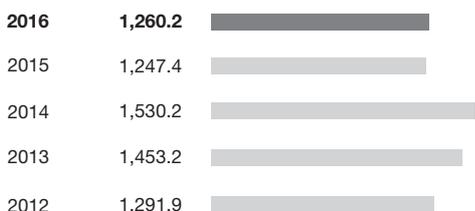


RESULTS OF OPERATIONS

DEUTZ Group: Revenue

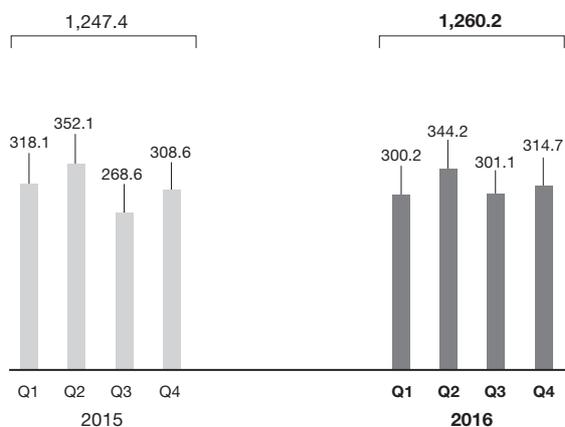
€ million



Revenue up slightly compared with prior year DEUTZ earned revenue of €1,260.2 million in 2016, an increase of 1.0 per cent on the previous year (2015: €1,247.4 million). We therefore met the forecast published in our 2015 annual report that revenue would stagnate or, at best, rise slightly. The average price of the engines sold went up again.

DEUTZ Group: Revenue by quarter

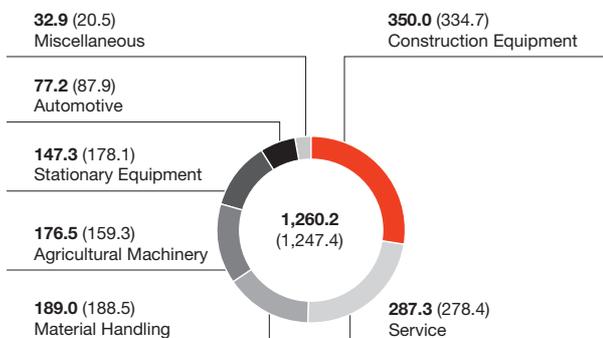
€ million



Revenue levels varied throughout the year. While revenue was down year on year in the first and second quarters, it was significantly higher year on year in the third quarter. In the fourth quarter, we generated revenue of €314.7 million, which was 2.0 per cent more than in the prior-year period and 4.5 per cent more than in the previous quarter. The second quarter, when revenue totalled €344.2 million, was the strongest quarter of 2016, as had been the case in 2015.

DEUTZ Group: Revenue by application segment

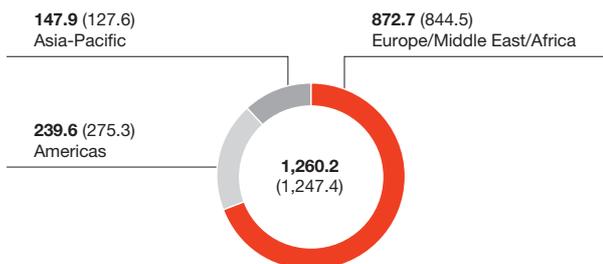
€ million (2015 figures)



The application segments presented a disparate picture. The Construction Equipment and Material Handling application segments, which were previously grouped together as Mobile Machinery, increased their revenue by 4.6 per cent and 0.3 per cent respectively. There were also rises in revenue, of 10.8 per cent and 3.2 per cent respectively, for Agricultural Machinery and the service business. By contrast, the Automotive and Stationary Equipment application segments reported decreases of 12.2 per cent and 17.3 per cent respectively.

DEUTZ Group: Revenue by region

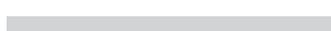
€ million (2015 figures)



Broken down by region, revenue in EMEA (Europe, Middle East and Africa) advanced by 3.3 per cent year on year to €872.7 million. In the Americas region, however, revenue was down by 13.0 per cent to €239.6 million. Thanks to new customer projects, the Asia-Pacific region again generated double-digit growth, with revenue climbing by 15.9 per cent to €147.9 million.

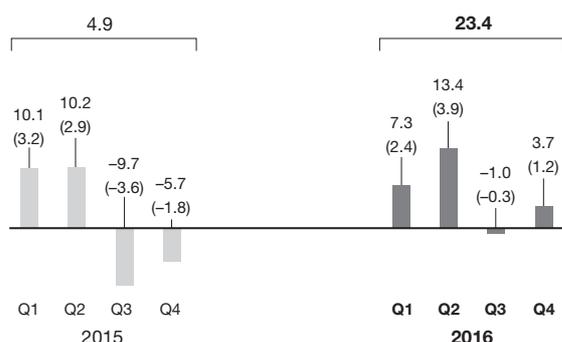
DEUTZ Group: Operating profit and EBIT margin (before exceptional items)

€ million (EBIT margin in %)

2016	23.4	(1.9)	
2015	4.9	(0.4)	
2014	31.7	(2.1)	
2013	47.5	(3.3)	
2012	37.1	(2.9)	

DEUTZ Group: Operating profit (EBIT) by quarter (before exceptional items)

€ million (EBIT margin in %)



Earnings performance Operating profit before depreciation and amortisation (EBITDA) came to €114.2 million in 2016, a year-on-year increase of €2.0 million (2015: €112.2 million). The EBITDA margin improved slightly to reach 9.1 per cent (2015: 9.0 per cent).

In the fourth quarter of 2016, EBITDA came to €26.3 million and was thus at the same level as the prior-year period (Q4 2015: €26.6 million). Compared with the third quarter of 2016, EBITDA rose by €5.3 million (Q3 2016: €21.0 million). The main reason for this increase was the larger volume of business.

Operating profit after depreciation and amortisation (EBIT) came to €23.4 million in 2016. The year-on-year increase was mainly attributable to lower production costs, far smaller impairment losses (2016: €1.5 million; 2015: €9.7 million) and a licensing transaction in the first quarter of 2016. The contribution to profits from the licensing transaction amounted to €5.5 million. The growth in service business and the first effects of the measures to optimise our network of sites also had a positive impact. The EBIT margin for 2016 was 1.9 per cent (2015: 0.4 per cent). At the start of the year, we had expected a moderate increase in the EBIT margin, so we met our forecast.

In the fourth quarter of 2016, operating profit amounted to €3.7 million (Q3 2016: loss of €1.0 million; Q4 2015: loss of €5.7 million), giving an EBIT margin of 1.2 per cent (Q3 2016: minus 0.3 per cent; Q4 2015: minus 1.8 per cent).

The higher operating profit resulted in a substantially improved return on capital employed (ROCE)¹⁾, our internal KPI, which rose from 0.6 per cent in 2015 to 3.1 per cent in the reporting year. At the start of the year, we had expected ROCE to rise slightly compared with 2015. We exceeded this forecast for the reasons outlined above.

Overview of the DEUTZ Group's results of operations

€ million

	2016	2015
Revenue	1,260.2	1,247.4
Cost of sales	-1,041.6	-1,054.8
Research and development costs	-77.5	-76.3
Selling and administrative expenses	-104.7	-104.8
Other operating income	17.7	29.3
Other operating expenses	-26.7	-30.6
Profit/loss on equity-accounted investments	-5.1	-6.3
Other financial income	1.1	1.0
Operating profit (EBIT)	23.4	4.9
Interest expenses, net	-3.5	-4.0
Income taxes	-3.9	2.6
Net income	16.0	3.5

¹⁾ 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.

Cost of sales In 2016, the cost of sales amounted to €1,041.6 million (2015: €1,054.8 million), a year-on-year decrease of €13.2 million or 1.3 per cent. This was mainly due to the lower cost of materials resulting from the reduction in the volume of unit sales as well as increased cost efficiency. The gross margin¹⁾ improved from 15.4 per cent in 2015 to 17.3 per cent in the reporting period.

Research and development costs In the year under review, research and development costs totalled €77.5 million (2015: €76.3 million). They largely comprised staff costs, the cost of materials and amortisation on completed development projects, from which investment grants received and capitalised development costs were deducted. Whereas lower amortisation on completed development projects helped to reduce R&D costs, the smaller volume of investment grants and the sharp drop in the capitalisation rate meant that, overall, there was a small year-on-year rise in R&D costs of €1.2 million.

Other operating income Other operating income totalled €17.7 million in the reporting year, equating to a decline of €11.6 million compared with the prior year (2015: €29.3 million). This change was largely due to lower foreign currency gains, although foreign currency losses (recognised under other operating expenses) also fell sharply. Moreover, the 2015 figure had included income from the disposal of the shares in WEIFANG WEICHA DEUTZ DIESEL ENGINE CO., LTD., Weifang, China, and income from the deconsolidation of DEUTZ Engine (China) Co., Ltd. Linyi, China.

Other operating expenses Other operating expenses totalled €26.7 million in the reporting year, a year-on-year decrease of €3.9 million (2015: €30.6 million). This was mainly attributable to substantially smaller foreign currency losses. The main countervailing effect came from higher additions to other provisions. Other operating expenses also included a loss of €1.4 million arising from the deconsolidation of the subsidiary DEUTZ Engine (Shandong) Co., Ltd., Linyi, China.

Profit/loss on equity-accounted investments In 2016, there was a loss on equity-accounted investments of €5.1 million, a small improvement of €1.2 million compared with the previous year (2015: loss of €6.3 million). This change is primarily attributable to the contribution to earnings from our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd. Further information can be found in the 'International joint ventures' section on page 32.

Net interest expense Net interest expense amounted to €3.5 million (2015: €4.0 million). This year-on-year improvement of €0.5 million was attributable to lower utilisation of credit lines.

Income taxes The income tax expense amounted to €3.9 million in the year under review, whereas there had been tax income of €2.6 million in 2015. Current tax expenses came to €9.3 million, a year-on-year rise of €3.6 million (2015: €5.7 million). This was mainly the result of improved earnings at DEUTZ AG. The current tax expenses were partly offset by deferred tax income of €5.4 million (2015: €8.3 million). This mainly resulted from the reversal of deferred tax liabilities arising in connection with the capitalisation of development expenditure under IFRS.

Earnings per share Due to the higher operating profit, net income increased by €12.5 million to €16.0 million in the reporting period (2015: €3.5 million). This led to a significant improvement in earnings per share, which came to €0.14 (2015: €0.04).

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group: Segments

€ million	2016	2015
New orders		
DEUTZ Compact Engines	1,011.6	958.4
DEUTZ Customised Solutions	249.8	267.5
Total	1,261.4	1,225.9
Unit sales (units)		
DEUTZ Compact Engines	123,179	125,214
DEUTZ Customised Solutions	9,360	12,567
Total	132,539	137,781
Revenue		
DEUTZ Compact Engines	1,000.8	967.2
DEUTZ Customised Solutions	259.4	280.2
Total	1,260.2	1,247.4
EBIT		
DEUTZ Compact Engines	-6.1	-31.9
DEUTZ Customised Solutions	32.7	31.3
Other	-3.2	5.5
Total	23.4	4.9

¹⁾ Gross margin: ratio of revenue less cost of sales to revenue (excluding amortisation relating to development expenditure).