

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 gas¹⁾ 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 4²⁾ 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



¹⁾ Also referred to as liquefied petroleum gas or LPG.

²⁾ 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 2019¹⁾. 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 LPG²⁾ 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.

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

²⁾Also referred to as liquefied petroleum gas or LPG.