of the world's two leading suppliers of forklift trucks and warehouse technology, on expanding our long-standing partnership. Starting in 2019, large forklift trucks from KION's premium brand Linde will be progressively fitted with our newly developed 2.2 litre engine for the EU Stage V emissions standard. There will be both a diesel and a liquid gas<sup>1)</sup> version of the engine.

In terms of application segments, our main focus remains on Mobile Machinery and Agricultural Machinery, but we are also active in the market for Stationary Equipment and niche applications. Our automotive business is increasingly

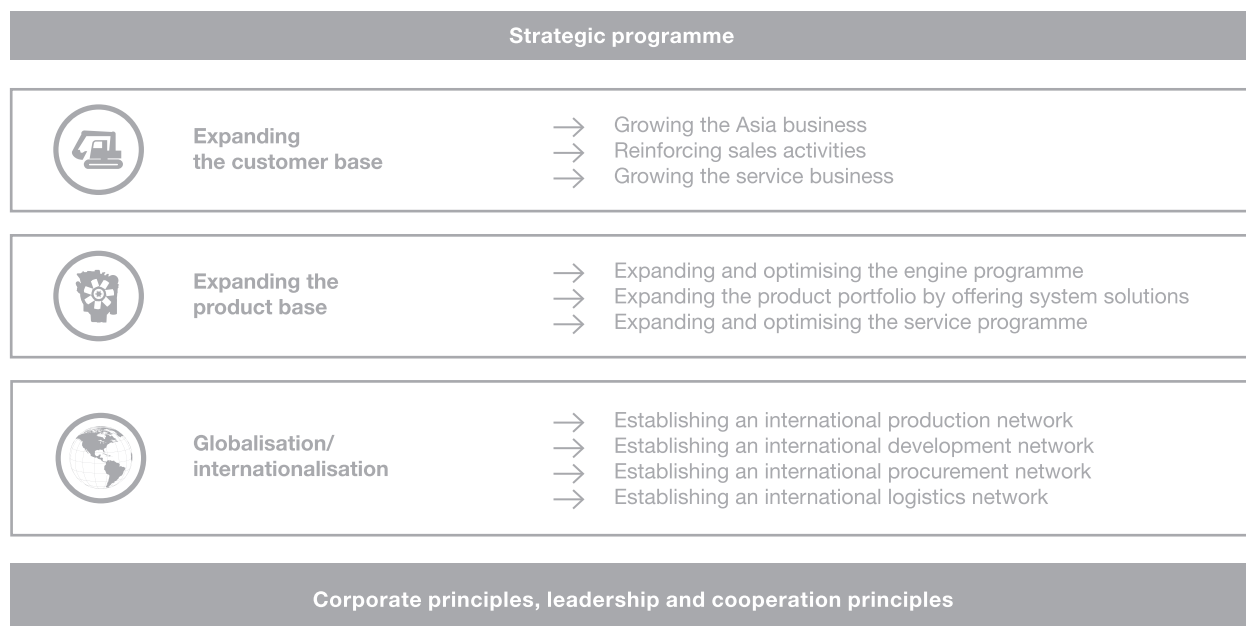
shifting to Asia, where we occupy a very strong position in the market by virtue of our DEUTZ Dalian joint venture.

In the service business, we also aim to continue growing sustainably and expanding our market share in terms of the total number of engines in operation. As well as the active management of dealers and ongoing product training for our dealer network because of the increased complexity of our products, we may also invest in our own service support centres in selected locations. During the year under review, we revised and modernised our sales and marketing activities for the service business. The internet is increasingly being used as a sales channel.

→ The second pillar is the **expansion of our product base** using products at the leading edge of technology. In 2014, we completed the introduction of engines that comply with the EU Stage IV/US Tier 4<sup>2)</sup> emissions standards. We have fundamentally overhauled our range of engines for these emissions standards. The number of engine platforms has been streamlined without cutting back on the 25 to 520kW power output range they cover. The engines feature very compact

### Strategic programme up to 2020

We supply the most successful engine systems in the world



<sup>1)</sup> Also referred to as liquefied petroleum gas or LPG.

<sup>2)</sup> The EU Stage IV/US Tier 4 emissions standards are mentioned at various points in the annual report. This refers to the 97/68 Stage IV exhaust emissions standards in the European Union and the EPA Tier 4 rules for diesel engines in the USA.



installed dimensions, intelligent exhaust aftertreatment designs and lower lifecycle costs than their predecessors. This platform strategy and the possibilities offered by electronic management is considerably reducing the variety of components. Our TCD engines in the 2.9 to 7.8 litre cubic capacity range already meet the more stringent EU limits announced for 2019<sup>1)</sup>. We are actively advertising this with our 'Stage V ready' campaign. In 2019, we will add a 2.2 litre engine to the power output range. It will be a three-cylinder version of the 2.9 litre, four-cylinder engine that has proved popular with customers. Both of these engines will be available in a diesel and an LPG<sup>2)</sup> variant. By offering LPG variants, we are particularly looking to harness the growing market opportunities in the material handling industry, which we include in our Mobile Machinery application segment.

System solutions complete our product portfolio. In order to meet the latest emissions legislation, engines now have to include exhaust aftertreatment systems. Developing, testing and certifying these engine systems is our responsibility. We will continue to work on developing solutions to improve the energy efficiency of our products. In addition, we are expanding our application expertise – an area in which we are already considered market leaders – both at our R&D centre in Cologne and in the regions.

A profitable service business makes us less exposed to fluctuations in the economic cycle. We plan to exploit opportunities presented by the greater complexity of engines that meet new emissions standards and to expand our service business accordingly. For example, we intend to offer additional services and to create a wider range of spare parts and add-on components.

→ The third pillar is the **globalisation and internationalisation** of the DEUTZ Group, because the geographical focus of the market is shifting and the trend is increasingly towards basing assembly nearer to the customer. Against this background, we want to create structures in the three major economic areas of Europe, America and Asia that, in addition to their sales, marketing and service activities, will also encompass local assembly, purchasing, logistics and application development activities. These activities will need to be closely interlinked and centrally coordinated.

Back in 2014, we decided to carry out a comprehensive optimisation of our network of sites in Germany in order to increase efficiency. We are consolidating two sites in Cologne. As part of this, we are currently building a shaft centre for the production of camshafts and crankshafts at our largest site in Cologne-Porz and it will be ready for use later this year. At the Cologne-Deutz site, which will be cleared, we are currently applying for planning permission to create a new city district near the Rhine. The site is to be sold within the next few years. Our exchange engine plant in Übersee on Lake Chiemsee is closing and being integrated into the

plant in Ulm. We successfully moved the assembly line in the reporting year. All other functions will move in 2017.

In 2015, we also decided to consolidate our Chinese manufacturing operations in view of the lower growth forecasts and the capacity available at our DEUTZ Dalian joint venture. Implementation of this decision is already at an advanced stage. Detailed information can be found in the section on international joint ventures on page 36. Going forward, we aim to continue satisfying local demand from our partners and other target customers using local Chinese production operations.

## ZERO-ERROR STRATEGY

We introduced a zero-error strategy in 2015. The purpose of this quality assurance programme is to detect errors when they first begin to materialise, i.e. before they actually occur. And if errors do occur, we have to learn from them in order to not make the same mistakes again. The overarching aim, therefore, is to establish a culture of prevention and avoidance in relation to errors.

We strive to make the products that we supply to our customers perfect and thus always to meet or even exceed our customers' expectations. The challenge here is that we produce a large number of variants in order to provide customers with bespoke solutions and the complexity of our products has risen significantly in recent years as a result of emissions legislation.

## GLOBAL MEGATRENDS DRIVING ENGINE GROWTH

Demographic change, increasing urbanisation and ongoing globalisation are the megatrends that shape our business. Apart from the occasional downturn in the economic cycle, global demand is therefore rising continually. This also impacts on demand for agricultural machinery, infrastructure investment and transport. These global megatrends are therefore underpinning growth in the global engine market.

There are only limited natural resources to meet this demand, however. Hence the imposition of increasing numbers of environmental and climate change regulations in practically every industrialised country and emerging market. Consequently, emissions legislation has been the major technology driver in the diesel engine market in recent years. We are, of course, delighted to take up the emissions legislation challenge because, as a leading technology company, we regard this legislation as an opportunity. Emissions legislation in the emerging economies is generally at least one step behind.

To this extent, the structural growth drivers at DEUTZ are the engine systems that meet the new emissions standard, which are of considerably higher value and more complex than their respective predecessors.

<sup>1)</sup>The EU Commission's Stage V proposals as published on 25 September 2014.

<sup>2)</sup>Also referred to as liquefied petroleum gas or LPG.





# 2015 COMBINED MANAGEMENT REPORT FOR DEUTZ AG AND THE DEUTZ GROUP

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## OVERVIEW OF 2015

**Revenue lower than in previous year** Having made a solid start in the first six months of 2015, our business suffered in the second half of the year due to a slowdown in global economic growth and a strong reluctance to invest on the part of our customers. Moreover, the advance production of engines in the prior year continued to have an impact. As a result, our revenue was down by 18.5 per cent to €1,247.4 million. Unit sales fell by 29.8 per cent to 137,781 engines. However, operating profit (EBIT) remained in positive territory at €4.9 million, underlining the effectiveness of the measures we have taken to improve efficiency.

**Consolidation in China** In view of lower growth forecasts in China, we decided in 2015 to consolidate our Chinese manufacturing operations. In future, our established DEUTZ Dalian joint venture, which has adequate capacity, will satisfy local demand. As part of this consolidation, we wound up our DEUTZ Engine (China) Co., Ltd. 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.

**Optimisation of German site network on schedule** The decision that we took in 2014 to optimise our network of sites in Germany is being implemented as planned. Firstly, this includes the consolidation of our facilities in Cologne, where we are moving out of our Cologne-Deutz site and, from 2016, will begin producing camshafts and crankshafts in a new shaft centre at our largest site in Cologne-Porz. Secondly, our exchange engine plant in Übersee on Lake Chiemsee will have been integrated into the plant in Ulm by 2017 and will then be closed; assembly and order management have already been moved. We expect these measures to bring about a further long-term increase in our efficiency.

**Positive market response to new products** 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 European emissions standard, which is expected to come into effect in 2019. This offers many advantages to our customers. The feedback on our products has been very positive. We have also announced that we intend to add gas engines to our product range in future. In addition, we have intensified our existing partnership with the KION Group, entering into an extended long-term cooperation arrangement.

## FUNDAMENTAL FEATURES OF THE GROUP

### BUSINESS SEGMENTS AND PRODUCT RANGE

For over 150 years, DEUTZ has been supplying reliable drive systems for mobile and standalone static applications – as an independent manufacturer of compact diesel engines in the 25kW to 520kW power range for both on and off-road use. We develop, design, produce and sell diesel engines that are cooled by water, oil or air. The operating activities of the DEUTZ Group are divided between the DEUTZ Compact Engines segment and the DEUTZ Customised Solutions segment: the DEUTZ Compact Engines segment comprises liquid-cooled engines with capacities of up to eight litres, while the DEUTZ Customised Solutions segment specialises in air-cooled engines and large liquid-cooled engines with capacities of more than eight litres. Operating under the name DEUTZ Xchange, the DEUTZ Customised Solutions segment also supplies reconditioned parts and engines as the main element of our service business.

We also offer our customers advice and support on operating the machinery. Our services are closely aligned with each of our customers' individual needs. We actively assist customers with the repair, maintenance and servicing of their vehicles and machines fitted with DEUTZ engines. The global DEUTZ service network, which comprises subsidiaries, service centres and authorised agents, guarantees a reliable and rapid supply of spare parts.

### LEGAL STRUCTURE AND PRODUCTION SITES

DEUTZ maintains a comprehensive international presence in a globalised market: with 13 sales companies, seven sales offices and over 800 sales and service partners in more than 130 countries, we can offer our customers service and support virtually anywhere with very short response times. DEUTZ AG is the executive and operating parent company in the DEUTZ Group; it is headquartered in Cologne, Germany, and has various domestic and foreign subsidiaries. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions.

In addition to DEUTZ AG, six German companies (31 December 2014: six) and twelve foreign companies (31 December 2014: 14) were included in the consolidated financial statements as at 31 December 2015. A complete list of DEUTZ AG shareholdings as at 31 December 2015 is given in the annex to the notes to the consolidated financial statements on page 123.



Overview of 2015

Fundamental features  
of the Group

Internal control system

**DEUTZ AG****DEUTZ Compact Engines**

- Liquid-cooled engines of up to 8 litres cubic capacity

**DEUTZ Customised Solutions**

- Air-cooled engines
- Liquid-cooled engines of more than 8 litres cubic capacity

**MARKET AND COMPETITIVE ENVIRONMENT**

DEUTZ manufactures diesel engines for professional applications used in countries with stringent emissions standards, in particular Stages III and IV. These technically sophisticated applications include construction equipment, agricultural machinery, lifting and material handling equipment, pumps, gensets, medium and heavy-duty trucks and buses. The market for DEUTZ engines is therefore separate from the market segments for diesel engines used in passenger cars and small commercial vehicles up to a permissible gross weight of around 3.5 tonnes. Diesel engines that rely on outdated technology and that are intended for use in applications in countries or application segments with only very low requirements in terms of product quality, emissions and fuel consumption also do not feature in our target market.

The market for technically sophisticated diesel engines can be divided into the captive segment and the non-captive segment. The captive segment comprises equipment manufacturers who produce their own engines; some of these manufacturers are also active as engine suppliers in the market. The non-captive segment is made up of equipment manufacturers who for the most part do not produce their own engines and who, therefore, buy in engines from other suppliers. It is in this non-captive market that DEUTZ sells its high-value engines with outputs between 25kW and 520kW around the globe.

In recent years, we have attained an outstanding position as one of the biggest suppliers in the non-captive market. We face competition from other engine suppliers in western Europe, North America and Asia, but none of these competitors can offer an identical product range to DEUTZ in terms of the power outputs and application segments that they cover.

**Main competitors**

Application segments	Applications	Main competitors (in alphabetical order)
<b>Mobile Machinery</b>	Construction equipment	Cummins, USA Kubota, Japan Perkins, UK Yanmar, Japan
	Ground support equipment	
	Material handling equipment	
	Mining equipment	
<b>Agricultural Machinery</b>	Tractors	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
	Harvesters	
<b>Stationary Equipment</b>	Gensets	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
	Compressors	
	Pumps	
<b>Automotive</b>	Special vehicles	Cummins, USA Fiat Powertrain, Italy MAN, Germany Mercedes, Germany
	Rolling stock	
	Trucks	
	Buses	

**INTERNAL CONTROL SYSTEM****RESPONSIBLE CORPORATE MANAGEMENT  
BASED ON TRANSPARENT PERFORMANCE  
INDICATORS**

The DEUTZ Group defines its budget targets and medium-term corporate targets using selected key performance indicators (KPIs). In order to increase profitability and achieve sustained growth, we manage the Group using the following financial performance indicators:

		2015	2014
Revenue growth	(%)	-18.5	5.3
EBIT margin before one-off items	(%)	0.4	2.1
Working capital ratio <sup>1)</sup> (average)	(%)	17.6	13.3
ROCE before one-off items <sup>2)</sup>	(%)	0.6	3.9
R&D ratio	(%)	3.3	3.5
Free cash flow <sup>3)</sup>	(€ million)	35.0	52.0

<sup>1)</sup> Working capital ratio (average): ratio of working capital (inventories plus trade receivables less trade payables), as an average of the four quarters, to revenue for the preceding twelve months.

<sup>2)</sup> Return on capital employed (ROCE): ratio of EBIT 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.

<sup>3)</sup> Free cash flow: cash flow from operating and investing activities less net interest expense.

Our internal control system focuses, on the one hand, on revenue growth and the EBIT margin before one-off items, while on the other hand, we manage tied-up capital via the average working capital ratio. In conjunction with working capital and EBIT optimisation, this in turn determines the return on capital employed.

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 group-wide 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)<sup>1)</sup> 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

<sup>1)</sup> 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<sup>1)</sup>. According to the VDMA<sup>2)</sup>, 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<sup>3)</sup>.

## 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)<sup>1)</sup>

€ 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)	

<sup>1)</sup> 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 been 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<sup>4)</sup>. There are currently no plans for a further emissions standard in the USA.

<sup>1)</sup> China Construction Machinery Association, January 2016; own estimates.

<sup>2)</sup> Konjunkturbulletin of the German Engineering Federation (VDMA), November 2015.

<sup>3)</sup> China Automotive Information Net, January 2016.

<sup>4)</sup> 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 13,500m<sup>2</sup> 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

	€ million	
2015	1,225.9	
2014	1,379.0	
2013	1,649.7	
2012	1,237.1	
2011	1,479.3	

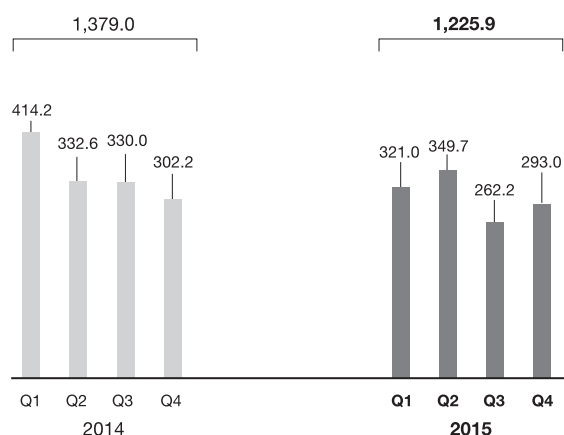
**Decline in new orders compared with 2014** In 2015, the DEUTZ Group received orders worth €1,225.9 million, which was 11.1 per cent below the figure of €1,379.0 million achieved in the previous year. With the exception of the service business, where new orders rose by 7.2 per cent, all other application 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

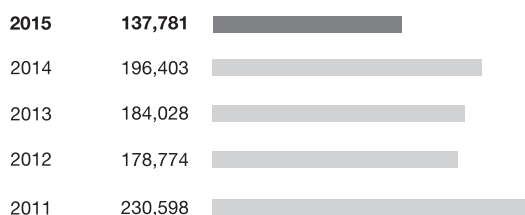


Orders on hand totalled €201.0 million as at 31 December 2015, a decline of 8.5 per cent compared with €219.7 million at the end of 2014.

**UNIT SALES**

**DEUTZ Group: Unit sales**

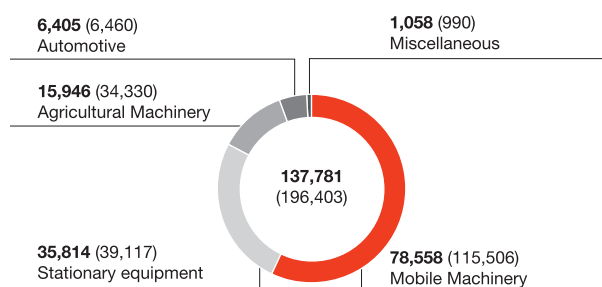
units



**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**

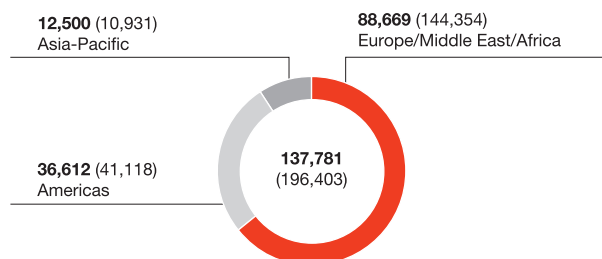
units (2014 figures)



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.

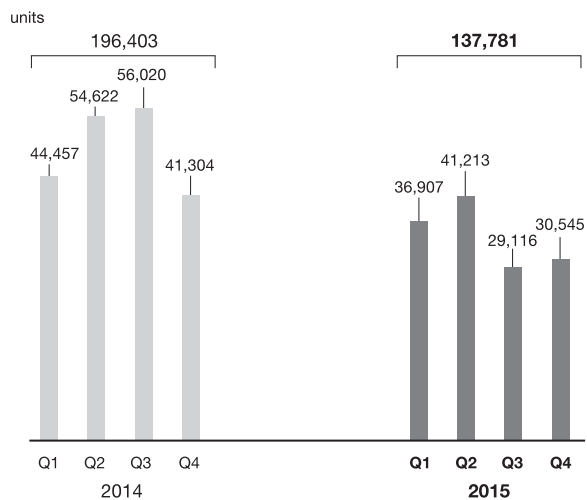
**DEUTZ Group: Units sales by region**

units (2014 figures)

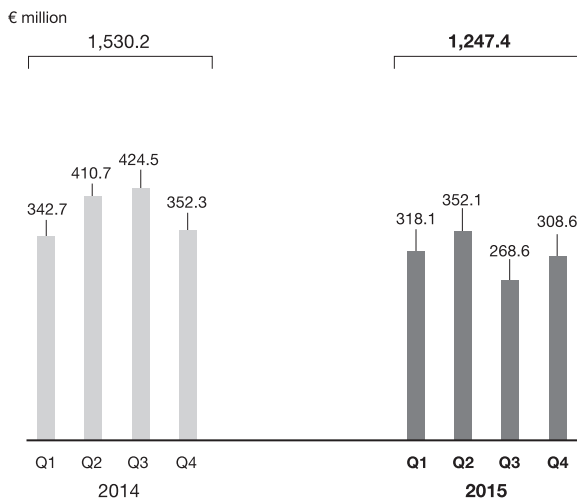


Significant year-on-year decreases were registered in all four quarters of the year. The highest unit sales figure was achieved in the second quarter with 41,213 engines. In the fourth quarter, 30,545 engines were sold, representing a slight increase of 4.9 per cent on the very weak previous quarter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

### DEUTZ Group: Consolidated unit sales by quarter



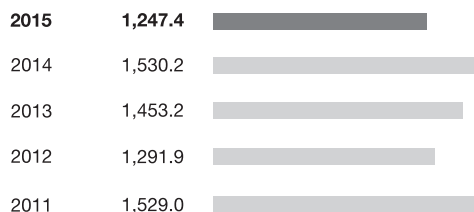
### DEUTZ Group: Revenue by quarter



## RESULTS OF OPERATIONS

### DEUTZ Group: Revenue

€ million

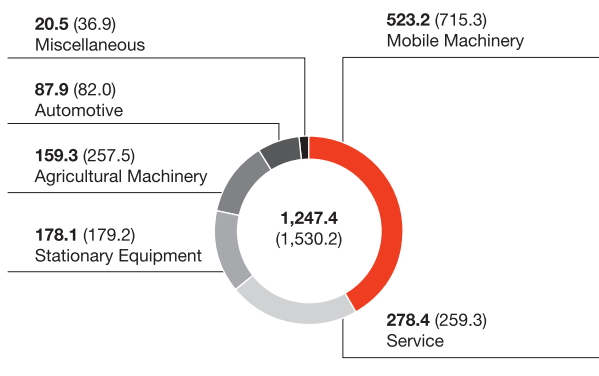


**Revenue decline low relative to fall in unit sales** In 2015, DEUTZ generated revenue of €1,247.4 million, 18.5 per cent less than in the previous year when revenue amounted to €1,530.2 million. This meant that we did not achieve the forecast published in the 2014 annual report, in which we predicted 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

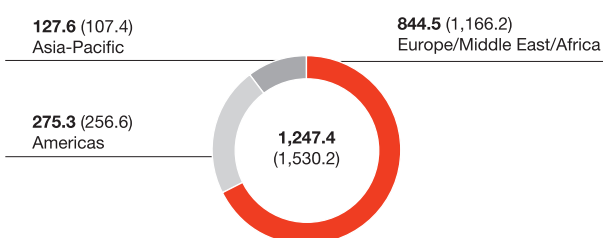
€ million (2014 figures)



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.

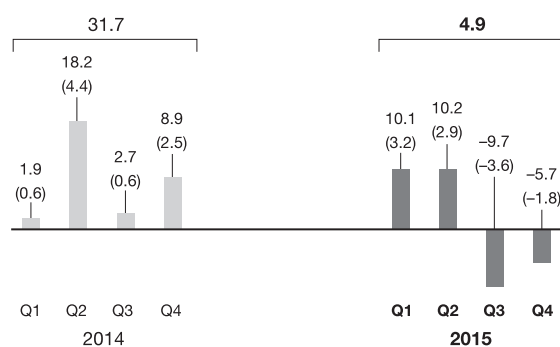
**DEUTZ Group: Operating profit/EBIT margin before one-off items**

€ million (EBIT margin in %)

Year	Operating profit (€ million)	EBIT margin (%)
2015	4.9	(0.4)
2014	31.7	(2.1)
2013	47.5	(3.3)
2012	37.1	(2.9)
2011	91.2	(6.0)

**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)<sup>1)</sup>, 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.

<sup>1)</sup> 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

## Results of operations

Business performance in  
the segments

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

## 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.

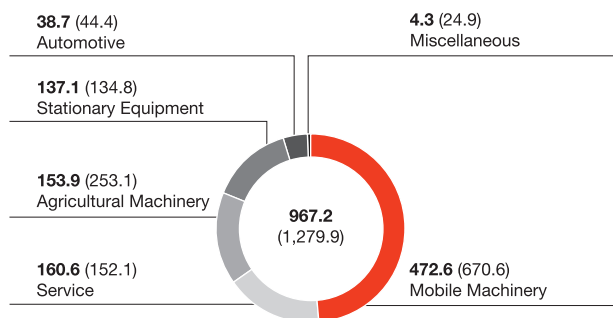
**Fewer engines sold** Unit sales in the DCE segment fell by almost a third to 125,214 engines. The number sold in the prior year was 183,125 engines. In EMEA, our largest market, 81,428 engines were sold, which was 40.7 per cent fewer than in 2014. Unit sales went down by 8.3 per cent in the Americas 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.

### DEUTZ Compact Engines: Revenue by application segment

€ million (2014 figures)



**Sharp fall in DCE's operating profit** The DEUTZ Compact Engines segment reported an operating loss of €31.9 million in 2015 (2014: operating profit of €15.2 million). A greatly reduced volume of business and a smaller contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, caused this deterioration of €47.1 million compared with the prior year, despite lower production costs and warranty costs as well as positive currency effects. The operating profit for the segment was also adversely affected by impairment losses totalling €7.1 million on intangible assets and on property, plant and equipment.

### BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

**Small rise in new orders compared with 2014** The DEUTZ Customised Solutions (DCS) segment took new orders worth €267.5 million in the reporting year, an increase of 1.3 per cent compared with the 2014 figure of €264.0 million. Unlike the DCE segment, this segment was not affected by the advance production of engines in 2014. With the exception of Stationary Equipment, where new orders fell by 24.7 per cent, and the Other segment, where new orders fell by 28.6 per cent, all application segments received more orders than in the previous year. As at the end of 2015, orders on hand stood at €63.8 million, down by 18.4 per cent on the figure reported a year earlier (31 December 2014: €78.2 million).

**Slightly fewer engines sold** Unit sales in the DCS segment declined by 5.4 per cent to 12,567 engines in 2015. Unit sales were down in the Americas region but rose in EMEA, our largest region, and in the Asia-Pacific region. There were significant year-on-year gains for the Automotive application segment, but all other application segments sold fewer engines.

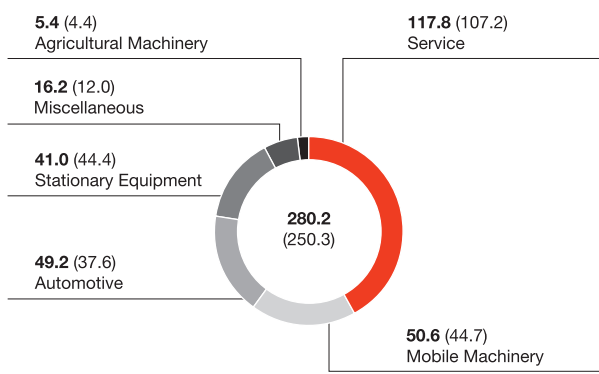
**Rise in revenue year on year** In contrast to unit sales, revenue in the DCS segment climbed by 11.9 per cent to €280.2 million in the reporting year. All regions generated growth, with revenue rising by 8.4 per cent in the EMEA region, by 5.8 per cent

in the Americas and by 26.0 per cent in the Asia-Pacific region. The only application segment where revenue decreased was Stationary Equipment (by 7.7 per cent). All other application segments saw an increase in revenue: 13.2 per cent for Mobile Machinery, 30.9 per cent for Automotive, 22.7 per cent for Agricultural Machinery and 9.9 per cent for the service business.

**Slightly weaker fourth quarter** In the fourth quarter of 2015, new orders in the DCS segment totalled €58.6 million, down by 15.9 per cent year on year and down by 14.1 per cent on the previous quarter. There were also fewer unit sales in the final three months of the year, with a year-on-year decrease of 37.8 per cent to 2,927 engines. However, unit sales had been exceptionally high in the fourth quarter of 2014, especially in this segment's smaller power output categories. However, unit sales rose by 1.9 per cent compared with the third quarter of 2015. The revenue attributable to the DCS segment in the final quarter fell by 4.9 per cent year on year to €71.5 million, but nonetheless was 7.0 per cent higher than in the third quarter of 2015.

### DEUTZ Customised Solutions: Revenue by application segment

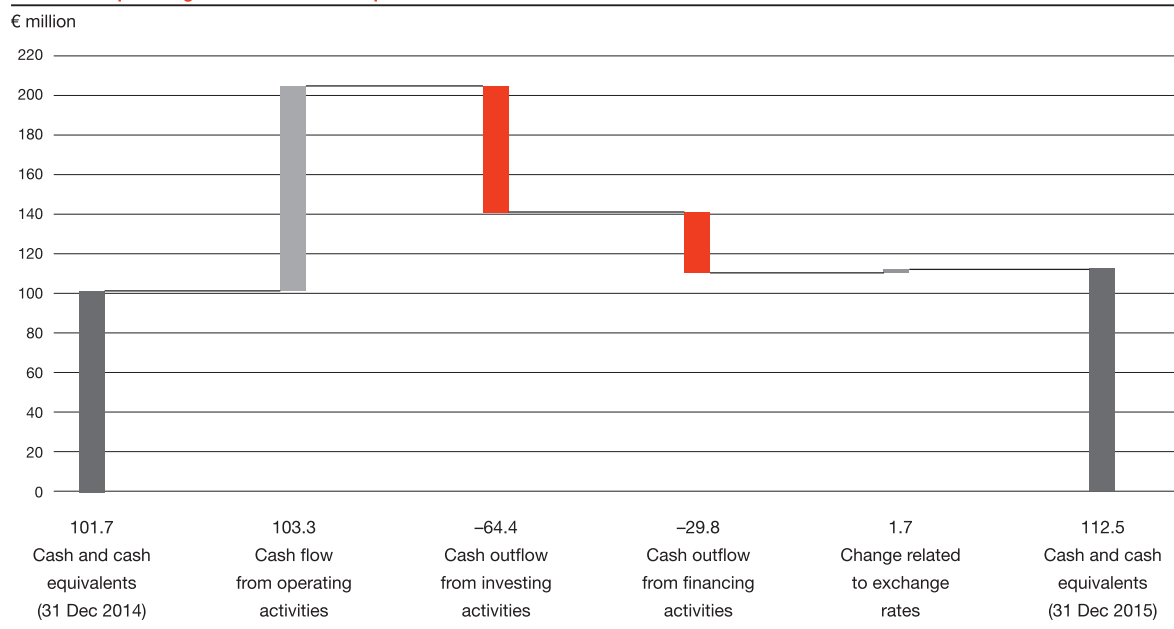
€ million (2014 figures)



**Vast improvement in DCS's operating profit** The operating profit of the DEUTZ Customised Solutions segment for the reporting year was €31.3 million (2014: €18.8 million). This sharp increase compared with 2014 is due, in particular, to the larger volume of business and to positive currency effects. Furthermore, the prior-year figure had included impairment losses of €9.5 million recognised on intangible assets and on property, plant and equipment and of €1.8 million recognised on equity-accounted investments. In 2015, impairment losses totalling €2.6 million were recognised on intangible assets and on property, plant and equipment.

**Other** The operating profit reported by the Other segment came to €5.5 million (2014: operating loss of €2.3 million). This positive trend was due, above all, to the sale of the shares in WEIFANG WEICHAH-DEUTZ DIESEL ENGINE CO., LTD., Weifang, China, and the cancellation of a liability denominated in a foreign currency. This liability consisted of an outstanding



**DEUTZ Group: Change in cash and cash equivalents**

contribution to the issued capital of DEUTZ Engine (China) Co, Ltd. in Linyi, China. The decision to wind up the company cancelled this obligation in the third quarter of 2015, thereby eliminating the unrealised negative currency effect that had applied in 2014.

## FINANCIAL POSITION

### BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

#### Overview of the DEUTZ Group's financial position

€ million	2015	2014
Cash flow from operating activities	103.3	114.1
Cash flow from investing activities	-64.4	-55.9
Cash flow from financing activities	-29.8	-17.5
Change in cash and cash equivalents	9.1	40.7
Free cash flow from continuing operations	35.0	52.0
Cash and cash equivalents at 31 Dec	112.5	101.7
Current and non-current interest-bearing financial debt at 31 Dec	73.5	88.0
Net financial position at 31 Dec	39.0	13.7

Free cash flow: cash flow from operating and investing activities less net interest expense.

Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.

**Central responsibility for treasury** Responsibility for financial management in the DEUTZ Group lies with DEUTZ AG as the parent company of the Group. Financial management primarily consists of obtaining the necessary funds, managing their use within the Group, pooling cash resources and hedging interest-rate risk, currency risk and commodities risk throughout the Group.

### FUNDING

**Syndicated credit line and loan from the European Investment Bank ensure sufficient liquidity** In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving working capital facility of €160 million provided by a consortium of banks. It is a floating-rate, unsecured line. In 2015, the term of the facility was extended to May 2020. DEUTZ can elect whether to utilise the cash line as a bilateral overdraft facility (up to €60 million) or to draw down amounts with interest periods of three to six months.

In addition, we have an amortising loan from the European Investment Bank with a remaining balance of €68.4 million at 31 December 2015. This loan, which is also unsecured, is repayable in instalments until July 2020. We have hedged the interest-rate risk arising from this loan.

As part of the contractual agreements for both loans, DEUTZ is obliged to comply with certain financial covenants. They do not limit our leeway for growth projects, however. The working capital facility and the loan from the European Investment Bank have enabled us to secure funding for our projects and for further growth over the medium to long term.

### Receivables management optimised by means of factoring

The sale of receivables is an important way of optimising receivables management. Because the credit quality of our customer receivables is excellent, factoring is also a cost-effective way of improving working capital, especially as considerable cash resources are required to cover the period from the preliminary financing of production to receipt of payment from the customer. The volume of sales of receivables on the balance sheet date was lower than at the end of 2014 as a result of the business situation, the volume as at 31 December 2015 being around €99 million (31 December 2014: €107 million).

### FREE CASH FLOW

Cash flow from operating activities amounted to €103.3 million in 2015 (2014: €114.1 million), a year-on-year decrease of €10.8 million. The main reason for this change was the sharp contraction in the volume of business during the reporting year.

The net cash used for investing activities came to €64.4 million in 2015, a rise of €8.5 million year on year (2014: €55.9 million). This increase was attributable, in particular, to higher cash payments in connection with capital expenditure on property, plant and equipment.

Financing activities in 2015 resulted in a net cash outflow of €29.8 million (2014: €17.5 million). This increase of €12.3 million was largely due to substantially higher payments of principal in relation to existing financial liabilities than in the prior year. As in the previous year, cash flow from financing activities included a dividend payment to shareholders of €8.5 million.

Cash and cash equivalents as at 31 December 2015 had risen by €10.8 million to €112.5 million (31 December 2014: €101.7 million). The net financial position<sup>1)</sup> as at 31 December 2015 was €39.0 million, a further improvement of €25.3 million compared with the same date a year earlier (31 December 2014: €13.7 million).

Free cash flow<sup>2)</sup> was lower than in the prior year, decreasing by €17.0 million to €35.0 million (2014: €52.0 million). This was due in large part to the fall in cash flow from operating activities caused by the drop in demand as well as to increased capital expenditure. However, it was within the bandwidth that we had forecast at the start of 2015 of free cash flow in the low to mid-double-digit million euro range.

### CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT AND ON INTANGIBLE ASSETS

After deducting investment grants, capital expenditure on property, plant and equipment and on intangible assets totalled €69.2 million in 2015, which was €2.6 million more than in the previous year (2014: €66.6 million). The bulk of this spending (€50.9 million) went on property, plant and equipment (2014:

€37.0 million). Capital expenditure on intangible assets accounted for €18.3 million (2014: €29.6 million). The investing activities relating to property, plant and equipment focused on measures aimed at optimising our network of sites, such as the construction of the shaft centre in Cologne-Porz. There were also additions in connection with replacement investments in machinery and tools. Capital expenditure on intangible assets went mainly on the refinement of our existing engine series.

Before the capitalisation of development expenditure, capital investment amounted to €56.2 million (2014: €40.3 million). Capital expenditure (before capitalisation of development expenditure) was thus slightly higher than the forecast of approximately €50 million that we had made at the start of the year. This was due to several capital spending projects being realised more rapidly than expected.

The bulk of the total capital expenditure after deducting investment grants – €61.7 million – was invested in the DEUTZ Compact Engines segment (2014: €57.8 million). Capital expenditure in DEUTZ Customised Solutions was €7.5 million (2014: €8.8 million). As was the case in 2014, investing activities in both segments focused on property, plant and equipment and on development expenditure.

### NET ASSETS

#### Overview of the DEUTZ Group's assets

€ million	31 Dec 2015	31 Dec 2014	Change
Non-current assets	589.6	625.8	-36.2
Current assets	498.1	523.0	-24.9
Assets classified as held for sale	0.4	0.4	-
<b>Total assets</b>	<b>1,088.1</b>	<b>1,149.2</b>	<b>-61.1</b>
Equity	495.6	511.0	-15.4
Non-current liabilities	280.8	322.7	-41.9
Current liabilities	311.7	315.5	-3.8
<b>Total equity and liabilities</b>	<b>1,088.1</b>	<b>1,149.2</b>	<b>-61.1</b>
Working capital (€ million)	183.6	196.2	-12.6
Working capital ratio (31 Dec, %)	14.7	12.8	1.9
Working capital ratio (average, %)	17.6	13.3	4.3
Equity ratio (%)	45.5	44.5	1.0

Working capital: inventories plus trade receivables less trade payables.  
Equity ratio: equity/total equity and liabilities.

<sup>1)</sup> Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.

<sup>2)</sup> Free cash flow: cash flow from operating and investing activities less net interest expense.

**DEUTZ Group: Balance sheet structure**

in % (2014 figures)



**Non-current assets** Non-current assets of the DEUTZ Group totalled €589.6 million as at 31 December 2015 (31 December 2014: €625.8 million). The decline of €36.2 million was largely due to the reduction in intangible assets. At €17.8 million, additions were much lower than depreciation and amortisation amounting to €45.9 million as a consequence of the new engines having gone into volume production. The market situation also made it necessary to recognise impairment losses on intangible assets of €7.4 million.

**Current assets** Current assets were also lower than at the end of 2014, falling by €24.9 million to €498.1 million (31 December 2014: €523.0 million). This was mainly attributable to the volume-related decrease in trade receivables and other receivables and assets. The decrease in other receivables and assets primarily resulted from the derecognition of the outstanding contributions from non-controlling interests, which related to the AB Volvo Group's shareholding in DEUTZ Engine (China) Co., Ltd. in Linyi, China. The outstanding obligations were cancelled as a result of the company being wound up.

**Working capital** Working capital had dropped to €183.6 million as at 31 December 2015 (31 December 2014: €196.2 million). The main reason for this was the reduction in trade receivables caused by lower demand. Although there was a modest increase in inventories, they decreased slightly after adjustment for exchange rate effects. Trade payables were virtually unchanged. Despite the lower level of working capital, the working capital ratio<sup>1)</sup> increased to 14.7 per cent as at 31 December 2015 due to the sharp fall in the volume of business (31 December 2014: 12.8 per cent). The average working capital ratio<sup>2)</sup> also rose, reaching 17.6 per cent on the balance sheet date

(31 December 2014: 13.3 per cent). Consequently, we were unable to achieve our forecast for an average working capital ratio of approximately 14 per cent, due mainly to the strong contraction in the volume of business.

**Unrecognised intangible assets** In addition to the assets recognised on the balance sheet, DEUTZ has further assets that are not recognised. The DEUTZ brand is synonymous with highly sophisticated technology, quality and reliability and the Company has been a firmly established player in the equipment manufacturing and operating industry for more than 150 years. DEUTZ also enjoys long-standing valuable relationships with customers; it has entered into long-term cooperation agreements, particularly with its key customers.

**Equity** As at 31 December 2015, equity had decreased to €495.6 million (31 December 2014: €511.0 million). This reduction of €15.4 million was predominantly caused by the change in non-controlling interests. Following the winding-up of DEUTZ Engine (China) Co., Ltd. in Linyi, China, €2.6 million of the capital that had already been injected by our joint venture partner, the AB Volvo Group, was repaid. The outstanding obligation of the AB Volvo Group to make a contribution to the joint venture's issued capital was also cancelled. By contrast, there was an increase in the Group equity attributable to the shareholders of DEUTZ AG due, above all, to the level of net income and to the positive effects from the higher discount rates used in the measurement of provisions for pensions and other post-retirement benefits. Despite the decrease in equity, the equity ratio rose slightly, from 44.5 per cent as at 31 December 2014 to 45.5 per cent as at 31 December 2015, and was thus within the range that we had forecast at the start of the reporting year of well above 40 per cent.

<sup>1)</sup> Working capital (inventories plus trade receivables less trade payables) as at the balance sheet date divided by revenue for the previous twelve months.

<sup>2)</sup> Average working capital (inventories plus trade receivables less trade payables) at the four quarterly reporting dates divided by revenue for the previous twelve months.



**Non-current liabilities** Non-current liabilities totalled €280.8 million as at 31 December 2015 (31 December 2014: €322.7 million). The decrease of €41.9 million was predominantly caused by the change in provisions for pensions and other post-retirement benefits. These provisions fell by €14.8 million compared with 31 December 2014, mainly due to higher discount rates. We also continued to lower our non-current financial debt, which amounted to €58.6 million as at 31 December 2015. This represented a year-on-year fall of €14.7 million (31 December 2014: €73.3 million). Other provisions also decreased, by €11.7 million, mainly due to a reduction in provisions for warranty costs.

**Current liabilities** Current liabilities also decreased slightly over the reporting year, from €315.5 million as at 31 December 2014 to €311.7 million as at 31 December 2015. The decline of €3.8 million was largely attributable to the lower level of other provisions.

Total assets amounted to €1,088.1 million as at 31 December 2015 (31 December 2014: €1,149.2 million).

## OVERALL ASSESSMENT FOR 2015

For DEUTZ, 2015 was a year of two halves: while the first six months went well, business contracted significantly in the second six months due to increasingly difficult market conditions. This meant we were unable to meet our original targets for revenue and EBIT. Nonetheless, our new products continue to be very well received by the market. We will continue to strive for technologically leading designs with our engines and to further enhance our product range. However, this will be possible with considerably lower development expenditure. We do not regard the key figures for 2015 as satisfactory overall. Year on year, new orders were down by 11.1 per cent, revenue fell by 18.5 per cent to €1,247.4 million and unit sales dropped by almost 30 per cent to 137,781 engines. We had already planned for lower demand resulting from the advance production of engines in 2014, but this effect was compounded by a strong reluctance to invest on the part of our end customers in the second half of the year. On a positive note, however, we have succeeded in structuring the DEUTZ Group in such a way that it can still generate a profit even with a significantly lower volume of business. Operating profit (EBIT before one-off items) decreased from €31.7 million to €4.9 million. The EBIT margin was 0.4 per cent. Although net income fell to €3.5 million in 2015 (2014: €19.5 million), it was still in positive territory. Free cash flow amounted to €35.0 million in the reporting year. In operational terms, we continued as planned with the measures to optimise the network of sites in Germany and with the consolidation of our activities in China. We will continue to focus on increasing quality and efficiency in the DEUTZ Group. On that basis, we believe that we will benefit across the board in the event of a market recovery.

## EVENTS AFTER THE REPORTING PERIOD

No events occurred after 31 December 2015 that had a material impact on the financial position or financial performance of the DEUTZ Group.

## EMPLOYEES

### Overview of the DEUTZ Group's workforce

Headcount	31 Dec 2015	31 Dec 2014
<b>DEUTZ Group</b>	<b>3,730</b>	<b>3,916</b>
Thereof		
In Germany	2,910	3,093
Outside Germany	820	823
Thereof		
Non-salaried employees	2,221	2,338
Salaried employees	1,401	1,455
Trainees	108	123
Thereof		
DEUTZ Compact Engines	3,050	3,202
DEUTZ Customised Solutions	680	714

**Number of employees adjusted to lower level of production** At the end of 2015, the DEUTZ Group employed a total of 3,730 people, 186 fewer than at the end of 2014 (a fall of 4.7 per cent). As at 31 December 2015, we also had a further 151 people on temporary employment contracts, compared with 288 a year earlier. By offering fixed-term contracts and employing temporary workers, DEUTZ can respond flexibly to any fluctuations in demand. Around 6 per cent of all staff at DEUTZ had fixed-term or temporary contracts as at 31 December 2015.

78 per cent of our workforce is employed in Germany. Most of these employees are based in Cologne – 2,269 as at 31 December 2015. 410 employees are based at the Ulm facilities. Of the 820 employees outside Germany, 432 of them work at our DEUTZ SPAIN subsidiary.

### DEUTZ Group: Breakdown of workforce by location

Headcount	31 Dec 2015	31 Dec 2014
Cologne	2,269	2,422
Ulm	410	387
Other	231	284
<b>In Germany</b>	<b>2,910</b>	<b>3,093</b>
Outside Germany	820	823
<b>Total</b>	<b>3,730</b>	<b>3,916</b>

[Net assets](#)[Overall assessment for 2015](#)[Events after the reporting period](#)[Employees](#)

Looking at it by segment, DEUTZ Compact Engines employed 3,050 people as at 31 December 2015, 4.7 per cent fewer than it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 680, down by 4.8 per cent compared with the end of 2014.

**Optimisation of sites going to plan** On 20 June 2015, the first stage in the relocation of the plant in Übersee on Lake Chiemsee to Ulm was completed. The number of employees at the Übersee plant decreased by 68 in total. We were able to convince 15 employees to continue their work at the Ulm plant, on either a temporary or a permanent basis. Another 24 employees, after leaving DEUTZ, moved to the interim employment company that we had engaged.

Construction of the new shaft centre in Cologne-Porz is also proceeding according to schedule. The first employees have transferred to their new workplaces in Cologne-Porz as part of the relocation of the Cologne-Deutz site. The company medical service and the workplace health and safety department have already moved to Cologne-Porz.

**Short-time working extended** As the level of orders on hand remains weak, short-time working on the assembly line in Cologne was continued throughout 2015. Short-time working was also implemented in a number of development departments, depending on the work situation. From October 2015, short-time working was also introduced in the sales, service, administrative and support departments.

At our production facility in Zafra, Spain, agreement was reached with the works council for twelve days of short-time working in the fourth quarter of 2015 and 24 such days in 2016.

**Excellent training at DEUTZ** A solid level of training provides young people with the foundations for their future career. That is why we actively support vocational training by offering training in a variety of technical and engineering occupations to people embarking on their careers with our Company. The apprenticeships that we provide at our sites in Germany range from electronics and metalworking to warehouse logistics and mechatronics. Last year, 27 young women and men chose to train in our Company. The Cologne site employed 71 apprentices, while our plant in Ulm employed 20. We employed seven apprentices at the components plant in Herschbach (Westerwald) and ten at the Xchange plant in Übersee, Bavaria.

In addition to investing in these young people's futures, we also offer training for apprentices at other companies. Our training centre in Cologne is currently providing full-time or part-time vocational training in metalworking occupations to apprentices from twelve other local companies.

In 2015, our overall ratio of trainees to other employees was 3.7 per cent in Germany (2014: 4.0 per cent). All apprentices and trainees passing the final examination were given a permanent employment contract.

We are particularly pleased that a DEUTZ trainee was once again honoured by the Cologne Chamber of Industry and Commerce (IHK) for his top performance as a skilled metal worker apprentice. For the fifth year in succession, the DEUTZ training centre also received a Best Performer accolade from the Cologne IHK in recognition of its outstanding results in introductory vocational training. These accomplishments also meant that DEUTZ was pitted against the winners from all 16 IHKs in North Rhine-Westphalia. And here too, our metalworking apprentice and our instructors were among the winners of the coveted 'best of 2015' awards in Essen.

We aim to make young people with an interest in technology aware of our Company's attractive training programmes while they are still at school. That is why we took part in various training fairs and careers information events again last year. For example, our instructors and apprentices participate in initiatives such as the 'Erlebniswelt Maschinenbau' open day, enabling potential apprentices to speak to them in person.

With an intake of twelve trainees in its fourth year, the dual vocational training initiative at our Zafra plant in Spain continues to go from strength to strength. The aim is for the trainees to be taken on as foremen at the plant once they have completed the training. We also introduced a government-approved programme in which our production employees can improve their basic qualifications by obtaining certification as a machine operator. In future, this certification will be mandatory for those applying for a permanent employment contract at our Spanish subsidiary.

**Recruitment activities remain successful** Last year, we again participated in two of the most prestigious university fairs in North Rhine-Westphalia in order to make contact with students and graduates. By attending 'meet@thkÖln' in Cologne and 'bonding' in Aachen, we were again able to find students to help out in various areas of the Company. In 2015, there were 214 interns employed in our Company, of whom 26 students wrote their bachelor dissertations with us and eleven wrote their master's dissertations. A total of 62 students spent a practical semester at DEUTZ.

For many years, we have been striving to attract young women to engineering careers by taking part in events such as Girls' Day, when we demonstrate the diverse and exciting nature of a vocational apprenticeship in an engineering company. In 2015, two more young women started engineering apprenticeships with us, while a business administration trainee began her training in Ulm. Currently, around 7.4 per cent of apprentices at DEUTZ are female.

**Rewards for creativity** Our bonus-based ideas management system gathers creative suggestions for improvement from DEUTZ employees. Last year, they submitted 669 ideas – a wealth of creativity that pays off.

**Investing in people** In 2015, we pressed ahead with our talent programme, the purpose of which is to ensure the Company remains an attractive option for talented employees and to develop strong candidates internally through structured career planning. We also updated the succession planning at departmental manager level and used the talent programme to select potential successors. As a result, four employees from our talent pool were promoted to managerial positions.

We also significantly expanded the range of training courses available to employees. Having analysed the specific requirements in cooperation with managers from different areas of the Company, we significantly expanded the range of training courses available to employees. Sixty-nine courses were attended by 638 participants. The training ranges from seminars on DEUTZ-specific know-how and selected technical subjects to language courses and courses for improving methodological and interpersonal skills.

To upgrade the skills of our shop-floor staff, we continued to work with a training provider that specialises in production management and lean management and again made good use of the seminars on occupational health and safety offered by the professional association for the wood and metal industries.

We also stepped up our manager development activities in 2015. Firstly, we significantly increased the number of seminars for managers, which included management seminars for young managerial talent and project managers as well as management training courses designed specifically for different hierarchy levels. Secondly, we shone the spotlight on our principles of leadership and cooperation, and discussed with executive managers how they should implement the principles in their areas of responsibility.

**Cross mentoring successfully completed** Having begun in 2013, the intercompany programme to promote the advancement of women finished on a positive note last year, with the women who participated citing their increased visibility within their companies, the constructive discussions with mentors from other companies and the chance to broaden their horizons through various programme activities. The two mentors and mentees from DEUTZ AG concluded that they had gained invaluable new experience and that the cross-mentoring programme had helped with their personal development.

DEUTZ has long been committed to diversity management: we value the diversity of our individual employees around the world, in terms of gender, origin, age, religion and disability, and we try to harness this for the success of the Company. For example, we have a clear target to increase the number of management positions within the DEUTZ Group that are occupied by women. Further information can be found in the corporate governance report on page 133 et seq. of this annual report.

**Ongoing health promotion initiatives** The ‘Ergonomics in the workplace’ project, which was initiated in 2013, continued to run successfully in its third year. It has now become established at all of our plants in Cologne. The focus was on running the project on an ongoing basis so as to yield positive results for employees’ health year after year.

The health committee also decided to offer a further programme of colon cancer screening in summer 2015, a preventive measure that once again was very well received.

The psychosomatic consultations offered in Ulm proved useful. If the company doctor confirms that a short-term intervention is necessary, appointments with a psychologist or at the psychosomatic outpatient clinic at Ulm University Hospital can be organised at short notice so that employees can receive the help they require.

**HRS Business Run 2015** The HRS Business Run again took place on 13 August 2015 at the Rhein Energie stadium in Cologne. There was another high turnout from DEUTZ of 252 employees. The event was a resounding success and all employees thoroughly enjoyed themselves.



## CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility has a long tradition at DEUTZ. As a corporate citizen with operations around the world, we are aware of our duties and obligations. We assume responsibility for our decisions and our actions, for our products and services, for our customers and lenders, for the environment and for the society in which we live. We have been involved in corporate citizenship projects for many years, not only in our home region in the area around Cologne but also throughout Germany and beyond.

**Engine museum always popular with visitors** The number of visitors to the DEUTZ engine museum rose again last year. It explains the origins and history of global motorisation and displays original machines from the early days of the engine. This all started more than 150 years ago with the founding of N.A. Otto & Cie., the predecessor of today's DEUTZ AG.

On 12 June 2015, DEUTZ again took part in the 'Nacht der Technik' engineering and technology evening along with other companies. Visitors were able to take a guided tour of our engine museum and the assembly hall at our Cologne-Porz site.

**Getting young people and the unemployed into careers** For almost 25 years, we have been working with IN VIA – an association under the auspices of the German Caritas organisation – and the German Federal Employment Agency to provide career preparation courses for young people with learning and social difficulties. In 2015/16, a total of 36 participants underwent basic metalwork training over a ten-month period at the DEUTZ training centre, which equipped them with a wealth of skills needed to take up a career.

**Valuable and important contribution from people with disabilities** DEUTZ has successfully worked with NOSTRA GmbH for more than 30 years. People with disabilities work as full and equal employees at DEUTZ AG's Cologne-Kalk site, where they carry out the final assembly and packing for the entire range of engine spare parts. Day in, day out, they prove that people with disabilities can make a valuable, economically viable contribution in the modern world of work. The tasks include packing small and large engine parts and assembling gasket sets and spare parts kits. Around 50 full-time employees now perform a variety of tasks, and highly complex certification standards, such as DIN EN ISO 9001, have been achieved.

DEUTZ has also successfully worked in partnership with GWK, a not-for-profit organisation based in Cologne, for more than 40 years. At the Bergisch Gladbach site, 62 people work on DEUTZ packing and assembly orders. Around 2,500 different articles are packed, weighed and labelled. Approximately 35 people use machines to produce additional articles such as belt pulleys and oil level gauges. In Cologne-Gremberg, a further 15 people handle printing orders. The many different work steps enable the integration of employees with a variety of abilities who benefit from the continuity of the repetitive tasks.

**Employee engagement** DEUTZ has always contributed to various charitable projects, especially in the run-up to Christmas. In November, we launched an internal donation campaign entitled 'DEUTZ helps' in aid of refugees. Together with the Cologne branch of the German Red Cross (DRK), we called on employees to donate urgently required items. Our employees responded brilliantly, enabling both a van and another vehicle to be filled to the roof with donated items and handed to the DRK.

As part of our 'DEUTZ fulfils your wish' initiative, we again transformed the Christmas tree in our reception area into a 'DEUTZ wishing tree' in December. Around 130 children from a local support centre for children, young people and disabled people wrote down their Christmas wishes on lovingly decorated 'wish notes' that were then hung on our wishing tree. Once again, our employees demonstrated their compassion and fulfilled all of the children and young people's wishes.

**High-profile performances by the DEUTZ choir** The DEUTZ choir has now been singing for almost 70 years. It was founded in March 1946 as a group of just eight enthusiastic singers, quickly growing into a powerful men's choir with more than 100 active members. Last year, the DEUTZ choir hosted a large opera gala at the Cologne Philharmonic Hall on 6 and 7 June. The choir was accompanied by the Bonner Operisten and Collegium Cantandi choirs along with the Württembergische Philharmonie Reutlingen orchestra. On 12 and 13 December, the choir gave further outstanding performances at its three Advent concerts in Cologne-Gürzenich, at which it was joined by the Domstadt Philharmoniker orchestra. At the concerts, a collection was made for the Kölner Klinikclowns charity.

The members of the Board of Management and managers at DEUTZ AG are fully aware of their responsibility to lead by example. For many years, they have been personally involved in various charitable associations, trade associations, committees, trusts and other forums.

## ENVIRONMENT

Protection of the environment and the prevention of climate change are key corporate objectives for DEUTZ. We manufacture environmentally responsible products that meet the latest emissions standards and even future emissions standards and therefore make a vital contribution to protecting the environment. Our production processes are also resource-efficient. More than ten years ago, DEUTZ decided to implement an environmental management system as a way of contributing effectively to environmental protection. The system keeps track of aspects that are highly relevant to the environment, such as keeping the air clean, avoiding and correctly disposing of waste, protecting against soil and water pollution and sustainably reducing energy consumption.

### ENERGY MANAGEMENT SYSTEM

We have successfully deployed our energy management system at our Cologne sites since 2013, and it first achieved certification in November of that year. In April 2015, as part of the annual quality and environmental audit, the certification body DNV GL once again accredited the energy management system without any reservations. As planned, the ISO 50001 certificate was then extended to all German sites. This means that we also satisfy the provisions of the German Energy Services Act (EDL-G), which requires all companies categorised as being larger than an SME to conduct energy audits.

The ongoing expansion of additional meter infrastructure enables energy to be monitored and, at the same time, provides a transparent overview of all energy flows. Additional potential was identified by implementing a variety of technical and organisational measures last year. The resulting annual savings amount to 775 MWh of electricity and 1,116 MWh of heat.

However, the potential for further savings is still far from exhausted: additional efficiency measures and the final phase in the expansion of the monitoring system are already being planned for 2016. New opportunities for savings will be opened up by the closure of the Cologne-Deutz site and the associated relocation of some manufacturing operations to the new production hall at the Cologne-Porz site, which is being built in accordance with the latest requirements under the German Energy Saving Regulation (EnEV).

### DEUTZ Group: Energy consumption in our plants<sup>1)</sup>

MWh	2015	2014
Electricity <sup>2)</sup>	77,388	87,944
Natural gas	34,243	34,768
District heating	23,857	22,596
Heating oil	3,788	3,456
Diesel fuel <sup>3)</sup>	21,252	32,313

<sup>1)</sup> Plants in the DEUTZ Group, excluding joint ventures.

<sup>2)</sup> Recovered energy has been subtracted.

<sup>3)</sup> At 9.85 kWh/litre (mean).

### ENVIRONMENTAL MANAGEMENT SYSTEM

In April 2015, external environmental auditors from the certification body DNV GL found once again that DEUTZ AG's environmental management system conforms to the international ISO 14001 standard. For the first time since the environmental management system was implemented, a main target was defined and quantified in 2015: a year-on-year reduction of CO<sub>2</sub> emissions by at least 2.0 per cent per engine.

A comparison of total annual emissions shows that CO<sub>2</sub> emissions have gone down by around 13 per cent. This trend correlates closely with the production programme, which was smaller than in 2014.

CO<sub>2</sub> emissions per engine (Scopes 1–3) increased to 460kg in 2015 (2014: 365kg). The targeted reduction in CO<sub>2</sub> emissions of 2 per cent per unit of production was not achieved because we have an underlying energy requirement for the production of our engines (Scope 2 emissions) that applies regardless of the size of a production programme.

The closure of the site in Cologne-Deutz and the construction of the new shaft centre at the Porz plant are expected to lead to a significant improvement in our carbon footprint. DEUTZ is therefore continuing to pursue its target of a 2 per cent reduction in CO<sub>2</sub> per engine in the coming reporting year.

**DEUTZ Group: Annual CO<sub>2</sub> emissions in our plants<sup>1)</sup>**

Tonnes	2015	2014
CO <sub>2</sub> emissions (Scope 1)	13,251	16,289
CO <sub>2</sub> emissions (Scope 2)	51,070	57,021
CO <sub>2</sub> emissions (Scope 3)	531	1,528
Total CO <sub>2</sub> emissions	65,134	77,463

Scope 1: CO<sub>2</sub> emissions caused by combustion in our own facilities.

Scope 2: CO<sub>2</sub> emissions relating to purchased energy (e.g. electricity, district heating).

Scope 3: CO<sub>2</sub> emissions from flying and the use of hire cars.

<sup>1)</sup> Plants in the DEUTZ Group, excluding joint ventures.

**FURTHER IMPROVEMENT OF AIR PURITY**

Over and above the effects of the production programme, emissions of dust, carbon dioxide, benzene and nitrogen oxide have decreased substantially as a result of particularly low-emission engines being tested and a shortening of the testing times in the test bay.

**DEUTZ Group: Emissions per engine in our plants<sup>1)</sup>**

Emissions per engine	2015	2014
CO <sub>2</sub> (kg)	460	365
Nitrogen oxide (kg)	0.128	0.140
Dust (g)	2.6	2.7
Benzene (mg)	44.8	48.6

<sup>1)</sup> CO<sub>2</sub> emissions in plants in the DEUTZ Group. All other figures relate to German plants.

A variety of individual technical and organisational measures made it possible to shorten the testing times. To further reduce emissions and costs, we are planning to carry out cold testing<sup>2)</sup> of some of our products in the production test bays in Cologne. The construction of a laboratory for exhaust after-treatment technology, which contains a model gas testing rig, enables the simulation of engine emissions for bench-scale testing. This saves on various test runs at the development stage.

In order to satisfy customers' requirement for even more eco-friendly engine technologies, DEUTZ AG has converted four of its test cells so that engines can be tested with LPG as part of research and development. The advantage in terms of air purity is obvious: LPG-powered engines do not emit any dust.

<sup>2)</sup> Functional testing of the engine without initiating the combustion process.

**FOCUS ON WATER POLLUTION CONTROL**

We ensure the safe operation of all equipment to which the German Federal Water Act (WHG) applies by having them inspected regularly by experts from a central monitoring agency. This not only ensures the necessary technical requirements for safe operation are in place but also reduces the likelihood of equipment downtimes.

The retirement and deinstallation of the electroplating plant in Cologne-Deutz significantly lowered environmental risk during the reporting year. The deinstallation of the electroplating equipment and the transfer of some of it to the new location of the external service provider were carried out in close cooperation with the local environmental authorities – a model example of collaborative partnership.

In the last stage of its expansion, the R&D testing centre's cellars were extensively refurbished. The work was undertaken in order bring the equipment-specific water pollution controls in line with the latest technology. This predominantly involved replacing waste water pipes and recoating the floors, which have to resist penetration by substances that could pollute the water. Just under €0.2 million was invested in these measures.

**Use of resources improved again** The recooling plant, which supplies the R&D testing centre with water for cooling, had previously been operated using an open recirculating cooling system. Besides the loss of water resulting from this process, the outdated machinery consumed a lot of electricity. We completed the installation of a closed recirculating cooling system and the replacement of the inefficient circulating equipment last year. Just under €0.3 million was invested in this construction work. The ongoing benefits of this measure – reduced water consumption at the Cologne-Porz site and lower consumption of electrical energy – will help to conserve the resources available to our Company in the long term.



**Target for a continuous decrease in waste** The high standards of quality that we insist on for the products obtained from our suppliers require them to be adequately protected during transit. We therefore cannot do away with packaging completely. Nonetheless, we want to reduce it steadily and thereby lower the volume of waste that we expect to produce. We examine, on a case-by-case basis, whether returnable packaging systems (e.g. return of empty containers) can be used instead of non-reusable packaging and introduce them where possible. Last year, we invested €0.5 million in additional returnable packaging (2014: €1.1 million). Another example of successful waste reduction is the storage of the fuel additive AdBlue<sup>1)</sup> in a 5m<sup>3</sup> tank. €110 thousand was invested in the installation of this facility. In addition to a reduction in the cost of disposing of non-reusable packaging, there are savings from the reduced logistics, mainly derived from a decrease in the number of orders processed.

## SAFETY MANAGEMENT

The Board of Management has defined a key target for workplace health and safety of zero accidents, an extremely challenging objective that is designed to set an example. The introduction of this target has resulted in a steady improvement in the frequency of accidents<sup>2)</sup> and the number of notifiable accidents per thousand employees (TMQ)<sup>3)</sup>. Accident frequency, which is the number of notifiable workplace accidents in relation to the number of hours worked, stood at 12.9 in 2015 (2014: 20.8), its lowest level since we began recording statistics on workplace health and safety. The number of notifiable accidents per thousand employees went down to 17.7 (2014: 26.1) and is now around 30 per cent below the current average for the companies insured by our industry-specific accident insurer BGHM (Berufsgenossenschaft Holz und Metall).

Internal health, safety and environment audits are conducted regularly, resulting in improved safety standards. The frequency of these audits depends mainly on the level of risk in the area being audited. Any variances from internal or statutory rules are followed up rigorously on the basis of action plans. The health, safety and environment departments must be involved in processes for approving hazardous materials and signing off machinery and equipment. Risk assessments are reviewed regularly and are adapted as the need arises. Personal protective gear is specified for each function and has been chosen based on an analysis of accidents.

Irrespective of the preventive measures taken with regard to health and safety, DEUTZ AG also has an emergency organisation consisting of full-time and ad-hoc staff. The linchpin of this organisation is the DEUTZ AG works fire brigade, which is officially recognised by the German authorities. Internal and external training is provided to ensure employees have the necessary skills and qualifications.

<sup>1)</sup> 32.5% aqueous urea solution (AdBlue® is a registered trade mark of the German Association of the Automotive Industry (VDA))

<sup>2)</sup> Accident frequency: number of accidents per million hours worked (as defined by the employers' liability insurance association).

<sup>3)</sup> Known as TMQ (Tausend-Mann-Quote) in German.

## DEUTZ AG

The following remarks refer to the annual financial statements of DEUTZ AG. The annual financial statements of DEUTZ AG are prepared in accordance with the requirements of the German Commercial Code (HGB).

### BASIC PRINCIPLES AND BUSINESS PERFORMANCE OF DEUTZ AG

DEUTZ AG is the parent company of the DEUTZ Group. At home and abroad, DEUTZ AG has various direct and indirect subsidiaries and equity investments. The subsidiaries include a production facility in Spain, a production company in China and several companies that perform sales and service functions. The Chinese production company DEUTZ Engine (China) Co., Ltd. in Linyi, China, was wound up at the end of 2015. DEUTZ AG has a direct or indirect stake in a total of 27 companies (2014: 29 companies). It is also by far the largest production company of the DEUTZ Group and provides the head-office functions for the Group.

Because the business performance and financial situation of DEUTZ AG are essentially the same as for the DEUTZ Group, we make reference here to the 'Business performance in the DEUTZ Group' section on page 32 et seq. of this combined management report.

Because of the significance of DEUTZ AG within the Group, and its heavy interdependencies with other Group companies, the Group is managed at the level of DEUTZ AG. In addition to the key performance indicators used for management at Group level, the net income of DEUTZ AG, as the relevant variable in the payment of dividends, is also an element of the management system of the Company. The internal management system for the DEUTZ Group is described on page 31 et seq. of this combined management report. The DEUTZ Group's net income in accordance with IFRS is reconciled to DEUTZ AG's net income in accordance with the German Commercial Code (HGB):

#### DEUTZ AG: Reconciliation

€ million	
<b>DEUTZ Group net income (IFRS)</b>	<b>3.5</b>
Consolidation of equity investments	10.7
<b>DEUTZ AG income (IFRS)</b>	<b>14.2</b>
Material differences due to different financial reporting standards	
Recognition of development expenditure	34.4
Measurement of provisions for pensions and other post-retirement benefits	-16.4
Other differences relating to the financial reporting standards	-5.4
<b>DEUTZ AG net income (HGB)</b>	<b>26.8</b>

## RESULTS OF OPERATIONS

## Overview of DEUTZ AG's results of operations

€ million	2015	2014
<b>Revenue</b>	<b>1,118.6</b>	<b>1,437.8</b>
Cost of sales	-976.4	-1,280.6
Research and development costs	-43.6	-54.0
Selling and administrative expenses	-71.9	-68.8
Other operating income	40.8	31.1
Other operating expenses	-33.6	-15.9
Net investment income	5.6	-7.3
Write-downs of investments	–	-0.7
<b>Operating profit (EBIT)</b>	<b>39.5</b>	<b>41.6</b>
Interest expenses, net	-8.2	-11.6
<b>Profit from ordinary activities</b>	<b>31.3</b>	<b>30.0</b>
Extraordinary items	-2.3	-19.4
Income taxes	-1.7	15.0
Other taxes	-0.5	-1.2
<b>Net income</b>	<b>26.8</b>	<b>24.4</b>

**Revenue** In 2015, the revenue generated by DEUTZ AG came to €1,118.6 million, 22.2 per cent less than in the previous year (2014: €1,437.8 million). This decrease was largely driven by lower demand in our largest application segment, Mobile Machinery, and in the Agricultural Machinery application segment. In the Mobile Machinery application segment, revenue was down by 30.7 per cent to €470.0 million (2014: €677.8 million). Agricultural Machinery saw an even bigger drop of 38.8 per cent to €157.6 million (2014: €257.6 million). This 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 current reluctance to invest shown by end customers means that the inventories of a number of European customers are being used up more slowly.

Asia-Pacific was the only region to report a gain, with revenue there rising by a substantial 22.7 per cent to €113.1 million. By contrast, revenue in EMEA (Europe, Middle East and Africa) and the Americas went down by 28.6 per cent and 7.0 per cent to €810.5 million and €195.0 million respectively.

**Earnings performance** In 2015, DEUTZ AG generated an operating profit (EBIT) of €39.5 million (2014: €41.6 million). This year-on-year decline of €2.1 million was mainly attributable to the considerably lower business volume and interest-rate-related increases in expenses resulting from adjustments to provisions for pensions and other post-retirement benefits. Earnings were boosted, however, by lower production costs

and warranty costs, greatly improved net investment income and lower research and development costs.

Earnings before interest, tax, depreciation and amortisation (EBITDA) at DEUTZ AG amounted to €93.5 million in 2015, compared with €89.7 million in 2014.

**Cost of sales** DEUTZ AG's cost of sales came to €976.4 million in 2015 (2014: €1,280.6 million). The year-on-year decline of €304.2 million was mainly attributable to the volume-related drop in costs for materials, staff and contract workers. There was also a substantial decrease in warranty costs. As a percentage of revenue, the cost of sales improved year on year from 89.1 per cent to 87.3 per cent.

**Research and development costs** Research and development costs fell by €10.4 million year on year to €43.6 million (2014: €54.0 million). Research and development costs largely comprised staff costs and cost of materials. Investment grants received and capitalised development expenditure were deducted. Unlike the development expenditure in the DEUTZ Group, which is recognised in accordance with IFRS requirements, the development expenditure in DEUTZ AG is recognised in accordance with HGB provisions and only expenditure relating to projects that started after initial application of the German Accounting Law Modernisation Act (BilMoG) at DEUTZ AG is capitalised.

**Selling and administrative expenses** Selling and administrative expenses in 2015 came to €71.9 million, an increase of €3.1 million compared with the previous year (2014: €68.8 million). The main factor in this rise was the recognition of one-off transition costs in connection with the switch of IT service provider at the end of the year under review. When measured as a proportion of revenue, selling and administrative expenses also went up year on year, from 4.8 per cent in 2014 to 6.4 per cent in 2015.

**Other operating income** The reporting year saw an increase of €9.7 million in other operating income to €40.8 million (2014: €31.1 million). This was predominantly due to the reduction in the provisions for warranty costs. Furthermore, a gain on disposal of €2.8 million was recognised following the disposal of the shares in WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. in Weifang, China, in 2015.

**Other operating expenses** Other operating expenses were up year on year, advancing by €17.7 million to €33.6 million (2014: €15.9 million). This rise was mainly the result of higher expenses in connection with foreign-currency transactions and adjustments to provisions for pensions and other post-retirement benefits because of changes in measurement parameters. However, the foreign currency losses were offset by a similar level of foreign currency gains, which are reported in other operating income.

**Net investment income** Net investment income was up significantly on the previous year, climbing by €12.9 million to €5.6 million (2014: minus €7.3 million). This was due, in particular, to the fact that net investment income in the prior year was adversely affected by the reduction in the carrying amounts for the equity investments DEUTZ Engine (Shandong) Co., Ltd. and DEUTZ Engine (China) Co., Ltd. at the level of the holding companies DEUTZ Asien Verwaltungen GmbH and DEUTZ Engine China GmbH.

**Net interest expense** Net interest expense amounted to €8.2 million (2014: net expense of €11.6 million). This year-on-year improvement of €3.4 million was mainly attributable to lower utilisation of credit lines.

**Extraordinary items** In the reporting year, extraordinary items amounted to minus €2.3 million (2014: minus €19.4 million) and comprised the annual addition to the provisions for pensions and other post-retirement benefits of the difference arising under the initial application of BilMoG. This difference came about as a result of the remeasurement of the provisions for pensions and other post-retirement benefits on 1 January 2010. Extraordinary items in the previous year also included expenses in connection with the optimisation of our sites.

**Income taxes** Income taxes came to €1.7 million in the year under review. The current tax expense of €2.7 million was partly offset by deferred tax income of €1.0 million.

**Net income** Owing to the sharp drop in extraordinary expenses, the net income for the reporting year increased slightly, rising by €2.4 million year on year to €26.8 million (2014: €24.4 million). This movement was in line with the forecast that we had made at the start of 2015.

In view of the positive level of net income, the Board of Management and Supervisory Board propose using €8.5 million of the accumulated income for the financial year to pay a dividend of €0.07 per share.

## FINANCIAL POSITION

### Overview of DEUTZ AG's financial position

€ million

	2015	2014
Cash flow from operating activities	88.7	85.2
Cash flow from investing activities	-41.0	-23.0
Cash flow from financing activities	-23.9	-19.1
Change in cash and cash equivalents	23.8	43.1
Free cash flow	46.7	58.8
Cash and cash equivalents at 31 Dec	97.7	73.9

Free cash flow: cash flow from operating and investing activities less net interest expense.

Financial management in the DEUTZ Group is one of the core functions of the Group, and DEUTZ AG holds responsibility for this function. The basic principles and objectives of financial management at DEUTZ AG are therefore largely the same as those of the Group, as is the funding of DEUTZ AG. In this regard, please refer to the relevant sections on page 43 et seq. of this combined management report.

**Liquidity** Cash flow from operating activities amounted to €88.7 million last year (2014: €85.2 million). The small increase of €3.5 million compared with 2014 was mainly due to the lower level of working capital.

The cash flow from investing activities in 2015 was minus €41.0 million (2014: minus €23.0 million). This increased outflow of €18.0 million was attributable, in particular, to higher cash payments in connection with capital expenditure on property, plant and equipment.

Cash flow used for financing activities in 2015 totalled €23.9 million (2014: €19.1 million). This advance was largely due to substantially higher payments of principal in relation to existing financial liabilities than in the prior year. As in the previous year, cash flow used for financing activities included a dividend payment to shareholders of €8.5 million.

Free cash flow decreased year on year, falling by €12.1 million to €46.7 million (2014: €58.8 million) due, above all, to increased capital expenditure.

**Capital expenditure** After deducting investment grants, DEUTZ AG's capital expenditure in 2015 amounted to a total of €52.9 million (2014: €32.9 million). As in 2014, spending primarily related to property, plant and equipment, and the amount of €42.2 million (after deducting grants) spent on these assets was considerably higher than in the previous year (2014: €30.0 million). The investing activities relating to property, plant and equipment focused on measures aimed at optimising our network of sites, such as the construction of the shaft centre in Cologne-Porz. There were also additions in connection with replacement investments in machinery and tools.



## NET ASSETS

## Overview of DEUTZ AG's net assets

€ million	31 Dec 2015	31 Dec 2014
Non-current assets	493.4	502.0
Current assets	408.0	404.5
Prepaid expenses	1.8	2.0
Deferred tax assets	86.3	85.3
<b>Total assets</b>	<b>989.5</b>	<b>993.8</b>
Equity	472.2	453.9
Provisions	269.4	284.0
Liabilities	247.5	255.3
Deferred income	0.4	0.6
<b>Total equity and liabilities</b>	<b>989.5</b>	<b>993.8</b>
Working capital (€ million)	67.7	80.6
Working capital ratio (31 Dec, %)	6.1	5.6
Equity ratio (%)	47.7	45.7

Working capital: inventories plus trade receivables less trade payables.  
Equity ratio: equity / total equity and liabilities.

**Non-current assets** Non-current assets at 31 December 2015 amounted to €493.4 million (31 December 2014: €502.0 million). The year-on-year decrease of €8.6 million was mainly due to the lower figure for investments. Following the winding-up of DEUTZ Engine (China) Co., Ltd. in Linyi, China, an amount of approximately €5.0 million was withdrawn from the additional paid-in capital of the holding company, DEUTZ Engine China GmbH, and repaid to DEUTZ AG. There was a corresponding decrease in the carrying amount of the equity investment in DEUTZ Engine China GmbH.

**Current assets** As at 31 December 2015, current assets amounted to €408.0 million. This increase of €3.5 million compared with twelve months earlier (31 December 2014: €404.5 million) mostly resulted from the higher volume of cash and cash equivalents and inventories held on 31 December 2015. However, it was largely offset by a decline in trade receivables and other assets.

**Working capital** Working capital as at 31 December 2015 was €67.7 million (31 December 2014: €80.6 million), a year-on-year decrease of €12.9 million. The main reason for this was the reduction in trade receivables caused by lower demand. The drop in demand also resulted in higher inventories, as there is a time delay between a fall in demand and the scaling back of inventory orders. Trade payables, however, changed only

insignificantly. There was an increase in the working capital ratio, i.e. the ratio of working capital (inventories plus trade receivables less trade payables) to revenue despite the drop in working capital. This was due to the reduced volume of business. As at the balance sheet date<sup>1)</sup>, this ratio was 6.1 per cent compared with 5.6 per cent as at 31 December 2014.

**Deferred tax assets** The €1.0 million rise in deferred tax assets arose, in particular, from temporary differences between carrying amounts in the tax accounts and in the financial statements under HGB. The carrying amounts in question included those for inventories and those for provisions for pensions and other post-retirement benefits.

**Equity ratio** Owing to the positive level of net income, equity advanced by €18.3 million to €472.2 million (31 December 2014: €453.9 million). The equity ratio increased slightly to reach 47.7 per cent (31 December 2014: 45.7 per cent).

**Provisions** At 31 December 2015, provisions stood at €269.4 million (31 December 2014: €284.0 million). This year-on-year decrease of €14.6 million was primarily attributable to the reduction in provisions for potential warranty claims in the future.

**Liabilities** As at 31 December 2015, liabilities had fallen by €7.8 million to €247.5 million (31 December 2014: €255.3 million). The main factor here was the decline in liabilities to banks, which were scaled back as planned.

## EVENTS AFTER THE REPORTING PERIOD

No events occurred after 31 December 2015 that had a material impact on the net assets, financial position or results of operations of DEUTZ AG.

## EMPLOYEES

As at 31 December 2015, a total of 2,943 people<sup>2)</sup> were employed by DEUTZ AG. This meant that the number of employees had fallen by 182 year on year (31 December 2014: 3,125 employees). We also had a further 124 people on temporary employment contracts as at 31 December 2015, compared with 252 a year earlier. Employing temporary workers enables us to respond flexibly to any fluctuations in demand.

Looking at it by segment, DEUTZ Compact Engines employed 2,454 people as at 31 December 2015, 153 fewer than it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 489, down by 29 year on year.

<sup>1)</sup> Working capital ratio as at the balance sheet date: ratio of working capital (inventories plus trade receivables less trade payables) at the end of the reporting period to revenue for the preceding twelve months.

<sup>2)</sup> Number of employees incl. apprentices and trainees.

## OPPORTUNITY AND RISK REPORT

DEUTZ AG is integrated into the risk management system of the DEUTZ Group. As a head-office function, risk management for the Group is performed by DEUTZ AG. Information about the structuring and mechanics of the risk management system and of risk management with regard to financial instruments can be found in our notes on page 61 et seq.

Because DEUTZ AG is closely integrated with the other Group companies, its risk situation is essentially the same as that of the Group. Risks arising from subsidiaries may have an effect on DEUTZ AG because of the carrying amount of an equity investment, reduced dividend payments and the internal business relations. The risks and opportunities associated with the DEUTZ Group are described on pages 62 to 65 of this combined management report.

Information about DEUTZ AG's internal accounting-related control system and about risk management with regard to the use of financial instruments at DEUTZ AG can be found on page 64 et seq. of this combined management report.

## OUTLOOK

DEUTZ AG performs the head-office functions of the DEUTZ Group and is the biggest production company within the Group by some margin. Because of DEUTZ AG's wide-ranging relationships with other Group companies and because of its size within the Group, the expectations presented in the Group outlook for 2016 are essentially the same as those for DEUTZ AG. We therefore anticipate that the revenue of DEUTZ AG will develop largely in line with the statements made for the DEUTZ Group. We forecast net income in 2016 to be in the low double-digit millions, below the 2015 level. Further information can be found in the outlook for the DEUTZ Group on page 65 et seq.

## CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289A HGB

The corporate governance declaration pursuant to section 289a HGB is an integral element of the combined management report. We refer here to our remarks on pages 133 to 138 of the annual report.

## DISCLOSURES PURSUANT TO SECTIONS 289 (4) AND 315 (4) HGB

**Composition of the issued capital** There were no changes to the issued capital (share capital) of DEUTZ AG in 2015. As at 31 December 2015, the issued capital amounted to €308,978,241.98 and was divided into 120,861,783 no-par-value bearer shares.

**Direct or indirect shareholdings representing more than 10 per cent of voting rights** Since 12 September 2012, AB Volvo of Gothenburg, Sweden, has held 30,246,582 shares in DEUTZ AG, giving it a voting share of 25.026 per cent.

**Restrictions affecting voting rights or the transfer of shares** According to the information available to us, the transferability of DEUTZ shares held by AB Volvo is restricted by a pre-emption right of the SAME DEUTZ-FAHR Group S.p.A. of Treviglio, Italy.

**Legal provisions and Statute provisions regarding the appointment and removal of members of the Board of Management and regarding changes to the Statutes** According to articles 7 (1) and 7 (2) of the Statutes of DEUTZ AG:

- “(1) The Board of Management shall comprise at least two members.
- (2) The Supervisory Board shall determine the number of members of the Board of Management and the allocation of responsibilities. It may draw up and issue rules of procedure.”

As far as the appointment and removal of members of the Board of Management are concerned, sections 84 and 85 of the German Stock Corporation Act (AktG) and section 31 of the German Codetermination Act (MitbestG) also apply.

According to article 14 of the Statutes of DEUTZ AG:

“The Supervisory Board may change the wording but not the spirit of the Statutes.” Sections 179 and 133 AktG also apply in the case of changes to the Statutes.

**Authority of the Board of Management, in particular with regard to share issue or buyback** The authority of the Board of Management is derived from the legal provisions and from the rules of procedure laid down by the Supervisory Board.

The Board of Management is currently not authorised to issue or buy back shares.

## DEUTZ AG

Corporate governance declaration  
pursuant to section 289a HGB

Disclosures pursuant to sections  
289 (4) and 315 (4) HGB

Remuneration report

## FURTHER DISCLOSURES

No bearers of shares have any special rights conferring authority to control the Company.

Numerous employees have direct shareholdings in DEUTZ AG. There are no restrictions affecting the direct exercise of rights of control in connection with these shares.

A consortium of banks has provided DEUTZ AG with a syndicated, revolving cash credit line of €160 million. DEUTZ AG also took out a loan with the European Investment Bank that has a remaining balance of €68.4 million. Under the terms of the loan agreements, the lenders can demand that the outstanding loan be repaid within a specified period in the event of a change of control, i.e. one or more people acting jointly acquire a direct or indirect shareholding of at least 50 per cent of all shares and/or voting rights in DEUTZ AG.

If DEUTZ AG needs to repay a considerable proportion of the loans prematurely in the event of a change of control, it needs to raise the necessary funds some other way in the short term.

The service contracts of the Board of Management members Dr Ing Helmut Leube and Dr Margarete Haase stipulate the following provision in the event of a change of control: if their appointment (1) is revoked within nine months of the change of control or (2) ends within nine months of a change to the legal form of DEUTZ AG and subject to certain other requirements, they will receive 150 per cent of the severance cap pursuant to article 4.2.3 of the German Corporate Governance Code. As set out in the service contracts, a change of control is deemed to occur when one or more other people or other companies acting jointly within the meaning of section 30 of the German Securities Acquisition and Takeover Act (WpÜG) acquire more than 30 per cent of the voting rights and therefore control of the Company. No change of control will be deemed to have occurred if the current major shareholder, AB Volvo, or the former major shareholder, the SAME DEUTZ-FAHR Group, acquires more than 30 per cent of the voting rights in the Company.

The long-term incentive plans (LTI), under which the most senior managers in the DEUTZ Group (executives and managing directors of major subsidiaries) are granted virtual options that they can exercise after a vesting period and upon achievement of certain performance targets (see page 116 et seq. of this annual report), contain the following provision in the event of an entity – either alone or acting jointly with an affiliated company – acquiring a minimum of 50 per cent of the shares in DEUTZ AG: provided one of the performance targets has been achieved, the LTI participants may exercise their options within a short time frame after the acquisition, even if the vesting period has not yet expired.

DEUTZ AG has no indemnification agreements with employees that would come into force in the event of a takeover bid.

## EXPLANATORY STATEMENT BY THE BOARD OF MANAGEMENT IN CONNECTION WITH SECTIONS 289 (4) AND 315 (4) HGB

The disclosures contained in the combined management report and management report pursuant to sections 289 (4) and 315 (4) HGB relate to arrangements that may be significant in the success of any public takeover bid for DEUTZ AG. It is the opinion of the Board of Management that these arrangements are normal for publicly traded companies comparable with DEUTZ AG.

## REMUNERATION REPORT

### REMUNERATION OF THE BOARD OF MANAGEMENT

The annual remuneration paid to the members of DEUTZ AG's Board of Management consists of fixed and variable components as well as a pension benefit contribution. The fixed component is paid monthly as basic salary. The variable component is performance-related and consists of two parts: the first is a bonus that is based on attainment of specific targets; the other comes in the form of virtual performance shares that offer a long-term incentive. For the pension contribution, an amount is paid into a benevolent fund; there is no other entitlement to a pension or surviving dependants' pension.

The calculation of the annual bonus is based on the degree of attainment of annual performance targets (short-term targets). The number, content and weighting of the short-term targets are set annually by the Supervisory Board at its due discretion after consulting with the respective Board of Management member. The minimum level of target attainment for the payment of a bonus is 75 per cent; the maximum level of target attainment relevant to the payment of the bonus is 150 per cent. The highest amount that can be paid as a bonus in the case of maximum target attainment is determined by the respective service contract. Only 60 per cent of the annual bonus is paid out at the end of the year. The remaining 40 per cent of the bonus is paid out in two equal instalments, subject to the attainment of further medium-term financial targets (medium-term targets), at the end of a further one year and two years, whereby the amount that is paid out is based on the level of attainment of these medium-term targets, to a maximum of 150 per cent. The highest permissible amounts for these further payments are also contractually agreed. The targets are set at the beginning of the year for which the bonus is to be paid.



Details regarding the virtual performance shares are set forth in a long-term incentive plan for the Board of Management (LTI plan BoM), which forms part of the contractual agreements with the Board of Management members. The number of virtual performance shares allocated to a Board of Management member is calculated each year on the basis of the contractually specified euro amount divided by a reference price. The reference price is the average closing price of DEUTZ AG shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 60 trading days preceding the grant date. Virtual performance shares represent an entitlement to payment of a cash amount in accordance with the provisions of the LTI plan BoM. The cash amount per virtual performance share corresponds to the average closing price of DEUTZ shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last 60 trading days

prior to the expiry of a vesting period of four years after the grant date, and is limited to a maximum of 1.5 times the reference price. Entitlement to the cash payment only arises, however, if either the market price of DEUTZ shares has increased by at least 30 per cent relative to the reference price or the market price of DEUTZ shares has outperformed the MDAX (or a future index replacing the MDAX) by at least 10 percentage points during the vesting period. A further requirement is that the Board of Management member makes a personal investment by holding one DEUTZ share for every 20 virtual performance shares received.

The variable remuneration is designed in a way that the majority of it is measured against performance over several years. The overall remuneration structure is designed to support the sustainable growth of the Company.

### Benefits granted

€ thousand

	<b>Dr Ing Helmut Leube</b> <b>Chairman of the Board of Management</b>			
	2014	2015	2015 (min)	2015 (max)
Fixed remuneration	725	725	725	725
Additional benefits <sup>1)</sup>	174	175	175	175
<b>Total</b>	<b>899</b>	<b>900</b>	<b>900</b>	<b>900</b>
One-year variable remuneration <sup>2)</sup>	360	360	–	540
Multi-year variable remuneration				
2015–2016 deferral <sup>2)</sup>	240	–	–	–
2016–2017 deferral <sup>2)</sup>	–	240	–	360
LTI 2014–2018 <sup>3)</sup>	196	–	–	–
LTI 2015–2019 <sup>3)</sup>	–	222	–	300
<b>Total</b>	<b>796</b>	<b>822</b>	<b>–</b>	<b>1,200</b>
<b>Total remuneration</b>	<b>1,695</b>	<b>1,722</b>	<b>900</b>	<b>2,100</b>

Instead of the target values for one-year variable remuneration and for deferrals from one-year variable remuneration required under the German Corporate Governance Code (DCGK), the figures in the table below for total remuneration indicate the remuneration figures that are required to be disclosed under the applicable accounting standards. For the one-year variable remuneration, these represent the provision for the annual bonus for 2015, adjusted for any over- or under-allocation in the previous year. With regard to the deferrals from the one-year variable remuneration, the figures represent the amounts vested and recognised in provisions in 2015.

One-year variable remuneration	7	227		
2014–2015 deferral	51	26		
2015–2016 deferral	–	23		
2016–2017 deferral	–	–		
<b>Total remuneration</b>	<b>1,153</b>	<b>1,398</b>		

<sup>1)</sup> Includes payment into a life insurance policy.

<sup>2)</sup> The figures given for one-year variable remuneration and for deferrals from one-year variable remuneration represent the amount granted for full achievement of targets.

<sup>3)</sup> Share-based remuneration represents the fair value of the options on the date of grant. Please refer to Note 30 in the consolidated financial statements for a description of the structure of the share-based remuneration agreements. General contractual conditions are identical for all members of the Board of Management.

Additional benefits received by the members of the Board of Management include, in particular, a company car, reimbursement of travel expenses and allowances towards insurance policies.

If the employment contract of a member of the Board of Management is terminated prematurely without good cause, the member of the Board of Management receives a severance payment equivalent to the total remuneration for the period until the original termination date of his or her contract of employment up to a maximum of two years. For the purpose of this severance payment, the amount of total remuneration is determined by the total remuneration paid for the last full financial year, or the anticipated total remuneration for the then current financial year, if appropriate (cap on severance pay in accordance with article 4.2.3 of the German Corporate Governance Code).

The service contracts of the Board of Management members Dr Ing Helmut Leube and Dr Margarete Haase stipulate a special provision in the event of a change of control. Further details can be found in the section 'Disclosures pursuant to sections 289 (4) and 315 (4) HGB' on page 57.

The table below presents the total remuneration of the Board of Management in accordance with the recommendation in the German Corporate Governance Code dated 5 May 2015. In line with this recommendation, the benefits granted in 2015 and those actually paid are reported separately.

The following table shows the breakdown of benefits granted to members of the Board of Management:

Dr Margarete Haase					Michael Wellenzohn			
	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)
	573	580	580	580	420	420	420	420
	148	147	147	147	107	111	111	111
	<b>721</b>	<b>727</b>	<b>727</b>	<b>727</b>	<b>527</b>	<b>531</b>	<b>531</b>	<b>531</b>
	270	270	-	405	210	210	-	315
	180	-	-	-	140	-	-	-
	-	180	-	270	-	140	-	210
	147	-	-	-	127	-	-	-
	-	166	-	225	-	144	-	195
	<b>597</b>	<b>616</b>	-	<b>900</b>	<b>477</b>	<b>494</b>	-	<b>720</b>
	<b>1,318</b>	<b>1,343</b>	<b>727</b>	<b>1,627</b>	<b>1,004</b>	<b>1,025</b>	<b>531</b>	<b>1,251</b>
	1	138			1	107		
	38	20			25	13		
	-	17			-	14		
	-	-			-	-		
	<b>907</b>	<b>1,068</b>			<b>680</b>	<b>809</b>		

The following table shows the breakdown of benefits actually paid to members of the Board of Management:

### Benefits paid

€ thousand

	Dr Ing Helmut Leube Chairman of the Board of Management		Dr Margarete Haase		Michael Wellenzohn	
	2015	2014	2015	2014	2015	2014
Fixed remuneration	725	725	580	573	420	420
Additional benefits	175	174	147	148	111	107
<b>Total</b>	<b>900</b>	<b>899</b>	<b>727</b>	<b>721</b>	<b>531</b>	<b>527</b>
One-year variable remuneration	227	359	138	192	107	125
Multi-year variable remuneration						
2014–2015 deferral	60	–	45	–	29	–
<b>Total</b>	<b>287</b>	<b>359</b>	<b>183</b>	<b>192</b>	<b>136</b>	<b>125</b>
<b>Total remuneration</b>	<b>1,187</b>	<b>1,258</b>	<b>910</b>	<b>913</b>	<b>667</b>	<b>652</b>

### REMUNERATION OF THE SUPERVISORY BOARD

The remuneration paid to the Supervisory Board is specified in article 15 of the Company's Statutes. This stipulates that the members of the Supervisory Board of DEUTZ AG receive fixed annual remuneration of €22,500. They also receive a fee of €2,500 for each Supervisory Board meeting they attend and are reimbursed for their out-of-pocket expenses. The chairman of the Supervisory Board receives double these amounts, and his deputy one-and-a-half times.

In addition, each member of a Supervisory Board committee receives an attendance fee of €2,500 for each committee meeting attended. The chairman of a committee is entitled to twice this sum, his deputy to one-and-a-half times the amount.

In addition, DEUTZ reimburses the members of the Supervisory Board for any VAT they incur in connection with the performance of their mandate.

The following table shows the breakdown of total remuneration paid to members of the Supervisory Board for their work as Supervisory Board members:

	Fixed remuneration	Attendance fees	Total
€			
Lars-Göran Moberg (until 29 April 2015) Chairman until 12 March 2015	11,712	22,500	34,212
Hans-Georg Härter Chairman from 12 March 2015	40,623	62,500	103,123
Werner Scherer Deputy Chairman	33,750	56,250	90,000
Sabine Beutert	22,500	20,000	42,500
Hans-Peter Finken (from 1 February 2015)	20,589	10,000	30,589
Dr Ing Hermann Garbers (from 29 April 2015)	15,226	10,000	25,226
Göran Gummesson	22,500	15,000	37,500
Michael Haupt (until 29 April 2015)	7,336	7,500	14,836
Leif Peter Karlsten (from 29 April 2015)	15,226	10,000	25,226
Herbert Kauffmann	22,500	45,000	67,500
Alois Ludwig (from 29 April 2015)	15,226	10,000	25,226
Dietmar Paust	22,500	12,500	35,000
Eva Persson (until 29 April 2015)	7,336	2,500	9,836
Dr Witich Roßmann	22,500	12,500	35,000
Dr Herbert Vossel	22,500	12,500	35,000
Egbert Zieher (until 31 January 2015)	1,911	–	1,911
<b>Total</b>	<b>303,935</b>	<b>308,750</b>	<b>612,685</b>



## RISK REPORT

### RISK MANAGEMENT SYSTEM

To ensure their long-term survival, companies must act quickly – and react even faster – in a world in which economic conditions and the individual markets are constantly in a state of rapid change. Against the background of increasingly complex corporate structures and growing internationalisation, systematic risk management therefore forms an important basis for long-term business success.

DEUTZ operates in a variety of industries and regions worldwide and manages its business through various organisational units: the operating segments of the Group's parent company, subsidiaries, sales offices and authorised dealers. This organisational structure presents the Company with a large number of opportunities, but also gives rise to business-specific risks.

Our objective is to generate profits on a sustained basis and to increase these profits significantly over the medium and long term in order to develop the Company and secure its future. It is therefore critically important to identify and assess business risks at an early stage and take corrective action where required. DEUTZ has an appropriate risk management system to ensure it can meet this requirement.

Such a system heightens employees' sense of responsibility and raises their awareness of potential or existing risks. It also helps everyone involved to identify, analyse and communicate risks in good time and to initiate effective corrective action.

The basic principles, monitoring standards, personnel responsibilities, functions and procedures in the risk management system have been defined by the Board of Management of DEUTZ AG and summarised in a manual that is continually updated. A systematic reporting structure provides the basis for the work of the Risk Management Committee and ensures that all major risks are documented and communicated, and that appropriate corrective action is taken and documented at an early stage.

The DEUTZ Group conducts risk inventories four times a year. These risk inventories are carried out in all functions and areas of the Company and in the main affiliated companies to identify whether new risks have arisen compared with the Company's short-term and medium-term planning. The risks are categorised by importance, based on estimated probability of occurrence and potential impact. At the same time, a review is carried out to establish whether and how action that has been agreed and implemented has successfully minimised the known risks or whether there is still a need for further action. The Risk Management Committee then analyses the risks and the progress of the

action that is being taken and reports to the Board of Management on the results of the risk inventory. To enable the Company to respond promptly at all times to any possible risks that may arise, risk officers and their employees are under an obligation to submit immediate reports on any new material risks or if there is an increase in the threat from known risks. These reports are to be separate from the regular reporting requirements.

Each year, the Group internal audit department and the independent auditors carry out an audit of DEUTZ AG's system for the early identification of risks pursuant to section 91 (2) AktG to assess whether the system is functioning efficiently. As in prior years, suggestions for improvements proposed by the internal audit department, Risk Management Committee or the auditors were promptly implemented by DEUTZ.

### RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS

**Basic principles** Owing to its global business operations, the DEUTZ Group is exposed to various financial risks that can arise from adverse movements and trends in the international sales, procurement, interest-rate and foreign-exchange markets. The overarching risk management strategy used is designed to mitigate potentially negative effects on the DEUTZ Group's financial position.

The management and early identification of financial risks is based on annual financial planning, together with updates and regular analyses of variances during the course of the year. Financial management in the Group is the responsibility of DEUTZ AG as the parent company.

The treasury department identifies, measures and hedges financial risk in close collaboration with the Group's operating segments. The Board of Management specifies principles for the Group's overarching risk management strategy as well as guidelines for certain aspects, such as how to manage currency risk, interest-rate risk and credit risk and how to hedge them using derivative and non-derivative financial instruments.

The Finance Committee, which meets roughly every three months, provides a forum at which operational issues relating to risk management and other financially relevant decisions are discussed. The Finance Committee consists of the relevant member of the Board of Management plus representatives of the treasury and finance departments.

The objective of risk management is to mitigate fluctuations in profits and cash flows caused by volatility in commodity, interest-rate and foreign-exchange markets. Derivative financial instruments are used only for hedging purposes, i.e. only in connection with corresponding underlying transactions arising from

the Group's ordinary business activities or financial transactions that have a countervailing risk profile to that of the hedging transaction. The nature and scope of the hedged items are specified in a binding financing directive.

DEUTZ works exclusively with leading banks in order to minimise counterparty risk.

The treasury department manages the lines of credit in accordance with the Group's financing principles. Subsidiaries are funded primarily by DEUTZ Group loans.

We manage the financial risk as follows:

**Risk from bad debts** We protect ourselves against the risk of bad debts by constantly monitoring our situation, including through electronic means, and by regularly analysing receivables and their breakdown. The Company takes out credit insurance to cover a large proportion of its receivables unless payment is made in advance or by letter of credit.

**Currency risk arising from operating activities** Currency risk, primarily in US dollars, which arises as a result of transactions with third parties denominated in foreign currency, is monitored by means of a central currency management system and mitigated by the use of derivative financial instruments. The DEUTZ Group's net currency exposure is normally hedged by forwards equivalent to 50 to 80 per cent of open items, or 100 per cent in the case of selected project-based firm commitments. DEUTZ is also taking specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract exchange-rate risks from sales invoiced in US dollars by way of natural hedging.

**Interest-rate risk arising from funding arrangements** The DEUTZ Group is exposed to risk from interest rate changes, above all in relation to floating-rate loans and other loans that it has taken up. We hedged the interest-rate risk arising from the funding arranged in mid-2012 with the European Investment Bank. This means that, as far as some of our financial arrangements are concerned, we will not be affected by any rises in short-term interest rates in the future.

**Liquidity risk** The funding agreements concluded provide the Company with adequate liquidity for its further development. During the term of the agreement, DEUTZ AG must ensure that the DEUTZ Group complies with certain financial covenants (ratio of financial debt to equity and ratio of financial debt to EBITDA). The financial covenants have a comfortable buffer in line with our medium-term balance sheet and profit planning. Only if there is a dramatic deterioration in the general economic situation is there a risk of the covenants being breached.

Further information on financial risk management can be found in Note 25 on page 103.

## RISK ASSESSMENT

The assessment of risks in the DEUTZ Group is based on the estimated probability of occurrence in conjunction with the potential impact of the risk on the business objectives. In the following risk report for the DEUTZ Group, the risks are categorised as either 'low', 'moderate' or 'high'. Risks that have been classified as 'low' would be expected to have a low impact of up to €10 million on financial position and financial performance. Risks classified as 'moderate', however, would have a significant impact (between €10 million and €50 million) and risks classified as 'high' would have a major impact of over €50 million on financial position and financial performance. Risks to the Company's survival as a going concern are described as such.

### DEUTZ Group: Risk assessment

Probability of occurrence (%)	80–99	low	moderate	moderate	high	high
	60–79	low	moderate	moderate	high	high
	40–59	low	moderate	moderate	moderate	high
	20–39	low	low	moderate	moderate	moderate
	1–19	low	low	low	moderate	moderate
		minor	moderate	significant	critical	very critical
		Impact				

## RISK

As with the internal risk report, the following presentation of the current risk situation is focused on the risk factors that are important for the DEUTZ Group. Consequently, risks that are referred to were categorised at least as 'low' before measures to counter the risk were taken into account. In contrast to the internal risk management, the risks in the following description are more strongly aggregated and are listed by risk category. Unless otherwise stated, the risks refer to 2016 and relate to both the DCE and DCS segments.

## EXTERNAL RISK

**Market risk** We operate in sales markets that are characterised by particular sensitivity to cyclical influences. This can have a negative impact on the financial position and financial performance of the DEUTZ Group. As well as having a direct effect on unit sales and revenue, this may also impact negatively on the value of the assets on our balance sheet. We operate in very cyclical markets in our main application segment, Mobile Machinery, and in our principal sales regions of Germany, western Europe and North America. Our objective is to continue to reduce this cyclicity from a regional and application segment perspective. One of the ways in which we are doing so is by continuing to focus further efforts on expanding our Agricultural Machinery application segment, as it follows a different economic cycle to the other application segments.

In the medium and long term, we seek to mitigate regional and application-related sales risks by aligning our development activities with our product strategy and by entering into alliances. Close alliances with key customers such as AB Volvo and AGCO are of considerable importance in enabling us to achieve these sales targets.

We are very well diversified and well positioned for the future in terms of the geographical and sectoral distribution of our customers. We supply the market-leading manufacturers in the various application segments. Despite the countermeasures that are in place, we cannot completely control the external risks. We therefore continue to categorise the market risk as 'moderate' because the economic situation in our sales markets remains volatile.

## STRATEGIC RISK

Our business strategy is focused on expanding our customer and product base and on further globalisation and internationalisation. This strategy presents the DEUTZ Group with numerous opportunities but is, of course, also associated with risks.

We attempt to mitigate these risks by precisely analysing trends in our markets and by taking into account external market research. We also enter into close alliances with our major customers in the target markets. Finally, we closely monitor our strategic projects so that we are able to respond immediately to changes.

In view of the measures in place, we categorise the strategic risks with regard to the attainment of our financial targets in the coming year as 'moderate'.

## OPERATIONAL RISK

**Quality risk** The DEUTZ Group is exposed to liability and warranty risks. Potential warranty claims and claims for compensation could have a negative impact on our financial position and financial performance.

We have set up local quality departments to ensure quality in all plants and relevant areas of the Group. These departments systematically analyse sources of errors and defects, optimise production processes, take action to minimise the risk in production start-ups and reduce warranty risks. A central quality management organisation ensures that standardised processes and methods are in place and carries out regular audits. In addition, DEUTZ has defined uniform standards for the selection of suppliers and, in close cooperation with the suppliers, continuously improves the quality of supplied parts. Regular certification audits and additional quality initiatives enable us to handle the significant technical complexity of engines and to satisfy the steadily increasing quality requirements of our customers.

Sufficient provisions are recognised on the balance sheet to account for warranty risks. In view of the precautionary measures that have been taken, we categorise any further quality risks that could negatively impact on our financial targets as 'low'.

**Production risk** Fluctuations in capacity utilisation in production that result from our level of dependency on the general economic situation can, like breakdown-related production delays, have a negative impact on profitability.

In order to avoid mistakes in planning and capital expenditure, the necessary production capacity is regularly reviewed and planned using different timescales: over a number of years as part of the medium-term planning process, which is revised each year, and for the following financial year as part of the budget planning process, which is then updated quarterly for the current year. Production programme meetings and capacity planning meetings are held monthly to ensure that our capacity is adjusted in line with sales. We are using temporary employment contracts more and more as a way of flexibly adjusting capacity to the level of orders on hand.

In view of the measures in place to avoid or minimise these risks, we categorise the level of production risk with regard to our financial targets as 'low'.



## OTHER RISKS

**Data security** We are a technology-driven company that is heavily focused on research and development. Being an innovation leader gives us a competitive advantage that forms the basis of our long-term success. The risk associated with this is that strictly confidential information, particularly concerning new technologies or partnerships in research and development, could find its way to our competitors through illegitimate means. This could have a negative impact on our market position.

We have put a series of measures in place to protect confidential information. As well as IT security training, these include security measures for computer hardware and IT security guidelines that have been laid down by management. In view of the precautions that have been taken, we categorise the data security risk as 'low'.

**Legal risks** As a Group with multinational operations, DEUTZ is subject to a variety of regulations under tax, competition and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognised in the risk provisions in the accounts. The outcome of legal disputes is uncertain, however. This means that there are further risks, not accounted for through provisions on the balance sheet, that could negatively impact on our financial targets.

Groupwide standards such as the general terms and conditions of business, sample contracts for various uses and implementation provisions in the form of organisational guidelines are refined on an ongoing basis and reduce the level of new legal risks at DEUTZ. The legal affairs department and external lawyers are also regularly consulted about projects and the finalisation of contracts that fall outside the scope of the standards developed for day-to-day business. In view of the measures that have been taken either to avoid or minimise risk, we categorise the legal risk as 'moderate'.

## OVERALL ASSESSMENT OF THE RISK SITUATION

Material risks have been identified and evaluated using our risk management system. Appropriate action is taken to manage these risks and, as far as possible, bring them under control. Changes in material risks are monitored regularly at Group level. Currently, the DEUTZ Group has not identified any risks that either individually or in their totality could jeopardise the continued existence of the enterprise as a going concern. Individual risk factors have changed only slightly from the previous year, meaning the overall risk situation is largely the same. Because

of the precautions that have been taken and our position in the market, we are confident in our ability to successfully manage the existing risks and overcome the resulting challenges – despite conditions remaining difficult.

## ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

The internal control system is an integral part of the risk management system. Whereas risk management focuses on the identification, analysis, assessment, communication and management of strategic risk, the internal control system (ICS) brings together activities aimed at avoiding or limiting risk at operational level through use of control instruments.

The Board of Management is responsible for setting up, monitoring, refining and ensuring the effectiveness of the ICS. Even a properly structured ICS is unable to provide absolute security; it can only provide a relative amount of security in helping to achieve targets and/or avoid material misstatements.

The aim of the internal accounting-related control system is to ensure that accounting is carried out consistently and in accordance with statutory requirements, generally accepted accounting principles and internal guidelines. The accounting process itself includes those operating processes that provide the value flows for financial reporting, the process for preparing the consolidated financial statements, and all information sources and processes from which the significant disclosures in the consolidated financial statements are derived.

In order to ensure that the consolidated financial statements are properly and consistently prepared, the Group adheres to the fundamental principles of separation of functions, having work checked by a second member of staff and IT access restrictions to prevent unauthorised access to relevant data. There are written procedural instructions and, in particular, Group accounting guidelines that are regularly updated at head office and communicated throughout the Group. Each reporting entity is responsible for compliance with the guidelines, and the data reported to DEUTZ's Group accounting department is validated on an ongoing basis during the preparation of monthly financial statements. Data is reported to the Group head office using a standard reporting tool that has been implemented throughout the Group. Additional control mechanisms covering the risks in the main processes, thereby guaranteeing a reliable accounting and reporting system, are normally set up locally at departmental level. Where necessary, we also use external service providers, such as independent assessors of pension liabilities. The Group accounting department ensures that these requirements are adhered to across the Group.

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)<sup>1)</sup> 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 index<sup>2)</sup> 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' index<sup>3)</sup> 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.

<sup>1)</sup> IMF World Economic Outlook Update, January 2016.

<sup>2)</sup> ifo Institute of Economic Research, January 2016.

<sup>3)</sup> ISM Institute for Supply Management, February 2016.

As a rule, the diesel engines market largely follows the applications and markets of the machinery and equipment in which the engines are installed.

### NEW ORDERS, UNIT SALES, REVENUE

In view of the subdued market outlook and persistent reluctance to invest, we expect our engine sales to remain static. European customers still have engines in their inventories that they had bought in 2014 ahead of the introduction of new emissions standards. The resulting adverse impact on engine sales will be less pronounced than in 2015, however. This, coupled with production ramp-up for new customer projects, should compensate for any weaknesses in end customers' markets, particularly in the agricultural sector. We believe the service business's revenue will continue to go up.

Owing to the increasing proportion of higher-value engines to meet the new emissions standards in Europe and America, the value of the diesel engines market will continue to increase at a faster rate than its unit sales.

Overall, we assume that revenue will stagnate or, at best, rise slightly. We expect revenue in both the DCE and DCS segments to follow a similar pattern. Given the current environment, our forecasts are of course subject to great uncertainty. The flexibility of our business therefore remains a key factor in our competitiveness. Although we have significantly improved our flexibility over the last few years, we will continue to work hard on increasing it still further.

### EARNINGS

The focus this year – in addition to the successful implementation of new customer projects, the site optimisation process and a quality offensive – is primarily on measures designed to further reduce costs and increase efficiency.

We expect the EBIT margin to increase moderately. As capacity utilisation is likely to change only insignificantly, this will be predominantly achieved with further cost-saving measures and the first positive effects from the optimisation of our site network. We are likely to benefit from the current movements in the US dollar exchange rate. We expect both our DCE segment and our DCS segment to achieve earnings growth.

As a result of the anticipated slight increase in earnings, we believe there will be a small year-on-year rise in return on capital employed (ROCE) in 2016.

### COMMODITIES, COLLECTIVE PAY AGREEMENTS

**Commodity prices** We expect price levels in the primary markets to weaken again in 2016, driven by a slowing global economy and low demand in Asia.

**Collective pay bargaining in the spring** The current collective pay agreement for the metalworking and electrical engineering industries in Germany expires on 31 March 2016. We believe the negotiating parties will start the negotiation process soon after and reach an agreement in the second quarter on the basis of current economic data.

### RESEARCH AND DEVELOPMENT EXPENDITURE

We predict expenditure on research and development of just over €50 million, thus slightly higher than the very low level of spending in 2015. The R&D ratio is therefore likely to increase marginally year on year.



## CAPITAL EXPENDITURE

We forecast that our capital expenditure in 2016 (excluding capitalisation of research and development expenditure) will be around €55 million. This includes capital expenditure on site optimisation. Including capitalisation of research and development spending, we anticipate that capital expenditure will total approximately €75 million.

## JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

The market environment in China is likely to remain challenging and volatile in 2016. We are expecting the revenue of our DEUTZ (Dalian) Engine Co., Ltd. joint venture to remain flat but its earnings to improve slightly on the back of cost savings. Its performance will depend heavily on its capacity utilisation and thus on market conditions.

## WORKING CAPITAL RATIO, FREE CASH FLOW AND EQUITY RATIO

Our prediction for the working capital ratio is around 17 per cent as the quarter-end average. Given that capital expenditure will remain well below the level of depreciation and amortisation, we forecast positive free cash flow in the low to mid-double-digit million euro range in 2016.

We intend to maintain our equity ratio above 40 per cent, a level that it currently comfortably exceeds. The good level of equity reduces our dependency on capital markets in a volatile market environment.

## EMPLOYEES

**Flexible headcount adjustment** Our aim is to end all short-time working as soon as possible and to return to full employment, although this will depend heavily on the level of orders on hand. If we require additional workers, we will again significantly increase the proportion of flexible contracts, whether fixed-term or temporary. As we operate in a cyclical industry, this is the best way that we can protect ourselves against fluctuations in demand.

**Collective agreement on pre-retirement part-time employment** We continue to offer older employees the opportunity to retire early by switching to pre-retirement part-time employment. Our expectation is that a significant number of our employees will take up this option in 2016.

## STATUTORY REGULATIONS, EXHAUST EMISSIONS STANDARDS

The most stringent exhaust emissions standards yet for diesel engines have now been introduced in all power output categories in the European Union, in the form of 97/68 Stage IV, and in the USA, with EPA Tier 4. Stage V is scheduled to come into effect in the European Union in 2019<sup>1)</sup>. Our TCD engines equipped with a diesel particulate filter in the 2.9 to 7.8 litre cubic capacity range already meet this new standard. No further tightening of exhaust emissions limits in the USA is on the horizon at the time of writing.

## OUTLOOK FOR THE YEARS AHEAD

We forecast that global demand for capital equipment will recover in 2017. Moreover, we anticipate that, by then, European customers will have largely exhausted their inventories of engines bought ahead of the new emissions standards taking effect. From a current perspective, we therefore expect a marked improvement in the business situation in 2017, in terms of both revenue and the EBIT margin.

Global megatrends, such as increases in the world's population, advancing industrialisation in the agricultural sector and urbanisation, along with accompanying investment in infrastructure, are driving the further structural expansion of the global engine market. This will open up good opportunities for the continued advancement of the DEUTZ Group in the years to come. We plan to seize these opportunities in order to generate profitable growth.

**Disclaimer** This management report includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performances, developments and results in the Company or those in sectors important to the Company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Board of Management cannot therefore make any guarantees with regard to the forward-looking statements made in this management report.

<sup>1)</sup> The EU Commission's Stage V proposals as published on 25 September 2014.







## INCOME STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	2015	2014
<b>Revenue</b>	1	<b>1,247.4</b>	<b>1,530.2</b>
Cost of sales	2	-1,054.8	-1,327.6
Research and development costs	2	-76.3	-74.3
Selling expenses	2	-68.3	-65.7
General and administrative expenses	2	-36.5	-34.3
Other operating income	3	29.3	22.9
Other operating expenses	4	-30.6	-41.4
Profit/loss on equity-accounted investments	5	-6.3	1.9
Other financial income	5	1.0	1.1
<b>EBIT</b>		<b>4.9</b>	<b>12.8</b>
thereof one-off items	6	-	-18.9
thereof operating profit (EBIT before one-off items)		4.9	31.7
Interest expenses, net	7	-4.0	-6.1
thereof finance costs		-4.8	-6.7
<b>Net income before income taxes</b>		<b>0.9</b>	<b>6.7</b>
Income taxes	8	2.6	12.8
<b>Net income</b>		<b>3.5</b>	<b>19.5</b>
thereof attributable to shareholders of DEUTZ AG		5.4	21.2
thereof attributable to non-controlling interests		-1.9	-1.7
<b>Earnings per share (€)</b>	9	<b>0.04</b>	<b>0.18</b>

## STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million

	Note	2015	2014
<b>Net income</b>		<b>3.5</b>	<b>19.5</b>
<b>Amounts that will not be reclassified to the income statement in the future</b>	10	<b>3.1</b>	<b>-18.1</b>
Remeasurements of defined benefit plans		3.1	-18.1
<b>Amounts that will be reclassified to the income statement in the future if specific conditions are met</b>	10	<b>3.9</b>	<b>13.4</b>
Currency translation differences		2.8	15.1
Effective portion of change in fair value from cash flow hedges		1.3	-1.7
Change in fair value of available-for-sale financial instruments		-0.2	-
<b>Other comprehensive income, net of tax</b>	10	<b>7.0</b>	<b>-4.7</b>
<b>Comprehensive income</b>		<b>10.5</b>	<b>14.8</b>
thereof attributable to shareholders of DEUTZ AG		13.1	14.0
thereof attributable to non-controlling interests		-2.6	0.8

Income statement for the  
DEUTZ Group

Statement of comprehensive  
income for the DEUTZ Group

Balance sheet for the  
DEUTZ Group

## BALANCE SHEET FOR THE DEUTZ GROUP

€ million

	Note	31 Dec 2015	31 Dec 2014
<b>Assets</b>			
Property, plant and equipment	11	289.0	291.9
Intangible assets	12	176.6	211.7
Equity-accounted investments	13	48.5	52.4
Other financial assets	14	6.4	7.6
Non-current assets (before deferred tax assets)		520.5	563.6
Deferred tax assets	15	69.1	62.2
<b>Non-current assets</b>		<b>589.6</b>	<b>625.8</b>
Inventories	16	251.9	245.2
Trade receivables	17	101.2	122.0
Other receivables and assets	17	32.5	54.1
Cash and cash equivalents	18	112.5	101.7
<b>Current assets</b>		<b>498.1</b>	<b>523.0</b>
Non-current assets classified as held for sale	19	0.4	0.4
<b>Total assets</b>		<b>1,088.1</b>	<b>1,149.2</b>
<b>Equity and liabilities</b>			
	Note	31 Dec 2015	31 Dec 2014
Issued capital		309.0	309.0
Additional paid-in capital		28.8	28.8
Other reserves		18.3	13.7
Retained earnings and accumulated income		134.3	134.3
<b>Equity attributable to shareholders of DEUTZ AG</b>		<b>490.4</b>	<b>485.8</b>
Non-controlling interests		5.2	25.2
<b>Equity</b>	20	<b>495.6</b>	<b>511.0</b>
Provisions for pensions and other post-retirement benefits	21	172.3	187.1
Other provisions	22	46.7	58.4
Financial debt	23	58.6	73.3
Other liabilities	24	3.2	3.9
<b>Non-current liabilities</b>		<b>280.8</b>	<b>322.7</b>
Provisions for pensions and other post-retirement benefits	20	14.3	14.7
Provision for current income taxes	15	7.5	7.8
Other provisions	22	59.7	63.0
Financial debt	23	14.9	14.7
Trade payables	24	169.5	171.0
Other liabilities	24	45.8	44.3
<b>Current liabilities</b>		<b>311.7</b>	<b>315.5</b>
<b>Total equity and liabilities</b>		<b>1,088.1</b>	<b>1,149.2</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million

	Issued capital	Additional paid-in capital	Retained earnings	Fair value reserve <sup>1),2)</sup>	Currency translation reserve <sup>1)</sup>	Equity attributable to shareholders of DEUTZ AG	Non-controlling interests	Total
<b>Balance at 1 Jan 2014</b>	<b>309.0</b>	<b>28.8</b>	<b>139.7</b>	<b>0.2</b>	<b>2.6</b>	<b>480.3</b>	<b>24.4</b>	<b>504.7</b>
Dividend payments to shareholders			-8.5			-8.5		-8.5
Net income			21.2			21.2	-1.7	19.5
Other comprehensive income			-18.1	-1.7	12.6	-7.2	2.5	-4.7
Comprehensive income			3.1	-1.7	12.6	14.0	0.8	14.8
<b>Balance at 31 Dec 2014</b>	<b>309.0</b>	<b>28.8</b>	<b>134.3</b>	<b>-1.5</b>	<b>15.2</b>	<b>485.8</b>	<b>25.2</b>	<b>511.0</b>
<b>Balance at 1 Jan 2015</b>	<b>309.0</b>	<b>28.8</b>	<b>134.3</b>	<b>-1.5</b>	<b>15.2</b>	<b>485.8</b>	<b>25.2</b>	<b>511.0</b>
Dividend payments to shareholders			-8.5			-8.5		-8.5
Repayment of capital contributions							-2.6	-2.6
Outstanding contributions from non-controlling interests							-14.8	-14.8
Net income			5.4			5.4	-1.9	3.5
Other comprehensive income			3.1	1.1	3.5	7.7	-0.7	7.0
Comprehensive income			8.5	1.1	3.5	13.1	-2.6	10.5
<b>Balance at 31 Dec 2015</b>	<b>309.0</b>	<b>28.8</b>	<b>134.3</b>	<b>-0.4</b>	<b>18.7</b>	<b>490.4</b>	<b>5.2</b>	<b>495.6</b>

<sup>1)</sup> On the balance sheet these items are aggregated under 'Other reserves'.

<sup>2)</sup> Reserves from the measurement of cash flow hedges and reserves from the measurement of available-for-sale financial assets.

Statement of changes in  
equity for the DEUTZ Group  
Cash flow statement for the  
DEUTZ Group

## CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	2015	2014
<b>EBIT</b>		<b>4.9</b>	<b>12.8</b>
Income taxes paid		-9.4	-5.8
Depreciation, amortisation and impairment of non-current assets		107.3	107.5
Gains/losses on the sale of non-current assets		-3.1	-0.1
Profit/loss on equity-accounted investments		6.8	-1.9
Other non-cash income and expenses		-0.9	0.4
Change in working capital		23.1	-16.4
Change in inventories		0.7	-13.8
Change in trade receivables		24.5	30.5
Change in trade payables		-2.1	-33.1
Change in other receivables and other current assets		8.6	-0.8
Change in provisions and other liabilities (excluding financial liabilities)		-34.0	18.4
<b>Cash flow from operating activities</b>		<b>103.3</b>	<b>114.1</b>
Capital expenditure on intangible assets, property, plant and equipment		-68.2	-61.1
Capital expenditure on investments		-0.1	-0.2
Proceeds from the sale of non-current assets		3.9	5.4
<b>Cash flow from investing activities</b>		<b>-64.4</b>	<b>-55.9</b>
Dividend payments to shareholders		-8.5	-8.5
Interest income		0.6	0.6
Interest expense		-4.5	-6.8
Repayment of capital contributions to non-controlling interests		-2.6	-
Cash receipts from borrowings		-	19.4
Repayments of loans		-14.8	-22.2
<b>Cash flow from financing activities</b>		<b>-29.8</b>	<b>-17.5</b>
Cash flow from operating activities		103.3	114.1
Cash flow from investing activities		-64.4	-55.9
Cash flow from financing activities		-29.8	-17.5
<b>Change in cash and cash equivalents</b>		<b>9.1</b>	<b>40.7</b>
<b>Cash and cash equivalents at 1 Jan</b>		<b>101.7</b>	<b>58.9</b>
Change in cash and cash equivalents		9.1	40.7
Change in cash and cash equivalents related to exchange rates		1.7	2.1
<b>Cash and cash equivalents at 31 Dec</b>	18	<b>112.5</b>	<b>101.7</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## BASIS OF PRESENTATION

### PARENT COMPANY

The parent company of the DEUTZ Group is DEUTZ AG. Its registered office is located at Ottostrasse 1, 51149 Cologne, Germany, and the Company is entered under no. HRB 281 in the commercial register at the local court in Cologne. The Board of Management approved these consolidated financial statements for publication by adopting a resolution dated 22 February 2016.

DEUTZ AG shares are listed in the Deutsche Börse SDAX segment and are publicly traded on the stock exchanges in Frankfurt and Düsseldorf as well as on the Xetra electronic trading platform.

DEUTZ is an independent manufacturer of compact diesel engines. The Group's activities are divided into two operating segments – DEUTZ Compact Engines and DEUTZ Customised Solutions – and the Other segment. In its two operating segments, DEUTZ focuses on value creation processes involving the development, design, production and sales of liquid-cooled and air-cooled engines. The business is broken down into the main application segments of Mobile Machinery, Agricultural Machinery, Automotive, and Stationary Equipment. Comprehensive after-sales service rounds off the product range offered.

### BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The DEUTZ Group's consolidated financial statements prepared for the parent company DEUTZ AG are based on uniform accounting policies. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations as adopted by the European Union (EU) and are consistent with the statutory obligations applicable to publicly traded parent companies subject to disclosure requirements pursuant to section 315a (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 concerning the application of international accounting standards, as amended (IAS Regulation).

The consolidated financial statements are generally prepared using the cost method. Specific exceptions are derivative financial instruments and available-for-sale financial assets, which are measured at fair value. The consolidated financial statements are prepared in euros. Unless otherwise stated, all figures are rounded up or down to the nearest million euros.

### APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

#### 1) Amendments to accounting policies

The accounting policies on which the consolidated financial statements are based are fundamentally the same as the policies applied in 2014 with the exceptions set out below.

**IFRIC 21 'Levies'** The IASB published this interpretation in May 2013. IFRIC 21 deals with the question of when to recognise a liability for certain levies imposed by a government, and offers guidance on the matter. Initial application of IFRIC 21 did not have any material impact on the Group's financial position or financial performance.

#### Collective standard amending various IFRSs (2011–2013)

The amendments published by the IASB in December 2013 are primarily concerned with clarifying ambiguous provisions in standards. Initial application of the changes did not have any material impact on the Group's financial position or financial performance.

#### 2) Published but not yet mandatory standards, interpretations and amendments

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have published the following standards and amendments to standards that have already become part of EU law via the comitology procedure. However, the application of these standards was not yet mandatory in 2015 and DEUTZ has not opted to apply these interpretations or amendments to standards before the mandatory application date.

**'Disclosure Initiative' (Amendments to IAS 1)** The IASB published these amendments to IAS 1 in December 2014. The amendments largely consist of clarifications regarding the use of discretion in the presentation of financial statements. The amendments come into force for financial years commencing on or after 1 January 2016.

**‘Clarification of Acceptable Methods of Depreciation and Amortisation’ (Amendments to IAS 16 and IAS 38)** The IASB published these amendments in May 2014. These amendments clarify the methods that can be used for the depreciation and amortisation of property, plant and equipment and intangible assets. The amendments come into force for financial years commencing on or after 1 January 2016. The initial application of these rules is not expected to have any impact on the Group’s consolidated financial statements.

**‘Defined Benefit Plans: Employee Contributions’ (Amendments to IAS 19)** The amendments to IAS 19 were published in November 2013. Under certain circumstances, these amendments by the IASB allow contributions made by employees and third parties during the period in which the benefit was earned to be recognised as a reduction in the current service cost. Adoption of the amendments into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 July 2014 to financial years beginning on or after 1 February 2015. The Company does not expect initial application of the amendments to have any material impact on the Group’s financial position or financial performance.

**‘Accounting for Acquisitions of Interests in Joint Operations’ (Amendments to IFRS 11)** The IASB published these amendments in May 2014. The amendments clarify that the acquirer of an interest in a joint operation that constitutes a business, as defined in IFRS 3 ‘Business Combinations’, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendments apply to financial years beginning on or after 1 January 2016. They are not expected to have any impact on the DEUTZ Group’s consolidated financial statements.

**Collective standard amending various IFRSs (2010–2012)** The amendments were published in December 2013 and are primarily intended to clarify certain ambiguous provisions in the standards. Adoption of the amendments into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 July 2014 to financial years beginning on or after 1 February 2015. The initial application of these amendments is not expected to have a material impact on the Group’s consolidated financial statements.

**Collective standard amending various IFRSs (2012–2014)** The amendments published by the IASB in September 2014 primarily contain additional guidance for clarifying ambiguous provisions in standards. The amendments come into force for financial years commencing on or after 1 January 2016. The Company does not expect initial application of this standard to have any material impact on the Group’s financial position or financial performance.

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have published the following standards and interpretations, the application of which was not yet mandatory in 2015. These standards and interpretations have not yet been adopted by the EU and are not applied by the DEUTZ Group in its consolidated financial statements.

**IFRS 9 ‘Financial Instruments’** Following completion of the final phase of the project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’, the IASB published the final version of IFRS 9 in July 2014. Among other things, IFRS 9 introduces new requirements for the classification and measurement of financial assets. The standard also includes new requirements for hedge accounting, with the specific aim of linking hedge accounting more closely to the risk management of entities. IFRS 9 also sets out a new impairment model based on expected default. The new standard comes into force for financial years beginning on or after 1 January 2018. The Company is currently examining the potential impact of initial application of this standard on the Group’s financial position and financial performance.

**IFRS 15 ‘Revenue from Contracts with Customers’** The IASB published IFRS 15 in May 2014. This new standard replaces IAS 11 ‘Construction Contracts’, IAS 18 ‘Revenue’ and the interpretations relating to them. One of the objectives of the new standard was to amalgamate the numerous requirements previously included in several standards and interpretations and to establish consistent underlying principles to be used for all categories of revenue-related transaction across all sectors. According to IFRS 15, the amount recognised as revenue is the amount expected in return for providing goods or services to customers. The point at which control over the goods or services is transferred to the customer determines the point in time at which or the period of time over which revenue is recognised. Full control can be transferred at a certain point in time or gradually over a period. In an amendment in September 2015, the IASB changed the original initial application date from 1 January 2017 to financial years beginning on or after 1 January 2018. The Company is currently investigating the potential impact of the new standard on the Group’s consolidated financial statements.

**IFRS 16 ‘Leases’** The IASB published IFRS 16 in January 2016. This new standard replaces IAS 17 ‘Leases’ and the interpretations relating to them (IFRIC 4, SIC 15 and SIC 27). IFRS 16 governs the recognition, measurement, presentation and disclosure of leases with the aim of ensuring that lessees and lessors provide relevant information about the impact of leases. As a result of this model, lessees must recognise assets and liabilities for all leases on the balance sheet, unless the lease term is twelve months or less or the underlying asset has a low value. The new standard comes into force for financial years beginning on or after 1 January 2019. The Company is currently investigating the potential impact of the new standard on the Group’s consolidated financial statements. It is expected that initial application of the new standard will result in an increase in total assets.

**‘Disclosure Initiative’ (Amendments to IAS 7)** The amendments to IAS 7 ‘Statement of Cash Flows’ were published in January 2016. The aim of these amendments is to clarify IAS 7 and to improve the information about an entity’s financing activities that is made available to users of financial statements. The amendments apply to financial years beginning on or after 1 January 2017.

**‘Recognition of Deferred Tax Assets for Unrealised Losses’ (Amendments to IAS 12)** The amendments to IAS 12 ‘Income Taxes’ were published in January 2016. These amendments clarify a number of requirements regarding the recognition of deferred tax assets for unrealised losses. The amendments apply to financial years beginning on or after 1 January 2017. They are not expected to have any material impact on the DEUTZ Group’s consolidated financial statements.

**‘Sale or Contribution of Assets between an Investor and its Associate or Joint Venture’ (Amendments to IFRS 10 and IAS 28)** The IASB issued these amendments in September 2014. They clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business as defined by IFRS 3 ‘Business Combinations’. The amendments have been postponed indefinitely owing to inconsistencies between the standards.

**‘Investment Entities: Applying the Consolidation Exception’ (Amendments to IFRS 10, IFRS 12 and IAS 28)** The amendments were published in December 2014 and include clarifications relating to the application of the consolidation exception for investment entities. The amendments apply to reporting periods beginning on or after 1 January 2016. As the Company does not apply the exception for investment entities, initial application of the amendments is not expected to have any impact.

### **Significant estimates and assumptions**

To a certain extent, the preparation of the consolidated financial statements in accordance with IFRS requires estimates and assumptions that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date and the reporting of income and expenses. Estimates and assumptions giving rise to a material risk in the form of adjustments to the carrying amounts of assets or liabilities over the next financial year are explained below. Adjustments to estimates are recognised in income when better knowledge becomes available.

**Impairment of non-financial assets** The DEUTZ Group conducts tests at each balance sheet date to determine whether there are any indications that non-financial assets may be impaired. In order to estimate the value in use, the management must estimate future cash flows expected to be derived from the asset or from the cash-generating unit and select an appropriate discount rate to determine the present value of these cash flows.

**Deferred tax assets** The DEUTZ Group is obliged to pay income taxes in various countries. It therefore needs to make estimates on the basis of which tax provisions and deferred taxes can be recognised. When determining the amount of deferred tax assets, the management must make judgements – which may involve material uncertainties – regarding the expected timing and amount of future taxable income as well as future tax planning strategies. DEUTZ mainly recognises deferred tax assets on losses carried forward. They are recognised for all unused tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which the loss carryforwards can actually be set off. Planning forecasts over a period of five years are used to determine the future taxable profit that is likely to be available.

As at 31 December 2015, the carrying amount of deferred tax assets recognised in respect of tax loss carryforwards amounted to €68.3 million (31 December 2014: tax loss carryforwards of €67.5 million). Further details can be found under Note 15 on page 93 et seq.

**Pension benefits** The expense for defined benefit plans is determined using actuarial calculations. These actuarial calculations are based on assumptions regarding discount rates, future increases in wages and salaries, staff turnover, mortality and future increases in pensions. These estimates are subject to material uncertainty owing to the long-term nature of these plans.

Because of changes in economic and market conditions, the costs and liabilities actually incurred may differ significantly from the estimates made on the basis of actuarial assumptions. The rate of pension and salary increases, the longevity of those entitled to pension benefits and the discount rate used can have a material impact on the amount of the defined benefit obligation and, consequently, on future pension costs.

**Development expenditure** is capitalised in accordance with the accounting policies described below. Management makes assumptions about the amount of future cash flows expected to be generated from the development projects, the discount rates to be applied and the period over which the cash is expected to flow into the Company. As at 31 December 2015, the carrying amount of capitalised development expenditure was €165.7 million (31 December 2014: €199.4 million).

**Pending or potential legal disputes** DEUTZ AG and other companies in the DEUTZ Group are subject to a variety of regulations under tax, competition and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognised in the risk provisions in the accounts. At present, it is not possible to predict the outcome of pending cases with any degree of certainty beyond the provisions already recognised. We do not expect them to have a significantly adverse impact on the DEUTZ Group's financial position or financial performance. The overall position as regards the legal risks facing the DEUTZ Group is explained in more detail in Note 27 on page 114.

## BASIS OF CONSOLIDATION

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are all entities directly or indirectly controlled by DEUTZ AG. Subsidiaries are consolidated from the point at which the parent company acquires control. Consolidation ends when the parent company no longer has control. In addition to DEUTZ AG, the consolidated financial statements include six German subsidiaries (2014: six) and nine foreign subsidiaries (2014: ten).

In the fourth quarter of 2015, the subsidiary DEUTZ Engine (China) Co. Ltd., which was headquartered in Linyi, China, and was established as a joint venture with AB Volvo (publ), Gothenburg, Sweden, was wound up completely. This winding-up resulted in a loss of control over the company and it was therefore deconsolidated. DEUTZ AG had held a 65 per cent shareholding in the company via DEUTZ Engine China GmbH. The joint venture was fully included in the consolidated financial statements of DEUTZ AG using the acquisition method. AB Volvo's holding of 35 per cent of the voting shares was reported as a non-controlling interest under Group equity. The profit of €1.0 million attributable to DEUTZ AG in connection with the loss of control was recognised under other operating income.

Joint ventures are companies over which control is exercised jointly by DEUTZ and other entities on the basis of a contractual agreement. Associates are entities over whose business and financial policies DEUTZ AG is able to exert a significant influence but are neither subsidiaries nor joint ventures. Associates and joint ventures are both accounted for in the consolidated financial statements using the equity method. In the year under review, the consolidated financial statements included one (2014: one) foreign entity in accordance with the rules governing associates and two (2014: three) foreign joint ventures.

Following the disposal of the shares in WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD., Weifang, China, this company was deconsolidated in the fourth quarter of 2015. A total gain on disposal of €2.9 million was recognised.

Page 123 of the annex to the notes to the financial statements lists the shareholdings of DEUTZ AG as at 31 December 2015.



## PRINCIPLES OF CONSOLIDATION

The separate financial statements of the individual entities included in the consolidated financial statements have been prepared using uniform accounting policies in accordance with the regulations on consolidation. The consolidated financial statements comprise the financial statements of DEUTZ AG and of its subsidiaries prepared each year for the twelve months ended 31 December.

The acquisition method has been used to account for business combinations since 1 January 2010. The acquisition cost is measured at the fair value of the assets transferred, the liabilities incurred or assumed (including conditional liabilities) and of the equity instruments issued at the acquisition date, irrespective of the amount of any non-controlling interests. For each business combination, the Group decides whether to measure the non-controlling interest in the acquiree at fair value (full goodwill method) or at the proportionate fair value of the assets acquired and the liabilities assumed. Acquisition-related costs are expensed as incurred.

The acquisition method was used to account for acquisitions between the transition to accounting based on IFRS on 1 January 2005 and 31 December 2009. Under this method, the carrying amount of the investment was offset against the DEUTZ Group's proportionate share of equity in the consolidated subsidiary remeasured at fair value on the acquisition date. Transaction costs directly attributable to the acquisition constituted some of the acquisition-related costs.

The non-controlling interest is the share of net profit/loss and net assets not attributable to the DEUTZ Group. The Shandong Changlin Machinery Group's holding of 30 per cent of the voting shares in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China, was reported as a non-controlling interest as at 31 December 2015.

Income and expenses, receivables and payables, and inter-company profits and losses generated between the consolidated entities are eliminated unless they are of no material significance.

## JOINT VENTURES AND ASSOCIATES

Investments in joint ventures and associates are accounted for using the equity method. Under the equity method, investments in an associate or joint venture are recognised on the balance sheet at cost plus any changes in the DEUTZ Group's share of the entity's net assets that have occurred since the acquisition. The goodwill related to the associate or joint venture is included in the carrying amount of the investment and is not amortised. The income statement includes the DEUTZ Group's share of the profit or loss generated by the associate or joint venture. Unless they are material, gains and losses on transactions between the Group and its associates or joint ventures are eliminated. Changes recognised directly in the equity of the associate or joint venture are recognised by the DEUTZ Group in the amount of its investment and, as such, are appropriately presented in the statement of changes in equity. With one exception, the financial statements of the associates and joint ventures are prepared to the same balance sheet date as the financial statements for the parent. Interim financial statements have not been prepared for reasons of materiality. Where required, figures are restated in line with the uniform accounting policies throughout the DEUTZ Group.

## CURRENCY TRANSLATION

The items in the financial statements of each individual entity in the DEUTZ Group are measured in the currency that corresponds to the currency of the primary economic environment in which the entity operates (functional currency). Transactions denominated in foreign currency are translated into the functional currency using the relevant exchange rates on the date of the transaction. Subsequently they are translated on every balance sheet date using the closing rate. All currency translation differences are recognised in profit or loss unless they are in connection with qualified cash flow hedges, in which case they are recognised in other comprehensive income.

With the exception of equity, balance sheet items in separate financial statements denominated in foreign currency are translated into the functional currency of the DEUTZ Group (euros) at closing rates. Income and expense items – including net income or loss – are translated at the average rates for the year. Equity – with the exception of net income or loss – is translated at the prevailing historical closing rates.

Principles of consolidation

Joint ventures and associates

Currency translation

Accounting policies

Differences arising from the translation of equity at historical rates and the translation of net income or loss at average rates for the year are reported in other comprehensive income in a separate item.

The main exchange rates used for currency translation purposes are shown in the following table (€1 translated into foreign currencies):

		Average rates		Closing rates at 31 Dec	
		2015	2014	2015	2014
USA	USD	1.10	1.32	1.09	1.21
UK	GBP	0.72	0.80	0.73	0.78
China	CNY	6.95	8.15	7.06	7.54
Australia	AUD	1.48	1.47	1.49	1.48
Morocco	MAD	10.80	11.15	10.75	10.96
Russia	RUB	68.77	51.93	80.67	72.34

## ACCOUNTING POLICIES

Significant accounting policies used to prepare these consolidated financial statements are described below.

### REVENUE RECOGNITION

Revenue generated by the sale of engines and services comprises the fair value received excluding VAT, discounts and price reductions.

Revenue and other income is recognised as follows:

**Revenue from the sale of engines** Revenue from the sale of engines is recognised once a DEUTZ Group entity has delivered to a customer and the risks and rewards have passed to the customer. Estimates of future price reductions are covered by provisions and deducted from revenue.

**Revenue generated by services** Revenue generated by services is recognised at the time the service is provided.

**Interest income, licence income, dividends and other income** Interest income is recognised pro rata temporis using the effective interest method. Licence income is either deferred and recognised pro rata temporis in accordance with the substance of the relevant agreements or recognised when

risks and rewards have been transferred. Dividend income is recognised at the time the right to receive the payment arises. Other income is recognised according to contractual agreement on the transfer of risks and rewards.

### BORROWING COSTS

Borrowing costs that can be directly attributed to the construction or manufacture of an asset for which a substantial period is required to bring the asset to its intended usable condition are capitalised as part of the costs of the relevant asset. All the other borrowing costs are expensed as incurred. Borrowing costs are the interest and other costs incurred by a company in connection with borrowing funds.

### ADDITIONAL DISCLOSURES

In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT before one-off items, which it uses for internal purposes to gauge the profitability of its business. One-off items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur. There were no one-off items in 2015 (2014: one-off expenses of €18.9 million).

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised at cost and, if depreciable, less any depreciation on a straight-line basis and any additional impairment losses. Cost comprises the purchase price and any directly attributable costs incurred to bring the asset to the required location and working condition.

The costs of conversion of property, plant and equipment constructed internally comprise directly attributable costs, pro rata material and production overheads as well as administrative expenses related to production or delivery of the service.

Subsequent costs are added to the carrying amount of the asset concerned as incurred, provided that the recognition criteria are satisfied. Repair and maintenance costs are expensed as incurred.

The depreciation period is based on the expected useful life of the asset. Land is not depreciated.

Straight-line depreciation is based on the following useful lives for the main asset categories:

	Useful life (years)
Buildings and grounds	15–33
Technical equipment and machines	10–15
Other equipment, furniture and fixtures	3–10

Residual carrying amounts, useful lives and depreciation methods are reviewed at the end of each year and adjusted where appropriate.

An item of property, plant or equipment is derecognised either on disposal or if no further economic benefit is expected from further use or sale of the asset. Gains or losses arising from the derecognition of the asset are calculated as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the period in which the asset is derecognised.

## INTANGIBLE ASSETS

Intangible assets are measured at cost. The cost of purchase or conversion includes directly attributable costs. The cost of conversion also includes a proportion of overheads and borrowing costs for long-term projects provided the recognition criteria are met. In subsequent periods, intangible assets are reported at cost less amortisation on a straight-line basis and any additional impairment losses. Investment grants from customers are deducted from cost. The useful lives of both purchased and internally generated intangible assets are limited. The amortisation expense and impairment losses are reported in the income statement accordingly.

The following principles are applied:

**Internally generated intangible assets** The accounting treatment of internally generated intangible assets is based on an implemented development process with defined milestones. During this process, the development costs for the products are capitalised provided that

- they are technically and commercially feasible,
- a future economic benefit is likely,
- there is the intention to complete their development and sufficient resources are available to do so, and
- the costs of development can be reliably determined.

The review of whether these criteria are met takes place in connection with the achievement of defined milestones in the development process. Development projects at DEUTZ relate almost exclusively to the development of new engine series. The fact that these development projects are technically feasible and will actually be completed is borne out by a multitude of evidence from the past. Until this point, the development and research costs incurred are recognised in the income statement in the period in which they are incurred. As a rule, completed development projects are amortised on a straight-line basis over the expected production cycle of three to nine years.

As at 31 December 2015, the material, completed development projects had the following remaining useful lives:

Engine series 12.0/16.0	4 years
Engine series 7.8	10 years
Engine series 6.1	4 years
Engine series 4.1	5 years
Engine series 3.6	5 years
Engine series 2.9	6.5 years

The useful lives and amortisation methods for completed development projects are reviewed at every year-end, if not more frequently. If any changes in their useful lives are required, they are treated as changes in accounting estimates. Following changes to the product strategy in December 2015, the production cycle for the 7.8 engine series is now expected to be considerably longer. Consequently, the useful life of this series was extended from the original nine years to 15 years as at 31 December 2015. At the same time, the amortisation method for this series was adjusted for 2016 onwards, from the straight-line method to the declining-balance method, to reflect its expected usefulness over the remaining product lifecycle. The revised estimates will have the following impact on amortisation over the entire residual life:

€ million	(-) Decrease/ (+) increase in amortisation	(-) Decrease/ (+) increase in deferred tax income	(-) Decrease/ (+) increase in net income
2016	-2.3	-0.7	1.6
2017	-2.9	-0.9	2.0
2018	-3.5	-1.1	2.4
2019	-4.1	-1.3	2.8
2020	3.7	1.2	-2.5
2021	3.1	1.0	-2.1
2022	2.4	0.7	-1.7
2023	1.8	0.5	-1.3
2024	1.2	0.4	-0.8
2025	0.6	0.2	-0.4

**Other intangible assets** These are measured at amortised cost and amortised on a straight-line basis over their estimated useful life of three to ten years.

Gains or losses arising from the derecognition of intangible assets are the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the period in which the asset is derecognised.

### IMPAIRMENT OF NON-FINANCIAL ASSETS

At each balance sheet date the DEUTZ Group carries out tests to establish whether there are any indications that an asset may be impaired. An impairment test is carried out at least once a year on intangible assets that are not yet available for use.

Impairment is determined by comparing the carrying amount with the recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If future cash inflows cannot be allocated to an individual asset separately from cash flows generated independently by other assets, the impairment test is applied to the cash-generating unit that includes the asset concerned. When impairment tests are conducted, assets are aggregated into cash-generating units at the lowest-possible level at which cash inflows can largely be independently identified.

Value in use is calculated by discounting estimated future cash flows to their present value. The calculation uses a discount rate that reflects current market expectations in respect of the time value of money and the risks inherent in the asset or cash-generating unit. The cash flows used in the calculation are derived and extrapolated from operational planning (five-year period). If the reasons for previously recognised impairment losses no longer exist, these impairment losses are reversed.

### GOVERNMENT GRANTS

Government grants are recognised when there is sufficient certainty that the associated conditions will be fulfilled and the grants will actually be awarded. The DEUTZ Group deducts government grants relating to purchases of non-current assets from the cost of the respective asset. The amount of depreciation and amortisation is based on the cost of purchase after deduction of such grants. In the case of an interest-free government loan

that has been received, the value of the interest benefit has been quantified in accordance with the provisions in IAS 39. The loan has been measured at fair value and the interest benefit recognised as deferred income.

### INCOME TAXES

**Deferred taxes** Deferred taxes are recognised using the liability method for temporary differences between the carrying amount of an asset or a liability in the consolidated balance sheet and its tax base as at the reporting date as well as for tax loss and interest carryforwards.

Deferred tax assets are recognised to the extent that sufficient future taxable income is likely to be generated over the planning period against which the deductible temporary differences and the as yet unused tax loss carryforwards can be offset.

Deferred tax liabilities that arise from temporary differences in connection with investments in subsidiaries, joint ventures and associates are always recognised unless the timing of the reversal of the temporary differences can be controlled and it is unlikely that the temporary differences will reverse in the foreseeable future.

Deferred taxes relating to items recognised in other comprehensive income are likewise recognised in other comprehensive income and not in the income statement.

Deferred tax assets and liabilities are netted if the DEUTZ Group is entitled to have the current tax assets offset against tax liabilities and if the deferred taxes relate to income taxes levied by the same tax authority.

Deferred taxes are recognised at the rates anticipated on recognition of the asset or liability. The anticipated tax rate is the rate that has already been enacted or announced at the balance sheet date, provided announcement of the tax rate has the substantive effect of actual enactment.

**Current tax expense** Current income taxes for the current period and for previous periods are recognised at the amount that is expected to be paid to (or recovered from) the tax authorities or has already been paid. The tax amount is calculated on the basis of tax rates and tax legislation enacted or substantively enacted as at the relevant balance sheet date.



## INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price achievable in the ordinary course of business less estimated costs still to be incurred.

The cost of raw materials and consumables as well as bought-in and spare parts is calculated using weighted average purchase prices.

Work in progress and finished goods are measured at the cost of conversion, which includes production materials and production wages as well as a proportion of material and production overheads.

Additional write-downs are applied to cover risks resulting from inventories' period of storage and impaired usability as well as contract-related losses.

## NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets are classified as 'held for sale' and recognised at the lower of their carrying amount and their fair value less costs to sell if their carrying amount essentially derives from their sale rather than from their continued use.

## FINANCIAL ASSETS

In the DEUTZ Group, financial assets within the meaning of IAS 39 can be in any of the following categories and are classified accordingly:

- financial assets designated at fair value through profit or loss,
- loans and receivables, or
- available-for-sale financial assets.

On initial recognition, financial assets are measured at fair value. In the case of financial assets other than those classified as at fair value through profit or loss, transaction costs directly attributable to the acquisition of the assets are also included.

Financial assets are classified in one of the measurement categories on initial recognition. Assets may be reclassified if this is permitted and necessary.

Except in the case of held-for-trading financial assets, all regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered

to or by DEUTZ. Held-for-trading financial assets are recognised on the trade date, i.e. the date on which the DEUTZ Group enters into the obligation to buy or sell the asset. Regular way purchases and sales are purchases or sales of financial assets that provide for the delivery of the asset within a period determined by market regulations or conventions.

**Financial assets at fair value through profit or loss** In the DEUTZ Group, financial assets designated as at fair value through profit or loss include held-for-trading financial assets. To date, the DEUTZ Group has not made use of the option to designate financial assets as at fair value through profit or loss on initial recognition.

Derivatives, including separately recognised embedded derivatives, are classified as held for trading unless they are derivatives designated as hedging instruments and are determined to be effective. Gains and losses on financial assets held for trading are recognised in the income statement. At the time the DEUTZ Group first becomes a party to a contract, it determines whether an embedded derivative needs to be accounted for separately from the host contract. This decision is only reassessed if there is a substantial amendment to the terms of the contract and this amendment results in a significant change to the cash flows that would otherwise have been derived from the contract.

**Loans and receivables** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. This category comprises trade receivables as well as other receivables and assets. They arise when the DEUTZ Group provides money, goods or services directly to a customer or other debtor. They are classified as current assets, except for those that do not fall due until twelve months or more after the balance sheet date, in which case they are reported as non-current assets. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any necessary write-downs. A gain or loss is recognised in profit or loss when the loan or receivable is derecognised or written down, and through the amortisation process.

**Available-for-sale financial assets** Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in one of the other categories stipulated in IAS 39. After initial measurement, available-for-sale financial assets are measured at fair value. Financial assets whose fair value cannot be determined either using generally accepted measurement methods (e.g.

discounted cash flow) or from their market prices are recognised at amortised cost. Unrealised gains and losses are recognised in other comprehensive income. If a financial asset in this category is derecognised or written down, any cumulative gains or losses previously recognised in other comprehensive income are reclassified to the income statement.

## IMPAIRMENT OF FINANCIAL ASSETS

At every balance sheet date, financial assets (with the exception of financial assets at fair value through profit or loss) are subjected to an impairment test to establish whether there are any indications of impairment (for example, substantial financial difficulties on the part of the debtor, significant probability of insolvency proceedings against the debtor, the disappearance of an active market for the financial asset, significant changes in the technological, economic, legal and/or market environment in which the issuer operates, a sustained fall in the fair value of the financial asset below amortised cost).

**Financial assets accounted for at amortised cost** If there are objective indications that a financial asset accounted for at amortised cost is impaired, the amount of the impairment loss is determined as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (with the exception of estimated future loan defaults that have not yet occurred), the discount rate being the original effective interest rate for the financial asset, i.e. the effective interest rate determined on initial recognition. The impairment loss is recognised in the income statement.

If the amount of this impairment loss is found to be lower in subsequent reporting periods and this decrease can be attributed objectively to factors occurring after the recognition of the impairment loss, the previously recognised impairment loss is reversed. However, the new carrying amount of the asset must not exceed what the amortised cost would have been at the time the impairment loss is reversed if the impairment loss had not been recognised. The reversal of the impairment loss is recognised in the income statement.

In the case of trade receivables, if there are objective indications that not all due and payable amounts will be received in accordance with the originally agreed invoicing terms and conditions (for example, insufficient creditworthiness on the part of the debtor, dispute regarding the existence or amount of the receivable, legal reasons preventing the enforcement of the

receivable, etc.) an impairment loss is recognised on a valuation allowance account. Receivables classified as uncollectible are then derecognised.

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts.

**Available-for-sale financial assets** If an available-for-sale financial asset is impaired, an amount equal to the difference between the cost and the current fair value (less any impairment losses on that asset already recognised in the income statement at an earlier point) is reclassified from other comprehensive income to the income statement. Reversals of impairment losses on equity instruments classified as available for sale are not recognised in the income statement. Impairment losses related to available-for-sale equity instruments that are not publicly traded and that are recognised at cost must not be reversed. The reversal of impairment losses on debt instruments classified as available for sale are recognised in the income statement if the increase in fair value can be objectively related to an event that occurred after the impairment loss was recognised in the income statement.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, short-term deposits with an original term of up to three months, and credit balances held with banks.

## FINANCIAL LIABILITIES

In the DEUTZ Group, financial liabilities within the meaning of IAS 39 can be in either of the following categories:

- financial liabilities at fair value through profit or loss, or
- other financial liabilities.

**Financial liabilities at fair value through profit or loss** In the DEUTZ Group, the group of financial liabilities at fair value through profit or loss includes held-for-trading financial liabilities. To date, the DEUTZ Group has not made use of the option to designate financial liabilities as at fair value through profit or loss on initial recognition.

Derivatives, including separately recognised embedded derivatives, are classified as held for trading unless they are derivatives designated as hedging instruments and determined to be effective. If the fair value of these derivatives is negative, they

are recognised under financial liabilities. Gains and losses on financial liabilities held for trading are recognised in the income statement.

**Other financial liabilities** in the DEUTZ Group for the most part comprise the following:

- financial debt (liabilities to banks),
- trade payables and
- other liabilities.

Other financial liabilities are classified as current unless the DEUTZ Group does not have the right to settle the liability until at least twelve months after the balance sheet date.

Other financial liabilities are initially recognised at their fair value including transaction costs. They are subsequently measured at amortised cost using the effective interest method.

## DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

DEUTZ only uses derivative financial instruments (interest-rate and currency derivatives) for hedging purposes as part of its business operations, in particular to reduce foreign currency risk in forecast transactions involving foreign currencies and to reduce interest-rate risk through the use of interest-rate swaps.

Derivatives are initially recognised at their fair value on the day they are entered into and are subsequently measured at the fair value prevailing at the time. The fair value of derivatives corresponds to the present value of estimated future cash flows. The fair value of currency forwards is based on the forward exchange rate as at the balance sheet date.

Changes in the fair value of non-hedging derivatives are immediately recognised in the income statement.

**Cash flow hedges** Forecast transactions (cash flows) in foreign currency and interest-rate risk are hedged using cash flow hedges. The effective portion of the changes in the fair value of derivatives designated as cash flow hedges is recognised in other comprehensive income. The ineffective portion of the changes in fair value is reported in the income statement under other income or other expenses.

The changes in fair value reported in the reserve for cash flow hedges are reclassified to the income statement in the period in which the hedged item is recognised in income.

The market values of derivatives designated as cash flow hedges are stated in Note 25. Changes in the cash flow hedge reserve are reported under a separate item in other comprehensive income (fair value reserve).

## PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The occupational pension scheme offered by the DEUTZ Group takes account of the relevant legislation in various countries and the benefits that each company provides for its staff.

Occupational pensions take the form of **defined benefit pension plans**, which are funded by the recognition of pension provisions. Since pension plans in Germany were closed to new members in 1995, employees in Germany can no longer acquire any further employer-funded pension entitlements. Currently, therefore, existing pension entitlements are simply increased each year by unwinding the discount applied to calculate the present value of the obligation, or they are paid out. Besides entitlements to an employer-funded pension, employees in Germany can build up an employee-funded pension by participating in a deferred compensation plan. There is one funded pension plan in the UK (branch of DEUTZ AG), and the subsidiaries in the US and France have pension liabilities. The pension plans outside Germany are employer-funded entitlements.

The Group's liabilities arising from employer-funded defined benefit pension plans are calculated separately for each plan using actuarial principles. First, the pension benefits vested in earlier periods and in the current period are estimated. The next step is to discount these benefits using the projected unit credit method. The resulting present value represents the defined benefit obligation. The fair value of the plan asset is then deducted from the defined benefit obligation to determine the net liability to be reported on the balance sheet.

The interest rate used to discount the estimated pension benefits is determined using the yields available in the market on each valuation date for investment-grade, fixed-income corporate paper. The currency and terms to maturity of the underlying corporate paper match the currency and predicted duration of the post-retirement pension liabilities to be met.

The net interest cost is calculated by multiplying the net liability at the beginning of the reporting period by the interest rate used to discount the pension obligations at the beginning of the period.

The effects of the revaluation include the actuarial gains and losses on the valuation of the gross defined benefit obligation and the difference between the actual return on plan assets and the typical return on plan assets assumed at the beginning of the period when calculating the net interest cost.

While the revaluation effects are recognised in other comprehensive income, the net interest cost and the current service cost are reported as gains or losses in the reporting period. Net interest cost is reported in operating profit.

The calculation of the individual cost components in the net liability to be reported on the balance sheet on each reporting date is based on a report by a qualified actuary.

In the case of the employee-funded deferred compensation plan, the Company has taken out a reinsurance policy with a life insurance company based on the amount of salary contribution and undertakes to pay a pension based on the guaranteed capital that has been underwritten. The present value of the benefit obligation corresponds to the fair value of the entitlements to reinsurance cover on the basis of the asset values calculated by the insurer. For the purposes of recognition on the balance sheet, the present value of the benefit obligation is offset against the fair value of the entitlements to reinsurance cover in an equal amount.

As well as defined benefit pension plans, there are also **defined contribution pension plans** (e.g. direct insurance policies). The mandatory contributions are immediately recognised as staff costs. In this case, the recognition of provisions is not required because the DEUTZ Group has no obligation apart from the obligation to pay premiums.

## OTHER PROVISIONS

Other provisions are recognised if there are legal or constructive obligations towards third parties that arise from past events and are likely to result in cash outflows. Furthermore, it must be possible to estimate the obligation reliably. Provisions are recognised at their settlement value calculated at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted. Provisions for warranty obligations are recognised when products are sold or when new warranties are initiated. The measurement of potential warranty liabilities is based primarily on historical experience.

## CONTINGENT LIABILITIES

Contingent liabilities are potential obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events that, however, are beyond the control of the DEUTZ Group. Furthermore, present obligations may constitute contingent liabilities if it is not probable that an outflow of resources will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made.



## NOTES TO THE INCOME STATEMENT

### 1. REVENUE

The table below gives a breakdown of revenue for the DEUTZ Group:

€ million	2015	2014
Engines	969.0	1,270.9
Service	278.4	259.3
<b>Total</b>	<b>1,247.4</b>	<b>1,530.2</b>

The breakdown of revenue by segment and region is shown in the notes on segment reporting on page 102 et seq.

### 2. FUNCTIONAL COSTS

The cost of sales largely consisted of the cost of materials, staff costs, depreciation on property, plant and equipment, and warranty costs.

Research and development costs mainly comprised amortisation on completed development projects, staff costs and the cost of materials. Costs that were charged on and capitalised development expenditure were deducted.

Selling and administrative expenses mainly consisted of staff costs.

### 3. OTHER OPERATING INCOME

€ million	2015	2014
Exchange rate gains	13.3	8.2
Income from recharged costs and services	6.2	10.1
Income from the disposal of investments and deconsolidation	3.9	–
Income from the disposal of non-current assets	0.3	0.2
Income from the measurement of derivatives	1.4	0.8
Income from the reversal of provisions	1.1	0.7
Income from the derecognition of liabilities	0.5	0.4
Rentals and leases	0.1	0.1
Sundry other income	2.5	2.4
<b>Total</b>	<b>29.3</b>	<b>22.9</b>

The increase in other operating income was primarily the result of positive effects arising from the translation of foreign-currency positions. The income from the disposal of investments and deconsolidation relates to the disposal of the shares in WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD., Weifang, China, and the deconsolidation of the subsidiary DEUTZ Engine (China) Co., Ltd. Linyi, China.

### 4. OTHER OPERATING EXPENSES

€ million	2015	2014
Exchange rate losses	13.6	8.3
Net interest cost for provisions for pensions and other post-retirement benefits	3.7	5.8
Other expenses from the adjustment of provisions	3.5	1.5
Other cost of fees, contributions and advice	1.5	1.6
Expenses in connection with the measurement of derivatives	1.2	0.8
Rental and lease expenses	0.7	0.7
Restructuring costs	–	17.1
Sundry other expenses	6.4	5.6
<b>Total</b>	<b>30.6</b>	<b>41.4</b>

The decrease in other operating expenses was due to provisions having been recognised for restructuring measures in the previous year. There were no such expenses in the year under review.

### 5. PROFIT/LOSS ON EQUITY-ACCOUNTED INVESTMENTS AND OTHER INVESTMENT INCOME

€ million	2015	2014
<b>Profit/loss on equity-accounted investments</b>		
Income from equity-accounted investments	0.7	4.1
Expenses relating to equity-accounted investments	–7.0	–2.2
<b>Total</b>	<b>–6.3</b>	<b>1.9</b>
<b>Other investment income</b>	<b>1.0</b>	<b>1.1</b>
<b>Total</b>	<b>–5.3</b>	<b>3.0</b>

Income from equity-accounted investments consisted of DEUTZ AG's share in the profits of its associate D.D. Power Holdings, South Africa.

The expenses relating to equity-accounted investments were attributable to the share of the loss of the joint venture DEUTZ (Dalian) Engine Co., Ltd., Dalian, China. In 2014, the joint venture had made a contribution to profits.

As in the previous year, other net investment income related to profits transferred by DEUTZ Sicherheit GmbH, Cologne.

## 6. ONE-OFF ITEMS

There were no one-off items in the year under review. The one-off items in the prior year had largely arisen in conjunction with measures to optimise our network of sites.

## 7. INTEREST EXPENSES, NET

€ million	2015	2014
Interest income on credit balances with banks	0.1	0.1
Other interest income	0.7	0.5
<b>Interest income</b>	<b>0.8</b>	<b>0.6</b>
Interest paid on liabilities to banks	-2.9	-3.7
Interest paid on sales of receivables	-1.1	-2.3
Other interest expense and similar charges	-0.8	-0.7
<b>Interest expense and similar charges (finance costs)</b>	<b>-4.8</b>	<b>-6.7</b>
<b>Interest expenses, net</b>	<b>-4.0</b>	<b>-6.1</b>

No borrowing costs were capitalised in either the year under review or the previous year.

## 8. TAXES

**Income taxes** The following table gives a breakdown of income taxes:

€ million	2015	2014
Current tax expense	5.7	9.1
thereof unrelated to the reporting period	-0.6	0.1
Deferred taxes	-8.3	-21.9
thereof from temporary differences	-7.5	-20.8
thereof from loss carryforwards	-0.8	-1.1
<b>Total income taxes</b>	<b>-2.6</b>	<b>-12.8</b>

The current income tax expenses of €5.7 million predominantly related to additions to provisions for anticipated tax payments on current income generated by Group companies in 2015.

The deferred tax income included income of €7.5 million arising from temporary differences (2014: €20.8 million). This resulted, in particular, from the reduction of deferred tax liabilities in connection with the capitalisation of development expenditure under IFRS.

There are no income tax implications for DEUTZ AG arising from the distribution of dividends to shareholders by DEUTZ AG.

The tax reconciliation table shows the reconciliation from anticipated income taxes to effective taxes as shown in the income statement. Effective income taxes include current and deferred taxes. The applicable tax rate is 31.61 per cent (2014: 31.65 per cent) comprising corporation tax at 15 per cent, the solidarity surcharge (5.50 per cent of the corporation tax) and trade tax at 15.78 per cent based on an average assessment rate.

€ million	2015	2014
<b>Net income before income taxes</b>	<b>0.9</b>	<b>6.7</b>
Anticipated tax	0.3	2.1
Difference in local basis of assessment	0.3	0.3
Tax rates outside Germany	-0.2	-0.2
Changes arising from the recognition of deferred taxes on loss carryforwards and on temporary differences and the utilisation of loss carryforwards	-2.6	-7.0
Effect of non-deductible expenses	-0.4	2.8
Share of profit (loss) of equity-accounted investments	2.1	-0.8
Effect of tax-exempt income	-0.8	-1.0
Effects not related to the reporting period		
Prior-year tax payments	-0.6	0.1
Deferred taxes resulting from prior-year adjustments	-0.6	-9.7
Other	-0.1	0.6
<b>Effective tax income</b>	<b>-2.6</b>	<b>-12.8</b>
<b>Effective tax rate (%)</b>	<b>-288.9</b>	<b>-191.0</b>

The change arising from the recognition of deferred taxes on loss carryforwards and on temporary differences and the utilisation of loss carryforwards was largely attributable to the utilisation of loss carryforwards in the reporting year.

## 9. EARNINGS PER SHARE

Earnings per share is calculated in accordance with IAS 33. The DEUTZ Group calculates basic earnings per share by dividing the net income attributable to its shares by the weighted average number of shares outstanding.

There were no dilutive effects in 2015 or 2014.

	2015	2014
Net income attributable to shareholders of DEUTZ AG (€ thousand)	5,345	21,163
Weighted average number of shares outstanding (thousands)	120,862	120,862
<b>Earnings per share (€)</b>	<b>0.04</b>	<b>0.18</b>

## NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

### 10. OTHER COMPREHENSIVE INCOME

Other comprehensive income comprises the elements of the statement of comprehensive income not reported in the income statement. The taxes resulting from other comprehensive income are shown in the following table:

€ million	2015			2014		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
<b>Amounts that will not be reclassified to the income statement in the future</b>	<b>4.6</b>	<b>-1.5</b>	<b>3.1</b>	<b>-26.6</b>	<b>8.5</b>	<b>-18.1</b>
Remeasurements of defined benefit plans	4.6	-1.5	3.1	-26.6	8.5	-18.1
<b>Amounts that will be reclassified to the income statement in the future if specific conditions are met</b>	<b>4.5</b>	<b>-0.6</b>	<b>3.9</b>	<b>12.6</b>	<b>0.8</b>	<b>13.4</b>
Currency translation differences	2.8	-	2.8	15.1	-	15.1
Effective portion of change in fair value from cash flow hedges	1.9	-0.6	1.3	-2.5	0.8	-1.7
Change in fair value of available-for-sale financial instruments	-0.2	-	-0.2	-	-	-
<b>Other comprehensive income</b>	<b>9.1</b>	<b>-2.1</b>	<b>7.0</b>	<b>-14.0</b>	<b>9.3</b>	<b>-4.7</b>

In 2015, losses of €8.1 million on cash flow hedges (2014: gains of €1.0 million) recognised in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating expenses or other operating income in the consolidated income statement.

Notes to the income  
statementNotes to the statement of  
comprehensive income

Notes to the balance sheet

## NOTES TO THE BALANCE SHEET

### 11. PROPERTY, PLANT AND EQUIPMENT

Gross figures	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
Cost of purchase/conversion					
€ million					
<b>Balance at 1 Jan 2015</b>	<b>199.2</b>	<b>536.4</b>	<b>240.5</b>	<b>9.7</b>	<b>985.8</b>
Currency translation differences	0.1	0.6	0.4	0.2	1.3
Additions	6.0	11.6	14.5	19.1	51.2
Investment grants	–	–	–0.3	–	–0.3
Disposals	–0.8	–15.4	–16.0	–	–32.2
Reclassifications	0.8	4.4	0.7	–5.9	–
<b>Balance at 31 Dec 2015</b>	<b>205.3</b>	<b>537.6</b>	<b>239.8</b>	<b>23.1</b>	<b>1,005.8</b>

Gross figures	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
Depreciation and impairment					
€ million					
<b>Balance at 1 Jan 2015</b>	<b>84.2</b>	<b>425.9</b>	<b>182.2</b>	<b>1.6</b>	<b>693.9</b>
Currency translation differences	0.1	0.3	0.2	0.1	0.7
Depreciation	5.4	25.2	21.0	–	51.6
Impairment	–	0.1	1.4	0.8	2.3
Disposals	–0.7	–15.2	–15.8	–	–31.7
Reclassifications	–	–	–	–	–
<b>Balance at 31 Dec 2015</b>	<b>89.0</b>	<b>436.3</b>	<b>189.0</b>	<b>2.5</b>	<b>716.8</b>
<b>Net carrying amount at 31 Dec 2015</b>	<b>116.3</b>	<b>101.3</b>	<b>50.8</b>	<b>20.6</b>	<b>289.0</b>

Gross figures	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
Cost of purchase/conversion					
€ million					
<b>Balance at 1 Jan 2014</b>	<b>198.6</b>	<b>527.3</b>	<b>222.1</b>	<b>7.0</b>	<b>955.0</b>
Currency translation differences	–	0.5	0.5	0.1	1.1
Additions	0.6	10.0	20.8	7.7	39.1
Investment grants	–	–0.4	–1.7	–	–2.1
Disposals	–	–4.9	–2.3	–0.1	–7.3
Reclassifications	–	3.9	1.1	–5.0	–
<b>Balance at 31 Dec 2014</b>	<b>199.2</b>	<b>536.4</b>	<b>240.5</b>	<b>9.7</b>	<b>985.8</b>



Gross figures	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
Depreciation and impairment					
€ million					
<b>Balance at 1 Jan 2014</b>	<b>79.1</b>	<b>405.5</b>	<b>164.0</b>	<b>–</b>	<b>648.6</b>
Currency translation differences	0.1	0.4	0.3	0.1	0.9
Depreciation	5.0	24.7	19.8	–	49.5
Impairment	–	0.2	0.4	1.5	2.1
Disposals	–	–4.9	–2.3	–	–7.2
Reclassifications	–	–	–	–	–
<b>Balance at 31 Dec 2014</b>	<b>84.2</b>	<b>425.9</b>	<b>182.2</b>	<b>1.6</b>	<b>693.9</b>
<b>Net carrying amount at 31 Dec 2014</b>	<b>115.0</b>	<b>110.5</b>	<b>58.3</b>	<b>8.1</b>	<b>291.9</b>

Additions to property, plant and equipment mainly related to measures aimed at optimising our network of sites, such as the construction of a shaft centre in Cologne-Porz. There were also additions in connection with replacement investments.

Government grants at our Spanish subsidiary were deducted from the cost of purchasing the property, plant and equipment. Total government grants recognised at 31 December 2015 amounted to €1.9 million (31 December 2014: €2.5 million). In 2015, grants of €0.6 million (2014: €0.6 million) were reclassified to the income statement (as a reduction of the depreciation expense).

Purchase commitments for property, plant and equipment are described on page 114.

## 12. INTANGIBLE ASSETS

Gross figures	Internally produced intangible assets, completed	Internally produced intangible assets, in development	Other intangible assets	Total
Cost of purchase/conversion				
€ million				
<b>Balance at 1 Jan 2015</b>	<b>404.5</b>	<b>–</b>	<b>122.5</b>	<b>527.0</b>
Currency translation differences	–	–	0.4	0.4
Additions	7.4	5.6	5.6	18.6
Investment grants	–	–	–0.3	–0.3
Disposals	–	–	–8.2	–8.2
Reclassifications	–	–	–	–
<b>Balance at 31 Dec 2015</b>	<b>411.9</b>	<b>5.6</b>	<b>120.0</b>	<b>537.5</b>

Gross figures	Internally produced intangible assets, completed	Internally produced intangible assets, in development	Other intangible assets	Total
Amortisation and impairment				
€ million				
<b>Balance at 1 Jan 2015</b>	<b>205.1</b>	<b>-</b>	<b>110.2</b>	<b>315.3</b>
Currency translation differences	-	-	0.4	0.4
Amortisation	39.3	-	6.7	46.0
Impairment	2.5	4.9	-	7.4
Disposals	-	-	-8.2	-8.2
Reclassifications	-	-	-	-
<b>Balance at 31 Dec 2015</b>	<b>246.9</b>	<b>4.9</b>	<b>109.1</b>	<b>360.9</b>
<b>Net carrying amount at 31 Dec 2015</b>	<b>165.0</b>	<b>0.7</b>	<b>10.9</b>	<b>176.6</b>

Gross figures	Internally produced intangible assets, completed	Internally produced intangible assets, in development	Other intangible assets	Total
Cost of purchase/conversion				
€ million				
<b>Balance at 1 Jan 2014</b>	<b>377.6</b>	<b>0.4</b>	<b>119.1</b>	<b>497.1</b>
Currency translation differences	-	-	0.4	0.4
Additions	30.5	-	3.6	34.1
Investment grants	-4.2	-	-0.3	-4.5
Disposals	-	-	-0.1	-0.1
Reclassifications	0.6	-0.4	-0.2	-
<b>Balance at 31 Dec 2014</b>	<b>404.5</b>	<b>-</b>	<b>122.5</b>	<b>527.0</b>

Gross figures	Internally produced intangible assets, completed	Internally produced intangible assets, in development	Other intangible assets	Total
Amortisation and impairment				
€ million				
<b>Balance at 1 Jan 2014</b>	<b>156.6</b>	<b>-</b>	<b>102.6</b>	<b>259.2</b>
Currency translation differences	-	-	0.3	0.3
Amortisation	39.3	-	7.4	46.7
Impairment	9.2	-	-	9.2
Disposals	-	-	-0.1	-0.1
Reclassifications	-	-	-	-
<b>Balance at 31 Dec 2014</b>	<b>205.1</b>	<b>-</b>	<b>110.2</b>	<b>315.3</b>
<b>Net carrying amount at 31 Dec 2014</b>	<b>199.4</b>	<b>-</b>	<b>12.3</b>	<b>211.7</b>

Other intangible assets mainly comprise grants for tool costs, licences, purchased development services and software.

Under internally generated intangible assets, the additions largely relate to the capitalisation of development expenditure relating to the development of new engines and the refinement of existing models.

The impairment losses recognised on completed intangible assets and on intangible assets in development in 2015 related to our engine series with a capacity of 4 to 8 litres and of over 8 litres, and they largely resulted from changes in market forecasts. The impairment testing of these intangible assets was carried out at the level of the cash-generating units that represent each engine series. The recoverable amounts determined on the basis of their values in use amounted to €0.0 million and €10.8 million respectively at the end of the year. The impairment losses calculated in 2015 were €4.9 million and €2.5 million respectively. The respective pre-tax discount rates underlying the calculations were 9.2 per cent and 9.6 per cent. Of the impairment losses of €2.5 million recognised on our engine series with a capacity of over 8 litres, losses of €1.9 million had already been recognised as at 30 June 2015 following an impairment test.

In 2014, impairment losses had been recognised on completed intangible assets of €6.8 million and €2.4 million respectively. The impairment testing of these intangible assets was also carried out at the level of the cash-generating units that represent each engine series. The recoverable amounts determined on the basis of their values in use amounted to €14.8 million and €0.0 million. The respective pre-tax discount rates underlying the calculations were 7.4 per cent and 8.0 per cent.

### 13. EQUITY-ACCOUNTED INVESTMENTS

The shares held by the DEUTZ Group in associates and joint ventures, none of which are listed companies, are as follows:

€ million	2015	2014
<b>1 Jan</b>	<b>52.4</b>	<b>46.0</b>
Additions	–	–
Pro-rata profit/loss on equity-accounted investments	–6.3	3.7
Disposals	–	–
Impairment	–	–1.8
Other changes arising from measurement using the equity method	2.4	4.5
<b>31 Dec</b>	<b>48.5</b>	<b>52.4</b>

A summary of further financial information about associates and joint ventures is provided in Note 26 'Interests in other entities'.

### 14. OTHER FINANCIAL ASSETS (NON-CURRENT)

€ million	31 Dec 2015	31 Dec 2014
Equity investments	0.2	0.2
Non-current securities	2.9	2.7
Cost of borrowing	1.2	1.4
Loans	1.3	1.3
Other	0.8	2.0
<b>Total</b>	<b>6.4</b>	<b>7.6</b>

#### Non-current securities

This line item on the balance sheet includes securities in the form of equities and bonds. The securities are used to hedge the pension obligations of the Group company DEUTZ Corporation, Atlanta, USA.

#### Cost of borrowing

The cost of borrowing directly associated with the working capital facility is accounted for as a non-current asset and is recognised in the income statement in instalments over the capital commitment period. The financial debt (including the pro rata cost of borrowing) is recognised when the working capital facility is drawn down as a loan and is subsequently measured using the effective interest method.

## 15. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilised tax losses carried forward of €698.4 million for corporation tax (2014: €714.6 million) and €787.6 million for trade tax (2014: €804.8 million). The figures stated in 2014 for tax loss carryforwards (corporation tax: €714.4 million; trade tax €803.3 million) were restated as a result of information gained during tax audits for previous years.

Further tax loss carryforwards were also available to international companies in the Group.

The following table gives a breakdown of the deferred tax assets and liabilities and the current tax assets and liabilities reported on the balance sheet:

€ million	31 Dec 2015	31 Dec 2014
<b>Non-current</b>		
Deferred tax assets	69.1	62.2
Deferred tax liabilities	–	–
<b>Current</b>		
Current tax assets	4.3	0.8
Provision for income taxes	7.5	7.8
Income tax liabilities	0.5	0.5

In 2015, the deferred tax assets net of deferred tax liabilities amounted to €69.1 million. They were largely the result of capitalising deferred tax assets on tax losses carried forward and of temporary differences, particularly those between the carrying amount of provisions for pensions and other post-retirement benefits in the consolidated balance sheet and their tax base in the financial statements of DEUTZ AG. Deferred tax assets from items recognised in other comprehensive income amounted to €17.8 million for provisions for pensions and other post-retirement benefits and €0.3 million for measurement of cash flow hedges.

The following table shows the breakdown of deferred tax assets and liabilities:

€ million	31 Dec 2015		31 Dec 2014	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	–	52.4	–	63.1
Property, plant and equipment	10.8	3.3	12.1	3.9
Equity-accounted investments and financial assets	0.5	–	0.5	–
Inventories	10.9	0.1	7.4	0.1
Receivables and other assets	3.4	–	3.1	–
Pensions	24.0	–	27.9	–
Other liabilities	7.2	0.2	11.2	0.1
Tax loss carryforwards	68.3	–	67.5	–
Other	–	–	–	0.3
<b>Deferred taxes (gross)</b>	<b>125.1</b>	<b>56.0</b>	<b>129.7</b>	<b>67.5</b>
Netting	56.0	56.0	67.5	67.5
<b>Deferred taxes (net)</b>	<b>69.1</b>	<b>–</b>	<b>62.2</b>	<b>–</b>

The tax asset in excess of deferred tax liabilities – for which sufficient taxable profit will be available in future based on tax budgets – amounted to €69.1 million (31 December 2014: €62.2 million).

The decrease in deferred taxes in respect of temporary differences, which was recognised in other comprehensive income, was €1.4 million at 31 December 2015 (31 December 2014: increase of €9.5 million) and largely resulted from changes in provisions for pensions.

As at 31 December 2015, the DEUTZ Group had not recognised any deferred tax liabilities on temporary differences of €24.3 million (31 December 2014: €49.2 million) in respect of taxes on untransferred profits from subsidiaries, associates or joint ventures because the timing of the reversal of the differences can be controlled or the sums are mostly tax exempt and no material impact on taxes is expected in the near future.



Deferred tax assets are only recognised to the extent that sufficient future taxable income is likely to be generated over a certain planning period against which the as yet unused tax loss carryforwards can be offset. Consequently, as well as tax loss carryforwards on which deferred taxes have been recognised, there are loss carryforwards for which deferred taxes have not been recognised because the losses cannot be utilised. The following table shows the amounts and expiry dates of the tax loss carryforwards:

**Loss carryforwards on which deferred taxes have not been recognised**

€ million	31 Dec 2015	31 Dec 2014
Corporation tax/ solidarity surcharge	504.5	519.9
Trade tax	578.7	592.7

**Thereof: expiry periods for German and international loss carryforwards**

€ million	31 Dec 2015	31 Dec 2014
Up to 5 years	–	–
6 to 9 years	–	–
Indefinite		
Corporation tax/ solidarity surcharge	504.5	519.9
Trade tax	578.7	592.7

The figure stated in 2014 for loss carryforwards on which deferred taxes had not been recognised in full was restated, mainly as a result of information gained during the tax audit for previous years.

## 16. INVENTORIES

€ million	31 Dec 2015	31 Dec 2014
Raw materials, consumables, bought-in parts and spare parts	129.1	122.5
Work in progress	47.1	41.7
Finished goods	75.7	81.0
<b>Total</b>	<b>251.9</b>	<b>245.2</b>

Write-downs on raw materials, bought-in parts and spare parts totalled €5.3 million in the reporting year (2014: €7.6 million). As at 31 December 2015, the carrying amount of inventories written down to net realisable value was €74.7 million (31 December 2014: €78.7 million).

The following table shows the change in the valuation allowance account for inventories:

€ million	2015	2014
<b>1 Jan</b>	<b>26.1</b>	<b>29.3</b>
Changes	4.3	–3.2
<b>31 Dec</b>	<b>30.4</b>	<b>26.1</b>

The amount recognised as an expense relating to inventories in 2015 was €1,054.8 million (2014: €1,327.6 million) and it represents the cost of sales for the year.

## 17. RECEIVABLES AND OTHER ASSETS (EXCLUDING INCOME TAX ASSETS)

€ million	31 Dec 2015	31 Dec 2014
Trade receivables	103.6	127.0
Less write-downs	–2.4	–5.0
<b>Trade receivables (net)</b>	<b>101.2</b>	<b>122.0</b>
<b>Other receivables and assets</b>		
Receivables due from investments	0.9	0.8
thereof trade receivables	0.2	0.8
thereof other receivables	0.7	–
Advances paid	0.1	0.1
Outstanding contributions from non-controlling interests	–	16.2
Receivables remaining after sale of receivables	3.1	2.4
Receivables arising from other taxes	5.1	6.5
Sundry other receivables	17.6	25.9
Prepaid expenses	1.4	1.4
<b>Total</b>	<b>28.2</b>	<b>53.3</b>

As at 31 December 2015, the volume of receivables sold under factoring agreements was €99.1 million (31 December 2014: €107.1 million). Essentially, all the opportunities and risks connected with title to the receivables that were sold were transferred to the factor. While the entire credit risk was transferred, a risk of late payment remains, but it is not material so the receivables were not reported in the consolidated financial statements of DEUTZ AG. The remaining exposure in respect of the receivables that have been assigned is largely limited to the administration and collection of these receivables. As at 31 December 2015, the Group had access to factoring lines totalling €196.0 million (31 December 2014: €195.0 million). They are revolving lines. In 2015, interest expense of €1.1 million (2014: €2.3 million) was recognised in connection with the sale of receivables.

As at 31 December 2015, the receivables sold were offset by receivables amounting to €3.1 million due from one factor (31 December 2014: €2.4 million). The fair value of these receivables was also €3.1 million (31 December 2014: €2.4 million). The risk arising from the factoring transaction was the credit risk of the factor, which was lower than the credit risk of the original debtors. The maximum downside risk as at 31 December 2015 was limited to the amount receivable of €3.1 million.

Trade receivables with a principal amount of €11.7 million were written down as at 31 December 2015 (31 December 2014: €14.2 million). The following table shows the change in the valuation allowance account:

€ million	31 Dec 2015	31 Dec 2014
<b>Balance at 1 Jan</b>	<b>5.0</b>	<b>5.7</b>
Additions	0.3	1.0
Utilised	-2.4	-0.8
Reversals	-0.5	-0.9
<b>Balance at 31 Dec</b>	<b>2.4</b>	<b>5.0</b>

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts. Total impairment losses of €28.1 million were recognised on receivables and other assets as at 31 December 2015 (31 December 2014: €30.0 million).

## 18. CASH AND CASH EQUIVALENTS

As at 31 December 2015, cash and cash equivalents including cash on hand, short-term deposits and credit balances with banks amounted to €112.5 million (31 December 2014: €101.7 million). There were no access restrictions, as had also been the case in the previous year.

## 19. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The non-current assets classified as held for sale as at 31 December 2015 relate to the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, which are situated in Cologne. The land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH are allocated to the DEUTZ Compact Engines segment.

## 20. EQUITY

€ million	31 Dec 2015	31 Dec 2014
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	18.3	13.7
Retained earnings and accumulated income	134.3	134.3
Equity attributable to the shareholders of the parent	490.4	485.8
Non-controlling interests	5.2	25.2
<b>Total</b>	<b>495.6</b>	<b>511.0</b>

## Issued capital

At the end of 2015, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2014) and was divided into 120,861,783 no-par-value bearer shares (also unchanged).

## Additional paid-in capital

The additional paid-in capital contains premiums and contributions from shareholders as well as the equity component of compound financial instruments such as non-interest-bearing convertible profit-sharing rights and low-interest-bearing convertible bonds. The value of the conversion right linked to previous profit-sharing rights and bonds was recognised in equity on the issue date at fair value less pro rata transaction costs, taking account of deferred taxes.

## Other reserves

**Currency translation** Translation differences allocated to the shareholders of DEUTZ AG arising from the translation of equity at historical rates and the translation of the net income or loss at average rates for the year are reported under accumulated other comprehensive income/loss. In the year under review, this item increased other comprehensive income by €3.5 million (2014: increase of €12.6 million). The cumulative gain on translation differences recognised in other reserves amounted to €18.7 million at the end of 2015 (31 December 2014: gain of €15.2 million recognised). Total differences arising from currency translation amounted to a gain of €2.8 million (2014: gain of €15.1 million), of which a loss of €0.7 million was attributable to non-controlling interests (2014: gain of €2.5 million).

**Fair value reserve** This reserve is used for the recognition of changes in the fair value of available-for-sale financial instruments. That portion of the gain or loss on a cash flow hedging instrument determined to be an effective hedge is also recognised in the fair value reserve.

## Retained earnings and accumulated income

This item includes DEUTZ AG's legal reserve of €4.5 million (31 December 2014: €4.5 million).

## Non-controlling interests

Non-controlling interests relate to the 30 per cent equity investment held by Shandong Changlin Machinery Group Co., Ltd. in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China.

The decision to wind up DEUTZ Engine (China) Co., Ltd. in Linyi, China, cancelled the outstanding obligation of the AB Volvo Group, our joint venture partner, to make a contribution of €14.8 million to the joint venture's issued capital. In addition, €2.6 million of the capital contribution already made was repaid.

## Dividend

According to the German Stock Corporation Act (AktG), the dividend is paid from the accumulated income reported in the annual financial statements of DEUTZ AG prepared in accordance with the German Commercial Code (HGB). In 2015, DEUTZ AG distributed a dividend of €8.5 million to its shareholders (€0.07 per share) from the accumulated income reported for 2014.

The Board of Management proposes using €8.5 million of the accumulated income reported by DEUTZ AG for the 2015 financial year to pay a dividend of €0.07 per no-par-value share.

## 21. PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

DEUTZ AG has both defined contribution plans and defined benefit plans for its employees.

### Defined contribution plans

Employees in Germany receive statutory social insurance benefits for which contributions are paid as part of income. At DEUTZ, there are also further direct insurance policies that are financed by employees. These plans are treated as defined contribution plans because the Company has no obligation beyond the payment of contributions to private insurers. Ongoing contribution payments are reported as an expense for the period concerned.

The employer's contribution to the German statutory pension insurance scheme in 2015 came to €15.6 million (2014: €16.4 million). In addition, a further €2.3 million (2014: €2.6 million) was paid for pension and direct insurance policies in connection with deferred compensation.

### Defined benefit plans

The DEUTZ Group maintains several defined benefit pension plans in Germany and abroad. The largest pension plans are in Germany and the UK. Together, they accounted for more than 95 per cent of defined benefit obligations and 100 per cent of plan assets, as was the case in 2014.

In all, there are three defined benefit pension plans in Germany. While two of the plans are employer funded, the third is a deferred compensation plan. As a rule, the employer-funded pension plans comprise a general employee retirement pension for life, a disability pension and a surviving dependants' pension. The level of the monthly pension paid under the

employer-funded pension plans is based on earned income and years of service in the DEUTZ Group. No employer-funded pension entitlements have been granted to new employees joining the DEUTZ Group since 1995. In the case of the deferred compensation plan, the Company has taken out a reinsurance policy with a life insurance company based on the amount of salary contribution and undertakes to pay a pension based on the guaranteed capital that has been underwritten. In Germany, occupational pension schemes are governed by the Occupational Pensions Act (BetrAVG), according to which the DEUTZ Group has sole responsibility for meeting the requirements of defined benefit pension plans. The normal retirement age is 67.

The existing defined benefit plan in the UK entitles pension beneficiaries to a pension which depends on the level of their basic salary and the number of eligible years of service. The retirement age is between 62 and 65. The pension scheme is closed to new members. The annual pension paid is between 1/55 and 1/60 of the highest basic salary received in the final five years of service for each eligible year of service. The pension plan is primarily funded by converting pension beneficiaries' basic salary and employer contributions into plan assets. The DEUTZ Group undertakes to compensate for any shortfall in the scheme. Every year, the amount for which the Company is liable is determined with reference to a report by an independent pensions actuary.

According to legislation in the UK, the pension plan, including the plan assets, must be administered by independent trustees. The investment policy for the pension plan specifies that 50 per cent of the accumulated plan assets must be invested in equity instruments and 50 per cent in debt instruments. This investment strategy is specifically intended to counteract capital market risk and the associated risk of mismatches between the Company's payment obligations arising from the pension plan on the one hand and the plan assets on the other.

In connection with the defined benefit pension plans, the Group is exposed to capital market risk arising from its investment of the plan's assets in addition to general actuarial risks such as interest-rate risk, the risk of rising annuity rates and longevity risk.

**Funded status of pension plans**

€ million	2015	2014
Pension plans in Germany		
Present value of defined benefit obligation	182.0	197.3
Fair value of plan assets	4.9	4.7
<b>Deficit (net liability)</b>	<b>177.1</b>	<b>192.6</b>
Pension plans in the UK		
Present value of defined benefit obligation	26.7	26.1
Fair value of plan assets	22.9	21.8
<b>Deficit (net liability)</b>	<b>3.8</b>	<b>4.3</b>
Other pension plans		
Present value of defined benefit obligation	5.7	4.9
Fair value of plan assets	–	–
<b>Deficit (net liability)</b>	<b>5.7</b>	<b>4.9</b>
Total		
Present value of defined benefit obligation	214.4	228.3
Fair value of plan assets	27.8	26.5
<b>Deficit (net liability)</b>	<b>186.6</b>	<b>201.8</b>

The following table shows the breakdown of separate groups to which the pension plans in Germany and the UK have obligations to pay benefits:

**Breakdown of defined benefit obligation by beneficiary**

€ million	2015	2014
Pension plans in Germany		
Active members	11.7	13.2
Deferred members	12.8	16.2
Pensioners	157.5	167.9
<b>Present value of defined benefit obligation</b>	<b>182.0</b>	<b>197.3</b>
Pension plans in the UK		
Active members	3.8	3.4
Deferred members	13.1	12.8
Pensioners	9.8	9.9
<b>Present value of defined benefit obligation</b>	<b>26.7</b>	<b>26.1</b>

The change in the net liability for defined benefit pension plans is shown in the table below:

**Change in the net liability for defined benefit pension plans**

€ million	2015	2014
<b>Net liability as at 1 Jan</b>	<b>201.8</b>	<b>183.5</b>
Amounts recognised on the income statement	3.9	5.9
Amounts recognised in other comprehensive income	–4.6	26.7
Employer contributions	–0.6	–0.5
Pension benefits paid	–14.6	–14.4
Effects of changes in foreign exchange rates	0.7	0.6
Reclassifications	–	–
<b>Net liability as at 31 Dec</b>	<b>186.6</b>	<b>201.8</b>

The following table shows the change in the present value of the defined benefit obligation:

**Change in present value of defined benefit obligation**

€ million	2015	2014
<b>Defined benefit obligation as at 1 Jan</b>	<b>228.3</b>	<b>207.0</b>
Service cost	0.2	0.1
Employee contributions	0.2	0.3
Interest expense	4.5	6.7
Remeasurements	–5.2	27.8
thereof: experience adjustments	–0.3	–0.8
thereof: actuarial (gains)/losses arising from changes in biometric assumptions	–	–
thereof: actuarial (gains)/losses arising from changes in financial assumptions	–4.9	28.6
Effects of changes in foreign exchange rates	2.0	2.0
Pension benefits paid	–15.6	–15.6
<b>Defined benefit obligation as at 31 Dec</b>	<b>214.4</b>	<b>228.3</b>

At 31 December 2015, the weighted average life of the bulk of the defined benefit obligation was 9.7 years (31 December 2014: 10.1 years).



The following two tables show the change in the fair value of the plan assets and the breakdown of the plan assets:

#### Change in fair value of plan assets

€ million	2015	2014
<b>Fair value of plan assets at 1 Jan</b>	<b>26.5</b>	<b>23.5</b>
Employer contributions	0.6	0.5
Employee contributions	0.2	0.3
Interest income	0.8	0.9
Return on (+)/expenses from (-) plan assets (excl. interest income)	-0.6	1.1
Pensions paid from plan assets	-1.0	-1.2
Currency translation differences	1.3	1.4
<b>Fair value of plan assets at 31 Dec</b>	<b>27.8</b>	<b>26.5</b>

#### Breakdown of plan assets

€ million	31 Dec 2015	31 Dec 2014
Cash and cash equivalents	-	0.2
Equity instruments (by region)		
UK	5.4	5.0
Europe (excl. UK)	1.8	1.8
North America	1.4	1.3
Japan	0.7	0.6
Asia-Pacific	0.7	0.6
Other	1.4	1.3
	11.5	10.6
Debt instruments		
Government bonds	3.9	3.8
Corporate bonds	7.5	7.2
	11.4	11.0
Reinsurance policies	4.9	4.7
<b>Total</b>	<b>27.8</b>	<b>26.5</b>

Market prices were available for all the equity and debt instruments because they are traded in active markets.

The breakdown of the portions of the net pension cost recognised in current income and expense for 2015 and 2014 is as follows:

#### Net pension cost

€ million	2015	2014
Current service cost	0.2	0.1
Interest expense	3.7	5.8
	<b>3.9</b>	<b>5.9</b>

The actual return on plan assets in 2015 was €0.2 million (2014: €2.0 million).

The measurement of pension obligations is based on actuaries' reports. The tables below show the main actuarial assumptions underlying the calculations for the defined benefit obligation as at the balance sheet date. The discount rates and pension increases are reported in the form of weighted averages.

#### Actuarial assumptions

%	2015	2014
Discount rate		
Germany	2.06	1.83
UK	3.90	3.60
Rate of pension increase		
Germany	2.00	2.00
UK	2.10	2.00

#### Mortality tables

Germany	Heubeck 2005G mortality tables
UK	S1 YoB (standard mortality tables for self-administered plans taking into account future changes in mortality)

The following sensitivity analysis for each material actuarial assumption as at the balance sheet date shows the impact that potential changes in the assumptions at the relevant balance sheet date would have on the defined benefit obligations in Germany and the UK.

#### Sensitivity analysis

2015	Impact on defined benefit obligation of:	
	0.50% rise	0.50% fall
€ million		
in discount rate		
Germany	-8.1	8.9
UK	-2.2	2.5
in rate of pension increase		
Germany	8.7	-7.9
UK	1.4	-1.4

**Sensitivity analysis**

2014	Impact on defined benefit obligation of:	
	0.50% rise	0.50% fall
€ million		
in discount rate		
Germany	-9.3	9.9
UK	-2.3	2.6
in rate of pension increase		
Germany	9.5	-9.1
UK	2.1	-1.8

Furthermore, we also believe that it is possible that the life expectancy of eligible DEUTZ employees will change. If the life expectancy of eligible DEUTZ employees had increased by one year, the increases in the defined benefit obligation arising from the pension plans in Germany and the UK as at 31 December 2015 would have been €15.4 million and €0.5 million respectively (31 December 2014: €16.4 million and €0.5 million respectively).

The sensitivity calculations are based on the average life of the pension obligations calculated as at 30 November 2015. In order to highlight the impact on the present value of the defined benefit obligations calculated as at 31 December 2015 separately, the calculations were carried out for each of the actuarial parameters deemed to be material and capable of changing.

**Future cash flows**

For 2016, the DEUTZ Group forecasts that its payments into pension plans will amount to €0.6 million (2015: €0.5 million).

**Expected benefit payments**

€ million	31 Dec 2015
2016	15.1
2017	14.6
2018	14.0
2019	13.4
2020	12.9
2021–2025	57.7

**Expected benefit payments**

€ million	31 Dec 2014
2015	15.3
2016	14.8
2017	14.3
2018	13.6
2019	13.0
2020–2024	58.9

**22. OTHER PROVISIONS**

The following table gives a breakdown of other provisions:

€ million	2015			2014		
	Total	Residual term of up to 1 year	Residual term of more than 1 year	Total	Residual term of up to 1 year	Residual term of more than 1 year
Warranties	72.2	43.5	28.7	85.4	44.6	40.8
Obligations to employees	12.4	4.8	7.6	10.1	5.2	4.9
Restructuring	10.7	3.0	7.7	16.9	6.7	10.2
Onerous contracts	3.4	3.4	–	2.1	2.1	–
Other	7.7	5.0	2.7	6.9	4.4	2.5
<b>Total</b>	<b>106.4</b>	<b>59.7</b>	<b>46.7</b>	<b>121.4</b>	<b>63.0</b>	<b>58.4</b>

Other provisions are recognised at their settlement value calculated as at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted at a rate of 2.75 per cent (31 December 2014: 3.0 per cent).

Other provisions cover all identifiable risks and other contingent liabilities. The main items are the cost of warranties and potential risks, provisions for restructuring and provisions for obligations to employees and onerous contracts. The provisions for restructuring relate to our decision to optimise our network of sites.

The following table shows the changes to other provisions in 2015:

€ million	Warranties	Obligations to employees	Restructuring	Onerous contracts	Other	Total
<b>1 Jan 2015</b>	<b>85.4</b>	<b>10.1</b>	<b>16.9</b>	<b>2.1</b>	<b>6.9</b>	<b>121.4</b>
Additions	0.9	8.5	–	1.3	3.3	14.0
Currency translation differences	0.1	0.1	–	–	0.3	0.5
Amounts utilised	–6.4	–7.8	–4.2	–	–2.4	–20.8
Reversals	–8.4	–0.2	–0.5	–	–0.4	–9.5
Accrued interest/effect of changes in interest rates	0.6	–	0.2	–	–	0.8
Reclassifications	–	1.7	–1.7	–	–	–
<b>31 Dec 2015</b>	<b>72.2</b>	<b>12.4</b>	<b>10.7</b>	<b>3.4</b>	<b>7.7</b>	<b>106.4</b>

### 23. FINANCIAL DEBT

€ million	31 Dec 2015				31 Dec 2014			
	Total	Residual term up to 1 year	Residual term 1–5 years	Residual term > 5 years	Total	Residual term up to 1 year	Residual term 1–5 years	Residual term > 5 years
Liabilities to banks	71.7	14.7	57.0	–	86.0	14.7	60.7	10.6
Other financial debt	1.8	0.2	0.7	0.9	2.0	–	1.0	1.0
<b>Total</b>	<b>73.5</b>	<b>14.9</b>	<b>57.7</b>	<b>0.9</b>	<b>88.0</b>	<b>14.7</b>	<b>61.7</b>	<b>11.6</b>

#### Liabilities to banks

Liabilities to banks include a loan from the European Investment Bank with a remaining balance of €68.4 million. This unsecured loan is repayable in instalments until July 2020.

The syndicated working capital facility had not been drawn down as at 31 December 2015. This revolving line of credit for a total of €160 million provided by a consortium of banks is a floating-rate facility and is also unsecured. In 2015, its term was extended to May 2020.

As part of the contractual terms for both loans, DEUTZ is obliged to comply with certain financial covenants (ratio of financial debt to equity and ratio of financial debt to EBITDA).

Banco Bilbao Vizcaya Argentaria has also granted two loans via our Spanish subsidiary; they have a total remaining balance of €4.2 million. The interest rate on the loans is 1.78 per cent. Because the loans have been used for capital expenditure in Spain, finance costs up to an interest rate of 3.0 per cent are reimbursed by the Spanish government as part of a subsidy programme.

**Other financial debt**

Other financial debt comprises an interest-free government loan.

The fair value of financial debt is described in point 25 on page 103 et seq.

The weighted average interest rates (after hedging) of the financial debt are:

%	31 Dec 2015	31 Dec 2014
Liabilities to banks	2.87	2.89
Other financial debt	–	–

As in 2014, all current and non-current financial debt is denominated in euros.

**24. TRADE PAYABLES AND OTHER LIABILITIES**

€ million	31 Dec 2015	31 Dec 2014
<b>Trade payables</b>	<b>169.5</b>	<b>171.0</b>
<b>Other liabilities</b>		
Price reduction liabilities	10.8	11.9
Personnel-related liabilities	7.7	10.4
Liabilities to investments	3.4	2.9
Liabilities arising from other taxes	3.2	2.8
Advances received	2.8	1.2
Derivative financial instruments	1.0	3.0
Other liabilities and deferred income	20.1	16.0
<b>Total</b>	<b>49.0</b>	<b>48.2</b>

The liabilities from derivative financial instruments resulted from the marking to market of derivatives used to hedge currency and interest-rate risks; in 2014, they had also resulted from the marking to market of derivatives used to hedge commodities transactions.

As at 31 December 2015, interest benefits of €1.3 million (31 December 2014: €1.6 million) derived from a loan from the European Investment Bank and of €0.2 million (31 December 2014: €0.2 million) derived from an interest-free government loan were recognised as deferred income. The loans were initially recognised at fair value and are reported as non-current and current financial debt.

**NOTES TO THE CASH FLOW STATEMENT**

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, short-term deposits and credit balances held with banks.

Dividend income of €0.5 million was included in cash flow from operating activities (2014: €0.1 million).

The cash flow from financing activities includes the dividend paid to the shareholders of DEUTZ AG for 2014, amounting to €8.5 million.

In 2015, the subsidiary DEUTZ Engine (China) Co., Ltd., in Linyi, China, was wound up and deconsolidated. €2.6 million was then repaid to the non-controlling interest, AB Volvo. This cash outflow was shown under cash flow from financing activities.

In addition, the shares in the joint venture WEIFANG WEICHAIDEUTZ DIESEL ENGINE CO., LTD., Weifang, China, were sold. The consideration of €2.8 million was received in cash and shown as proceeds from the sale of non-current assets under cash flow from investing activities.



## SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2015 and 2014.

	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Recon- ciliation	DEUTZ Group
<b>2015</b>						
€ million						
External revenue	967.2	280.2	–	1,247.4	–	1,247.4
Intersegment revenue	–	–	–	–	–	–
<b>Total revenue</b>	<b>967.2</b>	<b>280.2</b>	<b>–</b>	<b>1,247.4</b>	<b>–</b>	<b>1,247.4</b>
Depreciation and amortisation	86.1	11.5	–	97.6	–	97.6
Impairment	7.1	2.6	–	9.7	–	9.7
Profit/loss on equity-accounted investments	–6.3	–	–	–6.3	–	–6.3
Income from the reversal of provisions	0.7	–	0.4	1.1	–	1.1
Operating profit/loss (EBIT before one-off items)	–31.9	31.3	5.5	4.9	–	4.9
<b>2014</b>						
€ million						
External revenue	1,279.9	250.3	–	1,530.2	–	1,530.2
Intersegment revenue	–	–	–	–	–	–
<b>Total revenue</b>	<b>1,279.9</b>	<b>250.3</b>	<b>–</b>	<b>1,530.2</b>	<b>–</b>	<b>1,530.2</b>
Depreciation and amortisation	84.8	11.4	–	96.2	–	96.2
Impairment	–	9.5	–	9.5	–	9.5
Profit/loss on equity-accounted investments	3.8	–1.9	–	1.9	–	1.9
Income from the reversal of provisions	0.7	–	–	0.7	–	0.7
Operating profit/loss (EBIT before one-off items)	15.2	18.8	–2.3	31.7	–	31.7

### Reconciliation from overall profit of the segments to net income

€ million	2015	2014
<b>Overall profit of the segments</b>	<b>4.9</b>	<b>31.7</b>
Reconciliation	–	–
<b>Operating profit/loss (EBIT before one-off items)</b>	<b>4.9</b>	<b>31.7</b>
One-off items	–	–18.9
<b>EBIT</b>	<b>4.9</b>	<b>12.8</b>
Financial income, net	–4.0	–6.1
<b>Net income before income taxes</b>	<b>0.9</b>	<b>6.7</b>
Income taxes	2.6	12.8
<b>Net income</b>	<b>3.5</b>	<b>19.5</b>

External segment reporting is based on intragroup corporate management and internal financial reporting and, in line with the nature of the products and services offered, covers the following reportable operating segments:

**DEUTZ Compact Engines** This segment comprises new business and the servicing of water-cooled and oil-cooled diesel engines with capacities of up to 8 litres.

**DEUTZ Customised Solutions** This segment focuses on air-cooled engines and large liquid-cooled engines with capacities exceeding 8 litres. It also includes customer-specific solutions (gensets) and service. A key component of the service business is the supply of reconditioned exchange parts and engines.

**Other** This segment contains operations that do not belong in any other segment.

The designation of a business area as an operating segment is based on internal reporting by segment regularly used by the Board of Management to monitor performance and allocate resources.

The reconciliation table shows the elimination of all intercompany relationships – where relevant – between the segments.

The measurement principles applied to the DEUTZ Group's segment reporting are based on the IFRS principles applied in the consolidated financial statements. The Board of Management, in its capacity as the senior decision-making body, assesses the performance of the segments in terms of their operating profit (EBIT before one-off items). If entities included in the consolidated financial statements using the equity method are directly attributable to a particular segment, the relevant share of the net income or loss for the period is reported under that segment. Finance costs, financial income and income taxes are reported for the DEUTZ Group as a whole and are not allocated to individual operating segments. External revenue constitutes the revenue that the segments generate from their customers. Revenue generated between segments – where relevant – is reported as intersegment revenue. Transfers between segments are reported at fair value.

#### Information about products and services

€ million	2015	2014
Engines	806.6	1,127.8
Service	160.6	152.1
<b>DEUTZ Compact Engines</b>	<b>967.2</b>	<b>1,279.9</b>
Engines	162.4	143.1
Service	117.8	107.2
<b>DEUTZ Customised Solutions</b>	<b>280.2</b>	<b>250.3</b>
<b>Total</b>	<b>1,247.4</b>	<b>1,530.2</b>

#### Geographical information about external revenue

€ million	2015	2014
<b>Germany</b>	<b>163.5</b>	<b>336.8</b>
<b>Outside Germany</b>	<b>1,083.9</b>	<b>1,193.4</b>
Rest of Europe	585.5	744.7
Middle East	28.6	27.7
Africa	66.9	57.0
Americas	275.3	256.6
Asia-Pacific	127.6	107.4
<b>Total</b>	<b>1,247.4</b>	<b>1,530.2</b>

Of the European countries outside Germany, Switzerland accounted for €141.7 million in the reporting year (2014: €140.0 million), Sweden for €125.5 million (2014: €111.2 million) and France for €59.6 million (2014: €121.4 million).

The above information is presented according to customer location. One customer accounted for at least 10 per cent of our total revenue in both 2014 and 2015. The revenue from this customer amounted to €250.8 million (2014: €265.9 million) and was reported predominantly in the DEUTZ Compact Engines segment.

#### Geographical information about non-current assets

€ million	31 Dec 2015	31 Dec 2014
Germany	424.9	461.4
Outside Germany	89.2	94.6
<b>Total</b>	<b>514.1</b>	<b>556.0</b>

The non-current assets comprise property, plant and equipment, intangible assets and equity-accounted investments. They are presented by location of the consolidated entity.

## OTHER INFORMATION

### 25. FINANCIAL RISK MANAGEMENT AND ADDITIONAL INFORMATION ON CAPITAL MANAGEMENT

Owing to its global business operations, the DEUTZ Group is exposed to various financial risks that can arise from adverse movements and trends in the international sales, procurement, interest-rate and foreign-exchange markets. Information about the principles of risk management with regard to financial instruments can be found in the risk report on pages 61 to 62 of the DEUTZ Group's combined management report.

#### Liquidity risk

Prudent liquidity management includes holding a sufficient reserve of cash and cash equivalents, ensuring the option of obtaining funding through bank loans and the ability to issue short-term and long-term capital market instruments. Because the business environment is constantly changing, the treasury department aims to ensure that it has sufficient unused credit lines at its disposal at all times.

The management of liquidity risk in the DEUTZ Group has a number of components: annual planning with interim updates, rolling four-week planning updated weekly and monthly planning updated monthly up to the end of the financial year. Liquidity risk is also assessed in the regular meetings of the Finance Committee.

In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving cash credit line amounting to €160 million that runs until May 2020 and two long-term amortising loans with a total remaining balance of €68.4 million. These are being repaid in equal instalments between July 2014 and July 2020. As part of the loan agreements, the Company is required to comply with certain covenants.

The liquidity analysis also provides information about contractually agreed interest payments and capital repayments in connection with financial liabilities as at the balance sheet date. As far as the utilisation of revolving credit facilities was concerned, it was assumed that the amounts already drawn down by the balance sheet date would continue to apply until the facilities expire.

<b>31 Dec 2015</b>	2016 cash payments	2017–2020 cash payments	> 2020 cash payments	<b>Total</b>
€ million				
<b>Primary financial instruments</b>	<b>-231.2</b>	<b>-64.3</b>	–	<b>-295.5</b>
<b>Derivative financial instruments</b>	<b>-0.9</b>	<b>-0.6</b>	–	<b>-1.5</b>
Currency derivatives				
thereof settled gross: cash payments	-47.5	–	–	-47.5
thereof settled gross: cash receipts	46.9	–	–	46.9
Interest rate derivatives				
Presentation of net cash flow	-0.3	-0.6	–	-0.9
Commodity derivatives				
Presentation of net cash flow	–	–	–	–
<b>31 Dec 2014</b>	2015 cash payments	2016–2029 cash payments	> 2019 cash payments	<b>Total</b>
€ million				
<b>Primary financial instruments</b>	<b>-231.7</b>	<b>-70.0</b>	<b>-10.9</b>	<b>-312.6</b>
<b>Derivative financial instruments</b>	<b>-2.5</b>	<b>-0.8</b>	–	<b>-3.3</b>
Currency derivatives				
thereof settled gross: cash payments	-60.5	–	–	-60.5
thereof settled gross: cash receipts	58.4	–	–	58.4
Interest rate derivatives				
Presentation of net cash flow	-0.4	-0.8	–	-1.2
Commodity derivatives				
Presentation of net cash flow	–	–	–	–

### Credit risk

The overview of written-down financial assets and of the age structure of past due financial assets that have not been written down does not include: cash and cash equivalents of €112.5 million (31 December 2014: €101.7 million) or available-for-sale financial assets of €3.2 million (31 December 2014: €2.9 million).

There are no significant concentrations of potential credit risk in the DEUTZ Group. The risk from bad debts is restricted by constant monitoring and regular analysis of receivables and their breakdown. Receivables are to a large extent covered by credit insurance. Further measures, such as guarantees and credit-worthiness checks, are used to protect against credit risk. The Group has also put in place procedures and guidelines to ensure

that products and services are only sold to customers who have a satisfactory payment record. Appropriate write-downs are applied to allow for the credit risk attaching to financial assets. The maximum credit risk exposure is limited to the carrying amount in the case of trade receivables and other financial assets such as cash and cash equivalents, available-for-sale financial assets and derivative financial instruments. Credit risk in connection with financial instruments is limited by careful selection of counterparties.

As regards trade receivables and other receivables and assets that were neither past due nor written down as at the balance sheet date, there were no indications that the customers concerned would be unable to meet their payment obligations. The bulk of the DEUTZ Group's trade receivables are insured

with the EULER HERMES Group. There is usually an obligation to the trade credit insurance association (WKV) or, where applicable, the German government's export credit guarantee scheme (APG) to meet defaults on the receivables unless they are secured by letters of credit confirmed by a bank or similar instruments. DEUTZ does not produce any standardised credit rating for its customers itself but usually sets the maximum customer exposure in accordance with the level of cover provided by the credit insurance agency. In addition, we have received guarantees amounting to €0.6 million (31 December 2014: €0.6 million) for foreign trade receivables.

31 Dec 2015		thereof written down at the balance sheet date			thereof past due at the balance sheet date but not written down			
€ million								
	Carrying amount	thereof neither past due nor written down at the balance sheet date	Gross amount before write down	Write down	up to 90 days	91 to 180 days	181 to 360 days	over 360 days
<b>Non-current financial assets</b>	<b>1.3</b>	<b>1.3</b>	–	–	–	–	–	–
<b>Current financial assets</b>	<b>122.8</b>	<b>91.0</b>	<b>40.7</b>	<b>–30.5</b>	<b>21.3</b>	–	<b>0.1</b>	<b>0.2</b>
Trade receivables	101.2	69.3	11.7	–2.4	21.3	–	1.1	0.2
Other receivables and assets	21.6	20.7	29.0	–28.1	–	–	–	–

31 Dec 2014		thereof written down at the balance sheet date			thereof past due at the balance sheet date but not written down			
€ million								
	Carrying amount	thereof neither past due nor written down at the balance sheet date	Gross amount before write down	Write down	up to 90 days	91 to 180 days	181 to 360 days	over 360 days
<b>Non-current financial assets</b>	<b>2.5</b>	<b>2.5</b>	–	–	–	–	–	–
<b>Current financial assets</b>	<b>167.3</b>	<b>133.2</b>	<b>45.0</b>	<b>–35.0</b>	<b>23.3</b>	<b>0.4</b>	<b>0.4</b>	–
Trade receivables	122.0	88.7	14.2	–5.0	23.3	0.4	0.4	–
Other receivables and assets	45.3	44.5	30.8	–30.0	–	–	–	–

### Currency risk

The DEUTZ Group operates internationally and, consequently, is exposed to currency risk arising from fluctuating exchange rates, principally US dollar exchange rates. Exchange-rate risks are monitored under a centralised currency management system and mitigated by the use of hedging transactions. The treasury department uses hedges, primarily currency forwards, to hedge currency risk emanating from the net position of estimated future cash flows in foreign currency. Between

50 per cent and 80 per cent of the net positions anticipated in the budget for the year are usually hedged.

DEUTZ also takes specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract currency risk arising from sales invoiced in US dollars by creating a 'natural hedge'. Risks arising from the translation of financial statements of subsidiaries prepared in currencies other than the euro are not hedged.



### Currency sensitivity analysis

The Group is mainly exposed to exchange-rate risks from the currency of the USA (US dollars).

The following table illustrates the sensitivity – from a Group perspective – to a 10 per cent rise or fall in the euro against the US dollar. The sensitivity analysis only takes into account outstanding monetary positions denominated in foreign currency and adjusts the period-end translation of those amounts to reflect a 10 per cent change in the exchange rate. The positions involved include currency forward contracts that form part of an effective cash flow hedge, the purpose of which is to hedge fluctuations in foreign-currency payments and receipts caused by changes in exchange rates. Because hedging transactions are measured at fair value, changes in the exchange rates for the currencies underlying these transactions have an impact on the

hedging reserve in other comprehensive income. Other positions involved are currency forward contracts that are no longer used as hedges. Changes in the exchange rates for the currencies underlying these financial instruments result in gains or losses due to restating these instruments at their fair value. Primary instruments (trade receivables and trade payables) denominated in foreign currency and outstanding as at the balance sheet date are also included in the sensitivity analysis. Changes in the exchange rates for the currencies underlying these items result in gains or losses when they are marked to market.

The following tables show the impact on net income and on equity if the euro rises or falls by 10 per cent against the US dollar.

Cash payments and receipts are shown as net amounts under 'notional amounts'.

#### Euro rises by 10 per cent

€ million	Notional amounts	Impact on net income	Notional amounts	Impact on equity
<b>2015</b>				
USD	74.2	-6.2	55.2	4.9

€ million	Notional amounts	Impact on net income	Notional amounts	Impact on equity
<b>2014</b>				
USD	89.8	-7.5	56.4	5.1

#### Euro falls by 10 per cent

€ million	Notional amounts	Impact on net income	Notional amounts	Impact on equity
<b>2015</b>				
USD	74.2	7.6	55.2	-6.1

€ million	Notional amounts	Impact on net income	Notional amounts	Impact on equity
<b>2014</b>				
USD	89.8	9.1	56.4	-6.2

### Interest-rate risk and sensitivity analysis

The DEUTZ Group is exposed to risk from interest rate changes, primarily in relation to floating-rate loans and other debt. As at 31 December 2015, there were no material loans or other debt exposed to interest-rate risk. The floating-rate loan from the European Investment Bank outstanding on the balance sheet date, which had a remaining balance of €34.2 million, was hedged using interest-rate swaps that form part of an effective cash flow hedge. Because hedging transactions are measured at fair value, changes in interest rates have an impact on the hedging reserve in other comprehensive income. The following table shows the impact of the interest-rate swaps on other comprehensive income if market interest rates rise or fall by 100 basis points.

#### Interest rates rise by 100 basis points

€ million	Notional amounts	Impact on equity
2015	34.2	0.8

€ million	Notional amounts	Impact on equity
2014	41.4	1.1

#### Interest rates fall by 100 basis points

€ million	Notional amounts	Impact on equity
2015	34.2	-0.8

€ million	Notional amounts	Impact on equity
2014	41.4	-1.1

### Capital management

The DEUTZ Group manages its capital with the primary objective of supporting business operations and ensuring the continued existence of the Company as a going concern over the long term. A healthy financial structure is necessary to assure the required flexibility in the provision of financial resources. At present, no credit rating has been set for DEUTZ. However, the DEUTZ Group is endeavouring to achieve a balance-sheet structure that meets the requirements for an investment-grade rating. Capital management therefore extends to both equity and debt.

DEUTZ is not subject to capital requirements under its statutes. However, it is under an obligation towards the banks from which it has obtained loans to ensure that its ratio of net financial debt to equity does not exceed a certain level. This external requirement has been integrated into capital management and was met at all times.

The net financial position (cash and cash equivalents less interest-bearing financial debt) was positive during the year under review. There was a further year-on-year improvement to the net financial position, which had risen by €25.3 million to €39.0 million as at the balance sheet date (31 December 2014: €13.7 million). In addition to the net financial position, free cash flow (defined as cash flow from operating activities and investing activities less interest payments) is an essential part of active capital management and is used as a key figure to show changes in the liquidity situation. The free cash flow from continuing operations was €35.0 million in 2015 (2014: €52.0 million).

The equity ratio is another indicator used by the DEUTZ Group to monitor its capital. This indicator reflects the ratio of total assets to Group equity as reported on the consolidated balance sheet. As at 31 December 2015, the equity ratio for the DEUTZ Group was 45.5 per cent (31 December 2014: 44.5 per cent) and therefore remained at a high level and met all internal targets.

## Financial instruments

The following table shows the carrying amounts of the individual financial assets and liabilities for each separate category of financial instrument, reconciled to the corresponding balance sheet item.

### Financial instruments (assets)

31 Dec 2015	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	Carrying amount on the balance sheet
	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial assets	Carrying amount	
€ million							
<b>Non-current financial assets</b>	<b>1.3</b>	<b>0.2</b>	<b>2.9</b>	–	–	<b>2.0</b>	<b>6.4</b>
<b>Current financial assets</b>	<b>235.3</b>	–	–	–	–	<b>10.9</b>	<b>246.2</b>
Trade receivables	101.2	–	–	–	–	–	101.2
Other receivables and assets	21.6	–	–	–	–	10.9	32.5
Cash and cash equivalents	112.5	–	–	–	–	–	112.5

### Financial instruments (assets)

31 Dec 2014	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	Carrying amount on the balance sheet
	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial assets	Carrying amount	
€ million							
<b>Non-current financial assets</b>	<b>2.5</b>	<b>0.2</b>	<b>2.7</b>	–	–	<b>2.2</b>	<b>7.6</b>
<b>Current financial assets</b>	<b>269.0</b>	–	–	–	–	<b>8.8</b>	<b>277.8</b>
Trade receivables	122.0	–	–	–	–	–	122.0
Other receivables and assets	45.3	–	–	–	–	8.8	54.1
Cash and cash equivalents	101.7	–	–	–	–	–	101.7

**Financial instruments (liabilities)**

31 Dec 2015	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
€ million	Financial liabilities	Derivatives designated as hedging instru- ments (recog- nised as other comprehensive income/loss)	Held- for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
<b>Non-current financial liabilities</b>	<b>59.3</b>	<b>0.9</b>	–	<b>1.6</b>	<b>61.8</b>
Financial debt	58.6	–	–	–	58.6
Other liabilities	0.7	0.9	–	1.6	3.2
<b>Current financial liabilities</b>	<b>219.6</b>	<b>0.1</b>	–	<b>10.5</b>	<b>230.2</b>
Financial debt	14.9	–	–	–	14.9
Trade payables	169.5	–	–	–	169.5
Other liabilities	35.2	0.1	–	10.5	45.8

**Financial instruments (liabilities)**

31 Dec 2014	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IAS 39	
€ million	Financial liabilities	Derivatives designated as hedging instru- ments (recog- nised as other comprehensive income/loss)	Held- for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
<b>Non-current financial liabilities</b>	<b>74.1</b>	<b>1.1</b>	–	<b>2.0</b>	<b>77.2</b>
Financial debt	73.3	–	–	–	73.3
Other liabilities	0.8	1.1	–	2.0	3.9
<b>Current financial liabilities</b>	<b>219.2</b>	<b>1.7</b>	<b>0.2</b>	<b>8.9</b>	<b>230.0</b>
Financial debt	14.7	–	–	–	14.7
Trade payables	171.0	–	–	–	171.0
Other liabilities	33.5	1.7	0.2	8.9	44.3

The following table shows the carrying amounts and fair values of all financial instruments included in the consolidated financial statements that fall within the scope of IFRS 7 'Financial Instruments: Disclosures' and that are not reported at fair value.



€ million	31 Dec 2015		31 Dec 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>	<b>236.8</b>	<b>236.6</b>	<b>271.7</b>	<b>271.5</b>
Other loans	1.3	1.3	1.3	1.3
Available-for-sale financial assets measured at cost	0.2	–	0.2	–
Trade receivables	101.2	101.2	122.0	122.0
Other receivables and assets	21.6	21.6	46.5	46.5
Cash and cash equivalents	112.5	112.5	101.7	101.7
<b>Financial liabilities</b>	<b>278.9</b>	<b>281.7</b>	<b>293.3</b>	<b>296.7</b>
Financial debt – liabilities to banks	73.5	76.3	88.0	91.4
Trade payables	169.5	169.5	171.0	171.0
Other liabilities	35.9	35.9	34.3	34.3

In the case of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities (due within one year), the carrying amounts are virtually the same as the fair values owing to the short residual maturity.

The available-for-sale financial assets with a carrying amount of €0.2 million (31 December 2014: €0.2 million) are investments. They are measured at amortised cost because their fair value cannot be reliably determined due to their not being listed on a market and due to a lack of market data for comparable instruments. There was no intention to dispose of these instruments as at 31 December 2015.

The fair value of non-current financial assets and liabilities is computed by discounting estimated future cash flows using arm's length discount rates and taking into account our own credit risk and that of our counterparties based on credit ratings and exchange rates on the balance sheet date.

The following table shows the classification in the IFRS 13 measurement hierarchy of the fair values as at the balance sheet date of financial assets and liabilities that were measured at fair value in the consolidated financial statements, or for which a fair value was disclosed in the notes to the financial statements:

### 31 Dec 2015

€ million	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Securities	2.9	2.9	2.9	–	–
<b>Financial liabilities</b>					
Currency forwards	0.1	0.1	–	0.1	–
Interest-rate swaps	0.9	0.9	–	0.9	–
Financial debt	73.5	76.3	–	–	76.3

### 31 Dec 2014

€ million	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Securities	2.7	2.7	2.7	–	–
<b>Financial liabilities</b>					
Currency forwards	1.9	1.9	–	1.9	–
Commodity derivatives	– <sup>1)</sup>	– <sup>1)</sup>	–	– <sup>1)</sup>	–
Interest-rate swaps	1.1	1.1	–	1.1	–
Financial debt	88.0	91.4	–	–	91.4

Level 1: Measurement is based on the price of identical assets or liabilities in active markets.

Level 2: Measurement is based on the price of a similar instrument in active markets/measurement using a method in which all the critical input factors are based on observable market data.

Level 3: Measurement using a method in which critical input factors are not based on observable market data.

<sup>1)</sup> Rounded figures are below €0.1 million.

The fair value of securities is derived from prices in active markets.

The fair value of derivative financial instruments (currency forwards, interest-rate swaps and, in the previous year, commodity derivatives) is calculated over the remaining term of the instrument using current exchange rates, market interest rates, yield curves and, in the previous year, commodity prices. Our own credit risk and that of our counterparties are also taken into account. The disclosures are based on valuations by banks.

### Net gains and losses on financial instruments

Net gains or losses recognised in the income statement are broken down by measurement category in IAS 39 as follows:

	Loans and receivables	Derivatives designated as hedging instruments	Held-for-trading financial assets	Financial liabilities measured at amortised cost
<b>2015</b>				
€ million				
Net gains/losses	-2.0	-0.4	0.2	-2.9
<b>2014</b>				
€ million				
Net gains/losses	2.6	-0.4	-	-6.7

The net gains or losses for each measurement category primarily comprise gains and losses recognised in profit or loss resulting from the measurement of financial instruments at fair value, currency translation of financial instrument carrying amounts, impairment losses and/or reversal of impairment losses on financial instruments and interest income and expense.

In the year under review, unrealised losses of €0.2 million on available-for-sale financial assets were recognised in other comprehensive income (no gains or losses in 2014). As had been the case in 2014, no realised gains or losses were reclassified from other comprehensive income to the income statement in 2015.

### Total interest income and interest expense

In 2015, interest income of €0.8 million (2014: €0.6 million) and interest expense of €2.9 million (2014: €3.7 million) were attributable to financial assets and financial liabilities that were not measured at fair value through profit or loss.

### Hedging

**Cash flow hedging** As at 31 December 2015, there were currency futures and interest-rate swaps which were classified as hedging instruments. Interest-rate swaps are used to

hedge the interest-rate risk associated with floating-rate loans. Currency futures are used to hedge the currency risk arising from forecast transactions in foreign currencies.

Unrealised gains of €1.9 million on cash flow hedges were recognised in other comprehensive income in 2015 (2014: losses of €2.5 million), taking into account deferred tax liabilities of €0.6 million (2014: deferred tax assets of €0.8 million). These changes in fair value represent the effective portion of the hedge. In 2015, prior to the inclusion of deferred taxes, losses of €8.1 million (2014: gains of €1.0 million) recognised in other comprehensive income during the year were reclassified to other operating income or expenses in the consolidated income statement. There was no hedging ineffectiveness requiring reclassification from the reserve for cash flow hedges to the income statement in the year under review. Hedges relating to foreign-currency transactions in the operating business are expected to be unwound within the next twelve months and those relating to future interest-rate risks are expected to be unwound after a period of four and a half years. The associated gains that have been recognised in other comprehensive income will be reclassified to the income statement.

### Derivative financial instruments

The following derivative financial instruments were reported as at the balance sheet date:

€ million	Notional amounts 2015	Notional amounts 2014	Fair value 2015	Fair value 2014
Currency forwards				
not used as hedges	2.9	4.1	- <sup>1)</sup>	-0.2
used as cash flow hedges	55.2	56.4	-0.1	-1.7
Interest-rate swaps				
used as cash flow hedges	34.2	41.4	-0.9	-1.1
Commodities				
not used as hedges	-	-	- <sup>1)</sup>	- <sup>1)</sup>

<sup>1)</sup> Rounded figures are below €0.1 million.

### Netting

Netting agreements with financial institutions covering derivatives exist within the DEUTZ Group. In accordance with these master agreements, amounts in the same currency relating to outstanding transactions owed by each counterparty on a specific settlement date are aggregated into a net amount. The following table shows the financial assets and liabilities that are subject to netting agreements:

	Gross amounts	Figures netted on the balance sheet	Net amounts reported on the balance sheet	Related amounts not netted on the balance sheet	Potential net amounts
<b>31 Dec 2015</b>					
€ million					
<b>Financial liabilities</b>					
Derivative financial instruments	0.1	-	0.1	-	0.1
<b>31 Dec 2014</b>					
€ million					
<b>Financial liabilities</b>					
Derivative financial instruments	0.5	0.4	0.1	-	0.1

## 26. INTERESTS IN OTHER ENTITIES

As well as the parent company DEUTZ AG, the consolidated financial statements for 2015 included 15 subsidiaries, two joint ventures and one associate.

The Group subsidiary Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, is a structured entity. DEUTZ holds a total of 19.6 per cent of the voting shares in the entity. The purpose of the company is to sell real estate that was previously purchased by DEUTZ AG to third parties and to lease it to DEUTZ AG in the

interim. The entity's activities are controlled by DEUTZ AG as part of its business operations. For this reason, Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, constitutes a subsidiary and has to be included in the consolidated financial statements of DEUTZ AG.

At the end of 2015, the DEUTZ Group extended the term of its loan to Deutz-Mülheim Grundstücksgesellschaft mbH by a further 15 months, although it has no obligation to provide financial assistance of this kind.

### Subsidiaries and non-controlling interests

Within the DEUTZ Group there are material non-controlling interests in the subsidiary DEUTZ Engine (Shandong) Co., Ltd., Linyi, China. At the end of 2015, the subsidiary DEUTZ Engine (China) Co. Ltd., which was headquartered in Linyi, China, and was established as a joint venture with AB Volvo (publ), Gothenburg, Sweden, was wound up and deconsolidated. The following table provides a summary of financial information for DEUTZ Engine (Shandong) Co., Ltd., before elimination of intra-group transactions.

€ thousand	31 Dec 2015	31 Dec 2014
Ownership share to be attributed to non-controlling interests (%)	30.0	30.0
Assets	7,593	12,172
Liabilities	436	2,122
Equity	7,157	10,050
thereof to be attributed to non-controlling interests	2,147	3,015
Revenue	–	–
Profit/loss	–3,627	–12,150
Other comprehensive income	–	–
Net income	–3,627	–12,150
thereof to be attributed to non-controlling interests	–1,085	–3,645
Cash flows	–7,072	–1,530
thereof to be attributed to non-controlling interests	–2,122	–459

### Joint ventures

DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, is an unlisted joint arrangement in which the Group shares joint control and has an ownership interest of 50 per cent. The company, which is structured as a separate vehicle, was established jointly with the First Automotive Works Group (China), Dalian, China. It is a strategic partnership for the production and distribution of diesel engines with a capacity of between 3 and 8 litres for the Chinese market. The interest is classified as a joint venture and accounted for in the consolidated financial statements using the equity method.

A summary of financial information for DEUTZ (Dalian) Engine Co., Ltd. based on its annual financial statements prepared in accordance with IFRS is shown in the following table.

€ thousand	2015	2014
Revenue	339,517	359,830
Depreciation and amortisation	–18,294	–14,652
Interest expenses, net	–8,758	–9,201
Income taxes	–	–
Profit (loss) from continuing operations	–18,357	3,259
Net income	–18,357	3,259
Current assets	233,381	316,728
thereof cash and cash equivalents	3,281	15,918
Non-current assets	322,631	296,022
Current liabilities	245,822	307,194
thereof current financial liabilities	113,020	152,315
Non-current liabilities	200,804	186,142
thereof non-current financial liabilities	198,649	183,831
<b>Net assets</b>	<b>109,386</b>	<b>119,414</b>
Group's share of net assets at 1 Jan	59,707	52,300
Share of net income	–9,179	1,630
Dividends received in 2015	–	–
Effect of currency translation	4,165	5,778
Group's share of net assets at 31 Dec	54,693	59,707
Elimination	–8,498	–9,953
Impairment	–	–
<b>Carrying amount using the equity method at 31 Dec</b>	<b>46,196</b>	<b>49,755</b>

### Non-material joint ventures

Financial information is shown below for the Group's interest in DEUTZ AGCO MOTORES S.A., Haedo, Argentina, which is classified as a non-material joint venture. The joint venture WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD., Weifang, China, was deconsolidated following the disposal of the shares in the fourth quarter of 2015. The prior-year figures therefore also include the financial information for the Group's interest in this entity.

€ thousand	2015	2014
<b>Carrying amount of interests</b>	– <sup>1)</sup>	– <sup>1)</sup>
Group's share of:		
Loss from continuing operations	–49	–390
Other comprehensive income	–	–
<b>Net income</b>	<b>–49</b>	<b>–390</b>

<sup>1)</sup> As the carrying amount of the interests was zero, total losses of €49 thousand (2014: €2.2 million) were not recognised under the equity method.



### Non-material associates

A summary of financial information is shown below for the Group's interest in D. D. Power Holdings (Pty) Ltd., Elandsfontein, South Africa, which is classified as a non-material associate. The company has a different financial year (ending on 30 November). Annual financial statements for the year ended 31 December have not been prepared for reasons of materiality.

€ thousand	2015	2014
<b>Carrying amount of interests</b>	<b>2,344</b>	<b>2,621</b>
Group's share of:		
Profit (loss) from continuing operations	763	588
Other comprehensive income	0	0
<b>Net income</b>	<b>763</b>	<b>588</b>

## 27. CONTINGENT LIABILITIES

### Contingent liabilities

The DEUTZ Group's contingent liabilities as at the balance sheet date were as follows:

€ million	31 Dec 2015	31 Dec 2014
Guarantee liabilities	3.0	3.7
Warranty liabilities	0.5	1.5
<b>Total</b>	<b>3.5</b>	<b>5.2</b>

### Other financial obligations

The following table shows the notional amounts and due dates of other financial obligations:

€ million	31 Dec 2015	31 Dec 2014
due in less than 1 year	8.5	7.4
due in 1 to 5 years	18.8	6.5
due in more than 5 years	–	–
<b>Total</b>	<b>27.3</b>	<b>13.9</b>

The above obligations largely relate to rental agreements and leases on real estate, movable assets and financial obligations in connection with IT services. Obligations under rental agreements and leases were partly offset by receivables of €40 thousand (2014: €39 thousand) from sub-leases. In 2015, the cost of rentals and leases for real estate and movable assets totalled €11.9 million (2014: €11.3 million).

The year-on-year rise in non-current financial obligations was mainly the result of switching IT service provider and concluding a long-term framework agreement with the new provider.

Commitments to purchase property, plant and equipment and intangible assets amounted to €34.8 million as at 31 December 2015 (31 December 2014: €39.4 million) and commitments to purchase inventories amounted to €63.9 million (31 December 2014: €72.9 million).

### Legal disputes

DEUTZ AG and other companies in the DEUTZ Group are involved in a number of legal disputes, claims for damages and arbitration proceedings that could have an impact on the Group's financial position.

Financial provision has been made to cover litigation risks facing the respective Group companies if the event in question occurred before the balance sheet date, an obligation is probable and the amount of the obligation can be determined with a sufficient degree of reliability.

Claims for compensation have been made in respect of isolated product liability cases in the USA although the extent of these is as yet unknown. Due to the low probability of losses occurring, no provisions have been recognised on the balance sheet. The outcome of these legal disputes cannot be predicted with any degree of certainty. It is therefore possible that they might have a negative impact on the financial position or financial performance. However, the level of existing insurance cover means that if the outcome is negative, this impact will only be a maximum of €1.5 million.

We do not expect the above risks to have a significantly adverse long-term impact on the DEUTZ Group's financial position or financial performance beyond the financial provision already made.

## 28. RELATED-PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties.

These include the business relationships between the DEUTZ Group and **entities in which it holds significant investments** as well as the following DEUTZ AG **shareholders** (including their subsidiaries) that are in a position to exert a significant influence over the DEUTZ Group:

- AB Volvo (publ), Gothenburg, Sweden (group)

Related parties also include the **Supervisory Board** and the **Board of Management**.

The following table shows the volume of material goods and services either provided for or received from entities in which the DEUTZ Group holds significant investments:

€ million	Goods and services provided		Other expenses for services received		Receivables 31 Dec		Payables 31 Dec	
	2015	2014	2015	2014	2015	2014	2015	2014
Associates	–	–	–	–	–	–	–	–
Joint ventures	3.2	7.2	–	–	–	0.6	0.5	–
Other investments	0.6	0.6	4.5	4.5	0.9	0.2	2.9	2.9
<b>Total</b>	<b>3.8</b>	<b>7.8</b>	<b>4.5</b>	<b>4.5</b>	<b>0.9</b>	<b>0.8</b>	<b>3.4</b>	<b>2.9</b>

The goods supplied and services rendered to joint ventures are largely attributable to goods supplied to our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd.

As at 31 December 2015, impairment losses of €28.1 million (31 December 2014: €30.0 million) had been recognised on €29.0 million (31 December 2014: €30.2 million) of the Company's total receivables due from investments, which resulted in an expense of €0.5 million in 2015 (2014: €3.1 million). The lion's share of the impaired receivables related to other investments. Of the receivables, €6.8 million related to loans granted by DEUTZ (31 December 2014: €6.8 million) on which impairment losses of €6.8 million had been recognised (31 December 2014: €6.8 million). Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

The following table gives a breakdown of the significant business relationships between the DEUTZ Group and its shareholders, including their subsidiaries:

€ million	Volvo Group	
	2015	2014
Engines & spare parts supplied	250.8	265.9
Services	7.1	14.5
Receivables as at 31 Dec	13.6	18.2

All transactions were concluded at arm's-length market rates. DEUTZ has an agreement with the Volvo Group that grants Volvo companies extended credit periods in return for payment of a fee.

DEUTZ has also issued an undertaking to support another equity investment. According to the undertaking, the Group will provide the entity with finance to ensure that it has sufficient funds at all times to meet its current and future obligations, and to prevent overindebtedness by way of debt subordination. From the present perspective, no claim is expected to be made on the Group.

The following payments were made to the Supervisory Board and the Board of Management as related parties of the DEUTZ Group.

€ million	Supervisory Board		Board of Management	
	2015	2014	2015	2014
Short-term remuneration <sup>1)</sup>	1.1	1.1	2.7	2.3
Share-based remuneration <sup>2)</sup>	0 <sup>3)</sup>	0 <sup>3)</sup>	0.3	-0.1

<sup>1)</sup> The current remuneration for members of the Supervisory Board includes both remuneration for their work as Supervisory Board members and the regular salaries of the salaried employee representatives.

<sup>2)</sup> The disclosure of share-based remuneration corresponds with the expense (+) or income (-) recognised in the operating profit in 2015 from the changes in provisions made for distributed virtual share options.

<sup>3)</sup> Rounded figures are below €0.1 million.

The DEUTZ Group did not maintain material business relationships with any other related parties.

## 29. EVENTS AFTER THE REPORTING PERIOD

No events occurred after 31 December 2015 that had a material impact on the financial position or financial performance of the DEUTZ Group.

## 30. SHARE-BASED REMUNERATION PROGRAMMES

Between 2007 and 2015, DEUTZ AG launched long-term incentive plans as long-term components of remuneration. Under these long-term incentive plans, virtual stock options are issued to reward management for its sustained contribution to the Company's success.

## General description of the incentive plans of DEUTZ AG

Under DEUTZ AG's incentive plans, virtual options are issued on shares in DEUTZ AG. The Company decides at its discretion who is eligible to participate in the plans. However, only members of the DEUTZ Group's senior management and members of the Supervisory Board of DEUTZ AG may be considered for inclusion. It is at the discretion of the Company to decide how many options are granted.

By the balance sheet date, the following long-term incentive plans (LTI) that were still in existence, with the number of options shown, had been granted free of charge:

Incentive plan	Date of grant	Number of options
LTI no. II	1 February 2008 and 1 April 2009	345,000 and 60,000
LTI no. III	1 June 2009	330,000
LTI no. IV	1 July 2010	330,000
LTI no. V	1 June 2011	280,000
LTI no. VI	1 August 2012	270,000
LTI BoM 2013	1 January 2013 and 1 March 2013	104,079 and 32,663
LTI no. VII	1 July 2013	260,000
LTI BoM 2014	1 January 2014	72,389
LTI no. VIII	1 September 2014	320,000
LTI BoM 2015	1 January 2015	125,657
LTI no. IX	1 June 2015	320,000

A total of 739,788 of these options had been granted to current and former members of the DEUTZ AG Board of Management.

### Information on the exercise of options

One of the fundamental requirements for exercising options is that the option holders themselves invest in the Company at a ratio of one share per ten options, or one share per 20 options in the case of LTI BoM 2013, 2014 and 2015. The absolute earliest that options can be exercised is three or four years after the date of grant (vesting period) and then only within four years from the end of the vesting period and only within ten days from the date of publication of quarterly financial statements. However, options under the LTI BoM 2013, 2014 and 2015 are exercised automatically four years after the date of grant. The Company may delay the start of the exercise window for the options or accelerate the exercise and vesting periods, but cannot change the exercise or vesting periods of the options relating to LTI BoM 2013, 2014 and 2015.

Furthermore, options may only be exercised

- if the market price of DEUTZ AG shares has risen by at least 30 per cent relative to the reference price (dividend distributions by DEUTZ AG must be taken into consideration,

i.e. for the purposes of calculating the performance target, the total gross dividend distribution up to the exercise date must be added to the DEUTZ AG share price), or

- if in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the Prime Industrial Performance Index – or any future index that replaces the Prime Industrial Performance Index – by at least 30 per cent, or
- in the case of LTI BoM 2013, 2014 and 2015, if in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the MDAX – or any future index that replaces the MDAX – by at least 10 percentage points.

A request to exercise options must be submitted to the Company in writing.

The following specific terms and conditions apply to the incentive plans still in existence:

Incentive plan	Earliest or automatic exercise date	Reference price
LTI no. II	1 February 2011 and 1 April 2012	€6.92 and €1.94
LTI no. III	1 June 2013	€2.68
LTI no. IV	1 July 2014	€4.39
LTI no. V	1 June 2015	€6.10
LTI no. VI	1 August 2016	€3.89
LTI BoM 2013	1 January 2017 and 1 March 2017	€3.36 and €3.98
LTI no. VII	1 July 2017	€4.45
LTI BoM 2014	1 January 2018	€6.63
LTI no. VIII	1 September 2018	€5.37
LTI BoM 2015	1 January 2019	€3.82
LTI no. IX	1 June 2019	€4.40

When an option is exercised, the beneficiary receives a cash payment in the amount of the difference between the DEUTZ AG share price on the exercise date and the reference price at the time the option was granted. Contrary to this, beneficiaries of LTI BoM 2013, 2014 and 2015 receive a cash payment equivalent to the average closing price of DEUTZ AG shares on the 60 trading days prior to the end of the vesting period up to a maximum of 1.5 times the reference price. No beneficiary receives shares in the Company.

The following table shows the changes to the number of outstanding options in 2015:

Incentive plan	Out-standing options at 1 Jan	Options granted	Options exercised	Options expired	Out-standing options at 31 Dec
LTI no. II	150,000	–	–	75,000	75,000
LTI no. III	10,000	–	10,000	–	–
LTI no. IV	260,000	–	–	30,000	230,000
LTI no. V	250,000	–	–	10,000	240,000
LTI no. VI	270,000	–	–	20,000	250,000
LTI BoM 2013	136,742	–	–	–	136,742
LTI no. VII	260,000	–	–	10,000	250,000
LTI BoM 2014	72,389	–	–	–	72,389
LTI no. VIII	320,000	–	–	20,000	300,000
LTI BoM 2015	–	125,657	–	–	125,657
LTI no. IX	–	320,000	–	–	320,000
	1,729,131	445,657	10,000	165,000	1,999,788

### Notes on the fair value of options

Because the virtual options are cash-based instruments rather than equity-based instruments, the Company is obliged to recognise a provision, the amount of which is derived from the fair value of the virtual options at the grant date and apportioned over the vesting period pro rata temporis.

An option pricing model using the Black-Scholes formula was used to ascertain the fair value. The model factors in the aforementioned exercise prices, the term and the value of the underlying asset (DEUTZ AG shares).

#### LTI no. II

The risk-free interest rate (4.00 per cent) used in the calculation is based on German federal government bonds with terms of four to ten years issued at the start of 2008. The assumed volatility (59.28 per cent) is based on the average value for call options on DEUTZ AG shares available on the market on 1 February 2008. Fluctuation was assumed to be 0 per cent. These assumptions were also used in the calculation for the options issued on 1 April 2009 under the rules for LTI no. II.

The calculation on the grant date was based on the DEUTZ AG share price of €6.92 (€1.94) on 1 February 2008 (1 April 2009). It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period. As the vesting period for some of the options ended on 1 February 2011, the calculation is now based on the assumption that these options might be exercised at any time, taking into account the maximum term of the options.

#### LTI no. III

The risk-free interest rate (3.50 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2009. The assumed volatility (60.56 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €3.15 on 1 June 2009. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

#### LTI no. IV

The risk-free interest rate (2.50 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2010. The assumed volatility (48.87 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €4.10 on 1 July 2010. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

#### LTI no. V

The risk-free interest rate (3.25 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2011. The assumed volatility (51.35 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €6.82 on 1 June 2011. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

#### LTI no. VI

The risk-free interest rate (1.75 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2012. The assumed volatility (57.30 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.



The calculation on the grant date was based on the DEUTZ AG share price of €3.07 on 1 August 2012. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

#### LTI BoM 2013

The risk-free interest rate (0.40 per cent) used in the calculation is based on German Federal notes (Bobl) and German Federal Treasury notes (Schatz) with terms of two to five years issued at the start of 2013. The assumed volatility (61.80 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2013. Fluctuation was assumed to be 0 per cent. These assumptions were also used in the calculation for the options issued on 1 March 2013.

The calculation on the grant date was based on the DEUTZ AG share price of €3.76 on 1 January 2013 and €4.40 on 1 March 2013. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

#### LTI no. VII

The risk-free interest rate (1.75 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in mid-2013. The assumed volatility (54.18 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €4.77 on 1 July 2013. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

#### LTI BoM 2014

The risk-free interest rate (0.625 per cent) used in the calculation is based on German Federal notes (Bobl) and German Federal Treasury notes (Schatz) with terms of two to five years issued at the start of 2014. The assumed volatility (50.44 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2014. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €6.49 on 1 January 2014. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

#### LTI no. VIII

The risk-free interest rate (0.63 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in the second half of 2014. The assumed volatility (57.72 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €4.52 on 1 September 2014. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

#### LTI BoM 2015

The risk-free interest rate (0.1 per cent) used in the calculation is based on German Federal notes (Bobl) and German Federal Treasury notes (Schatz) issued at the start of 2015. The assumed volatility (45.34 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2015. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €4.24 on 1 January 2015. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

#### LTI no. IX

The risk-free interest rate (0.63 per cent) used in the calculation is based on German federal government bonds with terms of up to ten years issued in the second half of 2015. The assumed volatility (58.58 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. Fluctuation was assumed to be 0 per cent.

The calculation on the grant date was based on the DEUTZ AG share price of €5.24 on 1 June 2015. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

In accordance with the requirement for the fair value of options to be recalculated on each balance sheet date, a calculation was carried out on the basis of the DEUTZ AG share price of €3.69 on 31 December 2015 (31 December 2014: €4.00) which resulted in an expense of €330 thousand as at 31 December 2015 (31 December 2014: income of €790 thousand). A total provision of €1,463 thousand was recognised at the end of 2015 (31 December 2014: €1,133 thousand). The amount is broken down as follows:

Other information

Disclosures under German  
accounting standards

Incentive plan	31 Dec 2015 € thousand	31 Dec 2014 € thousand
LTI no. II	0	28
LTI no. III	0	21
LTI no. IV	223	365
LTI no. V	220	24
LTI no. VI	123	197
LTI BoM 2013	373	268
LTI no. VII	117	121
LTI BoM 2014	134	72
LTI no. VIII	94	37
LTI BoM 2015	116	0
LTI no. IX	63	0
	<b>1,463</b>	<b>1,133</b>

Of the total amount of provisions, €689 thousand was attributable to members of the Board of Management and the Supervisory Board of DEUTZ AG (31 December 2014: €424 thousand).

As at 31 December 2015, the options granted had the following intrinsic values:

Incentive plan	Intrinsic value per option (€)
LTI no. II	0.00
LTI no. III	0.00
LTI no. IV	0.00
LTI no. V	0.00
LTI no. VI	0.00
LTI BoM 2013	0.33 <sup>1)</sup>
LTI no. VII	0.00
LTI BoM 2014	0.00
LTI no. VIII	0.00
LTI BoM 2015	0.00
LTI no. IX	0.00

<sup>1)</sup> The intrinsic value relates to 104,079 of the options issued.  
The other 32,663 options have an intrinsic value of €0.0.

### 31. STAFF COSTS

€ million	2015	2014
Wages	107.2	115.7
Salaries	114.0	113.1
Social security contributions	42.7	44.0
Net interest cost for provisions for pensions and other post-retirement benefits	3.7	5.8
Cost of post-employment benefits and other long-term benefits	1.6	1.4
Cost of severance payments/personnel restructuring	1.2	0.7
Other staff costs	0.0	3.9
<b>Total</b>	<b>270.4</b>	<b>284.6</b>

The following table shows the breakdown of staff costs by functional area:

€ million	2015	2014
Cost of sales	164.8	174.9
Research and development costs	29.8	35.6
Selling expenses	45.8	43.8
Administrative expenses	25.6	24.0
Other operating expenses	4.4	6.3
<b>Total</b>	<b>270.4</b>	<b>284.6</b>

The average number of employees during the year is given in the section about disclosures under German accounting standards in Note 32.

## DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

### 32. AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR (PURSUANT TO SECTION 314 (1) NO. 4 HGB)

	2015	2014
Non-salaried employees	2,274	2,409
Salaried employees	1,409	1,461
	<b>3,683</b>	<b>3,870</b>
Trainees	106	118
<b>Total</b>	<b>3,789</b>	<b>3,988</b>

### 33. CORPORATE GOVERNANCE

In December 2015, the Board of Management and the Supervisory Board of DEUTZ AG issued a declaration of conformity with the recommendations of the German Corporate Governance Code government commission pursuant to section 161 AktG and made this declaration permanently and publicly available on the Company's website ([http://www.deutz.de/investor\\_relations/corporate\\_governance/declaration\\_of\\_conformity.en.html](http://www.deutz.de/investor_relations/corporate_governance/declaration_of_conformity.en.html)).

### 34. AUDITORS' FEES

The total fees reported for auditing the consolidated financial statements for 2014 and 2015 are broken down as follows:

€ thousand	2015	2014
Auditing	318	302
Other attestation services	181	154
<b>Total</b>	<b>499</b>	<b>456</b>

### 35. TOTAL REMUNERATION FOR THE BOARD OF MANAGEMENT, FORMER BOARD OF MANAGEMENT MEMBERS AND THE SUPERVISORY BOARD

#### Board of Management

The total remuneration for the Board of Management of DEUTZ AG in 2015 was €3,275 thousand (2014: €2,740 thousand). This consisted of short-term employee benefits of €2,743 thousand (2014: €2,270 thousand) and other long-term benefits as part of the long-term incentive plans amounting to €532 thousand (2014: €470 thousand).

Further details about the remuneration system for members of the Board of Management and details of individual remuneration can be found in the 'Remuneration report' section of the 2015 combined management report.

Remuneration for former members of the Board of Management or their surviving dependants amounted to €1,550 thousand (2014: €1,465 thousand) for DEUTZ AG and the Group; provisions of €15,521 thousand (31 December 2014: €16,798 thousand) have been recognised to cover pension obligations to these persons.

#### Supervisory Board

The total remuneration for the Supervisory Board of DEUTZ AG in 2015 was €613 thousand (2014: €599 thousand). In addition, the employee representatives on the Supervisory Board who are also employees of the DEUTZ Group received normal salaries in line with their employment contracts. The level of their salaries represented appropriate remuneration for corresponding functions and tasks in the Group.

Further details about the Supervisory Board remuneration system and details of individual remuneration can be found in the 'Remuneration report' section of the 2015 combined management report.

#### Advances and loans to members of the Board of Management and the Supervisory Board

As at 31 December 2015, there were no outstanding advances or loans to any members of the Board of Management or the Supervisory Board, nor had any guarantees or other warranties been issued in favour of any such persons.

### 36. DISCLOSURES UNDER THE GERMAN SECURITIES TRADING ACT (WPHG)

The German Securities Trading Act (WpHG) obliges investors whose share of voting rights in listed companies reaches certain thresholds to notify the company accordingly. DEUTZ AG received the following voting right notifications in 2015:

On 13 January 2015, pursuant to section 21 (1) WpHG, Fidelity Funds SICAV, Luxembourg, Luxembourg, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 12 January 2015 and amounted to 2.97 per cent (3,588,983 voting rights) on that date.

On 2 February 2015, pursuant to section 21 (1) WpHG, FIL Limited, Hamilton, Bermuda, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 2 February 2015 and amounted to 2.94 per cent (3,558,971 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG.

On 2 February 2015, pursuant to section 21 (1) WpHG, FIL Holdings (UK) Limited, Hildenborough, United Kingdom, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 2 February 2015 and amounted to 2.94 per cent (3,558,971 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 WpHG.

On 2 February 2015, pursuant to section 21 (1) WpHG, FIL Investments International, Hildenborough, United Kingdom, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 2 February 2015 and amounted to 2.94 per cent (3,558,971 voting rights) on that date. All voting rights are attributable to it pursuant to section 22 (1) sentence 1 no. 6 WpHG.

On 24 April 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 22 April 2015 and amounted to 1.34 per cent (1,622,434 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 1.34 per cent (1,622,434 voting rights) are attributable to it.

On 24 April 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 22 April 2015 and amounted to 1.34 per cent (1,622,434 voting rights) on that date.

On 27 April 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 24 April 2015 and amounted to 3.16 per cent (3,822,434 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.16 per cent (3,822,434

voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3.16 per cent (3,822,434 voting rights): Norges Bank (the Central Bank of Norway).

On 27 April 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 24 April 2015 and amounted to 3.16 per cent (3,822,434 voting rights) on that date.

On 1 May 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 28 April 2015 and amounted to 2.91 per cent (3,513,149 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 2.91 per cent (3,513,149 voting rights) are attributable to it.

On 1 May 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 28 April 2015 and amounted to 2.91 per cent (3,513,149 voting rights) on that date.

On 19 May 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 18 May 2015 and amounted to 3.02 per cent (3,645,137 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.02 per cent (3,645,137 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 per cent or more: Norges Bank (the Central Bank of Norway).

On 19 May 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 18 May 2015 and amounted to 3.02 per cent (3,645,137 voting rights) on that date.

On 1 June 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 28 May 2015 and amounted to 2.95 per cent (3,565,498 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 2.95 per cent (3,565,498 voting rights) are attributable to it.

On 1 June 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 28 May 2015 and amounted to 2.95 per cent (3,565,498 voting rights) on that date.

On 6 July 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 30 June 2015 and amounted to 3.03 per cent (3,662,978 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.03 per cent (3,662,978 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 per cent or more: Norges Bank (the Central Bank of Norway).

On 6 July 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 30 June 2015 and amounted to 3.03 per cent (3,662,978 voting rights) on that date.

On 23 September 2015, pursuant to section 21 (1) WpHG, Dimensional Holdings Inc., Austin, Texas, USA, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 22 September 2015 and amounted to 3.02 per cent (3,644,541 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 6 WpHG in conjunction with section 22 (1) sentence 2 WpHG, 3.02 per cent (3,644,541 voting rights) are attributable to it.

On 23 September 2015, pursuant to section 21 (1) WpHG, Dimensional Fund Advisors LP, Austin, Texas, USA, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 22 September 2015 and amounted to 3.02 per cent (3,644,541 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 6 WpHG, 2.91 per cent (3,511,911 voting rights) and, pursuant to section 22 (1) sentence 1 no. 6 WpHG in conjunction with section 22 (1) sentence 2 WpHG, 0.13 per cent (158,950 voting rights) are attributable to it.

On 28 September 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway notified us that its voting share in our Company had fallen below the 3 per cent threshold on 24 September 2015 and amounted to 2.97 per cent (3,593,134 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 2.97 per cent (3,593,134 voting rights) are attributable to it.

On 28 September 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 24 September 2015 and amounted to 2.97 per cent (3,593,134 voting rights) on that date.

On 16 October 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 12 October 2015 and amounted to 3.01 per cent (3,643,869 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.01 per cent (3,643,869 voting rights) are attributable to it. The voting rights



attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 per cent or more: Norges Bank (the Central Bank of Norway).

On 14 October 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 12 October 2015 and amounted to 3.01 per cent (3,643,869 voting rights) on that date.

On 19 October 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 14 October 2015 and amounted to 2.99 per cent (3,624,191 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 2.99 per cent (3,624,191 voting rights) are attributable to it.

On 19 October 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 14 October 2015 and amounted to 2.99 per cent (3,624,191 voting rights) on that date.

On 5 November 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 2 November 2015 and amounted to 3.03 per cent (3,664,961 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.03 per cent (3,664,961 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 per cent or more: Norges Bank (the Central Bank of Norway).

On 5 November 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 2 November 2015 and amounted to 3.03 per cent (3,664,961 voting rights) on that date.

On 18 November 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 13 November 2015 and amounted to 2.87 per cent (3,468,407 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 2.87 per cent (3,468,407 voting rights) are attributable to it.

On 18 November 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 13 November 2015 and amounted to 2.87 per cent (3,468,407 voting rights) on that date.

On 2 December 2015, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 30 November 2015 and amounted to 3.01 per cent (3,642,733 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.01 per cent (3,642,733 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 per cent or more: Norges Bank (the Central Bank of Norway).

On 2 December 2015, pursuant to section 21 (1) WpHG, Norges Bank (the Central Bank of Norway), Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 30 November 2015 and amounted to 3.01 per cent (3,642,733 voting rights) on that date.

### 37. SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Information on the members of the Supervisory Board and the Board of Management, including non-executive directorships held at other companies, is given in a separate list on pages 124 and 125.

Cologne, 22 February 2016

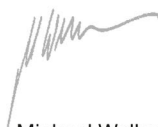
DEUTZ Aktiengesellschaft  
The Board of Management



Dr Ing Helmut Leube



Dr Margarete Haase



Michael Wellenzohn

**SHAREHOLDINGS OF DEUTZ AG****As at 31 December 2015**

Ref. no.	Name and registered office of the company	Held via	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG, Cologne	–	–	472,178	26,712
<b>Consolidated companies in Germany</b>					
2	DEUTZ Abgastechnik GmbH, Cologne <sup>1),2)</sup>	1	100.0	25	–
3	DEUTZ Asien Verwaltungs GmbH, Cologne <sup>1),2)</sup>	1	100.0	16,125	–
4	DEUTZ Beteiligung GmbH, Cologne <sup>1)</sup>	1	100.0	484	–
5	DEUTZ Engine China GmbH, Cologne <sup>1),2)</sup>	1	100.0	2,274	–
6	Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf <sup>1)</sup>	4	19.6	–20,921	–134
7	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne <sup>1)</sup>	1	100.0	–2,271	140
<b>Consolidated companies outside Germany</b>					
8	DEUTZ ASIA-PACIFIC (PTE.) LTD., Singapore (Singapore) <sup>1)</sup>	1	100.0	7,267	1,627
9	Deutz Australia (Pty) Ltd., Braeside (Australia) <sup>1)</sup>	1	100.0	6,621	209
10	DEUTZ (Beijing) Engine Co., Ltd., Beijing (China) <sup>1)</sup>	1	100.0	5,368	695
11	Deutz Corporation, Atlanta (USA) <sup>1)</sup>	1	100.0	32,034	1,252
12	DEUTZ Engine (Shandong) Co. Ltd., Linyi (China) <sup>1)</sup>	3	70.0	7,157	–3,627
13	DEUTZ FRANCE S.A.S., Gennevilliers (France) <sup>1)</sup>	1	100.0	9,870	705
14	DEUTZ Spain S.A., Zafra (Spain) <sup>1)</sup>	1	100.0	27,591	–1,037
15	Nlle Ste MAGIDEUTZ S.A., Casablanca (Morocco) <sup>1)</sup>	13	100.0	3,404	647
16	OOO DEUTZ Vostok, Moscow (Russia) <sup>1)</sup>	1	100.0	1,838	1,385
17	D. D. Power Holdings (Pty) Ltd., Elandsfontein (South Africa) <sup>3),4)</sup>	1	30.0	8,785	2,544
18	DEUTZ AGCO MOTORES S.A., Haedo (Argentina) <sup>3)</sup>	1	50.0	2,547	–98
19	DEUTZ (Dalian) Engine Co., Ltd., Dalian (China) <sup>3)</sup>	1	50.0	109,386	–18,357
<b>Unconsolidated companies in Germany</b>					
20	Ad. Strüver KG (GmbH & Co.), Hamburg <sup>3)</sup>	4	94.0	–10,709	–1,097
21	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne <sup>2)</sup>	1	100.0	26	–
22	Feld & Hahn GmbH i. L., Cologne <sup>2)</sup>	1	100.0	455	–
<b>Unconsolidated companies outside Germany</b>					
23	AROTRIOS S.A., Nea Filadelfia (inactive)	1	100.0	–	–
24	DEUTZ DO BRASIL LTDA., São Paulo (Brazil)	1	100.0	–5,691	–11
25	DEUTZ ENGINEERING družba za projektiranje, proizvodnjo in trgovino d.o.o., Maribor (Slovenia)	1	100.0	–18	6
26	DEUTZ Engines (India) Private Limited, Pune (India) <sup>6)</sup>	1	100.0	304	19
27	DEUTZ UK LTD, Cannock (UK)	1	100.0	97	–26
28	OOO DEUTZ, Moscow (Russia)	1	100.0	–	–

<sup>1)</sup> Equity and net income in accordance with the annual financial statements prepared for consolidation purposes.<sup>2)</sup> Profit-and-loss transfer agreement with DEUTZ AG.<sup>3)</sup> Consolidated using the equity method.<sup>4)</sup> Figures as at 30 November 2015.<sup>5)</sup> Figures as at 31 December 2014.<sup>6)</sup> Figures as at 31 March 2015.

## SUPERVISORY BOARD

### Hans-Georg Härter

Chairman since 12 March 2015

Proprietor of HGH-Consulting

a) ZF Friedrichshafen AG, Friedrichshafen, Germany

Kiekert AG, Heiligenhaus, Germany

Knorr-Bremse AG, Munich, Germany

b) Zeppelin University Friedrichshafen,

Friedrichshafen, Germany

Unterfränkische Überlandzentrale Lülsfeld eG,

Lülsfeld, Germany

Klingelberg AG, Zurich, Switzerland

Faurecia S.A., Paris, France

Altran S.A., Paris, France

Axega GmbH, Zurich, Switzerland

### Lars-Göran Moberg

(until 29 April 2015)

Chairman until 12 March 2015

Management consultant and supervisory board member,

Stockholm, Sweden

### Werner Scherer<sup>1)</sup>

Deputy Chairman

Chairman of the Cologne Works Council and of the

General Works Council of DEUTZ AG, Cologne, Germany

### Sabine Beutert<sup>1)</sup>

Trade Union Secretary, IG Metall Cologne-Leverkusen

Administrative Office, Cologne, Germany

### Hans-Peter Finken<sup>1)</sup>

(since 1 February 2015)

Member of DEUTZ AG Works Council

### Dr Ing Hermann Garbers

(since 29 April 2015)

Management consultant

a) Rational AG, Landsberg, Germany

### Göran Gummeson

Senior management consultant

b) European Furniture Group AB, Tranas, Sweden

Nimbus Boats AB, Gothenburg, Sweden

Clean Oil Technology AB, Anderstorp, Sweden

German-Swedish Chamber of Commerce,

Stockholm, Sweden

### Michael Haupt

(until 29 April 2015)

Former member of the Group Board of SKF AB,

Gothenburg, Sweden

### Leif Peter Karlsten

(since 29 April 2015)

Senior consultant at AB Volvo, Stockholm, Sweden

b) Bulten AB, Gothenburg, Sweden

Prevas AB, Vasteras, Sweden

Real Holding AB, Stockholm, Sweden

### Herbert Kauffmann

Management consultant

a) adidas AG, Herzogenaurach, Germany

### Alois Ludwig

(since 29 April 2015)

Management Consultant

### Dietmar Paust<sup>1)</sup>

Member of DEUTZ AG Works Council

### Eva Persson

(until 29 April 2015)

Lawyer

b) Norsk Hydro ASA, Oslo, Norway

Platzer Fastigheter Holding AB, Gothenburg, Sweden

### Dr Witich Roßmann<sup>1)</sup>

Chief Executive of IG Metall Cologne-Leverkusen, Cologne, Germany

a) Ford Werke GmbH, Cologne, Germany

Ford Holding Deutschland GmbH, Cologne, Germany

### Dr Herbert Vossel<sup>1)</sup>

Head of Legal at DEUTZ AG, Cologne, Germany

### Egbert Zieher<sup>1)</sup>

(until 31 January 2015)

Chairman of the Ulm Works Council of DEUTZ AG,

Reichenbach, Germany

<sup>1)</sup> Employee representative on the Supervisory Board.

a) Membership of statutory German supervisory boards within the meaning of section 125 AktG.

b) Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG.

## SUPERVISORY BOARD COMMITTEES

### HUMAN RESOURCES COMMITTEE

(until 12 March 2015)

Lars-Göran Moberg, Chairman  
Werner Scherer, Deputy Chairman  
Hans-Georg Härter

(12 March 2015–29 April 2015)

Hans-Georg Härter, Chairman  
Werner Scherer, Deputy Chairman  
Lars-Göran Moberg

(since 29 April 2015)

Hans-Georg Härter, Chairman  
Werner Scherer, Deputy Chairman  
Herbert Kauffmann

### AUDIT COMMITTEE

(until 12 March 2015)

Herbert Kauffmann, Chairman  
Werner Scherer, Deputy Chairman  
Sabine Beutert  
Lars-Göran Moberg

(since 12 March 2015)

Herbert Kauffmann, Chairman  
Werner Scherer, Deputy Chairman  
Sabine Beutert  
Hans-Georg Härter

### ARBITRATION COMMITTEE (SECTION 27 (3) OF THE GERMAN CODETERMINATION ACT (MITBESTG))

(until 31 January 2015)

Lars-Göran Moberg, Chairman  
Michael Haupt  
Werner Scherer  
Egbert Zieher

(31 January 2015–12 March 2015)

Lars-Göran Moberg, Chairman  
Michael Haupt  
Werner Scherer

(12 March 2015–29 April 2015)

Hans-Georg Härter, Chairman  
Michael Haupt  
Dietmar Paust  
Werner Scherer

(since 29 April 2015)

Hans-Georg Härter, Chairman  
Herbert Kauffmann  
Dietmar Paust  
Werner Scherer

### NOMINATIONS COMMITTEE

(until 12 March 2015)

Lars-Göran Moberg, Chairman  
Hans-Georg Härter  
Michael Haupt

(12 March 2015–29 April 2015)

Hans-Georg Härter, Chairman  
Michael Haupt  
Lars-Göran Moberg

(since 29 April 2015)

Hans-Georg Härter, Chairman  
Göran Gummesson  
Herbert Kauffmann

## BOARD OF MANAGEMENT

### Dr Ing Helmut Leube (62)

Chairman  
Technical and head-office functions

b) DEUTZ Corporation, Atlanta, USA, Chairman  
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China,  
Deputy Chairman

### Dr Margarete Haase (62)

Finance, human resources and investor and public relations

a) Fraport AG, Frankfurt am Main, Germany  
ZF Friedrichshafen AG, Friedrichshafen, Germany  
b) DEUTZ (Dalian) Engine Co. Ltd., Dalian, China  
DEUTZ Engine (China) Co. Ltd., Linyi, China, Chairwoman  
(until 28 December 2015)  
DEUTZ Engine (Shandong) Co., Ltd., Linyi, China,  
Chairwoman

### Michael Wellenzohn (49)

Sales, service and marketing

b) DEUTZ Asia Pacific (Pte) Ltd., Singapore, Singapore  
DEUTZ Corporation, Atlanta, USA  
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China  
DEUTZ Engine (China) Co. Ltd., Linyi, China  
(until 28 December 2015)

a) Membership of statutory German supervisory boards within the meaning of section 125 AktG.

b) Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG.



## ANNUAL FINANCIAL STATEMENTS IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

### BALANCE SHEET OF DEUTZ AG

€ million

	31 Dec 2015	31 Dec 2014
<b>Assets</b>		
Intangible assets	11.3	11.0
Property, plant and equipment	244.6	246.5
Investments	237.5	244.5
<b>Non-current assets</b>	<b>493.4</b>	<b>502.0</b>
Inventories	165.5	153.9
Receivables and other assets	144.8	176.7
Cash and cash equivalents	97.7	73.9
<b>Current assets</b>	<b>408.0</b>	<b>404.5</b>
Prepaid expenses	1.8	2.0
Deferred tax assets	86.3	85.3
<b>Total assets</b>	<b>989.5</b>	<b>993.8</b>
<b>Equity and liabilities</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
Issued capital	309.0	309.0
Additional paid-in capital	26.8	26.8
Retained earnings		
Legal reserve	4.5	4.5
Other retained earnings	122.9	105.1
Accumulated income (loss)	9.0	8.5
<b>Equity</b>	<b>472.2</b>	<b>453.9</b>
Provisions	269.4	284.0
Other liabilities	247.5	255.3
Deferred income	0.4	0.6
<b>Total equity and liabilities</b>	<b>989.5</b>	<b>993.8</b>

**INCOME STATEMENT OF DEUTZ AG**

€ million

	2015	2014
<b>Revenue</b>	<b>1,118.6</b>	<b>1,437.8</b>
Cost of sales	-976.4	-1,280.6
<b>Gross profit</b>	<b>142.2</b>	<b>157.2</b>
Research and development costs	-43.6	-54.0
Selling expenses	-43.6	-44.9
General and administrative expenses	-28.3	-23.9
Other operating income	40.8	31.1
Other operating expenses	-33.6	-15.9
Net investment income	5.6	-7.3
Interest expenses, net	-8.2	-11.6
Write-downs of investments	-	-0.7
<b>Profit (loss) from ordinary activities</b>	<b>31.3</b>	<b>30.0</b>
Net extraordinary expense	-2.3	-19.4
Income taxes	-1.7	15.0
Other taxes	-0.5	-1.2
<b>Net income</b>	<b>26.8</b>	<b>24.4</b>
Profit carried forward	8.5	8.5
Dividend payments to shareholders	-8.5	-8.5
Additions to other retained earnings	-17.8	-15.9
<b>Accumulated income</b>	<b>9.0</b>	<b>8.5</b>

## RESPONSIBILITY STATEMENT

“To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operation of the Group, and the group management report presents a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.”

Cologne, 22 February 2016

DEUTZ Aktiengesellschaft  
The Board of Management



Dr Ing Helmut Leube



Dr Margarete Haase



Michael Wellenzohn

## AUDIT OPINION

We have audited the consolidated financial statements prepared by the DEUTZ Aktiengesellschaft, Cologne, comprising the statement of financial position, income statement, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the DEUTZ Aktiengesellschaft, Cologne, for the business year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB («Handelsgesetzbuch»: German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The

audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, 8 March 2016

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki  
Wirtschaftsprüfer  
(German Public Auditor)

ppa. Gerd Tolls  
Wirtschaftsprüfer  
(German Public Auditor)



## REPORT OF THE SUPERVISORY BOARD

### CLOSE COOPERATION BETWEEN SUPERVISORY BOARD AND BOARD OF MANAGEMENT

In 2015, the Supervisory Board of DEUTZ AG continued its ongoing monitoring of the management of the business in accordance with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code and provided advice to the Board of Management on key decisions. The Supervisory Board was directly involved in all material decisions taken by the Board of Management. In particular, the Board of Management coordinated closely with the Supervisory Board on the Company's corporate strategy.

Five meetings of the Supervisory Board took place in 2015. At the meeting held on 11 June, apologies for absence were received from one member of the Supervisory Board; at all other meetings during 2015, all the members of the Supervisory Board were present in person.

At each of the meetings of the Supervisory Board, the Board of Management reported on the general economic, market and competitive environment for the DEUTZ Group, presented a business update and sales report that included detailed information on the actual performance of the business over the immediately preceding period, submitted an up-to-date risk report, provided information on key operational issues and offered an overview of the results forecast for the year as a whole. These reports were made on the basis of the key performance indicators that were already familiar to the Supervisory Board members from the Company's written monthly reports. These key performance indicators included new orders, orders on hand, revenue, unit sales, EBIT, research and development expenditure, capital expenditure, working capital and headcount data, in each case compared against the prior-year figures and budget. Reports from the Human Resources and Audit Committees presented by their chairperson were also a regular item on the agenda of the Supervisory Board meetings.

### FOCUS OF SUPERVISORY BOARD DELIBERATIONS

The deliberations and discussions of the Supervisory Board in the year under review focused mainly on the current business position and risk situation of the DEUTZ Group as well as on the operational and strategic development of the business. Discussions centred particularly on the action planned and implemented by the Board of Management to protect profitability in 2015 and on the performance of the DEUTZ Group's business in China, which involves concentrating on the joint venture in Dalian. In the context of a strategy update, the Supervisory Board once again held detailed discussions on an action plan to achieve medium- and long-term growth targets and measures to streamline all the Company's operating processes; it also addressed options for strategic partnerships.

Other key decisions related to the budget for 2016, the medium-term planning up to 2020, the approval of capital investment and development projects, and the targets and timeframes required under the law for equal participation of women and men in managerial positions in the private and public sectors (law on the quota for women), which came into effect on 1 May 2015. As is the case every year, the Supervisory Board also adopted resolutions concerning the achievement of targets by the Board of Management – and consequently its variable remuneration for the previous year – as well as the setting of its targets for the current year. Besides defining the Board of Management's targets for the current financial year, it also set medium-term targets for the Board of Management. Finally, it fundamentally revised the rules of procedure for the Audit Committee.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular and timely information at all times. Between meetings, the Board of Management informed the members of the Supervisory Board in writing about all important events. In addition, the chairman of the Supervisory Board and the chairman of the Board of Management remained in close and regular contact to discuss all important transactions, imminent decisions and optimisation measures. All the decisions that the Supervisory Board was required to take in accordance with the law and Statutes were taken on the basis of the reports and draft resolutions submitted by the Board of Management and, where necessary, following preparation by the relevant committees of the Supervisory Board.

### COMPOSITION OF THE BOARD OF MANAGEMENT

There were no changes to the Board of Management of DEUTZ AG in 2015. The Supervisory Board extended Mr Michael Wellenzohn's appointment and service contract to 31 December 2018 at a Supervisory Board meeting held on 9 December 2015 following preparation by the Human Resources Committee. The appointments of Dr Helmut Leube and Dr Margarete Haase continue until 31 December 2017 and 30 April 2018 respectively.

### CORPORATE GOVERNANCE: DECLARATION OF CONFORMITY WITH THREE EXCEPTIONS; EFFICIENCY REVIEW

At its meeting on 24 September 2015, the Supervisory Board held an in-depth discussion of the German Corporate Governance Code as amended on 24 June 2014 and 5 May 2015 and, together with the Board of Management, issued a declaration of conformity pursuant to section 161 AktG. This declaration includes just three variances from the Code and since 25 September 2015 has been available in the 'Investors/Corporate Governance' section of the Company's website at [www.deutz.com](http://www.deutz.com), where it can be downloaded.

In 2015, the Supervisory Board for the first time reviewed the efficiency of its activities by inviting an external specialist to a meeting to hold structured discussions about all aspects of operating effectively. The outcome from the detailed review carried out at this meeting, in which the members of the Board of Management of DEUTZ AG also participated, was that the Supervisory Board is satisfying its statutory duties and working efficiently.

### MATTERS HANDLED EFFICIENTLY BY FOUR COMMITTEES

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees prepare various topics and resolutions for the full Supervisory Board. Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 124 and 125 of this annual report.

The Human Resources Committee makes preparations for all Supervisory Board decisions concerning the appointment of members of the Board of Management and their contracts of employment, including the remuneration specified therein, and all issues arising in this connection. This committee met on seven occasions in 2015. The matters addressed included succession planning for the Board of Management, especially the preparation required to extend the appointment of Mr Wellenzohn, and the resolutions to be adopted by the full Supervisory Board relating to the attainment of the targets for 2014 by the Board of Management and to the targets to be set for the Board of Management for 2015, including the medium-term targets.

The work of the Audit Committee in the year under review focused on assessing the annual and consolidated financial statements for 2014 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2015 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2015, and the discussion of the audit engagement for the year ended 31 December 2015, including a review of auditor quality and independence. Other matters addressed by the committee included risk management, compliance, the internal control system, strategic planning, key performance indicators, the IT system at DEUTZ and the committee's own rules of procedure. In 2015, the Audit Committee held four meetings, three of which were also attended by the external auditors.

The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) of the Act. It did not need to be convened during the year under review.

The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The committee met on three occasions in 2015. The committee handled the search for possible candidates to be put forward for any vacancies on the



**Hans-Georg Härter**

Chairman of the Supervisory Board

Supervisory Board and addressed the implications for the composition of the Supervisory Board of DEUTZ AG arising from the law on the quota for women.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

### ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AUDITED IN DETAIL AND APPROVED

The annual financial statements of DEUTZ AG prepared by the Board of Management in accordance with the German Commercial Code (HGB), the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the combined management report for DEUTZ AG and the DEUTZ Group, in each case for the year ended 31 December 2015, were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Cologne, Germany, the auditors appointed by the Annual General Meeting on 29 April 2015. The auditors issued unqualified opinions.

The annual financial statements of DEUTZ AG, the consolidated financial statements, the combined management report, the Board of Management's proposal for the appropriation of profit and the auditors' reports were made available to all members of the Supervisory Board and were examined by the Supervisory Board. The auditors explained their audit findings in detail to the Audit Committee meeting held on 1 March 2016 and to the Supervisory Board meeting held on 10 March 2016 and answered any supplementary questions raised.

The Supervisory Board approved the findings of the auditors' reports on DEUTZ AG and the DEUTZ Group. The conclusive findings of the Supervisory Board's own audit have not led to any reservations about either the annual financial statements or the consolidated financial statements, and the Supervisory Board has therefore approved them. The annual financial statements have thus been adopted.

The Supervisory Board also approved the Board of Management's proposal to use the accumulated income reported for the 2015 financial year to pay a dividend of €0.07 per dividend-bearing share.

#### COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The changes in the composition of the Supervisory Board in 2015 are described below.

At the request of the Board of Management, and in accordance with the proposal by the General Works Council, the local court in Cologne on 27 January 2015 appointed Mr Hans-Peter Finken as an employee representative on the Supervisory Board of DEUTZ AG with effect from 1 February 2015 for the remaining term of the current Supervisory Board membership cycle. The appointment became necessary when Mr Egbert Zieher stepped down from his post with effect from 31 January 2015.

At the end of the Supervisory Board meeting held on 12 March 2015, Mr Hans-Georg Härter was appointed as the new chairman to replace Mr Lars-Göran Moberg, who had stepped down from the role.

Following the resignation of three shareholder representatives on the Supervisory Board, namely Ms Eva Persson, Mr Moberg and Mr Michael Haupt, at the end of the 2015 Annual General Meeting on 29 April 2015, the meeting elected Dr Hermann Garbers, Mr Leif Peter Karlsten and Mr Alois Ludwig as shareholder representatives on the Supervisory Board of DEUTZ AG for the remaining term of the current Supervisory Board membership cycle.

The Supervisory Board would like to thank Ms Persson, Mr Moberg and Mr Haupt for their outstanding work and valuable contribution, which in some cases has been for many years. We would like to express our special gratitude to Mr Moberg for his commitment and successful contribution as chairman of the Supervisory Board since 2009.

The changes to the composition of the Supervisory Board committees in 2015 were as follows:

As the election of Mr Härter as chairman of the Supervisory Board on 12 March 2015 succeeding Mr Moberg also meant that Mr Härter automatically became chairman of the Human Resources Committee and the Nominations Committee – two committees of which he was already an ordinary member – and of the Arbitration Committee and the Audit Committee, the Supervisory Board on the same day appointed Mr Moberg as the second shareholder representative on the Human Resources Committee and as a member of the Nominations Committee. The Supervisory Board also decided that Mr Dietmar Paust would be appointed as the second employee representative on the Arbitration Committee to succeed Mr Zieher.

At its meeting on 29 April 2015, the Supervisory Board then elected Mr Herbert Kauffmann to succeed Mr Moberg as the second shareholder representative on the Human Resources Committee and to succeed Mr Haupt as the second shareholder representative on the Arbitration Committee. It also elected Mr Kauffmann and Mr Göran Gummesson to replace Mr Haupt and Mr Moberg on the Nominations Committee.

#### CONFLICTS OF INTEREST / INDEPENDENCE OF SUPERVISORY BOARD MEMBERS / PROPORTION OF WOMEN ON THE SUPERVISORY BOARD

No conflicts of interest between members of the Supervisory Board and DEUTZ AG arose in the year under review.

The current members of the Supervisory Board of DEUTZ AG are all considered independent within the meaning of article 5.4.2 sentence 2 of the German Corporate Governance Code.

The Supervisory Board welcomes the fact that the law on the quota for women has now come into force and that, as a consequence, the Supervisory Board will have at least four women members after the elections marking the start of the next membership cycle in 2018, if not before.

The Supervisory Board would like to express its thanks and appreciation to all employees of DEUTZ AG in Germany and abroad, to the elected employee representatives and to the Board of Management for their valuable efforts and the considerable dedication they showed in 2015.

Cologne, March 2016  
The Supervisory Board



Hans-Georg Härter  
Chairman



## CORPORATE GOVERNANCE DECLARATION AND CORPORATE GOVERNANCE REPORT

For DEUTZ, a responsible approach to management that meets the standards of good corporate governance forms the basis for enhancing shareholder value over the long term. This is one of the main reasons why we attach great importance to the implementation of the German Corporate Governance Code (DCGK) and ensure quality and transparency in all key decisions and processes in our Company.

### CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289a HGB

#### Declaration of conformity with some exceptions

In 2015, the Board of Management and the Supervisory Board once again carefully considered to what extent it was proper and consistent with the Company's objectives for DEUTZ to apply all the guidelines and recommendations of the DCGK. As a result, DEUTZ AG complies with the recommendations of the Code, as amended on 24 June 2014 and 5 May 2015, with the following exceptions:

1. The D&O insurance taken out by DEUTZ AG for the members of the Supervisory Board does not provide for any excess, contrary to article 3.8 (2) and (3) DCGK. In the case of Supervisory Board members, an excess of this type is, as before, not considered an appropriate means of control.
2. There is no age limit at DEUTZ AG for members of either the Board of Management or Supervisory Board, contrary to articles 5.1.2 (2) sentence 3 and 5.4.1 (2) sentence 1 DCGK. Furthermore, there is no general limit on length of membership of the Supervisory Board, contrary to article 5.4.1 (2) sentence 1 of the German Corporate Governance Code. These exceptions enable DEUTZ AG to retain the option of benefiting from the experience brought to the Company by older members of the Board of Management and Supervisory Board and by long-standing members of the Supervisory Board.

The current declaration of conformity in accordance with section 161 AktG, which the Board of Management and Supervisory Board submitted on 24 September 2015, can be accessed in the Investors / Corporate Governance section of the Company's website at [www.deutz.com](http://www.deutz.com). Declarations of conformity from previous years can also be viewed and downloaded there.

#### Description of the operating procedures of the Board of Management and Supervisory Board

At DEUTZ, responsibility for the executive function lies with the Board of Management; the Supervisory Board monitors and advises the Board of Management in its activities.

With the long-term development of the Company in mind, the Board of Management and Supervisory Board maintain an

open, ongoing dialogue on all strategic decisions in the Company – a process that continued in the year under review. The primary aim of the close cooperation between the two bodies is to enhance the value of the Company over the long term for the benefit of shareholders, employees and business partners. Accordingly, the Board of Management provides the Supervisory Board with regular, comprehensive and timely reports on all relevant issues relating to planning, business performance, risk position and risk management.

The Supervisory Board's work is based on rules of procedure, which can be downloaded from the DEUTZ AG website at [www.deutz.com](http://www.deutz.com).

Five meetings of the Supervisory Board took place in 2015.

In 2015, the Supervisory Board for the first time reviewed the efficiency of its activities by inviting an external specialist to a meeting to hold structured discussions about all aspects of operating effectively. The outcome from the detailed review carried out at this meeting, in which the members of the Board of Management of DEUTZ AG also participated, was that the Supervisory Board is satisfying its statutory duties and working efficiently.

No former members of the DEUTZ AG Board of Management are now members of the Supervisory Board.

The Supervisory Board is elected for a period that runs until the Annual General Meeting in 2018.

The principles by which the Board of Management operates are summarised in rules of procedure issued by the Supervisory Board, which can also be downloaded from the DEUTZ AG website.

Board of Management meetings generally take place every two weeks.

#### Composition of the Board of Management and Supervisory Board; composition and operating procedures of Supervisory Board committees

The Company's Board of Management consists of three people: Dr Helmut Leube (chairman, responsible for technical and head-office functions), Dr Margarete Haase (responsible for



finance, HR and investor and public relations) and Mr Michael Wellenzohn (responsible for sales, service and marketing).

The Supervisory Board extended Mr Wellenzohn's appointment and service contract to 31 December 2018 at a Supervisory Board meeting held on 9 December 2015 following preparation by the Human Resources Committee. The appointments of Dr Leube and Dr Haase continue until 31 December 2017 and 30 April 2018 respectively.

In accordance with the provisions of the German Codetermination Act (MitbestG), the Supervisory Board of DEUTZ AG comprises twelve members, six members being the representatives of the shareholders and six members being the representatives of the employees.

The changes in the composition of the Supervisory Board in 2015 are described below.

At the request of the Board of Management, and in accordance with the proposal by the General Works Council, the local court in Cologne on 27 January 2015 appointed Mr Hans-Peter Finken as an employee representative on the Supervisory Board of DEUTZ AG with effect from 1 February 2015 for the remaining term of the current Supervisory Board membership cycle. The appointment became necessary when Mr Egbert Zieher stepped down from his post with effect from 31 January 2015.

At the end of the Supervisory Board meeting held on 12 March 2015, Mr Hans-Georg Härter was appointed as the new chairman to replace Mr Lars-Göran Moberg, who had stepped down from the role.

Following the resignation of three shareholder representatives on the Supervisory Board, namely Ms Eva Persson, Mr Moberg and Mr Michael Haupt, at the end of the 2015 Annual General Meeting on 29 April 2015, the meeting elected Dr Hermann Garbers, Mr Leif Peter Karlsten and Mr Alois Ludwig as shareholder representatives on the Supervisory Board of DEUTZ AG for the remaining term of the current Supervisory Board membership cycle.

The Supervisory Board has created four committees to enable it to perform its duties effectively. They are the Human Resources Committee, the Audit Committee, the Arbitration Committee and the Nominations Committee. The Human Resources Committee consists of two representatives of the shareholders and one employee representative; the Audit and Arbitration Committees both consist of two shareholder representatives and two employee representatives; and the Nominations Committee has three members, all of whom represent the shareholders. The Audit Committee follows its own rules of procedure, which can be viewed on the DEUTZ AG website, while the other committees work according to the rules of procedure that apply to the (full) Supervisory Board. The Audit Committee rules of procedure were fundamentally revised at the meeting of the Supervisory Board on 9 December 2015.

The Human Resources Committee makes preparations for all Supervisory Board decisions concerning the appointment of members of the Board of Management and their contracts of employment, including the remuneration specified therein, and all issues arising in this connection. This committee met on seven occasions in 2015. The matters addressed included succession planning for the Board of Management, especially the preparation required to extend the appointment of Mr Wellenzohn, and the resolutions to be adopted by the full Supervisory Board relating to the attainment of the targets for 2014 by the Board of Management and to the targets to be set for the Board of Management for 2015, including the medium-term targets.

The work of the Audit Committee in the year under review focused on the annual and consolidated financial statements for 2014 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2015 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2015, and the discussion of the audit engagement for the year ended 31 December 2015, including a review of auditor quality and independence. Other matters addressed by the committee included risk management, compliance, the internal control system, strategic planning, key performance indicators, the IT system at DEUTZ and the committee's own rules of procedure. In 2015, the Audit Committee held four meetings, three of which were also attended by the external auditors.

The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) of the Act. It did not need to be convened during the year under review.

The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The committee met on three occasions in 2015. The committee handled the search for possible candidates to be put forward for any vacancies on the Supervisory Board and addressed the implications for the composition of the Supervisory Board of DEUTZ AG arising from the law for the equal participation of women and men in managerial positions in the private and public sectors (law on the quota for women).

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

The changes in the composition of the Supervisory Board in 2015 are described as follows.

As the election of Mr Härter as chairman of the Supervisory Board on 12 March 2015 succeeding Mr Moberg also meant that Mr Härter automatically became chairman of the Human Resources Committee and the Nominations Committee – two committees of which he was already an ordinary member – and of the Arbitration Committee and the Audit Committee, the Supervisory Board on the same day elected Mr Moberg as the second shareholder representative on the Human Resources Committee and as a member of the Nominations Committee. The Supervisory Board also decided that Mr Dietmar Paust would be appointed as the second employee representative on the Arbitration Committee to succeed Mr Zieher.

At its meeting on 29 April 2015, the Supervisory Board then elected Mr Herbert Kauffmann to succeed Mr Moberg as the second shareholder representative on the Human Resources Committee and to succeed Mr Haupt as the second shareholder representative on the Arbitration Committee. It also elected Mr Kauffmann and Mr Göran Gummesson to replace Mr Haupt and Mr Moberg on the Nominations Committee.

Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 124 and 125.

#### **Targets and timeframes in accordance with sections 76 (4), 111 (5) AktG**

On 12 August 2015, the Board of Management of DEUTZ AG set certain targets and timeframes in accordance with section 76 (4) AktG. The proportion of women employed by DEUTZ AG at the top level of senior management below the Board of Management is to be increased to 13 per cent by 30 June 2017. The proportion of women at the second level of senior management below the Board of Management is to be increased to 7 per cent over the same period. The top level of senior management below the Board of Management encompasses all managers in Germany who report directly to a member of the Board of Management. The second level of senior management below the Board of Management comprises all managers in Germany who report directly to a manager in the top level of senior management.

To ensure that women are taken into consideration for vacant managerial positions, DEUTZ AG has adopted a staff development programme. When positions in the top and second levels of senior management below the Board of Management become available, the Board of Management and the HR department are striving to ensure that at least one woman is always shortlisted for the post (article 4.1.5 DCGK). This means that external recruitment must focus on female managers.

At the time of going to press, the proportion of women in the top level of senior management below the Board of Management is 9.1 per cent and in the second level of senior management below the Board of Management 3 per cent. DEUTZ AG has therefore not yet attained the targets specified above. The reasons for this are that only a relatively short period of time has passed since the Board of Management set the targets on 12 August 2015 and since then DEUTZ AG has hardly recruited any new employees at all. A further factor affecting trends in the future is that women continue to be under-represented in the scientific and technical degree courses that are of particular relevance to DEUTZ AG.

At its meeting on 24 September 2015, the Supervisory Board of DEUTZ AG set the following target in accordance with section 111 (5) AktG: on 30 June 2017, the members of the Board of Management of DEUTZ AG should still include at least one woman.

#### **Disclosures relevant to corporate management practices: compliance management system, environmental and quality management, energy management**

DEUTZ AG has a compliance management system that is firmly anchored in the Company's organisational structure. The system is continually enhanced in order to meet changing requirements. Dr Haase is the member of the Board of Management responsible for compliance.

The overriding objective of the compliance management system is to prevent breaches of legislation and other applicable rules anywhere in the Company. It therefore also helps employees to familiarise themselves with the applicable laws and regulations and learn how to apply them correctly. This is supported by a code of conduct and specific guidelines or policies, including a zero-tolerance policy, a policy on gifts and entertainment, a policy on engaging external sales service providers, an anti-money laundering policy and an insider-trading policy.

The Board of Management supports and promotes ethical conduct. It is unreservedly committed to corporate compliance and declines to be involved in any transactions that are inconsistent with these values. The Board of Management does not tolerate any form of corruption and is fully committed to compliance with competition law and to incorporating the notion of sustainability into the Company's activities.

Training is intended to ensure that employees are aware of the relevant laws and corporate policies, and that they comply with them at all times in their day-to-day work. Salaried staff in the head office sales, procurement, research and development and administration units, as well as in the subsidiaries, generally receive annual training sessions that are specifically tailored to their areas of activity. In 2015, 727 employees from these units, representing around 60 per cent of all the employees in the units received this training. In the production plants, compliance training takes place in conjunction with the regular safety training.

A Compliance Officer appointed by the Board of Management coordinates compliance activities at DEUTZ AG. The individual business units and subsidiaries have their own compliance coordinators, who are responsible for compliance in their organisations and submit regular structured reports in writing to the Compliance Officer, who in turn reports to the Board of Management and Audit Committee. The basic principles of the compliance organisation are described in rules of procedure. The duties of the relevant employees are set out in job descriptions.

Employees can supply information or direct questions to line managers, compliance coordinators, the Compliance Officer or the managers responsible for the legal affairs or internal audit units. Any information supplied is rigorously followed up. Any necessary investigations are carried out by internal audit, with external support if required.

Regular meetings are held to develop, discuss and coordinate compliance initiatives. These activities focus on preventing corruption, tackling money laundering and complying with export regulations (including export controls). They also ensure safety in the workplace, IT & data security, corporate security and product safety. A further aim is to prevent breaches of environmental, antitrust and insider trading laws.

As and when needed, the Board of Management and the Compliance Officer take legal advice on establishing and continuously improving the compliance management system. The internal audit department reviews the activities, and the Audit Committee monitors them on behalf of the Supervisory Board.

Compliance activities during the year under review again centred on the continuation and stepping up of regular staff training (including for staff at affiliated companies abroad), focusing on the code of conduct, money laundering, gifts, commission, export controls and competition law. As part of the ongoing review of our organisational policies, we have enhanced the business travel policy, comprehensively revised the bid guidelines, set out procedures for dealing with officials within the framework of the policy on gifts, and for the first time issued an information security policy.

Another essential element of corporate management at DEUTZ AG is rigorous environmental, quality and energy management.

In the year under review, DEUTZ AG continued to satisfy the quality management requirements in accordance with ISO 9001, the environmental management requirements in accordance with ISO 14001 and the energy management requirements in accordance with ISO 50001. The relevant certificates from Det Norske Veritas/Germanischer Lloyd can be found on the DEUTZ website.

All standards set by the Deutsches Institut für Normung e.V., Berlin (DIN) can be inspected free of charge at DIN standards repositories.

## CORPORATE GOVERNANCE REPORT

### **Basic principles and objectives of the composition of the Supervisory Board; particularly, conflicts of interest/independence of Supervisory Board members and the consideration of women**

The Supervisory Board re-drafted the specific objectives regarding its composition in accordance with articles 5.4.1 (1) and (2), 5.4.2 DCGK at its meeting held on 24 September 2015. The new version is as follows:

“The Supervisory Board must be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. In particular, the following applies:

#### a) Internationality

To reflect the international operations of the Company, at least two Supervisory Board members shall have several years' experience of international business – preferably that they have acquired abroad.

#### b) Potential conflicts of interest

The composition of the Supervisory Board shall also take account of potential conflicts of interest of its members.

All members of the Supervisory Board are obliged to disclose any conflicts of interest, especially those arising from an advisory function or directorship at customers, suppliers, lenders or other third parties.

Supervisory Board members shall not be directors of major competitors of DEUTZ AG.

c) Number of independent Supervisory Board members

The Supervisory Board is limiting its target concerning this aspect to the shareholder representatives. It considers this group to have an adequate number of independent members if the number of independent members equals the number of members who are not independent, i.e. at least three.

d) Standard age limit

At DEUTZ AG, there is no age limit for Supervisory Board members or for Board of Management members. Nor is there a standard limit on length of membership of the Supervisory Board. This is because DEUTZ AG wants to retain the option of benefiting from the experience brought to the Company by older members of the Board of Management and Supervisory Board and/or long-serving members of the Supervisory Board.

e) Diversity/proportion of women on the Supervisory Board

The Supervisory Board shall primarily take the appropriate skills of its members, and also its diversity, into consideration when deciding on its composition. The Supervisory Board welcomes the fact that the law for the equal participation of women and men in managerial positions in the private and public sectors has now come into force and that, as a consequence, the Supervisory Board will have at least four women members after the elections marking the start of the next membership cycle in 2018, if not before."

Except for the target relating to female representation, the Supervisory Board has continuously met these objectives since 2012. It has even exceeded them in cases such as the international experience available on the Supervisory Board and the number of independent members. The current members of the Supervisory Board are all considered independent within the meaning of article 5.4.2 sentence 2 DCGK. No conflicts of interest between members of the Supervisory Board and DEUTZ AG arose in the year under review.

### Consideration of women when making appointments to the Board of Management

The Board of Management of DEUTZ AG currently has three members, one of whom is female, equating to a ratio of 33.3 per cent.

### Responsible risk management

A forward-looking, prudent and responsible approach to corporate risks is a core aspect of good corporate governance and forms the basis for the risk management system at DEUTZ. The Board of Management regularly notifies the Supervisory Board of any existing or anticipated risks. Details of the DEUTZ Group's risk management systems can be found in the risk report on pages 61 and 62.

### Comprehensive transparency and active investor relations

The transparent presentation of developments and decisions in a company forms the core of any model system of corporate governance. Continuous, open dialogue with all stakeholders ensures trust in a company and its value creation process. DEUTZ therefore attaches the greatest importance to ensuring that all relevant target groups are given the same information at the same time and in a timely manner.

We achieve this objective by using various media. DEUTZ AG reports on the performance and development of its business and on significant changes and events four times a year, in its interim reports and the annual report. Interim reports are published within 45 days of the end of a reporting period; the annual report is published within 90 days of the end of the financial year. The Company maintains constant contact with investors and analysts through its regular investor relations activities. In addition to the annual analysts' meeting held when the Company's consolidated financial statements are published, conference calls for analysts and institutional investors take place with the publication of interim reports. The Annual General Meeting is usually held in the first five months of the year; shareholders who do not attend the AGM in person can instruct proxies to vote on their behalf.

Our website also offers comprehensive information on the Company: DEUTZ AG annual and interim reports, press releases and ad hoc announcements, analyst recommendations and investor relations presentations as well as key dates in the financial calendar can all be found at [www.deutz.com](http://www.deutz.com). The Company's Statutes are also available online. Almost all the pages on our website are provided in both German and English to ensure that important company news and information is as accessible as possible, including to an international audience. Apart from the regularly published information, DEUTZ AG also provides details of circumstances that are not in the public domain but that could have a significant impact on DEUTZ's share price were they to become known. The Company's reporting policy therefore complies both with legal requirements and DCGK guidelines.



### Accounting and auditing

DEUTZ AG's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements are prepared by the Board of Management and reviewed by the auditors.

The auditors have agreed to inform the chairman of the Supervisory Board or the chairman of the Audit Committee without delay if grounds for disqualification or release of the auditors, or any misrepresentations in the declaration of conformity, come to light during the audit. The auditors inform the chairman of the Supervisory Board without delay of any issues or incidents relevant to the role of the Supervisory Board that arise during the audit of financial statements.

### Conflicts of interest and consultancy agreements

Information about conflicts of interests in relation to Supervisory Board members can be found under 'Basic principles and objectives of the composition of the Supervisory Board' at the start of this corporate governance report.

The Company does not have any consultancy agreements with members of the Supervisory Board.

The members of the Board of Management must disclose any conflicts of interest to the Supervisory Board. The Supervisory Board then reports these cases, along with any conflicts of interest relating to its own members, to the Annual General Meeting.

### Remuneration report

The remuneration of the Board of Management complies with the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and DCGK recommendations.

A description of the main features of the remuneration systems for the Board of Management and Supervisory Board, along with details of the remuneration for each member, can be found in the remuneration report on pages 57 to 60 of the combined management report.

### Dealings subject to reporting requirements

Section 15a of the German Securities Trading Act (WpHG) states that members of supervisory and management boards of public limited companies (Aktiengesellschaften) and persons authorised to take key operational decisions must notify both the company and the German Financial Supervisory Authority (BaFin) of their own dealings in shares of the company or in financial instruments of the company based on such shares.

Board of Management members Dr Haase and Mr Wellenzohn, and Supervisory Board members Mr Kauffmann and Mr Karlsten, disclosed their purchases of DEUTZ shares in accordance with this regulation in 2015. No other persons required by section 15a WpHG to make such a disclosure did so before the adoption of the 2015 annual financial statements. Transactions disclosed in previous years are published on the DEUTZ AG website.

There were no shareholdings of Board of Management or Supervisory Board members that were subject to reporting requirements pursuant to article 6.2 DCGK in the year under review or before the 2015 annual financial statements were adopted.

## GLOSSARY

**AdBlue®** 32.5% aqueous urea solution (AdBlue® is a registered trade mark of the German Association of the Automotive Industry [VDA])

**Captive market/segment** Market segment in which original equipment and commercial vehicle manufacturers have their own engine production facilities to meet their engine needs. Consequently, the captive market is not generally accessible to independent engine manufacturers.

**Cash flow statement** Shows the Group's inflows and outflows of cash over the financial year. It distinguishes between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. It also shows the change in cash and cash equivalents.

**Compliance** Denotes the entirety of measures taken by a company to comply with laws, regulations and directives and also to comply with contractual obligations and self-imposed obligations. Compliance is a key element of corporate governance.

**Corporate governance** Responsible management and control of a company with a view to long-term value creation and increasing shareholder value.

**Deferred taxes** Differences between the calculation of profit under tax law and under IAS result in differing tax calculations. These differences in the amount of tax are recognised on the balance sheet as deferred tax assets or liabilities.

**DIN EN ISO 9001 (Deutsches Institut für Normung – European Norm – International Organization for Standardization – 9001)** A German, European and international industrial standard for environmental management.

**Diversity** Acceptance of the differences between individual employees, which – when embedded in a tolerant corporate culture – can be utilised to boost the success of a company. Employees should not suffer discrimination due to ethnic origin, gender, age, religion, sexual orientation, disability, etc. They should all have equal opportunities.

**DVERT® (DEUTZ Variable Emissions Reduction Technology)** A combination of systems, components and procedures that are used as modules to create technically optimised and cost-effective solutions for reducing exhaust and noise emissions.

**Earnings per share** A key figure calculated by dividing the net income attributable to the shareholders of DEUTZ AG by the average number of shares in issue.

**EAT** Exhaust aftertreatment technology is designed to reduce emissions.

**EBIT (earnings before interest and tax)** Income from operating activities (before interest and tax).

**ECU** Engine control units control and monitor the various functions performed by the engine.

**EGR** Exhaust gas recirculation to the internal combustion process in order to reduce nitrogen oxide emissions.

**EU Tier I, II, III A, III B, IV** Exhaust standard laid down by the European Union for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

**Exhaust aftertreatment** Ensures compliance with statutory emissions limits for gaseous pollutants such as nitrogen oxides (NOx) and soot particles through the cleansing of combustion exhaust gases. In vehicles, exhaust aftertreatment is achieved by the use of catalytic converters and diesel particulate filters.

**Forward** Individually structured, non-exchange-traded forward transaction.

**Free float** The proportion of shares in a public limited company (Aktiengesellschaft) not held by a major shareholder. According to the Deutsche Börse AG definition, shareholdings of less than 5 per cent are classified as free float.

**Hedging** Countering interest-rate, currency, price or similar risks through the use of derivative financial instruments that limit the risk associated with the underlying transactions.

**Kaizen** Continuous improvement process (CIP) describes a way of thinking aimed at making a company more competitive through a series of small, progressive steps. It is comparable with the Japanese principle of Kaizen. CIP is applied to products, processes and service quality. Specific CIP teams are set up to implement small improvements (as opposed to major, dramatic changes). CIP is a basic principle of quality management and an essential part of ISO 9001. The method of having specific CIP teams develop suggestions for improvement is usually bracketed under the term 'ideas management' together with the company suggestion scheme.

**Liquefied petroleum gas (LPG)** A liquefied mixture of butane and propane that can be used in automotive internal combustion engines.

**Long-term incentive (LTI) plan** A form of incentive-based remuneration offered to members of the Board of Management and selected senior managers; its purpose is to enable these executives to benefit from the company's long-term success, thereby encouraging them to stay with the company.

**Non-captive market/segment** Market segment in which original equipment and commercial vehicle manufacturers purchase engines from third-party manufacturers to meet their engine needs. The non-captive market is accessible to independent engine manufacturers.

**On-road applications** Engine-powered applications, such as commercial vehicles and buses, that are licensed for use on public roads.

**Option** Contract that, until the expiry date, gives the holder the right to buy – and the writer the obligation to sell – an underlying instrument (a security or a product/commodity) at an exercise price that has been fixed in advance.

**Parts per million (PPM)** Measurement for defective parts.

**Prime Standard** The minimum standard set by Deutsche Börse AG for companies looking to raise capital from international investors. These companies have to meet stringent international disclosure requirements. Admission to the Prime Standard is a prerequisite for inclusion in the DAX, MDAX, TecDAX and SDAX indices.

**Rating** Used to assess the creditworthiness of a company. It gauges the extent to which the company will be able to repay the principal and interest on its outstanding liabilities at the agreed date.

**Return on capital employed (ROCE)** Ratio of EBIT 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.

**Soot and particulate filters** Devices for reducing the particulates contained in the exhaust gases of diesel engines. There are two types of filter, which work in very different ways: wall-flow filters, in which the exhaust gas penetrates a porous wall; and flow filters, in which the exhaust gas flows through the filter itself.

**Shop floor management** The term shop floor management describes a system used in production planning to fine tune manufacturing operations in a dynamic, flexible and resource-efficient way. This means, for example, scheduling processes down to the exact minute, ensuring transparency throughout the production process and achieving optimum use of capacities.

**US EPA TIER 1, 2, 3, 4** US emissions standard for non-road applications. Sets limits for pollutants such as nitrogen oxide, hydrocarbons and soot particulates in exhaust gas.

**Working capital** Inventories and trade receivables less trade payables.

**Working capital ratio** Ratio of working capital (inventories plus trade receivables minus trade payables) at the end of the reporting period to revenue for the last twelve months.

**Xetra** Stands for 'Exchange Electronic Trading' and is the name given to the electronic dealing system run by Deutsche Börse AG (also known as screen-based trading).

## DEUTZ GROUP: MULTI-YEAR OVERVIEW

€ million	Continuing operations 2011	Continuing operations 2012	Continuing operations 2013	Continuing operations 2014	Continuing operations 2015
New orders	1,479.3	1,237.1	1,649.7	1,379.0	1,225.9
Unit sales (units)	230,598	178,774	184,028	196,403	137,781
Compact Engines	204,161	161,899	167,964	183,125	125,214
DEUTZ Customised Solutions	26,437	16,875	16,064	13,278	12,567
Revenue	1,529.0	1,291.9	1,453.2	1,530.2	1,247.4
Compact Engines	1,199.1	1,005.0	1,188.8	1,279.9	967.2
DEUTZ Customised Solutions	329.9	286.9	264.4	250.3	280.2
EBITDA <sup>1)</sup>	159.0	121.7	142.0	120.3	112.2
EBITDA before one-off items <sup>1)</sup>	159.0	121.7	142.0	137.4	112.2
EBIT <sup>1)</sup>	89.9	37.1	47.5	12.8	4.9
EBIT before one-off items <sup>1)</sup>	89.9	37.1	47.5	31.7	4.9
EBIT margin (%) <sup>1)</sup>	5.9	2.9	3.3	0.8	0.4
EBIT margin before one-off items (%) <sup>1)</sup>	5.9	2.9	3.3	2.1	0.4
Net income	75.5	21.0	36.0	19.5	3.5
Continuing operations	68.7	22.1	36.0	19.5	3.5
Discontinued operations	6.8	-1.1	-	-	-
Basic earnings per share (€)	0.62	0.17	0.30	0.18	0.04
Continuing operations	0.57	0.18	0.30	0.18	0.04
Discontinued operations	0.05	-0.01	-	-	-
Dividend per share (€)	-	-	0.07	0.07	0.07
Total assets <sup>2)</sup>	1,099.0	1,035.9	1,121.0	1,149.2	1,088.1
Non-current assets	623.1	621.3	596.6	563.6	520.5
Equity <sup>2)</sup>	453.5	452.6	504.7	511.0	495.6
Equity ratio (%) <sup>2)</sup>	41.3	43.7	45.0	44.5	45.5
Cash flow from operating activities <sup>3)</sup>	120.5	104.9	105.0	114.1	103.3
Free cash flow	4.8	12.6	13.8	52.0	35.0
Net financial position <sup>4)</sup>	-69.6	-48.6	-31.7	13.7	39.0
Working capital <sup>5)</sup>	142.1	141.6	172.3	196.2	183.6
Working capital ratio (31 Dec, %)	9.3	11.0	11.9	12.8	14.7
Capital expenditure (excl. capitalisation of R&D, after deducting grants) <sup>6)</sup>	41.1	66.4	42.5	40.3	56.2
Depreciation and amortisation	69.1	84.6	94.5	107.5	107.3
Research and development (after deducting grants) <sup>6)</sup>	84.6	62.1	52.6	53.1	40.8
thereof capitalised	61.5	44.2	33.8	26.3	13.0
Employees (31 Dec)	4,060	3,991	3,952	3,916	3,730

<sup>1)</sup> Since 2013, the income statement has been structured according to the function-of-expense method. Other taxes are no longer reported separately after operating profit/loss and are instead allocated to functional costs within operating profit/loss. The comparative prior-year figures have been restated accordingly to improve comparability.

<sup>2)</sup> Since 2013, the accounting of pension provisions has changed (IAS 19R). For comparison, the entry for the financial year 2012 has been changed. The information for 2011 has not been adjusted for reasons of practicability.

<sup>3)</sup> Since 2012, interest income has been reported as cash flow from financing activities rather than as cash flow from operating activities. The comparative figures of previous years have been restated accordingly to improve comparability.

<sup>4)</sup> Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial debt.

<sup>5)</sup> Working capital: inventories plus trade receivables minus trade payables.

<sup>6)</sup> Since 2012, the key figures "capital expenditure" and "research and development" have been reported after deducting grants. The comparative figures of previous years have been restated accordingly to improve comparability.



	Continuing operations 2011	Continuing operations 2012	Continuing operations 2013	Continuing operations 2014	Continuing operations 2015
<b>Revenue by region</b>					
€ million	1,529.0	1,291.9	1,453.2	1,530.2	1,247.4
Europe/Middle East/Africa	1,225.0	984.2	1,155.4	1,166.2	844.5
Americas	177.2	190.9	190.6	256.6	275.3
Asia-Pacific	126.8	116.8	107.2	107.4	127.6
<b>Revenue by application segment</b>					
€ million	1,529.0	1,291.9	1,453.2	1,530.2	1,247.4
Mobile Machinery	529.4	477.5	481.6	715.3	523.2
Stationary Equipment	227.9	204.2	173.7	179.2	178.1
Agricultural Machinery	240.5	152.5	325.6	257.5	159.3
Automotive	213.6	192.1	188.5	82.0	87.9
Service	241.6	250.3	253.7	259.3	278.4
Miscellaneous	76.0	15.3	30.1	36.9	20.5
<b>Key figures for DEUTZ shares</b>					
Number of shares (31 Dec)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Number of shares (average)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Share price (31 Dec, €)	4.11	3.54	6.49	4.00	3.69
Share price high (€)	7.22	5.72	7.45	7.94	5.59
Share price low (€)	3.23	2.96	3.71	3.35	2.86
Market capitalisation (31 Dec, € million)	496.7	427.9	784.4	483.4	446.0
Earnings per share (€)	0.62	0.17	0.30	0.18	0.04
Continuing operations	0.57	0.18	0.30	0.18	0.04
Discontinued operations	0.05	-0.01	-	-	-

# FINANCIAL CALENDAR

## 2016

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28 April 2016	Annual General Meeting
3 May 2016	Interim management statements 1st quarter 2016 Conference call with analysts and investors
4 August 2016	Interim report 1st half year 2016 Conference call with analysts and investors
8 November 2016	Interim management statements 1st to 3rd quarter 2016 Conference call with analysts and investors

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