

FOREWORD

*Dear shareholders,
friends and partners of our Company,*

DEUTZ AG celebrated its 150th anniversary in 2014, a good reason for various celebrations and a special book to mark the Company's long history, which has been eventful as well as successful. We are proud of what we have achieved and will do our utmost to develop the Company on a sustainable basis.

Last year, one of our successes was the introduction of our new products. All engines that comply with the latest EU Stage IV/ US Tier 4 emissions standards have been approved for series production, if they had not already received their approval. This was the reason for overhauling our entire engine range in recent years. The extremely compact dimensions of the new engines is what really sets them apart from their competitors. DEUTZ engines also feature low fuel consumption, low lifecycle costs and exhaust aftertreatment designs that are tailored to customer needs, further proof of our role as technology leader. Customers also showed their appreciation. As well as receiving numerous orders from existing customers, we are delighted to have won a range of new customers across all regions and applications.

We are even going one step further by ensuring that our TCD engines in the 2.9 to 7.8 litre cubic capacity range with a diesel particulate filter already meet EU Stage V, the next EU emissions standard announced for 2019. We are therefore able to cover two cycles of emissions standards with the same product version, which is providing our customers with long-term planning certainty, flexibility and a stable technology platform. Because they do not have to invest in adapting their equipment, customers make huge savings that they can use to win market share. We benefit in terms of higher sales.

In 2014, we added the 'operational excellence' efficiency and quality programme to the three pillars of our growth strategy – to form the basis for achieving profitable growth. Its main focal points include continuously improving quality, managing the supply chain and reducing complexity. We also reviewed our sites around the world in this context. As already announced, this resulted in our decision to carry out a comprehensive optimisation of our network of sites in Germany, which is under way as planned. It involves consolidating our sites in Cologne and integrating our exchange engine plant in Übersee on Lake Chiemsee into the plant in Ulm. We expect these measures to bring about a sustainable increase in our efficiency.

We are scrutinising our activities in China in light of changes in the market situation. Although we continue to have every faith in the potential of the Chinese market – and have stepped up our sales activities there – we have also decided to focus our production operations in China on our established and successful DEUTZ Dalian joint venture, which has sufficient capacity.

It is clear how a variety of internal and external factors – including the economic downturn at the year end and signs of weakness in some sales markets – affected our business last year. The volume of new orders received in 2014 amounted to €1,379.0 million, which was 16.4 per cent lower than the high volume received in 2013. Nonetheless, we sold 196,403 engines and revenue was up by 5.3 per cent to €1,530.2 million, which was in line with our adjusted forecast. We also benefited from the change to the EU emissions standard for engines under 130 kW in the EU and the associated effects of the advance production of engines. In the first nine months of 2014, European customers purchased more engines than they needed, which will reduce demand in subsequent quarters.

Our operating profit (EBIT before one-off items) fell to €31.7 million from €47.5 million in 2013. The EBIT margin (before one-off items) was 2.1 per cent. This was also in line with our adjusted forecast, which was revised down due to a €20.4 million charge against earnings recognised in the third quarter of 2014. After a rise in the number of warranty claims on engines from the DEUTZ Compact Engines segment, primarily relating to engines manufactured in 2011, we made a substantial increase to the provisions for warranty costs. We immediately ensured that no faulty parts are used in production by changing our processes and implementing quality-assurance measures. Based on the information currently available, the increase in the provisions recognised on the balance sheet covers all future charges that can be anticipated to arise from this matter. Without this charge and other exceptional effects, the EBIT margin (before one-off items) would have stood at 3.4 per cent.

The increase in our free cash flow, which virtually quadrupled compared with 2013 and stood at €52.0 million, was very welcome. Now that all of our new products have been launched on the market, the associated capital expenditure is being depreciated, while the high development costs and capital expenditure of recent years have been scaled back again.



**From left to right:
Michael Wellenzohn**

Board of Management member
Sales, service and marketing

Dr Margarete Haase

Board of Management member
Finance, human resources,
investor and public relations

Dr Ing Helmut Leube

Chairman of the Board of
Management
Technical and
head-office functions

Last year, the price of DEUTZ shares fell by around 38 per cent and ended the year at €4.00. This trend was undoubtedly connected with our results, some of which were lower than initially forecast. However, we also firmly believe that our share price and our business are increasingly subject to cyclical fluctuations with both positive and negative effects. Consequently, we expect share prices to recover sharply when there is a general upturn in business. We also aim to continue paying a dividend even when business conditions are challenging. Together with the Supervisory Board, we propose that the dividend for 2014 should remain unchanged at €0.07 per share.

Our Company could not succeed without the considerable dedication and high level of commitment of our employees around the world. We would like to take this opportunity to express our thanks to them – particularly at a time when we are focusing so closely on efficiency enhancement. We would also like to extend our sincere thanks to our customers, suppliers and other partners of the Company – both old and new – for putting their trust in us and working with us.

We believe the current year will be a period of transition characterised by a significant reduction in demand resulting from the advance production of engines in 2014 mentioned above. As a result, we believe that the decline in revenue will be in the region of 10 per cent in 2015 but that there will be modest improvement in the EBIT margin before one-off items to around 3 per cent. We are confident that the measures we have initiated will enable DEUTZ to grow profitably in the long term and that earnings will improve significantly.

Kind regards from Cologne,

Dr Ing Helmut Leube

Dr Margarete Haase

Michael Wellenzohn