

## Financial year 2014

19 March 2015

Dr Helmut Leube, CEO

Dr Margarete Haase, CFO

The engine company.



# Agenda

- Review FY 2014

- Outlook

- Annex

# Key figures

€ million	FY 2014	yoy
Order intake	1,379.0	-16.4%
Revenue	1,530.2	+5.3%
EBIT (before one-offs)	31.7	-33.3%
Adjusted EBIT <sup>(1)</sup>	51.6	+8.6%
Free cash flow	52.0	+€38.2 million
Net financial position	13.7	+€45.4 million

(1) EBIT (before one-offs) adjusted by exceptional items (net effect €19.9 million)

# Highlights

- DCE Tier 4 series with DPF already compliant with next emission standard (EU Stage V ready)
- New customers attracted by DEUTZ Tier 4 engines, for example:

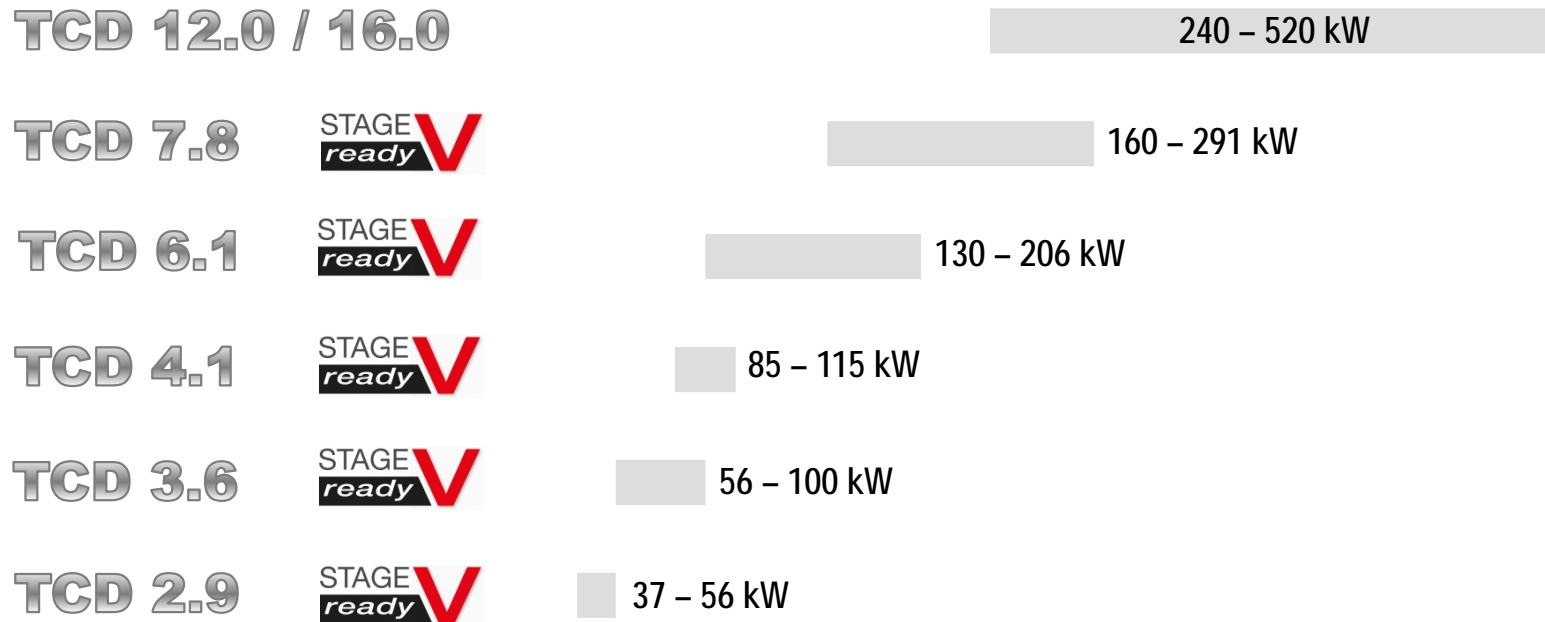


HITACHI



- Site optimisation in Germany
- Consolidation of Chinese operations; focussing on DEUTZ Dalian to serve local customer demand
- Strong free cash flow generation and positive financial position
- Stable dividend of 0.07 € per share (subject to AGM approval)

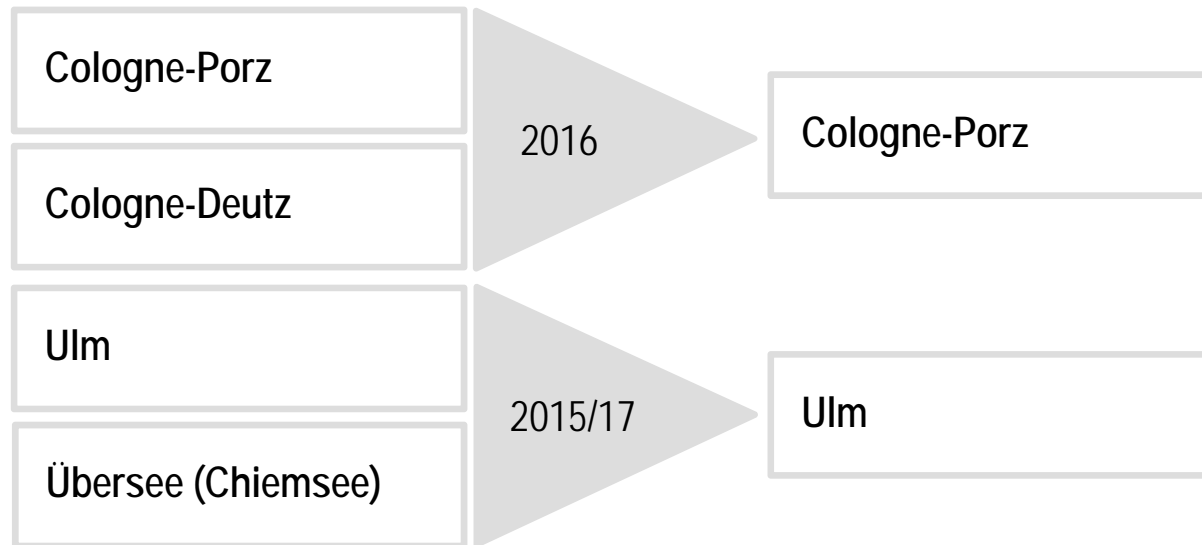
# Stage V ready



- TCD 2.9 to 7.8 litre engines with DPF already meet the next EU emission standard announced for 2019
- DEUTZ technology platform offers our customers long-term planning certainty as they do not have to invest in adapting their equipment to upcoming emission change

**→ DEUTZ compact engines compliant to next emission standard**

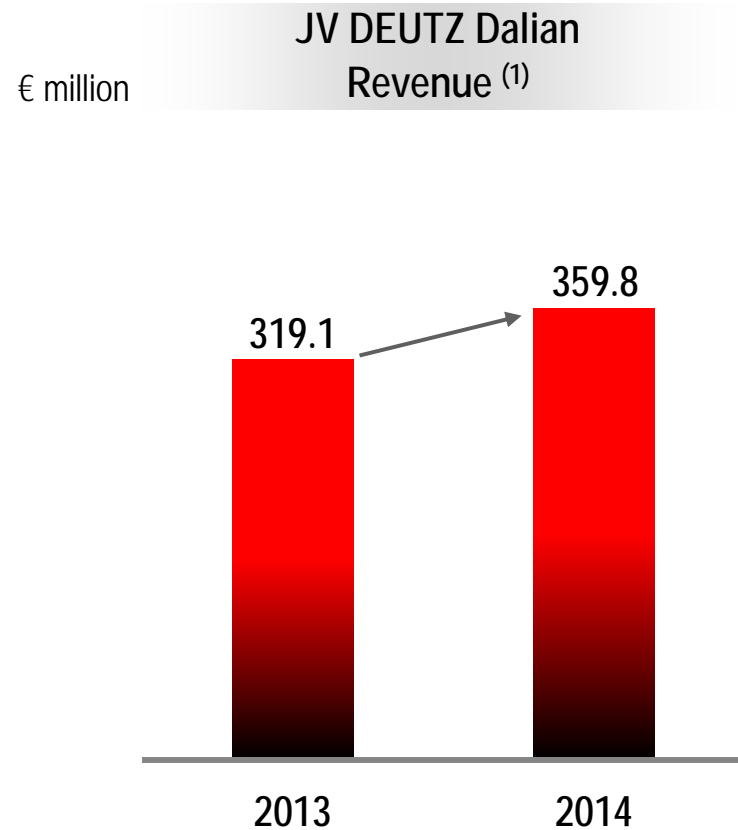
# Site optimisation



- Annual cost savings > €10 million (considerable effects already in 2016; full effects from 2017 onwards)
- Restructuring costs for site optimisation (€17.1 million) digested in FY 2014 result
- Capex overcompensated by proceeds from property sales in subsequent years

**→ Sustainable efficiency improvement by merging facilities**

# Consolidation of activities in China

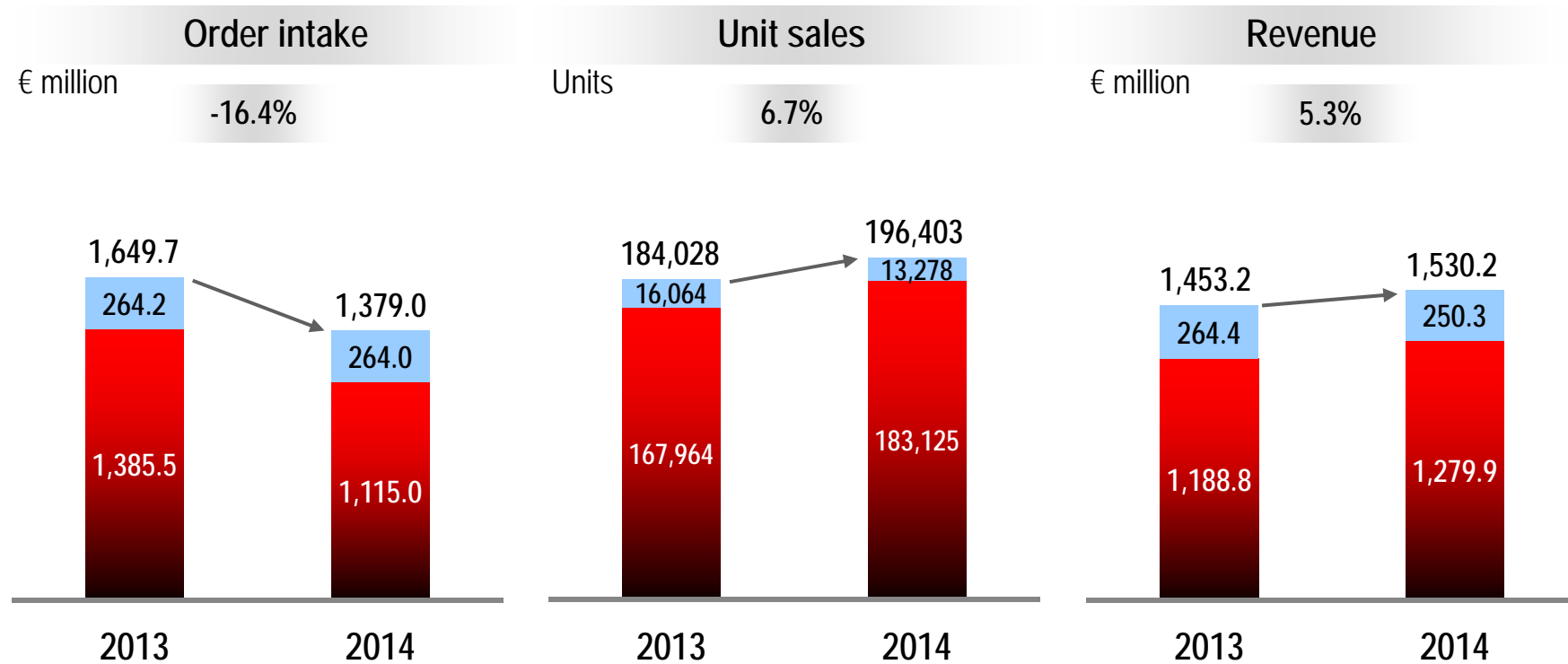


(1) At-equity consolidated; not reflected in the revenue of DEUTZ Group

- Consolidation of our Chinese activities and focus on our successful JV DEUTZ Dalian, which has sufficient capacities
- DEUTZ Dalian (at-equity consolidated) increased its revenue by 12.8% yoy and outperformed the Chinese market
- Joint decision with our partner AB Volvo to wind up JV DEUTZ Engine China due to challenging market conditions. JV has not yet made any substantial investments
- Implementation works at JV DEUTZ Engine Shandong put on hold. Impairment of fixed assets (€1.8 million) accounted as one-off in FY 2014
- Strategic talks with Weichai about the future of the JV Weifang

**➔ Focus on DEUTZ Dalian to meet our customer demands for the Chinese market**

# Sales figures



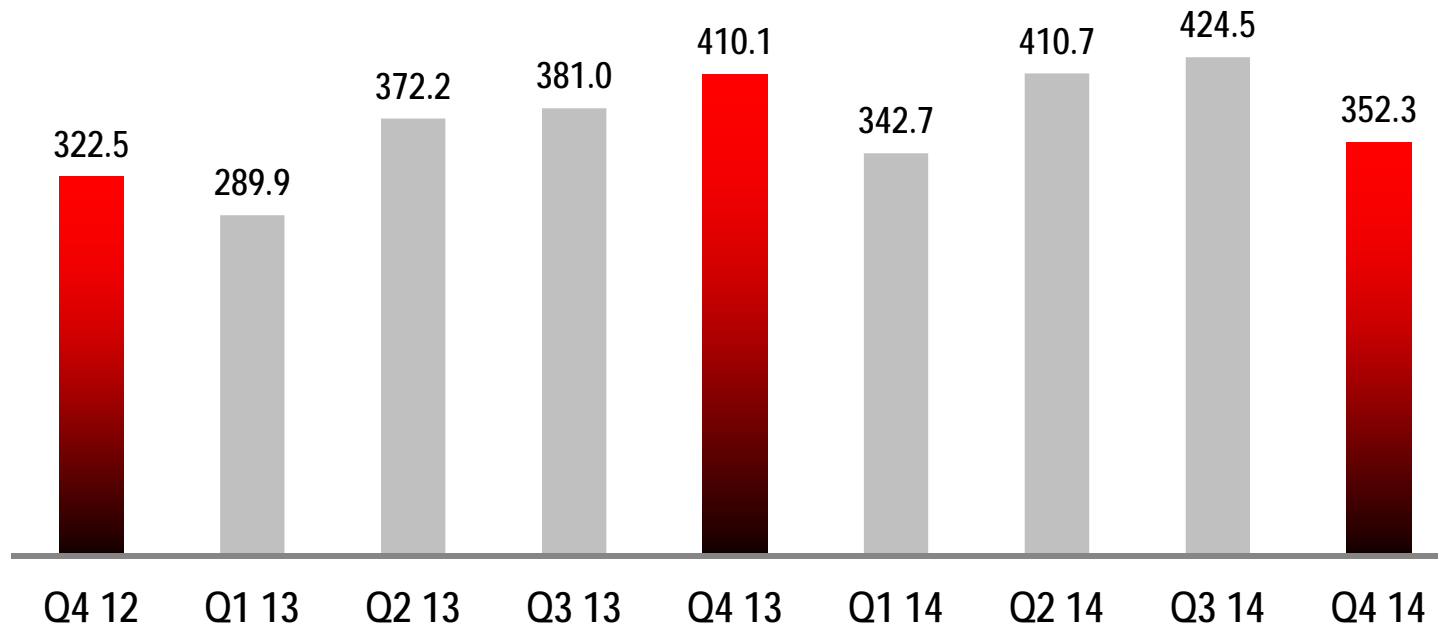
- Pre-buy effects related to changes of European emission standards for engines < 130 kW in October 2014 with significant influence on sales figures
- Order backlog at €219.7 million at year-end 2014 (31 Dec 2013: €366.1 million)

■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions



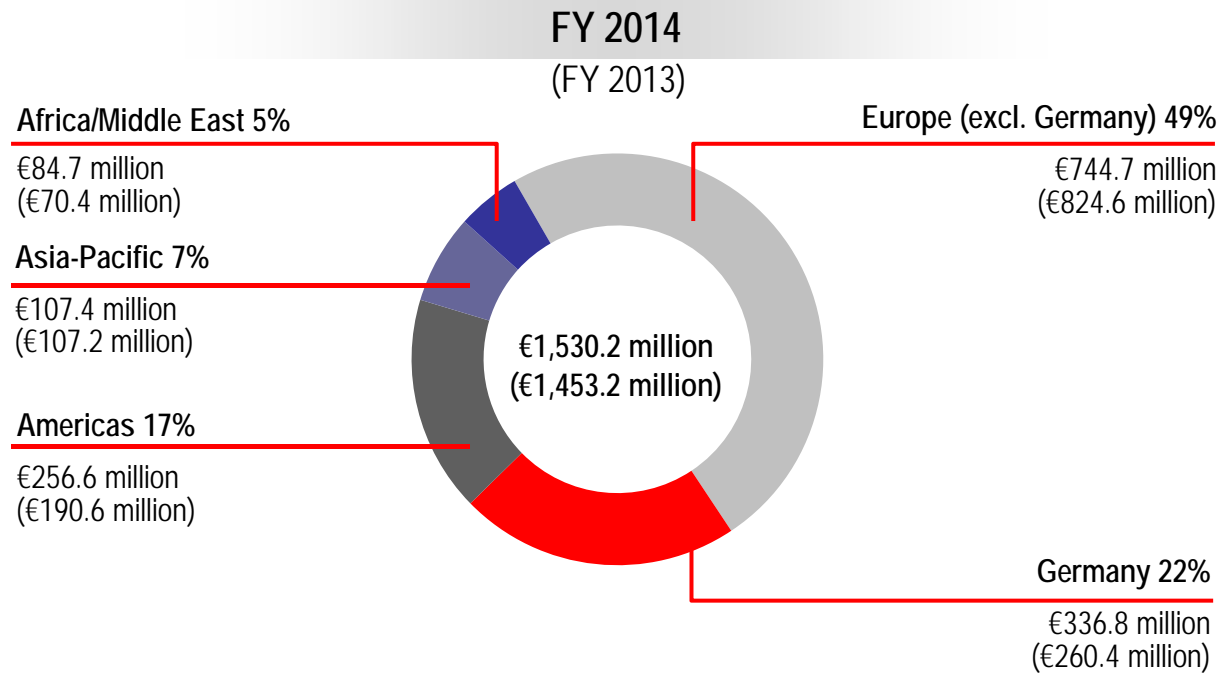
# Revenue development

€ million



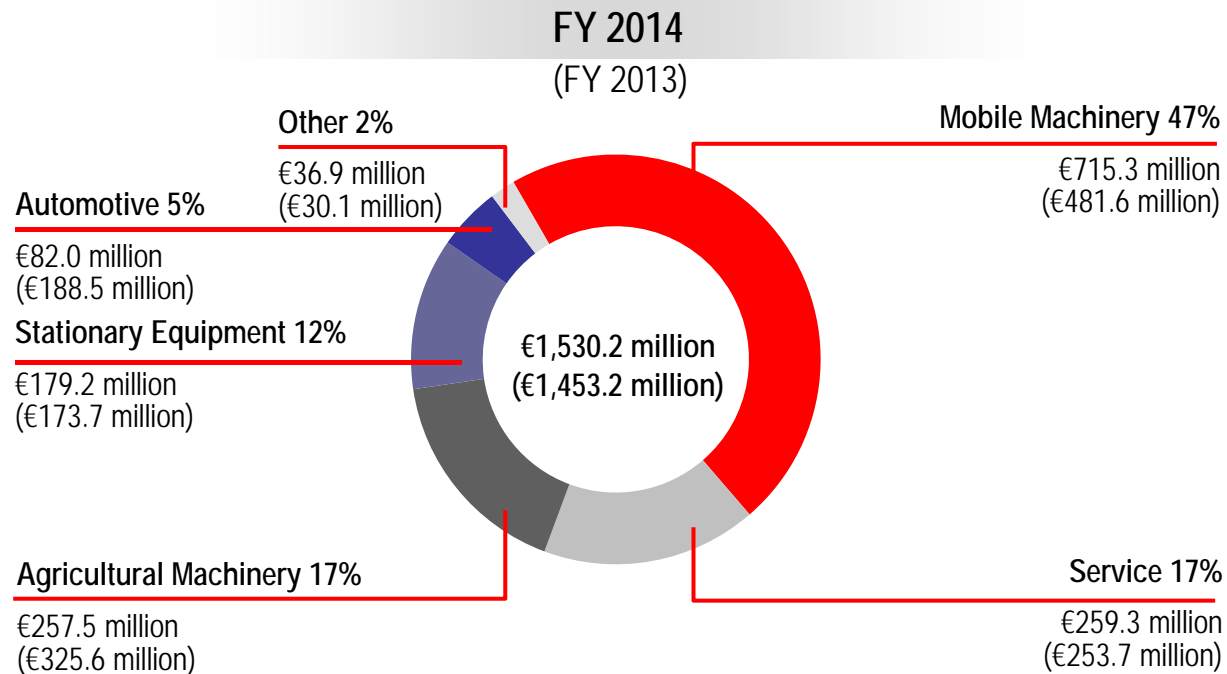
■ Q4-2014 revenue below Q2 and Q3 level after emission level change in October 2014

# Revenue split by region



- Significant revenue growth in Americas (+34.6%)
- Revenue generated in EMEA increased slightly (€1,166.2 million; +0.9%)
- Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €1,890.0 million (+6.6%); corresponding revenue share of Asia-Pacific amounts to 24.7%

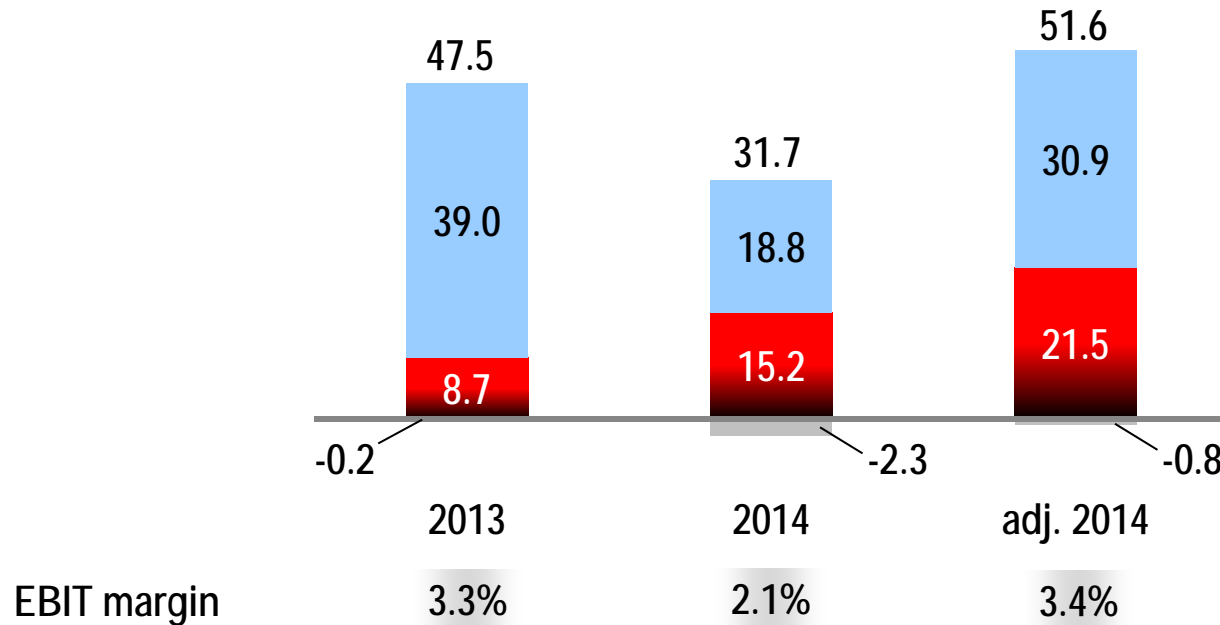
# Revenue split by application



- Group revenue growth mainly driven by Mobile Machinery applications (+48.5%)
- Agricultural Machinery (-20.9%) below prior year's record level
- Automotive business moving towards Asia; fully consolidated Automotive sales decreased as expected due to decision not to develop Euro 6 (on-highway emission); pro-forma revenue incl. at-equity consolidated JV DEUTZ Dalian in Automotive: €380.1 million (corresponding revenue share amounts to 20.1%)

# EBIT (before one-offs)

€ million

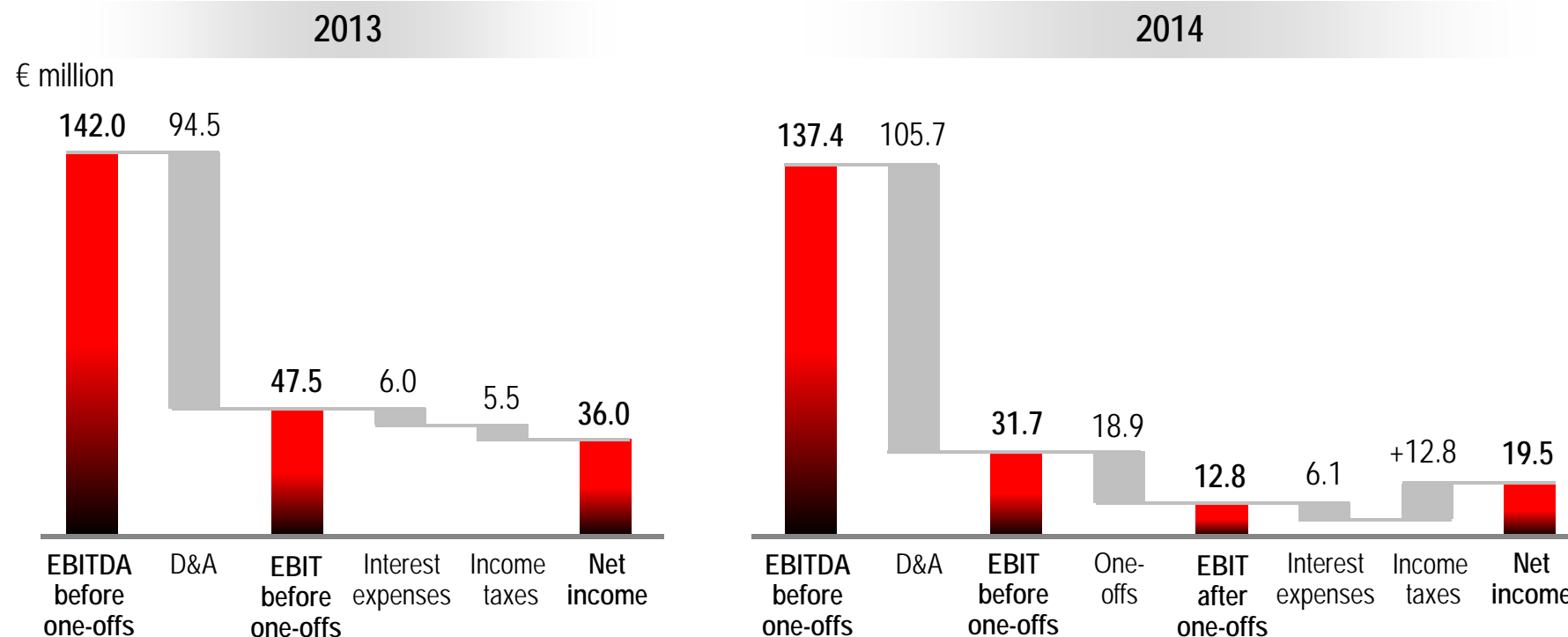


- EBIT (before one-offs) impacted by several exceptional items: unexpected provision for warranty costs (-€20.4 million)<sup>(1)</sup>, impairments (-€13.8 million) and license revenues (+€14.3 million)
- EBIT run rate, adjusted for these exceptional items, was €51.6 million (3.4% adj. margin)
- DEUTZ Compact Engines with significant underlying profit improvement

(1) Net of insurance claims

■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions    ■ Other

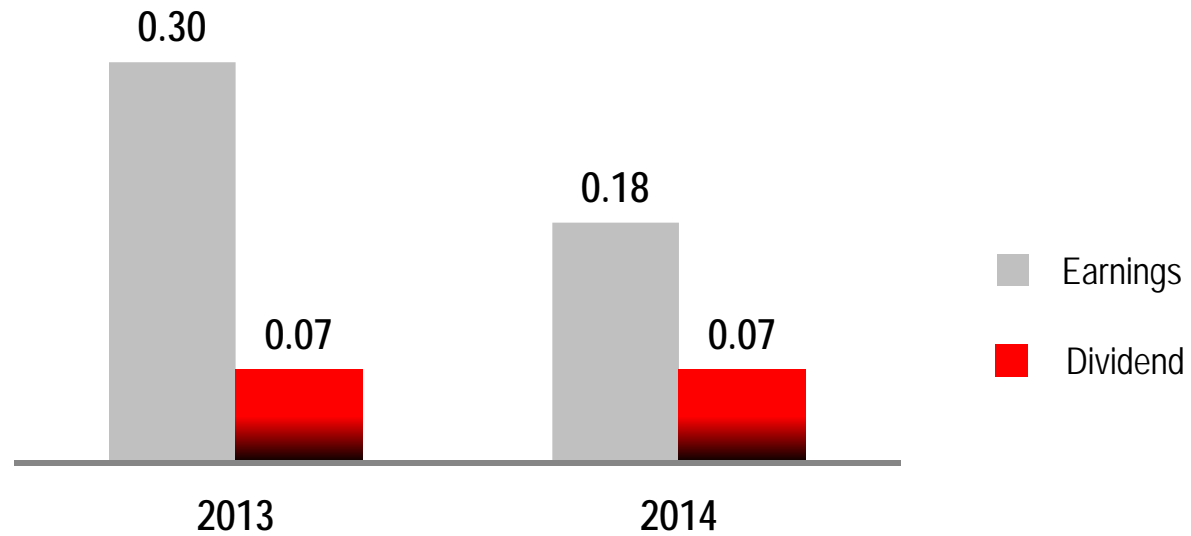
# Operating profit & net income



- D&A before one-offs increased by €11.2 million to €105.7 million, thereof €9.5 million impairments
- Reported one-off effects related to restructuring costs for German site optimisation (€17.1 million) and impairment of JV DEUTZ Engine Shandong (€1.8 million)
- Positive income tax of €12.8 million due to revaluation of deferred tax assets subsequent to tax audit

# Earnings & dividend per share

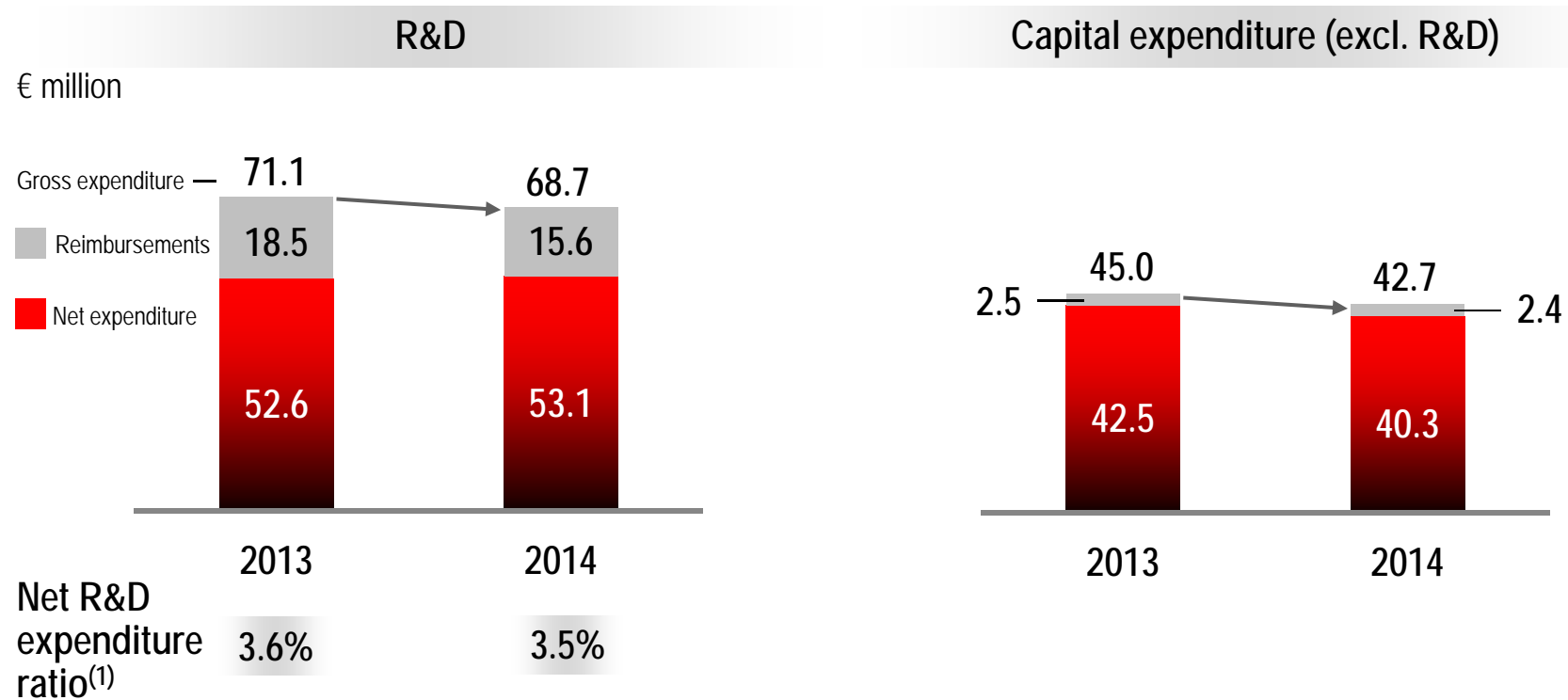
€ per share



- Stable dividend payout of €0.07 per share <sup>(1)</sup>
- Dividend tax exempt for domestic investors and without German withholding tax

(1) Proposal to the AGM

# R&D & capital expenditure

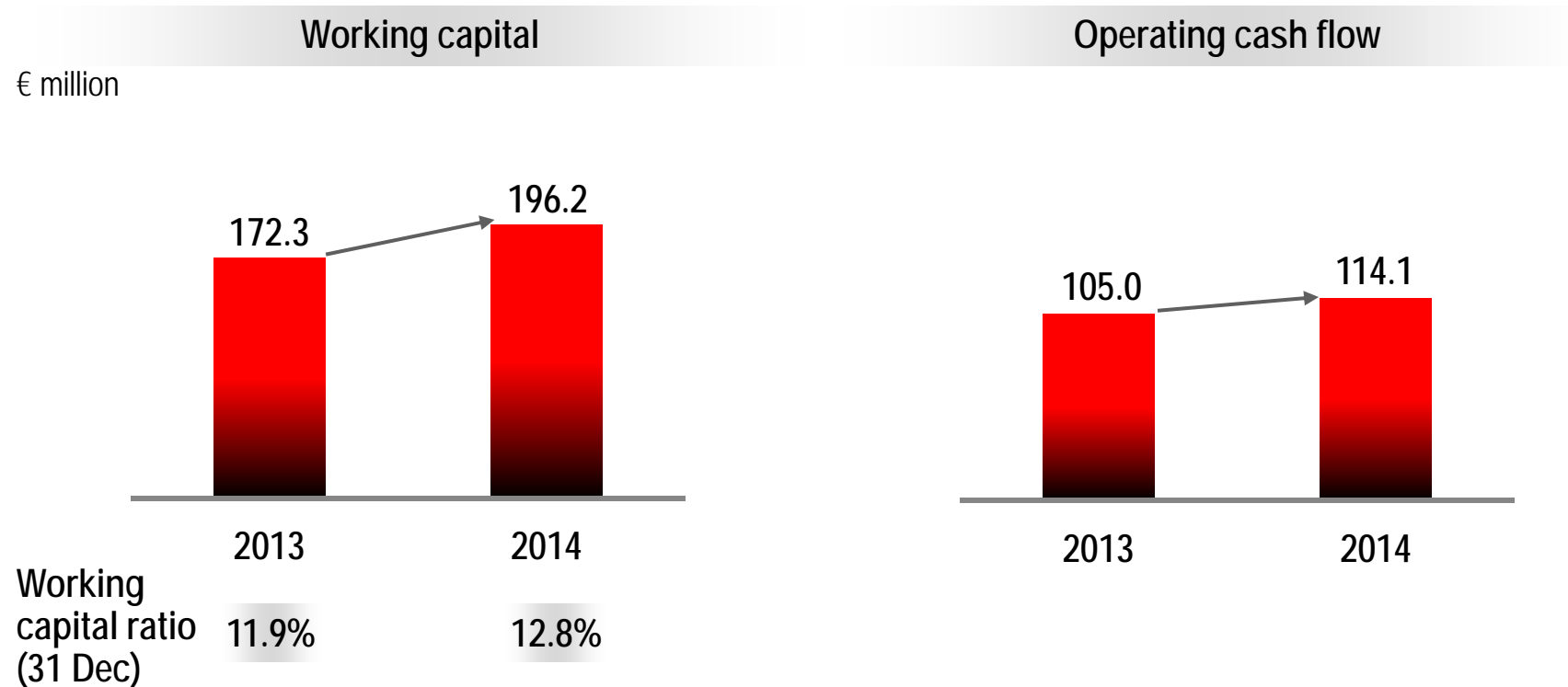


- Net R&D ratio declined slightly in line with our guidance
- Proportion of capitalised net R&D expenditure: €26.3 million (FY 2013: €33.8 million)

- Capital expenditure (excl. R&D and after reimbursements) decreased by €2.2 million

(1) Ratio of net R&D expenditure to consolidated revenue

# Working capital & operating cash flow

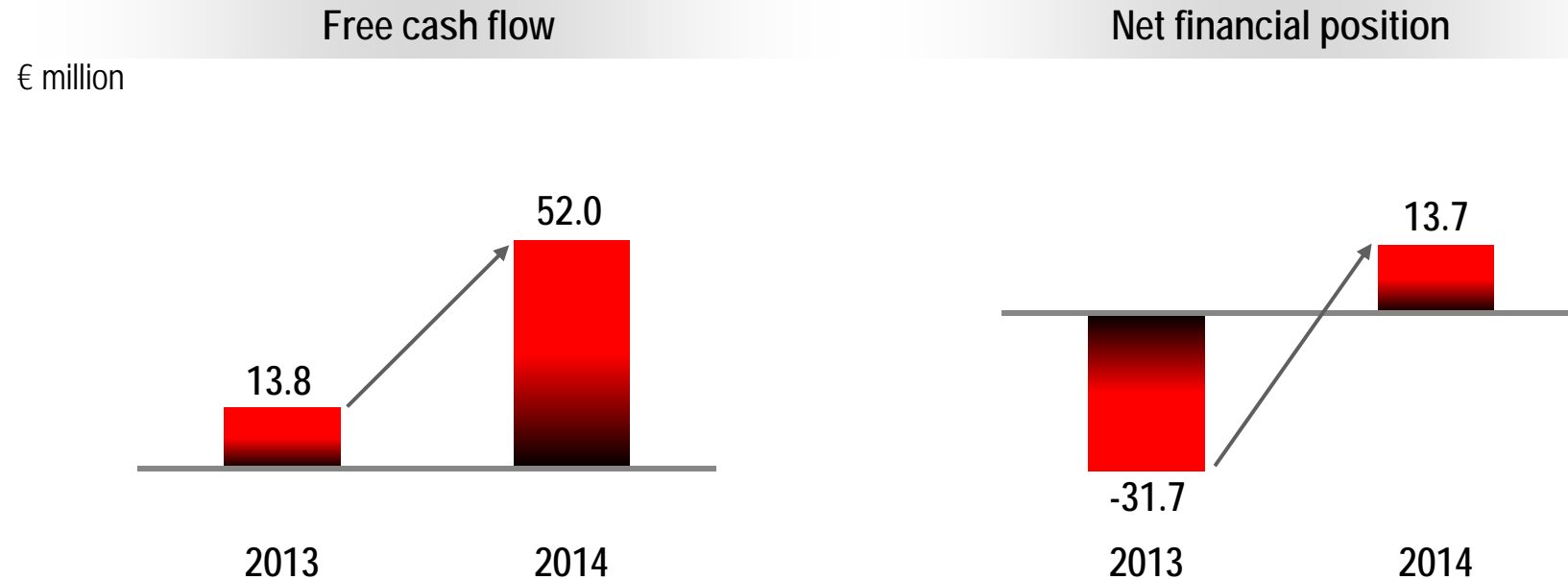


- Working capital increased by €23.9 million mainly due to higher inventories
- Working Capital ratio remains at a solid level

- Operating cash flow increased by 8.7%



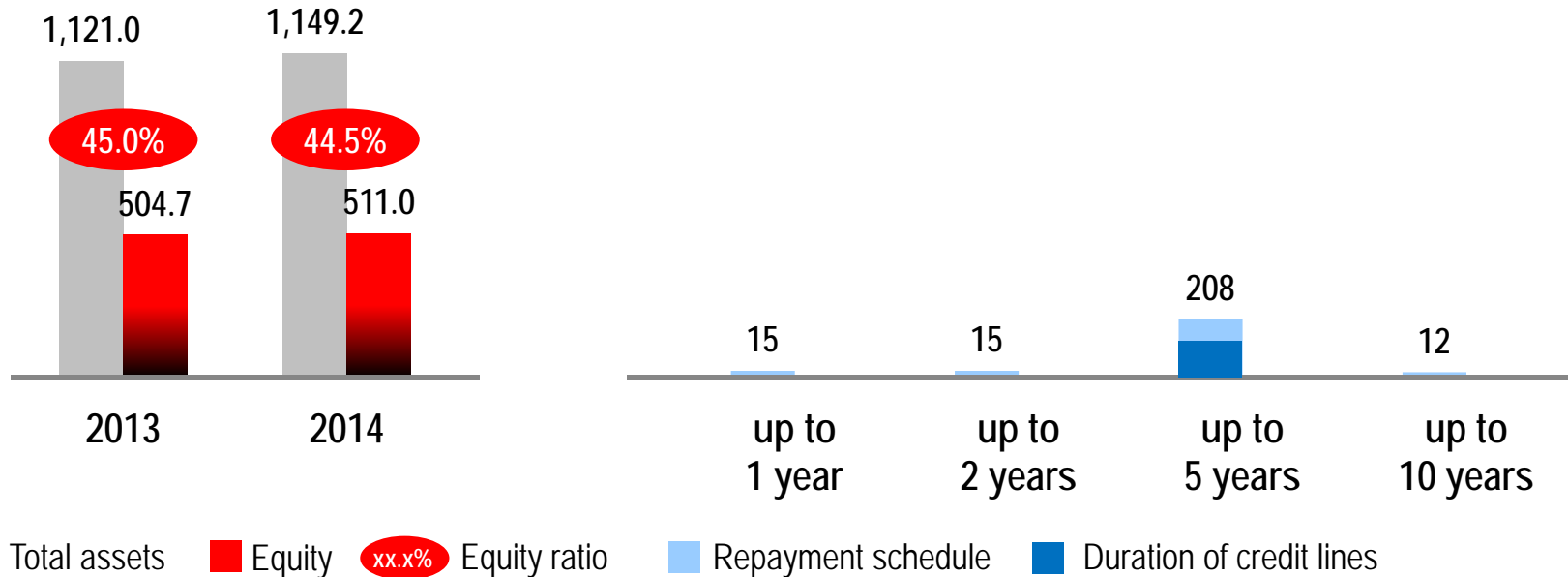
# Free cash flow generation & net financial position



- Free cash flow virtually quadrupled
- After all T4 engines have been launched, capital expenditure (incl. capitalised R&D) will remain significantly below D&A in the next years, thus benefitting the free cash flow development
- Net financial position improved by €45.4 million
- Free cash flow used to pay a dividend of €8.5 million and to reduce net debt

# Equity ratio & funding

€ million



- Strong balance sheet; equity ratio >40%
- Medium- to long-term financing with undrawn facilities available:
  - Duration of €160 million credit line was extended during the last year by two years to 2019 at more favourable terms
  - Loan from EIB in the amount of €82.8 million outstanding and repayable until July 2020

## Segments: DEUTZ Compact Engines

€ million	2014	2013	Change in %
New orders	1,115.0	1,385.5	-19.5
Unit sales	183,125	167,964	9.0
Revenue	1,279.9	1,188.8	7.7
EBIT (before one-offs)	15.2	8.7	74.7

€ million	Q4 2014	Q3 2014	Change in %
New orders	232.5	270.4	-14.0
Unit sales	36,601	53,589	-31.7
Revenue	277.1	368.2	-24.7
EBIT (before one-offs)	10.3	-0.7	--

- Substantial revenue growth in Mobile Machinery (€670.6 million; +54.0% yoy); Automotive revenue declined (€44.4 million; -70.2%) due to decision not to develop Euro 6; Agricultural Machinery revenue declined also (€253.1 million; -21.4%)
- EBIT (before one-offs) includes unexpected provision for warranty costs (Q3: -€20.4 million)<sup>(1)</sup> and license revenues (Q4: +€14.3 million)
- Higher profit contribution of Joint Venture DEUTZ Dalian (€3.5 million; +€2.2 million yoy)
- Order backlog at €141.5 million (-53.2% yoy) below strong prior year's level

(1) Net of insurance claims

## Segments: DEUTZ Customised Solutions

€ million	2014	2013	Change in %
New orders	264.0	264.2	-0.1
Unit sales	13,278	16,064	-17.3
Revenue	250.3	264.4	-5.3
EBIT (before one-offs)	18.8	39.0	-51.8

€ million	Q4 2014	Q3 2014	Change in %
New orders	69.7	59.6	16.9
Unit sales	4,703	2,431	93.5
Revenue	75.2	56.3	33.6
EBIT (before one-offs)	0.3	4.2	-92.9

- DCS revenue declined by 5.3%; service business revenue increased by 6.1% yoy
- Strong revenue improvement in Q4
- EBIT (before one-offs) declined yoy due to lower capacity utilisation and impairment of €12.1 million, mainly on intangibles in Q4
- Order backlog (€78.2 million) increased 23.0% yoy

# Summary

DEUTZ Tier 4 engines attract new customers

EBIT burdened by exceptional items

Site optimisation measures implemented

Improvement of underlying operating profit in DCE

Strong free cash flow generation and balance sheet

Stable dividend payment



The engine company.

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# Unit sales assumptions for DEUTZ key markets

		2015
<b>Construction equipment</b>		
	Europe	sidewards
	North America	0 – 10%
	China	sidewards
<b>Agricultural Machinery</b>		
	Europe	-10 – 0%
<b>Automotive</b>		
	China	sidewards

- Pre-buys in 2014 will lead to lower demand of European customers in the current year
- New clients partly compensate challenging market environment

# Financial outlook

€ million	FY 2014 reported	Guidance FY 2015
Revenue	1,530.2	approx. -10 %
EBIT margin (before one-offs)	2.1 %	approx. 3 %
Net R&D expenditure <sup>(1)</sup>	53.1	slight decline
Capex (excl. R&D) <sup>(1)</sup>	40.3	~ 50

(1) Net of reimbursements

- Group revenue expected to decline in FY 2015; slight revenue growth at DEUTZ Customised Solutions
- Expectation for FY 2016: Group revenue growth >10% and significant EBIT margin improvement



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## Summary of key financials (I)

€ million	2014	2013	Change (%)
Revenue	1,530.2	1,453.2	5.3
EBITDA (before one-offs)	137.4	142.0	-3.2
EBIT (before one-offs)	31.7	47.5	-33.3
EBIT margin (before one-offs) (%)	2.1	3.3	--
Net income	19.5	36.0	-45.8
Basic earnings per share (€)	0.18	0.30	-40.0
Dividend per share (€)	0.07	0.07	0.0
Number of employees (31 December)	3,916	3,952	-0.9

## Summary of key financials (II)

€ million	2014	2013	Change (%)
Total assets	1,149.2	1,121.0	2.5
Equity	511.0	504.7	1.2
Equity ratio (%)	44.5	45.0	--
Cash flow from operating activities	114.1	105.0	8.7
Free cash flow	52.0	13.8	>100
Net financial position	13.7	-31.7	--
Working capital	196.2	172.3	13.9

# Income statement

€ million	2014	2013	Change (%)
<b>Revenue</b>	<b>1,530.2</b>	<b>1,453.2</b>	<b>5.3</b>
Cost of goods sold	-1.327.6	-1.257.4	5.6
Research and development costs	-74.3	-58.7	26.6
Selling expenses	-65.7	-62.6	5.0
Administrative expenses	-34.3	-33.5	2.4
Other operating income	22.9	17.0	34.7
Other operating expenses	-41.4	-13.9	>100
Income from investments accounted for using the equity method	1.9	1.6	18.8
Other investment income	1.1	1.8	-38.9
<b>EBIT</b>	<b>12.8</b>	<b>47.5</b>	<b>-73.1</b>
Thereof restructuring costs	-18.9	--	--
<b>EBIT (before one-offs)</b>	<b>31.7</b>	<b>47.5</b>	<b>-33.3</b>
Net interest expense	-6.1	-6.0	1.7
<b>Net income before taxes</b>	<b>6.7</b>	<b>41.5</b>	<b>--</b>
Income taxes	12.8	-5.5	--
<b>Net income</b>	<b>19.5</b>	<b>36.0</b>	<b>-45.8</b>

# EBIT analysis

€ million	2014	2013	Change (%)
<b>EBIT</b>	12.8	47.5	-73.1
Site optimisation	-17.1		
Impairment fixed assets JV DEUTZ Engine Shandong (DES)	-1.8		
<b>Reported one-off effects</b>	<b>-18.9</b>		
<b>EBIT (before one-offs)</b>	<b>31.7</b>	<b>47.5</b>	<b>-33.3</b>
Unexpected provision for warranty costs (net of insurance claims)	-20.4		
Impairment on fixed assets and intangible assets	-9.5		
Impairment receivables DAMSA	-2.5		
Impairment at-equity book value JV DAMSA	-1.8		
Licence revenue Algeria	14.3		
<b>Other exceptional items</b>	<b>-19.9</b>		
<b>Adjusted EBIT</b>	<b>51.6</b>	<b>47.5</b>	<b>8.6</b>

## Balance sheet: assets

€ million	31 Dec 2014	31 Dec 2013	Change (%)
Non-current assets (excluding deferred tax assets)	563.6	596.6	-5.5
Deferred tax assets	62.2	30.8	>100
Inventories	245.2	224.6	9.2
Trade receivables	122.0	149.1	-18.2
Other receivables and assets	54.1	60.6	-10.7
Cash and cash equivalents	101.7	58.9	72.7
Non-current assets classified as held for sale	0.4	0.4	0.0
<b>Total assets</b>	<b>1,149.2</b>	<b>1,121.0</b>	<b>2.5</b>

## Balance sheet: equity and liabilities

€ million	31 Dec 2014	31 Dec 2013	Change (%)
<b>Equity</b>	<b>511.0</b>	<b>504.7</b>	<b>1.2</b>
Provisions for pensions and other post-retirement benefits	187.1	168.6	11.0
Other provisions	58.4	37.2	57.0
Financial liabilities	73.3	83.0	-11.7
Other liabilities	3.9	3.7	5.4
<b>Non-current liabilities</b>	<b>322.7</b>	<b>292.5</b>	<b>10.3</b>
Provisions for pensions and other post-retirement benefits	14.7	14.9	-1.3
Other provisions / Provisions for income taxes	70.8	49.5	43.0
Financial liabilities	14.7	7.6	93.4
Trade payables	171.0	201.4	-15.1
Other liabilities	44.3	50.4	-12.1
<b>Current liabilities</b>	<b>315.5</b>	<b>323.8</b>	<b>-2.6</b>
<b>Total equity and liabilities</b>	<b>1,149.2</b>	<b>1,121.0</b>	<b>2.5</b>

## Cash flow statement (condensed)

€ million	2014	2013
EBIT	12.8	47.5
<b>Cash flow from operating activities (total)</b>	<b>114.1</b>	<b>105.0</b>
Capital expenditure on intangible assets, property, plant and equipment and investments	-61.3	-85.2
Proceeds from the sale of non-current assets	5.4	0.6
<b>Cash flow from investing activities (total)</b>	<b>-55.9</b>	<b>-84.6</b>
<b>Cash flow from financing activities</b>	<b>-17.5</b>	<b>-13.2</b>
<b>Change in cash and cash equivalents</b>	<b>40.7</b>	<b>7.2</b>



## Overview of segments, 2014

New orders (€ million)	2014	2013	Change (%)
DEUTZ Compact Engines	1,115.0	1,385.5	-19.5
DEUTZ Customised Solutions	264.0	264.2	-0.1
<b>Total for operating activities</b>	<b>1,379.0</b>	<b>1,649.7</b>	<b>-16.4</b>

Revenue (€ million)	2014	2013	Change (%)
DEUTZ Compact Engines	1,279.9	1,188.8	7.7
DEUTZ Customised Solutions	250.3	264.4	-5.3
<b>Total for operating activities</b>	<b>1,530.2</b>	<b>1,453.2</b>	<b>5.3</b>

Unit sales	2014	2013	Change (%)
DEUTZ Compact Engines	183,125	167,964	9.0
DEUTZ Customised Solutions	13,278	16,064	-17.3
<b>Total for operating activities</b>	<b>196,403</b>	<b>184,028</b>	<b>6.7</b>

EBIT before one-offs (€ million)	2014	2013	Change (%)
DEUTZ Compact Engines	15.2	8.7	74.7
DEUTZ Customised Solutions	18.8	39.0	-51.8
Other	-2.3	-0.2	--
<b>Total for operating activities</b>	<b>31.7</b>	<b>47.5</b>	<b>-33.3</b>

## Overview of segments, Q4 2014

	Q4 2014	Q4 2013	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	232.5	381.9	-39.1
DEUTZ Customised Solutions	69.7	64.2	8.6
<b>Total for operating activities</b>	<b>302.2</b>	<b>446.1</b>	<b>-32.3</b>

	Q4 2014	Q4 2013	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	277.1	327.4	-15.4
DEUTZ Customised Solutions	75.2	82.7	-9.1
<b>Total for operating activities</b>	<b>352.3</b>	<b>410.1</b>	<b>-14.1</b>

	Q4 2014	Q4 2013	Change (%)
Unit sales			
DEUTZ Compact Engines	36,601	43,962	-16.7
DEUTZ Customised Solutions	4,703	5,367	-12.4
<b>Total for operating activities</b>	<b>41,304</b>	<b>49,329</b>	<b>-16.3</b>

	Q4 2014	Q4 2013	Change (%)
EBIT before one-offs (€ million)			
DEUTZ Compact Engines	10.3	7.0	47.1
DEUTZ Customised Solutions	0.3	13.0	-97.7
Other	-1.7	0.3	--
<b>Total for operating activities</b>	<b>8.9</b>	<b>20.3</b>	<b>-56.2</b>

# Employees

	31 Dec 2014	31 Dec 2013	Change (%)
Cologne	2,422	2,403	0.8
Ulm	387	408	-5.1
Other German operations	284	284	0.0
<b>Germany</b>	<b>3,093</b>	<b>3,095</b>	<b>-0.1</b>
Foreign operations	823	857	-4.0
<b>DEUTZ Group</b>	<b>3,916</b>	<b>3,952</b>	<b>-0.9</b>

## Financial calendar & contact details

- Annual general meeting 29 April 2015
- Interim report 1<sup>st</sup> quarter 2015 5 May 2015
- Interim report 1<sup>st</sup> half 2015 6 August 2015
- Interim report 1<sup>st</sup> to 3<sup>rd</sup> quarter 2015 5 November 2015

### ➤ Contact details

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